Carlsberg UK Limited Pension Scheme

Statement of Investment Principles

August 2020

Contents

1 Introduction

Scheme background

- This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the Carlsberg UK Limited Pension Scheme (the “Scheme”).

- The Scheme:

  – operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries,

  – provides benefits calculated on a defined benefit (DB) basis,

  – is closed to future accrual.

- Buck is investment consultant to the Trustee.

Regulatory requirements and considerations

- This statement covers the requirements of, and the Scheme’s compliance with, the provisions of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 as well as additional non-statutory information recommended to be included following the Myners review of “Institutional Investing in the UK”, the results of which were first published in 2001 (referred to as the “Myners Principles”).

- The Myners Principles require Trustee Boards to act in a transparent and responsible manner. The information set out in this document helps ensure that the Trustee is complying with this requirement.

- In respect of the additional voluntary contributions provided on a money-purchase basis within the Scheme, the Trustee has taken into account the requirements and recommendations within the Pension Regulator’s DC code and regulatory guidance.

2 Statement of Investment Principles

Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.

- In accordance with section 35 of the Pensions Act 1995, the Trustee has reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and has consulted the Sponsoring Employer.

- The Trustee will review this Statement, in consultation with the investment consultant and the Sponsoring Employer, at least once every three years, or more frequently if there are any significant changes in the Scheme's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

Key investment principles

Kind of investments to be held

- The Trustee has full regard to their investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.

- The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, property, private equity, hedge funds and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustee has considered the attributes of the various asset classes (including derivative instruments), these attributes being:

  – security (or quality) of the investment,

  – yield (expected long-term return),

  – spread (or volatility) of returns,

  – term (or duration) of the investment,

  – exchange rate risk,

  – marketability/liquidity (i.e., the tradability on regulated markets),

  – taxation.

The Trustee considers all of the stated classes of investment to be suitable to the circumstances of the Scheme. Investment Decisions

- All investment decisions are taken by the Trustee Board as a whole, or by the designated Investment and Finance Committee ('IFC') as appropriate which reports back to the Trustee Board. The Trustee believes that having a subcommittee to consider investment matters is the appropriate structure, given the size of the board and the nature of the arrangements. The Trustee will examine regularly whether additional investment training is desirable for any individual Trustee Director or IFC member.

- All investment decisions relating to the Scheme are under the Trustee's control without constraint by the Sponsoring Employer. The Trustee is obliged to consult with the Sponsoring Employer when changing this Statement.

- All day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension scheme portfolios. Investment management agreements and/or an insurance contract have been exchanged with the investment managers, and are reviewed from time to time to ensure that the manner in which they make investments on the Trustee's behalf is suitable for the Scheme, and appropriately diversified.

Investment Objectives and Suitability of Investments:

- The Scheme's investment strategy has been agreed by the Trustee having taken advice from the investment consultant and takes due account of the Scheme's liability profile along with the level of disclosed surplus or deficit. The Trustee considers the context of the Scheme's long-term journey when setting the investment strategy.

- The Trustee's agreed investment strategy is based on an analysis of the Scheme's liability profile, the required investment return and the returns expected from the various asset classes over the long term. Long-term returns from equities and other 'growth assets' are expected to exceed the returns from gilts and cash, although returns and capital values may demonstrate higher volatility. The Trustee is prepared to accept this higher volatility in order to aim to achieve the overall investment objectives.

- The Trustee's primary objectives are:

  – to provide appropriate security for all beneficiaries,

  – to achieve long-term growth sufficient to provide the benefits from the Scheme, and

  – to achieve an appropriate balance between risk and return with regards to the cost of the Scheme and the security of the benefits.

- The Trustee has translated its objectives into a suitable strategic asset allocation benchmark for the Scheme, details of which are included in the appendices.

- In accordance with the Financial Services & Markets Act 2000, the Trustee is responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to investment managers authorised under the Act. Details are included in the appendices.

- The Trustee is responsible for reviewing both the Scheme's asset allocation and investment strategy as part of each actuarial valuation in consultation with the

Scheme's investment consultant. The Trustee may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.

- The Trustee considers the Scheme's current strategic asset allocation to be consistent with the current financial position of the Scheme. This assessment will be updated with reference to the Technical Provisions set out in the Scheme's Statement of Funding Principles once the next actuarial valuation has been completed. "Technical provisions" is the value of the Scheme's liabilities for funding purposes as at the latest available Scheme-specific actuarial valuation date, being 5 April 2016.

Diversification

- The Trustee, after seeking appropriate investment advice, has selected a strategic asset allocation benchmark for the Scheme (see Appendix).

- Subject to their respective benchmarks and guidelines (shown in the Trustee's Strategic Implementation Policy) the investment managers are given full discretion over the choice of securities and are expected to maintain diversified portfolios.

- The Trustee is satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.

- Given the size and nature of the Scheme, the Trustee has decided to invest the Scheme's assets on a pooled fund basis. All such investments are effected through direct agreements with the investment managers and/or through an insurance contract.

- The Trustee is satisfied that the range of vehicles in which the Scheme's assets are invested provides adequate diversification.

Risk

- The Trustee considers the main risk to be that of the assets being insufficient to meet the Scheme's liabilities as they fall due. The Trustee has assessed the likelihood of undesirable financial outcomes arising in the future.

- Investment policies are set with the aim of having sufficient and appropriate assets to cover the Scheme's Technical Provisions, and with the need to avoid undue contribution rate volatility.

- In determining its investment strategy, the Trustee received advice from the investment consultant as to the likely range of funding levels for strategies with differing levels of investment risk relative to the Scheme's liability profile. Taking this into account, along with the expected returns underlying the most recent actuarial valuation, the strategy outlined in the Appendix of this Statement has been adopted.

- Although the Trustee acknowledges that the main risk is that the Scheme will have insufficient assets to meet its liabilities, the Trustee recognises other contributory risks, including the following. Namely the risks:

  – associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors,

- of the Scheme having insufficient liquid assets to meet its immediate liabilities,
- of the investment managers failing to achieve the required rate of return,
- due to the lack of diversification of investments,
- of failure of the Scheme's Sponsoring Employer to meet its obligations.

- The Trustee manages and measures these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.
- The Trustee (with assistance from the IFC) undertakes monitoring of the investment managers' performance against their targets and objectives on a regular basis.
- Each fund in which the Scheme's invests has a stated performance objective by which investment performance will be measured. These are shown in the Trustee's Strategic Implementation Policy. Within each asset class, the investment managers are expected to maintain a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified.
- The divergence of the actual distribution of the investments from the benchmark weighting will be monitored by the Scheme's investment consultant. Any deviation from the target asset allocation will be discussed periodically with the investment consultant.

Expected return on investments

- The investment strategy is believed to be capable of exceeding, in the long run, the overall required rate of return assumed in the Scheme Actuary's published actuarial valuation report in order to reach a fully funded status under the agreed assumptions.
- As at 31 July 2018, Buck's Best Estimate Assumptions (over a 20 Year period) were as follows:

Asset Class	Expected Returns
Diversified growth fund ("DGF")	5.05%
Absolute return bonds	2.80%
Property	4.80%
Illiquid credit	3.30%
Multi-sector credit	3.30%
Fixed LDI	1.80%
Real LDI	1.35%
Equities	6.05%

Realisation of investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustee requires the investment manager(s) to be able to realise the Scheme's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best

interests of the Scheme. The majority of the assets are not expected to take an undue time to liquidate.

Investment Manager Monitoring

- The Trustee will assess (with assistance from the IFC) the performance, processes and cost effectiveness of the investment managers by means of regular, but not less than annual, reviews of the results and other information, in consultation with the investment consultant.

- All investment decisions, and the overall performance of the investment managers, are monitored by the Trustee and IFC with the assistance of the investment consultant.

- The investment managers will provide the Trustee with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to their portfolios. The investment managers will also report orally on request to the Trustee/IFC.

- The Trustee receives an independent investment performance monitoring report from their investment consultant on a quarterly basis.

- The investment managers will inform the Trustee of any changes in the internal performance objective and guidelines of any pooled funds used by the Scheme as and when they occur.

- The Trustee/IFC will assess the quality of the performance and processes of the investment managers by means of a review at least once every three years in consultation with the investment consultant.

- Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment managers.

Balance between different kinds of investments

- The appointed investment manager(s) will hold a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market each manager will maintain a diversified portfolio of securities.

Financially material considerations

- The Trustee expects its investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.

- The Trustee's adviser reports on the investment managers' policies in respect of financially material considerations and the Trustee is satisfied that these policies are consistent with the above approach.

- The Trustee will take into account the approach to financially material considerations in deciding whether to retain or appoint investment managers.

Extent to which non-financial matters are taken into account

- The Trustee's objective is that the financial interests of the Scheme members are their first priority when choosing investments. The Trustee does not currently take non-financial factors into account.

Stewardship in relation to the Scheme's assets

- The Trustee has a fiduciary duty to consider its approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustee can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.

- The Trustee's policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and expects the investment managers to use their discretion to maximise financial returns for members and others over the long term.

- The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustee detailing their voting activity. The Trustee will take corporate governance policies into account when appointing and reviewing such investment managers.

Investment manager policy

- In detailing below the policies on the investment manager arrangements, the over-riding approach of the Trustee is to select investment managers that meet the primary objectives of the Trustee. As part of the selection process and the ongoing review of the investment managers, the Trustee consider how well each investment manager meets the Trustee's policies and provides value for money over a suitable timeframe.

  - The Trustee has delegated the day to day management of the Scheme's assets to investment managers. The Scheme's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment managers to adhere to their stated policies and objectives.

  - The Trustee, in conjunction with its investment consultant, appoints its investment managers and chooses the specific pooled fund to use in order to meet specific Scheme policies. It expects that its investment managers make decisions based on assessments about the financial merits of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.

  - The investment with BMO (covering liability-driven investment and synthetic equity) is in a bespoke pooled fund. This has been created by BMO specifically for the Trustee, with benchmarks and investment guidelines tailored to the Trustee's requirements. Again, the manager is incentivised to

adhere to their mandate by the fees paid. (The investments are largely in gilts and derivatives, so engagement is not relevant to this mandate.)

- The Trustee has decided not to take non-financial matters into account when considering its policy objectives (as noted [above]).
- The Trustee expects its investment managers to invest the assets within its portfolio in a manner that is consistent with the guidelines and constraints set out in its appointment documentation. The Trustee reviews the investment managers periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.

- If the Trustee determines that the investment manager is no longer managing the assets in line with the Trustee's policies, it will make its concerns known to the investment manager and may ultimately disinvest.

- The Trustee pays its investment managers a management fee which is a fixed percentage of assets under management (or exposure for derivative based mandates).

- Prior to agreeing a fee structure, the Trustee, in conjunction with its investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

- The Trustee, in conjunction with its investment consultant, has processes in place to review investment turnover costs incurred by the Scheme on an annual basis. The Trustee receive a report which includes the turnover costs incurred by the investment managers used by the Scheme.

- The Trustee expects turnover costs of the investment managers to be in line with its peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.

- The Trustee does not explicitly monitor turnover, set target turnover or turnover ranges. The Trustee believes that the investment managers should follow its stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique in nature and there is the potential for markets to change significantly over a short period of time.

- The Trustee does not in general enter into fixed long-term agreements with its investment managers and instead retains the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustee's policies. However, the Trustee expects its manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

- The Trustee has entered into a long-term agreement with Partners Group for Illiquid Credit. The arrangement has an expected lifetime of around 7 years, beginning in 2016.

Employer-related investments

- The amount of the sponsoring employer's securities, owned by pooled investment vehicles invested in, are monitored. The Trustee has delegated the responsibility for the exercising of any voting rights attached to any sponsoring employer investment held to the investment managers.

Additional Voluntary Contributions (AVCs)

- The Trustee has full discretion as to the appropriate investment vehicles made available to members of the Scheme for its voluntary contributions. Only investment vehicles normally considered suitable for voluntary contributions will be considered by the Trustee, having taken appropriate written advice from properly qualified and authorised financial advisers.

- The Trustee makes available the following range of investment options for the members' AVCs:

AVC Provider	Investment Options
Legal & General	Unit Linked
Utmost	Unit Linked
Fidelity Investment Management	Unit Linked
Standard Life	Unit Linked, With Profits
BlackRock	Cash Fund
Clerical Medical	Unit Linked, With Profits

- In selecting this range of funds offered the Trustee has taken advice from its professional advisers on:

  – the risks faced by members in investing on a money purchase basis, and

  – the Trustee's responsibilities in the selection and monitoring of the investment options offered.

- The Trustee will continue to manage the AVC arrangements having taken professional advice on these matters.

- The Trustee will monitor the performance of AVC providers periodically.

- Members are directed to seek independent financial advice when considering their AVC arrangements.

3 Appointments & Responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Scheme.

Trustee and IFC Responsibilities

The IFC will be responsible for addressing all investment and finance issues relating to the Scheme.

In particular, the primary duties of the IFC will fall into the following key categories:

- Investment strategy proposals and manager oversight;
- Interaction of investment strategy with covenant and funding strategy; and
- Liability management and long-term funding plan considerations.

Investment strategy proposals and manager oversight

- Monitor and ensure fund managers operate within the Scheme's Statement of Investment Principles including:
  - Reviewing fund manager performance against objectives;
  - Reviewing appropriateness of fund objectives/benchmarks; and
  - Reviewing appropriateness of fund manager objectives/benchmarks.
- Reviewing any tactical changes to the strategic asset allocation, within agreed tolerances;
- Reviewing the ongoing cashflow needs and policy of the Trustee;
- Consult with Carlsberg UK Limited ('the Company') (and Parent Company as appropriate) regarding the Trustee's investment policy and report back to the Trustee Board;
- On behalf of the Trustee Board, and following implementation of the investment strategy amendments agreed as part of the 2016 funding valuation, make necessary changes to the investment arrangements (updating the Statement of Investment Principles as necessary) including:
  - Consider, review and implement changes to Fund Managers to ensure the objectives of the Scheme's Statement of Investment Principles continue to be met, and update the Trustee Board as appropriate.
  - Consider and implement changes to the allocations to different asset classes, so long as these remain within up to 5% (increase or decrease) of the central

allocation agreed by the Trustee Board, and update the Trustee Board as appropriate.

  - Consider and introduce holdings in any asset classes not currently used by the Scheme as long as those holdings, at the time of the trade, do not exceed 5% of the Scheme's asset value, and update the Trustee Board as appropriate.

- Oversee any changes as directed by the Trustee Board and to ensure these are completed in an efficient manner in order to minimise transition costs; and

- To review and negotiate the terms of appointment of any current and/or replacement fund managers.

Interaction of investment strategy with covenant and funding strategy

- To understand the cashflow implications of the funding plan and reflect in the Scheme's investment strategy; and

- To understand current and potential future positions of covenant and reflect in the investment strategy, notably in respect of downside risk management.

Liability management and long-term funding plans consideration

- To consider the use of insurance products to reduce the risk or cost associated with the Scheme and report back to the Trustee Board; and

- Monitor the progression of the Scheme's funding position relative to any long-term funding objectives ('flight paths') and report back to the Trustee Board.

The IFC will consult with the Company (and Parent Company as appropriate) who in turn will consult with Isio ('the Company advisor') regarding the Trustee's investment policy and report back to the Trustee Board.

The Trustee retains responsibility for deciding on the investment strategy, based on proposals made by the IFC.

Investment Consultant

The main responsibilities of the investment consultant include:

- assisting the Trustee in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer,

- undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustee,

- advising the Trustee on the selection and review of the investment manager(s),

- providing training or education on any investment related matter as and when the Trustee sees fit, and

- monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

Investment Managers

The investment managers' main responsibilities include:

- investing assets in a manner that is consistent with the objectives set,

- ensuring that investment of the Scheme's assets is compliant with prevailing legislation and the constraints detailed in this Statement,
- providing the Trustee with quarterly reports including any changes to their investment process and a review of the investment performance,
- attending meetings with the Trustee as and when required,
- informing the Trustee of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur, and
- considering financially material risks affecting investments within their portfolio
- exercising voting rights on shareholdings in accordance with their general policy.

Custodian

The custodians used are responsible for the safe-keeping of the Scheme's assets.

- The custodianship arrangements are those operated by the investment managers for clients investing in their pooled funds.

Administrators

The administrator's primary responsibilities are the day to day administration of the Scheme and the submission of specified statutory documentation, as delegated by the Trustee.

The Scheme's administrator is Buck.

Scheme Actuary

The Scheme Actuary's main responsibilities in respect of investment policy include:

- commenting on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme; and
- performing the triennial (or more frequently as required) actuarial valuation and advising on the Scheme's funding level and therefore the appropriate level of contributions in order to aid the Trustee in balancing short-term and long-term investment objectives.

The Scheme Actuary is Nick Chadha of Buck.

Signed on behalf of the Trustee of the Scheme:

…….. ……..

Name Signature

……..

Date

Appendix – Strategic Benchmark

Scheme's target asset allocation

The Scheme's target asset allocation is tabulated below:

Asset Type	Investment Style	Allocation (%)	Control Range (+/-)
Diversified growth fund ("DGF")	Active	15.0	3.0
Absolute return bonds	Active	9.0	2.0
Property	Active	8.0	3.0
Illiquid credit	Active	9.0	n/a[1]
Multi-sector credit	Active	9.0	2.0
LDI and synthetic equity	Passive (see below)	50.0	42.5-52.5[2]
Total		**100.0**	

Notes:

1. Illiquid credit is excluded, given that it is 'closed ended' with no opportunity to redeem before the fund's term ends.

2. The range for the BMO mandate is not symmetric. The size of the BMO mandate does not affect the level of hedging or the level of synthetic equity exposure, just the level of collateral held to support these exposures. Being overweight is inefficient, in that the excess collateral is not earning a material return.

The LDI and synthetic equity mandate aims to provide the following:

- hedging of 100% of interest rate and inflation risk, as a proportion of the funded liabilities as calculated on a Technical Provisions basis,

- synthetic equity exposure equal to 22.5% of the total assets.

In relation to the hedging of interest rate and inflation risk, a 'dynamic' approach is taken. This means that the profile of the instruments held is aimed to track the benchmark, but the choice of instruments (e.g. swap, gilt repo) is based on the relative attractiveness of the instrument.

The synthetic equity approach is passive.