

## **AB InBev UK Pension Plan (DB Section) – Annual Engagement Policy Implementation Statement**

### **Introduction:**

This statement sets out how, and the extent to which, the Trustee’s policy on Environmental, Social and Governance (“ESG”), Stewardship, Climate Change and the Investment Manager arrangements in the Statement of Investment Principles (“SIP”) has been followed during the Plan year to 31 December 2023 in respect of the Defined Benefit (“DB”) Section of the Plan. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by The Pensions Regulator. This document sets out the how, and the extent to which, the policies in the DB Section SIP have been followed.

### **Investment Objectives of the Plan:**

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Plan specified in the SIP dated 7 August 2023 are as follows:

- The investment objective of the DB Plan is to be fully funded on a technical provisions basis, as outlined in the relevant actuarial valuation, by 31<sup>st</sup> December 2026.
- An underlying aim is that the investment plan is aligned with the Technical Provisions (as referenced to the 2015 De-Risking Agreement), and the Recovery Plan out-performance assumption, such that the investment plan takes no more risk than the implied risk in those assumptions.
- The discount rate used in the 2021 Valuation is 1.42%; this a single equivalent rate of 1.05% derived from WTW’s gilt market interest curve plus an equity risk premium of 2.5% points on a 15% allocation to equity (in effect, gilts plus 37.5 basis points).
- During the period to 31<sup>st</sup> December 2026, (the Recovery Period), it is forecast that the Plan’s Assets will achieve “investment out-performance”, versus the Technical Provision assumptions, of c0.45 % points per annum.

### **Review of the SIP:**

The Trustees reviewed the SIP in August 2023. Given there have been no strategy changes since the last review, the Trustee is comfortable that the SIP remains appropriate for Scheme.

The latest SIP can be found at the following link: [AB InBev UK Pension Plan \(abinbevukpensionplans.com\)](http://abinbevukpensionplans.com)

### **Assessment of how the policies in the SIPs have been followed for the year to 31 December 2023:**

The information provided in this section summarises the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work aligns with the Trustee’s policies as outlined in the SIP for the Plan’s DB section.

In summary, it is the Trustee’s view that the policies in the SIPs have been followed during the Plan Year.

### **Policy of Strategic Asset Allocation Policy, (Section 2 – 4 of DB SIP)**

### *1. Kind of investments to be held and the balance between different kinds of investments*

Over the year, the Plan de-risked the portfolio, with c.£35m transferred from equities into single stock conventional gilts during Q3. The rationale behind this proposal was aimed at increasing the interest rate hedge and as a concomitant, locking in a portion of the gains in the Plan's current funding level. All of the arrangements in place are consistent with the policies in the SIP.

### *2. Risks, including the ways in which risks are to be measured and managed*

The Trustee has considered risk from a number of perspectives. The Trustee has considered both quantitative and qualitative measures, as well as how best to manage the various risks. These risks include;

- Covenant risk
- Interest rate risk
- Inflation risk
- Return from growth asset risk
- Mortality risk

The Trustee reviews the measurement of the Plan's interest, inflation and growth asset risk on a quarterly basis during the year as part of their regular investment monitoring. In addition, the vast majority of the Plan's funds are highly rated by the Plan's investment consultants, the exception being the LGIM USD Corporate Bond AAA-AA-A (GBP Hedged) Fund, which has not been assigned a rating. Manager research ratings (both for the strategy in general and specific ESG ratings) derived by the investment adviser are included in quarterly investment monitoring reports which are reviewed by the Trustee.

In addition to the quarterly reporting, the Trustee has access to an online daily funding monitoring tool, which allows them to monitor the progression of the Plan's assets and liabilities on a daily basis. The Plan's investment adviser also has access to this tool and it is used to discuss risk, investment and funding considerations with the Trustee.

The Trustee reviews the measurement of the covenant and mortality risk triennially, as part of the Plan's actuarial valuation.

The Trustee is comfortable with the arrangements in place to identify, measure and manage risks.

### *3. Expected return on investments*

Investment monitoring reports are reviewed by the Trustee on a quarterly basis, which include how each fund is delivering against its specific benchmark and/or target(s), as well as how the portfolio is performing as a whole.

The expected return on the Plan's assets is assessed as part of the Plan's triennial actuarial valuation, and is used to derive the discount rate underlying the Technical Provisions basis.

### **Policy on Investment Mandates, (Section 2 - 5 of DB SIP)**

### *4. Securing compliance with the legal requirements about choosing investments*

The Plan's investment advisers attended all Investment-Sub Committee ("ISC") meetings during the year and provided updates on fund performance and, where required, the appropriateness of the funds used.

## 5. *Realisation of Investments*

The selection, retention and realisation of assets within the pooled funds are delegated to the Plan's underlying fund manager in line with the mandates of those funds. Likewise, the underlying fund manager has full discretion (within the constraints of their mandates) on the extent to which environmental, social or governance considerations are taken into account in the selection, retention and realisation of investments.

There were no changes to the liquidity of the funds used by the Plan during the year.

Overall, the Trustee is satisfied that the Plan's core financial transactions have been processed promptly and accurately during the period to which this Statement relates.

## 6. *Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments*

A number of the key investment risks identified in the SIP were measured and managed, as part of reviewing investment performance at Trustee meetings.

The Trustee delegates all voting and engagement activities to the investment manager. However, the Trustee has considered the investment adviser's assessment of how the investment manager embeds ESG (Environmental, Social and Governance) into its investment process and the Trustee will incorporate these considerations into its decision making on the selection and retention of the investment manager going forward.

### **Policy on ESG, Stewardship and Climate Change, (Section 6 -7 of DB SIP)**

## 7. *Exercise of the rights (including voting rights) attaching to the investments*

*Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustee would monitor and engage with relevant persons about relevant matters)*

The Plan's SIP includes the Trustee's policy on ESG factors, Stewardship and Climate Change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. This was last reviewed in August 2023.

This policy reflects current practice. The DB Plan invests solely in pooled funds. The Trustee has delegated their voting rights to the investment managers and also expect their investment managers to engage with the investee companies on their behalf.

However, the Trustee has considered the investment adviser's assessment of how each investment manager embeds ESG into its investment process and their assessment of the manager's stewardship activities as part of the quarterly performance monitoring.

The Trustee has also requested key voting activities from the Plan's investment manager during the Plan year in order to consider this, and the information received is summarised in the Voting and Engagement Policy Statement that follows.

The following voting and engagement work (as shown below) was undertaken during the year to 31 December 2023 relating to the Trustee's policy on ESG factors, stewardship and climate change, and sets out how the Trustee's engagement and voting policies were followed and implemented during the year. The Trustee keeps the policies under regular review, with the SIP subject to review at least every three years.

## *Significant Votes*

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 ("Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance") one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a "significant vote".

The Trustee defines a significant vote as one that is linked to the Plan's stewardship priorities/themes. The Trustee has set out below their criteria for significant votes, which are aligned to some of the key themes outlined in the United Nation's Sustainable Development Goals, and are satisfied that these are also captured as high areas of focus in the stewardship policies of the Plan's investment managers:

- Climate Change related (e.g. a vote on a company's carbon disclosures) – this would be the E (environmental) theme
- Human rights: modern slavery, pay & safety in workforce and supply chains, etc. – the S (social) theme
- Corporate governance: Diversity, equity and inclusion – the G (governance) theme.

Further details of the investment managers voting activity, particularly in relation to votes which the Trustees deem as significant, are included in "Voting Activity" section of this Implementation Statement.

### **Policy on monitoring the Investment Managers, (Section 8 of DB SIP)**

#### *8. Incentivising investment managers to align their investment strategies and decisions with the Trustees' policies*

The Trustee policy is that day-to-day decisions relating to the selection, retention and realisation of the Plan's investments are left to the discretion of the investment manager. This includes consideration of all financially material factors, including ESG-related issues where relevant however, the Trustee has considered the investment adviser's assessment of how each investment manager embeds ESG into its investment process and their assessment of the manager's stewardship activities as part of the quarterly performance monitoring.

The Trustee monitors the investment strategies and decisions of the Plan's investment manager via the Plan's quarterly monitoring reports. Alongside the advice of the Plan's investment consultant, the Trustee will challenge the Plan's investment manager as necessary, if it is believed that the investment manager's strategies and decisions deviate from the Trustee's policies.

#### *9. How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term*

Policy reflects current practice.

The Trustee delegates all voting and engagement activities to the investment manager. The Trustee has considered the investment adviser's assessment of how each investment manager embeds ESG into its investment process and their assessment of the manager's stewardship activities as part of the quarterly performance monitoring.

In addition, the Trustee has requested key voting activities from the Plan's managers during the year, and the information received is summarised in the Voting and Engagement Policy Statement that follows.

#### *10. Evaluation of the investment manager's performance and the remuneration for asset management services*

The Trustee recognises they have a long-term time horizon as set out in the SIP. As such, managers are assumed to be held for a suitably long time. Managers' performance net of fees is therefore reviewed over both short and long term horizons.

The Trustee reviewed the investment performance at the quarterly meetings. There were no performance concerns raised in 2023.

#### *11. Monitoring portfolio turnover costs*

In the year to 31 December 2023, the Trustee has not monitored or queried portfolio turnover costs. The Trustee focuses on net of fees outcomes from the investment manager which takes into account portfolio turnover costs through the performance generated.

The Trustee may choose to monitor portfolio turnover costs in the future.

#### *12. The duration of the arrangement with the investment manager*

Policy reflects current practice. There remains no set durations for manager appointments.

The Trustee has received investment manager performance reports from the investment adviser on a quarterly basis, which presents performance over 3 months, 1 year and 3 year periods. The Trustee has reviewed the absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustee focus is primarily on long-term performance but short-term performance is also reviewed. If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may look to replace that manager; however, no manager changes were made during the year.

### **Engagement Activity**

The DB Section has one manager, Legal & General Investment Management ("LGIM"). The Trustee has satisfied itself that this manager pays suitable attention to ESG, stewardship and climate change matters. It has therefore delegated the management of all such activities to LGIM.

The Plan's investment performance report is reviewed by the Investment Sub-Committee ("ISC") for the Plan on a quarterly basis and includes ratings (both general and specific ESG) from the investment consultant. The Trustee acknowledges that managers in areas such as fixed income (particularly in relation to LDI) may not have a high ESG rating assigned by the investment consultant due to the nature of the asset class, where it is harder to engage with the issuer of debt. The Trustee also receives Legal and General's quarterly and annual ESG reports.

LGIM confirmed that they are signatories to the current UK Stewardship Code and are named as signatories on a list published by the Financial Reporting Council on 6 September 2021.

The Trustee's investment consultant has requested, on behalf of the Trustee, details of relevant engagement activity for the period from Legal and General.

The Plan's investment manager engaged with companies over the period on a wide range of different issues including ESG matters pertaining to the Trustee's view on significant votes. This included for example, engaging with companies on diversity issues, voting against management decisions to re-elect specific board members when LGIM believe the investee company have sufficient gender representation on their board.

LGIM provided examples of instances where they had engaged with companies they were invested in or about to invest in which resulted in a positive outcome within their 2023 Active Ownership Report. These engagement initiatives are driven mainly through regular engagement meetings with the companies that the investment managers invest in or by voting on key resolutions at companies' Annual General Meetings.

The link to LGIM's Active Ownership Report for 2023 can be found below:

[lgim.com/landg-assets/lgim/document-library/responsible-investing/active-ownership-report-2023---full-report.pdf](https://lgim.com/landg-assets/lgim/document-library/responsible-investing/active-ownership-report-2023---full-report.pdf)

The Trustee monitors these issues on a regular basis and documents the position at least annually, through consideration of Mercer's ESG ratings for LGIM and through meetings with Legal and General.

### **Voting Activity**

The Trustee has delegated their voting rights to Legal and General, the investment manager.

LGIM provides voting summary reporting on a regular basis, at least annually. The reports are reviewed by the Trustee to ensure that they align with the Trustee's policy.

During the year to December 2023 the Trustee, whilst reviewing the voting activity, has not actively challenged the manager on its voting activity. Going forwards, the Trustee will actively challenging voting activity if it is deemed to go against the Trustee's views and stewardship priorities.

The Trustee does not use the direct services of a proxy voter.

LGIM states that it recognises its fiduciary obligation to act in the best interests of all clients. One way the manager represents its clients in matters of corporate governance is through a custom proxy voting process. The firm states that its voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seek to achieve the best outcome for all clients.

LGIM engaged in voting activity in respect of the following funds invested in by the Plan during the 12-month period to 31 December 2023:

- UK Equity Index Fund

Over the 12 months to 31 December 2023, LGIM were eligible to vote on 10,517 company resolutions on behalf of the Trustee. They have voted in c.99.8% of the resolutions that they were eligible, of which c.94.2% were voted with management and c.5.8% were voted against management.

- Europe (ex UK) Equity Index Fund - GBP Currency Hedged

Over the 12 months to 31 December 2023, LGIM were eligible to vote on 9,955 company resolutions on behalf of the Trustee. They have voted in c.99.9 % of the resolutions that they were eligible, of which c.80.3 % were voted with management and c.19.3 % were voted against management with 0.4% abstentions.

- North America Equity Index Fund - GBP Currency Hedged

Over the 12 months to 31 December 2023, LGIM were eligible to vote on 8,760 company resolutions on behalf of the Trustee. They have voted in c.99.7% of the resolutions that they were eligible, of which c.65.5% were voted with management and c.34.5% were voted against management.

- Asia Pacific (ex Japan) Developed Equity Index Fund - GBP Currency Hedged

Over the 12 months to 31 December 2023, LGIM were eligible to vote on 3,283 company resolutions on behalf of the Trustee. They have voted in 100% of the resolutions that they were eligible, of which c.73.7% were voted with management and c.26.3% were voted against management.

Voting percentage figures may not sum due to rounding.

### **Significant votes**

The summary below shows examples of the most significant votes that occurred over the year to 31 December 2023 for the Plan and how these votes align with the Trustee's stewardship priorities and what they classify as a 'significant vote'. It is not possible to disclose all the information received in this Statement. Therefore, examples of voting activity to include in this Statement were based on the votes that held the largest size of each Fund's holding which focused on areas including climate change/carbon emissions, separation of the role of CEO/Board Chairman and board diversity and human rights. The Trustee feel that the voting policy of the managers was broadly aligned to the Plan's stewardship priorities over the year.

#### **UK Equity Index Fund**

*Company name & date of vote:* Shell Plc, 23 May 2023

*Why deemed significant:* Relates to the Trustee climate change stewardship priority

*Approximate size of fund's holding as at the date of the vote (as % of portfolio):* c.7.0%

*Summary of the resolution:* To approve the Shell Energy Transition Progress

*How the asset manager votes:* Against

*Rationale:* A vote Against is applied, though not without reservations. LGIM acknowledge the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, they remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both of these are key areas to demonstrate alignment with the 1.5C trajectory.

*Outcome of vote:* Pass

*Company name & date of vote:* Pearson Plc, 28 April 2023

*Why deemed significant:* Relates to the Trustee human rights stewardship priority

*Approximate size of fund's holding as at the date of the vote (as % of portfolio):* c.0.3%

*Summary of the resolution:* To approve the remuneration policy

*How the asset manager votes:* Against

*Rationale:* A vote Against is applied as LGIM feel the company should not pick and choose the regions (UK/US) to set executive pay based on which region offers the highest opportunity. The changes centred around the fact that their CEO is based in the US and should therefore be compensated in line with US peers. Thus, there was a higher proposed annual bonus opportunity and long term incentive award. LGIM main concern was that although the company wants to align the CEO's salary with US peers, they have elected to use UK practices when it comes to his pension. This would result in a pension provision of 16% of salary, which is more than his US peers typically receive.

*Outcome of the vote:* Pass

### **Europe (ex UK) Equity Index Fund - GBP Currency Hedged**

*Company name & date of vote:* Novartis AG, 7 March 2023

*Why deemed significant:* Relates to the Trustee corporate governance stewardship priority

*Approximate size of fund's holding as at the date of the vote (as % of portfolio):* c.1.9%

*Summary of the resolution:* To re-elect Joerg Reinhardt as Director and Board Chair

*How the asset manager votes:* Against

*Rationale:* A vote Against is applied as LGIM expects a company to have a diverse board, with at least one-third of board members being women. It is expected that companies will look to increase female participation both on the board and in leadership positions over time.

*Outcome of vote:* Not provided by manager

*Company name & date of vote:* TotalEnergies SE, 26 May 2023

*Why deemed significant:* Relates to the Trustee climate change stewardship priority

*Approximate size of fund's holding as at the date of the vote (as % of portfolio):* c.1.7%

*Summary of the resolution:* To approve the Company's Sustainable Development and Energy Transition Plan

*How the asset manager votes:* Against

*Rationale:* A vote Against is applied. LGIM recognises the progress the company has made with respect to its net zero commitment, specifically around the level of investments in low carbon solutions and by strengthening its disclosure. However, concerns remain of the company's planned upstream production growth in the short term, and the absence of further details on how such plans are consistent with the 1.5C trajectory.

*Outcome of vote:* Not provided by manager

### **North America Equity Index Fund - GBP Currency Hedged**

*Company name & date of vote:* Microsoft Corporation, 7 December 2023

*Why deemed significant:* Relates to the Trustee corporate governance stewardship priority

*Approximate size of fund's holding as at the date of the vote (as % of portfolio):* c.6.2%



*Summary of the resolution:* To elect Director Satya Nadella

*How the asset manager votes:* Against

*Rationale:* A vote Against is applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns.

*Outcome of vote:* Not provided by manager

*Company name & date of vote:* Amazon.com, Inc., 24 May 2023

*Why deemed significant:* Relates to the Trustee corporate governance stewardship priority

*Approximate size of fund's holding as at the date of the vote (as % of portfolio):* c.2.3%

*Summary of the resolution:* To report on Median and Adjusted Gender/Racial Pay Gaps

*How the asset manager votes:* For

*Rationale:* A vote For was applied as LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap. This is an important disclosure so that investors can assess the progress of the company's diversity and inclusion initiatives. Board diversity is an engagement and voting issue, as they believe cognitive diversity in business – the bringing together of people of different ages, experiences, genders, ethnicities, sexual orientations, and social and economic backgrounds – is a crucial step towards building a better company, economy and society.

*Outcome of vote:* Fail

### **Asia Pacific (ex Japan) Developed Equity Index Fund - GBP Currency Hedged**

*Company name & date of vote:* National Australia Bank Limited, 15 December 2023

*Why deemed significant:* Relates to the Trustee climate change stewardship priority

*Approximate size of fund's holding as at the date of the vote (as % of portfolio):* c.2.1%

*Summary of the resolution:* To approve Transition Plan Assessments

*How the asset manager votes:* For

*Rationale:* A vote For was applied as LGIM expects companies to be taking sufficient action on the key issue of climate change. While LGIM acknowledge the Company's disclosures on sector policies and emissions reduction targets in this regard, they believe that additional reporting on how this is assessed in practice and any timelines associated with this in light of the company's existing commitments is considered beneficial to shareholders.

*Outcome of vote:* Withdrawn

*Company name & date of vote:* Westpac Banking Corp., 14 December 2023

*Why deemed significant:* Relates to the Trustee climate change stewardship priority

*Approximate size of fund's holding as at the date of the vote (as % of portfolio):* c.1.8%

*Summary of the resolution:* To approve Westpac Climate Change Position Statement and Action Plan

*How the asset manager votes:* Against

*Rationale:* A vote Against this proposal was applied as LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. While LGIM positively note the company's net-zero commitments and welcome the opportunity to voice their opinion on the bank's climate transition plan, they highlight some concerns with the scope of targets and disclosures. In particular, the bank has not committed to establish science-based targets; and the sector policies notably on certain fossil fuels (such as unconventional oil and gas) and existing business relationships remains limited in scope. More specifically, the company's position on power generation is quite high level and particularly narrow in scope.

*Outcome of vote:* Pass