

Tube Lines Pension Scheme ('the Scheme')

Prepared by: The Trustee Directors, ('the Directors')

Implementation Statement 2021

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations ('the Regulations'). The Regulations, amongst other things, require that the Directors outline how they have ensured that the policies and objectives set out in their Statement of Investment Principles (SIP) have been adhered to over the course of the year.

The Implementation Statement ('the Statement' or 'IS') must include the following:

- A description of any review of the SIP undertaken during the year, with an explanation of any changes made or, if no review took place, the date of the last review.
- How and the extent to which the SIP has been followed during the year.
- A description of the voting behaviour by or on behalf of the Directors (including the most significant votes cast) during the year and a note on the use of the services of a proxy voter.

The Directors must include the Implementation Statement in the Trustees' Report & Accounts and publish this on a publicly available website.

This is the second implementation statement the Directors have prepared and covers the year ending 31 March 2021.

Scheme activity over the year to 31 March 2021

No changes were made to the Scheme's investments during the year.

The last strategy review was completed on 20 September 2018. This review led to significant changes in the Scheme's investment strategy which were implemented during 2019 and were fully in place by January 2020.

The next strategy review will take place by 19 September 2021.

Changes to the SIP over the year to 31 March 2021

Having previously been reviewed in 2019, the SIP was reviewed during 2020 with the updated SIP being in place from 30 September 2020.

The principle changes arising from this review are as follows:

Stewardship – Voting and Engagement

The Directors updated their stewardship policy to set out the actions they would take if a manager is found to be falling short of the standards they expect.

The Directors also added detail of their approach to reviewing and reporting on the stewardship activities of the Scheme's asset managers.

Policies on Costs and Transparency

The Directors specified their policies in relation to the remuneration of the Scheme's asset managers including how member-borne costs and charges are monitored.

Policies on Arrangements with Asset Managers

The Directors specified their policies in respect of their relationship with the Scheme's asset managers, how they monitor the Scheme's investments and the approach they would take in the event that asset managers are considered to be making decisions that are not in line with the Directors' policies or expectations.

How the objectives & policies outlined in the SIP have been met

The Directors outline in their SIP a number of key objectives and policies. These are noted below, together with an explanation of how these objectives have been met and policies adhered to over the course of the year to 31 March 2021:

Scheme Investment Objective: In investing the assets of the Scheme in a prudent manner, the Trustee Directors' key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. They have taken into account members' circumstances, in particular the range of members' attitudes to risk and term to retirement.

Over the year, the Directors have made available a comprehensive selection of investment options including three lifestyle strategies and a range of standalone self-select funds.

This range of investments was put in place following the Scheme's investment strategy review undertaken in 2018 during which the Directors commissioned analysis of the Scheme's membership in order to better understand members' circumstances, objectives and attitudes to risk.

Accordingly, the Directors are satisfied that this policy has been fully adhered to over the year.

Default Investment Objective: The Trustee Directors' objectives for the default strategy are as follows:

- *Aim for significant long term real growth while members are further away from retirement.*
- *Manage down volatility in fund values as members near retirement.*
- *Target an end point portfolio that is appropriate and consistent with how members may take their benefits when they retire.*

The default strategy used by the Scheme during the year invests in equities while members are further away from retirement. Equities are expected to deliver significant long term real growth.

As members near retirement, the default strategy invests in a diversified portfolio of assets and funds which, taken together, are expected to be less volatile than equities.

The end portfolio of the default strategy is highly diversified and is designed to be appropriate and consistent with how members may take their benefits when they retire.

Overall, the Directors are satisfied that the default strategy is appropriate given their objectives. This view is backed by their investment adviser.

Other Investment Options Policy: It is the Trustee Directors' policy to provide suitable information for members so that they can make appropriate investment decisions. The range of other investment options was chosen by the Trustee Directors after taking advice from their investment adviser. In choosing the Scheme's investment options, it is the Trustee Directors' policy to consider:

- *A full range of asset classes.*
- *The suitability of the possible styles of investment management and the need for manager diversification.*
- *The suitability of each asset class for a defined contribution scheme.*
- *The need for appropriate diversification.*

During the year, an investment guide has been made available to members which provides details of all the investment options and information about how members can access suitable professional investment advice. Additionally, the member website provides access to the factsheets for each of the funds available in the self-select range and used within the lifestyle strategies.

The investment options available to members during the year were selected following advice the Directors obtained from their investment adviser. This advice included consideration of the full range of asset classes and manager styles that would be suitable for the Scheme and how appropriate diversification (including across managers) could be put in place.

Overall, the Directors are satisfied that their choices of investment options are aligned with their policies and that suitable information is provided to enable members to make appropriate investment decisions. This view is backed by their investment adviser.

Risk Measurement and Management Policy: The Trustee Directors recognise that members experience risk associated with the Scheme's investment options including the default strategy. The Trustee Directors take account of this in the selection and monitoring of the investment managers and the choice of funds offered to members...

The investment options available to members during the year were selected following advice the Directors obtained from their investment adviser. This advice included consideration of the risks members might experience and ways these could be appropriately managed and mitigated.

During the year, the Directors received quarterly monitoring reports which considered the performance of the investment managers and funds over time as well as the performance the default investment strategy as whole.

The Directors also received reporting detailing the impact realised performance and the changing financial outlook would have on expected member retirement outcomes.

In the course of this monitoring, no material issues were identified during the year and the Directors are comfortable that the risks have been considered, managed and monitored appropriately given their objectives.

Governance Policy: *The Trustee Directors of the Scheme have ultimate responsibility for the investment of the Scheme assets. The Trustee Directors take some decisions and delegate others. When deciding which decisions to take and which to delegate, the Trustee Directors have taken into account whether they have the appropriate training and expert advice in order to take an informed decision...*

...The Trustee Directors' policy is to review their investments and to obtain written advice about them at regular intervals. When deciding whether to make any new investments or terminate any investments, the Trustee Directors will obtain written advice from their investment adviser.

Over the year, the Directors undertook relevant training and obtained professional support and advice from their advisers. For example, the Directors received legal training to help keep their knowledge of pensions and investment regulations up to date. Furthermore, during the year to 31 March 2021, the Directors have received written advice in respect of the performance of investments and their continued appropriateness.

Aon has continued to support the Directors throughout the year and, in particular, provided training, advice and updates on the Scheme's investments and fund managers.

The training, support and advice the Directors have received has enabled them to make informed decisions over the course of the year.

During the year, the Directors continued to delegate, to the fund managers, responsibility for the day-to-day management of the investments including responsibility for ensuring the funds perform in line with their objectives. This is on the basis that the Directors consider the fund managers to be best placed to make day-to-day investment decisions and meet the fund objectives.

The Directors, with support from their investment adviser, have monitored the fund managers to ensure they are appropriately fulfilling the responsibilities delegated to them. This monitoring is supported by quarterly reporting that Aon has provided and which includes a review of the performance of the fund managers against their objectives and highlights any developments which may impact the ability of the fund managers to fulfil their objectives or responsibilities in future.

This monitoring has not identified any material issues that would lead to the Directors changing the Scheme's investments.

The Directors are satisfied that this policy has been fully adhered to over the year.

Responsible Investment Policies

Environmental, Social and Governance Considerations: *The Trustee Directors consider [financially material] risks by taking advice from their investment adviser when setting the Scheme's investment strategy, when selecting managers and when monitoring their performance.*

The Directors obtained professional investment support and advice from their investment adviser, Aon, when setting the Scheme's investment strategy, selecting managers and in monitoring their performance. Consideration of financially material risks was an integral part of this support and advice.

Members' Views and Non-Financial Factors: The Trustee has made the Ethical and Shariah funds available to members who would like to invest in funds with these specific considerations. The funds that make up the default strategy and other investment options do not apply purely ethical or moral judgements as the basis for investment decisions.

The Directors considered member feedback when updating the default strategy and range of funds as part of the investment strategy review and it was member feedback that led to the implementation of the Ethical and Shariah funds which have been available to members throughout the year.

Stewardship – Voting and Engagement: The Trustee Directors regularly review the continuing suitability of the appointed managers and take advice from their investment adviser in this regard. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If a manager is found to be falling short of the standards that the Trustee Directors expect, they will engage with the manager and seek a more sustainable position.

The Trustee Directors will review and report on the stewardship activities of its asset managers on an annual basis, covering both engagement and voting actions. The Trustee Directors will review the alignment of the investment managers' policies with their own and ensure the manager uses its influence as a major institutional investor to carry out the Trustee Directors' rights and duties as a responsible shareholder and asset owner. This will include voting, along with engaging with underlying investee companies and issuers of debt to promote good corporate governance and accountability.

The support Aon provided during the year included updating the Directors on manager developments and whether there was anything that impacted their continued suitability. This advice included consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. The Directors and Aon have also engaged with the fund managers to better understand their approach to stewardship and their exercise of voting rights.

Aon's manager research team discuss the engagement policies of fund managers as part of their fund rating review. Aon's views of managers are communicated within the quarterly reporting they provided to the Directors.

Voting statistics and engagement information covering the year to 31 March 2021 are included later in this statement. Similar information covering the year to 31 March 2020 was included within the previous IS. This information has been reviewed by the Directors and Aon and will continue to be reported, through the IS, on an annual basis.

Having engaged with the asset managers and reviewed their activities and policies, the Directors are satisfied that the asset managers have fulfilled the standards the Directors expect and are promoting good corporate governance and accountability. The Directors are supported in this view by Aon.

Policies on Costs and Transparency: The Trustee Directors believe that net of all costs performance assessments provide an incentive for investment managers to manage costs efficiently. As such, the Trustee Directors believe it is important to understand the different costs and charges which are paid by members.

... The Trustee Directors collect information on ... member-borne costs and charges on an annual basis, where available, and sets these out in the Annual Chairman's Statement regarding DC Governance, which is made available to members in a publicly accessible location.

No specific ranges are set for acceptable costs and charges, particularly in relation to portfolio turnover costs. However, the Trustee Directors expect its investment adviser to highlight if these costs and charges appear unreasonable when they are collected as part of the Annual Chairman's Statement exercise.

The quarterly reporting the Directors have received from Aon during the year includes a net of all cost performance assessment which informs the Directors views on the continued appropriateness of the investment / asset managers used by the Scheme.

The member-borne costs and charges of all the investments used by the Scheme were collected and presented in the 2020 Chair's Statement which is available on a publicly accessible website.

In the course of producing the 2020 Chair's Statement, Aon reviewed the costs and charges and highlighted where they seemed higher than expected. Where this was the case, Aon sought and obtained a suitable explanation from the asset manager.

Policies on Arrangements with Asset Managers: The Trustee Directors monitor those investments used by the Scheme to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee Director's policies as set out in the Statement of Investment Principles, including those on non-financial matters.

The Trustee Directors also monitor those investments available through the Scheme but not included in the default strategy...

...The Trustee Directors are supported in this monitoring activity by its investment consultant.

Before appointment of a new investment, the Trustee Directors review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee Directors' policies. Where possible, the Trustee Directors will seek to express its expectations to the asset managers to try to achieve greater alignment.

...

Where asset managers are considered to be making decisions that are not in line with the Trustee Director's policies, expectations, or the other considerations..., the Trustee Director's will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment all for asset managers will be reviewed periodically, and at least every three years.

During the year, the Director's received analysis from Aon detailing how the investment strategy was performing and how it was expected to perform in future in terms of the retirement outcomes of members. The Directors have also obtained quarterly reporting from Aon which details the performance of the investments and managers used by the Scheme. This quarterly reporting covered investments in the default strategy, the other lifestyle strategies and the standalone self-select options.

This reporting, in conjunction with ongoing engagement with the asset managers and support from Aon, has enabled the Directors to consider the extent to which the investment strategy and decisions of the asset managers are aligned their policies.

No new investments were appointed during the year but the Directors have maintained ongoing engagement with the current asset managers and this dialogue includes expressing their expectations of the managers. This ongoing engagement, along with the monitoring undertaken during the year, mean the Directors are satisfied that the asset managers have been making decisions in line with the Directors' policies, expectations and other considerations. The Directors are supported in this view by Aon.

The asset managers were not formally reviewed during the year but they will be as part of the next strategy review which will be completed by September 2021.

Overall

Given the approach and actions undertaken during the year, the Directors are satisfied that their responsible investment policies have been fully adhered to.

Use of the services of a proxy voter

The Directors do not directly use the services of a proxy voter. However, the Scheme's fund managers, LGIM, Invesco and HSBC all obtain proxy voter services from Institutional Shareholder Services (ISS).

Voting behaviour

Details of the voting behaviour undertaken on behalf of the Directors, including details of the most significant votes cast, is set out in the appendix to this report.

Conclusion & future developments

Over the course of the year to 31 March 2021, the Directors are pleased to report that they have, in their opinion, adhered to the policies set out in the Scheme's SIP.

The Directors will continue monitoring the funds and managers the Scheme uses and will seek professional support and advice from its investment adviser as appropriate.

The Directors recognise that they have a responsibility, as an institutional investor, to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. The Directors will

continue to use their influence to drive positive behaviour and change among the fund managers and other third parties that the Directors rely on; such as the platform provider and investment adviser.

Over 2021, the Directors will review, among other elements of the Scheme, the fund charges paid by members to ensure that they remain competitive and appropriate. Additionally, the strategy review to be completed by September 2021 will enable the Directors to verify the investments and the asset managers continue to be appropriate for meeting the Directors' policies and objectives.

Appendix

Voting Behaviour

The table below provides details of the voting behaviour undertaken on the Directors behalf in respect of each relevant fund used by the Scheme over the year to 31 March 2021.

	Number of meetings eligible to vote at	Number of resolutions eligible to vote on	% of eligible resolutions voted on	Of voted resolutions % voted with management	Of voted resolutions % voted against management	% of eligible resolutions abstained from	% of eligible meetings with at least one vote against management	% of voted resolutions, contrary to proxy adviser recommendation
Alternatively Weighted Global Equity Fund (LGIM)	1,100	15,435	100%	82%	18%	0%	5%	1%
LGIM World (ex UK) Equity Index	3,243	37,840	100%	80%	19%	1%	6%	0%
LGIM World Emerging Market Equity Index	3,998	36,036	100%	85%	13%	1%	5%	0%
LGIM UK Equity Index	943	12,574	100%	93%	7%	0%	3%	1%
Invesco Global Targeted Returns Pension	365	5,332	98%	94%	6%	1%	33%	3%
LGIM North America Equity Index	794	9,495	100%	72%	28%	0%	8%	0%
LGIM Japan Equity Index	551	6,518	100%	86%	14%	0%	4%	0%
LGIM Asia Pacific (ex-Japan) Developed Equity Index	534	3,774	100%	74%	26%	0%	10%	0%
LGIM Europe (ex-UK) Equity Index	686	11,412	100%	84%	15%	1%	4%	0%
LGIM Ethical Global Equity Index	1,274	18,215	100%	84%	16%	0%	5%	1%
HSBC Islamic Global Equity Index	109	1,597	92%	88%	12%	0%	55%	8%

Significant Votes Cast & Engagement Examples – Information from the fund managers relating to the significant votes cast and engagement is provided below.

LGIM

Company name: Rank Group (investee company within the LGIM UK equity Index Fund)

Date of Vote: 07/05/2020

Summary of resolutions:

Resolution 2 - Approve the remuneration report – LGIM voted in favour

Resolution 3 - Approve remuneration policy – LGIM voted in favour

Description:

The company and its stakeholders have been impacted by the COVID crisis and LGIM wanted to ensure this was reflected in the executive remuneration package paid for the year. In addition, in 2018 the company granted long-term incentives (LTI) to the executives and committed not to grant any LTI awards until financial year 2022. After review of the remuneration policy, the remuneration committee asked shareholders to adopt a new LTI structure with the first award under this plan to be made in the 2021 financial year.

LGIM decided to support the remuneration report which looks back at the remuneration earned during the financial year. LGIM noted the remuneration committee's decision to apply a 20% deduction and cancel the planned increase of salaries of the executives and fees of the board members. No annual bonus was granted, given the performance of the company. LGIM was comfortable that the impact of COVID-19 had been appropriately reflected in the remuneration of the executives and therefore decided to support the remuneration report. Regarding the remuneration policy, LGIM's direct engagement with the company allowed them to better understand the rationale for the proposed changes to the LTI plan. LGIM took into account the company's concerns around retention and the fact that there would be a substantial gap in the vesting of any long-term incentives if the plan was not approved.

Vote results:

90.79% of shareholders supported resolution 2

96.4% of shareholders supported resolution 3

Company name: The Procter & Gamble Company (P&G) (investee company within the Alternatively Weighted Global Equity Fund, LGIM World (ex UK) Equity Index Fund, LGIM North America Equity Index Fund and LGIM Ethical Global Equity Index Fund)

Date of Vote: 13/10/2020

Summary of resolution:

Resolution 5 - Report on effort to eliminate deforestation – LGIM voted in favour

Description:

P&G uses both forest pulp and palm oil as raw materials within its household goods products. The company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Two of their Tier 1 suppliers of palm oil were linked to illegal deforestation. Finally, the company uses mainly Programme for the Endorsement of Forest Certification (PEFC) wood pulp rather than Forestry Stewardship Council (FSC) certified wood pulp. Palm oil and Forest Pulp are both considered leading drivers of deforestation and forest degradation, which is responsible for approximately 12.5% of greenhouse gas emissions that contribute to climate change. The fact that Tier 1 suppliers have been found to have links with deforestation, calls into question due diligence and supplier audits. Only FSC certification offers guidance on land tenure, workers', communities and indigenous people's rights and the maintenance of high conservation value forests.

LGIM engaged with P&G to hear its response to the concerns raised and the requests raised in the resolution. They also spoke to representatives from the proponent of the resolution, Green Century. In addition, LGIM engaged with the Natural Resource Defence Counsel to fully understand the issues and concerns. Following a round of extensive engagement on the issue, LGIM decided to support the resolution. Although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, LGIM felt it was not doing as much as it could. The company had not responded to CDP Forest disclosure; this was a red flag to LGIM in terms of the P&G's level of commitment. Given deforestation is one of the key drivers of climate change, a key priority for LGIM is to ensure that investee companies are not contributing to deforestation.

LGIM has asked P&G to respond to the CDP Forests Disclosure and continues to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC certified sources.

LGIM will continue to engage with P&G on the issue and will monitor its CDP disclosure for improvement.

Vote result:

67.68% of shareholders supported resolution 5

Engagement Example

LGIM have provided an engagement case study about how they engaged with the energy company, BP. Believing that the shift to a low-carbon economy has profound implications, LGIM and other major shareholders put forward a motion calling on BP to explain how its strategy was consistent with the Paris Agreement on climate change.

In May 2019, LGIM worked with the board of BP to secure its support for the motion. At BP's annual general meeting, the proposal was passed with overwhelming approval from shareholders. LGIM have since met BP repeatedly – including its chair and incoming CEO – to advise on implementing the resolution. At the time of this report, the company announced industry-leading targets: net zero emissions from its operations, net zero carbon emissions from the oil and gas it extracts, and a 50% reduction in the carbon intensity of all the products it sells.

Invesco

Company name: easyJet Plc

Date of Vote: 14/07/2020

Summary of resolution:

Resolution to approve raising of capital – Invesco voted in favour

Description:

Invesco believed that the capital raise would strengthen the Company's balance sheet as part of the Company's response to the impact of COVID-19 thus helping the Company in its recovery and long-term growth.

Vote result:

Capital raising approved

Company name: Citigroup Inc.

Date of Vote: 21/04/2020

Summary of resolution:

Resolution to report on lobbying payments and policy – Invesco voted against

Description: Invesco decided to vote against the proposal on the basis that, in their view, the company is disclosing adequate information for shareholders to be able to assess its engagement in the political process and its management of related risks.

Vote result:

Resolution was voted down

HSBC

Company name: Chevron Corporation

Date of Vote: 27/05/2020

Summary of resolution:

Resolution to report on climate lobbying – HSBC voted in favour

Description:

HSBC voted against management so as to support a resolution for the company to report on climate lobbying, in alignment with the goals of the Paris Climate Agreement. HSBC favour resolutions that request increased reporting and accountability on climate change issues. HSBC had contacted the company to explain the voting rationale and to request the opportunity to discuss further, highlighting that they would vote in favour of increased reporting at the AGM and in future cases.

Vote result:

53.5% of shareholders supported resolution

Engagement Example

HSBC engaged with a number of companies including Royal Dutch Shell, Exxon Mobil and Rio Tinto on the investor initiative launched in 2017 to encourage the world's largest corporate greenhouse gas emitters take action on climate change; Climate Action 100+. HSBC engaged with these companies to:

- Reduce emissions;
- Improve governance; and
- Strengthen climate-related financial disclosures.

The companies include 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive a clean energy transition.

HSBC participated in group meetings with the Chairs of all three companies as well as other meetings and its own direct engagement. During the period, both Royal Dutch Shell and Rio Tinto made significant commitments related to carbon transition.