Telefónica UK Pension Plan

Investment Implementation Document

This Investment Implementation Document ("the IID") covers both the Defined Benefit and the Defined Contribution sections of the Telefónica UK Pension Plan ("the Plan"), and details the Trustee's policy relating to the implementation of the Plan's investment arrangements, based on the policies set out in the Plan's Statement of Investment Principles ("SIP") dated 27 February 2019. The IID should be considered alongside the SIP. This IID also clarifies the Trustee's policy relating to Governance.

Defined Benefit ("DB") Section

Investment strategy

The Plan's current investments are summarised as:

Asset	Investment manager	Exposure (% of total assets)	Net spread[1] (above LIBOR)
Credit Default Swaps (CDS) overlay	BlackRock Investment Management	30.0%	1.3%
Investment grade corporate bonds	BlackRock Investment Management	20.0%	1.3%
Liquid credit	M&G Investment Management Limited	15.0%	2.3%
Semi-liquid credit	Apollo Global Management	10.0%	3.5%
Private market credit (illiquid)	Partners Group	25.0%	3.7%
Liability Driven Investments[2] (LDI)	BlackRock Investment Management	n/a	n/a
Collateral for the LDI and CDS overlays	BlackRock Investment Management	30.0%	0.0%
Total		**130.0%**	**2.3%**

Note: [1] Estimated spread as at 31 December 2016, net of expected default losses and investment management fees.

(2) With a target hedge ratio (IE01 and PV01) of the funded economic liabilities. This is 65% as at 31 December 2016 but will change over time.

Investment mandates

The Trustee monitors the overall allocation between the investment mandates on a quarterly basis and takes any corrective action, as it sees appropriate. Fluctuations in the value of the collateral will not automatically suggest rebalancing, although this will also be monitored. Rebalancing will be effected by cashflows, where possible, to avoid unnecessary transaction costs. The transfer of assets/cash between Investment Managers will be used to rebalance selectively, noting that the private market credit allocation is unlikely to be rebalanced due to the relatively illiquid nature of the assets.

Specific details on each of the mandates are as follows:

BlackRock Investment Management – Investment grade corporate bonds

BlackRock actively manage a diversified portfolio of predominately investment grade corporate bonds. The portfolio's benchmark is the BoAML Over 5 Year Coproate and Collateralised Index with an objective of exceeding this by 0.45% (gross of fees) over rolling 5 year periods. Income from this mandate will primarily be used to meet benefit payments.

BlackRock also manage a bespoke buy-and-matain investment grade coporate bond portfolio inadvance of capital being called to the private market credit mandate with Partners Group. Given the bespoke nature of the portfolio it is compared against the desired credit spread at the start of the mandate.

BlackRock Investment Management - CDS overlay

BlackRock manage a Credit Default Swap (CDS) mandate to achive a credit like pay-off profile in addition to their phyiscal coporate bond mandate. The CDS exposure is maintained using both North American and European CDS indicies (iTraxx and CDX).

BlackRock Investment Management – LDI overlay

BlackRock manage a Liability Driven Investment (LDI) mandate within the Plan's investment arrangements to reduce the mismatch risk between the Plan's assets and liabilities. The LDI strategy targets an interest rate (PV01) and inflation (IE01) hedge ratio equal to the funded liabilities measured on the economic basis.

In the implementation of the LDI strategy, BlackRock have discretion to use whichever instrument, or combination of instruments, that offer the best value (i.e. highest yield for a commensurate level of risk), from the following list: cash, fixed interest gilts, index-linked gilts, interest rate swaps, inflation swaps, gilt total return swaps and gilt repurchase agreements ("repos").

Cash held as collateral is invested in either the BlackRock Institutional Liquidity Funds or the BlackRock Sterling LIBOR Cash Fund.

BlackRock Investment Management - Currency Hedge

BlackRock employs currency hedging with the aim of reducing the currency risk and thus total risk within the Plan's investment arrangements. The Plan passively hedges 100% of any US Dollar, Euro and Yen exposure using cash, spot currency contracts and forward currency contracts.

M&G Investment Management – Liquid credit

The Plan invests in the M&G Alpha Opportunities Fund which invests in a diversified portfolio of predominately public market credit assets. The fund's benchmark is 1-month LIBOR with an objective of exceeding this by 3-5% (gross of fees) over rolling 3 year periods. Distributions from the fund will primarily be used to meet benefit payments.

The fund's investment restrictions are:

		Restrictions
Interest rate risk	–	+ / - 3 years
Credit risk	–	Max 50% sub-investment grade
	–	Max 40% (total) in senior secured loans, real estate debt (excluding senior debt) and infrastructure debt (excluding senior debt) assets
	–	Max 10% in unrated assets (Moody's, S&P, Fitch and M&G)
	–	Single issuer exposure: AAA to AA: 5%, A+ to BBB: 3%, Below BBB: 2%
Asset backed securities	–	Permitted
Private market debt	–	Permitted
Derivatives	–	Permitted
Liquidity	–	Subscriptions and redemptions: monthly

Apollo Global Management – Semi-liquid credit

The Plan invests in the Apollo Total Return Fund which invests in a diversified portfolio of public and private market credit assets. The fund's benchmark is 1-month LIBOR with an objective of exceeding this by 6-8% (gross of fees). Distributions from the fund will primarily be used to meet benefit payments.

The fund's investment restrictions are:

		Restrictions
Credit risk	–	Dynamic allocation between the credit universe

Shorting	–	Permitted
Leverage	–	Permitted
Liquidity	–	No redemptions for 2 years from the date of investment
	–	Subscriptions: Monthly
	–	Redemptions: Quarterly liquidity; 60 days prior written notice

Partners Group – Private market credit

The Plan invests in a bespoke fund which invests in a portfolio of private market senior secured loans, with a large portion of investments in private equity sponsor led leveraged buy outs. The fund has retained the flexibility to invest in companies operating in real estate and infrastructure in exceptional circumstances where appropriate investment opportunities are not available. The fund's benchmark is 1-month LIBOR with an objective of exceeding this by 5-7% (gross of fees).

The fund's investment restrictions are:

	Restrictions
Target allocations	– *Asset class:* 45-90% private corporate debt, 0-25% private real estate debt, 0-10% private infrastructure debt, 0-20% opportunistic – *Capital structure:* 30-70% first lien senior secured debt, 0-30% second lien senior secured debt, 0-30% unitranche debt, 0-10% mezzanine debt, 0-20% opportunistic – *Geographical exposure*: 20-60% Europe, 30-70% North America, 0-20% Developed Rest of World
Leverage	Not permitted, although investments are made in leveraged vehicles/companies
Liquidity	Investment period of 2 years with a 1 year extension for re-investments. Total term 7 years with 1 year extension possible

Investment Management Fees

The Investment Managers' remuneration is based upon a percentage value of the assets under management as set out below:

Asset	Investment manager	Costs (%)
Credit default swaps overlay	BlackRock Investment Management	0.05% of the notional exposure
Investment grade corporate bonds	BlackRock Investment Management	0.11% management fee For the active portfolio (only): 0.2% performance fee with the total fee capped at 0.2%
Liquid credit	M&G Investment Management Limited	0.45% total expense ratio
Semi-liquid credit	Apollo Global Management	0.7% management fee Max 0.25% admin fee for 4 years
Private market credit (illiquid)	Partners Group	0.375% management fee on amount invested for the first year 0.75% management fee on amount invested thereafter 7.5% performance fee above a 4% return for investors (with catch-up) 0.05% one-off organisational charge
Liability Driven Investing overlay	BlackRock Investment Management	0.065% of the notional exposure
Cash (for collateral)	BlackRock Investment Management	0.07%

Custodian

The assets managed by BlackRock are segregated portfolios, which are held by the Plan's global custodian, Bank of New York Mellon ("BNYM"). BNYM is responsible for the safekeeping of the Plan's individual securities and for performing the associated administrative duties such as trade settlement and tax reclamation.

The DB section's other assets are invested in pooled funds and the respective Investment Managers are responsible for appointing a custodian.

Investment Lifestyle options

If a member does not want to select a fund themselves they will invest in the core default fund ("Getting ready for flexible retirement"), as detailed below:

Core Default Fund	Investment characteristics
Getting ready for flexible retirement	More than 5 years from pension savings crystallisation, invests in the Standard Life ("SL") Mobile Diversified Growth Pension Fund. Thereafter the allocation to the SL Mobile Diversified Growth Pension Fund is linearly reduced while increasing allocations to the SL Mobile Flexible Retirement Pension Fund such that at retirement 100% of a member's savings will be invested in the SL Mobile Flexible Retirement Pension Fund.

The Plan has three further lifestyle options designed for members who would like to take their pensions savings as cash or an income drawdown arrangement.

Lifestyle Option	Investment characteristics
Getting reading to purchase an annuity	More than 5 years from pension savings crystallisation, invests in the Standard Life ("SL") Mobile Diversified Growth Pension Fund. Thereafter the allocation to the SL Mobile Diversified Growth Pension Fund is linearly reduced while increasing allocations to the SL BlackRock Aquila Connect Over 15 Year Corporate Bond Pension Fund and to the SL Deposit & Treasury Pension Fund such that the allocation to the funds at pension savings crystallisation will be 75% and 25% respectively. This Lifestyle strategy is also classified as a default arrangement for some members.
Getting ready for income drawdown	More than 5 years from pension savings crystallisation, invests in the SL Mobile Diversified Growth Pension Fund. Thereafter the allocation to the SL Mobile Diversified Growth Pension Fund is linearly reduced while increasing allocation to the SL Deposit & Treasury Pension Fund such that the allocation to the funds at pension savings crystallisation will be 75% and 25% respectively
Getting ready to cash out	More than 5 years from pension savings crystallisation, invests in the SL Mobile Diversified Growth Pension Fund. Thereafter linearly reduce the allocation to the SL Mobile Diversified Pension .Growth Fund while increasing allocation to the SL Deposit & Treasury Pension Fund such that the allocation at pension savings crystallisation will be 100% in SL Deposit & Treasury Pension Fund

Investment Selfstyle options

The DC section also offers the range of investment options set out in the table below for members who want to create a bespoke portfolio.

Under legislation some of these investment options are classified as default arrangements for some members, as they were automatically transferred to them as part of previous changes made to the scheme's investment strategy. The relevant funds are marked with an asterisk *.

Selfstyle Options	Investment description	Investment characteristics
SL Mobile Diversified Growth Pension Fund *	Diversified multi-asset	Invests in two diversified growth funds, the SL BlackRock Diversified Growth Fund (70%) and the SL Enhanced Diversified Growth Fund (30%). These two funds invest in a diversified portfolio of equities, bonds, alternative assets and cash, targeting a return similar to equities, but with significantly shallower drawdowns (but not no drawdowns)
SL Mobile Flexible Retirement Pension Fund	Diversified multi-asset	Invests in a mix of the same funds as in the SL Mobile Diversified Growth Pension Fund (30%), the SL iShares Corporate Bond Index Fund (45%) and the Standard Life Deposit & Treasury Pension Fund (25%). The fund is designed to provide members with a mix of investments which could be considered suitable irrespective of their retirement objective.
SL BlackRock UK Focus Pension Fund * SL BlackRock UK Equity Tracker Pension Fund *	UK equities	Invests in UK company shares. The returns will be more volatile and less secure than from UK government bonds. To compensate for this extra risk, investors expect higher investment returns from this asset class
SL BlackRock Managed (50:50) Global Equity Pension Fund * SL Veritas Global Focus Pension Fund	Global equities	Similar to UK equities except they invest in company shares from around the world. Investing in the shares of overseas companies often entails currency risk. Broader geographical diversification is expected to reduce risk
SL HSBC Amanah Global Equity Index Pension Fund *	Shariah-compliant global equities	Invests in the largest 100 companies engaged in Shariah-compliant activities globally

SL BlackRock Aquila Connect Over 15 Year Corporate Bond Pension Fund *	Corporate bonds	Aims to perform broadly in-line with annuity prices although returns are expected to be lower than for equities over the long term
SL BlackRock Aquila Connect Over 5 Year Index Linked Gilt Pension Fund *	UK index-linked gilts	Returns are linked to the rate of Retail Price Inflation (RPI) but are expected to be lower than equities and corporate bonds over the long term
SL Deposit & Treasury Pension Fund *	Short-term cash instruments	Provides short-term capital protection but may not keep pace with price and salary inflation.

The Trustee also holds a closed policy with Equitable Life in respect of the AVCs of a small number of DB members who transferred from the BT arrangements.

Implementation

The DC section's investment options made available to members by the Trustee are provided via a DC platform administrated by Standard Life Assurance Limited ("SL"). The investment options available for members are as follows:

BlackRock Pensions Limited ("BlackRock")

Two of the funds managed by BlackRock use an active management approach. This means that they try to outperform a benchmark index. The remaining funds use a passive approach and aim to track their respective benchmarks. The funds are set out below:

Pooled fund	Performance target	Benchmark
SL BlackRock UK Focus Pension Fund	To outperform the benchmark by 4% p.a.	FTSE All Share
SL BlackRock Diversified Growth Pension Fund	To outperform the benchmark by 3.5% pa over rolling three year periods	Bank of England Base Rate
SL BlackRock Managed (50:50) Global Equity Pension Fund	Track the benchmark	50% FTSE All-Share Index, 50% Aquila Life Overseas Fixed Benchmark Equity Index (comprising 33.3% FTSE USA Index, 33.3% FTSE All-World Developed Europe ex UK, 16.7% FTSE All-World

		Developed Asia Pacific ex Japan Index and 16.7% FTSE Japan Index)
SL BlackRock UK Equity Tracker Pension Fund	Track the benchmark	FTSE All-Share Index
SL BlackRock Aquila Connect Over 5 Year Index Linked Gilt Pension Fund	Track the benchmark	FTSE UK Gilts Index-Linked Over 5 Years Index
SL BlackRock Aquila Connect Over 15 Year Corporate Bond Pension Fund	Track the benchmark	iBoxx Over 15 Years £ Non-Gilts Index
SL iShares Corporate Bond Index Pension Fund	Track the benchmark	iBoxx £ Non-Gilts Index

Veritas Asset Management

A single fund managed by Veritas uses an active management approach. The fund is set out below:

Pooled fund	**Performance target**	**Benchmark**
SL Veritas Global Focus Pension Fund	To outperform the benchmark	MSCI World

HSBC Investments ("HSBC")

A single fund, which is managed in line with principles which comply with Islamic law, is managed by HSBC using a passive management approach. It is set out below:

Pooled fund	**Performance target**	**Benchmark**
SL HSBC Amanah Global Equity Index Pension Fund	Track the benchmark	Dow Jones Islamic Market Titans 100 Index

Standard Life Investments ("SLI")

Two funds managed by SLI which use an active management approach. The funds are set out below:

Pooled fund	Performance target	Benchmark
Standard Life Enhanced Diversified Growth Fund	Equity-type returns over the economic cycle (typically five to seven years in duration), but with less than two-thirds of equity market volatility	MSCI World
Standard Life Deposit and Treasury Pension Fund	To outperform the benchmark	LIBOR

Fees incurred by members

The current total expense ratios ("TER") for the underlying funds are listed below. These include investment manager fees and administration costs (but not transaction costs). The charges have been negotiated to ensure competitiveness and are reviewed regularly.

Fund	TER[1]
SL Mobile Diversified Growth Pension Fund	0.69%
SL Mobile Flexible Retirement Pension Fund	0.39%
SL BlackRock UK Focus Pension Fund	1.37%
SL BlackRock UK Equity Tracker Pension Fund	0.25%
SL BlackRock Managed (50:50) Global Equity Pension Fund	0.25%
SL BlackRock Aquila Connect Over 5 Year Index Linked Gilt Pension Fund	0.24%
SL BlackRock Aquila Connect Over 15 Year Corporate Bond Pension Fund	0.25%
Standard Life Deposit and Treasury Pension Fund	0.30%
SL HSBC Amanah Global Equity Index Pension Fund	0.54%
SL Veritas Global Focus Pension Fund	1.23%

(1) As at 31 December 2018.

In addition, BlackRock, SLI, Veritas and HSBC pay commissions to third parties on trades they undertake in the management of the assets. They also incur transaction costs when they buy and sell assets.

Governance

The Trustee is responsible for the investment of the Plan assets for the DB Section and the range of investment funds made available to the members of the DC section. The Trustee takes some decisions themselves and delegates others. When deciding which decisions to take themselves and which to delegate, the Trustee has taken into account whether they have the appropriate training and expert advice in order to make an informed decision.

The Trustee has also created two separate sub-committees to focus on the areas of DB and DC governance which each aim to meet four times per annum in advance of the quarterly full Trustee Board meetings.

The DB Governance Committee consists of 4 Trustee Directors and the Committee invites attendance by the Sponsor. Full details of the responsibilities of the Committee can be found in the Constitution but it is the aim of the Committee to review all things related to the provision of defined benefits and make recommendations to the Trustee on investment strategy, plan funding and covenant.

The DC Governance Committee consists of 3 Trustee Directors and the Committee may invite attendance by the Sponsor. Full details of the responsibilities of the Committee can be found in the Constitution but it is the aim of the Committee to review all things related to the provision of defined contribution benefits and make recommendations to the Trustee on the investment options made available to members, the operation of the fund platform and the design and operation of the default and lifestyle provisions.

The Investment Advisor

When making such decisions, and when appropriate, the Trustee takes written advice. The Trustee's Investment Advisors, KPMG LLP, are qualified by their understanding of financial matters and have appropriate experience. The Investment Advisor's remuneration may be performance related, a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Plan.

The Investment Advisor and Telefónica UK Pensions Team assist the Trustee to take decisions by:

- Advising on a suitable investment strategy (asset allocation), alongside advice relating to the Plan's funding and Sponsor's covenant
- Advising on suitable investment managers including provision of a shortlist (based on the Trustee's evaluation criteria) and setting their investment mandate
- Monitoring the Plan's investment arrangements, including
    - The DB Section's funding level and attribution of any changes
    - The performance of the DB Section's investment strategy relative to its objective
    - The DB Section's asset allocation relative to the investment strategy
    - The performance of the investment managers against their mandate, including quarterly update meetings for both the DB and DC Sections
    - The performance of the DC Section's default option and various lifestyle

offerings, focussing on a range of example DC member experiences
    - The custodian's functions and services
- Raising any issues from monitoring the investment arrangements including a suggested approach and timeframe (e.g. a downgrade of an investment manager)
- Raising market opportunities as they present themselves including a suggested approach and timeframe
- Providing advice on the Statement of Investment Principles and this Investment Implementation Document.

Direct investments

Direct investments held by the Plan include the policies held with Legal and General and Standard Life plus the closed policy held with Equitable Life in respect of a small number of DB members' AVCs.

Signed .... Date: 13/8/19...................

For and on behalf of Telefónica UK Pension Trustee Limited (the Trustee of the Telefónica UK Pension Plan)

Appendix: Environmental Social and Goverenance Policy Statement

1. Introduction

This Environmental Social and Governance ("ESG") Policy Statement ("the Policy") has been prepared by Telefonica UK Pension Trustee Limited ("the Trustee") to set out its views on ESG factors. It considers how they are addressed whilst meeting the overall objectives of the Trustee in respect to both the Defined Benefit ("DB") and Defined Contribution ("DC") Pension sections.

The Trustee defines responsible investment as an approach to investing that aims to incorporate ESG factors into investment decisions, to better manage risk and generate long-term, sustainable returns.

The purpose of the Policy is to sit alongside the Plan's Statement of Investment Principles ("SIP"), formalising the Trustee beliefs on ESG factors as discussed with the Plan's investment advisor. The Policy provides a reference point for the Trustee for incorporating ESG factors into investment decision making.

2. Rationale for the Policy

The Plan is a large institutional investor, investing on behalf of Plan members. As part of its fiduciary duty, which includes a comprehensive approach to risk management, the Trustee recognises the need for the Plan to be a long-term, responsible stakeholder.

The Trustee believes that taking an active approach to include ESG factors in investment decisions reduces overall investment risks whilst generating sustainable returns.

3. The Trustee's ESG beliefs

The Trustee has considered and discussed ESG to establish its ESG beliefs to help underpin Trustee decision making.

The following areas represent a consensus of ESG beliefs held by the Trustee:

i. Integrating ESG factors represents an opportunity to increase the effectiveness of the overall risk management of the Plan.
ii. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee.
iii. ESG factors are dynamic and continually evolving; therefore the Trustee receives training as required to develop its knowledge.
iv. ESG factors are relevant to investment decisions in all asset classes.
v. Integrating ESG factors into investment decision making ensures that companies have a robust approach to board structure, remuneration, sustainability, risk management and debtholder rights. Measurement and assessment of these factors is delegated to the Plan's managers.
vi. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
vii. The role of the Plan's asset managers is prevalent in integrating ESG factors; the Trustee, alongside the investment advisor, monitors ESG in relation to the asset managers' investment decisions.

viii. The Trustee should understand how asset managers make ESG decisions andseeks to understand how ESG is integrated by each asset manager.
ix. The Trustee seeks to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.
x. The Trustee favours a holistic approach to ESG rather than focusing on specific ESG issues, but acknowledges this may evolve with increased understanding.

4. Impact of the Policy on investment decision making

The Trustee decides the Plan's investment strategy and asset allocation. This includes which asset classes should be invested in. In making any portfolio construction decisions, the Trustee has regard for the Policy.

Within each asset class, the Trustee delegates the day-to-day investment decision making to the asset managers – e.g. holding a bond issued by a particular company or exposure to a particular sector. In appointing and reviewing the Plan's asset managers, the Trustee, with the assistance of its advisor, considers their expertise, track record and stated policy on ESG.

5. Implementing the Policy

The Trustee implements the policy through the following steps:

i. The Trustee continues to develop their understanding of ESG factors through training and experience.
ii. ESG beliefs are formally reviewed triennially or more frequently if required by the Trustee
iii. An initial review has been undertaken of how each of the Plan's asset managers approaches ESG. This has drawn on the assistance of an advisor and will be reviewed periodically. For the DC Plan, the default fund will be reviewed to ensure all financially material (including ESG) risks are managed appropriately.
iv. The Trustee has performed an impact assessment for the Plan to determine the level of action and change needed to ensure the DB and DC sections are aligned with the Trustee's objectives.
v. The Trustee consults the Company on ESG issues.
vi. The Trustee monitors the ESG integration of the Plan's asset managers annually and asks its advisor to incorporate ESG factors in any asset manager selection exercises.

6. Monitoring and reviewing the Policy

The Trustee monitors the Plan's assets against this Policy on an ongoing basis, with the assistance of its investment advisor. The development of the Policy is viewed as an ongoing process, with the Trustee reviewing the Policy periodically in line with the SIP. When reviewing the Policy, the Trustee takes account of any significant developments in the market.

In order to further formalise the ESG integration alongside the broader risk management framework, the Trustee will update the SIP when it iscomfortable that it has fully addressed this topic. Recognising the potential for regulations to develop, particularly with regard to the DC section, the Trustee will review whether a separate DC Policy is needed alongside the SIP and the Policy.