

PHILLIPS 66 UK PENSION PLAN
DEFAULT ARRANGEMENTS
STATEMENT OF INVESTMENT PRINCIPLES



ADOPTED WITH EFFECT FROM 18 OCTOBER 2023

This default arrangements Statement of Investment Principles replaces with effect from 18 October 2023, the default arrangements Statement of Investment Principles previously in force

A. Introduction

1. Phillips 66 Pension Plan Trustee Limited (the “**Trustee**”) is the trustee of the Phillips 66 UK Pension Plan (the “**Plan**”).
2. The Plan is divided into two benefit sections:
 - 2.1 a Defined Benefit Section, and
 - 2.2 a Defined Contribution Section.
3. Members of the Defined Benefit Section have paid or, if they are in pensionable service, may continue to pay voluntary contributions to acquire money purchase benefits within the Defined Benefit Section.
4. In the Defined Contribution Section, members have “**Retirement Accounts**”.
5. Those Retirement Accounts are adjusted for investment returns and expenses.
6. The Trustee arranges for contributions or notional contributions credited to Retirement Accounts to be paid to its “**Selected Investment Vehicle Provider**”, currently Legal & General Assurance (Pensions Management) Limited (“**LGPMC**”).
7. The Trustee has selected certain investment options provided by the Selected Investment Vehicle Provider through its contract with the Trustee. Those investment options are referred to as “**Selected Investment Vehicles**” for individual investment funds, and “**Selected Automatic Switch Facilities**” (currently made available by way of “**Target Date Funds**”) for lifecycle funds.

B. Requirement to prepare a statement of investment principles governing decisions about investments for the purposes of default arrangements

1. In relation to any “**default arrangement**”, as defined in Regulation 1(2) of the Occupational Pension Schemes (Investment) Regulations 2005 (the “**Investment Regulations**”), Regulation 2A of the Investment Regulations requires the Trustee to prepare, in writing, a statement of investment principles governing decisions about

investments for the purposes of each default arrangement of the Plan, and which covers at least the following matters:

- (a) The aims and objectives of the Trustee in respect of such investments;
- (b) The Trustee's policy in relation to investment in illiquid assets;
- (c) The Trustee's policies in relation to matters mentioned in Regulations 2(3)(b), 2(3)(c) and 2(3)(d) of the Investment Regulations; and
- (d) An explanation of how such aims, objectives and policies noted above (together the "**default strategy**") are intended to ensure that assets are invested in the best interests of relevant members and relevant beneficiaries.

2. The Plan:

2.1 has a default arrangement in relation to the Defined Contribution Section (the "**DC Default Investment Option**"), and

2.2 has a default arrangement, in relation to the way money purchase benefits in the Defined Benefit Section may be invested (the "**DB Default Investment Option**").

3. This document is the statement of investment principles governing decisions about investments for the purposes of each default arrangement in compliance with Regulation 2A of the Investment Regulations.

4. In relation to:

4.1 the DC Default Investment Option, the investment arrangement is the Flexible Drawdown Target Date Funds provided by LGPMC, described in more detail in the current Investment Policy Implementation Document for the Plan prepared by the Trustee ("**IPID**").

4.2 the DB Default Investment Option, that the investment arrangement is the Cash Target Date Funds provided by LGPMC, described in more detail in the IPID.

C. Matters relating to the DC Default Investment Option

1. Aims and objectives of the DC Default Investment Option together with the Trustee's policies in relation to kinds of investments to be held and balance between different kinds of investments

1.1 A proportion of members will actively choose the DC Default Investment Option because they feel it is most appropriate for them.

1.2 However, the majority of the Defined Contribution Section members do not typically make an active investment decision in relation to their Retirement Accounts and the amounts credited to those Retirement Accounts are invested in the DC Default Investment Option as a result.

1.3 In relation to the DC Default Investment Option:

- (a) Target Date Funds aim to grow members' pension savings by investing in growth assets, such as equities and diversified growth funds, when they are a long way from their Target Retirement Date (TRD). The aim is to provide growth with some protection against downside risks.
- (b) As a member's Retirement Account balance grows, investment risk will have a greater impact on member outcomes. Therefore, the aim of the Target Date Funds is to seek to reduce investment risk as the member approaches their TRD, by investing in lower-risk assets such as bonds.
- (c) the Target Date Funds are fully managed by Legal & General Investment Management ("LGIM") and the Trustee has delegated the design and underlying investments of these funds to LGIM, which are described in more detail in the IPID.
- (d) based on its understanding of the Defined Contribution Section's membership, the Trustee has adopted the Flexible Drawdown Target Date Funds provided by LGPMC, on the basis that it is likely to meet a typical member's requirements, by targeting flexible drawdown at retirement.

Note: It does not mean that members have to take their benefits in this format at retirement.

- (e) members who intend to take their retirement benefits via other methods have the option of choosing their own investment strategy, or alternative Target Date Fund.

1.4 Taking into account the demographics of the Plan's membership and the Trustee's view of how the membership will behave at retirement, the Trustee believes that the DC Default Investment Option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Plan's demographics if sooner.

1.5 When reading this document, it is important to remember that references to investments or to asset classes are to those investments or asset classes which are accessed via investment options under a unit-linked life policy issued by the Selected Investment Vehicle Provider under its contract with the Trustee and references to investments and asset classes in this document should be read accordingly.

2. Trustee's policy in relation to risks, including the ways in which the risks are to be managed, in relation to the DC Default Investment Option

- 2.1 The Trustee recognises that members assume investment risks and, are exposed to different types of risk at different stages of their working lifetimes. The key risk is that members will have insufficient income in retirement or that their income will not meet their expectations.
- 2.2 The types of risk that the Trustee has considered are as follows:
- (a) the risk of Target Date Funds not meeting their objective ("**manager risk**"). This risk is considered by the Trustee and its advisers both upon the initial selection of a Selected Investment Vehicle Provider and the Target Date Funds and on an ongoing basis thereafter. The Trustee, through its investment adviser, monitors the performance of the Target Date Funds on a regular basis and compares the investment returns with relevant benchmarks and comparators.
 - (b) the risk of holding Target Date Funds that cannot be easily sold should the need arise ("**liquidity risk**"). Steps have been taken to satisfy the Trustee that there is sufficient liquidity to meet the likely demands of the members.
 - (c) the risk that may arise from a lack of diversification within each of the Target Date Funds ("**concentration risk**"). The assets underlying each of the Target Date Funds are well diversified.
 - (d) the risk that the Selected Investment Vehicle Provider becomes insolvent so that the Target Date Funds in question are affected by the insolvency of the Selected Investment Vehicle Provider ("**insolvency risk**"). The Trustee, through its investment adviser, monitors the ongoing creditworthiness of the Selected Investment Vehicle Provider.
 - (e) the risk of erosion by inflation ("**inflation risk**"). If investment returns lag inflation over the period of membership, the real (i.e.net of inflation) value of the members' individual accounts will decrease. The Trustee acknowledges that unexpectedly high future inflation is likely to cause a reduction in the real value of members' accounts.
 - (f) the risk that the value of interest-bearing securities would be at risk if a bond issuer or licensed deposit taker defaults on their commitments ("**default risk**"). Similarly, if the issuer of any equities becomes insolvent, that would adversely affect the value of those equities. This risk is managed through diversification within the Target Date Funds in question.
 - (g) the risk that there will be costs of converting a member's accumulated defined contribution account into pension benefits at retirement

(“**conversion risk**”). The latter is influenced by a number of factors and depends on how the member intends to take their benefits at retirement.

- (h) the risk of the DC Default Investment Option being unsuitable for the requirements of some members (“**suitability risk**”) (see 1.4 above).
- (i) the risk of fraud, poor advice or acts of negligence (“**operational risk**”). The Trustee has sought to minimise such risk by aiming to ensure that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.
- (j) the risk of having errors in communication to members (“**communication error risk**”). The Trustee aims to manage the risk of error in communication to members as to their investment options through an appropriate review of those communications before issue.
- (k) the risk that environmental, social and governance, including climate change, (collectively “**ESG**”) matters have a financially material impact on a member’s retirement benefits (“**ESG risk**”). The management of this risk has been considered and investment managers are expected to integrate this into their processes. The Trustee reviews the investment managers’ policies and actions in relation to ESG issues on at least an annual basis.

2.3 Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner.

2.4 The Trustee monitors manager risk in terms of performance of the Target Date Funds in question compared to relevant benchmarks and comparators on a regular basis, along with monitoring any significant issues with the Selected Investment Vehicle Provider in question that may impact its ability to meet the performance targets set by the Trustee or that may impact the security of the underlying assets.

3. Investment Manager Arrangements for the DC Default Investment Option

3.1 The Target Date Funds managed by LGIM have been chosen based on LGIM’s capabilities and therefore, their perceived likelihood of achieving the expected return and risk characteristics within the DC Default Investment Option.

3.2 The Trustee looks to its Investment Consultant, an organisation suitably qualified to provide such advice and authorised and regulated by the Financial Conduct Authority, for their view of LGIM’s management of the Target Date Funds. The Investment Consultant’s views assist with decisions around selection, retention and realisation of manager appointments.

- 3.3** If the investment objective for the Target Date Funds changes, the Trustee will review the appointment to ensure it remains appropriate and consistent with the Trustee's investment objectives for the DC Default Investment Option.
- 3.4** As the Trustee invests in Target Date Funds which are fully managed by LGIM, it accepts that it has no ability to specify the risk profile and return targets of the manager. However, the Target Date Funds were selected to align with the overall investment objectives for the DC Default Investment Option.
- 3.5** The Trustee receives regular performance reports, which present performance of the Target Date Funds against relevant benchmarks and comparators. **3.6** The Trustee maintains a focus on long-term performance. It may review LGPMC's appointment if the Target Date Funds have extended periods of underperformance, there is a material change in personnel or there is other news that may severely impact the outcome of the investment.
- 3.7** The Trustee believes that the appropriate time horizon within which to assess the considerations above should be viewed at a member level. Each Target Date Fund targets a different five year 'target range' and members invested in a Target Date Fund will be invested in a 'target range' which is aligned to their TRD. The default arrangements are reviewed on at least a triennial basis and the Trustee can replace the Target Date Funds should it deem these to be unsuitable.

4. Expected return on investments for the DC Default Investment Option

- 4.1 The DC Default Investment Option is fully managed by LGIM, balancing different kinds of investments to ensure that the expected amount of risk (and commensurately the expected return) is appropriate given the age of the member and their target retirement date.

5. Realisation of investments for the DC Default Investment Option

- 5.1 The investments held in the DC Default Investment Option will be realised in relation to a member:
- (a) if the member decides to switch out of the DC Default Investment Option into one of the other available investment options for their Retirement Account, and
 - (b) where it is necessary to convert the investments credited to the member's Retirement Account into cash for the purpose of paying benefits or making a transfer.

6. Extent to which ESG considerations are taken into account in relation to the DC Default Investment Option

- 6.1 The Trustee recognises that social, environmental and governance, including climate change, (collectively “**ESG**”) matters may impact investment risk and return outcomes and hence the ability to meet investment objectives. The Trustee also recognises that financially material ESG matters present risks and opportunities that may require additional consideration.
- 6.2 The Trustee’s policy regarding financially material ESG matters is that the extent to which such matters are taken into account in making day-to-day investment decisions, including decisions relating to the selection, retention and realisation of investments, is delegated to LGIM and the Trustee expects LGIM to recognise that the Trustee’s primary responsibility is to act in the best financial interests of the beneficiaries of the Plan.
- 6.3 Each of the Target Date Funds that are used in the default arrangement is an investment option under a unit-linked life policy which has been issued by the Selected Investment Vehicle Provider to the Trustee.
- 6.4 Accordingly, it is the responsibility of the Selected Investment Vehicle Provider, to determine the extent to which the assets are allocated (which, in turn, back its obligations under the unit-linked life policy) are invested, so that ESG considerations are taken into account in the selection, retention and realisation of investments (and also to the extent that those considerations are relevant to the achievement of the investment objectives of each such internal fund).
- 6.5 The Trustee will monitor how ESG considerations are integrated within the Target Date Funds. Monitoring is undertaken on a regular basis.
- 6.6 Generally, individual members’ and beneficiaries’ views on non-financial matters (including their ethical views and views in relation to ESG issues and present and future quality of life of the members and beneficiaries of the Plan) are not explicitly sought or taken into account in making day-to-day investment decisions, though they may be considered by the Trustee in its discretion as and when they arise.

7. Rights attaching to investments and engagement for the DC Default Investment Option

- 7.1 The Trustee believes that good stewardship can have a long-term positive impact on Plan asset risks and returns.
- 7.2 The Trustee expects its investment managers to have effective stewardship, both through voting and engagement. Although the Trustee’s policy is to delegate responsibility for stewardship including the exercise of voting rights, to their investment managers, the Trustee monitors and engages with how the investment managers vote in relation to the Trustee’s priorities.
- 7.3 The Trustee has agreed the size of the Plan’s holdings as primary determinant of what constitutes a significant vote, or priority for stewardship activities undertaken by the Plan’s

investment managers on behalf of the Trustee. The Trustee will therefore focus its reporting on the largest holdings within its portfolio.

- 7.4 The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. As the Plan's assets are invested in pooled funds, the Trustee expects the appointed investment managers to undertake these activities in line with their general policies on stewardship and current best practice (including the UK Corporate Governance Code and UK Stewardship Code) as provided to the Trustee from time to time, considering the long-term financial interests of members and beneficiaries. The Trustee seeks to appoint investment managers who have strong stewardship policies, reflecting where relevant recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these stewardship policies are implemented in practice.
- 7.5 Investment manager stewardship activity is monitored at least annually by collating information on significant votes and engagements carried out over the Plan year, and is summarised in the Plan's publicly available Annual Implementation Statement. The Trustee engages with managers on all investment-related matters, including stewardship and voting, as part of its ongoing monitoring cycle, which includes when they present from time to time at the Trustee's Investment Committee meetings and via written correspondence where appropriate.

8. Total Expense Ratio for the DC Default Investment Option

- 8.1 In selecting the Selected Investment Vehicle Provider and the DC Default Investment Option, the Trustee has taken account of the annual management charges which apply to each investment option and all other additional expenses.
- 8.2 The Trustee, after taking advice from its Investment Consultant, considers that these charges, taken in the round, provide value for money and are a material factor in determining the net of charges investment return for members invested in the DC Default Investment Option. Annual management charges are reviewed regularly to ensure they still provide good value for money.
- 8.3 As part of the statutory annual value for money assessment required by the Trustee for defined contribution benefits provided under the Plan, the Trustee reviews the investment manager fees along with portfolio turnover costs. However, as the Plan invests through pooled funds, the Trustee is unable to define target portfolio turnover ranges for funds.

9. Illiquid assets in the DC Default Investment Option

- 9.1 The Trustee considers illiquid assets as assets of a type which cannot easily or quickly be sold or exchanged for cash; including where such assets are invested as a component of a daily-dealing multi-asset fund. The Plan's DC Default Investment Option includes an allocation to illiquid investments through its investment in the Target Date Funds, which are collective investment schemes, such as Direct Property and Private Credit. Members are invested in the illiquid

investments within the de-risking period of the Target Date Funds, which begins around 15 years from a member's target retirement date.

- 9.2 The Trustee is comfortable indirectly investing in a small proportion of illiquid assets through the Target Date Funds, to experience the potential for higher returns and benefits of diversification relative to more traditional asset classes (such as bonds or equities) that illiquid assets can offer. While these benefits are recognised by the Trustee, it is also aware of the risks of investment in illiquid assets to members. Given the potential for valuations of illiquid assets to not reflect their true value at a given time as well as concerns over liquidity management.
- 9.3 As the Target Date Funds are fully managed by LGIM, the Trustee expects LGIM to consider investment in illiquid assets and the suitability of such an investment as part of its overall management of the Target Date Funds.
- 9.4 In selecting investments for the DC Default Investment Option the Trustee uses both qualitative and quantitative analysis to consider the expected impact of different strategic allocation mixes. For any future investment, the Trustee carefully considers whether the investment provides value for members, taking account of the return potential and associated risks. It is the Trustee's policy to review the allocation and investment strategy of the DC Default Investment Option on at least a triennial basis. Such reviews will include whether the incorporation of illiquid asset investments is appropriate.

10. Explanation of how the aims and objectives for the DC Default Investment Option are intended to ensure that assets backing the DC Default Investment Option are invested in the best interests of those whose Retirement Accounts are invested in the DC Default Investment Option

The preceding provisions of this **Section C** set out how the aims, objectives and policies there specified are intended by the Trustee to ensure that the assets backing the Retirement Accounts of those invested in the DC Default Investment Option are invested in the best interests of the members holding those Retirement Accounts.

D. DB Default Investment Option in respect of money purchase benefits in the Defined Benefit Section

The provisions of **Section C** apply with the following changes in relation to the DB Default Investment Option:

1. references to the DC Default Investment Option should be read as references to the DB Default Investment Option.
2. section C.1.3.(d) should read as follows:

Based on its understanding of the DB Section's membership, the Trustee has adopted the Cash Target Date Funds provided by LGPMC, on the basis that it is likely to meet a typical DB member's requirement for maximising tax-free cash in retirement.

Adopted with effect from 18 October 2023 by the Trustee of the Phillips 66 UK Pension Plan

Signed:

for and on behalf of
Phillips 66 Pension Plan Trustee Limited
as trustee of the Phillips 66 UK Pension Plan

Name: Gary Taylor

Position: Director & Chair