

GOVERNANCE STATEMENT FOR DEFINED CONTRIBUTION BENEFITS UNDER THE PHILLIPS 66 UK PENSION PLAN FOR THE YEAR ENDED 31 MARCH 2023

Introduction

This governance statement for the year ended 31 March 2023 (the "Reporting Year") is provided by the Chair of the board of directors of Phillips 66 Pension Plan Trustee Limited (the "Trustee"), trustee of the Phillips 66 UK Pension Plan (the "Plan"), as required by the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015) (collectively, the "Administration Regulations"), in relation to the Defined Contribution ("DC") section of the Plan and the Additional Voluntary Contribution ("AVC") arrangements under the Defined Benefit ("DB") section of the Plan. As part of the overall governance of the Plan, the Trustee also has regard to the Pensions Regulator's:

- Code of practice no: 13 – Governance and administration of occupational trust-based scheme providing money purchase benefits; and
- Regulatory guidance for defined contribution schemes.

Default Arrangement for DC members

The DC section of the Plan is used as a Qualifying Scheme for auto-enrolment. The Trustee has made available a range of "self-select" and "lifecycle profile" fund options to DC section members of the Plan under a unit-linked life policy (the "LGIM Policy") issued by Legal & General Assurance (Pensions Management) Limited ("LGIM").

As required by regulations, members who join the DC section of the Plan, and who do not expressly choose any investment option(s), are placed into a specific lifecycle strategy investment option of the Plan (the "DC Default Arrangement"), as described further below. DC members can also expressly choose to be invested in the DC Default Arrangement. The Trustee in conjunction with its Investment Consultant Mercer Limited ("Mercer"), considers the demographics of the membership, scheme experience and wider market industry experience in deciding the kinds of investments to be held and the balance between them at each phase of a member's lifecycle, and adopted the following investment strategy for the DC Default Arrangement:

- Growth Phase (until 25 years to retirement) where the investment return is entirely linked to globally diversified equities with overseas currency exposure hedged;
- Transition Phase (from end of Growth Phase until 8 years to retirement) introducing protection against downside risk through a multi-asset growth fund while gradually reducing exposure to equities to nil; and
- Pre-retirement Phase (from end of Transition Phase until the point of retirement) to position members so that 25% of their benefits are held in cash and the remaining 75% is invested in a fund that best matches how members typically access their pension savings.

The DC Default Arrangement was the "2019 Target Income Drawdown Lifecycle Profile" fund, which was adopted by the Trustee from 1st December 2019, and this continued throughout the Reporting Year. This fund reflects the investment strategy described above.

The DC Default Arrangement is included in a separate Statement of Investment Principles adopted by the Trustee (the "Default SIP") which includes the Trustee policy on investment objectives and strategy for the available funds along with how the associated risks in respect of the policy are measured and managed. The Default SIP which was in effect during the Reporting Year is appended to this governance statement.

With the assistance of Mercer, the Trustee undertook a detailed review of the investment strategies and other self-select funds available in the DC and AVC range during the Reporting Year and has decided to replace certain DC and DB AVC lifecycle strategies (including the DC Default Arrangement) with a range of "Target Date Funds", managed by Legal & General. This change is being made with effect from 18 October 2023, and the details of the changes will be reported in the governance statement for the next period.

The remainder of this statement reports on the arrangements that were in place for this Reporting Year.



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Charges and transaction costs borne by members: General

The charges incurred for the various investment fund options offered to members are summarised in the tables below.

The charges consisted of a combination of annual fees taken from the value of the pooled fund (as outlined below), and transaction costs that are borne by the member:

- *Management fees:* Income derived by the manager and associates which is deducted from the value of a pooled fund itself.
- *Additional expenses:* All payments made to parties providing services to a pooled fund other than the manager such as, but not limited to, the depositary, custodian, auditor, property related expenses to the extent these are not included in transaction costs, and any other fees or levies deducted from the pooled fund.

Together, these management fees and additional expenses are known as the annual “**Total Expense Ratio**” for the fund which is shown in the tables below.

- *Transaction costs:* Members may incur costs when making investments, switching between the funds that are available and in the day-to-day management of the funds. The costs for the various funds in the LGIM Policy are shown below. LGIM calculates these using “slippage” (arrival price) methodology as outlined by the Financial Conduct Authority (FCA), which can result in some funds showing a negative transaction cost either because the timing of the underlying investment yielded a gain, or the investor is trading in the opposite direction to the net flow of the fund.

Charges and transaction costs borne by members: DC Default Arrangement

The DC Default Arrangement (i.e., the “2019 Target Income Drawdown Lifecycle Profile”) is a lifecycle profile, whereby members’ assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement date and in which fund they are invested.

For the period covered by this statement, annualised charges and transaction costs incurred for the DC Default Arrangement are set out in the tables below.

Years to target retirement date	Total Expense Ratio	Transaction Costs
More than 25 years to retirement	0.16%	0.0945%
Less than 25 years to retirement	0.16% - 0.32%	(0.0017%) - 0.0945%
Less than 8 years to retirement	0.32%	(0.0017%)
Less than 7 years to retirement	0.32% - 0.345%	(0.0017%) - 0.0582%
Less than 3 years to retirement	0.311% - 0.345%	0.0582% - 0.0788%
At retirement	0.311%	0.0788%



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Charges and transaction costs borne by members: self-select and other lifecycle strategies

There were nine specific self-select funds in place during the Reporting Year, available to DC and DB AVC members. For the period covered by this statement, their annualised charges and transaction costs are set out in the table below.

Investment Provider	Asset Class	Investment Option	Total Expense Ratio	Transaction Costs
Legal & General Assurance (Pensions Management) Limited	Equities	World Equity Index Fund – GBP Currency Hedged	0.16%	0.0945%
		World Emerging Markets Equity Index Fund	0.21%	0.0350%
	Multi-Asset Funds	Diversified Fund	0.32%	(0.0017%)
		Dynamic Diversified Fund	0.52%	0.1182%
		Retirement Income Multi-Asset Fund	0.37%	0.1180%
	Bonds	Over 15 Year Gilts Index Fund	0.0575%	0.1904%
		Investment Grade Corporate Bond – All Stocks Index Fund	0.0575%	(0.0247%)
		Pre-Retirement Fund	0.15%	0.0292%
	Cash	Sterling Liquidity Fund	0.135%	(0.0389%)

The charges in the tables above are built into investment daily unit prices and hence borne by members' retirement accounts.

During the Reporting Year, and in addition to these self-select funds, DC members could choose to invest in one of three lifecycle strategies:

- 2019 Target Income Drawdown Lifecycle Profile (the DC Default Arrangement);
- 2016 Target Annuity Lifecycle Profile; and
- 2016 Target Cash Lifecycle Profile.

DC members can choose either a lifecycle strategy or one or more of the self-select funds but cannot choose a combination of the two or be invested in more than one lifecycle profile at any time.

The only available lifecycle strategy for DB AVC members for new investment during the Reporting Year was the 2016 Target Cash Lifecycle Profile. Similarly, DB AVC members need to choose between one or more of the self-select funds and this lifecycle strategy and cannot be invested in a combination of the two.

As is the case for the DC Default Arrangement, the level of charges and transaction costs incurred for the other lifecycle profiles will vary depending on how close members are to their target retirement date and in which fund they are invested. For the period covered by this statement, annualised charges, and transaction costs incurred for the two other lifecycle options are set out in the tables on the next page.



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Charges and transaction costs borne by members: self-select and other lifecycle strategies (continued)

2016 Target Annuity Lifecycle Profile:

Years to target retirement date	Total Expense Ratio	Transaction Costs
More than 25 years to retirement	0.16%	0.0945%
Less than 25 years to retirement	0.16% - 0.32%	(0.0017%) - 0.0945%
Less than 8 years to retirement	0.32%	(0.0017%)
Less than 7 years to retirement	0.235% - 0.32%	(0.0017%) - 0.0138%
Less than 3 years to retirement	0.146% - 0.235%	0.0122% - 0.0138%
At retirement	0.146%	0.0122%

2016 Target Cash Lifecycle Profile:

Years to target retirement date	Total Expense Ratio	Transaction Costs
More than 25 years to retirement	0.16%	0.0945%
Less than 25 years to retirement	0.16% - 0.32%	(0.0017%) - 0.0945%
Less than 8 years to retirement	0.32%	(0.0017%)
Less than 7 years to retirement	0.235% - 0.32%	(0.0017%) - 0.0138%
Less than 3 years to retirement	0.135% - 0.235%	(0.0389%) - 0.0138%
At retirement	0.135%	(0.0389%)



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Charges and transaction costs borne by members: closed legacy DB AVC funds

In relation to AVCs under the DB section of the Plan, some members have “legacy” investments:

- provided under a unit-linked life policy issued by The Standard Life Assurance Company (“Standard Life”); and/or
- provided under the 2014 Lifecycle Profile, issued under the LGIM Policy; and/or
- held under a deposit account fund with Santander UK plc (“Santander”).

These legacy arrangements are closed to new investments. The charges for investments held under the unit-linked policy issued by Standard Life for the Reporting Year are set out below.

Investment Provider	Asset Class	Investment Option	Effective Total Expense Ratio	Transaction Costs (p.a.)
The Standard Life Assurance Company	Cash	Standard Life Deposit & Treasury Pension Fund	0.508%	0.0365%
	Bonds	SL iShares Over 15-year Gilt Index Pension Fund	0.509%	(0.0130%)
	Equities	SL BlackRock Managed (50:50) Global Equity Pension Fund	0.515%	0.0361%
		SL iShares UK Equity Index Pension Fund	0.510%	0.1275%

Notes:

- Standard Life charges a standard Annual Management Charge (AMC) of 1% per annum which is deducted daily. A rebate of 0.5% against this charge is then given as additional units each month, which has the effect of reducing the AMC (and resulting Total Expense Ratio (TER)) by 0.5%.
- Notwithstanding the difference between daily deduction and monthly rebates, in the long term the effective AMC borne will be close to the actual AMC less the Rebate. The effective TER after the rebate is therefore shown.
- The charges in the table above are built into investment daily unit prices and hence borne by members’ retirement accounts.

The charges for investments held under the 2014 Lifecycle Profile for the Reporting Year are set out below.

Years to target retirement date	Total Expense Ratio	Transaction Costs
More than 25 years to retirement	0.16%	0.0945%
Less than 25 years to retirement	0.16% - 0.32%	(0.0017%) - 0.0945%
Less than 10 years to retirement	0.285% - 0.32%	(0.0017%) - 0.0047%
Less than 3 years to retirement	0.146% - 0.200%	0.0202% - 0.0122%
At retirement	0.146%	0.0122%

There are no charges or transaction costs associated with the Santander investment fund, which is a deposit account arrangement with a set rate of interest which is reviewed from time to time.



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Illustration of charges and transaction costs

Over time, charges and transaction costs can reduce the amount available to the member at retirement. The Trustee has set out below an illustration of the impact of charges and transaction costs on certain different investment funds. The illustration has been prepared in accordance with the Department of Work & Pension's statutory guidance on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes" on the projection of an example member's pension savings.

As future investment returns and future costs and charges cannot be known in advance, the Trustee has for the purposes of this illustration, had to make a number of assumptions about what these might be.

The funds selected to illustrate the effect of costs and charges are as follows:

Description	LGIM Investment fund	Total Expense Ratio (TER)	Transaction costs*	Growth rate assumptions
DC Default Arrangement	2019 Target Income Drawdown Lifecycle Profile (for DC assets)	0.16% p.a. for members 25 or more years from retirement, rising to 0.320% p.a. for members 8 years from retirement, falling again to 0.311% p.a. for members at retirement	0.0625% p.a. for members 25 or more years from retirement, falling to 0.000% p.a. for members between 7 and 8 years from retirement, rising again to 0.0412% p.a. for members at retirement	6.5% p.a. before inflation for members 25 or more years from retirement, falling to 6.0% p.a. for members 8 years from retirement and falling again to 3.57% p.a. before inflation for members at retirement
Most expensive fund	Dynamic Diversified Fund	0.52% p.a.	0.1052% p.a.	6.0% p.a. before inflation
Least expensive fund	Investment Grade Corporate Bond – All Stocks Index Fund	0.0575% p.a.	(0.0249%) p.a.	4.25% p.a. before inflation

*Average of the last 4 years to 31 March 2023 (maximum period available and provided by the investment manager)



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Illustration of charges and transaction costs (continued)

Illustration: A young DC member's pension pot as it changes over time

Year End	Age	Default Arrangement : Drawdown lifestyle		Most expensive fund: LGIM Dynamic Diversified Fund		Least expensive fund: LGIM Investment Grade Corporate Bond – All Stocks Index Fund	
		Pot Size with no Charges Incurred	Pot Size net of Charges Incurred	Pot Size with no Charges Incurred	Pot Size net of Charges Incurred	Pot Size with no Charges Incurred	Pot Size net of Charges Incurred
0	24	£0	£0	£0	£0	£0	£0
1	25	£5,907	£5,894	£5,895	£5,858	£5,846	£5,843
6	30	£39,247	£38,933	£38,721	£37,859	£36,649	£36,574
11	35	£79,937	£78,808	£77,914	£74,887	£70,243	£69,994
16	40	£129,553	£126,886	£124,708	£117,734	£106,882	£106,338
21	45	£188,998	£183,637	£180,578	£167,313	£146,840	£145,861
26	50	£259,119	£249,385	£247,284	£224,682	£190,419	£188,842
31	55	£340,849	£324,452	£326,928	£291,065	£237,947	£235,583
36	60	£431,533	£405,588	£422,020	£367,879	£289,782	£286,414
41	65	£495,816	£461,259	£535,555	£456,762	£346,314	£341,691
Percentage difference at age 65		7.0%		14.7%		1.3%	

Notes

- Charges are as provided by LGIM, as at 31 March 2023.
- The DWP regulations require that where possible, the transaction costs assumed in these illustrations are based on an average of the previous five years' transaction costs for each fund. The Trustee has requested historic transaction costs, but at time of publishing these have not been provided.
- Therefore, the transaction costs shown above are an average of the costs for the four years to 31 March 2023, which have been provided by LGIM for this year and previous years' governance statements. The one exception is a component of the Drawdown Lifecycle Profile, being the LGIM Retirement Income Multi-Asset Fund ('LGIM RIMA'). This fund is a component of the Profile during the period of 7 years before retirement but has been more recently introduced. As a result, the transaction costs available to the Trustee at the time of publishing were for the last three years to 31 March 2023.
- Where funds have reported negative transaction costs over the period, the Trustee has assumed these costs to be nil, as negative costs are not expected to continue consistently over time.
- Growth rate assumptions are as provided by Mercer, which were reviewed and updated as at March 2023.
- Inflation is assumed to be 2.5% per annum
- The starting fund size is assumed to be nil, starting annual contribution amount is assumed to be £5,800 per annum and this person is 24 years old. This member is assumed to retire at 65.
- The member's contributions are assumed to increase over time in line with inflation.



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Net Investment Returns

The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 ('the 2021 Regulations') require the Trustee to report on the net investment returns for its default arrangements and for each fund in which Plan members were invested during the Plan year. Net investment returns refer to the returns on funds minus all transaction costs and charges.

The tables below, which have been produced in line with statutory guidance, contain the net investment returns for the DC Default Arrangement and all other funds in which members were invested in during the year for members at three different ages. Note that the annualised net returns differ due to the mix of funds for the DC Default Arrangement at those ages.

<u>2019 Target Income Drawdown Lifecycle Profile (DC Default Arrangement)</u>	Annualised net returns to 31 March 2023	
Age of member at the start of the period	1 year	Since Inception*
25	(6.2)	9.9
45	(6.1)	6.5
55	(5.5)	2.8
<u>2016 Target Annuity Lifecycle Profile</u>	Annualised net returns to 31 March 2023	
Age of member at the start of the period	1 year	5 years
25	(6.2)	7.8
45	(6.1)	6.1
55	(5.5)	3.3
<u>2016 Target Cash Lifecycle Profile</u>	Annualised net returns to 31 March 2023	
Age of member at the start of the period	1 year	5 years
25	(6.2)	7.8
45	(6.1)	6.1
55	(5.5)	3.3
<u>2014 Target Annuity Lifecycle Profile</u>	Annualised net returns to 31 March 2023	
Age of member at the start of the period	1 year	5 years
25	(6.2)	7.8
45	(6.1)	6.1
55	(5.5)	3.3

Source: LGIM and Mercer estimates.

*Inception of the 2019 Target Income Drawdown Lifecycle was 1 December 2019.

Performance shown net of all charges and transaction costs. Performance has been calculated based on a fixed weighted average of underlying fund performance in the lifestyle, with the weightings as at the ages shown.



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Net Investment Returns (continued)

LGIM Self-Select Funds	Annualised net returns to 31 March 2023 (%)		
	1 year	3 year	5 years
World Equity Index Fund – GBP Currency Hedged	(6.3)	16.0	7.8
World Emerging Markets Equity Index Fund	(4.5)	8.9	2.6
Diversified Fund	(5.1)	6.6	4.0
Dynamic Diversified Fund	(3.0)	6.0	3.7
Retirement Income Multi-Asset Fund	(2.9)	5.2	*
Over 15 Year Gilts Index Fund	(29.8)	(16.4)	(6.4)
Investment Grade Corporate Bond – All Stocks Index Fund	(10.2)	(3.1)	(0.8)
Future World Annuity Aware Fund	(19.6)	(8.4)	(3.2)
Sterling Liquidity Fund	2.2	0.7	0.7

Source: LGIM.

Performance shown net of all charges and transaction costs. Performance of standalone self-select options is independent of age. Performance data not available for these time periods due to inception date of funds.

Standard Life Funds	Annualised net returns to 31 March 2023 (%)		
	1 year	3 years	5 years
SL BlackRock Managed (50:50) Global Equity Pension	0.6	14.0	6.4
SL iShares UK Equity Index Pension Fund	1.4	13.3	4.4
SL iShares Over 15 Year Gilt Index Pension Fund	(30.2)	(17.1)	(6.8)
Standard Life Deposit and Treasury Pension Fund	1.7	0.3	0.3

Source: Standard Life Standard Factsheets

Performance shown net of all charges and transaction costs. Performance of funds is independent of age.

Value for Members

During the Reporting Year, the Trustee, assisted by Mercer, undertook a “Value for Members” assessment to determine the extent to which the LGIM defined contribution and AVC investment fund options available to Plan members represented value for money. In this context, the Trustee notes that the Pensions Regulator considers that a pension scheme offers value for money where the costs and charges deducted from members’ retirement accounts provide good value in relation to the benefits and services members receive, when compared to other options available in the market.

Having considered the guidelines set out by the Pensions Regulator, and advice from Mercer, the value for members assessment undertaken by the Trustee examined investment management charges relative to standard institutional fees for equivalent size mandates, Mercer manager research ratings, and historical fund performance. In particular:

- fees payable on the LGIM range of investment options are competitive when compared to charges for equivalent sized mandates and are well below the cap of 0.75% p.a. that applies to fees charged to auto-enrolment default investment arrangements.
- performance of the LGIM index-tracking investment options has been in line with appropriate benchmarks.
- the funds are highly rated by Mercer as having good prospects of achieving their risk and return objectives; and
- the costs of administration are borne by the Plan sponsor, Phillips 66 Limited, and not by members.

The Trustee also regularly reviews the investment funds held by members under the legacy AVC arrangement with Standard Life. Although the charges are, overall, above those under the LGIM Policy (albeit still lower than the charge cap of 0.75% p.a.) they are not considered by the Trustee to be out of line with the traditional AVC market.



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Value for Members (continued)

In carrying out the value for members assessment, the Trustee also considered the wider benefits members receive from the Plan, which include:

- The oversight and governance of the Trustee, including ensuring the Plan is compliant with relevant legislation, and holding regular meetings to monitor the Plan and address any material issues that may impact members;
- Investment - the design of the DC Default Arrangement and how this reflects the interests of the membership, as well as the range of self-select investment fund options and strategies;
- Administration - the efficiency of administration processes and the extent to which the Plan Administrator met or exceeded its service level standards; and
- Communication - the quality of communications delivered to members; the quality of support services such as the Plan website where members can view fund information and make changes; any online tools such as retirement modelling; and practical support to members to allow them to make decisions on their pension investments.

Overall, the Trustee believes the defined contribution and AVC investment fund options offered during the Reporting Year represented good value for members.

Trustee Knowledge and Understanding (“TKU”)

The board of directors of the Trustee is under a statutory duty to possess, or have access to, sufficient knowledge and understanding in relation to the Plan, including:

- a working knowledge of the Trust Deed and Rules.
- a working knowledge of the current Statements of Investment Principles.
- a working knowledge of documents setting out the Trustee’s current policies.
- sufficient knowledge and understanding of the law relating to pensions and trusts; and
- sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupational schemes.

The board of directors of the Trustee takes its training and development responsibilities seriously and an induction process is in place for newly appointed directors to complete an external trustee training course and the Pensions Regulator’s Trustee Toolkit within six months of appointment, together with additional training depending on the director’s role. As a minimum, all directors are required to refresh their Trustee Toolkit training every two years.

Ongoing development of the board of directors of the Trustee includes specific training from the Trustee’s professional advisers as necessary to support the Trustee’s annual work plan and respond to current ‘hot topics’, and an annual ‘away day’ which provides time to consider specific focus areas in more detail and broaden trustee development and capability.

The Trustee keeps a record of the training completed by each member of the board including:

- completion of the initial induction training;
- periodic ‘refresh’ of the Pensions Regulator’s Trustee Toolkit training;
- training and updates provided by the Trustee’s advisers and the Pensions Regulator (including modules of the Pensions Regulator’s Trustee Toolkit);
- updates at quarterly Trustee board meetings;
- attendance at external workshops/seminars/events; and
- attendance at committee meetings.

The Trustee is also ably supported by pensions expertise provided by the Plan sponsor, Phillips 66 Limited, and by the Trustee’s own professional advisers.

Through the combination of this expertise, knowledge and resource, the Trustee is satisfied that it meets its statutory duty in relation to TKU and, accordingly, the Trustee is satisfied that it can properly exercise its functions as trustee of the Plan.



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Plan Administration (processing of “core financial transactions”)

The Trustee outsources the administration of the Plan to a specialist third party provider. With a view to improving cost efficiencies and member experience, effective 1 October 2022, the Trustee transferred responsibility for the administration of the Plan from Capita Pension Solutions Limited (“**Capita**”), who had been administrator since the Plan’s inception in 2012, to Buck (Administration & Investment) Limited (“**Buck**”). Both Buck and Capita have extensive administrative experience and specialist knowledge in pension plan administration processes and controls.

A key element of good administration is the prompt and accurate processing of core financial transactions, including:

- investment of contributions received;
- switching of member funds between the different investment options offered, including lifecycle switches and monthly rebalancing;
- payment of member benefits to beneficiaries; and
- transfer-out of assets relating to a member from the Plan to a new provider.

Service Level Agreements (“**SLAs**”) are in place with Buck (and prior to 1 October 2022, with Capita), to, inter alia, process, as appropriate, the above transactions in relation to members and their retirement accounts in the Plan in accordance with agreed timescales.

As administrators for the Plan, Buck (and previously, Capita):

- complete all investment transactions with LGIM through “Straight-Through Processing” which is an electronic transfer between the administrator and LGIM. This process assists the Plan in seeking to meet the level of service which the Trustee expects to be provided to members. There is no such system in operation for those DB section members with AVCs with the legacy providers, Standard Life and Santander;
- use an internal workflow system to monitor SLAs in conjunction to being monitored by the client team manager. Daily reports are issued to all levels of management within Buck that allow the monitoring of SLA performance, work pipeline and profile of cases;
- monitor bank accounts daily to identify receipt of members’ monies (transfers in, disinvestments and contributions) from which starts the process to invest those monies or pay benefits; and
- have dedicated staff members who process the core financial transactions for the Plan.
- Buck applies the following when processing payments: all monetary transactions are peer reviewed and authorised by 1 x senior administrator or team leader (transactions less than £250,000) or 2 x senior administrators and/or team leader (transactions over £250,000) the transaction is then reviewed and released for payment by a treasury administrator and there is a final authorisation by an Administration Manager or above. Prior to 1 October 2022, Capita employed a similar system which required two senior employees to authorise and sanction the transaction, they had sanctioning limits in place for different types and monetary amounts of payments, which were linked to roles;

Regular monitoring through quarterly reports to the Trustee and fortnightly meetings between Capita and Phillips 66, and since October 2022, between Buck and Phillips 66, help track performance against these agreed timescales. The Trustee is satisfied that over the Reporting Year:

- Capita and Buck operated appropriate procedures, checks and controls, and operated within agreed SLAs for core financial transactions;
- there have been no material administration errors in relation to processing of core financial transactions; and
- core financial transactions have been processed promptly and accurately during the Reporting Year in all material respects.

Following the cyber incident that occurred at Capita in March 2023, we can confirm that this happened post the change in pension administrator to Buck and has had no impact on the processing of financial transactions.



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Legal Notes

This document contains a summary of certain provisions of the LGIM Policy, the Standard Life Policy, the agreement with Santander and of the Plan's governing legal documents (together the "Formal Legal Documents").

This document confers no rights to benefits. Rights to benefits are conferred only by the Formal Legal Documents, as amended from time to time.

If there is any difference between what is summarised in this document and the Formal Legal Documents, the Formal Legal Documents will prevail.

For and on behalf of Phillips 66 Pension Plan Trustee Limited

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

24/10/2023

Gary Taylor

Chair of the Board of Directors

Date: _____



PHILLIPS 66 UK PENSION PLAN
STATEMENT OF INVESTMENT PRINCIPLES FOR DEFAULT ARRANGEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

PHILLIPS 66 UK PENSION PLAN

DEFAULT ARRANGEMENTS
STATEMENT OF INVESTMENT PRINCIPLES

ADOPTED WITH EFFECT FROM 1 OCTOBER 2020

This default arrangement Statement of Investment Principles replaces with effect from 1 October 2020, 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.
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".

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 a statement of investment principles governing decisions about investments for the purposes of each default arrangement.



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2. The Plan:
 - 2.1 has a default arrangement, as defined in the Investment Regulations, in relation to the Defined Contribution Section, and
 - 2.2 has or may have a default arrangement, in relation to the way money purchase benefits in the Defined Benefit Section may be invested.
3. This document is the statement of investment principles governing decisions about investments for the purposes of each default arrangement (as defined in the Investment Regulations).
4. In relation to:
 - 4.1 the Defined Contribution Section, the default investment arrangement is a default lifecycle option, described in more detail in Annex A (the "DC Default Lifecycle Option").
 - 4.2 the Defined Benefit Section and the money purchase benefits within that Section, if and to the extent that a default arrangement is required, that arrangement is the default lifecycle option, described in more detail in Annex B (the "DB Default Lifecycle Option").

C. Matters relating to the DC Default Lifecycle Option

1. **Aims and objectives of the DC Default Lifecycle 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 Lifestyle 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 Lifecycle Option as a result.
 - 1.3 In relation to the DC Default Lifecycle Option:
 - (a) the growth phase structure invests in equities and a diversified growth fund. The aim during this phase 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 DC Default Lifecycle Option is to seek to reduce investment risk as the member approaches their target retirement date. The member may select their target retirement date, or, in default of a selection, the target retirement date is the member's 65th birthday.



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- (c) based on its understanding of the Defined Contribution Section's membership, the Trustee has adopted, as part of the design of the DC Default Lifecycle Option, a switching investment strategy for members within 7 years of their target retirement dates, so that at the member's target retirement date the member is to be invested:
 - (i) as to 25% of their Retirement Account in cash, and
 - (ii) as to 75% in a retirement multi-asset fund (which provides long-term investment growth up to the point of retirement and facilitates the drawdown of retirement income (and the assumption that the member would wish to use 75% of his/her Retirement Account balance to flexibly draw as required from his/her target retirement date)).
- (d) this option was chosen on the basis that it is likely to meet a typical member's requirements:
 - (i) for secure income, and
 - (ii) for maximising tax-free cash in 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 an alternative lifecycle option.

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 Lifecycle 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.



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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 Lifecycle 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) a Selected Investment Vehicle not meeting its 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 Selected Investment Vehicles and on an ongoing basis thereafter. The Trustee, through its investment adviser, monitors the performance of the Selected Investment Vehicles on a regular basis and compares the investment returns with the appropriate performance objectives.
- (b) the risk of holding Selected Investment Vehicles 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 Selected Investment Vehicles ("concentration risk"). The assets underlying each Selected Investment are well diversified within the asset class or classes to which they relate.
- (d) the risk that the Selected Investment Vehicle Provider becomes insolvent so that the Selected Investment Vehicle in question is 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 with the asset class of the investments linked to the Selected Investment Vehicle in question via the investment benchmark and objective for that Investment Vehicle.
- (g) the risk that there will be costs of converting a member's accumulated defined contribution account into pension benefits at retirement



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("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 Lifecycle 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 social, environmental 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 assets in the Selected Investment Vehicle in question compared to the benchmarks for that Selected Investment Vehicle 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. **Manager Arrangement Policies**

3.1 Investment managers are appointed based on their capabilities and therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for within the DC Default Lifecycle 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 forward-looking assessment of managers. This view will be based on the Investment Consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in. The Investment Consultant's manager research ratings assist with due diligence and, where



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available, are used in decisions around selection, retention and realisation of manager appointments.

- 3.3 If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives for each phase of the DC Default Lifecycle Option.
- 3.4 As the Trustee invests in pooled investment vehicles, it accepts that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates have been selected to align with the overall investment objectives for each phase of the DC Default Lifecycle Option.
- 3.5 The Trustee receives regular investment manager performance reports on a quarterly basis, which present performance information over several time periods (currently 3 months, 1 year and 3 years are shown). The Trustee reviews the absolute and relative performance (against a suitable benchmark index, where appropriate), and against the manager's stated performance target.
- 3.6 The Trustee maintains a focus on long-term performance. It may review a manager's appointment if the manager has 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 All investment funds included in the DC Default Lifecycle Option are open-ended with no set end date for the arrangement, though as part of the life styling arrangement an individual member's allocation to the funds will change over time as part of the switching mechanism. The default arrangements are reviewed on at least a triennial basis. A manager's appointment may be terminated if: there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager; the basis on which the manager was appointed changes materially (e.g. manager fees or investment processes); the Trustee decides to terminate a mandate following a review of the manager's appointment.

4. Expected return on investments

- 4.1 The DC Default Lifecycle Option, depending on the number of years before a member's target retirement date is invested in a number of different investment options, as specified in more detail in **Annex A**.
- 4.2 The Selected Investment Vehicle Provider has specified the target rate of return on each such investment option.
- 4.3 Details of that expected investment return are included in **Annex A**.

5. Realisation of investments



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- 5.1 The investments held in the DC Default Lifecycle Option will be realised, in relation to a member, as necessary to give effect to the switching phase of the DC Default Lifecycle Option in accordance with the specification for that switching phase at the respective times provided for in that specification as outlined in Annex A.
- 5.2 The investments held in the DC Default Lifecycle Option will also be realised in relation to a member:
- (a) if the member decides to switch out of the DC Default Lifecycle 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 Lifecycle Option
- 6.1 The Trustee recognises that 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 the investment managers and the Trustee expects the investment managers 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 Selected Investment Vehicles 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 to its internal funds (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 investment processes when appointing new investment managers and when reviewing existing investment managers. Monitoring is undertaken on a regular



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basis and inter alia, makes use of the Investment Consultant's ratings of managers on ESG factors, which are documented quarterly.

- 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

- 7.1 The Trustee believes that good stewardship can have a long-term positive impact on asset risks and returns. For investments in a pooled fund, it is the manager of that fund that is responsible for exercising rights (including voting rights) attaching to the assets backing the ultimate interest that the member has in it.
- 7.2 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.

8. Total Expense Ratio

- 8.1 In selecting the Selected Investment Vehicle Provider and the Selected Investment Vehicles which are used in the DC Default Lifecycle Option, the Trustee has taken account of the annual management charges which apply to each investment option and all other additional expenses.



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

D. DB Default Lifecycle 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 Lifecycle Option:

1. references to the DC Default Lifecycle Option should be read as references to the DB Default Lifecycle Option.
2. references to Annex A should be read as references to Annex B.
3. subject to paragraph D.4. and D.5 below, the mix of investment options and the end result at the member's target retirement date are as specified in Annex B.
4. section C.1.3.(c) should read as follows:

Based on its understanding of the DB Section's membership, the Trustee has adopted, as part of the design of the DB Default Lifecycle Option, a switching investment strategy for members within 3 years of their target retirement dates, so that at the member's target retirement date 100% of their Retirement Account is to be invested in cash.

5. Section C.1.3.(d) should read as follows:

This option was chosen on the basis that it is likely to meet a typical DB member's requirement for maximising tax-free cash in retirement.



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Adopted with effect from 1 October 2020 by the Trustee of the Phillips 66 UK Pension Plan

Signed: Dated: 29 September, 2020

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

Name: Gary Taylor



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ANNEX A

DEFINED CONTRIBUTION SECTION

THE DC DEFAULT LIFECYCLE OPTION

1. The Selected Investment Vehicles listed in Table 1 below are those used to make up the DC Default Lifecycle Option.
2. Each Selected Investment Vehicle listed in Table 1 is an internal fund made available by the Selected Investment Vehicle Provider pursuant to the terms of a unit-linked life policy.

Table 1

Selected Investment Vehicles

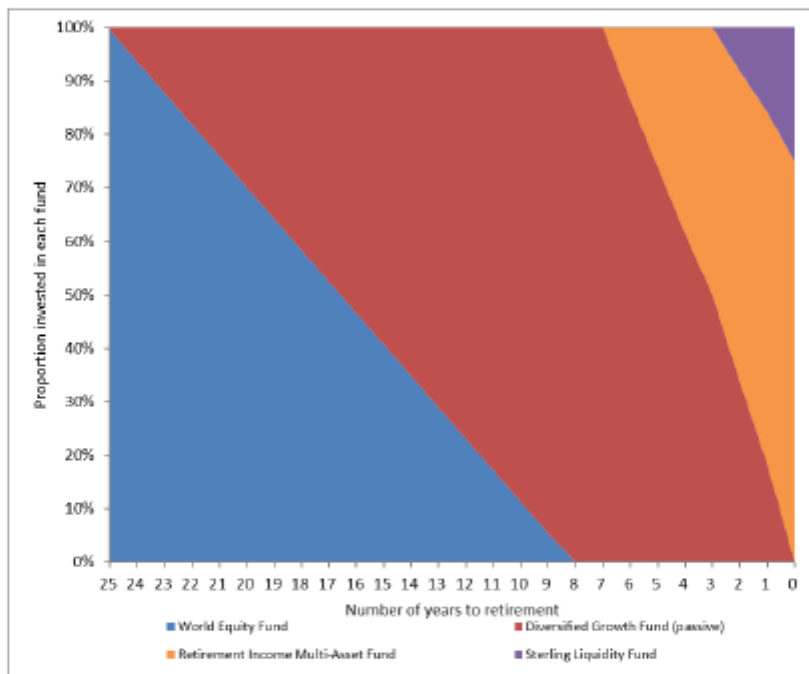
	Asset Class	Selected Investment Vehicle	Benchmark/comparator
1.	Diversified	LGIM Diversified Fund	Equity- like return (e.g. FTSE Developed World Index (50% hedged to GBP) at two thirds the volatility/risk of the global equity market
2.	Equities	LGIM World Equity Index Fund (GBP currency hedged)	FTSE AW - World Index - GBP Hedged (excluding the advanced emerging markets)
3.	Multi-Asset	LGIM Retirement Income Multi-Asset Fund	Composite (mixture of different asset classes that may include equities, bonds, property, commodities, listed infrastructure, private equity and global real estate companies)
4.	Cash	LGIM Sterling Liquidity Fund	7-day LIBID

3. The Trustee has arranged for Capita (the Plan's administrator) to administer the DC Default Lifecycle Option.



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4. The investment phasing of the selected investment options for the DC Default Lifecycle Option (referred to in the Plan's Trust Deed as the Third Selected Automatic Switch Facility) is as detailed below and in the document referred to as the "Phillips 66 UK Pension Plan Defined Contribution Section Lifecycle Matrix Rebalancing Schedule for the 2019 Target Income Drawdown Lifecycle Profile (adopted with effect from 1st December, 2019)."





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ANNEX B

DEFINED BENEFIT SECTION

**THE DB DEFAULT LIFECYCLE OPTION BEING THE
DEFAULT ARRANGEMENT, IF APPLICABLE, IN RELATION TO
MONEY PURCHASE BENEFITS IN THE DEFINED BENEFIT SECTION**

1. The Selected Investment Vehicles listed in Table 1 below are those used to make up the DB Default Lifecycle Option.
2. Each Selected Investment Vehicle listed in Table 1 is an internal fund made available by the Selected Investment Vehicle Provider pursuant to the terms of a unit-linked life policy.

Table 1

Selected Investment Vehicles

	Asset Class	Selected Investment Vehicle	Benchmark comparator
1.	Diversified	LGIM Diversified Fund	Equity- like return (e.g. FTSE Developed World Index (50% hedged to GBP) at two thirds the volatility/risk of the global equity market
2.	Equities	LGIM World Equity Index Fund (GBP currency hedged)	FTSE AW - World Index - GBP Hedged (excluding the advanced emerging markets)
3.	Bonds	LGIM Pre-Retirement Fund	Composite (mixture of gilts, index-linked gilts and corporate bonds to reflect manager's view on annuity pricing, and reviewed at least quarterly)
4.	Cash	LGIM Sterling Liquidity Fund	7-day LIBID

3. The Trustee has arranged for Capita (the Plan's administrator) to administer the DB Default Lifecycle Option.



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4. The investment phasing of the selected investment options for the DB Default Lifecycle Option) is as detailed below and in the document referred to as the "Phillips 66 UK Pension Plan Defined Benefit Section Additional Voluntary Contributions (AVCs) Lifecycle Matrix Rebalancing Schedule for the 2016 Target Cash Lifecycle Profile (adopted with effect from 1st April 2016)"

