



# PHILLIPS 66 UK PENSION PLAN

## ANNUAL IMPLEMENTATION STATEMENT - DEFINED BENEFIT AND DEFINED CONTRIBUTION SECTIONS (INCLUDING AVCS FOR DEFINED BENEFITS SECTION)

FOR THE YEAR ENDED 31 MARCH 2024

### Introduction

This Annual Implementation statement (“Statement”) describes how the trustee (“Trustee”) of the Phillips 66 UK Pension Plan (“Plan”) has implemented the matters set out in the main Statement of Investment Principles (“SIP”) for the Plan. This Statement is the fifth such statement published by the Trustee and covers the period of the Plan for the year ended 31 March 2024 (hereinafter referred to in this document as the “Reporting Year”). This Statement is required by the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended by The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018) and has been produced in accordance with the guidance published by the Pensions Regulator. This Statement covers both the Defined Benefit (“DB”) and Defined Contribution (“DC”) Sections of the Plan.

### Review of the SIP

During the Reporting Year, the Trustee reviewed and updated the SIP on two occasions. The first was largely to address new guidance from the Department of Work and Pensions (“DWP”) regarding engagement and stewardship by trustees. The second was to reflect changes to the investment options available to members of the DC and DB AVC sections. The updated and current version of the SIP has been effective from 18 October 2023 and is publicly available on [www.phillips66ukpensionplan.co.uk](http://www.phillips66ukpensionplan.co.uk).

### Assessment of how the policies in the SIP have been followed

The information provided in this section describes the work undertaken by the Trustee in implementing the investment matters that were set out in the SIP (and the various versions of it that were in place) during the Reporting Year.

In summary, it is the Trustee’s view that the policies set out in the SIP were followed throughout the Reporting Year.

### Choosing Investments

#### Self-Investment

The Trustee confirms that the Plan does not invest directly in securities issued by the Principal Employer under the Plan or its subsidiaries or associated companies, and that processes are in place to ensure that investments via any pooled or index tracking fund do not exceed the five percent (5%) threshold permitted by the employer-related investment regulations.

#### Rights attaching to Investments and engagement

The Plan was invested solely in pooled funds over the Reporting Year and the Trustee has no legal right to the underlying votes under these arrangements. Instead, the Trustee expects managers to exercise voting rights and stewardship obligations attached to the investments in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

Links to the voting policies for the Plan’s equity managers are provided below.

LGIM: [Investment stewardship & governance | LGIM Institutional](#)

Allspring: [Proxy Voting Policies and Procedures - Allspring Global Investments](#)

[2023 Allspring UK Stewardship Report.pdf \(frc.org.uk\)](#)

The Trustee has reviewed the managers’ approach to voting and their reports of significant votes cast during the Reporting Year as summarised in section 4. The Trustee is comfortable that the summaries provided by the managers and their approaches are aligned with the policy outlined in the SIP. The Trustee will continue to review and, if appropriate, challenge voting activity or take other appropriate action.

The Trustee did not use the direct services of a proxy voter over the Reporting Year.

### Environmental, social and governance issues (“ESG”)

The Trustee carried out a survey of its Board members to capture its ESG beliefs in 2019, which were considered when developing its ESG policy as set out in the SIP. Following this survey, it was decided that broad ESG risk management was the priority area of focus. The Trustee’s stewardship priorities are therefore ESG issues of greatest materiality to the Plan based on the size of the holding. This also governs the Trustee’s definition of a significant vote. The Trustee is considering whether to carry out a new survey of ESG beliefs in the next Reporting Year.

Outside of those exercised by investment managers, no other engagement activities with underlying portfolio companies were undertaken.



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#### Choosing Investments (continued)

Investment managers provide voting summary reports on a regular basis, at least annually. The reports are reviewed by the Trustee to ensure that they align with the Trustee's ESG beliefs.

Currently, when the investment managers present to the Trustee, the Trustee asks them to highlight key voting activity and the impact on the portfolio. The Trustee is looking to enhance its reporting on voting activity by reviewing an annual voting and engagement report which will be produced by the Trustee's Investment Consultant.

When deciding whether to appoint a new manager, the Trustee considers the ESG rating of the manager as part of the manager selection process.

Where the Investment Consultant assigns a lower rating to managers from an ESG perspective, the Trustee continues to monitor this, considering the type of asset classes they invest in.

The Trustee notes that managers of fixed income investments generally have a lower ESG rating assigned by the Investment Consultant because it is harder to engage with the issuer of debt compared with an equity investment.

Generally, and where consistent with the law, individual members' and beneficiaries' views on non-financial matters (including their views on ethics, ESG and present and future quality of life), are not explicitly sought or taken into account in making day-to-day investment decisions, though they may be considered by the Trustee at its discretion as and when they arise.

#### Investment objectives

##### DB Section

The Trustee's primary investment objective for the DB Section is to secure and maintain sufficient assets to meet all DB Section liabilities as they fall due. The basis of the Trustee's strategy is to divide the Plan's DB assets between a return-seeking portfolio aimed at generating long-term excess return over the Plan's liabilities and a Liability Driven Investment portfolio designed to match a portion of the changes in the value placed on the liabilities resulting from changes in long term interest rates and inflation. In setting up its DB Section investment strategy, the Trustee has obtained and considered advice from its Investment Consultant (Mercer).

To manage short-term liquidity, the Trustee switched to income-distributing share classes on all LGIM equity and credit funds, the Oak Hill Diversified Credit fund and the PGIM Emerging Market Equity fund.

In considering the structure of the DB investment strategy, the Trustee considers the expected returns required to comply with the assumptions used by the Scheme Actuary in determining the Actuarial Valuation of the DB Section of the Plan. As part of the strategy review undertaken during the Reporting Year, the Trustee was comfortable that the level of expected return from the investment strategy was sufficient for these purposes.

Over the Reporting Year, the DB Section of the Plan has delivered 3.3% on a net of fees basis and including currency hedging, relative to a benchmark return 4.1%. Over the 3 years to 31 March 2024, the DB Section of the Plan has returned -6.6% p.a. on a net of fees basis and including currency hedging, relative to a benchmark return of -6.1%. Most funds either outperformed or performed broadly in line with their benchmarks, except for Emerging Market Equity and the Core UK Property funds. The underperformance of Emerging Market Equity was mainly due to stock selection in China, while that of Core UK Property was driven by overexposure to sectors with large valuation declines (leisure and retail). The most significant positive contributors were the Emerging Market Debt and Multi-Asset Credit funds. The Trustee has engaged with the asset managers for all actively managed funds and continues to closely monitor their strategies and performance.

##### DC Section

In respect of the DC Section, the Trustee's key aim is to provide a range of investments that are suitable to meet members' needs while considering their individual circumstances, in particular the range of members' attitudes to risk and term to retirement.

The Trustee recognises that some members may not wish to make their own investment decisions, and therefore makes available lifecycle options under the Plan, including, as required by law, a default investment strategy (the "DC Default Arrangement") for members of the DC Section. The Trustee acknowledges that this strategy will not meet the needs of every individual member and therefore, it offers alternative lifecycle options and a range of self-select fund options which gives DC members a reasonable choice from which to select their own strategy. More detail on the strategy for the DC Default Arrangement is provided in the separate Statement of Investment Principles for this strategy, the current version of which is available on [www.phillips66ukpensionplan.co.uk](http://www.phillips66ukpensionplan.co.uk).



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##### Investment objectives (continued)

The Trustee, with advice from its Investment Consultant, reviewed the suitability and performance of investment options offered to members, including the DC Default Arrangement, during the Reporting Year. Following the review, the Trustee decided to consolidate and replace the DC (and DB AVC) lifecycle strategies (including the DC Default Arrangement) previously available to members with a range of "Target Date Funds", managed by Legal & General.

The switch to Target Date Funds was effective from 18 October 2023. From that date, the DC Default Arrangement has become the Legal & General Flexible Drawdown Target Date Funds, designed to target flexible drawdown at retirement and which the Trustee believes, following advice from its Investment Consultant, continues to be the preferred way for DC members to access their pension at retirement.

Also, now available to DC members as a self-select lifecycle option, are the Legal & General Cash Target Date funds which targets a cash sum at retirement (see next section).

No changes were made to the other (self-select) single fund options available to members, which the Trustee, having taken advice from its Investment Consultant, continues to believe are appropriate for members' needs.

##### AVCs

The Trustee regularly monitors the performance of the range of AVC investment options available to DB and DC members and formally reviewed these options in May 2023. The Trustee concluded that the self-select funds continued to be suitable for members and performed in line with their respective benchmarks or comparators. As noted above, the Trustee made changes (with effect from 18 October 2023) to the lifecycle strategies available under the Plan, to consolidate and replace them with Target Date Funds provided by Legal & General.

The AVC funds available are designed to provide an investment return options commensurate with the level of risk being taken. The Legal & General Cash Target Date Funds (used as a AVC Default Arrangement but also available as self-select AVC funds) are designed to target cash at retirement, which the Trustee believes, following advice from its Investment Consultant, continues to be the preferred way for AVC members to access their pension at retirement.

##### Investment Manager Arrangements

###### Aligning manager appointments with investment strategy

The Trustee's policy on incentivising investment managers is included in the SIP to reflect the requirements under the Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2018.

There were no new manager appointments during the Reporting Year. As part of the decision to invest in the IFM Global Infrastructure Fund (9% of the portfolio, completed in January 2023), the Trustee decided to fully redeem from Global REITs, managed by Principal, and this was completed in April 2023.

###### Evaluating investment manager performance

Where the Trustee invests in pooled investment vehicles within the DB section, it accepts that it has no ability to specify the risk profile and return targets of the managers, but appropriate mandates can be selected to align with the overall investment strategy.

The assessment of the medium to long-term financial and non-financial performance of an issuer is delegated by the Trustee to the investment managers appointed by the Plan. The Trustee's view is that these managers are best placed to engage directly with such issuers in order to improve performance in the medium to long term.

If an investment manager is not meeting performance objectives or targets, or the investment objectives for a mandate have changed, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

During the Reporting Year, the Trustee continued to closely monitor the Schroders Capital UK Real Estate Fund ("SCREF") due to relative underperformance against the fund's benchmark and the extended deferral of redemptions from the fund. The deferral of redemptions continued to be experienced across most core UK real estate funds due to increased volume of redemption requests and liquidity constraints. The relative underperformance was due to more significant valuation declines in the leisure and retail sectors. The Trustee switched to income distributing share class to help offset the overweight allocation to the fund and will continue closely monitor its performance.

The Trustee also closely monitored the Allspring Emerging Market Equity Fund due to poor performance from the asset class and weak relative fund performance, mainly due to stock selection in China. The Investment Committee met with Allspring in February 2024 for a fund update.



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#### Investment Manager Arrangements (continued)

During the Reporting Year, the Trustee also monitored how each asset manager embeds ESG into their investment process and how the managers' responsible investment philosophy aligns with the Trustee's own responsible investment policy via changes in the ESG ratings assigned by the Trustee's Investment Consultant. The Trustee has also received and considered key engagement information for the managers, which is summarised in section 3 of the SIP.

Investment managers' fees are outlined in quarterly investment reports reviewed by the Trustee. During the Reporting Year, the Trustee conducted a review with its Investment Consultant of the current arrangements with all current managers, comparing them with the fees offered by the managers' peers and, was broadly satisfied with the current arrangements.

#### Portfolio turnover costs

At present, the Trustee does not formally monitor the investment manager portfolio turnover costs and will consider how to incorporate this into the wider investment manager monitoring process.

#### Investment manager turnover

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then it will look to replace the manager. The Trustee is a long-term investor and is not necessarily looking to change the investment arrangements on a frequent basis.

#### Risk Management

The Trustee recognises that risks (both investment and operational) arise from the Plan's assets. As detailed in Sections 4 of the SIP, the Trustee considers both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, the choice of fund managers and funds and asset classes.

The Trustee maintains a register of the key risks, including the investment risks. This register rates the impact and likelihood of the risks and summarises existing mitigations and additional actions. During the Reporting Year, the Trustee continued to monitor all its risk areas (covering Governance, Investment, Administration and Operational) and incorporated mitigations in line with its "Integrated Risk Management" dashboard.

The Trustee continued to review the investment strategy of the DB Section over the Reporting Year and concluded that it was in line with the Trustee's risk appetite. The Trustee continues to only take on those risks it expects to be rewarded for over time in the form of excess returns, in a diversified manner, and in consideration of the Trustee's view of the strength of covenant support for the Plan received from the Principal Employer.

The Reporting Year saw strong returns across most major asset classes. However, inflation remained elevated, causing policymakers to hold interest rates at record high levels. More recently, the Bank of England reduced its base rate to 5.00% at its August 2024 meeting and decided to keep it on hold at its September 2024 meeting. The next review is scheduled for November 2024. The US Federal Reserve cut interest rates by 50 bps in September 2024, and the ECB has cut rates twice already, each time by 0.25%.

The Plan's funding level remained very strong and reached 139% (on a Technical Provisions basis) as at 31 March 2024, increasing by around 7% over the Reporting Year.

The Trustee undertook a review of the Plan's liability hedging strategy during the Reporting Year and decided to increase the target hedge ratios for both interest rate and inflation from 50% to 65% with a lower limit of 2% and an upper limit of 5% (i.e., range between 63% to 70%). The collateral levels remained at a comfortable level of above 450 bp yield headroom.

The Trustee last fully reviewed its currency hedging strategy in November 2022 and concluded that the strategy remained appropriate. The next review is scheduled for 2025. Regarding DC Section's investments, members can combine the available self-select funds in any proportion to achieve the desired level of risk and return in line with their own attitude towards and tolerance of risk. Within the DC Default Arrangement, the strategic asset allocation is set to achieve the expected return required to meet the objective of the lifecycle strategy. In the same way that the old current lifecycle strategies followed a glidepath that de-risks over time, Target Date Funds aim to reduce exposure to investment risk, particularly as a member approaches their "Target Retirement Date", by adjusting the mixture of assets within the fund. As they progress through their working life and get closer to retirement, the mix of investments within the fund is adjusted accordingly.

The Trustee receives a quarterly investment performance report from its lead DC investment manager (Legal & General Investment Management ("LGIM")) and its Investment Consultant that helps monitor the risk and return of the funds used within the DC Section of the Plan.



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#### Voting summary and key themes

Set out below are summaries of the voting activity during the Reporting Year by managers of equity funds for the Plan, followed by significant votes cast. Funds where voting is not applicable (i.e. non-equity funds) are not included in the lists below.

#### DB Section

Fund	Manager	How many resolutions were you eligible to vote on?	What % of resolutions did you vote on for which you were eligible?	Of the resolutions on which you voted, what % did you vote with management?	Of the resolutions on which you voted, what % did you vote against management?	Of the resolutions on which you voted, what % did you abstain from voting?
World Developed Equity Index Fund	LGIM	30,515	99.8	78.3	21.6	0.1
RAFI Fundamental Global Reduced Carbon Pathway Equity	LGIM	37,038	99.9	79.3	20.3	0.4
MSCI World Minimum Volatility Index Fund	LGIM	5,849	99.6	76.6	23.2	0.2
Global Developed Small Cap Index Fund	LGIM	43,857	99.8	74.0	25.9	0.1
Emerging Market Equity	Allspring	1,268	93	87	9	4
Diversified Credit Strategies Fund	Oak Hill	9	100	100	0	0
Buy & Maintain Credit Fund	LGIM	2	100	100	0	0

#### DC and DB AVC Sections

Fund	Manager	How many resolutions were you eligible to vote on?	What % of resolutions did you vote on for which you were eligible?	Of the resolutions on which you voted, what % did you vote with management?	Of the resolutions on which you voted, what % did you vote against management?	Of the resolutions on which you voted, what % did you abstain from voting?
World Equity Index Fund – GBP currency hedged	LGIM	6,781	99.6	79.5	20.0	0.5
World Emerging Markets Equity	LGIM	7,934	99.5	75.6	22.3	2.1
Diversified Fund	LGIM	17,857	99.7	76.9	22.1	1.0
Dynamic Diversified Fund	LGIM	18,483	99.8	76.5	22.8	0.7



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#### Voting summary and key themes (continued)

Fund	Manager	How many resolutions were you eligible to vote on?	What % of resolutions did you vote on for which you were eligible?	Of the resolutions on which you voted, what % did you vote with management?	Of the resolutions on which you voted, what % did you vote against management?	Of the resolutions on which you voted, what % did you abstain from voting?
Investment Grade Corporate Bond - All Stocks	LGIM	2	100	100	0	0
Retirement Income Multi-Asset Fund	LGIM	19,780	99.8	77.7	21.6	0.7
Future World Annuity Aware Fund	LGIM	2	100	100	0	0
Flexible Drawdown TDF 2020-2025	LGIM	19,875	99.8	77.7	21.7	0.6
Flexible Drawdown TDF 2025-2030	LGIM	103,654	99.8	77.3	22.5	0.2
Flexible Drawdown TDF 2030-2035	LGIM	103,654	99.8	77.3	22.5	0.2
Flexible Drawdown TDF 2035-2040	LGIM	93,473	99.8	76.7	23.1	0.2
Flexible Drawdown TDF 2040-2045	LGIM	93,473	99.8	76.7	23.1	0.2
Flexible Drawdown TDF 2045-2050	LGIM	17,454	99.8	76.8	22.5	0.7
Flexible Drawdown TDF 2050-2055	LGIM	17,454	99.8	76.8	22.5	0.7
Flexible Drawdown TDF 2055-2060	LGIM	17,454	99.8	76.8	22.5	0.7
Flexible Drawdown TDF 2060-2065	LGIM	17,454	99.8	76.8	22.5	0.7
Flexible Drawdown TDF 2065-2070	LGIM	17,454	99.8	76.8	22.5	0.7
Cash Target Date Fund 2020-2025	LGIM	91,863	99.8	76.6	23.2	0.2
Cash Target Date Fund 2025-2030	LGIM	91,863	99.8	76.6	23.2	0.2



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#### Voting summary and key themes (continued)

Fund	Manager	How many resolutions were you eligible to vote on?	What % of resolutions did you vote on for which you were eligible?	Of the resolutions on which you voted, what % did you vote with management?	Of the resolutions on which you voted, what % did you vote against management?	Of the resolutions on which you voted, what % did you abstain from voting?
Cash Target Date Fund 2020-2025	LGIM	91,863	99.8	76.6	23.2	0.2
Cash Target Date Fund 2025-2030	LGIM	91,863	99.8	76.6	23.2	0.2
Cash Target Date Fund 2030-2035	LGIM	91,863	99.8	76.6	23.2	0.2
Cash Target Date Fund 2035-2040	LGIM	93,473	99.8	76.7	23.1	0.2
Cash Target Date Fund 2040-2045	LGIM	17,454	99.8	76.8	22.5	0.7
Cash Target Date Fund 2045-2050	LGIM	17,454	99.8	76.8	22.5	0.7
Cash Target Date Fund 2050-2055	LGIM	17,454	99.8	76.8	22.5	0.7





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#### Key themes and significant votes during the Reporting Year

The Trustee defines a significant vote as a shareholder resolution relating to ESG issues where the holding represents a material portion of the Plan's total equity portfolio exposure across the DB and DC Sections. The Trustee also considered size of holding when determining significant votes, given the considerable number of votes undertaken on behalf of the Plan during the period under review. Specifically, the Trustee focused on the largest holdings within the equity portfolios (based on the approximate size of the fund's holding as at the date of the relevant vote).

The following table summarises the votes during the year which the Trustee has deemed as significant based on the criteria above.

Investment Manager and Fund Name(s)	Security Name	Date of Vote	Approx significance in equity portfolio	Resolution Summary	Manager Vote	Result (For)
LGIM World Developed Equity Index Fund; LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund and LGIM MSCI World Minimum Volatility Index Fund	Microsoft Corporation	07/12/2023	£3,387,219 c.2.32%	Resolution 1.06 - Elect Director Satya Nadella	Against	N/A
LGIM World Developed Equity Index Fund; LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund and LGIM MSCI World Minimum Volatility Index Fund	Apple Inc.	28/02/2024	£3,237,536 c.2.22%	Report on Risks of Omitting Viewpoint and Ideological Diversity from EEO Policy	Against	Fail
Allspring (Lux) Worldwide Emerging Market Equity	Tencent Holdings Limited	18/05/2022	£1,330,587 c. 0.91%	Adopt 2023 Share Award Scheme	Against	88.0%





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#### Key themes and significant votes during the Reporting Year (continued)

Investment Manager and Fund Name(s)	Security Name	Date of Vote	Approx significance in equity portfolio	Resolution Summary	Manager Vote	Result (For)
LGIM World Developed Equity Index Fund and LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund	Alphabet Inc.	02/06/2023	£915,422 c. 0.6%	Resolution 18 - Approve Recapitalization Plan for all Stock to Have One-vote per Share	For (against management recommendation)	30.7% (Fail)
LGIM World Developed Equity Index Fund and LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund	Meta Platforms, Inc.	31/05/2023	£725,356 c. 0.6%	Resolution 1.9 - Elect Director Mark Zuckerberg	Withhold (against management recommendation)	

Security Name	Rational for Vote	Reason vote is significant. (Investment Manager)	Reason vote is significant (Trustee)
Microsoft Corporation	A vote against a Joint Chair/CEO was applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns.	LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO.	Microsoft represents c. 2.32% of the total equity portfolio
Apple Inc.	A vote AGAINST this proposal is warranted, as the company appears to be providing shareholders with sufficient disclosure around its diversity and inclusion efforts and non-discrimination policies, and including viewpoint and ideology in EEO policies does not appear to be a standard industry practice.	LGIM views diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf.	Apple represents c. 2.22% of the total equity portfolio



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**Key themes and significant votes during the Reporting Year (continued)**

Security Name	Rational for Vote	Reason vote is significant. (Investment Manager)	Reason vote is significant (Trustee)
Tencent Holdings Limited	<p>A vote AGAINST this resolution is warranted given the following reasons:</p> <ul style="list-style-type: none"><li>* Tencent Music could be considered a mature company, and the limit under the scheme is 10 percent of its issued capital;</li><li>* the absence of challenging performance criteria and meaningful vesting periods; and</li><li>* the potential for conflict of interests in the administration of the scheme</li></ul>	<p>This vote was made on company's ballot that had high governance risk where the position in the company was also significant to the portfolio.</p>	<p>Tencent represents c. 0.7% of the total equity portfolio</p>
Alphabet Inc.	<p>Shareholder rights: A vote in favour is applied as LGIM expects companies to apply a one-share-one-vote standard.</p>	<p>High Profile meeting: This shareholder resolution is considered significant due to the relatively high level of support received.</p>	<p>Alphabet represents c. 0.6% of the total equity portfolio</p>
Meta Platforms, Inc.	<p>Joint Chair/CEO: A vote against is applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight.</p>	<p>LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).</p>	<p>Meta represents c. 0.6% of the total equity portfolio</p>