



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 2023

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 fourth such statement published by the Trustee and covers the period of the Plan for the year ended 31 March 2023 (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

Following the end of the Reporting Year and in satisfaction of the Trustee’s obligation to review the SIP every three years, the SIP has been revised and updated effective from 1 October 2023. This new updated version of the SIP is publicly available on 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 that was in effect during the Reporting Year (being the SIP dated 1 October 2020), and references to the SIP hereafter in this statement are accordingly references to the version of the SIP dated 1 October 2020.

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

Securing compliance with the legal requirements of choosing investments

There was one new manager appointment during the Reporting Year. Following an investment strategy review and a decision to further diversify the DB investment portfolio, the Trustee allocated £50 million to the IFM Global Infrastructure Fund with effect from 3 January 2023. This new allocation represented 9% of the strategic DB portfolio allocation and was funded from Equity (6%), Multi-Asset Credit (2%) and Emerging Market Debt (1%).

DB Section investment objective

The Trustee’s primary investment objective for the DB Section is to secure and maintain sufficient assets to meet the 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). As part of the decision to allocate to the IFM Global Infrastructure Fund, the Trustee reviewed the strategic asset allocation of the Plan’s DB Section portfolio and decided to take a further de-risking step and move the 3% allocation from Global REITs to Buy and Maintain Credit due to the significant increase in funding level over the Reporting Year. Both steps resulted in a slightly lower level of expected return but an improvement of the portfolio efficiency (measured on a risk-adjusted return basis) and a reduction in the Plan’s 1 year 95% VaR of £4 million.

DC Section investment objective

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 which is publicly available on www.phillips66ukpensionplan.co.uk.

With the assistance of its investment Consultant, the Trustee undertook a detailed review of the investment strategies in the DC and AVC range during the Reporting Year and have 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 expected to take effect on 18 October 2023.



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Investment performance

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.

The DC and AVC funds available are designed to provide an investment return commensurate with the level of risk being taken. In constructing the DC Default Arrangement, the Trustee has explicitly considered the trade-off between risk and expected returns. The objective of the DC Default Arrangement is to generate returns above inflation during the growth phase at the early part of the lifecycle, and de-risk towards the target retirement date to best match how a typical member may wish to access their pension savings.

The Trustee reviews investment performance for both the DB and the DC Sections of the Plan on a quarterly basis and includes the risk and return characteristics of the invested assets. The investment performance report reviewed by the Trustee includes how each investment manager is delivering against their specific benchmark.

Over the Reporting Year, the DB Section of the Plan has delivered -25.4% on a net of fees basis and including currency hedging, relative to a benchmark return of -25.4%. Over the 3 years to 31 March 2023, the DB Section of the Plan has returned -1.8% p.a. on a net of fees basis and including currency hedging, relative to a benchmark return of -1.5%. Most funds either outperformed or performed broadly in line with their benchmarks, except for the two real estate funds (Core UK Property and Global REITs), due to being overly exposed to sectors which didn't perform well following the reopening of the UK and global economies after Covid-19. 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.

The Trustee continued to closely monitor DC/AVC Section funds' performance, relative to their respective universes. All funds continued to closely track their benchmarks except for the four multi-asset funds (Diversified Fund, Dynamic Diversified Fund, Pre-Retirement fund and Retirement Income Multi-Asset) which use comparators.

Risk management

The Trustee recognises that risks (both investment and operational) arise from the Plan's assets. As detailed in Sections 3 and 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, 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 of 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 sponsor, Phillips 66 Limited.

Following the Bank of England (BoE) interest rate increases, and fiscal stimulus announced by the UK government, gilt yields rose significantly during the Period. This unsurprisingly caused significant collateral level impairments for all UK LDI hedging programs including that for the Plan, though the Plan was impacted to a much lesser extent than the more mature defined benefit schemes which hedge c70-80% or more of their liability risks. The Trustee had to respond to three capital call requirements which were all met with rebalancing only up to the relative overweight positions available at the Equity and Buy & Maintain Credit portfolio.

During the Period, the Trustee reviewed its liability hedging strategy, and concluded that the current 25.5% allocation to LDI hedging assets can continue to hedge 50% of the Plan's DB Section interest rate and inflation risks, on a Gilts+0.5% basis, while maintaining yield headroom at a comfortable level and within the 450-600 bps target headroom.



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Risk management (continued)

The Trustee last fully reviewed its currency hedging strategy in November 2022 and concluded that the strategy remained appropriate. However, to ease the burden on collateral held within the LDI portfolio (where interest rate, inflation and currency hedging is carried out), the Trustee invested in the GBP-hedged share class of the IFM Global Infrastructure Fund instead of hedging the allocation within the overlay. No further changes to the currency hedging approach have been made but the Trustee continues to monitor the collateral requirements within the LDI portfolio and will take further action as needed.

Regarding DC Section's investments, members can combine the available investment 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.

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.

Monitoring of investment managers

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

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 closely monitored the Schroders Capital UK Real Estate Fund ("SCREF") due to relative underperformance against the fund's benchmark and the partial deferral of redemptions from the fund. The deferral of redemptions was experienced across most core UK real estate funds due to concerns around the real estate market following a sharp rise in interest rates. The relative underperformance was due to an underweight position to the industrials sector, which outperformed other traditional real estate sectors. Due to the illiquid nature of the asset class, relative positions cannot be altered quickly. The Investment Committee met with Schroders in May 2023 for a fund update. SCREF has been addressing sector weights and increasing its weighting to the industrials sector and alternative (non-traditional) sectors, which are expected to continue to perform well. SCREF's exposure to the office sector, which has experienced particularly weak performance, is predominantly high-quality Class A office assets. These assets are expected to perform well on a forward-looking basis. The Trustee decided to maintain investment in this fund but continues to closely monitor its performance.

During the Reporting Year, the Trustee also closely monitored the Principal Global Real Estate Securities Fund due to poor performance from the global REITs asset class and weak relative fund performance. As part of a wider de-risking step, mainly driven by the strong funding level, the Trustee decided to exit this fund and increase the Plan's allocation to Buy and Maintain credit proportionately. The allocation to REITs was sold during April 2023. These changes have the expected impact of improving overall portfolio efficiency by way of risk-adjusted 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 can engage directly with such issuers in order to improve performance in the medium to long term.

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 7.

The investment managers' fees were outlined in the quarterly investment reports reviewed by the Trustee. During the Reporting Year, the Trustee conducted a review of the current arrangements with all current managers, comparing them with the fees offered by the managers' peers and, under advice from the investment Consultant, were broadly satisfied with the current arrangements.



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Monitoring of investment managers (continued)

At present, the Trustee does not formally monitor the investment manager portfolio turnover costs but is looking to incorporate this into the wider investment manager monitoring process.

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

ESG Integration and engagement

The SIP includes the Trustee's policy on ESG factors, engagement and stewardship. This policy sets out the Trustee's beliefs on ESG and the processes followed by the Trustee in relation to voting rights and stewardship. The Trustee keeps the policies under regular review and will update them as and when required.

When implementing 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 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.

The extent (if at all) to which non-financial matters are taken into account in the selection, retention, and realisation of investments

Generally, and where consistent with the law, 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 at its discretion as and when they arise.

The exercise of the rights (including voting rights) attaching to the investments

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 below.

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

[How LGIM uses proxy voting services \(issgovernance.com\)](#)

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

[Principal: Proxy Voting Policies and Procedures 2022 \(principalglobal.com\)](#)

The Trustee carried out a survey of its Board members to define its ESG beliefs in 2019, which were considered when developing its ESG policy as set out in the Plan's 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 Environmental, Social and Governance-related 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.

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



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The exercise of the rights (including voting rights) attaching to the investments (continued)

Currently, when the investment managers present to the Trustee, the Trustee asks the investment managers 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.

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

Set out below are summaries of the voting activity during the Reporting Year by managers of equity funds for the DB and DC sections of 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	32,086	99.8	78.5	21.3	0.2
RAFI Fundamental Global Reduced Carbon Pathway Equity	LGIM	39,878	99.7	78.9	19.8	1.3
MSCI World Minimum Volatility Index Fund	LGIM	5,610	99.6	77.2	22.7	0.1
Global Developed Small Cap Index Fund	LGIM	41,691	99.8	75.0	24.8	0.2
Emerging Market Equity	Allspring	1,655	99	85	12	3
Diversified Credit Strategies Fund	Oak Hill	42	100	100	0	0
Buy & Maintain Credit Fund	LGIM	3	100	100	0	0

DC 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 Equity Index Fund-GBP currency hedged	LGIM	38,823	99.9	78.8	20.5	0.7
World Emerging Markets Equity	LGIM	36,506	99.9	79.5	18.4	2.1
Diversified Fund	LGIM	99,242	99.8	77.4	22.0	0.7
Dynamic Diversified Fund	LGIM	99,647	99.8	77.6	21.7	0.7
Investment Grade Corporate Bond - All Stocks	LGIM	4	100	100	0	0
Retirement Income Multi-Asset Fund	LGIM	104,732	99.8	78.0	21.4	0.7
Pre-Retirement Fund	LGIM	9	100	100	0	0



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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 Environmental, Social and Governance-related 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	ManagerVote	Result (For)
Allspring (Lux) Worldwide Emerging Market Equity	Tencent Holdings Limited	18/05/2022	£2,184,853 c. 0.7%	Approve Refreshment of Scheme Mandate Limit Under the Share Option Plan	Against	70.0%
LGIM World Developed Equity Index Fund; LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund and LGIM MSCI World Minimum Volatility Index Fund	Amazon.com, Inc.	25/05/2022	£1,795,382 c. 0.6%	Resolution 1f - Elect Director Daniel P. Huttenlocher	Against	93.3%
LGIM World Developed Equity Index Fund; LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund and LGIM MSCI World Minimum Volatility Index Fund	Verizon Communications Inc.	12/05/2022	£1,441,247 c. 0.5%	Resolution 1.10 - Elect Director Hans Vestberg	Against	91.8%
LGIM World Developed Equity Index Fund and LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund	Alphabet Inc.	01/06/2022	£1,404,270 c. 0.5%	Resolution 7 - Report on Physical Risks of Climate Change	For	17.7%
LGIM World Developed Equity Index Fund; LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund and LGIM MSCI World Minimum Volatility Index Fund	PepsiCo, Inc.	04/05/2022	£1,345,347 c. 0.5%	Resolution 4 - Require Independent Board Chair	For	31.1%



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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	A vote AGAINST this resolution is warranted given the following reasons: * Tencent Music could be considered a mature company, and the limit under the scheme is 10 percent of its issued capital; * the absence of challenging performance criteria and meaningful vesting periods; and * the potential for conflict of interests in the administration of the scheme	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.	Tencent represents c. 0.7% of the total equity portfolio
Amazon.com, Inc.	Human rights: A vote against is applied as the director is a long-standing member of the Leadership Development & Compensation Committee which is accountable for human capital management failings.	LGIM pre-declared its vote intention for this resolution, demonstrating its significance.	Amazon represents c. 0.6% of the total equity portfolio
Verizon Communications Inc.	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.	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). LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experience. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we have voted against all combined board chair/CEO roles.	Verizon represents c. 0.5% of the total equity portfolio
Alphabet Inc.	Shareholder Resolution - Climate change: A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.	LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote.	Alphabet represents c. 0.5% of the total equity portfolio
PepsiCo, Inc.	Shareholder Resolution: Joint Chair/CEO: A vote in favour is applied as LGIM expects companies to establish the role of independent Board Chair.	LGIM considers this vote to be significant as it is in the 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).	PepsiCo represents c. 0.5% of the total equity portfolio

Summary

The Trustee is comfortable with the voting summaries provided by the managers and has reviewed their approach to voting and their significant votes during the Reporting Year. The Trustee is of the view that 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.