Phillips 66 UK Pension Plan

STATEMENT OF INVESTMENT PRINCIPLES

ADOPTED WITH EFFECT FROM 18 OCTOBER 2023

Introduction

This Statement of Investment Principles ("SIP") is issued by Phillips 66 Pension Plan Trustee Limited (the "**Trustee"**), trustee of the Phillips 66 UK Pension Plan (the "**Plan**"). It has been prepared in accordance with the Pensions Act 1995 and subsequent legislation and having regard to the Occupational Pension Scheme (Investment) Regulations 2005 (the "**Investment Regulations**"). It sets out the principles governing decisions by the Trustee with respect to the investment of the assets held by the Plan, and this is the current version of the SIP adopted with effect from the date shown above.

The details of the Plan's current investment arrangements, which embody the principles set out in this SIP, are recorded separately in a further document maintained by the Trustee called the Investment Policy Implementation Document ("**IPID**").

Before preparing this SIP, the Trustee has considered written advice from its Investment Consultant, currently Mercer Limited ("**Mercer**"), an organisation suitably qualified to provide such advice and authorised and regulated by The Financial Conduct Authority. The Trustee will receive advice from its Investment Consultant on investment related matters concerning the Plan on a regular basis. The Trustee has also consulted with the Principal Employer (Phillips 66 Limited) on the content of this SIP.

The Trustee will monitor compliance with the principles set out in this SIP and will review the SIP at least annually, or sooner where the Trustee considers a review is needed for any reason. No change will be made by the Trustee without first consulting with the Principal Employer and considering written advice from its Investment Consultant. However, the ultimate power and responsibility for deciding investment policy for the Plan rests with the Trustee.

Noting the requirements of the Pensions Act 1995 and the Occupational Pension Scheme (Investment) Regulations 2005, the Trustee aims to exercise its investment powers with a view to applying the principles set out in the SIP as far as reasonably practicable.

Document History of the SIP

First Adopted	1 April 2016
1st Amendment	3 May 2016
2nd Amendment	15 July 2016
3rd Amendment	3 October 2016
4th Amendment	1 June 2017
5th Amendment	1 Dec 2017
6th Amendment	1 November 2018
7th Amendment	1 October 2019
8th Amendment	1 October 2020
9th Amendment	29 September 2023
10th Amendment	18 October 2023

Part A. Defined Benefit Section of the Plan ("DB Section")

This part of the SIP applies to the Plan assets that are invested in to meet the Plan's benefit obligations payable to members of the DB Section including the Plan assets acquired from additional voluntary contributions paid into the Plan by such members.

1) Choosing Investments

In the opinion of the Trustee, apart from the limited restrictions in the Trust Deed and Rules of the Plan ("Trust Deed") set out in Clause III.4 (e), a copy of which is set out in **Appendix A** to this Statement, there are no other restrictions in the Trust Deed which restrict the types of investments in which its assets may be invested.

Nothing in this SIP restricts any power of the Trustee to make investments by reference to the consent of the Principal Employer (see Section 35(4) of the Pensions Act 1995). The Trustee has responsibility for decision making on all investment matters.

After taking appropriate investment advice, the Trustee specifies the composition and determines whether to invest in pooled funds or to appoint specialist investment managers. Day-to-day investment choice is the responsibility of the investment managers of the relevant pooled funds or is delegated to the appointed specialist investment managers, subject to defined tolerances relative to their respective benchmarks.

In choosing investments, after taking advice, the Trustee considers the term and nature of investments held, ensuring that they are appropriate to deliver the objectives of the Trustee in relation to both risk and return as set out below in Section 2: Investment Objectives. The Trustee reviews Plan assets to ensure they remain appropriate for the Plan.

Investment managers to whom any Trustee discretion to make decisions about investments has been delegated, will be expected to exercise their delegated powers with a view to complying with the principles set out in the SIP as far as reasonably practicable.

Self-investment

The Trustee has a policy for the Plan not to invest directly in securities issued by the Principal Employer or its subsidiaries or associated companies and to restrict investment in such securities within any pooled or index tracking fund to not more than five percent (5%) of the Plan's assets invested in that fund. This is monitored as part of the preparation of the annual Trustee Report and Accounts.

Rights attaching to investments and engagement

The Trustee believes that good corporate governance and stewardship can have a long-term positive impact on the risk/return of the Plan asset portfolio.

The Trustee expects its investment managers to have effective stewardship, both through voting and engagement. Although the Trustee's policy is to delegate responsibility for stewardship including the exercise of voting rights, to their investment managers, the Trustee monitors and engages with how the investment managers vote in relation to the Trustee's priorities.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It 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.

Investment manager stewardship activity is monitored at least annually by collating information on significant votes and engagements carried out over the Plan year and is summarised in the Plan's publicly available Annual Implementation Statement. The Trustee engages with managers on all investment-related matters, including stewardship and voting, as part of its ongoing monitoring cycle, which includes when they present from time to time at the Trustee's Investment Committee meetings and via written correspondence where appropriate.

Environmental, social and governance issues

The Trustee recognises that environmental, social and governance, including climate change, (collectively "ESG") matters may impact investment risk and return outcomes and hence the ability to meet investment objectives. The Trustee also recognises that financially material ESG matters present risks and opportunities that may require additional consideration. The Trustee is also cognisant of the Principal Employer's views on these issues.

The Trustee's policy regarding financially material ESG matters is that the extent to which such matters taken into account in day-to-day investment decisions (including decisions relating to the selection, retention and realisation of investments) is delegated to the investment managers, the Trustee expects investment managers to recognise that the Trustee's primary responsibility is to act in the best financial interests of all beneficiaries of the Plan.

The Trustee has agreed the size of the Plan's holdings as primary determinant of what constitutes a significant vote, and priority for stewardship activities undertaken by the Plan's investment managers on behalf of the Trustee. The Trustee will therefore focus its reporting on the largest holdings within its portfolio.

The Trustee recognises that a significant proportion of the Plan's current investment arrangements are implemented on a passive basis, which may limit the investment managers' ability to take active decisions on whether to hold securities based on the investment managers' considerations of financially material ESG matters.

The Trustee considers how an investment manager's approach to ESG integration, stewardship and responsible investments aligns with the Trustee's policies when determining future investment strategy decisions, including the selection, retention and realisation of manager appointments. The Trustee reviews the fund ESG ratings where available and provided by Mercer as part of the Plan's regular quarterly performance reporting. Any change in ESG rating of a particular fund does not mean that the fund will be removed or replaced automatically, but the Trustee will seek to understand the causes of the change and ask managers to comment on these areas when they present from time to time at the Trustee's Investment Committee meetings.

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.

2) Investment Objectives

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 and to do so through the fundamental investment objective of adopting an appropriate level of risk relative to the DB Section liabilities and the risk and return objectives of the Trustee.

In assessing the above, the Trustee takes into account factors such as its assessment of the Principal Employer's attitude and financial ability to provide funding to the DB Section and the Trustee's assessment of the contributions likely to be received from the Principal Employer and the DB Section members. The Trustee also considers its own willingness to accept underperformance due to market conditions. The Trustee's additional investment objectives include:

a. To acquire suitable assets of appropriate liquidity and diversity which will generate income and capital growth to meet, together with new contributions from members and the Principal Employer, the cost of current and future benefits for which the DB Section provides.

b. To limit the risk of the assets failing to meet the liabilities over the long term and applicable regulatory funding requirements.

c. To minimise the long-term costs of the DB Section by maximising the return on the assets whilst having regard to the objective shown above.

Expected return on assets and long-term strategy

The Trustee determines the primary allocation of assets between different asset classes and the composition of assets within each class.

In considering the structure of the investment strategy of the DB Section, the Trustee has considered the expected returns required to comply with the assumptions used by the Scheme Actuary in determining the Actuarial Valuation of the DB Section. The Trustee, at least triennially, carries out asset and liability modelling to ensure that the DB Section assets are invested appropriately and are anticipated to deliver the expected return requirements necessary to achieve the assumptions set out by the Scheme Actuary of the Plan.

Diversification of Plan Investments

In establishing the DB Section investment strategy, the Trustee has obtained and considered advice with regard to the Plan's overall risk budget, and possible ways of diversifying any risks. The Trustee recognises the risks that may arise from the lack of diversification of investments. The Trustee acknowledges that assets have different risk and return characteristics and invests assets to ensure the asset allocation policy in place results in an adequately diversified portfolio, being cognisant of the need to ensure a balance between different types of investments.

The Trustee believes that it is important to take the liability profile into account when setting investment strategy.

Following advice from the Investment Consultant and Scheme Actuary, the Trustee has established a strategic asset allocation. Full details of the DB Section's current allocation are set out in the IPID, along with details of the DB Section's rebalancing and cashflow policies.

Further details of the DB Section investment managers appointed by the Trustee, together with the underlying mandates and performance objectives, are detailed in the IPID.

Suitability

The Trustee has taken advice from its Investment Consultant to satisfy its aim that the total portfolio asset allocation for the DB Section is suitable, given its liability profile and the level of risk the Trustee is prepared to take. The Trustee will continue to monitor, and obtain and consider advice on, the strategy and funds used/made available on an ongoing basis.

Liquidity

The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet cashflow requirements (including collateral needs to support derivatives exposure within the liability driven investment ("**LDI**") portfolio and/or currency hedging overlay), in the majority of foreseeable circumstances so that realisation of assets will not disrupt the overall investment policy for the DB Section where possible.

The Trustee maintains sufficient collateral within relevant mandates to meet regulatory requirements and to manage the risk of additional collateral needing to be raised at short notice. Collateral levels are monitored at least quarterly and more frequently where appropriate.

The Trustee may seek to receive distributed income from assets to support the Plan's cashflow needs and will assess the case for distribution of income vs reinvestment as the Plan's cashflow profile evolves over time. The Trustee recognises, however, that there is scope for the DB Section to invest in illiquid assets whilst maintaining an acceptable level of liquidity for the whole portfolio.

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers, within certain guidelines and restrictions.

Performance measurement

Each investment manager/portfolio is set a specific set of investment objectives, so performance is measured relative to the individual and/or combined benchmarks where such benchmarks are applicable or available. The investment manager is expected to demonstrate skill in the management of its portfolios consistent with its performance objectives, given the levels of risks adopted. Investment performance by each manager is considered regularly by the Investment Consultant and the Trustee.

3) Investment Manager Arrangements

Aligning manager appointments with investment strategy

The Trustee appoints investment managers based on perceived strength of capabilities and therefore likelihood of the managers achieving the expected return and risk characteristics required for the relevant asset class.

The Trustee will seek guidance from its Investment Consultant where appropriate, on the Investment Consultant's forward-looking assessment of an investment manager's ability to deliver on its stated objectives. This will include consideration of the Investment Consultant's assessment of the manager's idea generation, portfolio construction, implementation, and business management in relation to the particular investment fund. Where available, the Investment Consultant's investment manager research ratings will be used by the Trustee to assist with due diligence and decisions around selection, retention, and realisation of manager appointments.

The Trustee will review an investment manager appointment if the investment objective for a fund changes, to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Where 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 can be selected to align with the overall investment strategy.

For bespoke mandates, the Trustee will have specified criteria in the investment manager agreement for the asset class to be in line with the Trustee's specific investment requirements.

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, it will look to review the appointment.

Evaluating investment manager performance

The Trustee receives investment manager performance reports (at least on a quarterly basis), which present performance information over several time periods (e.g., 3 months, 1 year and 3 years). The Trustee reviews the absolute performance, relative performance against a suitable benchmark index where appropriate, and against the manager's stated target performance (over the relevant time period).

The Trustee maintains a focus on long-term performance. However, as noted above, it may review the appointment if for example:

- There are sustained periods of the manager failing to achieve its stated investment objectives.
- There is a change in the portfolio manager (or other key personnel) of a fund.
- There is a change in the underlying objectives of the investment manager.
- There is a significant change to the Investment Consultant's rating of a manager.

All appointed investment managers are remunerated by way of a fee calculated as a percentage of assets under management. There are active mandates with performance related fees, which have hurdle rate structures in place to avoid the Trustee paying additional fees during periods of long-term underperformance. The Trustee reviews the appropriateness of using actively managed funds (on an asset class basis) regularly.

Manager fee levels are reviewed periodically by the Trustee in conjunction with advice from its Investment Consultant. If an investment manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may decide to terminate the mandate following a review of the manager's appointment.

Portfolio turnover costs

The Trustee does not currently actively monitor portfolio turnover costs for the DB Section. The investment manager performance objectives are set net of turnover costs and therefore the managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustee receives some MiFID II reporting from their investment managers but does not currently analyse the information. The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs and will make changes if deemed prudent to better manage fund costs. In future, the Trustee may consider asking managers to report on portfolio turnover cost. The Trustee might consider assessing this for example, by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager's fund, or relative to the manager's specific portfolio turnover range as specified in the investment guidelines or prospectus.

Investment manager turnover

The Trustee is a long-term investor and does not typically change the investment arrangements for the Plan on a frequent basis.

There is no set duration for the investment manager appointments. The Trustee will therefore retain an investment manager unless:

- There is a strategic change to the overall strategy of the Trustee that no longer requires exposure to that asset class or manager; and

- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

4) Risk Management

There are various risks to which any pension scheme is exposed, including the strength of the covenant of the Principal Employer. The Trustee recognises that there are a number of risks that may be financially material to the assets of the DB Section, which it monitors on a regular basis through a risk register and seeks to mitigate any unrewarded risk over the anticipated lifetime, of the DB Section. Comments on how some of the principal risks are measured and managed by the Trustee are set out below.

a) Solvency risk and mismatching risk – the risk that the assets of the DB Section may be insufficient to meet the liabilities or may not be fully matched to the duration of the liabilities or inflation sensitivity, largely as a result of changes to long-term interest rates and inflation expectations, leading to volatility in the funding level and contributions required.

Is measured through a qualitative and quantitative assessment of the expected development of the liabilities, relative to the current strategic investment policy, and possible alternative strategic approaches.

Is managed by the Trustee through assessing the progress of the actual growth in liabilities relative to the current strategic investment policy. The Trustee aims to take these risks into account when setting the investment strategy in order to minimise these risks where possible, whilst recognising the need to generate additional returns within the portfolio.

The Trustee recognises that increasing expected returns over a long period tends to increase the risk of a shortfall in returns relative to that required to cover the DB Section's liabilities as well as producing more short-term volatility in the DB Section's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk and balancing risk with the level of expected returns required.

b) Underperformance risk – the risk that poor relative performance by one or more investment manager(s) has a significant negative impact on the value of the DB Section's assets.

Is measured by the expected deviation of the prospective risk and return, as set out in the manager(s)' objectives, relative to the investment benchmark, where applicable.

Is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the manager(s)' investment process and by ensuring that the DB Section is not over exposed to a single active investment management organisation or style.

c) Liquidity risk – the risk that the DB Section is forced to sell investments at inopportune times to meet short-term cashflow needs.

Is measured by projecting the estimated level of cashflow required by the DB Section over a specified period.

Is managed by the Trustee, together with the administrator of the Plan, both through assessment of the amount of cash needed each month and realisation of appropriate assets in the light of the forecast level of payments.

Is managed by maintaining sufficient collateral within relevant mandates to meet regulatory requirements and to reduce the likelihood of additional collateral needing to be raised at short notice.

Is managed by monitoring collateral levels at least quarterly and more frequently where appropriate.

Is managed by considering the case for receiving income distributions from assets where appropriate.

d) **Custodian risk** – the risk that a custodian misplaces DB Section investments that it is receiving, dealing or safe keeping.

The DB Section does not currently retain an independent custodian. Selection and monitoring of the underlying custodian are delegated to the investment managers where pooled funds are employed.

e) Political risk – the risk that a political event could have a significant adverse impact on the value of the DB Section's investments.

Is measured by the proportion of the DB Section's total investments that are concentrated in one geographic market and/or one asset category.

Is managed by the Trustee, together with the Investment Consultant, through ensuring the investment strategy is suitably diversified and through constraints on the use of derivatives, gearing, specific asset limits and other restrictions in each relevant investment management agreement.

f) Sponsor risk – the risk that the Principal Employer cannot, or will not, make good a current or future deficit of the DB Section.

Is measured by the level of ability and willingness of the Principal Employer to support the continuation of the DB Section and to make good any current or future deficit.

Is managed by regularly assessing the financial strength of the Principal Employer's business (including the impact on it of the needs of the DB Section), as measured by a number of factors, including the credit ratings and ratios of the Principal Employer and several credit metrics that compare the size of the DB Section's pension liability to the financial strength of the Principal Employer.

g) Counterparty risk – the risk that: (i) an obligor (for example, the issuer of a corporate bond) fails to pay the principal or interest; and (ii) (normally a lesser risk) a financial institution which is a counterparty to a transaction fails to deliver its side of the agreement.

Is managed through the investment manager guidelines with respect to cash management and collateral requirements.

For investments in pooled funds, the risk of loss through insolvency of the investment manager is managed through monitoring of the financial health of the investment management companies involved and their operational procedures in key areas such as counterparty selection and ongoing counterparty risk monitoring, compliance, cash management, custody and administration, etc.

h) Currency risk – the risk that the Sterling value of assets falls due to a change in price of one currency against another.

Is measured by the movement of the currencies in which the DB Section has exposure to through overseas investments and the Trustee looks to mitigate this through diversification across markets and currency hedging strategy.

Is managed by the Trustee, together with the Investment Consultant, through diversification across markets and currency hedging arrangements via a currency hedging overlay and/or investing in currency hedged mandates.

i) ESG risk – the risk that financially material ESG issues may significantly affect the investment returns of certain asset classes and sectors.

Is measured by the ESG ratings provided by the investment consultant.

Is managed by the Trustee, together with the Investment Consultant through engagement with the appointed investment managers. The Trustee reviews the investment managers' policies and actions in relation to ESG issues on at least an annual basis.

5) Additional Voluntary Contributions ('AVCs')

The Plan provides a facility for members of the DB Section of the Plan to pay AVCs to enhance their benefits at retirement. The Trustee wishes to give such members a reasonable degree of freedom over the investment of their AVCs. The Trustee's objective is to provide access to funds which the Trustee is advised by the Investment Consultant are expected to provide a suitable long-term return for members, consistent with members' reasonable expectations and risk preferences. More information on the AVC providers and funds available to members is detailed in the IPID.

Part B. Defined Contribution Section of the Plan (“DC Section”)

This part of the SIP applies to the Plan assets comprised in the Retirement Accounts of members of the DC Section.

Members of the DC Section have Retirement Accounts to which amounts equal to the contributions or notional contributions and AVCs made by or in respect of the members are credited. Those Retirement Accounts are adjusted for investment returns and expenses.

The Trustee arranges for contributions or notional contributions and AVCs credited to Retirement Accounts to be paid on to its "**Selected Investment Vehicle Provider**", currently Legal & General Assurance (Pensions Management) Limited .

The Trustee utilises a range of individual investment funds ("**Selected Investment Vehicles**") and lifecycle investment funds (“**Selected Automatic Switch Facilities**” in the form of Target Date Funds) made available by the Selected Investment Vehicle Provider through its contract with the Trustee. The Selected Investment Vehicle Provider's responsibilities are also governed by applicable law.

The Trustee has adopted a separate statement of investment principles (the “Default Arrangement Statement of Investment Principles”) for those Selected Automatic Switch Facilities available under the Plan which are default arrangements (as defined in Paragraph 1 of the Investment Regulations) for purposes of compliance with the specific provisions for default arrangements in Regulation 2A of the Investment Regulations 2005.

This Part B of the SIP therefore primarily focuses on the investment principles that apply to the DC Section investment fund options that are not default arrangements.

1) Choosing Investments

The Trustee's powers of investment of the Retirement Account Assets are subject to the restrictions contained in the Fourth Schedule to the Trust Deed (“Trust Deed”) which are relevant to this Statement.

Self-investment

The Trustee has a policy for the Plan not to invest directly in securities issued by the Principal Employer or its subsidiaries or associated companies and to restrict investment in such securities within any pooled or index tracking fund to not more than five percent (5%) of the Plan’s assets invested in that fund.

Rights attaching to investments and engagement

The Trustee believes that good corporate governance can have a long-term positive impact on the risk/return of the Plan asset portfolio.

The Trustee expects its investment managers to have effective stewardship, both through voting and engagement. Although the Trustee’s policy is to delegate responsibility for stewardship including the exercise of voting rights, to their investment managers, the Trustee monitors and engages with how the investment managers vote in relation to the Trustee’s priorities.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. As the DC Section 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.

Investment manager stewardship activity is monitored at least annually by collating information on significant votes and engagements carried out over the Plan year and is summarised in the Plan's publicly available Implementation Statement. The Trustee engages with managers on all investment-related matters, including stewardship and voting, as part of its ongoing monitoring cycle, which includes when they present from time to time at the Trustee's Investment Committee meetings and via written correspondence where appropriate.

Environmental, social and governance issues

The Trustee recognises that environmental, social and governance, including climate change, (collectively "ESG") matters may impact investment risk and return outcomes and hence the ability to meet investment objectives. The Trustee also recognises that financially material ESG matters present risks and opportunities that may require additional consideration.

The Trustee's policy regarding financially material ESG matters is that the extent to which such matters taken into account in day-to-day investment decisions (including decisions relating to the selection, retention and realisation of investments) is delegated to the investment managers, the Trustee expects investment managers to recognise that the Trustee's primary responsibility is to act in the best financial interests of the beneficiaries of the Plan.

The Trustee has agreed the size of the Plan's holdings as primary determinant of what constitutes a significant vote, or priority for stewardship activities undertaken by the Plan's investment managers on behalf of the Trustee. The Trustee will therefore focus its reporting on the largest holdings within its portfolio.

The Trustee recognises that for investments implemented on a passive basis, the investment managers' ability to take active decisions on whether to hold securities based on the investment managers' considerations of financially material ESG matters is limited.

The Trustee considers how an investment manager's approach to ESG integration, stewardship and responsible investments aligns with the Trustee's policies when determining future investment strategy decisions including the selection, retention and realisation of manager appointments. The Trustee reviews the manager ESG ratings where available and provided by Mercer as part of the Plan's regular quarterly performance reporting. Any change in ESG rating of any manager does not mean that the fund will be removed or replaced automatically. The Trustee will ask managers to comment on these areas when they present from time to time at the Trustee's Investment Committee meetings.

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.

2) Investment Objectives

Within the constraints imposed by the Trust Deed, the Trustee is responsible for providing DC Section members with a range of investment options that the Trustee considers, with the benefit of advice from its Investment Consultant, to be suitable to meet their reasonable risk and return requirements.

Expected return on assets and long-term strategy

Taking into account advice received from its Investment Consultant, the Trustee has provided a diversified range of investment fund options to DC Section members that target different levels of expected return over the long term, in order to meet varying investment objectives and risk tolerances. The Trustee reviews the expected returns on these funds in line with expectations for their underlying asset classes and the fund objectives.

Suitability

Having considered advice from its Investment Consultant, the Trustee has chosen a diversified range of investment fund options for DC Section members from within the constraints identified in the Trust Deed. Details of the Selected Investment Vehicle Provider engaged by the Trustee, together with details of the specific Selected Investment Vehicles and the Selected Automatic Switch Facilities are detailed in the IPID. When deciding whether to add or remove any DC Section investment fund, the Trustee will obtain advice from its Investment Consultant.

Performance measurement

Investment performance against the appropriate benchmarks or comparators for the DC Section investment funds is considered at least quarterly by the Trustee (with assistance from its Investment Consultant). A set of measurable performance objectives has been developed for the Selected Investment Vehicle Provider and the Selected Investment Vehicles. Performance in each asset class is compared with a suitable benchmark or a comparator, in cases where no suitable benchmarks are available.

As part of the statutory annual value for money assessment of DC benefits required to be undertaken by the Trustee, the Trustee reviews the Selected Investment Vehicle Provider management fees along with portfolio turnover costs. However, as the DC Section invests through pooled funds, the Trustee is unable to define target portfolio turnover ranges for funds.

Realisation of investments

Realisation of assets backing the Retirement Accounts of any DC Section member will be determined by the investment decisions taken by that member in relation to their Retirement Account (unless their Retirement Account balance has to be applied to provide benefits or to provide a transfer value to them).

In that situation, the Trustee will realise the assets backing the relevant member's Retirement Account to provide benefits to or to provide a transfer value at the relevant time, in accordance with the Trust Deed.

3) Investment Manager Arrangements

Aligning manager appointments with Trustee objectives

The Trustee appoints *i*nvestment managers based on perceived strength of capabilities and therefore, likelihood of the managers achieving the expected return and risk characteristics required for the selected asset class.

The Trustee will seek guidance from its Investment Consultant where appropriate, on the Investment Consultant's forward-looking assessment of a manager's ability to deliver on its stated objectives. This will include consideration of the Investment Consultant's assessment of the manager's idea generation, portfolio construction, implementation, and business management, in relation to the particular investment fund. Where available, the Investment Consultant's investment manager research ratings will be used by the Trustee to assist with due diligence and questioning of managers during presentations to the Trustee and are used in decisions around selection, retention, and realisation of manager appointments.

The Trustee will review an investment manager appointment if the investment objective for a fund changes to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

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.

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, it will look to review the appointment.

Evaluating investment manager performance

The Trustee receives regular investment manager performance reports (at least on a quarterly basis), which present performance information over several time periods (e.g., 3 months, 1 year and 3 years). The Trustee reviews (with advice from its Investment Consultant) the absolute and relative performance against a suitable benchmark index where appropriate, and against the manager's stated performance target.

The Trustee maintains a focus on long-term performance. However, as noted above, it may review the appointment if for example:

- There are sustained periods of the manager failing to achieve its stated investment objectives.
- There is a change in the portfolio manager (or other key personnel) of a fund.
- There is a change in the underlying objectives of the investment manager.
- There is a significant change to the Investment Consultant's rating of a manager.

All appointed investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

Manager fee levels are reviewed periodically by the Trustee in conjunction with advice from its Investment Consultant. If an investment manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may decide to terminate the mandate, following a review of the manager's appointment.

Investment manager turnover

All DC Section investment funds are open-ended with no set end date for the arrangement. The range of funds is reviewed on at least a triennial basis. A manager's appointment in relation to the DC Section may be terminated if the fund under management is no longer considered to be appropriate.

4) Risk Management

The Trustee recognises that DC Section members assume investment risks and further, are exposed to different types of risk at different stages of their working lifetimes which will vary at a member level. The key risk is that members will have insufficient income in retirement, or that their income will not meet their expectations.

Broadly speaking, the types of risks that are within the Trustee's control to manage and which the Trustee believes are financially material are as follows:

- risk of pooled investment vehicles not meeting their objectives ("**manager risk**"). This risk is considered by the Trustee and its advisers both upon the initial selection of a Selected Investment Vehicle Provider and its funds chosen for the Plan and on an ongoing basis thereafter. The Trustee, through its Investment Consultant, monitors the performance of the chosen funds on a regular basis and compares the investment returns with the appropriate performance objectives.

- the risk of investing in a fund 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.

- the risk that may arise from a lack of diversification within a fund ("**concentration risk**"). The Trustee has selected assets underlying each fund that are well diversified within the asset class or classes to which they relate.

- the risk that the Selected Investment Vehicle Provider becomes insolvent and that any of its funds chosen for the Plan are affected by the insolvency ("i**nsolvency risk**"). The Trustee, through its Investment Consultant, monitors the ongoing creditworthiness of the Selected Investment Vehicle Provider.

- 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, experienced and regulated and authorised as required, by relevant regulatory bodies; and that suitable liability and compensation clauses are included in all contracts for professional services received.

- the risk of having errors in communications to members as to their investment options ("**communication error risk**"). The Trustee aims to manage this risk through an appropriate review of those communications before issue.

- the risk that ESG matters have a financially material impact on the return of DC Section assets (**"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.

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner. The Trustee monitors manager risk in terms of performance of the assets in the fund in question compared to its benchmark 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.

5) Additional Voluntary Contributions ('AVCs')

DC Section members can also make additional voluntary contributions and have them invested in the investment options offered under the DC Section of the Plan.

The considerations in relation to the preceding provisions of this Part B apply equally in relation to AVCs made by DC Section members.

Signed ………………………………..

For and on behalf of Phillips 66
Pension Plan Trustee Limited

Name Gary Taylor

Position Director & Chair

APPENDIX A

CLAUSE III.4 (E) OF THE TRUST DEED AND RULES OF THE PLAN

"**Restrictions on power of investment"**

(e) The provisions of sub-Clauses (a) to (d) are subject to the following restrictions:

(i) the Trustee shall consult with the Principal Employer on the exercise of their powers under sub-Clause (a) of this Clause;

(ii) if the provisions of Section 35 of the 1995 Act cease to apply the Trustee shall not make sell or retain any investment or place funds on deposit in violation of any specific or general investment policy which is prescribed from time to time by the Principal Employer;

(iii) a Member may choose from the investments from time to time selected by the Trustee and made available to the Member the way in which his Member's Fund is invested. A Member may also on giving such notice as the Trustee may reasonably require (not being more than twelve months' notice) elect that some part or the whole of his Member's Fund is transferred from one of the investments selected by the Trustee to another such investment;

(iv) the Member's Fund of a Member who does not exercise his right under paragraph (iii) shall be invested in such manner as the Trustee shall determine;

(v) where the Trustee follow any instructions given by a Member under paragraph (iii) or invest the Member's Fund under paragraph (iv) they shall (subject as necessary to the 1995 Act) be under no duty or obligation to the Member or to any other Beneficiary in respect of any loss or diminution in the value of the Member's Fund which results from the investment of the Member's Fund in accordance with paragraph (iii) or (iv);

(vi) the Trustee shall comply with the requirements relating to self-investment contained in Section 40 of the 1995 Act;

(vii) The provisions of the Fourth Schedule, Part III.1 shall apply in relation to the Trust Assets notionally allocated, from time to time, to the General Account;

(viii) The provisions of the Fourth Schedule, Part III.2 shall apply to the Retirement Account Assets.