

Bechtel Limited Pension Plan

Chairman's Statement for the year ended 31 March 2020

1. Introduction and Governance Structure Chairman's Statement

I am pleased to present the Trustees' statement of governance.

This statement describes how the Trustees have governed the Money Purchase Section of the Plan and the Additional Voluntary Contribution (AVC) arrangements within the Final Salary Section during the period. In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

The Trustees note that the Plan does not provide "conventional" money purchase benefits because a defined benefit underpin is in place. This means that members' pension benefits at retirement from the Money Purchase section will be the better of:

- The value of their money purchase account in the Plan; or,
- Their defined benefit underpin.

Members are able to contact the Plan administrator for further information regarding the nature of their benefits.

The statement covers four principal areas:

1. Investment, with particular focus on the Plan's default investment arrangements.
2. Internal controls, with particular focus on the processing of core financial transactions.
3. Value, with particular focus on charges and transaction costs deducted from members' funds.
4. The knowledge and resources available to the Trustees, including how the Trustees maintained the statutory levels of knowledge and understanding to govern the Plan and how these help the Trustees to ensure that the Plan is governed effectively.

2. Investment Arrangements

Although the Plan is now closed, investments have historically been placed into default investment options (unless a member has made a specific choice about how their contributions are invested).

A copy of the Plan's Statement of Investment Principles (SIP), which covers the legacy default arrangements, is attached to this governance statement. The Statement of Investment Principles has been prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 and covers our aims and objectives in relation to the default investment arrangement as well as our policies in relation to matters such as risk and diversification. The SIP also details the Trustees' policies in relation to environmental, social and corporate governance risks, and specifically climate change.

In summary, the default arrangements that were in place for investment of contributions when the Plan was open were designed to be broadly appropriate for members who intend to take a proportion of their funds as cash at retirement (within current regulations regarding tax-free cash) and to purchase an annuity with the balance of their funds. The default investment options include "lifestyling" arrangements to de-risk investments to an asset allocation, at retirement, designed to be appropriate for these benefits.

The default investment option's growth phase invests predominantly in a diversified range of investments, including global equities, bonds, alternative asset classes such as property, and cash. Overall these investments are expected to provide long term (above inflationary) growth with some protection against inflation erosion, albeit with volatility. As a member's invested fund grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that a strategy that seeks to reduce risk as the member approaches

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2. Investment Arrangements (continued)

retirement is appropriate. This is achieved via automated lifestyle switches over the ten-year period prior to a member's retirement date. Investments are switched into a mix of cash (for capital preservation purposes) and UK Government bonds (to provide a broadly appropriate match to short-term annuity price movements).

The Trustees review the appropriateness of the legacy default investment arrangements, at least triennially, or after significant changes to the Plan's demographic, if sooner.

The last strategic review of the default investment strategy, along with a review of wider elements of the Money Purchase and AVC investments, was completed in 2017. This review included consideration of:

- The demographic profile of members with Money Purchase and AVC benefits.
- How this profile might influence the type of retirement benefits that typical members will seek to access when they take their savings from the Plan.
- Analysis of the range of investment funds available to members, including those used in the previous default arrangements, and whether they remain appropriate.
- Consideration of the charges associated with the current investment fund range, including the charges for the funds used in the former default investment option, and how these charges compare with alternative arrangements that might be possible.

Following discussion of the last strategic review, with input from our independent DC advisor, the Trustees decided not to make any immediate changes to the default arrangements that were in place for the investment of contributions when the Plan was open. The rationale for this conclusion is that the Plan's Money Purchase benefits are relatively non-conventional, owing to the defined benefit underpin that is in place. Furthermore, the Trustees wished to engage further with the Company in relation to long term strategy for the Plan before making any changes.

Our next triennial strategic review of the Plan's investment arrangements, including the legacy default investment arrangement, is taking place during the second and third quarter of 2020. The Trustees will be considering the Plan's membership profile in order to inform our decisions regarding the future investment strategy. Any changes to the investment arrangements following this review will be communicated to members and would be reflected in the Annual Governance Statement for the year ending 31 March 2021.

Between our triennial strategic reviews, investment performance and risk-based monitoring of the funds used in the legacy default investment arrangement is carried out on a quarterly basis, primarily by reviewing the investment report provided by the investment manager for the legacy default, Legal & General Investment Management ("L&G"). The Trustees also meet with L&G, typically annually, to discuss performance, costs and charges, and future developments.

During the year covered by this statement, the Trustees met with L&G at our Trustee board meeting on 4th December 2019.

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3. Internal Controls and Core Financial Transactions

The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:

- Appointing a professional third party administrator, Deloitte LLP.
- Having in place Service Level Agreements (SLAs) with the Plan administrator, which are monitored by the Trustees. These SLAs cover both accuracy and timeliness of core financial transaction processing, and the Trustees meet with the administrator at Trustee board meetings in order to review administration service levels and related matters.
- The Trustees receive Plan administration reports, including SLA details, each quarter, and review these at quarterly Trustee meetings. Administration reporting runs from April to April and during the period to 30 April 2020, the average percentage level of SLAs achieved stood at 96%.
- Ensuring that detailed disaster recovery plans are in place with the administrator, other relevant third parties, and within the sponsoring employer.
- Maintaining and monitoring a risk register which includes risks in relation to core financial transactions. The risk register considers the impact, likelihood, controls and mitigation steps for each risk and is monitored and reviewed on a regular basis.
- The administrator provides an ISO 9001 Certificate of Registration every year.
- Appointing a professional firm to undertake an annual audit.
- Undertaking data cleansing exercises in order to ensure that Plan data is up-to-date and accurate. For example, during the year covered by this statement, a Plan-specific data exercise commenced. The initial review has now concluded and is moving into the rectification stage.
- Member data spot-checks are carried out periodically and any inconsistencies addressed through close working between the administrator and in-house teams at Bechtel Limited.

I am pleased that in the Plan year there have been no material administration service issues which need to be reported here by the Trustees. We are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly.

4. Value, Charges and Transaction Costs

The charges applicable to the funds used in the default investment arrangements are detailed in this section. All funds used in the default investment strategy are managed by L&G. The Plan is not used for auto-enrolment purposes and as such the charge cap is not a legislative requirement.

In relation to transaction costs, note that when buying and selling investments, transaction costs can be incurred. These costs are not explicitly deducted from a fund but are captured in its investment performance (i.e., the higher the transaction costs, the lower the returns produced). The Financial Conduct Authority has provided guidance (in Policy Statement 17/20) to investment managers regarding calculations and disclosures of transaction costs. Due to the way in which transaction costs are required to be calculated, they can be negative or positive; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity.

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4. Value, Charges and Transaction Costs (continued)

Default Arrangement Charges and Transaction Costs as at 31 March 2020

L&G Fund	Total Expense Ratio % p.a.	Transaction Costs % p.a.
Multi-Asset (was Consensus Index)	0.26	0.04
Over 5 year Index-Linked Gilts	0.10	0.12
Over 15 year Fixed Interest	0.10	0.05
Cash	0.13	0.00

Source: L&G. Total expense ratio reflects the total cost associated with managing and operating a fund, including management fees, legal fees, fund management auditor fees and any other expenses within the fund.

The levels of charges and transaction costs applicable to the Plan's other Money Purchase investment funds as at 31 March 2020 are:

Fund	Total Expense Ratio % p.a.	Transaction Costs % p.a.
L&G Global Equity (70:30) Index	0.18	0.01
L&G Diversified	0.32	-0.02
Aviva BlackRock UK Equity Index Tracker (was UK Index Tracking Fund)	0.50	-0.01
Aviva With Profits	0.50	0.11
Aviva Stewardship	0.52	0.06
Utmost All Share Tracker (was UK FTSE All Share Index Tracking)	0.50	0.03
Utmost Money Market (was Equitable Life Money)	0.50	0.01
Utmost Secure Cash (was Equitable Life With Profits)	0.50	0.05

Source: L&G, Aviva, Utmost. Total expense ratio reflects the total cost associated with managing and operating a fund, including management fees, legal fees, fund management auditor fees and any other expenses within the fund.

The Trustees have assessed the extent to which the charges and transaction costs set out above, alongside other elements of the Plan, represent good value for members and have concluded, in consultation with its independent DC advisor, that the Plan offers good value for members.

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4. Value, Charges and Transaction Costs (continued)

The Trustees' assessment framework includes benchmarking against peers (for example, funds managed by different investment managers) and consideration of the Plan relative to alternative options available in the market with different investment managers, governance structures and providers. The Trustees' Value for Money framework incorporates consideration of:

- Investment management charges.
- Administration charges.
- Transaction costs.
- Net of fees performance.
- Administration service standards.
- Investment design and range, including the degree of fund choice offered to members and the capabilities of the appointed fund managers, including in respect of integration of environmental, social and governance considerations.
- Governance arrangements, including Trustee record keeping and documentation, meeting frequency and format, and Trustee board diversity.

The Trustees have also considered the expectations set out in The Pensions Regulator's DC Code of Practice in relation to value for members and incorporated these considerations in their governance processes.

Impact of Costs and Charges

Using the charges and transaction cost data provided by the investment managers, and in accordance with regulation 23(1)(ca) of the Administration Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

To make this representative of the membership, the Trustees have based this starting at the average member age of 52 and taking age 52 as the starting point (hence there is no difference in pot size with and without fees at the starting age). In line with the Plan's closed nature, no future contributions have been assumed. Note that the representative starting pot size for this group of members increased relative to the figures shown last year, in order to now include members' DC benefits across all legacy arrangements within the Plan, as well as updated data from the administrator and changes in the "shape" of the membership profile.

The Trustees have also prepared an illustration based on the youngest member age of 38, assuming age 38 is the starting point (hence there is no difference in pot size with and without fees at the starting age). Again, in line with the Plan's closed nature, no future contributions have been assumed.

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Chairman's Statement for the year ended 31 March 2020 (continued)

Reporting costs and charges – average member illustration

	Default Arrangement (Lifestyle Strategy)		Most popular fund (L&G Multi-Asset)		Lowest assumed return fund net of fees (L&G Cash)		Lowest cost fund (L&G Over 15 year Gilts)		Highest assumed return fund net of fees (L&G Global Equity 70:30)		Highest cost fund (Aviva Stewardship)	
Age	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
52	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000
53	£40,212	£40,093	£40,212	£40,093	£39,221	£39,170	£39,433	£39,375	£40,978	£40,900	£41,002	£40,763
54	£40,425	£40,186	£40,425	£40,186	£38,457	£38,358	£38,874	£38,760	£41,979	£41,821	£42,028	£41,540
55	£40,640	£40,279	£40,640	£40,279	£37,708	£37,562	£38,323	£38,155	£43,005	£42,762	£43,081	£42,331
56	£40,771	£40,295	£40,855	£40,372	£36,973	£36,783	£37,780	£37,559	£44,057	£43,725	£44,160	£43,138
57	£40,817	£40,233	£41,072	£40,466	£36,253	£36,020	£37,245	£36,972	£45,133	£44,709	£45,266	£43,961
58	£40,779	£40,095	£41,289	£40,559	£35,547	£35,273	£36,717	£36,394	£46,237	£45,716	£46,399	£44,799
59	£40,656	£39,880	£41,508	£40,653	£34,854	£34,541	£36,197	£35,826	£47,367	£46,745	£47,561	£45,653
60	£40,449	£39,590	£41,729	£40,748	£34,176	£33,825	£35,684	£35,266	£48,524	£47,797	£48,752	£46,523
61	£40,158	£39,225	£41,950	£40,842	£33,510	£33,123	£35,178	£34,715	£49,711	£48,873	£49,973	£47,410
62	£39,786	£38,789	£42,172	£40,937	£32,857	£32,436	£34,680	£34,173	£50,926	£49,973	£51,224	£48,314
63	£39,335	£38,282	£42,396	£41,032	£32,217	£31,764	£34,188	£33,639	£52,170	£51,098	£52,507	£49,235
64	£38,808	£37,709	£42,621	£41,127	£31,590	£31,105	£33,704	£33,114	£53,445	£52,248	£53,822	£50,174
65	£38,206	£37,072	£42,847	£41,222	£30,974	£30,460	£33,226	£32,596	£54,752	£53,424	£55,170	£51,130

Notes:

- i. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- ii. The starting pot size is assumed to be £40,000, which is a representative pot size for members of the Plan.
- iii. Values are estimates and are not guaranteed
- iv. The projected growth rate for each fund is in line with the Plan's Statutory Money Purchase Illustration assumptions as at 31 March 2020, adjusted to allow for inflation.

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Reporting costs and charges – youngest member illustration

Due to the diverse Plan demographics, a further illustration is presented below. This is based on the youngest aged member (age 38) of the Plan, assuming age 38 is the starting point (hence there is no difference in pot size with and without fees at the starting age).

	Default Arrangement (Lifestyle Strategy)		Most popular fund (L&G Multi-Asset)		Lowest assumed return fund net of fees (L&G Cash)		Lowest cost fund (L&G Over 15 year Gilts)		Highest assumed return fund net of fees (L&G Global Equity 70:30)		Highest cost fund (Aviva Stewardship)	
Age	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
38	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000
39	£40,212	£40,093	£40,212	£40,093	£39,221	£39,170	£39,433	£39,375	£40,978	£40,900	£41,002	£40,763
40	£40,425	£40,186	£40,425	£40,186	£38,457	£38,358	£38,874	£38,760	£41,979	£41,821	£42,028	£41,540
41	£40,640	£40,279	£40,640	£40,279	£37,708	£37,562	£38,323	£38,155	£43,005	£42,762	£43,081	£42,331
42	£40,855	£40,372	£40,855	£40,372	£36,973	£36,783	£37,780	£37,559	£44,057	£43,725	£44,160	£43,138
43	£41,072	£40,466	£41,072	£40,466	£36,253	£36,020	£37,245	£36,972	£45,133	£44,709	£45,266	£43,961
44	£41,289	£40,559	£41,289	£40,559	£35,547	£35,273	£36,717	£36,394	£46,237	£45,716	£46,399	£44,799
45	£41,508	£40,653	£41,508	£40,653	£34,854	£34,541	£36,197	£35,826	£47,367	£46,745	£47,561	£45,653
46	£41,729	£40,748	£41,729	£40,748	£34,176	£33,825	£35,684	£35,266	£48,524	£47,797	£48,752	£46,523
47	£41,950	£40,842	£41,950	£40,842	£33,510	£33,123	£35,178	£34,715	£49,711	£48,873	£49,973	£47,410
48	£42,172	£40,937	£42,172	£40,937	£32,857	£32,436	£34,680	£34,173	£50,926	£49,973	£51,224	£48,314
49	£42,396	£41,032	£42,396	£41,032	£32,217	£31,764	£34,188	£33,639	£52,170	£51,098	£52,507	£49,235
50	£42,621	£41,127	£42,621	£41,127	£31,590	£31,105	£33,704	£33,114	£53,445	£52,248	£53,822	£50,174
51	£42,847	£41,222	£42,847	£41,222	£30,974	£30,460	£33,226	£32,596	£54,752	£53,424	£55,170	£51,130
52	£43,074	£41,317	£43,074	£41,317	£30,371	£29,828	£32,755	£32,087	£56,090	£54,626	£56,552	£52,105
53	£43,302	£41,413	£43,302	£41,413	£29,779	£29,209	£32,291	£31,586	£57,461	£55,856	£57,968	£53,098
54	£43,532	£41,509	£43,532	£41,509	£29,199	£28,603	£31,834	£31,092	£58,866	£57,113	£59,419	£54,110
55	£43,763	£41,605	£43,763	£41,605	£28,630	£28,010	£31,383	£30,607	£60,304	£58,399	£60,907	£55,142
56	£43,904	£41,622	£43,995	£41,702	£28,073	£27,429	£30,938	£30,129	£61,778	£59,713	£62,433	£56,193
57	£43,954	£41,559	£44,228	£41,798	£27,526	£26,860	£30,499	£29,658	£63,288	£61,058	£63,996	£57,264

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	Default Arrangement (Lifestyle Strategy)		Most popular fund (L&G Multi-Asset)		Lowest assumed return fund net of fees (L&G Cash)		Lowest cost fund (L&G Over 15 year Gilts)		Highest assumed return fund net of fees (L&G Global Equity 70:30)		Highest cost fund (Aviva Stewardship)	
Age	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
58	£43,912	£41,416	£44,462	£41,895	£26,990	£26,303	£30,067	£29,195	£64,835	£62,432	£65,599	£58,356
59	£43,780	£41,194	£44,698	£41,992	£26,464	£25,757	£29,641	£28,739	£66,420	£63,837	£67,241	£59,468
60	£43,557	£40,893	£44,935	£42,090	£25,949	£25,223	£29,221	£28,290	£68,044	£65,274	£68,925	£60,602
61	£43,244	£40,517	£45,173	£42,187	£25,443	£24,700	£28,807	£27,848	£69,707	£66,743	£70,651	£61,757
62	£42,844	£40,066	£45,413	£42,285	£24,948	£24,188	£28,399	£27,413	£71,410	£68,246	£72,421	£62,935
63	£42,358	£39,543	£45,654	£42,383	£24,462	£23,686	£27,996	£26,984	£73,156	£69,782	£74,234	£64,134
64	£41,790	£38,951	£45,896	£42,481	£23,985	£23,195	£27,600	£26,563	£74,944	£71,353	£76,093	£65,357
65	£41,142	£38,293	£46,139	£42,580	£23,518	£22,714	£27,209	£26,148	£76,776	£72,959	£77,999	£66,603

Notes:

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- iii. Values are estimates and are not guaranteed
- iv. The projected growth rate for each fund is in line with the Plan's Statutory Money Purchase Illustration assumptions as at 31 March 2020, adjusted to allow for inflation.

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5. Trustee Knowledge and Understanding

The requirement under the Pensions Act 2004 (requirement for knowledge and understanding) has been met during the Plan year by the Trustees as a body in dealing with the whole Plan (not just the Money Purchase Section).

The Money Purchase and AVC arrangements are discussed at every Trustee meeting, with dedicated time on the agenda.

The Trustees have put in place arrangements for ensuring each Trustee takes responsibility for keeping up to date with relevant developments and consider their training requirements. Training logs are maintained for each Trustee and training for the full board is provided regularly during quarterly meetings, on a bespoke basis, tailored to issues that arise on the Trustees' business plan.

As part of the Trustee induction process, the Trustees receive training on key Plan documents, including the Trust Deed and Rules, the Statement of Investment Principles, and other policy documents, as well as on the law relating to pensions and trusts. Part of this training is usually provided by the Plan's legal advisors, who ensure that it is up to date. The Trustees maintain their working knowledge of these documents, and receive updated training from professional advisors when these documents are reviewed and amended.

In addition, the Trustees receive advice from professional advisors and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors.

The Trustees consider topical updates from its DC advisor at each Trustee meeting. During the period covered by this Statement, topics considered included:

- New regulations in respect of the preparation of the Plan's Statement of Investment Principles
- The Pension Schemes Bill 2019/2020 and proposals in relation to the Pensions Dashboard and Collective DC Schemes
- The Pension and Lifetime Savings Association (PLSA) Retirement Living Standards
- The Pensions Regulator's response to the consultation on the future of trusteeship and governance.

Taking account of actions taken individually and as a Trustee body, and the professional advice available to them, the Trustees consider that they are enabled properly to exercise their function as a Trustee board.

6. Statement of DC Governance

The Trustees undertake annual assessments of the Plan against the DC Code of Practice and related guidance, and have implemented an action plan for ongoing monitoring in this respect. These assessments include the Plan's AVC arrangements.

The Trustees consider that our systems, processes and controls across key governance functions are consistent with those set out in The Pensions Regulator's DC Code of Practice.

Signed for and on behalf of the Bechtel Limited Pension Plan:

Leigh Carter
Chair of the Trustees of the Bechtel Limited Pension Plan

Date: 28/09/2020