The Bechtel Limited Pension Plan

Statement of Investment Principles – September 2020

Money Purchase Section

1. **Introduction**

The Trustees of the Bechtel Limited Pension Plan (the "Plan") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004;
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and,
- Subsequent legislation.

The Statement is intended to affirm the investment principles that govern decisions about the Plan's Money Purchase investments. The Trustees' investment responsibilities are governed by the Plan's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with Bechtel Limited (the "Sponsor") to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Plan's investment arrangements and the Trustees' objectives.

In considering appropriate investments for the Plan, the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

The Trustees have prepared a separate Statement for the Plan's Final Salary Section.

2. **Investment Objectives**

The Trustees recognise that individual members have differing investment needs and that these may change during the course of their working lives. It also recognises that members have differing attitudes to risk. The Trustees' objectives are therefore:

i. To provide members with a range of investment options to enable them to tailor investment strategy to their needs, specifically in controlling the risks inherent in their savings. In particular, to make available vehicles which aim:

   a. To maximise the value of members' assets at retirement.

   b. To maintain the purchasing power of members' savings.

c. To provide protection for members' accumulated assets in the years approaching retirement against:

   – Sudden (downward) volatility in the capital value;

   – Fluctuations in the (implicit and explicit) cost of retirement benefits.

ii. To maintain a default investment option that is broadly reasonable for any member not wishing to make his/her own investment decisions. The Plan is now closed to new members but a number of existing members are invested in a default investment option.

iii. To avoid over-complexity in investment in order to keep administration costs and employee understanding to a reasonable level.

iv. To inform members, through a policy of clear communication and education, about their investment options in relation to the potential risks and anticipated rewards of, and charges associated with, each option.

3. Risk

The Trustees have taken into consideration, on behalf of the members, the following aspects of risk:

i. The risk that investment returns over members' working lives in the Plan (the "accumulation" period) will not keep pace with inflation and therefore provide inadequate retirement benefits.

ii. The risk that relative market movements in the years just prior to retirement (the "preservation" period) lead to a substantial reduction in the anticipated level of retirement benefits which would otherwise be provided.

iii. The risk that the chosen investment managers underperform the benchmark against which they are assessed.

iv. The risk that the pooled funds, through which the Trustees allow members to invest, do not provide the required level of liquidity.

v. The risk that the investment profile of any existing default investment options is unsuitable for the requirements of some members.

vi. In relation to the underpin benefits provided by the Plan, the risk that the Sponsor is unable to fund these benefits.

Actions taken in relation to the mitigation of these risks are detailed in section 4.

4. Investment Strategy

Default investment option

Although the Plan is now closed, investments have historically been placed into default investment options.

These options are 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 aims of the default investment option, and the ways in which the Trustees seek to achieve these aims, are detailed below:

- To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk.

  The default option’s growth phase invests predominantly in global equities, managed on an index-tracking (passive) basis. These investments are expected to provide long term (above inflationary) growth with some protection against inflation erosion, albeit with volatility.

- To provide a strategy that reduces investment risk for members as they approach retirement.

  As a member’s pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over the 10 year period to a member’s selected retirement date (or normal retirement date, where none is selected). Investments are switched into a mix of cash (for capital preservation purposes) and either long dated fixed interest UK Government bonds (for members who joined the Plan after 1 November 1999) or long dated index-linked UK Government bonds (for members who joined the Plan prior to 1 November 1999). The UK Government bond allocation within the strategy aims to provide a broadly appropriate match to short-term annuity price movements. The bond investments are managed on a passive basis, and the cash investments are managed on an active basis.

- To provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to take a proportion of their benefits as a cash lump sum, with the balance being used to purchase an annuity.

  One year prior to the member’s selected retirement date, 20% of the member’s assets will be invested in an actively managed money market fund and 80% invested in a passively managed UK Government bond fund (noting the pre and post 1 November 1999 difference above).

Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default option, the Trustees considered the trade-off between risk and expected returns.

Assets in the default investment option are invested in the best interests of members and beneficiaries, taking into account the broad profile of members and the underpin that exists within the Plan.

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

Assets in the default investment options are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by various investment firms. The selection, retention and realisation of assets within the pooled funds are delegated to the respective investment firms in line with the mandates of the funds. Likewise, the investment firms have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

In reviewing the legacy default investment arrangement, the consider environmental, social, and corporate governance ("ESG") factors, as we believe that these issues can have an impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

In the context of the legacy default investment arrangement, we consider ESG issues in relation to the time horizon over which members are expected to have benefits in the Plan, and the manner in which investments are de-risked over time. The Plan is closed and the nature of our membership profile is such that the average member age is relatively mature. As such, over time fewer of the Plan's members are invested in the growth phase of the arrangement, and our focus on ESG issues in relation to the default accordingly shifts away from consideration of voting and engagement issues on equities held, as these funds become a smaller element of the legacy default arrangement.

ESG considerations are taken into account in the selection, retention and realisation of investments for the legacy default arrangement in the following ways:

- The Trustees consider the ESG research ratings published by our investment advisors, Mercer, when we monitor our investment managers' capabilities. These ratings are also considered as part of any new selection of investment funds

- The Trustees meet with the investment manager for the legacy default arrangement at least annually. At these meetings, ESG issues are discussed and the manager is expected to discuss voting and engagement activities carried out on behalf of the Trustees (see details below regarding delegations).

Members' views are not explicitly taken into account in the selection, retention and realisation of investments in relation to the default strategy. The Trustees welcome members' views.

The Trustees have given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Plan's investments in the legacy default arrangement.

Similarly, the Plan's voting rights on assets in the legacy default arrangement are exercised by the investment manager for the arrangement in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

The investment manager to the arrangement is expected to report on their adherence to the UK Stewardship Code on an annual basis.

Alternatives to the default investment option

In addition to the default investment options that have historically been in place, a range of self-select funds are offered to members. The options available include a mix of asset class types along the risk / return spectrum.

5. Additional Assets

The Trustees have appointed Legal & General, Prudential Assurance Co. Ltd. and Aviva (formerly Friends Life) to manage the Plan's Final Salary Section Additional Voluntary Contribution arrangements with the objective of providing members with competitive investment returns for a wide range of investment options. These arrangements are reviewed on an ongoing basis by the Trustees.

6. Realisation of Investments

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

7. Environmental, Social and Governance Considerations

The Trustees believe that environmental, social, and corporate governance ("ESG") factors have an impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration. The Trustees accordingly consider these issues, in the context of the time horizon over which members are expected to have benefits in the Plan**.**

ESG considerations are taken into account in the selection, retention and realisation of investments in the following ways:

- The Trustees consider the ESG research ratings published by our investment advisors, Mercer, when we monitor our investment managers' capabilities. These ratings are also considered as part of any new selection of investment funds

- The Trustees meet with the Plan's main investment manager to the Money Purchase Section at least annually. At these meetings, ESG issues are discussed and the manager is expected to discuss voting and engagement activities carried out on behalf of the Trustees (see details below regarding delegations).

- Whilst members' views are not explicitly taken into account in the selection, retention and realisation of investments, the Trustees have made available to Plan members an ethical investment fund for those members who wish to invest in this manner.

The Trustees have given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Plan's investments.

Similarly, the Plan's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Equity managers registered with the appropriate regulator are expected to report on their adherence to the UK Stewardship Code on an annual basis.

8. Investment Manager Arrangements

Overview

The Trustees delegate the day-to-day management of the assets to a number of investment managers.

In appointing and monitoring third party investment managers, the Trustees will seek to have in place managers whom the they believe will engage directly with issuers of securities held in order to improve their financial and non-financial performances over the medium to long term. To monitor the third party investment managers' compliance with this expectation, the Trustees consider reports from the Plan's main Money Purchase Section manager, Legal & General Investment Management ("L&G"), which contain detailed commentary on stewardship and engagement activities carried out by L&G. In respect of other Money Purchase investments, the providers in place do not currently publish such reporting. However the Trustees consider ESG research ratings from the investment advisor within the annual Value for Money assessment (see later comments under "Evaluating Investment Managers").

The Plan's investment managers are appointed based on their capabilities and suitability as regards meeting the Plan's objectives. Their appointments are therefore also based on their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

The Trustees receives advice from its investment advisors in relation to forward-looking assessments of a manager's ability to outperform over a full market cycle, for mandates where outperformance is the objective. This view will be based on the investment advisors' assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment portfolio(s) that the Plan invests in. The investment advisors' manager research ratings assist with due diligence and questioning managers during presentations to the Trustees and are used in decisions around selection, retention and realisation of manager appointments.

For passively managed mandates, or those where outperformance is not the primary goal, the Trustees will seek guidance from the investment advisors in relation to forward looking assessment of the manager's ability to achieve the stated mandate objectives.

If the investment objective for a particular investment manager's fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

Some of the funds used within the Plan are actively managed and the managers are incentivised through performance targets. An appointment will be reviewed following periods of sustained underperformance or failure to meet the mandate objectives, and the Trustees receive investment monitoring reports to seek to manage this risk. The Trustees will review the appropriateness of using actively managed funds (on an asset class basis) periodically.

As the Trustees invest in pooled vehicles it is accepted that there is no ability to specify the risk profile and return targets of the manager. However, appropriate mandates are selected to align with the overall investment strategy as documented in this Statement.

Investment Manager Remuneration

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee.

As part of the annual Defined Contribution Value for Money assessment, the Trustees review the fees within the Plan's Money Purchase arrangements.

Investment managers are not remunerated based on portfolio turnover.

Evaluating Investment Managers

Investment managers are aware that their continued appointment is based on their success in delivering the objectives of the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

The Trustees meet with its investment managers as deemed appropriate. During such meetings the Trustees are able to review the decisions made by the managers, including investment decisions, voting history (in respect of equities) and engagement activity with investee companies, and can question such activities.

The Trustees consider the investment advisors' investment research and ESG research ratings within the annual Value for Money assessment. Through these ratings, the Trustees are able to assess for example how each investment manager embeds ESG into its investment process and how each manager's investment philosophy aligns with the Trustees' policies as documented in this statement.

Where equity funds are held, equity managers registered with the appropriate regulator are expected to report on their adherence to the UK Stewardship Code on an annual basis. The main investment manager to the Money Purchase Section of the Plan will be expected to discuss this reporting with the Trustees during meetings.

Time horizon and Duration of Appointments

The Trustees receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year and 3 years. The Trustees reviews the performance of the investments on an absolute basis and relative to defined benchmarks (over the relevant period) on a net of fees basis.

If a manager is not meeting its performance objectives, over a sustained period of time, and after consideration of all relevant factors, the Trustees may take the decision to terminate the appointment.

The Trustees are long-term investors. Accordingly, the Trustees do not seek to change the investment arrangements on a frequent basis.

The funds used by the Plan are open-ended with no set end date for the arrangement. The Trustees will retain an investment manager unless:

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

- The manager appointment has been reviewed and the Trustees have decided to terminate the appointment.

Portfolio turnover costs

Transaction costs, which include portfolio turnover costs, are monitored and assessed within the annual Value for Money assessment. The Trustees have not set portfolio turnover targets; the Trustees instead assess performance net of the impact of the costs of such activities.

9. Review of this Statement

The Trustees will review this Statement at least once every year and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension plan investments.

The Trustees of The Bechtel Limited Pension Plan