The Bechtel Limited Pension Plan

Statement of Investment Principles – September 2020
Final Salary Section (Section I)

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 (the "Act") and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Plan's Final Salary Section 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.

The Trustees have prepared a separate Statement for the Plan's Money Purchase Section (Section II).

2. Process For Choosing Investments

The Trustees have agreed an investment strategy for the Plan that they believe best reflects their investment objectives and have delegated the implementation of the detail of the strategy to Mercer. In doing so Mercer constructs portfolios of investments that are expected to maximise the returns achieved (net of all costs) given the target level of risk.

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).

3. Investment Objectives

The Trustees understand that taking some investment risk, with the support of the Sponsor, is necessary to improve the Plan's funding position and then "lock-in", as far as is practically possible, a target level of funding under a conservative funding basis.

The Trustees' primary objective is to act in the best interest of its members. As such, the Trustees' key investment objective is to reach, and then maintain, a position such that the Plan's assets would ultimately be sufficient to meet its liabilities should the liabilities be bought out with an insurance company.

4. Risk Measurement and Management

There are various investment risks to which the Plan is exposed:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Plan's assets and liabilities. To control this risk whilst generating an expected return on the Plan's assets consistent with the Trustees' objectives, the Trustees invest in a combined portfolio of liability-matching bond assets and a range of cashflow-generating risky assets. The Trustees recognise that investment in risky assets relative to the Plan's liabilities will bring increased volatility of the funding level and thus the risk of a shortfall in returns relative to that required to meet the Trustees' investment objectives. The Trustees have delegated asset allocation decisions to Mercer within an agreed range of investment guidelines as set out between the Trustees and Mercer within an Investment Manager Agreement. The target asset allocation has initially been set so that the expected return on the portfolio is sufficient to meet the Trustees' investment objectives outlined in Section 3 with a reasonable probability within a 10-year time horizon.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustees with regular reports on the return expectation for the portfolio and the sources of risk in the portfolio relative to the Plan's liabilities.

- To help the Trustees ensure the continuing suitability of the current investments, the Trustees delegate responsibility for the appointment, ongoing monitoring and termination of the Plan's investment managers to Mercer. Mercer provides the Trustees with regular reports regarding the appointed investment managers to assist the Trustees in fulfilling their responsibilities in this regard.

- There is a risk that the day-to-day management of the assets within each portfolio will not achieve the rate of investment return expected by the Trustees. The Trustees recognise that the use of active investment managers involves such a risk. However, for specific asset classes, the Trustees believe that this risk is outweighed by the potential gains from successful active management. When investing in actively managed portfolios however, the Trustees put in place target tracking errors for the portfolio to ensure that risk levels are consistent with the outperformance target. Likewise, passive management will be used by the Trustees where the Trustees believe the scope for added value via active management of the portfolio is limited.

- To help diversify manager specific risk, where appropriate, the Trustees expect Mercer to make multiple manager appointments when constructing individual asset class portfolios on the Trustees' behalf.

- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular of illiquidity and counterparty exposure) such investments will normally only be made with the purpose of controlling the Plan's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustees require Mercer to ensure that the assets of the Plan are predominantly invested on regulated markets and are sufficiently liquid given the Plan's projected cashflow requirements.

- Responsibility for the safe custody of the Plan's assets is delegated by the Trustees to Mercer who has appointed State Street Bank and Trust Company ("State Street") as custodian and administrator of the Plan's assets. Mercer is responsible for keeping the suitability of State Street under ongoing review on behalf of the Trustees.

Should there be a material change in the Plan's circumstances, the Trustees will advise Mercer, who will review whether and to what extent the investment arrangements in place should be altered in order to reflect this change.

5. Investment Strategy

The Trustees, with advice from Mercer and in consultation with the Sponsor, have recently undertaken a full review of the Plan's investment arrangements in the light of the results of the 2019 actuarial valuation. This review considered the Trustees' shorter and longer-term investment objectives for the Plan, the Trustees' ability and willingness to take risk, how risk should be allocated and implemented and how it might change over time.

As a result of the review, the Trustees have decided to put in place a bond-based investment strategy made up of a combination of gilts, leveraged gilts and a range of income generating credit assets. This combination is actively managed with an objective of meeting the cashflow requirements of the Plan in a low risk way over at least the next 10 years. In doing so, the expected return on the portfolio at the date of this Statement was 0.8%p.a., net of all fees, above the portfolio of gilts that matches the Plan's projected liability cashflows.

The initial broad allocation of assets to be implemented will be as follows:: -

Portfolio	**Allocation %**
Gilts and Leveraged Gilts	40
Longer-dated Investment Grade Credit	37.5
Sub-investment Grade Credit	15
Secured Finance	7.5
Total	**100**

It is expected that this allocation will evolve over time however to reflect changes in the value of the Plan's liability profile and the use of income payments generated by the portfolio to help fund liabilities as they fall due.

Reflecting the low-risk nature of the strategy, the expected volatility of the investment strategy relative to the Plan's liabilities at the date of this Statement was c. 2%p.a. That is, in every 2 years out of 3, the return on the assets is expected to be within +/-2% of the performance target.

The Trustees have delegated the responsibility for the implementation of the strategy to Mercer. This delegation includes responsibility for monitoring the Plan's asset allocation and undertaking any rebalancing activity when required. Mercer reports quarterly to the Trustees on any breaches to the range restrictions and the actions taken to address any breach. When constructing and implementing the strategy the Trustees expect Mercer to take into account all financially material considerations (including "ESG" factors – see Section 9) when selecting, retaining and realising investments.

The **Gilts and Leveraged Gilts** portfolio is designed to hedge c. 115% of the Plan's sensitivity to changes in interest and inflation rate expectations (after allowing for the interest and inflation rate sensitivity of the other assets held in the overall portfolio). This strategy consists of a bespoke portfolio of liability matching real and fixed interest gilts, an element of which is leveraged in order to enhance the overall portfolio's capital efficiency. The additional 15% of liability hedging is designed as pragmatic hedge of the interest and inflation rate risk inherent in the Plan's Section II liabilities. The portfolio is income paying.

The **Longer-dated Investment Grade Credit** portfolio is managed on a "buy and maintain" basis, the objective of the portfolio being to cost effectively capture the credit risk premium by diversifying the portfolio across individual companies and credit sectors. The portfolio is designed to address the concentrated nature of standard corporate bond indices (which, for example, have a significant concentration in financial sector credits) and the increasing illiquidity of credit markets that limits the potential value added from actively managed portfolios with high levels of turnover. The portfolio is income paying.

The portfolio has a sensitivity to movements on long term risk-free yields comparable to that of the Plan's liabilities and is permitted to invest on a global basis (with currency exposure hedged).

The **Sub-investment Grade Credit** portfolio's long-term performance objective is to generate a return of cash +4 to 6% p.a. gross of fees. The portfolio's medium term objective is to outperform a benchmark of consisting of 50% of the Bank of America Merrill Lynch Global High Yield Constrained Index GBP Hedged and 50% S&P/LSTA Global Leveraged Loan Index GBP Hedged by 2% p.a. over rolling five-year periods (gross of fees) subject to a tracking error of 4% p.a.). The portfolio is income paying.

The **Secured Finance** portfolio portfolio's long-term performance objective is to generate a return of cash +2 to 4% p.a. gross of fees and invests in investment grade credit issues that are secured on underlying assets of the issuers. The portfolio also has some flexibility to invest in sub-investment grade and unrated issues.

The Trustees have delegated day-to-day management of the assets to Mercer who in turn delegates responsibility for the investment of the assets to a range of underlying specialist investment managers. Mercer is responsible for the selection, appointment, monitoring and removal of the underlying investment managers. The underlying investment managers have full discretion to buy and sell investments on behalf of the Plan subject to agreed constraints.

The Trustees have taken steps to satisfy themselves that Mercer have the appropriate knowledge and experience to choose and combine the underlying investment managers and ensure that they are fit to manage the Plan's investments.

The Trustees regularly review the continuing suitability of the Plan's investments, including Mercer's ability to select, appoint, remove and monitor the appointed managers. Mercer is regulated by the Financial Conduct Authority (FCA).

6. Realisation of Investments

Mercer and the underlying investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments consistent with guidelines agreed between the Trustees and Mercer.

7. Cash flow and cash flow management

The cashflows generated by the portfolio are used to fund the Plan's liability cashflows. Surplus cash generated by the portfolio are either held as cash within the Trustee bank account in order to meet future cashflows or reinvested in the portfolio.

8. Rebalancing

In managing the portfolio Mercer set rebalancing ranges to ensure that the Plan's assets remain invested in a manner that is consistent with the objectives of the strategy. The ranges have been designed to ensure that unnecessary transaction costs are not incurred by excessive rebalancing.

9. ESG, Stewardship and Climate Change – Trustees' Investment Beliefs

The Trustees believe that good stewardship and the incorporation of environmental, social, and corporate governance (ESG) factors into their investment decision-making processes can have a material impact on the financial and non-financial performance of the Plan's assets over the medium and longer term. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that require the Trustees' explicit consideration.

Given these beliefs, the ESG expertise and capabilities of Mercer are key considerations of the Trustees when reviewing Mercer's ongoing fiduciary management appointment. This is because the Trustees' beliefs in relation to exercising their rights (including voting rights) that are attached to the Plan's investments, and how they undertake engagement activities in respect of the investments, rely on the policies of Mercer and the third party investment managers.

The Trustees expect the third party investment managers appointed by Mercer Global Investments Europe (MGIE) to manage the Plan's assets to comply with the UK Stewardship Code and UK Corporate Governance Code, including public disclosure of compliance via an external website.

To monitor whether the Plan's assets are being managed in line with the Trustees' beliefs, the Trustees review the following reporting from Mercer on a regular basis:

- UK Stewardship Code Review – this annual review assesses each third party equity manager's compliance against the seven principles of the UK Stewardship Code.

- Stewardship Monitoring Report – these regular reports assess each third party equity asset manager's record of executing and disclosing voting activity, and the extent to which each manager is engaging with the underlying companies in which they invest.

- ESG ratings – these ratings for part of Mercer's quarterly reporting and provide an assessment of the degree to which Mercer believes ESG considerations have been embedded into a third party asset manager's investment philosophy and process.

- Carbon Footprint and Climate Scenario Modelling analysis – this analysis compares the carbon intensity of Mercer portfolios relative to appropriate benchmarks and considers the impact of differing climate change models on portfolio performance.

The Trustees have considered, and will continue to consider, including specific sustainability themed investment opportunities within their investment strategy.
MGIE sets the third party asset managers that it appoints investment restrictions in relation to particular products or activities. The Trustees review MGIE's exclusion policy on a regular basis.

Investment Restrictions

The Trustees have not set any investment restrictions on Mercer, MGIE or the third party asset managers in relation to particular products or activities but may consider this in the future where it is practicable to do so.

Member views

Plan member views are not taken into account in the selection, retention and realisation of investments.

How the Trustees incentivise their asset managers to align their investment strategy and decisions with the Trustee's beliefs.

The Trustees have engaged Mercer as the Plan's overall asset manager and Mercer's remuneration for the discretionary services provided under the appointment is based on the value of the Plan's assets under Mercer's management.

Mercer manages the Plan's assets by way of investment in pooled funds (the Mercer Funds), which are multi-client collective investment schemes. The Trustees accept that they do not have the ability to determine the policies or arrangements that the asset manager of the Mercer Funds, Mercer Global Investments Europe (MGIE), puts in place for each Fund. However, the Trustees have made Mercer aware that they expect MGIE to manage assets in a manner, as far as is practicably possible, that is consistent with the Trustees' beliefs.

Should the Trustees consider that Mercer, MGIE or the third party asset managers, have failed to align their own policies with those of the Trustees' beliefs, the Trustees will notify Mercer and consider disinvesting some or all of the assets held in the Mercer Funds and/or seek to renegotiate commercial terms with Mercer.

How the Trustees incentivise their asset managers to, 1) make portfolio selection decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt/equity and, 2) engage with issuers to improve performance in the medium to long term.

The responsibility for making portfolio selection decisions based on assessments of the medium to long-term financial and non-financial performance of issuers of credit or equity investments are made by the third party asset managers that are appointed by MGIE to manage the Mercer Funds. The Trustees are aware that Mercer or MGIE do not make such investment decisions.

In appointing these third party asset managers, the Trustees expect that MGIE will select managers where it believes the managers will engage directly with issuers of securities it holds in order to improve their financial and non-financial performances over the medium to long term. To monitor the third party asset managers' compliance with this expectation, the Trustees *c*onsider regular reports from Mercer that include an assessment of each third party manager's voting and engagement activity.
The Trustees use this monitoring to identify actions taken by the third party asset managers that appear out of line with the Trustees' beliefs. In doing so the Trustees seek to understand the reasons for a manager's actions and what, if appropriate, steps have been taken by MGIE and/or the manager to address the issue. Such steps could include a decision by MGIE to terminate a manager's appointment.

Should the Trustees consider that MGIE has failed to take appropriate steps to appoint third party asset managers that are consistent with the Trustees' beliefs, the Trustees will notify Mercer and consider disinvesting some or all of the assets held in the Mercer Funds and/or seek to renegotiate commercial terms with Mercer.

How the Trustees' approach to evaluating their asset managers' performances, and how they remunerate their asset managers, is aligned with the Trustees' beliefs.

All asset manager fees are predominantly based on a percentage of the value of assets under management. The Trustees monitor, and evaluate, the fees they pay for all asset management services on an ongoing basis. In doing so, the Trustees consider the degree to which asset manager performance and actions has been consistent with the Trustees' beliefs. The Trustees believe that this approach will improve the performance of the Plan's assets over time and thus the current fee arrangements, all other things remaining equal, align the interests of the third party asset managers with the Trustees.

In evaluating performance, the Trustees consider both financial and non-financial issues based on reports produced by Mercer. From the reports, the Trustees expect to see evidence, because of actions taken by Mercer, MGIE and the third party asset managers, of an improving trend in the stewardship and sustainability of the issuers of the assets held by the Plan. Such evidence could be improving compliance by the third party asset managers with the UK Stewardship Code Review or a Mercer Fund's reducing carbon footprint relative to its peers and/or a specified benchmark.

Should the Trustees' conclude that they see no evidence of an improving trend in the stewardship and sustainability of the assets held in the Mercer Funds over time, the Trustees will notify Mercer and consider disinvesting some or all of the assets held in the Mercer Funds and/or seek to renegotiate commercial terms with Mercer.

How the Trustees monitor portfolio turnover costs and how they define and monitor portfolio turnover/turnover range targets.

The Trustees do not have an explicit target portfolio turnover range for the overall Plan's assets or individual Mercer Funds. However, overall performance is considered by the Trustees net of all transaction costs. In addition, MGIE considers portfolio turnover by the third party asset managers as part of its monitoring to ensure that such activity remains consistent with the managers' investment approaches.

The Trustees note that, for some Mercer Funds, MGIE, where it believes it appropriate for the mandate, actively encourages the third party asset managers to adopt a "buy and maintain" investment approach by making long-term investments in the debt of issuers, thus reducing portfolio turnover and turnover costs.

The duration of the Trustees' arrangements with their asset managers.

There are no duration limits to the Trustees' arrangements with Mercer and MGIE and MGIE does not put in place duration limits for the third party asset managers it appoints to manage the assets of the Mercer Funds. The Trustees will continue to retain Mercer as long as it believes it is in the best interests of the Plan and expects MGIE to adopt the same approach when managing the Mercer Funds.

10. Additional Assets

The Trustees have appointed Prudential Assurance Co. Ltd., Aviva (formerly Friends Life) and Legal & General 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.

11. Fee Structures

Mercer levies a fee of 0.12%p.a. of the value of the assets under management that covers all delegated investment services including strategy advice, cashflow management, portfolio rebalancing and manager selection and monitoring. In addition, the underlying managers appointed by Mercer also levy fees based on a percentage of the value of the assets under management. Under the agreed strategy, these underlying manager fees are estimated to be 0.16%p.a.

12. 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