BECHTEL LIMITED PENSION PLAN ("THE PLAN")

Annual Defined Contribution Governance Statement for the Year ending 31 March 2024

1. INTRODUCTION

1.1 I am pleased to present the Trustees' statement of governance for the year ending 31 March 2024. 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, and subsequent regulatory requirements.

1.2 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 their benefits.

1.3 The statement covers four principal areas:

1. Investment, including the Plan's default investment arrangements.
2. Internal controls, with particular focus on the processing of core financial transactions.
3. Value, including the charges and 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.

The Trustees consider the Pension Regulator's guidance, and statutory guidance, when preparing this statement.

2. INVESTMENT ARRANGEMENTS

Introduction

2.1 A copy of the Plan's Statement of Investment Principles (SIP) in respect of the Money Purchase Section, prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005, is included within the Annual Report and is available online at Bechtel-Money-Purchase-SIP. The SIP covers the Trustees' aims and objectives in relation to the investments as well as policies in relation to risk, diversification, and environmental, social, and governance (ESG) matters, including climate change.

2.2 During the year covered by this Statement, the Trustees reviewed and updated the Money Purchase SIP. The principal change was to add a policy on illiquid assets, as now required by regulation.

2.3 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.

Current Default Investment Arrangements

2.4 In summary, the default arrangements that were in place 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 tax-free cash regulations) and to buy an annuity with the balance. The default options include "lifestyling" arrangements to de-risk investments to an asset allocation, at retirement, designed to be appropriate for these benefits. There were no changes to the default investment option during the period.

2.5 The growth phase of the strategy invests predominantly in a diversified range of assets, including global equities, bonds, and alternative assets such as property. Overall these investments are expected to provide long term (above inflation) growth with some protection against inflation erosion, albeit with volatility.

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

Strategic Review of Default Investment Arrangement

2.7 The Trustees review the appropriateness of the legacy default investment arrangements at least triennially, or after significant changes to the Plan's demographic. The last strategic review of the default strategy was completed in June 2021 and no material changes were made to the investment strategy.

2.8 While the next full strategic review is not due to conclude until the second half of 2024, during the year covered by this statement the Trustees considered the use of illiquid assets in the default strategy, and prepared a new policy on this topic for inclusion in the SIP. The Trustees concluded that illiquid assets such as private markets investments are not currently suitable for the Plan's Money Purchase membership, based on the demographic profile (noting the Plan is closed), and the costs associated with these investments. However, the position will be reviewed at least triennially.

2.9 The next strategic review will take place during the second half of 2024, though we note that during the year covered by this statement, the funds used in the default arrangements were reviewed regularly through investment performance reporting, as outlined below.

Investment Governance

2.10 Between our triennial strategic reviews, investment performance and risk-based monitoring of the funds used in the legacy default investment arrangement is carried out each quarter, 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 as appropriate to discuss performance, costs and charges, and future developments.

Net Investment Returns to 31 March 2024

2.11 From 1 October 2021, the Trustees are required to calculate and publish the return on investments from the Plan's default and self-select funds, net of transaction costs and charges.

2.12 Investment returns after charges and costs for the funds available to members of the Money Purchase Section are provided in the following table. For the default strategy, the analysis assumes a retirement age of 65, and returns are calculated based on a fixed weight average of underlying fund performance in the lifestyle strategy, at the ages shown.

Default arrangement: Lifestyle Strategy Returns (Net of Fees) % p.a.			
	1 year	**5 years**	**10 years**
Up to age 55 (growth phase)	8.1	4.1	5.6
Age 60 (part way through de-risking)	2.7	-0.9	3.1
65 (based on the "at retirement" asset allocation)	-2.8	-6.3	0.5
All funds available to members - Returns (Net of Fees) % p.a.			
L&G Multi-Asset (was Consensus Index)	8.1	4.1	5.6
Global Equity (70:30) Index	12.1	7.5	7.6
L&G Over 5 year Index-Linked Gilts	-6.9	-6.6	1.3
L&G Over 15 year Fixed Interest Gilts	-4.7	-8.2	0.3
L&G Cash	5.0	1.5	1.3
L&G Diversified	8.1	4.3	6.2
Aviva BlackRock UK Equity Index Tracker	7.2	5.1	5.1
Aviva Stewardship	6.8	5.3	5.2
Aviva With Profits	*Data unavailable for this fund, as its returns are based on bonuses and guarantees and vary by individual.*		

Note, 20-year returns are not available because a number of the Plan's funds were only launched by the investment manager or added to the Plan more recently. Where practical, underlying pooled fund returns are provided.

Source: Investment managers. Returns for the default investment arrangement based on the default strategy that was historically in place when the Plan was open to contributions, for members joining post 1999.

Asset Allocation Disclosure – Default Investment Strategy

2.13 The Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023 introduced new requirements for trustees and managers of certain occupational pension schemes. For the first scheme year that ends after 1 October 2023, the Trustees are therefore required to disclose the asset allocation of investments in default arrangements at specific ages, starting at age 25. This information is provided below.

	Allocation – Age 25 to 55 (%)	Allocation – age 65 (%)
Cash	1.0	7.8
Bonds	45.0	92.2
Listed Equities	54.0	0.0
Private Equity	0.0	0.0
Infrastructure	0.0	0.0
Property/Real Estate	0.0	0.0
Private Debt/Credit	0.0	0.0
Other	0.0	0.0
Total	100.0	100.0

Source: Legal & General Investment Management. Bonds includes corporate and government bonds.

Notes: The following describe the types of investments covered by the asset classes set out in the preceding tables:

- Cash – Cash and assets that behave similarly to cash e.g. treasury bills. This only includes invested cash and not the cash balance held by the Plan in the Trustee bank account.
- Bonds – Loans made to the bond issuer, usually a government or a company, to be repaid at a later date.
- Listed Equity – Shares in companies that are listed on global stock exchanges.
- Private Equity – Unlisted equities that are not publicly traded on stock exchanges.
- Infrastructure - Physical structures, facilities, systems, or networks that provide or support public services including water, gas and electricity networks, roads, telecommunications facilities, schools, hospitals, and prisons.
- Property – Real estate, such as offices, retail, and industrial buildings which are rented out to businesses.
- Private Debt – Other forms of loan that do not fall within the definition of a 'Bond'.
- Other – Any assets that do not fall within the above categories. This may include assets that are synthetic and do not have a physical allocation, for example derivatives.

3. INTERNAL CONTROLS AND CORE FINANCIAL TRANSACTIONS

Introduction

3.1 The Trustees have appointed a professional third party administrator, Deloitte LLP.

3.2 The Trustees have received assurance from the administrator (and has taken steps to seek to ensure) that there were adequate internal controls to ensure that core financial transactions were processed promptly and accurately during the year in accordance with regulation 24 of the Regulations. This includes processing of transfers in / out of the Plan, transfers of assets between different funds, and the payment of benefits to members (the Plan is closed and therefore no contribution processing takes place in respect of the Money Purchase Section). Our governance arrangements in this regard are documented below.

Administration

3.3 The Trustees have established Service Level Agreements (SLAs) with the administrator, which are monitored by the Trustees. The SLAs cover both accuracy and timeliness of core financial transaction processing, and the Trustees meet with the administrator at Trustee meetings in order to review administration service levels and related matters. It should be noted that given the hybrid nature of the Plan and the fact that the benefits are not traditional DC benefits owing to the underpin described earlier, SLAs are not split between Final Salary Section activities and Money Purchase Section activities.

3.4 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 2024, the average percentage level of SLAs achieved stood at 100% (this figure was also 100% for the year to 30 April 2023).

3.5 The administrator's reports are used by the Trustees to verify that transactions are performed in line with the SLAs and to determine if there have been any administration errors or unreasonable delays. Where procedures are outside of agreed SLAs or there are any significant errors or delays, the administrator provides an explanation of what has happened and how it has been corrected.

3.6 The administrator provides an AAF 01/20 Report every year, which the Trustees review.

3.7 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.

3.8 Other processes that have been established with the administrator to assist the Trustees in monitoring the processing of core financial transactions include:

- The administrator’s accounts team perform a monthly peer reviewed reconciliation of all transactions.
- The administration team regularly monitor the account in between monthly reconciliation times. There is working knowledge within the administration team of the inflows expected, and what is being paid out, and this is monitored appropriately. Such activity can involve checking the account multiple times per day, when needed.
- The administrator produces a monthly cashflow forecast which is peer reviewed. This projects cashflow requirements for the coming month and includes an agreed float for unknown / unexpected payments.
- The administration team have set procedures to authorise payments out, with at least two signatories on all transactions, and varying degrees of authority depending on the amount.
- All transaction contract notes are reviewed and peer reviewed.

Broader Controls

3.9 The Trustees have taken steps to ensure that detailed disaster recovery plans are in place with the administrator, other relevant third parties, and within the sponsoring employer.

3.10 A risk register is maintained and monitored, which includes risks in relation to core financial transactions and Plan data. The risk register considers the impact, likelihood, controls and mitigation steps for each risk and is monitored and reviewed regularly. Target risk scores are in place, and where a risk falls short of target, an action plan is put in place.

3.11 During the year, additional information was added to the risk register in relation to cyber risk management, given the evolving nature of this risk for pension plans. The Trustee has established a cyber security policy and incident response plan, and these arrangements are reviewed regularly.

3.12 The Trustees have appointed a professional firm to undertake an annual audit.

Conclusion

3.13 I am pleased that in the Plan year there have been no material administration service issues which need to be reported here. 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 promptly and accurately, meeting the requirements of regulation 24 of the Regulations.

4. VALUE, CHARGES AND TRANSACTION COSTS

4.1 Charges and transaction costs applicable to the funds available to members of the Money Purchase Section are detailed in this section. The Plan is not used for auto-enrolment, and never has been, and as such the charge cap is not a legislative requirement.

4.2 In relation to transaction costs, these costs can be incurred when buying and selling investments. They are not explicitly deducted from a fund but are captured in its performance (i.e., the higher the transaction costs, the lower the returns). The FCA provides guidance regarding calculation and disclosure of transaction costs. Due to the way in which these costs must be calculated, they can be negative or positive; a negative figure is effectively a gain from trading activity, whilst a positive figure is a cost from trading.

4.3 The Plan’s Money Purchase investments do not include any performance-based fee arrangements.

4.4 Funds used as part of the default investment option are shaded in blue in the following table.

Fund	Total Expense Ratio % p.a.	Transaction Costs % p.a.
L&G Multi-Asset (was Consensus Index)	0.26	0.02
L&G Over 5 year Index-Linked Gilts	0.10	0.04
L&G Over 15 year Fixed Interest Gilts	0.10	0.00
L&G Cash	0.13	0.11
L&G Global Equity (70:30) Index	0.21	0.00
L&G Diversified	0.34	0.01
Aviva BlackRock UK Equity Index Tracker	0.50	0.07
Aviva With Profits*	0.50	0.09
Aviva Stewardship	0.50	0.07

Source: Investment managers, as at 31 March 2024. Total expense ratios reflect all costs of managing a fund, including investment, legal, fund auditor fees and any other expenses within the fund. Transaction costs are for the year to 31.3.2024.

**The total cost of investment in a with profits fund will vary by member and is unknown until a member disinvests. Costs & charges stated for this fund do not include the cost of guarantees.*

4.5 The Trustees have assessed the extent to which the charges and costs set out above, alongside other elements of the Plan, represent good value for members and have concluded, in consultation with its independent DC adviser, that **the Plan offers good value for members.** The assessment process includes benchmarking analysis (for example, relative to 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 Value for Members framework considers:

- Nature of the benefits, and in particular the underpin benefits, which are relatively uncommon in defined contribution schemes.
- Investment management charges.
- Transaction costs (wider industry data has not been compared as it does not exist).
- Net of fees performance.
- Administration service standards.
- Investment design and range, including the fund choice available and the capabilities of the appointed 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.

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

Impact of Costs and Charges

4.7 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 on their retirement savings pot. Statutory guidance has been considered when providing these examples.

4.8 To represent the range of funds available to members we are required to show the effect on a member's savings of investment in the following:

- Default investment arrangement (which is also the most popular option)
- The self-select fund with the highest total charges (Aviva BlackRock UK Equity Index Tracker; as the With Profits fund has been excluded from the assessment to acknowledge that its returns, and therefore the illustrated outcomes for members, depend on annual bonuses, guarantees, and the individual member's time horizons, making it unsuitable for use in an illustration at the Plan level)
- The self-select fund with the lowest total charges (L&G Over 15 year Fixed Interest Gilts).

4.9 The illustrations take into account the following:

- Typical savings pot size, for the age of the youngest members in this section of the Plan.
- The fact that the Plan is closed and no contributions are being paid.
- Real terms investment returns gross of costs and charges, adjusted for the effect of costs and charges (using assumptions made in the Plan's Statutory Money Purchase Illustrations).
- Adjustment for the effect of costs and charges over time.

Illustration of the Impact of Costs and Charges

	Most popular fund: The default investment strategy		Highest cost fund: Aviva BlackRock UK Equity Index Tracker		Lowest cost fund: L&G Over 15 year Fixed Interest Gilts	
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
43	£35,386	£35,284	£36,816	£36,600	£36,089	£36,044
44	£35,572	£35,368	£38,507	£38,056	£37,000	£36,908
45	£35,759	£35,452	£40,275	£39,570	£37,934	£37,793
46	£35,948	£35,536	£42,125	£41,143	£38,892	£38,700
47	£36,137	£35,621	£44,059	£42,780	£39,874	£39,628
48	£36,328	£35,705	£46,083	£44,481	£40,881	£40,578
49	£36,519	£35,790	£48,199	£46,251	£41,913	£41,551
50	£36,712	£35,876	£50,412	£48,090	£42,971	£42,547
51	£36,905	£35,961	£52,727	£50,003	£44,056	£43,568
52	£37,100	£36,046	£55,149	£51,992	£45,169	£44,612
53	£37,295	£36,132	£57,681	£54,060	£46,309	£45,682
54	£37,492	£36,218	£60,330	£56,210	£47,479	£46,778
55	£37,689	£36,304	£63,101	£58,446	£48,678	£47,899
56	£37,933	£36,440	£65,998	£60,771	£49,907	£49,048
57	£38,224	£36,625	£69,029	£63,188	£51,167	£50,224
58	£38,563	£36,861	£72,199	£65,701	£52,459	£51,428
59	£38,951	£37,149	£75,515	£68,314	£53,783	£52,662
60	£39,389	£37,489	£78,983	£71,032	£55,141	£53,924
61	£39,880	£37,883	£82,610	£73,857	£56,534	£55,217
62	£40,425	£38,332	£86,403	£76,794	£57,961	£56,541
63	£41,025	£38,839	£90,371	£79,849	£59,425	£57,897
64	£41,684	£39,405	£94,521	£83,025	£60,925	£59,286
65	£42,403	£40,033	£98,862	£86,327	£62,463	£60,707

1. Values shown are estimates at end of each year and are not guaranteed.
2. Projected pension pot values are shown in today's terms.
3. To make this analysis representative of the membership, the Trustees have based these assumptions using membership data provided as part of the last strategic review of the investments, rolled forward to 31 March 2024 by Mercer. The assumed youngest member age is therefore age 43, with a normal retirement age of 65, using a starting pot size in line with the estimated Plan average. The member is assumed to be making no further contributions to the Plan.
4. Inflation is assumed to be 2.5% per annum and return assumptions are in line with the SMPI investment return assumptions supplied by the Plan's investment managers as at 31 March 2024.
5. The Regulations require that where possible the transaction costs assumed are based on an average of the previous 5 years' transaction costs, where available. As L&G and Aviva were unable to provide historic transaction costs for these funds, the transaction costs shown above are an average of the costs that have been provided over this period.

5. TRUSTEE KNOWLEDGE AND UNDERSTANDING

5.1 The requirements under section 247 of the Pensions Act 2004 (requirement for knowledge and understanding) have been met during the Plan year by the Trustees as a body in dealing with the whole Plan (not just the Money Purchase Section).

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

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

5.4 As part of the induction process, Trustees receive training on Plan documents, including the Trust Deed and Rules, the SIP, and other policy documents, as well as on the law relating to pensions and trusts and the relevant principles relating to investments. Part of this training is usually provided by the Plan's legal advisers, who ensure that it is up to date. The Trustees maintain a working knowledge of these documents, and receive updated training from professional advisers when these documents are reviewed and amended.

5.5 The Trustees seek to identify any knowledge and skills gaps through ongoing self-evaluation and by working with their advisors on training needs.

5.6 The Trustees are conversant with, and have a working knowledge of the Trust Deed and Rules, all documents setting out the Trustees' current policies and the SIP, including the requirements that came into force from October 2020 in relation to our policies in relation to investment manager arrangements, and more recently introduced requirements in relation to producing a policy on illiquid assets.

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

5.8 The Trustees consider training and topical updates from its advisors at each Trustee meeting. During the year, topics considered that supported Trustee knowledge and understanding included and conversance with the Plan:

- The Mansion House reforms announced by the previous Chancellor of the Exchequer in 2023 (20 September 2023 Trustee board meeting).
- Cyber security training (dedicated session outside of the regular Trustee meetings, 26 October 2023).
- New requirements for illiquid assets policies in the SIP (19 December Trustee board meeting).
- Individual Trustees attended various external pension related webinars provided by their advisers and other industry organisations during the year, including sessions on Trustee Knowledge and Understanding requirements (Hogan Lovells event, September 2023) and the General Code of Practice (a number of advisers, February 2024).

5.9 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

6.1 The Trustees consider that our systems, processes and controls across key governance functions are consistent with those set out in General Code and the prior DC Code of Practice.

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

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Chair

Note that the Trustees have processes in place to publish this statement on a publicly accessible website, and will comply with the requirements to notify members about this statement in their annual benefit statements. The Chair's Statement can be found at https://www.bechtel.com/about/life-at-bechtel/total-rewards/.