The Bechtel Limited Pension Plan

Statement of Investment Principles – December 2023
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 the Trustees' 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") on its contents.

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

2. Process For Choosing Investments

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' primary objective is to act in the best interest of the Plan's members. The Trustees' investment objective is to protect the Plan's strong funding position under a conservative funding basis by following a low-risk and liquid investment strategy with a view to, ultimately, using the Plan's assets to fully fund a buy-out of its liabilities with an insurance company.

4. Risk Measurement and Management

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

- Asset and Liability Mismatch Risk

  The primary risk upon which the Trustees focus is the funding risk from any mismatch between the Plan's assets and liabilities. To control this risk, the Trustees invest the Plan's assets in a portfolio of low-risk liability matching bond assets. The Trustees delegate day-to-day management of the bond assets to Mercer and set investment guidelines for the management of the bond assets that Mercer are required to work within. The guidelines include a target benchmark allocation for the bond assets at the point of implementation of the strategy. The Trustees review the target benchmark allocations and the actual distribution of the bond assets on a regular basis. Mercer provides the Trustees with regular reports on how the portfolio of bond assets is being managed against the guidelines.

- Collateral Risk

  An element of the Plan's bond assets, specifically a proportion of its gilt assets, is leveraged using gilt repurchase contracts (or "repos"). By leveraging the gilts, an improved match between the assets and liabilities can be achieved and thus asset and liability risk is better controlled. The use of leverage generates operational risks, particularly collateral risk, the control of which the Trustees have delegated to Mercer.

  Collateral risk relates to the Plan's leveraged positions in gilts not having, or being close to not having, sufficient capital support, leading to the risk of leveraged positions having to be reduced or closed down, and thus asset and liability mismatch risk increasing.

  The Trustees receive regular reports from Mercer on the leverage of the gilt assets, what the collateral support is for these positions and how this collateral support compares with regulatory guidelines.

- Diversification Risk

  As part of the objective of controlling asset and liability mismatch risk, the Trustees require Mercer to ensure that the Plan's portfolio of bond assets is appropriately diversified both across bond sub-asset classes and within each bond sub-asset class.

- Investment Manager Risk

  Day-to-day management of the Plan's bond assets is delegated by the Trustees to a range of specialist investment managers. Responsibility for the appointment, ongoing monitoring and termination of the investment managers is delegated to Mercer via investment in a range of pooled fund vehicles managed by Mercer (the "Mercer Funds"). Both passive and active investment managers are appointed to manage the underlying bond assets of the Mercer Funds. In appointing active managers, the Trustees accept that there is a risk that the managers do not achieve the returns expected of them. However, for specific asset classes, the Trustees believe that this risk is outweighed by the potential gains from successful active management. When taking active manager risk, the Trustees expect Mercer to diversify risk by appointing more than one active manager for a Mercer Fund. Mercer provides the Trustees with regular reports regarding the performance of the Mercer Funds and the investment managers.

- Illiquidity Risk

  The Trustees' portfolio of bond assets is fully liquid in that exposure to the assets is via Mercer pooled funds that deal on a daily basis.

- Custody Risk

  The Plan's assets are invested in pooled funds managed by Mercer. Mercer have appointed State Street Bank and Trust Company ("State Street") as custodian and administrator of the Mercer Funds held by the Plan. Mercer is responsible for keeping the suitability of State Street under ongoing review on behalf of the Trustees.

5. Investment Strategy and Implementation

The Trustees, with advice from Mercer and in consultation with the Sponsor, undertake regular reviews of their objectives and investment strategy. As a result of their most recent review, the Trustees have further de-risked their investment strategy by moving to a fully liquid portfolio of bond assets that is designed to minimise asset and liability mismatch risk.

The target allocation of the Plan's bonds assets (it's "strategy") at the point of implementation was as: -

Portfolio	**Allocation %**
Gilts and Leveraged Gilts	50
Investment Grade Credit	50
Total	**100**

The target expected return on the strategy is 0.4%p.a., net of all fees, above the portfolio of gilts that matches the Plan's projected liability cashflows.

Reflecting the low-risk nature of the strategy, the target volatility of the investment strategy relative to the Plan's funded liabilities is c. 1%p.a. That is, in every 2 years out of 3, the return on the assets is expected to be within +/-1% of the expected return.

The implementation of the strategy is expected to be completed by mid-May 2024, when the last of the sales of the Plan's illiquid asset holdings will settle.

The Trustees have delegated the responsibility for the implementation of the strategy to Mercer. This delegation includes responsibility for monitoring the Plan's actual allocation of the bonds assets and undertaking any rebalancing activity as set down in Mercer's appointment documentation and as reviewed by the Trustees in consultation with Mercer from time-to-time.

When constructing and implementing the strategy the Trustees expect that both Mercer, and the specialist investment managers Mercer appoints, to take into account all material financial considerations (including "ESG" factors – see Section 9) when selecting, retaining and realising investments.

The strategy is designed to match (or "hedge") 110% of the interest and inflation rate risk inherent in the present value of the Plan liabilities. The strategy is a bespoke portfolio of liability matching real and fixed interest bond assets (including cash), an element of which is leveraged in order to enhance the strategy's liability-hedging efficiency. The additional 10% of liability hedging is designed as pragmatic hedge of the interest and inflation rate risk inherent in the Plan's Section II liabilities.

An element of the hedging of the interest rate mismatch risk is achieved by an investment in investment grade credit assets, instead of gilts, in order to increase the expected return on the Plan's assets in a risk controlled way. The investment grade credit portfolio is managed on a semi-active "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 and holding them until redemption. The portfolio is income paying.

6. Realisation of Investments

Within the constraints of the guidelines agreed between the Trustees and Mercer when managing the Plan's assets, Mercer and the underlying investment managers of the Mercer Funds have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments.

7. Cash flow and cash flow management

The Plan's underlying portfolio of bond assets is designed such that cashflows from the bond assets are a good match for the Plan's expected benefit payments. These bond assets are held via investment in the Mercer Funds and the Mercer Funds trade on a daily basis and are income paying in addition. The Plan's cashflow requirements are therefore met by a combination of income and sales of Mercer Fund units as required. Any income generated by the Mercer Funds that is surplus to that required to meet the Plan's cashflow requirements is reinvested in the portfolio.

8. Rebalancing

Rebalancing considerations form part of the Trustees' regular reviews of the degree to which the bond assets are minimising the Plan's asset and liability mismatch risk. With the exception of rebalancing activity relating to the support of the leveraged positions in the portfolio, no rebalancing takes place in between these reviews as, to do so, would lead to increased mismatch risk between the assets and the liabilities. Where the portfolio's leveraged gilt positions are found to require further supporting collateral, the bond assets will be rebalanced in order to source collateral. The Trustees delegate decisions regarding how the portfolio should be rebalanced for collateral management purposes to Mercer.

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 considerations of the Trustees when reviewing Mercer's ongoing 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 investment managers Mercer appoints.

The Trustees have considered, and will continue to consider, including specific sustainability themed investment opportunities within their investment arrangements.

Investment Restrictions

The Trustees have not set any investment restrictions on Mercer, or the investment managers Mercer appoint, in relation to investment in 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 investment managers to align their investment strategy and decisions with the Trustee's beliefs.

The Trustees have appointed Mercer as the Plan's overall investment 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 Mercer Funds. The Trustees accept that they do not have the ability to determine the policies or arrangements that Mercer, or more specifically Mercer Global Investments Europe (MGIE) as the appointed manager of the Mercer Funds, 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 investment 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 investment 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 the Plan's credit investments are made by the investment managers appointed by MGIE. The Trustees are aware that Mercer or MGIE do not make such investment decisions.

In appointing the investment 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 investment managers' compliance with this expectation, the Trustees consider regular reports from Mercer that include an assessment of each manager's voting and engagement activity. The Trustees use this monitoring to identify actions taken by the investment 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 investment 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 investment managers' performances, and how they remunerate their investment managers, is aligned with the Trustees' beliefs.

All investment manager fees are 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 investment 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 investment 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 investment managers, of an improving trend in the stewardship and sustainability of the issuers of the assets held by the Plan. Such evidence could be 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 investment 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 investment 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 investment 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 investment 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 fixed fee based on 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.

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.

……………………………………………..

For & on behalf of the Trustees of The Bechtel Limited Pension Plan