

# **Chevron UK Pension Plan**

## **Statement of Investment Principles – Defined Benefit section – March 2024**

### **1. Introduction**

The Trustee of the Chevron UK Pension Plan (the “Plan”) has drawn up this Statement of Investment Principles (“the Statement”) for the Defined Benefit section of the Plan to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. As required under the Act, the Trustee has consulted suitably qualified persons and obtained written advice from Willis Towers Watson on this statement. The Trustee will take advice regularly from one or both of Chevron Benefit Plan Investments staff and Willis Towers Watson on the Plan’s investments. The Trustee has also consulted Chevron Energy Limited (the “Company”) as the sponsoring company, with regard to the Trustee’s investment objectives and to ascertain whether there are any material issues to which the Trustee should have regard in setting the Plan’s investment arrangements.

The Plan provides both a Defined Benefit (DB) and Defined Contribution (DC) Pension arrangement. This document exclusively covers the Plan’s DB arrangements – a separate Statement has been produced for DC arrangements. The fundamental responsibility of the Trustee is the strategic management of the Plan assets. The overall investment policy for Defined Benefit assets falls into two parts:

- i) The Trustee follows the investment objectives set out in Section 2 below. The Trustee receives expert advice in determining the investment objectives.
- ii) The day-to-day management of the assets is delegated to professional investment managers and is described in Section 3.

### **2. Defined Benefit Investment Objectives, Risk and Investment Strategy**

#### **2.1 Defined Benefit Investment Objectives**

The objective of the Defined Benefit Section of the Plan is to meet the cost of the Plan’s benefit obligations as they arise. The Plan invests existing assets and future contributions with the objective to provide a rate of return that complements the agreed funding policy for future benefit obligations and to limit the risk of the Plan having a shortfall. The ultimate power and responsibility for deciding investment policy lies with the Trustee.

The Trustee’s strategic objectives for investments are to:

- Achieve at or above benchmark rate of total return of the Plan assets over the long-term, within prudent levels of risk and liquidity and;
- Provide adequate liquidity for benefit payments and portfolio management.

The Trustee manages investment risk through:

- Establishing an appropriate asset allocation between investment asset classes;
- Establishing an appropriate overall investment return benchmark for the Plan based on the asset allocation.
- Maintaining diversification across asset classes and investment managers.

These investment objectives incorporate the Company's view that a prudent level of risk can be taken in an attempt to reduce the cost of providing benefits. The Trustee and the Company understand there will be periods when the assets underperform the liabilities. This risk ultimately falls on the Company. The risk of Company non-performance is evaluated by the Trustee through the Employer Covenant assessment process

## 2.2 Policy on Defined Benefit Risk Management and Measurement

There are a number of risks to which any pension scheme is exposed, and the Trustee's policy on these risks is described here.

- The Trustee has established a policy benchmark for the Plan in order to balance risks arising from the characteristics of the Plan's assets and liabilities. The policy benchmark is established using an Asset Liability Model which is reviewed regularly.
- The Trustee receives advice on investment strategy and (in light of the objectives noted previously) considers carefully the implications of adopting different levels of risk. The Trustee and the Company consider these risks in setting the strategy.
- The Trustee recognises that the use of active investment managers for the Plan assets introduces a risk that the assets may underperform the policy benchmark. The Trustee believes this risk is outweighed by the potential gains from successful active management in selected asset classes. The risk is mitigated through the engagement of a mix of active managers balanced by an appropriate level of passive investment management.
- The Trustee recognises the risks that may arise from a lack of diversification of investments. The Trustee aims to mitigate this risk by ensuring that the asset allocation policy in place results in an adequately diversified portfolio. The risk is controlled by engaging a number of different managers, each having complementary investment styles.

- Arrangements are in place to monitor the Plan's investments and the Trustee receives regular reports from all investment managers and the independent performance monitor. The Trustee monitors the performance of the active and passive investment managers regularly to assess suitability for the Plan. The safe custody of the Plan's assets is delegated to a professional custodian.
- Should there be a material change in the Plan's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered, and in particular whether the current risk profile remains appropriate.

### 2.3 Defined Benefit Investment Strategy

In establishing its investment strategy, the Trustee has taken into account the Plan's liability profile and funding level. Based on expert advice, the Trustee has adopted an asset allocation strategy which it believes is appropriate for controlling the risks identified in 2.2 above. The current asset allocation strategy consists of:

- 10% global equities
- 10% UK and European Property
- 80% Fixed Income and cash
  - 40% UK fixed interest corporate bonds
  - 38% UK gilts (fixed interest and index linked)
  - 2% Cash

The overall portfolio policy benchmark consists of:

- 10% MSCI ACWI IMI (net of taxes) Index,
- 78% Total UK Fixed Income Benchmark (consisting of 51.28% Iboxx £ Non-Gilt 10Year + Index, 17.95% FTSE UK Gilts Index Linked>15Yrs Index, 20.51% FTSE UK Gilts>15Yrs, and 10.26% FTSE UK Gilts IL > 25yrs)
- 10% Total Property Benchmark (65% MSCI Pan-European Index and 35% MSCI UK ALL Balanced Property Index).
- 2% 3 Month UK LIBOR

The allowable ranges are:

- 5% to 15% global equities
- 35% to 45% fixed interest corporate bonds
- 28% to 48% UK gilts (fixed interest and index linked)
- 5% to 15% UK and European property
- 0% to 7% cash

Rebalancing decisions are delegated to the Investment Committee and day-to-day investment management is delegated to the appointed asset managers.

The investments are managed using a mix of active and passive investment managers.

### **3. Day-To-Day Management of the Assets**

#### **3.1 Defined Benefit Assets**

The Trustee has appointed more than one manager to limit the risk to the Plan as a whole, should one manager underperform. In addition, by employing different managers for different asset classes, managers with particular strengths in these different areas can be used.

The Trustee has set the managers specific performance objectives and placed certain restrictions on the managers to ensure appropriate diversification and suitability of the investments for the Plan. These are detailed in each investment management agreement.

#### **3.2 Realisation of Investments**

The Trustee decides how investments (other than individual member accounts) should be realised for cash to meet benefit payments. Subject to meeting the Trustee's cash requirements, the Plan's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments.

#### **3.3 Relationship with and Monitoring the Investment Managers**

As noted above, the Plan uses several different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement.

Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities (discussed further in section 3.4 below). If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager may be terminated and replaced.

For most of the Plan's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

Performance of the investment managers is measured independently by the global custodian and reviewed monthly.

The Trustee receives reports (at least quarterly) from the investment managers and meets the active investment managers at least once a year to review the investment managers' actions together with explanations for investment performance.

A formal Watch-Monitor process is also used by the Trustees to gauge investment manager performance. The process deploys a combination of quantitative and qualitative factors in evaluating the managers. The factors leverage Willis Towers Watson's research process in assessing each manager against various criteria and resulting manager rating. The Watch-Monitor list is reviewed on a quarterly basis.

- When assessing a manager's performance, the focus is generally on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

Investment managers are paid a fee expressed as a percentage of assets managed, in line with normal market practice, for a given scope of services. The Trustee reviews the costs incurred in managing the Plan's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate, to the extent that the data is readily available.

#### 3.4 Sustainable investment factors including Environmental, Social and Governance factors

The Trustee seeks to take account of all relevant financially material risks and opportunities in consultation with its advisers. The Trustee's policy at this time is not to take into account non-financial matters (outlined below). Such risks and opportunities are considered for materiality and impact within the Plan's Risk Register. The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations in the context of this broader risk framework.

The Trustee's policy is that day-to-day decisions relating to the investment of Plan assets are left to the discretion of its investment managers. This includes consideration of all financially material factors, including ESG-related issues where relevant. The Trustee explores these issues with its managers to understand how they exercise these duties in practice and receives reports on how these issues are addressed. The Trustee recognises that for funds which passively track an index the manager cannot take account of these factors in the selection of investments (though there may be instances where the index itself may reflect ESG factors).

When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment advisers, looks to take account of the approach taken by managers with respect to sustainable investing including voting policies and engagement where relevant.

When considering its policy in relation to stewardship including engagement and voting, the Trustee expects investment managers to address broad ESG considerations and have reviewed the investment managers stewardship policies. The Trustee recognizes that ESG factors, including climate change, present a risk and could also present opportunities and should therefore be considered through the investment process.

The Trustee's policy is to delegate to the investment managers responsibility for the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and ESG considerations. However, the Trustee recognises that the responsibility for these activities remains with the Trustee and therefore review the Investment managers stewardship preferences on an annual basis. The Trustee incorporates an assessment of how well the investment managers exercise these responsibilities as part of its annual assessment of their performance. The Trustee recognises the UK Stewardship Code 2020 as best practice and encourages their investment managers to comply with the UK Stewardship Code or explain where they do not adhere to this policy. In September 2022, Northern Trust Asset Management (NTAM), the passive equity manager, achieved signatory status of the UK Stewardship Code 2020, a global best-practice in investment stewardship.

#### Non-financial factors

At present, the Trustee does not explicitly take account of non-financial matters (including member views) in Plan design or strategy but may consider reflecting specific non-financial considerations in future.

#### **4. Compliance with this Statement**

The Trustee will monitor compliance with this Statement and the Trustee undertakes to advise the investment managers promptly and in writing of any material change to this Statement.

#### **5. Review of this Statement**

The Trustee will review this Statement in response to any material changes to any aspects of the Plan, its liabilities, finances and the attitude to risk of the Trustee and the sponsoring Company which they judge to have a bearing on the stated Investment Policy.

This review will occur no less frequently than every three years to coincide with the Actuarial Valuation. Any such review will again be based on written expert investment advice and will be in consultation with the Company.

Signed:

Simon Owens  
Chairman

Beth Claar  
Director

Date:

