Chevron UK Pension Plan

Statement of Investment Principles – January 2019

1. Introduction

The Trustee of the Chevron UK Pension Plan (the “Plan”) has drawn up this Statement of Investment Principles ("the Statement") 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 fundamental responsibility of the Trustee is the strategic management of the Plan assets. The overall investment policy falls into three parts:

i) The Trustee follows the investment objectives set out in Section 2 below for the Defined Benefit assets. The Trustee receives expert advice in determining the investment objectives.

ii) The investment of Defined Contribution elements of the Plan (part of the New Section and AVC’s) is described in Section 4, and Appendix A and B. The investment performance risk of defined contribution investments is borne by the member and the member chooses investments from a range of fund options provided by the Trustee acting on expert advice.

iii) 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 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. The Plan seeks to deliver an investment return in excess of such benchmark over the long term;
• 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:

- 35% global equities
- 25% UK fixed interest corporate bonds
- 10% UK fixed interest gilts
- 20% UK index-linked gilts
- 10% UK and European Property and
- 0% cash

The overall portfolio policy benchmark consists of:

- 25% MSCI ACWI IMI (net of taxes) Index,
- 10% MSCI ACWI World Minimum Volatility Index
- 25% iBoxx Sterling Corporate >10 Yrs Index
- 10% FTSE Actuaries UK Gilts >15 Yrs Index
- 15% FTSE Actuaries UK Over 15 Year Index Linked Gilts Index and
- 5% FTSE Actuaries UK Over 25 Year Index Linked Gilts Index
- 10% Property – of which 65% IPD All Balanced Funds Index and 35% IPD Pan European All Balanced Property Fund Index.

The allowable ranges are:

- 25-45%, global equities
- 20-30% fixed interest corporate bonds
- 5% to 15% fixed interest gilts
- 15% to 25% index-linked gilts
- 5% to 15% UK and European property and
- 0 to 5% cash

Rebalancing decisions are delegated to the Investment Committee and day-to-day investment management is delegated to the appointed asset managers.
The Investment Committee has determined a formal rebalancing policy in consideration of the costs and benefits of rebalancing in accordance with the following ranges for each asset class:

- global equities +-2% versus target
- UK fixed interest corporate bonds +-2% versus target
- UK fixed interest gilts +-3% versus target
- UK index-linked gilts +-2% versus target
- UK and European Property +-2% versus target

The investments are managed using a mix of active and passive investment managers. The targets for passive management of each of the asset classes are as follows:

- 40-60% global equities
- 25-40% fixed interest corporate bonds
- 100% fixed interest gilts
- 100% index linked gilts
- 0% UK and European property.

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 **Defined Contribution Assets**

The Defined Contribution element of the New Section and AVC are covered in Section 4. In addition, certain pensions are covered by paid-up annuity insurance policies.

3.3 **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. DC members’ accounts (including assets invested in investment options classified as default arrangements) are held in funds which can be realised to provide pension benefits on retirement, or earlier on transfer to another pension arrangement.
3.4 Monitoring the Investment Managers

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 will be used to gauge investment manager performance versus peers and benchmarks. The process will involve a combination of quantitative and qualitative factors in this assessment. The Watch-Monitor list will be reviewed on a quarterly basis.

3.5 Corporate Governance

The Trustee periodically obtains details of the managers’ audited corporate governance policies and controls report and requires them to report on any contentious issues as part of the managers’ quarterly reporting.

The Trustee gives the investment managers full discretion in exercising voting rights on the Plan’s investments. In respect of actively managed funds, the Trustee periodically obtains the investment managers’ policy on voting rights and reviews for best practice.

The Trustee’s policy is to delegate social, environmental or ethical considerations in investment choice to the discretion of its investment managers. The Trustee recognises that investment managers cannot take account of these factors in the selection of investments in funds which passively track an index (other than where the index itself reflects ESG factors). The Trustee periodically reviews its investment manager’s policies relating to social, environmental or ethical issues for compliance with industry best practice. This policy applies for all defined benefit (and, to the extent applicable, defined contribution) funds, including those classified as default investment options.

4. Current Defined Contribution Elements of the Plan

4.1 Elements and Investment Policy

The two defined contribution elements of the Plan are the DC element of the New Section (for employees joining since 1st January 2012 for eligible earnings over the DB earnings Cap and pensionable shift allowances) and Additional Voluntary Contribution (AVC) investments since 1st August 2006. These elements provide benefits in addition to the Plan’s defined benefit accrual. Additionally, the Plan holds certain policies with Equitable Life which represent defined contribution entitlements – see Section 5 below.
The Trustee has noted that, in relation to the range of investment funds available for members to choose to invest in, it is the members who set their strategy and select investments from the range offered according to their own investment preference. The responsibility of the Trustee is limited to providing a range of funds for members to invest in and ensuring that the funds offered perform in line with the managers stated objectives.

Thus, defined contribution investment risk is borne by the members. Members are encouraged to seek independent investment advice.

4.2 General Investment Objectives and Policy and Risks

The Trustee’s objective is to seek to provide members with a range of investment funds to invest in secure assets of appropriate liquidity which are designed to generate income and capital growth. The Trustee’s policy is to seek to achieve the above objectives by providing a range of funds with the following characteristics:

- A range of equity funds diversified geographically and in various investment strategies;
- A range of sterling denominated fixed interest funds with differing characteristics and durations;
- The funds to be passively managed;
- The fund benchmark to be transparent and commercially reported by a major index provider;
- The fund to be available for investment on the Plan’s investment platform selected
- Funds to be provided by a reputable manager and only to be invested in regulated public markets;
- Investment management fees to be low and competitive

The detailed investment objectives for the asset classes selected are as follows:

Equities: The equity funds invest passively in their respective markets. They have the objective to provide returns consistent with the markets in which they invest. The funds provide a broad exposure to each of the countries in which they invest. Capital values may be highly volatile in the short term.

Bonds: The bond funds invest passively in fixed income securities consistent with the fixed income asset class selected. The investment objective is to achieve returns consistent with the selected benchmark. Capital values are likely to be less volatile than equities but tend to produce lower returns in the medium to long term.
Cash: The cash fund invests in money market instruments with the objective of providing a low risk, highly liquid investment alternative. The fund’s investment returns are limited given the easily realizable and lower risk nature of instrument.

Lifestyle Structures: These structures invest in an appropriate selection of the underlying funds provided by the Trustee. Their objective is to provide long term capital growth. The structures offered provide differing levels of investment risk.

The Trustee recognises the returns on equity and bond assets, while expected to be greater over the long term than those on monetary assets, are likely to be more volatile.

Consequently, the funds in Appendix A have been made available to members.

4.3 Default Funds

In the absence of member choice the Trustee provides a default investment option for the New Section DC Funds. This is detailed in Appendix A, with further information its aims and objectives and those of other funds classified as default funds being provided in Appendix B.

AVC members are required to make a choice for the investment of new contributions from 30 September 2014.

4.4 General Principles Underlying the Default and self-select investment options

The Trustee recognises, that the uncertainty inherent in four specific investment risks (inflation, capital, opportunity cost and decumulation mismatch) can be managed to a limited extent by the choice of investments. These risks and the Trustee's objective for each risk are considered under the following headings:

*Inflation Risk*

The risk that investments do not provide a return at least in line with inflation, so that the "purchasing power" of the ultimate fund available to provide benefits is not maintained at retirement.

*Capital Risk*

The risk that the monetary value of a member's account falls.

The Trustee's objective is to provide an investment option that offers a very low risk of capital loss. A cash deposit fund is an example of such an option.

*Decumulation Mis-match Risk*

The risk that investment allocations in the years just prior to retirement do not match members’ retirement objectives, exposing members to inefficient or uncertain outcomes.
The Trustee’s objective is to provide a range of investment options that allow members sufficient flexibility to meet their varying objectives.

*Opportunity Cost Risk*

The risk that members end up with insufficient funds at retirement with which to secure a reasonable income—“shortfall” or “opportunity cost” risk.

4.5 The Trade-off between risks

The relative importance of inflation, capital, opportunity cost and decumulation mismatch risk depends on the length of time to retirement and each member's attitude to risk and expected return. Managing decumulation mis-match and/or capital risks is important near retirement, whereas the inflation risk should be far more important to younger members.

It is recognised that the control of one of the aspects of risk is often at the expense of another. For example, investing in a cash deposit fund will give protection against a decrease in fund values (capital risk), but will increase the risk of ending up with insufficient funds at retirement (opportunity cost risk). The Trustee offers a range of defined contribution funds with differing characteristics as described in section 4.2, to mitigate these risks.

4.6 Day-to Day Management

The Trustee maintains individual member accounts with the investment platform provider.

The Trustee monitors performance of the funds against their benchmarks in order to assess continued suitability of the funds.

4.7 Professional Review

The Trustee receives independent professional advice concerning the range of funds offered and default investment options. This review is conducted periodically and takes into account the demographics of the membership.

5. Defined Contribution – Equitable Life (“Equitable”)

The Trustee has 7 policies with Equitable which relate to certain heritage Texaco, Gulf and Chevron arrangements, namely:

- AVC investments;
- Transfer Plans (where employees transferred across other pension arrangements); and
- a money purchase arrangement operated for certain heritage Texaco members.

The majority of the investments are in with profits policies. As a result neither the Trustee nor the Member has any influence over the investments made.
Due to the demise of Equitable, the underlying investment funds within Equitable have been derisked and these funds are mostly invested in bonds.

6. **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.

7. **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:

Stewart Wright       Irene Melitas  
Chairman             Director

Date:
**Appendix A**

**Current List of Defined Contribution Funds**

The current list of funds is provided below. The highlighted funds have been used in construction of the three lifecycle structures.

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Self-select fund range</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global equities</strong></td>
<td>BlackRock Consensus Fund</td>
<td>FTSE All Share, 30% FTSE AW Developed North America, FTSE AW Developed Europe (ex UK), FTSE AW Developed Asia Pacific (ex Japan), FTSE AW Japan, FTSE AW All Emerging, iBoxx Non Gilts ex BBB All Stocks, FTSE A Index Linked All Stocks FTSE A Index Linked &gt; 5 years, JPM Global (ex UK) Traded, Barc Cap US TIPS&gt; 5 years, LIBID 7 Day</td>
</tr>
<tr>
<td></td>
<td>BlackRock 30:70 Currency Hedged Global Equity Fund</td>
<td>30% FTSE All Share, 60% of FTSE AW Developed Europe (ex UK), FTSE AW USA, FTSE AW Japan, FTSE AW Developed Asia Pacific (ex Japan), 10% MSCI Emerging Markets NDR</td>
</tr>
<tr>
<td><strong>Overseas equities</strong></td>
<td>BlackRock World (ex UK) Fund</td>
<td>FTSE All World Developed ex UK Index</td>
</tr>
<tr>
<td><strong>UK equities</strong></td>
<td>BlackRock UK Equity Fund</td>
<td>FTSE All Share Index</td>
</tr>
<tr>
<td><strong>Other equities</strong></td>
<td>BlackRock Emerging Markets Fund</td>
<td>MSCI Emerging Market net Index</td>
</tr>
<tr>
<td><strong>Bonds</strong></td>
<td>BlackRock All Stocks Corporate Bond Fund</td>
<td>Iboxx GBP Non Gilts Index</td>
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<tr>
<td></td>
<td>BlackRock Over 15 Years Gilt Fund</td>
<td>FTSE A UK Gilts Over 15 Years Index</td>
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<tr>
<td></td>
<td>BlackRock Over 5 Year Index Linked Gilt Fund</td>
<td>FTSE A UK Index Linked Gilts Over 5 Years Index</td>
</tr>
<tr>
<td><strong>Specialist</strong></td>
<td>Fidelity HSBC Life Islamic Fund</td>
<td>Dow Jones Islamic Titans 100 Gross Index</td>
</tr>
<tr>
<td><strong>Cash</strong></td>
<td>BlackRock Cash Fund</td>
<td>7 Day Libid from Inception</td>
</tr>
</tbody>
</table>
Appendix A (continued)

Lifecycle structures

<table>
<thead>
<tr>
<th></th>
<th>Option 1 - Chevron Equity/Bond Split 50/50 Fund *</th>
<th>Option 2 - Chevron Equity/Bond Split 75/25 Fund</th>
<th>Option 3 - Chevron Equity 100 Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accumulation phase</strong></td>
<td>50% Global Equity (30:60:10) Index(^1) 50% UK Bond Index(^2)</td>
<td>75% Global Equity (30:60:10) Index(^1) 25% UK Bond Index(^2)</td>
<td>100% Global Equity (30:60:10) Index(^1)</td>
</tr>
<tr>
<td><strong>Consolidation phase</strong></td>
<td>100% BlackRock Cash Fund</td>
<td>100% BlackRock Cash Fund</td>
<td>100% BlackRock Cash Fund</td>
</tr>
<tr>
<td><strong>Switching period</strong></td>
<td>5 years</td>
<td>5 years</td>
<td>5 years</td>
</tr>
<tr>
<td><strong>Switching frequency</strong></td>
<td>Quarterly</td>
<td>Quarterly</td>
<td>Quarterly</td>
</tr>
</tbody>
</table>

\(^1\) BlackRock 30:70 Currency Hedged Global Equity Fund (30% UK Equity Index, 60% World (ex UK) Equity Index, and 10% Emerging Market Equity Index)

\(^2\) 75% BlackRock All Stocks Corporate Bond Index and 25% BlackRock Over 5 Year Index Linked Gilt Index

* Default for the New Section
Appendix B

Aims and objectives of the default investment arrangements

The Plan offers a DC default Arrangement because the Trustee recognised that some members will not want to choose an investment option and the Plan is an automatic enrolment scheme.

The DC default investment option is the Chevron Equity/Bond Split 50/50 Fund Lifestyle strategy and is described in Appendix A. Its objective is to provide good outcomes for members by targeting growth with an appropriate degree of risk during a members early years of investment, and gradually moving to investment in a lower risk cash fund as the member approaches their selected retirement date. The Default Arrangement moves towards being 100% invested in Fidelity BlackRock Cash Fund at retirement to mitigate potentially mismatching risk by investing in the way in which members commonly take their accrued funds in the Default Arrangement at retirement.

The DC default investment option is intended to ensure that assets are invested in the best interests of members and beneficiaries. In designing the DC default investment options under the Plan, the Trustee in conjunction with their investment advisers gave in-depth consideration to the Plan’s demographic profile, the retirement outcome needs and risk tolerance of the membership. The Trustee last reviewed the investment options in 2017 (including the default investment arrangements as these continue to be invested in the best interests of the members).

Other funds classified as default arrangements

Under legislation, funds in which members are invested without having expressed a written choice, and which have received new contributions since April 2015 are also classified as default funds. The Trustee has taken legal advice, and this definition applies to the BlackRock World (ex UK) Equity Index Fund as this fund was used to consolidate four regional equity funds in 2016 without member consent.

The BlackRock World (ex UK) Equity Index Fund invests in shares of overseas companies (Europe ex UK, Japan, Pacific Rim, US and Canadian markets) according to market capitalisation weightings and aims to produce a return in line with its benchmark, which is the FTSE All-World Developed ex UK Index.

The aims and objectives in offering the BlackRock World (ex UK) Equity Index Fund are to provide members with an equity based investment option that meets their risk and return requirements and to give members the freedom to structure their own investment portfolio from the range of different asset classes that are made available.