Black & Veatch (UK) Pension Scheme

Statement of Investment Principles – January 2023

1. INTRODUCTION

The Trustee of the Black & Veatch (UK) Pension Scheme (the "Scheme") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005, as amended from time to time.

In preparing this Statement the Trustee has consulted Black & Veatch (the "Company"), in particular on the Trustee's objectives and to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements. As required under the Act the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited (the "Investment Consultant"). The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments.

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee (acting on advice as they deem appropriate) and is driven by its investment objectives. The remaining elements of the policy are part of the day to day management of the assets which is delegated to Mercer UK Ltd (Mercer).

2. PROCESS FOR CHOOSING INVESTMENTS

The process for choosing investments is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives set
- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the targeted level of risk
- Ensure that the assets are invested in the best interests of members and beneficiaries
- Ensure that the powers of investment or the discretion of them is exercised in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole relative to the Scheme's liabilities.

In considering the appropriate investments for the Scheme the Trustee obtained and considered the written advice from the Investment Consultant whom the Trustee believes to be suitably qualified to provide such advice. As required under the Act, the Trustee have obtained and considered appropriate written advice from the Scheme's Investment Consultant. The Trustee regularly reviews the suitability of its investment arrangements through quarterly monitoring reports and at each Trustee meeting.

3. INVESTMENT OBJECTIVES

The investment policy is guided by an overall objective of achieving, over the long term, a return on the investments which is consistent with the long term assumptions made by the Actuary in determining the funding of the Scheme.

Following the 2015 actuarial valuation the Trustee reviewed the investment strategy in 2016 and decided to adopt a Cashflow Driven Investment ("CDI") strategy managed by Mercer. This integrated funding and investment strategy will:

- Target self-sufficiency in ten years (2026) as the Scheme's long term objective
- Match a high proportion of the Scheme's expected liability cashflows over the next ten years
- Seek to reduce funding level volatility by broadly matching the assets' and liabilities' sensitivity to interest rate and inflation

The Trustee keeps the Scheme's investment strategy under regular review. The investment strategy was reviewed in 2022 and, as a result, the Scheme adopted a new investment strategy with the aim of reducing funding level volatility further, by terminating the equity investments and rebalancing the level of liability hedging using a combination of fixed income assets.

4. RISK MANAGEMENT AND MEASUREMENT

The Trustee is aware of and pays close attention to a range of risks inherent in investing the assets of the Scheme, and which the Trustee believes may be financially material to the Scheme.

The Trustee recognises that the CDI strategy will help the Scheme meet its day-to-day cashflow needs by providing relatively stable cashflow streams through income generating assets. The CDI strategy should also narrow the range of potential funding level outcomes and reduce volatility by providing a high level of liability hedging.

The Trustee has chosen to take on some level of investment risk in order to increase the expected return on the assets above that of gilts, with the aim of reducing the long term cost of the Scheme to the Company.

The Trustee believes that the investment strategy provides for adequate diversification both within and across different asset classes and sectors. The Trustee further believes that the current investment strategy is appropriate given the Scheme's liability profile and the assumed strength of the Company covenant.

The Trustee's policy on risk management is as follows:

- The primary investment risk faced by the Scheme arises as a result of a mismatch between the Scheme's assets and its liabilities. This is therefore the Trustee's principal focus in setting investment strategy. The Trustee's approach to managing this risk is through quantitative asset and liability modelling which the Trustee undertook in 2016, 2017, 2019 and 2022 under the guidance of Mercer. This enables the Trustee to quantify the risk associated with the mismatch between the Scheme's assets and its liabilities.

- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk as part of the asset/liability study.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. The CDI strategy means the Scheme is largely invested in fixed income assets and the Trustee recognises the importance to diversify the bond assets by sector and by managers. Mercer provides the Trustee with regular monitoring reports regarding the level of diversification within the portfolio.

- To help the Trustee ensure the continuing suitability of the current investments, the Trustee delegates responsibility for the hiring, firing and ongoing monitoring of the Scheme's underlying investment managers to Mercer. Mercer provides the Trustee with quarterly reports regarding the appointed investment managers to monitor consistency between the expected and experienced levels of risk and return.

- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in markets deemed efficient where the scope for added value is limited.

- Winding-up / Solvency Risk is the risk that, were the Scheme to wind-up at any time, the assets at that point are insufficient to secure the liabilities. However, the primary rationale of the separate funding of pension promises under trust is to ensure that the security of those promises is not compromised by events at the sponsor itself. Consequently, the pension scheme Trustee must be mindful of the potential impact of any investment strategy upon a possible winding-up situation in the future.

- The Trustee has adopted a strategy that makes due allowance of the need for liquidity of the Scheme's assets.

The Trustee takes into account the following risks arising from the asset classes in which the Scheme invests:

- Interest rate risk exists if the assets have different linkages to interest rates than the liabilities. The Trustee has measured the sensitivity of the Scheme's assets to interest rate movements compared to the Scheme's liabilities and invested the assets such that the interest rate risk is fully hedged.

- Inflation risk exists if the assets have different linkages to inflation than the liabilities. The Trustee considered the sensitivity of the Scheme's assets to changes in inflation compared to the Scheme's liabilities as part of the asset/liability study carried out in 2016, 2017, 2019 and 2022. As with interest rate risk, the Trustee has decided to fully hedge the inflation risk.

- Credit risk reflects the risk that the payments due under a bond might not be made by the issuer. The Trustee has considered this risk, particularly with reference to the buy and maintain corporate bond portfolio, but believes that the excess return expected on corporate bonds is sufficient reward for taking this risk. The Trustee has decided to invest only in investment grade corporate bonds within the buy and maintain portfolio to mitigate credit risk. Within the multi-asset credit portfolio, credit risk is managed by investing in a diversified portfolio of instruments.

- Volatility risk concerns the stability of the market value of assets, where the price achievable may be particularly affected by short term sentiment and is not certain until the point of sale. The Trustee terminated the equity investments in 2022 to help mitigate this risk.

- Currency risk will arise through investment in non-sterling assets, given that the Scheme's liabilities are denominated in sterling, because changes in exchange rates will impact the relative value of the assets and liabilities. The Scheme is broadly fully hedged for overseas currency exposure.

- Environmental, Social and Governance ("ESG") risk includes issues such as climate change, which may have substantive impacts on the global economy and subsequently investment returns. The Trustee seeks to minimise this risk by monitoring and regularly reviewing that advisers and fund managers to the Scheme are suitably experienced to consider these risks in the service they provide to the Scheme.

- Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Trustee receives regular updates at Trustee meetings from the Actuary and Investment Consultant relating to expected changes in regulation.

The Trustee has also considered the balance between active and passive management in asset classes where passive management is a practicable option. As part of the CDI strategy, the Trustee has decided to invest in two actively managed funds, namely the multi-asset credit fund and tailored credit fund.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

5. PORTFOLIO CONSTRUCTION

The Trustee has agreed the construction of the Scheme's portfolio consistent with the investment objectives set out in Section 3.

Investment in securities issued by the Company or affiliated companies is limited to the extent that such securities may be represented within the pooled funds in which the Trustee invests.

Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustee will ensure that the assets of the Scheme are predominantly invested in regulated markets.

The Trustee decided to engage with Mercer to implement their CDI strategy on a delegated basis.

6. INVESTMENT STRATEGY

Investment policy can be considered in two parts: (1) the strategic management, the setting of which is one of the fundamental responsibilities of the Trustee and (2) the day-to-day management of the assets, which has been delegated to professional investment managers.

Given the investment objectives, the Trustee has implemented the investment strategy detailed in the table below. The target allocation is to be reviewed on at least an annual basis by the Trustee, with advice from Mercer. The Trustee believes that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

Asset Class / Fund	Benchmark Allocation (%)	Control Range (%)
Multi Asset Credit	10.0	8.5 - 11.5
Liability Hedging	90.0	88.5 - 91.5
Total	**100.0**	**-**

6.1 Liability Hedging

The Trustee has agreed the Scheme's liability hedging allocation, under the CDI strategy, outlined in the table below.

The key aim of the liability hedging assets will be to provide sensitivity to changes in interest rates and inflation, such that the Scheme's overall assets hedge the majority of the interest rate and inflation risk associated with the liabilities.

Asset Class / Fund	Benchmark Allocation (%)
Mercer Tailored Credit Fund	66.7
MGI UK Inflation Linked Bond Fund	19.8
Mercer Flexible LDI £ Real Enhanced Matching Fund 1	1.9
Mercer Flexible LDI £ Real Enhanced Matching Fund 2	2.1
Mercer £ Inflation Enhanced Matching Fund 1	1.9
MGI UK Long Gilt Fund	7.0
Mercer £ Nominal LDI Bond Fund	0.6
Total	**100.0**

7. DAY–TO-DAY MANAGEMENT OF THE ASSETS

The Trustee has delegated the 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 Delegated Solutions is responsible for the selection, appointment, removal and monitoring of the underlying investment managers. The underlying investment managers have full discretion to buy and sell investments on behalf of the Scheme subject to agreed constraints.

The Trustee has taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to choose and combine the underlying investment managers and ensure that they are fit to manage the Scheme's investments and are carrying out their work competently.

The Trustee has determined, based on expert advice, a benchmark mix of asset types and ranges within which the appointed Investment Manager may operate.

The Trustee regularly reviews the continuing suitability of the Scheme's investments, including Mercer's ability to select, appoint, remove and monitor the appointed managers.

Mercer is regulated by the Financial Conduct Authority ("FCA").

7.1 Performance Objective

The performance objective for all asset classes, except for the multi-asset credit and tailored credit funds, is to match the relevant benchmark return on a gross of fees basis.

Asset class / Fund	Benchmark Allocation (%)	Benchmark Index	Performance Objective
Mercer Multi Asset Credit Fund	10.0	FTSE GBP 1 Month Euro Deposit Index[1]	To generate cash + 3-5% (net of fees) over 5 year rolling periods
Mercer Tailored Credit Fund	60.0	No Benchmark Assigned	Harvest efficient credit spread premium (buy and maintain investment approach)
MGI UK Inflation Linked Bond Fund	17.8	FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index	To match the benchmark
Mercer Flexible LDI £ Real Enhanced Matching Fund 1	1.7	Custom Benchmark[2]	To match the benchmark
Mercer Flexible LDI £ Real Enhanced Matching Fund 2	1.9	Custom Benchmark[2]	To match the benchmark
Mercer £ Inflation Enhanced Matching Fund 1	1.7	Custom Benchmark[2]	To match the benchmark
MGI UK Long Gilt Fund	6.3	FTSE Actuaries UK Conventional Gilts Over 15 Years Index	To match the benchmark
Mercer £ Nominal LDI Bond Fund	0.6	Custom Benchmark[2]	To match the benchmark
MGI UK Cash Fund	0.0	FTSE GBP 1 Month Euro Deposit Index	To match the benchmark within a tolerance range of 0.5% over rolling three year periods
Total	**100.0**		

[1] Reference composite benchmark: 50% ICE BofAML Global High Yield Constrained Hedged Index and 50% S&P100 US Leveraged Loans Index.

[2] The composition of the benchmark is determined by the composition of the portfolio (i.e. the gilts to which the funds have exposure).

7.2 Rebalancing Policy

Rebalancing ranges have been set within the growth and matching portfolios to ensure the Scheme's assets remain invested in a manner which is consistent with the overall strategy. The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

Mercer will seek to rebalance any allocations outside the agreed target allocation and where applicable any breached tolerance ranges within the Scheme as soon as reasonably practicable after completing such review and in accordance with Mercer's best execution policy.

The intention is for the target allocation under the CDI strategy to be reviewed on at least on an annual basis by the Trustee with advice from Mercer.

7.3 Realisation of Investments

Mercer and the underlying investment managers selected have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

The Scheme is closed to future accrual and as such it is expected that disinvestments may need to be made from time to time from the Investment Manager in order to meet benefit payments if income generated from the assets is insufficient. These disinvestments will be made from the asset class which is most overweight relative to the Benchmark Allocation.

8. SOCIALLY RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE

The Trustee believes that ESG issues may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has 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 investment managers. These investment managers are expected to evaluate ESG factors, including climate change considerations, exercise voting rights and stewardship obligations relating to the Scheme's investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's investment processes and those of the underlying managers in the monitoring process. Mercer is expected to provide reporting on a regular basis, at least annually, on the ESG integration process, stewardship monitoring results and climate-related metrics where relevant and/or climate scenario analysis for diversified portfolios.

Individual members' views on 'non-financial matters' (where "non-financial matters" includes members' ethical views separate from financial considerations such as financially materials ESG issues), are not explicitly taken into account in the selection, retention and realisation of investments.

The Trustee has not set any investment restrictions in relation to particular Mercer Funds.

9. TRUSTEE'S POLICIES WITH RESPECT TO ARRANGEMENTS WITH, AND EVALUATION OF THE PERFORMANCE AND REMUNERATION, OF ASSET MANAGERS AND PORTFOLIO TURNOVER COSTS

When engaging Mercer as discretionary investment manager to implement the Trustee's investment strategy outlined in section 6, the Trustee is concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular, long-term liabilities.

As Mercer manages the Scheme's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy. The Trustee has taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustee receives, and considers, investment performance reports produced on a quarterly basis, which present performance information and commentary in respect of the Mercer Funds in which the Trustee invest. Such reports have information covering fund performance for the previous three months, one year, three years and since inception. The Trustee reviews the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (where available, over the relevant time period) on a net of fees basis (with the exception of Mercer fees). The Trustee's focus is on the medium to long-term financial and non-financial performance of the Mercer Funds.

Mercer does not make investment decisions based on their assessment about the performance of an issuer of debt. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying third party asset managers appointed by Mercer to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's assessment of how each underlying third party asset manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 8 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Scheme.

The asset managers are incentivised as they will be aware that their continued appointment by Mercer will be based on their success in meeting expectations. If Mercer is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustee is a long-term investor and is not looking to change their investment arrangements on an unduly frequent basis. However, the Trustee does keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustee monitors, and evaluates, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives. Mercer's fees are based on a percentage of the value of the Scheme's assets under management which covers the design and annual review of the CDI investment strategy, and investment management of the assets. In addition, the underlying third party asset managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

Mercer reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer's and the third party asset managers' fees are outlined in a quarterly investment report prepared for the Trustee, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Fund's Supplements, the Report & Accounts and within the Scheme's annualised, MiFID II compliant Personalised Cost & Charges statement. The Scheme's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustee does not have an explicit targeted portfolio turnover range, given the CDI mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by Mercer.

10. FEE STRUCTURES

Mercer levies a fee (plus VAT where applicable) based on a percentage of the value of the assets under management which covers the design and annual review of the de-risking strategy, other investment consulting services and investment management of the assets. This fee amounts to 0.26% per annum. In addition the underlying managers also levy fees based on a percentage of the value of the assets under management.

Fund	Sub-investment manager fee (% p.a.)
Mercer Multi Asset Credit Fund	0.32
Mercer Tailored Credit Fund	0.06
MGI UK Inflation Linked Bond Fund	0.01
Mercer Flexible LDI £ Real Enhanced Matching Funds 1	0.05
Mercer Flexible LDI £ Real Enhanced Matching Funds 2	0.05
Mercer £ Inflation Enhanced Matching Fund 1	0.04
MGI UK Long Gilt Fund	0.01
Mercer £ Nominal LDI Bond Fund	0.01
MGI UK Cash Fund	0.04

11. CUSTODIAN AND ADVISERS

11.1 Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers.

Responsibility for the safe custody of the Scheme's assets is delegated to Mercer who has appointed State Street Custodial Services (Ireland) Limited ("State Street") as custodian of the assets invested in their vehicles. Mercer is responsible for keeping the suitability of State Street under ongoing review.

11.2 Scheme Actuary

Mark Whitcombe of Mercer Limited is the appointed Scheme Actuary.

The actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The last valuation was performed by the Scheme Actuary, with an effective date of 31 March 2021. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and provide information to help determine the Company's contribution rate.

11.3 Investment Consultant

The day-to-day management of the Scheme's assets is delegated to Mercer, which is also responsible for the selection, appointment, removal and monitoring of the underlying investment managers, all other investment decisions including strategic asset allocation and monitoring of the investment strategy is based on advice received from the Investment Consultant. Mercer has been appointed for this purpose.

12. COMPLIANCE WITH THIS STATEMENT

The Trustee monitors compliance with this Statement annually and obtain written confirmation from Mercer that it has given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

13. REVIEW OF THIS STATEMENT

The Trustee will review this Statement at least once every three years 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 Trustee 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 scheme investments.

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Trustee	Trustee

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Date

The Trustee of the Black & Veatch (UK) Pension Scheme