

Apache UK Pension Plan (the "Plan")

Statement of Investment Principles – September 2020

1. Introduction

The Trustee of the Apache 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 associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. The Trustee's investment responsibilities are governed by the Plan's Trust Deed and Rules, of which this Statement takes full regard.

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with Apache North Sea Limited (the "Sponsor") to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Plan's investment arrangements and, in particular on the Trustee's objectives.

2. Process for Choosing Investments

The Trustee has appointed Mercer to act as discretionary investment manager, by way of Mercer's Dynamic De-risking Solution, to implement the Trustee's strategy whereby the level of investment risk reduces as the Plan's funding level improves. In this capacity, and subject to agreed restrictions, the Plan's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE") as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Plan's assets on a day to day basis.

In considering appropriate investments for the Plan, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustee understands that taking some investment risk, with the support of the Sponsor, is necessary to improve the Plan's current and ongoing solvency funding positions. The Trustee recognises that equity investment will bring increased volatility to the funding level, but in the expectation of improvements in the Plan's funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustee's primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Plan can be met. In meeting this objective, the Trustee's further objectives are to:

- Reach a position such that the Plan's assets would be sufficient to exceed the liabilities as determined, in the event of the Plan winding-up, on the basis of a buyout with an insurance company.
- By means of an agreed combination of investment return and funding budget from the Sponsor, move the Plan to a position of being fully funded on a de-risked funding basis (gilts +0.25% p.a.) by 2024.
- In doing so, to opportunistically reduce the degree of risk in the Plan's investment arrangements, thereby helping to protect the Plan's improving funding position.

The Trustee recognises this ultimately means investing in a portfolio of bonds but believe that at the current time some investment in equities ("Growth Portfolio") is justified to target enhanced return expectations and thereby target funding level improvements. The Trustee recognises that this introduces investment risk and these risks are discussed below.

The Trustee has agreed that the Plan should move progressively towards a target of an entirely bond-based investment strategy ("Matching Portfolio") as its funding level increases. The Trustee will monitor progress against this target.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee determines to be financially material considerations. Non-financial considerations are discussed in Section 9.

4. Risk Management and Measurement

There are various risks to which any pension Plan is exposed. The Trustee's policy on risk management over the Plan's anticipated lifetime is as follows:

- The primary risk upon which the Trustee focus is that arising through a mismatch between the Plan's assets and its liabilities and the Sponsor's ability to support this mismatch risk.
- 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 Plan's accruing liabilities as well as producing more volatility in the Plan's funding position.
- To control the risk outlined above, the Trustee, having taken advice, set the split between the Plan's Growth and Matching Portfolio such that the expected return on the overall portfolio is expected to be sufficient to meet the objectives outlined in section 3. As the funding level improves, investments will be switched from the Growth Portfolio into the Matching Portfolio with the aim of reducing investment risk. Whilst moving towards the target funding level, the Trustee recognises that even if the Plan's assets are invested in the Matching Portfolio there may still be a mismatch between the interest-rate and inflation sensitivity of the Plan's assets and the Plan's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. To control this risk the Trustee has delegated the asset allocation decisions within the Growth and Matching Portfolios to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustee with regular monitoring reports regarding the level of diversification within the Trustee's portfolio.

- To help the Trustee ensure the continuing suitability of the current investments, Mercer provides the Trustee with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences 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 certain asset classes where, due to relatively efficient markets, the scope for achieving added value is more limited.
- To help diversify manager specific risk, within the context of each of the Growth and Matching Portfolios, the Trustee expects that the Plan's assets are managed by appropriate underlying asset managers.
- By investing in the Mercer Funds, the Trustee does not make investments in securities that are not traded on regulated markets. However, should the Trustee Plan's assets be invested in such securities, in recognition of the associated (in particular liquidity and counterparty exposure) such investments would normally only be made with the purpose of reducing the Plan's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustee would ensure that the assets of the Plan are predominantly invested on regulated markets.
- The Plan is subject to currency risk because some of the investment vehicles in which the Plan invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Growth and Matching Portfolios, to limit currency risk, a target non-sterling currency exposure is set. The level of non sterling exposure is managed using currency hedging derivatives such as forwards and swaps.
- The Trustee recognises that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 9 sets out how these risks are managed.

Should there be a material change in the Plan's circumstances, the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular, whether the current de-risking strategy remains appropriate.

5. Investment Strategy

The Trustee, with advice from the Plan's investment consultant and Plan Actuary, reviewed the Plan's investment strategy in 2017 and more recently in 2018. This review considered the Trustee's investment objectives, their ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including de-risking strategies).

Following the review, the key decision was to seek a long-term solution to "de-risk" the Plan's assets relative to its liabilities over time using a dynamic trigger based de-risking framework. The Trustee decided to engage Mercer to implement their de-risking strategy by way of its Dynamic De-risking Solution. The approach undertaken relates to the asset allocation to the Plan's funding level (on an actuarial basis using a single discount rate of 0.25% p.a. in

excess of the appropriate gilt yields i.e. “gilts + 0.25% basis”). The de-risking rule mandates the following practices:

- To hold sufficient growth assets to target full funding on a gilts +0.25% basis by 2024;
- To reduce the volatility in the funding level by reducing un-hedged liability exposures;
- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise.

The de-risking strategy takes account of the Plan’s initial funding level on a gilts +0.25% basis and is based on a model of the progression of the Plan’s funding level over the period to 2024, taking into account the expected contributions from the Sponsor as agreed at the latest triennial actuarial valuation.

The de-risking triggers which form the basis of the Plan’s dynamic investment strategy are set out in a separate document – the Statement of Investment Arrangements.

Once the funding level has moved through a band, the asset allocation will not be automatically “re-risked” should the funding level deteriorate. The investment strategy will be reviewed on an annual basis to ensure that the triggers set remain appropriate and amended if required.

Responsibility for monitoring the Plan’s asset allocation and undertaking any rebalancing activity is delegated to Mercer. Mercer reports quarterly to the Trustee on its rebalancing activities.

6. Realisation of Investments

The Trustee on behalf of the Plan holds shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

7. Cash flow and cash flow management

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Plan’s assets in line with the Plan’s strategic allocation. Mercer is responsible for raising cash flows to meet the Plan’s requirements.

8. Rebalancing

As noted, responsibility for monitoring the Plan’s asset allocation and any rebalancing activity is undertaken by Mercer. Mercer reviews the balance between the Growth and Matching Portfolios on an ongoing basis. If at any time the balance between the Growth and Matching Portfolios is deemed to be outside an agreed tolerance range. Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth Portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced growth portfolio weighting, under the new de-risking band, as defined in the Statement of Investment Arrangements.

9. Environmental, Social, and Corporate Governance, Stewardship, and Climate Change

The Trustee believes that environmental, social and governance (ESG) factors 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, including potential impacts of climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee has considered the beliefs of the Sponsoring Company in relation to ESG and have reflected these where possible when producing their policy.

As noted above, the Trustee has appointed Mercer to act as discretionary investment manager in respect of the Plan's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practise, including the UK Corporate Governance Code and UK Stewardship Code.

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

Member views

Member views are currently not taken into account in the selection, retention and realisation of investments. However, the Trustee believes that the delegation of portfolio construction to Mercer will lead to ESG considerations that are in the best interests of the Plan as a whole.

Investment Restrictions

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

10. 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 5, 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 Plan, in particular, long-term liabilities.

As Mercer manages the Plan'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 as outlined in section 5. 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 presents performance information and commentary in respect of the Plan's funding level and the Mercer Funds in which the Trustee is invested. 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 (over the relevant time period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. 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 MGIE 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 and MGIE'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 9 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 Plan.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE 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 its 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 evaluate, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Plan's assets under management which covers the design and annual review of the de-risking 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.

MGIE 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 Plan. Mercer's, MGIE's, and the third party asset managers', fees are outlined in a quarterly investment strategy 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 Funds' Supplements, the Report & Accounts and within the Plan's annualized, MiFID II compliant Personalised Cost & Charges statement. The Plan'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 de-risking 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 MGIE.

11. Additional Assets

Under the terms of the trust deed the Trustee is responsible for the investment of any Additional Voluntary Contributions paid by members. The Trustee reviews the investment performance of the chosen providers as appropriate and takes advice as to the providers' continued suitability.

12. 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 Plan investments.

Signed for and on behalf of the Apache UK Pension Plan

Aaron Watters

Brandy Jones

Date..... September 14, 2020

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