Apache UK Pension Plan (the "Plan")

Statement of Investment Principles – October 2023

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. For the period from September 2014 to June 2023 the appointment was to implement the Trustee's strategy whereby the level of investment risk reduces as the Plan's funding level improves by way of its Dynamic De-risking Solution, From June 2023 the Trustee took the decision to update their investment approach to a Cashflow Driven Investment ("CDI") strategy. Under this strategy the Trustee seeks to broadly match the Plan's expected liability cash-flows with the expected asset cash-flows whilst still targeting an investment return in excess of the return on UK Government Bonds ("Gilts") plus a margin of 0.25% p.a. The Trustee has appointed Mercer to implement their updated strategy.

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'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 light of the strong funding position of the Plan in June 2023 the Trustee took the decision to transition the assets to a CDI solution. In adopting this strategy the Trustee's investment objectives are to:

- Closely align the sensitivity of the Plan's assets and liabilities to changes in interest rate and inflation expectations by hedging approximately 100% of the sensitivity of the Plan's liabilities on the agreed basis for funding level and liability hedging monitoring purposes.

- Aim to match a large proportion of the projected member benefits by investing in income generating assets, whilst ensuring that sufficient liquid assets are available to meet benefit payments not covered by asset income as they fall due.

- Achieve a 110% funding level on a gilts + 0.25% p.a. liability basis, as a broad proxy for the cost of buying the Plan's liabilities with an insurance company.

Given the strong funding position of the Plan, the Trustee does not consider investment in equity to be required to meet these objectives, but recognise the need for modest investment risk to be taken in order to achieve its funding level objective. The Trustee believes investment in risk assets that provide contractual cash-flows, such as growth fixed income, to be more appropriate for the ultimate long-term objective of the Plan. The Trustee will balance investment in this "Non-hedge Management Portfolio" with investment in unleveraged and leveraged gilts (the "Hedge Management Portfolio") in order to achieve their objectives whilst controlling risk to the extent possible.

The Trustee recognises that investment in the non-hedge management portfolio introduces investment risk and these risks are discussed below.

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 investment 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 Hedge Management and Non-Hedge Management Portfolio such that the expected return on the overall portfolio is expected to be sufficient to meet the objectives outlined in section 3. This split will be reviewed on an approximately annual basis.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. To control this risk the Trustee, having taken advice, has set the initial asset allocation within the Non-Hedge Management Portfolio to invest in an adequately diversified range of growth fixed income assets. The Trustee has delegated the asset allocation decisions within the Hedge Management 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.

- The Trustee invests in leveraged Liability Driven Investment ("LDI") funds to maintain the liability hedging without impacting on expected return but recognise that the use of leveraged LDI brings with it additional liquidity risks and requirements which can change over short periods of time with interest rate changes. The Trustee and Mercer review the hedge management portfolio as part of the regular reporting and strategy reviews, including consideration of the market stress buffer and governance.

- 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.

- The Trustee recognises the risks inherent in holding illiquid assets. The Trustee has carefully considered the Plan's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.

- 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 Hedge Management and Non-Hedge Management 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 Hedge Management and Non-Hedge Management 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 CDI strategy remains appropriate.

5. Investment Strategy

The Trustee, with advice from Mercer and the Scheme Actuary, reviews the Plan's investment strategy on a regular basis to ensure that it remains appropriate. The review considers 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).

In 2023, the Trustee took the decision to adopt a CDI strategy. This strategy aims to:

- Match a high proportion of the Plan's expected liability cash-flows, as calculated based on the Plan's Technical Provisions assumptions.

- Hold sufficient non-hedge management assets to achieve 110% funding on a gilts plus 0.25% p.a. basis, as a broad proxy for the cost of buying out the Plan's liabilities with an insurance company, by 2033 - 2036.

The CDI strategy aims to closely align the sensitivity of the Plan's assets and liabilities to changes in interest rate and inflation expectations by hedging approximately 100% of the sensitivity of the Plan's liabilities on the gilts plus 0.25% p.a. liability basis used for hedging monitoring purposes.

Details of the holdings within the Plan's portfolios can be found in the SIA.

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

In the event of cash-flows into, or out of, the Plan, Mercer will invest or disinvest these as soon as reasonably practicable from the underlying funds at Mercer's discretion. Further detail on this process is set out in the SIA.

The Trustee utilise income generated from the Plan's assets, where this facility is available within the Mercer Funds, in order to efficiently meet cash-flow needs and minimise the need for disinvestment to meet these needs.

8. Rebalancing

There is no pre-defined or automatic rebalancing between the Hedge Management Portfolio and Non-Hedge Management Portfolio, nor between the funds within the Hedge Management Portfolio and Non-Hedge Management Portfolio, other than where required for liability hedge management purposes. More detail is provided in the SIA.

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 practice, including the UK Corporate Governance Code and UK Stewardship Code.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's and the Trustee thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy.

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. However, the Trustee acknowledges that given the nature of their investments (bond and bond like assets that do not have associated voting rights that would allow the Trustee and Mercer to directly impact an issuer's policies) and the limited data currently available, there is a limited scope for integration. 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. The Trustee expects Mercer to enhance their monitoring, reporting and engagement and integration as the industry evolves and the level and quality of data available improves.

The Trustee receives the following reporting on an annual basis:

- The Mercer Sustainability Policy, noting the following updates to Mercer's policy:
  - In March 2021 the policy was updated in relation to sustainability–related disclosures in the financial services sector ("SFDR") implementation.
  - In August 2022 the policy update reflected enhancements to the approach to climate change modelling and transition modelling, additional detail on how the policy is implemented, monitored and governed and, as part of the commitment to promote diversity, finalising MGIE's signatory status to the UK chapter of the 30% Club.

- Where available ESG ratings of all investment managers versus the asset class universe ESG ratings. In addition, ESG ratings are disclosed in the quarterly performance report which is reviewed by the Trustee. ESG ratings are assigned by Mercer (and its affiliates') global manager research team.

- Carbon footprint analysis versus the relevant indices for the Mercer funds where sufficient information is available. In addition, Mercer's Climate Change Management report highlights the approach to the Taskforce on Climate Related Financial Disclosures (TCFD) framework in more detail, including example analysis on strategy and targets and metrics.

The Trustee recognises the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views

Member views are currently not taken into account in the selection, retention and realization 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 nor 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.