



Vanguard[®]

The Stable Value Fund



Phillips 66 Savings Plan (099066)

Investment Objective

The Stable Value Fund (SVF) is one of the investment options offered in the Phillips 66 Savings Plan. The SVF seeks to preserve principal and provide returns that, over time, exceed the returns on bank savings accounts and money market funds. The SVF also seeks to provide a return that is less volatile than the return on a fixed income portfolio of comparable quality and duration. Unlike some stable value funds that have a constant net asset value (NAV) of \$1, the Phillips 66 Stable Value Fund has a fluctuating NAV. The NAV changes each day by the daily crediting rate. There are no dividends to reinvest. As with any investment, there is no guarantee that the SVF will achieve its objectives.

Investor Profile

The SVF is appropriate for investors who are looking for income and want the benefit of principal stability. It is also appropriate for investors who want to diversify a portfolio that is otherwise invested in more aggressive, growth-oriented investments.

Investment Manager

The SVF is managed by Invesco (formerly PRIMCO Capital Management).

Investment Strategy

The SVF consists primarily of stable value contracts and fixed income securities. The stable value contracts are issued by banks, insurance companies, and other financial institutions. These contracts are “stable value” because the financial institution issuing the contract guarantees that qualified withdrawals can be made at book value. “Qualified withdrawals” are defined in the Appendix. “Book value” is the initial principal invested plus interest earned to date, adjusted for any withdrawals or deposits. It should be noted that the financial institution that issues the contract is providing the guarantee, not the U.S. government or any of its agencies, or Phillips 66, or the SVF investment manager, or Vanguard.

The SVF invests in three types of stable value investments and a short-term investment fund, which are described on the following pages.

Synthetic Guaranteed Investment Contracts (SYNs):

Each SYN investment consists of: (1) a portfolio of fixed income securities (for example, U.S. government and agency securities, mortgage-backed securities, asset-backed securities, and corporate bonds) that are owned by the SVF and (2) a type of stable value contract called a “wrapper contract,” which is issued by a bank, insurance company, or other financial institution (the wrapper issuer) and is specifically tied to the underlying portfolio of fixed income securities.

A SYN’s “crediting rate” is the rate at which interest is earned by the SYN, and it is defined by the wrapper contract. The crediting rate can be variable or fixed. A variable crediting rate is designed to recognize over time the effect that changes in market interest rates have on the underlying portfolio of fixed income securities and the changes in the underlying securities themselves because of active portfolio management. A variable crediting rate is recalculated on a periodic basis, usually monthly. Because of the smoothing effect of the crediting rate calculation, the return to a variable-rate SYN will be less volatile than the return to that SYN’s underlying portfolio of fixed income securities.

Guaranteed Investment Contracts (GICs) and Bank Investment Contracts (BICs):

GICs are investments made with insurance companies that typically provide a fixed rate of return for a specified time period. The amount invested becomes a part of the insurance company’s general assets, which are invested as the insurance company deems appropriate, without guidance or control from the SVF investment manager or from Phillips 66. BICs are the same type of investment but are made with a bank rather than an insurance company.

Separate Account GICs (SAGICs):

SAGICs are another insurance company investment product. The key difference between a GIC and an SAGIC is that SAGICs are backed by fixed income securities, which are held in an account separate from the insurance company’s general account assets. The crediting rate paid on a SAGIC can either be fixed or variable. The variable crediting rate is calculated in generally the same way as it is on SYNs (see above). Although the securities are owned by the insurance company, the SVF investment manager provides guidelines for managing them.

Short-Term Investment Fund (STIF)

A small percentage of the SVF is kept in a STIF, which is similar to a money market fund, to provide cash for daily trading by participants.

Return

The return on the SVF is not guaranteed. It is influenced by a number of factors, which include:

Market Interest Rates – There are two major ways in which a change in market interest rates can affect the return of the SVF.

First, a change in market interest rates will affect the rates that the SVF can earn on new investments. As contributions or transfers flow into the SVF or as current investments mature and produce cash, the SVF manager will invest cash that is not needed to cover participant withdrawals in new stable value contracts and new fixed income securities. If the rate on a new investment is higher than the average current rate on the SVF, it raises the overall return on the SVF. If the new investment’s rate is lower than the average current SVF rate, the SVF’s overall return will fall.

Second, a change in market interest rates will affect the market value of the fixed income securities that back the SYNs and SAGICs. In general, as interest rates decline, the value of current fixed income securities increases. Similarly, as interest rates rise, the value of current fixed income securities decreases.

Over time, the crediting rate calculation for variable-rate SYNs and SAGICs smooths out the change in market value of the underlying securities.

The SVF rate of return will rise or fall more slowly than a rise or fall in current market interest rates, primarily because of the following:

- The SVF return reflects an average of the rates for all the stable value contracts that are in the SVF at that time.
- The crediting rate calculations for variable-rate SYNs and SAGICs are designed to smooth out the effect of changes in market interest rates by spreading the effect over time.
- Some stable value contracts have fixed interest rates.

Cash Flows Into and Out of the SVF – As previously noted, when cash moves into the SVF, the SVF investment manager will place it in new investments, and the return on those new investments will affect the average return of the SVF.

The SVF investment manager carefully watches cash inflows to and outflows from the SVF and manages the SVF investments to routinely produce enough cash to cover expected withdrawals by SVF participants. The cash is invested in the SVF's short-term investment fund so it is readily available for withdrawals. However, if withdrawals are higher than expected, the SVF investment manager may have to make withdrawals from stable value contracts, which may affect the average SVF return.

Securities Performance – Returns earned by the fixed income securities backing SYNs and SAGICs will affect the variable crediting rates for those SYNs and SAGICs and, therefore, affect the overall return for the SVF.

Manager Performance – Exceptionally good or poor performance by the manager in actively managing the portfolios of fixed income securities backing SYNs and SAGICs could translate into higher or lower investment returns for individual contracts and affect the overall return on the SVF.

Default – The return on the SVF will be lower if the financial institutions that issue the stable value contracts (including wrapper contracts) or the issuers of the fixed income securities backing the SAGICs and SYNs fail to pay some or all interest and principal obligations.

Investment Guidelines – The SVF investment manager invests in accordance with policy established by the Savings Plans' Committee. In keeping with the conservative nature of the SVF, this policy focuses on high-quality, moderate duration investments. In general, higher-quality fixed income investments will have lower risk of default and lower returns than fixed income investments of relatively lower quality, and moderate duration fixed income investments will have lower interest-rate risk (that is, react less to changes in interest rates) and lower returns than fixed income investments of relatively longer duration.

Guideline for Investment Restriction

You cannot move money from your plan's stable value fund to an investment option that is considered a competing investment option. Competing investment options include money market funds or other investments that invest primarily or exclusively in money market instruments or certain fixed income investments (i.e., Vanguard Inflation-Protected Securities Fund).

Before you can move money from the stable value fund to a competing investment option, you must place the money in a noncompeting investment option for 90 days. Then you may move the money to the competing investment option.

Risk

The SVF investment manager seeks to produce returns for the SVF that, over time, will exceed the returns on bank accounts and money market funds. However, a variety of factors can influence the return to the SVF – see the "Return" section for a description of major risk factors. As a result, the SVF return might not closely track the rise and fall of market interest rates over any given period of time.

The SVF investment manager also manages the fund to ensure a low risk of loss. Risk-management strategies include diversifying investments within the portfolio, following strict guidelines on the quality and term of the investments, and regularly monitoring credit ratings and financial strength of the institutions that issue the stable value contracts and fixed income investments. However, there is a possibility that the SVF will lose money. Neither Phillips 66, the investment manager, nor any of the other fiduciaries of the Savings Plans guarantees the performance of the SVF or the performance of any of the assets held in the fund. Keep in mind that all investing is subject to risk, including the possible loss of the money you invest. In a diversified portfolio, gains from some investments may help offset

losses from others. However, diversification does not ensure a profit or protect against a loss.

The following are the primary sources of risk in the SVF:

Stable Value Contract Risks – The SVF uses stable value contracts to protect book value. However, there are risks associated with these stable value contracts, including those described below.

- A stable value contract issuer could default or fail to make timely payments, which could cause the SVF to lose book value.
- An issuer of a fixed income security could default on principal or interest payments. In general, stable value contracts provide very limited protection against book value loss if this occurs.
- The SVF may not be able to obtain new stable value contracts during certain periods of time, and therefore a larger-than-usual portion of the fund may be invested in the short-term investment fund.
- If withdrawals are not qualified, stable value contracts will not cover them at book value. See the Appendix for a discussion of qualified and nonqualified withdrawals.
- The wrapper issuer could terminate the contract held by the SVF (as permitted by some contracts), which would therefore terminate the guarantee of book value withdrawals, if certain unusual events affecting the plan occur. Such events may include bankruptcy or debt default by the plan sponsor, complete or partial termination of the plan, material changes to the plan without the approval of the wrapper issuer, loss of the plan's tax-qualification status, suspension or substantial reduction of plan sponsor contributions to the plan, or bankruptcy of the SVF investment manager. These are unlikely events, but if one or more occur, book value loss could occur.

Fixed Income Securities Risks – The fixed income securities that underlie SYNs and SAGICs have risks associated with them that will affect the SVF return. These risks may also affect SVF book value if the risks are not mitigated by the stable value contracts (see “Stable value contract risks” at left). These risks include:

- **Interest rate risk.** Changes in market interest rates will affect the rates that the SVF can earn on new investments. Also, changes in market interest rates will affect the value of the current fixed income securities owned by the SVF. The longer the duration of a fixed income investment, the more its market value tends to be affected by changes in interest rates.
- **Default risk.** This is the risk that an issuer of a fixed income security does not meet its interest payments or does not repay principal.
- **Credit risk.** If there is a decline in the creditworthiness of an issuer of a fixed income security, the value of that fixed income security will usually also decline.
- **Market risk.** The value of fixed income securities owned by the SVF may go up or down because of market factors such as interest rates, regulatory developments, political events, or economic conditions.
- **Security-selection risk.** The stable value investment manager selects fixed income securities that it believes are appropriate investments for the SVF. However, the risk exists that the securities selected will not perform as expected.
- **Liquidity risk.** This is the risk that a security cannot be sold quickly at a fair price. Liquidity is generally related to the market trading volume of a particular security: the higher the volume, the more liquid the security. Securities issued by large U.S. companies or U.S. government agencies tend to be more liquid than securities issued by smaller companies.

- **Pricing Risk.** When a price quotation for a fixed income security is not readily available, there is a risk that the value attributed to this fixed income security in the SVF could be higher or lower than the price that would actually be received if the SVF sold that fixed income security.

Movement of Cash Risks – As noted in the “Return” section, cash flows in and out of the SVF can affect the SVF return.

STIF Risks – A small percentage of the SVF is invested in a STIF. This part of the SVF is not protected by a stable value contract. There is a low risk of loss since the STIF is invested in highly liquid, short-term, high-quality fixed income investments, but loss is still possible.

Derivatives Risks – Derivatives are financial contracts whose value depends on or is derived from the value of an underlying asset, reference rate, or index. The SVF uses derivatives for hedging purposes. Derivatives are subject to a number of the risks previously described, such as interest rate risk, default risk, credit risk, market risk, security-selection risk, liquidity risk, and pricing risk. There is also the risk that the derivatives may not fully offset the underlying positions that they are intended to hedge or that derivatives may not have the intended effects and may result in losses or missed opportunities. The SVF does not use derivatives for speculative purposes.

Costs

The SVF pays all costs related to the management and administration of the fund. These costs include the fees paid to the investment manager, fees for wrapper contracts, custodial and trustee expenses, and a revenue-sharing fee to the Savings Plans' record keeper. As of March 31, 2019, the SVF's expense ratio was 0.35%, which means that total annual costs were \$3.50 per \$1,000 invested.* See the SVF quarterly fact sheet for the most recent expense ratio information. Payment of these costs reduces the value of the fund.

*The cost of running the fund, expressed as a percentage of the fund's assets, as of the most recent fiscal year. This data is as of March 31, 2019.
Source: Invesco.

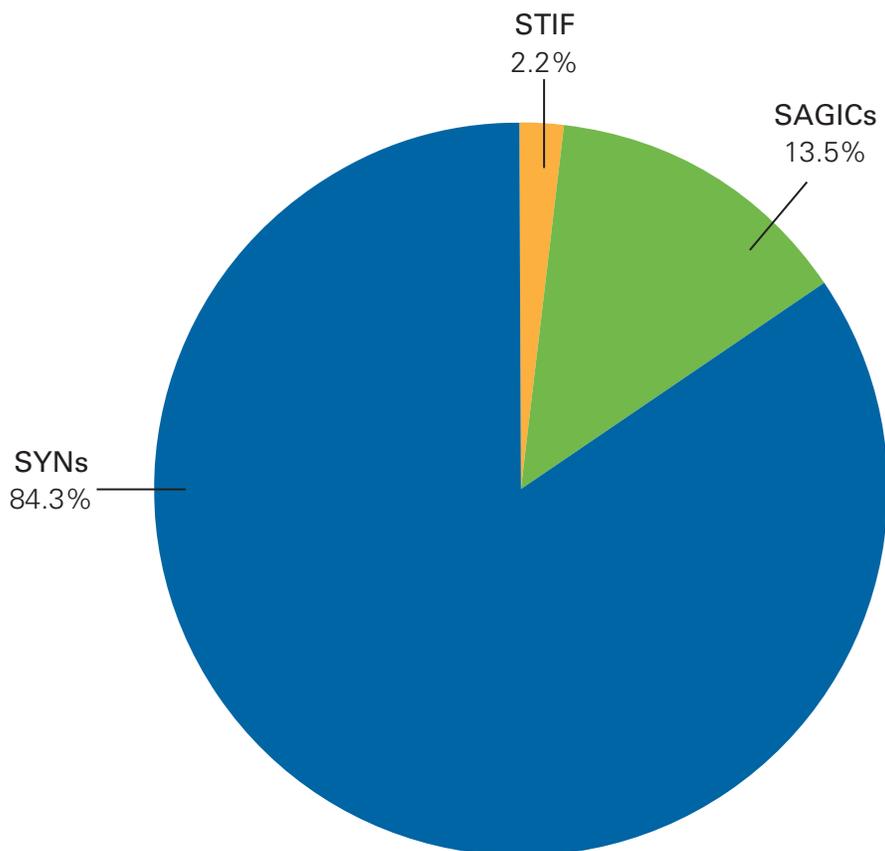
Date of This Brochure

This brochure was updated in May 2019. The Appendix to this brochure may be updated more frequently and will show a separate date of preparation.

Appendix 1

Stable Value Fund by Investment Type

As of March 31, 2019



Approximately \$457 million in total net assets

[This appendix was updated in May 2019.]

Appendix 2

Qualified withdrawals and nonqualified withdrawals (As referenced under “Investment Strategy” and “Risk”)

Qualified withdrawals generally include those withdrawals from stable value contracts made by (or on behalf of) participants in the Savings Plans for purposes that are allowed under the Savings Plans without being subject to an excise tax under the Internal Revenue Code (Penalty Tax), for example:

- Retirement (by participants over the age of 59½).
- Transfer to another fund within the plan (subject to applicable restrictions).
- Loans or other in-service withdrawals.
- Termination of employment.
- Death.
- Disability.
- Hardship.
- Qualified domestic relations orders (QDROs).

In some instances, there may be limitations placed on the amount of the above-listed withdrawals covered at book value by stable value contracts when the withdrawals are caused by an action of the employer (see the discussion of nonqualified withdrawals that follows).

Nonqualified withdrawals generally include any withdrawals made from stable value contracts by (or on behalf of) plan participants that are allowed under the Savings Plans but would be subject to a penalty tax, or those withdrawals that are for purposes other than those outlined under “Qualified withdrawals.” For example:

- Withdrawals made by (or on behalf of) participants resulting from a partial or complete plan termination.
- Withdrawals made from stable value contracts by the stable value manager before the scheduled maturity of the contract for purposes other than those described in “Qualified withdrawals.” For example, a stable value manager may take this action in the event that they become uncomfortable with the creditworthiness of the issuer of the stable value contract.
- Withdrawals resulting from changes made to the plan that are not previously approved by the stable value contract issuers or resulting from material events caused by the employer, such as plant shutdowns or workforce reduction programs.

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A stable value investment is neither insured nor guaranteed by the U.S. government. There is no assurance that the investment will be able to maintain a stable net asset value, and it is possible to lose money in such an investment.

The Stable Value Fund is not a mutual fund. It is an investment pool available only to tax qualified plans and their eligible investors. Investment objectives, risks charges, expenses, and other important information should be considered carefully before investing.



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