

# Valero UK Pension Plan (“the Plan”)

## Annual Engagement Policy Implementation Statement – Year to 5<sup>th</sup> April 2023

### Introduction

This Statement sets out how, and the extent to which, the Statement of Investment Principles (“SIP”) produced by the Trustees has been followed over the year to 5 April 2023. This statement has been produced in accordance with The Pensions Act 1995 along with the guidance published by the Pensions Regulator.

Please note that the Trustees do not consider the AVC section to be material in the context of the total assets of the Plan, therefore the voting rights associated with these are not considered in this disclosure.

### Investment Objectives of the Plan

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Plan included in the SIP are as follows:

- to achieve a long-term return on the Plan’s assets which is consistent with the long term assumptions made by the Scheme Actuary in determining the funding of the Plan (under the Plan’s Statutory Funding Objective);
- over the shorter term, to achieve an investment return closely related to the benchmark return which is consistent with the adopted investment strategy; and
- to ensure that sufficient liquid assets are available to meet benefit payments as they fall due.

The objectives set out above, and the risks and other factors referenced in this Statement are those that the Trustees determine to be financially material considerations in relation to the Plan.

### Review of the SIP

The effective date of the SIP in place during the year to 5 April 2023 was June 2021. This has been published online on a publicly-available website, and can be found below:

<https://www.valero.com/sites/default/files/valero-documents/Valero%20UK%20Statement%20of%20Invested%20Principles%20-%20June%202021%20final.pdf>

Since the Plan year-end, a new SIP has been implemented by the Trustees, with an effective date of July 2023, following a strategic review by the Trustees.

## **Policy on ESG, Stewardship and Climate Change**

The Plan's SIP includes the Trustees' policy on Environmental, Social and Governance ("ESG") factors, stewardship and climate change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. The Trustees keep the policies under regular review with the SIP reviewed at least triennially.

The following work was undertaken during the year relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustees' engagement and voting policies were followed and implemented during the year.

The Trustees' stewardship priorities are aligned with the Sponsor's guiding principles in relation to safety, environment, community, employees and governance. Further details on Valero's guiding principles can be found here: [Valero's Guiding Principles | Reliable, Affordable, Sustainable Fuels](#).

## **Engagement**

The Plan's investment performance is reviewed by the Trustees on a quarterly basis – this includes ratings (both general and specific to ESG) from the investment adviser. The Plan's sole investment manager, Legal & General Investment Management ("LGIM") held a favourable rating throughout the year from the Trustees investment consultant. If the manager's rating from an ESG perspective falls, the Trustees will continue to monitor and engage with the manager to assess the merit of continuing to retain them. The investment performance report includes how the investment manager is delivering against their specific mandates.

LGIM have confirmed that they are signatories of the 2020 UK Stewardship Code.

LGIM engaged with companies over the year on a wide range of issues including Environmental, Social and Governance factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris agreement). LGIM provided examples of instances where it had engaged with companies they were invested in/about to invest in which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that LGIM invests in or by voting on key climate-related resolutions at companies' Annual General Meetings. The resolutions are often co-filed by a number of investors who indicate or not their support for the resolution to the company's management.

Mercer, on behalf of the Trustees, requested portfolio turnover information from LGIM, including associated costs. Given that the DB assets are managed on an index-tracking basis, costs are expected to be in-line with the index. The Trustees do not expect this to be a material issue as excessive turnover or transaction costs above the benchmark will prompt a review of the manager's holdings and approach to engagement.

## **Voting Activity**

The Trustees have delegated their voting rights to the investment manager. As a result, the Trustees do not use the direct services of a proxy voter, although the investment manager may employ the services of proxy voters in exercising their voting rights on behalf of the Trustees.

LGIM’s Investment Stewardship team uses ISS’s ‘ProxyExchange’ electronic voting platform to electronically vote clients’ shares. To ensure their proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions.

The key voting activity on behalf of the Trustees over the year under review is detailed below.

Updated tPR guidance released in 2022 requires Trustees to confirm their definition of a significant vote when it comes to the Plan’s investment manager voting activity, and to determine if voting activity by the investment manager aligns with this definition. This updated guidance is required for all pension scheme Engagement Policy and Implementation Statements from October 2022.

The Trustees have agreed that to be defined as most significant a vote must be in relation to one of the Sponsor’s guiding principles in relation to safety, environment, community, employees and governance and be in relation to a holding that makes up more than 0.5% of total Plan assets.

- **LGIM - World Equity Index Fund**

Voting activity for the LGIM World Equity Index Fund undertaken over the 1-year period to 31 March 2023 (LGIM’s closest available reporting date to the Plan’s year-end) is summarised in the table below:

Fund	Meetings eligible to vote	Resolutions eligible to vote	% of resolutions voted by the manager	% Resolutions voted with management	% Resolutions voted against management	% Resolutions abstained
LGIM World Equity Index Fund	3,145	38,823	99.85%	78.81%	20.49%	0.70%

Source: LGIM.  
Figures subject to rounding.

The votes cast by LGIM over the Plan year (to 31 March 2023) that meet the Trustees’ definition of a most significant vote are set out below:

**Amazon.com, Inc.**

- **Date of vote:** May 25<sup>th</sup> 2022
- **Resolution:** Elect Director Daniel P. Huttenlocher – **Voted Against.**
- **Rationale:** Human rights: A vote against was applied as the director is a long-standing member of the Leadership Development & Compensation Committee which is accountable for human capital management failings.
- **Size of holding:** c£2.3m (c1.0% of Plan)
- **Outcome:** The resolution passed, with 93.3% of the vote in favour.

- **Significance:** The human rights nature of this resolution aligns with Valero’s guiding principle of “Employees”.
- **Implications/ next steps:** LGIM will continue to engage with its investee companies, publicly advocate its position on this issue and monitor company and market-level progress.

**Alphabet Inc.**

- **Date of vote:** June 1<sup>st</sup> 2022
- **Resolution:** Report on Physical Risks of Climate Change – **Voted For.**
- **Rationale:** Shareholder Resolution - Climate change: A vote in favour was applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.
- **Size of holding:** c£1.5m (c0.6% of Plan)
- **Outcome:** The resolution failed, with 17.7% of the votes in favour.
- **Significance:** The environmental nature of this resolution aligns with Valero’s guiding principle of “Environment”.

**Implications/ next steps:** LGIM will continue to engage with its investee companies, publicly advocate its position on this issue and monitor company and market-level progress.

For resolutions in which LGIM vote against the recommendation of management, LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is LGIM’s policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.

- **LGIM - World Emerging Markets Equity Index Fund**

Voting activity for the LGIM World Emerging Markets Equity Index Fund undertaken over the 1-year period to 31 March 2023 (LGIM’s closest available reporting date to the Plan’s year-end) is summarised in the table below:

<b>Fund</b>	<b>Meetings eligible to vote</b>	<b>Resolutions eligible to vote</b>	<b>% of resolutions voted by the manager</b>	<b>% Resolutions voted with management</b>	<b>% Resolutions voted against management</b>	<b>% Resolutions abstained</b>
LGIM World Emerging Markets Equity Index Fund	4,231	36,506	99.92%	79.53%	18.41%	2.06%

There were no votes cast by LGIM over the Plan year (to 31 March 2023) that meet the Trustees’ definition of a most significant vote.

**The Plan's remaining mandates are in fixed income investments with no direct listed equity exposure and therefore have no voting rights attached.**

### **Looking forward**

The Trustees recognise the importance of issues relating to ESG factors, stewardship and climate change, and will continue to consider these issues, alongside the other risks that they monitor as part of their fiduciary duties to the Plan.

This is an evolving area and the Trustees will continue to work with their investment adviser and investment manager to monitor developments and consider further ways of integrating ESG factors, stewardship and climate change.