Valero UK Pension Plan

Statement of Investment Principles

1. Introduction

The Trustees of the Valero UK Pension Plan ("the Plan") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005. The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments.

In preparing this Statement the Trustees have consulted the Sponsoring Employer (Valero Operations Support, Ltd, the "Sponsor"), to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Plan's investment arrangements. The Trustees have also received and considered written advice from Mercer Limited ("the Investment Consultant").

2. Process For Choosing Investments

DB Section

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

The Trustees set the investment strategy, taking advice as necessary. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of the Act (as amended).

3. Investment Objectives

3.1 The Trustees are required to invest the Plan's assets in the best interest of the members and beneficiaries.

Within this context the Trustees' main objectives with regard to investment policy are:

- 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.

4. Risk Management and Measurement

4.1 DB Section

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Plan.

The Trustees believe that the investment strategy provides for adequate diversification at the asset class level. The Trustees further believe that the current investment strategy is appropriate given the Plan's liability profile and covenant support from the Sponsoring Employer.

With the objective of managing risk, the Trustees have considered the following factors which they believe are relevant to the Plan over its anticipated lifetime:

- The Trustees are aware that there exists solvency risk - the risk that economic circumstances force the winding-up of the Plan at a time when asset values are depressed and the Sponsor cannot afford to make good the deficiency. Severe recession combined with deflation could have serious consequences for the Plan. The Trustees monitor these factors at least once a quarter.

- The Trustees recognise 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 liabilities as well as producing more short-term volatility in the Plan's funding position. The Trustees will consider carefully the implications of adopting different levels of risk in light of the objectives noted previously, and will take advice when necessary.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Plan's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The documents governing the investment manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan. The investment manager is prevented from investing in asset classes outside its mandate without the Trustees' prior consent.

- The Trustees recognise the possibility of failure of the Sponsor. The Trustees considered this risk when setting the investment strategy and consulted with the Sponsor as to the suitability of the proposed strategy. The Trustees regularly review the Sponsor covenant.

- The Trustees have also given consideration to the risk that the value of assets can go down as well as up (i.e., market risk).

- The Trustees are aware of the risk of fraud, poor advice or acts of negligence. The Trustees have sought to minimise such risk by ensuring that all advisors and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

- The safe custody of the Plan's assets is delegated to professional custodians via the use of pooled vehicles.

- Currency risk will arise through investment in non-Sterling assets where the currency exposure is not hedged back to Sterling because changes in exchange rates will impact the relative value of the assets and liabilities, given that the Plan's liabilities are denominated in Sterling. The Plan's overseas currency exposures are not hedged to sterling, but the Trustees monitor this risk at least quarterly as part of the overall investment manager monitoring process.

- Volatility risk concerns the stability of the market value of assets such as equities, where the price achievable may be particularly affected by short term sentiment and is not certain until the point of sale. This volatility in the relative value of assets and liabilities may impact the Sponsor's contribution rate, typically set at successive actuarial valuations. The Trustees monitor this risk at least quarterly and will take this risk into account when implementing any strategic or manager changes.

- 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 Trustees monitor this risk at least quarterly.

- Concentration risk arises for example when a high proportion of the Plan's assets are invested in securities, whether debt or equity, of the same or related issuers. The investment strategy of the Plan is suitably diverse by asset class.

- Environmental, Social and Governance ("ESG") risk is the risk that ESG factors have a financially material impact on the return of the Plan's assets. The management of ESG related risks is delegated to the investment managers. Further information is set out in Section 10.

- Climate risk is the risk that the returns of certain asset classes and sectors may be significantly affected by climate change. The Trustees may take climate risk into account in the selection, retention and realisation of the Plan's investment managers. Further information is set out in Section 10.

- Arrangements are in place to monitor the Plan's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the Plan's current investments. To facilitate this, the Trustees receive regular reports from both the Plan's investment manager and Investment Consultant. These reports include an analysis of the overall level of return, to ensure the risks taken and returns achieved are consistent with those expected.

- The Trustees recognise the risk that the Plan's investment manager may fail to achieve the rate of investment return assumed by the Trustees. This risk is considered by the Trustees and the Investment Consultant both upon the initial appointment of the investment manager and on an ongoing basis thereafter.

Should there be a material change in the Plan's circumstances, the Trustees 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

5.1 DB Section

The Trustees have structured the Plan's investments subject to the overriding constraint that at the total Plan level the expected level of risk is consistent with the investment objectives. The Trustees have appointed Legal & General Pensions Management Limited, who delegates the day-to-day management of the Plan's investments to Legal & General Investment Management ("LGIM"). The Plan's investments are managed on a passive basis.

Investment in securities issued by the Sponsoring Employers or affiliated companies is limited to the extent that such securities may be represented within the pooled funds in which the Trustees invest. The passive nature of the Plan's equity investments and the diversification inherent in the overall investment arrangements mean that it is not expected that regulatory limits on such investments will be breached.

6. Investment Strategy

6.1 DB Section

The Plan's target investment strategy is detailed in the table below.

Asset class	Target Allocation (%)	Control Ranges (%)
Total Equities	**55.0**	50.0 – 60.0
World Equities	51.7	-
Emerging Markets Equities	3.3	-
Total Bonds	**45.0**	40.0 – 50.0
Single Stock Gilt and Index-Linked Gilt Funds	45.0	40.0 – 50.0
Total	**100.0**	

We have shown the current benchmark allocations to the underlying single stock gilt and index-linked gilt funds in Appendix A.

The target exposure to emerging market equity is c.10% of the equity allocation. The World Equities fund has some exposure to emerging markets which, together with the dedicated emerging market allocation, is expected to broadly match the target.

The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted. In addition, the Trustees are satisfied that the spread of underlying assets by type and the investment manager's policy on investing in individual securities within each type provides adequate diversification of investments.

7. Expected Return

7.1 DB Section

The Trustees expect to generate an investment return that is closely related to the benchmark and, over the long term, a return at least equal to the assumption underlying the Plan's Statutory Funding Objective.

8. Day–to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets of the Plan to the investment manager. The Trustees have taken steps to satisfy themselves that the investment manager has the appropriate knowledge and experience for managing the Plan's investments and are carrying out their work competently.

The Trustees will regularly review the continuing suitability of the Plan's investments, including reviewing the appointed investment managers. Any adjustments will be done with the aim of ensuring the overall level of risk is consistent with that being targeted.

The investment manager chosen to manage the Plan's investments is regulated by the Financial Conduct Authority.

9. Realisation of Investments

The investment manager of the Plan has 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 and pooled fund prospectuses.

10. Environmental, Social and Corporate Governance Issues, Stewardship, and Climate Change

The Trustees believe that 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 Trustees also recognise that long-term sustainability issues, particularly climate change and governance, present risks and opportunities that increasingly may require explicit consideration. Accordingly, the Trustees consider how ESG matters are integrated within investment processes when appointing new fund managers and monitoring existing fund managers.

The Trustees have considered the issues in relation to corporate governance and on the exercise of voting rights. The Trustees recognise that good corporate governance creates the framework within which a company can be managed in the long term interests of shareholders, in particular voting at Annual and Extraordinary General

Meetings on the election of directors, the issuance of equity and the appointment of auditors are fundamental in protecting shareholder interests.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, exercising voting rights and stewardship obligations, (including engagement activities) 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 Trustees take into consideration non-financial matters when assessing the overall investment strategy and managers, as such members' views on 'non-financial matters' (where 'non-financial matters' include members' ethical views separate from financial considerations such as financially material ESG issues), are not explicitly taken into account in the selection, retention and realisation of investments in respect of the DB Section.

The Trustees have not set any investment restrictions on the investment managers in relation to particular products or activities.

11. Investment Manager Appointment, Engagement and Monitoring

Aligning manager appointments with investment strategy

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

The Trustees look to its investment consultant for their forward looking assessment of a manager's ability to perform in line with expectations over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees and are used in decisions around selection, retention and realisation of manager appointments.

As the Trustees invest in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

If the investment objective for a particular manager's fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

Asset manager alignment of decision making to assessments about medium to long term outcomes

The Trustees will also consider the investment consultant's assessment of how an investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the investment managers' policy on voting and engagement. The

Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.

The Trustees can review the decisions made by the manager, including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best long term performance over the medium to long term.

The Trustees may consider reviewing an annual stewardship monitoring report, which includes details of voting and engagement activities associated with each of the funds invested in. This will aid the Trustees in challenging manager decisions that appear out of line with the investment fund's objectives or the objectives/policies of the Plan.

The Trustees may consider reviewing the investment manager's compliance against the UK Stewardship Code on an annual basis.

The investment manager is aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

Evaluating investment manager performance

The Trustees receive investment manager performance reports on a quarterly basis. The Trustees review the absolute and relative performance against a suitable index used as the benchmark, on a gross of fees basis. The Trustees' focus is on long-term performance but will put a manager 'on watch' if there are short-term performance concerns.

The Trustees meet with the investment manager, as deemed appropriate. The Trustees can review the decisions made by the manager, including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best long term performance over the medium to long term.

Portfolio turnover costs

The Trustees monitor portfolio turnover costs on an annual basis, as provided by the investment manager. Given that the DB assets are managed on an index-tracking basis, these are expected to be in line with the index.

Manager Turnover

The Trustees are long-term investors and are not looking to change the investment arrangements on a frequent basis.

For all funds invested in by the Plan (which are open-ended vehicles), there is no set duration for the manager appointments. The Trustees will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

- The manager appointment has been reviewed and the Trustees have decided to terminate.

12. Additional Voluntary Contributions ("AVCs")

The Trustees will review these arrangements from time to time to ensure that they remain consistent with the needs of the members, and will seek advice from the Scheme Actuary and the Investment Consultant, where necessary.

Additional details on the AVCs, such as annual management charges and the available funds, are included in Appendix B.

13. Custodian and Advisors

Custodians

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.

The Trustees are not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. However, the Trustees are comfortable that the investment managers have procedures in place for the appointment and monitoring of the relevant custodians and for conducting periodic reviews.

Actuary

Aon Hewitt is the appointed Scheme Actuary.

The actuary performs a valuation of the Plan at least every three years, in accordance with regulatory requirements. 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 Sponsoring Employers' contribution rate.

Investment Consultant

Whilst the day-to-day management of the Plan's assets is delegated to an investment manager, the Trustees will consult with Mercer Limited as the Trustees' investment consultant, where necessary, on other investment decisions including strategic asset allocation and selection and monitoring of investment managers.

14. Fee Structures

The investment manager for the DB Section of the Plan, LGIM, is paid a management fee on an agreed percentage of assets basis, which is reviewed on a regular basis.

15. Compliance with this Statement

The Trustees monitor compliance with this Statement annually and obtain written or verbal confirmation from the investment managers that they have 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. The Trustees undertake to advise the investment manager promptly and in writing of any material change to this Statement.

16. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in the Plan, its liabilities, finances, and the attitude to risk of the Trustees and the Sponsoring Employers which they judge to have a bearing on the stated Investment Policy.

Any such review will be in consultation with the Sponsoring Employer and any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees 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

For and on behalf of the Trustees of the Valero UK Pension Plan

Appendix A

LGIM Fund	Benchmark allocation (%)
2027 Index-Linked Gilt Fund	19.4
2032 Index-Linked Gilt Fund	9.7
2037 Index-Linked Gilt Fund	12.4
2040 Index-Linked Gilt Fund	3.9
2042 Index-Linked Gilt Fund	7.3
2047 Index-Linked Gilt Fund	11.6
2050 Index-Linked Gilt Fund	7.6
2058 Index-Linked Gilt Fund	10.2
2068 Index-Linked Gilt Fund	6.0
2055 Gilt Fund	0.3
2060 Gilt Fund	3.9
2071 Gilt Fund	7.8
Total	**100.0**

May not sum due to rounding

Note:

- Due to changes in market conditions, the hedge ratios are likely to drift over time and so the benchmark allocations to the underlying single stock gilt and index-linked gilt funds will be reviewed and recalculated periodically (at least on an annual basis) to ensure the allocations remain appropriate. We have shown the current benchmark allocations to the underlying single stock gilt and index-linked gilt funds in the table above.

- The benchmark allocations in the table above have been calculated by LGIM as at 31 March 2021. These weights were arrived at with the objective of maximising total portfolio interest rate and inflation hedging, as well as fitting this hedging as closely as possible to the liability profile of the Plan.

Appendix B

Under the terms of the trust deed the Trustees are responsible for the investment of AVCs paid by members. Assets in respect of members' AVCs are held separately from the main Plan assets and are invested with Fidelity. The Plan's AVC arrangements remain open to new contributors. The following funds are available to members via the Fidelity platform:

- Fidelity BlackRock Cash Fund
- Fidelity Baillie Gifford 50/50 Worldwide Equity Fund
- Fidelity Baillie Gifford Diversified Growth Fund
- Fidelity BlackRock US Equity Index Fund
- Fidelity BlackRock Over 5 Years Index Linked Gilt Fund
- Fidelity BlackRock Over 15 Year Gilt Fund
- Fidelity BlackRock UK Equity Index Fund
- Fidelity BlackRock World (ex-UK) Equity Index Fund
- Fidelity Blackrock Global Equity 50/50 Fund
- Fidelity Special Situations Pensions Fund
- Fidelity BlackRock Corporate Bond Index Fund All Stocks
- Fidelity BlackRock Emerging Markets Equity Fund
- Fidelity BlackRock European Equity Fund
- Fidelity BlackRock Japanese Equity Fund
- Fidelity BlackRock Pacific Rim Equity Fund
- Fidelity Schroders QEP Global Active Value Fund
- Fidelity BlackRock Consensus Fund

In addition, members are able to invest in the Lifestyle strategy design which includes the following funds:

Fund A – Fidelity Baillie Gifford 50/50 World Equity Fund
Fund B – Fidelity Baillie Gifford Diversified Growth Fund
Fund C – Fidelity BlackRock Cash Fund

The Lifestyling option works such that the member will switch from the Fidelity Baillie Gifford Worldwide Equity 50/50 to the Fidelity Baillie Gifford Diversified Growth Fund between 15 and 5 years from retirement, and then into the Fidelity BlackRock Cash Fund over the remaining 5 years, i.e. ending up in 100% cash. The table below shows how the composition of the Lifestyle strategy changes as a member approaches retirement age.

YEARS TO RETIREMENT	Fund A (%)	Fund B (%)	Fund C (%)
15+	100	0	0
14	90	10	0
13	80	20	0
12	70	30	0
11	60	40	0

YEARS TO RETIREMENT	Fund A (%)	Fund B (%)	Fund C (%)
10	50	50	0
9	40	60	0
8	30	70	0
7	20	80	0
6	10	90	0
5	0	100	0
4	0	80	20
3	0	60	40
2	0	40	60
1	0	20	80
0	0	0	100