

Valero UK Pension Plan ("the Plan")

Annual Engagement Policy Implementation Statement (part of the Trustees report & accounts) – Year to 5th April 2024

Introduction

This Statement sets out how, and the extent to which, the engagement and voting policies in the Statement of Investment Principles ("SIP") produced by the Trustees has been followed over the year to 5 April 2024. This statement has been produced in accordance with The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 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 engagement activity and 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 SIP dated June 2020 was in place at the beginning of the Plan year. The Trustees reviewed the SIP over summer 2023 and the SIP was formally updated in September 2023. The updated SIP reflects the implementation of a new corporate bond mandate. The updated SIP has been published on the following internet page:

<https://www.valero.com/notices-and-disclosures>

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 Trustees believe the engagement and voting policies in the SIP have been followed over the year to 5 April 2024.

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](#).

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.

Engagement

The Trustees have given the appointed investment manager full discretion in evaluating ESG factors, including climate change considerations, exercising voting rights and stewardship obligations (including engagement activities) attached to the investments.

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. 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

Over the Plan year the Trustees delegated their voting rights to the investment manager and did not provide any guidance to LGIM on voting preferences. The Trustee invests in pooled funds, and responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments was vested in the appointed investment manager. The manager independently evaluates ESG factors, including climate change considerations under their own ESG guidelines rather than the Trustees. This will include the exercise of voting rights and stewardship obligations (including engagement activities) attached to the investments.

Over the Plan year the Trustees reviewed their voting policy and after the end of the Plan year agreed to use a pass through voting service made available by LGIM using the Tumelo platform to cast votes in relation to the largest issuers in the two equity funds in which the Plan invests.

The Trustees did not use the direct services of a proxy voter over the Plan year. Following the end of the Plan year, the Trustees agreed to use the services of Glass Lewis as a proxy voting provider to provide research and implement voting on their behalf. The Trustees will adopt Glass Lewis' Corporate Governance focused policy.

Over the Plan year, LGIM's Investment Stewardship team used 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 put in place a custom voting policy with specific voting instructions. The investment manager therefore voted the Trustees' shares under their own ESG guidelines rather than the Trustees'.

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

DWP 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 onwards.

To meet the DWP guidance the Trustees have agreed that to be defined as most significant, a vote must be in relation to the Sponsor's

guiding principles of employees and governance and be in relation to a holding that makes up the equivalent of more than 0.5% of total Plan assets.

The Trustees agreed their stewardship priorities, and hence criteria for selecting most significant votes, following the Plan year end, therefore communication of the Trustees' stewardship priorities was carried out after the votes set out below were cast. The Trustees have not set any expression of wish in relation to voting.

The sections below set out a summary of the voting activity over the Plan year as well as the most significant vote(s).

- **LGIM - World Equity Index Fund**

Voting activity for the LGIM World Equity Index Fund undertaken over the 1-year period to 31 March 2024 (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	2,982	37,017	99.87%	79.09%	20.80%	0.11%

Source: LGIM.

Figures subject to rounding.

Five votes were cast by LGIM over the Plan year (to 31 March 2024) that met the Trustees' definition of a most significant vote is set out below. As noted above the voting was determined by LGIM under their own guidelines independently of the Trustees:

Microsoft Corporation

- **Date of vote:** December 7th 2023
- **Resolution:** Elect Director Satya Nadella - **LGIM voted against.**
- **LGIM's Rationale:** A vote against is applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns.
- **Size of holding:** c.£5.1m (c.2.1% of Plan)
- **Outcome:** Pass
- **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.

- **Why deemed most significant:** In relation to the Trustees stewardship priorities and the holding made up more than 0.5% of total Plan assets.

Apple Inc.

- **Date of vote:** February 28th 2024
- **Resolution:** Report on Risks of Omitting Viewpoint and Ideological Diversity from EEO Policy - **LGIM voted against.**
- **LGIM's Rationale:** A vote against this proposal is warranted, as the company appears to be providing shareholders with sufficient disclosure around its diversity and inclusion efforts and nondiscrimination policies, and including viewpoint and ideology in EEO policies does not appear to be a standard industry practice.
- **Size of holding:** c.£5.0m (c.2.0% of Plan)
- **Outcome:** Fail
- **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.
- **Why deemed most significant:** In relation to the Trustees stewardship priorities and the holding made up more than 0.5% of total Plan assets.

Amazon.com, Inc.

- **Date of vote:** May 24th 2023
- **Resolution:** Report on Median and Adjusted Gender/Racial Pay Gaps - **LGIM voted for (Against Management Recommendation).**
- **LGIM's Rationale:** A vote in favour is applied as LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap. This is an important disclosure so that investors can assess the progress of the company's diversity and inclusion initiatives. Board diversity is an engagement and voting issue, as LGIM believes cognitive diversity in business - the bringing together of people of different ages, experiences, genders, ethnicities, sexual orientations, and social and economic backgrounds - is a crucial step towards building a better company, economy and society.
- **Size of holding:** c.£1.7m (c.0.7% of Plan)
- **Outcome:** Fail
- **Implications/next steps:** LGIM will continue to engage with the company and monitor progress.

- **Why deemed most significant:** In relation to the Trustees stewardship priorities and the holding made up more than 0.5% of total Plan assets.

LGIM pre-declared its vote intention for this meeting on the LGIM Blog. As part of this process, a communication was set to the company ahead of the meeting.

NVIDIA Corporation

- **Date of vote:** June 22nd 2023
- **Resolution:** Elect Director Stephen C. Neal- **LGIM voted against (against management recommendation)**
- **LGIM's Rationale:** A vote against is applied as LGIM expects a company to have at least one-third women on the board. Average board tenure: A vote against is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.
- **Size of holding:** c.£1.6m (c.0.7% of Plan)
- **Outcome:** Not provided by LGIM
- **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.
- **Why deemed most significant:** In relation to the Trustees stewardship priorities and the holding made up more than 0.5% of total Plan assets.

Alphabet Inc.

- **Date of vote:** June 2nd 2023
- **Resolution:** Approve recapitalization Plan for all Stock to Have One-vote per Share- **LGIM voted for (against management recommendation)**
- **LGIM's Rationale:** Shareholder Resolution - Shareholder rights: A vote in favour is applied as LGIM expects companies to apply a one-share-one-vote standard.
- **Size of holding:** c.£1.3m (c.0.6% of Plan)
- **Outcome:** Fail
- **Implications/next steps:** LGIM will continue to monitor the board's response to the relatively high level of support received for this resolution.

- **Why deemed most significant:** In relation to the Trustees' stewardship priorities and the holding made up more than 0.5% of total Plan assets.

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 its investee companies in the three weeks prior to an AGM as its 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 2024 (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 Emerging Markets Equity Index Fund	4,238	33,716	99.89%	80.09%	19.01%	0.90%

There were no votes cast by LGIM over the Plan year (to 31 March 2024) 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.