Valero UK Pension Plan ("the Plan")

Annual Engagement Policy Implementation Statement – Year to 5th April 2021

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 2021. This statement has been produced in accordance with The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2018 and (Investment and Disclosure (Amendment)) Regulations 2019 alongside 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.

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. This was reviewed and updated in June 2020. The Trustees keep the policies under regular review with the SIP reviewed annually.

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 Plan's investment performance report 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 each investment manager is delivering against their specific mandates.

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

The Trustees also received details of relevant engagement activity for the year from the Plan's investment manager.

LGIM engaged with companies over the year on a wide range of different 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.

The Trustees requested portfolio turnover information from LGIM, including associated costs. Such a review is expected to be done at least annually. Given that the DB assets are managed on an index-tracking basis, costs are expected to be in line with the index, and the Trustees do not expect this to be a material issue Any excessive turnover or turnover 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.

The key voting activity on behalf of the Trustees over the year under review is detailed below. The Trustees does not consider the AVC section to hold a material amount of assets in voting rights holding investments to include them in this disclosure.

- **LGIM - World Equity Index Fund**

- LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares but all voting decisions are made by LGIM. LGIM's use of ISS's recommendations is purely to augment their own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that they receive from ISS for UK companies when making specific voting decisions.

- LGIM's definition of significant voting includes but is not limited to:

  - High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;

  - Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote;

  - Sanction vote as a result of a direct or collaborative engagement;

  - Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

- Voting activity for the LGIM World Equity Index Fund undertaken over the 1-year period to 31 March 2021 (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	3,421	40,987	99.8%	81.4%	18.1%	0.6%

Source: LGIM.
Figures subject to rounding.

Below are some examples of significant votes undertaken over the 1-year period to 31 March 2021 (LGIM's closest available reporting date to the Plan's year-end), as provided by LGIM.

- **Whitehaven Coal - October 22nd, 2020 Meeting**

Resolution 6: Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders. **– Voted For.**

Rationale:

The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation: in Q4 2020 alone three of Australia's main export markets for coal - Japan, South Korea and China - have announced targets for carbon neutrality around 2050. LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.

- **ExxonMobil – May 17th, 2020 Meeting**

  Resolution 1.10 - Elect Director Darren W. Woods. **– Voted Against**.

  Rationale:

  In June 2019, under LGIM's annual 'Climate Impact Pledge' ranking of corporate climate leaders and laggards, it announced that LGIM will be removing ExxonMobil from the Future World fund range, and will be voting against the chair of the board. Ahead of the company's annual general meeting in May 2020, LGIM also announced they will be supporting shareholder proposals for an independent chair and a report on the company's political lobbying. Due to recurring shareholder concerns, the voting policy also sanctioned the reappointment of the directors responsible for nominations and remuneration.

- **Qantas Airways Limited – October 23rd, 2020 Meeting**

  Resolution 3 –Approve participation of Alan Joyce in the long-term incentive plan **– Voted Against**.

  Resolution 4 –Approve remuneration report **– Voted For**.

  Rationale:

  LGIM supported the remuneration report (resolution 4) given the executive salary cuts, short-term incentive cancellations and the CEO's voluntary decision to defer the vesting of the long-term incentive plan (LTIP), in light of the pandemic. However, concerns as to the quantum of the 2021 LTIP grant remained, especially given the share price at the date of the grant and the remuneration committee not being able to exercise discretion on LTIPs, which is against best practice. We voted against resolution 3 to signal concerns.

- **International Consolidated Airlines Group– September 7th, 2020 Meeting**

  Resolution 8 –Approve remuneration report **– Voted Against**.

  Rationale:

  The remuneration report for the financial year to 31 December 2019 was submitted to a shareholder vote. LGIM we were concerned about the level of bonus payments, which are 80% to 90% of their salary for current executives and 100% of their salary for the departing CEO. LGIM noted that the executive directors took a 20% reduction to their basic salary from 1 April 2020. However, whilst the bonuses were determined at the end of February 2020 and paid in respect of the financial year end to December 2019, LGIM would have expected the remuneration committee to exercise greater discretion in light of the financial situation of the company, and also to reflect the stakeholder experience (employees and shareholders).

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 Trustee recognises the importance of issues relating to ESG factors, stewardship and climate change, and will continue to consider these issues alongside the other risks that it monitors as part of its fiduciary duties to the Trust.

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