

# Valero UK Pension Plan (“the Plan”)

## **Annual Engagement Policy Implementation Statement (part of the Trustees report & accounts) – Year to 5<sup>th</sup> April 2025**

### 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 2025. 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 was reviewed by the Trustees during the Plan year and an updated version was signed in October 2024. The SIP was updated to reflect:

- The Trustees’ policy on stewardship priorities, most significant votes and their intended use of a pass through voting service made available by LGIM
- An update to the Plan’s target liability hedge ratios and underlying target allocations within the gilt portfolio.

The updated SIP has been published on the following internet page:

<https://pensioninformation.aon.com/valerodisclosure>

## **Policy on Environmental, Social and Corporate Governance (“ESG”) Issues and Stewardship**

The Plan’s SIP includes the Trustees’ policy on ESG factors and stewardship. This policy identifies that such factors may have a financial dimension, presenting investment risks and opportunities and that they should be taken into account to the extent that they could have a material impact on investment risk and return outcomes for the Plan. The SIP also sets out the processes followed by the Trustees in relation to voting rights and stewardship in relation to the Plan’s investments. The Trustees keep the policies under regular review, and updated the policy stated during the Plan year.

The Trustees believe the engagement and voting policies in the SIP have been followed over the year to 5 April 2025.

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](#).

In February 2025, the Trustees implemented pass through voting, made available by LGIM using the Tumelo platform to cast votes in relation to issuers that are one of the largest 100 issuers in the LGIM World Equity Index Fund or largest 10 issuers in the LGIM Emerging Market Equity Index Fund. The Trustees will use the services of Glass Lewis as a proxy voting provider to provide research and implement voting on their behalf. The Trustees have adopted Glass Lewis’ Corporate Governance focussed policy.

For votes which are in relation to all other issuers, the Trustees will continue to give LGIM discretion to cast the votes in accordance with their own corporate governance policies taking account of the UK Corporate Governance Code and UK Stewardship Code.

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

### **Engagement**

Over the Plan year, the Trustees had given the appointed investment manager full discretion in evaluating financially material factors, including ESG factors that may have a material impact on investment risk and return outcomes for the Plan. Until February 2025 (when Trustees implemented pass-through voting as described above) the investment manager also had full discretion to exercise 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 a research view from the investment adviser, which include consideration of financially material factors, including ESG matters where applicable. The Plan’s sole investment manager, Legal & General Investment Management (“LGIM”) held a favourable rating throughout the year from the Trustees’ investment consultant. The investment performance report includes how the investment manager is delivering against their specific mandates.

LGIM have been signatories of the UK Stewardship Code since 2021.

LGIM engaged with companies over the year on a wide range of issues. 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 resolutions at companies' Annual General Meetings.

Mercer, on behalf of the Trustees, requested portfolio turnover information from LGIM, including associated costs. 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 (until February 2025 when the Trustees implemented pass-through voting as described above) the Trustees delegated all of 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 evaluated financially material factors, including ESG matters under their own 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 stewardship policy and agreed to use a pass through voting service recently 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. This was implemented effective 21 February 2025.

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'.

Department for Work and Pensions ("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 (as referred to above) and be in relation to a holding that makes up the equivalent of more than 0.5% of total Plan assets.

During the Plan year, the Trustees did not set any expression of wish in relation to voting or communicate their stewardship priorities to LGIM ahead of the votes set out below being cast.

The sections below set out a summary of the voting activity over the Plan year as well as the most significant votes.

- **LGIM - World Equity Index Fund**

Voting activity for the LGIM World Equity Index Fund undertaken over the 1-year period to 31 March 2025 (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	2,928	35,751	99.74%	79.13%	20.58%	0.29%

Source: LGIM.  
Figures subject to rounding.

Five votes were cast by LGIM over the Plan year (to 31 March 2025) that met the Trustees’ definition of a most significant vote. These are described below. As noted above the voting was determined by LGIM under their own guidelines independently of the Trustees:

### **Microsoft Corporation**

- **Date of vote:** December 10<sup>th</sup> 2024
- **Resolution:** Report on AI Data Sourcing Accountability – **LGIM voted for.**
- **LGIM’s Rationale:** A vote for this resolution is warranted as the company is facing increased legal and reputational risks related to copyright infringement associated with its data sourcing practices. While the company has strong disclosures on its approach to responsible AI and related risks, LGIM’s view was that shareholders would benefit from greater attention to risks related to how the company uses third-party information to train its large language models.
- **Size of holding:** c.£4.6m (c.1.8% 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 priority of Governance and the holding made up more than 0.5% of total Plan assets.

### **Amazon.com, Inc.**

- **Date of vote:** May 22<sup>nd</sup> 2024
- **Resolution:** Report on Customer Due Diligence – **LGIM voted for.**
- **LGIM’s Rationale:** A vote in favor is applied as enhanced transparency over material risks to human rights is key to understanding the companies’ functions and organisation. While the company has disclosed that they internally review these for some products and has utilised appropriate third parties to strengthen their policies in related areas, LGIM’s view

was that there remains a need for increased, especially publicly available, transparency on this topic.

- **Size of holding:** c.£2.8m (c.1.1% 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 priority of Employees and the holding made up more than 0.5% of total Plan assets.

### **Alphabet Inc.**

- **Date of vote:** June 7<sup>th</sup> 2024
- **Resolution:** Elect Director John L. Hennessy – **LGIM voted against.**
- **LGIM's Rationale:** 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. Diversity:

A vote against is also applied as LGIM expects a company to have at least one-third women on the board.

A vote against is also applied as LGIM expects the Chair of the Committee to have served on the board for no more than 15 years in order to maintain independence and a balance of relevant skills, experience, tenure, and background.

A vote against is also applied as LGIM expects the Chair of the Board to have served on the board for no more than 15 years and the board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.

A vote against is also applied because LGIM supports the equitable structure of one-share-one-vote. LGIM expect companies to move to a one-share-one-vote structure or provide shareholders a regular vote on the continuation of an unequal capital structure.

- **Size of holding:** c.£1.8m (c.0.7% 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 priority of Governance and the holding made up more than 0.5% of total Plan assets.

## **Meta Platforms, Inc.**

- **Date of vote:** May 29<sup>th</sup> 2024
- **Resolution:** Elect Director Peggy Alford – **LGIM voted against.**

**LGIM's Rationale:** A vote against is applied as LGIM expects companies to elect an independent lead director where there is a combined Board Chair and CEO.

A vote against also has been applied as LGIM expects companies to obtain annual shareholder approval of executive directors pay and non-executive directors fees.

A vote against is also applied because LGIM does not support the use of corporate jets for private use.

A vote against is also applied as LGIM expects all incentives to be subject to clawback if the vested award is later deemed to be unjustified.

A vote against is also applied as the company does not have a shareholding guideline in place for executives. LGIM believes a shareholding requirement is a good way to align with long term shareholder interests because executives are expected to maintain a proportion of earned shares at risk over the medium term.

A vote against is also applied as LGIM expects a sufficient portion of share incentive awards to be assessed against long term performance conditions to ensure alignment of remuneration with company performance.

A vote against is also applied as LGIM expects performance to be measured over a three year period. A WITHHOLD vote is further warranted for Peggy Alford in her capacity as chair of the compensation, nominating, & governance committee due to consecutive years of high director pay without reasonable rationale disclosed.

- **Size of holding:** c.£1.7m (c.0.7% 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 priority of Governance and the holding made up more than 0.5% of total Plan assets.

## **Eli Lilly and Company**

- **Date of vote:** May 6<sup>th</sup> 2024
- **Resolution:** Elect Director Jamere Jackson – **LGIM voted against.**
- **LGIM's Rationale:** A vote against is applied as LGIM supports a declassified board as directors should stand for re-election on an annual basis.

A vote against is also applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns.

- **Size of holding:** c.£1.2m (c.0.5% 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 priority of Governance 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 2025 (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	4,366	34,789	99,94%	80.37%	17.12%	2.51%

There were no votes cast by LGIM over the Plan year (to 31 March 2025) in relation to the holdings in this fund 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 financially material considerations, including material issues relating to ESG factors and stewardship, and will continue to consider these issues, alongside the other financial 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.