

Valeo UK Pension Plan

Annual Engagement Policy Implementation Statement – Year to 5 April 2024

Introduction

This statement sets out how and the extent to which, in the opinion of the Trustees of the Valeo UK Pension Plan (“the **Plan**”), the Statement of Investment Principles (“**SIP**”) produced by the Trustees has been followed during the year period ending 5 April 2024 (“**Plan Year**”). This statement has been produced in accordance with The Occupational and Personal Pension Plans (Disclosure of Information) Regulations 2018 and (Investment and Disclosure (Amendment)) Regulations 2019 alongside guidance published by the Pensions Regulator.

Please note that the Trustees does not consider the AVCs to be material, in the context of the total assets of the Plan, so the voting rights associated with these are not considered in this disclosure.

Investment Objectives of the Plan

The Trustees are required to invest the Plan’s assets in the best interest of the members, beneficiaries and the Sponsoring Employers and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

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

1. to achieve a long-term return on the Plan’s assets which is consistent with the long term assumptions made by the Plan Actuary in determining the funding of the Plan (under the Plan’s Statutory Funding Objective);
2. over the shorter term, to achieve an investment return closely related to the benchmark return which is consistent with the adopted investment strategy; and
3. to ensure that sufficient liquid assets are available to meet benefit payments as they fall due.
4. the Trustees and Sponsoring Employers have adopted a secondary objective set on a lower-risk basis of gilts flat with the ultimate target of being 100% funded by 2029.

Review of the SIP

During the year to 5 April 2024 the Trustees reviewed the Plan’s SIP and a revised SIP was signed in July 2023. The SIP was updated to reflect the target allocation of the Plan following de-risking activity, which moved the Plan’s allocations to a 10% Growth and 90% Matching asset split. A copy of the SIP is available online.

During the year, in April 2023, the Plan underwent a strategy review, in which they disinvested from the Emerging Markets Index Fund and reinvested those proceedings 50:50 into the Aquila Life Overseas Consensus Equity fund and the Aquila Life Currency Hedged Overseas Equity Index fund. The Plan also re-structured their gilt portfolio and invested into a Buy & Maintain UK Credit fund with BlackRock in 24 April 2023 in order to increase the Plan’s hedge ratios. The Plan’s assets are wholly invested with BlackRock Investment Management (UK) Limited (“BlackRock”) (the “Investment Manager”).

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 over the year to 5 April 2024. The Trustees keep the policies under regular review with the SIP reviewed normally annually.

The Trustees believe stewardship plays an important role in managing sustainability risks and other ESG factors, and helps the realisation of long-term value by providing investors with an opportunity to enhance the value of companies and markets consistent with long-term investor timeframes. Consequently, an approach that integrates effective stewardship is in the best interests of the Plan. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities, including non-financial performance that require the Trustees' explicit consideration.

The following work was undertaken during the year to 5 April 2024 relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the investment manager followed (and implemented) its engagement and voting policies during the year.

- Through their Investment Consultant, the Trustees review the mandates with BlackRock in relation to ESG factors, including climate change, on an ongoing basis. This is carried out primarily through the investment consultant's ESG ratings, which are detailed in quarterly investment reports.
- These ratings demonstrate a continued high rating of BlackRock's passive equity strategies, reflecting their engagement activity. Blackrock's credit strategies are also rated highly which when compared with its peer group, many of whom are not rated on account of the limited scope to incorporate ESG issues into corporate bond investments, reflects Blackrock's commitment to sustainable investing
- The Trustees have requested, via their Investment Consultant, that the Investment Manager confirm compliance with the principles of the UK Stewardship Code. BlackRock has been a signatory of the UK Stewardship Code since 2021.
- The Trustees, via their Investment Consultant, also received details of significant engagement activity for the year as defined by the investment manager alongside a copy of its annual stewardship report.

The Trustees recognise that when the Plan invests in pooled funds, they have no voting rights attached to the underlying investments. The Trustees have therefore given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Plan's investments. The Trustees review the annual stewardship report, prepared by the investment manager, to understand the actions taken in these areas. Similarly, the Plan's voting rights are exercised by its investment manager in accordance with its own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. The investment manager is expected to provide voting reports to the Trustees on request.

The Trustees are satisfied that this policy corresponds with its responsibilities to the beneficiaries of the Plan. Should the Trustees consider that BlackRock have failed to align their own engagement policies with those of the Trustees, the Trustees will notify BlackRock and consider disinvesting some or all of the assets held with them or seek to renegotiate commercial terms.

Engagement

BlackRock provided details of their approach to engagement, as set out below:

- BlackRock CEO, Larry Fink, published¹ his annual letter to shareholders. Following last year's letter around efforts to transition to net-zero and how empowering clients to vote on ESG related engagements can mutually benefit stakeholders, Larry Fink's letter in 2024 heavily focuses on retirement security themes, notably reducing mentions to ESG in comparison with the past years. This year's letter also addresses the importance of more infrastructure development and global growth.
- BlackRock confirmed in their Stewardship policy² that their engagement priorities remain consistent with prior years, reflecting their continued focus on the corporate governance issues that they believe are critical drivers of companies' ability to deliver durable, long-term financial returns. Their priorities emphasize:
 - **Board quality and effectiveness:** One of BlackRock's priorities is the performance of the board to the financial success of a company and the protection of shareholders' interests over the long-term, so their investment stewardship efforts start with the board and executive leadership.
 - **Strategy, purpose, and financial resilience:** Long-term corporate strategy, purpose and financial resilience to understand how companies and management are aligning their business decision-making with their purpose and adjusting their strategy and/or capital allocation plans as necessary as business dynamics change. As one of many minority shareholders, BlackRock does not try to direct a company's strategy or its implementation.
 - **Transparency:** Appropriate and transparent compensation policies are a focus in many of Blackrock Investment Stewardship's engagements with the companies invested in on behalf of clients. It is important that a company's board of directors – typically a relevant committee – put in place a compensation policy that incentivizes and rewards executives against appropriate and stretching goals tied to relevant strategic metrics, especially those measuring operational and financial performance.
 - **Natural capital:** BlackRock engages with companies to better understand their approach to, and oversight of, climate-related risks and opportunities where material, as well as how they manage material natural capital impacts and dependencies, in the context of their business model and sector.

¹ <https://www.blackrock.com/corporate/investor-relations/larry-fink-annual-chairmans-letter>

² <https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf>

- **Company impacts on people:** It's BlackRock's view that companies that invest in the relationships that are critical to their ability to meet their strategic objectives are more likely to deliver durable, long-term financial performance. By contrast, poor relationships may create adverse impacts that could expose companies to legal, regulatory, operational, and reputational risks.

Significant Vote Definition

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 ("Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance") one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a "significant vote".

The Trustees define a significant vote as one that is linked to the Plan's stewardship priorities/themes. A vote could also be significant for other reasons, e.g. due to the size of holding, however given the nature of the Plan's holdings, this is unlikely to be a material consideration for the Trustee as the equity allocation is minimal. The Trustees have set out below their criteria for significant votes and are satisfied that these are also captured as high areas of focus in the BlackRock Stewardship Policy:

- **Environmental (E)** – Climate change (e.g. vote on a company's carbon disclosures)
- **Social (S)** – Human rights (e.g. worker conditions, safety and pay)
- **Governance (G)** – Corporate Governance (e.g. Board quality, diversity, remuneration and inclusion)

Voting Activity

The Trustees have delegated their voting rights to BlackRock in their capacity as sole manager of the Plan's DB voting assets (equities).

Blackrock is expected to provide voting summary reporting on a regular basis, at least annually. The Trustees may look to enhance their reporting on voting activity by reviewing an annual voting and engagement report which will be produced by the Trustees' investment consultant.

BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team (BIS), which consists of three regional teams – Americas ("AMRS"), Asia-Pacific ("APAC"), and Europe, Middle East and Africa ("EMEA") - located in seven offices around the world. The analysts with each team will generally determine how to vote at the meetings of the companies they cover. Voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Principles and custom market-specific voting guidelines.

Voting results, sourced from BlackRock, covering the 1-year period ending 31 March 2024 are shown below. Percentages may not sum to 100% due to rounding.

Voting Summary

	Aquila Life Currency Hedged Overseas Equity Index Fund	Aquila Life Overseas Consensus Equity Fund
How many resolutions were you eligible to vote on?	25,838	48,374
What % of resolutions did you vote on for which you were eligible?	94.04%	96.27%
Of the resolutions on which you voted, what % did you vote with management?	88.15%	87.38%
Of the resolutions on which you voted, what % did you vote against management?	5.89%	8.88%
Of the resolutions on which you voted, what % did you vote “for”?	83.41%	83.86%
Of the resolutions on which you voted, what % did you vote “against”?	8.41%	9.93%
Of the resolutions on which you voted, what % did you “abstain” from voting?	0.41%	1.47%
Of the resolutions on which you voted, what % did you “withhold” from voting?	0.14%	0.11%

Voting statistics cover period 1 April 2023 to 31 March 2024.

Examples of Significant Votes

Fund	Company	Date of voting	Why it is significant	Size of holding (% of the Fund)	Summary of resolution	Vote cast	Rationale for the voting decision	Outcome	Next steps
Aquila Life Currency Hedged Overseas Equity Index Fund	The Goldman Sachs Group, Inc.	26 April 2023	Environmental: Relates to the Trustee climate change stewardship priority	Not provided by manager	Report on Climate Transition Plan Describing Efforts to Align Financing Activities with GHG Targets	Against	The company already provides sufficient disclosure and/or reporting regarding this issue, or is already enhancing its relevant disclosures.	Fail	BlackRock do not see engagement as one conversation and have ongoing direct dialogue with companies to explain their views and how they evaluate companies' actions on relevant ESG issues over time. Where concerns are raised either through voting or during engagement, they monitor developments and assess whether the company has addressed their concerns.
Aquila Life Overseas Consensus Equity Fund	Yum! Brands, Inc.	18 May 2023	Social: Relates to the Trustee human rights stewardship priority		Report on Paid Sick Leave	Against	The request is either not clearly defined, too prescriptive, not in the purview of shareholders, or unduly constraining on the company.	Fail	
Aquila Life Currency Hedged Overseas Equity Index Fund	Chevron Corporation	31 May 2023	Governance: Relates to the Trustee corporate governance stewardship priority		Oversee and Report a Racial Equity Audit	Against	The company already has policies in place to address the request being made by the proposal, or is already enhancing its relevant policies.	Fail	

The remaining mandates are either, largely fixed income or investment funds with no direct listed equity exposure and therefore have no voting rights attached. Blackrock endeavor to communicate to companies when they intend to vote against management, either before or just after casting votes in advance of the shareholder meeting.

Prepared by the Trustees of the Valeo (UK) Pension Plan in May 2024.