

Valeo UK Pension Plan

Annual Engagement Policy Implementation Statement – Year to 5 April 2023

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 2023 (“**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 2023 the Trustees reviewed the Plan’s SIP and a revised SIP was signed in September 2022. 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.

Post year-end, 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. Prior to this, following the strategy review in November 2022, the Plan had also re-structured their gilt portfolio and invested into a Buy & Maintain UK Credit fund with BlackRock 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 2023. 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 2023 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 CEOs. Following last year's letter around climate and creating enduring, sustainable value for all stakeholders, Larry Fink's letter in 2023 discusses the efforts to transition to net-zero and how empowering clients to vote on ESG related engagements can mutually benefit stakeholders.
- BlackRock updated their Stewardship policy² throughout the year with a focus on their engagement policies, emphasizing:
 - o **Board quality/effectiveness:** One of BlackRock's priorities is having a board of highly qualified, engaged directors with professional characteristics relevant to a company's business who can add value and be the voice of shareholders in board discussions. Director tenure, independence, assessment and continuing development also influence board quality and effectiveness.
 - o **Strategy/purpose:** Long-term corporate strategy, purpose and financial resilience to understand how companies are aligning their business decision-making with their purpose and adjusting their strategy and/or capital allocation plans to address the risks and opportunities in their business model in order to deliver long-term value for their shareholders.
 - o **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 for companies to disclose the connection between compensation policies and outcomes and the financial interests of long-term shareholders.
 - o **Natural capital:** It is Blackrock's view that climate-related risks and opportunities can be a key factor in many companies' long-term prospects. Considering global ambitions to achieve a limit of 1.5°C, Blackrock looks to companies to disclose short-, medium and long-term targets, ideally science-based targets where these are available for their sector, for Scope 1 and 2 greenhouse gas emissions (GHG) reductions and to demonstrate how their targets are consistent with the long-term economic interests of their shareholders
 - o **Company impacts on people:** Companies are better positioned to deliver long-term shareholder value when they build strong relationships throughout their value chain, including with employees, business partners (such as suppliers and distributors), clients and consumers, regulators, and the communities in which companies operate. As a long-term shareholder on behalf of their clients, Blackrock continues to find helpful when companies

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

² <https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-global-policies-summary-2023.pdf>

disclose how they have identified the interests of these groups and taken them into consideration in business decision-making.

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 Trustee defines 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 2023 are shown below. Percentages may not sum to 100% due to rounding.

	iShares Emerging Markets Index Fund	Aquila Life Currency Hedged Overseas Equity Index Fund	Aquila Life Overseas Consensus Equity Fund
How many resolutions were you eligible to vote on?	25,327	26,156	50,812

What % of resolutions did you vote on for which you were eligible?	98.36%	91.80%	94.96%
Of the resolutions on which you voted, what % did you vote with management?	86.92%	85.34%	86.33%
Of the resolutions on which you voted, what % did you vote against management?	11.45%	6.46%	8.64%
Of the resolutions on which you voted, what % did you vote "for"?	83.89%	82.72%	83.42%
Of the resolutions on which you voted, what % did you vote "against"?	10.88%	8.24%	9.32%
Of the resolutions on which you voted, what % did you "abstain" from voting?	3.51%	0.40%	1.96%
Of the resolutions on which you voted, what % did you "withhold" from voting?	0.08%	0.25%	0.17%

Voting statistics cover period 1 April 2022 to 31 March 2023.

Examples of Significant Votes

Fund	Company	Rationale for the voting decision	Outcome
Aquila Life Currency Hedged Overseas Equity Index Fund	Berkshire Hathaway Inc.	Environmental: Vote for the resolution to produce a report on Climate-Related Risks and Opportunities. The company does not meet BlackRock's expectations for disclosing a plan for how their business model will be compatible with a low-carbon economy. BlackRock voted for the resolution, in opposition to management's recommendation.	Against
Aquila Life Overseas Consensus Equity Fund	Tesla, Inc.	Social: Vote for the resolution to report efforts to prevent harassment and discrimination in the workplace. Shareholders should be made aware of any issues regarding problems with the workforce. BlackRock voted for the resolution (in opposition to management's recommendation) as they felt not enough information is disclosed.	Against
iShares Emerging Markets Index Fund	Tencent Holdings Limited.	Governance: Vote against the resolution to elect Li Dong Sheng as Director. The company failed to ensure sufficient board independence, as the majority remains dependent. BlackRock voted against the resolution in opposition to management's recommendation.	For

The remaining mandates are either, largely fixed income or investment funds with no direct listed equity exposure and therefore have no voting rights attached.

Prepared by the Trustees of the Valeo (UK) Pension Plan in June 2023.