RENISHAW PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES – MARCH 2023

1. Introduction

The purpose of the Statement of Investment Principles (the "Statement") is to document the principles and policies governing decisions about the investment of the assets of the Renishaw Pension Fund (the "Fund").

This Statement has been prepared by the Trustee of the Fund (the "Trustee"). It sets out the Trustee's policy for complying with the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation. The Trustee in preparing this Statement has consulted Renishaw plc (the "Sponsoring Company") and have received written advice from the Fund's investment consultants, Mercer Limited ("Mercer"), which is regulated by the Financial Conduct Authority ("FCA") in relation to investment services.

The Trustee seeks to maintain a good working relationship with the Sponsoring Company and will discuss any proposed changes to the Statement with the Sponsoring Company. However, the Trustee's fiduciary obligation is to the Fund's members and this will take precedence over the Company's wishes in the event of a conflict.

The Fund is governed by its Trust Deed and Rules which sets out all of the benefits in detail and specifies the Trustee's investment powers. The investment powers do not conflict with this Statement.

Mercer has confirmed in writing to the Trustee that it has the appropriate knowledge and experience to give the advice required by the Pensions Act 1995, the Occupational Pension Schemes (Investment) Regulations 2005 and any subsequent regulation.

The Trustee will review this Statement at least every three years and without delay upon a material change to the Fund's investment strategy, or a material change in relation to the Sponsoring Company.

The Trustee has been required to publish the Statement of Investment Principles on-line each year from 1 October 2020. The Trustee will also prepare an Implementation Statement, describing how the policies and practices described in the Statement of Investment Principles have been implemented during the last year.

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee acting on advice from their investment consultant, Mercer, and is driven by their investment objectives as set out in Section 3. The remaining elements of policy are part of the day-to-day management of the assets, which is delegated to professional investment managers as set out in Section 6.

2. Money Purchase Assets

The Fund is a Defined Benefit (DB) pension scheme, however, it also holds assets on a money purchase basis in respect of legacy money purchase transfers in. These assets are invested in the same way as the DB assets.

The Fund previously held some Additional Voluntary Contributions (AVC) with Utmost Life and Pensions Limited (Utmost); however, these were transferred out of the Fund to the Legal and General Master Trust on 14 July 2020.

Section 4.1 of this document includes a section which deals specifically with the risks associated with the legacy transfers in whilst the rest of the document relates to both the DB assets and the legacy money purchase transfers in.

For any money purchase assets (DC transfers in) there are three possible approaches at retirement for a member to receive their benefits:

1) If the balance is relatively small (currently defined as less than £6,667) it can be put towards increasing the member's DB pension;
2) If the balance is larger (more than or equal to £6,667) then it can be used to buy the member an annuity on the open market;
3) Alternatively, members may transfer their money purchase benefits out of the Fund to another provider.

On retirement members are able to take 25% of their money purchase benefits as tax free cash and the remainder is used to either secure a scheme pension or purchase an annuity.

The £6,667 threshold was selected by the Trustee on 20 November 2012 due to annuity providers not providing annuities where the money purchase assets were less than £5,000. If a member decides to take 25% of their money purchase assets as tax free cash on retirement, then a total minimum pot size of £6,667 is required in order for the remaining balance to still be larger than £5,000. This practice is procedural and not included in the Fund Rules.

2.1 Transfers In

The legacy money purchase transfers in are amounts that have historically been transferred in by members from their previous pension schemes. Although they are included in the main DB section investments they are separately identified on the individual's member record. The majority of these of these transfers in include a Guaranteed Minimum Pension ("GMP") provision.

At retirement the money purchase assets provide a pension for the member which is sufficient to cover the guaranteed amount. If there is any money left over, after securing the GMP, then the balance can be used as described in options 1, 2 and 3 above. If there is a shortfall and insufficient assets to cover the GMP then the Fund will make up any difference.

The total money purchase assets are relatively small in relation to the scale of the DB assets. The transfers in are also expected to be only a proportion of the individuals' overall retirement benefits in the Fund. It has therefore been agreed that an appropriate approach is to invest these assets with the DB assets. In addition, manager fees are in general met by the Trustee via separate invoices, and are not reflected in the unit price (with the exception of the

NinetyOne Multi-Asset Credit mandate and the BlackRock ICS Sterling Liquidity Fund). The money purchase transfers are invested with the DB assets and are currently revalued in line with the Fund's benchmark returns, and updated with actual monthly performance one month in arrears since Q3 2020.

3. Investment Objectives

Investment policy is set according to the investment objectives identified by the Trustee. The investment objectives express the preferred balance between the desire for maximising the potential for future returns and tolerance to risk. In general terms, for the investment policy to have the potential for strong future returns relative to the Fund's liabilities, the Trustee must be prepared to accept the risk of poor future returns. The scope for the Trustee to accept such risk depends heavily upon the sponsoring Company's capacity and willingness to provide additional funding should future investment experience be poor.

The Trustee carries out regular monitoring of the strength of the Company and its risk capacity and have concluded that it is at present, and for the medium-term, substantial. The Trustee has therefore historically been able to conclude that the Company's commitment to the Fund is sufficiently strong that a relatively high risk investment strategy could be pursued with the aim of providing potential for high future returns.

However, the investment objectives for the Fund have evolved due to the significant improvement in the level of funding over 2022, driven by the significant rises in UK government bond yields that reduced the value placed on the Fund's liabilities. As such, the Trustee and Company determined that a material reduction in investment risk was appropriate.

The investment objective for the Fund is to minimise the volatility of the funding position as measured on a solvency basis, while the Trustee and Company consider the appropriate long term 'journey plan' for the Fund, which may include a bulk annuity transaction to insure the liabilities.

4. Investment Risk

There are various risks to which any pension scheme is exposed. The Trustee has considered the following risks:

- The risk of deterioration in the Fund's funding level, caused by underlying risks which include interest rate, inflation, credit and currency risk. This is mitigated through a high degree of liability hedging, and the hedging of any overseas currency exposure within the Fund's corporate bond mandates.

- The risk of changes in the value and profile of the liabilities in relation to the value and profile of the assets. This is mitigated by a high degree of liability hedging.

- The risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. As such the Trustee invests in predominantly passive funds designed to track market indices, and have evolved the portfolio such that there is a low degree of expected mismatch between the performance of the assets and the liabilities (as measured on a solvency basis).

- The risk of a shortfall of assets relative to the liabilities as determined if the Fund were to wind up. This risk is significantly lower than it has been historically, given the funding level improvement over 2022.

4.1 Risk – Money Purchase Transfer In

The money purchase transfer in assets are invested with the DB assets; there is no separation, no individual pots, and no ring-fencing. Therefore, the risks associated with the money purchase transfer in are similar to those of the DB assets.

However, it is important to note that the risks for the money purchase investments fall on the member. This is different to the DB assets where it is the employer who takes the risk (with the noted exception of any GMP underpin). In particular, there are some risks associated with the money purchase transfers in addition to those mentioned related to the DB assets – these are detailed below:

Risk	Details	How it is managed
Inflation Risk	When managing DB assets an important measure is the funding level, i.e. how the assets compare to the liabilities. For money purchase benefits the focus on the absolute value in today's terms is more important.	The Trustee invests the assets across various asset classes, including multi asset credit and other fixed income investments. The Trustee measures this risk by considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation. The current investment strategy has reduced exposure to growth assets such as equities. The youngest DC members are aged 48 at the time of writing and therefore a significant number of years away from retirement. This is a time they would normally be investing in a way to seek real return (i.e. above inflation) however the strategy is not designed for this. The Trustee is however comfortable with this appoach for the short term.
Pension Conversion Risk	This is the risk of a substantial decrease in the purchasing power of the members accumulated savings near retirement. In particular, this considers the risk that the member's assets are not invested in line with how they wish to take their pension benefit.	Many of the members (c. 72% as at the last actuarial valuation date) have a Guaranteed Minimum Pension attached to their transfers in. If their assets are insufficient to meet the GMP then the Fund will make up any difference. There is no explicit de-risking of assets as a member approaches retirement age. The Trustee is comfortable that this is appropriate. Some members without the GMP underpin, or where it does not bite, are expected to purchase an annuity at retirement. As of Q1 2023, the assets are invested in a manner that reduces volatility in value against annuity prices (as this is now well aligned with the objective of the DB assets). An increase in annuity prices just before retirement would therefore not be expected to compromise the member's retirement income. However if members intend to take their DC benefits in another way (e.g. transfer out to a drawdown provider) then this strategy may not be appropriate.

There are various risks to which any money purchase pension scheme is exposed, such as the risk of deterioration in the value of a members' assets, caused by underlying risks which include interest rate, inflation, credit and currency risk. As a member approaches retirement, the impact of these risks is potentially increased, due to money purchase asset values having less time to recover from the adverse effects of such risks and not being guaranteed.

The Trustee does not explicitly look to reduce this risk as the member nears retirement, given that assets are invested in line with the investment strategy of the main DB assets.

5. Investment Strategy

The Trustee has determined, based on advice from Mercer, a benchmark mix of asset types and ranges. The investment strategy is focused on reducing the volatility of the funding position as measured on a solvency basis, whilst the Trustee and Company consider the appropriate long term ‘journey plan’ for the Fund, which may include the potential for a bulk annuity transaction to insure the liabilities .

Due to significant gilt yield movements over September and October 2022, the funding position improved materially and this led to the Trustee agreeing to pragmatically de-risk the strategy. In October 2022, as an interim de-risking step, the Trustee fully disinvested out of the Fund’s Equity and DGF holdings with the proceeds invested in Over 5 Year Index-Linked Gilts.

In February 2023, the Trustee agreed to further refine the de-risked investment strategy with the objective of targeting interest rate and inflation hedge ratios of c.95% (measured on a Solvency basis), whilst also incorporating a higher allocation to Investment Grade Credit. The revised strategic asset allocation is as follows.

Asset Class	Manager	Current SAA (%)
Growth Fixed Income		**10.0**
Multi-Asset Credit	Ninety One	10.0
Defensive Fixed Income		**30.0**
Passive Investment Grade Credit	BlackRock	25.0
Buy & Maintain Credit	BlackRock	5.0
Liability-Driven Investment (“LDI”)		**60.0**
Liability Matching Funds	BlackRock	60.0
Cash	BlackRock	
Total		**100.0**

The Trustee believes that the above asset mix is consistent with the investment objectives set out in Section 3.

There is no automatic rebalancing between the allocations set out above. The Trustee will review the allocation periodically and consider whether any rebalancing is required, noting that the primary objective of the Fund is to maintain the stability of the funding position, and therefore alternative metrics (e.g. the liability hedge ratios) are expected to be more relevant than the allocation relative to the benchmark set out above.

6. Day-to-Day Management of the Assets

The Trustee regards the choice of asset allocation policy as the decision which has most influence on the likelihood that they will achieve their investment objectives. In deciding the asset allocation strategy, the Trustee has taken advice from Mercer and made their decisions in consultation with the Company. The Trustee is satisfied that the spread of assets provides adequate diversification of investment for risk purposes.

The Trustee invests the main assets of the Fund in pooled fund arrangements operated by BlackRock Investment Management (UK) Limited (“BlackRock”) and Ninety One.

BlackRock

Passive Investment Grade Credit

Funds	Benchmark Allocation (%)	Benchmark Index	Outperformance Target	Tracking Error Target
Over 15 Years Corporate Bond Fund	100	iBoxx Sterling Non-Gilts 15+ Years Index	n/a	n/a

Buy & Maintain Credit

Funds	Benchmark Allocation (%)	Benchmark Index	Outperformance Target	Tracking Error Target
Buy and Maintain UK Credit Fund	100	n/a[1]	n/a	n/a

[1] BlackRock has no formal benchmark for this mandate. The Markit iBoxx Sterling Non Gilts Index will be used as a comparison for performance reporting purposes.

Liability-Driven Investment ("LDI")

Funds	Benchmark Allocation (%)	Benchmark Index	Outperformance Target	Tracking Error Target
Liability Matching Funds ('LMF')	100	Bespoke benchmark indices for underlying Liability Matching Funds	n/a	n/a

Cash

Funds	Benchmark Allocation (%)	Benchmark Index	Outperformance Target	Tracking Error Target
Sterling Liquidity Fund	100	SONIA Overnight Rate	n/a	n/a

Ninety One

Multi-Asset Credit

Funds	Benchmark Allocation (%)	Benchmark Index	Outperformance Target[2]	Tracking Error Target
Multi-Asset Credit Fund	100	3 Month LIBOR	3 Month LIBOR + 4% p.a.	n/a

[2] The Strategy is benchmark agnostic and targets a return in excess of 3M LIBOR +4% p.a. over a credit cycle, gross of fees.

The investment managers are remunerated according to an agreed fee schedule and fees paid are based on the market value of assets under management. Precise details of how they are calculated and when they are paid are contained in the investment management agreements.

7. Additional Assets

The 2021 Actuarial Valuation and Recovery Plan was agreed by the Company and Trustee on 20 June 2022. As part of the funding plan, the Company has provided security over UK property to the value of £88 million (August 2021). There is provision that this security can be reduced if the deficit on the Technical Provision basis (calculated as part of a formal valuation), plus a 20% margin, is covered by the remaining security.

In addition, over the period to September 2023, the Company agreed to make annual contributions of £8.7 million in monthly payments of £725,000.

The Trustee and Company agreed that the final contribution of £8.7 million could be postponed until 1 January 2026 due to the significantly improved funding position.

The money purchase transfers are invested with the DB assets and are currently revalued in line with the Fund's benchmark returns, and updated with actual monthly performance one month in arrears since Q3 2020.

A balance may also be held in the Fund's current account to meet the short term cashflow requirements of the Fund.

8. Realisation of Investments

The Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments.

9. Monitoring the Investment Managers

The Trustee meets the investment managers as necessary to review their actions together with the reasons for and background to the investment performance.

Mercer is retained as investment consultants to assist the Trustee in fulfilling their responsibility for monitoring the managers. BlackRock and Ninety One produce quarterly investment reports for the Trustee and Mercer will alert them to any significant developments at the managers.

10. Responsible Investment and Corporate Governance

ESG, Stewardship and Climate Change

The Trustee believes that environmental, social and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

The Trustee’s policy is to allow appointed investment managers full discretion in evaluating ESG factors, including climate change considerations. Both of the Fund’s investment managers are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. With the assistance of their advisors, the Trustee has undertaken an assessment to better understand the overall level of ESG integration across the Fund’s asset allocation where relevant. Monitoring is undertaken on a regular basis by receiving updates from investment managers and Mercer providing the Trustee with ESG ratings for the strategies in which the Fund invests.

Similarly, the Fund's voting rights (where relevant) are exercised by its investment managers in accordance with their own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Asset manager alignment of investment strategy and decisions with the Trustee’s policies

In line with previous sections of this document, investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class for which they have been appointed.

For active mandates, the Trustee looks to their investment consultant for their forward looking assessment of a manager’s ability to outperform over a full market cycle. This view will be based on the consultant’s assessment of the manager’s idea generation, portfolio construction, implementation and business management, in relation to the particular investment that the Fund invests in. The consultant’s manager research ratings assist with due diligence and questioning managers during presentations to the Trustee. These ratings are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager changes, the Trustee will review the Fund’s appointment to ensure it remains appropriate and consistent with the Trustee’s wider investment objectives. Some appointments are actively managed and the managers are incentivised through remuneration and performance targets (an appointment will be reviewed following periods of sustained underperformance or significant outperformance). The Trustee will review the appropriateness of using actively managed funds (on an asset class basis) regularly.

As the Trustee invests in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

Asset manager alignment of decision making to assessments about medium to long-term outcomes

The Trustee will also consider the investment consultant’s assessment of how each investment manager embeds ESG into its investment process and how the manager’s responsible investment philosophy aligns with the Trustee's responsible investment views. This includes the investment managers' policy on voting and engagement. The Trustee will use this assessment in decisions around selection, retention and realisation of manager appointments. They can challenge decisions made including voting history and engagement activity, with a view to seeking to ensure the best performance over the medium to long term.

The investment managers provide regular stewardship monitoring reports, which includes details of voting and engagement activities associated with each of the funds invested in. The Trustee can challenge decisions made including voting history (where relevant) and engagement activity to try to ensure the best long-term performance over the medium to long term.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to replace the manager.

Method and time horizon of the evaluation of the asset manager's performance and manager remuneration

The Trustee receives performance reports from the investment managers on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. On an annual basis, the Trustee reviews the absolute performance, relative performance against a suitable index used as the benchmark, and against the managers' stated target performance (over the relevant time period) on a net of fees basis over a full market cycle. The Trustee's focus is on long-term performance but may put a manager 'on watch' if there are short-term performance concerns.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may ask the manager to review their fees.

Monitoring of portfolio turnover costs incurred by the Scheme's asset managers

The Trustee does not currently monitor portfolio turnover costs but may consider a more active approach in the future.

The Trustee receives MiFID II reporting from their investment managers for information purposes. However, the Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee may ask managers to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

Duration of the arrangement with the asset manager

The Trustee is a long-term investor and therefore is not looking to change the investment arrangements on a frequent basis.

There is no set duration for the manager appointments. The Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class;
- The manager appointment is reviewed and the Trustee decides to terminate for a more suitable appointment.

11. Member Views

Member views are not taken into account in the selection, retention and realisation of investments.

12. Investment Restrictions

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

13. Compliance with this Statement

The Trustee will monitor compliance with this Statement annually.

In line with the Occupational Pension (Investment) Regulations (2005), the Trustee is required to review the Statement at least every three years and without delay upon a material change to the Fund's investment strategy, or to the Company covenant.

The Trustee will review this Statement in response to any material changes to any aspects of the Fund, its liabilities, finances and the attitude to risk of the Trustee and the Company which they judge to have a bearing on the stated Investment Policy.

This statement has been agreed by the Trustee on:

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Signed on behalf of the Trustee by

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