

RENISHAW PENSION FUND (the “Fund”)

Annual statement regarding governance – for the period from 1 October 2018 to 30 September 2019

Introduction

Under legislation set out in Regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended by The Occupational Pension Schemes (Charges and Governance) Regulations 2015 (together the ‘Administration Regulations’), the Trustees of the Renishaw Pension Fund (the ‘Trustees’) are required to prepare this annual Statement on governance.

Governance rules introduced by the Government have applied to Defined Contribution (DC) schemes since April 2015. These rules, which include new legal requirements that came into force in April 2018, are designed to help deliver better outcomes for members. The Chair of Trustees has to provide an annual statement which explains what action the trustee board has undertaken to meet the new governance rules. At the year end the Fund held DC assets for two purposes:

- As AVCs – in an Equitable Life With-Profits policy (these have since transitioned to Utmost Life and Pensions Limited (Utmost) from 1 January 2020).
- In respect of transfers-in – these assets are invested in the same way as the DB assets.

The default arrangement

The Fund is not a qualifying arrangement for auto-enrolment compliance purposes and, as such, there is no legislative requirement to have a default arrangement in place. Furthermore, the Fund is closed to new members and new member contributions.

Requirements for processing financial transactions

As required by the Administration Regulations, the Trustees must ensure that core financial transactions are processed promptly and accurately.

The Trustees operate a system of internal controls aimed at monitoring the Fund’s administration and management. Included in this system are mechanisms to ensure the prompt and accurate processing of financial transactions, including core transactions such as the transfer of member assets out of the Fund and the payment of benefits. The Fund’s Risk Register outlines the risks to members who have DC benefits and these are monitored and reviewed on a half-yearly basis by the Trustees.

The Trustees have delegated the administration of the DC transfers-in to Barnett Waddingham and have agreed minimum timescales for all services, including core financial functions. The service level agreements (SLAs) in place cover both the accuracy and timeliness of the financial transactions. This ensures the accuracy of the data provided. The administration reports produced by Barnett Waddingham are reviewed carefully, and in

detail, by the Trustees at each quarterly meeting. During the year their performance against SLAs ranged from 95% - 99% at a scheme level. Renishaw manages the Trustees' bank account on the Trustees' behalf who have delegated to Ian Wallace (Renishaw Pensions Administration Manager) the task of monitoring closely the cashflows. As at 30 September, Equitable Life provided the administration services in respect of the AVCs invested in their With Profits fund although as noted above Utmost Life have now taken on this role.

The Trustees have delegated the day to day investment management of the transfer-in assets to BlackRock Investment Management (UK) Limited and the Trustees hold a long term unit-linked contract arrangement with them.

The Trustees have also appointed an independent auditor (KPMG LLP) to carry out an annual audit of the Fund, including the material financial transactions that have taken place during the Fund's year. The auditors carry out spot checks to ensure that contributions to the Fund or payments made by the employer on behalf of the Fund are paid in accordance with the Fund's rules.

The Trustees are satisfied that the Fund's core financial transactions have been processed promptly and accurately during the period to which the Statement relates. The Trustees confirm that no material issues arose over the year in relation to the Fund's core financial transactions.

Charges and transactions costs

As required by the Administration Regulations, the Trustees are required to report on the investment charges and transactions costs which were incurred by members. The Trustees also need to assess whether the charges and costs represented good value for members.

As at 30 September 2019 the Fund had AVC members invested in a With Profits Fund provided by the Equitable Life Assurance Society. Provided below are the details of the costs for the AVC investments

Assets in respect of DC transfers-in are invested together with the DB assets. These assets are invested broadly as follows: 68% in a global equity portfolio, 31% in a diversified growth fund and 1% in index linked gilts. DC investments are allocated a return based on the benchmark asset allocation and benchmark performance of the DB Section. As the return is based on the performance of the DB benchmarks, the DC transfer-in members therefore pay no charges. Provided below are the details of the costs on the DB investments included for information only.

The Company currently meets all advisory costs associated with operating the Fund together with any additional bespoke member communications commissioned.

Renishaw Pension Fund – DC transfers-in	30 September 2019 Weight (%)	AMC (%p.a.)	TER (%p.a.)	Transaction Costs (% p.a.)
Equity				
Aquila Life Currency Hedged World ex UK Equity Index Fund	30.74	0.08	0.09	0.07
Aquila Life Global Developed Fundamental Weighted Index Fund	33.96	0.08	0.14	0.17
Aquila Life UK Equity Index Fund	2.32	0.08	0.08	0.15
Multi Asset				
BlackRock Dynamic Allocation Fund	31.81	0.35	0.35	0.75
Fixed Income				
Aquila Life Over 5 Year Index Linked Gilt Fund	1.18	0.04	0.04	0.11

Source: BlackRock figures are as at 30 September 2019.

Renishaw Pension Fund – Equitable Life AVCs	AMC (% pa)*	Transaction costs (% pa)
Equitable Life With Profits Fund	1.00%	1.04%

Source: Equitable Life – 30 September 2019

* Due to the way in which With Profits funds are structured this is an indicative fee; actual charges are not explicitly stated.

The Trustees confirm that the funds referred to above are the only funds in use by the Fund for the provision of DC benefits.

Value for members

In accordance with the Pensions Regulator's DC Code of Practice number 13 (paragraphs 18-41) and with the relevant legislation, the Trustees conclude that the Fund's overall benefits and services represented value for members in comparison to the costs payable by members for the following reasons, including:

- The Equitable Life policy offered a guaranteed annual rate of return plus a capital guarantee (subject to ongoing solvency).

- Assessing value for members on a With Profits Fund is directly related to an individual's attitude towards, and capacity for, investment risk, as well as their individual circumstances. The 3.5% p.a. guaranteed investment return under the Equitable With Profits fund cannot be replicated elsewhere, and the disclosed charges are not out of line with other With Profits funds that disclose this information. Hence, whilst its investment performance has not been good relative to some other types of investment, the Trustees consider it to be reasonable value for those members who value this additional security.
- Members with transfers-in do not pay any charges. They are allocated a return based on the benchmarks for the asset allocation of the DB section.
- Governance and management - the Fund has an experienced and knowledgeable Trustee board which meets quarterly. Qualified professional advisors are appointed to assist the Trustees in their duties. The costs of the Trustee board and professional advisors are met by the Company, enhancing the value that members receive.
- Administration - the Trustees use Barnett Waddingham to administer the Fund, the costs of which are met by the Company.
- Communications - members receive annual benefit statements and retirement packs. The Trustees send members an annual update including the Summary Funding Statement and also communicate with them on an ad hoc basis. The cost of communications is met by the Company, again enhancing value to members.

Through 2019, Equitable Life has been progressing plans to transfer its business to Utmost Life. The transfer went ahead on 1 January 2020 and all the Fund's AVC members invested in the Equitable Life With Profits Fund were moved to the Utmost Secure Cash Fund, a unit linked fund. In compensation for the loss of the With Profits guarantees members received a significant uplift. Following the transfer, the Trustees, having taken professional advice, are in discussion with Utmost with a view to transferring the AVCs from Utmost to the Company's MasterTrust held by Legal and General.

Reporting of Costs and Charges

Using the charges and transaction cost data provided by BlackRock and Equitable Life and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Fund on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

The below illustration has taken into account the following elements:

- Savings pot size
- Contributions (if applicable)
- Real terms investment return gross of costs and charges
- Adjustment for the effect of costs and charges
- Time

To illustrate the impact of charges on a typical member's pension pot, we have provided an example below. This includes all member costs, including the Total Expense Ratio, transaction costs and inflation. A typical DC transfer-in member has a starting pot size of £40,000 and a typical AVC member has a starting pot size of £5,400. The Fund is closed to new member contributions so any increase is based on investment return.

Age	Equitable Life With Profits AVCs		BlackRock DC transfers-in
	£5,400 starting pot size with no charges incurred (£)	£5,400 starting pot size with charges incurred (£)	£40,000 starting pot size with no charges incurred (£)
45	£5,400	£5,400	£40,000
46	£5,564	£5,451	£41,000
47	£5,733	£5,502	£42,025
48	£5,908	£5,553	£43,076
49	£6,087	£5,605	£44,153
50	£6,272	£5,658	£45,256
51	£6,463	£5,711	£46,388
52	£6,659	£5,765	£47,547
53	£6,862	£5,819	£48,736
54	£7,070	£5,873	£49,955
55	£7,285	£5,928	£51,203
56	£7,507	£5,984	£52,483
57	£7,735	£6,040	£53,796
58	£7,970	£6,097	£55,140
59	£8,213	£6,154	£56,519
60	£8,462	£6,212	£57,932
61	£8,719	£6,270	£59,380
62	£8,984	£6,329	£60,865
63	£9,258	£6,388	£62,386
64	£9,539	£6,448	£63,946
65	£9,829	£6,509	£65,545

Notes – Equitable Life With Profits AVCs
Projected fund values are shown in today's terms
The starting pot size is assumed to be £5,400
The Equitable Life With Profits 'guaranteed value' has a guaranteed investment return on retirement of 3.5% p.a. after charges
No allowance has been made for future contributions
Costs and transaction charges are assumed to be 2.04% p.a.
Capital distribution is added to the policy value on retirement and is then compared to the Guaranteed Value and the higher amount is paid

Notes – BlackRock DC transfers-in
Projected pension pot values are shown in today's terms
The starting pot size is assumed to be £40,000
An investment return of 5.0% has been assumed
No allowance has been made for future contributions
Charges for member are assumed to be 0% p.a.

When preparing these illustrations, the Trustees have taken into account and followed specific guidance from the Department for Work and Pensions.

The Trustees acknowledge the requirement to publish these illustrations on a website and they have established a suitable web page for the purpose:

<https://www.renishaw.com/go/pensions>

The annual benefit statements also include this web address in order to inform members where they can access this information.

Trustee knowledge and understanding (TKU)

Sections 247 and 248 of the Pensions Act 2004, require the Trustees to maintain an appropriate level of knowledge and understanding which, together with professional advice available to them, enables them to properly exercise their functions and duties in relation to the Fund.

Trustee training is of high importance to the good running of the Fund. The Trustees acknowledge how vital it is they maintain their knowledge of pension law, trust law and investment principles, and are conversant with the Fund's documentation including the Trust Deed and Rules, SIP and Fund policies.

Training

In order to maintain this high level of knowledge, the Trustees have procedures and policies in place:

- Trustees have individually or collectively undertaken all the training modules from the Pensions Regulator's site, including those that are relevant to DC.
- Trustees undertake additional training to ensure that they keep up to date with changes in legislation, current issues and the latest developments.
- All training activities are recorded in a training log.
- Trustee training is considered regularly at Trustee meetings to determine any specific training and development needs, training sessions are then planned accordingly.

Over the course of the last year the Trustees have demonstrated their continuous commitment to learning, by one or more of the Trustees undertaking the following training or attending the following seminars:

- Mercer:
 - o Current DC issues – Mercer provides a monthly update on these issues
 - o GMP Equalisation (05/11/18, 11/12/18)
 - o Chair Forum, GMP Equalisation, investment issues and funding regulations (12/12/18, 13/06/19)
 - o A practical guide to GMP Equalisation and conversion (26/06/19)
 - o GMP Equalisation – A windfall for members, a nightmare for Trustees (22/11/18)
 - o Investing in a Time of Climate Change (18/04/19)
 - o HLV Property Investing (21/05/19)
 - o Confident Trusteeship (04/06/19, 18/06/19)
- Pensions Age:
 - o Great Western Conference (13/11/18)
- Eversheds:
 - o Pension Saving – New Foundations (06/12/18)
- Barnett Waddingham:
 - o 2019 Investment Conference, including Brexit & ESG (15/01/19)
 - o How does GMP Equalisation affect you? (09/11/18)
 - o Pension Trustee conference (30/04/19, 23/05/19)
- Pension Chair
 - o Investment environment (24/01/19)
 - o Future of Pension Trusteeship (14/02/19)
 - o Legal Update (13/03/19)
 - o Responsible Investment (05/04/2019)
 - o Recent trends in DB transfers (02/10/18)
 - o Covenant risk and protection (26/04/19)
 - o Integrated risk management (16/07/19)
- KPMG:
 - o Risk, Return and Regulation (21/03/19)

Trustee Induction

Over the course of the year a new Trustee was appointed, Mr Jim Long. His appointment was effective as at 1 June 2019. In addition, Gareth Hankins, who was previously a Member Nominated Trustee became an Employer Appointed Trustee from 18 October 2018.

There is an induction process in place for new trustees. They will have a formal meeting with the Pensions Manager and Chair of Trustees to receive the necessary information and background on the Fund. There will also be introductions made with the Fund's advisors, Mercer, where any questions can be raised and answered. New trustees are provided with access to an online document storage site (SharePoint) which contains all the important Fund documents so they can familiarise themselves with them. Among other things the site includes the Trust Deed and Rules, SIP, member booklet, recent meeting minutes, Risk

Register and Business Plan. All new trustees are required to complete the Pensions Regulator's Trustee Toolkit within six months of their appointment.

The Trustees have a business continuity plan which they review and update annually.

Examples Demonstrating TKU

The Trustees undertook a number of activities over the past year which demonstrate how they have a working knowledge of pension trust law, funding and investment principles. These activities include:

- The updated SIP was signed by the Trustees on 24 September 2019. This demonstrates their knowledge of the Fund documentation and investment principles.
- The Risk Register is reviewed and updated half yearly. This demonstrates that the Trustees have the required knowledge of the Pensions Regulator's DC Code and hold relevant knowledge on DC specific internal controls and the regulatory requirements.
- All Trustees have access to the Fund governance documentation, including the Trust Deed and Rules.
- The Trustees take formal minutes of all their meetings which demonstrate good governance.
- The Trustees undertake annual business planning, covering any legislation changes so they remain up to date in pension & trust law and funding & investment principles.
- The Trustees have been closely monitoring the changes at Equitable Life, demonstrating their knowledge of the Fund's investments and general investment principles.

Utilising Advisors

The Trustees believe that the best run schemes utilise the combined skill and knowledge of both the Trustees and their professional advisors. The relevant skills and experience of those advisors are key criteria when evaluating advisor performance and selecting new advisors. Additionally, the following measures have applied during the period:

- The Trustees' professional advisors attend formal meetings with the Trustees.
- The Trustee board contains Trustees with wide ranging skills and experience, including pension experience.
- The Trustees receive briefings from their advisors on all legislative and regulatory developments at each meeting.

Assessing effectiveness

The Trustees understand that having knowledge on the Board and professional advice available needs to be used effectively in order for the Board to act properly. The examples below demonstrate the actions which has been taken to ensure this is the case:

- At the beginning of each year the Trustees produce a Business Plan. Throughout the year they regularly monitor their progress against their Business Plan to ensure the board is performing effectively and is meeting the objectives set out.
- At the December 2018 meeting diversity of the Trustee board was discussed. The Trustees strongly support diversity and this will be borne in mind as part of future MNT exercises.
- The Trustees maintain a conflicts of interest log which identifies any possible conflicts. It is considered at every Trustee meeting and, where necessary, should a Trustee feel conflicted at any point of a meeting they would declare it and sit out of the discussions on that topic.

Signature:

Name: A R Brown

Position: Chair of the Renishaw Pension Fund

Date: 23 April 2020