STATEMENT OF INVESTMENT PRINCIPLES

RENISHAW PENSION FUND

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 Trustees of the Fund (the “Trustees”). It sets out the Trustees’ policy for complying with the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation. The Trustees in preparing this Statement have 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 Trustees seek 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 Trustees’ fiduciary obligation is to the Fund’s members and this will take precedence over the Company’s wishes.

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

Mercer has confirmed in writing to the Trustees 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 Trustees will review this Statement at least every three years and without delay upon a material change to the Fund’s investment strategy, or to the Company.

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees 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 Trustees 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 met by the Trustees via separate invoices, and are not reflected in the unit price. The money purchase assets are currently revalued in line with benchmark performance and therefore effectively members do not currently pay any manager fees. The Trustees are considering altering this revaluation approach; benchmark returns will be replaced with actual returns once the changes have been implemented, which is anticipated during the second half of 2020.

3. Investment Objectives

Investment policy is set according to the investment objectives identified by the Trustees. 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 Trustees must be prepared to accept the risk of poor future returns. The scope for the Trustees 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 Trustees carry 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 Trustees have been able to conclude that the Company's commitment to the Fund is sufficiently strong that a relatively high risk investment strategy can be pursued with the aim of providing potential for high future returns.

The Trustees recognise that the Fund is closed to future service accrual (with effective date of 6 April 2007). As such, the Fund is expected to mature over the coming years. To reflect this, it is a medium-term aspiration of the Trustees to start gradually de-risking the investment strategy of the Fund where appropriate. Any change will be considered within an Integrated Risk Management framework that takes into account the level of risk the Sponsor can support, the required return to meet the funding plan as well as expected investment returns and risk from the investment strategy.

4. Investment Risk

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

- The risk of deterioration in the Fund's funding level, caused by underlying risks which include interest rate, inflation, credit, currency and equity market risks.

- The Trustees recognise that while holding equities increases potential returns over a long period, it also increases the risk of a shortfall in expected investment return relative to that required to cover the Fund's liabilities as well as producing more short-term volatility in the Fund's funding position.

- The risk of changes in the value and profile of the liabilities in relation to the value and profile of the assets.

- The risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees. They recognise that the use of active investment managers involves such a risk. As such the Trustees invest in predominantly passive funds designed to track market indices. The exception to this is a multi-asset fund where the underlying assets are mainly invested in passive vehicles, but active management is used by the manager in determining the exposure to different asset classes, to allow for changing market conditions.

- The risk of a shortfall of assets relative to the liabilities as determined if the Fund were to wind up.

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 the similar as 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 Trustees invest the assets across various asset classes, including equity, multi asset and fixed income investments. The majority of the investments are in growth assets and expected to keep pace, and even exceed, inflation. The Trustees measure 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.
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. 80% 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 de-risking of assets as a member approaches retirement age. The Trustees are comfortable that this is appropriate. Some members without the GMP underpin are expected to purchase an annuity at retirement. Assets are not invested in a manner which reduces volatility in value against annuity prices (as this is not the objective of the DB assets). An increase in annuity prices just before retirement would, all other factors constant, decrease the member's retirement income.

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, currency and equity 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 affects of such risks. The Trustees do not 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 Trustees have determined, based on advice from Mercer, a benchmark mix of asset types and ranges within which the investment manager may operate with discretion. The focus of the investment strategy remains on growth, with expected returns similar to equities over a market cycle. The Trustees decided to introduce an allocation to alternatives to reduce reliance on equities and a small allocation to bonds that has the potential to be increased in future de-risking. The Trustees believe that the resulting asset mix is consistent with the investment objectives set out in section 3.

The overall target investment strategy for the Fund as at 30 June 2020 is broadly as below:

Asset Class	Initial Strategic Target Allocation (%)
Equity	**61.4**
Global Equity (GBP Hedged)	30.7
Global Equity (Fundamental Indexation)	30.7
Alternatives	**33.6**
Diversified Growth Fund	33.6
Fixed Income	**5.0**
Corporate Bonds	4.0
Over 5 Year Index Linked Gilts	1.0

It is accepted that emerging market equity held within the Global Equity (GBP hedged portfolio) is not currency hedged.

The Trustees acknowledge that the actual asset allocation will vary from the initial strategic benchmark over time due to movements in asset values and the investment of excess contributions, that it has been agreed will be invested in Corporate Bonds in the future until this allocation reaches 6% of total assets, at which point this policy will be reviewed.

BlackRock are mandated to manage the discretionary portfolio according to the following investment strategy for the Fund. The Corporate Bond fund, also with Blackrock, is invested in a separate, non-discretionary portfolio:

Asset Class	Allocation (%)	Allocation Ranges (%)
Equity	**64.0**	
Global Equity (GBP Hedged)	32.0	+ /- 2.5
Global Equity (Fundamental Indexation)	32.0	+ /- 2.5
Alternatives	**35.0**	**+ /- 5.0**
Diversified Growth Fund	35.0	+ /- 5.0
Fixed Income	**1.0**	**+ /- 1.0**
Over 5 Year Index Linked Gilts	1.0	+ /- 1.0

BlackRock review the actual allocations relative to their allowable ranges set out above on a quarterly basis. When the ranges agreed are breached, BlackRock have the discretion to rebalance the fund on the next available dealing day following review. This is subject to any pooled investment funds in which the Scheme invests being open for subscriptions or redemptions. Rebalancing to within these ranges will not necessarily be to the target benchmark allocation. The BlackRock Corporate Bond mandate is excluded from regular rebalancing, though ad-hoc rebalancing that includes this fund may be implemented by the Trustees.

6. Day-to-Day Management of the Assets

The Trustees regard 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 Trustees have taken advice from Mercer and made their decisions in consultation with the Company. The Trustees are satisfied that the spread of assets provides adequate diversification of investment for risk purposes.

The Trustees invest the main assets of the Fund in pooled fund arrangements operated by BlackRock Investment Management (UK) Limited ("BlackRock").

BlackRock invest assets according to the following investment strategy:

Global Equity Portfolio

Funds	Benchmark Allocation (%)	Benchmark Index	Outperformance Target	Tracking Error Target
Aquila Life UK Equity Index Fund [1]	50	FTSE All-Share	To match benchmark	0.2% p.a.
Aquila Life Currency Hedged World ex UK Equity Index Fund [1]		FTSE All-World Developed ex-UK (95% GBP Hedged)	To match benchmark	0.6% p.a.
Aquila Life Global Developed Fundamental Weighted Index Fund	50	FTSE RAFI Developed 1000	To match benchmark	0.3% p.a.

1 The combined allocation to the Aquila Life UK Equity Index Fund and the Aquila Life Currency Hedged World ex UK Equity Index Fund aims at matching investment in a global equity market capitalisation fund. BlackRock will look to track the FTSE World Developed Index (GBP Hedged) through the use of these two funds. BlackRock will manage the allocations to the overall World benchmark for no additional fee.

Diversified Growth Fund

Funds	Benchmark Allocation (%)	Benchmark Index	Outperformance Target[2]	Volatility Target
Dynamic Allocation Fund	100	BoE Base Interest Rate	Aims to exceed benchmark over the 3 to 5 years period (net of fees)	Approximatel y half of equity volatility

2 BlackRock estimated target is to outperform benchmark by 3% p.a. (net of fees) over the 3 to 5 years period.

Index Linked Gilts

Funds	Benchmark Allocation (%)	Benchmark Index	Outperformance Target	Tracking Error Target
Aquila Life Over 5 Year Index Linked Gilt Fund	100	FTSE A Over 5 Year Index-Linked Gilts	To match benchmark	n/a

Corporate Bonds

Funds	Benchmark Allocation (%)	Benchmark Index	Outperformance Target	Tracking Error Target
Buy and Maintain UK Credit Fund	100	n/a[3]	n/a	n/a

[3] 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.

The investment manager is 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 agreement.

7. Additional Assets

The 2018 Actuarial Valuation and Recovery Plan was agreed by the Company and Trustees on 28 June 2019. As part of the funding plan, the Company has provided security over UK property to the value of £69 million. There is also an escrow fund (value £10.6m as at 30 June 2020) over which the Fund has a floating charge. 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, from October 2018 to September 2023, the Company will make annual contributions of £8.7 million in monthly payments of £725,000.

The money purchase transfers are invested with the DB assets and are currently revalued in line with the Fund's benchmark returns. The Trustees have decided to alter this revaluation approach; benchmark returns will be replaced with actual returns once the changes have been implemented, which is anticipated during the second half of 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 Manager

The Trustees meet the investment manager 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 Trustees in fulfilling their responsibility for monitoring the managers. BlackRock produce quarterly investment reports for the Trustees and Mercer alert them to any significant developments at the manager.

10. Responsible Investment and Corporate Governance

ESG, Stewardship and Climate Change

The Trustees believe 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 Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

The Trustees' policy is to allow appointed investment managers full discretion in evaluating ESG factors, including climate change considerations. All 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 Trustees consider 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 Trustees have 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 Trustees with ESG ratings for the strategies in which the Fund invests.

Similarly, the Fund's voting rights 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 Trustees' 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 Trustees look 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 Trustees. These ratings are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager changes, the Trustees will review the Fund's appointment to ensure it remains appropriate and consistent with the Trustees' 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 Trustees will review the appropriateness of using actively managed funds (on an asset class basis) regularly.

As the Trustees invest 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 Trustees 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 Trustees' responsible investment policy. This includes the investment managers' policy on voting and engagement. The Trustees 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, and can challenge such decisions to try 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 Trustees can challenge decisions made including voting history (in respect of equities) 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 Trustees are 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 Trustees receive performance reports from the investment manager on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. On an annual basis, the Trustees review the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis over a full market cycle. The Trustees' 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 Trustees may ask the manager to review their fees.

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

The Trustees do not currently monitor portfolio turnover costs but may consider a more active approach in the future. The Trustees will engage with a manager if portfolio turnover is higher than expected. This will be assessed by comparing portfolio turnover as reported by the investment managers across the same asset class on a year-on-year basis, or relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus (where applicable).

The Trustees receive MiFID II reporting from their investment managers for information purposes. However, the Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees 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 Trustees are long-term investors and therefore are not looking to change the investment arrangements on a frequent basis.

There is no set duration for the manager appointments. The Trustees 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 Trustees decide 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 Trustees have 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 Trustees will monitor compliance with this Statement annually.
In line with the Occupational Pension (Investment) Regulations (2005), the Trustees are 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.

The Trustees 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 Trustees and the Company which they judge to have a bearing on the stated Investment Policy.

This statement has been agreed by the Trustees on:

21 October 2020

Signed on behalf of the Trustees by