

Renishaw Pension Fund

Trustees' Report: Annual Implementation Statement for the Year Ended 30 September 2023

1. Introduction

This Annual Implementation Statement (“the Statement”) sets out how, and the extent to which, the Trustee (“the Trustee”) of the Renishaw Pension Fund (“the Fund”) has implemented the matters in the Statement of Investment Principles (“SIP”) during the year to 30 September 2023 (the “Fund Year”). This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

This statement also includes a summary of the voting activity that was carried out on behalf of the Trustee over the Fund year by BlackRock.

2. Statement of Investment Principles

2.1. Investment Objectives of the Fund

The Trustee’s objective is to invest the Fund’s assets in the best interests of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within the framework, the Trustee has agreed objectives to help guide decisions in relation to their strategic management of the assets and control of the various risks to which the Scheme is exposed.

The investment objectives for the Fund have evolved due to the significant improvement in the level of funding over 2022 and 2023, driven by the material 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.

Following this de-risking, and a further improvement in the Fund’s funding level, the Trustee set a long-term target to fully secure all of the Fund’s DB liabilities through buy-out (or buy-in).

Since the end of the reporting period, the Trustee has made significant progress against this objective by investing the majority of the Fund’s assets in a bulk annuity contract with an insurance company (Scottish Widows), with the contract initiated in October 2023. The contract is a buy-in policy and covers accrued DB benefits for all members. Some residual liability exists in relation to Guaranteed Minimum Pensions (“GMPs”) and there is a provision for any potential cost in this regard.

Following the completion of the buy-in transaction, the residual excess DB assets were invested 100% in Cash, through an investment in the BlackRock ICS GBP Liquidity Heritage Fund. This was considered an appropriate investment strategy for the Fund after the purchase of the buy-in policy but will be reviewed by the Trustee and Company in future to the extent there are expected to be invested assets over the medium to long term.

In addition to the buy-in policy with Scottish Widows, an ongoing cash balance is held in the Trustee Bank Account. This is used to help meet ongoing expenses, any future costs in relation to the potential wind-up of the Fund and any imminent member payments/adjustments.

The Fund also holds legacy transfers-in on a money purchase basis. The majority of members with legacy money purchase transfers-in are subject to a GMP underpin. These assets are currently invested alongside the invested DB assets, but this is under consideration given the purchase of a bulk annuity contract in respect of the DB liabilities.

2.2. Review of the SIP

The Fund's SIP was updated in March 2023 to reflect the de-risking undertaken by the Fund in response to its strong funding level; this included an updated Strategic Asset Allocation that saw a greater percentage of assets allocated to Liability Driven Investments ("LDI") and corporate bonds.

Since the end of the accounting year, as mentioned the Fund has entered into an bulk annuity transaction which has been reflected in a further update to the Fund's SIP, which was signed by the Trustee in January 2024.

Assessment of how the policies in the SIP have been followed for the year to 30 September 2023

The information provided in the following section highlights the work undertaken by the Trustee during the year, and over the longer term where relevant, and sets out how this work followed the Trustee's policies in the SIP.

In summary, it is the Trustee's view that the policies in the SIP have been followed during the year to 30 September 2023.

Strategic Asset Allocation		
Requirement	Policy	How the policy has been met over the year to 30 September 2023
Kind and balance of investments to be held	<p>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.</p> <p>The Fund's investment strategy as at year-end was primarily invested with BlackRock, comprising a portfolio of Buy & Maintain Credit, Passive Investment Grade Credit and LDI funds. There is no rebalancing between the portfolios as at the end of the accounting year. There is also an allocation to multi-asset credit ("MAC") mandate managed by Ninety One. Post the year end these assets were disinvested from in order for the Fund to enter into a bulk-annuity transaction with Scottish Widows, with the residual DB assets invested in the BlackRock Liquidity Heritage Fund.</p> <p>The money purchase transfer-in assets are invested with the DB assets.</p>	<p>Due to significant gilt yield movements over September and October 2022, the funding position of the Fund improved materially and this led to the Trustee agreeing to further de-risk the strategy in the current accounting year. In particular, the Trustee fully disinvested from the BlackRock UK Equity Fund, BlackRock World (ex-UK) Equity (GBP Hedged) Fund, BlackRock Global Equity (Fundamental Indexation) Fund and the BlackRock Diversified Growth Fund, investing the proceeds (c.£142.9m) into the BlackRock Index-Linked Gilt Fund in October 2022.</p> <p>In February 2023, the Trustee agreed to 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. This was funded by a disinvestment from the Index-Linked Gilt Fund held by the Fund. The LDI funds provide the Fund with a degree of hedging against liability movements caused by changes in interest rates and inflation expectations.</p> <p>Just post the year-end the Fund entered into a bulk annuity contract which saw the Fund transfer the majority of its assets to Scottish Widows. The legacy DB and transfer-in assets were invested in the BlackRock Liquidity Heritage Fund. The investment strategy for the DC transfers-in assets will be reviewed by the Trustee over the first half of 2024.</p>

<p>Risks, including the ways in which risks are to be measured and managed</p>	<p>The Trustee recognises risks (investment, operational and funding) arise from the investment of the DB investment strategy assets and money purchase transfer-in assets. The Trustee also 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's perception of the financial strength of the Company is considered in setting the investment strategy for the Fund.</p> <p>As 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 transfers in are similar to those of the DB assets. However, the Trustee recognises that the risks for the money purchase investments fall on the individual member to which they relate.</p>	<p>The Trustee continues to only take on those risks they expect to be rewarded for over time in the form of excess returns, and also taking into account the level of covenant support from the Company.</p> <p>Given the strong increase in the funding level it was decided by the Trustee to de-risk over the accounting year by removing the remaining equity exposure at the start of the year, followed by strengthening the interest rate and inflation hedge ratios (to 95% on the Solvency basis) to lower matching risk. This introduces additional risk due to the use of derivative instruments (e.g. counterparty risk, collateral adequacy risk).</p> <p>The changes to the investment strategy were initiated in October 2022, and further refined in February 2023 (which saw the introduction of a number of new LDI funds).</p> <p>The Trustee did not consider reducing risk for money purchase members as they reach retirement, given that the assets are invested in line with the DB investment strategy.</p> <p>Entering into the bulk annuity transaction just post the year-end saw risks of the Fund further reduced. The remaining residual DB and DC transfer-in assets were invested in low risk money market fund with BlackRock. The investment strategy for the DC transfers-in assets will be reviewed by the Trustee over the first half of 2024.</p>
<p>Expected return on investments</p>	<p>The Fund's investment strategy has been structured so that the investments aim to generate the level of return required to meet the overall objectives. The Trustee has historically 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 aims of providing potential for high future returns, and reducing the funding deficit.</p> <p>In the case of active managers, a target has been agreed to exceed the relevant benchmark by a specific amount.</p> <p>It is recognised that over the short term, performance may deviate significantly from the long term target.</p>	<p>The BlackRock and Ninety One quarterly investment performance reports are reviewed at Trustee's meetings. The investment performance reports includes an assessment of the investment manager's performance relative to their stated benchmarks and (where appropriate) their stated outperformance targets.</p> <p>Over the 3 years to 30 September 2023, the Fund returned - 1.2% p.a. on a net fees basis and over the 1 year period to 30 September 2023 the Fund has returned -15.0% on a net fees basis. Performance has been considered in the context of the prevailing market environment, with negative returns on almost all asset classes over the year under review given that a large proportion of the Fund's assets are invested in fixed income assets and LDI which saw negative returns as gilt yields have risen over the year.</p> <p>Post the year end, with the DB residual assets invested in a money market fund, the expected return is lower, but the liabilities for the DB section have been secured with a bulk-annuity contract. The investment strategy for the DC transfers-in assets will be reviewed by the Trustee over the first half of 2024.</p>

Investment Mandates		
Requirement	Policy	How the policy has been met over the year to 30 September 2023
Securing compliance with the legal requirements about choosing investments	The Trustee obtains advice from their investment adviser, who can provide expert advice enabling the Trustee to set an overall objective investment strategy and choose investment vehicles that can fulfil the Fund's investment objectives. In the Trustee's opinion this is consistent with the Pensions Act 1995, the Occupational Pension Schemes (Investment) Regulations 2005 and any subsequent regulation.	Over the year, the Trustee received written advice from their investment adviser in relation to the de-risking of the strategy, as well as advice related to entering into the bulk annuity transaction (which occurred post the year-end).
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.	The Fund's assets were invested in pooled funds over the year, which range from daily to monthly liquidity. The Trustee monitors the Fund's cashflow position on a regular basis to ensure there is sufficient liquidity within the Fund for payment of member benefits.
Financially material considerations and how those considerations are taken into account in the selection, retention and realisation of investments	<p>The Trustee believes that environmental, social and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes.</p> <p>The Trustee's 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.</p> <p>The Trustee considers how ESG, climate change and stewardship is integrated</p>	<p>The Trustee is satisfied with the approach taken by both Ninety One and BlackRock with regards to integrating ESG factors into the underlying portfolios.</p> <p>No investment restrictions relating to financially material considerations were set on BlackRock or Ninety One over the year. The Trustee notes any information provided by the managers in their quarterly reports with regards to ESG issues and stewardship.</p>

	within investment processes in appointing new investment managers and monitoring existing investment managers.	
The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	Member views are not taken into account in the selection, retention and realisation of investments.	No member views were taken into account over the year.

Monitoring the Investment Managers

Requirement	Policy	How the policy has been met over the year to 30 September 2023
Monitoring the investment manager	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 its responsibility for monitoring the managers, by alerting the Trustee to any significant developments at the manager.	Over the year, the Trustee reviewed the performance of BlackRock and Ninety One using their quarterly investment reports, with the assistance of Mercer. No issues were highlighted that required action.
Incentivising investment managers to align their investment strategy and decisions with Trustees' policies	The Trustee's approach to incentivising their investment managers is set out in the SIP. This was relevant to the year to 30 September 2023, though these policies were amended following a SIP update in November 2023 to reflect the Fund post securing its DB liabilities with a bulk-annuity contract. These policies include the Trustee's approach to: <ul style="list-style-type: none"> - Aligning investment manager investment strategy to the Trustee's policies - Aligning investment manager decision-making to the Trustee's policies - The method and time horizon for reviewing manager performance - Monitoring portfolio turnover costs - Duration of arrangements 	Over the year, the Trustee reviewed the performance of BlackRock and Ninety One over short and long term time periods. No issues were highlighted that required action. The Trustee was comfortable that the objectives of the underlying BlackRock and Ninety One funds remain consistent with the Trustee's objectives for the Fund's investment strategy. The Trustee did not monitor portfolio turnover costs over the year. No manager appointments were terminated over the year.

ESG Stewardship, Climate Change and Voting Disclosures

Requirement	Policy	How the policy has been met over the year to 30 September 2023
Undertaking engagement activities in respect of the investments and the exercise of the rights (including voting rights) attaching to the investments	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.	<p>As the Fund invested in pooled funds over the year, the Trustee requires BlackRock and Ninety One to engage with investee companies on their behalf.</p> <p>Since voting rights can only be exercised on underlying equity holdings, no voting activity was undertaken by the corporate bond and LDI funds held by the Fund. BlackRock were asked by the Trustee to provide an annual voting summary report, the data from which is summarised below. Given the Fund disinvested from these equity funds in October 2022, voting data has only been assessed for the final quarter of 2022.</p> <p>The Trustee accepts that it is not practicable for the investment manager to vote in all circumstances.</p> <p>The Trustee has not challenged the investment managers with regards to their voting activity during the period.</p> <p>At present, the Trustee uses Mercer’s ESG ratings to help understand the extent to which managers are engaging with and integrating ESG issues into their investment decision making.</p> <p>The Trustee has their own definition of a ‘significant vote’ based on their engagement priorities, and the voting section of this document sets out examples of where these arose with respect to the voting carried out on their behalf by the investment managers.</p>

3. Significant Votes Summary during the year to 30 September 2023

The Trustee also has their own definition of a ‘significant vote’ based on their engagement priorities, and below are examples of where these arose with respect to the voting carried out on their behalf by the investment managers.

The Trustee defines significant votes as ones which relate to the theme of climate change for the top 5 holdings of the individual fund. The Trustee will keep this definition under consideration based on emerging themes within internal discussions and from the wider industry.

Having reviewed the information provided by the managers, the Trustee is comfortable with the voting that has been completed on their behalf in relation to the Trustee’s definition of a significant vote, and the managers’ own definitions of a significant vote.

BlackRock utilises the services of a proxy advisor (ISS and Glass Lewis) to leverage their online proxy voting platform.

For the votes shown below some of the requested information was not provided by BlackRock. The Trustees’ investment consultant will liaise with BlackRock to improve these outputs for future iterations of this statement.

BlackRock Dynamic Allocation Fund

This mandate was in place during the Fund Year, from 30 September 2022 until its termination in October 2022. The data below is shown for the period from 31 December 2021 to 31 December 2022, as the manager does not provide bespoke period data. Since the fund was terminated in October 2022, we have given examples of key significant votes undertaken over Q4 2022 as an indication of the general voting behaviour of the underlying manager.

Key votes undertaken over the period are summarised below:

- There were 683 votable meetings over the year. In these meetings, there were a total of 9,398 votable proposals;
- BlackRock participated in 90% of the eligible votes (or for 8,502 votable proposals). For 95% of the proposals voted on, BlackRock indicated their support to the underlying companies' management, whilst voting against management for 4% of the proposals, and abstaining in 1% of the proposals.
- Outlined below is a vote that is considered to be the most "significant" according to the Trustee's definition (based on votes made in between 1 October 2022 and 31 December 2022)

	Vote 1
Company	Microsoft Corporation
Date of Vote	13/12/2022
Why vote is significant	The vote meets the Trustees' definition of a significant vote given it relates to Climate change
Approximate size of holding at 31 December 2022 (as a % of portfolio)	0.6%
Summary of resolution	Assess and Report on the Company's Retirement Funds' Management of Systematic Climate Risk
How manager voted	Against
If voted against management was intention communicated to the company ahead of the vote	n/a – not provided by investment manager
Rationale for the voting decision	Company already has policies in place to address these issues
Outcome of the vote	n/a – not provided by investment manager
Next steps	n/a – not provided by investment manager

BlackRock Aquila Life Currency Hedged World (ex UK) Equity Fund

This mandate was in place during the Fund Year, from 30 September 2022 until its termination in October 2022. The data below is shown for the period from 31 December 2021 to 31 December 2022, as the manager does not provide bespoke period data. Since the fund was terminated in October 2022, we have given examples of key significant votes undertaken over Q4 2022 as an indication of the general voting behaviour of the underlying manager.

Key votes undertaken over the period are summarised below:

- There were 2,202 votable meetings over the year. In these meetings, there were a total of 27,494 votable proposals;
- BlackRock participated in 91% of the eligible votes (or for 25,212 votable proposals). For 92% of proposals voted on, BlackRock indicated their support to the underlying companies' management, whilst voting against management for 7% of the proposals, and abstaining in 1% of the proposals.
- Outlined below is a vote that is considered to be the most "significant" according to the Trustee's definition (based on votes made in between 1 October 2022 and 31 December 2022):

	Vote 1
Company	Microsoft Corporation
Date of Vote:	13/12/2022
Why vote is insignificant	The vote meets the Trustees' definition of a significant vote given it relates to Climate Change
Approximate size of holding as at 31 December 2022 (as a % of portfolio)	3/7%
Summary of resolution	Assess and Report on the Company's Retirement Funds' Management of Systemic Climate Risk
How manager voted	Against
If voted against management was intention communicated to the company ahead of the vote	n/a – not provided by investment manager
Rationale for the voting decision	Company already has policies in place to address these issues.
Outcome of the vote	n/a – not provided by investment manager
Next steps	n/a – not provided by investment manager

BlackRock Aquila Life UK Equity Index Fund

This mandate was in place during the Fund Year, from 30 September 2022 until its termination in October 2022. The data below is shown for the period from 31 December 2021 to 31 December 2022, as the manager does not provide bespoke period data.

Key votes undertaken over the period are summarised below:

- There were 1,087 votable meetings over the year. In these meetings, there were a total of 14,904 votable proposals;
- BlackRock participated in 96% of the eligible votes (or for 14,319 votable proposals). For 94% of proposals voted on, BlackRock indicated their support to the underlying companies' management, whilst voting against management for 5% of the proposals, and abstaining in 1% of the proposals.
- Based on the voting activity for the underlying fund between 1 October 2022 and 31 December 2022, there were no votes that were considered to be "significant" during this period.

BlackRock Aquila Life Global Developed Fundamental Weighted Index Fund

This mandate was in place during the Fund Year, from 30 September 2022 until its termination in October 2022. The data below is shown for the period from 31 December 2021 to 31 December 2022, as the manager does not provide bespoke period data.

Key votes undertaken over the period are summarised below:

- There were 579 votable meetings over the year. In these meetings, there were a total of 9,349 votable proposals;
- BlackRock participated in 89% of the eligible votes (or for 8,301 votable proposals). For 95% of proposals voted on, BlackRock indicated their support to the underlying companies' management, whilst voting against management for 4% of the proposals, and abstaining in 1% of the proposals.
- Based on the voting activity for the underlying fund between 1 October 2022 and 31 December 2022, there were no votes that were considered to be "significant" during this period.



Certificate of Schedule of Contributions

Name of the Fund

Renishaw Pension Fund

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 30 September 2021 to be met by the end of the period specified in the recovery plan.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated October 2022.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Fund's liabilities by the purchase of annuities, if the Fund were to be wound up.

Signature

Name

John Probert

Date of signing

24 March 2023

Qualification

Fellow of the Institute and Faculty of Actuaries

Name of employer

Mercer Limited

Address

Orchard Brae House
30 Queensferry Road
Edinburgh
EH4 2HS