

RENISHAW PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES – DECEMBER 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 online 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.

2. Structure of the Fund

The Fund is a Defined Benefit (“DB”) arrangement which 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.

3. Investment Objectives

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

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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 Trustee's primary objective is as follows:

- To make sure the Fund can meet the obligations to members and beneficiaries of the Fund.

The investment objectives for the Fund have evolved due to the significant improvement in the level of funding over 2022, 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 a buy-in contract.

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). 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 underpins, 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 and any imminent member payments/adjustments.

4. 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 currently invested in the same way as the invested DB assets (100% in the BlackRock ICS GBP Liquidity Heritage Fund), noting this is under consideration by the Trustee given the purchase of a bulk annuity contract in respect of the DB liabilities (as noted above in Section 2).

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.

5. Transfers In with GMP

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

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section investments they are separately identified on the individual's member record. The majority of these transfers include a Guaranteed Minimum Pension ("GMP") provision.

The total money purchase assets are relatively small in relation to the scale of the DB assets. The transfers 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 in line with the residual DB assets (see Section 3).

The expectation is that the Trustee will review the suitability of the investment strategy for the transfer in assets in early 2024, given the majority of DB assets are now invested in a buy-in policy with Scottish Widows.

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

6. Investment Risk

There are various risks to which any pension scheme is exposed, albeit these have, to a large extent, been mitigated by investing in the bulk annuity policy with Scottish Widows.

- The principal risk facing the Trustee and the Fund's members is that Scottish Widows may default on their obligations under the annuity contracts to meet accrued benefits (as contracted). Before entering into the contract with Scottish Widows, the Trustee obtained advice from its buy-in advisors which touched on this risk. The Trustee notes that there is strong regulatory oversight of insurers with strict reserving requirements which are designed to reduce the risk of default.
- Liquidity risk is mitigated by investing 100% of residual DB assets in the BlackRock ICS GBP Liquidity Heritage Fund, which invests in highly liquid and low risk assets, by maintaining a balance in the Trustee Bank Account, and by working closely with the Sponsoring Company in relation to possible future cashflow requirements. It is recognised that the insurance policy held with Scottish Widows is not liquid and therefore are intended to be held for the life of the policy.
- Inflation risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in the inflation rate. The Fund is exposed to the risk that its investment in the BlackRock ICS GBP Liquidity Heritage Fund, which holds short-dated money market (cash) instruments, will be equal to or lower than the rate of inflation, leading to flat or negative real (inflation-adjusted) returns.
- Credit risk is the risk that the counterparty to the Fund's investments may default on any obligations to the Fund, resulting in a loss to the Fund. There is risk that one party to the instruments will cause a financial loss for the other party by failing to discharge an obligation. This has been mitigated by the Fund investing 100% of residual assets in high quality and short-dated cash/credit instruments.
- Environmental, Social and Governance risks (including but not limited to climate change) and recognised and these risks are considered to be financially material. The Trustee may from time-to-time ask Scottish Widows to comment on the integration of ESG factors,

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where relevant, in the assets underlying the insurance policy. The Trustee will continue to monitor ESG risks for the residual assets.

The risk and other factors set out above are those that the Trustee determined to be financially material over the Fund's anticipated lifetime. Other risks, such as regulatory risk and operational risk are considered and monitored as appropriate.

7. Risk – Money Purchase Transfer In

The money purchase transfer in assets are invested alongside the invested DB assets (i.e. 100% Cash); 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 invested 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 overleaf:

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Risk	Details	How it is managed
Inflation Risk	<p>When managing DB assets an important measure is the funding level, i.e. how the assets compare to the liabilities.</p> <p>For money purchase benefits the focus on the absolute value in today's terms is more important.</p>	<p>The Trustee currently invests the assets in low risk money market instruments.</p> <p>The Trustee measures inflation risk by considering the real returns (i.e. return above inflation) of the fund, with positive values indicating returns that have kept pace with inflation.</p> <p>The current investment strategy has reduced exposure to growth assets such as equities. The youngest money purchase members are aged 49 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.</p> <p>However, the Trustee is comfortable with this approach for the short term, noting this is being reviewed in early 2024.</p>
Pension Conversion Risk	<p>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.</p>	<p>Many of the members (around 70% 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.</p> <p>Some members without the GMP underpin, or where it does not bite, may purchase an annuity at retirement. As of Q4 2023, the assets are not invested in a manner that reduces volatility in value against annuity prices.</p> <p>An increase in annuity prices just before retirement may therefore be expected to impact a member's retirement income.</p>
Volatility Risk	<p>The risk that unfavourable market movements in the years just prior to retirement can lead to a substantial reduction in the anticipated level of retirement benefits.</p>	<p>Many money purchase arrangements use a lifestyling approach where members use higher risk/reward assets for younger members and move to lower risk assets when the member approaches retirement. The Fund does not use this type of strategy.</p> <p>Money purchase members are invested in the BlackRock ICS GBP Liquidity Heritage Fund which may have low volatility but also low growth. This approach is due to be reviewed in early 2024.</p>
Investment Manager Risk	<p>The risk that the investment manager underperforms Trustee expectations, fail to conduct operational tasks, do not ensure safe-keeping of assets or breach agreed guidelines.</p>	<p>The Trustee will regularly review the investment manager and take professional advice as appropriate. The Trustee will monitor fund performance and compare against an appropriate performance objective to ensure continuing acceptable performance.</p> <p>Returns for the BlackRock ICS GBP Liquidity Heritage Fund are anticipated to be stable given it is a cash fund.</p>

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Risk	Details	How it is managed
Liquidity Risk	The risk of members not being able to readily realise their investments	Members invest in daily priced and daily dealing pooled investment vehicles that facilitate the availability of assets to meet benefit outflows. The BlackRock ICS GBP Liquidity Heritage Fund is a daily priced and daily dealt pooled investment fund. The Scheme does not currently invest in any illiquid investments and so this risk is mitigated.

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 and credit risk. With the current strategy money purchase members further away from retirement will find the impact of these risks is potentially increased, due to money purchase asset values not keeping pace with inflation and not seeking material levels of investment growth. Furthermore, members closer to retirement will also experience the risk that annuity prices could increase.

The Trustee does not explicitly look to reduce these risks for members, given that assets are invested in line with the investment strategy of the residual DB assets.

8. Investment Strategy and Day-to-Day Management of the Assets

As noted, the Fund holds a bulk annuity contract with Scottish Widows, which accounts for the vast majority of the Fund's assets. Scottish Widows are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and are registered in the United Kingdom. The Fund also has an ongoing investment in the BlackRock ICS GBP Liquidity Heritage Fund (a pooled fund arrangement). This investment is considered low-risk given its investment in mostly short-dated and high quality money market instruments, and an investment which allows the Trustee to fulfil its objective of meeting the obligations to members and beneficiaries of the Fund.

The investment manager for the residual assets 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.

9. Realisation of Investments

Scottish Widows, via the bulk annuity policy, provide a monthly annuity income to the Fund to allow the Trustee to meet monthly cashflow requirements. Lump sum payments from the insurers are paid if members transfer out of the Fund and to allow the Trustee to meet retirement lump sums.

An ongoing cash balance will remain in the BlackRock ICS GBP Liquidity Heritage Fund and this, along with any cash held in the Trustee Bank Account and any required cash contribution from the Sponsoring Employer, will be used to meet the final wind-up costs of the Fund and any imminent member payments/adjustments.

10. Investment Manager Appointment, Engagement and Monitoring

The purchase of the bulk annuity contracts means the Trustee does not expect to appoint any further investment managers beyond the investment in the BlackRock ICS GBP Liquidity Heritage Fund, where the Fund's residual DB assets and money purchase transfer in assets are invested.

The investment strategy for the money purchase transfer in assets is due to be reviewed shortly, and any changes to the investment arrangements will be captured in future statements.

11. 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 and exercising 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. Monitoring is undertaken on a regular basis and is documented at least annually by Mercer providing the Trustee with ESG ratings for the strategies in which the Fund invests. These ratings represent the extent to which managers integrate ESG factors and active ownership into their core processes.

Arrangements with asset managers

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. The Trustee looks to their investment consultant for their forward looking manager research assessment and rating of a manager's ability to meet or exceed their objectives. These ratings are used in decisions around selection, retention and realisation of manager appointments. As the Trustee invests in a pooled investment vehicle they accept that they have limited ability to influence investment managers to align their decisions with the Trustee's policies set out in this Statement. However, appropriate mandates can be selected to align with the overall investment strategy.

The Trustee expects investment managers to incorporate the consideration of longer term factors, such as ESG, into their decision making process where appropriate. The Trustee will consider the investment consultant's assessment of the extent of this during the selection, retention and realisation of manager appointments. Voting and engagement activity should be used by investment managers to discuss the performance of an issuer of debt or equity, noting

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this is not at present directly relevant given the nature of the residual investment strategy. The Trustee can engage with investment managers on this activity and if dissatisfied may look to replace the manager.

The Trustee's focus is primarily on long-term performance but short-term performance is also monitored to ensure any concerns can be identified in a timely manner. The Trustee reviews both absolute and relative fund performance on a quarterly basis, including both shorter and longer term horizons. The remuneration for investment managers is based on assets under management; the levels of these fees are reviewed annually as part of the annual value for member assessment to ensure they continue to represent value for members. If a manager is not meeting their performance objectives, the Trustee will request an explanation of performance and investment process from the manager. If not satisfied with this, the Trustee may request further action be taken, including a review of fees and/or the appointment.

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

For the money purchase transfers in, the Trustee considers portfolio turnover costs through consideration of transaction cost data as part of the annual value for members' assessment. The ability to assess the appropriateness of these costs is currently limited by the availability of data and the lack of industry-wide benchmarks. The Trustee will monitor industry developments in how to assess these costs and incorporate this in future value for members' assessments. Importantly, performance is reviewed net of portfolio turnover costs.

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. The Fund invests in open-ended funds and therefore 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.

12. Member Views

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

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.

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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 12 January 2024.