Renishaw Pension Fund: Annual Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Trustees ("the Trustees") of the Renishaw Pension Fund ("the Fund") have implemented the matters in the Statement of Investment Principles ("SIP") during the year to 30 September 2020. 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.

Investment Objectives of the Fund

The investment policy is set according to the investment objectives of the Fund, identified and set out in the SIP. 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.

Review of the SIP

During the year to 30 September 2020, the Trustees reviewed the Fund's SIP. A revised SIP was signed in August 2020 in order to reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How the Fund's arrangement incentivises investment managers to align their investment strategy and decisions with the Trustees' policies;
- How that Fund's arrangement incentivises the manager to make decisions based on assessments of medium to long term financial and non-financial outcomes;
- How the method (and time horizon) of the evaluation of managers' performance and remuneration are in line with the Trustees' policies;

- How the Trustees' monitor portfolio turnover costs;
- The duration of the arrangement with the asset managers.

The Fund's SIP was also updated to reflect the changes made to the Fund's investment strategy, which is explained in more detail below.

<u>Assessment of how the policies in the SIP have been followed for the year to 30 September 2020</u>

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

Requirement	Policy	In the year to 30 September 2020
Securing compliance with the legal requirements about choosing investments	The Trustees obtain advice from their investment adviser, who can provide expert advice enabling the Trustees to set an overall objective investment strategy and choose investment vehicles that can fulfil the Fund's investment objectives. In the Trustees' opinion this is consistent with the Pensions Act 1995, the Occupational Pension Schemes (Investment) Regulations 2005 and any subsequent regulation.	Over the year, the Trustees received written advice from their investment adviser in relation to the suitability of the investment with BlackRock in their Buy & Maintain UK Credit Fund and the respective target allocation. The changes to investment strategy were implemented during May 2020.
Kind and balance of investments to be held	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 Fund's investment strategy is solely invested with BlackRock, comprising a discretionary portfolio of equities, diversified growth and index-linked gilts, and a non-discretionary portfolio of UK corporate bonds. There is no rebalancing between the two portfolios, but there is rebalancing (delegated to BlackRock) within the discretionary portfolio. The money purchase transfer in assets are invested with the DB assets.	Over the year, the Trustees introduced an allocation to BlackRock's Buy & Maintain UK Credit Fund, funded using excess contributions. In line with the Fund's other investments, and given the size of the Fund's investment and current investments with BlackRock, the Trustees decided to implement this through a pooled investment fund with BlackRock without undertaking a wider manager selection exercise. In making this change the Trustees considered the overall level of expected return and risk and the views of the Company. Over the year, the Additional Voluntary Contribution assets with Utmost Life and Pensions Limited were transferred out of the Fund to Legal & General's Master Trust (on 14 July 2020).

Risks, including the ways in which risks are to be measured and managed	The Trustees recognise risk (investment, operational and funding) arise from the DB investment strategy assets and money purchase transfer in assets. The Trustees also 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' perception of the financial strength of the Company is considered in setting the investment strategy for the Fund. 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 Trustees recognise that the risks for the money purchase investments fall on the individual member to which they relate.	Over the year the Trustees reviewed the investment strategy and concluded that their strategy was in line with the Trustees' risk appetite, and that the Trustees continue 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. As part of a review as to where to invest excess contributions, the Trustees introduced an allocation to BlackRock's Buy & Maintain UK Credit Fund. This was in line with the Trustees medium-term aspiration to gradually de-risk the investment strategy of the Fund. This was following a decision to pause a proposed investment into High Lease to Value property. The Trustees 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.
Expected return on investments	The Fund's investment strategy has been structured so that the investments aim to generate a level of return required to meet the overall objectives. 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, with the aim of reducing the funding deficit. In the case of active managers, a target has been agreed to exceed the relevant benchmark by a specific amount. It is recognised that over the short term, performance may deviate significantly from the long term target.	BlackRock's quarterly investment performance report is reviewed at Trustees' meetings. The investment performance report includes an assessment of the investment manager's performance relative to their stated benchmarks and (where appropriate) their stated outperformance targets. Over the 3 years to 30 September, the Fund has returned 4.1% p.a. on a gross fees basis and over the 1 year period to 30 September the Fund has returned 0.3% p.a. on a gross fees basis. There is no benchmark return for the overall Fund due to a lack of performance benchmark for the Buy & Maintain Fund. The Trustees were satisfied with the performance of the Fund's investments. Over the year the way the money purchase transfers in assets were revalued was altered, to use actual returns on the DB assets going forwards (previously benchmark returns were used).
Realisation of investments	The Fund's investment manager has discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments.	The Fund's assets are invested in pooled funds, which range from daily to monthly liquidity. The Trustees monitor the Fund's

		cashflow position on a regular basis to ensure there is sufficient liquidity within the Fund for payment of member benefits. Where cashflow is withdrawn from the discretionary portfolio (comprising equities, diversified growth and index-linked gilts) BlackRock will do so to bring the Fund's actual asset allocation closer to the central benchmark as detailed in the investment manager agreement. This does not include the Buy & Maintain UK Credit fund.
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, by alerting the Trustees to any significant developments at the manager.	Over the year, the Trustees reviewed the performance of BlackRock using their quarterly investment reports, with the assistance of Mercer. The Trustees have also met directly with BlackRock to receive regular updates. No issues were highlighted that required action.
Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments	The Trustees believe that environmental, social and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes. 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.	Over the year, the Trustees received a presentation from BlackRock to understand their approach to integrating ESG factors into the Fund's investments, and different ways that ESG could be incorporated into the Fund's investment strategy. This was also discussed with Mercer. When investing in BlackRock's Buy & Maintain UK Credit fund, a review of BlackRock's approach to ESG integration was provided by Mercer to the Trustees. The Trustees were satisfied with the approach taken by BlackRock with regards to integrating ESG factors into the fund. No investment restrictions relating to financially material considerations were set on BlackRock over the year.
The extent (if at all) to which non-financial matters are taken into	Members views are not taken into account in the selection, retention and realisation of investments.	No members views were taken into account over the year.

account in the selection, retention and realisation of investments		No investment restrictions relating to non-financially material considerations were set on BlackRock over the year.
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.	As the Fund invests in pooled funds, the Trustees require BlackRock to engage with the investee companies on their behalf. BlackRock were asked by the Trustees to provide an annual voting summary report, the data from which is summarised below. The Trustees have not challenged the investment manager with regards to their voting activity during the period. The Trustees will be looking to ask questions about voting activity, where relevant to the Fund's assets, in future meetings with the investment manager. The Trustees accepts that it is not practicable for the investment manager to vote in all circumstances. Outside of those exercised by investment managers on behalf of the Trustees, no other engagement activities are undertaken. The Trustees did not use the direct service of a proxy voter over the year, but acknowledges that the investment manager may choose to appoint a proxy voting manager for the investment vehicles in which the Fund invests. The manager may also make use of proxy voting research in informing their stewardship activities. At present, the Trustees use Mercer's ESG ratings to help understand which managers are engaging and integrating ESG issues into their investment decision making.
Aligning asset manager investment strategy and decision making with Trustees' policies	The Trustees' approach to incentivising their investment managers is set out in the SIP. This includes their approach to: - 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	Over the year, the Trustees reviewed the performance of BlackRock over short and long term time periods. No issues were highlighted that required action. The Trustees were comfortable that the objectives of the individual BlackRock funds remain consistent with the Trustees' objectives for the Fund's investment strategy. The Trustees did not monitor turnover costs over the year.

	- Monitoring portfolio turnover costs - Duration of arrangements	No manager appointments were terminated over the year.

BlackRock Voting Summary over the 1 year to 30 September 2020

The key voting activity by BlackRock on behalf of the Trustees is set out below:

<table>
<tr><th rowspan="2">Fund</th><th rowspan="2">Proxy voter used?</th><th colspan="3">Votes cast</th><th rowspan="2">Most significant votes (description)</th><th rowspan="2">Significant vote examples</th></tr>
<tr><th>Votes in total</th><th>Votes against management endorsement</th><th>Abstentions</th></tr>
<tr><td>BlackRock Dynamic Allocation Fund</td><td rowspan="4">ISS – for technical expertise, their voting platform to execute voting instructions, and their second opinion on voting intentions.

GL – provides input into research and reporting, and a second opinion on voting intentions.

BlackRock makes all its own voting decisions and external advisors only provide input and second opinion.</td><td>1,514</td><td>75</td><td>0</td><td rowspan="4">The BlackRock stewardship team publishes statements on their analysis, engagements and votes in relation to certain high-profile proposals at company shareholder meetings. These vote bulletins aim to explain their approach and decision publicly so interested clients and others can be aware of BlackRock's vote when it is of most relevance to them.</td><td>Amazon – voted for all management proposals at their May 2020 meeting, including to lower the stock ownership threshold for shareholders to request a special meeting from 30% to 25%.</td></tr>
<tr><td>BlackRock Aquila Life Currency Hedged World ex UK Equity</td><td>25,119</td><td>1,500</td><td>95</td><td>Alphabet SA – Voted against the Board proposal for the re-election of Ann Mather to the Board of Directors, due to her excessive board commitments.</td></tr>
<tr><td>BlackRock Aquila Life Global Developed Fundamental Weighted Index</td><td>8,878</td><td>498</td><td>62</td><td>Banco Santander SA – Voted for the shareholder proposal of a report on how the company assess and manages the risk of racial discrimination in vehicle lending, as discriminatory lending practices (of all forms) are a material risk to the company's business.</td></tr>
<tr><td>BlackRock Aquila Life UK Equity Index</td><td>14,974</td><td>842</td><td>284</td><td>Royal Dutch Shell – Voted against the shareholder proposal requesting Shell set and publish targets aligned with the Paris Agreement - Greenhouse Gas (GHG) Emissions. BlackRock believe management were already making progress towards aligning reporting with TCFD (Taskforce on Climate-related</td></tr>
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						Financial Disclosures) recommendations.

Notes: ISS = Institutional Shareholder Services Inc.
GL = Glass Lewis & Co.