

A scenic landscape photograph of a lake at sunset. The sky is filled with soft, colorful clouds in shades of orange, yellow, and blue. The sun is low on the horizon, casting a warm glow over the scene. In the background, several jagged mountain peaks are visible, some with patches of snow. The mountains are reflected in the calm water of the lake. In the foreground, several large, smooth rocks are scattered along the pebbly shore. The overall mood is peaceful and serene.

Smith+Nephew

Trustee's report

SMITH & NEPHEW UK PENSION FUND

2021/22

Welcome



It is a pleasure to present this year's report from the trustee for members of the Smith & Nephew UK Pension Fund. The trustee met 12 times during the year, and while the majority of these meetings were online, the board held its first face-to-face meeting in March 2022. Taking all the necessary precautions, it was a joy to see the rest of the board in person again.

You can find a summary of the fund's finances for the year to 30 September 2021 on page 5, which shows how we have been managing the money going into and out of the fund. This is followed by an update about our investments, and how the de-risking strategy that we put in place in September 2020 is progressing.

There has been a change in the membership of the trustee board. Carol Woodley, an independent trustee working on the board, stepped down and has been replaced by Ross Trustees, represented by Nigel Moore. We thank Carol for all her hard work during her time as a trustee director and welcome Nigel who joined the board on 1 April 2022.

As always, please remember to let us know if any of your personal details change, such as if you move house. You can do this online by logging into your personal account with OneView via the fund website at **www.smithandnephewpensions.co.uk**.

I hope you enjoy reading this year's report and find it useful. If there is anything you would like to see covered in a future issue, please let us know by contacting the trustee using the details on page 15.

Bob Newcomb
Chair of the trustees

At a glance...

This report looks at the fund's year to 30 September 2021. At that date, the fund:

held assets worth **£711 million**

included **5,080** members

had paid benefits during the year to members totalling **£22 million**

had a funding level of **101%**

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Membership

As at 30 September 2021, there were 5,080 members in the fund.



	2021	2020
Retired members	2,659	2,710
Deferred members	2,421	2,554
TOTAL	5,080	5,264

Note: the figure for retired members also includes dependants and those who are receiving a spouse's pension.



The fund account

The money going into and out of the fund during the year to 30 September 2021 is shown in the table.

This summary has been taken from the trustee's annual report and accounts, which have been independently audited by RSM UK Audit LLP, who confirm that they give a true and fair picture of the fund's financial transactions for the year.

If you would like to see a copy of the full report and accounts, you can find it on the fund's website in the trustee documents section.

	2021 £'000	2020 £'000
INCOME		
Employer contributions	5,000	-
Other income	30	2
TOTAL	5,030	2
EXPENDITURE		
Benefits paid to members	(16,278)	(15,271)
Payments to leavers	(5,492)	(8,675)
Advisers' and administration expenses	(1,533)	(1,251)
TOTAL	(23,303)	(25,197)
INCOME LESS EXPENDITURE	(18,273)	(25,195)
INVESTMENT RETURNS		
Net investment income	9,940	10,164
Change in market value	(7,852)	(5,065)
TOTAL	2,088	5,099
Net increase/(decrease) in fund during the year	(16,185)	(20,096)
MARKET VALUE OF ASSETS AT 30 SEPTEMBER	710,861	727,046

Investment report

The trustee is responsible for investing the fund's assets in order to ensure the fund has enough money to pay benefits to members. It takes regular advice about this from its professional investment adviser.

The trustee's investment policy is set out in a formal document called the Statement of Investment Principles (SIP), and you can find a copy of this on the fund website. It is reviewed at least once every three years and was last updated in September 2020.

How are the assets invested?

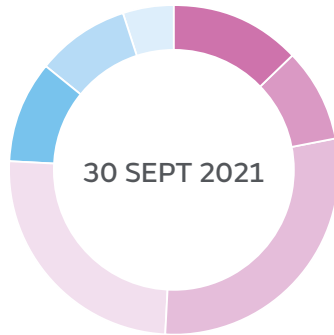
The fund's assets are invested via two portfolios. The growth portfolio includes exposure to equities (accessed via derivatives in the liability driven investment (LDI) portfolio), diversified growth funds and an absolute return bond fund.

The matching portfolio is made up of the LDI portfolio, a short-dated buy and maintain credit portfolio, an asset-backed securities portfolio and the bulk annuity policies held with Rothesay Life. The assets in the matching portfolio are expected to achieve returns that are closely in line with the fund's liabilities, while generating income to pay benefits to members.



Split of investments

The chart shows the fund's asset allocation as at 30 September 2021.



30 Sept 2021

MATCHING ASSETS: 76%	Short-duration credit	13%
	Asset-backed securities	9%
	Buy-in policy	29%
	LDI portfolio (excluding the equity derivatives)	25%
GROWTH ASSETS: 24%	Equities (held in the LDI portfolio)	10%
	Diversified growth	9%
	Absolute return	5%

The Trustee has agreed a de-risking strategy which involves switching £4 million from the equities and diversified growth funds into the LDI portfolio each quarter. The actual allocation of the fund's assets will therefore shift progressively over time, but aside from this, there have been no material changes to the fund's investments during the year.

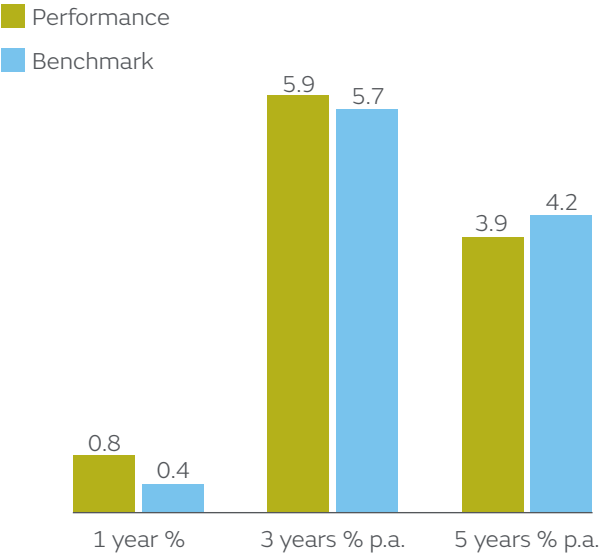


Investment report CONTINUED

Investment performance

During the 12 months to 30 September 2021, the fund's overall return was 0.8% compared with its benchmark of 0.4%.

Investment returns for the one, three and five-year periods to 30 September 2021 are shown below:



Have you visited the fund website?

Remember that we have a new fund website which launched last year, where you can find everything you need to know about the fund and your benefits. If you have not yet had a chance to visit, you will find:

- key information about your benefits at different life events
- the latest fund news
- useful information and tools to start planning your retirement (deferred members)
- answers to frequently asked questions about pensions and the fund
- access to your personal account via OneView.

Go to www.smithandnephewpensions.co.uk.

Using OneView

From the fund website, you can log into your personal OneView account, which will help you keep track of your pension.

If you are a pensioner, you can:

- view and make changes to your personal details
- see your pension payslips and P60
- update your bank details.

If you are a deferred member, you can:

- view and make changes to your personal details
- see your deferred benefit statement
- get an estimate of your retirement benefits
- get a transfer value estimate.

Please note that depending on the type of benefits you have, some of these functions may not be available. If you have problems with the calculations, please contact Mercer, the fund administrator, using the details on the back page.

News update

Watch out for pension scams

In the wake of the pandemic, pensions continue to be a target for scammers, who are ever more sophisticated in their approach and more determined. Pensions are a long-term investment and decisions do not need to be made in a hurry. Common pension scams include early pension release or pension reviews. You should always:

- reject any unsolicited contact about your pension or investments
- check the Financial Conduct Authority's (FCA) warning list
- avoid being rushed into making a decision
- get impartial advice.

Scammers are not just targeting the vulnerable, and anyone can be deceived. If you are thinking of transferring your pension, please be very cautious and take independent financial advice with a registered financial adviser about your options.

Don't let a scammer ruin your retirement. Go to the FCA's website for more information about pension scams and how to avoid them at www.fca.org.uk/scamsmart.

Your loved ones

The trustee will be writing to all members in the next 12 months asking you to provide some details about your spouse or any financial dependants you would like it to consider in the event of your death. This information allows us to work out the funding status of the fund more accurately.

Do you have a former colleague who has not received this newsletter?

If you know someone who thinks they may have a pension in the fund but has not received this newsletter, it may be that we do not have a current address for them.

Please ask them to contact Mercer who will be able to confirm if they have a pension in the fund and update their contact details.

Do you have a lifetime allowance protection?

The lifetime allowance (LTA) is the total amount of pension benefits that you can build up over your lifetime from all pensions that you have, without having to pay a tax charge. The government has announced that this allowance will remain fixed at £1,073,100 until 2026. However, some members may have applied to HMRC to protect their LTA at a different rate. If this applies to you, please make sure that you let Mercer, our fund administrator, know. You can get in touch with Mercer using the contact details on the back page.

Increase to the minimum retirement age

Currently, in most pension arrangements, the earliest date you can start to receive your pension is age 55. Some deferred members of the fund have the option to take their pension from an earlier date, age 50, subject to HMRC's requirements at retirement. Mercer can confirm if this lower 'protected retirement age' applies to you.

The government is increasing the minimum pension age to 57 on 6 April 2028. This change will apply to the fund, but you may still be able to take your pension earlier than age 57 for example, if you are in ill health or you have a protected retirement age of 50 or above. If you think your retirement plans may be affected by these changes, please contact Mercer for more information about your pension options.

New pensions guidance service

MoneyHelper is the government's financial information and guidance service. It is an easy way to get free, trusted help for your money and pension choices.

Offering impartial help that is quick to find and easy to use, MoneyHelper is available online or over the phone and provides clear guidance, access to the Pension Wise service, and further links to trusted services if you need more support. Go to www.moneyhelper.org.uk.

Spouse's pensions

Please note that if you die before you start taking your fund pension, i.e. while you are a deferred member, no spouse's pension is payable. In this circumstance, a refund of the contributions you have made would be payable, plus interest. A spouse's pension only becomes due from the fund once you have started to draw your pension.

Please remember to notify Mercer of any change to your address, so we can contact you with updates about your benefits.

Please note that your normal retirement age from the fund is 65. If you are over age 65 please contact Mercer to request a retirement quotation.

Summary funding statement

This summary funding statement tells you about the latest funding position of the fund, based on the most recent actuarial valuation as at 30 September 2020, and the actuary's funding update as at 30 September 2021. We use the term 'funding' as a way of comparing the money already in the fund with the amount we need to pay the future benefits. We send you a summary funding statement every year.

How does the fund work?

We use the fund's assets to pay benefits to members, as set out in the rules and summarised in the fund's booklet. The assets are held separately from the company. We do not allocate any of the fund's assets to individual members, apart from their additional voluntary contributions and share options, if this is appropriate.

What is an actuarial valuation?

At least every three years, the fund actuary investigates the financial position of the fund by comparing the value of the assets with the amount needed to pay benefits. This is called an actuarial valuation. The main purpose is to help set the level of contributions that the fund needs to receive to pay members' benefits now and in the future.

As part of the valuation, the actuary works out a target level of assets. This is an estimate of the amount of money needed to pay benefits as they fall due. If the fund's assets are lower than the target level, extra contributions may be needed to pay for the shortfall.

The most recent actuarial valuation was carried out as at 30 September 2020, with funding update as at 30 September 2021. The results of these are shown in the table opposite. As part of the valuation agreement, the company paid a contribution of £5 million to the fund in April 2021. The company may pay additional contributions each quarter in the future, depending on the assessment of the funding level shortly before each contribution would be due.

What is the latest position?

	Funding update 30 Sept 2021	Actuarial valuation 30 Sept 2020	Funding update 30 Sept 2019
Target level of assets	£707 million	£751 million	£763 million
Actual level of assets*	£719 million	£725 million	£746 million
Surplus/(shortfall)	£12 million	(£26 million)	(£17 million)
Funding level	101%	97%	98%

How has the position changed since the last update?

Last year we provided you with the results of the valuation, showing the position at 30 September 2020, when there was a shortfall of £26 million. Over the period to 30 September 2021, the funding position has improved so that there is now a surplus of £12 million. This is because of:

- a lower valuation of the fund's liabilities, thanks to an increase in government bond yields
- higher-than-expected investment returns
- the shortfall contribution of £5 million paid by the company in April 2021
- a change in member experience, including an increase in the number of members transferring out of the fund.

No additional contributions are due from the company as the 30 September 2021 update shows a surplus. If there is a shortfall for two consecutive quarterly reports, shortfall contributions will resume. We will update you on the position at 30 September 2022 in the next summary funding statement.

*The value of both the Plan's assets and liabilities is subject to daily changes and, as such, may differ at any given date from that reported in the annual report and accounts.

Summary funding statement CONTINUED

How is the target level of assets worked out?

There are two different ways of working out the target level of assets. One approach is to estimate how much money we need to pay the benefits already earned, assuming the fund continues. This is called the 'ongoing' basis. To make this assessment, the actuary has to make a number of assumptions about what will happen in the future: how long people will live, what inflation will be, how the fund's assets will be invested and what returns will be earned on those investments. Each of the assumptions made will affect the target level of assets.

Another approach is to estimate how much an insurance company would charge to take on responsibility for paying the benefits which are due. We call this the 'solvency' basis. As at 30 September 2020, the solvency funding level was 88%, indicating a shortfall of £95 million. If the company wanted to close the fund completely, a final contribution from them would be payable to make sure that the fund has enough money on this basis.

What if the company couldn't pay the necessary contributions?

There is nothing to suggest that this will be the case. However, a formal guarantee remains in place between Smith & Nephew plc and the trustees. This guarantees the obligations of Smith & Nephew UK Limited (the fund's principal employer) and the fund's other employers to make payments to the fund. However, in the unlikely event that the company did become insolvent, we would use the assets of the fund at the time to secure benefits.

If there was a shortfall in the assets on the solvency basis, we would not have enough to secure the benefits in full for all members. In these circumstances, the Pension Protection Fund (PPF) would make sure that all members receive a level of benefits set out in law. You can find out more about the PPF at www.ppf.co.uk.

Is there anything else I need to know?

We are required by law to verify that the company has not taken any money out of the fund in the last 12 months and that the Pensions Regulator has not intervened in the running of the fund. We are happy to confirm this.

Running the fund

The fund is managed on behalf of all the members by the trustee board. Some of the trustee directors are appointed by the company and some are nominated by the members. There is also an independent trustee director.

Your trustee directors

Company appointed	Bob Newcomb, Chair Tim Allison Lucy Fuller
Member nominated	Len Pendle David Webster
Independent	Carol Woodley (to 31 March 2022) Nigel Moore, Ross Trustees (from 1 April 2022)

For most queries, please contact Mercer, the fund administrator, using the details on the back page.

Contacting the trustee

If you have any comments about this newsletter or would like to get in touch with the trustee, please write to:
ipsmithandnephew@zedra.com.

Fund advisers

Secretary to the trustee	Zedra Inside Pensions Limited
Principal employer	Smith & Nephew UK Limited
Actuary	Clive Wellsted FIA, Lane Clark & Peacock LLP
Investment adviser	Lane Clark & Peacock LLP
Investment managers	Newton Asset Management BMO Global Asset Management GMO LLC M&G Investment Management Limited Insight Investment Fund Management
Bulk annuity provider	Rothesay Life Limited
Auditor	RSM UK Audit LLP
Solicitor	Travers Smith
Banker	HSBC Bank PLC
Fund administrator	Mercer Limited

Contact us

If you have any questions about the fund or your benefits, please get in touch with Mercer, the fund administrator.

Email:

smithandnephew.pensions@mercer.com

Call:

0330 102 7570

Write to:

Smith & Nephew UK Pension Fund
Mercer Ltd
PO Box 434
Westgate House
52 Westgate
Chichester PO19 3ZU

Fund website:

www.smithandnephewpensions.co.uk

Keeping in touch

It is essential that we have your current address details so we can send you important information about your pension. Please contact Mercer to update your contact details if you are moving to a new address.