

SMITH & NEPHEW UK PENSION FUND

Smith+Nephew



Trustees' report

2020/21

# Welcome

**After a year that no one could have anticipated, the Covid-19 vaccination programme is rolling out across the UK and the prospects for the year ahead are beginning to look brighter. We hope that our members continue to be safe and well.**

At the end of 2020, Lucy Fuller stepped down as chair of the trustees, and we thank her for her hard work and dedication to the fund over many years. We are delighted to retain her expertise and experience of the fund on the board as she continues in her role as a trustee director.

We also welcome Tim Allison who joins the board as a company appointed trustee director.

Earlier this year, the term of office for our two member nominated trustee directors, Len Pendle and David Webster, came to an end. We wrote to employed deferred members (those who still work for Smith+Nephew) and pensioners, inviting anyone who would be interested in this role to consider putting themselves forward for selection. No applications were received, but I am pleased to confirm that both Len and David have since been reappointed, and we thank them for their continued service to the fund.

The actuarial valuation of the fund as at 30 September 2018 included provision for the trustees to carry out an additional valuation if there was an increase in the fund's shortfall at any September. Following the market volatility of 2020, the trustees decided to carry out a full actuarial valuation of the fund as at 30 September 2020. From March 2021, we have agreed with the company that the funding position will be monitored on a quarterly basis and that shortfalls will be addressed by the company paying contributions of between £2.5 million and £5 million per quarter to ensure that any shortfall is dealt with promptly. The fund remains in a strong position, and you can read more about this in the summary funding statement on page 12.

I am pleased to announce that our new pensions website has launched this month. Whether you are a pensioner or are yet to start taking your fund benefits, the website will help you keep track of your pension and you can use it to log into OneView. Please go to [www.smithandnephewpensions.co.uk](http://www.smithandnephewpensions.co.uk) and take a look. We will be sending you an introductory guide to the website shortly, but in the meantime, there is more information on page 9.

Finally, I hope you find this newsletter useful and informative. If there is anything you would like to see covered in a future issue, please contact the trustees using the details on the back page.

**Bob Newcomb**

Chair of the trustees

# At a glance...

This report looks at the fund's year to 30 September 2020. At that date, the fund:

held assets worth **£727 million**

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included **5,264** members

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had paid benefits during the year to members totalling **£24 million**

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had a funding level of **97%**

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# The fund account

The money going into and out of the fund during the year to 30 September 2020 is shown in the table.

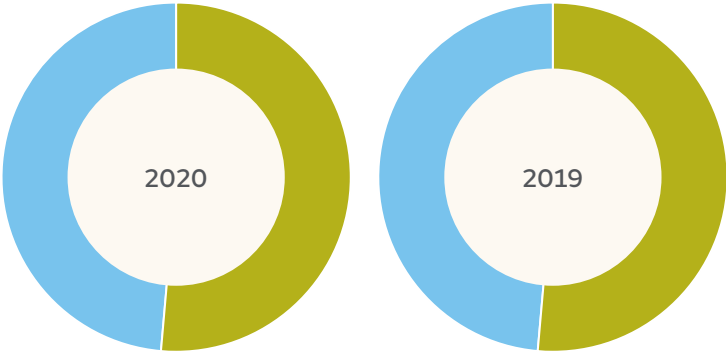
This summary has been taken from the trustees' annual report and accounts, which have been independently audited by RSM UK Audit LLP, who confirm that they give a true and fair picture of the fund's financial transactions for the year.

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

	2020 £'000	2019 £'000
<b>INCOME</b>		
Employer contributions	-	4,700
Transfers in	-	2
Other income	2	1
<b>TOTAL</b>	<b>2</b>	<b>4,703</b>
<b>EXPENDITURE</b>		
Benefits paid to members	(15,271)	(16,013)
Payments to leavers	(8,675)	(9,906)
Advisers' and administration expenses	(1,251)	(882)
<b>TOTAL</b>	<b>(25,197)</b>	<b>(26,801)</b>
<b>INCOME LESS EXPENDITURE</b>	<b>(25,195)</b>	<b>(22,098)</b>
<b>INVESTMENT RETURNS</b>		
Net investment income	10,164	10,325
Change in market value	(5,065)	97,821
<b>TOTAL</b>	<b>5,099</b>	<b>108,146</b>
Net increase/(decrease) in fund during the year	(20,096)	86,048
<b>MARKET VALUE OF ASSETS AT 30 SEPTEMBER</b>	<b>727,046</b>	<b>747,142</b>

# Membership

As at 30 September 2020, there were 5,264 members in the fund.



	2020	2019
Retired members	2,710	2,780
Deferred members	2,554	2,659
<b>TOTAL</b>	<b>5,264</b>	<b>5,439</b>

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



# Investment report

**The trustees are responsible for investing the fund's assets in order to ensure there is enough money in the fund to pay members' benefits. They take regular advice from their professional investment adviser.**

The trustees have set out their investment policy in a formal document called the statement of investment principles (SIP), a copy of which is available on the new pensions website. The SIP was reviewed and updated in September 2020 to reflect:

- the updated asset allocation as at 30 June 2020
- the introduction of an asset-backed securities mandate with Insight
- the disinvestment of the physical equity holdings managed by Janus Henderson with the cash proceeds invested in the liability driven investment (LDI) portfolio managed by BMO
- the investment in a new mandate with BMO to achieve equity returns using derivatives.

## How are the assets invested?

The fund's assets continue to be invested via two portfolios. The growth portfolio includes exposure to equities, diversified growth funds and an absolute return bond fund, with the expectation of achieving returns in excess of UK government bonds over the long term. 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 with Rothesay Life. The assets in the matching portfolio are held to achieve returns closely in line with the liabilities, while generating income to pay benefits to members.

## The LDI portfolio

During the year, the trustees disinvested the fund's physical equity holdings managed by Janus Henderson. These were previously part of the growth portfolio and in September 2019 were 10% of the fund's assets.

The funds from this disinvestment were invested in the LDI portfolio, managed by BMO. The LDI portfolio was previously exclusively part of the matching portfolio and in September 2019 represented 28% of the fund's assets.

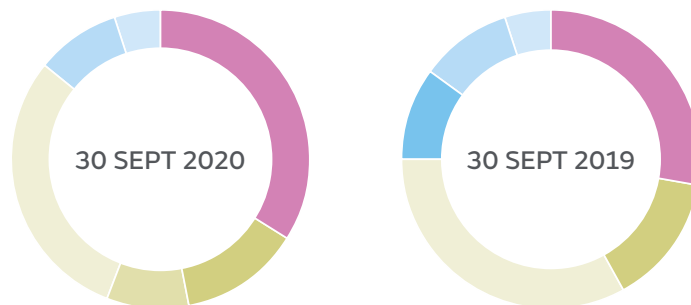
To obtain the higher investment returns available from equity assets, without purchasing equities, the fund has invested in equity derivatives. These derivatives are managed by BMO and held within the LDI portfolio.

The asset allocation pie charts now show the LDI portfolio separately from the matching portfolio assets and the growth portfolio assets. The value of the LDI assets in September 2020 was 34% and includes the UK government bonds and the equity derivatives. The equity derivatives represent around 10% of the total asset value.



## Split of investments

The charts show the asset allocation for 2020 compared with the previous year, reflecting the updated investment strategy.



		30 Sept 2020	30 Sept 2019
MATCHING ASSETS	Short-duration credit	13%	14%
	Asset-backed securities	9%	-
	Buy-in policy	30%	33%
<hr/>			
LDI ASSETS	LDI assets including equity derivatives	34%	28%
<b>TOTAL</b>		<b>86%</b>	<b>75%</b>
GROWTH ASSETS	Equities	-	10%
	Diversified growth	9%	10%
	Absolute return	5%	5%
<b>TOTAL</b>		<b>14%</b>	<b>25%</b>

# Investment report CONTINUED

## Asset-backed securities

The trustees decided to invest in asset-backed securities to generate a modest level of additional return from the assets that are held as collateral to back the LDI portfolio. The fund's allocation to asset-backed securities is managed by Insight.

## Switching from the growth portfolio to LDI

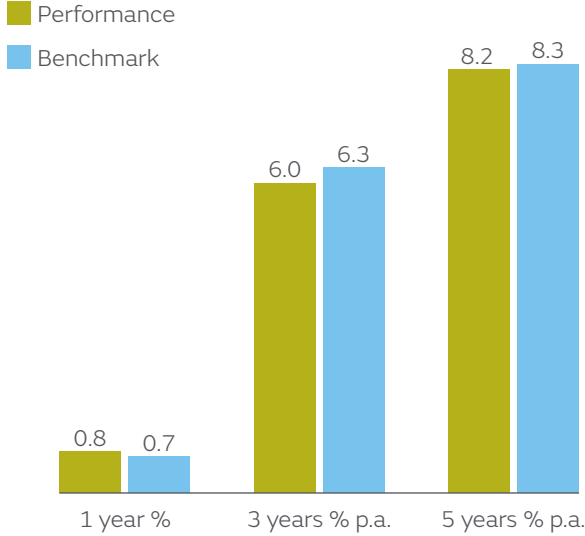
The trustees have put in place a time-based switching mechanism, which allows for pre-determined portions of the growth portfolio to be moved to the LDI portfolio on a quarterly basis. These switches aim to reduce the fund's exposure to investment risk gradually.



## Investment performance

During the year to 30 September 2020, the fund's overall return was 0.8%, compared with its benchmark of 0.7%.

Investment returns for the one, three and five-year periods to 30 September 2020 are shown below:





# Our new website!

[www.smithandnephewpensions.co.uk](http://www.smithandnephewpensions.co.uk)

**The new Smith & Nephew UK Pension Fund cap website is available now. The first point of reference for our members on all things to do with the fund and your benefits, you can use it to:**

- get the latest news from the fund
- find out key information on your benefits at different 'life events'
- start planning your retirement (if you are a deferred member)
- get answers to frequently asked questions
- log into your personal account via OneView.



## Logging into OneView

You can also use the pensions website to log into OneView. There's a helpful step-by-step guide in the FAQs section of the website that takes you through the process of registering for the first time. It also explains step by step what to do if you forget your login details.

## Using OneView

OneView helps you keep track of your pension. New, improved features include a case tracker so you can now follow the progress of any request you have made.

### *Deferred members can:*

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

### *Pensioners can:*

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

# News update

## Stay alert for pension scams

Scammers are continuing to target pension pots of all sizes. If you are facing financial difficulties because of the pandemic, you may have been tempted to transfer or cash in some of your pension. Scammers design attractive offers to persuade you to transfer your pension pot to them, where it may be:

- invested in unusual and high-risk investments
- invested in more conventional products but within an overly complex structure that hides multiple fees and high charges
- stolen outright.

Common pension scams include early pension release or pension reviews. You should always:

- reject any unsolicited contact about investments
- check the Financial Conduct Authority's warning list
- get impartial advice.

If you are considering a transfer, please be very careful and take independent financial advice about your options.

You can find out more about pension scams and how to avoid them from the FCA's website at [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart)

## Calls about your pension

As mentioned in last year's newsletter, please continue to be aware of suspicious calls about your pension. Mercer, the fund administrator, will usually only call you about a query that you have raised with them directly.

If you are suspicious of any contact from someone claiming to be from your pension provider, please do not provide any confidential information but contact Mercer directly using the details on the back of this newsletter. Please let Mercer know the date and time of the call, the person who called you and the reason for the call.

In genuine circumstances where Mercer does need to contact you, their customer services team will be able to confirm this and arrange to return your call. Occasionally, the trustees or the fund secretary (Inside Pensions) may contact you directly, but in these cases, the contact would usually be in writing and to inform you about your pension. They would NEVER request confidential information.

## 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 any interest. A spouse's pension only becomes due from the fund once you have started to draw your pension.

## State pension increase

In April 2021, the state pension was increased by 2.5%, which means that pensioners who get the full new state pension have an extra £4.40 each week, bringing their pension to £179.58 a week. Anyone who receives the old, basic state pension has an increase of £3.40 a week, a total of £137.65.

Increases to the state pension are currently protected by the 'triple lock' where the rise is determined by whichever is higher out of annual inflation, average earnings or the guaranteed minimum of 2.5%.



# Summary funding statement

**This summary funding statement tells you about the latest funding position of the fund, based on the latest actuarial valuation as at 30 September 2020. 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 at least once a 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, and the results 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?

	Actuarial valuation 30 Sept 2020	Funding update 30 Sept 2019	Actuarial valuation 30 Sept 2018
Target level of assets	£751 million	£763 million	£664 million
Actual level of assets	£725 million	£746 million	£660 million
Shortfall	£26 million	£17 million	£4 million
Funding level	97%	98%	99%

## How has the position changed since the last update?

Last year we provided you with a funding update showing the position at 30 September 2019, when there was a shortfall of £17 million. The funding position has reduced slightly over the period to 30 September 2020 as a result of a fall in interest rates, which increased the target level of assets required. The actual assets also produced slightly lower than expected investment returns over the year.

Since 30 September 2020, the funding position has improved, and we will update you on the position at 30 September 2021 in the next summary funding statement.



# 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 completely close the fund, a final contribution from them would be payable to make sure 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 trustee. 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](http://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 a board of trustees. 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

<b>Company appointed</b>	Bob Newcomb, Chair (from December 2020) Lucy Fuller, Chair (to December 2020) Tim Allison
<b>Member nominated</b>	Len Pendle David Webster
<b>Independent</b>	Carol Woodley

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

## Contacting the trustees

If you have any comments about this newsletter or would like to get in touch with the trustees, please write to: [smithandnephew@insidepensions.com](mailto:smithandnephew@insidepensions.com)

## Fund advisers

<b>Fund secretary</b>	Inside Pensions Limited
<b>Principal employer</b>	Smith & Nephew UK Limited
<b>Actuary</b>	Clive Wellsteed FIA, Lane Clark & Peacock LLP
<b>Investment adviser</b>	Lane Clark & Peacock LLP
<b>Investment managers</b>	Newton Asset Management BMO Global Asset Management GMO LLC M&G Investment Management Limited Insight Investment Management
<b>Bulk annuity provider</b>	Rothesay Life Limited
<b>Auditor</b>	RSM UK Audit LLP
<b>Solicitor</b>	Travers Smith (from January 2021) Mayer Brown International LLP (to December 2020)
<b>Banker</b>	HSBC Bank PLC
<b>Fund administrator</b>	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](mailto: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](http://www.smithandnephewpensions.co.uk)