

SMITH & NEPHEW UK PENSION FUND

Smith+Nephew

# Trustees' report

2019/20



# Welcome

With the effects of the coronavirus outbreak being felt across the UK, we hope all our members are keeping safe and well. We understand that you may be anxious about your pension, but be assured that **your pension will continue to be paid as usual and your benefits remain unchanged.**

There has been a lot of media coverage about the impact of the virus on the global financial markets. The fund is a defined benefit pension scheme which means your pension benefits are not sensitive to movements in the financial markets but are defined by the rules of the fund.

The trustees are keeping a close eye on the fund's investments. During 2019, we made some changes to the investment strategy to reduce the amount of risk that the fund is exposed to. You can read more about this on page 4.

These actions have helped to shield the fund from some of the impact of market volatility. We continue to work with our advisers to ensure that the fund's assets are protected as much as possible in these unsettling times. The actuary's funding update in September 2019 showed that the fund is in a strong financial position. You can read more in the summary funding statement on page 12.

## **Lucy Fuller**

Chair of the trustees

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# The fund account

## The table shows the money going into and out of the fund during the year to 30 September 2019.

This is a summary that has been taken from the trustees' annual report and accounts, which have been independently audited by RSM UK Audit LLP, who confirm that they show a true and fair view 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 request one from the fund administrator.

	2019 £'000	2018 £'000
<b>INCOME</b>		
Employer contributions	4,700	18,800
Transfers in	2	-
Other income	1	1
<b>TOTAL</b>	<b>4,703</b>	<b>18,801</b>
<b>EXPENDITURE</b>		
Benefits paid to members	(16,013)	(15,958)
Payments to leavers	(9,906)	(44,228)
Advisers' and administration expenses	(882)	(1,071)
<b>TOTAL</b>	<b>(26,801)</b>	<b>(61,257)</b>
<b>INCOME LESS EXPENDITURE</b>	<b>(22,098)</b>	<b>(42,456)</b>
<b>INVESTMENT RETURNS</b>		
Net investment income	10,325	10,406
Change in market value	97,821	5,501
<b>TOTAL</b>	<b>108,146</b>	<b>15,907</b>
Net increase/(decrease) in fund during the year	86,048	(26,549)
<b>MARKET VALUE OF ASSETS AT 30 SEPTEMBER</b>	<b>747,142</b>	<b>661,094</b>

# Investment report

**The trustees are responsible for investing the fund's assets. They take advice from their professional investment adviser and review the fund's investment policy on a regular basis.**

The current strategy is set out in the Statement of Investment Principles (SIP), which was updated and agreed in September 2019.

During the year, a revised time-based de-risking mechanism was put in place to gradually reduce the fund's allocation to growth investments. The trustees also carried out additional de-risking in June 2019 and August 2019.

At the last formal valuation in September 2018, the fund was 99% funded. This strong funding position allowed the trustees to reduce the amount invested in riskier growth investments, such as global equities, and move it into more secure assets such as index-linked gilts.

As at 30 September 2019, after these investment changes, only 10% of the assets remained invested in the global stock market with a further 15% in similar growth assets. The fund's assets are invested to pay pensions regularly both in the short and long-term future. The fund therefore holds sufficient assets to meet the current short-term pension payments from cash and other secure investments, which allows the small proportion of the money invested in the global stock market to recover its value over the longer term.

Investment markets continue to change on a daily basis, and the trustees are keeping a close eye on the fund's investments at this crucial time.



## How are the assets invested?

The fund's assets are invested via two portfolios. The growth portfolio includes equities and bonds, while the matching portfolio is made up of liability driven investments (LDI) and the bulk annuity policies with Rothesay Life. LDI aims to reduce the fund's exposure to risk from inflation and interest rate fluctuations, while generating income to pay benefits to members.

## Split of investments as at 30 September

The charts show the asset allocation for 2018, alongside the new target asset allocation for 2019, reflecting the de-risking agreed as part of the new investment strategy.



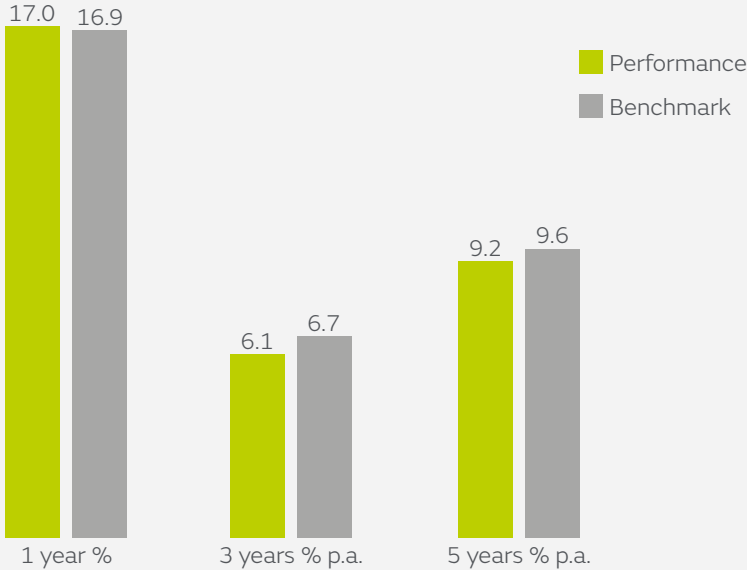
		2019	2018
MATCHING PORTFOLIO	LDI	28%	23%
	Short-duration credit	14%	-
	Buy-in policy	33%	33%
	<b>TOTAL</b>	<b>75%</b>	<b>56%</b>
GROWTH PORTFOLIO	Equities	10%	22%
	Diversified growth	10%	17%
	Absolute return	5%	5%
	<b>TOTAL</b>	<b>25%</b>	<b>44%</b>

# Investment report CONTINUED

## Investment performance

During the year to 30 September 2019, the fund achieved a return of 17%, outperforming its benchmark of 16.9%.

Investment returns for the one, three and five-year periods to 30 September 2019 are shown below:



## Responsible investments

The trustees have considered how environment, social and governance (ESG) and ethical factors should be taken into account when investing the fund's assets. They expect the fund's investment managers to consider financially material factors, including climate change, and they seek to appoint managers with the skills and processes to do this. The trustees believe that good stewardship practices both protect and enhance the long-term value of investments.

# Membership

As at 30 September 2019, there were 5,439 members in the fund. The fund no longer has any active members since it closed to future accrual in 2016.

Retired members include dependants and those members in receipt of a spouse's pension.



	2019	2018
Retired members	2,780	3,026
Deferred members	2,659	2,789
TOTAL	5,439	5,815



# News update

## Covid-19 update

**We want to reassure you that looking after your pension is the trustees' top priority.**

Mercer has enabled its staff to work from home and therefore nearly all the contact centre team are working from home. Call volumes have increased, so you may have to wait slightly longer than normal for your call to be answered.

You may find the information you require on Mercer OneView at: **[www.merceroneview.co.uk/smith-nephew](http://www.merceroneview.co.uk/smith-nephew)**

You can read more about the challenges caused by Covid-19, and find links to further information about financial guidance and pension scams at:

**<https://www.merceroneview.co.uk/covid>**

Mercer is monitoring the situation very carefully. If it worsens and normal service cannot be fully maintained, Mercer will prioritise the payment of pensions. This may mean that it takes longer than normal to respond to other enquires.



## Could you spot a pension scam?

Pension scams can be hard to spot but their effects are devastating, with many people losing their life savings. While promising high returns and low risk, in reality, a pension scam can leave you with nothing. In addition, you could then face a high tax bill from HM Revenue and Customs if you withdraw your savings before age 55.

Scams often involve unusual, high-risk investments like overseas property, renewable energy bonds, forestry, parking or storage units. If it sounds too good to be true, it probably is. Anyone can be a victim of a pension scam, and you should watch out for:

- **unexpected contact** – ignore cold-calls, texts or emails
- **time pressure** – beware of time-limited offers
- **social proof** – be on the lookout for fake reviews
- **unrealistic returns** – it sounds too good to be true
- **false authority** – scammers may claim to be regulated, but you can check this with the FCA
- **flattery** – building a friendship with you to lull you into a false sense of security.

For more information about pension scams and how to avoid them, please see [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart) where you can also try out the FCA's pensions scam quiz.

## Calls about your pension

Please 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 secretary to the trustees (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 not request confidential information.

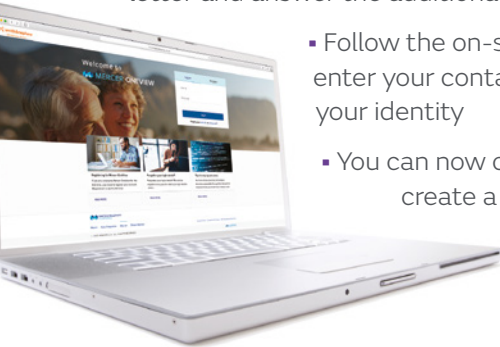
# News update CONTINUED

## Mercer OneView

Have you registered to use Mercer OneView yet? You can use this secure website, provided by the fund administrator, to keep up to date with the fund and keep track of your pension. If you have not yet used Mercer OneView, registering is easy with on-screen prompts to guide you through the process. If you have lost or misplaced your welcome letter that we sent you last year, please contact Mercer using the details on the back page.

- To register, go to [www.merceroneview.co.uk/smith-nephew](http://www.merceroneview.co.uk/smith-nephew)
- Click on register
- Enter your default user ID as shown on your welcome letter and answer the additional security questions

- Follow the on-screen prompts and enter your contact details to confirm your identity
- You can now change your user ID and create a passcode, which you must keep secret.



## What can I do on Mercer OneView?

### Deferred members 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.

### Pensioners can:

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

## What if I've forgotten my user ID or passcode?

Simply go to [www.merceroneview.co.uk/smith-nephew](http://www.merceroneview.co.uk/smith-nephew) and select **forgotten your user ID or passcode?**

The system will email you with a temporary link so you can reset your details.

## Small pot lump sum

If your pension from the fund is a small amount, you may be able to give up your regular pension payments for a one-off cash lump sum.

### Deferred members:

If you are a deferred member of the fund (you have not yet started to receive your pension) and you are aged 55 or over, you may be able to access this option. You can check if you are eligible for this option by accessing the transfer value calculator on OneView.

- If your transfer value is less than £10,000, you are likely to be eligible to consider this option. Please contact Mercer for more details.
- If the transfer value is more than £10,000 but less than £30,000, you may still be able to select this option if you have no other pension arrangements, other than the State pension, or if all your pension benefits in total have a value of less than £30,000. If you think you may be eligible, please contact Mercer to obtain more information about this option.

### Pensioners:

If you are a pensioner (currently in receipt of your pension from the fund), you may also be eligible for this option. Please contact Mercer to find out more.

## Coming soon – a Smith & Nephew UK pension fund website

Over the coming months, we are beginning work on a new pensions website for our fund members. It will be your central point of reference for information about the fund and your benefits. From here, you will be able to get the latest news about the fund, log into your account via OneView, and find tools and information to help you plan for retirement.

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



# 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 2018. 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.

The company does not currently need to pay ongoing additional contributions into the fund. In January 2019 the company paid contributions of £4.7 million. This payment covered the shortfall calculated at the last valuation date in September 2018. The funding level is reviewed regularly, and company contributions may start in future if the amount needed to pay benefits is less than the value of the assets available in the longer term.

## 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 2018. The actuary also produces an updated report annually to help us monitor the funding position in the years between formal actuarial valuations.

The results of the latest update and the valuation are shown in the table below.

## What is the latest position?

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

## How has the position changed since the 2018 actuarial valuation?

The actuary produces an updated report to help us monitor the funding position in the years between formal actuarial valuations. We have to do this by law.

The update on the funding position as at 30 September 2019 showed a shortfall of £17 million – a funding level of 98% (on the ongoing basis). The funding position reduced slightly as a result of a fall in interest rates, which increased the

target level of assets required. Some of this increase in the level of assets required has been offset to an extent by better-than-expected investment returns.

## How is the target level of assets worked out?

There are three 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 of paying the benefits which are due. We call this the ‘solvency’ basis. As at 30 September 2018, the solvency funding level was 90%, indicating a shortfall of £75 million. If the company wanted to completely close the fund, we could insist on a final contribution from them to make sure the fund has enough money on this basis.

# Summary funding statement CONTINUED

## 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>	Lucy Fuller, Chair Robert Newcomb Joanna Sheppard (to November 2019)
<b>Member nominated</b>	Len Pendle David Webster
<b>Independent</b>	Carol Woodley



## Fund advisers

<b>Fund secretary</b>	Inside Pensions Limited
<b>Principal company</b>	Smith & Nephew UK Limited
<b>Actuary</b>	Clive Wellsted 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 Janus Henderson Global Investors Limited M&G Investment Management Limited
<b>Bulk annuity provider</b>	Rothesay Life Limited
<b>Auditor</b>	RSM UK Audit LLP
<b>Solicitor</b>	Mayer Brown International LLP
<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@mercero.com](mailto:smithandnephew.pensions@mercero.com)

Call:

**0330 102 7570**

Write to:

**Smith & Nephew UK Pension Fund**

Mercer Ltd

PO Box 434

Westgate House

52 Westgate

Chichester PO19 3ZU

Member website:

[www.merceroneview.co.uk/smith-nephew](http://www.merceroneview.co.uk/smith-nephew)

## Contacting the trustees

If you have any comments about this newsletter or would like to get in touch with the trustees, please write to:

Smith & Nephew UK Pension Fund

Inside Pensions

First Floor, Trident House

42-48 Victoria Street

St Albans

Hertfordshire AL1 3HZ

[smithandnephew@insidepensions.com](mailto:smithandnephew@insidepensions.com)