



Smith & Nephew UK Pension Fund



Trustees' report 2016/17

Welcome

Welcome to the latest report from the trustees of the Smith & Nephew UK Pension Fund, bringing you an update on the fund during the year to 30 September 2016, including information on how the money in the fund is invested.

The Trustees are currently developing a new website for the fund and this will be available later in the year.

The results of the valuation of the fund, looking at the position as at 30 September 2015, was completed during 2016 and you will have received the summary funding statement in February 2017, confirming the results. If you did not receive a copy, please get in touch with the fund secretary, or you can access a version online at:

<https://www.merceroneview.co.uk/SMITH-NEPHEW>.

During 2016, Smith & Nephew consulted with employees who were active members on a proposal to cease accrual of future pension benefits in the fund. Following completion of the consultation, the fund ceased future accrual on 31 December 2016. You can find more information on this on page 6.

I would like to thank David Myers for his hard work and service to the fund for the last five years, and welcome Len Pendle as a new member nominated director (MND), who is expected to serve a term of four years. Further news regarding the fund, including the appointment of a new pension administrator, Mercer, can be found on page 7.

I hope you find this report interesting and useful.

Lucy Fuller - Chair

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Contact us

If you would like more information, such as a copy of the valuation report or full report and accounts, or if you have any comments or suggestions, please contact us by writing to:

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Fund Secretary
Inside Pensions
3rd Floor
54-56 Victoria Street
St Albans
Herts AL1 3HZ

smithandnephew@insidepensions.com

The fund account

This table shows a summary of the money coming into the fund, in the form of contributions and investments, as well as the money going out, in the form of benefits paid to members and expenses, over the year to 30 September 2016.

This information has been taken from the trustees' annual report and accounts. These have been audited by an independent accountancy firm called Ernst & Young LLP, who confirm that they show a true and fair view of the fund's financial transactions. If you would like to see a copy of the full report and accounts, please contact the fund secretary at the address on page 2.



	2016 £'000	2015 £'000
Income		
Employer contributions	5,656	6,162
Employer deficit contributions and special contributions	19,000	18,837
Member contributions	111	113
Additional voluntary contributions	42	52
Other income	208	1,002
Total	25,017	26,166
Expenditure		
Benefits paid	(22,114)	(16,141)
Payments to and on account of leavers	(15,747)	(7,480)
Life assurance premiums	–	(25)
Advisers and administrative expenses	(1,336)	(1,038)
Total	(39,197)	(24,684)
Contributions less expenditure	(14,180)	1,482
Investment returns		
Net investment income	8,638	7,487
Change in market value	126,805	21,923
Total	135,443	29,410
Net increase in the fund during the year	121,263	30,892
Market value of assets at 30 September	705,163	583,900

Investment report

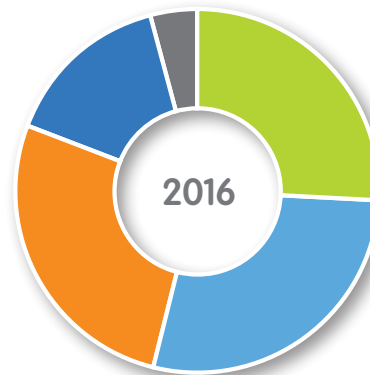
The trustees, together with their advisers, regularly review the fund's investments to decide how much of the assets should be invested and where. They select a broad range of investment types, including equities (company shares), government bonds (also known as 'gilts') and other types of investment.

How are the assets invested?

The assets are split across two investment portfolios, which have different aims. The **liability matching portfolio** is designed to match the fund's benefit payments, providing an income to pay pensions and benefits as they fall due. It is currently invested in liability driven investments (LDI) and a bulk annuity (buy-in) policy. The **growth portfolio** is made up of equities plus any other alternative investments that are appropriate in terms of having acceptable levels of risk. It aims to increase the value of the fund's assets.

Split of investments as at 30 September 2016

		2016	2015
Liability matching portfolio	● LDI	26%	22%
	● Buy-in policy	28%	30%
	Total	54%	52%
Growth portfolio	● Equities	27%	26%
	● Diversified growth	15%	17%
	● Absolute return	4%	5%
	Total	46%	48%



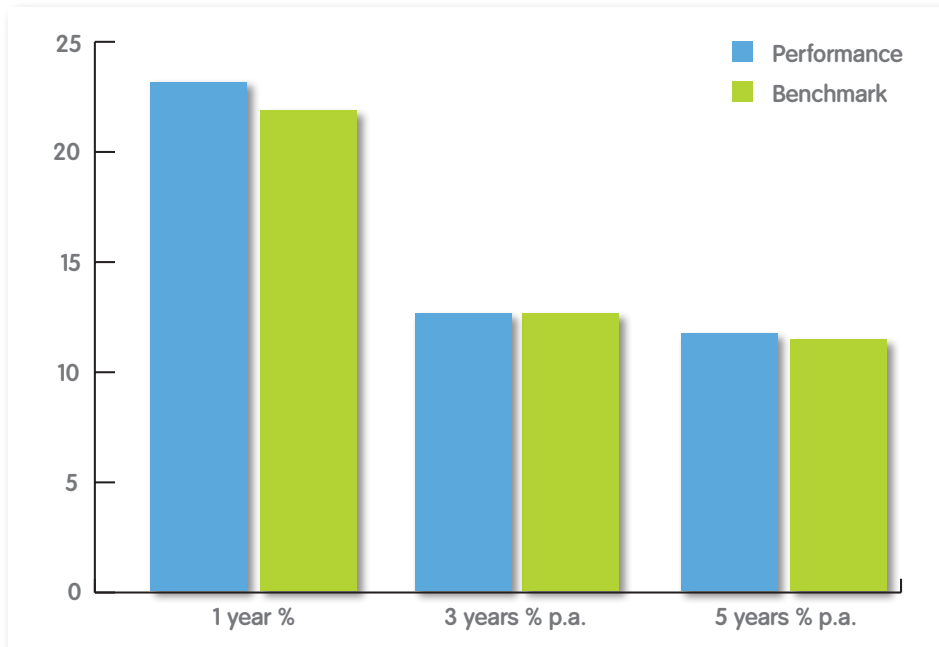
Liability driven investment (LDI)

BMO is the investment manager appointed to manage an LDI portfolio. It is designed to reduce the fund's exposure to risk, such as that represented by inflation and interest rate fluctuation, whilst generating sufficient income to match the value of the pensions and benefits that are due to members.

Investment performance

During the year to 30 September 2016, the fund achieved a return of 23.1%, which is above the benchmark of 21.8% for the period. The principal sources of outperformance within the year were the Diversified Growth Funds managed by Newton and GMO.

On a three-year basis, the fund achieved 12.6% in line with the benchmark of 12.6% and on a five-year basis, returns of 11.7% were achieved compared with a benchmark of 11.4%.



Do you have AVCs?

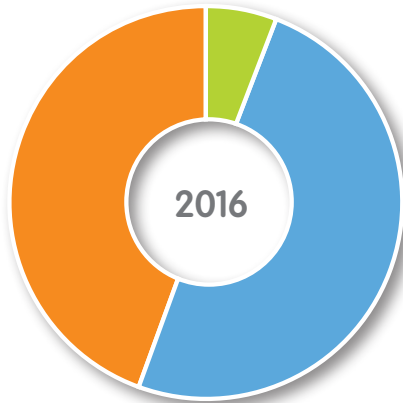
For members who have chosen to pay additional voluntary contributions (AVCs), these assets are held separately from the main fund in individual accounts and insurance policies. They are designed to secure additional defined contribution (DC) benefits on a money purchase basis.

When you retire, you can use your AVCs to 'top up' your pension savings or take them as a cash lump sum. Each year, members receive a statement, detailing the amounts held in their account and an estimate of their AVC pension.



Membership

At the end of the year to 30 September 2016, there were 6,207 members in the fund, including former employees and members who are receiving dependants' pensions.



	2016	2015
Active members	364	457
Retired members	3,090	3,614
Deferred members	2,753	2,940
Total	6,207	7,011

In 2015, the trustees worked with the company to offer fund members the option to re-shape their pension benefits. As a result, 141 deferred members and 470 retired members transferred out of the fund in 2016.

Closure of fund to future accrual

During 2016, Smith & Nephew consulted with employees who were active members of the pension fund, on its proposals to cease accrual of future pension benefits in the fund. All affected employees have been contacted directly by their employer regarding these changes. The fund ceased future accrual on 31 December 2016 and current employees have all been offered membership of the Stakeholder Fund.

This change does not affect the pension built up in the fund already and will not have any effect on members who have a pension already in payment, or deferred members who have left employment with Smith & Nephew.

News update

News from the trustees

Review of the fund's administrator

The trustees review the performance of all the fund's service providers on a regular basis. During 2016, the trustees carried out an in-depth review of the administration services available and have decided to appoint Mercer as the pension administrator. The administration of your pension benefits will continue to be managed by Aon Hewitt until June 2017, when Mercer assumes responsibility for the administration of the fund.

Website

The trustees are currently developing a website for the fund with the new administrator, Mercer. This will be available later in the year at <https://www.merceroneview.co.uk/SMITH-NEPHEW> and we will let you have more details when they are available.

To help you understand more about your retirement benefits and options, including the option to transfer your benefits to another suitable pension arrangement, a short set of videos have been prepared for you to watch. These can be found at smith-nephew-member-guides.lcp.uk.com. The password is **VideoGuides**

Pension increases

Pensions in payment are guaranteed to increase on 1 October in line with the Retail Prices Index (RPI) inflation figure, published in the previous August, to a maximum of 5%. In October 2016, pensions in payment were increased by 1.9%.

Bulk purchase annuity policy

In 2012, we informed you that the trustees had purchased an insurance policy from Rothesay Life, to back a proportion of pensions currently in payment. The trustees have recently purchased a further insurance policy, also from Rothesay Life. The policy was entered into with Rothesay Life after detailed consideration. Under the policy, Rothesay Life will make regular payments to the fund that mirror some of the monthly pensions that the fund pays to its pensioners.

The insurance policy is intended to provide a matching asset for some of the fund's pension obligations. As such, the objective of the transaction is to help reduce the exposure of the fund and Smith & Nephew to some of the main risks, including investment risk, inflation risk, and longevity risk (i.e. the additional costs that arise if pensioners benefit from longer lifetimes in the future). In addition, the fund not only has the strength of the Smith & Nephew covenant behind it but this is now reinforced by the assets of the insurer.

The trustees retain responsibility for paying pensioners' benefits, and payment of pensions will continue in the same way as now.

The trustees will need to share personal data with Rothesay Life, relating to the fund benefits of the relevant pensioners, in order for Rothesay Life to perform its obligations under the policy.

The fund's trustee directors and advisers

Trustee directors

Lucy Fuller, Chair (company nominated)
Bob Newcomb (company nominated)
Andy Russell (company nominated)

Carol Woodley FIA (independent trustee),
representing Woodley Pension Trustees Limited

David Myers (member nominated)
(resigned October 2016)
Len Pendle (member nominated)
(from April 2017)
David Webster (member nominated)
(re-appointed from July 2017)

Member Nominated Directors (MNDs)

In January, we asked for nominations from members who would like to help run the fund. We received several nominations and a selection process was completed. The trustees would like to announce that Len Pendle will be joining the Trustee Board. David Webster, currently an MND, will be re-appointed when his term of office expires in June 2017.



Fund advisers

Fund secretary

Rachael Fortescue

Principal company

Smith & Nephew UK Limited

Fund actuary

Clive Wellsted FIA, Lane Clark & Peacock LLP

Investment adviser

Lane Clark & Peacock LLP

Investment managers

BNY Mellon Asset Management (Newton)
BMO Global Asset Management
GMO LLC
Henderson Global Investors
M&G Investment Management Limited

Bulk annuity provider

Rothesay Life Limited

Auditor

Ernst & Young LLP

Solicitor

Mayer Brown International LLP

Banker

Bank of Scotland

Pension administrator

Aon Hewitt Limited
Mercer (from June 2017)