



**SMITH & NEPHEW UK PENSION FUND
ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2023**
Scheme Registration Number: 101466584

Smith & Nephew UK Pension Fund

Annual Report for the year ended 30 September 2023

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Smith & Nephew UK Pension Fund

Annual Report for the year ended 30 September 2023

Trustee, Principal Employer, Participating Employers and Advisers

Trustee

Smith & Nephew UK Pension Fund Trustee Limited

Employer-nominated Trustee Directors

Nigel Moore, Ross Trustees Services Limited - Independent Trustee

Robert Newcomb - Chair person

Lucy Fuller

Tim Allison

Member-nominated Trustee Directors

Len Pendle

David Webster

Secretary to the Trustee

ZEDRA Inside Pensions Limited

Principal Employer

Smith & Nephew UK Limited

Participating Employers

Smith & Nephew UK Limited

T. J. Smith and Nephew, Limited

Fund Actuary

Clive Wellsteed, F.I.A.

Lane Clark & Peacock LLP

Independent Auditor

RSM UK Audit LLP

Administrator

Aptia UK Limited (from 1 January 2024)

Mercer Limited (until 31 December 2023)

Investment Managers

Insight Investment Fund Management (Insight) (until 6 April 2023)

Columbia Threadneedle Investments (CTI)

M & G Investment Management Limited (M&G) (until 3 January 2023)

Newton Asset Management (Newton) (until 10 July 2023)

Legal & General Investment Management (LGIM) (until 11 July 2023)

Smith & Nephew UK Pension Fund

Annual Report for the year ended 30 September 2023

Trustee, Principal Employer, Participating Employers and Advisers

Investment Custodians

BNY Mellon Asset Servicing BV (for Newton) (until 10 July 2023)
Northern Trust (for Insight) (until 6 April 2023)
State Street Bank Luxembourg S.A. (for CTI)
State Street Custodial Services (Ireland) Limited (for M&G) (until 3 January 2023)

Investment Adviser

Lane Clark & Peacock LLP

Annuity Provider

Rothesay Life Limited (Rothesay Life)

Additional Voluntary Contribution (AVC) Providers

Clerical Medical
Utmost Life and Pensions Limited
Prudential Assurance Company Limited
Scottish Widows Limited

Bank

HSBC Bank PLC

Legal Advisers

Travers Smith

Covenant Adviser

Penfida Limited

Contact for further information and complaints about the Fund

Secretary to the Trustee
ZEDRA Inside Pensions Ltd
Third Floor, Trident House
42-48 Victoria Street
St Albans
Hertfordshire
AL1 3HZ
Email: sta.smithandnephew@zedra.com

Introduction

The Trustee of the Smith and Nephew UK Pension Fund (the Fund) is pleased to present its report together with the audited financial statements for the year ended 30 September 2023. The Fund is a defined benefit scheme.

The Fund closed to new entrants with effect from 31 December 2002. The Fund closed to future accrual with effect from 31 December 2016.

Constitution

The Fund was established on 1 October 1961 and is governed by a consolidated and updated Trust Deed and Rules dated 24 May 2019.

Management of the Fund

Trustee

The Trustee Directors who served during the year are listed on page 1.

In accordance with the Occupational Pension Schemes (Member-nominated Trustees and Directors) Regulations 2006, members have the option to nominate Member-nominated Trustee Directors.

The two Member-nominated Trustee Directors, as shown on page 1, are nominated by the members under the rules notified to the members of the Fund to serve for a period of four years. Len Pendle was re-appointed on 1 April 2021, and David Webster was re-appointed on 1 July 2021. They may be removed before the end of their four-year term only by agreement of all the remaining Trustee Directors, although their appointment ceases if they cease to be members of the Fund.

In accordance with the Trust Deed, the principal employer, Smith & Nephew UK Limited, has the power to appoint and remove the Trustee of the Fund. The Directors of Smith & Nephew UK Pension Fund Trustee Limited are appointed and removed in accordance with the Company's Articles of Association.

A copy of the Trust Deed and Rules is available to members on request to the Fund's Pensions Administrator or to the Fund Secretary. The Rules of the Fund set out, in a comprehensive way, the governing provisions of the Fund.

The Trustee Board has met 7 times during the year either in person or via video conference. There are also three sub committees in place which met throughout the year: the Investment Committee, (responsible for managing the Fund's investment strategy), the Administration and Communication Committee (responsible for ensuring that the general administration of the Fund is functioning and operating effectively with the aim of maintaining a consistently high quality of service for members, as well as overseeing communications with members and the member website), the Joint Buy In Committee (responsible for the strategic management of the Fund's journey towards full buy in). All sub committees report to the Trustee Board.

The Smith & Nephew UK Pension Fund provides retirement and death benefits for eligible UK employees of the Smith & Nephew companies which participate in the Fund. Benefits paid from the Fund are, in the main, based on members' final pensionable earnings when they retire or leave the Fund and their years of pensionable service under the Fund. Members are not contracted out of the additional component of the State Earnings Related Pension Scheme or State Second Pension via the Fund. The Fund is a Registered Pension Scheme under the provisions of Schedule 36 of the Finance Act 2004, with HM Revenue and Customs' reference number 00298086RZ. Accordingly under the provisions of sections 186 and 187 of the Finance Act 2004 its income and investment gains are largely free of taxation. The Fund is registered with The Pensions Scheme Registry: reference number 101466584 and with the Data Protection Registry: registration number 26562971.

Statement of Trustee's Responsibilities

The Statement of Trustee's Responsibilities is set out on page 12 and forms part of this Trustee's Report.

Trustee's Report

Governance and risk management

The Trustee has in place a business plan which sets out its objectives in areas such as administration, investment and communication. This, together with a list of the main priorities and timetable for completion, helps the Trustee run the Fund efficiently and serves as a useful reference document.

The Trustee has put in place a 'Risk Dashboard' which is monitored on an ongoing basis by the Secretary to the Fund and formally on a quarterly basis by the Trustee. The Risk Dashboard contains a summary of the key risks facing the Fund and is designed to allow the Trustee to react quickly to mitigate any deterioration in respect of those key risks. The Risk Dashboard is supported by a detailed operational Risk Register, which identifies each risk in more detail and the procedures in place to mitigate such risks. The Trustee believes that, as well as representing robust risk management, the documents ensure that it remains compliant with the Pension Regulator's guidance regarding Integrated Risk Management (IRM).

Trustee knowledge and understanding

The Pensions Act 2004 requires trustees to have sufficient knowledge and understanding of pensions and trust law and be conversant with scheme documentation. The Pensions Regulator has published a Code of Practice on Trustee Knowledge and Understanding to assist trustees on this matter which became effective from 6 April 2006 and which was revised and reissued in November 2009. The Trustee has agreed a training plan to enable it to meet these requirements.

Scheme Administrator

Subsequent to the year end, the Mercer Limited UK pension administration business was acquired by Aptia UK Limited. As a result, Aptia UK Limited is now the pension administration service provider for the Scheme, effective from 1 January 2024.

Principal and participating employers

The principal employer's registered address is Smith & Nephew UK Limited (the company), Building 5, Croxley Green Business Park, Hatters Lane, Watford WD18 8YE. The participating employers are set out on page 1.

Guarantee

As part of the agreement between the previous Trustee and Smith & Nephew plc for Smith & Nephew UK Limited to participate and be the Fund's principal employer, Smith & Nephew plc has guaranteed that it will continue to meet the liabilities of all the participating employers to the Fund in the event that they are unable to do so. A guarantee was signed covering the relationship between the Trustee company and Smith & Nephew UK Limited on 30 June 2010.

Financial development

The financial statements on pages 16 to 26 have been prepared and audited in accordance with the Regulations made under Section 41 (1) and (6) of the Pensions Act 1995. They show that the value of the fund decreased from £491,921,000 at 30 September 2022 to £427,634,000 at 30 September 2023.

Going Concern

The Fund is considered to be in a strong position, given the full buy-in of liabilities. No contributions are due to the Fund. The Trustee has regular communication with the sponsoring employer and the covenant has also been assessed as strong by an independent covenant adviser. The Trustee has a robust incident plan for any unexpected largescale events and will respond to emerging issues as necessary. On this basis, the Trustee considers that it is appropriate to prepare the financial statements on a going concern basis.

Report on actuarial liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the principal and participating employers and set out in the Statement of Funding Principles, which is available to Fund members on request.

The most recent full actuarial valuation of the Fund was carried out as at 30 September 2020. An updated valuation was performed on 30 September 2022. These showed:

	30 September 2020	30 September 2022
The value of Technical Provisions was:	£751 million	£478 million
The value of assets was:	£725 million	£493 million

The method and significant actuarial assumptions used to determine the technical provisions are as listed below (all assumptions adopted are set out in the Statement of Funding Principles).

1. Method

The actuarial method used in the calculation of the technical provisions is as follows:

- for non-insured liabilities the projected unit method; and
- for insured liabilities, set equal to the audited insured asset value for the insurance policy which fully covers those liabilities.

2. Significant actuarial assumptions

The following assumptions were used to calculate the technical provisions for non-insured liabilities at 30 September 2020.

Discount interest rate: set to reflect the following assumed investment strategy:

- an allocation between matching assets and return seeking assets at the valuation date equal to the Fund's actual allocation (excluding buy-in-policies) at that date;
- linear increases in the allocation to matching assets so that is a 90% allocation to matching assets in 2032;
- the return on matching assets is assumed to be in line with the return on index-linked and fixed-interest gilts (henceforth referred to as 'gilts');
- the return on gilts over each future year is taken as the nominal gilt yield for that year using the full yield curve as at the valuation date;
- advance credit will be taken for the additional return from return seeking assets (an "anticipated risk premium") of 2% p.a. (net of investment management expenses); and
- all remaining benefits are assumed to be bought out with an insurance company in 2032 on buy-out terms in line with the assumptions set out below and with a discount rate which reflects gilt yields at the valuation date;
 - less 0.05% p.a. for members expected to be non-pensioners in 2032; and
 - plus 0.35% p.a. for members expected to be pensioners in 2032.

Future Retail Price Inflation: as implied by the yields on fixed interest and index-linked gilts using full yield curves as at the valuation date.

Future Consumer Price Inflation: set at the rate of future Retail Price Inflation less 0.5% p.a.

Pension increases: derived from the assumption for, and expected volatility of, future Retail Price Inflation allowing for the caps and floors on pension increases according to the provisions in the Fund's rules.

Report on actuarial liabilities - continued

Mortality:

- for males, 95% (non-pensioners at 30 September 2015) / 105% (pensioners at 30 September 2015 whose benefits have not been insured) of the standard table S2NMA allowing for future improvements from 2013 in line with the CMI 2019 core projections with a smoothing factor of 7, a 1.5% pa long term annual improvement rate and an initial improvement parameter of 0.5% pa; and
- for females, 95% (non-pensioners at 30 September 2015) / 105% (pensioners at 30 September 2015 whose benefits have not been insured) of the standard table S2NFA allowing for future improvements from 2013 in line with the CMI 2019 core projections with a smoothing factor of 7, a 1.5% pa long term annual improvement rate and an initial improvement parameter of 0.5% pa.

Contributions

Summary Funding Statement

In accordance with Section 224 of the Pensions Act 2004, it is a requirement that all members receive a formal annual update from the Trustee explaining the Fund's latest financial position. This is done via the issue of a Summary Funding Statement, and the position at 30 September 2022 was included within the 'short report' provided to members in June 2023.

The purpose of the Summary Funding Statement is to (a) provide members with key aspects of the funding policy put in place by the Trustee and the Company to meet the cost of benefits and (b) to confirm the Fund's current funding level as at 30 September 2022, based upon the actuarial assumptions and methods set out in the Actuarial Valuation as at September 2020, and in intravaluation years provide an estimated update of the funding position.

Fund financial statements and Summary of Contributions

The financial statements of the Fund for the year ended 30 September 2023 are set out on pages 16 to 17 and the Auditor's Statement about Contributions and Trustee's Summary of Contributions are set out on pages 27 to 28.

Employers' Contributions to the Fund

Following the full buy in of liabilities in June 2023 (bulk annuity), a Schedule of Contributions was certified by the Actuary on 25 July 2023 which states that the previous mechanism used to calculate any payable employer deficit contributions, the Dynamic Adjustment of Contributions, will cease to apply after 30 June 2023. Rothesay, the bulk annuity provider, is liable for all payments due to members.

Members' contributions

Member contributions ceased at 31 December 2016 in accordance with the decision to cease future accrual in the Fund. At this time all active members become deferred members.

Additional voluntary contributions

The Trustee holds assets separately from the Fund's other assets in the form of investments in unitised investment funds and insurance policies. These generally secure additional benefits on a money purchase basis for members who elect to pay additional voluntary contributions (AVCs).

Trustee's Report

Disputes Procedures

A procedure is in place for the resolution of disputes involving the Fund. Should any person having an interest in the Fund (and this includes members, past members, pensioners and their dependants, beneficiaries and prospective members) have a complaint regarding any aspect of the Fund, the member should first contact the Fund Administrator at the address shown on page 2. If, however, the situation is not resolved, the member may make a formal complaint under the internal disputes resolution procedure. In that event, a complaints form should be obtained from the Pensions Administrator from the address shown on page 2. Once completed, the form should be returned to The Secretary to the Trustee at the address shown on page 2 for consideration.

Under the dispute procedures, complainants are informed that at any stage, complaint cases can be referred to MoneyHelper (an independent guidance service provided by the Government, which incorporates the organisation previously known as 'The Pension Advisory Service', or 'TPAS'). If MoneyHelper is unsuccessful in resolving the dispute, the case can be referred to the Pensions Ombudsman, an independent organisation which has power to investigate and decide upon complaints in connection with occupational pension schemes. The address for the Ombudsman is 10 South Colonnade, Canary Wharf, E14 4PU. In addition, The Pensions Regulator is also able to intervene should the Trustee or Smith & Nephew or the Fund's professional advisers fail in their duties. The address of The Pensions Regulator is Telecom House, 125-135 Preston Road, Brighton, BN1 6AF.

Membership

The membership movements of the Fund for the year are given below:

	Deferreds	Pensioners	Total
At 1 October 2022	2,279	2,637	4,916
Adjustments	2	-	2
Retirements	(87)	87	-
Deaths	(15)	(150)	(165)
Transfers out	(7)	-	(7)
Spouses and dependants	-	40	40
Pensions commuted for cash	-	(38)	(38)
At 30 September 2023	<u>2,172</u>	<u>2,576</u>	<u>4,748</u>

Pensioners include 412 spouses and dependants (2022: 436) receiving a pension.

Pensioners include dependants receiving a pension upon the death of a member or as a result of a 'pension sharing' order.

All members' benefits are insured by the Bulk Purchase Annuity provider, Rothesay Life.

Pension increases

Pensions in payment are guaranteed to increase from each 1 October in line with the annual increase in the Retail Price Index (RPI) published in the preceding August, to a maximum of 5%.

The pension increase for pensioners and dependants in payment at 1 October 2023 was 5%. On 1 October 2022, pensions were increased by 3.8%.

Deferred pension earned for service completed on or after 6 April 2009 increases annually (between the member's date of leaving service and date of retirement) in line with statutory increases, subject to a maximum revaluation of 2.5% p.a. compound. Deferred pensions attributable to pensionable service up to and including 5 April 2009 increase in deferment in line with statutory increases subject to a maximum revaluation of 5% p.a. compound.

Calculation of transfer values

Transfer values paid during the year were calculated and verified in the manner required by the Regulations made under Section 97 of the Pension Schemes Act 1993 and do not include discretionary benefits. None of the transfer values paid was less than the amount provided by the Regulations. The Trustee will review ongoing transfer value factors periodically as part of the Trustee's ongoing fiduciary duties.

Investment management

Introduction

The overall management of the Trustee's investments is the responsibility of the Trustee. However, the day-to-day management of the Fund's asset portfolio is the responsibility of the investment managers and bulk annuity provider, who operate within the guidelines of their specific mandates.

Over the year under review, the investments of the Smith & Nephew UK Pension Fund (the Fund) were managed by Newton Investment Management Limited (Newton), Legal & General Investment Management Limited (LGIM), Insight Investment Management Limited (Insight), M&G Investment Management Limited (M&G) and Columbia Threadneedle Investments (CTI).

In addition, the Trustee also held two bulk annuity policies with Rothesay Life to insure benefit payments linked to a portion of the Fund's pensioner members. During the year the Trustee entered into another two bulk annuity policies with Rothesay Life which covered all of the Fund's remaining members not already covered by existing bulk annuity policies. The Trustee will write to all members of the Fund in order to verify the data held.

Statement of Investment Principles

In accordance with section 35 of the Pensions Act 1995, a Statement of Investment Principles ("SIP") has been produced by the Trustee following consultation with the Employer. The main purpose of the SIP is to set out details of the investment strategy that is to be followed, the Trustee's investment objectives and its attitude to risk.

The SIP was reviewed and updated in June 2023 to reflect the purchase of the bulk annuity policy covering the Fund's remaining members.

The Trustee reviews the SIP at least once every three years, and after any significant change in investment strategy. The Employer, the appointed Investment Consultant, and the appointed Scheme Actuary are consulted during the review. A copy of the latest SIP is available online at the following address:

<https://smithandnephewpensions.co.uk/storage/app/uploads/public/649/aa9/eb5/649aa9eb5d160058743043.pdf>.

A copy of the latest SIP is also included on pages 31 to 36 as Appendix 1.

Custody of assets

Over the year the underlying assets were held by a number of custodians who have agreements with the investment manager of the assets. There is no direct relationship between the investment managers' custodians and the Trustee.

Departures from the SIP

Over the Fund year the Trustee made several changes to the asset allocation in preparation for the purchase of the bulk annuity policy with Rothesay Life. This included selling most of the Fund's assets in order to top up and restructuring the bespoke pooled LDI portfolio, before transferring the majority of the Fund's assets to Rothesay Life in June 2023 in order to pay the insurance premium. The residual assets were then invested in pooled gilt and cash funds with CTI.

Investment strategy

The broad investment objectives are agreed by the Trustee, having consulted with the Employer. Within the context of these risk and return objectives, the Trustee, taking advice from the Fund's investment consultants, decides on the overall allocation of assets between the various asset classes, and selects the appropriate managers within each asset class.

The Trustee's primary objective is to ensure, as far as possible, that sufficient assets are available to pay out members' benefits as and when they arise taking account of contributions received. To achieve this, the Trustee has entered into bulk annuity contracts with Rothesay Life. These policies are designed to match the pensions payable to the Fund's members.

Having purchased bulk annuity policies to cover the Fund's known defined benefit liabilities, the Trustee's secondary objective is to maintain the residual assets in order to preserve the surplus value and help meet ongoing expenses not covered by the Fund's bulk annuity policies.

Investment strategy - continued

The following table details the asset distribution at the financial year end by fund, including the bulk annuity policies.

Fund	Asset Class	Allocation as at 30 September 2023 £000	Allocation as at 30 September 2022 £000
Newton Real Return Fund	DGF	-	42,488
GMO Global Real Return (UCITS) Fund	DGF	-	-
LGIM Low Carbon Transition Developed Markets Equity Index Fund (GBP Currency Hedged)	Equities	-	28,162
M&G Alpha Opportunities Fund	Absolute Return Bonds	-	35,426
Insight High Grade ABS Fund	Securitised Credit	-	64,135
CTI Global Low Duration Credit	Buy and Maintain Credit	-	64,270
CTI LDI Private Sub-Fund S GBP	LDI	-	109,782
CTI Regular Profile Unleveraged Nominal Gilt	Bonds	2,136	-
CTI Regular Profile Unleveraged Real Gilt	Bonds	5,574	-
CTI Sterling Liquidity Fund	Cash	37,350	-
Cash / NCA		2,169	1,737
Annuities / Buy-ins		380,700	145,600
Total		427,929	491,600

Investment performance

The performance of the investment managers is reviewed periodically at the Trustee's meetings. The following table shows the performance of the Fund over the one, three and five year periods to 30 September 2023, based on the performance of the investment managers after the deduction of fees.

	One year (%)	Three years (% pa)	Five years (% pa)
Scheme	-8.6%	-13.7%	-5.4%
Benchmark	-11.8%	-13.5%	-5.3%

Source: LCP calculations.

Trustee's policies in relation to voting rights

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, as the Trustee expects this to be in the long-term financial interests of the beneficiaries. The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

The Trustee monitors managers' activities in relation to ESG factors, voting and engagement on a regular basis, with a formal annual review. The Trustee seeks to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with their expectations.

The Trustee has selected some priority ESG themes to provide a focus for their monitoring of investment managers' voting and engagement activities, being business ethics, climate change and human rights. The Trustee reviews the themes regularly and updates them if appropriate. The Trustee communicates these stewardship priorities to the Fund's investment managers and also confirms their more general expectations in relation to ESG factors, voting and engagement.

If the Trustee's monitoring identifies areas of concern, the Trustee will engage with the relevant manager to encourage improvements.

Trustee's policies on environmental, social and governance ('ESG') and ethical factors

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Fund and its members.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee also considers credible investment options that give increased weight to ESG considerations when appointing new managers and will periodically consider whether new options have become available for existing allocations.

The Trustee has limited influence over managers' investment practices as assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate and the Trustee may seek to disinvest if it views that ESG considerations are not given sufficient priority.

The Trustee does not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

Trustee's policy on the implementation of asset manager arrangements

The Trustee has limited influence over managers' investment practices because all the Fund's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well as the role it plays in helping the Fund meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its Investment Consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Fund's investment mandates.

The surplus assets of the Fund (i.e. other than the Buy-in Policies) are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

Implementation Statement

The Trustee is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed its SIP during the year, as well as details of any review of the SIP during the year, subsequent changes made with the reasons for changes, and the date of the last SIP review. The Statement can be found on pages 37 to 41 as Appendix 2.

Smith & Nephew UK Pension Fund

Annual Report for the year ended 30 September 2023

Trustee's Report

Custodial arrangements

During the year, the Fund's assets were invested in a range of pooled funds, whereby the Fund owns units in these funds. The safekeeping of the Fund's underlying assets is performed by custodians appointed by the Fund's investment managers specifically to undertake this function.

The Trustee is responsible for ensuring the Fund's assets continue to be securely held. It reviews the custodial arrangements from time to time.

Cash is held in the name of the Trustee with HSBC Bank plc.

Further information

Further information about the Fund is given in the explanatory booklet which is issued to all members.

Approval

The Trustee's Report on pages 3 to 11 was approved on behalf of Smith & Nephew UK Pension Fund Trustee Limited and signed on its behalf by:

..... Trustee Director

..... Trustee Director

Date: 25 March 2024

Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of the Fund year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Fund will not be wound up.

The Trustee is also responsible for making available certain other information about the Fund in the form of an Annual Report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Fund by or on behalf of the employers and the active members of the Fund and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Fund and for adopting risk-based processes to monitor whether contributions are made to the Fund by the employers in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Independent Auditor's Report to the Trustee of the Smith & Nephew UK Pension Fund

Opinion

We have audited the financial statements of the Smith & Nephew UK Pension Fund for the year ended 30 September 2023 which comprise the Fund Account, the Statement of Net Assets available for benefits and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Fund during the year ended 30 September 2023, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Fund's Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Fund's Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Fund's Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Trustee

As explained more fully in the Trustee's responsibilities statement set out on page 12, the Trustee is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the environment, including the legal and regulatory framework that the Fund operates in and how the Fund is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are the Pensions Act 1995 and 2004 and regulations made under them and FRS 102, including the Financial Reports of Pension Schemes 2018 (the Pensions SORP). We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures.

The audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments, evaluating the business rationale in relation to any significant, unusual transactions and transactions entered into outside the normal course of business and challenging judgments and estimates.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Smith & Nephew UK Pension Fund

Annual Report for the year ended 30 September 2023

Independent Auditor's Report to the Trustee

Use of our report

This report is made solely to the Fund's Trustee as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP
Statutory Auditor
Chartered Accountants
Portland
25 High Street
Crawley
West Sussex
RH10 1BG

Date.....

Smith & Nephew UK Pension Fund

Annual Report for the year ended 30 September 2023

Financial Statements

Fund Account

	Note	2023 Total £000	2022 Total £000
Transfers in	4	2	-
Other income	5	187	13
		<u>189</u>	<u>13</u>
Benefits paid or payable	6	(17,070)	(16,415)
Payments to and on account of leavers	7	(1,525)	(10,444)
Administrative expenses	8	(1,917)	(1,341)
		<u>(20,512)</u>	<u>(28,200)</u>
Net withdrawals from dealings with members		<u>(20,323)</u>	<u>(28,187)</u>
Returns on investments			
Investment income	9	11,344	11,159
Change in market value of investments	10	(55,113)	(201,640)
Investment management expenses	11	(195)	(272)
Net returns on investments		<u>(43,964)</u>	<u>(190,753)</u>
Net decrease in the fund during the year		(64,287)	(218,940)
Net assets at 1 October		491,921	710,861
Net assets at 30 September		<u>427,634</u>	<u>491,921</u>

The notes on pages 18 to 26 form part of these financial statements.

Smith & Nephew UK Pension Fund

Annual Report for the year ended 30 September 2023

Financial Statements

Statement of Net Assets available for benefits

	Note	2023 Total £000	2022 Total £000
Investment assets			
Pooled investment vehicles	13	45,059	344,264
Insurance policies	14	380,700	145,600
AVC investments	15	726	779
Total investments	10	426,485	490,643
Current assets	20	3,162	2,734
Current liabilities	21	(2,013)	(1,456)
Net assets at 30 September		427,634	491,921

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which takes into account such obligations, is dealt with in the report on actuarial liabilities on pages 5 to 6 of the annual report and these financial statements should be read in conjunction with this report.

The notes on pages 18 to 26 form part of these financial statements.

The financial statements on pages 16 to 26 were approved on behalf of Smith & Nephew UK Pension Fund Trustee Limited and signed on its behalf by:

..... Trustee Director

..... Trustee Director

Date: 25 March 2024

1. Identification of the financial statements

The Fund is established as a trust under English law.

The Fund was established to provide retirement benefits to certain groups of employees within the Smith & Nephew group. The address of the Fund's principal office is Building 5, Croxley Green Business Park, Hatters Lane, Watford, WD18 8YE.

The Fund is a defined benefit scheme.

2. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) - The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the guidance set out in the Statement of Recommended Practice 'Financial Reports of Pension Schemes' (the SORP) (Revised June 2018).

The financial statements have been prepared on the going concern basis as noted in the Trustee's report on page 4. At the date of signing these financial statements the Trustee believes that the Fund is able to comfortably cover its related outgoings until at least 30 April 2025. Together with the relatively strong position of the principal employer, the Trustee considers the preparation of the financial statements on a going concern basis to be appropriate.

3. Accounting policies

The principal accounting policies are set out below. Unless otherwise stated, they have been applied consistently year on year.

3.1 Accruals concept

The financial statements have been prepared on an accruals basis.

3.2 Currency

The Fund's functional currency and presentational currency is Pounds Sterling (GBP).

The financial statements are rounded to the nearest £1,000.

3.3 Transfers

Individual transfers in or out of the Fund are accounted for when member liability is accepted or discharged which is normally when the transfer amount is received or paid.

3.4 Other income

Income is accounted for in the period in which it falls due on an accruals basis.

3.5 Payments to members

Pensions in payment are accounted for in the period to which they relate.

Other benefits, and any associated tax liabilities, are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for on the later of the date of leaving, retirement or death and the date on which any option or notification is communicated to the Trustee. If there is no choice, they are accounted for on the date of retirement or leaving.

The Fund has purchased annuity policies to cover certain pensions in payment. The cost of acquiring these policies is included in the fund account in the year of purchase and represents the cost of discharging the obligations of the Fund to the relevant members at the time of purchase.

3.6 Administrative and other expenses

Administrative expenses are accounted for in the period in which they fall due on an accruals basis.

Investment management expenses and rebates are accounted for in the period in which they fall due on an accruals basis.

3.7 Investment income

Income from pooled investment vehicles is accounted for when declared by the investment manager.

Receipts from annuity policies are accounted for as investment income on an accruals basis.

3.8 Change in market value of investments

The changes in investment market values are accounted for in the year in which they arise and include profits and losses on investments sold as well as unrealised gains and losses in the value of investments held at the year end.

3.9 Valuation of investments

Investments are included at fair value as follows:

Pooled investment vehicles which are not traded on active markets, but where the investment manager has provided a daily/weekly trading price, are valued using the last single price, provided by the investment manager at or before the year end.

Annuities are stated on a premium valuation basis as advised to the Trustee by the Fund Actuary.

The AVC investments comprise policies of assurance. The market value of these policies has been taken as the surrender values of the policies at the year end, as advised by the AVC providers. Where year end valuations have not been provided, the market value of these policies are based on the market value in the prior year, adjusted for known cash movements.

3.10 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Trustee makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. For the Fund, the Trustee believes the only estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are related to the valuation of the Fund investments and, in particular, those classified in Level 3 of the fair-value hierarchy. Explanation of the key assumptions underpinning the valuation of investments are included within 3.9 above and within notes 14 and 16.

4. Transfers in

	2023	2022
	Total	Total
	£000	£000
Individual transfers in from other schemes	<u>2</u>	<u>-</u>

5. Other income

	2023	2022
	Total	Total
	£000	£000
Interest on cash deposits held by the Trustee	178	11
Miscellaneous income	9	2
	<u>187</u>	<u>13</u>

6. Benefits paid or payable

	2023	2022
	Total	Total
	£000	£000
Pensions	14,526	14,274
Commutation of pensions and lump sum retirement benefits	2,459	2,025
Lump sum death benefits	83	116
Other benefits	2	-
	<u>17,070</u>	<u>16,415</u>

7. Payments to and on account of leavers

	2023	2022
	Total	Total
	£000	£000
Individual transfers out to other schemes	<u>1,525</u>	<u>10,444</u>

8. Administrative expenses

	2023	2022
	Total	Total
	£000	£000
Benefits administration / actuarial / consultancy	1,317	811
Legal and other professional fees	529	467
Audit fees	21	25
Fund levies	49	37
Bank charges paid	1	1
	<u>1,917</u>	<u>1,341</u>

The Fund is recharged with certain costs of administration and independent advisers borne by the principal employer.

9. Investment income

	2023	2022
	Total	Total
	£000	£000
Income from pooled investment vehicles	603	798
Income from buy-in annuity policies	10,741	10,361
	<u>11,344</u>	<u>11,159</u>

10. Reconciliation of investments

	Market value at 1 October 2022 £000	Cost of investments purchased £000	Proceeds of sales of investments £000	Change in market value £000	Market value at 30 September 2023 £000
Pooled investment vehicles	344,264	271,837	(547,431)	(23,611)	45,059
Insurance policies	145,600	266,914	(253)	(31,561)	380,700
AVC investments	779	-	(112)	59	726
	<u>490,643</u>	<u>538,751</u>	<u>(547,796)</u>	<u>(55,113)</u>	<u>426,485</u>

Smith & Nephew UK Pension Fund

Annual Report for the year ended 30 September 2023

Notes to the Financial Statements

10.1 Transaction costs

Indirect transaction costs are incurred through the bid-offer spread on investments within the pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

11. Investment management expenses

	2023 Total £000	2022 Total £000
Administration, management and custody fees	195	279
Fee rebates	-	(7)
	<u>195</u>	<u>272</u>

12. Taxation

The Fund is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

13. Pooled investment vehicles

	2023 Total £000	2022 Total £000
Equities	-	28,162
Bonds	-	64,270
Liability driven investment	7,709	109,783
Diversified growth	-	42,488
Absolute return	-	35,426
Asset backed securities	-	64,135
Cash	37,350	-
	<u>45,059</u>	<u>344,264</u>

Until July 2023, the Fund was the sole investor in the CTI LDI Private Sub Fund. This portfolio included the liability driven investment portfolio which aimed to hedge about 100% of the interest rate and inflation sensitivity of the non-insured liabilities, as measured on a Technical Provisions basis, after allowing for the interest rate exposure from the CTI Global Low Duration Credit Fund. The investments held within that fund are as follows:

	2023 £000	2022 £000
- Bonds	-	163,958
- Cash	-	43,531
- Derivatives - swaps	-	(29,318)
- Repurchase agreements	-	(94,484)
- Pooled investment vehicle	-	9,770
- Other	-	16,326
	<u>-</u>	<u>109,783</u>

The M&G pooled investments were held in the name of the Fund. Income generated by these units was distributed as shown in note 9.

The Newton, CTI, GMO, LGIM and Insight pooled investments were held in the name of the Fund. Income generated by these units is not distributed, but retained within the pooled investments and reflected in the market value of the units.

14. Insurance policies

The total amount of insurance policies at the year end is shown below:

	2023	2022
	Total	Total
	£000	£000
Buy-in annuity policies	380,700	145,600

Assumptions used for assessing pensioner buy-in annuity policy asset value

The table below sets out details of the assumptions used to value the buy-in policies as at 30 September 2023.

Financial assumptions	First Policy	Second Policy	Third Policy	Fourth Policy
Gilt yield	4.72% p.a.	4.77% p.a.	4.82% p.a.	4.82% p.a.
RPI inflation	3.70% p.a.	3.65% p.a.	3.59% p.a.	3.53% p.a.
CPI inflation	n/a	n/a	2.79% p.a.	3.00% p.a.
Discount rate	5.07% p.a.	4.95% p.a.	4.92% p.a.	5.07% p.a.
	(gilts + 0.35%)	(gilts + 0.18%)	(gilts + 0.10%)	(gilts + 0.25%)
Pension increases	3.44% p.a.	3.41% p.a.	3.36% p.a.	3.32% p.a.
	(RPI with a 5% p.a. cap)	(RPI with a 5% p.a. cap)	(RPI with a 5% p.a. cap)	(RPI with a 5% p.a. cap)

15. AVC investments

The Trustee holds assets which are separately invested from the main fund in the form of individual bank and building society accounts and policies of assurance. These secure additional benefits, on a money purchase basis, for those members who have elected to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement made up to 30 September each year, confirming the amounts held to their account and the movements during the year.

The total amount of AVC investments at the year end is shown below:

	2023	2022
	Total	Total
	£000	£000
Clerical Medical	510	552
Utmost Life & Pensions	169	168
Prudential Assurance Company Limited	43	55
Scottish Widows Limited	4	4
	726	779

16. Fair value hierarchy

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities which the reporting entity can access at the assessment dates.
Level 2	Inputs other than quoted prices included within Level 1 which are observable for the asset or liability, either directly or indirectly. Observable inputs are inputs which reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.
Level 3	Unobservable inputs for the asset or liability. Unobservable inputs are inputs which reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Fund's investment assets fall within the above hierarchy as follows:

	2023 Level 1 £000	2023 Level 2 £000	2023 Level 3 £000	2023 Total £000
Pooled investment vehicles	-	45,059	-	45,059
Insurance policies	-	-	380,700	380,700
AVC investments	-	424	302	726
	<u>-</u>	<u>45,483</u>	<u>381,002</u>	<u>426,485</u>

Analysis for the prior year end is as follows:

	2022 Level 1 £000	2022 Level 2 £000	2022 Level 3 £000	2022 Total £000
Pooled investment vehicles	-	344,264	-	344,264
Insurance policies	-	-	145,600	145,600
AVC investments	-	452	327	779
	<u>-</u>	<u>344,716</u>	<u>145,927</u>	<u>490,643</u>

17. Investment risks

When deciding how to invest the Fund's assets, the Trustee considers a wide range of risks, including credit risk and market risk, as defined below.

Credit risk: This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: This comprises currency risk, interest rate and inflation rate risk and other price risk, defined as follows:

- **Currency risk:** This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- **Other price risk:** This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk — primarily equity prices), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

17. Investment risks (continued)

Following completion of the bulk annuity policy with Rothesay Life in June 2023, the Trustee has significantly reduced the Fund's exposure to these risks.

Within each investment portfolio, investment objectives and restrictions to manage risk are implemented through the legal agreements in place with the Fund's investment managers. The Trustee monitors the performance of the strategy and associated risks, and each investment manager against its objectives and restrictions, on a regular basis.

The table below summarises the Fund's investments that have significant exposure to indirect credit and market risks.

Fund	Credit risk	Currency risk	Interest rate risk	Other price risk	30 Sept 23 (£m)	30 Sept 22 (£m)
Annuities/Buy-Ins	○	○	●	●	380.7	145.6
Newton Real Return Fund	●	●	●	●	-	42.5
LGIM Low Carbon Transition Developed Markets Equity Index Fund (GBP Currency Hedged)	○	○	○	●	-	28.2
M&G Alpha Opportunities Fund	●	●	●	○	-	35.4
Insight High Grade ABS Fund	●	○	○	●	-	64.1
CTI Global Low Duration Credit	●	○	●	○	-	64.2
CTI LDI Private Sub-Fund S GBP	●	○	●	○	-	109.8
CTI Regular Profile Unleveraged Nominal Gilt	○	○	●	○	2.1	-
CTI Regular Profile Unleveraged Real Gilt	○	○	●	○	5.6	-
CTI Sterling Liquidity Fund	○	○	○	○	37.3	-
Total					425.7	489.8

Key: The risk noted affects the fund significantly, (●) or hardly/not at all (○).

Further information on these risks and the Trustee's approach to risk management is set out below. This does not include the AVC investments, as these are not considered significant in relation to the overall investments of the Fund.

Credit risk

The Fund is subject to credit risk through its investments in pooled investment vehicles. It is directly exposed to credit risk in relation to the solvency of the custodians of those funds. The Fund's bulk annuity policies are also directly exposed to the solvency of the insurer.

As at 30 September 2023 0% (2022: 65%) of the Fund's assets were invested in funds or securities that are significantly exposed to indirect credit risk.

The role of a custodian is to ensure the safe-keeping of the assets and facilitate all transactions entered into by the appointed investment managers. The Trustee is not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. The pooled investment vehicle's governing body is responsible for appointing its own custodian for the safe-keeping, monitoring and reconciliation of documentation relating to these securities.

The Fund's holdings in pooled investment vehicles are 'unrated' from a credit perspective. Direct credit risk arising from pooled investment vehicles is mitigated by: the underlying assets of the pooled arrangements being ring-fenced from the assets of the custodian and the investment manager; the regulatory environments in which the pooled fund managers operate; and diversification of the Fund's investments across a number of pooled funds. The Trustee carries out due diligence checks on investments into new pooled funds and on an ongoing basis monitors any changes to the operating environment of those pooled funds. The Trustee also carries out due diligence checks on new appointments of investment managers and custodians for sole investor arrangements and on an ongoing basis monitors any changes to the operating environment of these entities.

The Fund has no indirect exposure to credit risks arising from the underlying investments held by the pooled funds, as these were entirely invested in gilts and money market funds. The amount invested in each of these mandates is shown in the Statement of Net Assets.

There is direct credit risk associated with the Fund's bulk annuity policies with Rothesay Life, which the Trustee considered before the policies were taken out. This risk is mitigated by the regulatory environment in which the insurer operates and the diversification of the policies' underlying assets.

17. Investment risks (continued)

A summary of the pooled investment vehicles by type of arrangement is set out below.

Fund	End of year £m	Start of year £m
Open ended investment companies	-	42.5
Unit linked-insurance policies	-	28.2
Irish investment companies with variable capital	-	99.5
Luxembourg Fonds Commun de Placement	45.0	174.0
Total	45.0	344.2

Currency risk

As the Fund's liabilities are denominated in Sterling, any non-Sterling currency exposure within the assets presents additional currency risk.

As at 30 September 2023 0% (2022: 16%) of the Fund's assets were invested in funds or securities that are significantly exposed to currency risk.

Interest rate and inflation rate risk

The Fund's investments in the CTI Unleveraged Nominal Gilt Fund, the CTI Unleveraged Real Gilt Fund and the bulk annuity policies have material exposure to changes in interest rates. The amount invested in each of these mandates is shown in the Statement of Net Asset.

As at 30 September 2023 around 91% (2022: 81%) of the Fund's assets were invested in funds or securities that are significantly exposed to interest rate and/or inflation risk.

Other price risk

The Fund's assets are exposed to risks of market prices other than currencies and interest rates, such as the bulk annuity policies being exposed to changes in mortality expectations.

As at 30 September 2023 around 89% (2022: 57%) of the Fund's assets were invested in funds or securities that are significantly exposed to other price risk.

18. Concentration of investments

The following investments each account for more than 5% of the Fund's net assets at the year end:

	2023		2022	
	£000	%	£000	%
Rothsay Life Insurance Policy	380,700	89.0	145,600	29.6
CTI Sterling Liquidity Fund	37,350	8.7	N/A	N/A
CTI LDI Private Sub Fund	N/A	N/A	174,052	35.4
Insight High Grade ABS Fund Class F	N/A	N/A	64,134	13.0
Newton Real Return Fund	N/A	N/A	42,488	8.6
M&G Alpha Opportunities Fund	N/A	N/A	35,426	7.2
CTI Global Low Duration Credit Fund	N/A	N/A	28,162	5.7

19. Employer-related investments

There was no employer-related investment as at 30 September 2023 (30 September 2022: Less than 0.1%).

20. Current assets

	2023	2022
	Total	Total
	£000	£000
Pensions paid in advance	993	997
Cash deposits held with the Fund Administrator	2,169	1,737
	<u>3,162</u>	<u>2,734</u>

The cash deposits held with the scheme administrator represents the balance held with HSBC bank Plc.

21. Current liabilities

	2023	2022
	Total	Total
	£000	£000
Reimbursement of pensions received in advance	1,377	814
Lump sums on retirement payable	50	165
Taxation payable	19	15
Administrative expenses payable	567	314
Investment management expenses payable	-	148
	<u>2,013</u>	<u>1,456</u>

22. Related party transactions**(a) Key management personnel of the Fund**

Legal & Professional fees include £219k (2022: £119k) in respect of services provided by Trustee directors, £54k (2022: £34k) of which relates to services provided by the independent Trustee.

There were three Trustee Directors (2022: three) who were pensioner members of the Fund during the year. Benefits in respect of these members are paid in accordance with the normal Rules of the Fund.

(b) Other related parties

The Fund is recharged with certain costs of administration and independent advisers borne by the principal employer. The total amount recharged in the year ended 30 September 2023 was £1,835k (2022: £3,057k).

Smith & Nephew plc have provided the Trustee with a Guarantee that it will continue to meet the liabilities of the participating employers to the Fund in the event that they are unable to do so. More information can be found in the Guarantee Section on page 4.

Independent Auditor's Statement about Contributions under Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of the Smith & Nephew UK Pension Fund

Statement about contributions payable under schedules of contributions

We have examined the Summary of Contributions payable to the Smith & Nephew Pension Fund on page 28, in respect of the Fund year ended 30 September 2023.

In our opinion the contributions for the Fund year ended 30 September 2023 as reported in the attached Summary of Contributions on page 28 and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the actuary on 18 May 2021 and 25 July 2023.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 28 in the attached Summary of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments under the Schedules of Contributions.

Respective responsibilities of Trustee and auditor

As explained more fully on page 12 in the Statement of Trustee's Responsibilities, the Fund's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedules of Contributions showing the rates and due dates of certain contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Fund and for monitoring whether contributions are made to the Fund by the employer in accordance with the Schedules of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedules of Contributions and to report our opinion to you.

Use of our statement

This statement is made solely to the Fund's Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's Trustee as a body, for our audit work, for this statement, or for the opinions we have formed.

RSM UK Audit LLP
Statutory Auditor
Chartered Accountants
Portland
25 High Street
Crawley
West Sussex
RH10 1BG

Date.....

Smith & Nephew UK Pension Fund

Annual Report for the year ended 30 September 2023

Summary of Contributions

During the year ended 30 September 2023 no contributions were payable to the Fund by the Employer under the Schedules of Contributions.

Approved on behalf of Smith & Nephew UK Pension Fund Trustee Limited and signed on its behalf by:

..... Trustee Director

..... Trustee Director

Date: 25 March 2024



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Actuary's certification of schedule of contributions

This certificate is provided for the purpose of Section 227(5) of the Pensions Act 2004 and Regulation 10(6) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme Smith & Nephew UK Pension Fund

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated 6 May 2021.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 6 May 2021.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Fund's liabilities by the purchase of annuities, if the Fund were to be wound up.

Signature:

A handwritten signature in black ink, appearing to read 'Clive Wellsted', written over a horizontal line.

Date: 25 July 2023

Name:

Clive Wellsted

Qualification: FIA

Address:

Lane Clark & Peacock LLP
95 Wigmore Street
London
W1U 1DQ

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Notes not forming part of the certification

Page 2 of 2

In giving the above opinion I have interpreted the phrase “can be expected to be met” as being satisfied by consideration of the proposed contributions under the economic and demographic scenario implied by the trustee’s funding assumptions as set out in its statement of funding principles dated 6 May 2021 and its Recovery Plan dated 6 May 2021 and without any further allowance for adverse contingencies. My opinion does not necessarily hold in any other scenarios.

Smith & Nephew UK Pension Fund

Statement of Investment Principles

1. Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005). This Statement documents the principles and policies by which the Trustee manages the assets in the Smith & Nephew UK Pension Fund ('the Fund').

The effective date of this Statement is June 2023. The Trustee will review this Statement and the Fund's investment strategy no later than three years after the effective date of this statement and without delay after any significant change in investment policy.

2. Consultations Made

The Trustee has consulted with the Principal Employer, which has acted on behalf of all participating employers, prior to writing this Statement and will take the employer's comments into account when it believes it is appropriate to do so.

The Trustee is responsible for the investment strategy of the Fund. It has obtained written advice on the investment strategy appropriate for the Fund and on the preparation of this Statement. This advice was provided by Lane Clark & Peacock LLP ("LCP"), the Investment Consultant whom the Trustee believes to be suitably qualified and experienced to provide such advice. LCP is regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries in respect of a range of investment business activities.

The majority of the Fund's assets are invested in Buy-In Policies with Rothesay, securing all known defined benefit liabilities. Rothesay is a UK insurance company authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The day to day management of the Fund's surplus assets has been delegated to Columbia Threadneedle Investments which is authorised and regulated by the Financial Conduct Authority.

3. Nature of the Fund

The Fund is governed by its Trust Deed and Rules which specifies the Trustee's investment powers. The investment powers do not conflict with this Statement. The Fund is closed to new members. As of 31 December 2016, the Fund was also closed to accrual.

4. Liabilities

The value of the Fund's ongoing liabilities is sensitive to various demographic and financial factors. The financial factors which are relevant to the Fund's investment policy are:

- the rate of return on assets
- price inflation for pensioners
- long-term interest rates

The value of the Fund's liabilities for the purpose of scheme funding are sensitive to the expected return on assets, price inflation and yields on index-linked and conventional gilts.

The latest actuarial valuation had an effective date of 30 September 2020, with the next valuation due by no later than 30 September 2023 which will be carried out in accordance with prevailing legislation.

5. Objectives

The Trustee's primary objective is to ensure, as far as possible, that sufficient assets are available to pay out members' benefits as and when they arise taking account of contributions received.

Having purchased Buy-in Policies to cover the Fund's known defined benefit liabilities, the Trustee's secondary objective is to maintain the residual assets in order to preserve the surplus value and help meet ongoing expenses not covered by the Plan's Buy-in Policies.

Appendix 1: Statement of Investment Principles

6. Choosing Investments

Before investing in any manner, the Trustee obtains and considers proper written advice from its Investment Consultant on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

The types of investments held and the balance between them are chosen to be appropriate given the liability profile of the Fund, its cashflow requirements, the funding level of the Fund and the Trustee's objectives.

With the exception of the Buy-in Policies (detailed in Section 10), which the Trustee has purchased from Rothesay, the Trustee has delegated its powers of investment to its fund manager, Columbia Threadneedle Investments, in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

The Trustee has limited influence over Rothesay's and Columbia Threadneedle Investments' investment practices, but it encourages them to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well as the role it plays in helping the Fund meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its Investment Consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Fund's investment mandates.

The surplus assets of the Fund (ie other than the Buy-in Policies) are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

Appendix 1: Statement of Investment Principles

7. Investment Risk Measurement and Management

The Trustee regards 'risk' as the likelihood that it fails to achieve the objectives set out above and has taken several measures which are set out in this Statement to minimise this risk so far as is possible.

In particular, in arriving at its investment strategy and the production of this Statement, the Trustee has considered the following risks:

- Actions by the investment managers – These are monitored regularly by the Trustee, with advice from the Investment Consultant.
- The continuing suitability of the appointed managers is reviewed annually or more frequently if this is appropriate. The investment managers' actions are controlled by individual agreements.
- The need to pay benefits in the short-term – Cash flow risk arises when there is a need to realise investments in order to meet the benefit outgo, and so close attention is paid to the liquidity of assets.
- The failure of some of the investments – In order to reduce the risk that the failure of any one investment has an excessive impact on the overall performance of the assets, a range of different securities are held.
- The risk that the buy-in provider, Rothesay, fails to honour its obligations under the Buy-in Policies. This could occur if, for example, Rothesay became insolvent. The Trustee recognises that this risk cannot be eliminated altogether, however, the Financial Services Compensation Scheme is expected to provide significant additional protection under these circumstances.

8. Employer Risk

The Trustee and Smith & Nephew plc have considered the risks associated with the funding of members' benefits. On 23 January 2006, a Guarantee was signed by the then Trustees of the Fund and by Smith & Nephew plc. Under this document Smith & Nephew plc guaranteed the obligations of Smith & Nephew UK Limited (the Principal Employer) and the Fund's other continuing participating employers, to make payments to the Fund. Later, a replacement Guarantee in a format satisfactory to the Pension Protection Fund (and not materially less favourable than the existing Guarantee) was signed by the Trustee and Smith & Nephew plc and forwarded to the Pension Protection Fund prior to 31 March 2006. This Guarantee was updated in March 2010 to reflect the change to a corporate trustee but remains in the same form as the old Guarantee and in accordance with Pension Protection Fund requirements.

The Trustee and the Principal Employer are also aware of the requirement to report 'Notifiable Events' to the Pensions Regulator. These are events that might have the potential to reduce the security of the funding of members' benefits. In the event of such a notification the Trustee would consider the continued appropriateness of the Fund's existing investment strategy.

9. Asset Allocation Strategy

The Trustee regards the choice of asset allocation policy as the decision which has most influence on the likelihood that it will achieve its investment objectives. The Trustee retains responsibility for this decision, which is made on the advice of its Investment Consultant and the Fund Actuary, and in consultation with the Principal Employer.

The Trustees has secured all known defined benefit liabilities of the Fund through Buy-in Policies with Rothesay.

The surplus assets are invested in a combination of the Columbia Threadneedle Investments' pooled gilt and cash funds.

The Columbia Threadneedle Investments gilt fund allocations are intended to broadly hedge against the estimated interest rate and inflation exposures of the residual premiums to be paid to Rothesay.

The Trustee does not have a fixed strategic benchmark in place and expects the allocation to change over time as required to meet the Plan's objectives.

Appendix 1: Statement of Investment Principles

10. The Buy-in Policies

The Trustee purchased bulk annuity contracts with Rothesay in January 2013, May 2017 and June 2023 (together the "Buy-in Policies") to cover all of the Fund's known defined benefit liabilities. Each policy covers a subset of the Fund's liabilities.

The Trustee took investment advice from LCP in relation to the purchase of the Buy-in Policies. The Trustee also commissioned an independent report into Rothesay's finances and investment strategy from Oliver Wyman before purchasing the first policy in 2013, and a second report from FTI Consulting before purchasing the final policy in 2023. The Trustee was comfortable with the conclusions of these reports.

The payments received by the Trustee under each Buy-in Policy have been designed to match as closely as possible a portion of the Fund's liabilities. The return on the Buy-in Policies is therefore the income that they generate to meet the benefit payments covered by the contracts.

11. Expected Returns on Assets

Over the long-term the Trustee's expectations are:

- for the Buy-in Policies, the return is expected to be the income required to meet the benefit payments covered by the contract;
- for the gilt holdings, to achieve a rate of return closely correlated to the residual premiums to be paid to Rothesay; and
- for the cash holding, to achieve a rate of return closely in line with the Sterling Overnight Index Average.

Returns achieved by the fund managers are assessed against performance benchmarks set by the Trustee in consultation with its advisers and fund managers.

12. Rebalancing

From time to time the Trustee will consider, after taking appropriate advice, whether to rebalance the asset allocation back to the strategic asset allocation following movements due to investment returns.

13. Employer-related Investments

The Fund will not invest directly in securities (including shares) issued by Smith & Nephew plc or hold directly any other employer-related investment. However, this does not exclude any pooled vehicle that the Fund invests in from investing in Smith & Nephew plc as part of a well-diversified investment strategy.

The Trustee monitors the holdings of such pooled funds to ensure that the Fund's aggregate exposure to such securities is prudent and in accordance with prevailing legislation.

14. Investment of Additional Voluntary Contributions

The Trustee selects the choice of investment vehicles used by members for additional voluntary contributions (AVCs).

Some members obtain further benefits by paying AVCs to the Fund or in respect of any Company contributions to the 1980 Section. The liabilities in respect of these AVC arrangements are equal to the value of the investments selected by the members. The Trustee reviews regularly the choice of investments available to members to ensure that they remain appropriate to member needs. The investment vehicles are currently provided by Utmost Life and Pensions, Clerical Medical, Prudential and Scottish Widows.

Appendix 1:

Statement of Investment Principles

15. Custody

The investments are held on behalf of the Fund by custodian companies, selected by the investment managers, who are responsible for settlement of transactions executed by the investment managers. The custodians are independent of the Trustee, the Fund and Smith & Nephew.

16. Review and Control

The Trustee will monitor the strategy and its implementation as follows:

16.1 Monitoring investments

The Investment Consultant monitors the investment arrangements on behalf of the Trustee, and reports on performance on a quarterly basis.

16.2 Realisation of Investments/Liquidity

The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise.

The Trustee expects to be able to meet benefit payments as they fall due using income from the Buy-in Policies. The Trustee is comfortable that any additional cash flow requirements could be met from the Fund's remaining assets which are mostly realisable at short notice.

17. Service Provider Monitoring

The Trustee reviews from time to time the services provided by the Investment Consultant and other service providers as necessary to ensure that the services provided remain appropriate for the Fund.

18. Voting and engagement

The Trustee recognises its responsibilities as owners of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, as the Trustee expects this to be in the long-term financial interests of the beneficiaries. The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

The Trustee monitors managers' activities in relation to ESG factors, voting and engagement on a regular basis, with a formal annual review. The Trustee seeks to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with their expectations.

The Trustee has selected some priority ESG themes to provide a focus for their monitoring of investment managers' voting and engagement activities, being business ethics, climate change and human rights. The Trustee reviews the themes regularly and updates them if appropriate. The Trustee communicates these stewardship priorities to the Fund's investment managers and also confirms their more general expectations in relation to ESG factors, voting and engagement.

If the Trustee's monitoring identifies areas of concern, the Trustee will engage with the relevant manager to encourage improvements.

Appendix 1: Statement of Investment Principles

19. Financially material considerations and non-financial matters

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Fund and its members.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee also considers credible investment options that give increased weight to ESG considerations when appointing new managers and will periodically consider whether new options have become available for existing allocations.

The Trustee has limited influence over managers' investment practices as assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate and the Trustee may seek to disinvest if it views that ESG considerations are not given sufficient priority.

The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

Signed by Bob Newcomb on 26 June 2023. Signatures redacted.

Appendix 2: Implementation Statement

Implementation Statement, covering the Fund Year from 1 October 2022 to 30 September 2023 (the “Fund Year”)

The Trustee of the Smith & Nephew UK Pension Fund (the “Fund”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles (“SIP”) during the Fund Year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the Fund Year by, and on behalf of, Trustees (including the most significant votes cast by Trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 below.

In preparing the Statement, the Trustee has had regard to the guidance on Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement, issued by the Department for Work and Pensions (“DWP’s guidance”) in June 2022.

1. Introduction

The SIP was reviewed and updated during the Fund Year in June 2023 with the main changes being to:

- reflect purchase of the bulk annuity policy covering the Funds’ remaining members;
- update the voting and engagement policies to reflect the selection of some priority ESG themes to provide a focus for the Trustee’s monitoring of investment managers’ voting and engagement activities.

As part of this SIP update, the employer was consulted and confirmed it was comfortable with the changes.

The Trustee has, in its opinion, followed the Fund’s voting and engagement policies during the Fund Year.

2. Voting and engagement

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. However, the Trustee takes ownership of the Scheme’s stewardship by monitoring and engaging with managers as detailed below.

As part of its advice on the selection and ongoing review of the investment managers, the Fund’s investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to voting and engagement.

At the December 2022 meeting the Trustee received training on the DWP’s Stewardship Guidance and agreed the following priorities for the Fund: Business Ethics, Climate Change and Human Rights. These priorities were selected because the Trustee believes they represent key market-wide risks and are areas where good stewardship and engagement can improve long-term financial outcomes for our Fund’s members. The Trustee will review these priorities periodically. The Trustee communicated these priorities to the Fund’s managers in January 2023.

In February 2023 the Trustee reviewed its managers voting and engagement policies, in order to determine whether these aligned with the Trustee’s views. The Trustee also reviewed case studies of the managers’ votes and engagements which related to the Trustee’s stewardship priorities. This was done to allow the Trustee to better understand its managers’ different approaches to voting and engagement and form a view on their appropriateness for the Fund. The Trustee reviewed four different case studies across four managers covering climate change, human rights, business ethics and biodiversity. The Trustee was comfortable that the managers were able to provide examples of real-world engagement that address the Trustee’s three priority areas. However, the Trustee expects the quality of reporting to improve over time.

The Trustee is conscious that responsible investment, including voting and engagement, is rapidly evolving and therefore expects most managers will have areas where they could improve. However, following the completion of bulk annuity transaction in June 2023 which covered the Fund’s remaining members, the Fund’s remaining assets are invested in gilt and cash funds meaning that the opportunities for voting and engagement activities are more limited than has previously been the case.

3. Description of voting behaviour during the year

All of the Trustee’s holdings in listed equities were held within pooled funds and the Trustee delegated to its investment managers the exercise of voting rights. Therefore, the Trustee was not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Fund Year. However, the Trustee monitors managers’ voting and engagement behaviour on an annual basis and challenges managers where their activity has not been in line with the Trustee’s expectations.

Appendix 2: Implementation Statement

In this section we have sought to include voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, PLSA Vote Reporting template and DWP's guidance, on the Fund's investments that hold equities as follows:

- LGIM Low Carbon Transition Developed Markets Equity Index Fund
- Newton Real Return Fund

3.1 Description of the voting processes

For assets with voting rights, the Trustee relies on the voting policies which its managers have in place.

LGIM's voting processes

LGIM's voting and engagement activities are driven by ESG professionals in its Investment Stewardship team. All client voting decisions are therefore made by the team in line with the relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company, with the aim of fully integrating voting with engagement and to ensure consistent messaging to firms.

The team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares and for additional information only (meaning final voting decisions are made by the team, but voting recommendations are used to enhance research and ESG assessment tools). To ensure its proxy provider votes in accordance with its position on ESG, LGIM has a custom voting policy in place with specific voting instructions that apply to all markets globally. The Investment Stewardship team retains the ability to override any vote decisions that were based on its custom voting policy, for example due to additional information gained when engaging with a firm, and monitors votes including a regular manual check of votes that have been input on the ProxyExchange platform.

LGIM holds an annual stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the Investment Stewardship team. The views expressed at the roundtable form a key consideration in the development of LGIM's engagement policies, with ad-hoc feedback also taken into account.

Newton's voting processes

Newton has established overarching stewardship principles to guide voting decisions based on guidance established by internationally recognized governance principles including the OECD Corporate Governance Principles, the ICGN Global Governance Principles, the UK Investment Association's Principles of Remuneration and the UK Corporate Governance Code, in addition to other local governance codes.

All voting decisions are taken on a case-by-case basis, reflecting investment rationale, engagement activity and the company's approach to relevant codes, market practices and regulations. These are applied to the company's unique situation, while also taking into account any explanations offered for why the company has adopted a certain position or policy. It is only in the event that Newton recognises a material conflict of interest that Newton apply the vote recommendations of our third-party voting administrator.

Newton seeks to make proxy voting decisions that are in the best long-term financial interests of its clients and which seek to support investor value by promoting sound economic, environmental, social and governance policies, procedures and practices through the support of proposals that are consistent with four key objectives: to support the alignment of the interests of a company's management and board of directors with those of the company's investors; to promote the accountability of a company's management to its board of directors, as well as the accountability of the board of directors to the company's investors; to uphold the rights of a company's investors to effect change by voting on those matters submitted for approval; and to promote adequate disclosure about a company's business operations and financial performance in a timely manner.

In general, voting decisions are taken consistently across all Newton's clients that are invested in the same underlying company. This is in line with Newton's investment process that focuses on the long-term success of the investee company. Further, it is Newton's intention to exercise voting rights in all circumstances where it retains voting authority.

The Responsible Investment team reviews all resolutions for matters of concern. Any such contentious issues identified may be referred to the appropriate global fundamental equity analyst or portfolio manager for comment. Where an issue remains contentious, Newton may also decide to confer or engage with the company or other relevant stakeholders.

An electronic voting service is employed to submit voting decisions. Each voting decision is submitted via the electronic voting service by a member of the Responsible Investment team but can only be executed by way of an alternate member of the team approving the vote within the same system.

Appendix 2: Implementation Statement

3.2 Summary of voting behaviour

A summary of voting behaviour over the Fund Year is provided in the table below.

	LGIM Low Carbon Transition Developed Markets Equity Index Fund	Newton Real Return Fund
Reporting period	1 October 2022 – 30 September 2023 (full redemption on 11 July 2023*)	1 October 2022 – 30 September 2023 (full redemption on 11 July 2023*)
Total size of fund at end of the Fund Year	£2,037m	£3,044m
Value of Fund assets at end of the Fund Year (£ / % of total assets)	nil	nil
Number of equity holdings at end of the Fund Year	1,468	67
Number of meetings eligible to vote	1,594	73
Number of resolutions eligible to vote	22,563	1,155
% of resolutions voted	99.9%	99.3%
Of the resolutions on which voted, % voted with management	78.0%	92.3%
Of the resolutions on which voted, % voted against management	21.8%	7.7%
Of the resolutions on which voted, % abstained from voting	0.2%	nil
Of the meetings in which the manager voted, % with at least one vote against management	81.5%	44.0%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	16.2%	4.7%

*The Fund fully disinvested from the LGIM Low Carbon Transition Developed Markets Equity Index Fund and the Newton Real Return Fund on 11 July 2023. Both managers are unable to provide data for the invested period only. Hence, the data from Newton and LGIM covers the full Fund Year.

3.2 Most significant votes

Commentary on the most significant votes over the Fund Year, from the Fund's asset managers who hold listed equities, is set out below.

The Trustee did not inform its managers which votes it considered to be most significant in advance of those votes.

Given the large number of votes which are cast by managers during every Annual General Meeting season, the timescales over which voting takes place as well as the resource requirements necessary to allow this, the Trustee did not identify significant voting ahead of the reporting period. Instead, the Trustee has retrospectively created a shortlist of most significant votes by requesting each manager provide a shortlist of votes, which comprises a minimum of ten most significant votes, and suggested the managers could use the PLSA's criteria¹ for creating this shortlist. By informing its managers of its stewardship priorities and through its regular interactions with the managers, the Trustee believes that its managers will understand how it expects them to vote on issues for the companies they invest in on its behalf.

The Trustee has interpreted "significant votes" to mean those that:

- occurred during the period in which the Fund was invested;
- align with the Trustee's stewardship priorities;
- might have a material impact on future company performance;
- the investment manager believes to represent a significant escalation in engagement;
- impact a material fund holding, although this would not be considered the only determinant of significance, rather it is an additional factor;
- have a high media profile or are seen as being controversial;
- are shareholder resolutions which received material support.

Appendix 2: Implementation Statement

The Trustee has reported on three of these significant votes per fund only as examples of the most significant votes. If members wish to obtain more investment manager voting information, this is available upon request from the Trustee. The Trustee excluded the next steps for each vote, since the Pension Fund fully redeemed from both funds during the Fund Year.

¹ Vote reporting template for pension scheme implementation statement – Guidance for Trustees (plsa.co.uk). Trustees are expected to select “most significant votes” from the long-list of significant votes provided by their investment managers.

Newton Real Return Fund

Newton’s defines significant votes as ones that are likely to generate significant scrutiny from end clients or other stakeholders. They may relate to resolutions that receive a particularly high proportion of dissent from investors or involve a corporate transaction or resolutions raised by shareholders.

The Trustee considers the following three Newton votes to be among their “most significant votes” over the Fund Year until the full redemption date (11 July 2023):

Lockheed Martin Corporation, April 2023

- **Summary of resolution:** Report on efforts to reduce greenhouse gas emissions in alignment with Paris Agreement goal
- **Relevant stewardship priority:** Climate Change
- **Approx size of the holding at the date of the vote:** 1.0%
- **Why this vote is considered to be most significant:** Due to the rarity of a shareholder proposal receiving substantial support. Additionally, it is linked to one of the Trustee’s stewardship priorities.
- **Company management recommendation:** Against
- **Fund manager vote:** For
- **Rationale:** Newton agreed that more information on the company’s plans to transition towards a low carbon economy would help shareholders better assess this risk.
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome of the vote:** Failed

Unilever Plc, May 2023

- **Summary of resolution:** Approve remuneration report
- **Relevant stewardship priority:** Business Ethics
- **Approx size of the holding at the date of the vote:** 1.2%
- **Why this vote is considered to be most significant:** It failed due to substantial levels of shareholder dissatisfaction with the pay decisions made by the company. Additionally, it is linked to one of the Trustee’s stewardship priorities.
- **Company management recommendation:** For
- **Fund manager vote:** Against
- **Rationale:** Newton did not believe there was compelling rational to grant the significant executive pay increases being proposed.
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome of the vote:** Failed

NextEra Energy, Inc., May 2023

- **Summary of resolution:** Disclose board skill and diversity matrix
- **Relevant stewardship priority:** Business Ethics
- **Approx size of the holding at the date of the vote:** 0.5%
- **Why this vote is considered to be most significant:** Due to the materiality of the issue at hand and high level of support for the shareholder’s motion. Additionally, it is linked to one of the Trustee’s stewardship priorities.
- **Company management recommendation:** Against
- **Fund manager vote:** For
- **Rationale:** Newton believed the disclosure of a board skills and diversity matrix would help shareholders to assess how the company is managing related risks.
- **Was the vote communicated to the company ahead of the vote:** No

Appendix 2: Implementation Statement

LGIM Low Carbon Transition Developed Markets Equity Index Fund

LGIM determines the voting situations it deems to be significant to include but not be limited to:

- high profile votes which have such a degree of controversy that there is high client and/or public scrutiny
- votes where there is significant client interest for a vote that has been directly communicated by clients to the Investment Stewardship team
- sanction votes as a result of a direct or collaborative engagement; and
- votes linked to an L&G engagement campaign in line with L&G's 5-year ESG priority engagement themes.

The Trustee considers the following three LGIM votes to be among their "most significant votes" over the Fund Year until the full redemption date (11 July 2023):

Amazon.com, Inc. , May 2023

- **Summary of resolution:** Report on median and adjusted gender/racial pay gap
- **Relevant stewardship priority:** Human Rights
- **Approx size of the holding at the date of the vote:** 2.0%
- **Why this vote is considered to be most significant:** LGIM views gender diversity as a material issue for its clients and the assets it manages on their behalf. Additionally, it is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** Against
- **Fund manager vote:** For
- **Rationale:** LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap
- **Was the vote communicated to the company ahead of the vote:** Yes
- **Outcome of the vote:** Failed

Alphabet Inc., June 2023

- **Summary of resolution:** Approve recapitalization plan for all stock to have one vote per share
- **Relevant stewardship priority:** Business Ethics
- **Approx size of the holding at the date of the vote:** 1.3%
- **Why this vote is considered to be most significant:** A material number of shareholders (30.2%) supported the proposal despite it not being successful. Additionally, it is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** Against
- **Fund manager vote:** For
- **Rationale:** LGIM expects companies to apply a one-share-one-vote standard to strengthen shareholder rights
- **Was the vote communicated to the company ahead of the vote:** No
- **Outcome of the vote:** Failed

JPMorgan Chase & Co., May 2023

- **Summary of resolution:** Disclose transition plan describing efforts to align the financial activities with 2030 emission reduction target.
- **Relevant stewardship priority:** Climate change
- **Approx size of the holding at the date of the vote:** 0.8%
- **Why this vote is considered to be most significant:** LGIM pre-declared its intention to support the resolution. LGIM sees the issue of decarbonisation of the banking sector as key to ensuring the Paris Agreement goals are met. Additionally, it is linked to one of the Trustee's stewardship priorities.
- **Company management recommendation:** Against
- **Fund manager vote:** For
- **Rationale:** LGIM generally support resolutions that seek additional disclosures on how companies aim to manage their financing activities in line with their published emission reduction targets.
- **Was the vote communicated to the company ahead of the vote:** Yes
- **Outcome of the vote:** Failed