SMITH & NEPHEW UK PENSION FUND

ANNUAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2022

Scheme Registration Number: 101466584

Contents

Trustee, Principal Employer, Participating Employers and Advisers

Trustee

Smith & Nephew UK Pension Fund Trustee Limited

Employer-nominated Trustee Directors

Robert Newcomb - Chair person
Carol Woodley - Independent Trustee (resigned 31 March 2022)
Lucy Fuller
Tim Allison
Nigel Moore, Ross Trustees Services Limited - Independent Trustee (appointed 1 April 2022)

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

Mercer Limited

Investment Managers

Newton Asset Management (Newton)
Columbia Threadneedle Investments (CTI) (previously known as BMO Global Asset Management)
GMO LLC (GMO) (until 29 June 2022)
M & G Investment Management Limited (M&G)
Insight Investment Fund Management (Insight)
Legal & General Investment Management (LGIM) (from 24 August 2022)

Investment Custodians

Northern Trust (for Insight)
BNY Mellon Asset Servicing BV (for Newton)
Brown Brothers Harriman (for GMO)
State Street Bank Luxembourg S.A. (for CTI)
State Street Custodial Services (Ireland) Limited (for M&G)

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

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ZEDRA Inside Pensions Ltd
First Floor, Trident House
42-48 Victoria Street
St Albans
Hertfordshire
AL1 3HZ
Email: ipsmithandnephew@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 2022. 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. As previously noted, Carol Woodley, the independent Trustee, stepped down from the Trustee Board as of 31 March 2022. A new independent Trustee, Nigel Moore (representing Ross Trustees Services Limited), was appointed to the Trustee Board on 1 April 2022. The Trustee Board would like to formally record its thanks to Carol for all her hard work and expert counsel to the Fund over many years.

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 five 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 met four times during the year and is responsible for managing the Fund’s investment strategy. The Administration and Communication Committee met three times during the year and is 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 met once during the year and is responsible for the strategic management of the Fund’s journey towards full buy in. All sub-committees report to the Trustee Board. In addition, the Journey Planning Working Group met 7 times in the year. This working group naturally evolved into the Joint Buy-In Committee and therefore is no longer in operation.

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 13 and forms part of this 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.

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 17 to 29 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 £710,861,000 at 30 September 2021 to £491,921,000 at 30 September 2022.

The drop in value is largely attributed to the decreased value of investment assets, which is consistent with the wider market following recent volatility. In September-October 2022 the UK experienced a period of extreme financial market volatility following the announcement of the Government’s mini-budget. Gilt yields increased rapidly and investment markets were negatively affected. The Trustee does not consider the reduction in asset value as a cause for concern as the liabilities decreased broadly in line with the assets and therefore the funding level has remained stable.

Going Concern

The Trustee has regular communication with the sponsoring employer. The covenant has also been assessed as strong by an independent covenant adviser. The Trustee has a robust incident plan for any unexpected large-scale 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. This showed on that date that:

	30 September 2020
The value of Technical Provisions was:	£751 million
The value of assets was:	£725 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 accrued benefits 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.

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 2021 was included within the 'short report' provided to members in June 2022.

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 2021, 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 2022 are set out on pages 17 to 18 and the Auditor's Statement about Contributions and Trustee's Summary of Contributions are set out on pages 30 to 31.

Employers' Contributions to the Fund

Following the results of the 30 September 2020 actuarial valuation, a Schedule of Contributions was certified by the Actuary on 18 May 2021 which states that the following employer deficit contributions will be payable:

Amount	Subject to Dynamic Adjustment of Contributions?	Period	Due date (19 working days after relevant quarter-end)
£2.5m	Yes	1 October to 31 December 2021	28 January 2022
£2.5m	Yes	1 January to 31 March 2022	29 April 2022
£2.5m	Yes	1 April to 30 June 2022	27 July 2022
£2.5m	Yes	1 July to 30 September 2022	27 October 2022
£2.5m	Yes	1 October to 31 December 2022	27 January 2023
£2.5m	Yes	1 January to 31 March 2023	2 May 2023
£1m	Yes	1 April to 30 June 2023	27 July 2023
As per Dynamic Contribution Adjustment mechanism	Yes	Subsequent quarters until a new Schedule of Contributions is signed	19 working days after relevant quarter-end

However, as shown above, some of these contributions may be adjusted on the basis of the 'Dynamic Adjustment of Contributions' mechanism.

Dynamic adjustment of contributions

The Trustee and Company have agreed a mechanism to dynamically adjust contribution levels in light of changes in the Fund's funding position between formal actuarial valuations. This mechanism allows contribution levels to be reduced or ceased if the funding position improves and for contributions levels to be maintained or increased, or to be paid over a longer period, if the funding position deteriorates.

Contributions - continued

For each quarter end starting with 31 March 2021 , the Scheme Actuary will issue a quarterly report within 10 working days of the quarter end (or for the 31 March 2021 quarter end within 10 working days of the date of signing this document). This report will estimate the Fund's funding level at the quarter end calculated on the assumptions set out in the Statement of Funding Principles in the section headed "Interim calculations of the technical provisions".

If the Fund is in deficit in each of two consecutive quarterly reports from 31 March 2021, the contribution due within 19 working days of the quarter end date corresponding to the effective date and deficit of the latest quarterly report will be as shown in the table below.

Deficit from latest quarterly report from Scheme Actuary	Quarterly contributions
No deficit or deficit up to and including £5m	Nil
Above £5m, up to and including £30m	£2.5m
Above £30m	£5m

If the Fund is in deficit in each of two consecutive quarterly reports from 30th June 2022, the contribution due within 19 working days of the quarter end date corresponding to the effective date and deficit of the latest quarterly report will be as shown in the table below.

Deficit from latest quarterly report from Scheme Actuary	Quarterly contributions
No deficit or deficit up to and including £5m	The lower of the deficit or £2.5m
Above £5m, up to and including £30m	£2.5m
Above £30m	£5m

Contributions determined in accordance with the Dynamic Adjustment of Contributions mechanism will supersede those set out in the table on the first page of the Schedule of Contributions.

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.

Collection of contributions

When deficit contributions are due they are paid to the Fund within 19 working days of the end of each calendar quarter. The Trustee receives reports confirming the receipt of contributions from the Administrator. No contributions were due to the Fund in the current year.

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).

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 Napier House, Trafalgar Place, Brighton, BN1 4DW.

Membership

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

	Deferreds	Pensioners	Total
At 1 October 2021	2,421	2,659	5,080
Adjustments	3	3	6
New entrants	-	1	1
Retirements	(108)	108	-
Deaths	(20)	(142)	(162)
Transfers out	(17)	-	(17)
Spouses and dependants	-	45	45
Pensions commuted for cash	-	(37)	(37)
At 30 September 2022	2,279	2,637	4,916

Pensioners include 436 spouses and dependants (2021: 430) receiving a pension.

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

The Trustee has two Bulk Purchase Annuity policies with Rothesay Life (referred to in more detail on page 11). The first bulk annuity contract with Rothesay Life covers the benefits of 464 pensioner members (2021: 494) and 141 dependants (2021: 122) and the second bulk annuity contract with Rothesay Life covers the benefits of 220 pensioner members (2021: 227) and 48 depandents (2021: 42).

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 2022 was 5%. On 1 October 2021, 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.

Post Statement of Net Assets events

In December 2022 the Trustee agreed to transact a partial buy-in with Rothesay Life. The buy-in will secure the benefits of 7 members who hold benefits both in the Fund and the Smith & Nephew UK Executive Pension Scheme. The value of the buy-in policy at the time of transaction was £4.9m.

Investment management

Introduction

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

In addition, the Trustee has two bulk annuity contracts with Rothesay Life to insure benefit payments linked to a portion of the Fund's pensioner members.

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 SIP was reviewed and updated in September 2022. 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: smith nephew uk pension fund statement of investment principles.pdf (smith-nephew.com). A copy of the latest SIP is also included on pages 34 to 41 as Appendix 1.

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

Fund	Asset Class	Allocation as at 30 September 2022 £000	Allocation as at 30 September 2021 £000
Newton Real Return Fund	DGF	42,488	31,417
GMO Global Real Return (UCITS) Fund	DGF	-	31,521
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	37,106
Insight High Grade ABS Fund	Securitised Credit	64,135	66,215
CTI Global Low Duration Credit	Buy and Maintain Credit	64,270	93,436
CTI LDI Private Sub-Fund S GBP	LDI	109,782	249,624
Cash / NCA		1,737	2,705
Annuities / Buy-ins		145,600	199,500
Total		491,600	711,524

The Fund is the sole investor in the CTI LDI Private Sub-Fund S GBP. This portfolio includes the liability driven investment portfolio which aims to hedge about 100% (increased from 90% to 100% in August 2022) 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 portfolio previously included an equity derivatives allocation, however this was replaced by the physical equity holdings in the LGIM Low Carbon Transition Fund in August 2022.

During the year the Trustee took action to rebalance the Fund's asset allocation, in particular topping-up the CTI LDI portfolio from the Fund's other asset allocations. This was required as gilt yields rose significantly during 2022, which caused the value of the LDI portfolio (and the liabilities it is held to match) to fall materially.

During the year the Trustee also took action to reduce investment risk and further reduce funding level volatility by halving the level of equity exposure from 14% to 7%, and redeeming holdings in the GMO diversified growth fund.

After the year end the Trustee agreed to implement a tactical portfolio de-risking exercise which involved:

- A disinvestment of c95% of the holdings in the Newton's DGF and LGIM Low Carbon Transition Fund, both over two tranches, in November 2022;
- Full disinvestment from M&G AOF, over two traches in November 2022 and January 2023; and
- Investment of all the proceeds into the CTI LDI Private Sub-Fund S GBP.

Departures from the SIP

There were no departures from the SIP over the year.

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 2022, based on the performance of the investment managers after the deduction of fees. The Trustee does not consider the c.30% reduction in investment values a cause for concern as this decrease is consistent with the decrease in liabilities (see "Financial Development" on page 4) and the wider investment market movements following a period of extreme financial market volatility in September-October 2022.

	One year (%)	Three years (% pa)	Five years (% pa)
Scheme	-30.2%	-10.8%	-3.5%
Benchmark	-27.0%	-9.6%	-2.5%

Source: LCP calculations.

Custody of assets

The underlying assets are 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.

Investment management

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.

Investment Principles

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.

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.

It has chosen to invest its equity allocation in a passively managed fund that tracks a climate-tilted index that has reduced exposure to climate-related risks and increased exposure to climate-related opportunities.

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.

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.

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 42 to 46 as Appendix 2.

Custodial arrangements

The Fund's assets are 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 available on the member website -

https://www.smithandnephewpensions.co.uk/library

Approval

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

.... Trustee Director

.... Trustee Director

Date: ....

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 2022 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 2022, 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 13, 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 and the valuation of annuity policies as the areas 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 significant, unusual transactions and transactions entered into outside the normal course of business, challenging judgments and estimates and directly obtaining the valuation of the annuity policies, assessing the competency of the actuary in performing the valuation and the basis on which the estimate has been made and reviewing the financial statements to ensure details of the policies have been accurately recorded in line with the SORP and best practice.

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.

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..

Fund Account

	Note	2022 Total £000	2021 Total £000
Employer contributions	4	**-**	5,000
Other income	5	**13**	30
		13	5,030
Benefits paid or payable	6	**(16,415)**	(16,278)
Payments to and on account of leavers	7	**(10,444)**	(5,492)
Administrative expenses	8	**(1,341)**	(1,533)
		(28,200)	(23,303)
Net withdrawals from dealings with members		**(28,187)**	(18,273)
Returns on investments			
Investment income	9	**11,159**	10,142
Change in market value of investments	10	**(201,640)**	(7,852)
Investment management expenses	11	**(272)**	(202)
Net returns on investments		**(190,753)**	2,088
Net decrease in the fund during the year		**(218,940)**	(16,185)
Net assets at 1 October		**710,861**	727,046
Net assets at 30 September		**491,921**	710,861

The notes on pages 19 to 29 form part of these financial statements.

Statement of Net Assets available for benefits

	Note	**2022 Total £000**	2021 Total £000
Investment assets			
Pooled investment vehicles	13	**344,264**	509,319
Insurance policies	14	**145,600**	199,500
AVC investments	15	**779**	1,134
Total investments	10	**490,643**	709,953
Current assets	20	**2,734**	3,708
Current liabilities	21	**(1,456)**	(2,800)
Net assets at 30 September		**491,921**	710,861

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 19 to 29 form part of these financial statements.

The financial statements on pages 17 to 29 were approved on behalf of Smith & Nephew UK Pension Fund Trustee Limited and signed on its behalf by:

.... Trustee Director

.... Trustee Director

Date: ....

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 2024. 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 Contributions

Employer deficit funding contributions are accounted for in the period to which they relate, in accordance with the Schedule of Contributions, or on receipt if earlier, with the agreement of the employer and Trustee.

3.4 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 paid or received.

3.5 Other income

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

3.6 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.

3.7 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.

3.8 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.

3.9 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.

3.10 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.

3.11 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 3.10 above and within notes 14 and 16.

4. Contributions

	2022 Total £000	2021 Total £000
Employer contributions:		
Deficit funding	-	5,000

The Schedule of Contributions certified by the Actuary on 18 May 2021 states that the following employer deficit contributions will be payable:

Amount	Subject to Dynamic Adjustment of Contributions?	Period	Due date (19 working days after relevant quarter-end)
Nil		1 October to 31 December 2020	N/A
£5m	No	1 January to 31 March 2021	29 April 2021
£2.5m	Yes	1 April to 30 June 2021	27 July 2021
£2.5m	Yes	1 July to 30 September 2021	27 October 2021
£2.5m	Yes	1 October to 31 December 2021	28 January 2022
£2.5m	Yes	1 January to 31 March 2022	29 April 2022
£2.5m	Yes	1 April to 30 June 2022	27 July 2022
£2.5m	Yes	1 July to 30 September 2022	27 October 2022
£2.5m	Yes	1 October to 31 December 2022	27 January 2023
£2.5m	Yes	1 January to 31 March 2023	2 May 2023
£1m	Yes	1 April to 30 June 2023	27 July 2023
As per Dynamic Contribution Adjustment mechanism	Yes	Subsequent quarters until a new Schedule of Contributions is signed	19 working days after relevant quarter-end

However, as shown above, some of these contributions may be adjusted on the basis of the 'Dynamic Adjustment of Contributions' mechanism as set out in the Schedule of Contributions.

Following the adjustment under the Dynamic Adjustment of Contributions mechanism, no deficit contributions were due for the year ended 30 September 2022.

5. Other income

	2022 Total £000	2021 Total £000
Interest on cash deposits held by the Trustee	11	11
Miscellaneous income	2	19
	13	30

6. Benefits paid or payable

	2022 Total £000	2021 Total £000
Pensions	14,274	13,981
Commutation of pensions and lump sum retirement benefits	2,025	2,219
Lump sum death benefits	116	78
	16,415	16,278

7. Payments to and on account of leavers

	2022 Total £000	2021 Total £000
Individual transfers out to other schemes	**10,444**	5,492

8. Administrative expenses

	2022 Total £000	2021 Total £000
Benefits administration / actuarial / consultancy	**811**	986
Legal and other professional fees	**467**	528
Audit fees	**25**	13
Fund levies	**37**	6
Bank charges paid	**1**	-
	1,341	1,533

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

9. Investment income

	2022 Total £000	2021 Total £000
Income from pooled investment vehicles	**798**	885
Income from buy-in annuity policy	**10,361**	9,257
	11,159	10,142

10. Reconciliation of investments

	Market value at 1 October 2021 £000	Cost of investments purchased £000	Proceeds of sales of investments £000	Change in market value £000	**Market value at 30 September 2022 £000**
Pooled investment vehicles	509,319	79,005	(96,370)	(147,690)	**344,264**
Insurance policies	199,500	-	-	(53,900)	**145,600**
AVC investments	1,134	-	(305)	(50)	**779**
	709,953	79,005	(96,675)	(201,640)	**490,643**

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

	2022 Total £000	2021 Total £000
Administration, management and custody fees	**279**	215
Fee rebates	**(7)**	(13)
	272	202

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

	2022 Total £000	2021 Total £000
Equities	**28,162**	-
Bonds	**64,270**	93,436
Liability driven investment	**109,783**	249,623
Diversified growth	**42,488**	62,939
Absolute return	**35,426**	37,106
Asset backed securities	**64,135**	66,215
	344,264	509,319

The Fund is the sole investor in the CTI LDI Fund – LDI Private Sub Fund. This portfolio has two components. First is the liability driven investment portfolio which hedged about 100% (increased from 90 to 100% in August 2022) of the interest rate and inflation sensitivity of the non-insured liabilities, as measured on a Technical Provisions basis, as at end September 2022. Second is an equity derivatives portfolio with equity exposure of about £61.4m as at 30 June 2022, however this was subsequently fully divested in Q3 2022 and held no assets as at year end on 30 September 2022 (equity exposure was transferred to the LGIM Low Carbon Transition Fund). The investments held within that fund are as follows:

	2022 £000	2021 £000
- Bonds	**163,958**	256,839
- Cash	**43,531**	(6,003)
- Derivatives - swaps	**(29,318)**	10,496
- Repurchase agreements	**(94,484)**	(26,191)
- Pooled investment vehicle	**9,770**	15,255
- Other	**16,326**	(773)
	109,783	249,623

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

The Newton, CTI, GMO, LGIM and Insight pooled investments are 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:

	2022 Total £000	2021 Total £000
Buy-in annuity policies	**145,600**	199,500

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

The table below sets out details of the financial assumptions used to value the buy-in annuity policy as at 30 September 2022 and 2021:

	30 September 2022 First Policy	**30 September 2022 Second Policy**	**30 September 2021 First Policy**	**30 September 2021 Second Policy**
Financial assumptions				
Gilt yield	4.08% p.a.	3.99% p.a.	1.25% p.a.	1.29% p.a.
RPI inflation	4.06% p.a.	4.00% p.a.	3.78% p.a.	3.72% p.a.
Discount rate	4.43% p.a. (gilts + 0.35%)	4.17% p.a. (gilts + 0.18%)	1.60% p.a. (gilts + 0.35%)	1.47% p.a. (gilts + 0.18%)
Pension increases	3.70% p.a. (RPI with a 5% pa cap)	3.66% p.a. (RPI with a 5% pa cap)	3.50% p.a. (RPI with a 5% pa cap)	3.46% p.a. (RPI with a 5% pa 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:

	2022 Total £000	2021 Total £000
Clerical Medical	**552**	816
Utmost Life & Pensions	**168**	211
Prudential Assurance Company Limited	**55**	69
Utmost Life & Pensions - TSOS	**-**	12
Clerical Medical - TSOS	**-**	19
Scottish Widows Limited	**4**	4
Prudential Assurance Company Limited - TSOS	**-**	3
	779	1,134

The TSOS accounts, which were a historic defined contribution section of the Fund, were reassigned to individual member names on 1 March 2022.

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:

	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**
	-	**344,716**	**145,927**	**490,643**

Analysis for the prior year end is as follows:

	2021 Level 1 £000	2021 Level 2 £000	2021 Level 3 £000	2021 Total £000
Pooled investment vehicles	-	509,319	-	509,319
Insurance policies	-	-	199,500	199,500
AVC investments	-	707	427	1,134
	-	510,026	199,927	709,953

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)

The Trustee determined the Fund's investment strategy after obtaining written professional advice from its professional investment adviser. The Fund has exposure to the aforementioned risks because of the investments held to implement the investment strategy. The Trustee manages investment risks, including credit risk and market risk, considering the Fund's investment objectives and strategy, and the advice of its investment advisers.

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 22 (£m)	30 Sept 21 (£m)
Annuities/Buy-Ins	❍	❍	●	●	**145.6**	**199.5**
Newton Real Return Fund	●	●	●	●	**42.5**	**31.4**
GMO Global Real Return (UCITS) Fund	●	●	●	●	**-**	**31.5**
LGIM Low Carbon Transition Developed Markets Equity Index Fund (GBP Currency Hedged)	❍	❍	❍	●	**28.2**	**-**
M&G Alpha Opportunities Fund	●	●	●	❍	**35.4**	**37.1**
Insight High Grade ABS Fund	●	❍	❍	●	**64.1**	**66.2**
CTI Global Low Duration Credit	●	❍	●	❍	**64.2**	**93.4**
CTI LDI Private Sub-Fund S GBP	●	❍	●	❍	**109.8**	**249.6**
Total					**489.8**	**708.7**

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 and sole investor arrangements. It is directly exposed to credit risk in relation to the solvency of the custodians of those funds. The Fund's bulk annuity policy is also directly exposed to the solvency of the insurer.

As at 30 September 2022 around 65% (2021: 71%) of the Fund's assets were invested in funds or securities that are significantly exposed to 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 is indirectly exposed to credit risks arising from the underlying investments held by the pooled funds, for example where they invest in bonds. The indirect exposure to credit risk arises from the Fund's investments in the Newton Real Return Fund, GMO Global Real Return (UCITS) Fund, M&G Alpha Opportunities Fund, Insight High Grade ABS Fund, CTI Global Low Duration Credit and CTI LDI Private Sub-Fund S GBP. The amount invested in each of these mandates is shown in the Statement of Net Assets.

17. Investment risks (continued)

The managers of the pooled funds that invest in fixed income manage credit risk by having a diversified exposure to issuers, conducting thorough research on the probability of default of those issuers, and having only a limited exposure to securities rated below investment grade. The magnitude of credit risk within each fund will vary over time, as the manager changes the underlying investments in line with its views on markets, asset classes and specific securities.

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

Currency risk

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

Whilst the majority of the currency exposure of the Fund's assets is to Sterling, the Fund is subject to currency risk because some of the Fund's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustee manages the amount of currency risk by investing in pooled funds that hedge some or all of their currency exposure, or implement separate currency hedging arrangements.

As at 30 September 2022 around 16% (2021: 14%) of the Fund's assets were invested in funds or securities that are significantly exposed to currency risk.

All of the Fund's pooled funds are accessed via a Sterling share class. Therefore the Fund is not subject to direct currency risk. The Fund's assets that are exposed to indirect currency risk are the Newton Real Return Fund, GMO Global Real Return (UCITS) Fund and M&G Alpha Opportunities Fund, which invest in non-Sterling investments that are not currency hedged. The amount invested in each of these mandates is shown in the Statement of Net Assets.

The exposure to foreign currencies within the pooled funds will vary over time as the manager changes the underlying investments, but is not expected to be a material driver of returns over the longer term. Decisions about the exposure to foreign currencies within the pooled funds held are at the discretion of the appointed fund managers.

Interest rate and inflation rate risk

Interest rate risk and inflation risk is a material risk for the Fund given that movements in interest rates and inflation are a material influence on the value of the liabilities assessed in present day terms. Some of the Fund's assets are subject to interest rate risk (both nominal and real interest rates). However, the overall interest rate exposure of the Fund's assets hedges part of the corresponding risks associated with the Fund's liabilities. The net effect will be to reduce the volatility of the funding level, and therefore the Trustee believes that it is appropriate to have exposure to interest rate risk in this manner.

The assets the Fund invests in with material exposure to changes in interest rates are the Newton Real Return Fund, GMO Global Real Return (UCITS) Fund, M&G Alpha Opportunities Fund, CTI Global Low Duration Credit and CTI LDI Private Sub-Fund S GBP. The amount invested in each of these mandates is shown in the Statement of Net Assets.

As at 30 September 2022 around 81% (2021: 91%) 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 pooled funds that hold equities being subject to movements in equity prices.

As at 30 September 2022 around 57% (2021: 82%) of the Fund's assets were invested in funds or securities that are significantly exposed to other price risk. The Newton Real Return Fund, GMO Global Real Return (UCITS) Fund and LGIM Low Carbon Transition Developed Markets Equity Fund are exposed to other price risk due to their allocations to equities. The CTI LDI Private Sub-Fund S GBP was exposed to other price risk while it contained equity derivatives before the equity exposure was removed in Q3 2022. The buy ins are exposed to other price risk as they are sensitive to changes in mortality expectations. The Insight High Grade ABS fund is exposed to other price risk as the value of asset backed securities is impacted by changes in value of the underlying assets (eg properties).

The Trustee monitors this risk on a regular basis, looking at the performance of the Fund as a whole as well as each individual portfolio. The Trustee believes that the Fund's assets are adequately diversified between different asset classes and within each asset class to manage this risk.

18. Concentration of investments

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

	2022		2021	
	£000	**%**	£000	%
CTI LDI Private Sub Fund	**174,052**	**35.4**	249,623	35.1
Rothesay Life Insurance Policy	**145,600**	**29.6**	199,500	28.1
Insight High Grade ABS Fund Class F	**64,134**	**13.0**	66,215	9.3
Newton Real Return Fund	**42,488**	**8.6**	N/A	N/A
M&G Alpha Opportunities Fund	**35,426**	**7.2**	37,106	5.2
CTI Global Low Duration Credit Fund	**28,162**	**5.7**	93,436	13.1

19. Employer-related investments

As at 30 September 2022 there was less than 0.1% of total assets invested in Employer-related investments in the Fund, within the meaning of Section 40(2) of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.

20. Current assets

	2022 Total £000	2021 Total £000
Pensions paid in advance	**997**	1,003
Cash deposits held with the Fund Administrator	**1,737**	2,705
	2,734	3,708

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

21. Current liabilities

	2022 Total £000	2021 Total £000
Income received in advance	**814**	792
Lump sums on retirement payable	**165**	100
Taxation payable	**15**	7
Administrative expenses payable	**314**	1,686
Investment management expenses payable	**148**	215
	1,456	2,800

22. Post Statement of Net Assets events

In December 2022 the Trustee agreed to transact a partial buy-in with Rothesay Life. The buy-in will secure the benefits of 7 members who hold benefits both in the Fund and the Smith & Nephew UK Executive Pension Scheme. The value of the buy-in policy at the time of transaction was £4.9m.

23. Related party transactions

(a) Key management personnel of the Fund

Legal & Professional fees include £119k (2021: £156k) in respect of services provided by Trustee directors, £34k (2021: £72k) of which relates to services provided by the independent Trustee.

There were three Trustee Directors (2021: 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 2022 was £3,057k (2021: £624k).

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 31, in respect of the Fund year ended 30 September 2022.

In our opinion the contributions for the Fund year ended 30 September 2022 as reported in the attached Summary of Contributions on page 31 and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the actuary on 18 May 2021.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 31 in the attached Summary of Contributions have in all material respects been paid at least in accordance with the Schedule 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 Schedule of Contributions.

Respective responsibilities of Trustee and auditor

As explained more fully on page 13 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 Schedule 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 Schedule of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedule 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...

Summary of Contributions

During the year ended 30 September 2022 no contributions were payable to the Fund by the Employer under the Schedule of Contributions.

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

.... Trustee Director

.... Trustee Director

Date: ....

Actuary's certification of schedule of contributions

Page 1 of 2

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: Clive Wellsteed **Date:** 18 May 2021

Name: Clive Wellsteed **Qualification:** FIA

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

LCP INSIGHT CLARITY ADVICE

Notes not forming part of the certification

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 September 2022. 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 day to day management of the majority of the Fund's assets has been delegated to investment managers which are 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 objectives are:

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 ensure as far as possible that the asset allocation of the Fund is managed on an ongoing basis to gradually reduce risk towards the time when all members will be pensioners.

The aim of the Trustee is to maximise the return on the Fund's assets within the constraints of meeting these primary objectives and controlling the risk to an acceptable level.

As a secondary objective, the Trustee aims for the Fund to be in a position to fully insure the members' benefits with a bulk annuity provider by September 2032.

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.

The assets of the Fund are invested in the best interests of the members and beneficiaries.

With the exception of the Buy-in Policies (detailed in Section 10), which the Trustee has purchased from Rothesay Life Limited, the Trustee has delegated its powers of investment to its fund managers in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held. The diversification is both within and across the major asset classes and the Fund's investment managers.

Assets held to meet the liabilities of the Fund are invested in pooled funds where the underlying investments are made in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Fund.

The Trustee has limited influence over managers' investment practices because the majority of 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 assets of the Fund 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.

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 Life Limited, fails to honour its obligations under the Buy-in Policies. This could occur if, for example, Rothesay Life Limited 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 Trustee has determined the strategic asset allocation set out in the appendix based on the recommendations from the Investment Consultant, the Fund Actuary and in consultation with the Principal Employer.

The Fund has been split into two separate and distinct parts:

- a Matching Portfolio, which is composed of a Liability Driven Investment portfolio, a short-dated buy and maintain credit portfolio, an asset backed securities portfolio and the Buy-in Policies; and
- a Growth Portfolio, which is composed of equities, diversified growth investments and absolute return bond investments.

The strategic allocation is 75% to the Matching Portfolio and 25% to the Growth Portfolio of the overall assets excluding the Buy-in Policies.

The Trustee will review the above strategy from time to time and following each actuarial valuation. The next valuation is due by no later than 30 September 2023. In addition, if there is a significant change in the capital markets, the circumstances of the Fund or the Company, or governing legislation between valuations, then an earlier review may be conducted.

10. The Buy-in Policies

In January 2013 a bulk annuity contract was purchased by the Trustee with Rothesay Life Limited, with a further contract purchased from Rothesay Life Limited in May 2017 (together the "Buy-in Policies"). Each policy covers a subset of the Fund's pensioner 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 Life Limited's finances and investment strategy from Oliver Wyman, a management consulting firm prior to making the decision to purchase the first contract.

The payments received by the Trustee under the Buy-in Policies have been designed to exactly match 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 assets in the Growth Portfolio (equities, diversified growth investments and absolute return bond investments): to achieve a return in excess of that on both index-linked gilts and fixed interest gilts over the long term. In particular, the Trustee is willing to incur short-term volatility in asset price behaviour with the expectation that over the long term these assets will outperform asset classes which may be regarded as matching the liabilities;

for the assets in the Matching Portfolio:for the LDI portfolio, to achieve a rate of return closely correlated to the liabilities that are not covered by the Buy-in Policies;for the short-dated buy and maintain credit and asset backed securities portfolios, to achieve a modest return in excess of that on both index-linked gilts and fixed interest gilts over the long term with only a modest level of short-term volatility in asset price; andfor the Buy-in Policies, the return is expected to be the income required to meet the benefit payments covered by the contract.

The assumed investment returns for the asset classes taken from the 2020 actuarial valuation exercise are: 2% pa in excess of gilts on the Growth Portfolio and in line with gilts on the Matching Portfolio.

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.

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.

The Growth Portfolio and Matching Portfolio are measured separately and the benchmarks for each are weighted in order to produce a weighted average benchmark based on the allocation to each Portfolio. The performance of the total Fund is measured against this benchmark.

The performance of each asset class and the manager will be measured against the relevant benchmark and agreed outperformance targets (see Appendix).

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 majority of the assets held are realisable at short notice.

The Trustee expects to be able to meet benefit payments as they fall due using income from the Buy-in Policies and from the collateral pool within the LDI portfolio. 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.

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 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.

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.

Approved by the Trustee 14 September 2022.

DocuSigned by:

ACFF82B2A85647C

Signed .... Date 25 October 2022 | 10:14 BST

Name Bob Newcomb

The Smith & Nephew Pension Fund (the "Fund")
Appendix I to Statement of Investment Principles

This Appendix sets out the Trustee's current investment strategy, and is supplementary to the Trustee's Statement of Investment Principles (the "attached Statement").-

The Trustee's investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in the attached Statement. The details are laid out below:-

1. Asset Allocation

The strategic asset allocation of the Fund is shown in the table below.

Asset Class	Allocation excluding Buy-in Policies (%)
Matching Portfolio	**75**
Liability driven investment	40
Short-duration credit	20
Asset backed securities	15
Buy-in Policies	-
Growth Portfolio	**25**
Equities*	7
Diversified growth**	10
Absolute return bonds	8
Total	**100**

*The allocation to equities refers to the level of exposure gained through derivatives as a proportion of the Fund's assets. The underlying assets are held as collateral within the liability driven investment portfolio. Further details are provided in the following sections.

There is no automatic rebalancing process in place. The Trustee will regularly consider whether the investment strategy remains appropriate. Given the illiquidity of the Buyin Policies the Trustee will consider the asset allocation excluding the Buy-in Policies for this purpose.

1. Switching from the Growth Portfolio to Liability Driven Investment

The Trustee has put in place a time-based switching mechanism, instructing pre-determined portions of the Growth Portfolio to be switched to the liability driven investment ("LDI") portfolio on a quarterly basis. These switches aim to sell down the entire Growth Portfolio by September 2032 in even tranches (ie broadly £4m per quarter - £2m from equities and £2m from diversified growth), independent of market conditions to ensure investment risk is reduced gradually over time.

1. Investment Management Arrangements – Matching Portfolio

The Matching Portfolio consists of the Buy-in Policies, a Liability Driven Investment portfolio, a short-duration buy and maintain credit portfolio and an asset backed securities portfolio.

3.1 Buy-in Policies

The Buy-in Policies have been purchased from Rothesay Life Limited. The payments received by the Trustee under the Buy-in Policies are expected to match the payments due to the subset of the Fund's pensioner liabilities covered by the policies.

3.2 Liability driven investment portfolio

Columbia Threadneedle Investments manages a bespoke liability driven investment portfolio for the Fund to provide a hedge against real and nominal rate liabilities using a range of hedging assets. The portfolio is managed on a systematic basis with the aim of outperforming both a static swap-based liability hedge and a static gilt-based liability hedge over the longer term, based on the Fund's liabilities not hedged by the Buy-in Policies. To achieve this, the portfolio dynamically allocates between swaps and gilts on a systematic basis according to the relative valuations of swaps and gilts.

3.3 Short-duration buy and maintain credit

The Trustee has decided to invest in a short-duration buy and maintain credit portfolio in order to generate a modest level of additional return from assets held as collateral to back the LDI portfolio. This allocation is held to invest predominantly in short-duration corporate bonds, although the manager has some discretion to invest in high yield and emerging market debt if the manager believes there are sufficiently attractive opportunities. Emphasis is on investing in bonds which are not likely to default and holding bonds to maturity rather than trading frequently.

The Fund's allocation to short-dated buy and maintain credit is invested in the Global Low Duration Credit Fund managed by Columbia Threadneedle Investments. The target of this fund is to deliver a total return commensurate with investment in low duration non-government bonds and other similar assets.

3.4 Asset backed securities

The Trustee has decided to invest in asset backed securities in order to generate a modest level of additional return from assets held as collateral to back the LDI portfolio.

The Fund's allocation to asset backed securities is invested in the High Grade ABS Fund managed by Insight Investment Fund Management Limited. The target of this fund is to deliver an interest rate based return.

1. Investment Management Arrangements – Growth Portfolio

The following describes the mandates given to the fund managers within the Growth Portfolio.

4.1 Equities

The Trustee has decided to invest in a low carbon equity fund in order to reduce the Fund's exposure to climate risk. The Fund's allocation to low carbon equities is invested in the Low Carbon Transition Developed Markets Equity Fund managed by Legal and General Investment Management ("LGIM"),

The objective of this fund is to produce a return consistent with its benchmark index, the Solactive L&G Low Carbon Transition Developed Markets Index. The index aims to provide exposure to developed world equity markets while reducing carbon intensity by 70% at the outset on a de-carbonisation path to achieve net zero by 2050, whilst also significantly reducing the level of carbon reserves and improving green revenues.

The target reduction in carbon intensity is relative to a broad, market-capitalisation weighted index.

BMO will aim to deliver returns in line with the benchmark indices by investing in equity total return swaps and/or equity futures. The allocation to each region will be allowed to drift in line with market movements until the allocations are rebalanced at the end of May each year.

The collateral pool for the equity derivatives is shared with the LDI portfolio for efficient portfolio management.

The fund will not invest in:

Controversial weapons – companies that are involved and/or derive revenues from controversial weapons, specifically on-going involvement in Chemical weapons, Biological weapons, Nuclear weapons, Depleted Uranium, Nuclear weapons outside The Treaty on the Non-Proliferation of Nuclear Weapons, Cluster munitions, or Anti- personnel mines.
Thermal coal miners – companies that derive 30% or more of their revenues from thermal coal mining.

LGIM may also disinvest from companies that are held in the index that do not meet LGIM's minimum standards on areas such as climate, governance, reputation and public policy.

4.2 Diversified growth

The Trustee has decided to invest in a diversified growth fund in order to reduce reliance on equity markets to generate returns. Diversified growth funds generally invest in a wide range of asset classes (including for example, equities, bonds, property funds and commodities). The fund manager has discretion over the asset allocation, and aims to generate a positive return over the medium term.

The Fund's allocation to diversified growth is invested in the Real Return Fund managed by Newton Investment Management Ltd. The target of this fund is to provide returns in line with Sterling SONIA + 4% pa before fees over rolling five-year periods.

4.3 Absolute return bonds

The Trustee has decided to invest in absolute return bonds in order to reduce reliance on equity markets to generate returns. Absolute return bond funds generally invest in a range of credit instruments whilst maintaining a broadly neutral duration position (ie close to zero), and aim to generate a positive return above cash, with low volatility.

The Fund's allocation to absolute return bonds is invested in the Alpha Opportunities Fund managed by M&G Investment Management Limited. The target of this fund is to provide returns in line with SONIA + 3 - 5% pa before fees over rolling three-year periods.

4.4 Cash Balances

A working balance of cash is held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustee's intention to hold a significant cash balance and this is carefully monitored by the Fund's administrator.

5 Fee structure for advisers and managers

5.1 Advisers

The Trustee's Investment Consultant is paid for advice received on the basis of a fixed-fee for core investment services. For significant areas of advice which fall outside of the core services fixed-fee (e.g. one off special jobs, or large jobs, such as asset and liability modelling), the Trustee will endeavour to agree a project budget or pre-agree a fixed-fee.

These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser.

5.2 Investment managers

The investment managers are remunerated through a fee based on a set percentage of the assets under management, with the exception of the LDI portfolio where fees are based on the value of liabilities hedged, which the Trustee believes to be appropriate given the nature of the investment objective.

Implementation Statement, covering 1 October 2021 to 30 September 2022

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.

1. Introduction

The SIP was reviewed and updated on 25 October 2022 with the main changes being to:

- reflect several agreed changes to the investment strategy;
- reflect that BMO Global Asset Management has been acquired by Columbia Threadneedle Investments; and
- update wording regarding the Trustee's responsible investment ("RI") beliefs, in particular to clarify that the Trustee will consider credible investment options that give increased weight to ESG considerations.

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

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.

In March 2022, the Trustee reviewed LCP's responsible investment scores for the Fund's existing managers and funds, along with LCP's qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP's ongoing manager research programme and it is these that directly affect LCP's manager and fund recommendations. The manager scores and red flags are based on LCP's Responsible Investment Survey 2022. All managers and funds received good ratings (3 or 4 with the 4 being the strongest), except for the M&G Alpha Opportunities Fund which achieved a score of 2, reflecting LCP's view that M&G had not evolved as quickly as their peers with regards to how responsible investment factors are integrated into the investment process. The Trustee was satisfied with the results of the review and no further action was taken.

In August 2022, the Trustee invested in the LGIM Low Carbon Transition Fund to reduce the Fund's exposure to climate risk and improve stewardship (through voting and engagement) by holding physical equities rather than equity derivatives within the LDI portfolio. The Trustee was also comfortable that LGIM is considered a market leader with regards to its stewardship activities.

3. Description of voting behaviour during the year

a. Newton's voting processes

Newton's head of responsible investment is responsible for the decision-making process of the RI team when reviewing meeting resolutions for contentious issues. Newton does not maintain a strict proxy voting policy. Instead, it prefers to take into account a company's individual circumstances, Newton's investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices.

Contentious issues may be referred to the appropriate industry analyst for comment and, where relevant, Newton may confer with the company or other interested parties for further clarification or to reach a compromise or to achieve a commitment from the company.

Voting decisions are approved by either the deputy chief investment officer or a senior investment team member (such as the head of global research). All voting decisions are made by Newton.

It is only in the event of a material potential conflict of interest between Newton, the investee company and/or a client that the recommendations of the voting service used (Institutional Shareholder Services, or the ISS) will take precedence.

It is also only in these circumstances when Newton may register an abstention given Newton's stance of either voting in favour or against any proposed resolutions. The discipline of having to reach a position of voting in favour or against management ensures Newton does not provide confusing messages to companies.

Newton employs a variety of research providers that aid it in the vote decision-making process, including proxy advisors such as ISS. Newton utilises ISS for the purpose of administering proxy voting, as well as its research reports on individual company meetings.

Voting decisions take into account local market best practice, rules and regulations while also supporting Newton's investment rationale.

b. 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.

c. GMO's voting processes

GMO has engaged ISS as its proxy voting agent to:

- Research and make voting recommendations or, for matters for which GMO has so delegated, to make the voting determinations;
- Ensure that proxies are voted and submitted in a timely manner;
- Handle other administrative functions of proxy voting;
- Maintain records of proxy statements received in connection with proxy votes and provide copies of such proxy statements promptly upon request;
- Maintain records of votes cast; and
- Provide recommendations with respect to proxy voting matters in general.

GMO will generally vote proxies in accordance with the voting recommendations contained in the applicable ISS Sustainability Proxy Voting Guidelines, as in effect from time to time, subject to such modifications as may be determined by GMO.

There may be circumstances under which a portfolio manager or other GMO investment professional believes that it is in the best interest of a client or clients to vote proxies in a manner inconsistent with the proxy voting guidelines described. In such an event, the GMO investment professional will inform GMO's Corporate Actions Group of its decision to vote such proxy in a manner inconsistent with the proxy voting guidelines.

3.1 Summary of voting behaviour over the Year

A summary of voting behaviour over the respective reporting periods is provided in the table below.

	Newton Real Return Fund	LGIM Low Carbon Transition Developed Markets Equity Index Fund	GMO Global Real Return (UCITS) Fund
Reporting period	1 October 2021 – 30 September 2022	1 October 2021 – 30 September 2022 (inception on 24 August 2022*)	1 October 2021 – 28 June 2022 (full redemption on 29 June 2022)
Total size of fund at end of the reporting period	£4,310m	£1,507m	£936m
Value of asset holding at end of the Fund Year	£42.5m	£28.2m	nil
Number of equity holdings at end of the reporting period	71	1,562	1,350
Number of meetings eligible to vote	80	1,770	1,408
Number of resolutions eligible to vote	1,330	23,979	15,929
% of resolutions voted	100.0%	99.7%	96.9%
Of the resolutions on which voted, % voted with management	88.0%	78.7%	87.5%
Of the resolutions on which voted, % voted against management	12.0%	21.1%	10.7%
Of the resolutions on which voted, % abstained from voting	0%	0.2%	1.7%
Of the meetings in which the manager voted, % with at least one vote against management	45%	80.4%	48.1%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	8.1%	14.7%	0.6%

* The Fund invested in the LGIM Low Carbon Transition Developed Markets Equity Index Fund on 24 August 2022, though, LGIM were unable to provide data for the invested period only. Hence, the LGIM data covers the full Fund Year.

3.2 Most significant votes over the Fund Year

Commentary on the most significant votes over the Fund Year, from the Fund's asset managers who hold listed equities, is set out below. Where possible we have shown examples that correspond to the Trustee's agreed stewardship priorities, being business ethics, climate change and human rights.

Newton Real Return Fund:

Newton has determined all votes against management as material. As an active manager, Newton is invested in companies that it believes will support the long term performance objectives of its clients. By doing so, it is making a positive statement about the business, the management of risks and the quality of management. Voting against management, therefore, is a strong statement that Newton thinks there are areas of improvement that need addressing.

The Trustee considers the following three Newton votes to be among their "most significant votes" over the Fund Year:

Alphabet Inc., June 2022:

Newton voted against management in support of shareholder proposals for Alphabet to produce reports on climate change lobbying policy, racial equity, human rights practices and others.

The company faced allegations concerning racial discrimination and questions around the due diligence process it follows when assessing the risk of doing business in countries with significant human rights concerns. Additionally, it had emerged that Alphabet was a member of several trade organisations that aim to obstruct climate policy, which is at odds with Alphabet's goal of running on carbon-free energy by 2030. Newton believed it was necessary for the company to provide greater disclosure around these issues so shareholders could adequately assess the risks they posed.

Bayer AG., April 2022:

Newton voted against the company's existing executive remuneration arrangements because they did not agree that the supervisory board had exercised discretion over the short-term incentive plan for executives appropriately, illustrating their dissatisfaction regarding the pay practices of the company.

Newton saw this as a key reason that executive compensation had been continually increasing in recent years, despite Bayer's share price lagging the benchmark.

ConocoPhillips, May 2022:

Newton voted against proposed changes to executive remuneration and the ratification of the company's auditor. As well as this, they supported a shareholder proposal requesting reporting on greenhouse gas targets across the company's value chain.

Newton voted against the proposed changes to the remuneration arrangements because they were concerned that awards were constantly earned above targets, raising doubts that they effectively incentivised good performance. The company's auditor had a tenure approaching 74 years, which Newton believed may have compromised its independence and objectivity. The vote for increased disclosure around emission targets was due to concerns that the board had not been responsive to previously agreed proposals concerning the disclosure of Scope 3 emissions.

LGIM Low Carbon Transition 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 period from 24 August 2022 (when the Pension Fund invested) to 30 September 2022:

NetApp, Inc., September 2022:

LGIM voted against electing T. Michael Nevens as Director because the NetApp had an all-male Executive Committee.

Since 2022, LGIM have applied voting sanctions to the FTSE 100 companies that do not have at least one woman on their executive committee, with the expectation that there should be a minimum of 33% over time. LGIM views gender diversity as a financially material issue for its clients. This vote was deemed significant due to the escalation and expansion of LGIM's stance on all-male Executive Committees.

Conagra Brands, Inc., September 2022:

LGIM voted in favour of the resolution requiring independent Board Chairmen because they expect companies to separate the roles of Chair and CEO due to risk management and oversight. LGIM believes that these two roles are substantially different, requiring distinct skills and experiences.

Since 2015 LGIM have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 they have voted against all combined board chair/CEO roles. Furthermore, LGIM have published a guide for boards on the separation of the roles of chair and CEO, and reinforced their position on leadership structures across their stewardship activities – e.g. via individual corporate engagements and director conferences.

Twitter, Inc., September 2022:

LGIM voted against a proposal to introduce lucrative settlement payments to top executives in the event that their employment is terminated (so called golden parachutes).

LGIM does not support the use of golden parachutes as they do not think it is fair or aligned with maximising the long-term growth and performance of a business. This vote was considered to be significant given the high profile nature of the meeting. Golden parachute payments were a particularly pertinent issue for Twitter at the time as the takeover by Elon Musk was gathering momentum.

GMO Real Return (UCITS) Fund:

The GMO Global Real Return (UCITS) Fund is managed by GMO's Asset Allocation team and they take investment exposures from a number of underlying GMO investment teams, some of which are fundamental and some are quantitative or combined in style. As such GMO has indicated that it is not possible to determine what constitutes a "significant vote" at the portfolio level. GMO therefore was not able to provide the Trustee with a list of significant votes so we have not been able to provide further details on GMO's significant votes, in addition to the information set out in the table above. The Trustee itself takes the view that votes against management may reasonably be considered to be significant, which are referred to in that table.

The Trustee fully redeemed the Fund's holdings with GMO on 29 June 2022.