



SMITH & NEPHEW UK PENSION FUND
ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2021
Scheme Registration Number: 101466584

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Trustee

Smith & Nephew UK Pension Fund Trustee Limited

Employer-nominated Trustee Directors

Carol Woodley - Independent Trustee (resigned 31 March 2022)

Lucy Fuller - Chair person to 31 December 2020

Robert Newcomb - Chair person from 1 January 2021

Tim Allison (appointed 1 April 2021)

Nigel Moore, Ross Trustees - Independent Trustee (appointed 1 April 2022)

Member-nominated Trustee Directors

Len Pendle (re-elected 1 April 2021)

David Webster (re-elected 1 July 2021)

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 Wellsted, F.I.A.

Lane Clark & Peacock LLP

Independent Auditor

RSM UK Audit LLP

Administrator

Mercer Limited

Investment Managers

Newton Asset Management (Newton)

BMO Global Asset Management (BMO)

GMO LLC (GMO)

M & G Investment Management Limited (M&G)

Insight Investment Fund Management (Insight)

Smith & Nephew UK Pension Fund

Annual Report for the year ended 30 September 2021

Trustee, Principal Employer, Participating Employers and Advisers

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 BMO)
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 (from 1 January 2021)
Mayer Brown International LLP (to 31 December 2020)

Covenant Adviser

Penfida Limited

Contact for further information and complaints about the Fund

Secretary to the Trustee
Zedra Inside Pensions Ltd
First Floor, Trident House
42-48 Victoria Street
St Albans
Hertfordshire
AL1 3HZ
Email: jpsmithandnephew@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 2021. The Fund is a defined benefit scheme.

The Fund closed to new entrants with effect from 1 January 2003. The Fund closed to future accrual with effect from 31 December 2016. Following the cessation of future accrual, members formally accruing Defined Benefit benefits within the Fund have joined an alternative Defined Contribution arrangement managed separately by the Company.

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, Lucy Fuller stepped down as Chair person of the Trustee Board as of 31 December 2020, with Robert Newcomb assuming the role as of 1 January 2021. The Trustee Board would like to formally record its thanks to Lucy for all her hard work and dedication 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 has met twelve times during the year. All Trustee meetings from 2 June 2020 have been held via videoconference in response to national social distancing measures implemented following the Coronavirus pandemic.

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

Statement of Trustee's Responsibilities

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

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 Fund is provided for all eligible employees of the principal and participating employers and was closed to future accrual with effect from 31 December 2016. The principal employer's registered address is Smith & Nephew UK Limited (the company), Building 5, Croxley Green Business Park, Hatters Lane, Watford WD18 8YE. The participating employers are set out on page 1.

Guarantee

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

Financial development

The financial statements on pages 16 to 28 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 £727,046,000 at 30 September 2020 to £710,861,000 at 30 September 2021.

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 2020 was included within the 'short report' provided to members in the first half of 2021.

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 2020, based upon the actuarial assumptions and methods set out in the Actuarial Valuation as at September 2020, and in intra-valuation 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 2021 are set out on pages 16 to 17 and the Auditor's Statement about Contributions and Trustee's Summary of Contributions are set out on pages 29 to 30.

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)
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.

Contributions - continued

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. One contribution of £5m was 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 unithised 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 2020	2,554	2,710	5,264
Adjustments	(3)	(3)	(6)
Retirements	(94)	94	-
Deaths	(19)	(148)	(167)
Transfers out	(17)	-	(17)
Spouses and dependants	-	32	32
Pensions commuted for cash	-	(25)	(25)
Pensions ceasing	-	(1)	(1)
At 30 September 2021	<u>2,421</u>	<u>2,659</u>	<u>5,080</u>

Pensioners include 430 spouses and dependants (2020: 454) 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 10). The first bulk annuity contract with Rothesay Life covers the benefits of 494 pensioner members (2020: 512) and 122 dependants (2020: 128) and the second bulk annuity contract with Rothesay Life covers the benefits of 227 pensioner members (2020: 233) and 42 dependants (2020: 41).

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 2021 was 3.8%. On 1 October 2020, pensions were increased by 0.5%.

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

Calculation of transfer values

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

Investment management

Introduction

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), M&G Investment Management Limited (M&G), Insight Investment Management Limited (Insight) and BMO Global Asset Management (BMO).

In addition, the Trustee has a bulk annuity contract 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 2020. 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 included on pages 33 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. Figures may not sum due to rounding.

Fund	Asset Class	Allocation as at 30 September 2021 £000	Allocation as at 30 September 2020 £000
Newton Real Return Fund	DGF	31,417	32,351
GMO Global Real Return (UCITS) Fund	DGF	31,521	32,681
M&G Alpha Opportunities Fund	Absolute Return Bonds	37,106	34,457
Insight High Grade ABS Fund	Securitised Credit	66,215	64,678
BMO Global Low Duration Credit	Buy and Maintain Credit	93,436	91,567
BMO LDI Private Sub-Fund S GBP	LDI	249,624	243,676
Cash / NCA		2,705	7,440
Annuities / Buy-ins		199,500	219,500
Total		711,524	726,350

The Trustee has implemented a de-risking strategy, in order to meet its objectives as detailed in its Statement of Investment Principles. This involves switching £4m from the equity and diversified growth fund portfolios to the LDI portfolio each quarter. Therefore, the actual asset allocation is expected to shift progressively over time. There were no other material changes to the investments during the year ended 30 September 2021.

Investment strategy (continued)

The Fund is the sole investor in the BMO LDI Private Sub-Fund S GBP. This portfolio has two components. First is the liability driven investment portfolio which aims to hedge about 87% of the interest rate and inflation sensitivity of the non-insured liabilities as measured on a Technical Provisions basis. Second is an equity derivatives portfolio, which replaced the Fund's physical equity holdings in May 2020, with equity exposure of about £70m as at end September 2021.

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 2021, based on the performance of the investment managers after the deduction of fees.

	One year (%)	Three years (% pa)	Five years (% pa)
Scheme	0.8%	5.9%	3.9%
Benchmark	0.4%	5.7%	4.2%

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 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.

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

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 47 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.

Bulk Purchase Annuity (BPA) policy from Rothesay Life

In May 2017, the Trustee purchased a further Bulk Purchase Annuity (BPA) policy from Rothesay Life, covering a significant proportion of the pensioner members who had retired since the original BPA was purchased in 2013. The purchase of the additional policy was achieved at a price which, following advice from the Scheme Actuary, was broadly consistent with a prudent valuation of the liabilities covered.

Further information

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

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 2021 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 2021, 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 page 12, the Trustee is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

The audit engagement team identified the risk of management override of controls 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	2021 Total £000	2020 Total £000
Employer contributions	4	5,000	-
Other income	5	30	2
		<u>5,030</u>	<u>2</u>
Benefits paid or payable	6	(16,278)	(15,271)
Payments to and on account of leavers	7	(5,492)	(8,675)
Administrative expenses	8	(1,533)	(1,251)
		<u>(23,303)</u>	<u>(25,197)</u>
Net withdrawals from dealings with members		<u>(18,273)</u>	<u>(25,195)</u>
Returns on investments			
Investment income	9	10,142	10,185
Change in market value of investments	10	(7,852)	(5,065)
Investment management expenses	11	(202)	(21)
		<u>2,088</u>	<u>5,099</u>
Net returns on investments			
Net decrease in the fund during the year		(16,185)	(20,096)
Net assets at 1 October		727,046	747,142
Net assets at 30 September		<u>710,861</u>	<u>727,046</u>

The notes on pages 18 to 28 form part of these financial statements.

Statement of Net Assets available for benefits

	Note	2021 Total £000	2020 Total £000
Investment assets			
Pooled investment vehicles	13	509,319	499,410
Insurance policies	14	199,500	219,500
AVC investments	15	1,134	1,283
Total investments	10	709,953	720,193
Current assets	20	3,708	8,419
Current liabilities	21	(2,800)	(1,566)
Net assets at 30 September		710,861	727,046

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

The notes on pages 18 to 28 form part of these financial statements.

The financial statements on pages 16 to 28 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 2023. 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 15 and 16.

4. Contributions

	2021	2020
	Total	Total
	£000	£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 or payable for the quarters ended 30 June 2021, 30 September 2021 and 31 December 2021.

5. Other income

	2021	2020
	Total	Total
	£000	£000
Interest on cash deposits held by the Trustee	11	1
Miscellaneous income	19	1
	30	2

6. Benefits paid or payable

	2021	2020
	Total	Total
	£000	£000
Pensions	13,981	13,984
Commutation of pensions and lump sum retirement benefits	2,219	1,193
Lump sum death benefits	78	94
	16,278	15,271

7. Payments to and on account of leavers

	2021 Total £000	2020 Total £000
Individual transfers out to other schemes	<u>5,492</u>	<u>8,675</u>

8. Administrative expenses

	2021 Total £000	2020 Total £000
Benefits administration / actuarial / consultancy	986	761
Legal and other professional fees	528	434
Audit fees	13	17
Fund levies	6	39
	<u>1,533</u>	<u>1,251</u>

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

9. Investment income

	2021 Total £000	2020 Total £000
Income from pooled investment vehicles	885	861
Income from buy-in annuity policy	9,257	9,324
	<u>10,142</u>	<u>10,185</u>

10. Reconciliation of investments

	Market value at 1 October 2020 £000	Cost of investments purchased £000	Proceeds of sales of investments £000	Change in market value £000	Market value at 30 September 2021 £000
Pooled investment vehicles	499,410	12,898	(14,945)	11,956	509,319
Insurance policies	219,500	-	-	(20,000)	199,500
AVC investments	1,283	-	(341)	192	1,134
	<u>720,193</u>	<u>12,898</u>	<u>(15,286)</u>	<u>(7,852)</u>	<u>709,953</u>

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

	2021 Total £000	2020 Total £000
Administration, management and custody fees	215	206
Fee rebates	(13)	(185)
	<u>202</u>	<u>21</u>

12. Taxation

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

13. Pooled investment vehicles

	2021	2020
	Total	Total
	£000	£000
Bonds	93,436	91,567
Liability driven investment	249,623	243,676
Diversified growth	62,939	65,032
Absolute return	37,106	34,457
Asset backed securities	66,215	64,678
	<u>509,319</u>	<u>499,410</u>

The Fund is the sole investor in the BMO LDI Fund – LDI Private Sub Fund. This portfolio has two components. First is the liability driven investment portfolio which hedged about 90% of the interest rate and inflation sensitivity of the non-insured liabilities, as measured on a Technical Provisions basis, as at end September 2021. Second is an equity derivatives portfolio with equity exposure of about £69.8m as at end September 2021. The investments held within that fund are as follows:

	2021	2020
	£000	£000
- Bonds	256,839	124,020
- Cash	(6,003)	(1,003)
- Derivatives - swaps	10,496	8,818
- Repurchase agreements	(26,191)	70,282
- Pooled investment vehicle	15,255	43,357
- Other	(773)	(1,798)
	<u>249,623</u>	<u>243,676</u>

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, BMO, GMO, Henderson 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:

	2021	2020
	Total	Total
	£000	£000
Buy-in annuity policies	199,500	219,500

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 2021 and 2020:

	30 September 2021	30 September 2021	30 September 2020	30 September 2020
	First Policy	Second Policy	First Policy	Second Policy
Financial assumptions				
Gilt yield	1.25% p.a.	1.29% p.a.	0.59% p.a.	0.64% p.a.
RPI inflation	3.78% p.a.	3.72% p.a.	3.23% p.a.	3.18% p.a.
Discount rate	1.60% p.a. (gilts + 0.35%)	1.47% p.a. (gilts + 0.18%)	0.94% p.a. (gilts + 0.35%)	0.82% p.a. (gilts + 0.18%)
Pension increases	3.50% p.a. (RPI with a 5% pa cap)	3.46% p.a. (RPI with a 5% pa cap)	3.09% p.a. (RPI with a 5% pa cap)	3.05% 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:

	2021	2020
	Total	Total
	£000	£000
Clerical Medical	816	950
Utmost Life & Pensions	211	225
Prudential Assurance Company Limited	69	77
Utmost Life & Pensions - TSOS	12	13
Clerical Medical - TSOS	19	11
Scottish Widows Limited	4	4
Prudential Assurance Company Limited - TSOS	3	3
	1,134	1,283

Also included above are TSOS accounts which are a historic defined contribution section of the Fund. These were reassigned into the individual member names after the year end.

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:

	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
	<u>-</u>	<u>510,026</u>	<u>199,927</u>	<u>709,953</u>

Analysis for the prior year end is as follows:

	2020 Level 1 £000	2020 Level 2 £000	2020 Level 3 £000	2020 Total £000
Pooled investment vehicles	-	499,410	-	499,410
Insurance policies	-	-	219,500	219,500
AVC investments	-	839	444	1,283
	<u>-</u>	<u>500,249</u>	<u>219,944</u>	<u>720,193</u>

17. Investment risks

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

- **Credit risk:** This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- **Market risk:** This is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and market prices.

The maximum risk resulting from financial instruments, except for written options and securities sold short, equals their value.

Market risk comprises currency risk, interest rate risk and other price risk:

- **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.

17. Investment risks (continued)

- **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.

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 21 (£m)	30 Sept 20 (£m)
Annuities/Buy-Ins	○	○	●	●	199.5	219.5
Newton Real Return Fund	●	●	●	●	31.4	32.4
GMO Global Real Return (UCITS) Fund	●	●	●	●	31.5	32.7
M&G Alpha Opportunities Fund	●	●	●	○	37.1	34.5
Insight High Grade ABS Fund	●	○	○	●	66.2	64.7
BMO Global Low Duration Credit	●	○	●	○	93.4	91.6
BMO LDI Private Sub-Fund S GBP	●	○	●	●	249.6	243.7
Total					708.7	718.9

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

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

Credit risk

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

As at 30 September 2021 around 71% (2020: 69%) 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, BMO Global Low Duration Credit and BMO 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 non-Sterling markets. The Trustee considers the non-Sterling 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 2021 around 14% (2020: 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, BMO Global Low Duration Credit and BMO 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 2021 around 91% (2020: 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 equity exposure being subject to movements in equity prices.

As at 30 September 2021 around 82% (2020: 83%) of the Fund's assets were invested in funds or securities that are significantly exposed to other price risk. The Newton Real Return Fund and GMO Global Real Return (UCITS) Fund are exposed to other price risk due to their allocations to equities. The BMO LDI Private Sub-Fund S GBP is exposed to other price risk at it contains equity derivatives (although it should be noted that as at 30 September 2021 the equity exposure was c£69.8m, compared to the total fund value of c£249.6m). 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:

	2021		2020	
	£000	%	£000	%
BMO LDI Private Sub Fund	249,623	35.1	243,676	33.5
Rothsay Life Insurance Policy	219,500	30.9	219,500	30.2
BMO Global Low Duration Credit Fund	93,436	13.1	91,567	12.6
Insight High Grade ABS Fund Class F	66,215	9.3	64,678	8.9
M&G Alpha Opportunities Fund	37,106	5.2	N/A	N/A

19. Employer-related investments

There was no employer-related investment as at 30 September 2021 (30 September 2020: none).

The Trust Deed and Rules of the Fund do not allow the Fund to have any direct shareholdings in Smith & Nephew plc or associated companies. 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. This is included in the Trustee's Statement of Investment Principles. There have been no transactions between the Fund and the principal employer except for the collection of contributions as prescribed by the Fund's Trust Deed and Rules. In addition, the Fund is recharged with certain costs of administration as disclosed in note 9 of the financial statements.

20. Current assets

	2021	2020
	Total	Total
	£000	£000
Pensions paid in advance	1,003	979
Cash deposits held with the Fund Administrator	2,705	7,440
	3,708	8,419

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

21. Current liabilities

	2021	2020
	Total	Total
	£000	£000
Income received in advance	792	779
Lump sums on retirement payable	100	10
Death benefits payable	-	1
Taxation payable	7	-
Administrative expenses payable	1,686	617
Investment management expenses payable	215	159
	2,800	1,566

22. Post Statement of Net Assets events

In November 2021, the Trustee agreed to invest c. £85m in the Legal & General Investment Management Low Carbon Transition Developed Markets Equity Index Fund (LCTF). This investment intends 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 investment is expected to go ahead in Q2 2022 and will be funded by transferring the cash backing the Fund's current synthetic equity exposure within the LDI portfolio (c£70m) and the remaining holdings in the GMO diversified growth fund (c£15m).

23. Related party transactions

(a) Key management personnel of the Fund

Legal & Professional fees include £156k (2020: £143k) in respect of services provided by Trustee directors, £72k (2020: £32k) of which relates to services provided by the independent Trustee.

There were two Trustee Directors (2020: two) 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 2021 was £624k (2020: £1,598k).

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 to the Trustee, under Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, 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 30, in respect of the Fund year ended 31 September 2021.

In our opinion the contributions for the Fund year ended 30 September 2021 as reported in the attached Summary of Contributions on page 30 and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the actuary on 26 April 2019 and 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 30 in the attached Summary of Contributions have in all material respects been paid at least in accordance with the Schedules of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of trustee's and auditor

As explained more fully on page 12 in the Statement of Trustee's Responsibilities, the Fund's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a 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 2021, the contributions payable to the Fund by the Employer were as follows:

	2021 Total £000
Contributions payable under the Schedules of Contributions:	
Employer contributions:	
Deficit funding	<u>5,000</u>
Contributions payable under the Schedules of Contributions (as reported on by the Fund Auditor) and reported in the financial statements	<u><u>5,000</u></u>

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

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

Name of scheme Smith & Nephew UK Pension Fund

Adequacy of rates of contributions

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

Adherence to statement of funding principles

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

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

Signature:

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

Date: 18 May 2021

Name:

Clive Wellsted

Qualification: FIA

Address:

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

Lane Clark & Peacock LLP is a limited liability partnership registered in England and Wales with registered number OC301438. LCP is a registered trademark in the UK (Regd. TM No 2315442) and in the EU (Regd. TM No 002935583). All partners are members of Lane Clark & Peacock LLP.
A list of members' names is available for inspection at 95 Wigmore Street, London, W1U 1DQ, the firm's principal place of business and registered office. The firm is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities. Locations in London, Winchester, Ireland and - operating under licence - the Netherlands.



Notes not forming part of the certification

Page 2 of 2

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

Smith & Nephew UK Pension Fund

Statement of Investment Principles

1. Scope of Statement

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

The effective date of this Statement is July 2020. 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 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. A copy of this Statement has been provided to these investment managers, the auditor, the Fund Actuary and the Investment Consultant and is available to the members of the Fund on request.

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 2018, with the next valuation due as at 30 September 2021 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 adviser 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 allocation to the Growth Portfolio as at 30 June 2020 was broadly 22% of the overall assets including the Buy-in Policies, or about 32% of the assets excluding the Buy-in Policies.

The Trustee is also reducing the allocation to the Growth Portfolio in a systematic way, independent of market conditions, to ensure investment risk is reduced gradually over time. The aim is to sell down the entire Growth

The Trustee will review the above strategy from time to time and following each actuarial valuation. The next valuation is due as at 30 September 2021. 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 "Buyin 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 (UK and overseas 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; and for the Buy-in Policies, the return is expected to be the income required to meet the benefit payments covered by the contract.

The projected investment returns for the asset classes taken from the 2018 actuarial valuation exercise are: 2.25% pa in excess of gilts on the Growth Portfolio, 1.9% pa on gilts and 3.4% pa inflation (RPI).

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.

Lucy Fuller Signature  12/08/20
Name (Print) Date

Robert Newcomb Signature  12/08/20
Name (Print) Date

Tim Allison Signature  09/09/20
Name (Print) Date

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 asset allocation of the Fund as at June 2020 is shown in the table below.

Asset Class	Allocation including Buy-in Policies (%)	Allocation excluding Buy-in Policies (%)
Matching Portfolio	78	68
Liability driven investment	26	37
Short-duration credit	12	18
Asset backed securities	9	13
Buy-in Policies	31	-
Growth Portfolio	22	32
Equities*	9	13
Diversified growth**	9	13
Absolute return bonds	4	6
Total	100	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.

** The allocation to diversified growth may include investments in equities, bonds or other assets at the discretion of the appointed investment manager.

There is no automatic rebalancing process in place. The Trustee will regularly consider whether the investment strategy remains appropriate. Given the illiquidity of the Buy-in 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

BMO Global Asset Management 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 Buyin 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 BMO Global Asset Management. The target of this fund is to deliver a total return commensurate with investment in low duration non-government bonds and other similar assets (expected to be about gilts +1% pa at the time of investment).

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 (expected to be about gilts +1.5% pa at the time of investment).

1. Investment Management Arrangements – Growth Portfolio

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

4.1 Equities

The Fund's equity exposure is gained through the use of derivatives, held within the liability driven investment portfolio, and is managed by BMO Global Asset Management. On an annual basis BMO will rebalance the equity exposure in accordance with the following table:

Regional Asset Class	Benchmark Index	Benchmark Weight (%)
UK Equities	FTSE 100	40.0
North American	S&P 500	40.0
European ex-UK	Eurostoxx 50	10.0
Japanese	Topix	5.0
Asia Pacific ex-Japan	S&P/ASX200 / Hang Seng	5.0
Total		100.0

**Net dividends reinvested*

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.

4.2 Diversified growth

The Trustee has decided to invest in diversified growth funds 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 managers have discretion over the asset allocation, and aim to generate a positive return over the medium term.

The Fund's allocation to diversified growth is split broadly evenly between two fund managers: Newton Investment Management Ltd ("Newton") and GMO UK Limited ("GMO").

The allocation to Newton is invested in the Real Return Fund. The target of this fund is to provide returns in line with Sterling LIBOR + 4% pa before fees (or +3.35% pa after fees) over rolling five-year periods.

The allocation to GMO is invested in the Global Real Return (UCITS) Fund. The target of this fund is to provide returns in line with the OECD G7 Consumer Price Index (a measure of global inflation) + 5% pa after fees over a complete market cycle.

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 Sterling LIBOR + 3 - 5% pa before fees (or + 2.65 – 4.65% pa after 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 advisers are paid for advice received on the basis of a fixedfee for core investment services. For significant areas of advice which fall outside of the core services fixedfee (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 preagree 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 as well as a performance-related fee, which the Trustee believes to be appropriate given the nature of the investment objective.

5.3 Summary of investment management fee arrangements

Manager	Asset Class	Fee
BMO Global Asset Management	Liability Driven Investment	Base fee = 0.0875% pa of the present value of the liabilities being hedged Performance fee = not applicable
BMO Global Asset Management	Short-duration buy and maintain credit	Base fee = 0.08% pa for the first £50m invested, and then 0.075% pa thereafter Performance fee = not applicable
Insight Investment Fund Management	Asset backed securities	Base fee = 0.33% pa, and then 0.35% pa from March 2022 (two years after the initial investment) Performance fee = not applicable
M&G Investment Management Limited	Absolute return bonds	Base fee = 0.50% pa Performance fee = not applicable
BMO Global Asset Management	Global equities	Base fee = 0.05% pa on exposure Minimum fee of £25,000 pa
Newton Investment Management	Diversified growth	Base fee = 0.65% pa Performance fee = not applicable
GMO UK Limited	Diversified growth	Base fee = 0.80% pa if assets under management are below \$100m, dropping to 0.75% pa if assets under management exceed \$100m Performance fee = not applicable

There is no ongoing management fee for the Buy-in Policies.

Implementation Statement, covering 1 October 2020 to 30 September 2021

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 its voting and engagement policies in its Statement of Investment Principles (“SIP”) during the year. This explanation, along with additional details regarding the Trustee’s broader compliance with and implementation of the SIP, are set out in Sections 1-14.

The Statement is also required to include a description of the voting behaviour during the 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 15 below.

This Statement uses the same headings as the Fund’s SIP dated 9 September 2020 and should be read in conjunction with the SIP.

Much of this Statement is in relation to the Fund’s defined benefit section, including Additional Voluntary Contributions (“AVCs”). There were also a small number of members with assets in the Trustee Share Option Scheme (“TSOS”) which were reassigned into the individual member names after the year end and converted into defined benefit pension benefits for those members. This Implementation Statement does not cover these investment holdings.

1. Introduction

No review of the SIP was undertaken during the Fund year. The SIP was last updated on 9 September 2020.

The Trustee has, in its opinion, followed the policies in the Fund’s SIP during the year. The following Sections provide detail and commentary about how and the extent to which it has done so, as well as describing how the Trustee has reviewed and monitored how the SIP policies have been followed during the Fund year.

2. Consultations Made

When updating the SIP in September 2020, the Trustee obtained written advice from Lane Clark & Peacock LLP (“LCP”), the Trustee’s Investment Consultant, as required under the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Trustee believes LCP to be suitably qualified and experienced to provide such advice. The employer was also consulted and confirmed it was comfortable with the changes.

3. Liabilities

The latest actuarial valuation had an effective date of 30 September 2020. The next actuarial valuation is due to take place by no later than 30 September 2023.

4. 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 Trustee reviews the Fund’s net current and future cashflow requirements monthly with input from the Fund’s administrator, Mercer. The Trustee has a clear cashflow policy and will raise any cash needed by disinvesting from the Fund’s LDI portfolio, which is highly liquid and has low transaction costs.

To ensure investment risk is gradually reduced over time, the Trustee has a de-risking policy to sell £4m from the Growth Portfolio each quarter, with cash proceeds used to help meet cashflow requirements if needed or invested in the LDI portfolio. This is broadly expected to result in the Growth Portfolio being sold down entirely by September 2032. The exact amounts disinvested each quarter will be reviewed by the Trustee periodically.

As a secondary objective, the Trustee aims for the Fund to be able to fully insure the members’ benefits with a bulk annuity provider by September 2032. Progress against this long-term objective is reviewed as part of the quarterly performance monitoring reports provided by the Investment Consultant. As at the end of September 2021, the Fund was on track to achieve this target. The Trustee is also able to view the progress on an ongoing basis using an online tool made available to the Trustee by its Investment Consultant.

5. Choosing Investments

The Trustee did not make any material changes to the defined benefit section’s investment strategy over the year to 30 September 2021.

The Trustee acknowledges it 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 monitors the performance of the defined benefit section's investment managers on a quarterly basis using the quarterly investment reporting provided by its Investment Consultant. The report shows the performance of each manager over the quarter and overall Fund performance over the one year, three year and five-year periods. Performance is considered in the context of the managers' benchmark and objectives. The most recent quarterly report, to 31 December 2021, showed that most managers have produced performance broadly in line with expectations over the long-term.

The Trustee's Investment Consultant also monitors the investment managers on an ongoing basis through regular research meetings. The Investment Consultant notifies the Trustee promptly about any significant updates or events they become aware of with regard to the Fund's investment managers that may affect the managers' ability to achieve their investment objectives. This includes any significant change to the investment process or key staff for any of the funds the Fund invests in, or any material change in the level of diversification.

The Trustee also regularly invites the Fund's investment managers to present at Investment Committee meetings. Over the period the Trustee met with BMO to receive an update on the LDI and corporate bond portfolios, and LGIM to discuss a potential investment in the Low Carbon Transition Developed Markets Equity Index Fund.

In November 2020, the Trustee assessed the defined benefit section's investment managers' fees in light of a manager fee survey carried out by its Investment Consultant. Following this the Trustee, with the help of its Investment Consultant, negotiated material fee reductions in relation to the Fund's LDI portfolio. Overall the Trustee believes the defined benefit section's investment managers provide reasonable value for money.

Finally, 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 Investment Consultant will consider this in making all manager recommendations. For example, BMO's Global Low Duration Credit Fund is managed using a "buy and maintain" approach which specifically looks to avoid some of the inefficiencies of passive management for corporate bond mandates by reducing the level of turnover.

6. Investment Risk Measurement and Management

With regards to the risk of actions by investment managers, the Trustee monitors the investment managers with advice from its Investment Consultant, as outlined in Section 5. The continuing suitability of the appointed managers is reviewed on an ongoing basis as part of the quarterly meetings.

With regard to the risk of the failure of some of the investments, the Fund is well diversified across different asset classes and securities in order to reduce the risk that the failure of any one investment has an excessive impact on the overall performance of the Fund. The Fund's Investment Consultant monitors the investment arrangements on behalf of the Trustee, and reports on performance on a quarterly basis.

The Trustee recognises that the risk that the bulk annuity policy provider, Rothesay Life Limited, fails to honour its obligations under the Buy-in Policies, cannot be eliminated altogether. However, the Trustee is comfortable with the strong regulatory regime under which bulk annuity providers operate, and in addition expects that the Financial Services Compensation Scheme would provide additional protection if necessary.

7. Employer Risk

The Trustee periodically assesses the financial strength of the Smith & Nephew plc as the sponsoring employer and its ability to support the Fund if necessary. The Trustee last carried out a detailed review in December 2020 which did not raise any concerns.

No "Notifiable Events" occurred during the period which would need to have been reported to the Pensions Regulator.

8. Asset Allocation Strategy

The Trustee monitored the appropriateness of the defined benefit section's asset allocation given the results of the 30 September 2020 actuarial valuation and remained comfortable that no changes were required.

9. Rebalancing

The Trustee monitors the asset allocation as part of the ongoing quarterly reporting received from its Investment Consultant and considers whether the allocation remains appropriate given the Trustee's stated objectives. The Trustee remained comfortable with the asset allocation during the year and therefore no rebalancing action was carried out.

10. Employer Related Investments

The Fund will not invest directly in securities (including shares) issued by Smith & Nephew plc or directly hold 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. The Trustee is comfortable that, as at 30 September 2021, there was no exposure to Smith & Nephew plc.

11. Investment of Additional Voluntary Contributions

The Trustee periodically reviews the choice of investments available to members with AVC and/or TSOS benefits to ensure they remain appropriate to member needs. The last review was carried out by the Trustee's Investment Consultant in March 2021 which did not identify any material issues and assessed that members were receiving fair value for money.

12. Realisation of Investments / Liquidity

As discussed in Section 4, for the defined benefit section the Trustee reviews the Fund's net current and future cashflow requirements monthly with input from the Fund's administrator, Mercer.

In general, the Fund's investment managers and bulk annuity policy provider have discretion as to the timing of realisations of underlying investments and in considerations relating to the liquidity of those investments.

The bulk annuity policy provider pays income to meet the benefit payments of the portion of the Fund's liabilities insured. To meet additional cashflow requirements the Trustee will determine where best to disinvest assets. During the year additional cashflows were taken from the LDI portfolio managed by BMO as necessary, given its liquid nature and low transaction costs.

13. Service Provider Monitoring

The Trustee set formal objectives for its Investment Consultant in November 2019, to clearly outline what the Trustee's expectations are and provide a framework for monitoring the Investment Consultant.

The Trustee assessed the Investment Consultant's performance against these objectives in November 2020 and provided feedback as appropriate.

14. Financially Material Considerations and Non-Financial Matters

As part of its advice on the selection and ongoing review of the investment managers, the Fund's Investment Consultant incorporates its assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement.

In May 2021, the Trustee reviewed the Investment Consultant's responsible investment (RI) scores for the Fund's investment managers and funds, along with the Investment Consultant's qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the manager's approach to ESG factors, voting and engagement. The fund scores and assessments are based on the Investment Consultant's ongoing manager research programme and it is these that directly affect the Investment Consultant's manager and fund recommendations. The manager scores and red flags are based on the Investment Consultant's Responsible Investment Survey 2020. Based on the information provided, the Trustee was mostly comfortable with the Fund's managers, although noted that GMO was identified as being weaker in this area than its peers. Following the end of the Fund year the Trustee decided to fully redeem the allocation to GMO – in part due to its poor responsible investment credentials – and invest the cash proceeds in Newton (the Fund's second diversified growth manager) and equities.

15. Description of voting behaviour during the year

All of the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee does not direct how votes are exercised and the Trustee itself has not used proxy voting services over the year.

In the section of the Statement on voting behaviour, we have sought to include data on the Fund's portfolios that hold / held equities over the year. This includes Newton and GMO's diversified growth funds.

We have omitted voting data for the AVC and TSOS benefits on materiality grounds since the physical equity holdings are only a small proportion of the Fund's total equity holdings.

We have also omitted the Fund's other funds (eg credit, LDI, asset backed-securities, synthetic equity, absolute return bond and liquidity funds) on materiality grounds since these are not expected to hold any physical equity holdings, and any holdings with voting rights attached to them are only a small proportion of the Fund's total assets.

The following sections provide details of each manager's voting process, as stated by the managers.

a. Newton's voting processes

Newton's head of responsible investment ("RI") 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.

Appendix 2: Implementation Statement

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. GMO's voting processes

GMO has engaged Institutional Shareholder Services Group, Inc. ("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.

c. Summary of voting behaviour over the year

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

	Newton Real Return Fund	GMO Global Real Return (UCITS) Fund
Value of Fund's assets (30 September 2021)	£31.4m	£31.5m
No of underlying equity holdings (30 September 2021)	96	1,390
No of meetings eligible to vote	111	1,774
No of resolutions eligible to vote	1,583	19,180
% of resolutions voted	99%	98%
% of resolutions voted with management	85%	89%
% of resolutions voted against management	15%	8%
% of resolutions abstained	0%	3%
% of meetings with at least one vote against management	42%	41%

d. Most significant votes over the year

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

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.

Alphabet Inc., June 2021:

Newton voted against the proposed compensation plan and members of the compensation committee. Newton was concerned with the lack of clarity surrounding the structure of executive pay arrangements, which appeared to provide an ability for executives to be rewarded significantly irrespective of performance achieved.

Newton supported several shareholder resolutions that they considered would better serve the company's shareholders. These related to: shifting to a single-class share structure; a feasibility study for including sustainability as a performance measure for executive compensation; appointment of a board director with human-rights experience; whistleblowing; anticompetitive practices; and the process for taking down controversial content from the company's websites.

Newton did not support two shareholders proposals. Newton considered that the company's disclosure of charitable contributions met their expectations, and the request for Alphabet to become a B Corporation (a public-benefit corporation) could be legally problematic.

AstraZeneca Plc, May 2021:

Votes were instructed against the remuneration policy, a new performance share plan, and members of the remuneration committee. Newton did not consider that the company had provided the necessary justification for the significant increase in the variable pay awards that were granted to senior executives.

Citigroup Inc, April 2021:

Newton voted in favour of one shareholder resolution that management recommended voting against. This was in relation to improving minority shareholder rights by way of providing shareholders with access to propose directors for election to the company's board.

ConocoPhillips, May 2021:

Newton voted against the remuneration report owing to a significant proportion of the long-term pay awards not being subject to the achievement of performance hurdles. As a result, Newton also voted against the members of the compensation committee.

Newton also voted against the appointment of the company's auditor given that it had been in place since 1949, raising concerns regarding the firm's ability to act objectively and independently.

Finally, Newton supported a shareholder resolution requesting that the company introduce Paris-aligned scope 1, 2 and 3 targets. Newton felt that the company would benefit from enhancements to its management of climate risk.

Microsoft Corporation, December 2020:

Despite improvements to executive remuneration practices over recent years, Newton remained concerned that approximately half of long-term pay awards vest irrespective of performance. Newton voted against the executive compensation arrangements and against the three members of the compensation committee.

Newton also voted against the re-appointment of the company's external auditor given that its independence was jeopardised by having served in this role for 37 consecutive years.

Texas Instruments, April 2021:

Newton voted against the executive compensation arrangements and the members of the compensation committee. Newton's concerns stem from the excessive use of time-based stock and share options within the long-term pay awards; where vesting occurs irrespective of performance.

Newton also voted against the election of the external auditor. After serving for 69 consecutive years, Newton felt that the firm's independence and objectivity was compromised. Newton also supported a shareholder proposal that sought to improve shareholders' rights in line with US best practice. The proposed provision would allow shareholders to act by way of written consent.

The Goldman Sachs Group, Inc., April 2021:

Newton supported a shareholder proposal requesting that the company provide shareholders with the right to act by way of written consent. This would enhance shareholders' rights, provide shareholders with the means to raise issues outside of AGMs, and is aligned with US best practice.

Appendix 2: Implementation Statement

Additional information on the company's policies regarding mandatory arbitration for harassment and discrimination cases was considered to have merit as it would provide insight into practices and could result in improved recruitment and retention, as well as allowing shareholders to better assess the risks associated with the company's use of arbitration agreement.

Newton did not support two shareholder proposals. Newton considered that the company has been taking meaningful action in terms of racial and economic equality, and the request for Goldman Sachs to become a B Corporation (a public-benefit corporation) could be legally problematic.

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.

Following the end of the Fund year the Trustee has decided to fully redeem the allocation to GMO.