SMITH & NEPHEW UK PENSION FUND

ANNUAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2020

Scheme Registration Number: 101466584

Contents

Trustee, Principal Employer, Participating Employers and Advisers

Trustee

Smith & Nephew UK Pension Fund Trustee Limited

Employer-nominated Trustee Directors

Carol Woodley - Independent Trustee (appointed 1 October 2019)
Lucy Fuller - Chair person to 31 December 2020
Robert Newcomb - Chair person from 1 January 2021

Member-nominated Trustee Directors

Len Pendle
David Webster

Secretary to the Trustee

Inside Pensions Limited

Principal Employer

Smith & Nephew UK Limited

Participating Employers

Smith & Nephew UK Limited
T. J. Smith and Nephew, Limited

Fund Actuary

Clive Wellsteed, F.I.A.
Lane Clark & Peacock LLP

Independent Auditor

RSM UK Audit LLP

Administrator

Mercer Limited

Investment Managers

Newton Asset Management (Newton)
BMO Global Asset Management (BMO)
GMO LLC (GMO)
Janus Henderson Global Investors Limited (Henderson) (Investment Management Agreement terminated 23 June 2020)
M & G Investment Management Limited (M&G)
Insight Investment Fund Management (Insight) (appointed February 2020)

Investment Custodians

BNP Paribas (for Henderson) (up to June 2020)
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)
Northern Trust (for Insight) (from February 2020)

Investment Adviser

Lane Clark & Peacock LLP

Annuity Provider

Rothesay Life Limited (Rothesay Life)

Additional Voluntary Contribution (AVC) Providers

Clerical Medical
The Equitable Life Assurance Society (up to 31 December 2019)
Prudential Assurance Company Limited
Scottish Widows Limited
Utmost Life and Pensions Limited (from 1 January 2020)

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
Inside Pensions Ltd
First Floor, Trident House
42-48 Victoria Street
St Albans
Hertfordshire
AL1 3HZ
Email: smithandnephew@insidepensions.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 2020. The Fund is a defined benefit scheme with a very small historic defined contribution section.

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 appointed on 1 April 2017, and David Webster was re-appointed on 1 July 2017. 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 for inspection by 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 seven 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 17 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 20 to 32 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 £747,142,000 at 30 September 2019 to £727,046,000 at 30 September 2020.

COVID-19 impact on the Fund

During March 2020, the worldwide spread of COVID-19 (Coronavirus) caused increased volatility and significant falls in global equity markets. This has had an adverse impact on the funding level of the Fund, but this has been modest due to the small allocation to return-seeking assets and the investments in assets that closely match the change in value of the Fund's liabilities. The Trustee has liaised with the sponsoring employer on a regular basis and as part of the ongoing valuation discussions. The covenant has also been assessed as strong by an independent covenant adviser. The Trustee continues to monitor the situation and will respond to emerging issues as necessary.

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 2018. This showed on that date that:

	30 September 2018
The value of Technical Provisions was:	£664 million
The value of assets was:	£660 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 95% 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 2.25% 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 0.25% p.a. for members expected to be non-pensioners in 2032; and
    - plus 0.25% 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, 90% (non-pensioners at 30 September 2015) / 100% (pensioners at 30 September 2015 whose benefits have not been insured) of the standard table S2NMA allowing for future improvements from 2007 in line with the CMI 2014 core projections with a smoothing factor of 8 and a 1.75% long term annual rate; and
- for females, 90% (non-pensioners at 30 September 2015) / 100% (pensioners at 30 September 2015 whose benefits have not been insured) of the standard table S2NFA allowing for future improvements from 2007 in line with the CMI 2017 core projections with a smoothing factor of 8 and a 1.25% long term annual rate.

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 2019 was included within the 'short report' provided to members in the first half of 2020.

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 2019, based upon the actuarial assumptions and methods set out in the Actuarial Valuation as at September 2018, 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 2020 are set out on pages 20 to 21 and the Auditor's Statement about Contributions and Trustee's Summary of Contributions are set out on pages 33 to 34.

Employers' Contributions to the Fund

Following the results of the 2015 actuarial valuation a Schedule of Contributions was established whereby deficit contributions in respect of previous service of £4.7m per quarter were agreed in order to seek to eliminate the Fund's deficit by September 2021. A revised Schedule of Contributions was certified by the Actuary on 26 April 2019, following the results of the 2018 actuarial valuation, which states that the quarterly deficit funding contributions of £4.7m were payable until 31 December 2018.

The Trustee is in the process of agreeing an actuarial valuation with the Company as at 30 September 2020. The initial deficit, based on the 2018 valuation assumptions, member experience and changes to financial markets indicates a deficit of £33m with assets of £727m. Under the current Schedule of Contributions additional deficit recovery payments of £5m per quarter will become payable from the end of March 2021 unless a new Schedule of Contributions is agreed before the first payment becomes due at the beginning of May 2021.

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

Deficit contributions are paid to the Fund at the end of each calendar quarter. The Trustee receives regular reports confirming the receipt of contributions from the Administrator. No contributions were due to the Scheme in the current year.

Additional voluntary contributions

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

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 an independent organisation, the Pensions Ombudsman (which incorporates the organisation previously known as 'The Pension Advisory Service', or 'TPAS') 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 2019	2,659	2,780	5,439
Retirements	(68)	68	-
Deaths	(6)	(131)	(137)
Transfers out	(31)	-	(31)
Spouses and dependants	-	32	32
Pensions commuted for cash	-	(39)	(39)
At 30 September 2020	2,554	2,710	5,264

Pensioners include 454 spouses and dependants (2019: 468) 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 512 pensioner members (2019: 526) and 128 dependents (2019: 129) and the second bulk annuity contract with Rothesay Life covers the benefits of 233 pensioner members (2019: 241) and 41 dependents (2019: 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 2020 was 0.5%. On 1 October 2019, pensions were increased by 2.6%.

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

General

All investments have been managed during the year under review by the investment managers, annuity provider and AVC providers detailed in the list of Fund advisers on pages 1 to 2.

The investment strategy is agreed by the Trustee after taking appropriate advice. The Trustee's governance structure includes an Investment Committee, comprising all of the Trustee Directors and the Sponsor's Group Treasurer, which is responsible for taking decisions in respect of the investments of the Fund and meets on a quarterly basis (or more often if required). Subject to complying with the agreed strategy, which specifies the target proportions of the fund which should be invested in the principal market sectors, the day-to-day management of the Fund's asset portfolio, which includes full discretion for stock selection, is the responsibility of the investment managers.

The overall investment policy of the Fund is determined by the Trustee on the advice of the Fund's Investment Adviser and in consultation with the principal employer. The investment managers work within the guidelines set out in the investment agreements established at the point of appointment, and the investment strategy is set and managed in accordance with the Statement of Investment Principles.

The investment allocation is comprised of a 'Growth Portfolio' designed to generate excess investment returns whilst maintaining appropriate levels of risk and diversification, and a 'Matching Portfolio' which is intended to match a significant proportion of the liabilities of the Fund whilst generating modest additional returns. The Growth Portfolio is comprised of two Diversified Growth Portfolios managed by Newton and GMO, and an absolute return bond mandate managed by M&G. The Trustee moved the equity portfolio held with Janus Henderson Investors to a synthetic equity portfolio held with BMO Global Asset Management during the year, to reduce the Fund's overall governance requirements. The Matching portfolio is comprised of a dynamic liability driven investment (LDI) portfolio (which includes exposure to equities through derivatives), a low duration credit mandate with BMO, an asset backed securities mandate with Insight and Bulk Annuity Policies held with Rothesay Life.

During the year the Trustee invested in a short duration credit mandate with BMO and an asset backed securities mandate with Insight in order to generate a modest level of additional return from assets held as collateral to back the LDI portfolio. The Trustee has put in place a time-based switching mechanism, instructing pre-determined portions of the Growth Portfolio to be switched to the LDI portfolio on a quarterly basis. These switches aim to sell down the entire Growth Portfolio by September 2032, independent of market conditions to ensure investment risk is reduced gradually over time.

A new Statement of Investment Principles was agreed in June 2020 which reflected changes outlined above.

Investment principles

The Trustee has produced a Statement of Investment Principles (SIP) in accordance with Section 35 of the Pensions Act 1995. A copy of the SIP is available on the Smith & Nephew website. The main priority of the Trustee when considering the investment policy is to ensure that the promises made about members' pensions may be fulfilled.

There has been no breach of any of the principles contained within the SIP during the year.

Responsible investment and corporate governance

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 where 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.

The Trustee also 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, considering 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.

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 48 to 56 as Appendix 2.

Investment performance

The performance returns for the Fund as at 30 September 2020 were as follows:

Date	Performance (% p.a.)	Benchmark (% p.a.)
1 year ending 30 September 2020	0.8	0.7
3 years ending 30 September 2020	6.0	6.3
5 years ending 30 September 2020	8.2	8.3

In respect of investment governance, the Investment Committee reviews the custodial arrangements put in place by the investment managers, and in conjunction with the investment consultant also reviews the internal controls reports issued by each of the managers. The Trustee carries out an annual review of the investment management charges incurred to ensure that such charges remain appropriate and consistent with the wider market.

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. These appointments are reviewed at regular intervals by the Trustee's Investment Committee in conjunction with the investment consultant.

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 available, on request, to members and prospective members, their spouses and other beneficiaries together with all recognised trade unions. In particular the documents constituting the Fund, the Rules and a copy of the latest actuarial report and the Trustee Statement of Investment Principles can be obtained via the Pensions Administrator (Mercer Limited) or from the Secretary to the Trustee listed on page 2.

Members can request details of the amount of their current transfer value free of charge. Such requests can be made once a year but any additional requests will incur charges.

A summary of highlights from this report is issued to all members in the form of a shorter report which advises members that they may apply for a copy of this full report.

Members can also view their Fund benefits via the Fund website: https://www.merceroneview.co.uk/SMITH-NEPHEW/login

Approved on behalf of Smith & Nephew UK Pension Fund Trustee Limited on 22 March 2021

Signed on behalf of Smith & Nephew UK Pension Fund Trustee Limited

.... Trustee Director

.... Trustee Director

Chair's DC Governance Statement, covering 1 October 2019 to 30 September 2020

1. Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements, to help members achieve a good outcome from their pension savings.

It is generally the case that Defined Benefits (DB) schemes where the only DC benefits relate to Additional Voluntary Contributions (AVCs) are excluded from the above regulations. The Smith & Nephew UK Pension Fund (the "Fund") has a DC section known as Trustee Share Option Scheme ("TSOS") which relates to an historic arrangement involving a small number of members with relatively small holdings. These DC benefits are invested together with the AVCs with external providers: Utmost Life & Pensions (previously Equitable Life Assurance Society); Clerical Medical; and the Prudential Assurance Company Limited.

There are currently 62 members with TSOS benefits. Having reviewed the Fund's structure, the Trustee is currently working to convert the TSOS benefits into DB benefits.

The Trustee of the Fund is required to produce a yearly statement (which is signed by the Chair of Trustee) to describe how governance requirements have been met in relation to:

- the investment options in which members can invest (this means the range funds members can select or have already have assets in, such as "legacy" funds);
- the requirements for processing core financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

2. Default arrangements

No new DC contributions have been paid to the Fund since 6 April 2015, and no existing DC contributions are invested in investment funds which meet the definition of 'default arrangements' under the relevant governance legislation. The Trustee has made available a range of self-select options for DC members within the Fund.

The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy. As the Fund does not have any default investment arrangements in place, a default Statement of Investment Principles ("SIP") is not required to be appended to this Statement and the Trustee is not required to describe any review of the default SIP in the last Fund year, any changes resulting from such a review, or the reasons why such a review was not undertaken. The Fund's SIP can be obtained from the Fund's administrator, Mercer.

3. Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the administrator of the Fund, Mercer. Core financial transactions include (but are not limited to):

- the investment of contributions;
- processing of transfers in and out of the Fund;
- transfers of assets between different investments within the Fund; and
- payments to members/beneficiaries.

The Trustee has received assurance from Mercer that there are adequate internal processes and controls to ensure that core financial transactions for the Fund are processed promptly and accurately.

The Fund has a service level agreement ("SLA") in place with Mercer which covers the accuracy and timeliness of all core financial transactions. For example, 5 working days to process retirements, 10 working days to process transfers out. Mercer's overall service performance for key processes was below its 95% target level during the year as it was impacted by absence levels as a result of Covid-19. Mercer put in place measures to address performance and the Trustee has seen improvement outside of the Fund year. The key processes adopted by the administrator to help it meet the SLA are as follows:

- daily monitoring of Fund bank accounts; and
- a dedicated administration team for the Fund, with at least two people involved with checking investment and banking transactions.

To help the Trustee monitor whether service levels are being met in relation to the accuracy and timeliness of core financial transactions, the Trustee receives and reviews quarterly reports on Mercer's performance and compliance with the SLA, as well as Mercer's Audit and Assurance Faculty (AAF) 01/06 report. Any issues identified by the Trustee as part of these monitoring processes would be raised with the administrators immediately, and steps would be taken to resolve the issues.

Based on its review and monitoring processes as outlined above, the Trustee is satisfied that over the period covered by this Statement:

- the administrator (Mercer) was operating appropriate procedures, checks and controls;
- there have been no material administration issues in relation to processing core financial transactions; and
- core financial transactions have been processed promptly and accurately to an acceptable level during the Fund year.

4. Member-borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by members over the period covered by this Statement, which are annual fund management charges plus additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio (TER). The TER is paid by the members and is reflected in the unit price of the funds.

The stated charges include the provider administration charges. Additional costs for Fund administration provided by Mercer have not been included as they are met by the employer.

The Trustee is also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Fund's DC investment managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The charges and transaction costs have been supplied by the Fund's DC investment managers: Clerical Medical; Prudential; and Utmost. When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance.

Due to the way in which transaction costs have been calculated it is possible for figures to be negative; since transaction costs are unlikely to be negative over the long term the Trustee has shown any negative figure as zero.

Default arrangements

As mentioned above, there is no default arrangement in place.

Self-select fund charges and transaction costs

The level of charges for each fund and the transaction costs over the period covered by this Statement are set out in the following table:

Fund name	TER %pa	Transaction costs
Unit-linked funds		
Clerical Medical Balanced Pension[1]	0.495	0.36
Clerical Medical UK Growth	0.495	0.53
Clerical Medical UK Equity Tracker	0.495	0.00
Clerical Medical Halifax	0.495	0.00
Clerical Medical Cautious	0.495	0.23
Clerical Medical Non-Equity	0.495	0.07
Utmost Life Managed	0.75	0.14
Utmost Life Secure Cash[2]	0.50	0.00
Utmost Life Money Market	0.50	0.00
Utmost Life Multi-Asset Moderate[3]	0.75	0.24
Utmost Multi-Asset Cautious	0.75	0.45
Deposit funds		
Prudential Deposit	No explicit charge[4]	Not applicable
With-profits funds		
Clerical Medical With-Profits	1.3	0.25

[1] Clerical Medical's transaction cost data does not cover the entire period. The Trustee will continue to work with the investment manager to provide up to date, transaction cost data. The UK Equity Tracker and UK Growth Pension covers the periods from 1 May 2019 to 30 April 2020. Whereas the data in respect of the With-Profits, Balanced Pension, International Growth Pension, Non-Equity Pension, Cautious Pension and Halifax Pension covers the period between 1 July 2019 to 30 June 2020.

[2] Members formerly invested in the Equitable Life With-Profits Fund were transferred to the Utmost Life Secure Cash Fund on 1 January 2020 on a temporary basis before being transferred into the Investing by Age Strategy. The transaction cost data for the Secure Cash Fund has been provided to 31 March 2020. No further investments were permitted to the fund and it was wound up in December 2020.

[3] Utmost's Multi-Asset Funds are used within its Investing by Age Strategy. Fund holding previously invested in the Secure Cash Fund were transitioned over a three-month period into the Investing by Age Strategy. Transaction cost data for the Multi-Asset Funds has been provided to 31 March 2020.

[4] Similar to a standard deposit account with a bank, the Deposit funds are not subject to explicit fees. Deposit funds earn daily interest.

Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings. In preparing this illustration, the Trustee has had regard to the relevant statutory guidance.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past two years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past two years as this is the longest period over which figures were available and should be more indicative of longer-term costs compared to only using figures over the last Fund year.
- The illustration is shown for Prudential Deposit Fund, since this is the arrangement with the most members invested in it as well as four funds from the Fund's self-select fund range. The four self-select funds shown in the illustration are:
  - the fund with the highest before costs expected return – this is the *Clerical Medical UK Equity Tracker*.
  - the fund with the lowest before costs expected return – this is the *Utmost Life Money Market*.
  - the fund with highest annual member borne costs – this is the *Clerical Medical With-Profits*.
  - the fund with lowest annual member borne costs – this is the *Clerical Medical Halifax*.

Projected pension pot in today's money

	Prudential Deposit		Clerical Medical UK Equity Tracker		Utmost Money Market		Clerical Medical With Profits		Clerical Medical Halifax	
Years invested	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£390	£390	£410	£410	£390	£390	£400	£400	£390	£390
3	£380	£380	£420	£420	£380	£370	£410	£390	£380	£370
5	£360	£360	£440	£430	£360	£350	£420	£390	£360	£350
10	£330	£330	£490	£460	£330	£310	£440	£380	£330	£310

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual inflation is assumed to be 2.5%.
- The starting pot size used is £400 (the figure has been rounded to the nearest £10). This is the approximate average (median) pot size for members.
- The projection is for 10 years, being the approximate duration that the youngest scheme member has until they reach the scheme's Normal Pension Age.
- The starting salary and total contributions (employee and employer) are assumed to be zero, as the Fund is closed to future contributions.
- The projected annual returns used are as follows:
  - The Prudential Deposit Fund where most members are invested in: -2.0% below inflation.
  - Clerical Medical UK Equity Tracker Fund: 2.0% above inflation.
  - Utmost Life Money Market Fund: 2.0% above inflation.
  - Clerical Medical With-Profits Fund: 1.0% above inflation.
  - Clerical Medical Halifax Fund: 2.0% below inflation.
- No allowance for active management outperformance has been made.

5. Value for members assessment

The Trustee is required to assess every year the extent to which member borne charges and transaction costs represent good value for members and to explain that assessment. It is difficult to give a precise legal definition of 'good value' but the Trustee considers that it broadly means that the combination of costs and the quality of what is provided in return for those costs is appropriate for the relevant Fund members as a whole when compared to other options available in the market.

The Trustee reviews all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Fund. The date of the last review was: 5 March 2021.The Trustee notes that value for money does not necessarily mean the lowest fee and the overall quality of the service received has also been considered in this assessment. The Trustee's investment adviser, LCP has confirmed that the fund charges are competitive for the types of fund available to members.

The Trustee's assessment included a review of the performance of the Fund's investment funds (after all charges and transaction costs) in the context of their investment objectives. The returns on the investment funds members were invested in during the period covered by this statement have been broadly consistent with their stated investment objectives.

In carrying out the assessment, the Trustee also considers the other benefits members receive from the Fund, which include:

- the oversight and governance of the Trustee, including ensuring the Fund is compliant with relevant legislation, and holding regular meetings to monitor the Scheme and address any material issues that may impact members;
- the range of investment options;
- the quality of communications delivered to members; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

As detailed in the earlier section covering the processing of core financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes.

The Trustee believes the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches and expect this to lead to greater investment returns net of costs over time.

Overall, the Trustee believes that members of the Fund are receiving fair value for money for the charges and cost that they incur, for the reasons set out in this section. The Trustee reached this conclusion taking into account the advice received from its investment adviser, LCP, in relation to the competitiveness of the level of fund charges and the additional factors noted above. The Trustee aims to improve value for members in future by taking (or considering) the following steps.

- Continue to monitor the costs borne by members;
- Continue to monitor returns to identify any consistent underperformance and take action as appropriate;
- Continue to monitor the member experience with Mercer, to ensure the level of service remains at current levels or is improved. The Trustee will review complaints over the preceding year and request details of any new complaints submitted;
- Work with Mercer to improve the relevant data scores relating to both "Common" and "Conditional" Data;
- Ensure that Trustee training is kept up to date, including developments in both DB and DC matters; and
- Issue further DC member communications as appropriate.

6. Trustee knowledge and understanding

The Fund's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Fund effectively. Each Trustee Director must:

- be conversant with the trust deed and rules of the Fund, the Fund's statement of investment principles any other policy document for the time being adopted by the Trustee relating to the administration of the Fund generally, and
- Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as trustee director, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment of the assets of occupational pension schemes.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's investment adviser proactively raises any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers would typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this Statement, the Trustee received training on a range of pension topics including:

- Risk register, Trustee effectiveness, succession planning, strategy and investment considerations for 2020 (December 2019) – delivered by LCP
- Cyber Security (February 2020) – delivered by S&N plc (specialist);
- Covid-19: impact on retirement; (23-25 June 2020) – delivered by PwC;
- Changes in pension scheme investment compliance and disclosure requirements (22 October 2020) – delivered by Mayer Brown; and
- Legal update: Pension Schemes Act 2020 (28 February 2019 to 18 November 2020) – delivered by Mayer Brown.

All the Trustee Directors are familiar with and have access to copies of the Fund's governing documentation and documentation setting out the Trustee's policies, including the Trust Deed & Rules and SIP (which sets out the policies on investment matters). In particular, the Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Fund, and, where relevant, deciding individual member cases and the SIP is formally reviewed at least every three years and as part of making any change to the Fund's investments. Further, the Trustee Directors believe they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties, taking into account the initial training process set out below and the ongoing training sessions received from the Trustee's professional advisers noted above.

All the Trustees Directors are required to commit to completing appropriate training, either at the relevant meetings or by personal study. All of the Trustee Directors have completed the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of occupational pension schemes meet the minimum level of knowledge and understanding required by law). Any new Trustee Directors are required to complete the Toolkit within six months of taking up office and must also complete Pension Management Institute's Award in Pension Trusteeship qualification.

There are currently five Trustee Directors for the Fund. Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration and during the Fund year. A training log is maintained in line with best practice and the training programme is reviewed regularly to ensure it is up to date.

The Trustee does not contain any individual Directors who possess specialist investment expertise and therefore places significant reliance on its investment advisor which proactively keeps the Trustee updated on DB and DC topical investment matters. Some of the Trustee Directors have a specialist financial background, and an experienced Independent Trustee is appointed to the board.

The Fund's Trustee directors have extensive skills and experience to oversee the governance of the Fund. Carol Woodley (the independent Trustee) is an actuary with over 35 years' experience in pensions, including over 15 years as a professional Trustee and pension board Chair. She is an accredited professional trustee, with suitable technical knowledge and holds an FIA qualification.

In addition to the skills within the Trustee board, as mentioned previously, the Trustee is supported by a team of professional advisers and service providers that attend Trustee meetings regularly. The Trustee delegates certain responsibilities to its advisors. These include Mercer as the administrator, Inside Pensions as the Trustee Secretary, LCP as investment advisor, RSM as the Fund's auditor and Mayer Brown as the legal advisor. All third-party advisers are kept under regular review. The Trustee Board evaluates its performance and effectiveness regularly. The last evaluation was undertaken in 2019.

Considering the knowledge and experience of the Trustee Directors and the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg investment consultants, legal advisors), the Trustee Directors believe they are well placed to exercise their functions as Trustee of the Fund properly and effectively.

-- Date 22 March 2021

Bob Newcomb, Chair of the Trustee

Signed by the Chair on behalf of the Trustee of the Smith & Nephew UK Pension Fund

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.

The Trustees are responsible for the maintenance and integrity of the pension and financial information included on the Smith & Nephew UK Pension Fund website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2020 which comprise fund account, the statement of net assets and notes to the financial statements, including a summary of 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 2020, 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identifiable material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement in the other information. 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 17, 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 determine 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 has 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at 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 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 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 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 22 March 2021

Fund Account

	Note	2020 £000	2019 £000
Employer contributions	4	**-**	4,700
Transfers in	5	**-**	2
Other income	6	**2**	1
		2	4,703
Benefits paid or payable	7	**(15,271)**	(16,013)
Payments to and on account of leavers	8	**(8,675)**	(9,906)
Administrative expenses	9	**(1,251)**	(882)
		(25,197)	(26,801)
Net withdrawals from dealings with members		**(25,195)**	(22,098)
Returns on investments			
Investment income	10	**10,185**	10,379
Change in market value of investments	11	**(5,065)**	97,821
Investment management expenses	12	**(21)**	(54)
Net returns on investments		**5,099**	108,146
Net (decrease)/ increase in the fund during the year		**(20,096)**	86,048
Net assets at 1 October		**747,142**	661,094
Net assets at 30 September		**727,046**	747,142

The notes on pages 22 to 32 form part of these financial statements.

Statement of Net Assets available for benefits

	Note	**2020 £000**	2019 £000
Investment assets			
Pooled investment vehicles	14	**499,410**	517,459
Insurance policies	15	**219,500**	226,400
AVC investments	16	**1,283**	1,391
Cash	17	**-**	3
Total investments	11	**720,193**	745,253
Current assets	22	**8,419**	3,661
Current liabilities	23	**(1,566)**	(1,772)
Net assets at 30 September		**727,046**	747,142

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 22 to 32 form part of these financial statements.

The financial statements on pages 20 to 32 were approved on behalf of Smith & Nephew UK Pension Fund Trustee Limited on 22 March 2021

Signed on behalf of Smith & Nephew UK Pension Fund Trustee Limited

.... Trustee Director

.... Trustee Director

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).

In June 2018, a revised SORP was issued which is applicable to accounting periods commencing on or after 1 January 2019. The Trustee has adopted the revised SORP for the first time in these financial statements. The adoption of the revised SORP has had no material impact on the financial statements, although it has required certain additions to or amendments of disclosures in the financial statements.

The financial statements have been prepared on the going concern basis. As noted in the Trustee's report on page 4, the Trustee has assessed the impact of the COVID-19 pandemic in terms of the predicted affect on the Fund's assets, technical provisions and the employer covenant. 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 2022. 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 18.

4. Contributions

	2020	2019
	£000	£000
Employer contributions:		
Deficit funding	**-**	4,700

As per the Schedule of Contribution certified by the Actuary on 26 April 2019 quarterly deficit funding contributions of £4.7m were payable until 31 December 2018.

With effect from 31 December 2016, the Fund closed to future accrual.

5. Transfers in

	2020	2019
	£000	£000
Individual transfers in from other schemes	**-**	2

6. Other income

	2020	2019
	£000	£000
Interest on cash deposits held by the Trustee	**1**	-
Miscellaneous income	**1**	1
	2	1

7. Benefits paid or payable

	2020	2019
	£000	£000
Pensions	**13,984**	13,912
Commutation of pensions and lump sum retirement benefits	**1,193**	2,065
Lump sum death benefits	**94**	36
	15,271	16,013

8. Payments to and on account of leavers

	2020	2019
	£000	£000
Individual transfers out to other schemes	**8,675**	9,906

9. Administrative expenses

	2020	2019
	£000	£000
Benefits administration / actuarial / consultancy	**761**	479
Legal and other professional fees	**434**	354
Audit fees	**17**	14
Fund levies	**39**	35
	1,251	882

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

10. Investment income

	2020 £000	2019 £000
Income from pooled investment vehicles	**861**	781
Income from buy-in annuity policy	**9,324**	9,598
	10,185	10,379

11. Reconciliation of investments

	Market value at 1 October 2019 £000	Cost of investments purchased £000	Proceeds of sales of investments £000	Change in market value £000	**Market value at 30 September 2020 £000**
Pooled investment vehicles	517,459	286,127	(306,076)	1,900	**499,410**
Insurance policies	226,400	-	-	(6,900)	**219,500**
AVC investments	1,391	-	(43)	(65)	**1,283**
	745,250	286,127	(306,119)	(5,065)	**720,193**
Cash	3			-	**-**
	745,253			(5,065)	**720,193**

11.1 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.

12. Investment management expenses

	2020 £000	2019 £000
Administration, management and custody fees	**206**	355
Fee rebates	**(185)**	(301)
	21	54

13. 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.

14. Pooled investment vehicles

	2020 £000	2019 £000
Equities	**-**	86,359
Bonds	**91,567**	-
Liability driven investment	**243,676**	316,578
Diversified growth	**65,032**	81,495
Absolute return	**34,457**	33,027
Asset backed securities	**64,678**	-
	499,410	517,459

The Fund is the sole investor in the BMO LDI Fund - LDI Private Sub Fund. The investments held within that fund are as follows:

	2020 £000	2019 £000
- Bonds	**124,020**	301,771
- Cash	**(1,003)**	21,703
- Derivatives - swaps	**8,818**	12,077
- Repurchase agreements	**70,282**	(51,042)
- Pooled investment vehicle	**43,357**	32,246
- Other	**(1,798)**	-
	243,676	316,755

The M&G pooled investments are held in the name of the Fund. Income generated by these units is distributed as shown in note 10.

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.

15. Insurance policies

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

	2020 £000	2019 £000
Buy-in annuity policies	**219,500**	226,400

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 2020 and 2019:

	30 September 2020 First Policy	30 September 2020 Second Policy	30 September 2019 First Policy	30 September 2019 Second Policy
Financial assumptions				
Gilt yield	0.59% p.a.	0.64% p.a.	0.81% p.a.	0.86% p.a.
RPI inflation	3.23% p.a.	3.18% p.a.	3.42% p.a.	3.37% p.a.
Discount rate	0.94% p.a. (gilts + 0.35%)	0.82% p.a. (gilts + 0.18%)	1.16% p.a. (gilts + 0.35%)	1.04% p.a. (gilts + 0.18%)
Pension increases	3.09% p.a. (RPI with a 5% pa cap)	3.05% p.a. (RPI with a 5% pa cap)	3.23% p.a. (RPI with a 5% pa cap)	3.19% p.a. (RPI with a 5% pa cap)

16. 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:

	2020 £000	2019 £000
Clerical Medical	**950**	1,062
Utmost Life & Pensions (Equitable Life)	**225**	214
Prudential Assurance Company Limited	**77**	81
Utmost Life & Pensions (Equitable Life) - TSOS	**13**	12
Clerical Medical - TSOS	**11**	15
Scottish Widows Limited	**4**	4
Prudential Assurance Company Limited - TSOS	**3**	3
	1,283	1,391

Also included above are TSOS accounts which are a historic defined contribution section of the Fund.

17. Cash

	Assets £000	**Liabilities £000**	**2020 £000**	Assets £000	Liabilities £000	2019 £000
Sterling	**-**	**-**	**-**	3	-	3

18. Fair value determination

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 that the reporting entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Observable inputs are inputs that 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 that 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.

The Fund's investment assets have been included at fair value using the above hierarchy levels 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**
Cash	**-**	**-**	**-**	**-**
	-	**500,249**	**219,944**	**720,193**

18. Fair value determination - continued

Analysis for the prior year end is as follows:

	2019 Level 1 £000	2019 Level 2 £000	2019 Level 3 £000	2019 Total £000
Pooled investment vehicles	-	517,459	-	517,459
Insurance policies	-	-	226,400	226,400
AVC investments	-	941	450	1,391
Cash	3	-	-	3
	3	518,400	226,850	745,253

19. Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

– **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.

– **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 Fund has exposure to these risks because of the investments it makes in following the investment strategy. The Fund is also exposed to other risk including employer covenant, the long term actuarial liabilities and funding risk which are not dealt with in the financial statements which only report on investment risk.

AVCs are not included in the following risk disclosures on the grounds of materiality.

Risk management structure, measurement and reporting system

The Trustee is responsible for identifying and managing risks, including risks arising from the investment activities and it's aim is to maximise the return on the Fund's assets whilst controlling these risks to an acceptable level.

The Trustee has appointed investment managers to manage the non-insured investments of the Fund under agreed mandates and a spread of assets is held to avoid undue concentration of risk. The Trustee receives formal advice from its investment consultant in both appointing and monitoring the investment managers, and the target allocations, benchmarks and risk tolerance levels are consistent with the Statement of Investment Principles.

The Trustee reviews the performance of the investment managers against the agreed performance objective and written reports from the managers to the Trustee are available each quarter. The continuing suitability of the managers is reviewed annually or more frequently if this is appropriate.

19 Investment risks - continued

Risk mitigation

The Trustee has established investment guidelines that set out its overall investment strategy and its general approach to risk management, as set out in the Statement of Investment Principles and below.

The Trustee has appointed an investment adviser to assist it in determining and implementing the investment strategy for the Fund which is to hold bulk annuity insurance policies with Rothesay Life with the non-insured assets invested in a range of return-seeking asset classes, and also a dynamic LDI portfolio.

The Trustee acknowledges that its investment managers may use derivatives and other instruments for trading purposes and in connection with its risk management activities.

		Market Risk				
Manager	**Investment mandate**	**Currency**	**Interest rate**	**Other price risk**	**Credit risk**	**2020 Total (£m)**
Insight Investment Management Limited	Asset backed securities	❍	❍	●	●	**64.7**
Newton Asset Management	Diversified Growth	●	●	●	●	**32.4**
GMO LLC	Diversified Growth	●	●	●	●	**32.7**
M&G Investment Managemen Limited	Absolute Return Bonds	❍	●	●	●	**34.5**
BMO Global Asset Management	Bespoke LDI (including equity)	❍	●	●	●	**243.7**
BMO Global Asset Management	Short Duration Buy and Maintain Credit	❍	●	●	●	**91.6**
Rothesay Life - Bulk Annuity Policy	Bulk Annuity Policy	❍	●	❍	●	**219.5**

In the above table, the risk noted effects the fund significantly, (●) or hardly/not at all (❍).

Credit risk

The Fund invests in bulk annuity policies with Rothesay Life covering a significant proportion of the pensioner liabilities, and also invests in a number of pooled investment vehicles.

For the bulk annuity policies with Rothesay Life, the Fund is directly exposed to credit risk in relation to Rothesay Life being unable or unwilling to honour its contractual obligations. The Trustee periodically carries out due diligence by reviewing Rothesay Life's adherence to the capital adequacy requirements and would also carry out additional due diligence in the event of advice being received regarding potential issues with the insurer. The credit risk of this policy is also mitigated the Financial Services Compensation Scheme would be expected to provide significant protection if the bulk annuity provider became insolvent.

The Fund is directly exposed to some credit risk through the pooled investment vehicles in relation to losses that can occur as a result of a counterparty or issuer being unable or unwilling to honour its contractual obligations. The Trustee requires that the investment consultant monitors both the management and the performance of the pooled investment vehicles. The investment consultant also carries out regular due diligence checks with regard to the managers of the pooled investment vehicles. The assets of the pooled investment vehicles are held in custody on behalf of the Fund, and are therefore independent of credit risk specific to the investment managers. The appointment and monitoring of the custodians is the responsibility of the managers. The pooled investment vehicles in which the Fund invests are unrated.

The Fund is also indirectly exposed to credit risk through the underlying investments of the diversified growth, absolute return bond and liability driven pooled investment vehicles.

19 Investment risks - continued

A summary of pooled investment vehicles by type of arrangement is as follows:

Manager	**Investment mandate**	**PIV type**	**£m**
Insight Investment Management Limited	Asset backed securities	Open Ended Investment Company (OEIC)	64.68
Newton Asset Management	Diversified Growth	Open Ended Investment Company (OEIC)	32.35
GMO LLC	Diversified Growth	Open Ended Investment Company (OEIC)	32.68
M&G Investment Management Limited	Absolute Return Bonds	Open Ended Investment Company (OEIC)	34.45
BMO Global Asset Management	Bespoke LDI (including equity)	Luxembourg domiciled Fonds Commun de Placement (FCP)	243.68
BMO Global Asset Management	Short Duration Buy and Maintain Credit	Luxembourg domiciled Fonds Commun de Placement (FCP)	91.57
			499.41

Currency risk

The Fund also invests in two Diversified Growth Funds, managed by Newton and GMO which contain varying exposures to non-GBP denominated assets, not all of which will necessarily have the currency exposure hedged back to Sterling. The Trustee views these allocations as having indirect currency risk.

Interest rate risk

The Fund is subject to interest rate risk indirectly as it is invested in a liability driven pooled investment vehicle and short duration credit fund managed by BMO, an absolute return bond fund managed by M&G, and diversified growth funds managed by Newton & GMO. The Fund is also directly exposed to interest rate risk as it invests in bulk annuity insurance policies (note 14). If interest rates fall, the value of the bulk annuities will rise to help match the increase in the assessed value of the liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the value of the policies will decrease, as will the value of the liabilities because of an increase in the discount rate.

Other price risk

The Trustee considers that, with the exception of the Bulk Annuity Policies the entire pooled investment vehicle portfolio (note 14) is subject to indirect other price risk, however it believes that the risk is proportionate to investment return targeted, and the strength of the Company's covenant.

Sole Investor Fund

As explained in note 14, the Fund is the sole investor in the BMO LDI Fund — LDI Private Sub Fund S GBP. FRS 102 requires that the risk disclosures should be made using the look through approach for sole investor pooled arrangements:

Credit risk arising on bonds is mitigated by investing in government bonds where the credit risk is minimal.

Credit risk arising on derivatives and repurchase agreements is mitigated through collateral arrangements and through the investment manager using a diversified pool of counterparties.

The pooled investment vehicle in which the Sole investor fund invests is unrated. The assets of the Pooled investment vehicle are held in custody on behalf of the Sole investor fund and are therefore independent of credit risk specific to the investment manager.

20. Concentration of investments

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

	2020		2019	
	£000	**%**	£000	%
BMO LDI Private Sub Fund	**243,676**	**33.5**	316,578	42.4
Rothesay Life Insurance Policy	**219,500**	**30.2**	226,400	30.3
BMO Global Low Duration Credit Fund	**91,567**	**12.6**	N/A	N/A
Insight High Grade ABS Fund Class F	**64,678**	**8.9**	N/A	N/A
Newton Real Return Fund	**N/A**	**N/A**	41,523	5.6
GMO Global Real Return (UCITS) Fund GBA	**N/A**	**N/A**	39,972	5.3

21. Employer-related investments

There was no employer-related investment as at 30 September 2020 (30 September 2019: 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.

22. Current assets

	2020	2019
	£000	£000
Pensions paid in advance	**979**	982
Cash deposits held with the Fund Administrator	**7,440**	2,679
	8,419	3,661

23. Current liabilities

	2020	2019
	£000	£000
Income received in advance	**779**	791
Lump sums on retirement payable	**10**	44
Death benefits payable	**1**	-
Taxation payable	**-**	20
Administrative expenses payable	**617**	653
Investment management expenses payable	**159**	264
	1,566	1,772

24. Related party transactions

(a) Key management personnel of the Fund

Legal & Professional fees include £143k (2019: £90k) in respect of services provided by Trustee directors, £32K (2019: £31k) of which relates to services provided by the independent Trustee.

There were two Trustee Directors (2019: 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 2020 was £1,598k (2019: £891k).

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 schedule of contributions

We have examined the summary of contributions payable to the Smith and Nephew UK Pension Fund on page 34, in respect of the Fund year ended 30 September 2020.

In our opinion the contributions for the Fund year ended 30 September 2020 as reported in the attached Summary of Contributions on page 34 and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the actuary on 26 April 2019.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 34 in the attached Summary of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of trustee's and auditor

As explained more fully on on page 17 in the Statement of Trustee's Responsibilities, the Fund Trustee are 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 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 Trustee those matters we are required to state to it 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 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.......22 March 2021.......................

Summary of Contributions

During the year ended 30 September 2020 no contributions were payable to the Fund by the Employer under the Schedule of Contributions.

Approved on behalf of Smith & Nephew UK Pension Fund Trustee Limited on 22 March 2021

Signed on behalf of Smith & Nephew UK Pension Fund Trustee Limited

.... Trustee Director

.... Trustee Director

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Actuary's certification of schedule of contributions

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

Name of scheme Smith & Nephew UK Pension Fund

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 30 September 2018 to be met by the end of the period specified in the recovery plan dated 26 April 2019.

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 26 April 2019

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: **Date:** 26 April 2019

Name: Clive Wellsteed **Qualification:** FIA

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

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Notes not forming part of the certification

In giving the above opinion I have interpreted the phrase "could have been expected to be met as being satisfied by consideration of the proposed contributions under the economic and demographic scenario implied by the trustees' funding assumptions as set out in their statement of funding principles dated 26 April 2019 and their Recovery Plan dated 26 April 2019 and without any further allowance for adverse contingencies that may arise in the future. My opinion does not necessarily hold in any other scenarios.

Furthermore, I have taken no account of either adverse or beneficial outcomes that have become known to me since the effective date of the valuation. However, I have taken account of contributions that are payable to the Fund between the effective date of the valuation and the date that I have certified this Schedule as documented in the Schedule of Contributions.

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 Portfolio by September 2032.

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 "Buy-in Policies"). Each policy covers a subset of the Fund's pensioner liabilities.

The Trustee took investment advice from LCP in relation to the purchase of the Buy-in Policies. The Trustee also commissioned an independent report into Rothesay Life Limited's finances and investment strategy from Oliver Wyman, a management consulting firm prior to making the decision to purchase the first contract.

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

11. Expected Returns on Assets

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

- for the assets in the Growth Portfolio (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 .... 12/08/20 ....
Name (Print) Date

Signature

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

The Smith & Nephew UK 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.

2. 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.

3. 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 Buy-in Policies. To achieve this, the portfolio dynamically allocates between swaps and gilts on a systematic basis according to the relative valuations of swaps and gilts.

3.3 Short-duration buy and maintain credit

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

The Fund's allocation to short-dated buy and maintain credit is invested in the Global Low Duration Credit Fund managed by 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).

4. 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[1] (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

[1] This is a measure of inflation across seven major developed economies: Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

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

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

5.2 Investment managers

The investment managers are remunerated through a fee based on a set percentage of the assets under management 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 2019 to 30 September 2020

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 Statement of Investment Principles ("SIP") during the year, as well as details of any review of the SIP during the year, subsequent changes made with the reasons for the changes, and the date of the last SIP review. Information on the last review of the SIP is provided in Section 1 and on the implementation of the SIP in Sections 2-14 below.

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 are also a small number of members with assets in the Trustee Share Option Scheme ("TSOS") which, at the time of writing, the Trustee was undertaking a project to transfer into the defined benefit section.

1. Introduction

The SIP was reviewed and updated during the Fund year on 9 September 2020 to reflect:

- the introduction of an asset backed securities mandate managed by Insight;
- the agreed transfer of the equity allocation from Janus Henderson to BMO;
- the updated asset allocation as at 30 June 2020; and
- new wording that addresses the requirements of the 2019 SIP regulations which implement the European Union Shareholder Rights Directive.

Further details and the reasons for these changes are set out in the Sections below. As part of the SIP update, the employer was consulted and confirmed it was comfortable with the changes.

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 did this.

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 2018, with the next valuation scheduled to take place by no later than 30 September 2021. Due to the market volatility seen during 2020 because of the Coronavirus pandemic, the Trustee decided to bring forward the timing of the next actuarial valuation to 30 September 2020. The main rationale for this is to ensure the recovery plan remains appropriate given the Fund's funding position considering changes to market conditions since 30 September 2018. This actuarial valuation remains in progress at the time of writing.

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. To mitigate against the risk of illiquidity seen in early 2020 in the immediate aftermath of the Coronavirus pandemic, the Trustee sought to maintain a £4m balance in the Trustee bank account to meet any immediate cashflow requirements. This was achieved during the year by making disinvestments as necessary from the Fund's LDI portfolio, which is highly liquid and has low transaction costs. As of 25 February 2021, the Trustee agreed to revert to its previous policy of holding at least £1m in the Trustee bank account, as it no longer considers illiquidity to be a significant risk.

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, split evenly between equities and the diversified growth funds. 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. As at the end of December 2020, the Fund was on track to achieve this target. The Trustee is also able to view the progress on an ongoing basis using LCP Visualise online.

5. Choosing Investments

The Trustee, with the help of its Investment Consultant, LCP, and in consultation with the sponsoring employer, made several changes to the DB Section's investment strategy over the year to 30 September 2020, as outlined below:

- During Q4 2019, £90m collateral held in the LDI portfolio managed by BMO was switched into BMO's Global Low Duration Credit Fund.
- In March 2020, £65m collateral held in the LDI portfolio managed by BMO was switched into Insight's High Grade ABS Fund.
- In June 2020, cash proceeds from the Fund's physical equity holdings held with Janus Henderson were transferred to BMO's LDI portfolio, with the equity exposure maintained using derivatives.

In making these changes the Trustee considered the investment risks set out in the SIP, in particular those outlined in the Section "Investment Risk Measurement and Management". It also considered a wide range of asset classes for investment, considering the expected returns and risks associated with those asset classes as well as how these risks could be mitigated. The Trustee determined that the changes outlined above were appropriate given the liquidity profile of the Fund, its cashflow requirements, the funding level of the Fund and the Trustee's objectives. The Trustee obtained formal written advice from its Investment Consultant, LCP, before investing in each of the allocations outlined and made sure the investment portfolio of each was adequately and appropriately diversified.

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. In April 2020 the Trustee wrote to the DB Section's investment managers to emphasise the Trustee's expectations, in particular to emphasise that the Trustee expects its investment managers to take account of financially material considerations, which includes ESG factors, in the selection, retention and realisation of investments and to exercise voting rights and undertake engagement with investee companies and other relevant parties on the Trustee's behalf.

The Trustee monitors the performance of the DB 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 2020, showed that most managers have produced performance broadly in line with expectations over the long-term.

The Fund's Investment Consultant, LCP, also monitors the investment managers on an ongoing basis through regular research meetings. LCP 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 in the fund.

The Trustee also regularly invites the Fund's investment managers to present at Investment Committee meetings. Over the period, the Trustee met with BMO and Insight to discuss the Fund's investments or potential investments.

In November 2019, the Trustee assessed the DB Section's investment managers' fees in light of LCP's 2019 manager fee survey. LCP noted that GMO's fees were higher than typically expected for a diversified growth fund. The Trustee therefore entered into discussions with GMO and agreed to an alternative fee structure consisting of a lower base management fee with a performance related element in addition. This new fee structure was put in place in March 2020. Since year end, the Trustee assessed the investment managers' fees again in November 2020. As a result, the Trustee negotiated a lower fee on the BMO LDI mandate. Overall the Trustee believes the DB 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. LCP 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, LCP, 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

As discussed in Section 5 above, the Trustee made several changes to the investment strategy during the year. The Trustee will review the investment strategy again in light of the results of the actuarial valuation as at 30 September 2020.

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 2020, there was very limited exposure to Smith & Nephew plc (ie substantially less than 1% of the Fund's total assets).

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 2017 which did not identify any material issues.

In 2019, Equitable Life, one of the Fund's AVC providers, announced it would be selling its business to Utmost Life and Pensions ("Utmost"). Fund members' with-profits holdings were switched into the Utmost Life Secure Cash Fund on 1 January 2020. Following this, the Trustee agreed to transition the proceeds from the Secure Cash Fund into Utmost's Investing by Age Strategy, subject to giving members notice of this transfer and the option to select an alternative fund (or funds). Members with Equitable Life unit-linked funds were also transferred to Utmost Life on 1 January 2020 but remained invested in equivalent funds as before. The Trustee received advice from its Investment Consultant on these changes and was comfortable they were appropriate for members.

12. Realisation of Investments / Liquidity

As discussed in Section 4, for the DB 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 September 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, LCP, 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 February 2020, the Trustee reviewed LCP's responsible investment (RI) scores for the Fund's investment managers and funds, along with LCP's qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the manager's approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP's ongoing manager research programme and it is these that directly affect LCP's manager and fund recommendations. The manager scores and red flags are based on LCP's Responsible Investment Survey 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. The Trustee agreed this should be an area of focus when GMO are next invited to present to the Trustee.

The Trustee wrote to all its investment managers asking them to provide further information on how they incorporate ESG and Stewardship considerations throughout their asset management business and investment process for each fund and how their policies and processes have changed over the year. The Trustee has notified the managers that it will ask for updates on the Fund's existing managers and funds' ESG and stewardship policies on a regular basis.

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, and the regional Janus Henderson equity funds which the Trustee disinvested from in June 2020.

The Trustee sold the entirety of the Fund's equity holdings held with Janus Henderson in June 2020, therefore this Statement covers a description of voting behaviour during the year until the date of disinvestment.

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. Janus Henderson's voting processes

In formulating Janus Henderson's approach to corporate governance, Janus Henderson are conscious that a 'one size fits all' policy is not appropriate. Corporate governance regimes vary significantly as a function of factors such as the relevant legal system, extent of shareholder rights, and level of dispersed ownership. Janus Henderson varies its voting and engagement activities according to the market and pays close attention to local market codes of best practice.

However, Janus Henderson considers certain core principles to be universal:

- Disclosure and transparency;
- Board responsibilities;
- Shareholder rights; and
- Audit and internal controls.

A key element of Janus Henderson's approach to proxy voting is to support these principles and to foster the long-term interests of its clients. Janus Henderson also recognises that in some instances, joint action by shareholders has the potential to be more effective than acting alone. This is especially true when shareholders have a clear common interest. Where appropriate, Janus Henderson pro-actively collaborates with other investors on governance and wider environmental and social engagement issues, directly and through industry bodies.

Janus Henderson has a Proxy Voting Committee, which is responsible for its positions on major voting issues and creating guidelines overseeing the voting process. The Committee is comprised of representatives of investment portfolio management, corporate governance, accounting, legal and compliance. Additionally, the Proxy Voting Committee is responsible for monitoring and resolving possible conflicts of interest with respect to proxy voting.

The voting actions are recorded and uploaded with our actionable rationale to internal research platforms, allowing portfolio managers and Janus Henderson's Governance & Responsible Investment Team to track specific issues. Janus Henderson also incorporates some of these issues into meetings with management, as well as taking an issue into account when considering an investment case.

Janus Henderson recognises that ESG issues present risks and opportunities that can have a material impact on the value of an investment. Janus Henderson analyses and votes on ESG proposals accordingly.

Janus Henderson does not have specific voting guidelines on climate change issues. Voting policy on climate-related issues is decided on a case-by-case basis by its investment teams utilising independent research, guidance from Janus Henderson's in-house governance and responsible investment team and company engagement activity where applicable.

b. 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.

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.

c. 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.

d. Summary of voting behaviour over the year

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

	Janus Henderson Institutional European Index Opportunities Fund*	Janus Henderson Institutional UK Index Opportunities Trust*	Janus Henderson Institutional Exempt North American Index Opportunities Fund*	Janus Henderson Institutional Japan Index Opportunities Fund*	Janus Henderson Institutional Asia Pacific (ex-Japan) Index Opportunities Fund*	Newton Real Return Fund	GMO Global Real Return (UCITS) Fund
Value of Fund's assets (30 September 2020) *	£7.0m	£26.3m	£31.1m	£4.0m	£3.4m	£32.4m	£32.7m
No of underlying equity holdings (30 September 2020) *	479	400	648	489	461	87	1,648
No of meetings eligible to vote	338	334	560	99	371	84	1,988
No of resolutions eligible to vote	5,930	5,087	7,194	1,111	2,671	1,179	20,278
% of resolutions voted	77%	100%	99%	100%	99%	99%	97%
% of resolutions voted with management	92%	1%	95%	95%	89%	85%	92%
% of resolutions voted against management	8%	1%	5%	5%	11%	15%	8%
% of resolutions abstained	0%	0%	0%	0%	0%	0%	0%
% of meetings with at least one vote against management	Not provided	Not provided	Not provided	Not provided	Not provided	42%	39%

*The Fund's equity holdings held with Janus Henderson were transferred to the Fund's LDI portfolio held with BMO on 10 June 2020, so the voting information covers the period to 10 June 2020. The value of the Janus Henderson assets is shown as at the disinvestment date of 10 June 2020, and number of underlying equity holdings is as at 31 May 2020 (rather than 30 September 2020). Janus Henderson was only able to provide partial voting information for its funds over this partial period, therefore some data has been omitted from the table above.

e. 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.

Janus Henderson

In determining significant votes, Janus Henderson considers the level of shareholder dissent. The process for the most significant votes was determined by considering the votes against management with the highest level of dissent, followed by votes that received significant levels of overall dissent.

Janus Henderson Institutional European Index Opportunities Fund:

Sanofi, April 2020:

Janus Henderson voted against the remuneration policy due to concerns that the outgoing CEO payments / awards appeared excessive in the context of the underperformance of the company.

Plastic Omnium SA, April 2020:

Janus Henderson voted against the amendment of transaction with Burelle because the company did not provide any information regarding the changes operated by the amendment of the management services agreement. Janus Henderson therefore considered it impossible to ascertain that the continuation of this agreement was in shareholders' interests.

Janus Henderson Institutional UK Index Opportunities Trust:

Capital & Counties Properties Plc., May 2020:

Janus Henderson voted against the remuneration report due to its concerns that the Remuneration Committee applied considerable discretion in determining bonus outcomes, resetting performance targets and determining other targets over the course of 2019. This resulted in significant bonus payouts to the Executive Directors that do not appear aligned with Company performance. Janus Henderson also had concerns regarding the significant leaving arrangements of Executive Director, Gary Yardley, including the vesting arrangements of his outstanding LTIP awards, and the Remuneration Committee's use of discretion in determining the termination provisions.

Playtech Plc., May 2020:

Janus Henderson voted against the remuneration report policy as it was not apparent that the Company has addressed the main concerns that led to significant dissent at the 2019 shareholder meetings. Significant concerns had been identified in relation to the alignment between pay and performance.

Janus Henderson Institutional Exempt North American Index Opportunities Fund:

Centene Corporation, April 2020:

Janus Henderson voted with management to eliminate the supermajority vote requirement as it enhanced shareholder rights.

Abbott Laboratories, April 2020:

Janus Henderson voted with management to adopt a simple majority vote as the elimination of the supermajority vote requirement enhanced shareholder rights.

Janus Henderson Institutional Japan Index Opportunities Fund:

SHIMAMURA Co., Ltd., May 2020:

Janus Henderson voted against appointing Statutory Auditor Tetsuya Omi due to concerns that the outside statutory auditor nominee's affiliation with the company could compromise independence.

ASICS Corp., March 2020:

Janus Henderson voted against the takeover defence plan as the total duration exceeded three years and the plan lacked a credible special committee.

Janus Henderson Institutional Asia Pacific (ex-Japan) Index Opportunities Fund:

AMP Ltd, May 2020:

Janus Henderson voted against the advisory vote to ratify named executive officers' compensation as it had concerns that the remuneration framework and practices were misaligned with shareholder interests, the company's performance and accepted market practice

Wuxi Biologics (Cayman), Inc., June 2020:

Janus Henderson voted against authorising the reissuance of repurchased shares as the aggregate share issuance limit was greater than 10% and the company had not specified the discount limit.

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. As such, by not supporting management, Newton believes this is material information.

LEG Immobilien AG, August 2020:

Newton voted against the proposed pay arrangements on account of their lack of alignment with performance. The executive long-term compensation scheme was entirely cash-based, and although this was indicated to be performance-linked, no disclosures were provided on performance targets. With targets not being disclosed, Newton were concerned that long-term awards could vest below-median poor performance. Furthermore, Newton did not consider the introduction of special remuneration awards through transaction-based bonuses to be ideal for promoting talent retention due to these generally being one-off in nature.

Microsoft Corporation, December 2019:

Newton voted against the executive compensation arrangements and against the three members of the compensation committee. Newton had concerns regarding the company's executive remuneration practices. Despite improvements to executive remuneration practices over recent years, the company failed to justify a 40% increase in total compensation for the CEO, which included a significant increase in basic salary. In addition, Newton remained concerned that approximately half of long-term pay awards vest irrespective of performance.

Newton also voted against the re-appointment of the company's external auditor given it had served in this role for 36 consecutive years.

A shareholder resolution proposed that the company report on its gender pay gap. In contrast to the recommendation of management, Newton supported this resolution in view of the insights the company could benefit from by undertaking such an exercise.

Linde Plc, July 2020:

Newton voted against the advisory vote on the executives' compensation and also against the remuneration committee members. Newton had concerns that a majority of long-term pay awards were based on time served, which meant executive pay would not be subject to rigorous performance conditions, and therefore not aligned with shareholders' interests. In addition, Newton considered some of the perks to the CEO unnecessary and excessive, including the use of company aircraft for personal purposes, financial planning expenditures, and additional years of service credits beyond time served at the company being considered to calculate his pension benefit.

NIKE, Inc, September 2020:

Newton voted against management on a number of resolutions. Newton voted against the appointment of the external audit firm owing to it serving the company for 46 consecutive years. Newton believed this would compromise independence and objectivity.

Newton also voted against the ratification of the executive compensation arrangements. Newton's chief concern was that fewer than 50% of long-term pay awards were subject to the achievement of performance conditions.

Finally, Newton supported a shareholder resolution requesting enhanced disclosures on political contributions. While the company's disclosures offered some insight into the contributions made and the governance framework surrounding this risk, Newton felt that the proposal would offer increased transparency of the company's relationships with trade associations and would bring its disclosures in line with better-performing peers.

Mastercard Incorporated, June 2020:

Newton voted against the executive compensation structure and the members of the compensation committee. Newton were concerned that a significant proportion of the long-term pay awards were subject only to time served and not performance.

Newton also voted against the appointment of the auditor as it had been in place for 30 years, which raised concerns surrounding independence.

The Goldman Sachs Group, April 2020:

Newton supported two shareholder resolutions which management recommended voting against. The first resolution related to improving minority shareholder rights by allowing the right to act through written consent. This provided an opportunity for matters to be raised and approved outside regularly held AGMs. The second resolution was a request that the board of directors conduct a review of the company's governance arrangements in the context of its support of the US Business Roundtable's 'Statement on the Purpose of a Corporation'. While Newton accepts that the company had responded in part to these commitments, it did not have governance documents that detail how trade-offs and prioritisation between different stakeholders are managed, which Newton considers a key component of a multi-stakeholder management approach.

Newton also voted against the appointment of the auditor owing to long tenure. The firm had been in place since 1922, which brings into question its independence.

Zurich Insurance Group, April 2020:

Newton voted against a resolution requesting shareholder approval for "other business" to be transacted at the AGM as no information or comfort was provided ahead of the meeting.

Alibaba Group Holdings Limited, September 2020:

Newton voted against the two members of the governance committee who were seeking re-election given Newton's concern surrounding the low level of independence on the board.

Unilever NV, April 2020:

Newton voted against the remuneration report and members of the remuneration committee. Newton's first concern was with the 'co-investment plan', into which directors must invest at least one third of their annual bonus. This meant that if no bonuses are awarded, executives would have no long-term incentive, which could force bonuses to be awarded more generously than deserved in order to provide executives with a meaningful long-term award. Secondly, Newton were concerned that variable pay awards continued to be determined as a multiple of fixed pay into which other benefits like pensions are bundled, rather than as a multiple of base salary.

Vivendi SA, April 2020:

Newton voted against several resolutions owing to significant corporate governance concerns about which the company was unable to provide Newton with sufficient reassurance. First, Newton voted against the re-election of the board chair owing to severe conflicts of interests raised by his position as chair and CEO of a subsidiary, and as a family member of the largest shareholder.

Newton had several concerns relating to executive remuneration pay practices, which led Newton to vote against numerous related resolutions. Newton's overarching remuneration-related concern was that the company failed to provide sufficient information justifying the remuneration arrangements for those executives who were connected to a significant shareholder of the company.

Newton also voted against resolutions related to the additional pension-scheme arrangements provided to executive board members.

Finally, Newton also voted against a proposed share buyback scheme which would authorise the management board to repurchase and cancel up to 30% of the company's share capital. Newton were concerned that the company's significant shareholder could achieve further control without paying an appropriate takeover premium.

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 did not provide a list of significant votes so we have not included details on GMO's significant votes below.

The Trustee will continue to work with its advisers and GMO with the aim of providing fuller voting information in future implementation statements.