

**SMITH & NEPHEW UK PENSION FUND  
ANNUAL REPORT  
FOR THE YEAR ENDED 30 SEPTEMBER 2019**  
Scheme Registration Number: 101466584

## **Smith & Nephew UK Pension Fund**

### **Annual Report for the year ended 30 September 2019**

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## **Smith & Nephew UK Pension Fund**

### **Annual Report for the year ended 30 September 2019**

#### **Trustee, Principal Employer, Participating Employers and Advisers**

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##### **Trustee**

Smith & Nephew UK Pension Fund Trustee Limited

##### **Employer-nominated Trustee Directors**

Carol Woodley - Independent Trustee (appointed 1 October 2019)

Joanna Sheppard (resigned 13 November 2019)

Lucy Fuller - Chair person

Robert Newcomb

Woodley Pension Trustees Limited - represented by Carol Woodley - Independent Trustee (resigned 30 September 2019)

##### **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 & Nephew Limited

##### **Fund Actuary**

Clive Wellsted, F.I.A.

Lane Clark & Peacock LLP

##### **Independent Auditor**

RSM UK Audit LLP

##### **Administrator**

Mercer Limited

##### **Investment Managers**

Newton Asset Management (Newton)

BMO Global Asset Management (BMO)

GMO LLC (GMO)

Janus Henderson Global Investors Limited (Henderson)

M & G Investment Management Limited (M&G)

## **Smith & Nephew UK Pension Fund**

**Annual Report for the year ended 30 September 2019**

**Trustee, Principal Employer, Participating Employers and Advisers**

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### **Investment Custodians**

BNP Paribas (for Henderson)  
BNY Mellon Asset Servicing BV (for Newton)  
Brown Brothers Harriman (for GMO)  
State Street Bank Luxembourg S.A. (for BMO)  
State Street Custodial Services (Ireland) Limited (for M&G)

### **Investment Adviser**

Lane Clark & Peacock LLP

### **Annuity Provider**

Rothesay Life Limited (Rothesay Life)

### **Additional Voluntary Contribution (AVC) Providers**

Clerical Medical  
The Equitable Life Assurance Society  
Prudential Assurance Company Limited  
Scottish Widows Limited

### **Bank**

HSBC Bank PLC

### **Legal Adviser**

Mayer Brown International LLP

### **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](mailto:smithandnephew@insidepensions.com)

## **Smith & Nephew UK Pension Fund**

### **Annual Report for the year ended 30 September 2019**

#### **Trustee's Report**

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##### **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 2019. 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 1 August 2019.

##### **Management of the Fund**

###### **Trustee**

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

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

The two Member-nominated Trustee Directors, as shown on page 1, are nominated by the members under the rules notified to the members of the Fund to serve for a period of four years. Len Pendle was 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 five times during the year.

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 16 and forms part of this Trustee's Report.

## **Smith & Nephew UK Pension Fund**

### **Annual Report for the year ended 30 September 2019**

#### **Trustee's Report**

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##### **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 the Trustee to have sufficient knowledge and understanding of pensions and trust law and be conversant with the Fund 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, including a requirement for all Trustee Directors to complete the Pension Regulator's 'Trustee Toolkit' and also the PMI Award in Pension Trusteeship.

##### **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 19 to 30 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 increased from £661,094,000 at 30 September 2018 to £747,142,000 at 30 September 2019.

The increase shown above is predominantly due to an increase in the value of investments and asset hedges due to a reduction in long term interest rates, plus income from investments offset by net withdrawals from dealings with members of £22,098,000.

##### **COVID-19 impact on the Fund**

During March 2020, subsequent to the Fund's year-end, 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 regards the impact of COVID-19 as a non-adjusting post balance sheet event and as a result no adjustments have been made to the financial statements as at 30 September 2019. 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 2018 was included within the 'short report' provided to members in the first half of 2019.

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 2018, 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 2019 are set out on pages 19 to 20 and the Auditor's Statement about Contributions and Trustee's Summary of Contributions are set out on pages 31 to 32.

**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.

**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.

**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 2018	2,789	3,026	5,815
Adjustments	-	(194)	(194)
Divorce credits	1	-	1
Retirements	(88)	88	-
Deaths	(8)	(146)	(154)
Leavers with no benefits	(1)	-	(1)
Transfers out	(34)	-	(34)
Spouses and dependants	-	42	42
Pensions commuted for cash	-	(33)	(33)
Pensions ceasing	-	(1)	(1)
Lump sum death benefits	-	(2)	(2)
At 30 September 2019	<u>2,659</u>	<u>2,780</u>	<u>5,439</u>

Pensioners include 468 spouses and dependants (2018: 480) receiving a pension.

These membership figures do not include movements notified to the Administrator after the completion of the annual renewal.

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

The adjustment to pensioners shown above relates to 130 potential spouses' pensions and 64 members whose pensions had been suspended pending verification that were included in the membership figures in error in the prior year.

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 526 pensioner members (2018: 549) and 129 dependants (2018: 131) and the second bulk annuity contract with Rothesay Life covers the benefits of 241 pensioner members (2018: 251) and 41 dependants (2018: 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 2019 was 2.6%. On 1 October 2018, pensions were increased by 3.2%.

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 as closely as possible. The Growth Portfolio is comprised of a number of passive equity portfolios managed by Henderson, two Diversified Growth Portfolios managed by Newton and GMO, and an absolute return bond mandate managed by M&G. The Matching portfolio is comprised of a dynamic LDI portfolio with BMO and Bulk Annuity Policies held with Rothesay Life.

During the year a revised time-based de-risking mechanism was put in place to gradually reduce exposure to the Growth Portfolio, the cash proceeds from which will be invested in the Matching Portfolio. The Trustee also carried out additional de-risking in June 2019 and August 2019, which was agreed as part of the September 2018 actuarial valuation and reflected the improved funding position.

A new Statement of Investment Principles was agreed in September 2019 which reflected the de-risking of the investment strategy carried out during the year and the revised de-risking mechanism agreed.

#### **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.

**Investment performance**

The performance returns for the Fund as at 30 September 2019 were as follows:

Date	Performance (% p.a.)	Benchmark (% p.a.)
1 year ending 30 September 2019	17.0	16.9
3 years ending 30 September 2019	6.1	6.7
5 years ending 30 September 2019	9.2	9.6

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.

As is normal practice following a buy-in transaction Rothesay Life carried out a data audit of the liabilities included within the policy, also incorporating any subsequent changes to member circumstances following the purchase. The data audit was completed in December 2018 and a partial refund of the premium paid, to the value of £906,725 was paid to the Trustee on 23 January 2019. The reduction in the premium also meant that the 'on account' payments made by Rothesay Life, paid in the interim period whilst the data audit took place, were too high and Rothesay requested a reimbursement from the Trustee of £364,000. The Trustee settled this amount in March 2019.

**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 .....27 April 2020.....

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

Trustee Director

Trustee Director

**Annual Chair's Statement for the Smith & Nephew UK Pension Fund ("the Fund")**

This statement has been prepared by the Smith & Nephew UK Pension Fund Trustee Limited ("the Trustee") and reports on how the Trustee complies with the defined contribution (DC) governance standards. These standards were introduced under the Occupational Pension Scheme (Charges and Governance Regulations 2015 and amended by the Occupational Pension Scheme (Administration and Disclosure) (Amendment) regulations 2018 ("the Regulations").

This statement covers the period from 1 October 2018 to 30 September 2019 ("the reporting period"). It is signed on behalf of the Trustee by the Chair. It covers the governance and fee disclosures in relation to the investment funds made available to a small number of members who retain DC benefits within the Fund.

As required by the Regulations, the Trustee will publish this Statement on a publicly accessible website. The web address for the website will be <https://www.smith-nephew.com/investor-centre/about-us/governance/corporate-documents-and-policies/smith-nephew-uk-pension-fund-accounts/>

The DC Section of the Fund relates to a historic arrangement involving only a small number of members known as TSOS (Trustee Share Option Scheme) with relatively small holdings. These assets are invested with external providers which are Equitable Life, Clerical Medical and the Prudential Assurance Company Limited. The Trustee are currently assessing methods of simplifying the Fund's structure during the course of 2020. This process has been delayed due to the Equitable Life sale to Utmost Life and Pensions Limited ("Utmost Life").

**1. Investment Funds**

The latest Statement of Investment Principles (SIP) for the Smith & Nephew UK Pension Fund, effective at 24 September 2019 is included as an appendix to the financial statements. The next review of the SIP will take place during the first half of 2020 or sooner in the event of a significant change to the investment strategy.

The DC investment funds are reviewed annually, on a high-level basis, by the Investment Advisor to the Fund with more detailed reviews taking place on a triennial basis. The most recent detailed review was carried out in 2016. The 2019 triennial review was delayed until the sale of Equitable Life to Utmost Life was completed. The 2016 review concluded:

- The majority of unit linked funds have performed relatively well or as expected over longer-term periods.
- The unit linked funds with the most assets are the Clerical Medical Balanced Fund and the Equitable Life managed Fund. Both funds have performed well over the periods considered.
- The wide range of funds available could potentially be difficult for the Trustee to monitor and a consolidation exercise should be considered.
- With profits investments are currently providing very low or no bonuses and members should be reminded of the feature or with profit investment.

The next detailed review will be carried out in 2020. Any changes to the investment funds made available as a result of these reviews will be clearly communicated to members. The Trustee notified members of the sale of the Equitable Life to Utmost Life. The Trustee are currently undertaking a review of the investment options offered by Utmost Life and have written to members informing them of the sale and the review of the investment funds.

**2. The default investment arrangement**

As no new contributions have been paid into the historic DC arrangement since 6 April 2015, there is no arrangement in place which satisfies the definition of "default arrangement" under Regulation 3 of the Occupational Pension Scheme (Charges and Governance) Regulations 2015

There are two small DC arrangements:

1. One is a small section of defined contribution benefits resulting from a transfer from another scheme in 1997.
2. The other is attributable to profits arising from notional allocation of share options by the sponsoring employer. The Trustee understands that the issue of new share options ceased in the mid 1980's.

There is no default arrangement as the investment funds are made available to the TSOS members on a 'self-select' basis. The charges for the individual actively managed funds range from 0.495% to 1.00%. A cash deposit fund, managed by Prudential, is provided at nil cost to members.

## Smith & Nephew UK Pension Fund

### Annual Report for the year ended 30 September 2019

#### Annual Statement regarding Governance

##### 2.1 Self-select options

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

External Provider	Fund	Charges (TER %)	Transaction Cost % p.a.
Equitable Life	Managed	0.75	0.08
	With Profits Fund <sup>1</sup>	1.00	0.05
Clerical Medical <sup>2</sup>	Balanced	0.495	0.14
	UK Equity Tracker	0.495	-0.01
	Cash	0.495	Not available
	Lifestyle Balanced	0.495	0.14
	Lifestyle Growth	0.495	0.30
	BlackRock World (Ex UK)	0.495	0.02
	With Profits Fund	0.495	0.19
Prudential	Deposit Fund	0.00 <sup>3</sup>	Not available

<sup>1</sup> In line with FCA guidance, with Equitable Life With Profits Fund's TER excludes the 0.05% guarantee

<sup>2</sup> Clerical Medical applies a 0.505% discount off the base AMC (1.00%), which brings the funds AMCs down to 0.495%. The Trustee's investment advisor has not been able to obtain updated transaction costs for the period covered in this Statement, so it has relied on transaction cost reporting information for periods covering 01/11/2017 -31/12/2018. The Trustee will continue to work with its investment advisor to obtain updated transaction cost reporting in line with industry guidance

<sup>3</sup> The Prudential Fund is offered at nil cost to members. The capital value is guaranteed not to fall.

##### 3. Processing of Core Financial Transactions

The Regulations require the Trustee to ensure that core financial transactions are processed promptly and accurately. Core financial transactions comprise:

- Transfers out of the Fund's DC arrangement
- Investment switches
- Payments out of the Fund's DC arrangement in respect of members

Typically, members do not transfer these accounts between the different available fund managers, However, the Trustee continues to monitor the efficiency of any transfers to other pension schemes and works closely with the administrator and the Investment Advisor to the Fund in doing so.

Over the reporting period, the administration function of the DC Sections is outsourced to, and completed by, Mercer. The scope of these administration functions is recorded in the Mercer Engagement Letter dated 15 November 2015.

Mercer have confirmed to the Trustee that there are adequate internal controls to ensure that core financial transactions relating to 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 transactions. The Fund's administrators have confirmed to the Trustee that there are adequate internal controls to ensure that core financial transactions relating to the Fund are processed promptly and accurately. The processes adopted including daily monitoring of the bank account, and two individuals checking all investment and banking transactions. The key processes adopted by the administrator to help them meet SLA are as follows:

- The Trustee receives regular reports to help them monitor SLA's are being met.
- Mercer has processes in place to meet SLA's; for example, daily monitoring of bank accounts, a monthly forecast of cashflow is produced, a dedicated contribution processing team; at least two people involved with checking investment and banking transactions.
- The Trustee receives quarterly reports about the Mercer's performance,
  - o There have been no material administration errors in relation to processing core financial transactions; and
  - o All core financial transactions have been processed within a reasonable timeframe.

The SLA's for the core financial transactions are:

Process	SLA in working days
Retirement (quotation, settle)	5 days each process
Transfer out (quote and settle)	10 days each process
Validate death	1
Validate retirement	1

Over the reporting period Mercer's performance against the agreed SLAs for the core financial transactions are set out in the table below:

Core financial transaction	Quarter 4 2018	Quarter 1 2019	Quarter 2 2019	Quarter 3 2019
Retirements quoted	86%	86%	83%	90%
Retirements settled	95%	100%	100%	100%
Transfer outs quoted	94%	97%	100%	96%
Transfer outs settled	100%	100%	100%	86%

Administration is captured as part of the Fund's risk register and any specific risks to the DC Section are clearly documented. This includes details of the controls established by the Trustee and records details of any required actions. This is reviewed regularly and updated annually with the next review due at the end of December 2020.

There were no significant issues reported to or identified by the Trustee in connection to either the promptness or accuracy of core financial transactions processed during the period covered by this statement.

Taking the above into consideration, the Trustee is confident that all core financial transactions over the reporting period have been proceed promptly and correctly. The Trustee notes that there were no significant issues relating to core financial transactions over the reporting period.

**4. Member Borne Charges and Transaction costs**

The Trustee is required to set out the on-going charges incurred by members in this Statement, which are annual fund management charges plus any 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 exclude administration costs since these are met by the members.

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 Scheme's fund 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.

**Illustration of charges and disclosure costs**

To demonstrate the impact of the cost and charges applied throughout the DC Section, in this year's Chair's Statement the Trustee has produced illustrations in line with statutory guidance and the February 2018 guidance from the Department for Work & pensions entitled "Cost and charge reporting: guidance for trustee and managers of occupational schemes" The illustrations, set out below have been prepared by LCP on behalf of the Trustee. They are designed to cater for representative cross sections of the membership for the DC Section.

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.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs (i.e. the TER) or transaction costs.
- The "after costs" figures represent the savings projection using the same assumed investment return, but after deducting member borne fees and an allowance for transaction costs.
- The Trustee's investment advisor has not been able to obtain updated transaction costs, in respect of Clerical medical, for the period covered in this Statement. Therefore, it has relied on transaction cost reporting information for periods from 1 November 2017 to 31 December 2018. The Trustee will continue to work with its investment advisor, to obtain comparable, update transaction cost reporting in line with industry guidance.
- The transaction cost figures used in the illustration are those provided by the managers over the past one year, (with the exception of Clerical Medical) subject to a floor of zero (so the illustration does not assume a negative cost over the long term).
- The illustration is shown for the following funds from the 'self select' fund range:
  - the fund with the most members invested – this is the Prudential Deposit Fund
  - the fund with the highest before costs expected return – this is the Clerical Medical UK Equity Tracker Fund
  - the fund with the lowest before costs expected return – this is the Clerical Medical Cash Fund
  - the fund with highest annual member borne costs – this is the Equitable Life With Profits Fund
  - the fund with lowest annual member borne costs – the Clerical Medical Lifestyle Balanced Growth Fund has been used as it has the second lowest annual member borne costs after the Prudential Deposit Fund (illustrated as the most popular fund).

## Smith & Nephew UK Pension Fund

### Annual Report for the year ended 30 September 2019

#### Annual Statement regarding Governance

##### Projected pension pot in today's money

Years invested	Prudential Deposit Fund		Clerical Medical UK Equity Tracker Fund		Clerical Medical Cash Fund		Equitable Life With Profits Fund		Clerical Medical Lifestyle Balanced Growth Fund	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£147	£147	£153	£152	£147	£147	£152	£150	£153	£152
3	£141	£141	£159	£157	£142	£140	£155	£151	£159	£156
5	£136	£136	£166	£162	£137	£134	£158	£152	£166	£161
10	£123	£123	£183	£174	£126	£120	£166	£155	£183	£172
15	£111	£111	£202	£188	£115	£107	£174	£157	£202	£184

##### 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.
- The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Inflation is assumed to be 2.5%.
- The starting pot size used for the calculation is £150.
- The starting point for the projection is 20 years but this has been rounded to 15 years to fit better the approximate period until the youngest member (49) reaches age 65
- Contributions and the starting salary are assumed to be £0 with zero salary growth as the Scheme is closed to future accrual and contributions.
- The projected annual returns used are as follows:
  - Prudential Deposit Fund: 2.0% below inflation
  - Clerical Medical UK Equity Tracker Fund: 2.0% above inflation<sup>5</sup>
  - Clerical Medical Cash Fund: 1.8% below inflation<sup>6</sup>
  - Equitable Life With Profits Fund: 1.0% above inflation
  - Clerical Medical Lifestyle Balanced Growth Fund: 2.0% above inflation<sup>7</sup>
- No allowance for active management has been made.

<sup>4</sup> As the youngest member is 49 years old, the projection has been rounded to illustrate 15 years until NPA ("normal pension age")

<sup>5</sup> As Clerical Medical has not provided an SMPI assumption for the Clerical Medical UK Equity Tracker Fund, the investment advisor has used the most closely matched SMPI assumption from a different provider's fund as the most sensible approach (Equitable Life FTSE Tracker Fund).

<sup>6</sup> As Clerical Medical has not provided an SMPI assumption for the Clerical Medical UK Equity Tracker Fund, the investment advisor has used the most closely matched SMPI assumption from a different provider's fund as the most sensible approach (Equitable Life Money Fund).

<sup>7</sup> As Clerical Medical has not provided an SMPI assumption for the Clerical Medical UK Equity Tracker Fund, the investment advisor has used the most closely matched SMPI assumption from a different provider's fund as the most sensible approach (Equitable Life FTSE Tracker Fund).

The Administration Regulations require the Trustee to make an assessment of charges and transactions costs borne by the TSOS members and the extent to which those charges and costs represent good value for money for members. The Trustee reviews the charges as part of its ongoing review process and notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has been taken into account in the 'value for members assessment'. The Trustee's last full assessment was carried out in 2016 and included a review of the performance of the Fund's investment funds (after all charges) in the context of their investment objectives. At the current time it believes the majority of the fund's fees are offering fair value for money for the services provided. For the period covered by this statement the Trustee has considered the governance, investment, administration and communication services which members receive in exchange for the relevant charges and transaction costs. However, the Trustee have identified in previous reviews that some members are paying high charges, particularly where they have decided to invest in externally managed funds. In order to address this, the Trustee has taken the decision to investigate converting the benefit into a defined benefit within the main Fund. The Trustee was waiting for the sale of Equitable Life to Utmost Life and Pensions to be completed before commencing the review.

##### 5. Trustees' Knowledge and Understanding

The Smith & Nephew UK Pension Fund Trustee Limited, the Trustee, is a trustee company which comprised of 6 Trustee Directors at the end of the Fund year. Two Trustee Directors are member nominated, two are appointed by the Company and one is an Independent Trustee.



The Fund's Trustee Directors are required to maintain appropriate levels of knowledge and understanding. The Trustee has measures in place to secure compliance with the legal and regulatory requirements regarding its knowledge and understanding including funding and investment matters, pensions and trust law. This, together with the professional advice available, enable the Trustee to exercise its functions and run the Fund properly and effectively in the following ways:

- Trustee Directors are able to challenge and question advisers, committees and other delegates effectively.
- Trustee decisions are made in accordance with the Fund rules and in line with trust law duties
- Trustee Directors are not compromised by such things as conflicts or hospitality arrangements.

The Trustee maintains a training log and consults with its professional advisers to identify any Trustee or individual Trustee Director training needs with a view to upcoming agenda items. The training needs are reviewed regularly by the Trustee Board to ensure it is relevant. Training is reviewed and logged at each quarterly Trustee meeting.

At the December 2019 meeting the Trustee took part in a Trustee Effectiveness Review which was run by the Scheme Secretary.

All the Trustee Directors during the reporting period have completed all modules of the Pensions Regulator's toolkit programme and these are noted on the Trustee training log. Newly appointed Trustee Directors are expected to complete the TPR toolkit within six months of appointment.

Trustee Directors supplement the Fund specific training provided at Trustee meetings with activities such as attending seminars and conferences and reading pensions-related articles.

The Trustee considers that its training is consistent with TPR's Trustee Knowledge and Understanding requirements (Code of Practice 7) and provides a mixture of generic and bespoke training sessions. This together with ongoing work and the access to professional advisers ensures that the Trustee has sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupational scheme as well as the law to pensions and trust.

The Trustee has appointed recognised and suitably qualified legal advisers, investment consultants who with the Fund's Actuary, provides advice on the operation of the Fund in accordance with the Fund's Trust Deed and Rules and in compliance with legislation. The appointment and assessment of the Trustee's advisers is reviewed on an annual basis.

The Trustee consults externally with its professional advisers as and when required for example on investments, governance and legal matters. Its professional advisers alert the Trustee on relevant changes to pension's legislation. For example, the trustee chair has regular calls with the legal advisers during which the chair is briefed on relevant legal developments which affect the Fund.

The Trustee Directors are conversant with the Fund's Trust Deed and Rules as well as all other relevant Fund documentation, both through their overall experience in managing the Fund as well as its review of such documentation over the reporting period. The Trustee Directors have a working knowledge of the Statement of Investment Principles.

The Trustee considered that the combined knowledge of the Trustee Board, skills and understanding together with the advice which is available to the Trustee from its professional advisers enables the Trustee to properly exercise its Trustee functions.

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

Name / Position \_\_\_\_\_ / Chair of Trustee

Date of signing 27 April 2020

## **Smith & Nephew UK Pension Fund**

### **Annual Report for the year ended 30 September 2019**

#### **Statement of Trustee's Responsibilities**

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

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

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

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

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

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

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

**Opinion**

We have audited the financial statements of the Smith and Nephew UK Pension Fund for the year ended 30 September 2019 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 2019, 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 16, 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's are 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 intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

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

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the Fund 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  
Hanover House  
18 Mount Ephraim Road  
Tunbridge Wells  
Kent  
TN1 1ED

Date.....

## Smith & Nephew UK Pension Fund

### Annual Report for the year ended 30 September 2019

#### Financial Statements

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#### Fund Account

	Note	2019 £000	2018 £000
Employer contributions	4	4,700	18,800
Transfers in	5	2	-
Other income	6	1	1
		<u>4,703</u>	<u>18,801</u>
Benefits paid or payable	7	(16,013)	(15,958)
Payments to and on account of leavers	8	(9,906)	(44,228)
Administrative expenses	9	(882)	(1,071)
		<u>(26,801)</u>	<u>(61,257)</u>
<b>Net withdrawals from dealings with members</b>		<b><u>(22,098)</u></b>	<b><u>(42,456)</u></b>
<b>Returns on investments</b>			
Investment income	10	10,379	10,378
Change in market value of investments	11	97,821	5,501
Investment management expenses	12	(54)	28
		<u>108,146</u>	<u>15,907</u>
<b>Net returns on investments</b>		<b><u>108,146</u></b>	<b><u>15,907</u></b>
<b>Net increase/ (decrease) in the fund during the year</b>		<b>86,048</b>	<b>(26,549)</b>
<b>Net assets at 1 October</b>		<b>661,094</b>	<b>687,643</b>
<b>Net assets at 30 September</b>		<b><u>747,142</u></b>	<b><u>661,094</u></b>

The notes on pages 21 to 30 form part of these financial statements.

**Financial Statements**

**Statement of Net Assets available for benefits**

	Note	2019 £000	2018 £000
<b>Investment assets</b>			
Pooled investment vehicles	14	517,459	439,051
Insurance policies	15	226,400	214,500
AVC investments	16	1,391	1,580
Cash	17	3	3
<b>Total investments</b>	11	<b>745,253</b>	655,134
<b>Current assets</b>	22	<b>3,661</b>	7,525
<b>Current liabilities</b>	23	<b>(1,772)</b>	(1,565)
<b>Net assets at 30 September</b>		<b>747,142</b>	661,094

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 and these financial statements should be read in conjunction therewith.

The notes on pages 21 to 30 form part of these financial statements.

The financial statements on pages 19 to 30 were approved on behalf of Smith & Nephew UK Pension Fund Trustee Limited on .....27 April 2020.....

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

Trustee Director

Trustee Director

## Smith & Nephew UK Pension Fund

### Annual Report for the year ended 30 September 2019

#### Notes to the Financial Statements

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#### 1. General information

The Smith & Nephew UK Pension Fund (the Fund) is an occupational pension scheme established in the United Kingdom under trust.

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 issued by the Financial Reporting Council (FRC) and the guidance set out in the Statement of Recommended Practice (SORP) (Revised 25 November 2014).

The financial statements have been prepared on the going concern basis. As noted in the Trustee's report on page 4, the Trustee have assessed the impact of the COVID-19 pandemic in terms of the predicted effect 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 2021. 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 in respect of members and on account of leavers

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.

**4. Contributions**

	2019 £000	2018 £000
<b>Employer contributions:</b>		
Deficit funding	<u>4,700</u>	<u>18,800</u>

In accordance with the Schedule of Contributions certified by the Actuary on 12 October 2016, the Principal Employer was due to pay deficit funding contributions of £4.7m per quarter until September 2021. On 26 April 2019 a revised Schedule of Contributions certified by the Actuary, following completion of the 2018 actuarial valuation. This states that the 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**

	2019 £000	2018 £000
Individual transfers in from other schemes	<u>2</u>	<u>-</u>

**6. Other income**

	2019 £000	2018 £000
Miscellaneous income	<u>1</u>	<u>1</u>



## Smith & Nephew UK Pension Fund

### Annual Report for the year ended 30 September 2019

#### Notes to the Financial Statements

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#### 7. Benefits paid or payable

	2019 £000	2018 £000
Pensions	13,912	13,607
Commutations and lump sums on retirement	2,065	2,026
Lump sums on death in service	3	-
Lump sums on death in retirement	8	3
Refunds of contributions on death	25	-
Serious ill health lump sums	-	309
Taxation where lifetime or annual allowance exceeded	-	13
	<u>16,013</u>	<u>15,958</u>

#### 8. Payments to and on account of leavers

	2019 £000	2018 £000
Individual transfer values paid to other schemes	<u>9,906</u>	<u>44,228</u>

#### 9. Administrative expenses

	2019 £000	2018 £000
Benefits administration / actuarial / consultancy	479	651
Legal and other professional fees	354	350
Audit fees	14	21
Fund levies	35	49
	<u>882</u>	<u>1,071</u>

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

#### 10. Investment income

	2019 £000	2018 £000
Pooled investments	781	552
Income from Buy-in annuity policy	9,598	9,826
	<u>10,379</u>	<u>10,378</u>

**11. Reconciliation of investments**

	Market value at 1 October 2018 £000	Cost of investments purchased £000	Proceeds of sales of investments £000	Change in market value £000	Market value at 30 September 2019 £000
Pooled investment vehicles	439,051	94,495	(101,413)	85,326	517,459
Insurance policies	214,500	-	(542)	12,442	226,400
AVC investments	1,580	-	(242)	53	1,391
	<u>655,131</u>	<u>94,495</u>	<u>(102,197)</u>	<u>97,821</u>	<u>745,260</u>
Cash	3			-	3
	<u>655,134</u>			<u>97,821</u>	<u>745,263</u>

**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**

	2019 £000	2018 £000
Administration, management and custody fees	355	351
Fee rebates	(301)	(379)
	<u>54</u>	<u>(28)</u>

**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**

	2019 £000	2018 £000
Equities	86,359	141,953
Liability driven investment	316,578	153,667
Diversified growth	81,495	111,313
Absolute return	33,027	32,118
	<u>517,459</u>	<u>439,051</u>

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

	2019 £000	2018 £000
- Bonds	301,771	234,578
- Cash	21,703	19,937
- Derivatives - swaps	12,077	(7,344)
- Repurchase agreements	(51,042)	(100,145)
- Pooled investment vehicle	32,246	6,697
	<u>316,755</u>	<u>153,723</u>

The Henderson 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 and M&G 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:

	2019 £000	2018 £000
Buy-In annuity policies	<u>226,400</u>	<u>214,500</u>

**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 2019 and 2018:

	30 September 2019 First Policy	30 September 2019 Second Policy	30 September 2018 First Policy	30 September 2018 Second Policy
<b>Financial assumptions</b>				
Gilt yield	0.81% p.a.	0.86% p.a.	1.81% p.a.	1.84% p.a.
RPI inflation	3.42% p.a.	3.37% p.a.	3.46% p.a.	3.46% p.a.
Discount rate	1.16% p.a. (gilts + 0.35%)	1.04% p.a. (gilts + 0.18%)	2.16% p.a. (gilts + 0.35%)	2.02% p.a. (gilts + 0.18%)
Pension increases	3.23% p.a. (RPI with a 5% pa cap)	3.19% p.a. (RPI with a 5% pa cap)	3.26% p.a. (RPI with a 5% pa cap)	3.26% 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:

	2019 £000	2018 £000
Clerical Medical	1,062	1,085
The Equitable Life Assurance Society - TSOS	12	17
The Equitable Life Assurance Society	214	276
Prudential Assurance Company Limited	81	165
Clerical Medical - TSOS	15	25
Scottish Widows Limited	4	9
Prudential Assurance Company Limited - TSOS	3	3
	1,391	1,580

Also included above are TSOS accounts which are a historic Defined Contribution section of the Fund.

### 17. Cash

	Assets £000	Liabilities £000	2019 £000	Assets £000	Liabilities £000	2018 £000
Sterling	3	-	3	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:

	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

**18. Fair value determination (continued)**

Analysis for the prior year end is as follows:

	2018 Level 1 £000	2018 Level 2 £000	2018 Level 3 £000	2018 Total £000
Pooled investment vehicles	-	439,051	-	439,051
Insurance policies	-	-	214,500	214,500
AVC investments	-	1,046	534	1,580
Cash	3	-	-	3
	<u>3</u>	<u>440,097</u>	<u>215,034</u>	<u>655,134</u>

**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			Credit risk	2019 Total (£m)
	Currency	Interest rate	Other price risk		
Henderson Global Investors	P	H	S	H	86.4
Newton Asset Management	P	P	S	P	41.5
GMO LLC	P	P	S	P	40.0
M&G Investment Management Limited	H	P	S	S	33.0
BMO Global Asset Management	H	S	S	P	316.6
Rothesay Life - Bulk Annuity Policy	H	S	H	S	226.4

In the above table, the risk noted effects the asset class (S) significantly, (P) partially, (H) 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.

**Currency risk**

The Fund invests in a number of pooled investment vehicles, including global equity funds managed by Henderson which hold non-GBP denominated assets. The Trustee views the non-UK equity funds managed by Henderson as being subject to indirect currency risk. The Fund also invests in two Diversified Growth Funds, managed by Newton and GMO, and an absolute return bond fund managed by M&G, which also contain varying exposures to overseas equities and therefore further indirect currency risk.

## 19 Investment risks - continued

### Interest rate risk

The Fund is subject to interest rate risk indirectly as it is invested in a liability driven pooled investment vehicle 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 a 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 policies will decrease, as will the value of the actuarial 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 13) 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 13, 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:

	2019		2018	
	£000	%	£000	%
BMO LDI Private Sub Fund	316,578	42.4	153,667	23.2
Rothesay Life Insurance Policy	226,400	30.3	214,500	32.4
Newton Real Return Fund	41,523	5.6	55,082	8.3
GMO Global Real Return (UCITS) Fund GBA	39,972	5.3	56,231	8.5
Henderson Global UK Enhanced Equity	N/A	N/A	56,846	8.6
Henderson Exempt North America Enhanced Equity	N/A	N/A	56,277	8.5

## 21. Employer-related investments

There was no employer-related investment at any time during the year.

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 Company 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**

	<b>2019</b>	2018
	<b>£000</b>	£000
Contributions receivable		
- employer	-	4,700
Pensions paid in advance	<b>982</b>	963
Cash deposits held with the Fund Administrator	<b>2,679</b>	1,862
	<b>3,661</b>	7,525

**23. Current liabilities**

	<b>2019</b>	2018
	<b>£000</b>	£000
Reimbursement of pensions received in advance	<b>791</b>	818
Lump sums on retirement payable	<b>44</b>	262
Taxation payable	<b>20</b>	29
Administrative expenses payable	<b>653</b>	282
Investment management expenses payable	<b>264</b>	174
	<b>1,772</b>	1,565

**24. Post Statement of Net Assets events**

During March 2020, subsequent to the Fund's year-end, 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 regards the impact of COVID-19 as a non-adjusting post balance sheet event and as a result no adjustments have been made to the financial statements as at 30 September 2019. The Trustee continues to monitor the situation and will respond to emerging issues as necessary.

**25. Related party transactions**

**(a) Key management personnel of the Fund or its parent (in aggregate)**

Legal & Professional fees include £90k (2018: £112k) in respect of services provided by Trustee directors, £31K (2018: £56k) of which relates to services provided by the independent Trustee.

There were two Trustee Directors (2018: 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 2019 was £891k (2018: £812k).

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 32, in respect of the Fund year ended 30 September 2019.

In our opinion the contributions for the Fund year ended 30 September 2019 as reported in the attached Summary of Contributions on page 32 and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the actuary on 12 October 2016 and 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 32 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 16 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  
Hanover House  
18 Mount Ephraim Road  
Tunbridge Wells  
Kent  
TN1 1ED

Date.....

## Smith & Nephew UK Pension Fund

### Annual Report for the year ended 30 September 2019

#### Summary of Contributions

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During the year ended 30 September 2019, the contributions payable to the Fund by the Employer under the Schedules of Contributions were as follows:

	2019 £000
Contributions payable under the Schedules of Contributions:	
Employer contributions:	
Deficit funding	4,700
Contributions payable under the Schedules of Contributions (as reported on by the Fund Auditor) and reported in the financial statements	<u>4,700</u>

Approved on behalf of Smith & Nephew UK Pension Fund Trustee Limited on 27 April 2020

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

Trustee Director

Trustee Director

3547380

*Actuary's certification of schedule of  
contributions*

Page 1 of 2

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

Name of scheme                      Smith & Nephew UK Pension Fund

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective 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 Wellsted

**Qualification:** FIA

**Address:**

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

3547380 Notes not forming part of the certification

Page 2 of 2

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 September 2019. 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.

## Appendix 1: Statement of Investment Principles

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### 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 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.

## Appendix 1: Statement of Investment Principles

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- 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 and the Buy-in Policies; and
- a Growth Portfolio, which is composed of equities, diversified growth investments and absolute return bond investments.

After accounting for additional de-risking agreed as part of the September 2018 actuarial valuation, the initial allocation to the Growth Portfolio (as at 30 June 2019) is broadly 25% of the overall assets including the Buy-in Policies, or about 40% 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 in even tranches of about £4m per quarter.

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.

## Appendix 1: Statement of Investment Principles

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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 portfolio, 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



## Appendix 1: Statement of Investment Principles

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remain appropriate to member needs. The investment vehicles are currently provided by Equitable Life, 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.

## Appendix 1: Statement of Investment Principles

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### 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.

## Appendix 1: Statement of Investment Principles

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### 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 Strategy

The target asset allocation of the Fund as at June 2019 is shown in the table below. This takes into account additional de-risking agreed as part of the September 2018 actuarial valuation and the implementation of the short-duration buy and maintain credit portfolio which took place after June 2019.

Asset Class	Allocation including Buy-in Policies (%)	Allocation excluding Buy-in Policies (%)
<b>Matching Portfolio</b>	<b>75</b>	<b>60</b>
Liability driven investment	28	40
Short-duration credit	14	20
Buy-in Policies	33	-
<b>Growth Portfolio</b>	<b>25</b>	<b>40</b>
Equities	10	16
Diversified growth*	10	16
Absolute return bonds	5	8
<b>Total</b>	<b>100</b>	<b>100</b>

\* 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, other than within Equities. The Trustee will regularly consider whether rebalancing is required. 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 (i.e. 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 and a short-duration buy and maintain credit 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 opportunities attractive. 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).

## Appendix 1: Statement of Investment Principles

### 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 equities are all invested with Janus Henderson Investors in accordance with the following table:

Regional Asset Class	Benchmark Index	Benchmark Weight (%)	Tolerance
UK Equities	FTSE All Share	40.0	+/- 5%
Overseas Equities:		60.0	+/- 5%
<i>North American</i>	<i>FTSE World North American*</i>		
<i>European ex UK</i>	<i>FTSE All World Developed Europe ex UK*</i>		
<i>Japanese</i>	<i>FTSE World Japan Index*</i>		
<i>Asia Pacific ex Japan</i>	<i>FTSE World Asia Pacific ex Japan*</i>		
Cash		0.0	0-2%
<b>Total</b>		<b>100.0</b>	

\*Net dividends reinvested

The equity funds are managed on an active basis. The weighted target for the overall Equity portfolio is to outperform the composite benchmark by 0.4% pa before fees (0.27% pa after fees) over rolling three-year periods.

#### 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<sup>1</sup> (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.

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

## Appendix 1: Statement of Investment Principles

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### 4.4 Cash Balances

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

## 5 Fee structure for advisers and managers

### 5.1 Advisers

The Trustee's investment advisers are paid for advice received on the basis of a 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.

## Appendix 1: Statement of Investment Principles

### 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
M&G Investment Management Limited	Absolute return bonds	Base fee = 0.50% pa Performance fee = not applicable
Janus Henderson Investors	Global equities	Base fee = 0.05% pa Performance fee = 28% of outperformance of the benchmark, net of the base fee.  The performance fee is subject to a cap set at the fee that would be payable if the portfolio had outperformed the benchmark return by 1.25% pa (before the deduction of the base fee). Any outperformance above this cap is carried forward to the following year.  If the portfolio underperforms the benchmark return then this underperformance is carried forward to the following year for consideration in the performance fee.
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.







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50 Eastbourne Terrace  
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United Kingdom

Date and tax point:

**31 December 2019**

Fee number

**5502009350**

VAT reg. number:

**GB 791 7888 59**

	£
Covenant monitoring and support provided up to June 2019	32,632.00
Fees in relation to Project Gatonyb	79,450.00
Total excluding VAT	£ 112,082.00
VAT @ 20.00 % on £ 112,082.00	£ 22,416.40
Total including VAT	£ 134,498.40

**Our charges are payable when this invoice is issued. This account is therefore now due for settlement.**

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Payment options:

Direct payment: HSBC Bank plc, sort code 40-02-50, for the credit of KPMG LLP Fees account, Account No 21367064 (IBAN Number GB49 MIDL 4002 5021 3670 64/SWIFT MIDLGB22) quoting the fee number. Please email your remittance advice to [ukfmaccountsreceivable@kpmg.co.uk](mailto:ukfmaccountsreceivable@kpmg.co.uk) or send remittance advice to the payment address.

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Payment by card: Please phone 01923 214680 quoting your fee number.

Account name	The First UK Bus Pension Scheme Trustee	
Account code	60639175	£ 134,498.40
Fee number	5502009350	Date 31 December 2019

Payment address: Dept 791, 58 Clarendon Road, Watford, WD17 1DE, United Kingdom

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