Willis Towers Watson

Smith & Nephew Superannuation Plan

Report on the Actuarial Investigation as at 1 June 2020

30 November 2020

Summary

I am pleased to present my report to the Trustee of the Smith & Nephew Superannuation Plan, OnePath Custodians Pty Ltd, on the actuarial investigation into the Smith & Nephew Superannuation Plan as at 1 June 2020. The Plan is a sub-fund of the Retirement Portfolio Service superannuation fund.

This Summary sets out the key results and recommendations contained in this report.

Solvency

The financial position of the Plan has improved over the intervaluation period, as shown in the increased Vested Benefits Index from 104.1% as at 1 June 2017 to 124.0% as at 1 June 2020.

The solvency measures as at 1 June 2017 and 1 June 2020 are also shown below:

Measure	1 June 2017	1 June 2020
VBI	104.1%	124.0%
PVABI	88.8%	112.3%
MRBI	149.4%	192.6%

Funding

Under the chosen assumptions, the expected liability to be funded by future company contribution rates determined under the Aggregate funding method as at 1 June 2020 is [redacted]

Taking into account the projected financial position of the Plan over the next three years, I recommend the Company contribute the following from 1 December 2020:

- [redacted] per month; plus
- Any deemed member contribution (including 15% contributions tax) as allowed under Rule 8.3(b)) of the Benefit Specification Schedule; plus
- The cost of any contributions on annual bonuses at the prevailing SG rate subject to the Maximum Earnings Base (MEB); plus
- Any "Salary sacrifice contributions" in respect of the remaining member.

Contents

Throughout this report the following terms are used:

Plan
Smith & Nephew Superannuation Plan

Trustee
OnePath Custodians Pty Limited

Company
Smith & Nephew

Plan Rules
The Trust Deed of the Retirement Portfolio Service superannuation fund dated 27 March 2019, together with the Plan's Benefit Specification Schedule

The Investigation Date or Valuation Date
1 June 2020

In addition, I continue to recommend that the Company contribute at the required amounts to meet any Superannuation Guarantee, contractual or any other obligations in respect of accumulation liabilities in the Plan.

Finally, I recommend that before any expenses exceeding $2,000 are paid from the Plan assets, the Trustee reviews and considers its impact on the financial position prior to such payment. If required and after consultation with the Plan's actuary, the Company may need to make additional contributions before the fees are paid, or if appropriate pay fees directly and not from the Plan.

The recommended contribution program recognises that there is only one defined benefit member remaining in the Plan.

Other Matters involving Actuarial Oversight

I further recommend that:

- The Trustee to retain the shortfall limit to 100% based on the current investment structure of the Plan;
- The Trustee monitor the financial position of the Plan half-yearly throughout the following investigation period; and
- Current external insurance arrangements for death and disablement benefits be retained.

In line with requirements under legislation and Plan Rules, the next actuarial investigation of the Plan should be conducted with an effective date no later than 1 June 2023. The recommended company contribution rates will be reviewed at that time or at an earlier date if considered appropriate as a consequence of the regular review of the VBI or as required by legislation.

Summary

I am not aware of any event since 1 June 2020 that warrants review of the recommendations in this report.

Anthony Chan
Fellow of the Institute of Actuaries of Australia

30 November 2020

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D:ST TR:AC ER/CR:AV

Introduction

Scope

This investigation has been prepared effective 1 June 2020 for OnePath Custodians Pty Ltd, the Trustee of the Plan, by the actuary to the Plan, Anthony Chan, FIAA.

Current legislation and the Plan Rules require an actuarial investigation and report to be due at least every three years for defined benefit funds not paying a defined benefit pension. The main aims of the investigation are to examine the current financial position of the Plan and the long-term funding of the Plan's benefits, and to provide advice to the Trustee on the contribution rate at which the Company should contribute and on any other matters the actuary considers relevant.

This investigation is primarily interested in the Defined Benefit liabilities of the Plan, and unless otherwise specified, this report relates only to such Defined Benefit liabilities. The Defined Contribution liabilities of the Plan, including those that relate to defined benefit members, are fully funded and do not impact upon the Defined Benefit liabilities. No investigation is required regarding the Defined Contribution liabilities, although in my recommendations I have continued to recommend that the Company contribute to meet any Superannuation Guarantee, contractual or any other obligations in respect of such liabilities.

This report has been prepared in accordance with Professional Standard 400, dated March 2020, issued by the Institute of Actuaries of Australia.

Previous Actuarial Investigation

The previous actuarial investigation of the Plan was carried out by Hadas Danziger, FIAA as at 1 June 2017, with the results of that investigation set out in a report dated 29 November 2017.

The report concluded that the Plan was not in an unsatisfactory financial position (as defined by SIS legislation) at that date, and recommended that the Company contribute to the Plan at the following rates:

Dates	Amounts
From 1 June 2017 to 31 December 2017	[redacted]
By 31 January 2018	[redacted]
From 1 January 2018	[redacted]

In addition, the Company was recommended to make the following contributions:

- The cost of any contributions on annual bonuses at the prevailing SG rate subject to the Maximum Earnings Base (MEB);
- Any deemed member contributions (including 15% contributions tax); and
- Any "Salary sacrifice contributions" in respect of the remaining member.

I understand that the Employer has made contributions at no less than the amounts above.

Experience since 1 June 2020

Since 1 June 2020 the experience of the Plan has been as follows:

- The net return on the Plan's assets from the valuation date to 31 October 2020 was approximately 1.7% p.a.; and
- The remaining member has not exited the Plan.

In my opinion, this experience since 1 June 2020 has not had a material impact on the results of this investigation. Therefore, no allowance has therefore been made for experience since 1 June 2020 when carrying out the projection of the financial position of the Plan from that date.

Limitations

This report is provided subject to the terms set out herein and in our engagement letter dated 19 January 2009 and the accompanying Terms and Conditions of Engagement. This report is provided solely for the Trustee's use and for the specific purposes indicated above. It may not be suitable for use in any other context or for any other purpose.

Except where we expressly agree in writing, this report should not be disclosed or provided to any third party, other than as provided below. In the absence of such consent and an express assumption of responsibility, no responsibility whatsoever is accepted by us for any consequences arising from any third party relying on this report or any advice relating to its contents.

We consent to the Trustee making a copy of this report available on the Plan's website where required in accordance with the relevant legislation.

The Trustee may make a copy of this report available to its auditors, the Company and to any person to whom the Trustee may be required to provide a copy under relevant legislation, but we make no representation as to the suitability of this report for any purpose other than that for which it was originally provided and accept no responsibility or liability to the Trustee's auditors the Company or any third party in this regard. The Trustee should draw the provisions of this paragraph to the attention of its auditors and the Company when passing this report to them.

In preparing this valuation, we have relied upon information and data provided to us orally and in writing by the Trustee and other persons or organisations designated by the Trustee. We have relied on all the data and information provided, including Plan provisions, membership data and asset information, as being complete and accurate. We have not independently verified the accuracy or completeness of the data or information provided, but we have performed limited checks for consistency. The data and information we have relied upon is shown in the "Additional Information" section of this report.

In our opinion, all calculations are in accordance with requirements of applicable legislative requirements, and the procedures followed and the results presented conform to applicable actuarial standards of practice.

Solvency

When assessing the adequacy of the assets and future contribution rates, both the long-term and short-term solvency positions should be considered. To assess the solvency position, I have considered the following funding solvency measures:

- Vested Benefits Index (VBI), the ratio of assets to the vested benefits, which represent the total amount which the Plan would be required to pay if the remaining member was to voluntarily leave service on the investigation date;
- The Present Value of Accrued Benefits Index (PVABI), the ratio of assets to the present value of accrued benefits, which represents the value in today's dollars, of expected future benefits payable based on membership completed to the valuation date, and
- The MRBI, the ratio of assets to the portion of the Minimum Requisite Benefits as defined in the Plan's Benefit Certificate that relates to defined benefits.[1]

The following table shows the above indices as at the valuation date, as well as the prior valuation date.

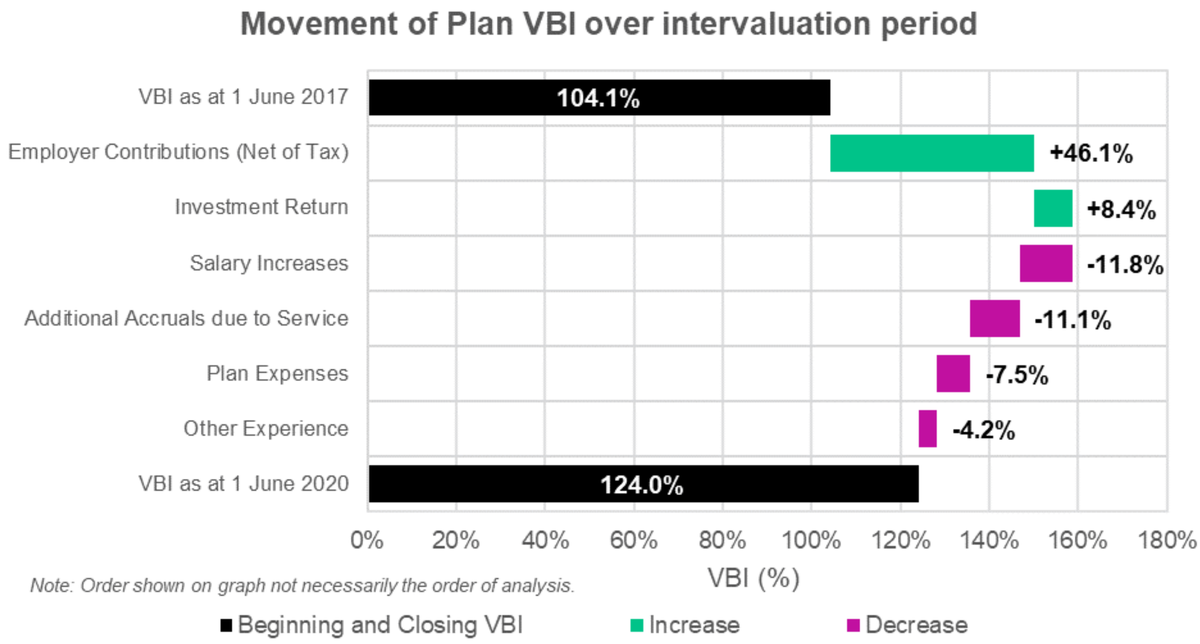
	As at 1 June 2020			As at 1 June 2017		
Measure	**Value of Liability ^**	**Value of Assets**	**Index**	**Value of Liability ^**	**Value of Assets**	**Index**
VBI	[redacted]		124.0%	[redacted]		104.1%
PVABI	[redacted]		112.3%	[redacted]		88.8%
MRBI	[redacted]		192.6%	[redacted]		149.4%

^ Estimated from data provided as at the following 30 June

Overall, the indices have increased from those at the previous investigation date. This is primarily a result of positive experience of the Plan since 1 June 2017, in particular, the higher level of company contributions made compared to the cost of accrual and expenses, that the actual salaries as at 31 May 2020 had been lower than previously assumed and higher than expected investment performance during the three-year period.

The following graph illustrates the movement of the VBI over the intervaluation period.

[1] The minimum benefits are as advised by the Plan's administrator.



The factors that have resulted in the increase of the Plan's VBI have also increased the PVABI, although this increase has been offset by a reduction to a change in the valuation assumptions used. The lower gap between the expected level of future investment returns and salary increases has increased the level of the present value of accrued benefits, which in isolation, resulted in an improvement of the PVABI.

The VBI is above 100% as at the valuation date, and as such, the Plan is to be treated as being in a satisfactory financial position as at that date.

Retrenchment Benefits, Other Discretionary or Contingent Benefits

The benefit payable on retrenchment is materially the same as the resignation benefit, and therefore the Plan does not have any material additional funding strain that would be caused by any retrenchments.

The Plan has not historically paid any material discretionary benefits so I have not analysed the impact such discretionary benefits. There are no other material contingent benefits offered by the Plan.

Termination Benefits

Under the Plan Rules, the benefits required to be paid on termination are amounts determined by the Trustee with the advice of the actuary. In any case, the amounts to be paid would be limited by the amount of assets available in the Plan.

If the Plan was ever terminated, the Trustee would need to seek both actuarial and legal advice at that time to consider the method of determining and payment form of benefits from the Plan.

Funding

This section considers the long-term funding of the Plan and assesses the contributions required in order to fund benefits payable in future years. To determine the long-term contribution rates, I have first used the Aggregate funding method as described in the "Additional Information" section of this report, and then confirmed the suitability of the resulting contribution rate using the Projection funding method.

Long Term Funding results

The long-term Company contribution rate is calculated in the table below.

Calculation of Company Contribution Rate	$
Total Service Liability	[redacted]
Less Fair Value of Assets	[redacted]
Less Present Value of Member Contributions	[redacted]
Plus Present Value of Tax and Other Costs	[redacted]
Liability to be funded by Employer Contributions	[redacted]

In the actuarial investigation as at 1 June 2017, the liability to be funded is calculated as [redacted]. This amount is directly not comparable to the liability calculated above, as the liability as at 1 June 2017 includes the cost of accrual between 1 June 2017 to 31 May 2020. To compare the relative cost of the liability to be funded as at 1 June 2017 and 1 June 2020, it would be useful to convert this amount to a percentage of future salaries.

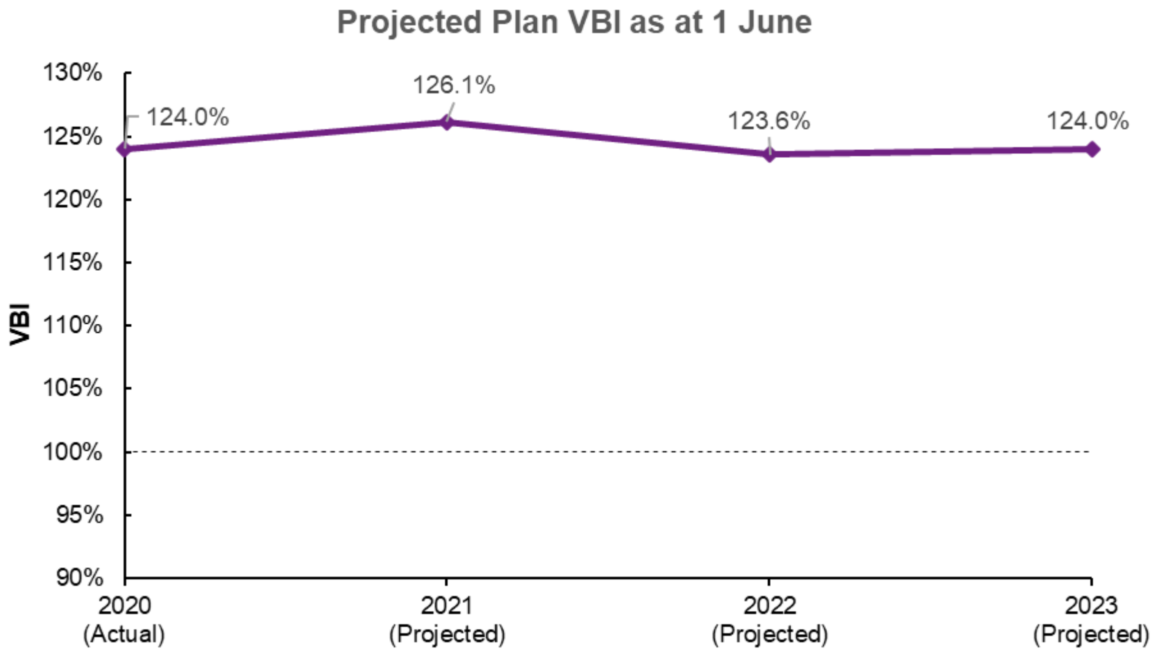
When converted as a percentage of future salaries, the required contribution rate in this investigation has reduced by approximately 14% of salaries.

The required contribution rate has reduced over the intervaluation period. This is primarily due to the improvement in the Plan's financial position, as well as actual salaries as at 1 June 2020 being lower than that projected in the previous actuarial investigation, and also that member contributions have been explicitly taken into account in determining employer contribution requirements as at 1 June 2020. This is partially offset by the changes in the financial assumptions that we have adopted for this actuarial investigation.

In line with the Company's current contribution practices, I have determined the contribution requirements as a fixed dollar amount over the next three years. The required contribution amount per month that applies from 1 December 2020 to 30 November 2023 is [redacted] per month.

I understand that the Member is currently making contributions in accordance with Rule 8.2 of the Benefit Specification Schedule within the Plan Rules. In calculating the required contribution amount above, I have assumed that this arrangement would continue, but if the Member is not making contributions (and not deemed to be making such contributions), then the required contribution amount calculated above would need to be increased to include any such deemed contributions that the Employer is making on their behalf.

The Trustee has a solvency target of maintaining the VBI to be above 110%, which is above the level required for the Plan to be in a satisfactory financial position. In order to assess whether the above contributions program is likely to meet this target, I have projected the Plan's Vested Benefits Index over the next three years assuming that the Company contributes [redacted] each month and the member contributes at 4% (pre-tax) of their salaries:



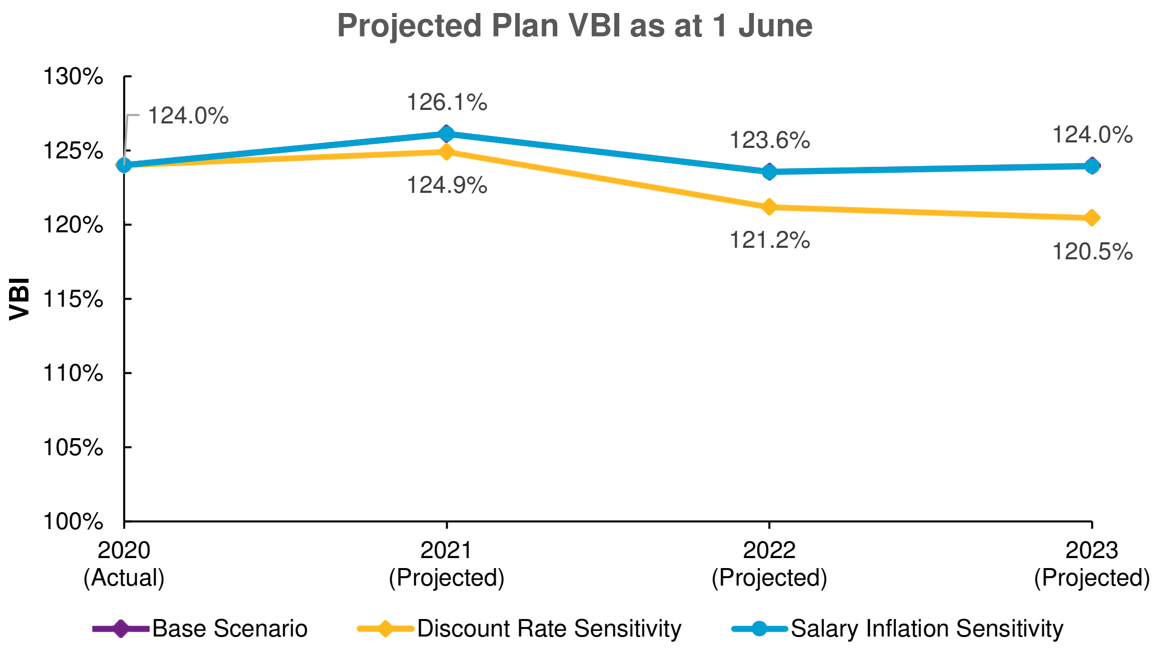
As can be seen from the graph, on the basis of the selected actuarial assumptions, the calculated long-term company contribution amount is sufficient to maintain the VBI above 110% over the next three years.

Sensitivity Analysis

Before making a recommendation on the level of contributions that the Company should make to the Plan, it is useful to consider the sensitivity of the analysis above to reasonable variations in the valuation assumptions. The following table shows the long-term contribution rate calculated, if key assumptions had been varied as described below:

	This Valuation Basis	Scenario 1	Scenario 2	Scenario 3
Description	Base Case	Investment Return Sensitivity	Salary Inflation Sensitivity	Retirement Age Sensitivity
Discount Rate	0.7%	-0.3%	0.7%	0.7%
Expected Salary Growth	2.5%	2.5%	3.5%	2.5%
Assumed age of Retirement	65	65	65	70
Present Value of Accrued Benefits Index	112.3%	100.4%	102.7%	102.8%
Long Term Contribution Rate (Relative to Base Case) as a Percentage of Salaries	-	+7.4%	+5.8%	+6.9%

Similarly, the Plan's projected VBI over the next three years under the varied assumptions are shown in the graph below. In the graph below we have not shown the projected VBI under the "Retirement Age Sensitivity", as the only variation to the Base projection relates to when the member is expected to retire (which is not expected to occur in the next three years):



We note that the projected VBI in the salary inflation sensitivity results are the same as that in the base scenario, as the change in the salary inflation rate under that scenario is not expected to have an impact on the short-term financial position of the Plan (due to the way that FAS is defined under the Plan).

These results show that the required Company contribution rate, as well as the Plan's projected financial position, is sensitive to long-term actuarial assumptions. While the sensitivities have been selected to be illustrative of reasonable changes in the valuation assumptions, they do not represent the upper or lower bounds of possible outcomes and more extreme outcomes are possible.

Summary

On the basis of the above results, and having regard to the Company's preferences as well as the long-term target objective of the Trustee to achieve a funding target of a VBI of 110%, I believe that if the Company contributes at the following from 1 December 2020 it would be sufficient to meet the funding requirements of the Plan:

- [redacted] per month; plus
- Any deemed member contribution (including 15% contributions tax) as allowed under Rule 8.3(b) the Benefit Specification Schedule; plus
- The cost of any contributions on annual bonuses at the prevailing SG rate subject to the Maximum Earnings Base (MEB); plus

- Any “Salary sacrifice contributions” in respect of the remaining member.

Accordingly, I recommend that the Company contribute as set out above until at least 30 November 2023 in respect of defined benefit members.

I continue to recommend that the Company contribute at the required amounts to meet any Superannuation Guarantee, contractual or any other obligations in respect of accumulation liabilities in the Plan.

As noted below in the Additional Information section, one of the material risks faced by the Plan is that actual expenses are higher than expected due to the relative size of the Plan and the expenses. Therefore, I recommend that before any expenses exceeding [redacted] are paid from the Plan assets, the Trustee reviews and considers its impact on the Plan’s financial position prior to such payment. If required and after consultation with the Plan’s actuary, the Company may need to make additional contributions before the fees are paid, or if appropriate pay fees directly and not from the Plan.

I further recommend that the VBI position (and other measures of solvency) continue to be monitored half-yearly throughout the following investigation period, to ensure that these contribution recommendations remain appropriate.

Other Matters
Involving Actuarial Oversight

Investments

Investment Strategy

The return objective of the Plan's Investment Strategy for assets supporting defined benefits is to achieve returns (before fees, charges and taxes) that exceed the Bloomberg AusBond Composite (All Maturities) Index, over periods of three years or more. To meet this objective, the assets supporting defined benefits are invested in predominantly a diversified portfolio of Australian fixed interest securities through a mix of managers. The Fund is actively managed in accordance with the Optimix Multi-manager Investment process.

The actual and target asset allocation as 1 June 2020 of such assets is shown in the below table:

Asset Class	Actual Asset Allocation	Target Asset Allocation
Australian Fixed Interest	89%	100%
Cash	11%	-
Total	**100%**	**100%**

In my opinion an investment strategy as described above is suitable for a Plan of this type having regard to its financial position, the underlying liabilities and the capacity of the respective employers to meet any funding shortfall.

Crediting Rate Policy

The Plan's policy credits defined benefit member accounts with actual investment returns (net of tax and relevant expenses) from the underlying assets. In my view, this remains appropriate.

Liquidity

Taking into account the ready sale of the Plan's assets from time to time, in my opinion the Plan has sufficient liquidity to meet payments from regular cashflows.

Shortfall Limit

The Trustee currently has an approved shortfall limit of 100%.

Based on the Plan's benefit design and its target asset allocation described above, in my opinion the 100% shortfall limit remains reasonable for the Plan.

Insurance

Death and Disablement Benefits

At the investigation date, the Plan has death and total and permanent disablement insurance with AMP Life Limited in respect of the future service portion of their death and disablement benefits. This is appropriate for a fund of this size in order to protect the Plan against adverse death or disability experience and to smooth out the inevitable fluctuations in such experience:

The formula used to calculate the level of insurance is:

Cover	Level of Cover
Death Cover	Death Benefit less Vested Benefit
Total and Permanent Disablement Cover	14.5% times salary times years and completed months to Age 65, capped at $50,000

The benefits payable in the event of death or disability are summarised in the *Additional Information* section. I believe that the current basis for providing insurance is satisfactory and that the Trustee should continue to insure death and disability benefits.

Additional Information

Risks

The table below summarises the main risks to the financial position of the Plan.

Risk	Approach taken to risk
Investment returns on the existing assets could be insufficient to meet the Trustee's funding objectives	The Plan currently only has one member so the Plan's future financial position would be sensitive to investment returns that are significantly different to that expected. If actual investment returns are less than assumed, the funding position would be weaker than expected. The Trustee takes advice from the Plan Actuary on possible assumptions for future investment returns. In setting the future contributions, the Plan Actuary considers the effect on the future financial position if investment returns are less than expected. In certain situations, additional contributions may be required from the Company at subsequent valuations if future returns prove insufficient.
Salary increases could be different from that assumed which could result in higher liabilities	Similar to investment returns, the Plan's future financial position would also be sensitive to salary increases that are significantly different to that expected. If actual salary increases are higher than assumed, the funding position would be weaker than expected and additional Company contributions may be required.
Plan Expenses are higher than anticipated	Because of its size, the Plan's financial position could become extremely sensitive to the payment of large Plan Expenses from its assets. To manage this risk, the actuarial investigation of the Plan as at 1 June 2020 recommended that the payment of any expenses exceeding $2,000 be reviewed and considered by the Trustee, and if required and after consultation with the Plan's actuary, the Company may need to make additional contributions before the fees are paid, or if appropriate pay such expenses directly and not from the Plan.
The Plan Member leaves the Plan prior to or after Normal Retirement Age	In my projections I have assumed that the Plan's remaining member would leave the Plan at Normal Retirement Age. In this investigation, the sensitivity results showed that the long-term contribution requirements could increase materially if the member continues to accrue a benefit after Normal Retirement Age. It is not expected to be known whether the member will retire after Normal Retirement Age for some time. At this stage we do not recommend that the Company contribute at rates to meet the member's benefit assuming that accrual continues past Normal Retirement Age, but the Company should be aware that future contributions could increase materially if the member continues to accrue a defined benefit between Normal Retirement Age and age 70.
Legislative changes could lead to increases in the Plan's liabilities	The Trustee takes legal and actuarial advice on changes in legislation and consults with the Company, where relevant.

Economic risk   Demographic risk   Legal risk

Benefits summary

The Plan was originally established pursuant to a proposal for a managed fund policy made on 25 January 1973, who, via transfers became the Plan as it is today. Its operations are governed by the Plan Rules.

The Plan is a regulated complying superannuation fund under the Superannuation Industry (Supervision) Act and qualifies for concessional tax treatment.

There are two defined benefit categories of membership in the Plan, Category A and Category B2. There are no active Category A members. The Plan's liabilities relate to lump sum benefits based on the period of membership and salary over the last few years of membership.

The Plan also has an accumulation only division.

The main provisions of the Plan for Category B2 members are summarised as follows:

Normal Retirement Age (NRA)	Age 65
Salary	The amount of the Member's annual wage or salary notified to the Trustee by the Employer. Special rules may apply where a Member's salary is reduced in a Review Period.
Final Average Salary	The greater of average of the Member's Salaries over the last three years, or the highest average of the Member's Salaries in any three consecutive Annual Review Dates within the last ten years
Resignation Benefit, where the member has more than ten years of service	A lump sum equal to a percentage of Final Average Salary (or Salary if certain conditions are met), where the percentage is based accrual rates applicable in calculating the member's retirement benefit, and the member's actual and potential service.
Retirement Benefit	A lump sum equal to a percentage of Final Average Salary, for each year of Plan membership. Different percentages apply for different financial years.
Death Benefit	Prospective Retirement Benefit at NRA.
Total and Permanent Disablement Benefit	A lump sum equal to a 14.5% of salary for each year of the member's prospective service to NRA, subject to a maximum of [redacted]. The member remains a member of the Plan and continues to accrue benefits.

The defined benefit categories of the Plan are closed to new entrants.

Summary of Data Used in this Investigation

Membership Data

OnePath Administration Pty Limited has responsibility for maintaining member records, payment of benefits and other administrative tasks of the Plan.

OnePath Administration Pty Limited provided data in respect of members of the Plan as at 30 June 2020. To perform calculations as at 1 June 2020, I have adjusted the data to reflect expected changes in the data during the month of June 2020.

I have checked a sample of the membership data for internal consistency and am satisfied as to the accuracy of this sample.

The following table shows a summary of the membership as at 1 June 2017 and 1 June 2020:

	1 June 2020	1 June 2017
Number of Members	1	1
Age	[Redacted for Privacy Requirements]	
Past Company Membership	[Redacted for Privacy Requirements]	
Superannuation Salary	[Redacted for Privacy Requirements]	

Assets Data

OnePath provided unaudited asset information for the Plan as at 1 June 2020. Based on the redemption value of units held at that date, the net value of assets was [redacted]

While the asset information provided was unaudited, I understand that it was prepared consistently with the audited financial statements of the Retirement Portfolio Service superannuation fund for the year ended 30 September 2018.

I am satisfied that there are no material data discrepancies and that the data provided is suitable for the purpose of this investigation. I have relied on the information provided for the purposes of this investigation. Although I have no reason to doubt the quality of asset information provided, the results of this investigation are dependent on the quality of the asset information. Any changes to the asset values above will have an impact on the outcome of the investigation and any resulting recommendations.

Funding Method, Assumptions and Experience

Funding Method

In this valuation, I have first used the Aggregate Funding Method to determine the theoretical level of company contributions required under certain assumptions. Under this method, I calculated the level of company contributions to be equal to the difference between the expected cost of members' future benefits and other relevant costs (such as administration expenses), and the expected level of future value of assets. This is then compared against the expected present value of 1% of members' salaries.

This funding method is suitable for this valuation as it calculates the expected long-term cost to the Company to fund benefits and other expenses that are payable by the Plan.

In producing my recommendations, I then used the Projection Funding Method, by projecting the Plan's financial position from the valuation date, to confirm that the level of employer contributions calculated using the Aggregate Funding Method meets the required short term solvency measures, in particular, that legislation requires the VBI to be above 100% and that the Trustee has a funding target of 110%.

In the previous actuarial investigation, the Attained Age Normal Method and Projection Funding Method were used in conjunction to determine the level of contributions. I have retained the Projection Funding Method to confirm the level of contributions as in my view this method remains appropriate, although I have used the Aggregate Funding Method instead of the Attained Age Normal Method to initially determine the required contributions as the Plan is not currently in a deficit with respect to the present value of accrued benefits. This change had no impact on the contributions that were determined.

Assumptions

In order to determine the value of expected future benefits and Plan assets, it is necessary to make assumptions regarding the timing and amount of future benefit payments, expenses and contributions. In doing so it is important to examine the experience of the Plan since the last valuation to see whether the previous assumptions have been borne out in practice.

While each of the assumptions used is normally the actuary's best estimate of future experience, in practice, the actual experience in any (short) period can always be expected to differ from the assumptions to some extent. However, it is intended that over longer periods, they will provide a reasonable estimate of the likely future experience and financial position of the Plan.

In the short-term, as the actual experience emerges differently to the experience implied by the assumptions, the financial position of the Plan will also vary from that expected. However, adjustments to Company contribution rates, if any, can be made to reflect these differences in the following actuarial investigation.

Financial Assumptions

Valuation assumptions can be broadly divided into demographic assumptions, which relate to characteristics of current and future members of the Plan, and financial assumptions, which are assumptions other than demographic assumptions. The following sections first consider the financial assumptions that are to be adopted for this valuation.

Investment Returns

Over the three-year period to 1 June 2020 the assets held in the Plan returned 3.4% p.a. (net of tax and investment expenses that are deducted from the investment return) which is higher than the rate assumed in the previous investigation of 1.7% p.a. (net of tax) in projecting the Plan's financial position. In isolation, this has had a positive impact on the financial position of the Plan.

While short-term differences between actual investment return experience and the actuarial assumption can affect the long term financial position of the Plan as measured by the actuarial investigation, the assumption used in the investigation must be based on long-term expectations since the investigation involves valuing payments in the future.

Based on models of future investment returns developed by Willis Towers Watson, the current long term expectations of investment returns net of taxation and investment management expenses and current strategic asset allocation of the Plan is 0.7% p.a.. On this basis, I have assumed a long-term investment earning rate of 0.7% p.a. for this investigation, which is lower than the assumed long term earning rate used for the previous investigation of 1.7% p.a..

Salary Increases

The average salaries during the investigation period for the members remaining in the Plan as at 1 June 2020 reduced during the period. The rate of increase is therefore lower than the salary increases assumption adopted for the previous actuarial investigation of 3.0% p.a.. This has had a positive impact on the financial position of the Plan.

Based on modelling of expected price and general wage increases in the economy by Willis Towers Watson, I have adopted an expected long-term salary increase of 2.5% p.a..

Administration Expenses and Insurance Costs

In the last investigation, administration expenses and insurance costs were allowed for at the following rates:

- Administration and consulting expenses of [redacted] for the year ending 31 May 2018, and [redacted] thereafter;
- A [redacted] Membership fee which would increase with CPI; and
- Insurance premiums of [redacted].

Based on the Plan's level of expected expenses going forward and also in line with the Plan's experience, I have adopted a long-term rate of expenses for administration and insurance costs of 8.5% of members' superannuation salaries.

The current expense assumptions are slightly lower than those allowed for in the previous investigation.

Demographic Assumptions

Rates at which Employee Members Cease Service

The remaining member has not ceased service during the intervaluation period from 1 June 2017 to 1 June 2020. This is in line with the previous investigation, where we adopted the demographic assumption that the member ceases service at age 65 and therefore would not be expected to exit during the intervaluation period from 1 June 2017 to 1 June 2020.

Because of the small number of employee members remaining in the Plan, I have assumed that all Employee members would only cease service when they retire at their Normal Retiring Age of 65 (or above if they are currently at this age). I have retained this assumption because of the size of the Plan and the mature age of the members, where applying assumed decrement rates before retirement would not be appropriate because it would not adequately capture the impact of the event of a member ceasing service.

Statutory Statements Under SPS 160

Smith & Nephew Superannuation Plan

Actuarial Investigation as at 1 June 2020

The statements required under paragraphs 23(a) to (i) of SPS 160 for interim and regular investigations are set out below:

Plan Assets

At 1 June 2020 the net market value of assets of the Plan, excluding any amount held to meet the Operational Risk Financial Requirement (ORFR), was [redacted]

Projection of Defined Benefit Vested Benefit Index

Based on the actuarial assumptions I project that the likely future financial position of the Plan over the three years following the investigation date will be as follows:

Date	Defined Benefit Vested Benefits Index
1 June 2020	124.0%
1 June 2021	126.1%
1 June 2022	123.6%
1 June 2023	124.0%

Accrued Benefits

The value of the accrued liabilities of all members as at 1 June 2020 was [redacted]

In my opinion, the value of the assets of the Plan at 1 June 2020 was adequate to meet the liabilities in respect of accrued benefits in the Plan (measured as the present value of members' accrued entitlements using the actuarial assumptions).

This assessment has been made using assumptions and a valuation method which I regard as reasonable.

Vested Benefits

The value of the vested benefits of all members as at 1 June 2020 was [redacted]

In my opinion, the financial position of the Plan is not unsatisfactory and the shortfall limit does not need to be reviewed at this time.

Minimum benefits

The value of the liabilities in respect of the minimum benefits of members as at 1 June 2020 was $197,429 which is less than the value of assets held at that date.

Funding and Solvency Certificates

Funding and Solvency Certificates for the Plan covering the period from 1 June 2017 to 1 June 2020 required by the Superannuation Industry (Supervision) Act have been provided. In my opinion, I am likely to be able to provide Funding and Solvency Certificates for the Plan covering the period from 1 June 2020 to 1 June 2023.

Company Contributions

The report on the actuarial investigation of the Plan at 1 June 2020 recommends the Company to contribute the following from 1 June 2020:

- [redacted] per month; plus
- Any deemed member contribution (including 15% contributions tax) as allowed under Rule 8.3(b) of the Benefit Specification Schedule; plus
- The cost of any contributions on annual bonuses at the prevailing SG rate subject to the Maximum Earnings Base (MEB); plus
- Any “Salary sacrifice contributions” in respect of the remaining member.

In addition, I continue to recommend that the Company contribute at the required amounts to meet any Superannuation Guarantee, contractual or any other obligations in respect of accumulation liabilities in the Plan.

Payment of Pensions

The Plan does not have any lifetime pension members.

Pre-July 1998 Funding Credit

No pre-July 1998 funding credits have been granted to the Plan.

Anthony Chan
Fellow of the Institute of Actuaries of Australia

30 November 2020

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