11 April 2017

Ms Tiffany Lu
ANZ Wealth
Relationship Manager, Pensions & Investments
242 Pitt Steet
Sydney NSW 2000

Dear Tiffany

Subject: Smith & Nephew Superannuation Plan (the Plan)
Replacement Funding and Solvency Certificate and Restoration Plan

Please find enclosed a replacement Funding and Solvency Certificate (FSC) for the Smith & Nephew Superannuation Plan (the Plan) to take effect from 1 January 2017 until 30 June 2019. We have also provided a proposed restoration plan for the Trustee to sign and provide to APRA.

Background

We were informed by the Plan's administrator that the Vested Benefit Index (VBI) had fallen below 100% effective 15 November 2016. As the Plan's shortfall limit is set at 100%, the VBI was less than the shortfall limit at this date, triggering the requirement for an interim actuarial investigation to be conducted in accordance with Superannuation Prudential Standard 160 (SPS 160). The OnePath Trustee engaged Willis Towers Watson, as actuary to the sub-plan, to conduct this investigation.

The interim actuarial investigation was completed on 22 December 2016 by Farah Billimoria, Fellow of the Institute of Actuaries of Australia. Pursuant to SPS 160, the Trustee had the responsibility of providing a copy of the interim actuarial investigation report to APRA within 15 days of receipt of the report, and approving a restoration plan within 3 months of receipt of the report (i.e. by 22 March 2017). We note that the above actions were not undertaken by the Trustee within the required timeframes, and the recommended contribution to be made by 31 March 2017 was not paid to the Plan by this date.

We understand that in early April 2017, the OnePath Trustee consulted with the employer sponsor, and considers it likely that contributions will shortly be made in accordance with the recommendations in the interim actuarial investigation report dated 22 December 2016. We are satisfied that provided the contributions recommended by 31 March 2017 ($36,000) are actually paid in April 2017, then another interim investigation will not be required. In the enclosed FSC, we have updated the contribution program to reflect an immediate contribution of $36,000 by 30 April 2017 (instead of 31 March 2017, as originally stated in our report). Should the contribution not be paid by 30 April 2017, we will need to advise APRA.

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Funding and Solvency Certificate

The enclosed FSC replaces the previous certificate dated 22 December 2016 which is hereby withdrawn. The Certificate is being replaced to reflect the Company contributions as determined in the interim actuarial investigation effective 15 November 2016.

The minimum contributions set out in the attached FSC are those expected to provide full Plan benefits (rather than just minimum benefits). Therefore, contributions may be higher than those expected to be required to provide coverage only of the Plan's Minimum Benefits (MBs).

Under the SIS legislation, the Trustee must obtain a replacement FSC by no later than 31 October 2018 or earlier if a "notifiable event" occurs (refer to the Appendix).

A copy of this certificate should be supplied to all Companies contributing to the Plan and a copy should be retained by the Trustee.

Restoration Plan

Pursuant to paragraph 32 of SPS 160, the Trustee must set out a restoration plan within 3 months of receiving the actuary's interim actuarial investigation in consultation with the company and actuary. We understand this has not yet been done by the Trustee so we have prepared proposed wording for you on the assumption that Smith & Nephew are aware of their payment obligations.

A copy of the signed restoration plan must be provided to APRA and Willis Towers Watson no later than 15 business days after the Trustee has approved the plan. Given the Trustee approved the contribution program on 31 March 2017, we would expect APRA and Willis Towers Watson to be provided with a signed copy of the Trustee's Restoration Program by 24 April 2017.

Please contact us if you wish to discuss this matter.

Yours sincerely

Tracy Polldore
Fellow of the Institute of Actuaries of Australia

Hadas Danziger
Fellow of the Institute of Actuaries of Australia

Attachments: Funding and Solvency Certificate
Proposed Restoration Program

Copy: Nicholas Miltos, ANZ

FUNDING AND SOLVENCY CERTIFICATE

SMITH & NEPHEW SUPERANNUATION PLAN

a sub-plan of the OnePath MasterFund

1 This Funding and Solvency Certificate ("Certificate") is provided under Regulation 9.09 of the Regulations to the Superannuation Industry (Supervision) Act 1993 ("SIS Act"), and has been prepared in accordance with Professional Standard 407 issued by the Institute of Actuaries of Australia.

2 This Certificate takes effect from 1 January 2017 and will apply until 30 June 2019. However, in accordance with Government regulations, this Certificate must be replaced no later than 31 October 2018. This Certificate will expire prior to the expiry date if one of the following events occur:

- an amount is paid from the Plan to an Employer;
- it is replaced by another Certificate;
- a "Notifiable Event" (as defined in the Appendix to this Certificate) occurs in relation to the Plan;
- an Employer fails to pay the "certified minimum contributions" specified below; or
- an Actuary withdraws the Certificate.

This Certificate replaces the previous Certificate dated 22 December 2016.

3 Pursuant to Regulation 9.06 of the SIS Regulations, the Plan is *"solvent"* if the net realisable value of the assets of the Plan exceeds the Minimum Benefits (MB) of all members of the Plan.

4 The MB for a member is that part of a benefit being used to meet part or all of an employer's Superannuation Guarantee obligation and is defined in the Benefit Certificate prepared by Farah Billimoria, FIAA, dated 9 July 2015 which covers the period from 1 June 2015 to 31 May 2020.

5 In my opinion:

a at 1 January 2017, the Plan was solvent as defined under Regulation 9.06(2) and 9.15 of the Superannuation Industry (Supervision) Regulations; and

b based on reasonable assumptions about the future of the Plan, the Plan is likely to remain solvent to the expiry of this Certificate at 30 June 2019 provided the Company pays at least the certified minimum contributions as follows:

- To 31 March 2017, 11.80% of salary;
- By 30 April 2017, an amount of $36,000; and
- From 1 July 2017, $1,700 per month.

The RSE Actuary has also recommended that all Plan expenses from 1 January 2017 are met by the employer sponsor as they fall due. Plan expenses should be met by an additional contribution to the Plan equal to the amount of any expenses immediately before expenses payable out of the Plan are paid.

The Company also needs to meet the cost of any contributions on annual bonuses at the prevailing SG rate subject to the MEB; the cost of member contributions (including 15% contribution tax) for those members who have their member contributions paid by the Company (Member Deemed contributions); and also the cost of any “salary sacrifice” contributions made by members.

The Company contributions specified above are the same as the contributions recommended by the Plan’s actuary. These contributions may be higher than those expected to provide coverage only of the Plan’s MBs.

6 I am not aware of any events that have occurred between 1 January 2017 and the date of signing this Certificate that would affect the contents of the Certificate.

Dated: 11 April 2017

Tracy Polldore
Fellow of the Institute of Actuaries of Australia

Hadas Danziger
Fellow of the Institute of Actuaries of Australia

Towers Watson Australia Pty Ltd
Level 23, 55 Collins Street
Melbourne VIC 3000

APPENDIX TO FUNDING AND SOLVENCY CERTIFICATE

Notifiable Events

Notifiable Events are events identified by the actuary as requiring the solvency of the Plan to be re-examined. If a notifiable event occurs, the Funding and Solvency Certificate ceases to have effect, and a new Certificate must be obtained by the Trustee within three months of the occurrence of the notifiable event.

In accordance with Regulation 9.10 to the SIS Act, the following events are identified:

- Any amendment to the Plan's Trust Deed which affects the level or method of calculation of the benefits provided by the Plan.
- The determination of the Plan's financial position as "unsatisfactory" as at an annual review date (currently 1 July each year). For this purpose, "unsatisfactory financial position" is defined in Regulation 9.04(a) to the SIS Act to mean that the Plan's assets are insufficient to cover the amount of vested benefits in the Plan (i.e. the minimum entitlement if all members resigned immediately).
- The receipt by the Trustee of the Plan of a written direction from APRA under sub regulation 9.09 (1A) of the Regulations.
- Any other event advised to the Trustee by an actuary as being a notifiable event.

The following events are also identified, unless advised in writing to the contrary by an actuary:

- The replacement of the Benefit Certificate which was current as at the date this Certificate was signed, with a Benefit Certificate which specifies the Plan's minimum benefits on a different basis to that assumed in this Certificate (for example, as a result of an increase in the level of minimum SG benefits).
- An investment return on the Plan's defined benefit assets of less than -5% over the Plan year ended 30 June each year.
- Average salary increases for all defined benefit members of the Plan since the most recent annual review date in excess of 10%.
- The exercise of discretion to provide enhanced benefits (for example in special circumstances as defined in the Plan's Trust Deed, or as a result of the cessation of participation of an Employer) since the previous annual review date which total more than 5% of the Plan's assets.
- A change in the taxation basis of the Plan.

Smith & Nephew Superannuation Plan (“Plan”)
Restoration Plan

1. OnePath Custodians Pty Limited, as Trustee of the Plan (“Trustee”), notes the report from the Plan’s RSE Actuary dated 22 December 2016 on the interim actuarial investigation of the Plan, effective 15 November 2016. The Trustee takes this report to be a statement (“Statement”) in accordance with paragraph 31 of Prudential Standard SPS 160 (“SPS 160”). The Trustee further notes that its representative has consulted with the employer sponsor regarding the recommended contribution program contained in the Statement in accordance with paragraph 32(b) of SPS 160.

2. The Trustee appoints the Plan’s RSE Actuary to be responsible for the provision of advice to the Trustee in relation to actuarial management during the period in which the Plan is in an unsatisfactory financial position in accordance with paragraph 32(c) of SPS 160.

3. This document sets out the Trustee’s Restoration Plan in relation to the Plan as required by paragraph 32(d) of SPS 160. In establishing this Restoration Plan, the Trustee has consulted with the RSE Actuary in order to understand relevant circumstances of the Plan and the employer sponsor.

4. This Restoration Plan applies until 30 June 2017 or until the Plan returns to a satisfactory financial position on a sustained basis, if earlier. The Plan is expected to return to a satisfactory financial position by 30 June 2017, and remain in a satisfactory financial position to 30 June 2019.

Recommended Contributions

5. The RSE Actuary has recommended the following employer contributions be made in order to return the Plan to a satisfactory financial position by 30 June 2017 and maintain the Plan’s satisfactory financial position to 30 June 2019:

   - To 31 March 2017, 11.80% of salary;
   - By 30 April 2017, an amount of $36,000; and
   - From 1 July 2017, $1,700 per month.

   The RSE Actuary has also recommended that all Plan expenses from 1 January 2017 are met by the employer sponsor as they fall due. Plan expenses should be met by an additional contribution to the Plan equal to the amount of any expenses immediately before expenses payable out of the Plan are paid.

6. The employer sponsor also acknowledged that the RSE Actuary would review the financial position of the Plan every six months, and when the remaining defined benefit member intends to exit the Plan. The employer sponsor acknowledged that they may be required to contribute at rates higher or lower than those set out in the report depending on whether the Plan’s future experience is better or worse than expected.

Likelihood of recommended contributions being made (Paragraph 33(a))

7. Having regard to the Trustee’s consultation with the employer sponsor, the Trustee considers it likely that contributions will be made in accordance with the RSE Actuary’s recommendations.

Plan Investment Strategy (Paragraph 33(b))

8. The Trustee does not consider that any changes are required to the Plan’s investment strategy.

Likely impact on benefit payments (Paragraph 33(c))

9. The Trustee notes that the RSE Actuary has recommended a review of the financial position of the Plan when the remaining defined benefit member intends to exit the Plan (whether through resignation or conversion to accumulation).

10. On this basis, the Trustee does not consider it likely that there will be any impact on benefit payments during the period of this Restoration Plan.

Monitoring and review of this Restoration Plan (Paragraph 33(d))

11. The financial position of the Plan is currently reviewed every six months by the RSE Actuary and monitored by the Trustee. The Trustee will continue this level of monitoring and review during the period of the Restoration Plan. The RSE Actuary may review the Plan's financial position and report to the Trustee earlier than the next scheduled review date if considered necessary by the RSE Actuary or the Trustee. Circumstances in which an earlier review may be considered necessary may include (but are not limited to):

    - The exit of the remaining defined benefit member (whether through resignation or conversion to accumulation); or
    - A significant and relevant change in the financial circumstances or operations of the employer sponsor; or
    - Sustained poor investment performance of the Plan; or
    - Higher than expected salary increases.

12. The next full actuarial valuation effective 1 June 2017 is due for completion by 30 November 2017.

This Restoration Plan was approved by the Trustee on ______________________.

______________________________ ______________________________

Director **Director**