

Swisslog (UK) Ltd Pension Scheme

Statement regarding Governance

Year Ended 30th September 2023

This statement has been prepared by the Trustees of the Swisslog (UK) Ltd Pension Scheme ("the Scheme") in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations ("the Administration Regulations") 1996. It explains how the Trustees have met their obligations in relation to the management of the Scheme over the period 1st October 2022 to 30th September 2023 ("the Scheme Year").

The default arrangements

The Scheme's latest Statement of Investment Principles ("SIP"), approved by the Trustees in August 2023, governs the Trustees' decisions about investments, including its aims, objectives and policies. In particular, the SIP covers the Trustees' investment policies on risk and return.

The Trustees do not operate a default investment strategy. Each member self-selects their own investment options. There were no changes in the funds available to members during the year.

During the year, the Trustees undertook a strategic review of the Scheme with assistance from an independent chartered financial planner. Following consultation with Scheme members and exploration of the options available, the Trustees resolved that in the best interests of the members, the earmarked assets of the Scheme will be transferred to a group personal pension plan with Scottish Widows. Factors taken into account included Scottish Widows having the lowest annual management charge, the strongest financial strength and a higher level of administration and service than Clerical Medical. The new arrangement is effective from 1st April 2024, with full transfer planned during Summer 2024, following which this Scheme will be formally wound-up.

In all material respects, there is considered to be no impact on the valuation of the Scheme's assets and liabilities as a result of preparing the accounts on a scheme cessation basis.

During the Scheme year there were no changes to the investment strategy or the funds available to members. A formal review of the investment strategy has not been undertaken by the Trustees taking into account the lack of a formal default strategy and the ongoing strategic review.

The latest statement of investment principles (SIP) and implementation statement in conjunction with the SIP, prepared in accordance with regulations 2A and 2(3)(c) of the Occupational Pension Schemes (Investment) Regulations 2005, are available on request from the contact address set out in this report.

Financial transactions

The Trustees have a specific statutory duty to ensure that core financial transactions relating to the Scheme are processed promptly and accurately. Core financial transactions include transfers of member assets out of the Scheme, switches between different investments within the Scheme and payments to and in respect of members.

The core financial transactions are undertaken on the Trustees behalf by Clerical Medical, the Scheme's administrator. The majority of core financial transactions are dealt with promptly and accurately including tasks such as monthly contribution processing and the settlement of benefits. However, due to Clerical Medical only accepting paper instructions from members, some core financial transactions are not processed as promptly as what has come to be expected from a modern DC pension arrangement. This has resulted in member complaints about the level of service provided by Clerical Medical. The Trustees are looking to address these issues as part of the strategic review.

The Trustees continue to monitor the payment of contributions to Clerical Medical by checking the monthly payroll deductions. The Trustees' Statement about Contributions is also independently audited by the Scheme's appointed auditor, Mills Pyatt Audit Limited.

Controls and processes

The Trustee has appointed Scottish Widows Limited (prior to 31st December 2015 known as Clerical Medical Investment Group Limited) to provide administration and fund management services to the Scheme. Scottish Widows Limited is part of Lloyds Banking Group. Core financial transactions are processed by Scottish Widows Limited in accordance with a strict governance framework. A number of processes and controls are in place with Scottish Widows Limited to ensure that all core financial transactions are processed promptly and accurately and include:

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Controls and processes (continued)

- The documentation received in support of all financial transactions requested on a member's account is fully reviewed for completeness before processing commences.
- Checklists are in place to help ensure that all necessary information for financial transactions has been received and that all regulatory and service level requirements are met.
- A senior member of the Administration team reviews the transactions that have been keyed for completeness and accuracy before the claims are released for processing.
- All requests for financial transactions are scanned and tracked to help ensure compliance with agreed service standards.
- The Administration team run daily reports to verify that dealing deadlines have been met and identifies members with a partially processed transaction.
- A report is run regularly by Scottish Widows Limited to ensure that the correct annual management charge is applied.
- Before single contributions are invested, an Authority to Bank form is completed to confirm that the relevant reviews have been completed. The form is reviewed and approved by a senior administrator in Scottish Widows Limited's Administration team.
- For regular contributions, the Administration team runs and reviews a report detailing any active accounts that have not received a scheduled payment. Any discrepancies are researched and resolved.
- The Administration team confirms on a daily basis that all claims and switches in progress for the day have been fully processed.
- A policy is in place detailing the process by which Scottish Widows Limited and the Trustee pursue and resolve any late or inaccurate contributions to the Scheme.

Costs and charges

Legislation requires the Trustees to disclose the charges and transactions costs borne by Scheme members with DC benefits and to assess the extent to which those charges and costs represent good value for members. These charges and transaction costs are not limited to the ongoing charges on member funds but also include trading costs incurred within such funds.

In this context, "charges" means (subject to some specific exemptions, such as charges relating to pension sharing orders) all administration charges other than transaction costs. Together, these charges comprise the Total Expense Ratio (TER).

Following the regulations enforced from 6th April 2018 onwards, the Trustees are required to provide members with additional information in relation to investment charges and core transaction costs. This is in the interest of greater transparency of costs to members. These are required to be set out as example member illustrations that have been prepared with regard to the relevant statutory guidance: 'Reporting of costs, charges and other information: guidance for trustees and managers of relevant occupational schemes.

Transaction costs are defined as the costs incurred as a result of buying, selling, lending or borrowing investments. They are typically categorised as explicit costs and implicit costs. Examples of explicit costs include broker fees, transaction taxes and custody fees. Implicit costs cannot be observed in the same way but will also result in a reduction in the total amount of capital invested. Examples of implicit costs include bid-ask spreads and market impact.

When the Scheme was instituted in 2001 the Trustees negotiated a substantial discount on the proposed Annual Management Charge (AMC) of 1.5% and instead a fixed AMC of 0.69% was agreed upon. Furthermore there are no exit penalties, the AMC remains the same whether a member is an active or deferred member and switching between funds at any time is free.

Each year, the Trustees request information on charges and member-borne transaction costs relating to the Scheme. Whilst we have asked for transaction costs for previous years, Clerical Medical have not been able to provide us with this information, therefore transaction costs are covering the period between 1st October 2022 and 30th September 2023. The information below is based on the information obtained as of 30th September 2023.

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Costs and charges (continued)

Fund	TER (% pa)	2022/23 Transaction costs (% pa)	Total costs (% pa)
Clerical Medical Adventurous	0.69	0.3	0.99
Clerical Medical Balanced	0.69	0.37	1.06
Clerical Medical Balanced Fund of Funds	0.69	0	0.69
Clerical Medical Blackrock Cash	0.69	0.01	0.7
Clerical Medical Blackrock Corporate Bond All Stock	0.69	0	0.69
Clerical Medical Blackrock Over 15 Year Gilt	0.69	0	0.69
Clerical Medical Blackrock Over 5 Year Gilt	0.69	0	0.69
Clerical Medical Blackrock UK Equity	0.69	0	0.69
Clerical Medical Blackrock World Ex UK	0.69	0	0.69
Clerical Medical Cash	0.69	0.02	0.71
Clerical Medical Cautious	0.69	0.23	0.92
Clerical Medical Dynamic Return	0.69	0.23	0.92
Clerical Medical Ethical	0.69	0.06	0.75
Clerical Medical European	0.69	0.14	0.83
Clerical Medical Far Eastern	0.69	0.4	1.09
Clerical Medical Fidelity Growth & Income	0.69	0.57	1.26
Clerical Medical Fidelity MoneyBuilder Income	0.69	0.07	0.76
Clerical Medical Fidelity Worldwide Special Situations	0.69	0.25	0.94
Clerical Medical Gilt & Fixed Interest	0.69	0.09	0.78
Clerical Medical Global Equity Tracker	0.69	0.09	0.78
Clerical Medical Halifax	0.69	0	0.69
Clerical Medical International Growth	0.69	0.28	0.97
Clerical Medical Invesco Perpetual Global Bond	0.69	0.12	0.81
Clerical Medical Japanese	0.69	0.05	0.74
Clerical Medical Managed Retirement Protection	0.69	0.05	0.74
Clerical Medical Newton Global Equity	0.69	0.21	0.9
Clerical Medical Newton Multi-Asset Balanced	0.69	0.05	0.74
Clerical Medical Non-Equity	0.69	0.13	0.82
Clerical Medical North American	0.69	-0.13	0.56
Clerical Medical Schroder Gilt & Fixed Interest	0.69	0.56	1.25
Clerical Medical Schroder Global Equity	0.69	0.17	0.86
Clerical Medical Schroder Managed Balanced	0.69	0.29	0.98
Clerical Medical Schroder Monthly High Income	0.69	0.3	0.99
Clerical Medical Schroder UK Mid 250	0.69	0.23	0.92
Clerical Medical Smaller Companies	0.69	0.13	0.82
Clerical Medical Target Return	0.69	-0.18	0.51
Clerical Medical UBS Global Allocation	0.69	0.12	0.81
Clerical Medical UBS Global Growth	0.69	0.11	0.8
Clerical Medical UBS US Equity	0.69	0.2	0.89
Clerical Medical UK Equity Income	0.69	0.19	0.88
Clerical Medical UK Growth	0.69	0.31	1
Clerical Medical UK Index-linked Gilt	0.69	0.32	1.01
Clerical Medical UK Property	0.69	0	0.69
Clerical Medical Veritas Asian	0.69	0.8	1.49
Clerical Medical With Profit	0.69	0.36	1.05
CM Newton Multi-Asset Diversified Return	0.69	0.08	0.77

The full Chair's Statement, available on request, contains illustrations about the cumulative effect of costs and charges on member savings within the Scheme.

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Net investment returns

The Occupational Pension Schemes (Administration, Investment, Charges and Governance Amendment) Regulations 2021 introduced disclosure requirements for Trustees of DC pension schemes. From 1st October 2022, the Trustees are required to calculate and state the return on investments from their default and self-select funds, net of transaction costs and charges. The Trustees calculated the return on investments, as far as they were able to do so.

Below are the annualised net investment returns to 30th September 2022 for all funds that were available to members:

Fund	1 Year (%)	5 Years (% p.a.)
Clerical Medical Adventurous	-4.0	2.8
Clerical Medical Balanced	-8.6	1.1
Clerical Medical Balanced Fund of Funds	-15.8	-1.7
Clerical Medical Cautious	-10.1	-0.2
Clerical Medical European	-12.8	1.5
Clerical Medical Far Eastern	-7.0	2.4
Clerical Medical Gilt & Fixed Interest	-24.8	-3.9
Clerical Medical Halifax	0.0	0.0
Clerical Medical International Growth	2.3	7.7
Clerical Medical Japanese	-10.4	2.0
Clerical Medical Non-Equity	-11.7	-0.6
Clerical Medical North American	7.3	12.3
Clerical Medical Smaller Companies	-27.9	-2.3
Clerical Medical Target Return	-7.5	-0.9
Clerical Medical UK Growth	-9.2	-1.2
Clerical Medical UK Index-linked Gilt Pension	-35.2	-5.1
Clerical Medical UK Property	3.5	4.5
Clerical Medical With Profits	not available	not available
CM BlackRock Corporate Bond All Stock	-22.8	-3.4
CM BlackRock Over 15 Year Gilt	-38.4	-7.1
CM BlackRock Over 5 Year Gilt	-36.6	-5.6
CM BlackRock UK Equity	-6.2	0.8
CM BlackRock World ex-UK	-3.2	9.1
CM Cash	0.2	0.0
CM Dynamic Return Pension	-7.4	-0.8
CM Fidelity MoneyBuilder Growth	-26.9	0.1
CM Fidelity MoneyBuilder Income	-22.8	-3.1
CM Invesco Perpetual High Income	-5.9	-5.6
CM Managed Retirement Protection	-39.1	-7.1
CM Newton Multi-Asset Diversified Return	-0.2	7.6
CM Schroder Gilt & Fixed Interest	-27.0	-5.1
CM Schroder Monthly High Income	-14.8	0.2
CM Schroder UK Mid 250	-24.5	-2.3
CM UBS US Equity	1.4	11.3

Net returns data for the year to 30th September 2023 is not yet available.

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Value for members assessment

Under recent amendments to the Administration Regulations, certain schemes which provide DC benefits and which have total assets of below £100m must carry out a more detailed VfM assessment than previously required, report the outcome in the annual governance statement, and report on the findings when completing the annual Scheme Return which is submitted to the Pensions Regulator.

The Scheme has total assets of below £100m and, consequently, the Trustees are required to carry out such a VfM assessment.

The Trustees must have regard to the VfM Guidance when undertaking the VfM assessment and must consider three factors:

- the Scheme's costs and charges;
- the Scheme's net investment returns, assessing these against at least three other comparator schemes and having had discussions with at least one of the comparator schemes about transferring the member's DC rights if the DC benefits were to be moved out of the Scheme; and
- administration and governance.

The first comparator is a Master Trust arrangement capable of taking on the benefits and assets of the Scheme. The other comparator schemes include a bundled DC arrangement and an unbundled DC arrangement, both with DC assets in excess of £100m.

The costs and charges and net investment returns of the Scheme and those of the comparator schemes chosen are set out in the Appendix to the Statement.

The Appendix to the Statement, available on request, highlights that higher charges are applied to members within the Scheme than the comparator schemes. This is the case for the default arrangement in each of the comparator schemes and the charges that apply to their self-select range of investment options.

The Scheme's net investment returns in 2022 were broadly in line with the returns of the comparator schemes over the periods assessed.

The comparator schemes, on the basis of costs and charges as well as performance, suggest that the Scheme does not provide good value for members relative to the comparator schemes.

In addition, the Trustees are required to carry out a self-assessment of scheme governance and administration against certain criteria, which are prescribed in the 2021 Regulations. The Trustees' assessment of the Scheme's governance and administration against the areas prescribed in the 2021 Regulations does not change the position materially, suggesting that the Scheme does not provide good value for members relative to the comparator schemes. As a result, and described in the default arrangements section above, the Trustees have chosen a more appropriate solution with Scottish Widows, which provides better value for members.

Promptness and accuracy of core financial transactions

The Scheme scores well in this area as the majority of financial transactions are processed promptly and accurately. However, the Trustees have received complaints during the Scheme Year in relation to the level of service provided by Clerical Medical. The Trustees are also aware that Clerical Medical's operations are very manual in nature and this means some financial transactions e.g. investment fund switches take longer when compared to other providers in the market.

Quality of record keeping

Security of data is high with documented controls, policies and procedures that make sure personal data is kept, stored and processed in accordance with data protection legislation and requirements. There were no data security breaches during the Scheme Year. At the date of the last triennial review, the Scheme's common and conditional data scores were 100% and 100% respectively. The Trustees believe that the Scheme performs well in this area.

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Appropriateness of the default investment strategy

The Scheme does not have a formal default investment strategy in place with Clerical Medical and therefore there is no “ready-made” solution for members who do not wish to make their own investment choices or do not feel they have the financial knowledge to do so. However, once the group personal pension plan with Scottish Widows has been implemented, members with less interest in the fund selection can typically select a risk-related default choice which includes a lifestyle approach that automatically incorporates de-risking.

Quality of investment governance

The Trustees have a good understanding of their role with regards to investment governance and have appropriate knowledge to oversee the investments effectively. However, the Trustees would like to introduce a more robust approach to monitoring the Scheme’s investment options as well as providing better support to members to help them understand the options available, subject to the outcome of the strategic review.

Trustee knowledge and understanding and skills level

The Trustees score well in this area as the Trustee Board maintains a good working knowledge of the Scheme documents and relevant legislation. The Trustees also receive regular training which is documented in a training log. All Trustees have completed relevant modules of the Pensions Regulator’s Trustee Toolkit. Further details are provided in the ‘Trustee knowledge and understanding’ section below.

Quality of communication with scheme members

Clerical Medical is primarily responsible for producing and issuing member communication material and all relevant disclosure requirements are satisfied.

Members receive an annual statement from the provider as well as relevant communications as they approach retirement. Members do not have access to a member helpline, pension presentations, an online or mobile app to view their pension account or modelling tools to help set retirement savings goals.

Compared to a modern DC pension arrangement, the Scheme does not score well in this section. The new Scottish Widows arrangement will facilitate a better user experience, with dedicated support centres, well-developed web-based administration platforms and good problem resolution procedures.

Effectiveness of management of conflicts of interest

The Trustees maintain a Conflicts of Interest Policy which includes a process for identifying, managing and monitoring conflicts of interest. Any potential or actual conflicts of interest are declared, as required. The policy is reviewed and updated on a regular basis.

Trustees' knowledge and understanding

The law requires the Trustees to possess sufficient knowledge and understanding to enable them to properly exercise their functions as a trustee including (in relation to a DC scheme) that they must be conversant with:

- The trust deed and rules of the scheme.
- The statement of investment principles.
- Any other scheme administration policies or scheme documents.

And must have appropriate knowledge and understanding of:

- The law relating to pensions and trusts.
- The principles relating to:
 - The funding of occupational pension schemes.
 - Investment of the assets of such schemes.

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The appointment of new Trustees

In accordance with the Scheme’s Trust Deed the Trustee body is made up of three Trustees. All have been appointed via the Trustees’ adopted policy for appointing member-nominated and employer-nominated Trustees, which meets the legislative requirements concerning the composition of trustee boards (Sections 241 - 243 Pensions Act 2004 and the Occupational Pension Schemes (Member-nominated Trustee and Director) Regulations 2006) and ensures that Trustees are selected and appointed based on the qualities, skills and experience that they would bring to the Trustee Board.

The two employer-nominated Trustees were appointed in accordance with this policy, on the basis that they were considered fit and proper to carry out their roles. The Chair is Head of Human Resources at the sponsoring company and is a Fellow of the Chartered Institute of Personnel and Development (CIPD); the other is a senior member of the Finance Division. The member-nominated Trustee is also a qualified CIPD. All have demonstrated they hold relevant skills, working technical knowledge and experience relevant to their role as Trustees. This includes experience and exposure to other pension schemes, understanding in how to communicate with members and the employer, and evidence of developing positive relationships with the employer, the Pensions Regulator, the Department for Work and Pensions and other industry bodies.

Ongoing training and development of Trustees

All newly appointed Trustees are expected to complete a minimum standard of training within six months of joining the Trustee Board and all Trustees are required, on appointment, to read and be conversant with the main documents and policies of the Scheme. The current Trustees are conversant with the Scheme Rules, the Statement of Investment Principles and have a good understanding of the laws relating to defined contribution pension schemes, the benefits offered under their scheme and the power that they hold under the Rules. Trustees are also required to make progress when completing the relevant modules of the Pensions Regulator’s Trustee Toolkit. All the current Trustees have completed and assessed their online training.

Each year, a training needs analysis is carried out to help assess training requirements identifying any gaps in the knowledge and understanding and setting out the areas of training to be provided to the Trustee Board and/or individual Trustees throughout the Scheme Year to fill such gaps. This includes specific legal, investment and governance training, as well as opportunities for the Trustees to attend seminars and conferences, specific to DC schemes, to keep up to date with best practice governance standards. Any training received by the Trustees whether individual or collectively, is recorded on the Trustees skills, knowledge and training log.

The Statement regarding defined contribution governance was approved by the Trustees on 26th April 2024 and signed on their behalf by:

Harriet Dunscombe
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Harriet Dunscombe (Chair)