



MOTOROLA PENSION SCHEME

Statement of Investment Principles

July 2023

Motorola Pension Scheme

Statement of Investment Principles July 2023

This Statement of Investment Principles covers the Defined Benefit and the Defined Contribution sections of the Motorola Pension Scheme (the "Scheme").

1. Introduction

Purpose of Statement

This statement by Motorola Solutions Pension Trustees Limited (the "Trustee") sets out the Principles governing investment decisions taken for the assets of the Scheme to comply with the requirements of the Pensions Acts 1995 and 2004, and the Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

Advice

The Trustee has obtained written advice on the content of this statement from its Investment Adviser, Goldman Sachs Asset Management International ("GSAM") regarding the Defined Benefit section. The Trustee is satisfied that GSAM has the knowledge and experience required by the Pensions Act 1995 in performing this role.

The Trustee has also consulted a suitably qualified person in connection with the Defined Contribution Section by obtaining written advice from Mercer Limited ("Mercer").

Consultation

The Trustee has consulted Motorola Solutions UK Ltd on the content of this statement.

2. Defined Benefit Section

Investment Policy

It is the Trustee's policy to consider a full range of asset classes including, but not limited to, equities, bonds, property and absolute return and their suitability to the overall asset allocation given their associated risks and rewards. The asset allocation for the Defined Benefit section was set following an asset-liability study which considered a range of different asset classes with different risks and rewards.

The Trustee also considers the need for appropriate diversification both across and within asset classes.

The Trustee has implemented a funding level-based de-risking trigger that, if met, the Trustee will meet to discuss the potential to reduce the Scheme's Defined Benefit portfolio investment return target, de-risking the portfolio. Prior to any de-risking, the Trustee will rely on up-to-date input and advice from GSAM and Mercer on the Scheme's funding level and appropriateness of any changes to investment return target and/or the asset allocation. The Trustee will also consult with the sponsoring employer before any de-risking takes place.

The Trustee's policy is to delegate all day-to-day decisions about the investments to GSAM who shall select investments and investment managers within parameters

given to them by the Trustee. The Trustee will satisfy itself that each investment manager appointed by it has the appropriate knowledge and experience for managing the investments of the Scheme. The Trustee expects each fund manager to carry out the investment powers delegated to them with a view to giving effect to the principles in this statement, so far as is reasonably practical.

Expected return

Based on past performance and prevailing market conditions, the Trustee expects the long term return on the Defined Benefit assets to exceed the expected future growth of the liabilities. The Trustee recognises that the returns on equities and other return generating assets, while expected to be greater over the long term than those on bonds, are likely to be more volatile. Returns on the Defined Contribution assets will vary from member to member and will depend on the investment choices made by each member.

Realisation of investments

If, having considered advice from GSAM, the Trustee believes that any class of investment is no longer suitable for the Defined Benefit section of the Scheme it will withdraw this asset class for future investments.

Risk management and measurement

The Trustee recognises that the key risk to the Defined Benefit section of the Scheme is that it has insufficient assets to pay benefits when due. The Trustee has identified a number of risk factors which have the potential to contribute to these key risks. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("liquidity risk"). The Trustee and its advisers monitor the Scheme's cash flows to minimise the probability that this occurs.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk is considered by the Trustee and their advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the Scheme's investment strategy.
- The possibility of failure of the Scheme's sponsoring employer ("covenant risk"). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially) and its annual updates. Some of these risks may also be modelled explicitly during the course of such reviews.

To assist in monitoring these risks, the Trustee receives reports at least quarterly showing:

- Funding level versus the Scheme's specific funding objective.
- Performance versus the Scheme's investment objective.
- Performance of individual fund managers versus their respective targets as measured by an independent performance measurer.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

Environmental, Social, Governance, Stewardship and Alignment Considerations

Financially material considerations

The Trustee recognises that it has a legal duty to take account of financially material considerations over the appropriate time horizon of the investments, which may include environmental, social and corporate governance (ESG) factors (such as climate change), in the selection, retention and realisation of investments. The Trustee recognises that these ESG factors may, to varying degrees, impact investments and therefore funding outcomes and can therefore be financially material. The Trustee takes account of such factors over the period for which the Trustee expects Scheme investments to be required to fund future Scheme benefits.

The strategic asset allocation and the planned de-risking within the Journey Plan reflect the Trustee's approach to managing the broad set of financially material factors applicable to the Scheme, over the appropriate time horizon.

Responsibility for the oversight of climate-related risks and opportunities which are relevant to the Scheme is ultimately held by the Trustee. Responsibility for ongoing monitoring of these risks and opportunities is delegated to the Investment Committee who in turn rely on input and advice from GSAM and the Scheme Actuary.

The Trustee has delegated all day-to-day decisions about the Scheme's investments, including the selection, retention and realisation of investments and the selection and retention of investment managers, to GSAM. As part of its delegated responsibilities, the Trustee expects GSAM to consider financially material considerations (including ESG factors such as long-term risks posed by sustainability concerns, including climate change risks).

Financially material factors are taken into account when selecting investments and investment managers. As part of their delegated responsibilities, the Trustee expects the investment managers to consider financially material factors, which may include corporate governance, social, and environmental considerations (including ESG factors such as long-term risks posed by sustainability concerns, including climate change risks) in the selection, retention and realisation of investments.

GSAM's selection process for investment managers includes the consideration of ESG factors where deemed relevant as part of the criteria which may be taken into consideration in their research and selection of investment managers and investments included in the portfolio. The Trustee expects that for some types of investment, ESG factors may be less relevant e.g. liquid alternatives and Hedge Funds.

The Trustee regularly engages with GSAM to monitor performance of the portfolio, including, where relevant, how it takes account of financially material factors.

Alignment of Interests

GSAM selects investment managers and negotiates their fees on behalf of the Trustees. The Trustee expects GSAM to ensure (where possible) that investment managers' investment guidelines and restrictions align to this statement and focus on medium to long-term performance in order to align manager actions to the Trustee's investment time horizons where appropriate. The Trustee also expects, and where possible requires, investment managers to use any rights associated with the investment to drive better long-term financial and non-financial outcomes (including on ESG and stewardship matters).

Investment managers are typically paid an ad valorem fee which is normal market practice, with some investment managers paid a performance fee with appropriate hurdle rates and high water marks. As part of the selection process, GSAM considers the fee structures of investment managers and seeks to ensure fee structures are aligned to an appropriate degree with Trustee's interests. Additionally, GSAM reports regularly to the Trustee setting out portfolio costs and charges at a total portfolio level but also for each individual strategy within the portfolio. GSAM also provides regular reporting which includes turnover costs based on calculation assumptions in line with MiFID costs and charges reporting in relation to allocation changes at the overall portfolio level.

Investment managers' performance is regularly reviewed and monitored by GSAM and reported to the Trustee monthly with a process in place to identify investment managers that either have underperformed or are at risk of future underperformance with appropriate action taken by GSAM. Investment manager fees are also reviewed by GSAM periodically to confirm that they are in line with market practices and remain in line with the Trustee's policies and investment strategy.

The Trustee and GSAM appoint investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. Given this, the Trustee's arrangements with its investment managers have no set duration, but have appropriate termination rights included in their terms.

The Trustee expects GSAM to be cognisant of the turnover of the portfolio and costs associated with turnover but the Trustee has no target turnover or turnover ranges. GSAM considers turnover and associated costs at several levels: 1) at the total portfolio level turnover costs are taken into account as part of regular rebalancing decisions; 2) turnover at the level of investment managers is periodically reviewed as part of the wider ongoing investment manager review processes; 3) investment manager performance is reviewed net of turnover costs; and 4) total portfolio turnover costs are incorporated into portfolio costs reporting.

Non-financial matters

The Trustee's current investment policy does not specifically take into account non-financial matters such as the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme.

Stewardship

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility. The Trustee recognises that ultimately this protects the financial interests of the Scheme and its members and beneficiaries.

The Trustee does not engage with debt or equity issuers directly but has adopted a policy of delegating voting decisions to GSAM and investment managers.

When selecting and reviewing the performance of investment managers, the Trustee expects

GSAM to take into account the managers' stewardship and ESG policies relative to both the Trustee's and GSAM's policies.

The Trustee believes it is appropriate for GSAM and investment managers to engage in stewardship activity with key stakeholders. Such stakeholders may include corporate management of debt or equity issuers, other holders of the debt or equity, others with an interest in the issuer or debt or equity, or regulators and governance bodies (as appropriate to the Trustee's investments). As part of this, the Trustee expects GSAM and investment managers to discuss with these stakeholder matters concerning the relevant issuer of debt or equity, including corporate governance, management of potential conflicts of interest, capital structure, performance, strategy, risks and ESG factors.

The Trustee expects that investment managers will provide details of their stewardship policy and activities on a periodic basis and will monitor this with input from GSAM. GSAM will engage with the investment managers where necessary for more information.

3. Defined Contribution Section

Investment Objectives

The Trustee recognises that individual members have differing investment needs and that these may change during the course of their working lives. It also recognises that members have differing attitudes to risk. The Trustee's objectives are therefore:

- To provide members with a range of investment options to enable them to tailor investment strategy to their needs, specifically in controlling the risks inherent in their savings.
- To maintain a default investment option that is broadly reasonable for any member not wishing to make his/her own investment decisions. The Scheme is now closed to new members but a number of existing members are invested in a default investment option.
- To avoid over-complexity in investment in order to aid member understanding.
- To inform members, through a policy of clear communication and education about their investment options in relation to the potential risks and anticipated rewards of, and charges associated with, each option.

Member views are not currently taken into account in the selection, retention and realisation of investments, but members have a variety of methods by which they can make views known to the Trustee. This position is reviewed periodically.

Risk

The objectives set out above and the risks and other factors referenced in the Defined Contribution section of this statement are those that the Trustee considers to be financially material considerations in relation to the Defined Contribution section as a whole.

The Trustee believes that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on a member's age and when they plan to take benefits from the Scheme. In considering the range of funds to offer to members, the Trustee acknowledges that the investment time horizon of each member is different. As the Scheme has been closed to new entrants since 2005, the Trustee also recognises that the Scheme has a maturing membership profile.

In designing the lifestyle investment options, the Trustee has taken the proximity to the target retirement date into account when designing the strategy and the associated financially material risks over the strategy's full time horizon.

With this context in mind, The Trustee has considered, on behalf of the members, the following aspects of risk and the risk mitigation strategies set out below. We also set out here the Trustee's approach to risk mitigation:

-
- The risk that investment returns over members' lives in the Scheme will not keep pace with inflation and therefore provide inadequate retirement benefits. The Trustee makes available a range of funds, across various asset classes, including growth-focused funds which are expected to keep pace with inflation.
- The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in the anticipated level of retirement benefits. A lifestyle strategy is available to members in order to provide an investment option with automated de-risking in place. In addition, a number of funds are available with lower volatility characteristics.
- The risk that the chosen investment managers underperform the benchmark against which they are assessed. The Scheme uses primarily passively managed funds to mitigate this risk, and monitors fund performance of all investment options.
- The risk that the pooled funds, through which the Trustee allows members to invest, do not provide the required level of liquidity. The Scheme is invested in daily dealt and daily priced pooled funds.
- The risk that the investment profile of any existing default investment option is unsuitable for the requirements of some members. The Trustee reviews the suitability of the default investment option no less frequently than triennially (see further details in the following section).
- In relation to the underpin benefits provided by the Scheme, the risk that the Sponsor is unable to fund these benefits. The Sponsor covenant is monitored by the Trustee.
- The risk that environmental, social or corporate governance concerns, including climate change, have a financially material impact on returns. The management of such risks is delegated to investment managers, and our policies in this regard are set out later in this section.

Default investment option

Although the Scheme is now closed, investments have historically been placed into a default investment option. The default option is designed to be broadly appropriate for members who intend to take 25% of their funds as cash at retirement and to purchase an annuity with the balance. The default investment option is a "lifestyle" arrangement, which de-risks investments to an asset allocation, at retirement, designed to be appropriate for these benefits.

The aims of the default investment option, and the ways in which the Trustee seeks to achieve these aims, are detailed below:

- To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk.

The default option's growth phase invests in a multi-asset fund. This fund is diversified across traditional and alternative asset classes, including equities, fixed income, property, infrastructure and commodities. Overall the growth phase is expected to provide long term (above inflationary) growth with some protection against inflation erosion, with a level of volatility lower than a 100% equity portfolio. The growth phase is managed on a primarily index-tracking basis, with some use of active management within the alternative asset classes.

- To provide a strategy that reduces investment risk for members as they approach retirement.

As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a strategy that seeks to reduce risk

as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over the eight year period to a member's retirement date. Investments are switched into a mix of cash (for capital preservation purposes) and UK Government and Sterling corporate bonds (to provide a broadly appropriate match to short-term annuity price movements). The cash allocation is managed on an active basis. The underlying bond assets are managed on a passive basis, with the investment manager using dynamic management to allocate between different types of bonds.

- To provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to take a proportion of their benefits as a cash lump sum, with the balance being used to purchase an annuity.

At retirement, 25% of the member's assets will be invested in a money market fund and 75% invested in a pre-retirement fund that invests in UK Government and Sterling corporate bonds.

Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default option, the Trustee considered the trade-off between risk and expected returns.

Assets in the default investment option are invested in the best interests of members and beneficiaries, taking into account the broad profile of members and the underpin that exists within the Scheme.

The Trustee will continue to review the appropriateness of the legacy default investment option over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

Assets in the default investment options are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by Legal & General Investment Management ("L&G").

The investment manager has full discretion (within the constraints of their mandate) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. However, the Trustee has in place a policy regarding such issues, which is detailed later in this statement. Currently, no additional policies in this regard have been applied to the default arrangement, and the core policy applies.

Alternatives to the default investment option

In addition to the default investment options that have historically been in place, a range of self-select funds are offered to members. The options available include a mix of asset class types along the risk / return spectrum.

Investment Manager Arrangements

Overview

The Trustee delegates day-to-day management of the assets of the Defined Contribution Section to professional investment managers. The investment managers are appointed based on their capabilities and suitability as regards meeting the Scheme's objectives. Their appointments are therefore also based on the investment managers' perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.

The Trustee receives advice from its Defined Contribution investment adviser in relation to forward-looking assessments of a manager's ability to outperform over a market cycle, for

mandates where outperformance is the objective. This view will be based on the Investment Consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment portfolio(s) that the Scheme invests in. The adviser's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee and are used in decisions around selection, retention and realisation of manager appointments.

For passively managed mandates, or those where outperformance is not the primary goal, the Trustee will seek guidance from the investment adviser in relation to their forward looking assessment of the manager's ability to achieve the stated mandate objectives

The Trustee will review periodically the balance between active and passive management, which may be adjusted from time to time. If the investment objective for a particular investment manager's fund changes, the Trustee will review the fund appointment, with the investment adviser's assistance, to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Each of the appointed managers has been set a specific benchmark and performance objective by the Trustee. Performance of the managers is monitored by the Trustee on an ongoing basis and where possible, the managers meet with the Trustee to report on their performance.

An appointment will be reviewed following periods of sustained underperformance or failure to meet the mandate objectives.

As the Trustee invests in pooled investment vehicles it accepts that there is no ability to specify the risk profile and return targets of the investment manager. However, appropriate mandates are selected to align with the overall investment strategy as documented in this Statement.

Investment Manager Remuneration

The investment managers to the Defined Contribution Section are remunerated by way of a fee calculated as a percentage of assets under management. Investment managers are not remunerated based on portfolio turnover. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee.

As part of the annual Defined Contribution Value for Money assessment, the Trustee reviews the costs and charges within the Scheme's Defined Contribution arrangements, including transaction costs.

Evaluating Investment Managers

Investment managers are aware that their continued appointment is based on their success in delivering the objectives of the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then it will look to replace the manager or mandate.

Where practical, the Trustee meets with its investment managers, as deemed appropriate. During such meetings the Trustee is able to review the decisions made by the managers, including investment decisions, voting history (in respect of equities) and engagement activity with investee companies, and can question such activities.

The Trustee is able to request its Defined Contribution investment adviser's investment research and ESG research ratings, and to request period investment performance reporting. Through the research and ESG ratings, the Trustee is able to assess for example how each investment manager embeds ESG considerations into its investment process and how each manager's investment philosophy aligns with the Trustee's policies as documents in this Statement. The Trustee also considers the research and ESG ratings as part of any new selection of investment funds.

Where equity funds are held, equity managers registered with the appropriate regulator are expected to report on their adherence to the UK Stewardship Code annually. This information is not currently reviewed in detail by the Trustee but will form part of discussions with investment managers when the investment managers attend Trustee meetings.

Time horizon and Duration of Appointments

The Trustee receives investment manager performance reports on a quarterly basis from the main investment manager to the Defined Contribution Section, L&G, which present performance information (where available) over 3 months, 1 year, 3 years and 5 years. The Scheme also retains investments in a with-profits fund and a property fund managed by Prudential. Prudential supply performance information annually in respect of these funds, covering 1 year, 3 year and 5 year periods.

The Trustee reviews the performance of the investments on an absolute basis and relative to defined benchmarks (over the relevant period) on a net of fees basis. The Trustee's focus is long-term performance but will put a manager "on watch" if there are short-term performance concerns.

If a manager is not meeting its performance objectives, over a sustained period of time, and after consideration of all relevant factors, the Trustee may take the decision to terminate the manager. The Trustee is a long-term investor. Accordingly, it does not seek to change the investment arrangements on a frequent basis unless there is an appropriate reason to do so.

The majority of the funds invested in are open-ended with no set end date for the arrangement. The Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager; or
- The manager appointment has been reviewed and the Trustee has decided to terminate the manager.

Portfolio turnover costs

For the Defined Contribution Section, transaction costs, which include portfolio turnover costs, are monitored and assessed within the annual Value for Money assessment. The Trustee has not set portfolio turnover targets; the Trustee instead assesses investment performance net of the impact of the costs of such activities.

Environmental, Social and Governance Considerations

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole.

The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee has taken into account the expected time horizon of the Defined Contribution Section of the Scheme when considering how to integrate these issues into the investment decision making process.

The Trustee has given the appointed investment managers to the Defined Contribution Section full discretion in evaluating ESG factors, including climate change considerations. In addition, the Trustee has delegated to them engagement with companies, and exercising voting rights and stewardship obligations attached to the investments, including considering climate change impacts.

Where applicable managers are required to outline their stewardship policies, which the Trustee expects for equity managers to reflect current UK best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee considers the ESG research ratings published by our investment advisers, Mercer, when monitoring the Scheme's investment managers' capabilities. These ratings are also considered as part of any new selection of investment funds.

The Trustee has not set any ESG related investment restrictions on the appointed investment managers.

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future

Frequency of review

The Trustee reviews the investment strategy of the Defined Contribution Section at least triennially, or after significant changes to the Scheme's demographic, if sooner.

4. Additional Assets

The Trustee has appointed Equitable Life Assurance Society, Phoenix Life Limited, Prudential Assurance Company Limited and Standard Life Assurance Limited to manage the Scheme's Additional Voluntary Contribution arrangements. These arrangements are reviewed on an ongoing basis by the Trustee.

5. Frequency of review

The Trustee will review this statement at least every three years and immediately following any significant change in investment policy. The Trustee will consult with the Motorola Solutions UK Ltd and take written advice when revising the statement.

David England

05-Jul-2023 | 15:30 BST