

MOTOROLA PENSION SCHEME ("THE SCHEME")

ANNUAL GOVERNANCE STATEMENT FOR THE SCHEME YEAR ENDING 31 DECEMBER 2023

1. INTRODUCTION

- 1.1 I am pleased to present this statement describing how the Trustee has governed the Defined Contribution (DC) Section of the Scheme and the Additional Voluntary Contribution (AVC) arrangements during the year, covering the period from 1 January 2023 to 31 December 2023. In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.
- 1.2 The statement covers four principal areas:
1. Investment, with particular focus on the Scheme's default investment arrangements.
 2. Internal controls, including the processing of core financial transactions.
 3. Value, and details of the charges and transaction costs deducted from members' funds.
 4. The knowledge and resources available to the Trustee, including how the Trustee maintained the statutory levels of knowledge and understanding to govern the Scheme, and how this helps the Trustee ensure that the Scheme is governed effectively.
- 1.3 References to "the Scheme" throughout this document relate to the DC section of the Motorola Pension Scheme, unless otherwise stated.

2. INVESTMENT ARRANGEMENTS

Statement of Investment Principles

- 2.1 A statement of investment principles (SIP) prepared in accordance with Section 35 of the Pensions Act 1995, regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation is in place and is appended to this document. The SIP covers our aims and objectives in relation to the default investment arrangement as well as our policies in relation to matters such as risk, diversification and how environmental, social and governance (ESG) issues, including climate change, are considered within the Scheme. The SIP details how we seek to provide a range of investment options, including the default investment arrangement, with the needs of our members in mind.
- 2.2 The SIP was reviewed by the Trustee during the year, and discussed at the Trustee meeting held on 20 June 2023. However, there were no material changes required in respect of the DC Section of the SIP, as no changes were made to the Scheme's overall investment policies or the investment strategy for the DC Section.

Default Investment Arrangement and Review Process

- 2.3 Although the Scheme is now closed to future contributions, investments have historically been placed into a default investment option. There were no changes to the default investment option during the period, and the SIP includes detailed information on the default arrangement.
- 2.4 In summary, the default investment option is a "lifestyle" arrangement 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 of their DC fund.
- 2.5 The default investment option's growth phase investment is a multi-asset fund. This fund is diversified across traditional and alternative asset classes, including equities, bonds, property, and infrastructure. These investments are expected to provide long term growth with some protection against inflation erosion, with lower volatility than a pure equity portfolio. As members' invested funds grow, investment risk will have a greater impact on retirement 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 prior to a member's retirement date. Investments are switched to a mix of cash (for capital preservation purposes) and UK bonds (to provide a broadly appropriate match to short-term annuity price movements).
- 2.6 In 2022, the Trustee commenced its review of the current default investment option by meeting with the investment manager of the strategy at the Trustee Board meeting held on 29 November 2022. At this meeting the Trustee, with the assistance of its DC adviser, considered:
- The performance of the funds used within the default investment option, both in absolute terms and also relative to suitable benchmarks and targets.

- Risk levels within the growth phase fund, assessed by considering volatility levels over time.
- Asset allocation, including the investment manager's views on new potential investments for the portfolio.
- Environmental, social, and governance (ESG) factors, and how these have been integrated within the strategy. In particular, the investment manager presented their decarbonisation pathway, describing how risks in relation to climate change were being addressed.

2.7 The Trustee's review of the default investment option continued into 2023, and encompassed the following:

- **Membership analysis:** The Trustee reviewed the size of members' savings pots, the range of pot sizes, the age profile, and members' investment choices. Of note, only approximately 7% of members with DC benefits are invested solely in the default lifestyle profile, which is unusual for DC schemes, where typically the majority of members are invested in the default arrangement. This relates to the fact that when the Scheme was open, there was no statutory requirement to make a default investment option available, and hence most of our members selected their own funds.
- **Impact of the underpin:** In contrast to a traditional DC arrangement, the Scheme has a guaranteed minimum pension (GMP) underpin within the benefit structure. At the point of retirement, a portion of a member's "pre 1997" fund must first be used to secure the GMP. In some cases, this may not be sufficient and a top up payment from the employer is made to meet the balance of cost. The GMP element is required to be paid as a pension (unless the member requests a transfer). This brings different risks to the DC investment arrangements, and consideration of the underpin therefore formed a part of the review process.
- **Member outcomes:** The review considered the projected size of members' benefits at retirement. The Scheme is closed and therefore it is not expected that DC benefits will make up members' primary retirement benefits, but the Trustee still considered the projections a useful way of understanding members' likely needs at retirement, including the type of benefit they may withdraw.
- **Analysis of retirement experience:** A review of the experience of the Scheme was completed, in terms of the age at which members take benefits, and the way in which they draw funds (e.g. cash, annuity, or transfer out, potentially to access income drawdown). This was particularly useful when deciding on the "target" benefit type for the default arrangements.
- **Consideration of broader UK-wide experience:** Using the Financial Conduct Authority (FCA) Retirement Income Market Data, the Trustee considered industry trends in the withdrawal of funds at retirement from DC pension schemes.

2.8 Following the review described above, it was agreed that the objective and overall investment strategy in respect of the current default investment arrangements remained appropriate. The underlying investment managers and funds used to implement the investment strategy are reviewed regularly via investment performance and risk reporting (as described later in this section), and no issues were identified.

2.9 Accordingly, no changes were deemed to be necessary in respect of the current default investment option, although the Trustee agreed to prepare member communications to remind members with DC benefits of how their Scheme benefits work (including the underpin arrangements), and to regularly review their investments.

Other Investment Governance activity

2.10 The Trustee reviewed the legacy AVC arrangements in place with Standard Life. This included consideration of investment performance, costs and charges, and the prospects for the funds meeting their risk and return objectives. As a consequence of the review, the Trustee has agreed in principle to explore a transfer of these funds to new arrangements with a view to improving value for members. This project will continue into 2024 and we look forward to communicating the next steps to members in due course.

2.11 During the Scheme year the Trustee also continued with its regular programme of investment monitoring. This includes independent monitoring of the DC investment arrangements, provided by the Trustee's specialist DC adviser. Over the year to 31 December 2023, these performance and risk-based reviews were considered by the Trustee on a six-monthly basis. The reports provide detailed analysis of the performance of the Scheme's investments against benchmarks and target performance levels, as well as risk measures (for example, the volatility of returns). The Trustee discusses these reports at its Board meetings.

Net Investment Returns

2.12 From 1 October 2021, trustees of relevant pension schemes are required to calculate and state the return on investments, for all funds available to members, net of transaction costs and charges. This information is recorded in this statement and published on a publicly accessible website.

- 2.13 Investment returns after charges and costs for the funds available to members during the year are provided in the following table. For the default strategy, the analysis assumes a retirement age of 65 and its performance has been calculated based on a fixed weighted average of underlying fund performance in the lifestyle strategy that is in place, with the weightings as at the ages shown.
- 2.14 As context, while 2023 was generally a positive year for investments, particularly equity markets, the previous years (notably 2022) saw mixed performance, with significant volatility. In 2022 for example, UK Government bonds fell in value materially, which affected the 5 year returns for the two bond funds. Over the same period however, annuity prices moved in a similar direction (i.e. annuities became cheaper) which has supported good outcomes at retirement for members purchasing annuities.

Default investment option – lifestyle strategy returns (net of fees) % p.a.		
Age of member	1 year	5 years
Up to age 57	7.4	5.1
Age 60	4.8	1.5
Age 65	1.8	-2.6
Self-select fund returns (net of fees) % p.a.		
Fund	1 year	5 years
L&G Diversified	7.4	5.1
L&G All Stocks Index-Linked Gilt Index	0.8	-3.9
L&G Sterling Liquidity	4.7	1.3
L&G World Equity Index	16.9	12.7
L&G All Stocks Gilt Index	3.6	-2.9
Prudential With Profits	TBC	TBC

Data sourced from Legal & General Investment Management (L&G) and Prudential Assurance Company Limited (Prudential). Returns shown net of member-borne charges and costs. Returns over periods longer than 5 years are not available because the Scheme's funds were only launched by the investment manager or added to the Scheme more recently.

Asset allocation disclosure

- 2.15 The Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023 introduced new requirements for trustees and managers of certain occupational pension schemes. For the first scheme year that ends after 1 October 2023, the Trustee is therefore disclose the asset allocation of investments in default arrangements.
- 2.16 Note that the regulations suggest showing asset allocation at age 25. However, as the youngest member of the Scheme with DC benefits is 42 years old, we show age 42 rather than age 25 on the basis this is more relevant for our membership. In practice, because the lifestyle de-risking programme does not begin until a member is eight years from their target retirement date (assumed here to be 65), the asset allocation for ages 42, 45, and 55 is identical.

	Allocation – Age 42 (%)	Allocation – Age 45 (%)	Allocation – Age 55 (%)	Allocation – age 65 (%)
Cash	2.0	2.0	2.0	22.5
Bonds	44.0	44.0	44.0	77.5
Listed Equities	50.0	50.0	50.0	-
Private Equity	-	-	-	-
Infrastructure	-	-	-	-
Property/Real Estate	4.0	4.0	4.0	-
Private Debt/Credit	-	-	-	-
Other	-	-	-	-

Source: L&G as at 31 December 2023.

3. INTERNAL CONTROLS AND CORE FINANCIAL TRANSACTIONS

Introduction

- 3.1 The Scheme is closed to future contributions, and so the core financial transactions that relate to the Scheme are payments to, or in respect of, members. These are, for example (but not limited to), a transfer of a member's assets away from the Scheme, an investment switch, or a payment as part of a member's retirement.
- 3.2 The Trustee has received assurance from the Scheme's administrator, and has taken steps to seek to ensure, that there were adequate internal controls to ensure that core financial transactions were processed promptly and accurately during the year. Our processes in this regard are documented below.

Administration Standards

- 3.3 The Trustee has appointed a professional third party administrator in the case of funds managed by L&G, and by selecting a "bundled" arrangement in the case of the legacy funds managed by Prudential. Under the latter policy, Prudential outsource administration to a professional third party administrator.
- 3.4 Service Level Agreements (SLAs) are in place with the Scheme administrator, which are monitored by the Trustee at each quarterly meeting. These SLAs cover both accuracy and timeliness of core financial transaction processing. Over the year to 31 December 2023, the average percentage level of SLAs achieved for DC Section of the Scheme stood at 99% (98% in 2022). For the legacy Prudential policies, where administration is bundled, the Trustee considers standards on an ad-hoc basis, including through reports from its advisers where requested.
- 3.5 The Trustee has established an Administration and Communication Committee, which has a particular focus on administration issues. This Committee meets on a quarterly basis and will also consider relevant administration matters outside of meetings, as required.
- 3.6 The third party administrator provides an AAF internal controls audit report each year which the Trustee receives a copy of for review.
- 3.4 The Trustee appoints a professional firm to undertake an annual audit of the Scheme's accounts. As part of the audit, core financial transactions are investigated.

Broader Controls

- 3.7 The Trustee maintains and monitors a risk register which includes risks in relation to core financial transactions, along with details of the controls / mitigations in place. The risk register is monitored and reviewed on at least an annual basis.
- 3.8 The Trustee has sought to ensure that detailed disaster recovery plans are in place with the administrator, other relevant third parties, and within the sponsoring employer.
- 3.9 All third-party providers are required to share their cyber risk policies and practices with the Trustee. These policies are reviewed, and the parties are questioned on any areas requiring clarity. The risk register has a dedicated section covering cyber security, with mitigation strategies documented.

Conclusion

- 3.10 In the last Scheme year there have been no material administration matters or internal controls issues. The Trustee is confident that the processes and controls in place with the administrator are robust and will ensure that the requirements of regulation 24 of the Regulations have been met, and that core financial transactions have been processed promptly and accurately.

4. CHARGES AND TRANSACTION COSTS

- 4.1 The charges applicable to the funds available to members are detailed in this section.
- 4.2 The Scheme is not used for auto-enrolment purposes and as such the charge cap is not a legislative requirement, although we note that the charges associated with the funds used in the default investment strategy are all comfortably below the DC charge cap level of 0.75% p.a.
- 4.3 There have been no performance-based fee arrangements in respect of the DC investments during the year.

Charges and Transaction Costs as at 31 December 2023

Funds used as part of the default investment option are shaded in blue.

Fund	Total Expense Ratio* % p.a.	Transaction Costs** % p.a.
L&G Diversified	0.38	0.00
L&G All Stocks Index-Linked Gilt Index	0.10	0.14
L&G Sterling Liquidity	0.14	-0.30
L&G World Equity Index	0.22	0.02
L&G All Stocks Gilt Index	0.10	0.11
Prudential With Profits	1.00***	0.17

* A "total expense ratio" reflects the total costs associated with managing and operating an investment fund, including investment management fees, fund legal fees, investment platform fees and any other expenses.

** When buying / selling investments, transaction costs can be incurred. Such costs are not explicitly deducted from a fund but are captured in its performance. The FCA's guidance to investment managers (Policy Statement 17/20) is used in calculating and disclosing costs. Due to the way in which the costs must be calculated, they can be negative or positive; a negative figure is effectively a gain from trading, whilst a positive figure is effectively a cost from trading.

*** Prudential does not state an explicit TER for its With Profits Fund as charges are deducted before bonuses are applied, however, they are estimated to be in the region of 1%.

4.4 The Trustee has assessed the extent to which the charges and transaction costs set out above represent good value for members. I am pleased to confirm that the Trustee concluded in its meeting on 18 June 2024, following receipt of a report from its DC adviser, that the Scheme offers good value for its members.

4.5 To arrive at this conclusion, the Trustee considers the following factors:

- Costs borne by members.
- Net of cost performance.
- Administration performance.
- Scheme governance arrangements.
- Investment manager ratings, including an assessment of the managers' environmental, social and corporate governance policies.

4.6 The only fund remaining in the DC Section with relatively high charges is the Prudential With Profits Fund. This fund has embedded guarantees which may be valuable for members and would be difficult to replicate through alternative arrangements.

4.7 As noted earlier in this statement, the costs and charges associated with the legacy AVC arrangements with Standard Life were reviewed during the year. As a consequence of the review, the Trustee has agreed in principle to explore a transfer of these funds to new arrangements with a view to improving value for members. This project will continue into 2024 and we look forward to communicating the next steps to members in due course.

Impact of Costs and Charges

4.8 Using the charges and transaction cost data provided by the investment managers and in accordance with regulation 23(1)(ca) of the Administration Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. Statutory guidance provided has been considered when providing these examples.

4.9 To represent the range of funds available to members we are required to show the effect on a member's savings of investment in the following:

- The fund or strategy with the most members invested in it.
- The fund with the highest charges. Whilst the table above notes that the Prudential With Profits Fund has the highest charges, it is not possible to model investment growth for this fund due to the embedded guarantees in the fund, and the fact that the charges include the cost for guarantees, which can be valuable and will differ for different members. Accordingly, the next most expensive fund in the table above is used in the illustrations that follow.
- The fund with the lowest charges.

- 4.10 The illustrations have taken into account the typical Scheme savings pot size, the fact that the Scheme is closed, and hence no new contributions are being paid, as well as allowing for real terms investment returns gross of costs and charges, adjusted for the effect of costs and charges.
- 4.11 An important point to note is that in the case of the Sterling Liquidity Fund, the assumed inflation rate is higher than the assumed investment return rate. This means that fund values decline when presented in “today’s terms” (allowing for inflation). In essence, If the growth rate used is lower than the rate of inflation, this produces a negative growth rate after making an allowance for inflation.
- 4.12 To make the analysis representative of the membership, the approximate age of the youngest member in the DC Section has been used, which is 42 (hence 23 years are shown, up to normal retirement date). The average starting pot is assumed to be £11,100, which again represents the average savings pot value at that age.

Year End	Fund with most members invested: Default Lifestyle		Fund with highest charges: L&G Diversified		Fund with lowest charges: L&G Sterling Liquidity	
	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	£11,197	£11,155	£11,197	£11,155	£10,904	£10,889
3	£11,394	£11,266	£11,394	£11,266	£10,523	£10,480
5	£11,594	£11,378	£11,594	£11,378	£10,155	£10,086
10	£12,110	£11,664	£12,110	£11,664	£9,290	£9,165
15	£12,650	£11,956	£12,650	£11,956	£8,499	£8,328
20	£12,795	£11,896	£13,213	£12,256	£7,776	£7,567
23	£12,397	£11,446	£13,563	£12,440	£7,371	£7,144

- i. Projected pension pot values are shown in today’s terms.
- ii. To make this analysis representative of the membership, the Trustee has based this on the approximate age of the youngest members (aged 42), for consistency (and to assist members with comparing the projections) using the average DC pot value at this age of £11,100 which was used in respect of the statement to 31 December 2022. The Scheme is closed and as such no contributions are being paid in.
- iii. Inflation is assumed to be 2.5% per annum.

5. TRUSTEE KNOWLEDGE AND UNDERSTANDING

- 5.1 The requirement under the Pensions Act 2004 (requirement for knowledge and understanding) has been met during the Scheme year by the Trustee as a body in dealing with the whole Scheme (including the Defined Benefit and DC Sections). The Trustee has put in place arrangements for ensuring its Directors take responsibility for keeping up to date with relevant developments and consider their training requirements. Training logs are maintained for each Director and training for the full board is provided during quarterly meetings, on a bespoke basis, tailored to issues that arise on the Trustee’s business plan.
- 5.2 The Trustee receives advice from professional advisors and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors. Mercer is appointed as the Scheme’s consultant and CMS Cameron McKenna Nabarro Olswang LLP as the legal advisers. The Trustee’s professional advisers support the Trustee in governing the Scheme in line with the Trust Deed and Rules. If there are any ambiguities over the Scheme Rules, legal advice is sought.
- 5.3 The Trustee completes training and considers topical updates from its DC adviser and other relevant advisers at each Trustee meeting. During the Scheme year, training topics considered included:
- The new General Code from the Pensions Regulator
 - Climate change
 - Diversity and inclusion
 - Cyber security
 - Various topical updates and developments to regulations affecting DC schemes, including pensions dashboards, changes to the Value for Members framework, and changes to Statutory Money Purchase Illustration calculations.
- 5.4 The Trustee is conversant with, and have a working knowledge of, the SIP. The Trustee reviewed the SIP at its June Board meeting, which helped to ensure that this knowledge remains up-to-date. The undertakes regular training on investment matters and reviews the investments held by the Scheme at each meeting. The Trustee considers that as a board it has sufficient knowledge of investment matters to be able to challenge our advisors.
- 5.5 In 2023, the Trustee welcomed three new members to the board. All existing Trustee Directors have completed the Pensions Regulator’s Toolkit. Additionally, the majority of these new Trustee Directors have already met this requirement within six months of their appointment

5.6 Taking account of actions taken individually and as a trustee body, and the professional advice available to them, the Trustee Directors consider they are enabled properly to exercise their function as a Trustee.

6. **STATEMENT OF DC GOVERNANCE**

6.1 The Trustee considers that its systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator's relevant Codes of Practice.

David England

Signed by the Chair of Trustees for and on behalf of Motorola Solutions Pension Trustees Ltd

Date Signed: 1 July 2024