

## CHAIR'S STATEMENT

### Metaswitch Networks Limited Plan 88 Plan

### Year 6 April 2021 to 5 April 2022

## Introduction

As the Chair of Trustees, I am required to provide an annual Statement to demonstrate how the Metaswitch Networks Limited Plan 88 (the “**Plan**”) has met the governance standards introduced under The Occupational Pension Schemes (Charges and Governance) Regulations 2015 in relation to:

- Providing a default investment arrangement for members (the “**default arrangement**”);
- Processing financial transactions promptly and accurately;
- Details and impact of charges and transaction costs borne by members;
- Assessment of the value members received from being a member of the Plan; and
- Meeting the requirements for trustees’ knowledge and understanding.

The period this Statement covers is the year from 6 April 2021 to 5 April 2022 (the “**Plan Year**”).

This Statement is made available online at <https://www.metaswitch.com/legal>, and members are informed of this in their annual benefit statements. The Statement can also be provided in hard copy on request.

## Investment reviews, overview and monitoring

### *Review of investment strategy*

The Trustees are responsible for investment governance, which includes setting and continuously monitoring the investment strategy for the Plan. Details of the investment strategy and investment objectives are recorded in a document called the Statement of Investment Principles (“**SIP**”), attached at Appendix A. The Trustees undertook a review of the investment strategy in February 2021, when the Plan was closed to new contributions. No changes were made to the SIP as part of this review, and no further review has taken place in this Plan Year. As at the time of signing off this Statement, the Trustees have commissioned an investment adviser to assist with a detailed review of the default arrangement, the wider fund range, and the SIP. This review will take into account the member demographics and experience of how members are accessing their benefits from the Plan.

A copy of this document has been published on a publicly accessible website and can be found at: <https://www.metaswitch.com/legal>

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### *Investment options*

Following the acquisition of Metaswitch Networks Ltd by Microsoft Limited (the “**Company**”), the Plan became closed to new entrants and future contributions on 28 February 2021.

The assets of the Plan remain invested in pooled discretionary managed portfolios with Cazenove and JM Finn.

Anyone who joined the Plan from April 2015 to February 2021 had their contributions invested in the ‘Default Fund’. Anyone who was a member of the Plan prior to April 2015 is invested in the ‘Main Fund’ unless they have asked to move into the Default Fund . There is no other element of member choice regarding the investments.

### *Monitoring performance and suitability*

The Trustees delegates day-to-day investment oversight of the funds to Cazenove and JM Finn as the Fund Managers. The performance of the funds is reviewed on a quarterly basis through reports provided by the Fund Managers

### *Net Investment Returns*

For the first time, the Trustees are required to report the net investment returns for each fund in which Plan members were invested during the Plan Year. Net investment return refers to the return on a fund minus all associated member-borne transaction costs and charges.

The net investment returns have been prepared having regard to statutory guidance.

The Fund Managers have provided net investment returns as at 31 March 2022. The Trustees are satisfied that this is a suitable proxy for the Plan Year end of 5 April 2022.

It is important to note that past performance is not a guarantee of future performance.

<b>Fund</b>	<b>Net investment return over 1 year (%)</b>	<b>Net investment return over 5 years (% p.a.)</b>
<b>Default Fund</b>	9.2	5.6
<b>Main Fund</b>	7.4	5.6

Sources: Cazenove, JM Finn. Calculations by Aon.

## Core financial transactions

The Trustees are required to report to you about the processes and controls in place in relation to the “**core financial transactions**”. The law specifies that these include the following:

- ensuring the contributions are paid on time;
- investing contributions paid into the Plan;
- transferring assets related to members into or out of the Plan;
- transferring assets between different investments within the Plan; and

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- making payments from the Plan to or on behalf of members.

No contributions were due to the Plan during the Plan Year. The main core financial transaction applicable to the Plan, therefore, is the processing of payments from the Plan to or on behalf of members.

The administrators of the Plan – Ascot Lloyd – operate in line with general internal Service Level Agreements, and adopt processes including a dedicated processing team and peer review. Whilst performance against these internal Service Level Agreements has not been reported to the Trustees during the Plan Year, the Trustees are actively involved in the payment of benefits to or on behalf of members, and therefore, have sight of the key steps involved.

Any failure to meet the Trustees' expected standard is discussed with Ascot Lloyd and the Fund Managers, with remedial actions agreed where appropriate. This structure is supported by annual external audits of the Scheme carried out by our auditors, as well as Ascot Lloyds' own annual audit process, which includes comprehensive independent auditing of their data, processes and controls. The Trustees also monitor feedback from members and are not away of complaints being made by members during the Plan Year. The Trustees are reassured that there have been no administrative or financial issues requiring investigation and remain content that the administrators and Fund Managers continue to act promptly and efficiently in all aspects of their work.

## Member Borne Charges and Transaction Costs

Trustees should regularly monitor the level of charges borne by members through the investment funds. These charges comprise of:

- Charges: these are explicit, and represent the costs associated with operating and managing an investment fund. They can be identified as a Total Expense Ratio (TER), or as an Annual Management Charge (AMC), which is a component of the TER;
- Transaction costs: these are not explicit and are incurred when the Plan's fund managers buy and sell assets within an investment fund, but are exclusive of any costs incurred when members invest in or sell out of funds.

The charges and transaction costs (i.e. the costs of buying and selling investments in the Plan), which are paid by members rather than the Company, are set out in the table below. These charges are applied via a deduction from the assets under management.

The Company pays the cost of actually administering the Plan: the production of Plan literature, annual member benefit statements, annual accounts and external audits, dealing with day-to-day events like processing payments, existing members leaving, paying transfers out for members who have left, providing the member help-line, handling member enquiries, and quoting and paying benefits. There are no additional charges for any pre-retirement event in the Plan. Depending on how the member chooses to access their benefits at retirement under pension flexibilities, there may or may not be a separate charge associated with that choice.

The Trustees are also required to confirm that the charges on the default arrangement have not exceeded 0.75% p.a. (the charge cap) and produce an illustration of the cumulative effect of the costs and charges on members' retirement fund values as required by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018. For the year to 6 April 2022 the charges on both the Default Fund and the Main Fund are set out in the table below, and

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the illustrations of the cumulative effect of the costs and charges on members' retirement fund values are shown in Appendix B.

Fund	Total Expense Ratio (TER) (% p.a.)	Transaction Costs (%)*	Total costs (%)
Default Fund	0.23	0.34	0.57
Main Fund	0.39	0.66	1.05

\* Reflecting the one-year period to 31 March 2022, as longer-term cost data was not available.

The Trustees are comfortable that the TER on the Default Fund was less than the 0.75% charge cap. The Trustees recognise that transaction costs arise as a result of participating in a financial market, are necessarily incurred as part of buying and selling the funds' underlying investments in order to achieve their investment objective, and cannot be predicted in advance.

## Value for Money

### Introduction

Trustees are required to carry out an assessment of the extent to which member borne costs and charges represent good value for members, in accordance with the Occupational Pension Schemes (Scheme Administration) Regulations 1996 and the Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021.

The Trustees have commissioned an independent assessment of 'value for money', which considered the following broad areas that are aligned to the DWP's latest guidance:

- The level of costs and charges paid by members compared to other similar schemes;
- The performance of the Plan's funds net of costs and charges; and
- The scope and quality of the services members receive.

### Assessment Conclusion

The Trustees consider the performance of the Plan's funds net of costs and charges to be of primary importance for members when assessing value for money; the Trustees are comfortable that in this regard, the Plan delivers value. However, the Trustees recognise that in some areas, the Plan is underperforming, such that the independent assessment concluded that, overall, the Plan has not delivered value for money to members during the year to 5 April 2022. They key areas of underperformance identified related to Plan governance, investment governance and administration, and the Trustees have already taken steps to improve these areas.

### Detailed Assessment

**Cost and Charges:** The charges paid by members for both the Default Fund and Main Fund were broadly in line with market rates on a like for like basis. Though the transaction costs incurred

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appear higher than for comparator schemes, it is recognised that both funds are actively managed and the overall charges remain at a reasonable level.

*Net Investment Returns:* The net investment returns for the Default Fund delivered adequate value for members, generating net returns within the range of the returns delivered by comparator schemes. The net investment returns for the Main Fund delivered good value for members, and compared well against the comparator schemes.

*Services Received:* This section covers Plan governance, investment governance, member communications and member administration.

The Plan was found to be lacking in certain areas of overall Plan governance and investment governance. However, these areas are being addressed during the 2022-23 Plan year, with the appointment of a Professional Trustee, increased regular reporting and an investment strategy review that is currently underway.

The Plan provides communications that meet minimum regulatory requirements. Members also have online access to their membership details and fund value information via the Ascot Lloyd portal. Electronic communications are also issued to the members on pensions and investment matters, as relevant, on an ad-hoc basis.

The Plan's administrator, Ascot Lloyd, operate in line with their internal Service Level Agreements. Though these have not been reported on during the Plan Year, regular reporting has now been put in place and no complaints or negative feedback has been received by the Trustees concerning the administrator's performance.

### Next steps

The Trustees have identified areas where the Plan is not offering value for members; work is already underway to address these areas, including:

- A Professional Trustee has been appointed following the Plan Year end to bring additional knowledge and understanding of governance matters.
- Regular reporting from both the administrator and the Fund Managers has been put in place, and these will be considered at regular Trustee meetings.
- A review of the Plan's investment strategy is underway.
- A set of Service Level Agreements, with regards to processing of core financial transactions, will be agreed with the administrator.
- Member communications will be reviewed.
- New processes, procedures, policies and logs will be put in place to ensure that the Plan is governed in an efficient and effective manner, and that appropriate governance can be clearly evidenced.

Together, the Trustees believe that these actions will result in a significant improvement in next year's value for money assessment. The independent assessor also noted in its assessment that these actions were expected to result in an improvement in next year's value for money assessment.

## Trustee Knowledge and Understanding

The legal requirement on Trustees is that they should have, or have access to, enough knowledge and ability to run the Plan correctly.

Specifically, the Trustees need to demonstrate a continued working knowledge of:

- the Plan's Trust Deed and Rules (including any amending deeds);
- the Plan's Statement of Investment Principles; and
- any other document recording policy for the time being adopted by the Trustees, relating to the administration of the Plan generally.

Trustees have access to copies of the Trust Deed and Rules and all subsequent Deeds of Amendment at all times for reference. Training is provided on a needs-basis, covering current events or relating to matters to be considered at a Trustee meeting.

The Trustees have considerable investment experience between them, and have appointed expert advisers and service providers, including administrators, auditors and Fund Managers, to assist in the day-to-day running of the Plan. These advisers and service providers supplement, where appropriate, the knowledge and understanding of the Trustees.

During the Plan Year, the Trustees sought to appoint a professional trustee, to bring detailed knowledge and experience of pensions matters and regulatory requirements. Shortly following the end of the Plan Year, Ross Trustees Services Limited ("**Ross Trustees**") was appointed as a Professional Trustee. As well as the extensive knowledge and experience provided by the representatives from Ross Trustees on the Trustee Board, Ross Trustees is able to leverage wider resources in its governance of the Plan, including best practice approaches and specialist support.

## Conclusion

We have carried out a thorough assessment of the degree to which the Plan has met the minimum governance standards as defined in the Occupational Pension Scheme (Charges and Governance) Regulations 2015 during the period 6 April 2021 to 5 April 2022. Whilst overall, the Plan was determined not to be providing value for members, there are certain areas, most notably net investment returns, where the Plan was found to deliver value. The Trustees have identified actions that are being, and will be, carried out during the current Plan year to improve the overall value to members.

We trust that this information has been informative and useful. If you have any questions about any of the matters above, or any suggestions about what can be improved, please contact the Trustees at Metaswitch Networks Limited, 33 Genotin Road, Enfield, EN1 2AG.

**Ian Ferguson**

Chair, Metaswitch Networks Limited Plan 88

Date: 25 October 2022

## Appendix A: Statement of Investment Principles

This statement is prepared by the Trustees in accordance with the requirements of Section 35 of the Pensions Act 1995. It sets out the principles governing decisions about investments of the Metaswitch Plan 88 ("the Plan").

### Investment Strategy

The overall investment policy is to maximize the long term investment performance of the Plan's assets. The Trustees have appointed a Fund Manager to be responsible for the selection of types of investment and individual holdings within each type of investment. The Plan will be invested in the following.

- UK equities and fixed interest stocks
- Overseas equities and fixed interest stocks
- Collective funds (insurance policies, unit trusts and investment trusts) containing such investments
- Property which may be held via collective funds
- The balance between the different types of investment will be determined by the Fund Manager in consultation with the Trustees.

### Compliance and Monitoring

- The Fund Manager will be required to comply with the Statement of Investment Strategy in achieving the objectives of the Fund so far as reasonably practical.
- The Trustees will also require the Fund Manager to consider the need for diversification of investments, insofar as appropriate to the circumstances of the Plan, and to the suitability to the Plan of types of investment and individual investments within each type.
- The Trustees will review the distribution of assets and the performance of the pension fund on at least an annual basis. The Trustees will obtain sufficient information from the Fund Manager to enable them and the administrators of the fund to review the returns on cash deposits and make changes as appropriate.
- If, over a five year period, the performance of the fund is less than the average performance of other UK pension funds, the Trustees may look to replace the Fund Manager.

## Appendix B: Illustrations of the cumulative effect of costs and charges

**From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs.**

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustees have provided two illustrations showing the cumulative effect of charges on the value of two example 'representative' Plan members' savings over the period to normal retirement date.

The Plan membership comprises only deferred members following closure of the Plan in February 2021. The illustrations are based on an example younger deferred member and an example older deferred member, as outlined below.

The illustrations have been prepared having regard to statutory guidance and are based on a number of economic and other assumptions which are set out below.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on example 'representative' members of the Plan, they are not a substitute for the individual and personalised illustrations which are provided to members in the annual benefit statements.

Each illustration is shown for both representative members invested in each of the Default Fund and the Main Fund. The regulations note that the Chair's Statement should include illustrations for the funds with the highest and the lowest charges. As the Plan only has two funds available for investment by members, both are included. Illustrations are shown as charts and tables as follows:

- Each Chart shows a projection of the member's retirement savings in the Default Fund at retirement age, with and without costs and charges applied.
- Each Table sets out the pound and pence amounts at five-year intervals and, for comparison purposes, the same projected retirement savings figures but assuming the representative member were invested in the alternative fund (the Main Fund) instead of the Default Fund.

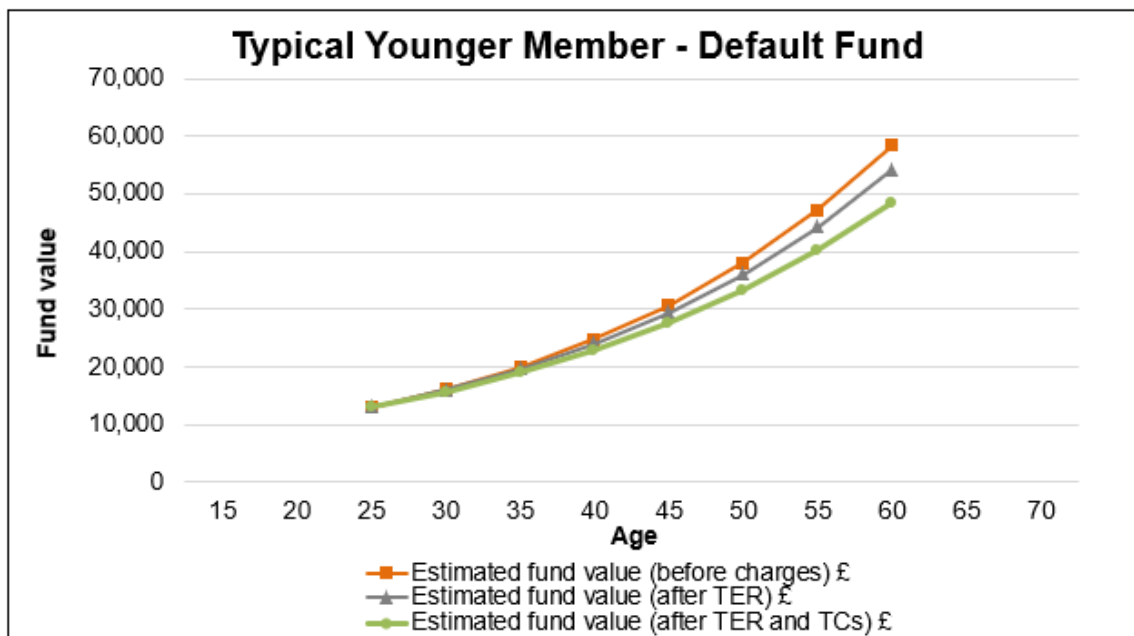
All projected fund values are shown in today's money terms, and do not need to be reduced further for the effect of future expected inflation.

### Representative members

Fund	Age	Years to retirement	Current fund value
Typical younger member	25	35	£13,000
Typical older member	50	10	£150,000

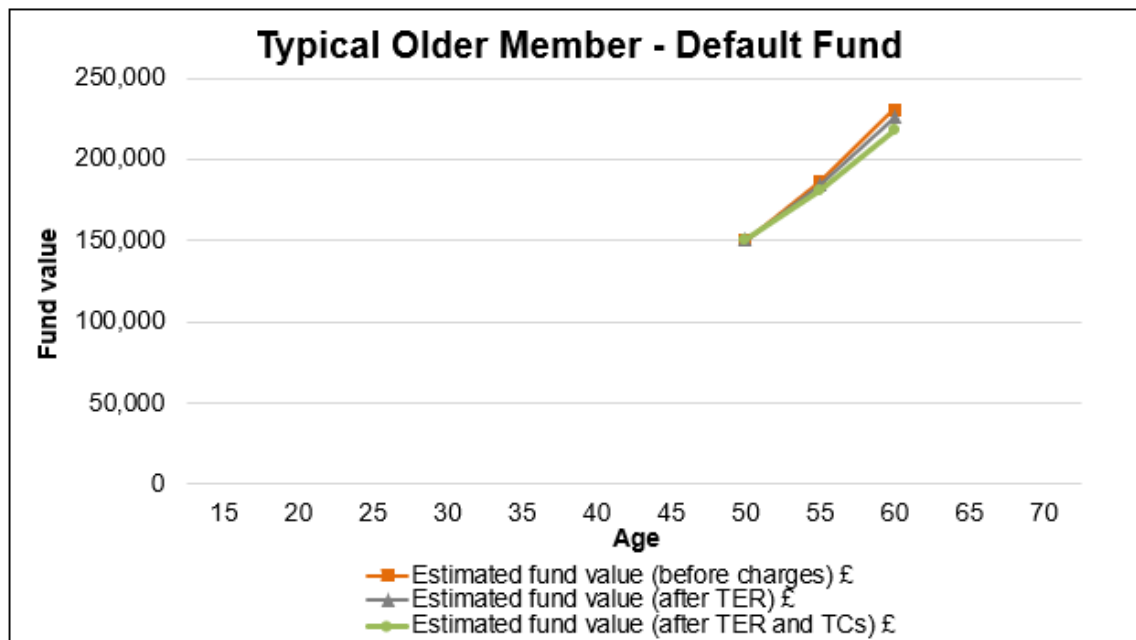


**Typical younger member:** The Chart below is based on a deferred Plan member invested in the Default Fund who has 35 years until their assumed normal retirement date at age 60, with a current fund value of £13,000. Given that the member is not an active member of the Plan, there are no assumptions required for current salary nor future contributions. The table below shows a similar projection for the same member invested in the Main Fund, alongside the Default Fund.



Projected Pension Account in Today's Money						
Age	Default Fund			Main Fund		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
	£	£	£	£	£	£
25	13,000	13,000	0	13,000	13,000	0
30	16,120	15,690	430	16,120	15,340	780
35	19,980	18,940	1,040	19,980	18,100	1,880
40	24,770	22,860	1,910	24,770	21,360	3,410
45	30,700	27,590	3,110	30,700	25,200	5,500
50	38,060	33,300	4,760	38,060	29,740	8,320
55	47,180	40,190	6,990	47,180	35,100	12,080
60	58,480	48,510	9,970	58,480	41,410	17,070

**Typical older member:** The Chair below is based on a deferred Plan member invested in the Default Fund who has 10 years until their assumed normal retirement date at age 60, with a current fund value of £150,000. Given that the member is not an active member of the Plan, there are no assumptions required for current salary nor future contributions. The Table below shows a similar projection for the same member invested in the Main Fund, alongside the Default Fund.



Projected Pension Account in today's money						
Age	Default Fund			Main Fund		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
	£	£	£	£	£	£
50	150,000	150,000	0	150,000	150,000	0
55	185,950	181,050	4,900	185,950	177,000	8,950
60	230,510	218,520	11,990	230,510	208,860	21,650

**Assumptions and data for illustrations:**

The following assumptions have been made for the purposes of the above illustrations:

- Annual inflation is assumed to be 2.5% per annum, in line with TM1 statutory guidance.
- The ages and starting fund values used in the projections are based on analysis of the underlying Plan membership data provided by Ascot Lloyd.
- The projected annual returns on assets, before the deduction of fees, provided by Ascot Lloyd, are:
  - Default Fund: 7.00% p.a.
  - Main Fund: 7.00% p.a.
- The TERs and transaction costs reflect the one-year period to 5 April 2022.