

Statement of Investment Principles

The Metaswitch Networks Limited Plan 88

June 2024

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The Metaswitch Networks Limited Plan 88 (“the Plan”)

Statement of Investment Principles

1. Plan Details and Scope of Statement

The Plan operates for the exclusive purpose of providing retirement benefits to eligible participants and is defined contribution in nature.

Pensions Act

Under Section 35 of the Pensions Act 1995 (as amended by Section 244 of the Pensions Act 2004), Trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment policy pursued by the Trustees of the Metaswitch Networks Limited Plan 88.

The Trustees shall consult with the employer, Microsoft UK, on changes to the investment policy set out in this document. However, the ultimate power of responsibility for deciding investment policy lies with the Trustees.

Before preparing this document, the Trustees have obtained and considered written advice from the Plan’s investment consultants. This written advice considers the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement.

The Trustees will review this document, in consultation with the Plan’s investment consultants, at least every three years and without delay after any significant change in investment policy.

Financial Services and Markets Act 2000

In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to the Plan’s delegated portfolio managers. The Plan’s delegated portfolio managers shall provide the skill and expertise necessary to manage the investments of the Plan competently.

2. Consultations Made and Division of Responsibilities

The Trustees have ultimate responsibility for decision making on investment matters. In addition, the Trustees are responsible for the choice of investment options made available to members of the Plan. The Trustees delegate responsibility for portfolio management to the delegated portfolio managers; Cazenove Capital and JM Finn.

The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information, and resources necessary to take them effectively. The Trustees also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take. The roles of each group are shown below:

Trustees

- a) Reviewing periodically the content of this Statement and modifying it if deemed appropriate, in consultation with the Plan’s investment consultants.
- b) Reviewing the suitability of fund(s) made available to members.

- c) Selecting and monitoring the delegated portfolio managers.
- d) Assessing the performance of the available funds, by means of regular reviews.
- e) Considering the member borne charges and (where available) transaction costs applying on the funds and assessing whether these represent good value for members.
- f) Appointing and monitoring the administrator and consultants of the Plan.
- g) Consulting with the employer before amending this Statement.
- h) Reviewing compliance of the investment arrangements with this Statement on an ongoing basis and setting out details in the annual Implementation Statement.

Delegated Portfolio Managers

- a) Investing Plan assets in line with their stated objectives, including the selection and appointment of any underlying investment funds.
- b) Providing the Trustees with quarterly statements of the assets and performance on the underlying funds.
- c) Ensuring that the underlying funds are priced correctly.

Investment Consultant

The Trustees may take advice from an investment consultant on an ad hoc basis. Responsibilities could include:

- a) Advising the Trustees, on:
 - the suitability of the investment funds.
 - the suitability of the delegated portfolio managers.
 - how any changes in the investment environment could either present opportunities or issues for the Plan.
- b) Assisting the Trustees with periodic reviews of this Statement.

3. Plan Objectives

The Trustees recognise that members may have varying investment needs and time horizons. However, recognising that the Plan is closed to new contributions, and acknowledging that many members may transfer into other pension arrangements before retirement, the Trustees' objective is to provide an investment portfolio that is expected to maximise the long-term investment performance, subject to an appropriate level of short-term risk.

The Trustees recognise that members take the investment risk. The Trustees take account of this in the selection and monitoring of the delegated investment portfolios. In setting the investment objective and strategy, the Trustees have considered risks from a number of perspectives, including but not limited to:

- Market risk - the Plan is subject to currency, interest rate and other price risk associated with the underlying investments. These risks can impact the valuations of the funds. The delegated portfolio managers invest in a diversified range of assets to manage these risks. Further, the Trustees closely monitor the performance of the portfolios and receive formal quarterly reports from the portfolio managers.
- Annuity purchase – the rates applied when pension funds are used to buy annuities may be more expensive than anticipated and the more expensive annuity rates could coincide with a time when funds have lost value due to market fluctuations, as described above. The Trustees do not explicitly invest in any annuity-matching assets.

- Inflation – the real return on investments and hence the value of members' assets may be diminished by inflation. To mitigate this risk, the investment performance target the Trustees have set for their delegated portfolio managers is linked to UK inflation.
- Credit risk – the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The credit risk the Plan is exposed to arises from holdings in the underlying funds and through the investment in the delegated investment portfolios. The Trustees consider the credit-worthiness of the delegated portfolio managers before appointing them. Monitoring and mitigation of credit risk in the investment portfolios is delegated to the portfolio managers, who in turn may delegate it to underlying investment managers within the portfolio.

The investment strategy offered through the Plan has been chosen, in part, to help members mitigate these risks.

In addition, the Trustees measure risk in terms of the performance of the assets compared to the targets on a regular basis, usually quarterly, along with monitoring any significant issues with the portfolio managers that may impact their ability to meet the performance targets set by the Trustees.

4. Responsible Investment

Financially Material Considerations

In setting the Plan's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with an appropriate level of risk. This includes the risk that environmental, social and governance ("ESG") factors, including climate change, negatively impact the value of investments held if not understood and evaluated properly.

The Trustees delegate day-to-day management of this risk to the delegated portfolio managers. The Trustees nevertheless acknowledge that an understanding of financially material considerations, including ESG factors (such as climate change) and risks related to these factors, is necessary to allow them to discharge their fiduciary duties in a prudent manner.

The Trustees are taking the following steps to monitor and assess ESG-related risks and opportunities:

- a) When selecting and reviewing their delegated portfolio managers, ESG integration and stewardship quality will be a topic of explicit discussion between the Trustees, their consultants and prospective delegated portfolio managers.
- b) The Trustees will include ESG-related risks, including climate change, on the Plan's risk register as part of ongoing risk assessment and monitoring.
- c) The Trustees produce the Plan's annual Implementation Statement, providing information on the ESG engagement activities (including exercising voting rights) of the delegated portfolio managers and their underlying investment managers.

Members' Views and Non-Financial Factors

In setting and implementing the Plan's investment strategy, the Trustees do not explicitly take into account the views of Plan members in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

5. Illiquid Investments

Illiquid investments are defined in this context as assets which cannot easily or quickly be sold or exchanged for cash.

The Trustees believe that any illiquid investments within the delegated portfolios may provide diversification from the other key return drivers held by members in the portfolios. Whilst the Trustees recognise that illiquid investments may be associated with higher costs, and liquidity risks, they nevertheless believe that the benefits of diversification and access to an illiquidity premium should benefit members in the long term. The Trustees also believe the delegated portfolio managers are best placed to use their discretion as to the appropriateness of holding illiquid investments in the portfolios at any particular time, and to use the liquid portions of the fund to ensure members have sufficient access to liquidity.

The Trustees may hold illiquid investments on behalf of DC members in the default investment option, the Metaswitch Networks Limited Plan 88 – Default Fund. As described later in this Statement, this Fund is structured as a delegated portfolio, managed by Cazenove Capital. Members of all ages in the default option have a 100% allocation to this Fund.

The illiquid investments may be underlying holdings within the delegated portfolio, or within pooled funds that sit within the delegated portfolio. These may include investments in e.g. Private market debt, property, infrastructure. These are held at the discretion of the delegated investment manager, or underlying pooled fund managers, and the allocations may increase or decrease over time.

6. Investment Manager Arrangements

Manager Structure

The Plan has appointed two delegated portfolio managers (Cazenove Capital and JM Finn), each of whom manage delegated portfolios on the Trustees' behalf. These delegated portfolio managers may invest directly in underlying investment instruments (e.g. equities or bonds of specific companies), or they may invest in underlying investment funds, managed by a third party investment manager. The delegated portfolio managers are remunerated on an ad valorem basis.

The Trustees' policy is to review the investment strategy, as required by the Pensions Act at least every three years.

Arrangements with Delegated Portfolio Managers

Before appointment of a new delegated portfolio manager, the Trustees review the governing documentation associated with the investment portfolio and will consider the extent to which it aligns with the Trustees' policies.

The Trustees monitor the Plan's delegated investment portfolios to consider the extent to which the investment strategy and decisions of the delegated portfolio managers are aligned with the Trustees' policies as set out in this Statement of Investment Principles, including those on non-financial matters. The Trustees expect their delegated portfolio managers to understand the extent to which any underlying investment funds:

- Make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity
- Exercises the voting rights associated with any equity investments held; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustees believe they have a duty as institutional investors to invest in a responsible manner and where appropriate they expect their delegated portfolio managers to query underlying investment managers on the rationale for holding positions in companies who may be perceived to contribute significant negative externalities to society.

There is typically no set duration for arrangements with delegated portfolio managers, although their continued appointment will be reviewed periodically, and at least every three years.

7. Asset Allocation Strategy

The Trustees recognise that the key source of financial risk (in relation to meeting their objectives of maximising long-term investment performance, subject to an appropriate level of short-term risk) normally arises from asset choice. The Trustees therefore retain responsibility for the overarching objectives and targets for the investment portfolios made available to the membership, and take expert advice as required from their professional consultants.

The Trustees have made two investment funds available to members:

- Metaswitch Networks Limited Plan 88 – Default Fund
- Metaswitch Networks Limited Plan 88 – Main Fund.

Since April 2015, members cannot choose which portfolio they are invested in.

Default Option

The Trustees have designated the Default Fund as the Default Option for Plan members. The Trustees monitor the member borne costs on this portfolio and have delegated responsibility to the delegated portfolio manager to make sure that the total expense ratio remains below the 0.75% p.a. charge cap, as required by regulation.

Performance Objectives

The Trustees have provided the delegated portfolio managers with a performance target, against which their performance is monitored and assessed on an ongoing basis. The managers are expected to achieve their targets by investing Plan assets in an appropriate and suitably diversified portfolio of assets.

Fund	Delegated portfolio	Target
Metaswitch Networks Limited Plan 88 – Default Fund	Cazenove Capital	CPI + 4.0%
Metaswitch Networks Limited Plan 88 – Main Fund	Cazenove Capital JM Finn	Cazenove Capital: CPI + 4.0% JM Finn: Long term growth (no explicit inflation-linked target)

8. Monitoring and Implementation

Monitoring

The appointment of the delegated portfolio managers is reviewed by the Trustees from time to time. In addition, the Trustees review the performance of each of the funds by means of a quarterly investment report from the portfolio manager.

A portfolio manager may be replaced, for example, if:

- a) They fail to meet the performance objectives set by the Trustees; and/or
- b) The Trustees believe that the manager is not capable of achieving the performance objectives in the future. In this respect, they may seek advice from the Plan's investment consultants.

The Trustees may replace a fund, including transferring existing investments, without prior agreement or consultation with members if they believe this is appropriate, and they have the legal powers to do so.

The Trustees receive quarterly updates from the delegated portfolio managers on various items including the investment strategy and performance of the funds. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan's objectives.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by their delegated portfolio managers, which enables the Trustees to determine the extent to which the portfolio managers have exercised their voting and engagement rights throughout the year.

Cost Transparency

The Trustees are aware of the importance of monitoring member borne costs and the impact these can have on the overall value of members' funds. It is the Trustees' view that long term performance, net of fees, is the most important metric on which to evaluate its investment managers.

The Trustees therefore believe it is important to understand all the different costs and charges, which are paid by members (through a deduction from the unit price). These include:

- a) explicit charges, such as the annual management charge, and additional expenses that are disclosed by fund managers as part of the Total Expense Ratio ('TER');
- b) The split of costs between those paid to the delegated portfolio managers, and those paid to any underlying investment managers;
- c) implicit charges, such as the transaction costs borne within a fund. The Trustees define transaction costs as the costs incurred in buying and selling underlying securities held within the funds' portfolios. These are incurred on an ongoing basis and are implicit within the performance of each fund.

Other costs of providing DC benefits (e.g. administration, communication, and consultant costs) are paid for by the sponsoring employer, and are not incurred by members.

The Trustees collect information on member-borne costs and charges on an annual basis and set these out in the Plan's Annual Chair's Statement which is made available to members in a publicly

accessible location.

The Trustees accept that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends.

No specific ranges are set for acceptable costs and charges, particularly in relation to transaction costs. However, the Trustees expect their investment consultants to highlight if these costs and charges appear unreasonable when they are collected as part of the Annual Chair's Statement exercise and investigate as required.

The Trustees assess value for money received by members from the Plan, including its delegated portfolio managers, on a regular basis as part of the annual Chair's Statement exercise and Prescribed Value for Members Assessment.

9. Custody

Investment in pooled funds, within the delegated portfolios, gives the Trustees the right to the cash value of the units rather than to the underlying assets. The underlying investment manager of each of the pooled funds is responsible for the appointment and monitoring of the custodian of the fund's assets.

10. Realisation of Investment / Liquidity

The Trustees recognise that there is a risk of holding assets that cannot easily be realised should the need arise. The majority of assets held on behalf of members are realisable at short notice (through the sale of units in pooled funds).

11. Timing of Periodic Review

The Trustees will review the Plan's investment options whenever it believes there to be a significant change in the Plan's circumstances, or at least on a triennial basis. The Trustees will consult their consultants as part of any review of the arrangements.

Ian Ferguson

Chair of Trustees

18 July 2024

Date

On behalf of the Trustees of the Metaswitch Networks Ltd Plan88