

# Microsoft Corporation Savings Plus 401(k) Plan

## Investment Philosophy

The purpose of this investment philosophy is to communicate the principles and processes used to construct the Microsoft Corporation Savings Plus 401(k) Plan (“Plan”) investment line-up. It addresses the fundamental structuring of the investment line-up as well as the number and types of investment options.

Extensive research has gone into all investment offerings, which are based on the guiding principle: the Plan is intended to provide a selection of investment offerings that will reasonably allow all participants to diversify their Plan investments and pursue their individual retirement objectives based on their own risk tolerance.

Based on this principle, the Plan offers a broad range of investment offerings across different asset classes and investment styles. The investment offerings are made based on the potential for favorable long-term risk-adjusted investment performance at reasonable cost.

Certain investments (Microsoft stock and BrokerageLink) are designated as part of the investment line-up by the Plan. This investment philosophy’s discussion of how the Committee considers investment offerings does not apply to those investments.

### Investment Governance

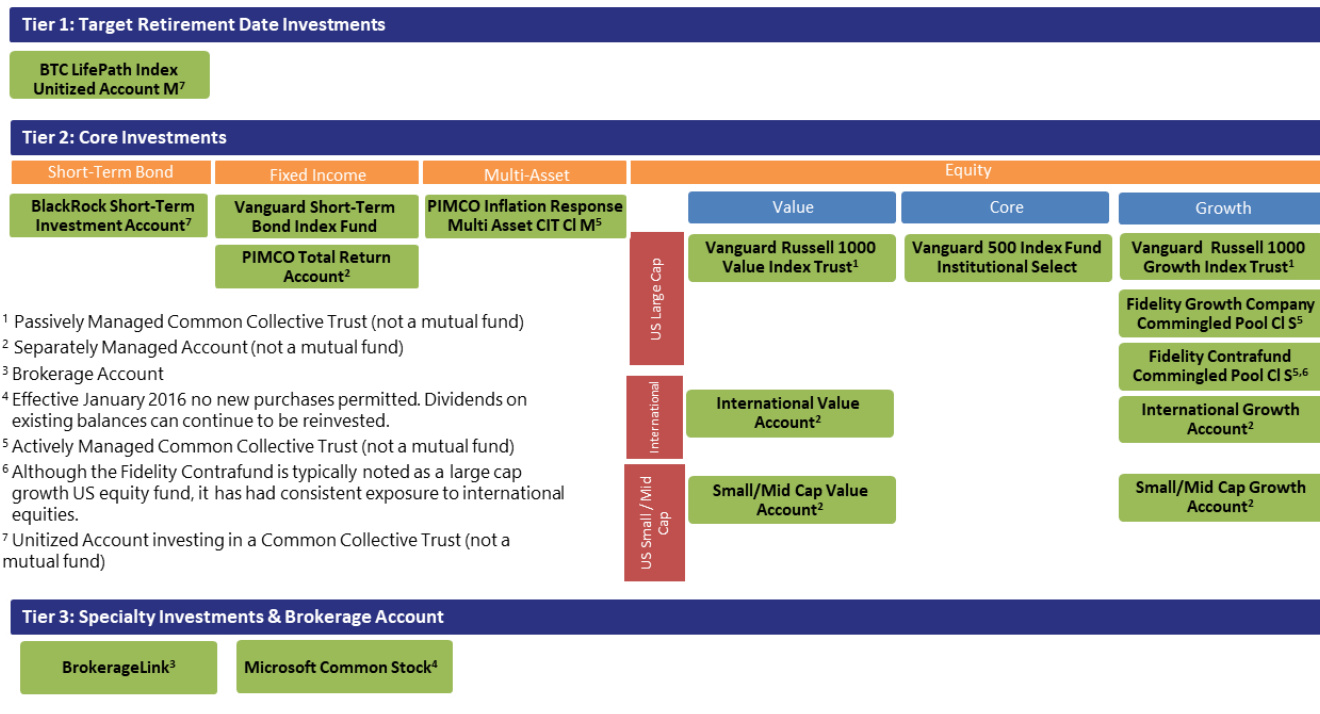
A 401(k) Administrative Committee (“Committee”), which consists of three senior Microsoft executives representing Human Resources, Tax, and Treasury, has fiduciary responsibility for the Plan and its investment offerings. The Committee draws support from an advisory group of employees from Human Resources, Finance, Corporate Accounting, and Tax. In addition, the Committee uses an independent investment consulting firm, for advice on selecting and monitoring Plan investments based on their perceived industry best practices.

### Investment Structure

In an effort to bring clarity to the investment decisions that the Committee makes and the investment structure of the Plan, this investment philosophy categorizes the plan offerings into three tiers based on participant involvement and experience in managing financial assets. The investment offerings in all tiers are intended to complement each other and provide participants enough flexibility to create a well diversified portfolio based on a participant’s individual risk and return tolerance.

## 401(k) Investment Structure

The investment structure below depicts how the 401(k) Committees, in conjunction with the independent investment consultant, view the Plan's investment lineup. See NetBenefits for additional details about these investments.



## Selection and Monitoring of Investment Offerings

The Committee periodically reviews the investment offerings under the Plan, typically quarterly, to ensure they remain suitable for the Plan. The Committee may obtain the advice of an independent investment consultant and assistance from the advisory group. The Committee may consider quantitative and qualitative performance criteria when monitoring investments. However, in evaluating and selecting designated Plan investment alternatives, the Committee may not be influenced by non-economic factors unless the investment ultimately chosen for the Plan, when judged solely on the basis of its economic value, would be equal to or superior to alternative available investments.

## Active vs. Passive Strategies

The Committee does not look at the question of active versus passive management as an “either/or” proposition, but rather considers how both strategies may be used to provide the greatest advantage:

- passive or enhanced index strategies can be appropriate in efficiently priced capital market segments where the probability of success and rewards from pursuing active management are low; and
- active management strategies can be appropriate in less efficient asset classes where market inefficiencies and legitimate out-of-benchmark opportunities allow active managers to generate excess returns.

## Number of Investment Options

The Committee understands that offering participants too many options will hamper decision making and reduce participation. In the 401(k) industry this is known as “decision paralysis.” As a result, the Committee regularly reviews the number of investment options within the Plan’s Tier 2 (core investment) line-up to ensure that participants have adequate diversification opportunities without being overwhelmed with too many investment choices.

## Fees

Irrespective of active and passive strategies, the Committee strives to create the greatest value to participants by balancing fees against manager performance. In all cases, the Committee strives to ensure that fees are reasonable.

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