

Universal Music Group Pension Scheme (DC Section)

Statement of Investment Principles – September 2019

Introduction

The Trustees of the Universal Music Group Pension Scheme (the "Scheme") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005.

The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. In preparing this Statement the Trustees have consulted Universal Music Operations Limited (the "Company") on the Trustees' investment principles.

Following the bulk transfer of accrued pots to the Fidelity Master Trust in 2019, the remaining assets in the Defined Contribution (DC) Section of the Universal Music Group Pension Scheme relate to members with both defined benefit (DB) and DC benefits.

The remaining assets will either be secured with Aviva, to retain the link between the DB and DC benefits, or transferred to the Fidelity Master Trust. The Trustees are aiming for all assets to be secured outside the Scheme by Q1 2020.

The remaining holdings invest in the default strategy and other funds in the self-select range.

No further contributions are being paid into the DC Section.

The level of pension benefit will depend on two factors:

- (i) The return on a member's accumulated fund over the period to their selected date of retirement
- (ii) The cost of turning the accumulated fund into pension benefit (i.e. cash, income drawdown or annuity purchase) at retirement.

Governance

The Trustees make all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed

When making such decisions, and when appropriate, the Trustees take proper advice. The Trustees' investment consultants, Hymans Robertson, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience to provide such advice.

Investment Objectives

The Trustees recognise that their ultimate objective is to best ensure that members of the Scheme are able to retire on a reasonable level of pension taking into account the contributions previously paid into their individual accounts and the timescale over which those contributions were paid. To

this end, the Trustees have in place investment options that they believe will achieve maximum returns consistent with the level of security chosen by the member.

Investment Strategy

The Trustees will offer a sufficient fund range to satisfy the risk and return combinations reasonable for most members.

To this end, the Trustees have in place a range of investment options that they believe will allow members to strike appropriate balances between long term needs for capital growth and shorter-term volatility of returns, especially in the period approaching retirement.

The Trustees offer a Lifestyle investment option. The Lifestyle investment option is an automated switch facility allowing members to pre-select an investment strategy, which will move their accrued funds into lower risk investments as retirement approaches.

The 10-year Lifestyle option is the default option for members who choose not to make an active investment choice.

The Trustees have selected a range of self-select funds (see Appendix) that members who do not want to follow the default lifestyle arrangement can opt into.

Investment Mandates

The Trustees have appointed Legal & General Investment Management (LGIM), BlackRock Investment Management (UK) Limited (BlackRock) and Schroder Investment Management Limited (Schroders) (the "Investment Managers") to manage the Defined Contribution assets of the Scheme. The Investment Managers are regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Investment Managers via a written agreement, including the realisation of investments.

The details of the Defined Contribution investment arrangements are set out in the Appendix.

Risk Management and Measurement

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Scheme. The Trustees believe that the investment options offered to members provide for adequate choice and diversification both within and across different asset classes.

The Trustees recognise the risks that may arise from the lack of diversification of investments. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

The documents governing the manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.

The Trustees recognise that the use of active management involves a risk that the assets do not achieve the expected return. For this reason and to reduce management costs investments are predominantly passive. However, for corporate bonds they believe this risk may be outweighed by the potential gains from successful active management. Therefore, the Scheme offers a mixture of passive and active management which may be adjusted from time to time.

The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Scheme's circumstances, the Trustees will review whether the current risk profile remains appropriate.

Expected Return on Investments

The Trustees believe it is important to balance investment risks with the likely long term returns from different types of investment funds (taking the charges into account).

The expected returns on the principal asset classes and fund types within the DC Section are:

- Equities (i.e. company shares) – should achieve a strong positive return relative to inflation over the longer-term, but tends to be the most volatile asset class over the shorter-term.
- Multi-Asset (e.g. investing in a mix of asset classes) – should deliver positive returns relative to inflation over the longer term, with lower short-term volatility than equities.
- Corporate Bonds (i.e. debt issued by companies) – should achieve a positive return relative to inflation over the longer-term which is lower than that for equities and property, but with a lower level of shorter-term volatility than equities or property.
- Fixed Interest Government Bonds (Gilts) – should deliver a positive return relative to inflation over the longer-term which is lower than that of equities, property and corporate bonds, but with a lower level of shorter-term volatility than equities, property and corporate bonds.
- Index-linked Government Bonds (Index-Linked Gilts) – should deliver a return in line with inflation over the longer-term, but with a lower level of shorter-term volatility than equities, property and corporate bonds.
- Cash (and cash-like instruments) – should deliver a positive return which may not always keep pace with inflation, (net of fees), while normally providing a minimal level of volatility and high degree (but not complete) of capital security.
- Long-dated Government Bonds (Gilts) and long-dated Corporate Bonds – values should move broadly in line with the financial factors influencing annuity rates.

The Trustees believe that both active and passive management have a place in defined contribution arrangements. Some asset classes or investment approaches (such as cash and diversified growth strategies) are only available as actively managed funds.

Types of funds used

The Trustees make available pooled funds through a direct contract with the investment managers. The Trustees have delegated the day-to-day investment decisions including the management of financially material considerations (see below) to the investment managers responsible for the various investment funds.

The Trustees expect that the fund managers will normally be able to sell assets within a reasonable timescale to meet withdrawals. There may, however, be occasions where the manager needs to impose restrictions on the timing of sales and purchases of funds in some market conditions to protect the interests of all investors in that fund. Nonetheless, the Trustees recognise that most members' pensions have a relatively long savings period, during which underlying assets which are less easily traded (such as property or infrastructure) can be managed to deliver good long-term returns while avoiding the impact of liquidity issues in the event of member withdrawals.

Overall the Trustees believe that the DC Section's investment options cater to members with varying risk and return requirements and appropriately manage the risks faced by most members.

Corporate Governance

The Trustees wish to encourage best practice in terms of activism. The Trustees accept that by using pooled investment vehicles the day-to-day application of voting rights will be carried out by the investment managers. Consequently, the Trustees expect the Scheme's investment managers to adopt a voting policy that is in accordance with best industry practice.

Responsible Investment: Financially and non-financially material consideration

The Trustees recognise that financially material considerations, including environmental, social and governance (ESG) factors, affect risk and returns over the medium to long term but will have varying importance for different types of assets invested by the DC Section. As such these considerations take precedence in fulfilling the Trustees' primary objectives for the DC Section and translate to the development, selection, retention, realisation and monitoring of the investment options.

The Trustees would consider financially material considerations in the event they are required to make further investment decisions, but that none are anticipated to be made in the near future.

In passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal discretion to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the market and believe this approach is in line with the basis on which their current strategy has been set.

In active mandates, the Trustees recognise that the manager has freedom to exercise discretion as to the choice of assets held. The Trustees expect the manager to take into account all financially material factors in the selection of assets within their portfolios and to be able to demonstrate their approach when challenged.

Non-financially material factors are the views of members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the DC Section. The Trustees do not actively seek member views in reaching investment decisions.

Responsible Investment: Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

The Trustees have adopted a policy of delegating voting decisions on stocks to their investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.

The investment manager is expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where appropriate, the Trustees will engage with and seek further information from their investment manager on how portfolios may be affected by a particular issue.

When selecting investment managers, the Trustees' investment adviser assesses the ability of each investment manager in engaging with underlying companies in order to promote the long-term success of the investments.

When selecting, monitoring and de-selecting asset managers, engagement is factored into the decision-making process to the appropriate level for the specific asset class in question.

The table below shows how the fund allocations change when a member approaches the end of the accumulation period and during the protection period.

Lifestyle Strategy	Term to Retirement (Years)										
	11	10	9	8	7	6	5	4	3	2	1
Fund	Fund Allocations (%)										
LGIM Global Equity Fixed Weights (60:40) Index Fund	80	72	64	56	48	40	32	24	16	8	-
LGIM Active Corporate Bond – Over 10 Year-Fund	10	9	8	7	6	5	4	3	2	1	-
LGIM Over 5 Year Index-Linked Gilt Index Fund	10	9	8	7	6	5	4	3	2	1	-
Schroder Flexible Retirement Fund	-	10	20	30	40	50	60	70	80	90	100
Total	100	100	100	100	100	100	100	100	100	100	100

Self-Select Funds

The self-select funds are made available to members who want to control the decision on which individual funds to invest in over time. Members cannot combine the self-select funds with the lifestyle fund. However members can create their own version of a lifestyle fund by using other combinations to those shown above.

The self-select funds offered are detailed below.

Asset Class (Approach)	Fund Name
Equities (active)	BlackRock DC 70:30 Global Growth
Equities (passive)	LGIM Global Equity Fixed Weights (60:40) Index Fund
Multi-Asset (active)	Schroder Flexible Retirement Fund
Fixed Interest Bonds (passive)	LGIM Pre-Retirement Fund
Corporate Bonds (active)	LGIM Active Corporate Bond – Over 10 Year Fund
Index-Linked Gilts (passive)	LGIM Over 5 Year Index-Linked Gilt Index Fund
Cash (passive)	LGIM Cash Fund

Appendix – Defined Contribution Investment Arrangements

Lifestyle Fund

The Universal Music Group Default Strategy invests in a range of funds during the accumulation period of the Default Lifestyle Strategy, with monies being gradually switched into bonds and cash as member retirement approaches. The accumulation period spans the time between when members join the Scheme up until 10 years from their normal retirement date when the protection period then starts.

Accumulation Period

During the accumulation period, funds are invested as follows:

Fund	Allocation
LGIM Global Equity Fixed Weights (60:40) Index Fund	80.0%
LGIM Active Corporate Bond – Over 10 Year-Fund	10.0%
LGIM Over 5 Year Index-Linked Gilt Index Fund	10.0%
Total	100.0%

The primary objective during the accumulation period is to maximise returns over the long term at an acceptable level of risk.

Protection Period

During the protection period (the 10 years leading up to normal retirement date), assets are gradually switched such that it targets a 'continued investment' approach in line with the view that the majority of the members will either take their DC benefits in a single or series of cash lump sums. At the normal retirement date, assets will be allocated to the following funds:

Fund	Asset Class	Allocation
Schroder Flexible Retirement Fund	Multi-Asset	100%
Total		100%

The Default Lifestyle Strategy has been designed to meet the perceived needs and characteristics of the majority of members.

The Trustees do not engage directly, but believe it is sometimes appropriate for its investment manager to engage with key stakeholders, which may include corporate management, regulators and governance bodies, relating to their investments to improve corporate behaviour, performance and mitigate financial risks. The Trustees will review engagement activities undertaken by its investment manager where appropriate as part of its broader monitoring activity.

Compliance with Myners Principles

The Trustees believe that they comply with the spirit of the Myners Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principle where the Trustees believe this to be justified.

Employer Related Investments

The Trustees' policy is not to hold any employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

Fee Structures

The Investment Managers are paid a management fee on the basis of assets under management. The investment consultant is paid on a project basis, which may be a fixed fee or based on time cost, as negotiated by the Trustees in the interests of obtaining best value for the Scheme.

Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.



Signed on behalf of the Trustees

Name: S. YANDLE

Date: 16/9/2019



Signed of behalf of the Company

Name: D. Skupe

Date: 16/9/19