

Universal Music Group Pension Scheme - DB Section

Statement of Investment Principles - September 2020

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 the defined benefit (DB) Section. In preparing this Statement the Trustees have consulted Universal Music Operations Limited (the "Company") on the Trustees' investment principles.

The Trustees are responsible for the Scheme's investment strategy and for ensuring that this is recorded in the Statement. Currently the Trustees have a buy-in policy (Bulk Annuity Policy) with Aviva which is an asset of the Scheme and matches the DB liability cashflows. The Trustees are undertaking a buy-out of the Scheme at which point the liabilities will be fully extinguished. It is intended the buy-out transaction will be completed during 2020 with the subsequent wind-up of the Scheme anticipated in Q1 2021.

Investment Objectives & Strategy

The Trustees are required to invest the Scheme's assets in the best interest of the members. The Trustees' objective is to meet pension payments as they fall due, with a low level of risk.

As noted above, the Trustees have a 'buy-in' policy with Aviva. With certain specific exception¹, this policy covers all known members of the DB Section of the Scheme. Aviva is responsible for meeting all future cash obligations to pay benefits insured under the policy. Following a period of data verification², the intention will be to finalise the insured benefits to reflect as closely as possible insured members' full Scheme entitlements.

In effect the Bulk Purchase Annuity can be considered to be a closely matching asset of equal value to the DB Section's known liabilities in relation to the insured members. The value of the Bulk Purchase Annuity is therefore expected to move in line with the value of those liabilities over time. Aviva's fees for providing the Bulk Purchase Annuity and administering benefits in the future were embedded within the initial premium paid.

Before investing in the Bulk Purchase Annuity with Aviva, the Trustees received advice from Mercer in relation to the suitability of the policy from an investment perspective and consulted the Company.

In addition to the Bulk Purchase Annuity, the Trustees may hold a small amount of cash in the Trustee bank account for the purposes of prudent liquidity management and to pay any Scheme expenses that may arise. In the normal course of events, the Trustees do not expect to be able to obtain cash from the bulk annuity policy other than in respect of the benefits insured with Aviva.

¹ These relate primarily to former USH members (whose benefits cannot be insured) and members imminently expected to transfer out of the Scheme.

² In addition to incorporating any required adjustments to finalise insured benefits with Aviva, this is expected to include the outcome of a planned exercise to address GMP inequality in the Scheme.

Written advice is received as required from professional advisers.

Remuneration

The Trustees recognise that remuneration for any mandate is relevant at different stages of the investment process. However, in this case, as there are no funds under management, the Trustees have no influence over remuneration for the investment strategy.

Risks

The Trustees are aware of and pay close attention to a range of risks inherent in investing the assets of the Scheme. The Trustees' policy on risk management is as follows:

- The primary investment risk faced by the Scheme arises as a result of a potential mismatch between the Scheme's assets and its liabilities. This is therefore the Trustees' principal focus in setting investment strategy, which the Trustees believe is well-managed through the Bulk Purchase Annuity policy.
- The Scheme is exposed to counterparty risk associated with Aviva in respect of the Bulk Purchase Annuity policy. Before purchasing the policy the Trustees took advice from Willis Towers Watson on Aviva's financial position and satisfied themselves that this risk was sufficiently well-managed. Aviva operates as an insurance company in the UK and is required to hold sufficient capital reserves and have adequate risk controls in place by the UK Prudential Regulation Authority. In addition, the Trustees are aware that an additional level of protection exists due to the existence of the statutory Financial Services Compensation Scheme.
- The Trustees recognise that whilst increasing risk and investing in growth assets could increase potential returns over a long period, it would also increase the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities. The Trustees have taken advice on the matter and considered the implications of adopting different levels of risk.

Realisation of investments

The Bulk Purchase Annuity policy that the Trustees have entered into with Aviva cannot be realised.

Compliance with Myners Principles

In October 2008 the Government published the results of its consultation on revisions to the Myners' principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six higher-level principles, supported by best practice guidance and trustee tools that can be used to assess compliance:

- Principle 1: Effective decision making
- Principle 2: Clear objectives
- Principle 3: Risk and liabilities
- Principle 4: Performance measurement
- Principle 5: Responsible ownership
- Principle 6: Transparency and Reporting

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 Principles where the Trustees believe this to be justified.

Responsible Investment

The Trustees believe their main duty is to protect the financial interests of the Scheme's members, and to this end the Trustees have elected to invest virtually all DB Section assets in a Bulk Purchase Annuity policy with Aviva. The Trustees cannot, however, directly influence the environmental, social and governance factors (ESG) underpinning the management of the assets that Aviva holds to back the policy, nor the stewardship activities therein.

Financially material factors

The Trustees believe that ESG factors can have a financial impact on assets held but will have varying importance for different types of assets invested by the Scheme. Given the planned buy-out of the Scheme this will significantly shorten the time horizon of the Scheme and the Trustees have taken a proportionate view on the relevance of incorporating these factors in investment decision making on a forward-looking basis.

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

Non-financially material factors

As per the financially material factors above the Trustees have not sought to take account of non-financially material considerations (such as ethical or moral beliefs) into their investment decision making. In addition the Trustees do not actively seek member views in reaching investment decisions which is justified by the impending wind up of the Scheme following completion of buy-out.

Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with the investment manager and the monitoring of compliance with agreed policies. However, in this case, as the only asset in the DB section is the policy with Aviva, these stewardship and governance matters are outside the Trustees' control and the Trustees do not engage with any persons with whom Aviva invests. Neither does the Trustee engage with Aviva about its investment arrangements.

Arrangement with asset managers

The Trustees monitor their arrangement with Aviva, in particular Aviva's compliance with the Bulk Purchase Annuity policy.

The Trustees do not have any influence over Aviva's investment strategy and so do not monitor Aviva's investment activities. As such the matters in regulation 2(3)(d) of the Occupational Pension Schemes (Investment) Regulations 2005 are not set out.

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.

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.

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Signed of behalf of the Trustees

Name:

Date:

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Signed of behalf of the Company

Name:

Date: