

Universal Music Group Pension Scheme – Implementation Statement (October 2020)

Welcome to the 2020 Implementation Statement outlining how the Trustees of the Universal Music Group Pension Scheme (“the Scheme”) implemented the policies and practices contained in the Scheme’s Statement of Investment Principles on behalf of members during the year ending 5 April 2020 (“the Scheme Year”).

1. Introduction

The Scheme provides members with benefits on a defined contribution (“DC”) basis (sometimes called money purchase benefits). This means that the size of the benefits paid when members retire, will depend on the size of the contributions paid in, where their contributions are invested and how the funds grow over the years.

What is the Statement of Investment Principles (SIP)?

The SIP sets out the investment principles and practices the Trustees follow when governing the Scheme’s investments. It describes the rationale for the investment options which members can choose (including the default arrangement if they don’t make a choice), explains the risks and expected returns of the funds used and the Trustees’ approach to financially material considerations including their approach to responsible investment and Environmental, Social and Governance (ESG) considerations (including climate change considerations).

Changes made to the SIP in the Scheme Year

Following the bulk transfers of accrued pots to the Fidelity Master Trust in February and December 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 who wish for their DB and DC benefits to be held together with a consolidated provider, Aviva.

These remaining assets will be secured with Aviva, to retain the link between the DB and DC benefits, and the transfer is expected to take place before the end of 2020. The Trustees will be winding up the Scheme in the short term following this transfer. Therefore, the Trustees would only consider short-term financially material considerations in the event they are required to make changes to the investment arrangements, but none are anticipated to be made in the near future given the impending wind-up of the Scheme.

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.

During the Scheme Year, as per the regulatory requirements that came in force from 1 October 2019, the SIP was updated to reflect the Trustees’ policies on how they take into account financially material considerations in the design of the Scheme’s investment strategy. Financially material considerations have always been the main factor in influencing the design of the Scheme’s default investment strategy and the range of options provided within the Scheme’s self-select fund range. The main considerations include the generic risk and expected return profiles of the asset classes and funds that are traditionally used in the UK DC market. Risk and return profiles are impacted by financial returns drivers (made up of income such as rent, dividends and coupons and capital gains or losses which are impacted by supply and demand), of a fund and their variability over time (volatility). This includes Environmental, Social and Governance (ESG) considerations and climate change considerations, which have a direct impact on both volatility and the capital gain or loss components

(based on academic research and empirical evidence). Therefore, the reason for the change to the SIP was to formalise regulatory requirements and explicitly link financially material considerations to the Scheme's DC investment arrangements.

You can find a copy of the Scheme's SIP at <https://umusic.co.uk/UMGPS-statement-of-investment-principles-2020-DC-Section.pdf> Overall summary and conclusion

This Implementation Statement sets out how the Trustees have complied with the provisions in the Scheme's SIP during the Scheme Year while taking into account the background to the Scheme and its planned wind up.

Overall, the Trustees are satisfied that:

- **The Scheme's investments have been managed in accordance with the SIP and with thought to wind-up being initiated over the short term; and**
- **The provisions of the SIP remain suitable for the needs of the Scheme's members while it remains open.**

2. Investment governance for the 2019/20 Scheme Year

The Trustees have overall responsibility for how the Scheme's investments are governed and managed in accordance with the Plan's Trust Deed and Rules as well as Trust Law, Pensions Law and Pension Regulations.

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 assets of the Scheme. 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 Trustees undertook certain actions during the Scheme Year that were consistent with and aligned to their policies as outlined in the SIP. In the table below, we have cross referenced the SIP section with the Trustees' actions during the Scheme year:

SIP section	Trustees' actions
Governance	<ul style="list-style-type: none"> • There were no changes to the Trustees' governance process over the Scheme Year.
Investment objectives	<ul style="list-style-type: none"> • The Trustees receive half yearly monitoring reports during the year that assess Scheme performance relative to objectives. • It was noted that both absolute and relative performance had weakened over the Scheme Year due to the COVID-19 crisis. • The Scheme's current glidepath design produced the appropriate return profiles relative to their objectives during the COVID-19 crisis – the pre-retirement phase (members approaching retirement) outperformed the growth phase (members who are far from retirement).
Investment strategy and mandates	<ul style="list-style-type: none"> • There were no changes to the Scheme's investment arrangements during the Scheme Year.

Risk management and measurement	<ul style="list-style-type: none"> • The Trustees monitored the investment performance of each fund relative to corresponding benchmarks and risk objectives (this is performed on a six-monthly basis) • The Trustees monitored the research ratings of each fund (provided by the investment adviser) within the default investment strategy and the self-select fund range (for relevant funds) and ensuring that these remain suitable (this is performed on a six-monthly basis)
Expected return on investments	<ul style="list-style-type: none"> • See Section 5 below
Types of funds used	<ul style="list-style-type: none"> • See Section 6 below
Corporate governance	<ul style="list-style-type: none"> • While the Trustees encourage best practice in terms of engagement, the intended wind-up of the Scheme means that the monitoring of the day-to-day application of voting rights and corporate engagement should be proportionate to the Scheme's current circumstances. • Therefore, there has been limited monitoring performed apart from exceptions-based reporting where performance relative to benchmarks and objectives have been adversely affected. During the Scheme Year, there have been no exceptions.
Responsible investment: Stewardship and financially material considerations	<ul style="list-style-type: none"> • See Section 8 below.

3. How the default investment arrangement and other investment options are managed

The objectives and rationale for the default arrangement are set out in the SIP. Prior to the decision to wind up the Scheme, the SIP and the underlying default investment strategy was reviewed no later than once every three years. Currently, monitoring of the default investment arrangement and self-select fund range is performed on a six-monthly basis. No formal review of the default investment strategy or the underlying membership profile of the Scheme is scheduled to take place due to the impending wind-up.

4. The expected risks and returns on your savings in the Plan

The investment risks relating to members' benefits are described in the SIP.

The expected returns from each type of investment used by the Scheme are set out in the SIP.

The Trustees believes that the main investment risks members face described in the SIP have not changed over the Scheme Year.

The Trustees are satisfied that the current expected rates of investment return for the main types of fund described in the SIP are still reasonable.

The Trustees' views on expected levels of investment risks and returns (as outlined by the Scheme's investment adviser) inform decisions on the strategic asset allocation (i.e. what types of assets and areas of the world funds invest) for the Plan's default lifestyle strategy.

The Trustees' views on the strategic asset allocation of the Scheme's default lifestyle option and the structure of the glidepath did not change during the Scheme Year.

5. Platform providers and fund managers

Choice of platform providers and funds

There have been no changes to the funds used over the last Scheme Year.

Ability to invest/disinvest promptly

No further contributions are being paid into the DC Section.

It is important that investments can be sold promptly when a member wants to change where they are invested, transfer their pension pot to another scheme or be paid out when they retire or qualify for accessing their DC pot.

The Trustees are satisfied that money can be taken out of the Scheme's funds without delay as per liquidity risk considerations set out in the SIP (realisation of investments).

Security of your savings in the Plan

In addition to the normal investment risks faced by investing in the funds used by the Scheme, the security of savings in the Scheme depends upon:

- The financial strength of the fund managers used; and
- The legal structure of the funds the Scheme invests in.

There have been no changes to the structure of the funds used by the Scheme during the Scheme Year. The Trustees are not aware of any material changes in the financial strength of the investment platform or the fund managers used by the platform in the Scheme Year.

To the best of their knowledge, the Trustees were satisfied in the security of their members' savings during the Scheme year.

6. Conflicts of interest

As described in the SIP, the Trustees are mindful of potential conflicts of interest:

- When choosing fund managers;
- When monitoring the fund managers' investment performance and the fund managers' approaches to investment stewardship and responsible investing; and
- When the fund manager is making decisions on where each fund is invested.

The Trustees expects the fund managers to invest the Scheme's assets in the members' best financial interests having taken into account financially material considerations.

The Trustees are satisfied that there have been no material conflicts of interest during the Scheme Year which might affect members' DC savings.

7. Responsible Investment and stewardship

During the Scheme Year, the Trustees have amended the section within the SIP pertaining to Responsible Investment and ESG considerations. As stated in the SIP, the Trustees believe it is important that the Scheme's underlying fund managers, as shareholders or bond holders, take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on major issues which affect a company's financial performance (and in turn the value of the Scheme's investments).

As the Scheme's investments are held at arms-length from the Trustees and members, the Trustees are not able to instruct the fund managers on how they should vote on shareholder issues. The Trustees nevertheless:

- Delegate the research into managers' voting policies and the exercising of these voting rights to ensure consistency with the Scheme's objectives to their investment advisers;
- Expect fund managers to vote in a way which enhances the long-term financial value of the funds in which the Scheme invests;

However, given the intended wind-up of the Scheme in the short term, it may not be possible or meaningful to determine whether engagement or voting activity has been performed in accordance with the long-term financial interests of the Scheme's underlying funds. It is also not proportionate given the size of remaining assets in the Scheme and the cost that would be incurred to perform detailed monitoring. Therefore, only where practicable, monitoring and review of the above engagement activity will be monitored by the Trustee's investment advisers. The main aspect of this monitoring involves whether performance is consistent with the underlying funds' benchmarks and objectives

The Trustees have considered their approach to responsible investing during the Scheme Year. The Trustees are satisfied that during the Scheme Year, the Scheme's investments were invested in accordance with the policies on responsible investing set out in the SIP.

8. Ethical Investing and non-financial considerations

The Trustee recognises that most members will not have strong views on where their pension savings should be invested and recognise that it is not possible to cater for everyone's views on non-financial / ethical matters. Therefore, the Scheme has not introduced a self-select fund that caters for non-financial considerations.

The Trustees' approach to ethical investing or non-financial considerations has not changed during the Scheme Year.

9. Main actions for next year

In the next Scheme year (year ending 5 April 2021), which will be covered by next year's Implementation Statement, it is expected that the Scheme will be wound up.