

UNIVERSAL MUSIC GROUP PENSION SCHEME

YEAR ENDED 5 APRIL 2021

IMPLEMENTATION STATEMENT FOR THE YEAR ENDED 5 APRIL 2021

Welcome to the Trustees' 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 Defined Benefit ("DB") and Defined Contribution ("DC") Statement of Investment Principles ("SIP") on behalf of members during the year ending 5 April 2021 ("the Scheme year").

Introduction

This is the Trustees' statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustees have complied with the policies and practices within the Statement of Investment Principles during the period from 6 April 2020 to 5 April 2021.

The Trustees have entered into a buy-in policy (Bulk Annuity Policy) with Aviva which, other than a small amount of cash, is the sole asset of the DB section of the Scheme. The Trustees are undertaking a buy-out of the Scheme at which point the liabilities will be fully extinguished. Members in the Scheme with DC benefits have chosen to transfer their DC benefits alongside their DB benefit to retain the existing option for the way their tax-free lump sum is calculated and paid at retirement. It is intended the buy-out transaction will be completed in late 2021 with the subsequent wind-up of the Scheme anticipated in the 2021-2022 scheme year.

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. The DB SIP describes the rationale for the investment options which the Trustees choose along with its policies on how it deals with investment matters on an ongoing basis. The DC SIP 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

The last review of the Scheme's SIP was completed on 30 September 2020. A further review is not expected given the imminent wind-up.

In relation to the DC Section, the following changes were made to the SIP during the Scheme year:

- Additional wording detailing the Trustees' approach to conflicts of interest and policies when appointing providers and managers in relation to conflicts;
- Addition of details surrounding corporate governance including engagement and stewardship; and
- Additional sections covering manager incentives, portfolio turnover and portfolio duration.

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

In relation to the DB Section, the following changes were made to the SIP during the Scheme year:

- Additional wording on the Trustees' approach to asset stewardship;
- Additional wording on the Trustees' arrangement with asset managers; and
- Additional wording on remuneration.

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

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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.**

DC SECTION

Investment governance for the 2020/21 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), Aegon UK plc (Aegon) 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 received monitoring reports during the year that assess Scheme performance relative to objectives.• 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.

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SIP section	Trustees' actions
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 2 below
Types of funds used	<ul style="list-style-type: none"> • See Section 3 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 issues reported.
Responsible investment: Stewardship and financially material considerations	<ul style="list-style-type: none"> • See Section 5 below.
Manager incentives	<ul style="list-style-type: none"> • There were no changes to the Scheme's policies around manager incentives during the Scheme year. • All managers produced fund returns within an acceptable tolerance range from their respective benchmark/ objective.
Portfolio turnover	<ul style="list-style-type: none"> • There were no changes to the Scheme's policies around portfolio turnover during the Scheme year. • Given the size of the Scheme and the upcoming wind-up, the Trustees have not monitored the portfolio turnover costs in the Scheme year.
Portfolio duration	<ul style="list-style-type: none"> • There were no changes to the Scheme's policies around portfolio duration during the Scheme year.

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1. 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 were 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.

2. 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 believe 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.

3. 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 your 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 with the security of their members' savings during the Scheme year.

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4. 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 expect 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 benefits.

5. 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 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 through an investment platform operated by Legal & General, the Trustees are not able to instruct the fund managers on how they should vote on shareholder issues. The Trustees nevertheless:

- Expect fund managers to vote in a way which enhances the value of the funds in which the Scheme invests;
- Monitor how the fund managers exercise their voting rights.

How do the Trustees monitor this?

The funds with voting rights attached that are available to members as part of the default fund range or the self-select fund range are listed below along with summary voting statistics for each fund.

- L&G Global Equity Fixed Weights (60:40) Fund
- BlackRock 70/30 Global Growth Fund
- Schroders Flexible Retirement Fund

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	L&G Global Equity Fixed Weights (60:40) Fund	BlackRock 70/30 Global Growth Fund	Schroders Flexible Retirement Fund
No. of resolutions eligible to vote	44,680	3,111	Not available
% resolutions voted	100.0%	95.3%	Not available
Of the resolutions voted, the % voted for management	83.6%	94.2%	Not available
Of the resolutions voted, the % against management	16.3%	5.8%	Not available
Of the resolutions voted, the % abstained	0.2%	2.1%	Not available

Please Note: We have been unable to show voting information for the Schroders Flexible Retirement Fund as, despite requesting the information from Schroders, this information is still outstanding.

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The Trustees also consider how the fund managers voted on specific issues. The Trustees consider 'significant votes' to be either companies with relatively large weightings in the funds members invest in, or where there were shareholder issues that members are expected to have an interest in.

The most significant shareholder votes and how the fund managers voted during the last year were:

Date	Associated Fund	Company	Subject	Manager's vote
7 May 2020	L&G Global Equity Fixed Weights (60:40)	Barclays	Approve Barclays' Commitment in Tackling Climate Change and proposals by ShareAction.	The manager voted for the proposals, after significant engagements in this area. The outcome of the vote was successful.
19 May 2020	BlackRock 70/30 Global Growth Fund	Royal Dutch Shell	Request Shell to set and publish targets for greenhouse gas (GHG) emissions.	The manager voted against the resolution as they believe Shell to already have suitable targets towards achieving net zero by 2050.
27 May 2020	L&G Global Equity Fixed Weights (60:40)	Amazon	<p>Shareholder proposals 5 to 16</p> <p>Proposal 5 - Report on Management of Food Waste</p> <p>Proposal 6 - Report on Customers' Use of its Surveillance and Computer Vision Products or Cloud-Based Services.</p> <p>Proposal 7 - Report on Potential Human Rights Impacts of Customers' Use of Rekognition (Amazon's software service which provides fast and accurate face search for individuals in photos and videos) regarding threats to privacy/civil rights, use by authoritarian governments, good will and financial risks.</p> <p>Proposal 8 - Report on Products Promoting Hate Speech and Sales of Offensive Products.</p> <p>Proposal 9 - Require Independent Board Chairman.</p> <p>Proposal 10 - Report on Global Median Gender/Racial Pay Gap.</p>	<p>Of the 12 shareholder proposals, the Manager voted to support 10.</p> <p>The Manager looked into the individual merits of each proposal, and identified two main areas which drove their decision-making:</p> <p>Disclosure to encourage a better understanding of process and performance of material issues (resolutions 5, 6, 7, 8, 10, 13, 15 and 16) and</p> <p>Governance structures that benefit long-term shareholders (resolutions 9 and 14).</p> <p>The Manager voted against proposals 11 and 12.</p>

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			<p>Proposal 11 - Report on Reducing Environmental and Health Harms to Communities of Colour.</p> <p>Proposal 12 - Report on Viewpoint Discrimination evaluating the range of risks and costs associated with discriminating against different social, political, and religious viewpoints.</p> <p>Proposal 13 - Report on Promotion Velocity which assesses the time it takes from the date of hire to promotion, or between one promotion and the next.</p> <p>Proposal 14 - Reduce Ownership Threshold for Shareholders to Call Special Meeting</p> <p>Proposal 15 - Human Rights Risk Assessment</p> <p>Proposal 16 - Report on Lobbying Payments and Policy</p>	
27 May 2020	BlackRock 70/30 Global Growth Fund	Facebook, Inc	Shareholder proposal to approve recapitalisation plan for all stock to have one vote per share.	The manager voted in favour of this resolution as they generally support one share one vote capital structures.

Source: Legal and General, BlackRock

Please Note: We have been unable to show voting information for the Schroders Flexible Retirement Fund as, despite requesting the information from Schroders, this information is still outstanding.

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How do fund managers implement their votes?

The managers often make use of proxy voting to inform their decision making. The managers use the following organisations as proxies for their voting activity:

Manager	Comment on approach
BlackRock	BlackRock uses ISS for vote instruction and they also use proxy research firms for custom recommendations.
LGIM	LGIM uses ISS to place its electronic votes through ISS ProxyExchange. LGIM have a custom voting policy in place to ensure their provider votes in accordance with their position on ESG.
Schroders	Schroders utilise company engagement, internal research, investor views, governance expertise and external research (from ISS and IVIS) when considering voting decisions. Schroders make use of a third-party proxy voting service.

The Trustees acknowledge that there is no process in place currently to obtain this information relating to the engagement activities of their fund managers in the non-equity space. However, given the intended wind-up of the Scheme in the short term, only where practicable, monitoring and review of the above engagement activity will be monitored by the Trustees' investment advisers.

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.

6. Ethical Investing and non-financial considerations

The Trustees recognise that most members will not have strong views on where their pension savings should be invested however they 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 have not changed during the Scheme year.

7. Main actions for next year

In the next Scheme year (year ending 5 April 2022), which will be covered by next year's Implementation Statement, it is expected that the Scheme will be wound up.

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DB SECTION

Investment governance for the 2020/21 Scheme year

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
Investment Objectives & Strategy	<ul style="list-style-type: none"> There were no changes to the Scheme's investment arrangements during the Scheme year.
Remuneration	<ul style="list-style-type: none"> As there are no funds under management, the Trustees have no influence over remuneration for the investment strategy.
Risks	<ul style="list-style-type: none"> The Trustees are satisfied that the risks have not changed over the year. Counterparty risk associated with Aviva continues to be low.
Realisation of investments	<ul style="list-style-type: none"> The Bulk Annuity policy cannot be realised.
Compliance with Myners Principles	<ul style="list-style-type: none"> The Trustees continue to believe they comply with the spirit of the Myners' Principles.
Responsible investment: Financially material considerations and Stewardship	<ul style="list-style-type: none"> See Section 1 below The Trustees have not required to make further investment decisions during the Scheme year and therefore have not needed to consider financially material considerations.
Arrangement with asset managers	<ul style="list-style-type: none"> The Trustees do not have any influence over Aviva's investment strategy and so do not monitor Aviva's investment activities.
Employer-Related Investments	<ul style="list-style-type: none"> No employer-related investments are held
Review of this Statement	<ul style="list-style-type: none"> The DB SIP was reviewed during the Scheme year.

1. Stewardship policy and Voting activity

The Trustees' Stewardship (voting and engagement) Policy sets out the Trustees' view of stewardship in relation to the exercise of voting rights and engagement with investment managers and other stakeholders.

Given the nature of the assets held, all stewardship and governance matters are undertaken by Aviva within the management of the asset backing the bulk annuity policy. These actions are outside the Trustees' control and influence and, other than through their monitoring of the buy-in policy, the Trustees do not engage with any persons with whom Aviva invests. In a similar vein, the Trustees do not engage with Aviva about its investment arrangements and do not monitor Aviva's exercising of any voting rights.

2. Engagement activity

The Trustees do not actively monitor any engagement undertaken by Aviva given the nature of the asset held.