Sony Music UK Pension Plan

Annual Statement Regarding Governance

The Trustees of the Sony Music UK Pension Plan (the 'Plan') present their annual Chair's Statement on governance (the 'Statement') as required under legislation set out in regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the 'Administration Regulations'), as amended by the Occupational Pension Plans (Charges and Governance) Regulations 2015. The Statement covers the period 1 April 2018 to 31 March 2019 (the 'Scheme Year').

The Plan is divided into two parts:

(i) The Core Plan - this section provides benefits on a Defined Benefit ('DB') basis. Additional benefits are also provided on a money purchase basis through the VIP Plan with members' additional voluntary contributions ('AVCs') previously matched by the Employers up to a specified limit. This section of the Plan is closed to new entrants and was closed to future accrual from 31 March 2016; and

(ii) The Entertainment Plan - this section of the Plan provides benefits solely on a Defined Contribution ('DC') basis (the 'DC Section'). Members' contributions were matched by the Employers on a two for one basis up to a specified limit. This section of the Plan is closed to new entrants and was closed to future contributions from 31 March 2016, when most of this section transferred out of the Plan. A small number of members remain because their benefits include some guarantees which prevented them from transferring.

This statement focuses on the Plan's money purchase arrangements and describes how the Trustees have governed the Plan during the year and, in particular, the steps they have taken during the year to improve the likelihood of members experiencing a good outcome for retirement.

The statement covers four principal areas:

1. Investment with particular focus on the Plan's default investment arrangements.
2. Internal controls, with particular focus on the processing of core financial transactions.
3. Value for members, with particular focus on charges and transaction costs deducted from members' funds.
4. The knowledge and resources available to the Trustees, including how the Trustees maintained the statutory levels of knowledge and understanding to govern the Plan and how these help the Trustees ensure that the Plan is governed effectively.

The Default Investment Options

The Trustees are responsible for setting the Plan's investment strategy and for appointing investment managers to carry out that strategy.

They must also establish a default investment option for members who do not select their own investment options from the fund range that is available where a scheme has been used for Automatic Enrolment purposes.

In accordance with the Administration Regulations, the Trustees have appended the latest copy (September 2019) of the Statement of Investment Principles ('SIP'), which was prepared for the Plan under Section 35 of the Pensions Act 1995 (the '1995 Act') and regulations 2 and 2A of the Occupational Pension Schemes (Investment) Regulations 2005 (the 'Investment Regulations'). The SIP includes a statement of principles in relation to the Plan's default investment arrangements. As no further contributions are being paid into the AVC or DC arrangements, the term "default" (which usually refers to where future contributions are invested in the absence of member specific instructions) is historical in this context. However, the default arrangements remain important given the level of investments remaining within them.

The SIP considers the following key matters in relation to the default arrangements:

- The Trustees' aims and objectives in relation to the investments held in the default arrangements;
- The Trustees' policies on issues such as: the kinds of investments to be held; the balance between expected return and risk; and the extent (if at all) to which social, environmental or ethical considerations are taken into account by the investment managers when selecting, retaining or realising the underlying investments;
- An explanation of how these aims, objectives and policies (which together form the Trustees' "default strategy") are intended to ensure that assets are invested in the best interests of members whose benefits are invested in the default arrangements.

The Trustees, with input from their investment advisers, Mercer Limited, review the default strategies and the performance of the default arrangements against their stated objectives from time to time, or in the event of any concerns and in detail at least every three years. The most recent review of the default arrangements and the Plan's DC / AVC investment options with Prudential and Zurich was carried out in February 2017, no further review was carried out in the current Scheme Year.

The default for the VIP Plan and members' DB AVCs

The default investment option is the Prudential With-Profits Fund. Whilst this is not a typical default investment option for newly established arrangements, the guarantees it provides offer a level of security for members' investments, which is not otherwise available, and it has performed well relative to other With-Profits Funds. The suitability of this investment is directly related to an individual's attitude towards, and capacity for, investment risk. In particular, some members are currently entitled to large bonuses, which are not guaranteed and could be withdrawn at short notice. This was brought to members' attention in a communication to members from the Trustees in late 2017.

The DC Section's default investment

The default investment option invests in Lifestyle Option B, a bespoke lifestyle investment strategy provided by the Scottish Widows platform, which invests initially in global equities and a diversified growth fund (split 70:30 respectively). Both global equities and diversified growth funds offer high potential growth. Diversified growth funds provide exposure to a wide variety of assets and investment strategies, and this diversification is expected to result in a lower volatility of returns than equities.

Over the ten years prior to a member's nominated retirement age, the member's savings are automatically switched to target a tax-free cash lump sum (25% of a member's pot) and a retirement income (75% of a member's pot). This aims to reduce the member's exposure to risk relative to this target outcome as they approach retirement. The performance of the funds underlying Lifestyle Option B, and the other available funds, has been in line with or ahead of their objectives over the long term. The investment return on assets within a lifestyle strategy will vary between members, depending on the term to their nominated retirement age.

The Trustees are committed to keeping all investment options under regular review to ensure they remain appropriate, based on their understanding of the likely requirements of the membership. The next full review of the investment arrangements, including the review of the default strategy and performance of the default arrangements, is due by February 2020.

The Trustees recognise that the default will not be appropriate for all members and therefore encourage members to consider carefully their own investment strategy from the choice of funds available.

Requirements for processing financial transactions

As required by the Administration Regulations, the Trustees must ensure that core financial transactions are processed promptly and accurately. Core financial transactions are (broadly, but not limited to):

- Transfers out of the Plan of assets relating to members (transfers in are no longer possible);
- Switches of members' investments between different funds within the Plan; and
- Payments from the Plan to, or in respect of, members (e.g. payment of death benefits).

The Trustees have delegated the administration of the Plan to Buck. The Trustees have agreed minimum timescales with Buck for processing requests, including core financial transactions, to be within any applicable statutory timescales. The following Service Level Agreements (SLAs) in respect of the accuracy and timeliness of core financial transactions have been agreed between the Trustees and Buck:

SLA	Description	Target Service Level %
5 working days	DC Related Processing	90%
10 working days	Transfers Out	90%

Buck records all member transactions and benefit processing activities in a work management system, which assigns the relevant timescale to the task. This system is used to monitor compliance with regulatory and service level targets.

From 1 April 2018 to 31 March 2019, an overall service level of 98.86% was achieved by Buck.

The processes adopted by Buck to process transactions accurately and in a timely fashion include:

- On at least a monthly basis a team leader or senior administrator monitors the work flow system for cases close to regulatory and SLA due dates, underperformance is also reviewed and escalated as appropriate.
- The workflow system has a diary functionality ensuring that transactions can be diarised for a future date (such as arranging payment at retirement or a transfer at a specific point) resulting in an entry into the workflow system at the appropriate date to enable the transaction to be processed in a timely manner.
- Any changes to member records result in a printed audit trail which is peer reviewed by another administrator to ensure accuracy before the change is validated and authorised.
- Payments to members or third parties are input into an electronic authorising queue with the supporting evidence appended, this is then peer reviewed and authorised by another administrator. The treasury team then independently verifies the request and electronic evidence provided before releasing the money, depending on the value of the payment a further level of authorisation may be required before it can be released.
- Contributions received are reconciled by the administrator against information provided by the Employer and reviewed and authorised by a Senior Administrator once any discrepancies have been resolved.
- There is a separate treasury team which deals with the Trustees' bank account, which is monitored daily for any receipts and any discrepancies are reconciled. This is then flagged with the administration team for the appropriate evidence of the payment.

The Trustees and Buck are currently negotiating a new administration services agreement, which may include revisions to the SLAs identified in this Statement. It is expected that the new agreement will be entered into during the 2019/20 Scheme Year.

During the Scheme Year, the following arrangements have been made to ensure that core financial transactions are processed promptly and accurately:

- The SLAs are reviewed periodically by the Trustees to monitor Buck's compliance with such standards and to ensure they remain appropriate and meet legislative requirements.

- The Trustees receive detailed quarterly administration reports produced by Buck, which are reviewed by the Trustees at each of their quarterly meetings and enable the Trustees to monitor that the requirements for the processing of financial transactions are being met.

The Trustees also monitor the accuracy of the Plan's common and conditional data. A summary report is received from the Plan administrator periodically.

The Plan's risk register details all of the key risks to Plan members and is monitored and reviewed on at least an annual basis. The risk register sets out controls to mitigate the effects of these risks.

- A sample of core financial transactions is reviewed by the Plan auditor as part of the auditing process of the annual report and accounts. Included in this sample would be any unusual or high value cases.
- As a wider review of the Plan administration in general, the Trustees also receive an assurance report on the administrator's internal controls. The latest report received was for the period from 1 May 2017 to 30 April 2018 (published on 17 May 2019) and noted the Independent Service Auditor's opinion that, in all material aspects, its controls were suitably designed and those tested operated effectively.

There were no material issues identified by the Trustees in respect of Buck's compliance with its SLAs during the Scheme Year and the Trustees are confident that the administrator processed the core financial transactions promptly and accurately during the period.

Charges and transactions costs

The Administration Regulations require the Trustees to report on the charges and transactions costs for the investments used in the default investment option, as well as the wider fund options available, and assess the extent to which the charges and costs represent good value for members. All of the available funds' charges (with the exception of those applying to the Prudential With-Profits Fund) are significantly under the government's imposed charge cap of 0.75% p.a. for default arrangements for schemes which are being used for auto-enrolment purposes.

Explicit charges known as the Total Expense Ratio (TER) consist principally of the manager's annual charge for managing and operating a fund, but also include the costs for other services paid for by the fund, such as the legal costs, registration fees and custodian fees. However, they exclude other costs that are also member borne and which can therefore have a negative effect on investment performance, such as transaction costs and interest on borrowings.

Transaction costs are the expenses associated with a member trading in and out of a fund as well as the investment manager trading a fund's underlying securities, including commissions and stamp duty. Due to the way in which transaction costs are calculated, they can be negative or positive in nature; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity.

The Trustees have been able to report on all charges and transactions for the period. Whilst the TER and transaction costs are member borne, all other costs related to the running of the Plan, including administration, advisory and member communication costs, are paid by the Principal Employer.

The DC Section

The charges and costs borne by members relating to the investment management of the funds available through the DC Section of the Plan, that members were invested in over the Scheme Year, are shown in the table below, as at 31 March 2019.

Please note that the charges on the default strategy, Lifestyle Option B, shown in the table below are based on the 'growth' phase of the strategies (i.e. 10 years or more before a member's nominated retirement age). In practice, the charges will vary depending on the stage that each member has reached in the default /

lifestyle strategy's de-risking process.

Fund	AMC [b] (% p.a.)	AE [c] (% p.a.)	TER [d] (% p.a.)	Transaction Costs [e] (% p.a.)
Lifestyle Option B [a]	0.373	0.051	0.424	0.150
LGIM Global Equities 30:70 Index Fund	0.245	0.00[f]	0.245	0.054
Baillie Gifford Diversified Growth Fund	0.670	0.170	0.840	0.377
BlackRock All Stocks Corporate Bond Index Fund	0.130	0.016	0.146	-0.024
BlackRock Over 15 Years Fixed Interest Gilts Index Fund	0.130	0.004	0.134	-0.031

[a] Lifestyle Option B is the 'default' investment option
[b] AMC = Annual Management Charge
[c] AE = Additional expenses
[d] TER (Total Expense Ratio) = Annual Management Charge (AMC) + Additional Expenses (AE)
[e] These figures reflect the average transaction costs borne by the funds over the Scheme Year. The actual transaction costs borne by members may be different to this and will vary over time.
[f] Scottish Widows (formerly Zurich Assurance Limited) reported that there were no additional expenses during the Scheme Year.

Source: The figures shown above have been sourced from the platform provider (Scottish Widows (formerly Zurich Assurance Limited)) and the investment managers (BlackRock, Legal & General Investment Management ('LGIM') and Baillie Gifford) and are reported as at 31 March 2019.

The VIP Plan and members' DB AVCs

The VIP Plan and DB AVC investment options provide access to a range of unit linked funds and a With-Profits Fund. The charges are deducted from members' funds and cover the cost of the administration services provided by Prudential, as well as the costs relating to investment management.

Current Fund Range	TER [a] (% p.a.)	Transaction Costs [b] (% p.a.)
Prudential With-Profits Fund	N/A [c]	0.50
Prudential Discretionary Fund	0.65	-0.07
Prudential UK Equity Fund	0.65	-0.04
BlackRock Aquila (30:70) Currency Hedged Global Equity Index Fund	0.70	0.06
BlackRock Aquila All Stocks Corporate Bond Index Fund	0.65	-0.02
BlackRock Aquila Sterling Government Liquidity Fund	0.65	0.02
Prudential Cash Fund	0.65	0.00
Prudential Deposit Fund	N/A [d]	0.50

[a] The Total Expense Ratios (TERs) is made up of the Annual Management Charge (AMC) and additional expenses (AE).
[b] These figures reflect the average transaction costs borne by the funds over the last 5 years, or from when data is available to 31 March 2019. The actual transaction costs borne by members may be different to this and will vary over time.
[c] The Prudential With-Profits Fund is the 'default' investment option. The fund does not have an explicit annual management charge.
[d] The Prudential Deposit Fund is closed to members other than those already invested in it. The fund does not have an explicit annual management charge.

Illustration of the effect of transaction costs and charges on members' benefits

Using the charges and transaction cost data provided by Scottish Widows (formerly Zurich Assurance Limited) and Prudential and in accordance with regulation 23(1)(ca) of the Administration Regulations, Mercer and Prudential have assisted the Trustees with preparing an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings pot. The statutory guidance: *"Reporting of costs, charges and other information guidance for trustees and managers of relevant occupational schemes"* issued by the Department of Work and Pensions and dated September 2018 has been followed when providing these examples.

The below illustrations, prepared by Mercer and Prudential have taken into account the following elements:

- A representative savings pot size;
- An assumed investment return, reduced for the impact of inflation, before and after the impact of costs and charges;
- Time.

These illustrations do not take contributions into account given that the Plan closed to future accrual/new contributions on 31 March 2016.

The DC Section

The term of investment has been based on the youngest member of the Plan. Where there is an underlying guarantee on transfer or retirement, this has not been taken into account in these illustrations.

Impact of transaction costs and charges on fund values (£)								
Years	Lifestyle Option B Default Arrangement		Baillie Gifford Diversified Growth Fund		LGIM Global Equities 30:70 Index Fund		BlackRock Over 15 Years Fixed Interest Gilts Index Fund	
	Before charges £	After all charges £	Before charges £	After all charges £	Before charges £	After all charges £	Before charges £	After all charges £
0	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
1	30,902	30,724	30,866	30,492	30,917	30,824	29,700	29,660
2	31,830	31,466	31,758	30,991	31,861	31,671	29,403	29,324
3	32,787	32,226	32,675	31,499	32,835	32,541	29,109	28,992
4	33,772	33,004	33,618	32,016	33,838	33,436	28,818	28,664
5	34,787	33,801	34,589	32,540	34,872	34,354	28,530	28,339
6	35,833	34,617	35,588	33,074	35,938	35,298	28,244	28,018
7	36,910	35,452	36,616	33,616	37,036	36,268	27,962	27,701
8	37,912	36,195	37,673	34,167	38,168	37,265	27,682	27,387
9	38,939	36,934	38,761	34,727	39,334	38,288	27,406	27,077
10	39,884	37,590	39,881	35,296	40,536	39,341	27,131	26,770
11	40,638	38,084	41,033	35,874	41,774	40,421	26,860	26,467
12	41,323	38,511	42,217	36,462	43,051	41,532	26,592	26,167
13	41,911	38,845	43,437	37,060	44,366	42,673	26,326	25,871
14	42,396	39,082	44,691	37,667	45,722	43,846	26,062	25,578
15	42,691	39,167	45,982	38,285	47,119	45,051	25,802	25,288
16	42,713	39,062	47,310	38,912	48,559	46,288	25,544	25,002
17	42,286	38,613	48,676	39,550	50,043	47,560	25,288	24,718

Notes:
To ensure that these calculations are representative of the membership, the Trustees have made some assumptions in the producing these illustrations:

1. Values shown are estimated projections and are ***not*** guarantees or predictions.

2. The illustration starts at age 48 (the age of the youngest member) and continues for a period of 17 years until age 65 (normal retirement age);

3. As the Plan is closed to future accrual no future contributions are assumed;

4. The starting pot size is assumed to be £30,000;

5. The projected pot is in real terms (i.e. today's money). This means that the projected fund size has been reduced to reflect future inflation, which has been assumed to be 2.5% each year;

6. The projected growth rates before charges and costs are as follows:

- Lifestyle Option B (default arrangement): 2.75% per year above inflation, after charges.
- Baillie Gifford Diversified Growth Fund: 1.64% per year above inflation, after charges
- LGIM Global Equities 30:70 Index Fund: 2.75% per year above inflation, after charges
- BlackRock Over 15 Years Fixed Interest Gilts Index Fund (: -1.13% above inflation, after charges.

The VIP Plan and members' DB AVCs

Impact of transaction costs and charges on fund values (£)								
Years	Prudential With-Profits Fund (default fund)		Prudential Discretionary Fund		Prudential BlackRock Aquila (30:70) Currency Hedged Global Equity Index Fund		Prudential Cash Fund	
	Before charges £	After all charges £	Before charges £	After all charges £	Before charges £	After all charges £	Before charges £	After all charges £
1	2,060	2,040	2,060	2,040	2,070	2,060	1,990	1,980
5	2,360	2,220	2,330	2,250	2,420	2,330	1,970	1,900
10	2,790	2,480	2,730	2,530	2,930	2,730	1,950	1,810
20	3,910	3,080	3,730	3,210	4,300	3,730	1,900	1,630
30	5,470	3,830	5,100	4,070	6,300	5,110	1,850	1,480
40	7,660	4,750	6,970	5,160	9,240	6,980	1,810	1,340
42	8,190	4,870	7,410	5,410	9,980	7,440	1,800	1,310

Notes:

1. Values shown are estimated projections and are ***not*** guarantees or predictions.
2. The projected pot is in real terms (i.e. today's money). This means that the projected fund size has been reduced to reflect future inflation, which has been assumed to be 2.5% each year;
3. Prudential have used the following assumptions:

- A starting pot size of £2,000.
- No regular contributions.
- The term of the investment is from age 23 to age 65.
- Inflation rate of 2.5% per year.

4. For the With-Profits Fund, the actual percentage charged depends on the performance of the With-

Profits Fund and may vary over time. These charges cover the costs of any expenses, any profits, implicit costs and other adjustments. For the purposes of these illustrations, these future charges are assumed to be 1.24% p.a.

5. The projected growth rates before charges and costs are as follows:

- Prudential With-Profits Fund: 3.50% per year above inflation,
- Prudential Discretionary Fund: 3.25% per year above inflation,
- Prudential BlackRock Aquila (30/70) Currency Hedged Global Equity Fund: 4% above inflation,
- Prudential Cash Fund: -0.25% above inflation

Value for Members

In accordance with regulation 25(1)(b) of the Administration Regulations, the Trustees are required to undertake a review of the charges and transaction costs incurred by members in order to ascertain whether or not they represent good value for members, relative to peers and alternative arrangements that are available.

The Trustees fully support transparency of charges and costs for members. However, a key consideration for members is the performance produced net of combined charges and costs. Moreover, a cheaper fund does not necessarily deliver the best value for money.

There is no legal definition of "good value", so the process of determining good value is a subjective one. Equally, "value" is not a straightforward concept to quantify and can be open to broad interpretation. The value for money assessment previously undertaken by the Trustees included:

- Investment charges for the default and other funds, when benchmarked against comparable funds;
- Investment performance; and
- Investment fund range and ratings.

Each investment manager will incur transaction costs associated with purchasing and selling individual securities (such as equities or bonds). Currently, reporting is somewhat fragmented and analysis of transaction costs is not possible as the data does not allow like-for-like comparison. The Trustees, with assistance from their advisers, will look to comment on transaction costs compared to the wider industry once this data becomes uniformly available.

The Trustees last formally assessed the charges and range of services provided by Prudential in 2017, and based on the views of the Trustees' investment adviser, are satisfied that these are competitive within the AVC market and reasonably so within the DC market given the range of investments in use.

As all administrative costs for the DC Section are met by the Principal Employer, the Trustees have only considered the investment charges for these funds. The Trustees have considered the quality of the investment services provided for these costs and based on the views of the Trustees' investment adviser have concluded that these costs are low and provide value for members. Alternative ways of meeting the service requirements of the DC Section are currently unavailable.

In addition, through their membership in the Plan, members get the benefit of (amongst other things):

- The Trustees' ongoing oversight and review of the default investment option and the DC fund range;
- The Trustees' governance of the Plan;
- Administration costs met by the Principal Employer.

Based on the advice of their investment advisers, the Trustees remain satisfied that the fees payable were reasonable and that the fund range was appropriate. No details have changed since the Trustees' prior Value for Money review and therefore the Trustees continue to believe that both arrangements still provide value for money for members and are committed to ensuring that members receive value for money i.e. the costs and charges deducted from members' pots provide good value in relation to the benefits and services provided compared to plans of a similar size and structure.

Trustee knowledge and understanding

Section 247 of the Pensions Act 2004, (requirement for knowledge and understanding: individual trustees) requires the Trustees to maintain an appropriate level of knowledge and understanding which, together with the professional advice available to them, enables them to properly exercise their functions and duties in relation to the Plan. This requirement has been met during the course of the Scheme Year as set out in more detail below.

Each Trustee has a copy of, or access to, the Plan's governing documentation, any relevant Plan policies, and the Plan's Statement of Investment Principles. The Trustees are required to be familiar with these documents in order ensure that they have a sufficient working knowledge of their application to the Plan. If there are any ambiguities over the interpretation of the Plan's Rules, legal advice is sought from the Plan's legal advisers.

Training on the relevant documents is provided to the Trustees by their professional advisers as and when needed. The Trustees demonstrated their conversance with these documents over the Plan year as follows:

- Considered and updated the Statement of Investment Principles to reflect changes in the Trustees' objectives and the investment arrangements including receiving advice from Mercer in respect of the amendments;
- Reviewed and updated the Trustees' Data Protection Policy and Personal Data Breach Management Policy including receiving legal advice in respect of these documents.

In addition, the Trustees undertook a number of activities that involved giving detailed consideration to pensions and trust law, the Plan's governing documentation as well as funding and investment principles. For example, the Trustees have this year carried out a review of the Plan's retirement communications including preparing a Glossary for inclusion in these packs, in order to ensure clear communications and a positive member experience. Amongst other things, this review has allowed the Trustees to exercise their knowledge and understanding and to further strengthen their capabilities.

All Trustees are in the process of completing the Pension Regulator's Trustee Toolkit, which provides the Trustees with sufficient knowledge and understanding of the law relating to pension and trusts, and the principles relating to the funding and investment of occupational pension schemes.

Whilst there have not been any new trustees appointed during the year, the Trustees are expected to have a robust training programme in place for newly appointed Trustees. For the Plan, upon appointment, a Trustee is required to undertake an induction process. This includes a training session with relevant advisers, as well as undertaking the Pension Regulator's Trustee Toolkit.

The Trustees have arrangements in place for ensuring that they take responsibility for keeping up-to-date with relevant industry developments and consider their training requirements. The Plan's professional advisers provide regular updates on any new requirements in respect of the Trustees' duties following changes in pensions legislation, and the relevant principles and developments relating to the funding and investment of occupational pension schemes, and provide training on these issues as required. The Plan's professional advisers also support the Trustees in reviewing the performance of the Plan and in running the Plan in accordance with its governing documentation.

During the Scheme Year, the Trustees have undertaken ongoing training, both as a group and individually to keep abreast of relevant developments. The training sessions that the Trustees have undertaken in the Scheme Year include:

- General Data Protection Regulation;
- Cyber Security;
- Outcome of the Competition Market Authority review.

The Trustees receive regular training and updates from their advisers at quarterly meetings covering any technical and regulatory changes in provisions (including defined contribution benefits). Trustees are able to request any areas of further training they think they would benefit from.

The Trustees are looking at introducing a self-assessment process during the next Scheme Year in order to evaluate the effectiveness of the Trustee board as a whole, including the knowledge and understanding of the Trustees. This will also assist the Trustees in being able to identify and address any knowledge gaps which the Secretary to the Trustees will ensure are addressed in future Trustees' training sessions.

The Secretary to the Trustees is responsible for maintaining a log of the training that the Trustees have undertaken. The Trustees are individually responsible for ensuring they review their training log and ensure it is up-to-date. Trustees are responsible both on an individual and on a group basis for identifying any gaps in their knowledge and understanding and notifying the Plan's professional advisers of any additional areas of training that they require.

The Chair of Trustees is also an experienced pension scheme trustee and has expertise in investment, and therefore also chairs any separate investment meetings. The Chair is conversant with the Plan's governing documentation and policies, and is also able to highlight where any additional training may be required by the Trustees. His breadth of industry experience, which includes being a founding director and former council member of the Association of Professional Trustees, being a member of the Board of the CFA Society for almost 20 years and being the Chairman of their Examination and Education Committee for 13 years, allows him to challenge advisers when appropriate.

The Trustees are satisfied that during the last Scheme Year they have taken effective steps to maintain and develop their knowledge and understanding and ensure they receive suitable advice.

The Trustees are therefore satisfied that their combined knowledge and understanding, together with the support and advice available to them from their professional advisers, enables them to properly exercise their functions and duties as the Trustees of the Plan.

Chair's declaration

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended) and I confirm that the above statement has been produced by the Trustees to the best of our knowledge.

Signature: ____________________

Name: ROBERT MATTHEWS

Position: Chair of Trustees of the Sony Music UK Pension Plan

Date: 30TH SEPTEMBER 2019

Appendix

Statement of Investment Principles as at 17 September 2019.

STATEMENT OF INVESTMENT PRINCIPLES – SEPTEMBER 2019
SONY MUSIC UK PENSION PLAN

1. Introduction

The Trustees of the Sony Music UK Pension Plan ("the Plan") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of:

- the Pensions Act 1995 ("the Act"), as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and
- subsequent regulation.

The Plan's investment arrangements, based on the principles set out in this Statement, are detailed in the "Summary of Investment Arrangements" which is available to members of the Plan on request.

The Plan is divided into two main parts: **(I) The Defined Benefit ("DB") Section** (previously known as the Sony Music (UK) Pension Plan) which has a defined benefit arrangement, and a defined contribution arrangement known as **the VIP Plan** in which members' Additional Voluntary Contributions ("AVCs") are also invested; and **(ii) The Defined Contribution ("DC") Section** (previously known as the Sony Entertainment UK Pension Plan) in which members' AVC assets are also invested. All decisions on investment policy are taken on advice by the Trustees, other than the day-to-day management of the Plan's assets, which is delegated to professional investment managers.

2. Process For Choosing Investments

The process for choosing investments is as follows:

a. Identify appropriate investment objectives.

b. Agree the level of risk consistent with meeting the objectives set.

c. Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the agreed level of risk.

In considering the appropriate investments for the Plan, the Trustees have obtained and considered the written advice of Mercer Ltd, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustees' objective is to invest the Plan's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control the various risks to which the Plan is exposed. The Trustees' primary investment objectives for the Plan are as follows:

3.1.1 The DB Section

The Trustees recognise that their primary duty is to the members and that the investment strategy should be set in their interests. The DB Section of the Plan is fully funded on a Technical Provisions basis. The Trustees believe that the Company can be relied upon to support the DB Section in the future, if required, but that members' interests would nonetheless be best served by maintaining, and potentially further improving, the fully funded position of the DB Section, and by exploring opportunities to further reduce risk, for example via a bulk annuity.

3.1.2 The VIP Plan

The Trustees' primary objective with regard to the VIP Plan is to provide a range of cost-effective investment options so that members' and company contributions can be invested to provide a balance between growth in capital values and security of capital value.

In 2017, the Trustees reviewed the investment options offered by the VIP Plan, given the additional freedom and choice that members now have in terms of accessing their pension savings at retirement. The Trustees subsequently improved the options available to members as follows:

(a) A new "cash lifestyle strategy" investment option was introduced, for members looking to take their benefits in the VIP Plan as a tax-free cash lump sum when they retire.
(b) Some of the existing funds were closed and replacement fund options were offered to members in their place.
(c) A new fund which invests in corporate bonds was introduced.

3.1.3 Additional Voluntary Contributions (DB Section)

The AVCs are invested in the same way as the VIP Plan, and members also have access to the improved investment options.

3.2 The DC Section

On 13 September 2016, the majority of the DC Section's (DC and AVC) assets were transferred out of the Plan and moved from an investment platform administered by Zurich Assurance Limited (now Scottish Widows Limited) to a new Master Trust Arrangement administered by Fidelity. As a result, responsibility for the governance of these assets was transferred from the Trustees of the Plan to the Trustee of the Fidelity Master Trust. This document does not cover the Fidelity Master Trust arrangement in place.

A small number of members remain on the Scottish Widows platform because the nature of their benefits prevented them from transferring to the Master Trust Arrangement. These members can opt to manage their investment choices by choosing to invest in one or more of the funds available through the Scottish Widows platform, each of which have differing risk and return characteristics.

The structure includes three risk-profiled "lifestyle" mechanisms, including the default investment option for individual members who do not make their own explicit strategy decision. The lifestyle strategies switch assets from growth assets (equities and diversified growth funds) to defensive assets (bonds and cash) as members approach retirement. Details of the mechanisms can be found in the separate "Summary of Investment Arrangements".

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed, which the trustees believe may be financially material.

The Trustees' policy on risk management with regards to the DB Section's assets over the Plan's anticipated lifetime is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the DB Section's assets and its liabilities.
- The Trustees recognise that whilst taking risk can increase potential returns over a long period, it also increases the risk that a deficit could arise in future as well as producing more short-term volatility in the DB Section's funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) have considered carefully the implications of adopting different levels of risk.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the DB Section's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

For the DC Section of the Plan, in considering the range of funds to offer to members, the Trustees acknowledge that the investment horizon of each individual member is different and will be dependent on their current age and when they expect to retire. In designing the lifestyle options, the Trustees have taken into account the proximity to the target retirement date and the associated financially-material risks over the strategy's full time horizon.

The following apply to both DB and DC Section assets:

- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held. The managers are prevented from investing in asset classes outside their mandate without investors' prior consent.
- Arrangements are in place to monitor the Plan's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees receive regular reports from the investment managers, platform providers and the Investment Consultant.

- The safe custody of the Plan's assets is delegated to professional custodians (via the direct appointment of a custodian and indirectly via the use of pooled vehicles).

- Should there be a material change in the Plan's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular, whether the current risk profile of the DB Section remains appropriate.

5. Investment Strategy

5.1 Investment strategy for the DB Section

Following the latest investment strategy review for the DB Section and given the Trustees' investment objectives, the Trustees have implemented the investment strategy as detailed in the separate "Summary of Investment Arrangements".

The Trustees review the investment strategy for the DB assets on a broad basis once a year, with full reviews at least once every three years.

5.2 Investment strategy for the investment options available under the VIP Plan, the DC Section, and the associated AVC arrangements

In designing the 'default' investment options and determining the range of funds to be offered, the Trustees aim to:

- Explicitly consider the trade-off between risk and expected returns; risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. The Trustees consider risk in terms of variability of investment returns and potential retirement outcomes for members and in terms of the (mis)alignment of investments with the retirement benefits targeted by the default investment option.

- Invest assets in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.

- Invest assets mainly on regulated markets (those that are not must be kept to prudent levels).

- Ensure that any investment in derivative instruments contributes to risk reduction, or efficient portfolio management.

- Provide value for money, albeit that the Plan is not used for pensions auto-enrolment purposes and so a legislative charge cap does not apply to the default investment arrangements.

The Trustees believe that as a member's pension savings grow, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that a default investment option which either limits risk or seeks to reduce investment risk as the member approaches retirement is appropriate.

The default investment option under the VIP Plan is a 'with profits' fund. This type of fund provides capital security, provided that the investment is held until the member's nominated retirement age.

The default investment option under the DC Section adopts a lifestyle approach to manage risk throughout a member's term to retirement. This is implemented using a range of pooled funds managed by the Trustees' chosen investment managers.

6. Day-to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets to a number of investment managers. As such, these investment managers have responsibility for the selection, retention and realisation of the underlying investments within the pooled funds which they manage. The investment managers also have discretion to incorporate social, environmental and ethical considerations in exercising their delegated responsibilities.

The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Plan's investments and that they are carrying out their work competently.

The Trustees regularly review the continuing suitability of the Plan's investments and the appointed managers, which may be changed from time to time. However, any such changes will be made with the aim of ensuring the overall level of risk is consistent with the Trustees' objectives, as set out in Section 3.

Details of the appointed managers can be found in a separate document produced by the Trustees entitled "Summary of Investment Arrangements", which is available to members upon request.

7. Expected Return

In relation to the DB Section, the Trustee's primary investment objective, as described in Section 3, is to maintain its fully funded status and to explore opportunities to further reduce risk, as appropriate. The level of investment return taken by the Trustees shall be proportional to these activities, noting that the DB Section is currently solely invested in UK investment grade bond funds.

8. Additional Assets

Under the terms of the trust deed, the Trustees are also responsible for the investment of assets relating to the VIP Plan, the DC Section, and additional voluntary contributions (AVCs) paid by members. The Trustees review the investment performance of the funds on a regular basis and take professional advice as to the providers' continued suitability.

9. Realisation of Investments

The investment managers have discretion in the timing of realisation of the underlying investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

10. **Responsible Investment and Corporate Governance**

The Trustees believe that environmental social and corporate governance ("ESG") issues can affect the performance of investment portfolios and should therefore be considered as part of the Plan's investment process. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given their investment managers discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to the Plan's investments. The Trustees consider how ESG is integrated within investment processes when monitoring existing investment managers or appointing new managers.

It is accepted that pooled investments will be governed by the individual policies of the investment managers. These policies are reviewed as part of the consideration of pooled investments and appointment of new managers or funds.

The Trustees believe that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Plan's beneficiaries and aligned with fiduciary duty.

The Trustees are supportive of the UK Stewardship Code published by the Financial Reporting Council in July 2010 and encourages the Plan's equity managers who are registered with the FCA to comply with the UK Stewardship Code. Such managers are expected to report on their adherence to the UK Stewardship Code on an annual basis.

The Trustees do not currently have a formal process for seeking the views of members on non-financial matters such as ethical considerations or issues such as social and environmental impact when considering the selection, retention and realisation of assets. However, they will consider views expressed by members, provided that they are consistent with the Plan's investment objectives as set out in section 3 above.

11. **Compliance with this Statement**

The Trustees monitor compliance with this Statement annually and obtain confirmation from the investment managers that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

12. **Review of this Statement**

The Trustees will review this Statement at least once a year 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 of the Sony Music UK Pension Plan.

Signed: [signature] Date: 17/9/19

Name: R.D. MATTHEWS

Signed: R. A. Myers. Date: 17/9/19

Name: R. A. MYERS