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 2019 to 31 March 2020 (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 of the Statement of Investment Principles ('SIP') dated 11 September 2020, 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 carried out their annual review of the SIP at the Trustee meeting that took place on 8 September 2020.

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 Scottish Widows was carried out in February 2020. As part of this review, the Trustees considered wider industry metrics, the member demographics in conjunction with the default strategies and performance, and whether these continued to be in line with the Trustees' objectives aligning with their overall intent to make a default investment option available, which either limits risk or seeks to reduce investment risk as the member approaches retirement.

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. As a result of the review of the default investment arrangements in February 2020, the Trustees concluded, based on investment advice, that the Plan's default funds remained appropriate. The default funds are performing as they should with regard to retirement targets and member objectives are being met for the default arrangements in both the VIP Plan and members' DB AVCs and the DC Section. 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 2023.

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

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 the attention of members in a communication to members from the Trustees in late 2017.

Technical defaults for the VIP Plan and members' DB AVCs

Following the review of the Prudential investments in 2017, the following funds were changed:

Old Funds prior to 2017 Review	Fund following 2017 review (until 25 March 2020)
Prudential International Equity Fund	Prudential BlackRock Aquila (30:70) Currency Hedged Global Equity Index Fund
Prudential Cash Fund	Prudential BlackRock Aquila Sterling Government Liquidity Fund

Subsequently, the DWP provided clarification on an amendment to the Occupational Pension Schemes (Charges and Governance) Regulations 2015 regarding the historical moving of members' investments, without their consent, which occurred on or after April 2015. This was as a result of the DWP's concerns that members may be disadvantaged as a result of being in a fund that they have not specifically chosen to join.

As a result of this clarification, both the BlackRock Aquila (30:70) Currency Hedged Global Equity Index Fund and the BlackRock Aquila Sterling Government Liquidity Fund are classed as a "Technical Defaults" and are subject to the same governance requirements as other default funds. This includes reviewing them every 3 years and detailing them in the Statement of Investment Principles. These funds were included in the 2020 review and future reviews will be similarly aligned.

Prior to the end of the Scheme Year, Prudential, without the knowledge of the Trustees, closed the BlackRock Aquila (30:70) Currency Hedged Global Equity Index Fund and the Prudential BlackRock Aquila Sterling Government Liquidity Fund with the Plan's assets from the BlackRock Aquila (30:70) Currency Hedged Global Equity Index Fund transferred into the newly introduced Prudential Dynamic Global Equity Passive Fund (from 25 March 2020). Due to a member disinvestment, no assets were held in the Prudential BlackRock Aquila Sterling Government Liquidity Fund at the date of the transfer. The Trustees are currently liaising with Prudential regarding the transfer of assets in order to obtain further details about the Prudential Dynamic Global Equity Passive Fund. However, as assets have been moved without member consent, this means that the Prudential Dynamic Global Equity Passive Fund is now considered to be a technical default.

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.

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 all 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 %
10 business days	Transfers Out	95%
10 business days	Responding to AVC enquiries, including quotations, payments and settlements	95%
5 business days	Processing AVC Switch instructions	95%
20 business days	Issue of AVC statements	95%
5 business days	Payroll processing and amendments	95%
5 business days	Portal updates including payslips, P60s regulatory updates, members comms, Booklet, SFS	95%

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 2019 to 31 March 2020, an overall service level of 90.38% was achieved by Buck. As this service level fell below the target of 95%, the Trustees have entered into discussions with Buck to address any concerns and monitor the ongoing service levels. Buck has recently introduced new senior personnel into the administration team to ensure that the level of service provided to the Trustees is up to the expected standard.

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 workflow 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.

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 SLAs were most recently amended in January 2020, following a new administration agreement being entered into between Buck and the Trustees.

- 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 core financial transactions are being met, and ensure that any potential issues are picked up and dealt with.

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 last summary report was issued in August 2019.

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 Buck's internal controls. Whilst Buck had planned to issue an Assurance Report on Internal Controls (AAF 01/06) ("**AAF**") at the end of June 2020 Buck was unable to issue this given the current environment in respect of COVID-19. Instead Buck issued a letter to the Trustees dated 2 July 2020 (for the period to that date) confirming Buck has controls in place that reflect the new technical provisions of the AAF (effective as at 1 July 2020) and has developed a solution with its auditors that will allow an effective AAF audit to be conducted remotely. This will be a 'Type 1' audit, reflecting an independent external review of Buck's documented controls on dates on or around 31 July 2020 (depending on when the specific individual controls applied for tasks conducted by Buck). Buck's auditors have the resources in place to support this remotely from 15 August 2020. Buck anticipates that the final report will be made available to the Trustees towards the end of October 2020.

Following the end of the Scheme Year the Trustees received notification from Buck of a potential issue with its reporting of SLAs during part of that period. New senior personnel have been brought into the Plan's administration team to investigate the issue and liaise with the Trustees in respect of any remedial action required. The Trustees continue to be in discussions with Buck in order to ensure that they remain confident that Buck processed the core financial transactions promptly and accurately during the period.

The Trustees have also taken steps to ensure that core financial transactions continue to be processed promptly and accurately during the Covid-19 pandemic. Buck provided the Trustees with a copy of its 'response business continuity questionnaire' and confirmed that the core financial transactions processed for the Plan during this period have not been materially affected due to the Covid-19 pandemic. Members were also issued with a communication providing an update on how the Trustees are monitoring the situation.

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 which has an implicit charge) are 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 with the exception of the Prudential Dynamic Global Equity Passive Fund for which transaction cost data will not be available due to its recent inception date in March 2020. The Trustees will continue to liaise with Prudential to seek to obtain this information as soon as it becomes available. 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 2020.

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	0.039	0.412	0.180
LGIM Global Equities 30:70 Index Fund	0.245	0.00[f]	0.245	0.024
Baillie Gifford Diversified Growth Fund	0.670	0.130	0.800	0.523
BlackRock All Stocks Corporate Bond Index Fund	0.130	0.016	0.146	-0.047
BlackRock Over 15 Years Fixed Interest Gilts Index Fund	0.130	0.004	0.134	-0.350

[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 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) and the investment managers (BlackRock, Legal & General Investment Management ('LGIM') and Baillie Gifford) and are reported as at 31 March 2020.

The VIP Plan and members' DB AVCs

The charges and costs borne by members relating to funds available with Prudential that members were invested in over the Scheme Year, are shown in the table below, as at 31 March 2020 (unless otherwise advised).

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]	0.08

Prudential Discretionary Fund	0.65	-0.05
Prudential UK Equity Fund	0.65	-0.07
BlackRock Aquila (30:70) Currency Hedged Global Equity Index Fund (to 26 February 2020)	0.70	0.08
BlackRock Aquila All Stocks Corporate Bond Index Fund	0.65	0.14
BlackRock Aquila Sterling Government Liquidity Fund (to 20 February 2020)	0.65	0.02
Prudential Deposit Fund	N/A [(d)]	0.08
Prudential Dynamic Global Equity Passive Fund (from 25 March 2020)	0.54	-

[(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 2020 (or the date of closure if earlier). 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 current '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 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	30,905	30,728	30,889	30,504	30,912	30,824	29,700	29,660

2	31,838	31,474	31,804	31,016	31,852	31,671	29,403	29,324
3	32,798	32,237	32,747	31,538	32,820	32,541	29,109	28,992
4	33,788	33,020	33,717	32,067	33,818	33,436	28,818	28,664
5	34,807	33,821	34,716	32,606	34,846	34,354	28,530	28,339
6	35,857	34,642	35,745	33,154	35,906	35,298	28,244	28,018
7	36,838	35,373	36,804	33,711	36,997	36,268	27,962	27,701
8	37,844	36,100	37,895	34,277	38,122	37,265	27,682	27,387
9	38,771	36,748	39,018	34,853	39,281	38,288	27,406	27,077
10	39,512	37,236	40,174	35,439	40,475	39,341	27,131	26,770
11	40,188	37,659	41,365	36,034	41,706	40,421	26,860	26,467
12	40,769	37,991	42,590	36,639	42,974	41,532	26,592	26,167
13	41,250	38,229	43,853	37,255	44,280	42,673	26,326	25,871
14	41,546	38,317	45,152	37,881	45,626	43,846	26,062	25,578
15	41,572	38,216	46,490	38,517	47,013	45,051	25,802	25,288
16	41,156	37,776	47,868	39,164	48,443	46,288	25,544	25,002

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 49 (the age of the youngest member) and continues for a period of 16 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 transaction costs used in the illustration are based on the average transaction costs over the two-year period to 31 March 2020 (based on the data currently available since reporting began). Where these are negative, they have been assumed to be 0% for prudence;
6. 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;
7. The projected growth rates are as follows:

- Lifestyle Option B (default arrangement): 243% per year above inflation, after charges.
- Baillie Gifford Diversified Growth Fund: 1.68% 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%relative to inflation, after charges.

The VIP Plan and members' DB AVCs

Impact of transaction costs and charges on fund values (£)				
Year	Prudential With-Profits Fund (default fund)	Prudential BlackRock Aquila All Stocks	Prudential BlackRock Aquila (30:70) Currency	Prudential Deposit Fund

			Corporate Bond Index Pension Fund		Hedged Global Equity Index Fund			
	Before charges £	After all charges £	Before charges £	After all charges £	Before charges £	After all charges £	Before charges £	After all charges £
0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
1	3,100	3,060	3,060	3,030	3,120	3,090	2,990	2,990
5	3,550	3,320	3,340	3,190	3,650	3,500	2,970	2,960
10	4,220	3,680	3,720	3,400	4,450	4,090	2,940	2,920
20	5,930	4,530	4,610	3,860	6,600	5,590	2,890	2,850
30	8,350	5,570	5,720	4,390	9,790	7,650	2,830	2,780
40	11,700	6,710	7,090	4,990	14,500	10,400	2,780	2,710

Notes:

1. Values shown are estimated projections and are ***not*** guarantees or predictions and have been calculated as at September 2019.

2. The projected pot is in real terms (i.e. today's money) and has been calculated as at September 2019. 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 £3,000.
    - No regular contributions.
    - The term of the investment is from age 25 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 1.40% p.a.

5. The projected growth rates before charges and costs are as follows:
    - Prudential With-Profits Fund: 3.56% per year above inflation,
    - Prudential BlackRock Aquila All Stocks Corporate Bond Index Pension Fund: 2.23% per year above inflation,
    - Prudential BlackRock Aquila (30/70) Currency Hedged Global Equity Fund: 4.13% above inflation,
    - Prudential Deposit Fund: -0.19% relative to 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 members assessment undertaken by the Trustees in July 2020 for the year ending 31 March 2020 for both the DC Section and the assets invested with Prudential included:

- Investment charges for the default and other funds, when benchmarked against comparable funds with similar sized mandates;
- 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). Reporting continues to be 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.

DC Section

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. The reasons underpinning this conclusion include the following:

- charges for the DC Section's default investment option are significantly below the charge cap of 0.75% a year;
- charges on the majority of funds have been assessed as comparing favourably with those of peer funds; and
- the performance of the majority of the DC Section's funds over the previous 5 years to 31 March 2020 compare favourably relative to the objectives adopted by the Trustees to assess value.

VIP and DB AVCs with Prudential

In assessing the overall charges and range of services provided by Prudential and based on the views of the Trustees' investment adviser, the Trustees have assessed these funds as providing reasonable value for members. The reasons underpinning this conclusion include the following:

- Unit linked charges are competitive within the AVC market and reasonably so within the DC legacy market given the size of assets and range of investments in use. There is little scope for the Trustees to place these elsewhere to improve outcomes for members.

- Performance of the Prudential funds over the previous 5 years to 31 March 2020 compare favourably relative to the objectives adopted by the Trustees to assess value.

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

- The Trustees' ongoing oversight and review of the default investment options 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 overall the fees payable were reasonable and that the fund range was appropriate. The Trustees continue to believe that both arrangements still provide value for money for members and are committed to ensuring that members continue to receive value for money i.e. the costs and charges deducted from members' pots provide reasonable 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 Scheme Year as follows:

- Considered and updated the Statement of Investment Principles in September 2019 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 in May 2019 including receiving legal advice in respect of these documents.
- Reviewed and considered the Plan's default arrangements in line with their stated objectives in the Statement of Investment principles.

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, as noted above the Trustees carried out a review of the Statement of Investment Principles in September 2019 and updated this document to include new statutory requirements concerning environmental, social and corporate governance issues relating to the Plan's investment process. The Trustees also recently communicated with DC members to provide an update on the implications of Covid-19, and to remind them of their investment options.

The Trustees will also be carrying out an exercise in the 2020/21 financial year, with assistance from their advisers, to review transfer communications for Plan members with AVCs.

All Trustees have completed 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 that the Trustees have been provided in the Scheme Year include:

- Pension Schemes Bill 2020 (provided by CMS, February 2020).
- Update on changes made to the Pension Regulator's DC guides (provided by CMS, November 2019).
- Requirements for changes to Statement of Investment Principles and the need to make these publicly available (provided by Mercer, 17 September 2019).
- Environment, Social and Governance considerations including those that arise from climate change (provided by Mercer, 17 September 2019).

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.

During the Scheme Year each trustee completed a trustee effectiveness questionnaire with the aim of identifying any knowledge gaps and evaluating the effectiveness of the Trustee board as a whole. The results of the questionnaires were reported back to the Trustees at their February 2020 board meeting. The feedback from this self-assessment process was positive overall, and the Trustees have planned to work together with the Secretary to the Trustees to ensure that any knowledge gaps identified 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. The Chair qualified as an Accredited Member of the Association of Professional Pension Trustees on 1 July 2020. His breadth of industry experience, which includes being a founding director and former council member of the Association of Professional Pension Trustees, being a member of the Board of the CFA Society of the UK 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: [redacted]

Name: ROBERT MATTHEWS

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

Date: 22ND SEPTEMBER 2020

Appendix

Statement of Investment Principles as at 11 September 2020.

STATEMENT OF INVESTMENT PRINCIPLES – SEPTEMBER 2020

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) **(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 and investment risk has been mitigated to a large extent through implementation of a buy-in policy covering 100% of the DB Section's liabilities.

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.

In early 2020, the provider, Prudential, closed a number of funds and opened replacement fund options. These amendments can be summarised as follows:

(a) A new fund, which invests in global equity, was introduced.

(b) Previously existing funds, which invest in sterling gilts and global equity, were closed.

(c) A fund, which invests in corporate bonds, was earmarked for closure in mid-to-late 2020.

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 formerly included three risk-profiled "lifestyle" mechanisms, however these options were closed by Prudential in early 2020 along with a number of funds. The default investment option, the Cash Lifestyle Strategy remains open for members who remain invested. This strategy switches assets from growth assets (equities and diversified growth funds) to defensive assets (bonds and cash) as members approach retirement. Details of this mechanism 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. In order to minimise this risk, the Trustees have entered into a buy-in contract with Rothesay Life covering 100% of the DB Section's liabilities.
- A small proportion of the Plan's assets are held outside of the buy-in contract ("the residual assets"). These residual assets provide a buffer against potential liabilities which may arise in the future, and the Trustees' therefore seek to preserve the capital value of these assets by investing them in a low risk manner.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. Due to the size of the DB Section's residual 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. Investment manager Appointment, Engagement and Monitoring

7.1 Aligning Manager Appointments with Investment Strategy

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.

The Trustees look to their investment consultant, where appropriate, for their forward-looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in. The consultant's manager research ratings assist with due diligence (and questioning the manager of the Defined Benefit Section directly during presentations to the Trustees) and are used in decisions around selection, retention and realisation of manager appointments.

When selecting and appointing investment managers, the Trustees will take into account how environmental social and corporate governance ("ESG"), climate change and stewardship factors are integrated within the managers' investment processes. This will be balanced against other manager selection criteria such as (but not limited to) idea generation, portfolio construction, implementation, business management and fees and charges.

If the investment objective of a particular fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

Where the Trustees invest in pooled investment vehicles within the Defined Benefit Section, they accept that they have no ability to specify the risk profile and return targets of the managers, but appropriate mandates can be selected to align with the overall investment strategy.

As the Defined Contribution Section only invests in pooled investment funds, the Trustees cannot directly influence or incentivise investment managers to align their management of the funds with the Trustees' own policies and objectives. However, the Trustees will seek to ensure that the investment objectives and guidelines of any investment fund used are consistent with their own policies and objectives. The Trustees will also seek to understand the investment manager's approach to sustainable investment (including engagement).

7.2 Evaluating Investment Manager Performance

The Trustees receive investment manager performance reports from the managers and Mercer on a quarterly basis, which present performance information over 3 month, 1 year, 3 years and since inception. The Trustees review absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and against the manager's stated performance target (over the relevant time period). The Trustees' focus is primarily on long-term performance but short-term performance is also reviewed. As noted above, the Trustees may review a manager's appointment if:

(a) There are sustained periods of underperformance;

(b) There is a change in the portfolio manager;

(c) There is a change in the underlying objectives of the investment manager;

(d) There is a significant change to the Investment Consultant's rating of the manager.

The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustees may initially ask the manager to review their fees instead of terminating the appointment.

The Trustees review the DC and AVC providers' proposition, including investment manager fees where possible, and the default strategy to assess their performance and ensure they continue to meet the Trustees' objectives.

7.3 Portfolio Turnover Costs

Within the Defined Benefit Section, the Trustees does not currently monitor portfolio turnover costs.

Within the Defined Benefit Section, the Trustees receives MiFID II reporting from their investment manager but do not analyse the information. However, the Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs.

Within the VIP Plan and the Defined Contribution Section, the Trustees review the costs incurred in managing the Plan's assets on a regular basis, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual investment manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that type of fund.

In future, the Trustees may ask managers to report on portfolio turnover costs explicitly. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus

7.4 Manager Turnover

The Trustees are long-term investors and are not looking to change the investment arrangements on a frequent basis.

Within the Defined Benefit Section, for open-ended funds, there is no set duration for the manager appointments. The Trustees will therefore retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointed has been reviewed and the Trustees have decided to terminate the mandate.

Within the Defined Contribution Section, all the funds are open-ended with no set end date for the arrangement.

The fund range and default strategy are reviewed on at least a triennial basis. A manager's appointment may be terminated if it is no longer considered to be optimal nor have a place in the default strategy or general fund range.

8. 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. 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 a buy-in contract, in a UK investment grade bond fund and a Liquidity Fund.

9. 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.

10. 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.

11. Responsible Investment and Corporate Governance

11.1 The Trustees believe that 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 will take into account the expected lifetime of the Plan when considering how to integrate these issues into the investment decision making process.

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.

The Trustees do not consider the ESG policies of the existing DC and AVC providers as these contracts are a small proportion of total assets.

12. 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.

13. 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: [redacted] Date: 11/9/20

Name: [illegible]

Signed: [redacted] Date: 11/9/20

Name: R. D. MATTHEWS