# *Statement of Investment Principles*

**For the TUI Group UK Pension Trust**

**Effective from: 14 May 2025**

# 1. Introduction

This Statement of Investment Principles ("SIP") has been produced by the Trustee of the TUI Group UK Pension Trust.

It sets out our policies on various matters governing investment decisions for the TUI Group UK Pension Trust ("the Trust"), which is a sectionalised scheme with three Defined Benefit ("DB") Sections called the:

- BAL Scheme;
- TUI UK Scheme; and
- TAPS Scheme.

Given this segregated structure, in this document the three sections are referred to as three separate schemes (the "Schemes") to best reflect how the structure operates as a matter of law.

The Trust also has Defined Contribution ("DC") Sections, and Additional Voluntary Contribution arrangements ("AVCs"); the DC and AVC arrangements are also considered in this SIP.

This SIP replaces the previous SIP dated 6 December 2023.

This SIP has been prepared after obtaining and considering written advice from LCP, our investment adviser, whom we believe to be suitably qualified and experienced to provide such advice. The advice considered the suitability of investments including the need for diversification given the circumstances of the Trust and the principles contained in this SIP.

We have consulted with the relevant employer in producing this SIP.

We will review this SIP from time to time and will amend it as appropriate. Reviews will take place without delay after any significant change in investment policy, or in the demographic profile of the members invested in the DC default investment option, and at least once every three years.

This SIP contains the information required by legislation, and also considers the Pension Regulator's guidance on investments.

# 2. Investment objectives

**DB Sections**

Our primary objective is to invest the assets of the DB Sections of the Trust prudently to ensure that the benefits promised to members are provided. The overall aim is to reach and maintain a position where sufficient assets are held to cover all liabilities plus an additional reserve for unforeseen events such as improvements in mortality, and to have a contribution rate which the Principal Employer, TUI UK Limited, can sustain.

**DC and AVC Sections**

Our objective for the DC Sections is to provide members with access to:

- an appropriate range of investment options, reflecting the relevant membership profile and the variety of ways that members can draw their benefits in retirement; and
- a default investment option that we believe to be reasonable for those members that do not wish to make their own investment decisions.

For the BAL and TUI UK Schemes, which are both closed to DC contributions, the main default investment option is the Flexible Income Lifestyle Strategy (the "Default"). Our objectives for the Default are as follows:

- Aim for significant long-term real investment growth whilst members are far away from retirement.
- Manage down volatility in fund values as members near retirement.
- Target an end point portfolio that is appropriate and consistent with members using their accumulated pot to fund their retirement via flexi-access drawdown.

The BlackRock Market Advantage Fund ("BMAF") is a diversified growth fund which invests in a broad range of assets and is considered to be an additional default arrangement for governance purposes. This is as a result of a bulk transfer of assets without member consent in June 2019.

The objective of this Fund is to provide a return which exceeds 3-month SONIA by 3.5% pa (gross of fees) over the medium to long term (three to five consecutive years).

All policies relating to the defaults are covered in this SIP, rather than in a separate SIP, so all of our investment policies are in one document.

Our objective for the AVC investment arrangements is to make available a suitable range of options to reasonably meet members' risk / return objectives.

## 3. Investment strategy

For the **DB Section:** in April 2021, we entered into two bulk annuity policies (also known as buy-ins) in respect of a portion of the BAL Scheme's pensioner liabilities and all of the TAPS Scheme's liabilities. In December 2024, we entered into an additional buy-in policy to insure the remaining BAL Scheme liabilities. These bulk annuity policies will wholly meet the cash flows due from these two Schemes to members.

For the **TUI UK Scheme**, we consider the assets as two portfolios:

- The **Growth Portfolio** which has the objective of improving the funding position of the Scheme. It comprises a portfolio of credit, illiquid (closed-ended) debt-based investments held via a common investment fund ie the "CIF", real estate and long-lease property investments.
- The **Matching Portfolio** which has the objective of providing investment performance that broadly matches the movements in the value of the Scheme's liabilities. It comprises a bespoke Liability Driven Investment ("LDI") portfolio (predominantly of fixed and index-linked gilts, gilt repurchase agreements, interest rate and inflation swaps), a pooled asset backed security fund (which sits alongside the LDI portfolio and provides a source of collateral to support the portfolio's hedging objectives) and a short dated segregated buy and maintain credit portfolio.

The allocation to the LDI Portfolio will be determined by the collateral required to support the target level of interest rate and inflation hedging. We have a leverage management process in place, monitor assets available to support the LDI portfolios and monitor the collateral sufficiency in the LDI portfolios using information received on a regular basis from the LDI manager.

We will consider additional de-risking of the TUI UK strategy as its funding level improves.

For the **BAL Scheme**, the residual strategy following the completion of the final buy-in policies is invested in illiquid closed-ended credit funds (held via the CIF) and cash.

As BAL's share of illiquid CIF assets were not readily realisable to pay the buy-in premium, the Scheme entered into a deferred premium policy to complete the buy-in transaction in December 2024. The deferred premium will be paid to the insurer over a period of up to two years following the completion of the buy-in using distributions from the illiquid CIF assets.

For the **TAPS Scheme**, the non-insured assets are held in cash as future payments from this Scheme are expected to take place in the near term.

Our policy is to target the maximum expected return level subject to ensuring the level of investment risk is appropriate to reflect the Trust's circumstances. We believe that the Schemes' strategies meet this objective.

There is no formal rebalancing policy. We monitor the asset allocation from time to time and we will consider with our advisers whether it is appropriate to rebalance the assets.

For the **DC and AVC Sections**, we have made available a range of investment funds for members. Each member is responsible for specifying one or more funds for the investment of their assets, having regard to their attitude to the risk. If a member does not choose an investment option, then their assets will be invested into the Default, which is managed as a "lifestyle" strategy (ie it automatically combines investment funds in proportions that vary according to the time to retirement age). The Default is the Flexible Income Lifestyle Strategy.

Our investment consultants last carried out a review of the DC investment arrangements in November 2022, covering the Default and self-select investment range, including BMAF the additional default. We discussed the DC investment review in our meeting of 7 December 2022, considering the objectives described in Section 2. Following this, we decided not to make any changes to the Default; the next review is due in 2025.

The Default was designed to be in the best interests of the majority of the members based on the relevant member demographics. The Default targets income drawdown at retirement, since we believe that most DC members will wish to take their benefits in this form. Therefore, the Default is initially invested in assets that have a relatively high expected return aiming for growth, and then as the member approaches retirement, gradually switches into less risky assets, with the asset allocation at retirement being designed to be appropriate for members opting for income drawdown in retirement.

We review the Default and other investment options, including the additional default (BMAF), at least every three years and as soon as practicable after any significant change in legislation, investment policy, or the demographic profile of relevant members. We review the extent to which the return on investments relating to the default arrangements (after deduction of any charges and

transaction costs relating to those investments) is consistent with respective aims and objectives. We also monitor the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

## 4. Considerations in setting the investment arrangements

When deciding how to invest the Trust's assets, it is our policy to consider a range of asset classes, taking account of the expected returns and risks associated with those asset classes, as well as our beliefs about investment markets and which factors are most likely to impact investment outcomes.

We take an integrated approach when assessing risk and reviewing the investment strategy. In particular we take account of the employer covenant, contributions, funding targets, liability profile (including interest rate and inflation sensitivities and the extent to which they are hedged) and the level of expected return and risk now and as the strategy evolves.

The primary ways that we manage investment risk is via diversification, ensuring that we receive professional written advice prior to making any material investment decision, and our ongoing monitoring and oversight of the investments. For the DB Section investment risk is measured using "Value at Risk". For the DC Section investment risk is measured as standard deviation.

The key financial assumption made in determining the DB investment arrangements is that there are certain investments that will outperform gilts over the long term.

In setting the strategy for the **DB Section** it is our policy to consider:

- our investment objectives for the Schemes, including the target return required to meet the investment objectives;
- each Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries
- the circumstances of the Schemes, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to manage investment risk and ensure that both the overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which we consider financially material over the time horizon that we consider is needed for the funding of future benefits by the investments of the Schemes; and
- our investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

In determining the investment arrangements for the **DC and AVC Sections, including default arrangements**, it is our policy to consider:

- the best interests of all members and beneficiaries;
- the profile of the membership and what this is likely to mean for the choices members might make upon reaching retirement;
- the risks, rewards, and suitability of a number of possible asset classes and lifestyle strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification within the Default and other lifestyle options to ensure that, for each such lifestyle, both the overall level of investment risk and the balance of individual asset risks are appropriate;
- the need for appropriate diversification within the other investment options offered to members;
- any other considerations which we consider financially material over the periods until members' retirement, or any other timeframe which we believe to be appropriate; and
- our investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

Regarding the default arrangements, our policy regarding investments in illiquid assets is set out below. Illiquid assets means assets that can't be easily or quickly sold or exchanged for cash, and where assets are invested in a collective investment scheme this includes any such assets held by the collective investment scheme.

The default arrangements include an allocation to a diversified growth fund ("DGF") via a pooled fund (a type of collective investment scheme), that may, at any given

time, include an allocation to illiquid assets if the DGF manager chooses to do so. As at 31 December 2024there was no exposure to illiquid assets. Members invested in the default and aged between 51 and 65, assuming a target retirement age of 65, have exposure to the DGF which may in future include an allocation to illiquid assets, at the manager's discretion. The standalone DGF is also an additional default itself.

Our policy is to have exposure to DGFs with discretion to invest in illiquid assets and not to have direct exposure to illiquid assets funds within the default arrangements. We believe that long-term net risk-adjusted investment returns of the default may be improved by investing in illiquid assets. However, we note that at this time the ability for DC pension schemes to obtain exposure to illiquid assets is limited and the relatively few suitable illiquid asset funds that are available tend to have higher charges.

We intend to consider the illiquid assets exposure further with the support of our investment advisers when we next review the default strategy. Given the market for illiquid investments is developing over time we are comfortable to wait until the next triennial default strategy review before considering investment in illiquid assets further.

We also consider other factors that we believe to be financially material over time horizons relevant to the funding of the DB, DC and AVC benefits, including environmental, social and governance ("ESG") factors and the risks and opportunities relating to climate change.

Our key investment beliefs, which influence the setting of the investment arrangements, are as follows:

- asset allocation is the primary driver of long-term returns;
- costs may have a significant impact on long-term performance and therefore obtaining value for money from the investments is important;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find, and therefore passive management is usually better value;
- risk-taking is necessary to achieve return, but not all risks are rewarded. Equity, credit, and illiquidity are the primary rewarded risks. Risks that do not have an expected reward should generally be avoided, hedged, or diversified;
- ESG factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors;
- long-term environmental, social, and economic sustainability is one factor that should be considered when making investment decisions;
- climate change is a financially material systemic issue that presents risks and opportunities for the Schemes over the short, medium, and long term; and
- voting and engagement are important and can create long term value which is in the best interest of Schemes' members and therefore we encourage managers to improve their voting and engagement practices.

## 5. Implementation of the investment arrangements

Before investing in any manner, we obtain and consider proper written advice from our investment adviser as to whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

For the TAPS Scheme and the BAL Scheme, which are both covered by the bulk annuity policies, we do not believe that the matters set out in Regulation 2(3)(d) of the Occupational Pension Schemes (Investment) Regulations 2005 relating to incentivising investment managers and monitoring turnover costs are relevant to the bulk annuity policies, as we do not have direct influence on how the assets received by the insurance provider in payment for the policies are invested.

For the TUI UK Scheme, TAPS' cash holdings and residual assets held by the BAL Scheme that are not covered by the bulk annuity policies, we have signed agreements with the investment managers setting out the terms on which the portfolios are to be managed.

In respect of the DC and AVC Sections, we have signed agreements with a platform provider (as well as some "legacy" arrangements with other providers), who makes available a range of investment options to members. These agreements set out in detail the terms on which the investments are managed. The investment managers' primary role is the day-to-day investment management of the Trust's investments. There is no direct relationship between the Trust and the underlying investment managers for the DC and AVC Sections.

We, as well as investment managers to whom discretion has been delegated, exercise powers to give effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

We have limited influence over managers' investment practices for the Trust's assets held in pooled funds, but we encourage our managers to improve their practices where appropriate in these cases.

Our view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines, and restrictions of their fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement, and portfolio turnover.

It is our responsibility to ensure that the managers' investment approaches are consistent with our policies before any new appointment, and to monitor and to consider terminating any arrangements that appear to be investing contrary to those policies.

We expect investment managers, where appropriate, to make decisions based on assessments of the longer term performance of debt/equity issuers, and to engage with issuers to improve their performance (or where this is not appropriate to explain why). We assess this when selecting and monitoring managers.

We evaluate investment manager performance over multiple time periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. If a manager is not meeting its performance objectives, we will consider alternative arrangements.

Our policy is to evaluate each of our investment managers by considering performance, the role it plays in helping to meet our overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

We recognise that portfolio turnover and associated transaction costs are a necessary part of investment management. Since the impact of these costs is reflected in performance figures used in our assessment of the investment managers, we do not explicitly monitor portfolio turnover.

We expect our investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Trust's investment mandates.

Further information on the Schemes' strategies is available upon request.

## 6. Realisation of investments

The investment managers have discretion over the timing of realisation of investments of the Trust within the portfolios that they manage, and in considerations relating to the liquidity of investments.

For the DB Sections, we decide, based on the administrators' recommendation, on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements. Our preference is for investments that are readily realisable but recognise that achieving a well-diversified portfolio may mean holding some investments that are less liquid (eg property).

For the DC and AVC Sections, our policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.

## 7. Financially material considerations and non-financial matters

We consider how ESG considerations (including but not limited to climate change) should be taken into account in the selection, retention, and realisation of investments, given the time horizon of the Trust and its members.

We influence the Trust's approach to ESG and other financially material factors through our investment strategy and manager selection decisions. We expect all of our investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates they are set. We seek to appoint managers that have the skills and processes to do this, and review how the managers are taking account of these issues in practice.

We encourage our managers to improve their ESG practices, although acknowledge that we have limited influence over managers' investment practices where assets are held in pooled funds and that the parameters of some pooled funds may limit the scope for significant incorporation of ESG factors.

We do not consider matters that are purely non-financial in nature (eg matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention, and realisation of investments.

Within the DC and AVC Sections we recognise that some members may wish for ethical or other non-financial matters to be considered in their investments and therefore has made available a passive ESG global equity index fund and a Shariah compliant global equity fund as investment options to members.

## 8. Voting and engagement

We recognise our responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments and is in the best interests of our members.

We seek to appoint investment managers that have strong stewardship policies and processes, reflecting where relevant the principles of the UK Stewardship Code 2020 issued by the Financial Reporting Council, and from time to time we review how these are implemented in practice.

We have delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders, and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors. We expect the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interests of investors.

We do not monitor or engage directly with issuers or other holders of debt or equity.

We monitor managers' activities in relation to ESG factors, voting and engagement on a regular basis. We seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with our expectations.

We have selected a priority ESG theme of climate change to provide a focus for our monitoring of investment managers' voting and engagement activities. We review our ESG priorities regularly and we will update them if appropriate. We communicate our stewardship priorities to our managers each year and also confirm our more general expectations in relation to ESG factors, voting and engagement.

If our monitoring identifies areas of concern, we will engage with the relevant manager to encourage improvements.