Statement of Investment Principles for the TUI Group UK Pension Trust

1. Introduction

This Statement of Investment Principles ("SIP") sets out the policy of the Trustee of the TUI Group UK Pension Trust ("the Trustee") on various matters governing decisions about the investments of the TUI Group UK Pension Trust ("the Trust"), a sectionalised scheme with three Defined Benefit ("DB") Sections called:

- the BAL Scheme;
- the TUI UK Scheme; and
- the 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, which are considered in this SIP.

This SIP replaces the previous SIP dated 23 March 2021.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 (as amended) and the Pension Regulator's guidance for defined benefit pension schemes (March 2017) and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Trust's investment adviser, whom the Trustee believes to be suitably qualified and experienced to provide such advice. The advice considers the suitability of investments including the need for diversification given the circumstances of the Trust and the principles contained in this SIP. The Trustee has consulted with the relevant employer in producing this SIP.

The Trustee will review this SIP from time to time and, with the help of its advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy or in the demographic profile of the relevant members in respect of the DC Section 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.

- **Appendix 1** sets out details of the Trust's investment governance structure, including the key responsibilities of the Trustee, investment advisers and investment managers. It also contains a description of the basis of remuneration of the investment adviser and the investment managers.
- **Appendix 2** sets out the Trustee's policy towards risk appetite, capacity, measurement and management.

2. Investment objectives

Defined benefit objectives

The Trustee's objective is to invest the assets 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.

Defined contribution (main default strategy) objectives

For the BAL and TUI UK Schemes, which are both closed to DC contributions, the main default strategy (i.e. the strategy in which members' DC benefits should be invested if they have not made an active investment choice) is the Flexible Income Lifestyle Strategy. The Trustee's objectives for the main default strategy are as follows:

- Aim for significant long-term real growth while members are further 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 objectives of the fund managers in respect of the underlying funds used within the strategy are set out in the Investment Policy Implementation Document ("IPID") which accompanies this SIP. The IPID also details the kinds of investments held within the main default strategy and the balance between them.

Other investment polices relating to the main default strategy are set out in the sections below.

Taken together, the objectives and policies the Trustee has adopted in respect of the main default strategy, and following analysis of the membership, are expected to meet the needs of members, by providing the following:

- The opportunity to increase the value of their benefits with investment growth.
- An investment which manages risk in an appropriate and considered way.
- A portfolio commensurate with how members may take their benefits when they retire.

3. Investment strategy

Defined benefit section

In April 2021, the Trustee 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. These bulk annuity policies will either partially (for the BAL Scheme) or wholly (for the TAPS Scheme) meet the cash flows due from these two Schemes to members.

The Trustee considers the non-insured assets of the TUI UK Scheme and the BAL Scheme as two portfolios:

The **Growth Portfolio** which has the objective of improving the funding position of each Scheme. It comprises a portfolio of credit and debt-based investments, real estate and alternative assets such as insurance-linked securities (with the latter having final redemption proceeds paid back over time).

The **Matching Portfolio** which has the objective of providing investment performance which broadly follows the movements in the value of each Scheme's liabilities (excluding the liabilities insured by the buy in policy for the BAL Scheme). It comprises a bespoke Liability Driven Investment ("LDI") portfolio (predominantly of fixed and index-linked gilts, gilt repurchase agreements, interest rate and inflation swaps) and buy and maintain credit exposure which when combined have interest rate and inflation exposure characteristics which are broadly similar in nature to the liabilities of each Scheme over the long term. The TUI UK Scheme invests in a segregated buy and maintain credit portfolio and the BAL Scheme invests in pooled buy and maintain credit funds (given the size of these investments).

The allocation to the LDI Portfolio will be determined by the collateral required to support the interest rate and inflation hedge but is expected to amount to between 25% and 50% of each Scheme's assets.

The Trustee continues to consider additional de-risking strategies as the funding level improves.

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

Additional Voluntary Contributions ("AVCs") & Defined Contribution ("DC") Sections

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

The main default option was designed to be in the best interests of the majority of the members based on the demographics of the AVC and DC Sections' memberships. The Flexible Income Lifestyle Strategy targets drawdown at retirement, since the Trustee believes that most DC members will wish to take their benefits in this form. Therefore, the main default lifestyle strategy 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 taking an income drawdown option.

As detailed in the IPID, the Trustee has identified that a diversified growth fund is also considered to be an additional default arrangement for governance purposes and must meet the charge cap restrictions. This is as a result of a bulk transfer of assets without member consent on 24 June 2019, when assets were transitioned into this diversified growth fund. This diversified growth fund is a significant part of the main default strategy, and so is regularly reviewed alongside any review of the main default strategy.

The Trustee will review the default strategies and investment options 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. The Trustee will 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, the Trustee considers several risks, including, but not limited to, those set out in Appendix 2. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.

The Trustee considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. The key financial assumption made by the Trustee in determining the investment arrangements is that there are certain investments that will outperform gilts over the long term.

In setting the strategy for the DB Sections the Trustee considered:

- each Scheme's investment objectives, including the target return required to meet the Trustee's 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 ensure that both the Schemes' overall level of investment risk and the balance of individual asset risks are appropriate;
- any other considerations which the Trustee considers financially material over the time horizon that the Trustee considers is needed for the funding of future benefits by the investments of the Schemes; and
- the Trustee's investment beliefs about how investment markets work, and which factors are most likely to impact investment outcomes.

In determining the investment arrangements for the AVC and DC Sections the Trustee considered:

- 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 strategy and other lifestyle options to ensure that, for each such option, 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 the Trustee considers financially material over the periods until members' retirement, or any other timeframe which the Trustee believes to be appropriate; and
- the Trustee's investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

The Trustee's key investment beliefs, which influenced the setting of the investment arrangements, are as follows

- asset allocation is the primary driver of long-term returns;
- 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;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- environmental, social and governance (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;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive management, where available, is usually better value;
- long-term environmental, social and economic sustainability is one factor that Trustee should consider when making investment decisions; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

The Trustee's key investment beliefs and understanding of the Trust's membership are reflected in the design of the default and other lifestyle options, and in the range of other funds made available to members.

5. Implementation of the investment arrangements

Before investing in any manner, the Trustee obtains and considers proper written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments, taking account of the principles within this statement.

For the TAPS Scheme and the part of the BAL Scheme that is covered by the bulk annuity policies, the Trustee does 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.

For the TUI UK Scheme, TAPS' cash holdings and the part of the BAL Scheme that is not covered by the bulk annuity policies, details of the investment managers are set out in the separate IPID.

In respect of the AVC and DC Sections, the Trustee has 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 Scheme and the underlying investment managers for the AVC and DC Sections.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has limited influence over managers' investment practices for the Trust's assets that are held in pooled funds, but it encourages its managers to improve their practices where appropriate in these cases.

The Trustee's 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 the 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 the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term 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. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Trust meet its 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.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers.

The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Schemes' investment mandates.

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, when appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements. The Trustee's 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 AVC and DC Sections, the Trustee's 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

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Trust and its members.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee does not take into account any non-financial matters (ie 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 AVC and DC Sections the Trustee recognises that some members may wish for ethical or other non-financial matters to be taken into account in their investments and therefore has made available a passive ESG global equity index Fund and a Sharia compliant global equity fund as investment options to members.

8. Voting and engagement

The Trustee recognises its responsibilities as owners of capital, and believes 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. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries. The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice.

SIP signed for and on behalf of the Trustee of the Trust:

Signed:

GARY BIRD

MICHAEL ROBERTS

FOR PAN TRUSTEES UK LLP

Investment governance, responsibilities, decision-making and fees

The Trustee has decided on the following division of responsibilities and decision-making for the Trust. This division is based upon the Trustee's understanding of the various legal requirements placed upon it, and its view that the division of responsibility allows for efficient operation and governance of the Trust overall. The Trustee's investment powers are set out within the Trust's governing documentation.

1. Trustee

In broad terms, the Trustee is responsible in respect of investment matters for:

- developing a mutual understanding of investment and risk issues with the employer;
- setting the investment strategy, in consultation with the employer;
- formulating a policy in relation to financially material considerations, such as those relating to ESG considerations (including but not limited to climate change);
- setting the policy for rebalancing between asset classes;
- setting a policy on the exercise of rights (including voting rights) and undertaking engagement activities in respect of the investments;
- putting effective governance arrangements in place and documenting these arrangements in a suitable form;
- appointing, monitoring, reviewing and dismissing investment managers, investment advisers, actuary and other service providers;
- monitoring the exercise of the investment powers that they have delegated to the investment managers and monitoring compliance with Section 36 of the Act;
- communicating with members as appropriate on investment matters, such as the Trustee's assessment of its effectiveness as a decision-making body, the policies regarding responsible ownership and how such responsibilities have been discharged;
- reviewing the investment policy as part of any review of the investment strategy;
- reviewing the content of this SIP from time to time and modifying it if deemed appropriate; and
- consulting with the employer when reviewing the SIP.

The Trustee has delegated consideration of certain investment matters to an investment sub-committee ("ISC") and a trustee for the Common Investment Fund ("CIF"). The parties understand the different areas where each party makes decisions, provides oversight or recommendations. The terms of reference for the ISC detail clearly its responsibilities. The Trustee has sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interests.

2. Annuity provider

The annuity provider's responsibility is to provide the Trustee with payments so that the pensions secured under the bulk annuity policies can be paid on an accurate and on a timely basis.

3. Investment managers

In broad terms, the investment managers will be responsible for:

- managing the portfolios of assets according to their stated objectives, and within the guidelines and restrictions set out in their respective investment manager agreements and/or other relevant governing documentation;
- taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets;
- exercising rights (including voting rights) attaching to investments and undertaking engagement activities in respect of investments;
- providing the Trustee with regular information concerning the management and performance of their respective portfolios; and
- having regard to the provisions of Section 36 of the Act insofar as it is necessary to do so.

The custodians of the portfolios (whether there is a direct relationship between the custodian and the Trustee or not) are responsible for safe keeping of the assets and facilitating all transactions within the portfolios.

4. Investment adviser

In broad terms, the investment adviser will be responsible, in respect of investment matters, as requested by the Trustee, for the following:

- for the DB Sections, advising on how material changes within the Trust's benefits, membership, and funding position may affect the manner in which the assets should be invested and the asset allocation policy;
- for the AVC and DC Sections, advising on a suitable fund range and default strategies for the Trust, and how material changes to legislation or within the Trust's benefits and membership may impact this;
- advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations (including climate change and other ESG considerations); and
- participating with the Trustee in reviews of this SIP.

5. Agreements with advisers, investment managers and annuity provider

The Trustee has in place signed agreements with each of the Schemes' advisers, investment managers and annuity provider. These provide details of the specific arrangements agreed by the Trustee with each party.

6. Fee structures

The Trustee recognises that the provision of investment management and advisory services to the Trust results in a range of charges to be met, directly or indirectly, by deduction from the Trust's assets.

The Trustee has agreed Terms of Business with the Trust's actuarial and investment advisers, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market value of assets under management. The fee rates are believed to be consistent with the manager's general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers. See also Section 5 of the SIP.

The Trustee has appointed a custodian in respect of all of the Trust's investments. The custodian is remunerated using a mixture of fixed fees, ad-valorem and per line item charges. Collectively the fee rates are believed to be consistent with the custodian's general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

7. Performance assessment

The Trustee is satisfied, taking into account the external expertise available, that there are sufficient resources to support its investment responsibilities. The Trustee believes that it has sufficient expertise and appropriate training to carry out its role effectively.

It is the Trustee's policy to assess the performance of the Trust's investments, investment providers and professional advisers from time to time. See Section 5 of the SIP. The Trustee will also periodically assess the effectiveness of its decision-making and investment governance processes and will decide how this may then be reported to members.

8. Working with the Trust's employer

When reviewing matters regarding the Trust's investment arrangements, such as the SIP, the Trustee seeks to give due consideration to the employer's perspective. While the requirement to consult does not mean that the Trustee needs to reach agreement with the employer, the Trustee believes that better outcomes will generally be achieved if the Trustee and employer work together collaboratively.

Policy towards risk

1. Risk appetite and risk capacity

Risk appetite is a measure of how much risk the Trustee is willing to bear within the Trust in order to meet its investment objectives. Taking more risk is expected to mean that those objectives can be achieved more quickly, but it also means that there is a greater likelihood that the objectives are missed, in the absence of remedial action. Risk capacity is a measure of the extent to which the Trustee can tolerate deviation from its long term objectives before attainment of those objectives is seriously impaired. The Trustee aims to strike the right balance between risk appetite and risk capacity.

When assessing the risk appetite and risk capacity, the Trustee considered a range of qualitative and quantitative factors, including:

- the strength of the employer's covenant and how this may change in the near/medium future;
- the agreed journey plan and employer contributions;
- each Scheme's long-term and shorter-term funding targets;
- each Scheme's liability profile, its interest rate and inflation sensitivities, and the extent to which these are hedged;
- each Scheme's cash flow and target return requirements; and
- the level of expected return and expected level of risk (as measured by Value at Risk ("VaR")), now and as the strategy evolves.

2. Approach to managing and monitoring investment risks

The Trustee considers that there are several different types of investment risk that are important to manage and monitor. These include, but are not limited to:

2.1. Risk of inadequate returns

For the DB Sections, a key objective of the Trustee is that, over the long-term, the Trust should generate its target return so that it has adequate assets to meet its liabilities as they fall due. The Trustee therefore invests the assets of the Trust to produce a sufficient long-term return in excess of the liabilities. There is also a risk that the performance of the Trust's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been considered in setting the investment strategy and is monitored by the Trustee on a regular basis.

In the AVC and DC Sections, as members' benefits are dependent on the investment returns achieved, it is important that investment options are available which can be expected to produce adequate real returns over the longer term. Accordingly, equity and equity-based funds, which are expected to provide positive returns above inflation over the long term, have been made available to members and feature in the growth phase of the main default strategy. To reduce the chance of a sharp deterioration in members' benefits close to retirement, the Trustee has made the main default strategy a lifestyle strategy.

2.2. Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Trust's assets. The Trustee believes that the Trust's DB assets and AVC and DC default strategies are adequately diversified between different asset classes and within each asset class and the AVC and DC self-select options provide a suitably diversified range for members to choose from. This was a key consideration when determining the Trust's investment arrangements and is monitored by the Trustee on a regular basis.

2.3. Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustee receives written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustee monitors the investment managers on a regular basis to ensure they remain appropriate for their selected mandates.

2.4. Illiquidity/marketability risk

For the DB Sections, this is the risk that the Trust is unable to realise assets to meet benefit cash flows as they fall due, or that the Trust will become a forced seller of assets in order to meet benefit payments. The Trustee is aware of each Scheme's cash flow requirements and believes that this risk is managed by maintaining an appropriate degree of liquidity across the Trust's investments.

For the AVC and DC Sections, this is the risk that core financial transactions, such as switches between different funds, are not processed promptly due to lack of liquidity in the investments. The Trustee manages this risk by only using pooled funds with daily dealing within the default strategy and diversifying the strategy across different types of investment.

2.5. Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Trust's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks to appoint investment managers who will manage these risks appropriately on their behalf and from time to time reviews how these risks are being managed in practice.

2.6. Collateral adequacy risk

The DB Sections are invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustee when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Schemes' interest rate and inflation hedging could be reduced and that the Schemes' funding levels could suffer subsequently as a result. In order to manage this risk, the Trustee ensures that the Schemes have a sufficient allocation to cash and other highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

2.7. Risk from excessive charges

Within the AVC and DC Sections, if the investment management charges together with other charges levied on, for example, transfers or early retirement are excessive, then the value of a member's account will be reduced unnecessarily. The Trustee is comfortable that the charges applicable to the Trust are in line with market practice and assess annually, as required by legislation, whether these represent good value for members.

2.8. Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Trust is subject to credit risk because it invests in bonds via pooled funds and segregated portfolios as well as being party to a number of private credit investments. The Trustee manages its exposure to credit risk by diversifying across credit issuers and diversifying its private credit arrangements through investments with different investment managers.

The Trustee believes the above risks have been reduced or largely mitigated by the purchase of the bulk annuity policies for the BAL and TAPS Schemes respectively. However, there remains the risk of default of the bulk annuity policy provider. Before purchasing the buy-in contracts the Trustee received a report from Lincoln Pensions to assess the counterparty risk of the bulk annuity provider and have considered carefully the regulatory framework within which insurers are required to operate and concluded that the level of such risk was suitably low.

2.9. Currency risk

Whilst the majority of the currency exposure of the Trust's assets is to Sterling, the Trust is subject to currency risk because some of the Trust's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate.

2.10. Interest rate and inflation risk

The Trustee considers interest rate and inflation risks to be generally unrewarded investment risks.

As a result, the BAL and TUI UK Schemes invest in a bespoke LDI portfolio and buy and maintain credit exposure which when combined have interest rate and inflation exposure characteristics that are broadly similar in nature to the liabilities of each Scheme (excluding the liabilities insured by the buy in policy for the BAL Scheme) over the long term.

The buy-in policies are expected to perfectly match the liabilities of the insured members for the TAPS Scheme and match a proportion of the pensioner liabilities for the BAL Scheme.

The net effect of the Trustee's approach to interest and inflation risk will be to reduce the volatility of the funding level, and so the Trustee believes that it is appropriate to manage exposures to these risks in this manner and to review them on a regular basis.

2.11. Other non-investment risks

The Trustee recognises that there are other, non-investment, risks faced by the Trust, and takes these into consideration as far as practical in setting the Trust's investment arrangements as part of its assessment of the other aspects of the Trust's Integrated Risk Management framework.

Examples for the DB Sections include:

- longevity risk (the risk that members live, on average, longer than expected. The Trustee noted the reduced longevity risks for the BAL and the TAPS Schemes as they entered buy-ins of a proportion of and all of the Schemes' liabilities respectively); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Trust as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Schemes' funding positions fall below what is considered an appropriate level. The Trustee regularly reviews progress towards the Schemes' funding targets, both in the longer-term as well as against short-term milestones, comparing the actual versus their expected funding levels.

By understanding, considering and monitoring the key risks that contribute to funding risk, the Trustee believes that it has appropriately addressed and is positioned to manage this general risk.