Thomas Cook UK DC Pension Scheme

Statement of Investment Principles – September 2020

1. Introduction

The Trustees of the Thomas Cook UK DC Pension Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (as amended by the Pensions Act 2004) (“the Act”). It also seeks to meet the requirements of the Occupational Pension Schemes (Investment) Regulations 2005, the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and subsequent legislation.

The Scheme is a defined contribution scheme and is governed by a Definitive Trust Deed and Rules. A copy of the relevant clauses, of which this Statement takes full regard, is available for inspection.

In September 2019 the sponsoring employer, Thomas Cook Group plc (“the Company”) entered liquidation and ceased its operations. The Special Managers continued to support the Scheme with the payment of contributions up until January 2020 for employees retained to assist with the insolvency. As part of the closure, the Trustees are now operating a reduced Trustee Board, and an Independent professional Trustee is appointed as Chair. The Trustees continue to receive support from their professional and legal advisers.

In preparing this Statement, the Trustees have obtained and considered written professional advice from their Investment Consultant, who the Trustees believe has the appropriate ability and practical experience in order to advise them. The advice received and arrangements implemented are, in the Trustees’ opinion consistent with the requirements of Section 36 of the Pensions Act (as amended).

Overall investment policy falls into two parts. The strategic management of members’ assets is fundamentally the responsibility of the Trustees acting on advice from their Investment Consultant and is driven by their investment objectives as set out in Section 2 below. The remaining elements of investment policy relate to the day-to-day management of the assets that is delegated to professional Investment Managers. The Trustees’ policies in relation to the arrangements with the Investment Managers are described in this Statement, with further details on how the arrangements are implemented described in the Investment Policy Implementation Document (the “IPID”).

2. Investment Objectives

The objectives set out here, and the risks and other factors referenced in this Statement, are those that the Trustees determine to be financially material considerations in relation to the Scheme.

In formulating the Scheme’s arrangements, the Trustees recognise that members have differing investment needs and that these may change during the course of members’ working lives. They also recognise that members have different attitudes to risk. The Trustees believe that members should make their own investment decisions based on their individual circumstances. The Trustees regard their duty as making available a range of investment options (managed by high quality Investment Managers) sufficient to enable members to tailor to their own needs and their investment strategy.

The following encapsulates the Trustees' objectives:

- To make available a range of investment funds that should enable members to tailor their own investment strategy to meet their own individual needs.
- To present this range in a manner which aims to make it as easy as possible for members to make investment decisions.
- Offer funds which facilitate diversification and long term capital growth (in excess of inflation).
- Offer funds that enable members to reduce risk in their investments as they approach retirement.
- Offer funds which mitigate the impact of sudden and sustained reductions in capital values or rises in the cost of securing retirement benefits in the member's chosen form.
- To provide a default investment option for members who do not make their own investment decisions.
- To consider the expected benefits of funds alongside fees charged and not adopt an approach solely focused on "low cost".

3. Risk Management

The Trustees consider a range of potentially financially material factors to which the Scheme is exposed over the anticipated time horizon for which the assets will be held. These factors are outlined in this section and in section 10.

The Trustees believe that the appropriate time horizon within which to assess risk should be viewed at the member level. This will be dependent on the member's age and when they expect to take their benefits from the Scheme. In considering the range of funds to offer to members, the Trustees acknowledge that the investment time 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 strategies, the Trustees have taken the proximity to the target retirement date into account, and the associated financially material risks over the time horizon of these strategies.

The Trustees recognise the following additional risks and take the following steps to manage risk:

- **Inflation risk.** This is the risk that inflation will be greater than the investment growth of the members' Personal Account and the Personal Account will not therefore secure adequate benefits at retirement. The Trustees make available a number of funds that are expected to match or beat price inflation over the long-term.

- **Volatility risk.** This is the risk that your investment can go down in value as well as up. In general, this risk applies most when the member is close to retirement and preparing to use their savings to provide retirement benefits. The Trustees acknowledge that in order to generate returns above that earned by cash requires accepting some risk. The Trustees make available funds with differing degrees of volatility so that members can tailor their investments to their desired level of risk. . The Trustees receive performance reports and will at least every three years review in detail the arrangements and their continued suitability.

- **Benefit mis-match and conversion risk.** This is the risk that that relative market movements in the years just prior to retirement lead to a substantial reduction in the benefits which would otherwise be secured. The Trustees make available a number of lifestyle investment options, which aim to provide automated de-risking strategies designed for different types of potential retirement benefits.

- **Adequacy risk.** This is the risk that members do not secure adequate benefits at retirement. The Scheme is closed following the liquidation of the Company but the Trustees continue to provide access to modelling tools where projections of benefit outcomes can be shown. In addition, benefit statements include projections of member benefits under several sets of assumptions.

- **Manager risk.** The risk that the chosen Investment Manager underperforms the benchmark against which it is assessed. In this regard, the Trustees' general approach is to use active management in the areas they believe it can add most value (such as diversified growth, property and cash) and to use index tracking management in the remaining areas. The Trustees recognise that the use of active management brings with it the risk that those active decisions do not add value. The Trustees receive performance reports and retain their Investment Consultant to aid in monitoring the performance of the appointed managers.

- **Liquidity risk.** The risk that funds do not provide access for investment or withdrawal of monies when required. The Trustees understand that the funds may, in extreme circumstances, be temporarily closed for investment. To mitigate some of this risk, the Trustees have selected daily dealt and daily priced pooled funds.

- **Currency risk.** The risk that returns fluctuate with changes in exchange rates. The Trustees have made available a global equity fund that includes currency hedging of overseas developed market currency exposure relative to Sterling.

- **Credit risk.** The value of bonds would be at risk if a bond issuer defaults on their commitments. The Trustees only make corporate bonds available via a fund containing a range of bonds such that should a bond default its impact will be lessened due to the other bonds within the fund.

- **Custody risk.** The safe custody of the Scheme's assets is delegated to the pooled fund managers with whom they invest. The Scheme's Investment Managers are responsible for delegating the custody of their funds to professional custodians.

- **Default investment risk.** The risk that the investment profile of the default investment option is unsuitable. The Trustees recognise that the default investment option can never be perfect for all members. Details of how the default is designed and how this risk is managed are provided in the Default Investment Option Section of this Statement.

- **Environmental, Social and Corporate Governance (ESG) risk** – the risk that ESG concerns, including climate change, have a financially material impact on the return of the Scheme's assets. The management of ESG related risks is delegated to Investment Managers, with oversight from the Trustees. See Section 10 for our policies in this regard.

The Trustees periodically monitor these risks and the appropriateness, in light of the risks, of the investments detailed in this Section.

4. Investment Strategy

The Trustees believe that the best way to address the investment objectives outlined in Section 2, and with consideration to the risks in Section 3, is to offer all members a range of funds, as well as a default investment option and a number of lifestyle investment strategies.

4.1 Self-select funds

The Trustees have made available to members a range of funds covering different asset classes across the risk / return spectrum. Further details are contained within the IPID.

4.2 Default Investment Option

Scheme members who do not actively make an investment decision will be invested in the default investment option, the "Thomas Cook Flexible Journey" strategy. Members may actively choose the default option because they feel it is most appropriate for them. If members wish to, they can opt to choose their own investment strategy on joining but also at any other future date.

The aims of the default investment option, and the ways in which the Trustees seek to achieve these aims, are detailed below:

- To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk.

  The default investment option's growth phase invests in a growth-focused fund which consists of equities and other growth-seeking assets. These investments are expected to provide equity-like growth over the long term with some downside protection and some protection against inflation erosion.

- To provide a strategy that reduces investment risk for members as they approach retirement.

  As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that a strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. Hence, starting 8 years before their target retirement date (or normal retirement date, if no target is specified), members in the default investment option will have their holdings gradually transitioned towards a lower risk mix of assets. This lower risk mix is designed to provide exposure to assets aiming for income and stable growth through retirement (outside of the Scheme), along with an allowance for tax-free cash benefits through an allocation to money market investments.

- To provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to take 25% cash at retirement (reflecting current tax-free cash rules) and to use the balance to stay invested post-retirement (albeit outside of the Scheme).

  At the point of the target or normal retirement date, members' accumulated savings in the default investment option will be invested in a multi-asset fund and a money market fund, with proportions designed to target 25% of the portfolio in money market instruments and the balance in a diversified mix of assets which aim to generate income and maintain the purchasing power of members' savings. The assets in this allocation include equities, bonds, cash and alternative assets.

Policies in relation to the default investment option

- The default investment option manages investment and other risks throughout a member's working lifetime via a strategic asset allocation consisting of equities, alternative asset classes, fixed income assets and cash. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default option, the Trustees have explicitly considered the trade-off between risk and expected returns.

- Assets in the default investment option are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.

- The Investment Managers have responsibility for buying and selling the underlying assets. All of the pooled funds used operate daily dealing cycles.

- Assets are invested on regulated markets.

- The Investment Managers also have discretion to incorporate environmental, social and governance considerations in exercising their delegated responsibilities. However, the Trustees have in place a policy regarding such issues, which is detailed in Section 10 of this Statement.

  Based on the Trustees' understanding of the Scheme's members, an investment strategy that targets taking benefits flexibly (including a tax-free cash lump sum up 25% of a member's pot) at retirement is expected to be broadly appropriate to meet a typical member's requirements for income in retirement. This does not mean that members have to take their benefits in this format at retirement - it merely determines the investment strategy that will be in place pre-retirement.

  Members have the option of choosing their own investment strategy.

  The Trustees will continue to review the default investment option, and more strategically at least triennially, or after significant changes to the membership demographic, if sooner. When doing this, the Trustees will take written advice from their Investment Consultant.

The Trustees review investment performance and risk in relation to the default investment option and take professional advice as appropriate.

The Trustees believe that this strategy meets the investment objectives outlined in this Statement and seeks to mitigate the risks identified in Section 3 and that implementing this strategy is intended to ensure the assets in the default investment option are invested in the best interests of the relevant members and beneficiaries.

5. Investment Manager Arrangements

Overview

The Trustees make available funds via an administration and investment platform provider. The platform provider gives access to a range of investment funds operated by professional Investment Managers. Having taken advice from their Investment Consultant the Trustees decide on which funds to make available.

In investing via a platform, the Trustees do not appoint Investment Managers directly. However, in practice the Trustees believe they have a role to play in designing and governing the arrangements with the underlying Investment Managers. The Trustees' policies relating to the underlying Investment Managers are documented here.

The day-to-day management of the assets is delegated to professional Investment Managers who in addition to the provider are all authorised by the relevant regulator. The Investment Managers have full discretion to buy and sell investments on behalf of the Scheme subject to agreed constraints and applicable legislation.

The Scheme's Investment Managers are appointed based on their capabilities and suitability as regards meeting the Scheme's objectives. Their appointments are therefore also based on their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.

The Trustees receive advice from their Investment Consultant in relation to forward-looking assessments of a manager's ability to outperform over a full market cycle, for mandates where outperformance is the objective. This view will be based on the Investment Consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment portfolio(s) that the Scheme invests in. The Investment Consultant's manager research ratings assist with due diligence and are used in decisions around selection, retention and realisation of manager appointments.

For passively managed mandates, or those where outperformance is not the primary goal, the Trustees will seek guidance from the Investment Consultant in relation to forward looking assessment of the manager's ability to achieve the mandate objectives.

If the investment objective for a particular fund changes, the Trustees will review the fund to ensure it remains appropriate and consistent with the Scheme's objectives.

Some of the funds used are actively managed and the managers are incentivised via performance targets. An appointment will be reviewed following periods of sustained underperformance or failure to meet its objectives, and the Trustees receive quarterly monitoring reports to seek to manage this risk. The Trustees will review the appropriateness of using actively managed funds (on an asset class basis) periodically.

As the Trustees invest in pooled vehicles it is accepted that there is no ability to specify the risk profile and return targets of the manager, other than through the Trustees' fund choices. However, appropriate mandates are selected to best align with the overall investment strategy and policies as documented in this Statement.

Investment Manager Remuneration

The Investment Managers are remunerated by way of a fee calculated as a percentage of assets under management. In each case, the principal incentive is for the Investment Manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee.

As part of the annual Value for Money assessment and Chair's Statement disclosures, the Trustees review the fees across all funds used by the Scheme.

Investment managers are not remunerated based on portfolio turnover and their objectives are based on medium to long-term considerations, consistent with the Trustees being long-term investors.

Evaluating Investment Managers

Investment managers are aware that their continued appointment is based on their success in delivering the objectives of the mandate which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.

The Trustees consider the Investment Consultant's investment research and ESG research ratings within the investment reporting. Through these ratings, the Trustees are able to assess for example how each Investment Manager embeds ESG into its investment process and how each manager's investment philosophy aligns with the Trustees' policies as documented in this Statement.

Where equity funds are held, equity managers registered with the appropriate regulator are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Time horizon and Duration of Appointments

The Trustees receive investment performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and 5 years and take professional advice as appropriate. The Trustees review the performance of the investments on an absolute basis and relative to defined benchmarks (over the relevant period) net of fees.

If a manager is not meeting its performance objectives, over a sustained period of time, and after consideration of all relevant factors, the Trustees may take the decision to terminate the appointment. The Trustees are long-term investors. Accordingly, the Trustees do not seek to change the investment arrangements on a frequent basis.

The funds used by the Scheme are open-ended with no set end date for the arrangement. The Trustees will 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; or
- The appointment has been reviewed and the Trustees have decided to terminate the appointment.

Portfolio turnover costs

Transaction costs, which include portfolio turnover costs, are monitored and assessed within the annual Value for Money assessment. The Trustees have not set portfolio turnover targets; the Trustees instead assess performance net of the impact of the costs of such activities.

Details of the appointed platform provider and other Investment Managers can be found in the IPID.

6. Realisation of Investments

The Investment Managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

The administrators are responsible for realising monies to meet outflows from the Scheme.

7. Expected Return

The funds available are expected to provide an investment return relative to the level of risk associated with it. The Trustees believe that the range of funds offered should provide a range of returns suitable for the membership as a whole.

8. Additional Assets

Under the terms of the trust deed the Trustees are responsible for the investment of Additional Voluntary Contributions ("AVCs") paid by members. The Trustees review the investment performance of the chosen AVC providers on a regular basis and takes advice as to the providers' continued suitability. Details of the current providers can be found in the IPID.

9. Environmental, Social and Governance (ESG) Considerations and Engagement Activities

The Trustees believe that ESG issues may have an impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.

The Trustees accordingly consider these issues in the context of anticipated time horizon over which the assets will be held.

The Trustees do not directly manage the Scheme's investments, and the Investment Managers have full discretion to buy and sell investments within the various portfolios, within the guidelines of their mandates. ESG considerations and engagement activities are however taken into account in the selection, retention and realisation of investments in the following ways:

- The Trustees consider the ESG research ratings published by our investment advisers, Mercer, when monitoring the Scheme's investments. These ratings are also considered as part of any new selection of investment funds.

- The Investment Managers are expected to respond to questions regarding voting and engagement activities carried out on behalf of the Trustees for mandates where this is appropriate and where the Trustees have concerns they may seek to raise these with the Investment Managers, though the pooled nature of the investments may mean that the Trustees have little influence.

- The Trustees make available to members a fund which invests in global equities of companies which are less carbon-intensive or earn green revenues. The manager has the discretion to reduce investment in certain companies which do not, in the manager's view, demonstrate adequate strategies and governance standards to transition to a low carbon economy. Companies that fail to meet the manager's minimum standards in relation to low carbon transition and corporate governance standards may be excluded from the fund, which also excludes shares issued by manufacturers of Controversial Weapons (as defined by FTSE).

The Investment Managers are expected to evaluate ESG factors (including climate change considerations) where practical within the terms of their mandate and to exercise voting rights and stewardship obligations attached to the investments in accordance with their own corporate governance policies and current best practice (including the UK Corporate Governance Code and UK Stewardship Code). In doing so, they are expected to focus on medium to long-term performance, consistent with the objectives of their funds.

Given the circumstances of the Scheme following the employer insolvency, the Trustees do not have a policy of taking into account members' views about investment or other non-financial factors.

Mercer Delegated investments

The Trustees have also chosen to delegate the management of a diversified growth fund and a property fund to Mercer. Mercer has in place a Sustainable Investment Policy which the Trustees have adopted as part of the delegation of investment management. This Policy encompasses:

- A commitment to appoint only underlying investment strategies at or above an agreed ESG ratings level.

- Taking a broader and longer-term perspective on risk, including identifying sustainability themes and trends for risk management and new opportunity allocations within the funds, where appropriate within the risk / return and asset allocation guidelines of the relevant funds.

- Recognition that climate change is a systemic risk given the transition to a low-carbon economy and the potential physical impact risks; actions in this respect will be taken in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.
- Stewardship monitoring on Investment Manager voting and engagement activity, and monitoring of adherence to the UK Stewardship Code.
- Controversial and nuclear weapons have been excluded from Mercer fund solutions.
- For delegated investment funds, Mercer is expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progresses, stewardship monitoring results, and climate-related metrics such as carbon footprinting for equities and/or climate scenario analysis for diversified portfolios.

10. Platform Provider and Investment Manager Fees

Details of the Scheme's fee arrangements can be found in the IPID.

11. Compliance with this Statement

The Trustees monitor compliance with this Statement annually or immediately after any change in strategy.

12. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. The Investment Consultant will provide the advice needed to allow the Trustees to review and update this Statement as required. In addition, no change will be made to the Statement unless the proposed changes to investment policy have been approved by the Trustees and recorded appropriately.

September 2020