Thomas Cook UK DC Pension Scheme

Chair's Statement

I am pleased to present the Trustees' statement of governance, covering the year to 31 March 2020. This statement describes how the Trustees seek to ensure that the Thomas Cook UK Defined Contribution Scheme (the 'Scheme') is well-managed and delivers excellent services to members. The statement examines five key areas of the Trustees' governance, namely:

- The investment strategy relating to the Scheme's default arrangement;
- The processing of core financial transactions;
- Charges and transaction costs within the Scheme including the pounds and pence illustration of the compounding effect of charges;
- Value for members, and;
- The Trustees' compliance with the statutory knowledge and understanding requirements and our ability to properly carry out our role.

In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

Monitoring the overall quality of the Scheme arrangements is a complex task that the Trustees take seriously, and are supported in this process by Aviva who support the Trustees in the day-to-day administration and investment management of the Scheme, and independent advisors, covering governance, legal issues, investment advice and wider DC matters.

During the Scheme year to 31 March 2020, the Trustees finalised arrangements to upgrade the Scheme's administration and investment platform, with Aviva being appointed to provide both services. The first contributions were made to the Aviva platform in October 2019, with member records being transferred in November 2019. The Trustees implemented these changes in order give members improved access to digital resources and tools, as well as increased flexibility and simplification in the way that members can access their Scheme savings. The Trustees were happy with the smooth transition to Aviva's platform which was independently verified by ITM.

Following the insolvency of Thomas Cook in September 2019, 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. Contributions for those employees made redundant in September 2019 have been received from the Insolvency Service and invested promptly in the Scheme. As a result of the insolvency and the loss of employment of all of the Trustee Board except the Independent Chair, the Trustees are now operating a reduced Trustee Board. An Independent Professional Trustee sits as Chair to provide experience and expertise, and the Trustees continue to receive support from their professional and legal advisers. The Trustees are in the process of finalising arrangements regarding the future strategy and sponsorship of the Scheme, and will write to members in due course regarding this.

This Statement does not contain advice in respect of actions that members should or should not take and is not intended to be used for that purpose. If members need advice, a list of local independent financial advisers can be obtained online at www.unbiased.co.uk. Queries should be initially raised with Aviva.

1. Default Investment arrangement

The Trustees' Statement of Investment Principles (SIP) dated September 2020 is included in this Statement. This has been prepared in line with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005. The SIP covers the aims and objectives in relation to the default investment arrangement as well as the Trustees' policies in relation to matters such as risk and diversification. Additionally, it explains why we believe the default investment arrangement to be the most appropriate for the membership of the Scheme.

This Statement covers the investment arrangements in place during the year to 31 March 2020. As part of the Scheme upgrade implemented in October and November 2019, the Trustees also made changes to the Scheme's default investment arrangement. These changes were based on an extensive review of the Scheme's investment arrangements, carried out by the Trustees and their advisors in 2018 and the early part of 2019, concluding on 20 March 2019. Before making any changes, the Trustee considered:

- The level of risk taken during the "growth" phase of the default investment strategy.
- A review of the overall objective of the default investment strategy, and whether it remained appropriate to assume that most members in the default arrangements will ultimately remain invested in retirement and draw down their benefits over time. This involved consideration of the actual retirement experience of our members, reviewing how and when members take their benefits from the Scheme.
- The pros and cons of using "blended" and "white-labelled" fund options as opposed to investing in funds directly.
- The length of the de-risking period and the timing of switches from higher risk to lower risk investments.
- The choice of investment managers used to implement the investment strategy.
- Environmental, social and governance risks and opportunities, and the approach our selected investment managers take to managing these issues.

The review resulted in the following conclusions and changes to members' investments from October 2019:

- The Trustees believe that a default investment strategy targeting drawdown remains suitable for the membership, but the underlying investments of the growth phase were updated to better meet the Trustees' objective to "generate returns in excess of inflation whilst managing downside risk".
- The period over which members' funds transition into a lower risk mix of assets for the Scheme's lifestyle strategies (including the default investment strategy) was extended from five and a half years to eight years. The Trustees believe that this better manages investment risk for members during periods of market downturn, as when members are close to retirement their funds do not have sufficient time to recover.

The Trustees were also satisfied that members who were confident making their own investment choices were able to elect to transfer into funds as similar as possible on Aviva's investment platform to those in which they had previously invested.

The current default investment arrangement is a lifestyle strategy, the 'Thomas Cook Flexible Journey' which, as stated in the SIP:

- Aims 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.
- Aims 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.
- Aims to provide exposure, at retirement, to assets that are broadly appropriate for a member 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.

Members of the Scheme are also able to access alternative lifestyle strategies, the 'Thomas Cook Regular Income Journey' and the 'Thomas Cook Cash Journey' (designed for alternative retirement benefit choices, namely annuity purchase and full cash withdrawal respectively) and a range of self-select funds, and are supported by clear communications and high quality member tools and guidance available through Aviva's member site.

Regular reviews with our Investment Consultants have demonstrated that the risk and returns exhibited by the default investment strategy are consistent with the strategy's aims and objectives.

2. Core Financial Transactions

As required by the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the Administration Regulations), the Trustees must ensure that core financial transactions are processed promptly and accurately. Core financial transactions are (broadly):

- Investment of contributions made to the Scheme by members and their employer(s);
- Transfers into and out of the Scheme of assets relating to members;
- Switches of members' investments between different funds within the Scheme; and
- Payments from the Scheme to or in respect of members (e.g. payment of death benefits and on retirement).

The Trustees recognise that delay and error can cause significant losses for members. They can also cause members to lose faith in the Scheme, which may in turn reduce their propensity to save and impair future retirement outcomes. We therefore operate measures and controls aimed at ensuring that all financial transactions (such as benefit payments and switches between funds) are processed promptly and accurately.

The Trustees have appointed a professional third party administrator and have delegated the day to day running of the Scheme. However, the Trustees are aware that the responsibility of the running of the Scheme remains with them and they have implemented adequate internal controls, which are reviewed periodically. Core financial transactions have been processed promptly and accurately as a result of the following actions:

- The Trustees use a professional pension provider, Aviva.
- The Trustees have appropriate service agreements in place with the administrator and are aware of their key contacts. Such service agreements cover all core administration processes and incorporate performance standards, including timescales for completing tasks. These standards are monitored on a regular basis. The Trustees are committed to monitoring service to ensure that members receive service in line with expectations. The Trustees have frequent calls with Aviva.
- Through Mercer Workplace Savings, the Trustees receive additional governance oversight from their advisers. Mercer work closely with Aviva to ensure a market-leading level of administrative service.

As part of the Scheme changes implemented from October 2019, day-to-day administration and investments services were delegated to the same, modern platform so that transactions and processes can be carried out more promptly with straight through processing from instruction to activation.

The transfer of members' investments to the Aviva investment platform took place in November 2019, on a wholly pre-funded basis to prevent out of market exposure. Comprehensive reconciliations of member accounts and investments were carried out following the transfer. The Trustees engaged an external data consultancy, ITM, to carry out an independent review of the transition and were satisfied that it went smoothly.

Aviva records all member transactions and benefit processing activities in a work management system, which assigns the relevant timescale to the task. The Trustees receive reports from Aviva on the number of cases carried out and how many of those cases were completed within agreed service levels.

Following the insolvency of Thomas Cook, some contributions due to the Scheme were recovered from the Insolvency Service. A full reconciliation process took place and the contributions were promptly allocated to member's accounts once received.

The following Service Level Agreements (SLAs) for the core financial transactions have been agreed:

Service level	Service standard	Target level	Failure point
Contribution processing and allocation	Process and allocate all regular contributions within two (2) business days of receipt of the validated contribution schedule and reconciled payment.	100%	Less than 90%.
Investment transaction requests	Completed within three (3) business days from the date of receipt of complete instructions.	97%	Less than 85%.
Payments out	Completed within five (5) business days of receipt of the completed payment authority form and all required documentation from the authorised party.	97%.	Less than 85%.
Transfers in	Transfer values paid during the measurement period will be processed, allocated and written confirmation issued to members or trustees within five (5) business days of receipt of the payment and documentation.	97%	Less than 85%.

As a wider review of the Scheme administrator in general, the Trustees have sight of the administrators control procedures, which governs the accuracy of their processes. The administrator employs an independent auditor to prepare an annual report on their internal controls (AAF01/06/ ISAE 3402).

In addition to the above processes:

- The Trustees identify, evaluate, manage and monitor risk. By incorporating risks identified in relation to core financial transactions into the risk register they are categorised and prioritised.
- Close working links were maintained between the Company in-house Pension and Payroll teams and the administrator prior to the insolvency.
- All documents are scanned and saved electronically. All electronic files are backed up on a daily basis.
- All financial transactions are subject to annual audit requirements as part the Trustees Annual Report and Accounts.
- Privacy and Information Security teams, policies, programs and procedures are in place to protect personal information from loss or abuse, and to support, where appropriate, the privacy rights and requests of the individuals whose information is processed. The Trustees review these processes on an ongoing basis, acknowledging that cyber security approaches must evolve as the cyber threat landscape changes.

In light of COVID 19, the Trustees have considered the guidance issued by The Pensions Regulator concerning the administration of pension schemes and have maintained a regular dialogue with Aviva about its service delivery and business continuity arrangements. The Trustees have adopted virtual meetings, ensuring that they can continue to make timely decisions relating to the Scheme.

Based on the above, the Trustees are satisfied that the Scheme's core financial transactions have been processed promptly and that the administrator was operating appropriate procedures, checks and controls and operating within the agreed SLA during the period to which this Statement relates.

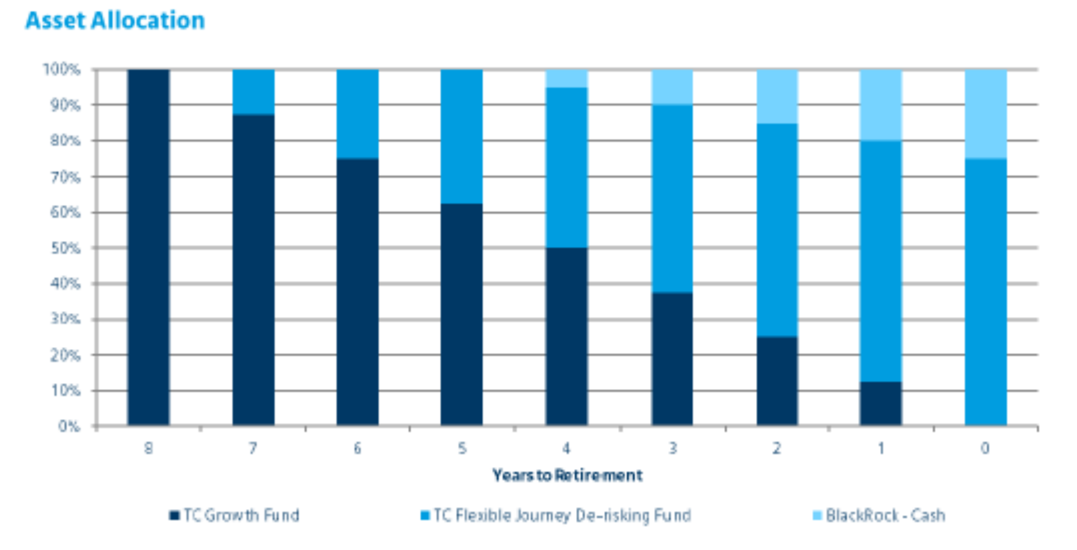
3. Costs and Charges borne by members

The levels of charges and transaction costs applicable to the default investment arrangement and wider fund range during the period are detailed in this section. The fees remain compliant within the 0.75% p.a. charge cap on default investment arrangements which applied because the Scheme was used as a qualifying arrangement for auto enrolment prior to the insolvency of the sponsoring employer, Thomas Cook Group plc, on 23 September 2019.

Charges relating to investment management are deducted from member's funds. 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 includes the costs for other services paid for by the fund, such as the legal costs, registration fees and custodian fees. Here, they include the charges for operating the Aviva platform. 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. Transaction costs are not explicitly deducted from a fund but are captured in its investment performance (in other words, the higher the transaction cost, the lower the returns produced by a fund). The Financial Conduct Authority has provided guidance (in Policy Statement 17/20) to investment managers regarding calculations and disclosures of transaction costs. Due to the way in which transaction costs are required to be 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 requested from Aviva details of the TER and transaction costs over the year. The table below shows the TER and transaction costs for each of the underlying funds used within the default arrangement, the Thomas Cook Flexible Journey. The overall charge deducted from a member's pot, if in this default arrangement, will reflect the member's allocations in each of the underlying funds. The TER is at its highest during the growth phase, falling during eight years prior to age 65 (or the members target retirement age if different), to reflect the automatic switching of assets to the Flexible Journey De-risking and BlackRock Sterling Liquidity funds, which have a lower TER, as illustrated in the chart below.



Flexible Journey Funds	Total Expense Ratio (% pa)	Transaction Cost (% pa)
Thomas Cook Growth	0.29	0.12
Flexible Journey De-risking	0.26	0.13
BlackRock Sterling Liquidity (shown as Cash in the chart above)	0.14	0.01

The TER and transactions costs applicable to the other funds available as self-select options or within the alternative lifestyle strategies (e.g. the Pre-Retirement Fund is a component of the Thomas Cook Regular Income Journey lifestyle strategy) are:

Fund	Total Expense Ratio (% pa)	Transaction Cost (% pa)
Mercer Diversified Growth	0.40	0.29
LGIM Future World	0.42	0.11
HSBC Islamic Global Equity Index	0.44	0.05
BlackRock Aquila Connect All Stocks UK Gilt Index	0.14	0.04
Pre-Retirement	0.21	0.01
BlackRock Aquila Connect (30:70) Currency Hedged Global Equity Index	0.21	-0.04
BlackRock Aquila Connect World ex UK Equity Index	0.14	-0.05
BlackRock Emerging Markets Equity	0.38	-0.10
Mercer Active UK Property	0.82	-0.18
BlackRock Aquila Connect UK Equity Index	0.14	-0.13

Source: Aviva, May 2020

The figures and comments in this statement relate to members' investments held with Aviva. A relatively small number of members also have separate funds within an AVC policy with The Prudential Assurance Company. These funds are all invested in a with profits policy. The charging structure on the with-profits fund is not explicit and it is extremely difficult to provide a comparison in a peer group due to the different terms and guarantees on this type of investment. The amount invested in this policy is small in relation to members' overall rights under the Scheme and, following the Pensions Regulator's guidance and in light of the insolvency, the Trustees have adopted a proportionate approach in relation to the amount of governance time and effort expended on the AVCs which are held in the Prudential policy and not in the main Scheme investments. The Trustees wrote to members with AVCs with The Prudential Assurance Company in August 2020, outlining their options and providing some information about charges.

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

Using the charges and transaction cost data in accordance with regulation 23(1)(ca) of the Administration Regulations, Aviva have prepared illustrations detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot on behalf of the Trustees. The statutory guidance provided has been considered when providing these examples.

The below illustration has taken into account the following elements:

- Savings pot size;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

When calculating the assumptions set out below, Aviva have assumed that:

- The starting pension pot is £0
- Contributions of £100 are received per month, increasing at 2.5% per year. Of course contributions ceased to be paid by January 2020.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

Projected Pension Pot (in today's money)

This is not a personal illustration; it is based on the assumptions detailed above and within the table. The purpose of the illustration is to show how fund related costs and charges can affect the overall value of the funds you invest in over time.

Illustration of effect of cost and charges for typical funds within your scheme – Thomas Cook UK DC Pension Scheme

	Av MyM TC Growth		Av MyM TC Flexible Journey De-risking		Av MyM BlackRock Sterling Liquidity		Av MyM Legal & General (PMC) Pre-Retirement		Av MyM BlackRock Emerging Markets Equity (Aquila C)	
	Assumed growth rate 4.7%		Assumed growth rate 3.4%		Assumed growth rate 1.5%		Assumed growth rate 2.5%		Assumed growth rate 5%	
	Assumed costs and charges 0.41%		Assumed costs and charges 0.39%		Assumed costs and charges 0.15%		Assumed costs and charges 0.22%		Assumed costs and charges 0.28%	
At end of year	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken
1	£1,200	£1,200	£1,190	£1,190	£1,180	£1,180	£1,190	£1,190	£1,200	£1,200
2	£2,430	£2,420	£2,390	£2,390	£2,350	£2,350	£2,370	£2,370	£2,430	£2,430
3	£3,680	£3,660	£3,610	£3,590	£3,510	£3,500	£3,560	£3,550	£3,700	£3,680
4	£4,960	£4,920	£4,830	£4,790	£4,650	£4,640	£4,750	£4,730	£4,990	£4,960
5	£6,260	£6,200	£6,070	£6,010	£5,790	£5,770	£5,930	£5,900	£6,310	£6,270
10	£13,200	£13,000	£12,400	£12,200	£11,300	£11,200	£11,900	£11,700	£13,400	£13,200
15	£21,000	£20,300	£19,000	£18,500	£16,500	£16,400	£17,800	£17,500	£21,500	£21,000
20	£29,600	£28,300	£25,900	£24,900	£21,500	£21,200	£23,700	£23,200	£30,500	£29,600
25	£39,200	£37,100	£33,200	£31,600	£26,300	£25,800	£29,700	£28,900	£40,700	£39,200
30	£49,800	£46,600	£40,700	£38,300	£30,800	£30,200	£35,600	£34,500	£52,300	£49,900
35	£61,700	£57,000	£48,600	£45,300	£35,100	£34,300	£41,500	£40,000	£65,300	£61,800
40	£74,800	£68,300	£56,800	£52,400	£39,200	£38,200	£47,500	£45,500	£79,900	£75,000
45	£89,500	£80,600	£65,400	£59,700	£43,200	£41,800	£53,400	£50,900	£96,500	£89,700
50	£106,000	£94,000	£74,400	£67,200	£46,900	£45,300	£59,300	£56,200	£115,000	£106,000

Illustration of effect of costs and charges for funds with different growth rates and charges **within your scheme – Thomas Cook UK DC Pension Scheme**

	Av MyM BlackRock Sterling Liquidity		Av MyM BlackRock Aq Connect UK Equity Index		Av MyM BlackRock Emerging Markets Equity (Aquila C)		Av MyM Mercer Diversified Growth	
	Assumed growth rate 1.5%		Assumed growth rate 5%		Assumed growth rate 5%		Assumed growth rate 4.3%	
	Assumed costs and charges 0.15%		Assumed costs and charges 0.01%		Assumed costs and charges 0.28%		Assumed costs and charges 0.69%	
At end of year	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken
1	£1,180	£1,180	£1,200	£1,200	£1,200	£1,200	£1,200	£1,190
2	£2,350	£2,350	£2,430	£2,430	£2,430	£2,430	£2,420	£2,400
3	£3,510	£3,500	£3,700	£3,690	£3,700	£3,680	£3,660	£3,620
4	£4,650	£4,640	£4,990	£4,990	£4,990	£4,960	£4,920	£4,850
5	£5,790	£5,770	£6,310	£6,310	£6,310	£6,270	£6,200	£6,090
10	£11,300	£11,200	£13,400	£13,400	£13,400	£13,200	£13,000	£12,500
15	£16,500	£16,400	£21,500	£21,400	£21,500	£21,000	£20,400	£19,300
20	£21,500	£21,200	£30,500	£30,500	£30,500	£29,600	£28,400	£26,400
25	£26,300	£25,800	£40,700	£40,700	£40,700	£39,200	£37,200	£33,900
30	£30,800	£30,200	£52,300	£52,200	£52,300	£49,900	£46,800	£41,900
35	£35,100	£34,300	£65,300	£65,200	£65,300	£61,800	£57,200	£50,200
40	£39,200	£38,200	£79,900	£79,800	£79,900	£75,000	£68,600	£59,000
45	£43,200	£41,800	£96,500	£96,300	£96,500	£89,700	£81,100	£68,300
50	£46,900	£45,300	£115,000	£115,000	£115,000	£106,000	£94,700	£78,100

Value for members

The Trustees are committed to ensuring that members receive good value from the Scheme for the charges borne by them. There is no legal definition of “good value”, so the process of determining good value is a subjective one. “Value” is not a straightforward concept to quantify and can be open to broad interpretation. It is therefore assessed by the Trustees with guidance from their professional advisers.

Value formed a key part of the Trustees’ decision to appoint Aviva. As part of the selection exercise, the Trustees identified a number of areas in which Aviva provide good value for the charges that members pay:

- Charges for the default and self-select options are good when compared against comparable alternatives.
- Net of fees investment performance.
- Investment fund range and ratings, including ratings in respect of Environmental, Social, and Governance (ESG) considerations.
- Aviva offer a market-leading online platform for members.
- Through Mercer Workplace Savings (MWS), the Trustees receive an additional layer of governance oversight on the administrator from their advisers.

Before appointing Aviva the trustees undertook a comprehensive market review supported by their investment consultant and another independent investment adviser and are confident that the Aviva terms represent good value for members.

In addition, members also benefit from the governance oversight provided by the Trustees and their other professional advisers.

4. Trustee Knowledge and Understanding

The Pensions Act 2004 requires individual trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the Trustees to exercise the function in question.

Following the closure of the Company in September 2019, the Trustees are now operating a reduced Trustee Board. An Independent professional Trustee sits as Chair to provide experience and expertise, and the Trustees continue to receive support from their professional and legal advisers.

The independent chair also chairs a number of other similar pension schemes and formerly chaired the Independent Governance Committee of a top 100 PLC. The chair has years of pensions experience including negotiating on pensions at Board and Remuneration Committee level with a number of PLCs. He keeps up to date through attending the annual conference at the Pensions Management Institute and the Pension and Lifetime Savings Association. He keeps his knowledge refreshed holding the certificates in Defined Contribution and Defined Benefits trusteeship, the certificate in Defined Contribution Governance awarded by the Pensions Management Institute. The range and depth of experience helps set the pace and agenda. The other remaining trustee is the former Pensions Manager who is a qualified experienced pensions professional.

The Trustees are also required to explain how their combined knowledge and understanding, together with the advice which is available to them, enables them properly to exercise their functions as Trustees of the Scheme. Examples of the arrangements put in place under the Scheme to ensure this are as follows:

- All Trustees have completed the Pension Regulator’s online Trustee Toolkit. This is mandatory for all trustees, and they are expected to review updates and changes to the Toolkit at least every 3 years.
- The Trustees also receive legislative updates from the Scheme’s legal advisors.
- The Trustees maintain a training register
- The Trustees take regular investment advice from their Investment Consultant on matters relating to the Scheme investments.

- The Trustees also receive advice from professional advisors and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors.

The Trustees are conversant with, and have demonstrated a working knowledge of, the Scheme documents such as the Trust Deed and Rules and the powers that they provide to them, Statement of Investment Principles and documents setting out the Trustees' compliance. They do this through their regular use of a secure sharing platform that contains all the Scheme's key governance documentation.

During the year the Trustees reviewed their:

- Internal Guidance notes for Discretionary Payments on Death: providing a guide for the discretionary subcommittee to follow when considering the possible beneficiaries when a member dies.
- Self-assessment – Presence of DC code standards in the Thomas Cook UK DC Pension Scheme: regular review and update of the Trustees' assessment of the Scheme against the DC code.

The Trustees undertook a number of additional activities that involved giving detailed consideration to pensions and trust law, the Scheme's governing documents and investment principles. This allowed them to exercise their knowledge and understanding and to further strengthen their capabilities. These included:

- Exercising discretionary powers in relation to death cases and seeking advice from their professional advisors for specific cases
- Considering their investment strategy in the context of the Scheme platform changes

The Trustees also review and assess periodically whether the systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator's Code of Practice 13. They look at all aspects of administration and risk in the Scheme including reviewing the DC Code in practice in detail.

Based on these actions, taken individually and as a Trustee body, and the professional advice available to them, the Trustees consider that they have sufficient skills and resources to properly exercise their function as a Trustee.

The Trustees have also undertaken considerable analysis on the best way of securing member benefits in the long term given there is no longer an employer supporting the Scheme.

Following the insolvency of the sponsor all trustees with the exception of the Chair lost their jobs with most unable to continue as trustees. The Chair would like to thank those trustees and also previous trustees who have all made a very significant contribution over a number of years with their safe stewardship of the Scheme and thought, care and diligence regarding our members. The remaining trustees are ensuring that all the plans that were made are implemented. Members will continue to benefit from the good work.

Chair's declaration

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustees of the Thomas Cook UK DC Pension Scheme.

Signature:

Chair of the Trustees

Thomas Cook UK DC Pension Scheme

Date: 29 September 2020

Statement of Investment Principles dated 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"), which is available to members on request.

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 9.

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 9 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. These include alternative lifestyle strategies designed for those who are targeting annuity purchase or full cash withdrawal on retirement, which gradually transition from growth assets into appropriate assets for these targets as members approach their target retirement date. 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 9 of this Statement. The Trustees do not take into account member views or other non-financial factor in designing or operating the default arrangement.

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