

# Thomas Cook UK DC Pension Scheme

## Annual Implementation Statement

### Introduction

This statement sets out how, and the extent to which, the Trustees' Statement of Investment Principles (SIP) has been followed during the year to 31 March 2021. This statement has been produced in accordance with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as amended, and guidance published by the Pensions Regulator.

The SIP is enclosed within the Annual Report and sets out the policies referenced here.

### Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Scheme are those that the Trustees determine to be financially material considerations in relation to the Scheme, and are as follows:

*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".*

The policies in the SIP are intended to help meet the overall investment objectives of the Scheme.

## **Review of the SIP**

During the year the Trustees reviewed the Scheme's SIP in September 2020. A new SIP was agreed in order to reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019, relating to the following:

- How the arrangements with the asset managers incentivise the asset managers to align their investment strategy and decisions with the Trustees' policies in the SIP.
- How those arrangements incentivise the asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP.
- How the Trustees monitor portfolio turnover costs incurred by the asset managers and how it defines and monitors targeted portfolio turnover or turnover range.
- The duration of the arrangements with the asset managers.

In addition to the above, amendments were made to the SIP to reflect the closed status of the Scheme following the insolvency of Thomas Cook in September 2019.

## **Assessment of how the SIP policies have been followed for the year to 31 March 2021**

The information provided in the following table highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the Trustees policies in the SIP. In summary, it is the Trustees' view that the policies in the SIP have been followed during the Scheme year to 31 March 2021.

	Requirement	Policy/paragraph of SIP	In the year to 31 March 2021
1	Securing compliance with the legal requirements about choosing investments	Paragraph 1.	In considering appropriate investments for the Scheme, the Trustees obtain and consider the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice. The Trustees did not choose any new investments for the Scheme during the year.
2 & 3	Kinds of investments to be held and the balance between different kinds of investments	Paragraphs 4.1 and 4.2.	The investments (fund type, management style and asset allocations) did not change during the year and the SIP was implemented in line with the stated policy.
4	Risks, including the ways in which risks are to be measured and managed	Paragraph 3.	<p>The Trustees maintained a risk register during the year. The risk register sets out the risks to associated with the Scheme, including those in relation to investments, and considers the impact, likelihood, controls and mitigation steps for each risk.</p> <p>During the year the risk register was reviewed by the Trustees at each Trustee Board meeting.</p> <p>The Trustees reviewed the measurement of a number of the risks noted in the SIP on a quarterly basis during the year as part of regular performance reporting. The reports were provided by the Scheme's investment consultant, Mercer.</p> <p>The Trustees are satisfied that the SIP policies have been followed during the period.</p>
5	Expected return on investments	Paragraphs 4.2 and 7. Note that as members select their own funds, there is no single expected return across the Scheme.	<p>There were no changes to the objectives, benchmarks or targets set for the Scheme's mandates.</p> <p>Investment performance was reviewed each quarter in order to compare actual and expected investment returns relative to benchmarks. The performance reports provided during the year included how each investment manager was delivering against their specific targets. In addition, the Trustees considered at each of its meetings the research ratings assigned by Mercer to each underlying fund. This denotes Mercer's assessment of the likelihood of the fund's performance objective being achieved.</p>
6	Realisation of investments	Paragraph 6.	<p>The Trustees receive an administration report each quarter, which details the extent to which benefit payments and other core financial transactions have been processed within service level agreements and regulatory timelines. There were no issues experienced with realisation of investments during the period.</p> <p>All funds are daily dealt pooled investment vehicles, accessed by an insurance contract.</p> <p>The DC property fund available as a self-select option suspended dealing in March 2020 owing to the difficulty in obtaining reliable valuations of property. This was in line with FCA rules and followed a number of other open-ended property funds "gating" in this way. The fund resumed dealing on 1 October 2020. During the suspension period, member contributions were re-directed to a daily liquid fund, and no issues were experienced with processing benefit payments.</p>

	Requirement	Policy/paragraph of SIP	In the year to 31 March 2021
7	Financially material considerations over the appropriate time horizon, including how they are taken into account in the selection, retention and realisation of investments.	The risks identified in the SIP are considered by the Trustees to be 'financially material'. Paragraphs 2 and 3 outlines these issues.	The financially material risks identified by the Trustees, and how they are measured and managed, formed part of the SIP review in September 2020.  There were no significant changes to this policy during the year.
8	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	Within paragraph 9.	There were no changes to the SIP policy during the year.  No member views on investment matters (financial or non-financial) were received by the Trustees.
9	The exercise of the rights (including voting rights) attaching to the investments	Paragraph 9.	During the year, the Scheme continued to invest solely in pooled funds, where voting and engagement activities are delegated to the investment managers.
10	Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor & engage with relevant persons about relevant matters)		However, stewardship monitoring on investment manager voting and engagement activity and adherence to the UK Stewardship Code is part of the Trustees' policy. During the period, in respect of funds managed under a fiduciary management arrangement by Mercer, the Trustees received an annual Stewardship Monitoring report which reviewed voting and engagement policies and practices of the relevant Mercer funds. No issues were identified and the Trustees consider that the policy in place has been implemented appropriately during the year.  For funds managed under a fiduciary arrangement, Mercer has set a target to reach net zero carbon emissions by 2050. As the fiduciary manager, Mercer (on the Trustees' behalf), will engage with the underlying third party investment managers in order to deliver on this target. The Trustees believe that this aligns with their policies in relation to risk management and ESG.  The Trustees have also requested key voting activities from their managers. The information received is summarised later in this statement.

	Requirement	Policy/paragraph of SIP	In the year to 31 March 2021
11 & 12	<p>How the manager arrangement(s) incentivise the manager to align its investment strategy and decisions with trustees' policies.</p> <p>How the arrangement incentivises the manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt/equity and engage with issuers to improve performance in the medium to long-term.</p>	Paragraph 5.	<p>New disclosures on the Trustees' policies were added to the SIP in September 2020 which reflect current practice.</p> <p>Assessment of the medium to long-term financial and non-financial performance of an issuer are made by the investment managers, with appropriate monitoring by the Trustees. Over the year, the Trustees monitored how each asset manager embeds ESG into their investment process and how the managers' responsible investment philosophy aligns with the Trustees' own beliefs via changes in the ESG ratings assigned by Mercer.</p>
13	How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies.	Paragraph 5.	<p>New disclosures on the Trustees' policies were added to the SIP in September 2020 which reflect current practice.</p> <p>Short and long term investment performance was reviewed through quarterly investment reports prepared, which cover 3 month, 1 year, 3 years, and 5 years of performance statistics.</p> <p>In terms of asset manager remuneration, alongside the Chair's Statement disclosures the Trustees consider the extent to which the Scheme provides value for members. This includes consideration of the fees paid by members and the net of fees investment performance experienced by members.</p>
14	How trustees monitor portfolio turnover costs incurred by the manager, and how they define and monitor targeted portfolio turnover or turnover range.	Paragraph 5.	<p>New disclosures on the Trustees' policies were added to the SIP in September 2020 which reflect current practice.</p> <p>Transaction costs were assessed as part of preparing the annual illustrations of the impact of fees and charges on members' benefits, as detailed in the Chair's Statement. The Trustees have not set portfolio turnover targets; the Trustees instead assess performance net of the impact of the costs of such activities.</p>
15	The duration of the arrangement with the asset manager	Paragraph 5.	New policy added in September 2020 which reflects current practice.

## **Voting and Engagement**

The SIP sets out the Trustees; policy on environmental, social and governance (ESG) considerations, including stewardship (voting and engagement) and climate change.

In line with its policies, the Trustees have delegated its voting rights, and responsibility for engagement with investee companies, to the Scheme's underlying investment managers. The Trustees do not use the direct services of a proxy voter. The majority of voting activity will arise in public equity funds and as such the Trustees have reported voting information with respect to the funds that hold equities (including multi-asset funds), where this information has been provided.

### **Voting Activity during the Scheme year**

The Scheme makes available to members the following pooled funds. The funds highlighted in blue rows in the tables hold equities.

*Funds used in Default Strategy (also available as self-select options unless noted)*

<b>Fund</b>	<b>Underlying Manager / Fund</b>	<b>Allocation %</b>
TC Growth	BlackRock Aquila UK Equity Index	3.0
	BlackRock Emerging Markets Equity Index	5.0
	BlackRock Aquila World ex UK Equity Index	42.0
	Mercer Diversified Growth	50.0
TC Flexible Journey De-risking	BlackRock Aquila UK Equity Index	0.7
	BlackRock Emerging Markets Equity Index	1.1
	BlackRock Aquila World ex UK Equity Index	8.9
	Mercer Diversified Growth	40.0
	LGIM Pre-Retirement	22.7
	BlackRock Aquila All Stocks UK Gilt Index	13.3
	BlackRock All Stocks Index Linked Gilt*	13.3
BlackRock Sterling Liquidity	BlackRock Sterling Liquidity	100.0

\*This fund is only used within a blended strategy, rather than being available as a stand-alone option.

*Self-select funds (the default funds listed in the prior table are also available on a self-select basis unless marked)*

<b>Fund Type</b>	<b>Fund</b>
Multi-Asset	Mercer Diversified Growth
Equity	LGIM Future World
	HSBC Islamic Global Equity Index
	BlackRock Aquila (30:70) GBP Hedged Global Equity Index
	BlackRock Aquila World ex UK Equity Index
	BlackRock Emerging Markets Equity Index
	BlackRock Aquila UK Equity Index
Bond	BlackRock Aquila All Stocks UK Gilt Index
	LGIM Pre-Retirement
Alternatives	Mercer Active Property

### **Investment Manager Voting Disclosures**

The Trustees have been provided with the voting disclosures relating to the funds that invest in equities listed in the above tables, including the component parts of the default strategy. These are summarised overleaf.

Fund	12 Months to 31 March 2021					
	No. meetings eligible to vote	No. resolutions eligible to vote	% resolutions voted on where eligible	Of resolutions voted, % with management	Of resolutions voted, % against management	Of resolutions voted, % abstained
BlackRock Aquila UK Equity Index	1,211	15,742	97.2	92.5	5.7	1.8
BlackRock Emerging Markets Equity Index	3,632	32,114	98.2	88.4	9.7	2.0
BlackRock Aquila World ex UK Equity Index	2,231	27,464	93.7	93.2	6.3	0.5
BlackRock Aquila (30:70) GBP Hedged Global Equity Index	5,440	60,907	95.7	91.3	7.2	1.5
Mercer Diversified Growth	9,354	97,692	95.7	82.2	16.9	0.9
LGIM Future World	3,250	39,016	99.8	81.8	17.6	0.6
HSBC Islamic Global Equity Index	109	1,597	91.6	87.8	12.2	0.0

Source: Investment Managers. Totals may not sum due to rounding.

## Significant votes

The following tables provide an example from each fund used by the Scheme (where equities are held within the fund) of a significant voting issue that arose.

BlackRock Aquila UK Equity Index	
<b>Company</b>	Royal Dutch Shell plc ("Shell")
<b>Item</b>	Shareholder proposal to request for Shell to set and publish targets for greenhouse gas emissions. The proponent argued that Shell's ambition to reduce its net carbon intensity by 50% by 2050 would not ultimately lead to the level of emissions reduction needed to achieve the goals of the Paris Agreement.
<b>Date</b>	19 May 2020
<b>Criteria for assessing as significant</b>	The vote related to environmental risks and opportunities and was a high profile topic.
<b>Vote</b>	BlackRock voted against the shareholder resolution.
<b>Rationale</b>	<p>Since submission of the proposal, BlackRock highlight that Shell updated its commitments to more aggressively reduce its carbon footprint, and to become a "net-zero emissions energy" company by 2050 or sooner. This includes goals for different product areas for emissions, carbon footprint, and for the target consumer base.</p> <p>BlackRock has engaged with Shell on climate issues for many years and believe that because no single oil &amp; gas company is in full control of the global energy mix, some of the called-for commitments would only be possible if others (e.g. policymakers) accelerate development / use of low-carbon technology, incentivise energy efficiency, reduce demand for fossil fuels, and remove atmospheric emissions.</p> <p>As such, they did not vote for the proposal to place more extensive requirements on Shell at this stage.</p>
<b>Outcome</b>	<p>Shareholders slightly increased their support for the resolution to set further targets to reduce emissions, but the proposal was still voted down (i.e., the vote was in line with BlackRock's vote).</p> <p>The resolution received c14% approval, up from 5.5% in 2019.</p>

<b>BlackRock Emerging Markets Equity Index</b>	
<b>Company</b>	PT Indofood CBP Sukses Makmur Tbk (“ICBP”), a manufacturer of food products. It is also an indirect subsidiary of Hong Kong-listed First Pacific Company Limited (FPC) through Indofood Sukses Makmur (INDF).
<b>Item</b>	Approve acquisition of the total issued share capital of Pinehill Company Ltd.
<b>Date</b>	3 August 2020
<b>Criteria for assessing as significant</b>	Corporate strategy and capital allocation is a key stewardship priority, and the manager voted against management on this topic.
<b>Vote</b>	Against the resolution (against management)
<b>Rationale</b>	ICBP’s board sought approval to acquire Pinehill Company Ltd, a private holding company that makes and distributes the Indomie brand of noodles. The proposed purchase was from an ICBP affiliate Pinehill Corpora Ltd, which is 57% controlled by the President Director of ICBP, A Salim. Pinehill Corpora Ltd owns 51% of Pinehill Company Ltd, with the remainder owned by Steele Lake Ltd. The transaction was valued at c\$3 billion, and under Indonesian regulations, this was deemed an affiliated party transaction given Mr Salim’s roles and holdings in the various entities. BlackRock considered that whilst the acquisition had some merit, it was in clients’ interests to vote against the acquisition due to concerns regarding the valuation and terms of the transaction, and the board’s oversight in relation to the conflict of interest.
<b>Outcome</b>	The manager escalated concerns to relevant parties in the Indonesian market and has proposed opening a dialogue to discuss minority shareholder protections. In addition, to address what BlackRock considers a failure in governance, the intention is to hold current Board of Directors and Board of Commissioners accountable by voting against their re-election at future shareholder meetings.

<b>BlackRock Aquila World ex UK Equity Index and BlackRock Aquila (30:70) GBP Hedged Global Equity Index</b>	
<b>Company</b>	Chevron Corporation
<b>Item</b>	Report on Climate Lobbying Aligned with Paris Agreement Goals
<b>Date</b>	27 May 2020
<b>Criteria for assessing as significant</b>	Climate related voting has been highlighted by the investment manager since environmental risks and opportunities represent one of their key stewardship themes. In this vote, shareholders filed a non-binding proposal requesting that Chevron report on how the company’s direct and indirect lobbying align with the Paris Climate Agreement.
<b>Vote</b>	Chevron Corporation recommended that shareholders vote against this shareholder proposal. The manager voted for the proposal.
<b>Rationale</b>	The underlying manager, BlackRock, believes that greater transparency into the company’s approach to political spending and lobbying will help articulate consistency between private and public messaging in the context of managing climate risk.
<b>Outcome</b>	The resolution asking the company to produce a report disclosing the extent to which its lobbying aligns with the Paris Agreement achieved a 53% majority.

<b>Mercer Diversified Growth</b>	
<b>Company</b>	Barclays
<b>Item</b>	Shareholder proposal regarding climate change strategy
<b>Date</b>	30 April 2020
<b>Criteria for assessing as significant</b>	The vote related to a shareholder resolution with a specific focus on climate change, and was a vote against management.
<b>Vote</b>	The manager voted for the resolution (against management).
<b>Rationale</b>	The resolution asked the bank to phase out financing of fossil fuel companies that are active agents in driving the climate crisis. The manager supported the resolution on the basis that it would drive positive change on climate change risk management.
<b>Outcome</b>	The proposal received the support of 24% of shareholders.

<b>LGIM Future World</b>	
<b>Company</b>	Barclays
<b>Items</b>	Resolution 29 to approve Barclays' commitment in tackling climate change and resolution 30 to approve a ShareAction resolution on climate change.
<b>Date</b>	7 May 2020
<b>Criteria for assessing as significant</b>	LGIM note that there had been significant client interest in their voting intentions and engagement activities in relation to the 2020 Barclays AGM. For this reason, it was deemed a significant vote.
<b>Vote</b>	LGIM voted for both resolutions
<b>Rationale</b>	<p>The Barclays resolution 29 set an ambition for Barclays to be net zero by 2050 and to commit the Group to a strategy, with targets, for alignment of its financing portfolio to the goals of the Paris Agreement.</p> <p>The ShareAction resolution asked the bank to phase out its financing of fossil fuel companies that are active agents in driving the climate crisis.</p> <p>LGIM supported both resolutions on the basis that the proposals would drive positive change on climate change risk management.</p>
<b>Outcome</b>	<p>Resolution 29 was supported by 99.9% of shareholders, resolution 30 was supported by 24% of shareholders.</p> <p>LGIM acknowledge that the hard work is just beginning, and its focus will now be to help Barclays on the detail of their plans and targets, more detail of which is to be published in 2021. LGIM will also continue to liaise with ShareAction, Investor Forum, and other large investors, to ensure a consistency of messaging.</p>

<b>HSBC Islamic Equity</b>	
<b>Company</b>	Eli Lilly and Company
<b>Item</b>	Resolution to link executive pay to social criteria
<b>Date</b>	4 May 2020
<b>Criteria for assessing as significant</b>	The underlying manager regards votes against management as the most significant, and in this instance they voted for a shareholder resolution that went against the recommendation of the company's management.
<b>Vote</b>	For the resolution – the manager voted for a shareholder resolution which called for integration of social metrics in determining variable remuneration for executives.
<b>Rationale</b>	The manager favours proposals calling for the integration of extra-financial metrics in determining executives' variable remuneration, such as social criteria.
<b>Outcome</b>	The vote was in favour of company management. The manager have sought to discuss this further with the company.