

Chair's Annual Statement for the TUI GROUP UK Pension Trust

This includes the BAL Scheme and the TUI UK Scheme – DC sections and DB AVCs

The Occupational Pension Schemes (Charges and Governance) Regulations 2015 (the "Regulations") require the Trustee to prepare an annual governance statement to be included in the Schemes' annual report and accounts.

This statement covers the period from 1 October 2017 to 30 September 2018 and is signed on behalf of the Trustee by the Chair and covers the following matters for both Schemes' Defined Contribution (DC) sections and DB AVC arrangements:

- The default investment arrangement;
- Processing of core financial transactions;
- Member charges and transaction costs;
- Value for members assessment;
- Trustee knowledge and understanding.

1. The Default Investment Arrangement

The Trustee is required to design default arrangements in members' interests and keep them under review. The Trustee will need to take account of the level of costs and the risk profile that are appropriate for the Schemes' membership in light of the overall objective of the default arrangement strategy.

The Trustee is responsible for investment governance. This includes setting and monitoring the investment strategy for the Schemes' default arrangement. The default investment arrangement is provided for members who join the Schemes and do not choose an investment option for their contributions. Members can also choose to invest in the default investment arrangement, which is set up by the Trustee.

The Trustee, supported by its investment adviser, reviews the investment strategy on a regular basis (at least every 3 years), which includes reviewing the default strategy. This ensures the Trustee has a default arrangement in place that best meets the needs of the majority of members.

The BAL Scheme and the TUI UK Scheme:

The Trustee has chosen the Drawdown Lifestyle Strategy as the default arrangement for both Schemes. This strategy is suitable for members who have not decided how they wish to take their retirement benefits or want to drawdown flexibly over time. The strategy initially invests in more risky assets that have higher potential for long-term growth (such as equities – stocks and shares of companies). From 15 years prior to a member's selected retirement age, funds are gradually switched into less risky assets that will help to preserve a member's retirement savings. At the selected retirement age, a member will be invested in a combination of cash, equities, government gilts and bonds.

The investment strategy, including the default was reviewed in 2018. The review had been constructed following analysis of the existing membership of the BAL Scheme and the TUI UK Scheme. The analysis accounted for factors such as age, salary, contribution level, accumulated fund values and term to retirement age, to identify different types of members in order to test alternative investment strategies. The Trustee also considered how consistent the strategy is with their aims and objectives.

No changes were made following the review, though the Trustee plans to carry out a more in-depth analysis over 2019. The Trustee continues to make the Drawdown Lifestyle Strategy available as the default arrangement, and this is considered suitable for members based on the most recent analysis of membership.

During the year the Trustee reviewed the performance of the default strategy by considering the return of each of the funds against its benchmark over both short and longer time periods. This information is provided on a quarterly basis through investment monitoring reports provided by the investment adviser and this allows the Trustee to monitor whether the default strategy is performing in line with its stated objective.

2. Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Schemes, transfers between different investments within the Schemes and payments to and in respect of members) are processed promptly and accurately.

The BAL Scheme and TUI UK Scheme DC Sections and DB AVC arrangements

In practice, the Trustee has delegated responsibility for these core financial transactions to Standard Life which is appointed to provide administration services for the DC Sections and DB AVC arrangements of the BAL Scheme and the TUI UK Scheme. There is a service level agreement in place with Standard Life which covers the accuracy of all core financial transactions and the timeframe within which these should be completed. Standard Life has provided regular administration reports covering the key aspects of administration in the year to 30 September 2018, including information about service levels. These reports are provided on a quarterly basis and the Trustee is comfortable that the requirements have been met by Standard Life.

Standard Life has provided a Pensions Internal Control Statement which outlines the business overview and control procedures. The processes and controls adopted by Standard Life to help meet the service levels agreed include tested automated systems in place to process payments, a dedicated controls team to actively manage manual payments and regular reconciliations to ensure accurate recording of contributions.

There were no administration issues identified over the year and the Trustees are comfortable that the requirements in respect of core financial transactions have been met.

Legacy AVC arrangements

The BAL Scheme also has AVC assets invested with Standard Life, Equitable Life, Prudential and Wesleyan (the "legacy AVC arrangements"). The TUI UK Scheme has AVC assets invested with Standard Life, Equitable Life and Wesleyan. These arrangements pre-date the current DB AVC arrangements with Standard Life covered above, though there are some ongoing contributions being paid into them.

The Trustee requested information relating to core financial transactions from all of the providers of the legacy AVC arrangements in January 2019.

Prudential has provided a report detailing relevant internal controls relating to core financial transactions.

Equitable Life has published a full Corporate Governance Statement in their Annual Report and Accounts to 31 December 2017. This Statement includes information on their system of internal controls and risk management. The Annual Report and Accounts to 31 December 2018 will be available later in 2019.

Wesleyan has confirmed a full internal controls report for the Scheme is unavailable, however, they

have provided information on their internal controls process and how they mitigate any risks.

Standard Life has provided a Pensions Internal Control Statement which outlines the business overview and control procedures. The processes and controls adopted by Standard Life to help meet the service levels agreed include tested automated systems in place to process payments, a dedicated controls team to actively manage manual payments and regular reconciliations to ensure accurate recording of contributions.

The Trustee, along with its advisers, will continue to request more regular and complete information concerning the processing of core financial transactions with Equitable Life, Prudential, and Wesleyan when and if this information becomes available. This information was last requested in January 2019.

3. Member Charges and Transaction costs

The Trustee regularly monitors the level of charges borne by members through the funds. These charges comprise:

- *express explicit charges, such as the Fund Management Charge (FMC) (also known as the Annual Management Charge (AMC)), and additional expenses that are disclosed by the fund manager as part of the Total Annual Fund Charge (TAFC) (also known as the Total Expense Ratio (TER));*
- *transaction costs, such as the costs borne within the fund for activities such as buying and selling of particular securities within the fund's portfolio, to the extent they are available.*

The costs to the membership of the sections comprise TERs and transaction costs.

The BAL and TUI UK Schemes DC sections

Information on the explicit charges applicable to the funds offered by the BAL Scheme (DC Section) and the TUI UK Scheme (current DC arrangement), including the funds underlying the default arrangement are shown in the table below.

This information is also available through the Standard Life member websites:

<https://www.standardlifepensions.com/bal/investment-choices>

<https://www.standardlifepensions.com/tuiuk/investment-choices>

The TER information is normally readily available as these charges are explicit and are deducted as a percentage of members' funds.

Transaction costs are costs which are incurred within the day to day management of the assets by the fund manager. This covers such things as the cost of buying and selling securities within the fund. Transaction costs are incurred on an on-going basis and are implicit within the performance of the fund. The Financial Conduct Authority rules on disclosure for transaction costs in a standard format came into effect for investment managers on 3 January 2018.

As defined by the Financial Conduct Authority, explicit transaction costs are the costs that are directly charged to or paid by the fund and may include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and costs of borrowing or lending securities.

Implicit transaction costs are calculated as the difference between the actual price paid (execution price) and the quoted 'mid-market price' at the time of the order was placed (arrival price). This method, although reasonable if observed over a long period of time, can result in a volatile measure from one year to another and can even result in a profit, known as 'negative costs'. This can happen, for example

when buying an asset, if the actual price paid ends up being lower than the mid-market price at the time of placing the order, because something has happened in the market that pushes the price of the asset down - such as some negative publicity or a big sell order by someone else.

The transaction costs calculated by the providers, using a method prescribed by the Regulator, has resulted in negative costs (i.e. a profit) for some funds held by members during the period of review.

For the default arrangement of these sections (the Drawdown Lifestyle strategy), the charge cap applies. Importantly, the TER for the default arrangement is within the charge cap set by the regulations of 0.75% p.a. The actual TER is between 0.15% p.a. and 0.73% p.a., depending on a member's term to retirement and the corresponding funds they are invested in.

Alongside the default arrangement, the Trustee also makes available 5 other lifestyle strategies for members in the BAL Scheme, and 4 for the TUI UK Scheme. Members in the BAL Scheme have access to a further 18 self-select funds and members in the TUI UK Scheme have access to 19 self-select funds.

| Fund Name | TER (% p.a.) | Transaction Costs (%) | Total Cost (%) |
|---|-----------------|-----------------------------|-------------------|
| Lifestyle Strategies | | | |
| Drawdown Lifestyle strategy (<i>default arrangement</i>) | 0.15 – 0.73 | -0.02 – 0.04 | 0.13 – 0.78 |
| Passive Equity Annuity Lifestyle strategy | 0.15 – 0.88 | -0.02 – 0.06 | 0.13 – 0.94 |
| Active Equity Annuity Lifestyle strategy | 0.29 – 0.74 | 0.00 - 0.01 | 0.30 – 0.74 |
| Diversified Growth Annuity Lifestyle strategy | 0.29 – 0.88 | 0.01 – 0.06 | 0.30 – 0.94 |
| Passive Equity Cash Accumulation Lifestyle strategy (<i>BAL Scheme only</i>) | 0.15 – 0.88 | -0.02 – 0.06 | 0.13 – 0.94 |
| Cash Lifestyle strategy | 0.15 – 0.73 | -0.02 – 0.04 | 0.13 – 0.78 |
| Self-Select Options | | | |
| Standard Life Deposit and Treasury Pension Fund | 0.29 | 0.00 | 0.29 |
| Standard Life Property Pension Fund | 0.31 | 0.09 | 0.40 |
| SL Vanguard UK Inflation Linked Gilt Index Pension Fund | 0.15 | 0.00 | 0.15 |
| Standard Life Annuity Targeting Pension Fund | 0.28 | 0.01 | 0.29 |
| SLI Global Absolute Return Strategies Fund | 0.87 | 0.06 | 0.93 |
| SL Vanguard SRI Global Stock Pension Fund | 0.15 | 0.00 | 0.15 |
| Standard Life UK Equity Select Pension Fund | 0.69 | 0.06 | 0.75 |
| SL BlackRock Emerging Markets Equity Tracker Pension Fund | 0.32 | 0.00 | 0.32 |
| SL BlackRock UK Equity Tracker Pension Fund | 0.15 | 0.00 | 0.15 |
| SL 50:50 Global Equity (BlackRock) Pension Fund | 0.15 | -0.02 | 0.13 |
| SL World Ex UK Equity (BlackRock) Pension Fund | 0.15 | -0.03 | 0.12 |
| SL BlackRock North America Equity Tracker Pension Fund | 0.15 | 0.00 | 0.15 |
| SL BlackRock Japan Equity Tracker Pension Fund | 0.15 | 0.00 | 0.15 |
| SL BlackRock Continental European Equity Tracker Pension Fund | 0.15 | 0.00 | 0.15 |
| SL BlackRock Corporate Bond Tracker Pension Fund | 0.15 | 0.00 | 0.15 |
| SL BlackRock Pacific ex Japan Equity Tracker Pension Fund | 0.17 | 0.00 | 0.17 |

| | | | |
|--|------|-------|-------|
| SL BlackRock SF Systematic Global Equity Pension | 0.74 | 0.00 | 0.74 |
| SL HSBC Islamic Global Equity Index Pension Fund | 0.44 | 0.00 | 0.44 |
| (TUI UK Scheme only) | 0.32 | -2.14 | -1.82 |
| SL At Retirement (Multi Asset) Pension Fund | | | |

Source: Standard Life

Cost and Charge illustrations

The Trustee is also required to illustrate the effect of the costs and charges typically paid by a member on their retirement values (as a "pounds and pence figure").

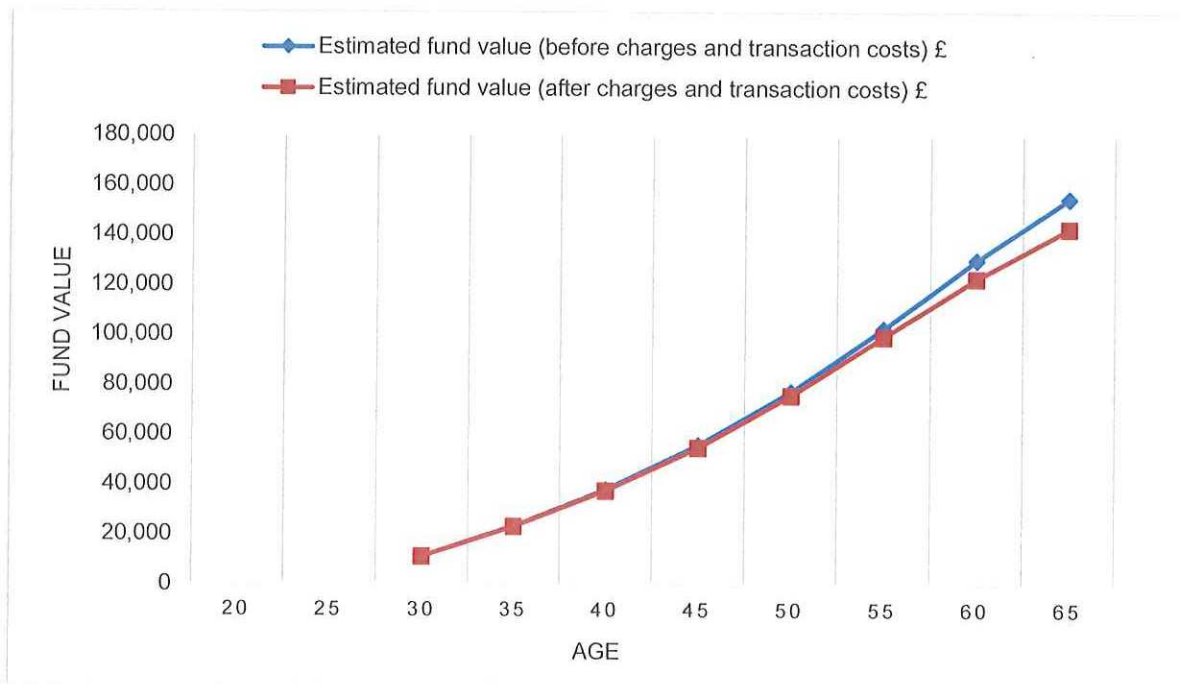
We have produced the following illustrations to demonstrate the effect of the above costs and charges for investment strategies representative of the BAL and TUI UK Schemes' membership.

Most members invest in the Drawdown Lifestyle strategy which automatically transitions members' funds from SL BlackRock Global Equity 50:50 Pension Fund, into the SL GARS Pension Fund, SL Corporate Bond Tracker Fund and the SL Vanguard UK Inflation Linked Gilt Index Pension Fund as members approach retirement age.

The tables and charts below illustrate the effect of the costs and charges at different ages on members' projected retirement pots for the youngest member within the TUI UK GROUP Pension Trust.

For the youngest member invested in the Drawdown Lifestyle strategy, the estimated impact of charges on accumulated fund values is shown in the table and chart below. The amounts shown relate to a member aged 27, current fund value of £5,000, salary of £18,000, ongoing contributions of 10% and a Retirement Age of 65.

| Age | Estimated fund value (before charges and transaction costs) £ | Estimated fund value (after charges and transaction costs) £ | Effect of charges and transaction costs £ |
|-----|---|--|---|
| 30 | 11,260 | 11,224 | 36 |
| 35 | 23,432 | 23,258 | 174 |
| 40 | 38,172 | 37,728 | 444 |
| 45 | 56,022 | 55,127 | 895 |
| 50 | 77,637 | 76,049 | 1,588 |
| 55 | 102,960 | 99,716 | 3,244 |
| 60 | 130,484 | 123,071 | 7,413 |
| 65 | 155,293 | 143,293 | 12,000 |



In addition to the assumptions stated above, the following assumptions have been made for the purposes of the above illustrations:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Inflation is assumed to be 2.5% each year.
3. Contributions are assumed from current age to 65 and increase in line with assumed earnings inflation of 2.5% each year
4. Values shown are estimates and are not guaranteed
5. The assumed growth rates (gross of costs and charges) are as follows:
 - Global Equity 50:50 Fund: 6.5% p.a.
 - Multi-Asset Absolute Return: 5.6% p.a.
 - Corporate Bonds: 2.3% p.a.
 - Index-Linked Gilts: 0.9% p.a.

The TUI UK and BAL Schemes: DB AVC arrangements

Members who pay DB AVCs have access to the same fund range as members in the TUI UK and BAL Schemes' DC Sections.

The default arrangement is the Cash Lifestyle Strategy. As funds in the DB AVC arrangement are only built up through employee contributions and not employer contributions, the default arrangement of the DB AVC arrangement does not have to comply with the charge cap.

For the TUI UK Scheme, the charges for the default range from 0.15% – 1.19% p.a. and for the BAL Scheme, from 0.72% – 1.30% p.a.

Members in the BAL Scheme also have the option to invest in five other lifestyle strategies and 18 self-select funds. Members in the TUI UK Scheme have the option to invest in four other lifestyle strategies and 19 self-select options.

Full details of these charges can be found in Appendix 1.

The TUI UK and BAL Schemes: Legacy AVC arrangements

The Trustee has requested cost and charge information from these providers.

In relation to the **Standard Life** legacy arrangements, members are permitted to access the full Standard Life fund range, which includes funds managed by Standard Life and other fund managers. As at 30 September 2018, members were invested in the below funds. There is a discount of 0.38% p.a. that has already been applied to these TERs across all funds.

In addition to the funds in the table below, a with profits fund is also available to members to invest in. There is no explicit management charge deducted from the with-profits investments. Instead, discretionary deductions are made to cover costs, including an allowance for the cost of guarantees provided by with-profits business and a contribution to support Standard Life's capital. These deductions may affect the proceeds the member receives, although this will not reduce any guaranteed benefit. Standard Life have however provided transaction costs for the with-profits fund, which equated to 0.10% over the year to 30 September 2018.

| Fund Name | TER (% p.a.) | Transaction Costs (%) | Total Cost (%) |
|---------------------------------------|-----------------|-----------------------------|-------------------|
| Lifestyle Strategies | | | |
| SL North American Equity Pension Fund | 0.63 | 0.05 | 0.68 |
| SL Managed Fund | 0.64 | 0.07 | 0.71 |
| SL Stock Exchange Pension Fund | 0.65 | 0.10 | 0.75 |
| SL Far East Equity Pension Fund | 0.72 | 0.08 | 0.80 |
| SL Ethical Pension Fund | 0.63 | 0.09 | 0.72 |
| SL European Equity Pension Fund | 0.64 | 0.06 | 0.70 |
| SL UK Equity Pension Fund | 0.63 | 0.13 | 0.76 |
| SL FTSE Tracker Pension Fund | 0.63 | 0.00 | 0.63 |

Source: Standard Life

In relation to **Equitable Life**, all members are invested in with-profits funds and there is no explicit management charge deducted from the with-profits investments. Instead, discretionary deductions are made to cover costs. The current deductions are 1.0% p.a. for the fund management charge, 0.5% p.a. for the cost of guarantees and 0.1% of transaction costs resulting in a total fund charge of 1.51%.

Wesleyan has provided AMCs which are 0.90% p.a. They have also provided the following information regarding costs:

- There is no charge on the first switch in any calendar year but each further switch will cost £25.
- Transaction costs do apply but this information is not available at the current time and it will unlikely be available in the timeframes required for submitting the Trustee Report and Accounts. The Trustees are continuing to work with Wesleyan in order to for this information to be made available in the future.

Prudential (BAL Scheme only) offers a with-profits fund for which explicit charges are not quoted and where they are, those are not necessarily all of the charges borne by members. The Trustee has requested cost, charge and transaction cost information from Prudential, but this was not available at the time of writing. Prudential expect to make this information available by the end of March 2019 and the Trustee will continue to request this information.

4. Value for Members' Assessment

The Trustee has carried out an assessment of charges and transaction costs borne by members and the extent to which those charges and costs represent good value for money for members.

In addition to the requirement to assess the charges and transactions costs paid by members, the

Trustee is also required to consider the extent to which those charges and costs represent good value for money for members ("Value for Members"). There is no legal definition of "good value" and so it is left to the Trustee, with help from its advisers, to develop their own assessment.

The Trustee regards the most important areas of assessing Value for Members to be ensuring that there are competitive charges and suitable investment options for members to choose from.

Members of the DC Sections of the TUI UK and BAL Schemes and those who pay DB AVCs have a wide range of investment options to choose from, each option has a different associated charge, and the funds available are competitively priced.

Whilst some of the funds for the legacy AVC arrangements carry relatively higher charges, the fund range includes other options for members to choose from that carry lower charges. The Trustee will continue to monitor and regularly review the ongoing suitability of these legacy arrangements. The Trustee is comfortable that the costs and charges represent good value for members.

The default strategy of the DC sections of both schemes also complies with the charge cap of 0.75% p.a.

The Trustee also considers non-monetary costs and benefits when considering value for members.

The Trustee takes care in ensuring the Schemes are well governed, undertaking quarterly monitoring of individual funds and annual monitoring of the overall default arrangement, seeking advice from its legal and investment advisers where required. The Trustee also monitors administration of the various sections of the Schemes through quarterly administration reports to ensure that service levels are being met.

Finally, the Trustee considers the Schemes' communications and have ensured there are a wide range of relevant and useful tools and communications available to members through the Standard Life websites. This includes information on investment options, retirement planner and projection tools and information on contributions.

The Trustee considers the Schemes to provide members with good value for money.

5. Trustees' Knowledge and Understanding

The Trustee board members are required to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as a Trustee properly. This requirement is underpinned by guidance from the Pensions Regulator.

The Trustee takes its training and development opportunities seriously and keeps a record of the training completed by the board. During the period covered by this statement, significant time has been spent on DC-related matters as part of the regular Trustee meetings, which has necessarily included elements of training.

Plan documents are held on the Aon Pensions Organiser and access is granted as soon as an individual becomes a Trustee. This includes access to copies of key Plan documents. This helps to ensure that all Trustees have a working knowledge of the Trust Rules and other key documents. Training logs are maintained for each Trustee and all Trustees receive comprehensive introductory training when taking up office and are encouraged to complete the Trustee toolkit.

The Trustee works closely with their appointed professional advisers throughout the year. The Trustee's professional advisers also attend all Trustee meetings. Most members of the Board have achieved the PMI Award in Pension Trusteeship (which includes material in relation to pension and

Chair's Statement 30 September 2018

trust law and funding and investment principles) with the exception of two Trustees (who will by the next Statement date) and the Chair of the Board who is a professional independent trustee and qualified pensions actuary (thus subject to the continuing professional development requirements of the Institute of Actuaries).

During the period the Trustee has:

- Held quarterly meetings with their investment advisers to review fund performance and administration;
- Undertaken a review of the investment strategy;
- Undertaken legal training with respect to their duties and powers as Trustees and new regulations within the pensions industry;
- Undertaken training to understand advances in governance structures in the DC market and used this to develop the Trust's governance agenda for the year; and
- Reviewed the options available to members within the scheme for retirement savings with their investment advisers, lawyers and an Independent Financial Advisor.

As a result of the training activities which are being completed and taking into account the professional advice available to the Trustee, the Board is confident that the combined knowledge and understanding of the Trustee directors enables it to exercise properly its functions as Trustee of the Scheme.

Signed on behalf of the Trustee



Chairman

Date of signing 27th March 2019.

Appendix 1: BAL and TUI UK Schemes DB AVC charges

The table below sets out the charges and transaction costs that applied to the funds available to members paying DB AVCs through the BAL Scheme.

| <i>BAL Scheme: DB AVCs</i> Fund Name | TER (% p.a.) | Transaction Costs (% p.a.) | Total Cost (% p.a.) |
|---|-----------------|----------------------------------|------------------------|
| Lifestyle Strategies | | | |
| Cash Lifestyle strategy (<i>default arrangement</i>) | 0.72 – 1.30 | -0.02 – 0.04 | 0.70 – 1.34 |
| Passive Equity Annuity Lifestyle strategy | 0.72 – 1.44 | -0.02 – 0.06 | 0.70 – 1.50 |
| Active Equity Annuity Lifestyle strategy | 0.85 – 1.31 | 0.00 - 0.01 | 0.86 – 1.31 |
| Diversified Growth Annuity Lifestyle strategy | 0.85 – 1.44 | 0.01 – 0.06 | 0.86 – 1.50 |
| Passive Equity Cash Accumulation Lifestyle strategy | 0.72 – 1.44 | -0.02 – 0.06 | 0.70 – 1.50 |
| Drawdown Lifestyle strategy | 0.72 – 1.30 | -0.02 – 0.04 | 0.70 – 1.34 |
| Self-Select Options | | | |
| Standard Life Deposit and Treasury Pension Fund | 0.86 | 0.00 | 0.86 |
| Standard Life Property Pension Fund | 0.88 | 0.09 | 0.97 |
| SL Vanguard UK Inflation Linked Gilt Index Pension Fund | 0.72 | 0.00 | 0.72 |
| Standard Life Annuity Targeting Pension Fund | 0.85 | 0.01 | 0.86 |
| SLI Global Absolute Return Strategies Fund | 1.44 | 0.06 | 1.51 |
| SL Vanguard SRI Global Stock Pension Fund | 0.72 | 0.00 | 0.72 |
| Standard Life UK Equity Select Pension Fund | 1.26 | 0.06 | 1.32 |
| SL BlackRock Emerging Markets Equity Tracker Pension Fund | 0.89 | 0.00 | 0.89 |
| SL BlackRock UK Equity Tracker Pension Fund | 0.72 | 0.00 | 0.72 |
| SL 50:50 Global Equity (BlackRock) Pension Fund | 0.72 | -0.02 | 0.70 |
| SL World Ex UK Equity (BlackRock) Pension Fund | 0.72 | -0.03 | 0.69 |
| SL BlackRock North America Equity Tracker Pension Fund | 0.72 | 0.00 | 0.72 |
| SL BlackRock Japan Equity Tracker Pension Fund | 0.72 | 0.00 | 0.72 |
| SL BlackRock Continental European Equity Tracker Pension Fund | 0.72 | 0.00 | 0.72 |
| SL BlackRock Corporate Bond Tracker Pension Fund | 0.72 | 0.00 | 0.72 |
| SL BlackRock Pacific ex Japan Equity Tracker Pension Fund | 0.74 | 0.00 | 0.74 |
| SL BlackRock Systematic Global Equity Pension Fund | 1.31 | 0.00 | 1.31 |
| SL HSBC Islamic Global Equity Index Pension Fund | 1.01 | 0.00 | 1.01 |
| SL At Retirement (Multi Asset) Pension Fund | 0.89 | -2.14 | -1.25 |

Source: Standard Life

The table below sets out the charges and transaction costs that applied to the funds available to members paying DB AVCs through the TUI UK Scheme.

| <i>TUI UK Scheme: DB AVCs</i> Fund Name | TER (% p.a.) | Transaction Costs (% p.a.) | Total Cost (% p.a.) |
|---|-----------------|----------------------------------|------------------------|
| Lifestyle Strategies | | | |
| Cash Lifestyle strategy (<i>default arrangement</i>) | 0.15 – 1.19 | -0.02 – 0.04 | 0.13 – 1.23 |
| Passive Equity Annuity Lifestyle strategy | 0.15 – 1.45 | -0.02 – 0.06 | 0.13 – 1.51 |
| Active Equity Annuity Lifestyle strategy | 0.43 – 0.74 | 0.00 - 0.01 | 0.43 - 0.74 |
| Diversified Growth Annuity Lifestyle strategy | 0.43 – 1.45 | 0.01 – 0.06 | 0.43 – 1.51 |
| Drawdown Lifestyle strategy | 0.15 – 1.19 | -0.02 – 0.04 | 0.13 – 1.23 |
| Self-Select Options | | | |
| Standard Life Deposit and Treasury Pension Fund | 0.86 | 0.00 | 0.86 |
| Standard Life Property Pension Fund | 0.31 | 0.09 | 0.38 |
| SL Vanguard UK Inflation Linked Gilt Index Pension Fund | 0.15 | 0.00 | 0.15 |
| Standard Life Annuity Targeting Pension Fund | 0.28 | 0.01 | 0.29 |
| SLI Global Absolute Return Strategies Fund | 1.45 | 0.06 | 1.51 |
| SL Vanguard SRI Global Stock Pension Fund | 0.15 | 0.00 | 0.15 |
| Standard Life UK Equity Select Pension Fund | 1.26 | 0.06 | 1.32 |
| SL BlackRock Emerging Markets Equity Tracker Pension Fund | 0.32 | 0.00 | 0.32 |
| SL BlackRock UK Equity Tracker Pension Fund | 0.15 | 0.00 | 0.15 |
| SL 50:50 Global Equity (BlackRock) Pension Fund | 0.15 | -0.02 | 0.13 |
| SL World Ex UK Equity (BlackRock) Pension Fund | 0.15 | -0.03 | 0.12 |
| SL BlackRock North America Equity Tracker Pension Fund | 0.15 | 0.00 | 0.15 |
| SL BlackRock Japan Equity Tracker Pension Fund | 0.72 | 0.00 | 0.72 |
| SL BlackRock Continental European Equity Tracker Pension Fund | 0.15 | 0.00 | 0.15 |
| SL BlackRock Corporate Bond Tracker Pension Fund | 0.15 | 0.00 | 0.15 |
| SL BlackRock Pacific ex Japan Equity Tracker Pension Fund | 0.17 | 0.00 | 0.17 |
| SL BlackRock Systematic Global Equity Pension Fund | 0.74 | 0.00 | 0.74 |
| SL HSBC Islamic Global Equity Index Pension Fund | 0.44 | 0.00 | 0.44 |
| SL At Retirement (Multi Asset) Pension Fund | 0.74 | -2.14 | -1.42 |

Source: Standard Life

Appendix 1

**Statement of Investment Principles - Default Strategy
for the BAL Scheme
(March 2016)**

The Trustee has designated a default arrangement into which members who make no specific choice of investment are invested. The Trustee has designated the Drawdown Lifestyle Strategy as the default arrangement for the Defined Contribution Sections in the BAL Scheme.

Aims and Objectives

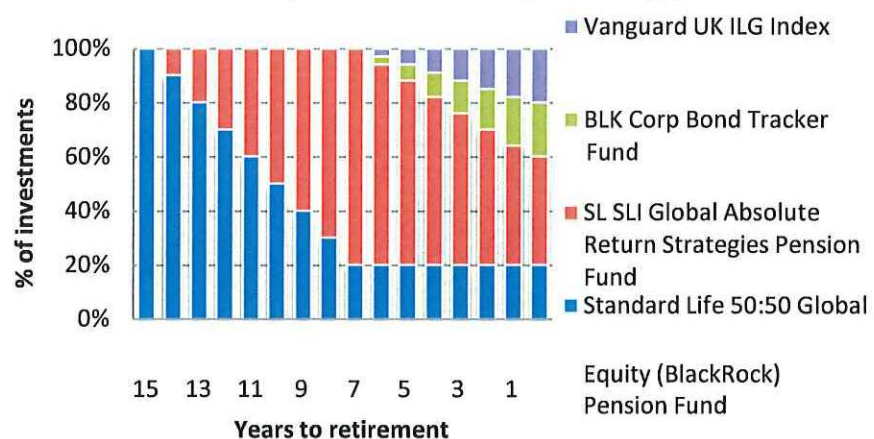
The Trustee aims to have a default arrangement that best meets the needs of the majority of the members.

The Drawdown Lifestyle Strategy has been constructed following analysis of the membership. This analysis took into account factors such as age, salary, contribution level, accumulated fund values and term to retirement age to identify different types of member in order to test alternative investment strategies. The design of the Drawdown Lifestyle Strategy reflects this analysis having carried out multiple simulations of future economic and investment scenarios, and also taking into account the various options that members will have regarding the way in which they draw their benefits in retirement.

The aim of the Drawdown Lifestyle Strategy is to provide members with the potential for higher levels of growth during the accumulation of their retirement savings through exposure to equity funds and then to gradually diversify their investments in the years approaching retirement to reduce volatility, and provide a broad base of assets from which members can draw income (albeit the Trustee acknowledges that the member would need to transfer their retirement savings to an external arrangement in order to access this facility).

The asset allocation throughout the Drawdown Lifestyle Strategy and the phasing of the gradual switching of investments takes into account members' greater capacity for volatility in early years and reduced capacity for volatility in later years.

**Default Lifestyle Profile
(Drawdown Lifestyle Strategy)**



Risk Management

The Trustee recognises the key risk is that members will have insufficient value of assets in their accumulated fund at retirement to meet their benefit expectations. The Trustee considered this risk when setting the investment strategy for the Scheme. The Trustee's policy in respect of risk measurement methods and risk management processes in relation to the default strategy is set out below.

The Trustee considers the following sources of risk:

- The risk of not meeting the reasonable expectations of members, bearing in mind members' contributions. The Trustee monitors expected retirement outcomes regularly, in conjunction with its investment adviser.
- The risk that the chosen investment managers underperform the benchmark against which the investment manager is assessed – "manager risk". This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced.

These risks are considered as part of each normal strategy review. In addition, the Trustee measures risk in terms of the performance of the assets compared to the benchmarks on a regular basis, along with monitoring any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

Choosing Investments

The Trustee has specified the allocation to underlying funds for each given age following advice from its investment consultants. Investment choice and the exercise of any voting rights within each fund has been delegated to the fund manager subject to them adhering to their respective stated objectives, details of which can be seen in Appendix 2.

Investment Manager Structure

The assets are divided between a number of investment managers who use pooled fund vehicles. The individual managers, along with their benchmarks and objectives are set out in the Appendix.

Manager Monitoring

The Trustee is not involved in the investment managers' day to day method of operation and so cannot directly influence attainment of the performance target. However, the Trustee measures performance of the assets compared to their benchmarks on a regular basis, usually quarterly, along with monitoring any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

Realisation of investments

The Trustee recognises that there is a risk of holding assets that cannot easily be realised should the need arise. Therefore, the assets held on behalf of members are realisable at short notice (through the sale of units in pooled funds).

Social, Environmental or Ethical Consideration

The Trustee invests in pooled funds and as such has delegated responsibility for the selection, retention and realisation of investments to the investment managers in whose funds they invest.

The Trustee policy is that the extent to which social, environmental or ethical considerations are taken into account in these decisions is left to the discretion of the investment managers.

Fee Structure

The investment manager is remunerated as a set percentage of the assets under management. This is in keeping with market practice. Annual investment management charges are met by the members by deduction from the unit price.

Reviewing the Default Strategy

The Default Strategy will be reviewed at least every 3 years with reference to the manner in which members take their benefits from the Scheme. This periodic review will also take into account any significant changes in the demographic profile of the relevant members.

Appendix 2

Details of the funds held within the default strategy can be seen below:

| <i>Fund type</i> | <i>Fund</i> | <i>Benchmark</i> | <i>Objective</i> |
|-------------------------|--|--|---|
| Passive Global Equity | Standard Life (BlackRock) Global Equity 50:50 Tracker Fund | Composite Index (50% UK and 50% overseas) | To track the performance of the composite index benchmark. |
| Diversified Growth Fund | Standard Life Global Absolute Return Strategies Fund | 6 Month LIBOR | Outperform the 6 Month LIBOR by 5% p.a. over rolling 3 year periods (gross of fees). |
| Corporate bonds | BlackRock Corporate Bond Tracker Pension Fund | iBoxx £ Non-Gilts Overall TR Index | To track the performance of the iBoxx £ Non-Gilts Overall TR Index. |
| Index-linked Gilts | Vanguard UK Inflation Linked Gilt Index Pension Fund | Barclays U.K. Government Inflation-Linked Float Adjusted Bond Index in GBP | To track the performance of the Barclays U.K. Government Inflation-Linked Float Adjusted Bond Index in GBP. |

Appendix 3

Statement of Investment Principles - Default Strategy for the TUI UK Scheme

This document refers to the legacy default arrangement with Legal and General, which the Scheme was invested in for the majority of the reporting year.

The Trustee is required to designate a default arrangement into which members who are automatically enrolled are invested. The Trustee has designated a Lifestyle Strategy as the default arrangement for the Retirement Savings Plan section in the TUI Pension Scheme (UK).

Aims and Objectives

The Trustee aims to have a default arrangement that best meets the needs of the majority of the Scheme members.

The current Default Lifestyle Strategy has been designed assuming at retirement the majority of members will take a small amount of their Fund as cash and use the remainder to purchase an annuity.

The aim of the Default Lifestyle Strategy is to provide an investment strategy for members which incorporate automatic switching between the underlying funds as the member approaches retirement. This strategy will invest in L&G's Global Equity, Pre Retirement and Cash Funds. While there is more than five years before the retirement date selected by the member, the assets will be invested in the Global Equity Fund with the aim of seeking to provide a higher return than both inflation and bonds. As the member approaches retirement the assets will gradually be moved into the Pre-Retirement and Cash Funds.

Risk Management

The Trustee recognises the key risk is that members will have insufficient value of assets in their accumulated fund at retirement to meet their benefit expectations. The Trustee considered this risk when setting the investment strategy for the Scheme. The Trustee's policy in respect of risk measurement methods and risk management processes in relation to the default strategy is set out below.

The Trustee considers the following sources of risk:

- The risk of not meeting the reasonable expectations of members, bearing in mind members' contributions. The review of the default arrangement took into account expected retirement benefits, and the Trustee will monitor these following implementation of the new strategy, in conjunction with its investment adviser.
 - The risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed – "manager risk". This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
 - The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced.
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|---|--|
| Choosing Investments | <p>The Trustee has specified the allocation to underlying funds for each given age following advice from its investment consultants. Investment choice and the exercise of any voting rights within each fund has been delegated to the fund manager subject to them adhering to their respective stated objectives, details of which can be seen in the Appendix.</p> <hr/> |
| Investment Manager Structure | <p>The assets are invested in pooled fund vehicles. Details of the fund manager, along with the benchmarks and objectives of the funds are set out in Appendix 4.</p> <hr/> |
| Manager Monitoring | <p>The Trustee is not involved in the investment manager's day to day method of operation and so cannot directly influence attainment of the performance target. However, the Trustee measures performance of the assets compared to their benchmarks on a regular basis, usually quarterly, along with monitoring any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.</p> <hr/> |
| Realisation of investments | <p>The Trustee recognises that there is a risk of holding assets that cannot easily be realised should the need arise. Therefore, the assets held on behalf of members are realisable at short notice (through the sale of units in pooled funds).</p> <hr/> |
| Social, Environmental or Ethical Consideration | <p>The Trustee invests in pooled funds and as such has delegated responsibility for the selection, retention and realisation of investments to the investment managers in whose funds they invest.</p> <p>The Trustee policy is that the extent to which social, environmental or ethical considerations are taken into account in these decisions is left to the discretion of the investment managers.</p> <hr/> |
| Fee Structure | <p>The investment manager is remunerated as a set percentage of the assets under management. This is in keeping with market practice. Annual investment management charges are met by the members by deduction from the unit price.</p> <hr/> |

Reviewing the Default Strategy

As noted, the Default Strategy has been reviewed and a new strategy is expected to be implemented during 2016. Thereafter the Default Strategy will be reviewed at least every 3 years with reference to the manner in which members take their benefits from the Scheme. This periodic review will also take into account any significant changes in the demographic profile of the relevant members.

Appendix 4

Details of the funds held within the historic default strategy can be seen below:

| <i>Fund type</i> | <i>Fund</i> | <i>Benchmark</i> | <i>Objective</i> |
|------------------|--|------------------|--|
| Equity | LGIM Global Equity Fixed Weight (50:50) Index Fund | | The Fund aims to provide good long-term returns by investing in UK and overseas equity markets via index funds in market capitalisation weights. |
| Annuity | LGIM Pre-Retirement Fund | | The Fund aims to provide protection for members as they approach retirement and is invested in longer duration fixed interest bonds (both UK corporate bonds and UK gilts) which are a good match with the price variations of non-inflation linked pension annuities. |
| Cash | LGIM Cash Fund | | The Fund aims to provide capital stability. |