



## **TUI GROUP UK Pension Trust**

### **Market volatility update**

2022 has been a volatile period for most financial assets. More recently, the initial reaction to the UK Government's 'mini budget' on 23 September 2022 triggered extreme movements within UK financial markets, particularly the UK Government Bond market. In an effort to stabilise markets, the Bank of England announced a time-limited program to purchase UK Government Bonds. This was followed by a reversal of much of the tax cuts in the 'mini budget' which has subdued the level of volatility.

With support from our professional advisers, we have continued our close monitoring of the Schemes' investments and we have managed risks to act in your best interests. We review investment strategies on an ongoing basis to make sure that they continue to meet the long-term objectives of the defined benefit schemes and our defined contribution members.

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### **Members of the Defined Contribution Schemes**

Market shocks do occur every so often, and although not guaranteed, the expectation is that values generally go up over the longer term, despite short term volatility and falls in investment performance. We believe that members should be measured and thoughtful at this time recognising that pensions are a long term savings product. The further away you are from retirement, the more opportunity you have for your savings to recover any short-term losses.

The impact of recent market conditions on your savings will depend on how you have chosen to invest and how far away you are from your target retirement date. It is important that your investment approach is consistent with how you intend to take your savings, since not doing so may have adverse consequences. For example, if you do not intend to buy an annuity but you are invested in the annuity targeting lifestyle strategy you may have been more exposed to recent bond market volatility as the strategy holds bonds to provide a good match to annuity prices as you approach retirement. If you are intending to purchase an annuity at retirement, annuity prices have also reduced as a result of recent market conditions (meaning that a lower value of retirement savings can still buy a similar level of annuity income).

As always, we encourage all members to review your retirement savings and consider what actions, if any, you could take to better prepare for retirement. This includes reviewing your contributions, investment choices and target retirement date to ensure they remain appropriate for you.

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### **Members of the Defined Benefit Schemes**

#### **Impact on Schemes' assets and liabilities:**

The recent market volatility will have affected the value of the Schemes' assets and liabilities. In broad terms, both asset values and liability values have reduced in similar ways so the impact on the Scheme funding levels (the ratio of assets to liabilities at a point in time) is less material.

The Schemes remain well funded and throughout this period of recent volatility the Trustee has monitored closely the liquidity of the Schemes to ensure that our various commitments are not impacted, and we have no current concerns regarding the ability to continue to pay members' benefits when due. The Trustee will continue to carefully monitor the funding level.

Should the Schemes funding positions be affected, members are reminded that the Company stands behind the Schemes and is obliged to make good any shortfall in the Schemes, should they arise in future.

#### **Impact on transfer value quotations:**

The recent increases in long-term interest rates do have an impact on your options such as transfer values. Transfer values change from time to time based upon several factors, one of which is long-term interest rates.

A transfer value is intended to represent the expected cost of providing the benefits you are giving up in the Scheme at the time of the transfer. In arriving at the expected cost, the Trustee makes a number of assumptions, including expectations of future investment returns, taking into account investment market conditions at the time of calculation. As a result, transfer values are sensitive to changes in investment market conditions. In recent months, expected future investment returns have risen due to an increase in long-term interest rates. This means that all-else-equal the current cost of providing for benefits is lower and transfer values reduce.

#### **Impact on insured members:**

The Trustee holds bulk annuity investments (also known as buy-in policies) issued by the insurance company Legal and General (L&G). The recent market volatility did not impact the payments the Schemes receive from these investments. You may have seen that L&G's share price declined in September 2022 and was the subject of media attention. These short term changes in L&G's share price have no material impact on the Trustee's buy-in policies with L&G which remain subject to the various protections associated with the UK insurance regime. L&G's recent financial reporting shows that it remains financially resilient to market volatility and in recent weeks L&G's share price has recovered somewhat.