



Airways Pension Scheme

Statement of Investment Principles

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1. Introduction

- 1.1.** Airways Pension Scheme Trustee Limited (the “Trustee”), as Trustee of the Airways Pension Scheme (“APS”, the “Scheme”) has prepared this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (the “Act”) and subsequent legislation.
- 1.2.** The Statement sets out the investment principles that govern decisions about the Scheme’s investments and applies to all investments held by the Scheme.
- 1.3.** In preparing this Statement the Trustee has considered written advice from the Scheme’s appointed Investment Advisor, who is considered to be suitably qualified. The advice received and arrangements implemented are, in the Trustee’s opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended), the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation.
- 1.4.** The Trustee’s investment powers are set out within the Scheme’s governing documentation and relevant legislation. If necessary, the Trustee will take legal advice regarding the interpretation of these. The Trustee notes that, according to the law, the Trustee has ultimate power and responsibility for the Scheme’s investment arrangements.
- 1.5.** The Trustee seeks to maintain a good working relationship with the Sponsoring Company (the “Company”, British Airways Plc) and will consult with it on proposed changes to the Statement. However, the Trustee’s fiduciary obligations are to the Scheme’s members.
- 1.6.** Further information about the Scheme can be found on the Scheme’s publicly accessible website.

2. Governance

- 2.1.** The Trustee has established, as a sub-committee of the Main Board, an Investment Committee (the “IC”) to focus on investment matters. The Trustee has appointed Mercer Limited as the Investment Advisor to provide relevant advice to the IC and the Trustee. The Trustee also takes advice as appropriate from the Scheme Actuary and other professional advisers. Two Independent Investment Experts also attend IC meetings to provide support, expertise and input to the discussions.
- 2.2.** The Trustee is accountable for the investment of the Scheme’s assets. The Trustee has delegated some aspects of the Scheme’s investment arrangements to the IC, the Scheme’s Trustee Executive, British Airways Pension Services Limited (“BAPSL”) and the Scheme’s Investment Manager, BlackRock Investment Management (UK) Limited (“BlackRock”), in order to manage the Scheme’s affairs effectively. The Trustee decides what to delegate after considering whether it has the necessary skills, knowledge and professional support to make informed and effective decisions itself. The Trustee maintains and regularly reviews a strategic plan for the Scheme that sets out the investment (and other) activities planned for the next year and beyond.
- 2.3.** The Trustee retains direct responsibility for setting investment objectives, establishing risk and return targets and setting the Scheme’s investment manager structure. The Trustee makes these decisions after considering recommendations from the IC. The IC then implements them under delegated powers as set out in the Terms of Reference for the IC.
- 2.4.** The APS Trust Deed does not specifically exclude any form of investment or investment activity although the Trustee does restrict the types of asset that BlackRock may hold and the type and extent of investment activity which it is permitted to undertake. Assets may be UK or overseas in origin and those not attributable to insurance policies consist predominantly of investments admitted to trading on regulated markets and where they are not, are kept to a prudent level. Investments in derivative instruments and the use of leverage may only be made in so far as they contribute to a reduction of risks or facilitate efficient portfolio management.
- 2.5.** BlackRock is responsible for the day-to-day management of the Scheme’s assets in accordance with the Investment Guidelines agreed with the Trustee and set out in the Investment Management Agreement (“IMA”) between the Trustee and BlackRock. BlackRock has discretion to buy, sell or retain individual investments in accordance with these Guidelines. The Trustee regularly monitors the performance of BlackRock, looking at factors including return and risk measures as well as operational matters.
- 2.6.** The safe custody of the Scheme’s assets is delegated to professional custodians (either directly or via the use of pooled vehicles). The custodians are also responsible for performing associated duties such as dividend collection and independent valuations. The managers of the pooled funds are responsible for the appointment and monitoring of the custodians. For the Scheme’s direct investments, State Street Bank & Trust Co is the appointed custodian.
- 2.7.** The Scheme Actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The most recent valuation was as at 31 March 2018 and concluded that there was a surplus of £0.6bn on the Technical Provisions basis (which used a discount rate equal to gilt yields of appropriate type and duration). As such, no Recovery Plan was required and deficit contributions from the Company ceased after 31 December 2018.
- 2.8.** Full detail of the current funding strategy is set out in the Statement of Funding Principles dated 28 November 2019.

3. Investment Objectives

- 3.1.** The Trustee’s primary investment objective is to invest the Scheme’s assets in such a manner that members’ benefit entitlements can be paid as and when they fall due.
- 3.2.** The Trustee has set a Long Term Objective (“LTO”) to deliver the guaranteed benefits plus full RPI-based discretionary increases without significant risk, including to the funding position of the Scheme on the Agreed Valuation Basis.
- 3.3.** In making investment decisions to help achieve the LTO, the Trustee will have full regard to the intentions of the Trustee and BA when entering into the Settlement Agreement and the DI Protocol (and their terms), including the very high expectation that Discretionary Increases will be paid in line with the Proposed Pattern, and the very low expectation of future Deficit Contributions needing to re-start after a future valuation on the Agreed Valuation Basis. The Trustee will also have regard to the potential impact of its investment decisions on the likelihood of the Contingent Payment arising (and, if relevant, its quantum). The terms DI Protocol, Discretionary Increases, Proposed Pattern, Deficit Contributions, Agreed Valuation Basis and Contingent Payment are as defined in the Settlement Agreement.

In addition, the Trustee will:

- 3.3.1.** Regularly monitor all residual risks* that might otherwise jeopardise the LTO;
- 3.3.2.** Promptly minimise or avoid taking risks that it considers are not necessary to achieve the LTO;
- 3.3.3.** Periodically review its appetite for a modest level of investment risk if there is a significant projected shortfall by 31 March 2027 or beyond;
- 3.3.4.** Promptly reduce risk if it considers the expected reward does not justify the risk being taken; and
- 3.3.5.** Consider all investment decisions in conjunction with the potential impact on other risks.

*Residual risks include but are not limited to: Artemis collateral risk, other collateral risks, cashflow matching, PPF assessment risk and Catastrophe / Affordability Test headroom

- 3.4.** The Trustee will continue to monitor the appropriateness of the LTO and the path towards it and will revisit this approach, should it be necessary to do so.
- 3.5.** The LTO was last updated in December 2021.

4. Risk and Return

- 4.1.** In order to meet the LTO, the Trustee has agreed to take a modest level of investment risk relative to the liabilities. This taking of investment risk targets the granting of discretionary increases to members, equal to the gap between Pension Increase (Review) Orders and RPI, and the purchase of additional insurance policies in progressing towards the LTO, where appropriate.
- 4.2.** In taking investment risk relative to the liabilities, the Trustee receives advice from the Investment Advisor and Scheme Actuary and consults with the Company as required.
- 4.3.** The Trustee's willingness to take investment risk is dependent on the financial health of the Scheme and the contingent support from the Company in relation to discretionary increases, that persists until 31 March 2027. The Trustee will consider reducing investment risk relative to the liabilities should either of these deteriorate.
- 4.4.** Management of investment risk is principally addressed by the Trustee establishing investment parameters in the IMA and the Investment Guidelines, within which BlackRock must operate and, where appropriate, the explicit and systematic inclusion of environmental, social and governance ("ESG") issues in investment analysis and decisions.
- 4.5.** The Trustee has identified the following key risks attaching to the Scheme's investments and has taken appropriate steps to mitigate these risks:
- 4.5.1.** Liability Risk exists if the projected cashflow profile of the assets held differs from that of the projected liabilities. The Trustee has a policy of hedging the vast majority of such risk through physical and derivative assets and has entered into appropriate insurance contracts to mitigate this risk. Further insurance contracts will be considered in line with the guiding principles of the LTO set out in section 3.3 of this document.
- 4.5.2.** Longevity Risk reflects the possibility that the value of the Scheme's liabilities will increase due to improving life expectancy and the Trustee has entered into appropriate insurance contracts to mitigate this risk. Further insurance contracts will be considered in line with the guiding principles of the LTO set out in section 3.3 of this document.
- 4.5.3.** Counterparty (or Credit) Risk reflects the possibility that payments due or expected from a third party (including insurers) are not made. Management of Counterparty Risk is delegated to BlackRock and BAPSL within certain limits set out in the Investment Guidelines. Metrics relating to insurance counterparties are reported to and monitored by the IC.
- 4.5.4.** Currency Risk will arise through investment in non-Sterling assets, given that the Scheme's liabilities are denominated in Sterling. Subject to maintaining certain minimum currency hedging requirements, management of currency risk is delegated to BlackRock.

- 4.5.5.** Liquidity Risk concerns the risk arising from holding assets that are not readily realisable and may be compounded by Volatility Risk where the price achievable is not certain until the point of sale. The Trustee has a policy to accelerate the run-off of the illiquid assets held, thus reducing this risk over time. BlackRock has discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments.
- 4.5.6.** Regulatory Risk arises from investing in a market environment where the regulatory regime may change. The Trustee receives regulatory updates from its various advisors and considers how to address any significant changes in regime as and when they arise.
- 4.5.7.** Concentration Risk arises when a high proportion of the Scheme's assets are invested in instruments of the same or related issuers. The Trustee seeks to diversify instruments appropriately to mitigate this risk and specific concentration limits are set out in the Investment Guidelines. Concentration risk in relation to insurers will be assessed at the time of transacting each insurance policy, noting that insurers are subject to their own regulatory regime regulated by the Prudential Regulation Authority.
- 4.5.8.** ESG Risk arises from investing in assets exposed to ESG-related matters, including climate change, which could have a material negative impact on the asset's value. The management of ESG-related risks is delegated to BlackRock. Section 7 of this Statement summarises the Trustee's responsible investment and corporate governance policy.

5. Investment Strategy

- 5.1.** The Trustee has adopted a strategy with the aim of generating sufficient investment returns to achieve the Scheme's LTO, taking into account the risks identified above. Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment strategy should be altered.
- 5.2.** The investment strategy takes account of:
- 5.2.1.** The mature liability profile of the Scheme;
 - 5.2.2.** The funding level on the Technical Provisions basis, both with and without allowance for future discretionary increases; and
 - 5.2.3.** The assessed strength of covenant provided by the Company relative to the size of the agreed contingent contributions from the Company.
- 5.3.** Insurance contracts, which make up the majority of the Scheme's assets, include:
- 5.3.1.** A deferred premium buy-in held with Rothesay Life;
 - 5.3.2.** A longevity swap held with Rothesay Life; and
 - 5.3.3.** A traditional buy-in held with Legal & General Assurance Society.
- 5.4.** In respect of non-insurance assets, the investment strategy is to:
- 5.4.1.** Invest in bonds and use derivatives to maintain a hedge covering the vast majority of interest rate and inflation risk, measured on a basis using a discount rate equal to gilt yields of appropriate type and duration and discretionary pension increases reflecting RPI inflation;
 - 5.4.2.** These bonds may include government bonds and non-government bonds, the latter with the aim of generating higher returns to achieve the Scheme's LTO;
 - 5.4.3.** Disinvest from existing holdings in illiquid assets over time (specifically property, private equity and alternative assets); and
 - 5.4.4.** Potentially invest selectively a small proportion of the Scheme's non-insurance assets in other types of assets (for example equities and equity options) to generate higher returns to achieve the Scheme's LTO).
- 5.5.** The Trustee has established tolerance ranges to keep the asset allocation broadly in line with the expected run-off of the Liquidation Portfolio. The Trustee aims to manage cashflows efficiently and to keep the Scheme's assets within the intended ranges. The Trustee delegates the responsibility of asset rebalancing and cashflow management to BlackRock.

6. Appointment and Monitoring of Investment Managers

- 6.1.** BlackRock is the appointed Investment Manager of the Scheme and its primary objectives are to disinvest from illiquid assets and target outperformance versus an investment benchmark. BlackRock is appointed on a fully-discretionary basis under which it has delegated responsibility for buying and selling investments on behalf of the Scheme, subject to agreed constraints, as set out in the IMA, Investment Guidelines and relevant legislation. BlackRock may invest in instruments directly or invest in pooled funds managed by BlackRock or other investment managers.
- 6.2.** However the assets are managed, the Trustee will take appropriate legal and investment advice regarding the initial and ongoing suitability of the investment management documentation and the investment vehicles. When BlackRock is not operating under a discretionary agreement, the Trustee will obtain written advice from the Investment Advisor regarding the suitability of the chosen funds before making the initial investment. The Trustee will then obtain renewed advice at appropriate intervals while the Trustee continues to invest in the funds.
- 6.3.** BlackRock's appointment is initially for five years starting from May 2021, however the Trustee will assess the continuing suitability of BlackRock.
- 6.4.** Representatives from the dedicated Strategic Client Team (SCT) at BlackRock, who focus on the BA Pensions Schemes, will regularly attend IC meetings to discuss performance, portfolio activity and wider issues. The Investment Advisor will be asked to assist the Trustee's Executive, BAPSL, in monitoring BlackRock. The Trustee will monitor BlackRock's performance over different time horizons against performance objectives but will focus on the long term.
- 6.5.** The Trustee has ultimate responsibility for decision-making on investment matters and has agreed that all strategic policy decisions on investments will be taken by the Main Trustee Board after in-depth consideration by the IC and following receipt of appropriate advice.
- 6.6.** Nevertheless, the IC has delegated authority to amend, supplement or delete any of the controls, restrictions or guidelines contained within BlackRock's IMA and Investment Guidelines (with the exception of those classed as strategic policy decisions) and to monitor BlackRock's investment performance and operations against these documents.
- 6.7.** The Trustee monitors portfolio turnover and turnover costs on an annual basis through reporting from BlackRock. This includes looking at the level of turnover and the associated costs in absolute terms and relative to various comparators.

7. Responsible Investment (“RI”) and Corporate Governance

7.1. The Trustee has produced the following Mission Statement setting out how the Scheme plans to address RI issues:

“Environmental (including climate change), social and governance (ESG) issues are multifaceted and represent long-term systemic risks.

We recognise that ESG risks are financially material and need to be managed as we have a long-term payment horizon. We therefore seek to integrate ESG considerations into our decision-making and reporting processes across all asset classes.

Where consistent with our fiduciary duties, and applicable to our investment strategy, we require our investment managers to actively engage and utilise their voting rights/engagement to drive up ESG standards in the organisations in which we invest.”

7.2. Full detail of the Trustee’s RI Policy can be found on the members’ website and does not form part of this Statement. The RI Policy will be subject to regular review.

7.3. BlackRock is a signatory to or participates in a large number of sustainability related organisations, including the International Corporate Governance Network, the UK Stewardship Code, the Taskforce on Climate-related Financial Disclosures (TCFD) and the United Nations Principles for Responsible Investment (UNPRI). The Trustee will regularly review the affiliations of the Scheme.

7.4. The Trustee has given BlackRock responsibility for integrating ESG considerations into the investment decision-making process, making use of their specialist BlackRock Sustainable Investing (BSI) team, alongside support from other advisors where appropriate.

7.5. The Trustee expects BlackRock to, where possible, integrate financially material ESG considerations into the investment decision-making processes at a portfolio level, at asset level, across all asset classes and at all stages throughout the entire investment life-cycle including in the selection, retention and realisation of investments.

7.6. BlackRock is required to evidence consideration of ESG factors at each stage of the investment life-cycle and is expected to use a variety of RI tools and data sources to inform the decision-making process.

7.7. The Trustee expects BlackRock to, where consistent with the Trustee’s fiduciary duties and applicable to the Scheme’s investment strategies, actively engage and use voting and other rights attached to the Scheme’s investments to drive up ESG standards in the organisations in which the Scheme is invested.

7.8. The Trustee requires BlackRock to engage with investee companies and other relevant stakeholders, using a variety of means including collaboration with other investors, to protect or enhance the value of the Scheme’s assets including over the medium to long term. Engagement can be in relation to a number of matters, including, but not limited to performance, strategy, risks, capital structure and management of actual or potential conflicts of interest. BlackRock is required to keep records of each engagement and outcome.

7.9. Depending on the severity of the issue, potential impact on performance and likelihood of success, BlackRock has various courses of action to follow should an investee company fail to make progress on ESG issues raised within a reasonable length of time. In extreme circumstances, failure to make progress may result in a decision taken to divest from the investee company.

- 7.10.** In exercising the voting and other rights attached to the Scheme's investments, BlackRock will act according to its policy on proxy voting and shareholder engagement.
- 7.11.** BlackRock is required to proactively monitor investments on an on-going basis to help identify a situation where long-term risk-adjusted returns may be compromised by ESG issues or could place the reputation of the Scheme at risk.
- 7.12.** The Scheme's RI activities, annual voting and engagement reports will be made available on a publicly accessible website.
- 7.13.** The Trustee has processes in place to continuously learn from practices and experiences.
- 7.14.** The Trustee does not currently take into account the views of members and beneficiaries in respect of non-financial matters, including environmental and social issues.
- 7.15.** In considering RI and applying the RI policy, the Trustee will adhere to the law and latest UK regulation.

8. Additional Voluntary Contributions (“AVCs”)

- 8.1.** The Trustee has full discretion as to the vehicles made available for members’ AVCs. Only investment vehicles that are considered suitable for AVC investment are considered by the Trustee, having taken appropriate advice.
- 8.2.** The Trustee reviews the investment arrangements and performance of the AVC arrangements on a regular basis and takes advice regarding their ongoing suitability.

9. Review of this Statement

- 9.1.** The Trustee does not expect to update this Statement frequently as it covers broad principles. However, the Trustee will review this Statement at least every three years and without delay if there are changes to the legislative framework or if there are relevant, material changes to the Scheme and/or the Company.
- 9.2.** Any change to this Statement will only be made after having obtained and considered the written advice of the Investment Advisor and after consultation with the Company.