

Additional Voluntary Contributions (AVC) Funds

Investment commentary 2010/11



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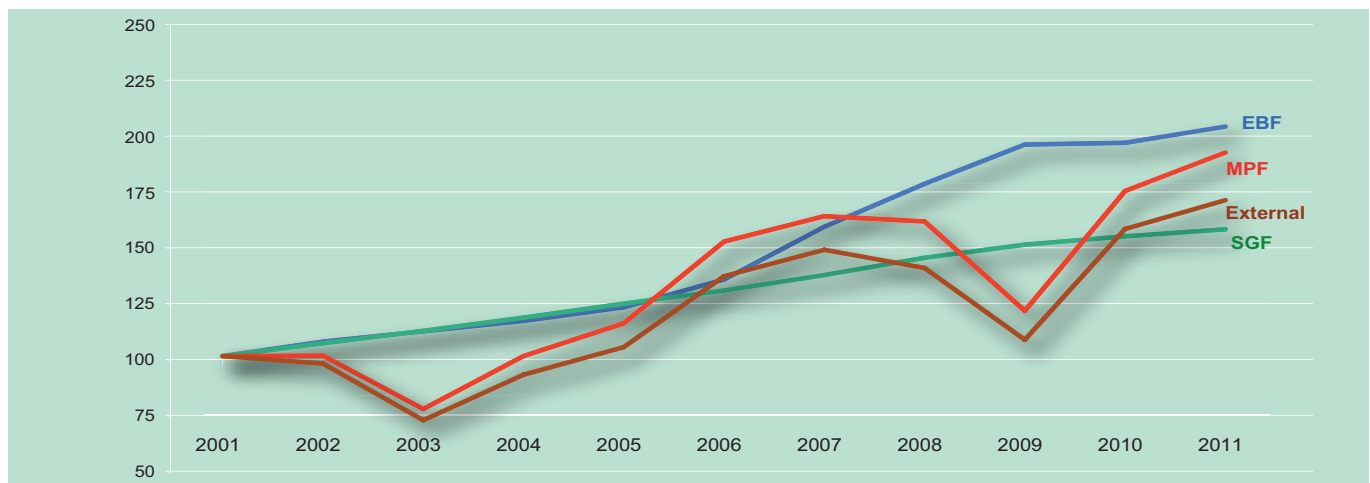
This report details how the three AVC funds performed during the year ending 31 March 2011 and shows how the MPF fund is invested.

Performance of the Funds

The illustration below shows how each AVC fund has performed over the last 10 years alongside the external funds benchmark. Returns for the Short-dated Gilts Fund

(SGF) and Equity Biased Fund (EBF) are discussed below. The performance of the Mixed Portfolio Fund (MPF) during 2010/11 is discussed on page 3.

Total Fund Growth over 10 Years



The Short-Dated Gilts Fund (SGF)

SGF returns are related to Government gilt-edged securities and give a return in the form of interest. Rates of interest vary from year to year but the value of your investment cannot go down. SGF investors are guaranteed the average rate from the three highest-yielding, gilt-edged securities, which have less than five years to maturity. Interest is applied annually to money held in the SGF at the beginning of the Scheme year. The return for money held in the SGF for 2010/11 was 1.85%. Contributions made each month receive interest on a proportional basis. For example, any contributions paid in July will receive eight-twelfths of the current annual interest rate. Where funds are switched into, or out of, the SGF during the year, interest is calculated separately in respect of the money held before and after the date of the switch.

The Equity Biased Fund (EBF)

EBF returns consist of two parts – the Guarantee Component and the Bonus Component. Interest on EBF accounts is calculated monthly at a rate equal to the total of 1/12 of the average annual Guarantee Component for that month and 1/12 of the annual Bonus Component. The total return for 2010/11 was 3.437% on money invested for the whole year.

Guarantee Component - this rate can fluctuate each month. It is the interest that would have accumulated in a Seven-Days-Notice Local Authority Deposit Account during the previous month. For the year 2010/11 the annual rate for each month's Guaranteed Component varied between 0.325% and 0.425% (1/12 of these annual rates are applied to EBF accounts held for the relevant month as described above).

Bonus Component – this rate is usually declared by the end of April each year. It is effective from 1 April and remains the same for the whole of the Scheme year. The Bonus Component is calculated by the Schemes' Actuary. It is based on an investment portfolio equivalent to the NAPS asset allocation, as this is a reasonable reflection of a long-term investment strategy for AVCs. When determining the Bonus Component the Actuary compares the actual rate of return achieved by the portfolio in recent years to the Guarantee Component and then calculates a weighted average return in excess of the Guarantee Component. An allowance is then made to the Bonus Component to allow for the cost of the guarantee. It is possible for the Bonus Component to be zero. For the year 2010/11, the Bonus Component was 3.0%. The Actuary has declared that the Bonus Component for the coming year, 2011/12, will be 4.3%.

The Mixed Portfolio Fund (MPF)

The MPF is similar to a unit trust. Members' contributions are used to buy units, the value of which depends on the value of the MPF investment fund. The value of the units can go up or down.

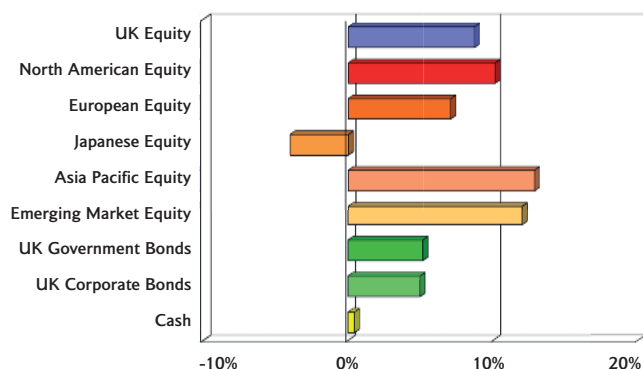
Performance of the MPF

The MPF returned 9.1% in the year to March 2011. The Trustees set a benchmark for each type of asset (shares, bonds etc.) held within the Fund and use this to monitor the Fund's performance. The benchmark returned 8.4% overall. Other large AVC providers in the market place returned an average of 7.45%. Over the longer term, the Fund was below the returns of these external providers when measured on a three year basis but exceeded their returns when measured over five and 10 years. The returns are described in more detail in the table titled 'AVC Funds Performance Returns' on page 4.

Returns in all major asset classes were positive as a result of the continuing recovery in markets which began in 2009. Equities overall produced high single digit returns, exceeding the return on bonds by a margin consistent with long term averages. This was less than the high double digit returns exhibited in the 2009/10 bounce back from depressed, crisis valuations. Within equities the Japanese equity market produced the only negative return amongst the major geographic regions, particularly affected by the devastating earthquake and tsunami in March 2011. European equities lagged the returns of other developed markets due to the uncertainty over government finances in the peripheral countries. In a repeat of 2009/10, Emerging Market and Asian Equities were the best two performing markets although the gap between these two and the rest was not as significant as last year. Within bonds the government fixed interest and corporate bond sectors performed broadly in line with each other, producing mid single digit returns and a greater return than cash.

The chart below shows the return for each asset class within the MPF.

**Benchmark Asset Class Performance in Sterling:
31st March 2010 - 31st March 2011**



The Fund's benchmark has a high weighting in equities, standing at 80% and this was the main reason for the Fund producing positive returns. The Fund also hedges a proportion of holdings in overseas assets by converting these back to Sterling. This helps reduce volatility in the long run and slightly increased returns this year. Hedging is a financial term meaning to offset or balance the risk of one particular position or investment with another.

The Fund retained an over-weighting in equities through most of the year in review, reflecting a continuation of the Fund Managers' belief that governments and central banks had done enough to support economies and markets in the near term and would continue to do so. This allowed restructuring of highly indebted corporates, institutions and governments to occur. If economic activity continued to improve to a sustainable level we expected further growth in corporate earnings, leading to a further rise in equity markets. In addition, equities appeared attractively valued relative to bonds. The stock selection within the portfolios echoed this view, with a bias to greater exposure to economically sensitive companies. This positioning was positive for stock selection performance. Although the difficulties in peripheral Europe and a summer slowdown in the U.S. economy reignited fears of a double dip recession, the autumn witnessed higher levels of economic activity which continued to lift confidence and improved corporate earnings, leading to better equity performance.

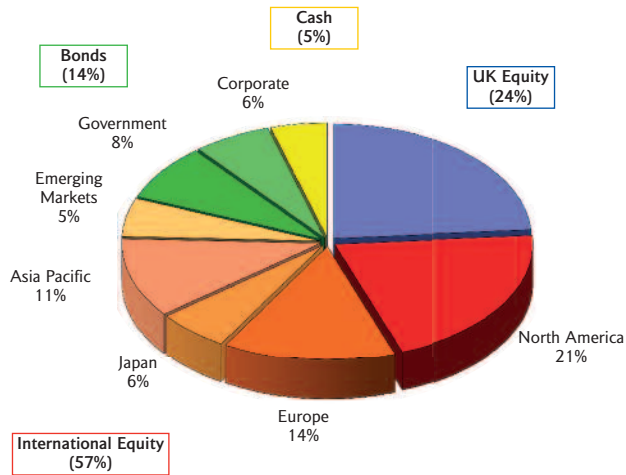
Within bonds the Fund benefited from exposure to index-linked bonds which outperformed fixed interest bonds as inflation expectations increased.

Due to the fragile nature of the recovery, the authorities delayed increasing interest rates and the withdrawal of liquidity, which had been anticipated in the middle of 2010. Whilst this was positive for returns, it is likely that the authorities will revisit the case for increased interest rates and the withdrawal of liquidity later in 2011/12. This may hold back the returns from equities and corporate bonds.

More recently, tensions in the Middle East, disruptions to the global supply chain from the Japanese tsunami and high commodity prices are threatening to inhibit further recovery, giving policy makers a headache as concerns over short-term inflation data need to be balanced against ensuring adequate levels of long term sustainable growth. Against this more uncertain backdrop and after good relative equity performance the Fund has reduced the equity overweight to a more neutral position relative to the benchmark.

The chart overleaf shows how the Mixed Portfolio Fund was invested at 31 March 2011.

MPF Portfolio Breakdown: 31st March 2011



Corporate Governance

The Fund Managers follow the Institutional Shareholders Committee principles, monitoring and engaging with companies on aspects of corporate governance and exercising voting rights in all regions through our custodian bank. In the UK in particular, research on aspects of corporate social responsibility is also taken into account to assess impacts on shareholder value. During the year the Fund signed up to the Financial Reporting Council Stewardship Code aimed at improving involvement by Institutional Investors. The outcomes of these programmes are reported back to the Trustees of APS and NAPS on an annual basis. The voting records of the Fund Manager are held on our website; www.mybapension.com on the 'Corporate Governance' page. These records are updated each year, usually in August.

Mixed Portfolio Fund's 10 Largest Stock Holdings as at 31 March 2011 (all figures rounded to two decimal places)

Stock Name	% of MPF
UK Government (4.75% 2015)	2.54
UK Government (5% 2025)	1.82
Network Rail Infrastructure (4.875% 2015)	1.54
Royal Dutch Shell "B" Shares (EUR 0.07)	1.54
HSBC Holdings PLC (USD 0.5)	1.45
BP PLC (USD 0.25)	1.18
Vodafone (USD 0.11428571)	1.18
Euro Inv Bank (4.875% 2016)	1.00
Rio Tinto PLC (GBP 0.1)	0.91
BG Group PLC (GBP 0.1)	0.82

Unit Price and Charges

The MPF unit price changes monthly according to the performance of the Fund. The number of units bought each month will depend on the money you invest and the unit price. Expense charges are incurred when buying and selling units in the MPF. These are currently being paid by British Airways. There are no expense charges in the SGF or the EBF.

AVCs are a long-term investment and the historic returns are detailed below. Ongoing monthly and annualised returns for all AVC funds can be found on our website: www.mybapension.com [click on AVC Fund Rates].

AVC Funds Performance Returns Average annual returns over period

Fund	EBF %	SGF %	MPF* %	External %
10 Years	89	49	79	60
5 Years	46	19	24	22
3 Years	13	8	18	20
1 Year (to 2011)	3.437	1.85	9.07	7.45

*the MPF return is the annual percentage movement in the unit price.

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May 2011



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