BRITISH AIRWAYS PENSIONS

New Airways Pension Scheme

Statement of Investment Principles

Adopted by the Trustee – 8th March 2023

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1. Introduction

1.1. New Airways Pension Scheme Trustee Limited (the "Trustee"), as Trustee of the New Airways Pension Scheme ("NAPS", the "Scheme") has prepared this Statement of Investment Principles (the "Statement", the "SIP") 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 Companies (with British Airways Plc (the "Company") acting on behalf of the Sponsoring Companies) and will discuss any proposed changes to the Statement with the Company. However, the Trustee's fiduciary obligations are to the Scheme's members and these will take precedence over the Company's wishes, should these ever conflict.

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 advisors. One Independent Investment Expert also attends 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 NAPS 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 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. 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 main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree an appropriate funding strategy for the Scheme. Full details of the current funding strategy and contributions payable will be found in the Statement of Funding Principles, Recovery Plan and Schedule of Contributions.

2.8. The Trustee is working to implement the Scheme's investment strategy in line with the terms agreed as part of the 31 March 2021 actuarial valuation.

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 is aiming to maintain a funding level of at least 100% measured on a long-term funding target ("LTFT") basis, currently defined as using a discount rate of gilts plus 0.45% pa.

3.3. The Trustee has agreed a target investment strategy, which aims to achieve an overall portfolio return of Gilts +1.00% pa (the "Strategic Target") subject to funding and covenant changes, which may result in a different target being adopted. In addition, the Trustee has agreed to a long-term target to hedge 95% of interest rate risk and 95% of inflation risk measured on the LTFT basis.

3.4. The Trustee will continue to monitor the appropriateness of the target investment strategy and will revisit the investment strategy should it be necessary to do so and at least every three years in line with the triennial actuarial valuation cycle.

4. Risk and Return

4.1. In order to (at least) maintain full funding on the LTFT, the Trustee has agreed to take some investment risk relative to the liabilities whilst maintaining a prudent approach to meeting the Scheme's liabilities.

4.2. In taking investment risk relative to the liabilities, the Trustee received advice from the Investment Advisor and Scheme Actuary and held discussions with the Company. In particular, the Trustee considered carefully the following possible consequences:

4.2.1. The assets might not achieve the excess return anticipated relative to the liabilities (as measured on the LTFT basis) over the longer term. This would result in deterioration in the Scheme's financial position and potentially higher contributions from the Company than are currently expected and/or require the Trustee to review the investment strategy in order to target a higher level of expected returns.

4.2.2. The relative value of the assets and liabilities will be more volatile over the short term than if investment risk had not been taken. This will increase the likelihood of there being a shortfall of assets relative to the liabilities in future. This consequence is particularly serious if it coincides with the Company being unable to make good the shortfall.

4.2.3. The volatility in the relative value of assets and liabilities may also increase the short-term volatility of the Company's contributions payable under the current Schedule of Contributions or set at successive actuarial valuations. .

4.3. The degree of investment risk the Trustee is willing to take depends on the financial health of the Scheme and the financial strength of the Company, as well as the Scheme's liability profile. As part of the 2021 actuarial valuation of the Scheme, the Trustee and the Company have agreed a set of covenant and funding tests which could trigger an increase or decrease in the level of investment risk taken by the Trustee. The Trustee will monitor these tests and, if triggered, will implement a change in the Scheme's strategic investment target in line with the position agreed with the Company unless, at that time, the Trustee concludes such an action is not appropriate or not in the Scheme's interests

4.4. Having regard to the above factors, and after taking advice from the Investment Advisor and Scheme Actuary, the Trustee set its Strategic Target expected return and agreed the target investment strategy. Expected returns are monitored on a quarterly basis and compared to the Strategic Target expected return with the asset allocation adjusted as required.

4.5. The Trustee seeks to spread investment risk across a range of different sources believing that that diversification limits the impact of any single risk on the Scheme. The Trustee will select a combination of different assets and investment management approaches to be consistent with its investment objective, risk tolerance and Strategic Target expected return.

4.6. Management of investment risk is principally addressed by the Trustee establishing investment parameters in the IMA and 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.

4.7. The Trustee has identified the following key risks attaching to the Scheme's investments and has taken appropriate steps to mitigate these risks:

4.7.1. *Liability Risk* exists if the projected cashflow profile of the assets held differs from that of the projected liabilities. The Trustee has a policy to hedge a significant proportion of interest rate and inflation risk (achieved through physical assets and derivative contracts).

4.7.2. *Longevity Risk* reflects the possibility that the value of the Scheme's liabilities will increase due to improving life expectancy. The Trustee monitors this longevity risk and periodically considers reducing this risk through hedging subject to attractive pricing.

4.7.3. *Counterparty* (or Credit) Risk reflects the possibility that payments due or expected from a third party are not made. Management of Counterparty Risk is delegated to BlackRock and BAPSL within certain limits set out in the Investment Guidelines.

4.7.4. *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.

4.7.5. *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's policy is to ensure that an adequate proportion of sufficiently realisable investments is held to meet additional cashflow requirements in most foreseeable circumstances and to achieve this it delegates the management of cashflow requirements to BAPSL and BlackRock.

4.7.6. *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 as and when they arise.

4.7.7. *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.

4.7.8. *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 sets out the Trustee's responsible investment and corporate governance policy.

4.7.9. *Collateral Sufficiency Risk* arises when there are insufficient assets available to support the leveraged part of the Trustee's inflation, interest rate and other hedging programmes. The Trustee has a monitoring process in place, which would trigger action to be taken by BlackRock to avoid collateral yield headroom falling below the minimum level as advised by the Scheme's Investment Advisor. Under the IMA with BlackRock, BlackRock has established protocols to ensure sufficient collateral is maintained. The Scheme's Investment Advisor additionally provides advice on collateral headroom, which is monitored by BlackRock on behalf of the Trustee.

4.8. BlackRock provides active and passive management and the Trustee will regularly review its beliefs in relation to active and passive management, considering whether active management offers sufficient outperformance potential to justify the additional risks and fees compared with passive management in different asset classes. The risks the Trustee will take into account include:

4.8.1. *Active risk* in that the combination of assets held will differ from the benchmark and may give rise to underperformance relative to passive management.

4.8.2. *Tracking error risk* in that a passive approach may not track the benchmark index within an appropriate degree of accuracy and an active approach with a high tracking error may result in significant short-term underperformance against the benchmark.

4.8.3. *Manager selection risk* due to the potential for selecting (or failing to de-select in a timely manner) an active manager that fails to generate sufficient return in excess of the benchmark to justify the active risk taken and the higher fees charged than for passive management.

5. Investment Strategy

5.1. The Trustee has adopted a strategy with the aim of achieving the Scheme's Strategic Target, which has been set in line with the Scheme's investment objectives, taking into account the risks and potential returns 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 maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners);

5.2.2. The funding level on the LTFT; and

5.2.3. The assessed strength of covenant provided by the Company.

5.3. The strategic asset allocation is driven by the Strategic Target. The Trustee has agreed an investment strategy which aims to:

5.3.1. Achieve an overall expected long-term portfolio return of Gilts +1.00% pa (as defined above, the Strategic Target), within expected return tramlines of +/-0.20% pa.;

5.3.2. Result in no greater than 5% of the Scheme's assets being invested in Illiquid Growth Asset Classes which includes each of private equity, return seeking property and/or closed ended alternatives; and

5.3.3. Result in at least 5% of the Scheme's assets being invested in public equity markets.

Once the above criteria are met, the Scheme will have achieved the Target Investment Strategy.

5.4. In order to reach the Target Investment Strategy allocation, the Trustee will need to change the Scheme's asset allocation. The Trustee will carry out an orderly process for the resulting asset disposals, with assistance from Blackrock and the Investment Advisor, with a view to completing the transition as soon as reasonably practicable. However, the Trustee and the Company do not wish to force through disposals at inappropriate prices and they both seek to avoid material losses on those investments. As a result, the process to transition the asset allocation will take time and it is currently unclear when that orderly transition will complete.

5.5. The investment strategy will consist of assets expected to produce a return in excess of gilts and assets to broadly match movements in the value of the liabilities caused by interest rate and inflation changes.

5.6. The use of active management is considered where there is an expectation that an additional return over a passive investment can be generated in an efficient manner (i.e. such that expected returns are maximised relative to expected risk).

5.7. The Trustee delegates the process for managing the assets in line with the Strategic Target to BlackRock, within defined parameters. BlackRock has been mandated to invest the Scheme's assets in order to achieve the Strategic Target.

5.8. The Trustee has established tolerance ranges to keep the long-term expected return of the asset portfolio broadly in line with the Strategic Target and, consequently, to manage the risk of unintended asset exposures. The Trustee delegates 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 objective is to assist the Trustee in achieving its long-term objective of maintaining at least 100% funding on the LTFT. It 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 and six months from May 2021, however, the Trustee will assess the continuing suitability of BlackRock on an ongoing basis.

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 their 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 proxy voting rights/engagement to drive up ESG standards in the organisations in which we invest."

7.2. The Trustee has identified Climate Change as a priority theme from both a risk and return perspective. In addition, it is a theme that can impact and/or influence social and governance factors, as well as environmental factors.

7.3. 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.

7.4. 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 Task Force 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.

7.5. The Investment Committee will make recommendations on the RI Policy and strategy for the Scheme as well as overseeing the RI activities of BlackRock.

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

7.7. 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.

7.8. 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.

7.9. 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 interests. Engagement also aims to bring about change to the investee company's ESG practices and performance. BlackRock is required to keep records of each engagement and outcome.

7.10. 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.

7.11. 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.

7.12. 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.

7.13. The Scheme's RI activities, annual voting and engagement will be captured through the Scheme's Annual SIP Implementation Statement and TCFD report, made available on a publicly accessible website.

7.14. The Trustee has processes in place to continuously learn from practices and experiences.

7.15. 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.

7.16. 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 and the British Airways Money Purchase Scheme ("BAMPS"). 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.