New Airways Pension Scheme

Stewardship Code Report for the year to March 2021

Introduction

This report has been written by British Airways Pension Investment Management Limited (BAPIML) on behalf of its client, New Airways Pension Scheme (NAPS, the Scheme).

It details the stewardship activities conducted by and for the Scheme in the 12 months to March 2021 and is intended to fulfil the requirements of the Financial Reporting Council (FRC)'s updated Stewardship Code.

1. Purpose, strategy and culture

NAPS is a defined benefit scheme which is closed to future accruals. As of the end of March 2021, NAPS had a total of 62,296 members of which 49% are deferred and 51% are pensioners in payment or dependent pensioners.

Members as at March 2021	NAPS
Active members	-
Pensioners in payment	27,480
Dependent pensioners	4,591
Deferred pensioners	30,225
TOTAL	**62,296**

NAPS Trustee Directors' overarching objectives are to ensure that the Scheme holds sufficient and appropriate assets to meet the Scheme's liabilities as they fall due, and that all beneficiaries should receive the benefits to which they are entitled.

The NAPS investment strategy is driven by its life cycle and funding situation, but is also informed by its investment beliefs, particularly with respect to stewardship and active ownership.

New Airways Pension Scheme

Following its 31 March 2018 actuarial valuation, NAPS established a Long-Term Funding Target (LTFT) based on a target asset portfolio for 2030. Progress towards the LTFT is supported by a framework which manages investment risk as funding levels improve.

NAPS' assets are categorised as being either return seeking or liability matching. Return seeking assets are those where long-term returns are expected to exceed liability matching assets, which compensates for them being higher risk. Liability matching assets are those most aligned with the Scheme's future benefit payments and are held to reduce risk.

BAPIML manages over £19 billion in assets for NAPS. At the end of March 2021, c 60% of the Scheme's assets were invested in liability matching assets, and c 40% were invested in return seeking assets. Liability matching assets include government bonds (fixed and inflation-linked), corporate bonds, diversified illiquid income and cash. Return seeking assets include listed equities, private equity, alternatives and property.

Investment beliefs

The NAPS Trustee adopted a substantially new Responsible Investment (RI) Policy in July 2019. The policy describes the Trustee's position on Environmental (including climate change), Social and Governance (ESG) issues as follows:

"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.

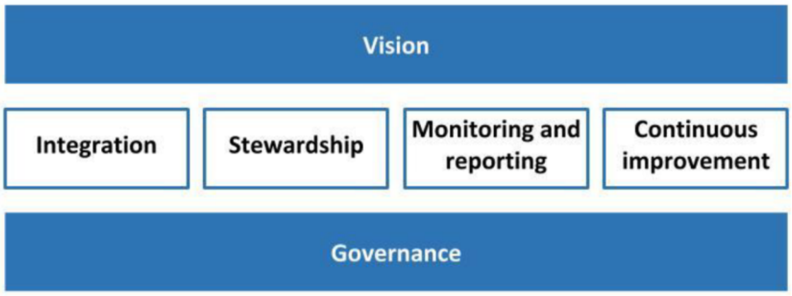
"Where consistent with our fiduciary duties, and applicable to our investment strategy, we will actively engage and use our voting rights to drive up ESG standards in the organisations in which we invest."

The Scheme's RI Policy was most recently revised in July 2020 and is available on the 'Scheme Documents' page of the NAPS website *https://www.mybapension.com*. More detail on the Scheme's investment approach is contained in the Scheme's Annual Report and Accounts and its Statement of Investment Principles (SIP) both of which are also available online.

2. Governance, resources and incentives

Policy development

In 2018 the NAPS Trustee established an ESG Committee (ESGC) to support the Main Board in developing its ESG policy, strategy and initiatives. The ESGC, working alongside its advisors, was responsible for developing the framework (shown below) on which the Scheme's RI approach is based.



The vision and governance structure the Committee articulated was subsequently described in NAPS's RI Policy which was approved by the Scheme's Main Board in July 2019. The ESG Committee remained in place until November 2020, charged with ensuring that the updated policy was aligned in practice with regulatory and industry standards.

In November 2020 NAPS made the decision to simplify its committee structure, with responsibility for NAPS's RI Policy moving from the ESGC back to the Scheme's Investment Committee (IC). ESG integration is now a standing agenda item at each quarterly IC meeting, with strong support for RI amongst NAPS Trustee Directors. They remain committed to progressing their approach to RI over time as best practice evolves.

Implementation

Implementation of the Scheme's RI Policy is delegated to BAPIML as the Scheme's in-house investment manager. BAPIML's investment managers are charged with integrating ESG considerations where possible, and where appropriate to the Scheme's investment strategy. They are also responsible for conducting voting and engagement activities on behalf of the Scheme.

Ensuring that ESG (including climate change) considerations are integrated into investment decision making is one of BAPIML's corporate objectives. BAPIML's portfolio managers' annual bonus plan has been designed to encourage behaviour supportive of the Trustee's long-run objectives, with appropriate implementation of the Scheme's RI Policy being included as a personal and/or team objective for most asset classes. Internal oversight is provided by means of a quarterly BAPIML ESG Oversight meeting which is chaired by the BAPIML CIO or their alternate.

BAPIML's investment managers are supported by two RI specialists (the ESG team). The ESG team provides subject matter expertise, analytical resource and advice on RI implementation. The team manages and tracks BAPIML's voting activity and helps fund managers coordinate engagement opportunities where appropriate. The team is also responsible for producing internal and Trustee-facing ESG reporting and evidencing BAPIML's implementation of the Scheme's RI Policy.

3. Conflicts of interest

The potential for conflicts of interest between NAPS and its investment manager is partially mitigated by BAPIML's ownership structure. BAPIML is a limited company which is wholly owned by the Custodian Trustee[1] of the NAPS and the Airways Pension Scheme (APS) Management Trustees[2]. As BAPIML provides investment management services exclusively to NAPS and APS, BAPIML's stewardship policies and processes are designed specifically to ensure appropriate implementation of the Schemes' RI Policies.

The Trustees do however recognise that there is still the potential for conflicts of interest to arise in conducting stewardship activities in accordance with NAPS's RI Policy.

Generically, conflicts may arise in the following ways:

- BAPIML vs. NAPS (as Client)
- Client (mandate) vs. Client (mandate)
- Employee vs. Client
- Employee vs. BAPIML
- Vendor vs. Client
- Employee vs. Employee
- BAPIML vs. British Airways Pension Services Ltd (BAPSL[3]) vs. BAPTL
- Financial Conduct Authority (FCA) vs. The Pensions Regulator (TPR)

To address the potential for conflicts of interest in these areas NAPS, BAPSL and BAPIML have individual conflicts of interest policies designed to ensure that Trustee Directors, investment managers and other persons of influence act at all times in the best interests of the Schemes' members.

As NAPSTL is a corporate entity, the Trustee Directors additionally have obligations under the Companies Act 2006, which are reflected in the Trustees' Articles of Association. BAPIML is a regulated firm under the Financial Conduct Authority and additionally complies with the FCA Principles and Rules on conflicts of interest.

4. Responding to risks

The FRC expects signatories to the Stewardship Code to individually identify market wide and systemic risks, and to respond where possible by working with other stakeholders to promote well-functioning markets. Market wide risks are those which might affect the performance of an entire asset class. Systemic risks are those, like climate change, that might have a significant impact on the functioning of an industry or economy.

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1 The Custodian Trustee is known as British Airways Pension Trustees Limited (BAPTL).

[2] The NAPS Management Trustee is known as New Airways Pension Scheme Trustee Limited (NAPSTL), the APS Management Trustee is the Airways Pension Scheme Trustee Limited (APSTL). APS is a defined benefit scheme which is closed to new entrants. APS is a more mature scheme than NAPS with the vast majority of its members being pensioners in payment or their dependents.

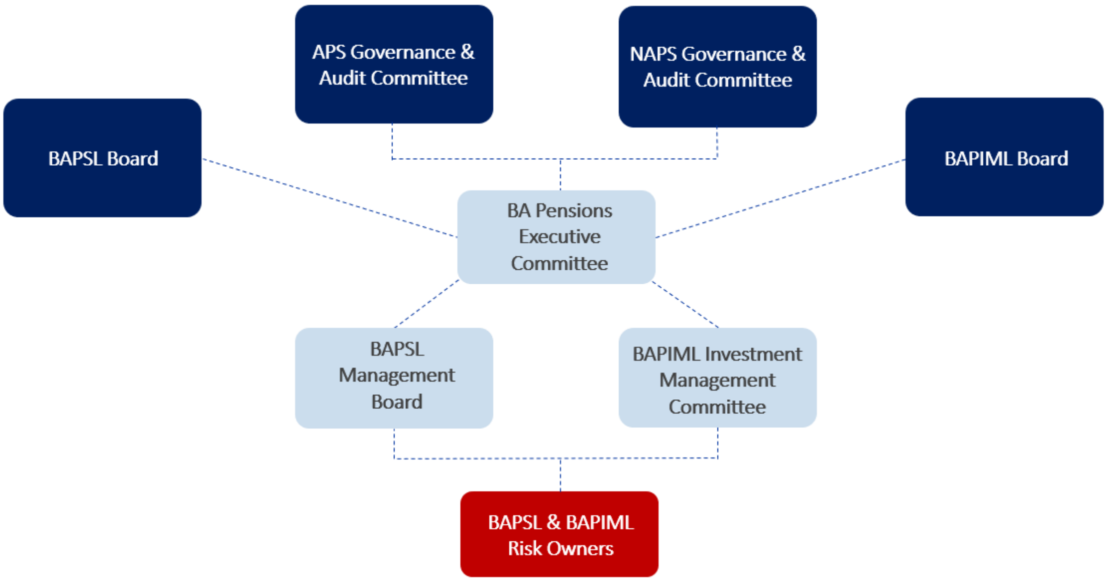
[3] BAPSL is the Scheme's in-house administrator, providing administrative services to NAPS and APS Trustees and members. BAPSL also acts as the Schemes' executive, coordinating the interaction between the Schemes' Trustee Boards, their investment and actuarial advisors, and the Schemes' sponsor. BAPSL and BAPIML together comprise BA Pensions.

Identifying and managing risks

In early 2020 the NAPS Trustee reviewed and revised its approach to risk identification, management and reporting.   The framework developed enables the NAPS Trustee to evaluate the risks most relevant to the delivery of the Scheme's objectives.

Each risk identified by or on behalf of the NAPS Trustee is assessed in terms of probability of ocurrance and potential impact on the Scheme, and is evaluated on an intrinsic and residual (post mitigation) basis. Each risk is allocated to a "risk owner" in BAPIML or BAPSL who is responsible for evaluating each identified risk on a pre- and post-controls basis.

Risks are reviewed by risk owners on a monthly or quarterly basis as appropriate, and moderated by either the BAPIML Investment Management Committee (for BAPIML-owned risks) or the BAPSL Management Board (for BAPSL-owned risks). Risk reporting lines are as shown in the diagram below.



The NAPS Trustee receives risk reporting quarterly. Typical reporting shows a heat-map of the status of all relevant risks, as well as a summary of changes and/or issues by risk area. Current mitigations, developments and ongoing actions are provided in more detail.

While the Scheme's risk taxonomy is intended to be relatively stable, it is recognised that new risks may emerge at any point. The NAPS Trustee keeps a register of "emerging" risks which are perceived to be potentially significant but which may not yet be fully understood or developed. Where emerging risks are identified they are evaluated in terms of time scale, potential impact, potential actions and/or mitigants and allocated a "RAG" (red, amber, green) status.

Working with other stakeholders

BA Pensions aims to increase its impact by working alongside other stakeholders, and through participating in surveys and direct consultations. BAPIML, for example, participates in working groups at the Pensions and Lifetime Savings Association (PLSA), CFA Society of the UK (CFAUK), The Investment Association (IA) and the British Venture Capital Association (BVCA).

During the course of the fiscal year to March 2021 BA Pensions has also engaged with market participants and other stakeholders on various issues identified by the Trustee as potential market wide or systematic risks. These include:

- *Disclosure of climate-change financial information*.

  The Trustee recognises climate change as a long-term systemic risk. As such the Trustee has approved BAPIML working with CDP to improve the availability of climate-change related data. BAPIML supported CDP in approaching 116 of BAPIML's investee companies as part of CDP's 2020 non-disclosure campaign, adding its signature to letters pushing for greater clarity on companies' climate change, forestry or water security exposures. By the campaign deadline in August 2020, 27 of those 116 companies had sent improved information to CDP.

- *Development of the UK's regulatory framework for the disclosure of climate-change related risks by occupational pension schemes.*

  BAPSL worked with the NAPS Trustees and BAPIML's ESG team to respond to the Department for Work and Pensions (DWP)'s consultation in October 2020. The NAPS Trustee expressed support for the introduction of TCFD-compliant disclosures but asked that the workload and cost associated with climate-change and stewardship related reporting requirements be taken into account. The Trustee also asked the DWP to clarify the expected impact of adopting climate-related targets on trustees' fiduciary duties, a matter which was addressed in the government's subsequent response.

5. Policy review and assurance

As previously mentioned, the NAPS Trustee conducted a substantial review of its investment beliefs with respect to ESG and climate change related issues in late 2018 and 2019. The Scheme's RI Policy was the result of this review and describes the Scheme's desired approach to ESG integration as well as its expectations with respect to voting, engagement and reporting.

At the same time, NAPS commissioned a third-party to conduct a gap-analysis of BAPIML's internal processes and reporting against relevant UK pension scheme peers and against best practice. The Trustee then supported BAPIML in upgrading its systems and processes, particularly with respect to portfolio-level analysis and evidencing of stewardship activities.

The NAPS Trustee recognises however that best practice is continually evolving. The Trustee therefore commits to formally reviewing its RI Policy and its implementation annually, with input from external and internal advisors. The most recent annual review was presented at the Scheme's ESGC meeting in May 2020.

On a more on-going basis however the Trustee has a number of ways of ensuring that the Scheme's RI Policy is fit for purpose and is delivering the outcomes it expects.

- BAPIML provides the Trustees with a quarterly update on upcoming regulatory and legislative changes. This horizon-scanning exercise will from time to time identify new requirements which will be incorporated where appropriate and when necessary into the Scheme's policies.

- The Trustees receive quarterly and annual reporting describing BAPIML's voting and engagement activities including case studies of individual interventions. It also has direct access to BAPIML portfolio managers should it wish to evaluate the impact of the RI Policy in more detail.

- Finally, BAPSL's Investment Team, the Scheme's Independent Investment Experts and the Scheme's Investment Advisors all provide on-going challenge through participation in the relevant Trustee Committee meetings.

6. Member communications

The Trustee Directors do not currently take the views of members and beneficiaries into account in respect of non-financial matters, including environmental and social issues when setting the investment strategy of the Scheme. Members can however email BA Pensions with any ESG-related queries they may have. Questions are passed to the relevant internal teams to answer, with a summary of member queries being provided to the Trustee each quarter.

Scheme members receive an update annually on the Scheme's stewardship activities in the form of the RI Annual Report which is posted on the Scheme's member website. The annual report is intended to provide an overview of Scheme's approach, discussing any changes made to that approach during the year as well as giving examples of active ownership from each relevant asset class.

The RI Policy itself is also made available along with the Scheme's Stewardship Report and a complete voting record for the most recent fiscal year.

7. Stewardship and investment approach

The Scheme's investment mandates are predominantly actively managed. An individual manager's approach to stewardship will vary depending on the asset class and the investment strategy employed, but perspectives gained via engagement can be an important factor in managers' decisions to buy, maintain and sell assets.

The Scheme's asset managers engage with investee companies to:

- protect or enhance the value of the Scheme's assets by aiming to bring about a change to the investment's ESG practices and performance; and

- to build long-term relationships with management as part of their ongoing monitoring and scrutiny of the Scheme's assets.

Where consistent with the Trustee Directors' fiduciary duties, and applicable to the Scheme's investment strategies, asset managers will also 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.

8. Monitoring investment managers

BAPIML, as the Scheme's in-house investment manager, participated in the Scheme's bi-annual ESGC meetings until November 2020, and now attends the Scheme's quarterly IC meetings to report on on-going RI activities. The NAPS Trustees will from time to time also call on individual asset-class portfolio managers to present their views and activities for review by the Trustees and their advisors.

In addition, the Trustees receive a meeting brief from BAPIML's ESG Oversight Meeting which is held quarterly. The Oversight Meeting is chaired by BAPIML's CIO or their alternate and is intended to provide internal peer-group review of BAPIML's implementation of the Scheme's RI Policy. It also serves as a forum for the coordination of BAPIML's engagement activities across asset classes.

The Trustee also receive a number of other written reports, detailing stewardship activities and outcomes. These include the following.

- Proxy voting report (quarterly)
- Engagement report (quarterly)
- Annual Responsible Investment Report (annually)
- Responsible Investment Policy Implementation Report (annually)[4]

Where BAPIML provides oversight of external managers in asset classes such as private equity and alternatives, an assessment of the third-party manager's approach to ESG integration and stewardship forms part of BAPIML's on-going due diligence process. Over the past 12 months BAPIML has also piloted a standardised ESG questionnaire based on the United Nations' Principles for Responsible Investment (UNPRI)'s evaluation framework to help it document third-party managers' responsible investment practices more consistently.

4 From September 2021 the Trustees will also receive a SIP Implementation Report annually, in line with updated regulations.

9. Engagement

BAPIML defines engagement as any two-way conversation between BAPIML as investor and the management of investee or potential investee companies[5]. Engagement may be conducted through calls, emails, letters, virtual or face to face meetings with management or through collaborative initiatives.

Global equities

BAPIML manages active equity mandates for NAPS and for the Mixed Portfolio Fund (MPF) which is a money purchase arrangement in which NAPS members can invest their Additional Voluntary Contributions (AVCs). BAPIML's portfolio managers are long term investors combining fundamental analysis of an investee company's business model with an understanding of the motivation, incentives, and skill of company management.

Portfolio managers recognise that industry conditions, management teams and the regulatory environment can change over their typical holding period, which makes effective engagement an integral component of their investment process. BAPIML also encourages timely and open two-way dialogue with companies on capital allocation, governance and culture, environmental and social issues and corporate accountability with a consistent focus on shareholder returns.

BAPIML's investment managers may also decide to engage thematically, if they believe there are material, financial or non-financial risks present at a portfolio level. In this case, the managers' engagement priorities are likely to be driven by quantitative or qualitative analysis of portfolio exposures and may be coordinated between managers and/or teams.

Current examples include the disclosure of physical, financial and reputational risks associated with tailings dams in the mining and extractive industries, and the alignment of corporate lobbying activities with stated corporate goals. Over the past 12 months, portfolio managers have also engaged extensively to understand the impact of COVID-19 and related lockdowns on investee companies and their industries.

Corporate bonds

BAPIML manages a range of active corporate bond mandates for its clients, analysing the economy, fiscal and monetary policy, sectors and issuers with the aim of outperforming a designated benchmark. Issuer selection is an important part of the team's approach, requiring stringent fundamental analysis of an issuer's business model, strategy and financial wellbeing. It also typically requires the portfolio manager to form a judgement on management's ability to execute.

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5 Stakeholder engagement activities related to BAPIML's development and other directly held property assets are not currently within the scope of this report. The BAPIML property team tracks engagement activity and outcomes as part of its on-going management process, with external consultants Avison Young providing additional support on ESG-related governance and reporting. There is additional information provided on the property team's approach to ESG integration and stakeholder management in the Scheme's Annual Responsible Investment Report which is available on the NAPS website *(https://www.mybapension.com)*.

Engagement forms a key part of the team's investment process, offering the portfolio manager an opportunity to fully understand a company's prospects, challenge a company's strategy, and to assess management's competence. Discussions will typically focus on issues that materially impact key credit metrics such as leverage, and interest cover. The team also however uses a checklist to ensure that material non-financial risks are consistently evaluated.

Although corporate bondholders do not vote at company meetings, their importance in determining a company's access to capital markets and their cost of capital ensures that bondholders are considered key stakeholders. This mutual benefit ensures that companies remain interested in engaging with asset owners across the capital spectrum.

Activity and examples

Over the 12 months to the end of March 2021 BAPIML's equity and corporate bond investment managers conducted 202 engagements with company management. While the total number of engagements fell year over year due to restrictions on physical meetings and travel, portfolio managers have remained close to the companies and industries they research through calls, virtual meetings and on-line conferences.

Meeting type	Number of engagements in the 12 months to the end of March 2020	Number of engagements in the 12 months to the end of March 2021
Small group meeting	233	81
1-on-1 meeting	65	27
Call	25	71
Letter/email	20	16
Investor site visit	17	0
Capital markets day	12	6
Annual meeting	5	1
Total	**377**	**202**

Fund managers engage across a wide range of topics. Although conversations about corporate strategy drive most meetings, investment managers are asking questions about environmental and social issues more often.

In the 12 months to March 2021, environmental topics were discussed in 35% of company engagements, up from 28% in the prior year. Broader awareness of environmental (including climate-change related) risks is leading to increased interest in companies' risk management strategies and disclosures. Social issues were also raised more often, being discussed in 34% of meetings, up from 23%. This was largely driven by portfolio managers exploring the impact of COVID-19 on companies' customer, employee and supply chain relations.

The table below shows the number of times different issues were raised or addressed in speaking with company management.

Topics	Number of times addressed in the 12 months to the end of March 2020	Number of times addressed in the 12 months to the end of March 2021
Strategy	375	186
Environmental	106	71
Social	85	68
Governance	96	47
ESG process	-	13

There is also however still a strong link between BAPIML's proxy voting activity and portfolio manager engagement, with contentious voting proposals often leading to single issue interactions with companies. An example from this reporting period is the discussion BAPIML had with The Trade Desk Inc about their dual class share structure ahead of their AGM.

The Trade Desk Inc

The Trade Desk Inc (TDD) is an advertising technology company based in the United States.

In December 2020, TTD called for a special shareholder meeting to change the rules governing the company's share classes. BAPIML's US equity team engaged with TTD ahead of the meeting as the change management wanted to make was not something BAPIML would normally support.

Some companies have a dual share-class structure, meaning that they have two or more types (classes) of shares. Different classes of shares usually have different voting rights and are owned by different types of investors. Often insiders, such as company founders and early investors, own one sort, and ordinary investors own a different one. The intention is usually to give insiders more control over decisions during the company's early years, when the long run value of some investments might be unclear to outsiders. Dual share classes are not however normally considered "best practice" as they allow a small group of insiders to control decisions impacting all shareholders.

TTD has two classes of shares outstanding. It has "founder" shares which have 10 votes per share, and "ordinary" shares which have one vote per share. Founder shares were meant to convert to ordinary shares when founder shares fell below 10% of the total number of shares. The company's proposal in December 2020 was to remove the automatic trigger and replace it with a guarantee that the company would convert the founder shares to ordinary share by 2025.

BAPIML doesn't normally like dual share class structures, and therefore reached out to the company. TTD explained that when the company went public in 2016, management's plan was that the dual share structure would be in place for ten years. They were now however concerned that the 10% trigger would be reached before then, and that that early conversion of founder shares would impact management's ability to control the company's future.

BAPIML voted in favour of changing the rules at the December meeting. BAPIML's portfolio manager has taken the view that the extension is needed to allow the company to make investment decisions based on the long-run, and to reduce the risk of it being bought by another company before its full value is recognised by the market. The proposal received more than 90% of shareholders' support suggesting that most ordinary shareholders shared BAPIML's view.

External capabilities[6]

BAPIML engages with the Scheme's external fund managers on an on-going basis for monitoring and due diligence purposes. The main purpose of these engagements is to ensure that investee funds are managed in line with the agreed investment process, and to monitor portfolio exposures on a more granular basis than otherwise possible.

BAPIML also systematically engages with its third-party managers to ensure appropriate stewardship and other ESG-related policies and/or procedures are in place. In doing so BAPIML uses a questionnaire based on UNPRI best practice. BAPIML recognises that different managers in different asset classes will reasonably take different approaches. BAPIML aims however to understand the rationale behind each investment manager's approach to stewardship and any ambitions they might have to strengthen their procedures over time.

10. Collaboration

Occasionally BAPIML may collaborate with other shareholders to resolve a specific issue or achieve desired disclosures where this could have a material impact on shareholder value. This may include joining class actions to hold management to account or joining investor initiatives to encourage a change in corporate or industry behaviours.

Formal affiliations are approved and reviewed by the Trustee. Over the past 12 months BAPIML has continued with its involvement in two medium-term collaborative initiatives on behalf of the Scheme, participating in the Mining and Tailings Dam Safety Initiative and the CDP's (previously the "Carbon Disclosure Project") Annual Non-Disclosure Campaign.

Collaborative activity may also however be less formal. Over the past several years, BAPIML has worked with other investors on a number of occasions to influence companies' climate change policies. It has particularly focused on lobbying where a company's memberships appear to conflict with the company's commitment to align with the Paris Climate Agreement and to keep average global warming below 2 degrees Celsius.

Last year's Stewardship Code Report included a case study reporting on BAPIML's collective engagement with Anglo American over its environmental lobbying activities. Over the last 12 months BAPIML has continued to engage with companies and investor groups on similar issues but has also used its vote to push for increased transparency and alignment whenever it can. Chevron Corporation is an example from this reporting period which BAPIML believes shows the momentum collective shareholder action has generated in this area.

[6] BAPIML selects and provides oversight of external managers in private equity, alternatives, real assets, illiquid income and property.

Climate change lobbying

Chevron Corporation (Chevron) is an American multinational energy company which produces and transports crude oil and natural gas.

At Chevron's Annual Meeting in May 2020 a shareholder proposal was filed by a large asset manager who owns shares in Chevron. The proposal requested that Chevron reports on how the company's lobbying activities align with the goal of the Paris Climate Agreement.

Chevron currently partners with a number of highly influential groups which lobby contrary to the Paris Agreement's goals, including the American Petroleum Institute (API) and the Chamber of Commerce and National Association of Manufacturing (NAM). The API for example has successfully persuaded the US administration to roll back methane regulations and pushed to speed up the approval processes for oil and gas projects, without fully considering their environmental impacts.

BAPIML believes that increased transparency is important in keeping companies accountable and has voted in favour of similar proposals at other investee companies' AGMs. What is interesting about the Chevron vote however is the change in investor attitudes over the last 12 months.

When BAPIML voted in favour of similar proposals at Exxon Mobil and BHP Plc & Ltd, it was in the minority. The Chevron vote received majority support of 54%. This will force Chevron to increase the amount it tells shareholders about its lobbying activities going forwards.

11. Escalation

BAPIML aims to ensure financially material engagements or voting items are escalated on a consistent basis. The appropriate course of action will however depend on the severity of the issue, the potential impact on the investment's performance and the likelihood of success.

Actions will typically include:

- holding additional meetings with management specifically to discuss concerns;
- expressing concerns through the investee company's advisers;
- writing a formal letter to the company's investor relations representative and/or Board;
- meeting with the company's chair or other board members; or
- intervening jointly with other institutions.

Escalation activity is tracked in BAPIML's engagement log, which records all interactions with company management. In addition, however, to raising issues directly with management, BAPIML sent 12 formal letters to companies' management and/or Board Directors following contentious votes in the 12 months to March 2021.

In extreme cases, if an issue is not resolved and is deemed to be sufficiently detrimental to the investment's long-term performance, a decision to divest may be taken.

12. Exercising rights and responsibilities

BAPIML's policy is to exercise its clients' voting rights in all geographies, for all relevant asset classes, wherever possible.

In exercising voting rights associated with the Scheme's holdings BAPIML's over-riding priority is, to the extent possible, to ensure that the value of the Scheme's assets is enhanced over the long run. BAPIML will also use the voting rights associated with the Scheme's holdings to drive up ESG standards in the organisations in which NAPS is invested, where BAPIML believes this is consistent with the Scheme's fiduciary duties and applicable to the investment strategy.

In exercising the voting and other rights attached to the Scheme's investments, BAPIML is required to consider recommendations on voting from specialist service providers. The Scheme's proxy voting advisor is currently Institutional Shareholder Services (ISS).

Portfolio managers are encouraged to vote each corporate event on a case by case basis, prioritising their specific knowledge of the company. Although they will typically reference a set of common priorities, as described in BAPIML's Voting and Engagement Policy, they are non-binding and the relevant asset class portfolio manager is ultimately responsible for deciding how to vote.

Over the 12 months to the end of March 2021 BAPIML voted on behalf of NAPS and/or the MPF at 954 meetings on a total of 12,655 proposals. There were 20 individual occasions on which BA Pensions failed to recall 100% of the Scheme's stock prior to voting. 10 of these were during the extreme market volatility seen in Q2 2020.

Investment teams saw a higher proportion of Extraordinary General Meetings (EGMs) to AGMs this year compared to last in certain regions, particularly in the UK, Europe and Asia Pacific. This was driven partially by the need to take exceptional dividend and capital allocation decisions as a result of the pandemic, and partially by some one-off governance changes required of UK-cleared Irish companies to accommodate Brexit.

Otherwise the impact of COVID-19 related lockdowns on voting activity was relatively modest. Most countries updated their rule books to allow decisions to be made at virtual (rather than in-person) shareholder meetings. Not all companies have permitted shareholders to question management effectively in virtual-only forums, but the issue is being addressed in the upcoming AGM season via targeted shareholder proposals.

Number of meetings voted by geography	
United Kingdom	155
North America	76
Developed Europe ex-UK	124
Developed and Emerging Asia Pacific ex-Japan	113
Japan	486

BAPIML voted against management's recommendation on at least one proposal at 31% of meetings. In all, BAPIML voted against management's recommendation on just under 6% of proposals. BAPIML abstained a total of 22 times[7].

Number of meetings voted by outcome	
Meetings where BAPIML voted in line with management on all proposals	655
Meetings where BAPIML voted against management on at least one proposal	299

Number of proposals voted by outcome	
Proposals where BAPIML voted in line with management	11,928
Proposals where BAPIML voted against management	727

Where BAPIML votes against management's recommendation, the decision will be informed by research from the Scheme's proxy voting advisor, the ESG team's subject matter expertise, and the portfolio manager's understanding of the company's specific situation.

Votes against management are most typically related to director elections, shareholder proposals or remuneration. Shareholder proposals are however by far the most contentious category with BAPIML voting against management's recommendation on 38% of all shareholder proposals. In contrast, BAPIML voted against management's recommendation with respect to just 4% of directors proposed.

Proposals where BAPIML voted against management by category	Number of proposals	Proportion of category
Director Election	260	4%
Shareholder Proposals	129	38%
Remuneration	118	11%
Capital Structure and Dividends	103	6%
Audit, Report and Accounts	74	6%
Board Structure and Responsibilities	26	5%
Amend Articles	12	4%
Other Business	5	9%

From time to time BAPIML will also disagree with the Scheme's proxy voting advisor's assessment of a situation. ISS is the Scheme's current advisor and BAPIML voted contrary to ISS' recommendation at 27 meetings in this reporting period, on a total of 43 proposals.

AGL Energy Ltd which is detailed below is an example where BAPIML disagreed with ISS's advice. What looked to be a straight-forward question about remuneration needed to be considered in the broader context of a company's strategic priorities. In this case, BAPIML voted *with* management but *against* the advice of the Scheme's proxy voting advisor.

[7] 21 of the 22 proposals on which BAPIML abstained were voted at meetings which took place during Q2 2020. 16 of the 22 occasions related to the payment of dividends (12 UK companies, 1 Irish company, 2 Japanese and 1 Finish company). The remaining abstained proposals related to either Italian proposals on director election (3 proposals), 2 director elections in the UK (both proposals withdrawn), and finally one remuneration related proposal at a Japanese company.

AGL Energy Ltd

AGL Energy Ltd (AGL) is an energy company which generates and sells electricity to customers in Australia. In recent years, the company has been actively shifting away from coal-fired generation and has made significant investments in renewable energy.

At AGL's AGM in October 2020, BAPIML was asked to vote to approve a performance-based bonus scheme (a Long-Term Incentive Plan or LTIP) for the CEO, Brett Redman. Long-term incentive plans are meant to reward employees for reaching specific goals linked to increased shareholder value.

AGL wanted to update the CEO's LTIP to make reducing the company's carbon emissions a more important driver of the CEO's compensation. It also wanted to cut the profit target included in the CEO's LTIP given the impact of COVID-19 on the company and in light of the company's plans to move to a low-carbon platform.

ISS recommended voting against the LTIP believing that the weight given to the carbon emissions was too high, and that the CEO's bonus potential should be made smaller given the lower profit target.

BAPIML's fund manager however believes that moving towards owning low-carbon assets is an important strategic priority for AGL. The fund manager also believes that it will cause the company's profits to be lower in the short term, as AGL makes new investments in renewable energy and writes off the value of its coal-fired power stations. In lowering the CEO's profit target, AGL was simply making the LTIP consistent with the company's new goals.

BAPIML voted in favour of the LTIP against ISS' recommendations, believing the changes were proportionate and designed to incentivise the CEO to act in shareholders' best interest. In total 70.7% of AGL's shareholders voted in favour and the LTIP was approved.

A full record of BAPIML's voting activity for the 12 months to March 2021 is available on the NAPS website *(https://www.mybapension.com).*

Conclusion

The NAPS Stewardship Code Report for the year ending March 2021 has been approved by the NAPS IC and is signed by Roger Maynard, the Chair of the NAPS Trustee.

Roger Maynard 29 April 2021

It has been submitted to the FRC for review and will be posted on the Scheme's website, where it will be available to both Scheme members and the public.