2023

Additional Voluntary Contributions (AVC) Funds

Investment Commentary 2022/23

AVC Summary

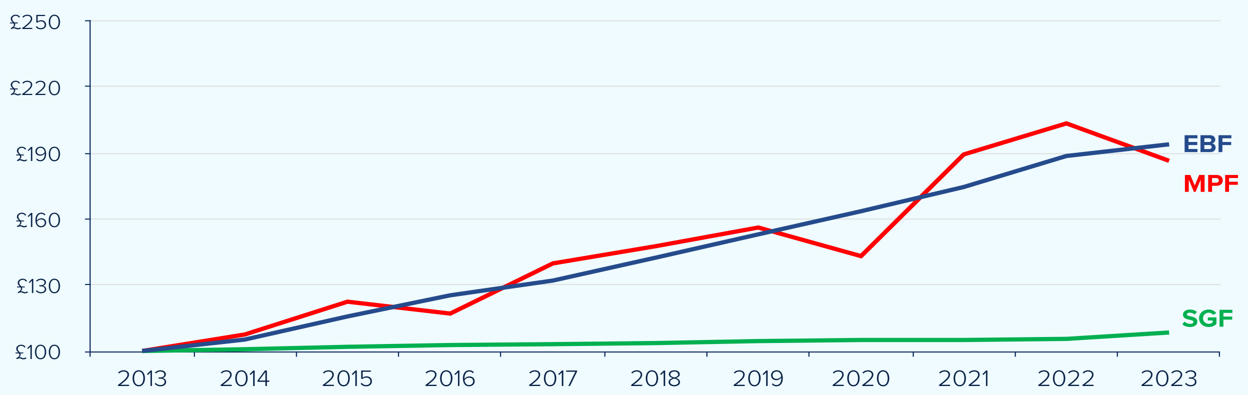
Our three AVC Funds are the Short-Dated Gilts Fund (the SGF), the Equity Biased Fund (the EBF) and the Mixed Portfolio Fund (the MPF). This report explains how the three AVC Funds performed during the year ending 31 March 2023. It also provides detailed information on how the MPF assets are invested.

You can find our 'AVC Plan – information leaflet' on the AVC Funds page of our website, **www.mybapension.com**. The leaflet describes the three AVC Funds in more detail and provides information about how you can manage your AVC investments between the three Funds.

At a Glance: Performance of the Funds

The chart below shows how £100 invested in each of the three Funds would have changed in value over the ten years to March 2023. £100 invested in the SGF in 2013 would be worth £108 in 2023. The same amount invested in the EBF would be worth £194, or £186 if invested in the MPF.

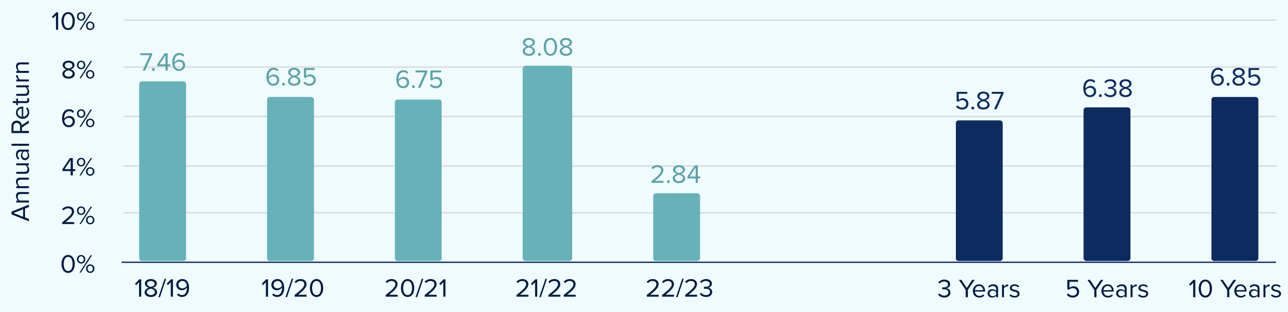
Total fund growth over 10 years



Important Risk Statement
The EBF and SGF have an element of investment return that is guaranteed. This means that investments made in these Funds cannot go down in value. However, as a result, neither the EBF nor the SGF is classified as a pure money purchase fund. There is a risk that money invested in the EBF or the SGF might be used partly or wholly to make other promised APS or NAPS benefits good if either Scheme were to have insufficient funds to pay them in full. For clarity, APS and NAPS are segregated under separate Trusts; one having insufficient funds will not affect the benefits of the other. The MPF is a pure money purchase arrangement similar to a unit trust. Money invested in an MPF account is used to buy units, the value of which depends on the value of the underlying assets of the MPF. The value of an investment in the MPF can fall sharply as well as rise.

Equity Biased Fund (EBF)

The percentage returns for the EBF in each of the last five fiscal years are shown below, along with the returns over the most recent three, five and ten-year periods. Multi-year returns are shown as average annual rates.



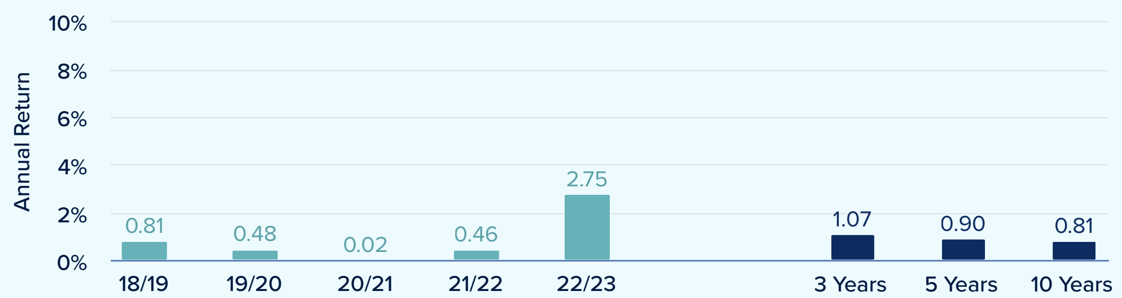
Money invested in the EBF for the whole year that ended on 31 March 2023 received a return of 2.84%.

The investment objective of the EBF is to produce gains over the long term that are similar to investing in the stock market while smoothing some of the volatility. This smoothing sacrifices some market gains to guarantee that the EBF can never lose money. The total EBF return is made up of two components, a Guarantee Component and a Bonus Component. You can find an explanation of how the returns are worked out for each component in our AVC Plan information leaflet.

The Guarantee Component returned 2.25% over the year. It is based on the interest rate banks use to lend money to each other (called the SONIA rate). The Bonus Component returned 0.59% over the year. It is worked out using the returns from a mix of different assets, primarily global stock markets. Although the returns are smoothed out, the monthly returns still vary as markets rise and fall.

Short-Dated Gilts Fund (SGF)

The percentage returns for the SGF in each of the last five fiscal years are shown below, along with the returns over the most recent three, five and ten-year periods. Multi-year returns are shown as average annual rates.

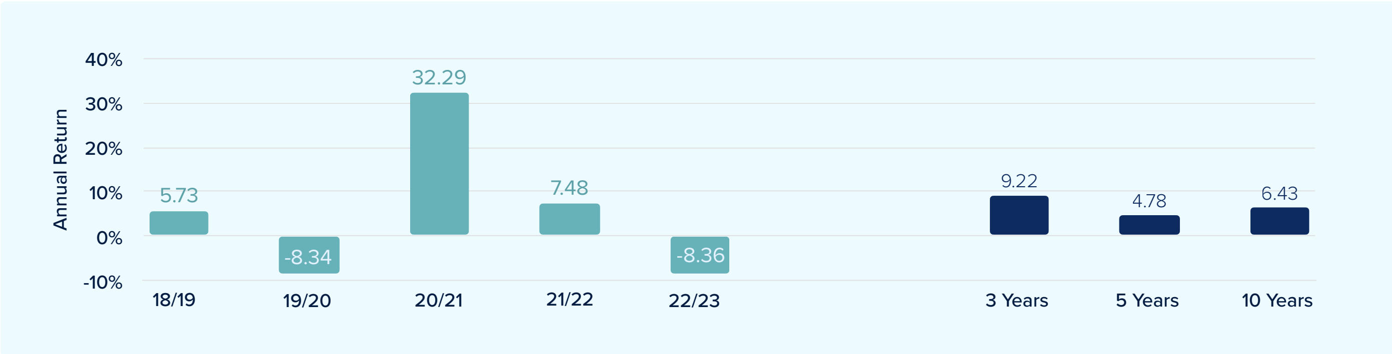


Money invested in the SGF for the whole year ending 31 March 2023 received a return of 2.75%.

The percentage returns for the SGF are linked to interest rates paid by the UK government for short-term borrowing. These rates fell during the global financial crisis of 2008, remained at low levels in the following years and fell again during the global COVID-19 pandemic. During the last year, short-term interest rates have increased as the UK economy deals with rising inflation.

Mixed Portfolio Fund (MPF)

The percentage returns for the MPF in each of the last five fiscal years are shown below, along with the returns over the most recent three, five and ten-year periods. Multi-year returns are shown as average annual rates.



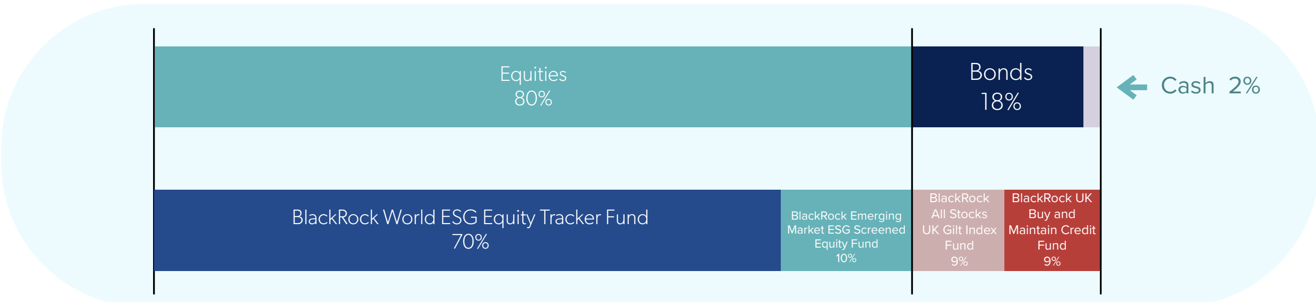
Money invested in the MPF for the whole year ending 31 March 2023 reduced by -8.36%.

MPF Composition

The MPF is invested in a mixture of global equities (which are partially hedged into sterling), corporate bonds and UK government bonds. The Trustee decides the asset classes the MPF invests in and - since the transfer of the Scheme's investment management to BlackRock on 1 June 2021 - has the additional responsibility of choosing the BlackRock funds that are used.

The MPF invests in four different asset classes in the proportions shown in the chart below. It also aims to hold a small amount of cash.

Since 1 June 2021, the MPF has been invested in passive "index" funds which are designed to track the performance of different asset classes as closely as possible. The Trustee has chosen the following BlackRock funds:



BlackRock World ESG Equity Tracker Fund

This fund aims to provide a return on investments by tracking closely the performance of the MSCI World ESG Focus Low Carbon Screen index. The index aims to reflect the performance characteristics of a subset of equity securities within the MSCI World Index by seeking to maximise exposure to positive Environmental and Social Governance (ESG) factors while minimising carbon exposure.

BlackRock Emerging Market ESG Screened Equity Fund

This fund aims to provide a return consisting of both capital and income returns, which reflects that of the global emerging equity markets, excluding companies involved in activities that may have a detrimental impact from an ESG perspective.

BlackRock All Stocks UK Gilt Index Fund

Consisting of UK government bonds, the fund aims to track the performance of the FTSE Actuaries UK Conventional Gilts All Stocks index.

BlackRock UK Buy and Maintain Credit Fund

This fund consists mainly of corporate bonds and aims to produce an income for investors by investing in a diversified portfolio of high-quality, non-government bonds. The buy and maintain nature of the fund means that individual bonds are generally held for the long term, in a very stable structure, with very low turnover and volatility.

Note that in previous years this report has shown the MPF's returns relative to a separate performance benchmark. This comparison is no longer meaningful given the passive index strategy chosen by the Trustee and has been removed.

Market Analysis

The year to 31 March 2023 saw unprecedented volatility in fixed income markets as central banks struggled to contain inflation. Government bonds have fallen sharply in value as interest rates have risen. Equity markets, on the other hand, have been more resilient.

Inflation started to pick up in late 2021, as the global economy re-opened following the pandemic. Supply chains and transport systems creaked as demand rose. Companies struggled to hire new workers. As a result, UK retail price increases hit levels not seen since the 1980s.

In December 2021, the Bank of England increased base rates for the first time since 2018, responding to what it considered at the time to be short-term 'transitory inflation'. Then in late February 2022, Russia invaded Ukraine, sending energy and some commodity prices spiralling.

As we moved into the second quarter of 2022, it became clearer that UK inflation would be heading into double digits. At the same time, consumers were facing a full-blown cost-of-living crisis as food costs and utility bills rose sharply. Strikes and upwards pressure on wage bills followed.

In response, the Bank of England started raising rates at the fastest pace ever. Between March 2022 and September 2022, it hiked rates four times, from 0.75% to 2.25%.

Although other developed market economies were facing similar issues, the UK economy is particularly exposed to increases in natural gas prices. In September 2022, the UK government responded with a budget that capped utility bills and cut taxes for both companies and individuals.

Faced with a boost to inflation and an increased supply of government bonds, the UK sovereign bond market sold off sharply. This caused some pension funds - who typically own large quantities of government bonds to hedge their liabilities – to sell bonds and other assets, causing bonds to fall further.

As interest rates spiked higher, the Bank of England made an emergency decision to step into the market and buy bonds. As the scale of the crisis became clear, Liz Truss was first forced to replace her Chancellor of the Exchequer and then to resign as Prime Minister.

With a new Chancellor, a new Prime Minister, and a scaled-back budget in place, the UK government bond market stabilised. By the end of November 2022, bond yields were back to pre-crisis levels.

Since then, however, there has been both good news and bad news. Economic activity has been much more robust than anticipated. Unemployment remains very low, and spending has remained relatively strong. Inflation has, however, also remained high.

As a result, the Bank of England has continued to raise interest rates, which has negatively impacted the prices of most corporate and government bonds. Equity markets ended the fiscal year down modestly as the global economy adjusted to the policy environment.

Over the next 12 months, the market is expecting interest rates to peak and then start falling. The main question will be whether higher rates can contain inflation without causing significant damage to the outlook for UK growth.

Corporate Governance

Responsible Investment

The following documents can be found in the Responsible Investment section of the Scheme documents page on our website **www.mybapension.com:**

- The Schemes' latest Responsible Investment Policy and Responsible Investment Annual Report, which details how the Schemes' investment manager has implemented the policy.
- The latest NAPS Taskforce on Climate-Related Financial Disclosure (TCFD) report* – the Trustee's identification, assessment and management of climate change risk;
- The latest Statement of Investment Principles implementation statement – an updated version of this report will be available in autumn 2023.

* The APS TCFD report is expected to be available on the APS members' website in autumn 2023.

In 2022 the Trustees adopted an updated Responsible Investment Policy which includes the following mission statement.

'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 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.'

UK Stewardship Code

The Schemes' investment manager is a signatory to the UK Stewardship Code, which aims to improve and enhance the quality of engagement between companies and institutional investors.

The investment manager is required to engage with investee companies and other relevant stakeholders, using various means, including collaboration with other investors, to protect or enhance the value of the Schemes' assets 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. Engagement also aims to bring about change to the investee company's ESG practices and performance. The investment manager is required to keep records of each engagement and the outcome.

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

The investment manager is required to proactively monitor investments on an ongoing basis to help identify a situation where long-term risk-adjusted returns may be compromised by ESG issues or could place the reputations of the Schemes at risk. You can read **BlackRock's 2022 Stewardship Code report here**. The report covers the stewardship activities BlackRock has conducted on behalf of clients from 1 January 2022 through 31 December 2022 and is the basis on which the FRC assesses BlackRock's adherence to the UK Stewardship Code.