



The BAA Pension Scheme Report & Accounts for the year ended 30 September 2021

**BAA Pension Scheme
Trustee's Report**

Report and Accounts for the year ended 30 September 2021

Contents

	<u>Trustee's Report</u>	Page
1	Trustee and advisers	3
2	Membership of the Scheme and pensioners	6
3	Actuarial valuation and contributions	6
4	Financial development of the Scheme	8
5	Pension increases	8
6	Administration and investment management costs	8
7	Trustee governance matters	8
8	GMP equalisation	9
9	Summary Funding Statement	9
10	Statement of Trustee's responsibilities	9
11	Investment strategy	10
12	Asset allocation	12
13	Investment performance	12
14	Investment manager fees	12
15	Investment policy	12
16	Going Concern	14
	<u>Independent Auditor's Report</u>	16
	<u>Financial Statements for the year ended 30 September 2021</u>	19
	<u>Independent Auditor's Statement about Contributions</u>	40
	<u>Summary of Contributions</u>	41
	<u>Schedule of Contributions and Actuarial Certificate</u>	42
	<u>Compliance Statement</u>	47
	<u>Implementation Statement</u>	49

Any enquiries regarding the Scheme generally or in relation to an individual's entitlement to benefits should be addressed to:

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BAA Pension Scheme Trustee's Report

THE BAA PENSION SCHEME

The BAA Pension Scheme ("the Scheme") was established in April 1966. It is a contributory, final salary, defined benefit arrangement. The Scheme includes the transferred assets and liabilities of the BAA Group Pension Scheme established 1 January 1991 and wound up 30 June 1996.

The Scheme closed to new members on 15 June 2008. However, membership at a later date was also permitted to those who had commenced an apprenticeship prior to the closure date and who then subsequently became a permanent BAA Group employee on the conclusion of that vocational training.

The Scheme is established under irrevocable trusts and administered by the Trustee in accordance with the provisions of the Trust Deed and Rules which are amended from time to time. The Principal Employer is LHR Airports Limited ("the Employer") and the primary purpose of the Scheme is to provide pensions on retirement and other benefits for all eligible participants.

1. TRUSTEE AND ADVISERS

The Trustee is BAA Pension Trust Company Limited, and it is responsible for the management of the Scheme. Law Debenture (BAA) Pension Trust Corporation (LDPTC), although not formally a trustee is referred to in the Rules as the Independent Trustee and has special reserve powers designed to safeguard the accrued rights of beneficiaries. LDPTC satisfies requirements of independence from the Employer set out in the Trust Deed and Rules. LDPTC's nominated representatives, who attend Trustee meetings, are Mr M Jaffe or Ms S Pitt.

The Trustee is responsible for all aspects of the Scheme. However, in order to facilitate the efficient discharge of business certain matters are, from time to time, delegated to and managed by an investment committee or other specialist committees. Any decisions of the committees are subject to endorsement by the full Trustee Board, except where this is not appropriate, e.g. where doing so would create a conflict of interest.

Details of the Directors of the Trustee Company ("the Trustee Directors") and its advisers are set out below:

BAA Pension Trust Company Limited

Unless otherwise stated, the Trustee Directors are Management Representatives

Trustee Directors

P Wilbraham *β	Chairman
A Hurn *β	(resigned November 2020)
M Macgregor #+	(Pensioner Nominated Trustee Representative)
T Mackay #	(Member Nominated Trustee Representative)
A Macmillan*	(resigned 31 August 2021)
P Stannett #	(Company Nominated Trustee Representative)
F Brown*β	(Appointed 12 March 2021 - Company Nominated Trustee Representative)
C Lubin	(Appointed 1 October 2021 - Company Nominated Trustee Representative)
M Riaz #+	(Member Nominated Trustee Representative)
C Hobbs #	(Member Nominated Trustee Representative)

Independent Trustee

*+β M Jaffe (LDPTC)

*+β S Pitt (LDPTC)

+ member of the Audit and Risk Committee

* member of the Investment Committee

member of the Administration Committee

β member of the Valuation Committee

Secretary to the Trustee

#*+β A Parris

BAA Pension Scheme Trustee's Report

ADVISERS

Actuary	C Sheppard FIA, Mercer Limited (resigned 15 December 2021) K Nicholls FIA, Mercer Limited (appointed 16 December 2021)
Auditor	Crowe U.K. LLP
Administrators	Equiniti Pension Solutions
Bankers	Lloyds Bank plc
Custodian	JP Morgan Chase. Assets are held in the name of 'Chase Nominees'.
Investment Managers	Allianz Global Investors GmbH (formerly Rogge Global Partners) BlackRock Investment Management (UK) Limited BlueBay Asset Management LLP Bridgewater Associates LP GQG Partners (from February 2021) Invesco Asset Management Ltd (until August 2021) KKR Private Credit Opportunities Partners II (EEA) L.P. Legal and General Investment Management M&G Asset Management Man Group plc Ownership Capital B.V. Payden & Rygel Investment Management (until December 2020) State Street Global Advisors Ltd (until October 2020) TCW Global Asset Management (until December 2020) Wellington Asset Management
AVC Investment Managers	Santander Utmost Life and Pensions Aviva Group
Bulk Purchase Annuity Provider	Legal & General Assurance Society Limited
Investment Consultants	Redington Limited
Legal Adviser	CMS Cameron McKenna Nabarro Olswang LLP

BAA Pension Scheme Trustee's Report

1. TRUSTEE AND ADVISERS (continued)

Procedure for Appointment and Removal of Trustee Directors of BAA Pension Trust Company Limited

The approved arrangements for this Scheme, which comply with the requirements specified in the Pension Act 2004, are summarised as follows:

Trustee Directors are appointed by the Board of the Employer and will normally serve a three-year term. There shall be eight Trustee Directors: four Management Representatives, three Members' Representatives and one Pensioner Representative. The appointment of the Chairman and Management Representatives is based on nominations made by the Employer. The Members' and Pensioner Representatives are chosen by ballot controlled by the Electoral Reform Society or such other organisation as the Employer, with the agreement of the Independent Trustee, shall decide.

A Trustee Director may also be removed at his/her own or at the Employer's request and any Trustee Director who fails to attend any Trustee meeting in a six-month period may be removed from office by the Employer at the request of the other Trustee Directors. Where the Trustee Director being removed was a Member or Pensioner representative, all the other Trustee Directors must agree to the removal and elections would then be held to appoint a replacement.

Procedure for Appointment and Removal of the Independent Trustee

There must at all times be a single Independent Trustee of the Scheme. It is appointed by and can be removed by the Employer in certain circumstances or may, at its own request, retire. A replacement Independent Trustee would have to be appointed simultaneously with any removal or resignation and the outgoing Independent Trustee would be entitled to write to all beneficiaries explaining the circumstances of its replacement, removal or resignation.

Investment Committee

The membership of the Committee is noted on page 3. The Trustee decided that this group will be a standing committee which would make operational decisions relating to the implementation of the Scheme's investment strategy including selection and appointment of investment managers.

Valuation Committee

The membership of the Committee is noted on page 3. The Trustee decided that this group will be an ad hoc committee which would only deal with the issues relating to the triennial actuarial valuation, including dialogue with the Employer and preparation of valuation related correspondence for the Main Board.

Audit and Risk Committee

The membership of the Committee is noted on page 3. The Trustee decided that this group will be a standing committee which would be responsible for dealing with any issues relating to the preparation and audit of the statutory accounts, monitoring the Scheme's internal controls and record keeping, and maintenance of the Risk Register of the Scheme.

Administration Committee

The membership of the Committee is noted on page 3. The Trustee decided that this group will be a standing committee which would be responsible for monitoring the third party administration services provided by Equiniti Pensions Solutions and make delegated day to day decisions concerning settlement of death benefits and other discretionary benefits.

Trustee Training

All newly appointed Trustee Directors are required to attend suitable training. During their term of office or on reappointment, Trustee Directors are encouraged to identify their own training needs and attend appropriate courses. In addition, formal training is organised as part of business planning. Trustee Training is recorded within the Trustee Training Log.

The Pensions Regulator has issued scope guidance specifying the expected knowledge and understanding requirements of a competent trustee. Each Trustee Director attends appropriate training so they become conversant with Scheme documents and develop knowledge and understanding (appropriate to their role as Trustee Director) of trusts and pensions law and the principles of funding and investment.

BAA Pension Scheme Trustee's Report

2. MEMBERSHIP OF THE SCHEME

	Actives	Deferred Pensioners	Pensioners:- former members	Pensioners:- Dependants	Total
At 1 October 2020	1,940	5,186	7,450	1,740	16,316
Adjustments ⁺	-	(3)	(2)	9	4
Leavers – deferred	(276)	276	-	-	-
Deaths		(6)	(218)	(103)	(327)
New dependant pensioners	-	-	-	121	121
Retirements	(91)	(247)	338	-	-
Transfers out	-	(99)	-	(1)	(100)
Children's pension ceased	-	-	-	(4)	(4)
At 30 September 2021	1,573	5,107	7,568	1,762	16,010

⁺ The adjustments reflect members whose movement was completed in this period but the effective date of the movement was in a previous period. An example would be a member who died in a previous period but who we were only notified of in this period.

3. ACTUARIAL VALUATION AND CONTRIBUTIONS

The Trustee undertakes a full valuation at least every three years in line with the requirements of the Pensions Act 2004. A full valuation of the BAA Pension Scheme was carried out as at 30 September 2018 and determined a shortfall of £123m (corresponding to a funding level of 97%).

The 2018 valuation was the fifth valuation for the Scheme under the Pensions Act 2004 and the Scheme Funding Regulations issued in 2005 which require schemes to adopt the Statutory Funding Objective. The Trustee decided on a funding objective, including a set of actuarial assumptions, and agreed it with the Employer. This is set out in the current Statement of Funding Principles.

The Trustee and Employer agreed a Recovery Plan that sets out how the shortfall of £123m as at 30 September 2018 is to be addressed. The Trustee and Employer agreed that £23m p.a. (payable monthly) would be paid into the Scheme until 30 September 2019 followed by £20m p.a. paid monthly from 1 October 2019 to 30 September 2022. At the end of this Recovery Plan period, the shortfall is expected to be eliminated. The Recovery Plan will be reviewed, and may be revised, as part of the Scheme's next valuation due as at 30 September 2021.

As a result of the 2018 valuation, the Trustee and Employer agreed that regular Employer contributions of 25.6% of Basic Salary plus Shift Pay would be paid from 1 October 2019, an increase from 23.0% payable up to 30 September 2019, in addition to the deficit reduction contributions of £20m p.a., to meet the cost of the future accrual of benefits. Employee contributions continued to be payable at between 5% and 7.5% of Pensionable Salary, however, since 1 October 2015, Pensionable Salary increases are capped at 2% p.a.

The Employer also continues to pay the augmentation costs (if any) arising following redundancies.

The level of contributions paid by members of the Scheme is set out in the Schedule of Contributions and Trust Deed and Rules of the Scheme. A revised Schedule of Contributions was agreed by the Employer and the Trustee, effective from 1 October 2019, incorporating the changes set out above.

Employees' and Employer's contributions are due monthly by the 19th day of the following month to which contributions relate. Contributions relating to benefit augmentations are due within one month of the later of the date of granting of the augmentation or such later date as is agreed between the Trustee and the Employer.

On 17 December 2020 LHR Airports and the BAA Pension Trust Company Limited signed a Pre-Funding Agreement relating to the BAA Pension Scheme. Under the Agreement, LHR Airports agreed to pay a total of £35,000,000 (divided as £15,000,000 for Future Service Contributions and

BAA Pension Scheme Trustee's Report

£20,000,000 for Deficit Repair Contributions) on 18 December 2020, as an advance payment in respect of contributions due to the Scheme under the Schedule of Contributions. The amount was paid to the Scheme by the Employer on 18 December 2020 in accordance with this Pre-Funding Agreement.

Report on Actuarial liabilities

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the employer and set out in the Statement of Funding Principles, a copy of which is available to Scheme members on request.

The most recent actuarial valuation of the Scheme was carried out as at 30 September 2018. The triennial valuation as at 30 September 2021 is currently underway. A summary of the funding position at the 2018 valuation date along with the most recent annual funding update is set out below:

	Funding Assessment as at 30 September 2018	Funding update as at 30 September 2020
	£m	£m
Market value of assets	3,949.6	4,574
Technical provision liabilities	4,047.2	4,705
Deficit	(122.8)	(132)
Funding Level	97%	97%

Method: The actuarial method used in the calculation of the technical provisions is the Attained Age method.

The key assumptions underlying the calculation of technical provisions as at 30 September 2020 were:

Retail Price Inflation	3.12% p.a.
Consumer Price Inflation	2.37% p.a.
Pensionable salary increases	1.90% p.a.
Basic Salary plus Shift Pay increases	4.62% p.a.
Discount rate:	
Pre-retirement	2.38% p.a.
Post-retirement	1.18% p.a.
Pension increases in payment:	
Open section	3.07% p.a.
Closed section	3.12% p.a.
Post 2015 pension	2.20% p.a.
Mortality – base table	107/98%% of S3PMA year of birth tables for non-pensioner/pensioner males and 95%/89% of S3PFA_M year of birth tables for non-pensioner/pensioner females to reflect the membership profile of the Scheme.

BAA Pension Scheme Trustee's Report

4. FINANCIAL DEVELOPMENT OF THE SCHEME

The financial statements have been prepared and audited in accordance with regulations made under Section 41(1) and (6) of The Pensions Act 1995. The Fund Account shows in detail the financial development of the assets of the Scheme over the year to 30 September 2021.

A summary of the changes in the Scheme during the year and in the preceding year were as follows:

	Year to 30 September 2021 £'000	Year to 30 September 2020 £'000
Income	44,130	49,110
Expenditure	(166,034)	(143,198)
Net withdrawals from dealing with members	(121,904)	(94,088)
Net return from investments	203,895	55,821
Net increase / (decrease)	81,991	(38,267)
Net assets at beginning of year	4,604,566	4,642,833
Net assets at end of year	4,686,557	4,604,566

5. PENSION INCREASES

Although the two original schemes have been merged, pension increases are still determined relative to the category of membership basis.

Both the "Plc Section" basis and the "Group Section" basis are determined in accordance with the relevant version of the Trust Deed and Rules (as amended) that applies to particular members. Under the Rules pensions are increased with effect from 1 October in line with the proportionate increase in the Government's Index of Retail Prices during the year ending in the preceding August. For the Group Section basis only, increases are capped at 5% per year. Deferred pensions have increased in accordance with the Scheme's Trust Deed and Rules.

Pensions in payment as at 30 September 2020 were increased on 1 October 2020 by 0.5% for the Plc and Group section of the Scheme (in line with RPI for the year to August 2020). Pensions in payment as at 30 September 2021 were increased on 1 October 2021 by 4.8% (for service prior to 1 October 2015) and 2.5% (for service after 1 October 2015) for the Plc and the Group section of the Scheme (in line with RPI for the year to August 2021). These increases relate only to the excess pension accrued over GMP. There were no discretionary increases awarded to pensions in the year.

6. ADMINISTRATION AND INVESTMENT MANAGEMENT COSTS

The fees for professional services provided by the actuary, auditor, custodian, Independent Trustee, legal advisers, investment adviser and investment managers are all paid by the Scheme.

7. TRUSTEE GOVERNANCE MATTERS – RISK MANAGEMENT

The Trustee has adopted and maintains a formal risk management process to assess risks and implement risk management strategies. This involves the identification of the type of risks the Scheme faces, presenting them in terms of potential impact and likelihood of occurrence and identifying means of mitigating the risks. As part of this process the Trustee regularly reviews the adequacy of the Scheme's internal controls as documented in the Scheme's risk register.

BAA Pension Scheme Trustee's Report

8. GMP EQUALISATION

On 26 October 2018 the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension ("GMP") benefits. A second High Court judgment was handed down on 20 November 2020 which provided clarification on the obligations of pension plan trustees to equalise past transfer values to allow for GMP. The issues determined by these judgments arise in relation to many other defined benefit pension schemes.

The Trustee of the Scheme is aware that the judgments will affect the Scheme and will be considering this at future meetings and decisions will be made as to the next steps. Under the ruling, schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. Any adjustments necessary will be recognised in the future accounts as necessary.

9. SUMMARY FUNDING STATEMENT

The Scheme provides members with an annual statement summarising the funding position under the Scheme. The next statement for the year ended 30 September 2021 will be sent to members mid 2022 within the Annual Scheme Newsletter.

10. STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

BAA Pension Scheme Trustee's Report

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

11. INVESTMENT STRATEGY

The Trustee sets the investment strategy for the Scheme, taking into account considerations such as the strength of the Employer covenant, the long-term liabilities of the Scheme and the funding agreed with the Employer. The investment strategy is set out in the Scheme's Statement of Investment Principles ("SIP").

The current strategy is broadly split between:

1. Investments that move in line with the long-term liabilities of the Scheme. This is referred to as Liability Driven Investing ("LDI"), which comprises mostly UK government bonds ("Gilts"), Gilt repurchase agreements and cash, along with interest rate swaps and inflation swaps to a lesser extent. The purpose of these investments is to hedge against the impact of interest rate and inflation movements on the value of the long-term liabilities.
2. Return-seeking investments comprising Equities, Credit, Property, Infrastructure Equity, Illiquid Credit and Multi-Strategy Funds. The purpose of these investments is to deliver a relatively high return in a diversified and risk-controlled manner to remain within the Scheme's overall risk budget of 6% Funding-Ratio-at-Risk (i.e. the Scheme's investment strategy should not risk the funding ratio falling by more than 6% in a 1-in-20 downside scenario on a Gilts + 0.50% basis).

Over the course of the year, a number of changes were made to the investment strategy:

- **BlackRock Renewables** – in September 2020 the Trustee decided to invest in the Global Renewable Power Infrastructure Fund III and on 30 September 2020 a commitment to fund \$240m (c.£180m) was made, of which c\$30m was called in December 2020 and c\$10m in June 2021, both sourced from LDI.
- **Man Progressive Diversified Risk Premia (DRP)** – the Trustee decided in June 2020 to switch the Man holding from the standard DRP to a version of the fund which further integrated ESG – the progressive DRP fund. This scheme officially implemented this change in January 2021.
- **LDI assets** – In May 2021, amendments to the Investment Manager Agreement involved implementing a new liability benchmark cashflows and updating the de-risking triggers.
- **Ownership Capital** – in October 2020 the Trustee made a decision to invest c£330m in the Ownership Capital Sustainable Active Equity Fund, funded from 70% of the SSGA Global Passive Equity mandate.
- **GQG Emerging Markets Equity** – in February 2021, the Trustee made a decision to invest c£156m into GQG Emerging Markets Equity Fund, funded from 30% of the SSGA Global Passive Equity mandate

BAA Pension Scheme Trustee's Report

- **M&G Multi-Dated Asset Fund (MDAF)** – In July 2021, the scheme exited the queue for the Secured Leases Income Fund (SILF), one of MDAF's sub funds. Additionally, the short-dated section of the MDAF portfolio distributed capital of c£20.4m to the LDI portfolio in August 2021.
- **Invesco Perpetual Global Targeted Returns** – in August 2021 the Trustee made a decision to disinvest from Invesco. c.£240m was returned to the LDI portfolio, of which 38% was reinvested into return-seeking assets.

Since 30 September 2021 there have been further changes to the investment strategy as follows:

- **BlackRock Global Screened Corporate Bond Fund** – in September 2021, the Trustee agreed to fully disinvest from this mandate. The trade took place in November 2021. The c.£290m proceeds are being held as cash within the LDI portfolio until a replacement credit mandate is chosen.

The table below shows the Scheme's investment manager structure as at 30 September 2021:

Asset Class	Manager
Equities	Ownership Capital Global Equity Fund
	GQG Partners Emerging Market Equity Fund
Credit	BlackRock Global Screened Corporate Bond Fund
	BlueBay Leveraged Finance Total Return Fund
	Allianz GI LIBOR Mandate Portfolio
	Wellington LIBOR Plus Portfolio
Property	M&G Secured Property Income Fund
Infrastructure Equity	BlackRock Global Renewable Power Infrastructure Fund III
Multi Strategy	Bridgewater Optimal Portfolio Fund II
	Man Progressive Diversified Risk Premia Fund
Illiquid Credit	KKR Private Credit Opportunities Fund Partners II Fund
	M&G Multi-Dated Asset Fund
Liability Hedging	LGIM Segregated LDI
	L&G Pensioner Buy-in
Cash	JPM Liquidity
	LGIM Liquidity
	SSGA

Investment in stock, shares, debentures or other securities issued by Grupo Ferrovial SA, any holding company of Grupo Ferrovial SA or any subsidiary of Grupo Ferrovial SA or any such holding company is restricted under the terms of the investment manager agreements in place. The Trustee accepts that where they invest in pooled investment vehicles, the Trustee cannot impose this restriction on the investment manager.

BAA Pension Scheme Trustee's Report

12. ASSET ALLOCATION

The table below shows the Scheme's investment allocation as at 30 September 2021 versus last year's asset allocation and target strategic allocation:

	30 September 2021	30 September 2020	Target asset allocation
Equity	13.3%	11.0%	10.0%
Credit	24.4%	23.0%	22.0%
Property	3.4%	3.2%	3.0%
Multi Strategy	9.5%	13.5%	13.0%
LIBOR+*	3.0%	3.0%	2.0%
Illiquid Credit*	3.9%	5.1%	6.0%
Infrastructure Equity**	0.6%	0.0%	4.0%
Liability Hedging Assets & Cash	41.9%	41.2%	39.0%

Figures subject to rounding

*The allocation to LIBOR+ is higher in the reported allocations when compared with the target allocations whilst illiquid credit is lower. The Allianz LIBOR+ fund is being used to fund the capital calls for the illiquid credit funds and hence the target allocation assumes that the LIBOR+ funds will have been disinvested down to the target when illiquid credit is fully funded.

** The allocation to Infrastructure Equity (0.6%) is below the target allocation (4.0%) as the allocation will be funded gradually over time, as and when there are capital calls. This will be funded from the LDI portfolio.

13. INVESTMENT PERFORMANCE

The table below shows the Scheme's return over various periods to 30 September 2021.

	1 Year	3 Years (p.a.)	5 Years (p.a.)
Scheme	4.4%	8.2%	5.2%
Change in value of liabilities*	-1.5%	6.9%	3.8%

*Change in liabilities has been calculated on a Gilts +0.50% basis by the Actuary and the asset return uses performance data estimated by Redington and Cardano.

As the most appropriate overall benchmark for the investment strategy, the Scheme uses an approximation for the movement in the value of its liabilities through time. Adopting this benchmark means that over certain periods there may be significant discrepancies between this benchmark and the underlying targets for each of the investment managers used. This is because strategic decisions have been taken with a long-term view, and individual investment managers, with the exception of the LDI manager, are therefore not intended to exactly match a liability-based benchmark.

14. INVESTMENT MANAGER FEES

All of the investment managers are remunerated on an ad valorem basis, i.e. fees are calculated based on the market value of the assets under their management. There are however additional performance-related fees in place for Wellington, KKR, Ownership and Bridgewater.

15. INVESTMENT POLICY

The Trustee makes all major decisions on the management of assets and liabilities based on investment advice. There is also an Investment Sub-Committee that has limited powers to make certain decisions as agreed and delegated by the Trustee. The Investment Sub-Committee also receives investment advice before taking decisions.

BAA Pension Scheme Trustee's Report

The Trustee has clear investment objectives, which relate to improving the value of the assets compared to the liabilities. The Trustee also monitors the risk versus the liabilities, based on information supplied by its investment adviser. Performance is measured against the Trustee's liability-related benchmark each quarter, as well as underlying manager performance being reviewed on a quarterly basis against their respective benchmarks.

Due to the benefits of cost and ease of implementation, the Trustee mainly invests in pooled investment vehicles. The Trustee recognises that due to the collective nature of these investments, there is less scope to directly influence how the asset manager invests. However, the Trustee's investment advisers ensure the investment objectives and guidelines of the manager are consistent with that of the Trustee.

When relevant, the Trustee requires its investment managers to invest with a medium to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the Trustee does not expect the respective asset managers to make decisions based on long-term performance. These may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustee's strategic asset allocation.

The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Fund's assets. When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium- to longer-term timeframe, subject to a minimum of three years.

The Trustee would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors such as a significant change in business structure or the investment team.

Managers are paid an ad valorem fee for a defined set of services. The Trustee reviews the fees annually to confirm they are in line with market practices, notably when the Trustee expects the manager to take an active ownership approach and consider long-term financially material Environmental, Social and Governance "ESG" factors.

The Trustee's policy towards monitoring non-financial performance is set out in the Responsible Investment section of the Statement of Investment Principles (SIP).

The Trustee reviews the portfolio transaction costs and portfolio turnover range of managers annually, where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations.

The Trustee's SIP sets out its policy on Responsible Ownership. The Trustee's policy is that ESG issues, including risks around climate change, are considered to be financially material to the investment portfolio over the Scheme's time horizon. As the Scheme is currently open to accrual, the appropriate time horizon is generally longer term. The Trustee considers the long-term financial interests of the Scheme to be paramount, and, where appropriate and practical, requires its investment managers to:

- Consider financially material ESG issues (including climate change risks), in investment decision making.
- Practice good stewardship which includes engaging with issuers of debt or equity on financially material ESG issues. Good stewardship in this context relates to the investment managers gaining alignment with the Trustee to fulfil their fiduciary duties to the members of the Scheme, by undertaking a number of activities that serve to secure the member's benefits in a sustainable way. Such activities include monitoring assets, exercising voting

BAA Pension Scheme Trustee's Report

rights where stock is held, and utilising their greater negotiating power to put pressure on issuing companies to adhere to certain standards.

The rationale for delegating ultimate ESG responsibility to the investment managers is as follows:

- The investment managers are the closest party in the investment process to the underlying companies in which the Scheme holds investments.
- Through managing investments of multiple investors, the investment managers possess greater negotiating power and thus are more able to meaningfully influence the ESG characteristics of issuers.

Non-financial matters, including ethical views of beneficiaries and members, are not ordinarily taken into account in the selection, retention and realisation of investments.

The Trustee considers ESG integration as an element in the selection and ongoing monitoring of investment managers, by considering research carried out by the Investment Adviser, which includes:

- **Manager Selection Process:** each time an investment manager is selected or reviewed, ESG integration is one of the key selection factors considered by the Investment Adviser's manager research team.
- **Annual survey:** The Investment Adviser's recommended investment managers are surveyed annually to ensure any changes to the ESG integration process are captured (e.g. data sources, reporting lines, etc.).
- **UN Principles for Responsible Investment "PRI" reporting:** The Investment Adviser requests PRI assessment scores from all investment managers for funds in which clients are invested on an annual basis. The Investment Adviser reports Strategy and Governance scores as part of standard quarterly manager monitoring reports.

The global custodian, JP Morgan, is responsible for the safekeeping of the Scheme's directly held assets and performs the associated administrative duties.

The Trustee communicates periodically with members on investment issues as part of its regular member updates. In particular, the SIP is reviewed periodically and is available to all members on request.

16. GOING CONCERN

In performing its assessment of the Scheme's ability to continue as a going concern the Trustee has considered relevant factors, in particular the Scheme's strong funding level, its well-diversified investment strategy and the ongoing impact of the Covid-19 pandemic on the Employer and its ability to pay contributions to the Scheme.

The Trustee has held regular meetings with the Employer's management throughout the year and continues to monitor its financial performance with the support of its covenant adviser, and considers KPIs on a quarterly basis as part of its Integrated Risk Management monitoring framework. In its 2021 financial statements the Employer noted that the impact of COVID-19 continues to create considerable uncertainty with regard to forecast passenger numbers and the corresponding uncertainty in the final decision from the CAA on passenger pricing for the H7 regulatory period, and that if passenger pricing was such that the group were unable to secure minimum cashflow generation to protect an investment grade credit rating, access to liquidity at affordable prices beyond 2023 may be compromised. The Employer also noted that these uncertainties may result in the group needing to take further action, including seeking future further covenant waivers or amendments from creditors. This indicates the existence of a material uncertainty which could cast doubt upon the Employer's ability to continue as a going concern and, consequently, the existence of a material uncertainty over the Scheme's ability to continue as a going concern in the event that support from the Employer was no longer available.

**BAA Pension Scheme
Trustee’s Report**

Notwithstanding these uncertainties, having taken into account both liquidity and debt covenants of the Employer, and the Employer’s view that it will be able to meet its funding requirements for the foreseeable future and rely on the timely support of its debtholders in the event of a severe but plausible downside due to the credit quality of the business, the Trustee believes that support from the Employer will continue to be available and has concluded that it remains appropriate to prepare the Scheme’s financial statements on a going concern basis.

Signed on behalf of BAA Pension Trust Company Limited:

.....
Director

.....
Director

Date: 30 March 2022

The Compliance Statement on page 47 and the Implementation Statement on page 49 form part of this Trustee’s Report

BAA Pension Scheme
Independent Auditor's Report to the Trustee of the BAA Pension Scheme

Independent Auditor's Report to the Trustee of the BAA Pension Scheme

Opinion

We have audited the financial statements of the BAA Pension Scheme (the 'Scheme') for the year ended 30 September 2021 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 30 September 2021, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw your attention to the basis of preparation of the financial statements and the disclosure made in note 1 concerning uncertainty over the financial position of the Employer. As stated in note 1 of the financial statements, these circumstances indicate that a material uncertainty exists that may cast doubt on the Scheme's ability to continue as a going concern. Our opinion on the financial statements has not been modified in respect of this matter.

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The Trustee is responsible for the other information contained within the annual report. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

BAA Pension Scheme

Independent Auditor's Report to the Trustee of the BAA Pension Scheme

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for bias.
- Non-receipt of contributions due to the Scheme from the employer. This is addressed by testing contributions and other income due are paid to the Scheme in accordance with the Schedule of Contributions or other relevant agreements between the Employer and the Trustee.
- Misappropriation of investment assets owned by the Scheme. This is addressed by obtaining direct confirmation from the investment custodian and fund managers of investments held at the Statement of Net Assets date.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

BAA Pension Scheme
Independent Auditor's Report to the Trustee of the BAA Pension Scheme

Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Schemes Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Crowe U.K. LLP

Crowe U.K. LLP

Statutory Auditor

London

Date: 31 March 2022

BAA Pension Scheme
Fund Account for the year ended 30 September 2021

	Note	2021 £'000	2020 £'000
Contributions and benefits			
Contributions receivable:	4		
Employer		42,671	46,857
Employee		1,391	2,203
Total contributions		44,062	49,060
Transfers in	5	68	50
		44,130	49,110
Benefits paid or payable	6	(113,669)	(109,125)
Individual transfers out to other schemes		(48,272)	(29,771)
Administrative expenses	7	(4,093)	(4,302)
		(166,034)	(143,198)
Net withdrawals from dealings with members		(121,904)	(94,088)
Return on investments			
Investment income	8	93,274	59,368
Investment management expenses	9	(6,835)	(5,578)
Change in market value of investments	10	117,456	2,031
Net returns on investments		203,895	55,821
Net increase / (decrease) in the fund during the year		81,991	(38,267)
Net assets of the Scheme at 1 October		4,604,566	4,642,833
Net assets of the Scheme at 30 September		4,686,557	4,604,566

The notes on pages 21 to 39 form part of these financial statements

BAA Pension Scheme
Statement of Net Assets (available for benefits) as at 30 September 2021

	Note	2021 £'000	2020 £'000
Investment assets			
Equities	10	-	288
Bonds	12	4,260,925	3,012,019
Pooled Investment vehicles	13	1,944,420	1,924,281
Derivatives	14	55,957	128,717
Insurance policies	15	323,400	334,700
AVC Investments	16	1,370	1,327
Other investment balances	17	468,736	151,724
		7,054,808	5,553,056
Investment liabilities			
Derivatives	14	(49,293)	(67,092)
Amounts due under repurchase agreements	18	(2,202,798)	(850,619)
Other investment balances	17	(122,877)	(52,970)
		(2,374,968)	(970,681)
Total net investments		4,679,840	4,582,375
Current assets	21	15,390	26,957
Current liabilities	22	(8,673)	(4,766)
Total net assets as at 30 September		4,686,557	4,604,566

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on Scheme Liabilities on page 7 of the Annual Report and these financial statements should be read in conjunction with this report.

The financial statements were approved by the Directors of BAA Pension Trust Company Ltd on 30 March 2022.

Director

Director

The notes on pages 21 to 39 form part of these financial statements

BAA Pension Scheme

Notes to the Financial Statements for the year ended 30 September 2021

1. BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis in accordance with the Occupational Pension Plans (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 ("FRS 102") – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (Revised 2018 ("the Revised SORP")).

As stated in the Statement of Trustee's Responsibilities on page 9, the Trustee is responsible for preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will continue on this basis. As disclosed in the Trustee's Report on page 14 under the heading Going Concern, the Trustee has undertaken an assessment in relation to going concern and noted that the impact of COVID-19 continues to create considerable uncertainty for the Employer with regard to forecast passenger numbers and corresponding uncertainty in the final decision from the CAA on passenger pricing for the H7 regulatory period, and that if passenger pricing was such that the group were unable to secure minimum cashflow generation to protect an investment grade credit rating, access to liquidity at affordable prices beyond 2023 may be compromised. The Employer also noted that these uncertainties may result in the group needing to take further action, including seeking future further covenant waivers or amendments from creditors. These conditions indicate the existence of a material uncertainty over the Employer's ability to continue as a going concern and, consequently, the existence of a material uncertainty over the Scheme's ability to continue as a going concern in the event that support from the Employer was no longer available.

Notwithstanding these uncertainties, having taken into account both liquidity and debt covenants of the Employer, and the Employer's view that it will be able to meet its funding requirements for the foreseeable future and rely on the timely support of its debtholders in the event of a severe but plausible downside due to the credit quality of the business, the Trustee believes that support from the Employer will continue to be available and has concluded that it remains appropriate to prepare the Scheme's financial statements on a going concern basis.

2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address for enquiries to the scheme is included in the Trustees Report.

3. ACCOUNTING POLICIES

The principal accounting policies adopted by the Trustee are shown below:

a) Contributions

Employee contributions, including AVCs and added years, are accounted for by the Trustee when they are deducted from pay by the Employer.

Employer normal contributions that are expressed as a rate of salary are accounted for on the same basis as the employees' contributions, in accordance with the Schedule of Contributions in force during the year.

Augmentation contributions are paid from time to time by the Employer to fund benefit improvements on the terms agreed with the Trustee. These are accounted for on an accruals basis.

Deficit contributions are accounted for on the due dates on which they are payable in accordance with the Schedule of Contributions under which they are paid, or upon receipt if this is earlier than the due date in the Schedule of Contributions and this treatment has been agreed by the Employer and the Trustee.

b) Benefits Payable and Payments to Leavers

- (i) Pensions in payment are accounted for in the period to which they relate.
- (ii) Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken, or if there is no member choice, on the date of retiring or leaving.
- (iii) Individual transfers out are accounted for on a cash basis and represent the capital sums paid to personal pensions or pension plans of new employers for members who have left service.

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

3. ACCOUNTING POLICIES (continued)

c) Expenses

Administration and investment management expenses are accounted for on an accruals basis.

d) Investment Income

- (i) Investment income from bonds is recognised on an accruals basis.
- (ii) Dividend income from equity shares is recognised when the Scheme becomes entitled to the dividend. In the case of UK quoted shares this will be from the ex-dividend date.
- (iii) Income receivable from pooled investment vehicles is recognised on an accruals basis. Income from accumulating pooled investment vehicles is reinvested by fund managers and is reflected within their change in market value.
- (iv) Deposit and other income receivable is accounted for on an accruals basis.
- (v) Receipts from the Buy-In insurance policy are accounted for as annuity income on an accruals basis.

e) Change in market value of investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.

f) Investments

(i) Investments other than derivatives

- Listed securities are valued at bid price as at the year-end date. Accrued income on bonds is excluded from the closing value and reflected as income receivable within other investment balances.
- Pooled investment vehicles are valued at the bid market values at the year-end date for funds with bid/offer spreads, or a single price where there are no bid/offer spreads, as provided by the relevant fund managers on the last dealing day prior to the year-end date.
- Investments held in foreign currencies are valued as above and translated into sterling at the relevant spot rates ruling at the year-end date.
- Investments are included in the financial statements at fair value. In the absence of a liquid market for certain securities, these fair values may differ from their realisable value.

(ii) Derivatives

Futures

- Open futures contracts that are exchange traded are included in the net asset statement at market value. For futures contracts that are assets, market value will be unrealised profit at the quoted bid price of the contract at the year end. For futures contracts that are liabilities, market value will be the unrealised loss at the quoted offer price of the contract at the year end.
- Amounts due to or from brokers are included within cash deposits and other investment balances and represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker.

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

3. ACCOUNTING POLICIES (continued)

(ii) Derivatives (continued)

Futures (continued)

- The amounts included in change in market value are the realised and unrealised gains or losses on open and closed futures contracts.

(iii) Swaps

- Swaps are included in the net asset statement at the net present value of future cash flows using pricing models and relevant market data at the year-end date.
- Interest is accrued monthly on a basis consistent with the terms of each contract. The amounts included in change in market value are the realised gains or losses on closed contracts and the unrealised gains or losses on open contracts.
- Interest receipts or payments on swap contracts are reported within investment income.
- All gains and losses arising on these contracts are included within change in market value.

(iv) Bond Forwards

- Bond forward contracts are included in the net asset statement at their mark to market value. All gains or losses arising on open and closed contracts are included within change in market value.

(v) Forward Foreign Exchange

- Forward foreign exchange contracts outstanding at the year-end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was closed out at the year-end date with an equal and opposite contract.
- All gains or losses arising on these contracts are included within change in market value.

(vi) Insurance policies

- The buy-in policy is included in these financial statements at the same amount as the related obligation, determined using the most recent Scheme Funding valuation assumptions and methodology. The buy-in valuation is provided by the Scheme Actuary.

(vii) Repurchase Agreements

- Bond investments are sold subject to contractual agreements ('Repurchase Agreements') for the repurchase of equivalent securities. The securities sold are stated at bid prices where available and accounted for within their respective investment classes. The contracts to buy back the equivalent securities, the Repurchase Agreements, are an investment liability and amounts payable under the repurchase agreements are stated at the value of contracted obligation.
- Bond investments are bought subject to contractual agreements ('Reverse Repurchase Agreements') for the resale of equivalent securities. The securities bought are excluded from their respective investment classes. The contracts to sell back the equivalent securities, the Reverse Repurchase Agreements, are an investment asset and the Market Value reported is the cash paid to the counterparty at inception of the Agreements.

g) Currency

The Scheme's functional and presentational currency is pounds Sterling (GBP).

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

4. CONTRIBUTIONS RECEIVABLE

	2021	2020
	£'000	£'000
Employer		
Normal	16,288	25,481
Augmentations	1,383	1,376
Deficit funding	25,000	20,000
	<u>42,671</u>	<u>46,857</u>
Employee		
Normal	1,335	2,109
Additional voluntary contributions	12	25
Additional contributions to purchase added years	44	69
	<u>1,391</u>	<u>2,203</u>
	<u>44,062</u>	<u>49,060</u>

A Section 75 debt in respect of Heathrow Express has been triggered, however it is being dealt with via a Flexible Apportionment Arrangement so no debtor is required in these accounts.

Augmentations include £1.383m (2020: £1.376m) in respect of the reimbursement by the Employer of discretionary Unfunded Unapproved Retirement Benefits schemes (UURBS) pensions paid by the Scheme and included in pensions payable in note 6.

Deficit funding contributions are payable by the employer in monthly instalments until 30 September 2022. From 1 October 2019 deficit funding contributions reduced to £20m p.a. from £23m p.a., in accordance with the Recovery Plan agreed with the Trustee as part of the 30 September 2018 actuarial valuation.

On 17 December 2020 LHR Airports and the BAA Pension Trust Company Limited signed a Pre-Funding Agreement relating to the BAA Pension Scheme. Under the Agreement, LHR Airports agreed to pay a total of £35,000,000 (divided as £15,000,000 for Future Service Contributions and £20,000,000 for Deficit Repair Contributions) on 18 December 2020, as an advance payment in respect of contributions due to the Scheme under the Schedule of Contributions. The amount was paid to the Scheme by the Employer on 18 December 2020 in accordance with this Pre Funding Agreement.

The prepaid deficit funding contribution of £20m, which covered the period 1 January 2021 to 31 December 2021, has been recognised as income this year in accordance with the Scheme's accounting policy. As a result, total deficit funding contributions recognised in the current year amount to £25m which includes £5m paid in the first quarter of the year in accordance with the Schedule of Contributions.

5. TRANSFERS IN

	2021	2020
	£'000	£'000
Individual transfers in from other schemes	<u>68</u>	<u>50</u>

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

6. BENEFITS PAID OR PAYABLE

	2021	2020
	£'000	£'000
Pensions	102,336	99,969
Lump sum death benefits	518	621
Commutations and lump sum retirement benefits	10,685	8,512
Taxation on lifetime or annual allowance exceeded	130	23
	<hr/> 113,669	<hr/> 109,125

7. ADMINISTRATIVE EXPENSES

	2021	2020
	£'000	£'000
Actuarial fees	550	407
Legal and professional fees	877	653
Investment adviser fees	710	699
Independent Trustee fees	118	110
PPF levy and other regulatory levies	781	1,155
Audit fee	73	84
Scheme administrative costs	984	1,194
	<hr/> 4,093	<hr/> 4,302

8. INVESTMENT INCOME

	2021	2020
	£'000	£'000
Dividends from equities	4	2
Income from bonds	45,673	42,453
Income from pooled investment vehicles	33,409	8,212
Income from swap contracts	4,131	7,463
Income from insurance policies	13,502	13,568
Net interest on cash instruments	(3,445)	(12,330)
	<hr/> 93,274	<hr/> 59,368

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

9. INVESTMENT MANAGEMENT EXPENSES

	2021	2020
	£'000	£'000
Administration, management and custody	6,907	5,649
Investment managers fee rebate	(72)	(71)
	<u>6,835</u>	<u>5,578</u>

10. RECONCILIATION OF INVESTMENTS

	Value at 30 September 2020	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Market Value	Value at 30 September 2021
	£'000	£'000	£'000	£'000	£'000
Equities	288	-	(264)	(24)	-
Bonds	3,012,019	2,825,691	(1,468,463)	(108,322)	4,260,925
Pooled investment vehicles	1,924,281	930,941	(1,147,460)	236,658	1,944,420
Derivative contracts	61,625	255,915	(307,110)	(3,766)	6,664
Insurance policies	334,700	-	(4,029)	(7,271)	323,400
AVC investments	1,327	12	(150)	181	1,370
	<u>5,334,240</u>	<u>4,012,559</u>	<u>(2,927,476)</u>	<u>117,456</u>	6,536,779
Cash deposits	118,738				173,977
Other investment balances	(870,603)				(2,030,916)
	<u>4,582,375</u>				<u>4,679,840</u>

Indirect costs are incurred through the bid offer spread on investments within pooled investment vehicles and charges made within those vehicles.

Purchases and sales include £330m invested in the Ownership Capital Sustainable Active Equity Fund and £156m invested in the GQG Emerging Markets Equity Fund, both funded from the SSGA Global Passive Equity mandate, plus £240m disinvested from the Invesco Targeted Returns Fund and initially invested in the LDI portfolio.

Transaction costs are included in the cost of purchases and deducted from the sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty.

Separately identifiable direct transaction costs during the year amounted to £156,881 (2020: £219,770) based on global custodian records.

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

11. Concentration of investments

Except as noted below, no investments represented more than 5% of the Scheme's assets.

Holding	2021 £'000	2021 %	2020 £'000	2020 %
BlueBay Leveraged Finance Total Return Fund	500,275	10.7	420,093	9.1
Ownership Capital Global Equity Fund	444,393	9.5	-	-
Insurance policy - Legal & General Assurance Society	323,400	6.9	334,700	7.3
State Street MPF North America Equity 75% Hedged Fund	-	-	503,097	10.9
Invesco Global Targeted Returns Fund	-	-	244,745	5.3

12. Bonds

	2021 £'000	2020 £'000
Bonds		
Fixed interest securities	1,866,852	1,274,349
Index linked securities	2,394,073	1,737,670
Total Bonds	4,260,925	3,012,019

13. Pooled investment vehicles

	2021 £'000	2020 £'000
Equity funds	630,478	503,097
Credit funds	-	9,469
Property fund	18,268	146,139
Infrastructure	161,603	-
Multi strategy funds	1,032,082	1,136,865
Illiquid credit fund	101,989	128,711
Total pooled investment vehicles	1,944,420	1,924,281

The illiquid credit fund relates to the Credit Opportunities portfolio managed by KKR, which invests in a diversified portfolio of corporate bonds and debt-related financial instruments such as secured bank loans and private credit.

The underlying assets in the Credit funds consist primarily of higher yielding fixed income securities.

Multi strategy funds contain a range of asset classes with different characteristics, predominantly UK and overseas equities, currencies, and derivatives.

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

14. Derivative contracts

		2021		2020	
		£'000		£'000	
		Asset	Liability	Asset	Liability
Futures	14(a)	9,464	(852)	352	(523)
Forward foreign exchange contracts	14(b)	7,461	(28,742)	13,444	(15,222)
Swaps	14(c)	38,786	(19,434)	114,733	(51,247)
Bond forwards	14(d)	246	(265)	188	(100)
		55,957	(49,293)	128,717	(67,092)

14(a) Futures

The Scheme manages risk in the portfolio by entering into a futures position to adjust the portfolio weighting without disturbing the underlying assets.

Futures contracts are exchange traded derivatives, which reduces the risk that the counterparty does not fulfill their side of the contract.

Open futures contracts at the year-end, all of which expire within one year are as follows:

Nature	Economic Exposure Value (asset)	Economic Exposure Value (liability)	Market Value (asset)	Market Value (liability)
	£'000	£'000	£'000	£'000
UK Bonds	7,509	(10,388)	10	(219)
Overseas Bonds	78,113	(832,649)	9,454	(633)
30 September 2021	85,622	(843,037)	9,464	(852)
30 September 2020	132,456	(380,559)	352	(523)

The economic exposure values futures on a 'gross basis' showing the total exposure to the underlying asset class that the future effects as if the change in asset allocation in the underlying asset has taken place.

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

14(b) Forward Foreign Exchange Contracts

During the year forward foreign exchange contracts were entered into by the Scheme to hedge foreign exchange risk on overseas securities.

Forward contracts are individually traded over-the-counter contracts. The contracts are generally three months' duration.

Open forward foreign exchange contracts at the year-end are as follows:

Country of currency underlying forward foreign exchange contracts	Gross amount at inception (asset) £'000	Gross amount at inception (liability) £'000	Market Value (asset) £'000	Market Value (liability) £'000
USA	706,181	(1,600,222)	5,636	(26,331)
Europe	107,239	(363,482)	456	(945)
Japan	2,894	(3,608)	16	(10)
Others	124,295	(168,232)	1,353	(1,456)
30 September 2021	940,609	(2,135,544)	7,461	(28,742)
30 September 2020	614,718	(1,451,264)	13,444	(15,222)

The gross amount is the gross sterling equivalent of the currency on which the contract is based.

14(c) Swaps

The Scheme has entered into a series of interest rate, inflation and total return primarily to hedge against long term interest rate and inflation rate movements.

Swap contracts in place as at 30 September 2021 are as follows:

Expiration	Nominal Principal £'000	Market Value (asset) £'000	Market Value (liability) £'000
2022 to 2031	1,334,651	12,417	(9,704)
After 2031	595,820	26,369	(9,730)
30 September 2021	1,930,471	38,786	(19,434)
30 September 2020	2,383,096	114,733	(51,247)

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

14(c) Swaps (continued)

Types of swaps	Nominal Principal £'000	Market Value (asset) £'000	Market Value (liability) £'000
Inflation	624,565	30,190	(3,130)
Interest rate	61,511	278	(309)
Non-deliverable interest rate	26,544	251	(123)
Overnight Index	1,217,851	8,067	(15,872)
30 September 2021	1,930,471	38,786	(19,434)
30 September 2020	2,383,096	114,733	(51,247)

The notional principal of the swap is the amount used to determine the value of swapped receipts and payments.

To reduce counterparty risk during the life of the swap collateral in the form of cash or government bonds is passed between the parties depending on whether there is an asset or a liability and the value of the swap. See note 14(f).

The notional amount represents the value of underlying stocks subject to the option contracts.

14(d) Bond Forward Contracts

Bond forwards are over the counter contracts entered into by two counterparties to buy or sell a bond on a specified future date at an agreed price. The contracts generally expire in up to three months.

	Nominal Principal £'000	Market Value (asset) £'000	Market Value (liability) £'000
UK	6,376	105	(36)
Overseas	26,327	141	(229)
30 September 2021	32,703	246	(265)
30 September 2020	27,646	188	(100)

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

14(e) Collateral

During the year collateral was received and pledged in respect of non-centrally cleared swaps, bond forward contracts and repurchase agreements. At the year end the collateral received/pledged was as follows:

	2021	2020
	£'000	£'000
Collateral Received		
Stock equivalents	49,330	20,544
Cash equivalents	12,733	45,129
	62,063	65,673
 Collateral Pledged	 £'000	 £'000
Stock equivalents	(80,383)	(46,729)
Cash equivalents	(4,056)	(3,505)
	(84,439)	(50,234)

15. Insurance policy

In June 2018 the Trustee purchased a bulk annuity buy-in policy with Legal & General Assurance Society Limited. The policy insures the benefits of approximately 1,200 pensioner members of the Scheme. The value of the policy, as disclosed in Note 10, has been calculated by the Scheme Actuary on a Technical Provisions basis as at 30 September 2021.

16. AVC investments

	2021	2020
	£'000	£'000
Santander	233	267
Utmost Life and Pensions	150	132
Aviva	987	928
	1,370	1,327

AVC investments held on a money purchase basis are invested separately from main Scheme assets. Members participating in such AVC arrangements each receive an annual statement confirming the value of their investments and the movement in the year.

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

17. Cash deposits and other investment balances

	2021 £'000		2020 £'000	
	Investment Asset	Investment Liability	Investment Asset	Investment Liability
Cash deposits and liquidity funds	130,764	-	76,931	-
Short term investments	50,188	-	38,232	-
Cash due to/from Broker	3,350	(10,325)	3,763	(188)
Repurchase agreements	182,700	(2,202,798)	-	(850,619)
Investment income receivable	86,696	(111,183)	22,370	(52,371)
Outstanding trades	15,038	(1,369)	10,428	(411)
	<u>468,736</u>	<u>(2,325,675)</u>	<u>151,724</u>	<u>(903,589)</u>

18. Repurchase Agreements

The Scheme holds an interest rate and inflation hedging mandate under which bonds have been sold subject to repurchase agreements and reverse repurchase agreements.

Under repurchase agreements the Scheme retains the entitlement to receive income accruing on these securities and has a contractual agreement to repurchase the securities at a specified future date. The securities are included in the financial statements as assets of the Scheme at their market value. At 30 September 2021 the market value of securities included was £2,115.56m (2020: £853.14m).

Cash received from counterparties in respect of the securities that have been sold is used by the investment manager to purchase additional securities to meet desired exposure levels. Amounts payable to counterparties under repurchase agreements are disclosed as liabilities in the Scheme's financial statements under other investment liabilities.

Under reverse repurchase agreements, the financial statements recognise the cash delivered to the counterparty as an asset. At 30 September 2021 the market value of securities included was £182.70m (2020: £Nil).

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

19. Fair value determination

The fair value of financial instruments has been determined using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
At 30 September 2021				
Bonds	3,515,003	745,922	-	4,260,925
Pooled investment vehicles	-	1,824,163	120,257	1,944,420
Derivatives	8,612	(1,948)	-	6,664
Insurance policies	-	-	323,400	323,400
AVC investments	-	992	378	1,370
Cash deposits & other investment balances	(1,856,939)	-	-	(1,856,939)
	1,666,676	2,569,129	444,035	4,679,840

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
At 30 September 2020				
Equities	288	-	-	288
Bonds	2,296,711	715,308	-	3,012,019
Pooled investment vehicles	-	1,786,101	138,180	1,924,281
Derivatives	(172)	61,797	-	61,625
Insurance policies	-	-	334,700	334,700
AVC investments	-	863	464	1,327
Cash deposits & other investment balances	(751,865)	-	-	(751,865)
	1,544,962	2,564,069	473,344	4,582,375

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

20. Investment Risks

Financial Reporting Standards (FRS) 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk as follows:

Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates;

Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates; and

Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to the above risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks within agreed risk limits, taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment agreements in place with the Scheme's investment managers and they are monitored by the Trustee in regular reviews of the investment portfolio.

The following table summarises the extent to which the various classes of investments are affected by investment risks:

	Credit risk	Market risk			2021	2020
		Currency	Interest rate	Other price	£m	£m
Liability Driven Investments						
Bonds	●	○	●	○	3,515.0	2,296.7
Derivatives	●	●	●	●	8.2	61.1
Insurance policies	●	○	●	●	323.4	334.7
Cash and Other investment assets and liabilities	●	●	●	○	(1,909.3)	(781.0)
Return Seeking Investments						
Equities	○	●	●	●	-	0.3
Bonds	●	●	●	○	745.9	715.3
Pooled investment vehicles	●	●	●	●	1,944.4	1,924.3
<i>Bond funds (direct and indirect risk)</i>					500.3	420.1
<i>Other funds (direct risk only)</i>					1,444.1	1,497.6
Derivatives	●	●	●	●	(1.5)	0.5
Cash and Other investment assets and liabilities	●	●	●	○	52.3	29.1
Total (excluding AVCs)					4,678.4	4,581.0

In the above table, the risk noted affects the asset class [●] significantly, [●] partially or [○] hardly/not at all.

Further information on the Trustee's approach to risk management is set out below. This does not include AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

BAA Pension Scheme

Notes to the Financial Statements for the year ended 30 September 2021

Investment Strategy

The Trustee determines investment strategy after taking advice from a professional investment adviser. The investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which, together with future contributions, will generate investment returns to meet the benefits of the Scheme payable under the Trust Deed and Rules, as they fall due. Further details of the Trustee's investment strategy are set out in the Trustee's report on page 8.

Credit Risk

The Scheme is subject to credit risk because it invests directly in bonds and over-the-counter ("OTC") derivatives and because it holds cash balances as well as a bulk annuity insurance contract. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. In addition, the Scheme is indirectly exposed to credit risks arising from some of the financial instruments held by the pooled investment vehicles.

Credit risk arising from bonds held directly is mitigated by the appointment of investment managers with the appropriate skill and processes to manage these assets. These managers are also set limits and guidelines, including restrictions on the credit quality of the investment they purchase for the Scheme. These portfolios are very well diversified and the risk from any individual security or issuer is kept at an appropriate level given the credit worthiness of that security or issuer. For example, the Scheme may hold significant positions in UK Government Bonds as the credit risk associated with the UK Government is small.

Credit risk arising from OTC derivatives is mitigated by collateral arrangements (see note 14e).

Credit risk arising from bonds and cash balances is mitigated by transacting with governments and financial institutions which are rated investment grade. As at 30 September 2021 99.3% of bonds held by the Scheme were rated investment grade (2020: 93.3%).

Direct credit risk arising from pooled investment vehicles is mitigated by: the underlying assets of the pooled arrangements being ring-fenced from the pooled fund manager; the regulatory environments in which the pooled managers operate; diversification of the investments amongst a number of pooled arrangements; and investment due diligence checks carried out by the investment advisors appointed by the Trustee on the appointment of new pooled investment managers and on an ongoing basis thereafter. Pooled investment arrangements used by the Scheme primarily consist of unit linked insurance contracts, authorised unit trusts, open mutual funds and limited partnerships. Direct credit risk also arises from the bulk annuity policy the Scheme has in place with Legal & General Investment Management which is used to hedge longevity, interest rate and inflation risk of the insured pensioner population.

Credit risk arising from the insurance policy held with Legal & General Assurance Society Limited is mitigated through the use of a provider with the appropriate skill, processes and size to manage these assets. In addition, the Scheme is protected by the Financial Services Compensation Scheme.

Indirect credit risk arising from pooled investment vehicles is mitigated by the investment restrictions in place for each of the pooled investment vehicles, and varies depending on the nature of the underlying assets (see note 13).

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

Currency Risk

The Scheme is subject to currency risk because some investments are denominated in overseas currencies.

A number of the managers hold bonds for the Scheme which are denominated in overseas currencies. The currency risk from the bonds is mitigated by the managers who use currency forwards to offset the majority of currency exposure. Any remaining exposure is held to achieve improved returns and the risk from these positions is carefully managed.

The KKR, Ownership Capital and BlackRock Renewables Funds are all based in USD. The Scheme fully currency hedges these funds to mitigate any direct currency risk. All other pooled funds are reported in GBP so there is no direct currency risk from the pooled investment vehicles. Indirect currency risk from pooled investment vehicles is mitigated by investing in currency hedged share classes where available.

A summary of exposures to currency risk at both the current and previous year end is given in the following table:

2021	Investments	Currency Contracts	Total
	£m	£m	£m
US Dollar	1,110.3	(914.7)	195.6
Euro	209.1	(256.8)	(47.7)
Japanese Yen	0.0	(0.7)	(0.7)
Other overseas currency	6.3	(44.0)	(37.7)
Total overseas exposure	1,325.7	(1,216.2)	109.5
Unhedged exposure	8.3%		

2020	Investments	Currency Contracts	Total
	£m	£m	£m
US Dollar	660.4	(661.8)	(1.4)
Euro	199.6	(209.1)	(9.5)
Japanese Yen	0.7	36.2	36.9
Other overseas currency	0.0	(3.6)	(3.6)
Total overseas exposure	860.7	(838.3)	22.4
Unhedged exposure %	2.0%		

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

Interest Rate Risk

The Scheme is subject to interest rate risk on the LDI investments, comprising government bonds, interest rate and inflation swaps and cash, as well as the bulk annuity insurance contract.

Interest rate risk is mitigated by aligning the sensitivity of the LDI investments with that of the Scheme's liabilities. Under this strategy, if interest rates fall, the value of LDI investments will rise to match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value as will the actuarial liabilities because of an increase in the discount rate. The valuation of the bulk annuity policy that the Scheme has will be impacted by interest rates as it is used to hedge the liabilities of the insured pensioner population.

At the year-end the LDI portfolio represented 32.9% of the total assets (2020: 37.1%).

The value of the insurance policy held with Legal & General Assurance Society Limited is affected by interest rates, which are used to set the discount rate used when valuing. The interest rate risk is mitigated as the value of the asset and the value of the liabilities for those members covered by the insurance policy are opposite and equal.

Other Price Risk

The Scheme is subject to other price risk in relation to the return seeking investments which include equities, non-gilt bonds, property funds, diversified growth funds and hedge funds.

Other price risk is mitigated by constructing a diverse portfolio of investments across various markets and managers.

At the year-end these represented 67.1% of the total assets (2020: 62.9%).

21. CURRENT ASSETS

	2021	2020
	£'000	£'000
Debtors		
Contributions due from the Principal Employer in respect of reimbursement of UURBS pensions	116	115
Prepayments	182	-
Due from Employer – VAT	139	367
	437	482
Cash balances:		
Cash at bank	14,953	26,475
	15,390	26,957

The contributions due from the Principal Employer as at 30 September 2021 were in respect of discretionary UURBS pensions paid by the Scheme and were received by the Scheme in accordance with the timescale set out in the Schedule of Contributions.

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

22. CURRENT LIABILITIES

	2021	2020
	£'000	£'000
Creditors		
Employer contributions paid in advance	4,043	-
Administration and investment management expenses	3,337	2,398
Due to HMRC	1,019	1,093
Benefits payable	274	1,275
	8,673	4,766

23. RELATED PARTY TRANSACTIONS

LHR Airports Ltd provides certain administration and other services to the Scheme. The costs of these services are recharged to the Scheme and are included within administrative expenses disclosed in Note 7. During the year these costs amounted to £120,000 (2020: £120,000). Independent Trustee fees are also disclosed in Note 7.

LHR Airports Ltd is responsible for certain discretionary payments of pension benefits. The actual payment of these amounts is made by the Scheme and reimbursed by LHR Airports Ltd. During the year such payments amounted to £1,382,933 (2020: £1,376,171). Apart from the above, and transactions and balances with the Principal Employer shown in the Financial Statements and notes thereto, there were no other related party transactions.

24. CAPITAL COMMITMENTS

At 30 September 2021 the Scheme had commitments to invest in KKR Private Credit Opportunities Partners II L.P. fund of US\$46.2m (2020: US\$62.9m), in TCW TALF Opportunities Feeder Fund LP of US\$Nil (2020: US\$38.7m), in Payden & Rygel TALF 2020 Offshore Fund, Ltd of US\$Nil (2020: US\$72.0m) and in BlackRock Global Renewable Power Infrastructure Fund US\$213.4m (2020: US\$Nil).

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2021

25. GMP EQUALISATION

On 26 October 2018 the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension ("GMP") benefits. A second High Court judgment was handed down on 20 November 2020 which provided clarification on the obligations of pension plan trustees to equalise past transfer values to allow for GMP. The issues determined by these judgments arise in relation to many other defined benefit pension schemes.

The Trustee of the Scheme is aware that the judgments will affect the Scheme and will be considering this at future meetings and decisions will be made as to the next steps. Under the ruling, schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts.

The Actuary had previously estimated the impact of GMP equalisation on the Scheme as at September 2018 would increase total liabilities by approximately £4.4m, of which only a proportion would relate to past payments. The Actuary has also provided an indicative estimate, based on the estimated value of transfer values paid since 1990, showing that the impact of the second court judgement would be to further increase the total liabilities by around £210k.

Based on this initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. Any adjustments necessary will be recognised in the future accounts as necessary.

BAA Pension Scheme
Independent auditor's statement about contributions

Independent auditor's statement about contributions to the Trustee of the BAA Pension Scheme

Statement about contributions payable under the Schedule of Contributions

We have examined the summary of contributions payable to the BAA Pension Scheme, for the Scheme year ended 30 September 2021 which is set out on page 41.

In our opinion contributions for the Scheme year ended 30 September 2020 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 15 October 2019.

Basis of opinion

Our objective is to obtain sufficient evidence to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions which sets out the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions.

Auditor's responsibilities for the statement about contributions

It is our responsibility to provide a Statement about Contributions paid under the Schedule of Contributions and to report our opinion to you.

Use of our statement

This statement is made solely to the Scheme's Trustee, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our work, for this statement, or for the opinion we have formed.

Crowe U.K. LLP

Crowe U.K. LLP
Statutory Auditor

Date: 31 March 2022

BAA Pension Scheme
Independent auditor's statement about contributions

Trustee's summary of contributions payable during the Scheme year ended 30 September 2021

Contributions payable to the Scheme in accordance with the Schedule of Contributions in respect of the year ended 30 September 2021 were as follows:

	2021 £'000
Employer normal contributions	16,288
Employer deficit funding contributions	25,000
Employer augmentations	1,383
Member normal contributions	1,335
	<hr/>
Total contributions paid under the Schedule of Contributions	44,006
Member additional voluntary contributions	12
Member additional contributions to purchase added years	44
	<hr/>
Contributions disclosed in the financial statements	<u>44,062</u>

For and on behalf of the BAA Pension Trust Company Limited

 Director

 Director

Date: 30 March 2022

BAA Pension Scheme Schedule of Contributions and Actuarial Certificate

SCHEDULE OF CONTRIBUTIONS

BAA Pension Scheme

Status of this document

This Schedule has been prepared by the Trustee of the BAA Pension Scheme ("the Trustee") to satisfy the requirements of section 227 of the Pensions Act 2004, after obtaining the advice of Chris Sheppard, the actuary to the Scheme appointed by the Trustee.

This document is the 9th Schedule of Contributions put in place for the Scheme. It supersedes all earlier versions.

After discussions, a pattern of contributions was agreed by the Trustee and the Principal Employer, LHR Airports Limited, on 25 July 2019.

The Trustee and the Principal Employer have signed this Schedule on page 4 to indicate that it represents an accurate record of the agreed pattern of contributions.

The schedule is effective from the date it is certified by the Scheme Actuary on page 5.

Contributions to be paid to the Scheme from 1 October 2019 to 30 September 2022

Members' contributions

Active members shall pay contributions monthly on the following basis:

Category of Member	Contribution rate as a percentage of Shift Inclusive Salaries
Special Fire Service Members	
- Closed Section	7.5
- Open Section	6.5
Fire Service Members	
- Closed Section	7.0
- Open Section	6.0
Other Members	
- Closed Section	6.0
- Open Section	5.0

These contributions will be deducted from salary by the Employer and paid towards the Scheme by the 19th of the following month.

BAA Pension Scheme

Schedule of Contributions and Actuarial Certificate

SCHEDULE OF CONTRIBUTIONS

Page 2

It is recognised that, by agreement between the Employer and members of the Scheme Effective from 1 October 2015), these members' contributions will be based on Pensionable Salary and Shift Pay subject to an increase cap of 2% per annum.

This schedule does not cover the Employer's commitment to pay across to the Trustee additional voluntary contributions made by members.

The Employer operates "Pensions Plus", a pensions salary sacrifice arrangement. Where an active member participates in Pensions Plus, the active member shall not be required to contribute.

Employer's contributions in respect of future accrual of benefits

The Employer will normally pay contributions as set out below but can, where agreed with the Trustee, pay contributions earlier than indicated.

The Employer shall pay contributions no less frequently than monthly, at least on the following basis:

- Periods up to 30 September 2019 23.0% of Basic Salary plus Shift Pay
- Periods from 1 October 2019 25.6% of Basic Salary plus Shift Pay

In addition, the Employer shall pay the member's contributions due in respect of any active member who participates in Pensions Plus at the rates summarised under Members' contributions.

Contributions shall fall due on the last day of each calendar month in respect of that month, and shall be paid by the 19th of the subsequent month. However, the Trustee and Employer can agree for payments to be made earlier if appropriate and, if so, the date of payment will become the due date.

Employer's contributions in respect of the shortfall in funding as per the recovery plan of 15 October 2019.

To correct the shortfall, the Employer will pay a contribution of at least as follows:

- Between 1 October 2018 and 30 September 2019 £23m p.a.
- Between 1 October 2019 and 30 September 2022 £20m p.a.

Annual contributions will be paid monthly. These contributions shall normally fall due on the last day of each calendar month in respect of that month, and shall be paid by the 19th of the subsequent month. However, the Trustee and Employer can agree for payments to be made earlier than their due dates if appropriate and, if so, the date of payment will become the due date.

BAA Pension Scheme

Schedule of Contributions and Actuarial Certificate

SCHEDULE OF CONTRIBUTIONS

Page 3

Employer's contributions in respect of benefit augmentations

In addition, the Employer shall pay the cost, as determined by the Scheme Actuary, of any benefit augmentations in all circumstances, including those payments required by reason of redundancy, requested by the Employer and approved by the Trustee. These amounts shall be paid to the Scheme within one month of the later of the date of granting the augmentation and the date on which the Employer agrees the accuracy of the calculation of such costs, as presented by the Trustee.

Salary definitions

For the purposes of this schedule, Shift Inclusive Salaries are defined as Pensionable Salary plus an annual rate of Shift Pay. Basic Salaries means the total basic fixed annual salary of members and Shift Pay is the annual rate of shift pay applicable to each member.

For Open Section Members, Pensionable Salary is Basic Salary plus other allowances declared by LHR Airports Limited to be Pensionable less the Lower Earnings Limit. For Closed Section Members, Pensionable Salary is Basic Salary plus other allowances declared by LHR Airports Limited to be Pensionable.

Employee monthly contributions are calculated using monthly capped Shift Inclusive Salaries determined as one-twelfth of the annual amounts.

Employer monthly contributions, in respect of future accrual of benefits, are calculated using monthly uncapped Basic Salary plus uncapped Shift Pay determined as one-twelfth of the annual amounts.

For Employer monthly contributions in respect of future accrual of benefits for those members either on maternity, paternity or sick leave, Basic Salary is deemed to be paid at the rate applicable at the commencement of maternity, paternity or sick leave (but increased in line with any salary increases awarded to the member during such leave and uncapped) irrespective of actual amounts paid to the member.

For the purposes of determining members' contributions, increases in Pensionable Salary and Shift Pay have been agreed, between members and the Employer, to be capped at 2% per annum. For the purposes of determining Employer contributions, it has been agreed that increases in Pensionable Salary and Shift Pay will not be capped.

Arrangements for other parties to make payments to the Scheme

Payments towards the Scheme may be paid by any participating Employer or any of their subsidiaries or any other party as agreed by LHR Airports Limited and the Trustee, in lieu of contributions otherwise due from LHR Airports Limited.

BAA Pension Scheme
Schedule of Contributions and Actuarial Certificate

SCHEDULE OF CONTRIBUTIONS
Page 4

Dates of review of this Schedule

This Schedule of Contributions will be reviewed by the Trustee and the Employer no later than 15 months after the effective date of each actuarial valuation, due every three years.

Employer and Trustee agreement

This Schedule of Contributions has been agreed by the Employer, LHR Airports Limited, and the Trustee of the BAA Pension Scheme.

Signed on behalf of LHR Airports Limited



Name

JAVIER ECHAVE


Position

DIRECTOR

Date of signing

15/10/2019

Signed on behalf of the Trustee of the BAA Pension Scheme



Name

PHILIP G. WILKINSON

Position

CHAIRMAN TRUSTEES

Date of signing

15/10/19

BAA Pension Scheme
Schedule of Contributions and Actuarial Certificate



CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Name of Scheme

BAA Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 30 September 2018 to be met by the end of the period specified in the recovery plan.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 15 October 2019.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature

C Sheppard

Scheme Actuary

Chris Sheppard

Qualification

Fellow of the Institute and Faculty of Actuaries

Date of signing

15/10/2019

Name of employer
Address

Mercer Limited
 One Christchurch Way
 Woking
 Surrey
 GU21 6JG

BAA Pension Scheme Compliance Statement

COMPLIANCE STATEMENT

1. Tax Status

The Scheme was approved by the Inland Revenue Pension Schemes Office under Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988 until 5 April 2007. Subsequently it became a Registered Scheme with Her Majesty's Revenue and Customs from 6 April 2007, in accordance with the provisions of the Finance Act 2006. The Trustee's opinion is that there is no reason to believe this approval/registration may be prejudiced or withdrawn.

2. Employer Related Investments

The Scheme did not hold any direct investments in the Employer during the year.

3. Transfer of Pension Rights

The Scheme can transfer pension rights to, or receive them from such schemes as are suitably approved by the Commissioners of Inland Revenue. Transfers out to other pension schemes include transfers to arrangements approvable under Section 32 of the Finance Act 1981. The sums transferred were cash equivalents calculated, and paid in the manner prescribed by the Actuary in accordance with legislation. The calculation of transfer values does not make any allowance for discretionary benefits as these are not a feature of the Scheme. Transfer values paid during the year are the full cash equivalent and have not been adjusted as a result of Scheme funding levels.

4. Complaints

If Scheme members have any queries concerning their benefits they should contact the Scheme's administrator at the address shown for enquiries on the contents page. If the enquiry is not resolved to their satisfaction, members should use the Scheme's dispute resolution procedure, which is aimed at resolving complaints and disputes.

The Pensions Advisory Service (TPAS), an independent voluntary organisation, offers free advice and assistance to members at any stage during the complaints process. The TPAS can be contacted at:

Money and Pensions Service
120 Holborn
London
EC1N 2TD
Tel: 0845 601 2923
www.pensionsadvisoryservice.org.uk

If the matter remains unresolved after TPAS has assisted, members have the right to refer their complaint to the Pensions Ombudsman, who investigates complaints of injustice caused by bad administration or disputes of fact or law. The Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
London
E14 4PU
Tel: 0207 834 9144
www.pensions-ombudsman.org.uk

**BAA Pension Scheme
Compliance Statement**

COMPLIANCE STATEMENT (continued)

5. The Pensions Regulator

The Pensions Regulator is the UK regulator of work-based pension schemes. The Regulator's aim is to encourage high standards in the way pension schemes are run, to prevent problems from developing. The Regulator works with pension scheme trustees and scheme managers to help protect work-based pensions and if problems do develop, the Regulator has powers to put matters right. The Regulator cannot help with individual complaints or disputes, but if members believe that the Scheme is not complying with pensions rules and regulations, they can report this to the Regulator, at the following address:

Napier House
Trafalgar Place
Brighton
BN1 4DW
Tel: 0870 6063636
www.thepensionsregulator.gov.uk

**BAA Pension Scheme
Implementation Statement**

IMPLEMENTATION STATEMENT FOR 2020-2021

BAA Pension Scheme

February 2022

Private and Confidential

Introduction

This Implementation Statement is the Trustee's response to regulatory requirements to produce an annual review of how voting and engagement policies in its Statement of Investment Principles (the "SIP") have been implemented. This document also includes details on any recent updates to the SIP.

It has been prepared by the Trustee of the BAA Pension Scheme, covering the period 1 October 2020 to 30 September 2021.

The Statement sets out at a high level how the Trustee's policy on stewardship and engagement has been implemented. Where relevant, it describes the areas of the portfolio where stewardship and engagement are most likely to be financially material. It also discloses sample outcomes of voting and engagement activity by managers that hold listed equities.

Changes to the SIP over the period

The Trustee reviewed and updated the SIP in August 2021. Key changes to the SIP involve the addition of new responsible investment objectives amid growing climate concerns:

The Trustee has set a long-term objective of achieving net-zero carbon emissions no later than 2050, and an interim target of achieving a 50% reduction in emissions by 2030.

The Trustee notes that there remains considerable uncertainty in the implementation of net-zero investment strategies but is committed to working with asset managers and advisers to move towards this target.

The SIP continues to reflect the regulatory changes regarding the Shareholder Rights II Directive ('SRD II').

How have the policies in the SIP been followed over the year?

In the opinion of the Trustee, the policies set out in the SIP have been followed throughout the Scheme year. This statement sets out how, in its opinion, the Trustee has followed those policies during the year.

How the Scheme is governed

A Corporate Trustee – BAA Pension Trust Company Limited (“the Trustee”) – was appointed as the sole Corporate Trustee of the BAA Pension Scheme (“the Scheme”). The Trustee oversees the governance of the Scheme in consultation with LHR Airports Limited (“LHRA”).

The Trustee has formed an Investment Strategy Committee (“ISC”) to which it has delegated responsibility for overseeing and monitoring the Scheme’s investments.

The Trustee’s policies on risk

The SIP lists a number of risk parameters that the Trustee believes may result in a failure to meet the agreed objectives.

Over the year, the Trustee managed these risk parameters, including climate related risks, through regular monitoring on at least a quarterly basis and considered any action where appropriate, consulting with the Employer and seeking guidance and written advice from its investment advisers as required.

The Trustee does not consider there to have been any material breaches of risk parameters over the Scheme year. In the opinion of the Trustee, the risk parameters have been adequately managed throughout the year.

The Trustee’s policies for investment managers

The Trustee’s policy is to delegate the day-to-day management of the assets to investment managers.

Due to the benefits of cost and ease of implementation, the Trustee mainly invests in pooled investment vehicles. The Trustee recognises that due to the collective nature of these investments, there is less scope to influence directly how the asset manager invests. The Trustee does not consider that any material changes were made to the pooled fund terms over the Scheme year.

In terms of segregated arrangements, changes were made to the Investment Manager Agreement (“IMA”) for the LGIM LDI portfolio to incorporate the latest Scheme liability cashflows for interest rate and inflation hedging purposes as well as implementing the latest de-risking triggers for the Scheme. Given LGIM acts as implementation manager for the Scheme, changes were made to the IMA with LGIM to allow for disinvestments from Invesco Perpetual Global Targeted Returns Fund and SSGA Passive Balanced Portfolio. Additionally, these changes allowed for investments in the BlackRock Global Renewable Power Fund, GQG Partners Emerging Market Equity Fund and Ownership Capital Global Equity Fund, during the period under consideration.

The allocations to GQG Partners and Ownership Capital were appointments of new managers over the Scheme year. Each appointment was made following several discussions at internal ISC meetings over the Scheme year and manager selection days were held for each appointment.

The Trustee reviews transaction costs of all transitions that occur, where data is disclosed and available. The Trustee is comfortable that transaction costs that occurred over the Scheme year were within reasonable expectations.

The Trustee's policies on stewardship, engagement and voting behaviour

Direct engagement with underlying companies (as well as other relevant assets) in which the Trustee invests is carried out by the Scheme's investment managers. The Trustee's ability to influence investment managers' stewardship activities will depend on the nature of the investments held. Before appointing a pooled fund manager, the Trustee's investment advisors assess whether the investment objectives and guidelines of the manager are in line with those of the Trustee.

The Trustee does not believe that it can rely solely on markets to price in climate-related risks quickly or accurately enough. The risks arising from climate change should therefore be actively managed where possible, appropriate, and consistent with the Scheme's wider investment objectives. The Trustee aspires to align with the aim of LHR Airports Ltd, its corporate sponsor, by dedicating resource to considering how the Scheme can achieve net-zero carbon emissions. To this end, the Trustee has set a long-term objective of achieving net-zero carbon emissions no later than 2050, and an interim target of achieving a 50% reduction in emissions by 2030. In addition to reducing portfolio emissions, this will involve investing in a way that contributes to reducing emissions in the real economy. The Trustee notes that there remains considerable uncertainty in the implementation of net-zero investment strategies but is committed to working with asset managers and advisers to move towards this target through monitoring manager progress, conducting an annual survey and PRI reporting.

The Trustee believes that engagement (including the exercise of voting rights) is one means of helping to manage the Scheme's climate-related risks. Engagement with underlying companies (as well as other relevant organisations) is carried out primarily by investment managers on behalf of the Trustee. Each investment manager is expected to exercise voting rights in accordance with their guidelines. The ISC, on behalf of the Trustee, encourages its managers to engage with investee companies and promote adherence to best practice in corporate governance. The ISC, on behalf of the Trustee also meets the Scheme's managers periodically, where the managers present on these activities and are held accountable to the standards expected from the Trustee.

Stewardship and engagement (including the use of voting rights) is most likely to be financially material in the sections of the portfolio where physical equities are held. For the Scheme's managers that hold physical equity holdings (Man, Bridgewater, GQG and Ownership Capital) we have included further detail and an overview of votes cast during the financial year. The Trustee is comfortable that the voting and engagement policies have all been adequately followed over the Scheme year. There are sections of the portfolio where stewardship and engagement would be considered less relevant, such as the LDI portfolio – which predominantly invests in Gilts. However, where engagement is possible, it is of importance for the Scheme's investment managers.

The following investment managers of the Scheme have been recognised by the Financial Reporting Council as signatories to the UK Stewardship Code: Legal & General Investment Management, M&G, Man Group, BlackRock, Wellington Management and BlueBay. The code sets out a clear benchmark for stewardship as the responsible allocation, management, and oversight of capital to create long-term value, which the Trustee is supportive of. The Trustee is comfortable each manager provides good quality and transparent reporting of their approach to stewardship. There are no immediate concerns with the fact that the other investment managers used by the Scheme are not signatories to the UK Stewardship Code.

The Scheme's managers actively promote sustainable investment principles and are clear and transparent in reporting their approaches to the Trustee. More information on each of the Scheme's managers' stewardship and engagement policies can be found in the appendix. The Trustee intends to continue to engage with each manager on their policies.

When selecting any new investment manager, the Trustee must be comfortable that it can adequately manage ESG and climate-related risks, investing in line with the Trustee's beliefs. Managers will be periodically reviewed and held to account. If the Trustee is not satisfied that managers are investing in line with these beliefs, the Trustee will first engage with them to try to bring about improvements, but ultimately will terminate their mandate if improvements are not made.

Appendix

In addition to requiring its managers to present on stewardship and engagement policies when the Trustee meets with them, the Trustee also requires each manager to produce an annual statement on their stewardship approach. Direct responses and engagement examples from each of the Scheme's investment managers and reports can be found below:

LGIM

"Our approach to responsible investing stems from – and helps inform – Legal & General Group's vision for inclusive capitalism, which seeks to share the benefits of economic growth with as many people as possible. These are our core investment beliefs:

- Responsibility: We have a responsibility to many stakeholders. When we allocate capital, we conduct extensive research into potential environmental and societal outcomes
- Financial materiality: We believe ESG factors are financially material. Responsible investing is essential to mitigate risks, unearth opportunities and strengthen long-term returns
- Positive outcomes: We strive to effect positive change in the companies and assets in which we invest, and for society as a whole."

Case 1: Sustainable Food

"We have also engaged with consumer-goods giant Procter & Gamble (P&G), supporting a shareholder proposal on the elimination of deforestation from its supply chain and encouraging the company to increase the percentage of the pulp it uses that is Forestry Stewardship Council (FSC) certified."

"P&G used both forest pulp and palm oil as raw materials within its household-goods products. The company had only obtained certification from the Roundtable on Sustainable Palm Oil for one-third of its palm oil supply, despite setting a goal for 100% certification by 2020. Two of its Tier 1 suppliers of palm oil were linked to illegal deforestation. Finally, the company used mainly Programme for the Endorsement of Forest Certification (PEFC) wood pulp rather than FSC certified wood pulp."

"Although P&G had introduced a number of objectives and targets to ensure its business does not impact deforestation before the shareholder proposal, we felt it was not doing as much as it could. The company had not responded to CDP Forest disclosure; this was a red flag for us in terms of its level of commitment. The resolution received the support of 67.68% of shareholders (including LGIM), and we will continue to engage with P&G on the issue and will monitor its CDP disclosure for improvement."

Case 2: Modern day slavery and fast fashion

"Boohoo Group, an online fashion retailer, faced accusations of slavery within its supply chain last year. We engaged the company on numerous occasions in the second half of 2020 to discuss its response to address these criticisms of poor practices among some of its suppliers. Boohoo subsequently announced its Agenda for Change programme, with a focus on improving supply-chain management, driving more responsible sourcing and transparency."

"As part of its social responsibility journey, the company identified a number of areas for improvement, with a detailed timeframe to monitor progress. To date, it has strengthened personnel expertise around

ESG issues and sustainability in key roles, including the hiring of Sir Brian Leveson (who chaired the public inquiry into the culture, practices and ethics of the British press). The firm published an initial report at the beginning of this year, and recently ended its relationship with hundreds of suppliers."

Bridgewater Associates

"As a global macro, multi-asset manager, our first investment goal is to build a deep understanding of how economies and markets work. Because ESG issues are important drivers of global economies and markets, we have made it a strategic priority to deeply research these issues and to integrate that research into our investment process in a manner that is consistent with our systematic way of managing money. Since our investment logic is predominantly driven by macroeconomic views, much of our ESG research takes a similarly macro-oriented approach that spans across economies, markets, and asset classes."

"Our second goal is to convert the understanding we have built into high-quality solutions for our clients' most important investment objectives. The framework we use for integrating ESG considerations into portfolios depends on the portfolios' objectives. For portfolios with traditional return and risk objectives, we research ESG issues that we believe may have a material impact on financial performance, and this research is integrated as part of our broader investment research process. In addition to having return and risk objectives, we are increasingly partnering with clients who have added a third dimension to their investment objectives, namely impact. For these portfolios, we not only consider how ESG-related issues might affect return and risk but also how aligned these portfolios are to environmental and social outcomes."

Man Group

"Man Group takes a diversified approach to Responsible Investment across its investment engines and recognises the importance of a responsible approach across all asset classes and investment strategies. Each of our investment engines applies the best practices of Responsible Investment in the way that is most relevant to their fields of research through a variety of different methods."

"Man Group has a robust and consistent organisational framework to support all of our RI activity. We understand the importance of sound stewardship in managing investors' capital, and our approach to RI ensures that our interests and values are closely aligned with those of our clients and shareholders. It is clear to us that investing in a responsible manner can drive returns, mitigate risk, and benefit society. We believe that RI is best addressed through a combination of top-down and bottom-up approaches. While we have a unified approach to RI across our firm with respect to organisation, policy frameworks, stewardship, analytics platforms, and participation in industry activities, we actively and intentionally cultivate a more decentralised approach when it comes to ESG and impact investing."

"In summary, our commitment to RI spans three core areas – considering and applying ESG criteria in the investment decision-making process, engaging in meaningful stewardship of our holdings, and actively participating in industry-wide initiatives to promote RI and leading the way in setting standards for alternative asset managers."

Case 1: HSBC Holdings plc

Issue/theme: "Environmental/Climate – Campaign to end financing to fossil fuel producers."

Engagement undertaken: "Man Group co-filed shareholder proposal with support of 20 investors representing 17% of issued share capital in the company, requiring strategy to be published by the Company to reduce its exposure to fossil-fuel assets and set targets in-line with the Paris Agreement."

Outcome: "Company filed alternative resolution committing to Net Zero by 2050. Resolution passed at the AGM."

Case 2: Barclays plc

Issue/theme: "Environmental/Climate – Despite the 2020 announcement to be net zero by 2050, Company had increased exposure to fossil fuels."

Engagement undertaken: "Man participated as co-signatories to a letter holding the Company to account over its stated commitment to net zero emissions and calling out its increased exposure to fossil fuel financing and with several principal requests to introduce prohibition of financial services to new oil, coal mining and power plants and to set a clear fossil fuel phase-out strategy and targets."

Outcome: "The Company responded confirming a number of initiatives to collaborate with industry and academic groups, such as being founding members of the Net Zero Banking Alliance and reiterating their commitment to their goal of net zero by 2050."

Allianz Global Investors

"Allianz Global Investors' stewardship activities include monitoring and engaging companies on a broad range of issues, including, but not limited to: strategy, performance, capital management, corporate governance and shareholder rights, risk management, operational issues, audit and accounting, management remuneration and incentives, environmental, social and business conduct issues, transparency and disclosure."

"Allianz Global Investors has a specialist ESG Research team, whose fundamental role is to share its expertise in the consideration of ESG factors to identify risks and opportunities that have not been fully priced by the markets, thus supporting enhanced stock selection for the benefit of the investment decision makers. The team helps to coordinate our engagement efforts and often leads engagements on corporate governance, environmental, social, and business conduct matters."

"Allianz Global Investors sees the value of engagement in sharing our knowledge, views and perspectives with boards and management of investee companies to help improve performance and to better assure their long-term business prospects. We also find that exposure to a broader range of stakeholders at investee companies, importantly non-executive board members, enhances our understanding of the business, its strategy and value drivers, as well as our knowledge of the governance and culture of the companies we invest in, which enriches our investment analysis. Critically, it helps to assess quality of leadership and oversight, and to build confidence and trust in the board and management."

Case 1: Collaborative efforts for gender diversity with 30% Club

Issues/theme: “The 30% Club is a global campaign to take action to increase gender diversity at board and senior management levels. The club believes that gender balance on boards and senior management not only encourages better leadership and governance, but diversity and inclusion further contribute to all around board performance and ultimately increased corporate performance for companies and their shareholders.”

“As an active member of the 30% Club France Investor Group, we decided to engage with a French reinsurance company due to the disconnect between the percentage of women in the workforce (47%) and their representation at management/executive positions (only 30% in management positions, 19% in senior executive positions, and 10% at Executive Committee level).”

Engagement undertaken: “We engaged with the company early 2021. We wanted to understand whether the company is aware of this female ratio disparity between overall workforce level and management level as well as whether the company will take actions. We also wanted to encourage the company to develop an internal female talent pipeline and build on it when considering the appointment of a new woman at the executive management team.”

Outcome: “During the engagement, we learnt that upon the proposal from management, the Board of the firm has decided to set a target of 20% women at the Group Executive Committee by 2021 (objective reached already by now), and 30% by 2025. The Board has also decided to set an additional target of 27% women amongst Global Partners, Senior Global Partners and Executive Global Partners by 2025, from 19% today. Later this year, we noted the decision taken by the company to join the Women’s Empowerment Principles (WEPs) established by the UN Global Compact and the UN Women, reinforcing as such its commitments towards gender equity.”

“From our conversation, we understand the reinsurer develops active campaigns to prevent and avoid unconscious bias among the managers and mentoring programs to develop female talent and foster a better gender balance in their Partnership Program. In particular, the firm targets a 50% of nominations of women within the Partnership Program each year from 2023. We also view as a best practice the conduct of an external D&I audit this year as per the principle of “what gets measured gets managed”.”

Case 2: Engaging a French oil and gas company to support the net zero transition

Issues/theme: “Climate change is among the most pressing challenges facing humanity and has significant implications for all three ESG elements, not just the E. Many of our discussions focus on climate risk assessments and exploring how companies are reflecting climate risk and the low-carbon transition in their strategy, operations, and product pipelines. A French oil and gas company’s “Net zero by 2050 together with society” commitment was questioned on its honesty. That is why it is important for us to understand to how the company is going to achieve this goal.”

Engagement undertaken: “We engaged with the oil major’s executives on their say on climate to inform our votes at the AGM and make sure that their climate ambitions were ambitious enough. We have also informed the company that AllianzGI believes ongoing tracking and monitoring is a key element to successful engagement outcomes. In the future, we will continue tracking the company’s climate action and net zero alignment with a focus where the company can make a difference. As an example, which was also mentioned in the engagement meeting, we will encourage the firm to work with SBTi on the

establishment of and contribution to an industry-wide decarbonization framework aligned to the Paris Agreement of limiting global warming to 1.5°C.”

Outcome: “The company’s climate approach is supported by a net zero ambition by 2050 including all emissions (scopes 1, 2 and 3) as well as short- and medium-term targets. The latter is important given the current decade is critical to decarbonize the firm’s primary energy mix. Through this engagement AllianzGI got a good sense of the level of accountability, transparency on lobbying as well as the executive incentive structure and respective alignment with the firm’s decarbonization journey. As a consequence of the dialogue and evidence of such items, AllianzGI supported the firm’s resolution around its climate strategy.”

BlackRock

“BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. As an essential component of our responsibility to our clients, we engage with companies to advocate for the sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.”

“As stewards of our clients’ assets we have a responsibility to make sure companies are adequately managing and disclosing ESG risks and opportunities that can impact their ability to generate long-term financial performance — and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company’s approach to governance and sustainable business practices, how we communicate our views, and how we ensure companies understand our expectations. Voting in our clients’ interest is how we hold companies accountable when they fall short of our expectations.”

Case 1: Improving climate disclosure at Volvo AB

Issues/theme: “Volvo AB (Volvo) manufactures and sells trucks, buses, construction equipment, and marine and industrial engines globally. Given the material climate risks for Volvo based on its business lines, we expect robust reporting on the governance framework around these risks and how they are incorporated into the company’s strategy and risk management process. Volvo has acknowledged the impact of climate change on its business and set energy efficiency and greenhouse gas emissions reduction targets to 2020. We engaged with the company to discuss climate risk and learned it is considered a strategic risk and is built into decision-making across the organization, from product planning to research and development (R&D) spending. However, as of the time of its 2020 shareholder meeting in June, there was limited disclosure in Volvo’s public reporting, and no detail on board oversight of, or the strategy to mitigate, the impact of climate risk on its business. Given its business model, we would have expected the company to already have made fulsome disclosures, including more explicit alignment with the TCFD framework.”

Engagement undertaken: “The company’s climate-related risk disclosures did not meet our expectations of a company exposed to material climate risks. When we consider disclosure is inadequate, BIS’ policy is to withhold support from the re-election of those board members who are most responsible based on their membership of relevant board sub-committees. In the absence of such committees, we would vote against the most senior board member. As a result, we voted against the re-election of Mr. Carl-Henric Svanberg as Board Chair, as the most senior board member. In particular, we held Mr. Svanberg to account for the current lack of adequate disclosures regarding climate-related risks and

made clear we expected more fulsome disclosure regarding the company's long-term adaptation strategies in line with the TCFD by the 2021 shareholder meeting."

Outcome: "Following the shareholder meeting, Volvo's CEO Martin Lundstedt acknowledged BlackRock's vote, and agreed that the company should improve its communication and sustainability disclosure. The company committed to enhancing its reporting as well as its climate goals. In March 2021, Volvo published its 2020 Annual and Sustainability Report which includes disclosures aligned with the TCFD framework. It also published to its website a SASB index mapping its current disclosures to the relevant SASB metrics for the industrial machinery sector."

Case 2: Enhanced ESG disclosure and inaugural TCFD report following engagement at American Airlines

Issues/themes: "American Airlines is a major U.S. airline headquartered in Fort Worth, Texas. American Airlines, and the aviation industry more broadly, is in focus for having a carbon intensive business model. In addition to the heightened focus on the sector's environmental impact, airlines have been severely impacted by COVID-19 given dramatically reduced travel."

Engagement undertaken: "BIS has engaged with American Airlines on numerous occasions to discuss issues that are material to the company's business model and that are consistent with our clients' long-term economic interests. This has included encouraging more meaningful disclosure on climate risk management and reporting in line with the recommendations of the TCFD, political contributions disclosure, board composition and effectiveness, executive compensation and the company's response to the global pandemic."

Outcome: "Following engagement, the company enhanced its ESG disclosures and produced their first TCFD report. The company mentioned to us that progress on these disclosures was helped by our feedback, as well as other investors' public support for disclosures in line with SASB and TCFD reporting. In addition, American Airlines' board created a new corporate governance committee, expanding the mandate of the previous committee to focus on climate risks and opportunities, among other ESG topics."

Wellington Management

"Our investment-led approach is a key component of our engagement and escalation process. We vote proxies in ways we believe will maximise the economic value of our clients' holdings long term, and we encourage companies to hold a high bar for ESG to enhance both their resiliency and profitability."

"Direct engagement with company management on a range of issues, including strategy, financial performance and risk, capital structure, and ESG considerations, is a core part of our investment process. A substantial portion of our company research is informed by direct, persistent contact with company management and boards of directors, both in our offices and through on-site company visits. Portfolio managers, industry analysts, and ESG analysts all take part in, and have a shared responsibility for, our ongoing dialogue with investee companies, as well as suppliers, customers, and competitors."

Case 1: American Tower

Issues/theme: "During Q3 2021, we engaged with American Tower Corp to discuss their emissions reduction targets."

Engagement undertaken: "We prioritized an engagement with the company because they have a higher-than-average weighted average carbon intensity and lack science-based targets for emissions reductions. During our call, we communicated the importance of AMT reducing its carbon footprint as it pertains to our clients' perspective and our involvement in the Net Zero Asset Managers scheme."

Outcome: "AMT is increasingly focused on carbon emissions and has made progress towards diversifying its revenue stream. For example, AMT has completed 53% of their 10-year goal focused on Africa and Asia (by 2027). It has also invested in sustainable projects in some emerging market countries, which while capital intensive, may provide social benefits. Despite this progress, we found AMT's unwillingness to commit to science-based targets disappointing, believing that they will prioritize revenue generation over carbon emissions reductions. After expressing our disappointment, AMT has since adopted science-based targets (SBTs)."

Case 2: Bank of America

Issues/themes: "We engaged with members of the Bank of America board in Q2 2021 to discuss their diversity practices. Given the public scrutiny received by the banking industry for historical racial biases and discrimination, we wanted to understand their senior personnel's perspective and the steps being taken to address racial discrimination, both internally and externally. We left the meeting with a positive view of the company, but we wanted the bank to analyze its impact on non-white stakeholders."

Engagement undertaken: "As a result, we supported a shareholder resolution requesting that the company conducts a racial equity audit. The audit will have a focus on understanding how Bank of America adversely impacts non-white stakeholders and communities of color."

Outcome: "Bank of America have since implemented the "National Community Advisory Council", a group of outsiders in the communities where Bank of America operates. These people will provide external feedback on potential concerns or gaps as it pertains to racial biases and discrimination, and we consider this to be a successful outcome."

BlueBay

"BlueBay believes that providers of debt do have a role in engaging with issuers on matters with the potential to impact investment returns. However, client expectations of the scale and effectiveness of such engagement should be made in recognition of the fact that as debt investors, we are not owners and as such have more limited legal mechanisms to influence issuers."

"As part of the routine investment research process, our investment teams meet issuers/borrowers (particularly with primary issuances) and can raise questions, including on ESG related matters. Where ESG engagement is deemed necessary, this will be prioritised using a risk-based approach. This involves considering issuers considered to have the most exposure to significant ESG controversies, relative size of BlueBay's investment exposure, whether it is a core/long term or opportunistic position and the fundamental ESG ratings derived internally, as well as third-party ESG ratings and/or specific E, S and G areas. Please note our 'ESG Orientated' strategies seek to go beyond a solely risk-based approach to engagement, and also consider issues of responsibility and stewardship. As such decisions can be taken on investments which are not limited to whether the ESG risk is investment material."

"Our engagement efforts are primarily aimed at generating insights to inform our investment decisions. However, in some instances, there may be a conscious decision to influence the issuer on improved management of specific ESG issues, to mitigate potential ESG investment material risks and facilitate positive change. In these cases, where possible, we seek to define specific outcomes that we hope to achieve over a given timeline as a result of the engagement activity (e.g., improved disclosure as part of an issuers annual reporting cycle)."

"BlueBay may proactively initiate dialogue with issuers on ESG matters, or reactively in response to an external event or development. This is particularly relevant where there is a significant incident, and we wish to gain greater understanding around how it came to pass and what measures are being implemented as a result. Engagement activities may occur bilaterally, but this can also be undertaken in collaboration with other investors. This can be the case where there is a collective focus on a specific issue/theme, either within a sector or more broadly where change is being sought and partnering with others could increase the effectiveness of the engagement effort."

Example 1: Cheplapharm

Issues/themes: "Cheplapharm (CHEPDE) is a German pharmaceutical company that markets branded drugs, medical products, supplements and cosmetics. It is a company we engaged with last year and continued to do so."

Engagement undertaken: "The latest interaction occurred in June 2021, on the continued theme of ESG disclosure and transparency, specifically in terms of the company's investor communication of ESG progress and external reporting. The latest dialogue occurred as a part of a group management call, where Cheplapharm presented its most recent updates that focused on governance changes."

Outcome: "On this topic, we are pleased to observe that the company has improved its financial disclosure, such as providing more standardised and detailed quarterly financial information since Q2 2020, encompassing a detailed cash flow statement, and giving information considered useful by investors to improve the understanding of the accounts in light of the numerous M&A conducted by the group since during 2H 2020. Although the group has yet to produce an annual ESG report, as part of its bondholder annual report, more information has been communicated on its environmental and societal business impact. These developments are encouraging, but there remains room for improvement. In this regard, which we will continue to encourage them."

"Additionally, the recent call with management focused on governance related practices. Here, progress has also been made, with the company confirming its code of conduct has been published and applies to all employees, including affiliates, with the expectation that its business partners will adhere to the same commitment. In line with the company's previous commitment in 2020, a supervisory committee has been established that comprises three independent members, which goes some way towards addressing concerns around board independence (considering the family ownership structure). There have also been some senior changes at the board level, including a new Co-CEO and CIO, the latter of which has been made to strengthen the board's expertise in relation to healthcare and sciences."

Example 2: Power Team Services / Artera Services

Issues/theme: "Power Team Services / Artera Services (POWBUY) is an outsourced provider of maintenance and construction services for electric and natural gas infrastructure in the US across 200 customers in 34 states. The position was originally bought in May 2020 as we identified it as an attractive

opportunity to invest in a high coupon, first-lien structure, in a business we expected to be resilient over the Covid-19 pandemic.”

Engagement undertaken: “We had a positive ESG engagement with management in June 2021 to understand the company’s historical health & safety issues especially the circumstances that led to the deaths of two power linemen in 2017. During this engagement we learnt more about their worker safety protocols and got more comfortable on the improvements they have made.”

Outcome: “However, in August 2021 during their Q2 2021 earnings call, management announced that, yet another power lineman died on the job during Q3 2021. With this knowledge and higher ESG risk profile of the company, we started to divest from the issuer and had no exposure in the fund as at 2 December 2021.”

KKR

“KKR maintains that the thoughtful management of environmental, social, and governance (ESG), regulatory, geopolitical, and reputational issues makes KKR a better investor, and is an essential part of long-term business success in a rapidly changing world.”

“KKR is committed to investing responsibly by:

- Incorporating material ESG, regulatory, geopolitical, and reputational considerations into KKR’s investment decision-making and management practices, where relevant. This includes considering key risks and opportunities during the diligence process and, where applicable, then engaging on these issues with the companies in which KKR invests or to which KKR provides financing.
- Communicating KKR’s responsible investment approach, progress, and goals transparently to the public, KKR’s fund investors, and other stakeholders.
- Advancing consistent and thoughtful responsible investment processes in the financial industry by collaborating with industry peers, standard-setting organizations, and other stakeholders.
- Maintaining KKR’s own internal governance and culture to ensure that KKR acts as a good citizen in the communities in which KKR operates.”

“This policy is intended to provide a broad framework for our approach to ESG integration through the investment life cycle across KKR’s investment businesses. KKR’s influence and control of companies in which we invest varies significantly across and within certain asset classes. To this end, this policy articulates the approaches that KKR believes are broadly relevant for each asset class. Where KKR maintains control of a company, it seeks to work with the company to appropriately integrate and monitor progress on material ESG issues into business processes. In cases where KKR determines it has limited ability to conduct diligence or to influence and control the integration of ESG considerations in an investment, KKR will appropriately incorporate the applicable elements of this policy. Examples of such cases include where KKR is a lender with no indicia of influence or control, is a minority shareholder, has limited governance rights, or where other circumstances affect KKR’s ability to assess, set, or monitor ESG-related performance goals.”

M&G

"We believe that the long-term success of companies is supported by effective investor stewardship and high standards of corporate governance. We believe that if a company is run well, and sustainably, it is more likely to be successful in the long run."

"We generally will seek to engage with issuers rather than divest. We believe that the long-term success of companies or assets is supported by effective investor stewardship and high standards of corporate governance. We think that if a company is run well, it is more likely to be successful in the long run. Social and environmental issues can also have an important impact on a company's performance and successful development. We therefore look at how both the risks and opportunities that these issues represent are addressed when we analyse them."

"The Private Credit team conducts regular engagements with borrowers which seeks to attest to their governance models, their environmental and social operating guidelines and where appropriate, to engage on key issues such as climate, diversity and inclusion etc."

"When conducting engagements, our analysts adhere to the UNPRI definition – and engagements will have a specific time bound objective, action and outcome which is measurable. The engagement outcome is also tracked over time. An ESG objective seeks to influence a company's behaviour or disclosures and cannot be merely to increase understanding. Each engagement is assessed for its effectiveness and is designated a red, green, or amber traffic light colour coding. Green indicates a positive engagement outcome. Amber suggests further monitoring is required. Red indicates an unsuccessful outcome."

"A particular area of focus for these assets where there is no regulatory requirement for disclosure is to lobby for greater disclosure of ESG issues such as carbon emissions. Given the already apparent systemic risks that climate change represents, this is a clear priority for M&G. At the beginning of 2020 we published our Approach to Climate Change, and activities related to combating the climate crisis were prevalent throughout the year. As a result, there has been a focus on climate-related engagement across M&G over the past year. M&G plc aims to reduce the carbon emissions on our total book of assets under management and administration to net zero by 2050, in line with the Paris Agreement and the UK Government's target. We also committed to reducing our own carbon emissions to net zero by 2030."

Case 1: Residential Ground Rents

Issues/themes: "Our engagement objective is to identify and rectify cladding related issues with buildings held within the ground rent vehicles and find third party funding pools to cover costs where possible."

Engagement undertaken: "We asked the property manager to evaluate every building for compliance with latest building safety standards. We established a programme of engagement with homebuilders to encourage them to fund cladding rectification works. Ground rent vehicles were provided with loans to the affected buildings to cover initial conversion costs. We engaged with MHCLG to encourage the creation of a government backed fund to finance rectification works where it is not possible to attribute third party liability."

Outcome: "As a result, all affected buildings (<0.5% of properties) are in the process of having cladding rectified; homebuilders agreed to finance the work for all except 2 buildings in the portfolio; for these, we were the first institutional free holder to secure Government funding to cover the conversion costs, with work started in December 2020; we expect our Government funding agreements to become a blueprint for other institutional freeholders in the sector."

Case 2: Direct Lending – Logistic technology and software solutions company

Issues/themes: "Our engagement objective is to improve the borrower's disclosure of their ESG strategy by encouraging measurable and targeted objectives."

Engagement undertaken: "The borrower recently shared its ESG strategy document with its small number of lenders, which included objectives including, but not limited to, lowering its overall carbon footprint, as well as making its supply chain more sustainable. Whilst we welcomed the borrower's ESG strategy and were encouraged by the steps they were taking, we felt that many of the objectives were qualitative in nature and it would therefore be challenging for us to measure progress. We set up a call with the borrower and other lenders with the aim of encouraging a more quantitative approach by which their ESG strategy and objectives could be measured."

Outcome: "As a result, they agreed to several improvements to their ESG disclosure: In year-end MI reporting to Lenders, the borrower would report its quantitative outputs with respect to carbon usage, water and waste; the borrower would report its aspirational targets for forecast year ahead of the same (so M&G can track progress); at year-end, the borrower would supply to Lenders the key ESG metrics that it puts together for client tenders and an example Green Scorecard."

GQG

"As a fiduciary investor, GQG is committed to the stewardship of our clients' assets. Our core objective is to protect and enhance the long-term value of our investments. GQG will leverage engagement activities and proxy research to mitigate risks across our portfolios, maximize shareholder value and unlock stakeholder value."

"GQG believes that it is a privilege to be entrusted with our clients' capital. We see ourselves as stewards of that capital and recognize the enormous responsibility that this places upon us. Our investment philosophy is rooted in buying high-quality, durable businesses with sustainable earnings over the long term. ESG considerations are embedded in our investment process and inherent in our definition of quality. Our long-term time horizon allows our analysis to focus on opportunities where perception and reality diverge."

"We believe the market is disproportionately focused on shorter-term projections and we believe it often fails to recognize the long-term value generated by a quality company capable of sustaining its competitive position. With our long-term view on the sustainability of earnings and therefore the return potential of our investment, we must take a correspondingly long view on risk. Since we see many ESG issues as long tailed risk factors that could impact the sustainability of earnings, we take an integrated approach that factors ESG considerations into our fundamental, bottom-up analysis of potential portfolio companies."

Case 1: Petrobras

"Our August 2021 engagement with Petrobras meaningfully informed our assessment of the company's decarbonization pathway. The company was flagged for engagement based on its contribution to portfolio weighted average carbon intensity. We sought information on the company's pathway to reduce carbon intensity and the governance structures in place to align operations with carbon reduction targets. The company gave us the information we sought. This included a pledge to align its climate-related financial disclosures with the TCFD framework, Petrobras' investments in CCUS technologies and details on executive variable compensation linked to sustainability targets. We suggested that the company make the remuneration sustainability targets more ambitious, to which the company responded they would consider revising the targets during the next revision of the company's business plan."

Case 2: Nestle

"Our May 2021 engagement with Nestlé meaningful informed our materiality assessment of modern slavery risks to the company. The engagement was prompted by a lawsuit brought against Nestlé by farmers who supplied cocoa to the company and alleged labour abuses. Ahead of the engagement we performed due diligence, interviewing a range of sources including civil society activists, former Nestlé employees and sustainability certification professionals based in Côte d'Ivoire. These interviews elicited specific issues about Nestlé's supply chain human rights due diligence that we raised with the company during the engagement. We learned from the executives that the company had just strengthening oversight of its tier one suppliers. The company was also expanding the ambition of a program specifically targeting child labour among its supplier communities. We came away more confident in the company's ability to effectively monitor its supply chain for human rights violations. We also received a soft commitment from the company to improve the visibility of future cocoa purchase contracts with the co-operatives."

Ownership Capital

"At Ownership Capital, we aim to provide superior returns that help our clients meet their long-term goals while ensuring a prosperous and sustainable global society. We aim to promote the principles of responsible investment and demonstrate that long-term, engaged ownership leads to sustainable financial results."

"To achieve the above objective, our investment process combines fundamental, long-term oriented research with a comprehensive sustainability risk / opportunity framework and active engagement. We believe that comprehensive and financially relevant ESG analysis, properly integrated into a fundamental process, will help uncover which companies are truly built for the long-term. However, since most companies are not ESG leaders, we think the optimal strategy involves engagement instead of exclusion, and we therefore focus on working with our portfolio companies to improve long-term areas of weakness across their businesses."

"As long-term owners, we value stewardship and engagement, as we believe these factors are crucial: both for our companies, in helping them develop and execute targeted strategies to become sustainable; and for society, in aligning company success with the prosperity of our planet. Our goal is to be the

sustainability partner for all our companies, to work with them as an aligned long-term owner who can be the catalyst to stimulate sustainable change.”

Case 1: Masimo – Sustainability of Product Offering

“The company is a market leader in non-invasive patient monitoring sensors and devices which are used in acute and outpatient care. Our engagement with Masimo has primarily focused on developing a corporate sustainability strategy, improving disclosure to investors, and incorporating environmental considerations into product design.”

“Noteworthy achievements over the year included 1) an 84% reduction in waste by redesigning existing sensors resulting in a smaller, light-weight form while improving performance and reducing cost of production, and 2) a close to 50% reduction in packaging size since 2016 (1.1m sqm) which has led to reduced storage space and cost.”

Case 2: Tradeweb – Board diversity

“During our meeting with Tradeweb’s CEO in September 2020, we addressed the lack of diversity and independence on the board. The CEO recognised our concern and was open to our recommendation to add an additional independent and diverse director to the board.”

“During Q1 2021, Tradeweb announced the appointment of new director to the board, its first non-white director. The company has also adopted an inaugural board diversity policy, as it recognises and embraces the benefits of having a diverse board to enhance the quality of its performance. During Q2, Tradeweb appointed another new director to the board, its second director of colour. We were pleased to see how the company is embracing our advice on diversity, as we believe that diverse boards can lead to both an improved corporate culture and a more effective leadership team.”

Voting Disclosure Tables and Significant Votes

Bridgewater Voting Disclosure

1 October 2020 to 30 September 2021

Voting Statistics	Response
How many meetings were you eligible to vote at?	2,092
How many resolutions were you eligible to vote on?	19,909
What % of resolutions did you vote on for which you were eligible?	99.43%
Of the resolutions on which you voted, what % did you vote with management?	86.85%
Of the resolutions on which you voted, what % did you vote against management?	12.95%
Of the resolutions on which you voted, what % did you abstain from voting?	1.85%
In what % of meetings, for which you did vote, did you vote at least once against management?	40.11%
Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?	Since December 1, 2006, Bridgewater has engaged Glass, Lewis & Co. ("Glass Lewis") to vote proxies on behalf of Bridgewater's clients. Bridgewater generally subscribes to the proxy voting policy adopted by Glass Lewis but reserves the right to direct Glass Lewis to vote in a manner that is contrary to such policy where appropriate, or as specifically directed by a client.
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	0%

Please note that Bridgewater has not adopted a policy for identifying "significant votes," as any particular voting matter's outcome is typically inconsequential in the context of the overall portfolios. Moreover, Bridgewater generally subscribes to the proxy voting policy adopted by Glass Lewis, our proxy voting provider, which makes recommendations in favour of governance structures that manage risk, drive performance, and create shareholder value.

Man Voting Disclosure

1 October 2020 to 30 September 2021

Voting Statistics	Response
How many meetings were you eligible to vote at?	446
How many resolutions were you eligible to vote on?	5147
What % of resolutions did you vote on for which you were eligible?	100%
Of the resolutions on which you voted, what % did you vote with management?	89.7%
Of the resolutions on which you voted, what % did you vote against management?	10.0%
Of the resolutions on which you voted, what % did you abstain from voting?	0.3%
In what % of meetings, for which you did vote, did you vote at least once against management?	51.3%
Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?	Glass Lewis. We use our own bespoke policy.
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	3.7%

BAA Pension Scheme Implementation Statement

Man Summary of Significant Votes

1 October 2020 to 30 September 2021

Please find four votes that Man identified to be significant for the Scheme.

	Vote 1	Vote 2	Vote 3	Vote 4
Company Name	Booking Holdings Inc	Royal Dutch Shell Plc	Cabot Oil & Gas Corp	Synnex Corp
Date of Vote	03/06/2021	18/05/2021	29/09/2021	30/06/2021
Summary of the resolution	Shareholder Proposal Regarding issuance of a Climate Transition Report	Shareholder Proposal Regarding GHG Reduction Targets	Stock Issuance for Merger with Cimarex	Merger between Synnex Corp and Tech Data
How you voted	For	For	For	For
Rationale for the voting decision	Favour increased environmental reporting/responsibility	Favour increased environmental reporting/responsibility	No material concerns with the deal	No material concerns with the deal

BAA Pension Scheme Implementation Statement

GQG Voting Disclosure

1 October 2020 to 30 September 2021.

Voting Statistics	Response
How many meetings were you eligible to vote at?	77
How many resolutions were you eligible to vote on?	763
What % of resolutions did you vote on for which you were eligible?	99.61%
Of the resolutions on which you voted, what % did you vote with management?	91.74%
Of the resolutions on which you voted, what % did you vote against management?	7.86%
Of the resolutions on which you voted, what % did you abstain from voting?	4.33%
In what % of meetings, for which you did vote, did you vote at least once against management?	32.89%
Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?	<p>GQG has chosen to vote in accordance with the UNPRI's responsible investment principles alongside other UNPRI signatories and other similarly aligned investment managers. We also leverage ISS's Sustainability Policy. While we find ourselves voting with ISS on most of the issues, we do not blindly follow their lead and will vote against their recommendations on occasion. Key policy highlights are:</p> <ul style="list-style-type: none"> • Board – Board competence, performance (including on ESG topics and independence) • Compensation – Alignment of pay and performance, presence of problematic compensation practices, shareholder value transfer • Social & Environment – Greater transparency on company's action to mitigate ESG risks.
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	0.66%

BAA Pension Scheme Implementation Statement

GQG Summary of Significant Votes

1 October 2020 to 30 September 2021

Please find ten votes that GQG identified to be significant for the Scheme.

	Vote 1	Vote 2	Vote 3	Vote 4	Vote 5
Company Name	Samsung Electronics Co., Ltd.	China Yangtze Power Co., Ltd.	Wuliangye Yibin Co., Ltd.	China Merchants Bank Co., Ltd.	Wal-Mart de Mexico SAB de CV
Date of vote	03/2021	05/2021	06/2021	06/2021	06/2021
Summary of the resolution	Directors Related	Approve Short-term Fixed Income Investment	Approve Transaction with a Related Party	Approve Issuance of Equity or Equity-Linked Securities without Pre-emptive Rights	Approve Report and Resolutions Re: Employee Stock Purchase Plan
How you voted	Against	Against	Against	Against	Against
Rationale for the voting decision	Votes AGAINST incumbent directors are warranted, as they collectively have failed to remove criminally convicted directors from the board.	A vote AGAINST is warranted because the proposed investment could expose the company to unnecessary risks.	A vote AGAINST is warranted because the proposed related-party transactions include a financial service agreement with the group finance company, which may expose the company to unnecessary risks.	A vote AGAINST this resolution is warranted as the aggregate share issuance limit is greater than 10 percent of the relevant class of shares. The company has not specified the discount limit.	A vote AGAINST this item is warranted because lack of disclosure regarding the key terms of the proposed equity compensation plan.
	Vote 6	Vote 7	Vote 8	Vote 9	Vote 10

Company Name	Companhia Siderurgica Nacional	Ping an Insurance (Group) Company of China, Ltd.	Yandex NV	WuXi AppTec Co., Ltd.	JSW Steel Limited
Date of vote	04/2021	03/2021	10/2020	08/2021	07/2021
Summary of the resolution	Approve Renumeration of Company's Management	Approve Issuance of Equity or Equity-Linked Securities without pre-emptive Rights for H Shares	Approve Issuance of Equity or Equity-Linked Securities with or without pre-emptive Rights	Authorize Board to Handle Matters Pertaining to the 2021 Shareholder Alignment Incentive H Share Scheme	Approve Loans, Guarantees or Provide Security in Connection with Loan or to Acquire by Way of Subscription, Purchase or Otherwise, Securities of Any Other Body Corporate
How you voted	Against Management	Against Management	Against Management	Against Management	Against Management
Rationale for the voting decision	A vote AGAINST this proposal is warranted because the figure reported by the company for the total compensation of its highest-paid administrator does not appear inclusive of all elements of the executive's pay.	A vote AGAINST this resolution is warranted given the aggregate share issuance limit is greater than 10 percent of the relevant class of shares.	A vote AGAINST these proposals is warranted because: The authorization to issue shares is not in line with commonly used safeguards regarding volume and duration; The authorization to issue shares would last for 60 months.	A vote against these proposals is warranted as the directors eligible to receive awards under the proposed scheme are involved in the administration of the scheme.	A vote AGAINST this resolution is warranted due to lack of information.

BAA Pension Scheme Implementation Statement

Ownership Capital Voting Disclosure

1 October 2020 to 30 September 2021

Voting Statistics	Response
How many meetings were you eligible to vote at?	23
How many resolutions were you eligible to vote on?	229
What % of resolutions did you vote on for which you were eligible?	100% (The only circumstances in which we do not vote are when we are in the process of fully divesting a portfolio company or have already fully divested the stake prior to the AGM - for example during the third quarter of 2020, our Investment Committee had already made the decision to fully exit our position in Varian and therefore we did not cast a vote, as our engagement with the company had effectively ended.)
Of the resolutions on which you voted, what % did you vote with management?	79%
Of the resolutions on which you voted, what % did you vote against management?	18%
Of the resolutions on which you voted, what % did you abstain from voting?	3%
In what % of meetings, for which you did vote, did you vote at least once against management?	83%
Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?	We currently cast our proxy votes via a dedicated voting provider, Broadridge. We have our own voting policy.
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	We can confirm that we do not always vote in line with their recommendations, but this is not a statistic that we actively track or report as a percentage. However, we expect to provide this statistic from the second half of 2022.

BAA Pension Scheme Implementation Statement

Ownership Capital Summary of Significant Votes

1 October 2020 to 30 September 2021

Please find eleven votes that Ownership Capital identified to be significant for the Scheme. Please note one significant vote was recorded on 29/10/2020 however the Ownership Capital mandate was not implemented until 15/01/2021.

	Vote 1	Vote 2	Vote 3	Vote 4	Vote 5
Company Name	Visa	Intuit	Masimo	Abiomed	Boston Scientific
Date of vote	26/01/2021	16/01/2021	01/05/2021	01/08/2021	01/05/2021
Summary of the resolution	Re-election of Director Denise Morrison	Compensation	Advisory Vote to Ratify Named Executive Officers' Compensation	Advisory Vote to Ratify Named Executive Officers' Compensation	Report on Non-Management Employee Representation on the Board of Directors
How you voted	For	Against	Against	Against	Against

<p>Rationale for the voting decision</p>	<p>EOS (Proxy Advisor) had recommended an against vote for Denise Morrison, given she is the Chair of the Compensation Committee. However, in our opinion, Denise adds diversity to the Board with her experience at CEO of Campbell's Soup and her own consulting company. She has a lot to offer to the Board and would not be justified to vote AGAINST her because of her Chairwomanship of the Compensation Committee.</p>	<p>We suggest voting against the compensation package and the re-election of the head of the Compensation Committee:</p> <ul style="list-style-type: none"> > Compared to peers, CEO pay is 1.3x more than the median. However, when adjusted for performance, the CEO scores well. > Only c.50% of the CEO's compensation is performance based. We would like this to be higher. > We are supportive of clawback provisions and a >8x CEO stock ownership guideline. However, the metrics used to measure long-term performance need to be revised. 	<p>While the company has made progress in the compensation structure, it continues to be suboptimal. We have advised the company on alignment of long-term incentives with performance more so than short-term which are better structured. Lastly, we continue to be displeased with the outsized benefits package which the CEO receives.</p>	<p>The company is making significant steps to changing the compensation structure with their actions in 2020 and 2021, by moving more to performance based, longer term metrics. However, key issues identified are: 1) the size of the compensation of the CEO which has decreased over time but remains significantly above peers, especially considering the volatility of the stock; PSU granting should decrease further; 2) dilution and burn rate remain high which should adjust overtime with the changes being implemented, 3) STI and LTI metrics disclosures are fully missing.</p>	<p>While the proposal is interesting and we can see a benefit to employee representation overall, we believe that BSX's governance structure, social focus and culture are already very focused on employee engagement, attraction, and retention. Additionally, the proposal requires the generation of a report and does not propose any direct action which seems more like a publicity exercise. We believe the company can continue strengthening their current ESG strategy which will result in a more effective outcome for employees and their retention rather than the current proposal.</p>
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**BAA Pension Scheme
Implementation Statement**

	Vote 6	Vote 7	Vote 8	Vote 9	Vote 10	Vote 11
Company Name	Mettler Toledo	Illumina	Tyler	Workday	CoStar	Bio-Techne
Date of vote	01/05/2021	01/05/2021	01/05/2021	01/06/2021	01/06/2021	29/10/2020
Summary of the resolution	Amend Ombinus Stock Plan	Elect Director Robert S. Epstein	Advisory Vote to Ratify Named Executive Officers' Compensation	Ann-Marie Campbell	Advisory Vote to Ratify Named Executive Officers' Compensation	Elect Director Julie L. Bushman
How you voted	Against	For	Against	Withhold	Against	For

Rationale for the voting decision	The previous plan still has c. 2m shares remaining and the burn rate has historically been very low (awards have ranged from 50k shares to 80k shares annually in the previous years), meaning they still have c. 20 years' worth of share awarding runway, so don't see the need for a supplement to the plan	Directors appointed prior to such time will complete their terms and directors elected at or after the 2020 annual meeting will be elected to one-year terms. All directors will be elected annually beginning at the 2022 annual meeting. As such we feel the issue is being remedied well.	The main reason for this is that we would prefer more performance-based compensation rather than time-based compensation.	While she adds diversity, her role with Home Depot may limit her time on Workday. Furthermore, the two companies have a financial relationship. Agree with Hermes to Withhold.	CEO pay is ~2x median. Good share of performance-based metrics (~60%) and decent alignment of pay/performance (GL estimates below average) but absolute compensation level higher than peers.	Increasing board gender diversity through election of female.
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BAA Pension Scheme Implementation Statement

Portfolio Transaction Costs

The Trustee confirms that the costs provided by its managers were within expectations given the nature of each of the mandates, and as such, the Trustee is confident that no action is required on the back of these responses. This information will continue to be reviewed on an annual basis in case any calls to action arise and is expected to evolve over time.

- a. **Legal and General Segregated LDI** – For the period 1 October 2020 to 30 September 2021 the total transaction costs were 0.2332%.
- b. **Bridgewater Optimal Portfolio Fund II** – For the period 1 October 2020 to 30 September 2021 the total transaction costs were 0.319%.
- c. **Man Group** – Please note the BAA scheme was initially invested in Man Diversified Risk Premia (DRP) before switching to Man Progressive Diversified Risk Premia (PDRP) on 27th January 2021. Therefore, for the period 1 October 2020 to 26 January 2021, transaction cost incurred by Man DRP was 0.4150%. For the period 27 January 2021 to 30 September 2021, the transaction costs incurred by Man PDRP were 1.1569%. The total transaction costs for the period 1 October 2020 to 30 September 2021 were 1.5719%.
- d. **Allianz GI Libor Mandate Portfolio** – For the period 1 October 2020 to 30 September 2021, total transaction costs were 0.14%. However, this is an estimation as most of the portfolio trades on implicit costs of bid-offer spreads rather than explicit commissions or fees.
- e. **BlackRock Global Screened Corporate Bond Fund** – For the period 1 October 2020 to 30 September 2021, total transaction costs were 0.05%.
- f. **BlackRock Global Renewable Power III Fund** – For the period 1 October 2020 to 30 September 2021, the total transaction costs were 0.0347%.
- g. **Wellington Libor Plus Fund** – For the period 1 October 2020 to 30 September 2021, the total transaction costs were 0.64%.
- h. **BlueBay Leveraged Finance Total Return Fund** – For the period 1 October 2020 to 30 September 2021, the total transaction costs were 0.25%.
- i. **KKR Private Credit Opportunities Partners II Fund** – For the period 1 October 2020 to 30 September 2021, the total transaction costs were approximately \$43.7k pro-rated.
- j. **M&G Multi-Dated Asset Fund** – For the period 1 October 2020 to 30 September 2021, the total transaction costs were 0.1039%.
- k. **M&G Secured Property Income Fund** – For the period 1 October 2020 to 30 September 2021, the total transaction costs were 0.1785%.
- l. **GQG Emerging Markets Equity Fund** – For the period 1 October 2020 to 30 September 2021, the total transaction costs were 1.58%.

- m. Ownership Capital Global Equity Fund** – For the period 1 October 2020 to 30 September 2021, the broker commission for the fund was 0.023%, however this data is unable to be provided at the client level.

Portfolio Turnover

The Trustee confirms that the portfolio turnover provided by its managers were within expectations given the nature of each of the mandates, and as such, the Trustee is confident that no action is required on the back of these responses. This information will continue to be reviewed on an annual basis in case any calls to action arise.

- a. Legal and General Segregated LDI** – Portfolio turnover is not applicable to LDI.
- b. Bridgewater Optimal Portfolio Fund II** – “Specific turnover figures for the Optimal Portfolio could not be provided by Bridgewater at this time. For context, we expect Optimal Portfolio’s turnover to be less than half that of our Pure Alpha strategy (at same risk), because roughly half of Optimal Portfolio’s risk is beta, which has lower turnover, and the alphas in the strategy are longer-term and slower moving in nature. Our stress-testing of Optimal Portfolio across time corroborates this expectation, and our initial trading of the portfolio has been in-line with our expectations. As an example, our Pure Alpha 12% volatility fund typically turns over its portfolio value about 15 to 30 times per year based on volume as a share of the funded amount.”
- c. Man Group** – For the period 1 October 2020 to 30 September 2021, the annual aggregated turnover of the Fund is estimated to be c.4x per annum on gross exposure¹. The portfolio is rebalanced monthly, and allocations are adjusted if they differ from the model weight by more than a 5% relative threshold. This approach is designed to reduce unnecessary turnover and transaction costs in the underlying strategies.
- d. Allianz GI Libor Mandate Portfolio** – For the period 1 October 2020 to 30 September 2021, portfolio turnover was 91%.
- e. BlackRock Global Screened Corporate Bond Fund** – For the period 1 October 2020 to 30 September 2021, portfolio turnover was 14.5%.
- f. BlackRock Global Renewable Power III Fund** – For the period 1 October 2020 to 30 September 2021, portfolio turnover was 0%.
- g. Wellington Libor Plus Fund** – For the period 1 October 2020 to 30 September 2021, portfolio turnover was 85.93%.
- h. BlueBay Leveraged Finance Total Return Fund** – For the period 1 October 2020 to 30 September 2021, one-sided portfolio turnover (the lower of purchases or sales over the average 12M rolling NAV) was 128%.
- i. KKR Private Credit Opportunities Partners II Fund** – Portfolio turnover is not applicable to this fund as the majority of assets are illiquid i.e., not publicly traded.

- j. M&G Multi-Dated Asset Fund** – For the period 1 October 2020 to 30 September 2021, portfolio turnover was 5.19%.
- k. M&G Secured Property Income Fund** – For the period 1 October 2020 to 30 September 2021, portfolio turnover was 7.17%.
- l. GQG Emerging Markets Equity Fund** – Portfolio turnover as of 30 September 2021 was 94.60%.
- m. Ownership Capital Global Equity Fund** – Portfolio turnover data can only be provided yearly. As such, the portfolio turnover in 2020 and 2021 were 32% and 20%, respectively.