2022

BRITISH AIRWAYS PENSIONS

Additional Voluntary Contributions (AVC) Funds

Investment Commentary 2021/22

AVC Summary

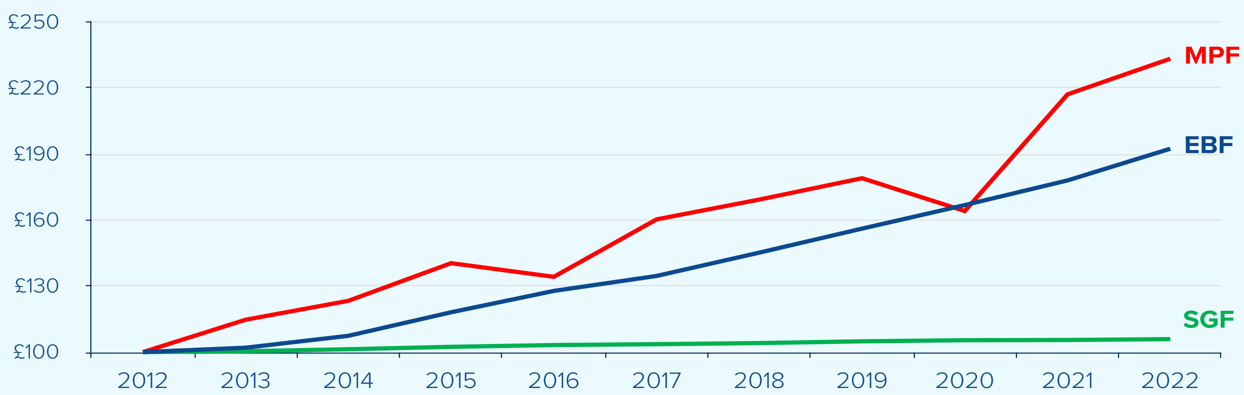
Our three AVC Funds are the Short-Dated Gilts Fund (the SGF), the Equity Biased Fund (the EBF) and the Mixed Portfolio Fund (the MPF). This report explains how the three AVC Funds performed during the year ending 31 March 2022. It also provides detailed information on how the MPF assets are invested.

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

At a Glance: Performance of the Funds

The chart below shows how £100 invested in each of the three Funds would have changed in value over the ten years to March 2022. £100 invested in the MPF in 2012 would be worth £233 in 2022. The same amount invested in the EBF would be worth £192, or £106 if invested in the SGF.

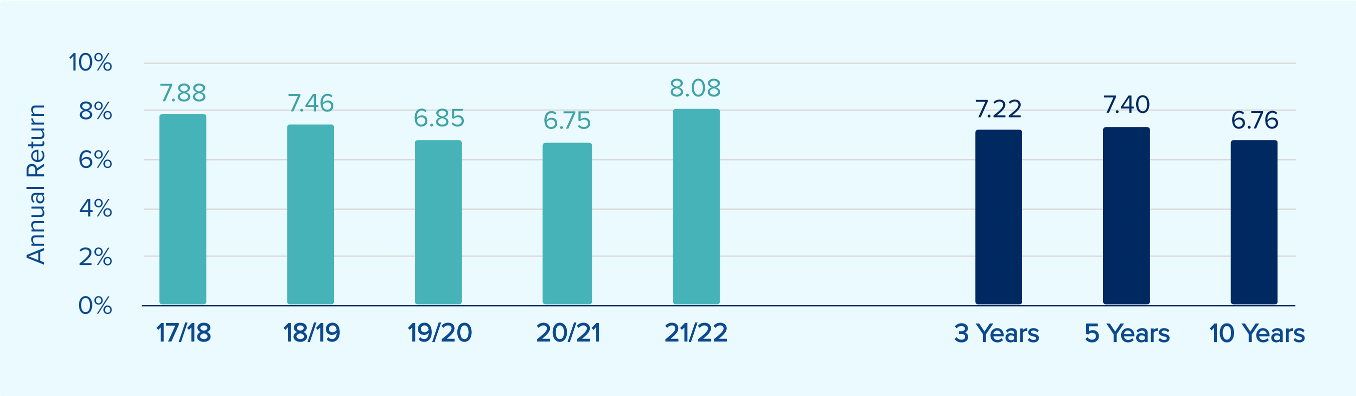
Total fund growth over 10 years



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

Equity Biased Fund (EBF)

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



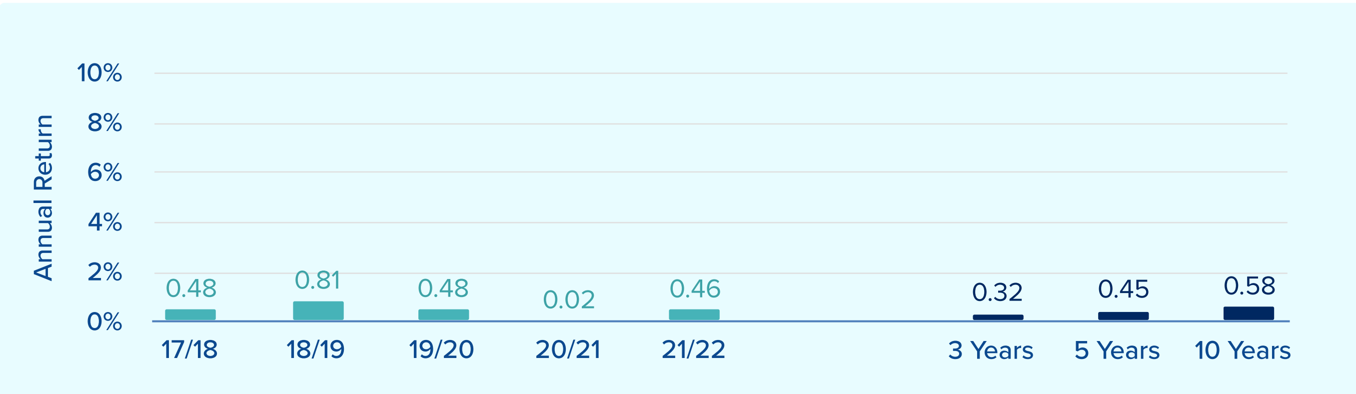
Money invested in the EBF for the whole year ending 31 March 2022 received a return of 8.08%.

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

The Guarantee Component returned 0.14% over the year. It is based on the interest rate banks use to lend money to each other (called the SONIA rate). The Bonus Component returned 7.94% over the year. It is worked out using the returns from a mix of different assets, primarily global stock markets. Although the returns are smoothed out, the monthly returns still vary as markets rise and fall. The monthly returns were strong throughout the year but drifted lower towards the end of the year as concerns around inflation affected equity markets.

Short-Dated Gilts Fund (SGF)

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

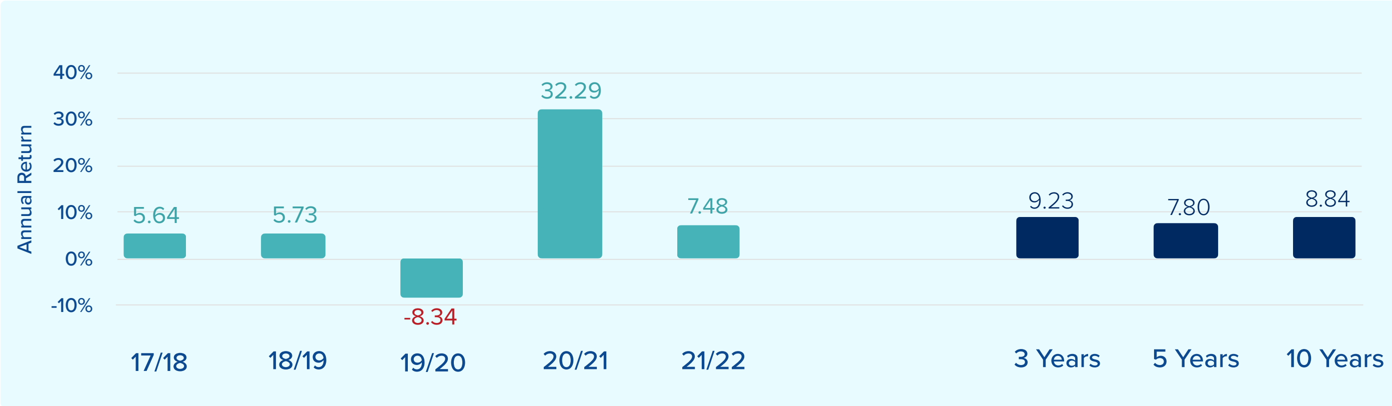


Money invested in the SGF for the whole year ending 31 March 2022 received a return of 0.46%.

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

Mixed Portfolio Fund (MPF)

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



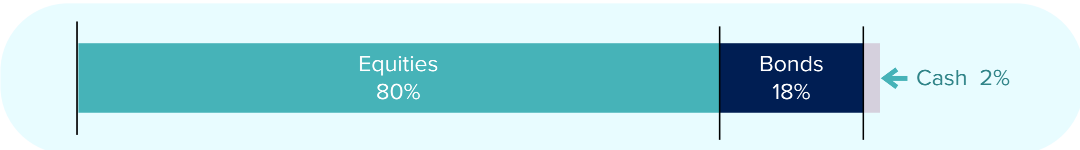
Money invested in the MPF for the whole year ending 31 March 2022 received a return of 7.48%.

MPF Composition

Until 31 May 2021, the MPF was actively run by the in-house BAPIML investment management team against a mandate set by the Trustees. Since the transfer of the Schemes' investment management to BlackRock on 1 June 2021, the MPF has been invested in passive funds, which are designed to track the performance of different asset classes. This approach reduces the risk of short-term under-performance relative to the fund's benchmark and ensures the fund can be managed efficiently. The MPF remains invested in a mixture of global equities, corporate bonds and UK government bonds.

The Trustees control the investment strategy, set the mandate for the MPF and have the additional responsibility of choosing the underlying funds.

The current BlackRock funds in which the MPF is invested are as follows.



BlackRock World ESG Equity Tracker Fund

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

BlackRock Emerging Market ESG Screened Equity Fund

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

BlackRock All Stocks UK Gilt Index Fund

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

BlackRock UK Buy and Maintain Credit Fund

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

Market Analysis

The year to 31 March 2022 was dominated by three major factors - COVID-19, inflation and geopolitics. It was a positive year for global equities with total returns of approximately 13% in sterling terms. Bond markets suffered, however, as inflation rose and interest rates increased.

The world spent most of 2021 cycling in and out of COVID-19-related lockdowns as new variants of the virus appeared and spread. Only in December 2021 did it become clear that the most worrying of the variants, Omicron, could be contained by existing vaccine programmes. Although optimism was not equally shared across all regions, US and European markets moved quickly to 'price in' a return to normal.

However, as the global economy re-opened, it became clear that it would take some time to return to pre-pandemic conditions. Supply chains and transport systems creaked as demand rose, companies struggled to hire new workers, and shortages in some sectors triggered stockpiling. As a result, measures of consumer inflation jumped as economic activity picked up. UK retail prices increases in the second half of the year hit levels not seen since the 1980s.

In response to increasing confidence and rising prices, central banks globally started to talk about raising interest rates, removing some of the support they had provided during the pandemic. In December 2021, the Bank of England increased base rates, responding to what it considered at the time to be short-term 'transitory inflation'.

In early 2022, as it became clear that interest rates would need to rise further to contain inflation, financial markets became more volatile. The prices of government bonds fell as longer-term interest rates increased. In equity markets, there were substantial price swings in sectors impacted by interest rates, such as technology stocks, consumer companies, and banks.

Then in late February 2022, Russia invaded Ukraine, with enormous humanitarian and geopolitical consequences. Many Russian companies and parts of the Russian government were immediately sanctioned by the US, the EU and the UK.

The direct impact on global equity and bond markets was modest as most benchmark indices have historically had only minimal exposure to Russian companies. The conflict has however disrupted commodity markets. Oil and gas prices rose materially as Russia threatened to restrict supplies. Prices of agricultural products such as wheat increased as Ukrainian exports were blocked.

The impact on consumers in Europe and the UK has been immediate, with higher utility bills and food prices adding to the post-COVID-19 cost-of-living crisis. This has left central banks facing a conundrum. Should they increase interest rates to help contain inflation? Or will higher rates combined with slowing consumer spending cause a recession?

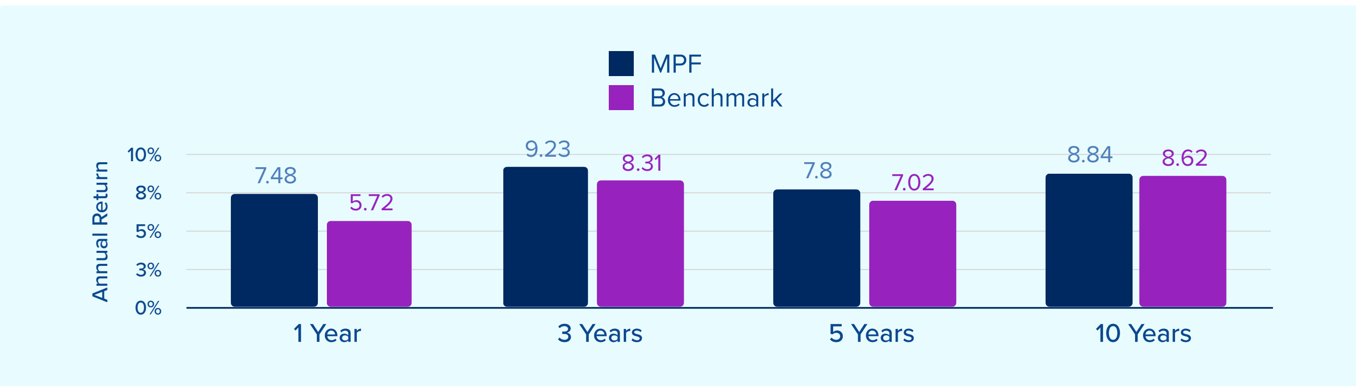
Over the next few months, this trade-off is likely to be the main focus of financial markets. With UK base rates now expected to reach 3% by the end of 2022, the Bank of England has some tricky decisions to make.

Performance Comparisons

The Trustees set benchmarks for each underlying pooled fund, against which the MPF's performance is monitored. For example, Global Developed Market Equities are measured against the MSCI World ESG Focus Low Carbon Screened Index. The overall performance of the MPF is judged against the composite of these individual benchmarks.

The MPF has outperformed its one, three, five and ten-year benchmarks. The MPF's outperformance in the year to 31 March 2022 was broad-based, with equity funds outperforming their benchmarks and the bond funds performing in line with their benchmarks.

Over the last ten years, the MPF has returned an average of 8.84% per year.



Corporate Governance

Responsible Investment

The Schemes' latest Responsible Investment Policy and Responsible Investment Annual Report, which details how the Schemes' investment manager has implemented the policy, can be found in the Responsible Investment section of the Scheme documents page on our website **www.mybapension.com.** We will also provide an update in our Statement of Investment Principles implementation statement, which will be available in Autumn 2022.

In 2021 the Trustees adopted an updated Responsible Investment Policy which includes the following mission statement.

'Environmental (including climate change), social and governance (ESG) issues are multifaceted and represent long-term systemic risks.

We recognise that ESG risks are financially material and need to be managed as we have a long-term payment horizon.

We therefore seek to integrate ESG considerations into our decision-making and reporting processes across all asset classes.

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

UK Stewardship Code

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

The investment manager is required to engage with investee companies and other relevant stakeholders, using various means, including collaboration with other investors, to protect or enhance the value of the Schemes' assets over the medium to long term. Engagement can be in relation to a number of matters, including, but not limited to, performance, strategy, risks, capital structure and management of actual or potential conflicts of interests. Engagement also aims to bring about change to the investee company's ESG practices and performance. The investment manager is required to keep records of each engagement and the outcome.

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

The investment manager is required to pro-actively monitor investments on an ongoing basis to help identify a situation where long-term risk-adjusted returns may be compromised by ESG issues or could place the reputations of the Schemes at risk. You can read BlackRock's 2021 Stewardship Code report **here.**