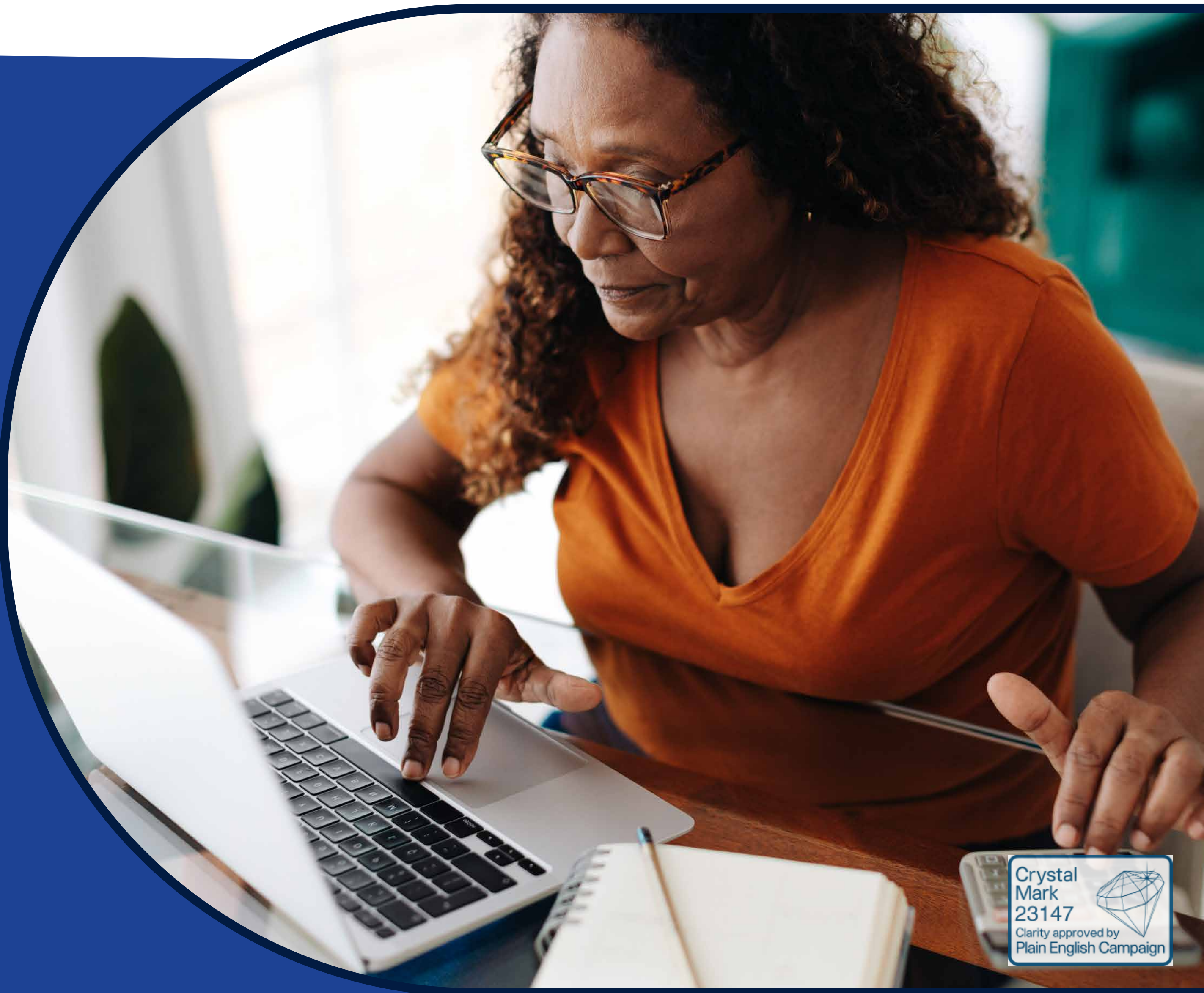
2024

BRITISH AIRWAYS
PENSIONS

Additional Voluntary Contributions (AVC) Funds

Investment Commentary 2023/24



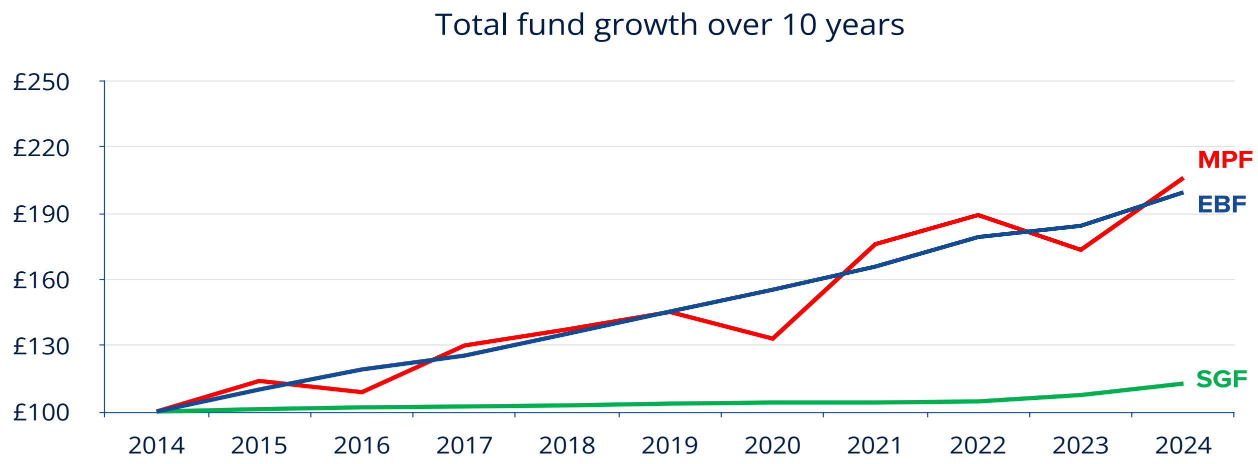
AVC Summary

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 2024. 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 2024. £100 invested in the SGF in 2013 would be worth £113 in 2024. The same amount invested in the EBF would be worth £199, or £206 if invested in the MPF.



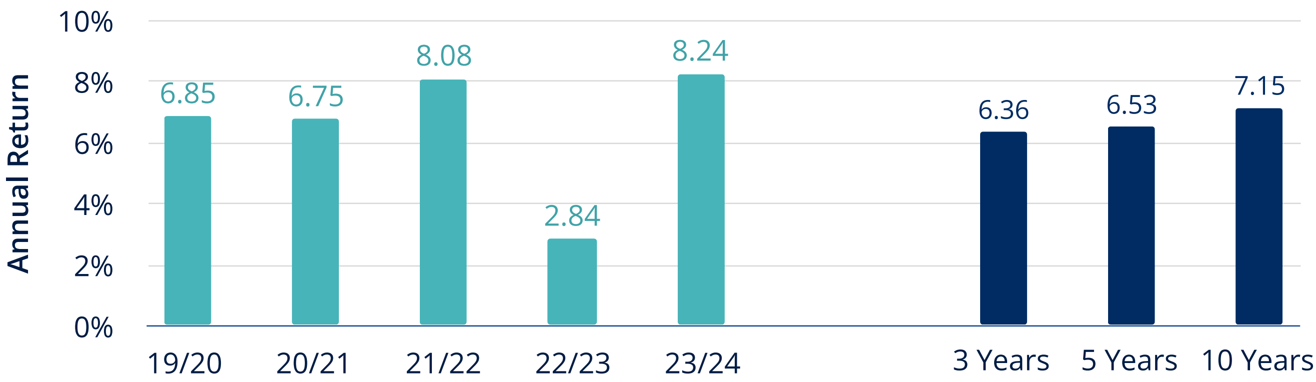
Important Risk Statement

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 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.



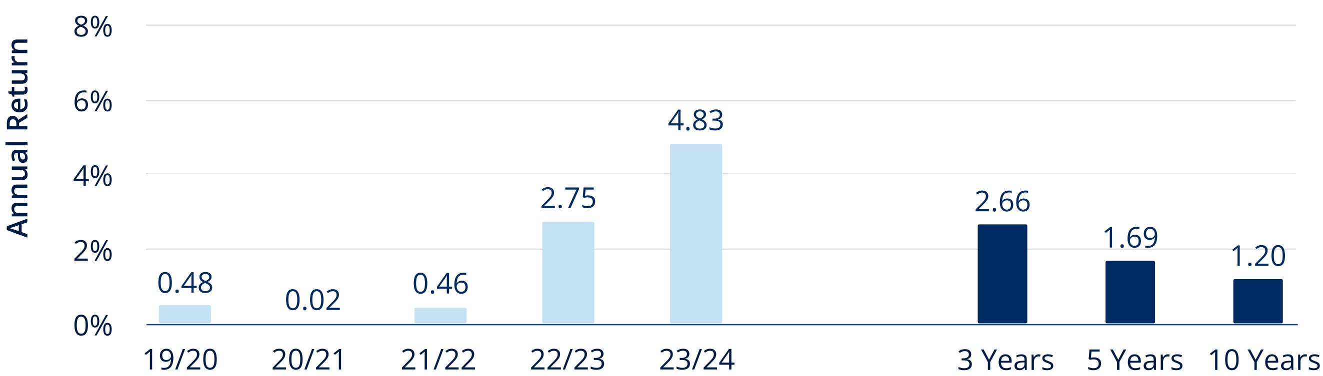
Money invested in the EBF for the year ending 31 March 2024 received a return of 8.24%.

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 comprises 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 5.10% 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 3.14% over the year. It is worked out using the returns from a mix of different assets, primarily global stock markets. Although the returns are smoothed out, the monthly returns still vary as markets rise and fall.

Short-Dated Gilts Fund (SGF)

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

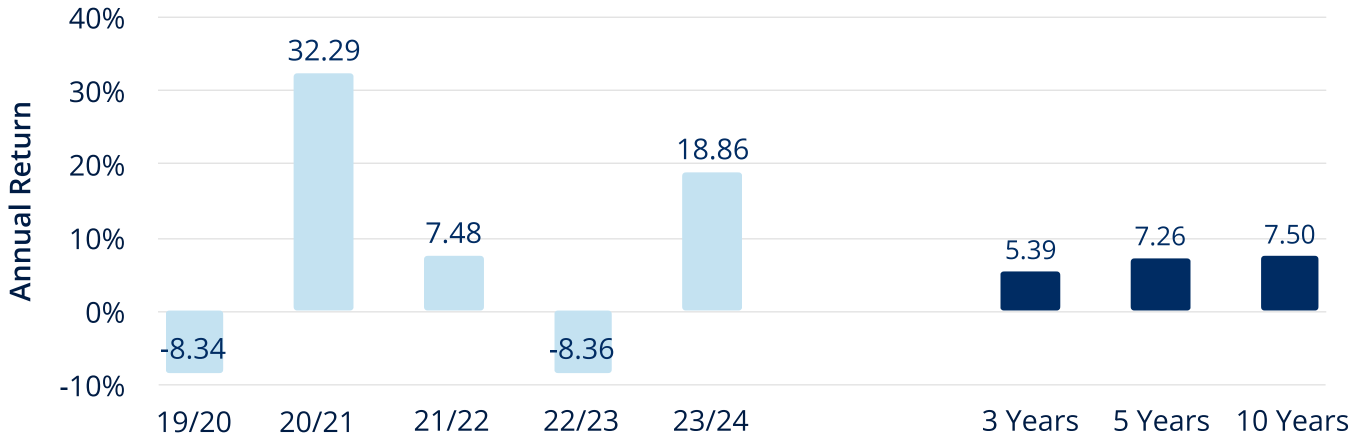


Money invested in the SGF for the year ending 31 March 2024 received a return of 4.83%.

Interest rates have risen significantly over the last two years in response to higher inflation, which was caused by post-COVID labour market shortages and the impact of the war in Ukraine on energy prices. The Bank of England has said it expects to reduce interest rates as inflation returns towards its long-term target.

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.



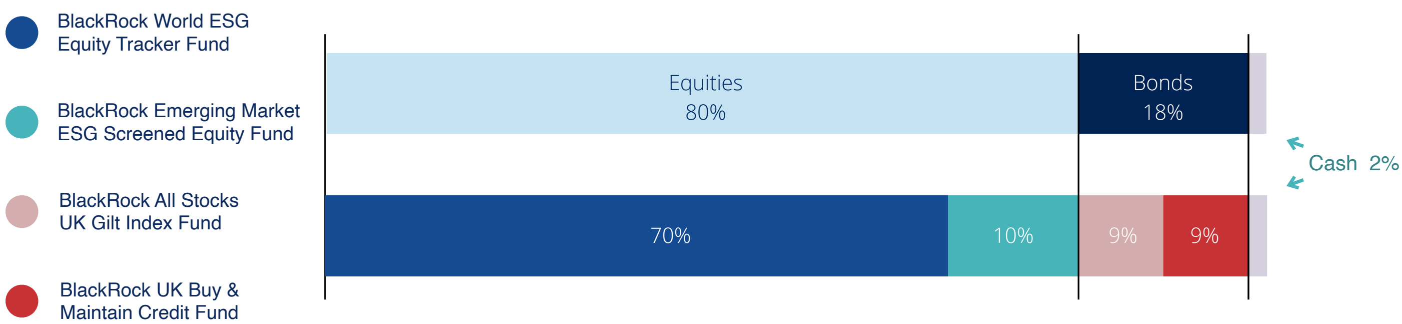
Money invested in the MPF for the year ending 31 March 2024 received a return of 18.86%.

MPF Composition

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

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

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



BlackRock World ESG Equity Tracker Fund

This fund aims to provide a return on investments by tracking closely the performance of the MSCI World ESG Focus Low Carbon Screen index. The index aims to reflect the performance characteristics of a subset of equity securities within the MSCI World Index, which seek 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 capital and income returns from global emerging equity markets, however, it excludes 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 leading up to 31 March 2024 was favourable for stock markets as the global economy, especially in the United States, grew more than anticipated. Although the economic environment was not as positive for bonds, the extreme volatility that occurred in late 2022 in response to the Truss government's budget did not recur.

Inflation, or the rate at which the prices of goods and services change, has been the primary driver of market sentiment over the past year. Inflation began to rise in late 2021 as the global economy reopened following the pandemic. Then, in February 2022, Russia invaded Ukraine, causing energy and some commodity prices to skyrocket. As a result, UK retail price increases reached levels not seen since the 1980s.

UK inflation began to fall in early 2023 as goods and utility prices started to normalise. Retail price inflation finally fell below 5% at the end of 2023. The prices of services however continued to rise as wages were increased in response to higher living costs. As a result, central banks grew increasingly concerned that inflation was becoming "sticky" rather than temporary.

The Bank of England began raising interest rates in late 2021, increasing its policy rate 14 times between then and August 2023. It has kept interest rates unchanged at 5.25% since then, a strategy the Bank refers to as its "Table Mountain" strategy. The market now expects the Bank to begin lowering rates only later this year as inflation falls closer to the Bank's target level. Despite central banks keeping interest rates higher for longer than expected, economic activity has remained robust. Consumer spending has been strong despite the squeeze on living standards, and companies have continued to invest in new technologies. As a result, corporate profits globally have reached new highs.

In response, stocks in developed markets have risen by more than 25% in the 12 months to March 2024. Technology stocks have led the way, with some of the world's largest companies, such as Microsoft, Amazon, Nvidia, and Google, also benefitting from enthusiasm for "artificial intelligence." Seven companies, known as the "Magnificent 7," drove most of the rise in the US stock market.

Other areas of the market also performed well. Corporate bonds, fixed-income securities issued by companies, rallied as profitability improved. Prices for commodities such as oil and gold ended the year higher than they started as demand for "real assets" that might provide protection against inflation increased.

Government bonds were the one notable area of weakness. Gilts, bonds issued by the UK government, fell as the market adjusted to inflation and interest rates remaining higher for longer than expected. However, since the same was happening in most of the rest of the world, the pound ended the year stable relative to the US dollar and the euro.

Corporate Governance

Responsible Investment

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

- The Schemes' latest Responsible Investment Policy
- The latest Schemes' Taskforce on Climate-Related Financial Disclosure (TCFD) report – the Trustee's identification, assessment and management of climate change risk;
- The latest Statement of Investment Principles implementation statements – an updated version of these reports will be available in autumn 2024.

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

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

We recognise that ESG risks are financially material and need to be managed as we have a long-term payment horizon. We therefore seek to integrate ESG considerations into our decision-making and reporting processes across all asset classes.

Where consistent with our fiduciary duties and applicable to our investment strategy, we will require our investment managers to actively engage and utilise their proxy voting rights/engagement to drive up ESG standards in the organisations in which we invest.'

UK Stewardship Code

The Schemes' investment manager is a signatory to the UK Stewardship Code, which aims to improve and enhance the quality of engagement between companies and institutional investors. The investment manager is required to engage with investee companies and other relevant stakeholders to protect or enhance the value of the Schemes' assets over the medium to long term.

Engagements may relate to a company's performance, strategy, risks, capital structure or management. Engagement may also aim to change an investee company's wider ESG practices. Should an investee company fail to make progress on material strategic or ESG issues raised within a reasonable time, the investment manager may - in extreme circumstances - decide to divest from the investee company.

You can read BlackRock's 2023 Investment Stewardship Annual Report **here**. The report covers the stewardship activities BlackRock has conducted on behalf of clients from 1 January 2023 through 31 December 2023 and is the basis on which the FRC assesses BlackRock's adherence to the UK Stewardship Code.