

Airways Pension Scheme

Implementation Statement
Statement of Investment Principles

2022



Statement of Investment Principles (SIP) – Implementation Statement

Contents

1	Introduction	2
2	Assets held and managed	2
3	Policies and practices	3
4	Monitoring and communication	4
5	MPF Voting (1 April 2021 – 31 May 2021).....	5
6	MPF Voting (1 June 2021 – 31 March 2022).....	7
7	APS and MPF Engagement (1 April 2021 – 31 May 2021).....	9
8	APS Engagement (1 June 2021 – 31 March 2022)	10
9	MPF Engagement (1 June 2021 – 31 March 2022)	11
10	Stewardship examples from the year to the end of March 2022.....	12
11	Affiliations and initiatives	13
12	Member Enquiries.....	13
13	Conclusion.....	13

1 Introduction

Under the Occupational Pension Schemes (Disclosure of Information) Regulations 2013 (as amended), the Trustee is required to produce an annual implementation statement, setting out how the policies described in the Scheme's SIP have been followed. This statement covers the period 1 April 2021 to 31 March 2022, the Scheme's reporting year.

This statement sets out how the Trustee's policies under the terms of the SIP have been implemented.

The Scheme's SIP was updated in June 2021 following the change in investment manager from the Scheme's in-house manager, British Airways Pensions Investment Management Limited (BAPIML), to an outsourced arrangement with BlackRock. As such, several areas of this report will be split according to the time when BAPIML was investment manager (the initial part of the Scheme year up to 31 May 2021) and the remainder of the year, during which BlackRock was manager. For the purpose of this statement, BAPIML and BlackRock are referred to as the "Investment Managers". The SIP was further updated in December 2021, to reflect the Scheme's Long-Term Objective.

The SIP includes an explicit statement of the Scheme's approach to stewardship and responsible investing. This approach is further detailed in the Scheme's Responsible Investment (RI) Policy, with implementation being delegated to BlackRock.

The RI Policy and the RI sections of the Scheme's SIP were further updated in November and December 2021, respectively, following a review of the Trustee's ESG principles. The main changes focused on strengthening the wording around voting and engagement.

The responsibility for the implementation, review and monitoring of the Scheme's RI Policy sits with the Trustee Board.

Both the SIP and the RI Policy are available on the [member website](#).

2 Assets held and managed

The Airways Pension Scheme (APS) is a defined benefit scheme that has been closed to new entrants since 1984. As of 31 March 2022, APS had a total of 20,532 members, nearly all of whom are pensioners in payment, dependents or deferred pensioners.

The Trustee's main objective is to deliver the benefits that members are due without taking significant risks. In a major step towards reaching this goal, APS insured c.£4.4 billion of liabilities through a pensioner buy-in with Legal & General in 2018, which resulted in a large reduction in the assets managed by BAPIML on behalf of the Scheme.

As of 31 March 2022, BlackRock managed over £2 billion in assets for the Scheme. The Scheme's investment strategy consists of a liquidation portfolio and a liability matching portfolio, along with a derivative overlay portfolio as required. The assets managed are predominantly invested in inflation-linked government bonds and corporate bonds, with a small allocation to illiquid return-seeking assets (mainly private equity and alternatives).

APS members are also able to invest their Additional Voluntary Contributions (AVCs) in a money purchase arrangement called the Mixed Portfolio Fund (MPF), which owns government bonds, corporate bonds, listed equities and cash.

Investment Managers

Up until 31 May 2021, BAPIML was the Scheme's in-house investment manager, providing services exclusively to APS and to the New Airways Pension Scheme¹ (NAPS). BAPIML was a limited company that was wholly owned by the Custodian Trustee of the NAPS and APS Management Trustees.

BAPIML directly managed active mandates for APS in corporate bonds, gilts and inflation-linked bonds, and direct property. Its fund managers selected and oversaw APS's third-party managers in private equity and alternatives. BAPIML also managed a number of active equity and bond portfolios for the MPF.

From 1 June 2021, the Scheme's investment manager was changed to BlackRock. Alongside the change of investment manager to BlackRock, various restructuring of the assets occurred. Within the corporate bond asset class, the mandate was moved to a buy-and-hold approach.

British Airways Pension Services Limited (BAPSL)

BAPSL is the Scheme's in-house administrator, providing administrative services to the APS and NAPS Trustee Directors and members. BAPSL also acts as the Schemes' executive, coordinating the interaction between the Schemes' Trustee Boards, their investment and actuarial advisors, and the Schemes' sponsor.

3 Policies and practices

The Trustee adopted a substantially updated RI Policy in July 2019, with the key aspects of the Policy being subsequently described in the Scheme's SIP. The Scheme's RI Policy should be expected to develop over time as regulation, and best practices evolve. It was most recently reviewed and updated in November 2021. The latest versions of both the Scheme's SIP and RI Policy can be found on the [member website](#).

The APS SIP describes the Trustee's position on ESG issues by means of 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 require our investment managers to actively engage and utilise their voting rights/engagement to drive up ESG standards in the organisations in which we invest."

¹ NAPS is a defined benefit scheme which is closed to new entrants and future accrual. NAPS is a less mature scheme than APS with a strategic asset allocation of 66% liability matching portfolios and 34% return seeking portfolios.

The Scheme's SIP further describes BlackRock's responsibilities with respect to voting and engagement activities as follows:

- The Trustee expects BlackRock to, where consistent with the Trustee's fiduciary duties and applicable to the Scheme's investment strategies, actively engage and use voting and other rights attached to the Scheme's investments to drive up ESG standards in the organisations in which the Scheme is invested (APS SIP 7.7).
- The Trustee requires BlackRock to engage with investee companies and other relevant stakeholders, using a variety of means, including collaboration with other investors, to protect or enhance the value of the Scheme's assets, including over the medium to long term. Engagement can be in relation to a number of matters, including, but not limited to performance, strategy, risks, capital structure and management of actual or potential conflicts of interest. BlackRock is required to keep records of each engagement and outcome (APS SIP 7.8).
- In exercising the voting and other rights attached to the Scheme's investments, BlackRock will act according to its policy on proxy voting and shareholder engagement (APS SIP 7.10).
- The Scheme's RI activities, annual voting and engagement reports will be made available on a publicly accessible website (APS SIP 7.12).

4 Monitoring and communication

The responsibility for the implementation, review and monitoring of the RI Policy sits with the Trustee, who relies on the support of their investment advisors.

Implementation of the Scheme's RI Policy was delegated to BAPIML as the Scheme's in-house investment manager until 31 May 2021, at which point BlackRock assumed responsibility. The Investment Managers are charged with integrating ESG considerations where possible and appropriate to the Scheme's investment strategy. They are also responsible for conducting voting and engagement activities on behalf of the Scheme.

BlackRock's portfolio managers are supported by the BlackRock Investment Stewardship (BIS) team. The BIS team provide subject matter expertise, analytical resource and advice on RI implementation. The strategic client team (a team within BlackRock who are focused on the APS and NAPS accounts) manage and track the voting activity and are responsible for producing internal and Trustee-facing ESG reporting.

The Investment Managers' representatives attend regular Trustee meetings to report on integration and stewardship activities. The Trustee will, from time to time, also call on individual asset-class fund managers to present their views and activities for review by the Trustee Directors and their advisors.

In addition, the Trustee also receives written reports detailing stewardship activities and outcomes. These include the following:

- Vote Summary Report (annually)
- Investment Stewardship and Engagement Report (annually)
- ESG Integration Evidence (ad-hoc)
- SIP Implementation Statement (annually)
- BlackRock's Stewardship Code report (annually)

BAPSL receives quarterly updates on voting, stewardship and engagement from BlackRock on behalf of the Trustee and will raise any areas of concern to the Trustee. The content of the previous annual RI Report has been integrated within this document.

The Trustee Directors do not currently take the views of members and beneficiaries into account in respect of non-financial matters, including environmental and social issues, when setting the investment strategy of the Scheme.

The Scheme’s SIP, RI Policy, and BlackRock’s Stewardship Code Report are made available on the Scheme’s website alongside a complete record of the most recent year’s voting activities.

5 MPF Voting (1 April 2021 – 31 May 2021)

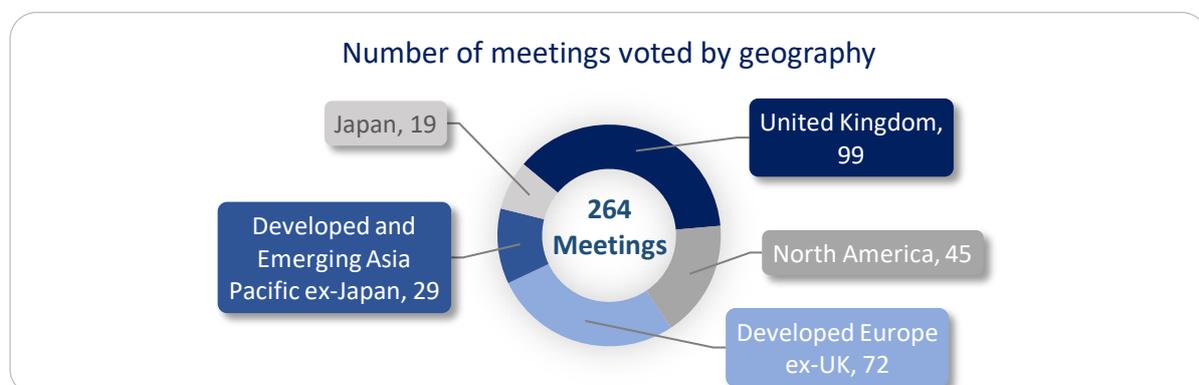
BAPIML’s policy was to exercise its clients’ voting rights in all geographies, for all relevant asset classes, wherever possible. BAPIML’s voting was predominantly associated with the Scheme’s listed equity holdings (held in the MPF), although its credit managers were from time to time asked to vote on proposals relating to corporate bonds.

In exercising voting rights associated with the Scheme’s holdings, BAPIML’s overriding priority was, to the extent possible, to ensure that the value of the Scheme’s assets was enhanced over the long run. BAPIML also used the voting rights associated with the Scheme’s holdings to drive up ESG standards in the organisations in which the Scheme was invested, where BAPIML believed this was consistent with the Scheme’s fiduciary duties and applicable to the investment strategy.

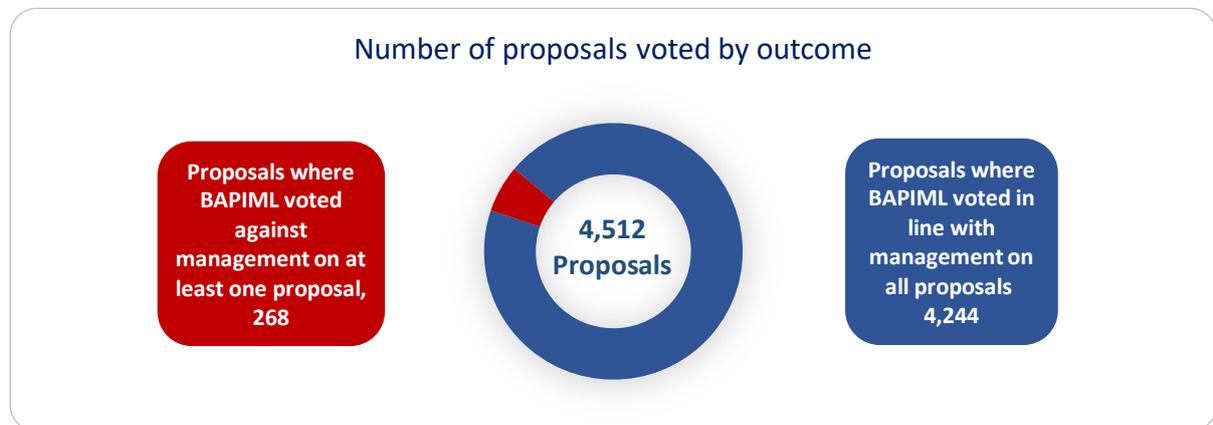
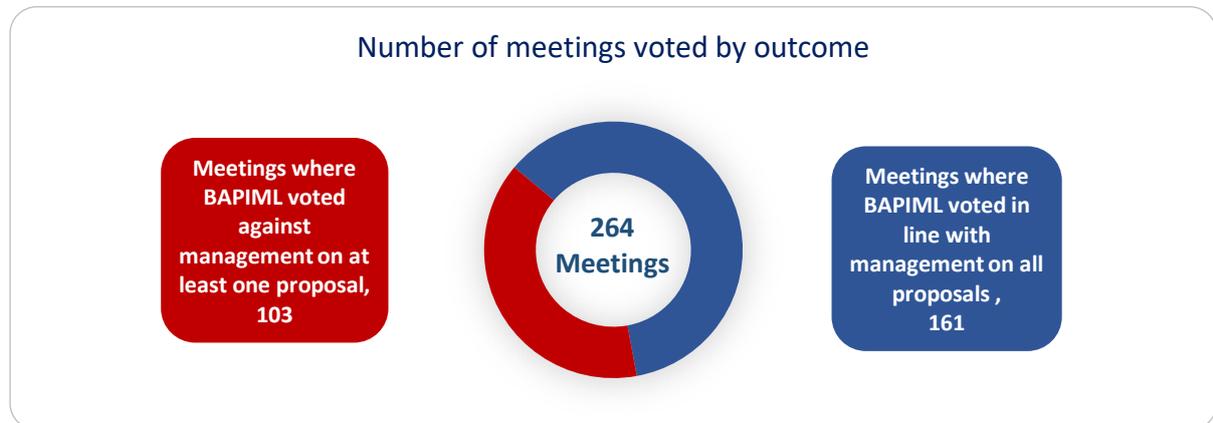
BAPIML was required to consider recommendations on voting from a specialist service provider, Institutional Shareholder Services. The relevant asset class fund manager was ultimately responsible for deciding how to vote. Managers were encouraged to vote for each corporate event on a case-by-case basis, with reference to a common but non-binding set of priorities and their specific knowledge of the company.

BAPIML would abstain on a specific proposal only if it believed withholding support was more appropriate than voting for or against. This might have been the case if BAPIML was in the process of engaging with management on the matter or because a “FOR” or “AGAINST” vote would have specific negative consequences. There are also individual markets where an abstention may be required or justified for technical reasons.

Over the 2 months to the end of May 2021, BAPIML voted on behalf of the MPF at 264 meetings on a total of 4,512 proposals.



BAPIML voted against management’s recommendation on at least one proposal at 39% of meetings. In all, BAPIML voted against management’s recommendation on 6% of proposals.



Where BAPIML voted against management’s recommendation, the decision was informed by research from the Scheme’s proxy voting advisor, the ESG team’s subject matter expertise, and the fund manager’s understanding of the company’s specific situation.

Votes against management were most typically related to director elections, shareholder proposals or remuneration.

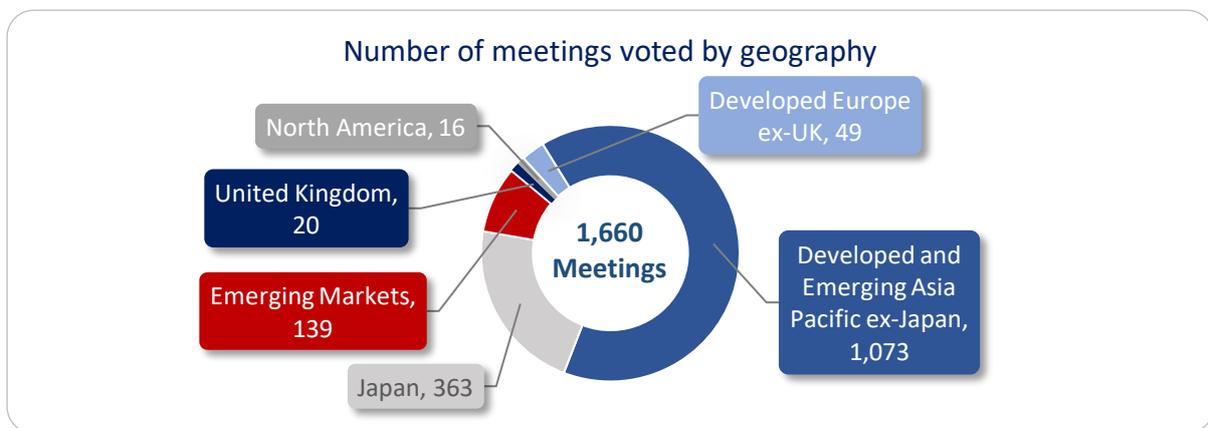
Proposals where BAPIML voted against management by proposal category	Number of proposals	Proportion of category
Director Election	72	27%
Shareholder Proposals	51	19%
Remuneration	78	29%
Capital Structure and Dividends	46	17%
Audit, Report and Accounts	5	2%
Other Business	16	6%
Total	268	100%

6 MPF Voting (1 June 2021 – 31 March 2022)

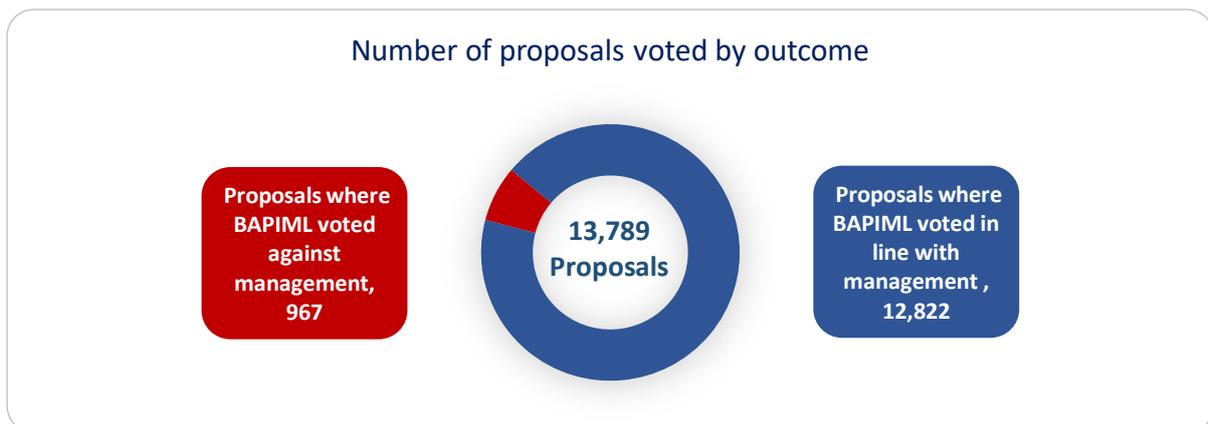
Over the period from 1 June 2021 – 31 March 2022, BlackRock voted at 1,660 shareholder meetings on 13,789 individual proposals and voted against management’s recommendation on 967 occasions, equivalent to 7% of all proposals.

BlackRock had votes rejected for administrative reasons at 7 shareholder meetings on 64 proposals over the period. There were 126 US company meetings where voting rights were not exercised for the MPF holdings between 24 June 2021 and 31 March 2022. This was due to an administrative error on the part of Northern Trust, who failed to pass ballot notifications for some US companies held by the MPF to the Institutional Shareholder Services platform, which is used by BlackRock to monitor proxy voting activity. The problem was corrected as soon as it was identified by BlackRock.

The chart below shows the 1,660 meetings, broken down by geographical area:



The chart below shows the 13,789 proposals, split between votes in-line with management and against management:



The table below shows proposals where BlackRock voted against management's recommendation, broken down by category:

Proposals where BAPIML voted against management by proposal category	Proportion of category
Director Election	34%
Shareholder Proposals	1%
Remuneration	17%
Capital Structure and Dividends	25%
Audit, Report and Accounts	7%
Amend Articles	8%
Board Structure and Responsibilities	6%
Other Business	2%
Total	100%

BlackRock proxy voting guidelines

BlackRock's voting guidelines are intended to help clients and companies understand their thinking on key governance matters. They are the benchmark against which they assess a company's approach to corporate governance and the items on the agenda to be voted on at the shareholder meeting. They apply their guidelines pragmatically, taking into account a company's unique circumstances where relevant. They inform their vote decisions through research and engage as necessary. They review their voting guidelines annually and update them as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

BlackRock's market-specific voting guidelines are available on their website at:

www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-engprinciples-global.pdf

Most significant votes

The table below sets out two of the most significant votes for the Scheme over the year to 31 March 2022:

Company name	ExxonMobil Corporation	China Tower Corporation Ltd
Date of the vote	AGM of 26 May 2021	EGM of 14 January 2022
Approx. Scheme holdings at date of vote	MPF: c.£0.5m (as at 31 March 2021, the nearest available)	MPF: c£0.01m
Significance	There is concern that the ExxonMobil energy transition strategy falls short of what is necessary to ensure the company's resilience in a low carbon economy.	There is concern over the lack of diversity on the Board, particularly gender, where the company has no female Board members
Summary of the vote	Engine No. 1 LLC is an impact-focused investment firm. As a	The proposals were to re-elect two incumbent directors,

	<p>shareholder, Engine No. 1 proposed replacing existing Board members with up to four new directors with experience relevant to the energy transition. BAPIML supported the election of three of the four directors proposed, voting against the recommendation of the Board without prior communication to ExxonMobil. BAPIML's view was that the Board would benefit from the addition of diverse energy experience to augment existing skillsets. The three directors that BAPIML voted in favour of were elected.</p>	<p>none of whom were female, with BlackRock voting against both directors and communicating this intention to the company in advance. BlackRock believed both directors should be held accountable for the lack of gender diversity among the proposed candidates. Both proposed directors were elected. BlackRock's view centred on concerns about the lack of gender diversity on the Board, with the company on track to be non-compliant with the Hong Kong Exchange Corporate Governance Code, which has recently been updated to require all listed companies to appoint at least one director of a different gender no later than 31 December 2024.</p>
<p>Next steps</p>	<p>BlackRock continues to engage with ExxonMobil, given the urgency with which BlackRock expects the company to deliver on its climate-related commitments.</p>	<p>BlackRock continues to engage with China Tower on board diversity and other issues around board effectiveness.</p>

7 APS and MPF Engagement (1 April 2021 – 31 May 2021)

Under the APS RI Policy, the purpose of BAPIML's engagement activities was to:

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

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

To ensure engagement data was recorded consistently across BAPIML, engagement was defined as: *"Any two-way communication between BAPIML as investor, and current or potential investee companies."* Therefore, any interaction that met this definition was recorded.

Over the two-month period to 31 May 2021, BAPIML had 19 engagements in total across the listed equity and corporate bonds portfolios. Engagements are typically focused on understanding the opportunities and risks faced by the investee company. On 14 occasions (74%), BAPIML also raised matters relating to at least one ESG topic with current or potential investee companies.

8 APS Engagement (1 June 2021 – 31 March 2022)

During this period, BlackRock had 95 engagements in total across the credit portfolio. Engagements were typically focused on understanding the opportunities and risks faced by the investee company. On every occasion, BlackRock also raised matters relating to at least one ESG topic with current or potential investee companies, leading to 155 discussions on ESG themes across all engagements.

The table below summarises the number of times BlackRock priority topics were discussed at the 95 engagements.

Total company engagements	95
Engagements by region	
Americas	25
EMEA	69
APAC	1
Engagement themes	
Governance	74
Social	25
Environmental	56
Engagement topics	
E- Climate Risk Management	45
E- Environmental Impact Management	9
E- Operational Sustainability	26
S- Human Capital Management	20
S- Social Risks and Opportunities	13
G- Board Composition & Effectiveness	34
G- Business Oversight/Risk Management	19
G- Corporate Strategy	30
G- Executive Management	20
G- Governance Structure	11
G- Remuneration	37

External capabilities²

The Investment Managers engaged with the Scheme's external fund managers for monitoring and due diligence purposes, with the aim of ensuring that investee funds were managed in line with the agreed investment process. Recognising that different managers in different asset classes would reasonably take different approaches to Responsible Investment, the Investment Managers were also responsible for escalating any major ESG-related issues to BAPSL.

² The Investment Managers provided oversight of external managers in private equity and alternatives.

9 MPF Engagement (1 June 2021 – 31 March 2022)

During this period, BlackRock had 827 engagements in total across the portfolio. Engagements were typically focused on understanding the opportunities and risks faced by the investee company. On every occasion, BlackRock also raised matters relating to at least one ESG topic with current or potential investee companies, leading to 1,620 discussions on ESG themes across all engagements.

The table below summarises the number of times BlackRock priority topics were discussed at the 827 engagements.

Total company engagements	827
Engagements by region	
Americas	320
EMEA	236
APAC	271
Engagement themes	
Governance	717
Social	337
Environmental	566
Engagement topics	
E- Climate Risk Management	456
E- Environmental Impact Management	198
E- Operational Sustainability	288
S- Human Capital Management	263
S- Social Risks and Opportunities	179
G- Board Composition & Effectiveness	388
G- Business Oversight/Risk Management	232
G- Corporate Strategy	338
G- Executive Management	127
G- Governance Structure	196
G- Remuneration	306

BlackRock's Engagement Priorities

Each year, BlackRock sets engagement priorities to calibrate their work around the governance and sustainability issues they consider to be top of mind for companies and their clients, building on themes from the past several years. BlackRock notes that their priorities provide clients with insight into how they are conducting engagement and voting activities on their behalf.

BlackRock's Investment Stewardship 2021 and 2022 engagement priorities were:

- **Board quality and effectiveness** – Quality leadership is essential to performance. Board composition, effectiveness, diversity and accountability remained a top priority.
- **Climate and natural capital** – Climate action plans with targets to advance the transition to a low-carbon economy. Managing natural capital dependencies and impacts through sustainable business practices.
- **Strategy, purpose and financial resilience** – A purpose-driven long-term strategy, underpinned by sound capital management, supports financial resilience.

- **Incentives aligned with value creation** – Appropriate incentives reward executives for delivering sustainable long-term value creation.
- **Company impacts on people** – Sustainable business practices create enduring value for all key stakeholders.

More about the BlackRock Investment Stewardship team’s engagement priorities is available on the [BlackRock website](#).

10 Stewardship examples from the year to the end of March 2022

The Trustee has reviewed BlackRock’s stewardship activities carried out on its behalf and has identified the following examples which demonstrate the Trustee’s policies being implemented.

Equinor

Equinor ASA (Equinor) is a Norway-based energy company engaged in oil and gas exploration and production activities. The company is controlled by the Government of Norway (with a shareholding of 67%).

In order to assess companies’ strategies to navigate the energy transition, BIS engages with companies, looking for them to demonstrate they have plans that are resilient under likely decarbonization pathways to limit temperature rise to well below 2°C. Where BIS has authority to do so, they will also use proxy voting to encourage company management to progress their climate-related plans.

At Equinor’s AGM in 2021, Blackrock supported a shareholder proposal requesting that the company “set and publish targets that are consistent with the goal of the Paris Climate Agreement: to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C.”

Since then, Equinor has made notable improvements to its climate-related disclosure and strategy. In March 2022, Equinor published an Energy Transition Plan that focuses on cashflow generation from highly “focused, carbon-efficient oil and gas production.” The plan calls for accelerating investments in renewables (particularly offshore wind), the development of blue and green hydrogen and building carbon capture and storage (CCS) value chains. It also includes an ambition to reach a 40% reduction in scope 1, 2 and 3 net carbon intensity by 2035.

In recognition of the disclosure of the company’s plan, and the progress made against it to date, BlackRock voted against a number of shareholder proposals at the company’s 2022 AGM. The resolutions which were not supported were predominantly those that BlackRock believed were overly prescriptive in nature, unduly constraining on management, or redundant given the company’s existing practices and disclosure.

Barclays

Barclays Plc (Barclays) operates as a bank holding company that provides retail banking, credit cards, corporate and investment banking and wealth management services.

BIS has engaged regularly with Barclays over the last several years to discuss a range of corporate governance and sustainable business matters that they believe contribute to a company’s ability to deliver durable, long-term shareholder returns. This has included conversations about climate risk and opportunities, as well as the company’s climate-related disclosures.

Barclays...continued

BlackRock believes that Barclays has made notable progress in developing its net zero roadmap. In the past year, the bank has added medium-term targets to 2030 for financed emissions which reference the International Energy Agency's Net Zero 2050 scenario. In addition, the company has broadened the scope of its targets to include reducing financed emissions from steel and cement, in addition to power and energy. Finally, Barclays enhanced its coal policies to include a commitment to phase out financing for thermal coal mining and for thermal coal power by 2035.

At Barclays' 2022 AGM, management proposed an advisory, non-binding shareholder vote on the company's Climate Strategy, Targets and Progress 2022. Although BlackRock believes there is still room for the bank's disclosures and underlying strategy to be improved, BlackRock voted in favour of approving the plan in recognition of the progress that has been made.

11 Affiliations and initiatives

The Investment Managers engaged with the global investment and corporate community via a range of industry affiliations.

Coalitions and shareholder groups provide BlackRock with the opportunity to promote a sustainable financial system globally, advocate on a variety of corporate governance topics and learn from its peers in the investment industry. BlackRock also works informally with other shareholders (where such activities are permitted by law) to engage companies on specific issues or to promote market-wide enhancements to current practice.

12 Member Enquiries

In the year to March 2022, BAPSL received no queries from Scheme members about responsible investment.

The Trustee does not take members' views into account when setting the Scheme's investment strategies, but the Trustee does receive a summary of all member enquiries relating to responsible investment matters. Please visit the '[Scheme Documents](#)' page of the member website for more details on the Scheme's responsible investment activities. If you would like more information on the Scheme's responsible investment policies or its approach to stewardship and can't find the information on the website, you can email us at esg@bapensions.com.

13 Conclusion

The Trustee monitored the Investment Managers' implementation of their investment principles so far as they related to stewardship by means of written quarterly and annual reports, which are interrogated systematically by BAPSL, the Trustee and advisors.

The Trustee and advisors also had regular access to BAPIML's CIO, Head of Asset Allocation and Investment Risk, and ESG specialists, as well as BlackRock's OCIO and stewardship team.

On the basis of the information provided to them and their advisors, the Trustee is of the opinion that the stewardship components of the Scheme's SIP have been implemented as envisaged in the 12 months to 31 March 2022.

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