Belfast International Airport Limited Final Salary Pension Plan

Statement of Investment Principles

1. Introduction

The Trustees of the Belfast International Airport Limited Final Salary Pension Plan ("the Plan") have drawn up this Statement of Investment Principles ("the Statement") to comply with the Pensions (Northern Ireland) Order 1995 (the Order), as amended by the Pensions (Northern Ireland) Order 2005. As required under the Order, the Trustees have obtained written advice from Deloitte Total Reward and Benefits Limited ("Deloitte").

The Trustees' investment responsibilities are governed by the Plan's Trust Deed. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on advice from their investment consultants. The day to day management of the assets of the Plan is delegated to professional investment managers, each of whom is authorised and regulated by the Financial Conduct Authority.

2. Investment Objectives

The Trustees' overall investment policy is guided by the following objectives:

- To ensure that the Plan will be able to meet all its future benefit obligations as they fall due;
- To control the volatility of the Plan's funding level and Belfast International Airport Limited's (the "Sponsor") required contribution rate to the Plan.

The objectives highlight the need to balance meeting the obligations of the Plan while paying due regard to the pension cost to the Sponsor.

To achieve these objectives, the Trustees reconsider the appropriateness of the Plan's investment strategy following the results of each actuarial valuation and at other times as required. The Trustees decide on an appropriate investment strategy which is estimated to produce the required investment return whilst managing the risks outlined in section 3.

3. Risk Measurement and Management

There are various risks to which any pension scheme is exposed. The Trustees have identified the following risks:

- There may be a mismatch between the Plan's assets and the Plan's liabilities.
- There may be a shortfall of readily available liquid assets to pay pension and lump sum benefits in the short term ("cashflow risk"). There is a risk in holding assets that cannot easily be sold or which must be sold in unfavourable market conditions should the need arise.
- Inadequate diversification across asset classes or by holding excessive amounts in any one investment ("concentration risk"). The failure or underperformance of any of the investments could jeopardise the Trustees' ability to meet the objective if they constituted a significant proportion of the assets.

- Exposures to exchange rate movements when investing in overseas assets as all liabilities are in sterling ("currency risk").
- The impact of changes in market gilt and corporate bond yields on the value of the Plan's assets relative to the present value of the Plan's liabilities ("interest rate risk").
- The impact of changes to inflation expectations on the expected size of the Plan's future liability cashflows and the present value of the Plan's liabilities ("inflation risk").
- The possibility of failure of the Sponsor.
- Stock market failure. This is considered as a "catastrophe risk" that any pension scheme investing in the real economy accepts as an exposure. It is not practical to mitigate this risk at an acceptable cost.

The Trustees have implemented the following measures to manage the risks associated with the investments:

- The Plan's asset allocation will be reviewed periodically by the Trustees and their advisors to assess whether it remains appropriate for managing the risks listed above. The impact of these risks on the level and volatility of the Plan's funding level and the Sponsor's contribution rate is taken into consideration.
- The current strategy is diversified across various asset classes and within equities, across different regions.
- The agreements with the investment managers include guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan in the light of the objectives set by the Trustees. The terms of the agreements do not allow the investment managers to take or omit to take any action which, to their knowledge, would prejudice the tax status of the Plan.
- The Trustees have incorporated an affordable amount of interest rate hedging and inflation hedging into the current investment strategy.
- The majority of the Plan's allocation to overseas equities is currency hedged.
- In terms of investment manager risk, the Trustees have a preference for passive management, only appointing active managers when investing in asset classes where manager skill is expected to add value.

The Trustees recognise that, as the Plan is invested in a range of pooled funds, there is limited scope to influence the controls and restrictions used in the management of the underlying assets and acknowledge that derivatives may be used by the manager within the funds. Similarly, the Trustees recognise that BlackRock will undertake stock lending within its passive funds to enhance the overall return of the funds.

4. Investment Strategy

The Trustees consider the appropriateness of the Plan's investment strategy following the results of each actuarial valuation and at other times as required. The Trustees carried out a formal review of the Plan's investment strategy in May 2013 ahead of the transfer out of members resulting from the sale of Cardiff International Airport. On advice from their investment consultant, Deloitte, and having consulted the Sponsor, the Trustees agreed to implement the following investment strategy.

Asset class	Strategy
Global Equities	50%
Index-Linked Government Bonds	22%
Conventional Government Bonds	17%
Corporate Bonds	
Property	5%
Multi-Strategy Fund (Hedge Funds)	6%
Total	**100%**

The investment strategy uses equities as the main source of return, but includes a small allocation to illiquid investments to incorporate a degree of diversification and to provide access to an illiquidity premium. The strategy also includes an element of interest rate hedging of the Plan's liabilities through an investment in corporate bonds and some inflation hedging through an investment in index-linked government bonds.

5. Manager Structure

5.1. Investment Managers

The day to day management of the assets is the responsibility of the appointed investment managers. The current investment policy has the assets invested in a range of authorised unit trusts and other pooled investment vehicles managed by Schroders Investment Management Limited ("Schroders") and BlackRock Advisors (UK) Limited ("BlackRock"). Each of the investment managers is authorised and regulated by the Financial Conduct Authority. As required by the Financial Services & Markets Act, the Trustees entered into signed Agreements with both managers. These Agreements provide important protections for the Plan itself and for the Trustees. They also set out the terms on which the assets are managed; the investment briefs, guidelines and restrictions under which the investment managers work. Copies of the Agreements are available for inspection from the Trustees.

The table below summarises the strategic split of the Plan's assets between asset classes and the two different investment managers according to the current investment policy.

Investment Manager	Allocation
BlackRock	83%
Global Equities	*50%*
Index Linked Government Bonds	*22%*
Multi-Strategy (Hedge Funds)	*6%*
Corporate Bonds	*5%*
Schroders	17%
Bonds (Corporate and Government)	*12%*
Property	*5%*
Total	**100%**

In selecting investment managers the Trustees take all reasonable steps to satisfy themselves that the relevant parties have the appropriate knowledge and experience for managing the Plan's investments and that they are carrying out their work competently and complying with the relevant pensions and investment regulations.

The custody of the underlying assets is undertaken by professional custodians, appointed by the relevant fund managers.

The total assets are sub-divided into 4 portfolios which are outlined below. The Trustees will review the split across the four sub portfolios and the overall asset mix at least annually.

a) BlackRock Main Portfolio (77% of Plan assets)

Fund	Benchmark	Control ranges	Benchmark index
Aquila Life (30:70) Currency Hedged Global Equity Fund	62.0%	+/-5.0%	30% FTSE All-Share Index 60% FTSE All-World Developed ex-UK Index 10% MSCI Emerging Markets Index
BlackRock Institutional Bond Fund All Stocks Corporate Bond	8.0%	+/-2.0%	Merrill Lynch Eurosterling Index
Aquila Life All Stocks UK Index-Linked Gilt Index Fund	30.0%	+/-3.0%	FTSE UK Gilts Index-Linked All Stocks Index
Total	**100.0%**		

The Aquila Life (30:70) Currency Hedged Global Equity Fund and the Aquila Life All Stocks UK Index-Linked Gilt Index Fund are both passively managed and have the performance objective to achieve a return consistent with the return of their respective benchmarks.

The All Stocks Corporate Bond Fund has the performance objective to outperform the benchmark return by 0.75% p.a. on a rolling 3 year basis.

BlackRock aims to review the Main Portfolio on a monthly basis and to rebalance it on the next available dealing day if the value of the Plan's holdings fall outside the control ranges set out in the table above.

b) BlackRock Alternatives Portfolio (6% of Plan assets)

Fund	Benchmark	Control ranges	Benchmark index
Multi-Strategy Fund	100.0%	-	Citigroup 3 month sterling deposit
Total	**100.0%**		

The performance objective of the Fund is to deliver double digit returns on a net of fees basis, with a 5-7% risk level.

BlackRock has no obligation to rebalance between the Main Portfolio and the Alternatives Portfolio.

c) Schroders Bond Portfolio (12% of Plan assets)

Fund	Benchmark	Control ranges	Benchmark index
Sterling Broad Market Bond Fund	74.0%	+/-2.0%	50% iBoxx GBP Gilts TR 50% iBoxx GBP Non-Gilts TR
Absolute Return Bond Fund	26.0%	+/-2.0%	3 month LIBOR
Total	**100.0%**		

The Sterling Broad Market Bond Fund aims to outperform the benchmark by 1.25% p.a. on a gross of fees basis over rolling 3 year periods.

The Absolute Return Bond Fund aims to achieve a positive return over rolling 12 month periods, in all market conditions.

d) Schroders Property Portfolio (5% of Plan assets)

Fund	Benchmark	Control ranges	Benchmark index
UK Property Fund	100.0%	-	AREF/IPD UK Quarterly Property Fund Index – All Balanced Property Fund Index Weighted Average
Total	**100.0%**		

The performance objective of the Fund is to outperform the benchmark by 0.5% p.a. on a net of fees basis over rolling 3 year periods.

5.2. Investment Manager Fees

The table below summarises the investment manager fees payable in respect of the Plan's investments.

BlackRock:

Mandate	Fee structure
Aquila Life (30:70) Currency Hedged Global Equity Fund	On first £15 million: 0.22% p.a. On next £85 million: 0.13% p.a. Thereafter: 0.10% p.a.
Aquila Life All Stocks UK Index-Linked Gilt Index Fund	On first £15 million: 0.08% p.a. On next £85 million: 0.04% p.a. Thereafter: 0.03% p.a.
BlackRock Institutional Bond Fund All Stocks Corporate Bond	On first £10 million: 0.35% p.a. On next £20 million: 0.20% p.a. Thereafter: 0.125% p.a.
BlackRock Multi-Strategy (Sterling) Fund	Management fee: 1.00% p.a. Performance fee: 24.00% p.a.

The fees are subject to a minimum fee of £15,000 p.a. calculated in arrears at the end of each calendar quarter. If a quarter of the minimum fee is greater than the fee due for the quarter then the Plan will be liable to pay the shortfall.

Schroders:

Mandate	Fee structure
Sterling Broad Market Bond Fund	0.31% p.a.
Absolute Return Bond Fund	1.14% p.a.
UK Property Fund	0.60% p.a.

6. Cashflow Management

Any new money received into the Plan is to be invested in the BlackRock Main portfolio. Similarly, any net disinvestments required will be taken from the BlackRock Main Portfolio.

The Trustees will review the allocation across the sub-portfolios from time to time and consider whether the investment/disinvestment policy as set out above remains relevant.

7. Policy on Environment, Social and Governance (ESG) factors and Stewardship

The Investment Manager (BlackRock) is responsible for managing the Scheme's investments in accordance with the management agreements in place with the Trustees. The Trustees have requested that the Investment Manager has the financial interests of the Scheme members as their first priority when choosing investments and the Trustees have delegated the responsibility for the exercise of all rights (including voting rights) attaching to the investments to the Investment Manager.

The Trustees acknowledge that certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Scheme's investments and the likelihood that the Scheme's objectives will be achieved. To confirm, no consideration has been given to non-financial considerations, nor has the Scheme's membership been consulted on such issues.

As part of the selection, retention and realisation of the Scheme's investments, the Trustees, in consultation with their investment advisor, have reviewed the ESG and stewardship policies of the Investment Manager and are comfortable that these policies are consistent with their views. In particular, the Trustees note the following:

- The Investment Manager has clear views on ESG factors and stewardship which are clearly articulated in formal policies on these issues.
- The Scheme's investments are predominantly passively managed where the Investment Manager is restricted in the choice of underlying assets to invest in. As such, stewardship is of primary importance in ensuring that financially material ESG factors are given appropriate consideration.
- The Trustees note that the Investment Manager has clear stewardship policies that aim to influence the ESG practices of the companies it invests in and the Investment Manager has demonstrated how it acts on these policies. For example, the Investment Manager has voted on company proposals covering climate risk, political donations, gender diversity on company boards, board independence issues and remuneration policies.
- The Investment Manager regularly publishes detailed results of how its stewardship policies are enacted in practice and the Trustees expect the Investment Manager to provide regular updates on how they exercise those rights, including how often the Investment Manager votes against company proposals.

The Trustees will keep its investments under review, and should it feel that the Investment Manager no longer acts in accordance with its views on ESG, the Trustee will take the following steps:

- engage with the Investment Manager in the first instance, in an attempt to influence their policies on ESG and stewardship; and
- if necessary, look to appoint a replacement investment manager or managers that are more closely aligned with the Trustees' policies and views.

These statements are made noting that the Scheme's assets are invested in pooled funds and as such, the Trustees are restricted in their ability to directly influence its Investment Manager on the ESG policies and practices of the companies in which the pooled funds invest

8. .Additional Voluntary Contributions (AVCs)

The Plan provides members with a facility to pay AVCs to enhance their benefits at retirement. Members are offered a range of funds in which to invest their AVC payments. The Trustees' objective is to provide a range of funds which will provide a suitable long term return for members, consistent with members' reasonable expectations, which are held separately from the rest of the assets of the Plan.

9. Compliance with this statement

The Trustees, together with the investment managers, Schroders and BlackRock, and Deloitte, the consultants, (each of whom have been appointed by the Trustees), each have duties to perform to ensure compliance with this Statement. These are:

The Trustees, will monitor compliance with this statement regularly on the advice of Deloitte and will record compliance with it at each Trustees' meeting.

Schroders Investment Management Limited and BlackRock Advisors Limited, the investment managers, will prepare quarterly reports to the Trustees including:

- valuation of all investments held for the Plan;
- records of all transactions together with a cash reconciliation;
- a review of the recent actions undertaken on behalf of the Plan together with a summary of their current stated policy;

on request, written confirmation that the principles contained in this Statement have been followed so far as reasonably practicable and that the managers have had regard for the need for diversification and the suitability of investments to the Plan.

Deloitte, the investment consultants, will provide the advice needed to allow us to review and update this Statement at least every three years (or following any material change to the investment arrangements of the Plan).

.... Date: 1st October 2019

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Signed on behalf of the Trustees of the Belfast International Airport Limited Final Salary Pension Plan.

Last updated: October 2019