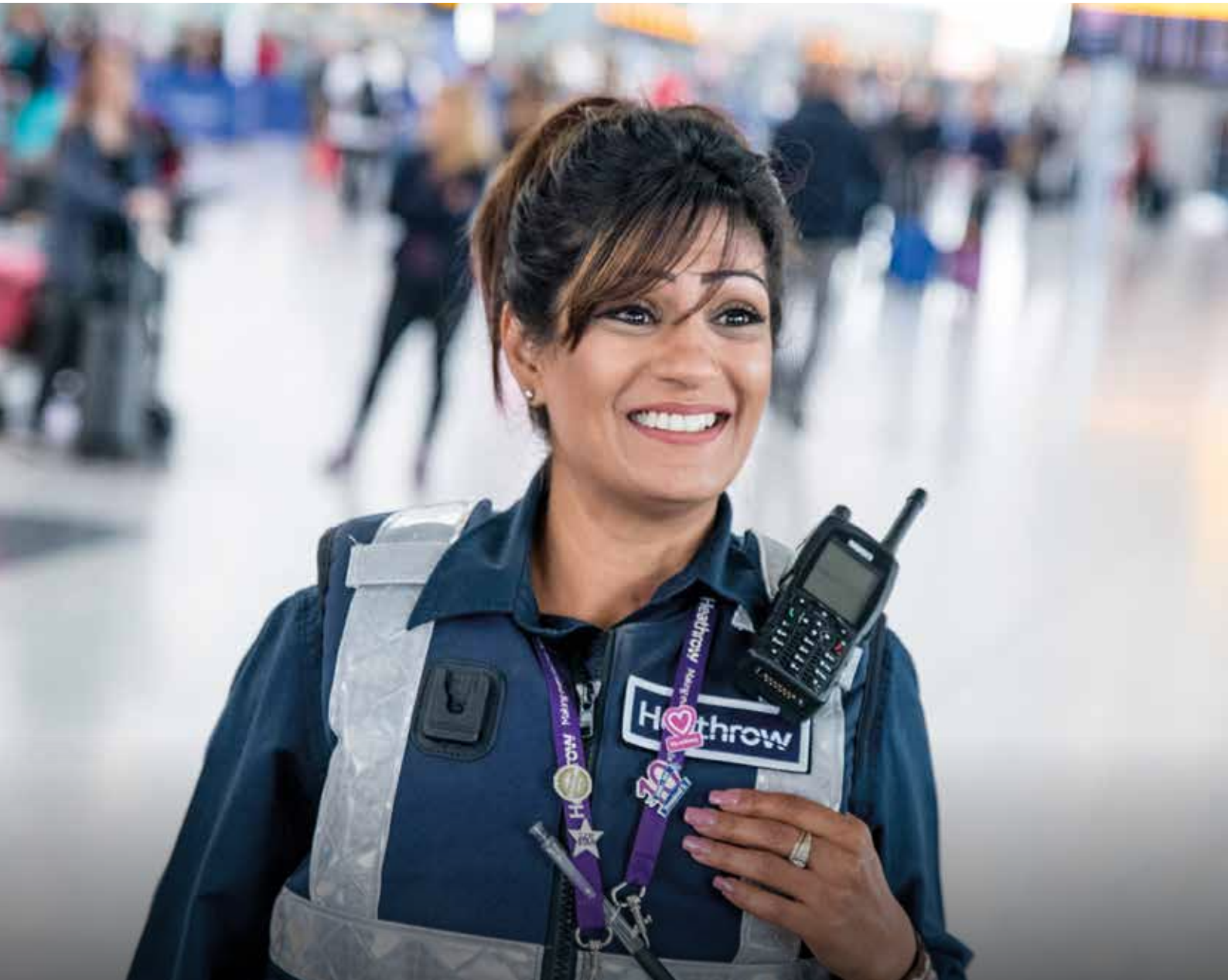


FOCUS

THE MAGAZINE FOR BAA PENSION SCHEME MEMBERS
2020



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Chairman's introduction

Welcome...

...to the 2020 edition of Focus.

I had anticipated that I would perhaps have introduced this edition of our Focus newsletter with some comments on the impact of our departure from the European Union and commenting on a long-anticipated Pensions Bill and how we have adapted to that. However, I doubt that anyone could have predicted the events of the past few months and the impact that the COVID-19 pandemic has had on all our lives. Like many others, we adapted to a new way of working, including being able to continue our work as Trustee Directors using online meetings, held on a more regular basis than previously. We also actively engaged with the Company at the outset of the crisis and we have continued to have regular updates from them. The ongoing financial support of the employer is important to any occupational pension scheme and it was extremely helpful to have an open dialogue with the Heathrow management team.

The pandemic caused a fall in global markets, which impacted on the Scheme's investments. However, I am pleased to report that the steps that we took some years ago through our hedging policies and the partial pensioner buy-in completed in 2018 has helped to minimise the impact on the Scheme's financial position.

In a very short period, we saw the Scheme's total assets move from £4,453 million at the end of January, fall to £4,175 million at the end of March, but then recover to £4,636 million at the end of June.

It is unwelcome events like this pandemic that underline certain important messages that would otherwise go unheard. In this edition, we highlight the importance of

keeping your Expression of Wish form up to date. That is an important document for the Trustees to consider should they need to decide on how to distribute payments that might have to be made.

COVID-19 has brought about new ways of working for us all, but it has however also seen an increased level of somewhat elaborate pension scams. It is suggested that you take time to read the article about this in the 'Pensions news' section in Digital Focus at www.baapensionscheme.com.

Finally, we would like to welcome a new addition to the Trustee Board. Chris Hobbs was duly appointed as an Active Member Nominated Director with effect from 3 February 2020 following his election. Chris' contribution, along with that of all the other Trustee Directors and our advisers, during these challenging times has been much appreciated.

Incidentally, this was the first election process to be run through the Scheme's own website and we are delighted to report that the number of members actively casting their ballot was more than double the number for previous similar elections.

Phil Wilbraham

Phil Wilbraham
Chairman

On behalf of the Trustee of the BAA Pension Scheme

The Trustee and our advisers

The Trustee Board is made up of eight directors. Four are appointed by the Company and the remaining four by the Scheme's members. They are referred to as Member Nominated Directors or MNDs. Each MND serves for a fixed term.

We often refer to the work undertaken by the Trustee as a whole, but it is equally important to highlight the excellent work undertaken by the four Committees that provide essential support to the Trustee Board. Each Committee is made up of a smaller group of Trustee Directors who focus on specific issues. By working this way, we can use the individual expertise of each Trustee Director more efficiently.

High level descriptions of what each Committee does can be found on page 2, but please go to Digital Focus at www.baapensionscheme.com for a more detailed breakdown.

Investment Committee



Operational matters relating to the implementation and oversight of the Scheme's investment strategy, are considered by the Investment Committee. This involves the selection, recommendation and continued monitoring of investment managers. The final decisions are reported back to the full Trustee Board at the next full meeting.

Audit and Risk Committee (ARC)



This Committee is responsible for dealing with the preparation and audit of the Scheme's statutory accounts, monitoring the Scheme's internal controls and record keeping. The ARC also maintains the Scheme's Risk Register.

Administration Committee







The role of monitoring the administration services, which are provided by Equiniti, falls to the Administration Committee. It is also responsible for considering the payment of any discretionary benefits, including those payable following the death of a member.

Valuation Committee



At least every three years a formal review of the financial health of the Scheme is undertaken. This process is known as an Actuarial Valuation, the results of which are found in the Valuation Update section. The Valuation Committee oversees this process, including any dialogue with the Company, and the preparation of any Valuation related correspondence, on behalf of the Trustee Board.


Company-Appointed Trustee Directors

-  Phil Wilbraham — Chairman
-  Anne Hurn
-  Paula Stannett
-  Andrew Macmillan

Member-Nominated Trustee Directors

-  Chris Hobbs — appointed 3 February 2020
-  Terry Mackay
-  Mike Macgregor — pensioner
-  Mohammad Riaz

Independent Trustee

-  The Law Debenture (BAA) Pension Trust Corporation (generally represented by Mike Jaffe or Samantha Pitt)

Secretary to the Trustee

Alice Parris (previously Richard Francis of Mercer Ltd who was acting as Interim Secretary)

The Trustee is supported by a number of advisers:

Scheme Actuary

Chris Sheppard FIA, Mercer

Investment advisers

Redington

Covenant advisers

PricewaterhouseCoopers (PwC)

Auditors

Crowe Clark Whitehill LLP

Bankers

Lloyds Bank plc

Custodian services

JPMorgan Chase & Co

Administrators

Equiniti

Legal advisers

CMS Cameron McKenna Nabarro Olswang LLP

Communication advisers

Concert Consulting UK Ltd

Summary Funding Statement

The Trustee monitors the financial security of the Scheme on a monthly basis. A qualified, independent professional, known as the Scheme Actuary, carries out a formal review (called an Actuarial Report) every year. Every third year there is a more in-depth financial health-check (called an Actuarial Valuation or Valuation).

As well as being something we're required to do by The Pensions Regulator, we share this information with you via the yearly Summary Funding Statement in Focus and Digital Focus so you can get a picture of the Scheme's financial position. We recommend that you take some time to read and understand this.

What is the Scheme's funding position?

The last Valuation was carried out as at 30 September 2018. The most recent Actuarial Report was as at 30 September 2019. The results of these were as follows:

Effective date	30 Sept 2018	30 Sept 2019
Value of the Scheme's liabilities	£4,047m	£4,674m
Value of the Scheme's assets	£3,924m*	£4,611m
Scheme shortfall	£123m	£63m
Funding level	97%	99%

* This figure excludes the one-off contribution made by the Company when the sale of Aberdeen, Glasgow and Southampton Airports was completed in December 2014. This is currently valued as £26 million. The Trustee and the Company have agreed that this amount will not be taken into account when determining the Recovery Plan.

Since 30 September 2019, we have obviously experienced the problems caused by the COVID-19 pandemic. The Scheme's investment strategy has proven to be resilient to the significant fluctuations in global markets due to the pensioner buy-in and other hedging actions taken by the Trustee. In a very short period, we saw the Scheme's total assets move from £4,453 million at the end of January, fall to £4,175 million at the end of March, but then recover to £4,636 million at the end of June.

The next Valuation of the Scheme will be conducted no later than 30 September 2021, but we'll keep you updated on developments each year through Focus and Digital Focus.

We're required to tell you if any payments have been made to the Company, as permitted under the Pensions Act 1995, since we last sent you a Summary Funding Statement. We can confirm that no such payments have been made to the Company.

How is the Scheme's funding position measured?

The estimated cost of providing all the benefits built up by the Scheme's members (including leavers and pensioners) is called the Scheme's 'liabilities'.

The contributions collected from Active members and the Company is held in a communal fund and invested to help it grow in value. These contributions and investments are called the Scheme's 'assets'.

The Scheme's funding position is measured by comparing the Scheme's liabilities against its assets.

If the value of the assets held by the Scheme is more than the liabilities, the Scheme is 'in surplus'. If the cost of the benefits is more than the value of the assets, the Scheme is 'in deficit'.

How has the Scheme's financial position changed since the last Summary Funding Statement?

The Scheme was estimated to have a shortfall of £123 million as at 30 September 2018. By the end of September 2019, the position had improved with the shortfall standing at £63 million.

This reduction in the shortfall was primarily as a result of investment returns on assets being higher than expected. Over the year, investment returns were around 20% compared with an expected return of 3.3%.



The effect of these factors was partially offset by a reduction in long-term interest rates and higher expectations for future inflation, both of which act to increase the value placed on the liabilities.

Is the shortfall going to be paid off, and if so, how will this be done?

The Company has agreed to make up the £123 million shortfall as at 30 September 2018 by paying £23 million in the year to 30 September 2019, followed by £20 million each year thereafter until 30 September 2022.

If a shortfall remains at that time further contributions of up to £15 million per annum will be paid until 30 September 2026, although these are subject to review at future Valuations.

To calculate the amount of the shortfall, assumptions need to be made about what will happen in the future, for example, the rate at which the Scheme's assets will grow.

If the assumptions do not all turn out to be exactly in line with what actually happens, it may be necessary to change the level of contributions to the Scheme or the period over which the shortfall is paid off.

Although there was a shortfall as at 30 September 2019, all members who have retired are still receiving the full amount of their pension.

How much money is paid into the Scheme each year?

From 1 October 2019, the Company increased its contributions from 23% to 25.6% of Basic Salaries, plus total Shift Pay, to cover the cost of Active members accruing pension.

Active members pay contributions at a rate of between 5.0% and 7.5% determined by their section of membership. The total contributions from both the Company and members (but excluding deficit contributions) totalled £29.7 million over the year ending 30 September 2019.

The amount payable each year by the Company to pay off the shortfall is in addition to these amounts.

How do the Trustees know what contributions should be paid into the Scheme?

Following each Valuation, the Scheme Actuary advises us what contributions should be paid into the Scheme so that we can expect to be able to continue to pay people's pensions.

We then agree a level of contributions for the Scheme with the Company and record this in a document called the Schedule of Contributions.

The Valuation and Schedule of Contributions follow standards we have set out in a Statement of Funding Principles. This document describes how we will manage the Scheme with the aim of being able to continue to pay people's pensions.

We can confirm that The Pensions Regulator has not needed to use its legal powers to make directions as to any of:

- The level of benefits available from the Scheme going forward;
- The method or assumptions used to calculate the liabilities or the length and structure of the Recovery Plan; and
- The contributions that should be paid under the Schedule of Contributions.

Is my pension guaranteed?

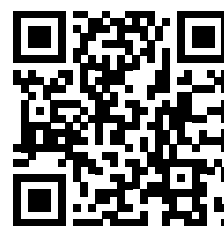
Our aim is for there to be enough money in the Scheme to pay pensions now and in the future, but this depends on the Company carrying on in business and continuing to pay for the Scheme.

If the Company goes out of business or decides to stop paying for the Scheme, it is expected to pay the Scheme enough money to secure all the benefits built up by members with an insurance company. This is known as the Scheme being 'bought-out' and 'wound-up'.

The comparison of the Scheme's assets to the cost of buying the benefits with an insurance company is known as the 'solvency position'.



Don't forget that you can access 'My Pension', your secure member area, through our Scheme website at www.baapensionscheme.com.



Or you can use a QR reader and this code to go directly to the website.

You'll be able to read the latest news about the Scheme, visit the Library to download previous newsletters or view financial reports and much more.

What happens if the Scheme is wound-up and there is not enough money to pay for all my benefits?

If the Scheme winds-up without enough money to buy all the members' benefits with an insurance company then, unless the Company can afford to pay the difference, you are unlikely to receive the full benefits you were expecting.

To help members in this situation, the Government set up the Pension Protection Fund (PPF). The PPF pays a legally defined level of benefits to members of eligible UK pension schemes, in certain situations where a scheme does not have enough money to cover the cost of buying this level of benefits for members with an insurance company, and the Company is insolvent and so cannot provide extra finance.

If the Scheme were to be wound-up and go into the PPF, the pension you would receive may be less than the full benefit you have earned in the Scheme, depending on your age and when your benefits were earned.

Further information and guidance is available on the PPF website at www.ppf.co.uk or you can write to:

**The Pension Protection Fund
Renaissance
12 Dingwall Road
Croydon
Surrey
CR0 2NA**

Is there enough money in the Scheme to provide my full benefits if the Scheme is wound-up?

The Actuarial Valuation as at 30 September 2018 showed that the Scheme's assets could not have paid for the full benefits of all members to be provided by an insurance company if the Scheme had wound-up at that date.

The total liabilities if the Scheme were to be wound-up were	£5,382m
The Scheme's assets were	£3,950m
This means that there was a shortfall of	£1,433m
The solvency position at the previous Valuation on 30 September 2015 had a shortfall of	£1,639m

The solvency position will next be updated as part of the 30 September 2021 Actuarial Valuation.

The fact that we have shown the solvency position does not mean that the Company is thinking of winding-up the Scheme. It is just another piece of information we are required, by law, to provide and which we hope will help you understand the financial security of your benefits.

Can I leave the Scheme before I am due to retire?

If you are an Active member, you can leave the Scheme before you reach your Normal Retirement Date and your pension will be based on your completed service and salary at your date of leaving.

Your pension benefits may be left in the Scheme to be paid at retirement (called a 'deferred pension') or transferred to another pension arrangement.

If you have already left the Scheme and have a deferred pension you can, if you wish, transfer your benefits to another pension arrangement prior to retirement.

If you are thinking of transferring your pension out of the Scheme for any reason, you should consult an independent financial adviser before taking any action. You can find one at register.fca.org.uk. The law prevents us from providing you with financial advice.

Where can I get more information?

If you have any other questions, or would like any more information, please see our contact details on the back page.

Investment update

The Scheme's investments help meet the cost of providing benefits for all the Scheme's members. This means that the performance of the Scheme's investments is very important, and a responsibility we take extremely seriously.

Investment strategy

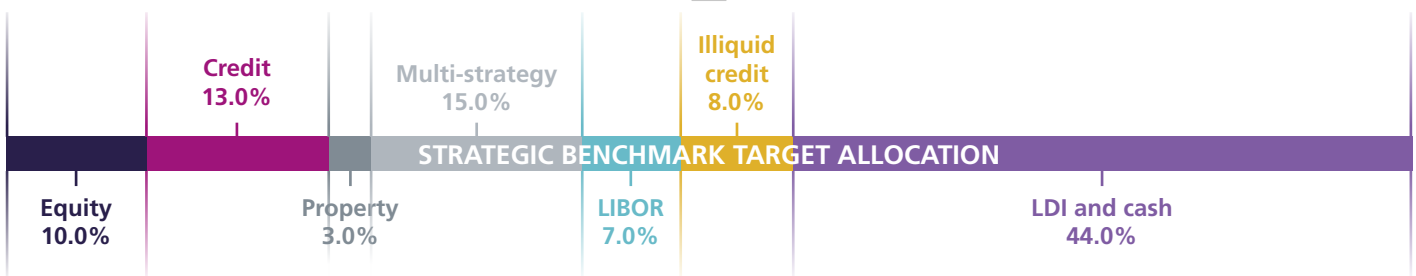
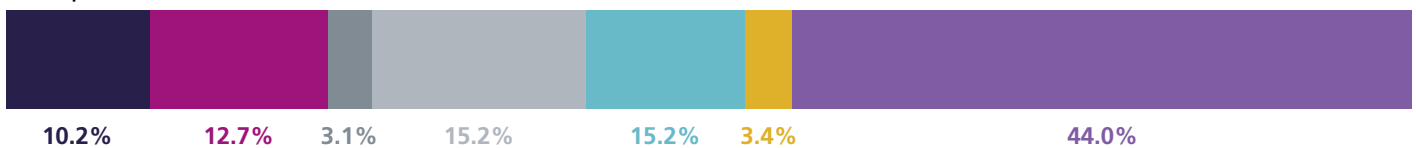
We obtain independent, specialist investment advice before implementing any decisions and our investment objectives and investment strategy are clearly set out in a formal document known as the Statement of Investment Principles (SIP). You can view or download a copy from the Financial Reports section in the Library at www.baapensionscheme.com/library/financial-reports.

Liability Driven Investments (LDI)
 These are investments that move in line with the Scheme's liabilities in response to changes in interest rates and inflation — protecting the Scheme's funding level against these movements.

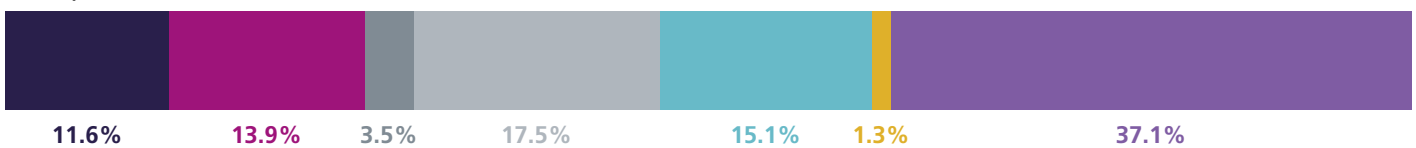
The Scheme's investment portfolio is broadly split into two categories:

Asset allocation

30 September 2019



30 September 2018



Return Seeking Investments
 These are made up of both UK and overseas investments which include equities (stocks and shares), bonds and property as well as other types of investments, in order to achieve diversification and deliver positive returns, but in a risk-controlled manner.

The charts compare the Scheme's actual investment allocation at 30 September 2019 and 30 September 2018 with our target asset allocation. Due to the long-term view we take when making investment decisions, there can be periods when the actual asset allocation differs from our target asset allocation.

Investment managers

Equity	State Street Global Advisors Ltd
Credit	BlackRock Investment Management (UK) Ltd BlueBay Asset Management LLP
Property	M&G Asset Management
Multi-strategy	Invesco Asset Management Ltd Bridgewater Associates Ltd Man Group plc
LIBOR	Allianz Global Investors Gmbh Wellington Asset Management
Illiquid credit	KKR Private Credit Opportunities Partners II (EEA) LP
LDI and cash	BlackRock Investment Management (UK) Ltd Legal & General Group plc JPMorgan Chase

Investment performance

The table below shows the Scheme's investment performance over one, three and five years to 30 September 2019:

Effective date	1 Year	3 Years (p.a.)	5 Years (p.a.)
Change in value of assets	19.9%	6.8%	10.4%
Change in value of liabilities*	19.0%	5.6%	11.0%

*Change in liabilities has been calculated by the Scheme Actuary and the asset return uses performance data estimated by the Scheme's Investment consultant.

Further details can be found in the Investment Report which forms part of the Scheme's Trustee Report & Accounts. A copy of the latest audited Report & Accounts (as at 30 September 2019) can be found in the Financial Reports section in the Library at www.baapensionscheme.com/library/financial-reports.



The impact of COVID-19

The COVID-19 pandemic has impacted us all and new ways of working have been needed to ensure the Trustee, its advisers and service providers continue to operate as efficiently as possible for the benefits of the Scheme members and their beneficiaries.

All of the Trustee meetings were moved online as soon as the pandemic took effect. We are now holding these meetings regularly in this way. For example, the Investment Sub-Committee moved to monthly rather than quarterly meetings to ensure that the impact of COVID-19 on the Scheme's investments could be monitored closely. The close working relationship that the Trustee has with the Heathrow senior management team meant that we were able to receive an urgent update on Heathrow's plans to manage the significant impact on its business and the continued ability of the Company to support the Scheme. Those updates have continued on a regular basis and are extremely useful to the Trustee to continue its ongoing strategy.

The main contact that all members will have is with the Scheme's administrators, Equiniti. They have also needed to adopt to a new way of working. Their main priority has

been in settling payments as they fall due and that has regrettably had an impact, at times, on the speed at which some enquiries have been responded to. Your patience when there has been a delay in giving answers to your questions has been greatly appreciated.

It has also been sad to note that pension scams have increased during this difficult time. In our 'Pensions news' section in Digital Focus at www.baapensionscheme.com, we have included an article about this. It is suggested that you do take some time to read the comments made there. To repeat that message — **if something seems too good to be true, it generally is!**





Is your **Expression of Wish** form up to date?

Most people have not prepared for what should happen to their personal assets and other items if they pass away. Joint research by Which? and Royal London Insurance in late 2018 found that 54% of the UK's adult population don't have a Will.

A Will sets out how someone would wish their Estate to be distributed, but did you know that any Death in Service payment from the BAA Scheme does not necessarily form part of your Estate?

As this payment is made by the Scheme Trustee on a completely discretionary basis, this ordinarily can sit separate to your Estate and does not form part of any Inheritance Tax calculation, so it's payable tax-free!

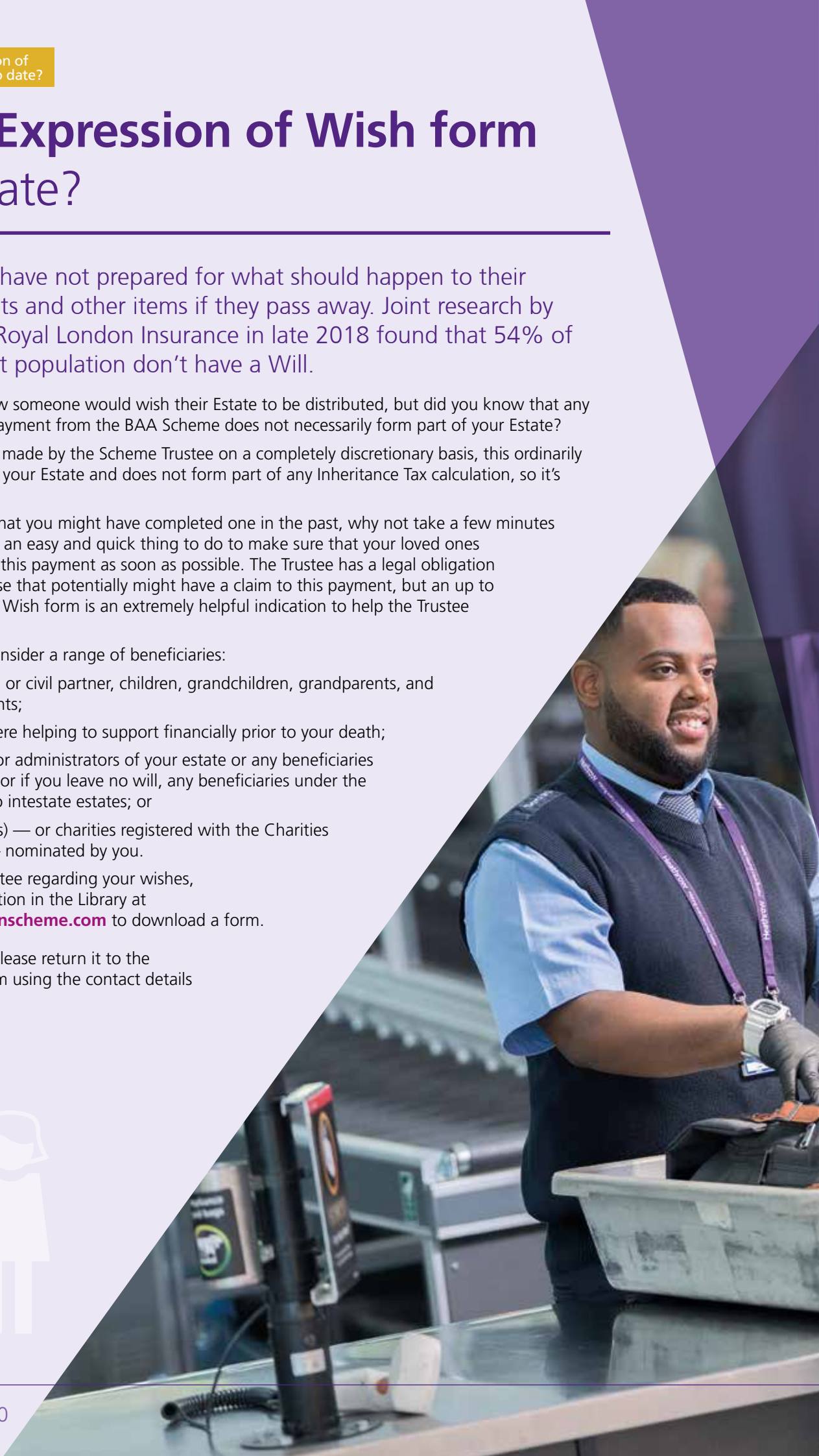
Even if you think that you might have completed one in the past, why not take a few minutes to update this? It's an easy and quick thing to do to make sure that your loved ones potentially receive this payment as soon as possible. The Trustee has a legal obligation to consider all those that potentially might have a claim to this payment, but an up to date Expression of Wish form is an extremely helpful indication to help the Trustee make its decision.

The Trustee can consider a range of beneficiaries:

- Your widow(er) or civil partner, children, grandchildren, grandparents, and their descendants;
- Anyone you were helping to support financially prior to your death;
- The executors or administrators of your estate or any beneficiaries from your will, or if you leave no will, any beneficiaries under the rules relating to intestate estates; or
- Any individual(s) — or charities registered with the Charities Commission — nominated by you.

To update the Trustee regarding your wishes, visit the Forms section in the Library at www.baapensionscheme.com to download a form.

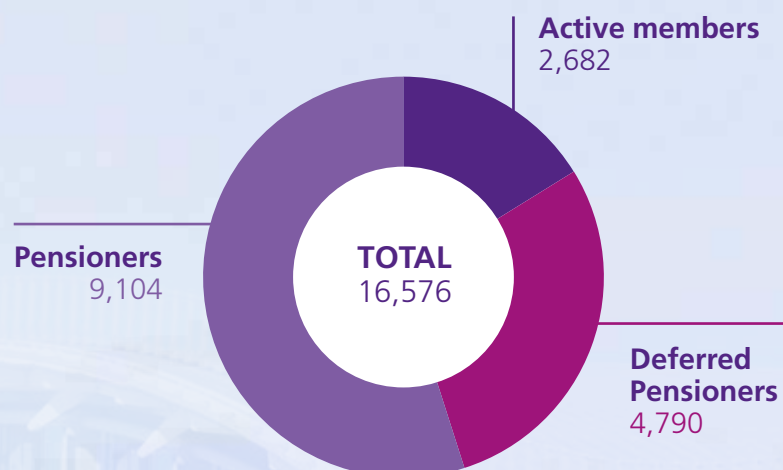
Once completed, please return it to the BAA Pensions Team using the contact details on the back page.



Facts and figures

This section includes the latest membership data and the income and expenditure figures, for the year to 30 September 2019, as taken from the Annual Report and Accounts.

You can view or download a copy of the full Annual Report and Accounts from the Financial Reports section in the Library at www.baapensionscheme.com/library/financial-reports.



Arrivals

Up to 30 September 2019

	£'000
Contributions from members	2,468
Contributions from the Company	50,271
Other income	2
Total	52,739

Departures

	£'000
Benefits payable	107,063
Payments to and on account of leavers	28,000
Administrative expenses and fees	3,499
Total	138,562

What it's all worth


	£'000
Value of Scheme assets as at 30 September 2018	3,936,171
Income — expenditure	(85,823)
Overall return on Scheme assets	792,485
Value of Scheme assets as at 30 September 2019	4,642,833


Contact us

Please use the following details to contact us:

 www.baapensionscheme.com

 baa.pensions@equiniti.com

 0333 207 6549

 **BAA Pensions Team**
Sutherland House
Russell Way
Crawley
RH10 1UH

EQUINITI

Help us to help you

To help the BAA Pensions Team at Equiniti help you with your enquiry quickly and efficiently, please give as much information as possible about yourself at the time when you contact them.

The main method of identification is by your National Insurance (NI) number, so the best way to ensure we find your record without delay is to include this in any letter or email, or to have it available if you telephone or visit us. If you are not able to give us your NI number, please give as much detail as possible about your employment and include your full name, date of birth and any previous names you may have had.

Please remember that we need your written and signed authority to discuss or release your personal or financial information to a third party.



Overriding effect of scheme governing documentation and legislation

Please note that Focus and Digital Focus are intended to be a general guide and not legally binding documents. If there is any conflict between the information set out in Focus and Digital Focus and relevant legislation, or the Scheme's governing documentation (as amended from time to time) as it applies to you, the legislation and governing documentation will prevail.

Please note that neither the Trustee nor the Company can provide you with advice on your benefits within the Scheme. As such, we recommend that you obtain independent financial advice before making any decisions regarding your entitlements under the Scheme. You can find an adviser at register.fca.org.uk.