

BAA Pension Scheme

Investment Policy Implementation Document – November 2012

1. INTRODUCTION

- 1.1 This Investment Policy Implementation Document (the “IPID”) has been prepared by BAA Pension Trust Company Limited (the “Trustee”) in its capacity as Trustee of the BAA Pension Scheme (the “Scheme”). The IPID sets out the detail of the Scheme’s investment arrangements, based on the principles documented in the Statement of Investment Principles (the “Statement”) dated November 2012.
- 1.2 The Trustee has obtained professional advice from the Scheme’s Investment Advisor in preparing this IPID.

2. SCHEME GOVERNANCE

- 2.1 The Trustee is responsible for the investment of the Scheme’s assets. The Trustee takes some decisions and delegates the balance, within the framework documented in the Statement. An overview of the duties and responsibilities delegated are set out in the Statement. The identities of the parties to whom the duties and responsibilities have been delegated are set out below.
- 2.2 The members of the Investment Committee (“IC”) are as follows:
 - Ms M Drew
 - Mr T Morgan
 - Mr P Wilbraham
 - Mr M Chatterton of The Law Debenture Pension Trust Corporation plc
- 2.3 The Investment Advisor is Cardano Risk Management B.V. (“Cardano”).
- 2.4 A listing of the Scheme’s current Investment Managers (including a description of their mandates, benchmarks and the basis of their remuneration) is set out in Section 5.
- 2.5 The Custodian is JPMorgan Chase.
- 2.6 The Scheme Actuary is Chris Sheppard of Mercer Ltd (“Mercer”).

3. INVESTMENT OBJECTIVE

- 3.1 Following the investment objective and triennial investment strategy review implemented over 2012, this IPID has been updated to reflect the return target and risk tolerance related to the objectives set. The overall objective of the Scheme is to reach an ongoing funding level of 100%, based on the Scheme's Technical Provisions basis.

4. MANAGING STRATEGIC RISK

- 4.1 A Scheme-specific Strategic Asset Allocation, a high-level asset distribution for the Scheme's investments, has been developed to capture the strategic risk that the Trustee has decided to take. The Strategic Asset Allocation has been determined based on the risk and return assumptions, as well as other factors such as correlation with other investments and liquidity.
- 4.2 The table below shows the Scheme's investment manager structure and Strategic Asset Allocation as at 30 October 2012:

Equity 21.0%	Credit 20.0%	Property 4.0%	Macro Orientated 9.0%	LIBOR+ 22.0%	Cash & High Quality Bonds 24.0%
State Street Passive	BlackRock Global Screened Corporate Bond Fund	M&G	Brevan Howard	Rogge Short-dated Credit Mandate	Rogge LDI
State Street Currency Hedge	BlackRock Credit Screened 5+ Strategy		Standard Life	Wellington LIBOR +	Royal London legacy
Lazard	Bluebay Global High Yield Fund				

Notes

1. Cash and High Quality Bonds also includes the use of inflation and interest rate swaps and other capital efficient liability hedging strategies
2. Whilst there is a strategic allocation to Property of 4%, which is specifically allocated to M&G to run a Long Lease Property mandate, as at November 2012 the Trustees were still in the process committing capital to this fund, so the value of exposure was zero at this date
3. Royal London are no longer an actively participating manager for the Scheme, and remain on a 'care and maintenance' mandate until legacy positions have been transitioned away from Royal London. These assets are to be transferred to Rogge, as part of the LDI mandate

Rebalancing the Scheme's assets allocation as required preserves the intended risk and return characteristics of the Scheme's investments.

5. MANAGING THE INVESTMENT MANAGERS

5.1 The Trustee has selected a number of Investment Managers to manage the Scheme's assets relating to Scheme benefits on its behalf, in accordance with Section 2.6 of the Statement and Section 2.4 of this IPID. The Investment Managers are all regulated by the Financial Services Authority or corresponding regulatory body in the country where the Investment Manager is regulated.

5.2 Details of the Scheme's investment manager mandates are shown below:

- State Street Global Advisors (SSgA) manages a passive Passive Global Equity portfolio, split between a FTSE All World and an Emerging Markets Equity mandate
 - Performance objective for the FTSE All World is to match the return on the FTSE All World index and for the Emerging Markets mandate is to match the return on the Emerging Market Equity Index fund
- SSgA manages a Passive Currency Hedging portfolio
 - The portfolio passively hedges 75% of the non-Sterling exposure arising from FTSE All World portfolio.
- Lazard manages an active Global Equity portfolio
 - Performance objective is to outperform the FTSE All World Index by 3.0% p.a. (gross of fees), measured over three year rolling periods.
 - Active risk limit of 4-9% p.a.
- Wellington manages an active Global Bonds portfolio
 - Performance objective is to outperform a LIBOR benchmark by 1-1.5% p.a. (gross of fees) over three year rolling periods.
- Rogge manages an active Short-Dated Credit portfolio
 - Performance objective is to outperform LIBOR by 0.75 - 1.5% p.a. (net of fees), measured over three year rolling periods.
- Rogge also manage a semi-passive Liability Driven Investment (LDI) mandate for the Scheme

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- The objective of the LDI mandate is to provide interest rate and inflation sensitivity to the Scheme in line with the liability benchmark.
 - This is achieved by investing in securities and derivatives, detail of which is outlined in the investment management agreement between the Scheme and Rogge Global Partners.
 - BlueBay manage a global high yield portfolio
 - The performance objective is to outperform by 3%, gross of fees, the Merrill Lynch Global High Yield Constrained Index while focusing on capital preservation.
 - BlackRock manages a global corporate bond fund
 - The portfolio uses BlackRock's quantitative models to screen out issuers with degrading credit quality or risk of default, and uses a semi-passive approach with the aim of outperforming the Barclays Capital Corporate 500 USD/EUR/GBP – Financial and Issuer Capped
 - BlackRock also manages an over 5 years corporate bond mandate
 - The portfolio aims to replicate as closely as practicable the characteristics of the customised benchmark, the GBP hedged BarCap USD/EUR/GBP Corp %+ Yr. 1% issuer capped
 - M&G manage a long lease property fund
 - The M&G Secured Property Income Fund looks to provide stable, inflation linked income streams through investment in commercial long leases
 - Standard Life manages a macro orientated portfolio
 - Standard Life aims to provide a positive investment return in all market conditions over the medium to long term. In order to achieve its objective the fund invests in a wide range of asset classes and geographies, investing across a variety of opportunistic directional and relative value strategies.
 - Brevan Howard manages a macro orientated portfolio
 - Brevan Howard seeks to generate long term capital appreciation whilst controlling risk of capital loss. The fund focuses on derivatives in fixed income and foreign exchange, with some exposure to equity, credit, commodities and emerging markets
 - JP Morgan manage an active Sterling Liquidity Fund

- The aim is to achieve a return in line with cash and money markets, with a benchmark of 7 day LIBID

Details regarding fee scales are shown in the appendix to this document.

- 5.3 The Investment Managers provide quarterly investment reports to the Trustee including, in most cases:
- 5.3.1 A valuation of all investments held for the Scheme at prevailing market values on the last day of the quarter;
 - 5.3.2 Records of all transactions together with a cash reconciliation; and
 - 5.3.3 A review of recent actions undertaken on behalf of the Scheme together with a summary of the Investment Manager's current stated policy.

6. MONITORING OF RISK AND RETURN

- 6.1 The Trustee acknowledges that the actual allocation may deviate from the one outlined above and the Trustee will monitor this, periodically making changes when deemed appropriate, having taken professional advice. The performance of the Investment Managers and Scheme is monitored on a quarterly basis.

7. INVESTMENT RESTRICTIONS

- 7.1 The Investment Management Agreements contain any restrictions under which the Investment Managers operate.

Signed on behalf of BAA Pension Trust Company Limited (the Trustee of the BAA Pension Scheme).

Signed: _____ Date: _____

Name: _____

Signed: _____ Date: _____

Name: _____