BRITISH REGIONAL AIRLINES GROUP PENSION SCHEME

Statement of Investment Principles – August 2021

1. Introduction

BRAL Trustees (IOM) Limited as the Trustee of the British Regional Airlines Group Pension Scheme ("the Scheme") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") and the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation. In line with Isle of Man legislation, the Statement will also comply with the Retirement Benefits Schemes Act 2000 and the Retirements Benefits Schemes Regulations 2004 and subsequent legislation.

As required under the Act, the Trustee has consulted a suitably qualified person in obtaining written advice from their Investment Consultant, Mercer Limited ("Mercer") whom the Trustee believes to be suitably qualified to provide such advice.

The strategic management of the assets is the responsibility of the Trustee Directors acting on advice from their investment consultant, Mercer, and is driven by their investment objectives as set out below.

The investment responsibilities of the Trustee are governed by the Scheme's Trust Deed and Rules (a copy of which is available on request) and relevant legislation. The Trustee has ultimate power and responsibility for the Scheme's investment arrangements.

Flybe Limited ("the Principal Employer") entered into administration on 5 March 2020. Based on the Trustee's understanding that the Scheme was not eligible for protection by the Pension Protection Fund ("PPF"), it considered and agreed changes to the Scheme's investment strategy to address the level of uncertainty around members' future benefits being paid.

2. Investment Objectives, Risks and Investment Strategy

2.1 Investment Objectives

The primary objective of the Trustee is to secure member benefits through an insurer solution.

2.2 Financially Material Considerations, Risk Management and Measurement

The Trustee has considered the following risks which it believes may be financially material to the Scheme over its anticipated lifetime. These considerations are taken into account in the selection, retention and realisation of investments.

- The primary risks upon which the Trustee focus on arise from a mismatch between the Scheme's assets and its liabilities. The Trustee has introduced a bulk annuity contract which covers a proportion of member cashflows and benefit payments to mitigate this risk. The proportion of benefits covered is based on the estimated impact of statutory priority orders on the benefits that should be secure for each member.

- The Scheme is subject to credit risk because the Scheme has cash balances and holds a bulk annuity contract.
  - Credit risk arising from cash held within the pooled Sterling Liquidity Fund managed by Legal & General is mitigated by ensuring diversification by issue and by holding investment grade cash instruments.
  - Credit risk arising from the bulk annuity contract is mitigated by selecting an insurer which operates under the Prudential Regulatory Authority's regulatory oversight. Before entering into this bulk annuity contract, the Trustee obtained and carefully considered professional advice regarding the financial strength of Pension Insurance Corporation ("PIC") and concluded that this risk was acceptably low. In addition to this, the Trustee is aware that there may be a level of protection offered to members by the Financial Services Compensation Scheme ("FSCS"), dependent on the domicile requirements for any compensation rights.
- The documents governing the manager appointment includes a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The manager is prevented from investing in asset classes outside their mandate without the Trustee's prior consent.
- The safe custody of the Scheme's assets is delegated to professional custodians for the pooled funds held by the Scheme. The appointed custodians are selected and monitored by the Scheme's investment manager.
- The Scheme's bulk annuity provider is regulated by the Prudential Regulatory Authority ("PRA") and the investment manager is regulated by the Financial Conduct Authority ("FCA"). The terms of the bulk annuity contract are outlined in the contractual documentation between the Trustee and PIC.
- Arrangements are in place to monitor the continuing suitability of the Scheme's investments including the appointed investment manager. To facilitate this, the Trustee receives regular performance reports from their investment manager.
- The Trustee recognises the risks arising from environmental, social and corporate governance ("ESG") issues, including climate change and stewardship. The Trustee believes that these risks present threats but also opportunities, and that they are only one risk to which the Scheme is exposed. See Section 7 for dedicated comments on these risks and the Trustee's approach.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered.

In considering the selection, retention and realisation of investments, the Trustee does not take account of non-financially material considerations, including member views.

3. Investment Strategy

The Scheme holds a bulk annuity contract with PIC providing the benefits that are expected to be affordable given the Scheme's funding position and the statutory priority orders for all known members of the Scheme. This contract was purchased in July 2021 using the majority of the Scheme's assets. The Trustee's intention is to secure a full buy-out with an insurer at the appropriate time.

The Scheme also holds cash to meet additional cashflow requirements.

4. Day–to-Day Management of the Assets

Section 8 sets out how the Trustee incentivises investment managers, where applicable, to operate in line with the objectives set out in Section 2.1.

4.1 Management of the Assets

The majority of the Scheme's assets comprise of a bulk annuity contract held with PIC. The Scheme employs a single investment manager, Legal & General Investment Management ("L&G"), to manage the Scheme's residual assets.

4.2 Bulk Annuity Contract

In exchange for a lump sum premium, an insurance company (PIC) has agreed to pay cashflows to the Scheme to match benefits due to the underlying pensioner members covered by the bulk annuity contract.

4.3 Residual Assets

The Trustee has taken steps to satisfy itself that the appointed investment manager has the appropriate knowledge and experience for managing the Scheme's investments and is carrying out the work competently.

4.4 Monitoring the Investment Manager

The Trustee will review reports issued by the manager to analyse their actions together with the reasons for, and background behind, their investment performance. Mercer is retained as investment consultant to assist the Trustee in fulfilling their responsibility for monitoring the Scheme's investment manager.

5. Custodian

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment manager. The Scheme's residual assets are managed via pooled funds. As a result of this, custody arrangements for the Scheme's investments have been made by L&G.

6. Realisation of Investments

The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise.

The Scheme's residual assets are realisable at short notice through the sale of units in pooled funds.

The Scheme's Investment Manager has discretion in the timing of realisation of underlying investments within the pooled funds and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

7. ESG, Stewardship (including Engagement Activities) and Climate Change Considerations

The Trustee believes that good stewardship and ESG issues may have a material impact on investment risk and return outcomes and may therefore be considered as part of the Scheme's investment process. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given the appointed investment manager full discretion when evaluating ESG factors, including climate change considerations, and in exercising voting rights and stewardship obligations attached to the Scheme's investments, in accordance with their own corporate governance policies and taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code. The Trustee expects their manager to take these factors into account as appropriate to the mandate in the selection, retention and realisation of investments. This applies to both equity and debt investments, as appropriate, and covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, environmental and social impact and corporate governance.

The Trustee has not set any ESG related investment restrictions on the appointed investment manager in relation to particular products or activities.

Member views are not taken into account in the selection, retention and realisation of investments. However, members are able to express their views via a response to the annual Trustee newsletter.

8. Investment Manager Arrangements

8.1 Manager Appointment

Investment managers are appointed based on their perceived capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage over a suitable time horizon. This includes, in relation to active management, appropriate levels of outperformance, and in relation to passive management suitable levels of “tracking error” against a relevant benchmark.

The Trustee seeks expert advice in relation to these appointments. This advice may consider factors such as the investment manager’s approach to ESG voting and engagement activity, as they apply to the specific investment strategy being considered.

The Trustee invests in pooled investment vehicles and accept that they have no ability to specify the risk profile and return targets of the manager other than through the choice of specific vehicles. They will therefore select vehicles that best align with the Trustee’s own policy in terms of investment objectives and guidelines as set out in Section 2.1. Once appointed, they will review the appointment, should there be any material changes in these terms.

The Trustee makes appointments with the view to them being long term (to the extent this is consistent with the Trustee’s overall investment time horizon) and there is typically no set duration for the manager appointments.

For each appointment, retention is dependent upon the Trustee having ongoing confidence that the investment manager will achieve its investment objective. The Trustee makes this assessment taking into account various factors which includes performance to date as well as an assessment of future prospects.

Investment managers are therefore incentivised both to achieve the objectives set for them, which are consistent with the Trustee’s policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitably long-term view when assessing the performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.

8.2 Performance Assessment and Manager Fees

The Trustee receives reporting on performance on a regular basis from their investment manager.

Returns are considered net of fees and the Trustee will monitor the level of ongoing transaction costs. The Trustee’s focus is on long-term performance but will consider a review if there are significant short-term performance concerns.

The Scheme’s managed investments are remunerated by way of a fee calculated as a percentage of assets under management. The principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee in full. The investment manager is not remunerated based on portfolio turnover. Further details of the Scheme’s fee arrangements can be found in the separate Fee Appendix document.

8.3 Portfolio Turnover Costs

Turnover costs arise from a) “ongoing” transactions within an investment manager’s portfolio and b) “cashflow” costs incurred when investing in, or realising assets from, a mandate. The Trustee will engage with a manager if portfolio turnover is higher than expected.

The Trustee monitors the costs of implementing strategic change via their Investment Consultant.

9. Compliance with this Statement

The Trustee will monitor compliance with this Statement annually. The Trustee undertakes to advise the Scheme's investment managers promptly and in writing of any material change to this Statement.

10. Review of this Statement

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed:... …   Signed:……………………………………….

Date………………………………………..   Date…………………………………………..

For and on behalf of BRAL Trustees (IOM) Limited