BRITISH REGIONAL AIRLINES GROUP PENSION SCHEME

Statement of Investment Principles – September 2020

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. 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.

The Statement is designed to fulfil the spirit of the Myners Code of Best Practice for Pension Scheme investment, which has been endorsed by the Government and the National Association of Pension Funds.

As required under Section 35 (5) of 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.

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally 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 remaining elements of the policy are part of the day-to-day management of the assets which is delegated to professional investment managers.

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. The Trustee understands that the Scheme is not eligible for protection by the Pension Protection Fund ("PPF") in the event of an insolvency of the Principal Employer. As such, the Trustee will consider temporary or permanent changes to the Scheme's investment strategy to reflect the level of uncertainty around members' future benefits being paid.

2. Investment Objectives, Risks and Investment Strategy

2.1 Investment Objectives

The primary objectives of the Trustee are to:

- Secure member benefits through consideration of insurer solutions;

- Follow a low-risk strategy and to maintain the type of assets that would move approximately in line with annuity prices in order to enhance members' future benefits.

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 recognises the risks that may arise from a lack of Principal Employer protection. The Trustee aims to ensure that the asset allocation results in a portfolio that will closely match that of an insurer solution. The key strategic investment risks inherent in the current investment strategy are as follows:

  - Interest rate risk: the risk that the assets do not move in line with the value placed on the Scheme's liabilities in response to changes in interest rates. The Trustee seeks to manage and monitor this risk via a Liability Driven Investment ("LDI") portfolio, which aims to partially match the interest rate sensitivity of the Scheme's estimated liabilities.

  - Inflation risk: similar to interest rate risk but concerning inflation. The Trustee seeks to manage and monitor this risk via a LDI portfolio, which aims to partially match the inflation sensitivity of the Scheme's estimated liabilities.

  - Credit default risk: the risk that payments due to corporate bond investors may not be made. Credit default risk is mitigated by investing in predominantly investment grade credit corporate bonds and through diversification of the underlying corporate bond securities to minimise the impact of default by any one issuer. Credit risk arising from cash held within the pooled Sterling Liquidity Fund managed by Legal & General is mitigated by the use of overnight cash sweeps.

  - Credit spread risk: the risk that the market value of corporate bonds falls due to an increase in credit spreads at a time when the Scheme is required to sell a portion of the corporate bond holdings e.g. to meet cashflow. This is mitigated by investing in funds which distribute income and maturity proceeds in order to better match the Scheme's expected cashflows.

  - Cashflow risk: the risk that Scheme cashflows are not matched by income, resulting in forced sales of assets and thus incurring transaction costs or crystallising market value losses. The Scheme has adopted a Cashflow Driven Investment ("CDI") strategy that aims to achieve a high level of cashflow matching for the next 15 years at a minimum. The majority of the Scheme's assets are invested in liquid investments that are realisable at short notice and can be used to meet Scheme cashflow requirements. The Scheme also maintains a prudent amount of cash that can be sourced quickly as required to meet benefit outgo.

  - Reinvestment risk: the risk that excess cashflow proceeds from maturing bonds cannot be invested at the same yield, resulting in a lower expected return on assets. This is mitigated by purchasing bonds of specific maturities which are expected to broadly match expected cashflows.

- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustee recognises the risks that may arise from the lack of diversification of investments. The Trustee aims to ensure the corporate bond funds they invest in are adequately diversified by issue. Due to the size of the Scheme's assets, investment exposure is obtained via pooled vehicles.

- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The managers are 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 investment manager is regulated by the Financial Conduct Authority ("FCA"). Copies of the agreements between the Trustee and their investment manager are available for inspection upon request.

- Arrangements are in place to monitor the continuing suitability of the Scheme's investments including the appointed investment manager. To facilitate this, the Trustee will meet with the Scheme's investment manager periodically and receive regular performance reports from their investment manager and also Mercer.

- The Trustee Directors recognise that the use of active management involves a risk if the assets do not achieve the expected return. However, the Trustee believes this risk can be outweighed by the potential gains from successful active management, in asset classes where opportunities exist.

- 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 8 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 particular, whether the current risk profile remains appropriate.

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 Trustee has determined a benchmark mix of assets within which the Scheme's investment manager may operate with discretion. The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cash flow requirements, the funding level of the Scheme and the objectives of the Trustee.

The assets of the Scheme are invested in the best interests of the members and beneficiaries. In order to avoid an undue concentration of risk, a spread of underlying corporate bonds are held within the pooled funds.

The strategic benchmark for the main assets of the Scheme is shown below:

Asset Class	Scheme Benchmark %
Maturing Buy & Maintain Credit	60.0
Global Buy & Maintain Credit	15.0
Liability Driven Investment (“LDI”)*	25.0
Total	**100.0**

**Includes cash*

The Trustee will monitor the allocation at each quarterly Trustee meeting. If the asset allocation moves significantly away from the benchmark allocation once forecasted cashflows have been taken into consideration, the Trustee will decide whether to physically rebalance the asset allocation back to the benchmark.

4. Day–to-Day Management of the Assets

Section 9 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 Main 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.

4.2 Management of the Assets

The Scheme employs a single investment manager, Legal & General Investment Management (“L&G”), to manage the Scheme’s assets.

L&G manage a number of portfolios on behalf of the Scheme: an active UK corporate bond portfolio, a global buy & maintain credit portfolio and an LDI portfolio. L&G are not required to formally rebalance between their portfolios.

Details of the exact funds and benchmarks invested in by the Scheme are shown below.

Maturing Buy & Maintain Credit

L&G manage a maturing buy & maintain credit portfolio on behalf of the Scheme whereby the underlying bonds target specific maturities to match the Scheme's benefit payments. Coupon payments and maturity proceeds from the underlying bonds are transferred to the Trustee bank account on a monthly basis. The portfolio does not have a formal benchmark.

Global Buy & Maintain Credit

L&G manage a global buy & maintain credit fund on behalf of the Scheme. This fund does not distribute maturity proceeds from the underlying bonds, and are instead reinvested within the fund. The fund does not have a formal benchmark.

Liability Driven Investment ("LDI")

L&G manage an LDI portfolio on behalf of the Scheme. The portfolio comprises fixed interest gilts and index-linked gilts funds ("physical gilts") as well as leveraged gilts and leveraged index-linked gilts funds ("leveraged gilts") and cash. The objective of the portfolio is to perform in line with a composite benchmark representing the Scheme's liabilities.

"Enhanced Service": L&G will aim to achieve the target interest rate and inflation hedge ratios, defined as 100% of total Scheme assets (c.77% of liabilities on the 2018 Technical Provisions basis at the time of writing) and will rebalance the hedging portfolio as soon as reasonably practical if the interest rate or inflation sensitivity of the portfolio breaches the tolerances set out in the Enhanced Service Agreement. For example, if the sensitivity of the overall hedging portfolio to changes in interest rates or inflation expectations deviates by more than 5% from the liability benchmark, L&G will rebalance the portfolio as soon as is reasonably practical. Similarly, if the sensitivity of the hedging portfolio to changes in interest rates or inflation expectations at a particular tenor (e.g. 10 years) deviates by more than 15% from the liability benchmark, L&G will rebalance the portfolio as soon as is reasonably practical.

The Scheme may hold a cash balance in L&G's Sterling Liquidity Fund, which may serve to meet the Scheme's liquidity requirements and any LDI portfolio collateral requirements.

4.3 Performance Objectives and Risk Controls

Maturing Buy & Maintain Credit

The investment objective of the L&G maturing buy & maintain credit portfolio is to match the expected income received from its investments to benefit outgo, thereby reducing the need to disinvest assets in potentially inopportune market conditions and hence reducing market risk, as well as reducing transaction costs incurred by selling assets. This fund also captures the additional yield available from investing in corporate rather than government bonds (the "credit risk premium") and preserve value within a globally diversified portfolio of actively selected credit instruments. This portfolio provides a broad match to insurer-based solutions, reducing volatility relative to insurer pricing.

Global Buy & Maintain Credit

The investment objective of the L&G global buy & maintain credit fund is to capture the additional yield available from investing in corporate rather than government bonds (the “credit risk premium”) and preserve value within a globally diversified portfolio of actively selected credit instruments.

LDI

The objective of the portfolio is to perform in line with a composite benchmark representing a portion of the Scheme’s liabilities. The Trustee has set an interest rate and inflation hedge ratio target of 100% expressed as a proportion of the Scheme’s asset value.

4.4 Monitoring the Investment Manager

The Trustee meets with their investment manager on a regular basis and 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 all the Scheme’s investment manager.

5. Additional Assets

Some members obtain further benefits by paying AVC’s to the Scheme. The liabilities in respect of these AVC’s are equal to the value of the investments bought by the contributions. The AVC assets are managed by Equitable Life Assurance Society and Aviva (formerly Friends Provident). From time to time the Trustee reviews the choice of investments available to members to ensure that they remain appropriate to the members’ needs.

6. 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 assets are managed via pooled funds. As a result of this, custody arrangements for the Scheme’s investments have been made by L&G.

7. 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 assets held 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.

8. 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. When setting investment strategy, ESG factors, including climate change, may be considered alongside a number of other factors that can influence investment strategy.

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 periodically reviews the responsible investment policies of the appointed investment manager. The Trustee will, where it is deemed necessary, engage the manager in discussion on their policies. It will however be made clear to the manager that any decisions taken by the manager should be in the best long term financial interest of the Scheme and its members.

The Trustee has not set any ESG related investment restrictions on the appointed investment manager in relation to particular products or activities, but may consider this in future.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes when appointing new investment managers and monitoring the existing investment manager.

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 and the Trustee may consider these views in future.

9. Investment Manager Arrangements

9.1 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 manager’s idea generation, portfolio construction, implementation and business management, as well 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.

9.2 Performance Assessment and Manager Fees

The Trustee receives reporting on asset class and investment manager performance on a regular basis from their Investment Consultant.

Investment returns are measured on both an absolute basis and relative to one or more suitable benchmarks and targets. 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 majority of the Scheme's managed investments are remunerated by way of a fee calculated as a percentage of assets under management. For liability hedging the fee is calculated based on a percentage of physical and leveraged gilt assets under management. In addition to this, there is a charge on the average offer value of the entirety of the Scheme's hedging assets (i.e. LDI and credit) for providing the Enhanced Service (further detailed in Section 4.2). In each case, 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 Trustee carries out regular reviews of manager fee arrangements. 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.

9.3 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 seeks to minimise cashflow costs by receiving income from mandates where possible and consistent with overall policy. The Trustee monitors the costs of implementing strategic change via their Investment Consultant.

10. 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.

11. 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. This review will occur no less frequently than every three years to coincide with the Actuarial valuation or other actuarial advice. 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