caaps

Civil Aviation Authority Pension Scheme

Annual report and accounts for the year ended 31 December 2021

Registration number 100846518

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THE TRUSTEE DIRECTORS AND EXECUTIVES

Independent Chair

Joanna Matthews

Employer Nominated Trustee Directors

David Armstrong (Resigned 31 March 2021)

Tim Bullock

Reiner Krammer

Mike Nicholson

Kate Staples (Resigned 30 June 2021)

Guy Evans (Resigned 30 September 2021)

Anna Bowles (Appointed 1 July 2021)

Philip Clarke (Appointed 1 April 2021)

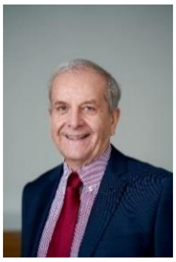
Gary Franklin (Appointed 1 October 2021)

Member Nominated Trustee Directors


Colin Chisholm


Ross MacDonald


Dave Howson


Robert Jones


Catriona Johnson (Resigned 30 September 2021)


Geoff Parker


Lea Ann Smith (Appointed 1 October 2021)

Trustee Company	CAAPS Trustee Limited
Chief Investment Officer	William Medlicott, Capital Cranfield Trustees
Chief Operating Officer	Philip Kenley
Trustee Services Manager and Scheme Secretary	Lynette Hilton
Member Services Manager	Rod Brown
Sponsoring Section Employers	The Civil Aviation Authority (CAA) NATS Ltd (NATS)

ADVISERS

Scheme Actuary	Mike Webb (Partner, Aon Solutions UK Limited)
Actuarial Consultants	Aon Solutions UK Limited
Independent Auditors	Crowe U.K. LLP
Internal Auditor	PwC LLP
Tax Adviser	KPMG LLP
Medical Advisers	The Medical Functions of the Civil Aviation Authority and NATS Ltd and Medigold Health Consulting Limited
Principal Legal Advisers	Reed Smith LLP Osborne Clarke LLP MacRoberts LLP
Investment Management Consultant	Aon Solutions UK Limited

Fiduciary Manager for Return Seeking Assets	BlackRock UK
Fund Managers	See Notes 20 and 34 on pages 45 and 53
Custodians	The Northern Trust Company (Securities) Osborne Clarke LLP and MacRoberts LLP (Property)
Bankers	The Royal Bank of Scotland plc Barclays Bank plc
Property Valuer	Knight Frank LLP
Performance Reporting Service	The Northern Trust Company
Employer Covenant Assessor	Penfida Limited
Principal Communications Consultant	Gallagher Communications Limited
Insurance Policy Providers	Legal and General Assurance Society Pension Insurance Corporation Rothesay Life

CHAIR'S INTRODUCTION

Over the course of 2021 the Trustee has engaged with its advisers to undertake a variety of projects to address Scheme and industry developments, as well as cyclical compliance matters. These included the completion of the NATS Section Actuarial Valuation as at 31 December 2020, production of additional reporting to adhere to new regulations set by the Task Force on Climate-Related Financial Disclosures (TCFD), entering into a further buy-in contract with new provider Legal and General (L&G) whilst continuing work in relation to GMP Equalisation. The CAA Section Actuarial Valuation as at 31 December 2021 is currently under way. The Trustee produces an annual Stewardship Report which contains further details on the projects and is available to members on www.caaps.co.uk.

With the CAA moving towards a hybrid working model, the CAAPS Management Team have adapted to ever-fluctuating work-based restrictions resulting from COVID-19. Consequently, there has been minimal operational impact resulting from COVID-19 in 2021. December saw the return of a face-to-face Trustee Board meeting which received positive feedback and was well attended by Trustee Directors and advisers alike. The Trustee continues to monitor the Employers' covenants, and I note that contributions were paid in full and on time in 2021, following deferrals in the prior year for the NATS Section. The Trustee acknowledges the ever-evolving circumstances surrounding COVID-19, but believes it remains appropriate to prepare the financial statements on a going concern basis. Further details on the Trustee's assessment of going concern are detailed within the Trustee's Report, on page 14.

A full triennial actuarial valuation of the NATS Section as at 31 December 2020 was completed in September 2021. The results of the valuation exercise showed that the Section's funding ratio had improved to 97.0% from 94.4%, which equates to a deficit of £171.9m compared to a deficit of £270.4m as at 31 December 2017. Whilst liabilities have significantly increased due to a fall in real gilt yields which were not fully hedged, these have been offset by asset values increasing by a much higher rate than that assumed at the 2017 valuation. Further details of the NATS full actuarial valuation can be found on page 12.

Both the Member Services Committee and GMP Steering Committee continue to work alongside Aon on a solution for equalising GMP benefits. Preliminary calculations have been performed, and an agreed methodology of implementing equalisation has been arrived at. The target date for equalisation for members with pensions is coincident with the April 2023 pension increase.

I highlight also that 2021 has been the first year where additional reporting has been required to comply with Task Force on Climate-Related Financial Disclosures (TCFD) regulations. The reporting requirements which consider environmental matters initially impact on pension schemes with over £5bn of qualifying assets, with this threshold set to lower in the coming years bringing smaller pension schemes into scope. CAAPS has been working with Aon to develop TCFD reporting. Further details of the results of the climate related metrics reported on by CAAPS can be found in Appendix B. The Scheme's TCFD disclosures have been made publicly available on the CAAPS website as an appendix to the Report and Accounts.

Following a full tender process, the Trustee entered into a further buy-in contract with new provider L&G, to insure pensioners who have retired since the inception of the existing policies with providers PIC and Rothesay Life. Again this was a project which saw the Trustee work alongside Aon as well as the Scheme's legal advisers Reed Smith. The agreement was concluded in February 2021 with the first funding being received by the Scheme in advance of the April 2021 payroll payment. A true-up based on agreed final data is expected to be settled imminently.

2021 has seen a number of changes to the Trustee Board with David Armstrong, Kate Staples, Guy Evans and Catriona Johnson leaving their roles. I would like to thank them for their efforts and contributions to the Scheme over the years, and offer a warm welcome to incoming Trustee Directors Anna Bowles, Philip Clarke, Gary Franklin and Lea Ann Smith. Bob Jones reached the end of his second term on 31 March 2021 and, in accordance with the agreed Member-Nominated Director (MND) procedure, the role was advertised to all eligible members of the CAA Section. Following interviews, the MND Selection Panel unanimously agreed to recommend that Bob should be re-appointed for a third and final term with effect from 1 April 2021.

As a final point I would like to thank the CAAPS team, the external advisers and my Co-Trustee Directors on the Board for their continued hard work and support during the year.

DocuSigned by:

Joanna Matthews

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Joanna Matthews, Independent Chair

THE TRUSTEE'S DUTIES AND APPOINTMENT

The Trustee is responsible for the affairs of the Scheme and the Trustee Board meets at least quarterly. With the exception of the Chair and two other Trustee Directors, all the other Trustee Directors are either contributing members or beneficiaries of the Scheme. All Trustee Directors serve for an initial term of three years after which they are eligible for re-nomination for further terms of office by the CAA, NATS or through a selection process.

Under legislation contained in the Pensions Act 2004, it is the Trustee's responsibility to construct the process for the nomination and selection of Member-Nominated Directors (MNDs) and the Trustee has chosen to establish a Nomination and Selection Committee to assist in this process.

The Nomination and Selection Committee comprises of the Chair, the Scheme Secretary, a MND and a representative from two member representative bodies; it considers nominations for MNDs and makes the appropriate selection for recommendation to the CAA Board. When a vacancy arises for a particular Section, the Committee's composition includes a MND from that Section and a member of a body that represents that Section's employees. In order to ensure the highest standards of governance the Committee uses an independent assessor where there are more nominees than vacancies. During the year the Committee met twice to conduct selection processes for Member-Nominated Directors for the CAA and NATS Sections.

The members of the Committee were:

Chair:	Joanna Matthews	(Independent Chair of CAAPS Trustee Ltd)
	David Hobday	(Representing the Retired Staff Association)
	Phil Blagden	(Representing the elected employee and trade union members of the CAA Employee Forum)
	Andy Mooney	(Representing the NATS Trade Unions)
	Dave Howson	(Member-Nominated Director representing the CAA Section of the Scheme)
	Colin Chisholm	(Member-Nominated Director representing the NATS Section of the Scheme)
	Jacqueline Findlay	(Independent Assessor)
	Lynette Hilton	(CAAPS Scheme Secretary)

SCHEME GOVERNANCE

The Trustee has overall responsibility for managing the Scheme and it does so using clearly defined operating procedures. The Trustee produces an annual business plan, setting out objectives for the year. Not only do the objectives focus on the major strategic issues facing the Scheme but also on key tasks to be completed each year. The business plan is linked to the risk register, which is a high-level summary of the key risks to be addressed by the Trustee. The Trustee also carries out an annual evaluation of its management of the Scheme and the operation of the Board.

Further information on Scheme governance can be found in the annual Stewardship Report available on www.caaps.co.uk.

ADMINISTRATION

The Trustee is responsible for the secretarial, financial and administrative functions of the Scheme. The day-to-day administration is delegated to the CAAPS management team. The secretarial, investment and financial functions are based in London and the administration function in Edinburgh. The Trustee also takes advice and procures services from external sources. The principal providers of these services are listed on pages 4 and 5. All the costs of these functions, and of external services, are met by the Scheme and divided proportionately between the Sections (as explained in accounting policy 4.4, on page 34).

FINANCIAL POSITION

	CAA Section £m	NATS Section £m
Net assets at 1 January 2021	2,436.2	5,502.2
Contributions received	12.9	91.0
Net benefits and expenses paid	(111.9)	(171.7)
Net return on investments	52.7	391.3
Net assets at 31 December 2021	2,389.9	5,812.8

The Independent Auditor's Report can be found on pages 28 to 30, the Fund Account and Statement of Net Assets of the Scheme on pages 31 and 32, with specific Notes per Section starting on pages 37 and 46. The Financial Statements have been prepared and audited in compliance with Section 41 (1) and (6) of the Pensions Act 1995.

MEMBERSHIP

Membership of the CAA Section was open on a voluntary basis to all eligible employees of the CAA until 1 December 2012 but was closed to new members from that date, with existing active members continuing to accrue future service. Until 31 March 2009, the NATS Section was also open on a voluntary basis to all eligible employees of NATS but was closed to new members from that date, with existing active members continuing to accrue future service.

Section	CAA Section	NATS Section	Total
Actives	334	1,591	1,925
Deferred	1,031	1,081	2,112
Pensioners	4,661	2,916	7,577
Total	**6,026**	**5,588**	**11,614**

The movement in membership is shown below:

	CAA Section			NATS Section		
	Active	**Deferred**	**Pensioners**	**Active**	**Deferred**	**Pensioners**
Members as at 31 December 2020	375	1,074	4,802	1,656	1,170	2,826
Opted Out	(21)	21	-	(24)	22	2*
Normal retirements	(4)	(25)	29	(6)	(36)	42
Ill-health retirements	-	-	-	(4)	-	4
Early retirements	(4)	(22)	26	(14)	(32)	46
Flexible retirements	(4)	(1)	5	(2)	(7)	9
Leavers with deferred benefits	(8)	8	-	(15)	15	-
Leavers taking refunds and transfers out	-	(21)	-	-	(50)	-
Deaths in service / deferment / retirement	-	(3)	(283)	-	(1)	(33)
Spouses / dependants / children - new	-	-	87	-	-	24
Spouses / dependants / children - exits	-	-	(5)	-	-	(4)
Members as at 31 December 2021	334	1,031	4,661	1,591	1,081	2,916

*Members opted out of Scheme and elected immediate pension.

Active members include members who continue to contribute but are also in receipt of a pension in payment (29 for CAA and 22 for NATS). Deferred members include members who are in receipt of a pension in payment (3 for CAA and 2 for NATS).

REPORT ON ACTUARIAL LIABILITIES

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

CAA Section Valuation

The most recent full valuation of the Scheme was carried out as at 31 December 2018. This showed that on that date and in comparison to 31 December 2015 the valuations were:

	2018 valuation £m	2015 valuation £m
Market value of assets (excluding money purchase AVCs)	2,260.0	2,306.2
Technical provisions	(2,290.4)	(2,310.4)
Past service (deficit)/surplus	(30.4)	(4.2)
Funding ratio	98.7%	99.8%

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Statement of Funding Principles):

Method

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method.

Significant Actuarial Assumptions

- Discount rate: The discount rate used to value the liabilities is determined with reference to the UK government nominal spot yield curve at the valuation date, with an adjustment to allow for the expected performance of the Section's investment strategy relative to gilt yields in the periods both before and after retirement.

- Inflation (RPI): The price inflation (as measured by the Retail Prices Index) assumption is determined using the market-implied spot price inflation curve at the valuation date. This is determined as the difference between the UK government nominal and real spot yield curves at the valuation date.

- Inflation (CPI): The price inflation (as measured by the Consumer Prices Index) assumption is set equal to the RPI inflation assumption less an adjustment. (For the purposes of the valuation as at 31 December 2018, the adjustment was 1.1% p.a.)

- Pensions increases: The rates of increases to pensions in payment and pensions in deferment are derived from the relevant price inflation assumption allowing (where appropriate) for the minimum and maximum annual increases.

- Pay increases: Pensionable salaries are assumed to increase at the rate of inflation (CPI), with a short-term adjustment where appropriate to reflect known increases. For the 2018 valuation the short-term adjustment was nil.

- Mortality Post-retirement: For males, 98% of standard tables SAPS S2 Pensioners Light Male Amounts (S2PMA_L) making allowance for future improvements in line with the CMI 2018 Core Projections with a smoothing parameter Sk of 7.5, parameter A of 0.0 and a long-term annual rate of improvement in mortality rates of 1.75% p.a. For females, 97% of standard tables SAPS S2 Pensioners Light Female Amounts (S2PFA_L) making allowance for future improvements in line with the CMI 2018 Core Projections with a smoothing parameter Sk of 7.5, parameter A of 0.0 and a long-term annual rate of improvement in mortality rates of 1.75% p.a.

- Mortality Pre-retirement: 70% of standard tables AMN00/AFN00.

The Schedule of Contributions reflecting the agreed contribution rates was certified on 9 March 2020. A copy of the Actuary's certification of this schedule is shown on page 24. The next full actuarial valuation is being carried out with an effective date of 31 December 2021.

NATS Section Valuation

The most recent full valuation of the Scheme was carried out as at 31 December 2020. The 31 December 2020 full valuation showed that on that date and in comparison to 31 December 2017 the valuations were:

	2020 valuation £m	**2017 valuation £m**
Market value of assets (excluding money purchase AVCs)	5,496.2	4,540.4
Technical provisions	(5,668.1)	(4,810.8)
Past service (deficit) / surplus	(171.9)	(270.4)
Funding ratio	97.0%	94.4%

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Statement of Funding Principles):

Method

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method.

Significant Actuarial Assumptions

- Discount rate: The discount rate used to value the liabilities is determined with reference to the UK government nominal yield curve: +1.8% p.a. for the period 1 January 2021 to 31 December 2030 then reducing linearly to gilts +0.5% p.a. over the period to 31 December 2036, and remaining at +0.5% thereafter.

- Inflation (RPI): The price inflation assumption is determined using the market-implied spot price inflation curve at the valuation date. This is determined as the difference between the UK government nominal and real spot yield curves at the valuation date.

- Inflation (CPI): The price inflation assumption is set equal to the RPI inflation assumption less an adjustment. For the purposes of the valuation as at 31 December 2020, the adjustment was 0.8% p.a. pre 2030 and 0.1% p.a. post 2030 for service on or before 31 December 2020. For service on or after 1 January 2021 CPI was assumed as a fixed rate of 2.2% p.a.

- Pensions increases: The rates of increases to pensions in payment and pensions in deferment are derived from the relevant price inflation assumption allowing (where appropriate) for the minimum and maximum annual increases.

- Pay increases: Pensionable salaries are assumed to increase at the rate of inflation (CPI). In addition an allowance is made for incremental pay increases as set out in certain pay scales.

- Mortality Post-retirement: For males, 105% of standard tables SAPS All Pensioners Light Male Amounts (S3PMA_L) making allowance for future improvements in line with the CMI 2019 Core Projections and a long-term annual rate of improvement in mortality rates of 1.75% p.a. For females, 103% of standard tables SAPS All Pensioners Light Female Amounts (S3PFA_L) making allowance for future improvements in line with the CMI 2019 Core Projections and a long-term annual rate of improvement in mortality rates of 1.75% p.a.

- Mortality Pre-retirement: 70% of standard tables AMN00/AFN00.

The Schedules of Contributions reflecting the agreed contribution rates were certified on 9 March 2020 and 15 September 2021. A copy of the Actuary's certification of the latest schedule is shown on page 25.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)
Members may pay AVCs to increase their retirement income. There are two types of AVC:

- a direct purchase of 'added years' of pensionable service from the Scheme. For the CAA Section, the ability to start the purchase of 'added years' was ceased from 1 July 2013; and

- an investment in an account, which will be used at retirement to buy extra benefits. This is known as the 'Money Purchase' approach. The following money purchase AVCs from Fidelity are available through the Scheme:

  Cash Fund, Index Linked Gilt Fund, Global Equity Index Fund, UK Gilt Index Fund, Ethical Fund, UK Equity Index Fund, Long Term Fund, World (ex-UK) Equity Index Fund, Property Fund, Corporate Bond Fund and Passive Lifestyle.

At 31 December 2021, 8% (2020:9%) of active members were making AVCs.

Members interested in finding out more detailed information about AVCs can find it on the CAAPS website www.caaps.co.uk. Alternatively, they can request a copy of the explanatory booklet, 'AVC Guide', from the Pensions Administration Department in Edinburgh.

TRANSFER VALUES
The Scheme Actuary provides all the details needed to calculate the transfer values paid to and from the Scheme. The transfer values are consistent with the requirements of Chapter IV of Part IV of the Pension Schemes Act 1993. No cash equivalents paid during the year were less than the full value of the members' preserved benefits and no account was made for any discretionary benefits.

For the NATS Section, transfers-in ceased from 31 May 2010. For the CAA Section, transfers-in ceased from 1 July 2013.

PENSION ADJUSTMENTS
Each year the Trustee adjusts the levels of Pensioner and Deferred members' benefits in line with inflation. The Trustee continues to base this adjustment on the changes in the Retail Prices Index (RPI) in relation to service accrued up to 31 October 2013 and the Consumer Prices Index (CPI) for service accrued from 1 November 2013. These adjustments are applied after making an appropriate allowance for any 'Guaranteed Minimum Pension'.

For 1 April 2021, for Pensioner and Deferred members, other than 'S' Category, the RPI and CPI increases were 1.4% and 0.7% respectively, both based on the change in the indices in the year to January 2021.

For 1 April 2021, for 'S' Category Pensioner and Deferred members, the adjustment is made in accordance with the Pensions (Increase) Act and was 0.5%, i.e. based on the change in the CPI index in the year to September 2020.

The Rules and Regulations of the Scheme set out the detailed method for calculating pension increases. This year's adjustments were made in accordance with these rules. There were no discretionary increases.

GUARANTEED MINIMUM PENSION (GMP) EQUALISATION

On 26 October 2018 the High Court ruled that UK occupational pension schemes need to equalise benefits for men and women for the effect of GMPs. Furthermore, on 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments made to check if any additional value is due as a result of GMP equalisation. The ruling applies to members with service between 17 May 1990 and 6 April 1997 (or a transfer-in relating to that period). Members with service within this period may need to have their benefits increased. This may impact ongoing pension payments as well as other crystallisation events such as transfers, trivial commutation and serious ill-health cases. There is a choice between different methods of how to equalise, each with different benefits and disadvantages. There are a number of steps schemes will need to go through before they can equalise. The Scheme has a project plan in place and Aon has produced an indication of the additional actuarial liabilities for both Sections, which can be seen at Note 4.3.

COVID–19

As disclosed in the last two years' financial statements the uncertainty created by the COVID-19 virus continues to impact on the aviation industry. Both shorter term and longer-term effects are still unknown but, as for many schemes at this time, the Trustee has considered whether there is potential for a significant and enduring impact on the Scheme.

COVID-19 creates uncertainty in the going concern assessment of the Scheme due to the difficulties being experienced by the Employers, following significantly reduced income arising from problems experienced by the aviation industry as a result of dramatic falls in air passenger numbers worldwide and the resulting weakening of the Employer covenants.

As stated below the Scheme's covenant adviser, Penfida, has received an updated cashflow forecast from NATS based on its latest draft business plan. The analysis of the information provided by NATS also considered that NATS had extended its bridging facilities of £450m with a number of banks to May 2024. NATS signed their 2020/2021 annual report and accounts on 9 July 2021 on a going concern basis, with no material uncertainties on going concern.

The CAA received a letter of comfort from the Department for Transport on 8 February 2022 which set out the grants available from Government to the CAA in 2022/23 and stated that if the CAA's income continues to be significantly reduced throughout 2022/23 due to external and uncontrollable pressures, such as continuation of current COVID-19 impacts, DfT would expect to provide further taxpayer funding to ensure that the CAA can continue to carry out its statutory duties. The CAA signed its annual 2020/2021 annual report and accounts on 16 June 2021 on a going concern basis.

The Trustee has considered such matters as the Employers' ability to support the Scheme, the contributions that are due to be paid to the Scheme, and the Employers' and Scheme's forecast cashflows over the next 12 to 15 months. Having assessed all relevant circumstances, received the required information from both Employers and advice from the Scheme's covenant adviser, the Trustee has determined that both Sections of the Scheme will continue as going concerns for at least the next 12 months. Therefore, the Trustee believes it remains appropriate to prepare the financial statements on a going concern basis, with no material uncertainties on going concern.

THE TRUSTEE'S REPORT

INFORMATION FOR MEMBERS

The CAAPS website, www.caaps.co.uk, contains general and specific information which can be viewed using secure password access.

If there are any changes to the Scheme, members who have provided their e-mail addresses will receive Pension Notices electronically.

The following documents are available to members on the CAAPS website, www.caaps.co.uk:

- Trust Deed and Rules
- Internal Disputes Resolution Procedure
- Pension Guides
- Pension Notices
- Statement of Investment Principles
- Statement of Funding Principles
- Schedule of Contributions
- Actuarial Reports
- Annual Report and Accounts
- Stewardship Report
- Responsible Investment Policy
- TCFD Statement

The most recent 'CAAPS Update' in respect of the current geo-political circumstances involving Russia and Ukraine can also be located on the CAAPS website.

The Trustee issues a Pensions Update once a year summarising the events of the Scheme year, including a summary of the accounts and a review of events in the previous year.

CONTACT FOR QUESTIONS

If members have an enquiry, they should in the first instance contact:

Pensions Administration Department
4-5 Lochside Way
Edinburgh EH12 9DT
Email: pensions@caa.co.uk
Freephone helpline: 0800 0680 234

REGULATION AND DISPUTES

The Pensions Regulator has powers to regulate occupational pension schemes and protect members' interests where it considers that members' benefits are at risk.

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Financial Statements are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited Financial Statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition, at the end of that year, of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice);

- contain the information specified in The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the Financial Statements have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes (SORP) (2018); and

- are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee has supervised the preparation of the Financial Statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustee is responsible under pensions legislation for ensuring that there are prepared, maintained and from time to time revised schedules of contributions showing the rates of contributions payable to the Scheme by or on behalf of the Employers and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the Employers in accordance with the schedules of contributions. Where breaches of the schedules occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the Scheme members.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme, including the maintenance of an appropriate system of internal control, and to prevent and detect fraud and other irregularities.

The Trustee is responsible for the maintenance and integrity of the corporate and financial information included on the Trustee's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF INVESTMENT PRINCIPLES

The Pensions Act 1995 requires the Trustee to prepare a Statement of Investment Principles. The Trustee reviews it, each year, in conjunction with its investment adviser. The most recent update was completed in November 2021.

All investments have been made in accordance with the Statement. Having considered advice from its professional advisers, the Trustee's policy is to invest in a range of assets in order to gain a good return with a prudent and appropriate level of diversification. Investments therefore include investment in global equities and bonds; illiquid assets including property; and cash. The allocations between these investment classes are detailed in this report. Each Section's assets are valued on the basis set out in Note 4.6 to the Financial Statements. The Trustee considers marketability of investments as important.

Corporate Governance

The Trustee recognises that good stewardship can enhance shareholder value over the long term. Decisions relative to the governance of the companies in which the Sections' invest have been delegated to the Sections' fiduciary manager, BlackRock. The Trustee expects BlackRock to use its influence as a major institutional investor to carry out the Trustee's rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change. The Trustee requires that voting rights are exercised and any dialogues with management are effected in the best financial interests of the beneficiaries of the assets that they manage.

BlackRock is required to report annually to the CAAPS Investment Executive (CIE) on its voting policy and its implementation. This includes indicating the overall level of voting activity, and details of the extent to which they have not voted in line with the stated policy. The Trustee Board may, from time to time, also ask BlackRock to explain its corporate governance policy and practices, including reviewing its voting activities and any interventions. Further details can be found in the Scheme's Implementation Statement on pages 61 to 65.

Responsible Investment

In setting the Sections' investment strategies, the Trustee's primary concern is to act in the best financial interests of the Sections and their beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.

Investment managers are expected to take account of any factors, including relevant ESG factors, affecting their valuation of the investments, on the Sections' behalf.

The Trustee recognises that integrating ESG factors into the investment process is beneficial to the achievement of its long-term financial objectives and, with its investment adviser, carries out regular reviews of its investments, which also includes using third-party ESG data. This review supports the Trustee in assessing the ongoing appropriateness of its managers' ESG integration and stewardship processes.

As set out in their TCFD Statement and Responsible Investment Policy, the Trustee recognises that climate change will materially impact on returns within the timeframe of concern to the Section. The Trustee will take action to mitigate this risk where practicable and appropriate for the Section.

In accordance with the Trustee's recognition of climate change risk, the Trustee took the decision in Q3 2020 to transition the Section's passive market capitalisation weighted developed global equity portfolio to a passive portfolio indexed against a low-carbon benchmark, thus reducing the Section's exposure to underlying assets exhibiting high carbon intensity (relative to benchmark). The Trustee annually reviews its approach to managing climate risk. Further information on the investments made by the Trustee in the year with an ESG focus are detailed in the 'NATS Section' of this Investment Report.

Climate change is a Board responsibility although day to day management of the risk is delegated to the Section IFC and the CIE. The Trustee has undertaken scenario analysis over different timeframes to better understand the potential impact of climate change. These scenarios will be reviewed at least annually. As set out in the TCFD Statement and Responsible Investment Policy, the Trustee has established three metrics (Carbon footprint, Carbon intensity and Data quality) so as to monitor its progress towards achieving alignment with the Paris Agreement on Climate Change. The Trustee is aware that in its recent consultation the Department of Work and Pensions (DWP) anticipates requiring schemes to measure explicitly their alignment to the Paris Agreement on Climate Change. The Trustee will continue to develop its approach as quickly as the data permits.

In setting and implementing the Section's investment strategy, the Trustee does not explicitly take into account the views of Section members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters.

Copies of the Responsible Investment Policy ,TCFD Statement and Stewardship Report are available on the CAAPS website, www.caaps.co.uk or from the Scheme Secretary.

Investment Choice

The types of investment held and the balance between them is adjusted as necessary to meet the objectives of the Trustee.

The assets of the Sections are invested in the best interests of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interests of members and beneficiaries.

Assets held to cover the Sections' liabilities are invested in a manner appropriate to the nature and duration of the expected future liabilities payable by the Sections, but also recognising the return requirement in order to meet the funding objective.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The Trustee recognises that the key source of financial risk (in relation to meeting their objectives) arises from the level of target return needed to achieve the objective and the level of liability hedging that is affordable. To this extent, the Trustee has agreed the target return and liability hedge ratio with its advisers and, as appropriate, will agree how this target return and liability hedge ratio should evolve over time as actual experience differs from the expected experience.

The Trustee has delegated responsibility for managing the underlying investments in the Growth Portfolio to BlackRock, within the guidelines and constraints set out in the Investment Management Agreement (IMA). This allows the asset allocation and manager allocation to be adjusted quickly where needed, to best meet the investment objectives of the Sections and in a manner that is expected to ensure the security, quality, liquidity and profitability of the portfolio as a whole. The assets are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings, so as to avoid accumulations of risk in the portfolio as a whole. The diversification is both within and across the major asset classes.

Arrangements with Asset Managers

The Trustee recognises that the arrangements with all their managers, including the arrangements with the corresponding underlying managers invested in by BlackRock, are important to ensure that interests are aligned. In particular, the Trustee seeks to ensure that the managers are incentivised to operate in a manner that generates the best long-term results for the Sections and their beneficiaries.

The Trustee receives at least quarterly reports from the managers on various items including the investment strategies, performance, and longer-term positioning of the portfolio. The Trustee focuses

on longer-term performance when considering the ongoing suitability of the investment strategies in relation to the Sections' objectives, and assesses the managers over the long-term.
The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by the applicable managers, which supports the Trustee in determining the extent to which the Sections' engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in the Statement of Investment Principles (SIP), with the Sections' managers and requests that they review and confirm whether their approach is in alignment with the Trustee's policies.

The Trustee delegates the ongoing monitoring of underlying asset managers to BlackRock. BlackRock monitors the Sections' investments to consider the extent to which the investment strategies and decisions, in particular long-term related decisions of the underlying asset managers, are aligned with the investment objectives of the Sections.

Before the appointment of a new manager of the Liability Driven Investment (LDI) or Growth Portfolio, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where necessary, the Trustee will seek to amend that documentation or express its expectations (such as through side letters, in writing, or verbally at Trustee meetings) so that there is more alignment.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the managers and regular monitoring of the managers' performance and investment strategies is sufficient to incentivise the managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial performance.

Where a manager is considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically engage with the manager to understand the circumstances and materiality of the decisions made.

There is typically no set duration for arrangements with the managers, although their continued appointment will be reviewed periodically.

The suitability of this policy is reviewed annually.

Cost Monitoring
The Trustee is aware of the importance of monitoring its asset managers' total costs and the impact these costs can have on the overall value of the Sections' assets. The Trustee recognises that, in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by their investments. The Trustee receives annual cost transparency reports from its managers.

These reports present information in line with prevailing regulatory requirements. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Sections;
- The fees paid to the managers, including the manager of the LDI Portfolio;
- The fees paid to the investment managers appointed by the fiduciary manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the fiduciary manager.

The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the fiduciary manager:

- Any charges incurred through the use of pooled funds (custody, administration and audit fees)
- The impact of costs on the investment return achieved by the Sections.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The fiduciary manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the investment managers appointed on behalf of the Trustee.

Evaluation of performance and remuneration

The Trustee assesses the (net of all costs) performance of its managers on a rolling three-year basis against the Sections' specific liability benchmark and investment objective. The remuneration paid to the managers and fees incurred by third parties appointed by the fiduciary manager are provided annually to the Trustee. This cost information is set out alongside the performance of the managers to provide context. The Trustee monitors these costs and performance trends over time.

Investment Management Fees

External investment manager fees are generally determined as a percentage of assets managed. The Trustee believes that this is the most appropriate method of remunerating investment managers.

For some underlying managers, a performance related fee may be in place, which the Trustee believes to be appropriate given the nature of their specific investment objectives as long as these are subject to the relevant performance thresholds and protection mechanisms to ensure that the Trustee remunerates the manager on the basis of true outperformance.

INVESTMENT STRATEGY

The Trustee's primary objective is to ensure that it can meet its benefit payment obligations to the beneficiaries as they fall due. In addition, the Trustee has the objective of maximising the long-term investment return subject to running an acceptable amount of risk. The Trustee recognises that the Employers have a legitimate interest in these objectives and consults each Employer accordingly. The Trustee believes that proper diversification of investments is of the utmost importance. Likewise, the Trustee endeavours to invest the Scheme's funds in assets which are suitable for achieving the above objectives.

The Trustee regards the choice of asset allocation policy as the decision which has most influence on the likelihood that it will achieve its investment objectives. The Trustee makes decisions on asset allocation as outlined in the Statement of Asset Arrangements on the advice of its investment consultants, in consultation with the Employers, and in conjunction with recommendations from each Section's Investment and Funding Committee (IFC). Specific allocation within the growth portfolio is advised by the fiduciary manager, BlackRock.

The IFCs recommend the strategic asset allocation policy after considering projections of the Sections' assets and liabilities which are calculated by the Scheme Actuary and an asset-liability study undertaken by the Scheme's main investment consultants. The latter examines different combinations of assets to determine which combination should most efficiently achieve the Trustee Board's objectives whilst taking the Employers' considerations into account.

The investment strategies are set out in the Scheme's Statements of Investment Principles (SIPs).

In order to avoid undue concentration of risk, a diversified portfolio of assets is held. The diversification is both within and across the major asset classes. The extent of this diversification reflects both the Scheme's circumstances and the Trustee's investment return expectations.

The current strategy for the CAA Section is to hold:

- Approximately 30% of the non-insured investments in liability matching assets including UK government debt, interest rate swaps, total return swaps and gilt repos;

- Approximately 70% of the non-insured investments in return seeking assets including global equities, liquid debt and hedge funds;

- The majority of the assets in Bulk Purchase Annuity contracts with Rothesay Life, PIC and L&G.

The current strategy for the NATS Section is to hold:

- 30% of the investments in liability matching assets including UK government debt, interest rate swaps, inflation rate swaps, total return swaps and gilt repos;

- 70% of the investments in return seeking assets including global equities, liquid debt, investment property, hedge funds and private equity.

Integrated Risk Management
To maximise the probability of achieving the primary objective, the Trustee adopts an Integrated Risk Management (IRM) approach. This approach seeks not just to minimise each risk individually but to minimise the overall level of risk in the Sections with a view to maximising the likelihood of achieving the Primary Objective. This holistic approach is necessary because the risks are not independent of each other and reducing one risk may increase or in some other way change another risk. In-depth IRM considerations, including sensitivity and scenario testing of the interaction of risks within the Sections, informs every formal Valuation. Subsequent to each Valuation, the Sections are managed in a way that is consistent with the holistic view of overall risk formulated as part of the Valuation. Risks are then continually monitored to ascertain whether that view remains valid or whether remedial action is required. A new formal Valuation may be called if there is a significant change in the level of risk.

CAA SECTION
As reported last year, in February 2021 the Trustee executed a buy-in with Legal & General to insure pensions that came into payment from 1 April 2018 to 31 August 2020 covering £110.4m of liabilities. The premium paid to Legal & General was funded from the LDI assets.

The Trustee also completed a review of the Section's investment strategy in 2020 and implemented a new investment strategy in January 2021. The new strategy reduces the equity risk within the return seeking assets and is measured against an absolute return target of cash+3.5%. The new strategy targets a mix of 70% of the non-insured assets to be held in growth assets and 30% of the non-insured assets to be held in LDI assets.

At the year end the Section's investment mix was weighted towards LDI assets due to the level of eligible collateral being constrained by the movement in gilt yields and the collateral management policy adopted by the LDI manager. The collateral management policy has now been refined and the Section was rebalanced in January 2022 to within the rebalancing parameters.

NATS SECTION
As part of the decision to move to BlackRock with their strong resources within alternative illiquid assets, the Trustee reviewed its exposure to alternative assets. The Trustee made commitments of Euro55.4m (£46.5m) to a social infrastructure fund managed by Franklin Templeton, US$143m (£106m) to a global renewable power infrastructure fund managed by BlackRock and invested £97m in a BlackRock diversified opportunities fund which features an ESG screen. The Trustee is progressing with further investments in alternative assets in 2022.

During the year the Trustee introduced a CDS overlay mandate of £100m, managed by LGIM, for the NATS Section in order to increase the efficiency of the usage of collateral held within the LDI portfolio.

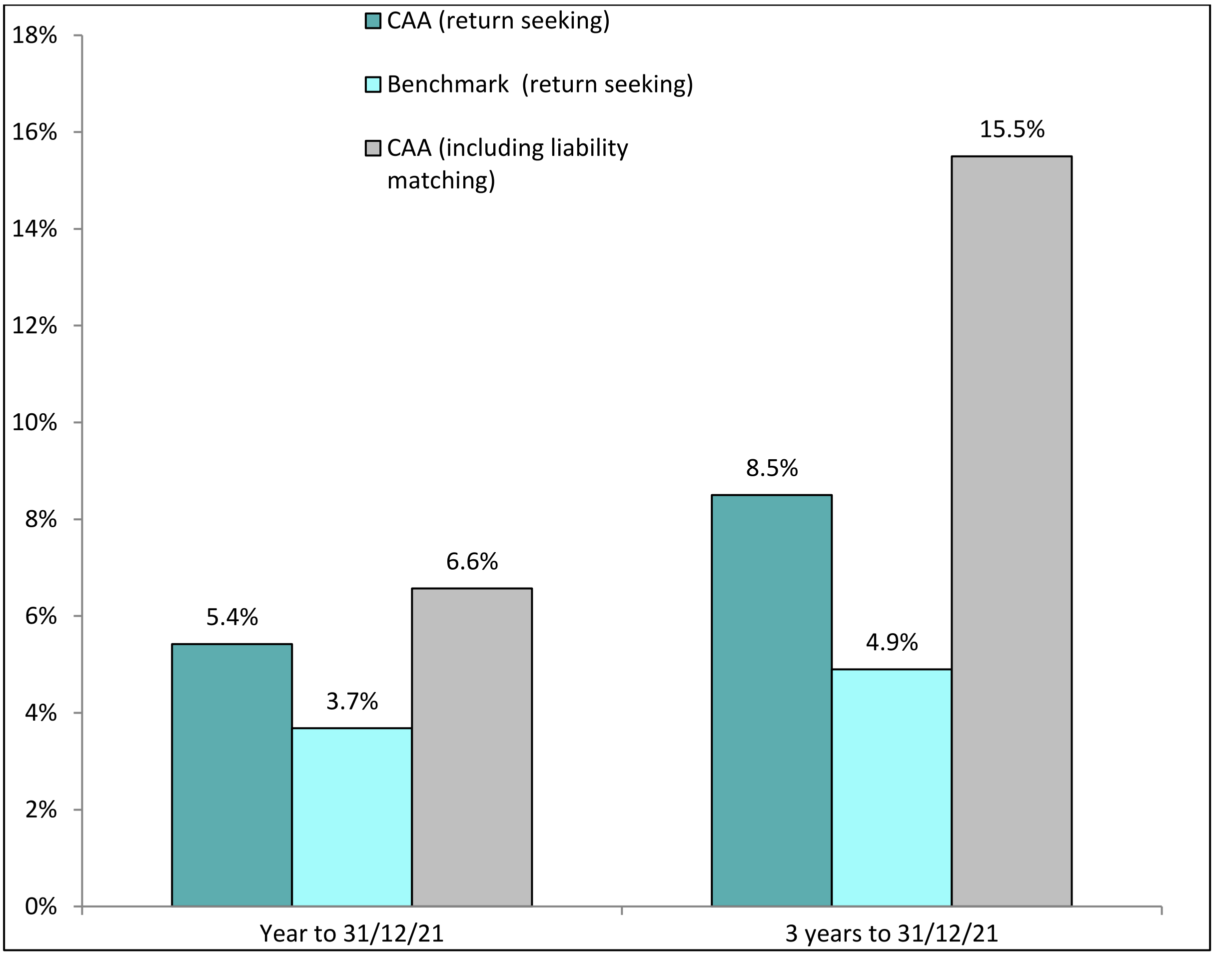
INVESTMENT REPORT

INVESTMENT PERFORMANCE

2021 saw both the CAA and NATS Sections produce positive absolute returns. Overall, the CAA Section outperformed its absolute return benchmark of cash+3.5% p.a. and the NATS Section outperformed its absolute return benchmark of cash+4.0% p.a.

CAA SECTION

The CAA Section's return seeking portfolio produced a positive return of 5.4% representing an outperformance of 1.7% for the full year, when compared with the Section's benchmark return of 3.7% for the CAA Section's return seeking portfolio. The Section's total return for the year including its liability management portfolio totalled 6.6%. During the year most asset classes produced positive returns.

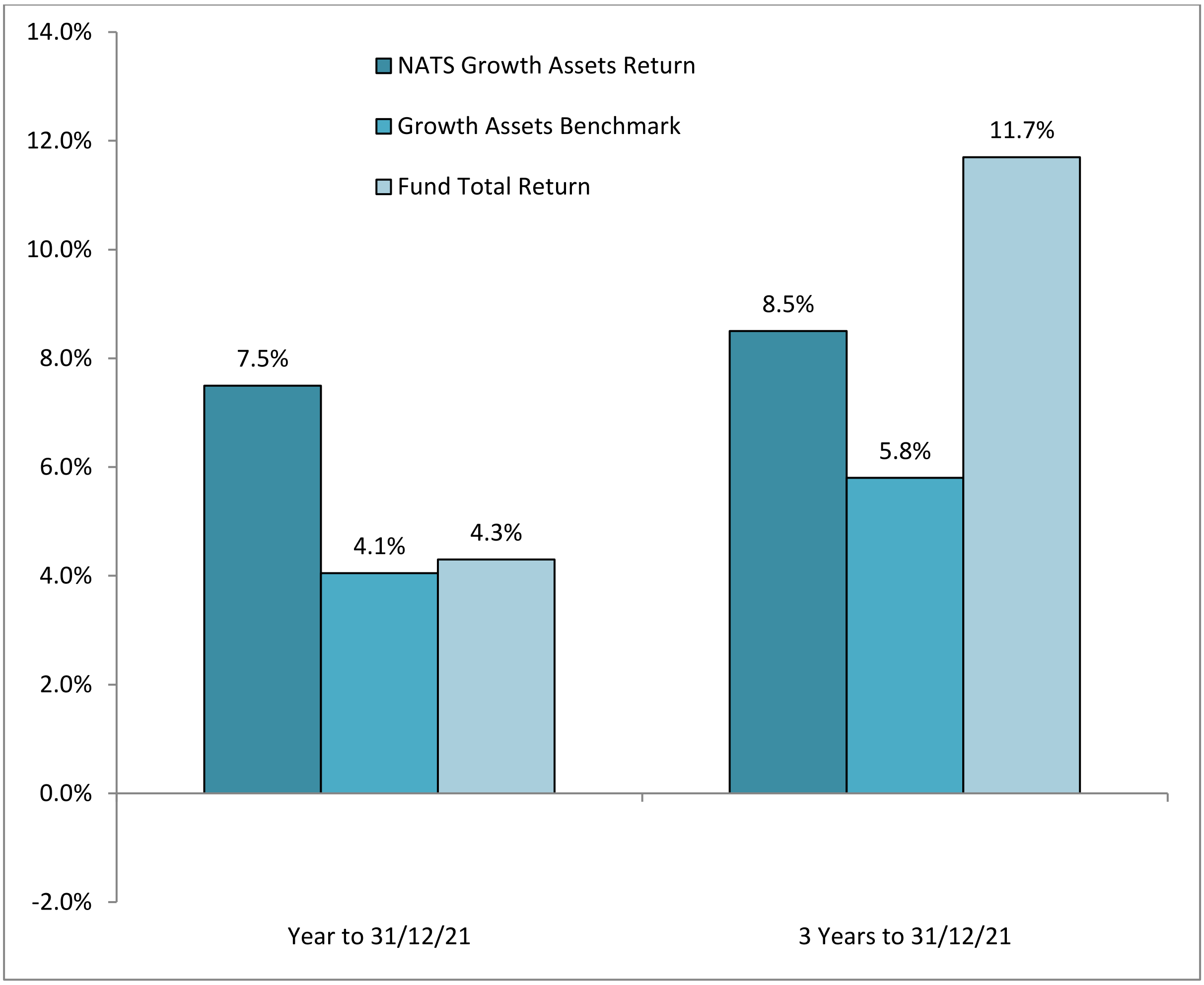


CAA Section

The investment assets above exclude members' Additional Voluntary Contributions and the bulk annuity contracts.

NATS SECTION

The NATS Section performance is analysed between return seeking assets and total fund return to distinguish between the performance of the return seeking assets and the return on the liability matching assets. The NATS Section return seeking portfolio produced a positive return of 7.5%, representing an outperformance of 3.4% for the full year when compared with the Section's strategic return seeking benchmark return of 4.1%. The NATS Section total return for 2021 including its liability matching return was 4.3%.



NATS Section

The investment assets above exclude members' Additional Voluntary Contributions.

The Trustee and Investment Reports were approved by the Trustee on 13 April 2022.

DocuSigned by:
Joanna Matthews
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Joanna Matthews, Independent Chair

ACTUARY'S CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS - CAA SECTION

Name of Scheme: CAA Section of the Civil Aviation Authority Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2018 to be met by the end of the period specified in the recovery plan dated 9 March 2020.

   I also certify that any rates of contributions forming part of this schedule which the Scheme requires me to determine are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 9 March 2020.

   The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature		**Date**	9 March 2020
Name	Mike Webb	**Qualification**	Fellow of the Institute and Faculty of Actuaries
Address	Parkside House Ashley Road Epsom Surrey KT18 5BS	**Name of Employer**	Aon Hewitt Limited

ACTUARY'S CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS - NATS SECTION

Name of Scheme: NATS Section of the Civil Aviation Authority Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2020 to be met for the period specified in the recovery plan dated 15 September 2021.

   I also certify that any rates of contributions forming part of this schedule which the Scheme requires me to determine are not lower than would have been provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 15 September 2021.

   The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature		**Date**	15 September 2021
Name	Mike Webb	**Qualification**	Fellow of the Institute and Faculty of Actuaries
Address	Parkside House Ashley Road Epsom Surrey KT18 5BS	**Name of Employer**	Aon Hewitt Limited

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS, UNDER REGULATION 4 OF THE OCCUPATIONAL PENSION SCHEMES (REQUIREMENT TO OBTAIN AUDITED ACCOUNTS AND A STATEMENT FROM THE AUDITOR) REGULATIONS 1996, TO THE TRUSTEE OF THE SCHEME

We have examined the summary of contributions payable to the Civil Aviation Authority Pension Scheme ("the Scheme"), for the Scheme year ended 31 December 2021 which is set out on page 27.

In our opinion contributions for the Scheme year ended 31 December 2021 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least:

- in accordance with the Schedules of Contributions certified by the Scheme Actuary on 30 April 2020 for the period 1 January 2021 to 14 September 2021 and 15 September 2021 for the period 15 September 2021 to 31 December 2021 for the NATS Section; and
- in accordance with the Schedule of Contribution certified by the Scheme Actuary on 9 March 2020 for the CAA Section.

Basis of opinion

Our objective is to obtain sufficient evidence to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedules of Contributions.

Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there are prepared, maintained and from time to time revised Schedules of Contributions that set out the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the Employers and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedules of Contributions.

Auditor's responsibilities for the statement about contributions

It is our responsibility to provide a statement about contributions paid under the Schedules of Contributions and to report our opinion to you.

Use of our statement

This statement is made solely to the Scheme's Trustee, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our work, for this statement, or for the opinion we have formed.

DocuSigned by:
Crowe U.K. LLP
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Crowe U.K. LLP
Statutory Auditor
London

Date: 13 April 2022

SUMMARY OF CONTRIBUTIONS

During the year ended 31 December 2021 the contributions payable to the Scheme by the Employers under the Schedules of Contributions were as follows:

	CAA Section £'000	NATS Section £'000	2021 Total £'000	2020 Total £'000
Employers' normal contributions	5,400	56,302	61,702	68,478
Employers' normal deficit repair	-	26,002	26,002	25,485
Employers' additional contributions	6,000	-	6,000	6,000
Employers' salary sacrifice	1,201	7,633	8,834	9,785
Employers' augmentation contributions	-	144	144	2,685
Members' normal contributions	59	36	95	112
Total contributions payable under the Schedules of Contributions	12,660	90,117	102,777	112,545
In addition, further contributions were payable:				
Employer - member directed contributions salary sacrifice	222	-	222	264
Members' additional voluntary contributions	12	859	871	1,012
Other – family benefit reinstatement	9	38	47	-
Total contributions included in the Financial Statements (Notes 5 & 21)	12,903	91,014	103,917	113,821

The normal contributions payable to the Scheme during the year have been paid in accordance with the Schedules of Contributions. Both Sections operate salary sacrifice schemes which result in the members and Employers benefiting from reduced National Insurance costs. Augmentation contributions by the Employers cover reimbursement to the Scheme for the cost of enhancements to members' pension benefits associated with early retirement.

Approved by the Trustee and signed on its behalf by:

DocuSigned by:
Joanna Matthews
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Joanna Matthews, Independent Chair

13 April 2022

DocuSigned by:
Ross MacDonald
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Ross MacDonald, Director

13 April 2022

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE SCHEME

Opinion

We have audited the financial statements of the Civil Aviation Authority Pension Scheme ("the Scheme") for the year ended 31 December 2021 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2021, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The Trustee is responsible for the other information contained within the annual report. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities set out on page 16, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion, the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for bias.
- Misappropriation of investment assets owned by the Scheme. This is addressed by obtaining direct confirmation from the custodian and investment fund managers of investments held at the Statement of Net Assets date and by testing the reconciliation of annuity income to relevant pension payments.
- Diversion of amounts receivable relating to the bulk annuity policies. This is addressed by testing the reconciliation of amounts received from the bulk annuity providers to the pensions paid to the pensioners.
- Diversion of assets through large investment transactions. A sample of transactions are agreed to supporting documentation testing the authorisation of the amount and approval of the payment of the transactions.
- Non-receipt of contributions due to the Scheme from the Employers. This is addressed by testing contributions due are paid to the Scheme in accordance with the Schedules of Contributions agreed between the Employers and the Trustee.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE SCHEME

Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

Crowe U.K. LLP

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Crowe U.K. LLP

Statutory Auditor

London

Date: 13 April 2022

FUND ACCOUNT AND STATEMENT OF NET ASSETS OF THE SCHEME

The finances and assets of the Civil Aviation Authority Pension Scheme are kept completely separate from those of the Employers.

The Fund Account and Statement of Net Assets for the Scheme for the year ended 31 December 2021 are set out below showing the split between the CAA and NATS Sections.

The Fund Account and Statement of Net Assets for each Section are shown in full within the specific Notes to the Financial Statements starting on page 37, for the CAA Section, and on page 46 for the NATS Section.

FUND ACCOUNT FOR THE YEAR ENDED 31 December 2021

	Note	2021 CAA Section £m	2021 NATS Section £m	2021 Total £m	2020 Total £m
Contributions and Benefits					
Employer Contributions	5, 21	12.8	90.1	102.9	112.7
Employee Contributions	5, 21	0.1	0.9	1.0	1.1
Total Contributions		12.9	91.0	103.9	113.8
Benefits paid or payable	6, 22	91.4	111.0	202.4	196.7
Leavers	7, 23	18.3	58.3	76.6	66.8
Administrative expenses	8, 24	2.2	2.4	4.6	4.7
Total Benefits		111.9	171.7	283.6	268.2
Net withdrawals from dealings with members		(99.0)	(80.7)	(179.7)	(154.4)
Returns on investments					
Investment income	15, 31	84.5	80.4	164.9	145.4
Changes in market value of investments	16, 32	(30.4)	320.7	290.3	656.2
Investment management expenses	9, 25	(1.4)	(9.8)	(11.2)	(11.0)
Net returns on investments		52.7	391.3	444.0	790.6
Net (decrease)/increase in funds during the year		(46.3)	310.6	264.3	636.2
Net assets of the Scheme at 1 January		2,436.2	5,502.2	7,938.4	7,302.2
Net assets of the Scheme at 31 December		**2,389.9**	**5,812.8**	**8,202.7**	**7,938.4**

FUND ACCOUNT AND STATEMENT OF NET ASSETS OF THE SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 DECEMBER 2021

	Note	2021 CAA Section £m	2021 NATS Section £m	2021 Total £m	2020 Total £m
Investment Assets					
Bonds	16, 32	-	6,982.9	6,982.9	6,904.4
Equities	16, 32	36.2	235.3	271.5	260.6
Property	32	-	147.8	147.8	228.1
Pooled investment vehicles	16, 32	698.2	1,117.9	1,816.1	1,754.5
Derivatives	17, 33	2.3	75.8	78.1	150.9
Insurance policies	18	1,592.0	-	1,592.0	1,546.0
AVC investments	10, 26	2.1	6.1	8.2	8.3
Cash	16, 32	21.0	204.3	225.3	275.4
Other investment balances	16, 32	0.1	47.4	47.5	41.3
		2,351.9	8,817.5	11,169.4	11,169.5
Investment liabilities					
Derivatives	17, 33	(2.4)	(64.6)	(67.0)	(27.3)
Other investment balances	16, 32	-	(2,970.2)	(2,970.2)	(3,279.0)
Total net investments		2,349.5	5,782.7	8,132.2	7,863.2
Current assets	11, 27	41.0	34.5	75.5	83.8
Current liabilities	12, 28	(0.6)	(4.4)	(5.0)	(8.6)
		40.4	30.1	70.5	75.2
Net assets of the Scheme at 31 December		**2,389.9**	**5,812.8**	**8,202.7**	**7,938.4**

The Financial Statements summarise the transactions and net assets of the Scheme. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Trustee's Report section "Report on Actuarial Liabilities" on pages 10 to 13, and "Actuary's Certification of the Schedule of Contributions" on pages 24 and 25, and these Financial Statements should be read in conjunction with them.

Approved by the Trustee:

DocuSigned by:
Joanna Matthews
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Joanna Matthews, Independent Chair

13 April 2022

DocuSigned by:
Ross MacDonald
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Ross MacDonald, Director

13 April 2022

1. BASIS OF PREPARATION

These Financial Statements have been prepared as at 31 December 2021 in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by The Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (SORP) (2018).

The Trustee is not aware of any material uncertainty in relation to the Scheme's ability to continue as a going concern, and as such these financial statements have been prepared on a going concern basis.

2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English Law. The address for enquiries to the Scheme is included in the Trustee's Report under the heading Contact for Questions.

3. TAX STATUS

Before 5 April 2006 the Scheme was described as an exempt approved Scheme under the Income and Corporation Taxes Act 1988. It is now a Registered Scheme under the Finance Act 2004. Contributions to the Scheme and most income and gains from the Scheme's investments are exempt from tax.

4. ACCOUNTING POLICIES

4.1. Consolidation

The Financial Statements include the net assets of Caviapen Trustees Limited, a trust corporation set up and wholly owned by the Trustee to hold as custodian certain of the Scheme's properties. No financial transactions pass through the Caviapen Trustees Limited accounts.

4.2. Contributions receivable

Normal contributions from the Employers and from members have been made at the rates set out in the Schedules of Contributions in force for the Scheme year. Normal contributions relating to salaries earned in the Scheme year have been recognised in these accounts. During the year, salary sacrifice arrangements operated for each Section and these contributions are accounted for on the same basis as normal Employer contributions related to salaries and shown as Employer contributions.

Employers' augmentation contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, when received.

Members' additional voluntary contributions (AVCs) and family benefit reinstatement contributions are recognised in the accounts as soon as they are notified to the Scheme.

4.3. Benefits paid or payable

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the Scheme as appropriate.

Where tax liabilities are settled on behalf of members, for example where the lifetime allowance or annual allowance is exceeded, the tax due is accounted for on the same basis as the benefit.

Transfer values represent the capital sums payable to other pension arrangements for members who have left the Scheme and they are accounted for on a cash basis.

GMP Equalisation

As explained on page 14 of the Trustee's report, on 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension scheme. The judgment concluded that the scheme should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. Furthermore, on 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments made to check if any additional value is due as a result of GMP equalisation. The issues determined by the judgments arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is aware that the issue will affect the Scheme and will be considering this at future meetings and decisions will be made as to the next steps. Under the rulings, schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. The Trustee has obtained an estimate of the benefits and related interest which relate to equalisation of Scheme benefits for the period 17 May 1990 to 6 April 1997 of £3m (£2m for the CAA Section and £1m for the NATS Section) for the first Court judgment. The Actuary has estimated that approximately 10% would relate to the past underpayment of benefits. This estimate is based on the Trustee's view of the most likely equalisation methodology to be adopted and a top down assessment of the likely impact on members. Neither this amount nor an amount in respect of the second Court judgment has been recognised in the accounts as they are immaterial and given the uncertainty surrounding the final amounts.

4.4. Other expenditure

Administrative and investment management expenditure is accounted for on an accruals basis. Directly attributable CAA or NATS Section expenditure is allocated to the appropriate Section. Shared expenditure is apportioned between the CAA and NATS Sections in proportion to the level of work undertaken or equally apportioned as appropriate.

4.5. Investment income

Income from fixed interest and index-linked securities, deposit interest, mortgage backed securities and securities lending is accounted for on an accruals basis.

Rental income is accounted for as earned under the terms of the lease. Aged debts are provided for in accordance with CBRE's policy, which is 100% provision after 30 days.

Dividends are taken into account on the date when the stocks are quoted ex-dividend. Income from pooled investment vehicles that are accumulation funds are re-invested within the funds.

Income arising from annuity policies is included in investment income.

4.6. Valuation of investments

All investments are valued at their market value at 31 December 2021 determined as follows:

4.6.1. Quoted securities and pooled investment vehicles in specified funds are stated at market value based on the bid market prices or fair value, as determined by the investment managers, ruling at the Scheme year end.

4.6.2. Interests in private equity funds and hedge funds are included at estimated market value as provided to the Trustee by the investment managers. The market valuation is based on the current fair value and is in accordance with appropriate guidance such as US Generally Accepted Accounting Principles.

4.6.3. Shop, office and industrial properties are valued at open market value at the Scheme year end by Knight Frank, Chartered Surveyors, using the Royal Institution of Chartered Surveyors Valuation Standards. No depreciation is provided on freehold buildings or long leasehold properties. All charges incurred during the purchase of property are expensed in the period incurred.

4.6.4. Annuity policies are valued by the Scheme Actuary at the amount of the related obligation, determined using the most recent solvency assumptions as at the reporting date.

4.7. Derivatives

4.7.1. Derivative contracts are valued at fair value. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices.

Derivative contracts' changes in fair value are included in change in market value where the economic purpose of the contracts relates to assets. Where the economic purpose relates to income the change in fair value is included in investment income.

4.7.2. Futures contracts' fair value is determined using exchange prices at the reporting date. The fair value is the unrealised profit or loss at the current bid or offer market quoted price of the contract. Amounts due from the broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts.

4.7.3. Exchange traded options' fair value is determined using the exchange price for closing out the option at the reporting date. If a quoted market price is not available on a recognised exchange the over the counter contract options' fair value is determined by the investment manager/ bank using generally accepted pricing models such as Black-Scholes, where inputs are based on market data at the year end date.

4.7.4. The fair value of the interest rate swaps, inflation swaps, credit default swaps and total return swaps is calculated using pricing models based on the discounted future expected cashflows or the market price of comparable instruments at the year end date, if they are publicly traded, as provided by the custodian or investment managers. Interest is accrued monthly on a basis consistent with the terms of the contract. The amounts included in change in market value are the realised gains and losses on closed contracts and the unrealised gains and losses on open contracts. Net receipts or payments on swap contracts are either reported in investment income (where the economic purpose relates to income) or change in market value (where the economic purpose relates to assets).

4.7.5. The fair value of the forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

4.7.6. Repurchase agreements are accrued on the basis that the Scheme continues to recognise and value the securities that are delivered out and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount. Cash delivered under reverse repurchase agreements is recognised as an investment receivable in the financial statements. The securities received in exchange are disclosed in the financial statements, but are not included in the Scheme assets.

4.8. Foreign Currencies

Transactions in foreign currencies during the period are converted at the rate of exchange ruling at the dates of the transactions. Overseas investments and bank and short-term deposits in foreign currencies are translated at the rates of exchange ruling at the Scheme year end.

4.9. Fair Value Determination

The investments have been analysed according to the basis on which the fair value has been determined. The best evidence of fair value is a quoted price of an active security on a recognised exchange and thus falling into Level 1. The greatest amount of judgment is involved where a fair value is based on the valuation techniques and such investments fall into Level 3. The basis of the fair value hierarchy is described in more detail below:

Level 1 inputs are: The quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 1 includes exchange traded instruments in an active market, for example, quoted equities, exchange traded derivatives, exchange traded funds and, in certain circumstances, highly liquid exchange traded bonds, such as UK gilts.

Level 2 inputs are: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

Level 2 includes over the counter instruments, such as bonds and derivatives, where indicative quotes are available to market participants or where evaluated price feeds from pricing vendors are available. These quotes are not Level 1 because their indicative nature makes them less robust as estimates of the exit price than binding quotes on a recognised exchange. It also includes the prices of recent transactions to the extent the prices are observable by parties other than those involved in the transaction.

Level 3 inputs are: Unobservable inputs for the asset or liability. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

For the purpose of the accounts and in accordance with the SORP the assets have been analysed into Levels 1, 2 and 3 and the analysis is shown in Notes 20 and 34.

NOTES TO THE FINANCIAL STATEMENTS – CAA SECTION

FUND ACCOUNT FOR THE YEAR ENDED 31 December 2021

	Note	2021 £'000	2020 £'000
Contributions and Benefits			
Employer Contributions	5	12,823	13,818
Employee Contributions	5	80	103
Total Contributions and Transfers In		12,903	13,921
Benefits paid or payable	6	91,408	90,929
Leavers	7	18,274	19,583
Administrative expenses	8	2,203	2,251
Total Benefits		111,885	112,763
Net withdrawals from dealings with members		(98,982)	(98,842)
Returns on investments			
Investment income	15	84,462	85,181
Changes in market value of investments	16	34,049	126,330
Change in market value of insurance policies	16	(64,361)	3,900
Investment management expenses	9	(1,447)	(1,572)
Net returns on investments		52,703	213,839
Net (decrease)/increase in funds during the year		(46,279)	114,997
Net assets of the Section at 1 January		2,436,210	2,321,213
Net assets of the Section at 31 December		**2,389,931**	**2,436,210**

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 December 2021

	Note	2021 £'000	2020 £'000
Investment assets	16, 18		
Insurance policies		1,592,000	1,546,000
Equities		36,246	40,482
Pooled investment vehicles		698,183	796,027
Derivatives	17	2,269	6,535
Other		21,072	15,289
Members' AVCs	10	2,126	2,271
Total		2,351,896	2,406,604
Investment liabilities	16, 17		
Derivatives		(2,346)	(329)
Other		-	(11)
		(2,346)	(340)
Total net investment assets		**2,349,550**	**2,406,264**
Net current assets			
Current assets	11	40,945	30,901
Current liabilities	12	(564)	(955)
		40,381	29,946
Net assets of the Section at 31 December		**2,389,931**	**2,436,210**

5. CONTRIBUTIONS RECEIVABLE

	2021 £'000	2020 £'000
Contributions by the Employer		
Normal	5,400	6,174
Additional	6,000	6,000
Salary Sacrifice	1,201	1,380
Salary Sacrifice – member directed	222	264
	12,823	13,818
Contributions by the Members		
Normal	59	73
Additional voluntary contributions	12	30
Other – Family benefit reinstatement	9	-
	80	103
	12,903	13,921

The Employer's contributions are based on the advice received from the Scheme Actuary. The Scheme Actuary calculates what rate will be sufficient to provide for the benefits defined in the Scheme Rules. Salary sacrifice contributions relate to "Pension Sense", where members sacrifice an element of their salary, equal to their normal rate of contributions as pension contribution, which results in these contributions becoming an Employer contribution. Members may also sacrifice additional salary, over and above that required by the Schedule of Contributions. These contributions are known as "Salary Sacrifice – member directed" and replace members' additional voluntary contributions for those members in the salary sacrifice scheme.

The additional contributions are in respect of the agreement under the National Performance Plan and include £3.7m in respect of deficit contributions.

The Employer has agreed to pay additional contributions of £6m per year under the National Performance Plan. These are payable, as part of the National Performance Plan, under the Schedule of Contributions until 31 December 2027. All of the additional contributions are payable in equal monthly instalments over the period to 31 December 2027. Additional contributions amounting to £7.0m in respect of the period from 1 April 2022 to 31 May 2023 were paid early on 31 March 2022.

Some members have also made AVCs to the Scheme to secure additional benefits, whilst others have contributed to re-instate family benefits payable on their death.

6. BENEFITS PAID or PAYABLE

	2021 £'000	2020 £'000
Pensions	85,480	86,671
Pensions commuted to a lump sum	5,543	3,922
Lump sum death benefits	89	76
Taxation where lifetime or annual allowance exceeded	296	260
	91,408	90,929

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

7. LEAVERS

	2021 £'000	2020 £'000
Individual transfers out to other schemes	18,274	19,583
	18,274	19,583

8. ADMINISTRATIVE EXPENSES

	2021 £'000	2020 £'000
Administration and processing	949	1,047
Professional fees	1,195	1,148
Pension Protection Fund	59	56
	2,203	2,251

9. INVESTMENT MANAGEMENT EXPENSES

	2021 £'000	2020 £'000
Administration, management and custody	1,071	1,053
Performance measurement services	45	24
Advisory fees	331	495
	1,447	1,572

10. ADDITIONAL VOLUNTARY CONTRIBUTIONS INVESTMENTS

	2021 £'000	2020 £'000
Utmost Life and Pensions	58	52
Prudential Assurance Company Limited	123	127
Fidelity International	1,945	2,092
	2,126	2,271

Where members pay AVCs, other than buying added years, the Trustee invests the money separately from the main Fund, in the form of individual designated accounts and insurance policies. These are used to secure additional benefits on a money purchase basis. Members participating in this arrangement each receive an annual statement from the providers, made up to 31 December, confirming the amounts held in their account and the movements in the year.

See Note 16 for movements in the AVC assets during the year.

11. CURRENT ASSETS

	2021 £'000	2020 £'000
Employer contributions – normal funding	419	490
Employer contributions – additional contributions	500	500
Employer contributions – salary sacrifice	96	115
Member – normal contributions	5	6
Prepaid pensions and lump sums	5,591	5,852
Intersection balance – amounts owed by NATS Section to CAA Section	14	10
Sundry debtors/prepayments	430	317
Working cash balance	33,890	23,611
	40,945	30,901

Contributions have been paid in accordance with the Schedule of Contributions.

The intersection balance as at 31 December 2021 was settled in March 2022.

12. CURRENT LIABILITIES

	2021 £'000	2020 £'000
Investment managers' and other professional fees owing	(466)	(863)
Benefits payable	(30)	-
Tax payable	(49)	(72)
Sundry creditors	(19)	(20)
	(564)	(955)

13. RELATED PARTY TRANSACTIONS

The Civil Aviation Authority, and NATS Ltd, sponsoring Employers of the CAA and NATS Sections respectively, provide administration and processing services. The costs borne by the CAA Section of the Scheme for the year ended 31 December 2021 amounted to £1.1m (2020: £1.0m) and are included in Note 8.

The Trustee Directors are reimbursed their travel expenses and Trustee Directors who are not contributory members of the Scheme are remunerated for their services. Any fees and expenses paid to the Trustee Directors are included in Administration and Processing in Note 8.

14. COMMITMENTS AND CONTINGENT LIABILITIES

At the year end there were commitments for calls on securities totalling £nil (2020: £nil). Other than as noted, and the future obligation to pay pensions and benefits, there were no other commitments or contingent liabilities at the year end (2020: £nil).

15. INVESTMENT INCOME

	2021 £'000	2020 £'000
Income from insurance policies	83,847	83,686
Income from bond securities	-	948
Dividends from equities	654	246
Income from pooled investment vehicles	-	68
Interest on cash deposits and cash equivalents	(39)	54
Interest payments and receipts in respect of derivatives	-	179
	84,462	85,181

16. MOVEMENT IN INVESTMENTS

	Market Value at start of year £'000	Purchases £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value at end of year £'000
Insurance policies	1,546,000	110,361	-	(64,361)	1,592,000
Equities	40,482	44,449	(55,782)	7,097	36,246
Pooled vehicles	796,027	107,040	(224,071)	19,187	698,183
Derivatives	6,206	11,820	(26,016)	7,913	(77)
AVC investments (see Note 10)	2,271	169	(516)	202	2,126
	2,390,986	273,839	(306,385)	(29,962)	2,328,478
Other investment Balances:					
Cash	15,242			(350)	21,011
Other	36			-	61
Total CAA Section only investments	2,406,264			(30,312)	2,349,550

The purchases and sales shown above include £20m in respect of a transfer from growth assets to the LGIM LDI Fund in April 2021. Additionally the purchase of the new bulk annuity contract totalling £110m was funded from the LDI portfolio reflected within pooled investment vehicles. Other notable movements include a net disinvestment from the World ESG Equity Index Fund of £41m and a net investment of £40m in the Overseas Bond Index Fund. Other movements were in relation to changes made to the portfolio by BlackRock as part of their fiduciary manager role of the growth portfolio.

Cash balances at the year end comprised of a negative cash margin of (£1,877k) (2020: (£1,118k)), in addition to cash and cash equivalents of £22,888k (2020: £16,360k)

The other investment balance of £61k as at 31 December 2021 represented accrued income. The corresponding balance as at 31 December 2020 comprised of accrued income of £47k offset by pending trades of £11k.

17. DERIVATIVE ASSETS / (LIABILITIES)

	2021 Assets £'000	2021 Liab. £'000	2021 Total £'000	2020 Assets £'000	2020 Liab. £'000	2020 Total £'000
Futures	1,925	(367)	1,558	684	(242)	442
Forward foreign currency contracts	344	(1,979)	(1,635)	5,851	(87)	5,764
	2,269	(2,346)	(77)	6,535	(329)	6,206

Futures and forward foreign currency contracts at 31 December 2021 were held in the CAA Section for the purposes of efficient portfolio management and for hedging currency positions.

Futures (Exchange Traded)	**Expiry**	**Economic Exposure £'000**	**2021 Assets £'000**	**2021 Liab. £'000**
UK Equity Futures	0 – 3 months	4,342	123	-
Overseas Equity Futures	0 – 3 months	31,109	895	(184)
Overseas Fixed Income Futures	0 – 3 months	(17,422)	907	(183)
2021		18,029	1,925	(367)
2020		16,842	684	(242)

The economic exposure is the gross exposure to the relevant market. In practice contracts are settled at fair value and cash passed between the Scheme and the broker depending on whether the contract has increased or decreased in value.

Forward foreign currency contracts (Over the Counter)	**Cur. Bought**	**Cur. Sold**	**Notional £'000**	**2021 Asset £'000**	**2021 Liab. £'000**
0 – 3 Months expiry	GBP	Various*	(160,453)	327	(1,900)
0 – 3 Months expiry	Various*	GBP	(7,096)	17	(79)
2021			(167,549)	344	(1,979)
2020			(145,004)	5,851	(87)

There are multiple contracts in various currencies and the above disclosure notes the duration of the contracts.

*The currency contracts relate primarily to: Euros; US Dollars and Japanese Yen

18. INSURANCE POLICIES

During 2015, the Trustee, with the support of the CAA, agreed to insure the majority of the CAA Section's pensions in payment at that time with Rothesay Life. This insurance policy is included as an asset of the Scheme based on a valuation of the related obligations. The Scheme Actuary valued this policy, on a solvency basis, at £1,549.2m as at 31 December 2017.

In January 2017, the Trustee, again with the support of the CAA, agreed to insure a further tranche of the CAA Section's pensions in payment at that time with Pension Insurance Corporation ("PIC"). The Scheme Actuary valued this policy, on a solvency basis, at £83.0m as at 31 December 2017.

In July 2018, the Trustee, again with the support of the CAA, agreed to insure a further tranche of the CAA Section's pensions in payment at that time with PIC. The transaction involved £61.6m of assets being transferred to PIC in return for which PIC will make future payments to the Scheme in respect of the insured pensions.

In February 2021, the Trustee, again with the support of the CAA, agreed to insure a further tranche of the CAA Section's pensions in payment at that time with Legal & General Assurance Society (LGAS). The transaction involved £110.4m of assets being transferred to LGAS in return for which LGAS will make future payments to the Scheme in respect of the insured pensions. A True-up based on final agreed data which will result in a balancing payment to or from LGAS, is in the process of being agreed.

For the 31 December 2021 accounts all four of these insurance policies have been included as assets of the Scheme, based on valuations of the related obligations. The Scheme Actuary has valued these policies, on a solvency basis, as at 31 December 2021 as follows:

- £1,324.3m (2020: £1,393.7m) in respect of the Rothesay Life contract;
- £84.1m (2020: £85.9m) in respect of the first PIC contract;
- £65.4m (2020: £66.4m) in respect of the second PIC contract; and
- £118.2m (2020: £nil) in respect of the first L&G contract.

The values of the Rothesay Life and PIC contracts have fallen since 31 December 2020. This is mainly due to the impact of payments made to the Scheme. Changes in real yields, changes in longevity expectations, interest and experience have also had a smaller impact and overall these factors slightly offset the effect of the payments.

The value of the Legal & General contract has increased mainly due to falls in real yields between the date the contract was entered into and 31 December 2021. This has been partly offset by the impact of payments made to the Scheme.

A summary of the key assumptions used to calculate the value of the policy at 31 December 2021 is as follows:

Financial assumptions

Spot rates			
Term (years)	Discount rate (% p.a.)	Pension increases (RPI with a minimum of 0% p.a.) (% p.a.)	Pension increases (CPI with a minimum of 0% p.a. and a maximum of 3% p.a.) (% p.a.)
1	1.09	6.97	3.00
5	1.46	5.04	2.70
10	1.52	4.61	2.61
15	1.57	4.37	2.63
20	1.57	4.24	2.64
25	1.55	4.11	2.64
30	1.53	3.99	2.61

Demographic assumptions

Post-retirement mortality

- Males: 105% of standard tables SAPS S3 Pensioners Light Male Amounts (S3PMA_L) making allowance for future improvements in line with the CMI_2020 (Sk = 7.0, A= 0.5%) Projections and a long-term annual rate of improvement in mortality rates of 1.75% p.a.

- Females: 103% of standard tables SAPS S3 Pensioners Light Female Amounts (S3PFA_L) making allowance for future improvements in line with the CMI_2020 (Sk = 7.0, A= 0.5%) Projections and a long-term annual rate of improvement in mortality rates of 1.75% p.a.
- Age difference of dependants

  Male members are assumed to be, on average, four years older than their spouses or civil partners. Female members are assumed to be, on average, one year younger than their spouses or civil partners.
- Family Details

  100% of those members with Family Benefits are assumed to have a dependant at retirement, with an adjustment to the valuation date to allow for the probability that the dependant may have predeceased the member.

19. LEGAL & GENERAL LIABILITY DRIVEN INVESTMENT - POOLED INVESTMENT VEHICLE

	2021	**2020**
	£'000	**£'000**
Gilts	**64,690**	71,025
Index-linked gilts	**157,483**	254,834
Net position of gilts and index-linked gilts sold under repurchase agreements (i)	**43,419**	18,733
Interest rate and inflation swaps (ii)	**(99)**	2,648
Cash and liquidity funds	**4,011**	4,657
	269,504	351,897

The L&G LDI fund is a bespoke pooled arrangement where the Scheme is the only participant in the fund. The objective of the LDI is to provide a hedge against the impact of future changes in interest and inflation rates on the actuarial liabilities using gilts, index-linked gilts, total return swaps and repurchase agreements where necessary. The table above gives a breakdown of the securities within the pooled LDI investment vehicle.

As at 31 December 2021 £363.9m (2020: £320.7m) of bonds reported in the Scheme assets are held by counterparties in respect of amounts payable under repurchase contracts of £320.4m (2020: £302.0m.) These bonds are recognised in the Scheme's financial statements. In addition, in 2021 collateral of £39.5m was held by the Scheme (2020: £13.4m) in the form of cash and bonds in respect of the repurchase agreements.

(i) Repurchase Agreements

A repurchase agreement ('repo') is an agreement under which one party receives cash in exchange for securities, later repurchasing the securities within a specified time at a specified price, plus interest. A reverse repurchase agreement ('reverse repo') is an agreement under which one party disburses cash to receive securities, later reselling the securities at a specified time at a specified price, plus interest.

(ii) Swaps

Nature	**Notional Amount £'000**	**Expiration Date**	**Market Value of Assets £'000**	**Market Value of Liabilities £'000**
Inflation rate swaps	37,588	Jun 2022 - Nov 2050	1,468	(194)
Interest rate swaps	273,750	Jan 2022 - Oct 2050	854	(2,227)
Total 2021	**311,338**		**2,322**	**(2,421)**
Total 2020	**189,076**		**3,932**	**(1,284)**

The notional amount is the principal value of the swap on which the cash flows are calculated.

20. CAA SECTION ASSET ALLOCATION AT 31 December 2021

Manager	Asset value by fair value level-2021				Asset value by fair value level-2020			
	1 £m	2 £m	3 £m	Total £m	1 £m	2 £m	3 £m	Total £m
LIABILITY MATCHING ASSETS								
Insurance policies	-	-	1,592.0	1,592.0	-	-	1,546.0	1,546.0
UK Index Linked and Fixed Interest Gilts								
Legal & General IM Ltd[1,3]	-	269.5	-	269.5	-	351.9	-	351.9
TOTAL LIABILITY MATCHING ASSETS	**-**	**269.5**	**1,592.0**	**1,861.5**	**-**	**351.9**	**1,546.0**	**1,897.9**
RETURN SEEKING ASSETS								
BONDS								
BlackRock - Aquila Overseas Bond Index [1,3,4]	-	80.8	-	80.8	-	45.3	-	45.3
BlackRock – Multi Asset Credit [1,3,4]	-	145.3	-	145.3	-	129.4	-	129.4
PGIM - Global Corporate Bond [1,3,4]	-	82.9	-	82.9	-	105.9	-	105.9
Fixed Income Futures[1,3,4]	0.7	-	-	0.7	-	-	-	-
Putnam Investments Ltd[1,3,4]	-	-	-	-	0.7	-	-	0.7
Total Bonds	**0.7**	**309.0**	**-**	**309.7**	**0.7**	**280.6**	**-**	**281.3**
EQUITIES								
Schroders ISF Emerging Markets (PIV) [2,4]	-	11.5	-	11.5	-	16.0	-	16.0
Total Emerging	**-**	**11.5**	-	**11.5**	**-**	**16.0**	-	**16.0**
American Century Global Small Cap (PIV) [2,4]	-	12.1	-	12.1	-	17.0	-	17.0
BlackRock World ESG Equity (PIV) [2,4]	-	62.7	-	62.7	-	90.2	-	90.2
BlackRock Segregated Equity Factors[2,4]	23.2	-	-	23.2	27.2	-	-	27.2
BlackRock Segregated Equity Themes[2,4]	14.7	-	-	14.7	14.1	0.1	-	14.2
Equity Futures[1,2,4]	0.8	-	-	0.8	-	-	-	-
Total Global	**38.7**	**74.8**	**-**	**113.5**	**41.3**	**107.3**	**-**	**148.6**
Total Equities	**38.7**	**86.3**	**-**	**125.0**	**41.3**	**123.3**	**-**	**164.6**
ALTERNATIVE ASSETS								
BlackRock - Appreciation Strategy ICAV (PIV) [1,2,3,4]	-	33.3	-	33.3	-	40.2	-	40.2
Total Alternative Assets	**-**	**33.3**	**-**	**33.3**	**-**	**40.2**	**-**	**40.2**
TOTAL RETURN SEEKING ASSETS	**39.4**	**428.6**	**-**	**468.0**	**42.0**	**444.1**	**-**	**486.1**
TOTAL INVESTMENT ASSETS	**39.4**	**698.1**	**1,592.0**	**2,329.5**	**42.0**	**796.0**	**1,546.0**	**2,384.0**
Money Purchase AVCs[1,2,3]	-	2.1	-	2.1	-	2.3	-	2.3
Other	-	17.9	-	17.9	-	19.9	-	19.9
Total	**39.4**	**718.1**	**1,592.0**	**2,349.5**	**42.0**	**818.2**	**1,546.0**	**2,406.2**

PIV means Pooled Investment Vehicle
Derivatives include futures and forward currency exchange contracts
Risks identified with regard to PIVs are indirect
Other includes investment creditors, debtors and cash
The categorization of assets as 1, 2 and 3 is defined in Note 4.9
1 The investments that are subject to credit risk as defined in Note 39
2 The investments that are subject to other price risk as defined in Note 39
3 The investments that are subject to interest rate risk as defined in Note 39
4 The investments that are subject to currency risk as defined in Note 39

FUND ACCOUNT FOR THE YEAR ENDED 31 December 2021

	Note	2021 £'000	2020 £'000
Contributions and Benefits			
Employer Contributions	21	90,081	98,879
Employee Contributions	21	933	1,021
Total Contributions		91,014	99,900
Benefits paid or payable	22	110,989	105,831
Leavers	23	58,361	47,252
Administrative expenses	24	2,364	2,367
Total Benefits		171,714	155,450
Net withdrawals from dealings with members		(80,700)	(55,550)
Returns on investments			
Investment income	31	80,440	60,199
Changes in market value of investments	32	320,682	526,095
Investment management expenses	25	(9,767)	(9,521)
Net returns on investments		391,355	576,773
Net increase in funds during the year		310,655	521,223
Net assets of the Section at 1 January		5,502,172	4,980,949
Net assets of the Section at 31 December		**5,812,827**	**5,502,172**

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 December 2021

	Note	2021 £'000	2020 £'000
Investment assets	32, 33		
Bonds		6,982,922	6,904,381
Equities		235,270	220,063
Pooled investment vehicles		1,117,871	958,504
Property	32, 33	147,787	228,126
Derivatives		75,784	144,397
Other		252,032	301,435
Members' AVCs	26	6,159	5,990
Total		8,817,825	8,762,896
Investment liabilities	33		
Derivatives		(64,639)	(26,963)
Other	32	(2,970,507)	(3,279,035)
		(3,035,146)	(3,305,998)
Total net investment assets		**5,782,679**	**5,456,898**
Net current assets			
Current assets	27	34,480	52,861
Current liabilities	28	(4,332)	(7,587)
		30,148	45,274
Net assets of the Section at 31 December		**5,812,827**	**5,502,172**

21. CONTRIBUTIONS RECEIVABLE

	2021 £'000	2020 £'000
Contributions by the Employer		
Normal	56,302	62,304
Deficit repair	26,002	25,485
Salary Sacrifice	7,633	8,405
Augmentation	144	2,685
	90,081	98,879
Contributions by the Members		
Normal	36	39
Additional voluntary contributions	859	982
Other – family benefit reinstatement	38	-
	933	1,021
	91,014	99,900

The Employer's contributions are based on the advice received from the Scheme Actuary. The Scheme Actuary calculates what rate will be sufficient to provide for the benefits defined in the Scheme Rules. As agreed by the Trustee and NATS, deficit repair contributions commenced in January 2011. The current Schedule of Contributions following the completion of the latest actuarial valuation and agreed on 15 September 2021 allows for deficit contributions of £2,166,832 per month increasing by 2.37% each 1 January (from 2022) until 31 December 2022; from 1 January 2023 to 31 December 2029 of £2,266,667 per month for 2023 and increasing by 2.37% each 1 January (from 2024).

Salary sacrifice contributions relate to "SMART Pensions". Under this scheme, members sacrifice an element of their salary, equal to their normal rate of contributions as pension contribution, which results in these contributions becoming an Employer contribution.

Augmentation contributions by the Employer cover reimbursement to the Scheme for the cost of enhancements to members' pension benefits associated with early retirement.

Some members have also made AVCs to the Scheme to secure additional benefits, whilst others have contributed to reinstate family benefits payable on their death.

22. BENEFITS PAYABLE

	2021 £'000	2020 £'000
Pensions	91,073	87,197
Pensions commuted to a lump sum	16,700	15,361
Lump sum death benefits	88	862
Taxation where lifetime or annual allowance exceeded	3,128	2,411
	110,989	105,831

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

23. LEAVERS

	2021 £'000	2020 £'000
Individual transfers out to other schemes	58,361	47,252

24. ADMINISTRATIVE EXPENSES

	2021 £'000	2020 £'000
Administration and processing	1,006	1,046
Professional fees	1,236	1,186
Pension Protection Fund	122	135
	2,364	2,367

25. INVESTMENT MANAGEMENT EXPENSES

	2021 £'000	2020 £'000
Administration, management and custody	9,351	8,793
Performance measurement services	63	75
Advisory fees	353	653
	9,767	9,521

26. ADDITIONAL VOLUNTARY CONTRIBUTIONS INVESTMENTS

	2021 £'000	2020 £'000
Utmost Life and Pensions	10	23
Prudential Assurance Company Limited	298	387
Fidelity International	5,851	5,580
	6,159	5,990

Where members pay AVCs, other than buying added years, the Trustee invests the money separately from the main Fund, in the form of individual designated accounts and insurance policies. These are used to secure additional benefits on a money purchase basis. Members participating in this arrangement each receive an annual statement from the providers, made up to 31 December, confirming the amounts held in their account and the movements in the year.

See Note 32 for the movement in AVCs during the year.

27. CURRENT ASSETS

	2021 £'000	2020 £'000
Employer contributions – normal funding	4,703	4,735
Employer contributions – deficit repair	2,167	2,117
Employer contributions – salary sacrifice	634	643
Member – normal contributions	3	3
Member – additional voluntary contributions	38	36
Prepaid pensions and lump sums	6,212	6,029
Sundry debtors	1,132	1,273
Working cash balance	19,591	38,025
	34,480	52,861

Contributions receivable at the end of the year were subsequently paid in accordance with the Schedule of Contributions.

28. CURRENT LIABILITIES

	2021 £'000	2020 £'000
Investment managers' and other professional fees owing	(2,608)	(4,706)
Benefits payable	-	(507)
Intersection balance – amounts owed by NATS Section to CAA Section	(14)	(10)
Tax payable	(1,706)	(2,360)
Sundry creditors	(4)	(4)
	(4,332)	(7,587)

The intersection balance at 31 December 2021 was settled in March 2022.

29. RELATED PARTY TRANSACTIONS

The Civil Aviation Authority, and NATS Ltd, sponsoring employers of the CAA and NATS Sections respectively, provide administration and processing services. The costs borne by the NATS Section of the Scheme for the year ended 31 December 2021 amounted to £1.0m (2020: £1.0m) and are included in Note 24.

The Trustee Directors are reimbursed their travel expenses and Trustee Directors who are not contributory members of the Scheme are remunerated for their services. Any fees and expenses paid to the Trustee Directors are included in Administration and Processing in Note 24.

30. COMMITMENTS AND CONTINGENT LIABILITIES

At the year end there were commitments for calls on securities totalling £118.0m (2020: £3.5m). Other than as noted, and the future obligation to pay pensions and benefits, there were no other commitments or contingent liabilities at the year end (2020: £nil). Outstanding commitments to cover collateralised positions for swap derivatives are shown under Note 33.

31. INVESTMENT INCOME

	2021 £'000	2020 £'000
Income from bond securities	54,599	39,005
Dividends from equities	3,525	1,844
Income from pooled investment vehicles	4,465	3,335
Net rents from properties	10,218	11,543
Interest on cash deposits and cash equivalents	253	359
Income from derivatives	7,338	4,105
Income from securities lending	42	8
	80,440	60,199

32. MOVEMENT IN INVESTMENTS

	Market Value at start of year £'000	Purchases £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value at end of year £'000
Bonds	6,904,381	2,100,656	(2,011,755)	(10,360)	6,982,922
Equities	220,063	266,638	(296,231)	44,800	235,270
Pooled vehicles	958,504	328,157	(340,487)	171,697	1,117,871
Property	228,126	-	(121,877)	41,538	147,787
Derivatives	117,434	200,449	(359,492)	52,754	11,145
AVC investments (see Note 26)	5,990	425	(1,078)	822	6,159
	8,434,498	2,896,325	(3,130,920)	301,251	8,501,154
Other investment balances:					
Cash	260,152			19,431	204,284
Amounts payable under repurchase agreements	(3,046,965)			-	(2,923,954)
Other	(190,787)			-	1,195
Total NATS Section only investments	5,456,898			320,682	5,782,679

The purchases and sales shown above include £250m in respect of transfers from growth assets to the LDI portfolio in April 2021, along with a further £100m transferred from the LDI portfolio to growth assets in October 2021. Notable movements in pooled vehicles include a net £50m disinvestment from the World ESG Equity index fund and £97m invested in the Diversified Opportunities ESG Hedge Fund. Initial capital calls of £20m and £19m were made on the Franklin Templeton and GRP III infrastructure funds respectively. Other movements were in relation to changes made to the portfolio by BlackRock as part of their fiduciary manager role of the growth portfolio.

Cash balances at the year end comprised of a negative cash margin of (£10,188k) (2020: (£3,401k)), in addition to cash and cash equivalents of £214,472k (2020: £263,553k).

Of the £122m sales proceeds for property £91m was reinvested directly within the growth portfolio, with the remaining amounts used to fund working cash requirements.

Other investment balances as at 31 December 2021 comprised of net amounts due to brokers of (£11,053k) (2020: (£201,698k)), accrued income owed to the Scheme of £21,090k (2020: £21,752k) along with other net investment amounts owing of (£8,842k) (2020: (£10,841k)).

As at 31 December 2021 £2,458m (2020: £2,634m) of bonds reported in the Scheme assets are held by counterparties in respect of amounts payable under repurchase contracts of £2,279m (2020: £2,526m) for the NATS Section. These bonds are recognised in the Scheme's financial statements. In addition, net collateral of £160.6m (2020: £70.4m) for the NATS Section in the form of cash and bonds is held by the Scheme in respect of the liability under the repurchase agreements and the value of bonds received under reverse repurchase agreements amounted to £647.2m (2020: £628.6m). These bonds are not recognised in the financial statements.

33. DERIVATIVE ASSETS / (LIABILITIES)

		2021			2020	
	Assets £'000	**Liab. £'000**	**Total £'000**	**Assets £'000**	**Liab. £'000**	**Total £'000**
Futures	11,194	(3,138)	8,056	5,198	(1,940)	3,258
Options	150	(13)	137	524	(189)	335
Swaps	37,041	(31,074)	5,967	28,404	(15,071)	13,333
Forward foreign currency contracts	27,399	(30,414)	(3,015)	110,271	(9,763)	100,508
	75,784	(64,639)	11,145	144,397	(26,963)	117,434

Options and forward foreign currency contracts at 31 December 2021 were held in the NATS Section for the purposes of efficient portfolio management and for hedging currency positions. Swaps were in the main held as part of the LDI mandate in order to hedge exposure to changes in interest rates and inflation.

Futures (Exchange Traded)			**2021**	
	Expiry	**Economic exposure £'000**	**Assets £'000**	**Liab. £'000**
UK equities futures	0 – 3 months	32,914	937	-
Overseas equity futures	0 – 3 months	136,668	3,227	(1,305)
UK fixed Income futures	0 – 3 months	874	2	(4)
Overseas fixed income futures	0 – 3 months	(75,609)	7,028	(1,828)
Overseas cash futures	0 – 3 months	(1,538)	-	(1)
2021		93,309	11,194	(3,138)
2020		57,460	5,198	(1,940)

The economic exposure is the gross exposure to the relevant market. In practice contracts are settled at fair value and cash passed between the Scheme and the broker depending on whether the contract has increased or decreased in value.

Options		**2021**	
Underlying Investment	**Expiry**	**Assets £'000**	**Liab. £'000**
Overseas equities Put option	6 months	150	(13)
2021		150	(13)
2020		524	(189)

Options are used as part of the BlackRock Multi-Asset Credit portfolio as part of efficient portfolio management.

SWAP CONTRACTS

Legal & General use swaps to attain hedging for interest and/or inflation rates in accordance with the Liability Driven Investment strategy trigger rates and as part of the Credit Default Swaps overlay mandate.

		2021	
Type of contract	**Notional Value £'000**	**Assets £'000**	**Liab. £'000**
Interest rate swaps	1,493,281	9,374	(29,885)
Credit default swaps	(123,232)	2,422	(124)
Inflation swaps	381,040	25,245	(528)
Total Return swaps	81,056	-	(537)
2021	1,832,145	37,041	(31,074)
2020	1,260,212	28,404	(15,071)

		2021	
Expiration	**Notional Value £'000**	**Assets £'000**	**Liab. £'000**
Up to 1 year	513,656	3,191	(1,066)
1 to 5 years	1,006,159	6,778	(15,294)
5 to 10 years	(41,862)	2,201	(2,480)
10 to 15 years	179,830	8,775	(6,705)
15 to 20 years	67,470	3,722	(371)
Over 20 years	106,891	12,374	(5,158)
2021	1,832,144	37,041	(31,074)
2020	1,260,212	28,404	(15,071)

Collateral of £0.2m was held (2020: £2.2m pledged) by the Scheme in respect of OTC total return swaps managed by Legal & General. The collateral was in the form of bonds and cash.

Forward foreign currency contracts				2021	
(Over the Counter)	**Cur. Bought**	**Cur. Sold**	**Notional £'000**	**Assets £'000**	**Liab. £'000**
0 – 3 months	GBP	Various*	(2,977,301)	27,022	(27,042)
0 – 3 months	Various*	GBP	(287,414)	377	(3,372)
2021			(3,264,715)	27,399	(30,414)
2020			(4,537,890)	110,271	(9,763)

The forward foreign currency contracts are held to hedge against foreign currency exposure. As there are multiple contracts in various currencies, the above disclosure only notes the duration of the contracts. It is impractical to list in detail all of the currencies bought and sold.

*The various currency contracts primarily relate to: Euros; Japanese Yen and US Dollars.

34. NATS SECTION ASSET ALLOCATION AT 31 December 2021

Manager	Asset value by fair value level-2021				Asset value by fair value level-2020			
	1	2	3	Total	1	2	3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
LIABILITY MATCHING ASSETS								
FIXED INTEREST (including repurchase agreements)								
Legal & General IM Ltd (UK ILGs)[1,3]	-	1,776.9	-	1,776.9	-	1,514.5	-	1,514.5
Total Fixed Interest	**-**	**1,776.9**	**-**	**1,776.9**	**-**	**1,514.5**	**-**	**1,514.5**
TOTAL LIABILITY MATCHING ASSETS	**-**	**1,776.9**	**-**	**1,776.9**	**-**	**1,514.5**	**-**	**1,514.5**
RETURN SEEKING ASSETS								
BONDS								
BlackRock - Aquila Overseas Bond Index [1,3,4]	-	786.8	-	786.8	-	757.5	-	757.5
BlackRock Multi-Asset Credit [1,3,4]	-	904.5	-	904.5	-	918.6	-	918.6
PGIM - Global Corporate Bond [1,3,4]	-	427.6	-	427.6	6.0	420.5	-	426.5
PIMCO - Investment Grade Credit [1,3,4]	-	295.8	-	295.8	2.7	284.6	-	287.3
Fixed Income Futures	5.2	-	-	5.2	-	-	-	-
Putnam Investments Ltd[1,3,4]	-	-	-	-	1.3	-	-	1.3
Total Bonds	**5.2**	**2,414.7**	**-**	**2,419.9**	**10.0**	**2,381.2**	**-**	**2,391.2**
EQUITIES								
Schroders ISF Emerging Markets [2,4]	-	64.3	-	64.3	-	86.2	-	86.2
Total Emerging	**-**	**64.3**	**-**	**64.3**	**-**	**86.2**	**-**	**86.2**
American Century Global Small Cap [2,4]	-	92.8	-	92.8	-	92.0	-	92.0
BlackRock - World ESG Equity [2,4]	-	516.1	-	516.1	-	470.0	-	470.0
Black Rock Segregated Equity Factors [2,4]	152.7	-	-	152.7	149.1	0.4	-	149.5
Black Rock Segregated Equity Themes [2,4]	90.9	-	-	90.9	75.8	0.7	-	76.5
Legal & General IM Ltd – Fundamental (PIV)[2,4]	-	0.5	-	0.5	-	0.7	-	0.7
Legal & General IM Ltd – Defensive (PIV) [2,4]	-	0.7	-	0.7	-	0.8	-	0.8
Equity Futures	2.5	-	-	2.5	-	-	-	-
Total Global	**246.1**	**610.1**	**-**	**856.2**	**224.9**	**564.6**	**-**	**789.5**
Total Equities	**246.1**	**674.4**	**-**	**920.5**	**224.9**	**650.8**	**-**	**875.7**

NOTES TO THE FINANCIAL STATEMENTS – NATS SECTION

Manager	Asset value by fair value level-2021 1 £m	2 £m	3 £m	Total £m	Asset value by fair value level-2020 1 £m	2 £m	3 £m	Total £m
ALTERNATIVE ASSETS								
CBRE Investors (PIV and direct)[2,4]	-	-	148.7	148.7	-	-	228.2	228.2
Total Property	**-**	**-**	**148.7**	**148.7**	**-**	**-**	**228.2**	**228.2**
Blackstone AAM (PIV)[1,2,3,4]	-	-	116.6	116.6	-	-	108.9	108.9
JP Morgan AAM (PIV)[1,2,3,4]	-	-	2.6	2.6	-	-	14.3	14.3
BlackRock Diversified Opps[1,2,3,4]	-	-	97.0	97.0	-	-	-	-
Total Hedge Funds	**-**	**-**	**216.2**	**216.2**	**-**	**-**	**123.2**	**123.2**
VenCap International Plc (PIV)[2,4]	-	-	145.6	145.6	-	-	113.1	113.1
Morgan Stanley AIP (PIV)[2,4]	-	-	4.4	4.4	-	-	9.1	9.1
Paul Capital Partners (PIV)[2,4]	-	-	5.8	5.8	-	-	5.9	5.9
Axiom Asia PCF (PIV)[2,4]	-	-	9.8	9.8	-	-	10.9	10.9
Global Renewable Power III	-	-	16.2	16.2	-	-	-	-
Franklin Templeton Global[2,4] Infrastructure Fund[2,4]	-	-	19.9	19.9	-	-	-	-
Total Private Equity	**-**	**-**	**201.7**	**201.7**	**-**	**-**	**139.0**	**139.0**
Total Alternative Assets	**-**	**-**	**566.6**	**566.6**	**-**	**-**	**490.4**	**490.4**
TOTAL RETURN SEEKING ASSETS	**251.3**	**3,089.1**	**566.6**	**3,907.0**	**234.9**	**3,032.0**	**490.4**	**3,757.3**
TOTAL INVESTMENT ASSETS	**251.3**	**4,866.0**	**566.6**	**5,683.9**	**234.9**	**4,546.5**	**490.4**	**5,271.8**
Money Purchase AVCs[1,2,3]	-	6.2	-	6.2	**-**	6.0	-	**6.0**
Other	-	92.6	-	92.6	-	179.1	**-**	179.1
Total	**251.3**	**4,964.8**	**566.6**	**5,782.7**	**234.9**	**4,731.6**	**490.4**	**5,456.9**

PIV means Pooled Investment Vehicle
Derivatives includes futures and forward currency contracts
Risks identified with regard to PIVs are indirect
Other includes investment creditors, debtors and cash
The categorization of assets as 1, 2 and 3 is defined in Note 4.9
1 The investments that are subject to credit risk as defined in Note 39
2 The investments that are subject to other price risk as defined in Note 39
3 The investments that are subject to interest rate risk as defined in Note 39
4 The investments that are subject to currency risk as defined in Note 39

35. INVESTMENT DISCLOSURES

POOLED INVESTMENT VEHICLES

Certain pooled investment vehicles, whose underlying assets are invested into equities, bonds or property, have been included in the relevant asset class to which they relate, as these investments generate returns based on the underlying assets type (as disclosed in Notes 20 and 34).

EMPLOYER RELATED INVESTMENTS

There were no Employer related investments during the year or at the year end (2020: £nil).

36. TRANSACTION COSTS

Transaction costs incurred in the year amounted to £3.1m (2020: £0.5m). In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. These have not been separately reported by the pooled investment manager and therefore no disclosure of the amounts included in the pooled investment vehicles is available. Transaction costs are analysed by main asset class and type of cost in the table below:

	Fees	Commission	Taxes	Total 2021
	£'000	**£'000**	**£'000**	**£'000**
Equities	525	72	-	597
Fixed Income	29	-	-	29
Property	2,499	-	-	2,499
2021	**3,053**	**72**	**-**	**3,125**

	Fees	Commission	Taxes	Total 2020
	£'000	**£'000**	**£'000**	**£'000**
Equities	172	166	-	338
Fixed Income	-	10	-	10
Property	159	-	-	159
2020	**331**	**176**	**-**	**507**

37. SECURITIES LENDING

CAAPS ceased participation in the Northern Trust lending programme in July 2020. The programme lent certain equities and bonds to approved borrowers. CAAPS commenced participation in BlackRock's securities lending programme in May 2021.

At the year end the value of the quoted equities and bonds on loan were £232m (2020: £nil) and £2m (2020: £nil) respectively, in exchange for which the custodian, on behalf of the Scheme, held collateral worth £258m (2020: £nil). The income earned this year was £42,487 (2020: £8,479).

38. PROPERTY

	2021 £'000	2020 £'000
Freehold Property	108,475	172,730
Long Leasehold Property	39,300	55,360
	147,775	228,090

The above property values exclude the investments in pooled funds of £12,000 (2020: £36,000).

The properties are valued annually at fair value by Knight Frank LLP, a member firm of the Royal Institute of Chartered Surveyors, in accordance with the Royal Institution of Chartered Surveyors' Valuation - Professional Standards January 2014 Global and UK edition.

The Scheme holds a number of interests in UK commercial properties. There are no restrictions on the ability to realise the properties, the remittance of income or disposal proceeds. The properties are however illiquid as they would take several months to find a suitable buyer to purchase them at fair value. Tenants who occupy the properties are responsible for repairs and maintenance and dilapidations at the end of their lease. The valuation was undertaken on this basis. There is currently a disposal programme in place to realise the direct property assets over the next few years.

The investment properties are held through a subsidiary undertaking, Caviapen Trustees Limited, which has been consolidated in accordance with the Scheme's accounting policies. This undertaking has no material assets and liabilities other than the properties.

39. RISK DISCLOSURES

The investment objective and investment strategy for the NATS Section and the CAA Section are explained in the Trustee's Report under the heading Investment Strategy. The Note below covers investment risks including market and credit investment risks and explains the Trustee's approach to these risks and where those risks are mitigated. Market risk includes currency risk, interest rate risk and other price risk.

The Trustee determines the investment strategy for the NATS Section and CAA Section after taking advice from the investment adviser. The Scheme has exposure to these inherent risks because of the investments it makes in following the investment strategy. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives are set out in the Statement of Investment Principles for the Scheme and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers. The Trustee receives regular reports from its investment managers confirming that the agreed guidelines have been adhered to.

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Investments subject to credit risk are bonds, derivatives in bonds, swaps (including credit default swaps), forward foreign exchange contracts, pooled funds invested in bonds, and cash. Credit risk affects assets identified in Notes 20 and 34 for the CAA Section and NATS Section respectively.

Credit risk is managed by investment in a diversified suite of bond managers; daily margining of bond derivatives; and investment in cash funds with high credit quality. Credit risk is managed by the Scheme's investment managers through diligently assessing the counterparties the Scheme transacts with.

NOTES TO THE FINANCIAL STATEMENTS – INVESTMENTS

The Scheme invests in directly held gilts managed by Legal & General for the NATS Section and via a pooled fund for the CAA Section. The NATS Section invests directly in overseas bonds, multi asset credit and investment grade assets, while the CAA Section invests in the same fixed income assets through pooled funds. The value of these funds for the CAA Section and the NATS Section are set out in Notes 20 and 34 respectively. The active management of the investment mandate mitigates the risk of credit defaults. Pooled funds, AVC investments and insurance policies are unrated due to the nature of the investments. The CAA Section invests in a bespoke Pooled LDI fund in which the Scheme is the only participant within the fund. The value of the LDI portfolio as at 31 December 2021 was £269.5m (11.5%) (2020: £351.9m (14.5%)).

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicle, cash funds and the hedge funds, although the proportion subject to credit risk within the hedge funds will depend on the investments held at the time.

Over the counter (OTC) derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements as set out on page 52 in Note 33. Credit risk also arises on OTC forward foreign currency contracts. There are no collateral arrangements for these contracts, but all counterparties are required to be investment grade. This is the position at the year end and at the comparative year end.

The Scheme makes use of repurchase (repos) arrangements which gives rise to credit risk through counterparty exposure. The credit risk for repos is reduced by collateral arrangements as set out on page 44 in Note 19 and on page 51 in Note 32.

The Scheme has been participating in the BlackRock securities lending programme from May 2021. This gave rise to credit risk through counterparty exposure. The credit risk was reduced by collateral arrangements as set out on page 55 in Note 37.

The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager with the assistance of the investment consultant.

Pooled investment arrangements used by the NATS Section comprise unit linked insurance contracts of £1m (2020: £2m), shares in limited partnerships of £201m (2020: £139m) and units in open ended investment funds of £916m (2020: £771m). Pooled investment arrangements used by the CAA Section comprise shares in liability driven qualifying investment fund of £269.5m (2020: £352m) and units in open ended investment funds of £428.7m (2020: £269m).

The CAA Section invests in Bulk Annuity Contracts with Rothesay Life, PIC and LGAS and the Trustee receives six-monthly reports from Aon to assist in the monitoring of the financial position of the insurers. The Trustee carried out extensive due diligence assessments of Rothesay, PIC and LGAS noting that the contracts are fully eligible for the Financial Services Compensation Scheme and that Rothesay Life, PIC and LGAS are regulated by the Prudential Regulation Authority. The Trustee continues to monitor the solvency and capital adequacy of the insurers, receiving updates from the investment consultant Aon during the year.

OTHER PRICE RISK

Other price risk is the risk that the investment values or cash flows fluctuate due to general changes in prices. Investments subject to other price risk include equities, derivatives in equities, property, private equity and pooled funds investing in equities or property. Hedge funds are also subject to other pricing risk however the extent will vary depending on the nature of the underlying investments.

Other price risk arises principally in relation to the Scheme's return seeking portfolio which affects assets identified in Notes 20 and 34 for the CAA Section and NATS Section respectively. It is managed through the diversification of assets to mitigate the volatility of price movements.

NATS Section

The Trustee has set a target asset allocation of 70% (2020: 70%) of investments being held in return seeking assets for the NATS Section. As shown in Note 34 on pages 53 and 54, as at 31 December 2021 £3,907.0m (69%) (2020: £3,746.1m (72%)) of the portfolio was held in return seeking assets, based on the fair value of the investments. This variance from the target asset allocation is within an acceptable range and will vary depending on normal market movements. A rebalancing policy is in place which allows for allocation drifts of +/-5% which is monitored on a monthly basis.

During 2020 the new investment strategy for the NATS Section was put in place which reduced exposure to equities. The equities and alternative investments part of the portfolio is subject to other price risk (the remaining part of the return seeking portfolio is held in bonds). As at 31 December 2021, the exposure to equities and alternative assets as part of the return seeking portfolio was £1,487.1m (38%) (2020: £1,354.9m (36%)).

CAA Section

The CAA Section holds the majority of its investments in Bulk Purchase Annuities with Rothesay Life, PIC and L&G. As shown in Note 20 on page 45 the exposure to the bulk annuity contracts at 31 December 2021 was £1,592.0m (67.8%) (2020: £1,546.0m (64%)), based on the fair value of the investments.

As at 31 December 2021, the exposure to equities and alternative assets as part of the return seeking portfolio was £158.3m (33.8%) (2020: £204.8m (42%)).

Hedge funds are also subject to some other pricing risk; however the extent will vary depending on the nature of the underlying investments.

INTEREST RATE AND INFLATION RATE RISK

Interest rate risk is the risk that the investment values or cash flows fluctuate due to changes in interest rates. Investments subject to interest rate risk include bonds, derivatives in bonds, swaps, pooled funds investing in bonds, and cash. Interest rate risk arises principally in relation to the Scheme's liability matching portfolio which affects assets identified in Notes 20 and 34. It is managed by the implementation of hedging through a liability driven investment mandate which includes bonds, swaps and gilt repos which, in part, offset the interest rate and inflation exposure in the liabilities. Under this strategy, if interest rates fall, the value of liability driven investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the liability driven investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. Inflation risk is hedged to manage inflation risk associated with pension increases.

NATS Section

The Trustee has set a target asset allocation of 30% of investments being held in the liability matching assets of the NATS Section, although the actual asset allocation will fluctuate due to market movements. As shown in Note 34 on pages 53 and 54, as at 31 December 2021 £1,776.9m (31%) (2020: £1,514.5m (28%)) of the portfolio was held in the liability matching assets, based on the fair value of the investments.

The Trustee has agreed to a hedging level ratio of 75% of interest rate and inflation exposure compared to the Long-Term Funding Target liabilities. As at 31 December 2021 the hedge ratio was 75% (2020: 74%) for interest rate exposure and 75% (2020: 74%) for inflation exposure.

The NATS Section also holds high yield bonds, hedge funds and cash in the return seeking portfolio, which are subject to interest rate risk. The risk within hedge funds will vary depending upon their portfolio at the time. These managers will consider the risk and expected reward when determining which investments to invest in.

CAA Section

The Trustee set a de-risking trigger matrix based on funding levels in November 2020. When the funding level of 92% is achieved the strategy is to hold 64% of the non-insured assets in return seeking assets. As at 31 December 2021 this de-risking trigger had not been activated and the strategy therefore remained to hold 70% of the non-insured assets in return seeking assets.

As shown in Note 20 on page 45, as at 31 December 2021 £468.0m (20%) (2020: £486.1m ((20%)) was held in return seeking assets compared to total Scheme investment assets including insured assets. As shown in Note 20 on page 45, as at 31 December 2021 £1,861.5m (80%) (2020: £1,897.9m (79%)) of the portfolio was held in the liability matching assets, based on the fair value of the investments including insured assets.

In 2020, the Trustee and the CAA agreed that the CAA Section would target a hedge ratio of 90% of interest and inflation rates. As at 31 December 2021 the hedge ratio was 90% (2020: 85%) for interest rate exposure and 90% (2020: 83%) for inflation exposure.

The CAA Section also holds investment grade and high yield bonds, hedge funds and cash in the return seeking portfolio, shown in Note 20 on page 45, which are subject to interest rate risk. The risk within hedge funds will vary depending upon their portfolio at the time. The investment managers will consider the risk and expected reward when determining which investments to invest in.

CURRENCY RISK

Currency risk is the risk that the investment values or cash flows of any instrument or pooled fund fluctuate due to changes in foreign currencies; investments subject to currency risk include investment denominated in foreign currencies and pooled funds investments denominated in foreign currencies. Currency risk principally arises in relation to the Scheme's overseas equities which affects assets identified in Notes 20 and 34. It is managed by reducing the translation risk of overseas investment by hedging back into sterling. The neutral position for the developed equity portfolio is 70% (2020: 70%) and the neutral position for the total portfolio is 80% (2020: 80%). BlackRock has a discretion of +/- 10% around the neutral position.

CONCENTRATION OF INVESTMENTS

The investments below represent more than 5% of the Net Assets of the CAA Section of the Scheme at the year end.

	2021 £m	**%**	**2020 £m**	**%**
Bulk Annuity Contract – Rothesay Life	**1,324.3**	**55.4**	1,546.0	64.3
LGIM Pooled Bond Fund	**269.5**	**11.3**	351.9	14.6
BlackRock – Multi Asset Credit	**145.4**	**6.1**	129.4	5.4

NOTES TO THE FINANCIAL STATEMENTS – INVESTMENTS

The investments below represent more than 5% of the Net Assets of the NATS Section of the Scheme at the year end.

	2021 £m	%	2020 £m	%
Legal & General IM Ltd (UK ILGs)	**1,773.9**	**30.5**	1,514.5	27.8
BlackRock Multi-Asset Credit	**904.5**	**15.6**	918.6	16.9
BlackRock - Aquila Overseas Bond Index	**786.8**	**13.5**	757.5	13.9
BlackRock - World ESG Equity	**526.1**	**9.1**	470.0	8.6
PGIM - Global Corporate Bond	**427.6**	**7.4**	426.5	7.8
PIMCO - Investment Grade Credit	**295.8**	**5.1**	287.3	5.3

40. POST YEAR END EVENTS

There have been no material post year events identified up to the date of approval of these financial statements that are required to be disclosed.

APPENDIX A – IMPLEMENTATION STATEMENT

From 1 October 2020 pension schemes are required to produce an implementation statement. For this Scheme, this covers details of how and the extent to which, in the opinion of the Trustee, the Statement of Investment Principles (SIP) has been followed in relation to voting by the Scheme's investment managers and the Trustee's engagement in this area during the financial year.

For 2021, two SIPs were in place for each Section over the course of the year to 31 December 2021. The SIP was updated in November 2021 primarily to reflect the increasing significance of climate change as a strategic risk and TCFD Statement requirements. The Sections may amend their SIPs independently to reflect changes to their investment strategies.

SIP policies on voting and responsible investing – Both Sections
The Trustee recognises that good stewardship will enhance shareholder value over the long term.

Decisions relative to the governance of the companies in which the Section invests have been delegated to the Section's asset managers. The Trustee expects the Section's investment managers to use their influence as major institutional investors to carry out the Trustee's rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change. The Trustee requires that voting rights are exercised and any dialogues with management are effected in the best financial interests of the beneficiaries.

Within the growth portfolio, the Trustee delegates the ongoing monitoring of underlying asset managers to the fiduciary manager, BlackRock. BlackRock monitors the underlying asset managers' Stewardship activity and takes this into account in the selection and retention of underlying asset managers.

All managers are required to report at least annually to the CAAPS Investment Executive (CIE) on their engagement and voting policies and their implementation. This includes indicating the overall level of voting activity, and details of the extent to which they have not voted in line with the stated policy.

Where practicable, the engagement information received will, amongst other information, also provide detail on how company engagements are prioritised, examples of engagement with companies the Section invests in, examples of escalation steps taken where engagement has been unsuccessful, and examples of company engagement with respect to climate change risk mitigation.

Where practicable, the transparency for voting will include voting actions and rationale with relevance to the Section, in particular where: votes were cast against management; votes against management generally were significant; votes were abstained; and voting differed from the stated voting policy of the manager. Where securities lending is carried out, the Trustee expects the fiduciary manager, BlackRock to assess the benefits of voting against the cost of recalling securities.

Where significant concerns are identified from such engagement information received or otherwise, the Trustee will engage with BlackRock who in turn is able to engage with any underlying asset managers or other stakeholders for more information and seek to encourage steps to improve their stewardship policies and/or implementation level of stewardship policies. Where any significant concerns are not addressed in a satisfactory manner with the underlying asset managers, BlackRock and the Trustee may choose to replace the manager so as to bring about the best long-term outcome for the Scheme.

In setting the Section's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Section and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.

Investment managers are expected to take account of any financial factors, including relevant ESG factors, affecting their valuation of the investments, on the Section's behalf.

The Trustee recognises that integrating ESG factors into the investment process is beneficial to the achievement of its long-term financial objectives and that climate change could materially impact on returns within the timeframe of concern to the Section. During the course of the year the Trustee has reviewed the extent to which ESG Factors are integrated into the investment process of all its liquid asset managers. The findings of this review have been discussed with the fiduciary manager BlackRock and are being reflected in the way in which the portfolio is being evolved.

In setting and implementing the Section's investment strategy the Trustee does not explicitly take into account the views of the Section's members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

Assessment of whether the above policies were met during the year

During the year, the Trustee has challenged the investment managers' views on Responsible Investing and, in particular, whether they take into consideration ESG factors when exercising their voting rights. The Trustee has reviewed the investment managers' voting activities throughout the year and are satisfied that the Scheme's investment managers have carried out their investments in line with the above SIP Policies. The Trustee has:

- Held meetings with BlackRock to understand their views on ESG and to ensure that ESG factors are taken into consideration when investing and voting.
- For both sections continue to invest in BlackRock's passive developed global equity fund which is indexed against a low-carbon benchmark, thus reducing both Sections' exposure to underlying assets exhibiting high carbon intensity (relative to a market capitalisation weighted benchmark).
- For the NATS Section invested in three new alternative funds all with an ESG focus. These were a global renewable power fund, global infrastructure fund and a diversified opportunities hedge fund with an ESG screen.
- With the support of the Scheme's investment consultant Aon, taken steps to produce its first TCFD statement, which reports on Scheme total greenhouse gas emissions, carbon footprint as well as data quality. BlackRock have been prominent in urging companies to provide TCFD data and clarity of transition plans. These are two essential components for us to position the portfolio and make TCFD reporting a positive contribution to combating climate change.
- Through delegated authority to the Investment and Funding Committee and CAAPS Investment Executive, reviewed the expenses of the portfolio and the alignment of the investment managers with the Trustee's objectives.
- Reviewed BlackRock's Engagement Report which detailed:
  - Their 2020 Sustainability Report which included details of:
    - ➢ Their beliefs on sustainability and how they view it as being core to value creation for clients.
    - ➢ Their approach to climate issues, which is to focus their efforts on sectors and companies where climate change poses the greatest material risk to their clients' investments. At the end of the 2021 BlackRock specifically adjusted their asset allocation within the growth portfolio on basis of ESG adjusted Capital Market Assumptions.
    - ➢ How they have placed companies on watch including their statement: – "Of the 244 companies we identified as not making sufficient progress in 2020, we have placed 191 companies 'on watch' regarding climate disclosure. While these companies' disclosures are insufficient based on our assessment today, and as such raise concerns about long-term value creation, we did not take voting action this year. We expect each of these companies to make substantial progress prior to the 2021 annual meeting or risk our voting action against boards and management in 2021." BlackRock took voting action against the remaining 53 companies.

- Company engagement on investments specific to the Scheme, covering topics including:
  - Climate Risk Management
  - Environmental Impact Management
  - Operational Sustainability
  - Human Capital Management
  - Social Risks and Opportunities
  - Board Composition & Effectiveness
  - Business Oversight/Risk Management
  - Corporate Strategy
  - Executive Management
  - Governance Structure
  - Remuneration
- Details of their engagement priorities which are Board Quality; Environmental Risks and Opportunities; Corporate Strategy and Capital Allocation; Compensation that Promotes Long-Termism and Human Capital Management.

Review of Investment Managers' Voting Behaviour

We have also obtained data from BlackRock to understand voting behaviour for both their own funds and appointed fund managers included within the growth portfolio under their remit. These are detailed below, including details of the most significant votes.

BlackRock Growth Portfolio

American Century Global Small Cap Equity Fund – Both Sections

During the year ended 31 December 2021 there were 150 meetings the fund manager was eligible to vote at, and 1,562 resolutions they were eligible to vote on. Of these resolutions 95.6% were voted on, of which 88% were aligned with management and 12% of votes were against management. Of total resolutions voted on by the fund manager 1% were abstain votes.

The most significant votes in the year were in respect of the following companies:

Callaway Golf Company, TCF Financial Corporation, Nickel Mines Ltd, Bloomin' Brands, Inc, Brunswick Corporation, Fox Factory Holding Corp, H.B. Fuller Company, Huntsman Corporation, MGP Ingredients, Inc, Nordic Entertainment Group AB, R1 RCM Inc, Spirit AeroSystems Holdings, Inc, e.l.f. Beauty, Inc, nCino, Inc, Repay Holdings Corporation and Builders FirstSource, Inc.

The nature of these votes included matters in relation to mergers and acquisitions, climate change reporting, executive compensation and the appointment and re-election of directors. Of the 18 most significant votes, the fund manager voted 6 for, 8 against and 4 were withheld.

American Century Investments ("ACI") has adopted proxy voting policies to guide the voting of proxies related to investments held in the accounts it manages when the voting of such proxies has been delegated to ACI. ACI subscribes to the proxy voting services of Institutional Shareholder Services ("ISS"), including their proxy voting platform, voting advisory services, and vote disclosure services. While ACI reviews and considers ISS's research, analysis, and recommendations, it votes proxies using the ISS voting platform in accordance with the ACI's proxy voting policies, which can differ from those of ISS.

BlackRock ACS World ESG Equity Tracker Fund – Both Sections

For the year ended 31 December 2021 there were 277 votable meetings, with 4,453 votable proposals. The fund manager voted on 84.75% of these proposals of which 92.0% were for, 7.3% were against and 0.7% were abstain votes. Of the proposals voted on, 92.8% were aligned with management and 7.2% were against.

The most significant votes in the year were in respect of Woodside Petroleum Ltd, BP Plc and Commonwealth Bank of Australia. The nature of these votes included matters in relation to remuneration reporting, appointment and re-election of directors, climate change targets, issuing of equity, authorisation of UK political donations and expenditure and auditor reappointment and remuneration approval. Of the 37 most significant votes, 32 were for and 5 were against.

Schroders ISF Emerging Markets – Both Sections

For the year ended 31 December 2021 there were 107 votable meetings, with 1,724 votable proposals for which the fund manager voted on 94.0%. The fund manager voted in line with management on 91.2% of these resolutions and against management on 8.8% of votes. The fund manager voted to abstain on 142 occasions.

Schroders have engaged with the following companies on ESG matters during the year:

Halyk Bank, Klabin, Magnit, Mavi, Avast, Kaz Minerals, Polymetal, TBC Bank, Alibaba, JD.com, KOC Holdings, Midea, Samsung Electronics, OTP Bank, Gazprom, Lukoil, Norilsk, Novatek, Rosneft, Cez, Huuuge, Bid Corp, Kia Motors Santander Mexico and TSMC.

Engagement with these companies considered (but was not limited to) matters such as Board structure and female board representation, staff morale and wellbeing, management compensation, supply chain monitoring, Co2 emissions, sustainability and ESG KPIs and climate transition plans.

It is Schroders' policy to vote all shares at all meetings globally, except where there are onerous restrictions – for example, shareblocking. Schroders utilises the services of ISS and the Investment Association's Institutional Voting Information Services in conjunction with its own research and policies when formulating voting decisions. For certain holdings of less than 0.5% of share capital in the USA, Australia, New Zealand, Japan, and Hong Kong, Schroders has implemented a custom policy that reflects the views of its ESG policy and is administered by Schroders' proxy voting provider, ISS. Schroders votes on both shareholder and management resolutions.

BlackRock Thematic Equity Sleeve

CAA Section:
For the year ended 31 December 2021 there were 285 votable meetings, with 4,027 votable proposals. BlackRock voted on 95.26% of these proposals of which 90.1% were for, 8.6% were against and 1.3% were either abstain or withhold votes. Of the proposals voted on, 92.3% were aligned with management and 7.7% were against.

NATS Section:
For the year ended 31 December 2021 there were 288 votable meetings, with 4,123 votable proposals. BlackRock voted on 95.37% of these proposals of which 90.3% were for, 8.5% were against and 1.2% were either abstain or withhold votes. Of the proposals voted on, 92.5% were aligned with management and 7.5% were against.

BlackRock Equity Factors Sleeve

CAA Section:
For the year ended 31 December 2021 there were 277 votable meetings, with 3,879 votable proposals. BlackRock voted on 94.28% of these proposals of which 91.7% were for, 7.5% were against and 0.8% were either abstain or withhold votes. Of the proposals voted on, 94.8% were aligned with management and 5.2% were against.

NATS Section:
For the year ended 31 December 2021 there were 318 votable meetings, with 4,443 votable proposals. BlackRock voted on 94.49% of these proposals of which 91.8% were for, 7.5% were against and 0.7% were either abstain or withhold votes. Of the proposals voted on, 94.5% were aligned with management and 5.5% were against.

In respect of both the Equity Factors and Thematic Equity Sleeves, BlackRock have engaged with various companies throughout the year on a number of ESG related matters. ESG topics on which they have engaged include climate risk management, environmental impact management, operational sustainability, human capital management, social risks and opportunities, board composition and effectiveness, business oversight and risk management, corporate strategy, executive management, governance structure and remuneration.

BlackRock appoints an independent fiduciary, Sustainalytics, to vote proxies where BlackRock is required by regulation not to vote itself or where there are actual or perceived conflicts of interest. The independent fiduciary makes voting decisions based solely on BlackRock's publicly available proxy voting guidelines, which aim to advance clients' long-term economic interests, and information disclosed publicly by the relevant companies.

Civil Aviation Authority Pension Scheme

TCFD Framework 2021 – CAA Section

Plain English Summary

The Scheme is required to produce an annual report on the actual and potential impact of climate risks and opportunities on the Civil Aviation Authority Pension Scheme. This report has been prepared to comply with those requirements for the CAA Section of the Scheme over the period from 1 October 2021 to 31 December 2021.

Climate Mission Statement

The Trustee believes that the risks associated with climate change can have a significant, negative impact on the Section's investment returns. The Trustee therefore considers climate change risk when making investment decisions. Where possible, the Trustee will also seek to capture climate-related investment opportunities.

Strategy

Overall, the Section exhibits a high degree of climate resilience under all scenarios, driven by the high level of diversification within the portfolio, and the 90% hedge of Long Term Funding Target (LTFT) liabilities the Section has implemented against changes in interest rates and inflation expectations.

Risk Management

The Trustee has undertaken an 'risk and impact' assessment (similar to a traditional likelihood and impact approach) of the climate risks impacting the assets that the Section holds. The result of this assessment is that their attention should focus on the Global Equity, Investment Grade Credit and Multi-Asset Credit investments.

Action has been taken by the Trustee to manage the impact of climate-related risks in Global Equity via selecting managers and strategies that have a deliberate focus on reducing carbon intensity and incorporate ESG into their decision making process.

With respect to the Credit mandates, climate change risks are integrated into the underlying managers' investment processes through a combination of analysis on the broader portfolio and research and monitoring of individual issuers.

Metrics and Targets

The Trustee has selected Total Greenhouse Gas (GHG) Emissions and Carbon Footprint metrics and will report on these annually.

In addition, it has adopted a target of improving Data Quality over the next 5 years.

Climate risk

Climate Mission Statement:

The Trustee believes that the risks associated with climate change can have a materially detrimental impact on the Section's investment returns within the timeframe that the Trustee is concerned about and, as such, the Trustee seeks to integrate assessments of climate change risk into its investment decisions. Furthermore, the Trustee believes that climate-related factors are likely to create investment opportunities. Where possible, and appropriately aligned with the Trustee's strategic objectives and fiduciary duty, the Trustee will proactively seek to capture such opportunities through its investment portfolio.

The Trustee acknowledges that there are both long and short term risks associated with climate change, and so considers the following time horizons:

- short term: 1 to 3 years
- medium term: 4 to 10 years
- long term: 11 to 20 years

Climate-related risks and opportunities are assessed over the above time horizons, and where appropriate, the Trustee seeks to consider transition and physical risks separately.

Governance principles and oversight

The TCFD disclosures:

a) Describe the board's oversight of climate-related risks and opportunities.

b) Describe management's role in assessing and managing climate-related risks and opportunities.

The Trustee requirements:

Understand the principles relating to identification, management and assessment of climate change risk and opportunities

Have oversight, on an ongoing basis, of climate risks and opportunities

Put in place processes to satisfy themselves that persons undertaking governance activities (other than trustees) are taking steps to identify assess and manage climate related risks and opportunities

Report on the role of those persons and the processes the trustees have put in place

Role of the Trustee Board

The Trustee Board is ultimately collectively responsible for oversight of all strategic matters related to the Section. This includes approval of the governance and management framework relating to environmental, social and governance ("ESG") considerations and climate-related risks and opportunities. Given its importance, the Trustee has not identified one individual to specifically be responsible for the Trustee's response to climate risks and opportunities. Rather, the Trustee Board has collective responsibility for setting the Section's climate change risk framework.

The Trustee has discussed and agreed its climate-related beliefs and overarching approach to managing climate change risk. Details are set out in the Statement of Investment Principles ("SIP") and Responsible Investment ("RI") Policy, both of which are reviewed and (re)approved annually by the Board.

The Trustee Board receives regular training – at least on an annual basis but more frequently if required – on climate-related issues to ensure that it has the appropriate degree of knowledge and understanding on these issues to support good decision-making. The Trustee expects its advisers to bring important and relevant climate-related issues and developments to the Trustee's attention in a timely manner.

The Trustee Board has delegated oversight of the Section's climate change risk management framework to the Investment and Funding Committee ("IFC"), which is a sub-committee of the Trustee Board. Implementation and day-to-day oversight has been delegated to the CAAPS Investment Executive ("CIE").

The Trustee Board monitors and reviews progress against the Section's climate change risk management approach annually.

Role of the Investment and Funding Committee

Ongoing oversight of the Trustee's climate risk management approach has been delegated to the Investment and Funding Committee.

The IFC, supported by the CIE, seeks to ensure that any investment decisions appropriately consider climate-related risks and opportunities within the context of the Section's wider risk and return requirements, and are consistent with the climate change policy as set out in the RI policy and SIP.

The IFC monitors and reviews progress against the Section's climate change risk management approach twice a year. The IFC keeps the Trustee Board apprised of any material climate-related developments through regular (typically at least annual) updates.

Governance principles and oversight

Role of the CAAPS Investment Committee

- Day-to-day responsibility for the implementation of the Trustee's climate risk management approach has been delegated to the CIE.
- The CIE monitors and reviews progress against the Section's climate change risk management approach on a quarterly basis and the CIE keeps the IFC apprised of any material climate-related developments through regular updates.
- Implementation is detailed later in this report but key activities delegated to the CIE include:
    - proactively seeking investment opportunities which enhance the ESG and climate change focus of the Section's portfolio
    - ensuring investment proposals explicitly consider the impact of climate risks and opportunities
    - engaging with the Fiduciary Manager (and underlying managers if required) to understand how climate risks are considered in their investment approach
    - working with the Fiduciary Manager (and underlying managers if required) to disclose relevant climate-related metrics as set out in the TCFD recommendations
    - ensuring that stewardship activities are being undertaken appropriately on the Section's behalf

Role of external advisors

- **Investment consultant**: the Trustee's investment consultant, Aon, provides strategic and practical support to the Trustee and the CIE in respect of the management of climate-related risks and opportunities and ensuring compliance with the recommendations set out by the TCFD. This includes provision of regular training and updates on climate-related issues and climate change scenario modelling to enable the CIE and Trustee to assess the Section's exposure to climate-related risks.
- **Scheme Actuary**: the Scheme Actuary, Michael Webb, will help the Trustee assess the potential impact of climate change risk on the Section's funding assumptions.
- **Covenant advisor:** The Scheme's covenant adviser, Penfida, will help the Trustee understand the potential impacts of climate change risk on the sponsor covenant of the Civil Aviation Authority, as principal employer of the Section.
- **Fiduciary Manager:** The Scheme's Fiduciary Manager, BlackRock, will help the Trustee understand how BlackRock and the underlying managers consider climate change risk in their investment approach and work with the underlying managers to disclose relevant climate-related metrics as set out in the TCFD's recommendations.
- **LDI manager**: The Scheme's LDI manager, LGIM, will help the Trustee understand how they consider climate change risk in their investment approach and to disclose relevant climate-related metrics as set out in the TCFD's recommendations.

Strategy – identification of climate risks, opportunities and impact

The TCFD disclosures:

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

b) Describe the impact of climate related risks and opportunities on the organisation's business, strategy, and financial planning.

Identification of climate risks and opportunities:

The Trustee has completed a best endeavours exercise to obtain and provide analysis on the Scheme's climate-related risks and opportunities.

The Trustee engaged with the fund managers (BlackRock as the Section's Fiduciary Manager and LGIM as the Section's LDI Manager) to undertake a qualitative assessment of climate related risks, using a RAG rating for the analysis where

- Red denotes a higher level of financial exposure to the risk under consideration.
- Amber denotes a medium level of financial exposure to the risk under consideration.
- Green denotes a lower level of financial exposure to the risk under consideration.

Results:

The output of the Climate Risk Assessment is shown on the next pages. For each of the major asset classes in which the Section invests, the Trustee has undertaken a qualitative assessment of the climate risks split into physical and transition risks.

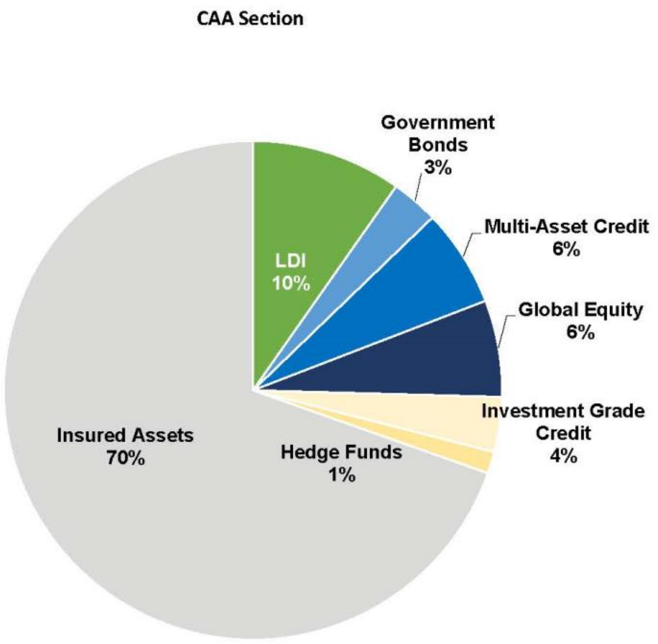
The Climate Risk Assessment has then been extended to include covenant and liability risk, and also an assessment of the potential impact of the risks.

Conclusions:

Based on the analysis completed, the Trustee identified:

- The return impact of climate change being greatest for equities compared to credit and government bonds.
- The impact of climate change (e.g. the low carbon transition) being most pronounced at the sector level. It is harder to generalise for the broad market. Over the medium-term sectors such as IT and healthcare will benefit during the green transition as they can be solution providers and may benefit in valuations as investors allocate more towards 'greener' companies. The opposite is true for sectors such as energy and utilities.
- Chronic risks can only be viewed as long term risk as we begin to understand potential tipping points and impact. This is true across asset classes.
- Developed market governments are expected to be least impacted in terms of expected returns.
- Most governments in developed markets are members of climate change mitigation initiatives and have set carbon reduction targets. Therefore, they are unlikely to be greatly affected by risk premium adjustments and reallocations.
- Hedge funds are managed as absolute return strategies, and typically have a shorter investment horizon vs. other asset classes and can be highly dynamic. Therefore, medium- to long-term transition risks are not as material as short-term risks.
- With regard to the Company Covenant, the Trustee has concluded that, in all timescales the use of airspace and the need for regulation of the airspace, managers of airspace and users of airspace will continue. As such the Trustee considers that the CAA will have a regulatory role in all timescales. It notes that the funding of such a role may evolve but such evolution will be a matter of public policy and should be visible.

Strategy - Climate Risk Assessment



Source: BlackRock
30 September 2021

- The CAA Section of the Scheme is c90% funded on its LTFT with a 90% interest rate and inflation hedging strategy and the assets of the Section are broadly invested as per the chart opposite.
- For each of the major asset classes in which the Section invests, the Trustee must undertake a qualitative assessment of the climate risks split into physical and transition risks.
- The Trustee holds buy-in contracts with Rothsay, PIC and Legal & General in respect of pensioner liabilities of the Section. The Trustee will additionally report on their chosen carbon metrics and targets in respect of these contracts.

The next few slides cover:

- Climate change scenarios analysis.
- Climate opportunities.
- Climate risk assessment.
- The process for managing risks.
- Risk assessment at Scheme level.

Strategy – climate resilience and climate-related scenarios

The TCFD disclosure:

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2 degree or lower scenario.

Climate Scenario Analysis

The Trustee recognises the importance of assessing the Section's resilience against climate-related stress that have the potential to occur over the short, medium and long-term. As such, the Trustee has undertaken scenario analysis on the Section's portfolio.

This analysis has been conducted using three different climate change scenarios: optimistic net zero, as well as late, abrupt and orderly transition scenarios (the latter two of which are the 2 ºC or lower scenarios) . The Trustee has chosen these scenarios because it believes that they provide a reasonable range of plausible climate change pathways over the time horizons that the Trustee is concerned about.

The analysis has assumed that there is no impact on the Scheme's demographic assumptions and that Company Contributions are paid in line with the Schedule of Contributions. An additional, qualitative, Company Covenant assessment has been undertaken.

Scenario	Degree warming	Scenario description
Optimistic Net Zero	~2°C – 2.5°C	This scenario reflects long-term return assumptions that are currently priced into the market. It assumes that emission reductions start now and continue in a measured way in line with the objectives of the Paris Agreement and the UK government's legally binding commitment to reduce emissions in the UK to net zero by 2050. Current pricing suggests that the market does not expect a bad climate change outcome – that is, the effects are not as damaging as first thought, and some progress is made to limit greenhouse gas emissions and global warming.
Orderly Transition	<2°C	Immediate, coordinated global action is taken to aggressively tackle climate change as public awareness forces governments to intervene. Global greenhouse gas tax and carbon caps are introduced, with green policies and high levels of investment in renewable infrastructure and technologies speeds up adoption. The rapid transition leads to higher inflation in the short-term, dragging returns down, however higher growth prospects boost returns over the longer-term.
Abrupt Transition	<2°C	No action is taken in the short-term. Extreme weather events in the first five years of the scenario result in widespread public concern over climate change. This leads to the significant policies being implemented to rapidly drive the reduction in greenhouse gas. Economic damages due to delayed activity restricts the ability of central banks to hike interest rates despite higher inflation and lower economic growth concerns. Delayed action creates a higher cost, as the global economy is forced to move towards renewables.

Source: Aon
Note: Degree warming is relative to pre-industrial levels by 2100

Strategy – Climate Scenario Analysis

Results:

The Trustee reviewed scenario analysis which considered the potential impact of climate change on the current strategic asset allocation and liabilities (measured on a Long-Term Funding Basis) and, therefore, its funding position, see chart top right.

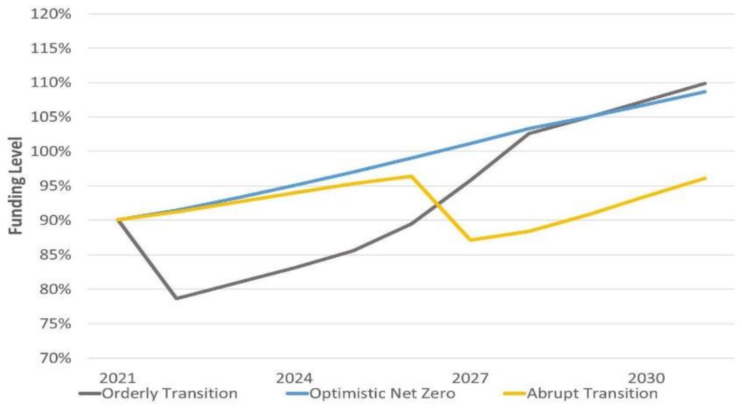
The performance of the assets, under each scenario over the short, medium, and long-term, is also shown in the table bottom right.

Conclusions:

Of all the scenarios modelled, the Section's listed equity exposure proved to be the most volatile, seeing particularly large drawdowns in the abrupt and orderly transition scenarios. The Trustee will continue to monitor the risks and opportunities and take steps to protect the Section where appropriate.

Overall, the Section exhibits a high degree of climate resilience under all scenarios, driven by the high level of diversification within the portfolio, and the 90% hedge of LTFT liabilities the Section has implemented against changes in interest rates and inflation expectations.

Funding level projections under the climate change scenarios



Asset return projections under the climate change scenarios

Projected asset returns (% p.a.)	Optimistic Net Zero	Abrupt transition	Orderly transition
Short-term	2.4	2.1	-5.0
Medium-term	2.4	-1.0	5.4
Long-term	2.4	3.9	2.9
End surplus after 10 years (£M)	72	-41	78

Strategy - Climate Opportunities

Cleaner energy

Power generation
- Solar
- Wind
- Other clean power
- Increased efficiency
- Fuel switch: gas, biomass
- Nuclear

Clean technology innovation
- Carbon capture
- Infrastructure management
- Supply chain management

Transport
- Emissions reduction
- Propulsion systems
- Battery technology

Sustainable biofuels
- Biodiesel
- Ethanol

Environmental resources

Water
- Desalination / purification
- Wastewater treatment
- Distribution and management

Agriculture
- Irrigation innovation
- Clean pesticides
- Consumer food purity
- Seeds and breeding technology

Waste management
- Recycling
- Toxin management
- Waste to energy
- Land remediation

Energy and material efficiency

Advanced materials
- Advanced coatings
- Lightweight substitutes
- Solvents and biodegradables

Building efficiency
- Building management
- Green data centre management
- Heating and cooling systems
- Lighting systems
- Insulation and materials
- Micro generation / micro CHP

Power grid efficiency
- Transmission (including smart grids)
- Distribution
- Storage (e.g., batteries, pump storage)
- Infrastructure
- Energy management systems

Environmental services

Environmental protection
- Land conservation
- Environmental restoration
- Timberland
- Forestry
- Sea defences

Business services
- Insurance
- Logistics
- Green focused banking
- Microfinance
- Consultancy / advisory
- Intellectual property

Strategy – Climate Risk Assessment

The Trustee has requested Blackrock, the Section's Fiduciary Manager and LGIM the Section's LDI Manager to provide their own assessments of climate-related risks and opportunities associated with the mandates they manage on behalf of the Scheme over the short, medium and long-term, together with their reasoning and rationale for each risk. The table below summarises the responses:

		Global Equity	Multi-Asset Credit	Government Bonds	LDI	Investment Grade Credit	Private Equity	Property	Hedge Funds	Liabilities	Covenant
Physical risks	Short term	Low to Medium	Low to Medium	Low	Low	Low to Medium	Low to Medium	Low to High	Low	Low	Low
	Medium term	Medium to High	Medium to High	Low	Low	Medium to High	Medium to High	Medium to High	Low	Medium	Medium to High
	Long term	High	High	Medium	Medium	High	High	High	Low	High	Medium to High
Transition risks	Short term	Medium	Medium	Low	Low	Medium	Medium	Medium	Medium	Low	Low
	Medium term	Medium to High	Medium	Low to Medium	Low to Medium	Medium	Medium to High	Medium to High	Low	Medium	Medium to High
	Long term	High	High	Medium	Medium	High	High	High	Low	High	Medium to High

Note: Some assets not considered, e.g. cash holdings.

Risk management – processes for managing climate-related risks

The TCFD disclosures:

a) Describe the organization's processes for identifying and assessing climate-related risks.

b) Describe the organization's processes for managing climate-related risks.

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Risk assessment:

The Trustee has undertaken a qualitative assessment of the transition and physical risks associated with each of the main asset classes that the Section holds.

In this assessment, the Trustee has considered the prioritisation of those risks, and the management of those that represent the most significant potential for loss and those that are the most likely to occur.

To do this the Trustee has adopted a 'risk and impact' approach (similar to a traditional likelihood and impact assessment) to gauge the severity or materiality of their risks.

The Trustee has integrated the processes for identifying, assessing and managing climate-related risks into its Risk Register.

The Risk Register is reviewed on a regular basis.

Results:

The likely impact on the CAA Section of the Scheme is determined via a combination of the asset allocation and the potential impact of climate-related risks. For example, although the likely impact of climate-risk on the Section's LDI mandate is relatively low, the very significant allocation to UK Government Bonds via the Section's LDI mandate with LGIM means that the impact on the Section's assets would be very significant were a risk event to occur.

In addition, the Section's liabilities (currently valued on a gilts-based valuation basis) would additionally be significantly impacted.

Conclusions:

Based on this assessment the Trustee's primary focus for the mitigation of climate risks should be concentrated on areas where the adjudged risk is medium to high. This would imply focus on the Global Equity, Multi-Asset Credit and Investment Grade Credit mandates.

Action has been taken by the Trustee to manage the impact of climate-related risks in Global Equity via manager selection and by selecting strategies that have a deliberate focus on reducing carbon intensity and incorporate ESG into their decision making process.

With respect to Credit mandates, climate change risks are integrated into the underlying managers' investment processes, through a combination of top down analysis on the broader portfolio and bottom up research and monitoring on individual issuers.

The relatively low level of deficit in the Section's assets coupled with the longer-term covenant risks for the CAA Section of the Scheme mean that both the impact and likelihood of covenant risk are medium.

Further, given the shorter expected timeframes of the CAA Section of the Scheme the impact and likelihood of an adverse climate event on the liabilities of the Section is rated a low to medium risk.

Risk Management – Risk assessment at Scheme level

The Trustee has undertaken an assessment of the climate risks facing the CAA Section of the Scheme, similar to a traditional 'likelihood and impact' approach. The adjudged risk has been assessed as the aggregate of the qualitative risks (detailed on page 11) facing the section over the short, medium and long-term. The adjudged impact has been expressed as a proportion of the Section's liabilities*.

The overall Scheme risk is a qualitative judgement and a function of both the adjudged risk and the size of the allocation to various asset classes and, in the case of the covenant relative to the Section's deficit on the Long-Term Funding Target.

The results indicate that the Trustees main focus should be on Global Equity (high overall rating), Credit (medium overall ratings), Investment Grade Credit (medium overall rating), the liabilities (low to medium overall rating) and company covenant (medium overall rating).

The results of the assessment are summarised below.

		Global Equity	Multi-Asset Credit	Government Bonds	LDI	Investment Grade Credit	Hedge Funds	Liabilities	Covenant
Risk	Short term	Medium	Medium	Low	Low	Medium	Medium	*Low*	*Low*
	Medium term	High	Medium	Low	Low	High	Low	*Medium*	*Medium*
	Long term	High	High	Medium	Medium	High	Low	*Medium*	*Medium*
Impact*		20	20	10	33	13	3	100	10
Scheme Risk		High	Medium	Low	Low	Medium	Low	Low / *Medium*	*Medium*

*% of liabilities on LTFT, at 30 September 2021. Some assets not considered, e.g. cash holdings, and therefore totals may not sum to 100%. The insured assets are also excluded.

Metrics and Targets

The TCFD disclosure:

a) Disclose the metrics used by the organization to assess climate related risks and opportunities in line with its strategy and risk management process

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Metrics and Targets:

The Trustee is disclosing two emissions-based metrics (one absolute measure of emissions and one intensity based measure of emissions) and one additional climate related metric (data quality).

The data and metrics have been provided as far as they are able on annual basis .

The Trustee has set a target of improving Data Quality over the next 5 years.

Definitions

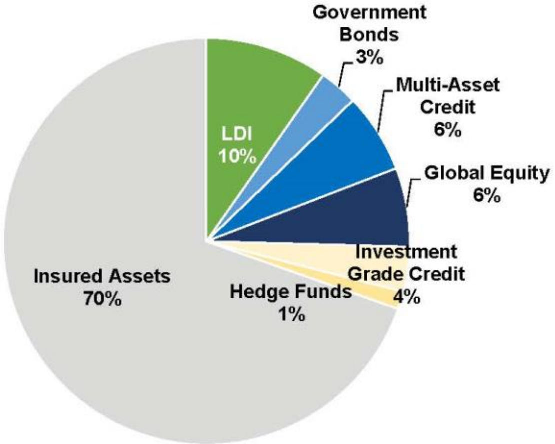
The Trustee has defined its chosen metrics as follows.

Metric	What is it?
Total GHG emissions (Absolute measure of emissions)	The absolute GHG emissions associated with the Section's portfolio, expressed **in million tons CO_2e.**
Carbon footprint (Intensity based measure of emissions)	Total GHG emissions for a portfolio normalized by the market value of the Section's portfolio, expressed **in tons CO_2e/£M invested**.
Data quality (Third additional metric)	The proportion of the portfolio for which high-quality emissions data (Scope 1, 2 and 3*) is available.

The emissions data of the current portfolio and broken down by each asset class are shown on pages 80 and 81.

Data quality is addressed in more detail on page 82.

Portfolio emissions data



The data coverage of the current portfolio has been estimated to be 68%*. Notwithstanding any steps taken to improve the ESG characteristics of the current portfolio, the Trustee acknowledges that as coverage improves over the coming years, it is likely that the Section's absolute measure of emissions (total GHG emissions) will rise before it falls, as the result of gaining a better understanding of the underlying data.

	Total portfolio
Total GHG emissions (MtCO2e)	0.23
Carbon footprint (tCO2e/£M)	56.1

Source: BlackRock as at 30 September 2021. Estimated by Aon in the absence of available data from the managers and the insurers.

*See notes on page 82.

Emissions data broken down by asset class

	BlackRock					LGIM	Rothesay	Legal & General	PIC
Mandate	Global Equity	Multi-Asset Credit	Government Bonds	Investment Grade Credit	Hedge Funds	LDI	Buy-in policy (Estimated – see note 3)		
% of total Section assets (see note 1)	6%	6%	3%	4%	1%	10%	58%	5%	6%
Total GHG Emissions (MtCO2e)	<0.01	0.01	0.02 (Estimated – see note 2)	0.01	Not yet available as best practice is being debated.	0.17 (Estimated – see note 2)	<0.01	<0.01	0.02
Carbon Footprint (tCO2/£M)	39.0	174.4	205.0 (Estimated – see note 2)	140.5		205.0 (Estimated – see note 2)	<0.01	0.3	162.0
Data Quality	78.4%	41.1%	Estimated – see note 2	85.0%		100%	86%	Not yet available.	60%
Effective date	30 September 2021					30 September 2021	31 December 2020	31 December 2020	31 October 2021 (see note 4)

Source: BlackRock / Aon. Cash and fixed income futures managed by BlackRock is not included on grounds of materiality.

Notes:

1. Total Section assets includes bulk annuity policies.
2. In the absence of the data from BlackRock and LGIM, we have estimated the metrics for government bonds and LDI from the latest statistics on national emissions and national debt from the UK Government. This is in line with the DWP's statutory guidance.
3. We have estimated the Section's proportionate share of the emissions of the insurer's total assets backing their UK pension bulk annuity book. Where emissions data on the insurers' assets backing their bulk annuity book is not available, we have used the emissions in relation to all the insurer's assets. Again this is in line with the statutory guidance.
4. Emissions data for the 2020 calendar year, applied to the PIC investment portfolio backing their liabilities as at 31 October 2021. We expect these figures to be included in PIC's 2022 TCFD report.

Improving data quality

Initial areas of focus

In seeking to improve data quality over the coming years the, Trustee's initial focus is on data coverage i.e. the proportion of the Section's assets for which scope 1 and 2 emissions data is available. The Trustee will prioritise asset classes which have the least data coverage i.e. **multi-asset credit, hedge funds** and **alternatives**, as well as asset classes for which the initial climate metrics have been estimated i.e. **government bonds** and **LDI** are also priorities.

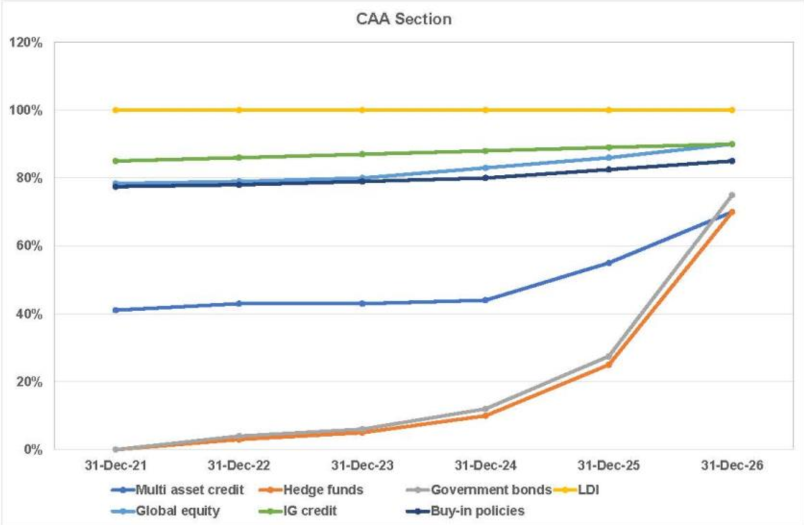
What improvement is expected to look like

The Trustee expects to see a gradual improvement in data quality for equities and bonds over the next few years. For other asset classes such as alternatives, hedge funds and government bonds, development in the next few years is expected to take place more slowly, with more progress expected in due course as best practice continues to be developed in this area.

The chart opposite illustrates the expected progress across the Section's asset classes over the next five years. Each year the Trustee will review the progress made and revaluate the target for each asset class.

Looking ahead

The Trustee acknowledges that while they are not currently required to obtain Scope 3 emissions for this first Scheme year (in line with the DWP's statutory guidance), their forward looking data quality measure and target will need to capture Scope 3 (as well as Scope 1 and 2) data. The Trustee also intends to report on the proportions of the portfolio for which emissions data is reported, verified and estimated.



Notes: (1) We have determined the overall data coverage of the total portfolio as the weighted average of the data coverage across asset classes / insurers. For asset classes / insurers where the data is not yet available and / or best practice is still being developed, we have assumed that data coverage is nil. (2) We expect LGIM to report on the Trustee's chosen metrics in Q2 2022. Until then we have assumed that data coverage for the LDI assets is 100%.

TAS compliance

This document has been prepared in accordance with the framework below.

This document, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100').

The compliance is on the basis that the Trustee of the Civil Aviation Authority Pension Scheme are the addressees and the only users and that the document is only to be used for the purpose of establishing a climate risk framework. If you intend to make any other decisions after reviewing this document, please let me know and I will consider what further information I need to provide to help you make those decisions.

The document has been prepared under the terms of the Agreement between the Trustee and Aon Solutions UK Limited on the understanding that it is solely for the benefit of the addressees.

This document should be read in conjunction with the paper entitled "Climate change risk: scenario analysis and next steps" dated 22 June 2021.

If you require further copies of these documents, please let me know.

Civil Aviation Authority Pension Scheme

TCFD Framework 2021 – NATS Section

Plain English Summary

The Scheme is required to produce an annual report on the actual and potential impact of climate risks and opportunities on the Civil Aviation Authority Pension Scheme. This report has been prepared to comply with those requirements for the NATS Section of the Scheme over the period from 1 October 2021 to 31 December 2021.

Climate Mission Statement

The Trustee believes that the risks associated with climate change can have a significant, negative impact on the Section's investment returns. The Trustee therefore considers climate change risk when making investment decisions. Where possible, the Trustee will also seek to capture climate-related investment opportunities.

Strategy

Overall, the Section exhibits a high degree of climate resilience under three scenarios, driven by the high level of diversification within the portfolio, and the 75% hedge of Long Term Funding Target (LTFT) liabilities the Section has implemented against changes in interest rates and inflation expectations.

The Late Transition scenario, however, would result in a material deficit at the end of the 20 year projection and hence vulnerabilities to climate risks are potentially considerable for the NATS Section of the Scheme.

Risk Management

The Trustee has undertaken an 'risk and impact' assessment (similar to a traditional likelihood and impact approach) of the climate risks impacting the assets that the Section holds. The result of this assessment is that their attention should focus on the Global Equity and Credit investments.

Action has been taken by the Trustee to manage the impact of climate-related risks in Global Equity via selecting managers and strategies that have a deliberate focus on reducing carbon intensity and incorporate ESG into their decision making process.

With respect to Credit mandates, climate change risks are integrated into the underlying managers' investment processes through a combination of analysis on the broader portfolio and research and monitoring of individual issuers.

Metrics and Targets

The Trustee has selected Total Greenhouse Gas (GHG) Emissions and Carbon Footprint metrics and will report on these annually.

In addition, it has adopted a target of improving Data Quality over the next 5 years.

Climate risk

Climate Mission Statement:

The Trustee believes that the risks associated with climate change can have a materially detrimental impact on the Section's investment returns within the timeframe that the Trustee is concerned about and, as such, the Trustee seeks to integrate assessments of climate change risk into its investment decisions. Furthermore, the Trustee believes that climate-related factors are likely to create investment opportunities. Where possible, and appropriately aligned with the Trustee’s strategic objectives and fiduciary duty, the Trustee will proactively seek to capture such opportunities through its investment portfolio.

The Trustee acknowledges that there are both long and short term risks associated with climate change, and so considers the following time horizons:

short term: 1 to 3 years

medium term: 4 to 10 years

long term: 11 to 20 years

Climate-related risks and opportunities are assessed over the above time horizons, and where appropriate, the Trustee seeks to consider transition and physical risks separately.

Governance principles and oversight

The TCFD disclosures:

a) Describe the board's oversight of climate-related risks and opportunities.

b) Describe management's role in assessing and managing climate-related risks and opportunities.

The Trustee requirements:

Understand the principles relating to identification, management and assessment of climate change risk and opportunities

Have oversight, on an ongoing basis, of climate risks and opportunities

Put in place processes to satisfy themselves that persons undertaking governance activities (other than trustees) are taking steps to identify assess and manage climate related risks and opportunities

Report on the role of those persons and the processes the trustees have put in place

Role of the Trustee Board

The Trustee Board is ultimately collectively responsible for oversight of all strategic matters related to the Section. This includes approval of the governance and management framework relating to environmental, social and governance ("ESG") considerations and climate-related risks and opportunities. Given its importance, the Trustee has not identified one individual to specifically be responsible for the Trustee's response to climate risks and opportunities. Rather, the Trustee Board has collective responsibility for setting the Section's climate change risk framework.

The Trustee has discussed and agreed its climate-related beliefs and overarching approach to managing climate change risk. Details are set out in the Statement of Investment Principles ("SIP") and Responsible Investment ("RI") Policy, both of which are reviewed and (re)approved annually by the Board.

The Trustee Board receives regular training – at least on an annual basis but more frequently if required – on climate-related issues to ensure that it has the appropriate degree of knowledge and understanding on these issues to support good decision-making. The Trustee expects its advisers to bring important and relevant climate-related issues and developments to the Trustee's attention in a timely manner.

The Trustee Board has delegated oversight of the Section's climate change risk management framework to the Investment and Funding Committee ("IFC"), which is a sub-committee of the Trustee Board. Implementation and day-to-day oversight has been delegated to the CAAPS Investment Executive ("CIE").

The Trustee Board monitors and reviews progress against the Section's climate change risk management approach annually.

Role of the Investment and Funding Committee

Ongoing oversight of the Trustee's climate risk management approach has been delegated to the Investment and Funding Committee.

The IFC, supported by the CIE, seeks to ensure that any investment decisions appropriately consider climate-related risks and opportunities within the context of the Section's wider risk and return requirements, and are consistent with the climate change policy as set out in the RI policy and SIP.

The IFC monitors and reviews progress against the Section's climate change risk management approach twice a year. The IFC keeps the Trustee Board apprised of any material climate-related developments through regular (typically at least annual) updates.

Governance principles and oversight

Role of the CAAPS Investment Committee

- Day-to-day responsibility for the implementation of the Trustee's climate risk management approach has been delegated to the CIE.
- The CIE monitors and reviews progress against the Section's climate change risk management approach on a quarterly basis and the CIE keeps the IFC apprised of any material climate-related developments through regular updates.
- Implementation is detailed later in this report but key activities delegated to the CIE include:
    - proactively seeking investment opportunities which enhance the ESG and climate change focus of the Section's portfolio
    - ensuring investment proposals explicitly consider the impact of climate risks and opportunities
    - engaging with the Fiduciary Manager (and underlying managers if required) to understand how climate risks are considered in their investment approach
    - working with the Fiduciary Manager (and underlying managers if required) to disclose relevant climate-related metrics as set out in the TCFD recommendations
    - ensuring that stewardship activities are being undertaken appropriately on the Section's behalf

Role of external advisors

- **Investment consultant**: the Trustee's investment consultant, Aon, provides strategic and practical support to the Trustee and the CIE in respect of the management of climate-related risks and opportunities and ensuring compliance with the recommendations set out by the TCFD. This includes provision of regular training and updates on climate-related issues and climate change scenario modelling to enable the CIE and Trustee to assess the Section's exposure to climate-related risks.
- **Scheme Actuary**: the Scheme Actuary, Michael Webb, will help the Trustee assess the potential impact of climate change risk on the Section's funding assumptions.
- **Covenant advisor:** The Scheme's covenant adviser, Penfida, will help the Trustee understand the potential impacts of climate change risk on the sponsor covenant of the NATS Limited, as principal employer of the Section.
- **Fiduciary Manager:** The Scheme's Fiduciary Manager, BlackRock, will help the Trustee understand how BlackRock and the underlying managers consider climate change risk in their investment approach and work with the underlying managers to disclose relevant climate-related metrics as set out in the TCFD's recommendations.
- **LDI manager**: The Scheme's LDI manager, LGIM, will help the Trustee understand how they consider climate change risk in their investment approach and to disclose relevant climate-related metrics as set out in the TCFD's recommendations.

Strategy – identification of climate risks, opportunities and impact

The TCFD disclosures:

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

b) Describe the impact of climate related risks and opportunities on the organisation's business, strategy, and financial planning.

Identification of climate risks and opportunities:

The Trustee has completed a best endeavours exercise to obtain and provide analysis on the Scheme's climate-related risks and opportunities.

The Trustee engaged with the fund managers (BlackRock as the Section's Fiduciary Manager and LGIM as the Section's LDI Manager) to undertake a qualitative assessment of climate related risks, using a RAG rating for the analysis where

- Red denotes a higher level of financial exposure to the risk under consideration.
- Amber denotes a medium level of financial exposure to the risk under consideration.
- Green denotes a lower level of financial exposure to the risk under consideration.

Results:

The output of the Climate Risk Assessment is shown on the next pages. For each of the major asset classes in which the Section invests, the Trustee has undertaken a qualitative assessment of the climate risks split into physical and transition risks.

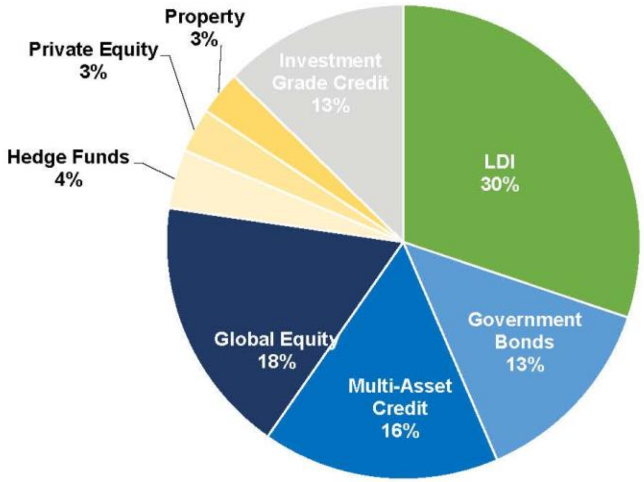
The Climate Risk Assessment has then been extended to include covenant and liability risk, and also an assessment of the potential impact of the risks.

Conclusions:

Based on the analysis completed, the Trustee identified:

- The return impact of climate change being greatest for equities compared to credit and government bonds.
- The impact of climate change (e.g. the low carbon transition) being most pronounced at the sector level. It is harder to generalise for the broad market. Over the medium-term sectors such as IT and healthcare will benefit during the green transition as they can be solution providers and may benefit in valuations as investors allocate more towards 'greener' companies. The opposite is true for sectors such as energy and utilities.
- Chronic risks can only be viewed as long term risk as we begin to understand potential tipping points and impact. This is true across asset classes.
- Developed market governments are expected to be least impacted in terms of expected returns.
- Most governments in developed markets are members of climate change mitigation initiatives and have set carbon reduction targets. Therefore, they are unlikely to be greatly affected by risk premium adjustments and reallocations.
- Hedge funds are managed as absolute return strategies, and typically have a shorter investment horizon vs. other asset classes and can be highly dynamic. Therefore, medium- to long-term transition risks are not as material as short-term risks.
- Private equity will be more vulnerable to the impact of climate risks due to the longer holding periods.
- Property and infrastructure will be impacted differently across geographic regions as policy and legal risks affect the asset class through local legislation and planning permissions. Physical risks are high for the asset class and again differ regionally. For example, properties within hurricane zones are affected by acute risks across horizons due to increased severe weather events.
- With regard to the Company Covenant, the Trustee has concluded that, in the short term, the structure of contracts and the regulatory pricing mechanism will offer significant protection to the employer. The Trustee also believes that the management of airspace will remain a key function across all timescales but it recognises that, in the medium and long-term the effects of global warming may result in increasing disruption to air travel and pressure on the scale of the aviation industry and the pricing mechanisms through which the management of airspace is recovered. The Trustee will continue to monitor these developments and note that innovation in the management of airspace will be a key contributor to meeting carbon reduction targets.

Strategy - Climate Risk Assessment



Source: BlackRock
30 September 2021

- The NATS Section of the Scheme is c87% funded on its LTFT with a 75% interest rate and inflation hedging strategy and the assets of the Section are broadly invested as per the chart opposite.
- For each of the major asset classes in which the Section invests, the Trustee has undertaken a ***qualitative*** assessment of the climate risks split into ***physical*** and ***transition*** risks.

The next few slides cover:

- Climate change scenarios analysis.
- Climate opportunities.
- Climate risk assessment.
- The process for managing risks.
- Risk assessment at Scheme level.

Strategy – climate resilience and climate-related scenarios

The TCFD disclosure:

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2 degree or lower scenario.

Climate Scenario Analysis

The Trustee recognises the importance of assessing the Section's resilience against climate-related stress that have the potential to occur over the short, medium and long-term. As such, the Trustee has undertaken scenario analysis on the Section's portfolio.

This analysis has been conducted using four different climate change scenarios: optimistic net zero, as well as late, abrupt and orderly transition scenarios (the latter two of which are the 2 ºC or lower scenarios) . The Trustee has chosen these scenarios because it believes that they provide a reasonable range of plausible climate change pathways over the time horizons that the Trustee is concerned about.

The analysis has assumed that there is no impact on the Scheme's demographic assumptions and that Company Contributions are paid in line with the Schedule of Contributions. An additional, qualitative, Company Covenant assessment has been undertaken.

Scenario	Degree warming	Scenario description
Optimistic Net Zero	~2ºC – 2.5ºC	This scenario reflects long-term return assumptions that are currently priced into the market. It assumes that emission reductions start now and continue in a measured way in line with the objectives of the Paris Agreement and the UK government's legally binding commitment to reduce emissions in the UK to net zero by 2050. Current pricing suggests that the market does not expect a bad climate change outcome – that is, the effects are not as damaging as first thought, and some progress is made to limit greenhouse gas emissions and global warming.
Late Transition	<4ºC	In this scenario the world economy remains orientated towards improving near-term economic growth. As a result, no significant actions are taken in the short & medium-term to mitigate the effects of climate change. Actions are taken later in the scenario; however, the late timing means the actions are less effective and more costly to implement. Corporate spreads begin to widen in the later stages of the scenario, leading to growing costs and weaker economic growth. Adverse effects progressively become worse, dragging down the returns on risk assets. Towards the late stage of the scenario market participants begin to grasp the effect of climate change, however market values price in high levels of economic damage and irreversible loss.
Orderly Transition	<2ºC	Immediate, coordinated global action is taken to aggressively tackle climate change as public awareness forces governments to intervene. Global greenhouse gas tax and carbon caps are introduced, with green policies and high levels of investment in renewable infrastructure and technologies speeds up adoption. The rapid transition leads to higher inflation in the short-term, dragging returns down, however higher growth prospects boost returns over the longer-term.
Abrupt Transition	<2ºC	No action is taken in the short-term. Extreme weather events in the first five years of the scenario result in widespread public concern over climate change. This leads to the significant policies being implemented to rapidly drive the reduction in greenhouse gas. Economic damages due to delayed activity restricts the ability of central banks to hike interest rates despite higher inflation and lower economic growth concerns. Delayed action creates a higher cost, as the global economy is forced to move towards renewables.

Source: Aon
Note: Degree warming is relative to pre-industrial levels by 2100

Strategy – Climate Scenario Analysis

Results:

The Trustee reviewed scenario analysis which considered the potential impact of climate change on the current strategic asset allocation and liabilities (measured on a Long-Term Funding Basis) and, therefore, its funding position, see chart top right.

The performance of the assets, under each scenario over the short, medium, and long-term, is also shown in the table bottom right.

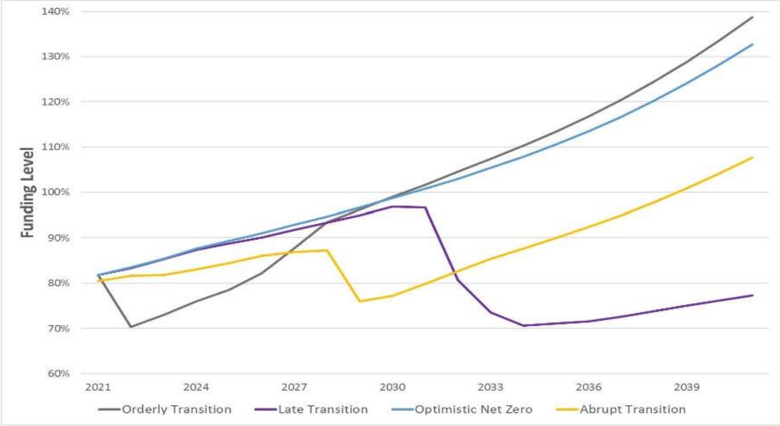
Conclusions:

Of all the scenarios modelled, the Section's listed equity exposure proved to be the most volatile, seeing particularly large drawdowns in the late transition scenario. The Trustee will continue to monitor the risks and opportunities and take steps to protect the Section where appropriate.

Overall, the Section exhibits a high degree of climate resilience in three scenarios, driven by the high level of diversification within the portfolio, and the 75% hedge of LTFT liabilities the Section has implemented against changes in interest rates and inflation expectations.

The Late Transition scenario, however, would result in a material deficit at the end of the 20 year projection and hence vulnerabilities to climate risks are potentially considerable for the NATS Section of the Scheme.

Funding level projections under the climate change scenarios



Asset return projections under the climate change scenarios

Projected asset returns (% p.a.)	Optimistic Net Zero	Late Transition	Abrupt transition	Orderly transition
Short-term	2.2	2.1	1.6	-2.6
Medium-term	2.3	1.8	0.6	4.4
Long-term	2.4	-0.9	3.2	2.6
End surplus after 20 years (£Bn)	1.72	-1.68	0.48	1.99

Strategy - Climate Opportunities

Cleaner energy

Power generation
- Solar
- Wind
- Other clean power
- Increased efficiency
- Fuel switch: gas, biomass
- Nuclear

Clean technology innovation
- Carbon capture
- Infrastructure management
- Supply chain management

Transport
- Emissions reduction
- Propulsion systems
- Battery technology

Sustainable biofuels
- Biodiesel
- Ethanol

Environmental resources

Water
- Desalination / purification
- Wastewater treatment
- Distribution and management

Agriculture
- Irrigation innovation
- Clean pesticides
- Consumer food purity
- Seeds and breeding technology

Waste management
- Recycling
- Toxin management
- Waste to energy
- Land remediation

Energy and material efficiency

Advanced materials
- Advanced coatings
- Lightweight substitutes
- Solvents and biodegradables

Building efficiency
- Building management
- Green data centre management
- Heating and cooling systems
- Lighting systems
- Insulation and materials
- Micro generation / micro CHP

Power grid efficiency
- Transmission (including smart grids)
- Distribution
- Storage (e.g., batteries, pump storage)
- Infrastructure
- Energy management systems

Environmental services

Environmental protection
- Land conservation
- Environmental restoration
- Timberland
- Forestry
- Sea defences

Business services
- Insurance
- Logistics
- Green focused banking
- Microfinance
- Consultancy / advisory
- Intellectual property

Strategy – Climate Risk Assessment

The Trustee has requested Blackrock, the Section's Fiduciary Manager and LGIM the Section's LDI Manager to provide their own assessments of climate-related risks and opportunities associated with the mandates they manage on behalf of the Scheme over the short, medium and long-term, together with their reasoning and rationale for each risk. The table below summarises the responses:

		Global Equity	Multi-Asset Credit	Government Bonds	LDI	Investment Grade Credit	Private Equity	Property	Hedge Funds	Liabilities	Covenant
Physical risks	Short term	Low to Medium	Low to Medium	Low	Low	Low to Medium	Low to Medium	Low to High	Low	Low	Low
	Medium term	Medium to High	Medium to High	Low	Low	Medium to High	Medium to High	Medium to High	Low	Medium	Medium to High
	Long term	High	High	Medium	Medium	High	High	High	Low	High	Medium to High
Transition risks	Short term	Medium	Medium	Low	Low	Medium	Medium	Medium	Medium	Low	Low
	Medium term	Medium to High	Medium	Low to Medium	Low to Medium	Medium	Medium to High	Medium to High	Low	Medium	Medium to High
	Long term	High	High	Medium	Medium	High	High	High	Low	High	Medium to High

Note: Some assets not considered, e.g. cash holdings.

Risk management – processes for managing climate-related risks

The TCFD disclosures:

a) Describe the organization's processes for identifying and assessing climate-related risks.

b) Describe the organization's processes for managing climate-related risks.

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Risk assessment:

The Trustee has undertaken a qualitative assessment of the transition and physical risks associated with each of the main asset classes that the Section holds.

In this assessment, the Trustee has considered the prioritisation of those risks, and the management of those that represent the most significant potential for loss and those that are the most likely to occur.

To do this the Trustee has adopted a 'risk and impact' approach (similar to a traditional likelihood and impact assessment) to gauge the severity or materiality of their risks.

The Trustee has integrated the processes for identifying, assessing and managing climate-related risks into its Risk Register.

The Risk Register is reviewed on a regular basis.

Results:

The likely impact on the NATS Section of the Scheme is determined via a combination of the asset allocation and the potential impact of climate-related risks. For example, although the likely impact of climate-risk on the Section's LDI mandate is relatively low, the very significant allocation to UK Government Bonds via the Section's LDI mandate with LGIM means that the impact on the Section's assets would be very significant were a risk event to occur.

In addition, the Section's liabilities (currently valued on a gilts-based valuation basis) would also be significantly impacted.

Conclusions:

Based on this assessment the Trustee's primary focus for the mitigation of climate risks should be concentrated on areas where the adjudged risk is medium to high. This would imply focus on the Global Equity and Credit mandates.

Action has been taken by the Trustee to manage the impact of climate-related risks in Global Equity via manager selection and by selecting strategies that have a deliberate focus on reducing carbon intensity and incorporate ESG into their decision making process.

With respect to the Credit mandates, climate change risks are integrated into the underlying managers' investment processes, through a combination of top down analysis on the broader portfolio and bottom up research and monitoring on individual issuers.

The deficit in the Section's assets coupled with the longer-term covenant risks for the NATS Section of the Scheme mean that both the impact and likelihood of covenant risk are relatively high.

Further, given the longer expected timeframes of the NATS Section of the Scheme the impact and likelihood of an adverse climate event on the liabilities of the Section is also relatively high.

Risk Management – Risk assessment at Scheme level

The Trustee has undertaken an assessment of the climate risks facing the NATS Section of the Scheme, similar to a traditional 'likelihood and impact' approach. The adjudged risk has been assessed as the aggregate of the qualitative risks (detailed on page 11) facing the section over the short, medium and long-term. The adjudged impact has been expressed as a proportion of the Section's liabilities*.

The overall Scheme risk is a qualitative judgement and a function of both the adjudged risk and the size of the allocation to various asset classes and, in the case of the covenant relative to the Section's deficit on the Long-Term Funding Target.

The results indicate that the Trustee's main focus should be on Global Equity (high overall rating), Credit (medium overall ratings), the liabilities (medium overall rating) and company covenant (high overall rating).

The results of the assessment are summarised below.

		Global Equity	Multi-Asset Credit	Government Bonds	LDI	Investment Grade Credit	Private Equity	Property	Hedge Funds	Liabilities	Covenant
Risk	Short term	Medium	Medium	Low	Low	Medium	Medium	Medium	Medium	*Low*	*Low*
	Mediu m term	High	Medium	Low	Low	High	High	High	Low	*Medium*	*High*
	Long term	High	High	Medium	Medium	High	High	High	Low	*High*	*High*
Impact*		18	16	13	30	13	3	3	4	100	20
Scheme Risk		High	Medium	Low	Low	Medium	Low	Low	Low	*Medium*	*High*

*% of liabilities on LTFT, at 30 September 2021. Some assets not considered, e.g. cash holdings, and therefore totals may not sum to 100%.

Metrics and Targets

The TCFD disclosure:

a) Disclose the metrics used by the organization to assess climate related risks and opportunities in line with its strategy and risk management process

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Metrics and Targets:

The Trustee is disclosing two emissions-based metrics (one absolute measure of emissions and one intensity based measure of emissions) and one additional climate related metric (data quality).

The data and metrics have been provided as far as they are able on annual basis .

The Trustee has set a target of improving Data Quality over the next 5 years.

Definitions

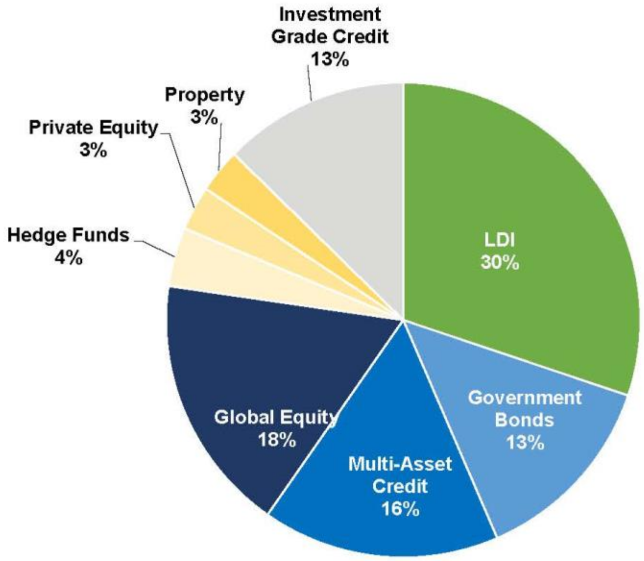
The Trustee has defined its chosen metrics as follows.

Metric	What is it?
Total GHG emissions (Absolute measure of emissions)	The absolute GHG emissions associated with the Section's portfolio, expressed **in million tons CO_2e.**
Carbon footprint (Intensity based measure of emissions)	Total GHG emissions for a portfolio normalized by the market value of the Section's portfolio, expressed **in tons CO_2e/£M invested**.
Data quality (Third additional metric)	The proportion of the portfolio for which high-quality emissions data (Scope 1, 2 and 3*) is available.

The emissions data of the current portfolio and broken down by each asset class are shown on pages 98 and 99.

Data quality is addressed in more detail on page 100.

Portfolio emissions data



The data coverage of the current portfolio has been estimated to be 63%*. Notwithstanding any steps taken to improve the ESG characteristics of the current portfolio, the Trustee acknowledges that as coverage improves over the coming years, it is likely that the Section's absolute measure of emissions (total GHG emissions) will rise before it falls, as the result of gaining a better understanding of the underlying data.

	Total portfolio
Total GHG emissions (MtCO2e)	1.36
Carbon footprint (tCO2e/£M)	134.4

Source: BlackRock as at 30 September 2021. Estimated by Aon in the absence of available data from the managers and the insurers.

*See notes on page 100.

Emissions data broken down by asset class

	BlackRock						LGIM
Mandate	Global Equity	Multi-Asset Credit	Government Bonds	Investment Grade Credit	Hedge Funds	Alternatives	LDI
% of total Section assets	18%	16%	13%	13%	4%	6%	30%
Total GHG Emissions ($MtCO_2e$)	0.03	0.05	0.17 (Estimated – see note 1)	0.07	Not yet available as best practice is being debated.		1.04 (Estimated – see note 1)
Carbon Footprint (tCO_2e/£M)	40.1	132.4	205.0 (Estimated – see note 1)	127.9			205.0 (Estimated – see note 1)
Data Quality	85.2%	42.4%	Estimated – see note 1	80.0%			100.0%
Effective date	30 September 2021						30 September 2021

Source: BlackRock / Aon. Cash and fixed income futures managed by BlackRock is not included on grounds of materiality.

Notes:

1. In the absence of the data from BlackRock and LGIM, we have estimated the metrics for government bonds and LDI from the latest statistics on national emissions and national debt from the UK Government. This is in line with the DWP's statutory guidance.

Improving data quality

Initial areas of focus

In seeking to improve data quality over the coming years the, Trustee's initial focus is on data coverage i.e. the proportion of the Section's assets for which scope 1 and 2 emissions data is available. The Trustee will prioritise asset classes which have the least data coverage i.e. **multi-asset credit, hedge funds** and **alternatives**, as well as asset classes for which the initial climate metrics have been estimated i.e. **government bonds** and **LDI** are also priorities.

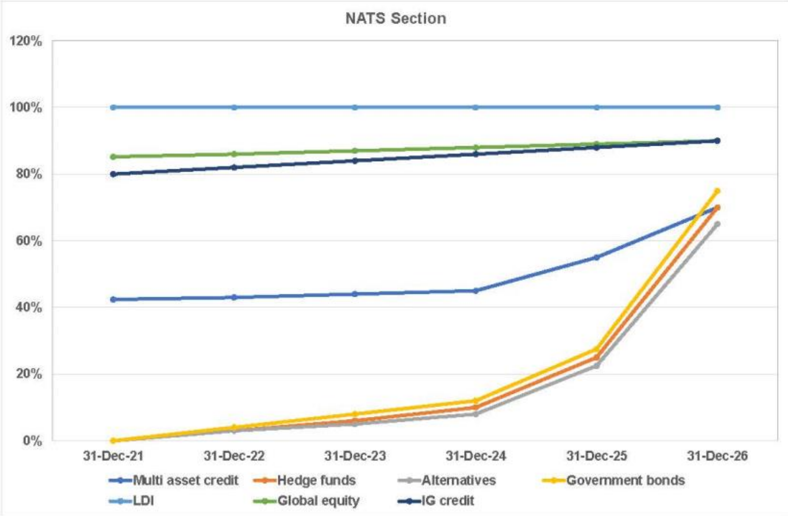
What improvement is expected to look like

The Trustee expects to see a gradual improvement in data quality for equities and bonds over the next few years. For other asset classes such as alternatives, hedge funds and government bonds, development in the next few years is expected to take place more slowly, with more progress expected in due course as best practice continues to be developed in this area.

The chart opposite illustrates the expected progress across the Section's asset classes over the next five years. Each year the Trustee will review the progress made and revaluate the target for each asset class.

Looking ahead

The Trustee acknowledges that while they are not currently required to obtain Scope 3 emissions for this first Scheme year (in line with the DWP's statutory guidance), their forward looking data quality measure and target will need to capture Scope 3 (as well as Scope 1 and 2) data. The Trustee also intends to report on the proportions of the portfolio for which emissions data is reported, verified and estimated.



Notes: (1) We have determined the overall data coverage of the total portfolio as the weighted average of the data coverage across asset classes / insurers. For asset classes / insurers where the data is not yet available and / or best practice is still being developed, we have assumed that data coverage is nil. (2) We expect LGIM to report on the Trustee's chosen metrics in Q2 2022. Until then we have assumed that data coverage for the LDI assets is 100%.

TAS compliance

This document has been prepared in accordance with the framework below.

This document, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100').

The compliance is on the basis that the Trustee of the Civil Aviation Authority Pension Scheme are the addressees and the only users and that the document is only to be used for the purpose of establishing a climate risk framework. If you intend to make any other decisions after reviewing this document, please let me know and I will consider what further information I need to provide to help you make those decisions.

The document has been prepared under the terms of the Agreement between the Trustee and Aon Solutions UK Limited on the understanding that it is solely for the benefit of the addressees.

This document should be read in conjunction with the paper entitled "Climate change risk: scenario analysis and next steps" dated 22 June 2021.

If you require further copies of these documents, please let me know.