

Cathay Pacific Airways Limited UK Retirement Benefits Scheme – Implementation Statement for 2019 DB Regulations

Statement of Compliance with the Cathay Pacific Airways Limited UK Retirement Benefits Scheme Stewardship Policy for the year ending 31 December 2023.

Introduction

This is the Trustees' statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustees have complied with the Scheme's Stewardship Policy (which is embedded in the Statement of Investment Principles) during the period from 1 January 2023 to 31 December 2023.

Stewardship policy

The Trustees' Stewardship (voting and engagement) Policy sets out how the Trustees will behave as active owner of the Scheme's assets, which includes the Trustees' approach to:

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustees monitor and engage with their investment managers and any other stakeholders.

The Scheme's stewardship policy is reviewed in line with any review of the Scheme's Statement of Investment Principles ("SIP"). This Implementation Statement is in respect of the Scheme's SIP that was in place as at the Scheme's year end 31 December 2023. The SIP was last reviewed in November 2022 and updated to reflect the Scheme's new investment in multi-asset credit and an increase in the hedging levels on interest rates and inflation. Subsequent to the Scheme's year end, the SIP has been reviewed and updated as of May 2024 to reflect further increase in the hedge ratios on interest rates and inflation, and a strategic increase in the asset portfolio's allocation to corporate bonds. The next review of the SIP will take place no later than April 2027 on the regulatory triennial schedule, or sooner if there are changes to the investment strategy or stewardship policy.

The Scheme's Stewardship Policy can be found within the Scheme's Statement of Investment Principles, available on request and online at https://www.cathaypacific.com/cx/en_GB/about-us/responsible-business/employee-compliance-reports.html

The Trustees have delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustees believe it is important that their investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with management on issues which affect a company's financial performance.

The Trustees' own engagement activity is focused on their dialogue with their investment managers and is undertaken in conjunction with their investment advisers. The Trustees meet with their managers and the Trustees consider the managers' exercise of their stewardship both during these meetings and through reporting provided by their investment adviser. A portion of the Scheme's assets are invested in equities, which come with voting rights for shareholders, and the rest invested across liability-hedging instruments, bonds, and other debt-based instruments, which do not come with voting rights attached. The Trustees recognise the importance of stewardship in relation to voting rights which come with equity investments and also the engagement activity by the Scheme's non-equity investment managers.

The Trustees are satisfied that the managers have complied with the Scheme's Stewardship Policy over the year to 31 December 2023.

Voting activity

The Trustees seek to ensure that the managers are exercising voting rights and where appropriate, to monitor the managers' voting patterns. The Trustees invest in equity assets through a global equities mandate with Morgan Stanley. The Trustees' investment manager has reported on how votes were cast in the relevant equity mandate as set out in the table below:

Morgan Stanley	Global Quality Fund
Proportion of Scheme assets*	14.3% (£6.4m)
No. of meetings eligible to vote at during the year	46
No. of resolutions eligible to vote on during the year	782
% of resolutions voted	100.0%
% of resolutions voted with management	88.0%
% of resolutions voted against management	11.9%
% of resolutions abstained	0.1%
% of meetings with at least one vote against management	80.4%

*As at 31 December 2023. Figures are rounded to 1d.p.

The resolutions which Morgan Stanley voted against management the most on over the Scheme year were mainly in relation to executive remuneration and board of directors.

Significant votes

The Trustees have asked their managers to report on the most significant votes cast within the portfolios they manage on behalf of the Trustees. From the managers' reports, the following votes have been identified as being of greater relevance to the Scheme.

Morgan Stanley

Morgan Stanley considers a vote against management as a significant vote. Morgan Stanley do not consult with any parties internally or externally, including clients, to inform the voting decision prior to voting securities in pooled mandates. The Trustees are satisfied that the manager's voting behaviour is aligned with the Scheme's stewardship priorities.

Date	Company	Subject and manager vote	Summary and rationale
01 February 2023	Accenture Plc	Vote against ratifying Executive Officers Compensation.	Concerns around a lack of disclosure and short vesting period.
03 May 2023	Philip Morris International Inc.	Vote against Director elect.	Concerns over a lack of board diversity.
11 May 2023	SAP SE	Vote against remuneration report.	Concerns around historical pay increases.
16 June 2023	Aon plc	Vote against ratifying Executive Officers Compensation.	Concerns with the long-term incentive plan structure.
09 November 2023	Broadridge Financial Solutions, Inc.	Vote against ratifying Executive Officers Compensation.	Concerns with the long-term incentive plan structure.
10 November 2023	Pernod Ricard SA'	Vote against Director elect.	Concerns with a lack of board diversity.

Trustee-manager engagement activity

The Trustees hold meetings with their investment managers on a periodic basis, where stewardship issues are discussed along with other investment matters. The Trustees carried out the following manager engagement during the year:

Engagement date	Manager
20 November 2023	Morgan Stanley (MS)

Summary of manager engagement activity

The Trustees receive periodic reporting on the managers' engagement activity. The following table summarises the key engagement activity for the 12-month period ending 31 December 2023.

Manager: Fund*	Number of engagements	Topic engaged on
Morgan Stanley: Global Equities	Morgan Stanley undertook 137 active engagements; from which 69 were ESG engagements over the year to 31 December 2023. These topics are split across the ESG spectrum as follows: 31% environment, 30% social and 39% governance.	Key engagements in relation to the Global Quality Fund are discussed in 'voting activity' above. In all cases Morgan Stanley continues to engage with the company in question.
Legal and General Investment Management: LDI, cash and corporate bonds	<ul style="list-style-type: none"> Fixed income portfolio with no voting rights 29 total engagements in relation to the corporate bonds holding and 25 engagements in relation to the liquidity (cash) fund 	Environmental issues (climate change and climate impact Pledge), governance issues (executive remuneration, board composition), and social issues (diversity, public health).
Intermediate Capital Group: Multi asset credit	<ul style="list-style-type: none"> ICG undertook 427 active engagements over the year to 31 December 2023. These topics are split across the ESG spectrum as follows: 40% environment, 20% social and 40% governance. 	As debt investors, ICG initial engagement opportunities intend to gather more information on ESG matters. Increasingly ICG have been engaging with issuers to encourage positive changes in their practices. Key topics discussed during these engagements included: ESG reporting; decarbonisation; climate change risk; biodiversity and board composition.

*As at 31 December 2023.

Use of a proxy adviser

The Trustees' investment managers have made use of the services of the following proxy voting advisors over the Scheme year:

Manager	Proxy Advisor used	Commentary
Morgan Stanley	<ul style="list-style-type: none"> <li data-bbox="470 324 954 392">Institutional Shareholder Services (ISS) 	Morgan Stanley vote in-line with internal proxy voting policy and procedures. ISS provides voting research, execution, reporting and recordkeeping services to the manager. Morgan Stanley voted contrary to ISS recommendation on 8.3% of resolutions which the manager voted on.

Review of policies

The Trustees and their advisors remain satisfied that the voting policies of the managers remain suitable for the Scheme at present and intend to review this periodically.

The Trustees hope that this Statement helps you understand how the Scheme’s investments have been managed over the year 1 January 2023 to 31 December 2023.