Cathay Pacific Airways Limited UK Retirement Benefits Scheme – Statement of Investment Principles

May 2024

This Statement of Investment Principles (the "SIP") has been prepared by the Trustees of the Cathay Pacific Airways Limited UK Retirement Benefits Scheme ("the Scheme") in accordance with the Pensions Act 1995 (as amended). It is subject to periodic review by the Trustees at least once every three years and without delay after any significant change in investment policy.

In preparing this Statement the Trustees have consulted with the employer to the Scheme, Cathay Pacific Airways Limited UK, and have taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

The Scheme is a defined benefit scheme which closed to new members on 31 December 2001 but remains open to further accruals.

Scheme objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustees' statutory funding objective is that the Scheme should have sufficient and appropriate assets to cover its technical provisions. The funding position is monitored regularly by the Trustees and formally reviewed at each triennial actuarial valuation or more frequently, as required by legislation.

The Trustees' objective with regard to the Scheme's investments is to ensure that the accumulated fund, together with the contributions payable by the Company in future, are invested in such a manner that the individual benefits for each member can be paid from the Scheme as they arise. In framing an investment strategy, the Trustees have adopted a quantitative objective of recovering any shortfall in assets relative to the value placed on accrued liabilities by 2027.

Investment strategy

The Trustees have translated their objectives into a suitable strategic benchmark for the Scheme. The strategic benchmark is reflected in the choice and mix of funds in which the Scheme invests. The benchmark is consistent with the Trustees' views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The investment strategy takes account of the following:

- The maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners);
- The level of risk tolerance of the Trustees and the employer;
- The level of disclosed surplus or deficit (relative to the funding bases used);
- The Trustees' view of the covenant of the principal employer.

The Trustees have agreed to adopt the following strategic asset allocation benchmark for the Scheme which reflects the objectives set out above. This is set out in the table below.

Asset Class	Current strategy*	Benchmarks**
Growth Global Equities	**15%** 15%	*MSCI World*
Income Sub-investment grade multi-asset credit Investment grade bonds	**35%** 15% 20%	*Composite*** *Markit iBoxx £ Non-Gilts (ex BBB) Over 15 yr.*
Protection LDI (interest rate and inflation hedging and liquidity)	**50%**	***Not applicable***

*Transition to the above investment strategy was completed in March 2024

**Sub-investment grade multi-asset credit is provided by Intermediate Capital Group (“ICG”) whose credit fund’s benchmark is comprised of 35% ICE Bank of America, US Non-Financial High Yield Constrained Index, 35% Credit Suisse Institutional Leveraged Loan Index, 15% ICE Bank Of America, European Currency Non-Financial High Yield Constrained Index (USD hedged) and 15% Credit Suisse CS Western European Institutional Leveraged Loan Index (USD hedged)

As part of the implementation of the above strategy, the Scheme increased its LDI hedge target from 75% to 90% (on a gilts flat basis) to further its protection against adverse movements in interest rates and inflation.

The Trustees monitor strategy relative to the agreed benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme. Written advice is received as required from professional advisers.

Implementation of investment strategy

All day-to-day investment decisions have been delegated to authorised investment managers. All investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

Kinds of investment to be held

The Scheme may invest in, either directly or through pooled funds, quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, sub-investment grade credit, cash, property and commodities.

The Scheme may also make use of contracts of insurance, derivatives and contracts for difference (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks.

The Trustees consider all of these classes of investment to be suitable in the circumstances of the Scheme.

Balance between different kinds of investments

The mix of investments is determined mainly by the choice of strategic asset allocation benchmark as outlined above. Within each major market, the manager will maintain a diversified portfolio of investments through pooled vehicles.

Expected return on investments

The investment strategy aims to achieve a return on Scheme assets, which taken in conjunction with contributions is sufficient over time to match growth in the Scheme’s pension liabilities.

Realisation of investments

The majority of the Scheme’s investments may be realised quickly if required.

Manager engagement

The Trustees have appointed each of their investment managers to deliver a specific benchmark or performance target, which overall will align to deliver the broader Scheme investment strategy. The Trustees ensure that all manager engagements have clearly defined benchmarks, objectives and management parameters.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Scheme. Where such tailoring is not directly achievable, the Trustees will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustees to ensure that they are appropriate for the needs of the Scheme. The Trustees will take advice in determining the appropriateness of each manager and mandate for the Scheme. By investing in this manner, the Trustees are confident that the managers appointed will make decisions which are commensurate with the period over which the Trustees expect to be invested in each mandate.

The Trustees review the performance of each of the Scheme's managers and mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed. The Trustees draw input from their investment adviser to support any such review of and engagement with its investment managers. Where necessary, the Trustees will highlight any areas of concern identified during such reviews to the manager as part of its engagement process.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustees may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark. The Trustees periodically review the fees paid to all of the Scheme's managers against industry standards.

The Trustees recognise the long-term nature of the Scheme's liability profile and appoints its managers to invest in such a way that generates long-term sustainable returns. The Trustees will carry out necessary due diligence to ensure the managers make investment decisions over an appropriate time horizon aligned with the Scheme objective.

The duration of each mandate is determined by the Trustees at the inception of each mandate. For open-ended investments, the Trustees generally engage managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustees expect the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For close-ended investments, the Trustees expect the term of the appointment to be the lifetime of the investment.

The Trustees have expectations of the level of turnover within each mandate which are determined at the inception of the mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the underlying portfolio. Whilst the Trustees expect financial performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees also expect managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period, including details of the costs associated with transactions. The Trustees will challenge the manager if there is a material deviation in portfolio turnover from expectations or historic experience within the mandate.

Risk

The Scheme is exposed to a number of risks which pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are:

Funding risks

The Trustees recognise and monitor a number of risks involved in the investment of assets of the Scheme. These risks, and how they are measured and managed, include:

- **Funding and asset/liability mismatch risk**. The risk that the funding level is adversely affected due to a mismatch between the assets and liabilities.
  - The asset allocation benchmark has been determined with specific reference to the Scheme's liabilities and this is reviewed formally at least once every three years.
  - The Trustees have established informal re-balancing ranges and monitors this on an ongoing basis. This serves to control the risk that the returns could deviate too far from the return on the chosen benchmark.
  - The Trustees have also sought to mitigate some of the Scheme's interest rate risk and inflation risk through a liability hedging arrangement.
  - This risk is also monitored through regular actuarial and investment reviews.
- **Underperformance Risk**. The risk of underperforming the benchmarks and objectives set by the Trustees. This risk is minimised using the following techniques:
  - Appropriate diversification across asset classes within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
  - Regular monitoring of the managers' performance, processes and capabilities with respect to their mandate.
  - The Trustees do not expect managers to take excessive short-term risk.
- **Systemic Risk.** The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Scheme's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts. The Trustees seek to mitigate systemic risks through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.
- **Country Risk**. The risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across several countries. This is monitored by ensuring that the Scheme is not overexposed to a particular country.
- **Concentration risk**. The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives. This is mitigated by ensuring investment in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock or sector.
- **Liquidity Risk**. The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets. The Trustees manages this risk by investing the majority of the assets in asset classes which are realisable with sufficient notice to meet the Scheme's cash flow requirements.
- **Demographic Risk.** The Trustees keep under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.
- **Transition Risk**. This is the risk of paying unnecessary costs or being at increased risk of adverse market movements when transitioning assets from one manager or asset class to another. This risk is mitigated by

organising transitions in a structured fashion with the advice of the Advisors or by using a specialist transition manager if appropriate.

- **Environmental, Social and Governance (ESG) risks**. The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations. The Trustee's approach to the consideration of ESG risks are set out in further detail below.
- **Climate risk**. The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy. The Trustees approach to consideration of climate risk is set out in further detail below.

The Trustees also manage the operational risks associated with the Scheme's investments through efficient governance arrangements, supported by the Scheme Secretary, investment adviser, custodian and auditor.

Responsible Investment

Consideration of financially material factors in investment arrangements

The Trustees recognise that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process.

Strategic considerations

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

Given the uncertainty inherent, the Trustees have not made explicit allowance for the risks of climate change in setting their strategic benchmark.

Structural considerations

Given the discretion afforded to the active investment managers, the Trustees expect that their investment managers will take account of all financially material factors including the potential impact of ESG factors in the implementation of their mandate.

Selecting investment managers

Within the active equities and diversified growth mandates, the Trustees have delegated responsibility for the consideration of stock specific issues to the investment managers responsible, and are satisfied that the manager is following an approach which takes account of all financially material factors. Where passive strategies are incorporated in an overall active strategy, for instance within the diversified growth mandate, the Trustees recognise that the choice of benchmark dictates the assets held by the underlying manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material.

Consideration of non-financially material factors in investment arrangements

The Trustees have not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors, and have not consulted members on the issue of incorporating such factors into the Scheme's investments.

Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

Voting and engagement

The Trustees have adopted a policy of delegating voting decisions on stocks to their investment managers, on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. The investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where appropriate, the Trustees will engage with and may seek further information from their investment managers on how portfolios may be affected by a particular issue.

The Trustees do not engage directly but believe it is appropriate for their investment managers to engage with key stakeholders, including corporate management, regulators, and governance bodies, relating to their investments in order consider the management of conflicts of interest and improve corporate behaviour, improve performance, and mitigate financial risks. Where necessary, investment managers are expected to notify the Trustees of any issue on which it may be beneficial for the Trustees to undertake further engagement. The Trustees will review engagement activity undertaken by their investment managers as part of broader monitoring activity.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

Monitoring

Investment managers report on voting activity to the Trustees on a periodic basis. The Trustees will monitor investment managers' voting activity and may periodically review managers voting patterns. The Trustees may also monitor investment managers' voting on particular companies or issues affecting more than one company.

Where the Trustees deem it appropriate, any issues of concern will be raised with their manager for further explanation.

For and on behalf of the Trustees of Cathay Pacific Airways Limited UK Retirement Benefits Scheme.