

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 2020.

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 2020 to 31 December 2020.

Stewardship policy

The Trustees' Stewardship (voting and engagement) Policy sets out how the Trustees will behave as an 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), which was last completed in August 2020.

The following changes were made to the Stewardship Policy during the last year:

- Increased focus on approach to stewardship;
- Ensure that the managers have suitable policies in place which address conflicts of interest.

You can review the Scheme Stewardship Policy which can be found within the Scheme's Statement of Investment Principles, 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 the management on issues which affect a company's financial performance.

The Trustees' own engagement activity is focused on their dialogue with their investment managers which 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.

The Trustees are satisfied that they have complied with the Scheme's Stewardship Policy over the year to 31 December 2020.

Voting activity

The Trustees seek to ensure that their managers are exercising voting rights and where appropriate, to monitor managers voting patterns. The Trustees have investment in equity assets through a global equities mandate with Morgan Stanley and a diversified growth mandate with Schroders. The Trustees' investment managers have reported on how votes were cast in each of these mandates as set out in the tables below:

Morgan Stanley	Global Quality Fund
Proportion of Scheme assets*	36.4% (£19.7m)
No. of meetings eligible to vote at during the year	45
No. of resolutions eligible to vote on during the year	628
% of resolutions voted	100.0%
% of resolutions voted with management	90.0%
% of resolutions voted against management	10.0%
% of resolutions abstained	0.0%
% of meetings with at least one vote against management	78.0%

*As at 31 December 2020

The resolutions which Morgan Stanley voted against management the most on over the Scheme year were mainly in relation to: Executive remuneration; Board of Directors; and Capital structure.

Schroders	Diversified Growth Fund
Proportion of Scheme assets*	63.6% (£34.4m)
No. of meetings eligible to vote at during the year	1,637
No. of resolutions eligible to vote on during the year	19,533
% of resolutions voted with management	91.9%
% of resolutions voted against management	7.8%
% of resolutions abstained	0.3%
% of meetings with at least one vote against management	35.8%

*As at 31 December 2020

The resolutions which Schroders voted against management the most on over the Scheme year were mainly in relation to: Executive remuneration; Corporate strategy; and Board of Directors.

Given the complexity of the diversified growth portfolio, the process of isolating significant votes out of thousands of resolutions voted on across the underlying funds and asset classes is not as straightforward as with an all-equity portfolio. Schroders have therefore provided case studies of voting and engagement with detailed rationale which more appropriately reflects their approach to engagement. Cases are detailed in the next section below.

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. Prior to voting securities in pooled mandates, Morgan Stanley do not consult with any parties internally or externally, including clients, to inform the voting decision.

Date	Company	Subject and manager vote	Summary and rationale
28 January 2020	Becton, Dickinson and Company	Vote against remuneration report	Concerns around the performance metrics of the long-term incentive plan.
28 January 2020	Visa Inc.	Vote against remuneration report	Concerns over the structure of executive pay and performance metrics.
30 January 2020	Accenture Plc	Vote against remuneration report	Poor disclosure or performance metrics.
24 April 2020	Abbott Laboratories	Vote against remuneration report	Concerns around the performance metrics of the long-term incentive plan.
30 April 2020	British American Tobacco Plc	Vote against remuneration report	Concerns over compensation structure.
05 May 2020	Danaher Corporation	Vote against remuneration report	Concerns around the performance metrics of the long-term incentive plan.
12 May 2020	Reckitt Benckiser Group Plc	Vote against remuneration report	Concerns over short-term and long-term performance metrics.
26 May 2020	RELX Plc	Vote against increase in borrowing limit under the company's articles of association	Concerns that increase to borrowing powers was excessive.
03 June 2020	Alphabet Inc.	Vote against Director election	Concerns over compensation. The manager voted to withhold for compensation committee members.

Schroders

Schroders considers a vote against management as a significant vote, in addition to votes pertaining to some form of material controversy in relation to ESG, climate change, ethics, or alignment of interest. The fund invests in a range of diversified growth asset classes, for which only equities come with voting rights.

Date	Company	Subject and manager vote	Summary and rationale
27 May 2020	Amazon.com	Votes against the election of Director Jonathan J. Rubinstein	<p>Schroders opposed this resolution on the basis of ongoing concerns about labour standards and company responsiveness to shareholder concerns.</p> <p>Schroders has also engaged with Amazon.com in relation to climate issues and sustainability, and head office culture. A major concern for Schroders is transparency of Amazon.com's workforce structure, employment practices and labour standards relative to the magnitude of the company's recent growth, which has come under greater scrutiny during the Covid-19 pandemic. Schroders note some improvements on sustainability have been implemented, but have continued to escalate their concerns around employee working conditions. Schroders gave Amazon.com a 12-month window from the vote to improve on these issues to avoid further escalation.</p>
26 June 2020	Tesco Plc.	Vote against remuneration report	<p>Schroders voted against the approval of the remuneration report citing that historical performance share plan (PSP) targets should be retested. Schroders have been challenging Tesco Plc on remuneration since 2015 and have questioned recent changes to the company's executive pay policies which Schroders deem are misaligned with shareholder interests. Schroders note that they will continue to engage with the company ahead of the 2021 AGM and continue to apply pressure as shareholders.</p>
20 August 2020	Catalyst Pharmaceuticals Inc.	Votes against election of Director Philip H. Coelho	<p>Schroders voted against this resolution because the Board lacks gender diversity and chairs the nomination committee.</p> <p>Schroders continues to engage with companies to promote gender diversity in the US and have increased their voting against Boards lacking gender diversity during 2020. Schroders also actively engages with technology companies across US, Europe and Asia for increased diversity and inclusion at employee and manager levels.</p>

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 did not meet with any of their managers over the 12 months to 31 December 2020, due to logistical restrictions imposed by the Covid-19 pandemic. The Trustees intend to meet with each of their managers at least once over the next 12 months and thereafter.

Summary of manager engagement activity

The Trustee receives periodic reporting on their managers' engagement activity. The following table summarises the key engagement activity for the 12-month period ending 31 December 2020.

Manager: Fund	Number of engagements	Topic engaged on
Morgan Stanley	Morgan Stanley undertook over 700 engagements with companies on ESG issues during the year.	<p>Main issues engaged on include indigenous people, climate risk (global warming), pollution, depleting natural resources, and eco-diversity and critical habitats.</p> <p>Morgan Stanley commits to not participating in transactions where there is involvement in forced labour practices, child labour, and human rights risks.</p> <p>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.</p>
Schroders	<p>Schroders undertook 780 engagements over the year to 31 December 2020 discussing 1,555 topics. These topics are spread across the ESG spectrum as follows: 186 environmental, 268 social, and 1,101 governance.</p> <p>Over the 12-months to 31 December 2020 Schroders report that, in total, 51% of their engagement objectives were either achieved, almost achieved, or achieved some change.</p>	<p>In 2020 Schroders engaged mainly on human rights and forced labour practices, climate change, environmental policy and biodiversity.</p> <p>Engagements largely focused on the financials, materials, and industrials sectors.</p> <p>Key engagements in relation to the Schroder Life Diversified Growth Fund are discussed in 'voting activity' above. Schroders seeks to support the management of investee companies and will publicly disclose where they vote against management.</p>

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"> 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 8.0% of resolutions which the manager voted on.
Schroders	<ul style="list-style-type: none"> Institutional Shareholder Services (ISS) Investment Association's Institutional Voting Information Services (IVIS) 	Schroders receive research from these advisors as part of a holistic approach to voting decision making.

Review of policies

The Trustee and its advisors remain satisfied that the voting policies of the managers remain suitable for the Scheme at present, however 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 2020 to 31 December 2020.