

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 2021.

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 2021 to 31 December 2021.

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.

There were no changes to the Stewardship Policy during the last year.

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 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.

The Trustees are satisfied that they have complied with the Scheme's Stewardship Policy over the year to 31 December 2021.

Voting activity

The Trustees seek to ensure that their 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, a diversified growth mandate with Schroders. Since the previous implementation statement, the Trustees have also entered into a liability matching mandate consisting of corporate bonds, gilts and cash with Legal and General Investment Management ("LGIM"). 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*	38.3% (£23.7m)
No. of meetings eligible to vote at during the year	42
No. of resolutions eligible to vote on during the year	636
% of resolutions voted	100.0%
% of resolutions voted with management	88.8%
% of resolutions voted against management	11.0%
% of resolutions abstained	0.2%
% of meetings with at least one vote against management	69.1%

**As at 31 December 2021*

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.

Schroders	Diversified Growth Fund
Proportion of Scheme assets*	34.1% (£21.1m)
No. of meetings eligible to vote at during the year	2,023
No. of resolutions eligible to vote on during the year	23,597
% of resolutions voted with management	91.0%
% of resolutions voted against management	8.4%
% of resolutions abstained	0.6%
% of meetings with at least one vote against management	44.9%

**As at 31 December 2021*

The resolutions which Schroders voted against management the most on over the Scheme year were mainly in relation to: executive remuneration; capital structure; corporate governance; 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.

Date	Company	Subject and manager vote	Summary and rationale
26 January 2021	Visa Inc.	Vote against executive compensation	Concerns around the performance metrics of the long-term incentive plan.
3 February 2021	Accenture Plc	Vote against Director election	Ongoing compensation concerns led to vote against remuneration committee.
15 April 2021	LVMH Moet Hennessy Louis Vuitton SE	Vote against Director election	Concerns around nominee's recent criminal conviction.
15 April 2021	LVMH Moet Hennessy Louis Vuitton SE	Vote against executive compensation	Poor disclosure or performance metrics, performance conditions, and length of vesting period.
20 April 2021	Moody's Corporation	Vote against Director election	Poor disclosure or performance metrics, performance conditions, and length of vesting period.
23 April 2021	Abbott Laboratories	Vote against executive compensation	Concerns over pay structure.
20 May 2021	Zoetis Inc	Vote against remuneration report	Concerns over short-term and long-term performance metrics.
28 May 2021	Reckitt Benckiser Group Plc	Vote against remuneration report	Concerns over amount of pay and the use of earnings per share for the long-term incentive plan.
6 October 2021	Nike	Vote against executive compensation	Concerns over amount of CEO's pay and structure of the long-term incentive plan.
12 November 2021	The Estee Lauder Companies Inc.	Vote against Director election	Ongoing compensation concerns.

Schroders

Schroders considers a vote against management as a significant vote. The fund invests in a range of diversified growth asset classes, for which only the equities allocation comes with voting rights.

Date	Company	Subject and manager vote	Summary and rationale
17 May 2021	BOC Hong Kong (Holdings) Limited	<ul style="list-style-type: none"> • Vote against issuance of equity without pre-emptive rights • Vote against reissuance of repurchased shares 	<ul style="list-style-type: none"> • Concerns around excessive dilution • Failure to specify discount limit for reissuance
26 May 2021	Amazon	<ul style="list-style-type: none"> • Vote against auditor appointment • Vote against executive compensation 	<ul style="list-style-type: none"> • Concerns around excessive auditor tenure • Lack of performance conditions attached to long-term incentive awards
3 June 2021	BOC Aviation Limited	<ul style="list-style-type: none"> • Vote against issuance of equity without pre-emptive rights • Vote against reissuance of repurchased shares 	<ul style="list-style-type: none"> • Concerns around excessive dilution without pre-emptive rights • Discount limit for reissuance exceeding 10%
17 June 2021	Delta Air Lines, Inc.	<ul style="list-style-type: none"> • Vote against Director election 	<ul style="list-style-type: none"> • Concerns around gender underrepresentation on the Board
27 July 2021	Wizz Air Holdings Plc	<ul style="list-style-type: none"> • Vote against executive compensation • Vote against value creation plan • Vote against Director re-election 	<ul style="list-style-type: none"> • Disapproval of value creation plan • Disapproval of value creation plan • Concerns around succession • Nominee represents a number of external Boards and role may be impacted
16 September 2021	Ryanair Holdings Plc.	<ul style="list-style-type: none"> • Vote against Director re-election 	<ul style="list-style-type: none"> • Lack of independence on the Board and nominees' connection to CEO

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 2021 but 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.

Some of the Scheme's assets are invested in liability-hedging and corporate bonds investments with no associated voting rights. As such, the Trustees recognise the importance of the broader stewardship activity of the Scheme's non-equities investment managers. Despite investing in assets with no voting rights, LGIM still actively engages across the portfolio, a summary of which is included below.

The following table summarises the key engagement activity for the 12-month period ending 31 December 2021.

Manager: Fund	Number of engagements	Topic engaged on
Morgan Stanley: Global Equities	Morgan Stanley commits to not participating in transactions where there is involvement in forced labour practices, child labour, and human rights risks. Whilst their 2021 report was not finalised prior to the publication of this implementation statement, we noted in our previous implementation statement that Morgan Stanley undertook over 700 engagements with companies on ESG issues. We are satisfied Morgan Stanley remain committed to ESG-related engagements and look forward to the publication of their 2021 reporting.	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.
Schroders: Diversified Growth	Schroders undertook 670 active engagements over the year to 31 December 2021 discussing 892 topics. These topics are split across the ESG spectrum as follows: 29% environmental, 9% social, and 62% governance.	In 2021 Schroders engaged mainly on remuneration, climate change, Board structure, environmental policy and accounting practices. Key engagements are discussed in the 'voting activity' section above. Schroders seeks to support the management of investee companies and will publicly disclose where they vote against management.
Legal and General Investment Management: LDI and corporate bonds	<ul style="list-style-type: none"> Fixed income portfolio with no voting rights 65 total engagements covering 20% of the fund value of corporate bonds 	Climate change, executive remuneration, board composition, gender diversity, nomination and succession

	<ul style="list-style-type: none"> 28 total engagements covering 1% of fund value of the LDI holdings 	
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Use of a proxy adviser

The Trustees' investment managers have made use of the services of the following proxy voting advisers 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 7.0% 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 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 2021 to 31 December 2021.