

Policy on Consideration of Environmental, Social and Governance Issues for Investment Purposes

July 2021

1. SUMMARY

The investment objective of funds managed by Airlie Funds Management ("**Airlie**") is to provide long-term capital growth through investment in Australian equities. Airlie seeks to achieve this objective by focusing on the quality and financial strength of existing and potential investments.

It is the view at Airlie that considering environmental, social and governance ("**ESG**") issues in its investment decision-making provides greater insight into areas of potential risk and opportunity which will have a bearing on the value, performance and reputation of investments made by Airlie on behalf of its clients.

Where appropriate, the Airlie Investment Team will engage with investee (or prospective investee) companies in regard to their ESG policies and their management of ESG risks. The objective of such engagement is to enhance the certainty of long-term cash flow generation we expect from the company.

ESG issues are reviewed as part of the assessment of Business Quality, Management Quality and Valuation completed for the determination of investment grade status. ESG issues are discussed as part of the research completed for each portfolio company and are reviewed on an annual basis as part of the ongoing analysis of companies.

2. INTRODUCTION

This Policy seeks to outline:

- how ESG issues are linked to Airlie's investment analysis framework; and
- how ESG issues are incorporated as part of the investment process.

The processes apply to both managed investment schemes ("**funds**") and designated investment mandates ("**mandates**") where Airlie is appointed investment manager.

3. WHY ESG ISSUES SHOULD BE CONSIDERED AS PART OF THE INVESTMENT ANALYSIS PROCESS

Consideration of ESG issues is a component which is implicit to Airlie's investment philosophy and selection process, in that Airlie's aim is to incorporate material ESG issues in the same balanced way it does other key risks which impact investment performance.

Airlie seeks to identify high quality investments and acquire such investments at prices assessed as representing good value. As part of the assessment of a company's fair value, Airlie seeks to consider all issues that it is able to identify that may materially affect the investment outcomes for a company. ESG issues affect the investment outcomes for a company and Airlie specifically considers these issues as part of its analysis of Business Quality, Management Quality and Valuation.

When assessing companies for inclusion in our portfolios, a company must meet three quality criteria. If a company meets all three criteria, they are then assessed for value.

- **Financial Strength** – A judgement call on whether the company possesses the appropriate financial structure for the industry and operating environment, incorporating analysis of solvency, liquidity, liabilities, future cash needs of the business and the ability to withstand an economic downturn.
- **Business Quality** – Assessment of industry position, cash generation, returns on capital, reinvestment opportunities
- **Management Quality** – Assessment of alignment, governance, capital allocation, track-record
- **Valuation** – Assessment of the fair value of a business, based on future cash flows and returns.

ESG issues are part of the suite of issues that affect business quality, management quality, and valuation for companies and, accordingly, should be considered as part of the analysis of a potential investment

Environmental Issues

In order to fully understand the business risks facing a company, investors should consider environmental risks and opportunities that might affect the future operations of a company including issues such as pollution, climate change, resource depletion, ecosystem change, waste disposal, the use of toxic chemicals, and other environmental issues.

Airlie believes climate change is a particularly important environmental issue for businesses and investors to consider. When making an assessments of the company-specific risks and opportunities associated with climate change, Airlie considers factors such as emissions intensity, physical and transition risks as well as its climate change mitigation activities in the business quality assessment, as well as part of the valuation process.

Social Issues

Social issues (such as human capital, workplace health and safety, labour relations and standards, human rights including the risk of modern slavery, demographic changes, supply-chain and community impacts) play an important role in the public's perception of companies. News of a poor safety record or the use of forced labour has the potential to damage a reputation, which can, in turn, adversely affect revenue or prompt new regulatory burdens. The social risks that threaten the reputation and brand integrity of companies is a component of business quality and management quality.

Governance Issues

Corporate governance is concerned with the way corporate entities are governed, (such as board diversity and independence, remuneration and compensation) as well as the governance practices adopted within those companies (such as anti-money laundering, cyber security, whistle-blowing). Strong governance structures, appropriate executive control and high levels of transparency, as well as the effectiveness of board oversight in representing shareholder interests are amongst the factors likely to provide confidence as to the level of business quality and management quality.

4. HOW ESG ISSUES ARE INTEGRATED INTO THE INVESTMENT ANALYSIS PROCESS

As outlined above, ESG issues are relevant to the assessment of Business Quality and Management Quality and will be reviewed as part of the assessment of Business Quality, Management Quality and Valuation completed as part of the company research. This assessment is to be evidenced in the completion of an ESG worksheet completed for each company. The ESG worksheet is a template designed to assist in identifying the relevant environmental, social and governance issues a company or industry may face. The ESG worksheet is continually evolving and is influenced by Responsible Investment Association Australasia (RIAA), Australian Council of Superannuation Investors (ACSI) and the United Nations Sustainable Development Goals (SDGs).

As part of the ongoing analysis of companies, ESG issues will be explicitly reviewed on an annual basis or when an ESG risk or issue arises within the company or industry. The focus of this analysis will be whether and how ESG issues affect the investment fundamentals, and, accordingly, whether the valuation or investment decision changes.

Material ESG risks are assessed and monitored and recorded in a Risk Register. Companies may be excluded if these risks are considered by Airlie to significantly impact the investment fundamentals.