

# ESG Policy

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## 1. SCOPE

The scope of this policy applies to both managed investment schemes (“**funds**”) and designated investment mandates (“**mandates**”) (collectively the “**Strategies**”) where Airlie Funds Management (“**Airlie**”) is appointed the investment manager and addresses:

- why ESG issues should be considered as part of the investment analysis process;
- how ESG issues are integrated into the investment analysis process;
- exclusions; and
- stewardship.

## 2. SUMMARY

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.

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

We believe that ESG factors can have the potential to affect the business outcomes and investment performance of a company. Accordingly, 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.

The investment objective of Strategies managed by Airlie is to provide long-term capital growth and income through investment in Australian equities. We seek to achieve this objective by focusing on the quality and financial strength of existing and potential investments.

Our responsible investment objectives are:

- to rigorously assess material ESG risks as part of the investment process; and
- to act as responsible owners by engaging with portfolio companies where a material ESG risk exists and exercising our proxy voting rights where appropriate.

We seek 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, we endeavor to consider all issues that we are 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, Airlie’s investment process weighs up four factors.

- **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, we believe 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.

We believe climate change is a particularly important environmental issue for businesses and investors to consider. When making an assessment 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.

In order to enhance assessments of the company-specific risks and opportunities associated with climate change, we have implemented the 'net zero alignment assessment' ("**the assessment**") which has been guided by the Net Zero Investment Framework. This assessment is outlined together with our climate-related engagement and voting approach in the climate stewardship Strategy at: <https://www.airlifundmanagement.com.au/about/#our-esg-policies>

As part of the assessment, the investment team review climate transition risk related targets and commitments of companies in all Strategies, at least annually. This includes but is not limited to:

1. **Ambition:** A commitment to net-zero by 2050;
2. **Targets:** Near- and medium-term science-based emission reduction targets, including consideration of whether those targets are externally validated
3. **Strategy:** Alignment to reporting in accordance with regulatory frameworks and the presence of a credible climate strategy to achieve targets.

We consider these commitments represent prudent risk management in a transitioning economy to net zero.

A key input is our analyst's view on the credibility of a company's initiatives and climate strategy to achieve its targets. We also consider disclosure of emissions (Scope 1, 2, and material scope 3) and the progress towards targets.

Utilising both proprietary analysis and other external data (including company statements, press articles, external data providers, Science Based Targets initiative and expert networks), each company is assessed for their alignment to net zero. Companies are assessed as aligned to net zero, aligning, committed or not aligned to net zero.

## 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.

Additional analysis is done for all portfolio companies on modern slavery risk. Each company is assessed for exposure to modern slavery risks and management of this risk exposure. Risk exposure considers the industry, geography and material controversies alleged or confirmed. The investment team assesses the management of this risk at least annually. We strive to engage directly with portfolio companies where we have formed the view that material modern slavery risk exists. The objective of these engagements is to better understand how the company is managing modern slavery risk and to influence. For companies rated as 'High risk' following our annual assessment, we commit to engaging with the company.

## 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. Appendix 1 provides a guide to the analysts of ESG factors to consider when undertaking investment research. It is not exhaustive and other ESG risks and opportunities that are material to the industry and sector will be considered. This materiality assessment is influenced by the Sustainability Accounting Standards Board's assessment of industry materiality and internal industry research, to identify relevant ESG factors facing companies.

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.

#### 5. EXCLUSIONS

In select circumstances, we will exclude certain industries from our investment universe. Assessment of these activities is grounded in a combination of international norms, stakeholder expectations, and risk management practices, and reflect our belief that such industries are incompatible with sustainable long-term value creation.

Investment is prohibited in business involvement at or above the specified tolerance guidance in the industries as set out in the table below.

Industry	Definition	Tolerance guidance (% of total revenue)*
Tobacco <sup>1</sup>	Companies which produce tobacco products (including e-cigarettes)	0%
Controversial Weapons <sup>2</sup>	Companies which manufacture controversial weapons	0%
Nuclear Weapons <sup>3</sup>	Companies which manufacture nuclear weapons	0%

\* Business involvement in the listed industries is determined by reference to the percentage of total revenue of the company using data provided by a third-party provider. Revenue from a business activity is assessed by the third-party provider by reference to the gross revenue from the activity where reported by the company. Where gross revenue is not reported, revenue is assessed by reference to the net revenue from the activity where reported by the company. Where no revenue from the activity is reported, the third-party provider estimates either net or gross revenue from the activity depending on publicly available information. The type of revenue used to determine business involvement in the listed industries is not specified, since reporting practices generally vary by industry and by company, and a company's reporting practices may change over time.

Each potential investment is assessed to ensure it does not derive any revenue from excluded business activities against this industry tolerance guidance prior to investing, and then assessed thereafter on a quarterly basis. If an existing investment is found to derive any revenue from an excluded business activity assessed as exceeding the tolerance guidance, we will seek an orderly sale of that investment within three months of the assessment.

A Strategy may hold an investment in a company that does not comply with the tolerance guidance beyond this three-month period where we are prevented from exiting the position due to circumstances outside of our control, such as where trading in the security is restricted.

<sup>1</sup> Tobacco production is defined as companies that produce tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves.

<sup>2</sup> Controversial weapons are defined as cluster munitions, landmines, biological or chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments.

<sup>3</sup> Nuclear weapons are defined as companies with revenue from nuclear weapons, intended and dual-use components for such products, delivery platforms capable of deploying nuclear weapons, essential components for such delivery platforms, and support services for such products.

## 6. STEWARDSHIP

### Engagement with companies

We engage with companies on ESG risks and opportunities, with the aim of strengthening our conviction in portfolio risk management and improving investment outcomes. Our engagement with companies typically involves direct, constructive dialogue, conducted through meetings and written correspondence, between members of our investment team and the senior management or boards of portfolio companies.

The Strategies' long-term investment horizon gives us the opportunity to engage with companies over an extended period on issues that are important to protecting and creating shareholder value. We aim to engage with portfolio companies on a broad range of ESG factors that we assess to be material to those companies within our proprietary ESG risk and opportunities assessment framework. Engagement has two primary objectives, designed to have a positive impact on shareholder returns over time.

1. **Risk assessment and management:** Continue to expand our knowledge and understanding of the risks and opportunities through discussions. As long-term investors, we build up knowledge and insight, which we discuss with management. These discussions further deepen our understanding within and across industries.
2. **Influence:** Encouraging and supporting change to a company's approach to a material ESG factor. As long-term investors, we build constructive relationships that better enable us to drive positive change at the company.

### Proxy Voting

Airlie considers that proxy voting rights are an important power, which if exercised diligently can enhance client returns and should be managed with the same care as any other asset managed on behalf of its clients. Airlie maintains a Proxy Voting Policy that outlines Airlie's process and policy for proxy voting and its process in the case of a conflict, or perceived conflict, of interest. Airlie's Investment Team is responsible for the analysis of proxy proposals. The analyst responsible for covering a particular company will analyse and research each proposal and draft recommendations for approval by the Portfolio Manager

## APPENDIX 1 - ESG FACTORS

### Example of ESG factors that may be considered

#### Environmental

##### Climate change

Climate transition risk and opportunity

- Company strategy and alignment with the Paris Agreement
- Exposure of the company to risks and opportunities as a result of the transition of the global economy towards net zero emissions
- Net zero carbon emission targets
- External validation of emission reduction targets

Scope 3 emissions management including: financed emissions, supply chain emissions

Physical climate risk, mitigation and adaptation

Climate opportunities

Just or equitable transition for communities and workers

##### Natural capital

Biodiversity on land and water

Sustainable raw material sourcing

Deforestation

Clean water and sanitation

##### Circular economy

Waste and hazardous materials management

Packaging material and waste

Electronic waste

#### Social

##### Labour and human rights

Labour relations and standards

Modern slavery including serious exploitation such as forced labour, debt bondage, deceptive recruiting for labour or services, and child labour

Diversity, equity and inclusion

Education and human capital

Culture

Corporate conduct and controversies

##### Health and safety

Workplace health and safety

Consumer health and safety

Product safety

Privacy and data security

##### Social - Other

Social licence to operate

Community relations and engagement

Animal welfare

Political risk of involvement in high-risk countries

**Governance****Shareholder rights**

Dual-class share structure  
Majority voting  
Takeover defences/market for control

**Board composition and independence**

Board independence  
Director skills and diversity  
Director capacity and over-boarding  
Equity ownership and alignment with shareholders  
Separation of chairman/CEO position  
Governance and oversight of key risks and opportunities including ESG risks such as climate, cybersecurity

**Executive compensation**

Remuneration structure  
Quantum relative to peers  
Performance metrics (including ESG metrics) and hurdles  
Equity alignment

**Corporate accountability**

Compliance  
Bribery and corruption  
Anti-competitive practices  
Conflicts of interest Accounting and audit quality