



Airlie Funds Management stewardship strategy – climate related risks and opportunities

August 2025

CONTENTS

OVERVIEW	3
1. ENGAGEMENT AT AIRLIE	3
Engagement process	3
2. APPROACH TO ASSESSING ALIGNMENT TO NET ZERO	3
3. ENGAGEMENT TARGETS AND OBJECTIVES	4
4. ESCALATION	6
5. VOTING	6
6. REPORTING	6
APPENDIX A: HIGH IMPACT MATERIAL SECTORS	8

OVERVIEW

As long-term stewards of capital, Magellan Financial Group (“**MFG**”) recognises the critical role investors play in addressing the systemic risks posed by climate change. This document outlines the stewardship (engagement and voting) framework for climate related risks and opportunities for MFG’s Australian equities business, Airlie Funds Management (“**Airlie**”, “**we**” or “**our**”).

This stewardship strategy outlines our ‘net zero alignment assessment’ (“**the assessment**”), which has been guided by the Net Zero Investment Framework (“**NZIF**”). This strategy has been developed by senior members of the Investment Team and approved by the Head of Australian Equities and Magellan’s Risk and Compliance Committee (“**RCC**”), a delegate of the Magellan Asset Management Board.

With many countries committing to transition their economies to net zero by 2050 and expectations from stakeholders, including investors, regulators and governments increase, Airlie wants to ensure that companies in our portfolio remain resilient and take advantage of opportunities.

MFG is a signatory to the Net Zero Asset Manager initiative (“**NZAMi**”) and a member of Investor Group on Climate Change (**IGCC**).

1. ENGAGEMENT

Airlie’s long-term investment horizon gives us the opportunity to engage with companies over an extended period on issues that are important to protect and create shareholder value. This includes the risks and opportunities that arise from transition climate risk and physical climate risk.

We aim to engage with portfolio companies on a broad range of environmental, social and governance (“**ESG**”) themes identified by the Investment Team and that are identified as material to those companies. This includes climate transition and physical risks.

Engagement has two primary objectives, both of which are designed to have a positive impact on shareholder returns over time:

1. **Risk assessment, management, and opportunities:** to better understand the risks and opportunities over time. As long-term investors, we build up knowledge and insight, which we discuss and challenge during company engagements. These learnings often deepen our understanding within and across industries. The output of this engagement contributes to the analyst’s assessment of the credibility of the company’s climate strategy and targets that are a key input into the assessment of alignment with a net zero pathway.
2. **Influence:** encouraging and supporting change to a company’s approach or the setting of climate related targets. As long-term investors, we build constructive relationships that better enable us to drive positive change at a company. With regards to climate transition risk and physical risk, we recognise the importance to set and report against ambitious short-, medium- and long-term targets that are on a Paris aligned pathway to limit warming to 1.5 degrees Celsius.

For all portfolio companies, we assess the alignment to net zero using the assessment. Engagement is then prioritised based on materiality of the financed emissions, whether the company operates in a high impact material sector¹, and the outcome of the net zero alignment assessment. These companies are classified as ‘high priority’ and subject to enhanced engagement.

2. APPROACH TO ASSESSING ALIGNMENT TO NET ZERO

Our ESG integration approach incorporates the assessment of climate risk as part of the strategies’ investment process.

Using the net zero alignment assessment, the investment team conduct a review, at least annually, for each company’s climate-related targets, and assess the progress made towards commitments.

This review considers:

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

¹ High Impact Material sectors are a subset of material sectors called “High Impact Sectors” defined by NZIF and GICS sub industry code.

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 their targets. We also consider disclosure of emissions (Scope 1, 2, 3) and the progress towards targets.

Utilising both Airlie proprietary analysis and other data (including direct company reporting, press articles, external data providers, Science Based Targets initiative ("**SBTi**") and expert networks), each company is assessed for their alignment to net zero as outlined in Appendix A.

For companies in high impact material sectors that are assessed as 'not aligned' to net zero using the assessment, the investment team will engage and encourage target setting in line with our climate strategy. If there is a lack of progress in meeting the criteria within the assessment, staged escalation will be considered including voting and position sizing.

3. ENGAGEMENT TARGETS AND OBJECTIVES

Companies will be prioritised for engagement based on our assessment of climate related risks for that sector. All companies are assessed for alignment to net zero are then prioritised for engagement based on whether they are in a high impact material sector and according to the size of our holding across different strategies. Companies may also be prioritised based on:

- progress to date – emission reduction and progress towards targets;
- real world impacts and available technology; and
- ability to influence.

Airlie has set the following engagement targets for companies in high impact material sectors.

- an engagement threshold which ensures that at least 80% of financed emissions in high impact material sectors are either assessed as net zero, aligned with a net zero pathway, or the subject of direct or collective engagement and stewardship actions.
- by 2030, at least 90% of financed emissions in material sectors are either assessed as net zero, aligned with a net zero pathway, or the subject of direct or collective engagement and stewardship actions.

For companies in high impact material sectors not categorised as 'achieving' or 'aligned' to net zero under the assessment, an engagement plan is developed incorporating objectives to improve alignment with a net zero pathway. Engagement objectives consider the industry, geography, business model and previous progress.

Engagement objectives communicated to the company may include:

- a commitment to net zero emissions by the year 2050;
- setting interim/short- and medium,-term emissions reduction targets;
- external validation of emission reduction targets and the plans, with SBTi as the preferred standard for external validation where the methodology is available.

Additional engagement objectives which may be included where it is deemed relevant by the analyst may include:

- improved disclosure of Scope 1, 2 and material Scope 3 emissions;
- enhanced disclosure and actions that support a credible climate strategy to meet net zero aligned targets. This may include specific engagement objectives regarding scenario analysis, capital allocation alignment and transition plans;
- executive remuneration linked to climate-related targets;
- board capabilities and oversight to manage climate change;
- increased transparency regarding just transition which considers workers and the community for affected industries
- increased transparency on climate related lobbying.

These engagement objectives will be communicated to the priority companies by the Airlie investment team and reviewed at least annually.

4. ESCALATION

In cases where engagement has been ongoing without any progress on an issue considered to be a material climate related risk to future cashflows or valuation, the portfolio managers and analyst team will consider an escalation path that may include actions such as additional engagement, consideration in voting or portfolio position sizing.

Escalation actions are considered on a case-by-case basis and may include; voting against directors or management proposals, for example, 'Say on Climate' resolutions, or supporting climate-related shareholder proposals.

Portfolio sizing (including divestment) will be considered by the portfolio manager where the risk is deemed material to cashflows, and progress has not been achieved relative to the engagement objectives.

5. VOTING

Our guiding principle in casting votes is consideration of the best interests of our clients and support outcomes that are most likely to protect and promote the long-term economic value of the companies in which we invest. Engagement with companies on climate risks and opportunities including the alignment of the company with a pathway to net zero by 2050 is the initial focus of the stewardship strategy. Voting as outlined in Appendix B, is utilised in our stewardship process. We will consider supporting shareholder proposals which encourage companies to acknowledge, consider, and report on climate risks and opportunities where current ambition, strategy and disclosure are not sufficient.

6. REPORTING

Stewardship outcomes are reported in the annual 'Stewardship Report' for each strategy on our website. MFG also publishes a Climate Report covering the governance, strategy, risk and metrics of both our investment and corporate activity.

APPENDIX A: Net zero alignment assessment

	Net zero target	Interim science-based target	Progress	Disclosure	Strategy*	Capex alignment*	Credibility
Achieving net zero	✓	✓	✓	✓	✓	✓	✓
Aligned to a net zero pathway	✓	✓	✓	✓	✓	✓	✓
Aligning to a net zero pathway (<i>*high impact sectors require additional factors</i>)	✓	✓		✓	✓		✓
Committed to aligning	✓						✓
Not aligned							
			Analyst assessment²				Analyst assessment

² The analysis incorporates insights and the investment team's proprietary view of a company's progress toward its stated climate targets, as well as the credibility of its initiatives and strategy to achieve those targets.

APPENDIX B: Climate-related voting principles

Each proposal will be considered on a case-by-case basis.

Climate related voting framework

Vote	Net zero policy and actions	Criteria
Director	Consider voting against Chair or director where no progress is made towards Net Zero alignment and related engagement objective.	<ul style="list-style-type: none"> net zero target interim targets & external accreditation progress against targets credibility of climate strategy disclosures actions including capital allocation alignment.
Remuneration	Consider voting against remuneration report where climate change is a material risk for the company and an engagement objective to link remuneration to climate targets has not been met in the specified timeframe.	<ul style="list-style-type: none"> analyst assessment of climate risk on future strategy incorporation of climate targets in remuneration credibility of climate strategy actions including capital allocation alignment
Mergers and Acquisitions	Consider voting against merger and acquisition related resolutions if it is detracting from alignment to net zero.	<ul style="list-style-type: none"> analyst assessment of new asset and alignment to net zero or ability to transition.
Say on Climate	Consider voting against management proposal where engagement objectives have not been met.	<ul style="list-style-type: none"> alignment to our net zero alignment assessment framework. progress on climate related engagement objectives
Shareholder proposals	Consider supporting proposals that improve alignment with Net Zero where the current ambition, targets, strategy and disclosure are not sufficient	<ul style="list-style-type: none"> alignment to our net zero alignment assessment framework. progress on climate related engagement objectives