

Responsible Investment Principles

June 2024

1. INTRODUCTION

These principles outline Airlie Funds Management's ("Airlie") Responsible Investment framework and principles and provide an overview of how Airlie integrates environmental, social and governance ("ESG") risks into the investment process and Airlie's approach to proxy voting and engagement.

2. AIRLIE'S APPROACH TO RESPONSIBLE INVESTING

At Airlie, our objectives are 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 within our assessment of a company's business and management quality that ESG factors play an important role. As long-term investors, an assessment of ESG risks and opportunities are an inherent part of our investment process as gaining a robust understanding of these issues is a key part of assessing the outlook for future cash flow generation and risks of an investment.

As long-term owners we aim to act as responsible stewards of our clients' investment by exercising our proxy voting rights and having open dialogue with portfolio companies on a broad range of issues, including ESG-related issues.

3. OBJECTIVES

Airlie's ongoing 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 issue exists and exercising our proxy voting rights where appropriate.

4. INTEGRATION OF ESG INTO THE INVESTMENT PROCESS

Airlie's investment process weighs up four factors in considering a potential investment:

1. **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.
2. **Business Quality** – Assessment of industry position, cash generation, returns on capital, reinvestment opportunities
3. **Management Quality** – Assessment of alignment, governance, capital allocation, track-record
4. **Valuation** – Assessment of the fair value of a business, based on future cash flows and returns.

Analysis of ESG factors forms part of the suite of issues that affect the Business and Management Qualities of companies. It is also considered when assessing Valuation. Gaining a robust understanding of these issues is a key element in the assessment of the outlook for, and risks to, future cash flow generation.

When assessing ESG factors, Analysts will consider the issues faced by the industry in which the company operates and the company's own practices. A list of Environmental, Social and Governance issues that are considered when undertaking investment research is included as part of an ESG workbook that is completed for each company. This list is not static and is updated with the evolving ESG landscape. Primary responsibility rests with the relevant Investment Analyst to determine which issues are material to that company and how these issues will be incorporated into the valuation and investment thesis. These are then considered and assessed by the Portfolio Manager.

5. 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 Investment Analyst responsible for covering a particular company will analyse and research each proposal and draft recommendations for approval by each strategy's Lead Portfolio Manager.

Airlie will assess shareholder proposals on a case-by-case basis and consider whether the shareholder proposal will ultimately enhance the company or strengthen the certainty of long-term cash flow generation that we expect from the company.

6. ENGAGEMENT

As a long-term investor, Airlie is committed to engaging with all portfolio companies on a broad range of matters including those of an ESG nature. Matters of strategy, capital structure, performance and risk, etc, as well as ESG issues, are the responsibility of the Investment Team.

Airlie focuses its engagement on material issues, particularly those which could affect future cash flows or damage the company's reputation. The level of engagement on ESG issues is also considered in the context of the relative size of Airlie's shareholding.

Engagement in relation to ESG issues can take a number of forms and does not necessarily involve Airlie seeking to effect change. For example, many companies conduct annual shareholder outreach programs as a forum to discuss general corporate governance, sustainability, executive compensation, any changes or initiatives a company has made throughout the year and provides the opportunity for a company to solicit shareholder feedback and discuss views provided by other shareholders.

Airlie may also seek engagement to achieve a better understanding of the management of material ESG issues or to seek clarity in relation to a specific proxy proposal.

In some cases, engagement is a result of proxy voting. For example, depending on the materiality of the issue and the size of Airlie's holding, where Airlie has determined to vote against management's recommendation, Airlie will engage with a company by written and/or verbal means to the company outlining its rationale for the vote and providing advice on what the company should do to remedy the issue.

When seeking change, Airlie will typically begin engagement with company management, through investor relations, or directly with management. Airlie may seek to escalate engagement from management to committee Chairs, Senior Independent Directors and/or Chair of the Board. Airlie will also consider collaborating with other shareholders who share similar perspectives or lodge a shareholder proposal at a company meeting as a means to address the issue.

7. APPENDIX 1: RELATED POLICIES

In addition to Airlie's Responsible Investment Principles, Airlie maintains the following associated policies, all of which can be found on our website: www.airlifundmanagement.com.au

1. **ESG Policy**, which outlines in detail how ESG issues are incorporated into Airlie's investment analysis framework and investment process
2. **Proxy Voting Policy**, which outlines Airlie's policy in relation to proxy voting
3. **Stewardship Strategy**, outlines the stewardship (engagement and voting) framework for Airlie relating to climate related risks and opportunities.

8. APPENDIX 2: BACKGROUND TO PRINCIPLES FOR RESPONSIBLE INVESTMENT AND AIRLIE'S RESPONSE

Background to the United Nations Principles for Responsible Investment

The United Nations-sponsored Principles for Responsible Investment (PRI) is a network of international investors working together to put Principles for Responsible Investment into practice. The PRI are a series of investing principles drafted by institutional investors who believe that ESG factors can affect the performance of investment portfolios. The principles support the signatories' belief that Investors fulfilling their fiduciary (or equivalent) duty need to give appropriate consideration to these factors and that the PRI provide a framework for making access to ESG information more widely available and for incorporating these factors into the decision-making process.

Integrating PRI principles into the investment process

Investment managers that sign up to the PRI are committing to 6 principles. The principles are outlined below along with suggested practices to ensure the investment process for Airlie's funds are consistent with the principles 1 to 6.

1. We will incorporate ESG issues into investment analysis and decision making processes

- a. Airlie will ensure that all investment professionals are aware of ESG considerations to ensure that the principles are adopted. Practically, ESG considerations will be specifically identified in Airlie's assessment of Business Quality and Management Quality in company research.
- b. Additions to investment staff will be provided with Airlie's ESG Policy. Any changes to this ESG Policy will be advised promptly to all members of the Airlie Investment Team.

2. We will be active owners and incorporate ESG issues into our ownership policies and procedures

- a. Where a company has a particularly poor ESG track record that has a material impact upon the risk associated with future cash flow generation, it is likely that Airlie will exercise its ESG policy through non-investment, rather than engagement. However, from time-to-time, Airlie may engage with potential investee companies to discuss and/ or request ESG process improvements (or intended improvements). Ultimately, the assessment of investment grade status for an investee company will reflect the future cash flow generation and associated risks for the investee company.
- b. Where we view a company's ESG risk exposures are manageable, it is likely that Airlie will exercise its ESG policy through 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 protecting and creating shareholder value and are important to Airlie.
- c. Additionally, Airlie may be entitled to vote on issues relating to ESG matters for investee companies. To this end Airlie undertakes to vote in a manner that it considers most likely to maximize shareholder value using a long-term framework.

3. We will seek appropriate disclosures on ESG issues by the entities in which we invest

- a. Airlie seeks reporting on ESG issues by investee companies to be integrated within the standard annual report or separately as part of a sustainability report. Governance disclosures are expected to be in line with the relevant regulations and jurisdictional best practice. Airlie seeks investee companies to disclose the Environmental and Social issues that are material to their business with a discussion of how the company is managing the risks and opportunities. Where Airlie views the disclosure as lacking, it may engage with company and consider voting against management recommendations on relevant resolutions at a general meeting.

4. To promote acceptance and implementation of the Principles within the investment industry.

- a. Airlie will include Principles-related requirements in requests for proposals it answers.

5. To work together to enhance our effectiveness in implementing the Principles.

- a. Airlie will address emerging issues and will support the use of investor reporting as a source of learning.

6. To each report on our activities and progress towards implementing the Principles.

- a. Magellan Asset Management Limited completes an annual questionnaire each year in March/April. The questionnaire is approximately 100 questions long and deals with the extent to which Magellan uses ESG principles. The answers from the questionnaire are compiled with other investment managers to enable the PRI to assess the success of their promotion of PRI.