Climate Report 2024

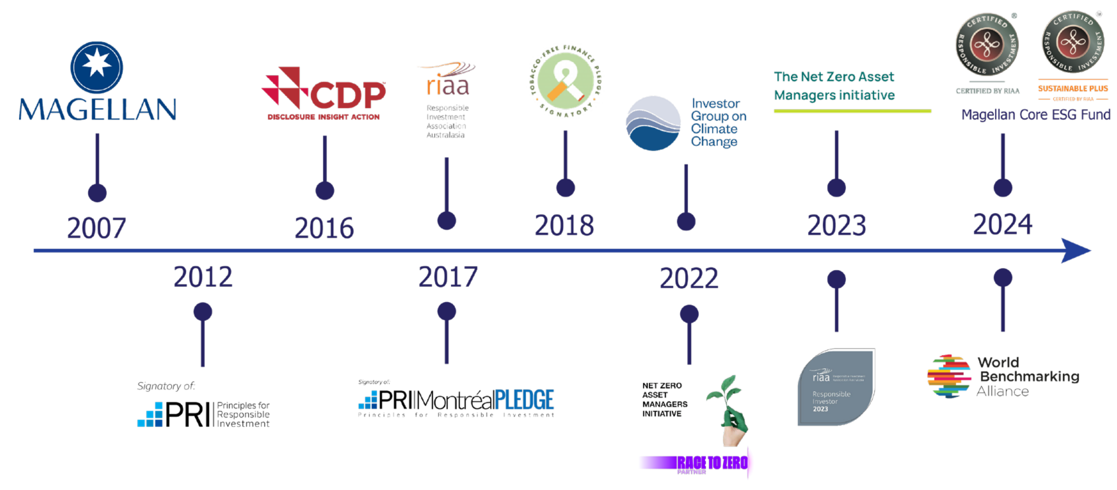
MAGELLAN
FINANCIAL GROUP

About Magellan

Magellan Financial Group Ltd (Magellan, or Group) recognises the importance of reducing its environmental impact and is committed to environmental sustainability. Climate change presents significant risks to our environment, society, and economy. As this situation progresses, we anticipate that climate change will progressively lead to significant shifts in public policy and business practices to limit the impact.

As active investment managers and responsible stewards of capital, we understand the risks and opportunities presented by climate change and advocate for the development of sustainable, low-carbon, and climate-resilient business models where appropriate.

In line with our commitment to limiting the risks of climate change, Magellan has been a member of the Principles of Responsible Investment (PRI) since 2012, Climate Disclosure Project (CDP) since 2016 and the Responsible Investment Association Australasia (RIAA) since 2017. In 2022 Magellan extended its commitment to managing climate risk and became a member of the Investor Group on Climate Change (IGCC) and the Net Zero Asset Manager initiative (NZAM).



About Magellan (cont'd)

The Net Zero Asset Manager's commitment

In line with the best available science on the impacts of climate change, we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions and for investment managers to play our part to help deliver the goals of the Paris Agreement and ensure a just transition. In this context, Magellan commits to support the goal of net zero greenhouse gas (GHG) emissions by 2050, in line with global efforts to limit warming to 1.5°C (net zero emissions by 2050 or sooner).

It also commits to support investing aligned with net zero emissions by 2050 or sooner.

As part of Magellan's commitment to NZAM, we are pleased to release our first Climate Report aligned to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). This builds on Magellan's previous climate related reporting through the Annual Report, CDP and PRI.

Over the past year, we have focused on assessing the progress towards targets and credibility of our portfolio companies' climate strategy as part of our commitment to net zero using the Net Zero Investment Framework (NZIF) developed for the Magellan investment process.

We commit to work in partnership with our asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050. As part of our commitment to NZAM, we have identified In Scope strategies to be managed in line with the attainment of Net Zero emissions by 2050. In Scope strategies include Magellan Global Sustainable, Core ESG, Energy Transition Fund and select institutional mandates. We commit to reviewing this target at least every 5 years.

Our objectives for the year ahead

- **Work towards increasing the percentage of our In Scope[1] strategies under management to be managed in line with the attainment of Net Zero Emissions by 2050.**
- **Continued climate focused stewardship activities and company engagements.**
- **Further developments to our proprietary ESG scoring framework and annual climate related risk assessment in our investment activities.**
- **Continued focus on accuracy and completeness of reporting to ensure alignment with regulatory requirements.**
- **Continued development of our approach to managing climate-related risks and opportunities for our investment activities and corporate operations, and the climate-related disclosure requirements from the International Sustainability Standards Board (ISSB).**

Taskforce on Climate-Related Financial Disclosures

We have prepared our first Climate Report aligned to the recommendations of Task Force on Climate-Related Financial Disclosures (TCFD) for the year ending 30 June 2024. The report will follow the four pillars of the TCFD recommendations:

Governance: The governance around climate related risks and opportunities.

Strategy: The actual and potential impacts of climate-related risks and opportunities on the Group's businesses, strategy, and financial planning.

Risk Management: The processes used by the Group to identify, assess, and manage climate-related risks.

Metrics and Targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

The Task Force developed 11 recommended disclosures across the four recommendations.

Governance Disclose the Group's governance around climate-related risks and opportunities.	a) Describe the board's oversight of climate-related risks and opportunities. b) Describe management's role in assessing and managing climate-related risks and opportunities.
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the Group's businesses, strategy, and financial planning where such information is material.	a) Describe the climate-related risks and opportunities the Group has identified over the short, medium, and long term. b) Describe the impact of climate related risks and opportunities on the Group's businesses, strategy, and financial planning. c) Describe the resilience of the Group's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
Risk Management Disclose how the Group identifies, assesses, and manages climate-related risks.	a) Describe the Group's processes for identifying and assessing climate-related risks. b) Describe the Group's processes for managing climate-related risks. c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the Group's overall risk management.
Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a) Disclose the metrics used by the Group to assess climate related risks and opportunities in line with its strategy and risk management process. b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. c) Describe the targets used by the Group to manage climate-related risks and opportunities and performance against targets.

[1] In Scope strategies include Magellan Global Sustainable, Core ESG, Energy Transition Fund and select institutional mandates.

Governance

Board

Magellan's Board has ultimate oversight and responsibility for ensuring the Group has a Risk Management Framework in place for climate-related risks and opportunities in our corporate operations and investment activities. The Board and relevant sub-committees are supported by the Head of ESG, the Chief Financial Officer, Chief Operating Officer and the Chief Risk Officer. At a minimum, the Audit and Risk Committee annually reviews and considers matters related to climate-related risks and opportunities and makes recommendations to the Board.

This support structure facilitates the governance of climate risks and opportunities, ensuring that they are comprehensively assessed and managed within our corporate operations and investment activities.

Management team

In our corporate operations

As an investment manager, we recognize that our most significant influence on climate change links to our investment activities, which is where we focus our efforts. The Chief Financial and Chief Operating Officer oversees measurement and reporting of climate data for our corporate operations. Magellan continues to explore avenues to reduce our corporate environmental footprint and embed climate change into our risk management, and corporate strategy.

The following support the climate-related risks and opportunities for our corporate operations:

- **Chief Risk Officer/ Chief Compliance Officer**
  The Chief Risk Officer (and Chief Compliance Officer) is responsible for Magellan's risk management operations, including identifying, evaluating, reporting and overseeing Magellan's risks and related frameworks including climate-related risks. The Chief Risk Officer is also responsible for tracking and monitoring ESG regulation including the Australian Mandatory Climate-Related Financial Disclosure requirements.
- **ESG Working Group**
  The ESG Working Group is a group of internal stakeholders from finance, risk and compliance, strategy and the investment team who are responsible for discussing, developing, and implementing key elements of our corporate ESG strategy and processes.

In our investment activities

The day-to-day management of climate-related risks and opportunities in our investment activities is overseen by the Head of ESG, along with the execution of the Climate Stewardship Strategy. With support from the ESG team, the investment team identifies material climate-related risks and opportunities that may influence cash flows and valuations of our portfolio companies over our investment horizons.

Climate-related risks and opportunities in our investment activities are supported by the following:

- **Policy and Process Frameworks**
  Key documents in the 'Risk Management Framework - Climate related risks and opportunities', include our ESG Policy, Climate Stewardship Strategy and our Responsible Investment and Corporate Governance Principles.
- **Investment Committee Governance**
  The Investment Commitee consists of senior members of the investment team and an ESG team member. The Investment Committee periodically reviews ESG risks and opportunities, including climate-related factors. This forms part of the assessment process for accepting portfolio companies into our approved universe.
- **ESG Investment Governance**
  Led by the Head of ESG, the ESG team are responsible for the implementation of the Climate Stewardship Strategy and for providing valuable insights and analysis to the broader investment team. They are responsible for collaborating with the investment team to monitor and track portfolio companies progress against climate targets, particularly focusing on the objectives committed to as part of NZAM.

In our Australian equities business, Airlie Funds Management (Airlie), the day-to-day management of climate-related risks and opportunities in portfolio companies is overseen by the strategies portfolio managers. They are supported by the Airlie investment team who conduct research into material climate-related factors that forms part of the investment thesis.

Strategy

Magellan evaluates ESG issues, including climate risks and opportunities, as appropriate to our corporate operations and investment activities in an ongoing effort to deliver long-term value for our clients while meeting changing demands.

In our investments activities

Magellan acknowledges the complexity and urgency of climate change, along with the shift to a low-carbon economy. We understand the global risks and opportunities this presents, and its impact on our investment activities, where our exposure to physical and transition climate-related risks is most significant.

A crucial aspect of our investment analysis is evaluating the readiness of companies for the transition to a lower or net-zero emissions environment across our investment horizons. In support of this, we are signatories to the Paris Agreement's goals of limiting the global temperature rise to below 2°C, preferably to 1.5°C compared to pre-industrial levels.

Climate change is complex and affects portfolio companies in our investment universe differently. We review available climate scenario analysis from our ESG data providers[2] and industry research including IPCC, IEA for relevant strategies. We continue to explore the best methodologies, models, and targets to use to assess overall resilience across different climate warming scenarios. Assessment of individual portfolio company climate resilience is reviewed where climate change risk is considered material to cashflows over our investment horizons.

Similarly, in our Airlie business, we want to ensure that our portfolio companies remain resilient to the impacts of climate change and the transition to a low-carbon economy. As such climate-related risk and opportunities in portfolio companies over our investment time horizons are identified and assessed as part of our company research through analysis of physical risks of changes in climate along with the transition risk arising from global responses to climate change.

Climate related risks and opportunities

Consistent with the TCFD recommendations, short medium- and long-term timeframes were used to structure the risk assessment. These timeframes are based on Magellan's strategic planning horizons.

We classify these horizons as: short term, 0-2 years, medium term, 2-5 years and long term, more than 5 years.

Climate-related opportunities

The transition to lower or net-zero environments may also offer opportunities for investment managers and their underlying portfolio companies through the implementation of thoughtful climate adaptation strategies that enhance operational efficiencies or improve risk characteristics.

Examples of climate-related opportunities through our investment activities include:

- Investing in companies that are supporting energy efficiency initiatives.
- Reducing energy input to product manufacturing resulting in reduced operating costs.
- Investing in companies or sectors that might benefit from technology breakthroughs.
- Enhancing cost stability – reducing exposure to the volatility of carbon sources.
- Reducing regulatory and legal costs and potential reputational damages.
- By reducing exposure to GHG emissions, the company lessens the need to purchase GHG offsets, thereby decreasing cost sensitivity and exposure to energy markets.
- Resilience - protect value of existing assets, supply chains and operations.

Comments from a Portfolio Manager.

The shift to a low carbon economy is also likely to present significant investment opportunities. The International Renewable Energy Agency estimates that limiting the global average temperature increase to 1.5°C will require cumulative investments totalling US$150 trillion by 2050.[3]
With global investment in energy transition technologies reaching ~US$1.3 trillion in 2022, annual investment must more than quadruple from current levels to achieve the ambition of the Paris Agreement. The delivery of this investment has the potential to transform economies, giving rise to vast new markets for emerging sustainable technologies and sustaining attractive growth in established markets for products and services that abate greenhouse gas emissions or support enhanced climate resilience and adaptation.

Extensive reliance on carbon-intensive energy sources implies that the shift to a low carbon economy is likely to present investment opportunities in a diverse range of economic sectors including, inter alia, energy, agriculture, transport, buildings, infrastructure, and industry. Inextricable links between decarbonisation, digitalisation, and automation can, in turn, be expected to spur growth for technologies that serve as economic complements to sustainable technologies.

Climate-related risks

Table 1 summarises climate-related transition risks for our investment activities. The level of risk may vary across investment strategies.

Transitional Risks	Description	Potential Financial Impacts	Timeframe
Policy, regulatory and legal	Associated with changes to current climate-related law and regulation impacting portfolio companies' operations.	• Increased operating costs relating to compliance, staff training or independent assurance/ third party verification. • Resources required to meet current and emerging climate-related legislation. • Regulatory action due to non-compliance with current and emerging climate-related legislation. • Carbon pricing – carbon tax levied on goods and services and passed onto customers.	Short to medium term
Technology	Associated with requirements to keep pace with tech advancements in identifying, assessing and managing climate risk	• Research and development expenditures in new technologies. • Cost to adapt to new practices. • Energy intensity of new and emerging technologies including AI.	Short term
Market	Associated with a negative shift in consumer demands due to changing preferences, away from existing products and services.	• Changing consumer preferences. • Ensuring the strategy of our portfolio companies and the market is resilient in a transition to a low carbon economy.	Short term
Reputation	Associated with perception of not responding appropriately to climate challenges.	• Reputational impact if climate commitments are not achieved. • Increased risk of greenwashing and associated litigation costs.	Medium term

[2] External data provider is MSCI ESG Manager.

[3] IRENA (2023), *World Energy Transi0ons Outlook 2023: 1.5°C Pathway*, Interna0onal Renewable Energy Agency, Abu Dhabi.

Strategy (cont'd)

Table 2 summarises climate-related physical risks for our investment activities, the level of risk may vary across investment strategies.

Physical Risks	Description	Potential Financial Impacts	Timeframe
Acute	Impact on physical operations of portfolio companies due to weatther events or glpbal temperature increases.	• Increased operational or capital costs due to extreme weather events. • Increased costs for key commodities including fossil fuels and water and other natural resources. • Increased stranded asset risk due to reallocation of capital or physical asset location. • Reductions in revenue from negative impacts on workforces. • Disruption to business continuity.	Long term
Chronic	Sustained long term shifts in climate patterns impacting operations of our portfolio companies.		

In our corporate operations

Magellan acknowledges that climate change introduces both risks and opportunities in our corporate operations. Integrating sustainability into the Group's strategic decision-making has the potential to benefit the environment, society and our stakeholders, including clients, shareholders and employees.

As investment managers, a key opportunity for Magellan is to provide ESG-related investment opportunities to existing and prospective clients. The global market for ESG-focused products and services is expanding, with retail and institutional investors placing increasing value on sustainability and/or ethical considerations in their investments. Magellan's investment strategies integrate ESG into the investment process and Magellan also offers a number of differentiated investment products in this space to address the impact on the environment from climate change, including our Sustainable strategies which leverage our longstanding expertise in low carbon investing. Magellan anticipates further opportunities to develop these capabilities and contribute to a more sustainable future.

At present, the impact of climate change on our corporate operations remains minimal and at this stage we have yet to conduct climate scenario analysis. We will continue monitoring the appropriateness in subsequent years.

Table 3 summarises climate-related risks for our corporate operations.

Transition Risks	Potential Financial Impacts	Timeframe
Policy, regulatory and legal	The risk of material financial loss from non-compliance with climate-related regulatory obligations, or compliance failures. The volume and scale of complex regulatory obligations could increase compliance costs and expenses.	Short to medium term
Reputation	The risk of not effectively identifying, assessing and managing climate-related risks leading to a negative reputation, reduced business opportunities and/or resulting in reduced revenues from clients withholding capital due to reputational loss.	Short to medium term
Physical Risks	**Potential Financial Impacts**	**Timeframe**
Acute and Chronic	Associated with the impact on our corporate operations and workspaces from weather events and long-term climate patterns, leading to higher capital expenditure due to impacts on business operations.	Long term

Risk Management

In our corporate operations

Magellan has established a Risk Management Framework based on the Australian and international risk management standards and guidelines (ISO 31000:2018) which outlines the structure, procedures and guidelines on how the Magellan identifies, assesses, manages and reports on risks including climate-related risks affecting our corporate operations.

Risks are identified at the corporate/business strategy level and are assessed in accordance with the Risk Management methodology outlined in our Risk Management Framework.

In our investment activities

We believe that climate-related risks can be financially material to our investment activities. As part of the investment teams ongoing research, physical and transition climate risks are considered from a bottom-up, case-by-case basis. Climate related factors are then incorporated into long-term investment thesis across relevant strategies.

As part of an annual climate risk assessment, the investment team assesses all portfolio companies' alignment to net zero. In identifying climate risks, we leverage our internal ESG investment research including direct company engagement and when appropriate, external data providers.

Our climate risk assessment for portfolio companies considers:

1. **Ambition**: A commitment to net-zero by 2050.
2. **Targets**: Near and medium-term emission reduction targets with a preference for external validation.
3. **Strategy**: Alignment to reporting in accordance with the recommendations of TCFD and have a credible climate strategy to achieve targets.

In assessing the credibility of a companies' climate strategy, we also consider ambition of the targets, disclosure of emissions (scope 1, 2 and material scope 3) and the progress towards near term and net zero emissions targets, utilising the Net Zero Investment Framework along with the proprietary SAFE framework developed for infrastructure strategies.

Developed for Magellan investment process utilising the Net Zero investment Framework.

	Net zero target	Interim target	Progress	Disclosure	Strategy	Capex alignment	Credibility
Achieving Net Zero	✓		✓	✓	✓		✓
Aligned: High impact	✓	✓	✓	✓	✓	✓	✓
Aligned: Low impact		✓	✓	✓			✓
Aligning		✓		✓	✓		✓
Committed	✓						✓
Not Aligned							
			MAGELLAN VIEW*				MAGELLAN VIEW*

* A key input is Magellan investment team's view on the company's progress towards their stated targets and the credibility of a company's initiatives and strategy to achieve their targets.

Consistent with our Climate Stewardship Strategy, we manage identified risks in our portfolio companies through active stewardship activities. Companies will then be prioritised for engagement based on; whether they are identified in a 'high impact material sector', their progress to date, real world impacts, available technologies and our ability to influence for change.

Our company 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. 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.
2. **Influence**: encouraging and supporting change to a company's approach or the setting of climate related targets.

To enhance our teams' capabilities in managing ESG engagements and track progress towards objectives. We implemented a new ESG engagement software across the investment team. Providing better visibility of engagement objectives across the investment team.

For further details regarding Magellan's Stewardship process, please refer to our Stewardship Reports.

For further details regarding Airlie's stewardship process, please refer to the Airlie Stewardship Strategy.

Metrics and Targets

In our investment activities

For all portfolio companies, we track and monitor scope 1 and 2 emissions and where available, scope 3 emissions. As part of our Climate Stewardship Strategy, we actively engage with companies to encourage the disclosure of material scope 3 emissions. Emissions are tracked quarterly using our external data provider[4] and public company reports. Portfolio company emissions data is reviewed quarterly by the ESG team for accuracy and, reviewed against the Magellan Low Carbon Framework[5] for the sustainable strategies[6].

As part of our commitment to NZAM we assess the alignment of all portfolio companies to net zero utilising the Net Zero Investment Framework. Where a portfolio company does not have a net zero target, science-based targets, or a credible strategy, we will prioritise engagement with particular focus to the high emitting sectors.

In Scope strategies with NZAM targets

In line with our 2022 commitment to the NZAM initiative for our In Scope strategies, we have established long term portfolio targets to manage in accordance with the attainment of net zero. This includes Magellan Global Sustainable, Core ESG, Energy Transition and select institutional mandates.

We are pleased to report that we are on track with:

1. 2028 Portfolio Coverage Target

The majority of strategies In Scope are tracking in line or ahead of the Portfolio Coverage Target, with more than **80% AUM** invested in assets in high impact material sectors that are
i) achieving net zero, or meeting the criteria to be considered, ii) 'aligned' or iii) 'aligning' to net zero (defined by NZIF).

2. 2030 Engagement Target
All strategies In Scope are tracking in line or ahead of the engagement threshold that ensures at least **80% of financed emissions** in high impact material sectors are either assessed as net zero, aligned with a net zero pathway or subject to engaged. For those companies in high impact material sectors that are not yet meeting our criteria of 'Aligned' to net zero, we have prioritised engagement to encourage improvement.

We continue to monitor:

3. 2030 Portfolio decarbonisation objective
By 2030, for net zero aligned funds, reduce emissions footprint by 40-45% (Scope 1 & 2).

While many portfolio companies have set absolute emission reduction targets, this reduction will not be linear. We are monitoring individual company progress towards their own emission reduction targets and continue to prioritise engagement to ensure companies have initiatives in place to meet their emission reduction targets.

We will look for opportunities to increase the proportion of In Scope strategies over time. While this has presented some challenges near term, we remain committed to the long-term goal of increasing the proportion of strategies being managed in line with the attainment of net zero.

As part of our commitment to NZAM, Magellan is reporting under the NZAM specific reporting module of PRI and continuing our voluntary disclosure through CDP.

Our full commitments and targets under the NZAM initiative can be found here: [Magellan Financial Group – The Net Zero Asset Managers initiative]

Emissions Reporting

In May 2017, Magellan became a signatory of the PRI's Montreal Pledge. Under the Pledge, Magellan commits to measure and publicly disclose the carbon footprint of its actively managed investment portfolios.

Table 4 portfolio carbon intensity footprint.

	Carbon footprint as of 30 June 2024 (Tonnes CO2e per $US million revenue)[7]
Magellan Global Fund	36
Magellan Sustainable Fund	30
Magellan High Conviction Fund	14
Magellan Infrastructure Fund	452
Magellan Core Global Fund	44
Magellan Core ESG Fund	20
Magellan Core Infrastructure Fund	817
US Sustainable Strategy	23
Magellan Energy Transition	454
Airlie Australian Share Fund	94
Airlie Small Companies Fund	19

Our corporate operations team is responsible for collating our corporate operations carbon footprint and environmental data for our business operations. During the year, with support from an external consultant, Magellan has defined the reporting boundary for the operations GHG emissions. This change in methodology and Basis of Preparation has resulted in increased FY2024 emissions. Magellan aims to ensure, where possible, business operations are conducted in an environmentally sustainable way. Given the nature of Magellan's business and as a financial services firm of 109 employees, Magellan has a relatively small environmental footprint.

We measure our material Scope 3 emissions associated with our operations including employee travel and energy loss associated with our electricity distribution.

Table 5 Magellan's corporate operational emissions.

	31 Dec 2020	31 Dec 2021	31 Dec 2022[8]	30 June 2024[9]
Scope 1 (tCO2e)	-	-	-	-
Scope 2[10] (tCO2e)	122	113	60	114
Total GHG emissions (tCO2e)	122	113	60	114
Total per employee[11] (tCO2e/Employee)	0.90	0.81	0.5	1.05
Total per A$ million of revenue (tCO2e/AUDm)	0.2	0.1	0.2	0.3

[4] External data provider is MSCI ESG Manager.
[5] Our low carbon framework aims to limit the carbon intensity of the portfolio to one-third of the weighted average carbon intensity of the MSCI World Index, as reported by MSCI. Please see the Product Disclosure Statements for further detail.
[6] Sustainable strategies include Global Sustainable and Core ESG.

[7] Portfolio carbon intensities are calculated using the weighted average carbon intensity method. Weighted average carbon intensity – calculation of scope 1 and 2 emissions / $USD million. Carbon Footprint – Scope 1 and 2 emission sources expressed as tCO2. Information sourced from MSCI and company public disclosures.
[8] Reporting periods 2020 – 2022 reported on a 31 December calendar year end.
[9] Reporting period 2024 has been reported on a 30 June 2024 financial year end.
[10] Scope 2 emissions are calculated using a location-based methodology with NGA emission factors.
[11] Employee headcount is at period end.

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