



MARATHON

Marathon's Compliance with the UK Stewardship Code

This document describes the extent to which Marathon Asset Management LLP ("Marathon ") has applied the seven Principles of the UK Stewardship Code which was adopted by the Financial Reporting Council on the 2nd of July 2010 and updated in September 2012. This compliance statement also reflects Marathon's approach to governance and stewardship as part of our fiduciary duty to preserve and enhance long term shareholder value.

Good company stewardship involves actively monitoring investee companies including, among other things, engagement with senior management to discuss strategy, performance, governance and risk.

These attributes form an intrinsic part of Marathon's investment process which seeks to identify companies that can deliver shareholder value through effective and sustainable use of cash flow over the longer term. Marathon's investment process is primarily bottom-up and focused on industry characteristics, alongside in-depth research regarding the company management's motivation, incentivisation and skill at responding to the forces of the capital cycle. Although fundamental analysis, i.e. valuation, of a company is critical in stock selection, the decision to invest will ultimately be made based on the supply of goods or services rather than the forecasted demand for those services.

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Marathon's investment philosophy places particular importance on corporate governance issues, specifically through the detailed analysis of the behavioural aspects of management. Marathon believes the approach of management should be consistent with the creation of shareholder value to the extent that actions are directly linked to the share price or to economic value creation.

Marathon's close and continuous engagement directly with investee companies helps to foster long term relationships. Oversight of company management includes objective assessments and analysis of strategy, financial performance and capital planning alongside consideration of a range of applicable corporate governance issues.

Marathon carefully monitors public disclosures and seeks to regularly meet with management, executive and non-executive directors as appropriate, to better understand the business, proactively giving feedback as part of assessing a company's capacity to deliver its long-term strategy. Successful stewardship facilitates Marathon's capital cycle investment thesis delivering shareholder value and alignment with the long term interests of our clients.

Marathon's portfolio managers remain directly responsible for proxy voting decisions ensuring customers are treated fairly and the right outcomes are achieved by company management. Marathon considers that the ability to influence management is an integral part of the investment management function. Consequently, all voting decisions are passed to the relevant portfolio manager for their review and sign-off.

It is Marathon's policy to exercise all voting rights which have been delegated to it albeit there are occasions where this is not possible, for instance where a client has implemented their own stock lending program over the assets under Marathon's management.



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Marathon uses the recommendations prepared by Institutional Shareholder Services (“ISS”), a proxy voting advisor. In addition to providing advice on specific policy voting issues, ISS also coordinate the actual exercise of the proxy vote. This entails receiving voting instructions from Marathon and transmitting them to each of the clients’ custodian for processing. ISS provide a full reporting facility to Marathon detailing voting recommendations and actual votes transmitted to custodians. A copy of the ISS Proving Voting Guidelines is available on request.

Decision making can diverge from the direction of company management, and/or the views presented by ISS, where Marathon considers it has a better understanding of the specific circumstances surrounding a particular issue. At all times Marathon will ensure proxy decisions are taken in the best interest of our clients taking into consideration a range of factors such as internally generated research and where available data, research and opinions from external stakeholders and sources. In summary, proxy voting decisions are the result of careful judgements on how such matters relate to shareholder value.

Marathon’s policy on stewardship activities is made available to stakeholders at the following website address: [CLICK HERE](#).

Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

The successful identification, mitigation and management of conflicts remains a central part for how Marathon delivers fair treatment of customer interests whilst generating superior investment returns. Conflicts, actual or potential, which arise when engaging in stewardship meetings and subsequent voting activity are managed within a clear, effective framework to protect client interests.

Marathon is a privately owned partnership with the close involvement of the executive owners in the day-to-day running of the business and where there is the absence of significant conflicts of interest.

Marathon maintains a strong culture of compliance where it expects all its personnel to exercise the highest standards of integrity and conduct in their business dealings. Marathon’s personnel are required to avoid any activity or personal interest that creates or appears to create a conflict between the interests of the firm and/or themselves and the interests of Marathon’s clients. Marathon is committed to increasing awareness of conflicts of interest identification and management amongst all its personnel and maintains a Conflicts Matrix which includes actual and potential conflicts which have been recognised; alongside arrangements which have been put in place to facilitate early detection management, mitigation and prevention of any such conflicts from having adverse impact.

In the unlikely scenario where for example the interest of clients diverge, or where a client relationship creates a conflict or potential conflict which cannot be adequately resolved by the relevant portfolio manager the matter shall be raised with the applicable internal governance forum and/or committee for review and consideration. Such conflicts or potential conflicts will also be considered and resolved by Marathon’s Executive Committee and then logged accordingly within Marathon’s Conflicts Matrix.

For further detail see Marathon’s conflicts of interest policy available at the following website address: [CLICK HERE](#).

In keeping with Marathon’s long-term approach, this policy enables us to make long-term decisions in the best interest of our clients.



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Principle 3

Institutional investors should monitor their investee companies.

An important part of Marathon's philosophy focuses on regular interaction and ongoing dialogue with management. The investment team conduct a large number of company meetings per annum. The aim of these company meetings is to make an assessment of a range of factors including the business model and corporate strategy; operating performance; management competence and incentives; risk management and governance; as well as the company valuation and future intended capital allocations. Close and continuous analysis of investee companies also ensures a healthy dialogue exists to provide feedback to a company's senior management.

Initially, the identification and selection of investee companies involves a detailed and holistic review of company performance and strategy alongside a thorough understanding of company management, developed by reference to a variety of resources including interaction with investee companies, market news and independent research providers. Thereafter, active stewardship ensures Marathon maintains positions in companies which continue to deliver appropriate growth and shareholder value, key measures by which Marathon effectively monitors investee companies.

Marathon's portfolio managers maintain detailed records of their interaction with company management. These records form an important database of historic analysis and assessments which is then used as part of the investment selection and oversight process. Marathon is also able to leverage the detailed proxy voting records which Marathon maintains on each invested company. Historic voting decisions can be considered and reviewed when considering new matters or elevating issues in order to provide feedback to a company's management or board, especially concerning matters of leadership, effectiveness, accountability, remuneration and stewardship in order to understand any departures from the UK's Corporate Governance Code.

Marathon's portfolio managers and investment analysts lead and participate in this company research process. Client shares are then invariably voted by proxy based on all the publically available information available to Marathon with these decisions stored electronically.

Marathon does not seek inside information and actively asks companies and their advisors not to put us in possession of such information. However, occasionally, with express prior agreement, Marathon may obtain confidential, price sensitive 'inside' information; on the basis that any subsequent trading restriction is not in place for an extended period and the information will be to our clients' advantage. Once made insider strict compliance is maintained with strict additional internal procedures in compliance with all applicable legal and regulatory requirements.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities

Whilst Marathon's primary focus is finding companies that it believes are able to generate returns over the longer term, Marathon remains committed to confronting important corporate issues in pursuing superior outcomes for its clients. To this end Marathon has clear and well-established protocols for when escalation of engagement may be triggered. In the first instance Marathon's preference is to privately engage with company management as part of the close and continuous interaction process discussed herein. This would usually involve direct contact with the relevant executives within a company's management structure to better understand strategic plans and intended future capital allocations.



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Nevertheless, should Marathon have concerns with company performance or management quality and where it appears necessary to protect and enhance our client's' long term investment returns, Marathon will consider escalating engagement and stewardship activities. This could involve a range of actions including directly raising the issue or concern with the relevant executives, company board or chairman through to leading or participation in initiatives with other investors. Likewise, Marathon also seeks to engage with non-executive directors of the companies in which we invest on behalf of our clients as part of encouraging a shareholder-friendly outcome. Indeed, the numerous meeting notes and correspondence surrounding this type of activity is further testimony to the importance that Marathon places on all aspects of corporate governance ideally addressing issues early and limiting the need for escalation.

Marathon may also provide feedback to a company surrounding a proxy vote in terms of whether Marathon is planning to either vote for or against management. Such feedback is provided on a case by case basis depending on the type of entity and term of relationship. Likewise, Marathon may also choose to provide feedback on a purely reactive basis depending on the company involved and its place within the capital cycle.

If a concern relates to systemic market failure, falls within a wider thematic issue, or related to an urgent crisis scenario then Marathon may also discuss the matter with the appropriate regulatory and corporate institutions or associations, as appropriate. In extremis, Marathon may also consider whether clients interest may be better served by exiting from an investment although this is not our favoured route.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

Marathon will take account of social, environmental and ethical issues relating to the conduct of a company to the extent that they are likely to impact shareholder value negatively. For example a company polluting the environment may ultimately be forced to fund clean-up operations, which could negatively affect its cash flow. In such circumstances Marathon may also consider joining a class action on behalf of our clients where we see value has been destroyed and where an investment decision has been taken potentially based on false or misleading information.

Separately, Marathon is committed to confronting important corporate issues to achieve the best outcome for our client base. Occasionally this will involve acting in accordance with fellow shareholders, as was the case when Marathon took a lead role in the fight on behalf of Railtrack shareholders. Whilst we recognise the potential benefits of working alongside other long term investors on policy and company specific matters, this experience highlighted the inefficiencies of acting collectively with institutional shareholders who may hold conflicting views on a situation. Collective action is therefore not our preferred approach as the constraints of such a process may not be in our clients' best interests. Consequently, going forwards Marathon will only participate in collective engagement as part of the process of escalation of a critical issue which could have a material impact on shareholder value and where such a process is more likely to lead to a successful outcome.

Marathon also interacts with other investors on an ad hoc basis through informal links such as investment associations or in response to particular events such as an industry consultation and public policy issues.

UK stewardship enquires can be sent to: Graeme Neuff – Deputy Head of Client Service – gneuff@marathon.co.uk



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Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

The prominence of the capital cycle and management in Marathon's investment approach makes the ability to vote proxies an inherent component of the investment decision process. Once an investment decision has been made, a duty arises to exercise Marathon's fiduciary responsibility to vote. Marathon will usually vote for or against resolutions but may also abstain depending on the matter under consideration.

Marathon's proxy policy on voting is available at the following website address: [CLICK HERE](#). This policy summarises Marathon's approach to voting and disclosure.

Marathon will ordinarily vote by proxy all shares where the voting discretion has been delegated by clients. However, Marathon may on occasion be restricted from voting all delegated proxies where for instance a particular client separately operates a stock lending programme and the relevant securities are not available, or where the costs or challenges of voting make it not in the clients' best interest. In such circumstances Marathon will work with our clients to recall shares or unblock custodial limitations etc, especially where there is a controversial issue to be voted on. In contrast, Marathon does not lend stock on behalf of our affiliated collective investment vehicles so all underlying shares are always available for voting.

Input will be sought from public sources and engagement with companies and their advisors, where necessary as part of the decision making process. Marathon also works with ISS to gather information on company meetings and help formulate voting recommendations. Notwithstanding the involvement of ISS, Marathon maintains responsibility for any final voting instruction on the basis of all information available to us.

Marathon often owns large stakes in investee companies on behalf of our clients and the ability to vote on these stakes in order to influence management is of utmost importance. Votes are considered on a company-by-company basis. Marathon receives recommendations from ISS on issues ranging from remuneration to board appointments to dividends; however, Marathon is comfortable voting against these recommendations when it believes it is in the best interest of shareholders to do so.

Marathon's voting process then involves the appropriate investment teams discussing the relevant voting options and except in extremely rare occasions Marathon will adopt a single voting position, taking into consideration all relevant factors, across all applicable client accounts where Marathon has been granted voting control.

Once a decision has been made Marathon may share its views on a forthcoming vote with company management or directly with the board in order to provide feedback and support to a company. However, the actual voting activity by itself remains only a formal part of the wider ongoing dialogue between Marathon and the investee company. Likewise, Marathon seeks to be transparent and open about our stewardship activities with our clients. To this end Marathon will look to share voting information with our clients and prospective clients (on a case-by-case basis) at least quarterly as part of Marathon's standard client reporting procedures; for example where data is published online via Marathon's client reporting gateway.

Marathon provides proxy voting statistics to clients which documents where Marathon has voted for and against management and/or ISS recommendations on a range of issues. Additional reports are also available which provide further data to show how Marathon has voted for and against company management on individual issues.



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Set out below are the aggregated quarterly voting records for each major kind of proposal from the most recent quarter:

	With Mgmt	Against Mgmt	With ISS	Against ISS
Totals for M06 Antitakeover Related :	8	1	9	0
Totals for M03 Capitalization :	69	6	74	1
Totals for M02 Directors Related :	551	28	577	2
Totals for M05 Non-Salary Comp. :	62	11	71	2
Totals for M04 Reorg. and Mergers :	14	1	14	1
Totals for M01 Routine/Business :	265	6	269	2
Totals for S05 SH-Compensation :	3	0	3	0
Totals for S02 SH-Dirs' Related :	4	3	5	2
Totals for S08 SH-Other/misc. :	1	0	0	1
Totals for S01 SH-Routine/Business :	11	2	11	2
Totals for S04 SH-Soc./Human Rights :	0	1	1	0

Marathon's clients can obtain further data on request.

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

Marathon provides clients with detailed quarterly reports on voting activities.

Internal records are kept concerning engagement with company management and, separately, proxy voting activity. Marathon uses an electronic voting platform to submit voting decisions. Proxy voting data is shared with clients alongside a detailed market commentary which may include insights into significant company meetings held during a particular quarter alongside any major shareholder engagement activities or developments. Currently, this type and level of data is not made publicly available.

Marathon's proxy voting procedures are independently reviewed on an annual basis by an external auditor, as part of an internal controls review based on the AAF 01/06 (ISAE 3402) standards.

Contact Details

For further information on our approach to governance, engagement and stewardship matters please contact Ben Kottler at BKottler@Marathon.co.uk.