MARATHON

PILLAR 3 DISCLOSURE STATEMENT

2018

Overview

The European Union's Capital Requirements Directive ("the Directive") introduced capital adequacy standards and an associated supervisory framework in the EU. In the United Kingdom this is implemented and enforced by the Financial Conduct Authority (FCA) with rules and guidance within the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). The framework is structured around three 'pillars'.

• **Pillar 1** sets out the minimum regulatory capital requirements a firm must adhere to. A BIPRU firm must maintain capital resources which are at least equal to the base capital resources requirement. A firm must also meet the variable capital requirement which is the higher of a) the capital required to cover a firm's credit, market and operational risk or b) the firm's fixed overhead requirements. The base capital can be used to meet the variable capital requirement.

• **Pillar 2** requires a firm to regularly assess the amount of internal capital it considers adequate to cover all of the risks to which it is exposed, within the context of its overall risk management framework. The process, known as the Internal Capital Adequacy Assessment Process (ICAAP) is the firm's responsibility and is specific to each firm.

• **Pillar 3** requires firms to make disclosures to the market for the benefit of the market. The aim is to encourage market discipline by developing a set of disclosure requirements, both generic and accounting specific, which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes.

Collectively Pillars I, II & III form the overall framework for prudential supervision of banks, credit institutions and investment firms.

Scope and Application of the Directive

Marathon Asset Management LLP ("Marathon") is an investment management firm providing discretionary investment management services to institutional investors. Marathon is authorised and regulated by the FCA as an Alternative Investment Fund Manager and subject to CPMI provisions.

Marathon is also authorised to carry out some MiFID activities and in this regard is considered a BIPRU firm subject to CRD III requirements. Marathon is not subject to consolidated reporting.

Marathon's partners determine the business strategy and risk appetite. Together with the firm's senior management they are responsible for the design and implementation of a risk management framework in conjunction with the firm's Risk Committee.

Risk Management Policies and Objectives

Sources of Risk

Marathon endeavours to manage all the risks that arise from its operations. The main areas of risk that have been identified are as follows:

Business Risk

Business risk is the risk that Marathon may not be able to carry out its business plan or its desired strategy and could therefore suffer losses if its income falls. These risks can be classified as strategic, financial or legal / regulatory.

Operational Risk

Operational risk is the risk of a loss arising from failed or inadequate internal processes or systems, human error or other external factors. The ways in which Marathon manages these risks include identifying and regularly testing key control procedures, obtaining and reviewing key management information, and trend analyses on operational issues. Detailed descriptions of core processes and control procedures are contained within Marathon's operating procedures and are subject to an external audit (AAF 01/06) on an annual basis.

In order to ensure it has sufficient capital to cover these operational risks Marathon also enters into comprehensive insurance policies to cover eventualities such as errors and omissions, business interruption, crime etc.

Material operational issues and failures are brought to the attention of Marathon's senior management as appropriate and consolidated for a more formal review by the Executive Committee on a quarterly basis.

Credit Risk

For Marathon, Credit Risk refers to the potential risk that arises from customers failing to meet their obligations as they fall due. Marathon's customers are institutional investors and it is not its policy to check the customers' creditworthiness.

In relation to its cash deposits, Marathon also faces the potential risk of the failure of a banking institution. Marathon regularly reviews the financial strength and credit ratings of its banking counterparties and splits its deposits between a number of different banks.

Market Risk

Market risk is the risk that the value of, or income arising from, Marathon's business activities varies as a result of changes in stock markets, interest rates or exchange rates. Changes in interest rates and exchange rates have little direct impact on Marathon's business. Stock market levels directly impact on the level of Marathon's assets under management (and hence profitability) but are beyond its control. It is Marathon's policy to understand and accept that this is an inherent risk within the business.

Liquidity Risk

Liquidity risk is the risk that in the short term, Marathon has insufficient liquid assets to meet its payment obligations. Marathon's liquidity policy is to maintain assets in such proportion and type as will at all times enable it to meet its liabilities as they arise. Marathon is a cash generative business and will usually be able to meet all payment obligations out of operating income. However, detailed management accounts and cash flow budgets are produced and reviewed by the Executive Committee on a regular basis to demonstrate this.

Executive Committee Review and Approval

Marathon has established a Risk Committee made up with senior staff from operations and compliance. The function of the Risk Committee is to understand all the risks that Marathon is subject to, to formulate the high level policies and objectives in relation to those risks (as set out in this document), and where necessary to put in place detailed processes and controls or other mitigating action to ensure risks are adequately managed.

Policies and procedures are kept up to date at all times and are thoroughly reviewed at least annually.

Capital Requirement

Pillar 1

Marathon is a limited license firm and is therefore exempt from the operational risk requirement of Pillar 1 and is not required to calculate an operational risk capital charge. As such, its minimum capital requirement is the greater of:

- A base capital requirement of €50,000;
- The sum of its market and credit risk requirements; and
- The fixed overhead requirement.

At this point in time, the sum of market and credit risks exceeds Marathon's fixed overheads requirement, establishing the minimum capital requirement of £5.81m (see note 1).

Pillar 2

Marathon's approach to assessing the adequacy of its internal capital to support current and future activities is contained in the Internal Capital Adequacy Assessment Process document. All known risks, including operational risks, have been assessed and appropriate stress tests and scenario analyses have been undertaken to help determine any additional capital required under Pillar 2.

Marathon has calculated its Pillar 2 requirement to be £10.80m. Marathon has also undertaken reverse stress tests which identify worst case scenarios where the firm would no longer be profitable. Although this is considered to be an unlikely event the firm has determined it would require capital of £12.07m to allow for an orderly wind-down of the business. To provide an additional buffer Marathon maintains a minimum level of capital way in excess of this number.

Capital employed to meet the capital requirement.

The main features of Marathon's capital resources for regulatory purposes are as follows: (see note 1)

Capital item	£ m
Tier 1 capital less innovative tier 1 capital	60.95
Total of tier 2, innovative tier 1 and tier 3 capital	0
Deductions from tier 1 and tier 2 capital	0
Total capital resources, net of deductions	60.95
Surplus	48.88

Note 1: These quantitative disclosures are based on financial data as 30 September 2017 and the FSA003 Capital Adequacy return.