Corporate engagement policy

Introduction

The drive to promote better shareholder engagement whilst delivering improved transparency remain for Marathon sound principles of business and important elements of a successful investment process. To this end, this document provides a summary of how Marathon engages with the companies in whom we invest on behalf of our clients; and how this forms part of Marathon's fundamental long-term investment strategy. Separately, Marathon's policy aims to support the wider industry and regulatory initiatives to provide increased transparency and promotion of good stewardship objectives, thereby ensuring on-going compliance with the Shareholder Rights Directive ("SRD II"). This policy covers Marathon Asset Management LLP and other EU group companies such as Marathon Asset Management (Ireland) Limited.

Portfolio composition & scope

Marathon seeks to invest in global listed equities where the underlying company can deliver shareholder value over the longer term through effective and sustainable use of cash flows. A bottom up process considering industry characteristics is combined with in-depth research on the motivation, incentivisation and skill of management to respond the forces of the capital cycle. Effective engagement delivers a key component to identify appropriate investee companies in which to invest.

Impact of investment strategy on performance

Over more than three decades, Marathon's investment philosophy has evolved, but two simple ideas about how capitalism works in the long run have always been paramount.

The first is the observation that high returns in industries tend to attract capital and competition, just as low returns repel them. The resulting ebb and flow of capital affects long-term returns for shareholders in often predictable ways, which we call the capital cycle. Since high levels of investment tend to be detrimental to shareholder returns over the long run, Marathon seeks to invest in companies with high returns sustained by barriers to entry deterring investment or companies with low returns in industries where investment is declining.

The second guiding idea is that management skill in allocating capital is vital over the long-term. The best managers understand and seek to alter the capital cycle in their industries through sensible reinvestment choices. Decisions about new capital projects, acquisitions or disposals, and equity issuance or buybacks are critical to the ultimate outcome for shareholders.

Given the contrarian and long-term nature of the capital cycle, Marathon investment strategies tends to result in portfolios of investments that can differ from their respective benchmark indices, with average holding periods of eight years or more for individual company investments. Note Marathon may also avoid stocks that would otherwise present a valid opportunity based on capital cycle characteristics if valuations are overinflated.

Key material risks

Given the long-term nature of Marathon's investment thesis, benefits from the investment decisions may take a long time to materialise. As with all equity investments, there is the risk that investments may rise but also fall; driven here by the possibility that that an industry or investee company may not perform as expected. This could be the result of regulatory, legislative or cultural shifts that impact the performance and viability of a sector.

Integration of shareholder engagement

Marathon uses fundamental, bottom-up qualitative analysis to evaluate businesses and the industry within which they operate. Initial investment decisions are likely to be driven by reviews of information sourced directly from the issuers themselves including: call/meeting notes; quarterly and annual reports; audited/unaudited accounts; and other supporting financial information etc., via investor relation sites, Bloomberg and S&P Capital IQ. Analysis of other research will also facilitate an understanding of the medium to long-term performance of an investee company.

In addition, the evaluation of investee company management, which is critical in the stock selection process, includes a detailed understanding of the skills, motives and incentivisation of management. Research meetings with company management represent a significant amount of analytical effort conducted by the investment team to identify business attributes that Marathon finds attractive and aligned with our investment philosophy. See Marathon's Stewardship Code for further details.

Interaction and monitoring investee companies

Interaction with investee companies is varied; covering ongoing review of external research available on the company and industry, investee company data and insight from investee company management.

Marathon seeks to utilise proactive dialogue and engagement to encourage good governance and efficient capital allocation with a focus on shareholder returns. This engagement with management forming part of Marathon's on-going corporate engagement and stewardship.

Historically, Marathon has raised numerous issues with directors, both privately and, in extreme situations, publically to address perceived shortcomings and protect clients' invested capital. Marathon will take account of 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.

For further details, please see Marathon's environmental, social and governance policy, which outlines how the firm engages with investee companies on various matters related to strategy, financial, social, environmental and corporate governance.

Exercising voting rights & other rights

To facilitate company engagement, Marathon has in place comprehensive proxy voting procedures. Where Marathon has been delegated voting rights by underlying clients, Marathon's portfolio managers actively vote shares and hold management to account. Marathon has also retained ISS as an expert in the proxy voting to help facilitate Marathon's voting activity and reporting (Note: ISS are not used for any other investment research or engagement purpose).

Recommendations and research provided by ISS are delivered to Marathon's portfolio management team to facilitate the proxy voting process. A portfolio manager will review each 'voting pack' on a case-by-case basis to formulate their opinion in relation to the particular matter subject of a vote; primarily using their own expertise and knowledge of an issuer sourced from a range of internal and external sources.

Consequently, whilst Marathon receives guidance and advice from proxy advisers like ISS, decisions are made on a case-by-case basis utilising the specific knowledge of the investee company sourced from a wide pool of research. The key is that the portfolio manager makes voting decisions knowing the company and individual management involved, as part of their direct responsibility for the investment. This may include voting against ISS where Marathon believes it is in the best interest of shareholders to do so.

In addition to providing advice on specific policy voting issues, ISS also coordinate the actual exercise of the proxy vote and reporting services. This entails receiving voting instructions from Marathon and transmitting them to each clients' custodian for processing. ISS also provide a full reporting facility to Marathon detailing voting recommendations and actual votes transmitted to custodians, which are then periodically sent to clients with a subset of data uploaded to the Marathon website.

Proxy voting and conflicts of interest

Conflicts of interest may arise during the voting process, between the interests of clients and Marathon and/or its affiliates. These conflicts could include (non-exhaustive): (i) where portfolio managers have opposing views in connection with voting shares of a company they are both invested in; (ii) where Marathon has a separate material relationship with, or is soliciting business from, a company lobbying for proxies; or (iii) where a personal relationship exists, such as where a friend or relation is serving as a director of a company soliciting proxies. A conflict could also exist if a material business relationship exists with a proponent or opponent of a particular initiative.

Where Marathon identifies a material conflict of interest, the team involved will raise the matter with Compliance. Such reporting will include full details of the issue including why the conflict is deemed material, with confirmation how the proxy vote is to be undertaken in the best interests of clients. Please see Marathon's conflict of interest policy on the website for further details.

Disclosure of proxy voting records

Marathon's voting records are provided to clients on a quarterly basis. Separately, the firm's voting track record is publicly disclosed on the firm's website (with a 180 day lag). Further disclosures are made in the Stewardship Code statement, also found on our website.

On an annual basis, Marathon will update this policy and identify any significant matters that have arisen in connection with voting activity during the previous twelve months.

In line with The Pensions and Lifetime Savings Association (PLSA) guidance for disclosing "most significant" votes for UK managers, Marathon has begun disclosing on an annual basis the ten votes that it considers to be most significant in each region. Marathon's portfolio managers assess votes to be the "most significant" on a case-by-case basis, including the following type of scenarios:

- Marathon owns > 10% free float
- Vote against management recommendation
- Vote against ISS recommendation

- Vote is a hot topic in financial press
- Shareholder proposal
- M&A activity

An example is McCarthy & Stone Plc, the UK's leading developer and manager of retirement communities, which received a bid in October 2020 from a real estate fund, following a difficult several months caused by the ongoing coronavirus pandemic. The share price had fallen by c.75% in the initial market sell off in March 2020 before recovering and stabilising around 50% down from the previous peak. Although the bid was at a substantial premium to the prevailing share price of the previous few months, and was unanimously supported by management, Marathon viewed it as opportunistic and not reflective the true value of the business, so voted against the offer.

Security lending

Security lending transactions entail a transfer of ownership of securities to the borrower, where the lender may not exercise voting rights while the securities are on loan. Marathon does not currently undertake security lending across its portfolios. Segregated clients may independently undertake security lending on their accounts but this is outside the prerogative of Marathon.

Co-operation with other shareholders

Marathon is committed to confronting important corporate issues to achieve the best outcome for our client base. The firm's preference is to undertake this work directly with investee companies, and may involve dialogue with the board and senior independent directors, letters and other escalation methods available to shareholders.

Occasionally, Marathon may get involved alongside other shareholders to look to resolve a critical issue collaboratively if in the best interest of our clients; for example where fighting an action collectively could have a material impact upon shareholder value, or an investment decision was based potentially upon false or misleading information.

In such circumstances Marathon may consider joining class actions or working with other shareholders to instigate change or hold executives to account. This was evidenced in the recent lead role taken by Marathon in the 2019 fight on behalf of shareholders of the Lixil Group in relation to corporate governance concerns. Whilst we recognise the potential benefits of working alongside other long term investors on policy and company specific matters, Marathon is sensitive to the inefficiencies and time-consuming nature of acting both collectively and publicly, particularly if parties hold conflicting views on a situation. Further details can be found in Marathon's Stewardship Code.

Communication with stakeholders of investee companies

Marathon also interacts with other investors and stakeholders 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. In such instances, Marathon will look to ensure that our position is aligned to our stance on sustainability, engagement and commitment to the six Principles for Responsible Investment, which Marathon has signed up to. Ultimately, our aim is to maximise the long-term gains for our clients.