MARATHON
ASSET MANAGEMENT

Sustainability Report

2023

Thoughtful,
patient investing.

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Introduction

Welcome to Marathon's annual sustainability report, 2023.

This report seeks to inform clients and other stakeholders on how Marathon has implemented sustainability policies over the past year through a number of examples.

Some clients might question why Marathon is producing such a report when we do not offer any products labelled as "ESG" (Environmental, Social, Governance) or "Sustainable", nor any which seek to generate a particular impact beyond financial performance (other than to the extent directed by certain clients in separately managed accounts).

The simple answer is because these matters are important considerations within our investment approach. Marathon's purpose (which can be found in our "Purpose, Vision and Values Statement") is "To partner with our clients and help them meet their long-term financial objectives by outperforming stock market indices". Marathon has always emphasised the long-term, and therefore has always sought out sustainable businesses to invest in.

As long-term investors, we view analysis of the risks faced by a business, including those relating to its actual or potential environmental or social impacts, as a crucial part of our investment process. These risks can cost a company dearly over the long-term, so assessment of these risks and opportunities, and the governance structure and process which oversee and manage them, is – and always has been – part of our process.

Marathon views ESG as a comparatively new label for an age old set of issues reflecting the frictions between business activity and wider society. It is an extension of the concerns expressed loudly by developed societies from the 1940s about the impact of factory chimneys and outlets into water supplies destroying the environment, the outrage in the 1980s upon the discovery that many clothes were being made by children in sweatshops in the "third world", and the shock in the same decade of realising that hairsprays and air fresheners were triggering the depletion of the ozone layer and irradiating the world.

These specific concerns have gradually been replaced with a broader understanding of the impact that economic activity can have on the wider world. Furthermore, this understanding is constantly evolving with new scientific discoveries, development in societal concerns and changes to ethical frameworks.

Clients are increasingly showing interest in more than just the financial performance of their portfolios. This interest often now extends to how portfolio managers assess negative externalities (such as environmental or social outcomes) affecting their investments and how they act to improve the businesses they invest in (via voting and engagement to improve governance for example). It extends to the question of whether the fund management firm itself is a responsible business, seeking to improve its own environmental and social outcomes.

The purpose of this document is to provide information on these subjects to enable our clients (and those who are considering joining their ranks) to understand better Marathon's views on, and approach to, sustainability both philosophically and in practice.

What Marathon means by Sustainability

At Marathon, sustainability covers a variety of topics including:

- the impact of non-financial factors (such as ESG) on our investment philosophy and process;
- stewardship activities such as engagement with companies and active ownership (i.e. voting on company meetings) which seek to improve the businesses in which we invest; and
- what Marathon is doing itself as a company – rather than in the portfolios under our care – in relation to similar factors, such as efforts towards reducing carbon emissions, improving conditions for our staff and considering our societal impact.

In relation to the first point, it may be useful initially to define what Marathon does *not* do.

Marathon does not claim to be an "ESG manager" – whatever that might mean – and we have no intention of using this document to lay dubious claim to our portfolios being somehow more 'virtuous' than others. We do not seek to invest in accordance with any particular ethical view, nor do we screen out companies, countries or industries from our investment universe based on sustainability or other criteria (beyond any legal or regulatory obligations to which we or our clients/funds may be beholden, or as required under client guidelines).

Nevertheless, we do consider sustainability risks and opportunities within the process.

What are now described as "ESG risks" are nothing new. They have always presented the possibility of loss over the long-term for the companies in which Marathon invests, and as such they have always been considered in the investment process. The opportunities presented by ESG related issues are also an important source of investment ideas and many holdings have been bought over the years, at least in part, because their sustainability characteristics were not fully appreciated – or valued – by the stock market at the time.

Stewardship is also core to Marathon's process. Voting thoughtfully, engaging actively and, where necessary, escalating persuasively are, we believe, core investment duties. At Marathon, we see ourselves as company owners on behalf of clients. We are not price speculators or passive shareholders. Where we see aspects of a business that, in our view, could be improved, we make our views known, and vote for those resolutions that we believe are most likely to improve matters, and thereby enhance asset values, over the long-term. Acting for long-term shareholders, Marathon often has a strong relationship with the boards of companies we invest in. As a result, they also contact us from time to time to solicit our views on various matters.

Finally, Marathon itself is committed to being a good corporate citizen. While we believe that this has been the case for many years, there are always emerging areas of concern, innovations in the markets and enhancements which can be made. Marathon conducts regular reviews of its business activities. Recent reviews have focused on environmental impact and diversity, equity and inclusion ("DEI") within the business, but we also regularly consider staff wellbeing and community impact.

The following pages provide examples on all of these issues.

Examples of Sustainability: Investment Decisions

Marathon's primary objective – the fiduciary duty to add value within clients' agreed risk parameters – is enhanced by considering material sustainability issues and opportunities. Although sustainability will rarely be the main reason for an investment, or for the avoidance of one, it can have a material impact on decisions.

As previously mentioned, sustainability risks are, amongst other things, financial risks to a company, however, many are "long tail risks"; meaning they could occur at any time, but have a low probability of occurring at any *particular* time. For example, poor environmental practices may not have an impact today, or in the next year, but could lead to relatively sudden fines, litigation and clean-up costs at any time.

Even though the long-term risks are clear, management teams often suffer from short-termism. This results from a temporal form of "moral hazard"; poor practices may benefit a company's finances in the short-term as long as the worst does not happen, because it is often cheaper to behave badly than to behave well. Combine this with short-term incentives for management and short director tenures and the hazard is magnified.

To compound the issue, this moral hazard is shared by those investment managers who look at shorter performance time horizons and trade positions frequently. We would argue that the use of "ESG screens" and distinct sustainability research and/or engagement teams which separate stewardship functions from investment management, is an attempt to mitigate this inbuilt conflict.

At Marathon, our investment horizon is long term (currently the business has a firm-wide weighted average holding period of around eight years). As a result, our portfolio managers are not as susceptible to this conflict and have an incentive to seek improvements in the companies they invest in, even at the expense of short-term performance.

This long-termism forms the foundation for our stewardship efforts with the companies in which we invest.

Examples of holdings where sustainability factors are material:

Mitsubishi Heavy Industries ('MHI'), Japan

Mitsubishi Heavy Industries ('MHI'), headquartered in Tokyo, is a multinational engineering, electrical equipment and electronics company purchased during the last twelve months. MHI's core domain is energy and defence, a beneficiary of METI-endorsed [1] overseas nuclear power components exports and a story of restructuring and improving corporate governance. Thus, the company is likely to profit from its competitive

the environment, and the firm is a market leader in decarbonisation technology. Other notable businesses are aircraft components, logistics and infrastructure, industrial machinery, defence and aerospace. It is also a profitable after-sales service operator, an Energy Security name, a play on

[1] The Ministry of Economy, Trade and Industry (METI) is a ministry of the Government of Japan.

environmental and energy technologies in the medium-term, whilst also providing diversification through exposure to defence and nuclear power.

Rexel, France

Rexel specialises in multichannel distribution for the energy world and connects organisations with electrical products and solutions. It was purchased due to the likelihood the firm's importance in driving the energy transition. The company has benefitted from recent electrification trends, helped by both an increasing global focus on sustainability and higher energy prices. In addition, excess demand in the market for electrical products is likely to continue as digitisation accelerates.

OZ Minerals, Australia

Australian-based mining company OZ Minerals offers exposure to the materials driving the energy transition. The company predominantly mines copper. The decarbonisation agenda is not only reducing supply, but also boosting demand; renewable energy generation, smart infrastructure and electric vehicles are all highly copper-intensive. Aluminium has been a plentiful substitute for copper in the past, but its relatively high carbon intensity has made it a much less attractive proposition. In addition, OZ Minerals has a strong management team with an excellent track record of project delivery, a sensible plan for sustainable growth and a focus on shareholder value.

OZ Minerals was taken over by BHP and the position has since been sold from Marathon's portfolios.

Miura, Japan

Miura is a Japanese manufacturer of once through boilers, which are more efficient, smaller and environmentally friendly than traditional boilers. The company, which has dominant market share in the space, was purchased due to the likely increased demand Miura will face as environmental considerations heighten.

Example of a transaction undertaken in part due to sustainability concerns

While it is comparatively rare for stewardship and ESG matters to be the main driver of the purchase or sale of a holding, from time to time they can be key considerations. A recent example for a sale which was triggered predominantly by what we feel was a failure of social consideration is:

Giant Manufacturing, Taiwan

Giant Manufacturing is a Taiwanese bike manufacturer producing conventional and E-bikes under an Original Design Manufacturer (ODM) and own brand model. The business has a high level of insider ownership, circa 25%, and concerns had been raised around succession planning, director remuneration and balance sheet management. The actions of the board and management raised questions as to whether decisions were being taken in the long-term interests of all shareholders. On the back of these concerns, Marathon sold its position in the company during the third quarter of 2022. The business had clearly benefited from strong demand, particularly during the various global lockdowns of 2020 and 2021, which appeared to be subsiding, leaving margins and asset turns at risk of contraction.

Examples of Sustainability: Stewardship

Engagement with management

A distinguishing characteristic of Marathon's investment process is the number of company meetings which are undertaken as part of our research and ongoing monitoring efforts in portfolios.

We provide examples of recent engagements between Marathon's portfolio managers and investee companies below.

Vistra, North America

Vistra, one of the largest electricity generators in North America, has been pivoting away from its legacy assets, having already closed most of its coal plants. There are two remaining plants scheduled to close by 2030 and, as a result of this remaining coal exposure, the company's shares have been heavily penalised by the market in terms of a valuation discount. Marathon met with management in November 2022 to encourage accelerated closure of these plants beyond the stated timeline. The firm has since announced their proposed acquisition of Energy Harbor. If approved, this transaction adds two more nuclear facilities to their asset base which will be placed, together with its existing nuclear asset, its entire retail business and all solar assets, into a new division called 'Vistra Vision', which will be entirely carbon-free, and by 2025 will account for more than half of company profits. The remaining generation assets will be part of 'Vistra Tradition'. This demonstrates a concerted effort to transition towards net zero, the discount applied to the shares ought to narrow as a result.

Playtech, UK

UK listed gaming company Playtech was seeking approval from shareholders for it to be purchased by Australian peer and casino business Aristocrat Leisure, with which ISS, our proxy voting advisor, agreed. In Marathon's view, however, the £2.7bn takeover offer, which valued shares at 680p, was opportunistic and fundamentally undervalued the company. Whilst both ISS and company management were in favour of the transaction, Marathon communicated its contra views to Playtech's management before voting against the resolution. The takeover deal subsequently collapsed after only 54 per cent of shareholders voted in favour, falling short of the 75 per cent threshold needed for approval. Company management has since expressed that the process highlighted the premium value of the business, and is less likely to support any future takeover bids.

Voting

As well as engaging with management, Marathon is an active owner of the companies selected for our client portfolios. Information on proxy voting firmwide can be found on the Marathon website (www.marathon.co.uk) and, for clients, details of all votes which impact their portfolio can be found in the client area of the website.

Marathon's portfolio managers are ultimately responsible for each vote cast. ISS provides expert recommendations for all votes based on a number of criteria, often based on quantitative data. While this is a useful starting point, it can ignore local norms and business specific nuance. Portfolio managers dissent from ISS views where they believe it is in the best interests of clients to do so. See our proxy voting policy and breakdown of voting on our website.

Although many votes are routine in nature, on matters of substance we sometimes disagree with management or ISS. Overall, in 2022, Marathon's voting was aligned with ISS 97% of the time (7,546 proposals were voted upon) and with company management 94% of the time.

We provide below information on some instances where Marathon has dissented from ISS views:

Compass, UK – February 2023

Marathon voted for the company's updated remuneration report, following changes to the Long-term Incentive Plan (LTIP) in 2022, in line with Management but against ISS. The changes made the LTIP more generous, which ISS opposed due to a loss of jobs at the company and extensive use of government support during the covid-19 pandemic.

Marathon sought clarification from Compass, which produced a robust response to ISS's criticism centred around the problems they had experienced sourcing and retaining executive talent given the demand for skilled staff following global lockdowns. Management indicated that, although the LTIP has been made more generous, it has also introduced mandatory deferral of bonus payments, clawback clauses, and an increased shareholding requirement for executives to further align interests. They also demonstrated that the overall compensation package places the company just below the median of the FTSE 50 (the 50 largest UK listed companies, excluding Financials) despite Compass being around the 20th largest company (excluding Financials) on the exchange.

Marathon viewed the management response as reasonable and well considered and thus chose to support management. Other investors concurred and the vote passed with 70% support.

Hana Financial Group, South Korea – March 2023

Marathon voted for the re-election of various directors at Hana Financial Group, in line with management but against ISS. The CEO of the business, Ham Young-Joo, was reprimanded by regulators during the period, in relation to his role as CEO of Hana Bank, a subsidiary of the Group, in 2016. The bank was found to be selling unsuitable derivative products to retail investors, many of whom suffered enormous losses as a result. Mr Ham was found liable for failing to ensure controls were in place to prevent mis-selling. The finding has been challenged in the courts and an injunction against its efforts put in place until the court rules on the issue.

ISS took the view that the Non-Executive Director's should have removed Mr Ham as soon as he was reprimanded by the regulator and before the appeals process had been concluded, thus voting against their re-election. While Marathon sees merit in this view, the Board's argument that they should wait for the appeal process to conclude is also warranted.

In our view, removing six outside directors - three quarters of the board and all high calibre individuals - would result in considerable disruption to the business. Marathon concluded that the most sensible approach was to keep a watching brief on this issue and keep lines of communication with the Board open. Although the company does not publish detailed results, all directors were subsequently re-elected.

Sustainability within Marathon

Marathon seeks to be a socially responsible business. Although we believe that we perform relatively well in this regard, there is always more that can be done. The world is not static and new concerns and opportunities arise all the time. As a result, we consider the business' environmental and social impacts, including staff wellbeing, on an ongoing basis and actively seek out potential improvements.

Initiatives include:

Environmental impact

- Recycling review – seeking to increase amount of waste recycled.
- Installation of energy saving hardware (e.g. lightbulbs, sensor switches).
- "Cycle to work" scheme providing staff access to bicycles and e-bikes paid for via salary sacrifice pre-tax income and an "Electric vehicle" scheme which operates in a similar way for electric cars.
- Installation of water filtering taps, which provide chilled and boiling water, reducing use of bottled water.
- Electricity purchased from a "100% renewable sourced" supplier.
- Marathon has achieved CarbonNeutral® company certification, having purchased emissions reductions from verified carbon reduction projects through Climate Impact Partners.

Community

- A "payroll giving" scheme is available, which allows staff to pay regular charitable donations from pre-tax income.
- Marathon participated in the #10,000 BlackInterns initiative to provide paid internships to three young people from minority backgrounds.
- The company runs a volunteering scheme whereby staff may periodically volunteer to work at a partner charity.

Diversity, Equity and Inclusion (DEI)

- Engage recruitment agencies with clear DEI Policy, review job descriptions to ensure usage of gender-neutral language, diverse candidate slate for all positions and ensure interview panels are diverse.
- Staff training on inclusion in the workplace, including Inclusive Leadership training for line managers. All employees work towards 'Inclusive Culture' objectives within bi-annual reviews.
- Initiatives (including mentoring and internal recruitment) to improve the career options for diverse staff members.
- Data collection to measure and provide meaningful information on diversity across the business, within the constraints imposed by UK law.

Staff wellbeing

- Marathon provides a competitive package of pay and benefits for staff in order to attract and retain talented employees, and to support them in achieving a happy and healthy lifestyle.
- Flexible working policy allowing staff to work remotely periodically.
- Access to "wellbeing" resources including mindfulness app Headspace, weekly yoga sessions and gym membership discounts.
- An Employee Assistance Programme providing access to counselling and advisory services.
- A diverse program of social and sporting events across the year.

Marathon's External Commitments

In addition to the internal initiatives discussed above, Marathon is also committed to working with various external organisations, as well as being subject to some specific regulations related to sustainability. Marathon's internal Sustainability Working Group regularly reviews and assesses external initiatives, and we may subsequently commit to these where they align with Marathon's longstanding investment process and approach to sustainability.

Current commitments include:

Principles for Responsible Investment (PRI)

Marathon became a signatory of the UN-supported Principles for Responsible Investment in 2019.

Marathon's latest report was submitted to the PRI in September 2023 and the firm awaits the assessment results with interest.

Task Force on Climate-related Financial Disclosures (TCFD)

Marathon became a supporter of the TCFD in March 2021. The TCFD's goal is to encourage companies to report on climate related risks, and how they plan to respond to the, in a uniform way, improving market transparency and stability.

Marathon has since produced its inaugural TCFD Climate Report, which describes the governance structure overlying climate-related risks and opportunities at Marathon; the strategy adopted to consider these impacts; the risk management framework in place and metrics and information relating to Greenhouse Gas (GHG) emissions for the total assets under management (AUM) of Marathon; and also for specific strategies.

Stewardship Codes

Marathon is a signatory of both the UK and Japanese Stewardship Codes.

Marathon was re-confirmed as a signatory of the UK Stewardship Code during the third quarter of 2023 following a Financial Reporting Council review of Marathon's updated UK stewardship code statement, which covered the 2022 full-year period.

Marathon's Japan stewardship code statement was also updated and issued in the third quarter.

Reports in relation to all of these commitments can be found on Marathon's website at www.marathon.co.uk/sustainability

Important Information