

Marathon Asset Management Limited (“Marathon”)

Sustainability Policy

A core element of Marathon’s investment process is evaluating the prudent allocation of capital for shareholders. Consideration of, sustainability, is integral to identifying stocks that can deliver positive long-term returns.

A wide range of factors, including sustainability, may be considered in determining the quality and durability of an investment. Seeking companies that deliver long-term value instead of just short-term headline profits necessitates consideration of material sustainability factors. Sustainability is thus assessed as part of the investment decision.

Marathon critically assesses sustainability matters, as inadequate governance or lack of consideration for environmental and social matters may lead to poor outcomes and an inability to derive long-term shareholder value. Nevertheless, a sufficient price discount may still lead Marathon to invest despite a poor sustainability track record; particularly when it is improving, led by a decisive and committed management team.

In practice, although Marathon considers data and analysis from external providers, sustainability assessment is largely subjective, where past performance and future strategy are gauged to analyse whether a company is likely to deliver over the longer-term. Sustainability analysis helps calibrate investment decisions as part of the wider assessment of the capital cycle.

Sustainability of a business

Marathon’s company research includes identification of issues that impact future valuation, including: ethical, environmental or product related matters that could result in a costly clean-up, reparations, regulatory censure or legal restrictions. Likewise, Marathon is sceptical about businesses that are considered anti-social. Whilst not looking to apply a moral standard, Marathon frequently avoids companies which are considered socially damaging, as this may often harm long-term investment returns. Note, Marathon’s overriding objective when investing is to achieve economic benefit for our clients within their agreed risk parameters. Portfolio Managers will expressly prioritise these economic aims over unrelated objectives which would lead them either to sacrifice investment return or take on additional investment risk to promote non-pecuniary goals.

A sustainable business model will more often than not embody positive sustainability principles. Marathon does not run an exclusion policy, however, if material sustainability questions arise, Marathon may actively consider a range of factors to decide whether the company is an attractive investment. Nevertheless, if a truly egregious sustainability issue was identified, Marathon would likely look to sell early when it is felt the impact is not yet fully discounted in the share price.

Governance and stewardship

The assessment of good governance as a primary driver of investment performance and shareholder returns is at the core of Marathon's investment decision-making. In practice, this focus encompasses building trust, rapport and a good working relationship with investee companies in order to assess a variety of factors.

These factors may include: tone from the top; integrity and culture; corporate structure and governance; diversity of thought and form; capital allocation; incentives; and how a company engages with stakeholders. Transparency, trust and responsiveness are material factors in guiding whether Marathon will invest or continue to hold a position in a stock.

Marathon is not an activist *per se*, in that the firm does not make outsized bets with the aim of overhauling an issuer. Marathon prefers to utilise proactive dialogue and engagement to encourage good governance and efficient capital allocation with a focus on shareholder returns. This engagement with management forms part of Marathon's on-going company 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.

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. 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. 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.

Environmental and social factors

Assessing environmental and/or social factors is inherently more difficult to scrutinise in practice compared to a company's governance arrangements, not least because of the vagaries of long-term forecasts and the changeable behaviours of governments, regulators and customers. Marathon utilises data from the company, third party research providers and/or media in undertaking this assessment. Wages, staff turnover, training, internal promotion, safety protocols and a firm's environmental record are all components that can, to a degree, signal how well a business operates in practice and the strength and integrity of a management team.

Similarly, when Marathon seeks to understand a company's future strategy, consideration of material environmental and social issues will also be included. As part of this assessment, Marathon aims to observe how a company engages with environmental factors like climate change, or social issues like remuneration arrangements, in order to assess the potential future risks to the business and management's responsiveness to these issues. Companies that are not sustainable over the longer term are unlikely to pass muster.

Materiality of sustainability factors

Marathon's approach is to look at a range of factors when assessing a company; considering governance, behavioural factors, capital allocation and the attitude and policy towards shareholders in combination and not in isolation. The investment team is also cognisant that whilst sustainability analysis can deliver benefits, it is not universally assured.

Marathon takes a prudent approach to data assessment. The goal is to avoid getting overloaded with data that can perversely inhibit the investment selection process. Not every sustainability factor is always strategically important. Indeed, Marathon prefers to focus on only a small number of material issues to reach an investment decision, alongside an assessment of appropriate valuations.

In summary, Marathon does not exclude an investment purely on the basis of a poor appraisal of sustainability alone, but instead factors sustainability into the analysis of a stock. Client portfolios can include companies with either good sustainability records or those that may have residual issues but whose valuations are appropriately low. For Marathon, considering sustainability issues, alongside other material issues, has always been a central aspect of making the right investment decision.

Notes:

Marathon has been a signatory of the UK Stewardship Code since December 2010 and has produced a report following year-end 2023 to demonstrate compliance with the 2020 code; which can be found in the Sustainability area of our website. Furthermore, our 2024 year-end report has been submitted to the FRC. In addition, we have produced an annual sustainability report for clients which provides information on Marathon's approach to sustainability, and examples of instances where consideration of sustainability factors has been a material part of decision making. The document also includes Marathon's regulatory Carbon disclosures (compliant with TCFD guidance). It can be found in the Sustainability area of our website or directly [HERE](#). Marathon is also a signatory to the Japanese Stewardship Code. As of January 2019, Marathon has also become a signatory to the Principles for Responsible Investing ("PRI"). Further details can be sourced on the Sustainability area of Marathon's website.