MARATHON
ASSET MANAGEMENT

Sustainability and Climate Report (TCFD aligned)

Marathon's climate-related disclosures

Year End 2023

Thoughtful,
patient investing.

Contents

Introduction

Welcome to Marathon's newly combined Sustainability and Climate Report for the year ending 2023.

Marathon published its first Sustainability report in 2021 and this was joined by a Climate report in mid 2023 (covering calendar year 2022) based on the recommendations of the Task Force on Climate-related Financial Disclosures (usually known simply as TCFD). Given that the topics are closely linked, for the convenience of readers Marathon has combined all of the information in one place, both for this year and for the future. (Consequently, please note that the Sustainability reporting period will now cover calendar years to align with climate reporting requirements).

This report informs clients and other stakeholders on how Marathon has implemented sustainability policies over the past year through a number of examples. It also provides climate-related disclosures aligned with the recommendations of TCFD.

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 has always emphasised the long-term, and therefore has always sought out sustainable businesses to invest in. Risks relating to actual or potential environmental or social impacts can cost a company dearly over the long-term, so assessment of these risks and opportunities is – and always has been – part of our process.

With respect to climate-related reporting, Marathon became a supporter of the TCFD in 2021. While not an "ESG investor", in that we do not seek any particular non-financial impact from our investment activities, we see value in the creation and use of a common framework for companies to assess and report on their greenhouse gas (GHG) output. Following our inaugural voluntary TCFD Climate report issued to cover 2022, Marathon is now also under a regulatory obligation to report on these metrics as we are authorised and regulated by the UK's Financial Conduct Authority; which has required firms like Marathon to report under the TCFD framework.

TCFD recommends that companies make disclosures to cover four pillars:

- **Governance:** The organisation's governance around climate-related risks and opportunities
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning
- **Risk Management:** The processes used by the organisation to identify, assess and manage climate-related risks
- **Targets and Metrics:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Furthermore, asset managers are required to report both in relation to their corporate emissions and those of their investment strategies/portfolio. This report seeks to mirror this structure, following the disclosures relating to sustainability more broadly.

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 at 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, for example in relation to sanctions, 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 been considered in the investment process. The opportunities presented by sustainability 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. 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 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 such 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 and transactions where sustainability factors are or were considered:

Taisei, Japan

Taisei created Japan's first zero energy rental office in 2017, and has continued to promote zero energy buildings ("ZEBs"). Taisei has various energy-efficient and ZEB conversion technologies that have been, and will increasingly be, used in projects. The firm has also has embarked on renewable energy initiatives in both onshore and offshore wind power, and has developed a carbon-recycled concrete production method which reduces CO2 emissions substantially.

Furthermore, Marathon observes multiple potential avenues for corporate governance improvement. There is evident room for improvement on the Board of Directors; currently only 30% of the Board is made up of Independent Directors, including just one female. Management has also expressed a wish to improve its approach to human resources and the treatment of employees in order to secure more talent as a shortage of engineers in Japan (the declining birth rate in the country has become an issue for many companies that require highly trained staff) is projected to become more of a structural issue in the medium to long term.

Pilbara Minerals, Australia

Pilbara Minerals was purchased due to positive expectations stemming from the company's ownership of a top tier lithium resource in Australia, as the world continues to reduce its reliance on fossil fuels. Marathon expects that lithium supply growth will struggle to keep up with demand - largely driven by electric vehicles, though other areas such as energy storage may also become major markets - over the next decade, due to a lack of high-grade deposits and the huge economic and environmental challenges of establishing new production capabilities.

Although still an energy intensive extraction process, Pilbara mines spodumene, which is arguably less environmentally damaging than producing lithium from brine; the more common method, which uses a vast amount of water. Western Australia also has some of the most stringent environmental regulations in the world; in contrast to China, for example, where emissions from lithium production are, and are likely to remain, much higher given their reliance on lower grade lepidolite ore. Marathon is confident that the firm is making positive changes in regards to environmental matters, and will continue to engage with management to help drive this in a manner compatible with our fiduciary responsibilities.

Mitsubishi Electric Corp, Japan

Governance factors were a key factor in the decision to purchase Japanese electronics manufacturer Mitsubishi Electric Corp following changes to the firm's approach to corporate governance, brought on by the arrival of a new CEO, which made the company more attractive to Marathon. The new CEO displayed encouraging signs of improving company culture and management; including an increase in the number of external directors on the Board. Furthermore, following the successful example of Hitachi (another Marathon holding), Mitsubishi Electric announced an exit from JPY300bn worth of uncompetitive non-core businesses, with potentially more divestments in the pipeline. Its key performance indicators now emphasise profitability, capital efficiency and free cashflow generation, and are more consistent with future value creation.

Sealed Air, USA

While not the central factor behind the purchase of packaging company Sealed Air, the firm's focus on sustainability is an important part of Marathon's investment thesis.

The company – best known as the inventor of (and owner of the brand) Bubble Wrap – is a plastics business, which is not generally something one would associate with environmental sustainability. Nevertheless, it is at the forefront of developing sustainable packaging solutions; including products designed to keep food fresh for longer which helps to eliminate waste. The firm has set a goal of producing entirely recyclable or reusable packaging by 2025.

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. See also our response to the UK and Japan Stewardship Codes for further details, found on our website at www.marathon.co.uk.

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

Obayashi Corporation, Japan

Marathon has met regularly with Obayashi, one of Japan's major construction and infrastructure companies, over the years. In common with many of Japan's companies – particularly the old, established businesses – its governance structure left much to be desired from a shareholder perspective four or five years ago, and the management culture at that time was seemingly focused on managing issues surrounding the founding family.

The topics of discussion at these management engagements have tended to follow the same pattern; pressing for news on what the business intends to do in relation to improving shareholder returns (both share price and income), ESG matters (where the company was perceived as weak on social and environmental matters), and cross-shareholdings.

The business has made excellent progress on many of these matters over the past few years; more external directors have been installed, including women, the business has started to unwind cross-shareholdings, and the chairman has become simply a director rather than the "Representative Director" (a position in Japanese companies which confers full, legally binding, authority in a single person).

Issues still remain and in 2023 Marathon voted for a shareholder proposal to approve an additional special dividend in addition to management's dividend proposal. The argument was that the company still holds substantial cross-shareholdings which are not related to the business and which generate an income. In the absence of any particular plan for these shareholdings or income, Marathon agreed with the proposer that any dividend income from policy shareholdings should be distributed to shareholders, and we will continue to advocate for further shareholder-improvements to structure and business practice.

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 2023, Marathon's voting was aligned with ISS 99% of the time (7,202 proposals were voted upon) and with company management 96% of the time.

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

The TJX Companies Inc, USA – June 2023

A shareholder proposal was tabled asking TJX companies (the holding company for discount retailers such as TJ Maxx, TK Maxx and Homesense) to offer all employees some level of paid sick leave.

The company pointed to its compliance with various country and - within the US - state, county and city level requirements on the subject, and that minimum required standards were being met.

Although ISS agreed with the points made by the proponent it stated that "The U.S. appears to be lagging behind industrialised countries in terms of paid sick leave requirements, but that is an issue more appropriately dealt with through legislation or regulation."

Our portfolio managers disagreed. In the absence of such legislation we believe that a corporate policy providing all staff with a level playing field in respect to paid sick leave, set to a reasonable level that at least meets that required in any sub-jurisdiction within a country, would be the best policy. Although there would be costs associated with such policy, research indicates that not having a policy has contributed materially to staff turnover at all levels of the business, costing it competent staff. The recruitment and training costs associated with that turnover are likely to be broadly equivalent to, or possibly higher than, the cost impact of such a policy. Further, the failure to implement a universal approach has begun to impact the company's reputation. Although the impact of this is intangible, reputation is one of the intangible assets that can set a business apart and maintain its "economic moat". Once lost, it is something that can be very hard to recover.

Despite our support, the proposal failed to gather enough support to be implemented. Nevertheless, Marathon will continue to vote according to its views, whether aligned with ISS or not.

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 Directors 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.
- Various actions and programmes which target carbon emission reductions, discussed in more detail in the "“Climate Strategy” section of the document.
- 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 participates in the #10,000 Interns initiative to provide paid internships to young people from minority and disadvantaged backgrounds, providing access to financial service experience that might otherwise have been out of reach for them and improving their career options as a result.
- 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 a clear DEI direction, 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, such as 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 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 PRI's Assessment and Transparency reports can be found on Marathon's website HERE and HERE respectively.

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 produced its inaugural TCFD Climate Report last year, covering 2022 year-end data. The report 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 GHG emissions for the total assets under management (AUM) of Marathon; and also for specific strategies. Following its publication, it became clear that many readers would prefer to have a consolidated Sustainability and Climate report, and the 2023 report can be found later in this document as a result.

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. The report covering 2023 data was submitted to the FRC in April 2024; we await the FRC's feedback with interest.

Marathon's Japan Stewardship Code statement was also updated.

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

TCFD Climate Report

Climate governance

Marathon has adopted an integration and engagement approach to climate-related issues; as described within Marathon's Sustainability Charter, a leadership statement which the Board and Investment team have agreed upon (accessible HERE). The Charter explains Marathon's approach to investing, engagement and proxy voting – in which sustainability is considered in the context of maximising pecuniary value for clients over the longer term.

Commitment to the Charter is evidenced through various reports, including the PRI Transparency and Assessment reports, the responses to the UK and Japan Stewardship Codes and this document, amongst others. Marathon's Board also receives updates and information on this topic as part of wider strategic planning on managing climate-related risk and opportunities. The Risk Committee also receive papers on carbon intensity across the portfolios at Marathon; any concerns would be raised with the board-level Risk Audit and Compliance Committee before being passed on to the Board.

Consideration of sustainability is further embedded within Marathon's Purpose, Vision and Values Statement (accessible HERE). This statement outlines the firm's views and approach to dealing with clients, investee companies and colleagues; including an articulation of Marathon's culture and values that includes environmental, social and governance (ESG) factors important to the business. To ensure on-going compliance, all staff are expected to understand and implement these attributes in their work with adherence to the values, along with other non-financial criteria, considered by Marathon when contemplating remuneration awards. Further details about Marathon's remuneration arrangements can be found HERE.

In addition, Marathon employs an ESG policy which details how ESG factors, including climate-related issues, are factored into the investment process (accessible HERE). Marathon's approach is to assess ESG holistically, and thus portfolio managers integrate assessment of ESG, including climate-related issues, within their overall analysis of stocks, rather than treating it as a standalone issue in making investment decisions.

Sustainability topics often have a broad impact on the business, or may feed into regulatory requirements, so to this end the Sustainability Working Group was formed to co-ordinate Marathon's understanding and communication on the subject. This working group seeks to:

- support Marathon's sustainability approach to ensure consistency in presentation and policies, and alignment with regulatory requirements
- contribute to the implementation of the strategy by making recommendations on appropriate initiatives and activities, including review and recommendation of ESG-related data providers, regulatory and reporting updates;
- communicate implementation of the strategy both internally and externally;
- oversee Marathon's own Corporate Social Responsibility efforts (office recycling, energy supply, carbon offsetting etc.).

Membership is drawn widely from across business functions, including the Investment, Client Service, Operations and Compliance teams.

This working group then reports upwards into Marathon's formal committee structures.

Climate strategy

Climate-related strategy at the business level

Marathon is a socially responsible business and whilst we consider that we perform relatively well in this regard, there is always more that can be done. As a result, we consider the business's environmental impacts on an ongoing basis and actively seek out potential improvements where this is appropriate.

Marathon made a commitment in 2020 to become carbon neutral in its business operations. The objective was to seek to minimise our carbon footprint through consideration of our business processes and seeking to remove as much carbon emitting activity as practical.

Good progress was made through implementing measures such as:

- The installation of energy saving hardware (e.g. lightbulbs, sensor switches)
- Interest-free loan to allow staff to buy annual train tickets (thereby avoiding use of cars and lowering Scope 3 emissions)
- A "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
- The installation of water filtering taps, which provide chilled and boiling water, reducing the use of bottled water and kettles in our offices
- Electricity purchased from a "100% renewable sourced" supplier

Currently, it is not possible to fully remove carbon emitting activities from our operations (e.g. staff commutes, data centres, gas and heating for the office, which although not a physically owned asset, must be captured in the firm's scope 3 emissions), so the decision was made to offset those GHG emissions which cannot yet be avoided.

By measuring, reducing and offsetting our emissions in line with The CarbonNeutral Protocol, Marathon has now achieved CarbonNeutral® company certification. To begin the process, Marathon undertook a third-party audit of its emissions calculations – the results of which indicated that Marathon had a carbon footprint that was less than average for financial companies of our size; however, the period measured included covid lockdowns and working from home. As a result, Marathon's Board decided to offset 150% of the carbon measured in that year and purchased carbon offsets from high quality, verified emissions reduction projects through Climate Impact Partners, a specialist in carbon market solutions for climate action.

In subsequent years further offsets have been purchased to maintain the certification. All offset projects are certified by at least one, and often several, independent certifying bodies including Gold Standard, Verified Carbon Standard (VCS), Climate, Community and Biodiversity Standards (CCB) and American Carbon Registry (ACR) amongst others.

Although offsetting is not our preferred methodology, while it remains impossible to fully decarbonise our operations, Marathon is committed to utilising certified carbon offset projects in order to seek to mitigate its climate impact. We will continue to seek further reductions in operational emissions to reduce our reliance on offsets.

Climate-related strategy at the portfolio level

Marathon is an equities-focused manager that works on behalf of large, institutional clients (e.g. pension funds, mutual funds, sovereign wealth, charities, foundations and endowments etc.). As such Marathon has been structured to align firm and client objectives, focusing on a long-term investment horizon rather than short-term outcomes. To this end the investment team's remuneration is largely based on long-term performance relative to the benchmark with an assessment of sustainability considerations taking place as part of Marathon's Sustainability Charter.

As long-term investors, analysis of the risks faced by a business, including those relating to its actual or potential environmental impacts, is viewed as a crucial part of the investment process. In respect of their potential impact on a client's portfolio return, climate-related risks are, ultimately, financial risks to a company. Many environmental risks, however, 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 huge fines, litigation and clean-up costs. Such issues have led to the precipitous collapse of company share prices, and even to bankruptcies, in the past. Nevertheless, the poor practices may benefit a company in the short-term, so long as the worst is avoided, as it is often cheaper to behave badly than to behave well.

Marathon is a genuinely long-term investor, with a long-term asset-weighted average holding period across the business of around eight years and some holdings which remain in the portfolio for much longer. As a result, these risks are more likely to crystallise while we hold a position than is the case for peers with substantially shorter time horizons. As such, they are taken seriously both prior to investment and while a position is held. Marathon's primary focus remains finding companies that it believes are able to generate good returns over time. The firm's strong track record of engagement with company management helps to encourage long-term value creation; which often includes focusing attention on climate-related risks, their mitigation and agitating for improved practice.

Identifying Investment Risks

Marathon considers ESG metrics, including those measuring climate-related risks, throughout the decision-making process. Presently, our view is that disclosure by companies, or data provided from third parties, is not always adequate to assess climate risks. This data is still in its infancy, with issuers starting to utilise audits to verify climate data. Marathon will look to further develop its scenario analysis after more accurate data becomes available and as scientific models develop.

Due to the qualitative nature of Marathon's investment process, and the embedded treatment of ESG risks, climate-related risks are rarely evaluated in isolation, and it should be emphasised that Marathon's processes in this regard are aimed at understanding and mitigating the financial risks to which our clients are exposed rather than at any particular non-financial outcome.

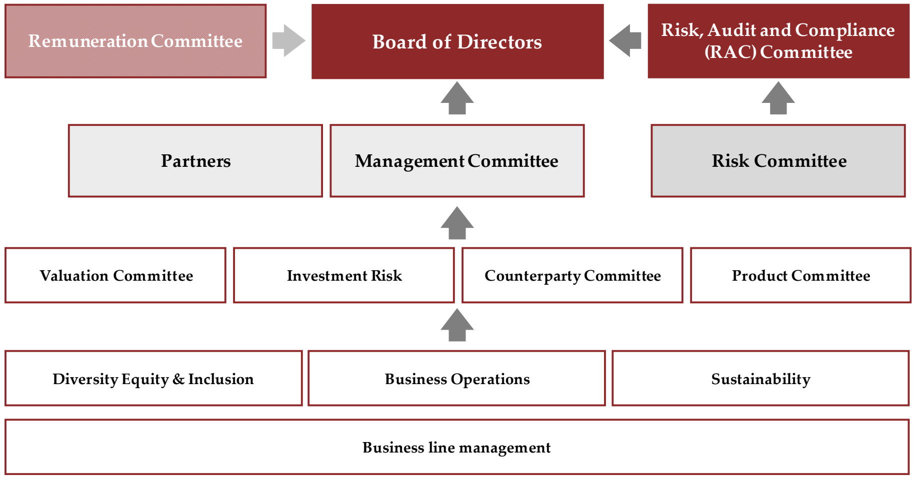
Treatment of Risks

Marathon's Investment team takes full account of financially material sustainability issues at all stages of the investment process; during due diligence and monitoring of holdings, engagement with company management and when voting proxies. Marathon leverages a range of third-party ESG research, data and technology enablers (e.g. ISS; brokers; S&P Capital IQ; Bloomberg) to both reinforce our primary internal, bottom-up analytics, and provide market colour and industry viewpoints, thereby helping to formulate and refine Marathon's investment thesis and often contrarian positioning.

It is the Investment team at Marathon that is primarily responsible for stewardship activities, as portfolio managers have the most experience and understanding of the companies in which they invest through their research of prospective and actual holdings. Individuals within this team are also charged with owning and maintaining Marathon's investment culture that encompasses bottom-up stock picking and the generation of internal research.

Climate risk management

Set out below is a visualisation of Marathon's current governance framework:



Marathon's Risk Committee provides a formal review point on certain sustainability-related matters. On a quarterly basis this committee receives data (where applicable) on:

- the carbon intensity of the portfolios / strategies in place at Marathon.
- sustainability-related regulatory change;
- incidents that indicate issues with Marathon's implementation of sustainability-related processes and / or policies;
- confirmation of compliance with client mandated climate restrictions;

A summary of any material findings or concerns from the Risk Committee will then be brought to the attention of the Board-level Risk, Audit and Compliance Committee on a quarterly basis; based on Key Risk Indicators flagged using a 'traffic light' approach (i.e. items for concern will be flagged Amber or Red as appropriate). The Risk, Audit and Compliance Committee will in turn report any material concerns or issues into the main Board.

This risk reporting framework supports the Board and senior management oversee sustainability-related matters; as well as helping to evidence how climate-related risks are integrated into Marathon's overall risk management arrangements.

Separately, Marathon undertakes comprehensive risk control self-assessments within the business itself to seek out and identify risks; alongside maintaining a set of Key Risk Indicators. Work is also undertaken to stress test the business against core risks and ensure such risks are managed in line with Marathon's Board approved risk appetite. These measures generate relevant management information to be assessed within Marathon's risk infrastructure, with any major deterioration in the control environment escalated to senior management. This activity may include climate-related risks, as and where appropriate.

Climate risk definitions

There is broad consensus that climate risk drivers can be grouped into one of two categories[1]:

1. Physical risks, which arise from the changes in weather and climate that lead to economic costs and financial losses including:

    - extreme climate change-related weather events such as heatwaves, landslides, floods, wildfires and storms;
    - longer-term gradual shifts of the climate such as changes in precipitation, extreme weather variability, ocean acidification, and rising sea levels and average temperatures; and
    - indirect effects of climate change such as loss of ecosystem services (e.g. desertification, water shortage, degradation of soil quality or marine ecology).

2. Transition risks, which arise from the transition to a low-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may generate varying levels of financial and reputational risk.

Marathon remains cognisant of these definitions and the implications for the business; underlying client investments; and for future engagement/collaboration on climate risk matters with internal and external stakeholders.

[1] Basel Committee on Banking Supervision report *"Climate-related risk drivers and their transmission channels"* – April 2021

Climate targets & metrics

Targets

An important part of the TCFD regime is the setting of, and monitoring of progress towards, targets in respect of GHG emissions.

This is a comparatively complex process at the individual company level, but it comes with an added level of complexity for asset management firms when considering their portfolios. Consequently, Marathon has adopted a two part approach; looking at our business operations and then separately at our client's investment portfolios.

Business level targets

In respect of its own business operations, Marathon made a commitment to become "net carbon neutral" in 2020. This was achieved in 2022 and has been maintained using the strategy explained in the Climate Strategy section of this document (page 13) and Marathon now holds CarbonNeutral® company certification.

Marathon will continue to seek to reduce its physical emissions and will seek to use high-quality offsets in the interim period to maintain neutrality.

Portfolio level targets

In respect of the portfolios under our care, we have decided not to set net zero targets at present, for a number of reasons:

- Different clients have divergent views on the subject, and any adoption of non-pecuniary targets without a regulatory requirement would be dependent on client consent to alter contracts.
- Legislators in many of the jurisdictions in which we are active are working on new regulations and we do not wish to commit to a course of action that may conflict with these forthcoming obligations.
- While data has improved substantially, many companies worldwide still do not report emissions data in sufficient detail, and consistently enough, to make aggregated information for measurement and then reduction at the portfolio level reliable. This is improving as issuers start to produce third-party audits on their climate data.

This decision is regularly revisited by members of the Sustainability Working Group and senior management as data improves and the regulatory landscape in relation to the subject becomes clearer.

Metrics

Business level metrics

Firms like Marathon have reported upon their energy and carbon information in their annual accounts and reports since 2019. Marathon has engaged the services of an energy consultant in order to independently review the energy use data and associated GHG emissions calculations and to confirm the accuracy, completeness and consistency of the data used, in line with the principles of ISO14065:2020.

For the last reported period (to 31 March 2023), the following output was calculated (note that Marathon Asset Management Limited was only operationally active from 23 August 2021, and the data provided for 2022 therefore covers the total energy consumption for the seven months and nine days ending 31 March 2022. Prior to 23 August 2021 the business was a Limited Liability Partnership, with different reporting requirements).

	2023		2022	
	GHG emissions – tCO_2e	Energy consumption for emission calculations - kWh	GHG emissions – tCO_2e	Energy consumption for emission calculations - kWh
Scope 1 (Direct) GHG emissions:				
Emissions from combustion of natural gas in buildings	67.1	367,596	40.8	222,572
Scope 2 (Indirect) GHG emissions:				
Emissions from the purchase of electricity for buildings (location-based grid average)	89.1	460,537	53.4	251,359
Emissions from the purchase of electricity for buildings (market based)	-	460,537	-	251,359
Scope 3 (Other indirect) GHG emissions:				
Emissions from UK electricity T&D	8.1	-	4.7	-
Total gross tCO_2e Scope 1, Scope 2 location based and Scope 3 emissions	164.3	828,133	98.9	473,931
Total gross tCO_2e Scope 1, Scope 2 market based and Scope 3 emissions	75.2	828,133	45.5	473,931
Revenue - £ million	152.3		106.5	
Intensity Ratio: tCO_2e gross figure (location based)/ £ million revenue	1.08		0.93	
Intensity Ratio: tCO_2e gross figure (market based)/ £ million revenue	0.49		0.43	

Note that UK law requires disclosure of both a "location-based" and "market-based" metric as follows:

- The location-based data is the implied emissions associated with the average emissions of a given level of energy consumption on the energy grid in question.
- The market-based measure uses the emissions associated with the specific energy contracts held by the reporting entity.

Marathon's electricity supply, and that to the building in which our offices are located, are certified 100% renewable; hence the substantial difference between the two measures.

Portfolio Level Metrics

On the following pages we provide certain climate related information and metrics in relation to each strategy managed by Marathon; as well as the five positions in each strategy that contribute most to emissions. This is followed by information on the largest emitting holdings as at December 31st, 2023.

Below we provide an explanation of the measures we present along with their key advantages and drawbacks.

Explanation of measures used

Total Emissions – this measure looks at total GHG emissions in tons (or kilotons) of CO_2e.

The calculation takes the proportion of each company owned (value in the portfolio/total market capitalisation) and multiplies this percentage by the company's Scope 1 & 2 (and, separately Scope 3) emissions; summed across holdings. The metric is useful in tracking changes in a portfolio's GHG emissions, but is less useful for cross portfolio comparisons as the data is absolute rather than normalised for portfolio size. This also makes "through time" comparisons difficult where a portfolio's size changes materially.

Benchmark values for Total Carbon Emissions are based on a notional, fully replicated, index portfolio of the same size as the Marathon portfolio.

Weighted Average Carbon Intensity (WACI) – this is a measure of emissions which considers carbon emissions in relation to sales, measured as tons of carbon dioxide equivalent, or CO_2e, per million US dollars of revenue (tons of CO_2e /$M revenue). In other words, presuming that the majority of production is sold and not stockpiled, it provides a measure of emissions related to value of production.

The measure is calculated by taking each portfolio company's Scope 1 & 2 emissions divided by its revenues in USD millions, and multiplying it by the percentage weight of the company in the portfolio, and then summing all results for a portfolio level number. The index number is calculated in the same way for comparison.

The metric has the advantage that it is comparatively intuitive, cross comparable and not especially altered by normal market price swings. Nevertheless, the measure is sensitive to outliers and, because it is revenue based, can flatter companies that have high pricing power.

Carbon Footprint – is a measure which takes total emissions as described above and divides it by current portfolio value in USD Millions, expressed as CO_2e/$M invested, summed across holdings.

This is a fairly intuitive measure, showing the absolute Scope 1 & 2 emissions for the portfolio; however, it does not consider company size, so cannot help illustrate if a portfolio is invested in more or less carbon efficient companies. This means that the data provided here relates to the underlying representative account for the strategy and should be viewed as indicative. Client specific data can be provided upon request. Also, as it uses a portfolio value determined by share prices, the number is influenced by volatility and changes in market capitalisation.

Carbon Intensity – seeks to normalise carbon emissions by taking the Scope 1 & 2 data for each company and dividing it by the weighted revenues of the company (i.e. the proportion of each company owned [value in the portfolio/total market capitalisation] multiplied by the company's revenues in million USD), expressed, as with WACI, in tons of CO_2e/$M revenue.

The number is a useful measure of carbon efficiency, and is normalised allowing cross comparison of portfolios whether large or small, and mitigates for different sizes of company. However, this only holds true for data as at a specific point in time, as the data will change, potentially substantially, alongside changes to valuation.

What are Scope 1, 2 & 3 emissions?

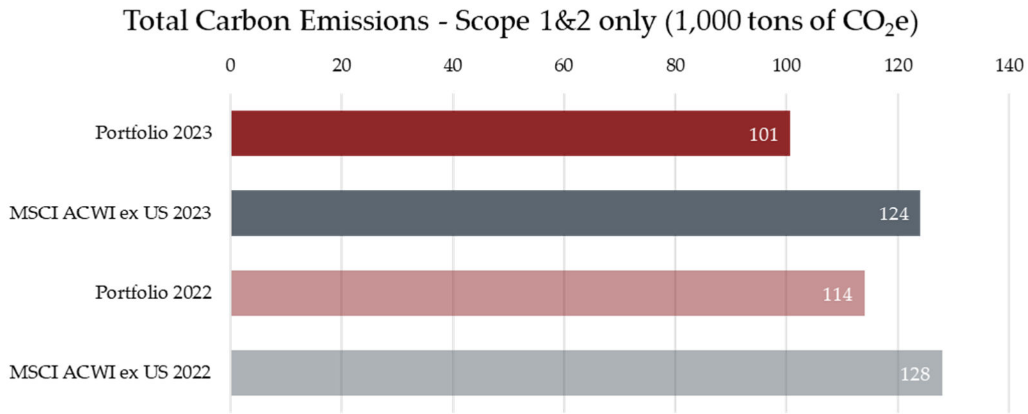
In 2001, the Green House Gas protocol coined the term "Scope 1, 2 and 3" to describe GHG emissions arising from corporate activity.

- **Scope 1** covers direct emissions that are made by, and emitted directly from, the company at sites or from owned assets. This might be the result of onsite boilers or furnaces, a proprietary fleet of vehicles or the output of a chemical process undertaken by the company at its site(s).
- **Scope 2** are the indirect emissions of the company; those that are the direct result of its activities but which are not emitted at company sites or by company assets. Electricity supplied to the company office but generated at a power station elsewhere is a typical source.
- **Scope 3** emissions are those associated with any activity within the company's value chain that resulted in GHG release; for example emissions associated with the goods and services purchased by the company, business travel, transportation/distribution, staff commuting, waste disposal, investments etc.

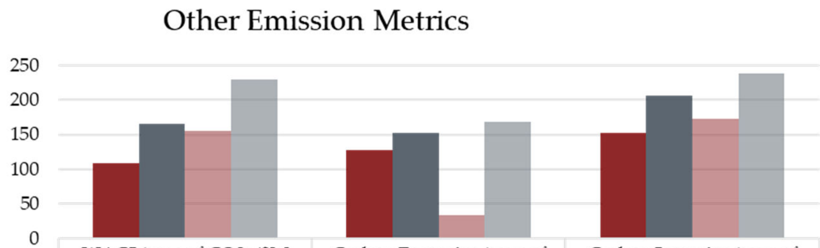
It should be noted that, while the recording and reporting of Scope 1 & 2 emissions are increasingly standardised and comparable, Marathon remains sceptical of Scope 3 data, as this is often estimated by data providers and is subject to substantial variation between sources.

We hope the representative information provided below is of interest and would be happy to provide portfolio specific data to existing clients upon request. All data has been sourced from ISS ESG.

ACWI ex-US equity

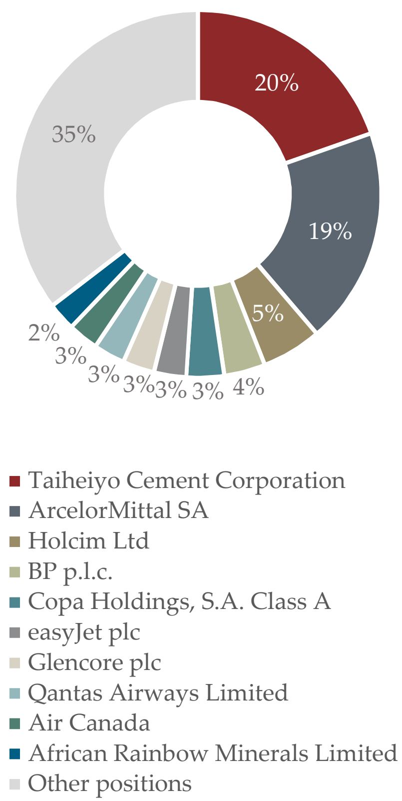


For 2023 the Portfolio had Scope 3 emissions of 1,095kt CO_2e (total Scope 1, 2 & 3 emissions 1,196kt CO_2e) versus benchmark equivalent figures of 940kt CO_2e (total Scope 1, 2 & 3 emissions 1,064kt CO_2e). Scope 3 data was not reported in 2022, and we have no comparator to include in the chart above as a result.



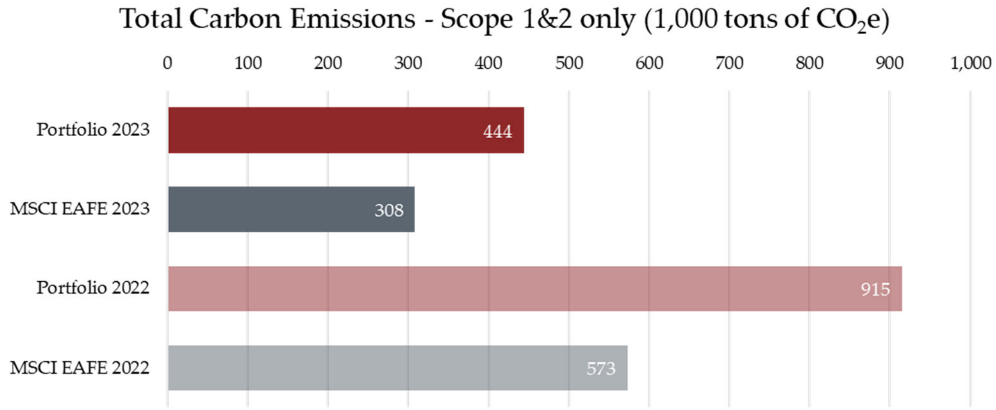
	WACI (tons of CO2e/$M revenue)	Carbon Footprint (tons of CO2e/$M invested)	Carbon Intensity (tons of CO2e/$M revenue)
Portfolio 2023	109	128	152
MSCI ACWI ex US 2023	166	153	207
Portfolio 2022	155	33	173
MSCI ACWI ex US 2022	230	168	238

Ten largest emitters
(proportion of portfolio scope 1&2 total emissions)

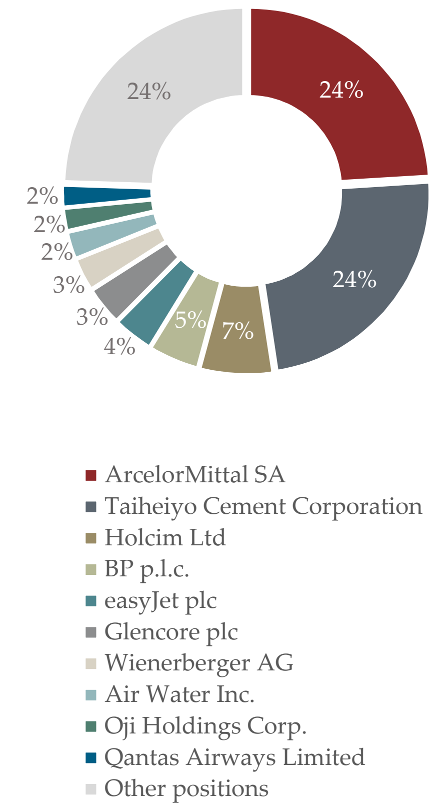


Portfolio information: The ten largest emitters constituted 5.4% of the portfolio and were responsible 53% of scope 1&2 emissions. The portfolio held 297 stocks as at 31 December 2023. Rep account AUM: Dec 2023: $815m; Dec 2022: $779m.

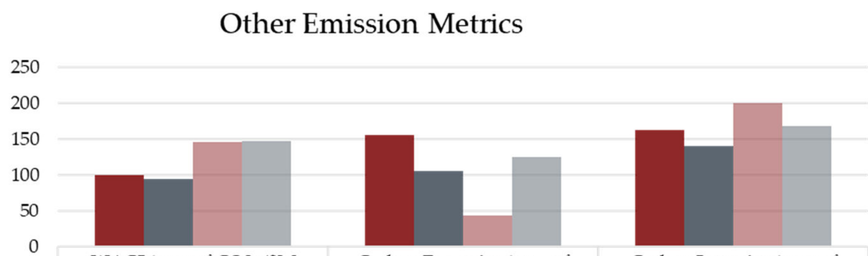
EAFE equity *(with Emerging Markets allocation)*



Ten largest emitters
(proportion of portfolio scope 1&2 total emissions)



For 2023 the Portfolio had Scope 3 emissions of 4,710kt CO_2e (total Scope 1, 2 & 3 emissions 5,154kt CO_2e) versus benchmark equivalent figures of 3,501kt CO_2e (total Scope 1, 2 & 3 emissions 3,809kt CO_2e). Scope 3 data was not reported in 2022, and we have no comparator to include in the chart above as a result.



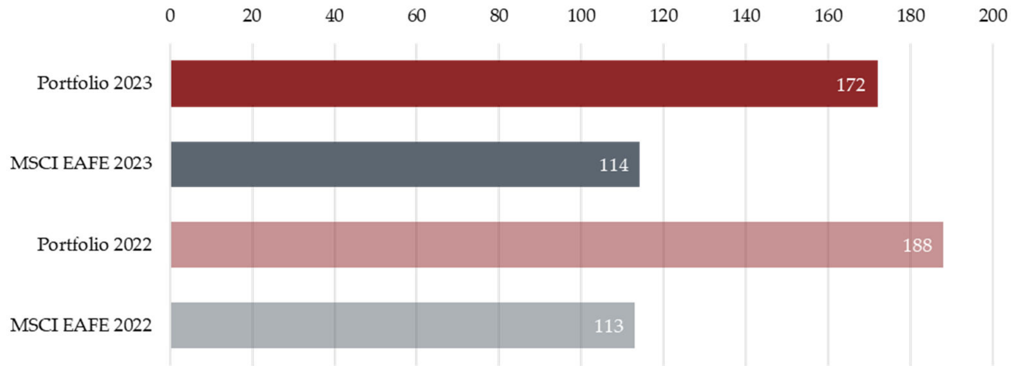
	WACI (tons of CO2e/$M revenue)	Carbon Footprint (tons of CO2e/$M invested)	Carbon Intensity (tons of CO2e/$M revenue)
Portfolio 2023	101	157	163
MSCI EAFE 2023	95	106	141
Portfolio 2022	146	43	200
MSCI EAFE 2022	147	126	169

Portfolio information: The ten largest emitters constituted 6.9% of the portfolio and were responsible 76% of scope 1&2 emissions. The portfolio held 280 stocks as at 31 Dec 2023. Rep account AUM: Dec 2023: $2,922m*; Dec 2022: $4,668.

* The representative account for the EAFE strategy was switched over the course of 2023 following a review of the treatment of withholding taxes in different accounts. The new representative account is considered to more closely reflect the treatment of such taxes experienced by the majority of Marathon's client base. The new account is 35% smaller than the account used in the previous period, however, total portfolio emissions are 51% lower, compared to MSCI EAFE Emissions which are 46% lower (so both the index and account have seen a real decrease in emissions).

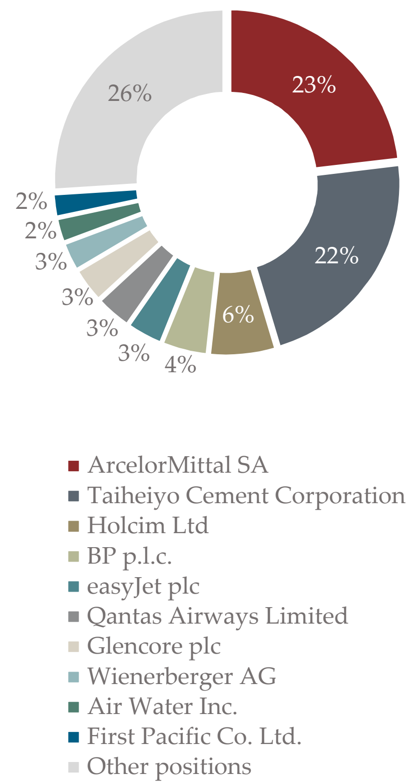
EAFE equity *(no Emerging Markets allocation)*

Total Carbon Emissions - Scope 1&2 only (1,000 tons of CO_2e)



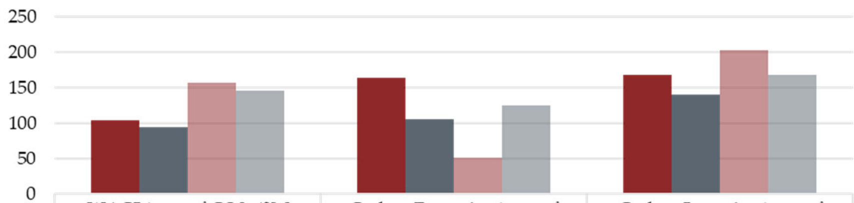
Ten largest emitters

(proportion of portfolio scope 1&2 total emissions)



For 2023 the Portfolio had Scope 3 emissions of 1,773kt CO_2e (total Scope 1, 2 & 3 emissions 1,945kt CO_2e) versus benchmark equivalent figures of 1,299kt CO_2e (total Scope 1, 2 & 3 emissions 1,413kt CO_2e). Scope 3 data was not reported in 2022, and we have no comparator to include in the chart above as a result.

Other Emission Metrics

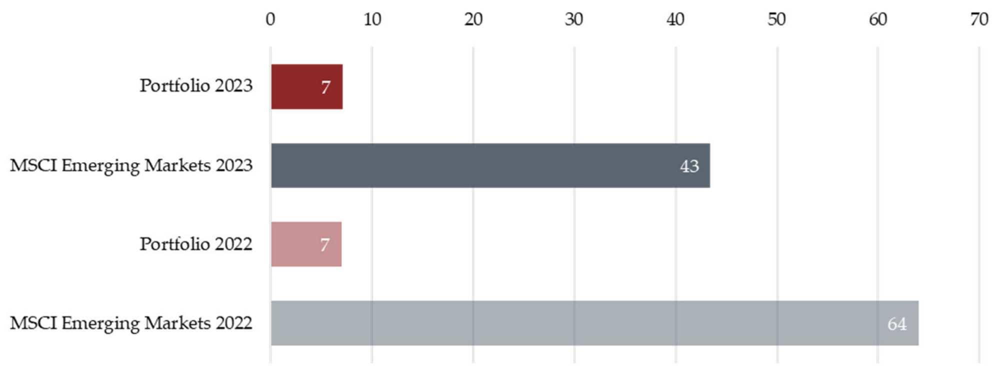


	WACI (tons of CO2e/$M revenue)	Carbon Footprint (tons of CO2e/$M invested)	Carbon Intensity (tons of CO2e/$M revenue)
Portfolio 2023	105	164	169
MSCI EAFE 2023	95	106	141
Portfolio 2022	158	52	204
MSCI EAFE 2022	147	126	169

Portfolio information: The ten largest emitters constituted 6.9% of the portfolio and were responsible 74% of scope 1&2 emissions. The portfolio held 230 stocks as at 31 December 2023. Rep account AUM: Dec 2023: $1,085m; Dec 2022: $928m.

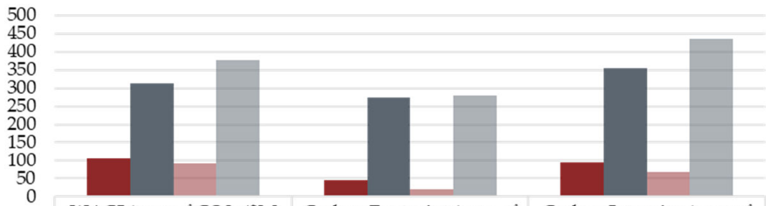
Emerging Markets equity

Total Carbon Emissions - Scope 1&2 only (1,000 tons of CO_2e)



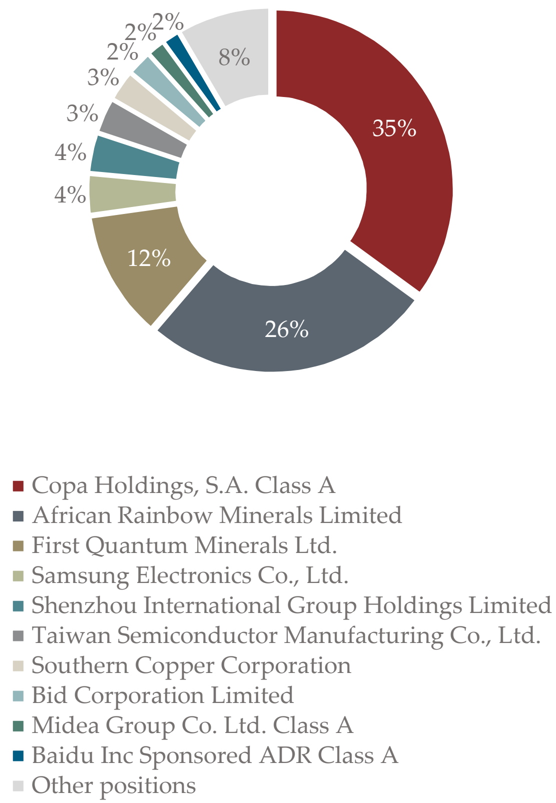
For 2023 the Portfolio had Scope 3 emissions of 120kt CO_2e (total Scope 1, 2 & 3 emissions 127kt CO_2e) versus benchmark equivalent figures of 181kt CO_2e (total Scope 1, 2 & 3 emissions 224kt CO_2e). Scope 3 data was not reported in 2022, and we have no comparator to include in the chart above as a result.

Other Emission Metrics



	WACI (tons of CO2e/$M revenue)	Carbon Footprint (tons of CO2e/$M invested)	Carbon Intensity (tons of CO2e/$M revenue)
Portfolio 2023	108	46	95
MSCI Emerging Markets 2023	312	273	355
Portfolio 2022	94	20	67
MSCI Emerging Markets 2022	377	278	436

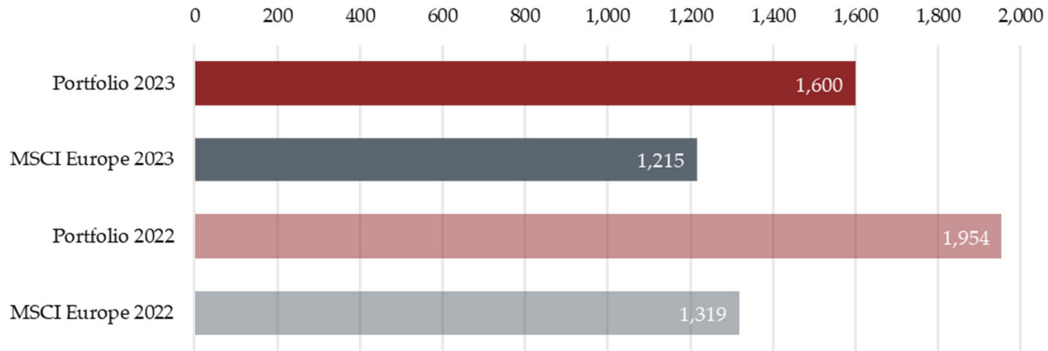
Ten largest emitters
(proportion of portfolio scope 1&2 total emissions)



Portfolio information: The ten largest emitters constituted 27.5% of the portfolio and were responsible 92% of scope 1&2 emissions. The portfolio held 43 stocks as at 31 December 2023. Rep account AUM: Dec 2023: $159m; Dec 2022: $236m.

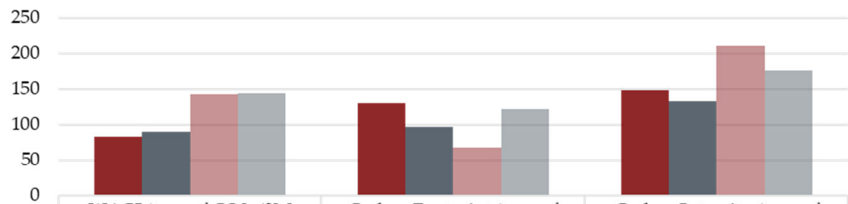
Europe equity

Total Carbon Emissions - Scope 1&2 only (tons of CO_2e)



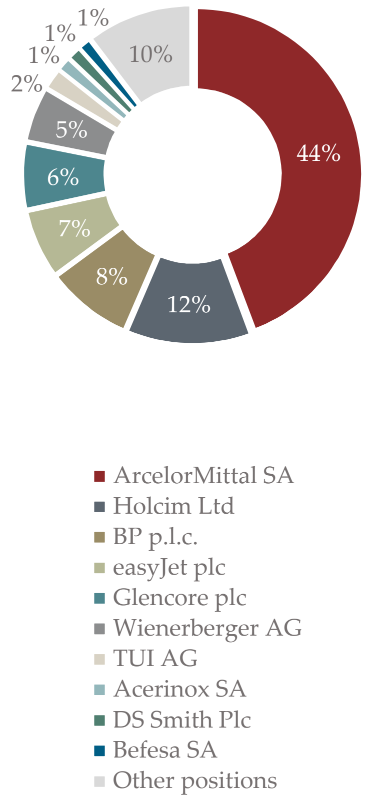
For 2023 the Portfolio had Scope 3 emissions of 11kt CO_2e (total Scope 1, 2 & 3 emissions 13kt CO_2e) versus benchmark equivalent figures of 13kt CO_2e (total Scope 1, 2 & 3 emissions 14kt CO_2e). Scope 3 data was not reported in 2022, and we have no comparator to include in the chart above as a result.

Other Emission Metrics



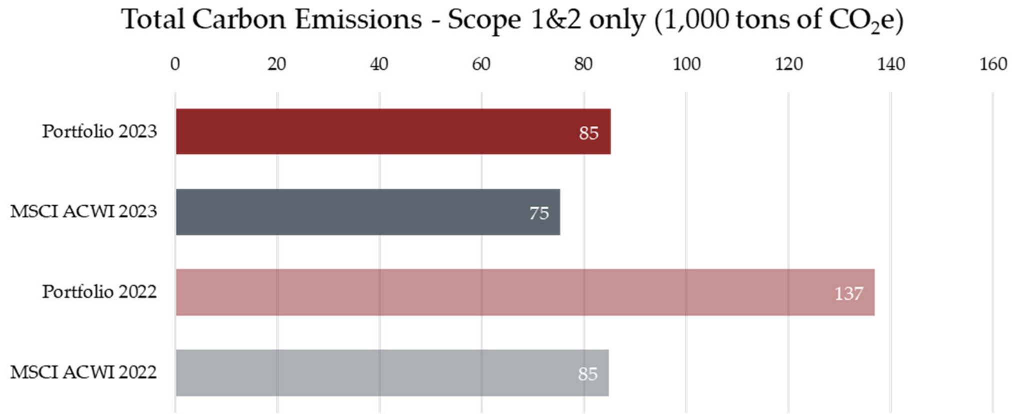
	WACI (tons of CO2e/$M revenue)	Carbon Footprint (tons of CO2e/$M invested)	Carbon Intensity (tons of CO2e/$M revenue)
Portfolio 2023	83	130	148
MSCI Europe 2023	90	96	132
Portfolio 2022	143	67	211
MSCI Europe 2022	144	122	176

Ten largest emitters
(proportion of portfolio scope 1&2 total emissions)

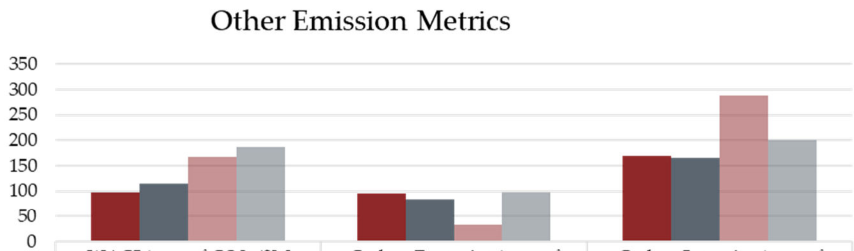


Portfolio information: The ten largest emitters constituted 9.7% of the portfolio and were responsible 90% of scope 1&2 emissions. The portfolio held 124 stocks as at 31 December 2023. Rep account AUM: Dec 2023: $13m; Dec 2022: $11m.

Global equity

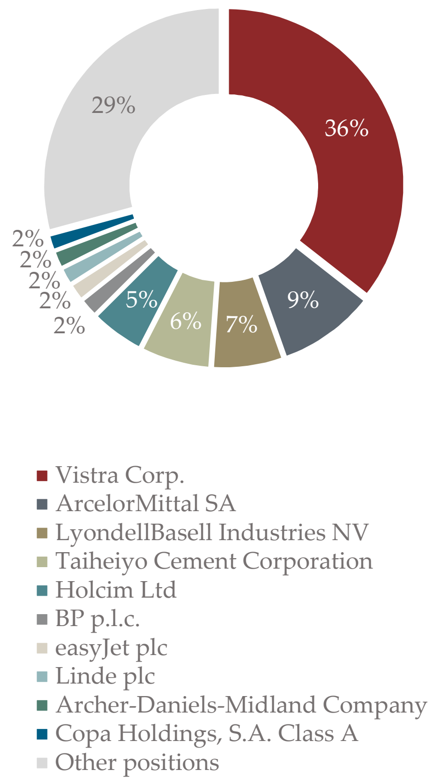


For 2023 the Portfolio had Scope 3 emissions of 490kt CO_2e (total Scope 1, 2 & 3 emissions 575kt CO_2e) versus benchmark equivalent figures of 633kt CO_2e (total Scope 1, 2 & 3 emissions 708kt CO_2e). Scope 3 data was not reported in 2022, and we have no comparator to include in the chart above as a result.



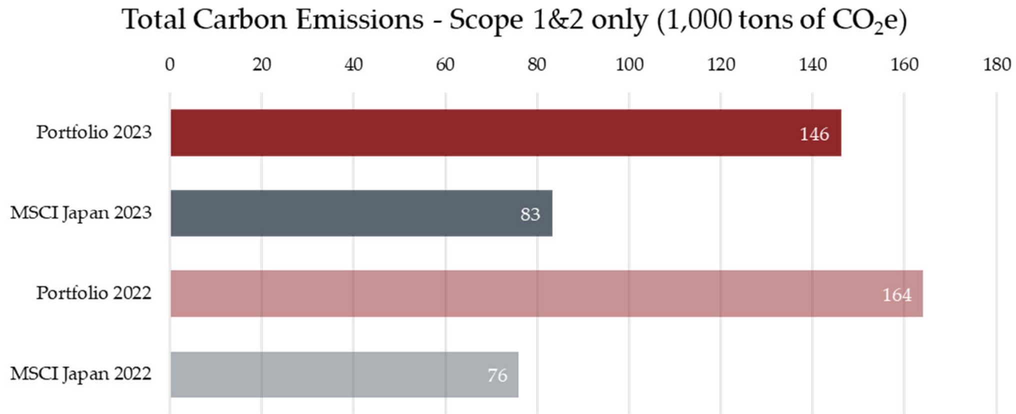
	WACI (tons of CO2e/$M revenue)	Carbon Footprint (tons of CO2e/$M invested)	Carbon Intensity (tons of CO2e/$M revenue)
Portfolio 2023	97	96	168
MSCI ACWI 2023	115	84	165
Portfolio 2022	167	34	287
MSCI ACWI 2022	186	98	201

Ten largest emitters
(proportion of portfolio scope 1&2 total emissions)

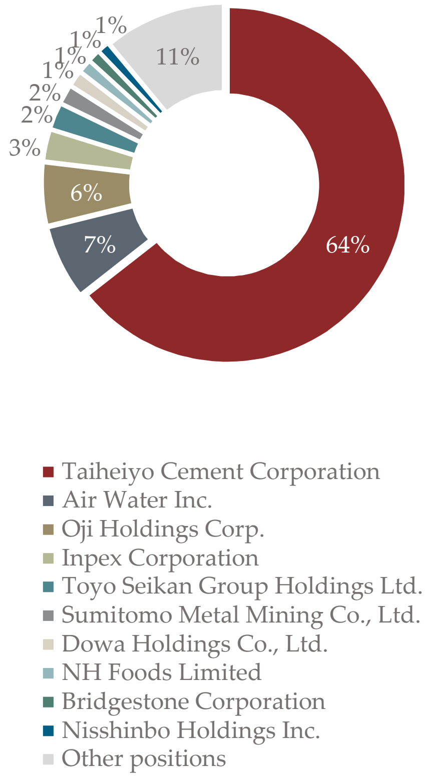


Portfolio information: The ten largest emitters constituted 3.9% of the portfolio and were responsible 71% of scope 1&2 emissions. The portfolio held 301 stocks as at 31 December 2023. Rep account AUM: Dec 2023: $913m; Dec 2022: $883m.

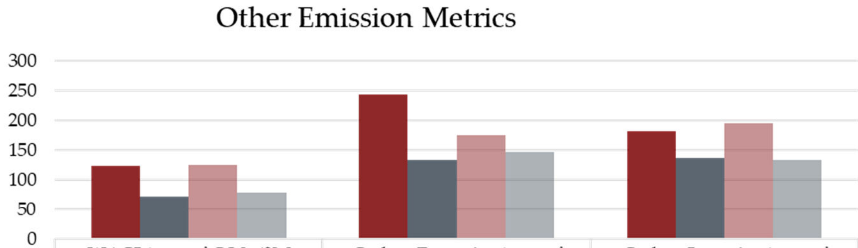
Japan equity



Ten largest emitters
(proportion of portfolio scope 1&2 total emissions)



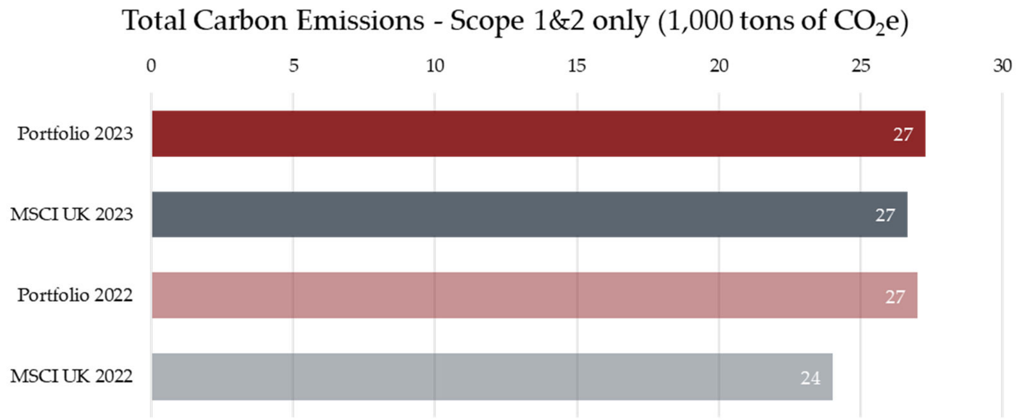
For 2023 the Portfolio had Scope 3 emissions of 2,384kt CO_2e (total Scope 1, 2 & 3 emissions 2,530kt CO_2e) versus benchmark equivalent figures of 1,075kt CO_2e (total Scope 1, 2 & 3 emissions 1,159kt CO_2e). Scope 3 data was not reported in 2022, and we have no comparator to include in the chart above as a result.



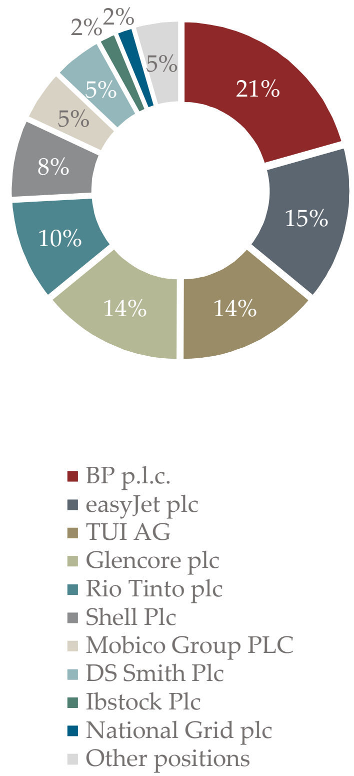
	WACI (tons of CO2e/$M revenue)	Carbon Footprint (tons of CO2e/$M invested)	Carbon Intensity (tons of CO2e/$M revenue)
Portfolio 2023	124	243	182
MSCI Japan 2023	72	134	137
Portfolio 2022	125	175	195
MSCI Japan 2022	79	147	133

Portfolio information: The ten largest emitters constituted 13.9% of the portfolio and were responsible 89% of scope 1&2 emissions. The portfolio held 70 stocks as at 31 December 2023. Rep account AUM: Dec 2023: $624m; Dec 2022: $530m.

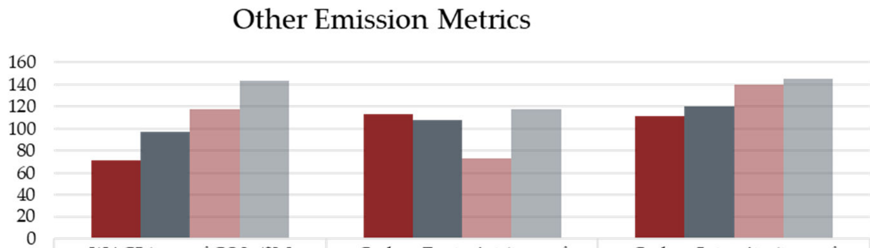
UK equity



Ten largest emitters
(proportion of portfolio scope 1&2 total emissions)



For 2023 the Portfolio had Scope 3 emissions of 282kt CO_2e (total Scope 1, 2 & 3 emissions 309kt CO_2e) versus benchmark equivalent figures of 340kt CO_2e (total Scope 1, 2 & 3 emissions 367kt CO_2e). Scope 3 data was not reported in 2022, and we have no comparator to include in the chart above as a result.

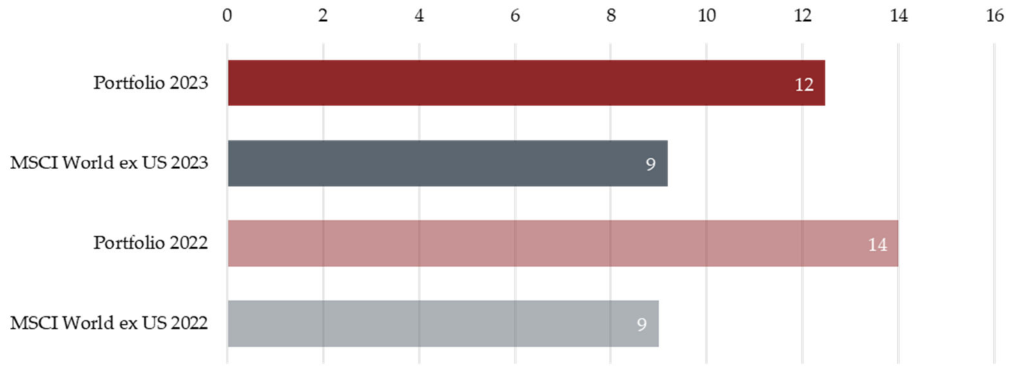


	WACI (tons of CO2e/$M revenue)	Carbon Footprint (tons of CO2e/$M invested)	Carbon Intensity (tons of CO2e/$M revenue)
Portfolio 2023	71	113	111
MSCI UK 2023	97	108	121
Portfolio 2022	118	73	140
MSCI UK 2022	143	118	145

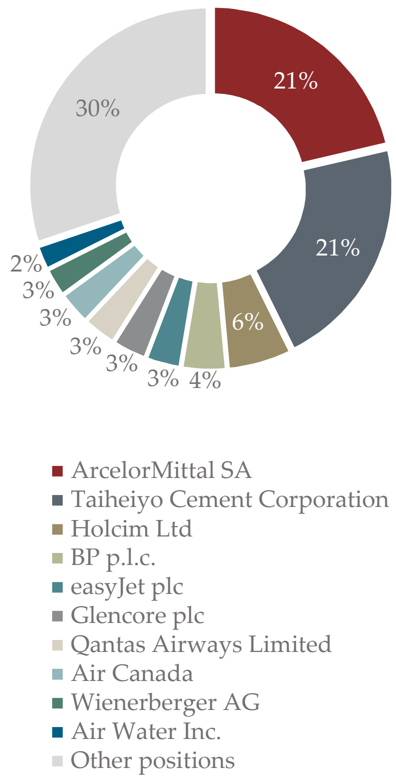
Portfolio information: The ten largest emitters constituted 5.4% of the portfolio and were responsible 53% of scope 1&2 emissions. The portfolio held 297 stocks as at 31 December 2023. Rep account AUM: Dec 2023: $249m; Dec 2022: $212m.

World ex-US equity

Total Carbon Emissions - Scope 1&2 only (1,000 tons of CO_2e)

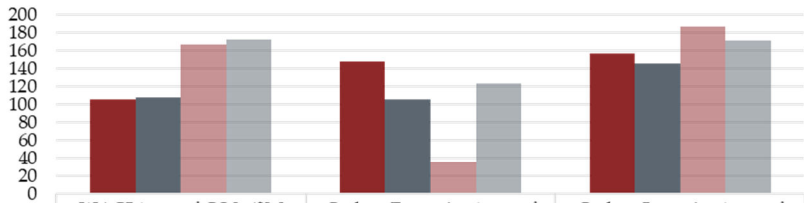


Ten largest emitters
(proportion of portfolio scope 1&2 total emissions)



For 2023 the Portfolio had Scope 3 emissions of 128kt CO_2e (total Scope 1, 2 & 3 emissions 140kt CO_2e) versus benchmark equivalent figures of 101kt CO_2e (total Scope 1, 2 & 3 emissions 110kt CO_2e). Scope 3 data was not reported in 2022, and we have no comparator to include in the chart above as a result.

Other Emission Metrics



	WACI (tons of CO2e/$M revenue)	Carbon Footprint (tons of CO2e/$M invested)	Carbon Intensity (tons of CO2e/$M revenue)
Portfolio 2023	106	148	157
MSCI World ex US 2023	108	106	145
Portfolio 2022	167	36	187
MSCI World ex US 2022	172	124	171

Portfolio information: The ten largest emitters constituted 6.9% of the portfolio and were responsible 70% of scope 1&2 emissions. The portfolio held 298 stocks as at 31 December 2023. Rep account AUM: Dec 2023: $88m; Dec 2022: $82m.

Information on the largest emitting holdings

We provide below information on the five largest emitters shown in each of the strategies above, including a rationale for holding the company, an explanation of the reason for or source of high emissions and information about any public commitments made in relation to emissions.

We are also providing year-on-year total Scope 1 & 2 (S1&2) comparative emissions data. It is important to understand that the data shown is that available on the ISS ESG system as at December 31st each year; however, ***it is not data as at December 31st 2023***. Typically carbon data is only reported by companies annually in their report and accounts. The data provided for a given company may therefore relate to a period 12 months or more prior to the date shown, depending upon the specific company's year-end and the delay between year-end and financial statement publication. For example; if a company has a year-end of November 30th, the data extracted for 2023 is likely to be that shown in its November 30th 2022 Financial Statements, covering 1st December 2021 to 30th November 2022. As a result of this significant lag, much of the data shown in the 2022 report, and some of that shown in this report, covers periods that were impacted by covid-related lockdowns and other measures which often reduced output. Large jumps in emissions are therefore likely to appear, particularly for companies in those industries most impacted by anti-covid measures or that are based, or have significant operations, in countries which imposed particularly strict or long lasting measures (such as Japan and China for example).

Current Holdings (as at 30th June 2024)

African Rainbow Minerals Limited (ARM) is a South African miner, predominantly of metals, but also a legacy coal operation. The stock is held because the issuer is viewed to have strong management and a progressive strategy, and it is trading at a substantial discount to global peers. This is partly due to the corporate structure in which most assets are joint-ventures the income from which is booked as a dividend, and also because the business is a mid-cap.

ARM has a 2021 stated aim to achieve net zero GHG emissions from its mining operations by 2050, and has used various shorter-term goals in the past; however, it highlights that new technologies will be necessary to achieve this aim, and that the cost associated with net-zero commodities may be too much for the market to bear.

Total S1&2 emissions have jumped sharply year on year (1,805kt CO_2e in the figures we have as at 31st December 2023 from 996kt CO_2e in 2022); however, this reflects an improvement in power supplies to many mines. South Africa has improved electricity supply issues that had led to extended power outages previously, and several mines now have their own power generation capacity, sometimes renewable, but often in the form of diesel generators. This increase also followed the end of covid-related restrictions. The combination of these factors allowed the firm to operate at closer to full capacity than was possible in the previous year.

Air Water Inc. is a Japanese industrial gas and chemical firm, with an ancillary agricultural and food business line. Around 70% of emissions are related to electricity consumption by the industrial gas business, where electricity is used heavily. The shares are held due to the company's high-quality management team, track record of growth and book value expansion, and our belief that the share price is depressed by resolvable issues in relation to corporate governance and transparency.

One area where the company has become increasingly transparent is GHG emissions, albeit initially driven by legal requirements in Japan. The business has a stated aim of carbon neutrality by 2050, with a goal of a 30% reduction in CO_2e emissions from 2020 levels by 2030, and there is a credible plan to do so focusing on decarbonising energy supply (20% of electricity is still derived from coal generation); however, the announcement was made in late 2021, and no data is available to date to measure progress.

Total S1&2 emissions have almost doubled year on year (3,036kt CO_2e in 2023 from 1,531kt CO_2e seen in 2022). This appears to be largely in relation to the easing of covid restrictions in the prior period resulting in greater production volumes.

ArcelorMittal S.A. is a multinational steel maker which is considered to be undervalued despite its strong market position. Steel production can be a carbon intensive activity (though certain production methods can make it less so).

The group has a 2050 carbon neutral ambition, and challenging targets for 2030, where progress is reportedly good; however, much of the information available seems to omit or obscure the challenges that will be faced in attaining the 2050 goal, with reference to the use of "future technologies" a key component of the strategy, without – at least in the published literature – much expansion on what those technologies might be.

The data available suggests that progress is being made. The total S1&2 emissions reported at the time of Marathon's 2022 report were 150,800kt CO_2e, and that has fallen to 119,000kt CO_2e this year; a fall of more than 21%. The reported carbon intensity metric (which measures emissions per dollar of revenue) for the company has also fallen substantially; however, the steel price has been volatile over the period and Marathon cannot specify when sales occurred, so it is hard to determine whether the average price per unit was higher, lower or similar over the two periods, and this has a bearing on the metric.

BP p.l.c. is an oil/gas major which is held to benefit from the improvement to the sector's capital cycle which began 2020. As a producer of fossil fuels, the company is highly carbon intensive.

The group has a 2050 carbon neutral ambition, and interim targets for both 2025 and 2030. Progress in the last few years meant that the original interim targets, set several years ago, would be met well ahead of schedule. As a result, new targets for significantly deeper cuts to carbon intensity, were set in 2022. The business is also actively increasing its renewables capacity and working closely with partners of carbon capture and storage. Nevertheless, the company scaled back its ambitions in relation to reducing total oil and gas output due to the impact of the war in Ukraine on global supply. The oil majors now expect to produce more for longer to supply Western demand in the face of supply cuts from, and sanctions on, Russia.

The company has reported a substantial fall in S1&2 emissions year on year; from 45,500kt CO_2e in 2022's report to 35,500kt CO_2e this year.

Copa Holdings, S.A. is a Panamanian airline, predominantly serving North, Central and South America, and the majority of emissions relate to the use of aviation fuels. The business is well run, with amongst the sector's lowest costs and highest profitability in the Americas, and has a strong position at Panama's central hub airport, providing it with a degree of protection from competition.

The company has a stated goal of net zero by 2050, but is one of comparatively few companies to explicitly state what it views as potential impediments to the achievement of that goal; namely variations in approach by the governments and regulators of the countries it operates in, availability of and access to Sustainable Aviation Fuels (a new product which creates fuel from crops, waste cooking oil etc. rather than fossil fuels, but which is in its infancy), as yet unproven technologies and high-quality carbon offset projects. That said, and despite a lack of published interim targets, the business has made significant reductions in carbon intensity through small but significant changes to operating practices and minor modifications to aircraft.

Copa's data comparing year-on-year numbers shows an initially shocking increase from 886kt CO_2e in the last report to 2,802kt CO_2e here, a 216% increase; however, the earlier data covered calendar year 2021, when flying was largely restricted due to covid measures, and the latest data 2022 when such measures had been relaxed. This can be readily observed in that carbon intensity (the measure which uses emissions divided by revenue generated) has actually fallen by almost 15%, indicating that, although generating more in absolute terms, operating fuller flights and has improved carbon efficiency.

easyJet plc is a UK listed airline focused on the European market. The majority of emissions are associated with aviation fuels. The company was purchased as a leading low-cost airline with a strong position at premium airports where its main rivals are traditional firms rather than other low-cost carriers.

The company joined the UN-backed Race to Zero campaign in 2021, which committed it to reaching net-zero carbon emissions by 2050. The company has also committed to reaching an interim, science-based carbon emissions intensity improvement target of 35% by 2035 (from a base of 2019 levels), which has been validated by the Science-Based Targets initiative (SBTi). They are also working with Airbus to develop a zero emissions aircraft and on atmospheric carbon capture and storage technology.

Similar to its peer Copa, discussed above, easyJet has seen a substantial increase in total carbon emissions year-on-year, from 4,248kt CO_2e to 6,421kt CO_2e, largely for the same reason; though the increase of 51% is less steep as easyJet had been able to run more flights in 2021 than Copa could, due to earlier relaxation of travel rules in Europe. The business has made progress in replacing older planes with newer, more efficient models and this, alongside operating fuller flights, has meant that carbon intensity has fallen by over 21%

First Quantum Minerals Ltd. is a Toronto-listed metals company, with operations in a number of countries, but particularly copper mines in Panama and Zambia. Emissions are largely the result of energy used in mining and smelting operations. The company is well managed, and we believe that the capital cycle in the mining industry, particularly for copper, is improving following a decade of capital flight leading to capacity constraints.

While the company has a variety of targets and ambitions in relation to reducing both absolute carbon emissions and the carbon intensity of coper extraction, including a 50% reduction in both measures by 2030, it has stated that it will not yet commit to a net zero target timeline, as there is no viable route to achieving the goal at present.

Carbon emissions at the company hardly changed over the reporting period, though carbon intensity fell. That is not a particularly helpful figure through time for a commodity mining business however, as price volatility can result in higher or lower readings if the price of the commodities that the company produces trends down or up respectively.

Glencore plc is a UK-listed international commodities trader and miner. The majority of emissions are the result of mining and refining. The position was purchased in anticipation of a change in the commodities capital cycle following a decade of capital flight leading to capacity constraints, and the stock remains, in our estimation, good value.

The company has a stated net-zero ambition by 2050, but focuses on short- and medium-term goals of a 15% reduction in total emissions by 2026, 25% by 2030 and 50% by 2035, from a 2019 baseline as they recognise the need for technological development to reach net zero. The company has also developed a Climate Action Transition Plan, which details the steps the business will take to meet these targets.

Although carbon intensity fell over the reporting period this is not a particularly useful measure for companies like miners (as mentioned in the commentary for First Quantum Minerals previously). Carbon emissions increased from 24,105kt CO_2e in the last report to 28,040kt CO_2e. This increase was largely due to increased nickel production, and the associated coal fired power generation, at the company's Koniambo mine in New Caledonia. In addition, previous years' production levels have been highly volatile as a result of covid-19 and adverse weather effects, while the recent reporting cycle marked a move back towards expected production activity.

Holcim Ltd is one of the world's largest cement producers. Cement is one of the world's most consumed commodities; however, the chemical process of production generates substantial quantities of carbon dioxide. The stock is held as we view it as undervalued and it also has a strong market position.

Holcim has a 2050 net zero (and 2030 interim) target, validated by the Science Based Targets initiative (SBTi). The firm plans to reach its goals through four main focus areas; reducing the 'clinker factor' in its cement (by replacing with mineral components), using alternative fuels and raw materials, increased use of renewable energy, and advancing its carbon capture, utilisation and storage capacity.

Through these initiatives, Holcim has reduced its carbon emissions substantially over the period, falling from 116,418kt CO_2e to 83,240 CO_2e.

INPEX Corporation is a Japanese oil and gas company. The position was purchased due to our perception of a low valuation at a point where we considered the capital cycle for energy stocks to be likely to improve. This has transpired and the valuation of the business has improved, but not as far as we think it could.

In 2021, INPEX announced its support for a net zero 2050 goal. The firm has now launched its long-term strategy and medium-term business Plan (INPEX Vision @2022), which lays out its plans to achieve this, and also committed to an additional interim target to reduce carbon intensity by at least 10% over the three years from 2022.

The company has reported a healthy fall in S1&2 emissions year on year; from 7,673kt CO_2e previously to 6,908kt CO_2e.

LyondellBasell Industries NV is a US-listed multinational chemicals company with a focus on oil-derived chemicals and polymers. The "cracking" process by which oil and other carbohydrates are turned into these chemicals is energy intensive, and some process outputs are GHG generative, hence the company's high emission footprint. The stock is held because it is well run and amongst the lowest cost producers, but still undervalued compared to peers.

In 2021, the company set a net zero ambition for 2050, alongside more challenging interim targets. These interim goals have now been strengthened to target a 42% reduction in S1&2 emissions and a 30% reduction in S3 emissions by 2030. It has laid out a clear plan of how it believes it can achieve this target, and notes that there is scope for overshooting if technology progresses quickly and renewables installations in the countries where it operates are faster than anticipated.

The firm has reported that early actions across its focus areas – of energy efficiency, renewable electricity and electrification, the use of hydrogen, and the development of carbon capture, utilisation and storage capacity – means it is on track to meet its 2030 targets. As such, carbon emissions reduced year on year from 24,073 CO_2e to 22,094 CO_2e.

Oji Holdings Corp. is a Japanese paper and pulp business. The majority of emissions are in relation to the energy used in refining wood into pulp, with some from the chemicals involved in the bleaching and processing of the product. The company is well run, low cost and was purchased at a time when we expected a turn in the capital cycle after years of underinvestment.

The company has a net zero 2050 target, and is seeking an ambitious 70% reduction in total GHG emissions by 2030. For many companies this would appear unlikely to be achievable, but the business has pivoted strategy and is investing heavily in directly managed forests as a raw material for itself and as a social good, offering recreation for local populations, whilst making a commitment to sustainable forestry (seeking to replace monocultures with mixed timber for example); so the implication of the target is that they can achieve a 20% direct reduction in GHGs and (at least) a further 50% absorption by expansion of the forestry operations, in effect using a form of internal carbon offset scheme.

Despite these actions, both carbon emissions and carbon intensity at the company hardly changed over the reporting period.

Rio Tinto is an international mining company listed in the UK. The company is committed to reaching net zero by 2050 and set interim targets (relative to a 2018 emissions baseline) to reduce GHG emissions by 15% by 2025 and by 50% by 2030. In 2021, the company launched a new business strategy with the low-carbon transition its key focus. The strategy has three pillars:

1. Grow in materials essential for the energy transition
2. Accelerate the decarbonisation of our assets
3. Partnering across our value chains to help our customers and suppliers decarbonise

Despite the ambitious targets the company warns that "around 80% of operational emissions come from hard-to-abate processing activities for which many of the necessary technological solutions do not exist at commercial scale today". The company is held as it is reasonably valued and provides broad exposure to the commodity capital cycle, which is coming to the end of a famine period as many commodities are moving from surplus production to deficit due to the changes wrought by the energy transition. Rio Tinto is, in Marathon's view, well positioned to benefit.

In common with most commodities producers, carbon intensity has fallen substantially year on year (largely as a result of higher earnings as many commodities prices increased over the period), but overall S1&2 emissions have also fallen somewhat, despite higher overall production, largely thanks to the renewable energy contracts and projects coming online (there is a large pipeline of these so progress to 2030 is likely to be gradual and then rapid as more reach completion).

Samsung Electronics is one of the world's largest ICT (Information & Communication Technologies) manufacturing companies. The company is based in Korea, but has global operations. It has committed to net zero by 2050, but also to net zero in its Device Experience (DX) division by 2030. Emissions stem primarily from electricity use, but gases emitted by business processes are a close second. The company points out that Korea is one of the most challenging markets in which to source renewable power at present (as confirmed by several independent reports), there is limited supply for a large manufacturing base and fewer options to increase it than is the case in many other countries. Nevertheless, the business has worked hard to increase the renewable proportion of its electricity mix, and has fully transitioned many sites in regions with greater access to renewables. Within Korea it has achieved 100% renewable energy for its DX division and is working in partnership with providers to expand capacity, seeking to transition all operations as soon as practical. On direct gas emissions, the business is seeking to improve or install process gas treatment facilities, retire some inefficient sites and improve the manufacturing efficiency of processes.

Despite the commitments and the foregoing, at present the company is light on detail with regards to how these objectives will be met.

Samsung did not appear amongst the top emitters in the 2022 report; its presence in 2023 is due to a doubling of the position size on price weakness during the period. The portfolio manager's conviction is the company remains undervalued in light of its future prospects and competitive position. Emissions have increased slightly (c.2%) year on year, but carbon intensity has fallen by 13%, implying greater carbon efficiency.

Shenzhou International is a China based knitwear and apparel business. The business has a stated target of reducing S1&2 emissions by 42% by 2030 (from a 2020 baseline). Exactly what is being reduced (simple emissions, footprint or carbon intensity) is not clear. Nevertheless, this may be a more challenging target than it appears, as 2020 was a year characterised by anti-covid measures worldwide, implying that production levels during the year are likely to have been reduced. Although not explicitly committing to "net zero, the company states that it is "determined" to align with the Paris Agreement and to contribute to China's stated ambition of "carbon neutrality" by 2060.

Although publicly available English language information specifically on climate change is sparse, the business has also stated that it "will disclose the emission reduction target, method, carbon footprint and climate related risk and opportunity of the previous year on the CDP platform". Its plans to reach its 2030 targets have also been assessed and validated by a US-based third-party assessor called The World Resources Institute (WRI).

Emissions year on year have spiked sharply higher (over 270%), but this reflects the prior year of data including a substantial period during which production in China in particular was near-completely shut down to control the spread of covid. Despite this spike, the company is reporting that emissions had reduced by 11.6% versus the 2020 baseline, and that it is on track to achieve its 2030 goals.

The company did not appear in last year's climate report due to the covid-suppressed emissions mentioned above. It is held primarily on the grounds that the stock is undervalued given its extensive operations, low cost of production and profitability.

Taiheiyo Cement Corporation is Japan's largest cement company. Cement production is a carbon intensive activity by dint of the chemical processes used in its creation. The company has a strong competitive position as the largest supplier in Japan and California (its two key markets), and remains undervalued when compared to global peers.

The company has committed to carbon neutrality by 2050, and has made good progress towards its 2025 and 2030 target reduction levels (vs. 2000 levels). The 2025 target was a reduction of at least 10% below 2000 levels for "specific" CO_2 emissions (essentially Scope 1, which are high for cement businesses as the chemical process of production releases significant quantities of CO_2) and this target has been achieved in 2023. On its 2030 targets progress has been mixed. On a target of a 20% reduction across the supply chain (S1,2&3) there has been a small back-slide versus 2022 due to outputs related to renovating a major facility. Despite this, the 2030 target of a 40% reduction in total (S1&2) emissions was achieved seven years earlier than anticipated (though they caution that there will be volatility in these numbers year on year for some time). Taiheiyo Cement is also a leader in the incorporation of waste material into its process whilst still producing a product robust enough to meet Japan's strict earthquake-focused standards.

Toyo Seikan Group Holdings Ltd. is a Japanese packaging producer making items such as metal cans, plastic containers and paper bags. Emissions result from its manufacturing and distribution activities. The company is actively looking to improve the overall environmental profile of its products and is moving away from plastics and investing in research into paper and metal alternatives. One example is drinks cans. Aluminium is energy intensive to produce from ore, but readily recycled. However, in standard drinks cans both the top and base have to be separated before recycling as they are different alloys of aluminium; which is an inefficient and energy intensive process. The company has a prototype "recycle in one piece" drinks can, which would substantially reduce the emissions involved in recycling as well as making the process easier and cheaper.

The company is seeking carbon neutrality by 2050, and a reduction on GHG emissions of 50% versus 2019 by 2030. These plans were announced in late 2021, so there has not yet been any reporting on progress made.

Holdings that have been sold between data generation and report publication

Below we include comment on companies which were portfolio holdings at the end of 2023, but which were sold between that point and the publication of this report at the end of June 2024.

TUI AG is a Germany-listed travel company, with emissions primarily associated with its proprietary airline and cruise ships. The position was sold in the first half of 2024 to focus investment in higher-conviction holdings.

The company has committed to net zero but "as quickly as possible" rather than with an end date in mind, stating that it has been able to reduce emissions more quickly than anticipated in the past, but that a route to net zero is not yet clear for parts of its business, requiring new technologies to come to market. Initially it has reduction goals for the three main business lines, TUI airline (24%), cruising (27.5%) and Hotels & Resort (46.2%) by 2030 (using 2019 as a base), which have been modelled and validated by the Science Based Targets initiative (SBTi) as challenging but realistic given the plans in place. Longer term targets are being regularly considered, but may not be set until a clear path to net zero can be found.

Emissions actually rose slightly year-on-year; largely as a result of the cruise business, which had been shut during the pandemic, coming rapidly back to near pre-pandemic demand levels. Hotels also rose a little for a similar reason, but emissions from TUI airline – despite an increase in demand and more flights – actually lowered emissions materially, largely due to the efforts to replace older, less efficient aircraft.

Vistra Corp. is a US-based integrated retail electricity and power generation company. Emissions are primarily the result of its electricity generation activities, a proportion of which is legacy coal fired. The stock was held because the market appeared to be avoiding it as an ESG pariah, meaning that there was substantial scope for share price improvement as the company's pivot away from fossil fuels gained momentum or, in the shorter term, because electricity prices rose substantially. In early 2024 (subsequent to the end of the period under review) the position was sold as the portfolio manager considered it to have reached a more reasonable valuation.

The business has committed to both net-zero carbon emissions by 2050 and a 60% emissions reduction by 2030 (compared to a 2010 baseline). It has also partnered with the Science Based Targets initiative (SBTi) to align its "pathway" to net-zero with the 1.5°C maximum rise envisioned under the Paris Agreement. Although the company still has coal-fired assets, there is an ongoing closing program in place with all coal plants scheduled for closure by 2030. The company is investing heavily in renewables, for example, in California it is developing what is currently the largest solar park with battery storage in the world. Vistra is keen to point to the limitations of renewables at present and the need for reliable base load for periods with little wind or sun with a dearth of renewables storage available, so it is likely to remain a mixed player into the future, relying on renewables, nuclear and gas (and possibly "green hydrogen").

Year-on-year data shows virtually no change in total S1&2 emissions, but the company has sold a lot more electricity over the period, meaning that carbon intensity has fallen quite significantly (by almost 40%). Part of this was due to higher prices in the period under consideration, but some was also due to more carbon-efficient production through coal plant wind downs and more renewables in the mix.

For those readers with access to Marathons *Global Investment Review* (our client newsletter), an article about Vistra and Marathon's views in relation to the company from a sustainability perspective was published in May 2023 under the title *Power Play* (Vol 37, No 3, May 2023).

Status of TCFD implementation

Marathon has been working hard in order to provide the disclosures recommended under the framework. While we feel we have made good progress, we have assessed below where we believe we are fully implementing the recommendations (coloured green) or only partially implementing or could improve disclosure with further work (amber).

GOVERNANCE		STRATEGY		RISK MANAGEMENT		METRICS & TARGETS	
a)	Describe the board's oversight of climate-related risks and opportunities.	a)	Describe the climate related risks and opportunities the organisation has identified over the short, medium, and long term.	a)	Describe the organisation's processes for identifying and assessing climate-related risks.	a)	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
b)	Describe management's role in assessing and managing climate-related risks and opportunities.	b)	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	b)	Describe the organisation's processes for managing climate-related risks.	b)	Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks
		c)	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	c)	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	c)	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

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All data provided in relation to portfolio level carbon metrics has been sourced from, or calculated based on information provided, by ISS ESG.

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