MARATHON

PILLAR 3 DISCLOSURE STATEMENT

2021

Overview

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

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

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

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

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

Scope and Application of the Directive

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

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

Capital requirements

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

Capital	£m
Tier 1 capital less innovative tier 1 capital	37.62
Deductions from tier 1 and tier 2 capital	-
Total capital resources, net of deductions	37.62

Note 1: Figure based on unaudited accounts as at 30th September 2021 hence excludes £24.3m of reserves.

As a CPMI firm, Marathon is required to hold own funds in excess of the following:

The higher of:

a) Capital resources requirement for Alternative Investment Funds (AIFs) of €125k; Plus
b) Fund under Management (FuM) requirement calculated as 0.02% of funds management in excess of €250m, (where FuM is calculated as the sum of all AIFs managed by Marathon); and
c) Fixed Overheads Requirement (FOR);
d) Plus, professional liability risk calculated as 0.01% of the value of the AIFs.

Capital resources as at 30th September 2021	£000
Higher of: a) capital resources requirement plus FuM requirement;	2,520
b) Fixed overheads requirement; plus	7,327
c) Professional liability risk	1,228
Total capital requirement as CPMI firm	**8,555**

Pillar 1 capital requirement

As a BIPRU Limited Licence 50K firm, Marathon 's Pillar 1 capital resource is determined at 30th September 2021 as being the highest of:

- Base capital requirement of €50K;
- Fixed Overhead Requirement; and
- The sum of credit and market risk requirements.

Risk	£000
Credit	3,730
Market	5,916
Fixed overhead requirement	7,327

Marathon's Pillar 1 capital as at 30th September 2021 is therefore determined as the sum of credit and market risk of £9,646k.

Pillar 2 capital requirement

Marathon's approach to assessing the adequacy of its internal capital to support current and future activities is contained in the Internal Capital Adequacy Assessment Process (ICAAP).

Key risks, primarily operational risk, have been assessed and appropriate stress tests and scenario analyses have been undertaken to help determine any additional capital required under Pillar 2. Marathon also undertakes an assessment to determine the cost of an orderly wind down of the business clearly identifying the capital and liquidity resources needed during such period estimated to be 12 months.

Risk management and governance

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

Business Risk
Defined as the risk arising from a change in business; both as a result of internal decisions, external factors and events.

Scenarios applicable to such risk category for Marathon are:
- Severe/ prolonged market downturn;
- Prolonged relative underperformance of key strategies;
- Departure/loss of key person/team; and
- Major operational risk event.

Marathon undertakes an annual stress testing analysis on identified and relevant scenarios selected by the business to assess the impact on its financial position (revenue/cost), strategy as well as capital adequacy over a 3-year period.

Operational Risk
Defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal, regulatory and compliance. Marathon is exposed to operational risk as a consequence of its core business and this is deemed the largest risk category for the firm in line with its industry peers. Examples of such events are:

- Trade execution errors;
- IT failure;
- Internal and external fraud (including cyber risk); and
- Operations errors.

The operational risk framework allows Marathon to:

- reduce operational errors through continuously improving processes and controls; and
- provide effective reporting for management to understand and manage operational risk.

Marathon's key operational risk framework components are:

- Risk and Control Self-Assessments (RCSA);
- Risk incident management;
- Risk appetite and key risk indicators; and
- Scenario analysis (ICAAP).

Detailed descriptions of core processes and control procedures are contained within Marathon's operating procedures and are subject to an external audit (AAF 01/20) on an annual basis. Appropriate insurance policies including professional indemnity insurance have also been put in place.

Credit Risk
Defined as the potential risk that arises from customers failing to meet their obligations as they fall due. Marathon's credit risk exposure arises primarily from its receivables and cash deposits placed with major banking groups.

Credit risk on receivables is predominantly from investment management fees due from institutional clients. All receivables are reviewed at least quarterly to ensure timely collection of amounts due.

Credit risk on cash deposits with banks is limited, as cash is only deposited with financial institution(s) having high credit ratings assigned by international credit rating agencies.

Market Risk
Defined as the loss arising from fluctuations in the value of assets or income (including adverse movements in exchange rate).

Marathon does not have any trading book exposures and acts on an agency basis on behalf of its clients and does not take principal positions or trade on a proprietary basis. As such, the main source of market risk for Marathon is exposure to changes in foreign exchange (FX), which arises as a result of revenue and expenses in foreign currencies mainly USD.

Liquidity Risk
Defined as the risk that Marathon may not be able to meet its payment obligations as they fall due.

The firm does not undertake any provision of agency liquidity nor does it have any debt on its balance sheet. Marathon's primary payment obligations are employee remuneration and service providers. Marathon is not exposed to any significant liquidity risk, as it funds its business from its internal resources and does not hold client money nor does it have a trading book exposure.

Risk Management Governance
Marathon's day-to-day business is overseen by the Board of Directors which is the senior governing body of the firm and is responsible for strategic, structural and risk management decisions.

Marathon's Risk Committee meets on a quarterly basis to oversee Marathon's enterprise wide risk management solution and is charged with:

- monitoring the risk appetite set by the Board of Directors;

- establishing an appropriate risk management framework; and

- implementing a system of internal controls as part of enabling the business to identify, monitor, measure and mitigate the various risks the firm faces in the course of its day-to-day operations.