OC 305964

Marathon Asset Management LLP

Report and Financial Statements

31 March 2010

Members
W J Arah
J J Hosking
N M Ostrer
Marathon Asset Management (Services) Limited

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers
Bank of Scotland Plc
St James's Gate
14-16 Cockspur St
London SW1Y 5BL

Registered Office
Orion House
5 Upper St Martin's Lane
London WC2H 9EA

Members' report

The members present their report and financial statements for the fifteen month period ended 31 March 2010 for Marathon Asset Management LLP ("the Partnership" or "the LLP") During the period, the LLP changed its financial year end to 31 March from 31 December This has resulted in a fifteen month period for the current financial statements

Principal activity and review of the business

The Partnership provides investment management services to institutional investors in various geographical locations such as North America, Europe and Australia It is regulated by the Financial Services Authority and is registered as an investment advisor with the US Securities and Exchanges Commission Pillar 3 disclosures are made on the Partnership's website

Results and profit allocation

The results for the period and the profit allocation are shown in the profit and loss account on page 7

The members are satisfied with the performance of the Partnership during the period and the current balance sheet position, with members' interests amounting to £55,012,951 (2008 – £50,002,288)

Principal risks and uncertainties

The key risks for the LLP are a decline in assets under management caused by falling world markets and a decline in investment performance relative to those markets With approximately 40% of the LLP's clients on performance-related fee schedules, the immediate risks to the LLP of underperforming funds are a decline in revenues, and the longer-term risk of client losses The majority of the funds managed by the LLP outperformed the benchmarks against which they were measured in the fifteen months to 31 March 2010 and performance fee revenues in the period represent approximately 30% of total fee revenues (31 December 2008 – 25%)

Other risks faced by the LLP are the risks associated with the retention of the key investment management personnel, structural risks such as a shift in asset allocations by investors away from equities, and foreign exchange risks As over 90% of the LLP's fee revenues are non-sterling denominated, it is also exposed to foreign exchange fluctuations

Members' profit allocation

Any profits are shared among the members in accordance with the terms of the Partnership Deed dated 2 September 2004

Members

The members of the Partnership during the period were as follows

W J Arah
J J Hosking
N M Ostrer
Marathon Asset Management (Services) Limited

The designated members are W J Arah, J J Hosking and N M Ostrer

Policy for members' drawings, subscriptions and repayment of members' capital

Policies for members' drawings, subscriptions and repayment of members' capital are governed by the Partnership Deed

Members' report

Going concern

The LLP has considerable financial resources It is envisaged that assets under management will be maintained at such a level that the related management fee income will continue to comfortably exceed costs during the next twelve months

The members have assessed the going concern status of the LLP and concluded that there are no material uncertainties that may cast significant doubt about the LLP's ability to continue as a going concern They therefore continue to adopt a going concern basis of accounting in the financial statements

Future developments

There are no plans which will significantly change the activities and risks of the LLP in the coming year

Auditors

Ernst & Young LLP will be proposed for reappointment by the members

Approved by the members and signed on their behalf

William Allah
Member

22 June 2010

Statement of members' responsibilities in respect of the financial statements

The Designated Members are responsible for preparing the Member's Report and the financial statements in accordance with applicable law and regulations

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 made under the Limited Liability Partnerships Act 2000 require the members to prepare financial statements for each financial year Under the regulation the Designated Members have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under the regulation the Designated Members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that year In preparing the financial statements, the Designated Members are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the LLP will continue in business

The Designated Members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and to enable them to ensure that the financial statements comply with The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 The Designated Members are also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditor's report to the members of Marathon Asset Management Limited Liability Partnership ('LLP')

We have audited the Limited Liability Partnership's financial statements for the period ended 31 March 2010 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flow and the related notes 1 to 11 These financial statements have been prepared on the basis of the accounting policies set out therein

This report is made solely to the members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied by The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of members and auditors

As described in the Statement of Members' Responsibilities, the members are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view of the state of the Limited Liability Partnership's affairs as at 31 March 2010 and of its profit for the period then ended, have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and have been prepared in accordance with the requirements of the Companies Act 2006 as applied by The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 We also report to you if, in our opinion, the LLP has not kept adequate accounting records, or if we have not received all the information and explanations we require for our audit

We read the Members' Report with the financial statements and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the LLP's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance

that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent auditor's report to the members of Marathon Asset Management Limited Liability Partnership ('LLP') (continued)

Opinion

In our opinion the financial statements

- give a true and fair view of the state of the Limited Liability Partnership's affairs as at 31 March 2010 and of its profit for the period then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied by The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008

Ernst & Young LLP

Michael-John Albert (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 June 2010

Profit and loss account

for the 15 month period ended 31 March 2010

	Notes	*15 months ended 31 March 2010* £	*Year ended 31 December 2008* £
Turnover			
Management fees	2	154,968,760	116,959,881
Other income		89	52,570
Expenses			
Expenses recharge to Marathon Asset Management (Services) Ltd		(35,554,085)	(17,871,875)
Operating expenses		(622,992)	(493,096)
Operating profit	3	118,791,772	98,647,480
Interest receivable		117,355	422,082
Foreign exchange gain		2,366,789	759,200
Profit for the period / year available for distribution to members		121,275,916	99,828,762

All amounts are in respect of continuing activities

Statement of total recognised gains and losses

There are no recognised gains or losses during the financial period other than as stated in the profit and loss account above

The accompanying notes 1 to 11 form and integral part of these financial statements

Balance sheet

at 31 March 2010

	Notes	31 March 2010 £	31 December 2008 £
Current assets			
Debtors	5	44,331,139	45,559,373
Cash		11,365,741	4,487,795
		55,696,880	50,047,168
Creditors amounts fallıng due wıthın one year	6	(7,768,212)	(44,480)
Net current assets		47,928,668	50,002,288
Total assets less current liabılıtıes		47,928,668	50,002,288
Equıty			
Members' capıtal	7	32,800,000	32,800,000
Other reserves	7	15,128,668	17,202,288
		47,928,668	50,002,288

Members' total ınterests

	Note	2010 £	2008 £
Amount due to members		7,084,283	–
Members' other ınterests		47,928,668	50,002,288
Members' total ınterests	7	55,012,951	50,002,288

The financıal statements were approved by the members on 22 June 2010

For and on behalf of the members

Wıllıam Arah

The accompanyıng notes 1 to 11 form and ıntegral part of these financıal statements

Statement of cash flows

for the 15 month period ended 31 March 2010

	Notes	*15 months ended 31 March 2010* £	*Year ended 31 December 2008* £
Net cash inflow from operating activities	8(a)	123,025,843	87,340,011
Returns on investments and servicing of finance	8(b)	117,355	422,082
Distribution to members	8(b)	(116,265,252)	(86,658,846)
Increase in cash	8(c)	6,877,946	1,103,247

Notes to the financial statements

at 31 March 2010

1. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards and in accordance with the Statement of Recommended Practice 'Accounting by Limited Liability Partnerships' (SORP) issued in March 2006

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date

All differences are taken to the profit and loss account

Forward contracts

The Partnership uses forward foreign currency contracts to reduce exposure to movements in foreign exchange rates The criteria for forward foreign currency contracts are

- the instrument must be related to a firm foreign currency commitment,
- it must involve the same currency as the hedged item, and
- it must reduce the risk of foreign currency exchange movements on the Partnership's operations

The gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed future transaction, are not recognised until the transaction occurs

Members' profit allocations

Members' profit allocations are recognised when formally approved

Taxation

No provision has been made for taxation in the financial statements Each member is exclusively liable for any tax liabilities arising out of their interest in the LLP, which will be assessed on the individual members and not the LLP

2. Turnover

Turnover represents investment management fees stated net of value added tax These are recognised as they fall due under the terms of the individual client agreements No credit is taken for performance related fees expected until such time as the amount receivable has been earned in accordance with the client agreement and after making provision for any claw backs of income that are likely to arise over the term of the agreement

The turnover and pre-tax profit is attributable to one activity, the provision of investment management services in the UK

Notes to the financial statements

at 31 March 2010

2. Turnover (continued)

An analysis of turnover by geographical market is as follows

	15 months ended 31 March 2010 £	*Year ended 31 December 2008* £
United Kingdom	22,454,968	11,052,386
North America	97,057,831	75,093,190
Rest of the World	35,455,961	30,814,305
	154,968,760	116,959,881

3. Operating profit

The auditors' remuneration of £27,825 (31 December 2008 – £25,625) has been borne by Marathon Asset Management (Services) Limited through the expense recharge

The Partnership has no employees and outsources its administration to Marathon Asset Management (Services) Limited

4 Members' remuneration

	15 months ended 31 March 2009 £	*Year ended 31 December 2008* £
Profit for the period available for division among members	121,275,916	99,828,763
Amount in relation to the member with the largest entitlement to profit	30,645,142	29,305,183

The average number of members in the period was 4 (31 December 2008 – 4)

5. Debtors

	31 March 2010 £	*31 December 2008* £
Accrued income	26,993,390	41,268,824
Trade debtors	15,786,471	3,034,705
Other debtors	1,551,278	1,255,844
	44,331,139	45,559,373

Notes to the financial statements

at 31 March 2010

6. Creditors: amounts falling due within one year

	31 March 2010 £	*31 December 2008 £*
Distribution payable to members	7,084,283	–
Other creditors	683,929	44,880
	7,768,212	44,880

7. Reconciliation of movements in members' other and members' total interests

	Members' capital	*Other reserves*	*Total members' other interests*	*Loans and amounts due to/from members*	*Members' total interests*
At 1 January 2009	32,800,000	17,202,288	50,002,288	–	50,002,288
Profits for the period	–	121,275,916	121,275,916	–	121,275,916
Profit allocated	–	(123,349,536)	(123,349,536)	123,349,536	–
Distributed to members		–	–	(123,349,536)	(123,349,536)
Other payments	–	–	–	7,084,283	7,084,283
At 31 March 2010	32,800,000	15,128,668	47,928,668	7,084,283	55,012,951

8. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	15 months ended 31 March 2010 £	*Year ended 31 December 2008 £*
Operating profit	118,791,772	98,647,480
Foreign exchange gain	2,999,896	759,200
Decrease/(increase) in debtors	1,228,234	(11,904,335)
Increase/(decrease) in creditors	5,941	(162,334)
	123,025,843	87,340,011

Notes to the financial statements

at 31 March 2010

8. Notes to the statement of cash flows (continued)

(b) Return on investments and servicing financing

	15 months ended 31 March 2010 £	*Year ended 31 December 2008 £*
Interest received	117,355	422,082
Transactions with members		
Distributions paid	(116,265,252)	(86,658,846)

(c) Analysis of changes in net funds

	At 31December 2008 £	*Cash flow £*	*At 31 March 2010 £*
Cash at bank	4,487,795	6,877,946	11,365,741

(d) Reconciliation of net cash flow to movement in net funds for the 15 month period ended 31 March 2010

	15 months ended 31 March 2010 £	*Year ended 31 December 2008 £*
Increase in cash in period / year	6,877,946	1,103,247
Change in net funds resulting from cash flows	6,877,946	1,103,247
Net funds at 31 December 2008	4,487,795	3,384,548
Net funds at 31 March 2010	11,365,741	4,487,795

9. Financial commitments

To limit exposure to exchange rate fluctuations in respect of amounts receivable in foreign currencies at a future date, the Partnership has forward contracts to sell US$47,300,000, AUD 3,480,000 and JPY 332,000,000 by 15 December 2010

Notes to the financial statements

at 31 March 2010

9. Financial commitments (continued)

At 31 March 2010, the Partnership had annual commitments under non-cancellable operating leases as set out below

	Land and buildings 2010	*Land and buildings 2008*
	£	£
Operating leases which expire		
In over five years	332,610	332,610

10. Related party transactions

Marathon Asset Management (Services) Limited provides services to the Partnership and recharges its expenses to the Partnership, in addition to receiving an allocation of profits The expense recharge and profit allocation for the 15 months ended 31 March 2010 were £35,554,085 (31 December 2008 – £17,871,875) and £868,298 (31 December 2008 – £1,990,625) respectively The amount due at 31 March 2010 was £7,084,283 (31 December 2008 – £nil)

See note 4 for details of distributions to members

11. Contingent liabilities

The Partnership is a defendant in a claim which was filed by two investors in certain Vanguard funds, one of which is the Vanguard Global Equity Fund, for which the Partnership acts as one of the sub-advisers Vanguard and its principals, the Vanguard funds and their trustees, and another sub-advisor, are also defendants in the litigation The claim alleges that certain investments made by the Vanguard funds and their advisors constituted breaches of their fiduciary duties, negligence and waste At this stage, it is not possible to assess either the likelihood that a transfer of economic benefit will arise or the amount of any such obligation Consequently, no provision has been made but this disclosure is made in accordance with FRS 12 'Provisions, Contingent Liabilities and Contingent Assets'