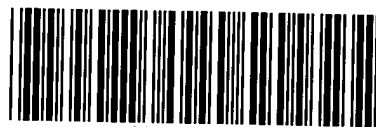


# **Marathon Asset Management LLP**

## **Report and Financial Statements**

31 March 2015

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COMPANIES HOUSE

**Members**

W J Arah

N M Ostrer

W R Phillips

Marathon Asset Management (Services) Limited

J J Hosking (non-executive member)

**Auditors**

Ernst & Young LLP

1 More London Place

London SE1 2AF

**Bankers**

Bank of Scotland Plc

33 Old Broad Street

London BX2 1LB

**Registered Office**

Orion House

5 Upper St Martin's Lane

London WC2H 9EA

Registered No. OC305964

## **Members' report**

The members present their report and financial statements for the year ended 31 March 2015.

### **Principal activities and review of the business**

The partnership provides investment management services to institutional investors in various geographical locations including North America, Europe, South Africa and Australia. It is regulated by the Financial Conduct 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 allocations**

The members are satisfied with the performance of the partnership during the year and the current balance sheet position, with members' interests amounting to £52,215,456 (2014 – £60,635,551).

### **Future developments**

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

### **Principal risks and uncertainties**

The key risks for the LLP include falling world markets and a decline in investment performance relative to those markets. With approximately 27% 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 twelve months to 31 March 2015 and performance fee revenues in the year represent approximately 15% of total fee revenues (2014 – 33%).

The LLP also faces structural risks such as a shift in asset allocations by investors away from equities. As over 94% of the LLP's fee revenues are non-sterling denominated, it is also exposed to foreign exchange fluctuations.

### **Operational risks**

Operational risks can be defined as the risk of losses that arise through the inadequacy or failure of internal procedures, people or systems, or as a consequence of external events. The members consider that there are adequate internal systems and controls in place to manage and mitigate operational risks to acceptable levels.

### **Members' profit allocation**

Any profits are shared among the members in accordance with the terms of the Partnership Deed dated 2 September 2004 (as amended).

### **Members**

The members of the partnership during the year were as follows:

W J Arah  
N M Ostrer  
W R Phillips (admitted as a member on 27 February 2015)  
Marathon Asset Management (Services) Limited  
J J Hosking (non-executive member)

### **Policy with respect to members' drawings and 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

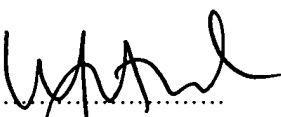
The LLP has considerable financial resources. It is envisaged that assets under management will be maintained at such a level that the related management fee income will continue to comfortably exceed costs during the next twelve months.

The members have assessed the going concern status of the LLP and concluded that the LLP has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

### Auditors

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

Approved by the members and signed on their behalf

  
.....  
William James Arah  
24 June 2015

## Statement of members' responsibilities

The Designated members (W J Arah, N M Ostrer and J J Hosking) are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Legislation applicable to limited liability partnerships requires the Designated members to prepare financial statements for each financial year. Under that law the 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 relevant legislation 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 period. In preparing those 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 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 enable them to ensure that the financial statements comply with the Companies Act 2006 as modified by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. They 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 LLP**

We have audited the financial statements of Marathon Asset Management LLP for the year ended 31 March 2015 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditor**

As explained more fully in the Statement of Members' Responsibilities set out on page 4, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the limited liability partnership's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the designated members; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on the financial statements**

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 2015 and of its profit for the year 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 to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Members' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# **Independent auditor's report**

**to the members of Marathon Asset Management LLP**

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



Michael-John Albert (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
1 July 2015

## Profit and loss account

for the year ended 31 March 2015

	Notes	2015 £	2014 £
<b>Turnover</b>			
Management fees	2	<u>164,496,265</u>	<u>186,865,058</u>
<b>Expenses</b>			
Expenses recharged to Marathon Asset Management (Services) Limited		(46,416,161)	(60,020,956)
Operating expenses		<u>3,837,656</u>	<u>(537,185)</u>
<b>Operating Profit</b>	3	121,917,760	126,306,917
Interest receivable and similar income		80,608	157,442
Foreign exchange loss		<u>(1,386,163)</u>	<u>98,490</u>
<b>Net profit for the financial year available for division among members</b>		<u>120,612,205</u>	<u>126,562,849</u>

All amounts relate to continuing activities.

## Statement of total recognised gains and losses

for the year ended 31 March 2015

There are no recognised gains or losses other than the profit of £120,612,205 in the year ended 31 March 2015 (2014 – profit of £126,562,849).

The accompanying notes form an integral part of these financial statements.



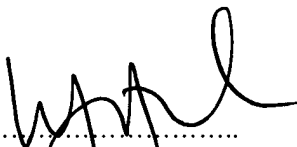
## Balance sheet

at 31 March 2015

	Notes	2015 £	2014 £
<b>Current assets</b>			
Debtors	5	44,696,888	39,968,925
Cash at bank and in hand		9,948,699	20,789,603
		<u>54,645,587</u>	<u>60,758,528</u>
<b>Creditors: amounts falling due within one year</b>	6	(4,729,525)	(1,348,124)
<b>Net current Assets</b>		<u>49,916,062</u>	<u>59,410,404</u>
<b>Total assets less current liabilities</b>		<u>49,916,062</u>	<u>59,410,404</u>
<b>Equity</b>			
Members' capital	7	6,300,000	6,300,000
Other reserves	7	43,616,062	53,110,404
		<u>49,916,062</u>	<u>59,410,404</u>
<b>Members' other interests</b>			
Amount payable to members		2,299,394	1,225,147
Members' other interests		49,916,062	59,410,404
Members' total interests	7	<u>52,215,456</u>	<u>60,635,551</u>

The financial statements were approved by the members on 24 June 2015.

For an on behalf of the members

  
 .....  
 William James Arah

The accompanying notes 1 to 13 form an integral part of these financial statements.

## Statement of cash flows

for the year ended 31 March 2015

	Notes	2015 £	2014 £
<b>Net cash inflow from operating activities</b>	8(a)	118,110,788	133,630,657
<b>Returns on investments and servicing of finance</b>	8(b)	80,608	157,442
<b>Distribution to members</b>	8(b)	<u>(129,032,300)</u>	<u>(124,102,766)</u>
<b>(Decrease) / increase in cash</b>	8(c)	<u>(10,840,904)</u>	<u>9,685,333</u>

# Notes to the financial statements

at 31 March 2015

## 1. Accounting policies

### *Basis of preparation*

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

### *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.

### *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 in the profit and loss account, 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.

### *Interest*

Interest is recognised on an accruals basis.

## 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 on an accruals basis. No accruals are made 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.

An analysis of turnover by geographical market is as follows:

	2015	2014
	£	£
United Kingdom	8,906,735	9,948,388
North America	124,757,491	140,002,304
Rest of the World	30,832,039	36,914,366
	<u>164,496,265</u>	<u>186,865,058</u>

## Notes to the financial statements

at 31 March 2015

### 3. Operating Profit

The auditors' remuneration of £34,150 (2014 – £33,000) 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

	2015 £	2014 £
Profit for the year available for division among members	<u>120,612,205</u>	<u>126,562,849</u>
Amount in relation to the member with the largest entitlement to profit	<u>43,211,857</u>	<u>36,677,913</u>

The average number of members (including non-executive members) in the year was 5 (2014 – 4).

### 5. Debtors

	2015 £	2014 £
Accrued income	34,811,555	33,948,894
Trade debtors	6,059,565	11,492,580
Other debtors	3,825,768	3,105,365
Provision for bad debt expense	-	(8,577,914)
	<u>44,696,888</u>	<u>39,968,925</u>

### 6. Creditors: amounts falling due within one year

	2015 £	2014 £
Amount payable to members	2,299,394	1,225,147
Other creditors	<u>2,430,131</u>	<u>122,977</u>
	<u>4,729,525</u>	<u>1,348,124</u>

## Notes to the financial statements

at 31 March 2015

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

	<i>Members' capital</i>	<i>Other reserves</i>	<i>Total members' other interests</i>	<i>Loans and amounts due to/from members</i>	<i>Members' total interests</i>
	£	£	£	£	£
At 1 April 2014	6,300,000	53,110,404	59,410,404	1,225,147	60,635,551
Profits for the year	-	120,612,205	120,612,205	-	120,612,205
Profits allocated	-	(130,106,547)	(130,106,547)	130,106,547	-
Distributed to members	-	-	-	(130,106,547)	(130,106,547)
Other payments	-	-	-	1,074,247	1,074,247
At 31 March 2015	<u>6,300,000</u>	<u>43,616,062</u>	<u>49,916,062</u>	<u>2,299,394</u>	<u>52,215,456</u>

### 8. Notes to the statement of cash flows

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

	2015	2014
	£	£
Operating profit	121,917,760	126,306,917
Foreign exchange (loss) / gain	(1,386,163)	98,490
(Increase) / decrease in debtors	(4,727,963)	7,991,112
Increase / (decrease) in creditors	2,307,154	(765,862)
	<u>118,110,788</u>	<u>133,630,657</u>

#### (b) Return on investments and servicing of financing

	2015	2014
	£	£
Interest received	<u>80,609</u>	<u>157,442</u>
Transactions with members:		
Distributions paid	<u>(129,032,301)</u>	<u>(124,102,766)</u>

#### (c) Analysis of net cash outflows

	<i>At 1 April 2014</i>	<i>Cash flow</i>	<i>At 31 March 2015</i>
	£	£	£
Cash at bank	<u>20,789,603</u>	<u>(10,840,904)</u>	<u>9,948,699</u>

## Notes to the financial statements

at 31 March 2015

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

(d) Reconciliation of net cash flow to movement in net funds for the year ended 31 March 2015

	2015	2014
	£	£
(Decrease) / increase in cash in year	(10,840,904)	9,685,333
Change in net funds resulting from cash flows	(10,840,904)	9,685,333
Net funds at 1 April 2014	20,789,603	11,104,270
Net funds at 31 March 2015	<u>9,948,699</u>	<u>20,789,603</u>

### 9. Events since the balance sheet date

Subsequent to the year end, a settlement was reached in relation to a debt due to the Partnership which had previously been fully provided for. The provision was released and a debtor raised for the settlement amount.

### 10. 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\$ 66,300,000, EUR 5,950,000 and JPY 362,000,000 by 18 December 2015.

At 31 March 2015 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>	
	2015	2014
	£	£
Operating leases which expire:		
Under one year	-	332,610
Over five years	1,222,951	-
	<u>1,222,951</u>	<u>332,610</u>

### 11. 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 profit. The expense recharge and profit allocation for the year were £46,416,161 (2014 – £60,020,956) and £22,089,234 (2014 – £19,403,827) respectively. The amount due at 31 March 2015 was £2,299,394 (2014 – £1,225,147).

See note 4 for details of distributions to members.

### 12. Contingent assets

From time to time the Partnership may be involved in legal cases and where the outcome of these cases is uncertain, no accrual or provision is made in the financial statements.

## Notes to the financial statements

at 31 March 2015

### 13. Contingent liabilities

The Partnership is a defendant in a claim 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 executives, the Vanguard funds and their trustees, and another sub-advisor, are also defendants in the litigation. Nearly-identical claims brought by the same plaintiffs against the same defendants were previously unsuccessful. 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'.