MFM HATHAWAY FUND

INVESTMENT ADVISER'S REPORT

For the six month period ended 31 March 2009

We have pleasure in presenting our semi annual report on the MFM Hathaway Fund – an *equity and bond* unit trust – and, amid continuing weakness in equity markets, the overall return in the six months was minus 17.8%, reflecting a 13.675p decrease in an *accumulation* unit (which class records exactly the *total return* on the fund); since we started in November 2002, those units have advanced from 50p to 62.91p (and now stand considerably higher – as we note at the end).

Business and economic conditions were remarkable in the half year and we can only summarise our views here; suffice to say, that we expect the economy to be in a shambles this year and next – but with a likely recovery from the stock market, in sharp contrast to that poor business outlook.

The growing speculation in gilts continued and they averaged 6.7% in capital growth alone in the six months (some issues advanced much more), as buyers flocked to their apparent safety and attractive yield. We have also seen the unprecedented "quantitative easing" (printing money) by the Bank of England which is likely to lead to inflation; accordingly, we see the gilt bubble bursting (it has already stopped expanding – as we also note at the end) and that company shares are set to dominate for a while.

We in fact reduced our government stock in the period (we are always cautious when others turn greedy) so, following on from the strong relative performance posted in October, the fund was therefore behind our target in the six months; however, see our comments further on which very much put this into perspective, while of course it is only long term superiority which really counts.

Equally, the fund exhibit in the period was against a background of a return of *minus* 22.2% in the stock market, while the table below illustrates both the short and longer term record in percentage terms, against the benchmark and its constituents.

Year	MFM Hathaway Fund	Benchmark (30% gilts, 70% equities)	FTSE All Share (equities)	FTSE All Stocks (gilts)
2002/2008	+53.1%	+49.6%	+57.7%	+29.2%
2008/2009	- 17.8%	- 12.8%	- 22.2%	+ 9.2%
Cumulative	+25.8%	+30.5%	+22.7%	+41.2%

This is only the third time that we have recorded a portfolio decline in these reports; as we said in the autumn however (bringing the figures up to date here) a period when the stock market return is an overall retreat of 22.2% and we post minus 17.8%, is actually

far superior an outcome for the fund than doing well when it is advancing. A down market, provides an objective test of just how conservative your philosophy is.

In keeping with that cautious stance, we steadily reduced equities as they advanced over the years, but by the start of 2009 we had taken them back to 70% of the portfolio – seeing them by then as more attractive than gilts – and we have broadly kept that proportion since, continuing to buy over the last month, as yet more opportunities emerged at prices that made sense.

Alongside this activity, the success of our philosophy (including looking to get more than you pay for) remains prominent: from launch to 31 March, we achieved over 100% of the return from quoted companies, while taking an average of only about 60% of the risk in that time (gilts are risk free in this context); we are also appropriately invested, for any recovery in the stock market.

At our year end in October, we said that …"the general market – and many of our chosen equities – appear to us to be well below *intrinsic value*, a view which, if accurate, carries with it the possibility of a substantial advance at some point…" and so we also looked to take advantage of that judgement, while shunning the excitement in government stocks; detailed notes about our portfolio changes, will appear in the annual report in the autumn.

Over the period, we therefore continued to provide despondent sellers of equities with liquidity (i.e. buying from them), in the process taking on their market risk (which is still appreciably lower than a year ago); it is the resulting wide mispricing of risk, due to those emotionally driven vendors, which characterised the equity market in the six months and we have sought to take advantage of that.

To return to the beginning of this report, we also said in the autumn that "…the stock market … is likely to move higher well before the economy or sentiment demonstrably improve and so, for the patient buyer of securities, the outlook is currently attractive …"; that such a recovery in share prices, appears now to be underway, is gratifying, even though we remain, as ever, long term in our outlook.

Indeed, whilst we recommend, as always, that unit holders keep expectations within sensible parameters, it is pleasing to see – at the date of this report – that we are now only a percentage point behind the benchmark since 31 October, comfortably ahead of it (again) and the stock market since launch and also back level with gilts over that long haul; since 31st March, the fund has returned +10.7% (an *accumulation* unit is now just shy of 70p), the benchmark +6.2% (gilts were static). This report is therefore very much a matter only of record as far as the statistics are concerned, as we see events unfold in our favour once again.

We therefore look forward to reporting the annual performance in the autumn, while more about our *value investing* philosophy and the current fund prices and performance are on our website.

Graham Englefield
Robert Bogle
Graham Shaw
30.04.09 www.hathawayinvestment.com

Notes

1. Statistical source: the benchmark figures we quote in the table above are derived from statistics recorded in the Financial Times newspaper (and all are calculated on a mid-to-mid price basis, with net income continually reinvested); the MFM Hathaway Fund, equally, shows performance based on the mid-price of accumulation units, so that all figures in the tables are on the same footing. Movements in the price of an accumulation unit, therefore provide a complete record of performance, since accrued income is included alongside capital performance.
2. "Equities" means company shares and the FTSE All Share Index (what we generally mean by "the stockmarket") records the experience of a commitment to almost all quoted companies; "Gilts" means UK government bonds, while the FTSE All Stocks Index is an average of all those in issue and so we use that in preparing the bond part of the benchmark. The FTSE 100 Index covers just the largest quoted companies (the "blue chips").
3. The cumulative figures in the last line of the tables very accurately show the total return from 25.11.02 to 31.03.09; any apparent discrepancy from a simple aggregation of annual and semi-annual statistics as the case may be, is explained by rounding each year and six months in preparing the discrete statistics.
4. References to "year" in the report, is to the fund year – October 1 to September 30, except for 2002/03, which is for the period 25 November 2002 to 30 September 2003.