MFM HATHAWAY FUND

INVESTMENT ADVISER'S REPORT

For the half year ended 31st March 2010

Performance

We have pleasure in presenting our semi - annual report on the MFM Hathaway Fund – an *equity and bond* unit trust – which posted an overall portfolio advance in the six months of +11.1%, resulting in a 8.905p increase in an *accumulation* unit (which class records exactly the *total return* on the fund), against a background of a return of +12.0% in the stock market (+12.4% from blue chips); since we started in November 2002, those units have advanced from 50p to 88.775p – equivalent to annual compounding of approximately 7.5% (assuming there be no change over the next half year).

It is gratifying to record our eleventh positive result – *i.e.* in *absolute* terms – from fourteen half yearly or annual reports and the table below illustrates that longer term record in comparative terms.

Year	MFM Hathaway Fund	Benchmark (30% gilts, 70% equities)	FTSE 100 (equities)	FTSE All Share (equities)	FTSE All Stocks (gilts)
2002/2009	+59.6%	+61.2%	+57.8%	+67.3%	+44.4%
2009/2010	+11.1%	+7.9%	+12.4%	+12.0%	-1.6%
Cumulative	+79.5%	+73.9%	+77.8%	+87.3%	+42.0%

The fund was therefore well ahead of our benchmark in the six months and is also ahead of that guide since launch – it being a good proxy for the average conservative private investor's portfolio, while it is also demanding and tells us, long term, roughly where we ought to be (and more information about it are in notes 2 and 3 at the end). However, that notional index is made up partly of the broader FTSE All Share Index (as to 70% in fact) so, given that our equities are mainly "blue chips", we have also included the FTSE 100 in the exhibit above and you can see that we remain ahead of large capitalisation stocks (which constitute that record).

Equally, we have previously described, at some length, how we have favoured bonds as to as much as 45% of the fund since we started (just now they are down to around 10%) and so, to achieve 102% of the return from large cap stocks and 95% or so of that from general equities over the last seven and a half years, while taking materially less risk, represents both a fair performance so far and success in meeting our overriding goal – to achieve an appreciably higher return than the level of risk we have taken would indicate is our due (a "cake and eat it" situation as we have previously described it).

We said in our last report that we would soon look at our performance in the league tables of comparable unit trust/open ended investment companies (*oeics)* or life assurance office (insurance company) funds and we are pleased now to set out the results of this survey.

	1 year	2 years	3 years	5 years

MFM Hathaway	**+41.1%**	**+10.3%**	**+5.4%**	**+31.8%**
Balanced managed insurance funds average	**+34.2%**	**+6.9%**	**+3.0%**	**+31.0%**
MFMH position	40/367	66/352	118/344	162/283
Balanced managed unit trust/OEICS average	**+34.9%**	**+6.9%**	**+2.0%**	**+33.9%**
MFMH position	18/84	19/82	17/73	27/56
Equity & bond unit trust/OEICS average	**+37.3%**	**+3.1%**	**-6.0%**	**+21.8%**
MFMH position	3/14	3/13	2/13	4/13

Note 6 below sets out more detail on the statistical sources etc; suffice to say here, that we have been placed by the recognised industry arbiters in the *balanced managed* sector so that group, in principle, is the comparator – even though we consider ourselves equally at home in *equity and bond*, so we have given the latter record together with the insurance funds, to provide a more comprehensive impression.

We are only too aware that there are shortcomings to statistics of past performance, not least the fact that they are just that, but it is gratifying to see our philosophy holding its own against our competitors. In particular, we would highlight that not only are we in the top quartile of funds in our *balanced managed* unit trust/oeics sector over one, two and three years and in the second quartile over 60 months, but none of the 55 competitors who lined up with us in 2005 have consistently beaten us.There are fewer funds in *equity and bond,* but there we would enjoy an even wider superiority if placed in that category.

The life company sector, meanwhile, has nearly four hundred funds in *balanced managed* and there we would sit in an equally robust position, with only eight out of 283 competitors consistently ahead over five years, but with otherwise very similar comparative results across all the time periods – *i.e.* as with the other funds in the table. In total, from the table we note that, of 352 comparable funds across the three comparative categories – over five years – only those eight are consistently ahead.

As we say, there are limitations to these snap-shot performance figures (there can be exit charges on some insurance funds for example, not revealed in the statistics), but our consistency – when married with above average returns and our generally very high ranking – does point to our evergreen *value investing* style working well right through the cycle and the MFM Hathaway unit trust being both a fund of choice and one which – to steal an advertising slogan – "does what it says on the tin".

No *hubris* though: the evaluation and valuation of risk is really what we see investing as all about and we will stick to this task with an *objective* eye rather than one clouded by past success, even though that be encouraging; our first job, will always be the *long term* safety of our unit holders' capital and rising asset values are once more making that task more challenging.

Investment activities

It is pleasing that we again did well with our equity portfolio in the half year and our collection continues to look well-placed. We benefitted from some considerable and favourable price movements – particularly in our larger holdings such as Tesco and Berkshire Hathaway (insurance), while currencies also helped. We also received the proceeds of the takeover of Cadbury by Kraft and, although this also helped our short term figures and we are fairly happy with holding shares in the latter concern, we preferred the former.

We are happiest invested in businesses where a healthy dividend offsets the risk of short term price falls (or, in one or two exceptions, where the growth potential is demonstrably strong in any case); we continue to look closely at the amount of debt a business carries and we prefer businesses with income streams either predominantly in sterling or across many currencies (effectively providing a hedge).

Outlook

We said eighteen months ago that equities "are now set to deliver acceptable returns once again" and that has continued to prove accurate and we also remarked then that "the stock market…is likely to move higher well before the economy or sentiment demonstrably improve...the outlook is currently attractive" and that also has turned out to be right (although in both cases we had no insight as to *when* those statements might be proved correct as of course we never try to guess market moves); in March last year, we noted the beginning of the end of the gilt bubble, and although it has certainly not burst, they have begun a retreat.

As ever, we do not (nor does anyone) have the faintest idea where general business or the stock market are going to go over the summer, after the election or in the next year or two (fortunately for our investors we do not need to form a view), but we are nonetheless seeing some signs of an old – fashioned bull market and such developments rarely reverse quickly; in this environment, we will do our best to capture as much of the available returns, without compromising security. Indeed, on this last point, the yellow caution light is just starting to flicker on our desks – indicating a need to be slightly thoughtful about company shares as they continue to rise.

Finally therefore, we would remind our investors to keep their expectations to a sensible level (turmoil in the international economy and the build up of inflation pressures should see to that) and that all securities markets are two way streets; expect turbulence.

We 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
10.04.10
www.hathawayinvestment.com

Notes

1. Statistical source: the benchmark figures we quote in the first 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 reinvested); the MFM Hathaway Fund, equally, shows performance based on the mid-price of *accumulation* units, so that all figures in that exhibit are on the same footing. Movements in the price of an *accumulation* unit, provide a complete record, 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 to prepare the bond part of the benchmark. The FTSE 100 Index covers just the largest quoted companies (the "blue chips" or "large capitalisation" or "large cap" stocks), but we use those first two indices (as to 70:30) in calculating our benchmark.

3. The benchmark is intended as a rough guide to how well the portfolio has been invested over any period (particularly the allocation between bonds and equities) and it reflects how a typical conservative private investor's portfolio might be constructed; one reason why it is only an indicator though, is that it is impliedly continually rebalanced to 70:30 each day (as statistically it must be). Our most meaningful goal then, long term, is to get the same or a better return than equities (the toughest test long term), while taking materially less risk than the stock market (if possible) over a market cycle (so a bare minimum acceptable performance would be to match that return which the amount (and type) of equities which we have actually held would have produced (and that is approximately +60% so far)).

4. The cumulative figures in the last line of the first table very accurately show the *total return* from 25.11.02 to 31.03.10; any apparent discrepancy, from a simple aggregation of annual and semi-annual statistics (either here or in previous reports), is explained by rounding each year in preparing the discrete statistics.

5. Any references to "year" (or, for example, "2002/2009") in the first table or the text, is to the fund year – October 1st to September 30th, except for 2002/03 (shown in previous reports, but contained in aggregate numbers here), which is for the period 25th November 2002 to 30th September 2003. The actual valuation dates for the unit trust (and therefore the comparative indices/benchmark) may, in some years, vary by a day or so from these dates, but we are consistent in using the same dates in subsequent periods.

6. The second table, of comparative funds, uses very similarly prepared and consistent statistics (as at 31.03.10) of *total returns* taken from *trustnet* a widely used on-line database of performance and our own records for our fund; we have inserted our performance into those sectors where of course we do not appear (*e.g.* life companies) on a *pro forma* basis – in *balanced managed* for example, we are actually 18th out of 84 over one year, in *equity and bond* we would be 3rd out 14 if we were placed in that group (in which there are, in fact, 13 funds). Any timing differences etc in the statistics can be expected to be trivial although, naturally, the possibility of error (ours or at a third party source) increases when considering hundreds of funds etc.