MFM HATHAWAY FUND

INVESTMENT ADVISER'S REPORT

For the six months ended 31st March 2011

Percentage change and sector position to 31 March 2011

	Six months	1 year	3 years	Since 4 Jan 2008**
MFM Hathaway Fund	7.97%	7.24%	18.16%	15.85%
Quartile Ranking*	1	2	2	1

*Based on ranking within Balanced Managed Sector
**Changed IMA Sector on 04.01.2008 (launched 04.11.02)
External Source of Economic Data: Morningstar (bid to bid, net income reinvested)

Performance as against the market averages and benchmark

We have pleasure in presenting our semi-annual report on our *equity and bond* unit trust, which posted an overall advance in the half year of +7.9%, being a 7.02p increase in *accumulation* units (which class records the fund's *total return*) against +8.8% from the stock market (+8.4% from blue chips) and *minus* 3.1% from gilts; since launch in November 2002, those units have advanced from 50p to 95.19p – equivalent to annual compounding of approximately 8%.

It is gratifying, in our sixteenth interim/annual report, to record the thirteenth positive return, the table below illustrating the longer term comparative *data*, including outpacing our benchmark, that being a demanding guideline which tells us roughly where we ought to be (see also the "Notes" at the end). We also show the benchmark's constituents and the related FTSE 100.

Year	MFM Hathaway Fund	Benchmark (30% gilts, 70% equities)	FTSE 100 (equities)	FTSE All Share (equities)	FTSE All Stocks (gilts)
2002/2010	+76.3%	+79.1%	+77.0 %	+ 88.8%	+55.2%
2010/2011	+7.9%	+5.1%	+ 8.4%	+ 8.8%	- 3.1%
Cumulative	+90.2 %	+88.2%	+91.8%	+105.4%	+50.3%

We have favoured bonds as to as much as 45% of the fund at times and so, to have achieved 99% of the return from large cap stocks (FTSE 100) and 85% or so of that from general equities (FTSE All Share) over the last eight and a half years, while taking materially less risk, represents both a gratifying performance and success in meeting our overriding goal – to achieve an appreciably higher return than that which the level of risk we have taken would indicate to be our due (a "cake and eat it" situation - as we have previously described it).

Also, to have achieved 179% of the returns on gilts, alongside that equity return, over the 100 months, is both encouraging and solid evidence of the merits of our *value investing* philosophy.

Performance as against our peers

The *Morningstar* table at the start of this report places us above average over one and three years and well above average since the Investment Management Association ("IMA") changed our sector in 2008 and, also, over the last six months.

We also declared 2010 a vintage year, as *Trustnet* – another respected statistical source – placed us 1st out of 137 funds in the chronological year in the IMA's *balanced managed* category – with a *total return* of +19.9%, as against +12.1% for our group's average and +14.5% for the FTSE All Share Index and just +5.8% for gilts. The statistics for three and five years are similarly robust.

These results also show the merit of patience and were achieved not by listening to the prognostications of market "experts", but from thinking and reading independently – by what Mark Twain called "the application of the seat of the pants to the seat of the chair" – by not being disheartened by a week of fruitless research.

To summarise, it was the quality of our equity portfolio - well ahead of the stock market over the six months and since launch (schoolboy algebra confirms that) – which has enabled us also to hold bonds for safety and stability and to deliver our unit holders superior, evergreen, returns. Over the long term we have therefore achieved the goal set out in Note 3 below.

Investing activities

Despite short term travails, our equity collection still looks well-placed and we continue to receive healthy business reports from our investees; even BP has returned to enjoy a stable outlook. We remain happiest in businesses where a healthy dividend and conservative balance sheet offset the risk of short term price falls (or, occasionally, where the growth potential is demonstrably strong in any case); Nestle, for example, increased its dividend by over 15% recently, while our portfolio has a natural hedge against currency fluctuations.

As highlights: we have previously lauded the stunning returns from Law Debenture investment trust, which we have held since we launched, and 2010 was no exception to its stellar record (a *total return* of +30.5% for us) – it has contributed robustly to our unit holders' returns over the years. We are also expecting good returns from our recent additions to the collection, which includes De La Rue, the bank note printer (acquired in late October when everyone seemed to be selling).

With De La Rue we were pleased that, after researching and debating it for nearly a month (there were temporary negatives to consider), a private French company in the same business launched (an ultimately withdrawn) takeover approach just a couple of days after we bought it for the fund – vindicating our own analysis.

Outlook

Generally, conditions for investors are something of a Curate's egg - good in parts. Low interest rates buttress equity values and business conditions for stable international companies are reasonably benign. Above all, UK blue chips (the biggest companies) have remarkably strong balance sheets and hold plenty of cash, but the bond market is challenging and inflation is gathering.

Finally therefore, we would remind our investors to keep their expectations to a sensible level (continuing turmoil with sovereign debt should make that easy) and to remember that all securities markets are two way streets; expect turbulence, and that we still won't buy any Greek government bonds for the fund. Equity prices are fairly full.

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
03.05.11

www.hathawayinvestment.com

Notes

1. Statistical sources: the benchmark figures we quote in the second table are derived from *data* 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, also, 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 stock market") records the aggregate experience of 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 (as to 30% of it). The FTSE 100 Index covers just the largest quoted companies (the "blue chips" or "large capitalisation" or "large cap" stocks), so we instead use the first of these three indices (as to 70%) in calculating our benchmark.

3. The benchmark is intended as a rough guide to how adroitly the portfolio has been invested over any period (particularly the allocation between bonds and equities) reflecting how a typical conservative private investor's securities 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, from our overall portfolio, than from equities (the toughest test long term), while taking materially less risk than the stock market (if possible) over a market cycle. Therefore a target minimum performance (given that equities outpaced bonds) would be to match that return which the proportion (and type) of equities which we have actually held would have produced - and that is approximately +75% so far, against which we have returned just over 90%.

4. The cumulative figures in the last line of the second table very accurately show the *total return* from 25.11.02 to 31.03.11; any apparent discrepancy, from a simple aggregation of annual and semi-annual returns (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 tables 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 was 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 then using them to commence subsequent periods and to utilising corresponding comparative statistics.