MFM HATHAWAY FUND

INVESTMENT ADVISER'S REPORT

For the six months ended 31 March 2012

Percentage change and sector position to 31 March 2012

	Six months	1 year	3 years	Since 2008**
MFM Hathaway Fund	+11.8%	+3.0%	+55.8%	+19.3%
Sector Average	+10.3%	-0.1%	+44.9%	+ 6.7%
Quartile Ranking*	2	1	1	1

*Based on ranking within IMA Mixed Investment Sector
**Changed IMA Sector on 04.01.2008 (fund 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 11.8%, being a 10.355p increase in *accumulation* units (which class records the fund's *total return*) against 13.7% for the general stock market (13.3% from blue chips) and 3.8% from gilts.

Since launch in 2002, those units have advanced from 50p to 98.045p – equivalent to annual compounding of approximately 7.0% (assuming the fund price is the same at the end of November as it is now (then making up ten years), which of course it may not be (see below)).

This being our eighteenth interim/annual report (there wasn't one at the end of our first six months), we record a gratifying fourteenth positive period return, the table below illustrating the longer term comparative *data*, including keeping pace with our benchmark, that being a demanding guideline which tells us roughly where we ought to be (see also the "Notes" at the end).

Equally, it is pleasing to record that unit holders generally – and particularly those who have been with us from the start of the fund – are comfortably ahead of inflation.

We now show our benchmark target 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)
2002/2011	+75.4%	+78.7%	+71.9 %	+ 83.3%	+ 66.0%
2011/2012	+11.8%	+10.6%	+13.3%	+ 13.7%	+ 3.8%
Cumulative	+96.0%	+97.6%	+94.8%	+108.4%	+ 72.3%

We have favoured bonds as to as much as 45% of the fund at times since 2002 and so, to have achieved more than 100% of the return from large cap stocks (FTSE 100) and 94% or so of that from general equities (FTSE All Share) over the last decade, while of course 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 nearly 114% of the returns on gilts, alongside that equity return, over the 112 months since we started, is both encouraging and additional solid evidence of the merits of our *value investing* philosophy, particularly when you consider the notes below.

Performance as against our peers

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

Equally, if we had been in our current sector for five years (*i.e.* calculating this on a *pro forma* basis) we also come out comfortably ahead of the average and just outside the first quartile of funds over 60 months. Therefore, whichever period is examined, we are up with leaders or, at least, above average (we were in fact in the top *decile* over one year and the second decile over three years).

To summarize: it is the quality of our company shares - well ahead of the stock market 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, so far, met the goal set out in Note 3 below and referred to above.

Investing activities

Our portfolio spans a range of enterprises, all purchased for less than our perception of their true value. Indeed, the common theme is not that, for example, elevator and escalator manufacturers (Kone), alcoholic beverages (Diageo), supermarkets (Tesco) or bank note printers (De La Rue) are operationally similar (or form a distinct type of shares which should be held) but that they are understandable, cash generative businesses with key strengths that we perceive not to have been reflected in the market price.

Although there may be some turbulence along the way (see below), all of our investees have competitive strengths and exposure to markets that offer long term growth opportunities – and the financial strength needed to see the journey through. We continue to look for candidates to add to our portfolio, but our standards are exacting; accordingly, our pattern of operations was largely characterised by inactivity in the half year.

Outlook

As we said in the autumn and a year ago, 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 (and surprisingly) 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 a gathering storm;

meanwhile, UK government bonds continue to represent the capital trap which we have previously described.

The Euro zone crisis again dominates – with a race to see who ends up like Argentina some years ago; we continue to sit more or less favourably on the periphery of all this, but students of history might see some uncomfortable parallels from the second quarter of the twentieth century and recall that a Greek financial crisis partly prompted The Marshall Plan.

Finally then, we would remind our investors, as always, 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. Meanwhile, equity prices still remain fairly full, but there are some opportunities emerging.

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
Graham Shaw
Robert Bogle

31.03.12

www.hathawayinvestment.com

Notes

1. Statistical sources: the benchmark and index 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 list might be constructed.

   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.

4. The cumulative figures in the last line of the second table very accurately show the *total return* from 25.11.02 to 31.03.12; 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, “2002/2011”) in the tables or the text, is to the fund year or years – 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 for corresponding comparative statistics.