MFM HATHAWAY FUND

INVESTMENT ADVISER'S REPORT

For the year ended 30th September 2008

We have pleasure in presenting the Investment Adviser's report on **the MFM Hathaway Fund – an *equity and bond* unit trust** – for the year ended 30th September 2008.

Amid continuing weakness in securities markets, **our overall portfolio *decline* over the period** under review **was 8.8%**, (comprising a capital fall of 10.9%, but with dividends paid out of 2.1%) reflected in a 7.45p decrease in an *accumulation* unit (which class records exactly the *total return* on the fund) and this was achieved **against** the background of a performance of ***minus* 18.3% in the stockmarket**.

Since we started in November 2002, those units have grown from 50p to 76.585p, an annualised compound rate of + 7.5%; this compares, favourably, with 7% for our benchmark.

The following table therefore records the annual progress making up that longer term record (see also the explanatory notes at the end):

Year	MFM Hathaway Fund	Benchmark (30% gilts, 70% equities)
2002/03	+ 13.1%	+ 6.7%
2003/04	+ 9.8%	+ 9.8%
2004/05	+16.4%	+19.7%
2005/06	+10.1%	+10.7%
2006/07	+ 5.5%	+ 8.4%
2007/2008	- 8.8%	- 10.5%
Cumulative	**+53.3%**	**+50.5%**

The table shows that the fund again sits ahead of our "benchmark" although, for reasons previously described in detail in these reports, statistics in the right column in fact slightly overstate our "target" performance, so we are further ahead of expectations than the figures *per se* reveal. Equally, the benchmark would have been considerably lower if we had used the blue-chip (FTSE 100) in its construction rather than the more general All Share (see below), the former measure being more representative of the equities we hold.

We use the benchmark shown though, as it is a good proxy for the average conservative private investor's portfolio and it is demanding (**a composite index tailored to our actual asset allocation** (see over) **would have seen a cumulative return of just 44% so far).**

The value of a declining stockmarket

We have now despatched eleven annual or semi-annual reports to our unit holders (there was no interim in March 2003) and this is only the second time that we have recorded a decline (and the first at the anniversary stage). We regard the last year as particularly noteworthy however – as we discussed in our interim report this year – since **a period when the stockmarket decline is 18.3% and we retreat 8.8%, is actually far superior an outcome than matching or beating the index when it is gaining fast;** a down market provides an objective test of just how conservative your manner of investing is.

However, we have said on several occasions before, that our annual (i.e. short term) objective is to achieve a return between that seen on the competing vehicles of stocks and bonds (hence our benchmark) but **our long term goal is** to use the freedom which bonds afford us – paradoxically – **to beat the stockmarket. That has been achieved so far, partly through the long-term superiority of the fund equities – as shown in the comparison with the indices below – and partly from appropriate asset allocation.**

The benefit of our philosophy – using bonds as both shield and sword, of beating the stockmarket by not specifically trying to – is becoming apparent; so far we have achieved just over **107% of the return from blue chips** (FTSE 100), **while taking an average of about 60% of the risk** (if you assume, of course, that gilts are risk free).

Year	MFM Hathaway proportion in equities	MFM Hathaway equities return	FTSE 100 Index	FTSE All Share Index
2002/03	71%	+16.3%	+ 4.8%	+ 8.2%
2003/04	67%	+12.1%	+11.4%	+12.1%
2004/05	61%	+21.2%	+24.4%	+24.7%
2005/06	57%	+15.9%	+11.7%	+13.7%
2006/07	59%	+ 9.4%	+12.1%	+12.1%
2007/08	55%	- 21.4%	- 17.6%	- 18.3%
Cumulative	---	**+57.4%**	**+49.8%**	**+57.5%**

Linking the two themes above together, our tasks are first to protect your capital (where caution comes in) and secondly to make it grow (security selection) and the results presented above bear witness to that. We will patiently exercise our judgement to find worthwhile investments further to deliver the *absolute* and *relative* returns you have seen to date and in fact we were quite active in the period as the notes below reflect.

As a final note on our philosophy, we consider that the only intelligent investing is *value investing* and we shall continue to acquire and hold securities on the basis of fundamental value and not fashion or popularity.

Investment activities and outlook

We were uncharacteristically active in the period (patience usually summarises our style), not least selling half a dozen or so securities which we have held for five or six years. We have also been buying quality company shares at very cheap prices (somewhat like 2002/3) and we have been forced to find new homes for significant capital after a number of takeovers, although many of our original investments, six years on, remain with us.

In particular we record that we added a holding of Brambles (which is the world's largest pallet company and was in our original prospectus) and we were pleased to take profits on Scottish & Newcastle breweries on the back of a takeover which realised shareholder value.

Overall, our judgement in the year, and since 2002, has been about right, although events have rather overtaken it in the case of Lloyds TSB and HSBC. We are under no illusions as to the challenges faced by the banking sector, but we are comfortable with the investments we have in it – which are for the long term. Finally, we have recently added to our equities, at prices which appear attractive, taking advantage of the weakness in markets. As when we started the fund, we recommend that you keep your expectations within sensible parameters and we shall work hard to try to exceed them - as we have done so far. It is however, gratifying to note, **as we write this report,** that **our fund is now well ahead of both the equity indices over the last year and since we started.**

We look forward to reporting the interim performance in the spring, while **more about our *value investing* philosophy and the current fund prices and performance are on our website;** in the meantime, we will continue to seek opportunities for the fund and, as a portfolio management matter, we are also looking at ways once again to increase the dividend payout to *income* unit holders.

Graham Englefield
Robert Bogle
Graham Shaw
10.10.08
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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 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, 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 30.09.08; any apparent discrepancy from a simple aggregation of annual and semi-annual statistics, is explained by rounding each year.

4. References to "year" in the tables, is to the fund year – October 1st to September 30th, except for 2002/03, which is for the period 25th November 2002 to 30th September 2003.