



MFM HATHAWAY FUND

Annual Report

For the year ended 30th September 2012



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59 Chorley New Road
BOLTON BL1 4QP

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Trustee:

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8 Canada Square
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Authorised and regulated by the Financial Services Authority

Investment Adviser:

Hathaway Investment Management Limited
Grosvenor House
14 Bennetts Hill
Birmingham
B2 5RS

Authorised and regulated by the Financial Services Authority

Auditors:

Barlow Andrews LLP
Carlyle House
78 Chorley New Road
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MFM HATHAWAY FUND

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MFM HATHAWAY FUND

AUTHORISED INVESTMENT ADVISER'S REPORT

For the year ended 30 September 2012

Percentage change and sector position to 30 September 2012

	<u>Six months</u>	<u>1 year</u>	<u>3 years</u>	<u>Since 4 January 2008**</u>
MFM Hathaway Fund	2.45%	14.53%	26.59%	22.24%
Quartile Ranking*	1	1	1	1

*Based on ranking within Mixed Investment 40-85% Shares Sector

** From 10.01.2008. Changed IMA Sector on 04.01.2008 (launched 04.11.02)

External Source of Economic Data: Morningstar (bid to bid, net income reinvested)

Recent performance

We have pleasure in presenting our annual report on our *equity and bond* unit trust, which posted an overall advance in the year of 14.53%, being a 12.74p increase in *accumulation* units (which class records the fund's *total return*) against 15.6% for the FTSE All Share, 14.8% from blue chips and 9.3% from gilts. Since launch in November 2002, those units have advanced from 50p to 100.43p – equivalent to annual compounding at 7.2%.

In this latest report (our nineteenth in the series), we record a gratifying fifteenth positive period return and the table below illustrates the long term comparative *data*, including pretty much keeping pace with the target over the decade (we beat it this year) – no mean feat given that our benchmark has no frictional costs (the expenses of running our fund). In *absolute return* terms, it was our second best year so far and the strongest showing since 2005.

The *Morningstar* table above 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.

The reason for the healthy performance, was the quality of our company shares - comfortably ahead of the stock market since launch (schoolboy algebra confirms that) – which enabled us also to hold bonds for safety and stability and so to deliver our unit holders superior, evergreen, returns. More on this is set out below, as we review our first decade.

Long term performance – a gratifying ten year record

Accordingly we set out below the complete records for our benchmark, the general stock market and the FTSE 100, together with the figures for our fund's equity portfolio; we have omitted the gilt market record this time, as we concentrate on our company shares. Suffice to say that we were well ahead of government bonds in the year (which returned +9.3%) and since launch (they posted +81.5% in that time).

Year	MFM Hathaway Fund	Target benchmark (30% gilts, 70% equities)	FTSE 100 (equities)	FTSE All Share (equities)	Fund equities
2002/2011	+75.4%	+78.7%	+71.9%	+83.3%	+86.8%
2011/2012	+14.5%	+13.6%	+14.8%	+15.6%	+15.9%
Cumulative	+100.8%	+103.0%	+97.3%	+112.0%	+116.5%

Over the decade, with as much as 45% of the fund allocated to bonds, and therefore taking materially less risk, we have achieved 103% of the return of the FTSE 100 and 90% of the broader FTSE All Share. This illustrates our success in meeting our overriding goal – to achieve a higher return than that which the level of risk we have taken warrants; put another way, we attained the “cake and eat it” situation we have previously described. Also, to have achieved 123% of the returns on gilts, alongside that equity return, is further evidence of the merits of our *value investing* philosophy.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Finally, inflation has been relentless: from a Retail Price Index of 178.2 in November 2002 to 244.2 at the end of September, it compounded at 3.2% *per annum*; our long term unit holders have therefore made money they can take to the bank, as they received a comparative 7.2% – an investment of £10,000 in our *accumulation* units in November 2002 is worth, in *real* terms, £14,800 today (in *nominal* terms it is at £20,080) obviously *after* all charges and expenses.

A review of ten years of *value investing*

Our goal has always been to achieve, over the long term, returns which would exceed the level of demonstrable risk we had run at any time. For the purpose of this objective we used to treat government bonds as offering a *risk free* return, while we have worked on the basis that there is, to us, more potential reward from buying *Acme* at £5 than at £10 (and what appears to be about half the risk); crazily, academic investors tell you that the fall from £10 to £5 makes a stock more hazardous. We say that surely the lower the risk you run, the greater the potential reward?

In pursuit of our objective, our pattern of operations has always been about a search for long term, permanent value, and not short term quotational advances and so we have attempted to make money from sensible deployments of capital (particularly when equities are at their peak or at their trough and other key developments); we have never tried to make money out of the stock market – indeed we have always viewed it, unconventionally, as there to serve us and not to instruct us.

Alongside some decisions (bonds v. equities) which have worked out satisfactorily, we have also seen certain of our stocks do particularly well – Kone in lifts and escalators, De La Rue in banknote printing, Diageo in fine beverages worldwide and Law Debenture (an investment fund) were outstanding.

Our only material mistake of the decade was Lloyds Bank, where the HBOS takeover (undertaken for whatever reason) - proved disastrous and melted down our investment. We should have paid more attention to the old adage that most troubles in business come when smart people borrow money - and banks are big time debtors.

Aside from that debacle however, we avoided the many traps of a turbulent decade and we turned in a respectable ten year score sheet after a time of great turmoil – the Iraq War, a couple of elections, terrorist attacks in London and Glasgow, a major financial crisis worldwide, the collapse of Lehman Brothers and the RBS debacle etc; to misquote John Lennon: sound investments paid off while the world was doing something else.

Summary of our first ten years

For the equity investor: our portfolio of shares materially outperformed the two main records for the stock market over the ten years – the FTSE100 and the FTSE All Share Indices - showing the strength of our *value investing* philosophy in action and the virtue of patience. We have amassed a great collection of sound equities for the long term while, once we have purchased a partnership interest for our unit holders, we have been happy just to let business take its course.

For the bond investor: our whole portfolio outperformed the FTSE All Stocks (Gilts) Index – but our fixed income and cash holdings alone did not, but that is because we eschewed the longer dated instruments dominating that statistic's return, in favour of short dated paper and plenty of liquidity. We have stated before, in simple terms, the capital trap that gilts represent – their strong outperformance of equities in 2009 and 2011, for example, only encouraged investors further to favour them; to purchase something just because it has gone up has always been the nemesis of the investor.

Finally, for those unit holders who might ask “why not just buy “index funds?”: to replicate the indices which make up our benchmark, we need only turn to the costs of holding those vehicles - they naturally carry charges, even if they are low by comparison to more conventional funds like our own – and they would have produced about +93% over the ten years.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Outlook

There will be no early let up to the challenging environment for equity and bond investors alike and some of the likely hurdles include rising interest rates (if QE works) and inflation at a far higher level - over the last fifty years it has averaged 6% *per annum*.

Taxation is also likely to be hostile, as governments become increasingly robust in their efforts to balance the books, while gilts are overdue a sharp correction. Indeed, Shakespeare warned, in *The Merchant of Venice* (a rather prescient tale of the dangers of financial cross purposes), that "all that glisters is not gold" and we have previously warned those holding them for safety's sake, rather than "risking" their capital in equities, that they are likely to be unpleasantly surprised by the outcome – they will get no safety and see equity investors likely do better.

To summarise that trap and a typical benchmark example (the ten year gilt): at our year end, the 4% Treasury 2022 (priced just below £122) guarantees an 18% capital loss to redemption and, with its nearly 3.3% running yield, a *total return* of 16% if you hold it until it repays. This implies a material fall in equities as, if the latter are to represent a poorer investment, assuming – not unreasonably - that the next decade is the same as the last when approximately 60% of equities' overall return came from dividends and their growth, then your capital return on equities has to be about *minus* 45%.

This would take the FTSE 100 down to around 3200 in ten years time and while that *is* possible, it looks very pessimistic; therefore, particularly in a time of rising inflation, our calculation does underline what we set out above about gilts and that equities are the place to be for the long term.

In closing, we would remind our investors, as always, to keep their expectations to a sensible level (continuing sovereign debt turmoil 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 fresh opportunities emerging.

We are delighted to announce that Graham Shaw, Chartered Financial Analyst has just been awarded his charter in recognition of his studies in investment research and management. The CFA Program is globally recognized as an intense and testing experience and membership of the CFA Institute demands adherence to the highest ethical standards. He is not locked in an ivory tower though – he has been responsible for several of our best equity finds of the decade (De La Rue, Kone, Travis Perkins etc).

We look forward to reporting the semi annual performance in the spring, while more about our *value investing* philosophy and the current fund prices and performance are on our website. Finally, we would repeat our grateful thanks to the fund's auditors – Barlow Andrews and the administration team at Marlborough who both do such a great job on the fund; their help over the last decade, has been invaluable in assisting us to reach our goals.

Graham Englefield
Graham Shaw, CFA
Robert Bogle

25.10.12

www.hathawayinvestment.com

MFM HATHAWAY FUND

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

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 30.09.12; 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.

Distributions

		Year 2012	Year 2011	Year 2010	Year 2009
Net income paid 31 May	(inc units)	0.6043ppu	0.4535ppu	0.6571ppu	0.6625ppu
	(acc units)	0.7399ppu	0.5483ppu	0.7834ppu	0.7726ppu
Net income paid 30 November	(inc units)	0.5019ppu	0.4946ppu	0.3578ppu	0.6251ppu
	(acc units)	0.6194ppu	0.6014ppu	0.4304ppu	0.7382ppu

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Portfolio Changes

For the year ended 30 September 2012

Purchases	Cost (£)	Sales	Proceeds (£)
Britvic	265,906	Brambles	488,669
Electrocomponents	200,845	American Express	415,749
Daejan Holdings	155,223	Bodycote	259,969
Interior Services Group	104,896	SEGRO 5.5% 20.06.18	194,739
Marston's	100,881	Castings	172,925
Henderson High Income	50,316		
Yule Catto & Co	20,013		
Bond amortisation	4,074		
Total purchases for the year	902,154	Total sales for the year	1,532,051

AUTHORISED STATUS AND GENERAL INFORMATION

Authorised Status:

The Scheme is an authorised unit trust scheme within the meaning of The Financial Services and Markets Act 2000 and is a UCITS scheme operating under the Collective Investment Schemes Sourcebook (COLL) as issued by the Financial Services Authority.

Nature and Objectives of the Scheme:

To achieve long-term growth of investors' capital and income. Though there will be a general emphasis on a fair immediate yield, the Scheme may occasionally buy securities which do not pay dividends. The Investment Advisers to the Manager will undertake their own security analysis (rather than relying on external research sources or commentary) and form their own views as to the merits of specific securities.

At times it may be appropriate for the Scheme not to be fully invested but to hold cash and near cash.

Restrictions

The pattern of operations will concentrate upon investment grade sterling bonds of companies, corporations, public bodies, institutions and sovereign issuers and the equities of corporations considered by the investment adviser to represent sound long-term value.

The Scheme may invest in derivatives and forward transactions for the purposes of hedging only.

Change in Prospectus:

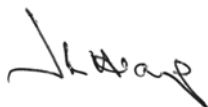
No changes have been made since the last report.

Up to date key investor information documents, the full prospectus and manager's reports and accounts for any fund within the manager's range, can be requested by the investor at any time.

MFM HATHAWAY FUND

DIRECTORS' STATEMENT

This report has been prepared in accordance with the requirements of the Collective Investment Schemes Sourcebook (COLL) as issued and amended by the Financial Services Authority.



J R HEAP
CHIEF EXECUTIVE



G R HITCHIN
INVESTMENT DIRECTOR

MARLBOROUGH FUND MANAGERS LTD
20 November 2012

STATEMENT OF AUTHORISED FUND MANAGER'S RESPONSIBILITIES

Marlborough Fund Managers Ltd is the Manager of the Fund.

The rules contained in the Collective Investment Schemes Sourcebook (the COLL) and made by the Financial Services Authority pursuant to the Financial Services and Markets Act 2000 require the Manager to prepare financial statements for each annual accounting period, reporting the financial position of the scheme as at the end of that period and of its income for the period. In preparing those financial statements the Manager is required to:

- Comply with the Statement of Recommended Practice relating to Authorised Funds issued by the IMA, the trust deed, and the rules in the COLL.
- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the fund will continue in operation.

MFM HATHAWAY FUND

TRUSTEE'S REPORT

Statement of trustee's responsibilities

The Trustee is responsible for the safekeeping of all the property of the scheme (other than tangible moveable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the Trustee to take reasonable care to ensure that the scheme is managed in accordance with the Financial Services Authority's Collective Investment Schemes Sourcebook ("The Sourcebook"), the scheme's Trust Deed and Prospectus, in relation to the pricing of, and dealings in, units in the scheme; the application of income of the scheme; and the investment and borrowing powers of the scheme.

Report of HSBC Bank plc ("the Trustee") to the unitholders of the MFM Hathaway Fund

Having carried out such procedures as we consider necessary to discharge our responsibilities as Trustee of the scheme it is our opinion, based on the information available to us and the explanations provided, that in all material respects, the Manager:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the scheme's units and the application of the scheme's income in accordance with the Sourcebook, the Trust Deed and Prospectus, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the scheme.

HSBC BANK PLC

LONDON

20 November 2012

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF THE MFM HATHAWAY FUND

We have audited the financial statements of the MFM Hathaway Fund for the year ended 30 September 2012 which comprise the statement of total return, the statement of change in net assets attributable to unitholders, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the fund's unitholders, as a body, pursuant to paragraph 4.5.12 of the rules of the Collective Investment Schemes Sourcebook. Our audit work has been undertaken so that we might state to the fund's unitholders those matters we are required to state to them in an auditor's report and for no other purposes. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the fund and the fund's unitholders as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of the authorised fund manager and the auditor

As explained more fully in the Statement of Authorised Fund Manager's responsibilities set out on page 8, the authorised fund manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authorised Fund Manager; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the fund's affairs as at 30 September 2012 and of its net income and net gains or losses of the fund property for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Opinion on other matters prescribed by the Collective Investment Schemes Sourcebook

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by IMA, the rules contained in the Collective Investment Schemes Sourcebook and the trust deed;
- there is nothing to indicate that proper accounting records for the fund have not been kept or that the financial statements are not in agreement with those records;
- we have been given all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit; and
- the information given in the authorised fund manager's report is consistent with the financial statements.

20 November 2012

BARLOW ANDREWS LLP
CHARTERED ACCOUNTANTS & STATUTORY AUDITORS
78 CHORLEY NEW ROAD
BOLTON
BL1 4BY

MFM HATHAWAY FUND

COMPARATIVE TABLES

Price and distribution record

INCOME UNITS - Units first offered at 50p on 4 November 2002.

	Highest issue price	Lowest redemption price	Net income per unit	Net income per £1,000 invested 4 Jan 2007
2007	79.18p	70.60p	1.6575p	£21.72
2008	75.67p	54.43p	1.7192p	£22.53
2009	69.53p	49.47p	1.2876p	£16.87
2010	81.71p	66.02p	1.0149p	£13.30
2011	83.25p	70.30p	0.9481p	£12.42
2012*	83.47p	72.88p	1.1062p	£14.50

(*up to 30 September 2012)

ACCUMULATION UNITS - Units first offered at 50p on 4 November 2002.

	Highest issue price	Lowest redemption price	Net income per unit	Net income per £1,000 invested 4 Jan 2007
2007	89.05p	79.41p	1.8525p	£21.84
2008	86.01p	63.47p	1.9663p	£23.18
2009	82.89p	57.69p	1.5108p	£17.81
2010	98.78p	78.89p	1.2138p	£14.31
2011	101.23p	85.48p	1.1497p	£13.56
2012*	103.00p	89.24p	1.3593p	£16.03

(*up to 30 September 2012)

Number of units in issue/Net asset value per unit

	Net asset value of scheme property	Income units in issue	Accumulation units in issue	Net asset value per unit	
				Income	Accum.
at 30 Sept 2010	£7,443,199	5,982,120	3,726,201	71.13p	85.56p
at 30 Sept 2011	£7,115,541	5,395,979	3,906,399	70.13p	85.28p
at 30 Sept 2012	£8,043,556	5,017,144	4,181,275	78.78p	97.84p

ONGOING CHARGES

Ongoing charges

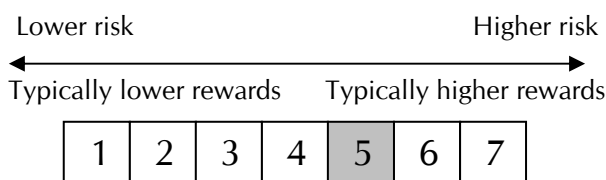
30 September 2012

1.57%

The ongoing charge figure is based on expenses for the year ending 30 September 2012. This figure may vary from year to year. It excludes:

- Performance fees
- Portfolio transaction costs, except in the case of an entry/exit charge paid by the fund when buying or selling units in another collective investment scheme.

SYNTHETIC RISK AND REWARD INDICATOR



The risk and reward indicator above aims to provide you with an indication of the overall risk and reward profile of the fund. It is calculated based on the volatility of the fund using weekly historic returns over the last five years. If five years data is not available for a fund, the returns of a representative portfolio are used.

This Fund has been measured as 5 because it has experienced significant volatility historically.

MFM HATHAWAY FUND

PORTFOLIO STATEMENT

as at 30 September 2012

Holding or nominal value as at 30 Sept 2012	Bid value £	Percentage of total net assets %
LOAN STOCKS (13.34%, 30 Sep 11 -17.46%)		
1,018,000 Treasury 2% 22/01/16	1,072,743	13.34
Total Loan Stocks	<u>1,072,743</u>	<u>13.34</u>
BANKS (2.21%, 30 Sep 11 - 2.19%)		
19,125 HSBC Holdings	110,256	1.37
174,464 Lloyds Banking Group	67,797	0.84
Total Banks	<u>178,053</u>	<u>2.21</u>
BEVERAGES (10.58%, 30 Sep 11 - 5.27%)		
86,750 Britvic	316,377	3.93
30,515 Diageo	534,775	6.65
Total Beverages	<u>851,152</u>	<u>10.58</u>
CHEMICALS (2.78%, 30 Sep 11 - 2.79%)		
134,350 Yule Catto & Co	223,424	2.78
Total Chemicals	<u>223,424</u>	<u>2.78</u>
EQUITY INVESTMENT INSTRUMENTS (15.09%, 30 Sep 11 - 14.89%)		
21,600 Caledonia Investments	319,464	3.97
63,250 Henderson High Income Trust	86,652	1.08
77,300 Law Debenture Corp	311,519	3.87
70,800 Scottish Mortgage Investment Trust	496,662	6.17
Total Equity Investment Instruments	<u>1,214,297</u>	<u>15.09</u>
FOOD & DRUG RETAILERS (4.61%, 30 Sep 11 - 5.94%)		
111,855 Tesco	370,408	4.61
Total Food & Drug Retailers	<u>370,408</u>	<u>4.61</u>
INDUSTRIAL ENGINEERING (1.56%, 30 Sep 11 - 6.77%)		
91,000 Severfield-Rowen	125,807	1.56
Total Industrial Engineering	<u>125,807</u>	<u>1.56</u>
NONEQUITY INVESTMENT INSTRUMENTS (1.06%, 30 Sep 11 - 1.17%)		
200,000 M & G High Income Investment Trust (Inc)	85,000	1.06
Total Nonequity Investment Instruments	<u>85,000</u>	<u>1.06</u>
OIL & GAS PRODUCERS (3.27%, 30 Sep 11 - 3.31%)		
59,835 BP	263,035	3.27
Total Oil & Gas Producers	<u>263,035</u>	<u>3.27</u>
REAL ESTATE INVESTMENT & SERVICES (1.98%, 30 Sep 11 - Nil)		
5,475 Daejan Holdings	159,706	1.98
Total Real Estate Investment & Services	<u>159,706</u>	<u>1.98</u>
REAL ESTATE INVESTMENT TRUSTS (2.90%, 30 Sep 11 - 2.76%)		
30,357 Land Securities Group	232,990	2.90
Total Real Estate Investment Trusts	<u>232,990</u>	<u>2.90</u>

MFM HATHAWAY FUND

PORTFOLIO STATEMENT

as at 30 September 2012

Holding or nominal value as at 30 Sept 2012	Bid value £	Percentage of total net assets %
SUPPORT SERVICES (11.11%, 30 Sep 11 - 7.14%)		
26,000 De La Rue	263,640	3.28
100,000 Electrocomponents	199,500	2.48
150,000 Interior Services Group	195,000	2.42
22,515 Travis Perkins	235,507	2.93
Total Support Services	<u>893,647</u>	<u>11.11</u>
TRAVEL & LEISURE (2.86%, 30 Sept 11 - 1.29%)		
201,500 Marston's	230,113	2.86
Total Travel & Leisure	<u>230,113</u>	<u>2.86</u>
UNIT TRUSTS/OEIC (3.15%, 30 Sept 11 - 3.20%)		
264,105 Invesco Perpetual Income (No Trail) Inc	253,171	3.15
Total Unit Trusts/OEIC	<u>253,171</u>	<u>3.15</u>
OVERSEAS EQUITIES (13.61%, 30 Sep 11 - 23.98%)		
7,000 Berkshire Hathaway 'B'	381,681	4.74
8,100 Kone 'B'	349,743	4.35
8,490 Procter & Gamble	363,396	4.52
Total Overseas Equities	<u>1,094,820</u>	<u>13.61</u>
UNQUOTED SECURITIES (Nil, 30 Sept 11 - Nil)		
65,000 Anglo & Overseas Trust	0	0.00
Total Unquoted Securities	<u>0</u>	<u>0.00</u>
Portfolio of investments	7,248,366	90.11
Net current assets on capital account	<u>795,190</u>	<u>9.89</u>
Net assets	<u>8,043,556</u>	<u>100.00</u>

MFM HATHAWAY FUND

FINANCIAL STATEMENTS

For the year ended 30 September 2012

Statement of total return

	Notes	30 September 2012		30 September 2011	
		£	£	£	£
Income:					
Net capital gains/(losses)	4		893,487		(101,350)
Revenue	6	235,320		223,058	
Expenses	7	(120,674)		(123,380)	
Finance costs: Interest	9	(36)		(73)	
Net revenue/(expense) before taxation		<u>114,610</u>		<u>99,605</u>	
Taxation	8	<u>(2,317)</u>		<u>(2,252)</u>	
Net revenue/(expense) after taxation			<u>112,293</u>		<u>97,353</u>
Total return before distributions			1,005,780		(3,997)
Finance costs: Distributions	9		(112,293)		(97,353)
Change in net assets attributable to unitholders from investment activities			<u><u>893,487</u></u>		<u><u>(101,350)</u></u>

Statement of change in net assets attributable to unitholders

	30 September 2012		30 September 2011	
	£	£	£	£
Opening net assets attributable to unitholders		7,115,541		7,443,199
Amounts receivable on issue of units	530,847		221,302	
Amounts payable on cancellation of units	<u>(550,823)</u>		<u>(490,716)</u>	
Stamp duty reserve tax		(19,976)		(269,414)
		(762)		(1,249)
Change in net assets attributable to unitholders from investment activities		893,487		(101,350)
Retained distribution on accumulation units		55,266		44,355
Closing net assets attributable to unitholders		<u><u>8,043,556</u></u>		<u><u>7,115,541</u></u>

MFM HATHAWAY FUND

FINANCIAL STATEMENTS
as at 30 September 2012

Balance sheet

	Notes	30 September 2012		30 September 2011
		£		£
Assets:				
Investment assets		7,248,366		6,984,298
Debtors	10	60,265		26,807
Cash and bank balances	11	<u>762,816</u>		<u>142,149</u>
Total other assets		823,081		168,956
Total assets		<u>8,071,447</u>		<u>7,153,254</u>
Liabilities:				
Investment liabilities		0		0
Creditors	12	(2,707)		(11,018)
Distribution payable on income units		<u>(25,184)</u>		<u>(26,695)</u>
Total other liabilities		(27,891)		(37,713)
Total liabilities		<u>(27,891)</u>		<u>(37,713)</u>
Net assets attributable to unitholders		<u>8,043,556</u>		<u>7,115,541</u>

MFM HATHAWAY FUND

FINANCIAL STATEMENTS

Notes to the financial statements

1 ACCOUNTING POLICIES

- a Basis of preparation
The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised funds issued by the Investment Management Association in October 2010.
- b Valuation of investments
The investments of the Fund have been valued using bid market values ruling on international stock exchanges at 12 noon on 28 September 2012, being the last valuation point of the year. Market value is defined by the SORP as fair value which is generally the bid value of each security. Where applicable investments are valued to exclude accrued income. Where a stock is unlisted or where there is a non liquid market, a valuation for this stock has been obtained from market makers where possible, and suspended stocks are normally valued at their suspension price. However, where the Manager believes that these prices do not reflect a fair value, or where no reliable price exists for a security, it is valued at a price which in the opinion of the Manager reflects a fair and reasonable price for that investment. Anglo Overseas Trust will be removed from the valuation when we receive confirmation that the stock has been wound up and no other liquidation payments are due to be paid.
- c Foreign exchange
All transactions in foreign currencies are converted into sterling at the rates of exchange ruling at the date of such transactions. Foreign currency assets and liabilities at the end of the accounting period are translated at the exchange rates at 12.00 noon on 28 September 2012.
- d Revenue
Revenue includes dividends on shares when the security is quoted ex - dividend by 28 September 2012 and interest received and accrued up to 30 September 2012. Interest accruals on bond stocks take into account the gain or loss which is expected on each holding from the starting point (normally the date and cost of purchase) to the expected date of maturity. All UK dividends are disclosed net of UK tax.
- e Expenses
Expenses (other than those relating to the purchase and sale of investments) are charged against income as shown in these accounts.
- f Taxation/Deferred taxation
The tax accounting treatment follows that of the principal amount. Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounts purposes. The deferred tax balance is not discounted.

2 DISTRIBUTION POLICIES

- a Basis of distribution
The policy of the Fund is to distribute any net revenue shown as such in the statement of total return. This amount therefore takes into account the treatment of accumulation units and of management expenses as described in the accounting policies above.
- b Accumulation units
Revenue attributable to accumulation unitholders is retained at the end of each distribution period and represents a reinvestment of revenue.
- c Interest from debt securities
Revenue on bonds is recognised on an effective yield basis. Effective yield takes account of all expected cash flows from a bond over its lifetime.
- d Equalisation
Equalisation applies only to units purchased during the distribution period. It is the average amount of income included in the purchase price of all group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to UK income tax but must be deducted from the cost of the units for UK capital gains tax purposes.

FINANCIAL STATEMENTS

Notes to the financial statements

3 RISK MANAGEMENT POLICIES

In pursuing its investment objective as stated on page 7, the Fund holds a number of financial instruments. The Fund's financial instruments, other than derivatives, comprise securities and other instruments, cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for redemptions and debtors for accrued income.

The main risks arising from the Fund's financial instruments and the Manager's policies for managing these risks are summarised below. These policies have been applied throughout the year.

Market price risk

Market price risk is the risk that the value of the Fund's investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises mainly from uncertainty about future prices of financial instruments the Fund holds. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to market price fluctuations which are monitored by the Manager in pursuance of the investment objective and policy as set out in the Full Prospectus.

Investment limits set out in the Trust Deed, the Full Prospectus and in the rules contained in the Collective Investment Schemes Sourcebook mitigate the risk of excessive exposure to any particular security or issuer.

Foreign currency risk

The income and capital value of the Fund's investments can be affected by foreign currency translation movements as some of the Fund's assets and income are denominated in currencies other than sterling which is the Trust's functional currency.

The manager has identified three principal areas where foreign currency risk could impact the Fund. These are, movements in exchange rates affecting the value of investments, short-term timing differences such as exposure to exchange rate movements during the period between when an investment purchase or sale is entered into and the date when settlement of the investment occurs, and finally movements in exchange rates affecting income received by the Fund. The Fund converts all receipts of income received on currency, into sterling on the day of receipt.

Interest rate risk

Interest rate risk is the risk that the value of the Fund's investment holdings will fluctuate as a result of changes in interest rates. The Fund invests in fixed and floating rate securities. The income of the Fund may be affected by changes to interest rates relevant to particular securities or as a result of the Manager being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movements in the future. Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates.

The Fund's cash holdings are held in deposit accounts, whose rates are determined by the banks concerned on a daily basis.

Liquidity risk

The Fund's assets comprise mainly of readily realisable securities. The main liability of the Fund is the redemption of any units that investors wish to sell. Assets of the Fund may need to be sold if insufficient cash is available to finance such redemptions. The liquidity of the Fund's assets is regularly reviewed by the manager.

Credit Risk

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its responsibilities. The Fund only buys and sells investments through brokers which have been approved by the Manager as an acceptable counterparty.

MFM HATHAWAY FUND

FINANCIAL STATEMENTS

Notes to the financial statements

4 NET CAPITAL GAINS/(LOSSES)

The net gains/(losses) on investments during the year comprise:

	30 September 2012 £	30 September 2011 £
Non-derivative securities	893,965	(101,023)
Transaction charges	(478)	(327)
Net capital gains/(losses)	<u>893,487</u>	<u>(101,350)</u>

5 PURCHASES, SALES AND TRANSACTION COSTS

	30 September 2012 £	30 September 2011 £
Purchases excluding transaction costs	895,015	1,548,083
Commissions	2,673	4,160
Taxes	4,455	2,788
PTM Levy	11	6
Total purchase transaction costs	<u>7,139</u>	<u>6,954</u>
Purchases including transaction costs	<u>902,154</u>	<u>1,555,037</u>

Sales excluding transaction costs	1,537,701	1,664,835
Commissions	(5,556)	(2,156)
Overseas delivery charges	(90)	0
PTM Levy	(4)	(4)
Total sale transaction costs	<u>(5,650)</u>	<u>(2,160)</u>
Sales net of transaction costs	<u>1,532,051</u>	<u>1,662,675</u>

Transaction handling charges	<u>478</u>	<u>327</u>
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6 REVENUE

	30 September 2012 £	30 September 2011 £
UK dividends	163,978	129,356
UK dividends (unfranked)	27,039	12,996
Overseas dividends	33,439	47,025
Interest on debt securities	6,863	32,622
Bank interest	4,001	1,059
Total revenue	<u>235,320</u>	<u>223,058</u>

7 EXPENSES

	30 September 2012 £	30 September 2011 £
Payable to the Manager or associate:		
Manager's periodic charge	114,145	116,826
Registration fees	695	695
	<u>114,840</u>	<u>117,521</u>
Payable to the Trustee or associate:		
Trustee's fees	2,740	2,789
Safe Custody fees	789	910
	<u>3,529</u>	<u>3,699</u>
Other expenses:		
Financial Services Authority fee	175	150
Audit fee	2,130	2,010
	<u>2,305</u>	<u>2,160</u>
Total expenses	<u>120,674</u>	<u>123,380</u>

MFM HATHAWAY FUND

FINANCIAL STATEMENTS

Notes to the financial statements

8 TAXATION

	30 September 2012 £	30 September 2011 £
a Analysis of the tax charge for the year		
UK Corporation tax at 20%	0	0
Overseas tax	2,317	2,252
Total tax charge	<u>2,317</u>	<u>2,252</u>
b Factors affecting the tax charge for the year		
Net revenue before taxation	114,610	99,605
Corporation tax at 20%	22,922	19,921
Effects of:		
Revenue not subject to taxation	(39,483)	(35,276)
Unrelieved excess management expenses	16,561	15,355
Overseas tax	2,317	2,252
Current tax charge	<u>2,317</u>	<u>2,252</u>

At 30 September 2012 the Fund had surplus management expenses of £224,034 (30.09.11 - £141,227). It is unlikely that the fund will generate sufficient taxable profits in the future to utilise these expenses and, therefore, no deferred tax asset has been recognised.

9 FINANCE COSTS

	30 September 2012 £	30 September 2011 £
Distributions and interest		
The distributions take account of revenue received on the creation of units and revenue deducted on the cancellation of units, and comprise:		
Interim	61,236	45,926
Final	51,084	50,187
Add: Revenue deducted on cancellation of units	2,158	2,049
Deduct: Revenue received on creation of units	(2,180)	(801)
Deduct: Revenue brought forward	(5)	(8)
Finance costs: Distributions	<u>112,293</u>	<u>97,353</u>
Finance costs: Interest	36	73
Total finance costs	<u>112,329</u>	<u>97,426</u>

Details of the distribution per unit are set out in the distribution table in note 16.

10 DEBTORS

	30 September 2012 £	30 September 2011 £
Amounts receivable for creation of units	42,592	0
Accrued income	17,673	26,807
Total debtors	<u>60,265</u>	<u>26,807</u>

11 CASH AND BANK BALANCES

	30 September 2012 £	30 September 2011 £
Capital bank account	728,003	116,254
Revenue bank account	34,813	25,895
Total cash and bank balances	<u>762,816</u>	<u>142,149</u>

MFM HATHAWAY FUND

FINANCIAL STATEMENTS

Notes to the financial statements

12 CREDITORS

	30 September 2012	30 September 2011
	£	£
Amounts payable for cancellation of units	0	8,233
Accrued expenses	2,707	2,785
Total creditors	<u>2,707</u>	<u>11,018</u>

13 RELATED PARTIES

The Manager is involved in all transactions in the units of the Fund, the aggregate values of which are set out in the Statement of Change in Unitholders' Net Assets on page 14.

During the year the Manager held units in the Fund and had a holding of 100.106 units at the year end.

During the year, the scheme paid management and registration charges to its manager as follows:

		Outstanding at year end	
		30 September 2012	30 September 2011
	£	£	£
Marlborough Fund Managers Ltd	114,840	175	175

During the year, the scheme paid trustee and safe custody fees and transaction charges to its trustee as follows:

		Outstanding at year end	
		30 September 2012	30 September 2011
	£	£	£
HSBC Bank	4,007	529	524

14 RISK DISCLOSURES

Interest rate risk

The interest rate risk profile of financial assets and liabilities consists of the following:

Financial assets with fixed interest rates:		30 September 2012	30 September 2011
		£	£
Sterling		<u>1,072,743</u>	<u>1,242,163</u>
Weighted fixed interest rates:		30 September 2012	30 September 2011
		%	%
Sterling		<u>2.00</u>	<u>2.45</u>
Weighted average period for financial assets with fixed interest rates:		30 September 2012	30 September 2011
		years	years
Sterling		<u>3.31</u>	<u>4.69</u>

MFM HATHAWAY FUND

FINANCIAL STATEMENTS

Notes to the financial statements

RISK DISCLOSURES (continued)

Currency risk

At the year end date a portion of the net assets of the Fund were denominated in currencies other than sterling with the effect that the balance sheet and total return can be affected by exchange rate movements.

Foreign currency exposure at 30 September 2012:

	Investments £	Net current assets £	Total £
Australian dollars	0	0	0
Euro	349,743	0	349,743
US dollars	745,077	0	745,077
	<u>1,094,820</u>	<u>0</u>	<u>1,094,820</u>

Foreign currency exposure at 30 September 2011:

	Investments £	Net current assets £	Total £
Australian dollars	425,426	8,574	434,000
Euro	251,981	0	251,981
US dollars	1,029,502	0	1,029,502
	<u>1,706,909</u>	<u>8,574</u>	<u>1,715,483</u>

15 POST BALANCE SHEET EVENTS

There are no post balance sheet events to report.

MFM HATHAWAY FUND

FINANCIAL STATEMENTS

Notes to the financial statements

16 DISTRIBUTION TABLE

For the period from 1 April 2012 to 30 September 2012

INCOME UNITS

Group 1: units purchased prior to 1 April 2012

Group 2: units purchased on or after 1 April 2012

	Net revenue to 30 Sep 2012	Equalisation to 30 Sep 2012	Distribution payable 30 Nov 2012	Distribution paid 30 Nov 2011
Group 1	0.5019p	0.0000p	0.5019p	0.4946p
Group 2	0.1989p	0.3030p	0.5019p	0.4946p

ACCUMULATION UNITS

Group 1: units purchased prior to 1 April 2012

Group 2: units purchased on or after 1 April 2012

	Net revenue to 30 Sep 2012	Equalisation to 30 Sep 2012	Distribution payable 30 Nov 2012	Distribution paid 30 Nov 2011
Group 1	0.6194p	0.0000p	0.6194p	0.6014p
Group 2	0.2455p	0.3739p	0.6194p	0.6014p

For Corporate Unitholders the percentage split between Franked and Unfranked income relating to this distribution was:

Franked	83.59%
Unfranked	16.41%

£0.00 is the trustee's net liability to corporation tax in respect of the gross income.

0.0000p is the trustee's net liability to corporation tax per unit.

DISTRIBUTION SUMMARY (INCOME UNITS) - YEAR ENDED 30 SEPTEMBER 2012

Income paid 31 May 2012	0.6043
Income payable 30 November 2012	0.5019
	<u>1.1062</u>

DISTRIBUTION SUMMARY (ACCUMULATION UNITS) - YEAR ENDED 30 SEPTEMBER 2012

Income paid 31 May 2012	0.7399
Income payable 30 November 2012	0.6194
	<u>1.3593</u>

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