



# MFM HATHAWAY FUND

Annual Report

For the year ended 30<sup>th</sup> September 2013



**Managers and Registrar:**

Marlborough Fund Managers Ltd  
Marlborough House  
59 Chorley New Road  
BOLTON BL1 4QP

Authorised and regulated by the Financial Conduct Authority

Customer Support: (0808) 145 2500 (FREEPHONE)  
Intermediary Support (0808) 145 2502 (FREEPHONE)  
Dealing: (0808) 145 2501 (FREEPHONE)  
Fax: (01204) 533045  
Email: [enquiries@marlboroughfunds.com](mailto:enquiries@marlboroughfunds.com)

**Trustee:**

HSBC Bank plc  
8 Canada Square  
London  
E14 5HQ

Authorised and regulated by the Financial Conduct Authority

**Investment Adviser:**

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

Authorised and regulated by the Financial Conduct Authority

**Auditors:**

Barlow Andrews LLP  
Carlyle House  
78 Chorley New Road  
Bolton BL1 4BY

## MFM HATHAWAY FUND

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## MFM HATHAWAY FUND

### AUTHORISED INVESTMENT ADVISER'S REPORT

For the year ended 30 September 2013

#### Percentage change and sector position to 30 September 2013

	Six months	1 year	3 years	5 years
MFM Hathaway Fund	9.0%	24.3%	41.6%	62.9%
Sector Average	1.8%	13.5%	22.9%	48.8%
Rank*	2/142	2/140	2/128	11/102
Quartile Ranking*	1	1	1	1

\*Based on ranking within IMA Mixed Investment 40% - 85% Shares Sector; the figure after the rank shows the number of funds in the class (e.g. 2<sup>nd</sup> out of 142 funds).

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 of 24.3% in the twelve months, being (coincidentally, almost the same number) a 24.435p increase in *accumulation* units (which class records the fund's *total return*), as against 20.0% for the general stock market, 17.8% from blue chips and *minus* 3.8% from gilts. Since launch in November 2002, those units have advanced from 50p to 124.865p – equivalent to annual compounding of almost 9.0% (up from an accumulated annual run rate of 7.2% posted a year ago).

In this latest report, our twenty first in eleven years (there was no interim in 2003), we record an encouraging seventeenth positive period return and the table below illustrates the relevant long term *data*, including comfortably beating our benchmark, over both the year and since we launched – doubly satisfying as the latter bears no frictional costs (the expenses of running our fund). In both *absolute* and *relative* return terms, it was our best year since we started in 2002 and of course followed on from the gratifying performance in 2011/12.

Reflecting the pleasing performance as against our competitors, the *Morningstar* table above places us way above average over six months and one, three and five years; we remain near the top of the league tables.

The main reason for the healthy gains in 2013 was, as last year, the quality of our company shares (which performed better than ever) – their *total return* in the year was approximately 29%; that part of the fund has now advanced, in those overall terms, by almost 180% since we launched (an annual compound rate of 10%), as against 154% for the general stock market and 132% for *blue chips* (recorded by the FTSE 100, which is probably the most appropriate index with which to compare our equity portfolio).

Regarding the last index, it is satisfying to see us ahead of it with the fund as a whole now, even though, during the last decade or so, we have at times carried up to 45% of the whole portfolio in gilts to keep risk under control (and of course the indices, as we say above, bear no costs).

Regarding gilts, the commentators who were saying until just a few months ago, that the “cult of the equity is dead” and that bonds remained the securities of choice, have no doubt (hence their silence) begun reflecting on the fact that shares are back ahead of fixed income; the *total return* on government bonds, has been 74.6% since we started eleven years ago and of course they had a *real* return (*i.e.* taking into account inflation) of about *minus* 6% in the year.

It's not all over yet though for bonds and we have previously described, in these pages, the role of fixed income in the fund: the shield to equities' sword; expect to see them continuing to be cast in at least a cameo role.

## MFM HATHAWAY FUND

### AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

#### Long term performance – the eleven year record

We set out below the complete and up to date records for our benchmark, the FTSE 100 and the general stock market, together with the figures for our fund's equity portfolio. Naturally, the strong showing this year, burnishes still further the long term record:

Year	MFM Hathaway Fund	Target benchmark	FTSE 100	FTSE All Share	Fund equities
2002/2012	+ 100.8%	+ 103.0%	+ 97.3%	+ 112.0%	+ 116.5%
2012/2013	+ 24.3%	+ 12.8%	+ 17.8%	+ 20.0%	+ 29.0%
Cumulative	+ 149.7%	+ 128.9%	+ 132.4%	+ 154.4%	+ 179.3%

#### Developments in the year

In recent fund reports we have issued notes of caution about the general price level and, indeed, as the stock market has continued to shine, we are now not terribly enthusiastic about our company share portfolio though we may add to it here and there; equities may not be as high as they look, but they are high nonetheless.

Indeed, we quietly reduced our exposure in the year to some of our companies which we see as fully valued (Diageo for example, in which we also saw, disconcertingly, management heavily disposing of shares) and moved into areas where we saw opportunity to acquire lower risks for the fund (but with prospective returns superior to fixed income); we continue though, to receive good business reports from our investees - they represent gifts which keep giving - and they have served our unit holders well both over the short term and the long haul.

Accordingly, we are only sellers (of individual equities) where we see better opportunities elsewhere for the capital or where we see a particular holding as no longer representing value.

Meanwhile, several of the more recent additions to the fund, such as Britvic (soft drinks and mixers) and Interior Services Group (shop fitting), rewarded us particularly well in the year, while Severfield Rowen (which we covered in the interim report in March) has surprised us with the speed of its recovery in price – rarely (and it *is* early days) - patience has not really been required. Other more veteran holdings like Marston's (in brewing and pubs) and Travis Perkins (building materials) continue to do well.

Patience though was, paradoxically, the main ingredient in the fund's performance in the year – demonstrating graphically that you make your money in the waiting not in the buying and selling; too many investors, as the bull market in equities climbs a wall of worry, follow Bruce Lee's sage advice to the martial artist: "don't think, feel!" and they erroneously believe that you should apply it to investment decisions.

That general investor behaviour was well highlighted in a recent "Financial Times" article, which quoted research indicating that the average holding period for equities on Wall Street has come down from seven years in the 1960s to twenty four months today; suffice to say, that we will continue to play it long, and treat the stock market as there to serve us and not to instruct us.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Outlook

Although the investing scene *looks* calmer now, there will still be challenges; hurdles include rising interest rates (if *quantitative easing* works) and inflation at a far higher level - over the last fifty years it has averaged 6% *per annum* - so we can probably expect bad news a little way down the line and we have acted, as best as we can, to guard against rising prices. Equally, as we prepare this report, the Federal Government in the USA has just reopened after a shutdown, reminding investors that challenges may arrive from stage left – flat tyres never come by appointment.

We were surprisingly prescient in our 2012 annual report when we quoted the reminder (actually in relation to gilts and their high valuation) that “all that glitters is not gold” – it was the turn of that precious metal to disappoint in our first half - but now, as we describe above, government bonds are losing their appeal and it is likely that their fortunes will be mixed for some time to come.

Equities therefore remain the place to be, but quality and risk/price remain paramount considerations; we are just turning down our general exposure to them and adopting a more cautious stance. We will however continue to add them where we are confident that we have found an exceptional business (cash generative, soundly financed and with barriers to competition); then we will buy and let business take its course.

In closing, we would remind our investors, as always, to keep their expectations to a sensible level and to remember that securities markets are two way streets; all long haul flights experience turbulence and the world will always remain a perfect shambles.

We look forward though to reporting the semi - annual performance in the spring, while more about our *value investing* philosophy and the very latest fund prices and performance are on our website. We close by thanking Marlborough who do the administration on the fund (and far more besides) and the auditors – Barlow Andrews – both of whom do a great job; as ever, they set a peerless standard for us to try to live up to.

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 (and all charges and costs are taken into account).
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. 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 indices (as to 70%) – the remainder the performance of gilts - in calculating our *comparator* benchmark (it’s not a target as such).
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 commitments might be constructed.
4. The cumulative figures in the second table very accurately show the *total return* from 25.11.02 to 30.09.13; any discrepancy, is due to rounding in preparing discrete statistics and is not material.
5. Any references to “year” (or, for example, “2002/2012”) in the tables or the text, is to the fund year or years – October 1<sup>st</sup> to September 30<sup>th</sup> - except for 2002/03 (now contained only in aggregate numbers here), which was for the period starting on 25<sup>th</sup> November 2002 (when we launched the fund). The actual valuation dates for the unit trust (and 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 numbers to commence subsequent periods etc.

## MFM HATHAWAY FUND

### AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

#### Distributions

		Year 2013	Year 2012	Year 2011	Year 2010
Net income paid 31 May	(inc units)	0.8353ppu	0.6043ppu	0.4535ppu	0.6571ppu
	(acc units)	1.0372ppu	0.7399ppu	0.5483ppu	0.7834ppu
Net income paid 30 November	(inc units)	0.5741ppu	0.5019ppu	0.4946ppu	0.3578ppu
	(acc units)	0.7195ppu	0.6194ppu	0.6014ppu	0.4304ppu

Graham Englefield  
Graham Shaw, CFA  
Robert Bogle

30 October 2013

[www.hathawayinvestment.com](http://www.hathawayinvestment.com)

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#### Portfolio Changes

For the year ended 30 September 2013

Purchases	Cost (£)	Sales	Proceeds (£)
Treasury 1.75% 22/01/17	438,731	Diageo	604,856
Vodafone Group	316,943	Scottish Mortgage Inv Trust	304,408
Costain Group	273,728	Britvic	122,728
Fresenius Medical Care	197,915	Anglo & Overseas Trust	740
Henderson High Income Trust	151,201	Jupiter Split	20
Severfield-Rowen	48,837		
Kone 'B'	44,594		
Bond amortisation	3,919		
Total purchases for the year	1,475,868	Total sales for the year	1,032,752

## MFM HATHAWAY FUND

### 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 Conduct 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 as issued and amended by the Financial Conduct Authority.



**ALLAN HAMER**  
**JOINT MANAGING DIRECTOR**



**WAYNE D GREEN**  
**JOINT MANAGING DIRECTOR**

**MARLBOROUGH FUND MANAGERS LTD**  
**21 November 2013**

### 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 Conduct 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 Conduct 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 Hathway 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*

**21 November 2013**

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

We have audited the financial statements of the MFM Hathway Fund for the year ended 30 September 2013 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 2013 and of its net revenue 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.

21 November 2013

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

## 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 3 Jan 2008
2008	75.67p	54.43p	1.7192p	£22.72
2009	69.53p	49.47p	1.2876p	£17.02
2010	81.71p	66.02p	1.0149p	£13.41
2011	83.25p	70.30p	0.9481p	£12.53
2012	85.48p	72.88p	1.1062p	£14.62
2013*	102.70p	82.68p	1.4094p	£18.63

(\*up to 30 September 2013)

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 3 Jan 2008
2008	86.01p	63.47p	1.9663p	£22.80
2009	82.89p	57.69p	1.5108p	£17.57
2010	98.78p	78.89p	1.2138p	£14.11
2011	101.23p	85.48p	1.1497p	£13.37
2012	106.15p	89.24p	1.3593p	£15.80
2013*	128.72p	102.67p	1.7567p	£20.42

(\*up to 30 September 2013)

#### 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 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
at 30 Sept 2013	£9,476,059	4,851,739	4,012,242	95.62p	120.56p

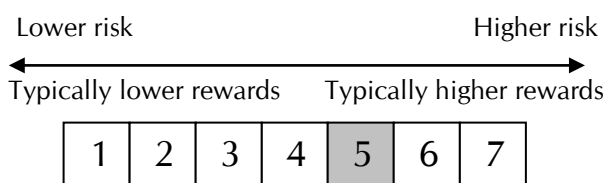
### ONGOING CHARGES

	Ongoing charges
30 September 2012	1.57%
30 September 2013	1.56%

The ongoing charge figure is based on expenses for the year. 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 2013

Holding or nominal value as at 30 Sep 2013	Bid value £	Percentage of total net assets %
<b>LOAN STOCKS</b> (15.71%, 30 Sep 12 -13.34%)		
1,018,000 Treasury 2% 22/01/16	1,049,288	11.07
428,500 Treasury 1.75% 22/01/17	439,373	4.64
Total Loan Stocks	<u>1,488,661</u>	<u>15.71</u>
<b>BANKS</b> (2.70%, 30 Sep 12 - 2.21%)		
19,125 HSBC Holdings	127,889	1.35
174,464 Lloyds Banking Group	127,987	1.35
Total Banks	<u>255,876</u>	<u>2.70</u>
<b>BEVERAGES</b> (3.92%, 30 Sep 12 - 10.58%)		
65,400 Britvic	371,799	3.92
Total Beverages	<u>371,799</u>	<u>3.92</u>
<b>CHEMICALS</b> (3.31%, 30 Sep 12 - 2.78%)		
134,350 Synthomer	314,110	3.31
Total Chemicals	<u>314,110</u>	<u>3.31</u>
<b>CONSTRUCTION &amp; MATERIALS</b> (2.94%, 30 Sep 12 - Nil)		
105,000 Costain Group	278,250	2.94
Total Construction & Materials	<u>278,250</u>	<u>2.94</u>
<b>EQUITY INVESTMENT INSTRUMENTS</b> (14.46%, 30 Sep 12 - 15.09%)		
21,600 Caledonia Investments	382,320	4.03
163,250 Henderson High Income Trust	267,730	2.83
77,300 Law Debenture Corp	384,258	4.06
36,300 Scottish Mortgage Investment Trust	335,593	3.54
Total Equity Investment Instruments	<u>1,369,901</u>	<u>14.46</u>
<b>FOOD &amp; DRUG RETAILERS</b> (4.28%, 30 Sep 12 - 4.61%)		
111,855 Tesco	405,307	4.28
Total Food & Drug Retailers	<u>405,307</u>	<u>4.28</u>
<b>INDUSTRIAL ENGINEERING</b> (1.91%, 30 Sep 12 - 1.56%)		
303,333 Severfield-Rowen	181,241	1.91
Total Industrial Engineering	<u>181,241</u>	<u>1.91</u>
<b>MOBILE TELECOMMUNICATIONS</b> (4.19%, 30 Sep 12 - Nil)		
183,000 Vodafone Group	396,653	4.19
Total Mobile Telecommunications	<u>396,653</u>	<u>4.19</u>
<b>NONEQUITY INVESTMENT INSTRUMENTS</b> (1.06%, 30 Sep 12 - 1.06%)		
200,000 M & G High Income Investment Trust (Inc)	100,000	1.06
Total Nonequity Investment Instruments	<u>100,000</u>	<u>1.06</u>
<b>OIL &amp; GAS PRODUCERS</b> (2.75%, 30 Sep 12 - 3.27%)		
59,835 BP	260,851	2.75
Total Oil & Gas Producers	<u>260,851</u>	<u>2.75</u>
<b>REAL ESTATE INVESTMENT &amp; SERVICES</b> (2.24%, 30 Sep 12 - 1.98%)		
5,475 Daejan Holdings	211,882	2.24
Total Real Estate Investment & Services	<u>211,882</u>	<u>2.24</u>

MFM HATHAWAY FUND

PORTFOLIO STATEMENT

as at 30 September 2013

Holding or nominal value as at 30 Sep 2013	Bid value £	Percentage of total net assets %
<b>REAL ESTATE INVESTMENT TRUSTS</b> (2.94%, 30 Sep 12 - 2.90%)		
30,357 Land Securities Group	278,374	2.94
Total Real Estate Investment Trusts	<u>278,374</u>	<u>2.94</u>
<b>SUPPORT SERVICES</b> (13.29%, 30 Sep 12 - 11.11%)		
26,000 De La Rue	257,140	2.71
100,000 Electrocomponents	275,200	2.90
150,000 ISG	360,000	3.80
22,515 Travis Perkins	367,670	3.88
Total Support Services	<u>1,260,010</u>	<u>13.30</u>
<b>TRAVEL &amp; LEISURE</b> (3.16%, 30 Sept 12 - 2.86%)		
201,500 Marston's	299,832	3.16
Total Travel & Leisure	<u>299,832</u>	<u>3.16</u>
<b>UNIT TRUSTS/OEIC</b> (3.12%, 30 Sept 12 - 3.15%)		
264,105 Invesco Perpetual Income (No Trail) Inc	295,903	3.12
Total Unit Trusts/OEIC	<u>295,903</u>	<u>3.12</u>
<b>OVERSEAS EQUITIES</b> (16.68%, 30 Sep 12 - 13.61%)		
7,000 Berkshire Hathaway 'B'	497,212	5.25
4,625 Fresenius Medical Care	185,993	1.96
8,935 Kone 'B'	491,722	5.19
8,490 Procter & Gamble	405,675	4.28
Total Overseas Equities	<u>1,580,602</u>	<u>16.68</u>
<b>UNQUOTED SECURITIES</b> (Nil, 30 Sept 12 - Nil)		
65,000 Anglo & Overseas Trust	0	0.00
Total Unquoted Securities	<u>0</u>	<u>0.00</u>
<b>Portfolio of investments</b>	9,349,252	98.66
<b>Net current assets on capital account</b>	126,807	1.34
<b>Net assets</b>	<u>9,476,059</u>	<u>100.00</u>

MFM HATHAWAY FUND

FINANCIAL STATEMENTS

For the year ended 30 September 2013

Statement of total return

	Notes	30 September 2013		30 September 2012	
		£	£	£	£
Income:					
Net capital gains/(losses)	4		1,657,375		893,487
Revenue	6	280,429		235,320	
Expenses	7	(137,407)		(120,674)	
Finance costs: Interest	9	(93)		(36)	
Net revenue/(expense) before taxation		<u>142,929</u>		<u>114,610</u>	
Taxation	8	<u>(1,860)</u>		<u>(2,317)</u>	
Net revenue/(expense) after taxation			<u>141,069</u>		<u>112,293</u>
Total return before distributions			1,798,444		1,005,780
Finance costs: Distributions	9		(141,069)		(112,293)
Change in net assets attributable to unitholders from investment activities			<u>1,657,375</u>		<u>893,487</u>

Statement of change in net assets attributable to unitholders

	30 September 2013		30 September 2012	
	£	£	£	£
Opening net assets attributable to unitholders		8,043,556		7,115,541
Amounts receivable on issue of units	415,801		530,847	
Amounts payable on cancellation of units	<u>(710,792)</u>		<u>(550,823)</u>	
Stamp duty reserve tax		(294,991)		(19,976)
		(629)		(762)
Change in net assets attributable to unitholders from investment activities		1,657,375		893,487
Retained distribution on accumulation units		70,748		55,266
Closing net assets attributable to unitholders		<u>9,476,059</u>		<u>8,043,556</u>

MFM HATHAWAY FUND

FINANCIAL STATEMENTS  
as at 30 September 2013

Balance sheet

	Notes	30 September 2013		30 September 2012
		£		£
<b>Assets:</b>				
Investment assets		9,349,252		7,248,366
Debtors	10	66,282		60,265
Cash and bank balances	11	91,421		762,816
Total other assets		157,703		823,081
Total assets		<u>9,506,955</u>		<u>8,071,447</u>
<b>Liabilities:</b>				
Investment liabilities		0		0
Creditors	12	(3,042)		(2,707)
Distribution payable on income units		(27,854)		(25,184)
Total other liabilities		(30,896)		(27,891)
Total liabilities		<u>(30,896)</u>		<u>(27,891)</u>
<b>Net assets attributable to unitholders</b>		<u>9,476,059</u>		<u>8,043,556</u>



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 30 September 2013, 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 30 September 2013.

d Revenue

Revenue includes dividends on shares when the security is quoted ex - dividend by 30 September 2013 and interest received and accrued up to that date. 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 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 2013 £	30 September 2012 £
Non-derivative securities	1,657,770	893,965
Transaction charges	(395)	(478)
<b>Net capital gains/(losses)</b>	<u>1,657,375</u>	<u>893,487</u>

5 PURCHASES, SALES AND TRANSACTION COSTS

	30 September 2013 £	30 September 2012 £
Purchases excluding transaction costs	1,468,113	895,015
Commissions	4,027	2,673
Taxes	3,680	4,455
Contract Charges and PTM Levy	48	11
Total purchase transaction costs	<u>7,755</u>	<u>7,139</u>
<b>Purchases including transaction costs</b>	<u>1,475,868</u>	<u>902,154</u>

Sales excluding transaction costs	1,035,861	1,537,701
Commissions	(3,105)	(5,556)
Overseas delivery charges	0	(90)
PTM Levy	(4)	(4)
Total sale transaction costs	<u>(3,109)</u>	<u>(5,650)</u>
<b>Sales net of transaction costs</b>	<u>1,032,752</u>	<u>1,532,051</u>

<b>Transaction handling charges</b>	<u>395</u>	<u>478</u>
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6 REVENUE

	30 September 2013 £	30 September 2012 £
UK dividends	210,174	163,978
UK dividends (unfranked)	9,107	6,679
Overseas dividends	34,219	33,439
Interest on debt securities	24,723	27,223
Bank interest	2,206	4,001
<b>Total revenue</b>	<u>280,429</u>	<u>235,320</u>

7 EXPENSES

	30 September 2013 £	30 September 2012 £
Payable to the Manager or associate:		
Manager's periodic charge	130,383	114,145
Registration fees	651	695
	<u>131,034</u>	<u>114,840</u>
Payable to the Trustee or associate:		
Trustee's fees	3,129	2,740
Safe Custody fees	846	789
	<u>3,975</u>	<u>3,529</u>
Other expenses:		
Financial Conduct Authority fee	148	175
Audit fee	2,250	2,130
	<u>2,398</u>	<u>2,305</u>
<b>Total expenses</b>	<u>137,407</u>	<u>120,674</u>

## FINANCIAL STATEMENTS

## Notes to the financial statements

## 8 TAXATION

	30 September 2013	30 September 2012
	£	£
a Analysis of the tax charge for the year		
UK Corporation tax at 20%	0	0
Overseas tax	1,860	2,317
<b>Total tax charge</b>	<u>1,860</u>	<u>2,317</u>
b Factors affecting the tax charge for the year		
Net revenue before taxation	142,929	114,610
Corporation tax at 20%	28,586	22,922
Effects of:		
Revenue not subject to taxation	(48,879)	(39,483)
Unrelieved excess management expenses	20,293	16,561
Overseas tax	1,860	2,317
<b>Current tax charge</b>	<u>1,860</u>	<u>2,318</u>

At 30 September 2013 the Fund had surplus management expenses of £325,497 (30.09.12 - £224,034). 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 2013	30 September 2012
	£	£
<b>Distributions and interest</b>		
The distributions take account of revenue received on the creation of units and revenue deducted on the cancellation of units, and comprise:		
Interim	81,894	61,236
Final	56,723	51,084
Add: Revenue deducted on cancellation of units	4,374	2,158
Deduct: Revenue received on creation of units	(1,918)	(2,180)
Deduct: Revenue brought forward	(4)	(5)
<b>Finance costs: Distributions</b>	<u>141,069</u>	<u>112,293</u>
Finance costs: Interest	93	36
<b>Total finance costs</b>	<u>141,162</u>	<u>112,329</u>

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

## 10 DEBTORS

	30 September 2013	30 September 2012
	£	£
Amounts receivable for creation of units	47,137	42,592
Accrued income	16,294	17,673
Taxation recoverable	2,851	0
<b>Total debtors</b>	<u>66,282</u>	<u>60,265</u>

## 11 CASH AND BANK BALANCES

	30 September 2013	30 September 2012
	£	£
Capital bank account	50,991	728,003
Revenue bank account	40,430	34,813
<b>Total cash and bank balances</b>	<u>91,421</u>	<u>762,816</u>

MFM HATHAWAY FUND

FINANCIAL STATEMENTS

Notes to the financial statements

12 CREDITORS

	30 September 2013 £	30 September 2012 £
Accrued expenses	3,042	2,707
<b>Total creditors</b>	<u>3,042</u>	<u>2,707</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 99.998 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 2013 £	30 September 2012 £
Marlborough Fund Managers Ltd	131,034	164	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 2013 £	30 September 2012 £
HSBC Bank	4,370	800	529

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 2013	30 September 2012
		£	£
Sterling		<u>1,488,661</u>	<u>1,072,743</u>
Weighted fixed interest rates:		30 September 2013	30 September 2012
		%	%
Sterling		<u>1.87</u>	<u>2.00</u>
Weighted average period for financial assets with fixed interest rates:		30 September 2013	30 September 2012
		years	years
Sterling		<u>2.61</u>	<u>3.31</u>

## 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 2013:

	Investments £	Net current assets £	Total £
Euro	677,715	2,851	680,566
US dollars	902,887	0	902,887
	<u>1,580,602</u>	<u>2,851</u>	<u>1,583,453</u>

Foreign currency exposure at 30 September 2012:

	Investments £	Net current assets £	Total £
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>

## 15 POST BALANCE SHEET EVENTS

There are no post balance sheet events to report.

## 16 DISTRIBUTION TABLE

For the period from 1 October 2012 to 31 March 2013

INCOME UNITS

Group 1: units purchased prior to 1 October 2012

Group 2: units purchased on or after 1 October 2012

	Net revenue to 31 Mar 2013 pence per unit	Equalisation to 31 Mar 2013 pence per unit	Distribution paid 31 May 2013 pence per unit	Distribution paid 31 May 2012 pence per unit
Group 1	0.8353p	0.0000p	0.8353p	0.6043p
Group 2	0.2397p	0.5956p	0.8353p	0.6043p

ACCUMULATION UNITS

Group 1: units purchased prior to 1 October 2012

Group 2: units purchased on or after 1 October 2012

	Net revenue to 31 Mar 2013 pence per unit	Equalisation to 31 Mar 2013 pence per unit	Distribution paid 31 May 2013 pence per unit	Distribution paid 31 May 2012 pence per unit
Group 1	1.0372p	0.0000p	1.0372p	0.7399p
Group 2	0.2977p	0.7395p	1.0372p	0.7399p

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

Franked	87.53%
Unfranked	12.47%

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

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

MFM HATHAWAY FUND

FINANCIAL STATEMENTS

Notes to the financial statements

**DISTRIBUTION TABLE (continued)**

For the period from 1 April 2013 to 30 September 2013

**INCOME UNITS**

Group 1: units purchased prior to 1 April 2013

Group 2: units purchased on or after 1 April 2013

	Net revenue to 30 Sep 2013 pence per unit	Equalisation to 30 Sep 2013 pence per unit	Distribution payable 30 Nov 2013 pence per unit	Distribution paid 30 Nov 2012 pence per unit
Group 1	0.5741p	0.0000p	0.5741p	0.5019p
Group 2	0.2440p	0.3301p	0.5741p	0.5019p

**ACCUMULATION UNITS**

Group 1: units purchased prior to 1 April 2013

Group 2: units purchased on or after 1 April 2013

	Net revenue to 30 Sep 2013 pence per unit	Equalisation to 30 Sep 2013 pence per unit	Distribution payable 30 Nov 2013 pence per unit	Distribution paid 30 Nov 2012 pence per unit
Group 1	0.7195p	0.0000p	0.7195p	0.6194p
Group 2	0.3058p	0.4137p	0.7195p	0.6194p

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

Franked	86.76%
Unfranked	13.24%

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

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

**Marlborough Fund Managers Limited**  
**Marlborough House**  
**59 Chorley New Road**  
**Bolton**  
**BL1 4QP**

**Customer Support: 0808 145 2500**

**Intermediary Support: 0808 145 2502**

**Dealing: 0808 145 2501**

**Fax: 01204 533045**

**Email: [enquiries@marlboroughfunds.com](mailto:enquiries@marlboroughfunds.com)**

**Website: [www.marlboroughfunds.com](http://www.marlboroughfunds.com)**

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