# MFM Hathaway Fund

## Short Report

### For the period from 1st October 2012 to 30th September 2013

HATHAWAY
INVESTMENT MANAGEMENT LIMITED

MARLBOROUGH
Fund Managers Limited

## Fund Details
## MFM Hathaway Fund

### Manager and Registrar
Marlborough Fund Managers Ltd
Marlborough House
59 Chorley New Road
Bolton BL1 4QP

Customer Support: 0808 145 2500 (FREEPHONE)

Authorised and regulated by the Financial Conduct Authority

### 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

## GENERAL INFORMATION

**Investment Objective**

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.

**Risk Profile**

The fund aims to achieve a satisfactory *total return* by investing in primarily UK equities and bonds. Apart from the usual risks present in predominantly large capitalisation stocks (which comprise the largest single class of securities in the portfolio), the fixed income component (in particular) can be at risk from rising inflation; some securities bear currency risk, while all may be vulnerable to rising interest rates. With the aim of managing the effect of these factors, the investment adviser monitors how capital is allocated and make adjustments accordingly, as the pricing of risks changes in the market in which the fund is invested.

**Risk Warning**

The past is not necessarily a guide to future performance. Investments and the income derived from them can fall as well as rise and the investor may not get back the amount originally invested. The fund is subject to an initial charge and consequently charges are not made uniformly throughout the period of the investment. Changes in exchange rates between currencies may cause the value of the investment to diminish or increase. Investments in fixed interest securities are subject to market and credit risk and will be impacted by interest rates. The Fund has a concentrated portfolio which means greater exposure to a smaller number of securities than a more diversified portfolio.

**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 report and accounts for any fund within the manager's range, can be requested by the investor at any time.

**Reports and Accounts**

The purpose of sending this Short Report is to present you with a summary of how the fund has performed during the accounting period in accordance with the FCA rules. If you wish to request further information, the more detailed long form report is available. For a copy please write to Marlborough Fund Managers Ltd, Marlborough House, 59 Chorley New Road, Bolton BL1 4QP or telephone customer services on 0808 145 2500.

## 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.* 2nd 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.

## 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 glisters 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 1st to September 30th - except for 2002/03 (now contained only in aggregate numbers here), which was for the period starting on 25th 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.

## 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



HATHAWAY
INVESTMENT MANAGEMENT LIMITED

## 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 |

## TOP TEN HOLDINGS AS AT 30 SEPTEMBER 2013

| | % |
|---|---|
| Treasury 2% 22/01/2016 | 11.07 |
| Berkshire Hathaway 'B' | 5.25 |
| Kone 'B' | 5.19 |
| Treasury 1.75% 22/01/2017 | 4.64 |
| Proctor & Gamble | 4.28 |
| Tesco | 4.28 |
| Vodafone | 4.19 |
| Law Debeture Corp | 4.06 |
| Caledonia Investments | 4.03 |
| Britvic | 3.92 |

## TOP TEN HOLDINGS AS AT 30 SEPTEMBER 2012

| | % |
|---|---|
| Treasury 2% 22/01/2016 | 13.34 |
| Diageo | 6.65 |
| Scottish Mortgage Investment Trust | 6.17 |
| Berkshire Hathaway 'B' | 4.74 |
| Tesco | 4.61 |
| Proctor & Gamble | 4.52 |
| Kone 'B' | 4.35 |
| Caledonia Investments | 3.97 |
| Britvic | 3.93 |
| Law Debenture Corp | 3.87 |

## FUND FACTS

| | | |
|---|---|---|
| **Launched Income and Accumulation Units** | | 4 November 2002 at 50p |
| **Accounting Dates** | (Final) | 30 September |
| | (Interim) | 31 March |
| **Distribution Dates** | (Final) | 30 November |
| | (Interim) | 31 May |
| **Minimum Investment** | | £1,000 |
| **IMA Sector** | | Mixed Investment 40-85% Shares |

**Ongoing Charge Figure as at 30 September 2013** 1.56%
**Ongoing Charge Figure as at 30 September 2012** 1.57%
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

Lower risk Higher risk

Typically lower rewards Typically higher rewards

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

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.

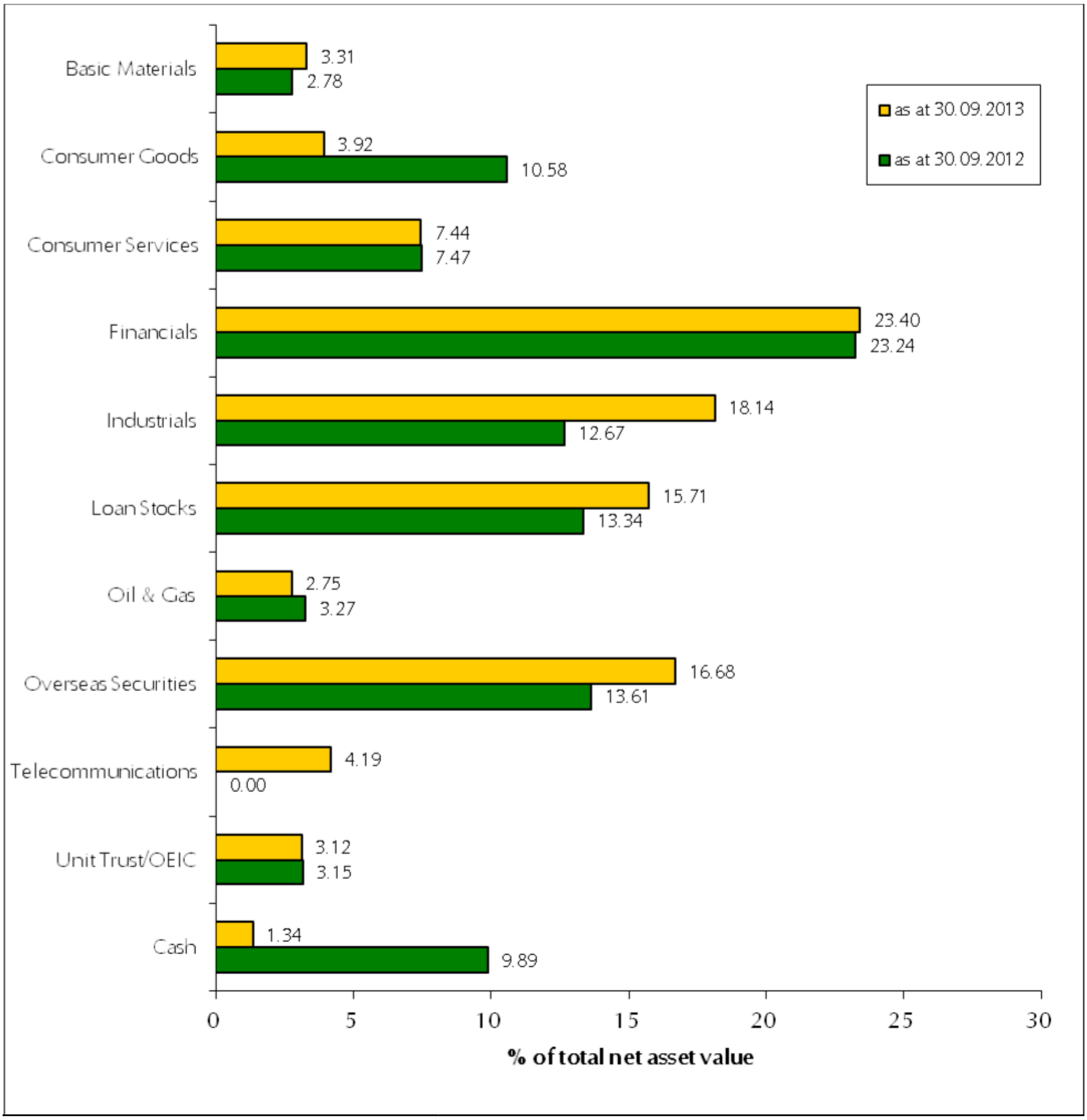
## SUMMARY OF FUND PERFORMANCE

| Unit Type | Year | Highest Price | Lowest Price | Distribution Per Unit |
|---|---|---|---|---|
| Income | 2008 | 75.67p | 54.43p | 1.7192p |
| Income | 2009 | 69.53p | 49.47p | 1.2876p |
| Income | 2010 | 81.71p | 66.02p | 1.0149p |
| Income | 2011 | 83.25p | 70.30p | 0.9481p |
| Income | 2012 | 85.48p | 72.88p | 1.1062p |
| income | 2013* | 102.70p | 82.68p | 1.4094p |
| Accumulation | 2008 | 86.01p | 63.47p | 1.9663p |
| Accumulation | 2009 | 82.89p | 57.69p | 1.5108p |
| Accumulation | 2010 | 98.78p | 78.89p | 1.2138p |
| Accumulation | 2011 | 101.23p | 85.48p | 1.1497p |
| Accumulation | 2012 | 106.15p | 89.24p | 1.3593p |
| Accumulation | 2013* | 128.72p | 102.67p | 1.7567p |

*up to 30 September 2013

| | Net Asset Value of Scheme Property | Net Asset Value Per Unit | |
|---|---|---|---|
| | | Income | Accumulation |
| 30 September 2011 | £7,115,541 | 70.13p | 85.28p |
| 30 September 2012 | £8,043,556 | 78.78p | 97.84p |
| 30 September 2013 | £9,476,059 | 95.62p | 120.56p |

PORTFOLIO BREAKDOWN



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Marlborough Fund Managers Limited
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