MFM Hathaway Fund

Short Report

For the period from 1st October 2013 to 31st March 2014

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 by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation 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.

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.

Change in Prospectus

No changes have been made since the last report.

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

AUTHORISED INVESTMENT ADVISER'S REPORT

For the six month period ended 31 March 2014

Percentage change and sector position to 31 March 2014

	Six months	1 year	3 years	5 years
MFM Hathaway Fund	3.71%	13.10%	36.07%	105.92%
Sector Average	3.77%	5.69%	19.19%	73.13%
Rank*	65/137	4/133	3/118	3/100
Quartile Ranking	2	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.* 3rd out of 100 funds).
External Source of Economic Data: *Morningstar* (bid to bid, net income reinvested)

Recent performance

We have pleasure in presenting our semi-annual report on our *equity and bond* unit trust, which posted an overall advance of 3.7% in the six months, being a 4.61p increase in *accumulation* units (which class records the fund's *total return*), as against 3.4% for the general stock market, 2.4% from blue chips and 1.5% from gilts. Since launch in November 2002, those units have advanced from 50p to 129.48p – equivalent, assuming we stayed at the same level until our year end in September - to annual compounding at almost 8.5%.

In this latest report (our twenty second in the series), we record a gratifying eighteenth positive period return and the table below illustrates the relevant long term *data*, including beating our *comparator* or target *benchmark* over both the half year and since we launched – doubly encouraging as the latter bears no frictional costs (the expenses of running our fund).

It is therefore no surprise that the *Morningstar* table above places us well above average for one, three and five years; we remain, as we go to press, pretty much at the top of the league tables over those longer periods.

However, to borrow a recent quote from a footballer – invited to try television punditry for a match involving his team who were having a hard time – he observed that "half time came at the right time for us". We flew into similar turbulence over the winter, so it was a relief to start the second half slightly ahead of our benchmark since September, even though, for much of that period, we occupied a position of considerably greater superiority.

In summary on the half year: it was fairly inevitable, after our strong 2013 performance, which produced gratifying *relative* and *absolute* numbers, that we might run into a consolidating phase and so it was good to keep the scoreboard ticking over during a fairly volatile period.

Indeed, what was particularly comforting, was how well our equity portfolio held up against the background of the incendiary events in Ukraine and the Middle East; for once, investors generally heeded Dr Johnson's observation that "public affairs [need] vex no man" and our previous rhetorical question about the real role of gold in an investing programme, was borne out by that metal's continued falls despite those various crises, while our well diversified sources of earning power left our fund unscathed.

However, it never will be all plain sailing, as we note further on, but first, a look once again at our secular record.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Long term performance – the eleven and a half year record

We set out below the complete records, covering 138 months, for our benchmark, the general stock market and the FTSE 100, together with the (approximate) figures for our fund's equity portfolio:

Year	MFM Hathaway Fund	Target benchmark (30% gilts, 70% equities	FTSE 100 (equities)	FTSE All Share (equities)	Fund equities
2002/2013	+149.7%	+128.9%	+132.7%	+154.5%	+179.3%
2013/2014	+3.7%	+2.7%	+2.4%	+3.4%	+3.5%
Cumulative	+158.9%	+135.0%	+138.4%	+163.4%	+189.0%

We have previously described our overriding goal – to achieve a higher level of return than the risks we have run indicate as our lot (a "cake and eat it situation") - and the half year performance contributed to our continuing to achieve this target, as the table shows. Indeed, the comparatively small advantage over the six months, is worth more than it looks, as it is on the back of the wide accumulated superiority recorded at the year end last September.

Developments in the half year

In recent fund reports we issued notes of caution about the stock market and, indeed, we remain not terribly enthusiastic about our equity portfolio, although we continue to watch one or two interesting situations. We continued, however, to receive encouraging reports from our investees and we single out for comment the excellent business and stock price performance of ISG (previously known as Interior Services Group).

ISG is a project management consultancy, with global operations in fitting out in the retail, office and food sectors and it has a wide range of blue chip clients – think a prestige Bond Street jewellers with a new shop; its franchise rests on its reputation and reliability, coupled with its customer relationships. Additionally, it makes logical sense for even large landlords and companies to outsource these projects to ISG, not least because of its wealth of experience which brings the general risks way down.

Now a five year veteran of our equity portfolio (purchased at a great price), it has not only performed well for us, but we consider that the best is yet to come and, comfortingly, it is both conservatively financed and requires little capital to grow its business.

Finally, the recent annual report of Berkshire Hathaway (one of our longstanding holdings) recorded Warren Buffett's endorsement, in principle, of our decision in 2002 - when starting our fund for the conservative private investor – to select a benchmark of 30% in bonds and 70% in equities, as representative of what is typical and desirable.

In the report, that seasoned investor says that his instructions in his will – for the benefit of his wife after his death – are for her new portfolio to comprise 10% in bonds and the remainder in an equity index fund; now, we could debate the exact proportions which make most sense (at any time), but the thrust of his remarks point to the validity of our benchmark *and* our ongoing goals of both beating it and of thereby justifying our existence - *i.e.* by so demonstrating our superiority over the (perfectly sensible) "passive" approach of using index funds.

So far, it has worked out well, although it is appropriate to return to a Ben Graham quote (he was Buffett's teacher and mentor): "to achieve *superior* results is harder than it looks".

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Outlook

Although the investing scene *looks* calmer now, there will still be challenges; interestingly, to show what a difference a year or two makes - recently, the yield on five year Spanish government paper slipped below that on the equivalent US Treasury bonds, indicating what the bond market thinks about the financial security of those two countries.

For the time being though, equities remain the place to be, but quality and risk/price are of course paramount and permanent considerations.

We look forward to reporting the annual performance in the autumn, while more about our *value investing* philosophy and the current fund prices and performance are on our website. In the meantime, as always, our unit holders should keep their expectations at a sensible level.

Graham Englefield /Graham Shaw, CFA / Robert Bogle
9 May 2014
www.hathawayinvestment.com

Notes

1. Statistical sources: the benchmark and index figures we quote in the second table are derived from *data* recorded in the Financial Times newspaper (and all are calculated on a *mid-to-mid* price basis, with net income reinvested); the MFM Hathaway Fund, also, shows performance based on the mid-price of *accumulation* units, so that all figures in that exhibit are on the same footing. Movements in the price of an *accumulation* unit provide a complete record, since accrued income is included alongside capital performance (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 31.03.14; any discrepancy, is due to rounding in preparing discrete statistics and is not material.

5. Any references to "year" (or, for example, "2002/2013") 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 then using them to commence subsequent periods etc.

AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)

Distributions

		Year 2014	Year 2013	Year 2012	Year 2011
Net income paid 31 May	(inc units)	0.9252ppu	0.8353ppu	0.6043ppu	0.4535ppu
	(acc units)	1.1664ppu	1.0372ppu	0.7399ppu	0.5483ppu
Net income paid 30 November	(inc units)		0.5741ppu	0.5019ppu	0.4946ppu
	(acc units)		0.7195ppu	0.6194ppu	0.6014ppu

Portfolio Changes

For the six month period ended 31 March 2014

Purchases	Cost (£)	Sales	Proceeds (£)
Primary Health Properties	391,297	Procter & Gamble	423,863
Nokian Tyres	237,152	Tesco	362,158
Marston's	195,732	Lloyds Banking Group	130,837
BlackRock World Mining Trust	99,580	Vodafone Group	53,984
Costain Group	78,750		
Bond amortisation	1,211		
Total purchases for the period	1,003,722	Total sales for the period	970,842

TOP TEN HOLDINGS AS AT 31 MARCH 2014

	%
Treasury 2% 22/01/2016	9.97
Berkshire Hathaway ‘B’	4.98
Marston’s	4.65
Britvic	4.64
Kone ‘B’	4.31
ISG	4.24
Treasury 1.75% 22/01/17	4.17
Travis Perkins	4.07
Caledonia Investments	4.00
Law Debenture Corp	3.91

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 Debenture Corp	4.06
Caledonia Investments	4.03
Britvic	3.92

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 31 March 2014 1.57%
Ongoing Charge Figure as at 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

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.

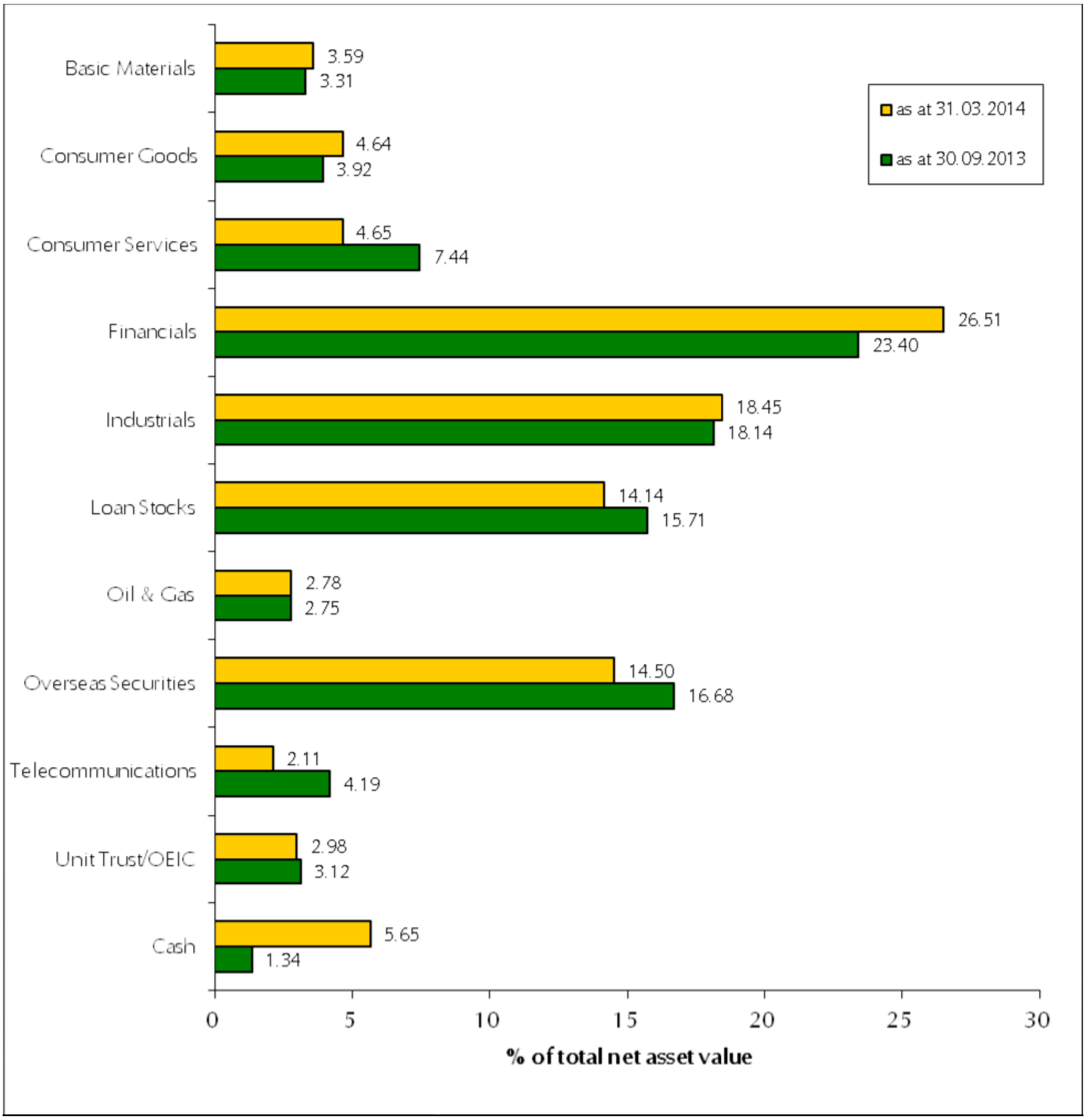
SUMMARY OF FUND PERFORMANCE

Unit Type	Year	Highest price	Lowest price	Distribution per unit
Income	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
Income	2014*	105.17p	82.68p	0.9252p
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	132.59p	102.67p	1.7567p
Accumulation	2014*	135.80p	126.20p	1.1664p

*up to 31 March 2014

	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
at 31 March 2014	£10,436,174	4,871,036	4,346,733	100.33p	127.66p

PORTFOLIO BREAKDOWN



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