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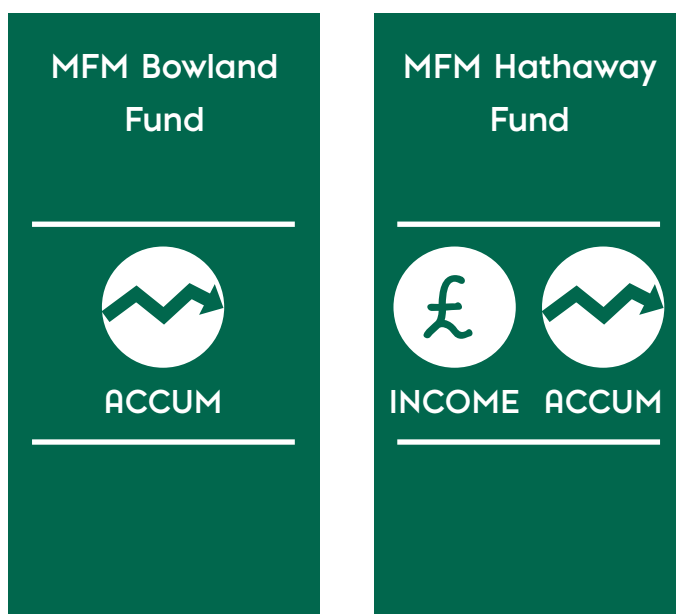
# THE VALUE ASSESSMENT REPORT

**MFM BOWLAND FUND AND HATHAWAY FUND**

31st May 2021

## Value assessment report

This report describes the value assessment we have carried out for the following funds:



# 1. The Value Assessment Report



Dear Investors,

This report is the result of the annual value assessment that we have carried out for you.

Marlborough Fund Managers (Marlborough) is the authorised fund management company (AFM) for the funds covered by this report. As the AFM, we are responsible for operating the fund in the interests of our investors. Producing this report is an important way in which we discharge that responsibility. We are also accountable to our regulator, the Financial Conduct Authority (FCA).

We carry out a value assessment at least yearly for each of our funds. The team who carry out the value assessments includes three independent non-executive directors. Part of this independent challenge is to ensure particular regard is given to investor outcomes. As Chair of our Board of Directors, I have responsibility to ensure we carry out these value assessments.

The purpose of the value assessment is to consider whether the payments that the prospectus allows to be taken from the fund are justified in the context of the overall value delivered to investors. After each assessment, we publish this report to provide you with our conclusions and explanations about its key aspects.

When carrying out the value assessment, we have been guided by three key considerations. These are:

- The rules of the FCA.
- Making the report meaningful for investors.
- The importance of measuring value and not just cost. Each are now explained in more detail.

## I. The rules of the FCA

These require us to consider certain minimum criteria. There are seven set by the FCA.

FCA Value Assessment Criteria	Summary of FCA Value Assessment Criteria
Performance	Are the funds performing against their investment objectives?
Comparable Market Rates	Are the funds priced similarly to competitors?
Comparable Services	Are funds priced reasonably compared to other products with similar investment strategies?
AFM Costs	Are fees charged to investors reasonable and appropriate?
Economies of Scale	Are economies of scale generated and passed on to investors?
Quality of Service	Does the range and quality of service offer value?
Classes of Units	Are investors in the cheapest available unit class based on their characteristics?

Each is considered under its own heading in the following pages.

We are not limited to the seven that are prescribed but to date we have found they are sufficiently broad to allow us to carry out the value assessment. We keep this under review.

## II. Making the report meaningful for investors

We aim to provide an assessment that is meaningful for all investors. We recognise individuals will have their own reasons for holding the fund and their own specific goals. We have been guided by the following considerations:

- The specific investment objectives as set out in the prospectus.
- The investment policies and strategies.
- Any relevant benchmarks, including any against which performance is measured.
- The fund's target market (the types of investors who could be expected to consider buying it).

We have considered these factors as at 31 January 2021, not merely across a single year but particularly in relation to performance - across timescales which better reflect the periods over which investors could be expected to hold the fund.

## III. The difference between assessing value and simply measuring cost

We believe that the best value for investors does not necessarily mean simply lowest costs.

As an example, the fund in this report are actively managed. This means the Investment Manager chooses which investments to make, based on their own research and processes. This approach can be expected to result in higher costs being taken from the fund than for passive funds. Passive funds are where investments are chosen based on an index or because of the size of the company, for example, and not based on a decision by an investment manager. However, while we consider the higher costs as part of the value assessment, we will also look at other factors, such as the actual returns achieved for investors, which are net of these costs.

Nevertheless, we are clear that any value assessment includes an assessment of the controls over costs borne by the fund.

In closing, I remind you that the value of your fund can fall or rise and it can do so daily. We carried out our assessment with performance figures as at 31 January 2021. You can always find up to date performance figures on our website or from your adviser or platform.

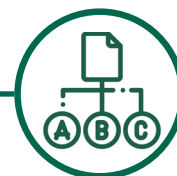
I hope in turn you find this report of value. All of us at Marlborough welcome any feedback on how to improve these reports for the future.

With my kind regards,

Guy Sears

Independent non-executive Chair of the Board

## 2. The characteristics of each of the funds



When we described our approach above, we said we considered the objectives and investment policies. In this section we summarise these characteristics of the fund.

Under each fund name we set out the objective and the benchmark against which you can assess the performance of the fund.

*There can be three types of benchmark and these are explained below.*

### The benchmarks



*A 'target' benchmark is used to define the fund's target performance (or to trigger a payment from scheme property such as a performance fee).*



*A 'comparator' benchmark is used as a performance comparator for the fund ('performance benchmark').*



*A 'constraint' benchmark restricts the composition of a portfolio*

The latest version of the above information can always be read by looking at the Key Investor Information Document. These are available on our website at [www.marlboroughfunds.com](http://www.marlboroughfunds.com). They also set out the investment policy, which explains in more detail how each fund aims to achieve its objective.

## MFM Bowland Fund

### Investment objective:

The aim of the Fund is to provide capital growth, that is, to increase the value of your investment, through investing in a diversified portfolio of holdings. However, there is no certainty this will be achieved.

### Benchmark:

*Comparator: IA Flexible Investment*

*Constraint - None set*

*Target - None set*

## MFM Hathaway Fund

### Investment objective:

The aim of the Fund is to grow the value of a unitholder's capital and income, over a period of at least 5 years. This growth is expected to come from a combination of gains in investments held and income received by the Fund - such as bond interest and dividends from shares.

### Benchmark:

*Comparator: IA Mixed Investment 40-85% shares companies*

*Constraint - None set*

*Target - None set*

### 3. Range and quality of services

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#### What have we considered?

In this section we have considered the first area of the value assessment. This covers the quality of service we provide and the quality of service provided by any person to which any aspect of the fund's management has been delegated or who provides services to us.

#### How have we made our assessment?

We have reviewed and given consideration to the services delivered and how they affect investors in the fund and the delivery of the fund's objectives. We also give consideration to the quality of the service delivered by Marlborough and each external provider.

We have considered, as we do for all value assessments, whether the fund has been managed within its investment restrictions and if there have been any operational errors or complaints. There are no material issues which we consider affect our conclusions about quality of service in this assessment period.

We have reported under three subsections:

**Services in relation to required independent third parties** - Trustee, Custodian and Auditor.

**Other third parties** - The Investment Manager

**In-house functions** - Our own provision of services to the fund

In this part of our assessment, there are no material distinctions between any of the share classes within the fund, unless we specify otherwise.

## Services in relation to required independent third parties

The following section considers the required independent third-party service providers: the Trustee, the Custodian and the Auditor.

### The Trustee

The Trustee is an independent entity charged with various regulatory responsibilities to the funds. It is a key part of the oversight of the funds.

The Trustee is paid from the funds it oversees directly under the terms of the prospectus. Its fees are shown in the statutory accounts.

As AFM we are responsible for selecting the Trustee, negotiating its fees and other commercial terms and for monitoring its performance and suitability on an ongoing basis.

In order to ensure we receive a good level of service we only work with a very limited number of Trustees at any one time. There are presently two across the entire range of funds for which we, and our associated companies, are the AFM. The Trustee for these funds are HSBC.

We have assessed the Trustee based on a mix of criteria including but not limited to:

- size and reputation within the industry
- geographical relevance for the fund's strategies and investors
- service levels
- history of interactions
- resource and expertise
- costs and charges

Our interactions with them lead to constructive dialogue and challenge as we at Marlborough work in collaboration with them to prioritise good outcomes for our fund investors.

The costs chargeable to the funds by HSBC were last reviewed formally by us in the first quarter of 2019. We regularly check the fees paid to our service providers to ensure they deliver value when considered against the service we receive. Our next review has been scheduled for this calendar year.



## The Custodian

The Custodian is an independent entity responsible for holding the assets of the fund. Again, this role is key in ensuring good outcomes for investors.

The Custodian is paid from the fund directly under the terms of the prospectus. Its fees are shown in the statutory accounts. It is appointed by the Trustee but will be selected, and commercial terms will be negotiated and agreed, by us as the AFM.

Along with the Trustee, we review and monitor the performance of the Custodian and review the charges made to the fund.

In order to ensure we receive a good level of service we only work with a very limited number of Custodians at any one time. There are presently three across the entire range of funds for which we, and our associated companies, are the AFM. The Custodian for these funds is HSBC.

We have assessed the Custodians based on a mix of criteria including but not limited to:

- size and reputation within the industry
- geographical relevance for the fund's strategies and investors
- service levels
- history of interactions
- resource and expertise
- costs and charges

We at Marlborough work in collaboration with them to prioritise good outcomes for our investors.

We last carried out a formal review of the costs chargeable to the funds by the Custodian during the second quarter of 2020. This resulted in a lower fee being applied to the funds under the management of Marlborough. We regularly check the fees paid against our other service providers to ensure they deliver value when considered against the service we receive, and fees achieved by other funds for which we are AFM.

## The Auditor

The Auditor is an independent entity responsible for auditing the financial statements of a fund.

The Auditor is paid from the fund directly under the terms of the prospectus. Its fees are shown in the statutory accounts.

It is selected and appointed by us, as AFM, and we are responsible for negotiating the commercial terms, including the audit fees.

We have assessed the auditors based on a mix of criteria including but not limited to:

- size and reputation within the industry
- expertise, scale and involvement with regulatory and industry change
- appropriateness to overall business scale
- appropriateness for the range of funds for which we are AFM

We last undertook a review of the Auditor during the first quarter of 2019. The review, which took into account each of the factors above, in addition to the costs borne by the funds, resulted in the funds changing to Ernst & Young.

Since this change, we remain comfortable with the service and charges of the Auditor and have made no further changes.

## Other third parties - appointments and outsourcing

This section refers to the delegation of certain functions to, or the appointment of, an external entity. Such arrangements are not required by regulation but may be entered into at our discretion.

### *The Investment Manager*

We have appointed Canaccord Genuity Wealth Limited (Canaccord) to manage the investments within the MFM Bowland Fund and Hathaway Investment Management Limited (Hathaway) to manage the investments within the MFM Hathaway Fund.

The Investment Managers receive a share of the annual management charge payable to us under the terms of the prospectus.

We have assessed the services of the Investment Managers based on a mix of criteria including but not limited to:

- resource and expertise
- investment research, which is funded by the Investment Manager themselves and is not an additional charge to the fund
- its control of transaction costs (which the fund pays) and how trades are executed
- whether the fund has been managed within its investment restrictions
- a review of any operational errors or complaints
- the timeliness with which complete and accurate data is provided to us

Having regard to these factors and our oversight and governance more generally, we conclude that the charges taken for the services of the Investment Manager were justified based on the overall value delivered to investors.

The results of our review of the services provided, with regard to the fund's objectives and the manner in which they were delivered, are discussed in more detail under the 'Performance' section below.

## In-house functions - the quality of our own services

### *Governance and oversight*

We dedicate senior manager and board level resource to our governance structures, including Product Governance, Investment, Risk and other operational committees. Combined with our model of running most services in-house, we believe that this level of governance helps us to safeguard the best interests of investors.

As AFM, we are responsible for overseeing any party that provides services to our funds and agreeing commercial terms for those services. We continuously review our service providers to ensure they continue to meet the high standards we expect for our investors.

### *Administration*

In the UK fund industry, it is not uncommon for an AFM to use third parties to carry out fund administration services. This may include dealing and settling purchases and sales of shares in our funds, calculating our funds' dealing prices and maintaining the register of shareholders in our funds.

We maintain our own systems and resources in order to carry these activities out ourselves. We do this so that we are able to retain specialist operational expertise and maintain transparency in our processes. This also means we can direct investment into our people and our technology in a cost effective manner, that we feel brings benefits to investors.

### *Investor communications and relations with investors*

We have a dedicated investor support team and, with the exception of some printing and publication work, all communication with investors is conducted by in-house staff, who provide support and information to end investors and their intermediaries. Working alongside our fund administration staff, this team benefit from technical training and specialist knowledge, enabling them to provide an efficient and responsive service for our investors.

### *Additional competencies*

In addition to our in-house expertise we maintain close relationships with recognised specialist law firms, accountants, trade bodies and training providers to maintain an up-to-date understanding of legal and regulatory expectations and best practice.

### **Conclusion**

Overall, we are satisfied with the quality of services provided to the funds by third parties and in-house.

## 4. Performance



When assessing the value represented by the fund performance achieved over the past twelve months we have considered an in depth package of information. This allows us to consider the performance having regard to the investment objective (and policy) of the fund. A fund's objective may envisage that success is to be measured over a period greater than a year. For example, it may say that the fund aims to grow your investment over a 5 year period. We bear such timescales in mind in forming our assessments of performance.

Within the above context, we consider the:

- Comparative outcome relative to the benchmark
- Volatility (a measure that considers how often, and by how much, the value of an investment goes up and down relative to its average or to a benchmark)
- Performance relative to a range of industry standard risk adjusted measures of performance
- The investment management activities and strategies undertaken by the Investment Manager

### MFM Bowland Fund

The aim of the Fund is to provide capital growth, that is, to increase the value of your investment, through investing in a diversified portfolio of holdings. However, there is no certainty this will be achieved.

The Fund will invest at least 70% in the shares of companies listed on global stock exchanges, although there will normally be a bias towards the UK. This may include a range of small, medium and large companies.

The Fund may also invest in bonds, other securities which offer returns linked to the company performance (such as warrants, preference shares and convertible bonds), unquoted companies, investment trusts, other funds and cash.

The aim of the investment team is to identify companies which they believe show good long term growth potential, or which appear to be under-valued given their future prospects.

The team consider economic and market conditions, but the main focus is on individual company analysis and selection.

	One Year	Three Years	Five Years
MFM Bowland Fund	14.58%	34.46%	107.94%
IA Flexible Investment	7.36%	14.83%	52.60%

Data Cumulative Returns as 31.01.2021

## MFM Hathaway Fund

The aim of the Fund is to grow the value of a unitholder's capital and income, over a period of at least 5 years. This growth is expected to come from a combination of gains in investments held and income received by the Fund - such as bond interest and dividends from shares.

The Investment Manager considers economic and market conditions, but the focus is on individual company analysis. The aim is to identify companies which show good long-term growth potential, and which appear to be undervalued given their prospects.

The Fund will invest between 40 - 85% of its portfolio in the shares of companies. There will be a bias towards enterprises that are expected to pay steady dividends; however, the Fund may occasionally invest in securities which do not pay dividends.

The Fund will invest between 15 - 60% of its portfolio in bonds, which are loans typically issued by companies, governments and other institutions. These will typically be investment grade bonds, where the issuer has a high and reliable capacity to repay the debt. However, from time to time, the portfolio may include sub-investment grade bonds (which can be more vulnerable to changing market conditions, but typically pay a higher rate of interest) where we judge them to be incorrectly downgraded.

The Fund may also invest in money market instruments, which are shorter term loans. The Fund will hold cash to enable the ready settlement of liabilities and for the efficient management of the portfolio. The Fund may hold cash up to a maximum of 30%, in extreme market conditions.

	One Year	Three Years	Five Years
MFM Hathaway A Acc	-0.70%	13.97%	60.64%
MFM Hathaway A Inc	-0.70%	13.90%	60.38%
IA Mixed Investment 40-85%	5.46%	14.51%	48.33%

Data Cumulative Returns as 31.01.2021

## Conclusion

Having reviewed the outcomes achieved by the MFM Bowland Fund we have noted that the fund has provided an increase in the value of your investment over a 5 year period and has done so whilst taking a similar level of risk when compared with its peers. In our opinion, the performance achieved demonstrates reasonable value.

Having reviewed the outcomes achieved by the MFM Hathaway Fund we have noted that the fund has provided an increase in the value of your investment over a 5 year period and has done so whilst taking a higher level of risk when compared with its peers. This is true of all the fund's share classes. The fund has also provided a consistent level of income as per its objectives. In our opinion, the performance achieved demonstrates reasonable value.

Please note that the value of investments and the income from them may fall as well as rise and you may not get back the amount you originally invested. The MFM Bowland Fund invests in smaller companies which carry a higher degree of risk than larger companies. The shares of smaller companies may be less liquid and their performance more volatile over shorter time periods. The MFM Bowland Fund and MFM Hathaway Fund invest mainly in the UK. Therefore it may be more vulnerable to market sentiment in that country. A more detailed description of the risks that apply to these Funds can be found in the prospectus. You are required to read the Key Investor Information Document (KIID) before making an investment. The KIID and prospectus for all funds are available free of charge at [www.marlboroughfunds.com](http://www.marlboroughfunds.com) or by calling 0808 145 2500.

## 5. AFM costs in general

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### What have we considered?

We have considered each component of the ongoing charges figure (OCF). These are described below and investors can find a detailed breakdown of the actual amounts paid for each in the latest annual report and accounts.

### *The components are as follows:*

#### **Annual management charge**

This is a percentage fee paid from the fund to the AFM and the Investment Manager.

#### **Trustee fee**

This is a percentage fee paid from the fund to the Trustee.

#### **Custody fee**

This is a combination of a percentage fee and fixed, transaction-based fees paid from the fund to the Custodian.

#### **Audit fee**

This is a fixed annual fee paid from the fund to the Auditor.

#### **Registrar fee**

This is a small fixed annual fee, plus a fixed annual fee per shareholder entry on the fund's register, paid to the AFM for maintaining the register of shareholders.

#### **FCA fees**

This is a fixed annual fee paid to the FCA for its role as regulator of Marlborough and the funds.



## Ongoing charges figures per share class

Fund	Share Class	Ongoing Charges Figure (OCF)
MFM Bowland - Income	A Class	0.80%
MFM Hathaway - Accumulation	A Class	1.42%
MFM Hathaway - Income	A Class	1.42%

The ongoing charge figures above are based on actual expenses for the Funds year end. These are 31 March 2021 for MFM Bowland and 30 September 2020 for MFM Hathaway. The ongoing charge figure covers all aspects of operating the funds during the year, including the fees paid and described at the start of this section 5. It does not include payments to your financial adviser through an adviser charging agreement, and/or any other firm through which you invest. You pay for their services directly.

Marlborough do not apply exit charges, initial charges or performance fees to the funds.

### Conclusion

We are satisfied that the costs of the services provided represent reasonable value to our investors.

We consider the different share classes and their charges later in this report in section 9.

## 6. Comparable market rates

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Periodically we review the fees we pay to third parties.

The comparable market rates for depositories, custodians and auditors are subject to a degree of commercial confidentiality. Nevertheless experience of past fees, the tender or review processes we use and our own awareness of the market mean that we believe our approach secures the best value for money when these contracts are reviewed or re-tendered; and that we review and re-tender with a reasonable frequency given the nature of the relationships and different costs of moving suppliers.

Trustees commonly structure their fees on an ad-valorem basis, which means fees are based on the size of the fund. We keep these fees under review to ensure that they remain competitive and that they represent good value for investors.

We have considered the fees which are paid to the investment manager against those of similar services provided to other funds for which we are AFM.

The market rates for independent AFMs are also subject to a degree of commercial confidentiality and will vary depending on the size and type of fund. Contracts are commercially negotiated and reflect the competitive nature of the independent AFM market. Fund sponsors typically conduct full tendering processes and can move their funds to other independent AFMs. This ensures that Marlborough remains competitive and offers value for investors.

In making our assessment of the overall costs, we have also compared the OCF for the funds with other similar funds in the market.

### Conclusion

We are satisfied that the costs are reasonable and appropriate compared to other similar funds.

## 7. Comparable services



With regard to AFM services, Marlborough provides comparable services to other fund ranges. While the charging structure will vary depending on the size, nature and risks involved with particular funds, the fees paid by these funds are similar to those paid by other comparable funds within our range.

We also consider comparable services offered by the third party providers to the funds, such as the Investment Manager. Where providers do offer comparable services we ask them to outline the key differences in charging and service, so that we can ensure good value is delivered to fund investors when compared against alternative products and services available elsewhere from the same provider.

### Conclusion

We are satisfied that the costs are reasonable and appropriate compared to other similar funds.

## 8. Economies of scale



### What have we considered?

We have considered two different types of economies of scale relating to:

#### *The size and scale of the fund*

Larger funds are more profitable to us, in some cases we are charging a minimum fee to a fund until it grows in size.

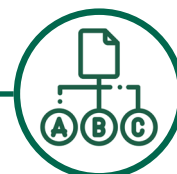
Certain services have fixed or minimum fees. This means that as funds grow they benefit from their increase in scale. We seek to ensure that each fund offers value to investors and is commercially viable in its own right taking in to account the impact of any fixed or minimum fees.

#### *The size and scale of Marlborough as AFM*

The second area of economies of scale is where we can negotiate terms for the large number of different funds for which we act as AFM. Marlborough is AFM to over 20 funds with more than £5 billion under management. Along with our sister company, our group is AFM to over 70 funds with more than £10 billion under management. We use this scale to negotiate fees wherever we think it is in the interests of all the funds affected. We discuss with our suppliers the need to ensure that fees are fairly and transparently spread across all the funds.

## 9. Share classes

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### *MFM Bowland Fund*

The MFM Bowland Fund has only one class of unit and so there are no different unit classes with different features to consider.

### *MFM Hathaway Fund*

Units in the fund differ only in the way that they treat income payments (either by distributing income payments or by accumulating them and reflecting this in the price).

There are no other differences between unit classes to consider.

## 10. Our conclusion

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We are satisfied that the charges taken from these funds are justified in the context of the overall value delivered to investors.