

MFM HATHAWAY FUND

INVESTMENT ADVISER'S REPORT

For the six month period ended 31 March 2005

We have pleasure in presenting the Investment Adviser's report on the MFM Hathaway Fund - an *equity and bond* unit trust - for the interim period ended 31st March 2005.

During the six months UK stockmarket prices were sufficiently strong before the turn of the year to make up for the volatility in recent weeks and equities (the FTSE All Share Index) provided a *total return* of +9.5% and government bonds (the FT All Stocks Index) +2.5%.

Against this background the *total return* on the fund, which has a collection of fixed income securities (mainly gilts), equities and cash, again exceeded our expectations at +8.4% in the six months (our target was +7.4%); the performance since launch in November 2002 has been +34.6%, as against +33.0% for the stockmarket and +10.6% for government bonds (based on the same indices as described above).

The table below brings up to date the statistics shown in the 2004 Annual Report while, for the first time, we also show our "target" or benchmark - being an amalgam of the equity and bond market indices (broadly reflecting the actual division of assets in the fund).

| Year * | MFM Hathaway Fund * | Benchmark | FTSE All Share Index (Equities) * | FTSE All Stocks Index (Gilts) * |
|------------|---------------------|-----------|-----------------------------------|---------------------------------|
| 2003 | +13.1% | + 6.7% | + 8.2% | + 3.3% |
| 2004 | + 9.8% | + 9.8% | +12.1% | + 4.4% |
| 2004/5 | + 8.4% | + 7.4% | + 9.5% | + 2.5% |
| Cumulative | +34.6% | +25.7% | +33.0% | +10.6% |

Although the fund has performed well so far this year, patience remains our main steer and we are cautious, given that valuations of securities in which we are interested remain fairly full, despite the weak dollar, the prospect of higher interest rates (about which we have warned before), high oil prices etc; we therefore hold more cash than we would like, but finding suitable opportunities for its deployment remains challenging.

Amongst our company shares, we would single out LloydsTSB – where our analysis of this company has proved accurate – on the strength of its 2004 results - and we expect the market eventually to confirm its strength; in the meantime, the compound growth on our equities so far has been about +45% (as against +33% for the stockmarket) and it is this outperformance of a demanding index (the FTSE All Share) by this part of our fund which has enabled us consistently to deliver a performance superior to our benchmark. Our growing list of investors have received considerably greater rewards than the level of risk they have run so far would indicate (which is our overall goal).

We continue however, to experience a headwind and so our investors should continue to share our patience; in the meantime, we welcome Graham Shaw to our investment team – not only has Graham completed the highest level investment examinations in record time

(following his First in engineering from London University) but he brings the multidisciplinary skills which we seek and which complement our own (he was previously an investment banker in the City, he is licensed to pilot three types of Boeing airliner and prior to joining us he had his own investment advisory practice etc).

We look forward to reporting the annual performance at the end of the year.

Graham Englefield
Robert Bogle

* Source: the index statistics are from the Financial Times (and they are calculated on a mid to mid price basis, with income reinvested); the MFM Hathaway Fund, therefore shows performance based on the mid price of *accumulation* units so that all figures are on the same footing.