MFM HATHAWAY FUND

INVESTMENT ADVISER'S REPORT

For the six month period ended 31st March 2006

Amid growing confidence in securities markets, our overall gain in the period under review was 8.59p per *accumulation* unit (mid-price to mid-price), an increase of +11.8%. Since we launched the fund in November 2002, the same measure (documenting in its entirety our performance to date) records a rise from the starting point of 50p to 80.945p as at 31st March, a gain of almost 62%; this was made up of a capital gain of just over 50%, the remainder being dividend income.

The following table reflects the progress over the long-term in more detail (see also the explanatory notes at the end).

Year	MFM Hathaway Fund	Benchmark (30% gilts, 70% equities)	FTSE All Share Index (equities)	FTSE All Stocks Index (gilts)
2002/3	+13.1%	+ 6.7%	+ 8.2%	+ 3.3%
2003/4	+ 9.8%	+ 9.8%	+12.1%	+ 4.4%
2004/5	+16.4%	+19.7%	+ 24.7%	+ 8.2%
2005/6	+11.8%	+ 9.2%	+12.3%	+ 2.1%
Cumulative	+61.9%	+53.1%	+70.1%	+19.2%

The table records that the fund remains ahead of our "benchmark" which is a simple amalgam of the two indices beside it, reflecting approximately our asset allocation in the first years of the fund's life (although, since our unit trust currently holds almost 40% in gilts and cash, the benchmark in fact overstates what our performance might be in the short term).

Meanwhile, the actual business growth of the companies driving the advance in the stockmarket again generally lagged the rise in their shares (the opposite of the case when we reported at this stage two years ago), confirming the continuing speculative nature of those price increases; for that reason, our levels of cash and short-dated bonds remain high as we demand an ever greater standard of safety from our overall portfolio.

We are however gratified to see that, since launch, our equity commitments have returned approximately +80% (*i.e.* as against +70.1% and they also beat the stockmarket in the half year); equally, we said in our annual report last September that the real test is to outperform a falling market, and that is why we hold a *margin of safety*. Indeed, our caution grows at the same rate as the average investor's desire for risk and we do not lose sight of the fact that the stockmarket moves money from the active to the patient.

In summary on performance, our growing list of investors has continued to receive (depending, in the short term, on when they joined us), greater rewards than the level of risk they have run would indicate, which is our long-stated goal.

Alongside these events, the dominance of capital growth so far on the portfolio leads us now to seek opportunities to increase the fund income; that task is a challenge, but there are currently rather more opportunities for deploying capital to address that objective, than to finding long-term value (we see the equity part of our portfolio as only mildly attractive, since prices are fairly full). The upward spike in the equity market is of little help to us.

Looking at our holdings, we would again single out – as particularly gratifying – the business reports from Wolseley (in plumbing and lumber), while Lloyds TSB continues to make progress (and to pay a handsome dividend to shareholders) in the face of long-standing pessimism in the financial press, (contrary to our view of the enterprise).

Equally, the Law Debenture Corporation (a first-class investment fund) had a strong 2005, continuing its long-term record of delivering returns well in excess of the stockmarket; we expect more to come.

As ever, we would ask unitholders to keep their expectations within reasonable parameters and, whilst we have exceeded them so far, we do not necessarily expect this always to be the case; we look forward however, to reporting our annual performance in the autumn and we know that we will do so while incurring a level of risk, as we have noted above, considerably below that of the average equity investor and also from the standpoint of a highly competitive charging structure on the fund.

Unitholders wishing to read more about our *value investing* philosophy or to note the current fund prices for *income* or *accumulation* units, can view our web-site at www.hathawayinvestment.com.

Graham Englefield
Robert Bogle
Graham Shaw

20.04.06

Notes

1. Statistical source: the index figures we quote in the table above are derived from the Financial Times newspaper (and all are calculated on a mid-to-mid price basis, with net income reinvested); the MFM Hathaway Fund, equally, shows performance based on the mid-price of *accumulation* units, so that all figures in the table are on the same footing (i.e. they show *total return*).

2. "Equities" means company shares and the FTSE All Share Index (what we generally mean by "the stockmarket") records the experience of a commitment to almost all quoted companies; "Gilts" means UK government bonds and the FTSE All Stocks Index is an average of all those in issue.

3. The cumulative figures in the last line of the table very accurately show the *total return* from 25.11.02 to 31.03.06; the apparent discrepancy from an aggregation of annual statistics is explained by rounding each year/half year.