MFM HATHAWAY FUND

INVESTMENT ADVISER'S REPORT

For the six month period ended 31st March 2007

To the unitholders of the MFM Hathaway Fund:

The overall portfolio gain over the period under review was +5.6%, reflected in a 4.5p increase in *accumulation* units, which reflect the *total return*. Since we started in November 2002, those units have grown from 50p to 84.175p, an annualised compound rate of +12.5%.

The period return comprised a capital gain of +3.9% plus dividends received (1.7%); income unitholders saw an increase of 24% in the prospective payout (following a similar increase in the previous six months), again reflecting increased receipts and further investments. Naturally, that rate of increase will slow, but the yield now amounts to 4.4% *p.a.* of an investment made at launch.

The following table records the progress so far (see also the explanatory notes at the end):

Year	Benchmark (30% gilts, 70% equities)	MFM Hathaway Fund
2002/03	+ 6.7%	+13.1%
2003/04	+ 9.8%	+ 9.8%
2004/05	+19.7%	+16.4%
2005/06	+10.7%	+10.1%
2006/07	+ 6.0%	+ 5.6%
Cumulative	+64.5%	+68.3 %

The table records that the fund remains ahead of our "benchmark", although the fact that we have held an average of about 40% in gilts and cash in recent years, means that the statistics in the left column in fact overstate what our performance might have been.

Indeed, an adjustment to that guide to reflect our actual asset allocation (including our preference for large capitalisation stocks – so that we use the FTSE 100 Index and not the All Share for the equity element) means that it would have returned less than 4% in the period under review and a cumulative figure of +50.7%. We do not however propose to change how we prepare the test.

Suffice to say here, that our caution has led to only a small cumulative superiority over the benchmark, but that our selection of individual securities has indeed proved wise, as we have beaten the stockmarket comfortably with them (as the table overleaf shows).

Bonds v equities: why our cautious approach?

As we note, our levels of cash and bonds remain high (around 42%) as we demand an ever greater standard of safety from our overall portfolio following what we see as the considerably greater risk now carried by the stockmarket. Note that in 2002/03, conventional thinking was to invest almost all in bonds (since when they have produced, cumulatively, just 20%) but we then only placed about a quarter in that segment; now, the opposite prevails.

We could write at length, but suffice to say that the stockmarket takes on greater risk as it climbs and that, for several reasons, the amount of borrowed money speculating in financial assets of all kinds is high; the current euphoria will therefore end painfully, although we have no idea when. In the meantime, we are more and more cautious about deploying the capital entrusted to us.

In summary, whilst we may so far appear to have been too cautious over the last few years, the time for an investor to reign in his or her expectations, is when all the economic indicators are benign; the increase in liquidity in the system is cause for caution not for celebration and, indeed, the sharp

February corrections (which could have occurred at any time in the last five years and which could have been more profound) underline that fact.

Security selection: MFM Hathaway Fund Equities vs FTSE 100 and FTSE All Share

Separately, in considering the merits of our selection of investments, we are principally interested in how our equities perform, since bonds generally produce lower returns but at least at a reasonable rate while we patiently look to deploy capital in shares.

The table below shows the average proportion of the fund held in shares since we started and then the *total return* performance of that portion as against the FTSE 100 and FTSE All Share indices; the statistics therefore show the productivity of our decisions in choosing individual equities, as against the indices and also our reducing commitment to shares as they have risen.

Year	MFM Hathaway proportion in equities	MFM Hathaway equity return	FTSE 100 Index	FTSE All Share Index
2002/03	71%	+ 16.3%	+ 4.8%	+ 8.2%
2003/04	67%	+ 12.1%	+11.4%	+12.1%
2004/05	61%	+ 21.2%	+24.4%	+24.7%
2005/06	57%	+ 15.9%	+11.7%	+13.7%
2006/07	57%	+ 10.4%	+ 7.4%	+ 9.1%
Cumulative	--	+102.1%	+74.2%	+87.6%

Linking the two themes above together, our tasks are first to protect your capital and secondly to make it grow and the results presented in this report bear witness to that. We will patiently exercise our judgement to find worthwhile investments to deliver the *absolute* and *relative* returns you have seen to date.

We look forward to reporting annual performance in the autumn, while more about our *value investing* philosophy and the current fund prices are on our website.

Graham Englefield
Robert Bogle
Graham Shaw

www.hathawayinvestment.com

10.04.07

Notes

1. Statistical source: the benchmark 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. Movements in the price of an *accumulation* unit, provide a complete record of performance, since accrued income is included alongside capital performance.

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, while the FTSE All Stocks Index is an average of all those in issue and so we use that in preparing the bond part of the benchmark.

3. The cumulative figures in the last line of the table very accurately show the *total return* from 25.11.02 to 31.03.07; any apparent discrepancy from a simple aggregation of annual and semi-annual statistics, is explained by rounding each year.

4. References to "year" in the tables, is to the fund year – October 1st to September 30th, except for 2002/03, which is for the period 25th November 2002 to 30th September 2003.