MFM HATHAWAY FUND

INVESTMENT ADVISER'S REPORT

For the half year ended 31st March 2008

To the unitholders of the MFM Hathaway Fund:

Amid continuing weakness in securities markets, our overall portfolio *decline* over the period under review was - 4.2%, represented by a 3.55p decrease in an *accumulation* unit (which class reflects exactly the *total return* on the fund) and this was achieved against the background of a performance of *minus* 10.5% in the stockmarket. Since we started in November 2002, those units have grown from 50p to 80.485p.

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

Year	MFM Hathaway Fund	Benchmark (30% gilts, 70% equities)
2002/03	+ 13.1%	+ 6.7%
2003/04	+ 9.8%	+ 9.8%
2004/05	+16.4%	+19.7%
2005/06	+10.1%	+10.7%
2006/07	+ 5.5%	+ 8.4%
2007/2008	- 4.2%	- 5.7%
Cumulative	+61.0%	+58.6%

The table records that the fund again sits ahead of our "benchmark", although the fact that we have held an average of over 40% in gilts and cash in recent years, means that the statistics in the right column in fact overstate what our performance might have been, so we are further ahead of expectations than the figures *per se* reveal (as we have previously described in detail). Equally, the benchmark would have been considerably lower if we had used the blue-chip (FTSE 100) in its construction rather than the more general All Share (see below).

The value of a declining stockmarket

We have now despatched ten annual or semi-annual reports to our unit holders (there was no interim in March 2003) and this is the first time that we have recorded a decline in the value of the fund over any discrete period (although there was a trivial fall between March and September 2006, which was masked in the annual report on the latter date by a robust return in the first six months of that year).

We regard the last six months as noteworthy however, since a period when the stockmarket decline is 10.5% and we retreat 4.2%, is actually far superior an outcome than matching the index when it is gaining fast, not least since it allows you to set realistic goals for your portfolio once equities recover and a down market provides an objective test of just how conservative your manner of investing is. That statement may be counter-intuitive and defies "conventional wisdom", but they are what led the huge shift by investors to buy bonds in 2002/03 when we were buying equities for our new fund; since we started, the return on government bonds has been +28.3%, on the fund + 61.0%.

It is rational however to record that, when looking only at a half year, the measurements can exaggerate chance fluctuations in performance.

We have said on several occasions before, that our goal is to achieve a return between that seen on the competing vehicles of stocks and bonds, broadly reflecting our actual allocation of capital (hence our benchmark) and we continue to meet that objective. That has been achieved partly through the long-term superiority of the fund equities – as shown in the comparison with the indices below – and partly from holding bonds which provide safety in uncertain times, as they are now.

Linking the two themes above together, our tasks are first to protect your capital (where caution comes in) and secondly to make it grow (security selection) and the results presented above bear witness to that. We will patiently exercise our judgement to find worthwhile investments further to deliver the *absolute* and *relative* returns you have seen to date and in fact we were quite active in the period.

Investment activities and outlook

We moved our exposure to building materials from a holding of Wolseley (mainly U.S.) to Travis Perkins, which is a U.K. business (and in the process reduced our commitment to the sector) we added a holding of Brambles (which is the world's largest pallet company (on very good terms) and we were pleased to take profits on Scottish & Newcastle breweries on the back of a takeover which realised shareholder value.

We have watched Brambles for years (it was in our original fund prospectus – as was Scottish & Newcastle), so it is gratifying to be able to add it at such an attractive price.

Meanwhile, the robust annual statement from Lloyds TSB, for 2007, vindicates what we have said about it in these reports several times; its dividend increase, buttresses our view.

Following our divestment of Standard Chartered (we have some HSBC which also has a robust business model), Lloyds remains our only major exposure to the banking sector and the latest trading statement, which we read today, evidences its superiority over its peer group in the High Street (on a number of measures); we are under no illusions as to the challenges faced by the banking sector, but we are comfortable with the investments we have in it – which are for the long term. Finally, we have seen an initial strong return from our holding of Bodycote International which, although a small commitment, represents an investment in an interesting sector in fine engineering products and processes (and which has got off to a good start).

We look forward to reporting the annual performance in the autumn, while more about our *value investing* philosophy and the current fund prices are on our website; in the meantime, we will continue to seek value investing opportunities for the fund and, as a portfolio management matter, we are also looking at ways once again to increase the dividend payout to *income* unit holders.

Graham Englefield
Robert Bogle
Graham Shaw
07.05.08

www.hathawayinvestment.com

Notes

1. Statistical source: the benchmark figures we quote in the table above are derived from statistics 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, equally, shows performance based on the mid-price of *accumulation* units, so that all figures in the tables 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. The FTSE 100 Index covers just the largest quoted companies (the “blue chips”).

3. The cumulative figures in the last line of the tables very accurately show the *total return* from 25.11.02 to 31.03.08; 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 and of course 2007/08 is for the first six months.