MFM HATHAWAY FUND

INVESTMENT ADVISER'S REPORT

For the period ended 30th September 2004

We have pleasure in presenting the Investment Adviser's report on the MFM Hathaway Fund – *an equity and bond* unit trust – for the period ended 30th September 2004.

The year was again dominated by international events, including the election in the US, a continued weakening of the dollar and sharply rising oil prices; against this background, there was a continued, but fragile resurgence of confidence in securities markets. None of these developments need concern the long-term holder of securities of course, but they affected capital markets over the short term that is twelve months.

Against this background, our unit trust had a gratifying second year, consolidating the gains made in 2003; the fund *total return* performance, as against the general stockmarket (the FTSE All Share Index) and government bonds, is shown below - our aim being to achieve a return between those two indices, broadly reflecting our actual allocation of capital.

Year	MFM Hathaway Fund	FTSE All Share Index	FTSE All Stocks Index
2003	+ 13.1%	+ 8.2%	+ 3.3%
2004	+ 9.8%	+ 12.1%	+ 4.4%
Cumulative	+ 24.2%	+ 21.3%	+ 7.8%

Over the first two years the fund has grown on an annual compound basis (i.e. 24.2%) at a stronger rate than both the general experience in securities (our "target" was about 17%) and the stockmarket (i.e. 21.3%), so we are satisfied with our performance so far.

We again received satisfactory reports from our investee companies and funds and, although in some cases we saw considerable (and justifiable) increases in share prices, in many cases we saw movements considerably behind increases in *intrinsic value*; an example would be Law Debenture Corporation (a first-class investment fund), where the *net asset value* advanced well ahead of the stockmarket, but its share price lagged some way behind. Therefore some value gains are yet to be realised in quotational advances.

Accordingly, we remain patient in our approach, looking to the business or investment fund itself, over the long term, to justify any one of our investments and we are not concerned about some stockmarket quotation on any day.

We said a year ago that unit holder expectations would be tempered by rising interest rates in 2004 and, for once, we were proved accurate; the cost of money, oil prices etc, means that we are flying into a head wind and our investors should share our patience.

We should close by thanking Marlborough who, as managers and registrars, have again done a first class job on the housekeeping, providing us with a strong example to follow as investment advisers.

Graham Englefield
Bob Bogle