

Far View Capital Management
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July 10, 2020

Dear Partner:

Welcome to the performance update of Far View Partners, LP for the half year ended June 30, 2020

Portfolio Performance

During H1 2020, Far View Partners generated a return of -4.49% net of all fees and expenses and that was comprised of -27.65% in Q1 2020 and +32.02% in Q2 2020. Since inception on July 1, 2011, Far View Partners has generated a cumulative net return of +152.75%, a 10.85% CAGR.

In H1 2020, Far View enjoyed gains in our largest position, Naked Wines PLC, as COVID-19 and the resulting lockdown drove a large increase in sales (+81% y/y in April and May 2020). I believe this pandemic has led to an increased trial of online alcohol products, especially in the important US market where online alcohol purchasing has lagged behind other categories. As the largest US wine direct-to-consumer player, Naked should drive significant growth in valuable, long-term subscribers from this increased awareness. Far View also enjoyed gains from KKR Inc. and Nintendo Co. LTD because their business models proved resilient during the crisis.

The positive gains were offset by losses in 2 of our names with the smallest market capitalizations, Optiva Inc. and Grindrod Shipping Holdings Ltd. because they suffered with the market decline in March and did not benefit from the subsequent recovery rally. Our significant losses in Echostar Corporation were more surprising. Given its COVID-19 resistant business (satellite broadband) and strong balance sheet, I did not expect the large losses that this position generated during the pandemic. After reviewing the investment thesis, I remain confident that Echostar is materially undervalued and I expect it to generate attractive long-term returns for Far View.

The Partnership's portfolio on June 30, 2020 consisted of long equity investments in the United States, Canada, the United Kingdom, Sweden and Japan as well as short positions in United States equity indices as a hedge. Far View Partners also had a large cash position at the end of the second quarter and maintained short positions in various currency futures for hedging purposes.

Complexity versus Simplicity

Many investors are searching for theories to explain these uncertain times. While one would hope that those investors would search for simple and concrete explanations, unfortunately studies like the one done by Professor Alex Bavelas have found complex theories are generally more persuasive.ⁱ (HT to Jim O'Shaughnessy of O'Shaughnessy Asset Management who posted it in a March 2019 Twitter thread.)

The Bavelas experiment includes subjects who are designated 1 and 2. They are separated and told to identify healthy and sick cells on their projection screens using trial and error. Then they are told whether their guesses are correct.

The interesting wrinkle in the experiment is that only the 1s get accurate feedback. If they are right, they are told they are right. The 2s, however, are unaware that the feedback they are receiving is unreliable. In fact, the feedback a 2 gets is actually based on a 1's results. So even if a 2 is right, they may be told they are wrong if a 1 guesses wrong and vice versa.

As a result of this structure, a 1 has a proper feedback loop to help evaluate healthy versus sick cells. As a result, the 1s were able to craft basic rules that were simple and clear, and they eventually achieved an 80% accuracy rate. A 2 lacks that feedback loop and is forced to rationalize the random data and craft a pattern where none exists. As a result, the 2s created convoluted theories and guessed with an accuracy rate similar to pure chance.

The participants in the experiment met to discuss their theories for identifying healthy cells and were asked to rate the strength of each theory. What's fascinating is that the more complicated theories of the 2s were considered more persuasive by both parties. In fact, the more complex the made-up rules were that the 2s presented, the more impressed the 1s were. However, the 2s were rarely impressed by the simple but accurate theories of the 1s. In subsequent trials, the 1s began incorporating the complex theories of the 2s and performed significantly worse than they had initially.ⁱⁱ

Investors fall prey to similar biases. Complicated investment pitches with detailed financial models are often perceived as more compelling than simpler pitches based on "napkin math." However, it has been my experience that the simpler investment pitches generally outperform. I believe that is an important lesson to remember, especially during periods of high uncertainty.

During the pandemic, I have focused on simpler investment theses where I can find a real edge on the critical components. As a result, my "too hard" pile has grown larger as I have avoided the increasing portion of investment ideas that rely on a large portion of unknowable factors. While complexity may sound impressive when presented, I believe we will make money by remaining focused on simplicity.

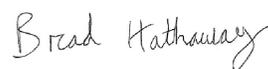
The Partnership

The volatility of the last few months has been unprecedented. Far View had its worst quarterly performance ever in Q1 2020 and then followed it immediately with its best quarterly performance. The Partnership also had multiple positions drop by greater than 50 % during the crisis that have since recovered to almost their yearly highs. Such volatility can certainly be challenging but can also be a source of great opportunity for an investor with a long-term time horizon.

I want to thank my limited partners who added to their investment during Q1 2020. I certainly understand how challenging it can be to commit capital during periods of market turmoil. Having long-term oriented limited partners is one of Far View's greatest competitive advantages and I appreciate your trust.

While I can't predict short-term results, I am excited about the current portfolio and its potential long-term returns. As a reminder, I am Far View's largest investor and the Partnership contains the vast majority of my net worth. Please do not hesitate to contact me if you would like to discuss Far View or our portfolio companies in greater detail.

Sincerely,



Brad Hathaway
Managing Partner

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ⁱ <https://twitter.com/jposhaughnessy/status/1106623229173686272>

ⁱⁱ <https://perceptionmanagers.org/2008/08/bavelas-experiment.html>