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Dear Partner,

Welcome to the performance update of Far View Partners L.P. for the half-year ended December 31, 2016.

Portfolio Performance

During H2 2016, Far View Partners generated a return of +15.64% net of all fees and expenses, which was comprised of +10.18% in Q3 2016 and +4.95% in Q4 2016. For the year ended December 31, 2016, Far View's net return was +19.55%. Since inception on July 1, 2011, Far View Partners has generated a cumulative net return of +109.09%.

Far View's H2 2016 performance was driven by strong returns from Aware Inc., Coats Group PLC, and The RMR Group. Coats Group was a major driver of returns in H2 2016 as the company benefitted from the lifting of two material overhangs. First, by finishing its delisting in Australia and New Zealand at the end of June, Coats Group consolidated its trading in London and removed a significant share overhang. Secondly, and more importantly, the company reached an agreement with the UK Pension Regulator to cease the regulatory action related to two of the Coats pension schemes at attractive terms. This settlement will allow the company to access its plentiful free cash flow for acquisitions and shareholder returns. Combined with a slightly better than expected earnings performance, the lifting of these two overhangs helped power a ~100% return in Coats in H2 2016.

Far View's gains were offset by declines in Covisint Corporation, Halogen Software, and Mediaset S.p.A. Mediaset was an interesting opportunity because it had signed a contract to sell its loss-making Premium TV business to Vivendi, revealing its attractive Italian free-to-air TV business at a very inexpensive valuation. Soon after the Partnership established a position, however, Vivendi unexpectedly backed out of the previously agreed deal. While Mediaset announced that it was suing to enforce the original agreement, I decided to exit the position at a loss because the investment thesis was no longer valid and I did not have comfort in my ability to handicap the legal outcome.

On December 31, 2016, the Partnership's portfolio consisted of long equity investments in the United States, Europe, and Canada; a U.S. Master Limited Partnership; short positions in U.S. REITs to hedge an existing equity investment; and a significant cash position.

Process: Post Mortem - Aqualis

A post-mortem analysis is a critical tool in my efforts to try to continually improve Far View's investment process. This review examines all exited positions and focuses on the quality of the process, not

necessarily the return generated by position. Good decisions can sometimes lead to bad outcomes (and vice versa) in the short term, but by continually improving the process, Far View should be better positioned to generate attractive long-term results.

Below is a post-mortem for Aqualis ASA, a Norwegian consulting firm that Far View exited during H2 2016. This discussion follows the same structure as Far View's internal post-mortems but it has been materially expanded for an external audience.

Was the Thesis Right: **NO**

In the summer of 2014, Aqualis was spun out of Norwegian biopharmaceutical company Weifa ASA with the goal of consolidating the energy consulting industry. While the company appeared fairly valued based on historical numbers, I believed that those results understated the potential future earnings from the significant ongoing growth in the company's employee base as it gained market share. I also felt that any downside would be protected by the company's large net cash position and its ability to stay cash-flow breakeven in all demand environments due to a flexible, asset-light business model.

The thesis was incorrect as it materially underestimated the extent of the company's exposure to the energy markets. As a result of the oil price collapse in 2014-15, demand for Aqualis's services plummeted. The company was reluctantly forced to shrink its employee base, and its cost structure ended up being less flexible than assumed. As a result of this underperformance, the stock was a major loser for Far View in H2 2015.

Were the Critical Issues Foreseeable: **YES**

The severity of the 2014-15 oil price collapse was unexpected when Far View initially purchased Aqualis. However, through H1 2015, the stock's performance was positive as the business remained stable despite an almost 50% drop in oil prices. Because of this stability, Far View had plenty of opportunities to reassess the impact of this end market weakness on the investment thesis and exit the position before the oil price collapse impacted Aqualis's results and share price.

Over the course of the diligence process, I was well aware that Aqualis's business was exposed to an oil and gas downturn. In the "Risks" section of my mid-2014 initial write-up, my first risk factor was, "A significant downturn in oil and gas spend"¹ so the risk was not unexpected.

Despite correctly identifying this key issue, I did not appropriately adjust my forecasts for the business after this collapse in end market demand. In fact, in a later note during the oil price plunge, I wrote that I expected the company to "grow significantly over the next few years, regardless of the level of offshore spending." Aqualis's revenue declined double digits y/y in Q3 2015 and the share price was cut in half between the results announcement and the end of the year. The business continued to struggle throughout 2016 as revenue remained impacted by weak demand and the cost structure ended up being less flexible than expected.

Future Process Improvements

Given that this critical issue was foreseeable, why was the analysis flawed and, more importantly, how can I improve the future process? In assessing my decisions, I think my failure to adjust my thesis in the Aqualis investment generally stemmed from three cognitive biases that are well known in behavioral finance.

First, similarity bias caused me to be far too optimistic about Aqualis when I initially uncovered the opportunity. As a small, obscure spin-off of a Norwegian energy service provider, Aqualis resembled

¹ Quotes in this section are from Far View's internal Aqualis investment write-up and later notes

Veripos Inc., a very successful position that Far View had exited in Q1 2014. This similarity kept me from being sufficiently skeptical enough of the new position from the onset.

While patterns can be useful when researching an investment thesis, it is important to avoid being improperly influenced by superficial similarities. While Aqualis appeared to be similar to Veripos, it was a much less attractive business with less attractive spin-off dynamics. To combat this mistake in future periods, Far View's checklist includes a question about whether I have enjoyed a similar successful investment which will force a ground-up reconsideration of the specific merits of the new opportunity.

This similarity bias was compounded by repeated bouts of confirmation bias. During Far View's ownership of Aqualis, I placed far too much focus on evidence that confirmed the investment thesis. Throughout my ongoing diligence, I obsessively tracked data that supported Aqualis's attractiveness, including contract wins, insider share purchases, and management assertions that supported my preexisting views about the business. The stability of the business and solid performance of the share price in H1 2015 also led me astray as they provided a false level of comfort that the thesis was valid.

Conversely, while I was aware of evidence of increasing end market weakness, including worsening industry layoffs, numerous project cancellations and unexpected client payment delays, I did not track this negative news as fanatically. By not placing enough focus on this contradictory evidence, I did not appropriately reassess my thesis as conditions continued to worsen throughout 2015.

For the future, I have more thoroughly implemented Charles Darwin's strategy for contradictory evidence which he explains as, "whenever a published fact, a new observation or thought came across me, which was opposed to my general results, to make memorandum of it without fail."² I am more aggressively tracking facts that disagree with the existing thesis to heighten my focus on them. Furthermore, I am constantly reassessing whether new evidence has invalidated the investment thesis. I believe that diligent application of these two practices will help me battle confirmation bias.

Finally, as a result of authority bias, I put far too much faith in management's bullish expectations about the stability of their business and ability to take share in a shrinking market. Aqualis's management and board of directors were very well regarded with decades of industry expertise and strong track records; I considered their presence a key part of the investment thesis. This same team had managed the company's main competitor without trouble through the 2007-09 downturn and sold the business for an excellent return. Moreover, multiple members of Aqualis's management and board of directors supported their bullish proclamations with significant share purchases throughout H1 2015.

During Far View's research of Aqualis, I constantly questioned management about the impact of the oil price downturn on their business. They continually assured me that the business would remain stable even if the downturn continued, and that they were gaining share from their less-nimble competitors. While they believed their optimism (as the share purchases attest), their forecasts were clearly incorrect. I should have been more skeptical with regard to the sustainability of this outperformance. However, as a result of their reputation and share purchases, I allowed my belief in management's expertise to override my concerns about their cyclical end market.

To combat this authority bias, I have added another section to the checklist to make me double check that my decision making is not being inappropriately influenced by an outside authority, including management or a well-known investor. Hopefully, increasing my awareness of this key issue will help me maintain an appropriate level of skeptical curiosity.

² The Life and Letters of Charles Darwin, p.36

I have made many mistakes in the past and will, unfortunately, continue to make new mistakes in the future. However, I hope that a continuous and detailed post-mortem analysis will make me less likely to commit the same mistakes in future investments.

The Partnership

As always, it is my goal to work with limited partners who understand and support the Partnership's investment strategy and processes. To that end, please feel free to contact me if you have any questions or thoughts about the Partnership or my investment philosophy. As Far View Partners' largest investor, I remain very excited for its long-term outlook. Thank you very much for your continued trust and support.

Sincerely,

A handwritten signature in cursive script that reads "Brad Hathaway".

Brad Hathaway
Managing Partner

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