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January 13, 2020

Dear Partner,

Welcome to the performance update of Far View Partners L.P. for the year ended December 31, 2019.

Portfolio Performance

During H2 2019, Far View Partners generated a return of +9.54% net of all fees and expenses, which comprised -0.38% in Q3 2019 and +9.96% in Q4 2019. For 2019, Far View Partners returned 19.16%. Since inception on July 1, 2011, Far View Partners has generated a cumulative net return of +164.64% or 12.13% annualized.

In H2 2019, Far View enjoyed gains in Grindrod Shipping Holdings LTD and Optiva Inc, as their share prices recovered from weaker H1 performances. Returns were also driven by Trisura Group LTD which advanced rapidly after Q3 results began to show the significant potential of the company's nascent U.S. business. This U.S. opportunity was a key part of my thesis when Far View made the Trisura investment.

Offsetting those gains were losses in Zooplus and Naked Wines PLC (FKA Majestic Wines) and EZCORP Inc. (EZPW). Far View sold EZPW at a loss after long-simmering corporate governance fears came to a boil when the company's controlling shareholder installed himself as Executive Chairman with what I consider to be an egregious compensation package. When I invested in EZPW in 2017, I was aware of the negative reputation of the controlling shareholder and considered it one of the major risks of the investment. However, I was convinced that a 2016 Delaware court decision declaring that he had a personal fiduciary responsibility to other investors would limit his ability to continue take advantage of minority shareholders. He was more creative than I expected, and I should have known better.

On December 31, 2019, the Partnership's portfolio consisted of long equity investments in the United States, Canada, United Kingdom, Sweden, Germany, and Japan. Far View Partners also had a small cash position at the end of the quarter and maintained short positions in various currency futures for hedging purposes.

Case Study-Lawson Products

In H2 2019, I sold the vast majority of our investment in Lawson Products (LAWS), a position that Far View has held since late 2016. LAWS is a distributor of consumable maintenance, repair and overhaul (MRO) supplies (fasteners, lubricants etc.) for industrial clients. At the time of Far View's purchase, the company's stock was undervalued as a result of depressed short-term earnings from the company's investments in growing its sales force as well as investor concerns about weakening demand in the industrial economy.

LAWS sales representatives manage a territory, visiting industrial locations to learn the needs of the businesses and make sure that they are always properly stocked with parts. As LAWS CEO Mike DeCata described it, “We’re selling items to customers that they use over and over again, so it gives us a level of predictability to anticipate the customer’s needs. From the customer’s perspective, if we do our job, they never call us. Whenever the mechanic reaches into the drawer, it’s there for them.”¹

Because it takes some time for a new representative to create relationships with customers, this sales force expansion had created a large number of new salespeople who were not yet generating enough revenue to be profitable for the company. However, as these reps continued to work in their territories, their book of business would continue to build as acquired customers tended to be very high retention due to quality of the Lawson service. Thus, I expected sales per rep per day (the key metric of the investment thesis) would continue to grow as the sales force matured and LAWS revenue would expand significantly.

To test the investment thesis, I interviewed multiple former sales representatives from LAWS as well as competitors, spoke with LAWS customers, and visited the main LAWS distribution center in McCook, Ill. to assess its ability to smoothly handle a significant increase in volume. I also tracked the results of various cohorts of LAWS representatives to verify that sales force maturation was leading to an increase in overall sales per rep per day. Finally, my diligence included multiple conversations with CEO Mike DeCata and CFO Ron Knutson, which gave me confidence that they were strong operators who were capable of driving this sales force improvement.

When Far View made the LAWS investment, the company was relatively fairly valued its near-term expectations. However, looking forward a few years to when the sales force had matured, I could see a much more profitable company as its fixed costs would allow a significant portion of the increased revenue to drop to the bottom line. Given that LAWS was relatively poorly followed by sell-side analysts, I thought this long-term inflection in earnings was misunderstood. Fast forward three years and the sales per rep per day has increased similar to my expectations driving LAWS EBITDA to more than triple from 2016 levels.

Given that the thesis has played out as expected, why did I sell in H2 2019? While LAWS relationships provide a source of recurring revenue, the business does depend on the health of the industrial economy. For example, if you are using your equipment less frequently, there is less wear and tear on the parts, and you don’t need as many replacements. Throughout the investment, I tracked the health of the industrial economy by following macro indicators and investigating the results of LAWS’s larger distribution peers to assess the strength of industrial demand. In H2 2019, I began to see the first signs of weakening demand at those peers, suggesting a less healthy environment for LAWS.

With signs of a weakening environment, I became concerned about the potential for lower LAWS revenues. A sales decline combined with the company’s operating leverage could lead to a significant profit downgrade. Furthermore, the momentum of the past year had left LAWS trading at inflated multiples compared to its history. As a result of these factors, I feared that LAWS’s downside risk had increased materially and so I sold the vast majority of the position. So far, this sale may have been premature as LAWS’s share price has continued to advance in late 2019 and early 2020. However, I will reserve full judgement on whether my decision was the correct one until I see if there is any weakening in LAWS results reported in early 2020.

LAWS was a great example of using Far View’s long-term orientation to find a high-quality company that was undervalued by the market as a result of short-term headwinds.

¹ http://www.industrialsupplymagazine.com/pages/Print-edition---MarApr15_New_and_Improved.php

The Partnership

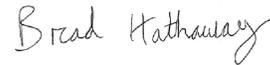
Far View's structure can often be off-putting to potential investors. Many allocators do not like the Partnership's three-year lockup and quarterly reporting. However, I believe these features are important assets that provide Far View with the potential to outperform.

The three-year lockup acts as an important gating mechanism to attract only like-minded potential investors. I find that if an allocator is not comfortable investing their money for three years, then they are not comfortable with Far View's time horizon, even if they claim to have a long-term focus. Having investors who are properly aligned with Far View's time horizon affords me the freedom to seek out differentiated investments with significant potential but uncertain timing.

With regards to quarterly reporting, I believe that you manage what you measure. While I would prefer that I could be emotionally detached enough to completely ignore monthly fluctuations, I am certain that reporting quarterly has made it easier for me to ignore near-term gyrations and focus on the time frame that is important to my investment theses.

Far View comprises the vast majority of my net worth and I remain very optimistic about its long-term future. Please feel free to contact me if you would like to discuss the Partnership or any of our investments in greater detail.

Sincerely,



Brad Hathaway
Managing Partner

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