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April 15, 2013

Dear Partner,

Welcome to the performance update of Far View Partners L.P. for the quarter ended March 31, 2013.

### **Portfolio Performance**

During Q1 2013, Far View Partners generated a return of +2.11% net of all fees and expenses. In the quarter, U.S. markets staged a strong rally, with the S&P 500 surpassing levels last seen in 2007. European markets were flat as global economic optimism at the start of the year was later offset by concerns about the Cyprus rescue, renewed Italian political instability, and continued economic weakness in peripheral countries.

The portfolio's performance was mixed as strong performance from Delclima and multiple smaller positions was offset by the decline of a mid-sized position where a court ruling was less favorable than expected. Far View's other large positions decreased slightly overall despite posting generally solid results.

During the quarter, the Partnership sold Punch Taverns (discussed below) and initiated one new position in a U.S. spin-off that briefly traded at a significant discount to net asset value. Because this security rapidly appreciated while the Partnership was acquiring shares, its position size remains small. Far View also added to existing positions with improved risk-rewards and trimmed positions in securities that had advanced ahead of expectations. At the end of Q1 2013, the Partnership's portfolio was mainly comprised of long investments in the U.S. and Europe, a single investment in Australia, and a significant cash position.

### **Process: Position Sizing Mistakes**

Despite persistent attempts to eliminate them, mistakes are unfortunately an inevitable part of investing. While errors that lead to loss-making portfolio investments are more frequently discussed, mistakes that create insufficient positions in attractive opportunities are also damaging to an investment portfolio. During the Q1 2013, Far View Partners suffered from the impact of missed opportunities.

For example, after researching an opportunity in early Q4 2012, I concluded that it represented an attractive investment that was misunderstood by the market. I determined the proper initial size given the security's risk-reward as well as price levels where I would materially increase the position. As I began acquiring shares, the security's price declined and I lowered my bid in an attempt to achieve a marginally more attractive cost basis for the second half of the initial position. However, the stock never reached my slightly lower limit, leaving the position at an insufficient size given its attractiveness. The share price has since rallied almost 50% driven by strong Q4 results that supported the investment thesis. While this

error didn't cause a "loss" in the traditional sense, my attempts to save a miniscule amount led to the forgoing of significant profits that produced a similar negative impact on Far View's results.

While mistakes are certainly frustrating, what matters most is how they are used to improve the ongoing process. For every exited investment, I perform a "post-mortem" where the thesis from the initial write-up is reexamined and the due diligence process is investigated for shortcomings. This scrutiny of prior decisions has resulted in numerous tweaks and improvements to the investment process to help prevent future errors. In the previous example, by anchoring on an irrelevant price level, I failed to stick with the pre-determined position sizing plan for the investment opportunity given its attractiveness. To prevent a reoccurrence of this error, I have made specific additions to my daily and company-specific checklists and increased the detail in investment write-ups about position sizes to improve adherence to pre-established levels.

### **Portfolio Investment: Punch Taverns**

Punch Taverns (PUB) is a UK company that leases real estate and distributes supplies to pub operators. Far View acquired shares of this company after the demerger of its more desired Spirit division left PUB as an unwanted stub comprised of cash, a JV and equity interests in its heavily-indebted pub securitizations. In addition to facing index deletions and a decline in analyst coverage due to its micro-cap status, PUB appeared to carry excessive debt, driving many investors to aggressively dump their shares after the demerger. However, due to the downside protection provided by the presence of material parent company assets and the non-recourse nature of the securitization debt, PUB's share price appeared to offer an inexpensive, multi-year option on management's turnaround plan. If the company engineered a significant improvement of the core pub estate and/or a successful restructuring of the securitizations' capital structures, PUB had the potential for 5x+ upside. As a result of this attractive risk-reward, the Partnership initiated a position in Punch Taverns during August 2011.

Over the next year and a half, PUB's share price suffered a long, slow decline as the pub business continued to struggle and a sustained operating recovery became increasingly unlikely. In Q1 2013, however, PUB announced its long-awaited restructuring, reducing junior debt at the Punch B securitization.

While this plan potentially created equity value for PUB, the share price's 50% advance in early 2013 more than captured this improvement. More importantly, continued due diligence had unearthed the presence of some previously unforeseen liabilities which lowered the parent company's net asset value. Thus, if the proposal failed to pass and PUB could not restructure the securitizations, its share price could face significant downside. The proposed restructuring requires 75% approval from each bondholder class to be implemented. Ongoing research suggested that significant groups of senior bondholders were very dissatisfied with restructuring terms, making its passage far from certain.

After considering the changes to PUB's outlook as well as its increased share price, Far View decided the security had a less attractive risk-reward and exited the position at a small loss. While PUB's impact on the portfolio's value was not that material, the position had a more significant impact in terms of opportunity cost as both the time and capital invested in the security could have been much more profitably employed elsewhere. For future investments, PUB has provided an excellent reminder of the dangers of turnarounds because the potential for large returns can lead an investor to overestimate the likelihood of operating improvement.

### **The Partnership**

At this point, limited partners should have already received their Far View Partners K-1s for 2012. Audited financials for the Partnership will be available shortly and will be emailed to all limited partners. Please feel free to contact me if you have any questions about either of these issues.

As always, it is critical for Far View Partners to retain the confidence of limited partners who understand and support the investment process and goals of the firm. As the largest investor in the Partnership, I remain extremely excited for its long-term prospects and hope that you share my enthusiasm. Thank you very much for your trust and support.

Sincerely,

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

**Brad Hathaway**  
Managing Partner

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