

## Far View Capital Management

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Dear Partners,

Welcome to the first update of Far View Partners L.P. (“Far View Partners” or the “Partnership”) for the quarter ended September 30<sup>th</sup>, 2011.

### **Portfolio Performance**

For the quarter, Far View Partners generated a net return of -8.21%. During August and September, global equity markets collapsed (S&P 500 down over 14% and Euro Stoxx 50 down over 23%) as investors grew increasingly concerned about Europe’s sovereign debt crisis as well as a potential global recession. As a portfolio mainly comprised of long investments in US and European equities, Far View Partners was hurt by these market declines. The Partnership was also impacted by the record high correlation of equity prices during the quarter which made it hard for any specific security to separate itself from the market at large.

While I am never satisfied with negative returns, I am not fixated on short-term results and am instead focused on creating a foundation for the long-term success of Far View Partners. Because the Partnership seeks to purchase undervalued securities, periods of severe market distress like the past two months tend to provide the most interesting opportunities. As Andre Oscar Wallenberg, the founder of Sweden’s hugely successful Investor AB noted, “It’s in bad times when good deals are struck.” During the quarter, Far View Partners took advantage of the turbulent markets to invest in several situations with attractive risk-rewards and continued to add to positions as markets declined. Currently, the Partnership has significant positions in several promising US and European equities and retains a material cash position for future opportunities that may arise.

### **Process vs. Outcome**

While Far View Partners will ultimately be evaluated on the portfolio’s results, in the near term, it is more important to assess the quality of the Partnership’s investment process as it will be the critical driver of long-term success. In the short-term, process must be judged independently from outcome because, as the following matrix demonstrates, the influence of chance may cause the quality of the outcome to not be representative of the quality of the process:

	Good Outcome	Bad Outcome
Good Process	Deserved Success	Bad Break
Bad Process	Dumb Luck	Poetic Justice

Source: Russo and Schoemaker, *Winning Decisions*

The goal of Far View Partners is to apply a good process to each investment opportunity that the Partnership evaluates. Despite the possibility of a bad outcome in a specific instance, a strong process will generate attractive results if employed repeatedly over the long-term. For example, consider the following proposition: I will flip a fair coin and if the coin lands heads, you will receive \$10. If the coin lands tails, you will pay \$1. While most rational people would jump at this opportunity, there is a 50% chance of a “bad outcome” in a single trial. However, if the game is repeated 10 times, the likelihood of long-term “good outcome” is better than 99.9%.

In investing as well, short-term results can often be influenced by chance, but long-term success is mainly driven by skill. By consistently applying a good process over a long period of time, Far View Partners intends to generate strong long-term returns.

### **Investment Process**

Because the investment process is critical to the Partnership’s long-term success, I believe it is important to discuss a few of its critical elements. For every security, the investment process attempts to answer the following three questions:

- 1) Why Does this Opportunity Exist? - Or more simply, who is selling this security and why? Because of the well-informed and highly-motivated competition in the financial markets, it is arrogant for an investor to assume that the seller of a given security is poorly informed without appreciating the reason for the sale. For a potential investment, Far View Partners aims to understand the seller’s motivations to avoid purchasing a flawed security. Well-informed, rational sellers do not generally sell assets at a great discount to their fair value. Therefore, the Partnership’s idea generation process seeks forced, emotional or otherwise irrational sellers as they tend to generate the most attractive opportunities.
- 2) Can the Key Drivers of the Investment Be Understood? - For any investment, a limited number of factors tend to determine its outcome. To properly judge the risk-reward of an opportunity, an investor must be able to identify and understand those critical variables. At Far View Partners, much of the early diligence effort is focuses on determining the major drivers of an investment thesis and whether or not they can be properly analyzed. This filtering process means that many potential opportunities are quickly discarded. Because the Partnership runs a concentrated portfolio in a large universe of potential investments, it is not worthwhile to waste time on securities that cannot be properly evaluated.
- 3) Does the Opportunity Present an Attractive Risk-Reward? - With a potential opportunity, Far View Partners undertakes an extensive due diligence process to examine both favorable and unfavorable scenarios. This focus on positive and negative outcomes forces additional attention on the potential risks of an investment and prevents an investor from merely seeking out information that confirms an existing thesis. Once the potential scenarios have been developed, the Partnership constructs a conservative estimate of value for each outcome and compares it to the security’s price to determine the investment’s potential risk and reward.

With this process, Far View Partners efficiently identifies potential investments, thoroughly determines their suitability for the portfolio and carefully investigates their opportunities and risks.

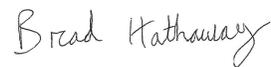
A good process must be consistently applied to be effective. To ensure that every opportunity receives the same thorough investigation, Far View Partners uses several specific checklists to govern everything from day-to-day operations to due diligence tactics and risk management. Each position is summarized in a standard investment template that includes a discussion of why the security is mispriced, the Partnership’s investment thesis and an analysis of the security’s estimated value under various outcomes. Finally, every investment in the portfolio is constantly reevaluated to identify new developments with a focus on facts that disprove the existing thesis.

**The Partnership**

My goal is to develop Far View Partners with the support of like-minded, well-informed, and long-tenured limited partners. To that end, please feel free to contact me to discuss any thoughts or questions about the Partnership and its investment process. Because I am the largest investor in the Partnership, my interests are completely aligned with those of my limited partners, and I am excited to share the future outcomes of the investment portfolio in similar fashion.

I believe strongly that this initial quarter has built a solid foundation for the long-term success of Far View Partners. 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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