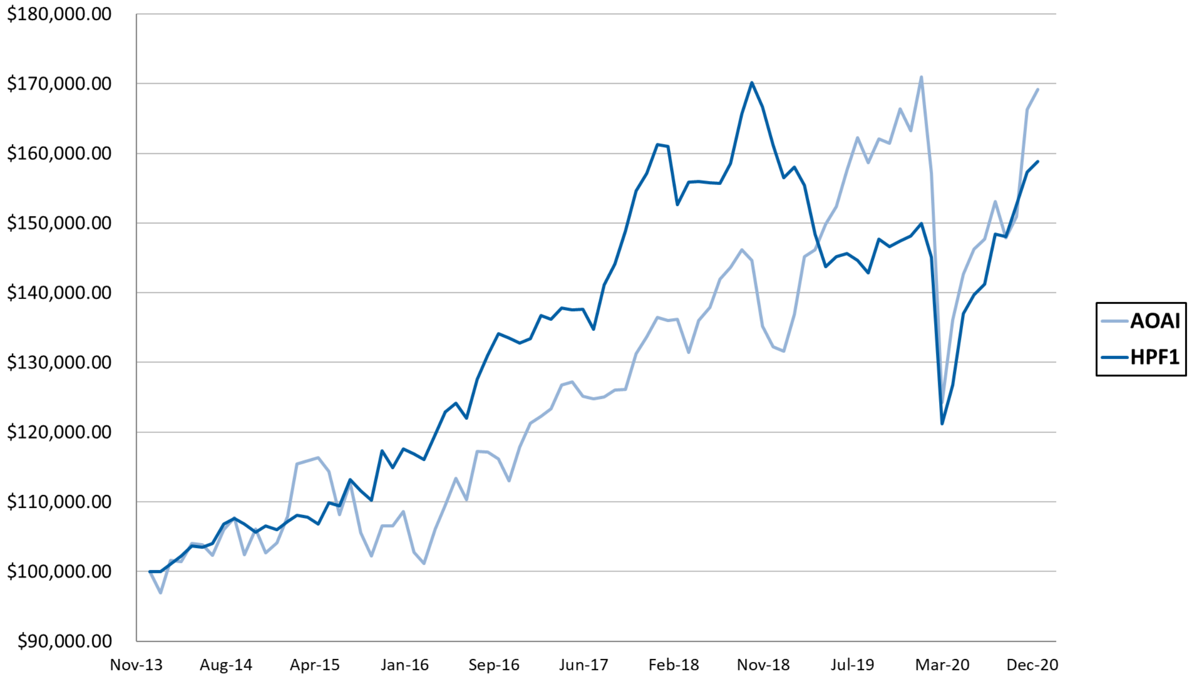
Harrington Partners Fund 1 (HPF1) – 31 Dec 2020

Harrington Partners goal is to compound capital over the long term through concentrated investments in undervalued high-quality companies. The Fund managers have the majority of their investable assets in the Fund, this creates a very strong alignment of interests between the managers and investors.

	HPF1 Net Return	AOAI Return	Relative Performance
6 Months to 30/06/2014	**3.71%**	2.36%	1.35%
30/06/2015	**5.51%**	5.67%	-0.16%
30/06/2016	**11.50%**	2.01%	9.49%
30/06/2017	**10.48%**	13.12%	-2.64%
30/06/2018	**15.49%**	13.73%	1.76%
30/06/2019	**-6.45%**	11.04%	-17.49%
30/06/2020	**-4.06%**	-7.20%	3.14%
6 Months to 31/12/2020	**13.65%**	15.69%	-2.04%
Annualised Performance	**6.83%**	7.80%	**-0.98%**
Cumulative Performance	**58.79%**	69.22%	-10.43%

*Net Return to investors which is less fees and charges but includes reinvested distributions.

Change in Value of $100,000 invested in HPF1
vs All Ordinaries Accumulation Index (AOAI) Since Inception



The Fund returned **13.65%** net of all fees over the first half of Financial Year 2021, this compares to a return of **15.69%** for the All Ordinaries Accumulation Index over the same period. Although the return is reported net of fees, fees are only payable on the return as at June 30.

Regular readers will notice a change in our stated goal for Harrington Partners. Our original goal was to protect our partners' capital and outperform the AOAI by 3-5% annually over rolling 5-year periods. Over the long term, the goal of every money manager should be the protection of capital and a meaningful outperformance to the broader market in which they operate. This remains the measure by which we would consider ourselves successful as fund managers.

However, our original goal did not align specifically to what we are trying to achieve when making investment decisions and we have decided to change our goal to closer match how we think day to day. Over the past 24 months we have also become much more focused on finding quality companies that can compound capital over many years.

So that we are not changing our goalposts as we go, we will continue to report against the AOAI in our table and graph as we always have.

Portfolio

The top 10 holdings as at December 31, 2020 were:

Rank	Holding	Total Equity Weighting	Total Portfolio Weighting
1	Dicker Data (ASX:DDR)	8.77%	6.76%
2	Servcorp (ASX:SRV)	7.58%	5.84%
3	Kelly Partners Group (ASX:KPG)	7.56%	5.83%
4	United Overseas Australia (ASX:UOS)	7.33%	5.65%
5	Ryman Healthcare (NSX:RYM)	7.24%	5.58%
6	360 Capital Group (ASX:TGP)	6.64%	5.11%
7	1300 Smiles (ASX:ONT)	6.35%	4.89%
8	Tuas Limited (ASX:TUA)	6.18%	4.76%
9	Blackwall Property Trust (ASX:BWR)	5.73%	4.41%
10	Undisclosed	5.56%	4.29%

The top ten holdings made up 53.1% of the total portfolio and cash allocation was 23% at the end of the period.

2020 - The “Unprecedented” Year

2020 has been one of the most challenging and yet most rewarding periods we have experienced as investors. The challenging part began with a lot of reflection early in the year on what had worked and what had not during the first six years running the Fund, both from a professional and personal perspective. This reflection confirmed that whilst our core investment philosophy and vision for Harrington Partners had not changed, the portfolio and our overall business development had not met the standards to which we are aiming towards.

The crux of this was that most of our holdings were not invested in businesses we would consider to be long term compounders and instead we were in companies where we were waiting for certain catalysts to materialise or for prices to get to a certain level at which time we were ready to sell. There was nothing specifically wrong with these investments, but as detailed in our March letter, we believe that we will get far better returns through having the majority of the portfolio in companies that we never have to sell. It is hard to conceptualise the power of companies that can compound at high rates over long time periods and it appeared we had been lured into seeking shorter-term returns rather than optimising for the much larger returns that eventuate through owning companies that possess this capability.

Then came the Covid-19 induced panic. We do not want to downplay how difficult this year has been for many people due to the onset of Covid-19, but for us money managers the experience has been the exact opposite. The panic in March produced what we believe were once-in-decade investment opportunities and we only wish we had more time to take advantage of them before the swift recovery in prices. We were however able to completely transform our portfolio over the past nine months, so much so that we now believe there is a high probability we will own all our current top ten positions for many years. More importantly, the portfolio is now fully aligned with our philosophy, a goal we are proud to have achieved in such a short time frame. The last nine months have truly been the most fruitful period since we started the Fund back in 2014.

Since the lows in March share markets around the world have been on an absolute tear, this has been both remarkably interesting and exciting to watch. Unfortunately, the conditions we had in March have now completely reversed and markets are now reaching new highs, being fuelled by a fresh wave of seemingly unbridled enthusiasm. The bullish sentiment does potentially have merit given that governments the world over have injected unprecedented liquidity into their respective economies combined with interest rates remaining at exceptionally low levels. However, we think now is a time to be extra vigilant of protecting capital and we are maintaining a conservative stance whilst being open to the potential that the upward trend may continue for a while yet. Thankfully, we are still finding great long-term investment opportunities at fair prices and remain optimistic about the years ahead.

To conclude, 2020 has been one of best years in terms of professional growth and we are implementing a more disciplined approach with a new level of energy and hunger for the challenge. This has already manifested in a portfolio of much higher quality companies, the addition of new investors and capital into the Fund, and an update of our website and Information Memorandum to better align with our vision. We are committed to continuing this momentum.

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We are privileged that you have chosen to partner with us on this journey. As always, we welcome any feedback and if you have any questions, comments or investment ideas please do not hesitate to contact us.

Yours Sincerely,

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The All Ordinaries Accumulation Index represents an unmanaged, broad-based basket of stocks. Index returns assume that dividends are reinvested and do not include the effect of management fees or expenses. You cannot invest directly in an index.