Harrington Partners
Investment Management

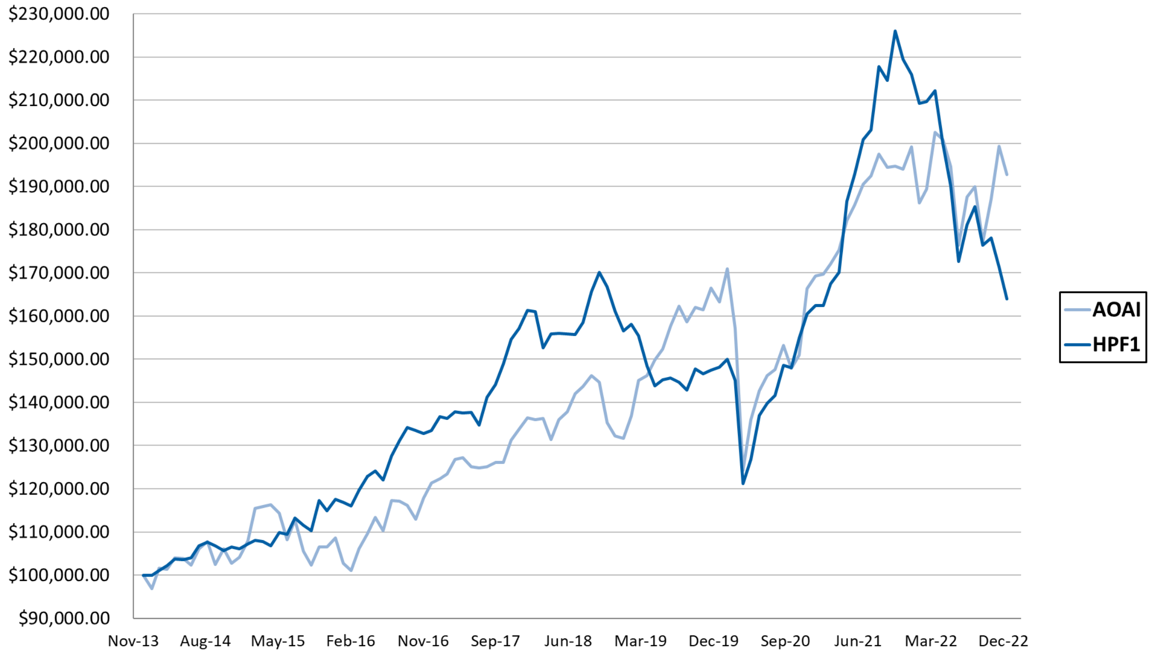
Harrington Partners Fund 1 (HPF1) – 31 December 2022

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, creating 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%
30/06/2021	**43.77%**	30.24%	13.53%
29/06/2022	**-13.91%**	-7.44%	-6.47%
6 Months to 31/12/2022	**-5.02%**	8.78%	-13.80%
Annualised Performance	**5.67%**	7.51%	**-1.84%**
Cumulative Performance	**64.25%**	91.81%	-27.55%

*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 market prices of the Funds holdings fell by a collective 7.01% over the second quarter of FY23 finishing the half year to December 30, 2022, down **5.02%**.

The main contribution to the negative performance was a meaningful decline in the market price of Ryman Healthcare. There are numerous reasons for the market's abrupt reappraisal of their value, most noticeably the expected near-term impact of rising interest rates and inflation. Whilst we greatly respect the collective forward-looking perspective of markets, we try hard to only commit our time, energy, and attention to what is knowable. Hence our focus is always on the business. From this perspective, Ryman generated another period of excellent revenue and profit growth during the first half of FY23 as shown below.

Ryman Healthcare	First Half FY23
Revenue growth	10.6%
Profit growth (underlying)	33.5%
Debt/Capital (Debt + Equity)	45.2%
Return on Equity^ (annualised)	18.8%
Price/Earnings (annualised)	9.60
Price/Tangible Book Value	0.75
Change in Book Value per share	5.5%
Change in Share Price	-40.0%

^Equity calculated net of unrealised property revaluations.

To be fair, the metrics in the table only provide an isolated and rudimentary representation of potential value, though we have provided it to frame the importance of keeping the more volatile market sentiment in perspective. We have great faith in the long-term potential of Ryman and at the same time recognise that the business faces a unique set of near-term challenges which we have analysed and reflected upon at length.

More specifically, the business is balancing their desire to meet the surging wave of demand and maintain exceptional standards of care, whilst prudently managing their balance sheet and cash flow in the face of interest rate and inflationary pressure, along with the potential for further deterioration in the cost to deliver high-quality care. The most influential component of the prevailing negative sentiment is the expectation of a prolonged house price decline across Australia and New Zealand (ANZ). We wrote about this and other potential risks in our extended writeup on Ryman in our FY22 full year letter.

At the time we were of the view that Ryman would only experience a fraction of the full extent of any downside price pressure relative to the broader market primarily because what they are really selling is the increasingly scarce, and hence immensely valuable, promise of access to the highest quality care and not just a property per se. The very early signs are that this hypothesis is holding up with Rymans prices remaining relatively steady in the face of recent property market weakness across ANZ.

Rymans customer and employee value proposition, competitive advantage, and extensive growth capacity remain solidly intact. We are confident that management remains focused on the long-term and we support the calculated actions they are taking to expand their unique franchise in difficult markets. The path will not be all smooth sailing, though it appears that the prospect of strong returns on incrementally invested capital, and significantly greater per-share earnings, have a favourable likelihood of continuing for many years to come.

The portfolio holdings as of December 31, 2022, were as follows:

Rank	Holding	Total Portfolio Weighting
1	Kelly Partners Group (ASX:KPG)	21.61%
2	Dicker Data (ASX:DDR)	14.39%
3	Servcorp Limited (ASX:SRV)	11.23%
4	Ryman Healthcare (NZX:RYM)	8.02%
5	Comms Group Limited (ASX:CCG)	7.72%
6	Blackwall Limited (ASX:BWF)	7.70%
7	Field Solutions Group (ASX:FSG)	6.42%
8	Markel Corporation (NYSE:MKL)	4.80%
9	Berkshire Hathaway Inc (NYSE:BRK-B)	3.74%
10	PPK Group (ASX:PPK)	1.91%
11	Costco Wholesale Corporation (NYSE:COST)	1.08%
	Cash	11.33%

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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.