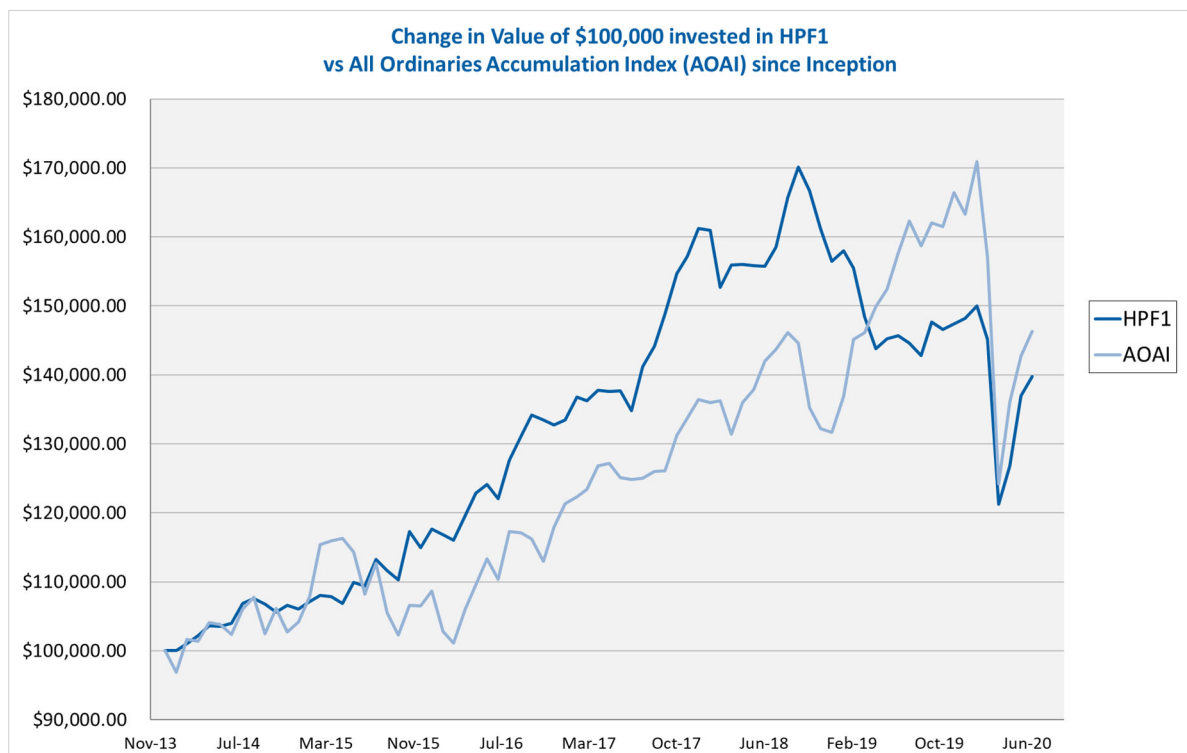


## Harrington Partners Fund 1 (HPF1) – 30 June 2020

Harrington Partners primary goal is to protect investors capital and outperform the Australian All Ordinaries Accumulation Index (AOAI) by 3-5% annually as measured over rolling 5-year periods. 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 with a concentration on achieving the highest possible risk adjusted returns.

	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	-4.17%	-7.20%	3.03%
Annualised Performance	5.26%	6.03%	-0.76%
Cumulative Performance	39.56%	46.27%	-6.71%

#Data source for AOAI Returns: S & P Dow Jones Indices LLC. \*Net Return to investors which is less fees and charges but includes reinvested distributions. Past returns are not a good indication of future returns.



The Fund returned -4.17% net to investors during Financial Year 2020 (FY20), this compares to a return of -7.20% for the All Ordinaries Accumulation Index over the same period.

## What a Year!

It is hard to believe what has occurred over the past 12 months, not only across the broader economy but also within the Fund. Obviously, the biggest impact to markets and the economy was the outbreak of Covid-19 and subsequent government measures to try and slow its spread. This is still playing out and it is anyone's guess as to when society will return to a more normalised post-Covid reality.

Fortunately, most of businesses we own have a low risk of permanent value destruction, even if the restrictions and lockdowns remain for many months to come. Better still, we think they will continue to thrive on the other side of the current chaos. The economic and social challenges brought on by the current reality are not something we would ever hope for, although as long-term investors we do appreciate the ongoing opportunities this climate of uncertainty provides.

It has been a big year of change for the portfolio with only two companies remaining from our top ten holdings at the start of FY20. It is never our intention to turnover the portfolio as much as we have this year, but under the circumstances we felt it was necessary. We stated in September that we wanted to transition the portfolio to a much greater concentration in businesses that have above average economics, defensible competitive positions and competent owner operator management teams and we are now confident that the transition is complete.

## Portfolio

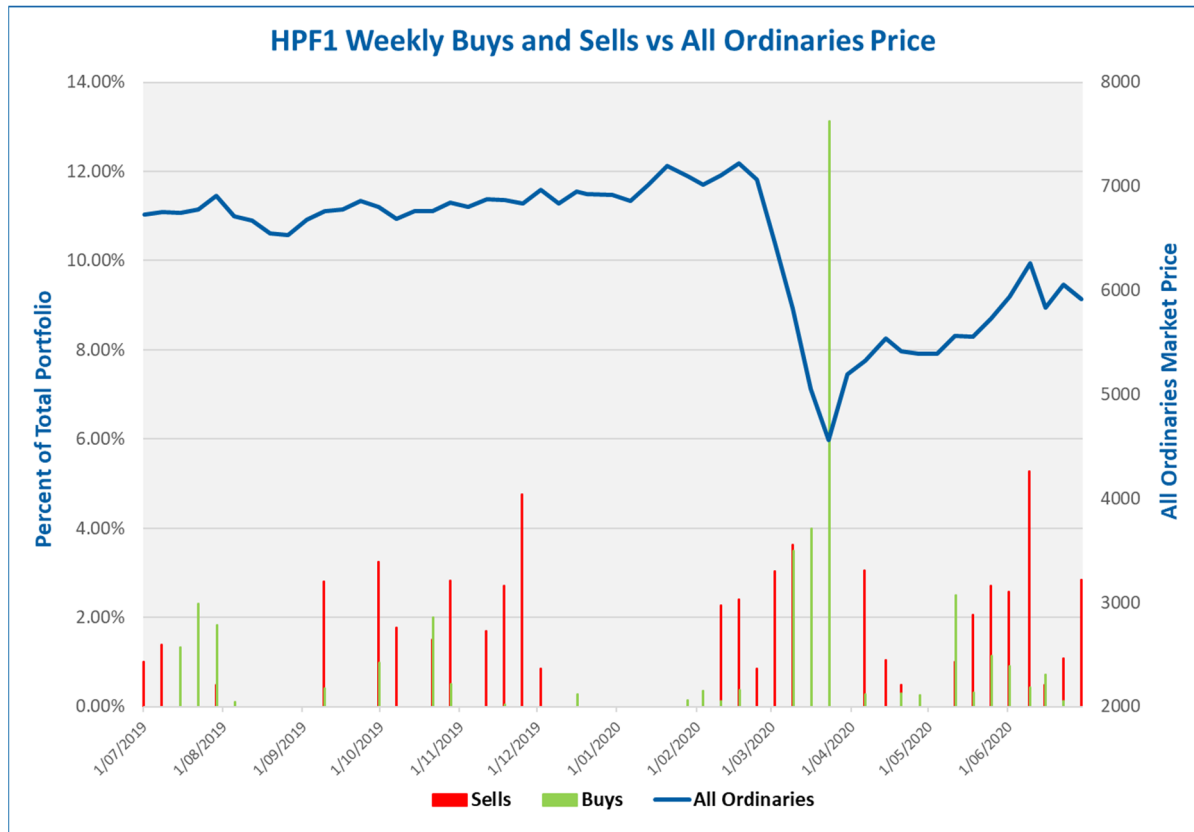
The top 10 holdings at June 30, 2020 were:

Rank	Holding	Total Equity Weighting	Total Portfolio Weighting
1	Ryman Healthcare (NSX:RYM)	11.37%	6.49%
2	United Overseas Australia (ASX:UOS)	9.68%	5.53%
3	Dicker Data (ASX:DDR)	8.03%	4.58%
4	Undisclosed	7.15%	4.08%
5	1300 Smiles (ASX:ONT)	5.44%	3.10%
6	Servcorp (ASX:SRV)	5.30%	3.03%
7	Blackwall Property Trust (ASX:BWR)	4.81%	2.75%
8	Undisclosed	4.79%	2.73%
9	TPG Group (ASX:TPM)	4.28%	2.44%
10	Undisclosed	4.06%	2.32%

The top ten holdings made up 37% of the total portfolio and cash allocation was 43% at the end of the period.

The fall in the market through March was both a short-term negative and what we believe will be a much greater long-term positive for the portfolio. The negative was that the significantly elevated economic risks brought forward our plan to sell several illiquid holdings, and unfortunately this was at less than desirable prices. The big positive is that we were able to reinvest the capital into much higher quality and more liquid businesses at very depressed prices, and these investments have been the primary drivers of the portfolio recovery since March.

We have always said that we will try to be opportunistic and take advantage of prices when fear is overwhelming markets, and during the lows in March we were successful in doing this. The graph below shows the total buys and sells as a percentage of the total portfolio for each week of FY20 and this is overlaid with the market price of the All Ordinaries Index. Obviously, we had zero foresight as to where the market was going, and it was absolute luck that we put 13% of the portfolio to work during the market's lowest week. However, it was clear to us at the time that certain businesses were selling at prices well below their intrinsic value and we were happy to own them even if prices kept falling. In hindsight, we wish we had higher conviction and bought more!



The selling in the most recent months was due to the continued consolidation of the portfolio away from lower quality companies that no longer met our criteria, along with the sale of investments in a Vanguard market ETF (ASX: VAS) and Afterpay (ASX: APT) which were both purchased in March. APT is probably the shortest period we have ever owned a business and although we would have liked to continue to own it, in our view the valuation just became too excessive. As an indication of how volatile the market can be over short periods, we purchased APT at a price of \$9.03 per share in March and three months later sold our position for just under \$50 per share. The potential for APT is huge, but at \$50 per share (or a market cap of about \$14 billion) we felt we were receiving a price that was already factoring in many years of strong growth with little room for any inevitable setbacks. The buy now, pay later space is certainly hot right now, and it will be interesting to watch how it all plays out over the coming years.

## Outlook for 2021

Markets have rallied significantly since the March low and this had made finding undervalued high-quality companies a little harder. Since the end of FY20 we have been adding modestly to our current positions and invested in one new company. With the Coronavirus measures still wreaking havoc around the world and most economies running on massive amounts of stimulus it is anyone's guess as to what may eventuate in markets over the coming year. We remain cautiously optimistic, the Fund has a relatively high cash position and we are ready to act should further opportunities arise to invest in well-managed, appropriately capitalised companies that we believe will be doing substantially more business in ten years' time.

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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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