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VT Holland Advisors Equity Fund/Farnam Street Capital Limited

10th June 2021

Dear Investors and Friends,

Investor Letter/ Owners' Manual – June 2021

This letter is a little different to those I usually send. On the eve of our UCITS fund launch I have used it as an opportunity to write a broader 'owner's manual' that covers different subjects from those I normally address. Whilst I comment briefly on performance and my investment approach, I also want to discuss a few other areas that I think are important between investors and any manager they might entrust their money too. These include alignment of interests, communication and liquidity.

This letter will be the last one as Farnam Street Capital. As the Fund is converted into a UK UCITS structure its name is changing to VT Holland Advisors Equity Fund. Whilst I am making this change to make it clear to our regulator what the fund does (i.e. it is managed by Holland Advisors and invests mostly in equities) we will be sad to lose our 'Farnam Street' moniker. As many of you know I chose this original name after the street in which Warren Buffett lives to remind me each day of how to think, behave and invest just a little better. Whilst I hope that much of this is now in my DNA, just to be on the safe side a framed picture that I bought in Omaha a few years ago of the quote below hangs above my desk. It is the first thing I see each day on entering the office. Whatever our fund is called 'Farnam Street' will always run through my and its veins.

Price is what you pay, value is what you get, Warren Buffett

Recent Performance (year to date NAV + 54.5%)

From our last September year end to the end of May the Fund's NAV rose 54.5% to a NAV of £196.9. This figure is after all running costs and any management fee charged. It is customary for managers to use letters like these to reflect on the period that has just passed. Whilst it has been pleasing to see a good recovery in the fund NAV in the last 8 months, I do not feel dwelling on such a period will serve either investors or the manager well:

- Investors might be tempted to see recent returns as easily repeatable and thus be disappointed in the future when they are not
- A manager reflecting too much on the 'wisdom' of the decisions made in a period of good performance is in danger of falling foul of the 'pride comes before a fall' rule

I have tried to keep my feet firmly on the ground and focus on the businesses the fund owns regardless of whether our NAV was -21.6% (year to Sept 2020) or +54.5%. The rationale I use in investing remains steadfast. I try to buy the shares of businesses I think are set to offer us attractive long term compounding potential.

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Usually, such businesses make good or great returns on capital and have strong competitive positions. Unusually, they may be hated (or disliked at least) by Mr Market at the time I make our purchase. This last point is perhaps what distinguishes our fund from others that might label themselves as having a ‘franchise’ approach. I share many of the same philosophies as ‘franchise’ investors, but instead consider myself as having a ‘compounding’ approach. The difference is perhaps subtle and one I hope that Mr Munger and many readers will understand.

Admiring great companies, I think is a perfectly reasonable activity. However, over time I think superior returns will be made by investing in such companies when they are priced either for failure, or at least for a fade in their growth, when in fact the business model is actually primed for success. The last key ingredient that goes into our not-so-secret mix is the Owner Manager. Almost always I am looking to invest alongside a CEO/founder/family who are aligned with us. They will have likely demonstrated past powerful compounding by managing and growing the business successfully for a long period through a variety of business environments.

An Owner’s Manual

Normally my investment letters will discuss the investment approach I use to run the fund citing examples of companies we own. As the fund starts a new chapter however, I wanted to address some other issues. As potential new readers may be interested in my **investment approach**, I have however mentioned this first in brief, and referred to other documents that can then be read for more insight. I have then outlined my thoughts on other areas such as manager and investor **alignment, communication** and **liquidity**.

Investment approach

Our founder investors know that I spend a great deal of time thinking about our investment process and I often reflect on this in our bi-annual letters (many of which are available on our website). In doing so I hope to take investors on the investment journey with us to try to help them better understand the approach I and my colleagues at Holland Advisors are taking. If this can help investors learn from my mistakes so as to make a few less of their own, then all well and good. Additionally, we also write during the year and share work for free online with those that sign up on our website.

Evolution of approach - Those that have the time can read the past letters of the Farnam Street Capital Fund. In doing so, you will see an evolution of my investing approach. Whilst it is easy for me as an investment manager to articulate the process I use for investing monies today, it is important to admit that this approach has evolved. Like all forms of evolution it often comes from making mistakes and surviving them/learning from them and also from watching others do the same. I would highlight a recent piece on our website *Holland Views: Reflections on a mental model* on the evolution of our investing approach which I hope readers will find of interest. I would also highlight a piece on the website front page (*How we invest and think*). Whilst I wrote this some years ago now, it still captures the essence behind my investment approach today.

Alignment of interest

In all business endeavours a strong alignment of interests is something I look for. As I have stated above, I seek it in almost all of the investments I make in the fund. Thus, it seems only right that I should disclose the same to you as manager, any business I am involved with. At the time of the conversion into *VT Holland Advisors Equity Fund* in June 2021, my wife and I will be the largest beneficial owners of the fund with a holding of c.20-25% of the outstanding units.

Whilst this *percentage* will most likely reduce in the period ahead as new investors come into the fund my dedication to the fund and complete alignment with other unit holders' interests will not. Charlie Munger once remarked in a meeting I attended that there were two types of investors, 'asset managers' and 'asset gatherers' I hope readers will understand the distinction between these two groups without the need for further explanation. I see myself as very much as an asset manager and any investor that chooses to be invested alongside me in the fund should know that this has been, and will continue to be my primary focus. With the fund now open to a much wider potential pool of capital, a few points on this issue are worth making:

- A glance at our top holdings shows that the fund could easily be scaled up without almost any detrimental effect on performance at all
- Indeed, there would be some benefits to greater scale. Part of the funds new cost structure is fixed and thus will reduce on a per unit basis as assets scale (I intentionally sought out a structure of this nature. As a unit holder I too would benefit from these greater scale economics, were we to grow in size)
- However, if a point arises in the future where I as manager feel the scale of assets we manage, or are getting near to managing, might be detrimental to the performance we all as investors might experience by way of returns, then I might consider acting to look after existing investors interests
- The change of fund structure required me to move away from the fee structure I had copied from the original Buffett partnerships (only a performance fee above a 5% hurdle) to one with a flat fee. I did this for a variety of reasons, not least being that the original structure is not acceptable to UK regulators and not popular in UCITS funds. Hopefully, however my sizable holding in the fund shows my strong alignment of interest.

Concentration and Liquidity

As a student of great investors, both living and dead, I believe in contrarian investing and concentrated portfolios (to a point), or said differently:

'when it's raining gold reach for a bucket not a thimble' **Warren Buffett**

UCITS funds do have limits on their concentration limits. I will not go into them here, but they are known as the 5, 10 and 40 rule. Readers should know that I have opted for this new structure not just to appeal to the end customers who were interested in investing with me, but also because the concentration limits matched my own. Having now run an audited fund for almost 10 years, I have had chance to find the level of concentration that best suits my approach. Unscientifically, I would describe this as a concentrated enough portfolio to contribute to returns, but not so much so as to lose sleep over. Investors can see from the fund factsheets that I run a portfolio that is more concentrated than an average UCITS fund and they should expect this going forwards.

One of the other changes taking place as a result of our conversion to UCITS status is a move to daily liquidity from monthly liquidity. I chose to make the change to UCITS as it is the UK fund industry standard and I had received numerous unprompted requests from investors based in the UK. The platforms and wealth management houses that act as intermediaries generally ask for daily fund dealing. With our underlying investments are all publicly quoted we have no real problem with liquidity and so have complied with this request. However, as this is a one-off letter, on the subject of liquidity I would like to make a point to my fellow investors. It be would be to quote Oscar Wilde '*I can resist anything but temptation*'. Many of us have read stories of old ladies who bought houses in say 1960 and 50 years

later sold them for 40 times what they paid for them. Next time you are looking at your investments and they are up or down a few percentage points I would urge you to remember such stories.

Would that old lady have held on to her house if every single day the neighbour had leant across the garden fence and said *'I will pay you double what you paid for it'* or *'treble'*, *'four times'* etc. Maybe not?

Easy low-cost trading of shares and funds is a great tool for the modern investor, but like any sharp tool, it can also be dangerous if mis-used in the wrong way. I observe only that sometimes a little friction in the buying or selling process can help the end customer (after all that is why we have a 14 day cooling off period if we buy a new fridge freezer online). Little old me is not going to change the always-on financial system that we now live in and of course I will run my fund to make sure we have suitable liquidity to always match what is required for the fund's investors. But whilst I have this platform, I would just urge the wider world of investors to think a little harder before pressing those 'buy' and 'sell' buttons' too often.

In that vein if you are someone that is inclined to 'trade' funds often, then I am unlikely to be the right money manager for you. If on the other hand you are focused on carefully trying to grow your wealth with an eye on opportunity but also one on the preservation of capital too and you consider yourself a patient long term investor, well, you might find have found a manager of like mind.

Communication and Fair Disclosure

Any one that choses to invest alongside me should expect the fund to make the normal disclosures that any UCITS fund would. Namely that of regular fact sheets and all other required documentations filed diligently. We will also continue to communicate with six monthly letters written in as an open and frank way as we are allowed. In addition to this, Holland Advisors may, as it has done for many years previously, publish free research on its website (and sent to those that sign up to receive it) that shares some of its insights with the wider investing world.

In the course of my investing career so far, I have come across a very wide-range of investors, ranging from those with seemingly very higher levels of information and investment skills to those who might be labelled less professional in name but astute due to the fact that they might have run their own business. Some it seems just have a better native grasp of business than others who are too close to a narrow investment function.

The fund's founder investors contained few experienced investors but more than a few experienced business people. Anyone looking at the past returns of the fund will see that it had some volatile periods. What you cannot see is how much my phone rang during those periods. It didn't. These 'not experienced investors/experienced business people' in short have been calm, patient, perfect business partners and I thank them immensely for their support and patience. They have asked good, pertinent questions, but they have not demanded reams of irrelevant data or questionnaires to be filled in by me. If 20 years from now I could have a fund that was made up of future investors just like them I would take it every time. If you are wealth manager who looks after the assets of entrepreneurs just like these and perchance are looking for a like-minded investor, well maybe, just maybe you have found him...

Alternatively, if you work at a large financial institution and enjoy sending lots of long forms and questionnaires to fund managers for them to fill out, well I would like to save you the trouble. Please send them to someone else. I once chatted to someone who had sight of Buffett's diary. It was almost

completely empty for the whole week. And the next one. I am proud to tell you that most weeks so is mine. Maybe in many other professions that might speak to idleness, but not in investing. Of course, there are company meetings and conference calls, but there needs to be time to think too, time to develop ideas and pull on the odd thread or two.

I will sign off by sharing an experience I had at an investing conference in California 10 years ago. I had listened to a really impressive investor speak and was thrilled to be able to join him and small group of people for coffee in the breakout afterwards. As I patiently waited for an opportunity to ask a few questions, I observed the bizarre array of unimportant issues that the others around me were asking him. Like me, this was their one opportunity to learn from a guru and yet all they asked about was risk management or portfolio diversification or how to look at currency risk. The manager was a great stock picker and yet not a single question was about the stocks he owned or analysis he used to select them. I learnt a lot that day. To me the only way to truly learn about an investment manager is to understand the investment process he uses and how that relates to the stocks over time he/she then owns.

This letter is a one-off Owner's Manual and so I have not discussed any examples of companies I invest in but my company website is full of them. By often sharing the thoughts on markets, investment process and investment ideas that I and my team have, I think I am giving the greatest insight into my thinking I possibly can, warts and all. If that helps you as a potential fellow investor to find what you are looking for, great. If it also makes you see that this is not a suitable place for you then it has also served a purpose. What I do think is right, however is that all investors, irrespective of their size or status should receive the same information.

Thank you for reading.

Andrew J Hollingworth, Fund Manager

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