Floyd Capital Company Principles

1) Our aim is to maximise long-term gains in the intrinsic value of the business on a *per-share* basis by investing the company's capital, subject to these principles.

2) Whilst all investment opportunities will be considered, the majority are likely to be long-term holdings in the equity of businesses we consider to (a) have favourable current and future prospects and (b) offer sufficient value as a purchase. Individual investments may be of any duration but our long-term investment mindset should be emphasised; when we find a superb business our desired investment duration is likely to be forever.

3) Short-term fluctuations in the listed prices of investments will not be a focus of ours, except when these facilitate an increase of our current, or initiation of new, holdings at attractive prices. The long-term business performance of the companies in which we are invested will be given prominence. It is our belief that should business performance prove satisfactory, investment performance will eventually follow.

4) We generally plan to be passive shareholders and, therefore, the companies in which we aim to invest will usually be those we see as already well-managed.

5) We want our shareholders to understand our aims and business as fully as possible and to be with us for the long-term. We will strive to provide the information, in an understandable format, with which we would wish to be presented ourselves as shareholders and we will aim to highlight, rather than obfuscate, any issues or areas of underperformance.

6) Our performance should be judged by comparing the change in the intrinsic value of the business, on a per-share basis, with the *long-term* results experienced by a predefined investment portfolio, selected such that we believe this portfolio may have been a realistic alternative use of capital considered by our shareholders. Short-term divergence in either direction should not be emphasised but long-term relative performance is of huge importance in judging the effectiveness of our management. For clarity, we consider "long-term" within this principle to be five years or more and our preference is to use the MSCI World Index (GBP) as the predefined investment portfolio.

7) Our personal investments in the business will always be substantial and we will experience the same performance in our holdings as all other shareholders. If there is any situation under which we earn fees for the management of company capital, other than a fixed salary, the structure will be designed so that such a fee is only paid if performance proves satisfactory.

8) Our attitude toward debt is one of caution. We would rather miss opportunities than over-leverage the business. Our reasoning is that debt has the potential to impose short-term obligations that could force us to take actions we might otherwise avoid - such as having to sell assets we would rather keep - in an attempt to meet short-term liquidity requirements. This is not a possibility we would relish. Provided our long-term results prove acceptable, this debt aversion will have likely hindered our performance. That being said, we view it as the only way to operate responsibly.

9) We envisage avoiding substantial short positions in any securities, especially equities. We do not delight in betting against a company's successful future, nor do we feel comfortable *relying upon* the market to correct its pricing 'mistakes' for us to realise our investment returns. Borrowing stock to sell short and waiting for prices to become rational before we can sleep easy does not excite us. There is also a risk the shorted company surprises with a superb turnaround that leaves us betting against a wonderful success story. Shorting is not in our nature and we do not plan for it to be a substantial part of our business.

10) We will only issue shares when we believe we receive as much in intrinsic value as we give. The issuing of our shares equates to our giving away part of the company and, as such, we believe the recipient should have to provide us with something of sufficient intrinsic value in return. Any other policy would 'enlarge our empire' to the detriment of current shareholders.

Intrinsic value

We feel it may be useful to define a term that has been used frequently, and importantly, above: intrinsic value. Intrinsic value at any given time is the present value of the cash that *can* - but not necessarily that *will* - be taken out of an investment throughout its remaining lifetime. Intrinsic value is not static and will alter as both interest rates and factors influencing future cash flows vary. Intrinsic value is not a precisely calculable number but rather an estimate made using, hopefully, prudent assumptions.

The use of "present value" within this concept captures the detrimental impact of delay on value e.g. £100 we can use today is worth more to us than £100 for which we must wait ten years. As such, the latter amount must be discounted to be comparable to an amount today, with a greater delay necessitating a greater discount.