
CAPCO ASSET MANAGEMENT

A Registered Investment Advisor

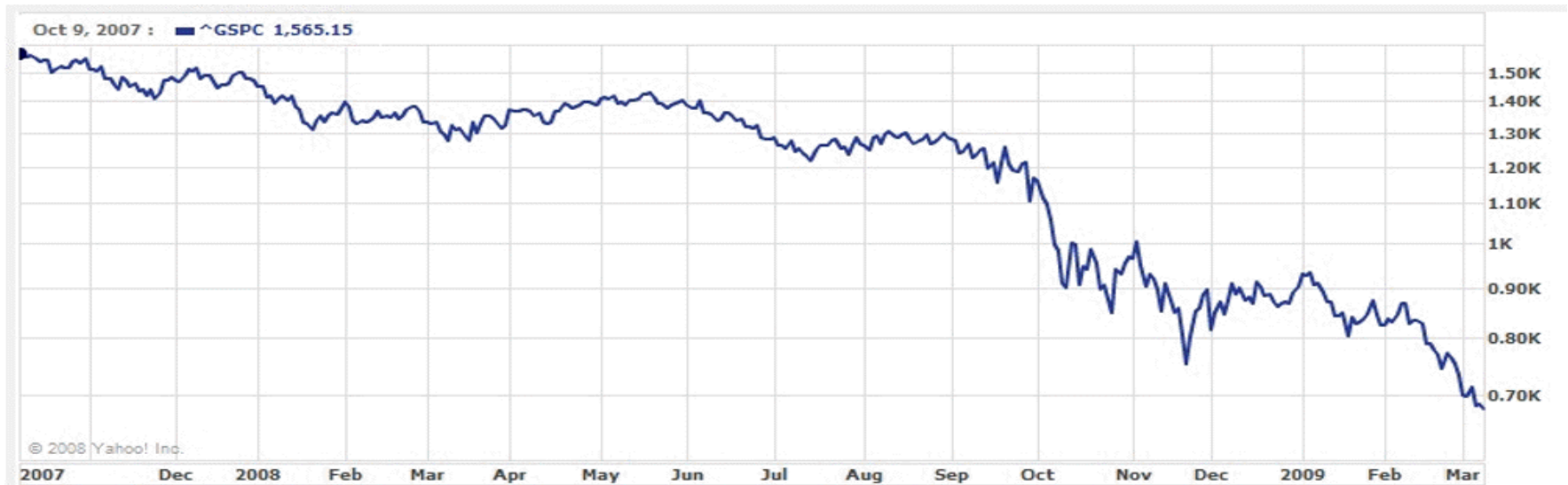
Summary

- Capco's investment approach
- Outperformance in the crash and rebound
- Our clients had the confidence to invest into the downturn, rather than panic
- Inflation risk and Capco's companies

“It’s only when the tide goes out that you learn who has been swimming naked.”

-Warren Buffett

The Tide Went Out S&P 500 -57%



10/9/07 – 3/9/09

And Capco Outperformed

	Capco Partners, Gross	S&P 500	Capco Avg Investment Level
2003	26.7%	28.6%	26%
2004	12.1%	10.9%	21%
2005	2.9%	4.9%	45%
2006	18.3%	15.8%	65%
Cumulative	72.8%	73.2%	
Compounded	14.7%	14.7%	
2007	-0.6%	5.5%	76%
2008	-23.6%	-37.0%	84%
YTD 09/09	27.5%	19.3%	90%
Cumulative	-3.1%	-20.7%	
Compounded	-1.2%	-8.1%	
Cumulative	67.4%	37.2%	
Compounded	7.9%	4.8%	

WHY?

We Focus on Margins of Safety

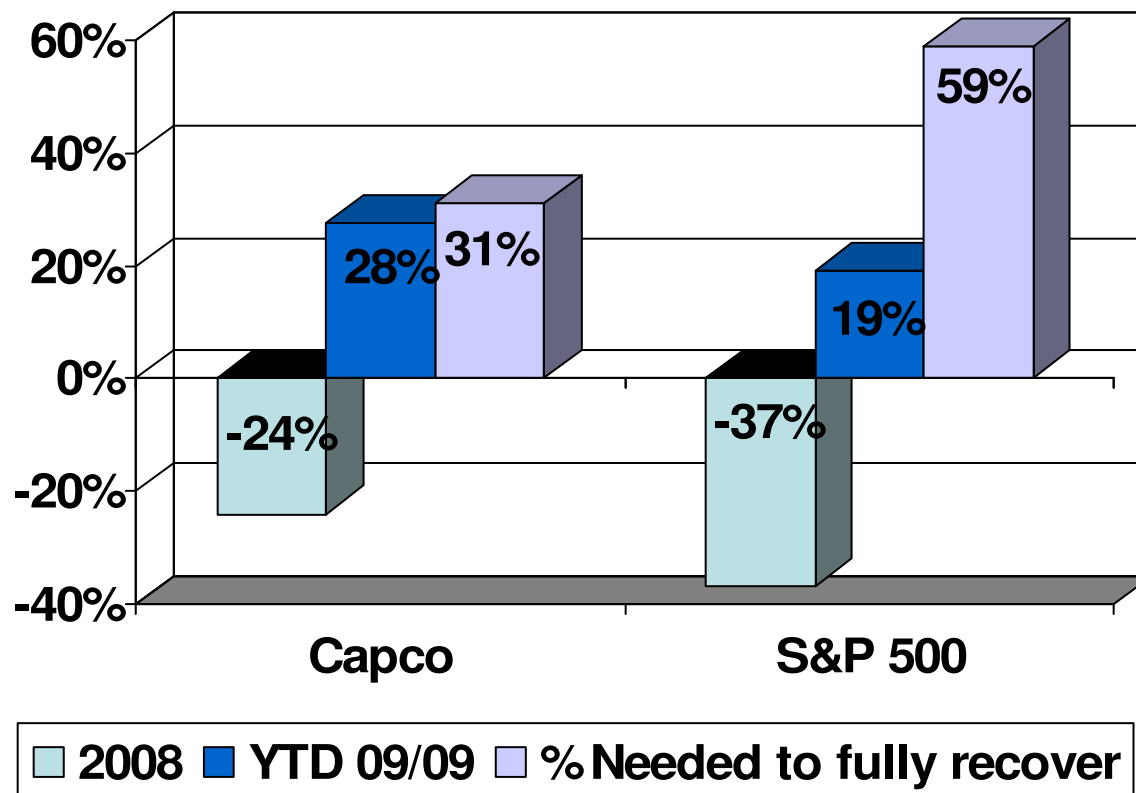
“It is no accident that . . . we have no operational or investment exposure to troubled financial institutions . . . our cash was invested to avoid credit risk, not to reach for return . . . we have no exposure to derivatives or counterparty risk . . . we held cash for six years and counting, and have more to invest now . . . we don’t rely on third parties for our research or investment decisions...”

Partner Letter, October 3, 2008

We Avoid Big Mistakes

- Rule #1: Don't lose money
Rule #2: Don't forget Rule #1 (Buffett)
- Real estate, housing, financials, LBO's, leverage, crooks, energy & commodities, emerging markets
- We're always thinking about what's next

Outperforming in a down market is critical - what the S&P's -37% in 2008 really means



Capco on Housing

“ . . . we want to sound a cautionary note on the subject of real estate as an investment. It very much appears to us to have taken on many of the characteristics of a bubble . . . When combined with aggressive lending practices and increasing reliance on very risky forms of debt, the environment has the potential for significant future problems. Caveat emptor.”

Partner Letter, July 5, 2005

Capco on Mortgages

“How big is this problem? . . . Since 2004, almost \$3 trillion of low quality mortgages have been written . . . While there have been a number of well-publicized implosions . . . the dollar figures involved barely scratch the surface . . . it is clear to us that there must be a reckoning, and that the dollars will be large... We believe there is much more to come...”

Partner Letter, October 1, 2007

Capco Investment Approach

Business, People and Price

An Approach for All Seasons

An Approach for All Seasons

- The future is never clear (not 2000, 2002, 2007 or today)
- In good times, good business results can be expected from strong businesses with competitive advantages and capable managers.
- In difficult times, when you need it most, durable business results and new opportunities can be expected from companies with strong balance sheets, strong cash flows and capable managers.
- Valuation makes us opportunistic when investments are cheap, not scared when the outlook is ugly.
- We are aware of the economic environment; we own companies that can withstand a wide variety of risks; we do not seek maximum results for a specific prediction.

Criteria # 1 – Business Quality

- How the business really makes money
- Attractive Economics (cash profits, free cash flow, high ROIC, inflation protection, capital allocation)
- Attractive Value Proposition for the Customer (“On Being a Good Partner”)
- Durable Business (strong competitive position/moat, strong balance sheet)

Heading into the crash, we and our companies had strong balance sheets

As of October 1, 2008,
almost 90% of our portfolio was either in cash, or
in companies that had minimal or no net debt.

And this was not a new policy.

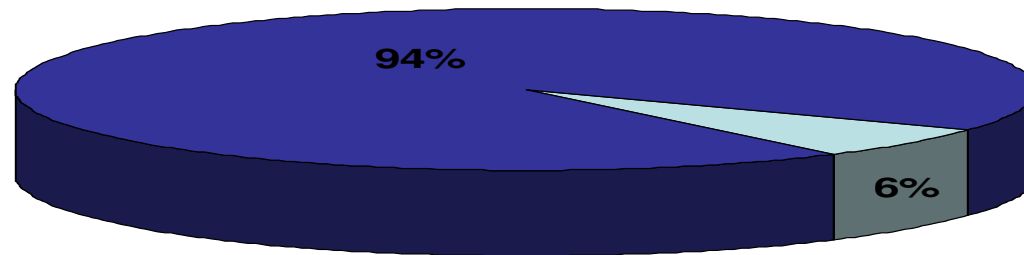
We Buy Businesses with Moats

Anheuser-Busch	Scale, Distribution
Berkshire Hathaway	Capital Allocation
Carmax	Low cost operator
CoStar	Information Toll Bridge
Costco	Low cost operator
FactSet	Information Toll Bridge
Landstar	Auction/ Network Effect
Ritchie Brothers	Auction/ Network Effect
Ruger	Low cost operator (Lean)
Simpson Manufacturing	Standard Setter/Architecturally Specified

Criteria #2 – High Quality People

- We partner with honest and capable managers
 - Compensation
 - Culture
 - Accounting
 - Transparency
 - Capital allocation
 - Character
 - Choices
 - Focus on the Moat
- A higher standard – “good enough” isn’t
- We look for simple, unambiguous evidence

Over 90% of our companies are run by founders and long term managers,

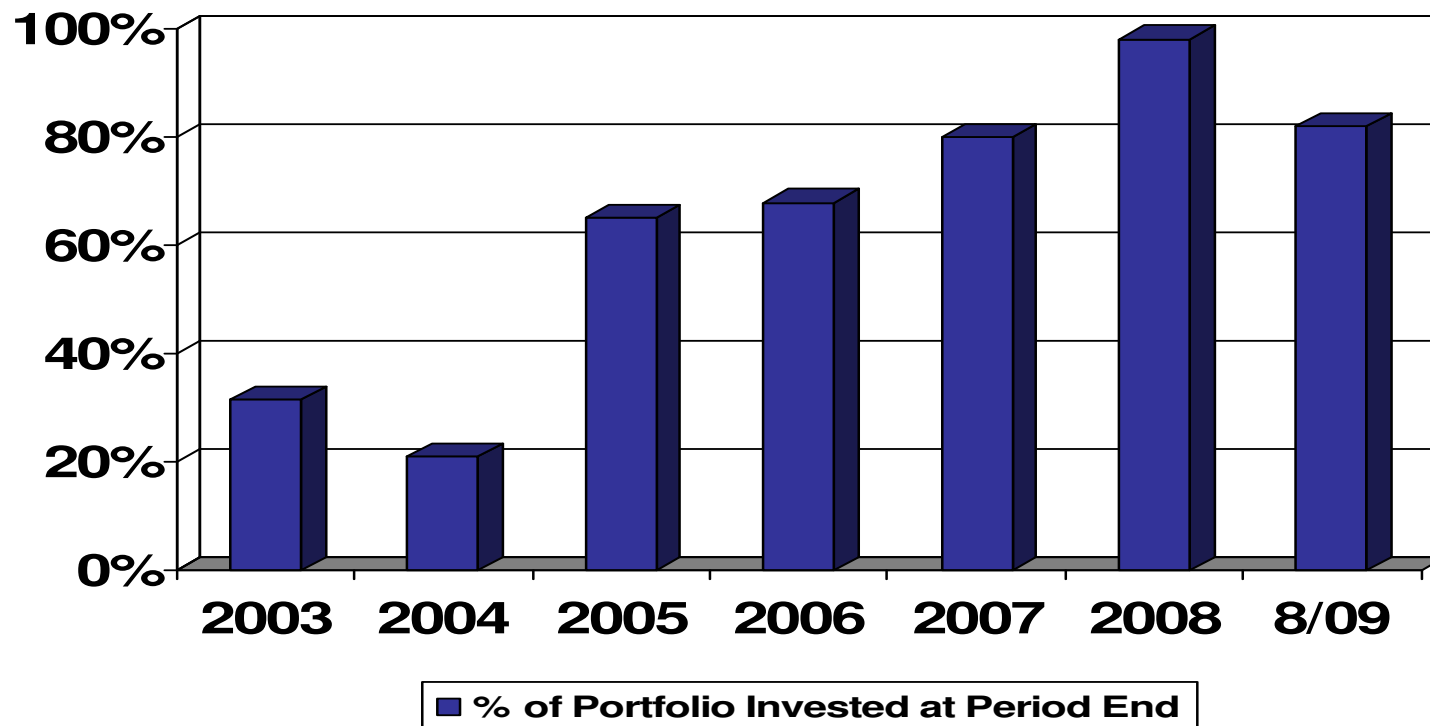


and have significant personal stakes in their companies

Criteria # 3 - Price

- Margins of Safety
- 15% hurdle rate – art not a science
- A “fifty cent dollar”
- Mental inventory of good businesses we know
- Patience as we wait for our price

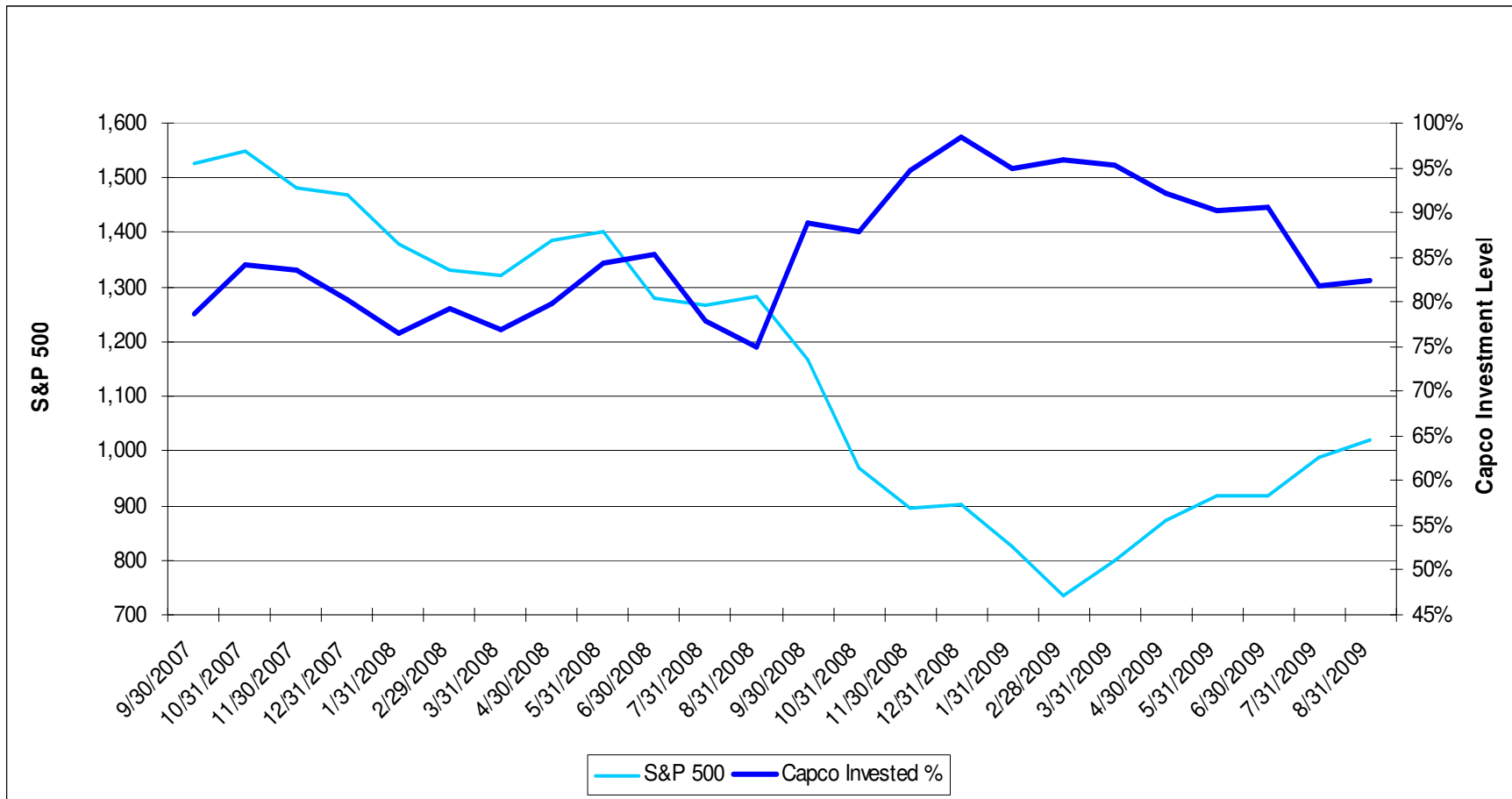
We were patient for years . . .



. . . we knew what to do . . .

- 9/30/08 – 3/9/09
S&P500 declined -42%
- 10/08: “we are taking advantage of this price volatility, and buying some of the highest quality businesses we know.”
- 1/09: “In our opinion, stocks (and many other financial assets) are cheap . . . we have never seen more things we want to own at prices we are willing to pay. ”
- 4/09: “The pain of recent experience may make the decision to invest difficult; but that pain of falling prices is precisely what makes investment compelling, and why we are fully invested. ”

... and we acted.



And Capco's Clients Acted

- Every Client Stayed
- Not One \$ Withdrawn
- Many clients added to their Capco investment
- Meanwhile – almost \$1 trillion poured into cash as investors fled stocks.

Month	S&P 500	Our Clients
Sept '08	-9%	Added
Oct '08	-17%	Added
Nov '08	-7%	Added
Dec '08	+1%	No change
Jan '09	-8%	Added
Feb '09	-11%	No change
Mar '09	+9%	Added

We Share Our Clients' Results

- We own the same investments, in the same proportions they do.
- We don't invest outside Capco
- There is no better alignment of interests
- Most advisers do not “eat their own cooking”

Concentration

- Natural conclusion to our approach – we’re selective
- 30 significant investments in 7 years
Mutual Funds avg: 150 investments, 100%+ turnover
- We don’t outsource our thinking or decision-making:
“Dirt under our fingernails”
“You don’t know until you know”
Primary sources
- *“Put all your eggs in one basket – and watch that basket.”* Mark Twain, 1894

What Next?

Capco on Inflation Protection

- Businesses that can raise prices ahead of costs, hold demand
- Low Capital Intensity
 - Inventory and Receivables
 - Maintenance Capital Expenditures
- This is more certain than commodities with their own supply-demand curves (i.e., land)

Conclusion

- Common Sense:
 - Quality Business
 - Quality People
 - Disciplined Price
- It's simple ... but not easy
- The long term record shows that it works
- We're ready for inflation

What we seek in a Client

- Buy-in to philosophy and process
Client Retention Matters – to us, and to Results
- Clients who appreciate the difficulties of acquiring capital
They don't want to do it twice
- Clients who value integrity and fair dealing
- Business experience is a plus for our research network
- Quality of relationship is more important than size

Investment Vehicles

- Capco Partners, Ltd.
- Separate Accounts (IRA's)
- \$250,000 Minimum
- Two Options:
 - 1.5% Flat Fee, or
 - No Fee, 20% of profits

General Partners

William H. Harrell, Jr. (41)

- Capco since 2002 (founder)
- Trenam Kemker, Partner, business litigation practice 1992-2002
- University of Florida (MBA 2004, first in class)
- Duke Law School (JD 1992)
- Duke University (BA 1989)

Christopher J. Harrell, CFA (39)

- Capco since 2004
- Equity Research Analyst, 1997-2004, Timucuan Asset Management, Verity Investment Management (formed by ex-Barnett CIO) and Barnett Bank
- Finance & Internal Audit, 1992-1997, Barnett Bank
- Chartered Financial Analyst (CFA) 1999
- Florida State University (BS Finance 1992, *cum laude*)

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Q & A

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