To: Bina Ormasel Owners
From: Guillermo Estefani
Subject: Owner's Manual - Bina Ormasel Partnership Principles
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Below, I'll outline the principles I believe should guide us in this business journey that you are part of.

This is not a completely new or blank model. Much of what I describe here is based on the "Owner's Manual" of Berkshire Hathaway (Buffett, 1996), a company I deeply admire and respect.

1. *Our goal is to operate a holding company whose intrinsic business value per share grows at the highest possible annual compound rate, at least faster than the average U.S. corporation.*

This section briefly compares investment performance in the U.S. market versus the Mexican market from 2004 to 2019. The purpose is to highlight differences between these two investment strategies and, in turn, provide a reasonable framework for determining Bina's general goal.

If we examine the average annual compound return of the S&P 500 index over 5-year periods across 50 years, from 1969 to 2019, we find an average annual compound return of 10.2%, excluding fees and combining dividends with market gains.

In the fifteen years of progress in the American market from 2004 to 2019, we can see two occasions when the market grew by more than 30%. There was also one time when it dropped by less than 10%. Most of the time, the growth was around 10% annually.

Year	Annual Change % S&P 500 with Dividends	$1 Growth from 2004 in the U.S.	$1 Growth from 2014 in the U.S.	Annual Change % IPC (+T.C.)	$1 Growth from 2004 in Mexico	$1 Growth from 2014 in Mexico
2004		$1.00			$1.00	
2005	4.9	$1.05		54.9	$1.55	
2006	15.8	$1.21		38.3	$2.14	
2007	5.5	$1.28		6.3	$2.28	
2008	(37)	$0.81		(48.7)	$1.17	
2009	26.5	$1.02		70.4	$1.99	
2010	15.1	$1.18		31.2	$2.61	
2011	2.1	$1.20		(5.9)	$2.46	
2012	16	$1.39		23.9	$3.05	
2013	32.4	$1.84		(13.8)	$2.62	
2014	13.7	$2.10	$1.00	(10.7)	$2.34	$1.00
2015	1.4	$2.13	$1.01	(12.4)	$2.05	$0.88
2016	12	$2.38	$1.14	(6.4)	$1.92	$0.82
2017	21.8	$2.90	$1.38	20.5	$2.32	$0.99
2018	4.4	$2.77	$1.32	(15.1)	$1.97	$0.84
2019	31.5	$3.64	$1.74	1.7	$2.00	$0.85
Compound Annual Gain		9.00%	11.70%		4.70%	(3.10%)
Total Gain		264%	74%		100%	(15%)

Now, this growth is not the same every year, nor does it follow a straight line. One dollar invested in a fund that tracks the S&P 500 in 2014, without fees, ended up being $1.74 by the end of 2019. In contrast, one dollar invested in 2004 was worth only $1.02 by the end of 2009. However, ten years later, by the end of 2019, that same investment had grown to $3.64.

The Mexican IPC (Índice de Precios y Cotizaciones) is a good example of how an average Mexican corporation performs. However, I believe we should be cautious when comparing the progress of an index from an emerging country to that of a dominant country.

For instance, in 2004, a person paid 11.00 pesos to buy one dollar. By the end of 2019, that price had risen to 18.90 pesos. If that same dollar had been invested in the Mexican IPC (without paying fees), it would have been worth $1.99 by the end of 2009, after the real estate crisis, with an exchange rate of 13 pesos per dollar.

A person with one dollar in 2014 who invested this money in Mexican pesos in the IPC, considering the index's growth until the end of 2019 and the peso's depreciation, could only buy $0.85. This represents a total loss of 15%, not accounting for inflation effects.

In other words, from 2012 until the end of 2019, because of the gradual devaluation of the Mexican peso, it was much better to stay in dollars without making any investments than to invest in an average Mexican corporation.

This helps us understand the beliefs about index investing. Investing long-term in a group of low-quality companies does not guarantee value growth over time.

On the other hand, there are no guarantees that the past will happen again in the future. As we saw in 2020 during the global health and economic crisis, even though the United States is or continues to be the leading economy in the world, it can still face shocks that no one wants to experience.

Therefore, at least with the technology we have at the beginning of the 21st century, we still cannot predict what will happen in the future or how the economy will change from year to year. Even if humans had this information, it is definitely beyond my reach.

This exercise also shows us how the American market is a strong system that has performed well over the years. So, we should be aware that if we expect substantial gains above the general U.S. market, we might be disappointed.

Considering all of this, we still believe that if our corporate vehicle is guided by the principles outlined below, there is a possibility of outperforming the general index without worrying too much about whether a specific year is positive or negative.

However, it is important to consider that our operation depends a lot on the U.S. market environment, which is our main comparison. While we always want to outperform an average U.S. corporation, we must also think about the reality of difficult periods in the overall U.S. economy.

What I mean is that for our goal, it would be much better to have a decline of -15% in our book value when the market falls -25% than to have a year where both the market and our corporation rise +20%.

One example of feasibility is Berkshire Hathaway (BRK), from whom we draw inspiration for our business model. Its greatest growth was from 1976 to 1999, with an average annual compound gain of +27% (in 8 out of 24 years, it was above +30%), while the market had an average annual compound gain of +15%.

I mention the BRK example not to give false hope but because it is a real case in social, political, and economic conditions that are completely different from ours.

It is very hard to replicate Warren Buffett's success, and we are far behind from him and his team in size, character, personality, intelligence, or connections.

Also, noteworthy is that e are inspired by BRK but do not aim to be just like them. For anyone who wants to benefit from the genius of the greatest investor of modern times, they only need to buy a Class B share and wait for the growth of one of the most extraordinary companies in the world.

We, on our part, have different characteristics, experiences, personalities, intelligence, and goals.

Also, the size of the stock market is much larger than it was forty years ago. Competitors are more sophisticated, knowledge and access to technology are increasing, and opportunities can become scarcer. What we have, unlike Warren Buffett, is time, due to our age.

Considering the formula for compound interest, 50 years with an S&P rate of 10.2% makes $1 grow to $128. With a rate of 15%, that $1 becomes $1,083, and with a rate of 20%, it grows to $9,100.

At least in this matter, there are no shortcuts. The available time exists, and the initial rate depends on the trust we can build in our vehicle. However, the capitalization rate requires a lot of discipline, the right theoretical framework, attention, effort, intelligence, and awareness.

2. *Our investment thesis is to become partners at reasonable prices with extraordinary businesses that are hard to imitate, managed by ethical leaders, and capable of strengthening their competitive advantage in the future.*

We will be very careful in selecting the businesses we consider extraordinary, ensuring we pay a reasonable price.

In general, what defines our thesis includes the following aspects:

1. Favorable economic characteristics in the long term.
2. Honest, creative, and hardworking management.
3. Reasonable prices.
4. Industries we understand and feel competent to evaluate.

This filter is usually strict, and we will rarely find a hundred opportunities that meet our requirements. As a result, our focus will tend to prefer the right concentration over excessive diversification.

On the other hand, good capital placement ideas are rare, and there are many people who are smarter and have greater technological skills than we do. Therefore, we recognize that many quality companies are already publicly traded, which makes our job more challenging.

For us, the ideal situation is to acquire complete businesses that have sustained growth in various industries and generate cash.

In the private business segment, it is important to recognize that we are not experts in any specific industry. We prefer to let excellent management run their businesses and expand them until they reach certain sizes.

Therefore, our initial decision is to own shares of businesses with the characteristics mentioned earlier by purchasing common stocks traded in the stock market.

The stock market allows us to participate and become partners in many business opportunities that would otherwise be inaccessible due to relationships, geographic distances, and financial resource sizes.

We will invest our capital to buy shares of these businesses, considering factors as if we were going to fully acquire the operating business.

Another point to consider is that, unlike an investment fund, we are a company that pays income taxes. This makes it relatively more logical for us to outperform the average of the U.S. market during years of economic uncertainty, while we might lag behind when the market has a strong year.

3. *In essence, what we aim to do is collect value from quality businesses that come in many forms.*

Our diversification or concentration does not rely on specific industries or geographic distributions. Instead, we will invest capital in the most effective way our abilities allow, focusing on businesses that meet our criteria.

It happens that these businesses participate in very different ways across many markets under various premises.

This activity is subject to errors in judgment and omissions. There are cognitive biases when investing that prevent us from seeing the full reality of the underlying businesses.

As a general rule, we will not cling to or have hopes for any position in the stock market.

We are not required to keep digging ourselves into a hole of false hopes just because we have invested a lot of attention in a bad business, despite our good intentions.

We also do not tend to cut underperforming businesses just because they seem to grow more slowly than their peers.

We appreciate good management, discipline, ingenuity, and hard work. If any of these conditions change, or if we have reached the maximum potential value because we have lost the fundamental factors that made us choose them in the first place, then we may sell our positions.

4. *Your capital is used exactly as we would use it if it were ours.*

Except for the unique compensation we will receive according to the general agreement to ensure control of the company, we will make money in the same way you do. Our wealth will grow at the same rate as yours for as long as you decide to be our partners.

There are no options, bonds, or high salaries. If you make money, we make money. If we make wrong decisions, we will also face the same costs as you.

We do not have an ideological commitment to any particular sector. We do not seek luxurious offices, high salaries, or a very large operation.

Every capital investment decision is made by considering the long-term economic consequences for our shareholders.

5. *We do not pay dividends.*

We believe that dividends can be carefully reinvested to grow our investments, create diverse opportunities, and strengthen our positions.

We think that reinvesting potential dividends will help us achieve at least $1 of book value for every $1 we retain over five-year periods. We understand that this will become more difficult as our size increases.

6. *We are conservative with other people's resources.*

We might use debt, but we will do so in a conservative manner. If there is any financial need, we will prioritize the long term and fixed rates.

Although we can use various market instruments, we will not speculate with derivatives. We will only use them strictly for protection and hedging specific positions.

Our fiduciary duty to our partners is more important to us. We prefer to sleep well rather than chase a few extra percentage points of profit margin.

7. *All our partners receive equal and up-to-date information at the same time.*

There are several ways to communicate with our partners.

Capital investment activities require a lot of attention to understand the overall business climate and the environments where the businesses we invest in operate. This helps us adjust our expectations and our position in those situations.

Each year, we will prepare an annual report with financial statements and really important information. We will include what we would want to know if we were in your position. This will give you enough information not only to evaluate what we are doing but also to understand how we think and how we invest.

We will explain our perspectives and conclusions clearly, accurately, and reasonably.

We will discuss the advantages and disadvantages of our company's positions. We will be honest, direct, and clear about ourselves, just as we are when we analyze any of our investment prospects.

We will hold an annual meeting where we will spend a reasonable amount of time answering questions about the corporation.

We will make quarterly reports with financial statements that follow general accounting principles and provide enough information.

The nature of our operation is to invest in businesses with potential value and to stay invested despite the general market opinion. This means that our consolidated numbers may not necessarily reflect our intrinsic value performance.

There are no accounting tricks or interpretations to soften annual results. All activities are reported fully, and our controls are careful. Any estimates or reserves are made as consistently and conservatively as possible.

We do not give growth forecasts or any valuable information that would benefit partners, regardless of their size.

8. *We only discuss our stock market activities as required by law.*

This means we avoid talking about specific securities, but we feel comfortable discussing businesses or investment philosophy.

Our policy is to be honest, but good investment ideas are rare, valuable, and can disappear quickly because they are good ideas, and there is a lot of competition in the sector.

This is why we usually do not talk about our investment ideas, including securities we have sold (that we might buy again) or stocks that people speculate we could purchase.

9. *Our goal is to maximize the intrinsic value of the business per share. To measure extrinsic value, we compare the progress of the company's book value per share against the performance of the S&P 500.*

Some definitions of intrinsic value state that it is the discounted value of cash that can be obtained from a business during its remaining life.

This calculation varies among people mainly because no one can predict the future, even when using mathematical models. It can also be inaccurate due to differences in interest rates or forecasts about a business's future ability.

We prefer to improve the overall value structure rather than just improving our accounting books. Over time, the progress of extraordinary businesses shows in market positions and, therefore, in capital accumulation, which will enhance our overall position.

Despite the imprecision of intrinsic value concepts, we believe there is a limited measurement that allows us to track the progress of our efforts. Therefore, we compare the progress of book value per share against the performance of the S&P 500 with the goal of outperforming it.

Although we know that the final measurement happens if the company is liquidated at the end of our journey, there is a chance that the intrinsic value of the business will exceed the book value of our positions.

For example, a depressed market offers significant advantages for capital placement because the prices for participating in extraordinary businesses decrease.

10. *The shares of the company that we sell should be consistent with the value of the business. As much as possible, we want the extrinsic value of our stock to be linked to the intrinsic value per share.*

We cannot control the price of our stock. However, we can discuss and encourage behavior that could lead to a rational stock price, aiming for a correlation between intrinsic value and extrinsic value of 1 to 1.

The result of this behavior is that we do not suggest that our stock is overvalued or undervalued, which could discourage some investors but attract those who seek long-term gains from the company's progress, not from management mistakes.

We do not offer shares to random individuals or through financial intermediaries, but rather by invitation only.

We will have only one type of general agreement for our partners. If a partner wants to add money to the company during the year, it would be complicated to make specific amendments to agreements during that time. Therefore, additional positions can only be purchased at the end of the year.

We will accept advances during the year and will pay interest of +2% above the Moody's AAA Corporate Bond rate (or a fixed rate of 5.5%) from the moment we receive the advance until the end of the year. At that point, the payment plus interest will be added to the company's capital and will participate in the profits or losses.

Profit is determined based on the market value at the beginning and end of the year, adjusted for payments made to partners or contributions received from them.

It is not based on earnings made during the year, but rather on measuring the change in liquidation value (book value per share) for that year.

11. *Our management maximizes fiduciary responsibility and effectiveness in decision-making.*

On one hand, we have a board that will look out for the interests of shareholders, who are strongly aligned with the owners of the shares.

My role includes executive responsibilities to lead and be accountable for operations, as well as being responsible for investment decisions.

12. *We will operate as a partnership with the goal of outperforming the average performance of American businesses.*

No matter what corporate structure we choose, our partners are seen as owner-partners, while Betsela will be the "managing partner."

The company is a vehicle through which our partners own the assets.

We don’t want you to think of your position as just a piece of paper or a share in a mutual fund from a financial institution that you can enter or exit because of some event or advice from an investment consultant that makes you nervous.

Instead, we believe that as an owner, you should stay with us until we achieve our goal.

We view our shareholders as companions who have entrusted us with their funds, which are very important to their lives.

The ongoing goal of managing this partnership is to achieve long-term performance that is better than the industry average. If we do not achieve superior performance, there is no reason for this partnership to exist.

Over a certain period of time, there will be good years and bad years. It is not helpful to get excited or depressed about the order in which they happen. What matters is beating the market with a realistic expectation.

If we achieve this advantage, we believe it will result in better performance than the averages in stable or declining markets, and possibly lower performance in rising markets.

References

Buffett, W. E. (1996). *Berkshire Hathaway Owner's Manual.* Omaha: Berkshire Hathaway.