2017 Letter to shareholders

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Fellow Shareholders,

Our return on capital from February 8 when we started to year end was 9.5%. This compares to 1.7% for the OMXS30 index in the same period. If you had invested in the index you would also have received dividends of 3.7% for a total return of 5.4%. The reason for choosing OMXS30 including dividends as a benchmark is because anyone can easily get that exposure at no cost and with no work through an investment in Avanza Zero.

We started with a capital base of 4.46 million SEK in February. The first thing we did was to pay some startup costs so we started investing 4.42 million, equivalent to 99.2 SEK per share, which increased by roughly 0.4 million before we raised another 6.92 million in December. We ended the year with a book value of 11.76 million SEK or 108.6 SEK per share.

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December equity raise

In December, we raised 6.92 million SEK at a 0.5% premium to our book value. No salary costs were reserved based on the small book value increase that resulted, as any salary is meant to accrue only when actual investment returns have been delivered. For simplicity and time management reasons, as all participants in the equity raise subscribed for fixed sums except myself, I rounded up the number of shares you would receive and covered the small difference.

We are now 23 shareholders. A heartfelt welcome to all of you! We now also have an interest list for investors that want to join us. There are currently a couple of buyers on the list and no sellers, so if you want to sell some of your shares that shouldn't be a problem (I have asked for God's forgiveness). For the buyers on the list and other interested investors, we are likely to raise capital once or twice per year in the next couple of years.

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Our results in 2017

Overall, I am happy with our results in 2017. I wouldn't be as happy if it weren't for a couple of factors that negatively impacted our results. Generally, I hesitate to talk about one-time effects – because they seldom turn out to be one-time – but in this first year there were a number of factors that deserve a brief mention. To be clear, if you hear me keep citing one-time effects in future years, you should consider re-evaluating your River Oak investment.

If we had gotten registered on January 1 instead of February 8, our net result would have been 4.6 SEK per share higher. This is because the companies that in February became – and if we had started in January had become – our first investments, performed very well in those first few weeks of the year. In effect, we didn't get to count the best month of the year for our holdings (which in 2017 turned out to be January), although some of you got the benefit of these gains through the family partnership. The reason for our delayed registration was nothing but a simple name conflict; the blame should be ascribed solely to the stubbornness of yours truly in wanting to have the name Zen Capital.

Second, besides our Swedish investments, we are invested in a handful of foreign companies whose stocks are primarily denominated in US dollars. Thus without any explicit wish on our part, we are long the US dollar. While I do believe I have some ability to predict which companies will do well

in the future and where we can buy a part ownership that will make our investments turn out reasonably well, any such predictive ability does not extend to currency movements.

Our result in local currencies – which is what I focus on – was a fair bit better than our reported result. Currency effects negatively impacted our net result by 6.5 SEK per share (in percentage terms this is on par with the markup at your local currency exchange office!). With constant currencies our increase in book value would have been 75% higher. The main reason for this large hit to our results was the weakening of the US dollar which had its weakest year since 2003. So instead of a local currencies victory lap, we have to settle for a blended currency high five.

Our Board has looked at the possibility of hedging our currency exposure but the only available option we have been offered would cost us a fair amount and would only hedge some of our exposure. As it is my firm assessment that currency effects will be small to negligible over time – in this context it is worth noting that since 1971 when America let the US dollar float freely against other currencies, it has risen in roughly half of the years compared to a basket of other major currencies, and fallen in the other half – if I'm right, any hedges will only mean an extra cost for us in the long run.

In summary, during our first year we had to deal with:

1. Startup costs: 0.8 SEK per share
2. Missed gains Jan 1 – Feb 8: 4.6 SEK per share (plus 1 SEK per share currency effects in this period)
3. Currency effects: 6.5 SEK per share

Total net effect on yearend book value: 12.9 SEK per share

I want to emphasize that these items are not due to bad luck but randomness – and randomness plays a big role in investing during short time spans. It is a certainty that randomness will also work to our advantage in some years. Then it won't be good luck; it will, just as it was in 2017, be part of the regular randomness that exists in the markets.

To be able to give you the best possible picture of our operations in these first 10 ½ months, and to give you a good full-year comparison, I feel it is my job to inform you about the above items, but it is up to you whether you view them as true one-time items or not. I can say for certain that we will not have any startup costs and that we will not be sitting out the best month of the year in any future years. As for the currency effects, there is no way to be sure, but it is in my opinion very unlikely that they will be as large in more than perhaps one out of ten future years. It is also worth noting that our foreign investments still contributed a positive 4% to our net result.

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Why start River Oak Capital?

Doing something you love is great, and running my family partnership was a lot of fun, but succeeding alone and with little utility to anyone except my family did not seem like a worthwhile endeavor in the long run. I felt that the family partnership operation was being under-utilized. Starting River Oak would enable friends and colleagues that I trusted and that trusted me to partake as a fun way to invest their savings and hopefully attain much better results over time than they would with their other investment alternatives.

Second, a larger capital base would enable more interesting possibilities over time, such as investing in and supporting small private companies to help them grow. This did not only seem to be

very interesting and a lot of fun, but would also reduce our overall sensitivity to fluctuations in the general market and potentially provide us with a steady cash flow spread out over the whole year to re-invest.

Finally, I had for years heard stories from friends and relatives that had invested with one of the four large Swedish banks and other financial service providers with very disappointing results. And some had been presented with the idea of locking up their savings for 30 years in “advantageous” pension plans in exchange for a lower interest rate on their mortgage. Saving 0.5% annually on your mortgage interest payments while paying the bank 1.5% to 2% annually to invest your money regardless of result for 30 years, seems like a pretty bad deal.

The banks know this of course but they don’t train their salespeople to tell you. Why would they when they can keep X% annually and still make you reasonably satisfied simply by investing your pension savings in one of their funds that very closely mimic the index and will give you a return of 6%+ less the X% that they keep? Based on my seven years of studying and operating in the financial industry, I knew that River Oak would be a better option for most of my friends.

When I decided to start River Oak, I did so with the intention of working here forever. For the foreseeable future, due to the 10-to-1 voting power of class A shares, I am likely to control a large part of the votes, so it is important that you agree with our founding principles and operating philosophy outlined next if you plan to be a shareholder. If you think that River Oak would be better off if I went fishing instead of investing (on occasions when I make mistakes I’m sure such a suggestion will sound like a brilliant idea) it is not a good idea to invest in River Oak.

Founding principles & Operating philosophy

Our basic idea is simple:

1. **Make a bet on human progress.**

   Human progress is the reason why stock markets in the jurisdictions we invest in have historically produced 6 to 10% annual returns over the past 100 years.

2. **Invest in companies that are better than average or available at lower prices.**

   The objective here is to add some additional returns on top of the 6%+ returns that the general market has provided and is likely to keep providing over time.

Goals

1. **Don’t lose money.**

   We will always think about the downside first.

2. **Earn an average of 15% annually on our capital over time (pre-tax in SEK).**

   This will result in an annual increase in book value of 11% after taxes and costs which mainly consist of salary costs.

Given the history of the family partnership that I have run that have achieved annual returns in the 25%+ range, some of you might perhaps consider our goal of 11% per annum somewhat modest or even defensive. Let me explain.

Our goal has been set with a very long time horizon in mind. The market will not always go up as it has in the past five years. In fact, I can guarantee you that it won't and that our investment returns will vary a lot from year to year. Many companies that provide guidance tend to extrapolate current trends into the future and when tougher times hit – which they inevitably will – these companies revise their goals downwards.

I don't want to revise our goals downwards every time some surprises come along. 2017 stands as a good example. As you have just read, we were hit with an unexpected 8.7% currency headwind to our gross result. Despite this, our returns were in line with our overarching goal of an 11% annual increase in book value. We all know there will be surprises in the future as well, so why would we set our goal based on that there won't? Granted, some surprises will be positive in nature but those are always easy to handle.

We will prioritize being good over large

With our current portfolio of companies we could relatively easy invest a couple hundred million so I have nothing in principle against us raising more capital. And our returns would to some observers look more impressive with an extra zero or two behind the absolute numbers, but raising more capital in and of itself will not increase our returns or do anything for your personal net worth.

Consider two firms A and B. Firm A makes 10 million on 50 million of capital for a 20% return. Firm B makes 25 million on 500 million in capital for a 5% return. Some would argue that because firm B makes more money it is the superior business. We will always prefer to be firm A.

In terms of growing your personal net worth, it doesn't matter one iota if our book value grows and is large in absolute terms if it's achieved by raising more capital. What matters is the growth in our book value *per share* which in turn is a direct result of our return on capital.

We will be different

Our goal is to attain better returns than a passive index investment which by extension also means better returns than the average investor. The index has actually proven to be the far tougher compatriot over time (due to transaction fees and the large management fees of the financial industry).

Better than average results can per definition only be attained by investing in a way that is different from the average. Now, we can't do that without also being exposed to the risk of getting worse than average results. We will inevitably underperform in some periods and outperform in others. However, what matters for our endeavor to be worthwhile is that we outperform our available alternatives over a longer period. It won't be easy but I believe we will. If I didn't, there would be no financial reason to start River Oak in the first place.

A favorite story of mine is one where a group of kids are making fun of a young boy that looks very different from them; let's call him Albert. But Albert was smiling and was very amused by the group. He found it equally funny that they all looked the same. Being Albert is one of our goals.

While achieving a long run of good returns is the goal, we won't do it at any price. We own a collection of part ownerships in businesses that I believe provide valuable products and services to their customer bases and are in my opinion also a net benefit to society. We will not settle for less. This means that some businesses are off limits, you can read about which ones in our latest prospectus, and that's ok. It's a tradeoff I'm happy to make, and I hope you are too.

Highly concentrated portfolio

I think owning parts of many different businesses is great fun and I hope that you, as a shareholder of River Oak, think so too. But in terms of reaching our goals it is not an optimal strategy to own too many. So I force myself to be very selective and invest only in the absolute best ideas for us (and have learned to remain content with simply dreaming about owning the others some day).

This is an area where we have a radically different approach than most. I don't view our approach to be a master recipe for everyone but it is *our* master recipe. Our highly concentrated portfolio is perhaps the main reason why I believe we have a chance to achieve better than average results over time.

We own parts of businesses

Our shareholdings should be viewed as part ownerships in businesses because this is exactly what they are. They are not pieces of paper to be bought or sold based on the vagaries of the market or the countless expert opinions that are out there. We own these stocks because they give us the right to a certain percentage of the underlying company's assets and future earnings. On a quarterly basis, the companies report their progress to us (and all other shareholders). This reporting, and not that of the market's share price movements, is what will guide our actions.

Acquired at reasonable prices, the payoff from our stock ownerships should over time mirror the performance of the underlying businesses, and in some cases there is a potential cherry on the top if the market corrects the undervaluation that is often present at the time of our purchase. When deciding on our investments I keep in mind an Emory University study that showed that more expensive weddings were correlated with a higher chance of divorce. The price we pay is important but we will also invest in companies that I believe are fairly valued but where I'm optimistic that they will be able to grow their intrinsic value by at least 15% per annum.

Long-term view

It is almost impossible to make money fast but relatively straightforward to make money slow. Thus I always have a long-term starting point when evaluating potential investments. This does not mean that we will hold our investments indefinitely for the sake of being long-term. Neither does it mean that I strive for much precision in any long-term forecast; I do not have much faith in any 5- or 10-year modeling forecasts that are done in any more detail than on a napkin. In my experience, such models tend to have more academic value than real-life value. As Winston Churchill once said: *"However beautiful the strategy, you should occasionally look at the results."*

But my focus will always be on the longer term and on the big picture. If the big picture doesn't tell me to go ahead, we'll stay on the sidelines. With our highly concentrated portfolio this requires lots of patience. Admittedly, it's sometimes challenging to just sit on your hands and wait. But in the

end, what really drives me is that River Oak achieves really good returns – and this can't be done by investing in mediocre opportunities. Having this objective in mind makes it a lot easier to stay disciplined. On days when it is challenging, I take inspiration from Douglas Adams' dolphins:

On the planet Earth, man had always assumed that he was more intelligent than dolphins because he had achieved so much – the wheel, New York, wars and so on – whilst all the dolphins had ever done was muck about in the water having a good time. But conversely, the dolphins had always believed that they were far more intelligent than man – for precisely the same reasons.

Independent thinking

In investing, the trait that is perhaps most important of all is independent thinking. One of our current investments, Fortnox, stands as a good case in point. In March 2016, Visma made an offer to acquire Fortnox for 24 SEK per share. When the offer was made public, I called Fortnox then Chairman of the Board to try to get some background material on the Board's recommendation to shareholders to accept the offer.

The company lawyers didn't allow him to share any such documentation (even though it had been paid for using shareholders', i.e. our, money) but he told me that he believed Fortnox fair value was between 16 to 18 SEK per share and thus 24 SEK per share was obviously a more than generous offer. As I initially invested in Fortnox at 14.7 SEK per share, I clearly believed that the company's fair value was a lot higher than 16 to 18 SEK per share, or else I wouldn't have invested in the first place.

The offer was accepted by a majority of shareholders but was later rejected by the Swedish Competition Authority. The fact that Fortnox shares are now changing hands at three times the Chairman's fair value (~50 SEK per share) doesn't necessarily prove that I was right and he was wrong – but it teaches the very important lesson of always forming, and standing by, your own opinion; even if it is the opposite of an authoritative person. It also shows the importance of looking out longer than the next week or the next month when valuing a company.

There will be "turbulence"

While 2017 was a very calm year in the markets, we have already had some meaningful turbulence in 2018. You've probably all been in a plane that encountered some heavy turbulence. Before long in such a situation you will hear the calm voice of the pilot: *"We are trying to avoid the turbulence as best as we can. I hope you are all having a nice flight despite the recent turbulence. We expect to land safely in about one hour and 40 minutes."* While I can't be as specific as to the timing, I'd like to echo the pilot's message.

In fact, it's in tougher markets that I believe we have our best chance to shine. It's easy for anyone to do well in a steadily rising market; it's down markets that separate the real swimmers from the naked ones. Shining in tougher times, i.e. not losing money when many others do will not show up as big gains in your net worth right now – but over time I promise you that it will.

The best investment company of all time, Berkshire Hathaway, has on three different occasions had drops in the price of its stock of as much as 50%. On a fourth occasion, in October 1987, its price was marked down by 37% in less than one month. As much as I would like River Oak to be immune to these types of extraordinary "mood swings" of Mr. Market (Ms.?), we most certainly won't.

These mood swings of the market are the price we have to pay for being in such a long-term favorable game. Markets that never go down and human nature simply doesn't compute. Humans are quick to react to anything that promises effortless and risk-free money which ensures that any such opportunity overshoots and causes a subsequent drop. The biggest mistake that most people make is not that they are invested during a sharp market drop but that they do not participate at all out of fear for an unknown future. No person in the history of humankind has ever escaped an unknown future but many have done well in the markets despite it.

I emphasize this now when times have been fairly good because when a big downturn inevitably comes, I wouldn't enjoy seeing some of you sell your River Oak shares at low prices due to emotional influences that will then be present and give away potentially large future gains to other shareholders. With this in mind, I took the liberty of conducting a little experiment by sending out two pieces of information on February 6, 2018 which was the day after the biggest ever single-day point drop in the Dow Jones Index, to gauge whether any of you were worried. You all passed with flying colors: Not one of you contacted me with even the slightest bit of worry. Our foundation is very solid.

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Our Investments

I have always believed in learning the big principles over details. So these letters will generally be structured to focus on the big picture and our overarching principles rather than going into much detail about specific companies and stocks. However, from time to time, and in this first letter, I think a discussion of some of our holdings will provide good insight into how I think about our investments.

Before discussing two of our investments that I believe show the wide range of our investment universe, Fortnox and Fiat, I will say that many people have for the past four years told me that Fortnox is too expensive and that Fiat is a terrible business. I will try to address these perfectly understandable reservations below but I'd venture that it is precisely because most people have had these reservations (and many still do) that the opportunities exist in the first place.

Fortnox

To most people the sex appeal of book keeping software is probably slightly higher than hand sanitizer companies. But every day, without much marketing, more than 100 new business customers sign up and start paying for Fortnox services. They pay a very low price and my best guess is that for more than 95% of them Fortnox software does exactly what they need and expect from it. After Fortnox has paid all its employees and other operating costs we share in the remaining proceeds with other fellow shareholders. That sounds pretty sexy to me.

As mentioned above, in the past couple of years I've oftentimes been asked about Fortnox high valuation. Almost always this question is asked in the context of the current year's financial numbers. But investing is all about the future. What matters is whether a stock is cheap or expensive today based on its future earnings power. The value of a company is the sum of all *future* cash flows discounted back to today at an appropriate interest rate. Historical cash flows are no doubt one of the best sources of information we have to help us estimate future cash flows. But if you would set up an equation that calculates a company's value, historical cash flows are not part of it. If you have any doubts towards the validity of this, take a look at Kodak's 1999 financial statements.

When you decide who you want to marry, you will no doubt consider the historical performance of the candidate but the most important factor by far will be whether you think you will enjoy the future together. This is the right way to think about long-term business investments too.

So what about Fortnox future? To be sure, if Fortnox' earnings power does not increase materially over the coming years the stock is on the expensive side today. Most people agree that there is a strong trend of companies moving their accounting software from local solutions onto the cloud, but I think Fortnox' very strong position in the marketplace and their ability to cross-sell more than twenty different services at a very low cost over the coming years is not yet really well understood. In 2017 alone Fortnox got more new customers that were moving from competing platforms than in all other previous years combined.

Fortnox has managed to cultivate a startup culture that I think is very rare among established companies in Sweden. This culture combined with very strong growth makes it an attractive place to work at and they have launched a handful of useful new services in the past couple of years. As of 2017 the average Fortnox customer pays for ~1.4 services. It seems likely to me that this number will increase over time. A near recession-resistant business with strong user growth, more services per user and the ability to raise prices on those services is a powerful combination. For great companies that are fairly valued, letting time go by and applaud from the sidelines is usually a good course of action.

Fiat Chrysler Automobiles (FCA)

To give you an idea of how randomly our investments are found, the idea to invest in Fiat initially came to me from this video. What caught my interest was how unusual Fiat Chrysler's CEO Sergio Marchionne seemed to be compared to the average CEO. In the video he says that the Chairman's office is now empty and used as a tourist attraction because nothing happened there and also tells about how he promoted many younger people from within FCA to high positions. This clip, in combination with the pent-up demand for cars that I believed had built up in the United States after the 2008 Financial Crisis, sparked my interest to take a closer look.

I initially invested in Fiat through my family partnership in early 2014. At the time I also wrote an article that was published here. Soon after my initial investment the price of the shares fell rapidly to the point at which the market valued the entire Fiat enterprise with all its different brands – at that time Ferrari was also part of Fiat – at a total of just €15 billion. Today, some four years later, the total enterprise value of Fiat and recently separated Ferrari is valued at close to €45 billion.

This was one of those occasions where the market was very inefficient. To be fair, to a large extent it was also the work of one of the best CEOs I know of: Sergio Marchionne. If we go back to when Sergio took charge of an almost bankrupt FCA in 2004 the whole group was valued at around €6 billion. FCA and all the subsidiaries that were part of FCA back then today command a valuation of around €60 billion. With this successful turnaround, Sergio has been the leader that in 2004 enabled hundred sixty thousand workers at Fiat and then in 2009 tens of thousands workers at Chrysler, to keep their jobs. When he retires, Sergio is set to go down as one of the all-time great CEOs.

While these previous heroics are fascinating and have created tens of thousands of jobs along with large gains for shareholders, let us take a look at today's situation.

To do this, I will use two measures of earnings that may not be familiar to all of you: Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and its slightly poorer cousin Earnings before Interest and Tax (EBIT). To simplify, I will ignore two recent political developments that will affect FCA: A positive ~€800 million impact due to the Tax Cuts and Jobs Act that was passed in December and a likely negative impact due to the introduced trade tariffs. Taken together I believe these two events will end up being a net benefit to shareholders.

At the time of this writing, the market capitalization of FCA is €24 billion. FCA has announced its intentions to spin off one of its parts businesses Magneti Marelli in the near future. At an estimated valuation of ~€4 billion for Marelli that leaves us with €20 billion for the rest of FCA. Sergio recently confirmed that FCA is on track to produce an EBIT result excluding Marelli that exceeds €8 billion in 2018. My best guess is that some €4 billion of this will come from FCA's crown jewel Jeep with the remaining €4 billion coming from its other brands.

First, let's take a look at the non-Jeep brands. For this part of FCA, we will use an interesting data point that a friend of mine pointed out for comparison: In April 2017, General Motors sold its European Opel operation to the PSA Group at a valuation of 4x EBITDA (EBIT was negative). The transaction price would likely have been somewhat lower had General Motors not agreed to keep Opel's pension liabilities, but let's assume that this difference is more than covered by the fact that FCA's non-Jeep brands are profitable on a combined basis, and that they include brands such as Maserati that generated an EBIT result of €560 million in 2017 and which Sergio has hinted that he thinks will be able to produce an EBIT close to €1 billion by 2020.

Let's further assume that FCA's non-Jeep brands EBITDA is only 20% higher than EBIT (this is more than conservative as it has regularly been >80% higher for the whole of FCA) which gives us EBITDA of €5 billion. Finally, let's value this part of FCA at the same 4x EBITDA as that of Opel's European operation, which gives us a total of €20 billion.

Attentive readers may by now have figured out where I'm going with this little exercise: The €20 billion that we are currently paying for all of FCA has been accounted for and Jeep is being served up to us for free. To me, Jeep is arguably the best business within FCA. Some might argue that Jeep is worth €10 billion and some might say it's worth €40 billion. Either way, I hope that just like Jerry Maguire, I had you at "Hello".

To sum up, as I see it one of two things will happen in the not too distant future: We will see a sharp drop in Fiat's sales and earnings or Fiat shares will be valued a fair bit higher. If we don't see the former and the share price stays at the current level, Fiat will in three years' time be able to buy back all its outstanding shares with the free cash flow that it will accumulate. Even after factoring in higher interest rates and the potential adverse effects they could have on the US auto market, it is hard to see many scenarios where we lose money here.

I will say about Fiat shares what former Fiat President Gianni Agnelli once said about Fiat cars. On a TV show he was asked by the host: "Gianni, what is the best automobile in the entire world?" His answer: "Well, I think the best *buy* is a Fiat."

The world's undeniable trends: E-commerce

E-commerce sites have many advantages over traditional brick and mortar stores. They can offer a much larger selection due to unlimited "shelf-space", better availability, the convenience of

ordering from anywhere, and lower prices. The consumer's preference for e-commerce can easily be seen in the growth numbers many e-commerce companies have reported in the past couple of years.

Although they need fulfillment and delivery capacities that are costly, e-commerce companies that have attained some scale are overall more efficient operations. One or a couple of large fulfillment centers instead of hundreds of physical stores makes for much more efficient inventory management and is overall cheaper.

Currently almost all e-commerce companies are fighting for market share. Thus they re-invest most or all of their profits into growing by means of more marketing, improving their infrastructure and low prices. For now, investors are happy to accept no profits in return for good growth, in part perhaps because of the example of Amazon, and value most of them based on a multiple of sales instead of a multiple of profits. It remains to be seen what type of margins these companies can achieve at more mature stages. The market leaders should do well due to scale advantages and lower costs while the others remain an open question which perhaps makes them somewhat overvalued in the aggregate today.

We are currently invested in two e-commerce companies that I believe have strong advantages versus their competitors but we sold out of Amazon shortly after we started out as I concluded that I didn't think the world's largest companies are the best options for a small company like ours.

The world's undeniable trends: Chinese consumption growth

We are also invested in two Chinese companies that are listed in the United States. My current view is that we are likely to invest in more Chinese companies in the coming years. To understand why let's look at some data.

The Chinese economy is growing at around 7% and has more than tripled in the past decade. Income per capita has almost tripled in this period which has resulted in a similar increase in consumer spending. Meanwhile, income per capita in the West has grown at less than 2% annually in the past decade.

Furthermore, consumption in China as a percentage of GDP is still only around 40% vs 60-70% in the West. While Chinese people have always saved a lot more than their Western counterparts – the household savings rate in China is above 35% compared to less than 6% in the U.S. – this gap seems likely to narrow over time.

If you don't care much about economic terms and couldn't care less about the above paragraphs, this is what you need to know: The Chinese economy, income per capita and consumer spending is growing fast and is very likely to continue to grow a lot faster than in the West. This is a nice tailwind to have as investors.

An interesting phenomenon in China is that a large part of the population basically skipped the computer and went straight to the smartphone. This has resulted in that out of almost 800 million Internet users at year end more than 98% of them are smartphone users. With a population of 1.4 billion there is still plenty of room for growth before Internet adoption reaches the same levels as in the West.

Investing in well-run companies that ride on these trends makes it hard to lose.

Other and future investments

Besides Fortnox we currently only have two investments in Swedish companies, both of which make up a very small percentage of our total assets. I generally view Sweden as a very good place to invest but most Swedish companies currently look fairly expensive to me.

Fur future investments, I am primarily studying software companies and online based companies. There are three reasons for this: i) It is an area with which I am familiar and where I have a good understanding of the business models, ii) Companies in this area have very good economic characteristics, iii) The current strong trends that drive them.

While many companies are priced expensively in the market today, I can't recall ever having a better pipeline of investment ideas. The main reason for this is an expanded network of very smart investors whom I have really enjoyed getting to know; another is the compounding effect of accumulated knowledge of many different companies and industries over the past eight years. This luxury problem of ours could possibly lead to a somewhat lower concentration in our portfolio over time. It is unlikely however that we will go over more than ten concurrent investments. You can generally assume that any investment we make will be from 8% to 30% of our total assets.

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Closing words

Besides our public investments I have been thinking more and more about opportunities in the private market. The private market is less efficient because it is less liquid, and in the case of smaller companies it is practically non-existent. With a somewhat larger capital base than we have today I believe that the private markets will be very interesting for us. I hope that by the end of 2019 we will have a large enough capital base to also pursue investments in the private market.

While operations in other companies entail everything from operating heavy machinery to programming Artificial Intelligence, our operations consist mainly of reading and thinking. Around 50% of my time is spent on company reports and general news; 25% on thinking, analyzing and discussing with other investors, and the remaining 25% on books. If you are interested in which books, I have included a link to my online book-shelf at the end of this letter. The best books I read during the past year were Shoe Dog by Phil Knight, Red Notice by Bill Browder and Peak by Anders Ericsson. The two former are biographies but both read like novels. The Peak book is very well researched and makes a remarkably strong case for deliberate practice over innate talent.

In some very sad news, one of our founding shareholders, Daniel Markstedt, passed away in July. He will be deeply missed. Daniel was one of the first people that encouraged me to get River Oak started and I have promised him that I will make his River Oak investment count.

Our first annual meeting will take place on April 19 at ArenaHotellet as per the previously sent out invitation. We will have a formal meeting for about 20 minutes followed by a short presentation of our first year of operations. After that you have a chance to ask me any questions that you have.
I look forward to seeing you there!

Finally, I would like to thank Anna Åhr and Stefan Sjöö for their work on the Board during the year. Our Board meetings have been efficient, productive and fun. None of us get any compensation

for our work on the Board. We all own shares and any salary for me accrue only if River Oak's book value per share increases so that is the only way any of us gets paid.

To all shareholders: It is great fun to be in partnership with you. Thank you for your trust and confidence in River Oak. I look forward to trying to earn it.

April 12, 2018

Daniel Glaser
Chief Executive Officer

Contact

daniel [at] riveroakcapital.se
mob: +46 (0)70 496 3114

Online book shelf

https://www.goodreads.com/review/list/68472482-danielg

Historical pretax returns

Jan 1, 2013 – Feb 7, 2017: Zen Capital Family Partnership
Feb 8, 2017 – Dec 31, 2017: River Oak Capital AB

	Gross Return	Shareholders incl. div.	OMXS30 incl. div.	Difference
2013	41.0%	30.8%	25.4%	5.4%
2014	45.0%	33.8%	13.6%	20.2%
2015	35.1%	26.3%	2.5%	23.8%
2016	20.5%	15.4%	9.1%	6.3%
2017	19.6%	14.0%	5.4%	8.6%
Overall Gain	298.1%	190.6%	67.9%	122.7%
Compounded Annual Gain	31.8%	23.8%	10.9%	12.9%

Note on currency effects

Currency effects on gross returns: +7% in 2014, +2% in 2016, -10% in 2017; other years <1%.