

Fellow shareholder,

River Oak's book value per share decreased by 5.9% in 2018. Our book value at Dec 31, 2018 was SEK 15.6 million, which is equivalent to SEK 102.12 per share. This compares to a decrease of 10.8% for the OMXS30 index in the same period. If you had invested in the index you would also have received dividends of approximately 3.6% which would have brought the net result for the index to a decrease of 7.2%.

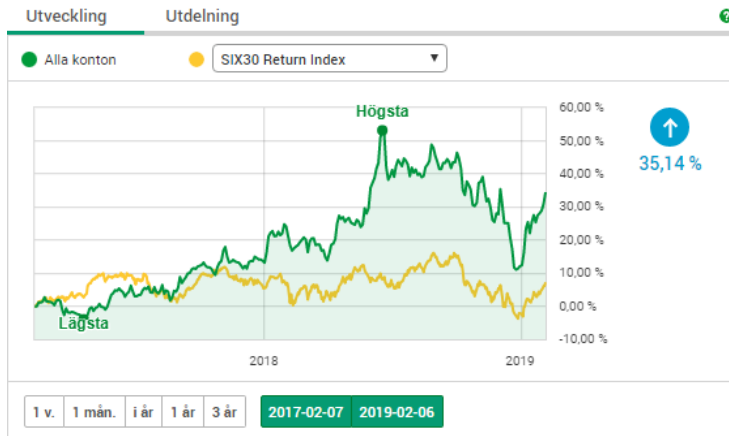
For those of you that prefer to look at two full Earth orbits around the Sun since we started on Feb 7, 2017 (one complete orbit takes 365.256 days), our book value at Feb 6, 2019 was SEK 18.7 million, which is equivalent to SEK 121.88 per share for a total net return of 21.9% at our 2-year mark. The return for the OMXS30 including dividends was 7.8% during the same period.

You can see our investment result (before reserving costs for salary and related taxes) compared to the OMXS30 including dividends for both periods in the graphs below.

Feb 7, 2017 – Dec 31, 2018



Feb 7, 2017 – Feb 6, 2019



Comments

Our pretax investment result for 2018 was exactly 0.0%. The reason for the difference between our investment result and our net result of -5.9% is because we reserve salary costs and related taxes quarterly and not annually. Per the end of the third quarter we had a substantial gain for the year, at which point salary and related taxes were reserved, which left us with a book value per share of SEK 130.23 at the end of the third quarter.

I am quite satisfied with our overall investment result given how the index performed but not so satisfied with our net result. To avoid this somewhat unpleasant situation we ended up with in 2018, where I can earn a salary even with a 0.0% investment return for the year, I let the Board know that I am open to start reserving salary costs annually instead. After some discussion we decided to continue to reserve salary costs quarterly as our book value per share would otherwise be very misleading in positive years as we would then always reserve all salary costs only at the end of the fourth quarter. This would lead to an artificially high book value in all other quarters.

On the bright side, we will benefit in 2019 and beyond from having reserved salary costs in 2018. We now have a situation where we have prepaid all salary costs up until we reach a book value of SEK 130.23 per share, which means that we will have essentially no company costs until our book value per share surpasses that level again.

If one evaluates the result from when we raised capital in August to yearend the result looks rather unsatisfactory but I know that no one invested in River Oak with a 4-month time horizon – and, when we experience a drop like the one in December, the person that gets the most beat up is yours truly. I get no salary for a while, and in August I took out all the reserved salary that was available at the time (half of it was sent to the Swedish Tax Authority), added an additional SEK 300,000 of personal capital, and then re-invested all of it in the capital raise which was done at SEK 132.58 per share. This is exactly as it is supposed to be as I see it: If River Oak does poorly, I will too.

So what happened in December?

Peter Lynch has said that *“for some reason you lose money rapidly in the market, but you don’t make it rapidly.”* This observation rang true once again in December. On December 3, we were still up a good bit for the year. From then on the market drop accelerated, shares in our companies fell even more, and December ended up as the worst December month for the S&P 500 since 1931. The fourth quarter ended up as the 11th worst quarter for the S&P 500 since World War II. As you have figured out by now, it wasn’t a great month or quarter for River Oak either.

While all our investees have been performing well, their share prices didn't hold up at all. Schibsted was the only one of ours that held up decently (to be fair there were almost no shares of public companies that held up well during December).

As always, there are myriad explanations out there as to why the market fell so sharply in December. However, most of the reasons given by newspapers, economists and financial journalists were well-known earlier in 2018 as well, and many have been known for years. As you know I like to keep things simple so I'll venture another guess: Maybe the market just got a little high and needed to go down for a while – just like it has done every three to five years, although very irregularly, over the past century?

What has happened historically after market drops similar to the one we experienced in the fourth quarter of 2018?

| S&P 500 Since 1926 | | Forward Performance | | |
|--------------------|-----------------------|---------------------|--------------|--------------|
| Quarter Ending | Quarterly Performance | One Year | Three Years | Five Years |
| June 1932 | -37.7% | 162.9% | 170.5% | 344.8% |
| Sept 1931 | -33.6% | -9.6% | 13.1% | 118.2% |
| Dec 1929 | -27.8% | -24.9% | -60.9% | -40.7% |
| Sept 1974 | -25.2% | 38.1% | 72.7% | 117.5% |
| Dec 1987 | -22.6% | 16.8% | 48.8% | 109.0% |
| Dec 2008 | -21.9% | 26.5% | 48.6% | 128.2% |
| Dec 1937 | -21.4% | 31.1% | 17.8% | 25.4% |
| June 1962 | -20.6% | 31.2% | 69.2% | 94.8% |
| Mar 1938 | -18.6% | 35.2% | 38.2% | 84.5% |
| Sept 1946 | -18.0% | 6.4% | 24.5% | 115.4% |
| June 1970 | -18.0% | 41.9% | 57.4% | 56.3% |
| June 1930 | -17.7% | -23.4% | -34.7% | -32.8% |
| Sept 2002 | -17.3% | 0.3% | 27.0% | 66.3% |
| Averages | -23.1% | 25.6% | 37.9% | 91.3% |

Source: Ben Carlson, A Wealth of Common Sense, awealthofcommonsense.com

The S&P 500 performance in the fourth quarter was -14% so it doesn't quite make the list but as you can see in the table, the stock market usually goes up substantially in the subsequent 3-year and 5-year periods after a drop of this magnitude. The only exception was during the Great Depression in the 1930s. This does not mean that we are guaranteed returns that resemble the ones in the table going forward from here; I included the table to show similar situations that have occurred over the past 100 years and to put the recent past into some proper perspective.

Future capital raises

At the most recent Board meeting we decided to make some changes to how and when we raise capital. Going forward, we will open up for investment quarterly instead of once per year. Future capital raises will open on March 15, June 15 etc., and close on March 31, June 30 etc. They will, until further notice, be done at a 1% premium to our book value per share to cover the related costs.

During these openings we will also have a trading window where it will be possible to transact shares between shareholders. If there are any shareholders that want to sell some or all of their shares, such transactions will always have priority over issuing new shares.

It is our hope that the changes will accomplish the following benefits:

1. It will simplify financial planning for all shareholders. Some of you may want to rebalance your overall savings quarterly, bi-annually or annually. This has previously not been possible for your River Oak investment as there were no firm dates set for future capital raises.
2. It will enable new shareholders to join without having to wait for many months until i) A current shareholder wants to sell some shares, or ii) We decide to raise capital by issuing new shares.
3. It will free up time for me as capital raises will only be open for two weeks instead of two months. Plus we handle bookkeeping at quarter ends anyways so there will be little extra time needed to also handle the capital raises at the same time.

Annual meeting on April 25th

Our annual meeting will be held on April 25th. Information and details will be sent out shortly. In addition to getting together and having a good time, we will go through our results, discuss some investments, and I will answer any questions that you have. On behalf of the Board, I look forward to see you there.



Daniel Glaser
Chief Executive Officer

Feb 12, 2019

Contact

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Historical pretax returns

Feb 7, 2017 – Dec 31, 2018: River Oak Capital AB

Jan 1, 2013 – Feb 6, 2017: Zen Capital Family Partnership

| | Investment return | Net return (pretax) | 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% | 7.0% | 7.0% |
| 2018 | 0.0% | (5.9)% | (7.2)% | 1.3% |
| Total gain | 298.1% | 173.4% | 58.2% | 115.2% |
| Compounded annual gain | 25.9% | 18.3% | 7.9% | 10.4% |

* Startup costs for River Oak Capital AB had a 0.8% negative impact on the 2017 net result.

Currency effects

Approximate currency effects on investment return:

2014 +7%, 2016 +2%, 2017 -10%; 2018 +5%, other years <1%.

River Oak does not in any way strive to foresee or profit from currency movements. We believe that any impact from currency movements on our results will be negligible over time.

Online book shelf

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

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