

Fellow shareholder,

River Oak's book value per share increased by 17.9% in the first half of 2018. Our book value at June 30, 2018 was SEK 13.85 million, which is equivalent to SEK 128 per share.

For the vast majority of those reporting investment results, operating costs in % are close to negligible due to very large capital bases. As they are not for us, mainly because of the model we have with a purely performance-based salary, it may be worth mentioning that River Oak's investment return was 24.4% in the period. As our capital base grows, the difference between our investment return and our increase in book value will decrease.

The best way to evaluate River Oak's results is always to zoom out and remind yourself that a quarter or a 6-month period is only a tiny small step on our journey. My suggestion is that you always evaluate our results on the longest possible time horizon. Here is how it looks after all costs and taxes for the first 16.5 months since inception on February 8, 2017:

| | Investment return | Change in book value per share | OMXS30 incl. div. | Difference |
|-------------------------------|-------------------|--------------------------------|-------------------|------------|
| 2017 (from Feb 8) | 13.2% | 8.6% | 5.4% | 3.2% |
| H1-2018 | 24.4% | 17.9% | 2.2% | 15.7% |
| Total gain | 40.8% | 28.0% | 7.7% | 20.3% |
| Compounded annual gain | 28.3% | 19.7% | 5.5% | 14.2% |

* Startup costs had a 0.8% negative impact on our 2017 change in book value per share.

* Currency effects on investment return: 2017 -9%, 2018 +9%

It is important to understand that the relevant comparison that you as an investor should make is between the net result in the blue column and OMXS30 including dividends. Some financial firms have a tendency to sometimes instead use investment return and OMXS30 *excluding* dividends as basis for comparison. To understand how grossly misleading such a comparison is, the difference in total gain for us with those measuring sticks would have been 40.2% (40.8 - 0.6) instead of 20.3% which is the correct difference.

Our results have been very good so far which is always fun, but it's good to remember that our long-term goal of an 11% annual increase in book value per share has so far been handily exceeded and it is likely that future periods will generate a lower return.

Our Investments

What primarily contributed to our results during the period were two Swedish and one Chinese company. Since we are launching an equity raise today and there is a high probability that we will invest more in the two Swedish companies, it feels unnecessary to attract any additional competition, so nothing about the Swedish companies in this letter.

I began to learn about China in 2016 and have long seen all positive factors such as a better business environment, rising consumption due to substantial growth in disposable income, and not least all the very impressive companies that the Chinese have built up a little under the radar in the last 5 to 10 years. But with the exception of the largest companies such as Alibaba, Tencent, Baidu and a couple of others it is often hard to get a good understanding and sufficient conviction in specific companies. So my requirement for investing in Chinese companies is that the price is so low that I consider it to be an absolute no-brainer, "like shooting fish in a barrel" as Charlie Munger would have said.

During the year one such no-brainer appeared in the form of iQiyi, Inc. which is a spin-off from Baidu, and may be best likened to "China's Netflix" and "China's Youtube" in one and the same company. However, iQiyi's CEO says that they rather strive to be "China's Disney" as they create much own content. As an example, they have created the incredibly popular reality series The Rap of China, which reached 1.3 billion views within one month and where a 60 second commercial slot in last year's season finale was sold for a similar amount as during the Super Bowl.

When I make an investment, I never have any clue how long it will take before the market prices in what I see – sometimes it takes a long time and sometimes it goes faster. Our investment in iQiyi was unusual in that it paid off very quickly – usually it takes a lot longer than a few months before the market corrects mispricings. I have spent a lot of time studying China in the last year, which has expanded our investable universe in China by a lot so I look forward to more no-brainers there in the future.

If you want to achieve something meaningful – no matter your occupation – it is often the case that what you learn today rarely gives you a payback right here and now. What pays off today is usually the result of several years of preparation. Our investments in China (we have done two since inception) are good examples of that. In many ways, River Oak's results so far are fruits of the 6 to 7 years of preparation that preceded our start. Similarly, the work that I and the Board do for River Oak today is likely to pay off over the next 2 to 5 years.

While our overall result was very good during the 6-month period, far from everything went our way.

We have sold our ownership in a Norwegian insurance company, Protector Forsikring, where I realized that I had potentially misjudged what has enabled Protector to grow at an annual rate of over 20% and maintaining a good level of insurance claims over the last 10 years while their competitors have managed only 0-10% growth in the same period. The question that I have been considering is whether it was possible due to an actual cost advantage, which I have previously believed (it is difficult to confirm this as Protector reports its costs in a different way than its competitors), or because of lower hurdles on quality and/or price of what they choose to insure. If it's the latter, current earnings will look good but there is then a big risk of setbacks in future quarters and years. The former can still be the case but I no longer feel sufficiently sure about the answer so I decided to sell our holding.

Over the period of a little more than one year during which River Oak owned Protector shares, they contributed approximately +1.4% to our overall result.

Fiat Chrysler's share price was slightly positive in the first half of the year, but as I increased our holding at higher levels than the closing price on June 30, our Fiat investment has had a slightly negative impact on our half-year result (excluding currency effects). Jeep, which is one of several car brands owned by FCA, is doing better than ever before and Jeep's future looks bright, but worries (to some extent justified as I see it) for an escalation of President Trump's tariff threats have created a situation where the market price for all of FCA is in my opinion now lower than the value of only Jeep. It remains to be seen how the tariff threats end up in reality when all the smoke has cleared; my best guess is that they will be a fair bit milder than what many investors price into the car market today. In the majority of scenarios, I think the production lines that account for most of the FCA's profitability – and thus FCA as a whole – will still do well. We also have a very capable and proactive management that will navigate any potential storms in a good way.

On the operational front, I have with inspiration from Benjamin Franklin in 18th century USA started an international group for investors that run similar operations as River Oak, where the main purpose is discussion and development. We have a video conference once a month with participants from, among other, New York and Tel Aviv, which has so far been both rewarding and fun.

We will need to find new premises for River Oak's headquarters by the end of August, as a new residential building is planned in the current location. While the image of our office on Google (please Google!) cements that we do not spend money on unnecessary luxury at River Oak, I feel that a change of environment is long overdue. If you know of any office space in the Uppsala area, please let me know.

The summer equity raise will open today. Even though our results over the past year have been higher than what can be expected over time, I am, as always, optimistic about the future and about continuing to find well-managed companies where the price is lower than value. In times when it's harder or when I simply do not have enough good ideas, we will have a larger cash balance. A large cash balance is not something I strive for – I hundredfold prefer that River Oak is exposed to a collection of strong companies' growing cash flows – but on the other hand, it enables us to take advantage of new opportunities that will always appear sooner or later without the need to sell an existing holding.

As usual, do not hesitate to contact me if you have any questions. If you want to discuss some interesting companies or industries (or something else interesting) that you are thinking about, I'm always open. I wish you all a delightful summer.

July 6, 2018



Daniel Glaser
Chief Executive Officer

Contact

daniel [at] riveroakcapital.se

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 – June 30, 2018: River Oak Capital AB

| | 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 (per June 30) | 24.7% | 18.2% | 2.2% | 16.0% |
| Total gain | 396.4% | 243.5% | 74.2% | 169.3% |
| Compounded annual gain | 33.8% | 25.2% | 10.6% | 14.6% |

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

Currency effects

Currency effects on investment return have been:

2014 +7%, 2016 +2%, 2017 -10%; 2018 +9%, 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.

Disclaimer

This letter is not intended for public use or distribution. It is not to be reproduced or redistributed in whole or in part without prior consent of River Oak Capital AB (“the Company”).

This letter does not constitute investment advice to buy or sell any securities. This letter does not constitute an offer or solicitation to invest in the Company or an offer or solicitation for any other investment products or investment advisory services.

The author has to the best of his abilities tried to gather correct information but there might still be factual errors present.

None of the Company or its affiliates (nor any of their respective officers, employees, advisers or agents) accepts any responsibility for nor makes any representation or warranty, express or implied, as to the truth, accuracy or completeness of the information contained in this letter.

In making an investment decision, investors must rely on their own examination of the Company and the terms of the offering and make an independent determination of whether the interests meet their investment objectives and risk tolerance level.

Prospective investors are urged to request any additional information they may consider necessary or desirable in making an informed investment decision. None of the Company or its affiliates (or any of their respective officers, employees, advisers or agents) is making any representation or warranty to an investor regarding the legality of an investment in the Company by such investor or about the income and other tax consequences to them of such an investment. For answers to those questions, potential investors should consult their personal legal counsel and tax advisors.

This letter does not constitute a prospectus under the Financial Instruments Trading Act (SFS 1991:980) and has thus not been reviewed by the Swedish Financial Supervisory Authority (“SFSA”).