River Oak Capital

2023-H1 Letter to shareholders

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River Oak's book value per share increased by 8.0% in the first half of 2023. Our book value on June 30, 2023, was SEK 104.3 million, equivalent to SEK 227.52 per share.

	Investment return (pretax)	Change in Book value per share	OMXS30 incl. div. (pretax)	Difference
2017 (from Feb 7)	13.2%	**8.6%**	5.4%	3.2%
2018	0.0%	**(6.0)%**	(7.0)%	1.0%
2019	61.7%	**50.1%**	30.7%	19.4%
2020	104.0%	**74.3%**	7.4%	66.9%
2021	14.3%	**10.8%**	32.7%	(21.9)%
2022	(26.9)%	**(28.8)%**	(13.0)%	(15.8)%
2023 per June 30th	8.7%	**8.0%**	15.9%	(7.9)%
Total gain	239.2%	**127.5%**	84.3%	43.2%
Compounded annual gain	21.0%	**13.7%**	10.0%	3.7%

The difference between our pretax investment return and change in book value per share in the period was comprised of taxes paid of approximately 0.45% of our starting capital base, and the remainder of general operating costs.

Since our start, our tax rate has changed multiple times due to changes in the Riksbank rate. The dividend on the A shares has changed between years, the allocation is currently at 0% since we are under our highest yearend book value per share recorded in December-2021. Finally, our operating costs as a percentage of our capital base have changed meaningfully over the years as well. All these changes along with large fluctuations from year to year have made any attempts at comparison between different years essentially meaningless and probably more confusing than helpful. Since our book value per share is what really matters, only the three latter columns will be reported in these letters from 2024 and onwards.

When evaluating investment results, it is our strong recommendation that you always look at the longest available time period as shorter periods with their inherent randomness won't tell you much of value. As always, I have included a full track record of the past eleven years which includes my Zen Capital family office from 2013-2016 at the end of this letter.

Notes to table

[1] Change in Book value per share is reported net of a dividend on class A shares according to the Company's Articles of Association, taxes, and general operating costs. There is no dividend on the class A shares unless the yearend book value per share is higher than all previously reported years. For more details, see the Company's Articles of Association.

[2] The OMXS30 incl. div. column does not include the standard annual tax payment on Swedish investment accounts which amounts to between 0.4% to 0.9% of total capital per year and which River Oak pays every year. The real return achieved by a Swedish investor that invested in the index is thus between 0.4% to 0.9% lower per year than reported in the table, and the real difference achieved by the same investor is between 0.4% to 0.9% higher per year than reported in the table.

[3] Estimated currency effects on Investment return: 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%. In the other years the currency effect was less than or equal to 2%. River Oak does not in any way strive to foresee or profit from currency movements. Our belief is that any impact from currency movements will be negligible over time.

Fellow shareholder,

In the first half, our Software and Online platform categories were positive contributors to our results while the Energy and Higher interest rates categories were negative. As you may recall, the reverse was true in spades in 2022.

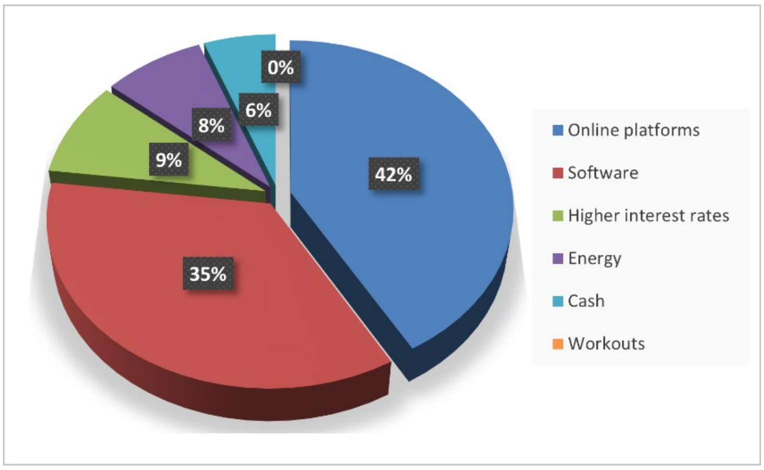
Reflecting on the past 20 months, when the effects of persistent inflation and higher interest rates started to really kick in, I believe we have handled this challenging period fairly well. It wasn't perfect, but all things considered, it's hard to find too many things that could realistically have been done materially differently. While we could have avoided all mistakes and expertly danced in and out between different sectors and companies, that's more of a fairytale view than a realistic real-world scenario.

I also fully understand that if you made your initial investment in River Oak in 2021 you may well see it differently. There was no cutoff date in the course of my job however, and in business and investing, years are interrelated. Products under strong demand one year may be in no demand next year. The gains we had in 2017-2021 are related to some of the losses we had in 2022. That said, I strive to minimize the risk of us having another experience like that of last year. I'm happy to exchange some of the excess returns we have generated over the years to lower that risk.

What we are trying to steer clear of at all costs is the risk of large losses, which tend to occur when you invest in a company that is enjoying favorable business conditions at a price that reflects those favorable conditions. One recurring theme in the past twelve months which I'm pleased about is that when adverse events have happened to our companies, we haven't lost much, and have even remained profitable in most cases. Over a long enough period, negative surprises in some of our companies are inevitable. Rather than trying to avoid them, which in my view is impossible, I aim to minimize their impact on our results by always having a sufficient margin of safety baked into our purchase price.

Furthermore, as explained in recent communications, I also strive to maintain an overall portfolio that has low correlation between its holdings. This is done by investing in different sectors, and by trying to achieve low correlation between portfolio companies *within* sectors as well, which can be done by, for example, investing in companies based in different geographies, or that target completely different customer bases.

Here is how our portfolio looks divided into categories per June 30, 2023:



As you can see, Online platforms and Software comprise the clear majority. It's not that I haven't tried to find more investments in the Energy category. As explained in my March letter, companies in the energy sector are simply inferior to companies in our favored sectors in most cases. Their products often have commodity characteristics with low barriers to entry and a key competitive factor for their products is thus almost always price. Switching costs are generally low, and network effects are often non-existent. In addition, demand for their products is often dependent on commodity prices as well. In stark contrast, online platforms and software companies are often dominant in their niche with barriers to entry often extraordinarily high. In addition, these platforms generally have strong network effects, and high switching costs relative to the value a switch would generate.

Our diversification into different sectors does not guarantee successful outcomes of course since we will always be exposed to the risk of me being wrong about individual companies, in which case being invested in a handful of different sectors, along with low correlation within those sectors, won't help us much.

As some of you may have noted, our benchmark has outperformed *us* over the past 20 months now, an occurrence that has not happened before for such a long continuous period. This period has been strong for larger companies that are typically found in global funds and index funds, and tough for smaller companies that we typically invest in. At the risk of getting reprimanded by River Oak's marketing department, I want to be clear that we will not be the best performing option you can find in all time periods, and probably not in any period. There will always be alternatives that do better than us during specific periods. The hard part for you as investors is knowing which ones in advance. In retrospect, it's always crystal clear.

At the same time, trying to get back into the marketing department's good graces, I will also point out that there are few alternatives that have outperformed River Oak since our start in February 2017 (and likely even fewer since I started my family office in January 2013).

While a few have sold their shares in the past year, we have also welcomed a few new shareholders. A special welcome to two of my former classmates from way back in high school and university, Fredrik and Victor – and to Kristoffer who is now the second shareholder residing on Dalbovägen in Uppsala. I have a summer intern this year, Christoffer Hellbom (unrelated to the Dalbovägen Kristoffer), who will soon start his final year at the BSc Business and Economics program at Uppsala University. He is doing good work and helps me cover a lot more ground than I could myself. Welcome, Christoffer!

While the economy may look bleak to some – as always, it depends on who you ask – it has generally been a good time to buy stocks when interest rates were high, and things looked dire. My personal experience has unequivocally shown that whatever tough period you are going through, if you keep showing up and keep doing good work, while being honest about your areas of improvement, the storm eventually ends. It's not brilliance, talent, or genius predictions – although those certainly help – but continuous effort that wins in the long run. In my evaluation of companies, I always take the general economy into account, but I remain focused on making easier predictions about individual companies and on putting forth that consistent effort.

Thanks for your continued confidence in River Oak over the past few years when it has mattered the most.

July 13, 2023

Daniel Glaser
Chief Executive Officer

Founding principles

Our basic idea is simple:

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

   Human progress is the reason why stock markets have historically produced average annual returns of 6% to 10% over the past 200 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%+ average annual returns the general market has provided and is likely to keep providing investors with over time.

Goals

1. **Don't lose money.**

   We always think about the downside first. While we will inevitably lose money on some investments, this goal is about not losing money overall.

2. **Earn an average annual investment return of 15% over time.**

   This will result in an average annual pretax increase in book value per share of ~11.5% after a dividend on the A-shares according to the Company's Articles of Association and general operating costs.

Historical returns

Feb 7, 2017 – June 30, 2023: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family office

	Investment return (pretax)	Net result	OMXS30 incl. div. (pretax)	Difference
2013	41.0%	**30.8%**	25.5%	5.3%
2014	45.0%	**33.8%**	14.0%	19.8%
2015	35.1%	**26.3%**	2.2%	24.1%
2016	20.5%	**15.4%**	9.4%	6.0%
2017	19.6%	**14.0%**	7.7%	6.3%
2018	0.0%	**(6.0)%**	(7.0)%	1.0%
2019	61.7%	**50.1%**	30.7%	19.4%
2020	104.0%	**74.3%**	7.4%	66.9%
2021	14.3%	**10.8%**	32.7%	(21.9)%
2022	(26.9)%	**(28.8)%**	(13.0)%	(15.8)%
2023 per June 30th	8.7%	**8.0%**	15.9%	(7.9)%
Total gain	1092.8%	**508.8%**	200.9%	307.9%
Compounded annual gain	26.6%	**18.8%**	11.1%	7.7%

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