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The following is a translated excerpt from the Zen Capital Family Partnership 2013 Letter:

Apple Inc.

Jan 15, 2014

Sometimes investment opportunities pop up in the most unexpected of places, and sometimes the most obvious opportunity is right in front of you. As you know, we generally focus on smaller companies, but in the past year one of our positive contributors has been a company that needs no further introduction – Apple Inc.

It is important to note that Apple has been one of our five to eight portfolio companies. Several other holdings generated a bigger positive contribution to our earnings than what Apple did. I choose to discuss Apple as it's probably very familiar to all readers.

Now, almost every person has an opinion about Apple. This is no attempt to persuade anyone that Apple was a good investment when we started buying shares, but only an attempt to explain my reasoning. In a case like this it's important to distinguish between what you personally think about Apple and its products from what you think about Apple as an investment opportunity. There can oftentimes be a big difference.

It is difficult to have many unique insights on a company of Apple's size, so what you want to do in cases like this is to buy it when the price is low, which is usually when sentiment around it is overly negative.

Apple has a very loyal customer base, a rapidly growing e-commerce platform and has more recently garnered a stronger grip on the companies that cumulatively have now invested billions in development of iPhone and iPad apps. iOS users spend 4x more money in the AppStore compared to what Android users do on Android Market which make iOS development a more profitable endeavor for app developers. The average iOS user also spends 3x more time online compared to the average Android user which makes iPhone users, and thus sales of iPhones, more lucrative for telecom operators.

Meanwhile, Apple shares are priced as if this was one of Apple's last years in the market. When we started buying shares we paid ~6x free cash flow adjusted for the large cash balance Apple sits on (i.e. an implied ~16.5% annual return). The value of one of the world's three to five strongest brands should be higher than that. How much higher is difficult to say, but as the saying goes: *"You do not need to know a person's weight to know whether he is fat or not".*

The consensus view has been very negative and shifted from concerns that Apple is losing market share to Samsung to how the high-end smartphone market is saturated, and then to concerns about the iPhone 5C being priced too high. In all this clutter it was forgotten that you didn't pay more than 6-8x cash flow for Apple's entire operation, which is widely profitable and growing, plus its strong brand.

At the time of our investment, I had no idea or opinion about whether the new iPhone and iPad models would be well received or not. It was not something that had a big impact on my investment decision. Our investment was based on the big picture and our investment horizon was longer than the next couple of quarters. However, there was good reason to believe that Apple would sign an agreement with China Mobile (CM) sometime in the future. CM has 700 million subscribers, and given that Apple sells around 150 million iPhones in a year, an agreement with CM could have a big impact on Apple's earnings. This agreement came faster than I expected and was announced at the end of the year. It was a nice Christmas present for shareholders and for millions of Chinese that could start ordering iPhone 5s/c on Christmas Day. CM estimates that about 10% of their subscribers are potential iPhone customers.

Another surprise that certainly contributed to the appreciation of the shares during the year was that Carl Icahn - one of the world's most successful investors - announced a very big position in Apple a few months after our purchase and began pressing Apple to use its huge cash pile to repurchase shares. No matter what you think of Icahn and his intentions one must admit that he has a valid point. No company in the world needs $130 billion to stay "flexible" about the future. Unless Apple is about to start acquiring smaller countries or begin drilling for oil in space, there is no reason to sit and brood on such a large surplus.

Here are some Apple facts that maybe are not discussed very frequently in the media:

- Apple's renewal rate on the iPhone is >90%, i.e. 90% of all iPhone owners buy a new iPhone in the future. The corresponding figure for Android has fluctuated between 55-80%.

- Apple takes three customers from Samsung for every customer they lose to Samsung.

- Android has 79% market share in the mobile market, but less than 31% of total web traffic. While Apple's operating system iOS has only 14.2% market share, it has over 55% of total web traffic.

- 96% of all iOS devices (iPhone/iPad) are upgraded to an operating system that has been released by Apple in the past 15 months. The corresponding figure for Android is 1.1%.

With all this said, we would not have bought Apple at 15x cash flow. The valuation is less attractive now than when we started buying shares, but still relatively attractive. The valuation is the cornerstone we always lean against and alternative holdings are evaluated and continuously compared with our existing ones.

Jan 15, 2014 **Daniel Glaser**

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"Most people overestimate what they can do in one year
and underestimate what they can do in ten years"
– Bill Gates

Dear partners and readers,

Our return on capital in 2015 was 35.1%. Currency effects had a positive impact on our returns by roughly 0.5%. Our total assets which are comprised of cash and investments were at yearend worth [xxx] SEK.

Despite a challenging year in the financial markets we managed a great year. OMXS30 returned 2.5% including dividends and the S&P 500 returned 1.4% including dividends. Excluding dividends both indices had negative returns in 2015.

Below are the pre-tax returns since the start of the partnership on Jan 1, 2013. To make the returns a definite "apples to apples" comparison, re-invested dividends are included in the partnership and in the OMXS30 returns.

	Zen Capital Partnership	**Limited Partners [1]**	**OMXS30 [2]**	**Difference**	**100 000 SEK [3]**
2013	41.0%	30.8%	25.4%	5.4%	130 800 SEK
2014	45.0%	33.8%	13.6%	20.2%	175 010 SEK
2015	35.1%	26.3%	2.5%	23.8%	221 038 SEK
Overall Gain	176.2%	121.0%	46.0%	75%	121 038 SEK
Compounded Annual Gain	40.3%	30.3%	13.4%	16.9%	

[1] Limited Partners returns are after all fees.
[2] As Avanza Bank now offers Avanza Zero – a fund that mimics OMXS30 returns including dividends and amazingly charges zero fees – the OMXS30 column shows returns after all fees as well.
[3] 100 000 SEK invested in the partnership on Jan 1, 2013.

Compounding

The miracles of compounding are starting to show for us. A hundred thousand invested when the partnership started on Jan 1, 2013 was at yearend worth 221,000 and our accumulated profits since inception have now surpassed [xxx] million. Furthermore, when we started the partnership three years ago a 25% gain amounted to [xxx] while in 2016 a 25% gain would amount to almost [xxx] million. On the flip side is the Toyota Avensis that I and Larisa bought at the end of 2011 for just over 100,000. The implicit cost of that car for us is now in the neighborhood of 275,000 while the value of it most assuredly is not. But yes, we still love it. Of course, additional deposits since we started has played its part and it's important to understand that continuous saving is a vital part in fully partaking in the miracles of compounding and making this snowball of ours bigger over time.

Two years ago and last year I wrote that I believe our advantage versus the OMXS30 index will in general be small in years where it performs very well and greater in years were it does not perform as well. Of course, there will also be years in which we won't outperform the index and years in which our returns will be negative. This year we finally got a first test of whether there was any merit to my expectations. We managed this first tougher year very well with our relative margin versus the index being our largest so far – and I believe managing tough years well is the key to great long-term performance – but I prefer to say 'one down, many more to go' before we draw any conclusions.

While good relative results are definitely nice to report, what I evaluate myself on is not the margin by which we outperform or underperform benchmarks and other money managers – but our absolute returns and the improvement in process and thinking as a business owner compared to where we were one and two years ago. In short time periods good returns should not be taken as proof of a good process. Likewise, a good process should not be counted on to produce good returns every year. Over time, however, it should.

In any area in life when you have a year in which you feel a lot of progress has been made, you also realize how little you knew in previous years. The year I have generated the highest returns so far is 2010 which was accidentally also my first year as an investor. Needless to say, I was a terrible investor then with almost no clue what I was doing. Of course, just like the 18-year old that has just gotten his driver's license, I had no clue I had no clue. In five years, looking back on today, will I say the same thing? Well, what can I say, I hope I do.

Our goals

Howard Marks, which I have discussed in previous letters, wrote a great book in 2011 that I highly recommend. It's called The Most Important Thing. It has 19 chapters and every chapter starts with 'The Most Important Thing is .. '. In 2013, he revised the book and added one more chapter: 'The Most Important Thing is Reasonable Expectations'.

In each of the first three years we have met and exceeded our goals by a wide margin so I want to take the opportunity to remind you of the importance to maintain reasonable expectations regarding our future returns. Remember, our secondary goal – with the first of course being not to lose money – is to earn 15% (pre-tax in SEK) on our capital *on average* per year, not to earn 15% or more *every* year. If you don't find this attractive, the partnership is not for you.

While it would be nice to have very smooth and predictable returns, this is just not how the investing and business world works. Such returns over time are possible only if they are made up. We will leave such tasks to Bernard Madoff, the man behind the largest known Ponzi scheme in the world. Madoff is said to have reported almost exactly 10% returns to his investors every year, even in years when the market crashed, before in his 2009 trial he admitted that he had not bought or sold a single security in the past 20 years.

While I want you to have reasonable expectations, I also want you to be critical if you start hearing me trying to explain away why our goals were not reached year after year. I don't ever want to be the person that throws a handful of darts and when most of them miss, highlights only the few that actually did hit something and explains the others away with some mumbling about current uncertainties in China or some other macro conditions. Our goals are firm and if they were to change, I will let you know before anything else.

Our strategy

Most of you know that our investment strategy is value based as opposed to speculation based. I want to point out that we view growth as a very important component in the value equation and do not at all equate growth investing with speculation. So how is value investing different from speculation?

Speculators buy assets based on what they believe others will pay for those assets in the future, usually in the very near future, without much regard to the value of those assets. Thus, speculators have to rely on luck, or other speculators and uninformed investors in order to make a profit.

Value investors buy assets based on what they believe the assets are worth, usually without a target holding period. Thus, they depend on their estimate of value being roughly correct and that the companies they invest in will perform well or at least as well as they have predicted.

The reason for our choice of strategy is simple: why would anyone ever want to invest in assets where the price paid is higher than the value? And conversely, who would not want to invest in assets where the price paid is lower than the value?

The value of a company

So that all sounds nice, but how then do we go about valuing a company?
The value of a company is the present value of all future cash flows that can be taken out of it from today until the day the company ceases to exist. Depending on interest rates the present value, i.e. the value today of the cash that we as owners will receive in the future, will be different. Future cash flows have a higher present value if interest rates are low and a lower present value if interest rates are high.

To understand why, consider the following: if interest rates were fixed at 0% until the end of time, any future cash flows would have a present value equal to the amount we would receive at any future date. This is because you are not able to earn any risk-free (or at least as close to risk-free as you can get) interest income by investing the cash you have today. When interest rates are above 0%, however, you can invest the cash you have and earn risk-free income on it so in this case it should be clear that x today is worth more than x that we will receive in the future.

As the value of a business is the present value of all *future* cash flows, it follows that what a company has done historically does not determine its value and should only be considered as a clue (albeit often a very valuable clue) as to what might happen in the future. Many market participants tend to overweigh what has happened in the recent past and forget that it is the future that determines the value of a company. Furthermore, what you paid for a company's shares two years ago has absolutely nothing to do with what those shares are worth today.

Surely, an honest, customer-oriented and shareholder-friendly management is likely to stay a good management in the future and a management that has been trying to hide problems and made moves to enrich themselves before customers and shareholders are likely to stay a bad management. But if you would have used historic factors only when trying to determine the value of for example Kodak and Blockbuster or Google and Amazon in the 1990s, your estimates would have been way off. What would have helped you was if you would have made a roughly correct estimate of the future cash flows that those businesses were going to produce. Admittedly, this would not have been very easy.

But let's say we have a good estimate of the future annual cash flows; how do we value them, i.e. what multiple do we assign them?
The short answer is the number of years for which we believe these cash flows can be sustained. If we could somehow know for certain that a company, let's call it Certain AB, would earn one million and pay it all out to its owners every year for 20 years before together with all of its assets and liabilities going up in smoke on Jan 1 on the 21st year, the efficient price for that business today would be 20 million (assuming 0% interest rates).
Thus if the total enterprise value of Certain AB, i.e. the market value of Certain AB plus its debt minus its cash and investments, is below 20 million it would be a good time to buy its shares. And consequently, if it is above 20 million it would be wise to stay away.

Of course, Certain AB does not and will never exist; future cash flows are unknown and vary a lot from year to year. But as is clear from the above, a very important factor to assess is whether the business and its cash flows are sustainable over time. If they are, the value of the company is higher than if they are not. A good rule of thumb is this: the more certain you are about the *sustainability* or *improvement* of a company's cash flows, the higher the multiple on those cash flows should you use in order to estimate the company's intrinsic value.

Our estimate of value

So, how can we possibly estimate what the cash flows of a company will be in 20 or even 10 years? This is very hard, if not impossible to do, at least within any reasonably small range for it to be very useful. Li Lu, the founder of Himalaya Capital that has Charlie Munger as one of its investors and is known for his very meticulous investing approach says: *"If you are good, and spend your entire lifetime studying, across a 50 year career, there will be maybe 5-10 opportunities where you can confidently project the next 10-20 years."*

So what we instead try to do is to estimate what we believe a company will earn on a normalized basis, i.e. what we believe that its earnings will be on average (and in a worst case) over time. In a full business cycle, most businesses will have a couple of bad years, a couple of good years and a couple of average years. A good business will have a higher percentage of good years and vice versa. As bad years are almost certain to come around for any company, we want to be sure that our companies will survive in those bad years as well.

To project future earnings we always consider the industry in which our company is operating. Our focus, however, is on the specific company. We don't try to estimate every year by itself, decide on an appropriate discount rate and then discount all those cash flows back to today to get the present value. Instead, we look into the future in more broad terms. For example, we might have estimated that in two years the company we are looking at will have revenues of at least 500 million based on its number of customers or the number of units we believe it will sell. We then make an estimate of what the profit margins might be under such a scenario based on other similar products and companies or in some cases based on the company at hand. This will give us an estimate of what the earnings might then look like.

Of course, no earnings prediction will ever turn out exactly as predicted. If it does, it will be more luck than anything else. So we never have an exact target price or holding period for any investment. We do however always have a target price range. This price range usually changes over time and sometimes substantially so. This is one of the things that make investing so challenging and fascinating and at the same time much more difficult.

Due to the rapidly and ever-changing world that we live in, we will always stay humble and open-minded about changing our view if new facts come to light that change the fundamental outlook – and thus the value – for the companies that we are part-owners in.
We are very aware of two cognitive biases: 1) Confirmation bias, which is the tendency to search for and interpret information in a way that confirms one's beliefs or hypotheses, while giving disproportionately less consideration to alternative possibilities, and 2) Consistency and commitment bias, which is the tendency to be consistent with what you said in the past and to stay with old conclusions even though there is clear evidence they are wrong.
As Mark Twain warned: *"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."*

In summary, we look to invest in:

1. Companies where we believe that we have a good protection on the downside, i.e. where if times get really bad the company will still survive, and possibly even thrive if some of its competitors go bankrupt during the downturns.
2. Companies where we are very certain that the demand for its products and services will rise in the future or at the very least not fall.
3. Companies where we are paying a good price based on our estimate of normalized earnings.

Striving for easy decisions

"It's tough to make predictions, especially about the future." -- Yogi Berra

As Yogi Berra said in his own special way, making good forecasts about the future is very hard and you will always be dealt surprises. For us it is very important to never run the risk of being totally crushed under any circumstances. The way I handle this for us is to not use any leverage – which is pretty much the only way an investment partnership like ours that invests only in stocks can go bankrupt – and to constantly try to put us in a position where we give ourselves as few and as easy decisions as possible and leave the more difficult ones alone.

This means that we will say no to an investment that looks good on the surface and trades at a low valuation but where I know that there are many unknowns that might come up along the way that would give us very difficult decisions in the future, especially in areas where I know I'm not very comfortable. We will gladly accept lower returns in exchange for fewer and easier decisions. To keep things simple will always be our North Star.

Re-visiting an old favorite: Focus

We always strive to know the companies in our portfolio really well. Very seldom do we invest in a company that I have not followed for a long time, usually many months and sometimes years. If I feel that I need any type of second opinion about a situation, I won't invest. Familiarity really reduces mistakes. Among other things this means reading most reports and news released by the company for the past couple of years. Company released material is the one and only (legal) first-hand source that is available to investors and the one I think is by far the most useful. I spend very little time on other sources.

When you start to know a company really well, it becomes clear why the markets are not always efficient. Most market participants simply don't take the time to really get to know a company. For example, GE has around 5 million shareholders; still their 2013 annual report was downloaded only 800 times in the year following its release. It does take time and it is harder work to go through company reports and filings than to read some random articles and analyses while glancing at the financials of a generic site like Avanza or Yahoo. Most people are usually looking for quick fixes; it's part of our human nature.

It becomes even clearer when you read online articles and opinions about a company you know very well. Sometimes those articles feel like a result of the whisper game; you know the one that you played when you were a kid which starts with someone coming up with a sentence, for example 'In one year my father will be 50 years old' and after being whispered ear to ear around the table ends up becoming 'In five years Superman will be 100 years old'.

As we focus our portfolio around a very small number of companies, I believe we are able to know them much better in the context of constructing our portfolio than some large investment firm that owns those same companies as part of a portfolio with 30 to 50 companies. No matter how many analysts an institution employs and how many companies it can analyze, it still has to assign appropriate weightings to the different companies within the portfolio and continuously re-evaluate them which require comparing them to one another. This is very hard if the different companies have been researched by 10 different analysts.

I believe that in the best managed portfolios one person has sole discretion over the research and ultimately over the decisions. Needless to say, it will be a daunting task for one person if she is working with 50 different companies in her mind. I believe our focus allows us a more intimate knowledge – not only about the specific companies but also about their relative merits – and is something that works greatly to our advantage. Oftentimes less is more.

Our portfolio

We sold quite a few of our holdings during the year. I will follow one of Warren Buffett's mottos: 'praise by name, criticize by category' so I won't name the companies where we sold our shares but will briefly discuss some of our investments.

When I discuss an investment in these letters it should not be viewed as something we will hold indefinitely under all circumstances. No matter how much I like a company, an industry or the qualities and capabilities of the management team, it always comes down to price versus value. The discussions are here to give you a good sense of what types of situations we like to invest in and how I think about them.

In two cases we sold because the stock price reached our estimate of intrinsic value. This is the most pleasant reason to sell. In two other cases, however, I was wrong in my analysis. During the year I realized that I had overestimated the growth prospects of these two companies and thus also their intrinsic value. An in common theme in these two companies was their tendency to always include a measure called EBITDA in their earnings reports. EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortization. Some prefer to call it EBAE – Earnings Before All Expenses.

One of these two companies not only reported EBITDA but invented their own definition of it as well; they called it adjusted EBITDA and besides the 'ITDA' they also excluded items such as stock based compensation. It's interesting how you can classify something that has occurred every quarter for the past couple of years – i.e. something that has been *recurring* – as *non-recurring*. Stock based compensation is usually part of employment agreements and thus it is definitely part of the cost of doing business. If the company wouldn't have these stock based compensations in place, would their employees still come to work every day?

This company also did something I have never seen before; in a presentation they labeled their interest costs as non-recurring even though it is clear they are going to be making large interest payments on billions of debt for the coming five years at an absolute minimum. That labeling seems more like reporting a possible long-term vision than reporting reality.

In many cases, if there were no interest costs there would be no business because the company wouldn't have had the cash to come to where it is today nor would it have had enough cash to cover its daily operating expenses.

It is indeed very useful for investors to know about true one-time costs such as for example a litigation settlement charge for a specific court case or a bonus payment that was contingent on and limited to a specific event. In the benign cases you will usually see one of these one-time costs only very rarely. But in companies where the non-recurring costs tend to be there every quarter and there are many of them to boot; the reality is often that they are indeed recurring costs. In general I don’t think it's a bad idea to just skip all companies that always include many adjustments in their financial reports – especially when the adjusted numbers are the ones that are highlighted and touted – when you are looking for good investments.

I should say that in both these cases we were lucky to sell them with a handy profit. But we won't always be so lucky; so I need to be even more diligent in the selection process. You might now have a very reasonable question: "Why on earth did we invest in these companies in the first place?" The plain answer is that I liked the core product of these businesses so much that it made me accept the many warning signs in their financial reporting and to some extent the expensive valuations. It is never pure black and white in investing.

Fortnox

One of our new investments is Fortnox. Fortnox is a small Swedish company that provides cloud services for small and midsized companies in accounting and related services. According to a 2014 SCB report, only 15% of large and 11% of smaller Swedish companies buy cloud based accounting services. In my opinion it should only be a matter of time before these percentages come up. With Fortnox being the market leader in this segment they have a good chance to capture many of the companies that will switch to the cloud in the coming years. Besides the risk of security breaches it is hard to see any disadvantages with having ones accounting data in the cloud; safely backed up and accessible from any device anywhere. The wide accessibility makes it very convenient for the accounting consultants that can just log on to their client accounts from their own offices whenever they need to.

Fortnox also has a nice tailwind from the network effect that its current rapid growth creates. If most of your peers use a certain piece of software for one of these basic services that all companies need, it's very convenient to pick the same one as it will save you time not having to try out all the different options and you will have comfort that it works well and that it can be trusted. The more companies that sign up as customers the more accounting consultants need to learn how to use it. And when new companies contact these consultants requesting accounting help they will likely be recommended it as well. The new companies will in turn mention it to their peers and business friends which complete the virtuous cycle for Fortnox.

These types of basic essential services tend to have very sticky customers. Once you have started to run your accounting in one software and as long as it does what it is supposed to do; the time required and the risk of something going wrong during a switch to another software will usually be much greater than the value your business and, most importantly, your customers get out of it. And, as a small business owner, time is your most valuable resource so there is no way you are going to switch unless the competing software has huge benefits compared to your current one. The annual cost for using an accounting service like this is so small that you will never change based on price alone.

Furthermore, as the service is so basic, the pace of change and innovation is very slow compared to most other Internet services today which greatly reduce the risk of new competitors entering the scene with something that is much better. Finally, the demand should remain robust even when the economy slows; accounting is probably one of the last things a company will give up on as filing regular sales tax reports is required by law.

There are roughly one million companies in Sweden today of which 99% have less than 50 employees which makes Fortnox ideal for them. Fortnox currently has little more than 100,000 customers so I believe they have a long growth runway if they continue to execute well on their software quality and customer service. If they do, with such a scalable business model, their free cash flow should go up a lot faster than their revenues.

Fiat Chrysler Automobiles

The savvy of Fiat CEO Sergio Marchionne's moves during the financial crisis is now becoming clearer. After negotiations with the Obama assigned auto crisis team, Marchionne in 2009 agreed to take on and run the then troubled and bankrupt Chrysler in exchange for a 40% stake without making any cash outlay. The stake was subsequently increased until the remaining outstanding shares were finally acquired in early 2014. In total Fiat paid around $4 billion for all of Chrysler. This subunit of Fiat is now on its way to generate about $4 billion in free cash flow in 2015 alone. Warren Buffett's advice from 1951 when he was teaching a class at Columbia University at the age of 21 held through nicely 58 years later as well: *"Be fearful when others are greedy, and be greedy only when others are fearful."*

Ferrari, another subunit of Fiat, was spun off from Fiat in the first days of 2016. We just received our part of Ferrari shares – we received one Ferrari share for every 10 Fiat shares that we owned. We do however see much greater value in the Fiat shares at current prices.

Closing thoughts

After three years in which our compounded annual gain has been very high it would be easy to become overconfident. I can assure you I won't; now more than ever do I understand how difficult it is to achieve these returns. I thought about that at the end of the first year, I thought about it last year and I have the same thought as I am writing this.

The key to our successful start, I believe, has been that we never chased high returns but have kept the focus on the downside. When we were down for the year (which has happened two times so far) I haven't searched for quick fixes or started to take chances to maintain our high average but our strategy has remained exactly the same as when we were up 20%. We have just been doing what I believed to be the most sensible thing to do at all times; with no consideration to any index, to our previous returns or to anyone else's. You can count on this to be the case in the future as well.

When I started out, I figured that 50% a year was a reasonable goal even though every book I read and every smart investor I listened to talked about being very happy with 15%. I could have done some very simple math and then easily realized the absurdity in such a goal. If you start with $1 million and compound it at 50% for 30 years you will end up with $192 billion. For some perspective, that would land you the 16th spot on the S&P 500 list just below Wal-Mart and just above Visa and Coca-Cola. Don't ask me what I was smoking at the time.

Besides that this year produced some excellent results for us, we also gained a lot of new knowledge about some new industries and also a handful of new companies. While we haven't invested in most of them, I believe the added knowledge will pay great dividends for us over time. For example, two years ago I did a lot of research into the American for-profit education industry. Early this year, the industry was hit with the revelation of some bad actors that had engaged in highly unethical and even fraudulent activities. This bad press dragged down the whole industry and the babies were thrown out with the bath water. My research had yielded one clear favorite in this industry which we were now able to invest in at a very good price. This has actually been a recurring theme for us. Companies I read about but don't invest in – for either fundamental reasons or a too high price at the time – have had a good habit of becoming big winners for us later on.

I have made mistakes during the year and new ones are bound to happen in the future as well. In the most nagging cases I knew enough to invest and the opportunities were right in our sweet spot of knowledge but I still did nothing. And in some cases I made mistakes when estimating the intrinsic value. But the majority of decisions have worked out fairly well so far. The overall big picture is all that I – and what you partners should – really care about.

Eighteen-time Olympic swimming champion Michael Phelps advices: *"Make a million mistakes but never make the same one twice"*. I do follow his advice and given the amount of mistakes I have made in the six years since I started investing, our mistake universe has now at least been vastly reduced.

Thank you for letting me manage your assets. I love doing it and I look forward to expand the structure of this partnership from the current family office so that more people can partake in the future. I vastly underestimated what is required to make that possible but a lot of progress has been made here during the year and I am now working with a lawyer to set it up.

I wish all of you a happy year with positive developments in the areas that are the most fun and meaningful to you.

Daniel Glaser Uppsala 2016-01-14

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"You don't need a parachute to skydive.. you only need a parachute to skydive twice." – Unknown

Dear partners and readers,

Our return on capital in the first half of 2016 was 0.0% (that's not a typo).
Currency effects had a positive impact on our returns by roughly 0.9%. On an absolute basis we made money because some of you made well-timed additional investments during the period. Our total assets which are comprised of cash and investments were on June 30, 2016 worth [xxx] SEK.

Below are the pre-tax returns since the start of the partnership on Jan 1, 2013. To make the returns a definite "apples to apples" comparison, re-invested dividends are included in the partnership and in the OMXS30 returns.

	Zen Capital Partnership	Limited Partners [1]	OMXS30 [2]	Difference	100 000 SEK invested [3]
2013	41.0%	30.8%	25.4%	5.4%	130 800 SEK
2014	45.0%	33.8%	13.6%	20.2%	175 010 SEK
2015	35.1%	26.3%	2.5%	23.8%	221 038 SEK
June 30, 2016	0.0%	0.0%	(6.0)%	6.0%	221 038 SEK
Overall Gain	176.2%	121.0%	37.2%	83.8%	121 038 SEK
Compounded Annual Gain	33.7%	25.4%	9.5%	15.9%	

[1] Limited Partners returns are after all fees.
[2] As Avanza Bank now offers Avanza Zero – a fund that mimics OMXS30 returns including dividends and charges zero fees – the OMXS30 column shows returns after all fees as well.
[3] 100 000 SEK invested in the partnership on Jan 1, 2013.

A word on our returns

The past 14-month period since the OMXS30 index peaked on April 27, 2015 has been by far the best period in our short history. The index is down 23.1% since then while we are up 20.1% resulting in an outperformance of 43.2%. I am certain of few things in life but I am certain that such an outperformance will not continue over time. But let's enjoy it now.

I think our 0.0% return on capital in the first half of the year illustrates well the randomness of returns at a specific date. As Warren Buffett wrote many years ago: *"Our investments are simply not aware that it takes the earth 365 days to orbit around the sun. They are also not aware that I need to report to you at the end of each orbit."*

While I understand that a 0.0% return might not sound very exciting to anyone; if you are a fundamental long-term oriented investor the closing hours of June 30 were as exciting as it gets. As Larisa will tell you, I was cheering our companies on to maintain our streak of no negative 6-month periods; it long looked like it would be broken but a late night comeback by some of our companies allowed me to postpone that.

As I have said before I don't believe currency effects will have a big impact on our returns over time. I could definitely be wrong here but I have no plans to hedge our currency exposure. Usually, from what I have seen, the costs of hedging outweigh the benefits.

Don't lose money

Why do I think not losing money is so important so that I have made it our primary goal? First, it allows me to sleep well. Second, a person that compounds at 15% per year for 20 years without any losing years ends up with a 1537% return whereas a person that compounds at 15% but loses 50% in one of the years ends up with roughly a 600% return. Not bad either but as you can see, the difference is enormous.

I would like to clarify what I mean by not losing money. As much as I would like for us to never have negative returns in any one year, it's probably unavoidable that we will have some years in which our returns are strongly negative. What I try to avoid is a permanent loss in any one single investment. If a company's shares are down during one earth-sun-orbit that does not necessarily constitute a loss for us – as our purchase could have been made at a lower price in any previous earth-sun-orbit – and much less a permanent loss.

A permanent loss happens if the following three conditions are fulfilled:

1) It turns out that I was wrong on a company.
2) The market prices the company's shares lower than our average purchase price to reflect that mistake of mine.
3) I decide to sell at that time so that our loss is realized.

This is very different from the market disagreeing with us for now and I decide to hold on or buy more. So far, a permanent loss of any meaningful size has happened for us only once – the culprit was Billabong which was sold last year – and our total loss then was less than 2.5% of our capital.

Brexit

I did not anticipate Brexit nor do I know what its ultimate effects will be. As we are not in the business of market timing and as we do not invest in currencies; even if I had anticipated it I would not have made any major adjustments to our portfolio. Some of you might say: "Well, if you had anticipated Brexit and believed it would lead to lower prices all across the board, why not sell everything the week before and buy it back 10% lower after the vote?" The answer is that you could play that game but that is not what we do. I believe it is much better to realize that these types of events will happen from time to time. As an investor with a long-term horizon you have to accept that they will happen and that you won't be able to accurately predict most of them.

What was clear was that the financial markets underestimated the probability of Brexit and were largely positioned for Remain – hence the big negative reaction when the result was announced. This was a bit surprising as the polls showed close to a 50/50 split just days before the vote.

After I sadly noted that Brexit had prevailed, at 9am when the markets opened I brought our cash and sat ready to deploy some of it when literally every stock went on sale. Given how the whole thing looked I should have brought some popcorn too. While it surely was entertaining I take no pleasure whatsoever in the panic of other people – I am just focused on making good investments at good prices on Zen Capitals behalf and widespread, uninformed fear tends to produce opportunities to do just that. The late June sale, which lasted a couple of days, allowed us to substantially lower our average purchase price in a new investment in a Norwegian company and to buy back Fortnox at a good price when the Visma offer was rejected (more on that later).

I don't know whether the world will be worse or better off with Brexit. I think it's fair to say that no one really knows at this point. It is way too early to tell what the initial effects will be and even more futile to try to guess any second and third-order effects. The main risk that I see is the possibility that other countries might follow in the future. I don't want to speculate as to what might happen then but I don't think it would be pretty. What everyone seems to agree on is that implementing Brexit will be a very complex and time-consuming process.

What we know with certainty at this point is that the British Pound (GBP) has lost some value versus most other currencies. This affects companies that have revenues or costs in GBP and report in some other currency, or vice versa. The former will now report lower revenues and costs all else equal while the latter will do the reverse. In our portfolio there is only one company, Fiat Chrysler Automobiles that has such an exposure. My estimate is that the GBP currency move will affect Fiats total sales (in EUR) by less than 0.5%.

Whatever the ultimate effects of Brexit will be, one can draw the same conclusion as always when it comes to predicting macro events in order to improve your investment returns: predicting macro events is incredibly difficult *in advance* and incredibly easy in hindsight.

If you don't agree, why didn't you tell me two years ago that: 1) oil would cost $43 a barrel, 2) that the entire stock of Swiss government bonds would trade at negative yields which means that if you want to lend your money to the Swiss government they will charge you for it, and 3) that the stock markets would be making new all-time highs under these conditions.

Investing essentials

During the year I got into a discussion about investment books and how the best-sellers are always the ones that promise some quick-and-easy scheme to riches. As Howard Marks has discussed: By definition, everyone cannot attain above average results. To get above average results you have to do something different than the majority. The books that are truly helpful are usually not popular in the mainstream because they encourage saving, patience, risk management, skepticism, reading annual reports, thinking deeply about companies and other "boring" things that won't score you many ohs and ahs from your friends, wife or family.

When I thought about it some more and having read hundreds of investment and business books; these five points is how I would summarize the essentials of investing for those of you that don't mind to save some time:

a) **Understand that the market goes up and down but mostly up.**
Accept that you can't predict the moves, don't spend much time and energy thinking about those things.

   The market does go up over time as productivity and humankind advances. If either stops to advance permanently, you will have bigger problems than your investment portfolio.

b) **"Offense wins games, defense wins championships."**
Never expose yourself to the risk of going broke, be humble and flexible, and learn to be content with moderate gains.

c) **Know your Circle of Competence and make big investments very seldom.**
Work on expanding your Circle of Competence but only invest inside of it, no one cares how many things you put in the "I don't know" basket. Most companies are not great investments *for you*. This is crucial to understand.

d) **Always get the facts.**
Sometimes the important facts are not conveniently served up to you – that doesn't make them less important.

Sometimes the facts falsify your previous conclusions and you badly want to reject them – this is when recognizing them becomes even more important.

e) **Focus your time in areas that you find interesting and fun.**
This will speed up your learning, improve your understanding and more importantly, improve your life.

The rest is in doing the actual work and finding your own way. I believe there are many ways that work in investing as long as you don't stray too far from the above principles.

Our portfolio

Fortnox

I wrote in detail about Fortnox in the last letter, it might be helpful to revisit that part to get a better context before reading on.

On March 14, Fortnox main competitor Visma announced an offer to acquire Fortnox for 24 SEK per share. This was just above a 30% premium to the then current share price. The total deal value was 1.4 billion SEK. Visma's requirement for acceptance was set to only 50% which would mean that anyone who didn't accept the offer and held onto their shares would become a sort of a hostage with Visma as the majority owner.

The Board of Directors used almost 1 million of shareholder's money to pay a well-off firm for one weeks work to get a fairness opinion on the offer (in their defense, this is required under the Swedish takeover rules). This firm released a statement in which they assessed the offer as "reasonable from a financial perspective" without citing a single number; no growth assumptions, no future cash flow estimates and not a word on how they had valued Fortnox. To anyone not intimately involved in their process the statement was, well, "meaningless from a financial perspective". Understandably, Fortnox largest shareholder Olof Hallrup that owns 24% of the company was not very happy about how the offer had been handled by the Board and publicly announced that he thought it was too low and was going to vote No.

Now, as we owned about 0.05% of the company at the time of the offer – while I fully agreed with Olof – our situation was quite different. After the offer was announced the share price settled around 23 SEK, a 4% discount to the bid, assigning some probability to the offer not going through. Given that I wanted to maintain our ownership but not as a hostage to Visma, our options were as follows:

i. Sell our shares at 23 SEK and hope that the offer would be rejected → **0% return**.

ii. Keep our shares and hope that a higher bid would be announced → **Unknown upside**. I gave this a very low probability as I couldn't think of any other potential suitors.

iii. Keep our shares and vote Yes.
This would have given us 24 SEK per share if the offer was approved by shareholders and by the Swedish Competition Authority (KKV) → **4% upside**.

iv. Keep our shares and vote No with the hope that the offer would be rejected and that the shares would become worth more than the offer price at a later date. I believed this would result in a much lower share price in the short term – my best guess was 16 to 18 SEK per share based on what the price was before the offer was announced. → **30% downside**. (if my estimate is a range I always assume the worst case, i.e. the lower limit, as surprises on the upside are not as unpleasant)

The Board hired another Corporate Finance firm at another hefty cost to shareholders (total costs related to the Visma offer per June 30, 2016 was 3.2 million, it's not cheap to get an offer to be acquired!) to help find other bidders but when no new offers were announced our options were to sell at 23 SEK or wait for a 4% upside provided that shareholders and KKV approved the transaction with a 30% downside if they didn't.

I believed there was about a 60% chance for each approval which meant that there was only about a 35% chance of both happening. Basic probability then gave us an expected negative return of 18.1% (0.35*0.04 - 0.65*0.30) if we held the shares. Besides this unequivocal math I believed that it would take a long time to finalize the offer given KKV's involvement. In addition, the fairly high possibility of the shares becoming available at a much lower price made it an easy decision in the end so we sold our shares at 23 SEK.

Shareholders approved the offer by a wide margin but on June 27 our prayers were answered when KKV announced that they opposed the acquisition and would try to stop it. Visma responded by withdrawing their offer. Because of Brexit there was some additional selling pressure – never mind that Fortnox only has Swedish operations – so the shares became available at a 35% lower price and we were able to buy back all our shares and then some which means we now own a 50% bigger piece of Fortnox without having spent any additional money. Aren't sales great? Compared to regular retail sales, in addition to the economic advantages, stock market sales are also much more enjoyable as there are never any long lines at the checkout desk.

We did not buy Fortnox – this time or initially in 2015 – at anything near a "perfect" price but Fortnox has many of the attributes I look for in a great business. Fortnox has a very strong competitive position in the marketplace, recurring revenues with very high retention rates due to the high switching costs that I discussed in the last letter, little to no inventory, it benefits from network effects which lower its marketing costs, its main product is required due to regulation and its products provide a great value proposition to their customers – the best services at the lowest prices.

The buyout offer goes to show how important it is to look to the future and not the past when evaluating a business. If you would have looked at Fortnox on a trailing 12 month basis at the time of our purchase (our average cost was slightly less than 15 SEK) it would have no doubt looked very expensive. But, as you know or may remember from the last letter, the value of a company is the sum of all future cash flows discounted back to today (plus its net assets). Past cash flows have nothing to do with it.

The future is all important and Fortnox dominant position is key here. Fortnox is quickly becoming the de facto standard for small companies in Sweden. New customer inflow accelerated in the first half of the year from the already high growth rate of the last couple of years. Revenue per customer also showed a substantial increase; this is a very important metric as it indicates that existing customers order add-on services at close to 100% margins for Fortnox. Some new financial services that Fortnox recently launched bode well for a continued increase in revenue per customer in the future. The resulting effect on earnings should be good. I believe Fortnox is worth more than what Visma offered and possibly even a lot more in a couple of years.

Diamond Resorts International
Diamond Resorts is a vacation ownership company. It offers a membership that gives its customers the ability to choose vacation destinations among hundreds of destinations around the world. They charge a high price for their memberships and so their services appeal primarily to higher-income families. I first read about this company in a letter written by Scott Miller at Greenhaven Road Capital and started researching it. This resulted in an investment that I expected to be more short-term in nature than what we normally do as I liked the price very much (our average cost was around 5x my free cash flow estimate) but wasn't very excited about the business model.

A couple of months later on June 27 when Visma's offer was withdrawn I decided to make this money available to buy back Fortnox and leave what I assessed to be a 15-20% upside on the table. Had the KKV announced their decision on Fortnox two days later our portfolio would have been subject to yet another buyout offer and another 30% premium within a mere four months as Apollo Global Management announced an offer to acquire Diamond Resorts on June 29. While this possibility was not the main reason for our investment, Scott actually predicted the buyout within this timeframe based in part on a large chunk of options owned by management that were going to expire in July. Credit to him and an eventful final week of the first half of the year for us to say the least.

Yes, I know. An argument can be made that I should have left this one alone as I am a proponent of investing based on long-term fundamentals and estimates only. In hindsight, I actually agree with that argument. In my defense I call upon what writer and philosopher Aldous Huxley once wrote: *"The only completely consistent people are dead."*

Fiat Chrysler Automobiles
Despite what the share price and the media would have you believe, Fiat is actually doing pretty well. Earnings have been steadily rising and while the re-investment needs are high, I continue to believe that Fiat shares will be worth much more in a couple of years. With that said, as the auto business doesn't have very attractive overall economics, Fiat is one of our smaller positions. But it's still meaningful as we never hold more than ten positions.

Interest rates

Warren Buffett highlighted something very interesting in an interview earlier this year: he said that if we knew for sure that interest rates would be 0% for 50 years the valuations would go through the roof. To understand what he was talking about: Imagine if we knew that interest rates were indeed going to be 0% for the coming 50 years. What would happen?

Well, the attractiveness of investments is a lot about its available alternatives. If your only alternative is to get a 0% risk-free yield and you know it will be your only alternative for the next 50 years, you will be very happy with a 5% yield or a 20x earnings multiple (if you buy a company for 100 units and they earn 5 units per year you pay 20x earnings and earn a 5% interest on your investment assuming all earnings come to the benefit of shareholders) and even fairly happy with a 1% yield or a 100x multiple. Actually, any positive yield would be preferable to 0%. Thus, very high multiples would make perfect sense in such an environment.

Now, if you can get a 5% risk-free yield, or if you believe that you can get 5% risk-free in a couple of years, you will demand say an 8-12% yield in order to be willing to take on some risk. You are not going to accept a 5% yield *with* risk when the government offers it to you risk-free.

Another effect of today's low interest rates is that future cash flows have a higher present value. A dollar tomorrow becomes almost equal to a dollar today. Some investments that in a more normalized interest rate environment would have been done in a couple of years will make sense to advance and do right now instead because of the higher return on investment (due to the higher present value of future cash flows) and also the cheap borrowing costs. This added investment demand also drive up prices. A result of all this is that the market assigns fast-growing companies higher multiples. This is to some extent warranted. But markets usually overshoot and some companies are now priced as if they have found an elixir of eternal life and patented the solution.

In summary, first of all we have to remember that we do not know that interest rates will be 0% for 50 years. Most of us would agree that this is extremely unlikely. Secondly, although higher valuations are warranted to some extent, it has become harder to find good companies at cheap prices. As I write this, although I am always on the lookout, we are at 20% in cash.

Feeling lucky

As an investor it's very enjoyable to be able to wake up every day and go to learn more about subjects that really interest and fascinate me. I wish our society would encourage more people to do that. Yes, it’s up to each and every one of us to find and go after what we most of all want to do with our time on earth, but our societal values sometimes make it hard for people to take the time to really think about that – there are always so many things that “need” to be done first and it's not very socially accepted to talk about these things. People tend to call it "midlife crisis" when what it really should be called is "I’m thinking hard about what I really want to do in life".

There's nothing wrong with not knowing but it's a big mistake not to do everything you can to find out. It might not be easy to get started (I know this well from experience) but someone has to put you on the right path. And that someone has to be you. I think Oprah put it very well: *“If you don’t know what your passion is, realize that one reason for your existence on earth is to find it.”*

Your life will be enormously improved and much more fun and interesting once you find something you truly enjoy to do every day. It can be hard to know what you like the most so it might be easier to start with what you don’t like and eliminate that. When I worked as an employee many years ago I had no idea what my dream job was but I knew all too well that that wasn’t it. How we spend our days is ultimately how we spend our lives. Unfortunately, our time is limited and to not forget that I regularly remind myself of Mary Oliver’s challenging line: *"Tell me, what is it you plan to do with your one wild and precious life?"*

I have a confession to make. I remember when I started out on this investing journey about six years ago with no firm idea of a strategy and less than 150 000 SEK. I believed that managing millions is what "they" do and I couldn't imagine any remotely viable path to ever getting there in a lifetime. It was something that was just beyond my reach. The sum that I manage today – about [xxx] million as I write this of which almost half are profits – was completely unfathomable to me at the time.

You might think "Well, what’s so special about making much money?" You're right, making much money in itself is not special at all. It's about the improvement that's possible if you put your mind into something that fascinates you and comes naturally to you, and about overcoming the illusory limitations we tend to put on ourselves.

If you feel like I did regarding anything that fascinates you but seems completely out of your reach, know that most things, especially those that have been achieved by others, are indeed very possible. A lot of hard work and patience will be needed but most often, the people in your area that are where you want to be are usually not much different from you; they've just been more focused and have been at it for a longer time.

One of the reasons I really like investing is because in the end the person with the facts always wins over the person without. In politics, serving as a current stark contrast, you can apparently be on track to get 40% of the votes in one of the Western world's largest countries by primarily making things up and then shouting loud about them. Independent fact-checking bureau PolitiFact.com found that more than 75% of one of the candidate's statements (I will leave it to you to find out which one) were mostly false or worse. In investing, shouting won't get you any points and making things up will bankrupt you.

Personally, I would have liked a solution where all politicians are scored on their truthfulness leading up to the election. Today, the drawbacks of fiddling with the truth are almost non-existent. This "truth score" would then play a big role in the election and matter as much as all the votes. I think this would lead to less emotional elections and make for a better world.

On a final and happy note, our partnership has now created its third millionaire. I intend to keep working hard to multiply that number. While I have always liked numbers in general, this number – along with helping other less well-off people down the line – means much more to me than most other numbers.

Daniel Glaser   Uppsala 2016-08-24

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Some comments on the 2016 U.S. election

The electoral vote vs the popular vote

The presidency is decided based upon electoral votes. There are 538 total electoral votes and 270 are needed to win.

The electoral votes are distributed over all states; the larger the state population the more electoral votes that state is worth. The candidate that wins the most votes in a state gets *all* the electoral votes of that state. A 51% majority in a state gets as many electoral votes as a 90% majority. No extra points for winning big and no points for second place.

The popular vote simply counts all the votes over the whole country one for one. The popular vote does not matter in terms of deciding the presidency.

While one can make the argument that it is clearly undemocratic that a candidate that wins the popular vote can still lose the election, the electoral vote is all that matters under the current system.

The new President-elect Donald Trump, always the entertainer, had this to say on the subject:

Nov 6, 2012
"The electoral college is a disaster for a democracy."

Nov 15, 2016
"The Electoral College is actually genius in that it brings all states, including the smaller ones, into play. Campaigning is much different!"

While Mr. Trump clearly is very flexible in his opinions, I think he has a good point in that if the presidency had been decided upon popular votes instead of electoral votes both campaigns would have had different strategies before the election and the outcome of the popular vote might have been different as a result.

Election results

First of all, 46.9% of eligible voters didn't vote. 25.6% voted for Hillary Clinton, 25.5% voted for Donald Trump and 2% voted for Gary Johnson and Jill Stein. If "didn't vote" had been a candidate, it would have won by a landslide. For some reference, in the 2014 Swedish election only 14.2% of eligible voters did not vote.

Trump won the electoral vote 306 – 232 as he won most of the swing states such as Florida, Pennsylvania and Michigan.

Clinton won the popular vote 62 million to 61 million by the latest count. The main reason for this was a 3 million vote advantage in California.

At first glance, it certainly looks like Trump won the electoral vote by a large margin but let's take a closer look at some of the key states.

Pennsylvania: Trump won by 68 000 votes (Total votes 5.95 million – Electoral votes 20)
Michigan: Trump won by 12 000 votes (Total votes 4.77 million – Electoral votes 16)
Wisconsin: Trump won by 27 000 votes (Total votes 2.93 million – Electoral votes 10)

As you can see, **107 000 votes in these three states made up the difference in this election**.

Had Clinton gotten 54 000 of those (less than 0.4% of the total votes in these three states), she would have reached 278 electoral votes and been the next president. An observation from professional sports seems very fitting to describe the situation: The higher the stakes, the smaller the margins between success and failure.

Remarkably, in Michigan, there were 88 000 people that took the time on a Tuesday to go to a voting facility, vote for other offices on the ballot but then left the presidency vote blank (in 2012 the same number was 50 000 voters). While most of them probably knew that their vote would be very important they still could not muster to vote for either candidate.

This illustrates well the theme of this election regarding the candidates; many people did not like either one. After the election only 32% said they were "proud" about the outcome – in 2008 when President Obama was elected for his first term the same number was 67%.

As mentioned above, there were also two other candidates besides Trump and Clinton in the presidential race – Gary Johnson for the Libertarian Party and Jill Stein for the Green Party. Combined, they got the following number of votes in the crucial states:

Pennsylvania 192 000 votes
Michigan 224 000 votes
Wisconsin 137 000 votes

I don't know where these votes would have ended up had the names of Johnson and Stein not been on the ballot but it's clear that in the three key states they would have had the power to make a big difference.

Predicting the future is hard

I think three things were true regarding the election and the stock market:

1) Most people did not think Trump would win.
2) In the case he would win, most people did not think the stock market would do well.
3) Most people were wrong on both accounts.

My working hypothesis was that it would be much closer than the media predicted due to two primary reasons. First, the fact that many voters didn't want to admit to polls that they were going to vote for the more controversial candidate Trump (this has been the case in every recent election and/or referendum that I have followed). Second, I believed there was a "Clinton bias" in the media as many large newspapers openly endorsed her.

During the last week before the election I had the odds at a slight advantage for Trump. This was not based on any analysis done on my part but primarily on analysis done by Marcus Oscarsson that covered the elections on TV4. Not only has he loved politics since he was a kid; he is also very smart, hardworking and has shown an uncanny ability of being right in his analysis and predictions during the whole election season. What he manages better than most is to be emotionally detached and remain completely unbiased – I think it's fair to say that this election was especially difficult in this regard for many people.

Keeping your emotions at bay might not be desirable in life in general but it's very helpful when you're analyzing difficult multi-dimensional problems. I highly recommend Marcus to anyone interested in politics.

So, did we adjust our portfolio based on my belief that Trump had a higher than expected chance of winning?

No, besides making some extra liquidity available going into November, I did not make any changes. Why not?

As I discussed in the last half year letter regarding Brexit; that is not what we do. Even though my viewpoints were that Trump had a higher than expected chance of winning *and* that his economic plan was a net *positive* for US businesses (more on that below), I didn't know what the market's reaction to him being elected would be. Predicting such things is incredibly complex and acting on them is even harder. As you know, I don't even try.

What about now that Trump has won?

Trumps economic plan that was released in September is designed to grow the US economy by 4% per year over the next decade compared to the average 3% growth rate over the past 60 years and the current 1% to 2% growth rate. In it he outlined plans for:

- large infrastructure investments
- reduced regulation
- lowering the US corporate tax rate from 35% to 15%.

While you may not believe that his 4% growth goal over the next decade is possible, these three initiatives are clearly positives for US corporate profits.

On the negative side, he has said that he will make it harder for US companies to outsource manufacturing jobs to other countries and that he will keep America out of the Trans-Pacific Partnership (TPP) and renegotiate or leave the NAFTA agreement.

Surely, if the positives outweigh the negatives and lead to stronger economic growth, the Fed is more likely to raise interest rates faster which would drive down asset prices over time.

Now, we don't know how much of what Trump said during the campaign that will be acted upon and how much was just campaign talk. Furthermore, whether he will actually be able to implement his ideas remains to be seen.

As far as not keeping one's word; I personally believe it is one of the worst things you can do to another human being, and even worse – to millions of voters. When it comes to politicians, however, this seems to be the rule rather than the exception. That is by no means unique to any particular politician. As tragic as that is, and as wrong as you and I think that is, it is our reality. If I'd have to guess, I would say that more of what he has said will not get done than will. This is usually the case with all new governments and not necessarily because there is a lack of will.

In summary, in terms of US corporate profits, I believe there are more positives than negatives in his plan. There is nothing major there (yet) that has changed the overall fundamental outlook for any of our companies. There might well be in the future though. We currently own shares in three companies that are either US based or do the majority of their business in the US so I will be attentive to new policies that might, negatively or positively, affect those businesses.

Summary

None of this is to say that the stock market is going to go up now. I have no idea about that. Investor sentiment can change for a number of reasons, sometimes predictable but most often not predictable. This is true whether we have just had a historical election or not.

I do think that this early after a very dramatic election it’s easy to be over-worried about all the uncertainty. Such worry will pass sooner or later and as investors, one of our jobs is to distinguish worry and uncertainty from true risk. We invest in companies based on their value, i.e. their net assets plus their future free cash flow. As an example, the demand for Fortnox products or its future earnings power is not likely to be materially affected by Trumps policies over the long term under almost any scenario.

It’s also good to remember what Peter Lynch said:

“I’ve always said that I don’t know which way the next 1000 to 2000 points in the market will go, but I believe that the next 10000, 20000, and 30000 points will be up.”

Either way, whatever the market chooses to do, we are investing based on what we view as knowable fundamentals; we are not trying to predict macro events or other people's feelings. I'm very happy that we can leave that game to others.

Nov 17, 2016 Daniel Glaser

Disclaimer:

This letter does not constitute investment advice to buy or sell any securities. I have to the best of my knowledge tried to gather correct information but there might still be factual errors present. Zen Capital and Daniel Glaser do not take any responsibility for investments made based on information in this letter.

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"When art critics get together they talk about Form, Structure and Meaning. When artists get together they talk about where you can buy cheap turpentine."
— Pablo Picasso

Dear Partners and Fellow Investors,

Our return on capital in 2016 was 20.5%. Currency effects had a positive impact on our returns by roughly 2% in 2016*. Our total assets which are comprised of cash and investments were on Dec 31, 2016 worth [xxx] SEK.

Below are the pre-tax returns after all costs since the start of the partnership on Jan 1, 2013. Re-invested dividends are included in both the partnership and the OMXS30 returns. As Avanza Bank offers Avanza Zero, a fund that mimics OMXS30 returns including dividends and charges zero fees, the OMXS30 column shows returns after all costs as well.

	Zen Capital Partnership	Limited Partners	OMXS30	Difference	100 000 invested on Jan 1, 2013
2013	41.0%	30.8%	25.4%	5.4%	130 800 SEK
2014	45.0%	33.8%	13.6%	20.2%	175 010 SEK
2015	35.1%	26.3%	2.5%	23.8%	221 038 SEK
2016	20.5%	15.4%	9.1%	6.3%	254 892 SEK
Overall Gain	232.9%	154.9%	59.3%	95.6%	154 892 SEK
Compounded Annual Gain	35.1%	26.4%	12.3%	14.1%	

* I think it's a good practice to deduct currency effects when evaluating our results. But if you want to compare our results to an index you should adjust for currency in the index as well. For example, in 2016 the OMXS30 return in SEK was 9.1% including dividends as showed in the table above – but expressed in USD it was below 2% as USD strengthened a lot versus SEK. I don't believe currency effects will have a material impact on our returns over time and as I have said before there are no plans to hedge our currency exposure as I believe the costs of hedging outweigh the benefits.

A Review of the Past 4 Years

Our absolute gain in 2016 was just shy of [xxx] million. After having started this little investment operation with a total of [xxx] in January 2013 with a little more than half from me and the rest from my mother – as I'm writing this, our total capital has just surpassed [xxx] million and our accumulated after-tax profits now comfortably exceed [xxx] million. The implicit cost of my and Larisa's 2006 Toyota Avensis that we bought in the second-hand market in late 2011 is now equal to that of a brand new 2016 Toyota RAV4 Hybrid (including the Executive add-on package). That's what compounding can do to you. If there are any RAV4 owners out there willing to make the switch, please give us a call. If you don't have the Executive add-on, that's ok too.

Some of our winners over these four years include Amazon, Amerco, Apple, Fiat, Micron Technology, Strayer Education and VeriSign in the U.S. along with Fortnox, NGS Group and Opus Group in Sweden. The key to the good results, however, is that a similar list of our losers would be almost empty. Our focus has shifted more and more toward the Nordic countries as I find it much easier to spot and understand a company's competitive advantage when you are more familiar with the market and can try the products and services hands-on. Home-court advantage helps.

As you know, some of this partnership's capital along with funds from my nine co-founders has now been invested in the newly founded investment company River Oak Capital AB where I am the CEO (there was a name conflict for Zen Capital AB so we had to change the name). The rest of this letter is written with you my family partners, you my River Oak co-founders, and future potential River Oak investors in mind.

While our returns have been good so far, we haven't been tested over time yet. There are probably many investment operations that are able to show very good results over the past four years as the markets have been steadily rising. As Howard Marks expressed it:

"A good builder is able to avoid construction flaws, while a poor builder incorporates construction flaws. When there are no earthquakes, you can't tell the difference."

For example, in Sweden many millionaires have been created through the purchase a couple of years ago of a very small amount of Fingerprint Cards stock. A 27,000 investment five years ago would – despite the recent 55% drop in its share price – leave you a millionaire today. But will a similar investment bear any fruit over the next 5 to 10 years as well – will another FC company come along and if it does, will you be able to spot it in advance?

The real test is if our strategy will prove to be sustainable over time. I do believe that our process is sustainable and will continue to produce good investment ideas – future will tell if I'm right. The returns, however, are a different story. As I have said before I don't believe that 35% returns on capital is sustainable over any longer period of time. Future will tell here as well but either way we will do well to remember Charlie Munger's observation that '*pleasant surprises are always easy to handle*'. By maintaining reasonable expectations and a humble mindset – despite the recent great but quite likely unrepresentative years – we give ourselves a good chance to be on the pleasant side of future surprises.

Politics

I didn't plan to include politics in this letter as it is not a big factor in our decision-making but a couple of words felt warranted. If you are tired of politics after last year's grueling election, feel free to skip the following two pages.

I wrote a memo with some thoughts on the election in November in which among other things I discuss why we don't make investments based on any beliefs I might have regarding macro events. In fact, I'm certain that our returns would be a lot worse over time if I tried. You not only need to be right on the outcome of a specific event which by itself is very difficult – but also on the market's reaction to it. The outcome of the election and the subsequent market reaction clearly demonstrated the difficulty of that. [*Note: You have perhaps noticed how many more people there are today saying that it was obvious that a Trump win would be positive for the markets than there were before the election*.]

In the memo I also discuss how a swing of 54 000 votes in three crucial states (less than 0.4% of total votes in those states) would have led to a different outcome. President Trump likes to say that he is very proud of his huge victory in the Electoral College. If you peel back some layers of the onion, you find that the allegedly huge victory is anything but.

I think it's very worrisome that the newly installed administration knowingly (and sometimes perhaps unknowingly) spread false information. When a counselor to the president was recently confronted with some obvious misstatements that had been made, she claimed that their statements were so-called "alternative facts". If that is not an oxymoron, I don't know what is. The investment equivalent would be the CEO that, when confronted on why her company had such big losses, explains that they were indeed not losses but rather negative profits.

There seems to be a misunderstanding within parts of the Trump administration about what the word 'fact' actually means. I am not trying to be funny – they fairly regularly mistake feelings for facts. It all starts with the leader and feelings are a big thing for President Trump. He is actually on record saying that his net worth depends on how he *feels*. In a court case in which Mr. Trump sued a writer for defamation, he was asked by the writer's lawyer if he had been completely truthful in his public statements about his net worth.

He answered: *"My net worth fluctuates, and it goes up and down with markets and with attitudes and with feelings – even my own feelings – but I try."*

The lawyer pressed on and asked: *"When you publicly state what you're worth, what do you base that number on?"*

Trump responded: *"I would say it's my general attitude at the time that the question may be asked. And as I say, it varies."*

You may or may not like how the Obama administration did during their eight years in power. But you never had to question President Obama's respect for the truth. With a month into the Trump presidency you not only question it – it's absolutely clear that Mr. Trump's attitude toward the truth is very different. Feelings have become "facts" and facts have become "fake news" and "opinions".

Considering the very wide range of issues you are asked to address as a politician, it is no doubt impossible to know all the facts in all areas. While staying quiet or uttering the three magic words that you never ever hear a politician say – "*I don't know*" – would be the right thing to do in many cases that doesn't score you any points with voters. And so the temptation to say something – true or not – is big and an impulsive personality sure doesn't help.

Furthermore, what is now the world's most well-covered Twitter account with a rate of seven tweets per day recently proclaimed "*Any negative polls are fake news*" and a couple of days later went on to call five of the country's major news outlets "*the enemy of the American people*." Usually when you hear this type of sentiment from a government it is accompanied by the discrete removal of the institution behind such polls. It's hard to believe that these types of claims are now coming from a sitting U.S. president. I guess all this would make for great TV... if it wasn't a true story. I don't think Trump is without some good ideas but to me they are so far overshadowed by all the lies, his sloppiness in getting the facts right and troubling rhetoric. I sincerely hope it gets better from here but I wouldn't bet on it.

A political argument is usually about how and where a country should allocate its resources. The argument is most often a matter of a difference of opinion. In some cases however, you can, based on the available facts, say that one side is right and the other is wrong. But when it comes to voting this doesn't matter; the person that is wrong and the person that is right both get one vote. And when there is no right or wrong answer, it's not the case that the person with a university degree that has spent his whole life reading about politicians and public policies gets more voting power than the person that plays video games 18 hours a day and has never read a book in his life. Lee Kuan Yew, the late former Prime Minister of Singapore, early on in his career made the following observation on democracy which has become more topical not just in the U.S. but around the world lately:

"So long as you run one person one vote the easiest appeals that can be made are the simple emotional ones, not economic development and all these other things they do not understand, but simple things: like pride in race, in language, in religion, in culture."

People appreciate straightforwardness and easy answers (even when there are none) and I think that showed both in the Brexit vote and the U.S. election.

But perhaps most fitting to explain how an underdog candidate like Trump was able to overcome 16 other Republicans and then Clinton is President Roosevelt's remarks about one of his successful generals: "*Never underestimate the man who overestimates himself*." Perhaps a healthy dose of hubris is not all bad? I'm actually serious. But please note that I say *healthy* dose.

As investors, our job is (thankfully) not to set – or opinionate on – public policy; it is to *adapt* to public policy. So far we haven't made any changes to our portfolio based on the election outcome.

Consuming Information

Another popular topic in 2016 was the rise of fake news. As an investor, gathering and processing information is essential so I thought I'd address the issue from my point of view.

When a financial report or material news about a company we are interested in comes out, I always start with the source material, assess it and make my own conclusion before reading any news reports or considering anyone else's opinion on it. Elon Musk recently expressed my view on this very well in reference to one of the recent executive orders put out by the White House: "*Reading the source material is much better than reading other people's opinions on the source material*." Of course, sometimes the first-hand source will intentionally (or unintentionally) put out false information which one need to be alert for. Today, with all the different online tools out there and the ease with which anyone can now share their version of the truth or pure falsehoods to a very wide audience – reading the source material first has become more important than ever. The need to be alert for false information has as well.

When it comes to investing, we must always invest based on our own opinions and conclusions, not on anyone else's. Otherwise, what will we do when the market is falling and we are in dire need of insights and that other person is not there to provide them to us? We must always trust our own analytical ability. If we feel that we don't know enough to form an educated opinion on an investment – or a political matter or anything else – we should either learn more about it or move on. Remember President Lincoln's advice: It is better to remain silent and be thought a fool than to speak out and remove all doubt.

In business reporting, we want the meat. Some companies have the habit of including a lot of meaningless "information" in their communications such as "*We will continue to leverage our business model both in emerging and developed markets.*" (The political equivalent: "*We will create jobs for everyone*!") Tell me, what did you learn about what the company is actually going to do by reading that statement? In what ways will they leverage their business model? Which markets will they prioritize? With public statements like this, you have to ask yourself if you believe that their internal communication is any clearer. If it's not, will the employees understand the company's vision and even their own tasks? If they don't, will the company as a whole get anything meaningful done?

There is also a final point I'd like to make in this section. During the year a friend and I watched an interview where the interview subject was clearly exaggerating some numbers regarding a company. My friend pointed out that we know that the interview subject (like most people) has a certain way of presenting his point of view and that one has to normalize for that while still acknowledging that there may be a good point in the *normalized* data.

When assessing the thoughts and opinions of others, it's crucial to properly adjust for the personal bias of that person – especially if he is you!

To summarize: Always read the source material, be alert for false and irrelevant information, always draw your own conclusions, be aware of biases (especially your own) and perhaps most important: Don't be afraid to say "I don't know."

Our Investing Principles

In investments you only get paid for what you actually do. You don't get to say: *'In 2016 we made X million and we also had three great ideas.'* The three great ideas do not add any percentage points to your returns or dollars to your bank account.

Our actionable ideas have come exclusively from studying microeconomics, i.e. company financials and industry economics. Staying away from macro news and how markets move thus conserving a lot of time and energy to focus on the *more* knowable microeconomics (note that I don't say *fully* knowable but *more* knowable) is probably the one thing that has helped us the most over the years. Below are the three other main principles that I believe have been the most important factors behind our good results.

1. Be Content with Moderate Gains

My favorite mantra in investments since early on has been "*Be content with moderate gains.*" I found it in the first book I read on investments. I don't know why it resonated so strongly with me at a time when I knew nothing about investments but it did. In the worst case, I figured, I'll end up with moderate gains. That sounded pretty good to me.

You might be surprised to learn that the person who said it was Warren Buffett. In running Berkshire, he has obviously had more than moderate gains. I figured that if the investor that arguably has the most accumulated investment gains in the world has such a cornerstone in his philosophy, there is likely more to it than what you see at first glance.

I think the primary benefit is that this mindset helps keep you away from big losses and the terrible effects they have on the 8th wonder of the world according to Albert Einstein: compounding. Another is that being able to sleep well and think well is paramount. This is in my view much more important than any potential profits you might forego by being okay with moderate gains. And if you're not, when will you ever be satisfied? There will always be 'more'.

Inevitably, over the years some situations have come up where my two alternatives were quite a close call and the best course of action was not immediately clear. In these cases my guiding principle has always been to be content with moderate gains which lead me to always go with the more cautious alternative. This has sometimes led us to missed gains but also, and much more importantly, kept us away from big trouble. For River Oak Capital, it will always be a higher priority to be here in 10, 20 and 30 years than to have a chance to be the hero in any one year. It’s too much fun to be in business. I’d rather be here in 30 years with a decent record than not at all.

The only argument against this is that you might not get to kiss the prettiest girl. But as I was lucky enough to meet her before I started investing we are out of good reasons – and as an obvious corollary, so are you. To be clear, this mindset does not prevent you from achieving significant gains as evidenced by Buffett’s record at Berkshire. Rather, I think it serves as a great mental starting point.

2. High Concentration

I believe one of the few true edges you can have in investing is to do what everyone else is not doing. How can you ever perform better (or worse) than the average if you are doing what everyone else – the average – is doing?

As mentioned above, zooming out from the daily news and gyrations of the market and instead use that time and energy to think independently within your own developed frameworks, along with the mindset to be content with moderate gains, are two of the things that I believe are truly unusual in the investment business. Another unusual trait is high concentration. And by this I mean having a portfolio where the majority of capital is invested in your absolute best ideas. In our case this means a total of seven companies or less.

The world is and has always been a risky place. Still, over the past 90 years since the S&P 500 index was introduced its average annual return has been approximately 10%. The average difference however, between a year’s highest and lowest close has been 23%. Zen Capital's average difference between a year’s highest and lowest close has been closer to 40%.

From time to time when discussing our strategy and our high concentration in particular, I get criticized about the risk we must take on because of the inevitable volatility that comes with a highly concentrated portfolio. While I then try to explain that the volatility of a portfolio has absolutely nothing to do with the true risk of a portfolio unless you have a very limited time horizon – given the limited success I have had in convincing people about this – I am considering to soon revise my tactics to those of another investor that I once worked with. He employs a strategy similar to ours and he once got the same critique. At the time he had generated 30%+ returns over a multi-year period. His response was that while it was certainly true that he had had a lot of volatility over the years “*most of it was upside volatility*.”

The argument against high concentration is usually that it entails the risk that if one or more of your companies fail, that alone will cause a sharp decline in your portfolio whereas when you diversify no one holding can hurt you very much. While this is clearly true, it is also true that when you diversify you need to be roughly right on very many companies whereas with a high concentration you need only to be roughly right on very few. It stands to argue that the latter is easier.

Diversifying a lot or indexing is great if one is not sure what one is doing. But, if that is the case, it seems like an even better idea to try to figure out what one is doing. If you're not very interested in figuring that out and are happy with average performance – which in investing will still give you great results over time as compounding will do the work for you – diversifying a lot or indexing is indeed a very good idea. Indexing is even very likely to give you slightly better than average results as most active investment operations underperform the index after fees and expenses.

But if you're aiming higher, my firm belief is that you must dare to concentrate on your absolute best ideas. This is true for investing as well as for most other things in life. Can you imagine where your marriage would be today if you had not focused on your best idea? Or where Apple would be if Steve Jobs had tried to run 20 other companies simultaneously to running Apple? As Jobs famously said himself he is most proud not of all the things Apple did but of all the things they didn't do. All the no's was what enabled them to focus on and perfect their best ideas. Developing the ability to say no a lot is crucial.

Perhaps the most important benefit with a highly concentrated portfolio is that it goes a long way towards keeping things simple. I have seen many investment operations that have made some brilliant predictions – still, their returns are meager because their overall strategy is so complicated and predicated on too many hard-to-predict events going their way. Buffett once expressed this problem very eloquently:

"*Degree-of-difficulty doesn't count. If you are right about a business whose value is largely dependent on a single key factor that is both easy to understand and enduring, the payoff is the same as if you had correctly analyzed an investment alternative characterized by many constantly shifting and complex variables*."

3. Patient Preparation

In 1974, Frenchman Philippe Petit spent 45 minutes on a high wire walking back and forth between the recently built World Trade Center skyscrapers. At 400 meters above the ground with no safety ropes, he crossed the void eight times; at one point lying down on his back resting on the wire, then kneeling, looking down and saluting the people that had gathered in the New York streets beneath (I get slightly dizzy just by writing this).

The act itself lasted less than an hour but Philippe spent six years planning and preparing for this particular walk. Besides that, he spent most of his adult life working on his wire walking skills. Few people will ever be able to reach such an extreme level of focus as Philippe (not to mention overcoming the slight height issue) but there is a lesson we can all take from this marvelous act. If you're striving to be able to perform at a very high level, in high wire walking or in any other craft, you will spend most of your days honing your skills to prepare for the few days when those skills will really matter. To be able to do that day after day, you need to love what you do.

Furthermore, when those days come, if you have done the work, they will feel just like another day at the office. When Philippe walked back and forth on that wire it no doubt looked extremely risky to any sane person (and it sure was) while Philippe was dancing around as if he was on the ground. The same can be said about Buffett when in his early years he put 75% of his net worth into a then small and unknown insurance company. While it probably looked like a suicide mission to the casual observer, a very large investment in GEICO obviously didn't look like a risky proposition at all to Buffett.

What does all this have to do with us? I have no plans to ever walk on a high wire but I like to believe that our ratio of preparation to action is quite similar. For us, the equivalent of Philippe's six years of preparation and 45 minutes of action, is that I typically spend a couple of months or years looking for and observing companies to invest in along with reading and learning about different industries, then there are a couple of minutes of action when I make the actual purchase of the shares for us and then it's back to the learning and observing along with the occasional meetings. I can understand if this does not sound exciting to everyone. For me it truly is. Most of the fun and all of the value is in the reading, thinking and analyzing.

Our Investing Standards

Early in 2016, I made the decision that we will not invest in companies that operate in industries that I believe are not, on an overall net basis, helping or providing good for its customer base. Casinos, gambling sites, most lotteries and companies in the tobacco industry are such examples. We also won't invest in companies that operate within the guns, weapons and military industries.

We have never invested in the latter categories but a couple of years ago we invested in one online gaming company which was definitely not providing something overall good for its customer base. At the time I had my hands full learning and figuring out a firm investment strategy for us so while I on some level knew it wasn't an investment to be proud of these types of questions weren't top of mind. Yes, it's a bad excuse but it's also the truth. Once I felt that our strategy was becoming more firmly set I started to think more about this and realized that certain industries are not places where I want us to be investing.

It should be perfectly obvious to anyone that a casino or a lottery is set up in a way so that its customers win just often enough so they remain excited and want to come back, but are ensured to lose money over the long run. Because of this and their focus on exploiting human addictions, these companies are usually pretty good businesses in terms of their economics and predictability. In 2016, the Swedish gaming industry's net revenues – that is, after payouts for player winnings – were SEK 22 billion. While there is nothing illegal and some would say nothing immoral with running such operations we have chosen not to support these types of companies. There are so many companies around the world that are available to invest in so we can easily afford to exclude the above categories from our selection universe.

The decision to stay out of these companies has hurt our returns but I have no doubt it was the right thing to do for us. Benefiting out of other people's misery is not how I want to make money. You might say that if we don't do it, others will. Sure, that's up to each and every one to decide. Our criteria are clearly subjective, and some people will not agree with them. That's ok. I am not saying that our point of view is the right one; I am only saying that it is *our* view. If you are considering joining us at River Oak Capital, I want you to be informed about what we do and what we don't do.

Our Investments

Our main contributors in the second half of 2016 were, fittingly for me, the companies I discussed in my previous two letters – Fortnox and Fiat. Our other companies, which were four to start and five to end the year, in aggregate, almost did not budge. As mentioned in the beginning of the letter, I believe the key over these four years has been that we have not had any big losers – but it has also been that every year we have had one to three investments perform well for us in combination with a very concentrated portfolio. Our goal, which we have attained most of the time, is to be closer to a total of five investments rather than ten.

Interestingly, our two main contributors are pretty much polar opposites in terms of their businesses. Fortnox has a very strong moat, high margins, require minimal working capital and is growing rapidly. Fiat has a moat only around some of its brands like Jeep and Maserati, low margins, require vast amounts of working capital and its revenues are currently not growing (although its margins and profits are). As you probably know or have perhaps guessed by now, Fortnox earnings are valued a lot higher than Fiat's by the market and rightly so. So what are we even doing in Fiat in the first place? The answer is valuation. Some companies are not good investments at any price, but most companies are good investments at some price and bad investments at another.

Fiat Chrysler Automobiles

CEO Sergio Marchionne has done a brilliant job since Fiat acquired the last part of Chrysler in early 2014. While stable demand in the U.S. and a shift in consumer preference from cars toward trucks and SUVs have helped there has also been many costly recalls.

When we invested in Fiat in 2014 its revenues were around €90 billion, its margins were just above 3% and net debt was around €10 billion. As 2016 closed, revenues are around €110 billion, net debt has been cut in half and margins and profits have almost doubled. This was achieved even though Ferrari, Fiat's most profitable unit with pretax profits of around €500 million or about 10% of Fiat's total profits, was recently spun off.

As a result, the share price has appreciated around 70% from our average purchase price for an average annual gain of ~21% over our almost three years of ownership. This return is including the Ferrari spinoff in which we received one Ferrari share for every ten Fiat shares we owned, but not adjusted for currency effects which have been favorable. As the Ferrari share price was around $45 at the time of the spinoff, it was worth around $4.50

per Fiat share (~40% of the current share price) to us. We sold our Ferrari shares as soon as we received them. While the return on our Fiat investment has been good, and even great adjusted for currency, it has so far been a drag on our overall returns.

We prefer to invest in businesses that anyone can run where we aren't dependent on a CEO of Marchionne's caliber and so our exposure toward these types of businesses will continue to be relatively small. For us, finding the right business is more important than finding the right multiple. It is also much more enjoyable. That said finding both is the best.

Despite the roller-coaster ride that Fiat's share price has been on over the past couple of years it has been easy to sleep well in the back of the camper with Sergio behind the wheels. I think he handled the recent EPA charge just as you would want: upfront with an immediate interview and transparent in explaining the actual issue. He has confirmed that he intends to retire from the top position at Fiat (and Ferrari) by the end of 2018. If he ever decides to take up another CEO position in a public company, expect me to take a very close look.

Fortnox, Software Companies and Online Based Companies

At Fortnox a Marchionne-caliber CEO would almost be a total waste – Fortnox is one of those few businesses that would do well under almost any CEO. I wrote in detail about Fortnox in the last two letters and while the share price is now materially higher those views are largely unchanged. The return on our Fortnox investment from the time of our first purchase up until the Visma acquisition offer in March was 54%. Since we bought back the shares when the acquisition offer was rejected by the Swedish Competition Authority in June our return has been more than 110% (I have sent a thank you card to the SCA). As these returns were both achieved in less than a year our average annual gain is even higher.

It's fair to say that our current portfolio has a bias toward companies that either sell software or have some competitive advantage due to using software as their main platform, i.e. being online based. These are areas with good and sometimes great economics. And more importantly, it's areas in which I can understand competitive advantages reasonably well.

The financial costs and manpower needed to build good software are usually large. But if you manage to build good software that people get value out of and manage to reach break-even, the subsequent economics can become great. The margins on another sold license are close to 100% so profitability can take off very quickly once break-even volumes are reached. This sometimes takes the market by surprise which can make for good opportunities.

In running Nutris I have seen first-hand both the challenges of the former and the potential benefits of the latter. I don't know if I will ever undertake being part of building such comprehensive software again but I know I am happy to support and invest in the right one. A benefit of being the investor in software instead of the entrepreneur is that you have the option to invest only in already profitable companies where the inevitable initial operating losses are history and proof of concept has been confirmed long ago. This might not be as fun and the upside is naturally smaller but so is the downside.

All our current investments except Fiat and one more are in this category, i.e. software or online based businesses, and I expect that to continue in the future.

The Future

As an investor you often get questions like *'Are you not worried of X happening to that company or Y happening to that industry?'* The answer is usually yes. But the only way one can be 100% certain of anything is if it has already happened. And then the market price will usually reflect that which makes the insight useless. When we make an investment I always believe that the odds of a successful outcome is in our favor – that is, I believe the chance for success is at the very least greater than 50%, usually a fair bit greater than 50%. However, I am never anywhere near 100%. As investors, we have to live with making decisions based on incomplete information all the time.

Questions like these remind me of a story of the insurance agent that thought he was his firm's best agent because he had never incurred a single bad insurance deal. His boss saw it otherwise; if he never incurred any claims that were larger than the premiums received that meant he probably left too many deals on the table where the insurance premium warranted the risk. Just because you get the occasional failure doesn't mean it wasn't worth the risk.

There are as always plenty of things going on around the world to worry about. There are also many unknowable things that will come up over time that one could worry about. But by definition, no one knows what those unknowable events will be and there is nothing anyone can do to know them so there is no point in worrying about them. I'll borrow from Howard Marks again as I think he summed it up perfectly in a recent memo:

"There are no facts about the future, just opinions. No amount of sophistication is going to allay the fact that all of your knowledge is about the past and all your decisions are about the future."

It's healthy to be aware of potential future risks but it's very unproductive to go around and worry about them too much. It's much better to do the best with what you've got and have faith in humanity. In terms of your investments, to the best of my knowledge there is no insurance company that will underwrite an end-of-the-world risk – and if the end comes, I'm sure your investments will not be at the top of your list of concerns anyway.

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In an adult lifetime, you can roughly divide how you will spend your time as a third family and friends, a third professional life and a third sleeping.

I have been very lucky in the first part. As for the second part, I think continuous learning and improvement in areas that fascinate you, challenge you and force you to push yourself close to your limits is what professional life is all about. Doing it with and for people you like and trust as I get to do make it even better.

While there is a lot I don't know about the future, I know that I love doing the above which I look forward to continue to do at River Oak Capital. So if you ask me, the future looks very bright. This is not to say that I believe every year will be good in the world or in the markets. They won't. But every year is a chance to develop and make a positive contribution – and it helps enormously to start every day with a positive mindset. In determining the course of our lives, our mindset and choices have a far greater impact than our circumstances and abilities. Although it can sometimes perhaps seem naïve, I am and will always be an optimist as after 35 years I am yet to meet one successful and happy pessimist.

The sleeping part has been pretty uneventful but the other two have truly been an enormous adventure so far – with the recent addition of my and Larisa's second son, Charlie, to top off the first 35 years. I look forward to the future.

Feb 24, 2017 Daniel Glaser

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 or 108.6 SEK per share.

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December equity raise

In December, we raised money 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 solely ascribed to the stubbornness of yours truly 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 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, 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 9% 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 business, 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 a lot 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 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 all employees and other operating costs have been paid 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

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 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: 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 they are 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 which gives us €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 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. A couple of large warehouses instead of hundreds of physical stores makes for more efficient inventory management and is overall a lot 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 Amazon was the best option 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 in China has almost tripled in the past decade as well which has resulted in increased consumer spending at a rate of more than 7% annually in the past decade. Meanwhile, income per capita in the West has grown at less than 2% annually.

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 close to 30% 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 30 minutes followed by a short presentation of our first year of operations. After that you will have 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

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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%.

It's a good practice to deduct any currency effects when evaluating our investment results as we don't strive to foresee or profit from currency movements.

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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.

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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

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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.

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The main reason for this memo is that we recently executed our first ever transactions of River Oak shares. I would also like to take the chance to address some questions I have been asked that concern how I think about the recent sharp movements in the markets and the overall themes of our portfolio.

Our first share transactions

With River Oak's long-term focus, you all know it is my preference to not report our results or book value per share more often than twice per year. But as a shareholder I would want to be informed about all share transactions that are made, hence this interim memo.

On November 16, we executed our first ever transactions of River Oak shares. There were two transactions for a total of 4,500 Class B shares changing hands at a price of 119.83 per share, which was our book value per share per market close on November 16. This is down roughly 10% from our all-time peak earlier this summer and puts our change in book value per share at +10.4% for the year compared to -5.1% for the OMXS30 index during the same period. An investment in the OMXS30 would have also yielded dividends of approximately 3.6% for a total OMXS30 return of -1.5% during the period.

Both transactions were between current shareholders. In the first transaction the seller needed some liquidity for a house purchase. When asked if he wanted to sell some additional shares as one of the buyers was interested in acquiring more shares, the seller's response was a polite and very firm 'No'. The second transaction was simply a transfer from a private person to his own fully-owned company.

As you all know we have a waiting list for interested buyers and sellers of River Oak shares. Those that had previously let me know they were interested in acquiring more shares if it became available were contacted and two of them ended up as buyers in transaction #1 described above. However, according to our Articles of Association all shareholders have the right to claim interest in acquiring any River Oak shares that have been sold within two months of the transaction date, in this case January 16, 2019. If more shareholders are interested in acquiring the above mentioned shares we have to divide the shares pro rata based on the buyer's previous share ownership.

Needless to say, I don't expect any shareholders to utilize this right – but instead just let me or anyone on the Board know that you are interested in acquiring more shares and you will be put up on the list. This specific paragraph was added to our Articles of Association so that current shareholders can't just randomly sell their shares to anyone. We have a great group of shareholders, which is enormously valuable, and with this paragraph we have made sure it is up to us to decide how we choose to expand it.

Raising capital - why do it at all?

Our current capital base is big enough to have a solid operation where our fixed costs are close to negligible; at the same time it is enormously under-utilized given that almost all investments we have made since inception are in companies with market capitalizations that exceed SEK 2 billion.

The disadvantages of raising more capital are that it takes time of my hands and that all current shareholders get their ownership percentage diluted unless they participate. The flip side to the latter is that we will raise capital at a premium to book value which benefits current shareholders as it increases the worth of their ownership, our book value *per share*, which is what really matters.

I have listed the main advantages as I see them below:

1. It expands our opportunity set. With a larger capital base we are now able to look at private investments and even private acquisitions.

   Private investments have some important advantages over public companies:
   First, a share price that is largely independent of the public markets and thus the rest of our portfolio. Second, in the case that we acquire a majority stake in a private company we will get cash inflow that is spread out over the whole year as opposed to in one big chunk as is the case when we raise capital. This would enable us to better take advantage of any market downturns and new opportunities which come up totally randomly in time. (Any private investments we make are likely to comprise only a limited part of our total assets, say 10% to 25% at the high end.)

2. More shareholders provide increased liquidity for any shareholders that want to sell their shares.

3. More shareholder partners that are nice and honest people with high integrity is something you can never have too many of.

4. Our fixed costs such as office space etc., small as they already are, will be even smaller as a percentage of our total assets.

How often will we raise capital?

The intention is to do at least one capital raise per year. After discussing it on the Board of Directors, we have no particular preference as to the frequency as long as we keep the offerings open a much shorter time than the two month opening we had this past summer.

Please give me, or Anna or Stefan, your input on how often you would want River Oak to do private offerings like the ones we did in December 2017 and July/August 2018.

Now forget it again

Now that you have been informed about our most recent book value per share, I encourage you to forget it again. I know that all of you already have it, but I cannot overstate the importance of a long-term mindset in our business. The market value of a portfolio of public shares on any given day is almost completely meaningless. In the short term, public share prices are determined by multiple factors – many of which have nothing to do with the true value of the underlying business. Measured over years however share prices are very relevant. **You should be philosophical about our short-term results and academic about our long-term results.**

Many of you run your own private companies, and you know that there are very few days, if any, when the value of your whole business changes with 5% in a single day. Believe me, the same is true for the value of public companies, but their share prices often tell a different story. It goes without saying: that story is false.

We could report River Oak's book value quarterly or even monthly like some investment companies do – but would anyone really benefit from that? Would you do anything differently if you knew our book value by the end of each month? Wouldn't you be more stressed if it was down three months in a row? It would most certainly only encourage short-term – and thus per definition, dumb – behavior. Warren Buffett once made a very fitting observation on this subject: *"Games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard."*

However, if you're ever curious or need to know our current book value for some reason, just call or email me and ask.

Are you making any adjustments due to the current market downturn?

In short: No. If I would sell any of our investments based only on that the share price is down or because I think I have some magical feeling about a prolonged future stock market downturn, the next thing I would do is to make sure I'm fired. We are not in the business of taking instructions from the market or predicting its movements; we're only using it as a tool to make sensible investments in good companies.

You may or may not be aware that in October, the S&P 500 had one of its worst months since February 2009. To be clear, a downturn like the one we're currently experiencing is to be expected about once every year or at the least once every two years. To illustrate, I have included a table on the next page that shows the monthly gross returns since inception of my family office's portfolio on January 1, 2013, and then River Oak Capital's gross returns from February 8, 2017 up until October 31, 2018.

	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
2013	2.82%	0.10%	-0.12%	-2.58%	0.17%	10.88%	2.85%	3.22%	0.25%	8.52%	9.35%	-0.01%	**40.46%**
2014	-6.78%	4.16%	-4.11%	9.61%	8.78%	1.60%	6.28%	5.20%	5.13%	7.55%	6.63%	-5.03%	**44.40%**
2015	2.26%	10.05%	4.40%	-4.57%	7.79%	-8.73%	5.51%	-7.19%	-1.69%	16.43%	3.50%	5.37%	**34.82%**
2016	-11.64%	-0.49%	5.11%	9.03%	2.94%	-3.76%	5.16%	2.21%	3.68%	5.99%	0.74%	1.02%	**19.99%**
2017	6.18%	0.81%	-2.51%	1.50%	3.75%	-1.00%	1.94%	2.91%	4.60%	1.24%	-1.86%	0.51%	**19.22%**
2018	9.82%	-3.17%	-5.28%	11.46%	7.20%	3.40%	0.30%	3.16%	-1.54%	-7.92%			**16.74%**
Jan 1, 2013 – Feb 8, 2017: Zen Capital Family Partnership													**Total return**
Feb 8, 2017 – : River Oak Capital AB													**356.61%**

As you can see, there have been a few multi-month periods with negative returns and every year has included at least three negative months, sometimes sharply negative. If I had been able to somehow avoid all negative months, rest assure that I would have also avoided most other months as well.

We are only invested in companies if I like their prospects over the next two to five years. Thus, the most recent news or share price movements, is never my focus – the big picture always is. I do nothing whatsoever to try to avoid negative months or years. Everything we do at River Oak is geared towards attaining favorable rolling three-year and five-year results.

As an investor in public companies, one of the most important things is to trust your work. If you do, short-term share price movements – large or small – will not bother you. It will just be business as usual. If you don't, you probably haven't done very good work. Of course, the same goes for you as investors in River Oak: If you trust the work and analysis that led to your decision to invest in River Oak in the first place, short-term changes in our book value per share should not bother you. Only a new fundamental development or a new insight (sometimes thoughts and ideas become clear in one's mind with some delay) that invalidates your initial investment thesis should.

The shareholders that will get the best result over time are those that will show a zen-like tranquility and not be bothered by swings in our book value per share. As best as I can tell, and it gives me great pleasure to say this, that seems to be all of you. This is largely the result of our no-marketing self-selection strategy which assures that we only onboard new investors that really want to be here. I could not be happier with our shareholder base. You enable me to focus fully on maximizing our long-term results.

As for the risk of an actual recession, I have (as usual) nothing intelligent to say. I would note that with the U.S. 10-year bond yield inching above 3% vs 2% to 2.5% one year ago, all else being equal (which it never is when it comes to macroeconomics), somewhat lower business valuations overall are warranted because in a higher interest rate environment:

1) Future cash flows that companies are expected to generate become less valuable today due to a higher discount rate, and
2) Fixed income alternatives become more attractive due to a higher base rate (not necessarily attractive enough for investment but more attractive than they previously were).

I would also note that whenever you feel certain that the next recession is just around the corner, it's good to remember that Australia hasn’t had one for the past 27 years. This doesn't mean I believe we won't have a recession in the U.S. or Europe for another 18 years – or that we will. It simply means I have no idea. No need to despair; neither does anyone else.

Our Investments

Our investment portfolio consists of three main categories.

“The Goods” - This category consists of decent businesses that I believe have a good future but which are priced by the market as if they had anything but. The companies in this category are generally not great businesses. As a consequence, this is currently – and is likely to continue to be – our smallest category.

At the time of writing, the sole occupant in this category is Fiat Chrysler Automobiles. After the recent successful sale of one of its car parts businesses Magneti Marelli for €6.2 billion, the whole FCA enterprise is now valued as if it only has two to three years of profits left, i.e. that after 2020-2021 we will never again see any profits coming out of FCA. In early 2019, FCA will institute a regular dividend that will yield 4% to 5% at the current profit level and share price, and then when the Magneti Marelli sale closes which is expected in the first half of 2019, FCA will give out an additional 10% special dividend – these are not the kind of actions you tend to take if bankruptcy is 2-3 years away.

Our investment thesis for FCA is relatively simple: With current profits in the €6 billion to €8 billion range, ample room to handle a car market downturn, and some very strong (and I believe durable) brands in Jeep and Ram, I believe there is indeed a profitable future for FCA after 2020-2021 as well. I am open, of course, to the possibility of being wrong here in which case I will sell our shares. At this point however I see nothing, except the share price, that tells me FCA is going out of business anytime soon.

I expect all companies in this category to grow their intrinsic value at least modestly and the price to valuation gap to be reduced over time so that the combination provides us with a total return that surpasses our goal rate of 15% per year over our holding period.

“The Greats” - Our second category consists of companies that have solid profitable business models, are growing at healthy to very strong rates, have a strong track record of innovation, entrepreneurial cultures and minimal bureaucracy. Companies in this category are generally market leaders in their niches not only by size but also by how well they have historically embraced new big trends, such as for instance digital adoption and smartphone adoption. This is currently – and is likely to continue to be – our largest category.

In some cases companies in this category are sacrificing current profitability in favor of growth. Most often I consider this a good decision as long as the growth investments, which generally show up in the form of higher Sales & Marketing and Research & Development expenses, provide good returns over time. Given the long growth runways companies in this category usually have, I tend to prefer re-investment of all profits back into the business rather than trying to maximize the *current reported* bottom line, doing dividends, or some other nonsensical (I struggle to come up with a better word) market-pleasing maneuvers.

I expect all companies in this category to grow their intrinsic value by at least our goal rate of 15% per year over a fairly long time to come.

"China" - Our third category consists of companies that operate in China. The Chinese markets are down as much as 20% to 30% this year so this bucket currently has some overlap on price with "The Goods" and on quality with "The Greats".

Combining price, business quality, competitive position and growth runway, our China category is actually the one I think has the best prospects over the next five to ten years. Alas, as there is no way I can attain the same level of conviction about Chinese companies as I can about Nordic and American ones, this category is likely to remain at a size that is below 25% of our total assets. It is currently between 15% and 25%.

I expect all companies in this category to grow their intrinsic value by at least our goal rate of 15% per year over a fairly long time to come.

Annual meeting etc.

Our full-year results will be reported in the first quarter of 2019 with a walk-through at the Annual Meeting. I look forward to see many of you at our second Annual Meeting. Date and place will be announced along with the full-year results.

Our shareholder base is a very humbling group of people. We now have everything from software developers, management consultants, investment professionals, doctors and professors to mid-level managers, entrepreneurs, business owners and CEOs. Even though we all do very different things, I believe most of us share a couple of common characteristics: A curiosity about how the world works, a will to constantly keep learning, improving and making things better, an understanding that any meaningful success in life comes in small increments step by step as opposed to in overnight windfalls, and most importantly: honesty and integrity. It's a blessing to work with you and for you.

Nov 26, 2018

Daniel Glaser
CEO

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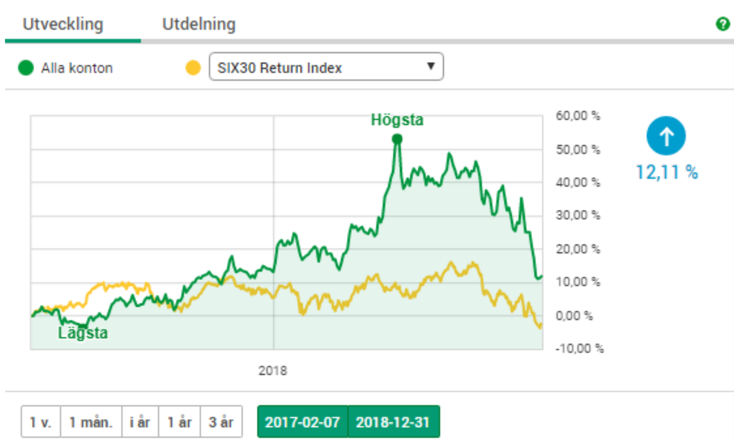
Fellow shareholder,

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.

Feb 12, 2019

Daniel Glaser
Chief Executive Officer

Contact

daniel [at] riveroakcapital.se

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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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%.

	Investment return	Change in book value per share	OMXS30 incl. div.	Difference
2017 (from Feb 7)	13.2%	**8.6%**	5.4%	3.2%
2018	0.0%	**(5.9)%**	(7.2)%	1.3%
Total gain	13.2%	**2.1%**	(2.2)%	4.3%
Compounded annual gain	6.8%	**1.1%**	(1.2)%	2.3%

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 gain of +21.9% at our 2-year mark. The return for the OMXS30 including dividends was +7.8% during the same period.

When evaluating investment results, it is my strong recommendation that you always look at the longest time period available as shorter time period won't tell you much of value. I have included a 6-year track record, which includes the results of my family partnership from 2013-2016, at the end of this letter.

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Raising capital

As you know, we have had a good start to the year. In March, we raised capital at a 1% premium to our book value as per March 31, 2019 which resulted in an offering price of SEK 134.77 per share.

We are now 33 shareholders that span all the way from doctors and professors to software developers to managers, business owners and CEOs. A warm welcome to our new partners that have made our motley shareholder crew even merrier!

As per previous communications we plan to raise capital quarterly from now on. The next opportunity to invest will be at the end of June.

Our results in 2018

I will not bore you with more comparisons of investment returns or more discussions about the market downturn at the end of 2018. There are thousands of investment letters all over the world that have done that (and I discussed both subjects in the 2018 update and in my Annual meeting presentation). Instead, I will focus this letter on how I go about selecting our investments and the lenses I use for evaluating them.

But first, a short comment on the difference between our book value per share decrease of 5.9% and our investment return of 0.0%. The reason for the difference is because we reserve salary costs and related taxes quarterly and not annually. Per the end of the third quarter in 2018 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. As you know, our book value per share needs to end a quarter above the highest previously recorded level before any further salary can be reserved.

For the curious, I took out all the reserved salary that was available at the time of our August-2018 capital raise (we sent roughly half of it to the Swedish Tax Authority as usual), I added an additional SEK 300,000 of personal capital, and then re-invested the full combined sum into the capital raise, which was completed shortly before the severe market downturn in the fourth quarter gained momentum. This is exactly as it is supposed to be as I see it: If River Oak does poorly, I will too. (The only party that was spared in the market downturn in this transaction was the Swedish Tax Authority. All good.)

During the year, I let the Board know that I am open to start reserving salary costs annually instead of quarterly. 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 reserve all salary costs for the whole year only at the end of the fourth quarter. This would lead to an artificially high book value in all other quarters.

The salary costs we reserved in 2018 should be viewed as similar to making a prepayment on rent. As a result of the salary "prepayment" we made in 2018, and our high water mark model, we have had a positive effect on our 2019 year-to-date net result of 5.9%, which is exactly equal to the negative effect we experienced in 2018. If events had instead turned out such that our yearend book value per share had been the same as per the third quarter, i.e. SEK 130.23, we would have had no negative effect in 2018 and no positive effect in 2019.

Ok, enough of that fun stuff. If you're still with me, let's look at our investments.

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Our Investment categories

At the end of last year, I divided our investments into three main categories.

"The Goods" - This category consists of decent businesses that I believe have a good future but which are priced by the market as if they had anything but. The companies in this category are generally not great businesses. As a consequence, this is currently – and is likely to continue to be – our smallest category.

"The Greats" - This category consists of companies that have solid profitable business models and are growing at healthy to very strong rates. These companies generally have a strong track record of innovation and adapting well to new trends due to entrepreneurial cultures and minimal bureaucracy. They are most often, but not always, market leaders. This is currently – and is likely to continue to be – our largest category.

"China" - Our third category consists of companies that operate in China. This bucket has tended to have some overlap on price with "The Goods" and on quality with "The Greats". We almost always prefer the high quality business over getting a great price.

The Greats

As "the Greats" is our largest bucket, and as the qualities of its companies serve as the primary basis for selection in our China bucket as well, I thought it most interesting to focus on the selection process of this category.

Negative filters

There are hundreds of thousands of companies around the world that are available for us to invest in. Where does one even begin? There are a couple of filters that I use to eliminate a majority of the available universe:

1. **A bad business**
   During the Dot-com Bubble in the late 1990s, there was one company called Priceline.com that operated a software platform to sell airlines' excess inventory online. This was a good idea. However, they paired this good idea with a less good idea: to let their customers choose the prices they were willing to pay for tickets. Despite the fact that Priceline was losing $30 on average per ticket sold amid initial slow demand, it became a real market darling with a market value of more than $20 billion at its peak before losing 99% of its market value when the bubble burst.

   In our investments we want to have a solid business model, which at its core and at reasonable scale, is profitable.

   (Priceline actually went on to become a very good and profitable business after it changed its business model. It has today become one of the great businesses of our time with its 2005 acquisition of online hotel booking platform Booking.com. Priceline changed its name in 2017 and is now called Booking Holdings.)

2. **Strong cyclicality**
   All our investees (except Fiat Chrysler) operate within secular growth trends, i.e. longer-term trends, as opposed to cyclical shorter-term trends. So if there is a slower economy, I still expect them to do well. We don't want to be completely in the hands of the fickle mood swings of the overall economy.

3. **A bad culture**
   When a company runs into big problems, it's often a bad culture underneath that is the root cause. A bad culture is very difficult to change. While great companies don't always enjoy early success, they almost always get the culture right from the start.

4. **Turnarounds**
   I was recently in Ukraine for a few days. Conversations there can go as follows: *"So when you turn the hot water tap you actually get hot water? Wow, that's great."* It is often considered a luxury when things work as they are supposed to.

   Despite the tremendous potential a country like Ukraine harbors, one lifetime is only so long. We stay away from companies where many things need to be fixed. One rare exception to confirm the rule that comes to mind is what Sergio Marchionne was able to do at Fiat and then Chrysler.

Positive filters

As many companies in our investment universe are eliminated using the above filters, what positive attributes do I then look for? Our favorite companies have some or all of the following characteristics:

1. **They provide very basic products and services which consumers and businesses absolutely need in their everyday lives.**
   The big advantage of providing the shovel in the gold rush is that you don't need to find gold to do well.

2. **They are simple companies whose businesses are easy to understand.**
   We don't invest in companies with business models or products that require an MIT degree to comprehend.

3. **Their customers see the product or service as such a natural part of their lives that they don't even think about paying the bill.**
   Their customers see the product or service similar to how we think about paying rent or the electricity bill.

4. **They provide a product or service that truly helps their customers.**
   This can for example be done by saving the customer money, saving the customer time, or both. It can also be done by providing the customer with an offering that is somehow unique – for example, the superior selection that a dominant classifieds platform or marketplace can offer its customers compared to its competitors.

5. **They have many customers that all comprise a very small part of the company's overall revenues.**
   It can be risky to have a couple of large customers that constitute a meaningful part of a company's overall revenues. We prefer companies that have many small customers so that any one customer cannot meaningfully hurt the business.

6. **Market leadership**
   This is valuable in many ways but the two primary advantages of an established market leader are larger scale and lower marketing costs (due to mindshare and word of mouth) than its competitors. These two factors result in overall better economics for the market leader than its peers: the product or service that it sells can thus be sold more profitably, with a better service level or at a lower price, which in turn brings in more new customers and increases the loyalty of current customers.

7. **They grow quickly, but not too quickly.**
   Our sweet spot is somewhere between 10% to 25% revenue growth with accompanying higher earnings growth due to operating leverage in the business model. A slower revenue growth, say 5%, in a company that has strong operating leverage can in some cases be preferable to 50% revenue growth because the latter is usually not sustainable for very long. Miracles, even though wildly touted by investors in "hope-and-dream" companies, seldom happen.

Examples that come to mind of investments we have made at River Oak that have many or all the above characteristics are Verisign, Fortnox, classifieds companies like Schibsted/Adevinta, cloud service providers and payment providers.

Focusing on the right things

A key to success in most endeavors in life is to look at things through the right lens. When one is in her happy place where everything is calm and clear and goes according to plan, we are generally focusing on the right things. When one gets many external influences or when things start deviating from one's plan, it can be easy to lose sight of what really matters. So what lenses are important in investing?

1. **It's all about businesses, not stocks**
   There is much talk about value stocks, growth stocks, dividend stocks, emerging market stocks and a handful of other popular baskets. At River Oak, we couldn't care less what label people put on the businesses we have ownership stakes in. Our focus is solely on making intelligent investments in good businesses.

   The father of value investing, Ben Graham, is most well-known for his brilliant concepts of Mr. Market which entails viewing the market as your business partner that offers you thousands of deals at different prices every day, and of Margin of Safety which entails always incorporating a margin for error in your investment analysis in case things turn out worse than you expect.

Personally, I think his most important investing principle is *"Investing is most intelligent when it is most businesslike"*.

Make the correct business analysis, and the stock will eventually follow. You must first learn how to analyze businesses before Ben Graham's other two principles become useful. I happen to know this from experience. In my early years, I was very aware of the Mr. Market and Margin of Safety concepts. In fact, I was rather proud of how I wasn't bothered by the mood swings of Mr. Market because I knew I had my Margin of Safety. However, as my business analysis was frequently wrong, my Margin of Safety was often illusory, and instead of taking advantage of this phenomenal business partner we all have in Mr. Market, I became his go-to guy. Whenever he had a problematic business he wanted to offload, he came to me and I was regularly a willing taker.

If you want to be a good investor, there is in my mind nothing more important than business analysis.

After that, the concepts of Mr. Market and Margin of Safety can become huge additional advantages.

2. **The market value of a company does not equal the intrinsic value of a company**
   The market value of a company is what all market participants have jointly agreed upon to buy and sell it for at a certain point in time. The intrinsic value of a company is the sum of all future excess cash flows discounted back to today at an appropriate discount rate. Most of the time, the two match reasonably well. On occasions, they differ wildly.

3. **Time perspective**
   When you start looking out 2 to 5 years, instead of 2 to 5 weeks or months, the world of investment opportunities will start to look completely different.

   As an example, when I first invested in Fortnox in 2015, its enterprise value was around SEK 750 million. At that time a lot of investors thought the company was much overvalued and were debating whether it was worth 500 million or 1 billion. Today, only four years later (admittedly, with the benefit of hindsight) with earnings comfortably exceeding SEK 100 million, no one is claiming that the fair value is in the hundreds of millions anymore. The debate has moved to the billions now.

   The valuation discussion that many investors had in 2015 is a great example of short term noise that can really cause you to lose focus on what matters in investing. Getting caught up in short term noise – whether it is current earnings or recent bad news – is something we avoid at all costs at River Oak. Such thinking can cause you to miss the best opportunities.

Besides, looking out a couple of years is much more fun too! Why? Over a longer time period, the changes are much bigger than they are over one month or one quarter, which not only gives you a much greater chance to predict the range of outcomes but also opens up the opportunity to make a truly meaningful profit if you're right.

4. **Recognizing reality**
   I have seen investment operations that proudly announce that *"Our returns in year X were Y% despite us having an average cash balance during the year of 20%."* implicitly implying that returns could have been a fair bit higher had they not carried this large cash balance.

   That's akin to saying *"I came in 2nd place in my marathon race despite only running 80% of the time. Imagine what would have happened if I ran the whole race!"*

   Well, we will never know.

   In investing, what you thought about but did not act upon, counts for no more than what you didn't think about at all.

Founding principles

(always included in the annual letter)

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 average annual returns of 6% to 10% 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 investors over time.

Goals

(always included in the annual letter)

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

   We always think about the downside first.

2. **Earn an average of 15% annually on our capital over time (pre-tax in SEK) which will result in an annual increase in book value per share of 11% after taxes and operating costs.**

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Closing remarks

In some sad news, one of my big heroes, Fiat's former CEO Sergio Marchionne, passed away in July. He will be deeply missed by both employees and investors all around the world. He should be remembered as one of the great CEOs of our time; in terms of jobs saved over his career, there can't be many that come close to the impact he had. The current management team at FCA and their recent bold and constructive actions stand as a testament to the lasting impact Sergio had. Don't miss the book with his name that will soon come out in English.

As our second year has come to a close, I would like to thank Anna Åhr and Stefan Sjöö for their work on the Board. Our Board has a lot more experience and good ideas thanks to them (and less of my bad ideas which are argued down before they cause us any harm). They are also kind enough to provide their expertise without direct compensation. They get paid, through their share ownership, only if River Oak's book value per share increases over time. In other words, the Board's goals are perfectly aligned with all other shareholders, just as it should be. After all, the Board of Directors is there to represent shareholders and nothing less. Next time you see Anna and Stefan, please give them your thanks.

We also have high accountability for the pilot. It is rumored that Roman engineers were required to sleep under the bridges they had built. While this rumor seems to be nothing more than an attractive metaphor, I am indeed sleeping under "our bridges" every night as I and my family have invested essentially all our liquid net worth in River Oak and a family partnership that invests in the same companies as River Oak – I most often sleep in peace, and on the rare occasions when I don't I make the necessary adjustments the next morning.

Just over two years in, I couldn't be happier with how we have set up River Oak to succeed over time. In addition to the perfectly aligned governance, we have two equally valuable traits: permanent capital and an extraordinary group of shareholders that are here for the long-term. It also warms my heart that most shareholders were not multimillionaires to start – this gives River Oak a good chance to serve its wider purpose: To make a real difference in people's lives.

I wish you all a great summer.

May 31, 2019

Daniel Glaser
Chief Executive Officer

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.

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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The author has to the best of his/her knowledge tried to gather correct information but there might still be factual errors present. The Company and its affiliates (A) expressly disclaim all responsibility for the accuracy, adequacy, or completeness of the data and (B) shall not be liable for any errors, omissions or other inaccuracies, delays or interruption of such data or for any action taken on the basis of trust in it. The Company shall not be liable for any damages resulting from your use of this information. Hence, 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, expressly or implied, as to the truth, accuracy or completeness of the information contained in this letter.

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").

Fellow Shareholder,

River Oak's book value per share increased by 36.0% in the first half of 2019. Our book value at June 30, 2019 was SEK 25.1 million, which is equivalent to SEK 138.91 per share. This compares to an increase of 15.7% 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 total result for the index to an increase of 19.3%.

Note that our book value per share numbers are reported after we have paid the Swedish standard tax for investment accounts on the company level which has amounted to 0.4% to 0.5% per year in the past three years, while the OMXS30 including dividends numbers are reported without paying such a tax.

	Investment return (pretax)	Change in book value per share	OMXS30 incl. div.	Difference
2017 (from Feb 7)	13.2%	**8.6%**	5.4%	3.2%
2018	0.0%	**(6.0)%**	(7.2)%	1.2%
2019 (per June 30)	40.1%	**36.0%**	19.3%	16.7%
Total gain	58.6%	**38.9%**	16.7%	22.2%
Compounded annual gain	21.3%	**14.7%**	6.7%	8.0%

[1] Startup costs had a 0.8% negative impact on the 2017 Change in book value per share.
[2] The 2018 Change in book value per share was previously reported as (5.9)%. This figure contained a rounding error and has now been corrected to (6.0)%.
[3] The difference between the investment return and change in book value per share is taxes and our operating costs which are primarily comprised of performance-based salary costs.

When evaluating investment results, I strongly recommend that you always look at the longest time period available as shorter time periods won't tell you much of value. I have included a longer track record, which includes the results of my family partnership from 2013-2016, at the end of this letter.

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Our ongoing capital raise

Our ongoing capital raise will close this week and will be done at an offering price of 101% of our book value per share per June 30, 2019. The offering price has now been set to SEK 140.30 per share.

As previously communicated we will raise capital quarterly from now on. The next opportunity to invest will be in early October.

Comments on our investment operation

Our portfolio has done well in the period for three primary reasons:

1. Our companies are doing well.
2. Our companies' stock prices were severely decimated in December; our "babies" were thrown out with the bath water by panicking market participants. When these fickle mood-changers realized it was indeed babies they had thrown out, they quickly ran out and picked them back up, which caused the stock prices of our companies to have a much stronger rebound than that of the general market.
3. We did not follow the herd in December when many market participants were panicking and selling their stocks hand over fist. Instead, I focused, as I always do, on our companies and their operations. This allowed us to capitalize well on the subsequent recovery.

I will say a word about China as I suspect it is on many people's minds these days. A few years ago, Jack Ma, founder and Chairman of China's largest internet company Alibaba, was on a panel with Bill Clinton who asked him a question about the Chinese economy. Jack's answer: *"I think you American people worry too much about the China economy."*

I think it's not only Americans that worry too much about China's economy. Most people do. I haven't invested a portion of our assets in Chinese companies because I believe I possess unique insights on the short-term outcome of the current U.S.-China trade war – I have done it because I believe those companies will have a bright future in the long run *regardless* of the current trade war outcome. This is true, by the way, for all our non-China investments too. I will never make an investment on our behalf based on a hunch I might have about the next couple of quarters.

Finally, I want to touch on our increasing focus on higher-priced higher-quality companies over lower-priced lower-quality ones. It is a lot easier to see when a stock is cheap than when a company is great. If shares of a specific company are cheap based on the numbers, anyone can usually see it. Generally when this is the case, the company is cheap for good reasons. It is not as straightforward to see when a company has a great future. Thus, the real bargains and potential multi-baggers most often reside here. This is why I focus most of my energy – and most of our capital – in this category.

Closing remarks

I'm happy that recently more of you have picked up the phone, and even the car keys in some cases, to come over to discuss your overall investments and savings with me. I am always happy to be a sounding board and help if I can so please keep it coming.

There's no doubt we've had a good start since that happy day when I started investing River Oak's founding capital a little more than two years ago. I was like the little kid that has just opened his big bag of Saturday candy and realizes it was even better than he imagined. Oh the good times… Well, back to today: As a shareholder, it's important that you remember that our good start is precisely just that: A good start. We're really only in the first half of the first inning. Over the coming years we will have many ups and downs, we will have some good years and we will have some terrible years, our operation will develop and it might in five years look very different from what it looks like today.

Our founding principles however, will remain the same. We will always have a long-term focus, we will be invested in fundamentally strong companies and we will always keep things simple.

Thank you for joining me on this journey.

July 3, 2019

Daniel Glaser
Chief Executive Officer

Historical pretax returns

Feb 7, 2017 – June 30, 2019: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family Partnership

	Investment return	Net return	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%	**(5.6)%**	(7.2)%	1.6%
2019 (per June 30)	40.1%	**36.2%**	19.3%	16.9%
Total gain	457.7%	**273.7%**	88.6%	185.1%
Compounded annual gain	30.3%	**22.5%**	10.3%	12.2%

[1] Startup costs had a 0.8% negative impact on the 2017 Change in book value per share.
[2] The 2018 Change in book value per share was previously reported as (5.9)%. This figure contained a rounding error and has now been corrected to (6.0)%.

Approximate currency effects on investment return:
2014 +7%, 2016 +2%, 2017 -10%; 2018 +5%, 2019 +2%, 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.

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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").

Fellow Shareholder,

River Oak's book value per share increased by 50.1% in 2019. Our book value at December 31, 2019 was SEK 29.1 million, which is equivalent to SEK 153.29 per share.

Note that our book value per share numbers are reported after we have paid: i) the Swedish standard tax for investment accounts which has amounted to 0.4% to 0.5% per year in the past three years, and ii) taxes on dividends we received from foreign listed companies, while the OMXS30 including dividends numbers are reported without paying such taxes.

We paid a higher percentage in taxes in 2019 than we have done previously due to taxes on dividends we received from foreign listed companies.

	Investment return (pretax)	Change in book value per share	OMXS30 incl. div.	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%
Total gain	83.0%	**53.3%**	28.1%	25.2%
Compounded annual gain	23.2%	**15.9%**	8.9%	7.0%

[1] Startup costs had a 0.8% negative impact on the 2017 Change in book value per share.
[2] The difference between our investment return and change in book value per share is comprised of taxes on our investments, salary-related taxes and operating costs.

Comments on our investment operation

Money is only money, but there is no way to hide it: We all became a fair amount richer in 2019. To put our results in a proper perspective, you should look at our 3-year result rather than our 1-year result. You will be even better informed if you look at the 7-year track record which includes the results of my family partnership from 2013-2016 which was operated identically to River Oak; you'll find it on page 2.

We will open our January capital raise today; you will receive documents for it shortly.

Our shareholder letter and annual report will be sent out in the coming months. Our Annual meeting will be held in Uppsala on May 9, 2020, after which you will have a chance to watch the Swedish Badminton Championship Team finals live and enjoy a swim and sauna at Fyrishov, so bring your whole family. I hope to see you there!

January 6, 2020

Daniel Glaser
Chief Executive Officer

Historical pretax returns

Feb 7, 2017 – December 31, 2019: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family Partnership

	Investment return (pretax)	Net return (pretax)	OMXS30 incl. div.	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%	**(5.6)%**	(7.0)%	1.4%
2019	61.7%	**51.1%**	30.7%	20.3%
Total gain	543.6%	**314.3%**	109.2%	205.1%
Compounded annual gain	30.5%	**22.5%**	11.1%	11.4%

[1] Startup costs had a 0.8% negative impact on the 2017 Change in book value per share.
[2] The OMXS30 including dividends column has been slightly adjusted from previous letters. Previously we used the value at the close of the first trading day of the year to calculate the OMXS30 return instead of the value at the close of the last day of the preceding year, which is more correct.

Approximate currency effects on Investment return:
2014 +7%, 2016 +2%, 2017 -10%; 2018 +5%, 2019 +3%, other years <1%.

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Fellow Shareholder,

River Oak's book value per share increased by 50.1% in 2019. Our book value at December 31, 2019 was SEK 29.1 million, equivalent to SEK 153.29 per share.

	Investment return (pretax)	Change in book value per share	OMXS30 incl. div.	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%
Total gain	83.0%	**53.3%**	28.1%	25.2%
Compounded annual gain	23.2%	**15.9%**	8.9%	7.0%

[1] Startup costs had a 0.8% negative impact on the 2017 Change in book value per share.
[2] The difference between our investment return and change in book value per share is comprised of taxes on our investments, salary-related taxes and operating costs.

At our 3-year anniversary on February 7, 2020, our book value was SEK 37.3 million, equivalent to SEK 161.72 per share (there were 230,709 shares outstanding at this date compared to 190,025 on December 31, 2019). This gives our founding shareholders a total return of +61.7% after three years which compares to +33.6% for the OMXS30 including dividends during the same period.

Note that our book value per share numbers are reported after we have paid: i) the Swedish standard tax for investment accounts which has amounted to 0.4% to 0.5% per year in the past three years, and ii) taxes on dividends we received from foreign listed companies, while the OMXS30 including dividends numbers are reported without paying such taxes. We paid a higher percentage in taxes in 2019 than we have done previously due to taxes on dividends we received from foreign listed companies.

When evaluating investment results, it is my strong recommendation that you always look at the longest time period available as shorter time periods won't tell you much of value. I have included a 7-year track record, which includes the results of my family partnership from 2013-2016, at the end of this letter.

Comments on our Investment operation

There is no way to hide it: We all became a fair amount richer in 2019. You should be happy with our strong result this year but it wasn't difficult to attain good investment results in 2019 – the market was up 31% – so save the big celebration for years when we are really tested.

I'm always looking to improve our operations and as such I'm always looking forward. Being celebratory or bummed out about last year's results will not be helpful to us. I'm at the "gym" the same time every morning when we have lost 50 straight games as when we have won 50 straight games. I'm always enjoying the challenge, and I'm always focused on trying to win *next year's* championship.

Nonetheless, any year when we outperform our benchmark index by almost 20% I consider a very good year. I am also prepared to wager a fair amount that when the numbers are in, even in a year like this, they will show that 75% to 85% of all actively managed funds and other similar vehicles in the investment industry failed to outperform their benchmark index, as is (tragically) the case every year.

While our 50.1% increase in book value per share is a big number, I'm not here trying to achieve single banner years. In my book, success in any one year means nothing. Our goal, as you all know, is to achieve stable and consistent long-term returns that result in an average annual increase in book value per share in the 11%+ range. I will consider River Oak a real success only if our results are good over a multi-year period comprised of at least ten years. On our way there, we will on occasions have outlier years to the upside like we had this year as well as to the downside like we had to some extent in 2018.

Another commonly used measure of success that means virtually nothing to me is our size. Delivering superior investment returns by investing in companies that provide benefits for society at large is my sole focus at River Oak. I will consider us equally successful whether we end up with 100 million or 1 billion as long as the average annual returns that got us there are good and satisfactory.

At the time of writing we are part-owners in seven really good and well-run companies in four different continents. We also have a small cash balance which is unusual for us.

The past three years

With three years under our belt it has started to become at least somewhat meaningful to assess our performance and analyze our winners and my mistakes.

Since inception we have had six substantial winners in four different continents. Five of them have produced in excess of SEK 1 million in profits and three of them in excess of SEK 2 million in profits for us. By itself this wouldn't be relevant but given that we started River Oak with SEK 4.4 million only three years ago, this should give you comfort that our results so far have come from multiple sources in a geographically well-diversified portfolio. At the time of writing, we are still happy owners of four of them.

Of note, only two of our big winners were acquired in the past year so our good result in 2019 is almost entirely attributable to decisions made in 2017 and 2018. This is very likely to be the case in future years as well – good investment decisions tend to pay off over years rather than months.

We have also had one substantial loser. I've made more mistakes but only one has resulted in a meaningful loss for us. Plain mistakes such as this one certainly seems like something I should be able to avoid after almost ten years in the business, but it is unfortunately something you have to accept that it will still happen from time to time.

A losing position really hurts us because not only do we sustain a loss on our capital invested in this position but we also miss out on gains we otherwise could have had with this capital. Let me explain.

Since inception, our investments have given us an average gain of +23.2% per year. If one of our investments goes down 30% in a year, say one where we have committed 10% of our capital, the total negative effect to our portfolio is 3% (30% of 10%) from the actual loss *plus* 2.3% (23.2% of 10%) from the missed gain we would have gotten if we had instead spread out the capital invested in this losing position evenly over the rest of our portfolio, for a total negative effect of 5.3%. Ouch! Rest assured that I do everything I can to avoid them.

We buy shares in companies to hold them, not with plans to make a good exit. Nonetheless, we have sold out completely of a few investments too. There are basically only three reasons why I sell an investment: 1) I realize I've made a mistake. 2) I've become less sure about the company's future than I was at the time of investment. 3) Another investment has become more attractive.

To give you an example of 1): If I think a particular management is doing a poor job, worse than I expected at the time of investment, given that we generally own only a small percentage of the companies we are invested in, my ability to influence any changes is nonexistent in most cases, and so the only remedy at my disposal in such a case is to sell our shares.

How have the companies we sold out of performed after our selling? As of our 3-year anniversary, they had generated an average annual return of +11.6% which compares to +23.2% for everything we have kept, so from a purely financial standpoint these decisions have proved good.

A more important vantage point however is that our goal is to invest in good companies. If I do my job well, these companies' share prices will go up over the long run, even after the day we sell. If everything we sold generated negative returns after our selling, it would be very clear that the main reason for our success so far was good timing – in other words: pure luck – which as you know, is something I avoid like the plague. In fact, my timing, both in terms of buying and selling, has been rather poor in most cases. Fortunately, no timing skills are needed to do well in investing.

Storytime

Once upon a time in an oblong country far up in the north, our story's hero Grandma was telling her grandchildren a bedtime story about one of their country's largest investment firms which is also one of the country's most well-renowned.

"This firm", Grandma said, *"has five funds open for investment to the public. Over the past 5-year period all of their funds, except one that was started only three years ago, have performed worse than their benchmark index. At the same time this firm is bringing in roughly 1 billion per year in fees."*

The second oldest grandchild, always on the alert, pointed out that *"Maybe if this firm hadn't charged these management fees, maybe then they would have outperformed the indices?"*

"I wish it was so", Grandma said with a kind smile, *"but the truth is that even after adding back the fees, the funds have on average returned less per year than their benchmark indices."*

The oldest grandchild, always eager to learn more about business was now very confounded, *"But what are their bosses saying about this, surely they must be making some big changes? They don't want to charge their investors without giving anything in return, do they?"*

"You're right that they probably don't want that", Grandma said, *"and they are making some changes but they are in no hurry to make big changes because they are one of very few players that operate in the monopoly situation that exists in their industry, so they just keep pushing their marketing slogan 'Active management - for*

real', they recite and make comments on recent macro events which sounds intelligent to most people, and finally they keep talking about how their investors must have patience."

Now it was the youngest grandchild's turn to be confounded, *"But Grandma, you said that they had underperformed the indices for five years now. I'm five years old! How patient do they say their investors must be?"*

Grandma smiled. *"Time to sleep now kids. Tomorrow I will tell you a happier story."*

"Okay, how lucky that it's only one of your bedtime stories Grandma", the kids said in unison before putting their heads on their pillows and tucking themselves in under the covers.

"Oh yes, my dear children, oh yes..." Grandma said before she quietly started humming their favorite bedtime song.

As the kids were falling asleep, Grandma made some quick calculations in her head. She concluded that for every million of deficit return this firm has detracted from its investors compared to the benchmark indices over the past five years, it has taken home around three million in fees. In other words, they are getting paid three million for every one million they are losing for their clients.

"Sweet lord", Grandma thought to herself, *"isn't it supposed to be the other way around?"*

While most investment management firms would do most good for society by luring as few customers to their services as possible and instead recommending a low-cost index investment, they more often instead adopt the mindset of the late Swedish conductor and pianist Sixten Ehrling who upon jumping into a cab at the airport is said to have instructed the driver: *"Take me anywhere. I'm needed everywhere."*

If you are a politician reading this and you are looking to fill some huge holes in future budgets, the value detractors of the financial industry, one of which our story's hero Grandma has just described, is a very good place to start.

How are these value detractors able to attract so much capital? They often have good intentions and they are often very skillful salespeople. None of the best investors I know are great salespeople – they are great investors. Now, when you invest your life savings, which one do you prefer?

Three superpowers

Optimism

Continuing on our kids theme, I always tell my kids that optimism is a superpower. They tend to view speed and strength as superior superpowers but when it comes to investing, I'd argue that optimism is the ultimate one.

In the stock market, if you were an optimist over the past 250 years, assuming you did not use leverage and that you were not a short-term trader, your investment result would have been very good almost regardless of when you lived and your level of intelligence. By contrast, the world's most intelligent pessimist would not be so lucky.

Nevertheless, pessimists sound smart to many people while optimists are often dismissed as living in a dream world. As author Matt Ridley noted, pessimists have grabbed all the headlines even though optimists have far more often been right. Furthermore, a few times per decade in the stock market when there are big declines, the optimist looks and feels very stupid – at the exact same time when the pessimist feels like a reincarnated Albert Einstein. After a few months or at most a few years, the pessimists are back worrying about the world's next big malady, while optimists are back taking part in the unrelenting progress humanity is making every day and every year.

If you look at the big picture essentially any metric of progress you can think of is going in the right direction. Many different measures of this progress are described well in the most fascinating book I have read in the past few years, 'Enlightenment Now' by Steven Pinker. I wrote a review on it here. The book also talks about media's large role in spurring on the feeling of pessimism about the state of the world that many people have today. Spending a few evenings reading this book instead of watching the news is well worth your time if you want to be nudged a bit towards the optimism superpower.

This relentless human engine of continuous improvement that has driven humanity's multi-century progress is the basis for River Oak's existence. As long-term investors, we're only partaking in the world's overall progress – and to justify myself working for us, we're aiming to add a few percentage points on top. If we do well over time, the big thank you should go to humanity.

Brutal honesty

I willingly admit that I am an optimistic optimist. As I was going through my self-education in investing, I realized early on that being an optimist was a crucial necessary ingredient for long-term successful investing. If you don't believe in the long-term progress of the world, investing is clearly not something you will find attractive.

While I quickly checked that box, I found out the hard way that an equally crucial ingredient is to always apply a layer of brutally honest skepticism. Without it, in the stock market, optimism can be very dangerous – I know this because it cost me a lot of money in my early days as an investor when I didn't apply it. It's very easy to fool yourself, especially when you want to be fooled as you try to confirm your own thesis. This was a challenging period but the expensive lessons are the best.

Balance

As the years went by, this new-found and hard-won skepticism proved very valuable and it became second nature for me to always err on the side of caution when evaluating potential investments.

A few years ago, I was researching a young Swedish company. However, in this particular case I was *too* conservative, and I vastly underestimated the company's prospects which caused "losses" in terms of missed profits far exceeding the maximum potential losses that an investment ever could have caused. Erring on the side of caution is a very good habit to have in investing, but this episode made me reflect on the very real costs of *underestimating* a company's prospects too.

These two experiences taught me one of my most important investing lessons: Just as with everything else in life, a healthy balance is the real key. Be optimistic, but apply skepticism. Be careful, but not too careful.

Market mood swings

When I started writing this letter, market participants saw very few clouds in the sky and some valuations were coming closer and closer to the Promised Land where the companies that carried them could do no wrong. President Trump, almost magically or dare I say skillfully, seems to be able to get himself out of all troubles and optimism has remained high. On this subject, I am always certain of two things 1) These conditions won't last forever, and 2) I have no idea how long they will last. Unfortunately, the former knowable is rendered essentially useless by the latter unknowable. Hence, besides being aware of current macro conditions and market sentiment, I always remain firmly in my default state of focusing on the micro-economics of great companies.

As I am finishing this letter a little more than a week later, market participants have become very worried about the macro situation with the spread of the novel coronavirus.

As a citizen I see this as a very concerning situation. At this stage, effective containment would require taking stronger action than most nations seem prepared to take and so the agenda, except for a few countries such as China, will probably be only to try to slow the spread down. China's draconian containment efforts – like it or not – might well prove to be the only way to achieve effective containment. It looks certain to become a big societal problem in many countries for some time. It is important to remember though, while I have no idea about the time frame, that this will be temporary. Humanity has always proven great at adapting to new realities and we will overcome this too.

From an investment perspective as a business owner, the lens is a bit different. If you would ask for my advice on your current investments, I would advise you not to own shares in an airline, coronavirus or not (it will make your life as an investor easier). If you still want to, you have to make sure that your airline has the financial wherewithal to survive through many months of very limited demand until the virus gets contained, good treatments are established or a vaccine is cleared for worldwide distribution. The same goes for hotels, restaurants and other businesses whose demand is likely to be materially impacted by the outbreak. It's probably a safe assumption that there will be many bankruptcies in these industries in the coming year.

Once you are sure about survival however, you really only need to figure out one thing about your investments: Will this outbreak *permanently* impair my companies' earnings power? Remember, the value of a company is the sum of *all* future cash flows, not the next month's or next year's cash flows.

When it comes to River Oak's investments, the Nordics constitute the largest geography in our portfolio; in our companies here I see business going largely as usual in the short-term and with no permanent earnings power impairment over the long-term. My best guess at this point is that three of our seven companies, one of which operates in China, will have or has already had some operational disruptions, but I believe they will be temporary and in all cases have only a very minor impact on our companies' overall business value.

To be clear, when I make any investment on our behalf I take events such as the current one fully into account. While I never try to guess the nature of the next big event that will roil the markets, this one was in no way a surprising curveball – events such as these that will have a big impact on the overall economy and markets are *guaranteed* to happen from time to time. If I'm not prepared to hold or buy more of an investment if its stock price declines 20% or 30%, you can rest assured that I will never make the investment in the first place.

At this point, you might rightfully wonder if we are taking advantage of these sharp market declines that we know will occur from time to time. What I have done historically on a few occasions when there is panic in the markets is to upgrade our portfolio. I do this by selling our least attractive holding and exchanging it for a great company, which up until then I considered too expensive, but which has now become available at a very attractive price.

Most often however the answer is no because to take meaningful advantage of the sharp declines you first have to sit with a lot of cash on the sidelines and wait until they arrive. Let's look at an example.

Assume that we sold down our investments so that we held 25% of our assets in cash in January-2019 instead of being fully invested. Let's further assume that in the next sharp market decline in early 2020 we perfectly time the bottom and purchase shares for all our available cash. Finally, let's assume that in the coming year we go on have a 50% gain on this particular purchase for a contribution to our portfolio of +12.5% (50% of 25%). What would be the net effect on River Oak's total portfolio return by engaging in these superhero maneuvers?

Our 62% investment return in 2019 would have instead become a 46% return as we held a quarter of our assets in cash the whole year. Our positive 12.5% contribution in 2020 would have been fully canceled out and then some by the 16% return we would have missed in 2019, for a total net effect of negative 3.5%! Remember, this is despite our flawlessly timed purchase. As you can see, the only way this becomes worthwhile is if you perfectly time both going to cash and the subsequent going back to stocks. It's easy to see, as one of my investing heroes Peter Lynch has observed, why investors have lost far more money preparing for market declines than in the actual declines themselves.

I have no belief in my ability to time anything in the market once, and much less twice in a row. So while stock prices currently bounce around a bit more than the average day although not more than the average 10-year period, at River Oak it is business as usual. We are well prepared to handle situations like this with equanimity.

Looking ahead

We are now 39 happy and trustworthy business partners in this little venture of ours. Over the past three years, since the day I became a courier for a day and went around Uppsala and Stockholm so everyone could sign our founding documents, only one of our shareholder partners has left us – and it wasn't one of those divorces where he laid claim to half our wealth and told me to go someplace where the sun doesn't shine, but a happy one completely unrelated to River Oak's operations. This makes me feel very good about what we have built here so far.

Still, there have been episodes showing a lack of shareholder loyalty too. For example, one shareholder told me that she doesn't put *all* her available savings into River Oak because she sometimes prefers things such as a vacation. This was of course tough to hear but with some perspective I have learnt to live with this too.

It also makes me very happy that for some of you, and for the founding shareholders the most, your River Oak investment is now hopefully starting to make some difference in terms of financial security. This is really what we aim to provide for our shareholders: Long-term financial security with sound sleep along the way.

Our Annual Meeting will be held in Uppsala on May 9, 2020. After the meeting you will have a chance to enjoy a swim and sauna at Fyrishov and watch the Swedish Badminton Championship Team finals live, so bring your whole family. I hope to see you there!

Three years in, I want to take the opportunity to say a word about this job that was a dream of mine some seven years ago. No one forces me to go to work. If I could choose what to work with everyday absolutely freely, I wouldn't change a thing. I don't know if we will be successful in reaching our goals, but you have my word that I wake up every morning (well, let's call it 99 out of 100 mornings) eager as a kid on Christmas Eve to get to work.

While we've had a good start – both in terms of our results and in terms of the quality of shareholders that have joined us over the past three years – we are only getting started. The River Oak road has been bumpy on occasions, most notably in 2018, but our general direction has been good and I expect this to be the case going forward as well. You should judge our performance not by single outstanding years or the inevitable rough patches – but by the overall big picture.

There is, as always, a lot to worry about. There is however, as always, a lot more to be happy about. At River Oak, I will keep investing our hard-earned capital based on our three main pillars: Fundamental business analysis, a long-term mindset and above all, keeping things simple.

March 5, 2020

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%+ returns that the general market has provided and is likely to keep providing investors over time.

Goals

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

   We always think about the downside first.

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

   This will result in an annual increase in book value per share of 11% after taxes and operating costs.

Historical pretax returns

Feb 7, 2017 – December 31, 2019: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family Partnership

	Investment return (pretax)	Net return (pretax)	OMXS30 incl. div.	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%	**(5.6)%**	(7.0)%	1.4%
2019	61.7%	**51.1%**	30.7%	20.3%
Total gain	543.6%	**314.3%**	109.2%	205.1%
Compounded annual gain	30.5%	**22.5%**	11.1%	11.4%

[1] Startup costs had a 0.8% negative impact on the 2017 net return.
[2] OMXS30 including dividends has been slightly adjusted from previous letters. Previously the value at close of the first trading day of the year was used to calculate it. From now on the value at close of the last day of the preceding year is used, which is more correct.

Approximate currency effects on Investment return:
2014 +7%, 2016 +2%, 2017 -10%; 2018 +5%, 2019 +3%, 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.

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Fellow Shareholder,

River Oak's book value per share increased by 21.4% in the first half of 2020. Our book value at June 30, 2020 was SEK 46.3 million, equivalent to SEK 186.06 per share.

	Investment return (pretax)	Change in Book value per share	OMXS30 incl. div.	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 per June 30	30.7%	**21.4%**	(5.3)%	26.7%
Total gain	139.2%	**86.1%**	21.4%	64.7%
Compounded annual gain	29.3%	**20.1%**	5.9%	14.2%

[1] Startup costs had a 0.8% negative impact on the 2017 Change in Book value per share.
[2] The difference between our Investment return and Change in Book value per share is comprised of: the standard annual tax on Swedish investment accounts, foreign taxes on dividends, salary and its related legally mandated fees and taxes plus general operating costs. The OMXS30 column does not include having paid the standard annual tax on Swedish investment accounts.
[3] Our January-2020 capital raise caused a 1.0-1.5% negative impact on the 2020 Change in Book value per share. See chapter Shorter subscription period for comments.

When evaluating investment results, it is my strong recommendation that you always look at the longest time period available as shorter time periods with their inherent randomness won't tell you much of value. As always, I have included a full track record of the past 7.5 years which includes the results of my Zen Capital Family Partnership from 2013-2016 at the end of this letter.

Happy Half Year!

I think the first six months of 2020 warrant a half-year greeting worthy of at least a New Years. These six months were both the most challenging I've experienced in my first decade of investing and, somewhat surprisingly, the best in terms of results. Our investment return was +31% compared to the OMXS30 index including dividends which returned -5%.

Last year we started off from a low base on January 1 which helped our returns in 2019, but our good result in the first half of 2020 came on top of an already good result last year. What explains our results this year?

In the first half of 2020, our current companies on average managed to grow at an astounding +34% rate[1]. This growth was achieved amid the worst demand shock in 80 years. We usually don't get any extra points for the 'Don't lose money' mindset that permeates everything we do at River Oak – besides giving me, and I hope you, good sound sleep – but it proved very valuable this time around. This mindset entails investing only in companies that I believe have extraordinary resilient demand and a strong business model so that they can live through tough times. As I said at our Annual Meeting earlier this year, our main risk management tool is business quality; not price.

I didn't predict the pandemic, and I certainly didn't predict how well our companies would do despite it. Rather, our good result in 2020 is a testament to our very strong foundation. We took our time and built the house the right way. We didn't take any shortcuts. As a result, it can now withstand pretty severe shocks. They say that success happens when preparation meets luck. While we were certainly well prepared, we should all be humble about the fact that a portion of our result this year (and last year) can be attributed to some good fortunes completely out of our control.

Rather than being an obstacle, the pandemic turned out to be a helping hand for us as it accelerated trends that we were already invested in such as cloud infrastructure services, streaming services, software and digital payments. Companies and consumers were forced to start thinking more digitally, and it now seems very likely that many of them will never go back to their old ways as they have realized the big cost and time savings that are available online.

[1] Two have not yet reported Q2 so the calculation includes only Q1 for them; their Q2 reports are unlikely to affect the average much. Three of our smaller positions were sold in Q1; including them would have taken the average down as all of them ended up with negative growth in H1, but it would still have been a very high number at around +20%.

While I'm very happy to report our strong results, let's keep in mind those that haven't done as well, financially or otherwise. Let's also hope that the countries that still haven't gotten the virus under control – Sweden is certainly one of them, but I'm primarily thinking about the poorer less-developed countries where the virus is currently most rampant – will get it under control soon. The pandemic exposed just how unprepared most countries were to handle one. Let's all thank the heavens that this didn't turn out (as a full hedge it feels best to add 'so far') to be a disease with a much higher fatality rate. This would have made citizens more scared, but countries and their governments would have been just as unprepared.

A tale of unusual times

As you know, our normal modus operandi is to spend about 15 minutes per year studying macro events as any type of guidance for our investments. This wasn't a normal year.

On January 23rd, I was reading the first reports about a virus that was spreading in China which had caused its government to institute an unprecedented lockdown of 20 million people and that it had also spread to a few neighboring countries. One day later, I tore my left Achilles' tendon playing badminton.

I don't particularly fancy either a torn Achilles' tendon or a potential pandemic but there are few things that get me more excited than a true challenge. Here I had two. In the depths of World War II, Winston Churchill reportedly said that '*war is a game played with a smile, and if you can't smile, step aside!*' so the only thing to do was to get to work.

Thanks in part to a few Asian connections of mine, in particular one Chinese woman that was locked down in China and shared much about her experiences online, and in part because I was recovering from surgery at home, I was keeping a close eye on the situation up until cases slowly started popping up in Europe in late February. When they did, I was already well aware of the virus and also over the initial mental shock and action inertia that such an unprecedented event can cause, which I believe speeded up my time to action.

My first instinct when I realized that the pandemic was very likely to spread to the Western world and to Sweden in full force, given that I believed I had much early information at this point, was to try my best to help save lives. I do consider trying to save lives more important than optimizing our investment portfolio. I sent a handful of letters to among others the Swedish Health Authority leadership in early March trying to warn them about what was coming. I also offered my unconditional help, but trying to get well-established Swedish bureaucrats to think outside the box is like trying to get an elephant to swim across the Atlantic.

I then made a full inventory of our portfolio which resulted in the decision to sell out of two of our investments (Fiat Chrysler[2] was one of them). This provided us with a cash reserve of around 13% at a very opportune time, and it was used to make new investments in two higher-quality companies that I believed were much better equipped to handle the pandemic no matter how it evolved, at very advantageous prices in late March. I also increased our stakes in a few of our current holdings. These proactive changes proved worthwhile; all in all, they improved our investment return in the first half of the year by approximately 10%. This was a very nice boost but keep in mind that no changes at all would have given us an investment return of approximately +21%, nothing to be ashamed of either.

As for the market timers who in the midst of the March decline triumphantly declared '*What did I tell you all these years?*' and during April shifted to '*I'm waiting for more clarity before I invest*', are as best as I know still waiting for that perfect clarity which exists only in hindsight.

A recent new friend of mine, Pat Dorsey, who runs a successful fund out of Boston and the same Pat whom I owe a debt of gratitude for forming much of my thinking about the nature of companies' moats, perfectly described this investor's predicament in a recent presentation:

"*All of the information is in the past, but all of the value is in the future.*"

To capture that value, one needs to dare headfirst into that always so unsecure future.

Could we achieve our returns with a much larger capital base?

I've sometimes been asked whether River Oak could really achieve its returns with a much larger capital base. A perfectly reasonable question I might add. Could we?

Let's have a look at the numbers. The average market capitalization of the companies we are currently invested in is SEK 310 billion. If we exclude the largest and the smallest company, it is SEK 60 billion. To give you a simplified example, if we would have had a SEK 1 billion capital base to deploy, and if we wanted to invest 10% of our portfolio in ten different companies, we would on average have had to buy

[2] I will explain why I decided to sell Fiat Chrysler, one of our longest standing investments made at inception, in more detail in the annual letter.

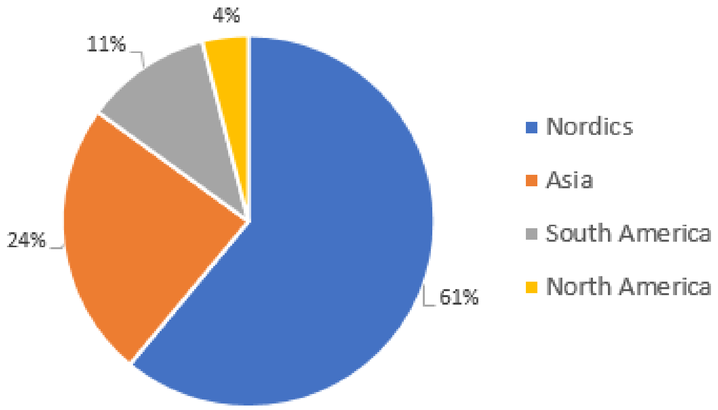
no more than 0.2% of each company's total shares outstanding, which shouldn't be a problem under most circumstances.

Clearly, with our current strategy, the answer to our question is a resounding yes.

In fact, we currently have many more good ideas than available capital – as the example above indicates, by a lot. This has been the case since we started and seems likely to continue to be the case for quite some time.

Our risk profile

By popular demand I've included a discussion on our risk profile. To start off, our capital was invested in companies based in the following geographies per June 30, 2020:



As you can see, we are invested in companies all over the world, with a focus in the Nordics primarily because of our local knowledge here but also because of its favorable demographics and inherent financial and political stability.

We are invested in areas such as Cloud services, Business infrastructure services, Software, Digital payments, Technology, Internet and Streaming services. These are areas I understand well, and they are also a fertile hunting ground for good business models in terms of profitability and scalability.

Furthermore, we are invested in a few Small-caps, a few Mid-caps and occasionally even Large-caps. Our companies' customers range from the small consumer, to SMEs in all kinds of different industries, to the largest companies in the world.

Naturally, I will say that our investments are very well diversified in companies of all sizes over many different industries and geographies. If I didn't think it was, I would of course already have made the necessary adjustments. However, some would say that having investments in Small-caps and in places such as Asia and South America increases rather than reduces risk. And it's perfectly clear that I'm the definition of a biased observer here. In fact, almost any attempt of assessing portfolio risk will by many be judged as inherently subjective. So, what can we do?

One of the best definitions of leadership that I have heard, formulated by the late Don Keough who was the #2 guy at Coca-Cola for more than a decade, might serve as a good guideline for us. He said that the only way to identify a leader is to look behind the person to see if anybody is following him. Similarly, I believe the only way to identify real portfolio risk is to look at what is left after it has been exposed to a few real-life tornadoes.

I'm sure we will face more tornadoes, but so far, I believe we have passed this test with flying colors.

Shorter subscription period

In early January, we made an offering of new shares at a price of 101% of our Dec 31, 2019 Book value per share. The capital raised became available to us and investable in late January when our performance was already +5% for the year. This resulted in a negative impact on our change in Book value per share of 1.0-1.5% in the first half of the year (please note that if our performance in January had been poor it would have been the other way around).

If we would have had all the capital available in early January, our change in Book value per share would have been 1.0-1.5% higher per the half year mark, i.e. it would have been +22.4% to +22.9% instead of the reported +21.4%.

Good or poor performance aside, we want everything we do to always be as fair as possible for everyone involved. To remedy the chance of this happening again, our capital raises now have a much shorter subscription period so that we minimize the risk of big fluctuations in our book value per share during these periods. It is also the case that 99% of our capital raise participants know beforehand if they want to participate or not, so the longer subscription periods we have had historically have generally been unnecessarily long.

Those of you who participated in our July capital raise adapted quickly to this change which made my job administering it a walk in the park, and it was all done within less than three days. Thank you!

A look back

Since our humble beginnings 3.5 years ago when we started with eleven shareholders and SEK 4.4 million, we have now grown to 42 shareholders and our capital base has increased more than 12-fold. We have raised capital a handful of times, but almost half of our current capital base comes from our accumulated retained earnings including some reinvested (and taxed) salary on my part.

This increase has been achieved by investing in a select few companies whose products and services offer great value to their customers saving them a lot of time, money or both. The companies we have invested in also do good for society at large as many of them help entrepreneurs as well as small and large companies both in terms of expanded offerings along with time and cost savings, which in turn enables them to offer a better experience at a lower cost to consumers.

Since that bright February day in 2017, we have invested in a total of 21 companies (we have also held three tentative positions which I ended up selling during the due diligence process).

- Four have generated a negative return: 58.com, Bank Norwegian, Pinterest and Wix.com.

- Four have generated a roughly neutral result: Most notably JD.com which has been anything but neutral since we sold out of it two years ago.

- Thirteen have generated a positive return.

We have rarely sold out of our winners – a look at our portfolio verifies this: its current total market value is almost exactly 2x its cost base. All seven of our current holdings reside in our Winner's category, with five of them having appreciated more than 100% since our initial investment. In fact, our eight biggest winners have contributed more than 100% of our accumulated profits.

I tend not to sell our winners if I believe everything is heading in the right direction and intrinsic value is increasing at a rapid clip – even if the valuation looks "optically" expensive from time to time. If you consider the best public companies you know of, I'd bet all of them have looked optically expensive from time to time. My view on this subject is similar to Charlie Munger's: *sometimes* it is correct to be a bit philosophical about valuation and let a company grow into and surpass an optically high valuation, rather than exchanging it for something optically cheap and hoping for a big selloff which might never come. Just as good and optically more expensive companies often grow into their valuations, poor and optically cheap companies often grow out of theirs.

Rest assured though that all companies in our portfolio get a regular overview a few times per year.

What can we learn from our negative contributors? Don't invest in anything with .com in it? Not really, this group of "losers" actually aren't losers at all. They have performed incredibly well as a group since I decided to sell them with an average annual return after our selling of +25%, which is substantially higher than the equivalent of all our sell decisions at +14%[3]. It is particularly noteworthy that they have on average performed almost as good as our actual annual investment return of +29%. Furthermore, they have generally been held for a shorter time period compared to our winners. Taken together, a strong case can be made that we should simply have held on to them longer and that it was a bunch of mistakes to sell them.

I don't view it that way. There are so many other things that go into an investment decision: level of conviction, trust in management and long-term outlook to name a few. Evaluating an investment decision in hindsight solely based on its subsequent returns is very simplistic and misleading. I believe the more important takeaway is it shows that even our "losers" have generally done well as companies since we invested – per today all of them are in positive territory compared to our purchase price except 58.com, a leading Chinese pure-play classifieds company, which was recently acquired 16% *below* our average purchase price. It should be noted that one of our "winners" Protector Forsikring, and two of our neutrals have developed rather poorly since our selling. Counting these four investments as mistakes, out of our total of 21, gives us a very respectable hit ratio at above 80%.

This high hit ratio is unlikely to be maintained, and a potentially big caveat here is that our portfolio is currently at an all-time high with the markets also touching on all-time highs, so this could very well prove to be a favorable time to make this type of analysis. If we do it again in a few years, it could well yield a very different result. So far, however, we can conclude that our capital has generally been well deployed.

[3] I have excluded those that were sold less than one year ago and have moved >10% since then as it can be very misleading to annualize short periods; the headline reported US Q2 GDP "decline" of 32.9% is a prime example of this.

Looking ahead

At this point, young as we are as a company, I think River Oak is an attractive and exciting newcomer in the dinosaur Swedish investment landscape which has essentially no competition for the largest banks and fund companies. Even though Sweden has many good investment companies with far better returns than the average large bank fund, most people don’t know about them and thus don’t benefit from what they bring to the table.

Our current two main activities – raising capital and investing it in some of the best companies in the Nordics and the world – makes a lot of sense for us now with our relatively limited resources. Once we have more resources however, I believe we have an obligation to do more. In ten or twenty years, even if we manage to maintain very good returns, we will no longer have the benefit of being young and “hot”. We will need more than just high returns to maintain our status of being an exciting new kid on the block.

What do I have in mind? I don’t know the answer yet. River Oak will still be about investing and business as these are the primary areas where I believe we can add value to others. Our goals will remain the same but how we achieve them could possibly change somewhat. It might entail trying to make River Oak an attractive partner for Nordic startups, it might mean expanding into acquiring medium to large stakes in private companies or acquiring them fully; it might even mean going public someday if that makes sense at the time.

One thing is very clear to me: River Oak would be nothing without you. It’s a real joy to work with and for you. Thank you for joining me on this journey so far and let’s keep going!

Aug 19, 2020

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%+ returns that the general market has provided and is likely to keep providing investors over time.

Goals

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

   We always think about the downside first.

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

   This will result in an annual increase in book value per share of ~11% after taxes and operating costs.

Historical returns

Feb 7, 2017 – June 30, 2020: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family Partnership

	Investment return (pretax)	Net result	OMXS30 incl. div.	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 per June 30	30.7%	**21.4%**	(5.3)%	26.6%
Total gain	741.1%	**397.8%**	98.2%	299.6%
Compounded annual gain	32.8%	**23.9%**	9.6%	14.3%

[1] Startup costs had a 0.8% negative impact on the 2017 Change in Book value per share.
[2] The difference between our Investment return and Change in Book value per share is comprised of: the standard annual tax on Swedish investment accounts, foreign taxes on dividends, salary and its related legally mandated fees and taxes plus general operating costs. The OMXS30 column does not include having paid the standard annual tax on Swedish investment accounts.
[3] Our January-2020 capital raise caused a 1.0-1.5% negative impact on the 2020 Change in Book value per share. See chapter Shorter subscription period for comments.

Approximate currency effects on Investment return:
2014 +7%, 2016 +2%, 2017 -10%; 2018 +5%, 2019 +3%, 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.

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The author has to the best of his/her knowledge tried to gather correct information but there might still be factual errors present. The Company and its affiliates (A) expressly disclaim all responsibility for the accuracy, adequacy, or completeness of the data and (B) shall not be liable for any errors, omissions or other inaccuracies, delays or interruption of such data or for any action taken on the basis of trust in it. The Company shall not be liable for any damages resulting from your use of this information. Hence, 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, expressly or implied, as to the truth, accuracy or completeness of the information contained in this letter.

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Fellow Shareholder,

River Oak's book value per share increased by 74.3% in 2020. Our book value at December 31, 2020 was SEK 76.1 million, equivalent to SEK 267.22 per share.

	Investment return (pretax)	Change in Book value per share	OMXS30 incl. div.	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%
Total gain	273.4%	**167.2%**	37.7%	129.5%
Compounded annual gain	40.2%	**28.7%**	8.6%	20.1%

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

Notes to table

[1] The difference between our Investment return and Change in Book value per share is comprised of: the standard annual tax on Swedish investment accounts, foreign taxes on dividends, salary and its related legally mandated fees and taxes plus general operating costs.

[2] The OMXS30 column does not include having paid the standard annual tax on Swedish investment accounts.

[3] Startup costs had a 0.8% negative impact on the 2017 Change in Book value per share.

[4] Our January-2020 capital raise caused an approximate 3% negative impact on the 2020 Change in Book value per share. See headline 'Numbers gymnastics & Capital raising' for comments.

[5] Estimated currency effects on Investment return: 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%

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.

Comments on our investment operation

River Oak had a very good year in 2020. We should all take a moment to really enjoy it because it certainly didn't come easy, while also keeping in mind all those that were less fortunate in a year that most of us were happy to say goodbye to a few days ago.

At the same time, it is important to remember that one year in the investment business means essentially nothing. Any future success we may enjoy requires that we remain as humble as ever about the future, have an open and learning mind, and are prepared to change and re-evaluate our views when facts warrant it. Our past record will score us no points in 2021 and beyond.

In this short results update, I will just briefly mention what I believe were the main reasons for our good results in 2020. Our core values: Keeping things simple, a Long-term mindset and Fundamental business analysis, were key.

1) **Keeping things simple** is our main guiding principle.

   It has led to a strong emphasis on business quality in our investments to minimize the number of future decisions I must make. Thus, most of our companies were well equipped to handle a pandemic (and I believe most other systemic shocks as well) so I made very few changes to our portfolio in the first half of the year. In turbulent times, making as few decisions as possible is always preferable to making many.

   It has also led to our rather unconventional strategy of investing a large share of our portfolio in a few select companies, which also helped our results.

2) **Our long-term mindset and focus on fundamental business analysis** as opposed to short-term macro analysis, led to calm behavior in March and April when the waters were the murkiest. On March 16, our investments were marked down by almost 12% in a single day. If I had sold all our investments during those scary days in mid-March and waited for things to "clear up", our full-year investment returns would have been negative 20% instead of the reported +104%.

   As far as I'm concerned, the macro is as unclear today as it was one year ago, five years ago and ten years ago. Everyone that successfully predicted the past year's macro events, or the past five years, or the past ten years, raise your hand please. For some reason, surprisingly many people keep believing they can predict the macro and the markets, despite massive overwhelming evidence to the contrary.

3) **Randomness**. The results we had this year don't happen without a fair amount of good fortunes being on our side.

Numbers gymnastics & Capital raising

In early January, we made an offering of new shares based on our December 31, 2019 Book value per share. The capital raised, equal to about 20% of our total capital base at the start of 2020, became available to us and investable on January 22, when our performance was already +8% for the year. That is, 20% of our starting capital base missed an +8% return in January for a negative impact at the portfolio level of 1.6% in January (20*0.08=1.6%).

From February to December, our total investment return was +87% so the total negative impact to our Change in Book value per share was ~3% (1.6*1.87=3%) for the full year. If we would have had all the capital raised available and investable on January 1, our Change in Book value per share in 2020 would have been approximately +77%. Please note that if our performance in January had instead been negative 8% it would have been the other way around.

Good or poor performance, we want everything we do to always be as fair as possible for everyone involved. Thus, shortly after our January closing, we took action to minimize the risk of this happening again by shortening our capital raise subscription period so that big fluctuations in our book value per share during these periods become much less likely. Due to Swedish regulations, the risk can't be completely eliminated, but it is possible that we will do our capital raises in one day in the future.

It is important to note that just as with currency movements this fluctuation in our book value per share could have gone either way. As you can see in the table notes on page 1, currency movements had a negative impact on our results in 2017 and 2020, and a positive impact in 2018 and 2019. In terms of our overall long-term results both these factors should have a negligible impact.

Our next capital raise will be open February 1-3.

In the meantime, stay safe, enjoy the snow, and let's all look forward to a year of more social contacts and many happy moments.

Jan 6, 2021

Daniel Glaser
Chief Executive Officer

Historical returns

Feb 7, 2017 – Dec 31, 2020: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family Partnership

	Investment return (pretax)	Net result	OMXS30 incl. div.	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%
Total gain	1213.0%	**615.0%**	124.8%	490.2%
Compounded annual gain	38.0%	**27.9%**	10.7%	17.2%

Notes to table:

[1] The difference between our Investment return and Change in Book value per share is comprised of: the standard annual tax on Swedish investment accounts, foreign taxes on dividends, salary and its related legally mandated fees and taxes plus general operating costs.

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River Oak Capital

2020 Letter to shareholders

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Compounded annual gain	40.2%	**28.7%**	8.6%	20.1%

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

Notes to table

[1] Change in Book value per share is reported net of a reserved dividend on the A-shares equal to 20% of the gross book value increase according to the Company's Articles of Association, taxes and general operating costs.

[2] The OMXS30 column does not include having paid the standard annual tax on Swedish investment accounts.

[3] Estimated currency effects on Investment return: 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%

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Fellow Shareholder,

We were fortunate to do very well in a year that caused so much pain and loss for so many people around the world. Our results in 2020 happened because the companies we were invested in were well prepared to handle unprecedented circumstances – financially, culturally and in terms of their business model. They all adapted well and executed brilliantly. Our portfolio companies' average revenue growth was 36%, and their average operating earnings growth was 48%[1].

The second key to our results in 2020 was how we reacted in March. On March 16, 2020, our investments were marked down by almost 12% in a single day. If I had decided to sell all our investments during those scary days in mid-March and waited for things to "clear up", our full-year investment returns would have been negative 20% instead of the reported +104%. The ever-present moderate optimism that permeates River Oak once again proved to be a good attitude to have.

Howard Marks at Oaktree Capital once observed, *"A good builder is able to avoid construction flaws, while a poor builder incorporates construction flaws. When there are no earthquakes, you can't tell the difference."* This past year had one of the largest "earthquakes" imaginable. Construction flaws – such as an over-leveraged balance sheet, a slow-moving bureaucratic culture, or not having embraced the ongoing technology-driven tidal wave – came out in full bloom. They were seen in companies and in how different countries handled the situation; some were agile, alert and quickly able to adapt while others proved bureaucratic, incapable and sleep-walking their way to even the smallest of changes.

As usual, the world was not fair. If you were in the airlines, hospitality, or restaurant industries to name a few examples, it didn't matter if your construction was flawless – you still suffered heavily through no fault of your own.

As for River Oak, I am humble about the fact that if covid-19 had instead been an online server virus, it is fully possible that our companies would have been the dogs of the year. I also recognize that our type of companies – fast-growing, asset-light, highly-scalable market-leading technology companies with long runways for continued growth – have been in favor lately. They were already favored in 2019 (for good reason if you ask me) and then the pandemic hit and poured fuel on the fire.

The intrinsic business value of our companies has increased a substantial amount in the past few years – their stock prices have in some cases increased even more. The market has in most cases priced in a continuation of these companies' impressive results. In some cases, it will prove correct, while in some it will probably prove optimistic.

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[1] The earnings growth of one of our portfolio companies was adjusted down from 5600% growth to 100% growth, as it went from essentially breakeven in 2019 to profitability in 2020, rendering its earnings growth number meaningless. The 48% operating earnings growth number is thus a fair bit understated.

A new investment we made in late December is excluded from the calculated averages.

Predictions about the future

"In 2020, we expect a once-in-a-fifty-years pandemic to hit the world. We expect to have one top-to-bottom drawdown in our portfolio of 30% and end the year with investment returns of more than 100%. We also expect our asset base to grow by 200%."

If I would have communicated the following 2020 outlook to you at the end of 2019, most of you would probably have jumped in your car, drove straight to River Oak's office, and tried to get your money out (before giving me a ride to the nearest mental clinic).

Yet, this is exactly what happened.

Hopefully, you now have more sympathy for my poorly hidden skepticism of laying out detailed predictions about the future with a high degree of confidence.

I remember once listening to Charlie Scharf at the time he was CEO of Visa in an earnings call when an analyst asked him about their forward-looking guidance. After all, it seems reasonable to assume that the CEO of Visa has access to more high-quality data about consumer confidence trends etc. than most of us. He gave a great and honest answer:

"Yeah, listen. This whole concept of guidance, it's a very strange thing because you're asking us what we think our volumes will be next quarter, the quarter after that and the quarter after that? And we know a little more than you know, not a whole lot more. So, asking people to give precision in terms of what's going to happen effectively to the dollar, consumer confidence, things like that. We really don't know."

2020 was a masterclass in futile predictions. I don't believe I have ever heard more unqualified people make predictions with more conviction and based on less information than in the past year. Listening to one interview with an "expert" and reading a few random articles online does not qualify most people to make any conclusions about anything. As for pandemic experts, one of my friends that runs a very successful investment firm in Toronto and has a lot of resources to do good research told me at the start of the pandemic that they had talked to a lot of infectious disease experts about things such as R_0, ways of transmission and fatality rates – and practically all of them said different things.

When the world behaves roughly like it has in the past, it seems that most people can make decent predictions. When something unprecedented happens, which is also when successful predictions are the most valuable, it seems that very few people can.

Let's take a moment to salute all those who were diligent, who studied a lot of data, read dozens of studies, tried to form their own opinion through deep analysis, and at the end of it were still humble and confident enough to say the three magic words *"I don't know."*

Today, quite similarly to what happened after the 9/11 attacks, many people are extrapolating the recent past and are worried that the next pandemic is imminent and will arrive in one, five or ten years – when perhaps it is more likely, at least based on history, that the next one shows up in 50 years, or if we prepare ourselves better just like we did with airport security etc. after the 9/11 attacks, a new disease might never be able to wreck as much havoc in the world again. Who knows?

I only know what to do when I hear someone confidently predict future events with a high degree of certainty: turn on Spotify.

Independence of thought

In March and April, it felt like I was one of the last people in Sweden saying that our pandemic response would produce very bad results in terms of lives lost. Laymen and doctors alike were willing to wager me that our response would prove to be the best one and that our Nordic neighbors would soon catch up to Sweden's high death rates, if not by summer than no later than March 31, 2021. Lately, these then very confident prognosticators (let's call them "CoPros") no longer want to evaluate what they said one year ago but instead casually say that our Nordic neighbors are most likely not relevant comparisons after all.

Why am I telling you this? Because many CoPros are smart and well-educated people. The reason they believed Sweden's response was the best in the world was because 1) A few leading Swedish authorities with supposedly relevant experience said so, and 2) These authorities had a 70%+ approval rating, and it's always nice to be on the side of the majority.

What the CoPros failed to take into account was that these same authorities had been completely wrong on pretty much every important pandemic-related matter they had predicted thus far, such as in late February and early March when they assured the media that *"We will be able to handle the few isolated cases that come to Sweden",* and *"We should not need to have a continued spread in Sweden unless we are very unlucky in different ways",* or a few weeks later when they predicted that the worst would be over as soon as all imported cases from the Italian Alps had died down. As these predictions quickly proved wrong, they made a full 360 and confidently predicted that Sweden would reach herd immunity by May.

If you were looking at the actual numbers, studied the alert and much humbler responses of our Nordic neighbours and read international news, it was easy to conclude that the confidence exuded by the CoPros was very ill-placed. Today, we all know how it turned out. Nevertheless, it can be very challenging to stand firm against a large majority backed up by leading authorities.

To get to my point: at River Oak, I will never make decisions based on how many people agree with me – or the titles of those who disagree with me. Our two new Board members, which are introduced in the 'Annual meeting & Corporate updates' section on page 15, work the same way. We will doggedly pursue important facts, apply intense analysis and reasoning, and we will listen to and discuss with people whose opinions and judgments have proven valuable and correct in the past – regardless of their titles or resumes.

One thing I have always loved about investing is that opinions don't matter, screaming the loudest doesn't matter, having fancy titles doesn't matter. Being right matters.

Our investments

This section is quite extensive this time. If you want to go straight to our annual meeting information and corporate updates, feel free to skip directly to page 14.

I usually don't discuss our investments much in these public letters, but this year I think it is useful to discuss them a bit more extensively as it was quite an extraordinary year in which an investment firms' area of focus mattered greatly.

I will highlight our first filter that is always applied to all our potential investments, then comment on our actions in the first quarter of 2020, two sells and two new investments, and then there will be a deeper dive on one of the investments we made long before covid-19 existed which gives a good overview of the themes and types of companies I am looking for on our behalf.

Does the company provide value?

Successful investment firms are sometimes criticized that the only thing they do is move money around. I view what River Oak does in a completely different light: Our job is to allocate capital towards companies that make the world better today and will help make the world better tomorrow.

Thus, I am looking for companies that promote and ride on strong trends that I believe are good for the world (companies that promote harmful addictions such as smoking and gambling, lottery providers, fossil fuel power plants, etc. are examples of companies that do not make the cut). At River Oak, we have a particularly soft spot for companies that enable entrepreneurship. In most nations, small and medium sized enterprises make up more than 95% of all companies, create more than 50% of all new jobs (often much more) and generate a disproportionately large share of overall economic growth[2].

Before I spend any time studying a new company for potential investment, I always start by asking,

1. Does this company provide value for its customers and their end users?
2. Would I want my children and my friends to use this company's products?
3. Would I want my children and my friends to work at this company?

When the answer is 'No' to any of the above, count River Oak out.

It is not lost on me that many big investment winners especially in Sweden, past and probably future, reside in the gambling industry. Not touching them will potentially hurt our returns over time, but it makes me and hopefully all of you feel much better about River Oak. The most common objection I hear to this is that the only thing it will accomplish is that others will be there to take those profits instead. Yes, that is often true, and I am happy to leave those potential profits to other investors.

[2] OECD enterprise statistics

Q1-2020

A single quarter is rarely very eventful at River Oak. The first quarter of 2020 was an exception.

Changing one's mind is difficult, particularly under stressful conditions. That is why one of River Oak's main investment objectives is to minimize the likelihood for future problems, which also minimizes the number of times I need to change my mind. In practice, this means that the bar for River Oak's investments is very high on the quality dimension.

At the height of battle in March, this provided us with the huge benefit of me not having to make almost any changes to our portfolio. The fewer decisions that need to be made under tough circumstances such as those prevailing in March of 2020, the better the outcome is likely to be.

I did make a few changes, however. As I mentioned in my half-year letter, I decided to sell two of our investments in the first quarter due to my concern about covid-19. These were Fiat Chrysler and Adevinta. To be fair, both were already two of our smaller holdings entering 2020 and, on the way to be sold to make room for other more attractive investments I had in mind. The pandemic however sped up my plans. (You could rightfully ask why I held on to our "least attractive" investments in the first place. The answer is that oftentimes I think our least attractive investments are very attractive too; you can think of our portfolio as the ten last remaining coconuts on a desert island.)

A few days later we made two new investments in Sinch and Netflix as I believed they would be able to handle the pandemic well no matter how it turned out, and importantly, be good investments after the pandemic had subsided too. It is important to note that I made both investments not because I saw a huge upside, but because I believed the downside was very well protected based on business quality and the price paid, at a time of great uncertainty. As many smart people have said, 'take care of your downside and the upside takes care of itself.'

I always seek to invest in companies where the price we pay, with a very high likelihood, promises a return which compares favorably to all our available alternatives, of which long-term interest rates serve as an absolute baseline rate[3]. I will however happily trade much of the prospective returns for a greater certainty. While I always strive for the return comparison to be as favorable as possible, it always takes a backseat to my degree of conviction.

These two changes worked out very well for us, but it is important to note that their total net contribution to our 2020 returns was ~15%, meaning that without them our full-year returns would still have been +89%. I would argue that this is quite a strong argument *against* trying to be smart and feeling a need to act during periods of market upheaval. It is much harder than most people think to come out from them with a net positive.

[3] A smart friend of mine correctly observed that I don't invest in 10-year or 30-year Treasuries, so then why do I take them into account? Well, he is right that currently I do not, but if they yielded 6% or 8%, I would.

Fiat Chrysler Automobiles was one of our Day 1 investments, and on a personal level my family has been invested in FCA since early 2014. At that time, Ferrari was part of the FCA car conglomerate and the whole company was priced at less than €10 billion in the market.

Since 2004, FCA has been very well managed by its masterful CEO Sergio Marchionne. From 2014 when my family initially invested until Sergio's tragic passing in 2018, FCA's operating earnings increased almost 3-fold to ~€7 billion, not counting Ferrari which was spun off along the way and today sports a stand-alone valuation of €50 billion all by itself. FCA's reinvestment needs just to stay competitive however are massive and have increased too, so owner earnings excluding Ferrari didn't increase in lockstep with operating earnings over this period. (River Oak did not benefit from Sergio's excellence steering Ferrari as the spinoff was done in 2016 a year before River Oak was founded.)

After Sergio, the new CEO Mike Manley did a stellar job which ended in a merger with Peugeot that was announced in late 2019 and consummated in early 2021, to create the massive, combined unit Stellantis. Scale is great for car companies, Peugeot CEO Carlos Tavares who is now CEO of the combined unit seems to be of the same caliber as Sergio, and I believe Stellantis' future is bright.

So why did we sell? The complexity of FCA with its hundreds of thousands of employees, its employee unions, its enormous factory footprint, and its many different production lines all over the world, is just orders of magnitude greater than the software and online-based businesses that constitute the vast majority of our portfolio. The latter often have no more than a few hundred or a few thousand employees, a physical footprint that consists of a few offices and servers, and little need for capital investments except to fuel growth which in most cases is covered by internally generated cash flow.

To give you a somewhat simplistic but illustrative example, think about if you need to retool an automobile plant to be able to produce cars with electric engines instead of combustion engines. You likely need to halt production for a few weeks or months until you have replaced a lot of machinery, fine-tuned processes, re-educated factory workers and tested everything thoroughly. Whereas in a software company, when it needs to adopt a completely new framework or software, its developers simply download it, install it and start writing their code with a slightly different syntax.

To add insult to injury, the latter often has a stronger moat, scales much better, and has a far longer runway to grow. It is simply not a fair game.

Our investment in FCA contributed greatly to our returns in 2017 but was thereafter a drag on our performance in 2018 and 2019. Nonetheless, it provided many useful lessons along the way – the primary one being that over a long enough timeframe, a company's business model, its competitive position, the industry in which it operates, and its runway for growth are far more important factors for successful investment than a low price and a world-class management team.

Thank you, Sergio, Mike, Chairman John Elkann, all other leaders and all employees at FCA for the years we were allowed to be your business partners. Congratulations to you for pulling of not one but two of the greatest comebacks in automaker history, first with Fiat in 2004 and then with Chrysler after the 2008 financial crisis, and best of luck on your Stellantis journey. You are a great inspiration to many.

Adevinta

Adevinta is a global online classifieds company that operates in 16 countries, attracting 1.3 billion average monthly visits. Their most dominant marketplaces are in France, Spain and Brazil. In some markets, their sites are the third most visited trailing only Google and Facebook. For example, more than 40% of France's population visit one of Adevinta's sites every month to find a new job, to buy or sell a home, a car, or other used goods.

Our investment in Adevinta originated as a spinoff from Schibsted in 2019 which in turn was made because I was very excited about Schibsted's French, Spanish and Nordic online classifieds assets. Schibsted also owns some media assets such as newspapers Aftonbladet, SvD and Verdens Gang which I wasn't equally excited about. In the spinoff, the Nordic media assets, and Nordic classifieds platforms such as Blocket in Sweden and Finn.no in Norway stayed in Schibsted, while all other classifieds assets were put into Adevinta to form a global pure online classifieds company. Hence, after the spinoff, given that most of the exciting assets were now in Adevinta, I exchanged our remaining Schibsted shares for a larger position in Adevinta.

As mentioned, the decision to sell our Adevinta holding in March-2020 was already in the works before covid. When it hit, the combination of my concern about how France, Spain and Brazil would be able to handle the pandemic, and the many other great investment opportunities that were available in March, sped up my plans to sell.

Adevinta managed the year well considering that both their main markets were impacted by severe covid lockdowns, and they ended the year with total revenue down 2% and earnings down 6% (compared to +15% and +32% respectively in 2019).

After we sold, Adevinta acquired eBay's classifieds division to become one of the largest tech companies in Europe.

Overall, our investment in Adevinta contributed a few % to our results over our quite short holding period. Adevinta is a great company, and I could definitely see us investing in Adevinta again.

Sinch is a global communications company founded and based in Sweden. It was previously called CLX Communications before a name change in early 2019. It has been profitable since its founding in 2008.

Sinch provides a platform for sending messages of all kinds all over the world, allowing companies to communicate efficiently with their customers regarding things such as 2-factor authentication, password resets, ticket and booking information, etc.

Sinch main focus is SMS which is a very effective means of communication. There are more than five billion unique active users which compares favorably even to platforms like Facebook, and the open rate of SMS is 35x email. Sinch makes a few SEK cents per message sent by its customers.

To understand why companies choose Sinch as their communications partner, let's look at one example. Sinch has deals with more than 300 mobile operators all over the world. Sometimes you have a situation where Sinch, or one of its licensed subcontractors, has a long-term exclusivity agreement with say Telenor for SMS messages in the Oslo region, which means that if you want to deliver SMS messages to anyone that has Telenor and lives in Oslo, you *have to* go through Sinch.

The U.S. part of their business is their largest by far in terms of revenue. It is also their fastest growing part at over 100% growth in 2020. Notably, eight of the ten largest U.S. tech companies are Sinch customers. The main reason why these companies choose Sinch is because of their proven ability to reliably handle huge message volumes being sent to a global audience with very few messages lost.

In addition, Sinch has proven very adept at acquisitions. Since we invested, Sinch has made three large transformational acquisitions: ACL in India, SAP's messaging division with global operations, and most recently Inteliquent which is the leading voice communications company in the US. Just like Sinch on the messaging side, Inteliquent serves essentially all large high-volume players in the U.S. on the voice side (for example Zoom and Microsoft).

I had considered making this investment for a month or so before covid hit. When it did, it accelerated our timeline as Sinch share price fell by ~40% in a matter of weeks. It fell even though almost 95% of its business is in messaging which would be virtually unaffected by the pandemic, and I could even see quite a few scenarios in which this part of the business would have a tailwind rather than a headwind due to the pandemic.

At the time I believed Sinch would be able to generate SEK 1.0 to 1.5 billion in operating earnings in a few years. We invested at an enterprise value of approximately SEK 22 billion.

The aforementioned acquisitions have of course increased Sinch earnings power quite substantially since then. Furthermore, they not only verified Sinch' ability to find good deals, but substantially surprised me to the upside. One explanation for their ability to find these good deals is their founding team. Sinch has one of the better corporate management setups I have seen – a very good and recruited CEO, an operationally efficient organization, and the founding team (initially six founders) which is scouting for new deals all around the world. I view it as a near certainty that we will see more good deals at Sinch in the coming years.

NETFLIX

Sometime in March-2020, a friend of mine Assaf Nathan who is co-founder of a successful investment firm in Israel and often very insightful called me and said, "*What do you think about Netflix now? Churn will be minimal, and at the same time the pandemic will postpone their production schedule. As a result, their cash flow should improve drastically*."

Netflix annual content production budget is a staggering sum these days, and a mere few months of delay would mean billions of dollars in postponed investments (this insight might seem trivial today but remember this was in mid-March when most investment firms were thinking about survival rather than things like this).

I replied that it was a clever insight, that I thought he was completely right about it and that I viewed Netflix as one of the absolute safest investments in the world at the time. "*What about all the competition?",* he asked me. "*Netflix is your electricity bill. The others are optional add-ons,"* I replied.

I get these types of calls and messages from fellow investors and friends regularly throughout any year, and I didn't think more about it then. On my way to the office the next day however, I reflected that investments I view as "one of the absolute safest in the world", are usually not very exciting and are rarely on my shortlist for potential investment.

With Netflix it was different. It had been on my radar for many years due to the enormous value it offers customers and its remarkable ability to successfully adapt to new consumer trends and launch new business models, always managing to outmanoeuvre its competition. I believe it now has an essentially impenetrable competitive position.

Its service offers one of the largest consumer surpluses (a concept I discussed in more detail here) I can think of. In short, consumer surplus is the extra value you get *above* the price you pay for a product or service. Google's search engine and your washing machine are two of the best examples of a high consumer surplus. In the case of Google, the price you pay is zero. As for the value, think about it as *"How much would I have to pay you to live without Google?"*

I updated my back-of-the-envelope model of Netflix and ended up making the investment shortly thereafter. So much for checklists.

While covid-19 was a big part of 2020, or rather *was* 2020, let's take a look at one of our investments that was made before covid-19 existed. The company, which is called StoneCo, is a great thematic example of the type of companies I look for.

In the land that is perhaps best known for fostering soccer superstars Pelé, Ronaldo and Ronaldinho, there are also great companies being built.

StoneCo is a technology company based in Brazil that provides payment solutions and business management software for small and medium-sized businesses ("SMBs") to help them sell in-store, online and through mobile channels.

In early 2019, I had studied Brazil as a side-project for some time with increasing interest. My interest was piqued for a few reasons:

1. The size of the country – with a population of 210 million, Brazil is the 8th largest economy in the world.

2. Brazil was on its way out of a deep multi-year recession with the unemployment rate having recently peaked.

3. The people of Brazil had endured multiple government corruption scandals that were now largely behind them and a new president had just been elected.

4. Finally, and by far the most important factor for River Oak's purposes, I had seen some rather stunning statistics[4] for Brazil which showed a lot of potential for Brazilian tech companies. In terms of Brazil's adult population, only:

- 70% had a bank account

- 60% were internet users

- 27% had a credit card[5]

- 18% used the internet to pay bills to buy things

- 4% make payments using a mobile phone (vs ~30% in Western countries) even though 60% of the population are smartphone owners.

[4] World Bank. Data from 2015-2017 for population above 15 years of age.

[5] Banks are restrictive giving out credit cards to people that have a bad payment record which many Brazilians do. It is also notable that around 30% of all transactions in Brazil are still made in cash.

Brazil's payments market

Until 2010, Brazil's payments acquiring market was a duopoly. To accept Visa payments in Brazil, you needed to go through VisaNet (today named Cielo) as the acquirer as they had an exclusivity agreement with Visa in Brazil. Redecard (today named Rede), the other large acquirer in Brazil at the time, had a similar agreement with MasterCard.

Thus, merchants often had to have two point-of-sale (POS) hardware terminals in their stores, one for each network. Furthermore, the POS terminals were not sold but rented so merchants had to pay monthly rent in addition to the very high fees in the 5% to 15% range that they were charged on all transactions. Finally, merchants were paid their balance with a delay of up to 30 days after a sale had been made in their store or restaurant.

In 2010, the market was de-regulated. It took a few years before other payment solutions were embraced. As late as 2015, incumbents Cielo and Rede still handled around 90% of all credit card transactions in Brazil. This is when new companies such as Stone and PagSeguro started to get real traction. Today, thankfully, most acquirers in Brazil accept payments by both Visa and Mastercard.

Both incumbent acquirers are owned by larger banks. Cielo is owned by Banco de Brazil and Bradesco, while Rede was acquired by Banco Itaú in 2012 shortly after the de-regulation. The incumbents were focused on larger merchants, while mostly ignoring SMBs and micro-merchants (payment volume of less than $5,000 per month). In many cases, the smaller merchants did not have POS terminals, so this segment of the market was the lowest-hanging fruit at the time and both Stone and PagSeguro focused here initially. When they started to get traction, Stone in particular turned its focus to the larger mid-sized merchant which churn less and is more profitable.

The opportunity

When Stone and PagSeguro entered the market, two main pain points existed for Brazilian merchants:

1. Customer service was terrible with call waiting times of 2-3h and poor local service for the POS terminals as the incumbents outsourced much of it.
2. Fees were often high, and in addition they were not disclosed in a transparent way.

Stone, which is founded by two serial entrepreneurs, Andre Street and Eduardo Pontes, seized on these pain points.

One of Stone's core values is that customers are the sole reason why it exists. Stone measure their customer service success by metrics such as "*Customer service calls rated as 'excellent' by our clients*" and "*Customer service calls resolved on first call*". Both metrics have hovered around 90% with the latter showing a very steady improvement over the past few years reaching 94% at the end of 2020. To give you some flavor of just how obsessive they are about getting the customer experience right, Stone's CEO Thiago Phau recently made a point of mentioning that the average waiting time on customer service calls has been improved from 5-6 seconds previously to 3-4 seconds in January and February.

Can you imagine how the merchants that are used to wait 2-3 hours in line at one of the legacy banks feel after hanging up with a Stone representative when their call was answered within seconds and their issue was resolved on the first call? They probably feel like they just had a conversation with God disguised as a Stone customer service agent.

In Brazil, the personal relationship is big. People love to get a real person helping them with their issue. Stone knew the value of this and started setting up local help shops, called Stone Hubs, with teams of 5 to 15 employees that would give personal help to merchants in the local area. When a Rede or Cielo POS terminal broke down, a restaurant sometimes had to wait for days and weeks before a replacement came as the POS delivery and the related customer service was often outsourced to 3rd parties. With Stone, someone would come out immediately and a new terminal was in place a few hours later.

To address the transparency issue and to remove all suspicions Brazilian merchants had built up over years of experiencing bad service, Stone implemented a dashboard which always showed the current merchant rates front and centre so there was no way they could be changed without the merchant noticing. Customers loved this. One former Stone employee who sometimes helped his potential clients with their Cielo equivalent dashboard says it was "*almost impossible to find the merchant rate there*". Another former Stone employee said that the incumbents were in some cases quietly increasing rates until the merchant noticed and started complaining about it, at which point the rate was lowered again.

Add to this the fact that Stone's total take rate is below 2% and it's easy to understand why merchants are jumping ship hand over fist to sign up with Stone.

Competition

Besides the large banks, other notable companies in Brazil's payments industry include PagSeguro, Mercado Pago, and privately held Nubank. These three companies however focus primarily on consumers and micro-merchants, whereas Stone's focus is primarily on larger and mid-sized merchants.

In recent years, Stone has started to offer services to micro-merchants too, while PagSeguro has started doing the same to larger merchants so these two entrepreneurial disruptors will likely compete more and more over time. For now, Stone's main competitors are the large banks while PagSeguro's main competitors are Mercado Pago and Nubank.

Stone's competitive advantages

One of Stone's competitive advantages, perhaps counter-intuitively to some, is its relatively short life as a company and the fact that it started building its technology platform much later than the incumbents. The incumbents are now likely burdened by old legacy systems, and their owners also have large legacy banking operations (remember that both incumbent acquirers are owned by large banks) which they have tended to prioritize over developing their other offerings. Stone and PagSeguro on the other hand started with a clean slate less than ten years ago which enabled them to build a very modern, flexible, and scalable platform from Day 1. It is notable that this has become a quite common advantage for younger companies in today's rapidly developing technology-powered world.

Stone's main competitive advantage is probably its highly motivated workforce with its very customer-centric culture. Stone has many young, smart, and very driven employees. Many employees see their work at Stone as their life's mission.

Finally, Stone's founders' entrepreneurial background runs in the company's veins. Stone has a deep understanding of SMBs needs and they are fast and nimble compared to the incumbents. As one telling example, a former Rede employee explained that one of Banco Itaú's credit card solutions Credicard Pop uses an American company to process their transactions because if they did it on their own Rede platform it would be too slow. To fix this process at Rede and make it faster would be a big multi-year project according to this former Rede employee. As a result of Stone's speed of execution, while Stone started out mostly focused on POS terminals, it has today developed its offering into a fully-fledged software suite for companies of all sizes.

Stone in our portfolio

We made our initial investment in Stone in early 2019 at an enterprise value of around \$6 billion. At the time, they had around 270k active merchants on their platform. There are approximately 9 million SMBs and 5 million micro-merchants in Brazil, so Stone's market share was in the low single digits while they were taking 20% to 30% of incremental volume in the industry. It was easy to see that the opportunity for Stone was huge.

Since then, active merchants on Stone's platform have tripled, revenue has doubled, and net income has tripled. Due to a combination of a rapidly increasing share price and an almost equally rapid decline in the value of the Brazilian real vs the US dollar over the past two years[6], I reduced our position in Stone in December at an enterprise value of around \$24 billion. Stone has roughly 10% more shares outstanding today than it did in early 2019, so the total return on our sold shares was around +240% which works out to +95% annualized since our initial investment.

[6] The Brazilian real declined approximately 30% vs the US dollar over the past two years.

Stone is listed in the United States with US dollars (USD) being its trading currency. Its revenue and income however are in Brazilian real (BRL). All else equal, a lower BRL means that the company's earnings power in USD becomes lower, and thus its intrinsic value in USD becomes lower as well.

While we rarely sell, all our investments are continuously evaluated and compared to our available alternatives. I reduced our position in Stone not because I believed cash was a better option – but to invest in a Nordic company that came across my desk in December that I found more attractive at the time. It is worth mentioning here that the degree of difficulty for me investing in a Brazilian company is of course magnitudes greater than in a Nordic one, so if I have two similar opportunities, I will tend to prefer the Nordic option.

A small entrepreneurial founder-led company that is obsessive about its customers, has an enormous runway for growth, and whose mission it is to enable and empower entrepreneurship while disrupting large incumbent banks, is about as good as it gets for us in terms of investment candidates, and aligns like a tailor-made glove with River Oak's wider purpose of helping drive positive change in the world.

I will not go into any detailed assumptions about Stone's potential future numbers here. Their opportunity was huge in 2019 when we made our initial investment – today, with 770k active merchants on their platform, their market share is still in the single digits and their opportunity remains huge. From today's enterprise value of around $17 billion, I believe Stone, even if a significant multiple compression were to occur, will return at least 15% per year for us going forward (which roughly translates to a double in five years). As you know, 15% per year is the minimum hurdle rate for our investments as well as our long-term goal.

While Stone has a smaller weight in our portfolio today compared to 2019 due to a higher valuation, a *much* lower Brazilian real, and our other available investment alternatives, I am very excited that River Oak is a shareholder and I believe Stone's future is as bright as ever.

Annual meeting & Corporate updates

Our annual meeting on Sunday, April 25th, will be particularly fun this year.

As a first unusual positive, the formal part will be done in advance by postal voting this year in accordance with temporary pandemic laws, so no 30 minutes of Yes' and No's this year. While the voting might not be very exciting to most of you, the formal part does contain some meaningful items this year which are described below.

In the non-formal part, which will be held over video link like last year, I will present River Oak's first quarter results, discuss long-term results, and take questions. If you have a question you want to ask me or any of our Board members (new or old), send it by email to our moderator Tilman Versch at tilman.versch@good-investing.net no later than April 23, 2021.

As a second unusual positive, we will then be joined by Juha Varelius, CEO of Qt Group, a Finnish-based software company that I call the Photoshop of smart-screen software, for a 30-minute panel discussion about Qt and its background. For a video teaser of Qt Group and its business applications, click here. **Don't miss the chance to hear directly from one of the CEOs of the companies River Oak is invested in!**

All shareholders and their families are welcome to attend the informal part of the meeting without voting or registering in advance. A link to join the meeting will be sent out to all shareholders the week before the meeting.

For the formal voting part, Lars Kylberg at PwC will be proposed to become the company's auditor. River Oak does not fulfill the legal requirements for an auditor to be mandatory, and while I have so far been hesitant to add any non-required costs, I saw many benefits for the company to retain an auditor (primarily in the long-term) and the Board unanimously supported the suggestion. I have already started working with Lars and have been impressed with his easy-going efficiency.

I am delighted to announce that two new Board members, Amir Dov and Arimatti Alhanko, have been proposed to join our Board. Our current Board members, Anna Åhr and Stefan Sjöö, will not stand for re-election this year.

We started very small, and I had no experience of how to run a company that had more than three shareholders. Thus, much of the Board's work in the first few years was focused on things such as corporate law, best practices etc. Today, we are quite a bit larger, the infrastructure we need is in place and our corporate filings are efficiently handled. Our future Board work will be much more focused on investing, evaluating deals and general strategic decisions.

Amir Dov is the founder and managing partner of Reading Global, an equity fund with a focus on high-conviction, long-term investment ideas. Since it was established in 2015, Reading Global's investments have outperformed the fund's benchmark by about 9% per year. Reading Global and its sister fund, Reading Capital, manage a combined SEK 900 million on behalf of family offices and high-net-worth individuals, mostly in Israel.

Arimatti Alhanko is a senior investment manager at Luxembourg Finance House where he advises a public equity portfolio of SEK 700 million and helps evaluate potential private investments. He previously worked at Banque Havilland where he launched two new equity portfolios in 2018/2019, both handily outperforming the benchmark indices. With his private investments, he has generated an annualized return of 36% over the past 5-year period. Arimatti holds double MSc degrees, one in Engineering and one in Finance. Arimatti who is born in Finland was also the person that initially alerted me to Qt Group which you will hear more about at the annual meeting.

Amir is focused globally, while Arimatti has a strong focus in the Nordics and a lot of experience in Europe. Both are very passionate about investing and business and have extensive experience of evaluating potential investments. As it happens, both bought their first stock at the age of 13. Given the quality and the number of investment opportunities they are regularly exposed to, I believe their expertise on our Board will materially increase River Oak's opportunity set. I am very happy to welcome them both to our Board.

River Oak is far stronger as a company today because of our departing Board members Anna Åhr and Stefan Sjöö. Anna has been a great sounding board for all kinds of corporate, communications and other questions I have had over the past four years. She has also been brilliant at getting to the essence of things quickly. Stefan has been a good sounding board not only over the past four years, but also in the year that preceded River Oak's founding. When lawyers and people in the financial industry were telling me to come back "in a few years" (think Jamie and Charlie at the JP Morgan meeting in The Big Short movie), Stefan was one of our Day 1 investors that took time out of his schedule and listened despite my then unfinished plans. Stefan also encouraged me to present River Oak to a small group of people in our first year, which resulted in a handful of new early investors that have been a great addition to our journey so far.

Both Anna and Stefan will remain as large shareholders. Please join me at the meeting to thank them because our 1st leg as a company couldn't have been much better.

At the extraordinary general meeting that was held on March 27th, more than 90% of shareholders casted their vote (Barack Obama would be proud) to amend the Articles of Association according to the proposal put forth by the Board of Directors. The amendment means that the company will from now on pay a dividend on the A-shares equivalent to 20% of the company's book value increase each year (a vast majority of this dividend will continuously be re-invested in the company). Given our recent good results, a few years' worth of salary costs has now accrued in our books meaning that no salary payouts will affect our book value in the coming three years. In addition, our capital base is now magnitudes larger than our average over the past four years, so the company's fixed costs are now expected to be between 0.1% to 0.5% of the capital base in the coming years which is magnitudes lower than previously.

These items will have a positive impact on our overall profitability as the company previously allocated 25% of the company's book value increase in a year towards personnel costs and related taxes, and we used to have fixed costs that were materially higher as a percentage of our total assets. The impact will be positive in all years – in unusually good years such as the past two years, the impact will be quite significant – thinking about it over the long-term factoring in the effects of compound interest, it will be even better.

Looking back and ahead

River Oak now has more than 50 shareholders from six different countries and three different continents (only Africa, Antarctica, Asia and South America to go).

Four years ago, on January 20, 2017, the new president Donald Trump was sworn in. To many people the world felt like in limbo, and many were worried about the new direction the United States was taking and what that would mean for the world and the capital markets. Less than three weeks later, on February 6, 2017, an unperturbed small investment company was incorporated in Uppsala and made its first investments the following day. Quite a few people were hesitant to invest even parts of their savings then, and many people were too worried about the future to invest anything at all at the time. However, a few brave souls did invest to become River Oak's Day 1 investors.

Today, as Trump's presidency ended in dramatic fashion with a historical second impeachment trial in as many years, looking back over the past four years there was no shortage of controversy or global crises; none the least the ongoing pandemic. Some would probably label the past 4-year period as the most dramatic, eventful, and uncertain since World War II.

Despite all this, over these same four years, River Oak's Day 1 investors have at the time of this writing more than tripled their money, which corresponds to an annualized rate of more than 30%. This has been achieved by investing in well-managed companies that provide great value for its customers, have solid business models, strong balance sheets and a bright future. While our return rate is very unlikely to be maintained, it shows that River Oak's strategy of focusing on the micro and keeping things simple works well almost no matter what is going on in the world at large.

We will continue in the same fashion: focusing on great companies and the great people that build them rather than macro events, stock prices and market sentiments.

Our flying start notwithstanding, any continued success we may enjoy will require a humble mindset and an open mind that is prepared to change and adapt to discover new areas of focus for our investments when the world changes. For change it will. Every successful company in the history of the world has constantly had to adapt to new realities. Those companies that didn't are those that most of us don't remember anymore.

The best results in most endeavours are achieved by always looking ahead and focusing on the future. Which player is more likely to become better over time – the one that stands in the middle of the field, hands on hips, admiring the scoreboard, or the one that leaves the field not even looking at the scoreboard, fully occupied thinking about the things that can be improved to the next game? For you as a shareholder and me as CEO, this means not being too celebratory over recent good results or being too low over recent poor results, but rather staying even keel, living always "in the middle".

For now, we are on a good path. To use Alice Schroeder parlance: the snowball is rolling.

April 16, 2021

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%+ returns that the general market has provided and is likely to keep providing investors over time.

Goals

1. **Don’t lose money.**

   We always think about the downside first.

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

   This will result in an average annual increase in book value per share of ~11.5% after taxes and general operating costs.

Historical returns

Feb 7, 2017 – Dec 31, 2020: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family Partnership

	Investment return (pretax)	Net result	OMXS30 incl. div.	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%
Total gain	1213.0%	**615.0%**	124.8%	490.2%
Compounded annual gain	38.0%	**27.9%**	10.7%	17.2%

Notes to table:

[1] Change in Book value per share is reported net of a 20% dividend on the A-shares according to the Company's Articles of Association, taxes and general operating costs.

[2] The OMXS30 column does not include having paid the standard annual tax on Swedish investment accounts.

[3] Estimated currency effects on Investment return: 2014 +7%, 2016 +2%, 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, years not mentioned <1%

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.

River Oak Capital

2021 H1 Letter to shareholders

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River Oak's book value per share increased by 7.4% in the first half of 2021. Our book value on June 30, 2021 was SEK 89.2 million, equivalent to SEK 286.95 per share.

	Investment return (pretax)	Change in Book value per share	OMXS30 incl. div.	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 per June 30	9.6%	**7.4%**	22.8%	(15.4)%
Total gain	309.1%	**187.0%**	69.1%	117.9%
Compounded annual gain	37.8%	**27.1%**	12.7%	14.4%

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

Notes to table

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Fellow Shareholder,

Our core holdings had another strong six months. Their average revenue and operating earnings growth in the first half of 2021 was 45% and 73%, respectively[1]. These are quite extraordinary numbers under any circumstance, but keep in mind that for our holdings these numbers are on the back of two previously very strong years in 2019 and 2020 as well.

Capital raising

I was happy to welcome 10 new shareholders in our July capital raise. It brought us to well above SEK 100 million in assets and to 64 shareholders based in eight different countries (Belgium and Germany added) in four different continents (only Africa, Antarctica and South America to go). As usual, Larisa and I also increased our investment in River Oak, this time by SEK 5 million.

Regarding our new shareholders, I must mention a quite extraordinary coincidence. Two of our new shareholders, an American couple, live in the nice city of Gainesville, Florida. Gainesville is primarily known for being a home for the University of Florida and its huge campus (where lost alligators sometimes stroll around) which spans 2,000 acres. For comparison, the Euro 2020 soccer matches were played on 1.8-acre pitches meaning that the campus could fit 1,117 full-sized soccer pitches and still have some room to spare. As for the coincidence: Gainesville is also the place where I spent six months doing my master's thesis work for then start-up and now Nasdaq-listed ViewRay, Inc. back in 2005. I met this couple without any prior acquaintance only through our common interest in investing. It's a small world.

Our next capital raise will be on October 1st. Information will be sent out a couple of weeks in advance to shareholders and to our interest list.

Connoisseurs

Sinch joined Fortnox and Qt Group in our 5-bagger club (that is, companies that have returned more than five times our initial investment). Despite its current small membership base, this club is not exclusive by any means. It is open for business 24/7/365. If you know of a small business in the Nordics that has reached some traction and is looking for capital to grow with a long-term partner, please tell them to reach out to us.

On the subject of multi-baggers, I have found that many people, laymen and professionals alike, often assume that just because a stock is up substantially – especially if it's a public stock – surely it must be sold or at the very least trimmed. Without going into detail on company valuation, interest rates, etc., I'll just say the following which I believe is true for all stocks over the long term:

[1] Companies that were sold in the period or were part of the portfolio only during a short part of the period are excluded from the calculated averages.

If you are right about the business and don't know the stock price, you'll be alright. If you focus on the stock price and are wrong about the business, you won't.

Lee Freeman-Shor has written a short book called 'The Art of Execution' in which he presents the results of a study he did of all the investment managers he hired over almost a decade running a large UK-based fund-of-funds. In the study, he divided the managers into different groups based on their behaviour. His best performing group was one he called 'Connoisseurs' for their ability to treat every investment like wine: if it was off, they got rid of it immediately, but if it was good they knew it would only get better with age[2]. He found that a key trait within this group was a high boredom threshold – nothing ever seemed to change in their portfolios. They would talk about the same companies year after year. For Lee, it was boring to the point of him sometimes struggling to get out of bed on days when he had a meeting scheduled with one of his Connoisseurs. Nevertheless, this group handily outperformed all the others.

So many investment firms and its managers feel a constant urge to do *something*, and the new is often a lot more exciting than the old. I counter this natural human instinct by regularly reminding myself of all the progress our "old" companies have made over the years compared to the new ones I'm considering – our most shining example is Fortnox that has gone from a relatively small and unknown start-up to becoming a backbone of Swedish entrepreneurship and small business ownership. With Lee's book, I now have an additional tool to help me which is to always remember the Connoisseurs.

The Connoisseur mindset is not to be mistaken for never selling. All our investments, the homeruns as well as the laggards, are re-evaluated a couple of times per year. Only when an investment is considered attractive over the coming years – regardless of its past performance – will it be in our portfolio. It's important that you know that a company's attractiveness as an investment for us is never a pure monetary return on investment calculation. Utility and benefit for its customers, company culture, business risk, my level of conviction and being able to sleep well at night are always part of the equation too.

Our investments

We have made one new investment so far this year in Goodfood, a Canadian online food delivery company. It was brought to my attention by one of our new Board members Amir Dov whom you had the good fortune to meet at our annual meeting in April. A memo outlining the investment which I encourage you to read is attached with this letter. In short, it's a very exciting, entrepreneurial and fast-moving company in an industry that is transitioning online.

[2] A wine connoisseur is an individual who has deep knowledge of the subject of wine. This knowledge goes beyond knowing how to taste wine or having a deep appreciation for it. A seasoned connoisseur will, for instance, have the ability to assess a young wine and know its aging potential. Wine connoisseurs are also well-adept in tasting and analyzing wine for what it is, without much bias.

We have also sold two investments, one long-term holding and one in the due diligence phase.

In all investments I make for River Oak, I have a high conviction that the company will be a long-term winner that we can stay invested with for many years – ideally forever. This is always the goal going in. As a corollary, if I no longer have high enough conviction that it will, I sell. This is what happened in the case of Storytel.

I will also sell if my reason for investing at the time of investment has proven wrong or if circumstances have changed so much that we are now looking at a completely new situation. This is what happened in the Swedish e-commerce marketplace company CDON which we invested in last December and subsequently sold out of in the first half. When things materially change, it is easy as an investor to rationalize and forget why you invested in the first place because when you own shares in a company you have a whole other emotional connection to it – you are now "buddies". In cases like this, I prefer to sell and then do the "refreshment" analysis on the company under the new thesis. This way, the work can be completed with no distractions and then compared to all our other available alternatives on a clean slate with no biases attached. A stock doesn't know that you own it, but you sure do! I wish the CDON team best of luck in their challenging and exciting future.

storytel

We sold our last remaining shares of Storytel, a Swedish audiobook streaming company, in the period. We first invested in 2018 and the investment generated an annualized return of approx. 21% over our 3-year holding period.

What initially got me interested in Storytel was its entrepreneurial roots, its first-mover advantage in many markets which had enabled them to develop the largest local language catalogues which is a very important factor in audiobooks, and their market leadership in many countries with seemingly limited competition. The runway especially in Europe seemed great. In addition, I was a happy and heavy user myself.

What Swede remotely interested in business and entrepreneurship doesn't remember when founder and CEO Jonas Tellander went to Draknästet[3] to try to save Storytel from bankruptcy in 2009, and in the end was able to raise SEK 1 million by selling 10% of the company? (LINK) That crucial investment is most likely one of the best and most helpful Swedish venture investments of all time. It has allowed Storytel to reach 1.6 million paying subscribers and has probably worked out to a 1,000-bagger or so over the past decade.

So, what caused us to sell? In the end, a few reasons.

[3] The Swedish equivalent of Shark Tank and Dragon's Den

i. The Storytel service has gotten less traction outside the Nordics than I had expected despite very heavy spending, indicating that maybe the Nordics are a somewhat different breed when it comes to enjoying and being willing to pay up for an unlimited listen-all-you-want audiobook service, or that competitors are catching up, or both.

   While Storytel has had no problem to raise capital to fund these initiatives, with so many new and ramping-up international markets, it is hard to get a good grasp of the return on investment they are getting in the different markets. Customer lifetime value is a hard calculation to make in familiar markets, and surely even harder in completely new markets.

ii. The realization that Storytel probably has limited pricing power given the already relatively high pricing compared to services which compete for their user's time and monthly budgets, such as Spotify and Netflix. In the Nordics as an example, Storytel is currently at 19 to 23 EUR per month vs 10 to 15 EUR per month for a similar offering with Spotify and Netflix.

iii. I view their 2023 goals as very challenging. If they are reached, it will likely be very costly in terms of marketing to get there, which goes back to ensuring that this marketing spend actually yields a reasonable return on investment.

As an aside, I was never a fan of Storytel's habit of providing detailed quarterly forecasts on subscribers and revenue per subscriber, and then spending a meaningful amount of time and resources commenting on said guidance and why it was made or missed. At best, this wastes a lot of time and energy for management and all others involved. At worst, it gives the whole company an uncomfortable pressure and a short-term focus of trying to make the numbers rather than focusing on providing the best possible service for users. As a long-term oriented investor (which presumably is what every company wants to have) I couldn't care less whether one of our company's quarterly revenue is X million or X+2 million. I care about that customers and employees are happy, and that the company is developing in the overall right long-term direction.

I don't think the regular quarterly forecasts have given Storytel any benefits whatsoever as a company. I believe they would be much better off if they simply stopped providing any forecasts at all (this is by the way true for many companies; it is by no means unique to Storytel). That would free up a lot of time, energy and potentially some mental "baggage" as well – all valuable resources which could be used to focus on much more important matters. By providing detailed guidance and spending much time on its commentary, a company also puts itself at risk of getting a very short-term oriented shareholder base which is much more sensitive to surprises and disappointments.

On a personal level, I love the service and will keep being a happy – and probably life-long – paying subscriber. I do really like the company too, but we will be cheering them on from the side lines for now.

Company updates

Thank you to everyone who joined our annual meeting in April! I hope you enjoyed meeting our new Board members Amir Dov and Arimatti Alhanko, seeing their passion for investing and hearing about their impressive backgrounds. Thank you to Tilman and Larisa who made everything run smoothly before and during the meeting. Finally, special thanks to our guest Juha Varelius, CEO of Qt Group, who was generous with his time and who was no doubt the highlight of the meeting (I was his main competition).

Looking ahead, I'm very happy to welcome our first intern, Miguel Neto, who will start in September. Miguel is based in Portugal and recently got his bachelor's degree in Finance from the ISEG Lisbon School of Economics & Management. Miguel is very passionate about studying companies which you can see on the blog he has kept up for a few years. He has also previously done an internship at Cederberg Capital which is an investment firm I hold very highly. Miguel is already familiar with the type of work I do on a daily basis so he will be ready to go and add value to River Oak from Day 1. Welcome Miguel!

I have finally instilled some permanency into our office space by signing a 3-year lease. When this little business venture of ours was started from almost nothing a few years ago I was sitting in a very humble office located on top of a Thai restaurant in an industrial area building under a demolition contract. I did find it quite luxurious at the time to have lunch so close nearby plus it was also a big upgrade from my previous office. In fact, believe it or not, of the four office spaces River Oak (and my family office) has rented, the landlord has terminated our contract due to a coming demolition or complete restoration in all of them. If you didn't know better, you'd almost suspect a plot.

As much as I enjoy looking back at those humble beginnings when subscribing to a Wall Street Journal or an Economist.com was completely out of the question, I do prefer where we are today. (I might agree to go back if I was also promised to become 30 years old again.) I'm moving into the new office on Eklundshovsvägen 5 which is located right above Studenternas stadium next week. The office will be shared with Nutris, a health platform software company with three employees that is owned and operated by my family. Welcome over for a coffee anytime you want, to discuss business or anything else, or for an (optional) basketball shootout. This invitation is of course open to our international shareholders and friends too.

Looking ahead

As always, there is a lot of talk about the current 'high uncertainty'. I think we should all just agree that high uncertainty in the world is a certainty and be done with it. This would save humanity a lot of unnecessary worry every year.

Rather than trying to find a playing field somewhere in the world where there is no uncertainty, I believe it is a far superior strategy to embrace it and play as best as you can with it. We will continue in the same fashion as always: focusing on great companies and the people that build them rather than on macro events, high uncertainty and stock prices.

I'd like to express my gratitude for how much I appreciate talking to many of you about the business trends you're seeing in your own jobs and industries. This type of "inside" information is invaluable when you're trying to understand companies and industries better. Thank you for being so generous with your knowledge and experience.

I will keep investing our hard-earned capital based on our three main pillars: Fundamental business analysis, a long-term mindset and keeping things simple.

Thank you for bringing your long-term mindset to this partnership which allows me to focus on the things that matter.

September 2, 2021

Daniel Glaser
Chief Executive Officer

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goodfood

August 27, 2021

All amounts in this memo are in Canadian dollars ($).

Goodfood ("GF") is a Canadian online grocery delivery company. It was founded out of a Montreal apartment in 2014 by two former investment bankers and self-proclaimed "foodies"[1], CEO Jonathan Ferrari and COO Neil Cuggy (a third cofounder joined shortly thereafter). The initial product offering was meal kits and the target customer was the busy professional that didn't have time to shop for groceries but still preferred to eat home over going out.

There are a few things I like about the founders' investment banking background. First, they were smart enough to leave. Second, they likely have a good grasp of economics and return on investment which is very important in a capital-intensive business such as online grocery delivery. Before you write off investment banking and online groceries as a poor match, you may have heard of another reasonably successful e-commerce company called Amazon whose founder also used to be an investment banker before he decided to go try his luck selling books online instead.

In six short years, GF has grown from a standing start to serving more than 300,000 households, a revenue run rate in excess of $400 million, and more than 4,000 employees. They achieved all this while raising around $140 million of equity capital, and today they have $130 million in net cash. It's fair to say they've been productive.

Online grocery delivery is the real price

While GF started out as a meal kits company, the long-term vision has always been to become Canada's leading online grocery delivery company. In the words of CEO Jonathan Ferrari, *"Meal kits, for us, are what books were for Amazon."*

Meal kits is a complex business, but a couple of companies such as for example the global leader HelloFresh and Sweden's Lina's Matkasse have proven that meal kits can be a good business if executed well, both sporting around 10% operating margins along with healthy growth. GF has also proven its ability to be profitable in the past year despite large investments into its grocery offering and logistics network.

While GF's meal kits business is pretty good – it has competed successfully with HelloFresh in Canada for five years now and they're still essentially neck-and-neck which to the best of my knowledge is the only market HelloFresh has entered and been in for a number of years where

[1] Food nerds – Jonathan confessed to having cooked Gordon Ramsay cookbooks from cover to cover

they are not clearly winning – it is not a great business with its commoditized nature and relatively high "on-and-off" churn.

My real excitement here is centred around GF's recently launched grocery offering which is another step in the founders' original vision to become Canada's leading online grocery delivery company. I am also excited about the entrepreneurial company culture and their history of great execution.

A few years ago, yours truly was in the camp that said people would never want to shop clothes online as it was hard to know how the clothes would fit unless you physically tried them on, what the color would really look like, etc. But the industry adapted and solved this problem by offering fast delivery along with easy and free returns.

While online penetration of groceries in Canada is low today, I believe few people will be eager to do their weekly grocery shopping in stores if there are good online alternatives that can be relied upon to deliver fresh groceries with same-day or next-day delivery at reasonable prices[2]. Although it will probably take a longer time, it seems likely that grocery stores will meet a similar fate as clothing and electronics stores have done in recent years.

Online grocery shopping is one of the fastest growing industries in the world, and as many other online categories its adoption has been accelerated by the pandemic. Canada's total grocery market is estimated to be around $130 billion today with online share at around $10 billion. The total grocery market will most likely continue to grow at low single-digit rates, while I believe the online share, which grew 150% in 2020, will continue to grow at very high rates. This will result in tens of billions of growth over the coming decade. GF is investing heavily in their own delivery network and private label grocery brand to be optimally positioned to capture some of this growth.

Same-day delivery

Most people decide what they want to eat for dinner less than three days in advance with a majority deciding in the afternoon on the day of eating. Being able to offer same-day delivery for any product is always appreciated by consumers; looking specifically at meal kits subscribers in Canada, more than 80% of them say they would choose faster delivery even at a higher price point[3].

With this in mind, and considering Canada's vast land (by area, it is actually the second largest country in the world after Russia) and relatively cold climate which makes delivery logistics difficult to do well, it seems like a particularly attractive proposition to be able to offer same-day delivery for groceries across all of Canada.

[2] In a 2020 survey by PwC, only 7% of Canadians said they think grocery shopping online is easier.
[3] Blue Apron research & GF surveys and research

Most Canadians live in the south in the vicinity of the largest cities. Thanks to its current footprint of nine fulfilment centres across the country which have all been built since 2017, GF is already today able to reach 95%+ of the population with at least next-day delivery.

Figure 1. Goodfood fulfilment centers marked in red.

GF has recently launched same-day delivery in Montreal and Toronto where they reach a combined population of around 10 million (~25% of Canadians). It has been very well received with significantly higher NPS scores and more frequent orders compared to cities where they don't offer it. This is where GF is aiming to go for all of Canada, with plans to expand the same-day delivery service to Ottawa, Vancouver and Quebec City in the coming year.

Further along the lines of investing in the customer experience, GF also has its own delivery fleet called Goodcourier. It was launched from a standing start in 2019 and now delivers more than 65% of all orders. This has enabled GF to reduce their overall delivery cost by more than 30% since Goodcourier's launch and take control over the full delivery experience from order to the customer's door.

Private label groceries

GF launched their own grocery brand from a standing start in 2019 as well. Like most of their new initiatives, the execution here has been equally impressive. They already offer more than 1,000 different grocery items ('SKUs') and their ambition is to reach 4,000 SKUs in the coming years. A couple thousand items may seem thin compared to the average grocery store that offers 20,000-40,000 SKUs, but most of an average grocery basket is actually covered by relatively few SKUs. The idea is that a smartly curated smaller selection of SKUs will cover most of people's weekly grocery needs while allowing for faster delivery times without making it a too complex operation.

Management believes that an inflection point will be reached somewhere between 1,500 to 2,500 SKUs when people will be able to do most of their grocery shopping online at GF with little or no need to complement in physical stores. As a lot of the heavy lifting in terms of building the private label infrastructure has now been done, it is likely that future additional SKUs will come online a lot faster than the initial 1,000 did.

GF aims to price its private label groceries 10% to 15% cheaper than the national brands. This is made possible by having less waste throughout their supply chain, and by having their own producers and then cutting out the intermediaries that are normally present in grocery supply chains such as wholesale distributors and physical retail stores.

GF currently has $160 million in cash (and another $40 million in available credit) to spend on their logistics network and private label buildout. As their offering becomes more complete, they plan to go after grocery-first customers more aggressively starting in the coming year.

Goodfood WOW

The recently launched Goodfood WOW subscription service combines the above initiatives with meal kits into one offering. It costs $9.99 per month and gives customers the flexibility to freely mix groceries and meal kits in their orders as they wish (no meal kit subscription required) with unlimited same-day delivery. It is quite similar in principle to Amazon Prime.

While this is a great value proposition for consumers, it is also a large undertaking for GF, especially the addition of thousands of new SKUs and the complexities that come with that. There will no doubt be bumps in the road but given their operating record in meal kits with its inherent challenges such as changing menus every week, they seem well equipped to handle the expansion into groceries.

The big question is if more and more consumers will be willing to gradually swap out some of their regular brands in exchange for the Goodfood brand. The quality of the products will likely be the most important factor, but there are also some enticing incentives for consumers to switch such as same-day delivery and lower prices in many categories.

There are some promising signs so far. Groceries currently account for around 10% of GF's total revenue. Based on how the WOW offering has been received with typical WOW baskets being split close to 50/50 between groceries and meal kits, management expects groceries to increase to become 20% of its total revenue within the coming year, which implies 100%+ growth for the grocery business. If GF can successfully roll out WOW across its customer base with a similar 50/50 split, groceries will go towards becoming 50% of GF's total revenue and potentially larger over time as they start marketing the offering more aggressively.

Some success in the grocery offering is also reflected in that revenue growth has steadily been outpacing subscriber growth in the past 18 months. Recently, the difference has been particularly large with revenue growing 2x the pace of subscribers.

Operating leverage

While revenue growth has been outpacing subscriber growth, gross profit growth has been even better. Due to continuous efficiency improvements in their logistics network and reduced incentives when acquiring new customers, GF's gross margin has improved like clockwork, going all the way from 18% in 2017 to above 35% today which is an impressively high level given that this is after fulfilment costs. As a result, in the past two years gross profit dollars grew 280% while revenue grew 180% and subscribers grew "only" 68%.

GF's longer-term gross margin target is 45% which they aim to reach by continuing to invest in automation and becoming still more efficient in the overall delivery chain which should be possible with increasing scale. I'm not counting on a continued reduction in incentives when acquiring new customers given the competitive landscape.

There is a lot more potential here if the grocery offering is successful. Over many years now, large investments have gone into building out GF's logistics infrastructure, and there are fixed costs associated with the packing and shipping of one box to a customer. If you can add grocery items in the boxes you are going to ship out anyways, the incremental margin on those additional (and mostly private label) grocery items should be very high.

Competition

In terms of meal kits market share there are no official numbers but based on comments by both CEOs it seems that GF roughly splits the market leadership with HelloFresh today at around 40% share each. HelloFresh recently acquired Chef's Plate, a lower-cost offering that is kept as a separate brand, which gave them another 10% to 15% market share. The next player is Cook It which is way behind at around 4%. This effective duopoly is quite a contrast to the US market, where the spectacular IPO failure of Blue Apron took place a few years ago, where there are more than 100 meal kit companies with the top 5 commanding around 80% market share.

In meal kits, the dominant positions of GF and HelloFresh in Canada gives them scale advantages vs the competition such as better purchasing terms and more cost-efficient logistics. When it comes to the threat of the largest Canadian grocers entering meal kits, in fact both #1 player Loblaws and #3 Metro have tried their own meal kit offerings in recent years without success and both have now been discontinued. At this point, we are unlikely to see any more successful meal kits newcomers in Canada.

It is important to remember that the main price for GF is online groceries. The competition here is mainly with the largest Canadian grocers along with Walmart and Amazon Fresh. Given that Canada's online grocery market today is around $10 billion and we may have another $10 to $20 billion coming online in the next five years, and maybe as much as $50 billion in the next decade, there should be plenty of room for both Goodfood, HelloFresh and a handful of other players to do very well online.

Competitive advantages

On the grocery side, there are obvious advantages vs grocery store chains such as fewer needed warehouses, and they can be in cheaper locations as they don't need to attract customers. There is also a strong case to be made for freshness and product quality when you manage the groceries at fulfilment centres with robots and people wearing protective gear whereas in the supermarket you need to have everything in open display for shoppers to choose from. It is also worth mentioning GF's own grocery brand. While it remains to be seen how successful it will be, it could potentially become a meaningful differentiator, both in terms of uniqueness and its direct-to-consumer model which enables higher quality and lower prices compared to regular grocers.

Furthermore, similar to StoneCo's advantage vs the incumbent banks in Brazil and Fortnox advantage vs the incumbent accounting firms in Sweden, GF built all its software and technology infrastructure to be optimized for online-only from Day 1 giving them no legacy technology "debt". GF's systems have also been optimized for its "just-in-time" business model. This enables GF to be more efficient and have a minimal amount of waste throughout its supply chain. Its total waste was last stated to be around 1% which compares to 10% and often much more for regular grocers. In fact, food waste is a particularly big problem in Canada. A large 2019 study found that more than half of all food produced in Canada is either lost or wasted compared to around 30% worldwide[4] (it should be noted that GF's countrywide expansion of same-day delivery and thousands of additional SKUs will make it more challenging to maintain its impressively low food waste numbers).

Their modern and online-optimized systems combined with large investments into their logistics network should give GF an advantage here vs the incumbent grocers at least for some time to come.

When it comes to company values, CEO Jonathan Ferrari has taken a lot of inspiration from Zappos, the shoe e-commerce success story which is well-known for its customer-centricity, as well as Amazon. Together with his cofounders he instilled the customer-first ethos as a

[4] The avoidable crisis of food waste: Technical Report. Published in January-2019 by Second Harvest and Value Chain Management International Inc.

core value from Day 1. While all companies *say* they are customer-focused, few truly are. Many former GF employees describe customer service and customer focus as areas where GF really goes the extra mile and sticks out compared to the competition.

Finally, and maybe most importantly, GF's ability to execute. The two initial cofounders still own 28% of the company and GF is really #1 for them in their lives. Notably, while both took some chips of the table at the IPO at $2.50/share and subsequently at bought deal public offerings up to $6/share, in the last public offering in Feb-21 which was done at $12.5/share, none of them sold a single share. Employees seem inspired by the missionary founders and to be working at one of Canada's fastest growing public companies. The result has been very impressive execution which I believe is an underappreciated competitive advantage in today's fast-changing world.

Make no mistake, online grocery delivery is a very complex business, but *within* the industry I think this is one of GF's advantages. GF has proven itself to be a very strong operator and the tougher the business, the bigger the difference a strong team can make.

Growth drivers

GF's future growth can come from many places: new subscribers, order frequency and average order value.

First, there is the overall low penetration of online grocery shopping in Canada which should serve as a tailwind for new subscribers. For perspective, GF currently has 317,000 subscribers which compares to Canada's ~13 million urban households.

Second, the average Canadian visits a grocery store 2.5 times per week compared to the average GF customer which shops at GF just 0.5 times per week.

Third, the average Canadian household spends $150 per week on food from stores whereas GF's current revenue per subscriber is $25 per week.

I expect future growth to come from a combination of these levers (which is the best type of growth) as GF's same-day delivery capacity and grocery offering expands and hopefully becomes attractive enough to capture a larger share of Canadians weekly grocery budgets.

Main risks

HelloFresh is a formidable competitor. It is possible that they will take market share from GF on the meal kits side and be a challenger in groceries as well. While it would be preferable to have a weaker competitor, it's not necessarily all bad as it also forces GF to constantly get better. GF has a culture that is up for the challenge and as mentioned they have so far managed to keep an even footing with HelloFresh in Canada. This is however something I'm keeping a close eye on.

On the grocery side, there is the chance that GF's offering doesn't prove strong enough compared to the competition and thus is not able to achieve any meaningful traction. Groceries is a notoriously low-margin business. A limited private label assortment will help GF's margins and reduce complexity but increasing competition online could prove overwhelming. This would take away much of the potential margin expansion as well as the truly big market opportunity.

Mitigating both these risks is GF's strong operating history. I do believe GF will successfully adapt and course-correct along the way when necessary.

Our investment

We invested at an enterprise value of around $600 million. As the price for meal kits is prohibitive for a large part of the population, we will just assume that GF's meal kits business grows in line with the industry at modest rates from its current ~$360 million revenue runrate. At 10% EBIT margins in line with its peers if we normalize for less growth investments, this part alone should justify the price we paid.

Whatever success GF has with Goodfood WOW and its private label grocery offering should be added value on top.

Given the massive expected increase in online grocery shopping in Canada over the coming decade and given that GF already today has fulfilment capacity to handle over $1 billion in sales, they should be very well positioned to take some piece of this growing pie. If GF is able to maintain anywhere near its current 4% share of the total online grocery market, GF's business should be magnitudes larger in a couple of years.

As GF's grocery business is in a relatively early stage in terms of proof of concept, the weight in our portfolio is closer to the lower end of our normal 7% to 30% starting position size. I will be looking to increase our investment if there are signs that the grocery offering is gaining traction.

To be clear, we would not invest in an average meal kit company, it is simply a very tough business. This is primarily an investment in continued execution by a mission-driven company and the huge online grocery opportunity that they have in front of them and have long prepared for.

This investment also aligns very well with our preference for backing entrepreneurial high-performing and fast-moving companies that are disrupting less agile incumbents and providing a better service for customers. It's very fun and inspiring to be able to back companies like these. I look forward to seeing what the Goodfood team will be able to achieve in the coming years.

2021 Letter to shareholders

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River Oak's book value per share increased by 10.8% in 2021. Our book value on December 31, 2021 was SEK 112.8 million, equivalent to SEK 296.06 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)%
Total gain	326.8%	**196.1%**	82.7%	113.4%
Compounded annual gain	34.5%	**24.8%**	13.1%	11.7%

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

Notes to table

[1] Change in Book value per share is reported net of a reserved dividend on the A-shares equal to 20% of the gross book value increase according to the Company's Articles of Association, taxes, and general operating costs.

[2] The OMXS30 incl. div. column does not include having paid the standard annual tax on Swedish investment accounts which River Oak pays every year. This tax has ranged between 0.4% to 0.5% of total capital so the real difference for a Swedish investor that invested in River Oak instead of OMXS30 incl. div. is thus between 0.4% to 0.5% larger per year than reported in the table.

[3] Estimated currency effects on Investment return: 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, years not mentioned <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,

As much as I love this business venture of ours, its importance completely pales in times of war. Ukraine's bravery is as inspiring as the atrocities committed by the lawless Russian state are tragic. River Oak stands with Ukraine for democracy and freedom.

With that said, let's take a look at our 2021 business year.

Collectively, our yearend holdings had another very strong business year. At the time of this writing, not all of them had yet reported their 2021 results. For those that had, their average revenue and operating earnings growth in 2021 was 47% and 33%, respectively[1].

Two holdings, StoneCo and Goodfood, were sold during the second half of the year. Combined, these two investments never comprised more than 11.5% of our total assets at any given time during the year, and for most of the year their combined weight was far less.

Despite the stellar business performance of our core holdings which are essentially all software companies, our investment return for the year trailed our benchmark OMXS30 for the first time ever. To better understand why, let's zoom out a bit.

It is tempting to celebrate years of outperformance and be disappointed in years of underperformance; it is however much more productive, useful, and realistic to look at a recent multiyear period instead. In line with what I tell everyone that wants to join River Oak as a shareholder, the best way to evaluate our results is to look over any rolling 3-year period. Anything less is often up to recent trends and news, which may be positive or negative, and 99% of them have little to nothing to do with our companies' long-term success. Three years usually allow enough time to see a company's improvement or decline, and for the market to roughly reflect it.

If we look at our book value per share gain over the past three years, our results make much more sense.

	Total gain		Compounded annual gain	
	River Oak BV per share	**OMXS30 incl. div.**	**River Oak BV per share**	**OMXS30 incl. div.**
Last 3 years	189,9%	86,3%	42,6%	23,1%
Last 2 years	93,1%	42,5%	39,0%	19,4%
Last 1 year	10,8%	32,7%	10,8%	32,7%

This is a much better – although not perfect – reflection of our underlying companies' actual *business* performance. Over this period, our companies' collective business performance has significantly and consistently outperformed the companies that comprise our benchmark,

[1] For Sinch, EBITDA is used instead of EBIT when calculating the averages as Sinch Amortization & Depreciation "costs" relate almost entirely to acquisition-related amortization of goodwill and thus are not true costs that reflect the underlying business performance of Sinch.

No adjustments have been made however for Acquisition costs, Integration costs, and Employee incentive programs which Sinch itself discounts when it reports Adjusted EBITDA. I consider these to be very real costs as they are fully necessary to operate and to achieve the acquired revenue which is counted in full.

generating both higher revenue growth and earnings power growth. As a result, and as expected, so has their stock prices. It just so happens that the stock market doesn't reward great (or poor) business performance in a linear fashion.

Reflections on the year

At the beginning of the fourth quarter, the valuations of some of our companies reached a level where the upside seemed limited in the near future unless these companies materially surprised to the upside. An argument could be made that we then should have gone into lower-quality companies with lower multiples or simply go to cash.

I did get as far as to seriously consider reducing some of our top conviction holdings in October, but at the same time I did see a good return over the medium-term – at least 100% upside over the coming two to four years is the measuring stick I use – and since all of you are invested with a multiyear timeframe, would I really be doing my job as our CEO if I tried to optimize our results for the coming months? The clear answer for me was no.

It seems almost impossible to consistently beat the index every single year and have no negative years without making some short-term "risk management" decisions such as taking profits. It's an understandable temptation. I've been told that even Warren Buffett made those in his early years. Whether that's true or not, it clearly doesn't make sense for us.

I have been abundantly clear about the fact that everything I do at River Oak is with the goal to optimize our outcome over the coming multiyear period. ***This never stops.*** In 2025, this will still be my objective. We will never go towards optimizing for shorter time periods as I simply do not have any conviction in my ability to do that. I never have. Neither do I know many other successful investors who have stood the test of time who do.

You simply never know when the market will price in a future earnings power – sometimes it happens within a few years and sometimes within a few months. Trying to skillfully shuffle dance up and down the hills and valleys can cause you to miss out on all those gains available to you had you just saved your shuffle dancing moves for Friday night rather than trying them out in the stock market.

5-year birthday

River Oak turned five years old on February 7th. Over these past five years, it has been one goal of mine to earn the right to exist in this industry. While there is a lot left to do, I believe we are now well on our way.

Over the past 100 years or so, the average annual market drawdown has been approximately 17%. Five years in, we have already had our fair share of significant drawdowns as well. Looking at the big picture however, our investment portfolio's value has more than quadrupled and our book value per share has almost tripled since our start. I've consistently said that I believe this is unlikely to continue. On the other hand, we now have five years of additional experience and learnings from doing this under our current structure, and perhaps more importantly, an ever-expanding network of very smart and capable people that I've gotten to know over these years.

I’ve also said many times that the sharp drawdowns that we experience every few years is the price we pay for our steady long-term gains, which will hopefully continue. Even for the absolute best companies, stock prices tend to go down way faster than they go up, but over time they do go up much more than they go down. Legendary investor Peter Lynch always emphasizes that the ‘*key to making money in stocks is not to get scared out of them’.*

On this note, it has been particularly heart-warming to see how you have responded during periods of duress. Just as in Dec-2018 and March-2020, many of you stepped up to the plate in our most recent capital raise in February. Not only did many of you increase your investment or join us for the first time – I also didn’t hear so much as a beep of worry from the rest of you despite the sharp market decline that we saw at the start of the year. This is not surprising given that we all have a 3+ year time horizon for our River Oak investment. The benefit of a very calm and steady investor base that we now enjoy is a natural result of this, but it’s still awesome to have – and I believe somewhat unique. We have become an incredibly strong unit. Well done all of you.

In related happy news, the only shareholder that left River Oak over these past five years (for reasons completely unrelated to River Oak) re-joined us in February. It’s good to be a full team again. Welcome back Tommy.

We will now continue in the same fashion that has earned us our results so far: Having a relentless focus on companies and the people that build them rather than on macro events, stock prices and market sentiments. At the end of the day, great companies are built by groups of ordinary people that reach extraordinary achievements, not by markets or politicians. Some of you, I suspect, would readily admit that you have a hard time wrapping your head around my view that what matters in the long run is a company’s earnings power, while macro events are only important to the extent that they affect that same earnings power. Despite this, a few of you have said “*I trust you, and since that’s your view, I sleep well with my River Oak investment*.” This means a lot. Thank you.

We will also continue to strive to be different and look in places where most others don’t, even if that proves costly on occasions, as I believe this gives us the best chance for good results. John Maynard Keynes once said, “*Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.”* I don’t need to tell you which River Oak was built for.

Finally, I want to build an investment firm that is known for its honesty and integrity, its business mindset, and for keeping things simple. Our long-term vision is to make a meaningful difference in our shareholder’s lives and to be a positive influence for all companies we invest in.

Our investments

Since we have many new shareholders that joined us in the last two years, let’s repeat what type of companies I look for on our behalf.

The first criterion is always that I understand the business well. Then, I am looking for companies that have the following characteristics:

1) Solid base to survive downturn – business model and balance sheet.
2) High returns on capital invested which is often enabled by a competitive advantage.
3) Companies that I believe will earn more in the future than they do today.
4) Honest and competent management with a proven ability of good execution.
5) Attractive price.

These criteria are all crucial and hard to rank by order of importance, but I will say that 1) is the most important and 5) the least important. Without 1) we can suffer permanent losses, which we want to avoid at all costs. For a company that has the first four characteristics, the passage of time will usually fix 5) unless you went really crazy here.

In other words, instead of looking for beaten-down stocks that I hope will revert to the mean, I look for companies with above-average performance that I believe won't. These companies usually operate in industries with strong secular growth, and/or have a culture that breed and foster above-average performance.

This concept is also critical when thinking about potentially persistent inflation and higher interest rates. Whether these risks materialize, and to what extent, is of much less importance to our long-term success than getting our first four criteria right. Just as these characteristics will ensure enough value creation over time to make most purchase prices attractive, they should also overcome most effects of inflation and higher interest rates over time.

Where there are great numbers, there are great people

The longer I've been investing, the clearer it's become that where there are consistently great numbers, there are also great people.

I'm a numbers person by nature, so oftentimes my initial interest in a company comes from the numbers side of things, or from a strong underlying trend which the company helps enable or accelerate. For our best investments, it has emerged over time how big a role its people play. The opposite is true too. Where there have been large hiccups in the numbers, the people and/or culture are most often the reason there too.

To stick out today, a performance-oriented culture makes all the difference. One of the strongest software companies in the world today, Atlassian co-founders and co-CEOs Mike Cannon-Brookes & Scott Farquhar recently wrote, "*In a world where capital is easy to access and strategy is easy to emulate, culture becomes a significant competitive advantage.*"

How is this incorporated in our investments? In Sweden, and I assume in most other countries as well, my experience is that there are a lot of people who are happy to go to work, go home at 5 pm sharp every day, perform their duties well and then get their pension at 65. There is absolutely nothing wrong with this attitude – I even encourage it for those that enjoy this way of life as it leads to happy outcomes for them. We are looking however for companies that attract those people who have that burning desire to achieve more, to work the extra hours, to improve every day – those that want to make a big difference at work. These people usually can't help it, this is just how they were born.

With Fortnox it was obvious from the get-go that the company oozed with grit and entrepreneurial spirit. Fortnox CEO Tommy Eklund says that the culture lives within the walls. With for example Qt Group and Sinch my interest was initially piqued from the numbers side, but it has become clear over time that both have an overperformance culture as well.

It is no big surprise that these holdings of ours have all been doing very well business-wise in the past few years.

Let's now look at a few mistakes I've made.

Goodfood

Making this investment was a big mistake of mine. This was by no means the first time I made a mistake; it was however the first time the outcome was this bad.

The price looked attractive but that doesn't matter one bit if you misjudge the business. I knew very well what a tough business this was going in. Still, I managed to convince myself that Goodfood, due to its stellar operating history, would be able to thread the needle. To sum up, this investment felt like my torn Achilles in early 2020: it would have been a lot better if it hadn't happened, but now that it did happen, the only choice was to make the best of it. In this case, that meant selling it as quickly as possible which I did at around a 55% loss, carefully evaluating why I made the mistake, and move on. Occasionally, I seem to need a painful reminder that good investment decisions are not automatic, and good outcomes are far from guaranteed.

Last summer, I wrote a memo outlining why I was initially attracted to Goodfood. In it I listed the two main risks I saw: that their private label grocery offering will not get traction and HelloFresh competition. Both risks seem to already have materialized when I made the investment last summer; it just hadn't been reported yet. While I viewed those risks as acceptable at the time, I vastly underestimated the situation Goodfood would find themselves in *if* these risks started to materialize.

I also underestimated just how big positive impact covid restrictions had on Goodfood's business; had covid not arrived I now believe the business would have materially slowed down already in the first half of 2020.

Furthermore, what seemed to be increased adoption of Goodfood's private label grocery offering with larger average basket sizes and significant positive operating leverage, now looks like it was primarily customers that were ordering more meal kits per order during the pandemic, not extra groceries. Management used to continuously inform investors about their progress towards their goal of offering 4,000 private label SKUs[2]; in last year's summer quarter shortly after our investment, they abruptly stopped mentioning it, indicating that this offering had not been going as well as they hoped.

What made things worse was that when management saw the core business slowing down, they made the decision to start competing in the quick commerce space with less than

[2] SKU = Store Keeping Unit. Measurement of how many items a store or company has on offer to customers.

1-hour delivery by launching micro fulfilment centres in the cities. They did not explain the rationale for this change of strategy very well. At the time they announced this decision, they had operated only a single micro fulfilment centre for no more than a few weeks. This change seemed like a big gamble in an even tougher business than meal kits. I'm not saying their chances for success here are zero but my initial reasons for investing were now completely gone.

In my view, it is likely that food delivery will meet a similar fate as the airline industry. It's a huge convenience for consumers, and it seems like a given winner just liked airlines did back in the day, but a great service for consumers does not automatically equate to great rewards for investors. Just like in the airline industry, I believe many food delivery companies will end up in bankruptcy, and the remaining successful ones may be in a race towards zero margins given the commoditized nature of the industry.

All in all, I gave Goodfood's management too much leeway in their assessment of the business and how they communicated about it, due to what had been seemingly superb execution all the way since foundation. It is now clear that their execution was aided as well, at least in the past two years, by very favorable business conditions. Upon reflection on this investment, Warren Buffett's recurring conclusion on tough business models comes to mind: *"Our conclusion is that, with few exceptions, when a management with a reputation for brilliance tackles a business with a reputation for poor fundamental economics, it is the reputation of the business that remains intact."*

In addition, the father of intelligent investing Benjamin Graham observed that, *"The risk of paying too high a price for good quality stocks – while a real one – is not the chief hazard confronting the average buyer of securities. Observation over many years has taught us that the chief losses to investors come from the purchase of low-quality securities at times of favorable business conditions."*

Painful as it was to realize, it seems I managed to achieve the feat of failing on both accounts here. It was a bad investment decision to start with in a business with poor fundamental economics, at a time of favourable business conditions, which was exacerbated by a poor outcome, and exacerbated even further by, in my opinion, a misguided change in management strategy (although it may well have been the best choice given the circumstances). For those of you that remember the good old movie 'Heartbreak Ridge', Clint Eastwood might have called my actions in this whole situation a real cluster****.

I really have no excuses for this one, it was a just a plain mistake on my behalf which I should have been able to avoid. I'm not one bit happy with it but I do believe big mistakes offer the best opportunities to learn and improve, and that you must take advantage of them.

StoneCo

In last year's letter I wrote: '*I also recognize that our type of companies – fast-growing, asset-light, highly-scalable market-leading technology companies with long runways for continued growth – have been in favor lately. They were already favored in 2019 (for good reason if you ask me) and then the pandemic hit and poured fuel on the fire. The intrinsic business value of our companies has increased a substantial amount in the past few* *years – their stock prices have in some cases increased even more. The market has in most cases priced in a continuation of these companies' impressive results. In some cases, it will prove correct, while in some it will probably prove optimistic.'*

I'm afraid at least one of our 2020 winners, Brazil based StoneCo, was in the latter camp. As previously mentioned, our StoneCo investment was reduced in late 2020. It was then a relatively small position for us entering 2021, and it became ever smaller before I sold out of it completely during the year.

During the year, I realized that it's simply too hard and time-consuming to follow countries like Brazil and everything that's going on there. A lot of unknowns popped up during the year and I realized I had nowhere near as good understanding of the business as I initially believed. In addition, I didn't see StoneCo (or any other Brazilian business) ever becoming a large enough position for us to justify the time and effort required to invest there. While we had a relatively good outcome on our StoneCo investment (undeservedly some would say, and I won't argue), the return on time spent must really be questioned. Going forward, I will be much stricter on the 'time required' parameter. As many wise people have said: if something is not worth doing at all, it's not worth doing well.

Learnings

Every Christmas Eve in my family, we always take a moment to wish each other something well for the coming year. Last year, my sister's fiancée wished for me to 'make a few more mistakes as learning from them is what truly makes you better'. Little did he know that I had already been working hard to fulfill his wish as you have read above.

In fact, in 2021 we would have had a better result if I had set sails on January 1st, went to an island with no phone or internet access, and returned on December 31st. Well, that may not be completely fair, but a few mishaps during the year called for some serious reflections on my behalf. As a result, a few adjustments have been made to our investment process:

1. Going forward, we will stay in the Nordics as much as possible, with only some forays into Europe and the United States. Anything else will have to be exceptional situations. See the 'Coming home' section below for a more elaborate explanation.

2. I will not make a new investment that enters our portfolio as the smallest position among our core holdings. A higher conviction than that will be needed. Exceptions can be made if we get limited allocation in for example a private offering.

3. We will not compromise on the quality of the business model, even when the price looks attractive and seems to more than compensate.

4. I will not engage in companies that occupy too much mindshare. The world is changing at an ever-increasing pace, and it is crucial for me to use all available time and energy where it will make the biggest difference for River Oak as a whole.

Coming home

We had both successes and learnings last year. They can basically be summarized as follows:

- Nordic companies, simple businesses = Successes
- Non-Nordic companies, complex businesses = Learnings

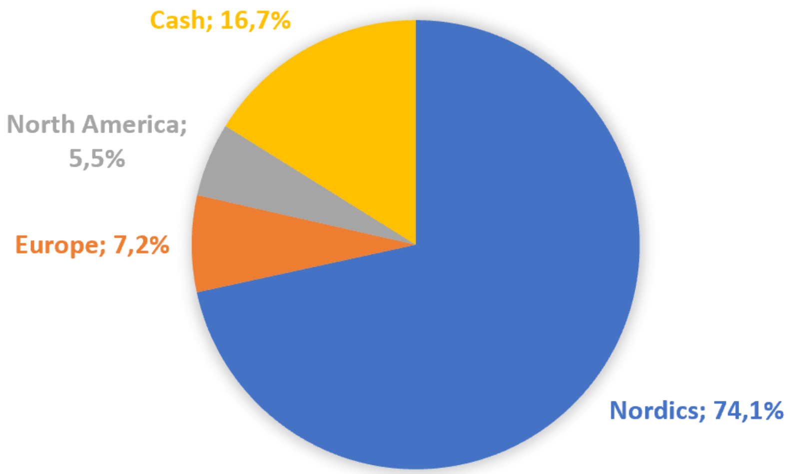
This is true not only for 2021 but since our inception. While we have made a few good investments abroad that had good outcomes over the years, it is blindingly obvious that our larger long-term winners reside almost exclusively in the Nordics.

The main reason why we have ventured outside the Nordics in the past few years is that the best Swedish companies that I understood well have simply been too richly priced to be attractive for long-term investment. Rather than sitting around and hoping for a market crash which may or may not come, I thought it was more productive and fun to look elsewhere.

Companies in other geographies take a lot more time and effort to understand well. While it is often very interesting to go abroad in search for wonderful companies and exciting stories, it does not make sense to spend much time on investments that have very low odds of ever becoming high-conviction ideas into which I feel comfortable allocating large parts of our capital.

Going forward, we will stay in the Nordics as much as possible, with only some forays into Europe and the United States if the business is: i) online based, ii) its customer base is international, and iii) local knowledge of a foreign market is not critical for the investment. Anything else will have to be exceptional situations. I want to thank our Board member Arimatti Alhanko for helping to clarify my thinking here.

Our portfolio's geographic allocation[3] at the time of writing looks like this:



[3] A small warrant position gives us an additional exposure of approx. 3.5% at the portfolio level. This is why the total adds up to 103,5%.

A note to endowments, outsourced CIOs, and family offices

Most large capital allocators that have reached out to me over the years to due diligence the potential for a partnership have been very nice and mindful about my and their time. I have also learned a lot from many meetings. Trying to convince investors to partner with us is not why I started River Oak however, nor what makes me excited to go to work every day. I started it because I love figuring out investment puzzles and because I have an insatiable curiosity about the world – in particular, the world of business and entrepreneurship – and to be an option for those who are looking for a different place to invest some of their savings and who find our investment philosophy compelling.

I am always very excited to partner with the right investors, but I only look for the type of relationship I have with my wife; only go after the ones that love you back. In fact, 99% of River Oak’s current shareholders were already very interested when they initiated contact (the only case I can remember where I had to do some convincing was with my best friend over a beer at his summerhouse).

To rephrase, if you’re an allocator and potentially interested to partner with River Oak in some way, since I won’t be able to spend a lot of time trying to convince you, please only reach out if you’re already *very* interested and are looking for a short, well-defined, and efficient due diligence process. I’ll then be very happy to try to confirm or disconfirm your beliefs.

In closing

We have had an extraordinary first five years. I will keep going for long-term extraordinary, but we will not get there every year. At River Oak, we will take both the ups and downs with unwavering enthusiasm. I don’t know what the coming years will bring but I can promise you I will keep giving this my all as I love the challenge of investing and I have no desire to be like the runner who finishes in third place and happily says, *“Look, I got 3rd place and I didn’t even run the whole race. Can you imagine what my time would have been if I had?”* If we are indeed bound for 3rd place, I want to get it having nothing left in the tank.

When it comes to good investment opportunities, particularly in the Nordics, they have become scarcer over the past decade – probably in part because good information has become more widely available online and because more foreign investors have realized the benefits of investing in the Nordic countries.

Handling periods like these require a lot of patience. I failed us in this respect last summer as I believe my decision to invest in Goodfood was somewhat aided by the fact that at the time I hadn’t found a genuinely attractive new investment since Qt Group in the first half of 2020.

It is still difficult to find very many attractive stocks given today’s overall circumstances, but I’m optimistic that we will make one or two new investments in the coming few months. I feel much better about our prospects today than I did last year for a few reasons:

1) Prices are lower,

2) A few companies took up way too much of my time and mindshare last year,

3) Some painful lessons were learned and won't be repeated.

Our annual meeting will be on April 2nd at 1 pm and will be held over video link. We will open the "doors" 30 minutes early so you can experience the joy of Zoom breakout sessions before we get started. Just as last year, I will again be the least exciting bullet point on the agenda as we will have another very exciting guest this year. I'm happy to welcome Fortnox CEO Tommy Eklund who will join us for a fireside chat. I very much look forward to hearing him talk about his experience leading one of Sweden's most successful and impressive companies. I hope you do too.

Next year we look forward to hosting a physical meeting again. Due to the pandemic, many shareholders – in fact, most shareholders – have never experienced a physical River Oak Annual meeting. I look forward to changing that next year.

We had our first audit this year. As a nice testament to the simplicity of our operation, Larisa told me it was the fastest audit she's ever been part of.

My gratitude goes out to our Board members Amir and Arimatti who have contributed both actionable data and insights during the year, to my intern Miguel who has completed two good projects so far, and to Larisa who now handles all our finances and capital raises with remarkable efficiency. Larisa is about twice as fast as I was in our first few years when I was handling the same tasks. She is the reason we can report our book value on the first day every quarter and why we are now able to complete our capital raises in two days rather than two weeks. Her ability has also freed up a large amount of my time and energy for other things.

I'm leaving on that sailing trip now with an expected return on December 31st. Just kidding. I'll be here. I love being here. You know you love it when successes and failures are both equally great sources of motivation.

Thanks to all of you for being part of our quest to build a different investment company that will hopefully make a meaningful difference for all of us, and over the longer term, for all companies we invest in as well.

March 26, 2022

Daniel Glaser
Founder & CEO

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%+ 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%+ returns that the general market has provided and is likely to keep providing investors over time.

Goals

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

   We always think about the downside first.

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

   This will result in an average annual increase in book value per share of ~11.5% after a 20% dividend on the A-shares according to the Company's Articles of Association, taxes, and general operating costs.

Historical returns

Feb 7, 2017 – Dec 31, 2021: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family Partnership

	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)%
Total gain	1400.9%	**692.2%**	198.3%	493.9%
Compounded annual gain	35.1%	**25.9%**	12.9%	13.0%

Notes to table:

[1] Change in Book value per share is reported net of a 20% dividend on the A-shares according to the Company's Articles of Association, taxes, and general operating costs.

[2] The OMXS30 incl. div. column does not include having paid the standard annual tax on Swedish investment accounts which River Oak and Zen Capital pay every year. This tax has ranged between 0.4% to 0.5% of total capital so the real difference for a Swedish investor that invested in River Oak or Zen Capital instead of OMXS30 incl. div. is thus between 0.4% to 0.5% larger per year than reported in the table.

[3] Estimated currency effects on Investment return: 2014 +7%, 2016 +2%, 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, years not mentioned <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.

River Oak Capital

2022-H1 Letter to shareholders

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River Oak's book value per share decreased by 40.9% in the first half of 2022. Our book value on June 30, 2022, was SEK 78.2 million, equivalent to SEK 175.06 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 per June 30	(39.8)%	**(40.9)%**	(20.7)%	(20.2)%
Total gain	157.1%	**75.1%**	44.8%	30.3%
Compounded annual gain	19.1%	**10.9%**	7.1%	3.8%

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

A word on float

The difference between our investment return and change in book value per share in the first half of 2022 is comprised by taxes paid in the period (0.25% of the difference), operational costs (0.25%), and the use of our so called "float" (0.6%).

Float is a liability on our balance sheet that we can use for investment until we must pay it out. We initially got some float at the beginning of 2021 when we reserved salary costs for the coming three years out of our 2020 profit pool. At the start of 2022, our float was 2.9% of our total assets. It worked to our advantage in 2021 and to our disadvantage in 2022. I expect that use of any float we have will work to our advantage in most years.

Notes to table

[1] Change in Book value per share is reported net of a reserved dividend on the A-shares according to the Company's Articles of Association, taxes, and general operating costs.

[2] The OMXS30 incl. div. column does not include having paid the standard annual tax on Swedish investment accounts which River Oak pays every year. This tax has ranged between 0.4% to 0.5% of total capital so the real difference for a Swedish investor that invested in River Oak instead of OMXS30 incl. div. is thus between 0.4% to 0.5% larger per year than reported in the table.

[3] Estimated currency effects on Investment return: 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, years not mentioned <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,

Since we started River Oak, there have been a few moments where I felt that our holding company structure along with the requirement that all investors have a 3+ year time horizon, might not have been the optimal one. This is not one of them. Its benefits shine with its brightest colours in times like these.

Periods like these, which are *guaranteed* to come along every once in a while, are the reason I always strongly emphasize the timeframe and tolerance for large swings to all our new investors. As much as we all want to believe that we will act calmly and rationally in periods of duress, there is nothing like a real-world experience that gives you the chance to prove it.

In addition to our well-suited structure, and equally well-suited shareholder base, getting out of this period in a good way will require some patience and a level head – from myself and from all of you. I have no doubts about you, and I hope you have none about me.

If you have been here since July-2019 or longer, you have achieved a satisfactory result as of today, and if you invested recently, you know that you plan to be here for three years or more. It is not very generous to evaluate results based on a 1-day snapshot right after a 40% decline in six months, but let's do that anyway. Even if you joined River Oak exactly three years ago, in the Summer of 2019, you have a decent result today of 8% per year slightly outperforming 7.4% per year for our benchmark. Come July-2025, I believe it is highly likely that today's new investors will also have achieved a satisfactory result, and I believe the same will be true in most 3-year periods.

Our investment operation

We have raised capital two times this year. The capital raised has been particularly helpful this time. I want to express my appreciation to current shareholders who added to their investment – and extend a warm welcome to the new investors that joined us. You may not be brave on the level of Ukrainian knowledge workers who are fighting on the front lines, and who are perhaps our times' greatest heroes, but deciding to invest at this time shows that you are committed to the long-term, which is exactly the type of investors River Oak aims to attract. Larisa and I also participated with more than SEK 2 million. These capital raises brought our tally to 80 shareholders.

Now is not a great time to evaluate decisions made in the past few years since every purchase will look like a mistake, every passed investment will look wise, and every sell decision looks genius. As you know, I always discourage you to draw any conclusions based on any shorter period let alone a 6-month period, but I want to give you an idea of why our portfolio was marked down so much this year. Our two best performing holdings in the first half of the year, LiveChat Software and Fortnox, were marked down by 15.7% and 19.7% respectively (slightly less including dividends); the rest were marked down by roughly 50% on average resulting in the largest drawdown at the portfolio level since our start.

Earlier in the year, we were sitting with a larger cash balance than at any time since River Oak's start at ~25% of our total assets. This was in part due to capital raises but mainly due to the challenging environment we are in with a war in Europe, covid lockdowns in Asia which affect worldwide supply chains, high inflation, and rising interest rates. As of early June, we are fully invested again after having made two new investments.

Almost half of our portfolio is now priced at an average of around 13 times *past* year's pretax owner earnings. This part of our portfolio is growing slower and generally contains companies with a less deep moat. This is our category of companies that I have previously referred to as the "Goods".

The remaining half is higher-quality companies like for example Qt Group which are growing faster, have deeper moats – and as a result are higher priced. This is the category that I have previously referred to as the "Greats"[1].

Current investment environment

While crazy things happen in the world and markets all the time, these last few years have been a bit out of the ordinary when compared to history. Before River Oak got off the ground in early 2017, there had been 20 stock market declines of 20% or more in the past 90 years, or about one bear market every 4.5 years[2]. We are currently in our 3rd bear market in less than 4 years. Historically, to experience three bear markets, you had to be in the market for 13.5 years. I can understand if you feel the current pace is a bit more than you enjoy.

With the world being more globally connected than ever, with information flowing faster and more broadly than ever before, and with more people having easy access to the markets, is this the new norm? Or will we now have gotten many of the large declines over the coming decades out of the way? Your guess is as good as mine.

I have lately received a few suggestions to consider investing in bank stocks, real estate stocks, and oil stocks – supposedly because these stocks have done comparatively well in the past six months. Ironically, these suggestions tend to come from the same people that were quite enthusiastic about stocks of fast-growing software and online-based companies as recently as six months ago. It's hard to justify why I should now take this newfound enthusiasm of theirs for completely new groups of stocks into serious consideration given how their previous enthusiasm turned out. Also, where will the enthusiasm of this group of people be six months from now?

I will stick to companies I'm familiar with and understand well. I remain focused on studying individual companies (which are all affected by the macro situation to some extent) and making the best possible decisions for us on a bottoms-up basis.

[1] For those that remember these categories from my 2018 letter, we no longer have a "China" category. Our North Star of keeping things simple doesn't rhyme all too well with having investments in China.

[2] In investing lingo, a 20% decline is the definition of a so-called bear market.

Our investments

All our investments have a lower market value today compared to the start of the year, but it's helpful to separate them into 'Marked down' and 'Failed' investments. While we are in a bear market and have a war in Europe along with high inflation and rising interest rates, we have also had one failed investment which I consider largely unrelated to today's dire conditions. In my assessment, the 'Failed' bucket has a lone occupant so far this year in Netflix (we don't own shares in it now).

Our first goal is to not lose money. What this goal means in practice is that we want to avoid realizing a loss where I was simply wrong. While I never expected a 100% hit rate, with Goodfood and Netflix I failed us in this regard. Although I will sometimes misstep, it remains my primary focus to avoid money-losing investments, as there are few things as painful – and more importantly detrimental to good long-term returns – as permanent losses.

The rest of our portfolio is in what I call the 'Marked down' bucket which has been caused largely by the factors mentioned above with higher interest rates being the main reason. Sinch is really the only one of our current holdings that has disappointed me in terms of business results. I will focus here on the three holdings of ours that have declined the most in the first half of the year.

You will remember Qt Group from our 2021 Annual meeting. I called it the Photoshop of smart screen software. Qt still seems to be relatively alone at the top when it comes to building well-designed high-performance software for embedded devices where fast response times are important, such as for example car dashboards, medical devices, industrial automation machines, coffee machines, etc. As you may have noticed, the number of devices that incorporate a smart screen are growing at a rapid pace, and so is Qt at more than 30% per year. There have been no operational hiccups here whatsoever.

One thing that has affected Qt and caused results to be "only" great and not better is the pandemic. Once you develop a commercial product with Qt's development studio and sell it, Qt gets a small royalty per device sold. Qt's license sales have grown quickly since 2018 and even more quickly since late 2019, but many of the products developed since then have not reached the market due to supply chain issues. Once this bottleneck is released (or should I say *if*), there should be a gradual and quite significant increase of royalties coming into Qt headquarters.

Qt is currently priced at around 15-20 times my estimate of its 2024 earnings power. This is comparable to stagnant companies in mature markets that are growing slowly with significantly lower inherent margins. If I'm roughly right about Qt's future earnings power trajectory, this type of valuation parity seems very unlikely to stand.

Since our initial investment in March-2020, Sinch revenue has increased by 400% to SEK 25 billion and adjusted EBITDA by 450% to SEK 3.2 billion – exceeding my expectations by about 3x and doing it faster as well. This growth was achieved organically to some extent but mainly due to acquisitions. In this period, Sinch number of shares outstanding has increased by 39% (adjusted for splits) and they have taken on SEK 10 billion of additional debt to finance acquisitions.

Our initial investment was done at an enterprise value of approximately SEK 22 billion, but additional purchases were made at higher prices, which has now caused this investment to be materially underwater. Despite achieving more than a *5-fold increase* in revenue and profits, Sinch shares are currently priced about 5% *lower* than our initial purchase price in March-2020. So, what is going on?

It goes without saying that higher interest rates and generally negative market sentiment have contributed to today's low share price. Let's put that aside for now, since that doesn't tell the whole story.

First of all, is adjusted EBITDA a good proxy for Sinch pretax owner earnings? Deprecation & Amortization are not cash outlays but mainly accounting write-downs of acquired goodwill, so the D&A part is ok. What about adjusted EBITDA? Here Sinch adds back acquisition costs, integration costs, and share-based incentive programs. Acquisition costs are clearly one-time in nature, but the other two are not. While integration costs should diminish over time, deducting SEK 200 million on an annual basis from their reported adjusted EBITDA currently seems fair. Deducting another SEK 200 million for interest expenses should give you a decent proxy for Sinch pretax owner earnings.

Let's now look at some operating factors that affect valuation. While the achieved growth is indeed very strong, organic growth will always be a more colorful feather in the hat, and it's clear that the whole Communication-Platform-as-a-Service (CPaaS) industry has become way more competitive and commoditized than it was 2-3 years ago.

While Sinch many direct connections to operators around the world which they have established over 15 years are important in many use cases, especially critical messages where high deliverability is very important, they are not exclusive in enough geographies to earn them a lot of pricing power with customers – especially since one of their main competitors Twilio recently started a new initiative they call "in and up" which means that they offer customers very attractive rates on messaging to get a foot in the door and then hope to be able to upsell other higher-margin software products such as contact centers, email, etc.

In addition, operators that sell SMS capacity to Sinch have lately increased prices, quite significantly in some geographies too, as they are looking for new ways to grow revenue given the mature markets they operate in, and because they seemingly can. As a result, Sinch has recently been squeezed in the middle between revenue-hungry operators and competitors who do not prioritize profitability. This has caused a hit to their messaging margin. One of the things I got wrong here is that I expected Sinch to have more say on the pricing dynamics as the crucial middleman. This does not seem to be the case so far.

So, what does the future look like?

While Sinch used to get the vast majority of their revenue and profit from their traditional enterprise messaging business, it will now constitute less than half of their gross profit in 2022, and it is likely to keep declining as a share of the whole. Due to Sinch three latest and largest acquisitions by far – Inteliquent (voice services), MessageMedia (mobile messaging for SMBs) and Pathwire (email) – Sinch is no longer primarily an API provider for sending SMS messages, and its overall margin profile should improve materially compared to the recent past. This will all become more clearly visible in 2022 as these acquisitions are fully consolidated in reported results.

Market commentators and media tend to focus excessively on the recent past and in particular on how much certain stock prices have fallen from a recent high, while the only thing that really matters in investing is the *current* price of a company in relation to its intrinsic value.

Combining all recent acquisitions with Sinch results over the past twelve months, we currently have a price in the market of around 13 times pretax owner earnings. This is for one of the leading companies in an industry that is growing rapidly and which I expect will continue to grow at high rates for the foreseeable future.

To give you one hopefully familiar example of why this industry is growing fast, multi-factor authentication (MFA) is one of the larger use cases CPaaS companies help facilitate. You may know it as 2-factor authentication (2FA) which you perhaps use to secure your Apple or Facebook account. One recent global survey found that only 45% of small and medium-sized companies have set up MFA to secure their systems. More should come.

I expect Sinch to grow with the industry at more than 15% per year. The question is what level of profitability that will be achieved.

It does not seem feasible that companies with their core business in other industries such as e-commerce, airlines, ride sharing, etc. will have direct contracts with dozens or even hundreds of operators, and vice versa, that operators will have direct contracts with thousands of companies. One API seems way simpler and more cost-efficient. There should thus be a place for CPaaS providers here long-term or at least until we don't use SMS messaging anymore, since they have an essential function in the ecosystem where they sit as the relay bridge between telecom operators, customers, and end users.

There should also be a limit to how much operators will raise prices as aggregators give them a lot of traffic which is possible as aggregators get large message volumes from customers that they spread out over multiple operators in different geographies. Operators should not want to price themselves out of this lucrative and growing market.

All in all, growth should be good and a steady-state blended margin of more than 10% should be achievable for Sinch over time as the acquired voice, email and SMB messaging businesses will help bring it up.

Sinch is the clear #2 CPaaS player after Twilio, it does seem to have the broadest geographic messaging coverage, and I believe it will have a place in this industry in the future. In contrast to most (if not all) of their competition, Sinch has a long record of proven profitability which increases the likelihood that they remain standing in the industry when all the smoke has cleared.

Having said that, I do not currently see the same upside as I did before. Capitalism being what it is, in a fast-growing and lucrative industry with relatively low barriers to entry in each local geography, core profitability seems likely to remain under pressure.

Given how the industry has developed, a lower valuation per profit dollar is warranted to some extent. In my opinion, just not *this* low. Insiders agree: the CEO, CFO, Chairman, and some of the founders who are also Sinch largest shareholders, have been buying shares along the way down ever since the enterprise value was above SEK 100 billion.

To sum up, if Sinch margins stabilize or improve from here, which is possible through industry consolidation, more rational competition, passing on operator price increases to customers over time which has historically been possible, successful cross-selling of newly acquired products, or through recently implemented cost control measures – this investment should work out well in the end. If messaging margins continue its decline, and email/voice margins start following suit, it most likely won't.

NETFLIX

For a long time, I have been very impressed with how Netflix have repeatedly been able to pivot their business model, from initially renting DVDs to online streaming to producing their own content – outplaying their competition along the way.

My thesis for our Netflix investment was relatively straightforward. My assumptions were that in a few years' time, Netflix would have:

- Revenue of ~$50 billion
- 300 million subscribers at an average subscription income of $14 per month
- Flattened out content spend; management has repeatedly stated that peak content spend was reached over the past two years
- $20 billion to $25 billion in content spend and less than $10 billion in other expenses would make Netflix a very profitable enterprise at a very attractive price.

Things have been well on their way along this path for a long time with subscribers going from 94 million to 220 million and average subscription income going from approx. $8.5 to $11.5 per month over the past five years.

The last two quarters however made it clear that this thesis was broken. Competition along with higher market saturation than I believed was the case, makes the equation of 300 million subscribers under flat or lower content spend in a few years' time look very difficult. I had not expected Netflix to hit the subscriber "wall" this soon. In the most recent quarter, Netflix disclosed for the first time their estimate of how many households that regularly use their services for free through password sharing with other paying households. It was a quite staggering number: more than 100 million. In light of their current subscriber base of 220 million, this was a quite shocking announcement. Converting ‘account sharers’ to paying subscribers looks like a gargantuan task; they are in my experience generally not prepared to pay anywhere near full price.

Our Netflix position was a far-in-the-money warrant which allowed us to have a certain exposure with less capital allocated. The downside of a warrant is that if the price of Netflix shares reaches a low enough level below our purchase price, we have to sell the warrant. Since my thesis was already broken at the time this level was reached, it didn’t matter much in this case as I would have sold it anyway. Our warrant position was less than 5% of our portfolio at cost but as its value increased in 2020 and 2021, this position has had a slightly larger negative impact than those 5% on our 2022 year-to-date returns.

I have successfully used far-in-the-money warrants on a couple of occasions previously with for example Apple and Amazon but I’m unlikely to use them again. My current view, or call it recent lesson, is that an investment should be attractive enough on its own merits without the “help” that a warrant provides.

While a failed investment is always painful, I don’t view this as a mistake based on what I knew. All investments will simply not turn out the way you thought they would.

Inflation and interest rates

Since the sudden and significant increase in interest rates is the main reason for our sharp book value decline, I feel a few comments are warranted on the subject even though they may be of very limited value – both in terms of correctness and predictive power.

There are people who now say it was obvious all along that interest rates would go up and stay up. They tend to forget that they have been predicting higher interest rates for the past 12 years as well. Being 1-for-12 doesn’t really make you correct in my book; it simply gives you a batting average of 8.3%. That said, higher interest rates are here and seem likely to stay, so they need to be taken into account. Historically, it has most often been the best approach to find a compromise between the extreme views on each side. If one side believes that interest rates will go back to near 0% and the other that we will have a new baseline of 6%, the base case assumption I usually make is somewhere in between.

Now, if you feel that four paragraphs of macro speculations are a complete waste of your time, I sympathize and urge you to skip ahead to the next section.

Do I believe higher interest rates will pare down the current inflation? The two main components that are causing the current high inflation in the widely cited CPI-U inflation index in the U.S. are cars and energy prices. Both are mainly caused by problems on the supply side. The former is largely due to supply chain disruptions due to China’s ‘zero covid’ policy and other covid related supply delays, while the latter is mainly due to Russia’s invasion of Ukraine. It seems very unlikely to me that higher interest rates will fix any of these two problems.

So how does this end? My current assumption is that the war in Ukraine will go on for an extended period. None of the sides show any signs towards wanting to end it. I do get the occasional first-hand report from people who speak to soldiers on the frontlines who confirm this. China's 'zero covid' policy also seems likely to remain in its current state, which increases the likelihood that inflation remains elevated for some time.

In other words, we may get a situation where interest rates are raised while overall inflation remains elevated. Higher interest rate will however dampen the demand side which should lower inflation in at least the housing and food categories which are two other large inflation components.

Why is this relevant for us? Well, as a side effect of all this, higher interest rates also reduce the value of all productive assets with future earnings streams of which we own a few.

It is worth noting that my macro views were similarly pessimistic at the start of the pandemic. Then the miraculous vaccine development happened, and then the benign omicron variant came along and essentially put an end to the pandemic, or at least took it down to a status where it's no longer more dangerous than the seasonal flu.

At some point, if higher interest rates do not seem to help stave off inflation, they will probably stop being raised. The same is probably true if they do help. It's also worth noting that for inflation to stay elevated, prices need to continuously keep increasing like they have in the past year. If prices simply stay at the current relatively high level, next year's inflation will be 0%.

If you made it this far and still want to read on, bless you.

Why are higher interest rates detrimental to company values?

Let's assume that we go from near 0% to 5% interest rates. To simplify let's also assume that interest rates stay fixed at 5% in the coming years. Let's further assume that we are shareholders in Company AB whose earnings power in 2027 will be $100 million.

In our assumed scenario, literally every financial asset in the world that has a future earnings stream becomes less valuable today. Why?

With higher interest rates, those future cash flows that we are looking to "collect" as owners in 2027 become less valuable today. This is because $1 that earns 0% interest will still be worth $1 in five years. Meanwhile, $1 that earns 5% interest every year will be worth 28% more in five years, or $1.28.

Clearly, having cash available today is more valuable in a higher interest rate environment because you can earn that higher interest rate on your available cash balance, whereas if interest rates are 0% you don't earn anything on your available cash.

Conversely, $1 that you will receive in five years is less valuable today since it needs to be discounted back at our assumed 5% interest rate giving you a present value of $0.78 (if the amount you will receive in five years is $1.28, it would be worth $1 today under our 5% interest rate assumption).

Let's now go back to our initial assumption about Company AB's earnings power in 2027. Assuming we are right, come 2027, those $100 million will be there for owners to "collect". They are just somewhat less valuable *today*, which of course means that Company AB is also less valuable *today* since its value is the sum of all future excess cash flows it will generate discounted back to today at an appropriate interest rate, which we have assumed to be fixed at 5% in our simplified example.

How will higher interest rates affect us?

The above is a somewhat unpleasant reality for owners of productive assets, but it's not the end of the world either. While investing may seem less attractive in a period of high inflation and higher interest rates, if one's expected returns exceed prevailing interest rates by a sufficient margin, it makes perfect sense to stay invested in stocks.

In River Oak's case, I believe the earnings power of our companies will on average increase by at least 15% per year over the coming few years. While those future earnings are less valuable than they would have been with lower interest rates, investing is a game of relative opportunities in which an investor must always look for the best *relative* values out there, and lower interest rates are currently not on the menu.

Does our high concentration make sense?

Our highly concentrated portfolio has arguably been the reason why we have significantly underperformed our benchmark over the past eight months. It has arguably also been the reason for our outperformance in all prior years. Let's look at its merits a bit closer.

Howard Marks, cofounder of Oaktree Capital and a brilliantly clear investment thinker, has talked a lot about how investing is always a two-edged sword. There are almost no situations in investing where your choice of strategy doesn't come with both benefits and drawbacks. Of course, one cannot enjoy the spoils of a concentrated portfolio without also being susceptible to its risks.

Its risks are in my opinion mostly associated with short-term volatility – over time, it's abundantly clear that a sensibly managed concentrated portfolio wins out over its less concentrated alternatives – and even though we have had a lot of this recently, our portfolio has not been more susceptible to large drawdowns over time than a broad-based fund.

If you take an arbitrary large fund with a portfolio of 30 to 100 holdings that is investing in similar companies as we are and compare it to the drawdowns we have had over the years, you will find that the fund drawdowns are generally on par with or greater than ours despite the "diversification" that they claim protect its investors against risk. This is somewhat unintuitive, but it has been true since we started River Oak, it was true in the five years prior in my family office, and I would bet a lot it would have been true in the prior 100 years as well.

It has also been shown that the difference in expected standard deviation in annual portfolio returns is almost negligible when going from a portfolio of 10 stocks to 1,000 stocks. The former showed a 24% expected standard deviation while the latter showed 19%[3]. Is it really worth to diversify into 1,000 stocks and give up any chance of meaningful outperformance to spare yourself of an additional 5% swing in your portfolio each year?

There are other reasons for focusing on fewer companies as well. In a study looking at stock market returns over the past 90 years, Professor Hendrik Bessembinder found that,

"...just 86 stocks have accounted for $16 trillion in wealth creation, half of the stock market total, over the past 90 years. All wealth creation can be attributed to the top 4% performing stocks, while the remaining 96% of stocks collectively matched one-month T-bills."[4]

While I and our Board members admire a great many companies, River Oak will only invest in a select few. The reality is that high concentration in my best ideas gives us a real chance to meaningfully outperform the averages over time (it also exposes us to the risk of underperforming them). If we don't give ourselves this chance, there is little reason for our existence at all as I see it. If we were to simply "hug" the index, you would all be much better off investing in that index directly through a large-scale financial institution such as Avanza in Sweden or Vanguard in the U.S. where the costs to get that exposure are zero or near zero and where there is no risk to ever underperform it.

We have benefited substantially from having a concentrated portfolio over time, and it requires being able to take the good with the bad.

Looking ahead

One of my favourite movies of all time is 'The Big Short' which tells the true story of a few investors who all bet big on the US housing market crash of 2008. Michael Burry whose housing crash prediction was spot-on is the movie's main hero. It is relevant to note though that Michael has kept on predicting a few other maladies in the subsequent 15 years as well, none of which have played out like how the housing crash did. Love him or not, I think it's fair to say that his nature is a bias on the side of pessimism.

I am the opposite. I tend to err on the optimistic side of things when I'm wrong. This contributed to giving River Oak a very strong period from 2019 to October 2021. The other side of the coin are times of deep pessimism such as we have currently where it remains to be seen how we will fare over a multiyear period. If history is any guide however, optimists tend to be happy in nine years out of ten while the reverse is true for pessimists – and I not sure they are very happy in that one year either. They're merely "right".

It has been interesting to observe how the market's movements have completely shifted investor mindsets of what is needed for successful investing. When markets were going up in

[3] Meir Statman, "How many stocks make a diversified portfolio?" *Journal of Financial and Quantitative Analysis* 22 (1987): 353-363, doi: 10.2307/2330969. Available at https://www.jstor.org/stable/2330969

[4] Bessembinder, Hendrik (Hank), Wealth Creation in the U.S. Public Stock Markets 1926 to 2019 (February 13, 2020). Available at: https://ssrn.com/abstract=3537838 - Thanks to Worm Capital for highlighting this study.

the past few years, it was "*You really need to let your winners run. I made a mistake by selling this great company too early…*"

This year as markets have steadily been going down, it has become "*You really need to take profits once in a while. I made a mistake by holding on to this great company…*"

The hindsight could've, should've, would've are all utterly useless. Since it's impossible to continuously predict market inflection points with any precision, the best one can do is learn a few lessons and move on.

What if we keep underperforming like we have in the past eight months? I don't expect us to underperform over many 3- and 5-year periods, but I will point out that at the world's most successful investment company of all time, in Berkshire Hathaway's first 50 years, its book value growth underperformed the S&P 500 in more than one out of every five years on average. If you look at Berkshire's share price, which supposedly also bakes in soft variables that are not visible in its book value, it underperformed the S&P 500 in one out of every three years on average. Please view that as a definitive *upper* limit of what is possible to achieve in an investment operation like ours over time.

What should you make of our recent decline? If you look at all previous drawdowns I have experienced while managing River Oak and my family office – there has been seven occasions in the past 10 years when our portfolio declined 15% or more – they all look like speedbumps a few years later. The current one is admittedly our largest speedbump so far, but I believe it will prove to be just that: a large speedbump. It won't be easy, but I'm committed to make it so.

I will end by paraphrasing a few words by author Vickie Worsham: Life is not about having everything go right, it's about facing whatever goes wrong. Now we need to do just that.

Life is also not about being without doubt, it's about moving forward despite it. I do not know what the borders of Europe will look like five years from now; I do think it is wise to assume that things will work out alright, and I know for sure that it's more productive and meaningful to move forward as best as you can rather than hoarding sticks and stones in anticipation of covid-24 and World War III.

In times like these, it's good to remember that while the future is almost never as good as it seems when things are going well, it is also never as bad as it seems when things are going less well. As always, I look forward to River Oak's future and will strive to make the most of it. I'm very happy to have you along with me.

July 8, 2022

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%+ returns that the general market has provided and is likely to keep providing investors over time.

Goals

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

   We always think about the downside first.

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

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

Historical returns

Feb 7, 2017 – June 30, 2022: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family Partnership

	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 per June 30	(39.8)%	**(40.9)%**	(20.7)%	(20.2)%
Total gain	804.0%	**368.3%**	136.5%	231.8%
Compounded annual gain	26.1%	**17.7%**	9.5%	8.2%

Notes to table:

[1] Change in Book value per share is reported net of a 20% dividend on the A-shares according to the Company's Articles of Association, taxes, and general operating costs.

[2] The OMXS30 incl. div. column does not include having paid the standard annual tax on Swedish investment accounts which River Oak and Zen Capital pay every year. This tax has ranged between 0.4% to 0.5% of total capital so the real difference for a Swedish investor that invested in River Oak or and Zen Capital instead of OMXS30 incl. div. is thus between 0.4% to 0.5% larger per year than reported in the table.

[3] Estimated currency effects on Investment return: 2014 +7%, 2016 +2%, 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, years not mentioned <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.

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Comment on Sinch

July 17, 2022

I normally don't comment on corporate events of our holdings in between my biannual letters. This will not change but Sinch announcement this past week calls for an exception.

On Monday, July 11th, shortly before midnight, Sinch announced that they are reassessing their historical Costs of Goods Sold by SEK 162 million. As a result, I sold all our remaining shares in Sinch the next morning on Tuesday, July 12th.

Related research work

A couple of months ago right after their Q122 earnings report, I contacted Sinch about the discrepancy between their reported EBITDA and cash flow in the past twelve months. This discrepancy had not been there before, and I wanted to make sure everything was in order. This is part of normal routine work I do every week. Sinch gave me three main reasons along with detailed amounts for each:

1) Late invoicing to large customers (they said this is not uncommon at the beginning of a year),
2) Consolidation of three very large acquisitions,
3) Prepayment of traffic to a very large operator to get better pricing.

Once I reconciled the amounts they gave me with the reported numbers, the remaining discrepancy was small enough that I considered it fully within normal deviations. They also said this would go back to normal in the coming year.

I had no reason to believe they were lying or withholding any information and I considered their explanation fully reasonable. It didn’t cross my mind that a misreported income statement was a fourth reason, none the least considering how rare this type of thing is in the Nordics.

My current thoughts

Some of you probably concluded, rightly so, that I didn't sound as enthusiastic about Sinch in my recent letter as I normally do about our holdings. After conducting and reviewing dozens of interviews with industry experts over the past year, including current/former employees at Sinch and some of their main competitors as well as customers, I concluded I would sell our shares a few months ago.

Considering the recent excessive negative market sentiment that I believed had caused an unduly low share price however, I decided to hold out for a better price. Last Monday's announcement changed those plans.

I cannot recall ever seeing misreported numbers of this magnitude in the Nordics unless it turned out to be a fraud. I do not currently believe Sinch is one – after all, repeated insider buying is not a typical hallmark in companies that intentionally game their numbers – but I believe they knew about this and should have disclosed this way earlier. After all, if SEK 162 million is missing in your bank account compared to what you expect to have, it seems reasonable to assume it’s a priority to find them and that a few people at the company knew about it. (Sinch says the invoices that caused the misreporting had all been paid – but, by mistake, these payments were not included in their reported income statements.)

If this was indeed an honest mistake as Sinch claims, why do I consider this breach so serious?

First, net revenue is equal to the income Sinch receives from customers less costs to operators. Thus, understating costs to operators is equivalent to overstating their net revenue and earnings.

Second, one of the main question marks in their messaging business: the profit margin, which has already been declining over the past year – is even lower and declining more rapidly than reported. The misreported amount is equivalent to roughly 15% of reported 2021 messaging earnings.

Third, either someone at Sinch decided to recognize revenue for a bunch of messages but did not book costs for them even though the invoices had been paid, or Sinch control systems are remarkably deficient. A mistake of this magnitude raises a lot of questions about other control functions (or lack thereof) they have in place. Ultimately, the CEO and CFO are responsible here.

Fourth, Sinch revenue and earnings have been the basis for Sinch share price over the past 18 months. I assume they have also been important during the process of getting bank loans for acquisitions. These loans and Sinch shares have in turn been used as currency to acquire four other companies in 2021. This currency, as it turned out, was based on incorrect and too high numbers. It seems very likely that we will hear more about this in the coming months and that lawsuits may be coming as well. Unfortunately, I don't think we have heard the last controversy from Sinch.

Conclusion

In my opinion, Sinch is now either one of the more undervalued companies in Sweden, or the opposite if there are more cockroaches in the kitchen. When the range of outcomes is this wide, I don't want to play. Even if this proves to be a true one-time mistake by Sinch, it is unlikely they can restore my confidence in their business and reporting without some management changes.

Updates to our investment process

Our outcome here is not Sinch fault. Neither is it the fault of the audit firm who did not raise any concerns when signing Sinch 2021 annual report. At the end of the day, it is my job to make sure we don't get tangled up in outcomes like this.

Most of our negative investment outcomes over the years could have been avoided by applying the following rules:

1) Don't invest in companies that report adjusted EBITDA.
   (I wrote about the perils of adjusted EBITDA companies in my 2015 family partnership letter.)
2) Don't invest in companies whose reports require >1h to go through and understand.
3) Historically, I have given our holdings a shorter lease – if there was a negative sign that potentially changed the trajectory of the business or if a surprise came up of which I wasn't aware at the time of investment, I would sell. In the past year, I have favoured being more forgiving to give companies a chance to get over the occasional hiccup.

   I believe this is due to workings on a subconscious level. Once I have written publicly about a company, I have tended to sell it much later when a negative event of serious nature occurred than I otherwise would have. This should be possible to avoid if I write about our investments only once they have been in our portfolio for a while or after they have been sold.

To avoid similar adverse outcomes in the future, I will apply all three rules going forward.

If you have any questions or comments on the above, please call or email me anytime.

July 17, 2022 Daniel Glaser

River Oak Capital

2022 Letter to shareholders

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River Oak's book value per share decreased by 28.8% in 2022. Our book value on December 31, 2022, was SEK 94.1 million, equivalent to SEK 210.77 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)%
Total gain	212.1%	**110.8%**	59.0%	51.8%
Compounded annual gain	21.3%	**13.5%**	8.2%	5.3%

The difference between our investment return and change in book value per share in 2022 is comprised of taxes paid in the period (approximately 0.65% of the difference), operating costs (~0.45%), and the use of our so called "float" (~0.8%).

Float is a liability on our balance sheet that we can use temporarily for investment until a predetermined payout date. We initially got some float at the beginning of 2021 when we reserved salary costs for the coming three years out of our 2020 profit pool. It worked to our advantage in 2021, and to our disadvantage in 2022. I expect that the use of any float we may have will work to our advantage in most years.

When evaluating investment results, it is my 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 ten years which includes results from 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 0.5% 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 0.5% lower per year than reported in the table, and the real difference achieved by the same investor is between 0.4% to 0.5% higher per year than reported in the table.

[3] Estimated currency effects on Investment return: 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, years not mentioned <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,

One way to sum up our 2022 business year is with the following:

"Faced with the choice between changing one's mind and proving that there is no need to do so, almost everyone gets busy on the proof." – John Kenneth Galbraith

At the start of the year, I got busy on the proof, until the evidence clearly showed it was time to reconsider.

Our result in 2022 is certainly nothing to write home about, but given where we were in July, I'm encouraged by how we ended the year. Over the past three years, our book value per share increased by an average of 11.2% per year compared to 7.4% for our benchmark, a slightly lower average than in our initial three years, but acceptable and in line with our goals.

As I have said many times before, I can never promise you results. I *can* promise you unwavering effort and commitment. I can also promise you a common destination for all of us. I have no diversification of my liquid net worth outside of River Oak and my family office (which is invested in the same companies as River Oak). Whenever your investment is marked down, you can quietly repeat to yourself: *'For every dollar my investment is marked down, Daniel's family's investment is marked down more, and significantly more in terms of percentage of net worth.'* While that may seem like a small consolation during rough stretches – as an investor, I take great comfort in knowing that my interests are completely aligned with those of the pilot. As you know, this is not as common in the investment industry as it is in the airline industry.

In fact, I have little diversification of friends outside of River Oak as well. Wherever Larisa and I go nowadays, there is almost always a shareholder there. You can be certain about few things in life, and one of them is that I will be here in the good times and the bad times.

I have previously stated my preference for reporting results to you as infrequently as possible since large swings tend to smoothen out over time, and the fewer chances investors get to worry about their investments the better off they usually are.

Let me highlight a case in point. Between our January low which occurred on January 25th shortly before our capital raise, and December 31st, our investment return was positive 3%. In other words, if I had not reported to you in between those two dates, you wouldn't have known about *any* fluctuations in the value of your River Oak investment due to the war, inflation, interest rates, or anything else that hit the markets and our portfolio in the past year. Call me crazy, but I believe some of you may have preferred that. In fact, large fluctuations have occurred for us most years (although they haven't been this large before). It has just so happened that most often these fluctuations recovered by the reporting dates such that you didn't notice.

Comeback after a challenging period

I do love a challenge. In fact, the bigger the challenge, the more excited I get. It's not that I was trying to put us in a tough situation, but a cocktail of adverse events including, but not limited to, mistakes by yours truly, had us in somewhat of a pickle by July.

In 2020, I said: *"I believe the only way to identify real portfolio risk is to look at what is left after it has been exposed to a few real-life tornadoes. I'm sure we will face more tornadoes, but so far, I believe we have passed this test with flying colors."*

In 2022, we did not pass with flying colors. I should have asked tougher questions and demanded better answers from some of our companies. It's deeply ingrained in human nature to not ask the tough questions when everything is going up and to the right – this is also when it's most important since this is when it can make the biggest difference. I also allowed my focus to drift into situations I shouldn't have spent much time on at all. The effects of my detours into a few poorly chosen places in the past few years didn't show up anywhere in our results until last year.

So, what was key in turning things around in the second half of the year?

One big difference compared to previous drawdowns in which I have basically been sitting tight and only increased a few current holdings was that some meaningful changes were warranted this time. There is no rule that forces us to recover drawdowns in the same way that we suffered them. While it's a great feeling to be proven right, especially about something as notoriously unpredictable and potentially rewarding as investments, it sometimes makes perfect sense to sell some of your previously best loved ideas for more attractive ones or even for cash if the risk/reward equation has changed.

We were negatively affected by quickly rising interest rates, but a more significant factor was my misjudgment of a few companies and their management teams, who for two years told a very attractive story about their companies while reality proved to be much less so during the year. Part of our strong results in 2020 and 2021 was due to positive contributions from these companies, and now there was a reversal for them in 2022. Adjustments to my selection process were introduced during the year to avoid similar misjudgments in the future. I believe these changes have already made River Oak significantly stronger.

Charlie Munger recently said something I have found to be deeply true, '*You get good judgment gradually over time partly by making bad judgments and, importantly, having them work out poorly.*' In fact, bad decisions that work out well are the most dangerous because they fool you into believing you made a good decision. The key is to never make decisions that can kill you.

I don't think all subpar decisions were realistically avoidable. Yes, I was wrong about a few companies, but that happens every year. Another issue was our lack of balanced exposure towards different *possible* outcomes in world events. It became clear to me during the year that we should have a portfolio that better balances the range of possible outcomes than we had when we entered the year – as we did in our early years – but a combination of my natural inclination towards software and online-based companies along with a lack of investment experience that spans decades caused our portfolio to be overly vulnerable to the outcomes that materialized in 2022.

After reluctantly considering this early in the year, I implemented meaningful changes to our portfolio composition in the second half of the year, which included selling some investments where I realized I was wrong and making new investments in the following categories:

- companies in the energy sector that help Europe transition away from a high dependency on fossil fuels and towards greener energy solutions,
- companies I believe will do well (or at least less poorly) in a higher interest rate environment counterbalanced by companies that will have a tailwind in a lower interest rate environment,
- software and online-based companies which became available at significantly lower prices than in recent years,
- companies where a specific corporate event may unlock value, such as for example a spinoff or an announced acquisition where shares trade at a discount to the agreed acquisition price.

The purpose is to minimize the risk of all our holdings being sharply marked down at the same time. Sometimes you hear investors talk about how great large drawdowns are because it gives them the opportunity to buy into their favorite ideas cheaply. While that may be true if you happened to have a large cash balance on the sidelines, believe me when I say that there are generally very few benefits when all your holdings go down a lot at the same time.

While some of these categories are new or new old for us, our selection criteria are unchanged. Our investments are always selected on a bottom-up basis, based on individual merits and their attractiveness relative to all our other available alternatives.

To summarize: a flaw in River Oak's strategy was exposed and needed adjustment. I expect more adjustments to be necessary over the years. Strategy choices that once seemed wise will have to be adjusted and, in some cases, scrapped altogether. To have a chance to reach our goal – an average annual investment return of 15% over River Oak's life – we must have an open mind, a questioning mindset, and always be ready to adjust our sails.

I am certain the past year will prove to be our most valuable so far in terms of our future. Tough times force you to dig deep and evaluate everything you are doing. It is often the truly tough times that give birth to the deepest and most useful insights.

Interest rate effects

River Oak specific

When the year began, central bank interest rates in Western economies were close to 0%. At the end of the year, the interest rate in the United States had been raised to over 4% and in Europe to 2.5%. This impacts us in a few ways.

Our tax rate on investments is dependent on the Swedish Riksbank policy rate and will now go up from 0.4% on our capital base per year to 0.9% in 2023. While the increase may seem high at first glance, this is the only tax we pay with our current setup. We do not pay any capital gains taxes except when we receive dividends from foreign companies.

Two factors will offset the tax rate increase to some extent, and possibly more than offset it in some years.

First, we now earn interest on any cash we hold. At the start of the year we earned 2%, and since early March we earn 2.5%.

Second, and unrelated to interest rates, we recently secured a SEK 10 million credit line on good terms at a rate ranging from 1% to 4% depending on how much of the credit we use. It is very flexible and can be used as we want and need, or not used at all. Our total borrowed amount will seldom be above 5% and will never exceed 10% of our total assets.

General effects

Higher interest rates affect the value of virtually all financial assets that generate a stream of cash flows in two primary ways. To explain why at a high level, I will assume that we went from 0% interest rate on U.S. Treasury bills, which I refer to here as risk-free[1], to 5%. In the interest of brevity, I also made a few other simplifications.

1. Higher interest rates reduce today's value, the so-called 'present value', of future cash flows. As such, the value of companies that generate them is reduced as well.

   If we knew that interest rates would stay at 0% forever, the present value of one dollar would be the same if you have it today or if you received it in five years or in 50 years since there is no interest to be earned on that dollar. Today however, it is more valuable to have cash on which you can earn 5%. In fact, at 5% annually, you will double your money in 14 years. Accordingly, it is *less* valuable to receive cash in the future since it will not earn you 5% until you have received it.

2. An increase in the risk-free interest rate raises the return requirement on investments *with risk*.

   In short, the return requirement has now been raised from 'more than 0%' to 'more than 5%'. It is therefore no longer attractive to make investments that yield say 2% (think a no-growth company with a Price-to-Free cash flow ratio of 50) which it was when the risk-free rate was 0%. The intelligent investor now wants a return that exceeds 5% (Price-to-Free cash flow ratio below 20) in investments that involve risk – why take risk to earn 5% when you can get it risk-free? – and so the valuation of all assets is adjusted to reflect this new reality.

In the real world it's not as simple, but what you should take away is that most financial assets become less valuable in a higher interest rate environment.

[1] Lending money to the U.S. government is as close to risk-free as we can get in this world, so the interest which the U.S. government pays on Treasury bills is therefore referred to here, somewhat simplified, as risk-free.

A word on our book value per share

Most of you know me well, and you know that I don't like the big difference that has accumulated between our investment return and our book value per share increase. Three factors have caused it: taxes, operating costs, and the dividend on the class A shares.

I can't do much about our tax rate which will now go up. It is set every November for the following year, and no one (including the Riksbank Governor) knows where it will end up in the coming years. If the policy rate was to be raised further to say 4%, our tax rate for the following year would go up to 1.5% on our total capital base. We will then need to achieve an average annual return above 5% for our current tax setup to remain favorable to us[2]. This will be monitored but given our historical results, we are likely to remain with our current setup under most scenarios.

Even though our operating costs are very low, they still impact our book value to some extent, and they had a much larger impact in our early years. This is not due to any lavish spending but to our still relatively small size, and since I don't want to spend much time trying to increase our size quickly other than by generating good results, we may be stuck with some drag from our operating costs for a while yet.

Finally, there will be no dividend on the A shares until we reach our previous book value high point of SEK 296 per share, so this factor will be narrowing the difference for some time now. As we hopefully get closer to reaching our previous high point, I have let the board know that I think the criteria for this dividend should be reviewed and potentially adjusted.

All in all, while I don't have the faintest idea where interest rates and thus our tax rate will end up over time, I believe that the other two factors, our operating costs and the dividend on the A shares, will contribute to narrowing the gap meaningfully over time.

Strategy overview

In January, I was invited to Bolzano in the north of Italy by my friend Alexander Pichler (more on Alex later). While there, I presented River Oak's strategy which gave me the opportunity to clarify my thoughts on this subject more than I usually do, so I thought a summary here would be useful.

Where to invest?

Most importantly, I want to invest in companies that help move the world forward and which empower their customers to live better lives.

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[2] The tax rate on Swedish investment accounts is calculated as follows: (Riksbank policy rate on Nov 30th + 1%) x 0.3

At a 4% policy rate, our tax rate would be (4% + 1%) x 0.3 = 1.5% on our total capital base.

Our alternative is to instead pay the capital gains tax rate of 30% on our total profits, which at a 4% policy rate would be unfavorable to us if our achieved average annual return remains above 5%.

If I were to start over from scratch today, I would start by building a mental map of the current state of the world and identify a few large powerful trends that I believe are a net positive for the world. Some examples of such trends over the past decade would include:

- Transition from locally installed (often called "on-premises") to cloud software
- Smartphones
- Ecommerce
- Electric cars
- Online banking
- Transition towards greener and more efficient energy/heating solutions
- Europe attaining energy independence from Russian fossil fuels

Within each of these trends, there are hundreds if not thousands of companies available to invest in. For example, when it comes to the transition from on-premises software to cloud based solutions, essentially every software company in the world has been transitioning in the past decade.

The idea here is to enjoy the market tailwind of 6-10% returns per year *and* to focus on the parts of the market that grow faster than the average and are likely to keep doing so.

Moats

Being in the right place is not enough. High growth and profitability always attract competition. Lots of it. If a company sells a true commodity which is easily replicable by its competitors, its profit margin will, slowly or quickly, but surely, go towards zero over time. These companies are vulnerable even to the smallest of headwinds.

The way out of this is to build products and services which are not easily replicable. In other words: create competitive advantages. There are in my view two essential qualities, which sometimes go hand-in-hand, that strong and enduring companies always have: competitive advantages and a good distribution system.

Competitive advantages, often referred to as 'moats' since they protect companies from competition in the same way as moats protect the castle they're surrounding, can exist in many forms.

One of the strongest moats a company can have is 'Network effects.' When a company has a large enough network of users, the network will at some point start expanding like a self-playing piano. People will use it simply because "everyone else is using it". At a certain size, it becomes almost impossible for competitors to make any inroads. The moat will swallow them all.

Another type of moat that a company can have is a 'Low-cost advantage.' When a company has a different way of producing or selling its products at a lower cost than its competitors, it gives the company the ability to offer an equal-value product at a lower price or a higher-value product at the same price. Over time, if the advantage is truly enduring, it often becomes a higher-value product at a lower price.

Let's look at the selling part of the low-cost advantage. Good distribution is one of the most important components of a successful business. Without it, a company's greatness will simply never be known to a large audience.

Most good companies are able to get their products to market at a reasonable cost and run with low enough corporate costs to be able to turn a profit. The differentiator that separates the great from the good is oftentimes efficient distribution. Ideally, a company's distribution system should be inherent within the business model itself and product development should be done with this distribution system top of mind. If a company has built a product that is very easy for customers to work with – ideally, if customers can build a good business for themselves by working with and selling the company's products, the company will have created a highly motivated salesforce that work for them for free.

One of our investments that exemplify all the above is Fortnox. It has a whole collection of moats surrounding its products: a vast network of users which continuously expands and enables low pricing, high switching costs with little to no gain for switchers, and a difficult-to-replicate company culture of easygoing excellence.

Best of all: its most frequent users, Sweden's large and small accounting firms, sell its products for them as they are onboarding customers in their own businesses. In turn, the accounting firms end customers, Sweden's small and medium-sized companies, get business-critical software that every accountant knows how to use at a very low price. Customers win, end users win, and Fortnox wins. It's no coincidence that Fortnox annual marketing budget basically consists of maintenance of their two humble minivans that go around Sweden and host workshops. Fortnox distribution system is a piece of business brilliance.

Our investments are focused on companies that have at least one of these qualities and ideally several of them. More and more of our investments are in companies whose customers and users do much of the distribution for them.

Portfolio composition

If there is one thing our Fortnox investment has taught me over the years, it is that most companies do not perform like it. For some context, I initially invested through my family office in 2015 (River Oak didn't exist then) at a price equivalent to a total enterprise value for all of Fortnox of around SEK 750 million. This year or next, Fortnox is likely to report *annual operating earnings* exceeding that number.

I consider this a strong argument for avoiding investments in companies that require world-class business performance over the coming few years to justify their market price. Most companies are simply not up to the task.

Some companies will defy the odds however, and they then often become some of the most meaningful companies we have – and as a result, make for the absolute best investments as well. Thus, I strive to have two types of companies in our portfolio:

1. Companies that I believe can add returns of between 5-30% at the *portfolio* level. These are typically found within the large powerful trends I listed above.

2. Companies that provide balance to the first group where I see little risk of capital loss and that I believe can add returns of between 5-20% annually at the *individual* level.

As an example, Fortnox has gone from being in the first group to now being in the latter in terms of how I think about it. It happens of course that companies in one group sometimes end up in the other.

What we don't do

It's important to me that you have a good understanding of what River Oak does. It is equally important to me that you have a good understanding of what we don't do.

One certain way to improve our results would have been to invest in companies with no regard to whether they help their customers or harm them. As you know, we do not invest in companies that I believe are a net negative to society, typically those that sell products that are both harmful and addictive. An example here is companies in the gambling industry (yes, that includes a certain large Swedish company starting with an 'E' that I've been asked about many times over the years). Other examples include lotteries, tobacco companies, and gun manufacturers.

I want to be able to look my kids – and you – in the eye and say that I'm proud of the investments we have made over the years. This is impossible for me to say about companies that help gambling addicts or smokers destroy their lives while their shareholders benefit enormously from it. I will much rather report a lesser result than invest in such companies. Some investors do it under the guise of being 'value investors' because of the bargain they're supposedly getting. A more accurate description in my view is that they are investors who will happily do anything for money. To be clear, I don't object to others investing in these companies if they feel good about it. I'm only saying that River Oak will never do it.

As an aside, we don't make investments in other investment companies. While I believe many of them do provide a great service to society, you absolutely do not need River Oak's extra layer of taxes and costs for doing that. If you're interested in diversifying into other investment companies, feel free to let me know and I'll be happy to give you a list of good alternatives.

Our investments

New beginnings

Last year showed investors how dangerous it can be to extrapolate. It works fine in most years – until it doesn't. As Howard Marks says, it doesn't work when it really matters.

In 2022, you needed your analysis to be correct, and your companies needed real staying power. It was no longer enough to throw the dart and wait for points to be collected. The dart board had more fields now, there were fields with negative points, and you could miss the board altogether. The darts didn't automatically jump back to the middle anymore.

Yours truly participated in the extrapolation exercise with at least one of our holdings, but we weren't hurt by the 'lose lots of money today to make a lot tomorrow' companies which were the most sharply re-rated as the tide turned. Most good companies I know of were profitable at a very early stage – the truly good ones often can't help it – so when a company does $100 million or even $1 billion in sales and claims more scale is needed to achieve profitability or that going after more market share eats up all profits, I was always cautious.

Investing in evergreen growth is often based on the two popular metrics 'Customer acquisition cost' and 'Customer lifetime value', often referred to in combination as the CAC-to-LTV ratio. CAC is straightforward to calculate since you know well how much you have spent on marketing per new customer acquired. LTV is a pure guessing game however since you have no idea how long customers will stay with you, especially if you're a relatively young company. It often seems to involve a lot of assumptions along the lines that everything will continue as before, which can become a very unpleasant surprise when it doesn't.

There are exceptions, when reinvesting every single dollar of profit and then some into gaining more market share, is a perfectly sound business decision. It is not the rule, however, which has been the going theme over the past few years.

Many of these companies are now suddenly focused on profitability, with the main reason seemingly being because *investors* are now more focused on profitability. At River Oak, we will always prefer companies that walk their own path and make decisions independent of currently prevailing market sentiments.

Software & Online-based companies

Why keep investing in software companies you might ask. Was Daniel on another planet in 2022?

Many of the strongest moats in the world today exist in companies who earned their keeps due to software. Even Apple, Amazon, and Tesla, who many would not label as software companies have huge software components that enable their businesses and have helped establish powerful moats. I'd bet a lot that you wouldn't be using your iPhone if there was no AppStore and you weren't able to access Spotify, WhatsApp, or whatever other apps you are using on a daily basis if there were alternative smartphones where you could.

Furthermore, good software companies are inherently very profitable at the core due to their low investment needs. In the past few years however, many of them got caught up in a hiring craze and as a result became less profitable, and in some cases even unprofitable. Not only did many companies hire a ton of new employees but because everyone else in the sector was hiring too, employees had to be paid very well. The resulting increase in stock-based compensation over the past few years has gone to such extreme levels at some public companies that you can almost call them non-profits (this has largely been isolated to technology companies in the United States and has not spread to the Nordics to any large extent).

When I think about some technology companies and their products, and seeing how well Twitter is working with only 25% or so of their previous workforce, it's hard not to wonder what all employees at other similar companies are doing on a regular day at the office. When WhatsApp was acquired by Facebook in 2014, its service was being used by more than 400 million users. WhatsApp's number of employees at the time? 55.

One company that serves as a good example here is Atlassian. Atlassian offers a suite of popular collaboration software such as Jira, Trello, and Bitbucket. I have long viewed it as Fortnox global big brother since it has a similar product offering with a few core products along with many potential add-ons which its users tend to add over time – all of which are readily available and easy to purchase online, which in turn enables a minimal sales team and attractive economics. Its products also have similar attractive characteristics in terms of network effects and high switching costs.

All in all, it should have a similar margin profile as Fortnox. Alas, Atlassian is just about breakeven. Why? I believe they hired too many people at a too fast pace, and in addition they give out stock-based compensation in such high amounts that it eats up all their margin. While stock-based compensation is not cash that goes out the door, it is newly issued shares that go out the door making current shareholders' ownership less valuable as they now own a smaller piece of the company.

Now, once you stop the bleeding, which in these cases mean you stop hiring hundreds and even thousands of new employees that you don't really need to run your business in a good way, high profitability should come back quickly.

Of course, most things that seem crazy stop at some point. As many companies share prices got hammered last year and signs of a slower economy emerged, the hiring spree has lately been reversing as management teams are realizing the beauty of efficiency and focus. I believe we will see more in this direction which should lead to the emergence of a decent amount of highly profitable software and online-based companies, many of whom carry very attractive characteristics, and some of which have been available at attractive prices over the past half year.

Given the quality of companies and strong business models that exist in this category, we will likely always be relatively "heavy" here.

Energy

One of our categories that deserves some mention is energy. In the 1970s, which was the last time inflation ran as high as now, energy companies did very well. Energy is one big component of inflation after all, and the higher costs you're paying ends up going somewhere. Today, we have a few additional drivers too: Europe aiming to become independent from Russian fossil fuels, and the worldwide goal of reducing greenhouse gas emissions to the largest extent possible.

Since most people are not prepared to reduce their living standards to achieve these goals, we will need to use energy more efficiently which opens large opportunities for companies besides pure energy producers too.

We are likely to see large investments in transitioning Europe out of fossil fuel dependence and towards greener and more efficient energy solutions for years to come. I use the word 'greener' because most smart energy solutions are not fully green. As an example, while heat pumps increase the efficiency for heating by a few turns, they still need electricity to run. Electricity generation in for example Sweden has for a long time been very green due to our enviable combination of nuclear and hydro power, but this is not the case at all in southern and eastern Europe.

Whether I will find many companies in the energy sector to invest in remains to be seen. Most things in the energy sector tend to be commoditized. Not only are the products themselves often commoditized but demand for them is often dependent on commodity prices as well, which are inherently unpredictable. Thus, I demand a very large margin of safety in all investments I consider in this category.

As always, River Oak primarily focuses on the companies that provide one or more parts of the necessary infrastructure that help make these big shifts happen, ideally those that bring something unique to the table and that have one or more of the moats I described above.

The Doghouse

We sold out of both Sinch and Qt Group completely last summer. All in all, these two investments combined produced an almost exact break-even result for us over our holding period (Qt with a relatively large profit and Sinch with a loss). An unfortunate outcome, but not too bad considering I was wrong about both.

I covered my thoughts on Sinch last summer to which I will only add that the CEO was indeed replaced shortly thereafter and the new one, who is also a cofounder, is an enormous improvement in terms of how well he understands the business. That said, my overall view from last summer is largely unchanged.

One clarification: in that same note, I expressed myself a bit too harsh when I said that we will never again invest in companies that report Adjusted EBITDA. The companies we will not touch are those which report it as their primary profit measure and keep labeling clearly recurring costs as "one-time" costs year after year.

When it comes to Qt Group, some of you may remember the good impression Qt's CEO gave many of us at River Oak's annual meeting two years ago. Unfortunately, my previous positive view of Qt seems to have been a serious misjudgment. While their core product, the Qt development studio and its related tools, is helping a decent number of companies out there, I believe most of their reported growth over the past few years is mainly (if not only) due to significant price increases and interesting accounting choices.

Reference calls with customers have indicated price increases in the range of 40% to 150% over the past few years. Qt is also the first software company I can ever recall seeing report *negative* free cash flow (€5 million in 2022) in a year when their reported pretax earnings were significantly positive (€37 million in 2022). It is usually the other way around since most software companies get paid for the subscriptions they sell in advance. In the case of for example a 1-year subscription, customers usually pay the full amount at the start and revenue is then recognized evenly distributed over the coming twelve months. It follows then that in a healthy software company that practices proper accounting, you will have received more cash from customers than the revenue you report, leading to strong cash flow. You can normally see this difference in the 'Deferred revenue' line on the balance sheet.

In 2022, the company paid out essentially all free cash flow they had generated as a public company since their 2016 IPO up until the end of 2021 to key personnel in what was labeled as 'Settlement of share-based payment'. Suffice it to say that Qt has been doing things a bit differently than what I like to see. There is some chance that there is only smoke and no fire here. It would be very easy for the company to alleviate any concerns by disclosing either the number of paying customers they have today compared to three years ago, the magnitude of their recent price increases when they went to a full subscription model, and whether any related accounting changes has affected reported growth or not. I'd be happy to stand corrected if they did.

If a company is intentionally trying to hide something, it is very difficult for outsiders to find out. There are many examples where even the insiders such as auditors often miss the crucial things. As a recent case in point, KPMG signed off without remarks on their audit of Silicon Valley Bank, one of the 20 largest banks in the United States, on Feb 24th. Fourteen days later, regulators had seized the then failed bank and customer deposits of some $160 billion were at risk until the government decided to step in to protect all depositors.

For us as outside investors, the only way to handle this is to always make sure that we truly trust the people in charge. If I have even the slightest doubt, there will be no investment. While this is nothing new, I have put more focus here over the past year and added a few filters that will help me spot potential issues earlier.

Next time I'm wrong, can I wait for the share prices to potentially recover a bit before I sell our position? If I suspect or have confirmed dishonest practices of any kind, I simply don't play. I have had some experiences with dishonest people and even one is more than enough. This policy can occasionally be costly, but it's a very easy decision for me.

Okay, on to more cheerful subjects!

Writing about our investments

I have on occasions written a letter or provided you with an update, only to find my own words online in other places shortly thereafter. I can't do much about this, and it doesn't really hurt us much either. Investing is a competitive business, and I don't want our investments to be used in the same way however, especially when it comes to smaller Nordic companies. On a couple occasions, I have even had fund managers who track trading volumes in certain stocks contact me and ask if River Oak is currently buying or selling. While I would of course never comment on that, I'd prefer not having to deal with such questions at all.

Furthermore, these letters were never intended to be stock picking letters of any kind but to be useful for shareholders, and if anything to others, to be along the lines of 'give a man a fish and you feed him for a day; teach a man to fish and you feed him for a lifetime'.

Going forward, I will talk about our investments in terms of themes and important principles rather than specific companies in these letters unless I believe it can meaningfully help the investee company or us in some shape or form. If you are a shareholder and want to discuss our investments, you can of course always call or visit me at the office.

I will also not write about new companies for the sake of proving that I'm generating a constant flow of new good investment ideas. I don't. During some periods I don't find a new really good idea for months and even years, as was the case from mid-2020 to mid-2022. Our practice is in sharp contrast to many other investment firms who often feel it's their duty to present at least some attractive pitches in every quarterly or even monthly update. Oftentimes, this means providing shallow commentary on recent results and trends, and whether those beat expectations or not – information that should be completely irrelevant to the serious business owner – but which keeps wasting an enormous amount of brain power and ink on paper year after year in the investment industry.

Idea draughts are bound to happen from time to time, as they should to all serious investment firms who prioritize strong results rather than "strong" assets under management. While many firms are forced to be in the latter camp due to structural reasons, River Oak will stay firmly in the former.

In closing

If you have ever competed in elite sports – being wrong on an investment in which you have put a significant amount of effort feels eerily similar to losing a championship finals match. It's overwhelming disappointment for a day or two before motivation to improve takes over.

Can you guess who leads the All-time list for *missed* shots in the NBA? This same person also shot four air balls at the end of a crucial game which eliminated the Los Angeles Lakers from the playoffs in 1997. Kobe Bryant. If Kobe Bryant can shoot multiple airballs on the world stage in the final minutes of a crucial playoff game and then come back to win five championships, we should be able to recover from a few bad investments. Indeed, I believe you'll be far better off over a lifetime if you dare to try learning new things and take game-winning shots rather than always hide in the safety of the shadows. The crucial thing is to always keep improving. If you come back and keep shooting airballs year after year, you have a real problem and you probably shouldn't be playing at the highest level.

After our first year of negative returns, I believe we now have a more solid footing than ever before. I don't think this would have happened were it not for how 2022 developed.

Looking to the future, as you know, I don't spend my time trying to predict where inflation and interest rates are going, how the war is going to end, whether the world will see a serious recession, etc., other than to have an overall view of current events. I believe my time is much better spent on individual companies, and I believe this focus will give us the best possible chance to achieve our goals and attain good results.

It is very important to me however that you define good results like I and our board define it. River Oak's ultimate long-term goal is not to avoid all down years but to achieve long-term results that make a difference in your life. Protecting the downside helps us a lot in this endeavor. Hence, not losing money overall is one of our two explicit goals, while the other is to earn an average annual investment return of 15% over River Oak's life. Yes, it is correct that the latter is hard to achieve without the former.

Please make sure that you will be happy with your River Oak investment at the end of five or ten years if we achieve these goals. You should note that the often touted 10% annual returns the public markets have provided *on average* over the past 100 years or so (including by some guy named Daniel) have not held up in all periods. You need to consider the risk that markets can have a rough decade.

I'd like to end with a keen welcome and some thanks.

First, we will have a new board member up for election at our annual meeting. Alexander Pichler, who is the CEO of DELMO, a privately owned Italian investment firm with a focus on public equities that also has a joint venture in real estate development. In his youth, Alex spent some time at McKinsey (ouch!) before joining the family business and leading its transformation over the years. He has been in business for 20 years and will bring some well-needed experience to our board. I look forward to it. Welcome, Alex!

I'd also like to thank our current board who stood steady during the past two years when the wind sometimes blew hard in our face. One of our current board members, Arimatti Alhanko, will not stand for re-election this year as he will focus fully on his recently started fund. Thank you, Ari, for these two years and I wish you the best of luck.

Our annual meeting will be held on April 29th. Please note the new date. An invitation and details will be sent out shortly. The board and I look forward to seeing you there.

Finally, as a shareholder you are part of a humbling group of people. We have everything from doctors and professors to software developers, management consultants and investment professionals to entrepreneurs, business owners and CEOs. During the year, while I'm sure some of you were disappointed with some of my decisions, I didn't receive a single call or note telling me how stupid I was but only a few friendly questions along with some helpful pointers. It's almost to the point that I encourage you to send some of the former as well (before you start typing, I said *almost*). This was truly helpful as the events of last year required a lot of focused effort. Your calm behavior allowed me to focus on the job without any distractions. Thank you for your trust and patience during this period. I know it wasn't always easy. I will keep doing everything I can to make sure it counts.

March 23, 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 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 – Dec 31, 2022: 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)%
Total gain	997.6%	**464.0%**	159.7%	304.3%
Compounded annual gain	27.1%	**18.9%**	10.0%	8.9%

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 0.5% 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 0.5% lower per year than reported in the table, and the real difference achieved by the same investor is between 0.4% to 0.5% higher per year than reported in the table.

[3] Estimated currency effects on Investment return: 2014 +7%, 2016 +2%, 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, years not mentioned <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.

River Oak Capital

2023-H1 Letter to shareholders

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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").

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.

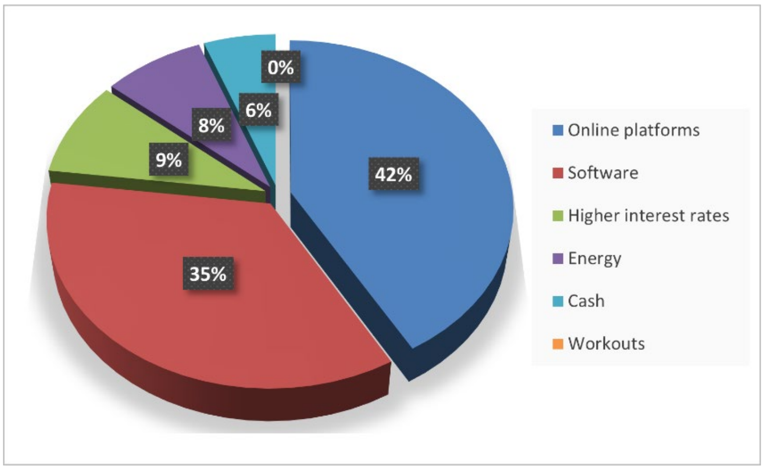
Reflecting on the past 20 months, when the effects of persistent inflation and higher interest rates started to really kick in, I believe we have handled this challenging period fairly well. It wasn't perfect, but all things considered, it's hard to find too many things that could realistically have 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%

Notes to table

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River Oak Capital

2023 Letter to shareholders

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	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%
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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	5.7%	**4.0%**	21.0%	(17.0)%
Total gain	229.8%	**119.3%**	92.4%	26.9%
Compounded annual gain	18.9%	**12.1%**	10.0%	2.1%

The difference between our pretax investment return and change in book value per share in the period was comprised of taxes paid of 1% of our starting capital base, and the remainder of general operating costs. Since our start, our tax rate has changed multiple times due to the changes in the Swedish government loan rate. The dividend on the A shares has changed between the years as well, the allocation is currently at 0% since we are under our highest yearend book value per share which was recorded at the end of 2021. Finally, our operating costs as a percentage of our capital base have changed meaningfully over the years as well. All these changes have made any attempts of comparison between different years almost meaningless. In the end, what matters is our book value per share. Thus, starting in 2024, only the three latter columns will be reported here upfront. You will still be able to see the full track record including the pretax investment return at the end of this letter.

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.

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Fellow shareholder,

River Oak's book value per share increased by 4.0% in 2023. Our book value on December 31, 2023, was SEK 98.5 million, equivalent to SEK 219.26 per share.

Since our start in 2017, I have been relatively pleased with our result in all years. This past year was the first time I felt we had an overall disappointing year in terms of results. You know of course that our results in 2023 came from seeds planted in prior years.

While everything looked like roses and flowers during the 2019-2021 period, I made a few dumb decisions during those years, the results of which became apparent only later. Everything you've seen in the past two years has some relation to our previous five. The year 2022 was particularly tough because we took part in the significant upside that the preceding decade offered; 2023 was subpar because of energy investments made in 2022 which helped us end that year very strongly.

In some periods, I will be satisfied with our overall result while you may not – similar to the pilot who is happy that he managed to land the plane safely under heavy turbulence, while some passengers think that the turbulence should have been avoided altogether. The passengers are not always aware that to have the first part of the flight completely smooth and on occasions even wonderfully pleasant, the turbulent route had to be taken during the approach to the airport. That said, I believe we have now landed. We will of course still experience turbulent periods, but the rebuilding of our portfolio that I deemed necessary over the past few years is now behind us.

I believe decisions made in the past two years have been materially better, and you will hopefully see the good results of those decisions in the coming years.

*****

Operating results

Let's look at what affected our results the most in 2023.

The Online platforms category provided large gains and the Software category provided small gains for us, whereas we didn't have a single positive contributor in either of these categories in 2022.

In stark contrast was our Energy & Infrastructure category (previously referred to as the Energy category) where the roles were reversed – not a single positive contributor in 2023, and only positive contributors in 2022. With no energy investments we would have had a significantly worse result in 2022, and a much better result last year. The stocks we invest in are not aware of our reporting calendar or when we buy and sell them. Investments that worked out very well over our holding period sometimes provide gains in one year and losses in another year, which has been the case in our energy category.

Our remaining two categories, Higher interest rates and Workouts, contributed a combined gain of approximately 1.7% (despite negative currency effects of 0.8%).

In November, we repurchased approximately 2% of our shares outstanding at a price of SEK 204.04 per share for SEK 1.9 million from two selling shareholders. These repurchases are a form of investment for us which will generate a positive return if our value per share ends up higher than the price we paid. It is no objective of ours at this point to repurchase our own shares, but investing in ourselves is something I very much like to do, and I expect all repurchases we make to have a positive impact for the remaining shareholders over time.

Currency effects are usually a footnote in our reporting but this year it warrants a few words. We experienced a significant headwind in the last two months of the year due to the strengthening of the Swedish krona (SEK), which affected our reported SEK based results by approximately SEK 5 million, equivalent to SEK 11.13 per share. We had a net positive impact earlier in the year so the total negative impact for the full year was approximately SEK 1.5 million, equivalent to SEK 3.34 per share. I don't try to predict currencies, but I do take them into account. I intentionally allocate between 30% to 70% of our portfolio to Swedish companies and the remainder to foreign ones – only rarely have we been outside this range. Even though currencies had a substantial impact on our results during short periods in 2023, they are over time likely to be negligible in comparison to investing in the right companies, whether these companies are SEK, USD, or EUR based.

In investing, it's okay and it may even be a good thing that all your holdings don't do splendidly well at the same time. It is unlikely (although possible) that you have good diversification in your portfolio if they do. In some years, there is simply not much to be had for a particular investment strategy. This is true for all strategies.

Investment gains (and losses) tend to come irregularly and in lumps. For example, at the end of February, our book value per share was up more than 4% for the year, surpassing our total gains in all of 2023 in the first two months of this year.

I can assure you of one thing: River Oak's operation is never as good as it seems when we're doing great, and it is never as bad as it seems when we're doing poorly. Growth for any company, especially small ones like ours, is a lot less linear than most people think.

Operating costs

Taxes paid amounted to 1% of our starting capital base, and operating costs were 1.1% of our starting capital base. These costs comprise the difference between our pretax investment return and our change in book value per share in our results table. Since our asset value increased and since these costs are spread over the year, their combined effect on our net result was only 1.7% in 2023.

While our base tax rate has gone up marginally in the past two years due to a higher Swedish government loan rate, if we have future years in line with our long-term average investment return, our net result will be meaningfully higher than it has been in the past. There will be no dividend on the Class A shares until we reach our previous book value per share high of SEK 296.06 per share – and after that, the intention is that there will be no dividend on the Class A shares unless we outperform our benchmark.

We are a somewhat unusual company in that taxes are – by far – our largest cost. In 2023, we sent off SEK 1.3 million to the tax office out of a total cost base of SEK 1.9 million. Don't let this fool you, we benefit a lot from our chosen tax structure. With our other tax structure option, we would have had a total tax bill of SEK 2.1 million. The current outlook is that our base tax rate will start going down in 2025.

You have my word that I'm keeping costs to an absolute minimum – without being stupid. The equation I use is very simple: I will spend x if I believe it will increase our result by more than x. Fancy spending has and will always be banned at River Oak. That said, to minimize the impact of our cost base, small as it already is, on our net result it would be good if we were somewhat larger than we are today. I'm working on that on two fronts – first and foremost by working to generate good returns, but also by being more open to new investors.

Our goals & Battling the index

We have invested through five different 3-year periods since our start. We have handily beaten our benchmark, the OMXS30 index including dividends, in all previous periods. In the most recent 3-year period, however, for the first time, we were forced to bite the dust.

I'm not beneath congratulating a worthy opponent who did very well. While we were far from perfect, our benchmark put up a true clinic with returns of +33% in 2021, -13% in 2022, and +21% in 2023. Given the type of companies we generally invest in, even with near perfection, we would likely not have outperformed it during this period[1]. What sticks out is the relatively small loss in 2022, but I would argue that all three years have been outliers in terms of what can be expected from our benchmark on average.

The OMXS30 index including dividends wasn't chosen as our benchmark because it is representative of what we invest in. It was chosen because it's straightforward to get this exposure in Sweden, and because it's likely to provide a good investment return over time. A more appropriate comparison to see if we select well in the sea of stocks where we fish would probably be something like the MSCI World Small Cap Index (EUR), which shows a total gain of approximately 65.2%, or a compounded annual gain of 7.6%, over the period from our start in February-2017 to the end of 2023, which compares to our 119.3%, and 12.1%, respectively.

In our industry, after a period of underperformance, it can be tempting to start straying from one's core principles and start chasing returns in the highfliers of the day. This often results in feeling good in the short term, and stupid in the long term.

I will not stray. Most of you know that I'm relatively immune to caring about what other people think. When I signed up to being "in the arena" when we started out seven years ago, rather than in the stands, I knew we would likely have periods of underperformance, and deserve our fair share of criticism from time to time. If you look at the table at the last page of this letter, you will see that we initially outperformed our benchmark for eight straight

[1] As a reference, according to London-based media group CityWire, only 9% of global growth equity portfolio managers, a category I would put River Oak in, are ahead of their benchmarks over the last three years.

years by an average of 17% on a net basis, with no negative years. I do not view it as a complete surprise to have some reverses after a period like that.

I believe one big key to our successful long-term past has been that I never chased high returns. When we are down for the year (which has happened almost every year), I don't search for quick fixes or start to take chances to maintain our high average. I just keep doing what I believe is the most sensible thing to do at all times, with no consideration for any index, for our past returns, or for anyone else's. When defense is played well over a longer period, the high returns tend to find us.

To be clear, I do not consider our past long-term record to be anything more than just that: our *past* record. The future is the only period I'm concerned with.

The important question to consider is whether we will outperform our benchmark in the future. My main reason for answering 'Yes' to that question is because I believe we will reach our goal of an average annual investment return of 15% over time, and I fully expect the net return which will result from that to outperform most benchmarks.

I have never started any year with the goal of outperforming a specific index since such a goal is largely out of my hands, and it would require changing strategy midyear in years when the index does particularly well, or we do poorly.

Three important points on this subject that I have emphasized many times are worth repeating and putting in a more succinct form:

1. I don't expect us to reach our goal in *every* 1-year, 3-year, or even 5-year period.
2. I don't expect us to outperform our benchmark in *every* 1-year, 3-year, or even 5-year period.
3. I do expect us to reach our goal, and as a result outperform our benchmark, over most 3-year and 5-year periods. I don't have any expectations for 1-year periods.

This doesn't alleviate the fact that you should always be on the lookout for investments that you think have a good chance of outperforming the index over time, or if you think that's too difficult, simply go with the index itself. We have smart shareholders who have decided that combining their River Oak investment with an index investment is a good strategy. While I don't do it myself, I agree with the logic if you want to smoothen out your returns.

We have never invested in a company that is one of the thirty constituents that comprise our OMXS30 benchmark. Furthermore, our high concentration in a few ideas makes it unlikely that we will be close to our benchmark in most years. Over the past seven years, our net returns have had an *average* deviation from the index of 21% per year, and our gross returns even more than that. It's fair to say we haven't been "hugging the index" and we have no plans to start.

How will AI affect us?

Over the past eleven years, if you boil down what I have done to achieve the returns on the last page of this letter, it consists of reading a lot, thinking about what I've read, analyzing, and drawing conclusions. All things that a well-trained AI should arguably be able to do better and on magnitudes larger datasets than any human will ever be able to cover. It stands to argue then that providing added value as a human investment manager may become a lot more difficult in the future – and it was already difficult to begin with. I am very mindful of this, and I will give you my updated views here in the coming years.

On the positive side, over the past decade, I have built up a large number of personal notes, observations, and conclusions about hundreds of companies. I have begun testing feeding these documents to tools like ChatGPT with instructions to look for things such as inconsistencies and red flags in my notes to see what insights it can potentially give us.

Another positive is that this paradigm shift should increase the chances of finding our next Fortnox-caliber company (hopefully plural). Fortnox would never have been able to do so well over the past decade if it wasn't for the no-brainer shift from on-premises to cloud-based software. There will surely be a few companies who will provide similarly useful no-brainer services which AI will enable in the coming decade, just like cloud-based software did in the past decade.

Our investments

As mentioned before, I won't discuss Nordic companies where I believe liquidity can potentially be an issue for us, even those we have sold. We can, and have, reinvested in companies we previously sold off – either because the fundamentals changed, because the price became more attractive, or both.

We look for the following qualities in companies we invest in:

1. Competitive advantages that I understand well.
2. Solid base to survive downturns – balance sheet *and* business model.
3. Earnings growth far into the future.
4. Honest, capable, and competent management.
5. Attractive price.

I don't always get all five right, and all five are not always available, but they are the aspiration.

Oftentimes, when the first four are fulfilled, the price is rarely attractive. Many of our current investments were always impressive companies but became interesting candidates because of a lower price.

It is simply difficult to have a consistently low-risk portfolio. When recent returns have been strong, market prices are generally higher, which all else equal increases risk. The opposite is often true when recent returns have been weak. There is much truth to the saying that there are either a lot of bargains in the stock market, or there are fewer bargains but then you're hopefully rich.

One quality I always look for in both people and companies is their history of adversity. Those that have been through hell and high water and emerged stronger may live with some scars, but they've been truly tested and proven their resilience when everything was on the line. They operate with a different level of awareness, so they don't have to go back to those darkest of times, and if it still comes to it, they have the tools in their toolbox to navigate through it another time.

Two of our new investments in the past year have been there.

*****

Boozt is one of the leading e-commerce platforms in the Nordics. Boozt almost went out of business in 2013. The leading founder and current CEO Hermann Haraldsson then, in his own words, "mortgaged his house to the chimney." They managed to turn things around and have over time gained the trust of consumers of being a reliable platform that just works.

From less than SEK 1 billion in total revenue in 2015, they have added an average of almost SEK 1 billion per year over the past eight years with some acceleration lately. This is despite the recent particularly challenging macro environment in the Nordics. In parallel, operational efficiency improvements have been very steady, which is showing up in their profit margin, along with continuous investments back into the business to provide a better customer experience.

Boozt has made a lot of good business decisions over the years, such as staying disciplined and focusing on getting the basics right in the Nordics. They also decided, in Hermann's own words, "to love" rather than hate customer returns. More recently, they broadened their offer to extend outside of fashion so family shopping can be conveniently done, which has increased average order values significantly.

I believe they will continue to make good decisions, and when needed, Hermann's sports background and competitiveness along with the culture he has fostered at Boozt should help them navigate upcoming challenges well.

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Another company that went halfway to the depths of Mordor, at least in the public eye, and returned much stronger is **Meta Platforms** (previously Facebook). It needs no introduction and even less discussion since it's probably one of the most analyzed companies on the planet. They own some of the world's most dominant platforms in Facebook, Instagram, WhatsApp, and Messenger.

In short, all the way back since Facebook initially launched in Sweden, I've always believed that their platform and technology was lightyears ahead of their competition (on the level of Tesla's technology advantage over the storied auto manufacturers). Over the past decade, Meta seamlessly redesigned their whole Facebook platform a couple of times, separated Messenger to become a stand-alone app, and integrated Instagram into their ad infrastructure, to name a few of their larger projects, with essentially no disruptions to the service. Meanwhile, Twitter didn't perform almost any meaningful upgrades (before Elon came along) and they did not even have a fully functioning website for mobile users for a long time. When Meta successfully withstood the upcoming TikTok threat, I no longer saw any competitor that could realistically kill them.

The main reasons for our investment, which was made in April-2023, were i) founder and CEO Mark Zuckerberg's major strategy shift in terms of efficiency and hiring, and ii) a very attractive price. All other pieces were already in place long before that.

As a not-so-small aside, they recently launched Threads which could potentially become their fifth behemoth platform. It was reportedly built by a smaller team in just five months since much of Meta's available infrastructure could be reused. Threads is tightly integrated with Instagram which has enabled it to grow fast by allowing new users to use their Instagram profiles at signup, and by recommending selected Threads posts in the Instagram feed. At the end of 2023, less than six months after launch, the Threads platform already had more than 130 million monthly active users. How many companies on earth can accomplish something like that?

*****

In the past two years, many companies heeded the advice to never let a good crisis go to waste. These companies are now realizing the benefits, or rather the need, to have a realistic plan for profitability within a reasonable timeframe. Profitability is not only the most sustainable path for companies that want to last, but it is also increasingly important to be able to attract good talent. The younger generation is more well-informed, and few want to work at companies that burn through capital every year where future paychecks are dependent on understanding investors.

Along the lines of what I discussed in last year's letter, many CEOs have recently publicly said that they see how fewer employees in the right places make their companies both more profitable *and* more productive and efficient. This is not only good for the companies that have altered their path, but also creates lots of exciting opportunities for investors.

*****

Selling Fortnox – the Star of stars

I sold out of our longest-standing investment in Fortnox over the past year.

There are two main parameters that go into evaluating an investment: 1) How good is the company, and 2) its price. Fortnox has always scored well above the scales at the former.

When I started to slowly reduce our investment in late 2022 and early 2023, Fortnox was simply trading at a price I deemed too high to be safe and attractive for us. I also believed that their growth was at risk of slowing down meaningfully given their now larger numbers. This was despite giving it a tremendous valuation latitude I wouldn't give to almost any other company on the planet, due to their extreme dominance in Sweden, the multitude of opportunities for further cross-selling and price increases, and the overall quality of the company and its employees.

To be attractive as an investment, my assessment was that Fortnox needed to triple rather than double their earnings power in the coming few years – a tall order even for the company I consider to be one of the very best in Europe. While I thought they would get there, I concluded that they would likely need more time. (It's relevant that my reasoning here was before any of their two most recent price increases. If they keep being willing to increase prices at a similar pace to recent years, my conclusion is likely to be wrong.)

In the end, over the following year, since I didn't have enough conviction to keep it as a medium sized position, it didn't in my view make sense to keep it as a small position either[2]. This is where I believe we have historically had most of our edge: Selling my medium conviction ideas and having the willingness – and equally importantly, the freedom – to concentrate our portfolio around my highest conviction ideas. I have never been a big believer in the concept of having the best #20 idea. Very few investors have had five, let alone 20 brilliant ideas over their lifetime.

River Oak's realized profit here was SEK 22.5 million on an initial investment of less than SEK 800,000, which was made on River Oak's first business day in February-2017, and subsequent net additions of approximately SEK 2.5 million as we raised more capital over the coming years.

As touched upon, one thing that cost us some meaningful missed gains here is that I didn't expect Fortnox to do a full U-turn with their pricing strategy. They went from being the 99-kr-per-month company for 20 years to three straight – and significant – price increases three years in a row now. My estimates for future years would have looked very different if I had foreseen these moves, and I would likely have reduced our position much slower, if at all. I think it has been the right business move since their services still provide excellent value for money, but it was difficult to predict the significant policy change in advance.

Thinking more about incentives could perhaps have helped me figure this out. Fortnox has instituted a measure of their own which they report every quarter. It's something they call the Rule of Fortnox, which is their version of the Rule of 40 (a company whose growth rate plus margin exceeds 40 is generally considered a great company). Rather than going with the standard 40 however, Fortnox somewhat charmingly uses 60 here. While extremely few companies can match this, to reach their own rule in 2024, and probably in some future years as well, Fortnox likely *needs* to raise prices, and as I am reminded again and again, incentives are one of the most powerful forces on earth.

Since this has been our best investment – by a wide margin – in terms of percentage returns and in terms of what I may ever come up with, I thought it would be useful to include my early view of the company from 2015 when my family office initially invested. You can read it here on page 9. Two things stand out to me when I read it now: its brevity and its lack of any detailed numbers.

You may recall some of my longer investment memos and their outcomes (well, hopefully you have forgotten them already). As for the numbers, assuming you were familiar with the software business model, there was really only one crucial number you needed to know and have a future view of back in 2015: Sweden's accounting software cloud penetration rate for small companies, which stood at 11% at the time.

[2] I did leave a few shares as a reminder to myself of what type of results are possible to achieve with truly great companies even when they are initially purchased at an optically expensive price.

Over the past decade, even I despite my overwhelmingly positive view have been surprised by Fortnox dominance in such a fast-growing industry, evidenced by, for example, in 2018 when they got more new customers coming from competitors in one year than they had gotten in all previous years combined since their start. In 2023, when 49,400 companies were started and 8,200 companies went bankrupt for a total of 41,200 net new companies started in all of Sweden, Fortnox added 56,000 net new customers. There are many one-person firms, along with partnerships, associations, and foundations that are included in Fortnox numbers (and not in the official Swedish company statistics), but it still tells you a thing or two about their dominance.

My main lesson here is that extremely few companies are of Fortnox caliber. Being in the right place at the right time and being able to take full advantage of the opportunity is extremely rare in the business world. When you think you have found a company like this, you will most likely be wrong. But on those rare occasions when you are virtually certain that you'll be right: Invest big – and hold on for dear life.

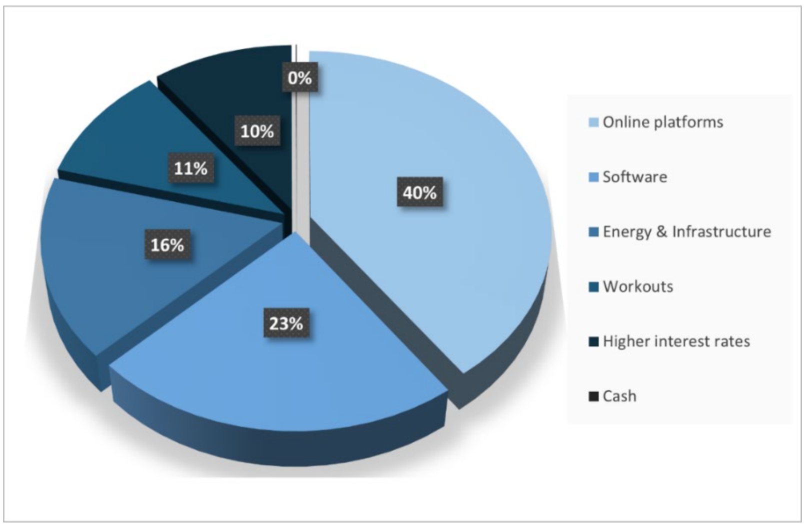
For those wondering – yes, it's *extremely* difficult to sell out of an investment like this, especially when the company today is better and stronger than ever. I may not have sold if I was responsible only for my family's money, but if I must choose between a good story like going for a 100-bagger (waiting at SEK 105/share) and what I believe is best for you as shareholders, there is no real choice.

I may well add Fortnox back into our portfolio in the future as fundamentals change and the share price fluctuates – in fact, I hope I will – but for now I see safer and more attractive opportunities elsewhere.

For now, thank you to Fortnox amazing employees who built up one of the most admirable companies I have ever seen, to Chairman Olof Hallrup who stood up for Fortnox when the rest of the board folded during Visma's acquisition offer in 2016, and to the handful of CEOs who led the company over this past decade, where the current CEO Tommy Eklund stands out as the one who has had the largest impact in developing Fortnox.

Portfolio categories

Here is how our portfolio looked divided into categories as of December 31, 2023:



These categories are one way to give you an overview of our portfolio. The categories are broadly and loosely defined, and some investments could easily fit into two of the categories. Online platforms and Software should be self-explanatory. I will briefly elaborate on the other three.

Energy & Infrastructure consists of companies that help enable the world's increasing energy needs with an emphasis on energy infrastructure and energy efficiency. These companies' products have ranged from heat pumps and electric vehicle chargers to energy storage and climate solutions for large factories and data centers. When people hear Energy as a category, they tend to think primarily of energy production. Hence, the name change of this category from Energy to Energy & Infrastructure.

While we have had some initial success here, the current outlook is that this category will remain small in our portfolio. It is significantly more difficult to build long-lasting competitive advantages when you are manufacturing physical goods compared to, for example, when you are building an online marketplace, or a business software suite. As you may recall, the key question I always ask when deciding how much capital to allocate to a specific investment is, "How sure are you?" In this category, the answer has tended to be less sure, which results in smaller allocations.

We have had both large, realized gains, and medium-sized realized losses here. Our scorecard for this relatively new category of ours currently shows SEK 4 million in realized net gains and SEK 1 million in unrealized gains. All gains have come in 2022 and at the start of 2024.

Workouts are companies where a specific corporate event may unlock value, such as a spinoff, a partial sale, or an announced acquisition where shares of the acquisition target trade at a discount to the agreed upon acquisition price. Investments in this category have a few benefits: i) they are largely uncorrelated to the market and macro events, ii) they require less work than our other categories since the process here consists primarily of estimating the likelihood of a corporate event and calculating the expected value of the company based on that likelihood. We invested in five workouts last year and they all "worked out" for us.

I view this category as Cash+, meaning that with these investments I aim for a return superior to the interest we earn by holding cash. These positions are smaller in size, and the holding period is typically short. We don't tend to hold these positions until the anticipated event has happened, but until the gap to the expected value has narrowed enough so that holding cash becomes a more attractive option again. For these reasons, this is our lowest priority category and where I spend the least amount of time.

Higher interest rates consist of companies who benefit in some way from a world with higher interest rates. Think for example of a bank or financial company that earns interest on customer balances.

An example of a company that could fit into two categories is Airbnb which is primarily an Online platform in my view, but it also earns meaningful returns on its cash holdings and customer deposits. It is clearly a beneficiary of higher interest rates as well. To keep things simple and to avoid redundancy, in future letters the companies in the Higher interest rates category will be folded into the other categories.

Charlie Munger

A big hero of mine passed away last year, 33 days before his 100th birthday. Charlie Munger has been Warren Buffett's business partner and friend as they have managed Berkshire Hathaway over the past 50 years. He embodied principles such as soldiering through tough periods in life without any (useless) self-pity, having the goal of always going to bed a little bit smarter than when you woke up and always simply focusing on putting one foot in front of the other. Practiced over years, these simple principles yield amazing results.

It's safe to say that River Oak has benefited a lot from Charlie's wisdom over the years. His most important insights that we have taken to heart are:

I think that one should recognize reality even when one doesn't like it;
indeed, especially when one doesn't like it.

You have a limited amount of time and talent, and you have to allocate it smartly.

Any year that you don't destroy one of your best-loved ideas is probably a wasted year.

The game of life for most of us is trying to be the best plumbing contractor of Bemidji—
very few of us are chosen to win the world's chess tournaments.

It's not given to human beings to have such talent that they can just know everything about everything all the time. But it is given to human beings who work hard at it—who look and sift the world for a mispriced bet—that they can occasionally find one. And the wise ones bet heavily when the world offers them that opportunity. They bet big when they have the odds. And the rest of the time, they don't. It's just that simple.

Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns 6% on capital over 40 years and you hold it for those 40 years, you're not going to make much different than a 6% return even if you originally buy it at a huge discount. Conversely, if a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with a fine result.

Besides possessing an abundance of wisdom, Charlie was also hilarious. I'll keep working to make sure none of us at River Oak end up like that one-legged man in an ass-kicking contest.

Godspeed on your way to heaven, Charlie.

In closing

Without a healthy dose of naive over-optimism, River Oak would never have gotten off the ground. Getting from our initial SEK 4.4 million (that's less than $500,000) to our current SEK 100 million took a lot of determination, optimism bordering on delusion, and a healthy dose of good fortunes. The main factor of course was my initial co-investors, all good friends and colleagues who trusted me and believed in me enough to invest, and then helped spread the word of our existence.

We are now way past the honeymoon stage and on our way to take the next step as a company. Rest assured that if we were able to handle the past few years, we will be able to handle most things the world throws at us. If there was ever a time to give this up due to a recent tough period, that time is long gone, and the chance of me giving up now is fully equal to zero.

Similarly to when we started, when there was little reason to believe we would be here seven years later, I know we will come out of the recent challenging period stronger than before and I'm confident we'll be here in another seven years as well. All shareholders won't be here for it, but I hope most of you will.

I don't view our returns in a given period as the *only* measure of River Oak's value. My objective was always to give you a way to invest your savings with someone you fully trust, and whose interests are fully aligned with your own. My family and I remain the largest investors in River Oak, and in addition we have the remainder of our liquid net worth invested in the exact same strategy through my family office. The goal is to provide you with steady returns over time with a focus on protecting the downside and with a chance of meaningful outperformance over the long run.

I'm sometimes asked by shareholders if now is a good time to invest.

I'll just say that most people tend to be wrong at turning points. While only a few have been buyers of River Oak shares lately, it's worth remembering that the opposite was true in 2020 and 2021.

Over the past few years, we have had a lot of adverse events happen to us: I was wrong on a couple of our investments, we have experienced a pandemic, wars, double-digit inflation, and interest rates going from 0% to 5% in a short time span. Still, I believe we have navigated relatively well throughout all of this. We have been through heaven and at least partway through hell and emerged. To sum up, I believe now is as good a time to invest as it ever has been since River Oak got started seven years ago.

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After an eight-year hiatus, I look forward to being in Omaha again for the Berkshire Hathaway meeting in May. If you plan to be around and want to meet up, let me know.

Lastly, thank you to our board members, Alexander and Amir, for your always steady guidance, and to our intern Christoffer who worked with me this past summer and spring and did a great job.

Thank you for joining me as a partner on this journey. I look forward to seeing what the future will bring.

March 20, 2024

Daniel Glaser
Chief Executive Officer

Founding principles

Our basic idea is simple:

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

   Human progress is the reason 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 – Dec 31, 2023: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family office

	Investment return	Net result	OMXS30 incl. div.	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	5.7%	**4.0%**	21.0%	(17.0)%
Total gain	1059.8%	**486.7%**	214.1%	272.6%
Compounded annual	25.0%	**17.5%**	11.0%	6.5%

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: 2014 +7%, 2016 +2%, 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.

River Oak Capital

2024-H1 Letter to shareholders

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Annual percentage change in	Investment return (pretax)	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	5.7	**4.0**	21.0	(17.0)
2024 per June 30th	5.4	**4.2**	10.0	(5.8)
Total gain	247.7%	**128.4%**	111.6%	16.8%
Compounded annual gain	18.4%	**11.8%**	10.7%	1.1%

When evaluating investment results, it is my 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 twelve years which includes my Zen Capital family office from 2013-2016 at the end of this letter.

In the past two letters, I said that the pretax investment return column would be available only in the table at the end of these letters due to the many changes over the years in our tax rate, the irregular dividend on the Class A shares, and our operating costs. After getting some feedback, we decided to prioritize consistency and will keep this table as before. The difference between our pretax investment return and book value per share change won't be laid out in detail in future letters but it is comprised of taxes, operating costs, and if we end a year above all our previous book value per share highs, a dividend on the Class A shares according to the Company's Articles of Association.

Notes to table

[1] The change in Book value per share is net of taxes, general operating costs, and a dividend on the Class A shares according to the Company's Articles of Association. 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 which is due on Swedish investment accounts and which River Oak pays every year. It has amounted to between 0.4% to 1.1% of total capital per year. The real return achieved by a Swedish investor that invested in the index is thus between 0.4% to 1.1% lower per year than reported in the table, and the real Difference achieved by the same investor is between 0.4% to 1.1% *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,

River Oak's book value per share increased by 4.2% in the first half of 2024. Our book value on June 30, 2024, was SEK 102.6 million, equivalent to SEK 228.38 per share.

Our operating costs are slightly frontloaded in most years due to more auditing, bookkeeping, and generally a few more events in the first half of the year. Our tax rate as a percentage of our capital base is highly likely to be lower in 2025 due to lower interest rates in Sweden.

In early July, we repurchased 1.2% of our shares outstanding (as our repurchase decision was registered with the Swedish Companies Registration Office) at SEK 234.92 per share, which was our book value per May 27, 2024, when the repurchase proposal was drafted.

The sellers were primarily shareholders who were using the 3rd party capital insurance provider that we have had for a long time and who feel this solution has now become too expensive after a series of price increases in the past few years. I agree, and as I have communicated to you before, I encourage you to review whether this is still the best option for you.

If you're curious about the fluctuation in our book value in June, here's some data from the past 11.5 years which includes my family office to give you an idea of what happens in our business in an average month and quarter:

- Our positive months returned an average of approximately +6%
- Our negative months returned an average of approximately -5.7%

Admittedly, this seems unimpressive, but only a third of all months have been negative while two thirds have been positive. Interestingly, this cadence has held true over the full 11.5-year period with no real outlier years in this regard except 2022 where we had six negative months to go along with six positive ones. We have never had less than three negative months in any year. Along the same lines, a little bit less than a third of all quarters have been negative, while slightly more than two thirds of all quarters have been positive.

This frequency of positive vs negative months along with the numbers above has resulted in the following approximate overall averages:

- Monthly return of +2%
- Quarterly return of +6%
- Annual return of +24% as you can see in the table on the last page of this letter[1].

Our strategy is not about avoiding negative months or quarters, but about making sound long-term decisions which work out well on average.

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[1] To simplify, this data has been rounded in multiple steps.

Given our recent results, you may wonder if I've been overly cautious and kept a large cash balance or hedged our exposures or something along those lines. This is not what has happened. We have had more than enough winners such as for example Airbnb, Avanza, Lindex, Meta, to achieve a better result, but we have also had a few recent detractors such as for example Boozt, Text, and Wise.

Having negative contributors is inevitable over a 6-month period so I won't philosophize and try to lay out the reasons for any individual share price movements. It's about as useful as discussing reasons for election polling changes – you can do it and you may feel smart, but it doesn't tell you much about the future. It's enough to say that we aim for better overall results, and that for each investment that didn't go as planned from purchase to selling it, the learnings are incorporated into our daily operations.

In business and investing, challenging stretches that test your patience are guaranteed to happen to all companies over a sufficiently long period. One thing I have always put a large emphasis on at River Oak is to not lose our shirt – or patience – when these periods come along. It has felt like a lot of things I've done in the past two years haven't yet worked out as well as I've hoped, but we're still generating positive results, and biding our time for when the tide turns.

In fact, most investments River Oak has made end up being fairly mediocre in terms of returns. A select few have made all the difference. At the end of the day, it's all the mediocre ones – through developing and refining one's pattern recognition of what tends to work and what doesn't – that pave the way for the homeruns. This is why it's so important in investing (and in life) to be able to take a few punches, shake them off and move on. It's crucial to be there, in balance and ready to act, when the rare and truly big opportunities which you can understand well occasionally come along.

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Our investments

I remain optimistic about the ultimate outcome of most of our recent negative contributors, but in the case of Text (previously named LiveChat Software), I decided to sell our shares. We invested in Text in Oct-2021 and exited in Q1-2024. We achieved a roughly breakeven result over these 2.5 years – nothing to write home about, but this investment meaningfully outperformed most other alternatives over our holding period since our initial purchase was made very close to the overall market peak in late 2021.

That said, our result could have been meaningfully better here had I not been sucking my thumb. I was well aware of the risks generative AI posed to Text's software main use case: customer support agents helping customers over chat. My initial belief was that Text would be able to complement their offering and compete well here. After learning more about generative AI, my conclusion was that the financial muscle the large cloud providers can put behind their generative AI capabilities, both in terms of compute power and size of datasets, will make it very difficult for smaller companies like Text to compete – especially if the large players include chat functionality essentially for free as part of their larger software and cloud offerings. Business history hasn't been kind to smaller one-product companies (like for example Zoom, Slack, and Netscape) who compete with cheap or free software bundles provided by large players.

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One of my early mentors who was also my master's thesis supervisor, James Dempsey, once explained to me that: *"People who spend their days doing nothing don't like to be interrupted."* I've found this to carry a lot of truth. The opposite is true as well: If you want something done, ask the busiest person.

This is what has happened at one of our holdings, Lindex, which is a leading Nordic brand in women's and kid's clothes. Susanne Ehnbåge was previously the CEO of Lindex, which was then one of two divisions of the Finnish conglomerate Stockmann which had another CEO. The other division is called Stockmann like the mother company.

Despite Lindex being Stockmann's main profit engine since 2007 when it was acquired, the company structure was such that its public name remained as Stockmann and the struggling Stockmann division remained the front-facing one. Most people in the Nordics know the Lindex brand well while very few outside Finland know the Stockmann brand at all, and even fewer know that Lindex is owned by a company called Stockmann.

In late 2022, as a frustrated shareholder, I had a couple of constructive discussions with the Stockmann board. While nothing happened publicly for a while, a lot of what we discussed, including putting Susanne in charge of both divisions and clearly changing the company's focus from Stockmann to Lindex, started coming to fruition. The company recently changed its name to Lindex and is currently exploring strategic options for the Stockmann division.

Meanwhile, Susanne has brought a burst of energy to the company's public profile and has put clear action programs in motion across both divisions. Besides now overseeing both the Lindex and Stockmann divisions, Susanne regularly competes in triathlon races on the side. Remember what I said about the busiest person?

Lindex growth rate won't make any headlines in Silicon Valley, but it has a very solid position in its niche, and I believe the improvements and good decisions that have been made over the past year will continue. Our investment here has from the start been about improving execution and focusing on Lindex. Since May-2023, we have had the right person in place to get the job done.

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In closing

I have come to appreciate a healthy dose of adversity over the past few years. Uninterrupted success doesn't teach you much as the lessons are harder to see, and often sets you up for future missteps. In contrast, setbacks should be embraced as they always provide you with a terrific opportunity to develop and be better in the future.

In the second half of the year, I will spend more time talking to, and hopefully visiting, private Swedish companies than I have in the past. After an energizing visit to Fortnox headquarters in Växjö in May, an interesting door opened to explore the Swedish market of younger companies further. While it's a more difficult market with fewer well-established companies, it's also way more inefficient than the Nordic public markets which have become increasingly thoroughly analyzed by both Swedish and foreign investors over the past decade. Equally importantly, it should also be fun and interesting.

In the event that any investments are made in private companies, the allocation will initially be small, somewhere between a low single digit percentage up to 15% of our total assets. If it proves to work well and is additive to our overall operations, the allocation could increase.

If you have any questions on the above, I'm available until July 12th. After that, I will take some time off and then direct my full focus to the investment side of our business for the rest of the year. I hope you have a nice summertime and look forward to reporting our annual results to you in early 2025.

July 5, 2024

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 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, 2024: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family office

Annual percentage change in	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	5.7	**4.0**	21.0	(17.0)
2024 per June 30th	5.4	**4.2**	10.0	(5.8)
Total gain	1122.9%	**511.1%**	245.5%	265.6%
Compounded annual	24.3%	**17.1%**	11.4%	5.7%

Notes to table

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[3] Estimated currency effects on Investment return: 2014 +7%, 2016 +2%, 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.

River Oak Capital

2024 Results Update

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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").

Preliminary 2024 Results (unaudited)

- Investment return pretax was 20.1%
- Book value per share increased by 17.5% to SEK 257.52 per share
    - Our benchmark OMXS30 including dividends increased by 6.8%
    - MSCI Sweden Small Cap including dividends, a much more relevant benchmark in terms of the type of Swedish companies we invest in, increased by 8.6%
- Taxes paid were 1.4% of our starting capital base (2023 1.3%)
    - Our tax rate is currently expected to be lower in 2025 and to be lower again in 2026

Annual percentage change in	**Investment return (pretax)**	**Book value per share**	**OMXS30 incl. div. (pretax)**
2017 (from Feb 7)	13.2	**8.6**	5.4
2018	0.0	**(6.0)**	(7.0)
2019	61.7	**50.1**	30.7
2020	104.0	**74.3**	7.4
2021	14.3	**10.8**	32.7
2022	(26.9)	**(28.8)**	(13.0)
2023	5.7	**4.0**	21.0
2024	20.1	**17.5**	6.8
Total gain	296.0%	**157.5%**	105.5%
Compounded annual	19.0%	**12.7%**	9.5%

My annual letter to shareholders will be sent out towards the end of the first quarter.

I will be in Engelberg next week for Rob Vinall's annual gathering. If you'll be there and want to meet up, let me know.

I look forward to seeing many of you in the coming months. In the meantime, wishing you a great year ahead and let's make it count!

Jan 4, 2025

Daniel Glaser
Chief Executive Officer

Notes to table

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[3] Estimated currency effects on Investment return: 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, 2024 +4%. 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.

Historical returns

Feb 7, 2017 – Dec 31, 2024: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family office

Annual percentage change in	**Investment return (pretax)**	**Net result**	**OMXS30 incl. div. (pretax)**
2013	41.0	**30.8**	25.5
2014	45.0	**33.8**	14.0
2015	35.1	**26.3**	2.2
2016	20.5	**15.4**	9.4
2017	19.6	**14.0**	7.7
2018	0.0	**(6.0)**	(7.0)
2019	61.7	**50.1**	30.7
2020	104.0	**74.3**	7.4
2021	14.3	**10.8**	32.7
2022	(26.9)	**(28.8)**	(13.0)
2023	5.7	**4.0**	21.0
2024	20.1	**17.5**	6.8
Total gain	1292.8%	**589.1%**	235.5%
Compounded annual	24.5%	**17.5%**	10.6%

Notes to table

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River Oak Announces Positive Changes for Investors and Introduces Quarterly Trading Window

March 6, 2025

Executive summary

Starting in 2025, our total operating costs will be kept below 1% of our beginning-of-year assets, with a goal to get them towards 0.5% over time

- Our OpEx cost has averaged 1.1% since inception and slightly higher recently

The dividend on Class A shares will be lowered from 20% of our annual book value increase to 10%, with an additional condition that our net result *after* such a dividend must outperform our benchmark that year

- This means that for a dividend on Class A shares to happen, our year-end book value per share must be higher than all previous years, plus the new condition must be fulfilled.
- If both conditions are met, the dividend will then be 10% on the year-end excess above our previous highest book value per share, rather than the current 20%.
- This change will be proposed and voted upon at our Annual General Meeting in May. If approved, it takes effect immediately and will thus be applied to our 2025 results.

The following table shows our past results and what our Book value per share increase would have looked like under the new structure:

Annual percentage change in	Investment return (pretax)	Book value per share	OMXS30 incl. div. (pretax)	Book value per share New structure incl OpEx 1%	Book value per share New structure incl OpEx 0.5%
2017 (from Feb 7)	13,2%	8,6%	5,4%	10,7%	11,2%
2018	0,0%	-6,0%	-7,0%	-1,5%	-1,0%
2019	61,7%	50,1%	30,7%	53,6%	54,1%
2020	104,0%	74,3%	7,4%	92,3%	92,7%
2021	14,3%	10,8%	32,7%	12,9%	13,4%
2022	-26,9%	-28,8%	-13,0%	-28,3%	-27,8%
2023	5,7%	4,0%	21,0%	3,7%	4,2%
2024	20,1%	17,5%	6,8%	18,0%	18,5%
Overall Gain	296,0%	157,5%	105,5%	219,2%	230,5%
Compounded Annual Gain	19,0%	12,7%	9,5%	15,8%	16,3%

Trading window to open at quarter end

- Book value will be sent out at quarter end and shareholders along with new investors will have a few days to send in their interest. If seller and buyer demand doesn't match, allocation will be done on a pro rata basis.
- The price in these transactions will be the current Book value per share according to River Oak's Information memorandum.
- Buyers and sellers who have already expressed interest before today will have priority until both the buyer and seller lists are cleared.
- Please note that buyers and sellers are free to mutually agree on other transaction dates and prices in between the trading windows on a first come first served basis just as they are today.
- The trading windows will at times likely be complemented by Capital raises & Shares repurchases

Founder & CEO Daniel Glaser comments

No shareholder have asked me or any of our board members to adjust our costs, so I want to share why we're making some changes.

Since we started, River Oak's “clean” value add – our pretax investment return minus the pretax benchmark return – has averaged 9.5% per year.

Most River Oak investors have received 3.8% of that per year (or 3.2% for those who aren't Swedish small business owners). You can find a breakdown in the footnote below.

Not a bad result, but we're now in a very different place than we were when we started in 2017. Back then, our main goal was simply getting of the ground and having a possible path towards a sustainable business. We really didn't have much choice in how to set up our Day 1 cost structure given our humble starting sum of SEK 4.4 million.

Things have developed more favorably than I initially expected. We now have some options, and it's only fair that shareholders get a larger piece of our potential value add going forward.

Another factor is the tax on our investment account which has varied significantly since our start. In 2017, we paid 0.3% of our beginning-of-year assets, while in 2024, we paid 1.1%. It will likely average less than that over time, but it has had an impact on our overall net result compared to when we started.

Finally, and importantly, the difference between our Investment return and Net result under our new "Day 2" structure looks a lot better to all of us on the board and is much more in line with what we believe it should look like in a good and efficient investment operation.

I look forward to put it into action!

[1] The difference between our pretax investment return and our net result is mainly because of high operating costs in % terms in our early years due to our small starting sum, and because of the dividend on Class A shares which was highly concentrated to the 3-year period 2018-2020 when the dividend rate was still 25%.

To get from our pretax investment return to our book value per share, we first have a tax on our investment account which has averaged 0.6% per year since inception but has been higher in the past few years. It depends on the Swedish government loan rate and has varied significantly over the years. In 2017, we paid 0.3% of our beginning-of-year assets, while in 2024, we paid 1.1%. It currently seems likely that it will average below 1% over time.

If you are a Swedish small business owner, which a majority of River Oak's shareholders are, you would pay this same tax if you invested in our benchmark OMXS30 including dividends, so for you this tax has no impact on River Oak's value add.

We also pay taxes on foreign dividends, most of which are automatically returned to us a few years later so they should be largely negligible over time – these taxes have so far averaged 0.1% per year for us on a net basis.

We then have some costs to keep River Oak's doors open which have averaged 1.1% per year since our start. They were meaningfully higher than that in the first two years. If we do well and if we end a year above our previous highest year-end book value per share, there is a dividend on Class A shares according to our Articles of Association.

I have always been of the view that if one doesn't add value after all costs, there should be no performance-related benefits and only the necessary costs for running the company should be covered. Clearly, a lot of value can be added over time even though single years don't, but one year is the simplest time period we have for evaluation so that's what we will use as our measuring stick when we determine if there is to be any dividend on Class A shares. While we have operated with this mindset since Day 1, this will now also formally be in our Articles of Association.

Uppsala in March 2025

Board of Directors River Oak Capital AB

River Oak Capital

Eklundshovsvägen 5, 752 37 Uppsala

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River Oak Capital

2024 Letter to shareholders

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2018	0.0	**(6.0)**	(7.0)
2019	61.7	**50.1**	30.7
2020	104.0	**74.3**	7.4
2021	14.3	**10.8**	32.7
2022	(26.9)	**(28.8)**	(13.0)
2023	5.7	**4.0**	21.0
2024	20.1	**17.5**	6.8
Total gain	296.0%	**157.5%**	105.5%
Compounded annual gain	19.0%	**12.7%**	9.5%

When evaluating investment results, it is my 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 twelve years which includes my Zen Capital family office from 2013-2016 at the end of this letter.

Notes to table

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[3] Estimated currency effects on Investment return: 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, 2024 +4%.
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,

River Oak’s book value per share increased by 17.5% in 2024. Our book value on December 31, 2024, was SEK 110.8 million, equivalent to SEK 257.52 per share.

We repurchased approximately 4% of River Oak's shares outstanding during the year at an average price of SEK 229.24 per share for SEK 4.3 million.

Our results were mainly driven by our US and UK holdings. There were few Swedish stocks that did well in 2024, but we achieved a positive net result from our Swedish holdings as well. Two energy holdings and one special situation workout, along with Text S.A. which was discussed in the midyear letter, were the main negative culprits.

The Swedish krona’s weakening had a positive impact on our results by approximately 4%. This has reversed sharply with the SEK strengthening significantly so far in the new year. I would prefer to not have the currency variable but limiting ourselves to Sweden only would mean missing many good opportunities and be outright unwise given our free mandate and broad experience in other markets. As you can see from the footnote to the table on the first page, currency effects have largely cancelled out for us over time.

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You don’t need a parachute to skydive, you only need a parachute to skydive twice

My aim with River Oak is to provide you with a feeling of stability and to save you the time of having to think and worry about your savings. I have heard from quite a few of you (sometimes a bit too enthusiastically) how much you appreciate this particular part of your River Oak involvement. It sometimes makes me wonder if most shareholders are reading these letters. Whether you are a regular reader or not, this worry-free engagement is exactly what I set out to deliver when we started.

One of our primary goals is to not lose money, so you generally won’t see us in the hottest places of the market or the highflyers of the day which were plentiful last year. I can’t provide the stability I’m aiming for unless I exclude many exciting companies with large losses (or small profits) today that promise big profits tomorrow. To be successful with our concentrated strategy, you simply can’t be shooting too widely.

The storyline you often hear about “hot” stocks is, ‘Yes, they are losing money today but just wait until they get more scale.’ Ironically, oftentimes you hear this even as revenue is indeed at significant scale. If you look at the early years of most of today’s great companies, you’ll find that their core business was meaningfully profitable even at low revenue levels. As always, there are exceptions, and sometimes profitability can indeed come at a later stage. It’s not that it never happens, but it’s more common that it doesn’t. The price of aiming for our stability is that we will miss most of the exceptions.

Being truly different

Is it good that we meaningfully outperform our benchmark in some years if the price is material underperformance in other years? Well, the whole purpose of River Oak getting started was to be different from most other things out there. I didn't anticipate our net returns to deviate from the benchmark as sharply as they have – an average *annual* deviation of almost 20% over the past eight years – but I don't mind it. It shows that you're truly getting a different menu at River Oak compared to what is served at most other places in Sweden.

Why is it so important to me that we are different? Let's say you have a stake in an investment firm called 'Don't Blame Us Capital' which outperforms the benchmark by an average of 0.5% per year over 10 years. I'd argue that's been quite a poor investment from a risk-reward perspective – even though the financial end result was higher – since you took on large additional risk pertaining to this specific investment (especially considering its curious name!) compared to the benchmark which worked out well even as a few of its constituent companies blew up or went bankrupt during this period.

Our aspiration is to meaningfully (not just barely) outperform our benchmark over time, which can only be achieved by being meaningfully different from that same benchmark. How are we different? There are multiple parts involved in a good investment – finding it, recognizing it, acting on it, sizing it, and holding it. I believe we have mostly stood out on the sizing part. Focusing more heavily on our best ideas not only accomplishes differentiation but, in my view, is also the best and most logical way to invest.

Introducing positive changes for shareholders

We have so far been successful in our quest as our "clean" value add – the difference between our pretax investment return and the pretax benchmark return – has averaged 9.5% per year since inception.

At the same time, our net result hasn't been equally satisfying. There are a few reasons for this. One is our tax rate, which has increased significantly since our start, but our small starting size in 2017 is the main reason. We didn't have much choice in how to set up our Day 1 cost structure. We have more options now, and earlier this month we announced meaningful changes to our cost base that will positively impact our net result going forward. You can find the full press release here.

If you prefer to cut straight to the chase, the following table shows what our Book value per share increase would have looked like under the new structure:

Annual percentage change in	**Investment return (pretax)**	**Book value per share**	**OMXS30 incl. div. (pretax)**	**Book value per share New structure**
2017 (from Feb 7)	13,2%	8,6%	5,4%	10,7%
2018	0,0%	-6,0%	-7,0%	-1,5%
2019	61,7%	50,1%	30,7%	53,6%
2020	104,0%	74,3%	7,4%	92,3%
2021	14,3%	10,8%	32,7%	12,9%
2022	-26,9%	-28,8%	-13,0%	-28,3%
2023	5,7%	4,0%	21,0%	3,7%
2024	20,1%	17,5%	6,8%	18,0%
Overall Gain	296,0%	157,5%	105,5%	219,2%
Compounded Annual Gain	19,0%	12,7%	9,5%	15,8%

Our taxes

A common misconception about our reporting is that we have high internal costs, which is not the case. Our largest fixed cost item is taxes. Last year, we paid 1.4% of our starting capital base to the tax office, whereof 1.2% were taxes related to our investments.

People tend to compare us to investment funds who often report 'Gross returns' and 'Net returns,' which are both before taxes. If you want to compare apples-to-apples, our investment return should generally be comparable to investment funds' Gross returns, whereas our net result includes deducting an extra tax component.

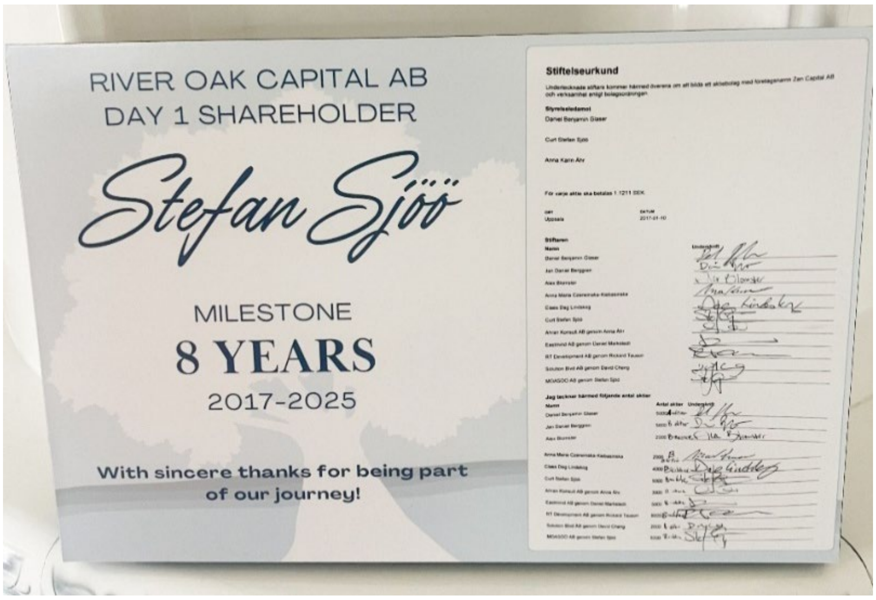
We get other benefits by being a holding company – both in terms of costs, resources, and a fully free mandate – and we have no current plans to change it. If there was another tax structure available that made more sense to us than our current one, we would already have it. Our tax rate is currently expected to be lower in 2025 and to be lower again in 2026.

8-year anniversary

February 6th was our 8-year anniversary. Eight years since we started has some special meaning to me. Besides being a long time together, my hero Kobe Bryant played in jersey numbers 8 and 24. Kobe's relentless drive to improve, mindset in tough times, and unshakable confidence – rooted in the knowledge that he had put in the work – have inspired me since River Oak's first day.

For our co-founding shareholders, their Day 1 investment had increased to nearly 3x its initial value at the end of year 8. If we can continue on this path – and hopefully even improve our net result somewhat with our recent changes – it would grow to around 9x the initial amount by year 16, and 27x by the end of year 24. Yes, you read that correctly. Compound interest can feel slow at first, but if handled well, it can be truly magical. I look forward to seeing where we are at our 24th anniversary.

Our Day 1 shareholders all received a memory plaque of those first signatures that started everything:



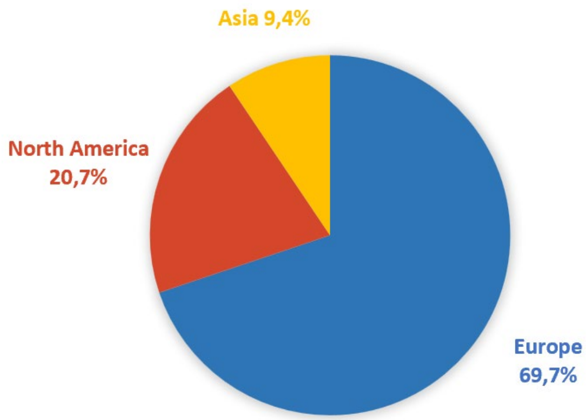
Our investments

Instead of using our previous categories Software & Platforms, Higher Interest rates beneficiaries, Energy & Infrastructure, and Workouts, which have become much less useful in describing our portfolio, I will go by geography in this letter.

First, however, since we no longer hold any investments in the Energy & Infrastructure category, a brief postmortem. Since 2022, our scorecard here shows total net gains of SEK 4 million on average capital employed of less than SEK 12 million. While there were a few hiccups along the way, that's to be expected in our business. As IKEA's founder Ingvar Kamprad used to say, *'making mistakes is the privilege of the active. It is always the mediocre people… who spend their time proving that they were not wrong.'*

I have no regrets about these investments. They were, like all our investments, made because they made sense from a bottom-up perspective in the context of being one part of our overall portfolio. However, as experience was gained, it quickly became clear that the energy "pond" of companies was less enjoyable to swim in compared to other ponds with better economic characteristics with which I'm also more familiar. If we invest here in the future, we will be much better prepared than we were in 2022.

As of December 31st, 2024, our investments were allocated as follows:



Europe

Sweden's economy remains slow and is as weak as I can remember it in my adult lifetime. The Swedish Riksbank has tried to do its part by lowering the interest rate to 2.25% which should help, but whether it's enough to get the wheels moving faster again remains to be seen. Currently, it expects to keep the rate fixed at 2.25% until 2028. I would bet on only one thing: that their forecast will change.

A rough macro environment doesn't preclude finding a few good investments. I've always said that if you're looking for great investments, start with your own monthly expenses. While it's valuable to keep them low so you have savings for a rainy day and to invest, it can be even more valuable to look at which companies you send money to on a regular basis. If you run a business, or have access to your employer's expenses, you have an even better source. I've found many great prospects in River Oak's and my own personal bank and credit card statements over the years. Avanza and Storytel both fit the bill and have graduated all the way to becoming holdings of ours.

Some investments don't make much noise for years until they do a lot in a few months. For much of the time since our investments in these two companies, I felt like the person who says, "Did you know that 70% of the world is dumb? Glad I'm in the other 20%."

Avanza

Let's start with Avanza, the leading savings platform in Sweden.

My Avanza experience goes back to around 2006 when my dad brought me to an evening meeting where Avanza introduced one of Sweden's first capital insurance accounts. This was a new government initiative to encourage more Swedes to start saving by offering a low annual tax rate on your total capital base, rather than the standard 30% tax on capital gains. You basically paid an insurance premium to shield your account from any capital gains taxes – a big benefit if you achieve positive returns that year.

In my early twenties, it didn't matter if you were smart and really wanted to work, landing a qualified job which gave you any hope of a financially free future was nearly impossible unless you had a reputable degree, and oftentimes experience in such a job was required as well – not so easy to have before you get the job. In came Avanza and gave every young to middle-aged Swede with good savings discipline, common sense, and a willingness to learn, the opportunity to take control of their financial life and secure a financially freer future, rather than being bamboozled by a large bank and their fancy advisors.

Avanza has led the race since then, with 166,000 of their customers being millionaires at last count. Last year, they had Sweden's most satisfied savings customers for the 15th consecutive year according to the Swedish Quality Index. Avanza is actually the only company that has ever held the top slot. Nordnet ranks second while the "Big Four" largest Swedish banks occupy the bottom four slots.

Many investors prefer Nordnet over Avanza due to its geographic spread in four Nordic countries while Avanza remains solely focused on Sweden. Personally, I prefer Avanza's simplicity and looking at the one market where these two Nordic dominants compete head-to-head. In Sweden, over the past five years, total net inflows and total savings capital are both in favor of Avanza by about 3-to-1, and in terms of net new customers, Avanza gained 1.1 million, outpacing Nordnet by about 10-to-1.

We invested in Avanza toward the end of 2022, mainly because I believe it's a great company that will be very hard to ever displace – but it also had the attractive characteristic of being a significant beneficiary of higher interest rates due to the higher returns it would earn on its bond portfolio along with a higher spread in its lending operations. However, higher rates would likely also mean lower overall activity on its savings platform and thus lower income in this part of their business.

If rates came back down, it would be the opposite dynamic. In other words, it had strong downside protection which rhymes well with our primary goal to not lose money. Once activity on their platform picked up again, with a now much larger customer base and support from higher rates than before, earnings were virtually certain to increase at a healthy clip.

My thesis played out largely as expected with earnings remaining at all-time high levels throughout our holding period. For whatever reason, the market didn't value this stability until the end of last year. I believe Avanza will maintain its dominant position in Sweden and continue to take market share, with the potential option of successfully expanding to a new country in the coming years.

Storytel

Storytel is the leading audiobook service in the Nordics. We have been shareholders in Storytel before but decided to sell our holding in 2021. At the time, I felt that their strategy had become too disparate with launches in all kinds of far-away countries with seemingly little regard to the likelihood of success or the return on those investments, other than an estimated customer lifetime value which looked very good on paper (as such metrics almost always do) but likely was nowhere near that in reality.

Slowly, after big losses in new markets for a long time, things started to change, and a more focused strategy emerged where their resources would be focused on a handful of carefully selected core markets outside the Nordics, while the Nordic countries – many of which had long been profitable – would remain the stable foundation. The previous obsession with quarterly guidance went away and was replaced by a focus on the longer term. Things started improving under interim CEO Ingrid Bojner after founder Jonas Tellander decided to step down and accelerated under new CEO Johannes Larcher who took over in late 2022.

Furthermore, by modifying the recommendation engine to recommend their own content more efficiently and also content where they had more favorable revenue-share agreements, they were able to significantly reduce content costs. They also made big improvements in their marketing efficiency. These initiatives, along with a focus on doing fewer things but doing them well, meaningfully improved profitability and they went from losses to significant profits. In turn, their previously rising net debt pile has now been turned into a net cash neutral position even allowing for their first ever dividend.

Despite fierce competition in the Nordics and the seemingly commodity type product, Storytel's customer value proposition has proven to be much stickier than one would expect. (Remember those monthly statements?)

Spotify launched an audiobook pilot in September 2022 and is potentially both a threat and an opportunity. With their recent launch in the Netherlands, one of Storytel's focus markets, Spotify will make the market more competitive but could also help spread the word about audiobooks in the local market. It remains to be seen which weighs heavier. One possible outcome here is that Spotify acquires Storytel.

After seeing most of my previous concerns (highlighted in my 2021 midyear letter) being addressed and observing all the progress in other areas, I re-invested in Storytel in early 2024 and have been pleasantly surprised since then.

Other European holdings

We also have investments in Wise, which provides a great way for you to save money on foreign exchange fees when you travel or if you're sending money to other currencies (check out their app!) along with a handful of other holdings in the Nordics, which have previously been discussed or will be discussed at a later date. In some cases where shares are illiquid, I may not discuss them publicly.

United States

I sold a large part of our US-based investments – Airbnb, Amazon, and Meta – in the past six months.

Airbnb announced plans to expand beyond their core business and become "the new Airbnb" providing much more of an all-weather app than today. Among other things, they plan to relaunch Experiences, which didn't get much traction in its first attempt. Notably, Airbnb's core service didn't get traction until their *third* launch so this relaunch could certainly work. As a happy and loyal customer, I'm excited to see all these changes and hope they succeed. As an investor, there were too many moving parts, and I decided to sell our shares towards the end of the year, which resulted in a healthy return over our 2-year holding period. One key to our good result here was that we invested in the midst of deep pessimism and sold in a relatively neutral state.

In the case of the latter two, my decision to sell was largely due to the hype and prevailing valuations from which I saw less upside and larger downside than before. We are still happy owners of Meta but in smaller size than we were in the past two years.

I've always had the view that you don't need to squeeze every last ounce out of an investment but rather strive to be content with moderate gains – similar to when you're trying to lose weight, it's good to stop eating a bit before you are 100% full. It's very hard to do, but oh so helpful.

China

Towards the end of the year, I began assembling a basket of companies based in China. Chinese companies have become so despised over the past few years that I felt we had reached a point where, in most scenarios in which China didn't invade Taiwan in the next year or two, there would be a good chance for the return of some rational optimism.

This is nothing new, we had good experiences investing in China in our early years between 2018 and 2021. How does any investments in China rhyme with keeping things simple you say? Well, bear with me.

To be clear, I don't believe foreigners can have an edge investing in China, just like it's difficult for foreigners to have any edge investing in Sweden or any other country where they don't live. In China, you have the added difficulty of things moving so quickly that a company can be an industry leader one year and be surpassed the next.

Thus, to be able to buy in to the attractive valuations I saw in strong companies without excessive risk, one option was to take a basket approach including a few Chinese companies. To reduce the risk further, our companies have fully domestic operations and don't trade with the United States or Europe. This basket is currently less than 15% of our assets at cost.

I don't want any readers to buy anything in China because River Oak owns it so our holdings here will simply be referred to as our 'China basket.' If we look at our full basket as one single company, it had the following characteristics on a trailing twelve-month basis:

- Revenue growth 37%
- Net income grew even faster with a margin of 31%
- Both growth rates are likely to be lower going forward
- The shareholder yield from dividends and share repurchases was 5%
- The net cash balance was around 20% of the total market capitalization.

Well, that sounds great you say, but how much did we have to pay to get such a basket? Eleven times net income – on a trailing twelve-month basis.

I hadn't seen numbers like these since Sweden back in 2010-2015, and these numbers should be viewed in light of China currently being in one of the worst economic downturns in its history.

My view is that our China basket could double in value in the next few years based on the earnings growth and shareholder yield (dividends and share repurchases) alone without any multiple expansion. As a potential bonus, there is of course the chance that multiples reach somewhat less depressed levels, or even optimistic levels.

Ok, you say, I understand what you're seeing in the numbers, but valuations in China have been depressed for years. Why now? I started establishing our basket once I felt that the US election result had been priced in, and I struggled to see what further negative news could come along that would make sentiment even worse. My view was that we were getting close to the point where the last pessimist had sold – usually a ripe environment for finding good investments.

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Generative AI

Last year, I promised you an update on how AI has affected us. In terms of efficiency, I use AI tools every day and they've been an enormous boost in terms of freeing up mind space and quickly providing an overview of any and all subjects I'm studying. On a personal note, I'm happy to report that I haven't yet seen any AI agents capable of doing the work I do daily in an impressive manner. So far, it's been a great friend rather than foe.

In closing

No matter how often I emphasize that it's financially wiser to buy shares when we're doing poorly and sell when we're doing well, most people will still do the opposite – it's deeply ingrained in human nature. However, I do encourage you to write down your reasons for buying or selling shares in calmness before going ahead with a transaction. Such notes will help make sure you really want to proceed and come in very handy when you may occasionally feel emotional. They'll also serve as a great regret-minimization checklist if any doubt creeps in later.

As you go through life, you realize that most people and even your closest friends see the world very differently. In most cases, there's no right or wrong. The best answer, or at least the best answer we have at our disposal, is often actual results. If you have strong opinions about a particular diet, that's great, but what results do you have to show for it? Are you getting leaner? Are you sick less often? Do you have fewer bad days? Simply put: Does what you're doing generate the results you expect? If not, it may be time to change direction. Over time, results speak louder than the grandest of strategies. This is my mindset and my focus at River Oak. We lean toward what works.

There are many things going on in the world today that we haven't seen before – from a U.S. president running crypto promotions one day and making hugely impactful decisions for the world the next, to AI-fueled innovations that are moving at lightning speed. The innovations are both inspiring and often mind-blowing.

From my side of things here at our calm headquarters, I focus on what I can have some influence over. I can't recall many occasions when our portfolio as a whole was more attractively priced than today. I have my money where my mouth is – my extended family, as well as Larisa and I, remain fully invested.

A big thank you to our board members, and to Larisa, who handles our financial reporting and a host of other matters. Without her, our operation would not run nearly as smoothly as it does today.

Finally, thank you for being our partner on this journey. You strengthen my motivation and drive me to keep improving every day.

March 27, 2025

Daniel Glaser
Chief Executive Officer

Founding principles

Our basic idea is simple:

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

   Human progress is the reason 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 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 (pretax in SEK).**

   This will result in an average annual pretax increase in book value per share of ~12.5% after operating costs and a dividend on Class A shares according to the Company's Articles of Association.

Historical returns

Feb 7, 2017 – Dec 31, 2024: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family office

Annual percentage change in	**Investment return (pretax)**	**Net result**	**OMXS30 incl. div. (pretax)**
2013	41.0	**30.8**	25.5
2014	45.0	**33.8**	14.0
2015	35.1	**26.3**	2.2
2016	20.5	**15.4**	9.4
2017	19.6	**14.0**	7.7
2018	0.0	**(6.0)**	(7.0)
2019	61.7	**50.1**	30.7
2020	104.0	**74.3**	7.4
2021	14.3	**10.8**	32.7
2022	(26.9)	**(28.8)**	(13.0)
2023	5.7	**4.0**	21.0
2024	20.1	**17.5**	6.8
Total gain	1292.8%	**589.1%**	235.5%
Compounded annual	24.5%	**17.5%**	10.6%

Notes to table

[1] The change in Book value per share is net of taxes, general operating costs, and a dividend on the Class A shares according to the Company's Articles of Association. There is no dividend on the Class A shares unless the year-end 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 which is due on Swedish investment accounts and which River Oak pays every year. It has amounted to between 0.3% to 1.1% of total capital per year. The real return achieved by a Swedish investor that invested in the index is thus between 0.3% to 1.1% lower per year than reported in the table,

[3] Estimated currency effects on Investment return: 2014 +7%, 2016 +2%, 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, 2024 +4%.
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.

River Oak Capital

2025 H1 Letter to shareholders

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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").

Annual percentage change in	**Investment return (pretax)**	**Book value per share**	**OMXS30 incl. div. (pretax)**
2017 (from Feb 7)	13.2	**8.6**	5.4
2018	0.0	**(6.0)**	(7.0)
2019	61.7	**50.1**	30.7
2020	104.0	**74.3**	7.4
2021	14.3	**10.8**	32.7
2022	(26.9)	**(28.8)**	(13.0)
2023	5.7	**4.0**	21.0
2024	20.1	**17.5**	6.8
2025 H1	0.8	**(0.5)**	3.1
Total gain	299.0%	**156.3%**	111.8%
Compounded annual gain	17.9%	**11.9%**	9.4%

When evaluating investment results, it is my 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 thirteen years which includes my Zen Capital family office from 2013-2016 at the end of this letter.

Notes to table

[1] The change in Book value per share is net of taxes, general operating costs, and a dividend on the Class A shares according to the Company's Articles of Association. There is no dividend on the Class A shares unless the year-end 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 which is due on Swedish investment accounts and which River Oak pays every year. It has amounted to between 0.3% to 1.1% of total capital per year. The real return achieved by a Swedish investor that invested in the index is thus between 0.3% to 1.1% lower per year than reported in the table.

[3] Estimated currency effects on Investment return: 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, 2024 +4%, 2025 -7%. 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.

[4] Investment return and Book value per share between 2013-2021 have not been audited. The Company's AGM voted to retain an auditor in April 2021.

Fellow shareholder,

River Oak's book value per share decreased by 0.5% in the first half of 2025. Our book value on June 30, 2025, was SEK 103.3 million, equivalent to SEK 256.26 per share.

The strengthening of the Swedish krona (SEK) had a negative impact on our results by approximately SEK 8 million or 7%.

We repurchased around 6% of River Oak's outstanding shares during the period at a price of SEK 264.66 per share for a total of SEK 7.2 million. This has had a slight negative impact on our book value per share year to date and will turn to a slightly positive impact if our book value per share goes above the repurchase price. The repurchases are not timing based on my part, we repurchase shares at most two times per year in May and November and only if there are shareholders who want to sell some shares and there are no buyers at that time.

I'm happy to share that we currently have some new investor interest, so we plan to open up a capital raise shortly. Thank you to those who introduced River Oak to their friends and colleagues.

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First half review

Our investment return was good across the portfolio and most of our meaningful investments from Avanza and Storytel to Wise, Meta, and our China basket have performed well operationally. While a few of our smaller commitments such as Boozt have done less well due in part to a still stuttering Nordic economy, the one main detractor from our returns this year has been the strengthening of the SEK, which appreciated almost 15% vs the US dollar during the first half and by a smaller amount vs the euro and the pound.

To what extent does this affect us? Let's assume we own shares in a USD denominated asset with a share price of $100 at the start of the year. If the share price appreciates by 50% and the USD depreciates by 15% vs the SEK, our asset is now worth an equivalent of SEK 1,275[1] so we only got a 27.5% return in SEK even though the share price appreciated by almost twice as much. Currency moves can eat up a sizable chunk of asset appreciation.

It's been odd to watch most of our portfolio companies' share prices go up this year while our total portfolio value as expressed in SEK has remained essentially flat. For reference, the 7% negative currency impact at the portfolio level fully cancels out the gain from a 7% position doubling, or from a 35% position rising 20%. The impact has been on the extreme side for us these past two years, but historically these effects have tended to roughly cancel out – and even if they don't, they should be negligible compared to our overall investment returns over the long term.

[1] For simplicity, we assume the USD/SEK exchange rate started the year at 1:10 meaning our starting year SEK value is SEK 1,000.

New share price $150 * (10 less 15%) = $150 * 8.5 = SEK 1,275.

If River Oak earned its keeps on successful currency forecasts, you would have sent me flowers for my brilliance last year and tomatoes for my ignorance this year. Fortunately, it does not. The metric I personally look at when evaluating our results – and the results of the operating companies we invest in – is performance in constant currencies. I encourage you to do the same (or be like the economist who confidently said there are really only three kinds of people in the world: those who can count and those who can't).

At the half-year mark, around 35% of our portfolio was invested in SEK denominated shares with the balance roughly evenly split between USD, EUR and GBP (our China basket is USD denominated). The split is primarily based on the available opportunity set at a given time and not on any beliefs I may have regarding the valuations of the respective currencies.

There have been no major changes in the portfolio since my previous letter, only a few minor trims and additions including one small new investment in Sweden which given its size will remain undisclosed for now. There are currently a couple of promising prospects in the Nordics which I hope will end up making it into our portfolio although there's no guarantee they will.

The Nordic economy is still puttering about. Lower interest rates have given families more disposable income and reduced the attractiveness of having money in a savings account, which should translate to better times for consumer-dependent companies such as Boozt, and to a smaller extent Lindex and Avanza.

Overall, our portfolio is attractively valued relative to the significant free cash flow it generates. While our holdings are not the fastest growers – thus not currently the most popular – I expect our portfolio as a whole, including some new investments and some exits, to show moderate to high growth over the coming years with healthy incremental profitability in most economic environments.

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Bubbly times

Financial bubbles build and eventually burst when there is much "air" in the system. At the peak of the 2008 financial crisis, there were so-called *synthetic* CDOs[2] that in some cases created over $10 billion in leveraged bets for every $1 billion of an already risky mortgage loan bundle, meaning that when $1 billion worth of these mortgages went bad – when enough homeowners couldn't pay interest on their mortgages – more than $10 billion of investor money went up in smoke.

It seems to me that we're again seeing more and more air in the system. While the AI[3] hype seems more akin to the 2000 .com bubble, the cryptocurrency wave more closely resembles the US housing bubble which ended with the 2008 financial crisis.

[2] CDO is short for Collateralized Debt Obligation which is a bundle of mortgage loans at varying qualities.
[3] For brevity, I will refer to all kinds of AI such as generative AI, AI agents, robotics, etc. simply as "AI."

AI

People and companies, and in turn, countries and the world as a whole, have always got more efficient over time. Every once in a while, there is a big leap in efficiency gains. The industrial revolution, computers and the internet are examples of previous leaps – AI is the latest one. That much seems clear.

Investing in AI is a different matter. Currently, companies that mention just some kind of success due to AI are highly sought after even when the rest of their business is rather uninspiring. While AI has already enabled significant efficiency gains and cost savings across companies, there are still few examples of companies that are able to charge a premium for their AI-powered services on a larger scale.

Providing the means to work on AI is the current goldmine. The amounts that are being spent on AI infrastructure and talent along with future investment plans are nothing short of extraordinary. Forget profits, it is in vogue to *spend* on AI, and any return on these investments will hopefully come later.

There is of course good reason to believe they will. It's commonly accepted that greater computing power significantly improves model performance, and it does seem likely that AI will indeed "change everything" given enough time. What's less certain is whether the returns on those investments will be *good*.

The one thing that's been true in the past is that it usually takes more time than most people think before new revolutionary technologies become useful at scale and potential winners start to crystalize. Andrej Karpathy, who led self-driving at Tesla and was one of OpenAI's first employees, recently gave a talk where he said that his first Waymo self-driving demo ride around Palo Alto was "perfect." The demo ride he was talking about happened in 2013.

The biggest winners of the internet age – Amazon, Alphabet (Google's parent), and Meta (parent of Facebook and Instagram) – were all founded at various times in the early internet boom cycle. Amazon went live in 1995, Google was launched in 1998, while Facebook and Instagram came later in 2004 and 2010, respectively. Looking at where the early internet market leaders like Yahoo, AOL, and Excite are today, and considering how quickly things move in AI, it's not a given to me that OpenAI will still be the same overwhelming market leader it is today in five years' time. Its flagship service, ChatGPT, currently has a significant advantage in both model performance and overall usage, and moats do seem stronger now than in the early internet years given today's lightning-fast distribution and worldwide availability, but model performance could become commoditized and we may well be using a different interface to interact with our preferred AI in the future.

Being the toll-road in the traffic boom – like cloud providers have been for internet companies, or like Verisign has been providing .com domains, or like Fortnox has been for SMBs in Sweden over the past two decades – has again proven highly lucrative as it almost always does with Nvidia leading the pack. Given the difficulty of picking the front-line winners – and our concentrated investment style (we are not making 50 small venture bets hoping one of them turns into the Google of the AI age) – it's the layers underneath the ChatGPTs of the world where my efforts are focused.

Cryptocurrencies

Moving from one area of hype with many real-world use cases to one largely without, let's take a brief look at cryptocurrencies.

The Trump meme coin (yes, that's a real thing) was launched three days before President Trump's inauguration and soon peaked at a total market value of around $15 billion[4]. As best as I could tell at the time, that was basically $15 billion of "rarified air". Sure enough, its market value has deflated by about 90% since then down to around $1.7 billion today (still a respectable sum for something of that nature). The launch reportedly generated roughly $350 million in revenue from token sales and trading fees and allowed retail investors to buy this coin at a high premium only to see their "investment" become essentially worthless a few weeks later.

It seems to me that most if not all cryptocurrencies are purely speculative objects with no tangible value. Outside stablecoins, a form of cryptocurrency normally backed by real assets such as the US dollar and the euro, real-world use cases remain scarce unless one counts trading, gambling, and anonymous payments that seem well suited especially for illegal activities. There are claims that crypto has an important role to play in cross-border payments to exotic currencies, for example to countries in Africa and South America which often carry high fees, but I doubt it's indeed cheaper compared to services like Wise and Revolut once all costs are counted – and even if some use cases on specific currency routes do make sense, is it really worth having the gambling and making it easier to conduct criminal activities as the other side of the coin?

What about collector's value? The total value of all cryptocurrencies combined is currently estimated to be around $4 trillion. If you thought $1.7 billion for the Trump meme coin was high, there is another $3.998 trillion of other similar stuff out there including the Bitcoin flagship. The collection of those seem to have far more in common with 1630s Dutch tulips than Picasso paintings if you ask me. It's possible I'm too "old school" to see the beauty in collecting these coins as a form of digital gold, and if that's the case, I don't mind seeing other people do well with it while having the opportunity pass us by.

Market participants tend to care less about most things including what they are buying and at what valuation (if any) the more money they are making. I'm not setting policy and the use cases I excluded above could certainly be considered more than enough by regulators to keep the party going, especially considering that the genie – the $4 trillion genie – is already out of the bottle so to speak. Be that as it may, but it has a high likelihood of ending badly.

At the 2008 CDO peak, it is estimated that there was around $2 trillion of CDOs in circulation not backed by mortgage loans on top of the roughly $1.4 trillion of actual mortgage loans, so in essence $2 trillion of "air", or around $3 trillion in today's dollars adjusted for inflation – that's still $1 trillion less than today's total cryptocurrency market cap. Crypto is not as systemically integrated as housing was and the fallout in case of a crypto sentiment change will likely be less severe, but it's become large enough to warrant awareness and general caution.

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[4] Reports vary on the exact peak figure, but my overall point remains the same regardless.

Stablecoins are an exception which clearly has tangible value. It is plausible that valuable real-world use cases emerge here and I'm studying this part of the ecosystem with keen interest.

Summing up this cheerful section, I believe we have bubbly pockets here and there. My view is that AI will and is already changing the world although the current hype makes it more challenging to invest in, whereas I struggle to see any tangible value or useful real-world applications in cryptocurrencies.

Bubbles can go on for a long time however, and one can make boatloads of money in bubble assets as long as one leaves the dance floor in time. We are unlikely to participate much in the party. On the plus side, we won't get drunk and hopefully won't get too big of a hangover either once the party stops.

One mistake I made in 2020/21 was that I didn't always have my own favorite investment mantra, "*Be content with moderate gains*" (borrowed from Warren Buffett), front and center. Forgetting it can be costly. That doesn't mean I mind large gains – I certainly don't – but it's far more pleasant to have reasonable expectations and enjoy positive surprises rather than chasing their more attractive-at-first-glance cousin: unreasonable expectations and negative surprises.

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Looking ahead

One new market phenomenon that has only accelerated over the past few years has been the extreme share price movements on days when companies report earnings. The reasons behind it are hard to pinpoint with any certainty, but probable causes include so-called podshops who try to predict quarterly earnings results and then use copious amounts of leverage to magnify small share price movements, higher retail investor participation after covid, and other leveraged entities who get margin calls on earnings days.

This means it has become virtually impossible to keep our portfolio volatility reasonably low during the four earnings seasons. In April, we had to adjust our quarterly trading window share price due to particularly large moves in our book value per share. We have now shortened our trading windows to minimize the potential impact of the nowadays more regularly occurring large share price moves. There is no clever way around this – if we want our preferred long-term exposure to a collection of attractive publicly listed companies that steadily increase their owner earnings power over time, we have to live with the short-term nuisances the market gives us along the way.

A couple of years ago, when we had recently started River Oak, I was down at a local store in downtown Uppsala. At the counter, the person before me chatted with the cashier about his job at a well-known Swedish financial advisor. When we both had paid and were on our way out, I kindly introduced myself and River Oak, and then mostly out of politeness, I suggested a coffee at some point in the future. In response, this person started walking faster, then looked back at me, and finally started running back towards his office. He was either stressed getting back to his desk or it's the first (and only) time I can remember someone being that afraid of me.

I oftentimes still feel like that outsider looking in onto the financial industry – and I love it, because it lets us operate fully independently and do only the things that make sense for us. We don't have to do anything just because everyone else is doing it or because "you're supposed" to be doing it.

Thank you for being a shareholder and partner on this learning journey towards greater financial freedom and lasting friendships. Our partnership motivates me every day and I never take it for granted.

Sept 19, 2025

Daniel Glaser
Chief Executive Officer

Founding principles

Our basic idea is simple:

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

   Human progress is the reason 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 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 (pretax in SEK).**

   This will result in an average annual pretax increase in book value per share of ~12.5% after operating costs and a dividend on Class A shares according to the Company's Articles of Association.

Historical returns

Feb 7, 2017 – June 30, 2025: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family office

Annual percentage change in	Investment return (pretax)	Book value per share	OMXS30 incl. div. (pretax)
2013	41.0	**30.8**	25.5
2014	45.0	**33.8**	14.0
2015	35.1	**26.3**	2.2
2016	20.5	**15.4**	9.4
2017	19.6	**14.0**	7.7
2018	0.0	**(6.0)**	(7.0)
2019	61.7	**50.1**	30.7
2020	104.0	**74.3**	7.4
2021	14.3	**10.8**	32.7
2022	(26.9)	**(28.8)**	(13.0)
2023	5.7	**4.0**	21.0
2024	20.1	**17.5**	6.8
2025 H1	0.8	**(0.5)**	3.1
Total gain	1303.3%	**585.7%**	245.8%
Compounded annual gain	23.5%	**16.7%**	10.4%

Notes to table

[1] The change in Book value per share is net of taxes, general operating costs, and a dividend on the Class A shares according to the Company's Articles of Association. There is no dividend on the Class A shares unless the year-end 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 which is due on Swedish investment accounts and which River Oak pays every year. It has amounted to between 0.3% to 1.1% of total capital per year. The real return achieved by a Swedish investor that invested in the index is thus between 0.3% to 1.1% lower per year than reported in the table,

[3] Estimated currency effects on Investment return: 2014 +7%, 2016 +2%, 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, 2024 +4%, 2025 -7%. 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.

[4] Investment return and Book value per share between 2013-2021 have not been audited. The Company's AGM voted to retain an auditor in April 2021.

River Oak Capital

2025 Letter to shareholders

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Annual percentage change in	**Investment return (pretax)**	**Book value per share**	**OMXS30 incl. div. (pretax)**
2017 (from Feb 7)	13.2	**8.6**	5.4
2018	0.0	**(6.0)**	(7.0)
2019	61.7	**50.1**	30.7
2020	104.0	**74.3**	7.4
2021	14.3	**10.8**	32.7
2022	(26.9)	**(28.8)**	(13.0)
2023	5.7	**4.0**	21.0
2024	20.1	**17.5**	6.8
2025	(13.4)	**(15.1)**	19.7
Total gain	242.8%	**118.7%**	145.9%
Compounded annual gain	14.9%	**9.2%**	10.6%

When evaluating investment results, it is my 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 thirteen years which includes my Zen Capital family office from 2013-2016 at the end of this letter.

Notes to table

[1] The change in Book value per share is net of taxes, general operating costs, and a dividend on the Class A shares according to the Company's Articles of Association. There is no dividend on the Class A shares unless the year-end book value per share is higher than all previously reported years and the net result after such a dividend is higher than the OMXS30 including dividends that year. For more details, see the Company's Articles of Association.

[2] The OMXS30 including dividends column does not include the standard annual tax payment which is due on Swedish investment accounts and which River Oak pays every year. It has amounted to between 0.3% to 1.1% of total capital per year. The real return achieved by a Swedish investor that invested in the index is thus between 0.3% to 1.1% lower per year than reported in the table.

[3] Estimated currency effects on Investment return: 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, 2024 +4%, 2025 -9%.
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.

[4] Investment return and Book value per share between 2013-2021 have not been audited. The Company's AGM voted to retain an auditor in April 2021.

Fellow shareholder,

River Oak's book value per share decreased by 15.1% in 2025. Our book value on December 31, 2025, was SEK 89.5 million, equivalent to SEK 218.72 per share.

Our investment return in constant currencies was negative 4.4%. The strengthening of the Swedish krona (SEK) had a negative impact on our results by approximately 9%.

All discussions about our results in this letter will be in constant currencies unless otherwise noted. Currency fluctuations have little to do with stock picking, and they are unlikely to have a large impact on our portfolio's long-term results. I make no effort whatsoever to try to predict their moves. They can however have a material impact on our results in certain years, so I have included a short section on currency hedging.

We repurchased around 6% of River Oak's outstanding shares in June at a price of SEK 264.66 per share for a total of SEK 7.2 million. We also raised SEK 1.5 million in October at a price of SEK 242.07 per share. The repurchases and capital raises are not timing based on my part, but a result of demand. We repurchase shares at most two times per year in June and December, and only if we have shareholders who want to sell shares and there are no buyers at the time.

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Annual review

Let's get the elephant in the room out of the way: This is not what any of us wanted to see. On the surface, these are ugly-looking results.

If I evaluate what actually happened during the year, most of our companies showed solid operating progress but some of them had a late-year earnings report on the weaker side (they all reported on the stronger side in early 2026) which had a meaningful impact on their year-end share price. Our winners didn't make up the difference and taken together it caused our portfolio to end up at negative 4.4%, which is nothing to write home about but was in line with Swedish small cap indices.

We entered 2025 with a cautious portfolio, as I thought valuations were high and sentiment frothy. However, the market generally rewarded highly valued stocks with even richer valuations, while lower valued stocks became cheaper.

When evaluating results, we do well to consider what risk was taken to achieve a certain result. Many of last year's highflying stocks – you had to own one or a few of them to do well compared to large cap benchmarks – were down 20% to 50% in the first months of 2026. Many companies in this group got hammered in the 2022 market drawdown, then recovered, and then got hammered once again early in 2025 only to reinflate just as quickly. It's difficult to argue that this group is cheap even after large drawdowns since their share prices have been largely disconnected from their reported earnings and seemingly have more to do with the stories surrounding them.

As a contrast, I can see our portfolio be positively rerated by 20% to 50% and still not look expensive. We own a portfolio of companies with steadily increasing earnings of 10% or more per year that are, as best as I can tell, largely insulated from the risks of AI rendering their goods and services less valuable.

All our companies are currently priced on the lower side of the scale – ranging from 10x to 15x operating earnings for 2026, in some cases combined with a healthy dividend yield to boot. We also own two so-called workouts which I have covered in the past. Workouts are by their nature often cheaply priced but given their problems lower valuations are warranted; we own these because I expect specific corporate actions will take place and remove some of the discount. Workouts are relatively uncorrelated to market sentiment and are generally smaller sized positions.

The hyped-up companies may keep getting reinflated every time market optimism returns as they have in the past few years, or they may not. Either way, I'm not comfortable owning companies because of their story or hype unless numbers back it up. I like earnings and cash flows, since I believe those give you a floor on the downside as a business owner.

It may well be that our more cautious approach accomplishes only that we lose less than others during a period – something that may not have you doing handstands or backflips, but something I would be pleased with. There are times to make big gains and there are times to focus on solid defense.

While we had a few disappointments, and I made the usual mistake or two – both things that are unfortunately present most years – I'm in all honesty somewhat surprised that the operating performance of our companies led to this overall result. It wasn't one of our best years decision-wise but certainly not one of our worst either. It is important to remember that I made some truly poor decisions in 2020 and 2021 when everyone was happy. When everything is going great, you tend to get some of the dumbest behavior. On the flipside, struggles are often a fertile ground for improvements.

On the bright side, in a year when it seemed like most things went against us, we were still only down 4.4%. Surviving with some scars in a year when few things work is as important in my book – if not more important – than making a boatload when everything works. I've been doing this for 13 years now and only two of those years have ended in the red, while the average annual investment return remains above 20%.

I will stick to companies whose products and valuations I can understand, and I will remain focused on fundamentals, which do matter in the long run. In the current environment, what Peter Lynch used to say half-jokingly may seem more fitting: value wins out often enough to believe in it.

Market tailwind?

Didn't we have a market tailwind given our benchmark's return? I would have to argue it was the opposite for us. In large caps there was surely a tailwind, with Sweden's four largest banks together with mining and defense-related companies being the main contributors to the benchmark's strong performance, but in Swedish small caps there was a headwind.

Our correlation to our benchmark has always been small, just as I said it would be when River Oak was started, and it seems to have become even less so in recent years. In the past couple of months, on days when we do poorly, the index is often up, and on days when we do well, the index is often down. I have generally not seen this being so pronounced in previous years. If you look at our historical results, since River Oak's start in 2017 or since my family office's start in 2013, our low correlation is blindingly obvious. I expect that to continue. We set out to be something different than the myriad options available out there who by design have to stay close to the indices.

There have now been two periods in history during which large caps had five straight years of outperformance over small caps: 1994-1998 and 2021-2025. We all know that history seldom repeats exactly but it rhymes, and it's hard to deny some of today's similarities with the late 1990s run-up culminating in the 2000 .com bubble.

It's worth noting that large caps also outperformed small caps during all three of our first years, 2017-2019, and we still did well in that period so last year's poor showing is clearly on me as well.

I have long been clear that I believe stocks are the best place to invest your *excess* capital over a lifetime. I highlight '*excess*' because investing in yourself should always be prioritized over investing in stocks. I have also generally been a proponent for small caps vs large caps, since they have outperformed looking back over the past 100 years. However, their outperformance is largely explained by one extraordinarily strong decade starting in 1975. If we remove it, performance is actually similar at around 10%. Many point to the fact that small caps must by their nature be more inefficiently priced but looking at the huge moves in large caps in recent years and considering the myriad sophisticated tools now available for evaluating small caps, it's not clear to me if that truth still holds. My core premise that stocks are the best place to invest your excess capital over time remains, but whether you should concentrate in large caps, small caps, or a combination can be debated.

Things to improve

The current environment notwithstanding, there are clearly things I need to improve. I have gotten much praise over the years due to our strong results, so some criticism now is no doubt well deserved.

The world is changing at a fast pace, and the markets are becoming more competitive every day. When I evaluated the year in November, it became clear that I need to focus even more exclusively on the few important things that move the needle for us and ignore most of everything else. If we are to remain competitive, I need to spend more uninterrupted time evaluating new opportunities, comparing them to our current holdings, and thinking about how the world's changes are affecting us.

Going forward, there will be fewer organized events, such as our quarterly trading windows, which were discontinued in December. I will be even more selective with stricter requirements for our investments, and less forgiving of mediocre performance. This will minimize the risk that we get caught up in situations with difficult future decisions and leave more headspace available to focus on the biggest opportunities.

Don't expect this to bear fruit immediately – that's not how investing and markets work.

Net result

Let's move on to the second elephant present in our results, I prefer to get them all out of the way to make it easier to focus fully on the future. I never expected – and certainly never wanted – to be in a place where our investments have outperformed the benchmark by a meaningful margin but due to the costs of running our operation our net result has not done the same.

This is in part explained by the fact that we are currently under our all-time book value high. A fair assessment can be made by looking both at a point in time close to our highest point and one below it. But there are other reasons as well.

First, Avanza Zero. Most people in the industry select a benchmark reflecting the specific and often limited pond where they expect to fish and then go about trying to find the best fish within that pond. We went with OMXS30 not because we planned to invest in the 30 most actively traded companies in Sweden, but because Avanza through its zero-fee index fund Avanza Zero provided a brilliantly simple way for Swedish people to invest in Sweden's main index. To be clear, Avanza is losing a lot of money offering Avanza Zero for free, likely in the tens of millions – and you can't get the index return shown in our results table without paying taxes which are not included in the table. That said, it is available, and it is a good alternative.

Second, taxes. We started out paying 0.2% per year and last year we paid 1.0%. Our tax rate should come down along with Swedish interest rates with some lag, but it is still likely to end up higher than where we started.

Finally, our cost structure in the early years is the main reason. We started out with only the minimally necessary fixed costs and a fully performance-based salary allocating 25% of our net profits to a salary pool with the conditions that nothing would be allocated if we didn't have profits or if we ended a year under our previous high point. We lowered this allocation in two steps as it became possible, first to 20% and then most recently in March-2025 to 10% with an additional condition that we have to outperform our benchmark *after* this allocation or nothing will be allocated (you can find the press release here).

In the two tables below, the last column shows what our result would have looked like under our new lower cost structure. This column is also the relevant one going forward.

Annual percentage change in	Investment return (pretax)	Book value per share	OMXS30 incl. div. (pretax)	Book value per share New structure
2017 (from Feb 7)	13,2%	8,6%	5,4%	10,7%
2018	0,0%	-6,0%	-7,0%	-1,5%
2019	61,7%	50,1%	30,7%	53,6%
2020	104,0%	74,3%	7,4%	92,3%
2021	14,3%	10,8%	32,7%	12,9%
2022	-26,9%	-28,8%	-13,0%	-28,3%
2023	5,7%	4,0%	21,0%	3,7%
2024	20,1%	17,5%	6,8%	18,0%
2025	-13,4%	-15,1%	19,7%	-15,1%
Overall Gain	242,8%	118,7%	145,9%	171,1%
Compounded Annual Gain	14,9%	9,2%	10,6%	11,9%

Table 1: Results since River Oak start under the new structure implemented in March-2025

Annual percentage change in	Investment return (pretax)	Book value per share	OMXS30 incl. div. (pretax)	Book value per share New structure
2013	41,0%	30,8%	25,5%	35,6%
2014	45,0%	33,8%	14,0%	39,1%
2015	35,1%	26,3%	2,2%	29,9%
2016	20,5%	15,4%	9,4%	17,2%
2017	19,6%	14,0%	7,7%	16,5%
2018	0,0%	-6,0%	-7,0%	-1,5%
2019	61,7%	50,1%	30,7%	53,6%
2020	104,0%	74,3%	7,4%	92,3%
2021	14,3%	10,8%	32,7%	12,9%
2022	-26,9%	-28,8%	-13,0%	-28,3%
2023	5,7%	4,0%	21,0%	3,7%
2024	20,1%	17,5%	6,8%	18,0%
2025	-13,4%	-15,1%	19,7%	-15,1%
Overall Gain	1105,57%	485,24%	301,48%	718,4%
Compounded Annual Gain	21,1%	14,6%	11,3%	17,6%

Table 2: Results including River Oak and family office under the new structure implemented in March-2025

Do I have any regrets setting up River Oak the way we did at the start? The short answer is no. It was the only way I saw possible at the time. Coming from a background with more than a decade in the badminton national team – not a sport in Sweden known for the many financially independent retirees it graduates – I exhausted literally all my contacts and then some when finding our Day 1 investors. For those who don't know, our starting capital was SEK 4.4 million, of which SEK 0.5 million came from yours truly.

On Day 1, I paid the law firm who helped us get started nearly 1% of our starting capital. I was young and naive enough at the time to view it as a good solution with favorable odds. Had we not set it up the way we did at the start, I can assure you River Oak would not have gotten started until many years later if at all.

Going forward, with these changes, our current rather unflattering position is very unlikely to remain if our investments keep outperforming. For now, we are here. The best thing to do now – the only thing – is to get to work getting back to where I want us to be.

Our investments

As a result of the November evaluation, a few of our investments were sold or reduced, to enable focusing on fewer things with a clear mind. We also made two new investments late in the year, and I expect some further adjustments to our portfolio along these lines in the coming months.

When share prices are moving around on a daily basis, nowadays often in extreme magnitudes, it can be easy to forget that they all represent ownership in a company.

Our primary headwind in 2025 was the strong Swedish krona and the negative currency effects resulting from our exposure to USD, GBP, and EUR-based investments. Excluding currency effects, Wise was our largest negative contributor last year (and also one of our largest positive contributors in 2024), so I will start with Wise, and then briefly discuss a few of our other investments.

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Wise is one of the leading cross-border payment platforms in the world. It provides the overall lowest pricing for cross-border transfers at 0.52% on average across all its transactions in the past twelve months. Contrast that with the 7-8% you pay at Forex counters, or the 1-2% you pay (perhaps unknowingly) when you use your Visa or Mastercard. In 2025, the global average cost of sending $200 abroad was still 6.5% (including markups and fees). Much of this cost is not visible to customers as it is often hidden in the exchange rate banks give you.

Not only is it cheap to use Wise compared to most alternatives, but it is fast: almost 75% of all transactions now arrive in the recipient's account instantly and 95% arrive within 24 hours, while many other alternatives often take days.

It's easy to see why Wise has succeeded and why demand is likely to remain strong.

The correspondent banking model – through which most international payments today flow – goes back many decades and evolved in a time when most international payments were large and infrequent, which is not the case anymore. It relies on a chain of intermediary banks, each collecting fees along the way.

Wise had the big advantage of starting much later in 2011 without any legacy systems in place that earned them a lot of fee income. Over the past 15 years, Wise built infrastructure that minimizes cost and increases speed at every turn. By connecting local payment systems around the world and removing intermediaries wherever possible, they bypass the friction that typically holds up transfers and makes them more expensive. They maintain local bank accounts in different countries and net payment flows internally within their network rather than actually moving funds across borders.

Since their founding, they have spent enormous effort becoming regulatory compliant and efficient across jurisdictions. This is tedious work but has awarded them direct connections into the domestic payment infrastructure in some countries, which reduces cost and speeds up transactions even further. As volumes grow, more efficiencies accumulate in their network, and they are able to lower prices even further.

Since our initial investment in early 2024, Wise cross-border volumes are up 50% to £170 billion, their account platform holding customer deposits is up 65%, revenue is up 35%, and free cash flow is up 100% over these past two years. Furthermore, they have generated more than £1.1 billion in cash in these two years compared to their current enterprise value of around £7.5 billion.

I generally expect the share price to follow along such operating performance, but it has essentially remained flat. There are a few plausible reasons for this, a couple of which I didn't foresee at the time of our investment:

1) **Difficult-to-understand financials**

   Management decided to change their reporting shortly after our initial investment, separating their core cross-border business earnings from any "excess" net interest income they earn to shift focus towards what they view as their core business. They still earn the same interest income, and without going into details, suffice it to say that unless you believe worldwide interest rates are going back to 1% anytime soon, they make a lot more money than what most investors would give them credit for after a glance at their reported financials.

2) **Price cuts of more than 20% in the span of one year**

   The average price for transactions was lowered from 0.67% to 0.52%. They do this because they believe that over time in cross-border payments, the overall lowest price wins – most likely a correct assumption. While the price cuts to some extent gave the impression of being late to the party, management explained that they had built up efficiencies in the system over a period of time and were now comfortable going ahead with their planned investment into price cuts.

   To their credit it has worked exactly as they hoped: volume growth has accelerated meaningfully. B2B volumes went from 12% growth before the price cuts to 35% in the past twelve months, while consumer segment volumes went from 14% to 22% growth. Management has since acknowledged the step-change and have indicated that any further price cuts will be more measured, as they believe they are now in a much stronger place in terms of pricing. This means that revenue growth will now be more in line with volume growth, which is currently at around 25%.

3) **The rise of stablecoin being potentially cheaper and faster than Wise's system**

   To evaluate its merits, we made a transfer from a US bank account to Sweden using the USDC stablecoin as the intermediary medium. The money arrived about one week later and ~20% was lost to fees. We are by no means experts in the field, and the process will surely improve, but the idea that stablecoins stand ready to take over anytime soon seems farfetched.

   Stablecoins have limited reach today at less than 1% of global cross-border volumes. If they were to become more mainstream and well regulated, there is nothing stopping Wise from implementing support for stablecoins as one available intermediary medium between the customer endpoints in their current system. Management has cited the lack of clear regulation and the fact that it wouldn't improve speed and cost in their current system as reasons why they do not support it today.

One scenario where Wise's system would likely become obsolete is if the world's countries would agree on using one universal currency. Then the currency translations at the customer endpoints, where Wise shines, would not be necessary. The degree of collaboration required between countries for something like that to happen is hard to imagine given that even friendly countries today have a hard time agreeing on things like Greenland.

4) Competition

To be regulatory compliant across geographies is not a walk in the park. HSBC discovered this when they launched Zing two years ago, which was profiled as a direct competitor to Wise, with a team of 400 people. They threw in the towel after only a year having spent $150 million on the project and attracted less than 50,000 customers (compared to Wise's 15 million). One of the main reasons cited in reports was the "*complex restructuring required in their compliance functions.*"

Revolut is the most capable competitor and an extraordinarily strong company. They are launching new services and features worldwide at an incredible rate. Their ambitions are higher and their focus is broader, while Wise is maniacally focused on being the best at cross-border. Revolut's cross-border business was initially built on Currencycloud (the same underlying solution Zing used) which would indicate an advantage for Wise, but it's not known to what extent they are still reliant on Currencycloud today. For the most common routes and transaction amounts, Wise is generally cheaper to use.

That said, Revolut is growing fast and doing it well. Revolut is private and recent reports suggest a valuation of £100 billion, which is more than 10x Wise's value while net income is only around 3x higher. They have co-existed well since Revolut's founding in 2015 and seem likely to continue doing so while they both keep taking market share from banks and other forex players.

Many payments platforms, for example N26 (~8 million customers) and Monzo (~15 million customers) already use Wise's infrastructure under the hood in their apps as a white-label solution, so their growth also becomes Wise growth.

5) It's possible that people don't know and understand Wise well enough

The planned dual listing in the US later this year should help, as should the planned increased marketing efforts. Wise has mainly been growing through word-of-mouth over the years with a total marketing budget of around £50 million in the last full fiscal year, which is now increasing.

Out of these five items, the one with the most direct impact on Wise results were the price cuts which caused margins to jump around a lot creating uncertainty. While management aims to reinvest efficiencies and return them to customers through lower prices and a better platform – as the numbers get larger, they have been struggling to increase spending in unison. The result is margin expansion, which is what I would generally expect in a business like this unless management elects to invest *all* accumulated efficiencies in consistent large price cuts.

When we've owned shares for 2-3 years and the company does pretty much what I expected it to do while the share price remains essentially flat, it goes into heightened scrutiny where I regularly re-examine all main thesis points. In these cases, I have often been the one missing something rather than the market. So far, however, Wise is passing all my tests. There are clearly a few moving parts to monitor, but the business is doing very well in an industry that's bound to grow for a long time to come while the market is pricing it for a relatively pessimistic and short-lived future.

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Storytel is the leading audiobook provider in Europe and has been covered in previous letters. We initially invested in Storytel as a turnaround case. It has now turned – it went from debt and losses to net cash and generating significant free cash flow. Storytel plans an uplisting in 2026 which will, among other things, enable share repurchases. Given the current free cash flow yield of close to 10%, share repurchases will be an attractive option.

The main worry after the turnaround has been Spotify's entry into the audiobook market. Spotify has now been live in the Netherlands for more than two years and they launched in the Nordics in the fourth quarter last year. Storytel has been doing very well in the Netherlands for a long time. Importantly, churn has remained at all-time lows, even in the most recent quarter, which included more than one month of Spotify's service in Nordics, which is Storytel's main market. You would generally expect the biggest impact shortly after launch, so this was a sign of strength for Storytel. Preferences for one or the other seems to depend on who you ask, and they seem to attract different customer groups with Spotify skewing younger. There clearly seems to be room for both.

Furthermore, Storytel licenses content from their publishing business to Spotify. Few details are public, but it will at a minimum help mitigate subscribers who switch to Spotify, and it will expand Storytel's content to an audience it could never have reached by itself.

We are likely to see some consolidation in the Nordic audiobook market in the coming years, as there are simply too many different players now. Assuming reasonable deals can be made, they should improve the overall economics for Storytel in the Nordics and potentially also in some other European markets.

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As a result of my November review, we exited our positions in Meta, Boozt, and our China basket.

Meta needs no introduction. The main reason for my sell decision was that the lowest-hanging fruits since our investment in early 2023 had been harvested, and I felt the capital would come to better use in other places. Founder and CEO Mark Zuckerberg is in my view one of the all-time business greats, but he has lately gotten back to his former spending habits that had us staying on the sidelines until he changed course in late 2022 and early 2023. This time, he is betting the house on AI. It may well work, but the competition is brutal, and so far, there is little noticeable progress in their public models.

Meta ended up as one of our best investments ever over our 3-year holding period, both in percentage returns and in absolute terms, trailing only Fortnox (our average purchase price was around $221/share, and we sold our last shares early this year at around $623/share).

Boozt is one of the leading Nordic e-commerce platforms for fashion, with additional offerings in categories such as Kids, Sport, and Home. We sold our last remaining shares during the year after starting to trim the position in 2024. I outlined my reasoning for our purchase in my 2023 letter which among other things included Boozt's impressive performance despite the tough Nordics economy at the time. That strong performance did not continue. The lowest-hanging fruits in terms of margin improvements had likely been taken, the economic environment in the Nordics has remained challenging, and importantly, their differentiation vs competitors was not as large as I initially assessed.

Furthermore, selling clothes online is just a tough business with instant price comparisons widely available, the constant challenge of managing inventory across different seasons, along with the sensitivity to both weather and the general economy. We owned it over a period of two years and ended up with an essentially break-even result – better than losses, but the alternative cost of tying up some of our capital here was real.

Our China basket was a good idea in theory, but a basket means following a handful of additional reports even if more shallowly, and it became too much of a distraction from our more important holdings. Things can change quickly in China, whether due to fierce competition or government involvement, and investing in China if you're a foreigner is in my view not a one-man job. I decided to realize a loss here, which primarily came from negative currency effects as these holdings were all denominated in USD.

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We have also made a few new investments.

flatexDEGIRO is based in Germany and is one of the largest online brokers in Europe. I got to know about it around one year ago through our investment in Avanza. I initially passed on investing in it because we already had similar exposure and because I was more familiar with Avanza. After having gotten to know the company and its management better, I have remained impressed.

flatexDEGIRO is in many ways similar to Avanza but is operating in other European markets (which is good as you don't want to compete head-on with Avanza) with a total population close to 300 million. Avanza currently has more than two million customers in Sweden in a population of 10 million. flatexDEGIRO added almost half a million customers in 2025, reaching 3.5 million in total at year-end. Their addressable market is likely in the tens of millions, and while I don't expect penetration to reach Nordic levels, I do believe it's likely that younger generations will be more involved in wanting to secure their own financial future than previous generations, and it seems likely that penetration in Western and Central Europe will reach higher levels than it has in the past.

Interestingly, their margin profile is currently a few orders of magnitude lower than Avanza despite having a meaningfully larger customer base. Brokerages scale well and in 2025, earnings increased by almost 45% on the back of topline growth of around 15%.

Meanwhile, margins expanded from 23% to 29%, which is still far shy of Avanza's 59%. While customer activity can vary significantly, and I don't expect margins to reach Avanza's levels in the near term, the stable customer inflow should support solid topline growth and there should be plenty of room for continued margin improvement and earnings growth for many years to come.

Theon is based in Greece and is the European market leader in night-vision goggles with around 50% market share. It also has products in adjacent areas such as thermal imaging and other vision technologies.

The key component in night-vision goggles is something called Image Intensifier Tubes (IITs). It takes any light source that is available like for example a distant streetlight and magnifies it tens of thousands of times, which enables the person who wears the goggles to see better even in near-total darkness.

There are only four IIT manufacturers globally today, two in the US and two in Europe. Given the current lay of the land, European countries do not want to be dependent on American manufacturers coming through and prioritizing their orders over domestic ones. Christian Hadjiminas, Theon's founder and CEO, recognized this early. In 2024, Theon acquired Harder Digital, one of the two European manufacturers. Then at the end of last year, Theon acquired a 10% strategic stake in Exosens, the other European manufacturer, and signed a long-term collaboration agreement, leaving Theon well-positioned to meet increasing demand as Europe rearms its defense capabilities after a long period of underspending.

Theon is well-managed and fits well with our preferred profile of stable topline growth, solid margins at 20% or higher, and the founder still being actively involved. There are risks here such as customer concentration and potential government involvement, but the unique niche product and limited European supply should help mitigate them.

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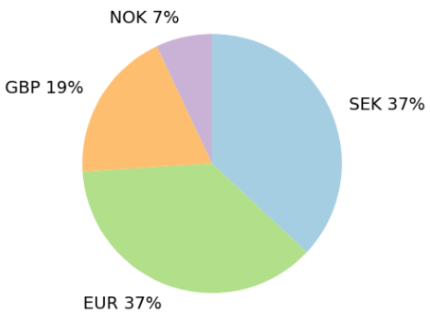
Currency hedging

The Swedish krona was the second strongest currency in the world in 2025, trailing only the Russian ruble. While the move was likely an anomaly, it caused me to re-examine our options to hedge our foreign currency exposure. After some thinking and a lot of work, we now have a viable hedging solution at a low cost available. It is currently being discussed on our board. If we decide to go ahead and hedge our foreign currency exposure, it will be announced. Our exposure at the time of this writing is as follows:



AI

There has been no shortage of AI developments in the past few months, too much for anyone to cover, even a capable AI, so I will just highlight a few remarkable things I've seen.

At Anthropic, around 90% of the code is now being written by Claude with engineers providing only guidelines and directives. For many senior developers, for example Claude Code's creator, Boris Cherny, the number is already 100%.

Furthermore, there is no code in Claude which is more than a few months old – Claude just constantly rebuilds and improves itself.

With regards to software and AI, I recently had an interesting experience trialing a good financial software product. They offered me a discounted deal, and we still ended up about 20x higher than where I would start considering subscribing. It wasn't that the product was bad – quite the opposite – it's just that the LLMs I use can do essentially the same things for a mere fraction of the cost. This leads me to the conclusion that either LLMs have tremendous pricing power or software subscription prices will have to come down. Both are probably true.

One direct impact for us is that I can now work 10x to 20x faster in my daily research, mainly by building my own models within Claude and ChatGPT that get me company basics according to certain directives and exactly in the format I want them while I get the morning coffee. I'm still early in this process and there is much room for improvement here, so it is exciting.

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In closing

I recently had the honor of giving a presentation to a small group of businessmen and impressive founders here in Uppsala. It served as a good reminder for me of River Oak's early days and why we started; it may do the same for you. You can view the presentation here: [ENG] [SWE]

Since the end of the year, a few shareholders have asked – with nothing but good intentions: Do I still enjoy doing this? Should we consider investing in the index at least "until things clear up"? Would buying some gold and silver make sense?

Let me be clear: I'm having as much fun as I've ever had. I'd prefer not to have subpar years if I could help it, but now that we are here, I'm as motivated and determined as ever. If you know me well, you know that nothing gets me excited like a challenge. The stage is now perfectly set as I see it.

The work has never been better than during these past few months. I have more interest in making this work well than probably anyone else. Essentially everyone I care about is invested in River Oak or our family office. It's simply not an option for me to leave people dissatisfied with their investment here over time.

It's gratifying that we have had no net selling after a subpar year like this – something almost certain to happen in most operations similar to ours. I'm sure that some of you decided to hold on simply because you realize that now is an ill-advised time to sell but many of you also understand well that a year like this can happen over a long enough time span.

If you do decide to sell (or buy) at some point, especially while we're in a downturn, I encourage you to write down your reasons on the day you make the decision, so you have no regrets in the future.

It's no easy task to decide where to invest your excess capital. I don't have the answer, but I have naturally spent much time over the years thinking about the subject. If I were to summarize how I think about it in one sentence, it would be: Ask yourself who you want in your corner if sh*t really hits the fan.

Søren Kierkegaard, a Danish philosopher who lived in the 1800s, once said, *"Life can only be understood backwards; but it must be lived forwards."* The way up is seldom as straight as one would like. Most things in life rarely are. How do you handle a year like this from my perspective? You deal with it and move on. Instead of getting stuck trying to draw too many conclusions from it, I concentrate on productive things that will give us good years in the future.

You may feel it's a long road getting up that hill now. I will venture that it may not be as long as you think when things get moving. I assure you we'll get there. As long as there is fair play in the markets, we'll get there. And it will be much sweeter to succeed now after we've been through some tough times together. My full focus is on making that happen.

Thank you for bringing your long-term mindset to this partnership which allows me to focus on the job at hand. It is a great joy for me to work for you. As always, I look forward to the future.

April 2, 2026

Daniel Glaser
Chief Executive Officer

Founding principles

Our basic idea is simple:

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

   Human progress is the reason 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 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 (pretax in SEK).**

   This will result in an average annual pretax increase in book value per share of ~12.5% after operating costs and a dividend on Class A shares according to the Company's Articles of Association.

Historical returns

Feb 7, 2017 – Dec 31, 2025: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family office

Annual percentage change in	**Investment return (pretax)**	**Book value per share**	**OMXS30 incl. div. (pretax)**
2013	41.0	**30.8**	25.5
2014	45.0	**33.8**	14.0
2015	35.1	**26.3**	2.2
2016	20.5	**15.4**	9.4
2017	19.6	**14.0**	7.7
2018	0.0	**(6.0)**	(7.0)
2019	61.7	**50.1**	30.7
2020	104.0	**74.3**	7.4
2021	14.3	**10.8**	32.7
2022	(26.9)	**(28.8)**	(13.0)
2023	5.7	**4.0**	21.0
2024	20.1	**17.5**	6.8
2025	(13.4)	**(15.1)**	19.7
Total gain	1105.6%	**485.2%**	301.5%
Compounded annual gain	21.1%	**14.6%**	11.3%

Notes to table

[1] The change in Book value per share is net of taxes, general operating costs, and a dividend on the Class A shares according to the Company's Articles of Association. There is no dividend on the Class A shares unless the year-end 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 which is due on Swedish investment accounts and which River Oak pays every year. It has amounted to between 0.3% to 1.1% of total capital per year. The real return achieved by a Swedish investor that invested in the index is thus between 0.3% to 1.1% lower per year than reported in the table,

[3] Estimated currency effects on Investment return: 2014 +7%, 2016 +2%, 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, 2024 +4%, 2025 -9%. 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.

[4] Investment return and Book value per share between 2013-2021 have not been audited. The Company's AGM voted to retain an auditor in April 2021.