Disclaimer

This letter is not intended for public use or distribution. It is not to be reproduced or redistributed in whole or in part without prior consent of River Oak Capital AB ("the Company"). You agree not to copy, modify, reformat, download, store, reproduce, transmit or distribute any data or information contained herein or use such data or information for commercial activities without first obtaining written permission. The Company has sole ownership of the data and information provided.

All data and information is provided "as is" and is for private use only. It is not intended for trading and does not constitute advice on investments, securities, taxes, law, accounting or anything else. The Company does not advise on investments or your finances. No data or information constitutes investment advice or a recommendation by the Company to buy, sell or hold any securities or financial products, and the Company makes no representations about the suitability of any investment.

This letter does not constitute an offer or solicitation to invest in the Company or an offer or solicitation for any other investment products or investment advisory services. In making an investment decision, investors must rely on their own examination of an investment and make an independent determination of whether an investment meet their investment objectives and risk tolerance level. Prospective investors are urged to request any additional information they may consider necessary or desirable in making an informed investment decision.

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").

Memo to River Oak Capital shareholders **November 2018**

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