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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.

