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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.

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[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.

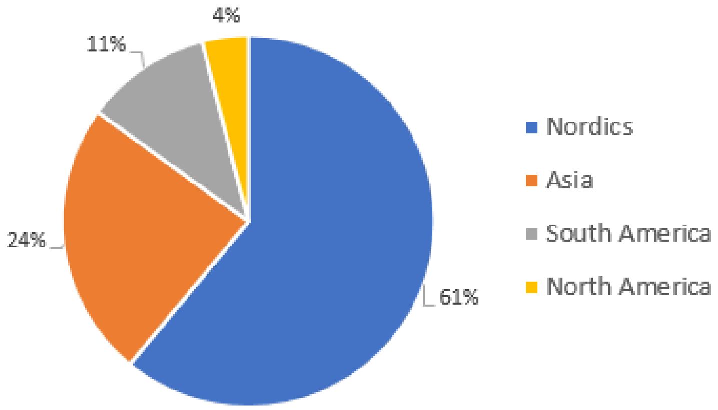
no more than 0.2% of each company's total shares outstanding, which shouldn't be a problem under most circumstances.

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.

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[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.