River Oak Capital

2024 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
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

[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%.
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.

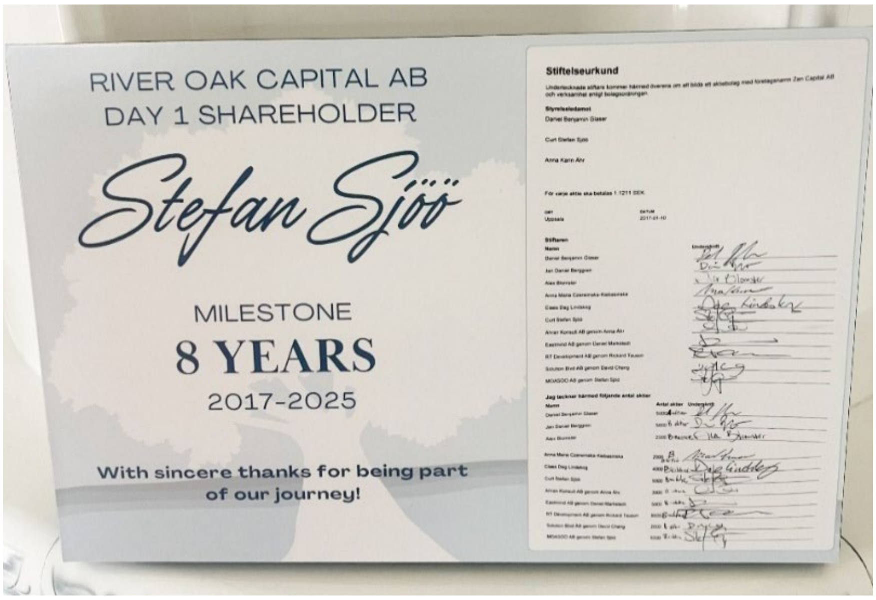
We get other benefits by being a holding company – both in terms of costs, resources, and a fully free mandate – and we have no current plans to change it. If there was another tax structure available that made more sense to us than our current one, we would already have it. Our tax rate is currently 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:



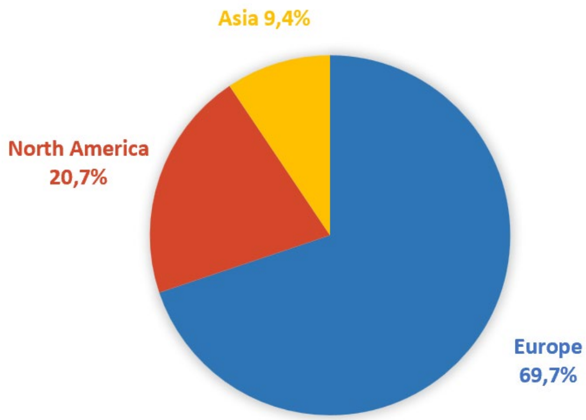
Our investments

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%

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