River Oak Capital

2024-H1 Letter to shareholders

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Annual percentage change in	Investment return (pretax)	Book value per share	OMXS30 incl. div. (pretax)	Difference
2017 (from Feb 7)	13.2	**8.6**	5.4	3.2
2018	0.0	**(6.0)**	(7.0)	1.0
2019	61.7	**50.1**	30.7	19.4
2020	104.0	**74.3**	7.4	66.9
2021	14.3	**10.8**	32.7	(21.9)
2022	(26.9)	**(28.8)**	(13.0)	(15.8)
2023	5.7	**4.0**	21.0	(17.0)
2024 per June 30th	5.4	**4.2**	10.0	(5.8)
Total gain	247.7%	**128.4%**	111.6%	16.8%
Compounded annual gain	18.4%	**11.8%**	10.7%	1.1%

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

In the past two letters, I said that the pretax investment return column would be available only in the table at the end of these letters due to the many changes over the years in our tax rate, the irregular dividend on the Class A shares, and our operating costs. After getting some feedback, we decided to prioritize consistency and will keep this table as before. The difference between our pretax investment return and book value per share change won't be laid out in detail in future letters but it is comprised of taxes, operating costs, and if we end a year above all our previous book value per share highs, a dividend on the Class A shares according to the Company's Articles of Association.

Notes to table

[1] The change in Book value per share is net of taxes, general operating costs, and a dividend on the Class A shares according to the Company's Articles of Association. There is no dividend on the Class A shares unless the yearend book value per share is higher than all previously reported years. For more details, see the Company's Articles of Association.

[2] The OMXS30 incl. div. column does not include the standard annual tax payment which is due on Swedish investment accounts and which River Oak pays every year. It has amounted to between 0.4% to 1.1% of total capital per year. The real return achieved by a Swedish investor that invested in the index is thus between 0.4% to 1.1% lower per year than reported in the table, and the real Difference achieved by the same investor is between 0.4% to 1.1% *higher* per year than reported in the table.

[3] Estimated currency effects on Investment return: 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%.
In the other years, the currency effect was less than or equal to 2%. River Oak does not in any way strive to foresee or profit from currency movements. Our belief is that any impact from currency movements will be negligible over time.

Fellow shareholder,

River Oak's book value per share increased by 4.2% in the first half of 2024. Our book value on June 30, 2024, was SEK 102.6 million, equivalent to SEK 228.38 per share.

Our operating costs are slightly frontloaded in most years due to more auditing, bookkeeping, and generally a few more events in the first half of the year. Our tax rate as a percentage of our capital base is highly likely to be lower in 2025 due to lower interest rates in Sweden.

In early July, we repurchased 1.2% of our shares outstanding (as our repurchase decision was registered with the Swedish Companies Registration Office) at SEK 234.92 per share, which was our book value per May 27, 2024, when the repurchase proposal was drafted.

The sellers were primarily shareholders who were using the 3rd party capital insurance provider that we have had for a long time and who feel this solution has now become too expensive after a series of price increases in the past few years. I agree, and as I have communicated to you before, I encourage you to review whether this is still the best option for you.

If you're curious about the fluctuation in our book value in June, here's some data from the past 11.5 years which includes my family office to give you an idea of what happens in our business in an average month and quarter:

- Our positive months returned an average of approximately +6%
- Our negative months returned an average of approximately -5.7%

Admittedly, this seems unimpressive, but only a third of all months have been negative while two thirds have been positive. Interestingly, this cadence has held true over the full 11.5-year period with no real outlier years in this regard except 2022 where we had six negative months to go along with six positive ones. We have never had less than three negative months in any year. Along the same lines, a little bit less than a third of all quarters have been negative, while slightly more than two thirds of all quarters have been positive.

This frequency of positive vs negative months along with the numbers above has resulted in the following approximate overall averages:

- Monthly return of +2%
- Quarterly return of +6%
- Annual return of +24% as you can see in the table on the last page of this letter[1].

Our strategy is not about avoiding negative months or quarters, but about making sound long-term decisions which work out well on average.

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[1] To simplify, this data has been rounded in multiple steps.

Given our recent results, you may wonder if I've been overly cautious and kept a large cash balance or hedged our exposures or something along those lines. This is not what has happened. We have had more than enough winners such as for example Airbnb, Avanza, Lindex, Meta, to achieve a better result, but we have also had a few recent detractors such as for example Boozt, Text, and Wise.

Having negative contributors is inevitable over a 6-month period so I won't philosophize and try to lay out the reasons for any individual share price movements. It's about as useful as discussing reasons for election polling changes – you can do it and you may feel smart, but it doesn't tell you much about the future. It's enough to say that we aim for better overall results, and that for each investment that didn't go as planned from purchase to selling it, the learnings are incorporated into our daily operations.

In business and investing, challenging stretches that test your patience are guaranteed to happen to all companies over a sufficiently long period. One thing I have always put a large emphasis on at River Oak is to not lose our shirt – or patience – when these periods come along. It has felt like a lot of things I've done in the past two years haven't yet worked out as well as I've hoped, but we're still generating positive results, and biding our time for when the tide turns.

In fact, most investments River Oak has made end up being fairly mediocre in terms of returns. A select few have made all the difference. At the end of the day, it's all the mediocre ones – through developing and refining one's pattern recognition of what tends to work and what doesn't – that pave the way for the homeruns. This is why it's so important in investing (and in life) to be able to take a few punches, shake them off and move on. It's crucial to be there, in balance and ready to act, when the rare and truly big opportunities which you can understand well occasionally come along.

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Our investments

I remain optimistic about the ultimate outcome of most of our recent negative contributors, but in the case of Text (previously named LiveChat Software), I decided to sell our shares. We invested in Text in Oct-2021 and exited in Q1-2024. We achieved a roughly breakeven result over these 2.5 years – nothing to write home about, but this investment meaningfully outperformed most other alternatives over our holding period since our initial purchase was made very close to the overall market peak in late 2021.

That said, our result could have been meaningfully better here had I not been sucking my thumb. I was well aware of the risks generative AI posed to Text's software main use case: customer support agents helping customers over chat. My initial belief was that Text would be able to complement their offering and compete well here. After learning more about generative AI, my conclusion was that the financial muscle the large cloud providers can put behind their generative AI capabilities, both in terms of compute power and size of datasets, will make it very difficult for smaller companies like Text to compete – especially if the large players include chat functionality essentially for free as part of their larger software and cloud offerings. Business history hasn't been kind to smaller one-product companies (like for example Zoom, Slack, and Netscape) who compete with cheap or free software bundles provided by large players.

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One of my early mentors who was also my master's thesis supervisor, James Dempsey, once explained to me that: *"People who spend their days doing nothing don't like to be interrupted."* I've found this to carry a lot of truth. The opposite is true as well: If you want something done, ask the busiest person.

This is what has happened at one of our holdings, Lindex, which is a leading Nordic brand in women's and kid's clothes. Susanne Ehnbåge was previously the CEO of Lindex, which was then one of two divisions of the Finnish conglomerate Stockmann which had another CEO. The other division is called Stockmann like the mother company.

Despite Lindex being Stockmann's main profit engine since 2007 when it was acquired, the company structure was such that its public name remained as Stockmann and the struggling Stockmann division remained the front-facing one. Most people in the Nordics know the Lindex brand well while very few outside Finland know the Stockmann brand at all, and even fewer know that Lindex is owned by a company called Stockmann.

In late 2022, as a frustrated shareholder, I had a couple of constructive discussions with the Stockmann board. While nothing happened publicly for a while, a lot of what we discussed, including putting Susanne in charge of both divisions and clearly changing the company's focus from Stockmann to Lindex, started coming to fruition. The company recently changed its name to Lindex and is currently exploring strategic options for the Stockmann division.

Meanwhile, Susanne has brought a burst of energy to the company's public profile and has put clear action programs in motion across both divisions. Besides now overseeing both the Lindex and Stockmann divisions, Susanne regularly competes in triathlon races on the side. Remember what I said about the busiest person?

Lindex growth rate won't make any headlines in Silicon Valley, but it has a very solid position in its niche, and I believe the improvements and good decisions that have been made over the past year will continue. Our investment here has from the start been about improving execution and focusing on Lindex. Since May-2023, we have had the right person in place to get the job done.

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In closing

I have come to appreciate a healthy dose of adversity over the past few years. Uninterrupted success doesn't teach you much as the lessons are harder to see, and often sets you up for future missteps. In contrast, setbacks should be embraced as they always provide you with a terrific opportunity to develop and be better in the future.

In the second half of the year, I will spend more time talking to, and hopefully visiting, private Swedish companies than I have in the past. After an energizing visit to Fortnox headquarters in Växjö in May, an interesting door opened to explore the Swedish market of younger companies further. While it's a more difficult market with fewer well-established companies, it's also way more inefficient than the Nordic public markets which have become increasingly thoroughly analyzed by both Swedish and foreign investors over the past decade. Equally importantly, it should also be fun and interesting.

In the event that any investments are made in private companies, the allocation will initially be small, somewhere between a low single digit percentage up to 15% of our total assets. If it proves to work well and is additive to our overall operations, the allocation could increase.

If you have any questions on the above, I'm available until July 12th. After that, I will take some time off and then direct my full focus to the investment side of our business for the rest of the year. I hope you have a nice summertime and look forward to reporting our annual results to you in early 2025.

July 5, 2024

Daniel Glaser
Chief Executive Officer

Founding principles

Our basic idea is simple:

1. **Make a bet on human progress.**

   Human progress is the reason why stock markets have historically produced average annual returns of 6% to 10% over the past 200 years.

2. **Invest in companies that are better than average or available at lower prices.**

   The objective here is to add some additional returns on top of the 6%+ average annual returns the general market has provided and is likely to keep providing investors over time.

Goals

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

   We always think about the downside first. While we will inevitably lose money on some investments, this goal is about not losing money overall.

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

   This will result in an average annual pretax increase in book value per share of ~11.5% after a dividend on the A-shares according to the Company's Articles of Association and general operating costs.

Historical returns

Feb 7, 2017 – June 30, 2024: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family office

Annual percentage change in	Investment return (pretax)	Net result	OMXS30 incl. div. (pretax)	Difference
2013	41.0	**30.8**	25.5	5.3
2014	45.0	**33.8**	14.0	19.8
2015	35.1	**26.3**	2.2	24.1
2016	20.5	**15.4**	9.4	6.0
2017	19.6	**14.0**	7.7	6.3
2018	0.0	**(6.0)**	(7.0)	1.0
2019	61.7	**50.1**	30.7	19.4
2020	104.0	**74.3**	7.4	66.9
2021	14.3	**10.8**	32.7	(21.9)
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2023	5.7	**4.0**	21.0	(17.0)
2024 per June 30th	5.4	**4.2**	10.0	(5.8)
Total gain	1122.9%	**511.1%**	245.5%	265.6%
Compounded annual	24.3%	**17.1%**	11.4%	5.7%

Notes to table

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