



RV Capital GmbH
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Dear Co-Investor,

The NAV of Business Owner was EUR 101.64 as of 30 June 2009. The increase in NAV was 17.3% since the start of the year and 1.6% since inception on 30 September 2008. The DAX was down 0.1% and 17.5% respectively.

Over the period, we received a master class in Mr. Market and his tendency to manically gyrate between depression and euphoria. We were very fortunate to have had the opportunity to witness it. Whilst Mr. Market was certain for much of the period that the world was coming to the end and accordingly was willing to sell stocks at almost any price, he made a 180 degree turn towards the end of the period and suddenly an economic recovery was "in the bag".

The price of the portfolio reflected some of this volatility. However, whilst the price of the portfolio changed every day, the value did not change much with the notable exception of GRENKELEASING, which I will come back to shortly. The aim of Business Owner TGV is not to try and second guess the mood swings of Mr. Market, but to profit from the opportunities that result from them. This can only be done with capital that is long term and does not get withdrawn at the worst possible moment. I am happy to report that there was not a single redemption for the period and for that matter not even a worried call. It takes a considerable amount of fortitude to remain steadfast when everyone around you is panicking and I congratulate you. I will endeavour to ensure that your courage is rewarded.

GRENKE BANK

The value of good companies tends to be stable and rising over time. Occasionally, value increases with a large leap. One such leap happened in our largest holding, GRENKELEASING, in H1. It acquired a defunct Bank called Hesse Newman which had around EUR 40 m in customer deposits but not much else. The Bank was subsequently renamed to GRENKE BANK and within the last few weeks has been actively seeking customer deposits. By the start of next year, it should also have developed some basic corporate banking services.

I had the opportunity to sit down with Mr. Grenke in Baden Baden a few weeks ago and he told me about his optimism for the GRENKE BANK. Even before the official launch, deposits had risen to EUR 70 m through word-of-mouth. Encouragingly, EUR 16 m of this was from the Company's own employees. Mr. Grenke was visibly proud

of this fact. He expects the deposits to rise to EUR 100 m by year-end, which will mean that GRENKELEASING has a third substantive funding pillar next to the capital markets and its own equity. GRENKE BANK is more though than simply an alternative source of financing. Mr. Grenke pointed out that GRENKELEASING has a database of more than 130'000 corporate relationships in Germany alone and from early next year onwards it will start selling banking services to these companies. Many of these corporate relationships currently have no choice for banking apart from their local Volksbank or Sparkasse. All duopolists become complacent over the time, so this should be a very fertile territory for GRENKELEASING to apply its low-cost, highly standardised, highly automated processes. I believe that the purchase of GRENKE BANK added considerably to the value of our company as it will diversify and lower its cost of financing, and over time will become a major source of revenue in its own right.

Management Compensation

One of the least savoury aspects of the financial crisis is the low grade management behaviour that has been brought to the surface, particularly in the area of compensation. I have seen some of this a little more closely than I would have liked, although I hasten to add not in our portfolio. It is nearly impossible to criticize this behaviour without being branded a Communist who would like to see the country's best management talent drain overseas. However, business owners such as ourselves should criticize and not just leave it to workers and trade unions. Excess compensation is not a necessary condition for the smooth functioning of capitalism as some would like us to believe, but is an error in the system, resulting from a confluence of factors, including, but not limited to, absentee owners, crony boards, dishonest managers, and venal consultants. Anyone who has ever worked in any organisation knows that there is never any shortage of candidates for the top job. If there were reverse auctions for CEO positions, i.e. with the job going to the candidate who was willing to do it for the lowest salary, I bet that there would be no unfilled positions and on balance a better calibre of CEO.

I do not have the solution to this problem, although I suspect it involves more owner representation on boards and less independent directors, or as I prefer to call them – indifferent directors. I do however know how to make money from it – by betting on managers who love their business as opposed to the money, who have talent, and who have integrity. Mr. Grenke and Dr. Hack (who in a few years will succeed him), Mr. van Kesteren (of Kuehne & Nagel), Mr. Magaritoff (of Hawesko), and Mr. Schumacher (of Sto) are just a few of the managers who we are in business with. They are dedicated to their businesses and I would trust my wallet with them. I only have three criteria for an investment – great business, attractive price and a management with honesty and integrity. Of the three, I would not be surprised if partnering the right managements (and, more importantly, avoiding the wrong ones), turns out to be the biggest source of return.

Concentration

Business Owner is similar to most equity mutual funds despite its hedge fund structure with one important exception. It has a high level of concentration. This is because great companies with honest and talented managements do not show up at attractive prices all that often. When they do, I want to make these companies a decent proportion of the fund. In addition to a relatively high concentration in individual companies, there is also a high concentration to a single sector: financial services. This owes to an insight I had very early in the financial crisis: **a disproportionately high number of the world's best businesses are in**

financial services, but none of them are banks or insurance companies. Everything that was in any way connected to the financial industry got whacked. As a result, there were and are rich pickings in this sector, but it meant going slightly off the beaten track. Accordingly, the portfolio had at its inception, a leasing company, a credit card company, and a bond rating agency, but not a single bank or insurance company.

The allocation however is opportunistic and is dictated by the opportunities served up by Mr Market. I am not targeting a particular sector allocation. I am just trying to buy great businesses at attractive prices, and it just happens to be the case that for obvious reasons, this has been easiest in financial services recently. Some of the most recent buys have been in consumer goods companies, i.e. in the sector that performed best for much of the financial crisis due to its defensiveness. They have been discarded by investors who are manically chasing after high risk stocks in order to catch up with a rising market. These are the same investors that were allergic to risk in even its most mild form just a few weeks earlier.

Downside Protection

For all the obvious advantages of a concentrated portfolio, the potential pitfall is risk. A single mistake has far greater potential to do damage than in a diversified portfolio. However, I think there is a much better chance of limiting risk in a concentrated portfolio than in a diversified one. In a concentrated portfolio, I have more time for the initial analysis of a company and following its performance subsequent to purchase. Also, in the same way that companies which have outstanding upside are rare, so also are companies with limited downside. The portfolio is made up of them. Companies which account for nearly 50% of the portfolio are at or below their liquidation value. The remainder are below their asset replication value, i.e. the tangible and intangible capital tied up in the businesses. This is despite the fact that they are worth more than their capital employed as they earn more than their cost of capital. As such, even if my assessment of the companies turns out to be overly optimistic, I am confident that over time we will not end up losing money. Of course, a portfolio designed to survive a financial earthquake will work less well in a speculative market phase, however, as I do not know when the next crisis will hit or for that matter if this one is over, I will not change the emphasis on downside protection. I will be happy if the portfolio is able to keep pace with the market in a rising market, but the real outperformance should occur in a falling one, as was evident over the last year.

The next opportunity to invest in the fund is 30 September 2009. I encourage you to do so. The opportunity set continues to be good, in particular for the very highest quality companies.

Yours sincerely

Robert Vinall