RV Capital GmbH
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Dear Co-investor

The NAV of Business Owner was EUR 113.60 as of 31 December 2009. The increase in NAV was 31.1% since the start of the year and 13.6% since inception on 30 September 2008. The DAX was up 23.8% and 2.2% respectively.

What went well and what went less well in 2009?

In a year the fund was up by a double digit percent, clearly more went well than not. The key thing was to remain invested in spite of – or rather *because* of – the overwhelming pessimism that dominated the mood in the early part of the year. This was accomplished thanks to your courage in putting capital at my disposal and mine in putting it to work.

The next thing was to select companies with sufficiently robust business models and balance sheets to get through the crisis. One can only benefit from the upturn if around to experience it. On this count, the fund did very well. Based on the figures reported to date, none of the investee companies made losses in 2009. Even if they had, most of them were protected by large balance sheet reserves which would have allowed them to see out a prolonged downturn. I firmly believe that the portfolio could have withstood a financial crisis that was several times more severe than the one we in fact experienced. This downside protection did not come at the expense of performance as the 31% return demonstrates.

However, the big question is not so much what went well as what did not. There have been two stock market crashes in the last 10 years (the dot com bust was the other one) and four financial crises in the last 20 years (the others being the savings and loan crises in the early nineties, the Asian Crisis and LTCM). All this suggests that if the current run rate persists, there will be plenty of further opportunities to apply the lessons of the last 18 months, if properly learnt.

If I start with the things I shouldn’t have done, but did (errors of commission), I would highlight Moody’s, the bond rating agency. Moody’s publishes its opinion on the issuer of a bond and in return collects fees based on the bond’s value. Competition is limited as only a select band of rating agencies have the reputation to give credibility to what is, after all, just a piece of paper with an opinion on it. Like all financial stocks, it got battered when the financial crisis hit, in my view at the time unfairly, as in contrast to the banks it had no lending activity. What I missed was that its credibility was impaired due to its faulty ratings on mortgage backed debt. A credit agency without credibility is rather like a central bank without credibility – the paper it issues is worthless. The damage Moody’s has done to its reputation will only be clear in a few years' time, however my investment thesis was faulty and I sold the position for a small loss.

Next, there are the things I should have done but did not (errors of omission). Although I did well at finding *good* opportunities, I was less successful at finding *great* opportunities. What were the main characteristics of the "great" opportunity? It was a company that probably faced the prospect of losing money. It had debt. It was a good but not necessarily outstanding business. It was in an out-of-favour industry such as construction or banking, and it had plenty of hedge funds as shareholders who were forced sellers due to fund redemptions. In short, it was surely the last thing any institutional fund manager wanted to own, which of course led to its price falling to a small fraction of its intrinsic worth. I missed many of these opportunities as I only want to own companies that can survive a financial earthquake. I do not regret this and think it was the right decision. However, within the subset of out-of-favour companies, there were opportunities that offered enormous returns at no meaningful risk to capital. In the case of American Express, Kuehne & Nagel and Grenkeleasing, I maybe identified such opportunities. Others I missed. Next time round, I will have a keener eye for them.

Since I last wrote to you we have become part owners in Comdirect, an online bank, and Hawesko, a distributor and retailer of wine. When I buy a business, I am looking for a management I like, a business that is protected from excessive competition by entry barriers and an attractive price. In particular, I love companies that can grow and at the same time pay out large dividends to us as we will see an increase in their value whilst at the same time receive new funds to either increase our stake or buy new businesses. Comdirect and Hawesko score highly in all of these respects. They are only just getting started penetrating their markets, they have significant advantages over their competitors and they pay their owners indecently large dividends. The ownership experience should be good.

At the end of 2009, I made a trip to India. Business Owner is a global fund and I wanted to see whether it is a country where we can do business. I visited several investors, companies and, as I was keen to see the full picture, the Dharavi Slum (Asia's largest with 1.5 million people living in one square mile). The answer is "yes". India possesses a low cost and highly educated workforce. An investor I met believes that India will have a similar impact on services industries as China has had on manufacturing industries. What I saw in the slum confirmed this view. The people were ambitious, spoke excellent English, and have a natural affinity to Western values. They are ready to enter the global workforce. Unfortunately, share prices are expensive today, but this will be a lucrative place to invest at some point.

I have two dates for your diaries. On Saturday, 29 May 2010, the InvAG will host our annual investor meeting. An invitation will be sent out nearer the time. I would encourage you to attend. The next opportunity to invest in the fund is 31 March 2010. I encourage you to invest. There are plenty of great companies out there run by honest and talented managers available at attractive prices.

Yours sincerely

Robert Vinall