



Robert Vinall
RV Capital GmbH
Schwandenstrasse 14
CH-8802 Kilchberg ZH

Kilchberg, 18 March 2011

Dear Co-Investor,

The NAV of Business Owner was EUR 142.91 as of 31 December 2010. The increase in NAV was 27.7% since the start of the year and 42.9% since inception on 30 September 2008. The DAX was up 16.1% and 18.6% respectively.

I am delighted to report that since I last wrote to you, I have bought a part ownership in two additional businesses: Tonnellerie Francois Frères and Hornbach Holding AG.

When I buy a part ownership in a business, I have four main criteria: I want to be sure that (1) the business will be around and flourishing decades from now; (2) the managers are trustworthy and talented, (3) the business has a sustainable competitive advantage; and (4) the valuation permits an attractive return over a long term holding period. I am very optimistic that Tonnellerie Francois Frères and Hornbach fulfil all of these criteria.

Tonnellerie Francois Frères ("TFF")

TFF was founded 1910 and is today managed in the fourth generation by Jérôme Francois. The Company makes and sells oak barrels used for the aging of fine wines. It is based in Saint Romain in the region of Burgundy in France, but, thanks in particular to the foresight of Jérôme and his father, expanded internationally and now has cooperages in all of the world's major wine growing regions. It is one of only a handful of cooperages worldwide that has been able to establish a foothold beyond the region it emanates from.

TFF is a business which I am convinced will be around and flourishing decades from now. There is simply no alternative to oak barrels for making fine wines. Only oak barrels permit the evaporation and low level exposure to oxygen, which are preconditions for a wine to age, whilst adding complexity to the taste. Wine raised in barrels is higher quality, which allows the vineyard to charge a higher price. Barrel usage will increase as vineyards try to escape the nightmare of selling wine at 2 Euros per bottle at a discounter, and China, already the sixth largest wine producer in the world, discovers there is more money to be made selling wine at 20 Euros per bottle than at 2 Euros.

In Jérôme Francois, the Company has an owner-manager, my favourite constellation. I had the good fortune to spend a day with Jérôme at the cooperage in St Romain and also have lunch with his charming parents. I doubt there is another person better suited to run TFF

than Jérôme. He told me that he was helping out around the cooperage from his earliest childhood and had to break off his studies in his early 20s when TFF bought the Demptos cooperage in Bordeaux and his father needed somebody to run it. Over lunch, the conversation never strayed far from cooperage and it was clear that this is a family that lives and breathes barrel making. I do not think that our capital could be in better hands.

Businesses generally do not survive and flourish for 100 years including two world wars unless they are shielded from competition through entry barriers. In cooperage, there are a number of entry barriers. The most important is the relationship between the cooper and the winemaker. A winemaker entrusts his entire harvest into the cooper's barrels, which means that the relationship and trust are of the utmost importance. To the extent that the wine is a success, the barrel becomes part of the wine's "recipe". As such, switching costs are high and price sensitivity on the part of the winemaker is low. A further entry barrier is access to the raw material as the right type of oak is scarce and above all, it needs to be cured outdoors for three years before it can be used. As a result of the high inventory levels this entails, I would not expect returns on capital employed to be spectacular, but they should be attractive.

There are several great businesses around the world run by trustworthy managers, but the tricky thing is to buy them at an attractive price. It is on this point that I am most excited. I believe I was able to buy our stake in TFF at around the market value of the oak it is holding in its inventory. This means, we are getting the remainder of the Company, i.e. its customer base, its reputation, and its know-how, for free. It is difficult for me to envisage any scenario, where the economic value of TFF is less than the value of the oak it is holding in its inventory. Later in this letter, I will discuss my serious concerns about the shortcomings in the governance of public companies where there is no owner; however despite this I remain convinced that public equities are and will remain a better alternative than private equity. I believe it is almost impossible that one would be able to buy TFF in full in a negotiated transaction at a price below its liquidation value. Only the anonymity of public equity markets allows this.

Hornbach Holding AG

The second company which I bought a stake in is Hornbach Holding AG. Hornbach is a name that will be familiar to most of you who live in continental Europe as it operates the eponymous chain of DIY stores. In Germany, it is the fourth largest operator with 92 stores. It is present in 8 further countries with 39 stores. 72 of its stores are owned and the remainder are leased. Hornbach has been able to almost double its market share in Germany since 1998 from 4.9% to 8.9%. It has by far the highest sales per square metre in Germany (EUR2'187/m² vs. EUR1'533/m² at Praktiker). And last but not least it has had positive like for like sales growth in four of the last five despite Germany being in a construction recession for most of this period. The contraction in 2007 was, incidentally, 0.1%.

Hornbach is a company which I have followed for many years. I always knew that it was cheap – it trades below its adjusted book value – but I was not sure whether I wanted to own it. Two things changed my mind. The first was hearing Albrecht Hornbach speak at the Company's analyst conference in Frankfurt last September. To a room full of financial analysts, Albrecht described how Hornbach Holding would remain in Germany despite any potential tax advantages from relocating to a tax haven due to his emotional attachment to the country he grew up in. This was a position he knew would be unpopular with many of the people present. He also described the importance of inventory management to

Hornbach, and, in order to bring this point home to employees, he ordered obsolete inventory to be destroyed in full view of the employees rather than sold at a discount. This was a position that he knew would sound counterintuitive to most of the people in the room – “why throw away decent stock when you can generate some cash from selling it?” I do not have any strong opinion on whether Albrecht Hornbach’s views on tax and inventory management are right (though I suspect they are), but I am attracted like a bee to honey by a CEO who has the courage to make decisions, which a) are based on values rather than short term financial considerations, and b) run the risk of making him or her look like a complete idiot if they backfire. It is only through long term, contrarian decisions that a CEO is likely to be able to create genuine value over a long period of time, for example by almost doubling the market share in ten years.

The second event which changed my mind was a meeting I had with an unrelated real estate management company in Hamburg. It became clear to me by the way this particular company (and most other real estate companies) were accounting for their profit that Hornbach was massively understating its economic earnings power. Hornbach writes its property down at the end of each year whereas most real estate companies run an impairment test at the end of the year. If the estate agent concludes the property is worth as much at the end of the year as it was at the beginning, the write down is zero. When I asked why Hornbach did not opt for the more common method given that it would allow it to show higher earnings, the response was that they did not want to go to the expense of having 72 properties valued every year. I concluded that a business that appeared to have quite pedestrian returns was actually generating pretty spectacular returns. If I had simply looked at the development of the Group’s cash position over the last 5 years, I would have reached the same conclusion. Incidentally, the fact that the Company would prefer to save cash than show off to capital markets about how much money it earns, tells you a lot about the character of the management.

On Governance

The purpose of my letter is to report to you on the events of the past year. My account would not be complete without mentioning that a considerable amount of my time was absorbed through being on the Board of a public company in Germany. Happily, this activity ended in September when I was voted off of the Board at the AGM through the votes of a major shareholder that had been acquired by the Company’s management.

When I joined the Board nearly three years ago, my aim was to ensure that the Company’s money was spent wisely, that management pay was appropriate, and that the Company’s strategy was based around generating satisfied customers and happy employees. I am afraid to say that I had little success on any of the three counts. Instead, I found myself inundated with lawsuits by the Company.

My short experience as a board member has left me pessimistic about the ability of the well-meaning board member to influence the governance of companies where management is set on a different course. The board member of a German company carries extensive responsibility but little in the way of authority, which is the worst possible constellation. This is not a situation, I will put myself into again, nor, I suspect, will most other well-meaning people. Nobody should be surprised if governance standards fall to an even lower level than they already are.

There is however a positive flipside to falling governance standards. The Company with honest management and engaged ownership has an enormous cost advantage over its less

well managed, under-owned counterpart. The money saved on stupid acquisitions and excessive salaries can be reinvested in lower prices and/or higher levels of service for its customers. This creates a large competitive advantage which will grow over time. I am convinced that our fund is filled with companies which have honest managers and engaged owners. My experience as a board member makes me more optimistic about their prospects than ever.

On Inflation

In recent months, I have been giving considerable thought to the topic of inflation. It seems crystal clear to me that the massive amounts of new money created by central banks to cover banks' losses on sub-prime mortgages will lead to inflation at some point. Economists are divided on this point with seemingly intelligent arguments being put forward by both sides. However, imagine you lived outside a central bank's printer, and you observed day and night people walking out with wheelbarrow loads full of freshly printed notes. Would you then seriously debate whether inflation or deflation was coming, or would you race to convert your paper money into something, anything tangible as quickly as you could?

The deflationary camp argues that inflation is not visible in the inflation statistics and is unlikely to be any time soon as spare capacity in the economy, in particular jobseekers, remain high. This argument strikes me as logical but wrong. Imagine a company which doubles the number of shares it has outstanding without increasing either its asset base or earnings power. Its value has halved irrespective of whether the share price falls or not.

In any case, inflation statistics will not capture immediately the decrease in value of paper money for one simple reason. The basket of goods which make up inflation statistics are representative of what the average person spends, such as food, clothing, heating, transport, etc. However, the money created through quantitative easing was not distributed evenly amongst the wider population as might have happened, if for example the various mortgage loans which turned sour had been bailed out at source. Instead, the loans were allowed to sour, whilst the holders of the loans and the derivatives on the loans (which were multiples of the underlying loans in value) were bailed out. I have no opinion on whether this was the right thing to do, but it was certainly more expensive. The upshot was that whilst the vast majority of people got significantly poorer, a select minority became unimaginably wealthy. This is why the price of clothing, food, etc. is still relatively tame, whilst the price of the kind of things people with more money than they can spend such as Rembrandts and luxury yachts, are going through the roof. There is a limit even for a billionaire of the number of jeans you can wear, food you can eat, and oil you can burn.

What concern to the average man is it, you might ask, if the 50m EUR Rembrandt just went up to 100m? "None" is the response, but there is a catch. The person who has seen their paper wealth increase to unimaginable levels over the last few years has had a grandstand view of the deterioration of the value of money. He or she is scrambling to put all this new found wealth into something that is not paper money. This is one reason why so-called hard assets, for example Gold, have marked one high after another in recent years. The other is the tendency by most investors to buy whatever is hot. What concerns me though is these forces could work on the markets for wheat, oil and cotton, which of course form the basis of food, clothing and heating oil. As such, I have to correct my former statement. There is in fact no limit to the amount of jeans, food or oil, the billionaire can purchase provided he or she has access to capital markets. I expect this to feed through into inflation at some point, and, more importantly, create societal tensions, if the world's poorest are effectively priced out of the market.

What does this mean for the asset allocation of Business Owner? Should I be selling our stakes in wonderful companies, two of which I have described in this letter? Should I be buying Gold? Should I be buying agricultural commodities? Or should I make an allocation to bonds just in case I have got it all wrong and we are in fact heading for a prolonged period of Japanese-style deflation? I have opinions on each of these questions, but I will not go into them as I do not want to distract from my main conviction: the value of the good business which is able to expand its markets and increase its competitive advantage will be higher tomorrow than it is today irrespective of the rate of inflation or deflation or the currency in force. This is why my allocation to equities is and will remain 100% provided I am able to find great businesses run by honest managers at attractive prices. Do not expect Gold or government bonds in Business Owner any time soon.

Investor meeting

As usual at this time of year, I have two dates for your diary. The next opportunity to invest in Business Owner is the 31 March 2011. On 28 May 2011, the Investmentaktiengesellschaft für langfristige Investoren will host our 3rd annual investor meeting in Bad Godesberg. The event is attended by a fascinating group of people who travel from far and wide to attend. If you have not been before, I encourage you to do so. If you are a repeat customer, then I applaud your good sense.

Yours sincerely

Robert Vinall

Enc.