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Dear Co-Investor,

The NAV of Business Owner was EUR 153.70 as of 31 December 2011. The increase in NAV was 6.5% since the start of the year and 53.7% since inception on 30 September 2008. In 2011, the DAX was down 14.7%. Since inception of the fund, the Dax is up 1.2%.

It is gratifying that in a year where most international stock exchanges were down, the fund was up almost 7%. However, it is important that you understand that this was down in large part to good luck. I have neither the ability nor the aspiration to avoid down years, which from time to time are inevitable due to the randomness of share price developments over short periods of time. I write this not out of false modesty, but because I hope to have credibility when, faced with a down year, I put it down to bad luck. The reason for this is simple: when markets are in the doldrums, I want to be merrily buying shares at bargain prices, not selling them to meet redemption requests from disenchanted investors. This requires building an investor base which is stable, long term and realistic in its expectations. So far, I could not be happier in this regard. In the 3rd quarter when stock markets suffered their most dramatic falls, I did not have a single redemption request. To the contrary, the fund had its highest inflows since inception, both from new and existing investors. I strongly believe that the investor base of Business Owner is a source of competitive advantage – it requires no great skill on my part to buy companies cheaply when markets are in the doldrums, it requires investors who put money at my disposal. As always, I thank you for the trust you have placed in me.

Does this mean it was luck that Business Owner performed so well in a particularly bad stock market year? I would like to think this is not the case. I believe our companies have the highest margins and the most conservative balance sheets in their respective industries. Indeed, most of the industrial companies have substantial reserves of net cash and the financial companies have equity ratios that are multiples of the average large bank. This should mean that in a particularly severe recession they are the last men standing. Needless to say, when economic indicators start to signal red, the virtues of companies with the lowest breakeven point and a fortress like balance sheet are rediscovered by investors, explaining perhaps why fund's price did so well. You might think that stronger companies would command a price premium to weaker ones and so fall just as strongly. One can not generalise of course but in my experience this is often not the case as break-even levels and leverage ratios are of little interest to many investors when the economy is booming. To the extent they are, conservative companies are actually marked down for being less geared to a positive economic environment (it is far easier to double your earnings if you

are coming from a 1% than a 10% profit margin). The careful reader will have noticed there is a flip side to this: in a gung-ho market the fund is likely to struggle to keep up. Of course, to make the whole exercise worthwhile, there should be a meaningful outperformance over a full stock market cycle. Otherwise, you are better off investing in a passively managed fund as the costs are likely to be lower than Business Owner's. Since the inception of the fund, I think it is fair to say we have been through a full cycle (bust to boom to bust). I think it is also fair to say that Business Owner has recorded a significant outperformance. I will endeavour to keep this up.

Performance of the individual companies

The best way to track the development of the fund is in the earnings development of the individual companies: If a company's earnings power goes up by 10%, then all other things being equal, its value will increase by this much.

How did 2011 go based on this measure? I will not be able to give a definitive report until my half year letter, by which time all the companies will have published their annual results. My best guess is that the companies' earnings grew in aggregate much faster than the 6.5% growth in the fund's NAV. I will report on the top performers in my next letter. However, it is already clear that there is going to be one bad performer, which I would like to discuss now.

Washtec, a German manufacturer of automatic car washes, announced on 3 November that its US subsidiary had unexpectedly high losses, some expenses had not been correctly booked and a large goodwill write down will be necessary. As a result, Washtec may well be loss making in 2011. The share price fell precipitously and finished the year at EUR 7.35 compared to EUR 9.14 at the end of last year. There are times when a fall in share price reflects nothing more than a change of perception by the market, and there are times when it reflects a loss of intrinsic value. From an outsider's perspective, it is difficult to judge which is which. Be under no illusions: in this case it is the latter.

So what went wrong? I bought our stake in Washtec several years ago and was attracted in particular to the business model, which is characterised by high entry barriers through the sales and service network. More recently however it became clear to me that Washtec is something of a misfit in the fund: it has no owner, relatively high levels of debt, frequent "one-off" expenses, and most importantly a management, whose allocation of the company's capital is incompetent. Consequently, I decided to sell in the Spring. I sold approximately one third of our stake at around EUR 11 per share. This left around 3% of the fund's assets in Washtec. The stock subsequently fell below EUR 10 and I stopped selling as I felt the price was too low. With hindsight, it was a mistake not to have continued selling. The far bigger mistake though was to have bought a stake in the company in the first place. I will endeavour not to repeat it.

BMW AG

In the postscript of my last letter, I stated that you should not worry about the dramatic drops in world equity indices, and I would try to use the opportunity to increase the value of the fund. What did I do? Faced with a deteriorating economic environment and fears of a currency collapse, I took, what I hope you will understand, was the most prudent course of action available: I bought a stake in a cyclical company: BMW. This may sound like a

contradiction, but when people are terrified about the economy, the bargains are in the cyclicals, not the defensives.

The way to judge whether this was a good decision is not whether the share price has gone up (as it happens, it has), but how it stacks up against my four investment criteria: a business which will be around and flourishing 10 or more years from now (1), a sustainable competitive advantage (2), an honest and talented management (3) and an attractive price (4). How does BMW shape up against these criteria?

From my earliest childhood, I can clearly recall that the car brand my father aspired to own was BMW. Some thirty odd years later this is still the case. Although a BMW today is unrecognizable from the ones thirty years ago, BMW, together with Mercedes and Audi, continue to dominate the premium market. I bet this is still the case in 30 year's time even though the cars will certainly look different and may not even run on fossil fuel. For those of you who think my father might not be a sufficiently large sample size (shame on you!), I also checked with Sixt who confirmed to me that BMW is by far and away the most requested brand at its rental desks.

At first glance, the automotive industry might not seem the most promising place to find a great business. It is widely considered to be crisis prone (think GM, think Opel) and capital intensive. However, it is often the case that the most promising investment ideas are found in the least promising of industries. BMW is a great business. It has a brand with global appeal for which customers are willing to pay a price premium. A quick anecdote on how I came to realise this: On the Sunday after the Berkshire Hathaway AGM, Markel (a US insurer) holds a breakfast for current and would-be investors. In 2009, I happened to be standing in line at the buffet with Tom Russo, one of the investors I most respect. I told him I was invested in Beiersdorf and I felt it was the only company in the Dax to own a great global brand (Nivea). He replied that he agreed on Nivea but had I not overlooked BMW. Indeed, I had. Apart from the purchasing preferences of my father, I think there are at least two further clues that BMW is a great business. First, it has very high returns on capital in its automotive business of 26% across the economic cycle. Second, a family continues to be the major shareholder although BMW has grown into one of the world's largest companies. This demonstrates that the business cannot be particularly capital intensive as if it was the family would have been diluted into obscurity to finance the growth.

Unfortunately, I have not personally met with Mr. Reithofer, BMW's CEO, (my door is always open...). However, I have spoken with automotive suppliers and employees who do know him and the reports I hear are of a talented and dedicated engineer. What I particularly like is the ownership constellation. In the Quandt family, I believe we have an owner who is engaged and rational. This is an important competitive advantage for BMW as it fosters an environment where the management can manage the company for the long term and not just the next set of quarterly figures.

Price is the point on which I am most excited. I bought our stake in the company below the book value. This means that we got the brand, the know-how, the customer relationships and all the other intangible assets in the business for free. I love buying great businesses below their book value. Although the book value probably does not tell you much about what the actual value of the business is, you can be pretty sure that it is not worth less than the book value. The P/E may or may not be relevant to the valuation of BMW as you only know with hindsight where you are in the economic cycle, but it looks extraordinarily cheap. BMW most likely earned around EUR 7.50 per share in 2011, which at our purchase price gives a P/E of roughly 4.7x. In addition, the Company states in its annual report that it has excess cash of EUR 20 per share in its industrial business. If I deduct the cash from the

market cap, the P/E halves to 2x. There is no way of objectively verifying the excess cash in the automotive business and one could certainly argue that the cash in the automotive division should be netted with the debt in the financial services division. However, I have no reason to doubt the management's integrity and will take it at its word that the financial services division is set up as an independent entity with sufficient capital and liquidity.

Perhaps, this year's earnings will turn out to be a never again to be achieved peak. In this case, a valuation based on the P/E is irrelevant. However, my bet is that BMW will grow from here, albeit in a bumpy fashion. BMW, along with Audi and Mercedes, is the brand of choice of the Chinese middle classes. Ten years ago, the Chinese automotive market was the size of Belgium's. Today, the Chinese market accounts for 15% of BMW's auto sales by volume. Were China to have the same concentration of cars as Germany (admittedly not a pleasant thought for the environment), the number of registered cars would go from 59 m today to 700 m.

BMW has two classes of share: ordinary and preference. I bought the preference shares (and so use their price for the above calculations). I should point out that the prefs (which are less well known and not the ones listed in the DAX) trade at an enormous price discount to the ordinaries. I strongly argue that there is little economic difference between the two classes. The prefs have no voting rights, in return for which they receive a slightly higher dividend than the ordinaries. Clearly, the higher dividend makes the prefs more desirable but to what extent is this offset by the lack of voting rights? I would argue very little. For all intents and purposes, the voting rights are worthless as there is a controlling shareholder. The one scenario where it could be significant is if the Quandt family were to sell the Company as the buyer would most likely offer to pay a premium for the voting stock. However, I think this scenario is unlikely as a) I would be amazed if the Quandt family were to sell and b) if they did I think there is a decent chance, the preference shareholders would be treated in a similar way to the ordinary shareholders as the class is relatively small and above all it is the one which employees have typically invested in through employee share programs.

This beckons the question as to why the discount is so large. I have canvassed opinion with various market participants and the theories propounded include "the ordinaries are in the DAX", "the ordinaries are more liquid", and "there is no reason to believe the discount will narrow". If you believe, as I do, that the value of a business consists of the future cash flows discounted at an appropriate rate to the present, none of these arguments hold any water. Clearly, the ownership experience of the pref holder in the long term is going to be far superior to the ordinary holder's due to the far lower entry price in combination with the slightly higher dividend. It strikes me as slightly depressing that so many so-called investors would accord a lower value to a superior long term return than to more superficial considerations such as how liquid a stock is or whether it is in a major index.

Bechtle AG

The second new addition to the portfolio is Bechtle AG. Bechtle is a distributor of IT hardware to medium sized businesses. It has two segments: IT System House in which it supports customers in planning, configuring and maintaining its IT infrastructure through over 60 system houses in Germany, Switzerland and Austria. And IT E-commerce in which it resells over 44'000 IT products in 13 countries via online shops, catalogues and telesales. The market for IT hardware has a reputation for being subject to rapid technological change and cutthroat competition, so why did I buy a stake in Bechtle?

What I like most about Bechtle are the two founding figures: Herr Schick and Herr Klenk. Herr Schick is still active in the company as a hands-on Chairman of the Supervisory Board. Herr Klenk sadly left the company three years ago for personal reasons. In the Company's history (which I thoroughly recommend reading), there are numerous anecdotes about how the values of these two individuals have shaped its culture. One of my favourites describes the first meeting between Herr Schick and an entrepreneur who had sold his company to Bechtle shortly before:

Gerhard Schick travels to Karlsruhe to discuss the monthly results. It was the first meeting of this kind for Richard Einstmann. He books a table in the finest restaurant. Shortly before midday, he asks about lunch. Herr Schick bends down to his bag and fetches a sandwich. "I have my lunch here. Why don't you get yours out so we can eat together." Richard cancels the table and asks a colleague to make him a sandwich, adding as a mischievous afterthought: "Don't put too much spread on. Otherwise, he'll think we are wasteful."

It was clear to me after reading this history that values such as humility ("Bodenständigkeit"), closeness to the customer, responsibility and thrift are deeply ingrained in the culture of this Swabian company.

But is this a company which can flourish in years to come given the rapid pace of technological change? The pace of change is indeed very fast. This becomes immediately clear when you see the pictures in the company's history. PCs from when it started out like are from a different planet. The fact though that the company has enjoyed almost unbroken growth since its foundation gives a clear indication that technological change is probably not a threat to this business. This is because Bechtle's core competencies – Consultancy, Selling, Logistics and Implementation – are always required irrespective of which particular technology is "in". In fact, I think the rapid pace of change is above all an opportunity as it throws up new possibilities for its sales force to enthuse its customers with something newer and better. I think this is currently the case with the "Cloud" and the iPad.

Where is the competitive advantage? An important competitive advantage is that its medium-sized business clients are relatively loyal. They appreciate having their system house close at hand so that any problems can be rapidly resolved. If a system house does a reasonably good job, their propensity to switch suppliers is relatively low - anybody who works in modern company knows how much chaos ensues if the IT fails. Given the low propensity of customers to switch, Bechtle has grown regionally by acquiring local system houses rather than building its own. Having started in 1983 with a single system house in Neckarsulm, it now has over 60. As you probably know, I am not very keen on companies that regularly make acquisitions. I prefer companies that patiently build up their own branch network as it is normally cheaper and it creates opportunities for its employees for self advancement. In fact, many system houses have in the past tried to consolidate the market and have generally ended up with egg on their face. It is clear why: if a customer appreciates "closeness", it is easy to imagine how this could go under in a large company. The reason why it obviously works at Bechtle is its culture, which prizes independence and closeness to the customer. After Bechtle takes over a system house, its director retains the same level of entrepreneurial freedom as he had before. In fact, it increases as he is freed from many of his more unpleasant tasks such as accounting, HR, purchasing, etc. as they are rigorously centralised. As such, his quality of life improves. That so many directors stay on after having had their company acquired by Bechtle shows that this is the case.

A further source of competitive advantage is Bechtle's large size. It enjoys significant economies of scale on the one hand from solving the conundrum of getting large whilst staying local and, on the other, by combining online and offline distribution channels (in

which respect it is quite unique). In my view, its superior scale is a particularly important source of competitive advantage vs. small system houses, which make up the bulk of the market. The largest 10 system houses make up less than 10% of the market.

What does the valuation look like? I paid around 5x EBT, which equates to a 20% pre-tax return. Not bad, but what I am really excited about are the potential owner returns. By 2020, Bechtle aims to grow its revenues to EUR 5 bn and its EBIT margin from 4% today to 5%. If it succeeds, it will compound revenue at an annual growth rate of 13%. In addition to this, the dividend yield is around 4%. This implies an owner return of 17% before tax.

Will Bechtle be able to achieve these exceptionally ambitious goals? I think it has a decent chance, whereby of course there will be set backs along the way. At the start of this year, Bechtle's excellent investor relations manager, Herr Fritsche, organised a day for me at the Company. Amongst others, I spoke with Herrn Düll, who runs sales at Bechtle Direct. He is responsible for a team of telesales professionals, who within the Company are known as "Hunters". They are given 300 addresses p.a. and the task to convert them into customers. In essence, the hunters ask a single question on the telephone: "Why are you not ordering IT from Bechtle?" There is no response to this question. Every larger company has some IT requirement at any point in time and if they are not buying from Bechtle, they should be as it has the lowest prices due to its purchasing power with service which is comparable to or better than what they are receiving. Around 99% of the office spaces in German-speaking countries are not equipped with IT from Bechtle. The hunters are not going to run out of prey any time soon.

Large Cap vs. Small Cap

Given that the fund size is relatively small, I could in theory buy almost any size of company. You might therefore be surprised that in BMW and Synthes, two of the three companies I bought stakes in last year are large. I am. Generally, I prefer small companies to large as it is far easier to double your sales if your starting point is EUR 100 m rather than EUR 10 bn. Also, it is far easier to foster an entrepreneurial spirit in a small company than in a large company. One should be under no illusions that bureaucracy is probably greater at BMW than, for example, Bechtle. However, the reality was that I saw better opportunities in larger than smaller stocks. Needless to say, I will simply take the opportunities where and when they come. I am unencumbered by any dogma about being a small or a large cap fund manager.

Investor meeting

Our investor meeting this year will take place on Saturday, 11th May 2012 in Bonn. Last year I voiced my concerns about Washtec's adventures in the US. If I make similarly sceptical comments about one of our investments this year, please do not let me leave without giving a commitment to sell!

Yours sincerely

Robert Vinall