RICHTWERT CAPITAL

Rational by Design, Fair by Choice

PARTNER & CO-INVESTOR LETTER

5-Year Anniversary

The time to invest is when you're getting a lot for your money regardless of what the economy or markets will do the next day, next months or the next few years.

> *"I like Richtwert because Bahram invests like a businessman and treats customers very fairly.*
> *He knows what is important in business, looks for the most attractive companies, waits for the market to misjudge them and invests opportunistically.*
> *His own capital is invested in the same way and I only pay for success."*
>
> ***Stephan Marchner***

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PERFORMANCE OVERVIEW

EUR	RICHTWERT (EUR)	iShares S&P 500 (EUR)	iShares MSCI World (EUR)
2014 (Aug – Dec) ...……...	12.0%	7.2%	4.6%
2015 ……...	-1.1%	0.2%	1.4%
2016 ……...	7.8%	9.6%	7.6%
2017 ……...	11.5%	18.8%	16.5%
2018……	0.7%	-7.7%	-9.6%
2019 (Jan – Jul) ...……..……	37.7%	17.8%	16.4%
Compound Annual Gain……	13.0%	8.7%	6.9%
Overall Gain ...……..	84.6%	52.1%	39.9%

CHF	RICHTWERT (CHF)	iShares S&P 500 (CHF)	iShares MSCI World (CHF)
2016 ……...	5.9%	8.8%	6.8%
2017 ……...	21.3%	18.3%	16.1%
2018……	-2.7%	-8.4%	-10.2%
2019 (Jan – Jul) .....……	36.9%	17.7%	16.3%
Compound Annual Gain……	16.2%	9.6%	7.5%
Overall Gain ...……..	71.1%	38.8%	29.5%

USD	RICHTWERT (USD)	iShares S&P 500 (USD)	iShares MSCI World (USD)
2016 ……...	3.3%	11.9%	7.8%
2017 ……...	26.5%	21.8%	22.5%
2018……	-3.7%	-4.4%	-8.4%
2019 (Jan – Jul) …...……...…	34.0%	20.2%	17.8%
Compound Annual Gain……	15.7%	13.3%	10.4%
Overall Gain ...……..	68.8%	56.6%	42.5%

RICHTWERT does not charge any fees and is only compensated based on performance:

Starting 2020: Profit Share = 25% of the annual performance exceeding an annual hurdle rate of 6%

Until 2019: Profit Share = 25% of the annual performance exceeding an annual hurdle rate of 5%

Small deviations in calculations may occur due to rounding.

RICHTWERT (EUR): Performance incl. gross dividends, after costs, before profit share in EUR
iShares S&P 500 (EUR): iShares S&P 500 EUR Hedged ETF (Acc), Performance incl. reinvested gross dividends, after costs in EUR
iShares MSCI World (EUR): iShares MSCI World EUR Hedged ETF (Acc): Performance incl. reinvested gross dividends, after costs in EUR

RICHTWERT (CHF): Performance incl. gross dividends, after costs, before profit share in CHF
iShares S&P 500 (CHF): iShares S&P 500 CHF Hedged ETF (Acc), Performance incl. reinvested gross dividends, after costs in CHF
iShares MSCI World (CHF): iShares MSCI World CHF Hedged ETF (Acc), Performance incl. reinvested gross dividends, after costs in CHF

RICHTWERT (USD): Performance incl. gross dividends, after costs, before profit share in USD
iShares S&P 500 (USD): iShares S&P 500 ETF, Performance incl. reinvested gross dividends, after costs in USD
iShares MSCI World (USD): iShares MSCI World ETF, Performance incl. reinvested gross dividends, after costs in USD

Dear Partners[1] and Co-Investors,

Since Richtwert's beginning, I've asked you to rate my decisions and the resulting performance over the mid- and long-term, because an investment track record only becomes meaningful after 5-10 years. At the end of July, Richtwert's track record reached the 5-year mark and with that we can draw a first *preliminary* conclusion.

RICHTWERT'S PERFORMANCE IN PERSPECTIVE

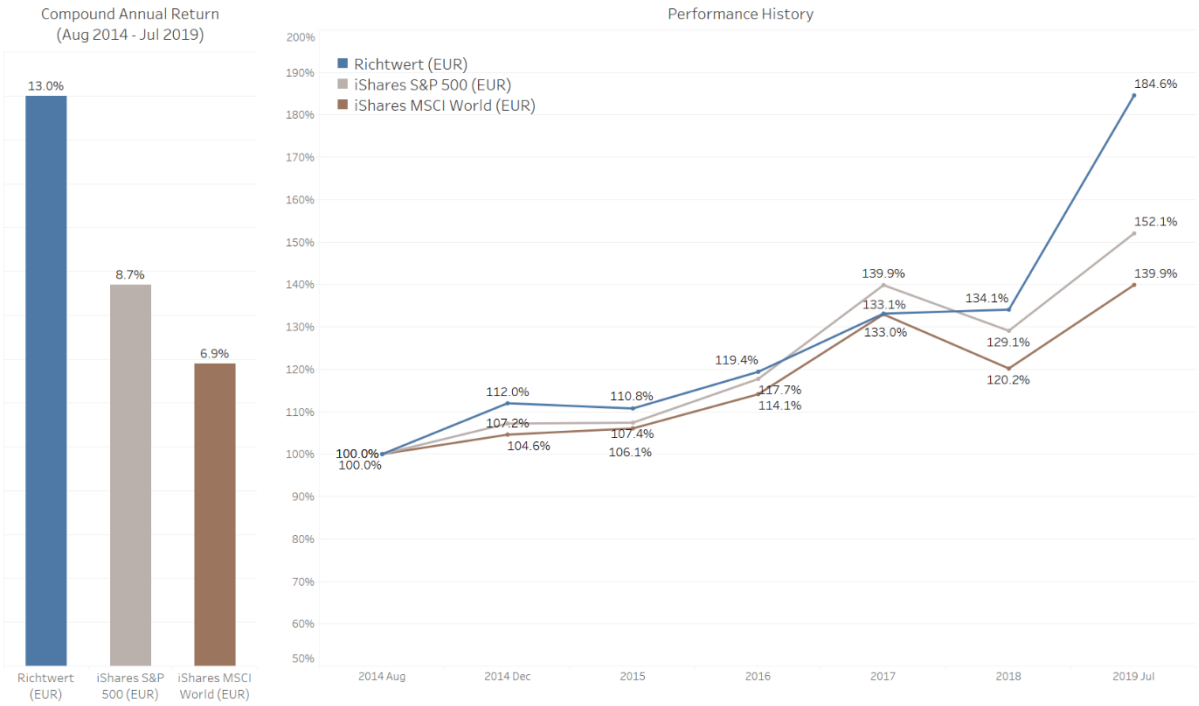
Richtwert's mid- and long-term quantitative targets are: (more detailed objectives on page 5)

A) To achieve average annual rates of return before profit-share and taxes of at least 10%

or

B) to exceed the S&P 500 index performance (hedged in our reference currencies) by 3% on average before profit-share and taxes.

Richtwert Performance



Over the last 5 years we have achieved both of our targets by generating an average annual return of 13.0% and outperforming our benchmark by 4.3% per year.

Looking back at the annual performance history one might wrongly conclude that it was a smooth ride and that we enjoyed a speculative rally since the start of 2019. In fact, we experienced sharp downturns during 2016 and in Q4 2018 that were followed by recoveries.

In both downturn instances, I encouraged Richtwert partners to invest additional capital and reached out to followers to join Richtwert and invest in our portfolio. In October 2018, I wrote that my smile is widening because of the declining stocks and that I'm hoping for more declines. Then in December 2018, after further declines, I wrote "Why You Should Hope Your Stocks Go Down?" and emphasized that our superior quality portfolio companies were selling at a significant discount to conservatively estimated intrinsic value thereby offering a terrific opportunity to put capital to work. I'm glad most partners/co-investors - including myself - did.

While one can never know when markets will become rational again, experience shows that they eventually do. The right thing to do is to invest when we're getting a lot for our money regardless of what markets may do tomorrow, during the next months or the next few years.

[1] For those new to Richtwert: I refer to my customers as partners, because that's how I view and treat them.

Of course, I'm pleased *that* we've achieved our goals so far, but I'm much happier about *how* we achieved them:

- Our portfolio was always highly concentrated and focused on the opportunities I found most attractive.
- My definition of attractiveness is that our downside risk (potential loss) is limited, and that our upside potential (profit potential) is substantial - the greater this asymmetry, the more attractive the opportunity.
- Accordingly, our largest single investments had portfolio weights of 10%-25% each. Together they accounted for 50%-70% of our portfolio most of the time. Conventional wisdom is that such concentration is risky, but I believe our concentration can reduce risk if it is the result of careful and thorough analysis leading to investments that meet the test of attractiveness mentioned above.
- In fact, none of our large investments led to permanent losses. On top, our large/high conviction investments performed noticeably better than our smaller investments. There were only two exceptions. One of our larger investments has disappointed so far and two of our smaller investments (less than 5% portfolio weight) performed exceptionally well. I know 1+2=3 😊 but we're looking at pair comparisons, so two exceptions is still correct.
- It's also worth pointing out that these high conviction investments have been part of our portfolio for 3-5 years. You will find the investment rationale behind almost all of them explained in my partner & co-investor letters for 2017 and 2018.
- Finally, the fact that I continue to hold on to these investments for us shows that they have not suddenly become expensive in my view. They still offer below average risk and above-average potential.

I hope I can report similar qualitative achievements to you when we reach our 10-year anniversary.

Despite being pleased, I also look at our performance with a sad eye. Mid- and long-term we would have benefited more if our stocks had not developed so strongly. As net savers & net buyers, we profit from *low stock prices* rather than high stock prices as long as our *businesses underlying these stocks* perform well. The more our companies are undervalued in the stock market the better.

The wide discrepancy of performance over the years confirms my belief that in investing in public markets you can sometimes know *what* is highly likely to happen. But what you never know is *if* and *when* the probable will happen. Thank you for trusting me even as our goals seemed distant for quite some time.

WHAT I LEARNED

Perhaps you're interested in what I've learned in recent years. None of these lessons are rocket-science or new but I had to learn them *sometimes more than once by experience* to truly appreciate them:

- There are many ways to make money in investing and there are even more ways to lose money. It's important
  - to know yourself;
  - to choose and stick to principles that are both true and in line with your own psychological wiring;
  - and to remain curious and flexible in putting these principles into practice.
- Investments in stocks and corporate bonds are investments in people and companies. As an investor, you'll succeed if management is honest; the company is successful; *and* you've paid a sensible price. Over time these factors will trump everything else, if you choose wisely.
- Investing in capital markets is the best business of all. You can often benefit greatly from other people's irrational behavior and if you realize that your investments are no longer suited for the changing world, then you have the option to reposition yourself from one day to the next. This recognition usually comes with losses and/or opportunity costs but it's still much better than trying to sell a private business or real estate that is no longer competitive in order to invest in better alternatives.
- It's much better to invest in excellent companies at fair prices than to invest in average companies at excellent prices. On the one hand, if the company turns out to be truly excellent, you will often find that the fair price was a bargain in hindsight. Of course, the challenge is to be right on the business being excellent. On the other hand, you may often find that the excellent price for the average company was not as excellent as you thought and/or that the company was poorer than average.
- It's incredibly difficult to accurately value outstanding businesses led by great managers. Such firms often have long lifespans and tend to surprise you with unpredictable, yet positive developments. That does not mean you should invest in them regardless of price, but you should sell them rarely and with great care.

In addition to these lessons from self-experience, there are many key lessons I've fortunately learned from successful investors. They are summarized in Richtwert's partner manual, which I'm happy to send you on request.

Now it's time to look forward again, because in investing, you are only as good as your last decision. Even the best historical performance can evaporate quickly if you suffer great losses.

A MORE ATTRACTIVE PROFIT-SHARING AGREEMENT FOR RICHTWERT PARTNERS

I founded Richtwert to provide investors with a fair and intelligent alternative to most existing asset managers. It was and still is important to me to eliminate the substantial conflicts of interest involved in managing other people's money as much as possible, so that all parties are in the same boat with their interests aligned:

- Therefore, I've also been a Richtwert customer/partner myself since the beginning and have entrusted nearly all of my own and my family's capital to Richtwert.
- In addition, Richtwert doesn't charge any fees and is rewarded exclusively based on performance.
- Up to now, Richtwert partners awarded Richtwert with 25% of their annual performance above an annual hurdle rate of 5%. If we missed the hurdle, then Richtwert didn't earn anything. Moreover, losses were carried forward through a High Watermark and thus effectively raised the annual hurdle rate for subsequent years.

With the experience and lessons learned in recent years, I am convinced that I will also be able to generate value for Richtwert partners/co-investors in the future. I also believe that I can structure our profit-sharing agreement even fairer.

Starting with the investment period in 2020, I will raise the annual hurdle rate that has to be achieved before Richtwert is awarded with a profit-share from 5% to 6% for all partners who make it easier for me to invest by entrusting their capital to Richtwert for at least 5 years and by investing at least 100,000 CHF/EUR/USD. Everything else will remain unchanged.

Should a partner need his or her capital beforehand due to unexpected life circumstances, Richtwert will charge a redemption fee on the withdrawn sum, which effectively equates to a retroactive adjustment of the annual hurdle back to 5%. This way no partner will be at a disadvantage and partners can only benefit from the new profit-sharing agreement relative to our currently existing agreement. Still, the new profit-sharing agreement is optional for all partners. All existing agreements will be respected and upheld if requested so by a partner.

Thank you for your more than generous trust. I appreciate our constructive partnership very much. As described in our partner's manual, I'd be delighted if you would continue to see yourself at Richtwert as a business partner in a partnership that you intend to participate in over the long-term, similar to when you buy a home or a business. This is exactly how I see our partnership.

Many thanks also to all friends and followers for their interest in Richtwert and their kind support. It would be an honor to welcome and serve you as a Richtwert partner too.

The future is full of challenges and opportunities and my objective is to use them in our favor!

With my best wishes and regards,

Bahram

Bahram Assadollahzadeh, CFA - August 2019

APPENDIX A – INVESTMENT OBJECTIVES

I repeat the objectives we defined in our Partner's Manuel in every partner letter so that we can compare our results to our goals.

I can't promise you any results, but I do want you to know, the qualitative and quantitative goals Richtwert is aiming for.

Our qualitative goals over the mid- and long-term are:

1. *To protect the purchasing power of our wealth.*
2. *To maximize our wealth.*

You can find more details regarding our qualitative goals in our Partner's Manual.

Our quantitative goals over the mid- and long-term are:

C) To achieve average annual rates of return before profit-share and taxes of at least 10%

or

D) to exceed the S&P 500 index performance (hedged in our reference currencies) by 3% on average before profit-share and taxes.

Ideally, we want to meet all goals, but I will be satisfied if we meet either goal. For instance, if we achieve goal A) but fail to meet goal B), I believe the performance of the S&P 500 index is exaggerated and that future returns from the S&P 500 will be lower allowing us to meet goal B) in the future. On the other hand, if we achieve goal B) but fail to meet goal A), I believe the performance of the S&P 500 index has been too low and that it will improve over the course of the next years. Our performance should also improve in absolute terms as long as we continue to perform better than the S&P 500.

Therefore, if our record is better than any of the targets mentioned above, I believe we have been successful. If our record fails to meet both targets, I believe we should look for alternative ways of investing our capital.

Disclaimer

