RBR CAPITAL ADVISORS

RBR Capital closes Long Short Funds and focuses on Shareholder Activism

January 18th, 2018

Dear investor,

After almost fifteen years of operations, we have decided to close our RBR European Long Short Funds and focus our activities on activist investing.

We would like to thank all of you who have supported us through our journey. We have great memories from countless encounters and are grateful for all the invaluable feedback we received over the years, which allowed us to grow and expand our horizon.

While we still believe in long short investing, we are now more convinced that activist investing is an extremely valuable and under-appreciated market force. Our history and DNA has prepared us well for activist investing and we are excited to fully dedicate ourselves to this wonderful cause.

Nevertheless, we do not close our long short funds lightheartedly. Over the last 15 years RBR European Long Short Lux Fund returned over 250% cumulatively, or close to 10% p.a. to investors, thus outperforming the main indices of our universe (MSCI Europe ex UK, SMI and DAX) and producing an attractive long term return.

Over the last three years, we expanded our area of expertise from stock picking to active shareholder value creation. We cut our teeth on three campaigns (Gategroup from December 2014 until November 2016, GAM Holding from November 2016 until July 2017 and Credit Suisse from July 2017 and ongoing) which all had the same objective: Generate substantial shareholder value thanks to strategic, operational and corporate governance improvements.

Active investing usually involves heavy lifting and we are confident that clear focus and dedication is necessary to succeed. Therefore we focus on one campaign at a time. You can see the results of our work over the last three years below (RBR Strategic Value I Fund):

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2017	-11.5%	7.8%	12.5%	3.7%	11.1%	-1.6%	1.3%	-6.3%	9.9%	2.6%	4.3%	3.3%	40.2%
2016	-14.1%	-3.7%	19.1%	24.3%	-3.8%	0.5%	0.5%	-0.9%	2.9%	-1.9%	-2.8%	4.1%	20.6%
2015	-11.6%	19.0%	7.6%	0.6%	-9.8%	0.4%	19.8%	-6.8%	-3.4%	14.6%	11.5%	6.9%	52.1%
2014	-	-	-	-	-	-	-	-	-	-	-	2.8%	2.8%
Inception p.a.													37.0%
Since Inception													164.2%

In an ideal world activist investors are not needed. The interests of management, board and shareholders are perfectly aligned. Unfortunately (or fortunately for the activist investor) in the real world interests are often vaguely, and sometimes not at all, aligned.

We believe it best to illustrate this in the case of our latest campaign: Credit Suisse and the banking industry. For the sake of simplicity, we will focus on wealth management and retail banking, but the same holds true for corporate and investment banking and asset management. For those of you, who have not heard about our proposed plan yet, please refer to www.pureswissbanking.com where we have outlined our plan for Credit Suisse in an open letter to shareholders.

According to our understanding wealth management has four main value drivers: The brand of the wealth manager, technology, the client relationship team and the solution or product specialists. In other industries, the last two pillars are called marketing & sales and research & development. Everything else is management, support or overhead function.

A second observation is that in wealth management all the products are ideally suited to be digitalized and automated. The only raw material that is needed is the brain power of the relationship and solutions or product manager.

Thirdly, the majority of clients (from billionaires to retail investors) use very few automated and standardized (or easy to standardize) products and services: Cash and forex accounts for deposit and payments, credit cards, mortgage or Lombard loans, investment accounts for stocks, bonds and other investment products.

Therefore one would assume that the need for a support organization is small. Thanks to economies of scale it is clear that the larger the wealth manager is the lower the ratio of front organization to support functions should be.

The sobering news is that at Credit Suisse Wealth Management for every front person there are about 4 people in support and a further 2 people as external contractors. In summary the ratio of front office to support function is about 1:6. The current best in class industry benchmark is about 1: 1.

We have proposed a simple solution to solve this problem: Build a new IT platform on a green field and gradually transfer all existing customers to the new platform. Given that the computer power has increased by a factor of over 1000x over the last 20 years but the number of customers, transactions and services has virtually stayed the same one can only imagine how the efficiency would dramatically increase. In addition, leaving the whole legacy behind makes life so much easier. In the end there is a reason that you do not glue the first iPhone to your latest edition of the iPhone X.

While all of this seems perfectly sensible and logical, management and board of Credit Suisse have so far decided to continue their path of small gradual improvements. We are convinced that if their interests were perfectly aligned with the interests of shareholders, Credit Suisse would have already started to invest or buy a new IT platform for a digital bank. The potential upside far outweighs the cost or risk for shareholders. We would even argue that by not doing it there is a huge risk of falling behind.

In summary, after several hundred discussions with interested parties and experts we feel vindicated that we are proposing the right strategic plan for Credit Suisse to transform itself in the digital age. The value creation potential is enormous and goes far beyond the doubling of the share price, which we initially communicated.

Lastly, we believe that we are much closer to the day that something significant is going to happen in regards to this plan than many commentators may think. Do not miss out on this golden opportunity just because the status quo is so comfortable for now. Just remember how the status quo felt to the high street retailers on the day they got steamrolled by Amazon.

Sincerely yours,

R Bohli

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