

Vltava Fund is available for new investors to join in. As a first step, all you have to do is contact us. However, we strongly recommend all potential clients read the following text. The text was originally part of a letter to shareholders from 2015.

WHY NOT TO INVEST WITH US

Dear shareholders,

I often meet people who come to us with interest to invest into Vltava Fund. In most cases they already know a lot about us. They read our letters to shareholders, know our results, and maybe even have seen us at some of the lectures and conferences. One can essentially say they are inclined towards investing with us even before we meet and our meeting ought to serve them rather as an avenue for confirming their opinion. When discussing our investments and our investment philosophy I have the impression that subconsciously they are just waiting for arguments that would confirm they are doing right by preparing to invest with us.

When I think about such a meeting while sitting quietly in the evening, I frequently am not completely satisfied with how it had gone. One should not look for confirmation as to the correctness of one's opinions by seeking the opinions of others who are of the same mind but rather by searching out opposing opinions and only then considering whether the original opinion remains unchanged. I can talk about the reasons to invest with us for hours, and I enjoy doing that, but part of the discussion should always be dedicated to reasons not to invest with us. These exist for every investment, and our fund is no exception in that regard. Described here are the main ones, which I have divided into academic, practical, and human.

Academic reasons

I like to say that investment is not a natural science. It is nothing like physics, for example, wherein an experiment in the laboratory under identical conditions always has the same outcome. There are no fixed, natural laws in investment. For this reason there are very few, if any, aspects of investment which can be called objectively correct. Nevertheless, investment is not at the other extreme either, which is to say there is no place for chaos and complete randomness. The reality lies somewhere in between. Although we cannot apply universally incontrovertible laws, there do exist certain principles upon which one can rely.

These ensue from the existence of motives shaping the flow of capital and are supported by historical data. Their application will nonetheless always be associated with a great deal of the investor's subjectivity.

In my books, university lectures, these letters, and in other appearances and publications, it can be seen that our investment philosophy is clearly formulated and thought through (or at least we think so). This, however, still does not mean that it is correct. Essentially, it neither can be unequivocally confirmed nor unequivocally refuted. Investment is and will remain a thing of probabilities. From an academic perspective, there would certainly be a number of people who would have reservations about our philosophy. After all, regarding certain points we side with a minority opinion. (See, for example, our take on risk and the last letter to shareholders entitled Risk-Free Stocks). We have no problem being in a minority so long as we believe that our thinking is rationally supported. But this in and of itself says nothing about the correctness of our approach.

Our investment philosophy is bolstered by almost a quarter century of practical work, accumulated experience, relentless study, and never-ending deliberation. It is continuously evolving and we steadfastly stand by it. We are nevertheless very well aware that we can be wrong – and not just in certain particulars but even as concerns the concept as a whole. This possibility cannot be excluded, and you should consider this as a possible reason why not to invest with us.

Practical reasons

In one of his older annual reports, Warren Buffett defined investment as "...transfer to others of purchasing power now with the reasoned expectation of receiving more purchasing power (...) in the future. More succinctly, investing is forgoing consumption now in order to have the ability to consume more at a later date."

In fact, money can be treated in only two ways: either used for consumption or invested. A person who invests apparently truly expects that doing so will bring greater consumption in future or at least that the value of one's money will be maintained for the generation of one's offspring. However, greater consumption in future does not automatically mean greater benefit. Consider the following example: An investor has savings sufficient for a long trip of his or her dreams around the world. He or she has two choices: go now or invest the money and in 10 years have the opportunity to take two such trips due to investment earnings. I can easily imagine many people would prefer the first variant. If they go immediately, they will be travelling while younger, may enjoy it more, and will have ten more years to think back on it. The entire trip might also be nicer. People who visited Syria, Egypt or Tibet 15 years ago can see today that travelling into such places now might be impossible or dangerous or that these places simply are not what they used to be.

Alongside the concept of the time value of money there is also the concept of time value of benefit. In many cases, people feel greater benefit from smaller consumption earlier than from larger consumption later on. I can see this even in my own case. If you put a chocolate bar in front of me today or promise me two chocolates in five years, I will not hesitate for a second... People live and think differently, and before you start investing it definitely would not hurt if you would devote some time to such considerations. It has never been prescribed from on high that every human must be an investor. In investing, as in any other activity, one must give up something to obtain something else, and it is clear that many people will not be willing to do such thing. This works in reverse, too, though. When one does not invest then one must also give up something. Everyone must simply consider which direction is better for him or her. This is one of those things regarding which it is no simple matter to find help and each person must decide on one's own.

Buffett's definition also implicitly contains one more very important point – investment is a long-term matter. It is not about the next month or a year but rather a decade or two. Such thinking is alien to many people, and such investment horizon is too remote for them. If you are thinking in the very short term, let us say in a three-year horizon, then our fund probably

is not an ideal investment instrument for you. (It is questionable whether one can speak of investment at all in a three-year horizon.) Our investment horizon is 5 years and longer, and we recommend the same to our investors.

Human reasons

Even if we assume our investment philosophy is correct, this still does not guarantee a good investment outcome. We are not perfect machines without emotions. We are just ordinary people with all the usual human shortcomings. As true of all other investors, we also make mistakes and it is fundamentally certain that we will continue to make them also in future. It is possible there will be many of them or that they will be inordinately big, and in such case our investment results will not be good. This possibility can never be wholly excluded. Even in such case as we were to make no mistakes whatsoever – and this will seem paradoxical to many – it cannot be guaranteed that our results will be good. Chance can sometimes (and especially in shorter time horizons) produce results of almost any sort.

I do not want to create the impression that investment is some sort of lottery fashioned out of thin air. That certainly is not the case. If we go back to the idea that investment is a matter of probabilities, then I would say it is probable that our results will be good from the long-term perspective, but it is also probable there will be periods when our results will be below average. That is the way it goes in investing, and not even the greatest investment legends have been able to avoid that reality.

I know from practical experience that for many people such prospects present an insurmountable obstacle to investing. Price fluctuations and even momentarily plunging prices cause them great emotional strain and stress. On the other hand, there are plenty of people for whom this is not a big problem and they bear it all rather lightly. It is probably unnecessary to remark into which group I classify myself. I do not wish to advise anyone on how to approach investing, but everyone should certainly consider in advance where they belong or where they would want to be.

Investing is not an activity wherein something can be obtained for free. A certain amount of effort must always be made. This applies also to investors investing

passively for example through funds. In our activities we do not endeavour to sell our fund to anyone or to attract investors into it. Rather, we try to explain what we do and how we do it, how we think, and what can be expected of us. In the case that does not suit someone, then we are glad that they reached that conclusion in advance and that we can continue on our separate ways. In case someone likes what they see, then we also are pleased and perhaps with time this will lead to an investment into our fund. We believe there exist a number of good reasons for investing with us, and we also confirm these by having invested our own money into the fund. Objectively, however, there also are opposing reasons, and those need to be raised as well.

Daniel Gladiš, January 2016

This document expresses the opinion of the author as at the time it was written and is intended exclusively for promotional purposes. The investor should base his or her investment decision on consideration of comprehensive information about the Fund, which may be found in the Offering memorandum.

Only a qualified investor pursuant to § 272 of Act No. 240/2013 Coll. may become a shareholder of the Fund. Persons who are not qualified investors pursuant to the aforementioned provision of the Act shall not be allowed to invest.

The value of an investment may increase and decrease. Neither return of the amount originally invested nor increase in the value of such investment is guaranteed. The Fund's past performance is not a reliable indicator of future investment returns.

Our estimates and projections concerning the future can and probably will be incorrect. You should not rely upon them solely but use also your own best judgment in making your investment decisions.

The information contained in this letter to shareholders may include statements that, to the extent they are not recitations of historical fact, constitute forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements may include financial and other projections, as well as statements regarding our future plans, objectives or financial performance, or the estimates underlying any of the foregoing. Any such forward-looking statements are based on assumptions and analyses made by the Fund based upon its experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the given

circumstances. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks, assumptions and uncertainties. In evaluating forward-looking statements, readers should specifically consider the various factors which could cause actual events or results to differ materially from those contained in such statements. Unless otherwise required by applicable securities laws, we do not intend, nor do we undertake any obligation, to update or revise any forward-looking statements to reflect subsequent information, events, results or circumstances or otherwise.

Before subscribing, prospective investors are urged to seek independent professional advice as regards both Maltese and any foreign legislation applicable to the acquisition, holding and repurchase of shares in the Fund as well as payments to the shareholders.

The shares of the Fund have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or under any state securities law. The Fund is not a registered investment company under the United States Investment Company Act of 1940 (the "1940 Act").

The Fund is registered with the Czech National Bank as a foreign alternative investment fund for offer only to qualified investors (not including European social entrepreneurship funds and European venture capital funds) and managed by an alternative investment fund manager.

Investment returns for the individual investments are not audited, are stated in approximate amounts, and may include dividends and options.

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