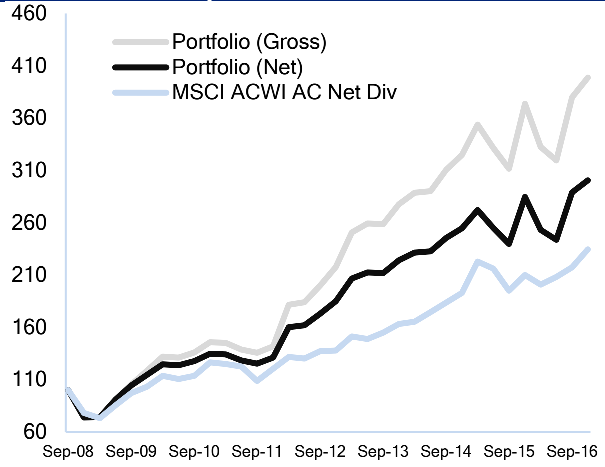
iolite

CORE PORTFOLIO 2016

Performance Summary



(net of all fees, %)	EUR	Index[1] EUR	US$	Index[1] US$
Quarter	4.0	7.9	(1.7)	1.3
YTD	5.5	11.6	2.5	8.4
LTM	5.5	11.6	2.5	8.4
Since inception(annualized)	14.3	10.9	11.2	7.1
Since inception (cumulative)	200.6	134.5	139.6	76.1

Front load:	0%
Back load:	0%
Management fee:	0%
Performance fee:	25% over 1% quarterly hurdle, high watermark
Inception date:	1 Oct 2008
Portfolio style:	Value / total return
Manager:	Robert Leitz
Regulation:	VQF

Quarterly Performance

(%)	Portfolio EUR Q1	Q2	Q3	Q4	Portfolio EUR Gross	Portfolio EUR Net	MSCI World[1] EUR	Portfolio USD Gross	Portfolio USD Net	MSCI World[1] USD
2008	-	-	-	(26.2)	(26.2)	(26.2)	(21.9)	(26.3)	(26.3)	(22.7)
2009	0.7	22.6	14.7	9.5	60.6	55.0	32.3	64.5	58.0	36.6
2010	8.8	(0.7)	3.2	5.7	22.9	17.8	22.5	14.7	11.8	14.5
2011	(0.5)	(4.3)	(2.3)	4.6	(2.7)	(2.7)	(4.9)	(5.8)	(6.7)	(8.0)
2012	22.1	1.2	6.8	6.9	53.4	41.1	14.6	56.3	45.9	16.4
2013	11.7	2.8	(0.3)	5.8	27.6	21.2	18.3	32.9	25.2	23.6
2014	3.3	0.5	5.5	3.7	17.0	13.6	18.2	3.0	2.3	3.8
2015	6.9	(6.3)	(6.0)	18.8	15.0	11.9	9.0	3.2	3.2	(2.2)
2016	(11.1)	(3.8)	18.6	4.0	6.7	5.5	11.6	3.4	2.5	8.4
Since inception (annualized)					**18.2**	**14.3**	**10.9**	**14.2**	**11.2**	**7.1**
Since inception (total)					**298.7**	**200.6**	**134.5**	**199.4**	**139.6**	**76.1**

Portfolio Overview

1	**Undisclosed** Australia public	% of portfolio Market cap EV/Adj EBITDA EV/Adj FCF	27% <$200m 4x 7x	A growing and cash-gushing niche company that invested all the cash it generated from a good business into an unprofitable geography. The unprofitable business is currently being shut down with the full earnings benefit expected to shine through in late 2017. Net cash is about 1/3 of current market cap.
2	**Advertising** China (HK) public	% of portfolio Market cap Debt EBITDA Adj. Capex	20% $500m $ 0m $110m $40m	A great compounder with unusually good corporate governance (for China) given its controlling (and distressed) American shareholder. Over the last 10 years, the company has been growing earnings at 10% p.a. despite high cash dividends (no full reinvestment of capital). The company is sitting on $230m of hidden cash in the form of upfront payments/capex for future cash flows. An ideal target for any LBO fund.
3	**Distributors** USA public	% of portfolio Market cap Working capital EBITDA Capex	13% $80m $60m $13m $2m	A small, profitable distribution business trading around net working capital that is an obvious takeover target in a consolidating industry and trading well below historic M&A valuations. The controlling shareholder/CEO/chairman has recently converted all his high-yielding preferred shares into common shares.
4	**Internet services** Israel public	% of portfolio Market cap Adj. EBITDA Capex	8% $110m $ 50m $ 8m	A company going through a turnaround that recently spent its huge cash reserves on a transformative acquisition. I consider the company greatly undervalued given its cyclicality and potential. A new CEO will take leadership in April 2017 with a go at improving reporting honesty, profitability, and shareholder-value creation. The last two businesses he managed were acquired by strategic investors.
5	**Capital markets** USA public	% of portfolio Market cap Net cash Owner earnings	6% $22bn $9bn $2bn	A large, owner-run asset manager with almost half of its market cap in net cash and trading at essentially 6x owner earnings. The company is opportunistically buying back shares. The company is facing headwinds from customers' shift to index funds. I believe the market's fears are overdone and the business to be a great inflation hedge.

iolite Partners

iolite manages concentrated portfolios of global value investments, modeled after the portfolio manager's own account, with the aim to generate sustainable market-beating absolute returns. iolite serves private and institutional clients willing to invest for the medium to long-term, and who would like to have direct access to a dedicated portfolio manager.

Robert Leitz

I am iolite's sole owner and managing director. Before iolite, I held positions at various financial institutions. These include TPG Credit, a multi-billion credit opportunities hedge fund, Goldman Sachs' European Special Situations Group, a proprietary trading desk with extensive experience in new issue senior bank debt, mezzanine loans and high-yield bonds as well as secondary investing in turnarounds, distressed debt, disfavored equities and capital structure arbitrage, and KPMG Corporate Restructuring. I graduated from the University of St. Gallen (HSG), Switzerland, with a Master of Science in Business Administration and Economics, and wrote my master's thesis under the guidance of Prof. Eli Noam at Columbia University, New York.

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[1]MSCI All Country (DM+EM) World Index All Cap (large+mid + small+micro caps), net dividends reinvested. MSCI estimates this index covers approximately 99% of the global equity investment opportunity set. Please note that an index investor would probably have to bear costs not captured in this measure, such as account and management fees.

"Markets are constantly in a state of uncertainty and flux and money is made by discounting the obvious and betting on the unexpected." [George Soros]

For the full year ended December 31, 2016, the portfolio returned +5.5% in EUR (2.5% in USD), net of all fees. Since inception on October 1, 2008, the core portfolio has generated unleveraged net cumulative returns of +200.6% in EUR (+139.6% in USD) and annualized net returns of 14.3% in EUR (+11.2% in USD). In other words, €1.00 invested at inception has turned into €3.01 ($1.00 invested at inception has turned into $2.40).

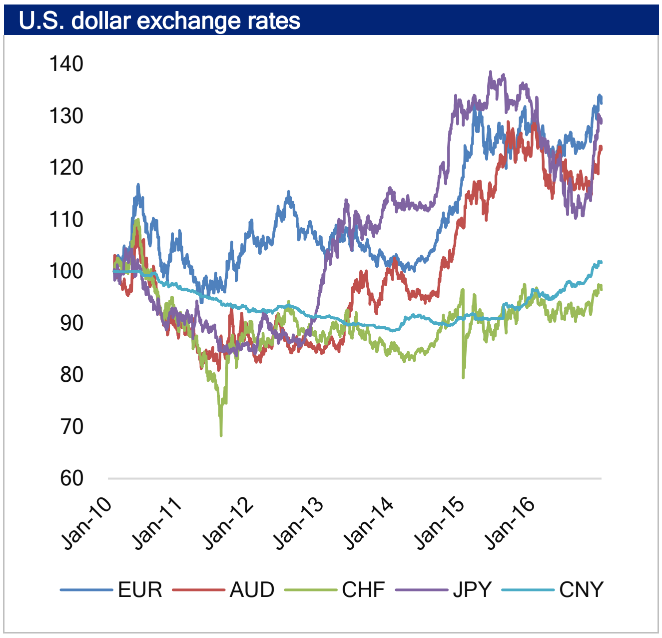
The portfolio had a strong rebound in the second half of the year that more than offset the severe losses from my investments in Perion Network (NASDAQ:PERI). Had I not invested in PERI when I did, the portfolio would have been up about 40% in 2016 (including opportunity cost).

I extensively covered the PERI investment in the mid-year report and am pleased to report the CEO stepped down after what became a public shareholder revolt against the company's board and its senior management team. I am glad and somewhat proud to have won this battle, but the victory won't bring back hundreds of millions of dollars in value destroyed by the former CEO, who apparently focused on maximizing his bonus package rather than creating shareholder value.

The company looks very cheap given its cyclicality and potential, and the share price has already started to rebound since the change in leadership was announced. The new CEO will take charge in April 2017 with a go at improving reporting honesty, profitability, and shareholder-value creation. The last two businesses he managed were acquired by strategic investors.

The portfolio's strong rebound was driven by robust underlying earnings reported by most of the companies it invested in. In November, the largest holding announced an overdue restructuring that will – all else equal – catapult earnings going forward, and I don't believe this has yet been recognized by the market. If I had the means, I'd look to take control of the company's excess cash flows and its underutilized balance sheet without any intention to interfere in the day-to-day operations of the talented management team.

I consider the two largest positions (constituting 47% of the portfolio) vastly undervalued, with a good chance to double within the next couple of years. Given the high concentration, returns are expected to be lumpy.



Due to its global footprint, the portfolio is exposed to currency swings. Over the last few years, the U.S. dollar has strengthened against most other currencies. I believe the coming years might see a reversal of this trend as the U.S. dollar feels increasingly expensive and commodity prices have started to rebound. Since about a third of the portfolio is currently invested in Australia, a strengthening of the Australian dollar versus the euro and/or the U.S. dollar would help boost returns measured in the latter two currencies.

Thoughts on the Macroeconomic Environment

According to an eye-opening article in The Atlantic[1], 50% of Americans would not be able to pay an unexpected $400 bill, as they have no spare cash and are maxed out on their credit cards. To a large extent, this poverty and resulting frustration, anger and apathy explain the victory of Donald Trump in the U.S. elections.

The situation in Europe is not very different. We have already gone through the first stages ("Brexit") of what is a greater shift in the political and economic landscape, headed in an uncertain direction.

I strongly believe "The West" needs new visions and stronger leadership to fight the loss of momentum, provide purpose, unite varied views, tap economic potential, and set the right foundation for future generations to come. Projects that unite a nation, both literally and figuratively, are effective: take, for example, Eisenhower's Interstate Highway System in America or India's railroad network, built by the British. In the early 1960s, Kennedy's answer to the "Sputnik Shock" was the Apollo missions. I firmly believe "The West" needs something comparable.

Visionary large-scale infrastructure investments or exploration projects could be anything from the establishment of large-scale solar-powered road networks, high-speed road and train links from Europe to China and India, a global network of carbon capture plants to unwind climate change, the instalment of solar-powered desalination plants along the Pacific Coast to fight the (man-made) drought of the American West, or perhaps a manned flight to Mars. Such concerted efforts would employ thousands (if not millions) of skilled and unskilled people, lead to great scientific breakthroughs, and provide sustainable, real economic and environmental benefits as well.

[1] http://www.theatlantic.com/magazine/archive/2016/05/my-secret-shame/476415/

"Can't afford," you say? Think again! In most developed economies, monetary policies have been extremely inflationary. In Switzerland, the Swiss National Bank has been expanding its balance sheet at the rate of about $10,000 per capita per annum without causing a weakening of the exchange rate.

Swiss National Bank (Source: SNB)										
(CHF million)	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Gold holdings	34,776	30,862	38,186	43,988	49,380	50,772	35,565	39,630	35,467	39,400
Foreign currency investments	50,586	47,429	94,680	203,810	257,504	432,209	443,275	510,062	593,234	696,104
Reserve position in the IMF	406	725	1,231	1,068	3,135	2,804	2,295	2,037	1,608	1,341
International payments instruments	282	245	5,556	4,670	4,621	4,249	4,294	4,414	4,707	4,406
Monetary assitance loans	273	326	349	300	301	279	244	213	170	155
Claims from US dollar repo transactions	4,517	11,671	-	-	-	-	-	-	-	-
Balances from swap transactions against Swiss francs	-	50,421	2,672	-	371	-	-	-	-	-
Claims from Swiss franc repo transactions	31,025	50,321	36,208	-	18,468	-	-	-	-	-
Swiss franc securities	4,142	3,608	6,553	3,497	3,675	3,757	3,690	3,978	3,972	3,998
Loans to stabilisation fund	-	15,248	20,994	11,786	7,645	4,378	-	-	-	-
Banknote stocks	127	137	107	111	130	126	157	-	-	-
Tangible assets	345	383	365	356	325	452	433	417	397	-
Participations	137	148	148	146	147	142	134	134	136	-
Other assets	311	2,801	216	222	377	267	295	316	461	1,097
Total assets	**126,927**	**214,323**	**207,264**	**269,955**	**346,079**	**499,434**	**490,382**	**561,202**	**640,152**	**746,502**
Population (million, Source: Wikipedia)	7.6	7.6	7.7	7.9	8.0	8.0	8.0	8.2	8.3	8.4
SNB assets / capita (CHF)	16,809	28,023	26,771	34,354	43,521	62,406	61,137	68,273	76,895	89,087
SNB FX investments / capita (CHF)	6,699	6,201	12,229	25,937	32,382	54,006	55,264	62,051	71,259	83,073

As should be common knowledge: inflationary monetary policies don't create wealth, they are a tool to re-allocate wealth/ownership interests. Inflation is a tax and - as with any tax - the key question is: where are its proceeds going?

I strongly believe that the current policies of zero percent interest rates and ongoing bailouts are setting terrible incentives, and that the un-channeled flow of more debt into society leads to further misallocations and wastes real economic potential.

For a long time, I have been criticizing the erosion of fiscal discipline and ongoing bailouts of countries such as Greece or banks such as Monte dei Paschi di Siena. I was promulgating fiscal and monetary restraint. However, I have come to the conclusion that in terms of fiscal, monetary and political discipline, the inflationary momentum has grown too strong to fight.

While politicians might not be able or willing to prevent a worrying loss of discipline and prudence, they should still provide direction. In times of uncertainty and decline, it's human nature to ask for leadership. If the current regime (including politicians, the media, academia and elites) fails to acknowledge the obvious shortcomings of the status quo, the dangers of administrative passivity and of "kicking the can down the road", the further erosion of its power is unavoidable and new forces will arise.

Interview with Beyond Quant[2]

I was recently interviewed by Nitiin Khandkar, who is building an India-based investment training and research business. I thought it would be useful to reproduce parts of the interview here, as it provides further insight into my investing process and the current positioning of the portfolio:

Q: Could you please throw some light on your experience with European Special Situations, turnarounds, disfavored equities and capital structure arbitrage?

A: I was trained at hedge funds that invested across the capital structure in complex situations, including debt-control transactions and the acquisition of non-performing corporate loan portfolios. In my roles, I learned to assess the value of a security's underlying asset as well as value across the capital structure. I would typically spend most of my days digging through the small print of bond prospectuses to assess risks and value-triggers leading to low-risk but high-return opportunities. In hindsight, I couldn't have asked for better training. The bond markets are much larger than the equity markets and it's possible to not only find mispriced assets, but also to find mispriced pieces within the capital structure.

Q: Just how do you differentiate yourself from the thousands of funds following the same principles of Value Investing?

A: My setup – where I manage my clients' money alongside my own – aligns my interests with those of my clients and frees me from institutional pressures faced by most fund managers. My capital base is stable and patient, allowing me to be contrarian and to swim against the tide. The small size of my fund gives me the liberty to fish in small ponds, where the big funds can't go. I have observed that large funds have their own guidelines for investing in stocks, such as a threshold market capitalization and liquidity, among several other factors. As a result, large funds often miss out on attractive opportunities, such as smaller micro caps, where there are a lot of market inefficiencies.

Q: Are you primarily into bottom-up stock picking? In general, what are your sources of stock ideas? How many companies do you track at any point in time? "Iolite is a crystal that changes color when pointed toward the sun." What are the investment filters which direct you towards investment success?

A: I search top-down and bottom-up but invest bottom-up only. My portfolio is highly concentrated and 5 stocks frequently make up 80% of the assets. As most readers will know, value investing can be defined as buying a business for less than what it is worth, whereby the value of a business is defined by the value of all future cash distributions. With this in mind, I am looking to buy great businesses at fair prices, buy bad businesses at very low prices, buy assets under liquidation value, or invest in asymmetric situations where the upside is a multiple of the downside. My valuation work routinely focuses on these questions:

1. Do I sufficiently understand the business model?
2. What is the visibility into the company's ability to generate cash flows going forward?
3. What is the liquidation value of the company's assets?
4. Is management allocating capital efficiently and in the interest of minority investors?

If I find an opportunity with an attractive risk/reward profile, I will rank this opportunity with the positions in the portfolio and those that I see in the wider market before making an investment decision.

[2]http://bqinvesttraining.com/interview-robert-leitz-investment-manager/#sthash.IDPZaNRY.dpuf

Q: You are invested in at least five different, diverse geographies. What is the rationale behind this? How do you tackle the challenges of monitoring such geographically diverse investments?

A: The current portfolio mix is a result of where I see value and my need for some diversification in terms of industry, country and currency risk. For example, German stocks are heavily geared towards the auto and metal-handling industries, and there is a limit of how much capital I want to allocate to these sectors. I believe many Australian stocks recently got washed out with the collapse of the mining boom, but there is a limit of how much money I am willing to allocate to Australia. I don't have a particular view on whether the U.S. dollar is better than the euro or the Japanese yen. However, I believe all three currencies are fundamentally flawed and I wouldn't want to expose myself too much to any single one of them.

Q: Please discuss your research process in detail. What are the research methods you employ, given that you run your fund entirely on your own? Do you use sell-side research, or screener, or any other method?

A: I spend a lot of time reading annual and quarterly reports, listening in on earnings calls, and reading up on what a target's industry peers are saying. I do use screeners, but they are just one tool out of many. KPIs can be incredibly misleading – just because a company is trading at a low P/E or EV/EBITDA ratio doesn't say anything about whether it is a great investment opportunity. I follow other investors that I admire, and I look at markets and industries that have recently seen a steep decline in valuations.

I don't rely on sell-side research as I believe it tends to be biased, but banks sometimes do publish helpful industry papers. I may discuss an industry or a specific target with fellow investors that I trust, but I am also careful to avoid social biases. Lastly, I tend to dynamically model my ideas in Excel to get a better grasp of the relevant levers, with the model's detail being dependent on the complexity and relevance to the thesis.

Q: Are you in favor of meeting the management and carrying out channel checks, or simply checking an appealing stock idea with your fund management industry peers? How essential is management interaction in your view, as far as small or micro caps are concerned?

A: It's very important to find businesses run by capable, honest and driven CEOs who are incentivized to act in the best interest of shareholders. However, I don't think management interviews are the best way to go around this. Most CEOs tend to be charismatic salespeople (intentionally or not) and it's easy to get swayed. In my experience, very few CEOs will give you any real insight unless you either have power over them or they know you well. I also believe that great entrepreneurs and leaders aren't necessarily good investors. I categorize CEOs into three types: (1) business builders (Steve Jobs, Bill Gates), (2) capital allocators (Warren Buffett) and (3) those that rose through corporate ranks by positioning themselves smartly and with luck.

1. A business builder might be a good leader for a business with space to grow for the core product, but he may not be the best capital allocator of excess cash flows.
2. A good capital allocator can create enormous value to shareholders, but he may fail to provide enough direction and leadership in terms of business organization and corporate culture. Over time, this usually erodes the value of the acquired assets. It's also crucial to distinguish between those

capital allocators who just got lucky riding a certain trend and those who repeatedly created value over many transactions across the cycle.

3. Lastly, I would be very wary of CEOs that made it to the top through politics. They will continue to be driven by opportunistically growing and protecting their own power rather than looking after the shareholders' best interests.

CEOs of large companies tend to have it easier than their fellows at smaller companies, as it takes longer for their mistakes to become visible. Look at Apple: I would argue that Tim Cook has largely failed to add any meaningful value to the company since he became CEO after Steve Job's death; he is still mainly benefiting from the tremendous momentum that Steve built. Very few smaller companies are able to create a momentum strong enough to camouflage years of failed and stagnant product innovation as well as overly expensive and business-irrelevant acquisitions. That said, I would add that even big ships can sink very quickly – as is illustrated by the stories of Enron and Satyam.

Q: Could you describe a couple of cases where your analysis of small or micro-cap stocks led to superior returns, and where your thesis did not play out due to external events?

A: In a few cases, my investment theses unfolded faster than expected because smaller companies I was invested in were acquired by larger companies at prices only a strategic investor would pay. In my memory, I have never made an investment where there were unforeseen external events. It always was a matter of: "Yes, there is a certain probability that the worst case (change in regulatory environment, loss of major customer, the CEO wasting cash, etc.) will happen" – and in a few cases, it did happen.

Q: You currently seem to have only small and micro caps in your fund portfolio. Is this driven by your fund's small size? Would small or micro-caps continue to have a higher weightage in your fund portfolio, going ahead? Or, as the asset base grows, would you consider adding robust, large cap companies?

A: It's a function of where I see value. It so happens that momentarily I see more opportunities in the small cap space. Historically, the portfolio had a significant share invested into mega caps as well. Ultimately, it's a matter of risk and reward. Many market participants are willing to pay almost any price for a robust large cap – and thus expose themselves to capital flows and great harm if this blue chip turns out to be a little less robust than perceived. With growing assets, I will look to take full control of smaller businesses.

Q: You are a firm believer of the Concentrated Portfolio. Does this mean very low churn of your portfolio on an annual basis? Jesse Livermore wrote, "Throughout all my years of investing I've found that the big money was never made in the buying or the selling. The big money was made in the waiting." Have you experienced this yourself?

A: Absolutely! My churn is fairly low – probably about 20% per annum. I only shift investments if (a) a company went through a market re-rating and is now exceeding my fair value estimate, (b) I had to re-assess an investment thesis or (c) I found an even more appealing investment. It's very easy to get carried away by the market's noise, social pressure as well as short-term performance. This is true for investing into stocks but also into fund managers. Apparently, most retail investors actually lost money by churning into and out of Fidelity's Magellan Fund in the 1977-1990 period (while it was run by Peter Lynch) – even though the fund generated an average annual return of 29% during this period! Paul Samuelson might have said it best: “Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas.”

Q: Again, given the fact that small or micro-caps usually are subject to sharp, short-term volatility, do you consider exiting on rich valuation, and re-entering the same stocks if they drop to reasonable valuation?

A: Yes, there are many investments that I entered into multiple times. I love if something I know comes back to me at a good price. Most people confuse volatility with risk. Risk is determined by the price one pays for the underlying asset – not by the swings of the market price. To quote Benjamin Graham: “Short term, the market is a voting machine. Long term, the market is a weighing machine.”

Q: As far as special sits or themes go, some of them play out sooner, or in the short-term. What has been your average holding period for these? Have you exited a special sit or theme, within say twelve months?

A: Generally speaking, I believe an investment thesis should play out over a five-year period. The timing of realization can swing widely and is ultimately due to chance. A few times, one of my investments got taken private or went through a value-creating event very shortly after I committed capital. At other times, I had to wait years for a thesis to play out. For example, I have a small position in a company with no debt but a mild cash burn, trading at 1/3 of its cash. Absolutely nothing has happened to either the company or its share price over the last three years.

Q: How much of your fund’s corpus is deployed at any time? Do you believe in setting cash aside, to benefit from flash crashes?

A: It depends on the opportunities I am seeing in the market. There is value in the optionality holding cash provides. That said, I am currently more than 95% invested – which reflects the opportunity set I am seeing.

Q: You seem to have patient, long-term investors in your fund. Now this seems to be a rapidly declining tribe. Given the market’s insistence on quarterly or evenly monthly performance, how difficult do you think it will be, to identify such patient investors, going ahead?

A: There’s a letter on my website titled “reasons not to invest with me” and it’s mandatory reading for all potential investors. I want to have a patient capital base because I think this is the most important foundation for sustainable performance. I am growing the business a lot slower than I possibly could (if I’d be willing to accept anybody), and I have turned people down that I believed were not the right fit for the portfolio. Value investing works because most market participants are either passive or short-term in nature. However, as I said before, the same can be said for people that invest in managers such as myself. Many fund managers have to buy what’s currently in vogue to attract capital and to avoid outflows. This might work in the short run, but is unlikely to result in sustainable outperformance.

Q: You set up your fund right in the midst of the global financial meltdown of 2007-08. In those difficult days, how challenging was it to (i) get investors for your fund and (ii) have the conviction to go long on stocks, even as global indexes were falling like nine-pins? How much of your fund corpus of that time did you deploy before March 2009, when the market reached trough level? In hindsight, do you think the launch *timing was perfect? Do you believe your fund's performance would have been significantly different (better or worse) had you launched one year earlier or later?*

A: I started with my own money. I wasn't looking for investors at that time, but it would anyway have been very difficult to find them. It was an easy decision to go long equities as everything looked so cheap. My thought at that time was "Either the world as we know it will end or this is one of the best buying opportunities of a lifetime". In hindsight, it was a great time to start the portfolio because I benefited from the return of capital over the following years. That said, I didn't time it perfectly and was still down 26% in the first quarter – that's all baked into my track record.

When I started, I played it safe by buying large, solid cash generators such as eBay or Microsoft. That worked quite well. With hindsight, more experience and familiarity with a much larger quantity of stocks, I could have achieved much higher returns by investing into some really beaten down small caps.

Q: Over the last 8 years since inception, your fund has far exceeded your stated goal of "generating annual returns greater than 10% with a few select value investments", squarely beating the MSCI All Country World Index All Cap. What in your view, is the single most important factor which contributed to this outstanding performance?

A: The single most important factor in my sustained, successful outperformance over the last 8 years is sticking to the true meaning of value investing: paying a low price for a stock compared to the intrinsic value of the underlying asset and selling it at or above this value.

Q: The MSCI World Small Cap Index (USD) has beaten the MSCI All Country World Index All Cap over the last 1, 3, 5, 10 years, and since December 29, 2000. Given your fund's focus on small caps, don't you think the small cap index would have been a better benchmark?

A: As I mentioned above, my fund is not solely focused on small caps. I have an open mandate and can invest into small and large caps as well as stocks of all industries and geographies. I believe the MSCI All Country World Index All Cap best resembles this universe. I also believe "index picking" is a dangerous thing. There is always an index that over or underperformed over a certain period of time and it becomes a bit of a game of market timing with hindsight.

Q: Now that the US markets are at an all-time high, and many global markets are bullish, what would be your strategy to beat the benchmark from the current levels?

A: I tend to focus on individual stocks, not overall market sentiment. That said, if most market participants are bullish, this probably is a signal to become more cautious. For example, the current strength of the U.S. dollar will hit U.S. producers, and consumption in the U.S. and Europe currently is very much driven by unsustainable zero percent financing. On the other hand, if interest rates stay at current record-low levels for longer and inflation picks up (given quantitative easing at historically unprecedented levels and Trump's infrastructure spending plans), the markets might actually still be cheap in nominal terms.

Q: Would you be looking at India and other Emerging Markets, going ahead? What challenges do you foresee when investing in EMs?

A: I look at opportunities across the globe, and emerging markets benefit from strong economic tailwinds, so I wouldn't dismiss them out of hand. The world's population is growing, and technological and cultural progress enables more people to become more productive. Hence, the world's population will – on an absolute and relative basis – be wealthier fifty years from today. Few things will characterize this century as much as the continued rise of China.

However, while the macro tailwinds are promising, picking the right stocks to benefit from these trends is very hard. I have made my share of bad experiences in emerging markets, with factors like corporate governance, fraud, capital controls, currency and political risk. Undoubtedly, some people will get extremely wealthy by investing into emerging markets – but many are likely to lose money.

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As always, I am happy to receive feedback and answer your questions.

Sincerely,

Robert Leitz
Managing Director
iolite Partners