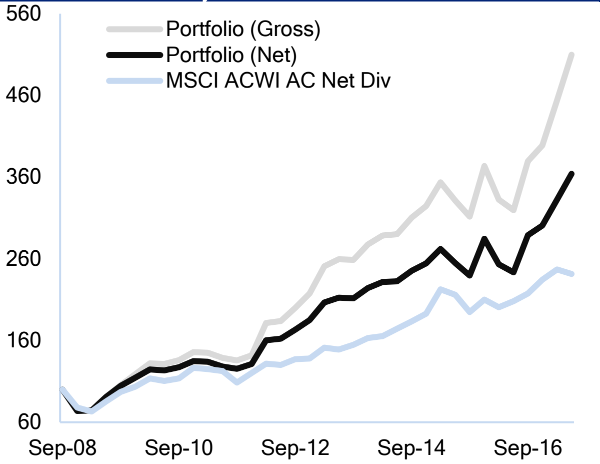
CORE PORTFOLIO

Performance Summary



(net of all fees, %)	EUR	Index[1] EUR	US$	Index[1] US$
Quarter	9.5	(2.2)	15.6	4.3
YTD	21.1	3.0	29.6	11.3
LTM	49.5	16.0	51.9	19.1
Since inception (annualized)	15.9	10.6	13.8	8.0
Since inception (cumulative)	264.1	141.5	210.7	96.1

Front load:	0%
Back load:	0%
Management fee:	0%
Performance fee:	25% over 1.00% quarterly hurdle, high watermark
Inception date:	1 Oct 2008
Portfolio style:	Value / total return
Manager:	Robert Leitz
Regulation:	VQF

Quarterly Performance

(%)	Portfolio EUR				Portfolio EUR		MSCI World[1]	Portfolio USD		MSCI World[1]
	Q1	Q2	Q3	Q4	Gross	Net	EUR	Gross	Net	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
2017	10.7	9.5			27.9	21.1	3.0	38.8	29.6	11.3
Since inception (annualized)					**20.5**	**15.9**	**10.6**	**17.7**	**13.8**	**8.0**
Since inception (total)					**409.8**	**264.1**	**141.5**	**315.5**	**210.7**	**96.1**

Portfolio Overview

1	**Internet retail** Australia public	% of portfolio Market cap Net cash EV/Adj FCF	32% $130m $ 30m 6x	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 being shut down with the full earnings benefit expected to shine through in late 2017. Owner-run, lots of cash and no debt.
2	**Advertising** China (HK) public	% of portfolio Market cap Debt EBITDA Adj. capex	18% $630m $ 0m $120m $ 50m	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	**Foods** Europe public	% of portfolio Market cap P/E	15% >$1bn 8x	A growing and vertically integrated company in an attractive sector benefiting from strong demand growth and supply restrictions. Unique assets and long-term oriented, shareholder-friendly management.
4	**Internet services** Israel public	% of portfolio Market cap Adj. EBITDA Capex	9% $150m $ 50m $ 8m	A company going through a turnaround. I consider it greatly undervalued given its cyclicality and potential. A new CEO took leadership on April 1, 2017 with a go at improving reporting honesty, profitability, and shareholder-value creation. The last two businesses he managed were acquired by strategic investors.

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, including TPG (a hedge fund), Goldman Sachs' European Special Situations Group, 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 product fees.

For the half-year ended June 30, 2017, the unleveraged portfolio returned 21.1% in EUR (29.6% in USD), net of all fees. Since inception on October 1, 2008, the core portfolio has generated net cumulative returns of +264.1% in EUR (+210.7% in USD) and annualized net returns of 15.9% in EUR (+13.8% in USD). In other words, a euro invested at inception has turned into €3.64 (a dollar invested at inception has turned into $3.11). On a gross basis, the portfolio has been compounding at +20.5% in EUR (+17.7% in USD).

What difference a year makes! Last June, after a disappointing six months, I lost an investor due to underperformance for the first time ever. This was a painful experience, as I had lost a client's confidence in my skills. As it turned out, my client pulled his funds at the worst possible moment. In the twelve months since he gave notice, the core portfolio rebounded sharply and returned 49.5% on a net basis.

I hereby wish to express my gratitude to all other investors who stuck with me during a challenging time. I am truly thankful, happy and proud to have a family of loyal supporters and remain dedicated to growing our combined net worth at market-beating absolute returns for decades to come. While I can't guarantee that the portfolio will do as well in the future as it did in the past, I can say that I now have more experience and will stick to what has worked thus far.

Thoughts on Index Funds

"I skate to where the puck is going to be, not where it has been." [Wayne Gretzky]

While active portfolio management has come under heavy criticism for good reasons, it is equally foolish to condemn it altogether. I strongly believe it is possible to beat the market over time and that the meteoric rise of index funds actually leads to more misallocations and hence more opportunities for active managers.

Contrary to common belief, the world of indices and index funds is packed with pitfalls for skilled and unskilled investors alike. Perhaps the most obvious flaw of most indices is that they overly favor current market darlings rather than those that will be. As a result, index investors tend to buy high and sell low, and with more money pouring into ETFs, these flawed dynamics are getting worse.

The rise of passive capital also means that huge pools of capital are available to companies and market players without any oversight. This trend will only strengthen with the structural shift towards computer-driven investment strategies. As somebody put it to me: "the rise of index funds is the end of capitalism as we know it". The market needs active and engaged managers to help promote healthy levels of corporate governance. Shareholders are owners of businesses, and the key question is: who fights for their rights and interests if they don't use the voice they've been given?

Followers of my portfolio know that I prefer not to talk about my positions. This helps protect me from various biases that negatively impact performance, such as ownership and social proof biases. It also helps protect my clients and copy-cats, as they are subject to similar biases. However, sometimes I have to break this rule to help protect the value of my positions. Over the last two years, there were two instances when I spoke out publicly. Not because I wanted to, but because I felt it was necessary.

In the first case (Perion Network, NASDAQ:PERI), the CEO committed huge capital allocation mistakes that destroyed hundreds of millions of dollars in shareholder value but still benefited him personally. He and the company's board failed to acknowledge his mistakes even when they became blatantly obvious. Only once shareholders (including myself) started to speak out, with force and in numbers, the board felt pressured enough to initiate a change in leadership, direction, and attitude. While Perion's turnaround is still in an early stage and we don't know its outcome yet, I am pleased with what I have seen and heard from its new CEO, Doron Gerstel, thus far.

In the second case (Jumbo Interactive, ASX:JIN), the CEO (who is also the founder and a major shareholder) recently gave shareholder value away by strongly favoring one (Tatts Group, ASX:TTS) of two strategic bidders for the company. While he seized the moment to strike a deal that materially de-risks the business going forward, I believe a much better deal could have been struck if he had let a normal auction process run its course, allowing Jumbo to be sold to the highest bidder and likely driving Jumbo's share price substantially higher than June's close of AUD 2.66. Unfortunately, it didn't come to a bidding war, but Jumbo recently did pay a special dividend and materially increased its dividend payout ratio – as independent shareholders had demanded for a while.

Case Study: Jumbo Interactive

Jumbo is the leading digital retailer of lottery tickets in Australia. The company is licensed to sell lottery tickets online and through mobile apps. In essence, it's a digital version of the traditional kiosk and the main source of income is ticketing fees (Australian lottery tickets do not include retailer sales commission; purchases are not to the whole dollar). Jumbo runs its own IT infrastructure.

Market

Lotteries are a major source of government income and help fund a diverse mix of community projects. In Australia, the government-licensed monopolistic national lottery operator is Tatts. Tatts' annual overall sales are AUD 2.9 billion, about 50% of which goes to the government. Jumbo's current (and growing) share of Tatts' AUD 2.1 billion lottery revenue is about 7%, with a total transaction volume of around AUD 160 million. About 14% of Tatts' lottery sales are digital, which has continued to grow market share. Tatts is in the process of merging with Australian gaming company Tabcorp (ASX:TAH).

Competition

Jumbo has two meaningful domestic competitors: (1) Tatts: the incumbent player, it operates its own online kiosk with limited success and recently took a stake in Jumbo, and (2) Lottoland: a disruptive synthetic lottery business with an official Australian license to offer bets on lottery outcomes worldwide. Lottoland is taking away market share from Tatts as well as from all retailers of lottery tickets such as Jumbo.

Moat

Jumbo's website and app have become the go-to point for people looking to buy lottery tickets online, and its customers are sticky (brand awareness, subscription models, etc.). The business benefits from significant scaling benefits, as there are no meaningful variable costs beyond marketing/customer acquisition expenditure. Jumbo's competitive position is further protected by significant up-front licensing, technology and marketing investments required to replicate the business. Given the platform-type business model, Jumbo's competitive strength and value grows exponentially with every new subscriber added.

Jumbo's customer database is of material strategic value to any more vertically integrated player such as Tatts or Lottoland, as lottery operators run at much higher margins. While Jumbo's EBITDA margin is about 10% of transaction volume, Lottoland should easily be able to operate Jumbo's database at margins of 25% or more. A publicly listed competitor of Lottoland, Zeal Network (formerly: Tipp24), is operating at an EBITDA margin of close to 40%.

Growth

Jumbo's sales have been growing at about 10-20% p.a., driven by (1) real and nominal growth of the Australian lottery market (good pass-through of inflation) and (2) the growing relative share of electronic ticketing. Note: the frequency of large jackpots causes some short-term volatility and the twelve months up to June 2017 saw an unusually weak run of jackpots.

Over the last few years, Jumbo's reported profitability was severely depressed as the company kept investing all the cash it generated in its core market (Australia) into new geographies (Germany, USA, Mexico). Unfortunately, all these international expansion projects have failed. The founder & CEO, who owns an 18% stake, has now pulled the plug on his ambitious expansion plans and is winding down all international projects. Over the next couple of years, Jumbo will likely see a sharp improvement in earnings, as it is shutting down the lossmaking international expansion projects while continuing to grow market share at marginal extra cost in its Australian home market.

Recent Events

- On April 24, Lottoland disclosed the acquisition of 3.1 million shares (7%) at AUD 2.42 per share.
- On May 12, Jumbo issued 6.6 million shares (15%) and another 3.5 million share options (subject to shareholder approval) to Tatts at a significant discount to the market price that day (AUD 2.37 vs 2.75). In return, and in addition to the cash raised, Jumbo renewed all reseller agreements with Tatts for five years and gained access to a new product ("Set for Life Game").
- On May 31, Jumbo increased its dividend payout ratio to 85% of NPAT.
- On June 30, Lottoland sold its entire stake at AUD 2.55 per share, apparently to institutional investors.

Valuation / Outlook

While I am frustrated that management decided to side with Tatts very early in an emerging takeover battle, and that management issued shares at a material discount to both market price and intrinsic value, I am happy to keep holding my shares at their current price.

At AUD 2.65/share (fully diluted market cap of AUD 105 million, net of unrestricted cash), the company is trading at a forward P/E ratio of 7.1x (4.1x EV/EBITDA, 5.0x EV/EBIT) based on my forecast for the full year ending December 2018 (EBITDA 20.5 million, NPAT 11.9 million). Assuming a conservative exit P/E multiple of 15x, the upside for the equity is still 70%.

Jumbo has no debt, unrestricted cash is about AUD 30 million (almost 25% of current market capitalization), and the business is expected to see strong earnings growth going forward, due to a number of factors: normalization of jackpots, closure of failed international expansion projects, continued market share gains in Australia at marginal extra cost, and an improved product offering given the recent Tatts' deal (expected immediate revenue uplift of about 10%). At the current share price and given the positive earnings outlook, the expected dividend yield is a very healthy 10%.

The downside is protected by the significant cash balance as well as the implied Tatts/Lottoland put. Tatts is now a co-owner, and it makes strategic sense for Tatts to help Jumbo grow as best as it can - to then fully acquire and integrate the business as soon as possible. In the unlikely event Tatts loses interest or plays difficult, a competing synthetic lottery operator such as Lottoland could fill the gap.

Risks

The recent deal with Tatts gives Jumbo a cash war chest that it doesn't need. This raises the risk of poor capital allocation, something that has plagued the company in the past.

Jumbo Interactive

(AUD milllion)	FY Jun-14 Actual	FY Jun-15 Actual	FY Jun-16 Actual	FY Jun-17 Guidance	H1 Dec-15 Actual	H1 Dec-16 Actual	FY Dec-16 Actual	FY Dec-17 Forecast	FY Dec-18 Forecast
Macro KPI									
Jackpots	*36*	*34*	*45*	*28*	*24*	*15*	*36*	*36*	*36*
Tatts' lottery revenue	*1,923*	*1,977*	*2,140*		*1,109*	*1,018*	*2,048*	*2,250*	*2,350*
% share of digital	*9.4%*	*11.1%*	*13.5%*		*13.2%*	*13.5%*	*13.8%*	*14.0%*	*15.0%*
Jumbo's market share	*5.6%*	*6.6%*	*7.3%*		*7.3%*	*7.0%*	*7.1%*	*8.0%*	*8.5%*
Financials									
TTV (total transaction volume)	107.0	130.0	155.7	142.2	81.3	71.1	145.5	180.0	200.0
COGS	(84.9)	(103.5)	(124.2)	(110.3)	(64.9)	(56.2)	(115.5)	(143.0)	(159.0)
Gross profit	22.1	26.5	31.5	31.9	16.3	14.9	30.1	37.0	41.0
Other income	1.1	1.2	1.2		0.6	0.6	1.2	1.2	1.2
Marketing	(4.7)	(7.7)	(5.3)		(3.2)	(2.3)	(4.4)	(6.0)	(9.0)
Occupancy	(0.8)	(1.0)	(1.2)		(0.5)	(0.5)	(1.2)	(1.2)	(1.2)
Admin	(12.3)	(16.3)	(17.6)		(9.3)	(8.4)	(16.7)	(16.0)	(15.0)
EBIT	5.5	2.8	8.7		4.0	4.2	8.9	15.0	17.0
Impairments, associates, finance	(0.2)	(0.2)	(0.6)		(0.5)	(0.0)	(0.2)	0.0	0.0
Tax	(2.0)	(1.9)	(3.4)		(1.5)	(1.6)	(3.5)	(4.5)	(5.1)
NPAT	**3.3**	**0.7**	**4.7**	**7.1**	**2.0**	**2.6**	**5.2**	**10.5**	**11.9**
Depreciation	2.0	2.6	3.5		1.8	1.8	3.5	3.5	3.5
EBITDA	**7.5**	**5.4**	**12.2**		**5.8**	**6.0**	**12.5**	**18.5**	**20.5**
Capex	3.5	4.8	5.0		2.4	2.4	5.0	4.5	4.5
EBITDA less capex	**4.0**	**0.6**	**7.3**		**3.4**	**3.6**	**7.5**	**14.0**	**16.0**
Book equity	22.1	21.7	24.7		24.7	25.1	25.1	50.6	62.5
Debt	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
Unrestricted cash	14.9	12.0	13.1		13.1	12.3	12.3	37.8	49.7
Capital employed	**7.2**	**9.6**	**11.6**		**11.6**	**12.8**	**12.8**	**12.8**	**12.8**
Operating KPI									
Active online accounts	-	*333,475*	*375,988*		*350,300*	*361,701*	*387,389*	*410,000*	*450,000*
TTV / account (AUD)	-	*390*	*414*		*232*	*197*	*376*	*439*	*444*
TTV growth	-	*21.5%*	*19.8%*	*-8.7%*	-	*-12.5%*	-	*23.7%*	*11.1%*
GP margin	*20.7%*	*20.4%*	*20.3%*	*22.4%*	*20.1%*	*20.9%*	*20.7%*	*20.6%*	*20.5%*
Marketing / TTV	*4.4%*	*5.9%*	*3.4%*		*4.0%*	*3.3%*	*3.0%*	*3.3%*	*4.5%*
Employees	*116*	*122*	*130*		-	-	-	*120*	*120*
Valuation									
Diluted shares outstanding (million)	44.1	44.1	44.1	50.7	44.1	44.1	44.1	50.7	50.7
Share price (AUD)							2.65	2.65	2.65
Net cash							(12.3)	(37.8)	(49.7)
Current market cap net of cash							**104.5**	**96.5**	**84.6**
P / E							**19.9 x**	**9.2 x**	**7.1 x**
EV / EBITDA							**8.4 x**	**5.2 x**	**4.1 x**
EV / EBIT							**11.7 x**	**6.4 x**	**5.0 x**
ROCE	**46%**	**7%**	**40%**				**41%**	**82%**	**93%**

Market cap (NPAT x multiple + cash)

	market cap
10 x	169
15 x	**228**
20 x	288

Intrinsic value at P/E of*

	share price
10 x	3.33
15 x	**4.50**
20 x	5.68

Upside at P/E of*

	share price
10 x	26%
15 x	**70%**
20 x	114%

*includes net cash

Closed Positions

Position	Sector/Industry	Listing Currency	Absolute Return	IRR
AMCON Distributing (DIT)	Distributors	USD	23.9%	9.9%
A small food distribution business in a consolidating industry and trading well below historic M&A multiples. Unfortunately, the company's chairman & CEO keeps issuing himself stock options - despite already owning close to 50% of the company's shares. I have made money with DIT, but I could have made a lot more if the company was run by a management team focused on creating equal value to all shareholders rather than on personal enrichment.				
Euler Hermes (Paris: ELE)	Credit Insurance	EUR	17.2%	88.4%
Euler Hermes is the world's leading provider of trade-related insurance solutions. I considered the company misunderstood, overlooked and attractively priced. I pitched the stock at the Manual of Idea's European Investing Summit 2015 (download original presentation here) before I owned it. I decided to exit the position because I wanted to recycle the funds into an opportunity that I currently deem more attractive.				
Franklin Resources (BEN)	Financial Services	USD	27.8%	43.7%
Better known as Franklin Templeton, this global asset manager has come under pressure from the growth of index funds and underperformance of a few prominent funds in its product offering. However, while there are issues around the core business, BEN also sits on a large cash position, continues to generate very healthy amounts of free cash flow, and benefits from a highly skilled, owner-oriented management team that is aggressively buying back shares. I sold my position based on relative value compared to other opportunities I am seeing in the market.				
Redflex Holdings (ASX:RDF)	Electronic Equipment and Instruments	AUD	38.0%	324.6%
This small Australian company develops and manufactures a wide range of digital photo enforcement products, such as traffic light cameras, speed enforcement cameras, or mobile radar and laser speed enforcement systems. In 2015, the company's earnings and share price collapsed due to bribery allegations in the U.S. The selloff was clearly overdone: Redflex participates in the income generated by its installed products and the installed base covers a wide mix of countries. Therefore, the bulk of future revenue is clearly visible and free of charge. Redflex was just a small position that only appeared in some portfolios due to liquidity and trading restrictions.				

Even though the portfolio has seen a good run, I still consider it undervalued and scalable. I am also still able to find new ideas. As always, I am happy to receive feedback and answer your questions.

Sincerely,

Robert Leitz
Managing Director
iolite Partners