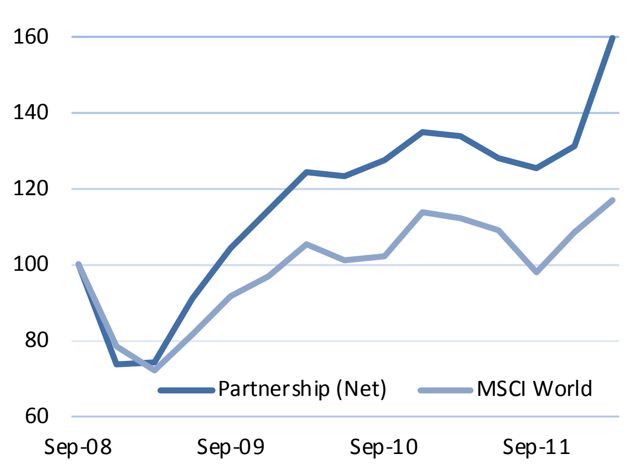
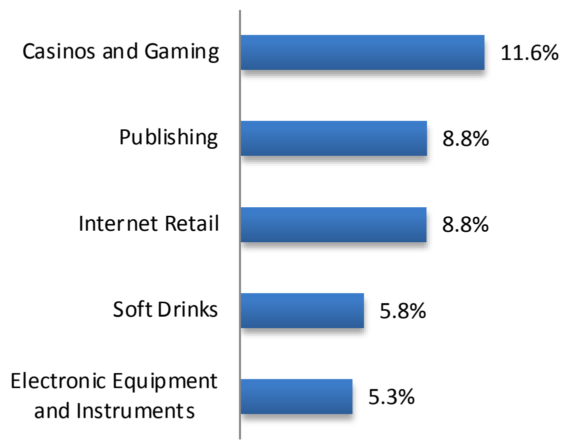
CORE PORTFOLIO Q1 2012

Performance			EUR	Index
Inception Date:	01 October 2008	**Net Quarter**[1]	22.1%	7.8%
Portfolio Style:	Value / Total Return	**Net Annualized**	14.4%	4.6%
Manager:	Robert Leitz	**Net Since Inception**	60.1%	17.1%

Performance in EUR



Top 5 Positions



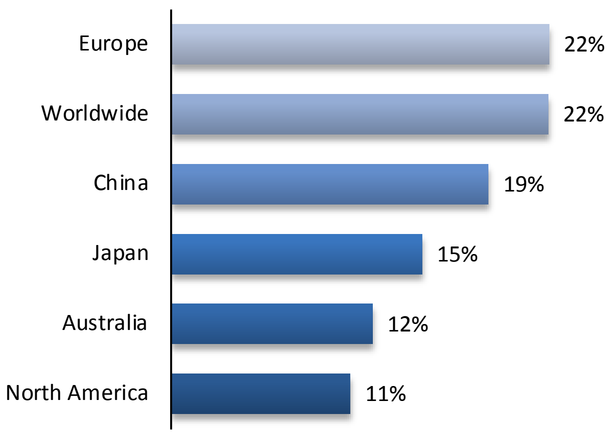
Market Review

- The MSCI World Index gained 7.8% over the quarter in EUR, as global sentiment improved thanks to reports of strengthening US growth and perceived progress made by Europe to ease the sovereign debt crisis.
- Global IPO volume totaled USD 17.4 billion during the first quarter of 2012, a decrease of 61% compared to the same time last year, when issuance totaled USD 44.4 billion. Facebook is preparing for the largest Internet IPO in history, valuing the company at USD 100 billion.

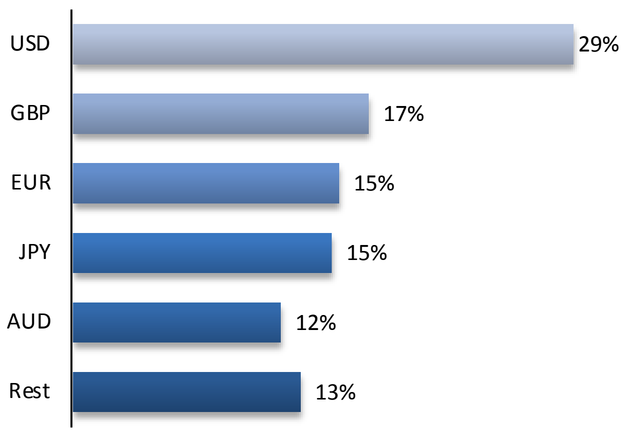
Portfolio Review

- The portfolio gained net 22.1% over the quarter, as measured in EUR.
- Most portfolio holdings rose significantly. One new Australian position, sized at 10% of the portfolio, gained more than 100%.
- The portfolio manager entered 2 new positions and did not exit any.

Geographic Breakdown by Revenue Markets



Geographic Breakdown by Listing Currency



[1] Net returns: after all costs and fees (no management fee, 25% performance fee for returns greater than 4% p.a.)

QUARTERLY REVIEW

For the quarter ended March 31, 2012, the portfolio returned net +22.1% in EUR (+27.5% in USD). Since inception on October 1, 2008, the portfolio has generated net cumulative returns of +60.1% in EUR (+54.9% in USD) and annualized net returns of +14.4% in EUR (+13.3% in USD). At iolite, we consider long-term absolute performance far more important than relative performance against a benchmark.

The first quarter of 2012 positively surprised investors around the globe as valuations rose on a broad basis, buoyed by positive US economic data and liquidity injections in Europe, but in spite of largely unresolved European sovereign debt issues and a slowdown of the Chinese economy. It seems that Ben Graham's concept of "Mr. Market" holds better than ever. For him, the father of value investing, the market was a manic-depressive business partner. On some days he would arrive jubilant, ready to take the entire business off the hands of his fellow partners at a rather exorbitant price. Other days he would arrive depressed beyond belief, ready to sell them his portion of the company for a pittance. Graham advised his clients to pay little heed to Mr. Market and form their own opinions based on the facts. Only then should they decide whether Mr. Market's offer was worth taking. In my opinion, modern technologies like Twitter or online newspapers might have even increased the market's short-term thinking and emotional reaction to news.

When we headed into the quarter, I considered most holdings in the portfolio significantly undervalued. However, I did not expect prices to rise much or very quickly, given negative market sentiment in late 2011. To my surprise, at the end of the first quarter in 2012, most portfolio holdings were up substantially. Among the portfolio's holdings, one stock stood out. In early January, I entered a new Australian position and sized it at 10% of the portfolio. Just two months later, the position had gained more than 100%, and I sold it down to keep its size at about 10% of the portfolio. While I still consider the stock undervalued, the margin of safety had declined. I am also now pursuing a slightly more diversified portfolio approach than I did a few years ago, and I try to mitigate concentration risk.

Even though this Australian company turned out to be a great investment, I made a costly mistake while purchasing the stock. In order to save a few pennies, I put in a very tight limit order even though I considered the stock grossly undervalued. However, the stock price kept rising on a daily basis, and my limit order didn't get executed. So I subsequently had to raise my bid - to a level significantly above that of my first order date. Lesson learned: if you shoot for returns of 100% or more, don't be a penny-pincher.

Despite higher market levels, I still consider many of the portfolio's holdings attractively valued. I have also been able to find new investment opportunities.

I am happy to answer your questions and see assets grow.

Please spread the word!

Robert Leitz

PERFORMANCE & BENCHMARKING

%	in EUR				in USD			
	Portfolio Net[2,3]		MSCI World DM		Portfolio Net		MSCI World DM	
	quarter	cum	quarter	cum	quarter	cum	quarter	cum
Q4 08	-26.2	-26.2	-21.6	-21.6	-26.3	-26.3	-22.2	-22.2
Q1 09	0.7	-25.5	-7.8	-27.7	-4.6	-29.7	-12.5	-31.9
Q2 09	22.6	-8.9	13.0	-18.3	29.9	-8.7	19.7	-18.5
Q3 09	14.7	4.5	12.2	-8.4	18.4	8.1	16.9	-4.7
Q4 09	9.5	14.5	5.9	-2.9	7.8	16.5	3.7	-1.2
Q1 10	8.8	24.5	8.9	5.7	4.1	21.2	2.7	1.5
Q2 10	-0.7	23.6	-4.2	1.3	-10.1	8.9	-13.3	-11.9
Q3 10	3.2	27.6	1.0	2.3	15.5	26.1	13.7	0.1
Q4 10	5.7	34.8	11.4	13.9	3.3	30.3	8.1	8.3
Q1 11	-0.5	34.1	-1.5	12.2	4.3	35.8	4.3	12.9
Q2 11	-4.3	28.3	-2.8	9.1	-1.9	33.3	-0.3	12.6
Q3 11	-2.3	25.4	-10.0	-1.9	-9.9	20.0	-17.1	-6.6
Q4 11	4.6	31.1	10.7	8.6	1.2	21.5	7.1	0.0
Q1 12	22.1	60.1	7.8	17.1	27.5	54.9	10.9	11.0

	EUR Portfolio Net	EUR MSCI World DM	USD Portfolio Net	USD MSCI World DM
1-Year	19.4	4.4	14.1	-1.7
Annualized	14.4	4.6	13.3	3.0
Total	60.1	17.1	54.9	11.0

[2] Net returns: after all costs and fees (no management fee, 25% performance fee for returns greater 4% p.a.)
[3] Q4 09 - Q4 11 restated

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INVESTMENT APPROACH

"Price is what you pay, value is what you get." [Charlie Munger]

"You will not be right simply because a large number of people momentarily agree with you. You will not be right simply because important people agree with you. You will be right, over the course of many transactions, if your hypotheses are correct, your facts are correct, and your reasoning is correct." [Warren Buffett]

A share represents a fractional ownership of an underlying business and a bond is a loan to a business. Therefore, in the medium to long term, the performance of shares and bonds correlate with those of the underlying businesses.

I see myself as a value investor. That is, I invest in what I consider undervalued securities instead of betting on the development of the market as a whole. I buy securities if the market price is below my fair value estimate. I do not believe in timing the market as this would be speculation. Neither do I believe in overweighting certain countries or industries simply to beat a certain index. I avoid leverage and try to minimize complexity (such as derivatives or complex capital structures) in order to provide better protection from permanent capital loss.

My goal is to generate sustainable market-beating absolute returns with a few select value investments. It is difficult or near impossible to exactly predict when these undervalued securities will reach fair value - in some cases the progression could be very fast, but in many cases it could take years. Therefore, investors need to be patient and should have a long-term horizon. In my mind, a track record of at least three years is required to draw conclusions about the qualities of a portfolio manager. Financial markets are very volatile and what may appear to be a trend, even over a couple of years, can sometimes be misleading.

KEY BENEFITS TO CLIENTS

1. **Low/no management fees.** It is not unheard of in the fund management industry for investors to be charged 2-4% of their assets for the privilege of having their assets managed by some bank employee. At iolite, the maximum fixed fee that you would pay is 1%.
2. **No performance fees without sustainable capital gains.** iolite only makes money if the client makes money and only charges a performance fee if the portfolio exceeds the last high plus a 4% hurdle.
3. **Client portfolios are modeled after the portfolio manager's personal account.** At iolite, weeat our own cooking.
4. **No leverage, no margin loans, no complexity.** At iolite, we try to keep things simple and stick to time-tested value investing strategies.

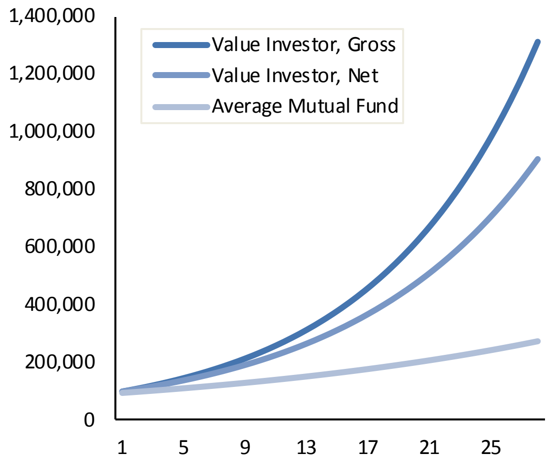
Case Study - The Mission Statement

""If you talk about what you believe, you will attract those who believe what you believe."
[Guy Spier]

I want to attract investors who understand the principles of values investing, are not distracted by Mr. Market and understand the power of compounding. At the moment, I manage individual client portfolios and aim to convert these portfolios into an investment fund at a later stage. Once assets under management reach a certain size, I may also consider taking control of a business to benefit from improved capital allocation of the business I would then control.

Goal: Using the Power of Compounding

Einstein once said that compounding is the strongest power in the universe. However, understanding the power of compounding seems to be against the nature of human intuition, as most people fail to grasp the long-term impact of interest on interest. Just imagine: if you calculated interest on EUR 100,000 at a rate of 10% p.a., you would end up with EUR 1.7 million after 30 years. A higher rate of just 12% p.a. would result in EUR 3.0 million.



Assumptions:

- Value Investor: 10% gross return p.a., no load fee, no management fee, 25% performance fee for returns greater 4% p.a.
- Average Mutual Fund: 6% gross return p.a., 2% annual costs, 5% load fee

Strategy: Win By Sifting Out the Losers

Historically, Western stock markets have achieved annual growth rates of roughly 5-7% over longer time periods. This is a mix of real economic growth and inflation. Investing legend Joel Greenblatt showed that by sifting out overpriced and underperforming businesses through a simple and automated valuation method (he called it the "magic formula"), it was possible to outperform the market by 1-3% p.a. over a longer timeframe. His is a shotgun approach that works well if applied to a diversified portfolio. I believe that through smart and thorough stockpicking, it is possible to add another 100-200 basis points on top of the return of a "magic formula" portfolio. A savvy and detail-focused investor could also make better informed decisions through more thorough analysis of annual reports, investor calls or industry studies. Therefore, annual returns of 7-12%, even though very ambitious, may not be completely out of reach for a bottom-up, detail-focused stockpicking investor.

But how exactly do you eliminate the losers? Well, as most investors with successful long-term track records will tell you, it is all about the stock price and the predictability of the cash flows of a business. History has proven that you don't need leverage, an oversized bet on the latest trend or any complicated financial instruments to generate impressive sustainable returns. What truly pays over the long run is buying assets for less than what they are worth and watch Mr. Market recognize their fair value over time. This way, you benefit in two ways: (1) the margin of safety (the difference between the market price and the intrinsic value) protects you from permanent capital loss, and (2) the added protection allows you to compound savings at a much higher rate, with a substantial boost to your wealth-building process.

THE ART OF VALUING A BUSINESS

Valuing a business is an art rather than a science, and there are many factors one has to consider. While I do use quantitative models to identify investment opportunities, I believe reducing investment theses to simple ideas based on few select key ratios such as EV/EBITDA or P/E is dangerous, as those provide a very limited view of what is usually a complex situation. So, instead of providing a simple formula, I want to use the following pages to describe the qualitative aspects of my valuation approach.

Basically, I compare two types of analysis methods: liquidation vs. going concern. In other words, comparing the scrap value of a business with the staying-alive value (whether profitable or not).

1. Liquidations

In case of a liquidation analysis, I try to determine the cash an investor would receive if he sold all assets and returned funds to creditors and shareholders. Liquidation values can be driven by many factors, such as positive working capital (receivables, inventory, payables), real estate, brands, patents, industry capacities or machinery. A business' liquidation value can differ vastly from its book value, depending on the accounting standards used and management's aggressiveness in reporting earnings. After the fair asset value has been determined, it is important to analyze who would benefit from the payouts, in which order (e.g. trade creditors, employees, lenders, shareholders), and when. The ranking is determined by local laws as well as contractual and corporate-structural hierarchies of creditors and shareholders.

A major risk in determining a business' liquidation value based on a company's balance sheet is overstated asset values. One is most likely to see this in businesses with illiquid and hard-to-value assets as well as those that have grown through acquisitions, such as a) real estate developers with significant land holdings, b) banks with considerable real estate holdings or sizable corporate bond and equity investments, or c) asset-heavy funds (e.g. ships, real estate investment trusts or airplanes). Often it is possible to identify overstated book values by comparing them to normalized free cash flows. Generally speaking, cash flows are more difficult to manipulate than earnings or book values. Unsustainable asset values could also arise in asset bubbles where market valuations reach levels detached from actual cash flow creation.

Example: Comdisco

Comdisco was an IT services provider and leasing firm that went into receivership in 2011. Ever since, the insolvency administrator has been liquidating the company's assets, that is, selling the company's assets and returning cash proceeds to creditors and shareholders.

When I looked at the company in September 2009, most asset sales had been completed and most creditors served. Comdisco's remaining assets at that point consisted of cash, tax receivables and equity securities. The annual report stated that the balance sheet valued the remaining assets conservatively and gave specific examples of where the administrator expected cash proceeds from asset sales to be above the book value of these assets, namely the company's equity investments.

Overall, I expected the value of all recoverable assets to be USD 77.8 million (see table below). After subtracting all remaining liabilities, this implied a fair value per share of USD 11.01, substantially higher than the share's market price of USD 7.00 at that time.

Valuation of Equity

(USD 000s)	Balance Sheet Sep-09	Est. Recovery	Est. Recovery Sep-09
Cash and cash equivalents	71,420	100%	71,420
Equity investments	1,052	240%	2,525
Income tax receivables	4,105	90%	3,695
Other	313	50%	157
Total assets	**76,890**		**77,796**
Accounts payable	246	100%	246
Income tax payables	10,235	100%	10,235
Contingent distribution rights	21,431	100%	21,431
Other	1,513	100%	1,513
Total liabilities	**33,425**		**33,425**
Fair equity value			44,371
Diluted shares outstanding (000s)			4,029
Recovery / share (USD)			11.01

The following table provides a sensitivity analysis regarding timing of payouts and purchasing prices. For example, the purchase of a share at USD 7.00 in September 2009 with a one-time dividend of USD 11.01 (the assumed recovery value per share) in January 2012 would have yielded 21% p.a.

Return Calculation (XIRR)

Entry date and price / exit date

Sep-09	Jan-11	Jan-12	Jan-13	Jan-14
6.00	58%	30%	20%	15%
7.00	40%	21%	15%	11%
8.00	27%	15%	10%	8%
9.00	16%	9%	6%	5%
10.00	7%	4%	3%	2%

My fair value estimate was mostly based on the existence of a very tangible asset: cash on the company's balance sheet. Buying Comdisco, unlevered, at USD 7.00 per share in 2009 would definitely not have made me a billionaire overnight, but the trade's risk/reward situation seemed far better than putting money into a savings account for 1% p.a. - in my mind, at least. I hope it is obvious to the reader that these types of investments are not of a speculative nature, as they are based on very conservative sources of value. However, any investment always has some element of uncertainty. In the case of Comdisco, the main risks appeared to be:

a) a significant decline in the value of the company's equity securities
b) an increase in liabilities (for example, through miscalculated claims or legal procedures)
c) a delay in the payout of proceeds
d) administration costs eating up the company's cash balance

2. Going Concern

In case of a going-concern analysis, I try to determine the cash flows a business could generate for creditors and shareholders over its lifetime. For investors interested in holding a stock for a long time, the best businesses to invest in are those that can grow without substantial capital investment, that offer high earnings predictability and that are managed by great capital allocators acting in the interest of all shareholders.

Capital Intensity

One of the most important factors driving a business' cash generation ability is the return on capital employed (also known as capital intensity). In most cases, capital intensity is driven by business models or industries. A good way to measure capital intensity is owner earnings (EBITDA less capital expenditure) divided by tangible assets employed (machinery, buildings and land, and inventory). An example of a highly capital efficient business is online auction house eBay: it can add new users at almost zero cost and maintain the website at modern standards at a relatively low cost and high economies of scale. In contrast, an example of a highly capital intensive business is an incumbent fixed-line telecom company such as Deutsche Telekom. Telecom operators cannot just add subscribers; they first need to build the infrastructure to do so. They also tend to spend a lot of capital on technological upgrades to keep up with rising bandwidth requirements and overall network complexity.

Business Predictability

Earnings visibility, or the predictability of future cash flow generation, is one of the most important factors in determining a business' fair value. Charlie Munger coined the word "business moat" for the stability of a business' cash flows, and he was willing to pay up for a wide moat. Let's talk about some factors determining a business' moat: brands, industry characteristics, leverage, capital allocation, regulatory risk, corporate governance risk and fraudulent or incapable management.

- **Brands**: Strong brands often lead to a wide moat. The world's strongest brand might be Coca Cola. In my mind, Coca Cola is almost like an infrastructure investment – people's minds around the world are so conditioned to prefer the drink that they are unlikely to suddenly switch to another brand. In the absence of a major food scandal, Coca Cola is highly unlikely to suddenly lose its customer base anytime soon.
- **Industry characteristics**: Cash flows tend to be unpredictable in technology-driven industries (e.g. Nokia, Yahoo!, AOL), cyclical industries (e.g. commodities or commodity-dependent industries) or highly leveraged industries (e.g. airlines). Although investments in cyclical or fast-changing industries might offer great financial rewards in the short term, they might also be subject to sudden loss of capital if the tide turns. For example, not long ago Nokia was the most celebrated and profitable cell phone company in the world, but today, the company seems stuck in a downwards spiral.
- **Leverage**: Debt can act as a stimulus, temporarily boosting returns and providing fame to those lucky enough to enjoy its benefits for a few years. If enough leverage is used, the most mediocre business or investor can achieve returns of 50% p.a. – but only for a short period of time! Eventually, leverage leads to tighter liquidity, new and complex dependencies, and substantially increased refinancing risk. Leverage also often results in a complete loss of capital. Don't be fooled by people telling you a diversified portfolio of leveraged companies is safe. The private equity or subprime busts of 2007 are classic examples of situations where excessive leverage of even highly diversified portfolios resulted in outsized capital losses rather than capital gains. In my experience, it is best to avoid leverage. The tricky thing is that leverage can come in various shapes and forms, such as on-balance sheet and off-balance sheet debt, negative working capital, operating leverage (cyclical businesses with high fixed costs) or the float of insurances and banks. In my experience, most market participants in the alternative investment industry keep succumbing to the stimulating effect of leverage or they fail to understand the more complex types of leverage – both behaviors commonly resulting in recurring cycles of boom and bust.
- **Capital allocation**: If a business is generating excess cash flows, management can decide to invest the funds into organic growth, acquisitions, dividends or buybacks. Good management will aim to generate the highest returns for shareholders possible without risking the business itself. Mistakes in capital allocation can seriously hurt investors. For example, the most profitable business is of no value to investors if management destroys the value of a business's cash flow creation by making unprofitable acquisitions. My general advice would be that if a business can invest in organic or inorganic growth that promise unlevered returns of 10% p.a. or more, it might make sense to pursue those opportunities. If a business cannot find these growth opportunities, it might be best to pay out dividends (if

the shares are highly valued) or buy back shares (if the shares a low to moderately valued). Value investing is not just about owning a great business, it is also about identifying savvy and shareholder-friendly management. In many cases, capital allocation is a function of how management is motivated and incentivized.

SUMMARY

Stock markets are a zero-sum game: aside from economic productivity growth and inflation, one man's gain is another man's loss. In my belief, most market participants are driven by sentiment and incentives that are unlikely to result in long-term market outperformance. Sticking to what has worked in the past (the value investing approach practiced by Greenblatt), combined with the right set of incentives for the manager (such as those of early Buffett partnerships), should still lead to outstanding investing results. Iolite closely follows those principles.