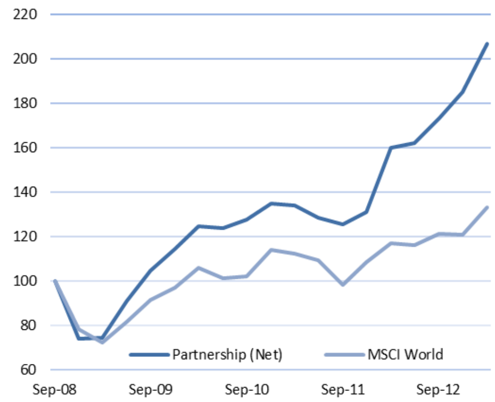
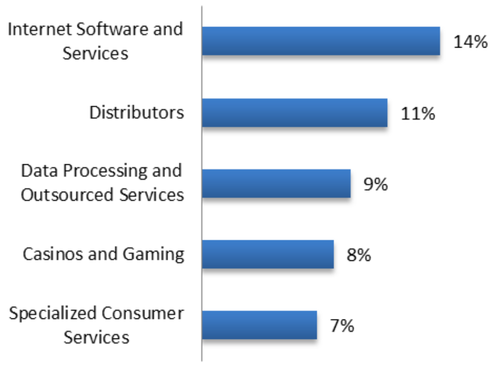
CORE PORTFOLIO Q1 2013

Performance			EUR[1]	Index
Inception Date: 01 October 2008		**Quarter**	11.7%	10.3%
Portfolio Style: Value / Total Return		**Since inception (annualized)**	17.5%	6.6%
Manager: Robert Leitz		**Since inception (cumulative)**	106.6%	33.2%

Performance in EUR



Top 5 Positions



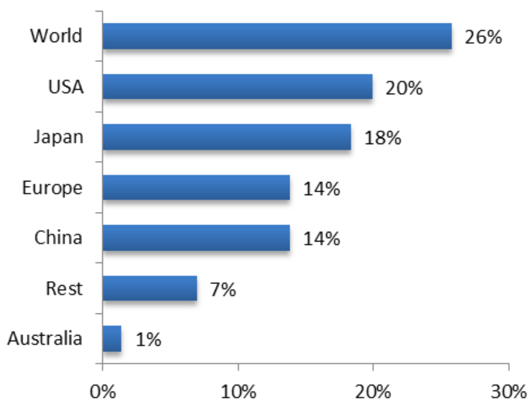
Market Review

Drama in Europe continued to provide spectacular and unexpected twists during the first quarter of 2013. In Italy, an indecisive election saw the partial return to power of controversial prime minister Silvio Berlusconi. Cyprus, a small island nation with a population of 1 million and a GDP of $23 billion, required a $30 billion bailout. Cypriot banks heavily speculated in Greek sovereign debt – and lost. In a move not necessarily following bankruptcy convention or common sense, it was decided that depositors and EU taxpayers – not share- and bond-holders of Cypriot banks - had to fund the gap. In the meantime, US markets shrugged off fiscal concerns and continued their rally, fuelled by quantitative easing rather than a recovery of the real economy. Global energy markets began to feel rumblings from the developing shale gas boom. The US is now expected to become energy independent for the foreseeable future. Japan announced its intention to *double* its monetary base over the next two years, a move that led to a sharp devaluation of the Japanese yen and a corresponding rally in Japanese stocks. Emerging-market equities as a whole fared far worse than developed-market equities during the quarter. While fundamental growth trends remained intact, currency appreciation, domestic inflation, sluggish export markets and high relative valuations put a break on short-term growth.

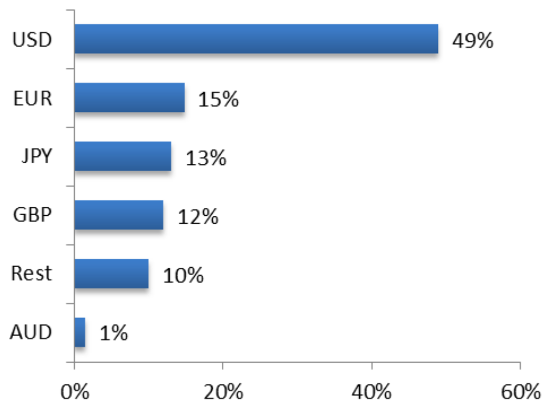
Portfolio Review

The portfolio saw a major reshuffling in the first quarter, as many positions reached or exceeded my fair value estimates and I decided to recycle funds into new opportunities. The largest contributors to quarterly performance were positions that had gained substantially over the last few months that I was looking to exit after their strong rally. Overall, I exited five positions and initiated six new ones.

Geographic Breakdown by Revenue Market



Geographic Breakdown by Listing Currency



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

QUARTERLY REVIEW

For the quarter ended March 31, 2013, the portfolio returned net +11.7% in EUR (+9.2% in USD). Since inception on October 1, 2008, the core portfolio has generated net cumulative returns of +106.6% in EUR (+93.6% in USD) and annualized net returns of +17.5% in EUR (+15.8% in USD). I consider unleveraged long-term absolute performance far more important than relative performance against a benchmark.

Macroeconomic Environment

Hold your breath: Japan recently announced to double its monetary base over the next two years.

In my opinion, it is foolish to think the enormous levels of quantitative easing we are seeing in the developed world are without serious negative long-term implications – despite the real or perceived short-term benefits. The current environment skews everything, from the quality of earnings to the sustainability of demand. In this environment, it becomes difficult to distinguish the true driver of business success: skill, luck or leverage. For example, if interest rates fall from 2% to 1%, the market price of a 30-year bond rises 25%. Financial institutions and fixed income funds might book this as a 25% profit (lifting earnings and book values). However, those paper profits are meaningless if unrealized, as cash flows to the investor remain unchanged. We should probably sit up and take notice when Bill Gross, founder and manager of the world's largest bond fund at PIMCO, warns of the end of the 30-year bull market in fixed income. He also admitted that he – along with many other industry veterans – might have benefited more from macroeconomic tailwinds than skill.

In a zero-interest environment, it is also impossible to overestimate our economies' dependency on debt. As Warren Buffett says, "Only when the tide goes out do you discover who's been swimming naked." The so-called "tide" might never have been stronger: as interest rates fall to zero (with credit easily available), asset prices rise to infinity. Look, for instance, at German auto company BMW. Historically, if you bought stock in BMW, you bought a stake in a premium automaker. Nowadays, this is no longer the case as two-thirds of BMW's balance sheet is comprised of leasing assets and BMW's financing arm is heavily levered at around 10x. The company now effectively represents a leasing company for a huge fleet of used cars, with its focus as a maker of premium (new) cars relegated to the background. Essentially, BMW is fuelling sales by providing cheap credit to its customers and leveraging up in the process. There are two major risks: 1) shrinking demand for new and used cars once cheap credit dries up and 2) the residual value of the cars on BMW's balance sheet. As long as BMW is growing its leasing base and credit is cheapening, possible risks in estimated residual values are hidden. We will see whether BMW has been "swimming naked" once it can no longer grow its leasing base.

BMW (EUR million, December 2012)				
(EUR million)	**Group**	**% of group**	**Financial Services**	**% of group**
Leased Products	24,468	19%	28,060	21%
Receivables from sales financing (current)	32,309	25%	32,309	25%
Receivables from sales financing (non-current)	20,605	16%	20,605	16%
Subtotal leasing-related assets	77,382	59%	80,974	61%
Total assets	131,860	100%	88,697	67%
Equity ratio	**23%**		**9%**	

Don't get me wrong - I am not saying companies should not take on debt. In fact, in the current environment, I believe most companies and individuals should take on some debt (especially if record-low interest rates can be locked in for a long period of time) and a few of my investment theses are based on the assumption that a company is underleveraged. Debt comes in various shapes and can serve a wide range of purposes; the potential risk it represents relates to a company's business model, the nature of assets being financed and the amount applied. Since cars are depreciating assets, debt for an auto company should be expensive and quickly amortized. However, long-life capital-intensive assets producing cash flows (real estate, factories, mining sites) might benefit heavily once cheap credit dries up or inflation returns. Tightening credit is likely to improve a market's demand-supply situation if demand is growing or at least stable (e.g. global growth, pass-through of higher capital costs), while industry players reduce capacity investment if capital costs are higher. From another point of view: in an inflationary environment, past capital expenditure becomes less relevant as higher prices lift sales despite a steady capital base.

Portfolio Reshuffling

The portfolio had a sensational run in 2012, partly because of an overall benign stock market but also because most of my stock picks did much better than the market overall. This outperformance, and the higher market valuations of many positions that went with it, required a major portfolio reshuffling at the beginning of 2013: I sold five positions and bought six new ones. The main contributors in Q1 2013 were those that I was in the process of selling. Let's hope that my new picks will be as successful as those I just sold.

I am happy to answer your questions and see assets grow.
Please spread the word!

Robert Leitz

Closed Positions

<table>
<tr><th>Position</th><th>Sector/Industry</th><th>Listing Currency</th><th>Absolute Return</th><th>IRR</th></tr>
<tr><td>Jumbo Interactive</td><td>Internet Retail</td><td>AUD</td><td>358%</td><td>1,365%</td></tr>
<tr><td colspan="5">The company engages in the retail of lottery tickets through the Internet, in Australia and internationally. I held the stock for almost one year with partial profit-taking during the year as the stock ran up. Please see my last quarterly letter (Q4 2012) for a detailed description of the trade.</td></tr>
<tr><td>Perion Network</td><td>Internet Software and Services</td><td>USD</td><td>95%</td><td>52%</td></tr>
<tr><td colspan="5">This Israeli company engages in the development of various Internet applications such as emailing, instant messaging or photo sharing. It mostly generates revenue through paid searches and advertisement within its applications. At the time of purchase in January 2012, the company was trading at around 5x EV/EBITDA with high cash reserves. The stock had traded down on fears the renewal of an important supply contract with Google was at risk. I considered the fears overdone and the market price attractive. I admired the competent tone of management reports and thought the company's high cash position would provide a healthy margin of safety. Shortly after I purchased the shares, the company announced the acquisition of a relatively young start-up, Smilebox, and the stock dropped as the acquisition was to eat into the company's high cash balance. While I considered the acquisition somewhat risky, I held on to my original (slightly updated) thesis. With continued strong sales and EBITDA growth as well as other smart add-on acquisitions, the stock recovered quickly. I exited at around 10x current owner earnings as I traditionally heavily discount future growth prospects. In addition, the founders continue to sell their shares in the company, which makes me (the skeptical and somewhat cautious investor) wonder why.</td></tr>
<tr><td>OPAP</td><td>Casinos and Gaming</td><td>EUR</td><td>54%</td><td>325%</td></tr>
<tr><td colspan="5">The company operates and manages numerical lottery and sports betting games in Greece and Cyprus. I bought the stock amid the peak of the Greek debt crisis. All Greek stocks had traded down significantly and OPAP was being punished even more than its peers. The market seemed to fear three risks:
1. Greece might leave the Eurozone,
2. The Greek government would nationalize or heavily tax the company, and
3. The European Commission would pressure Greece to open up the national gaming market dominated by OPAP.
In September, while the market was still heavily discounting the company, those three risks had been vastly mitigated:
1. It was clear that Europe was determined to avoid a breakup of the Eurozone at all costs,
2. The Greek government had started selling its stake in OPAP (for which it used to receive a handsome dividend) and announced new taxation plans going forward (that could be modelled in), and
3. Although the European commission forced Greece to open up its gaming market, OPAP was able to keep most of its licenses as well as its strong distribution network and brand appeal for the foreseeable future.
In addition, the company had just spent its cash balance of nearly €1 billion to roll out a new network of thousands of slot machines – while the cash had been spent, future earnings of this investment had not come through yet. At the time of purchase, the company was trading at around 2x current EV/EBITDA, which I estimated to be around 5x future owner earnings considering the factors just described. I sold OPAP just a few weeks after purchase when the share price had recovered strongly to a valuation of around 7-8x future owner earnings. I thought this was fair value given significant further taxation and regulation risk. In hindsight, my only regret is not to have made this a larger position.</td></tr>
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Position	Sector/Industry	Listing Currency	Absolute Return	IRR
Dell	Computer Hardware	USD	50%	537%

The company is one of the world's largest manufacturers of client and server computing devices as well as an application service provider for corporate businesses and educational and government institutions. I bought Dell in mid-November 2012 and sold on February 1, 2013, at a 50% gain. In 2012, the stock had traded down amid the ongoing slump of the PC market due to competition from Apple and tablet computers as well as a lackluster market reception of Windows 8. My thesis was:

a) Market participants oversaw the fact that 50% or so of Dell's profit comes from a highly stable software enterprise business,
b) Global PC demand is more stable than the market perceives given global economic growth as well as ongoing businesses' dependency on desktop computers, and
c) The market failed to give credit to Dell's cash reserves as well as its stock buybacks.

It can be argued that Dell's cash reserves should be netted with the company's negative working capital. I believed Dell's negative working capital was structural and at healthy levels given its business model (customers pay before the company pays suppliers) and sales estimates. It seems that Michael Dell, the company's founder and largest shareholder, shared my view on valuation. Shortly after I initiated my position, Michael Dell issued a take-private offer and the shares shot up in price. I took the opportunity to sell the position at a handsome profit and a sensational IRR. Sometimes, timing helps.

PERFORMANCE & BENCHMARKING

%	in EUR				in USD			
	Portfolio Net[2]		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
Q2 12	1.2	62.1	-0.8	16.2	-3.8	49.0	-5.8	4.5
Q3 12	6.8	73.1	4.5	21.4	9.1	62.6	6.1	10.9
Q4 12	6.9	85.0	-0.6	20.7	9.0	77.3	2.1	13.2
Q1 13	11.7	106.6	10.3	33.2	9.2	93.6	7.2	21.3

1-Year	29.0	13.7	25.0	9.3
Annualized	17.5	6.6	15.8	2.8
Total	106.6	33.2	93.6	21.3

[2] Net returns: no leverage, after all costs (no management fee, 25% performance fee for returns greater than 4% p.a., high watermark)

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 will always be 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 3-5% of assets annually. At iolite, the maximum fixed fee that you would pay is 1%.
2. **No performance fees without sustainable capital gains.**
   We only charge a performance fee for annual returns greater 4% (including a high watermark).
3. **Client portfolios are modeled after the portfolio manager's personal account.**
   At iolite, we eat 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.