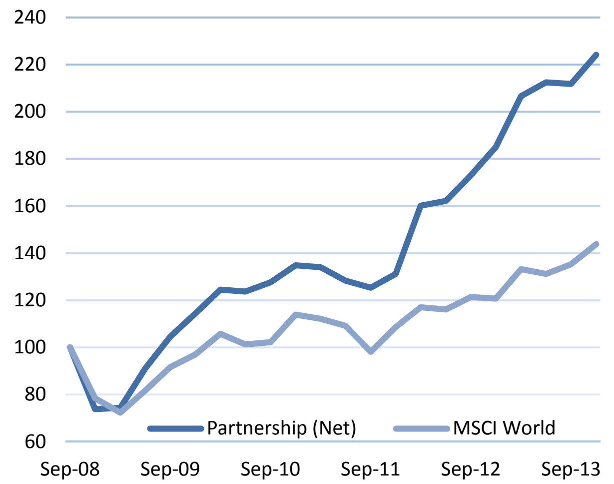
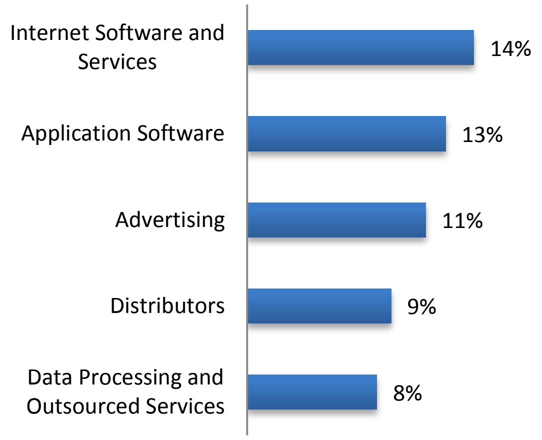
CORE PORTFOLIO Q4 2013

Performance			EUR[1]	Index
Inception Date:	01 October 2008	**Quarter**	5.8%	6.3%
Portfolio Style:	Value / Total Return	**Since inception (annualized)**	16.6%	7.2%
Manager:	Robert Leitz	**Since inception (cumulative)**	124.2%	43.8%

Performance in EUR



Top 5 Positions



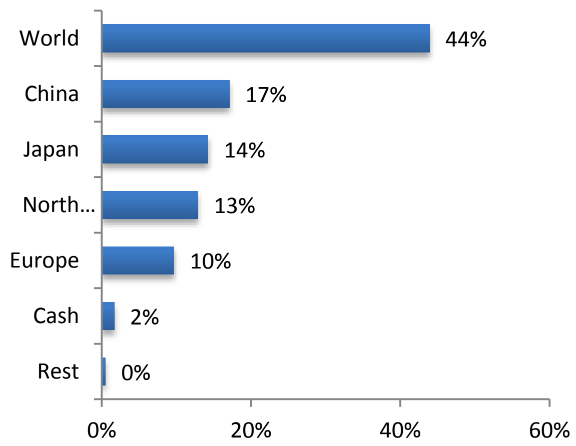
Market Review

Global equities made strong gains in the fourth quarter of 2013, although the period began on an uncertain footing with the US government in shutdown for 16 days. In September, the US Federal Reserve (Fed) announced it would modestly scale back its quantitative easing program by limiting monthly bond purchases from $85 billion to $75 billion, while the European Central Bank cut interest rates from 0.50% to 0.25%. Developed market equities outperformed emerging markets, with European equities particularly strong. The prospect of a reduction in global liquidity led to worries about the ability of a number of emerging economies to finance their current account deficits, and most emerging market currencies weakened against the US dollar over the quarter.

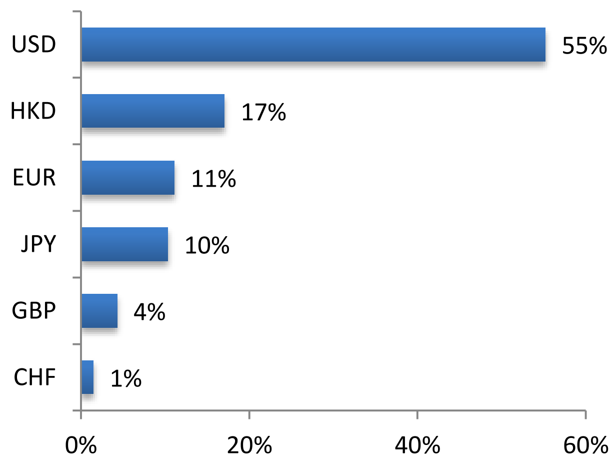
Portfolio Review

At the end of 2013, the portfolio consisted of 22 positions. The largest five positions made up about 50% and the largest 10 made up about 80% of the portfolio's market value. The portfolio remains geographically diversified with the majority of holdings traded on US exchanges (not necessarily US companies). China and Japan accounted for about 30% of the portfolio's value combined.

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)
No responsibility is taken for the correctness of this information

QUARTERLY REVIEW

For the quarter ended December 31, 2013, the portfolio returned net +5.8% in EUR (+6.7% in USD). Since inception on October 1, 2008, the core portfolio has generated cumulative returns of +124.2% in EUR (+122.0% in USD) and annualized net returns of +16.6% in EUR (+16.4% in USD). I consider unleveraged long-term absolute performance far more important than relative performance against a benchmark.

Managing expectations

It frequently escapes common intuition how a few percentage points in annual yield can have a tremendous impact on building wealth over the long run. Compounded at 16.6% (the current run-rate of this portfolio), an initial investment of EUR 100,000 turns into EUR 200 million after 50 years. This compares to a mere EUR 3 million if compounded at 7.2% (the average annual yield of the MSCI World Index from October 2008 to December 2013) or a meager EUR 160,000 if compounded at 1% (which is more than the common savings account pays at the moment).

It is my goal to compound capital at the highest possible rate until I retire.

The power of compounding

Year	1%	5%	7.2%	10%	15%	16.6%	20%	25%
0	100,000	100,000	**100,000**	100,000	100,000	**100,000**	100,000	100,000
10	110,462	162,889	**200,423**	259,374	404,556	**464,500**	619,174	931,323
20	122,019	265,330	**401,694**	672,750	1,636,654	**2,157,600**	3,833,760	8,673,617
30	134,785	432,194	**805,088**	1,744,940	6,621,177	**10,022,049**	23,737,631	80,779,357
40	148,886	703,999	**1,613,583**	4,525,926	26,786,355	**46,552,394**	146,977,157	752,316,385
50	164,463	1,146,740	**3,233,994**	11,739,085	108,365,744	**216,235,762**	910,043,815	7,006,492,322

Will I be able to continue compounding the portfolio at 16.6% - net of all cost? I do not expect the market to rise at similar rates over the next five years. Nevertheless, I will continue to focus on finding the most compelling investment opportunities.

I am especially wary about the direction of markets in the short term. Over the last five years, stock markets around the world had a great run, but in most cases corporate earnings haven't caught up with these higher stock prices. As a result, according to my valuation metrics, most companies are no longer trading below what they are worth.

In a rising market, investors commonly start justifying purchases based on relative valuations (e.g. "company A is trading at 20x earnings whereas company B is trading at 30x earnings - and therefore company A appears cheap) or they increasingly focus on "stories" rather than valuations ("company A is cheap because earnings growth from opportunity X isn't priced in yet"). This can work quite well for as long as markets are going up - a rising tide lifts all boats - until, of course, markets change direction. As Warren Buffett said, "You only find out who is swimming naked when the tide goes out."

Let's remind ourselves that the key driver of outstanding returns and protection of permanent capital loss is the price you pay for an asset. Safety doesn't come from asset classes ("bonds are safer than equities" is not always true), blue-chips (Nestle, Coke), diversification, sophisticated products, or stories. Safety in investing comes from paying a low price. Wealth arises from high savings (i.e. not spending), as well as skill, patience and discipline in looking for and executing on attractive investment opportunities.

At the moment, I find it increasingly difficult to find attractive investment opportunities, which is a sign of more or less fairly valued markets. It is common knowledge that long-term oriented value investors underperform in bull markets but outperform in bear markets, which means such investors may need to accept sitting on the sidelines for the benefit of limiting downside risks in case of a downturn. Unfortunately, this trend of a “rising tide” could continue for quite a while.

I hope to be disciplined and skilled enough to patiently wait for and spot the right opportunities in this more challenging environment. As a global investor, I benefit from the varying trends of markets around the world. For example, I am grateful for the recent correction in emerging markets, where equities were down 10%-30% over the last twelve months and currencies were also down 10%-30% versus the US dollar, making for much improved investment opportunities. Rather than being fearful of volatility, I embrace it.

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]		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
Q2 13	2.8	112.5	-1.5	31.1	4.0	101.3	-0.1	21.2
Q3 13	-0.3	111.8	3.1	35.3	3.3	108.0	7.7	30.5
Q4 13	5.8	124.2	6.3	43.8	6.7	122.0	7.6	40.5

1-Year	21.2	19.1	25.2	24.1
Annualized	16.6	7.2	16.4	6.7
Total	124.2	43.8	122.0	40.5

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