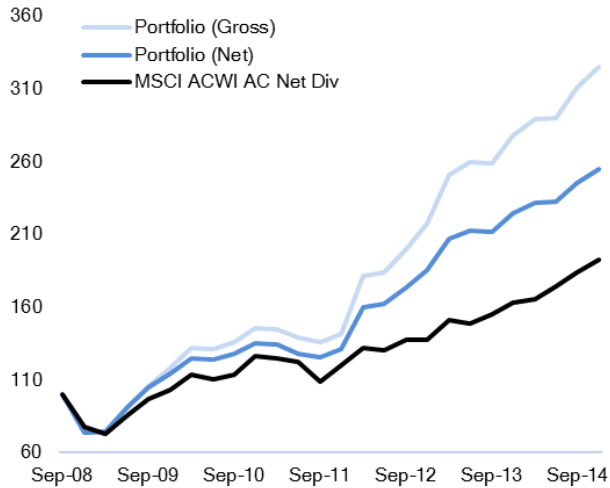
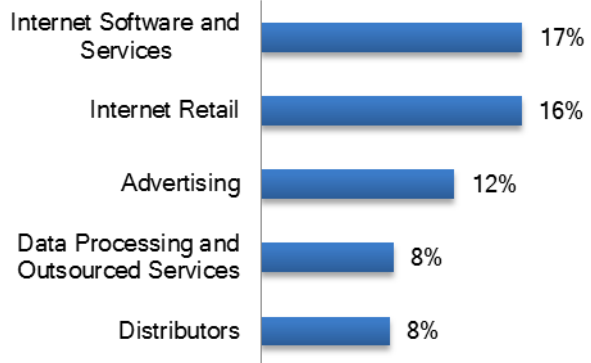


Performance		EUR <sup>1</sup>	Index <sup>2</sup>
<b>Inception Date:</b>	01 October 2008	<b>Quarter</b>	3.7%
<b>Portfolio Style:</b>	Value / Total Return	<b>Year-to-Date</b>	13.6%
<b>Manager:</b>	Robert Leitz	<b>Since inception (annualized)</b>	16.1%
		<b>Since inception (cumulative)</b>	154.6%
			92.8%

**Performance in EUR**



**Top 5 Positions**



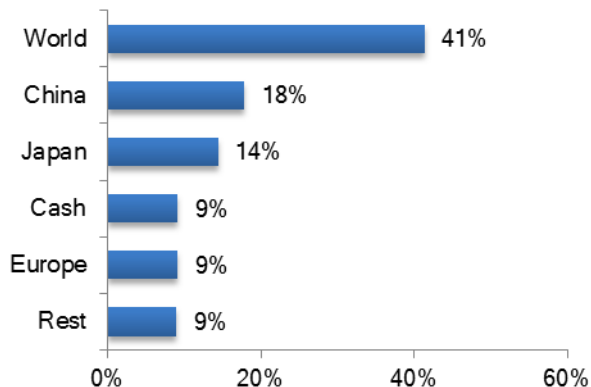
### Market Review

Global equities delivered positive returns in a volatile quarter. The US dollar continued to strengthen against most other currencies as the US Federal Reserve ended its quantitative easing program while most other central banks in developed nations continued to ease monetary policy. Emerging markets posted negative returns as commodity prices declined on a broad basis, especially oil and iron ore. The Russian stock market was particularly weak amid deteriorating economic data, a sharply falling oil price and pressure on the ruble.

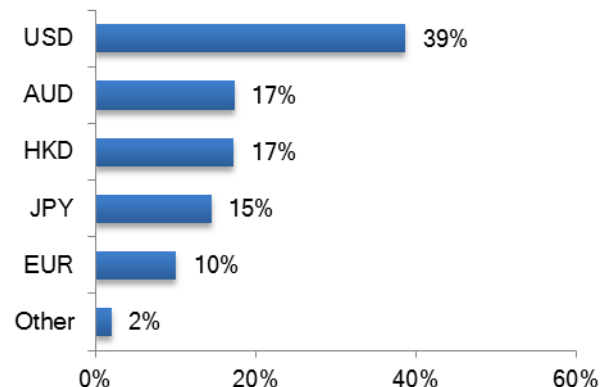
### Portfolio Review

Key positive drivers of the portfolio's performance for the quarter included good share price performance of most Asian holdings and a 53% realized gain (25% IRR) following news that financial investor Siris Capital offered to take Digital River (a 10% holding) private at USD 26/share. However, the strengthening of the US dollar hurt performance measured in dollars, while two large holdings saw severe price declines – I used the price weakness to add to these positions (I consider the moves temporary as my investment thesis hasn't changed). Adding to the positions at lower prices means they now feature a much more favorable risk-return-profile on a weighted basis.

**Geographic Breakdown by Revenue Market**



**Geographic Breakdown by Listing Currency**



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

<sup>2</sup>MSCI All Country (DM+EM) World Index All Cap (large+mid+small+micro caps), net dividends reinvested

## QUARTERLY REVIEW

For the quarter ended December 31, 2014, the portfolio returned +3.7% in EUR (0.3% in USD), net of all fees. Since inception on October 1, 2008, the core portfolio has generated net cumulative returns of +154.6% in EUR (+127.0% in USD) and annualized net returns of 16.1% in EUR (+14.0% in USD). In other words, a euro invested at inception has turned into €2.55 (a dollar invested at inception has turned into \$2.27).

In 2014, the US dollar strengthened against most other currencies (EUR 13%, JPY 14%, AUD 9%, GBP 6%). Since the portfolio's underlying assets generate most of their earnings in other currencies, performance was hurt if measured in USD.

While I consider the 2014 annual net performance of 13.6% (in euros) satisfactory, slightly better timing of trades could have easily added 5% to overall performance. Two positions I exited (Telenav and Microsoft) subsequently rallied 30%, and two large new holdings fell 10% and 20% until year-end. While this is mildly frustrating, I am not in the business of timing the market and my decisions were based on the difference between my intrinsic value estimates and market prices.

The quarter also saw the largest absolute one-day gain when Digital River (NASDAQ:DRIV), a 10% holding, increased by 50% following an offer from Siris Capital to take the company private at USD 26/share. I had bought the stock when it was trading at USD 14/share in February 2012 and estimated intrinsic value to be in the mid-20s. My investment thesis was published in the Manual of Ideas<sup>3</sup>. It feels good if an idea worked out so well. Certain events in December also turned Digital River into a great case study in merger arbitrage, as explained further below.

### Thoughts on Dividend Strategies

I was recently asked what I think of dividend strategies, i.e. choosing an investment opportunity based on the dividend yield of a company or buying so-called blue-chip companies with high dividends. My answer: "Not much."

Dividend strategies are commonly promoted as safe, non-speculative investment approaches offering a steady stream of inflation-protected cash income. They are targeted at (and appeal to) safety-oriented savers. It is suggested companies that have paid out a steady stream of dividends over the last few years are of high-quality and therefore safe investments. A common promotional slogan would be: "Don't worry about volatile markets and focus on the steady stream of cash dividends you'll be receiving."

In my mind, the thought that dividend strategies offer a higher degree of safety is a dangerous misconception. Yes, dividends can be a sign of well-managed, stable companies with high earnings power. However, on a standalone basis, they provide little indication of a company's operating

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<sup>3</sup> [http://www.iolitepartners.com/?page\\_id=39](http://www.iolitepartners.com/?page_id=39)

performance, the true quality of its asset base, or the gap between its intrinsic value and market price - and therefore the risk/return-profile of an investment. Any investor constructing a portfolio based on past dividends alone is making decisions based on a quick and narrowly focused look into the rear-view mirror, even if he is buying what are commonly known as “high-quality businesses”.

For example, German company Commerzbank paid out consistently increasing cash dividends between 2004 and 2008, despite deteriorating earnings and balance sheet quality, as became obvious when the shares lost more than 90% of their value in 2008/09. Germany’s largest power generator RWE delivered “safe” dividend yields of up to 5% until the government announced an exit from nuclear power and (arguably) over-incentivized capacity increases in “renewable” energies. RWE’s shares have lost about 70% since 2008.

Instead of focusing on past dividends, investors should ask themselves: 1) how sustainable are a company’s profits going forward, 2) how is management allocating a company’s profits, 3) how are dividends being funded, and 4) how much does the company cost relative to the intrinsic value of its assets?

1. Dividends are commonly paid out of a company’s profits. However, a company’s profits are likely to be volatile and subject to market cycles, product cycles, innovation, technological disruption and regulation. It’s therefore important to understand the drivers of a company’s profitability, the certainty of profits going forward, and distinguish between low- and high-quality earnings.
2. Mid- to long-term, shareholder returns are driven by management’s capital allocation decisions, i.e. the deployment of cash generated from operations. Positive operating cash flows can be allocated to: organic growth investments, acquisitions, share buybacks, cash dividends, or the accumulation of cash. I believe management should take the path leading to superior post-tax risk-return-weighted shareholder returns and a dividend should only be paid out if a company has no attractive opportunity to deploy its capital otherwise. For example, businesses could use operating cash flows to consolidate their industry through acquisitions - all else equal, a value-accretive approach if done at the right price and ultimately leading to a higher share price. Share buybacks can be seen as an attractive investment for a company and hence its shareholders if they are done below intrinsic value. Buybacks are usually also a more tax efficient way of distributing profits than cash dividends. All else equal, buybacks will, over time, lead to a higher share price versus the cash dividend option, as the value of the company is divided through a lower amount of shares outstanding.
3. Dividends can also be funded through asset sales, capital increases or an increase in leverage. While any of these measures could create long-term value for shareholders, they don’t always do so. It’s therefore important to understand the source of funding and the impact on a company’s balance sheet.

4. Focusing on the dividend alone might distract an investor from the price he is paying for an asset in relation to its intrinsic value and other, potentially more attractive, opportunities in the market. For example, a stock with a dividend yield of 3% might look attractive at times where a savings account yields nothing. However, if a company's dividend distribution represents most of its profits, an investor buying it at a 3% yield is effectively paying a 33x earnings multiple. This is not cheap for any investment and exposes an investor to significant risk of losing principal.

Lastly, I would like to comment on share dividend schemes, as they are very popular in certain countries. Here, investors are given the option to either receive cash or new shares. I believe this is one of the least understood and least useful "savings schemes", as the value impact is uncertain and often negative. If all investors opt for share dividends, the value-impact is either neutral (the cash stays in the business, the company's unchanged intrinsic value is to be divided by a higher amount of shares, however an investor's relative ownership stake hasn't changed) or negative (as the share dividends might be taxed without having generated a real profit). If some investors opt for cash while others vote for shares, the cash taker gets diluted (i.e. his relative ownership stake is being reduced) while the share taker effectively increases his stake in the business (at a price - the missed cash dividend). In this case, finding the most profitable and tax-efficient investment decision is not very straightforward and should probably be modelled out.

### **Thoughts on the Swiss franc**

On January 15, 2015, the Swiss franc appreciated against the euro by about 15% in a day, after the Swiss National Bank (SNB) decided to end a costly three year peg meant to protect its economy from the shock of a rapidly appreciating currency in the aftermath of the financial crisis of 2008.

I deeply admire the SNB for this courageous and wise move as the peg was unsustainable. To defend the peg, the SNB had to inflate its balance sheet by an amount equal to Switzerland's GDP (CHF 300 billion) - and this was before the European Central Bank confirmed new monetary easing of EUR 1,200 billion in late January 2015. However, even though I am convinced the decision will benefit Switzerland in the long term, it will have painful short-term consequences. The price discrepancy between the tiny island of Switzerland and its surrounding Eurozone ocean is immense.

The majority of Switzerland's population of eight million lives within an hour's drive of a neighboring EU country where - at the current EUR-CHF-parity - wages and goods are about 50% cheaper. For example, the going rate for a cleaning lady in Zurich is EUR 25-30 (USD 30-36) per hour. In Germany, not a poor country by all means, many academics don't earn that much!

So I believe that, over time, this disparity will shrink again - either through deflation in Switzerland, inflation in the Eurozone, or a depreciation of the Swiss franc versus the euro. In the meantime, the current situation might be an opportune time for fellow Swiss residents to use their high purchasing power to buy assets abroad cheaply.

## Portfolio Outlook

On an overall basis equity markets in the US, Europe and China have risen (become more expensive and therefore risky), but significant currency swings, a sharp drop in key commodity prices, and declines in some markets such as Australia, Russia, Greece and Brazil, should lead to a continuous stream of attractive investment opportunities.

According to my estimation, the portfolio maintains an attractive risk-return profile. I have increased the portfolio's concentration given the opportunities I am seeing in the market. These include small cap investments outside the main US and European markets with low market valuations if measured by their significant cash holdings, net working capital, a high liquidation value or strong free cash flow creation. I believe I am able to find these investments because common valuation metrics (e.g. P/E, EV/EBITDA) typically don't tell the whole story and some of these opportunities are difficult for institutional investors to pursue.

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

Robert

## CLOSED POSITIONS (Q4 2014)

Position	Sector/Industry	Listing Currency	Absolute Return (in local currency)	IRR
<b>Digital River</b>	Internet Software and Services	USD	53%	25%
<p>Digital River provides end-to-end global cloud-commerce, payments and marketing solutions to a wide variety of companies and is headquartered in Minnesota, USA. Its services include design, development and hosting of online stores and shopping carts, store merchandising and optimization, order management, denied parties screening, export controls and management, tax compliance and management, fraud management, digital product delivery via download, physical product fulfillment and subscription management.</p> <p>At time of purchase in February 2012, Digital River had significant cash reserves (80% of market capitalization) and was trading at a 5-year average EV/EBITA multiple of 2.8. I considered the company's core business model attractive but the company badly managed and estimated the intrinsic value of the shares to be in the mid 20s (they were trading at USD 14 at the time of purchase). In November 2014, Siris Capital offered to take the company private for USD 26/share, with the deal expected to receive shareholder approval in Q1 2015.</p> <p>The investment thesis worked out well and as hoped for. However, there were a few road bumps along the way.</p> <p>In my thesis, I considered the majority of the company's negative working capital to be structural and therefore sustainable. This was overly optimistic. When earnings continued to slip, management used a big part of the company's cash reserves to reduce payables – and thus perhaps to improve customer relationships as well. In addition, the company spent cash for acquisitions that had a negative short-term impact on common trading multiples.</p> <p>On December 5, just a few days after the merger announcement had lifted the shares by 50%, the company announced a contract renewal with Microsoft was at risk. Subsequently the shares, which had attracted the interest of merger arbitrageurs (often leveraged), gave away almost all of their recent gains. Microsoft is DRIV's largest customer and accounts for about 30% of revenue. The market feared Siris Capital would terminate its approach to acquire the company. I was still invested at this time. Careful analysis of the company's merger agreement convinced me that there was a considerable chance for the merger to go ahead: a) the agreement explicitly mentioned talks between management and Siris Capital regarding risks surrounding Microsoft's contract renewal, b) the agreement included severe cash penalties for Siris Capital in case the deal were to fall apart, c) I considered it unlikely for Microsoft to terminate DRIV's services so quickly (DRIV operates the Microsoft store and Microsoft is in the middle of a major restructuring), d) I reckoned Siris Capital wouldn't want to be exposed to the significant reputational risk a collapse of the deal would have meant. Thankfully, the contract with Microsoft was renewed, the merger went ahead, and the stock price recovered quickly. I exited the position before the actual take-out to recycle the proceeds into more attractive opportunities in late December.</p>				
<b>GVC Holdings</b>	Casinos and Gaming	GBP	28%	69%
<p>GVC Holdings is an operator of online betting services and provider of technology services to online betting companies. The company has historically exploited legal gray areas in European gaming jurisdictions to run niche online gaming sites (mostly in Germany) and has recently de-risked the businesses through higher, acquisition-driven diversification and changes in its operational setup. GVC is run by true masters of capital allocation and "deal savviness". Over the last few years, the company has paid out significant cash dividends - often equal to 20% of market capitalization - despite frequent (and profitable) acquisitions funded through a smart mix of share issuance, operating cash flows and leverage.</p> <p>I bought shares after the market valuation had come down despite the company's good progress operationally and its success in restructuring and consolidating recent acquisitions. I sold them when they reached my intrinsic value estimate.</p>				
<b>Fairwood Holdings</b>	Restaurants	HKD	173%	29%
<p>Fairwood Holdings owns and operates fast food restaurants in Hong Kong and mainland China. In my mind, this is a high-quality operation with steady and consistent organic earnings growth as well as shareholder-friendly management: a classic case of a good compounder. I decided to sell the shares after they had surpassed my intrinsic value estimate. Unfortunately, Fairwood Holdings was only a small position with low overall impact on portfolio performance.</p>				

## PERFORMANCE & BENCHMARKING

%	in EUR							in USD		
	Q1 Net	Q2 Net	Q3 Net	Q4 Net	Portfolio Gross	Portfolio Net	MSCI ACWI AC Net Div <sup>2</sup>	Portfolio Gross	Portfolio Net	MSCI ACWI AC Net Div <sup>2</sup>
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
<b>Annualized</b>					<b>20.7</b>	<b>16.1</b>	<b>11.1</b>	<b>17.9</b>	<b>14.0</b>	<b>8.4</b>
<b>Total Since Inception</b>					<b>224.8</b>	<b>154.6</b>	<b>92.8</b>	<b>180.5</b>	<b>127.0</b>	<b>66.1</b>

This letter has been prepared solely for informational purposes. This is not an offering or the solicitation of an offer to purchase an interest in any fund, and it is not an offer to buy or sell or a solicitation of an offer to buy or sell any security. Nothing herein should be construed as investment advice, an opinion regarding the appropriateness or suitability of any investment, or an investment recommendation. No representation is made that the objectives or goals of any investment or strategy will be met or that an investment or strategy will be profitable or will not incur losses. Past performance is no guarantee of future results. Reliable methods were used to obtain information for this letter but the information herein cannot be guaranteed for accuracy or reliability; the information in this letter may be out of date or inaccurate.