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Cairo 29/3/2012,

Dear Valued Investor,

At the end of a very active first quarter in 2012, we would like to share with you a re-cap of the main events of this quarter as well as our forward vision. The main highlights of Q1 2012 were:

1- Q1 2012 saw a crystallization of our vision that the Egyptian stock market is undervalued in comparison to other markets around the world. Although the rally in the local market was much quicker than the advance we have seen in most world stock exchanges, we still maintain the view that the Egyptian market is heavily undervalued relative to other world markets, even when taking into consideration the socio-political turmoil. We are still confident that this is a great time to buy.
2- As predicted in our last newsletter, economic drainage continues. This is why we foresee that, upon realizing its upside potential, the Egyptian exchange will be quick to show severe signs of weakness. We expect to exit the market earlier than most.
3- Our entry into the market was divided into 2 phases:
   a. Phase I: Phase I began in late November 2011* when the market neared its lowest point. We used 1/3 of the available funds to buy into the cheapest stocks in the market, including Ezz Steel and SODIC. Although others continued to shy away from such stocks, we saw the upside potential that these represented. However, due to their volatility, we were careful to limit exposure to these stocks as a healthy portfolio can only tolerate so much instability. Case in point, we saw these stocks lose 30% of their value in the following month before rebounding in 1Q 2012. Today, these stocks comprise the speculative portion of our portfolio. We believe that they are currently overvalued from a risk/reward point of view but they are speculative favorites in the market and our limited exposure affords us enough staying power to maintain these positions.

* For new clients, this phase continued through late January when prices remained cheap.

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b. Phase II: To make sure the market can sustain political shocks and continue its ascent, we preferred to wait for the first correction. This came after the Port-Said tragedy. The market's ability to resume the rally after this correction was a sure sign of a positive outlook. At this point, we scanned for the most undervalued healthy stocks in the market and we filled the portfolios up.

4- Generally, the criteria for buying in turbulent times are very simple yet difficult to fulfill. At these times, it is best to follow the textbook approach: "Invest as if you're partnering in a business". We looked for:
   a. A business that is financially stable and healthy.
   b. A business whose management has demonstrated business acumen.
   c. A business with strong earning power, even if temporarily affected by instability.
   d. Most importantly, a share that is selling at a discount (i.e. at a cheap price relative to its intrinsic value).

5- All our investments were made well below tangible book value (75% or less) and below 5.5 times regular earning power. The only exception was NSGB which was bought at near tangible book value, but at 4 times earning power. I can safely say that we bought into some of the cheapest stocks not only in Egypt but in the world. This gives us staying power and the peace of mind to wait until the stock's potential is realized.

6- Although we are not in the business of speculating price movements, we still see substantial upside potential in the market. Even if this speculation is wrong, we are comfortable enough with our picks to keep them for the long haul.

Finally, I welcome any questions/comments starting Sunday April 1st either by email or phone.

Thank you and best regards,

Mohamed El Hawary
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