

Cairo 28/6/2012,

Dear Valued Investor,

As continued turbulence and political uncertainty in Egypt persisted over the previous quarter, we are still awaiting any period of “perceived stability” to realize our upside potential. By “perceived stability” we mean that we don’t foresee any real stability for several years to come but any “perception” (i.e. feeling) of possible stability, even if false, should be enough for us to realize the upside potential of our stock picks.

In our last newsletter, we defined the criteria we used for making our picks: Very simply, we “invested as if we’re partnering in a business”. This is why with continued market turbulence and volatility, we remain very comfortable with our picks and maintain the long term prospect of a very healthy portfolio. Again, we looked for:

- a. A business that is financially stable and healthy.
- b. A business whose management has demonstrated business acumen and the best interests of the owners/investors at heart.
- c. A business with strong earning power, even if temporarily affected by instability.
- d. Most importantly, a stock that is selling at a discount (i.e. at a cheap price relative to its intrinsic value).

Today the Egyptian market stands at the lowest price to book ratio in the world. At the hypothetical worst case scenario of liquidation of all companies in our portfolio at 80% of their tangible book value, all portfolios would appreciate by an average of 25% from their current levels. Furthermore, our portfolio companies maintained very healthy profit levels and dividend paying levels Q1 2012 amid the instability. Again, this gives us staying power and the peace of mind to wait until the stock’s potential is realized.

As we always said, we are not in the business of timing price movements but we still see substantial upside potential in the market upon the existence of any period of “perceived stability”. We estimate that it will take about one quarter of “perceived stability” to achieve our target levels. Today the S&P500 stands at 1320. The last time it was at this level pre Egyptian Revolution was in 25/6/2008, the EGX30 was at 10147 at that time. Today the EGX30 stands at

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less than half this level at 4708. We realize there are structural damages to the economy but by any measure they are not worth half the stock index value especially in our chosen sectors and companies.

Our plan since the start is to hold steady with our positions and keep reinvesting the coupon distributions as long as prices are distressed to reap the most benefits when stocks realize their potential. We remain very positive and believe we are on the right track to getting a very decent payday for our clients. We believe our views have been clearly substantiated by a 10+% rally that started BEFORE announcing a new president.

Finally, I will be personally available to answer any questions/comments starting Monday July 2nd either by email or phone. Your contributions are more than welcomed.

Thank you and best regards,
Mohamed Hawary



Managing Director
Andalucia Financial Consultancy and Investment