LTIF

Long Term Investment Fund

Strategic Value Investing

Covid-19, Recovery & Long-Term Investing

June 2020

Long Term Investment Fund

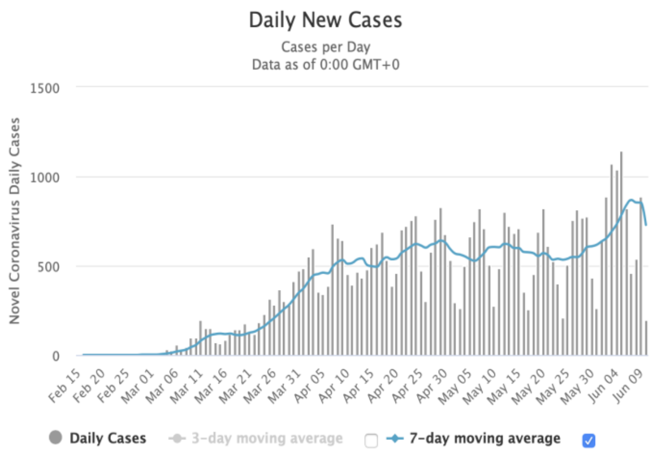
Presentation plan

- **Covid-19. The worst is behind us / J. Carlos Jarillo**
- Our macro base case & the Classic Fund / Marcos Hernandez
- Natural Resources is a unique opportunity / Urs Marti
- It is time for value / Marcos Hernandez
- Conclusion and Q&A / Alex Rauchenstein

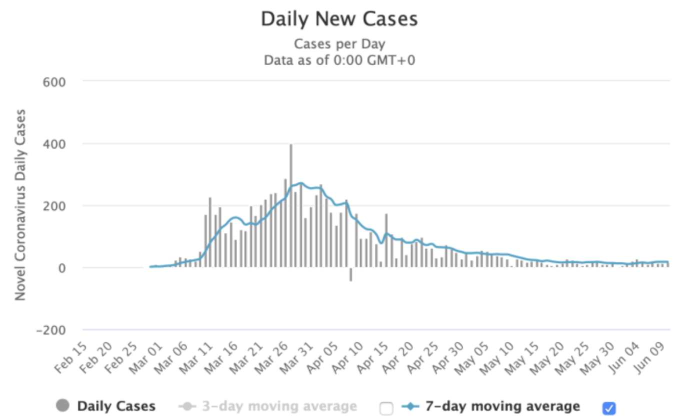
Key message: The worst is behind us. We will be back to normal by the end of 2021

Social distancing works

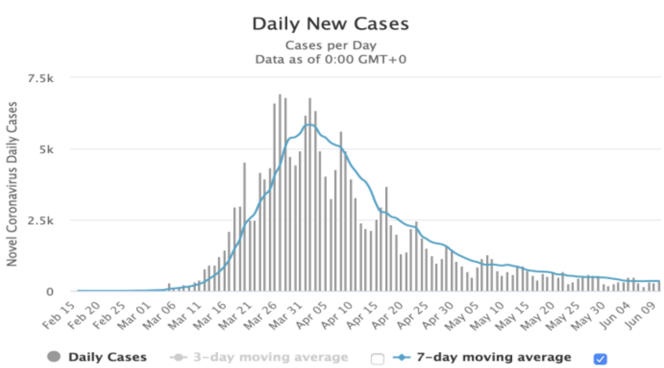
Sweden



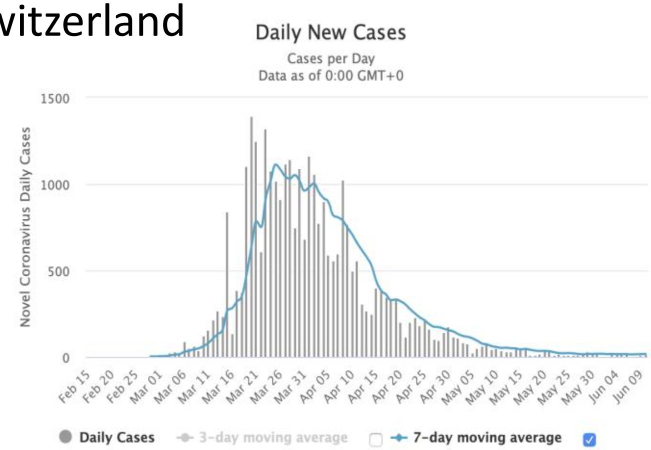
Norway



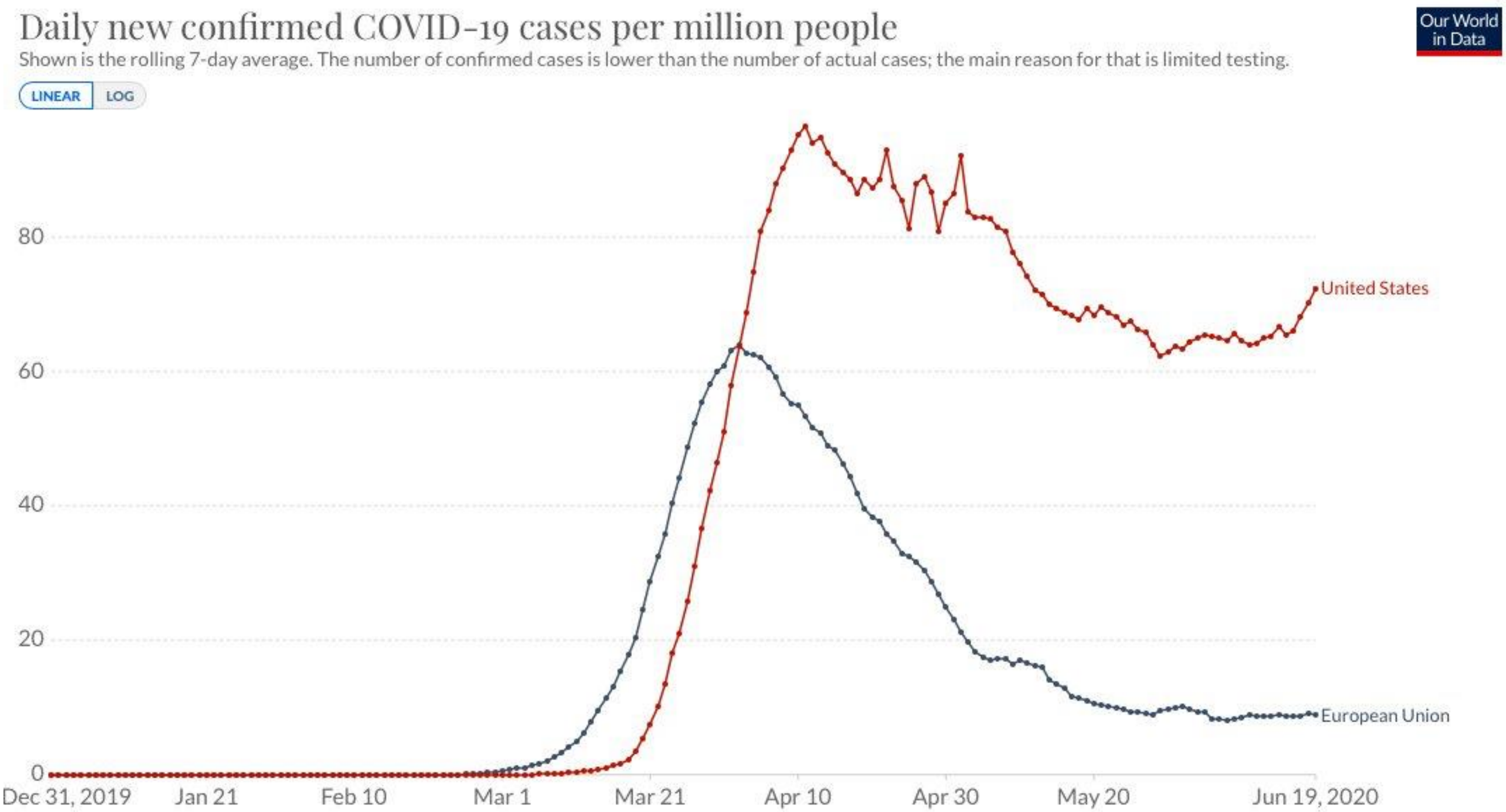
Germany



Switzerland



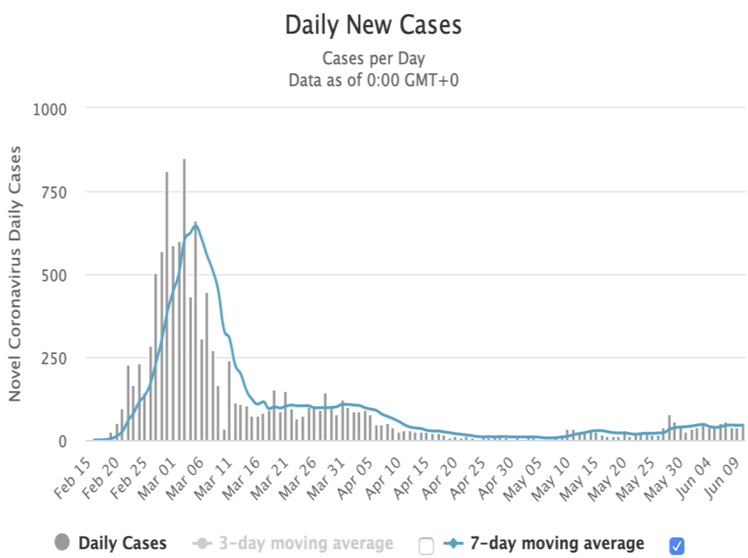
And discipline pays off



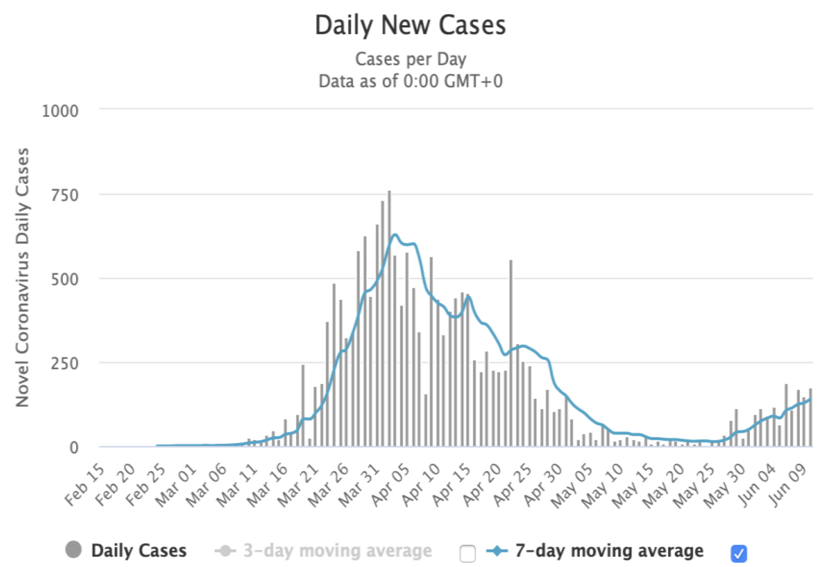
We do not see a second wave

However, if some degree of “rebound” were to happen here, it could be controlled without a huge disruption

S. Korea

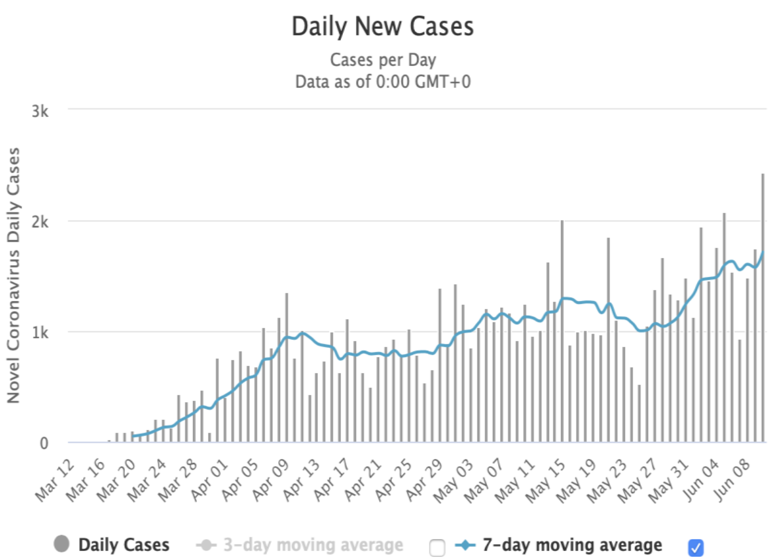


Israel

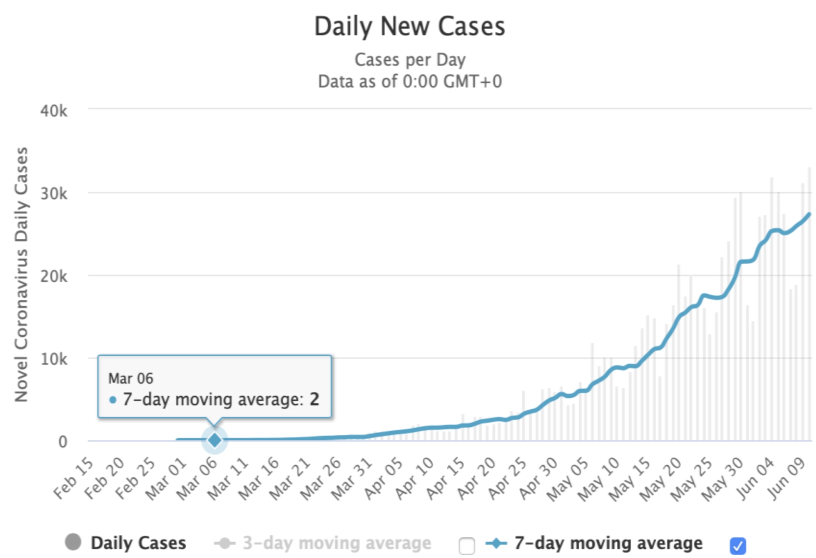


But in places where proper measures are not applied, the virus takes a much longer time to recede

Texas

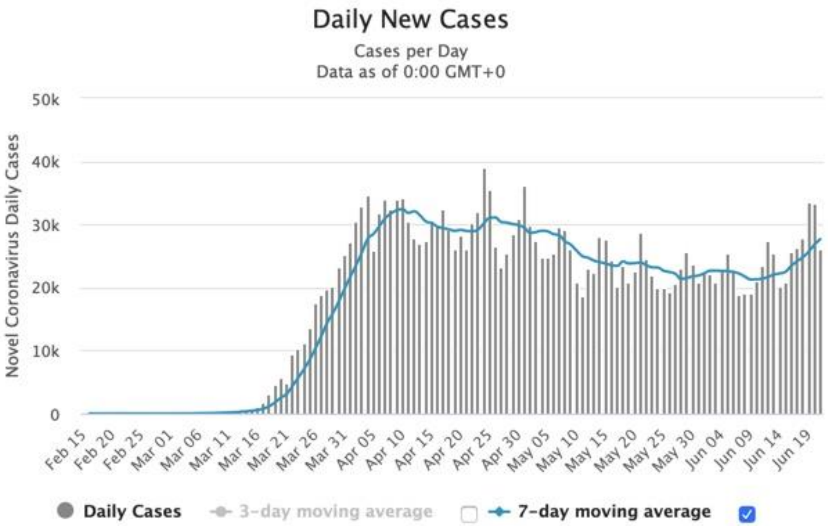


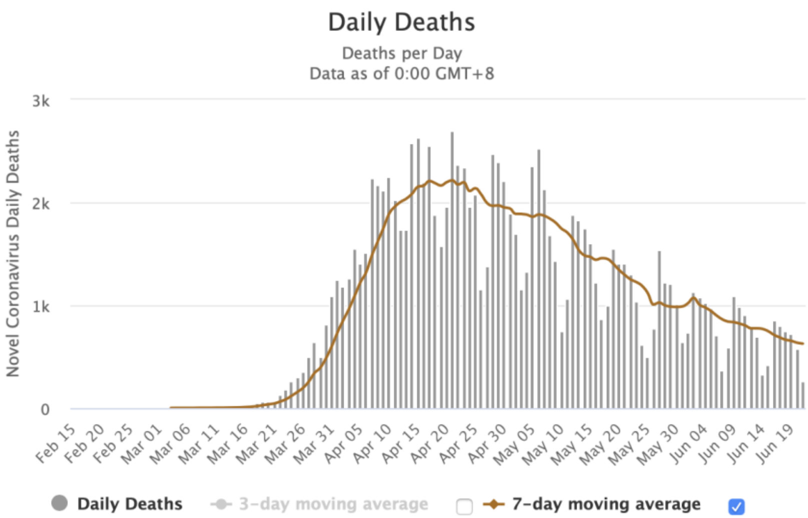
Brazil



Even where cases are increasing, mortality keeps decreasing

US Daily new cases and daily new deaths





This is probably due to much more testing (more cases) and a much better understanding of the disease by treating doctors (fewer deaths)

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The positives (1): Science

- It is reasonable to expect that one **or several drugs** will not only mitigate the virus's effects but eliminate it in the foreseeable future, i.e. monoclonal antibodies. In this sense, **Dexamethasone** is really good news, a small step but very very welcome.

- **Vaccines** are, of course, also being developed. More than 120 serious projects are underway.

- CEO of Pfizer, Moderna and other leading participants publicly stating that **the vaccine should be ready before year-end. This is THE GAME CHANGER.**

The positives (2): Governments

- Governments are now basically trying to compensate for the missing demand to ensure that their countries' lack of economic activity does not become a full-blown depression.

- And the response has been dramatic: although not as large as the drop in "normal" demand, **the government support measures in the US and Europe have been unprecedented.**

- That's why the current recession will most likely not develop into a depression and, subject to the medical advances discussed, **it should not last much longer than a year.**

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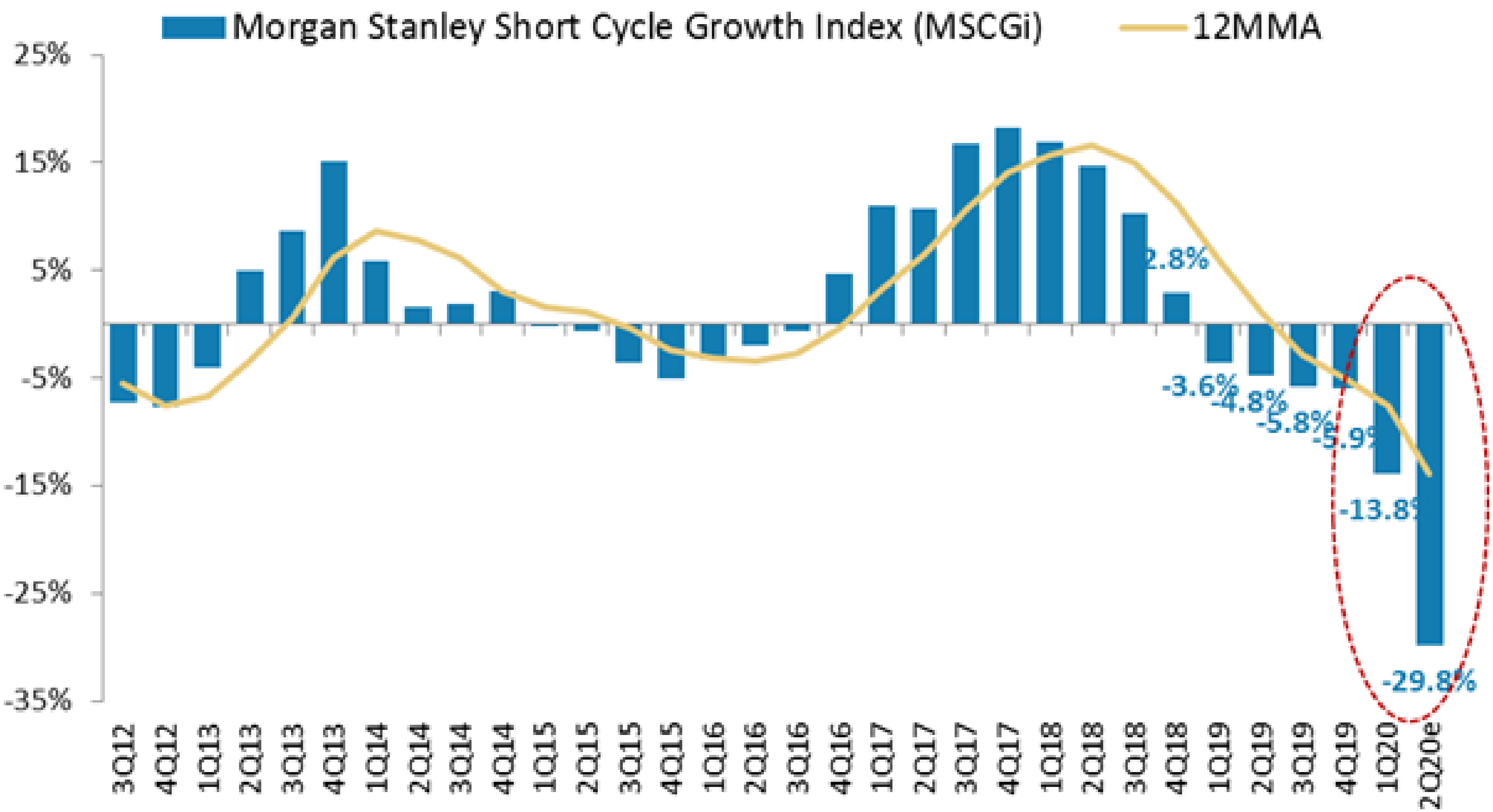
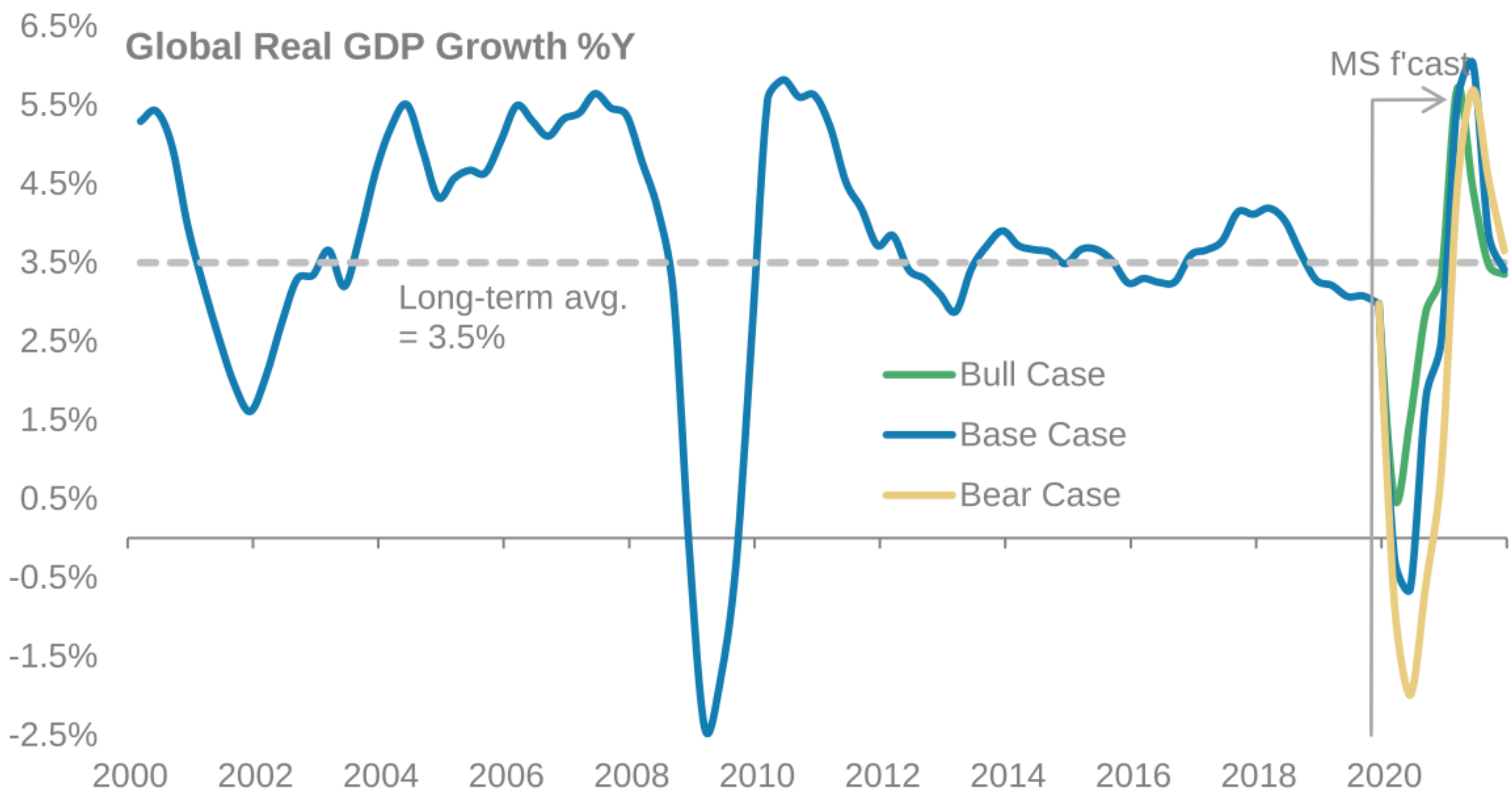
The global economy troughed in Q1



Source: Morgan Stanley

Speedy recession, speedy recovery



Source: Morgan Stanley

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Why are we so optimistic?

- **Government support measures, which on average terms will reach between 5 and 15% of GDP, are colossal** and they will replace the loss of private demand.

- Most countries have implemented **plans to support corporates, large or SMEs, and employment,** and we think that an important part of the current loss of jobs can be recovered in H220.

- Thanks to governments and central banks, **the flow of credit is being maintained,** and continues to work much better than in the Global Financial Crisis 2008/09.

- As we also stated, there are **many advanced projects for medicines and vaccines** against Covid-19. We do not believe in a new broad resurgence in H2 but some sporadic outbreaks.

1. Length of the crisis 2. Industrial base (labor) 3. Credit flow 4. Science

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The Classic (1): The recovery has started

- **The LTIF Classic has recovered a lot from the mid-March lows, rising by 40% in 12 weeks to EUR 350 levels.** The Classic is somewhat below the broader indices but in line with value indices.

- This performance is normal. **In a recession, cyclical stocks, small companies, and value usually tend to underperform in the short term** but outperform during the recovery phase.

- Best sectors in the Classic were technology and consumer, while the worst were energy and materials/mines. Industrial, salmon, healthcare, finance, and discretionary consumption in line.

- The Classic, as a holding of 30-35 companies, will overcome the crisis and be back to normal fast, at the latest within 12-18 months.

EUR 450 in Jan, 250 in Mar, 350 in Jun.
Efficient markets?

The Classic (2): Still very cheap

- At the current prices, **the Classic Fund is cheap, yielding a 16/17% expected return**, with an updated I.V. of EUR 680.
- An expected IRR of 20% is roughly equivalent to doubling in 3-4 years.
- Should the recovery materialize, the NAV should be around EUR 500 within two years - at the end of 2021 - and move toward EUR 680 in the medium term.
- At SIA, we believe that **it is important to set valuation targets for the companies we buy and the funds we manage.**

The LTIF Classic trades at a depressed valuation

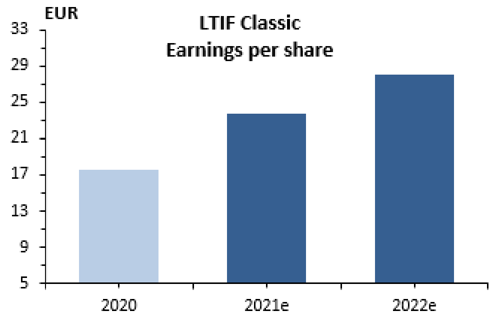
The Classic (3): 1.2x book value

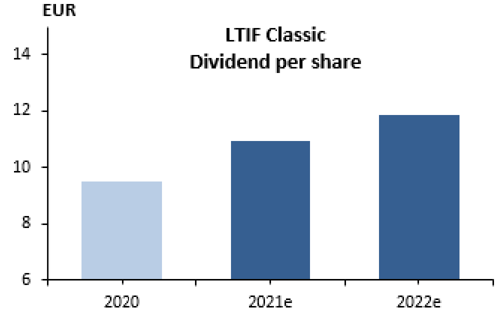
Date	NAV	%
31.12.2018	348.2	-14.8%
31.12.2019	434.2	24.7%
29.05.2020	328.3	-24.4%

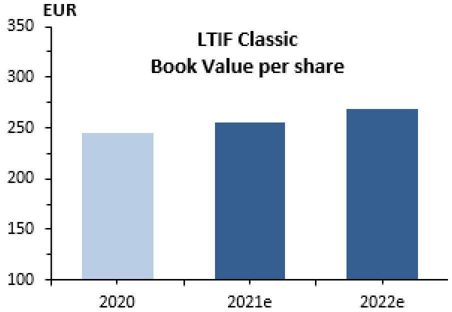
Year	EPS	%	P/E	EPS yield	MSCI World P/E	MSCI World EPS yield
2020	17.6		18.7	7.2%	21.9	4.8%
2021e	23.7	35%	13.8	7.2%	17.5	5.7%
2022e	28.1	18%	11.7	8.5%	15.2	6.6%

Year	DPS	%	Div. Yield	MSCI World Div. Yield
2020	9.5		2.9%	2.4%
2021e	11.0	15%	3.3%	2.5%
2022e	11.9	8%	3.6%	2.6%

Year	BPS	%	P/B	MSCI World P/B
2020	244.2		1.3	2.3
2021e	255.3	5%	1.3	2.2
2022e	268.7	5%	1.2	2.1







Normalised ROE of 15-16%

The Classic (4): Look through

- **The Classic has a backbone of compounders, or quality, or growth at a reasonable price (GARP),** comprising about 40% of the fund and which are highly diversified: VISA, ASML, Unilever, Viscofan, Apple, Medtronic, Grifols, etc.

- **60% of the Fund is invested in more traditional value stocks,** namely in sectors and companies that we believe are very cheap relative to their intrinsic values (we are patiently increasing this part of the Fund during the downturn).

  - As a result of our bottom-up analysis, we have found ourselves concentrated on five sectors: oil/energy (9%), aerospace (7%, Thales, Raytheon, MTU Aeroengines), salmon (7% Leroy Seafood, Grieg Seafood), building materials (7% Wienerberger, Heidelberg Cement), copper/mining (10%), business services (ISS, Sodexo 8%). Total 40-45% of the Fund.

  - The remaining 15% is invested in different sectors/businesses, such as ING (bank), Pandora (affordable jewelry), and Prysmian (electric/telco cables).

Investment Case 1. Wienerberger

- European leader in building materials
- Makes bricks, tiles, roofs and pipes
- Multilocal business with large entry barriers
- ROIC 19 10-11%, ROE19 14%, 3 % annual growth
- Good business, good management but cyclical

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Investment Case 1. Wienerberger

- WIE AV fell 60% in 3 weeks to EUR 14. Back to EUR 20 per share
- Looking at their main markets, the recession impact will be soft
- Strong balance sheet, solvency and liquidity
- Forget 2020. In 2021 WIE will be back to normal
- PE of 8x 2021 P/B 1x
- 15%+ IRR . IV EUR 30

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Investment Case 2. Suncor

SUNCOR

- Oil sands company
- 800,000 b/d production capacity
- Integrated model (mining, in-situ, conventional and refining assets)
- With Brent 60$, Suncor makes a 10-12% ROIC
- Good management, good business but cyclical (LT cycles)

Investment Case 2. Suncor

- Stock is down 50% since Feb-20
- The company has a sound balance sheet, solvency and liquidity. Issued bonds during the crisis
- We believe Brent, which is now at 40$, will slowly move to 50$ in 2020 and 60$+ in 2021
- 20% IRR and C$ 50 IV

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The Natural Resources Fund

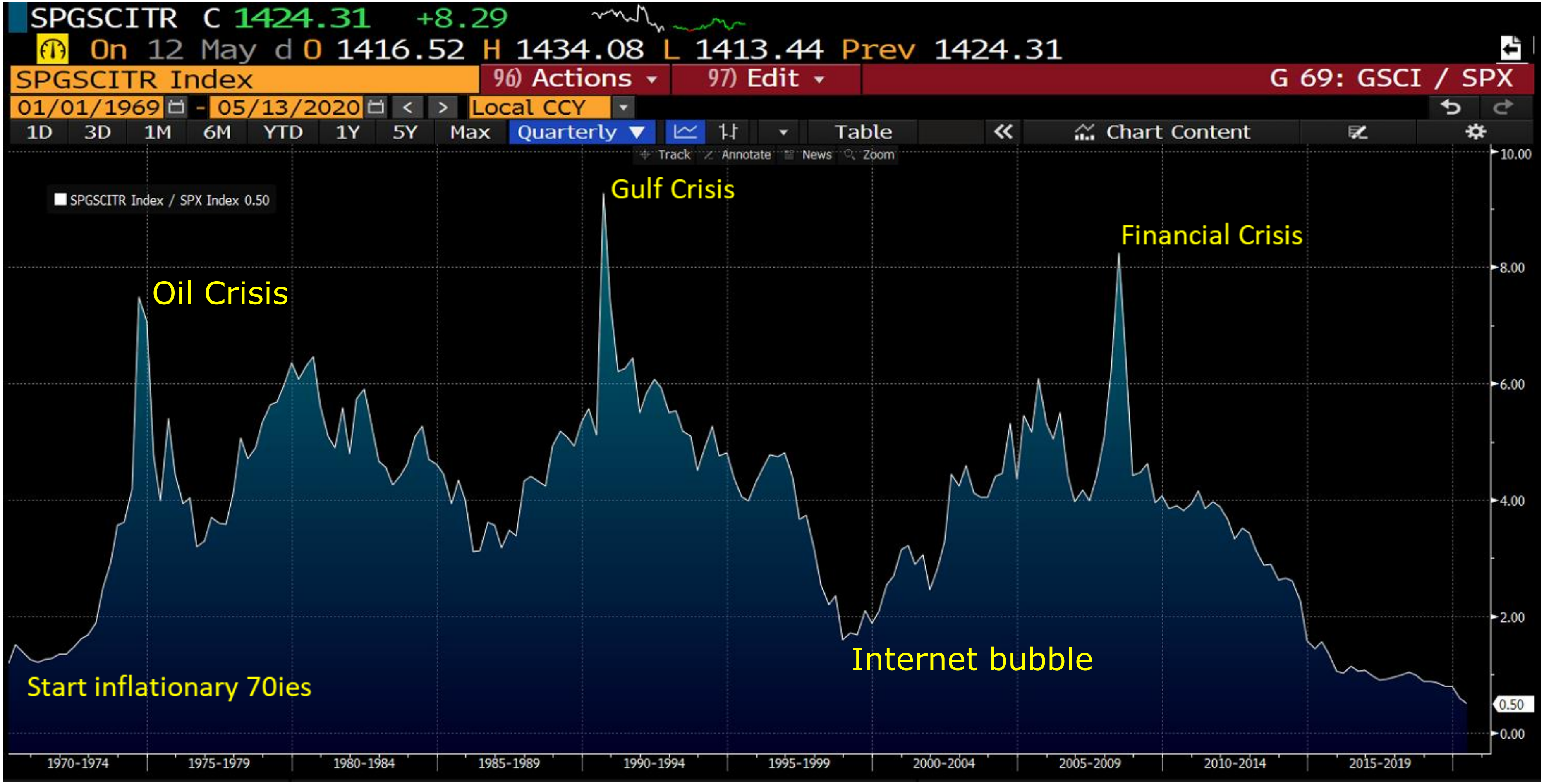
- **The Natural Resources Fund has recovered 50%+** from the March lows with a NAV of 75 euros per share, or -29% ytd.

- **The Fund remains incredibly cheap.** It has an intrinsic value of more than EUR 183 per share and, at current prices, an IRR of 22%.

- In mid-June, the fund has **40% of its investment in energy/oil and another 40% in mines,** with only 20% in agri-food and infrastructures.

- The fund is usually more balanced with 1/3 energy, 1/3 mining, and 1/3 *agri-food-infra.,* but given the current valuations, we are raising the weight of energy and mines.

GSCI/S&P500 Ratio: As cheap as it can get?



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The GCC is just a pause in the oil upcycle

- The oil **market has gone into an undersupply situation faster than expected** following the OPEC+ cuts, shale collapse, and well shut-ins caused by low oil prices.

- Following the decision of the OPEC++ to cut production further, **inventories have peaked, and oil prices moved to marginal cash cost levels** (around USD 40 Brent).

- **Against a backdrop of undersupply, but high inventories, oil prices move up slowly** (from the marginal cash cost, but below the incentive price). Once inventories are back to normal (Q121), the oil incentive prices are usually reached ($ 70 Brent).

- **We should end 20 at $ 50 Brent and move towards incentive levels ($70) in 21**.

  1) shale does not work below USD 60 Brent, meaning that shale production could fall by c.3m b/d

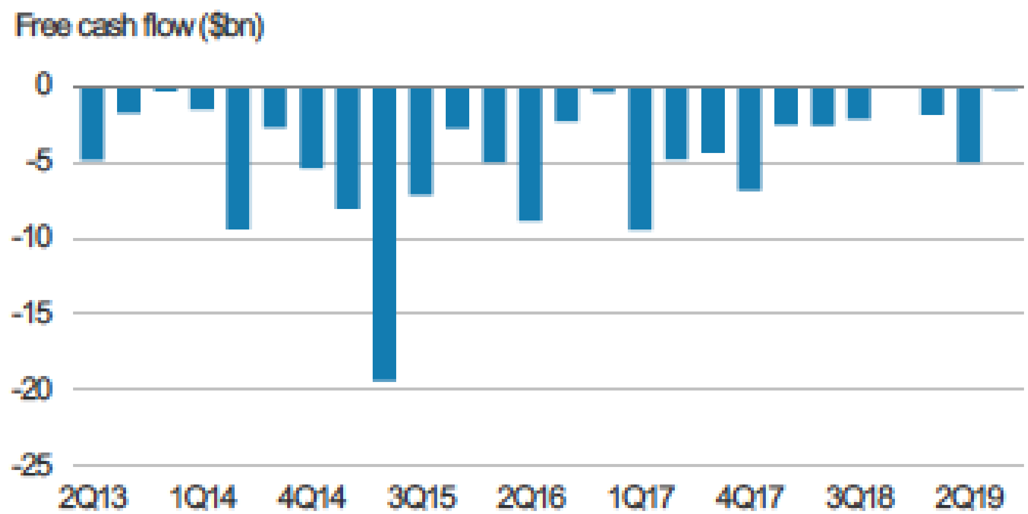
  2) OPEC+, which has far lower costs, is slowly going to replace those 3m plus 1-2m b/d globally requiring higher prices.

  3) OPEC+ will try to manage prices and inventories in a USD 60-USD 75 range.

What business is this?

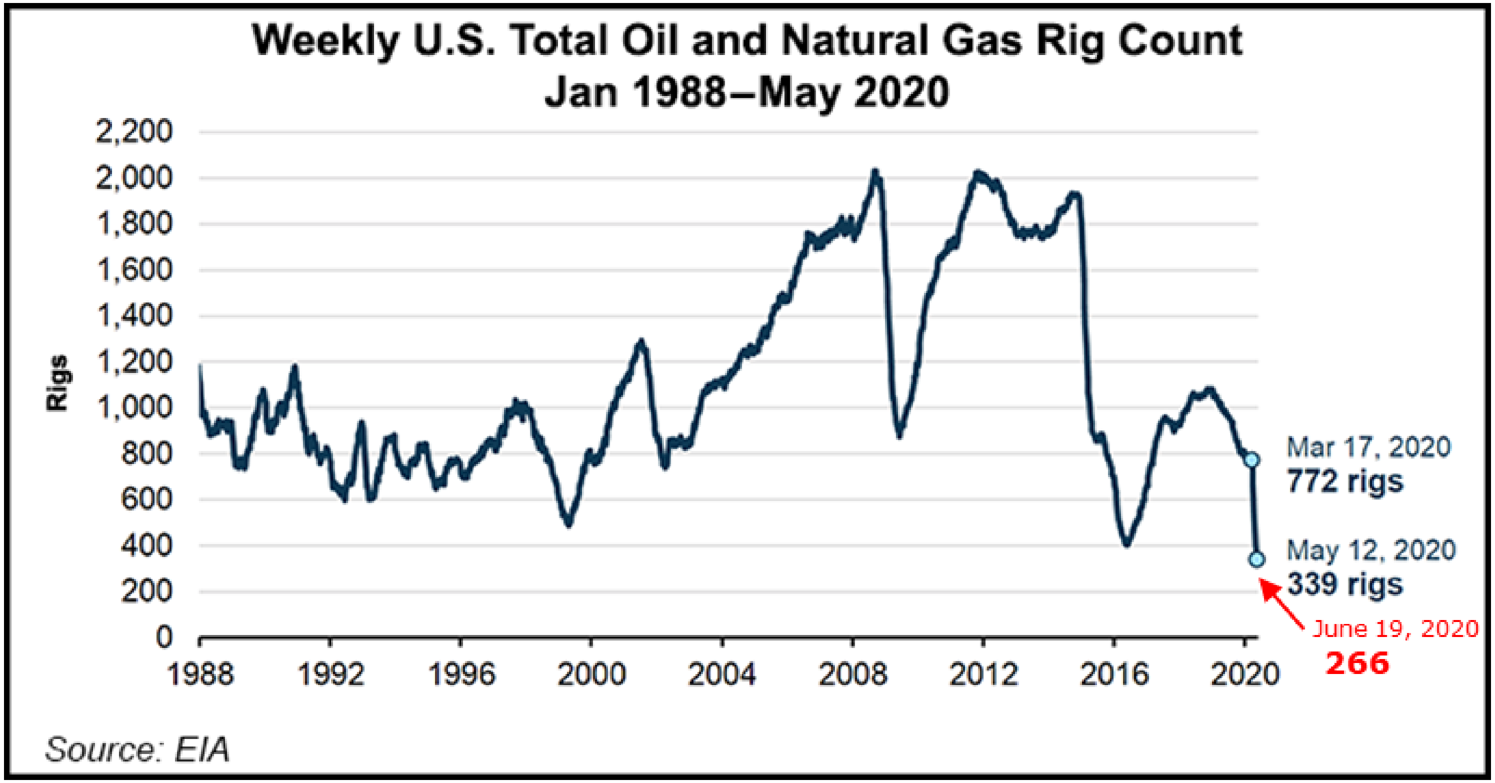
Would you invest in this business?

1. No free cash flow since inception, so 6 years now
2. Average returns well below cost of capital since inception
3. Unit decline of 60% in the first 2 years
4. High financial gearing (related w 1)
5. Commodity business, fragmented, no moats



Note: chart aggregates financials of 25 US shale focused E&Ps
Source: Bloomberg

And this is the result



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We expect a structural change in shale oil

- Shale oil is facing a structural change from uncontrolled growth with unlimited funding **to first a reset at a lower level (we estimate 5-6 m b/d) and thereafter consolidation, growth within cash-flow, return on (and to) capital, and discipline.**
  - Shale oil works, but only in a more controlled manner, in order to reverse what the chart shows, spiced with the >USD 200 bn debt.
- **Remember that the rig count was already falling long before the GCC,** meaning that many wells did not work below USD 60 Brent.
- The financial markets have burnt their fingers and will closely monitor those frackers that do not demonstrate financial discipline. **The situation and outcome might even be comparable to the oil sands in Athabasca**, where the extraction also differs fundamentally from extracting from an underground liquid reservoir.

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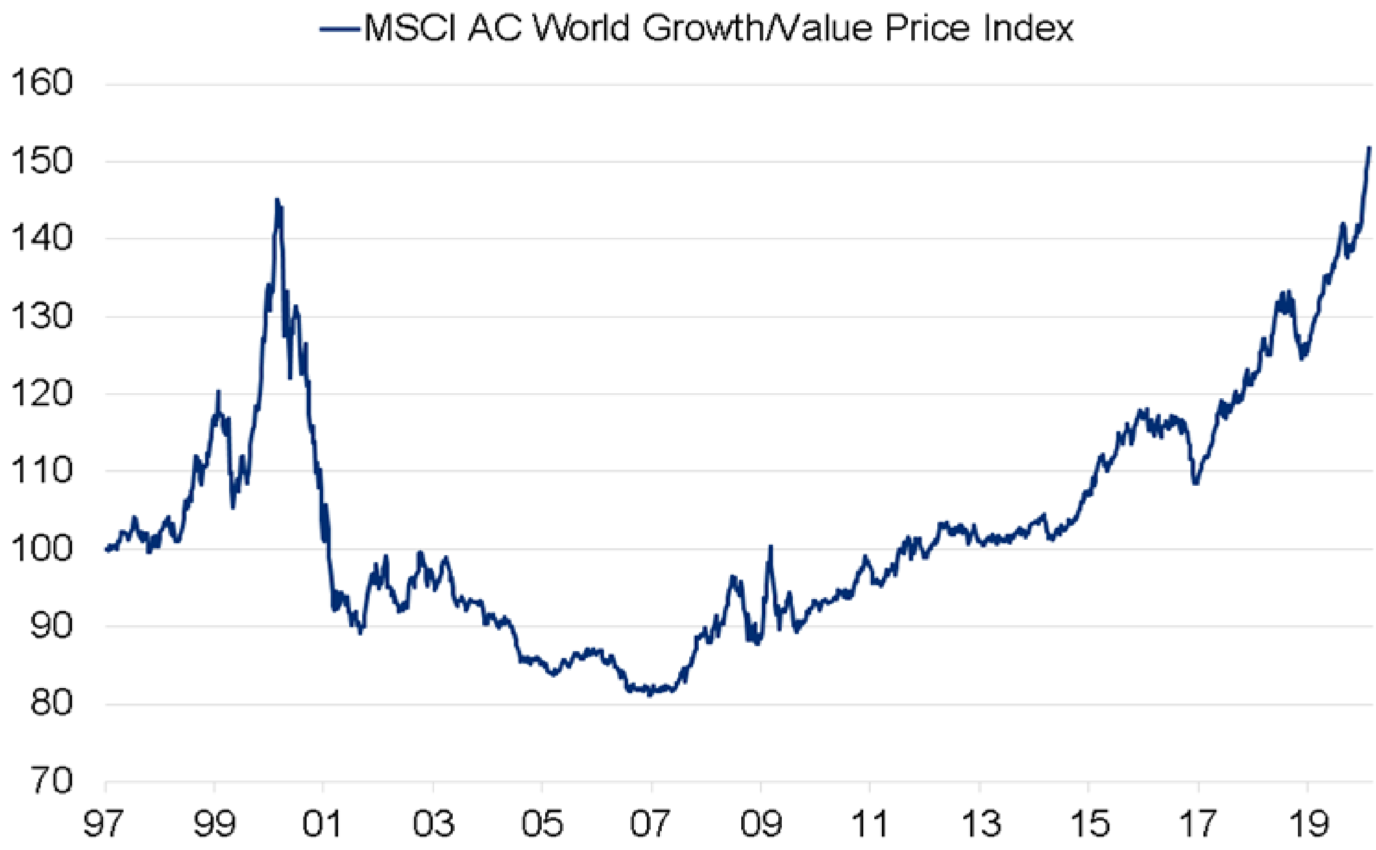
Time for Value Investing



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Investing during recessions

- **Buffett repeatedly comments that he would like to live through many crises and recessions**, and he is right.

- The objective of the Classic is to invest our savings and reinvest our profits, and thus **the best thing for the Fund and its investors is for the stock market to fall**…

- For the Classic **we are softly shifting the positioning by buying more traditional value (cheaper):** existing positions (Wienerberger and Heidelberg Cement) and new (MTU Aeroengines & EOG).

- For the Natural Resources Fund **we have sold agri-food stocks and bought more energy and mining**. Newcomers: EOG, Pioneer, Surgutneftegas or ConocoPhillips.

The key to succeed is having a quality fund before any crisis materializes.

Conclusion and Q&A / Alex Rauchenstein

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LTIF (SIA) Classic, Stability A Cap, SRI and Natural Resources

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