SIA
Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of December 2020

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Strategic Investment Advisors Group

Figure 1: **LTIF Classic EUR**
vs. MSCI Daily TR Net World Index EUR

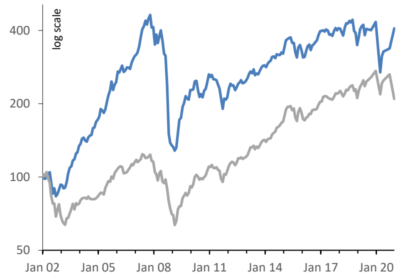


Figure 2: **LTIF Stability A Cap EUR**
vs. HFRX Global Hedge Fund Index EUR

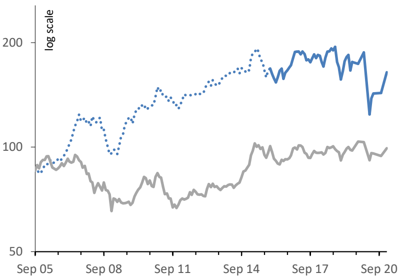
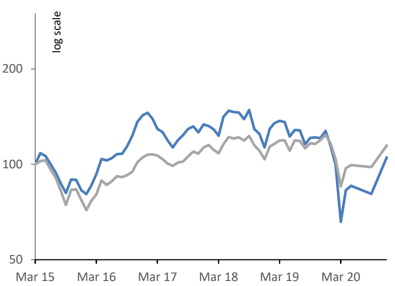


Figure 3: **LTIF Natural Resources EUR**
vs. S&P Global Nat. Res. Net TR Index EUR



"The possibility of permanent loss is the risk I worry about, Oaktree worry about and every practical investor I know worries about""

Howard Marks

"A market downturn is the true test of an investment philosophy"

Seth Klarman

Overview of our funds

The beginning of the end

It's a cliché that the financial markets are "short-termist" and insist on profits now at the cost of investments that could pay out much more over time. This has most certainly not been true of markets in 2020. They sailed through the worst drop in GDP ever recorded with only a short-term wobble, from which they quickly recovered. The reason for this is that markets do, in fact, look at long-term cash flows and, after an initial moment of uncertainty-induced panic, decided that those cash flows are not going to be very different in 2 or 3 years' time from what they would have been without the pandemic. It is true that some companies have took a debilitating hit (leisure, hotels…), while others even went bankrupt, but the overall economy, as reflected in the broad market indexes, will pull through.

Table 1: **Net Asset Value - Net assets under management of our funds**

Dec 31, 2020	NAV	Δ 3m	Δ 12m	Annualized return (s.i.)	AUM *(in mio)*
LTIF Classic [EUR]	407.89	20.9%	-6.1%	7.7%	72
LTIF Natural Resources [EUR]	87.13	30.4%	-17.6%	-0.9%	32
LTIF Stability A Cap [EUR]	164.30	14.8%	-12.3%	-1.1%	2

Source: SIA Group

We are now at the beginning of the end. The available vaccines work and are being distributed. As expected, the logistical difficulties have prevented a rapid ramp-up, but inoculations will accelerate. Matters can turn around far quicker than most of us realize. More than 80% of those who died due to the Covid-19 virus were over 65 years of age (see figures below), and this part of the population accounts for 20% of the population in developed countries. Since older people will be vaccinated first, **only 20% of a population needs to be vaccinated to allow health systems to cope with the disease**. Israel is already there, but many others are already accelerating towards that goal. In a couple of months, the situation will be very different.

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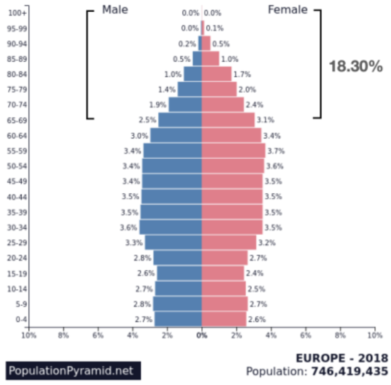
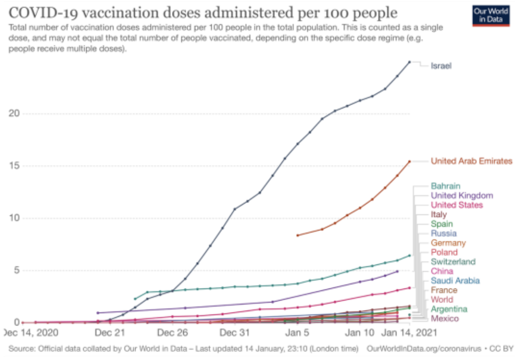
U.S. Deaths from Coronavirus by Age Group
(Feb. 1 – June 17, 2020)

Age group	COVID-19 Deaths	Percentage of COVID Deaths
Under 1 year	8	0.008%
1-4 years	5	0.005%
5-14 years	13	0.013%
15-24 years	125	0.121%
25-34 years	699	0.676%
35-44 years	1,780	1.722%
45-54 years	4,976	4.815%
55-64 years	12,307	11.909%
65-74 years	21,462	20.769%
75-84 years	27,529	26.640%
85 years and over	34,435	33.322%
All Ages	103,339	100.000%

80.73%

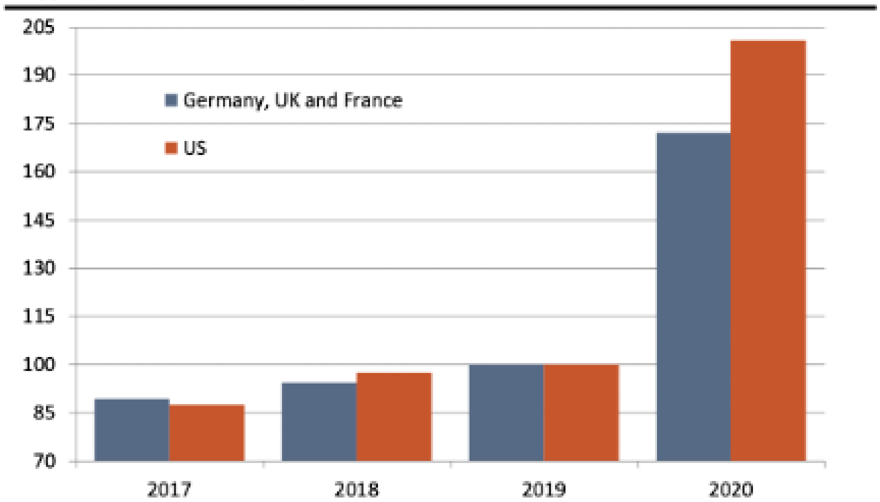
Source: CDC





What can we expect afterwards? If history is any guide, a huge boom. Not only will people want to "catch up" with all the things they had to forego during the pandemic, but, strange as it may seem, personal savings are at the highest level ever recorded. The reason for these savings is simple: although an important part of the population has lost their job or business and is experiencing an extremely difficult time, those with a secure income (most civil servants, knowledge workers, etc.) have not been able to spend it as usual. They result is an enormous capacity for spending. If we add politicians' new-found willingness to allow the state to stimulate the economy, the conclusion must be that the next quarters are going to see very strong growth, and even a reversal of the continuing drop in interest rates observed during the last 10 years.

Aggregate household savings (Q1 to Q3 2019 = 100)



Quarterly data. US data based on nominal dollar household gross savings. European data based on nominal euro household gross savings. UK data converted to euros based on sterling/euro rate for each year. Source: BEA, Deutsche Bundesbank, ONS, BoE, INSEE, Berenberg calculations

All of the above can only be positive for most of our investments. Although the markets are not especially cheap (see comments on valuation later on), many shares are currently trading at prices that will mean good double-digit returns for the foreseeable future.

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The LTIF Classic Fund ends 2020 at EUR 408 p.a. (-6%) and is currently at EUR 425 (+4%) in 2021

We will never forget 2020, not from a personal or family point of view, nor from a financial point of view. Although the Covid-19 virus first emerged in 2019, it had a humongous impact on 2020 and will go down in history. This limited forum would like to thank the health/sanitary sectors and scientists for the work they did throughout the crisis and are still doing, work that saved many lives and that will allow us to almost return to normality, possibly at the end of 2021.

Generally speaking, and in line with the pandemic, equity markets collapsed in March 2020, but have recovered strongly. Our base scenario of a short-lived recession is materializing, with markets and the Classic Fund performing accordingly, hitting lows in March (EUR 250 per share) and recovering fully by mid-January 2021 (EUR 425). **We have complied with the first investment premise: Capital Preservation (CP), because the portfolio has quality, we have made very few "permanent" mistakes, and we have not changed any driver of the portfolio's future value creation**.

Although our -6% for 2020 is well below both the SPX (+16%) and Nasdaq technology (+48%, I have had to check this several times), it is in line with global value indices such as the MSCI World Value Index (-4%) and the Russell1000 (-6% in euros). As we always repeat, we are long-term investors, so it does not make much sense to dig deep into short-term performance: in the long term, the Classic has achieved 8% per annum since its inception (2002), 11% per year since the start of the new economic cycle after the Global Financial Crisis (2009), 5% over the past 10 years, and 7% over the last 5 years. Its recent performance has been below our target of a 10% per annum, but we are going to catch up in the following 2-3 years.

What do we mean by we are going to catch up? We think that the Classic will continue recovering ground through two endogenous factors that have weighed us down over the past 4-5 years: value and commodities, two of the fund's heavyweights. And, in relative terms, through a more exogenous factor, namely technology companies' (especially the FAANGS) strong performance, in terms of which the Classic has been underweighted.

We have shown that we are capable of investing in technology (Apple and ASML have been two of our main positions over the years and we have been invested in Accenture, Visa, Qualcomm, and a few other technology companies) however their weight has been much lower than the weight of the technology sector in most Indexes. Generally speaking, and in order to comply with the first investment premise (CP), we will never invest more than 15% in a single sector, no matter how convinced we are. Currently, the weight of the major technology companies in global Indices is far greater.

The current IRR of the Classic Fund is 14% with a medium-term Intrinsic Value of EUR 617 per share

According to our DCF models, the expected IRR of the Classic is currently 14% and its intrinsic value remains slightly above EUR 600 per share. As SIA partners, we have our savings invested in the Classic, and we look to the future with the peace of mind resulting from having overcome a fast but deep recession, being invested in a concentrated portfolio of some good 30 companies that we understand, which is well diversified by businesses and geographies, and carries a low fundamental risk.

During the Covid-19 crisis, we have seen most of our companies returning to normal: we feel we did well with the first investment premise (CP) as we have returned to the pre-Covid-19 levels with a minimum of scars and hope that our investors agree.

The Classic Fund during 2020

As usual, we insist in the fact that the sectorial analysis of the Classic's performance is not very representative of what happens at a global level, because we concentrate on 3-4 companies per sector or subsector and are therefore quite far from the Index's sectorial composition. In spite of this, we always

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learn something, and, in summary, the three Classic sectors that had a good 2020 are not that different from global indices, with mines (+60%), technology (+53%), and discretionary consumption (+14%, thanks to Pandora). The worst sectors were Energy (-60%), Health/Pharma, Financials, and Salmon with -15%/-20%.

On the positive side, we highlight the following holdings: MetsoOutotec (+65%), Prysmian (+37%), Pandora (+137%), ASML (+52%), Apple (+58%), Viscofan (+26%), all copper companies (First Quantum, Antofagasta, Hudbay Minerals, KAZ Minerals, Northern Dynasty) with an average performance of +60%, Visa (+16%), and Mowi (+15%).

On the negative side and with falls of more than 10% were Devro (-14%), Grieg Seafood (-40%), all the energy/oil companies (California Resources, Cenovus, EOG, Premier Oil, Suncor) with an average fall of 65%, ING (-28%), Grifols (-27%), ISS (-34%), Raytheon (-23%), and Thales (-19%).

Given the strong bifurcation of performance in 2020, we reduced defensive consumer staples like Reckitt Benckiser and Viscofan that held well during the correction in March and added more cyclical names like MTU, Wienerberger, ING and some energy names (with some countercyclical rebalancing within categories). After the summer we reduced the weight of mines and technology and increased the weight of energy, financial, and salmon. Buying cheaply is not the only factor, but it is important.

What is the Classic Fund's resulting positioning? 45% in value (strategic value for us), 20% in natural resources, and 25% in GARP (growth at reasonable prices)

The main drivers that will define the fund's future performance have changed somewhat and are currently concentrated in two factors: **diversified value** (companies such as Heidelberg Cement, ING Bank, LeroySeafood, Devro or Thales), **where we have 45% of the portfolio, and commodities, where we have 20%** (which can also be considered value). As we have mentioned, we believe that after years of massive underperformance, these two factors have begun a new upward cycle and should be some of the fund's outperformance factors in the years to come.

One third of the portfolio continues to be invested in GARP (quality and/or growth stocks at a reasonable price), which we call compounders (such as Unilever, Sodexo, VISA…) with very robust business models and good expected returns on investment.

Historically, the salmon sector was a Classic Fund heavyweight, but we sold a large part of our positions during 2019. With the fall in salmon prices in 2020 (and in salmon companies' shares) we are rebuilding a somewhat more important position in the sector where we already have 8%. If share prices keep falling, we will - as we have mentioned - continue to buy up to a maximum of 15% of the fund.

By risk categories, 50% of the Classic is in categories 1-2, or low risk, and 46% in category 3, a more value oriented one. We only have one company left in high-risk Cat4 (Hudbay Minerals), which reflects our evolution toward never failing regarding investment's first premise (CP).

We maintain our base scenario: economic recovery in 2021, possibly from Q2

Our base scenario remains unchanged and we continue to expect an accelerated recovery after a short but deep recession. As we can see from most macroeconomic indicators (such as the industrial cycle in the following chart), we have left the cycle low (Q220) behind, which once again coincided with the markets' low, and the global economy is currently heading toward a coordinated recovery.

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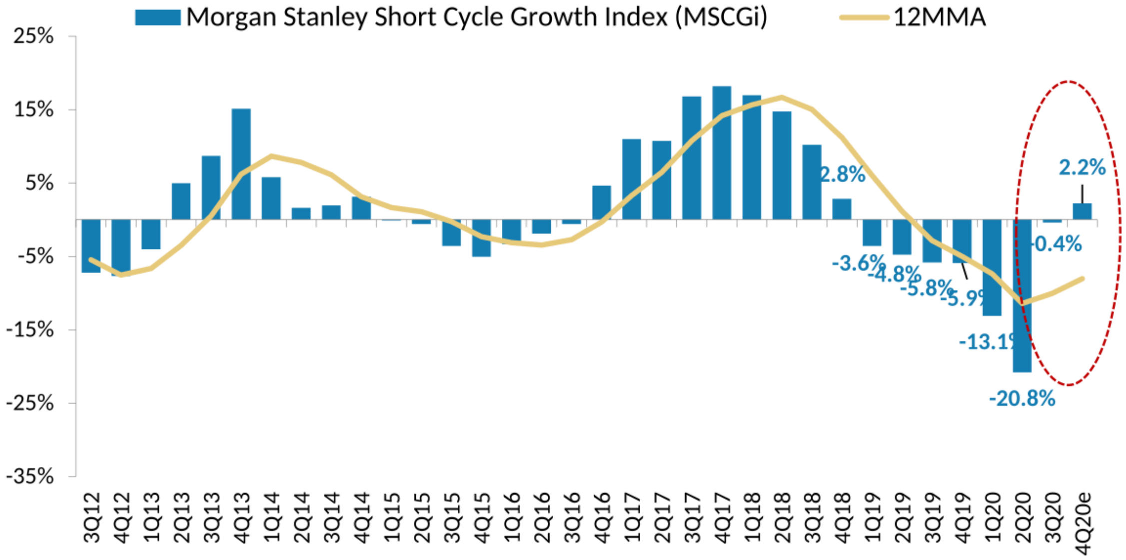

Source: Morgan Stanley

Three main factors make us feel optimistic about a rapid recovery:

1) The crisis's short duration and the support measures designed by most of the world's governments have avoided structural damage to the economies. Further, unlike during the Global Financial Crisis of 2008/09, no imbalances, such as housing or private debt, nor delinquency/banks needs solving.

2) China has returned to pre-Covid-19 levels and we estimate that it will grow at around 7% in 2021

3) Most economies will benefit from strong monetary and fiscal support, as well as probable strong public investment in infrastructure/renewables, all of which are policies that will accelerate the recovery.

Going forward, we will have to deal with many countries' deficit and debt levels, and its impact over weal countries, corporates and households, but this problem is more of a long-term issue, not something that should concern us at the moment. We also see higher inflation coming mid-term, being part of the solution.

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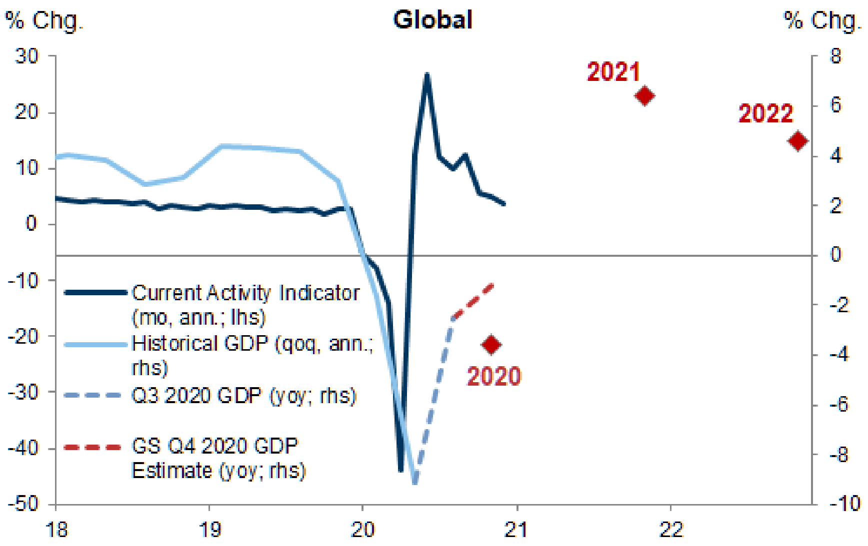

Source: Goldman Sachs

Consequently, strongly in line with the consensus, **we believe that the world GDP will grow above its potential level in 2021 and 2022, possibly in a coordinated upswing.**

What risks do we see? Our macroeconomic analysis seeks to identify potential risks rather than assessing the performance of the world's economies in detail. Excluding black swans (such as the Covid-19 pandemic, wars, or other unexpected negative global events), we remain mainly concerned about the **imbalances in China** (both social and economic), **interest rates/bond yields/debts** (at some point interest rates will have to normalize, although we do not see this in the short term), and the pockets of **bubbly valuations** (mainly technology, credit, and real estate), which should at some point normalize.

In summary, we understand that a) the Covid-19 crisis is not the beginning of a new cycle, but an endogenous event of limited duration; b) we have 2-3 years of coordinated global growth ahead of us; and c) we expect higher inflation in the medium term. **Two of the equity factors which usually outperform against such a backdrop are value and commodities**, which are two of our investment drivers.

Equities are fully valued, although there is some bifurcation

As every year at this time, we make a valuation analysis of the global-level geographies and sectors in order to identify investment opportunities and risks from a valuation point of view.

By geographies, equities are mostly fairly valued, with some near the high end of their historical range. The Standard&Poor500 is trading at a PE21 of 23x (historical average 19x), Nasdaq at a PE of 30x (historical average 25x), Europe at a PE of 18x (average 19x), and the main emerging countries (China, Russia, and Brazil) are at historical medians. Only Turkey remains on the cheap levels due to the country's socio-economic uncertainty. We only mention PE ratios for illustrative purposes, but our valuations use different approaches, including mid-cycle adjusted returns to normalize the earnings.

By broad sectors, the reading is less homogeneous: the expensive sectors are Technology (PE21 of 30x versus a historical average of 25x) and Industrials (PER 26x versus 20x), while the cheap sectors are Banks-Financials and Energy. The remaining sectors (consumer, health/pharma, and materials) are aligned with their historical averages.

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We draw the following conclusions in general terms:

a) Following the stock market recovery in 2020, and compared to 2021 forecasts, **valuations are at high/demanding levels.**
b) **Equities are anticipating an upward cycle** possibly looking at a normalized 2022.
c) **Both sectors and markets are within their historical averages if we look at 2022 forecasts** (neither expensive nor cheap), with just one thing to highlight: in average terms, **returns on equity (RoE) for 2022 are expected to be much, much higher than the historical average.**

Thus, in theory, we should have a flat stock market in 2021, followed by a return to the long-term trend of 6-7% per year. There is only one caveat: the high expected RoEs of several sectors and geographies (led by technology, which is having a large impact in many indices due to its large weight), well above the historical average. The second caveat is that markets rarely behave so smoothly.

Going back to basics and applying economic theory, these exceptional RoEs should at some point normalize/mean-revert (for instance, the average historical RoE of Technology is around 19-20%, vs. the current 27%). However, the current business models of e-commerce, search engines, social networks, cloud, etc. are large, well-positioned growing businesses (with higher returns) and it will take time to see some normalization**. It is too difficult to predict when and how this mean reversion will happen, but it will happen, since these huge returns will attract competition or regulation, or both.**

The LTIF Natural Resources fund is cheap and has a very favorable outlook

The Natural Resources Fund had an incredible 2020. It started the year at levels of EUR 100 per share, during the March20 collapse it fell to EUR 50, and in January 2021 it is back at EUR 95 per share. **We are almost back to pre-Covid-19 levels and happy to have met the first investment premise (CP).**

According to our estimates, the fund has an intrinsic value (IV) of EUR 150 per share and an IRR at current prices of 15-16%, with a very interesting appreciation potential. It is important to note that our IV is calculated with converged (or mid-cycle) commodity prices and margins/returns, in a sector where the industrial variance (mainly due to commodity prices' volatility) and the market beta are enormous.

Roughly speaking, in the middle of the Covid-19 crisis, the stock market priced the fund at 33% of its IV: EUR 50 vs. our estimated IV of EUR 150. Our experience suggests that, in the current upward cycle of commodities, we will see the opposite effect in the coming years, i.e., prices and returns well above mid-cycle. **Thus, applying the same variance, the NAV of this fund could theoretically rise well ahead of its IV to levels of EUR 250 per share, 2.5x its current price, with an IRR above 20% during the cycle's peak years.** Let's not forget that commodities have a very long economic cycle, because it takes 6-7 years to build a new mine or open a new oil well, if permits can be obtained, which means the high part of the cycle usually lasts several years.

Regarding 2020's performance (-17% in the year): mining, especially copper, was the bright side of the fund, up 35% in local currency (26% in euros), while energy / oil, down 37% in the year, was a disaster. Consequently, we have been gradually increasing the weight of oil, and adding a few new companies. **At the end of 2020, energy/oil is 42% of the fund, mining 38%, and 20% is invested in agri-food and infrastructures.** As we have already mentioned, we generally try to balance the fund by investing 1/3 in each sector, but given the current valuations, we decided to continue with strong weights in energy and mines, especially energy.

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Commodities have started a new upward cycle

At SIA, we have often discussed certain **commodities' upcoming supply issues**. Part of this is structural, due to a decade of underinvestment, part is cyclical, due to the production and logistic issues caused by Covid19, and part is due to the growth in demand (aid policies and energy transition). The result became already clear throughout 2020 when supply issues impacted several commodities, leading to a sharp rise in prices. When, in Q220, we updated our estimates to reflect a faster than expected economic recovery in China, we realized that **copper was moving to a deficit in H220, and it actually happened.**

Covid-19 is still slowing down a large part of the world economy; consequently, demand remains fairly moderate globally, with the exception of China/Asia. This state of affairs is a bit scary for consumers; that is, for everyone on planet Earth. What's going to happen if the whole world will be back to growth, like China? When the lockdowns end, when we go back to normal, back to work, and start traveling again? with the help of billions of dollars, monetary and fiscal support, and central bank programs, and in a coordinated manner. **From January to October, Chinese oil imports grew by 11% y-o-y and demand for oil and other commodities is going to increase a great deal from mid-2021.**

China will grow by 7% in 2021

China announced its 14th five-year plan at the end of October; however, given the Covid-19 chaos, the Western press barely covered the issue. This five-year plan reflects a major paradigm shift: China wants greater domestic consumption/investment, within its sphere of influence, and a smaller trade surplus. Given the very low per capita consumption of natural resources along the Silk Road and other emerging markets, we anticipate an increasing per capita consumption of energy, metals, power etc.... or commodities, broadly speaking.

When this consumption is multiplied by the size of the population, the effect in absolute terms will be very significant. **Unfortunately, raw materials, natural resources, and some commodities have limited reserves and/or production capacity and higher prices are the only way to (1) bring new production and/or (2) curb the demand for them.**

Russian President Vladimir Putin elaborated extensively on the unsustainability of Western over-consumption in his Valdai speech. **Ultimately, in keeping with the world center's eastwards move toward Asia, the trade balances, currencies, flows, etc. need to be adjusted, not because of political issues, but because of the population and per capita consumption.** It seems that the world economic model has to be re-thought, since it is not possible to grow forever. There are simply not enough resources. Supply problems are beginning to emerge in many areas. After years of very low investment, there is again a lack of shipping and container capacity, and shipping lines have, for example, suspended cargo bookings in southern China until the end of February. In Europe, many products are already exhibiting rigidity: electronic appliances, semiconductors, glass, chipboard, and certain other manufactured or semi-manufactured products.

In China, supply issues are causing power cuts and authorities have prioritized railway capacity for the transporting of thermal coal, causing problems for steel producers, which cannot source enough met coal. Iron ore prices are rising, along with met coal prices, leading to higher steel prices, and, in many areas, scrap has already returned to the levels of ten years ago. Bauxite, copper, nickel, and zinc concentrate is becoming increasingly expensive, leading to low treatment costs and profitability issues for refiners.

And the green energy transition will require a vast amount of metals

There are many projections of the demand for metals related to the energy transition or "green revolution," and most figures are frightening. **Why? Because in the medium to long term, there are not enough metals** to cope with these goals (well before reaching the Greta Thunberg scenario).

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Being invested in many of the major producers of these metals, we naturally do not mind seeing such projections, which are by the way in line with the forecasts of honorable institutions such as the IMF, the World Bank, and many others. **In short, however, it is going to be extremely difficult to meet the projected goals without dramatically changing multiple socio-economic aspects our life.**

We can take a “small” metal, like silver, as an example. Since it is vital for solar panels, an additional 400,000 tonnes will be required by 2050. But the annual production is 27,000 tons and declining due to a decade of underinvestment (silver is mainly produced as a by-product of large copper/gold, lead/zinc mines). Moreover, the demand for other applications, such as electronic devices, is increasing, and thus slowly but surely, a large imbalance between supply and demand is expected to arise.

Oil faces three structural problems: depletion, underinvestment, and the US shale oil maturity

The Russian state-owned company **Rosneft, one of the largest oil producers in the world, recently stated that it foresees a short-term oil supply crisis** due to, among other factors, the oil majors’ (BP, Royal Dutch, etc.) strategic shift toward renewable energy and the American shale oil sector’s maturity. The company (and the Russian government, of course) **gave the go-ahead for its huge Vostok project in the Arctic, which should start production in 2024 and produce around 2 million b/d by 2035**. This will make it the second largest oil field after Ghawar (Saudi Arabia) which currently produces 3.8 million b/d. With the decline in production at Ghawar, perhaps the largest at a certain point, because Vostok oil is actually not a field, but a cluster of fields.

Given a year-on-year decline of 3-4%, the world needs 2 new Vostok per year (!) to keep the total production stable and the Vostok project will *only* need USD150 bn in capex, 400,000 people to build it, 150,000 to operate it, and 15 new cities. The latter figures show how difficult it is to start large fields in the oil industry even if you have the resources, and you can obtain a license, if one keeps in mind that most of these fields are in barren, desolate regions such as the Taymyr peninsula. The Singapore-based trading company, Trafigura, and India will be involved in the project in order to meet their growing demand for oil: **while investors in the West fear a decline in oil demand, governments in the East are concerned about supply.**

It is true that while large European companies continue to reduce upstream investments and accelerate their energy transition, North American majors are lagging behind. However, they face enormous pressure, and Chevron has announced plans to reduce its capex in the coming years: USD15 bn a year until 2025, 27% less than the previous forecast, and less than half the 2014 budget, when WTI was trading at around USD 100 per barrel. Exxon announced its new capex of around USD17.5 bn in 2021, and an average of USD22.5 bn from 2022 to 2025. These figures represent a decrease of, respectively, 46% and 31% from previous forecasts.

These cuts amplify the current industry trends. It is estimated that, worldwide, investment in exploration and production in 2020 was about USD230 bn, well below the previous forecast of USD325 bn. Investment in shale halved in 2020, from USD100 bn in 2019, and 2021 does not look much better. **In short, the collapse of investments in exploration and production continues and this does not augur well for oil’s availability in the future.**

Nuclear energy will be required

About 250 years ago the steam engine was invented and there are still discussions about who invented it. Today, **boiling water still produces 80% of the world's electricity** whilst hydroelectric power produces three-quarters of the remaining. Nuclear power produces about 10% of this 80%.

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Coal produces most of the world's power, i.e., about 50%, followed by gas. It is easy to understand that the product with the highest calorific value is the most efficient in terms of boiling water (not only economically, but also from an ecological point of view) but the world needs a clean, efficient, and sustainable baseload. Solar and wind energies cannot as yet provide that, **which means that nuclear energy is, for the time being, the only efficient and non-polluting solution**. In the very long term, large-scale industrial batteries might make it possible to consider renewable energies as quasi-baseload, but this solution is still far away.

In this context, the production of nuclear energy is growing rapidly in China and the Western world seems to be also experiencing a resurgence. Politicians are realizing that it is the only alternative to fossil fuel (hydroelectricity is saturated, there are no rivers left, no more valleys to flood, and even the United States wants to convert small river dams into small power plants). Even Japan is re-thinking its nuclear strategy. Against this backdrop, Elon Musk recently gave a remarkable speech in Berlin highlighting the need of cheap and clean energy/power… this will be important for the development of a clean Electric Vehicle industry. It is useless to charge EV cars with energy generated from burning coal.

In Europe things are also changing. Contrary to popular belief, the Netherlands, like many other countries, is dependent on fossil fuels as more than 80% of its power generation capacity is coal/gas, often heavily subsidized. Unfortunately, its huge gas field in Groningen is running out (like most fields in the North Sea) and the country only has one nuclear plant: the old Borssele reactor in Zeeland, which provides about 3% of the country's energy. Given the planned/forced reduction in CO_2 emissions, there is no alternative for nuclear energy, because the country does not have enough physical space to install solar panels and wind turbines (including renewed opposition from green organizations).

Safe nuclear energy appears to be one of the few viable alternatives if CO_2 emissions need to be drastically cut, but nuclear generation needs uranium and the world's production capacity is, following the Fukushima disaster (2011), currently at a very delicate phase. Again, investments have been substantially reduced and we have had a decade of depressed prices, underspending, and depletion of reserves. We are probably heading for a market in deficit once the electricity companies start renewing their contracts, which should occur in 2021/22. Large mines, like Ranger in Australia and Cominak in Niger, will stop producing when they run out. New projects will be needed, but they will require much higher prices than the current USD 33 per pound spot.

The takeover bid for KAZ Minerals was far below a fair price

KAZ Minerals became one of the fund's largest positions when it received a takeover bid from its main shareholder Vladimir Kim, who already owned more than 30% of the company. Given the situation, we did not expect a substantially better offer and decided to sell the position. In spite of the profit obtained**, we were very unhappy to let this asset go at that stage of the cycle and at such a low valuation**. We have nevertheless adjusted the copper weightings (raised our position in other companies) to offset the impact on the fund.

KAZ Minerals' Baimskaya copper project is one of the world's largest undeveloped copper assets in the remote Chukotka district. The state-owned Rosatom put the world's first floating nuclear power plant into production last year: the ship Akademik Lomonosov, which is now berthed in the port of Pevek in Chukotka and will be Baimskaya's source of power. (Rosatom's website is, by the way, very interesting not only regarding the production of electricity, but also the application of nuclear technology in other areas, such as medicine, sterilization, disinfection, logistics, and many more).

Lots of action in our holdings

The fourth quarter was very active in terms of corporate actions involving our holdings: **ConocoPhillips acquired Concho Resources, Pioneer acquired Parsley Resources, and Cenovus merged with Husky**,

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creating a company as big as Suncor or CNQ. **Premier Oil agreed to merge with the hitherto privately held Chrysaor**, creating the largest independent oil and gas company listed in London, and thereby solving its balance sheet issues.

The Australian nickel mining group Independence Group bought a stake in the Greenbush lithium mine from Tianqi, which operates the asset together with Albermarle. Western Australia's lithium reserves are similar to that of its iron ore, providing 50% of the world's total exports and Greenbush is the largest operating mine in the world. The mine is located on the site of the largest known hard rock lithium deposit in the world.

All of these transactions strengthen the position of our companies and are occurring at good prices at the beginning of an important commodity cycle.

Natural Resources is the *early innings* of a long upward cycle

The LTIF Natural Resources fund invests in sectors where the lack of capital expenditure and the structural depletion of resources will lead to tight supply and increased product prices (and volatility).

In our experience, it is very important to focus on quality assets, i.e., TIER1 assets available for investment, and the Fund in this respect looks for the best assets in terms of quality, grade, size, life, costs, capex, etc. in order to enhance the profitability of our investments.

We believe that the Natural Resources fund is well positioned to benefit from this new upcycle and the developments described, in what we think will be a long journey full of excitement.

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January 20th, 2021

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