SIA
Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of November 2022

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

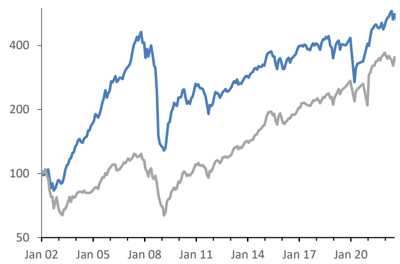
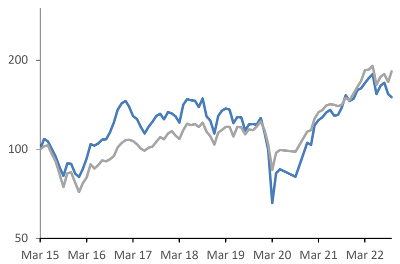


Figure 2: LTIF Natural Resources EUR
vs. S&P Global Nat. Res. Net TR Index EUR



"The inevitable never happens and the unexpected constantly occurs."

J.M. Keynes

Overview of our funds

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

October 31, 2022	NAV	Δ 3m	Δ 12m	Annualized return (s.i.)	AUM *(in mio)*
LTIF Classic [EUR]	543.79	-3.3%	6.3%	8.5%	79
LTIF Natural Resources [EUR]	137.79	1.6%	9.4%	1.8%	73

Source: SIA Group

We are prepared for the expected economic slowdown. Slowly leveraging on fear

Our portfolio is built to be recession-proof; we are therefore not overly concerned about the much-talked about recession. As our investors know, the LTIF Classic holdings have "*face and eyes*", we know them well, and all are ready to navigate any economic scenario. In fact, we consider ourselves long-term entrepreneurs: if share prices drop, we buy more, because the companies' fundamentals do not change all that much, and their **long-term cash flows do not vary significantly during economic recessions or accelerations.**

Our strategy of diversification by sectors, geographies, and risk categories is a great help with navigating turbulent waters, such as the current ones. The 1-2 risk categories (low risk/cyclicality) have excellent franchises and tend to withstand a crisis better than average ones. On average, the LTIF Classic holds half of its assets in these categories. However, since we are seeing a great deal of value in categories 3-4 (which have fallen the most), we have started to overweight these, taking advantage of some bargains in the current market to raise the Intrinsic Value and the Expected Return of the fund.

Warren Buffett often uses the phrase: "*Be greedy when people are fearful*." It is easy to understand, but difficult to execute, given that you must be very contrarian to buy when the *animal spirits* are so negative. We recently attended two conferences on *Industrial Companies* and *Strategic Decisions* in September and October, and thereafter we could easily make a list of 20 buy ideas at the current price levels. This is not normal, meaning that there is still a lot of value in the stock market, and we plan to take advantage of it.

From an investment perspective, corrections and recessions can become great investment opportunities as fear greatly raises future returns.

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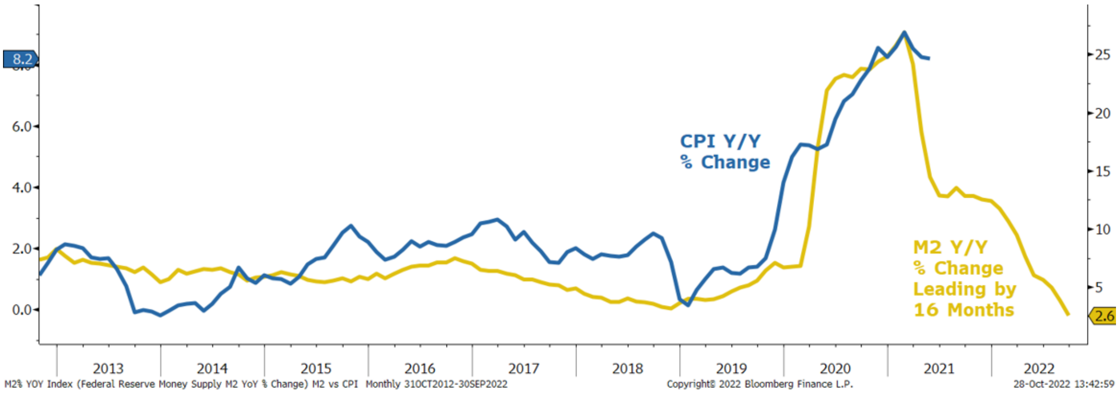
Toward a normalization of inflation and interest rates

Peak inflation is approaching, and Europe should reach it by Q1 2023. Thereafter, the inflation rate will gradually fade to 4%-5% levels by the end of next year. We cannot (and do not want to) be more precise, because too many variables could influence current forecasts: the war in Ukraine, Covid-19's evolution in China, global energy prices, etc.

Having said this, the main commodities and energy prices have stabilized, logistic/transport's prices are falling, finished goods are also normalizing, while services and labor costs will complete their upward adjustment next year, which will lead to far lower inflation numbers, although they will be higher than they were pre-Covid.

Inflation is a monetary phenomenon, but with many different drivers



Source: Morgan Stanley

We believe that the two themes that the global media constantly repeats, namely economic recession and perennial inflation are mutually exclusive. Our base case scenario therefore remains a slowdown in economic growth in the coming quarters and also a slowdown in inflation. **This is nothing to be afraid of: in fact, this is a very typical economic cycle in which stock market corrections are around 30%.** The American stock market has fallen by 17% (SPX) and 29% (Nasdaq) this year, which means a good part of the recession has already been priced in.

China will once again lead the economic recovery… with some delay

We overestimated the Chinese economy's recovery, which we thought would start improving in the summer of 2022. **This did not happen, mainly due to the effects of Covid-19 and the associated lockdowns**. In recent months, China has implemented more than 900 measures to re-ignite the economy and the property cycle. Once Covid-19 is under control (after the winter?), China is likely to lead the global economic recovery once again.

We acknowledge that this might take a few more months, but - importantly - we are convinced that the Chinese economy is not going to "*collapse*" as many commentators have suggested. On the contrary, it will be a source of growth in 2023 and 2024.

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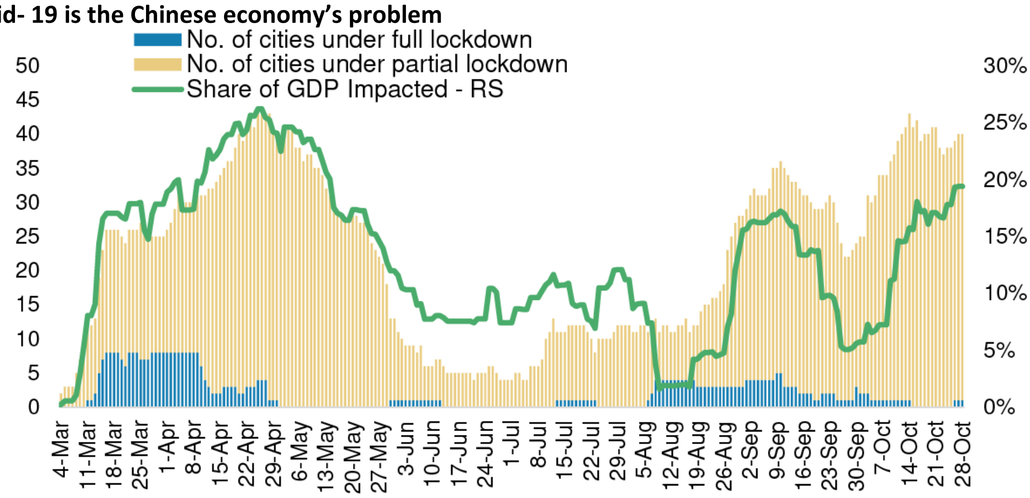
Covid- 19 is the Chinese economy's problem



Source: Morgan Stanley

Expect the unexpected. A negotiated solution of the invasion of Ukraine?

After much reading, **our conclusion about the Russian invasion of Ukraine is simple: wars are usually settled on the battlefield.** We should therefore not expect a negotiated solution until one of the two sides makes substantial progress. And it is just here where there may be an issue, because, in our opinion, neither Russia nor Ukraine can win this war. Our base case scenario remains unchanged: there will be no dramatic changes in the coming months (winter) and the situation will remain entrenched.

Our "*espoir"* is based on Keynes's phrase that "***the inevitable never happens and the unexpected happens all the time"***. Let us hope that Keynes will once again be right, and that a ceasefire will materialize in 2023, sooner rather than later. We do not think we can add any real value here, although our thinking about the war has an influence on why the Classic is currently conservatively positioned.

Energy prices: Higher for longer

Since the end of summer, both gas and oil prices stabilized for a few months although our forecasts suggest that this is only temporary. Short term, gas prices will depend on how cold the winter is (and in the medium term on how the Russia-Ukraine situation unfolds).

The oil market, however, is very tightly balanced, which will sooner rather than later lead to higher prices. In the short term, the following factors affect the supply negatively: 1) the end of OECD countries' sales of strategic reserves (around 1 million barrels per day), 2) OPEC is cutting production (1m b/d adjusted), 3) US shale production data are below expectations, and 4) Russian oil sanctions (mainly its transport, insurance, and price limits) will come into force in December. In addition, the demand is still somewhat depressed due to the Chinese economic situation and the still restrained air travel. The expected drop in demand due to the economic slowdown will probably be less than normal, due to the lagging economic catch up after Covid-19.

In the long term, however, there are fundamental issues: depressed investments since 2013, windfall taxes, ESG constraints, and the fear of peak oil demand (energy transition) are all preventing incentive prices from functioning normally in the sector.

We find it surprising that governments all over the world are implementing what the press calls "*taxes on windfall profits*", a move very much aligned with the general public. Let's be serious, what are we talking about? Is it a tax on extraordinary profits? No way. The oil sector has not been generating decent returns for a decade (ergo the lowest investment), but now that returns are at last normalizing, they are being heavily taxed.

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As we will comment later in this newsletter, governments should stop penalizing fossil fuel producers as the world still needs these in the medium and long term (until the energy transition starts to materialize) and should also stop subsidizing their use (don't they want demand to fall?). Politicians should think a bit less on short term votes and more on long term structural issues (we find again similarities to Graham's *voting machine*, this time applied to politics).

Our scenario places the price of oil at 100$+ with spectacular spikes every time a producing country has a problem. *Fortunately, most producing countries are extremely stable*.

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Classic is up +14% ytd. to mid-November to €560 p.s.

The LTIF Classic posted a positive performance up to mid-November, at +14%, ahead of most indices. The MSCI World Index (EUR) is -10% ytd, the US SPX (US$) index -17%, the European SXXP (EUR) index -11% and the Emerging Markets (US$) index -24%. It has been a tough year for most indices. It is always very positive to beat the main stock market indices in the short term, but this does not mean much, **given that the long term is the only representative time horizon for us.** Allow me to quote Ben Graham's famous phrase: ***"short term, the stock market is a voting machine; long term it is a weighing machine."*** As an illustration, please take a look at the recent correlation between bitcoin and gravity, which is again pure Graham and his "*weighting machine"* at work.

The Classic's best sectors have been *Industrials* (due to their strong exposure to ***Defense*** and ***Aerospace***), ***Services*** (catering and cleaning), and ***Energy*** (oil and gas), all of which have so far demonstrated a strong performance this year. The following names are worth highlighting: Thales, Raytheon, ISS, Sodexo, and oil companies (mainly Suncor, Hess, Cenovus, EOG, and ConocoPhillips).
On the negative side, **the worst Classic sectors were *Technology, Health/pharma, Cement, Salmon*, and *Mining*,** all of which showed double-digit declines. In terms of stocks, we would highlight the sharp falls of Leroy Seafood, Mowi, Grifols, Pandora, ASML, Heidelberg Cement, and Hudbay Minerals.

IRR @ 15%. Updated Intrinsic Value @ €880 p.s., 60% upside

We keep taking advantage of this year's market weakness to buy shares on the cheap, producing a positive impact on the Classic's I.V., which is now very close to €900 p.s. The updated IRR stands at 15%, near the historical mean (range being 12%-17%), and in line with our target of €575 p.s. for Dec-22.

As time passes, we are increasingly comfortable in these times of corrections and/or recessions, because the portfolio's quality allows us to keep calm and buy our own holdings (or those on our watchlist) at increasingly deeper discounts, thus leveraging on fear. **Should we move aggressively to categories 3 and 4 (higher risk; cyclical exposure) to take full advantage of the current market cheapness?** Well, not really, because the global outlook can always get worse (there are always *black swan* risks, more in wartime). Capital protection is one of our strategic cornerstones and we must maintain the right balance between risk and return. What we are doing is to slowly rebalance the Classic towards higher cyclical exposure to raise the fund's expected return in the long term whilst maintaining its structural high-quality bias.

Quality, diversification, and a mid-double-digit expected return

The table below shows the Classic's ten main positions, which account for almost half of the assets. As usual, several of the fund characteristics can be found in these ten companies: geographic and business diversification, quality, and value (all have a strong discount on their intrinsic value). In short, this is what makes us very calm in the face of recession fears: a quality portfolio, trading at very cheap prices (and high expected returns), which should be able to navigate any economic turmoil safely.

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LTIF Classic Top10 Holdings

Cenovus Energy Inc.	6,2%
ISS A/S	5,4%
ING Groep NV	5,4%
Sodexo SA	5,1%
Thales SA	4,8%
Suncor Energy Inc.	4,6%
Unilever Plc.	4,2%
Grifols SA	4,2%
Heidelberg Cement AG	4,0%
EOG Resources Inc.	4,0%
TOTAL	**47,8%**

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Quarterly Investment Case. *Pandora's* box is once again open!

Pandora has done it again. **In the summer of 2021, we at SIA claimed victory with our investment in Pandora,** which had made a fantastic recovery in both its business and share price, with the latter reaching almost DKK 900 in September 2021.

A year later Pandora has fallen 50% to around DKK 450 p.s. Two comments about this: 1) We luckily reduced our position's weight in 2021 (most of the time, the weighting is more important than the holding itself) and 2) believers in the *efficient market theory* should review their conclusions.

What are we doing, besides rubbing our eyes in disbelief? **Well, we started buying a few months ago and at these prices we will continue to slowly buy as much as we can**. In the meantime, the company has paid its shareholders a 15% total yield (adding dividends and buybacks) throughout 2022. This is a tangible cash flow, far more important than the short-term change in the share price (back to Graham's *voting machine*).

We joined Pandora's recent earnings conference call, and the management team is truthfully doing an amazing job. The outlook is, of course, cloudy due to the economic slowdown, but, in our view, Pandora has significant competitive advantages in the long term, such as scale, costs, distribution, and even some network effect and switching costs (charms and collections); the balance sheet is healthy, and the stock is trading at a steep discount.

Why is it cheap? Pandora is part of the consumer discretionary sector, a sector heavily exposed to the economic cycle, and the company has a mediocre track record, given its previous mistakes and the restructuring of the business had not even been fully completed when Covid-19 emerged. This makes Mr. Market think that it will suffer badly in the event of a recession, which will lead to downgrades of the estimates and a new bout of disappointments.

This is where we are contrarians: we believe that Pandora's business is of a very high quality and that, although it is not immune to downturns (we may have to lower our estimates in 2023), it will survive them without facing structural issues.

Our investment in Pandora should therefore at least double within the next 2-3 years. **We are a bit embarrassed, but here goes: our Intrinsic Value of Pandora is DKK 1200 per share, with an IRR of 22%. This is not a typo, there is indeed a thorough analysis behind those numbers.**

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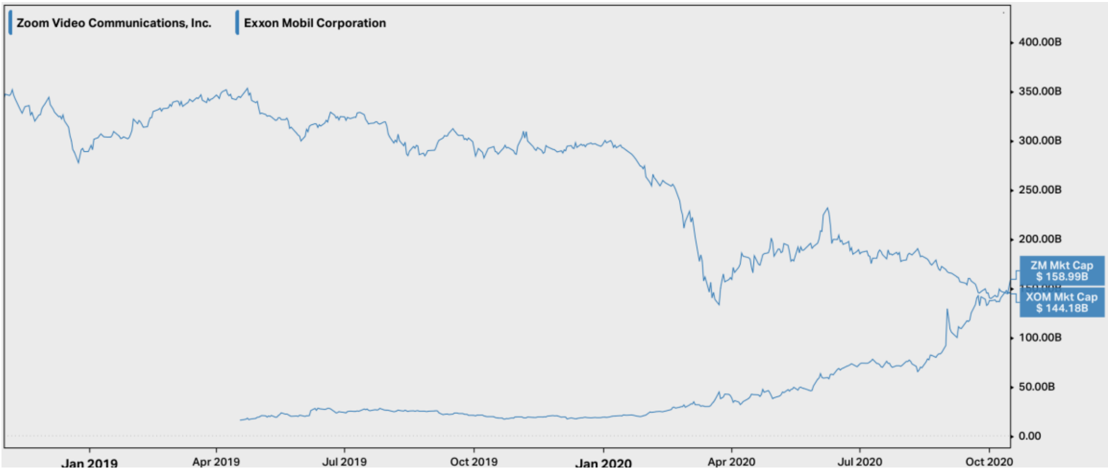
Tech and energy have started a normalization phase. This trend usually takes years

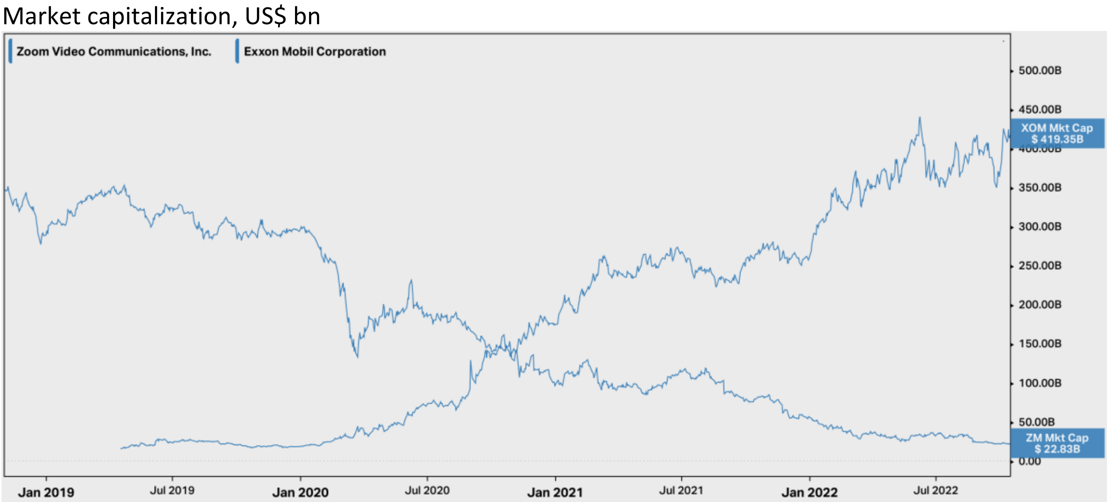
Readers of our Newsletter may remember that, at some point two years ago, the software company Zoom's total market value was higher than Exxon's total value. We even published the following chart:

Market capitalization, US$ bn



Well, some months later the markets reviewed those valuations. Exxon is now about 20 times more valuable than Zoom (which includes the dividends Exxon has paid):

Market capitalization, US$ bn



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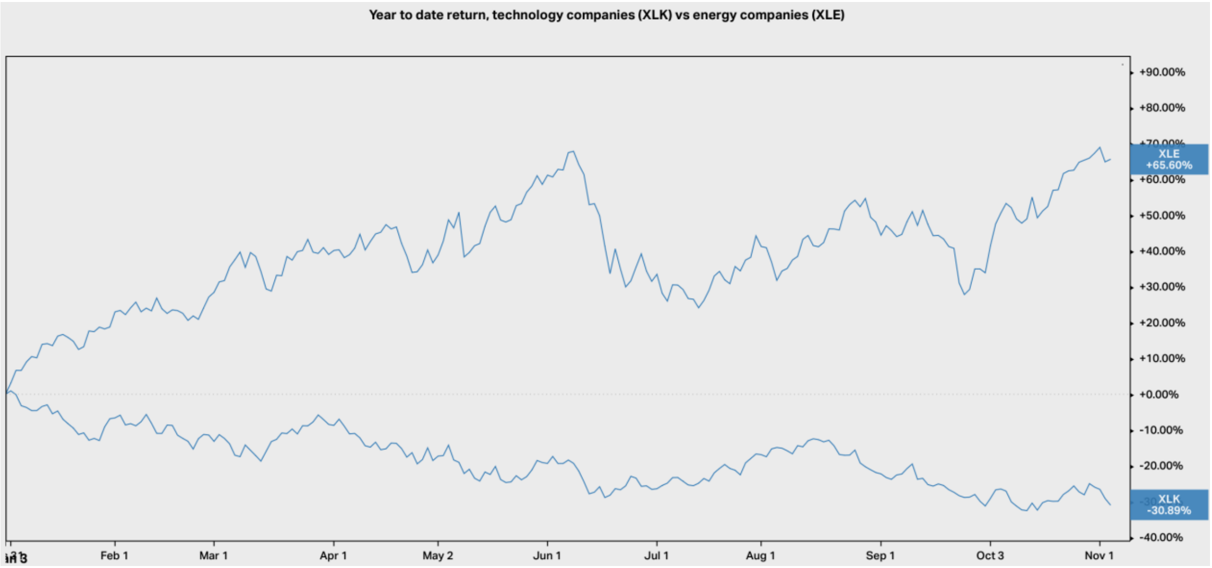
These changes are not, of course, limited to these two companies. Here is some data:



The question that must now weigh on investors' minds is: will this continue or are things now more or less in line? Let's look at the two sides, the shares that are down and those that are up.

Following a 30% drop of the Nasdaq 100 Index in the past twelve months, it is obvious that *tech*. valuations are lower. But the Nasdaq still trades at a demanding forward PE of 25x. A company like Uber, which has never made money, is still worth US$58 billion. For US$80 billion you can buy Petrobras, which has paid more than US$25 billion in cash dividends just this year (no, that's not a typo).

These differences in valuation do, of course, reflect two issues: the remains of a bubble, and the narrative that the Ubers of this world will show very high profit growth, whereas energy companies' profits are about to disappear.

On the growth of profits: Some companies will indeed grow a lot but, almost by definition, most won't. Yet they are all valued as if they will. Google has a cash flow margin of 22%. Uber's fluctuates between 2% and 4%. The current drop in valuations is due to investors realizing this fact. The process is clearly not completed: Exxon currently reports more free cash flow than Microsoft, despite Exxon having just a quarter of Microsoft's market capitalization. If these stocks were bonds, we could say that investors demand 5 times the interest on money lent to Exxon than on that lent to Microsoft.

On energy companies' future profits: they, obviously, mostly depend on the price of energy. The price of any commodity is basically the result of the supply of and demand for the commodity. When prices go up (as energy prices had been doing many months before the Russian invasion of Ukraine), this is due to the supply not keeping up with the demand. **High prices are not really a problem, but a symptom of an underlying supply/demand issue.**

If we accept this simple logic, **we must accept that the only way of lowering energy prices (or any prices, really) is to increase the supply and/or decrease the demand.** Any measure that tries to lower those prices without increasing the supply and/or decreasing the demand is bound to fail. Prices can, of course, be fixed by government decree, but then the black market starts balancing the supply and the demand.

What measures are governments taking right now? Basically, they are subsidizing demands in order to alleviate people's energy problems; they are also imposing windfall taxes on producers to finance the

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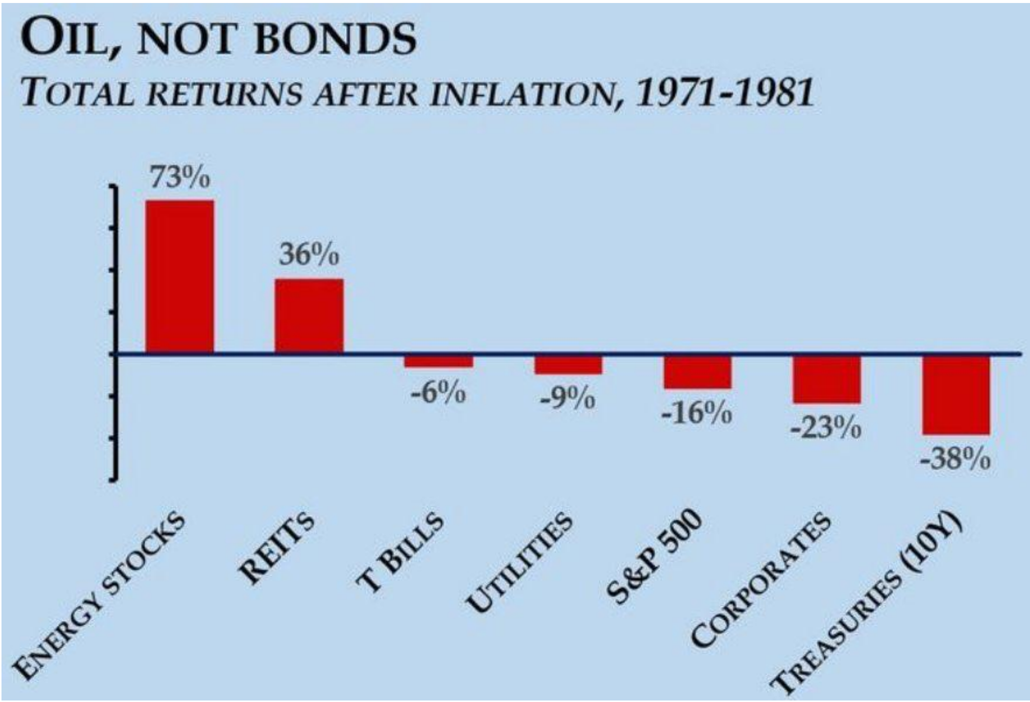
subsidies they provide. In other words, they are increasing the demand and decreasing the supply. They might even be increasing the supply by depleting pre-existing, limited, strategic reserves (which discourages new investments). Anyone who thinks energy prices will drop due to these measures is in for a large surprise.

(An aside: There are no demand and supply miracles. When European governments buy all of the available LNG - liquefied natural gas – cargoes, they are not "creating" more gas, but simply leaving poorer countries without any energy for next year. The amount of gas available will only increase if more gas is produced.)

We truly believe that energy-related investments' outperformance will continue for many years to come. It will, of course, be volatile, with prices dropping badly every time there is a short reversal. But the long-term trend is clear. **We simply can't run our societies without energy, and to replace our current usage of fossil fuels is going to take a very long time.**

Remember the point we made above regarding the current figures that show that owning Exxon pays five times more than owning Microsoft. This discrepancy in expectations/valuation of the energy sector is very important, because the last time we had real energy scarcity and high inflation (during the 1970s), the results were the following:



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LTIF Natural Resources. Strong 2021 and 2022, with a long upcycle ahead

The LTIF NR fund closed 2021 up +41% and so far, this year is up 15% to €141 per share. Note that we are still valuing Russian stocks at zero, but if we were to mark them to market (the stocks are still trading), we would be up +20%-21% year to date.

By sector, ***Energy* is the best performing sector** this year, with an average revaluation of over 60% (the weight has been close to 50% of the fund) compared to the disappointing performances of *Mining*, *Infrastructure*, and *Agri-food*, which show average declines close to double digits.

In relative terms (although the fund is not really comparable with any index), this performance is in line with the *Standard & Poor's Natural Resources Index*, which is up +20% in Euros so far this year (+9% in US$). The MSCI World Energy Index is up +46% (in US$) so far this year, and the MSCI World Metals and Mining Index -5% (in US$).

LTIF Natural Resources. 14% IRR and €207 IV on mid-cycle numbers

The IRR of LTIF NR currently stands at 14%, with an intrinsic value of €207 per share. We would like to again emphasize that the intrinsic value of this fund is calculated with commodity prices and DCFs in convergence (mid-cycle), but our intention is to remain invested until "*up cycle*" cashflows are priced in. We would be very surprised not to see a NAV of €300 within 4-5 years.

The 2022 commodity cycle is characterized by something that is not common, namely a low correlation between some subsectors, resulting in a strong rise in energy stocks and a fall in those of metals and mining. Generally, there is a strong correlation between the two sectors (which are strongly aligned with the Chinese macro), which in turn complicates the fund's management. However, the current divergence is allowing us to sell stocks that have risen sharply (oil) to buy others that have fallen sharply (copper), all of this within a long-term uptrend. This obviously has a positive impact on the expected IRR and the fund's intrinsic value.

Brent is down to US$95 per barrel. We maintain our 45%-50% exposure to energy

We remain heavily invested in energy, as we are convinced that oil prices will remain high (and from time to time very high) in the coming years. Oil companies rallied strongly in 2022 and are also paying dividends and buying back their shares, with added yields of over 10%-15%.

We think that the oil price will soon return to highs in the short term, due to the start of the European blockade of Russian oil and the price cap that the G7 wants to impose, which will both start in December. This is going to have an impact on supply that will most likely push prices up.

As we already stated, the long term is structurally worrying: the underinvestment since 2013, US shale maturity, financial discipline, fear of peak demand, ESG constraints, low spare capacity, and some other fundamental issues (declines, for example) mean **that the supply of crude oil will be very limited in the medium term, in the face of a still growing demand.**

Theoretically an undersupplied oil market should lead to incentive pricing (US$80-90 per barrel, on our estimates) to attract capital to develop new oil fields. However, incentive levels are getting harder to measure as ESG, limits to CO_2 emissions, and fear of peak oil demand have become relevant constraints to final investment decisions (FIDs). **Higher prices (above 80-90$) are thus required to take these constraints into account, but at what level?**

It's still early in the oil cycle and there is no real consensus about the outlook. However, looking at the valuation of the US oil stocks, it is clear that Mr. Market thinks that the companies' current earnings are not sustainable. We are not only convinced that they are but are also sure that they will increase.

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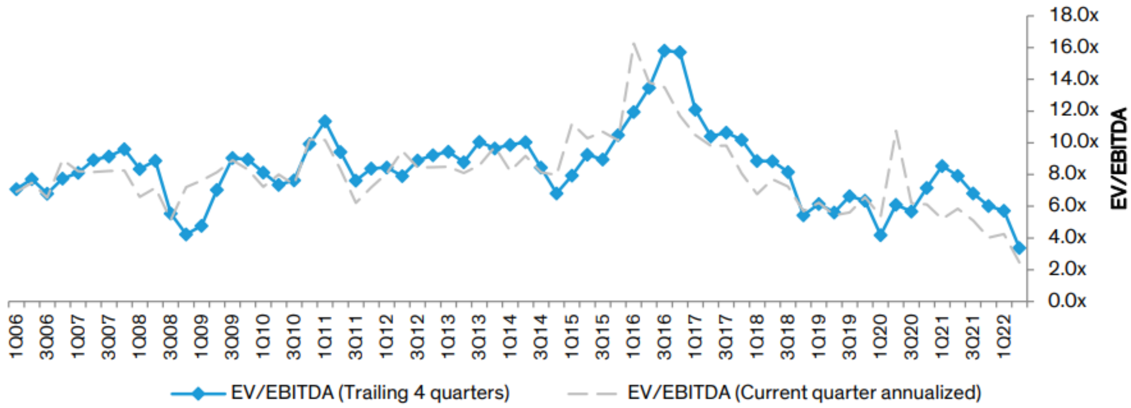
EXHIBIT 49 : **EV to EBITDA ratio**



Source: Bernstein Research

The Norwegian government proposes a resource tax on salmon
We couldn't quite believe the news when we received it. We thought it was a mistake. But it wasn't, **the Norwegian government proposed a new resource tax on the salmon sector, increasing it from 20% to 60% - 40 points more!** This is not a true tax increase; it is simply fiscal nonsense.

The stocks obviously fell sharply on the market, averaging 30%-35% in one week. As long-term investors, we watched the rapid fall with disbelief. We have not, however, sold our shares and are awaiting developments, because the government has left the door open for negotiations on the new tax's details.

If this resource tax is not changed, the sector will not be as interesting as during the last decade, because it is a full-fledged regime change. The sector's average profitability will drop by around 40%, which changes everything ranging from employment, investments, growth, dividends, etc.

Since it does not make any sense for the government to massacre such an important sector for Norway (employment in Norwegian coastal areas; production of sustainable food, etc.), we believe that an improved agreement will be reached in the next weeks (months) that will be more balanced for the sector and the government.

We have been lucky that the taxes caught us with a reduced sector weight (in the past, we have had more than 15% in this sector at times) and we have not done much as yet. We will first wait to see the final version of the tax bill, then we will update our numbers, and only then we will decide; more or less what the salmon companies are currently doing. Mind you, if the tax remains unchanged, we will be eating less salmon in the future, at possibly much higher prices.

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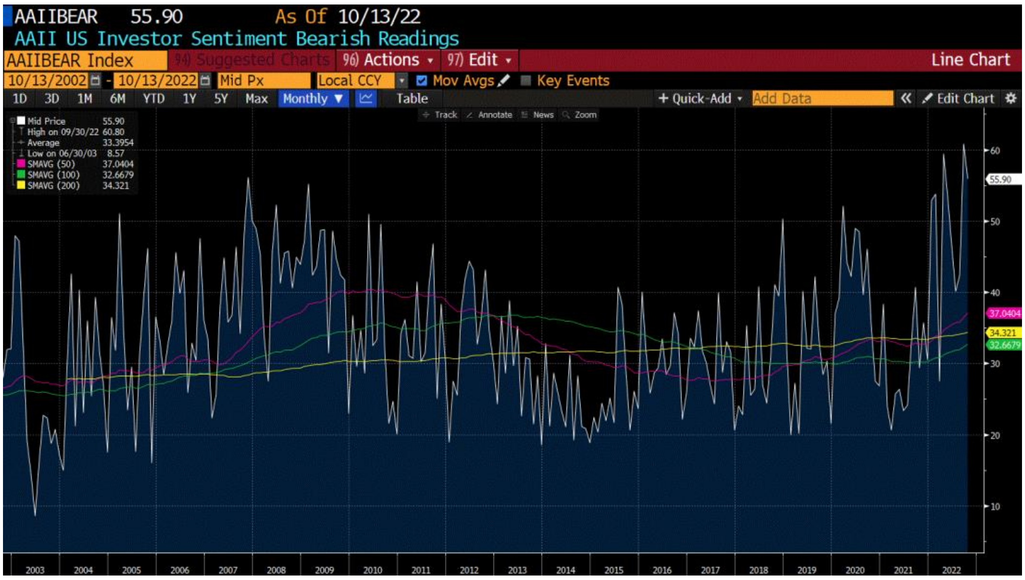
Animal spirits remain extremely depressed…be greedy

At SIA, we pursue a long-term strategy and do not focus on short-term movements. However, we are often asked about a good moment to enter/leave markets (and, of course, our funds). Every third year or so, we see an extreme positioning like the present one, which is usually a good entry point. According to the Merrill Lynch survey, investors have the largest cash position in 20 years, i.e., they are in a financially strong position. Yet, investor sentiment toward markets is the most bearish in 20 years, i.e., they expect prices to fall, see below.



Raising interest rates but at a manageable level, please

People think it is easy to duplicate the policy of Paul Volcker, a previous Federal Reserve president, who ended the USA's high inflation rates in the 1970s and 1980s by hiking interest rates above inflation (10%?). Today's situation is very different. The world is indebted and cannot afford to pay higher rates. The Bank of Japan has virtually frozen the interest rates on JGB's at 0.25% and needs to buy everything, which obviously affected the Yen.

Central banks always talk in riddles to hide the truth. They are used to creating new, fancy names nobody has ever heard of. The ECB did so with its new "*Transition Protection Instrument*" (TPI) to fight "*fragmentation*", meaning that it would buy weaker European countries' government bonds to prevent its interest rates from rising. One wonders why it did this when its monetary policy was a restrictive one in terms of raising interest rates. The authorities were, in other words, pushing for higher rates, but did everything to prevent them from increasing.

Meanwhile, the Old Lady of Threadneedle Street (Bank of England BoE) had to change its course dramatically. Interest rates shot up, the GBP collapsed, pension funds, mortgage refinancing, etc. were all on the brink of collapse. The BoE had to intervene, announced renewed quantitative easing (QE) instead of quantitative tightening (QT), etc., going "all in", just as Japan was forced to do. This was a little foretaste of things to come elsewhere. Cash might therefore not be the best investment in such a monetary environment.

Today's economy is more reliant on asset price inflation and high interest rates can produce large damages to households, corporates, and the entire system. We should not forget the purpose for which our central banks were founded more than a century ago. Overleverage led to the collapse of the Knickerbocker Trust in 1907 and during the subsequent panic, the Dow Jones Index lost 50%. This led to the

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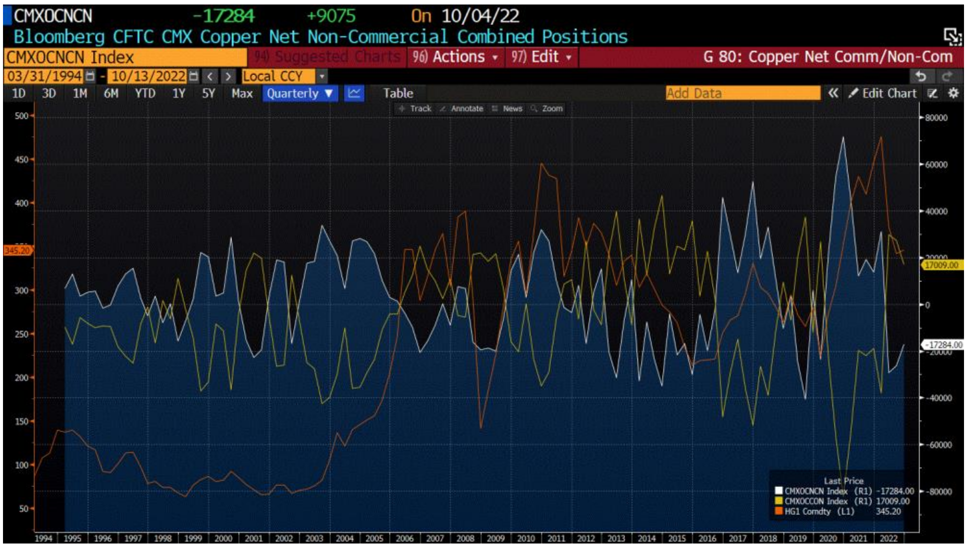
creation of the FED in order to counter depressions, to have a lender of last resort, an endless liquidity provider, etc. Simply put, having a tool that can print as much money as needed to keep the show running. **“*This time it is different*” has been shown to be a costly expression.**

The copper market positioning is one of the most extreme in 20 years

It is only comparable to the autumn of 2019, or the lows during 2014-2016. Commercials are net long, which is not a natural position. They are usually short, as they have their own production/supply, which is partly hedged on the future market. Historically, this has always resulted in price rallies, which will occur when, due to the declining economies'/markets' pressure, the central banks are forced to shy away from their anticipated course.



Given underspending, inflation, and supply chain issues, commodity production is disappointing everywhere (which will result in higher prices). Industrial metals show signs of strengthening despite the recession and financial speculators' massive selling. In China, physical copper premiums rose back above 600 yuan, up from 50 Yuan earlier this year. Better demand from China and reduced supply, mostly due to energy costs, which reduce smelting and refining economics, are to blame for this.

US SPR reserves are at historical lows and majors re-investing not in oil but into renewables

The US continues to release a lot of oil from its strategic petroleum reserve to combat inflation. **The reserve is currently at the lowest level for 40 years**. Unfortunately, it did not help all that much to lower oil prices. The White House has already announced that SPR will be rebuilt after the midterm election (and that the country would be a buyer if the oil price fell below US$70 per barrel).

In the meantime, oil majors continue to exit their core business. BP sold its oil sand exposure to Cenovus whilst investing $ 30 billion in a wind/green hydrogen project in Asia. That is neither the way to replace reserves nor enhance marginal returns. We continue to avoid such companies, as the strategy might be appropriate for the “*Zeitgeist*”, but it is not good for shareholders.

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