S I A

Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of December 2015

SIA Funds AG Parkweg 1 8866 Ziegelbrücke Switzerland

tel : +41 55 617 28 70 fax : +41 55 617 28 71 info@s-i-a.ch www.s-i-a.ch

Overview of our funds

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

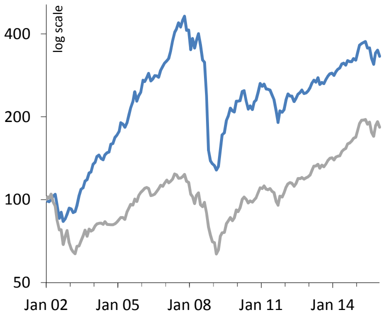


Figure 2: **LTIF Stability A Cap EUR**
vs. HFRX Global Hedge Fund Index EUR

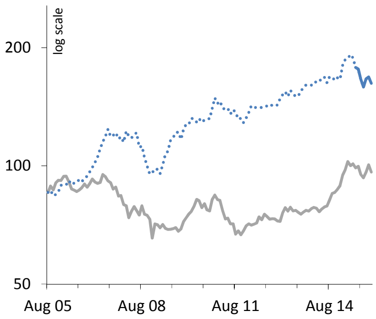


Figure 3: **LTIF Natural Resources EUR**
vs. S&P Global Nat. Res. Net TR Index EUR

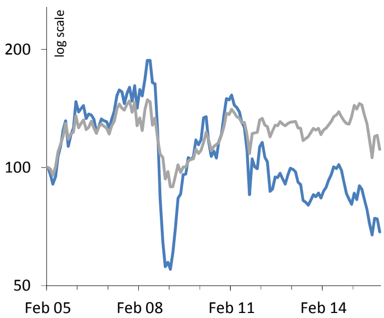


Table 1 and figures 1 through 5 show the development of our funds' Net Asset Value.

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

December 31, 2015	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) **combined Pool*
LTIF Classic [EUR]	331.39	6.9%	3.2%	8.9%	157*
LTIF Stability A Cap [EUR]	162.35	2.3%	-2.3%	6.4%	157*
LTIF Natural Resources [EUR]	68.52	1.9%	-17.4%	-3.4%	6
LTIF Stability Growth [CHF] *(Total return, dividends included)*	191.30	2.8%	-10.7%	2.9%	12
LTIF Stability Income Plus [CHF] *(Total return, dividends included)*	164.20	2.8%	-10.7%	2.7%	12

Source: SIA Group

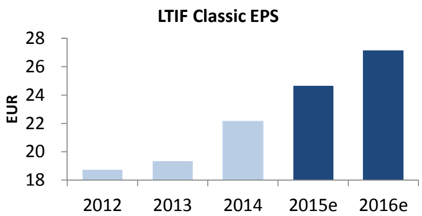
As can be seen, it's not a brilliant development: in our main fund, the Classic, the shares we own are trading in the market 3.2% higher than we started the year, all expenses deducted. This is somewhat less than most indices, and the reason is simple: we have a 15% position in energy and metals-related stocks, and those are sharply down for the year. We'll discuss this investment in some detail below.

But, as we say in almost every Newsletter, the evolution of the funds' NAV is not the best gauge to measure their performance, or the returns attained by our investors. That would be the case for an investor buying at the beginning of the year and selling at the end. But, for someone invested for the long term, "deeper" measures have to be considered.

Figure 6 shows the results attained by our companies during 2015. Earnings are up by 11.3%, dividends by 10.4%, and book value by 19.6%. We consider those fairly satisfactory returns, particularly taking into account that the energy and metals companies have, in general, done very poorly. As long as we maintain these rates of earnings growth, we are certain of having the market reflect them in our shares' prices.

Figure 6: **LTIF Classic – Earnings per share**

Year	EPS	Growth	PE	Prof.%
2012	18.7		13.3	7.5%
2013	19.3	3.2%	14.9	6.7%
2014	22.2	14.6%	14.5	6.9%
2015e	24.6	11.3%	13.4	7.4%
2016e	27.1	10.1%	12.2	8.2%



Source: SIA Group / Bloomberg

Figure 4: **LTIF Stability Growth TR CHF vs.** HFRX Global Hedge Fund Index

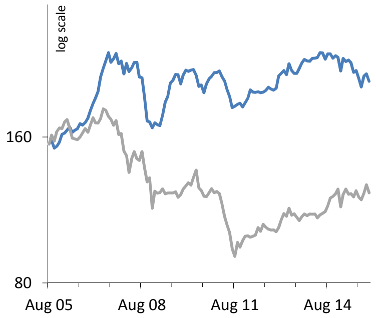
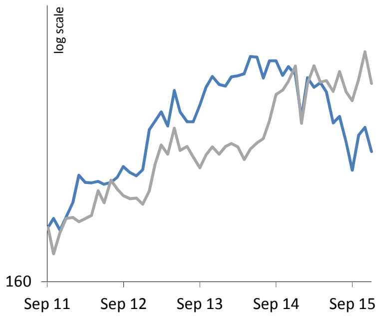


Figure 5: **LTIF Stability Income Plus TR CHF vs.** HFRX Global Hedge Fund Index CHF



It is worth underlining the nature of long-term investing. Somebody who invested in our fund when we started, 14 years ago, had to pay €100 for a share. Today, that share is earning €24.6, a return of 24.6% on the original investment. And this grows exponentially: over the next few years, profits will increase even faster than in the past.

A very heterogeneous year

We have had fairly different results in our "divisions". The largest one, salmon farming, has been very profitable, and we expect it to continue to be so: demand for salmon is very healthy and supply is limited by the needed characteristics of the growing areas. 2016 will see very little growth in production (we know this, because salmon take more than two years to grow, so we know already how many fish can be harvested this year), which will maintain prices at a very attractive level for the producers. 2015 has had to absorb the loss of the Russian market that used to be the largest in Europe, targeted by Western sanctions. In spite of that, companies are making good profits, paying high dividends (from 4% to 8%), and the shares still trade at modest multiples (around 10-12 times earnings). Long-term, we should expect an 11-12% annual return out of these investments, which are fairly uncorrelated to the macroeconomic issues that influence other businesses.

Within our "industrial" business we have had very different results: companies like MTU, that makes airplane engines, are doing very well (profits up by 10.5%, shares by 25%). Others such as Cummins, leader in truck engines, have disappointed (profits up by 20.5%, shares down by 8%). Overall, we believe we have a collection of very competitive companies, very well placed for long-term returns, but subject to the vagaries of the business cycle - and the market's exaggeration of those vagaries. One company we have added this year is Air Liquide, which we believe is going to be a very solid investment, with a close to annual 10% upside and very little downside risk.

Our consumer companies have had a good year (profits up more than 15%, shares up about the same). The Unilevers, Nestlés, and Coca-Colas of this world have shown again their ability to grow profits reliably in almost all circumstances, continuing to pay increasing dividends. In spite of this proven regularity, the market exaggerates quite a bit the small deviations that all real-life companies must go through. So, when one of these companies hits a 2-3 year patch of lower growth (not lower profits, simply less growth), the market tends to "lose faith", and assume growth is finished, even if nothing really has changed in the business. Share prices go down. But when the company comes back (and the ability of the fund manager is to judge whether they will come back or they are broken), the share price recovers. We saw that in Unilever two years ago, and with McDonald's this year, as shown in figures 7 and 8. All in all, this "consumer division", that makes up 25% of our investments and includes, in addition to the companies mentioned others such as Easyjet and Hen-

SIA Funds AG Parkweg 1 8866 Ziegelbrücke Switzerland
tel : +41 55 617 28 70 fax : +41 55 617 28 71 info@s-i-a.ch www.s-i-a.ch

kel, should continue giving us a very high return when adjusted by risk (basically, 8-10%, with extremely low risk).

Figure 7: **Unilever share price, in euro, 2011-2015**

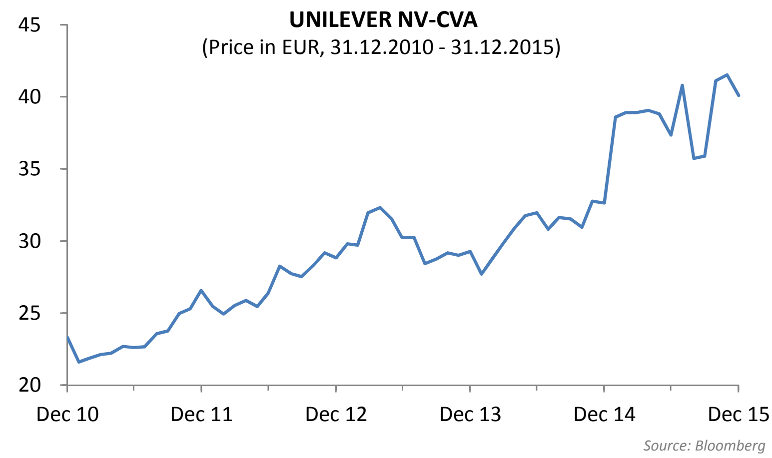
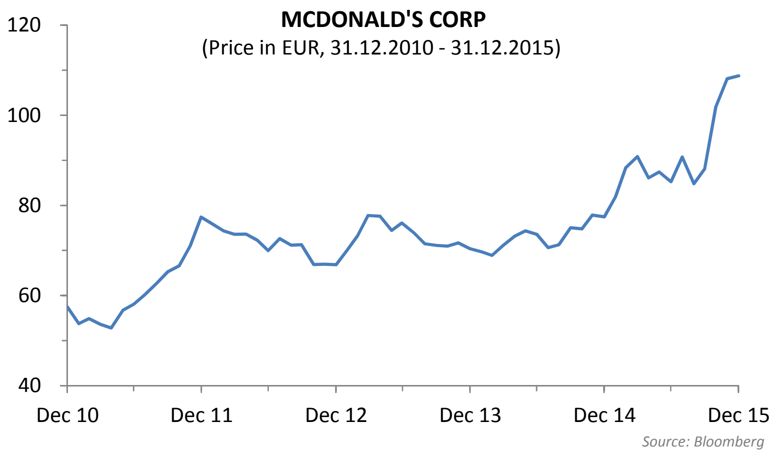


Figure 8: **McDonald's share price, in euro, 2011-2015**



Our financial investments (15%) have also followed very different trajectories this year. Most amazing, Visa shares are up 32%, to give the company a PE of 27. This is, by far, the most expensive share we own, but we are not ready to sell yet. The company has one of the best competitive positions imaginable, and should grow profits for years at close to 10%, with very little investment. Even at current prices, it's a stock that could return close to 10%, again with relatively little risk: it's a "cut" on all the world's consumer expenses.

Other stocks within the financial universe have been very volatile, as shown in figure 9 for Blackstone. It is one of the world's largest private equity funds, now diversified in many other areas of alternative asset

SIA Funds AG Parkweg 1 8866 Ziegelbrücke Switzerland
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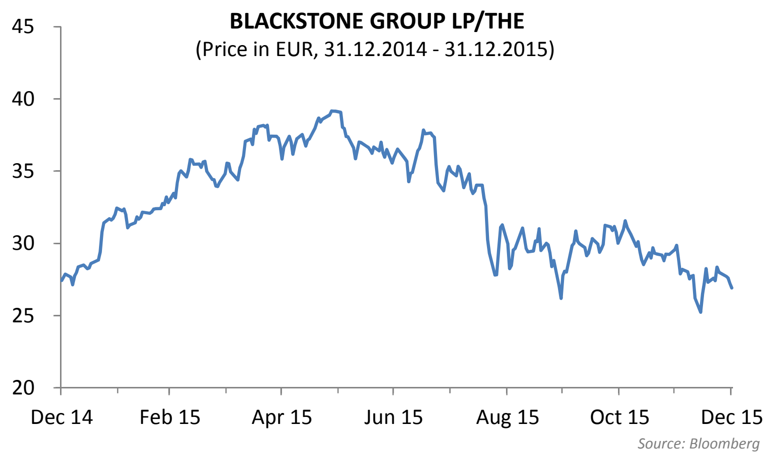
management. Its share price is very affected by the market's expectations about the market itself, for private equity companies tend to realize their profits when they sell their investments in public markets. If those are buoyant, the idea goes, they'll find it easier to "cash in" on their investments. If the market is perceived as close to "a top", investors assume that private equity companies won't be able to liquidate their positions, and won't be as profitable as expected. We believe Blackstone has proven its ability to earn money in all circumstances, and it pays a very attractive 10.3% dividend.

Figure 9: **Blackstone share price in Euro, 2015**



The banking sector is generally recovering from its near-death experience in 2008. Banks are affected by the macroeconomic environments, which means that those not in the US are still in a very low growth environment. In addition, regulators are making sure that banks are better capitalized in the next crisis, which affects negatively their current profitability, for they must hold more capital for the same amount of business. As can be expected, most banks trade at low multiples. We believe that some are attractive, although they are more like "utilities" than the aggressive financial conglomerates of ten years ago. We own Citi, ING, Sumitomo, and DGB, a domestic Korean bank. They have PEs below 10, good dividends, and very healthy business, in our opinion (in the case of Citi and ING, after being "cleaned up" by their respective Governments).

Besides some building materials (Wienerberger, profits up 500%, shares up 49% and HeidelbergCement, profits up 51%, shares up 29%), health care (Grifols, profits down 6%, shares up 7%; Draegerwerk, profits down 60%, shares down 18%, and Medtronic, profits up 22%, shares 19%) and technology (Apple, profits up 70%, shares up 6%), we have a large position in energy and metals-related companies. This is the "division" that has not done well this year, both in terms of profits and of course, shares prices.

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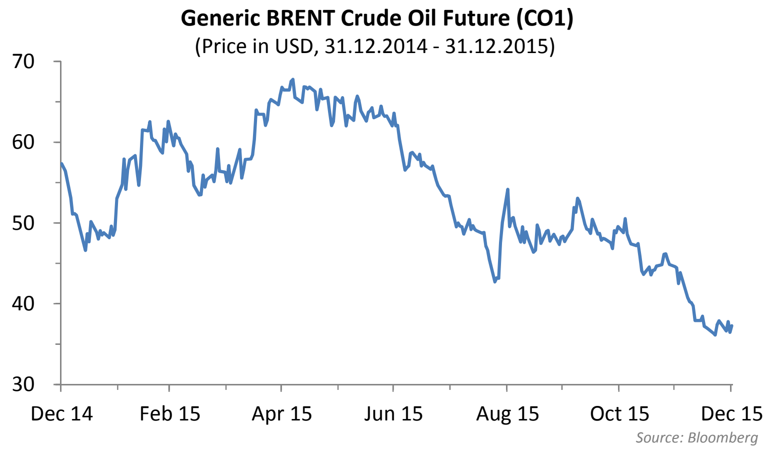
At the beginning of 2015, we argued that oil prices would stay low (they were below US$50 then), probably until the end of the second or third quarter, and then they would go up towards US$60, for this is the minimum price required by US shale oil producers to continue delivering oil to the market. Prices did indeed go up relatively quickly, as can be seen in figure xx, but then they started dropping again.

Figure 10: **Brent Crude Oil Future, 2015**



The main reason for this drop is that two countries, Saudi Arabia and Iraq, have increased production much more than expected, and that increase has more than offset the stagnation in US production. Demand has been, of course, higher than expected (it's up by almost 2.5 million bod, against an increase of less than 1.5 million in 2014, spurred by the low price), but inventories have grown nonetheless.

For 2016 things look different: the US is now decreasing production, and Saudi Arabia and Iraq simply cannot increase production by as much as last year. With practically all producers losing money on a full cost basis, investment in future developments is sharply down. Projects started in the last few years will still come into production in 2016-2017. But, as of 2018, the lack of oil will again push prices up, as we saw in 2005. Short term, without the increase of US shale production that met demand during 2011-2014 and without a new increase in production by SA and Iraq, it's clear that oil prices will start moving up even in 2016. It may take two or three quarters, but it will happen. Right now, everybody is producing at maximum capacity, and nobody is making enough money to reinvest. This is obviously an unsustainable situation, as attested by the growing number of US companies going bankrupt.

The companies we are invested in should do very well in this scenario. They are, basically, oil service providers, and oil producers with huge reserves and low cash costs. They will survive the current situation, and profit greatly when prices normalize. Their share prices are seriously depressed now, and we think they will rebound in the not too distant fu-

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ture. We don't know how to "time" the markets (as shown by our prediction from a year ago), so our method is to analyze fundamentals carefully to find companies that will profit in the future but have a wide of margin of safety now.

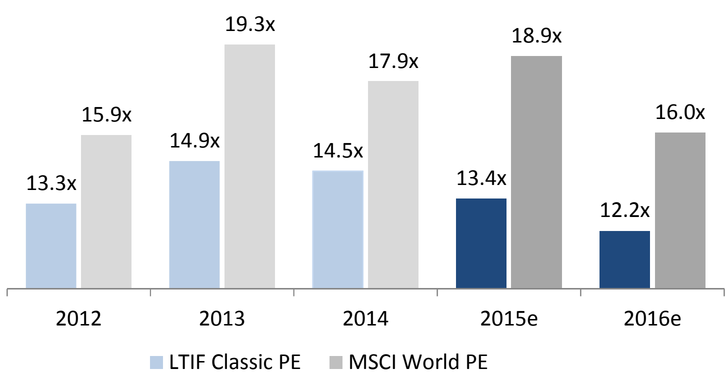
Looking to 2016… and beyond

The Equity Risk Premium that we discussed in our previous Newsletter is still very high, close to all-time highs. That means that investing in equities should yield, over time, much more than investing in equivalently risky bonds. As US interest rates go gently up, the Risk Premium will probably go down: bond yields go up, dividends stay about the same. But there is still a 4-5% gap, even in the US, between long-term expected returns in bonds and stocks. Over more than 10 years, that difference translates to enormous gains for stocks.

Of course, the Equity Risk Premium is paid for something: the volatility that stocks prices show (not so stock dividends, by the way), and the fear and bad feelings that generates in investors. But staying the course can pay very well.

Figures 11 through 13 show the multiples and dividends at which our stocks are trading, and a comparison with the overall market. If we are roughly right in our calculations, our investors will indeed make more than 10% per annum over the long term. This is the first year in four in which our profits are up more than the share prices, which, absent an unlikely long-term deterioration in all economic expectations, means the opportunity is even better than in the past.

Figure 11: **PEs of the LTIF Classic and MSCI World**



Source: SIA Group / Bloomberg

SIA Funds AG Parkweg 1 8866 Ziegelbrücke Switzerland
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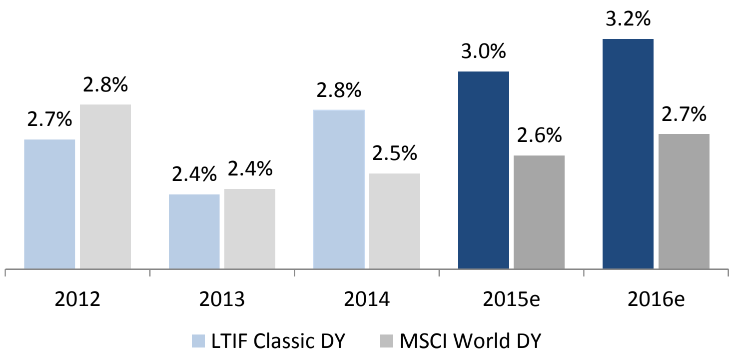
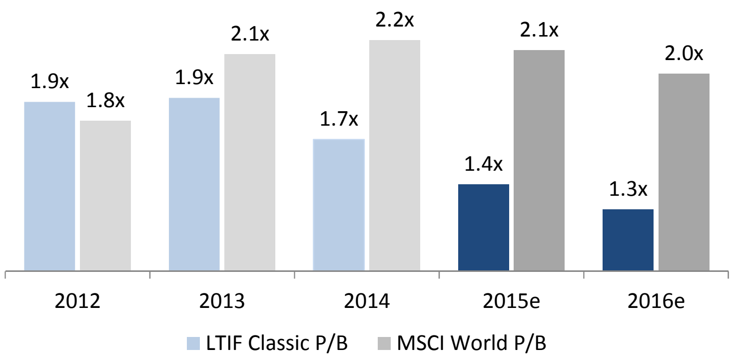
Figure 12: **Dividend Yields of the LTIF Classic and MSCI World**



Source: SIA Group / Bloomberg

Figure 13: **Price to Book of the LTIF Classic and MSCI World**



Source: SIA Group / Bloomberg

We can see a potential source of high volatility: political (not economic) developments in Europe. The inadequacy of European political structures to accompany the monetary union turns the Euro into a straightjacket that slows down economic growth. That feeds populist parties, which can try to change the status quo in a radical manner. When a very small country such as Greece tried, the markets wobbled. Finland trying would be worse. But much worse would be France or Italy. This is something that's going to be hanging over the European political scene until economic growth absorbs all the current unemployment, something that will take a long time. In addition, the UK will get absorbed in its "in or out" referendum. None of these things will have an impact in the long-term profitability of most companies, but markets will probably be buffeted by them. That's the source of the Equity Risk Premium: facing upsetting news, many investors prefer the "security" of government bonds over the volatility of stocks, even if it's clear that, over the long term, those stocks are much more attractive than the bonds.

SIA Funds AG Parkweg 1 8866 Ziegelbrücke Switzerland
tel : +41 55 617 28 70 fax : +41 55 617 28 71 info@s-i-a.ch www.s-i-a.ch

Figures of the USD classes

Table 2: Net Asset Value - Net assets under management in USD

December 31, 2015	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) **combined Pool*
LTIF Classic [USD]	359.99	4.0%	-7.4%	10.5%	171*
LTIF Stability A Cap [USD]	163.54	-0.5%	-12.0%	5.1%	171*
LTIF Natural Resources [USD]	74.43	-0.9%	-25.8%	-5.2%	7

Figure 14: LTIF Classic USD
vs. MSCI Daily TR Net World Index USD

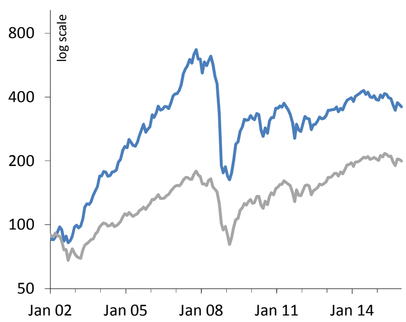


Figure 15: LTIF Stability A Cap USD
vs. HFRX Global Hedge Fund Index USD

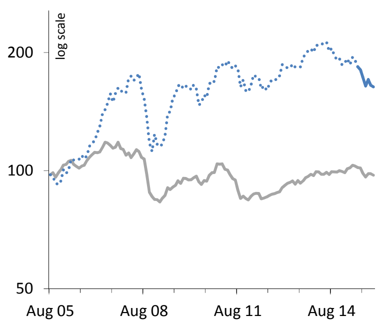
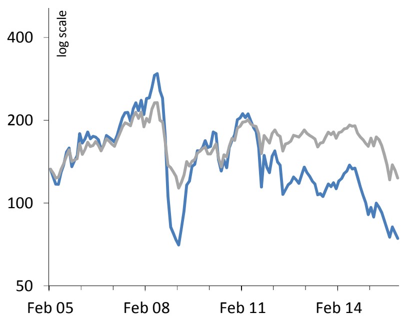


Figure 16: LTIF Natural Resources USD
vs. S&P Global Nat. Res. Net TR Index USD



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Figures of the CHF classes

Table 3: **Net Asset Value - Net assets under management in CHF**

December 31, 2015	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) **combined Pool*
LTIF Classic [CHF]	360.35	6.5%	-6.7%	6.6%	171*
LTIF Natural Resources [CHF]	74.51	1.6%	-25.3%	-6.5%	7
LTIF Stability Growth [CHF] *(Total return, dividends included)*	191.30	2.8%	-10.7%	2.9%	12
LTIF Stability Income Plus [CHF] *(Total return, dividends included)*	164.20	2.8%	-10.7%	2.7%	12

Figure 17: **LTIF Classic CHF**
vs. MSCI Daily TR Net World Index CHF

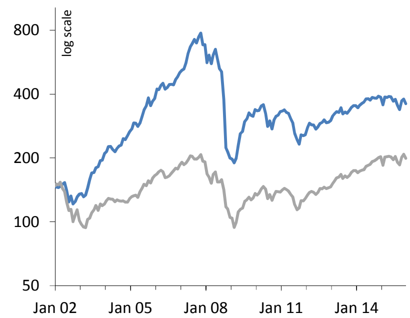


Figure 18: **LTIF Stability Growth TR CHF**
vs. HFRX Global Hedge Fund Index CHF

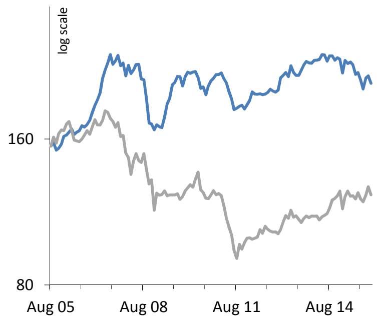


Figure 19: **LTIF Natural Resources CHF**
vs. S&P Global Nat. Res. Net TR Index CHF

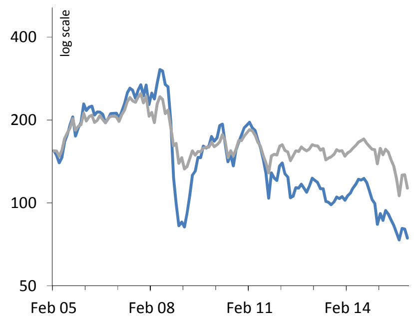
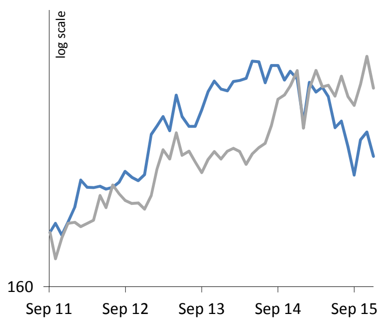


Figure 20: **LTIF Stability Income Plus TR CHF**
vs. HFRX Global Hedge Fund Index CHF



SIA Funds AG Parkweg 1 8866 Ziegelbrücke Switzerland
tel : +41 55 617 28 70 fax : +41 55 617 28 71 info@s-i-a.ch www.s-i-a.ch

Figures of the GBP classes

Table 4: **Net Asset Value - Net assets under management in GBP**

December 31, 2015	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) **combined Pool*
LTIF Classic [GBP]	244.24	6.9%	-2.0%	10.3%	116*
LTIF Natural Resources [GBP]	50.50	1.9%	-21.5%	-2.8%	4

Figure 21: **LTIF Classic GBP**
vs. MSCI Daily TR Net World Index GBP

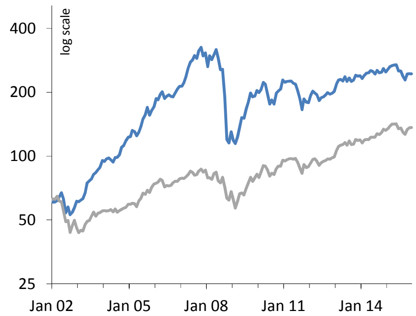
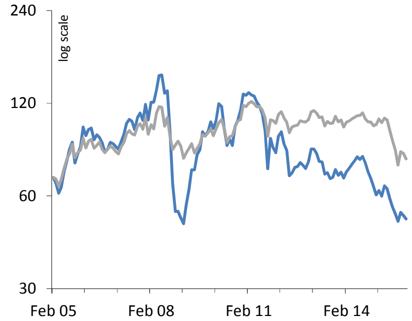


Figure 22: **LTIF Natural Resources GBP**
vs. S&P Global Nat. Res. Net TR Index GBP



SIA Funds AG Parkweg 1 8866 Ziegelbrücke Switzerland
tel : +41 55 617 28 70 fax : +41 55 617 28 71 info@s-i-a.ch www.s-i-a.ch

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	ISIN	Telekurs	Bloomberg
LTIF – Classic EUR	LU0244071956	2'432'569	LTIFCLA LX
LTIF – Classic USD	LU0301247077	3'101'820	LTIFCLU LX
LTIF – Classic CHF	LU0301246772	3'101'817	LTIFCLC LX
LTIF – Classic GBP	LU0750886714	18'032'305	LTIFCLS LX
LTIF – Natural Resources EUR	LU0244072335	2'432'575	LTIFGEV LX
LTIF – Natural Resources USD	LU0301247234	3'101'839	LTIFGEU LX
LTIF – Natural Resources CHF	LU0301246939	3'101'836	LTIFGEC LX
LTIF – Natural Resources GBP	LU0457696077	10'638'983	LTIFGEG LX
LTIF – Stability A Cap EUR	LU1128810261	25'840'496	LTISTAE LX
LTIF – Stability A Cap USD	LU1132799310	25'906'913	LTISTAU LX

Central Administration Agent:

FundPartner Solutions (Europe) SA
15 avenue J.F. Kennedy
L-1855 Luxembourg
Grand-Duchy of Luxembourg

Investment Manager:

SIA Funds AG
Parkweg 1
CH-8866 Ziegelbrücke
Switzerland

Custodian:

Pictet & Cie (Europe) SA
15A avenue J.F. Kennedy
L-1855 Luxembourg
Grand-Duchy of Luxembourg

Registered Office:

15 avenue J.F. Kennedy
L-1855 Luxembourg
Grand-Duchy of Luxembourg

SIA Funds AG Parkweg 1 8866 Ziegelbrücke Switzerland
tel : +41 55 617 28 70 fax : +41 55 617 28 71 info@s-i-a.ch www.s-i-a.ch

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LTIF – Stability Growth
ISIN: CH0026389202
Telekurs: 2’638’920
Bloomberg: LTIFSTA SW

LTIF – Stability Income Plus
ISIN: CH0135996012
Telekurs: 13’599’601
Bloomberg: LTIFSIP SW

Administrator:

FundPartner Solutions (Suisse) SA
Route des Acacias 60
CH-1211 Geneva 73
Switzerland

Investment Manager:

SIA Funds AG
Parkweg 1
CH-8866 Ziegelbrücke
Switzerland

Custodian:

Banque Pictet & Cie SA
Route des Acacias 60
CH-1211 Geneva 73
Switzerland

SIA Funds AG Parkweg 1 8866 Ziegelbrücke Switzerland
tel : +41 55 617 28 70 fax : +41 55 617 28 71 info@s-i-a.ch www.s-i-a.ch