SIA
Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of June 2015

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Overview of our funds

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

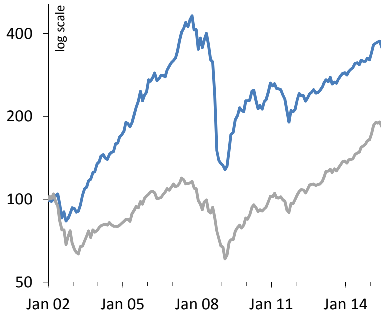

Figure 2: **LTIF Stability A Cap EUR**
vs. HFRX Global Hedge Fund Index EUR

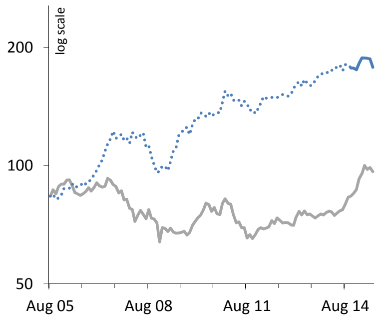

Figure 3: **LTIF Natural Resources EUR**
vs. S&P Global Nat. Res. Net TR Index EUR

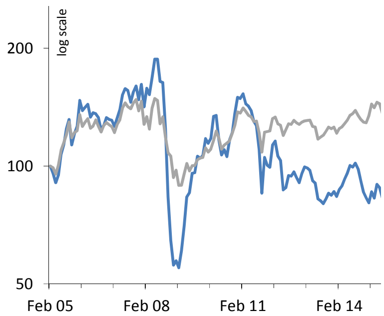

Table 1 and figures 1 through 5 show the evolution of our funds' Net Asset Value during the first quarter. Again, it is a remarkable evolution, indicating that investors are increasingly interested in buying equities.

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

June 2015	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) **combined Pool*
LTIF Classic [EUR]	355.42	-3.7%	10.7%	9.8%	195*
LTIF Stability A Cap [EUR]	178.19	-5.3%	1.4%	8.0%	195*
LTIF Natural Resources [EUR]	83.03	0.2%	0.1%	-1.8%	9
LTIF Stability Growth [CHF] *(Total return, dividends included)*	199.80	-5.1%	-6.9%	3.5%	13
LTIF Stability Income Plus [CHF] *(Total return, dividends included)*	177.50	-5.1%	-6.9%	4.2%	13

Source: SIA Group

We opened our previous Newsletter by saying: "if you are invested in our Classic fund, you have not 'made' 14.9% in the first quarter. In fact, you've made about 2%." We explained that, although the prices of the shares we owned had gone up by 14.9%, the companies we owned had earned about €6 per share of the fund, and this is the real profit for the quarter (some 2% of the price of the share, which is a nice return for a quarter). In the same way that investors didn't "make" 14.9% in the first quarter, they didn't "lose" 3.7% in the second either. They also earned €6 per share of the fund.

The drop in share prices happened during the last few weeks of the quarter when the Greek crisis reached another flash point. As we write these lines, the result of the referendum is still unknown. In reality, it does not matter to an investor, although it probably matters quite a bit to the Greek people. We are not going to provide our readers with yet another analysis of the "Greek problem": Our job is to find good companies at good prices, not to pontificate on very complex issues that have no bearing on our task. These newsletters have for years noted that Greece cannot pay its debt and, since it cannot, it won't. How this will play out in detail is impossible to forecast. However, it is going to be a source of constant volatility: Whatever "solution" is found for the current crisis, Greece will never be able to pay even a minimal part of its current debt. In addition, reforming the Greek economy and society will take decades. This will be with us for a very long time, like the Argentinian balance of payment crises, or immigration pressures in Europe. And, at some point, other European countries may find themselves in similar (if not as bad) circumstances.

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

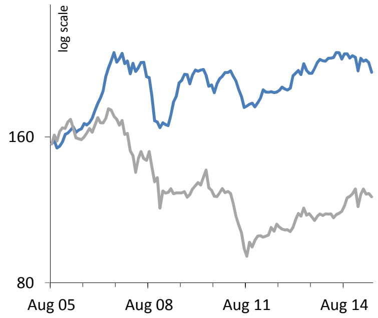
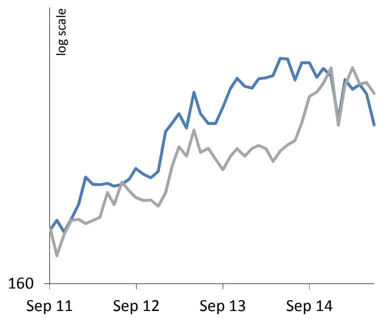


Figure 5: LTIF Stability Income Plus TR CHF vs. HFRX Global Hedge Fund Index CHF



While volatility is not our problem, it is, of course, our opportunity. We can earn 10% per year in shares, with little risk to our savings, precisely because a huge majority of investors don't want to invest in an "asset class" whose prices move much, even if its underlying profitability is essentially unaffected by all the noise. Our salmon producers (our biggest investment) will continue selling the same amount of salmon, at the same price, whether Greece stays in the Euro or not. And, as far as we know, none of our companies derives more than 1% of its profits from Greece.

As usual, Warren Buffett expressed it very clearly in his latest Letter to Shareholders:

> *Stock prices will always be far more volatile than cash-equivalent holdings [cash and short-term bonds]. Over the long term, however, currency-denominated instruments are riskier investments – far riskier investments – than widely-diversified stock portfolios that are bought over time and that are owned in a manner invoking only token fees and commissions. That lesson has not customarily been taught in business schools, where volatility is almost universally used as a proxy for risk. Though this pedagogic assumption makes for easy teaching, it is dead wrong: Volatility is far from synonymous with risk. Popular formulas that equate the two terms lead students, investors and CEOs astray.*

We made two assertions in the previous Newsletter: that the current level of the market does not matter much to a long-term investor; and that one makes more money when the market goes down than when it goes up. To illustrate the first point, we showed that the long-term annualized return of investing in a stock, using Nestlé as an example, did not vary dramatically whether one bought or sold after the biggest drop in the last 75 years.

The second point also requires some explanation. Ideally, an investor should sell at the top of the market, buy at the bottom, and repeat. This is what all the people who argue about whether "the market is expensive or not" or "this is a good time to be invested or not" are really trying to do. In fact, somebody who had sold the market just eight years ago and bought it back two years later would have made an annualized return of 19% over the last 10 years, against just 5% for the market.

But the reality is that few people can consistently sell at the top and buy at the bottom. And if the timing is not consistently good, the results can also be very bad: Somebody who sells after a drop makes real loses and usually does not participate in the rebound. This is why we simply ignore this approach and try to concentrate on our companies' real profits, which accumulate every quarter and will determine share prices over the long term.

But the periodic drops in the market have a big advantage for the persistent investor: They give investors the opportunity to buy shares at a dis-

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count. Nevertheless, investors who follow our style don't normally have a lot of cash around just waiting for drops, as they don't try to time the market. At the very least, however, they re-invest the dividends. These are not trivial: The amount of dividends that we reinvest in our funds is fairly constant (like the profits), which means that, when the market drops, we buy more shares than we could have if the market had not dropped.

Over time, the difference matters. More than half of stocks' long-term return comes from the re-investment of dividends. If the market is expensive, those dividends are re-invested in something that pays little. If it's cheap, they become an excellent investment. If we don't try to time the market and always reinvest dividends, as we do, the periodic drops in the markets are an added source of profits. Cheap markets are much better than expensive ones for those who are long-term buyers of stocks.

Let's take again the Nestlé example for illustrative purposes. Over the past 10 years through June 2015 the total return on the stock has been 176.5%, or a 10.7% annual equivalent. This can be decomposed into a price change of 105.8% (or 60% of the total return) and an impact of reinvested dividends of 70.7% (or 40% of the total return). Over this period, we've always had a steadily growing dividend. But given the variation in stock price (and some variation in the payout), dividend yield has ranged from 2.1% to 3.7% vs. the price on ex-dividend date. This means that, when reinvesting dividends, we were able to buy over 70% more shares in 2009 than in 2007. The long-term investor should prefer more years like 2009 (in the sense of down markets) and less like 2007, as they effortlessly boost compounding returns.

In any case, we have to invest in our future at the current prices, not at the prices we would like. As long as we find investments that meet our risk/reward criteria, we take them. As mentioned above, a real return of 2% per quarter is fairly attractive.

Changes in our portfolios

Most of the time, we trade little, but when markets go up strongly, as they did up to April this year (at least European ones), some of the shares we own will become relatively overpriced. That's why we sell more shares when the markets rise.

In this quarter, we have sold Toyota, Volkswagen, Roche, and Lloyds Bank, in all cases because they reached prices that we thought would not give us an adequate return, although we don't see anything wrong with any of these companies (actually, the opposite). However, we could buy DGB, a Korean bank we have owned in the past, with a PE of less than 7, while selling Lloyds at a PE above 10.

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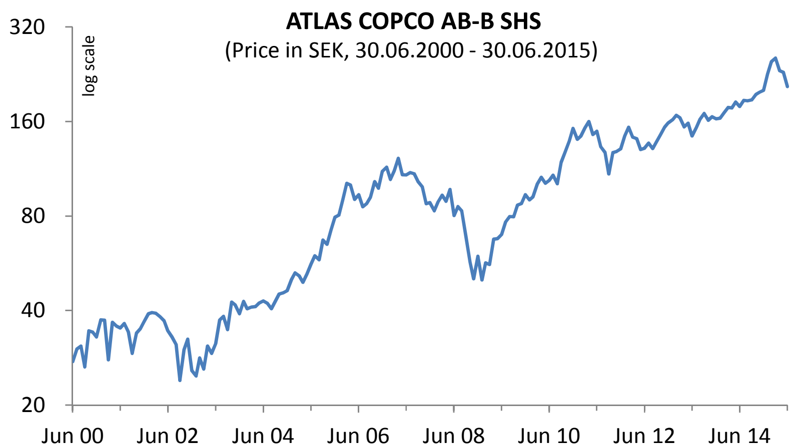
We have also bought ISS, Atlas Copco, and Visa. ISS is a company devoted to business services, such as facilities management, cleaning, catering to other businesses. It operates worldwide and was listed not long ago. The business is very stable, and the company is growing fast. Although not cheap (PE 16), it's much less expensive than its competitors and, on an absolute basis, should give us a solid risk-adjusted return well above 10%.

Atlas is an old friend: We've owned it in the past, have sold it based on valuation… and the company has kept outperforming. It is truly an outstanding investment (as shown in figure 6), and we have taken advantage of the recent drop to buy again.

Figure 6: **Atlas Copco AB B-share, price in SEK last 15 years**



Source: Bloomberg

Finally, Visa is a very interesting case. The shares trade at a PE of more than 20, which is clearly expensive for our standards. But the business is outstanding in three ways: it has huge barriers to entry, which protects current profitability; it has a very quick growth rate; and it needs very little cash to fund that growth. The net result is that most of the profits it generates can be distributed to the shareholders, and be grown at the same time. During the last 10 years, the total return to shareholders has been more than 20% per annum.

Outlook

In spite of all the market drama of the last few weeks, the economic picture in Europe, the US, and Japan keeps improving, with a worse outlook in China (but still fast growth). Interest rates will continue to be low, although they will gradually start ascending in the US in one or two quarters. And prices in Europe and Japan are reasonable: The latest market correction has had a calming effect, and provided some opportunities to enter at a better price. When looking at our 40 companies individually,

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we see no reason why they should not return the double-digit profitability we expect from them.

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Figures of the USD classes

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

June 2015	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) *combined Pool
LTIF Classic [USD]	396.01	-0.1%	1.9%	11.7%	217*
LTIF Stability A Cap [USD]	184.11				217*
LTIF Natural Resources [USD]	92.51	4.0%	-7.8%	-3.4%	10

Figure 7: **LTIF Classic USD**
vs. MSCI Daily TR Net World Index USD

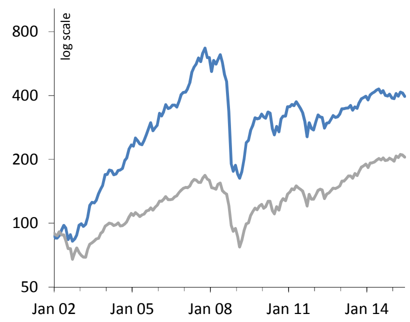
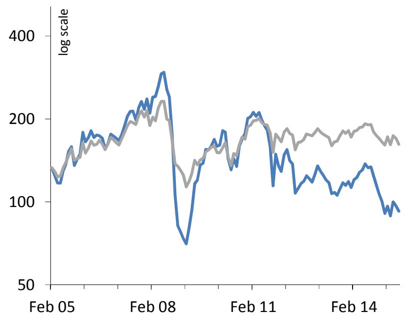


Figure 8: **LTIF Natural Resources USD**
vs. S&P Global Nat. Res. Net TR Index USD



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Figures of the CHF classes

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

June 2015	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) *combined Pool*
LTIF Classic [CHF]	370.09	-3.9%	-4.2%	7.0%	203*
LTIF Natural Resources [CHF]	86.46	0.1%	-13.3%	-5.5%	9
LTIF Stability Growth [CHF] *(Total return, dividends included)*	199.80	-5.1%	-6.9%	3.5%	13
LTIF Stability Income Plus [CHF] *(Total return, dividends included)*	177.50	-5.1%	-6.9%	4.2%	13

Figure 9: LTIF Classic CHF
vs. MSCI Daily TR Net World Index CHF

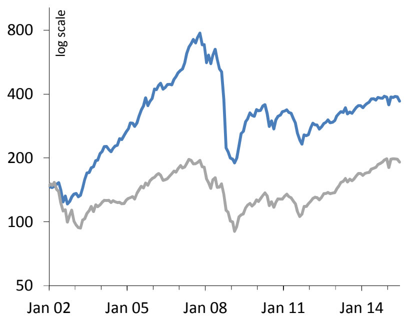


Figure 10: LTIF Stability Growth TR CHF
vs. HFRX Global Hedge Fund Index CHF

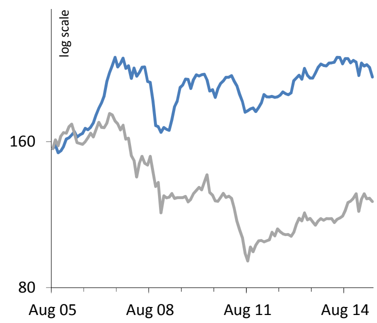


Figure 11: LTIF Natural Resources CHF
vs. S&P Global Nat. Res. Net TR Index CHF

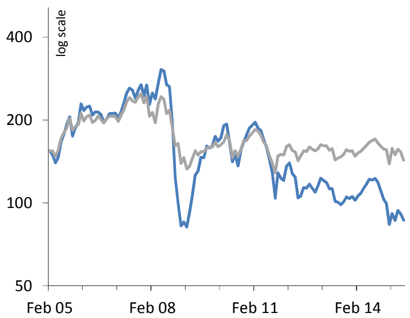
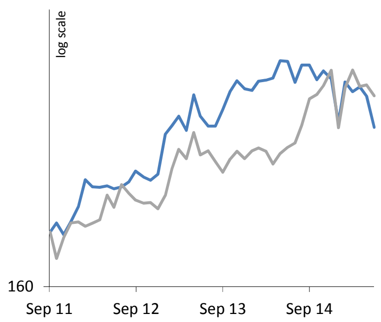


Figure 12: LTIF Stability Income Plus TR CHF
vs. HFRX Global Hedge Fund Index CHF



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Figures of the GBP classes

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

June 2015	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) **combined Pool*
LTIF Classic [GBP]	251.80	-5.7%	1.0%	10.9%	138*
LTIF Natural Resources [GBP]	58.82	-1.9%	-8.6%	-1.5%	6

Figure 13: **LTIF Classic GBP**
vs. MSCI Daily TR Net World Index GBP

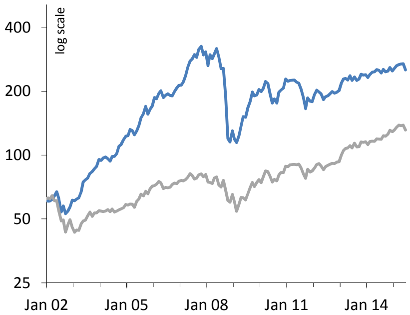
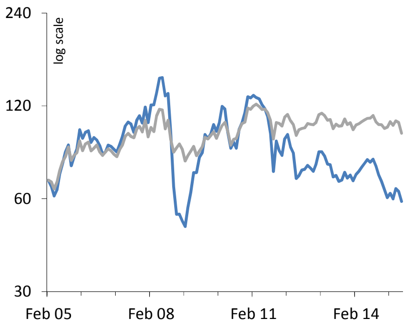


Figure 14: **LTIF Natural Resources GBP**
vs. S&P Global Nat. Res. Net TR Index GBP



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