

Newsletter

of June 2013

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

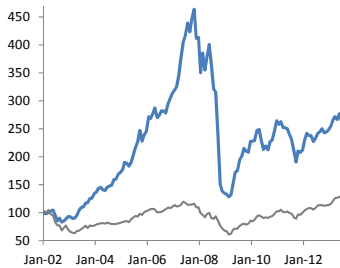


Figure 2: LTIF Alpha EUR vs. HFRX Global Hedge Fund Index EUR



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

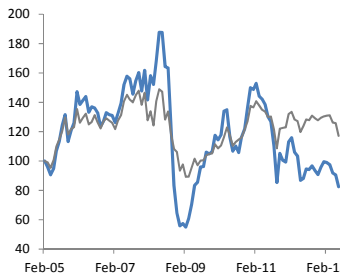
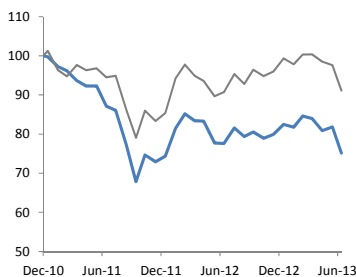


Figure 4: LTIF Emerging Market Value EUR vs. MSCI EM Daily Net TR Index EUR



Overview of our funds

Table 1 and Figures 1 through 6 show the development of our funds' Net Asset Value in the last quarter.

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

June 2013	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio)
LTIF Classic [EUR]	262.10	-3.51%	5.53%	8.74%	209.50
LTIF Alpha [EUR]	146.29	-2.43%	3.85%	4.62%	19.90
LTIF Natural Resources [EUR]	82.40	-15.43%	-13.88%	-2.30%	20.10
LTIF Emerging Market Value [EUR]	75.14	-10.52%	-8.89%	-24.86%	3.80
LTIF Stability Growth [CHF] <i>(Total return, dividends included)</i>	203.70	0.00%	8.81%	4.56%	21.80
LTIF Stability Income Plus [CHF] <i>(Total return, dividends included)</i>	196.60	0.00%	8.86%	10.16%	1.80
MSCI World Index TR [EUR] <i>(Bloomberg NDDUWI Index)</i>	2'683.15	-0.79%	10.03%	1.95%	<i>* Inception date of Classic</i>

In our previous Newsletter, we mentioned that, after the rally during this year's first three months, we expected the markets to correct at some point. We were right on this one – it was easy: there are always corrections. Interestingly, fears that the American Federal Reserve would tighten financial conditions because the American economy was doing somewhat better than expected triggered the correction. This is not a very sound reason to sell stocks, but there was obviously some desire to “lock in profits” after the previous rally. In any case, none of this affects our investments too much: they should continue to do well. Somewhat higher interest rates, pushed by a strong economy, should be positive for our banks and insurers, and fairly neutral for the other companies we own. Dividends will continue to be paid and grow.

This market turmoil seems to have led to investors losing interest in emerging market bonds as they expect to get better rates in the US. They are also concerned about China, where the government is trying to cool down excessive credit creation. We, however, are not too concerned about China. The country will most certainly experience difficulties, like any other, but the Chinese government is in a better position than most to face those difficulties: it has the world's largest foreign reserves, direct control of most of the financial system, a track record of competent macroeconomic management, and an obvious interest in stability. If a country can solve a debt crisis relatively easily, it is China.

In Europe, the main problem is still unsolved: many governments and households have too much debt. Reducing it is a very slow process: when trying to reduce debt, one has to save. But if too many people save at the same time, the economy slows down, and the income necessary to lower

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

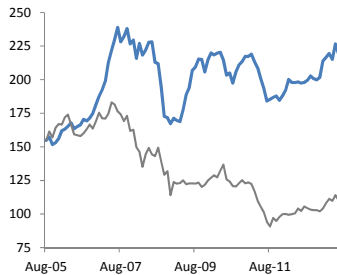
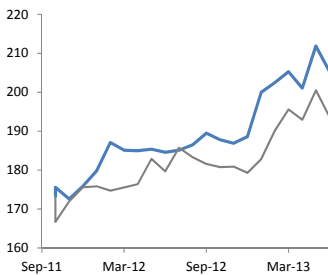


Figure 6: LTIF Stability Income Plus TR CHF vs. HFRX Global Hedge Fund Index CHF



the debt decreases. Lacking the political instruments that the US has, the Eurozone cannot decisively recapitalize its banks, which don't lend enough. Furthermore, many economic actors don't want to borrow because they already owe too much. The recipe for a long period of low growth – think of Japan during the past 20 years – is there. We should thus expect a very slow recovery, punctuated with some “panicky” moments when one country or another runs into liquidity shortages or political problems.

Overall, it is clear that if interest rates were to strengthen significantly, higher mortgage rates and more expensive consumer credit would end up affecting the real economy. However, it does not seem reasonable to believe that central bankers, who have steered the world economy through the very difficult past five years, will break it when there is no real threat of inflation on the horizon.

To summarize: we are more or less where we were when our last Newsletter was published: the US economy is strengthening, the Chinese economy is growing at a fast rate, although decelerating, and the Eurozone is stuck in its credit crisis, with a very slow improvement in sight. The only – positive – difference seems to be the improved outlook for Japan. We don't expect things to differ greatly when you next receive our Newsletter. Markets try to anticipate the future and are driven to extremes by sentiment. In the real world, matters don't change that fast.

Comments on our funds

As indicated in our previous Newsletter, we sold some of our Category 1 & 2 shares: we felt they had advanced too fast and we had better value elsewhere. The evolution of Roche’s share price in figure 7 is an example: we sold the shares in February, having bought them in late 2010 and early 2011. In the last few weeks, we have again increased some of those positions that have corrected sharply and, we believe, now offer a very attractive risk/reward balance. Again, we don’t do market timing, but when a stock is too expensive for our taste, we sell it. If it then drops and becomes attractive again, we once again buy it.

Figure 7: Roche share price, Jan 2010 – June 2013



Source: Bloomberg

We have also added a US multinational company, United Technologies. It’s the world’s number one elevator manufacturer, and number two aircraft engine manufacturer under the Otis and Pratt Whitney brands. Both areas are highly profitable and generate very large repair and maintenance operations, which increases the stability of the businesses significantly. Barriers to entry are very high: there are less than five world-class manufacturers of elevators and airplane engines. The company also has a defense division that is affected by the current budget constraints in the US. We believe that, on the whole, there is good value with excellent quality.

Our hedged funds, the Alpha and the Stability, have had a relatively good performance during this quarter: they went down less than the Classic fund or the indices in general during the correction in June. This could be a good example to show how our hedging works. The idea is not to have a fund that doesn’t go down. In order to obtain this, a full hedge would be required all the time, which substantially reduces the potential long-term performance. Our idea is to have funds that profit most from the market

upswings by not being hedged, but soften the drops by installing dynamic hedges. In the real world, it is of course impossible to place and raise a hedge exactly at the market turns. Consequently, when the market goes up, the fund tends to go up by a bit less, and when the market drops, the fund also drops, but much, much less. The hedging mechanism is now constructed in such way that, with a sharp correction, the funds can drop a few percentage points, but never as far as in 2008 or 2011. In this sense, they can be considered more or less “long funds,” but with a “tail risk protection,” i.e. a mechanism that prevents serious drops. We believe these funds may be a good option for investors who wish to be in stocks, are convinced of their superior long-term returns, but are afraid of suffering severe corrections. In years with clear trends, either up or down, these funds could actually do better in absolute terms than long-only (i.e. unhedged) funds.

Our Natural Resources fund has had a very negative evolution during this quarter. As we have mentioned several times, shares in this space trade – more than others – on sentiment. And sentiment has been very negative during the last few weeks. Many of our shares have therefore dropped substantially. But we don't really think the fundamentals justify these price movements. Let's review them briefly.

We have divided the portfolio into three main categories: energy, mining, and food and agriculture. In the first category, we have some oil producers and some oil services companies. We see a bright future for both kinds of companies. Contrary to what some analysts have been predicting, oil prices are stubbornly stuck above USD 100. In our view, they may drop temporarily due to some unforeseen circumstances, but it's very difficult to argue convincingly that the long-term price will be much below USD 100. The reason is very simple: many oil companies need that price to generate the necessary cash to reinvest and continue producing oil. At this price, the companies we have chosen will show an excellent profitability. And this applies even more to the oil service companies, whose input is absolutely necessary to produce oil and gas in increasing amounts: both commodities are becoming more “service intensive,” because they are now being extracted by means of increasingly sophisticated techniques, such as ultra-deep water drilling or rock fracturing. The stocks in this “first leg” of the fund are, on average, just slightly down for the year.

The second leg comprises mining companies, mostly copper producers. Copper prices are down about 15% for the year, but they hold above USD 3/lb. This is, more or less, our expected long-term price: as in the case of oil, it may drop below that temporarily, but it will revert to this level, or even somewhat higher. Again, the companies we own make good profits at these levels and have embarked on growth projects that will provide very attractive cash flows in the next few years. But this is not what the market sees. The markets seem to imply that commodity use growth is over forever and that these companies will never make decent returns. We don't agree, but must endure the sharp stock price drops. This group's shares are down, on average, an amazing 40% for the year.

The third leg, food and agriculture, has two main investments: palm oil producers and salmon farmers. Palm oil, together with soya oil, is the most extensively used edible oil in the world. It is consumed throughout Asia in cooking and used worldwide for soap, industrial foods, biodiesel, etc. It is produced in Indonesia and Malaysia. New plantations take years to mature, which makes supply relatively easy to predict.

Nevertheless, there is price volatility: sometimes the harvest is a bit better or worse than expected, sometimes the soya oil price is higher or lower, affecting the price of all others oils. As with all commodity producers, the shares of palm oil producers track the spot commodity price very closely, although the producers are there for the long term and the current price is just temporary. Palm oil prices have been weak ever since we started investing in these companies, which has led to the shares to perform badly – some -25% – this year. We see no problem with them and expect strong rises in the coming quarters.

The other area of our food investments has been the salmon producers. By buying the stocks at the end of 2011, we had great timing. Since then, they've appreciated strongly, and we believe that there is still a lot of scope: some of these companies will pay dividends of 7% to 12% next year. The stocks are up about 25% for the year.

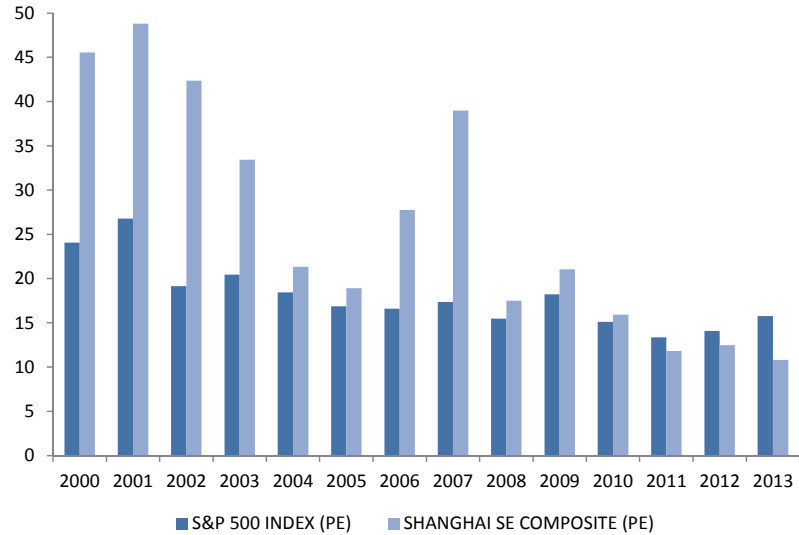
All in all, we see a very high expected return (well above 15% per annum) for an investor holding these stocks today. Unfortunately, that does not mean 3.5% per quarter. Volatility is high and sentiment very negative. Investors in this space may have to show patience if they want to reap these returns.

Finally, our Emerging Market Value fund has also been influenced by a very negative view of Emerging Markets – a view that has worsened in the last few weeks. As mentioned above, the fear of a rise in Western interest rates has been the trigger for these worries. In addition, there has been some confusion about the measures that the Chinese government is taking to rein in excessive credit creation. Owing to internal political reasons, South Africa and Brazil are not doing well. Even Turkey has been in the news due to social unrest. All these considerations have led many investors to simply give up on those markets.

But all the reasons for these markets being attractive a few years ago are still there: much faster growth, on the whole, than developed markets, the huge growth in the middle class that presents fantastic economic opportunities to thousands of companies, etc. And, in general, these countries still have much lower debt levels than advanced countries. Of course, no process of development occurs in a perfectly straight line and hiccups must be expected. But these countries are still going to be at the forefront of global economic growth for a long time. And they are indeed cheap now: figure 8 shows the PE of the Chinese market for the last 20 years. Right now it's trading at almost half the level of the US market.

Granted, US companies deserve a higher multiple because of their stability and superior governance, but we feel the huge gap is unjustified.

Figure 8: PE of the Shanghai composite and the S&P 500, 2000-2013



To summarize: markets in general, with the exception of some sectors such as Materials and Emerging Markets, are probably where they should be. We believe that many investors would have gladly taken a 6% performance in the first half of the year. But, as always with stock markets, this performance is not achieved in a straight line. The drops we saw in June are the unavoidable companion of the strong rises in other months. Investors who can see through this, or who profit by buying during the dips, will achieve very good long-term results.

Figures of the USD classes

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

June 2013	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio)
LTIF Classic [USD]	340.69	-2.33%	4.04%	12.33%	272.32
LTIF Alpha [USD]	190.15	-1.24%	2.39%	4.59%	25.87
LTIF Natural Resources [USD]	107.11	-14.39%	-15.09%	-2.54%	26.13
LTIF Emerging Market Value [USD]	97.67	-9.42%	-10.17%	-25.73%	4.94
MSCI World Index TR [USD] <i>(Bloomberg NDDUWI Index)</i>	3'632.44	0.65%	8.43%	5.30%	<i>* Inception date of Classic</i>

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

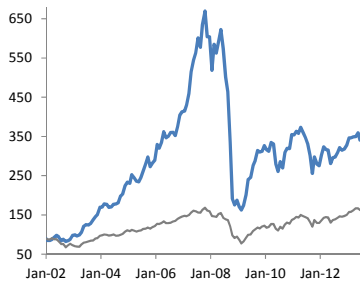


Figure 10: LTIF Alpha USD vs. HFRX Global Hedge Fund Index USD

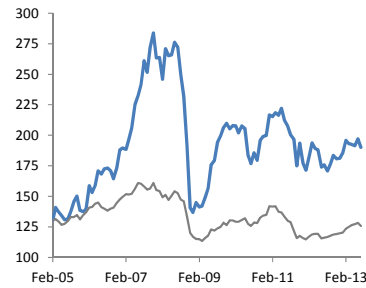


Figure 11: LTIF Natural Resources USD vs. S&P Global Nat. Res. Net TR Index USD

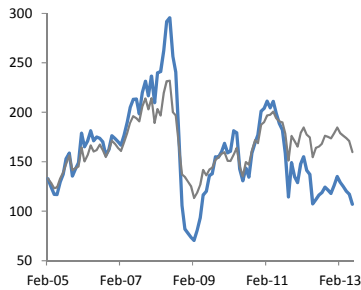
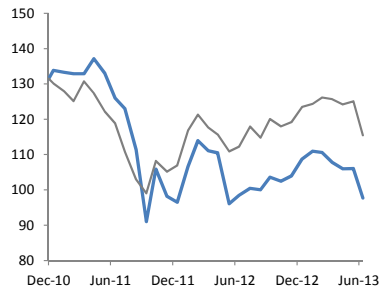


Figure 12: LTIF Emerging Market Value USD vs. MSCI EM Daily Net TR Index USD



Figures of the CHF classes

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

June 2013	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio)
LTIF Classic [CHF]	322.34	-2.41%	7.54%	7.00%	257.65
LTIF Alpha [CHF]	179.91	-1.32%	5.84%	1.80%	24.47
LTIF Natural Resources [CHF]	101.34	-14.46%	-12.24%	-4.94%	24.72
LTIF Emerging Market Value [CHF]	92.41	-9.50%	-7.14%	-27.65%	4.67
LTIF Stability Growth [CHF] <i>(Total return, dividends included)</i>	203.70	0.00%	8.81%	4.56%	21.80
LTIF Stability Income Plus [CHF] <i>(Total return, dividends included)</i>	196.60	0.00%	8.86%	10.16%	1.80
MSCI World Index TR [CHF] <i>(Bloomberg NDDUWI Index)</i>	4'437.76	0.34%	12.16%	0.33%	<i>* Inception date of Classic</i>

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

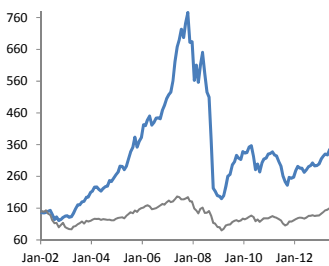


Figure 14: LTIF Alpha CHF vs. HFRX Global Hedge Fund Index CHF

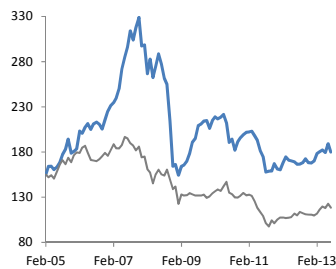


Figure 15: LTIF Natural Resources CHF vs. S&P Global Nat. Res. Net TR Index CHF

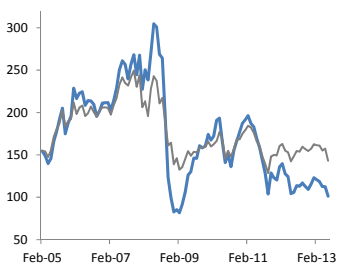


Figure 16: LTIF Emerging Market Value CHF vs. MSCI EM Daily Net TR Index CHF

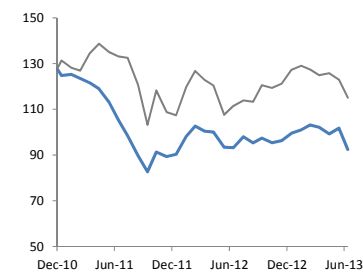


Figure 17: LTIF Stability Growth TR CHF vs. HFRX Global Hedge Fund Index CHF

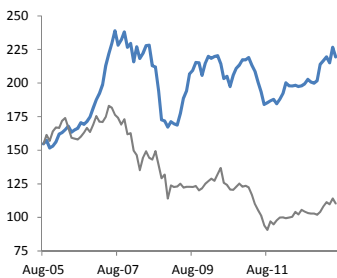
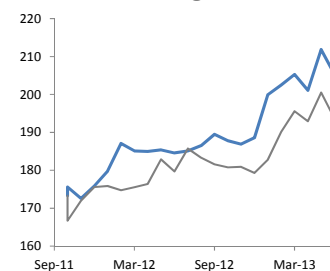


Figure 18: LTIF Stability Income Plus TR CHF vs. HFRX Global Hedge Fund Index CHF



Figures of the GBP classes

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

June 2013	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio)
LTIF Classic [GBP]	224.63	-2.21%	11.51%	11.81%	179.55
LTIF Alpha [GBP]	125.38	-1.10%	9.74%	7.19%	17.05
LTIF Natural Resources [GBP]	70.62	-14.33%	-8.99%	0.29%	17.23
LTIF Emerging Market Value [GBP]	64.40	-9.31%	-3.72%	-24.24%	3.26
MSCI World Index TR [GBP] <i>(Bloomberg NDDUWI Index)</i>	1'809.80	0.71%	15.98%	4.88%	<i>*Inception date of Classic</i>

Figure 19: LTIF Classic GBP vs. MSCI Daily TR Net World Index GBP

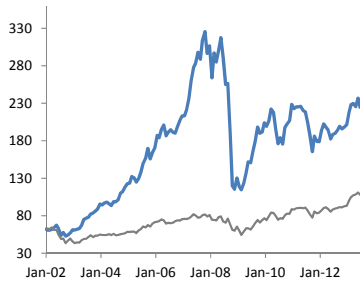


Figure 20: LTIF Alpha GBP vs. HFRX Global Hedge Fund Index GBP

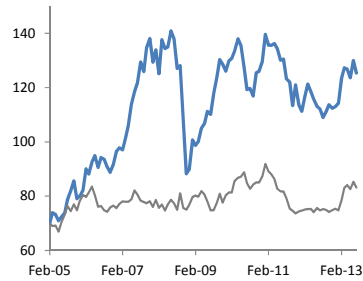


Figure 21: LTIF Natural Resources GBP vs. S&P Global Nat. Res. Net TR Index GBP

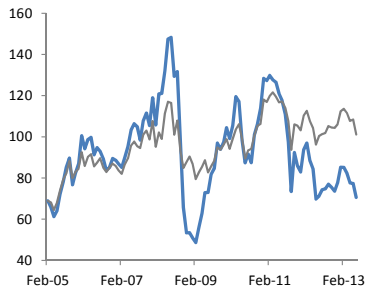
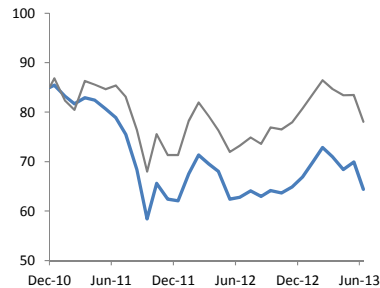


Figure 22: LTIF Emerging Market Value GBP vs. MSCI EM Daily Net TR Index GBP



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LTIF – Classic EUR

ISIN: LU0244071956
Telekurs: 2'432'569
Bloomberg: LTIFCLA LX

LTIF – Classic USD

ISIN: LU0301247077
Telekurs: 3'101'820
Bloomberg: LTIFCLU LX

LTIF – Classic CHF

ISIN: LU0301246772
Telekurs: 3'101'817
Bloomberg: LTIFCLC LX

LTIF – Classic GBP

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Bloomberg: LTIFCLS LX

LTIF – Alpha EUR

ISIN: LU0244072178
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LTIF – Alpha USD

ISIN: LU0301247150
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LTIF – Alpha CHF

ISIN: LU0301246855
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LTIF – Alpha GBP

ISIN: LU0750887282
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LTIF – Natural Resources EUR

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Bloomberg: LTIFGEV LX

LTIF – Natural Resources USD

ISIN: LU0301247234
Telekurs: 3'101'839
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LTIF – Natural Resources CHF

ISIN: LU0301246939
Telekurs: 3'101'836
Bloomberg: LTIFGEC LX

LTIF – Natural Resources GBP

ISIN: LU0457696077
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LTIF – Emerging Market Value EUR

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Bloomberg: LTIFEME LX

LTIF – Emerging Market Value USD

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LTIF – Emerging Market Value CHF

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LTIF – Emerging Market Value GBP

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Luxembourg

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Luxembourg

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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

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