S I A
Strategic Investment Advisors Group

Long Term Investment Funds

Newsletter

of September 2012

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

Figure 1
LTIF – Classic EUR

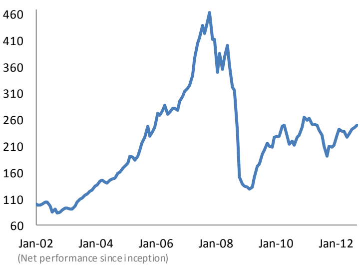


Figure 2
LTIF – Alpha EUR

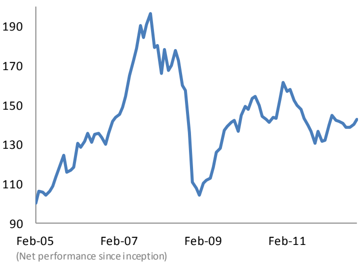


Figure 3
LTIF – Natural Resources EUR

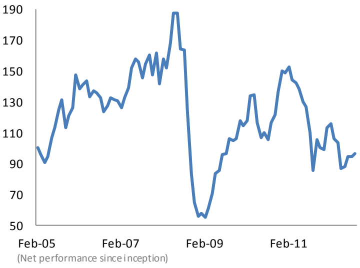
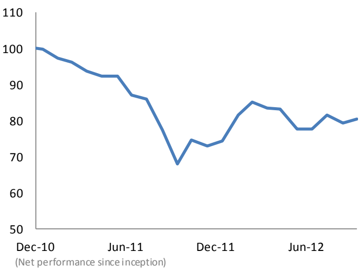


Figure 4
LTIF – Emerging Market Value EUR



Comments on the general economy

Table 1 and charts 1 to 6 show the evolution of our funds' Net Asset Value during the summer quarter.

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

September 2012	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio)
LTIF Classic [EUR]	250.03	7.23%	17.88%	8.90%	231.00
LTIF Alpha [EUR]	142.65	2.94%	8.04%	4.74%	28.20
LTIF Natural Resources [EUR]	96.67	9.75%	-2.62%	-0.45%	42.34
LTIF Emerging Market Value [EUR]	80.53	3.79%	8.31%	-19.47%	5.22
LTIF Stability Growth [CHF] *Total return (dividends included)*	189.50	2.65%	7.73%	3.90%	21.95
LTIF Stability Income Plus [CHF]	189.50	2.65%	7.73%	9.35%	1.69
MSCI World Index TR [EUR] *(Bloomberg GDDUWI)*	3'593.65	4.97%	14.30%	1.54% *	** Inception date of Classic*

While this "performance" (we don't consider the three-month NAV movements as very meaningful) is certainly very pleasing, it does not prevent many investors from feeling very anxious about the global macroeconomic situation. Before discussing some of the developments in our funds in detail, we will therefore comment on the general economy.

On 16th September 1992, almost exactly twenty years ago, the European Exchange Rate Mechanism broke down — a day remembered as "Black Wednesday." The following is a brief summary of the situation then: the main European nations were working towards establishing a common currency, and thought, rather reasonably, that a good preliminary step would be a system in which all the currencies would, while remaining independent, trade within narrow, pre-determined bands. From this step to the one resulting in a common currency — in which the latitude of the band is zero — had to be a simple step. The responsibility for keeping each currency at the desired level lay mostly with each country's government.

In parallel, Germany had concluded its unification and found itself experiencing strong inflationary pressures. True to its mandate, the Bundesbank decided to raise interest rates sharply in order to control price appreciation. This created a strong upward pressure on the Deutsche Mark, which would have consequences for the other European currencies: if the currency perceived as the strongest in Europe started paying higher interest on its bonds than all the other currencies, everybody would buy Deutsche Mark, pushing the weaker currencies below their approved bands. The only solution, of course, was for the other central banks (which, by the way, were not independent of their Governments at the time) to raise their interest rates.

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Figure 5
LTIF – Stability Growth CHF

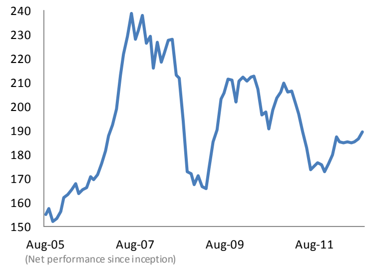
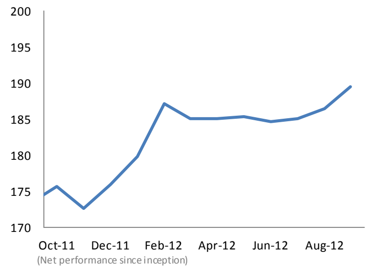


Figure 6
LTIF – Stability Income Plus CHF

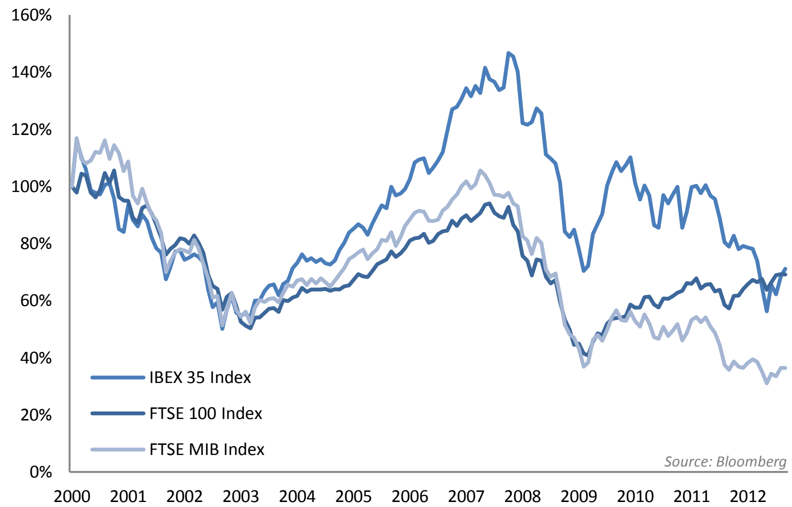


However, raising interest rates in an economy that is not overheating, such as that of the UK, Italy, and Spain at the time, had a devastating effect: it induced a totally unnecessary recession and unleashed a political storm.

Initially, all the governments concerned insisted they would stand by their commitments, and duly raised their interest rates. But the markets did not believe those hikes were politically sustainable and started speculating that if the governments were to stop raising their rates, their currencies would drop out of the band, out of the European Mechanism, and would devalue. And that is exactly what happened. The UK Government had to raise interest rates from 10% to 12% and then to 15%. They also had to buy several billions of pounds in the open markets to prop up the currency. Very quickly, the government ran out of reserves and had to give up. It abandoned the ERM and devalued the British pound by 15%. Spain and Italy followed suit, and devalued by 20%, although they later re-joined the Mechanism at the new, lower exchange rates.

As you can expect, stock market investors did not follow these developments with pleasure. Figure 7 shows the evolution of the main indices of the British, Spanish, and Italian markets: it is clear that the "storm" had been gathering for a while and then exploded, pushing the markets sharply down.

Figure 7: **Evolution of FTSE 100 Index (United Kingdom), IBEX 35 Index (Spain) and FTSE MIB (Italy), 2000-2012, in EUR, indexed**



But figure 8 provides a healthy long-term perspective. It shows the British index between 1990 (before the crisis started) and today. Those investors who thought they had "lost" 15% of their investment during the crisis found that things returned to normal a few quarters later. Just five years later, the whole episode was forgotten.

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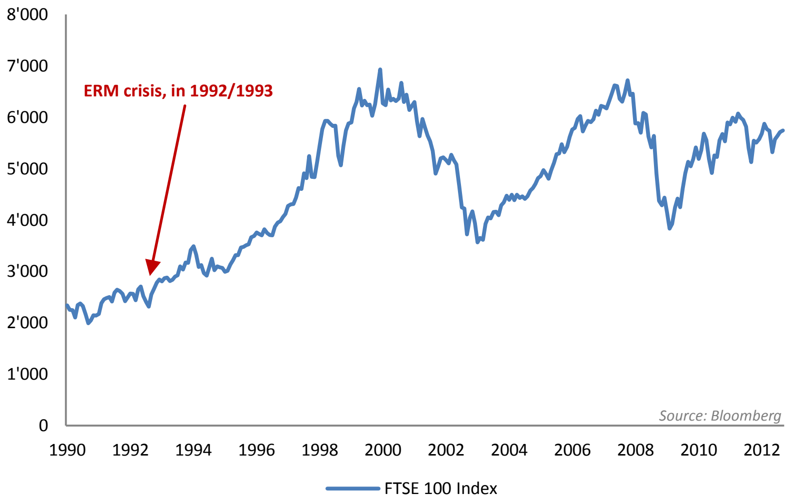
Figure 8: **Evolution of FTSE 100 Index (United Kingdom), 1990-2012, in GBP**



The point we're trying to make is not that macroeconomic turmoil does not affect markets: it obviously does. However, it doesn't really affect most companies' long-term profit potential, which is what one really buys when investing in stocks. The extreme crisis of 2008 probably left most investors too sensitive to economic threats. It is important to learn from 2008, but it is also important to invest for the future, not the past.

Our Swiss investors may see some parallelism with the current situation of the Swiss Franc, with the Swiss National Bank battling the markets to defend a given exchange rate. But in this case, the effort is to push the currency, down not up. It's not clear that they'll succeed, but it is in any case much easier to keep down than to push up a currency. In the first case, the bank has to sell Swiss Francs, of which it can print an infinite amount. In the second, it has to sell its foreign reserves, which are obviously limited.

How do we see the global economic situation? More or less as we did three months ago. China's economy is in the process of bottoming out after the government-induced cooling period; the US economy is picking up speed due to the turnaround in two key industries, housing and automobiles, and the slow de-leveraging of private households; and Europe is still tied up in knots and does not know what to do as some countries have to deleverage both the public and the private sectors.

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Countries like Greece, Spain, and Portugal have levels of debt that are almost impossible to pay. Three things can happen, two of which are drastic solutions, while the other is just “muddling through”:

1. The countries that cannot pay their debts abandon the Euro and devalue their currencies. This creates enormous problems — all local banks would go bankrupt, for instance — but it would, in one stroke, facilitate recovery.

2. The opposite: the Euro Zone takes over (some of) the debt. This would also solve the problem as the total debt level is, in aggregate, fairly reasonable for the Euro Zone.

3. Since the previous two “solutions” are not viable from a political point of view, the Euro Zone keeps doing the minimum to keep the show going.

In our opinion, the third alternative is by far the most likely. We should not expect anything drastic that would “solve” the issue, even partially, until after the German elections in a year’s time. Thereafter, the politicians will be closer to being forced to take one of the first two options. It is unlikely that things will improve miraculously. In the end, the debtors will either not pay their debts within the Euro, or outside the Euro. In addition, this can be done abruptly, or gradually. But there are no good solutions.

Whatever happens, the impact of all this on our funds is fairly modest. Some companies are reporting better profits than expected (Nestlé is one); some worse (Caterpillar). Overall, we are on track for more than 12% annual growth in intrinsic value.

Many shares have gone up by more than that; we are selling some of these and replacing them with cheaper ones. The big movers this quarter have been the UK homebuilders (up 15%), the salmon farmers (up 12%), some natural resource producers (Hess up 26%; Freeport up 15%, Northern Dynasty up 96%), and even some insurers (Amlin up 16%).

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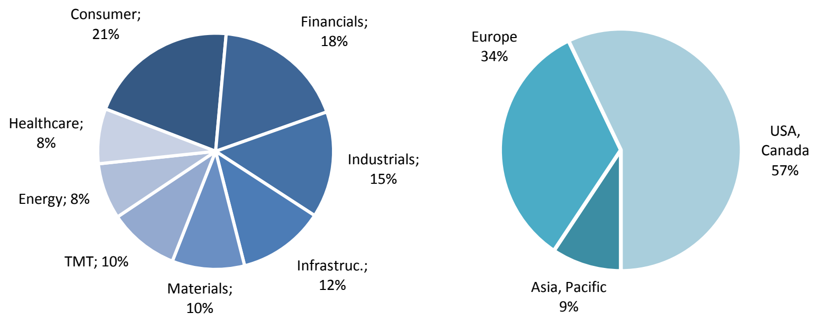
Comments on our funds

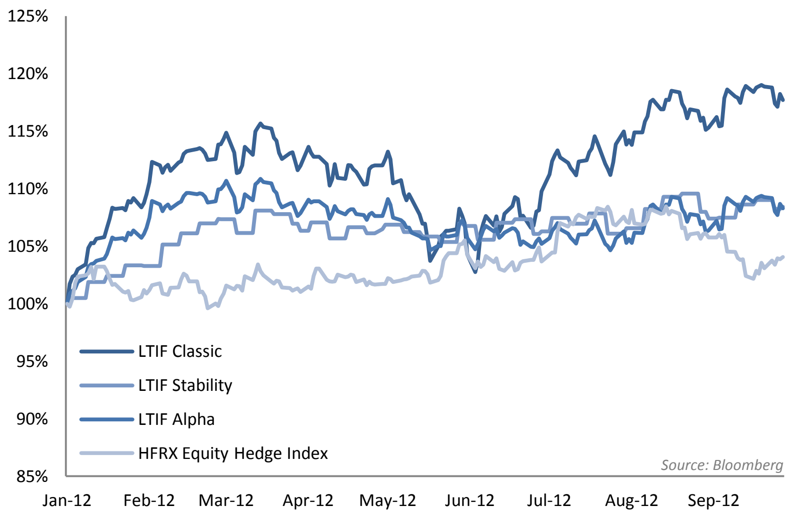
There have been few changes to the portfolio. We have added General Motors and Fluor, a large US engineering company, and sold Topdanmark, because after a run of 20% we felt it was fully priced. The expected return on the overall portfolio in the Classic fund is 13%, and we do not expect our long-term performance to differ too greatly from this. Figure 9 shows our usual breakdown by industry and geographic area.

Figure 9: **Breakdown by industry and geographic area of LTIF Classic and LTIF Alpha, as per 28th September 2012**



The “hedged” funds, i.e. the Stability and Alpha funds, have performed as expected: less volatility and less performance than in the Classic, but all with very little market risk. In fact, these are “long-short” funds, and their development should be compared to that of other “hedged” funds, not to the Classic. Figure 10 shows this comparison.

Figure 10: **Evolution of LTIF Classic, LTIF Alpha, LTIF Stability and HFRX Equity Hedge Index, 2012, in EUR, indexed**



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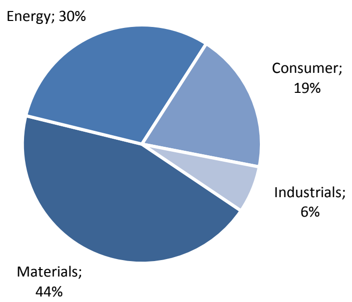
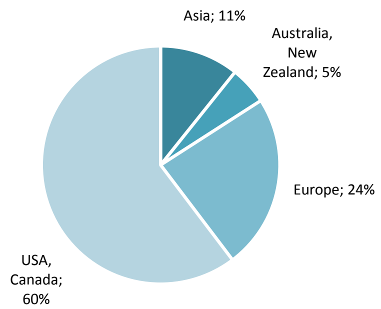
The Stability Income Plus share class is now going to pay its first full dividend. We are going to distribute CHF 8, or a bit more than 4% of the current value of the shares. We could have distributed almost twice as much, but prefer to keep some reserves to ensure growth and a smooth increase in dividends in the coming years.

The Natural Resources fund continues its strong volatility: up 9% for the quarter, but still negative for the year. We don't see big changes here: many stocks are very undervalued because markets fear that economic growth is cooling (which has been true this past quarter). However, we believe this has very little impact on the long-term value of our shares. Figure 11 shows the breakdown by industry and geography.

Figure 11: Breakdown by industry and geographic area of LTIF Natural Resources, as per 28th September 2012





The Emerging Market Value fund is starting to turn around. The Chinese stock market is reviving after a long slide. Prices are very low, and we don't expect Chinese economic growth decrease more than where it is at present.

Figure 12: Shanghai Stock Exchange Composite Index, 2007-2012, in CNY

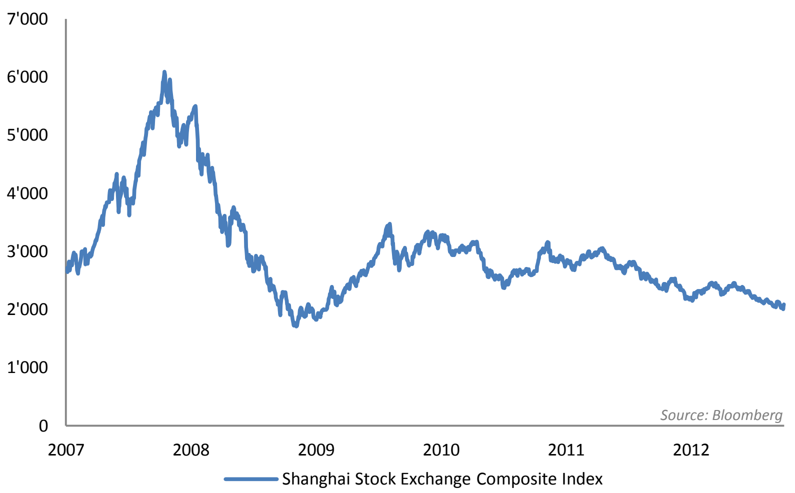


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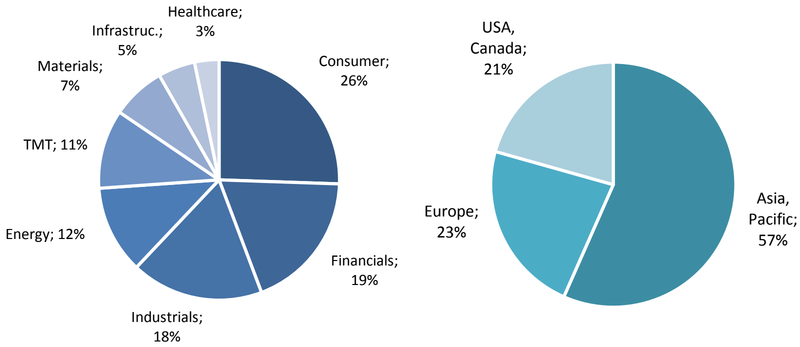
Figure 13: Breakdown by industry and geographic area of LTIF Emerging Market Value, as per 28th September 2012



To summarize, the developed world continues working through its high debt mountain, faster in the US and much slower in Europe for political reasons, whereas the slowdown in emerging markets is probably coming to an end. We believe our funds will experience the volatility inevitable in stock investing (much less so in the hedged funds, of course), but will continue to build substantial value over time.

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Figures of the USD classes

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

September 2012	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio)
LTIF Classic [USD]	321.66	8.70%	16.82%	12.64%	297.18
LTIF Alpha [USD]	183.52	4.36%	7.06%	4.56%	36.28
LTIF Natural Resources [USD]	124.37	11.26%	-3.49%	-0.85%	54.48
LTIF Emerging Market Value [USD]	103.60	5.21%	7.34%	-21.22%	6.72
MSCI World Index TR [USD] *(Bloomberg GDDUWI)*	4'627.18	6.83%	13.56%	5.05% *	** Inception date of Classic*

Figure 14
LTIF – Classic USD

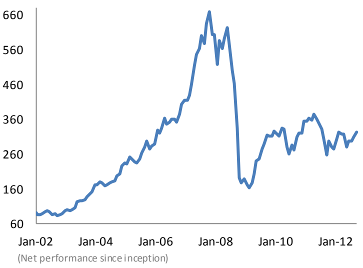


Figure 15
LTIF – Alpha USD

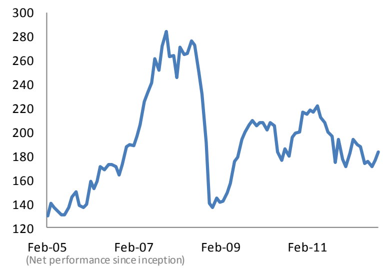


Figure 16
LTIF – Natural Resources USD

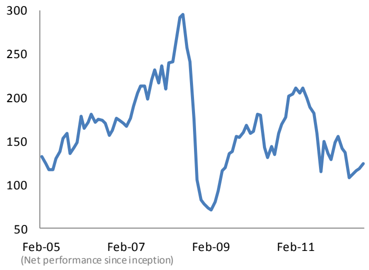
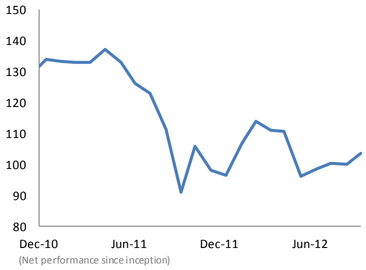


Figure 17
LTIF – Emerging Market Value USD



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Figures of the CHF classes

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

September 2012	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio)
LTIF Classic [CHF]	302.30	7.94%	17.41%	6.87%	279.29
LTIF Alpha [CHF]	172.47	3.62%	7.61%	1.41%	34.10
LTIF Natural Resources [CHF]	116.88	10.47%	-3.00%	-3.62%	51.20
LTIF Emerging Market Value [CHF]	97.36	4.46%	7.88%	-23.77%	6.31
LTIF Stability Growth [CHF] *Total return (dividends included)*	189.50	2.65%	7.73%	3.90%	21.95
LTIF Stability Income Plus [CHF]	189.50	2.65%	7.73%	9.35%	1.69
MSCI World Index TR [CHF] *(Bloomberg GDDUWI)*	4'344.00	5.64%	13.57%	-0.33% *	** Inception date of Classic*

Figure 18
LTIF – Classic CHF

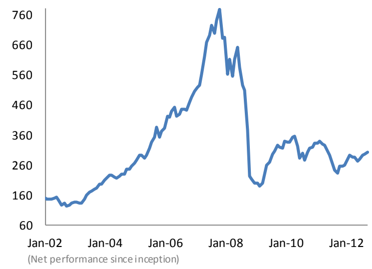


Figure 19
LTIF – Alpha CHF

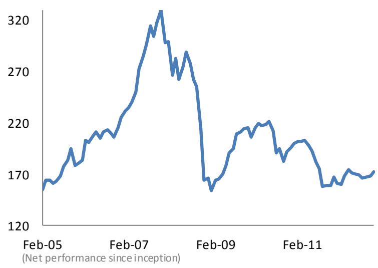


Figure 20
LTIF – Natural Resources CHF

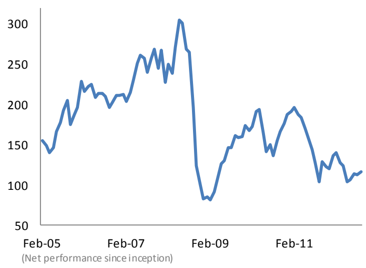


Figure 21
LTIF – Emerging Market Value CHF

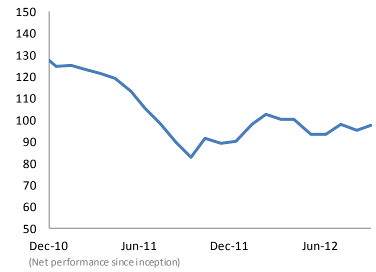


Figure 22
LTIF – Stability Growth CHF

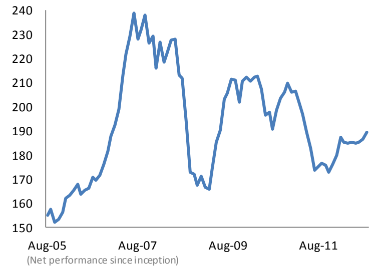
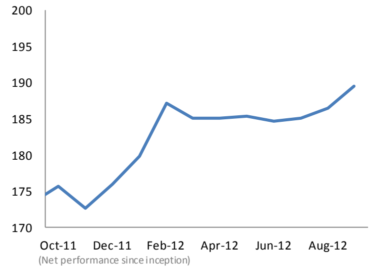


Figure 23
LTIF – Stability Income Plus CHF



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Figures of the GBP classes

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

September 2012	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio)
LTIF Classic [GBP]	199.20	5.59%	11.41%	11.43%	184.03
LTIF Alpha [GBP]	113.65	1.38%	2.11%	6.55%	22.47
LTIF Natural Resources [GBP]	77.02	8.07%	-7.12%	1.48%	33.74
LTIF Emerging Market Value [GBP]	64.16	2.20%	3.32%	-24.53%	4.16
MSCI World Index TR [GBP] *(Bloomberg GDDUWI)*	2'864.60	3.72%	9.03%	4.15% *	** Inception date of Classic*

Figure 24
LTIF – Classic GBP

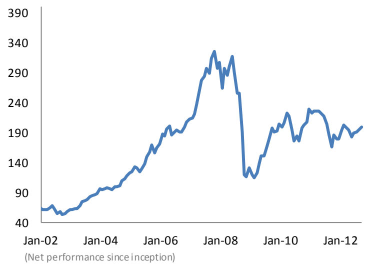


Figure 25
LTIF – Alpha GBP

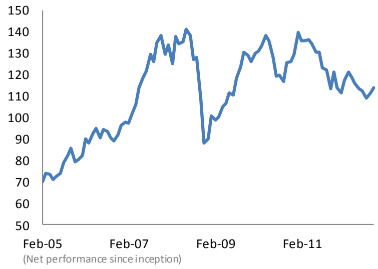


Figure 26
LTIF – Natural Resources GBP

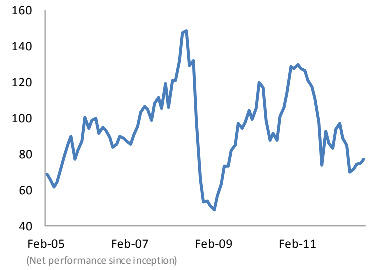
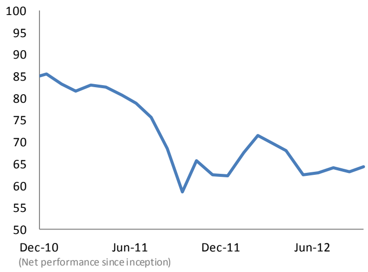


Figure 27
LTIF – Emerging Market Value GBP



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Performance up to 31.05.06 is that of the BVI-based LTIF, of which the LTIF Luxembourg is an identical successor. Previous performance is audited by Ernst & Young. Reports are available from SIA Funds AG. Past performance is no guarantee of future trends. Long Term Investment Fund (LTIF) is an open-ended investment company of the umbrella type organized as a "société anonyme" under the laws of the Grand Duchy of Luxembourg and qualifies as a Société d'Investissement à Capital Variable ("SICAV") under Part I of the Luxembourg law of 20th December, 2002. It has four active compartments, called "Classic", "Alpha", "Natural Resources" and "Emerging Market Value", which fully resemble both the Long Term Investment Fund in BVI (classes "Classic" and "Alpha") and the Natural Resources and Emerging Market Value with regard to their investment objectives and operational structure. This Newsletter is only addressed to qualified private investors who have expressed a desire to receive it, and by no means constitutes an offer to sell financial products that may not be suitable for its readers.

LTIF – Classic EUR		***LTIF – Classic USD***		***LTIF – Classic CHF***		***LTIF – Classic GBP***	
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Telekurs:	2'432'569	*Telekurs:*	3'101'820	*Telekurs:*	3'101'817	*Telekurs:*	18'032'305
Bloomberg:	LTIFCLA LX	*Bloomberg:*	LTIFCLU LX	*Bloomberg:*	LTIFCLC LX	*Bloomberg:*	LTIFCLS LX
LTIF – Alpha EUR		***LTIF – Alpha USD***		***LTIF – Alpha CHF***		***LTIF – Alpha GBP***	
ISIN:	LU0244072178	*ISIN:*	LU0301247150	*ISIN:*	LU0301246855	*ISIN:*	LU0750887282
Telekurs:	2'432'573	*Telekurs:*	3'101'828	*Telekurs:*	3'101'824	*Telekurs:*	18'032'344
Bloomberg:	LTIFALP LX	*Bloomberg:*	LTIFALU LX	*Bloomberg:*	LTIFALC LX	*Bloomberg:*	LTIFALS LX
LTIF – Natural Resources EUR		***LTIF – Natural Resources USD***		***LTIF – Natural Resources CHF***		***LTIF – Natural Resources GBP***	
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Bloomberg:	LTIFGEV LX	*Bloomberg:*	LTIFGEU LX	*Bloomberg:*	LTIFGEC LX	*Bloomberg:*	LTIFGEG LX
LTIF – Emerging Market Value EUR		***LTIF – Emerging Market Value USD***		***LTIF – Emerging Market Value CHF***		***LTIF – Emerging Market Value GBP***	
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Telekurs:	11'901'448	*Telekurs:*	11'901'450	*Telekurs:*	11'901'447	*Telekurs:*	11'901'451
Bloomberg:	LTIFEME LX	*Bloomberg:*	LTIFEMU LX	*Bloomberg:*	LTIFEMC LX	*Bloomberg:*	LTIFEMG LX

Central Administration Agent:	***Investment Manager:***	***Custodian:***	***Registered Office:***
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Performance up to 30.09.06 is that of the LTIF BVI Fund, restated in CHF, of which the LTIF Stability is an identical successor. Previous performance is audited by Ernst & Young. Reports are available from SIA Group. Past performance is no guarantee of future trends. Long Term Investment Fund Stability (SIA Funds) was approved by the Swiss Banking Commission on July 13, 2006. The fund started trading denominated in Swiss Francs as of October 1st, 2006. This Newsletter is only addressed to qualified private investors who have expressed a desire to receive it, and by no means constitutes an offer to sell financial products that may not be suitable for its readers.

LTIF – Stability Growth		***LTIF – Stability Income Plus***	
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