S I A
Strategic Investment Advisors Group

Long Term Investment Funds

Newsletter

of June 2012

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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

Figure 1
LTIF – Classic EUR

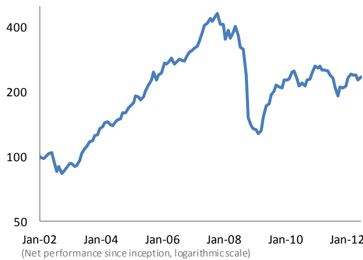


Figure 2
LTIF – Alpha EUR

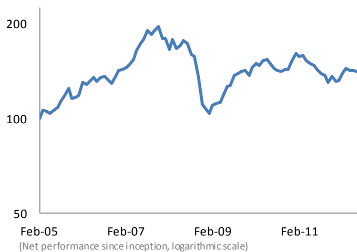


Figure 3
LTIF – Natural Resources EUR

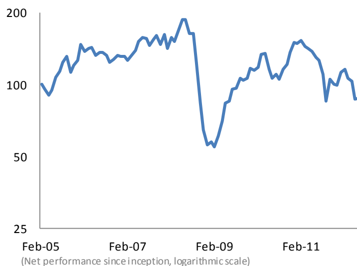
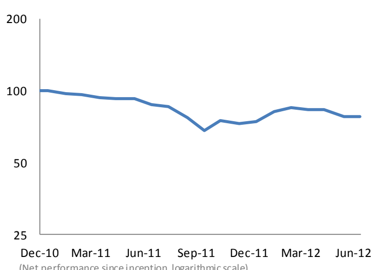


Figure 4
LTIF – Emerging Market Value EUR



Is this time different?

Figures 1 through 6 and Table 1 show the evolution of our funds' Net Asset Value over the last quarter. Again, markets have become very worried about "macro" issues, and have returned to the "risk-on, risk-off" mode of operation: when things seem to go badly, everything is sold off, regardless of how affected the asset actually is by the news; when things look as if they could improve, everything bounces back. Stock-picking, as we practice it, loses effectiveness: in most days, all shares move more or less in the same direction, whether well selected or not.

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

June 2012	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio)
LTIF Classic [EUR]	233.17	-1.99%	9.93%	8.40%	236.28
LTIF Alpha [EUR]	138.57	-2.50%	4.95%	4.50%	30.45
LTIF Natural Resources [EUR]	88.08	-16.94%	-11.27%	-1.72%	42.75
LTIF Emerging Market Value [EUR]	77.59	-6.99%	4.36%	-22.41%	5.15
LTIF Stability Growth [CHF] *Total return (dividends included)*	184.60	-0.27%	4.95%	3.64%	21.75
LTIF Stability Income Plus [CHF]	184.60	-0.27%	4.95%	-	1.65
MSCI World Index TR [EUR] *(Bloomberg GDDUWI)*	3'423.57	0.27%	8.89%	1.11% *	** Inception date of Classic*

The three main sources of fear, the Eurozone travails; and the US, and Chinese growth rates, are once again on the forefront (the Euro problems never really left it). At the cost of repeating ourselves, we'll present our point of view again:

As far as US growth is concerned: as we have been saying since 2007, the US economy will take a very long time to return to high rates of growth, because it has a huge pile of debt to work through, and its politicians are proving adept at not doing the right things. Growth is probably going to average 2% for a few more years. But that's an average: in some quarters it'll be better, and people will declare the crisis over; and in some quarters it'll be lower, and people will claim we're sliding back into recession. The stock markets will react accordingly. Companies will go about their business, because the impact of a 1% difference in GDP growth from quarter to quarter is not really significant for most companies. The reality is that housing and autos – the two most important engines of economic growth for an economy like that of the US – are starting to rise out of the trough of recession.

China is settling down from a double-digit growth rate to something like 7-8%. This is both inevitable and positive. Again, small variations around these numbers ("did it fall below 8%?") will create wild gyrations in the markets, but will have no impact on long-term investments. Little by little, China's economic activity is moving away from capital investment

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

Figure 5
LTIF – Stability Growth CHF

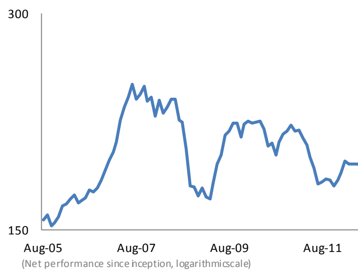
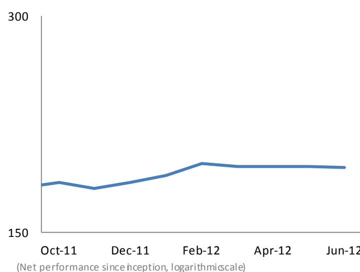


Figure 6
LTIF – Stability Income Plus CHF



and exports towards internal consumption, as it should. But it will take years, as it has taken in any other developing country.

Finally, as far as the Eurozone is concerned: as we have already mentioned, the Euro cannot carry on as it is at the moment, but it's going to be extremely difficult to change. This will mean that from time to time there will be huge stress in the markets until the politicians do something to prevent this. Given how much politicians have to do to make the Eurozone viable (or, even more, to break it up), we can be assured of a long period of volatility. This is, interestingly enough, because the Eurozone problems are far more political than economic. Table 2 shows how, as a whole, the Eurozone is by no means in a worse shape than other advanced economies. But the Eurozone is not "a whole," and therein lies the problem.

Table 2: **Macroeconomic dimensions for advanced economies, in %, 2012**

	GDP Growth	Inflation	External Balance	Unemploy-ment	Debt over GDP	Gov. deficit
Eurozone	-0.3	2.0	0.7	10.9	85	3.5
US	2.1	2.1	-3.3	8.2	100	7.6
Japan	2.0	0	2.2	4.5	230	8.1
UK	0.8	2.4	-1.7	8.3	90	7.8

Source: IMF

The crisis in the US was "solved" by the Troubled Asset Relief Program (TARP) in the sense that people stopped fearing an economic meltdown and went back to "business as usual" – albeit slowed-down by the need to repay debt. In October 2008, President Bush authorized the disbursement of $700 bn. to purchase bad assets from banks operating in the US (which included foreign banks with loans in the US), to guarantee the solidity of the banking system. This effectively put paid to the fear that banks would collapse, and allowed economic activity to slowly recover. The stock exchange took five months to realize the importance of this, by the way, but once it did, it proceeded to double in price over the following twelve months. For the record: the US government has already recovered almost all of the money invested. It "saved" the US economy at no cost to the taxpayer.

To a large extent, Europe has the same problem, but it cannot apply the same solution. Banks throughout Europe lent enormous amounts of money to borrowers, who could clearly not repay it: the Greek government, as well as Irish and Spanish households signing for huge mortgages. But, unlike in the US, there is no European government that can inject as much money as is necessary into the banking sector to make sure families and companies will obtain credit again. Each decision has to be negotiated by 17 sovereign governments in very asymmetric situations: some countries have more debt, other less; in some cases, the debt is public, in others private; public deficits vary enormously, etc. It seems as if politi-

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

cians are – very slowly – moving to something that might resemble "TARP." If so, we'll be able to start a very painful recovery, just 4 years later than the US did. This is where we are at the moment.

There are, of course, other structural problems beyond banking. When the housing bubble burst in the US, states like Nevada and Florida were plunged into recession. However, their basic government services and transfers (Social Security, unemployment benefits…) kept coming from the rest of the country, via Washington. But when Ireland and Spain plunged into recession after their housing crashes, they were told to cut their "automatic stabilizers" (unemployment benefits, health insurance…), because they cannot afford them now, and their European partners don't want to subsidize them. Regardless of the political merits of the different views, one thing is clear: getting out of the recession will take much longer than in the US. And this affects everybody, not just Spain or Ireland: Figure 7 shows, for instance, the amount of money invested by German and French companies in Spanish assets, which includes bank debt and direct investments. Figure 8 shows where German exports go: Italy plus Spain represent much more than exports to China, for instance. It's not so easy to "untangle" Europe – which, by the way, also shows how successful the European experiment has been in its first 50 years.

Figure 7: France and Germany's exposure to Spain, in billion EUR

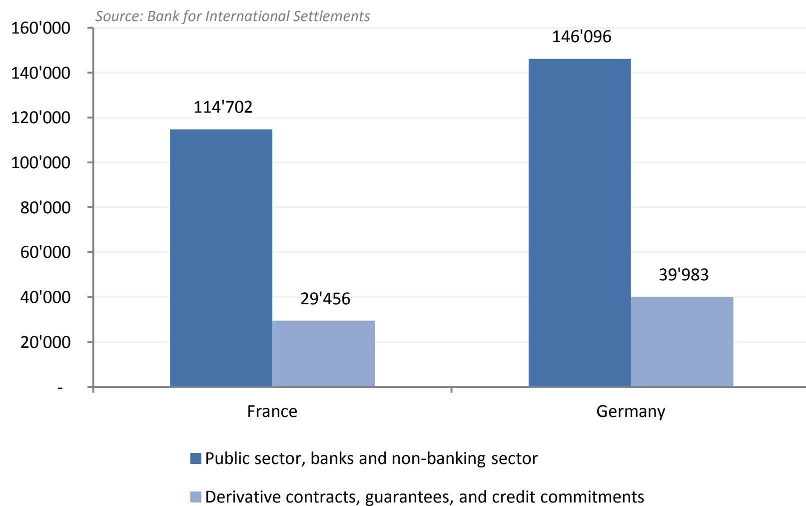


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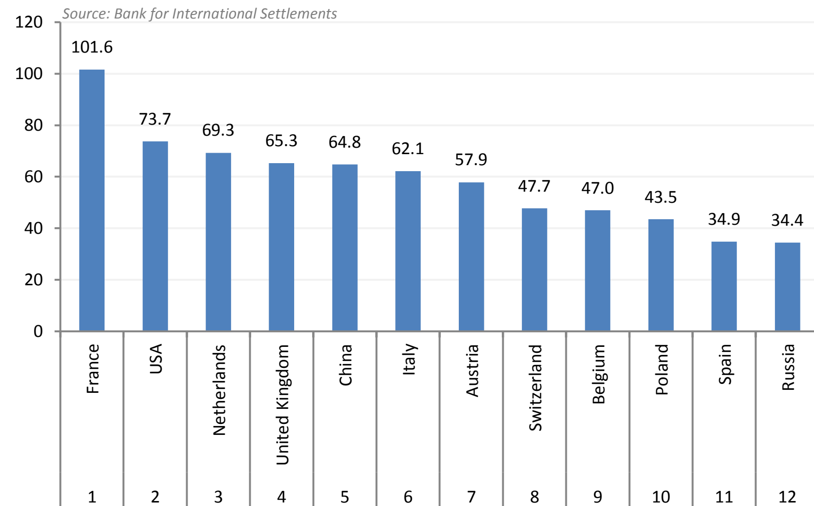
Figure 8: **Export ranking of Germany to countries of arrival, in million EUR**



The situation for countries like Portugal or Spain (Greece is really in much worse shape) is a true catch-22: they must cut expenses to reduce their deficit, and thus their borrowing needs, but they cannot re-pay their debts without growth, which is very difficult to achieve with all those cuts. They are in a unique situation: a truly sovereign country, with its own currency, would devalue and restart growth, which these countries often did in the past. A truly confederated state would draw from the strength of the rest. But these countries can only work through a very slow internal devaluation by cutting salaries year after year and through high unemployment, thus by destroying growth. They receive very limited help from their partners – to date, only more loans and zero help. It is probably going to take a very, very long time for Europe to regain healthy growth. And this is probably the best-case scenario. It's not difficult to paint others – capital flight, social unrest, a disorderly Euro break-up and default… – that would be much worse. European countries are not like Argentina, which is probably the richest country in the world. They cannot default and just start exporting oil and soya beans. European wealth is based on long-term commercial relationships in many service and industrial sectors with delicate interrelationships. The prognosis is not good.

Comments on our funds

The fact that the problems in Europe are, in the end, political, generates enormous uncertainties in the markets, which can't predict what the next "definitive Euro summit" will do. But this does not affect the earning power of the companies in our portfolios too much. We have kept adding some high quality names, such as Swatch, IBM, and BHP, which we be-

SIA Funds AG Parkweg 1 8866 Ziegelbrücke Switzerland
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lieve will do well in any scenario over the long-term, and can be purchased at very reasonable prices. All of them should give us our desired double-digit return regardless of the problems discussed above.

Our investment in salmon farming perhaps merits a special mention. We started this investment a few months ago, after carefully following the industry for more than two years. Our investment thesis seems to be playing out, and shares in Marine Harvest Group, the largest grower in the world, are up 40% in the last two months. We still believe we can make good money in this sector.

The Natural Resources fund continues its pattern of extreme volatility. The first quarter was positive, the second quarter negative. Not that much has changed: long-term oil prices stay between $90-100/barrel; copper above $3/pound, and rising. We continue with our diversification effort, having increased our positions in salmon farming, palm crude oil, and fertilizers. We are now analyzing certain companies specialized in dairy production and some very specific supplies for the mining and oil industries.

The Stability fund is showing its stability (technically speaking, its beta is 0.03). We still expect to pay 5 CHF in dividends at the end of the year. Its target is still a 10% annual return with little volatility.

Again, is this time different?

We keep telling our investors that our portfolios should provide a long-term return of between 10-12% after all expenses. We are convinced of this, and also pretty sure that this will be achieved with much less volatility than in the past. However, given the macro-economic turmoil discussed above, investors are more than entitled to ask, “Will this be possible?”

We would like to reprint – updated – something we published some years ago. Figure 9 shows the cash dividends paid year-by-year by the companies comprising the Standard & Poor 500 index over the last 52 years. We use this index because it has the best data series, but any other index would show similar results.

An investment of $1 million in 1960 would be paying a bit more than $800,000 in dividends this year. The cumulated dividend return, not reinvested, i.e., cashed and spent every year, would have been a bit more than $10 million. The current market price of the shares bought would be some $24 million. If dividends had been reinvested, the original invested would be worth around $100 million.

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Figure 9: **Dividends of S&P 500, since 1960, in USD**

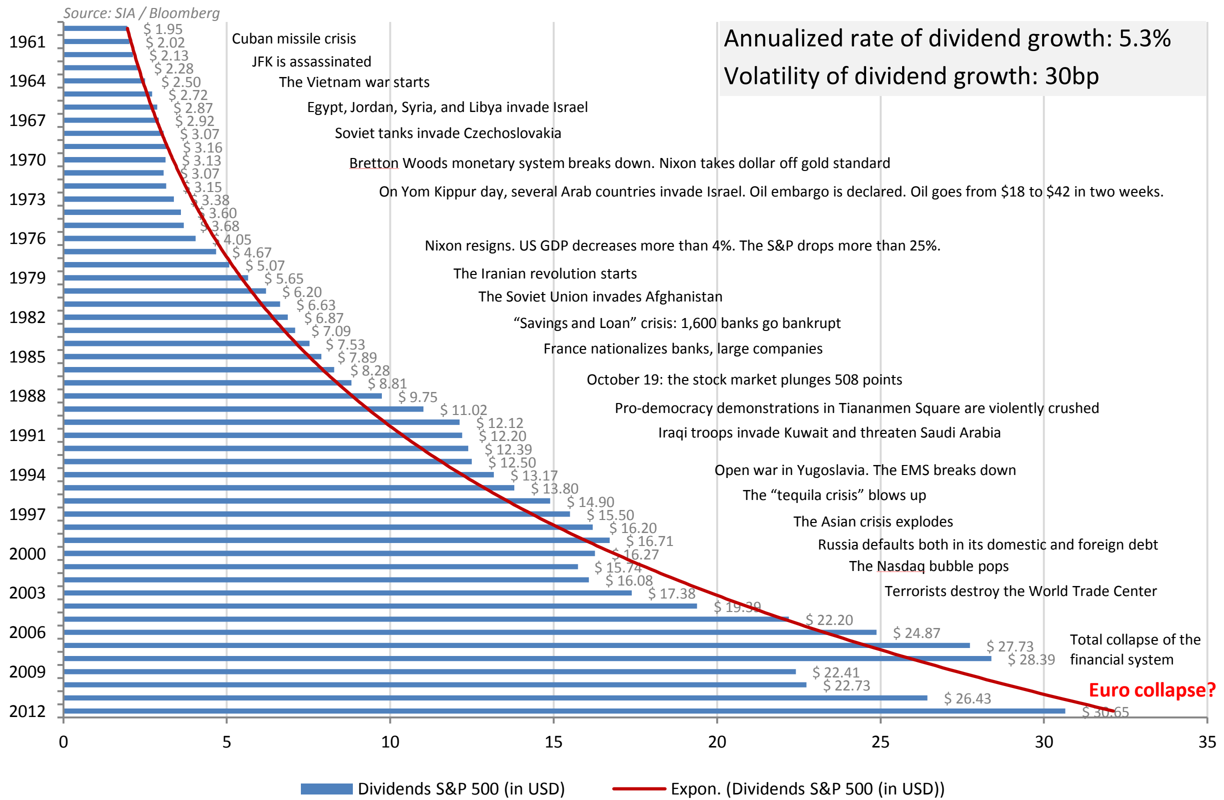
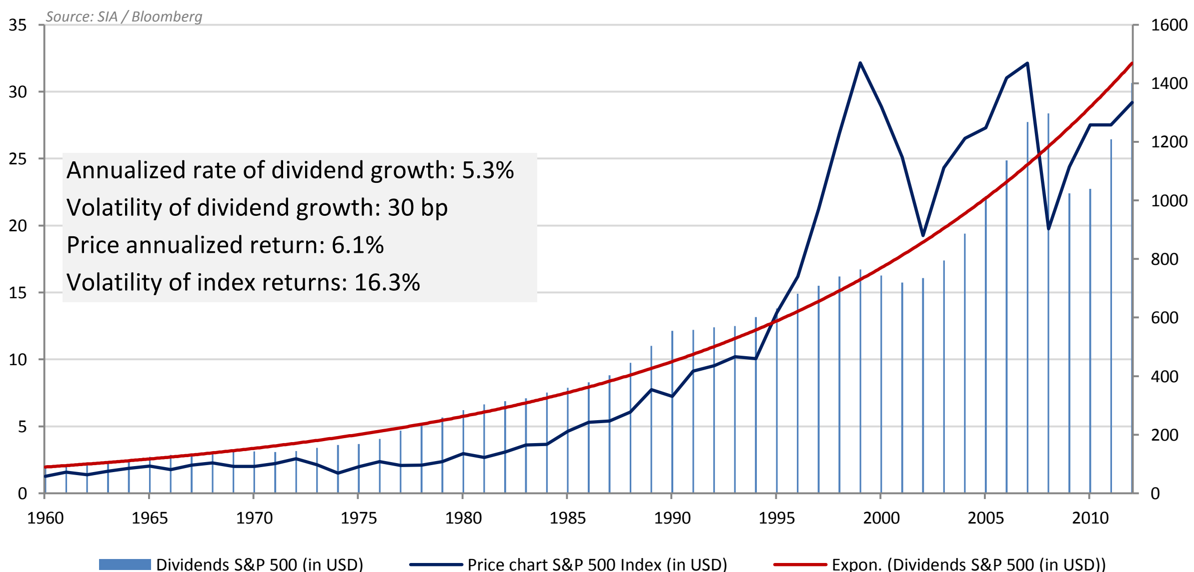


Figure 10: **S&P 500 Index and dividends, since 1960, in USD**



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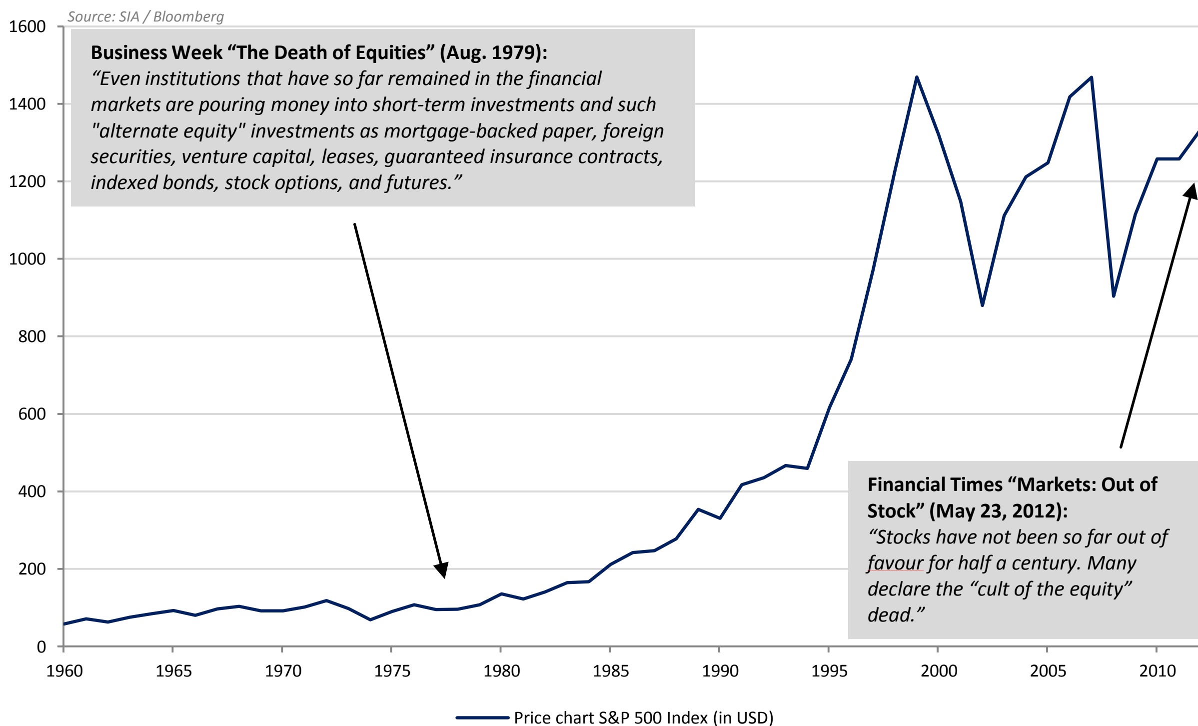
This is, of course, the magic of compound interest, as everybody knows. What we find highly remarkable in figure 9 and 10 are two issues that stock investors would do well not to forget:

1. The enormous regularity of dividends. They simply grow by about 5% per year with very little deviation. This puts paid to this idea that equity investing is "risky": how many businesses does the investor know that have produced such cash returns regularly for the last 52 years?

2. The highly turbulent environment in which many of those payments were made. We are inclined to believe that, given all the troubles with the world economy today, this is the end of the world. However, given the events listed in the figure, a few "bad things" have occurred in the past: several Arab-Israeli wars, periods of serious inflation, deep recessions, European monetary systems breakdowns, the worst market and real economy collapse in three generations, etc., etc. And dividends were unfailingly paid throughout all these events.

Will this time be different? Maybe; no one knows what the future holds. And when we say no one, we include influential journalists and authors: see figure 11.

Figure 11: S&P 500 Index, since 1960, in USD



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The objective of any investor is to reap increased capital after some time has passed. We are convinced that somebody owning companies as diverse as Nestlé and Swatch, Occidental Petroleum and Apple, Potash Corporation and Zurich Insurance Group, will look back ten years from now and see that his or her money has more than doubled, while holding very little real risk, regardless of what the markets have done in the meantime.

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Figures of the USD classes

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

June 2012	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio)
LTIF Classic [USD]	295.91	-6.60%	7.47%	12.07%	299.85
LTIF Alpha [USD]	175.85	-7.09%	2.59%	4.12%	38.64
LTIF Natural Resources [USD]	111.78	-20.84%	-13.26%	-2.32%	54.25
LTIF Emerging Market Value [USD]	98.47	-11.36%	2.02%	-25.12%	6.54
MSCI World Index TR [USD] *(Bloomberg GDDUWI)*	4'331.16	-4.86%	6.29%	4.52% *	** Inception date of Classic*

Figure 12
LTIF – Classic USD

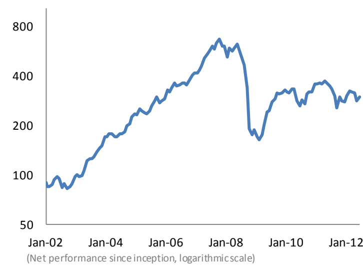


Figure 13
LTIF – Alpha USD

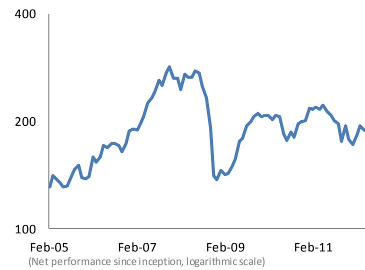


Figure 14
LTIF – Natural Resources USD

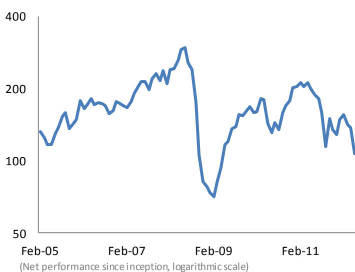
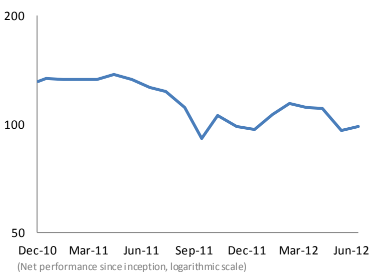


Figure 15
LTIF – Emerging Market Value USD



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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

Figures of the CHF classes

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

June 2012	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio)
LTIF Classic [CHF]	280.07	-2.19%	8.77%	6.26%	283.81
LTIF Alpha [CHF]	166.44	-2.70%	3.84%	0.97%	36.58
LTIF Natural Resources [CHF]	105.80	-17.11%	-12.20%	-5.03%	51.35
LTIF Emerging Market Value [CHF]	93.20	-7.18%	3.27%	-27.03%	6.19
LTIF Stability Growth [CHF] *Total return (dividends included)*	184.60	-0.27%	4.95%	3.64%	21.75
LTIF Stability Income Plus [CHF]	184.60	-0.27%	4.95%	-	1.65
MSCI World Index TR [CHF] *(Bloomberg GDDUWI)*	4'112.00	0.04%	7.50%	-0.86% *	** Inception date of Classic*

Figure 16
LTIF – Classic CHF

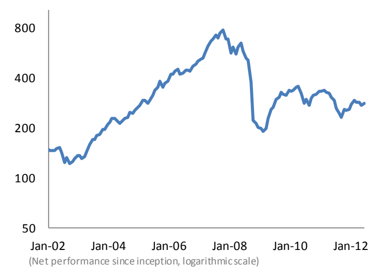


Figure 17
LTIF – Alpha CHF

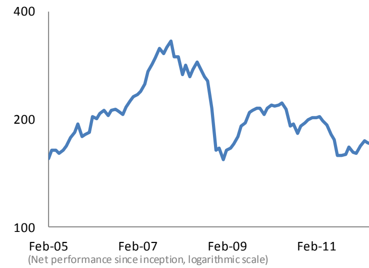


Figure 18
LTIF – Natural Resources CHF

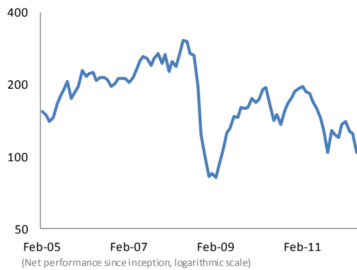


Figure 19
LTIF – Emerging Market Value CHF

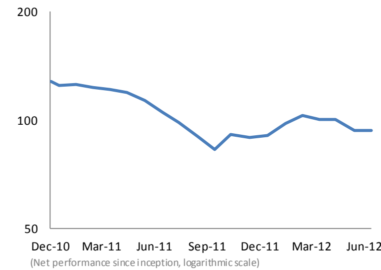


Figure 20
LTIF – Stability Growth CHF

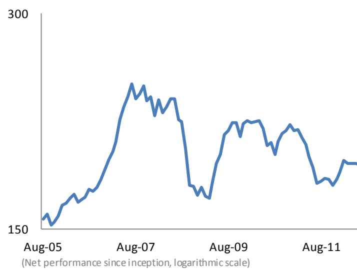
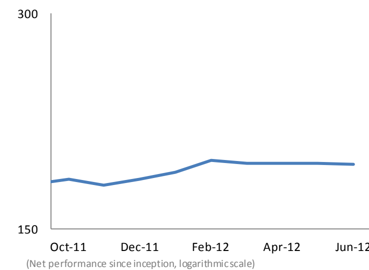


Figure 21
LTIF – Stability Income Plus CHF



SIA Funds AG Parkweg 1 8866 Ziegelbrücke Switzerland
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Figures of the GBP classes

Table 5: **Net Asset Value - Net assets under management in GBP**

June 2012	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio)
LTIF Classic [GBP]	188.66	-4.86%	5.51%	11.14%	191.17
LTIF Alpha [GBP]	112.10	-5.38%	0.72%	6.58%	24.64
LTIF Natural Resources [GBP]	71.27	-19.36%	-14.05%	0.46%	34.59
LTIF Emerging Market Value [GBP]	62.78	-9.71%	1.10%	-26.15%	4.17
MSCI World Index TR [GBP] *(Bloomberg GDDUWI)*	2'761.86	-2.98%	5.12%	3.89% *	** Inception date of Classic*

Figure 22
LTIF – Classic GBP

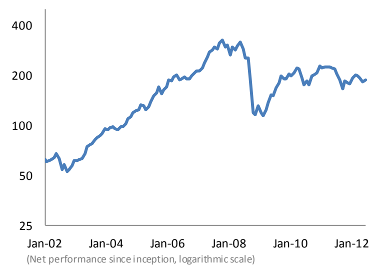


Figure 23
LTIF – Alpha GBP

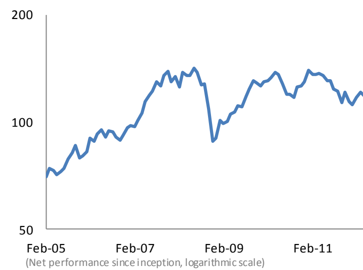


Figure 24
LTIF – Natural Resources GBP

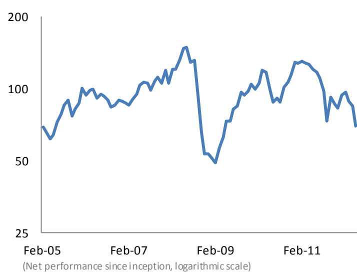
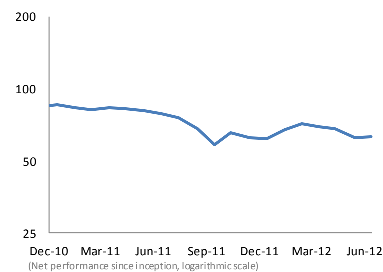


Figure 25
LTIF – Emerging Market Value GBP



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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

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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
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
ISIN: LU0750886714
Telekurs: 18‘032‘305
Bloomberg: LTIFCLS LX

LTIF – Alpha EUR
ISIN: LU0244072178
Telekurs: 2‘432‘573
Bloomberg: LTIFALP LX

LTIF – Alpha USD
ISIN: LU0301247150
Telekurs: 3‘101‘828
Bloomberg: LTIFALU LX

LTIF – Alpha CHF
ISIN: LU0301246855
Telekurs: 3‘101‘824
Bloomberg: LTIFALC LX

LTIF – Alpha GBP
ISIN: LU0750887282
Telekurs: 18‘032‘344
Bloomberg: LTIFALS LX

LTIF – Natural Resources EUR
ISIN: LU0244072335
Telekurs: 2‘432‘575
Bloomberg: LTIFGEV LX

LTIF – Natural Resources USD
ISIN: LU0301247234
Telekurs: 3‘101‘839
Bloomberg: LTIFGEU LX

LTIF – Natural Resources CHF
ISIN: LU0301246939
Telekurs: 3‘101‘836
Bloomberg: LTIFGEC LX

LTIF – Natural Resources GBP
ISIN: LU0457696077
Telekurs: 10‘638‘983
Bloomberg: LTIFGEG LX

LTIF – Emerging Market Value EUR
ISIN: LU0553294868
Telekurs: 11‘901‘448
Bloomberg: LTIFEME LX

LTIF – Emerging Market Value USD
ISIN: LU0553295592
Telekurs: 11‘901‘450
Bloomberg: LTIFEMU LX

LTIF – Emerging Market Value CHF
ISIN: LU0553294785
Telekurs: 11‘901‘447
Bloomberg: LTIFEMC LX

LTIF – Emerging Market Value GBP
ISIN: LU0553296053
Telekurs: 11‘901‘451
Bloomberg: LTIFEMG LX

Central Administration Agent:

FundPartner Solutions (Europe) S.A.
3, Boulevard Royal
L-2449 Luxembourg
Luxembourg

Investment Manager:

SIA Funds AG
Parkweg 1
CH-8866 Ziegelbrücke
Switzerland

Custodian:

Pictet & Cie (Europe) S.A.
1, Boulevard Royal
L-2449 Luxembourg
Luxembourg

Registered Office:

1, Boulevard Royal
L-2449 Luxembourg
Luxembourg

Legal Notice – Switzerland

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
ISIN: CH0026389202
Telekurs: 2‘638‘920
Bloomberg: LTIFSTA SW

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

Administrator:

Pictet Funds S.A.
Route des Acacias 60
CH-1211 Geneva 73
Switzerland

Investment Manager:

SIA Funds AG
Parkweg 1
CH-8866 Ziegelbrücke
Switzerland

Custodian:

Pictet & Cie
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