S I A
Strategic Investment Advisors Group

Long Term Investment Fund

"It ain't what you don't know that gets you into trouble.
It's what you know for sure that just ain't so."

Mark Twain

Newsletter

of June 2017

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Overview of our funds

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

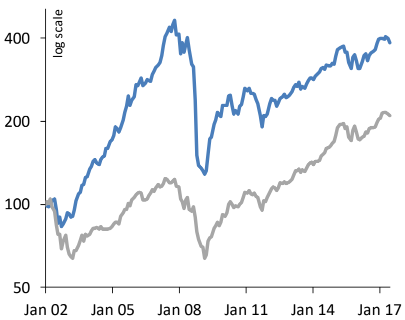

Figure 2: **LTIF Stability A Cap EUR**
vs. HFRX Global Hedge Fund Index EUR

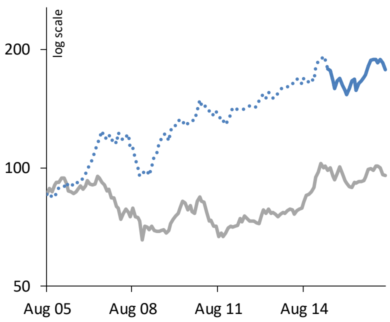

Figure 3: **LTIF Natural Resources EUR**
vs. S&P Global Nat. Res. Net TR Index EUR

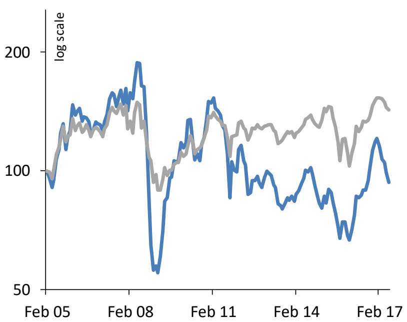

Table 1 and figures 1 through 4 show the evolution of our funds' Net Asset Value during the last quarter.

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

June 30, 2017	NAV	Δ 3m	Δ YTD	Annualized return (s.i.)	AUM *(in mio) *Pool*
LTIF Classic [EUR]	384.33	-3.0%	-3.3%	9.2%	170*
LTIF Stability A Cap [EUR]	177.96	-3.9%	-5.3%	6.5%	170*
LTIF Natural Resources [EUR]	93.58	-12.6%	-20.9%	-0.5%	15
LTIF Stability Growth [CHF] *(Total return, dividends included)*	206.20	-2.2%	-1.9%	3.3%	5

Source: SIA Group

For our Classic fund, this represents a 3% decrease in the market value of the shares during the quarter, which broadly reflects the World Equity Index. The Natural Resources' shares are down by 12.6% during this quarter.

As we always remark, the quarterly (or even annual) variation in share prices is not very meaningful as an indication of an investment performance. Markets are subject to moods (in both directions) that dissolve over time. What matters, of course, is the underlying companies' profitability. In this respect we cannot be happier, except for the oil-related investments, which we discuss below.

Profitability has been very solid in practically all the other investments. The long-awaited pick-up in the European economy has finally arrived, and it has had a clear impact on companies such as Wienerberger (bricks and tiles), Heidelberg Cement, EasyJet, Air Liquide, and even ING. Other investments are now entering the maturation period: MTU has finally delivered the new engines for the Airbus 320neo and is closing a long period of intense investment to move to one in which its free cash flow is going to increase very substantially, because it makes its money with the spare parts, not with the engines. On the whole, our expectation of a profit increase above 10% for this year is well on the way to becoming a reality.

The portfolio part that has not done very well is oil-related investments. These have done very badly from the point of view of their share prices, as the decline in the price of our oil-related shares is more than 5% of the total fund for the year, although they represented only 15% of the investments. They have also made a bit less money than we expected, due to a lower than expected oil price, which has obviously had a negative impact on the profits. Let's discuss our view of this business:

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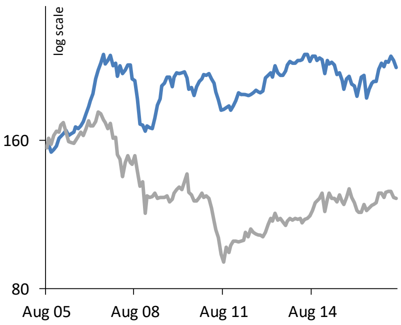
Figure 4: **LTIF Stability Growth TR CHF vs.** HFRX Global Hedge Fund Index CHF



Last year, the average oil price was $45, about the current level. At that price, none of the leading shale oil producers made money. These are companies operating in the best oil basins and assumed to have the lowest costs, such as Pioneer, Continental Resources, EOG, etc. They all maintain that they can make money with oil below $40, which is what their investors want to hear, but the reality is that their published accounts show losses with oil at $45. And this happened in 2016, a year when their costs went down, because their suppliers, desperate for business (shale oil production went down more than 20%), lowered their prices until they, too, lost money. 2017 is predicted to see cost increases of up to 30% in most of the inputs needed to produce shale oil. All the producers lost money in the first quarter when the average oil price was $51.81.

We don't like the word "bubble," which is clearly overused. But some numbers are inescapable: Shale oil producers have an aggregate debt of $200 billion. They could produce up to 5 million barrels per day in 2017. If they do, and sell them at $50, they could generate revenues of $90 billion. In the extremely unlikely case that they make a 5% net profit, this would represent $4.5 billion. Not a great amount to pay interest on high-yield bonds, much less to finance the necessary drilling: Shale oil wells lose 50% of their production after one year, which means that just maintaining production requires huge investments. The reality is that this industry is not economic at current prices, and investors are propping it up, much as mortgages and internet infrastructure did in previous bubbles. When everybody talks about being "cash flow neutral" and nobody talks about profits, you know you are in the presence of a Ponzi scheme.

Shale oil represents about 5% of the world production. World demand grows at 1.5%-2% per year, and old fields go out of production through depletion. Mexico's oil production, for instance, has gone from 2.6 mbp five years ago to barely 2 mbp now. The current narrative, to which Mark Twain's quotation above could be applied, is that shale oil will deliver all the oil the world needs at increasingly lower prices. It's not going to happen.

For the next 24 months, many large, conventional oil projects that were started in 2010-2013 will enter production. This will maintain a sufficient supply of oil to cover the world's needs. The price will probably fluctuate between $40, at which most shale producers run out of cash, and $60, at which they come back. But after 2019, there will be no more new conventional oil: Investment in oil production has decreased by 60% since 2014 when prices started to drop.

All this means that our investments (made too early, it's clear now) will do well over the medium term. We do not worry about the financial viability of any of our companies, which should see their share prices increase several times. For example, Premier Oil's consensus PE for next year is 2.6.

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Comments on our funds

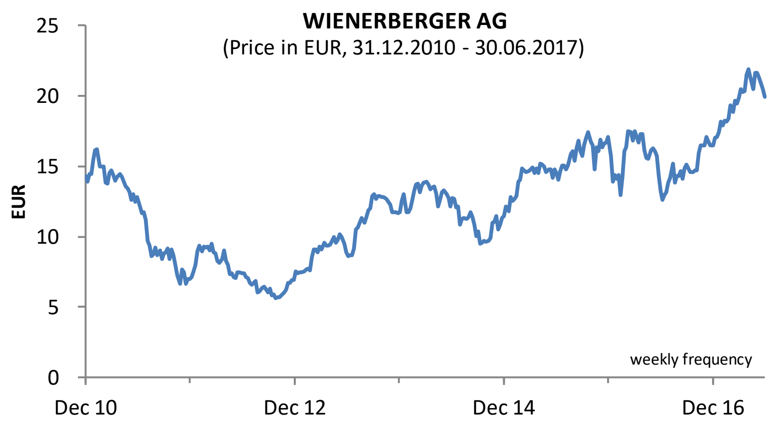
We have, as usual, done very little trading. We have added Devro Plc, sold Atlas Copco and Drägerwerk, and reduced our position in Wienerberger. We have also increased our positions in Pandora, Apple, Visa, First Quantum, Grifols, and MTU.

In the sausage casing (skin) business, Devro plc is essentially the only global competitor left for Viscofan. It is smaller than Viscofan and expanded its factories at the wrong time, which saddled the company with more debt than the market liked. The share consequently dropped substantially from 350p to 150p. We have followed the company for some years now as part of our due diligence on Viscofan and believe it enjoys the same positive market environment. The business is very stable, which means the high debt is not so dangerous and is, in any case, now down to twice Ebitda. With a forward PE of 13 for a high-quality business (dividends above 4%), we believe it's a good addition to the portfolio.

Both Atlas Copco and Drägerwerk are excellent companies, but they reached a valuation that we thought a bit excessive. With a PE of 20, we think Atlas is already discounting much of the pick-up in industrial businesses. Drägerwerk has seen the share price go from €60 in October last year to €105 when we sold. If the shares were to drop (they are down more than 10% since we sold), we would buy again.

In the case of Wienerberger, we sold half the position. It's a stock that we bought at €9 a few years ago, which is now selling above €20. Perhaps because it's a relatively small, unknown company, the stock is very volatile (see figure 5) and plunges from time to time. If it does so again, we'll increase our position.

Figure 5: **Wienerberger stock, 2011-2017**



Source: Bloomberg

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As always, we have several companies under study and expect to add some in the future, particularly if the markets continue to correct.

To summarize, we expect 2017 profits of close to €28 per share of the fund, which would be a very healthy increase compared to last year's, even when taking into account that the US$, in which many of our profits come, is down more than 8% against the euro in 2017.

The Natural Resources fund

The evolution of this fund's shares has been negative (-20.9% Ytd), driven mostly by the oil sector, but also by a weakness in the share price of salmon producers, an important part of our portfolio.

Again, there is a widely-accepted narrative at work here, which we believe is wrong: Two years ago, there was a huge mortality in Chilean farms, which contributed to an increase in salmon prices worldwide. The market expects, correctly, that over the summer and fall of this year, the recovered Chilean production will return to the market, pressuring prices down. As markets are supposed to do, the shares prices have anticipated this.

We are not very concerned. We have seen these episodes in the past and they tend to be much less dramatic than feared, because, contrary to that of most industrial commodities, the salmon demand is highly elastic: It's enough for prices to increase or decrease by very little to have a huge impact on the demand, as there is an almost infinite number of substitute products (basically, any food).

In addition, the stocks are priced very attractively — see the table below. We think this investment is going to continue to produce very good returns, even if some traders have "taken profits" after the huge share price run over the last few years (shares doubled last year).

Table 2: **PE and Dividend yield (2017) for MHG, BAKKA, LSG, GRS and NRS**

Stock	Price/Earnings 2017e	Dividend Yield 2017e
Marine Harvest ASA	10.2x	8.6%
Bakkafrost P/F	12.0x	4.3%
Leroy Seafood Group ASA	8.5x	4.0%
Grieg Seafood ASA	7.4x	7.3%
Norway Royal Salmon ASA	8.8X	7.4%

Source: Bloomberg

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In respect of most other natural resources sectors, especially mining, the situation is similar to that of oil: The commodity prices have been weak, affected by excess production after the huge investments in the 2005-2015 period. Investment has completely dried up for a couple of years now; for example, the industry is currently investing less than 1% of sales — a historical record low. This is due to practically all commodities trading at prices below those necessary for investments to turn a long-term profit. This investment scarcity is going to start showing over the next few quarters in commodities such as copper and nickel, and has already done so in zinc.

It's remarkable that most metal prices have remained stable this year (unlike oil), yet the producers' shares have dropped in "sympathy" with the drop in oil producing shares.

Whatever the case, the specific companies we selected for the fund have solid finances and, most importantly, significant projects in the pipeline. They will increase their profits regardless of the commodity prices and give us a very strong return over the next two years, albeit subject to the sector's typical volatility. Our companies will start harvesting good investments very soon, because we invest in companies that increase their production and not in companies that pay dividends from an ever-decreasing cash-flow and are, therefore, just harvesting old investments, not creating wealth.

Expectations

As pointed out above, we expect a double-digit increase in profits for the year. It's difficult to find very cheap stocks (after all, why would anybody give us handouts?), but there are many medium-sized, especially European, companies engaged in very attractive businesses that sell at prices that will ensure our desired better than 10% long-term return. We will keep working to identify them, while closely following our current portfolio.

Additional information

After 15 years we have decided to upgrade our homepage **www.s-i-a.ch.** If you are an existing client of us, you now have the possibility to register for a password protected area called "Investor Relations". After your registration, we double check your contact details and send you the required password. On this part of our homepage you will be able to see our regularly updated portfolios as well as our single company notes. Please feel free to contact us for any request that you may have.

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Figures of the USD classes

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

June 30, 2017	NAV	Δ 3m	Δ YTD	Annualized return (s.i.)	AUM *(in mio)* **Pool*
LTIF Classic [USD]	438.35	3.5%	4.6%	10.9%	194*
LTIF Stability A Cap [USD]	188.17	2.5%	2.4%	5.8%	194*
LTIF Natural Resources [USD]	106.73	-6.9%	-14.4%	-1.8%	17

Figure 6: **LTIF Classic USD**
vs. MSCI Daily TR Net World Index USD

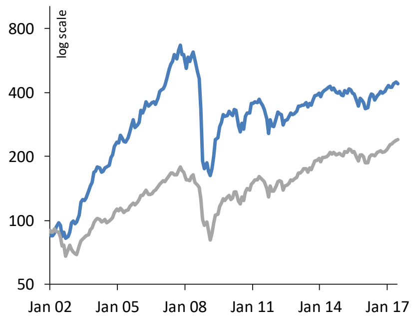


Figure 7: **LTIF Stability A Cap USD**
vs. HFRX Global Hedge Fund Index USD

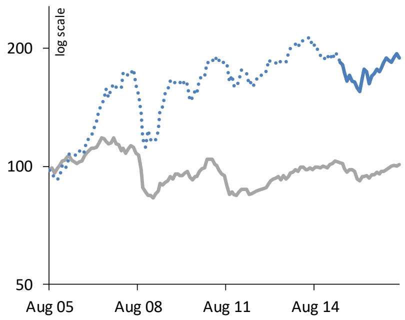
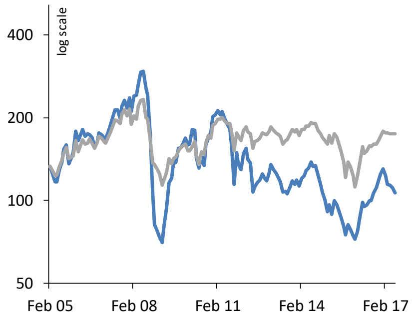


Figure 8: **LTIF Natural Resources USD**
vs. S&P Global Nat. Res. Net TR Index USD



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Figures of the CHF classes

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

June 30, 2017	NAV	Δ 3m	Δ YTD	Annualized return (s.i.)	AUM *(in mio)* **Pool*
LTIF Classic [CHF]	419.78	-1.0%	-1.5%	7.0%	186*
LTIF Natural Resources [CHF]	102.21	-10.9%	-19.4%	-3.3%	16
LTIF Stability Growth [CHF] *(Total return, dividends included)*	206.20	-2.2%	-1.9%	3.3%	5

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

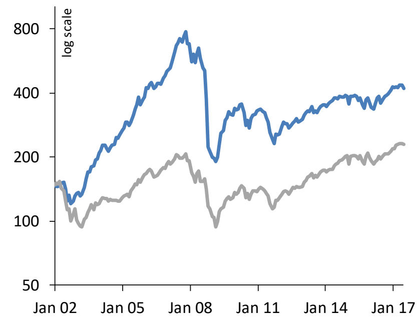


Figure 10: **LTIF Stability Growth TR CHF**
vs. HFRX Global Hedge Fund Index CHF

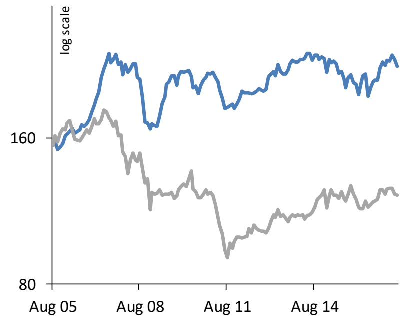
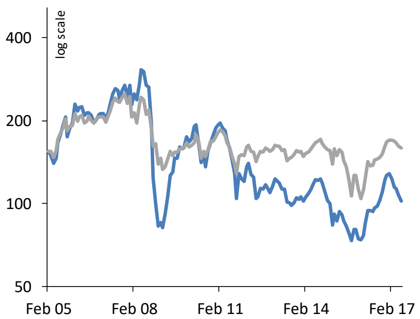


Figure 11: **LTIF Natural Resources CHF**
vs. S&P Global Nat. Res. Net TR Index CHF



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Figures of the GBP classes

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

June 30, 2017	NAV	Δ 3m	Δ YTD	Annualized return (s.i.)	AUM *(in mio)* **Pool*
LTIF Classic [GBP]	337.46	-0.4%	-0.5%	11.7%	149*
LTIF Natural Resources [GBP]	82.17	-10.3%	-18.6%	1.5%	13

Figure 12: **LTIF Classic GBP**
vs. MSCI Daily TR Net World Index GBP

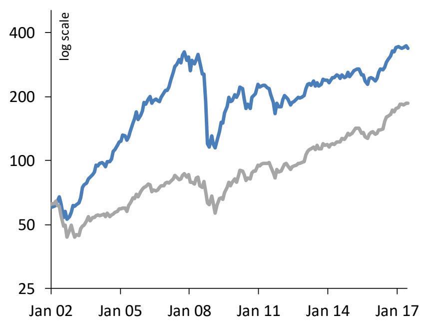
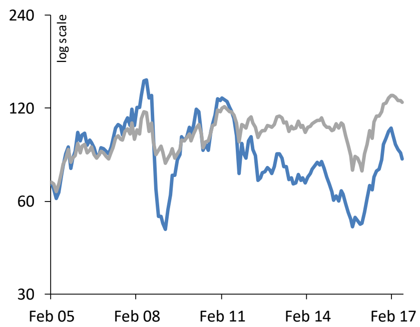


Figure 13: **LTIF Natural Resources GBP**
vs. S&P Global Nat. Res. Net TR Index GBP



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LTIF – Classic GBP
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