Long Term Investment Fund

Figure 1
LTIF – Classic EUR

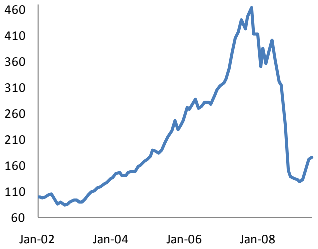


Figure 2
LTIF – Alpha EUR

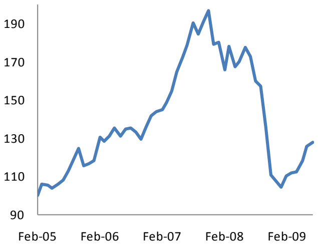


Figure 3
LTIF – Global Energy Value EUR

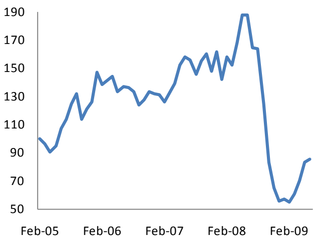


Figure 4
LTIF – Stability CHF

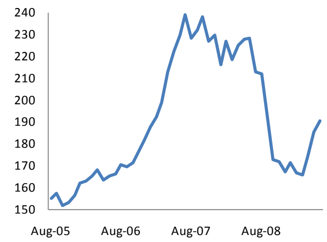
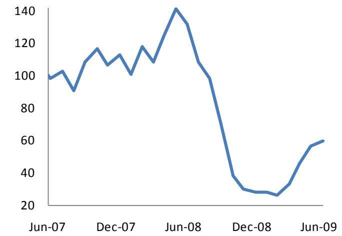


Figure 5
Global Mining Value Fund EUR



Tables 1 and figures 1 to 5 show the evolution of our funds' Net Asset Value during the last quarter. This evolution has been strongly positive, correcting to some extent the "excessively negative" evolution that the funds experienced last year. Many of our shares had reached a clearly ridiculous price at the end of 2008, and they are now gradually returning to a degree of "normalcy." But the funds are still trading at about half of their price of a year ago, which means that there is plenty of value left in them – as we'll see in more detail later on.

Table 1: Net Asset Value - Net assets under management in EUR

June 2009	NAV	Δ YTD	Δ 12m	Δ Inception	AUM (in mio)
LTIF Classic [EUR]	175.00	29.76%	-51.92%	75.00%	494.11
LTIF Alpha [EUR]	127.94	22.74%	-25.98%	27.94%	78.08
LTIF Global Energy Value [EUR]	85.51	53.13%	-54.41%	-14.49%	21.84
LTIF Stability Series [CHF]*	190.40	13.88%	-16.53%	23.02%	61.10
*Total Return (incl. Dividend)	3.23	1.00%			
Global Mining Value Fund [EUR]	59.46	112.36%	-54.95%	-40.54%	33.11
MSCI World Index TR (GDDUWI) [EUR]	2'222.97	5.83%	-20.26%		

This value can, first of all, be observed in our companies' earnings potential. At the beginning of this year, we estimated the earnings per share of the fund between €25 and €30. With half the year behind us, we are fairly certain that the actual profits will be close to the upper side of the range. That would yield a return of some 16% for this year, which is certainly not bad.

But… is this really an investment opportunity? Is the world economy strong enough to allow such profits? Won't equity markets keep dropping, so that any investment in shares will quickly lose its value? We'll try to answer these questions in the next few pages.

The two ways an investor can make money

Somebody who buys an asset (shares, bonds, real estate, gold bullion…) can realize profits in two different (not mutually exclusive) ways. One is simply to resell the asset at a higher price. The other is to collect whatever "rents" the asset generates: dividends in the case of shares, interest in the case of bonds, rents from real estate… and expenses in respect of gold. After a time, the investor can sell the asset, and the total returns will be a combination of the rents earned plus or minus any difference in price. We'll call the first part of profits "rents" and the second "appreciation."

An investor in an "illiquid asset", i.e. one without a price that changed daily, such as a factory, tends to concentrate on the rents, not on the asset's eventual re-sale price. There are three reasons for this: first, appreciation only happens when one sells the factory, which the investor

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probably does not consider constantly; second, in any case, one does not know what the "market price" of the factory would be every day, because each factory is different, they are not bought and sold every day and, even when they do, the price is frequently not published; finally, over time, the appreciation of a rent-producing asset is highly correlated with the rents actually produced, so that taking care of the rents takes care of the rest. This is, basically, what most business owners do. For them, their investment's profitability is the actual amount of rents collected, divided by whatever they had to invest to own the business. Selling the business may or may not occur at some future time, and the re-sale price will probably depend on how profitable it is.

However, as soon as there is a "liquid market" for the assets, i.e. a constant buying and selling, investors start forgetting about the rents that the asset is supposed to produce, and fixate on the daily price changes. This is not very rational: the fact that a portion of a business is floated on the stock exchange, for instance, does not alter the nature of that business in any meaningful ways. But it does change the owner's outlook: instead of worrying about the company's profits, the "investor" looks at the share price every day, and considers it a profit when the price is up and a loss when it is down.

Daily prices go up and down a lot more than long-term profits, because many investors are not trying to guess what the long-term profits will be (which, in many cases, can be roughly assessed with some confidence), but what the share price will be in the short-term. This leads to an impossible situation in which everybody is trying to outguess everybody else, producing even more volatility in prices, up to a point where these prices may lose their connection with the underlying profits.

We just maintained that in many cases, long-term profits can be estimated with some confidence. In previous newsletters, we have insisted that in spite of what the business media would have us believe, macroeconomic conditions (what the economy does) only make a modest difference to companies' profits over time and are therefore not very important for the long-term investor. Do we still maintain this after everything that's happened in the last few quarters?

First of all, let's look at correlating evidence regarding the economy's performance and that of the stock market in the medium term (several years). Consider the following figures:

DJ Industrial Average Index as of December 31st, 1964 = 874.12
DJ Industrial Average Index as of December 31st, 1981 = 875.0

Or, graphically:

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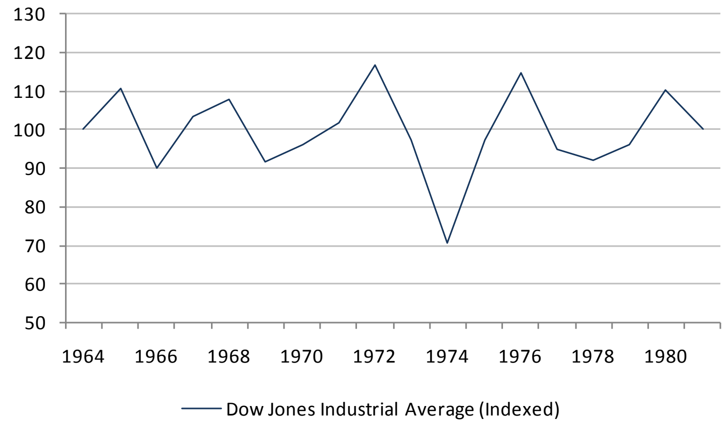
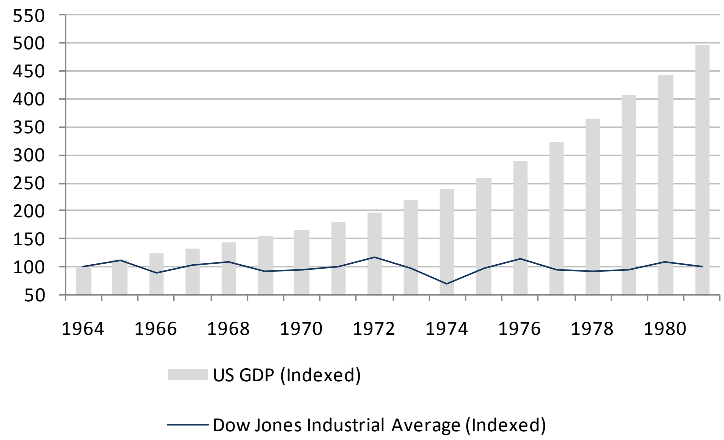
Figure 6
Evolution Dow Jones Industrial Average 1964 - 1981



During these years, in which investors actually lost a lot of money in real terms because inflation averaged 8.4% a year, the US economy did fairly well: GDP went from 630 to 3'131 $bn, an increase of 11.1% per year in current dollars. This is captured in figure 7.

Figure 7
Evolution Dow Jones Industrial Average / US GDP 1964 - 1981



But there is more: the overall market's performance is one issue, while the specific investments' performance is a very different one. The third line in figure 8 is the performance of Berkshire Hathaway's shares during the very period that the stock market didn't do anything: 21.7% per year. Please, note that the scale is now logarithmic: the share price went up several hundred times.

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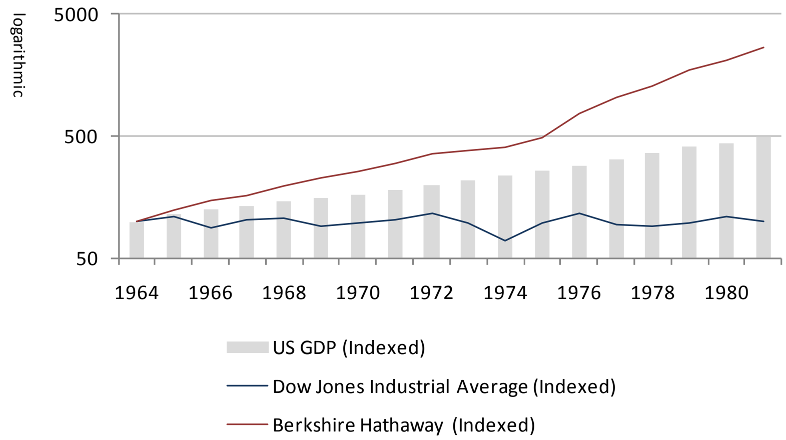
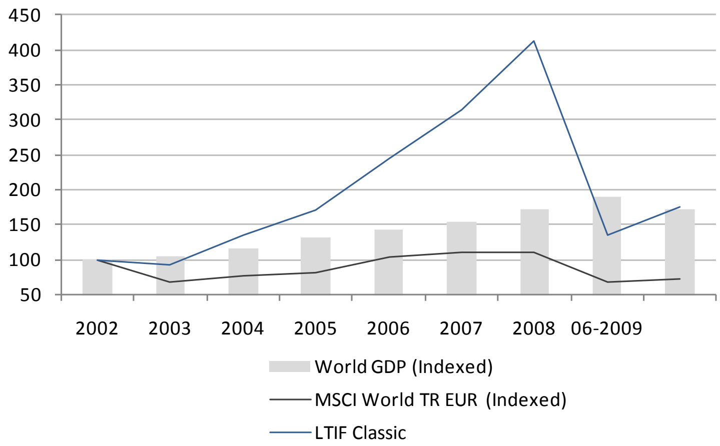
Figure 8
Evolution Dow Jones Industrial Average / US GDP / Berkshire Hathaway A 1964 - 1981



Now, let's look at more recent figures. Figure 9 also shows three variables: the evolution of the MSCI World Index, the evolution of the world GDP, and the evolution of the LTIF Classic's Net Asset Value between January 2002 (when we started the Fund) and June 30, 2009. We don't pretend to be Warren Buffett, but it's easy to see the lack of connection between these three variables and the preceding period. The economy can do well, the market poorly, and a specific investment very well.

Figure 9
Evolution MSCI World TR EUR / World GDP / LTIF Classic 2002 – 06.2009



The main reason for the economy's performance and market evolution diverting is very simple – pricing. In spite of a stellar economic record, the market (i.e. the total of companies' shares) didn't move between 2002 and 2007 (the dropped afterwards, with the crisis). On average, shares were too expensive in 2002; therefore, all the economy did was to "catch up" with the inflated share price. The same can be said of the previous period between 1964 and 1981. But notice the emphasis on "average": Berkshire Hathaway's shares and those in the Long-Term Investment Fund were not very expensive at the beginning of the period. By being inexpensive, they did profit from the good economic environment. Consequently, we can have a good economic environment in which buying shares is not is, on average, a good investment, because they are expensive. Conversely, we can have a mediocre economic environment in which buying shares could be a good investment if their prices are low enough compared to their future profits. To simplify, if a share that earns €10 per year enters a period during which it's probably only going to earn €5, but its price drops from €200 to €35, a fantastic investment opportunity is created in a mediocre economic environment.

The question then becomes: how bad is the economic environment going to be? Will the share in our example make at least €5?

The current economic environment

In our March 2008 Newsletter we wrote:

> The macro picture is, in fact, relatively simple: the US has been consuming for years much more than it produced, hence its trade deficit. This was matched by much of the rest of the world's trade surplus, i.e., the Chinese (and the Swiss!) were producing much more than they consumed. Now, as demanded by policy makers everywhere for years, this permanent imbalance is correcting itself.
>
> The problem is that this does not look like correcting an imbalance to the US citizens: it looks like hell, because they have to consume less, pay their enormous debts, and let those Chinese and Swiss (and Japanese, and French…) producers enjoy more of what they produce. Worse, to make up for years of over-consumption, the US has to send those foreigners something more valuable than sub-prime based CDOs and shares in Blackstone or Carlyle Capital, taking that "something" out of their current consumption. They feel horrible, and it shows. They will talk about recession for years to come…

Well, after the huge dislocation of last summer's near collapse of the world's financial system, this is exactly what is happening. Figure 10 shows a statistic that, in our experience, practically nobody wants to believe; but it is a fact. Please note that the data in the graph are in absolute (billions of dollars), not relative (percentages), terms.

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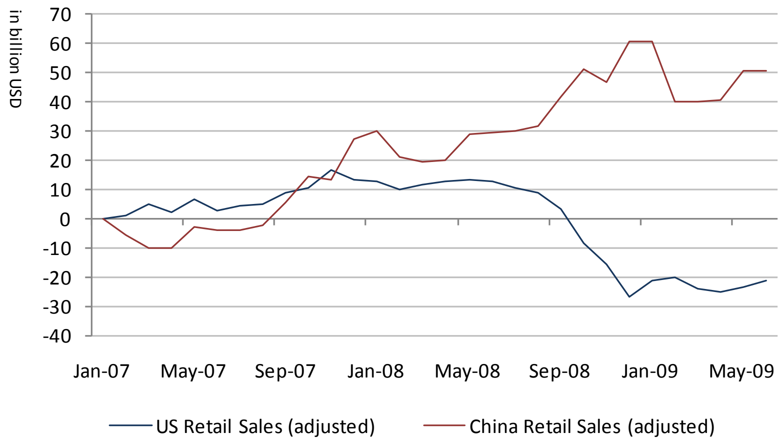
Figure 10
Absolute Change US Retail Sales / China Retail Sales



Source: Bloomberg

The shift in economic importance from the West – particularly the US – to the East – particularly China – is so profound that people have a hard time digesting it. But it is true, nonetheless. We could bore our readers with dozens of statistics that verify this shift. By the way, to many Chinese, this shift simply seems a return "to normal": 200 years ago, China represented more than a quarter of the world's GDP, which roughly belonged to the US until very recently. Everybody examines Chinese exports (or US imports) for evidence of recovery – as if the Chinese couldn't work for themselves and didn't have a huge country to build. But China's imports are more interesting: they bottomed at $832 bn during February, and are up 24.0% through June. Chinese imports are rising faster than their exports, which are up 13.8% over this same period. China is becoming a source of demand, not just of supply.

Be it as it may, the world economy is not collapsing, but adjusting to the necessity of correcting long-term imbalances. This adjustment is going to be painful in many industries. The US and large parts of Europe must consume less and produce more. This is not what people have been doing for the past 30 years. And they don't like it. Consequently, the adjustment of these economies is going to be difficult and painful, as there will be structural overcapacity in many industries; but many companies will do very well. We devote our efforts to finding these companies.

Comments on our Funds

What are the prospects for our companies in this environment? Some sectors, which our investors know well because we've been investing in them for years, seem a "sure bet." A couple of months ago (see Newsletter 2008-1Q), we explained why the price of copper cannot drop below $2.5/lb over the long term. In the last few months' turmoil, the price dropped as low as $1.3/lb for a few weeks, creating a fantastic buying opportunity in copper producers, whose shares crashed thoroughly.

Copper is now back at $2.3/lb and we'll see it even higher over the next few years, precisely because the market crash has postponed most of the few new projects aimed at producing it. Will the price drop again (and with it our companies' shares) in the short term? We have no idea. But unless mankind gives up electricity, anybody investing in our copper companies is going to reap an excellent return.

Something similar can be said of energy prices. They've spent a few months below their possible minimum long-term level, dragging the oil-producing companies' shares with them, thus generating good opportunities. Our Energy and Mining funds are sharply up this year, but they are just correcting last year's ridiculous drop. There is plenty of value left in them, and we'll analyze this topic in detail in the next Newsletter.

There are, however, interesting opportunities in many other sectors. We've discussed re-insurance several times. It's one of the few sectors worldwide in which prices are going up, not down. The reason for this is very simple: a great deal of capacity has left the market from Lehman-Re to AIG, from the drop in equity in Swiss-Re to the reduction in capital committed to re-insurance at General-Re. And these are the largest players in the world.

Healthcare presents some interesting opportunities, too. The companies are not extremely cheap on a current basis, but their prospects are bright: the only long-term macroeconomic prediction that can be made with absolute certainty is that populations are aging and that they will increasingly require healthcare. After all, demand for health is fairly unlimited. This is not news, of course, and the sector has traditionally traded at a large premium to the market. But recent drops are opening opportunities, especially in sub-sectors other than the well-known pharmaceutical industry.

From a geographical point of view, we are slowly reinforcing our investments in Asia. It's now clear that over the next years most economic growth will happen there. Many Western companies, such as natural resources producers, will of course benefit. But many local Asian companies will turn out to be excellent investments. Our detailed, fundamental, bottom-up approach means that we do not simply invest there in general, but only when we find individually attractive companies. Fortunately, our Singapore office is now in full production and generating a steady flow of very good opportunities.

Summarizing, we believe that a diversified portfolio of companies that will earn more than €25 this year and can be bought for €175 is a very good opportunity. Markets will go up and down, but over the long-term, this portfolio should beat most other investments, especially cash or bonds at extremely low interest rates. The possibility of hedging away much of the market volatility by investing in our Alpha or Stability funds is also interesting, especially for investors who believe that the markets in general will not increase much over the next few years. We will, however, continue working on finding undervalued companies.

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Unfortunately, we don't know when the market is going to crash or when it's going to rally. That's why diversification, long-term orientation, and very low entry points, which require very detailed fundamental analysis and stock picking, are the only way to achieve long-term returns. If our companies achieve anything near the profits we expect, our investors will be amply rewarded.

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Figures of the USD classes

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

June 2008	NAV	Δ YTD	Δ 12m	Δ Inception	AUM (in mio)
LTIF Classic [USD]	245.46	30.94%	-57.20%	174.41%	693.06
LTIF Alpha [USD]	179.45	23.85%	-34.10%	37.67%	109.52
LTIF Global Energy Value [USD]	119.94	54.52%	-59.41%	-9.64%	30.63
Global Mining Value Fund [USD]	83.40	114.28%	-59.89%	-37.75%	46.44
MSCI World Index TR (GDDUWI) [USD]	3'117.98	6.79%	-29.01%		

Figure 11
LTIF – Classic USD

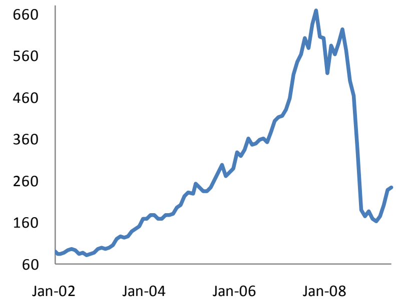


Figure 12
LTIF – Alpha USD

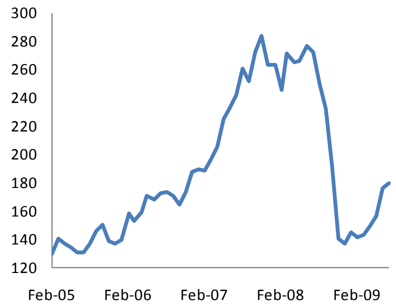


Figure 13
LTIF – Global Energy Value USD

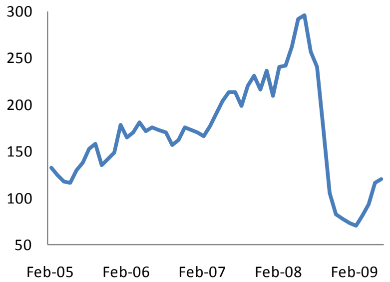
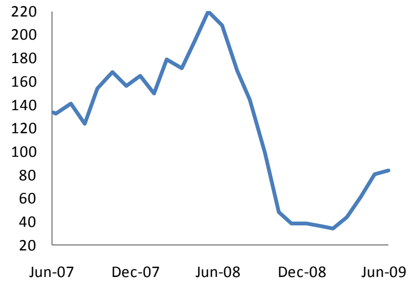


Figure 14
Global Mining Value Fund USD



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Figures of the CHF classes

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

June 2008	NAV	Δ YTD	Δ 12m	Δ Inception	AUM (in mio)
LTIF Classic [CHF]	266.95	33.79%	-54.30%	80.31%	753.74
LTIF Alpha [CHF]	195.17	26.55%	-29.64%	26.01%	119.10
LTIF Global Energy Value [CHF]	130.44	57.89%	-56.67%	-15.59%	33.31
Global Mining Value Fund [CHF]	90.70	118.95%	-57.18%	-45.43%	50.51
MSCI World Index TR (GDDUWI) [CHF]	3'391.09	9.12%	-24.20%		

Figure 15
LTIF – Classic CHF

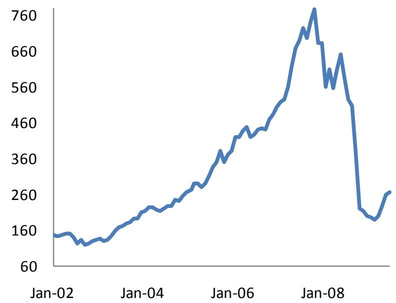


Figure 16
LTIF – Alpha CHF

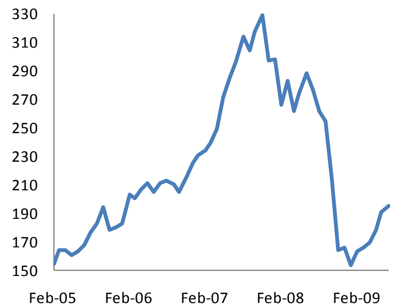


Figure 17
LTIF – Global Energy Value CHF

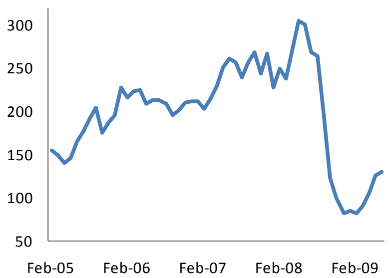
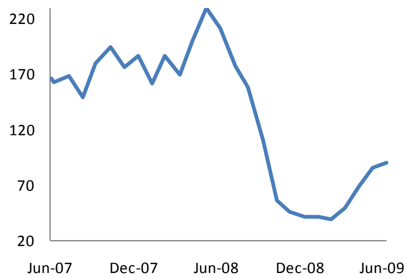


Figure 18
Global Mining Value Fund CHF



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Legal Notice - Luxembourg

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 is an open-ended investment company of the umbrella type organised 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 three active compartments, called "Classic", "Alpha", and "Energy", which fully resemble both the Long-Term Investment Fund in BVI (classes “Classic” and “Alpha”) and the Global Energy Value Fund 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.

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LTIF – Classic II USD
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Telekurs: 10'096'889
Bloomberg: LTIFC2U LX

LTIF – Classic II CHF
ISIN: LU0423699775
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Bloomberg: LTIFC2C LX

LTIF – Alpha II EUR
ISIN: LU0423699858
Telekurs: 10'096'895
Bloomberg: LTIFA2E LX

LTIF – Alpha II USD
ISIN: LU0423699932
Telekurs: 10'096'898
Bloomberg: LTIFA2U LX

LTIF – Alpha II CHF
ISIN: LU0423700029
Telekurs: 10'097'000
Bloomberg: LTIFA2C LX

LTIF – Global Energy Value EUR
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Bloomberg: LTIFGEV LX

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Global Mining Value Fund is a Luxembourg multiple compartment Investment Company organised as a "societe anonyme" incorporated on June 6, 2007 and subject to the Luxembourg law of February 13, 2007 relating to Specialized Investment Funds (SIF).

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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.

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