Long Term Investment Fund

SOME COMMENTS ON OUR FUNDS' EVOLUTION IN AUGUST

We know that some of our clients have been a bit surprised by the steep drop in our funds' NAV during August. Although we are blessed with investors who understand our philosophy very well (net inflows to the funds in August are running above €50 million), we feel it may be appropriate to share a few comments on the funds' unusual performance over the last few weeks.

First, the data: Table 1 shows what the funds did in so far August; since the beginning of July; and since January compared to the MSCI World Index.

Table 1
LTIF performance evolution

August 23, 2007	NAV	MTD	July to date	YTD
LTIF Classic [EUR]	406.77	-7.38%	-2.39%	29.87%
LTIF Alpha [EUR]	179.78	-5.72%	0.50%	25.02%
LTIF Global Energy Value [EUR]	143.57	-7.92%	-8.96%	9.15%
LTIF Stability [CHF]	219.30	-8.20%	-4.40%	20.89%
MSCI World Index TR (GDDLWI)	3472.38	-0.61%	-4.09%	2.52%

Now, the comments:

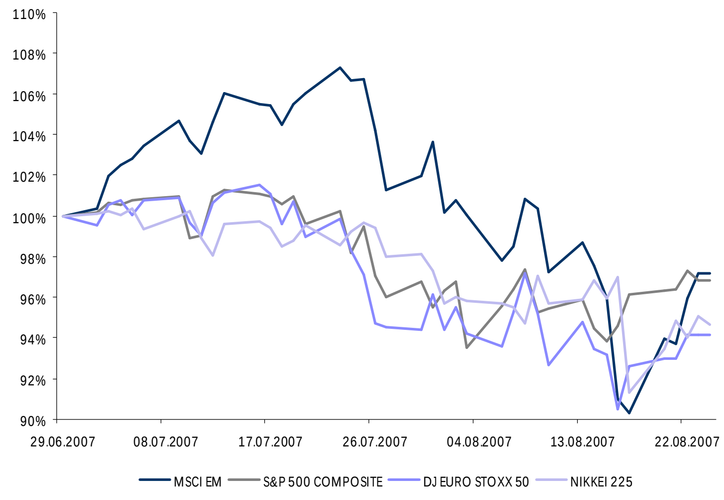
In every communication with investors (our quarterly newsletters, our public presentations, our private meetings), we stress that we don't buy shares, we buy companies. Our goal is not to "buy shares that will go up", but to buy companies whose profits, taking into account the price we pay for them, will give us more than a 15% annual long-term return. Whether the shares we buy go up or down in the short term is something completely outside our control, or even our interest, except to buy more when they go down, and sell when they rise too much. Of course, over the long term, share prices follow earnings, and if our companies do indeed earn the profits we expect, their shares will appreciate noticeably.

SIA Funds AG Seedammstrasse 3 8808 Pfäffikon Switzerland
tel : +41 22 707 07 80 fax : +41 22 707 07 89 info@s-i-a.ch www.s-i-a.ch

The price of our shares did appreciate very strongly in the first semester of 2007. As we explained in our Newsletters of March and June (which we strongly recommend you read again; they're attached at the end of this document), we didn't consider that rise excessive, in the sense that our funds would be too expensive. The surge was accompanied by a strong rise in our companies' underlying profits, after we had started the year from a very low valuation. At its peak, the Classic fund had a forward 2008 PE of 7.8, less than half that of the market, and indicative of a 13% long-term return. As a matter of fact, we re-invested our fees from the second quarter in mid-July, which happened to be the peak in terms of valuation (the SIA Group and its employees are probably the largest "individual" investor in the funds). We thought it was a good investment. As long-term investors, we still think so.

During August, the markets were roiled by what has become known as the "sub-prime crisis." We are not going to bore our readers with yet another take on the story. It is clear that many people have lent money to many other people who cannot repay it. Securitization, which has made it very difficult to know where the actual losses are hiding, makes investors nervous, of course. Until that has become clear, many investors would rather sell everything – just in case. That selling generated a big drop in the market indices, as Figure 1 shows:

Figure 2
Performance of market indicies in EUR



Source: Datastream

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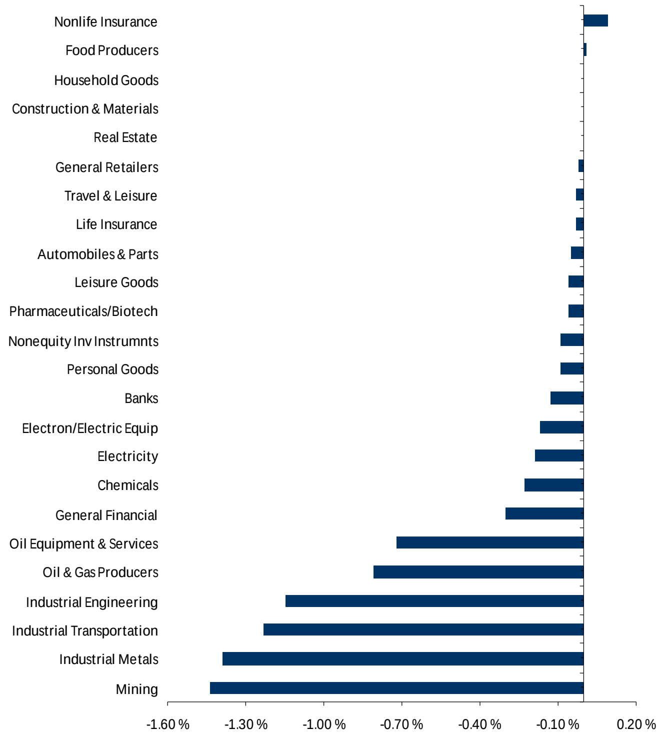
tel : +41 22 707 07 80 fax : +41 22 707 07 89 info@s-i-a.ch www.s-i-a.ch

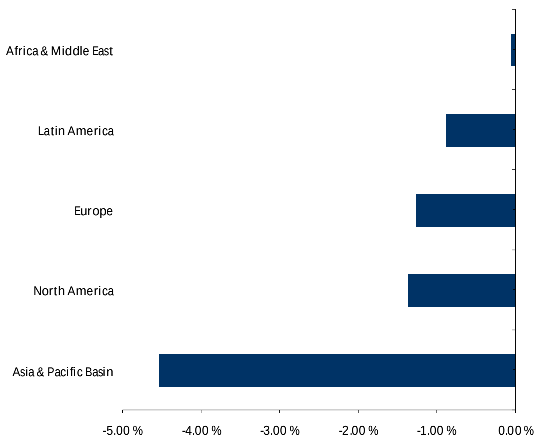
As noted above, our funds have dropped more than that. The drops are detailed in Figures 2 & 3.

Figure 2
Attribution by sector



Source: Thomson Portfolio Analytics

Figure 3
Attribution by geographic area



Source: Thomson Portfolio Analytics

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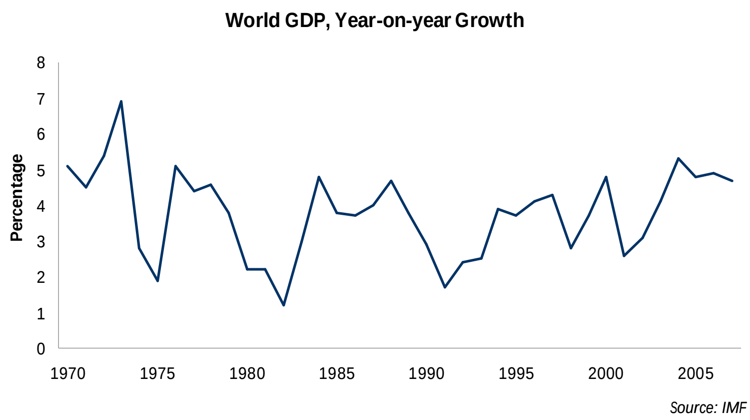
Why have our shares dropped more than the indices? The honest answer, of course, is that we don't really know. We can, however, think of two reasons:

First, many hedge funds have been hit by redemptions and a desire to de-leverage their positions. That means selling an important part of their assets. Apparently, many have chosen to sell those shares that were liquid and where they could show profits. Most of our shares have those characteristics: some of our shipping companies' shares increased more than five-fold in twelve months. The logic to sell them to a forced seller was clear, regardless of their intrinsic value. It's interesting to note that during the middle weeks of August, our shipping companies' shares went down by more than 20%, whereas the Baltic Dry Index, which measures the price of chartering their services, actually went up. Their profits are simply exploding.

The second reason for our shares dropping more than the averages could be that many of our companies are considered "cyclical": steel producers, miners, shippers… Some investors may have thought that the markets' turmoil might end up affecting the real economy, thus making those "cyclical" companies less profitable than expected. We believe this line of thought to be completely exaggerated. It was Prof. Paul Samuelson who famously said that: "The stock market has correctly forecasted nine of the past four recessions." Figure 4 shows the evolution of world GDP since 1970:

Figure 4
Evolution of world GDP



As can be seen, the economic cycle itself is not that cyclical: over the last 36 years, GDP growth has oscillated between 2% and 5%, with few exceptions and no negative growth year.

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But even these variations are not really related to stock market turmoil: after the 1987 crash, the world economy grew by 4.7%; after 1990, by 1.7%; after 1997, by 2.8%; after 1998, by 3.7%; and throughout the bear market post-bubble, the world economy grew by 4.8%, 2.6%, 3.1%, and 4.1% in the years between 2000 and 2003. Any honest statistician would conclude that there is no discernible relationship between the stock exchange and global economic growth.

In this sense, it's important to understand that we did not lose money in August: as owners of a series of companies, we have more assets (factories, inventories, cash in the bank) per unit of the fund at the end of August than we had at the beginning.

Bombarded by the strident cacophony of "experts" arguing that this crisis could destroy the world economy, some investors may take fright. However, they must understand that those "experts" simply don't know what they're talking about (most of them are poorly paid journalists and even more poorly paid economists). Can the world economy crash? Yes, it can. Has it done so as a result of stock market turmoil? Not in the last fifty years. This is not surprising. Frankly, we don't think people in China will eat less broccoli next year (we own Chaoda Modern Agriculture, that country's largest vegetable grower), or that people worldwide will use much less copper: copper consumption increases regularly every year, since it's used in hundreds of different applications – most of which are completely unrelated to the economic cycle – in all countries. For all these reasons, we believe that our profit forecast for next year is highly reasonable.

If a business owner is asked how his or her company did in August, the answer will surely be related to the company's sales and profits, not what its share price did during the month.

Which takes us to our key point: how is a fund's performance defined? Typically, people answer that question in a straightforward way: through the evolution of its NAV, i.e., how much more (or less) its shares are worth over a given period. Well, we believe this is the wrong way to measure it. For a long-term investor, a fund's performance is the profits per share that it accumulates. We don't view our funds as a collection of shares, but as participations in money-making companies. As such, our performance is not very volatile: our diversified portfolio of companies makes more or less the same amount of profits every month: a bit more than 1% of the value of the fund. In this sense, it's important to understand that we did not lose money in August: as owners of a series of companies, we have more assets (factories, inventories, cash in the bank) per unit of the fund at the end of August than we had at the beginning. Investors who fail to see this point should very seriously consider whether LTIF is an appropriate investment for them. If a business owner is asked how his or her company did in August, the answer will surely be related to the company's sales and profits, not what its share price did during the month.

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How do we perceive the future? Well, we own a very diversified portfolio of profitable businesses, whose expected intrinsic return for next year hovers around 15% (PE 6.5). By anyone's book, this is an excellent place in which to have money. In fact, quite a few of our clients have called us asking whether this is a good time to increase their position in the funds (others have simply invested more). As explained in our previous newsletters, the fundamental answer is obviously yes, as long as our clients believe that our analysis of the companies we own is correct. Over the long term, any diversified portfolio bought at these prices should be an excellent investment.

There is no doubt, however, that markets are nervous, and that it takes a while to digest a crash like the one experienced in August. It's certainly possible that the markets, and our funds, might still have very negative weeks ahead. Then again, it might be the opposite. In these cases, a reasonable approach is to break down the investment one was planning to make into four or five parts, and invest them progressively over as many weeks or every two weeks. Consequently, one would be participating in the current low prices should they now rise, but would also protect the entry point a bit should prices continue to go down. Frankly, we don't think this will matter much in five years' time, but no one likes to see something one has just bought being sold for much less a few days later.

Specific comments on the Alpha Fund

Our Alpha fund is down -5.72% for August, up 0.50% for July-August, and up 25.02% since January. This compares with –7.38%, –2.39%, and 29.87% for the Classic and –0.61%, –4.09%, and 2.52% for the MSCI World Index. Many investors in the fund wonder why a fund that is "protected" against market drops has "performed" so badly during these last few weeks. It's a reasonable question that, unfortunately, requires a somewhat technical answer.

As our investors know, the Alpha fund basically consists of the same shares as the Classic fund plus a "hedge" against the market. This means that if the market goes up, the fund loses money (this is a real loss: we must pay it in cash) and if the market goes down, it then receives (real) money. The amount of that insurance is, systematically, 80% to 90% of the value of the fund, i.e. if the market goes down by 1%, the fund "earns" the equivalent of 0.8 – 09% of its assets. This number is not capricious: it's the "beta" of the fund, the amount by which, according to standard statistical techniques, the fund is affected by market movements. This means that if the market goes up by 1%, the fund goes up by 0.8%, plus whatever its own "merits" (the alpha part) are. Consequently,

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the hedge renders these market movements irrelevant, and the fund only goes up or down according to its alpha (hence its name, of course).

The snag is, however, that all this is “on average.” In our experience, our shares are affected far more than they should be when markets crash (as in May 2006 or October 2005). There is no need to get much more technical, but this effect comes down to: the Alpha fund is protected against prolonged market declines, but not against sudden drops. Another way to put it: investors in the Alpha fund should make 15% a year as long as our stock picking is good, regardless of what happens in the market; but that does not mean they will make 1% every single month. In fact, the Fund’s performance after the previous crashes was in line with this rule, although it did make rather more than 15% over the following 12 months.

Comments on the Stability Fund

The Stability fund has experienced a month similar to that of the Alpha fund. Its portfolio is constructed in a way that tries to minimize volatility, and this has been the case: over the last year, its annualized volatility has been 7.83%, compared to 12.40% for the Alpha fund, and 14.76% for the Classic fund. Although a drop like the one experienced in August is certainly not what the Fund expects, we still believe it could end up the quarter “in the black”, which is the goal it strives for, while showing an annual appreciation that is clearly higher than we expected.

Comments on Energy and Mining

Energy and especially mining companies are among those that have clearly been oversold. Oil prices continue around $70 and metals prices have not dropped by much. This clearly indicates that the drop in the shares responds more to liquidity needs than to fundamental considerations. In all honestly, we believe there is even more value there, and we are taking advantage of the drop in shares to buy the best-quality companies that we can find at very low prices. Investors interested in taking advantage of the drop in mining companies’ share prices should consider investing in the Mining fund in the next few days, for the fund has only monthly liquidity.

All in all, there is not much we can say that our investors don’t know. Volatility is the long-term investor’s friend, for it provides excellent entry points. For investors who consider themselves owners of companies instead of owners of shares, these market turbulences are basically meaningless: we don’t know of any business owner who has decided to sell his or her (profitable) company at any price just because of this “crisis” right now. This is how equity investors should act.

SIA Funds AG Seedammstrasse 3 8808 Pfäffikon Switzerland
tel : +41 22 707 07 80 fax : +41 22 707 07 89 info@s-i-a.ch www.s-i-a.ch

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.

LTIF – Classic EUR
ISIN: LU0244071956
Telekurs: CH2432569
Bloomberg: LTIFCLA LX

LTIF – Classic USD
ISIN: LU0301247077
Telekurs: CH3101820
Bloomberg: LTIFCLU LX

LTIF – Classic CHF
ISIN: LU0301246772
Telekurs: CH3101817
Bloomberg: LTIFCLC LX

LTIF – Alpha EUR
ISIN: LU0244072178
Telekurs: CH2432573
Bloomberg: LTIFALP LX

LTIF – Alpha USD
ISIN: LU0301247150
Telekurs: CH3101828
Bloomberg: LTIFALU LX

LTIF – Alpha CHF
ISIN: LU0301246855
Telekurs: CH3101824
Bloomberg: LTIFALC LX

LTIF – Global Energy Value EUR
ISIN: LU0244072335
Telekurs: CH2432575
Bloomberg: LTIFGEV LX

LTIF – Global Energy Value USD
ISIN: LU0301247234
Telekurs: CH3101839
Bloomberg: LTIFGEU LX

LTIF – Global Energy Value CHF
ISIN: LU0301246939
Telekurs: CH3101836
Bloomberg: LTIFGEC LX

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).

GMVF-Global Mining Value EUR
ISIN: LU0305469388
Telekurs: CH3183766
Bloomberg: GMVFEUR LX

GMVF-Global Mining Value USD
ISIN: LU0305469545
Telekurs: CH3183768
Bloomberg: GMVFUSD LX

GMVF-Global Mining Value CHF
ISIN: LU0305470048
Telekurs: CH3183771
Bloomberg: GMVFUSD LX

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

Investment Manager:
SIA Funds AG
3 Seedammstrasse
CH-8808 Pfäffikon
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
ISIN: CH0026389202
Telekurs: CH2638920
Bloomberg: LTIFSTA SW

Administrator:
Pictet Funds SA
29, boulevard Georges Favon
CH-1204 Geneva
Switzerland

Investment Manager:
SIA Funds AG
3 Seedammstrasse
CH-8808 Pfäffikon
Switzerland

Custodian:
Pictet & Cie
29, boulevard Georges Favon
CH-1204 Geneva
Switzerland

SIA Funds AG Seedammstrasse 3 8808 Pfäffikon Switzerland
tel : +41 22 707 07 80 fax : +41 22 707 07 89 info@s-i-a.ch www.s-i-a.ch