Long Term Investment Fund

Status of the Funds

The following table shows the evolution of the Funds' Net Asset Value over the last quarter:

Table 1: Net Asset Value - Net assets under management

December 2006	NAV	Δ 3m	Δ 12m	Δ Inception	AUM (in mio)
LTIF - Classic	313.21	12.64%	27.61%	213.2%	€ 345
LTIF - Alpha	143.80	10.81%	21.64%	43.8%	€ 67
LTIF - Stability	131.53	6.50%	16.16%	17.2%	CHF 12
LTIF - Energy	181.40	7.16%	4.28%	31.5%	€ 29
MSCI World Index	3,387	4.21%	7.93%		

Figures 1 and 2 show the portfolio's geographic and industry composition and figures 3 through 6 show the Funds' Net Asset Value evolution since each of them started.

Figure 1
Breakdown by industry

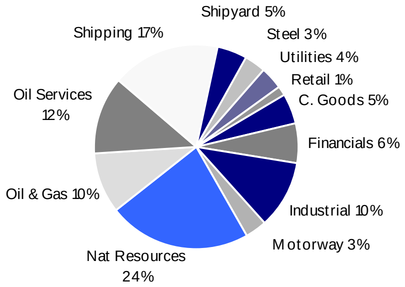
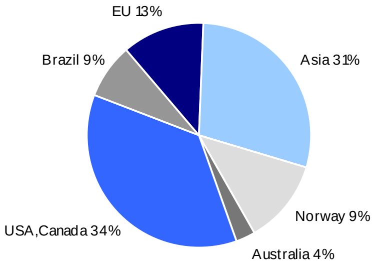


Figure 2
Breakdown by geographic area



As we announced in the previous newsletter, we now publish the basic aggregate statistics that allow investors to have a clear idea of the *value* of their investment, as opposed to merely its *price*, every month. At the end of the year, these statistics were as follows:

Table 2: LTIF portfolio - measures of Value

LTIF PORTFOLIO RATIOS	31.12.2006
Earnings per share - EPS (€)	€ 48.9
Price/Earnings - PE (2007e)	6.4
Earnings Yield (2007e)	15.6%
Dividend Yield -DY	2.1%
EV / EBIT (2007e)	4.9
EV / EBITDA (2007e)	4.0

For comparison: the average PE of the American market, as represented by the S&P 500, is higher than 17.

Figure 3
LTIF - Classic

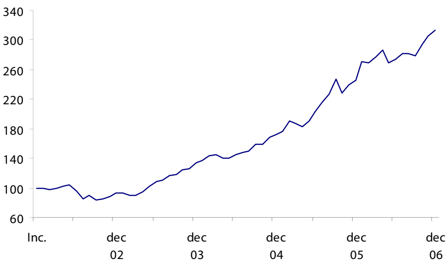


Figure 4
LTIF – Alpha Series

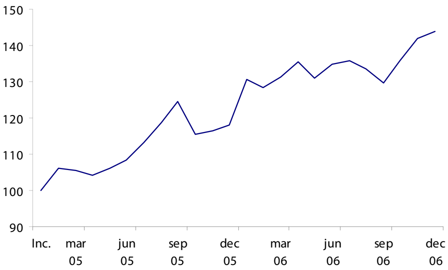


Figure 5
LTIF – Energy

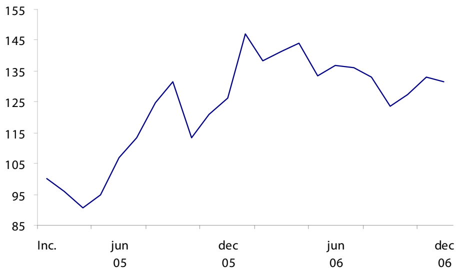
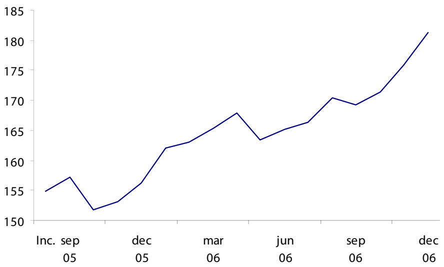


Figure 6
LTIF – Stability Series



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DURING December, the Luxembourg-based funds were registered with the Swiss Federal Banking Commission for retail distribution in Switzerland. We expect retail registration in Spain, Germany, Italy, Austria, and France during the first quarter of 2007.

Portfolio evolution

In 2006 our efforts were concentrated on diversifying our portfolio without sacrificing value. As can be seen in figures 1 and 2 above, this endeavor has made progress. There is no single industry or geographic area that represents more than 20% of our portfolio, which is reflected in the funds' monthly volatility: less than 15% (annualized) for the Classic, which compares well with the large indices' 10% to13%. True, the "natural resources" catches the eye with 23%, but it has to be stressed that this group is made up of companies producing different base metals (copper, nickel, zinc, lead…) and that, contrary to some simplistic views, these are different businesses, with different fundamentals, supply/demand situations etc.

In 2006 we added a very important area to our investments: shipping, particularly "dry bulk carriers", i.e. the ships that transport raw commodities such as wheat, iron ore or coal. In our previous newsletter, we mentioned this, and have since added to our position - and seen the share prices explode. In some cases, we have more than doubled our investment entered into as late as in August. Amazingly, there is still plenty of value left in these shares. Another area, discussed below in more detail, is that of "drilling" companies, i.e. companies that provide oil and gas producing companies with the necessary equipment and personnel to actual drill wells.

Some thoughts on our different funds looking to 2007

Looking to 2007, we believe that we have "locked in" a "fundamental profit" of at least 15%. By this we mean that we fully expect our companies to earn about 15% on the value of our shares, or some €45 to €50 per share. Of course, this does not mean that the shares will rise by 15%; they will be influenced by what the overall market does. But if the markets do badly, and all shares perform poorly, we will still have 15% more money in the bank at the end of the year, and that will be reflected in the shares' prices in 2008. As we repeat almost every quarter: what matters is not the price of the shares (or the Fund's NAV, which is the same), but the companies' profits.

Our profits expectations could of course be wrong. In fact, this year, we were wrong regarding most of our energy companies, as we discuss below. But we don't believe that all our positions will be wrong. We have more than sixty companies in our portfolio, and our profits forecasts are always calculated in a fairly conservative way. We therefore believe that our profits should indeed roughly materialize as expected.

Some investors worry a lot about "the big picture": Will the US economy slow down? What if China's growth stalls? Can the European Union's economy grow again? We think that for a long-term, value-oriented investor, these are not very

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important concerns. The reason is very simply that well managed companies tend to make money in any cycle, and the overall development of the world economy will be positive: it has been so for the last 200 years, except for a few extremely bad periods of general war, of which there currently no sign. It thus makes sense to stay invested in good, inexpensive companies, and let the markets gyrate.

In many cases, the problem with “macro problems” is not the “macro problems”, but the investors’ reaction to them. Thus, in May this past year, all markets went down because it was “feared” that the US Federal Reserve would raise rates by “too much” (whatever that is, by the way). And when markets go down, they all do, especially those perceived as “risky”, such as “emerging markets”, or commodity producers. We put these terms in inverted commas because they don’t really mean much: What does placing South Korea and Zimbabwe in the same “category” mean? True, when there is an irrational sell-off, they both go down. But to consider those two markets comparable in any way is meaningless over the long term (to the disadvantage of Zimbabwe’s long-suffering citizens). By the way, “irrational contagion” can also occur on the way up, when it’s much more dangerous, because it leads investors to mindlessly overpay. And once one has overpaid, one is bound to lose money further down the road (except if one finds the mythical “bigger fool”, of course).

Again and again, we must insist: the way to build wealth as an investor is to ignore the deafening noise that surrounds markets and concentrate on buying profitable companies at low prices. However, a given investor who is very concerned about the “overall picture” has the possibility to invest in the Alpha fund, as we discuss below.

Some comments on the Classic Fund

On January 14th, the fund will pass its 5-year mark, for it started exactly on this date, five years ago. Over this time, the market value of its shares has multiplied three-fold, and the assets under management have gone from €5 million to €350 million.

This solid “performance” (an annual NAV growth of more than 27% for more than five years) is not the result of chance, or a “rising market”, or even our ability to spot “the shares that’ll go up”. There is a key reason underlying this “performance”: the Fund’s remarkable rise in earnings per share, as shown in figure 7. Over these five years, earnings per share (the real return on the investment made by someone buying our fund) have grown by an annual average of almost 25%. The increase in the value of the Fund’s shares is essentially attributable to this key statistic. These are real profits, not just the result of market movements. Our companies do pay dividends, which we reinvest, and which are also increasing. The beauty of value investing is that we can control this: we may choose to avoid “fashionable” companies, and only buy those whose profits are high compared to the purchase price (i.e., they’re inexpensive) and that we believe have a solid future ahead. We believe that the combination of a value approach, an in-depth strategic analysis of each investment, and a very detailed study of each company’s financials has proven itself over this time. We can’t expect to maintain these excellent results for ever, but we are convinced that our goal of a 15% annual return, after inflation, is perfectly achievable on average.

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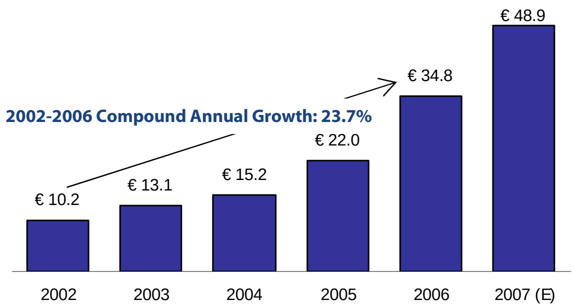
Figure 7
Earnings per share in the Fund, 2002-2006, realized; 2007 (Estimated)



Some comments on the Alpha Fund

These last words are key: "on average". As we have insisted many times, the (often irrational) overall direction of markets affects all shares in the short term. Thus, if markets go down, we should expect our shares to somewhat follow, and vice versa. This is reflected in the annual evolution of the Classic Fund's NAV over the last five years: it varied from minus 7% in 2002 to plus 44% in 2003. But all these annual results have one common feature: every year they were higher than the overall market - as measured by the MSCI World Index Total Return - by 20%. This, roughly speaking, is the "alpha" of the Fund: the part of its performance that is not due to market movements.

The Alpha Fund was created to provide investors with a convenient way to capture that "alpha" uncontaminated by market movements. If the Fund's "alpha" stays constant (a big if!), i.e. if we keep finding good companies to buy at low prices, the annual return should be between 10% and 20%, *regardless of what markets do*. In the two years that the Fund has been in operation, its NAV has grown by 20% each year. And this would be the case even if markets dropped - even dropped sharply.

Of course, getting rid of market movements has a long-term opportunity cost, because markets do go up over the long term. Starting in 2007, we are trying to mitigate this cost by doing a more "intelligent" hedging than simply selling the markets, while keeping the protection at all times. For this reason, we expect the Alpha Fund's performance to be better than the Classic's when the market goes down, and worse when it goes up, although by less that the market's increase.

In any case, we would like to underline that a 20% increase per annum, which the Fund has experienced, is fairly exceptional in an absolute return vehicle, i.e. one that's protected against market drops. The fact that the markets have risen over these two years does not mean that this built-in insurance may not come in handy in future. As pointed out above, those investors really concerned with the "big picture" may be interested in this fund.

Some comments on the Energy Fund

The Global Energy Value Fund has been our big disappointment this year. Not because its shares have gone up by a modest 4.28%, but because the profitability of our companies has been clearly lower than expected. Several factors have contributed to this disappointment:

Energy companies were cheap when we bought them because "the market" expected oil prices to drop sharply. Back in 2004, talk was of a "price reversion" to $30 or $40 per barrel of oil. In early 2005, we elaborated our model for future oil prices, which we published in our July 2005 newsletter. In that model, we predicted that the oil price would be between $56 and $58.6 at the end of 2006. As our investors know, it ended the year above $60 and should also end 2007 above $60, probably increasing substantially in 2008. Thus the disappointing profitability of our energy companies does not stem from a lower-than-expected oil price. It comes from an industry-wide factor and a region-specific one: the enormous increase in exploration and production costs and the special situation in North America's natural gas. The special situation is simple: both the previous winter and this winter (so far) have been warmer than usual in North America. This implies lower consumption of natural gas for home heating. Since storage capacity is limited, a decrease in consumption quickly means a lower price and a decrease in production. This has negatively affected some of our companies operating in North America. But we don't think winter has been abolished for ever, global warming notwithstanding.

The industry-wide factor is obviously more serious. As the price of oil exploded, companies reacted as expected: they tried to increase production as much as possible. The result of that effort has been a sudden surge in demand for all things necessary to produce oil, from qualified engineers to steel pipes; from oil platforms to seismic services. As you would expect, the price of those inputs has exploded in turn.

Some of these price rises, which amount to cost rises for the oil producers, are temporary: more steel will be produced, more platforms will be built, although it will take some time, so we can't expect a quick reversal. But there are also structural reasons why producing oil is *always* going to be more expensive than in the past. These can be summed up in a simple notion: oil companies started producing oil in the easiest places to get it; as those fields become exhausted, they must venture into more difficult, i.e, expensive, places ranging from deep sea water to the Arctic Circle.

The net result of all this has been a compression of oil producing companies' margins. To give you an idea: the investment required to produce one barrel of oil per day in the Canadian oil sands has in less than a year gone from $50.000 to $100.000. The impact is immediate: we go from an expected long-term profitability of 15% to one of 8%.

Now, this does not make these companies a bad investment: to buy a share that will return 8% a year in Canadian dollars for more than forty years and have all the

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upside potential of a long-term rise in the oil price, is a good investment. But it's clearly less good than when it yielded 15%.

Our response in the Global Energy Value Fund has been to start buying more and more of the companies that supply the oil producers with the materials and services they need. In a way, we are hedging our position: if the oil producers' profitability decreases because of costs overruns, we are now on the side of those costs. Thus, we have started to include platform owners, supply service vessels, and seismic services, and we plan to take this to about 50% of the Fund's portfolio.

After all this, we can conclude that the "value proposition", i.e. the Energy Fund's expected return, given current oil prices and production costs, is similar to that of the Classic portfolio. A disadvantage for the Energy Fund is that it will necessarily be more volatile, because it deliberately concentrates all its assets in just one sector. A possible advantage is its "hedging potential": if energy prices spike, as they tend to do from time to time, the Fund will profit, while most other investments suffer. Long-term investors may thus want to keep a fraction of their portfolio invested in the Fund, both as a net earner by itself (our aggregate PE, after the new investments in service suppliers, is around 7, well below that of the overall market), and as a hedge that, although volatile in itself, can help lower the volatility of their overall portfolio, given its frequently negative correlation with most other shares.

A final, minor point: our Energy Fund is denominated in euros, while most energy funds are dollar-based. In order to compare our Fund's NAV evolution over the year with that of other energy funds, 11.45% has to be added, as the Euro has appreciated this much against the dollar over the year.

Some comments on the Stability Fund.

Two years ago, a client asked us to "repackage" our Classic Fund in a way that would be much less volatile, month to month, even if that implied a lower overall profitability. It may not be an optimal strategy for a long-term investor, but some institutional investors do have clear demands regarding the stability of their investments… as do some private investors who, in spite of everything, don't want to accept volatility. To answer that demand, we developed the Stability Fund.

The idea is to provide a return of around 10% a year, with very few negative months and, hopefully, no negative quarters. We try to achieve this through two mechanisms: re-weighting the portfolio and hedging market drops.

The first mechanism consists of altering the composition of our portfolio by buying more of the least volatile companies and less of the more volatile ones (of course, volatility vis-à-vis the portfolio itself). Consequently, we have developed a quantitative tool that gives us the "optimal" weights to minimize volatility. This tool is not, of course, exact, for it uses past volatility (the only one we know) to predict future volatility. But it works, as the results show.

The second mechanism is similar to that of the Alpha Fund, whereby we hedge the market's moves, buying insurance against overall drops, even at some cost to the Fund's long-term performance.

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We have not often mentioned this fund in the past, for it needed to show a track record. 15 months is not a very long one, but we now see that the idea is working, and this Fund can be a good addition to a portfolio that, for whatever reason, needs a low volatility component. This is different from the Alpha Fund in that the latter is protected against market drops, but it can show month-to-month volatility, while the Stability should be… well, more stable.

A final point: the Fund is denominated in Swiss Francs, which have dropped against the Euro by 3.41%. This means that the annual return is more 12% for a Euro-based investor instead of the apparent 16%.

Our plans for 2007

We do not foresee launching more funds: we plan to maintain what we have in the future. We will continue working on our portfolio, trying to find good companies at low prices to substitute those that we must sell after their share price goes up, and to further diversify our portfolio. We will probably add one professional staff member to reinforce our analytical capabilities in the near future, but we see no other changes either in our funds or in the SIA Group. All we can wish for is another five years like the ones we have just experienced.

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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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Bloomberg:	LTIFCLA LX	*Bloomberg:*	LTIFALP LX	*Bloomberg:*	LTIFGEV LX

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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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