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

September 2006	NAV	∆ 3m	∆ 12m	∆ YTD	AUM (in mio)
LTIF - Classic	278.07	1.42%	12.67%	13.29%	€ 185.2
LTIF - Alpha	129.77	-3.82%	4.20%	9.77%	€ 69.5
LTIF - Stability	106.57	1.03%	5.33%	6.09%	€ 4.5
LTIF - Energy	123.50	-9.76%	-6.14%	-2.09%	€ 23.7
MSCI World Index	3,250	5.56%	9.21%	3.57%	

The charts below show the Fund's industry and geographic composition:

Figure 1
Breakdown by industry

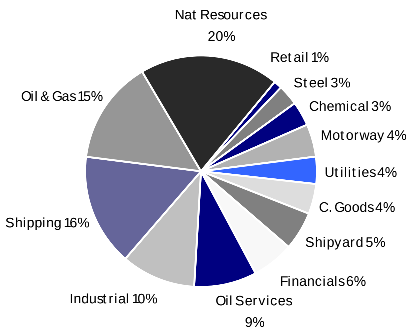


Figure 2
Breakdown by geographic area

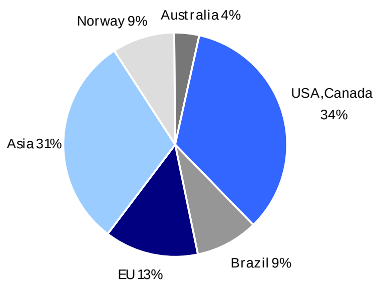


Figure 3
LTIF - Classic

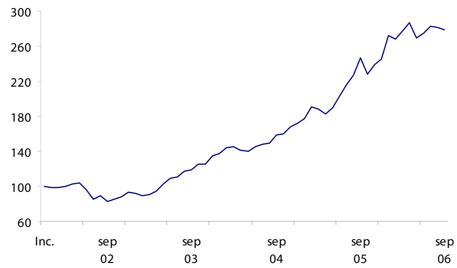


Figure 4
LTIF – Alpha Series

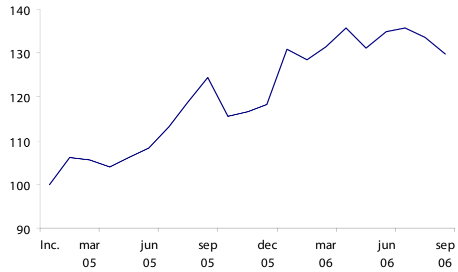


Figure 5
LTIF – Energy

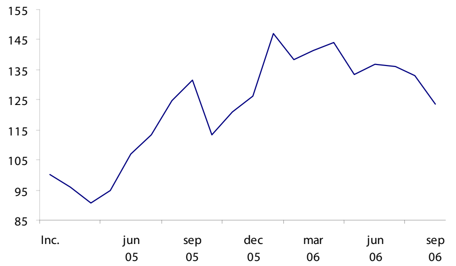
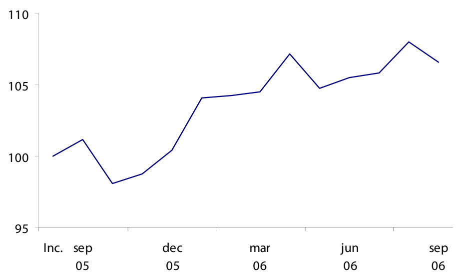


Figure 6
LTIF – Stability Series



In July, the Swiss Federal Banking Commission recognized SIA Funds AG, a fully owned subsidiary of the SIA Group, as a fund-management company and the LTIF – Stability was incorporated under Swiss law. This Fund will be quoted in Swiss Francs in future, although the underlying assets will be the same as before. The fact that it is quoted in a different currency will make no real difference to any investor.

Prices and profits: the "see-through" concept in practice

In the previous newsletter we argued that investors in actively managed, value-oriented funds such as the LTIF must believe that, from time to time, the share prices do not reflect the underlying companies' true value. Indeed, the whole purpose of an actively managed fund is to find those occurrences, and profit from them by buying those shares deemed to be cheaper than they should be, or, in some funds, selling short those that are thought to be too expensive. This investment approach has stood the test of time as probably the best combination of risk and reward, producing returns well above average with an acceptable degree of volatility over time. But this has a short-term drawback: it is impossible for the fund investor to know "how the Fund is doing" at a given time.

Strategic Investment Advisors S.A. 11, cours de Rive CH-1204 Geneva
tel : +41 22 707 07 80 fax : +41 22 707 07 89 info@s-i-a.ch www.s-i-a.ch

This is because the investor only sees the fund's "Net Asset Value", i.e. the average price of its shares. But these, the investor believes, can be wrong. Thus, one month's NAV can be higher or lower than the preceding month's, although the value of the fund can be lower or higher, or, most likely, about even, as companies' real values rarely change from one month to the next. Succinctly: the short-term variation in a fund's NAV does not offer the investor reliable information on the fund's real performance. This information is only provided by the evolution of the underlying companies' profitability.

We have insisted on this idea from the beginning, and discussed the relevant data in our newsletters, especially at year-end. We feel, however, that this is not enough and, to be consistent with our thinking (and that of our investors'), we plan to publish the necessary information every month. The following are the figures that will be published as well as an explanation of their meaning and the way they are calculated:

- Prospective earnings per share of the Fund. This is the amount of money that our companies will make on a pro-rata basis next year. This number's evolution gives the best indication by far of the Fund's real (intrinsic) performance. We calculate it by estimating what each of our companies will earn per share next year, and then adjusting for the proportion of the holdings in the Fund. In some cases, we have to make further adjustments to ensure that the figures actually make sense: we downplay one-time profits that do not clearly reflect the company's recurring profitability and adjust for one-time losses or investments that we are confident will not reoccur. An important point: with regard to commodity-producing companies, we always make a very conservative assumption regarding the commodity's forward price, normally well below the price actually available in the futures markets.

- Price/Earnings (PE) ratio of the Fund: This is the ratio between our shares' price (summarized in the Net Asset Value per share) and the profits that our companies will make next year. If well calculated, it is one of the best measures of intrinsic value. Its inverse can be expressed as a percentage and called Earnings Yield: the return, in terms of profits, that the Fund will yield next year, taking its current price into account.

- Prospective Dividend Yield: The dividends that we expect to receive next year, expressed as a percentage of today's prices.

Regarded over time, the first of these measures provides the best indication of the evolution of the Fund's performance. The last figures provide a "snapshot" measure of value.

- We will also publish two more "professional" measures of value: Enterprise Value over Ebitda and Enterprise Value over Ebit, as professional investors tend to use these - often for good reasons, by the way - when valuing companies. Publishing them will facilitate appreciation of the Fund's relative value vis-à-vis other investments.

In a few months' time, once we have all the statistical circuits in place, we'll publish two more figures: the past 10 years' profit history of the companies we own,

Strategic Investment Advisors S.A. 11, cours de Rive CH-1204 Geneva
tel : +41 22 707 07 80 fax : +41 22 707 07 89 info@s-i-a.ch www.s-i-a.ch

and a comparison between previous ratios and those of the overall market. The first figure will indicate how "solid" the investment has been historically. The past is not, of course, necessarily an indication of the future, but having a long history of profitability does shed some light on the intrinsic cyclicality of the companies' profits. Finally, a comparison with the general market helps put the Fund's attractiveness as a medium-term investment in perspective against broad indices.

These figures are, of course, indicative. Accounting is not an exact science, the future is hard to predict, and adjustments must be made. But we are confident that our measures are useful: in our experience, they provide a good approximation of what eventually happens. In the past, we have had to adjust our expectations both up and down, but we can honestly say that given the kind of companies we buy (only those with high profit visibility) and our conservative choice of assumptions, we have not been overoptimistic. The nature of investing is anyway a bet on one's ability to peek into the future. As Warren Buffet has noted, it's better to be roughly right than precisely wrong. We hope that these figures will give investors a better insight into "how the Fund is doing" than simply having to rely on the Net Asset Value. This is the table:

Table 2: LTIF portfolio - measures of Value

LTIF portfolio	30.09.2006
NAV	278.07
Earnings per share - EPS	44.88
Price/Earnings - PE	6.20
Earnings Yield	16.1%
Dividend Yield - DY	2.47
Ev / Ebitda	3.86
Ev / Ebit	4.80

Source: SIA Research, Datastream

As can be seen, the "built-in" profitability of our investments is important. We may be, of course, wrong in some cases, and may have some bad surprises. But a portfolio with a PE of 6, if well diversified, cannot fail to provide double digit annual returns in years to come.

Evolution of the funds

During the third quarter we have continued with our effort to find good companies at low prices, which has led us to a number of investments that, we believe, add value to our portfolio while at the same time increasing its diversification. Testimony to that diversification is the fact that although many of our resources-based companies have seen their shares drop sharply (more on this later), the portfolio's NAV has stayed roughly flat. We have introduced some investment themes, and emphasized others that we already had:

- Shipping. We already owned a container shipping company, Orient Overseas International, based in Hong-Kong, which we visited in February. Although container shipping is not experiencing its best period (it is highly cyclical), the company is doing well. It's very well managed and, even at the bottom of the cycle, will provide us with good profits and dividends (more than 6.5% last year). We have now added several other kinds of shipping companies, especially dry bulk carriers and companies serving offshore oil exploration. Regarding the first investment, we have companies entering the best part of the cycle, with extremely low prices: we have PEs below 5! With regard to the second investment, we have very stable businesses: these companies often lease their vessels to oil companies on long-term contracts, which assure very good profit visibility. In both cases, the companies are small to medium-sized and have either very little history (they are relatively new as public companies) or have a volatile past. We believe that the market is simply overlooking them, although their shares have started to rise sharply, in some cases by more than 30% in the few weeks we have owned them.

- Our analysis of the shipping industry led us to study the shipyards. It became apparent that most of them are fully booked for the next four years, and that the contracts they are closing now carry much higher profits than in previous years, thus guaranteeing that profits will literally explode. We bought three Korean companies, and the investment is paying off in fundamental terms – the value of the contracts that they are closing is improving all the time – as well as in the short-term appreciation of their shares – more than 40% in one case.

- We already owned three companies operating toll motorways in China. We appreciate the business's stability and visibility and, in the case of China, its fast growth. These companies' shares sell below the price of normal utilities, and have more than 15% annual earnings per share growth to boot. We have increased our positions and added a fourth company.

- A problem faced by many of the oil companies that we own is the relentless increase in costs, as we'll discuss below. Drilling operations and the actual lifting of the oil are an important part of such costs. Normally, drilling and/or exploration equipment is rented from specialized companies on short-, medium- or long-term contracts. To give an idea of the cost inflation in the sector, the daily rental of a sixth-generation off-shore platform has risen from $300,000 per day to $600,000 within a few months. As always, this is due to supply and demand. On the one hand, oil (and especially gas) companies must drill progressively more holes just to maintain their productions levels, as many fields are entering their maturity or decline phase. On the other hand, the number of rigs available and, more importantly, the number of specialized personnel are severely limited by years of underinvestment. Here, again, is an industry with good profit visibility and extremely low share prices (with PEs again below 5).

It is true that many investors sell these companies' shares when the oil price falls, but we believe that this is a mistake: as long as the oil price stays approximately above $50 a barrel (it is now $65 for next year's future), drilling for oil is profitable, and these companies' services will be in demand. If the price of oil were to drop below that, companies would stop drilling, but that would ensure a pretty quick turnaround in the price of oil, as supply would start to falter.
On the other hand, we have sold the poultry producers. We believe they are "decent" investments, but we have been disappointed by the industry's development, and think that elsewhere there are just too many good opportunities where the money can earn a much higher return.

Strategic Investment Advisors S.A. 11, cours de Rive CH-1204 Geneva
tel : +41 22 707 07 80 fax : +41 22 707 07 89 info@s-i-a.ch www.s-i-a.ch

We cannot fail to mention the behavior of the "commodities" shares that we own, namely energy and some metals-producing companies. As most investors know, the share price of many commodity-producing companies has dropped sharply in the last two months, as shown in figure 7 for some indices and in figure 8 for some of the shares that we own, namely Canadian Natural Resources and Nexen in oil and Quadra Minerals and Hudbay in copper and zinc.

Figure 7
MSCI metals and energy indices, since July 1st - rebase

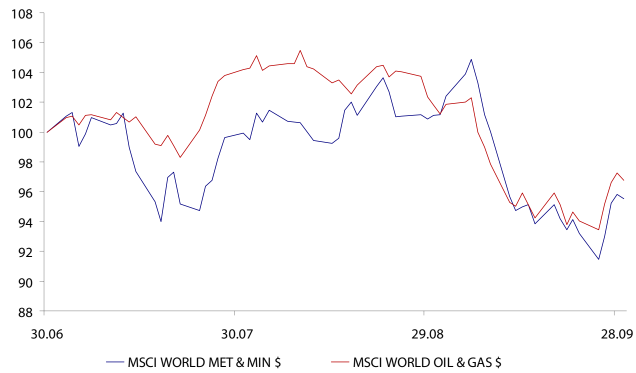
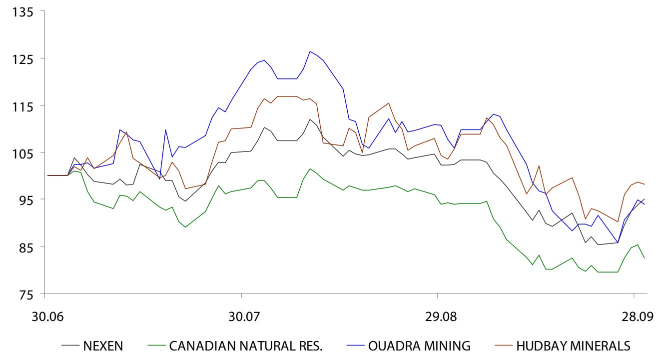


Figure 8
Shares of Nexen, CNQ, Quadra and Hudbay. Since July 1st - rebase



Source: Datastream

The first point to make is that, while the price of oil has dropped sharply in these weeks, that's not true of some of the metals, as shown in figure 9 & 10. The drop in the metal-producing companies' shares, which were already very cheap, appears thus totally unjustified.

Figure 9
Price of oil, copper, nickel, and zinc since Jan 1st - rebase

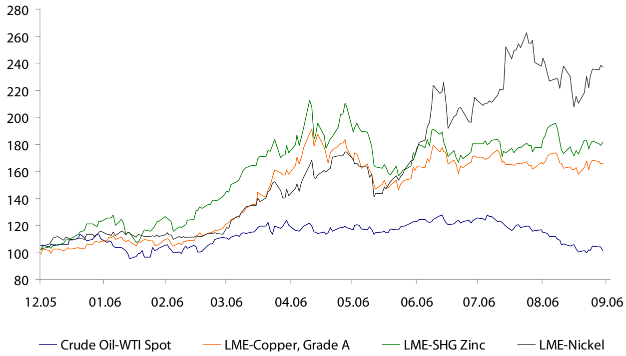
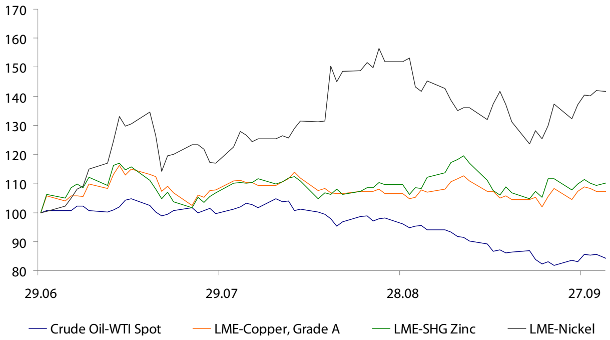


Figure 10
Price of oil, copper, nickel, and zinc since July 1st - rebase



Source: Datastream

In the case of the oil companies, two things have happened, one of which is important, the other less so. The less important event is the rapid drop in the oil price. We believe this is of less importance because the oil price needn't be very high for our companies to be profitable (their reserves are discounted at a price of

Strategic Investment Advisors S.A. 11, cours de Rive CH-1204 Geneva
tel : +41 22 707 07 80 fax : +41 22 707 07 89 info@s-i-a.ch www.s-i-a.ch

around $40). Besides, this decrease is not necessarily permanent: the price went down, but it will probably go up over time. The really important event is the cost explosion experienced by most oil companies. In general, the few companies that are able to replace their reserves are doing so at a much higher price than it cost them to find the oil that they are now producing. This is obviously not a recipe for long-term profitability. As far as the Canadian oil sands is concerned, capital costs have literally doubled in the last six months, an increase of a severity we did not expect. Of course, if your investment doubles, and the margins stay more or less similar, your return on investment halves. Again, this is not a very good omen for long-term profits.

Fortunately, we have always valued our oil companies based on *current* reserves, and are thus less exposed to this cost explosion, although it clearly affects us. The net result is that, while we believe our oil companies will provide an excellent long-term profitability, we have had to somewhat adjust our expectations in some cases. But we certainly think they'll meet or surpass our benchmark of an annual 15% long-term profitability. To give but one example, Nexen, whose share was trading at CAD 59.75 on September 29th, expects a cash flow per share of CAD 16 in 2007, and even more in 2008, as some of its current developments will only be fully functional at that time.

The above discussion has a secondary, although very important, corollary: over the long term, the price of oil cannot go much lower than it is at present. If it did, we would see a drop in exploration that, given how tight world supplies are, would necessarily imply a drop in production and thus a rise in prices.

A similar argument applies to some metals. Specifically, we own companies producing copper, nickel, zinc and lead. Although each case is different, we are confident that our companies will remain profitable at prices below what the current futures markets indicate. We also believe that long-term prices cannot really fall below those indicated by the futures markets, or supply would simply not materialize.

To summarize, energy- and metals-producing companies are a relevant part of our portfolio (about 35%) because, after careful analysis, we believe in their long-term profitability (also short-term: some have expected PEs of less than 5 for next year!). We didn't invest in them because they were fashionable nor should we sell because they seem to be going out of fashion. As long as we think that they'll give us a return above our demanded 15% per annum, they'll remain in our portfolio. But, at the same time, we continue the search for other investments that will diversify our fund even more.

Strategic Investment Advisors S.A. 11, cours de Rive CH-1204 Geneva
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.

Administrator:

Pictet & Cie (Europe) S.A.
1, Boulevard Royal
L-2016 Luxembourg
Luxembourg

Investment Manager:

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

Custodian:

Pictet & Cie (Europe) S.A.
1, Boulevard Royal
L-2016 Luxembourg
Luxembourg

Registered Office:

1, Boulevard Royal
L-2016 Luxembourg
Luxembourg

Investment Advisor:

SIA Funds AG
3, Seedammstrasse
CH-8808 Pfäffikon
Switzerland

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

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

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

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.

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

LTIF – Stability
ISIN: CH0026389202
Telekurs: CH2638920
Bloomberg: LTIFSTA SW

Strategic Investment Advisors S.A. 11, cours de Rive CH-1204 Geneva
tel : +41 22 707 07 80 fax : +41 22 707 07 89 info@s-i-a.ch www.s-i-a.ch