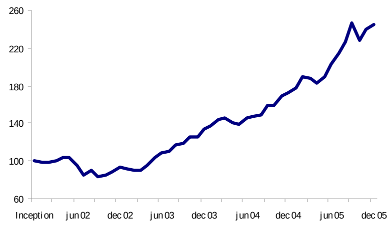
Long Term Investment Fund

The various funds roughly maintained their NAV per share during the fourth quarter of 2005, first dropping in October and then largely recovering in the following two months. The annual results are shown in Table 1, while the MSCI World Index, in euro, provides a comparison. Figures 1, 2, and 3 provide a graphic representation of these results. We obviously don't include the four-month-old Stability Series in the graphs.

The overall assets under management are 189 million, distributed as follows: 93.1 for the Classic, 55.2 for the Alpha, 3.7 for the Stability and 37.3 for the Global Energy Value Fund.

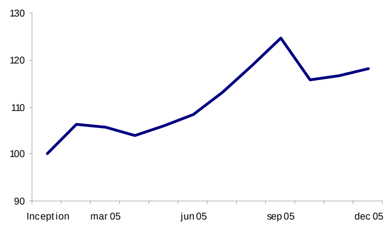
Figure 1
LTIF - Classic



Comments on the Funds' performance

As we repeat in almost every newsletter, the truly important performance is that of our companies, not that of their shares. In the latter sense, October could look like a bad month, but it wasn't: our companies did fairly well, or no worse than in September. But we know that, over the long term, both performances coincide. Let's take a look at how they fared during 2005.

Figure 2
LTIF – Alpha Series



The most important number for an investor is how much money his investments are making. During 2005, the companies we own have earned a bit more than €20 per share of the fund (i.e. the Classic Series). This is an improvement of more than 17% over 2004's profits. The overall PE is below 9. Thus, somebody who bought one share of LTIF at €100 in 2002 is earning an annual 20% on his investment just four years later. What's even better: those earnings keep growing at about 20% per year. As long as those profits keep growing and the PE does not rise too high, investors can be assured of excellent future returns, regardless of what the market does. If it falls sharply, however, our shares may too – as happened in 2002. But over the long term, profits and share prices meet each other. It's interesting to note that earnings per share of the fund have increased by about 20% a year, and so have the shares in the fund. Although these are more volatile (-7% in 2002, + 42.83% this year), because markets are unstable, the numbers do, however, eventually converge.

Figure 3
GEVF

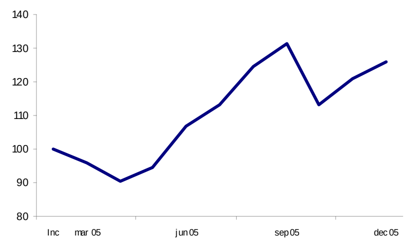


Table 1: Annual results

	NAV	Δ December	Δ 3 months	Δ 12 months	Δ 2005
LTIF - Classic	245.44	2.69%	-0.56%	42.83%	42.83%
LTIF - Alpha	118.22	1.39%	-5.07%	NA	18.22%[1]
LTIF - Stability	100.45	1.68%	-0.72%	NA	0.45%[2]
GEVF	126.13	4.38%	-4.14%	NA	26.13%[3]
AC MSCI World Index	92.083	2.41%	5.62%	27.72%	27.72%

[1] Since February 2005; [2] Since September 2005; [3] Since March 2005

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Of course, if you start off by paying a very high price for your shares, this convergence in performance will not happen: profits will go up and the share prices won't, because the profits are simply "catching up" (this has been happening in the US markets for several years now).

Conversely, if the shares are bought at an abnormally low price, the rise in the shares will be higher than the rise in profits (see Brazil or Korea this year). We therefore try to buy stocks with relatively good earnings growth at relatively cheap prices. Consequently, the price of our shares should go up somewhat faster than the underlying earnings over the long term. This is what has in fact happened over the past four years.

Another way of looking at our profits is to take the coldest view: hard cash. Our shares have paid almost €7 in dividends this year. Again, for somebody who invested in 2002, this is already a 7% cash yield per year, which is growing at about 20% annually.

An important point is that this performance has been accomplished in a year when the assets under management have gone from €37 to €189 million, i.e. they've increased five-fold. There's no doubting the fact that any good investment program has its limit, and we will reach it — perhaps in the not too distant future. But we don't seem to be there just yet. We are convinced that the assets under management can still grow substantially without affecting performance. The greater majority of the companies in which we invest are, after all, big enough to accommodate larger positions without a problem. We would, however, not be at all surprised if we have to close the funds in the next couple of years. Besides, our target is not, and never has been, to attain a certain size, but to maintain at least a 15% annual return for our investors. Size is a residual variable for us, and we will limit it as soon as we think it could impact performance negatively.

Comments on our portfolio

During 2005, we enlarged our portfolio with a series of investments that have given it more diversification and, we believe, a stronger earning power.

Although we maintain our strategy of focusing on 20-25 positions, we often, as explained before, take up "sub-positions". For instance, we have several Canadian oil sands companies. Conceptually, they only form one position as their performances are closely correlated. However, we prefer the added protection against operational risks that is provided by having several companies form a position.

- We have established new positions in three metal mining areas: ***copper, nickel, and iron.*** Although each of these metals is a different investment story, much of the analysis that applies to oil applies to them as well: decades of under-investment and a simultaneous growing demand have finally produced a situation in which it is very difficult to supply the world's needs. This is a far

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from transitory situation, as developing a “green field” (starting from scratch) nickel mine takes about ten years. It seems to us that those analysts, who assume that prices are too high and will soon revert to historical averages, are forgetting the enormous difficulties that companies face when having to create transportation links where there are none, having to satisfy ever more stringent environmental regulations, or having to deal fairly with native populations.

In addition to these base minerals producers, which make up about 15% of the fund, we have opened positions in insurance/re-insurance, refiners, contract manufacturers and poultry processors.

- The ***re-insurance*** business has had a terrible year after the enormous losses caused by the US hurricanes. In fact, many medium-sized companies are going to end the year with slight losses. This has led to a sharp increase in insurance and re-insurance premiums for 2006. We believe that we were able to buy at the bottom cycle of an industry that is fairly profitable over time, and has a cycle completely unrelated to that of energy/base metals, thus adding extra value to our portfolio.

- Companies that ***refine*** oil into useful products such as petrol, heating oil and jet fuel are also enjoying growing demand and constrained supply. No refinery has been built in the US during the last 30 years, but demand has doubled. Up until last year, bolt-on expansions to existing plants, and the soaking up of excess capacity (which was responsible for all the relevant companies' very weak historical profitability) allowed the industry to cope with growth in demand. There is no excess capacity available now, and refineries are working flat out. Add new environmental demands that have to be met and the net result is refining margins that are at historical highs... and likely to stay there. It is difficult to envisage how demand could drop or supply increase within the next few years. In fact, building new refineries in Western countries is so difficult that the future lies in building them close to crude production facilities, mostly in the Persian Gulf, from which distilled products can be exported. This will be expensive — refined petrol is harder to transport and store than crude oil — and will take time. Meanwhile, we have very profitable companies that generate enormous amounts of cash, and whose shares are selling at very low prices.

- ***Contract manufacturers*** are the companies that actually made the computer on which you are reading this newsletter, or the printer that printed it. They tend to be located in Taiwan, Singapore, Malaysia or Thailand, while their factories are increasingly to be found in China. They thrive on very low costs and on providing good service to their clients, the big electronics companies such as IBM, Apple or Toshiba. The companies themselves are not very well known, their shares are inexpensive, and the entire industry's rate of growth is good, as more and more Western (and now, Japanese) companies outsource manufacturing.

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Their profitability is not enormous, because they cannot easily differentiate themselves, and their clients would never allow them to dominate the industry. But they can turn a very decent profit, nonetheless, and pay very good dividends.

- Historically, ***poultry producers'*** shares have traded at low prices, for they are not very well known, being relatively small, with the exception of one or two market leaders. In addition, the American producers' shares are now down amid fears that avian flu will induce a drop in chicken consumption. The truth is that chicken prices are down in the US, but the wider picture shows a clear uptrend in demand worldwide and, at current prices, these companies should easily provide us with the 15%-20% profitability we look for.

Finally, we would like to say a few words about the main position that we hold in the Fund: energy at 21%.

During 2005, the price of oil rose by more than 50%, confounding experts who had asserted, as if it were obvious, that the price would soon revert to $30 a barrel, at most, once the "terror premium" disappeared. In reality, oil closed the year above $60. As we have repeated many times (see our newsletter of July 2005), we don't see how oil can stabilize below current prices, given the intrinsic dynamics of supply and demand. And with oil at these prices, our companies are still clearly undervalued. According to our calculations, they could be worth up to more than twice their current price, even if some of them have seen sharp rises in their share prices: Canadian Natural Resources and Nexen have more than doubled this year, and most of the others are up by more than 50%. We still believe that this is a very solid position that will provide us with excellent long-term profits, even if high volatility is the price that we'll have to pay. The markets, apparently unable to price oil and oil companies correctly, fluctuate between enthusiasm and despair, shifting prices by more than 20% in a month. We must live with that, and take advantage when prices are even lower than usual. These comments do, of course, also apply to the Global Energy Value Fund, only more so. We honestly believe that this Fund is a very good instrument to increase investors' exposure to a key sector. Figure 3 and 4 show the breakdown by industry and geographic area of LTIF.

Figure 3
Breakdown by industry

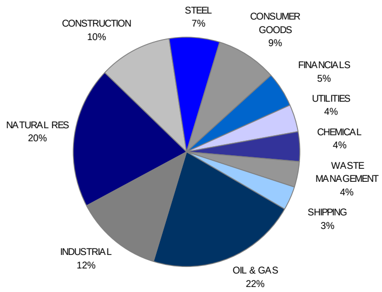
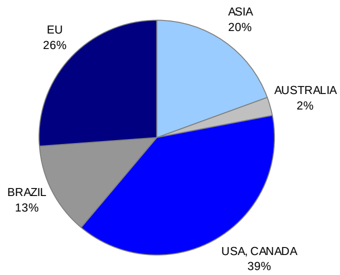


Figure 4
Breakdown by geographic area



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Some thoughts on Absolute Return: the Alpha Series.

In February 2005, we launched the Alpha Series, which, as our investors know, consists of the same portfolio as the Classic Series, plus a “hedge” against the market. Over time, the results of the Alpha Series will be equivalent to the amount by which our portfolio does better than the MSCI World Index. In the investment industry, this is known as an “absolute return” fund: in principle, it is not affected by what the market does, just by the quality of its portfolio. It will succeed or fail according to that quality, regardless of the market’s ups and downs.

After this first eleven months of operation, we can confidently assert that the Alpha Series has lived up to its promise. It has an annualized return of 19.88% (the return since inception is only 18.22%, but it started in February, not January). Our hope is that it will deliver more than 1% a month, whether the market goes up or down, and it has done so. Due to the nature of stock investing, 1% a month does not mean 1% every month: this must be taken as an average over many months — preferably more than a year.

This return should not be compared to that of the Classic, which is a market-influenced fund, but with other investments that are not affected by overall stock prices, such as bonds, real estate, etc. Compared to those investments, the Alpha Series has done exceedingly well. Of course, one year is a short time, but it is all we have. As the saying goes: so far so good…

Since our reference index, the MSCI World Index, is up by 27.7% (its best performance in five years), it’s only logical that the performance of the Alpha Series should be lower than that of the Classic Series. However, the index will not go up by this percentage every year. Investors in the Alpha Series must ask themselves if their choice of investing in a “market-unrelated” instrument was a reasonable one. If that is the case, they should continue with their strategy and not change simply because the market has been up for a year. If, on the other hand, investors are convinced that the markets will continue rising for the foreseeable future, they should switch to long-only investments, such as the Classic Series.

In our opinion, having part of one’s portfolio invested in “absolute return” funds makes a lot of sense, for it diversifies the market risk. Over time, long-only investments should be somewhat more profitable, but “absolute return” investments provide a very sensible insurance policy against sharp drops in the markets.

Thoughts for 2006

At this point, it’s almost compulsory to provide investors with some sort of preview of what the New Year will bring. Once again, we have to plead total ignorance of what the markets will do, be it the indices,

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the dollar, or any other macro variable. That's why taking some insurance is always good, precisely because you don't really know whether your house will burn or not.

But, as we mentioned before, we start the year with a very well diversified portfolio, made up of highly profitable companies growing strongly and trading at a very low overall price. Investor sentiment may rise or fall, and with it the price of our shares. We, however, are fairly confident that in 2006 our profits per share will grow above their remarkable 2005 levels. This is what will ultimately determine our success.

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