Long-Term Investment Fund

Newsletter October 2004

As explained in the owner's manual, investors in LTIF should look at the results of our companies to gauge how we are doing, more than at the price of their shares (and the liquidation value of the fund, which is simply the sum of the price of the shares we own in a particular date). That's why we essentially talk about "intrinsic performance", more than the performance of the shares.

For a complete description of LTIF's investment philosophy, and its "user manual", that explains in detail our measurement concepts, such as "intrinsic value" and "fund's earnings per share", please refer to our internet site at **www.ltif.com.** You can also find there previous past letters, as well as detailed results for the fund since its inception.
For any inquiries, please write to **info@ltif.com**.

Results on our portfolio

Our companies keep doing well. Results have been particularly strong during this past quarter at Depfa (earnings per share up 37% compared to last year, ROE after taxes of 32.8%), Barratt Development (27% increase in profits, 37% return on capital invested), Posco (profits more than doubled), Samsung Electronics (profits up by more than 50%, return on equity above 35%), Bam Group, etc. Boskalis continues to go through a difficult patch net profit of only €7.4 million in the first half of 2004 vs €32.7 million in 2003, although cash-flow is only slightly down), and most of our oil companies are not profiting yet from high oil prices because they sold forward most of this year's production at what a year ago looked like good prices (around $23). These hedges don't expire until next year, so we still have a couple of quarters of (relative to what it could be) mediocre performance ahead of us.

NAV per share is €159 per share, up 9.25% for the quarter and 18.39% year-to-date

The markets are recognizing the value in some of our companies, with the result that the liquidation value of the fund (the market value of the shares we own as of September 30th) was €159 per share, up 9.25% for the quarter and 18.39% since January 1st. The shares that have advanced most in the quarter are Bam, Canadian Natural Resource, and Posco, and those that have advanced less are Barratt Development, Petrocanada and Samsung Electronics. We have taken advantage of the poor "performance" of Barratt Development's and Petrocanada's shares to add some more to the

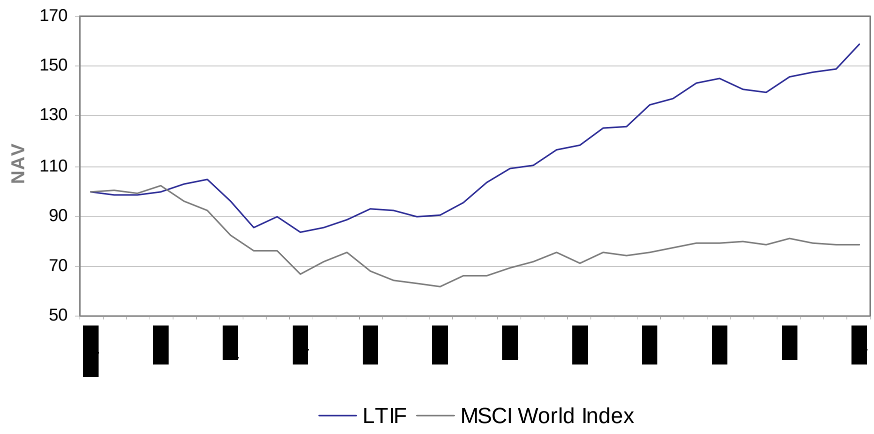
LTIF Directory

Administrator:	Investment manager:	Registered Office:	Custodian:	Advisor:
TMF Fund Administrators BV Westblaak 89 P.O. Box 25121 3001 HC Rotterdam The Netherlands	J3 Associates Ltd. Mill Mall, P.O. Box 964 Road Town, Tortola British Virgin Islands	Mill Mall, P.O. Box 964 Road Town, Tortola British Virgin Islands	Pictet & Cie 29, bd Georges Favon 1204 Geneva Switzerland	Strategic Investment Advisors, SA 4 Rue de l'Ecole de Chimie 1204 Geneva Switzerland

Telekurs: 1341036 ***Bloomberg:*** LONGTRM VI

portfolio. The graph below compares this advance in the Fund's liquidation value with the Morgan Stanley World Index.

LTIF liquidation value per share, compared to the MSCI World Index



Total Net Asset Value is now €18.362.052

Total Net Asset Value amounts to €18.362.052. This includes a technical temporary net redemption, that has already been re-invested in October.

Portfolio news

We haven't bought any new company, but added to our positions in Canadian Natural Resources, Canadian Oils Sands Trust, Nexen Energy, Petrocanada, Suncor, Depfa Bank, Bam Group, Barratt Development, and McCarthy and Stone.

We sold Caemi, for a gain of about 50% in 9 months.

We sold Caemi, the Brazilian company that is a world leader in the production of iron ore. We believe that the company is excellent, and has a great future ahead of it, but its price had reached our very demanding criteria in terms of valuation, so we sold it for a gain of about 50% in nine months.

Some thoughts on oil

In the previous newsletter we mentioned that our position in Canadian oil companies had reached 15% of the fund's value, and that we would explain in more detail this decision in this newsletter.

Oil represents now 20% of the value of the fund

The percentage that oil takes now in the fund is now above 20%, mostly because some of our positions are increasing in value, but also because we have added to some of those positions, as more subscriptions come into the fund. Lest readers think this is too large a position, we would like to remind them that in 1980 energy companies made up 28.1% of the S&P 500, while financial companies didn't amount to more than 5.7%. These numbers are 6.2% for energy and 21.2% for financials today, but we believe we may well be at the beginning of a new long-term reversal of the trend that would put the energy industry back in a position of prominence.

The potential for appreciation exceeds 100% over the next two-three years

We think that these companies present a unique opportunity for appreciation: most of them are valued at less of 50% of what we believe their net value is today.

The world needs about 4 million per day barrels of new oil every year to meet demand: this is more than the peak production of Iraq

It is unlikely that this amount will be supplied at prices much lower than today's

Valuation of reserve-rich companies is so low that downside is minimal: they constitute a great value investment

Energy investments provide an excellent natural hedge, for they are negatively correlated with the overall market

The reason for that sharp discrepancy between value and price is that the "market" has been using a $20-25 price for the barrel of oil to calculate the worth of these companies. We believe this is wrong.

Of course, oil can (and will) fluctuate in the short term. But when buying an oil company with huge reserves, as we do, we are "buying" the price of oil for many years to come. Thus the question is not what the price of oil will be in a few months' time (which we ignore), but what is a reasonable price to expect over the next decade.

On this point we do have some ideas. World oil consumption is rising at about 2.5% per year. This implies that, in 5 years' time, net production must be more than 15% higher. Today's consumption is about 82 million barrels per day (bpd). Each year's increase represents, therefore, 2 new million of bpd that must be produced. But the world is losing some 1.5 million of bpd to depletion of old oil fields. This means that some 3 to 4 million of extra oil must be produced every year to satisfy demand. To give the reader an idea, Iraq's production, at its peak, was 3 million bpd. This means that the much vaunted Iraqi capacity, which should be on line by now, does not amount to more than one year's worth of extra demand. In other words, the world needs *a new Iraq every year* to satisfy demand. But not even the real Iraq is producing those amounts.

Now, we don't believe the world is about to run out of oil. But one thing is clear: after twenty years of under-investment, the industry is stretched to the limit, and has run out of chances to produce cheap oil. From now on, oil will have to come from more thorough exploitation of existing fields, from deep water discoveries, and from oil sands. All these options are expensive and slow to come on line. In fact, Goldman Sachs has estimated that the marginal cost of production for the current high-cost producers is already above $35 per barrel. This explains the current 6-year future (slightly above that number), and indicates why long-term prices will not go lower, barring some extremely unlikely massive new discoveries of high-quality, very cheap to produce oil.

For all these reasons, we believe that the current tight balance between supply and demand may well last for a very long time, ensuring high oil prices.

The companies we own have important reserves in Canada. This means that there is no political risk, and that there is no exploration risk, for the companies already have the oil. These companies would be excellent investments with an average price of oil at $25 per barrel over the next 10 years: their rate of return would be above 10%, and they have a negative correlation with the rest of the market. But if oil stays above $35, they become amazing cash cows. To give an idea: if oil is at $40 by 2007 (I remind readers that, when I'm writing this, oil has been above $45 for several months), Canadian Oil Sands Trust will have a dividend yield over today's price of 15%. Or, put differently, its share price will very likely multiply by 3 times. If oil stays around $50, dividend yield will be above 20%.

We are playing this over the long-term. It is not the high spot price of oil that makes oil companies a good investment, but the very low valuations compared to the likely long-run long-term oil prices

These are not, in our opinion, speculative investments, but value investments. We don't count on very high prices of oil over the short term. We are investing in very well managed companies that own a relatively scarce commodity, and that are growing production. Even if oil prices went sharply down *forever*, these companies would provide dividends of more than 4% a year. It's important to note, too, that if oil prices stay up, most other investments will suffer. Owning oil companies with large reserves provides then an excellent hedge against that eventuality. At current prices, we believe this is an opportunity that we cannot let pass up.

In fact, on the advice of Strategic Investment Advisors, SA (see below), a new fund is being prepared that will specialize on energy investments: oil, natural gas, coal, hydroelectric, uranium, etc. As mentioned above, we think we are coming out of a very long "bear market" in energy stocks that has left prices very low, and the attending lack of investment, coupled with surging demand worldwide, will imply much higher profits over the next decade.

LTIF's outlook for the remainder of 2004

Average PE is below 10; dividend yield above 3%

NAV will exceed €25 million in the next few weeks

Strategic Investment Advisors has been incorporated in Geneva by Prof. J. Carlos Jarillo, and is the key advisor to the Fund.

The outlook for our companies is good. Most will continue to reap excellent profits over the next quarters (for instance, our construction companies have already in the books most of the sales and attending profits for the next year; our oils will see the punishing hedges expire). Yet their share price does not reflect it yet: our average PE is below 10, dividend yield is above 3%.

The Fund itself is continuing to grow. September has seen new firm commitments, which takes our Net Asset Value above €25 million for October. We think we may reach our current, self-imposed limit of €50 million during 2005 or 2006. We are seeing serious institutional interest, once there is a sufficient track-record: the Fund will in January be able to calculate the widely-used "three year performance".

Finally, the Fund's managing company, J3 Associates Ltd. has given a mandate for advice to Strategic Investment Advisors, SA. This firm, founded in Geneva by Prof. J. Carlos Jarillo, concentrates on advising wealth managers and fund managing companies on overall strategy and specific investments. It has signed a formal agreement with Long-Term Investment Fund to, among other things, prepare these newsletters, help establish the investment strategy, generate specific investment ideas and analyze individual industries and companies.