Long-Term Investment Fund
Newsletter July 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

Profitability keeps improving at practically all companies

Again, almost all the companies in our portfolio have done very well during the last quarter. With the exception of Bachoco, which has seen overall prices of its key product (chicken parts) drop, but has still produced a good cash-flow; and Boskalis, which is experiencing the expected cyclical contraction in demand, our companies are producing record profits, with rates of growth reaching above 30% year on year in some cases (Barrat, McCarthy & Stone, Depfa, Posco...). Their outlook for the rest of the year is generally very positive, which makes us think we'll finish 2004 with a strong increase the intrinsic value of the portfolio. As always, you can check the details in **www.ltif.com**

The liquidation value of the fund has gone up by 8.37%, net of all expenses, since January 1st.

The evolution of the fund's net asset value (NAV) per share, compared to the MSCI world shares index, with dividends (net), in euros, has been since inception as indicated by the chart below. Since the beginning of the year, NAV per share (liquidation value) is up by 8.37%, net of all charges, which means that is almost flat for this quarter (+0.16%). This flat performance reflects an increase in some shares (mostly, our oil companies and some of our Swiss shares, such as SIG and Zehnder) and a decrease in the share price of some of our key positions, namely Depfa and McCarthy & Stone. We are in no way concerned about those drops in prices, for we believe the intrinsic value of the companies keeps going up. In fact, we've taken advantage of this development to add to our holdings at excellent prices.

LTIF Directory

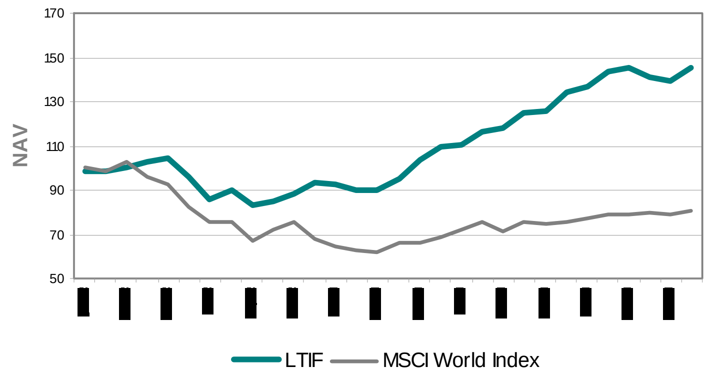
Administrator:
TMF Fund Administrators BV
Westblaak 89
P.O. Box 25121
3001 HC Rotterdam
The Netherlands

Investment manager:
J3 Associates Ltd.
Mill Mall, P.O. Box 964
Road Town, Tortola
British Virgin Islands

Registered Office:
Mill Mall, P.O. Box 964
Road Town, Tortola
British Virgin Islands

Custodian:
Pictet & Cie
29, bd Georges Favon
1204 Geneva
Switzerland

Telekurs: 1341036
Bloomberg: LONGTRM VI



Total Net Asset Value has gone from €14.981.483 at the end of last March to €17,742,176 as of June 30th, 2004

The fund continues to grow, and it has reached now €17,742,176. We foresee an even faster growth in new funds for the rest of year.

Portfolio news

We sold Natuzzi (around 30% appreciation over two years)

We have sold Natuzzi, S.p.A. Although we still think it's a fine company, we believe that the decrease in profitability shown in the last year is permanent: 50% of the company's sales go to the US market, and we don't think the dollar is going back to its pre-2002 levels. In addition, the company is responding to low cost competition from China with a vastly increased expense in marketing. This is probably the appropriate strategy, but it's going to depress profits for the foreseeable future. Taking into account that the share price had gone up by more than 30% since we bought it, and that forward PE now stands around 12-15, and it is not going down, in our opinion, in the next few years, we decided to sell, for we have better opportunities to put our money.

We have bought Samsung Electronics and Imperial Sugar

Samsung Electronics is a world leader in flat screens and several kinds of semiconductors, and a highly successful entrant in the mobile phone handset market (14% world market share). It sells at absolutely ridiculous prices for a company of its characteristics (PE around 5), especially one as profitable as this one (ROE above 35%!)

We believe there are a number of reasons for such a low price: The whole Korean market is low, for foreign investors have deserted it; technology shares worldwide are down (for a good reason –valuation– we may add); and there is a widespread opinion that the prices of flat screens will drop amid some future excess capacity. Without denying this last point, we believe that a combination of increased demand (thanks precisely to the lower prices), technological leadership (Sony has agreed to source its screens from Samsung) and an extremely low valuation to begin with, makes this a solid investment. The company throws off cash at amazing rates (fairly rare for a technology leader) and has just announced an extra dividend and a share re-purchase scheme.

Another company we bought is Imperial Sugar, an American (despite its name) producer and packager of sugar for both industrial and domestic use. It's a small company (market cap just above €100 million), coming out of a re-organization period. As is often the case with these small companies undergoing a drastic restructuring, the market does not know how to price them… because nobody really cares. We believe the current price is, under the most conservative assumptions, 30% below the intrinsic worth of the company. We don't see this as a long-term holding, for the industry leaves much to be desired, but it is a safe way to earn some interesting returns with very low risk.

Oil companies make up now 15% of the portfolio.

We have added Canadian Oil Sands Trust, Suncor Energy, and Petrocanada

We continue working on our oil holdings. We don't buy oil companies because of short-term price hikes (although they are happening). In fact, most oil companies hedge (sell forward) a large proportion of their production, which means they are not having the increases in profits this year that current oil prices might indicate, for they hedged at last year's prices (around $25 per barrel on average). We buy because we believe that, over the long term, energy prices cannot but go up, and most of these companies do not reflect in their share price that fact. Many market operators *want* to believe that oil will go down to $20 a barrel and the companies we buy for the fund have a market price that implies about that level. But we don't think that is going to be the long-run price of oil, even if it drops temporarily from its current level.

We thus buy companies with the best ratio of price to reserves, that are well managed, and that carry no political risk. This leads us to Canada, where we have found some very interesting companies to own.

Among them, Canadian Oil Sands and Suncor stand out, for their huge reserves of oil sands. This oil, expensive to produce, has a number of advantages: no need to spend on exploration, for it is there; reserves are enormous (Canadian Oil Sands has reserves for at least 65 years; compare that to Shell's less than 7); and becomes extremely profitable if oil prices go up by a bit: the "leverage effect" is largest when the cost is highest (a $1 increase in price boosts margins if they were only $4, and doesn't affect them that much if they were already $15).

In addition, all the companies we buy have solid expansion plans, and they sell at low multiples. This implies that, even if oil prices come down somewhat in the short to medium term, profits will go up (helped by volume increases and better hedging terms), and our profitability as investors is assured, for we are buying them at very low prices.

Our next newsletter will discuss the oil industry in detail, from the point of view of a value investor

Over the next quarters we will continue working on this theme, and re-arrange our portfolio of oil properties as we fine-tune our valuations of all these companies.

We have probably reached the limits of how much to invest in oil as a percentage of our portfolio, but the theme is so important, that we'll devote the next newsletter to an in-depth analysis of the industry.

Outlook

Markets are correcting: profits have increased and share prices have not moved,

Markets are still expensive: an average of more than 15 PE gives an implicit return of less than 7%. Of course, high profit growth improves the return, but the whole market cannot grow profits at a faster pace than GNP over the economic cycle. We thus foresee a long period of very mediocre performance for the

but they are still expensive.

As a result, we don't see a good potential for long term appreciation of the indices

indices. This can be achieved in two different ways : by going down and up violently, as in 2002-2003, to end in the same place... or just by staying in the same place, as in the first half of this year. But, in either case, investing in the indices is a no-win proposition for the long-term when starting from an expensive departing point.

Our portfolio is very well positioned for the medium-term

But value can still be found, as shown by our portfolio. Aggregate earnings growth this year is going to surpass 20%, while PE is below 10. Whatever the markets do, whatever the price of the shares of our companies does, we believe this portfolio is a long-term solid investment.