Long-Term Investment Fund
Newsletter April 2003

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

To see our previous newsletter (August 2002), please click here: **www.ltif.com/January 2003.pdf**

For any inquiries, please write to **info@ltif.com**.

Results on our portfolio

Our key measures are "profits per share" of the fund, "return on cost", and "intrinsic value" of each share of the fund (these are explained in detail in the "**owner's manual**" section of our web site). We might add dividend income, for most of our investments pay generous dividends (average yield is above 3%), but we reinvest those dividends in more shares, so they show up in the previous measures: we have more profits because we have more companies' shares, without our investors having to put any more money into the fund.

Our results for 2002 are as follows

Profits per share	€ 13.04
Return on cost	16.10 %*
Intrinsic value	€ 70.14

* This refers to shares we keep. We sold some shares at a loss.

LTIF Directory

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Results on our portfolio (cont.)

2002 has been our first year of operation. When we started, in January, or intrinsic value was 100 euro per share: all our resources were cash. As we invested that money, buying companies, we had often had to pay a premium: few companies are available for less than their book value (although we have bought some). In essence, we've exchanged 100 euros, which in themselves produce very little (if kept in cash) for €70.14 worth of shares in companies, which produce an average return of 18.4%. If this return is maintained (as we believe it will be, for this is the basis for our choosing them), we'll see than in very little time the intrinsic value of our investments is way above the amount of money we put in. Of course, as new investors join the fund, our profitability is temporarily diluted, but we don't expect massive in-flows (the fund has grown by about 15% since its inception).

In fact, the future looks good. In the first three months of 2003, all our companies have increased their profitability. We have bought those companies at a very low price: the average PE of the fund is 6.5, yet its profits grow by more than 10%. Regardless of the direction the markets take, we can feel pretty confident that, at the end of the year, our investments will be worth significantly more than today.

From the point of view of the liquidation value (the value that the market gives at a given time to the portfolio), it held relatively well during 2002 (-6.8%), and is stable in 2003 (-2.8% as of March 31st, but +2.2% at the end of the first week in April).

Our investors know that liquidation value is not the appropriate measure for this portfolio, at least for the first three years: the reason is that we buy good companies that are misunderstood by the market and can be bought at prices lower than their intrinsic worth. But it would not be reasonable to expect that, just after we buy them, the market will suddenly discover its mistake. Many of these companies will take time to trade at a price that reflects their real value. But it will happen. In any case, they continue growing their profits and paying dividends. Even if the market never grants them a better valuation, the sheer increase in profits should ensure a medium-term increase in market value for the shares.

Portfolio news

Since the last newsletter (January 2003), we have only sold one company and bought another. We have, however, increased our position in several companies we already owned.

We sold Uniland, as mentioned in the January newsletter, because we had to: the majority shareholders decided to take the company private, thus "robbing" us of an excellent investment. We bought Uniland at a valuation so cheap that its PE (4) was lower than its dividend yield (5%). The consolation is that, although not too generously, considering the company's profitability, we were well rewarded: the final price amounted to a 70% gain, including dividends received. Sad to lose as an investment, but not a bad return for one year. It was our largest holding.

We bought Natuzzi SpA. Natuzzi is an Italian company, based near Naples, which has the world's largest market share in leather sofas, sold worldwide under the Natuzzi, Divani&Divani, and Italsofa brands. It has factories in Italy, Brazil, and China. Its sales go almost evenly to the US and Europe, with smaller operations in the rest of the world. It is quoted in the New York Stock Exchange, and has a market capitalization of about € 500 million.

The company's finances are extremely solid: at the end of 2002, it had € 100 million in cash, with no debt. It is extremely profitable: its return on equity has hovered above 20% for the last ten years. The company pays good regular dividends (about 3% yield), plus relatively frequent special dividends, when cash just accumulates.

Its strategy in the last five years has been one of "forward integration": it is spending money in developing a well-known brand and its own distribution network. It has opened dozens specialist shops in the past five years, with plans to open many more in the immediate future, plus a number of "galleries", which are specialized "shops within shops" in the most important department stores in the US. We believe this is an excellent strategy, for low cost manufacturers may end up taking a significant part of the market (although high transportation costs blunt a bit cheap-labor cost advantages). But brand, design, and distribution are much harder to attack (think of Nike, which does not produce a single shoe). It seems that execution of the strategy is good so far.

We have been able to enter this investment at an extremely low price, of about 4.5 times 2002 profits. As usual in our investments, it is difficult for us to understand why the market values the company so cheaply right now, but we are getting used, in these highly volatile times, to see these kinds of opportunities. The company just released full data for 2002, which are good, and expects a slightly higher profit for 2003. Even if they just repeat this year's performance, it will be a very good result indeed.

Performance of our companies

Most of our companies have performed very well in 2002. In fact, all with the exceptions cited below have attained record profits. What's better they foresee a strong 2003, with profits at least at the same level.

ABN AMRO has had a strong operating performance in 2002, but net profits where dragged down in the first semester by write-offs related to Worldcom, Enron, and other problems. The second part of the year was already very strong, and expectations for 2003 are good.

Hunter Douglas is going through a flat patch: profits in 2002 have been €3.07 vs. €3.08 in 2001. The company is not giving clear guidance for 2003, although it insists it has a strong long-term position. They continue buying companies at reasonable prices, thus consolidating the sector.

Petroleum Development, as a natural gas producer, is highly dependent on this commodity's price. Results for 2002 were not good (eps $0.57 vs. $0.9 in 2001), but energy prices are up, and this first quarter is shaping up as very strong. The company could easily double profits in 2003.

Finally, Teleplan, like many other "high-tech" companies, has had to write-off much of the "goodwill" incurred when they acquired a number of companies, four years ago, at inflated prices. These write-offs do not affect current cash flow (the money was wasted then, but it is recognized now), but depress net profits: in reality, it is the profits of the year when they bought that should have been depressed. But operating performance, which is what matters looking forward, has been impressive. The company is set for a minimum organic growth of 20% in 2003. At its current price, is an excellent investment that should be able to double profits in about four years.

On the positive side, Boskalis, Depfa, McCarthy and Stone and Sjaelsoe have all had record profits, with increases above 15% and very strong cash flows.

For a detail account our each of our companies' performance in 2002, please refer to our web site, **www.ltif.com/investments**.

Liquidation value

To see a detailed account of the fund's Nest Asset Value, or liquidation value, as of March 31st, 2003 please click here:

www.ltif.com/NAV March 2003.pdf