Long Term Investment Fund Newsletter, January 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/August 2002.pdf**

Comments as of January, 2003

We have currently the intrinsic performance in mid-year, for companies take time to report their year-end reports. We should have the intrinsic value results for 2002 at the end of February. We will then be able to assess the growth in the intrinsic value of our investments in the last six months of 2002.

Nevertheless, some companies have advanced some results, and our impression is that practically all companies have had a good year, in spite of current difficulties.

- **ABN AMRO** was hit by fraud (Worldcom, Enron…) at the beginning of the year, but it has gone through an impressive cost-cutting exercise, and it is going to end up with an "acceptable" year, with operating profits similar to those of 2001 and net profits somewhat lower due to bad debt charges. It must be noted, however, that 2001 ROE was almost 30%, thus even a lower return will still be highly profitable in 2002.
- **Banco Andalucía** will finish with its typical increase in profits of 10-15%, raking up another record year.
- **Boskalis** (not included in the past, for we acquired it at the end of the year) has already announced an estimated increase in profits of 5-10% for 2002, thus also surpassing all previous years. They foresee a "difficult" 2003, but expect to maintain profitability and dividend yields (currently more than 6%) comparable to those of 2002. For a discussion of the company, please refer to our website, **www.ltif.com/investments**.
- **Clinton Card** is having a good year, again expecting record profits.
- **Depfa Bank**, another recent addition, has already announced their expected profitability of 20% ROE for 2002. For a discussion of the company, please refer also to our website, **www.ltif.com/investments**.
- **Deswell Industries** is doing well, increasing sales and, above all, finishing their new plant, for whose capacity they already have contracts. They split the shares in August and increased the dividend throughout the year.
- **Dinamia** has not done any important investment in the second part of the year. Right now, cash amounts to 75% of its market cap. The companies in their portfolio are doing reasonably

well.

- **Hunter Douglas** is having a tough year: sales and profits will be slightly below (between 2 and 5%) those of last year.
- **McCarthy & Stone** is going very strongly, increasing sales, profits and dividends, all at record levels. According to the Chairman, prospects for 2003 (as measured by inquires and new construction) are running 20% above those of last year.
- **Petroleum Development** has been disappointing: profits are down, due to high depletion charges, although on a cash flow basis they will probably finish the year level with 2001. But the key factor, the price for natural gas, is improving and, if the current strength holds, the company could well break through this year.
- **Sjaelsoe** continues its strong profitability, having reached new records, and already foresees similar results for 2003.
- **Teleplan** has progressed strongly in its restructuring plans in Europe, and will end the year having achieved its predictions (again record profits). It sees profits increasing again in 2003.
- Finally, **Uniland** has done well (profits will end the year around 15% up, new record). So well, that the controlling shareholders have decided to take the company private, and we will have to sell in a few weeks. In any case, the capital appreciation has exceeded 60% for the year.

The following is the detailed analysis of performance as of June 30, 2002, waiting for the data to compile the full year analysis. It was already reported in the August, 2002 newsletter, and is included here as a reminder.

Intrinsic value performance, as of June 30, 2002.

Performance overview

During this first six months of 2002, marked by a tepid economic situation, all our companies have done relatively well: they have all been profitable and several of them have made significantly more money than last year.

Return on cost 5.76% (half year).

Overall return on cost has been 5.76% for the six months ended June 30th. Please note that this is a *half-year* measure. To get an idea of annual profitability, it must be doubled. This is only over the capital invested. As of June 30th, 8% of the fund's capital was in short-term deposits.

Intrinsic value €69.13

The intrinsic value of a share in the fund is €69.13.

Profits per share in the fund €4.34% (half year)

Profits per share in the fund have been €4.34.

Details of intrinsic performance of investments held as of June 30, 2002

Company	Market cap	Cost of puchase	Earnings per share 1st half	Intrinsic value	Return on cost (%)
ABN AMRO (€)	26,754	19.17	0.59	7.15	3.08
B. Andalucía (€)	1,010	41.35	2.39	27.37	5.79
Clinton Cards (£)	128	2.26	0.16	1.009	6.86
CAF (€)	117	32.85	1.51	36.97	4.61
Deswell Ind. ($)	121	13.23	0.63	8.32	4.78
Dinamia (€)		11.56	1.00	20.50	8.65
OHL (€)	526	6.25	0.34	5.42	5.45
Hunter Douglas (€)	1,142	30.86	1.32	21.09	4.28
McCarthy & St. (£)	338	3.02	0.22	1.66	7.39
Pet. Development ($)	81	6.08	0.34	6.25	5.53
Sjaelso (DKK)	610	291.63	2.46	176.59	0.84
Uniland (€)	280	57.82	5.93	55.21	10.26

Liquidation value or Net Asset Value, at market prices, as of December 31, 2002

The market value of the fund has gone down during 2002 by 6.9%, including all costs and expenses

As repeated above, the Net Asset Value simply shows the value that a few investors were ready to pay (or take) for a few shares of our companies on December 31, 2002.Thus, in the short term, it is not a good indicator of performance.

But, of course, in the long term, the market will recognize the value of our companies and, at some point, some of our investors will want to liquidate their position, for whatever reason. It is logical, then, to keep an eye on the market value of our investments although, for this first year, this is particularly less important: our investments are made with a long term view and, in this first year, they are all at most one-year old.

This is a good performance in relative terms, although the fund really seeks absolute returns

Having said all this, the market value of our fund has done extremely well, when compared with the indices. In fact, it’s done more than 20% better than any major index. This, by itself, is not very consoling, for we cannot pay our bills with “relative performance”: the aim of this fund is to make real profits, regardless of what indices do. For this reason, if the indices shot up one year, as they did in the late 90’s, in an irrational fashion, we will not feel disappointed: we seek our 15% appreciation.

But, in its first year, the fund has had to contend with a very negative market environment, which has probably weighted on its performance.

The negative performance is due essentially to the fraud of one company, reported in the August newsletter

What has really weighted was the fraud of Actrade, discussed in the August newsletter: we bought a company with what seemed a stellar 12-year track-record, and it proved to be a fraud. Without that loss, the fund would have finished the year, in market terms, about even, having appreciated enough to cover all the expenses.

New additions to the fund should provide good appreciation in 2003

For next year, we have some shares that we just bought, that should do extremely well, such as Boskalis and Depfa (see descriptions in “Investments”), but it is the philosophy of the fund not to try to outguess the market: those shares’ prices may well stay what we consider to be very low for some time… but if the companies perform as we expect, the market will appreciate it.

Uniland going private (and giving us a 65% capital appreciation) is probably not going to be a unique event

This has somewhat happened with Uniland. The majority shareholders have just decided to take the company private, at a price that represents an annual capital gain for the Fund of 66%. In a way, it’s a pity to have to sell such an excellent company, but at least it is relatively well paid.

By the way, although we’ll never buy or keep shares speculating on what the market will do, we have a number of shares that are clear candidates to being taken private or sold for a much higher price: most of our companies are sharply undervalued, and many have a controlling shareholder who may be tempted to take advantage of it. Banco de Andalucía, Dinamia, Clinton Card, and Sjaelsoe are clear candidates. We think of this as a small “option” than comes attached with the shares.

For the rest, there isn’t much to say, in terms of market performance. Teleplan went very low (€3.5), but has doubled ever since. It’s our biggest “unrealized loss”, but the company is doing very well, and there is no reason why its share price will not go up in due time.

Sjaelsoe is probably the most amazing performer: business is booming, everything is OK, and the price has gone down. It’s now trading at a PE of 4, with contracts already signed that ensure a strong level of profits in 2003. We bought some more, but don’t want to develop too strong an individual position. As it rises, its weight will obviously increase.

The following table shows the performance of all the shares we had as of December 2002. The unrealized gains (or losses) refer to the whole year, or since we bought the shares.

Evolution of market performance of shares held as of December 31, 2002

Company	Price	Shares	Value	Purchase	Gain (€)	Gain (%)	Dividend	Total gain %
ABN.AX	15.58	19,108	297,703	19.17	-68,598	-18.73%	2.35%	-16.38%
AND.MC	52.70	3,363	177,230	41.35	38,163	27.44%	3.06%	30.51%
BOSK	19.27	20,000	385,400	18.72	10,950	2.92%	-	2.92%
CC.LON	1.67	119,500	305,334	1.42	45,562	17.54%	5.28%	22.82%
DPFA	51.20	6,000	307,200	42.50	49,851	19.37%	-	19.37%
DSWL	14.50	16,650	230,561	13.23	21,146	10.10%	6.83%	16.93%
DIN.MC	11.45	25,000	286,250	11.56	-2,750	-0.95%	4.97%	4.01%
HUDN	28.55	10,000	285,500	30.86	-23,060	-7.47%	1.83%	-5.64%
MCCS	3.13	80,500	384,952	3.02	13,610	3.67%	4.36%	8.03%
PETD	5.30	72,000	364,428	6.08	-53,770	-12.86%	-	-12.86%
Sjaelso	248.00	12,000	400,801	292.54	-71,986	-15.23%	-	-15.23%
TEL	6.41	50,000	320,500	10.22	-190,585	-37.29%	-	-37.29%
UND.MC	93.25	6,500	606,125	57.82	230,280	61.27%	4.13%	65.40%
TOTAL					**-1,187**	**-0.03%**	**2.17%**	**2.15%**

Note: This does not coincide with the Net Asset Value, for there are realized losses, plus cash and the hedging contracts for shares not denominated in euros.

For a detailed look at the Net Asset Value of the fund as of December 31, 2002, prepared by the independent Administrators, please click here: www.ltif.com/ NAV 31.12.02.pdf

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