SIA
Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of December 2017

SIA Funds AG Alpenblickstrasse 25 8853 Lachen Switzerland
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Overview of our funds

Figure 1: LTIF Classic EUR
vs. MSCI Daily TR Net World Index EUR

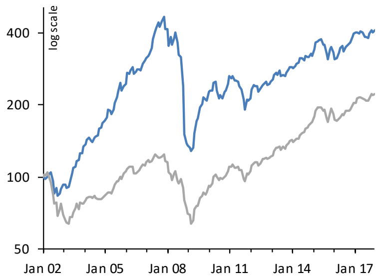

Figure 2: LTIF Stability A Cap EUR
vs. HFRX Global Hedge Fund Index EUR

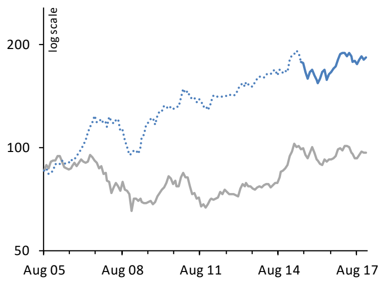

Figure 3: LTIF Natural Resources EUR
vs. S&P Global Nat. Res. Net TR Index EUR

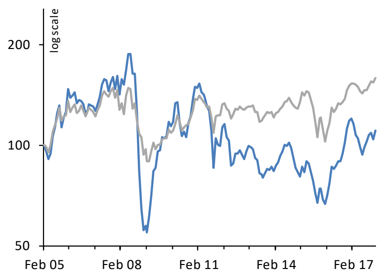

Table 1 and charts 1 through 4 show the evolution of our Funds' NAV during the last quarter.

Table 1: Net Asset Value - Net assets under management of our funds

December 29, 2017	NAV	Δ 3m	Δ YTD	Annualized Return *(s.i.)*	AUM *(in mio)* ** Pool*
LTIF Classic [EUR]	408.84	2.8%	2.9%	9.3%	'161*
LTIF Stability A Cap [EUR]	184.10	2.2%	-2.0%	6.5%	'13*
LTIF Natural Resources [EUR]	110.66	3.2%	-6.4%	0.8%	18
LTIF Stability Growth [CHF] *(Total return, dividends included)*	230.40	4.7%	9.6%	4.1%	4
LTIF Stability Income Plus [CHF] *(Total return, dividends included)*	194.20	4.6%	9.6%	5.0%	4

Source: SIA Group

Overall, our shares have gone up by less than most indices, especially those that are euro-denominated, since most currencies are down against the euro. Let's first discuss, as we do in every Newsletter, the "noise" about the shares' performance and thereafter the "signal"; in other words, what the companies, as businesses, did during 2017.

Classic fund

As mentioned in the previous newsletters, this has been a year of wide divergences in the evolution of our shares. Some did very badly (-46% for Cenovus Energy) and some very well (+40% for Easyjet — please note that all figures in the Newsletter are in euro to make them comparable). This disparity is not unique to our portfolio. For a stock picker, the sharp decrease in stock correlations was the most important development during the last few quarters. A few years ago (and during the previous 5 years), the correlation between stocks was above 0.7. This means that, on average, 70% of a specific stock price's movement could be explained by other stocks' movement. In other words, everything went up or down more or less together. That correlation is now down to 0.2.

This makes sense: If investors believe the world is coming to an end, they will sell everything regardless of the company's quality, or the price of the share. When they realize that the world is not ending, they buy these shares back, again fairly indiscriminately. "Macro" thus dominated "micro" completely.

However, below the macro fears, the economic reality continues unimpeded. After a few years, investors end up realizing that some companies are actually making much more money than others, and their share prices start diverging. This is what happened in 2017.

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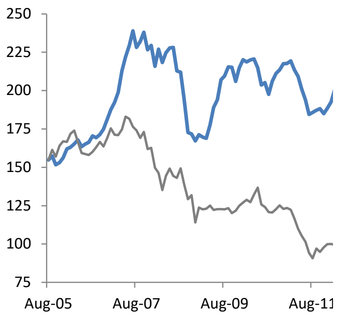
Figure 4: **LTIF Stability Growth TR CHF vs.** HFRX Global Hedge Fund Index CHF



In our case, some shares performed very poorly. However, as we know, the movement of the share price is not important, but the companies' underlying reality is. We therefore discuss this briefly in the following.

- With a drop of 27%, Pandora was the worst performing share (with the exception of oil-related companies), which was somewhat mitigated by a cash dividend of more than 4%. We discussed the company in a previous newsletter. We still believe it's a solid company with an unparalleled production capacity of high-quality, low-cost jewelry, and a very good strategy for a vertically integrated distribution system. Unless we are very wrong, the shares are extremely undervalued and could go beyond recovering this year's drop. By the way, its profits were up by 6.5% in 2017 and an expected cash dividend in 2018 amounts to 5.8% of the current share price.

- The oil-related companies we own have seen their shares drop sharply, with the exception of Premier Oil, which had ended the year just slightly in the red. We discuss our view on the industry below, but we are extremely confident that these investments will be very rewarding in the next quarters. Anecdotally, Premier Oil shares are up 30% in the first few days of 2018: The shares suffered from a large short position, which is being covered very fast as oil prices climb.

- With a 22% drop, Northern Dynasty Metals is the last of the group of shares that dropped by more than 20%. As our investors may remember, NDM owns one of the largest unexploited copper/gold/molybdenum projects in the world in Southern Alaska. Under the previous US administration, the company was even refused an opportunity to request permission to develop the mine. This has now changed and the authorizing process has started. The company has joined forces with First Quantum (another company in which we are invested) to develop the project. It's a risky investment in that if the company does not obtain a permit, the shares are not worth much. Nevertheless, we believe their chances are very high, in which case the shares will be worth several times the current price.

Next we examine the companies whose shares did well:

- Easyjet's shares went up by 40% in euros last year. That sharp increase was, to a large extent, a reversal of a previous drop. 2016 was a very bad year for the company, starting with the dramatic terrorist acts in France in 2015, which sharply decreased traffic on very important routes; the vote on Brexit, which caused great uncertainty in the business; and many European airlines (including, specifically, Easyjet itself) beginning to increase their capacity sharply. The combination of all these events led to very disappointing margins. 2017 saw the tendency change, with the company (and investors) expecting a much better 2018. With a PE of 12 and dividends above 4%, we still like the company and appreciate its strategic position greatly, which was what led us to invest in it a few years ago.

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- MTU Aero Engines' shares were up 36% in 2017. The company completed the development of a new engine for the Airbus Neo and it is now facing several years of excellent cash flows, with less investment and a much increased, high-margin, service and parts business.

- Apple Inc's shares went up by 29% in 2017. The company is doing very well and the market is starting to appreciate its huge customer base and their loyalty to the brand. Services and other revenues (Airpods, watches) are growing very fast and becoming large businesses on their own, with even higher margins than the phones and computers. We foresee further growth, with shares trading (adjusted by the huge cash position) at a PE of 12.

- Visa's shares went up by 28%. It's hard to imagine a better business than this: a very small fee on a growing proportion of all the world's commercial transactions. The decrease in usage of cash and the increase in e-commerce are secular growth engines for the company, whose earnings per shares went up by 22% last year and are expected to grow by more than 10% for the next several years.

- Grifols went up by 25% (plus a 2% dividend), as the markets start seeing the end of the investment phase and the beginning (slightly more than a year away) of several years of very strong cash flows.

- First Quantum, our copper producer, went up by more than 20% (23%), as did Wienerberger, Europe's largest brick manufacturer (22%), and Unilever (20%). Nothing really special is happening at these companies to stimulate the increase. Their shares were simply too cheap and the market is adjusting.

We also undertook some trades: We sold Tata Motors, Sumitomo Bank, and DGB Financial Group and bought Reckit Benckiser and Deutsche Post.

All three sales were prompted, in the end, by the same reason: We really want to concentrate our portfolio on companies that we can track very closely. Although we believe we had a good grasp of the three sold companies and their shares were very clearly cheap, we thought we would do better by our investors by investing the money in other companies. None of the three were great investments: We did make a bit of money on them, but less than the average profitability of the fund during the years we owned them.

We bought Reckitt Benckiser, a company we have followed for a long time, to take advantage of what we believe is an unjustified drop in its price, which was due to a phenomenon we could call "the Fallen Angel." Sometimes, a company does extremely well for a long period of time. Normally, this means the company has found a new way of doing things that makes it very competitive and is very difficult to copy. That may have happened to Inditex with its Zara system; Coca-Cola years ago, when it first restructured its bottling operations; McDonald's with its franchise system; etc. We could

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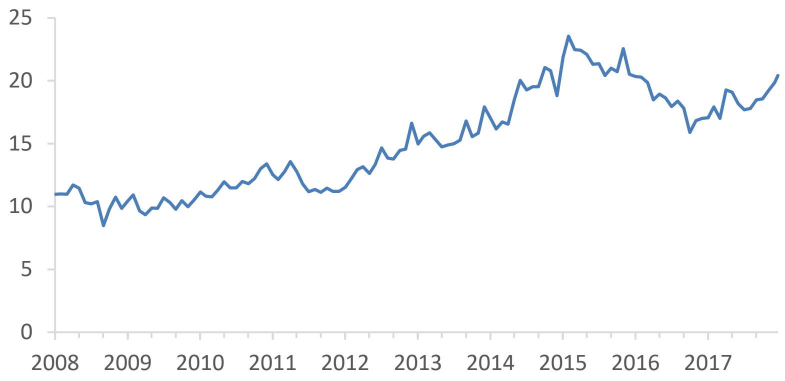
even include our humble Viscofan with its consolidation of the global sausage skin market. When the market sees a company doing extremely well (say, high double-digit annual growth, exploding profits) for many years in a row, it tends to give it a very high multiple, anticipating that the exceptional times will last forever. But that is rarely the case. When the company hits an "air pocket," the investors realize they had been over-enthusiastic, and flee the shares. At this point, the value investor must ask: Are the reasons that made the company an outstanding investment still valid, or do the recent problems show a structural deterioration of the strategic position? If the answer is the first scenario, we need to accept that there are always short-term problems in business, and a company will return to a good performance. The drop in the share price then simply constitutes an opportunity to own a quality company at a reasonable price. In the second scenario (structural deterioration) there will be a long decline.

We applied this reasoning to Viscofan, for instance. Figure 5 shows Viscofán's PE during the last seven years. The company did well, therefore the market rewarded it increasingly, assuming it would do even better. We liked the company for strategic reasons, and bought it in 2012. But at a PE of 22 we thought we had better options, and we sold. The share price kept going up, because the company kept doing well, until a couple of weak quarters punctured the market's confidence. This happened at a PE of 26, because a small company that expensive is not supposed to show low growth. The price then went down and we bought it again at the end of 2016, because we thought that the company's strategic strengths were intact. The "air pocket" was due to a rapid productive capacity expansion, which depressed the margins, but ensured future growth, as well as due to a very weak Latin American market mired in recession. We saw both problems as temporary, and thought the company was worth much more. The market seems to agree, with an increase in the share price of 30% since we bought.

Figure 5: Viscofan PE 2010-2017



Something similar can be said of Reckitt. For years it's been the best consumer staples company in terms of profitability and growth.

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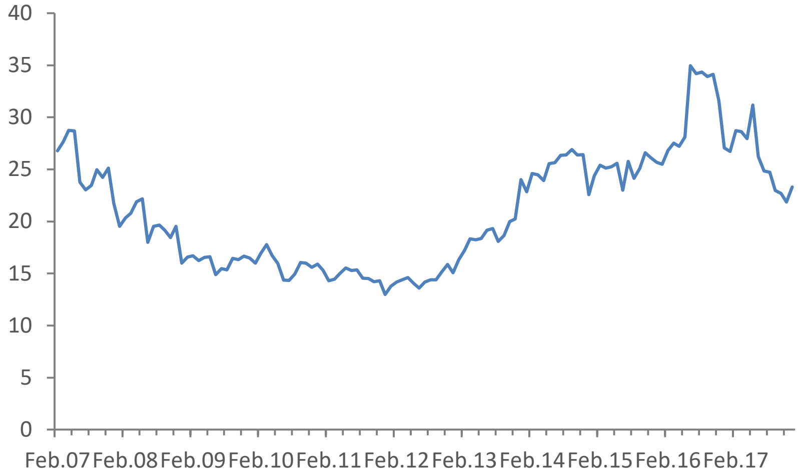
It bought companies and integrated them extremely well, extracting huge synergies and increasing sales. Figure 6 shows the company's 7-year PE. A deceleration in growth; a large, controversial acquisition; some personnel changes; and the market realized it was probably over-valuing it. But at the current prices and with the company's fantastic marketing and distribution systems, we believe it is a very solid "category 1" stock that can give us a long-term return of around 10% with a very low risk.

Figure 6: **Reckitt-Benckiser PE 2010-2017**



Our other purchase has been Deutsche Post. It's a complex, fascinating company, with four main businesses that could not differ more from a strategic point of view.

As the company's name indicates, its business is delivering letters in Germany. This is a dying business, burdened with huge pension costs (more than 498'000 thousand current employees, let alone past ones). This business is highly regulated, and the company basically tries not to lose money. Besides this, it owns a logistics business (technically known as "freight forwarding") in which it is not a first-tier player and only shows mediocre profitability. Third, it has "express delivery," mostly under the brand DHL. This is an excellent business, subject to economies of scale, in which the company is a world leader. And, finally, it has the expanding parcel delivery business — mostly in Germany, but expanding throughout Europe — driven by e-commerce's dramatic development. All in all, we see a very solid company that is very well positioned in certain key businesses, trading at a very attractive price (PE 16, dividend 3%).

We don't foresee big changes in 2018. We may trim some positions where the share prices are approaching full price, particularly if we find undervalued companies in which to invest. In terms of share price performance, we

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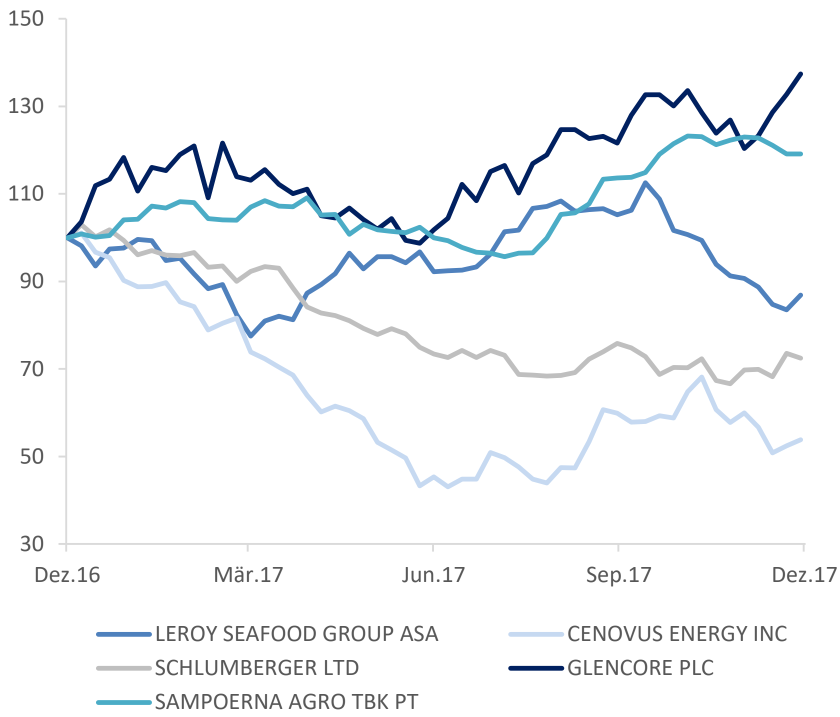
don't think any of our "bad performing" companies have a particular problem, and, as discussed above, their prices should recover (the oil-related companies are up, on average, more than 10% so far in 2018).

The Natural Resources fund

This was a transition year for the Fund. After a very high increase in 2016 (it went up, net of all fees, by 72.6% in euro), it was only down by 6.4% in 2017. Part of this is a dollar effect: Most of these investments are denominated in dollars, which dropped by 14.1% against the euro in 2017 (in fact, the fund's dollar class has had a positive NAV evolution of 17.1%). But there is no deny-ing that many of the shares' performance was very disappointing. Let's take a look at them.

The fund is made up of three main blocks: oil, minerals, and food. Of the three, the first did very badly, the second fairly well, and the third a bit worse than mediocre.

Figure 7: **Share prices, rebased, in euro, for Cenovus, Schlumberger, Glencore, Sampoerna Agro, Leroey Sea Food.**



As always, let's concentrate on the underlying company performances to estimate if the share price evolution is justified or if we should expect a recovery (or correction). In fact, we believe we are at a particularly attractive point to invest in this volatile field.

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Brent oil (the most important oil contract in the world) went up in price in 2017 by 17.5%. Nevertheless, many oil-related shares did badly, including ours, as mentioned above. The reason is easy to guess: The market did not really believe that the oil price would be higher, or even at this price, for a long time. If the oil price were indeed to go back to the low $50s, there would in fact not be much value in our shares. Thus, our investment in those companies hinges on our positive view of the oil price development. Let us again review how we regard the investment and provide a methodology that can be applied to most other commodities.

The price of oil, like the price of all things freely traded, is determined by its supply and demand curves. At a given price, the world wants to consume a given amount of oil (usually a lower amount if the price is higher, and vice versa), and at a given price the world is ready to supply a given amount of oil (usually more at a higher price, and vice versa). The “market price” is where the two lines cross: There is a price where what the world is prepared to consume and what it is prepared to produce coincide.

Let’s analyze the supply. Figure 8 shows a typical, simplified, oil “cost curve.” In it, we put the different producers, sorted from lowest to highest according to their production cost. This is highly simplified, of course, for inside any of these boxes there are large differences, but we’ll take this as a starting point.

We then take a look at the demand. The demand for oil is fairly stable, increasing at around 1.5 million of barrels per day per annum. It’s a demand that economists call “inelastic,” because the price does not change the demand much. The reason for this is that transportation consumes most of the oil and there are no ready alternatives. Further, much of the transportation is commercial, which is unavoidable: A farmer growing potatoes must send them to market by truck, regardless of the oil price. There is, of course, some elasticity: If gasoline is very expensive, some people stay home over the week-end instead of going skiing, but the reality is that demand does not move that much with price.

We can therefore determine the price of oil by just looking at figure 8 and knowing what the demand for oil is. In our example, it’s clearly around 93 mbpd. Note that the chart reflects how things were (again, in a very simplified way) in 2014.

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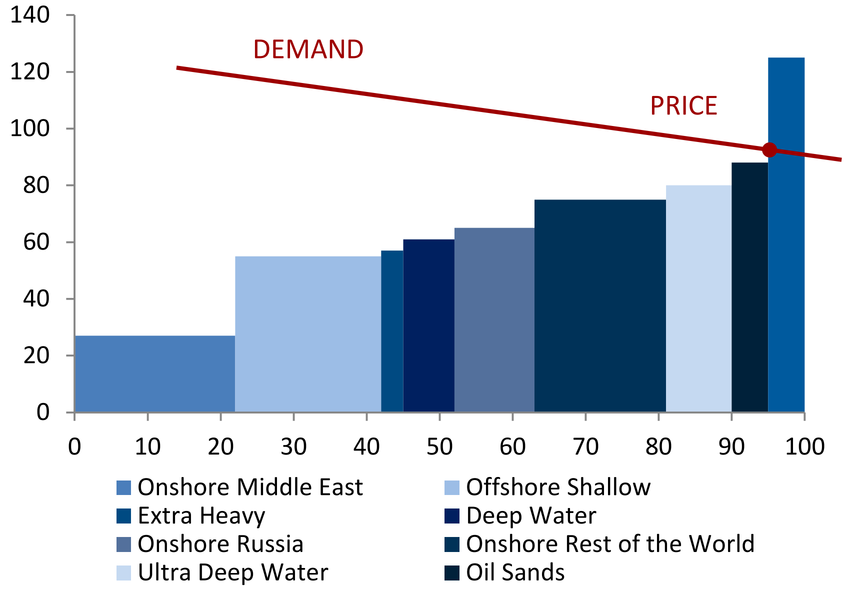
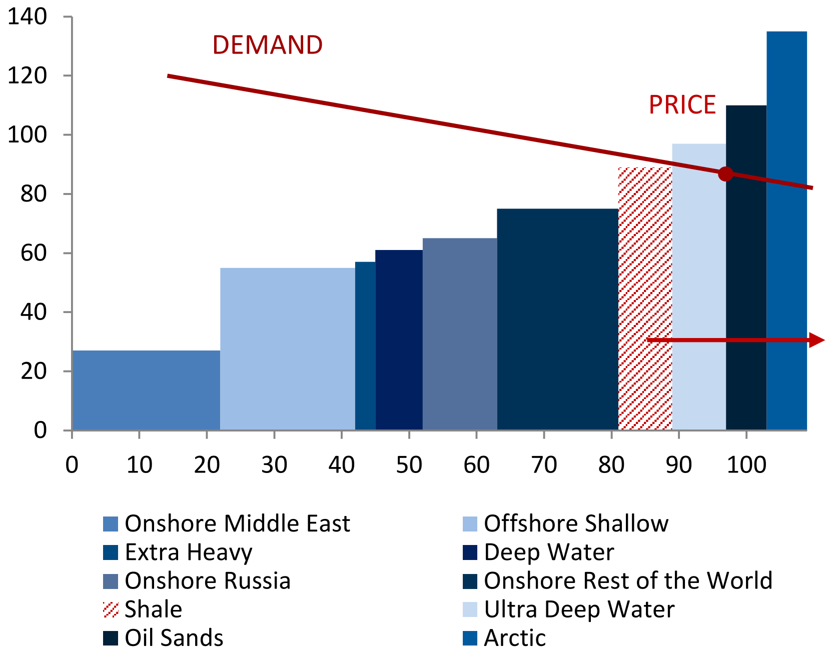
Figure 8: **Oil Demand and Supply 2014**



What has happened since? Suddenly, one of the “boxes” turns out to be growing very fast. This box would be the US “shale oil.” The phenomenon is represented in figure 9.

Figure 9: **Oil Demand and Supply 2017**



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As you can see, when you introduce a new box (or sharply grow an existing one) in the middle of the graph, all that happens is that you "push" the highest cost producer to the right. There is no big impact on the other producers: The price of oil goes down a bit, and the marginal producers (those who were barely covering their costs) have to shut down. The market is again balanced.

Clearly, this is not what happened. The oil price did not "go down a bit," but instead dropped from 100 USD to 45 USD, and it's now about 60% of what it was before the growth in shale oil. What's more, most analysts believe it cannot go above the current price. Why is this?

The charts above show the "full costs," i.e., the total cost of extracting oil, including the cost of exploring, finding it, building the necessary infrastructure, and even remunerating the capital needed to do all those things. These are full long-term costs, because if they are not covered, producers will stop investing and, since oil fields deplete, there would eventually be no oil and the price would logically go up, until the costs were covered.

However, the long-term analysis is one thing and producers' immediate reaction to a sudden jump in supply, another. The high-cost producers on the right of the chart do not simply go out of business. Most of their costs are "sunk," i.e., have already been incurred discovering and developing the oil field, and the current costs of actually getting the oil out of the ground are much lower (typically, around $20 per barrel). If a company just covers its current costs, it will, of course, lose money on an accounting basis (amortization and depreciation are not covered) and, in a few years' time, will find itself with no oil to extract. In the short term, however, it's better for the company to keep producing oil, generating some cash, even if this is below its total cost, than stopping altogether. And this is what companies do.

The reality is that when a "new box" is introduced in the chart, the old producers maintain production to which the new production is simply added. As we discussed before, the demand is fairly inelastic, which means that the excess production has a huge negative impact on the oil price and everybody loses money, even the low-cost producers, on a full cost basis.

This situation is not indefinitely sustainable: Faced with losses, oil companies cut non-necessary expenses, i.e., exploring for new oil until there is no new oil to make up for the ongoing depletion of fields and to accommodate new demand. But the situation can last a long time: Many oil fields last for decades and even with no new exploration, most companies can keep producing for a few years.

The world thus finds itself "awash in oil" with very low prices, generalized loses, and no short-term prospects for improvement: Oil field developments started before the crash, but which took years to complete, keep coming into production and therefore magnify the glut. At this point, analysts, who are merely human, start to extrapolate and find reasons why this will always

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continue. You can imagine the related impact on the share prices of oil-related companies.

Nevertheless, things do eventually change. After a number of years of no investment in new production and no new projects coming on line, depletion starts pressurizing supply. Oil may start going up, but companies (investors) have learned to be "prudent," so no investments are made until everybody is sure the recovery is real. By the time this happens, it's too late to prevent a sharp increase in prices: It takes years to develop new production and, in the meantime, the depletion and the demand continue to increase. Driven by scarcity, the prices subsequently go far, far above what a rational cost analysis would indicate. Analysts then tell the world that oil prices will always be very high. And the next cycle starts. We saw this in the 1980s when the North Sea and Alaska fields entered production, and we saw it with the arrival of US shale oil.

There is a famous cover story by The Economist, published in March 1999 after the oil price decreased from $25 to $10 over two years, entitled "Drowning in oil." It forecast that the price would quickly drop to $5. Almost immediately, the oil price reversed its slide and went, first, from $10 to $35, and then peaked at $140 after a few more corrections

We feel we are at a similar point now.

These matters are not, of course, simple on a daily basis. Data are not clear and sometimes even contradictory. There is no real indication of how much shale oil can be produced, and at what cost. Financial players join the game, shorting or going long on oil, amplifying movements, and creating sharp reversals that a fundamental analysis cannot justify. But the long-term is clear.

Right now, the world is consuming approximately 1 million barrels per day more than it produces. As a result, the very high inventories that had developed over the previous years are draining fast. Supply and demand should grow this year by roughly the same amount. This means that the 1 mbpd draining will continue. This will create a situation mid-year where inventories start becoming dangerously low, which should have a big impact on the oil price. OPEC will eventually bring back the 1.5 mbpd that they cut last year, but that will be barely enough to balance the market. And starting in 2019, the last three years' huge cuts in exploration and development expenditure will start showing: There won't be enough oil to accommodate both the depletion and the increased demand.

All of this will not happen in a straight line. As we write this (early January), Brent is very close to $70. Hedge funds are participating in the rise by taking huge long positions. If inventories were, for whatever reason, to increase for a couple of weeks, this would be enough for the oil price to correct sharply (and then the "smart" hedge funds will sell, or even go short, thus amplifying the drop). Sooner or later, it will happen, and analysts will go back to their pessimistic views. Our shares will drop sharply, since they've gone up a lot lately, and some people will take profits. But this will not

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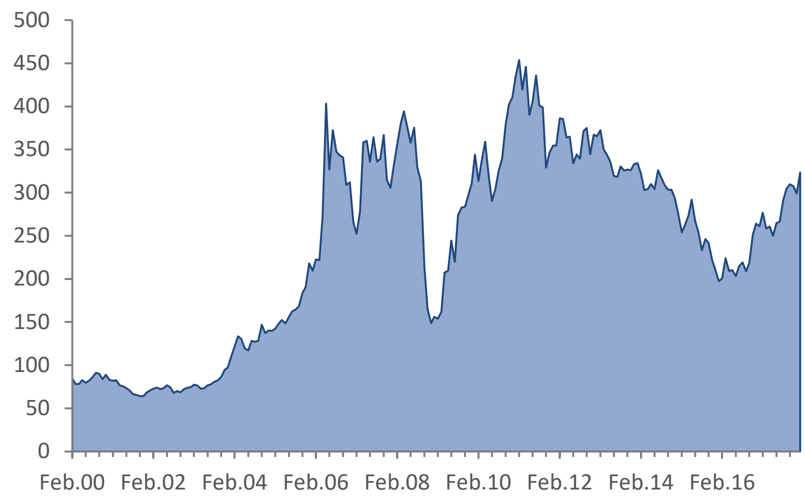
change the overall story in any way. At the price we believe oil will reach in the next two years, some of our shares are worth several times the current price.

The interesting point is that there are several commodities in a similar situation. Copper is approaching the point in the cycle where demand catches up with previously expanded supply, and there are very few new mines on the horizon. With mine development times between 5 and 10 years (and more) we can expect a strong cycle that will last for a few years, and has already started, as shown in figure 10.

Figure 10: Copper price 2000-2018



Zinc is even more advanced in the cycle, and nickel is getting there.

We could add the situation in the salmon industry to this. 2016 and 2017 were very bad years for salmon production, with several accidents in Chile and high mortality in Norway. Salmon prices reached record highs, and so did salmon producers' shares. In the last part of 2017, production normalized, and prices came down. People are again projecting low prices for ever. But the reality is that organic growth in the industry is severely limited by geographical and regulatory issues, and the demand keeps growing very healthily. Consequently, we expect salmon prices to firm in the next few months. Our shares are trading, even on low salmon prices, on PEs barely above 10 and dividend yields above 5%.

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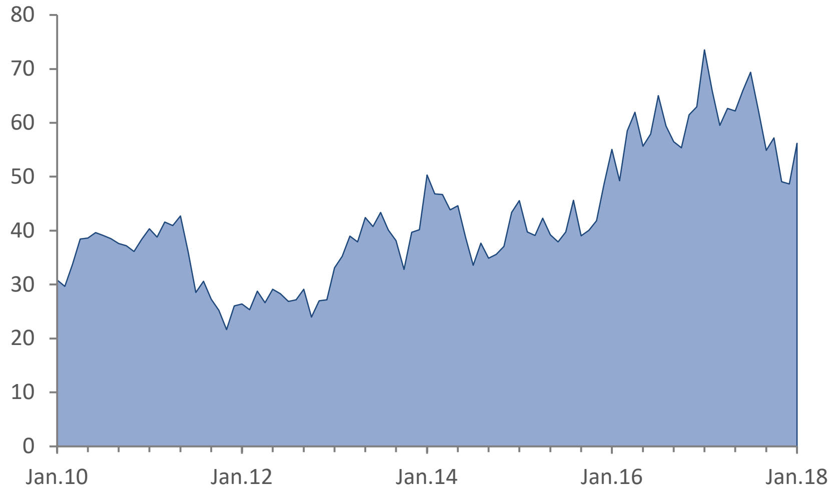
Figure 11: **Salmon price 2010-2018**



All in all, we see an interesting time for our Natural Resources Fund. It will, of course, be volatile, because the sector is volatile, and because, by design, it is less diversified than a generalist fund. But barring a lasting collapse in the world economy, it has a few very good years ahead.

Other news

We are now in the process of liquidating the Swiss Stability fund, for we want to consolidate all our funds in our Luxembourg Sicav, which decreases costs for our investors, thanks to increased volumes. Current investors are encouraged to re-invest the money in the Stability Luxembourg fund, identical to the Swiss one. Its ISIN code is LU1589813515, and it has daily liquidity, as opposed to weekly liquidity for the Swiss fund.

Our Classic fund – Distribution share class will pay a dividend of € 15.- in the next few weeks, equivalent to a 3.77% over the price of the fund at the beginning of the year.

Finally, an internal piece of news: After 10 years with SIA, Joan Borrás has taken a job in Barcelona, to be closer to his family. Matthieu Dulguerov has joined us. Matthieu has over 10 years' professional experience in originating, analyzing, executing and managing equity transactions. He held roles as analyst and investment advisor in companies such as RWE and Edmond de Rothschild. He was a member of the investment committee of Edmond de Rothschild and also managed various Oil & Gas equity products. Matthieu is an economist and holds a PhD in science from the Swiss Federal Institute of Technology (EPFL).

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Figures of the USD classes

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LTIF Natural Resources [USD]	132.88	4.9%	6.5%	0.0%	22

Figure 6: **LTIF Classic USD**
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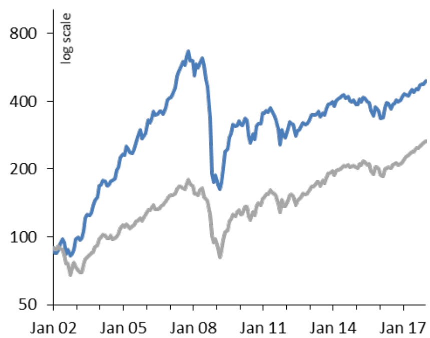

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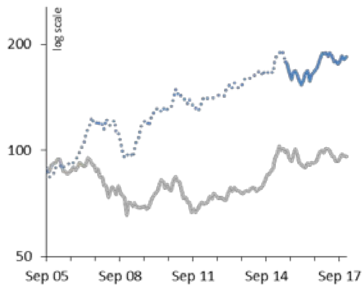
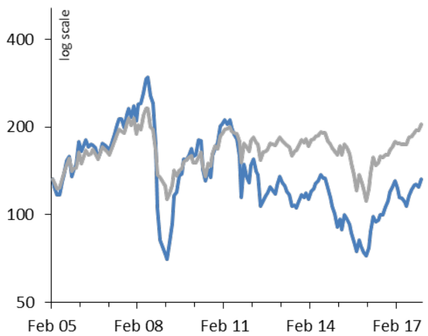


Figure 8: **LTIF Natural Resources USD**
vs. S&P Global Nat. Res. Net TR Index USD



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Figures of the CHF classes

Table 4: **Net Asset Value - Net assets under management in CHF**

December 29, 2017	NAV	Δ 3m	Δ YTD	Annualized Return *(s.i)*	AUM *(in mio)* ** Pool*
LTIF Classic [CHF]	478.42	5.2%	12.3%	7.7%	188*
LTIF Natural Resources [CHF]	129.49	5.6%	2.1%	-1.4%	21
LTIF Stability Growth [CHF] *(Total return, dividends included)*	230.40	4.7%	9.6%	4.1%	4
LTIF Stability Income Plus [CHF] *(Total return, dividends included)*	194.20	4.6%	9.6%	5.0%	4

Figure 9: **LTIF Classic CHF**
vs. MSCI Daily TR Net World Index CHF

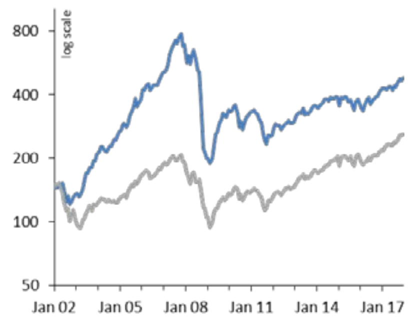


Figure 10: **LTIF Stability Growth TR CHF**
vs. HFRX Global Hedge Fund Index CHF

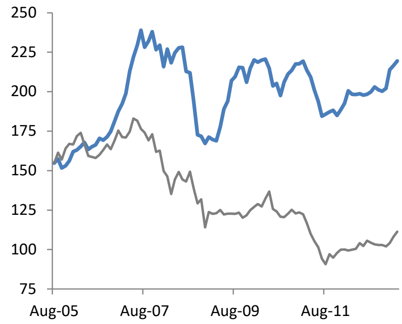
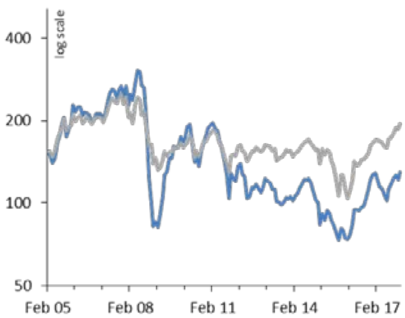


Figure 11: **LTIF Natural Resources CHF**
vs. S&P Global Nat. Res. Net TR Index CHF



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Figures of the GBP classes

Table 5: **Net Asset Value - Net assets under management in GBP**

December 29, 2017	NAV	Δ 3m	Δ YTD	Annualized Return *(s.i)*	AUM *(in mio)* ** Pool*
LTIF Classic [GBP]	362.92	3.6%	7.0%	11.8%	143*
LTIF Natural Resources [GBP]	98.23	4.0%	-2.7%	2.8%	16

Figure 12: **LTIF Classic GBP**
vs. MSCI Daily TR Net World Index GBP

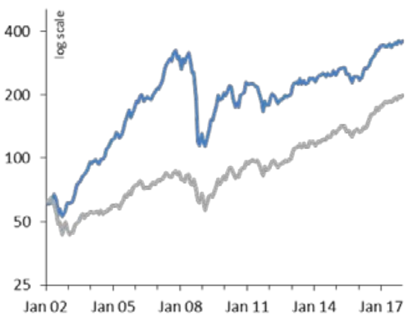
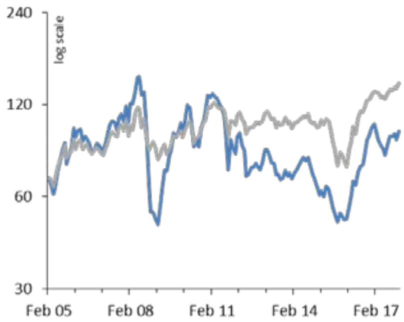


Figure 13: **LTIF Natural Resources GBP**
vs. S&P Global Nat. Res. Net TR Index GBP



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Telekurs: 2‘432‘569
Bloomberg: LTIFCLA LX

LTIF – Classic USD
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Telekurs: 3‘101‘820
Bloomberg: LTIFCLU LX

LTIF – Classic CHF
ISIN: LU0301246772
Telekurs: 3‘101‘817
Bloomberg: LTIFCLC LX

LTIF – Classic GBP
ISIN: LU0750886714
Telekurs: 18‘032‘305
Bloomberg: LTIFCLS LX

LTIF – Classic EUR-D
ISIN: LU1449969846
Telekurs: 33‘180‘015
Bloomberg: LTIFCLD LX

LTIF – Natural Resources EUR
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