S I A
Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of March 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

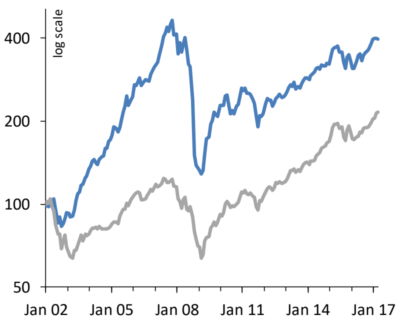


Figure 2: **LTIF Stability A Cap EUR**
vs. HFRX Global Hedge Fund Index EUR

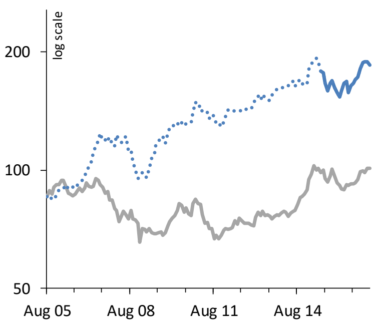


Figure 3: **LTIF Natural Resources EUR**
vs. S&P Global Nat. Res. Net TR Index EUR

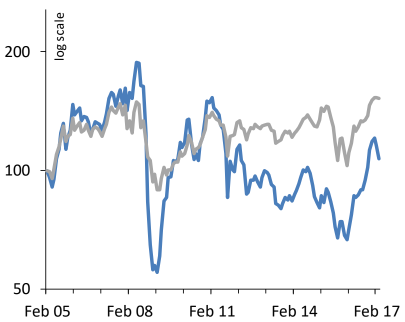


Table 1 and figures 1 through 4 show the evolution of our funds' Net Asset Value during the last quarter. Contrary to the past quarters, shares are trading somewhat lower than at the beginning of the period. But, as we shall see, we are very happy with our companies' business development, and see this small correction as not very relevant and perhaps even a (slightly) better entry point for further investments.

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

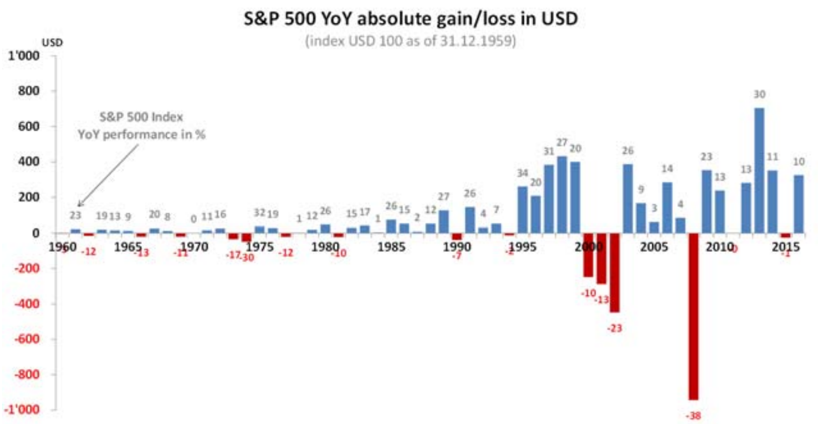
March 31, 2017	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) **combined Pool*
LTIF Classic [EUR]	396.09	-0.3%	-0.3%	9.5%	181*
LTIF Stability A Cap [EUR]	185.14	-1.5%	-1.5%	7.0%	181*
LTIF Natural Resources [EUR]	107.13	-9.4%	-9.4%	0.6%	16
LTIF Stability Growth [CHF] *(Total return, dividends included)*	210.90	0.3%	0.3%	3.5%	5

Source: SIA Group

The signal and the noise

Look again at figure 5, which we showed in our previous Newsletter. It plots the "gains" and "losses," i.e., the increase or decrease in the market value of a USD 100 investment in an S&P 500 index fund. As discussed, the results are very volatile and the "performance" seems to be bouncing around wildly.

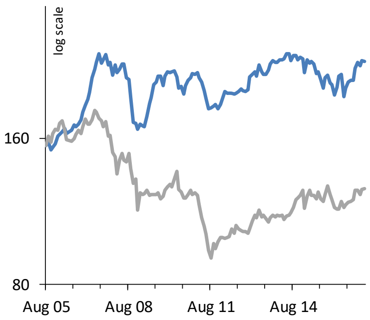
Figure 5: **S&P 500 Index performance**



Source: SIA Group / Bloomberg

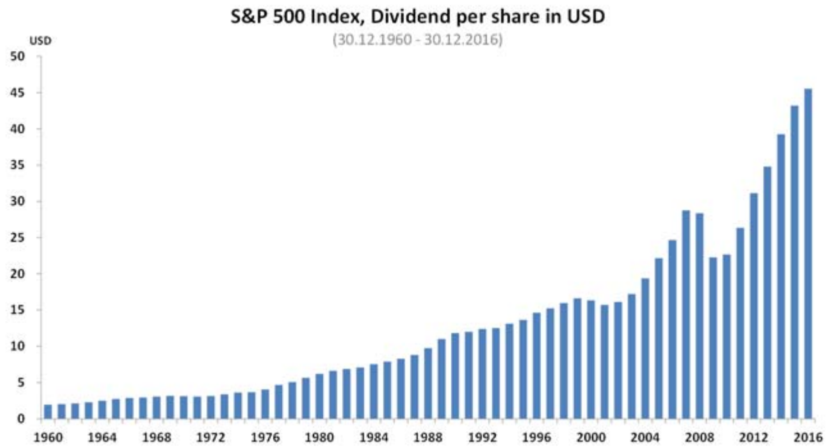
Few sane investors would put their money in a business with such "results". However, figure 6 shows the business's real **results**: what it pays its owners

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



in cash every year. This certainly looks like one of the very best investments on offer, especially if one adds liquidity, scalability (you can invest €100 or €100 billion), transparency… Why, then, is equity investment perceived as risky? Because of the very bad ratio signal/noise.

Figure 6: **S&P 500 Index dividends**



Source: SIA Group / Bloomberg

In communications, receivers don't exactly receive what the sender sends, but a combination of that (the signal) and a lot of noise picked up on the way. If the ratio of noise to signal is too high, the receiver does not receive the information. Think of trying to understand somebody with whom we are lunching in a very crowded restaurant. The noise of the talking drowns out the signal (our friend's words) we are trying to receive — looking at that person's lips increases the signal, and we may then be able to understand: the ratio has improved. Something similar happens with a weak mobile phone connection: Some parts of the signal are lost, lots of noise is picked up, and the result is unintelligible, even if most of the information is – somewhere – in the noise.

Figure 7 shows a combination of the previous two: at scale, the annual changes in the market value of our investment in the S&P 500, and the dividends paid. You can immediately see that the investment's real cash returns (the "signal") are drowned by the noise of market movements that, over the medium term, don't mean anything as they cancel each other. Moreover, what makes the whole "transmission" almost impossible is that practically all experts, media, commentary, etc. focus almost exclusively on the noise, completely ignoring the much smaller signal, which the investor fails to recognize.

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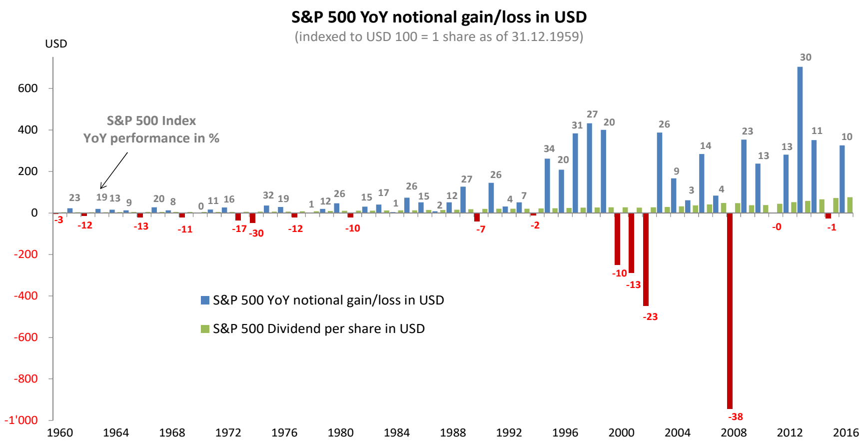
Figure 7: **The noise and the signal in the S&P 500 data**



Source: SIA Group / Bloomberg

The signal is indeed small (say, 3% as opposed to annual market moves, positive or negative, of 10-15%), but it is real (cash), consistent, predictable, and cumulative. The noise is large, random, and self-cancelling, thus meaningless. It's obvious what a real investor should be looking for, and it's also obvious how many investors look for the wrong information: will stocks go up? Is the market expensive? Will it correct? All this is about the noise, which is both irrelevant and unpredictable.

At SIA, we try to direct our investors' attention towards the signal by concentrating on how well the businesses we invest in are doing (which will drive real returns, of course), and downplaying the share movements. Figure 8 shows the signal produced by our Classic fund over the last 10 years. As you can see, the growth in dividends has been highly satisfactory. If we can maintain this rhythm over the next 10 years, any investment made now will be highly rewarding regardless of all the noise that we will have to endure. In any case, it won’t be much worse, probably, than that which we have had over the last 10 years with the world financial crisis, deflation, threats to the euro, etc.

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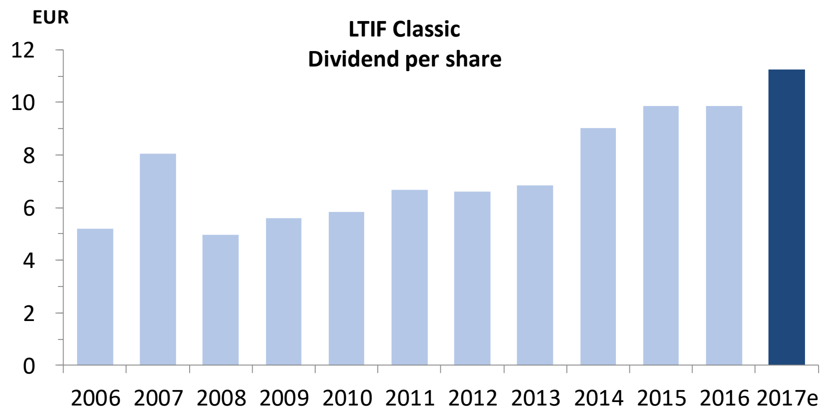
Figure 8: **Signal for the LTIF Classic fund, 2006-2017**



Source: SIA Group / Bloomberg

Keeping this in mind will be especially important over the next quarters, because there is a great deal of "macro" noise from political events (Trump will energize the US economy, or will he? Populists will conquer Europe, or will they? Interest rates are too low, or are they rising too fast? And more of these). The truth is that the signal, if you listen to it, is not only clear, but fairly positive, both for the economy in general and for the companies in which we are invested.

Comments on our funds

In our previous 15 years of running the Classic fund, we have not experienced a quarter with so much variation in share performances. We have more than 12 stocks (32% of the total) that have gone up by more than 10% and 9 stocks (24%) that are down by more than 10%. All of this in just three months. We should at least recognize that our "noise" is very well diversified.

But the "signal" has been excellent. Overall, European companies have finally started making profits, and these were up in the last quarter of 2016 by a whopping 17% over the previous year's. Our companies are certainly participating in this boom, with most of them posting record profits and paying the highest dividends ever.

The stocks that have moved up the most (all EUR adjusted) are as diverse as Unilever (+19%), ISS (+11%), Drägerwerk (+21%), Apple (+22%), Glencore (+13%), Wienerberger (+21%), MTU (+11%) and DGB Financial Group (+18%). In all cases, the underlying economic performance has been good, of course, but the moves have been quite random: Nothing has really changed in the companies, but they are suddenly worth 15% more. Apple's market value is now USD 136 billion higher than three months ago, with not a single surprising piece of news.

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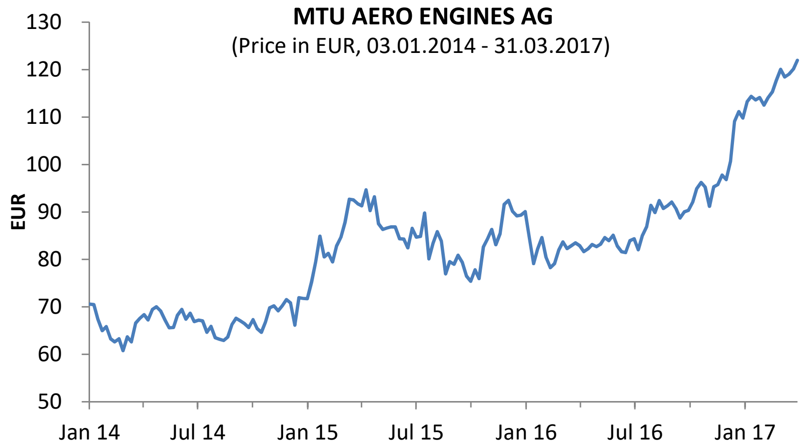
An interesting remark: We could buy MTU in 2013 thinking, of course, that it would be a good investment, but then saw the share price fluctuate for two years. No signal in figure 9. However, eventually, the market starts recognizing value, and the share price reflects it. This is how markets work. It takes patience and a concentration on the signal, not on the noise, which was telling us that the investment wasn't perhaps as good as we had thought. In the end, an annualized total return (should we sell now) of more than 15%, with very little risk, is highly attractive, even if it didn't seem so for a couple of years.

Figure 9: MTU share price, 2014-now



Source: Bloomberg

Something similar can be said of Drägerwerk (figure 10), Apple and Wienerberger. All these stocks have gone through very "noisy" periods when their shares have done much worse than those of the overall market. But the signal was good and it does eventually come through.

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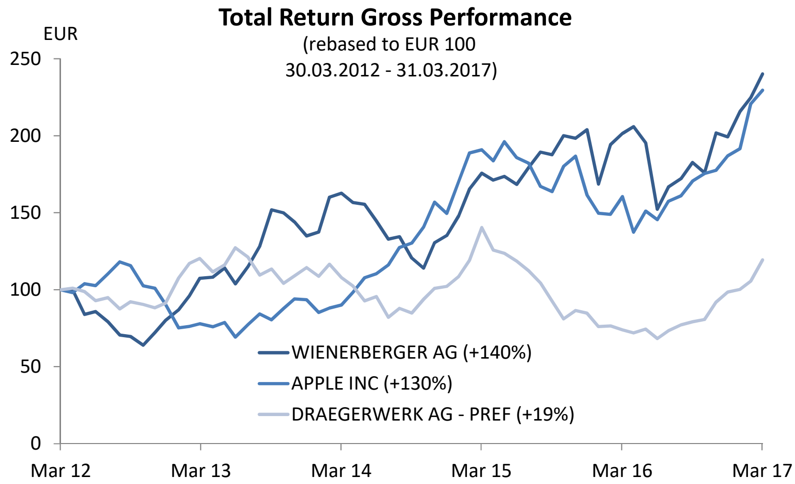
Figure 10: 5 years GP of Draegerwerk, Apple and Wienerberger



Source: Bloomberg

Another point worth mentioning: Unilever's shares have more than doubled since we bought them in 2011. With dividends, this is an annualized return of more than 17%. "Category 1" stocks are, by design, very low risk, but can also, by selection, be high return.

As mentioned, some stocks (all EUR adjusted) are down sharply for the quarter, among them Pandora (-17%), Bakkafrost (-23%) and the other salmon producers, Premier Oil (-15%) and the oil producers, and Northern Dynasty (-33%). With the exception of Pandora, all these stocks are related to natural resources, traditionally highly volatile, although the oil producers' and the salmon farmers' stocks are down for very different reasons.

The Pandora case is straightforward: The company has enjoyed high double digit growth for several years, and the market is worried that the whole growth story is coming to an end. As we mentioned in our previous Newsletter, we don't think this is the case. Our frequent conversations with the company and independent experts reaffirm our views. We have been adding to the position. With a PE of 12, dividends of 5%, stock buy-backs afforded by the company's huge free cash flow generation, and an expected 2017 growth of above 10%, we think this is a tremendous opportunity.

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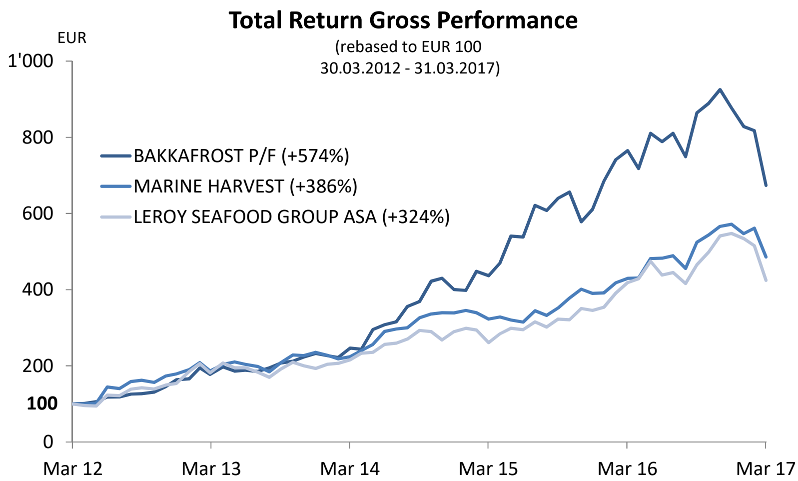
The salmon producers have had an amazing run on the stock market: see figure 11.

Figure 11: 5 years of Bakka, MHG and LSG, dividends re-invested



Source: Bloomberg

The stocks were extremely undervalued to start with and the market did not realize that the capacity to grow more salmon was being exhausted quickly. When this point was reached, demand started to outstrip supply, with the logical impact on prices. The market still gives these stocks low multiples, because it finds it difficult to accept that higher salmon prices are here to stay, but we think this is going to be the case.

However, last year was extreme: Much Chilean production was lost, and the scarcity of salmon pushed prices above what was expected. Huge profits were made. But, the Chilean salmon will come back over this year's summer, as it takes at least almost two years to grow commercial salmon. The market is now thinking (correctly) that this will push prices down, and the shares are reacting to this surmise. We believe the current reaction (shares are down 20% per year to date) is completely out of proportion, and that it is simply a case of "profit taking": Every salmon investor entered 2017 with huge capital gains, but given the noise surrounding the Chilean production, many have decided to cash in. Shares are very cheap, dividends are very high, and there is no growth whatsoever in the 2018 production — remember, we already know how many salmon will be available in 18 months' time. We are waiting for this noise to abate to increase our positions a bit.

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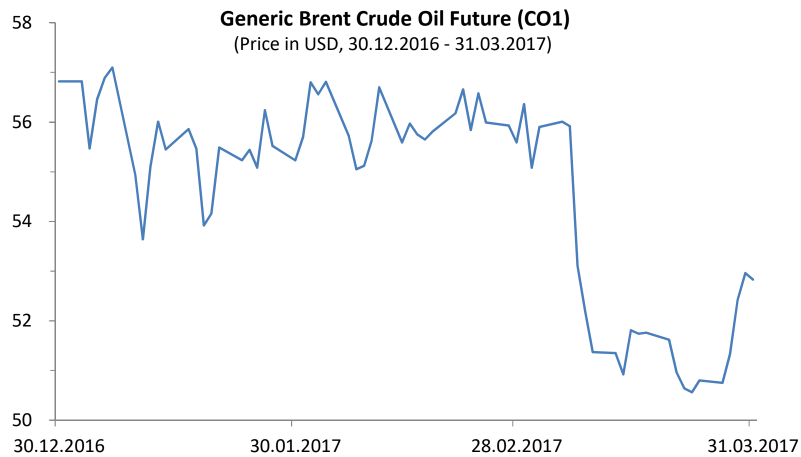
To give you an idea of how difficult it is to grow production, we show you what one of our companies, Marine Harvest, is trying to develop in order to better control the fish's living conditions in different environments. You can see this in figure 12 and read about it here:
www.haugeaqua.com/pressemelding/

Figure 12: **Marine "Egg"**

Source: Hauge Aqua / Marine Harvest

The oil producers are a different story: Their shares are down because the oil price is actually down, as you can see in figure 13.

Figure 13: **Brent Crude Oil Future, Ytd**



Source: Bloomberg

As we all know, OPEC decided in November last year to cut production in order to start draining the large crude inventories that had accumulated

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over the previous two years of overproduction. This agreement pushed up the oil price, as expected, although almost everyone was rather skeptic regarding whether the producers would actually follow the agreement.

Four months later, we know that they have indeed followed the agreement, and world inventories are draining fast. But US inventories have gone up for several technical reasons: first, January and February are the months when refineries slow down production to do preventive maintenance. They stop purchasing crude, and run down their stocks of finished products. This is what we have seen: higher crude stocks and much lower gasoline stocks. At the same time, oil in storage in tankers, waiting for a better price, has been offloaded, most of it to the US. This, of course, does not alter the total world stocks, but has pushed the US amount up. Traders follow the US stocks, because they are an easily available, weekly updated statistic. We expect the US inventories to join the rest of the world's inventories by running down and, hence, the price of oil will go up. In the longer term, we feel very comfortable with our investments in oil services companies (Schlumberger, Halliburton) that produce the oil that the world needs. Likewise, we are also keen on our oil producers, which will do very well once the oil price normalizes.

These last two comments about salmon farmers and oil producers also apply to our Natural Resources fund, only more so. Although the shares have declined over the last six weeks, we are, for the reasons pointed out above, very confident about the medium-term success of our companies.

This is clear in the case of our mining companies, too. Zinc and nickel supplies are in deficit, and copper getting close. Once that happens, prices will react sharply, for both demand and supply are fairly inelastic. Zinc is well advanced in this process, nickel supplies are also rock bottom, although there are inventories that can smooth out the required price increase. And, as we mentioned, copper is getting there. In all cases, the investments we have will pay handsomely. We have added a small mining company, Trevali Mining Corporation, which produces zinc, as well as Devro, which produces meat casings and is a competitor of Viscofán. It is well placed strategically, and its shares are very inexpensive.

We've done a bit of trading in this fund. In addition to buying Devro and Trevali, we have sold Enquest, a junior oil producer, whose shares had almost doubled in the six months we owned them, and put the money in Premier Oil, a very similar story where share price has lagged. We sold Amec, subject of a takeover offer from Wood Group. This has not been a good investment: the company, just after we bought it, decided to take over Foster Wheeler, and American engineering company, at a high price, just before oil prices were going to collapse. The resulting debt burden has seriously deteriorated the company's future profits, and share prices went down. We took advantage of the price increase coming from the Wood Group offer and sold our shares, to put the money where we think will be more profitably employed.

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We realize that, because this fund is specialized in one area, it is volatile; in addition, the area itself is very volatile. Nevertheless, we are confident that the returns will more than compensate for all this noise.

Looking forward

As mentioned above, noise will not be lacking in the next quarters (when does it ever?). But the world economy is actually doing quite well, and we believe our companies are well positioned to contribute another year of excellent returns.

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Figures of the USD classes

Table 2: **Net Asset Value - Net assets under management in USD**

March 31, 2017	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) *combined Pool
LTIF Classic [USD]	423.64	1.1%	1.1%	10.9%	194*
LTIF Stability A Cap [USD]	183.58	-0.1%	-0.1%	5.7%	194*
LTIF Natural Resources [USD]	114.58	-8.1%	-8.1%	-1.2%	17

Figure 14: **LTIF Classic USD**
vs. MSCI Daily TR Net World Index USD

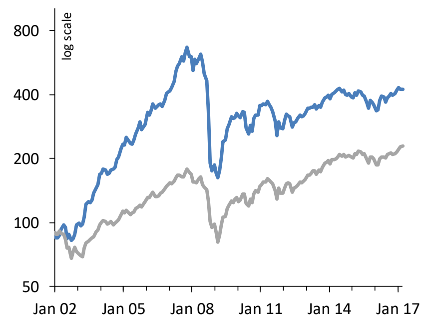


Figure 15: **LTIF Stability A Cap USD**
vs. HFRX Global Hedge Fund Index USD

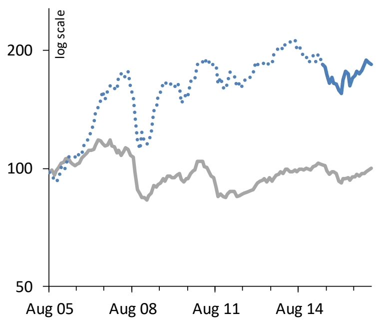
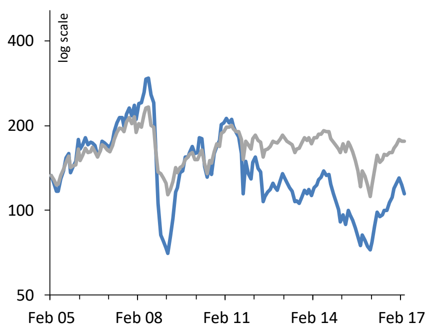


Figure 16: **LTIF Natural Resources USD**
vs. S&P Global Nat. Res. Net TR Index USD



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Figures of the CHF classes

Table 3: **Net Asset Value - Net assets under management in CHF**

March 31, 2017	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) *combined Pool
LTIF Classic [CHF]	424.03	-0.5%	-0.5%	7.2%	194*
LTIF Natural Resources [CHF]	114.69	-9.5%	-9.5%	-2.5%	17
LTIF Stability Growth [CHF] *(Total return, dividends included)*	210.90	0.3%	0.3%	3.5%	5

Figure 17: **LTIF Classic CHF**
vs. MSCI Daily TR Net World Index CHF

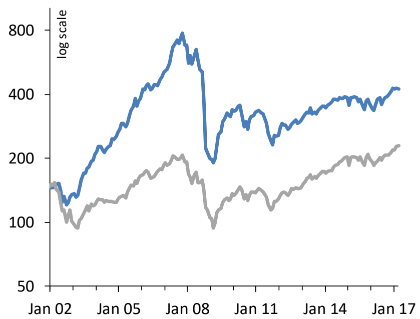


Figure 18: **LTIF Stability Growth TR CHF**
vs. HFRX Global Hedge Fund Index CHF

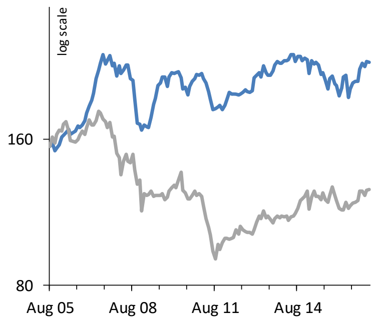
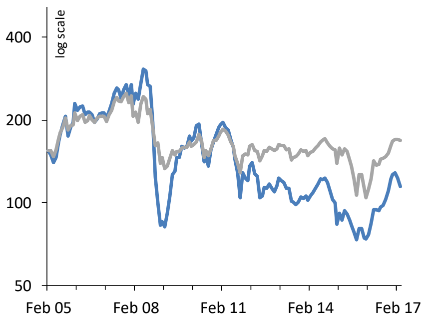


Figure 19: **LTIF Natural Resources CHF**
vs. S&P Global Nat. Res. Net TR Index CHF



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Figures of the GBP classes

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

March 31, 2017	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) **combined Pool*
LTIF Classic [GBP]	338.79	-0.1%	-0.1%	11.9%	155*
LTIF Natural Resources [GBP]	91.63	-9.2%	-9.2%	2.4%	14

Figure 20: **LTIF Classic GBP**
vs. MSCI Daily TR Net World Index GBP

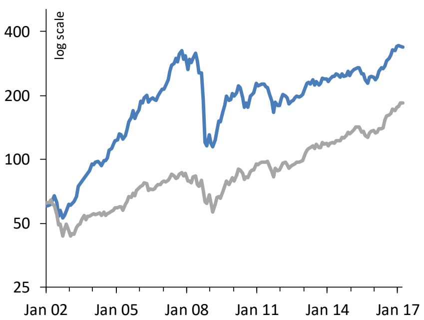
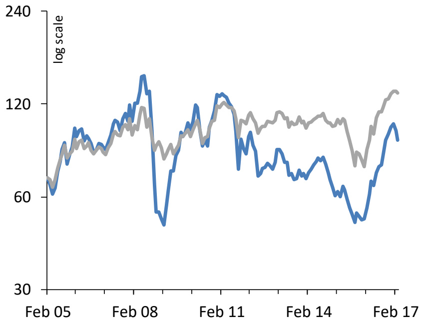


Figure 21: **LTIF Natural Resources GBP**
vs. S&P Global Nat. Res. Net TR Index GBP



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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
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Telekurs: 33‘180‘015
Bloomberg: LTIFCLD LX

LTIF – Natural Resources EUR
ISIN: LU0244072335
Telekurs: 2’432’575
Bloomberg: LTIFGEV LX

LTIF – Natural Resources USD
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Bloomberg: LTIFGEU LX

LTIF – Natural Resources CHF
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Bloomberg: LTIFGEC LX

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