SIA
Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of September 2016

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Overview of our funds

Table 1 and figures 1 through 4 show the evolution of the Net Asset Value of our Funds during the last quarter. Unlike in the previous two quarters, there was not much intra-quarter volatility; the market "crises" (Brexit, Deutsche Bank) happened at the two ends of the period.

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

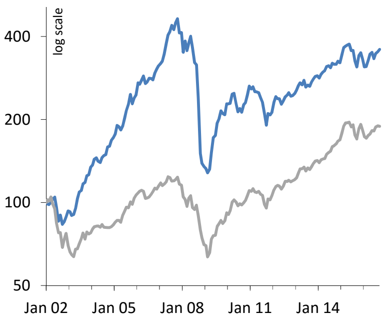

Figure 2: **LTIF Stability A Cap EUR**
vs. HFRX Global Hedge Fund Index EUR

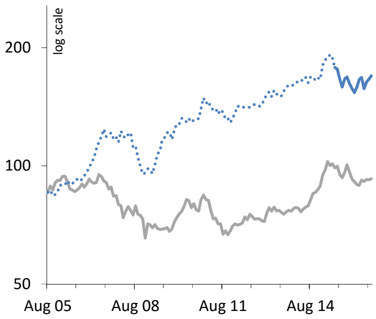

Figure 3: **LTIF Natural Resources EUR**
vs. S&P Global Nat. Res. Net TR Index EUR

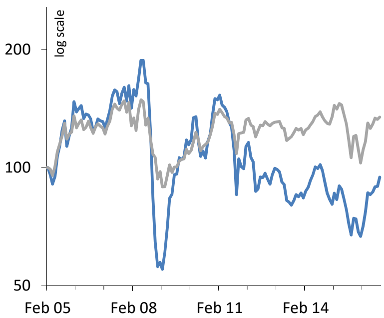

Table 1: **Net Asset Value - Net assets under management of our funds**

September 30, 2016	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) **combined Pool*
LTIF Classic [EUR]	358.79	8.0%	8.3%	9.2%	141*
LTIF Stability A Cap [EUR]	169.54	7.8%	4.4%	6.5%	141*
LTIF Natural Resources [EUR]	94.49	9.1%	37.9%	-0.5%	8
LTIF Stability Growth [CHF] *(Total return, dividends included)*	193.50	8.3%	1.2%	2.9%	6

Source: SIA Group

We discussed the Brexit episode in the last Newsletter. We don't think it's going to have a meaningful impact on our companies' profitability. Nobody knows, of course, because nothing is settled. Some outcomes could clearly be harmful to parts of the UK economy. However, the rest of the world will mostly keep turning.

As we write this, the "crise du jour" is now that of Deutsche Bank. After several months of worrying about Italian banks, it's now the turn of the German ones to face the spotlight. Investors are certainly right to be worried about these entities, but it is probably wrong to assign a systemic importance to them that they clearly don't deserve. One day, there will perhaps be a "new Lehmann," but, by definition, it won't come from where people expect it. Banks are currently far more solid than in 2008 and the authorities are much more aware of systemic risks. Systemic risks are really dangerous only when they are not expected.

These episodes of heightened volatility demand that equity investors review their reasons for investing in shares in the first place.

Basically, there are two ways to make money by investing in equities. The first one is to regard shares as a more tradable asset and to try to buy them low and sell high. This strategy is implicitly behind almost all investment commentary: Will the market go up or down? How will the market react to a given political event? Is this the right time to buy? Should I sell after the recent price increases? With this approach, you believe you make money when the market price of your shares goes up and lose it when it goes down. While it is clear that buying things at one price and selling them at a higher one is a profitable activity, it's a strategy that, in practice, ends badly for most people: When the market goes

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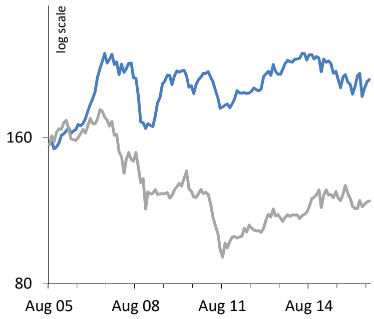
Figure 4: **LTIF Stability Growth TR CHF vs.** HFRX Global Hedge Fund Index



into a serious decline, people assume they are losing money; they then extrapolate those losses and “cut them” by selling. Subsequently, they don’t return to the market for a long time — only once the market has “healed” and there are no economic problems on the horizon, i.e., when the market is once again expensive. Investors only need to do this once or twice over a lifetime to reap very disappointing results.

The second approach is to consider the ownership of shares as participating in the ownership of an actual company. In this case, one makes money when the company makes money, not through the share prices’ daily movements. The difficulty for the investor — particularly for a fund investor who owns many companies — is to know how things are going. Owners of, or important shareholders in a given company can simply ask the company’s management and learn whether the company is making money or not, and what its prospects are. The share price is irrelevant, because the owner is not looking to sell, and well-informed owners have experienced share prices moving for no fundamental reason at all.

But, if the share price at a given time is not a good indicator of how the company is doing, how can the fund investor know how it is faring? This knowledge is especially important when the economy is doing badly and the markets are nervous.

To a large extent, this is the situation right now. A number of factors are making the markets rather more volatile than usual. Correlations are higher: Everything is simultaneously moving up or down. In the first quarter, the markets were fixated on the oil price. Every time the oil price went down, shares in all stocks would go down too. The rationale was that weak oil prices meant the economy was doing badly and all companies would therefore do badly. Of course, we knew already at that time that the oil prices had dropped due to excess production and the world was running out of storage space. Literally, the drop in the oil price had nothing to do with the health of the economy (in fact, this drop was highly positive for the huge majority of economic players who don’t have an interest in oil, but consume it). But markets took oil price movements as excuses to go up or down.

After a while, the market lost interest in oil prices, and started focusing on Italian banks. As we mentioned, shareholders in those entities have reason to be concerned, but the narrative that the banks would go bankrupt and drag the whole of Europe down with them was extremely unlikely. Later, the shock was Brexit, and now it is Deutsche Bank. Tomorrow it may be that the pound is too low, or the dollar (or even oil) too high, or whatever.

What we really have is a large number of investors trying to follow the trading strategy we described: buy low and sell high. When there is competition, this requires one to move fast. However, only one person can be the first, which means everybody is watching for signs of what others will do. Big, synchronized movements occur that have nothing to do with un-

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derlying profits. As we repeat so often: Investors in stocks must get used to these movements and learn to ignore them, or profit from them by buying shares when markets panic.

To help our investors follow the second strategy ("fundamental investing"), we calculate and publish the profits, dividend, and book value of our portfolio every year. These are the numbers in which owners are basically interested. We also publish the trend that variables follow, as well as our expectations for the following year. We like to repeat that profitability is the real "performance" of the Fund, not whatever the share prices have done lately. In our next Newsletter, which will close the year, we'll return to this in more detail.

News on our portfolio

Most of our companies are doing fairly well, some even better than expected. This is the case with our salmon producers, now in their fifth year of increasing profits. World demand for quality protein remains high, and salmon is an excellent choice for many consumers. In addition, it's not easy to increase production at the rate the demand is raising, which translates into very attractive margins.

In a challenged industry, banking, ING is also doing very well. Its profits have been higher than expected, its business model is as solid as it is simple (serve retail customers efficiently, try to lower costs as far as possible), and the company is paying a dividend, which we deem perfectly sustainable, of more than 6%, with some growth.

Easyjet shares have again gone down this quarter. The market is clearly concerned about Brexit and about the industry's growth in capacity. Nevertheless, we believe the company's strategy is appropriate and don't see its very strong position in Europe being eroded any time soon. With a PE of less than 10 and dividends above 5%, we believe it's a solid investment, even if this year's profits will be lower than we all expected. Looking back, we clearly entered too soon, but we have been adding to our position at the current lower prices.

Tata Motors, makers of Jaguar and Land Rover cars, is doing extremely well, with their new models being received very well, which is key in this industry. The company is a clear beneficiary of the pound's drop after the Brexit Referendum.

There is no other noteworthy news on our companies' performance. After much volatility, the oil price, which, in the short term, determines our oil producing and oil services companies' profitability, is back on the level it was at the beginning of the quarter. We are convinced that these investments are going to be extremely profitable in the medium term, as the world has massively underinvested in oil exploration and development during the last two and a half years. This underinvestment will start showing in a couple of years' time, and then it will take several years to

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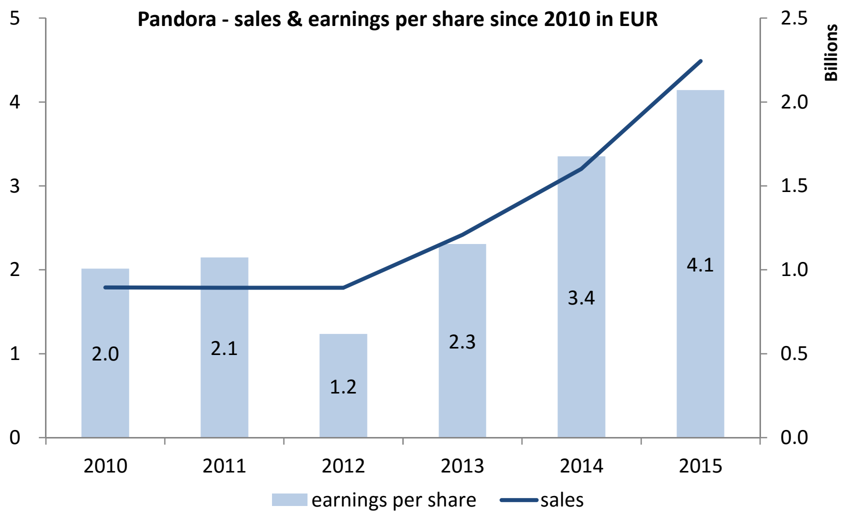
redress. Right now, the inventory levels accumulated during the past two years of excess production are very high. They will only drain slowly, starting in a few months' time.

We have sold two companies during this quarter, and bought one.

Cummins Inc., a manufacturer of large truck and generator engines, as well as Pepsi, are excellent companies and we have no doubt they'll do well in the future. If we had no limitations regarding the number of companies we should own, we might have kept them. However, both shares reached prices that we thought gave us the opportunity to invest the money in more profitable investments.

One of these investments is Pandora A/S, the company we bought this quarter. It's a Danish manufacturer and retailer of inexpensive jewelry, active throughout the world and founded more than 25 years ago. The company has a strong manufacturing base, with more than 10,000 employees producing its jewels in Thailand. Its development has been nothing short of spectacular, going from sales of €222 million in 2008 to ten times that last year. The company is very profitable, with returns above 30% per annum.

Figure 5: **Pandora sales (line) and earnings per share (column) since 2010**



Source: Bloomberg

Pandora's key insight has been to provide customers with branded, inexpensive jewelry. Its breakthrough product was a bracelet to which charms can be added (figure 6). These charms sell for about €50 a piece, and the company has managed to turn many customers into repeat buyers: holidays, Valentine's day, birthdays, etc. are occasions to add to the collection (two thirds of the sales are intended as gifts). It is expanding its product portfolio (rings, earrings…) and, at the same time, restructuring

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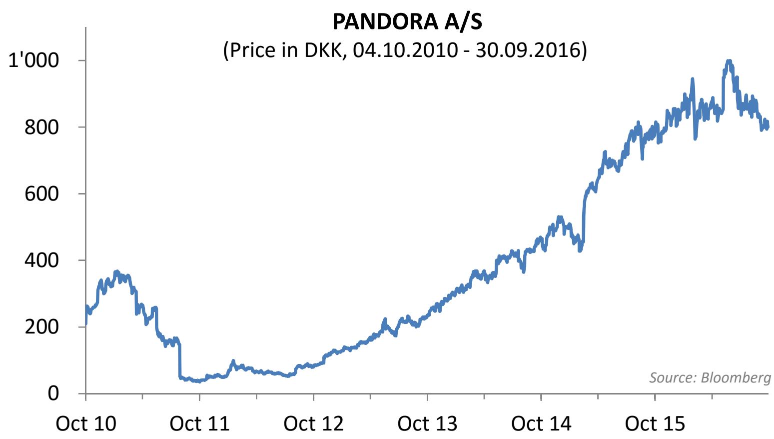
its retail operations, increasingly turning these into an integrated channel that can feed data back to the production side. In the end, its strategy is somewhat similar to that of Inditex's "fast fashion" with Zara. Pandora has a design and manufacturing capability that, thanks to its size, is unique in the world. In addition, it is establishing a very tight interconnection between its retail, design, and manufacturing sides. It is currently producing more than 7 collections per year:

Figure 6: **A sample of Pandora's main products**

Source: Pandora

As one can expect, the share price has had a phenomenal performance since the company went public in 2010 (figure 7)

Figure 7: **Share price of Pandora since inception**



However, as the chart shows, the stock has been weak lately. The reason for this is that the "like for like" sales, i.e., a comparison of the sales in the same store between this year and last year, have been weak in the US. This has led the market to fear that the company has reached saturation, and it is a fad that will pass. We don't think so and see many avenues for growth, ranging from expanding distribution in many Asian countries, which currently only contribute to 20% of worldwide sales, to enlarging the number of different products, which they are doing successfully, to increasing the margins through vertical integration, which they are also

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doing. We don't think Pandora's competitive advantages are transitory: After Swarovski, it is the world's second best known brand in its field (figure 8):

Figure 8: **The world's best-known jewelry brands**

Source: Ipsos, Pandora's investors presentation

Their manufacturing base can do things in terms of variety, quality, and cost that no competitor can match, as seen in the figure 9 below:

Figure 9: **Evolution in products' quality and sophistication, at even lower costs**

Source: Pandora

And its ever tighter distribution and retail systems allow Pandora to tie both the brand/marketing and the design/manufacturing sides together. With a forward PE of 13.5 and growth that should exceed 15% in the next few years, we deem it a solid investment. In addition, it pays good dividends and buys back shares, as the business is not too capital intensive.

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Stability fund

Our Stability fund is meeting its objective: It provides much of the stock market's secular upside, while hedging investors' positions against large drops. Its return so far this year, 4.4%, is much, much better than that of the average long/short fund, which has, so far this year, been -3.9%.

Income share class in the Classic Fund

Starting this quarter, we are introducing a special share class of our Classic Fund that will distribute dividends. These dividends will be distributed once a year, and will, of course, depend on the dividends we receive, as well as the profits we make when selling shares. We expect to start paying 4% and to increase this number by 4-5% per annum. Dividends will be subject to Luxembourg withholding tax (15%), which all tax-paying investors can deduct.

Looking forward

We believe that, in the next few months, the key source of market volatility will be political rather than economic. The presidential elections in the US could produce a result that much of the market might not like. The Italian referendum on constitutional reform, to be held on December 4, risks turning into a slap in the face for the government, as most referendums have lately been. If either outcome is perceived as "negative," the market will gyrate. This will continue if the never-ending German and Italian bank crises are not ended and continue to flare up again. However, despite this, companies will keep on making money and paying their investors solid dividends.

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Figures of the USD classes

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

September 30, 2016	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) *combined Pool
LTIF Classic [USD]	403.20	9.3%	12.0%	10.9%	158*
LTIF Stability A Cap [USD]	176.68	9.0%	8.0%	5.6%	158*
LTIF Natural Resources [USD]	106.19	10.4%	42.7%	-1.9%	9

Figure 10: **LTIF Classic USD**
vs. MSCI Daily TR Net World Index USD

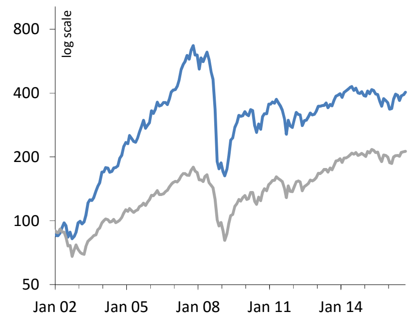


Figure 11: **LTIF Stability A Cap USD**
vs. HFRX Global Hedge Fund Index USD

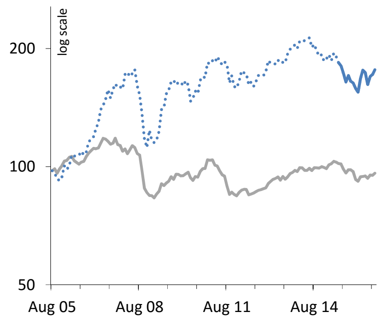
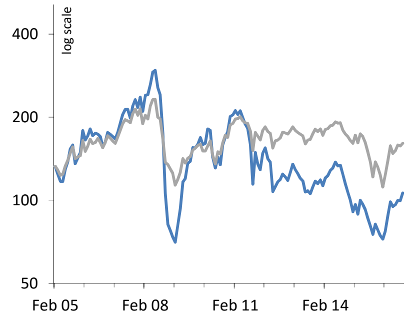


Figure 12: **LTIF Natural Resources USD**
vs. S&P Global Nat. Res. Net TR Index USD



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Figures of the CHF classes

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

September 30, 2016	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) *combined Pool*
LTIF Classic [CHF]	390.86	8.7%	8.5%	6.9%	154*
LTIF Natural Resources [CHF]	102.94	9.8%	38.2%	-3.5%	9
LTIF Stability Growth [CHF] *(Total return, dividends included)*	193.50	8.3%	1.2%	2.9%	6

Figure 13: LTIF Classic CHF
vs. MSCI Daily TR Net World Index CHF

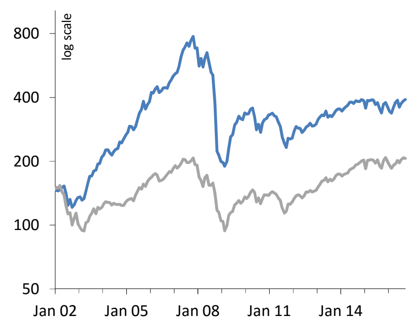


Figure 14: LTIF Stability Growth TR CHF
vs. HFRX Global Hedge Fund Index CHF

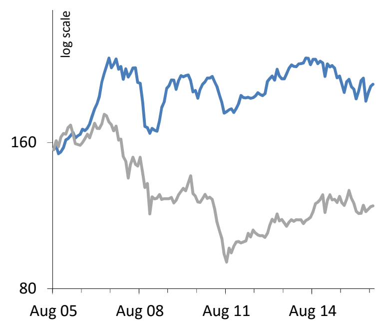
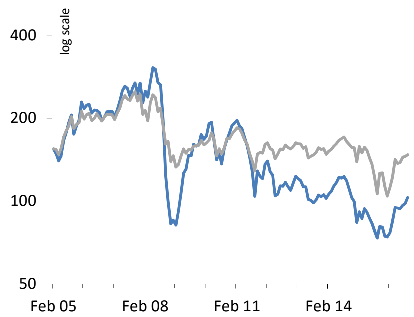


Figure 15: LTIF Natural Resources CHF
vs. S&P Global Nat. Res. Net TR Index CHF



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Figures of the GBP classes

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

September 30, 2016	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) **combined Pool*
LTIF Classic [GBP]	310.40	12.5%	27.1%	11.6%	122*
LTIF Natural Resources [GBP]	81.75	13.6%	61.9%	1.5%	7

Figure 16: **LTIF Classic GBP**
vs. MSCI Daily TR Net World Index GBP

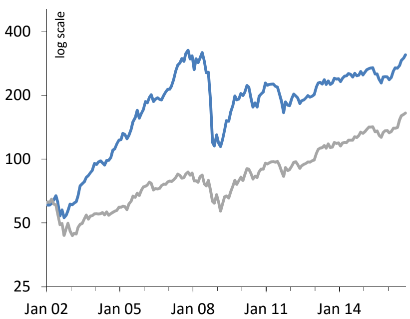
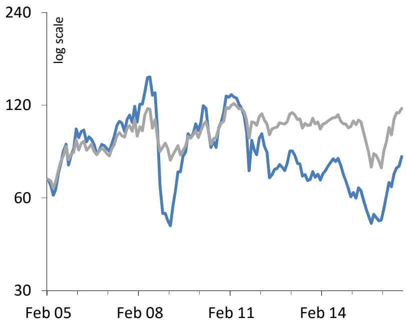


Figure 17: **LTIF Natural Resources GBP**
vs. S&P Global Nat. Res. Net TR Index GBP



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