LTIF

Long Term Investment Fund

Strategic Value Investing

Covid-19, Recession & Long-Term Investing

March 2020

- Covid19. Pandemic Numbers/ J. Carlos Jarillo
- Performance Update / Marcos Hernandez
  - An unprecedented macro situation
  - Equity Markets Have Collapsed
  - Review of the LTIF Classic: Holding of Businesses
  - A Word on Oil
- Natural Resources / Urs Marti
- Conclusion and Q&A / Alex Rauchenstein

Key message: The LTIF Classic & Natural Resources Funds will weather the storm.
Looking at 2021

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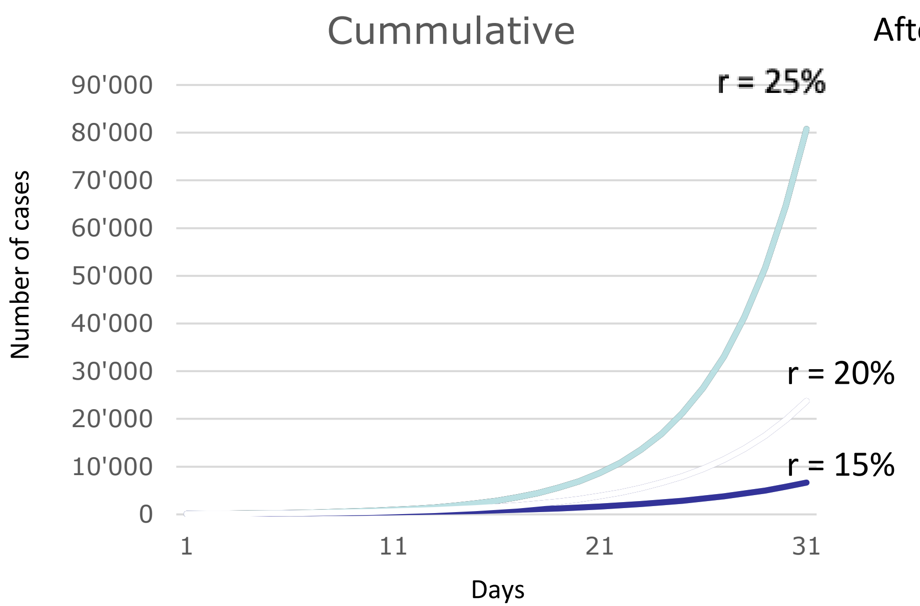
Pandemic numbers

«Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it.»

Albert Einstein

Everybody knows what an exponential function is, but results are frequently non-intuitive



After 2 months

65 mio

5.6 mio

0.4 mio

Rate of growth of 25% generates 140 times more cases in two months than a rate of 15%

If 5% of them need intensive care, that goes from 20,000 (feasible?) to 3.2 million (impossible)

In the case of infection, r depends on two variables

- R = how many people one infected person infects
- For how many days the carrier stays infectious

- Thus, if a carrier infects 2,5 (R=2.5) persons over 2 weeks, we obtain a rate of expansion of some 20% per day

- If R=1.5, the daily growth in infections is 10%

- Of course, containment measures reduce R. If every infected person stayed completely isolated while the virus lasts (a few weeks), R would be zero and the virus would disappear (current situation in China)

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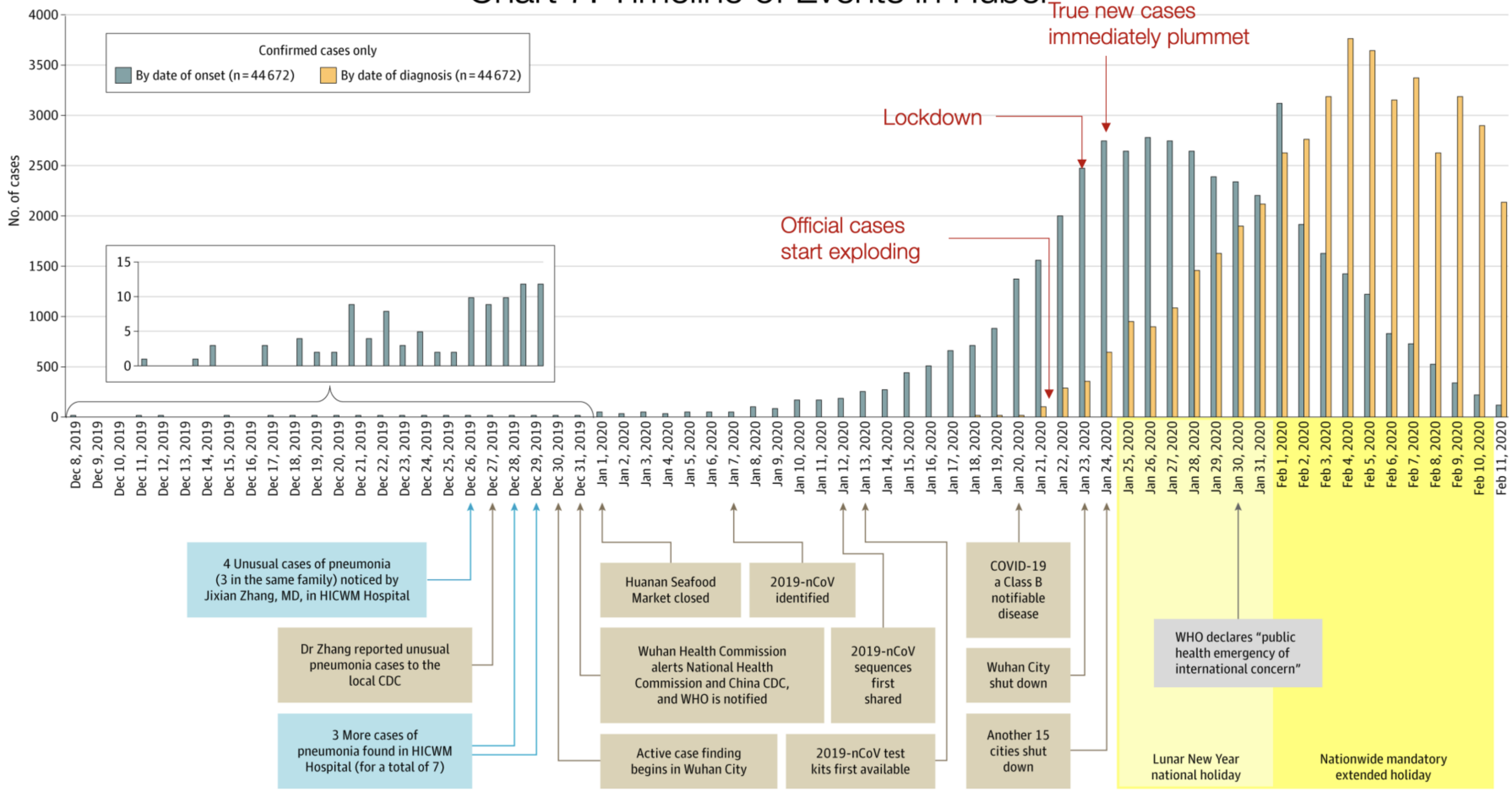
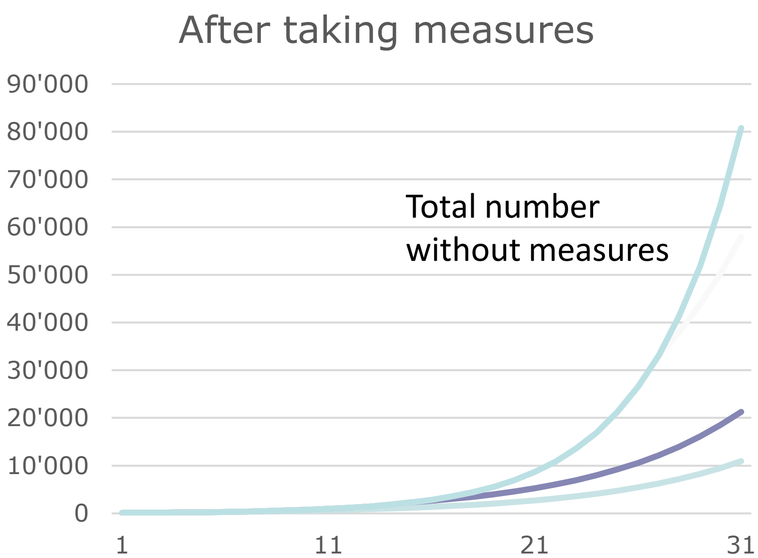
The Chinese experience: how the numbers evolve

Chart 7: Timeline of Events in Hubei



How bad the pandemic becomes is a function of how quickly R is reduced



Reduce infection rate from 25% to 15%

3 weeks after the first 100 cases are detected : 57,870

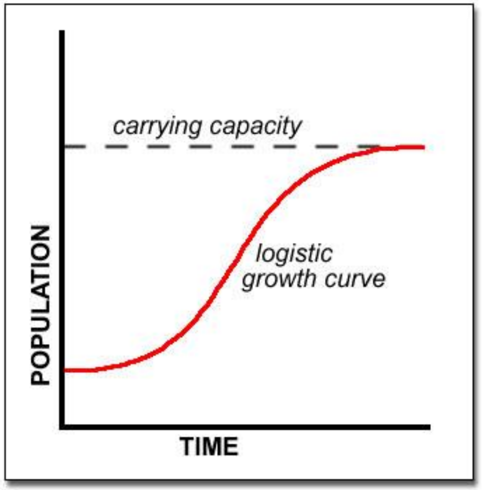
2 weeks after the first 100 cases are detected : 21,277

1 week after the first 100 cases are detected : 10,920

Cases after two months if measures are taken 4 weeks after the first 100 cases: >5 mio.

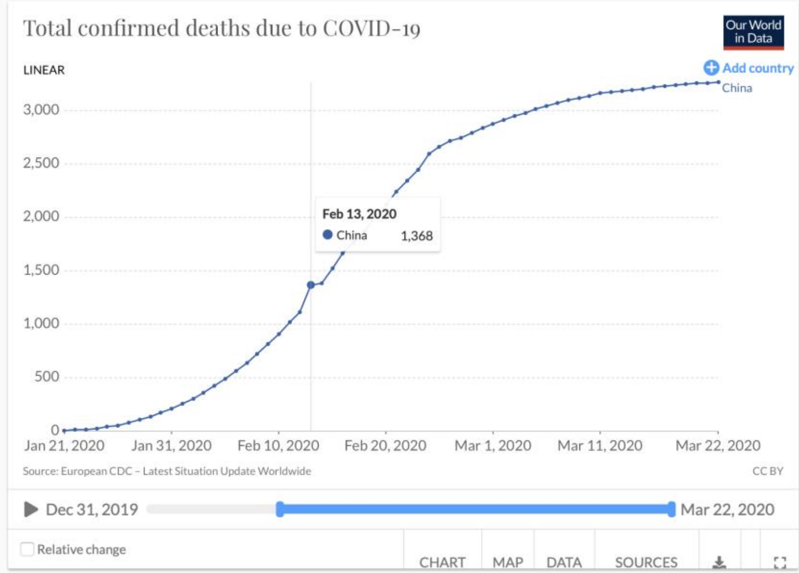
But nothing grows to infinity. What we find in nature is *logistics* functions

Of course, nature doesn't have exponential functions, because nothing grows to infinity. What we find in nature is logistics functions.



A logistic function starts like an exponential function but at some point r starts diminishing.

There is a point (inflection point) where the change begins.



Notice that after the inflection point is reached, the function keeps growing, almost as fast as before. But it has turned, and it's a matter of time until $r = 0$.

This happens when the absolute number of new cases become smaller than the previous day's, even if it's still, of course positive, and very large.

- After serious measures are taken to lower R, *real* infections go down immediately
- But this is visible in *reported* infections in about 2 weeks, in deaths in 3-4 weeks
- But this reduction has a higher or lower base depending on how early the measures were taken. Korea, Japan, HK, Taiwan, took early measures, and had few problems
- Lagging countries (UK, US) can expect *very* serious problems
- Of course, any drugs that simply weaken the virus and thus make infection less aggressive (lower R) will have an enormous impact (remember exponential logic)

An unprecedented macro situation

"Abnormally good or abnormally bad conditions do not last forever"

Benjamin Graham

- **We started 2020 with an optimistic view on the world,** the economy and the market, based on the improvement of the US-China trade war, the Brexit agreement and the Chinese macro recovery.

- But the unexpected happened and the COVID 19 outbreak changed the world upside down. Countries are locking down their economies and **our new base case assumes that over 2020 Europe will see a mild recession, US will end the year flat and CHI will possibly grow around 2-3% in 2020.**

- **This recession should not last much:** H2 2020 should see the start of the recovery and by 2021 most economies will be back to normal. China is already there: peaked in February and is 80-90% back to work… and massive Government policies will fill the gap.

MASSIVE GOVERNMENT SUPPORT

Within the current storm, there are good news

- **The Covid19 growth is starting to decelerate** in countries adopting severe containment measures (CHI, ITA, SPA, GER, FRA and even the UK, which started later). US is now taking Covid19 seriously. **We estimate peak delta for April-may and therefore most large economies should improve as from Q3.**
- There are several **vaccines already under trial** with humans… 6-12 months to go. There are **drugs being tested for Covid SARS 2**, which could help to slow the infection.
  - *Avigan/Favipiravir* developed by a subsidiary of Fujifilm in Japan is 6 weeks off commercialization if tests continue to perform as expected.
- Massive **Government Policies** are being implemented, some of them unprecedented. This should prevent a credit crunch and structural unemployment

Usually the trough of the market coincides with the darkest period (news flow, liquidation, virus growth, macro data…) which is fast approaching.

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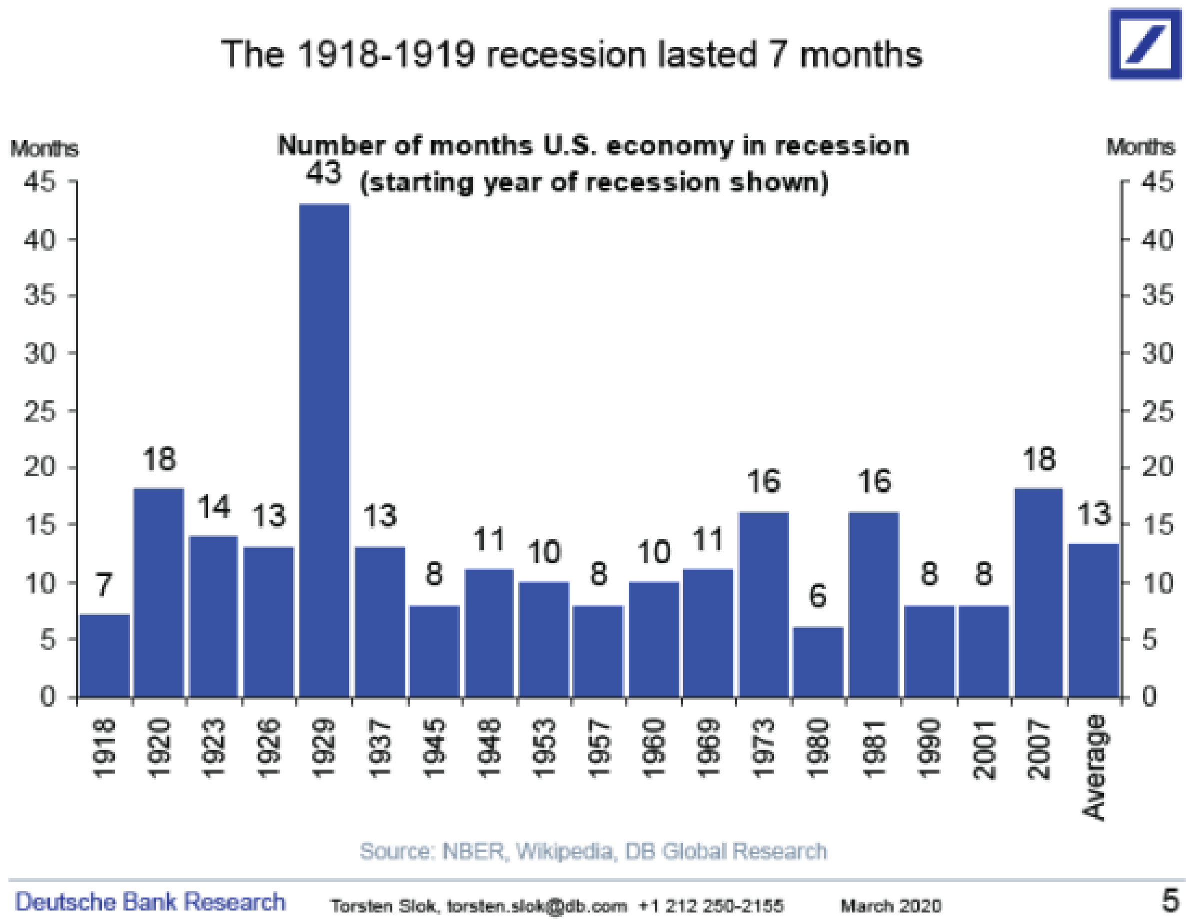
Our Base Case Scenario Is a Short Recession



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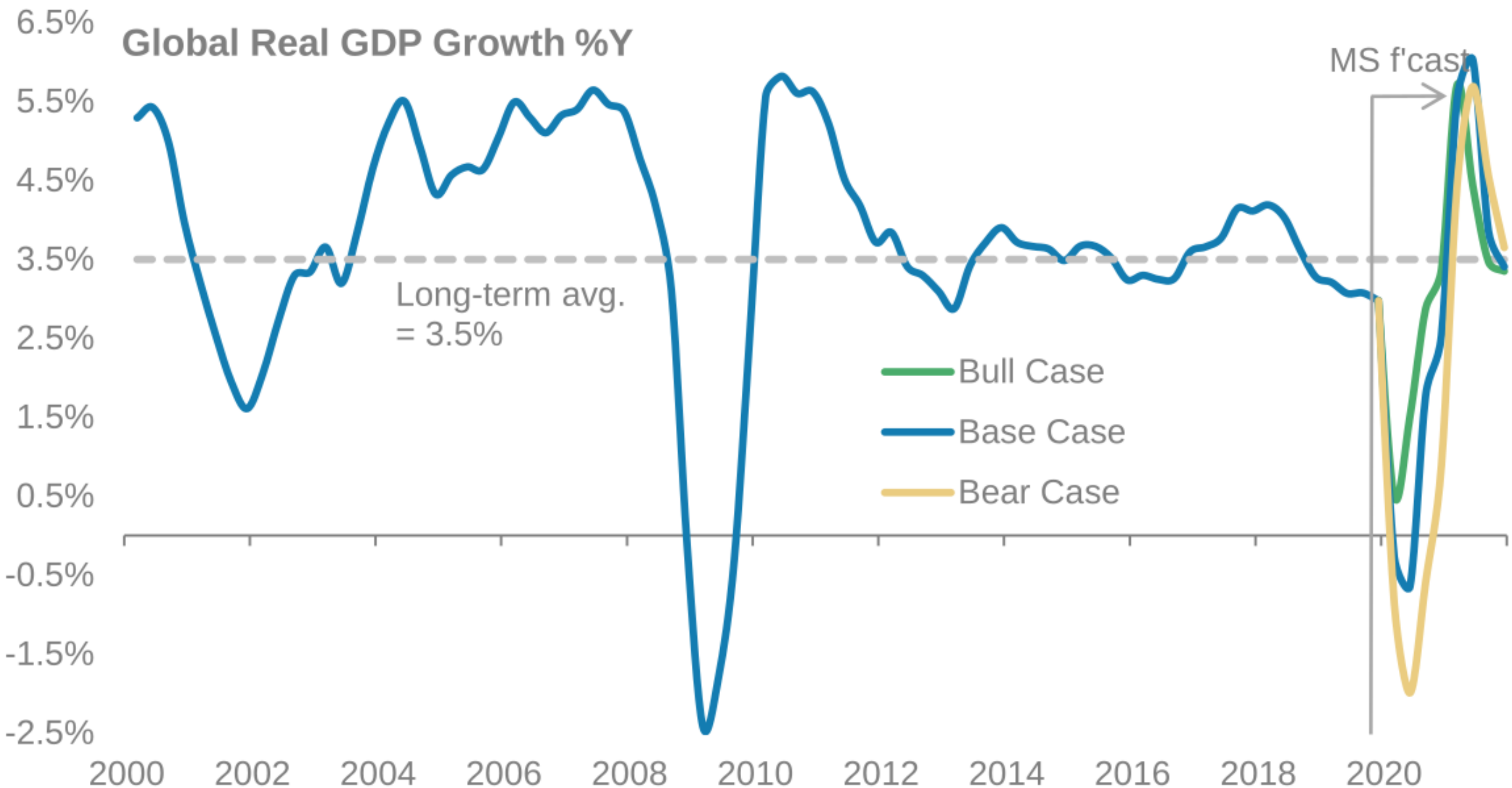
Speedy Recession, Speedy Recovery



Source: Morgan Stanley

What is Mr. Market Pricing In?

Buffett said, "I just hope I see a lot of recessions." Some of Berkshire Hathaway's best investments have come during periods of economic turmoil.

Fastest Correction Ever

The Stock Market is DEEP VALUE territory

- Current valuation is already discounting a normal recession, which usually takes 12-18 months to recover. **This time it will possibly be shorter 6-12 months from Q220**

- The SPX Index is at the same levels as the low of 2018, when the yield curve inverted, and the word recession was in most headlines. Coincidence?

- Few times in history we can buy companies at so depressed valuations… **2001, 2009, 2020 are excellent buying opportunities.**

*"Every decade or so, dark **clouds** will fill the economic skies, and they will briefly rain **gold**. When downpours of that sort occur, it's imperative that we rush outdoors carrying washtubs, not teaspoons" W. Buffett*

SPX near lows… but you never know

- Quick approach, applying the typical recession correction (average 35-40%) the SPX could go down to 2000-2100, another 10-15%

- A bit more educated approach suggests similar levels

  - Using quarterly data, during the last 3 deep/long recessions (1990-2001-08) the US Index SPX troughed at an average of 1.9x, 2.8x and 1.8x book, with intra-quarter lows of 1.7x, 2.3x and 1.8x.
  - As BPS is very resilient to recessions, we assume that the 2021 BPS ($1048, Bloomberg-consensus estimates) will not change much
  - At 2x average, we would get 2100 for the SPX as a trough. Looking for the potential intra-quarter low, 1.8x book would yield 1900.

In our view the US Index has already priced in a normal recession (2400 pp down 30% from peak levels)

THE FAIR VALUE OF SPX IS 3200, 33% HIGHER

Wienerberger as an example

- WIE AV has fallen by 60% in 1 month !
- We see small impact to profits in 2020. 10% lower y-o-y
- Balance sheet and liquidity are just fine with Net Debt/Ebitda at 1.4x
- We see 2021 as back to normal. PER 5.5x and 0,7x Pbook.
- IRR 23%+ IV EUR 30

What is the LTIF Classic pricing in?

“A stock is not just a ticker symbol or an electronic blip; it is an ownership interest in an actual business, with an underlying value that does not depend on its share price.”

Benjamin Graham

Equities Tumbling

- The LTIF Classic is down 40% ytd. at **NAV @ EUR 250, following the Covid19 outbreak in January. NAV was EUR 434 per share end 2019.**

- **Most Indexes are also heavily down:** US Stock Market (SPX -31%), Europe (SXXP - 33%) and most emerging markets down 30% to 50% in EUR terms, excluding CHI which has recovered.

- The Classic is being penalized by the **exposure to value, commodities, medium-sized companies and Europe, broadly speaking**. However, most value funds have a similar performance to the Classic. The correction has been fastest ever

THE CLASSIC & EQUITIES ARE MISSPRICED

Classic: What is priced in?

- Trying to assess the Classic downside in a recession scenario, **we revisited our stress tests**, assuming historical data and adding some qualitative adjustments. Starting point: the **stock market falls by 35-40% in a normal recession**

- In such scenario, the Category1-risk stocks (25-30% of Classic) usually fall by 25-30%, Cat-2 (25-30% of Classic) fall in line with the market, Cat-3 (20-25%) by 45-50% and Cat- 4 (5-10%) fall 65-70% from peak to trough

- Applying these numbers to our holdings, **in case of a recession, the fund should theoretically fall by around 45%-50%, with a low NAV of EUR 220.**

- **The actual NAV (EUR 250) is almost there, thus not far from pricing a full recession, and having done so in less than 4 weeks.**

THE RECESSION HAS BEEN PRICED IN

But what is the real/industrial impact in our portfolio?

- MARGINAL impact (0-10%) on earnings in 50% of the portfolio: Grifols, Medtronic, ASML, Leroy Seafood, GriegSeafood, Viscofan, Devro, Unilever, VISA, ReckittBeckinser, Coke, Nestle, Northern Dinasty, AirLiquide, Apple
- 10%+ annualized impact in 30% of the portfolio. Henkel, Sodexo, ISS, Wienerberger, Metso, ING, HeidelberCement and UnitedTechnologies
- Large earnings downgrade for Oils/Energy and Mining (15% of the portfolio) but for 1 year initially
- We tested balance sheets and no company, excluding the commodity space, will face financial stress. We believe all our holdings will be able to weather the storm

More importantly, looking at 2021, the impact will be negligible for the entire portfolio as the economy will be back to normal. NO DEBT, NO BAD BUSINESSES KEY TO BE BACK TO BUSINESS

Recent portfolio changes

We were in a profit taking mode in the beginning of the year with the view of selling 10-15% of the portfolio in Q120, on valuation grounds. We could only do part of it… as markets collapsed, we stopped.

- Now we have some reinvestment capacity (+/-10%)
- We are not yet buying waiting for 1 of these 2 conditions 1) peak growth of Covid19, which is fast approaching 2) SPX reaches 2000 p. level where we have calculated the US Index would fully price the recession

Our list of candidates is ready, there is plenty of upside in all territories: value, growth, in all sectors and all geographies.

WE HAVE A SMALL BUFFER TO REINVEST SOON

Oil. Once in a life opportunity

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Oil is a lifetime opportunity

- On Friday, March 6, the OPEC+ meeting ended in disarray and without agreement. **“Pump at Will” from April**

- There are 2 different issues: weak demand due to the economic effect of Covid-19. And a supply problem with OPEC and Russia back to maximum production in the short term.

- **The Oil market will be oversupplied in 2020** (in case they do not renegotiate) and thus we see low oil prices

- First, at marginal cash cost (35-40$ Brent) and, once marginal producers start to cut production/leave, possibly up to 45-50$ Brent by December 2020, depending on the demand recovery.

WHAT IF OPEC+ ARE BACK TO THE TABLE?

2020 will be oversupplied

- **Demand: Flat** assuming global GDP growth at +1.5%

- **Supply: +1mb/d.** OPEC+ +1.5m b/d, Non-OPEC Non-Shale +0.5mb/d but Libya -1m b/d. We assume shale ends 2020 flat.

- **Consequently we see the oil market oversupplied in Q2-Q42020** with low prices, tending toward 50$ Brent at the end of the year, once marginal players feel the pain

WITH NO OPEC+ REALIGNMENT 2020 WILL BE A YEAR OF LOW OIL PRICES (35/40$ BRENT)

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But 2021 looks different

- **Demand back to normal: +1.3m b/d** with GDP back to 3-3.5%
- **Supply: +0,5m b/d** with shale -2m b/d and OPEC+ +1.5m b/d until full capacity is reached. We are assuming that Libya adds 1m b/d more
- **The market indeed seems to be undersupplied and moving fast to 0 effective spare capacity.** Well we have Iran and Venezuela with around 2.5-3m b/d spare
- **Incentive pricing is needed to bring back supply: $70+ per bbl**. The world needs higher investments in oil

NO SECTOR CAN WORK AT 100% UTILISATION

Shale & Offshore must come back

- Unlike conventional oil, **shale has high declines and requires investment to keep production flat**.
  - On our numbers it needs 60$ Brent to maintain production and 70$+ to grow.
  - Currently shale production is 9.5m b/d, the rig count is well below maintenance level and capex 2020 is expected to be down 30%+
  - We expect shale to fall by 2m b/d 2020/21 to balance the market
- **New off-shore fields start to fade as from 2020.**
  - The upward investment cycle pre-2014 is now bringing the last fields.
  - Offshore fields need heavy capex and take 5-6 years to come on stream.

BUILDING A LARGE SUPPLY GAP

The LTIF Natural Resources

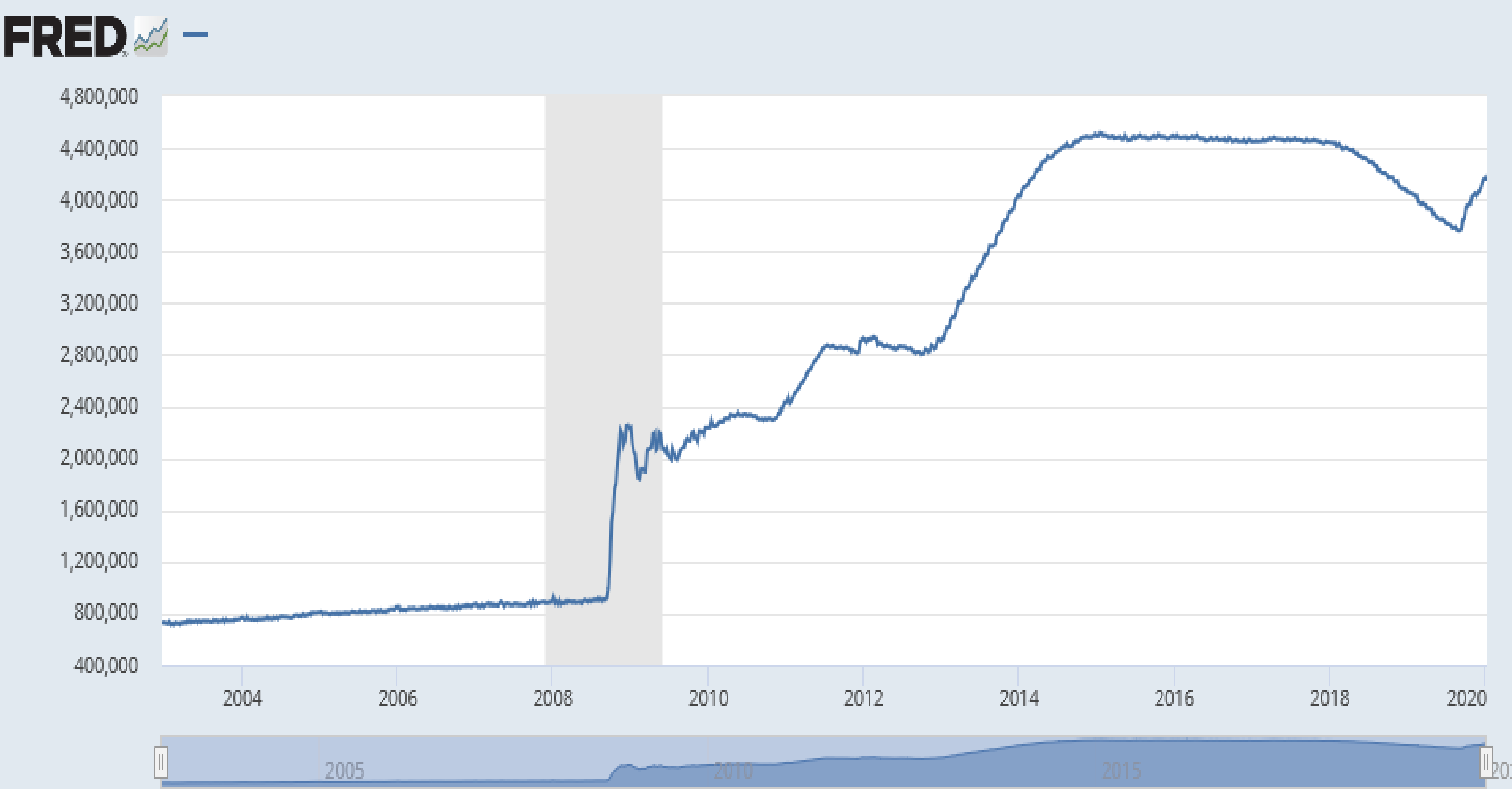
- **The LTIF natural resources fund is down 50% ytd. to a NAV of EUR 50 per share.** The MSCI Mining Index has done a bit better falling by c 36% but the energy index has done a bit worse down 55%

- **The Fund is now 30% Oil/Energy, 50% Mining and 20% salmon/casings/chicken,** with plenty of upside in the mid term. We stressed test all balance sheets and only 7% of the fund will face financial stress in case of an extended downturn

- **This is once in a life opportunity** as the sector has been heavily penalized by a 10-year downturn. We were already seeing the start of a new cycle back in 2018 and since then, we have had 2 recession: the Q418 fake-recession and the current one.

- The mining sector will come back fast with the economic recovery and oil will possibly rebalance in 2021**. This fund, at current levels has an intrinsic value of 200+**

FED Balance sheet. It is not just about QE, but repo eligibility



Source: https://fred.stlouisfed.org/search?st=total+assets

G20 Global Infrastructure Outlook

https://outlook.gihub.org/

Global forecasts

Investment estimates

$79 Trillion	$94 Trillion	$15 Trillion
Investment current trends	Investment needed	Investment gap

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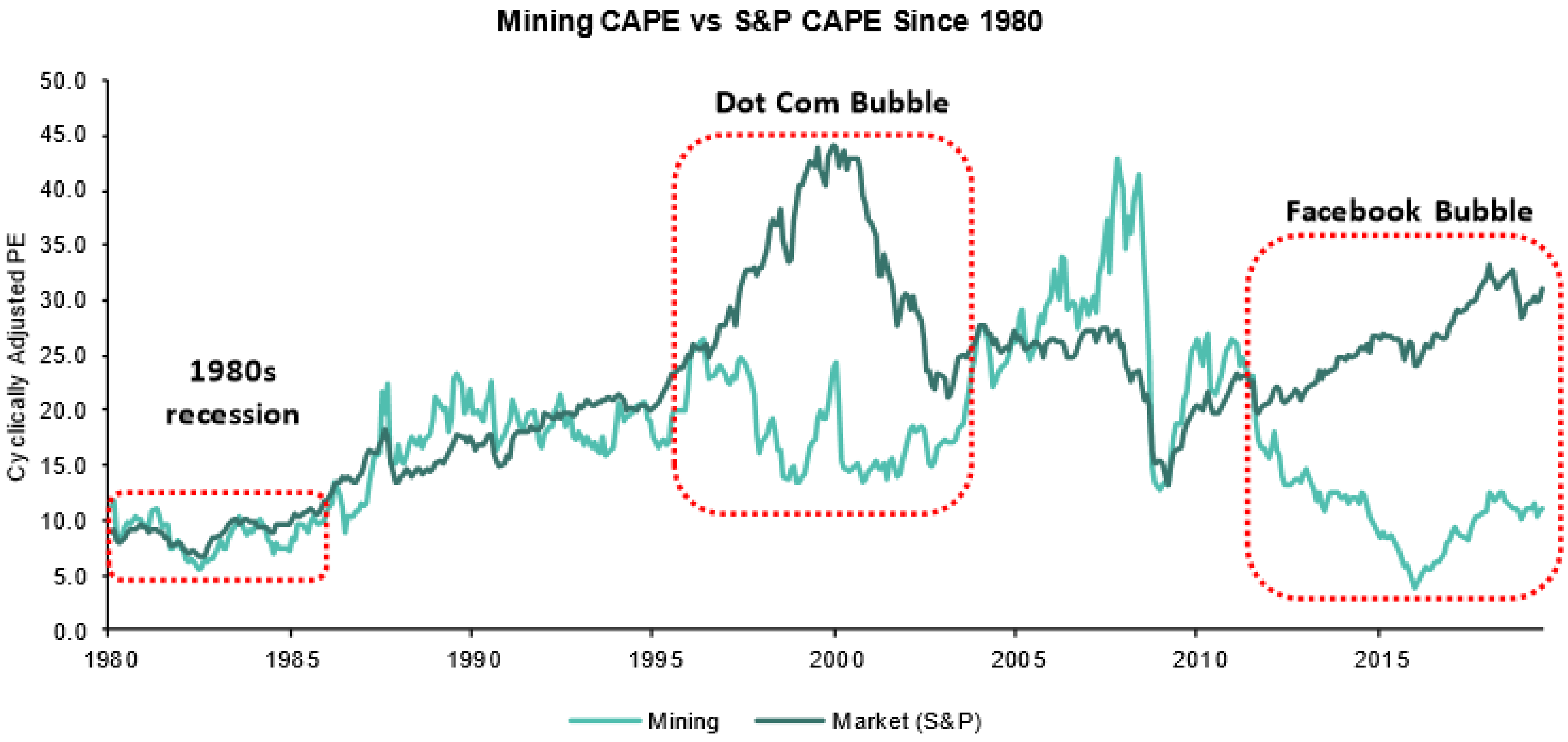
General govt gross debt % of GDP (IMF). (Bullmarket...)

Japan	236.6%	**China**	**53.9%**
Italy	128.7%	Germany	56.0%
USA	107.8%	Australia	40.6%
France	96.5%	Switzerland	38.6%
Brazil	90.5%	Indonesia	29.8%
Canada	84.7%	Russia	15.4%
India	68.1%		

GSCI/S&P500 Ratio: As cheap as it can get?

EXHIBIT 18: **In modern history we haven't seen such a wide gap emerge between mining and the S&P; only the dotcom bubble came anywhere near today's levels**



Source: Datastream, Bloomberg, CRSP, Corporate reports, Bernstein analysis & estimates

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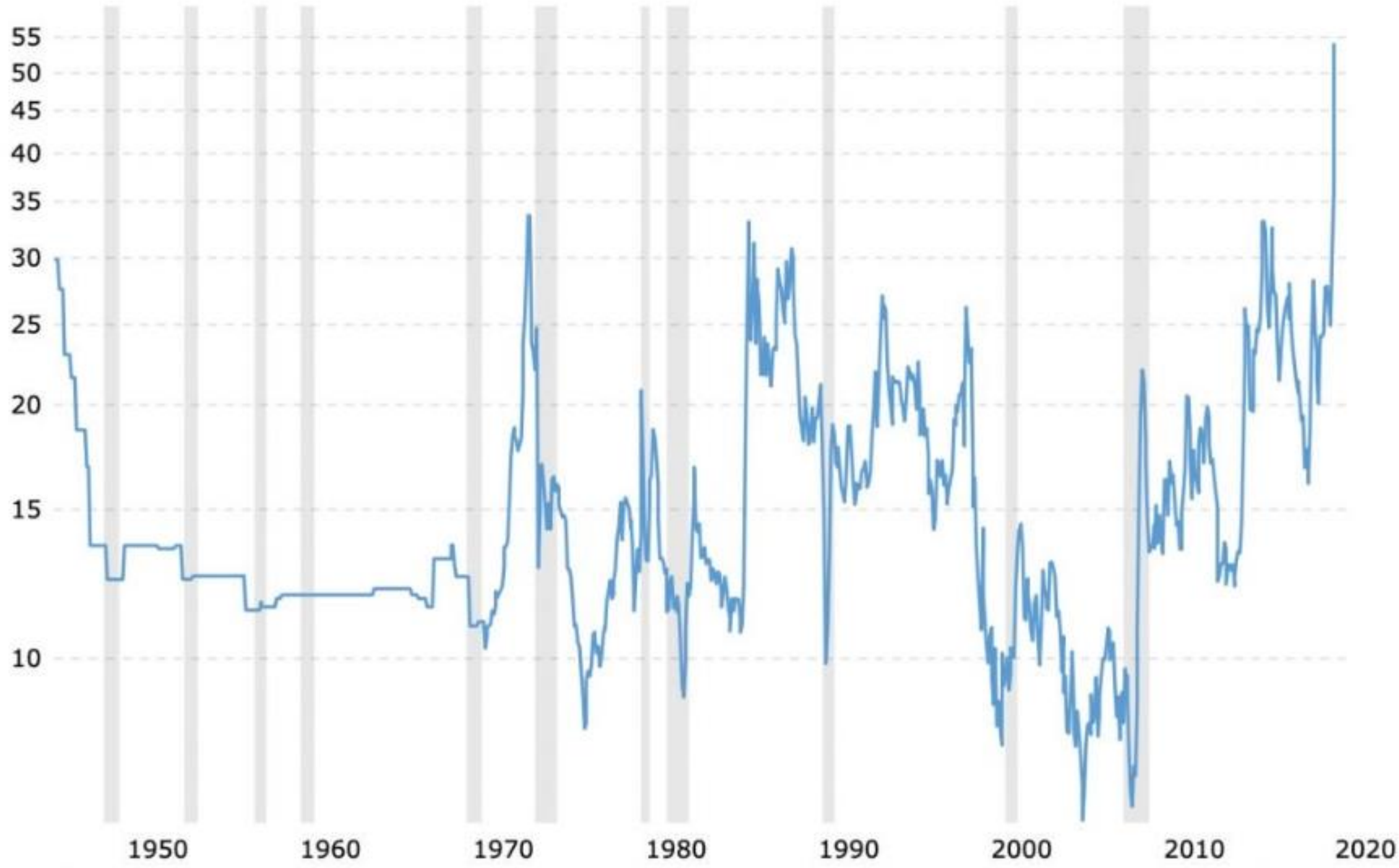
Gold/oil ratio but policy bearish for gold???



Copper and Oil 2008 - 2011

CL1 COMB Comdty | 97) Settings | Page 1/48 Comparative Returns

Range 06/27/2008 - 02/28/2011 | Period Daily | No. of Period 976 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	CL1 Comdty	USD	-30.84%	-30.84%	-46.13%	-12.88%
2)	HG1 Comdty	USD	15.29%	15.29%		5.47%
3)						

Look-Through Profitability

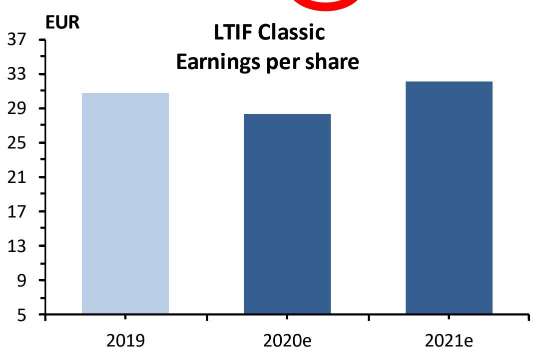
Reporting for LTIF Classic as of 23.03.2020 (aggregated data in EUR)

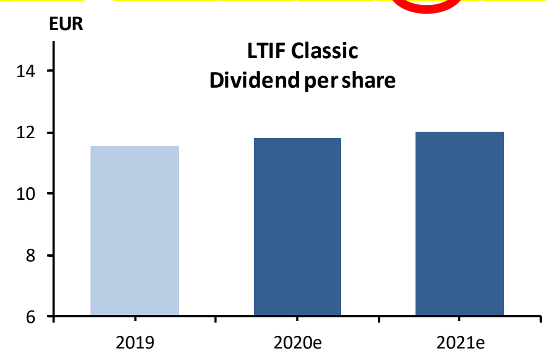
Date	NAV	%
31.12.2017	408.8	2.9%
31.12.2018	348.2	-14.8%
31.12.2019	434.2	24.7%
23.03.2020	244.6	-43.7%

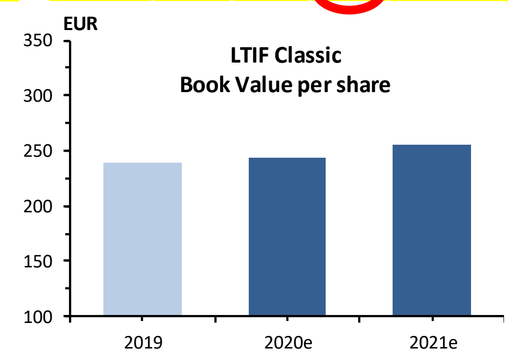
Year	EPS	%	P/E	EPS yield	MSCI World P/E	MSCI World EPS yield
2019	30.8		8.0	7.2%	20.6	4.8%
2020e	28.3	-8%	8.6	11.6%	11.4	8.8%
2021e	32.1	14%	7.6	13.1%	10.5	9.5%

Year	DPS	%	Div. Yield	MSCI World Div. Yield
2019	11.5		4.7%	2.3%
2020e	11.8	3%	4.8%	3.6%
2021e	12.0	2%	4.9%	3.7%

Year	BPS	%	P/B	MSCI World P/B
2019	238.9		1.0	2.6
2020e	242.8	2%	1.0	1.6
2021e	255.2	5%	1.0	1.5







Important the Reporting for LTIF NR as of 23.03.2020 (aggregated data in EUR)

PE 2021 5.7x
Price/Book 0.5x
Div. Yield 6.1%

Source: SIA Group / Bloomberg

LTIF (SIA) Classic, Stability A Cap, SRI and Natural Resources

- Performance up to 31.05.06 is that of the BVI-based LTIF, of which the LTIF Luxembourg is an identical successor. Previous performance is audited by Ernst & Young. Past performance is neither a guarantee nor a reliable indicator of future results. Performance data does not include the commissions and fees charged at the time of subscribing for or redeeming shares. This information has been furnished to you upon request and solely for your information and may not be reproduced or redistributed to any other person. It is not intended as an offer or solicitation with respect to the purchase or sale of shares of the Sicav. Neither the Central Administration Agent nor the Investment Manager assume any liability in the case of incorrectly reported or incomplete information. Please be aware that investment funds involve investment risks, including the possible loss of the principal amount invested. For a detailed description of the risks in relation to each share in the investment fund, please see the latest version of the prospectus, simplified prospectus, annual and semi-annual reports, which may solely be relied upon as the basis for investment decisions; these documents are available on www.s-i-a.ch or from the Central Administration Agent FundPartner Solutions (Europe) SA, 15A, avenue J.F. Kennedy, L - 1855 Luxembourg. LTIF Classic, Stability A Cap and Natural Resources (previously Global Energy Value) were approved for distribution in and from Switzerland by the Swiss Financial Market Supervisory Authority (FINMA) according to Art. 19 al. 1 of the Collective Investment Schemes Act, paying agent is Banque Pictet & Cie SA, Route des Acacias 60, 1211 Geneva 73, Switzerland. Legal representative in Switzerland is FundPartner Solutions (Suisse) SA, Route des Acacias 60, 1211 Geneva 73, Switzerland; notified to the Austrian Finanzmarktaufsicht according to §36 of the Investment Funds Act; authorised in France by the Autorité des Marchés Financiers (AMF) pursuant to Art. 411-58 of the AMF General Regulation; authorised by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) according to §132 of the Investment Act; authorised in Italy by the Bank of Italy and the CONSOB according to Article 42 of Legislative Decree no. 58 of 24 February 1998; registered in the register of foreign collective investment schemes commercialized in Spain by the Comisión Nacional del Mercado de Valores (CNMV) pursuant to Art. 15 of the Law on Collective Investment Vehicles; recognised in the United Kingdom by the Financial Services Authority (FSA) as a recognised scheme within the meaning of Section 264 of the Financial Services and Markets Act 2000.