Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of March 2016

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Overview of our funds

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

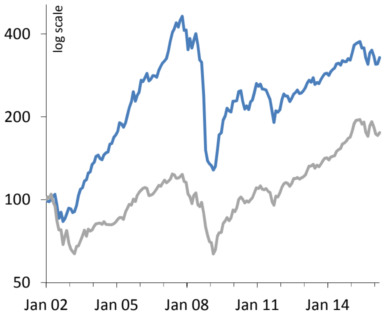


Figure 2: **LTIF Stability A Cap EUR**
vs. HFRX Global Hedge Fund Index EUR

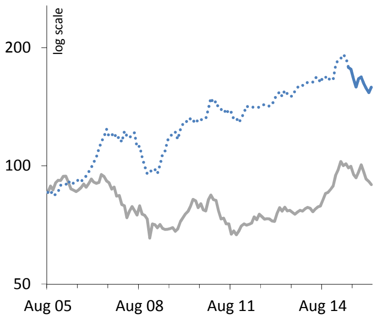
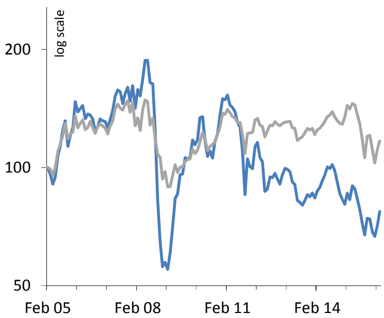


Figure 3: **LTIF Natural Resources EUR**
vs. S&P Global Nat. Res. Net TR Index EUR



Figures 1 through 4 and table 1 show the evolution of our Funds' Net Asset Value during the quarter.

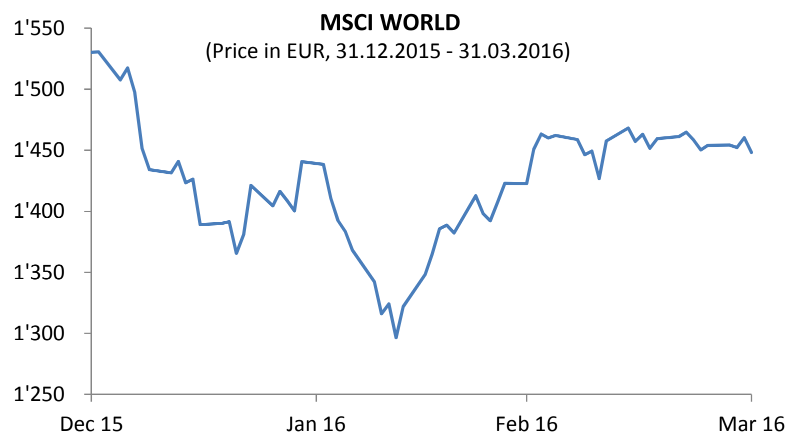
Table 1: **Net Asset Value - Net assets under management of our funds**

March 31, 2016	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) **combined Pool*
LTIF Classic [EUR]	328.27	-0.9%	-0.9%	8.7%	141*
LTIF Stability A Cap [EUR]	158.66	-2.3%	-2.3%	6.0%	141*
LTIF Natural Resources [EUR]	77.22	12.7%	12.7%	-2.3%	7
LTIF Stability Growth [CHF] *(Total return, dividends included)*	187.30	-2.1%	-2.1%	2.7%	11

Source: SIA Group

At the beginning of the year, the market price of a share of our Classic fund was EUR 331.39. At the end of the quarter, it was EUR 328.27, a decrease of -0.9%. Any investor looking at these numbers would conclude that the quarter was rather "boring," as assets prices did not vary much. However, somebody following the markets every day would have drawn a completely different conclusion: It was an extremely volatile market, as shown in figure 5, which plots the price of the MSCI World Index over the last three months:

Figure 5: **MSCI World Index in Euro, last three months**



Source: Bloomberg

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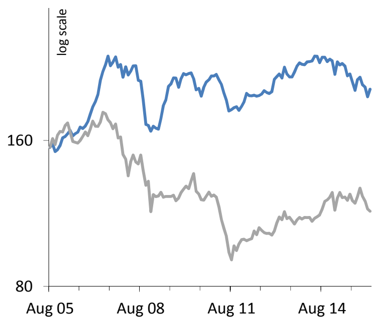
Figure 4: **LTIF Stability Growth TR CHF vs.** HFRX Global Hedge Fund Index



There are several very important comments to make on this quarter:

First, volatility is relative: On a daily basis, this was a very volatile quarter; on a quarterly basis, it was flat. Only you control how often you look at the market price of your long-term investments.

Closely related to the previous point: If the price movements of an asset are not really justified by its economic fundamentals, they will reverse. One can, therefore, ignore those movements, and just concentrate on the economic fundamentals, which will prevail (and whose evolution is infinitely easier to predict).

The short-term volatility of equity markets provides a great opportunity and a huge risk. The opportunity is clear: Somebody who started the year by selling everything, returned to the market on February 11, then sold at the end of the quarter, earned a real return of more than 12% in little more than six weeks. This is clearly not a bad return, which makes playing this game tempting and exciting. That's why a huge industry arose to encourage and help investors take these bets. Hearing and reading what passes as investment advice in the public media, it's clear that investment managers' goal is to know when the market is going up or down, and to trade accordingly. The reward can be huge, as we see. Nevertheless, these investments mostly end in losses.

Another way of looking at what happened in this quarter is that investors, frightened by the market drop and selling in February, lost almost 20% of their investment. This is a very large amount of money: A normal equity fund takes three years to recover such a loss. This is the kind of "mistake" that gives equity investing a bad name as a "game" in which investors can lose a lot of money in a short time through no fault of their own.

But no one is forced to play this game. Equity investors, like real estate or private equity investors, should understand that investment is a long-term process, and that chasing short-term trading gains is an extremely risky way of trying to earn money. On the other hand, choosing a good business in which to invest for the long term, and waiting for a good entry point to the partnership, is normally a very profitable strategy. But one has to make an effort to ignore all the noise surrounding markets. Remember, all television shows, specialized press, and analysts' comments all have only one target: pushing investors to trade. When an analyst tells you it's time to sell your equity and buy bonds, or vice versa (the opposite of what he said two months ago), ask yourself: Does this person know what is going to happen (and, if so, why is he not rich)? Does his salary depend on the commissions I'm going to incur if I follow his advice? Wealthy people tend to be wealthy, because they find a good business and stick to it, often for generations.

Which reminds us of an interesting anecdote. A few years ago, we had a meeting with a partner of one of the oldest private banks in Geneva. His name appears above the bank's door. Discussing the bank's business, he

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told us about the strategic initiatives they were undertaking to adjust the bank to the changing industry landscape. His summary was: “Our planning horizon is one generation. We took the bank, and must leave it stronger for our children.” Their clients would certainly profit from a similar approach. We try to follow it.

To summarize: Ignore all the talk about “markets,” try to find a few good companies to buy and stick with them. If you don’t have the time or inclination to do so, hire an advisor to do this (such as us). But don’t hire people who will tell you what’s going up, what’s going down, and how to position your capital in the next quarter. There is absolutely nobody who can do this with a minimum of consistency.

Having said this, it’s clear that many investors are nervous. The scar of 2008 is so deep that everybody is continually looking for the next crash. Well, a crash (not that bad) will happen sooner or later, of course, and there will always be reasons to be anxious. Our world is a complicated one. It’s therefore important to keep one’s head, and look at the numbers, something most people don’t like doing, because it requires some effort.

For instance, a few months ago, many people believed that the drop in the oil price was going to hurt many oil-producing companies; they wouldn’t be able to pay their debt and the banks that had lent them money would quickly go bankrupt. In other words, 2008 all over again.

But those highly perceptive analysts, who can now see a big crash beforehand (where were they in 2007?), are mixing real facts with completely unwarranted conclusions. As far as we know, Citibank is the bank most exposed to the oil industry in the world. It has lent this industry some US$ 20 b. Most of these loans were to blue chip companies, and practically all are secured against oil-producing assets. In 2015, Citi earned US$ 24 b before taxes. A loss of 50% of their loans — which is, frankly, unconceivable, given that they are backed by oil fields, and no matter how cheap oil becomes, it’s clearly valuable — would represent less than six months’ profits. This would be bad, but certainly not life-threating, merely a few years without dividends. Again, this would be bad for the bank’s investors, but irrelevant for the world economy. In 2008, the losses on subprime loans to real estate developers amounted to ten years’ profits for the banking sector of a country like Spain. This means the banks were totally and thoroughly bankrupt. The two situations have a similar structure, but the magnitudes are absolutely different. Drawing cheap parallels can therefore be very expensive for the investor. As Mark Twain famously said, “It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so.”

The reality is that most economies have kept progressing, very slowly, since the depths of the crisis. Unemployment in the US is now below 5%; simultaneously, participation in the labor force is finally going up. But unemployment is also down in Europe. Meanwhile, the permanent fears of

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collapse in China are still not being realized (in the last month, foreign reserves went up, not down). As we have been saying now for many years, recovery from a "balance-sheet recession," i.e., one created by an excess of debt, takes a very long time to play out, because people want to/must repay their excessive debt, which puts a brake on consumption, which puts a brake on income, which in turn puts a brake on debt repayment… Recovery from this kind of recession takes a long time; 9 years on average according to Reinhart and Rogoff's excellent book.[1]

As you would expect, companies are making good profits in this context. True, energy companies, which have a high weighting factor in the indices, are having a hard time. And so are banks, another important sector. But, overall, the economy keeps chugging along. We probably shouldn't expect anything dramatic in either direction.

We haven't made many changes to our portfolios during this quarter. In fact, just one: We sold Lundin Mining, a Canadian copper producer. The company is fine, and has a strong financial position (a rare luxury in the sector); however, we believe copper prices will still take some time to recover and that money is better placed in oil-producing companies.

Among our investments, the salmon farmers keep doing extremely well — their shares are up more than 25% since 2016 started. The latest development in the business has been a devastating "algae bloom" in Chile, which has killed millions of fish (again). Salmon prices are, logically, very firm, and our companies are making excellent returns. We don't see a deterioration in this outlook in the foreseeable future. Dividends are high (between 5 and 8%), profitability even higher (ROE above 20%), demand strong (everybody seems to like sushi), and production constrained by physical factors.

The bank situation is the opposite. We have 9% of the Classic fund invested in banks (Korea, Japan, US, and Europe). All their shares are down this year. We acknowledge that the sector is a difficult one, having to deal with many regulatory pressures, coupled with extremely low interest rates, which don't allow them to charge a good spread on their products. We have therefore chosen our banks carefully, avoiding investment banking and risky business. They are like utilities, paying good dividends (ING pays more than 6% in euro, right now), and are healthy. We believe the market will come to appreciate these companies and, in the meantime, we have no doubt they'll give us more than 10% annualized over the long term.

[1] *This Time Is Different: Eight Centuries of Financial Folly*, by Carmen M. Reinhart and Kenneth S Rogoff.

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Finally, we own a position in Easyjet. The company is doing very well, but the share is going down. It seems clear to us that the reason is fear of a "Brexit." A vote for the UK to leave the European Union would have two immediate negative consequences for Easyjet: the pound sterling would probably drop initially; and, as a British airline, it would find itself without the automatic freedom it now has to fly to any European airport of its choice. Both are issues that would be solved over time, but markets tend to sell first and ask later. We certainly have no insight into which way the vote will go, but believe that, at the current prices, those shares should not be sold, whatever happens.

In addition to these investments, we are now studying several "special opportunities" companies that have had problems in the past, whose share prices are extremely low, but where we think there could be real value. When we have completed our detailed assessments, we'll keep our investors informed.

In summary: We maintain our confidence in our companies' earning power. The economy is not doing badly, but this is going to be the year of "political headlines": From a reactivation of the Greek crisis, to the rise of populism in Europe, to the Brexit referendum and several other, as yet unthought of, issues that will seem very important. Nevertheless, we expect to keep producing solid profits for our investors. Our fund is cheap now, with an expected annualized return (on just our numbers) of more than 13%. Our combination of special situations, energy investments, and long-term blue chip compounders should provide a return above that of most investments, with a relatively low level of fundamental risk (i.e., risk of actually losing money), even if the share price goes through the silly gyrations we saw during this quarter.

Two news items: We have moved our offices from Ziegelbruecke to Lachen. This means we are a bit closer to Zurich, which is useful to meet company leaders and analysts who visit the city.

Second, we have the pleasure to announce that Urs Marti is joining our team. Born in Zurich, he started his career at UBS in 1987 with a traditional apprenticeship and a trainee program in finance. Urs received a BBA from KSZH in 1999. Until 2003, he worked in the trading and sales departments of UBS and CSFB, and was a member of the Swiss Capital Group's start-up team.

In 2003, Urs joined Zulauf Asset Management to start a resource-related fund, which he continued to manage as a partner in a small asset management company after 2008. During this time, he was also responsible for a Uranium fund. In 2012, he founded a company to invest directly into resources and agriculture. He will specifically work with our Natural Resources fund, which we think is now entering a very exciting phase, given the way the different submarkets are evolving.

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Figures of the USD classes

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

March 31, 2016	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) *combined Pool
LTIF Classic [USD]	374.08	3.9%	3.9%	10.6%	161*
LTIF Stability A Cap [USD]	167.66	2.5%	2.5%	5.2%	161*
LTIF Natural Resources [USD]	88.00	18.2%	18.2%	-3.6%	8

Figure 6: **LTIF Classic USD**
vs. MSCI Daily TR Net World Index USD

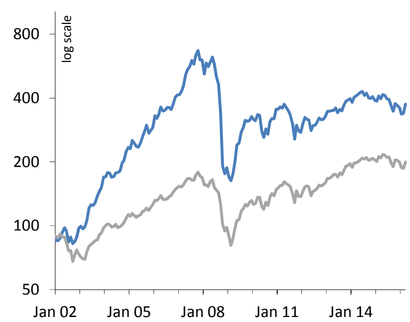


Figure 7: **LTIF Stability A Cap USD**
vs. HFRX Global Hedge Fund Index USD

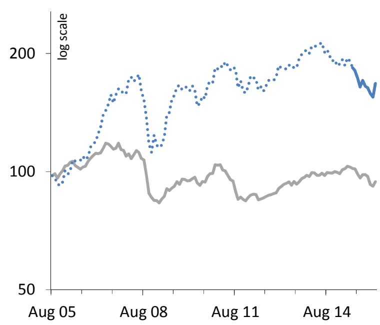
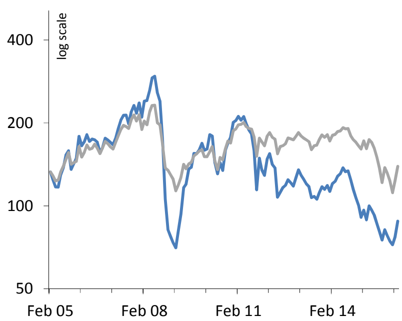


Figure 8: **LTIF Natural Resources USD**
vs. S&P Global Nat. Res. Net TR Index USD



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Figures of the CHF classes

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

March 31, 2016	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) **combined Pool*
LTIF Classic [CHF]	358.23	-0.6%	-0.6%	6.4%	154*
LTIF Natural Resources [CHF]	84.27	13.1%	13.1%	-5.3%	8
LTIF Stability Growth [CHF] *(Total return, dividends included)*	187.30	-2.1%	-2.1%	2.7%	11

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

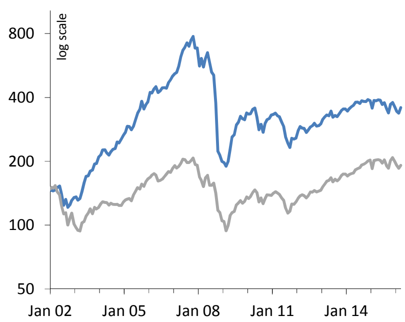


Figure 10: **LTIF Stability Growth TR CHF**
vs. HFRX Global Hedge Fund Index CHF

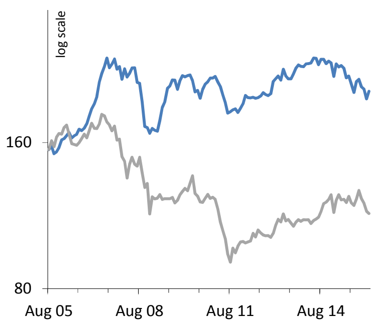
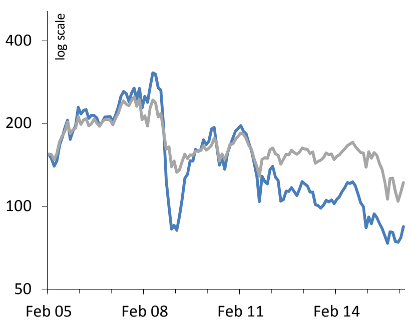


Figure 11: **LTIF Natural Resources CHF**
vs. S&P Global Nat. Res. Net TR Index CHF



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Figures of the GBP classes

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

March 31, 2016	NAV	Δ 3m	Δ YTD	Annualized Return since Inception	AUM (in mio) **combined Pool*
LTIF Classic [GBP]	260.27	6.6%	6.6%	10.6%	112*
LTIF Natural Resources [GBP]	61.23	21.2%	21.2%	-1.1%	6

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

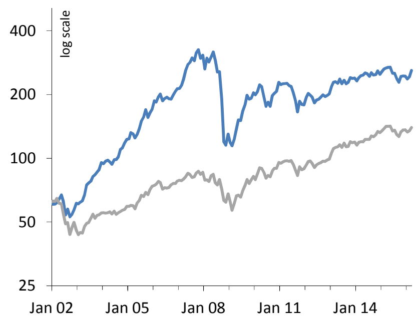
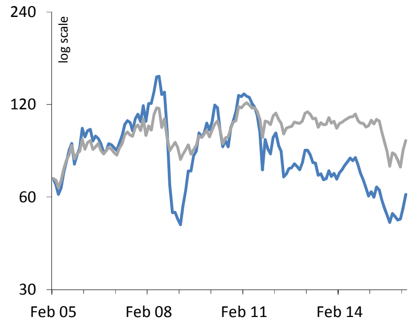


Figure 13: **LTIF Natural Resources GBP**
vs. S&P Global Nat. Res. Net TR Index GBP



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Bloomberg: LTIFCLU LX

LTIF – Classic CHF
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Telekurs: 3‘101‘817
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LTIF – Classic GBP
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LTIF – Natural Resources EUR
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