Long-Term Investment Fund

Newsletter April 2005

LTIF

As explained in the owner's manual, investors in LTIF should look at the results of our companies to gauge how we are doing, more than at the price of their shares (and the liquidation value of the fund, which is simply the sum of the price of the shares we own in a particular date). That's why we essentially talk about "intrinsic performance", more than the performance of the shares.

For a complete description of LTIF's investment philosophy, and its "user manual", that explains in detail our measurement concepts, such as "intrinsic value" and "fund's earnings per share", please refer to our internet site at www.ltif.com. You can also find there previous past letters, as well as detailed results for the fund since its inception.

For any inquiries, please write to info@ltif.com.

Results on our portfolio

As of March 31st we had practically all results on the full 2004.

- The companies in our portfolio made an aggregate profit (per share of the fund) of €15.2. Out of those profits, they paid a dividend of €7.56. These are excellent results, considering that we bought many of these companies for a substantially lower price than today.

- Putting it in perspective: an investor who joined the fund at its inception, and paid €100 per share, is now obtaining an annual return of more than 15%. What's better, we believe these companies will earn at least 10% more in 2005.

- If we compare these numbers with a market price of €136.76 per share in the fund at the beginning of 2004, it means the fund had a "real performance" of 11.1%: somebody who invested in the fund at the beginning of 2004 bought shares in companies whose profits during the year represented 11.1% of his investment.

- For 2005, we started with a share price of 176.9. We believe our returns will probably be above €17, which would imply a real performance of some 10% (of which about half will be paid in dividends).

The intrinsic profitability of our companies in 2004 (the money they made, regardless of the share prices) was 11.1%, with a dividend yield of 5.5%

These good results come form the strong profit growth in a number of companies (Depfa, McCarthY & Stone, Samsung Electronics, Canadian Natural Resources…), and the fact that we have sold some more expensive companies and bought inexpensive ones, thus "buying" more profits for the future (see below).

LTIF Directory

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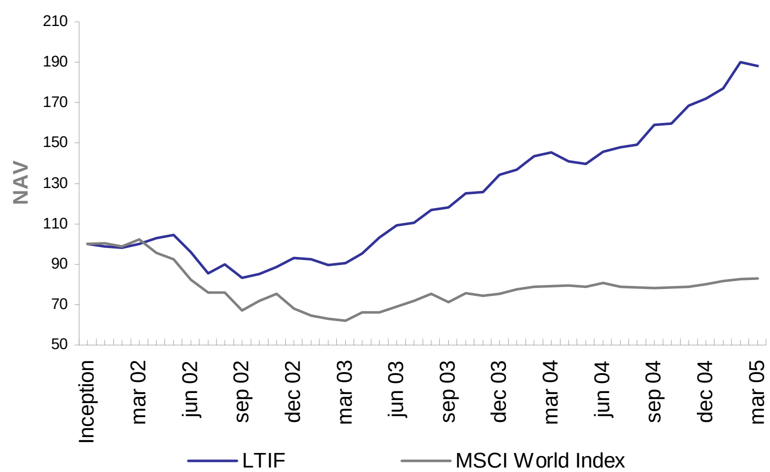
Total net assets reached €71 million at the end of March

NAV is up 9.51% for the first quarter of 2005

The total net assets of the fund as of March 31, 2005 amounted to €71 million, including both the long-only and Alpha series.

As is frequently the case, all this has not been completely ignored by the market, which has pushed the price of our shares by 9.51% in this first quarter, to a liquidation value, or Net Asset Value, of €188.18 per share.

Figure 1:
LTIF liquidation value per share, compared to the MSCI World Index

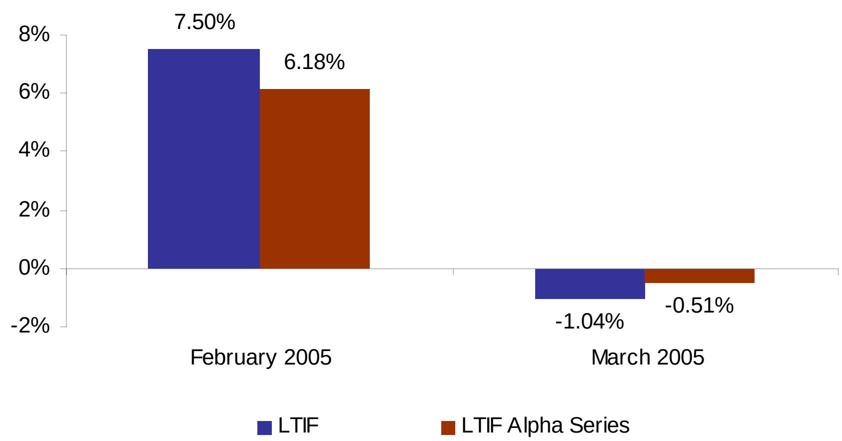


The Alpha Series

The Alpha Series already shows less volatility

The Alpha series was finally launched in February. Its results, as expected, are similar to those of the "long-only" LTIF, but less volatile: it goes up by less, but it goes down by less, too, as can be seen in the graph. But two months is obviously too short a time to say much, except that the "hedge" works (as it has to).

Figure 2:
Performance comparison: LTIF - LTIF Alpha Series



One point of mild interest is that the market is more volatile: the market price of the portfolio grew probably by too much in January-February, only to adjust somewhat in March. As our investors know, we don't think this "market price" is particularly important, preferring to concentrate on "real performance". Since we don't plan to sell, we don't much care about the selling price of our companies. In any case, we all know that, over the long term, real performance and market prices go hand in hand.

Companies we sold

We have sold more companies than usual for many of our early investments have "matured" after 3 years, and markets are still expensive

During this first quarter of 2005 we sold a number of companies: Gerdau, Encana, SIG, Sjaelsoe, BAM and Clinton Cards. In most cases, we sold because the companies reached a price that we considered unjustified by future profits. This does not mean those profits will not be good; it's that the price somebody is ready to pay for them is, in our opinion, too high. On average, we sold these companies for annualized gains well above 25%. It's important to understand how we make these decisions.

In principle, our objective is to earn 15% a year with our investments. There are two ways of achieving this: either we buy shares, at any price, that go up by 15% per year and then we sell them; or we buy shares at a price such that the profits the company makes in the future represent at least 15% on our investment.

In the first case, we could buy anything, as long as it goes up (technology shares in the late 90's come to mind). Unfortunately, we cannot follow this approach, for we have no idea what share prices will do in the future. If we bought something just expecting that it might go up, we'd run the risk that it might well go down… forever.

In the second case, the key will be our ability to assess a given company's future profits. As long as we are reasonably right on those, and we buy the companies cheap, we'll make our 15%, over the long term, regardless of what the markets do.

This investment strategy points out to our selling strategy. Imagine we bought at a price of €100 per share a company that we believe is going to earn €15 per share annually well into the future. If the price stays around €100, we keep it (and make our 15%, probably as dividends); but if the share price goes up to €150, we should sell it: there is no way the company's profits will return 15% long term over the money we can get if we sell it. We thus sell, and try to buy a company where that 15% is achievable. If we find one, we'll invest our €150 at 15%, so our profits per year will be now €22.5, instead of the original €15% (and the return on the original investment will now be 22.5%). It is worth noticing that we may sell at €150 and the share price then go to €200. It happens all the time, and all we can do is to congratulate the sellers and wish much luck to the buyers).

"Expensive" markets "force" a bit more trading than usual

Typically, this strategy leads to little turnover in the portfolio. But investors will have noticed that in the last few quarters we have bought/sold more companies than usual. We believe it's important to understand why.

The fund is now more than three years old, and many companies we bought at the beginning have moved to a “full valuation”. This is a logical process: if we find companies which are better investments than average, and we are right, we must expect the market to discover them sooner or later, and bring their price to at least the market average. But that “market average” is today above the price we like to pay. Put differently, there is no way the market average (the “index”) is going to return 15% well into the future from its present position. This implies that, when our companies reach the market valuation, because they have been discovered, we sell. This cycle takes normally a few years, and it is probably now done for many of our early investments.

Thus Sjaelsoe, which we bought in 2002, has now been sold for more than twice the price of the original investment, and so has Clinton Cards (also bought in 2002). Encana, SIG and BAM we held for about a year, but managed to sell them for a more than a 40% gain. Finally, we sold Gerdau (a Brazilian steelmaker) because we thought other comparable companies we already own (Usiminas and CSN) had better prospects, and we chose to concentrate our investment in those two.

Thus, our task is never finished: once we have all our funds invested in what we believe are companies that will yield 15% a year, we still have to check if somebody is not ready to pay “too much” for them. If this is the case, we sell, and must find new ones. So far, this process has worked out well, and this is why the fund has returned, over three years, more than a annualized 15%.

Companies we bought

This is how we got to buy the following companies during this quarter: Aracruz, Petrobras, Transmissao Paulista, Michelin, Red Eléctrica Española, Orient Overseas International, Elmu, Astra Agro Lestari, Honam Petrochemical and Anadarco Petroleum. A brief description of the companies follows.

Aracruz is now the world’s largest producer of paper pulp, and the lowest cost producer. For centuries, paper companies have produced their own pulp, as the key input to paper. But a new trend is emerging: make the pulp in places with much lower costs, and export it to advanced (and high-cost) markets for paper making. Aracruz’s costs are so low, that European and American paper companies find it cheaper to buy their pulp form them than to carry on making their own (eucalyptus trees grow twice as fast in Brazil as anywhere else). And these cost differentials will grow over time.

Petrobras is the “national” oil company of Brazil. As most Brazilian companies, it is very cheap. It has almost 20 years of reserves, and a growing expertise in deep-water drilling, which is one of the few growth areas in oil exploration.

Transmissao Paulista distributes electricity in the Sao Paulo region. It has the stable returns of a utility (set in fact by regulation) but trades as a deep discount.

Red Electrica Española and Elmu are similar companies to Transmissao Paulista, but in Spain and Hungary respectively. Both trade at a low price compared to the stability of the returns, and have more growth in them than the market recognizes.

Michelin does not need presentation. We feel its focus on the replacement business (as opposed to selling directly to the manufacturers of new cars) is a good strategic position, because it is less price-sensitive and Michelin's excellent brand carries a premium.

Orient Overseas International is a Hong-Kong based, leading container shipping company. It trades at an extremely low price, and owns an excellent fleet and interests in harbors, the latter being much less cyclical than shipping itself.

Honam Petrochemical is a Korean producer of basic chemicals that trades at a huge discount, probably because the market has not fully realized the impact of two acquisitions carried out last year. It must also be said that the whole Korean market is today, with Brazil, the cheapest in the world.

Finally, we added Anadarko Petroleum to our stable of energy companies, for we liked the strength of its reserves.

Fund's news

Finally, relevant news is the addition of Walter Scherk as Senior Investment Advisor to SIA, SA, main advisor to LTIF, and the Dublin listing of the fund.

Regarding Walter Scherk's appointment, this is what Prof. Jarillo, Managing Partner of SIA, said:

> I'm extremely happy to announce the establishment of a stable collaboration with somebody who will become an important contributor to Strategic Investment Advisors, SA. As of March 1st, Walter Scherk will become a Senior Investment Advisor to the company, making available to us his enormous experience in securities analysis, portfolio management, and product development.
>
> I met Walter in 1984, while he was studying for his MBA at the Harvard Business School (which he finished with Honors the following year), having previously obtained a degree in Industrial Engineering. We then coincided for a while at the Faculty of IESE Business School in Barcelona, where he taught Finance. From there, our professional paths diverged. He took management responsibilities at the family firm (a plastics company) and then started a long and distinguished career in finance. He worked first for the Barcelona Stock Exchange, developing the first stock rating service in Spain. In 1991 he moved to Madrid to work for Ahorro Corporación, the financial services arm of Spain's Savings Banks. He served as Director of Research, organizing the whole department, and became General Manager of the Asset Management division, with direct

responsibility over more than € 9 billion. He will now act as an independent consultant.

Walter contributes extremely strong analytical and technical skills, a solid understanding of fundamental analysis and a deep experience in all the realities of asset management. But as important as those are his character and personality. It's hard for me to overemphasize how pleased I am with his collaboration: it's not easy to enlist somebody who is at the same time as good a professional as can be found anywhere and an old and close friend (he was best man at my wedding, almost 20 years ago).

During these last few years, where LTIF has been growing, Walter has been a constant source of encouragement, and now his help constitutes the best asset I could think of to lay the basis for the new phase in Strategic Investment Advisors' development. The consolidation of the LTIF, the launch of the Alpha Series and of the Global Energy Value Fund will undoubtedly be on a surer ground with his contribution.

I'm sure that our investors will benefit enormously from his collaboration and will soon have a chance to appreciate personally his knowledge and expertise.

The fund will finally be listed in the Dublin Stock Exchange, most likely before the summer. This will make the fund suitable for purchase by on-shore qualified investors throughout the European Union, as it will be under the supervision of the Irish authorities.

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