

## Long Term Investment Fund

"Life's... a tale told by an idiot, full of sound and fury, signifying nothing" (Macbeth Act V, Scene V)

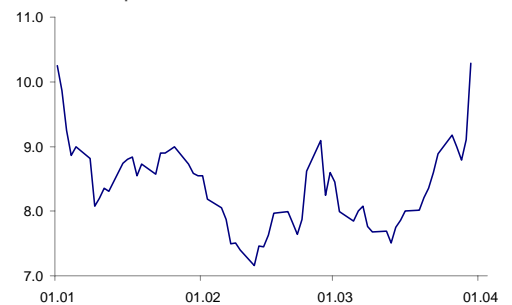
We couldn't help but think of Shakespeare's famous verses seeing this quarter's market movements. After euphoric optimism came panic and then... some nervous optimism. As usual, an army of experts stepped forward to explain why everything was happening, only to have to cast those explanations away a few weeks later.

These gyrations would almost be comic if they didn't do so much harm to many investors. Take, for instance, the price of some of the shares we own, such as Quadra Mining, a copper and molybdenum producer. Figure 1 shows its evolution since the start of the year. This extreme volatility is somewhat justified by the evolution of the copper price, also since the start of the year, shown in figure 2.

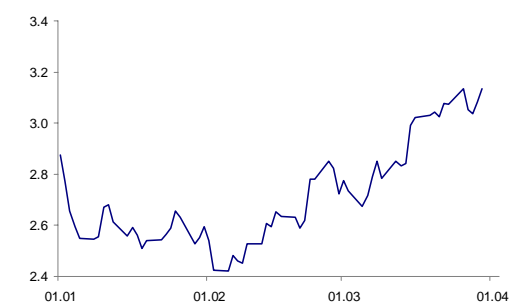
After the first week of January, the copper price had dropped 11%, from \$2.87 to \$2.55, to touch a low of \$2.42, just to close the quarter at \$3.13 (it is now \$3.52). Of course, absolutely nothing has changed in the industrial demand for copper or on its supply during these months.

Confronted with this volatility, one can either be a genius and make an amazing amount of money in a short time... or one can be buffeted by these movements, lose faith and sell at the bottom, just to buy when "it recovers" — a sure way to very mediocre returns. There is, of course, a third way: study the demand for copper, the new mines coming into production, the old mines going out of production, the cost structure of the different producers, and come to a logical prediction of what the long term price of copper must be. Fortunately, supply and demand in the real world (as opposed to the commodities markets) change at a glacial pace, and doing the above-mentioned analysis is not so hard. It just takes conviction to keep your bearings when everybody seems to be running scared because prices drop suddenly or because you're missing the rally. But this is, of course, what we try to do: ignore the "sound and fury" and concentrate on in-depth data gathering and its analysis. As Ben Graham, founder of value investing, used to say "the fact that other people agree or disagree with you makes you neither right nor wrong. You will be right if your facts and reasoning are correct."

**Figure 1**  
Quadra share price – in C\$



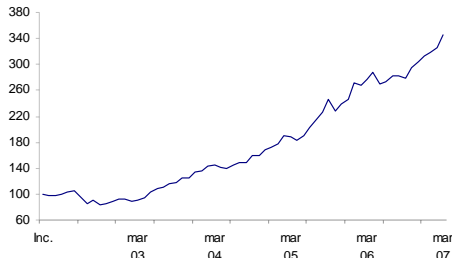
**Figure 2**  
LME Copper price – in US\$/lb



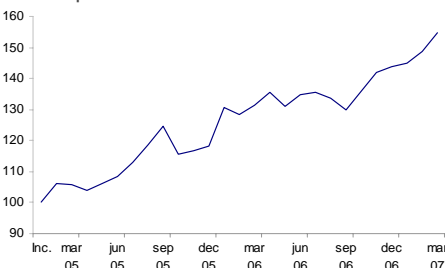
### Comments on our funds

During the first three months of 2007 our funds evolved as shown in Table 1 and figures 3 through 6:

**Figure 3**  
LTIF - Classic



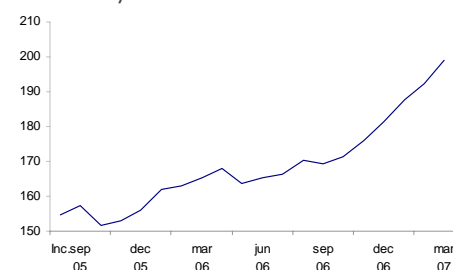
**Figure 4**  
LTIF - Alpha Series



**Figure 5**  
LTIF - Energy



**Figure 6**  
LTIF - Stability Series



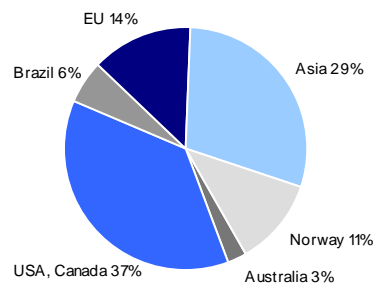
**Table 1: Net Asset Value - Net assets under management**

March 2007	NAV	Δ YTD	Δ 12m	Δ Inception	AUM (in mio)
<b>LTIF - Classic</b>	345.08	10.18%	24.46%	245.1%	€ 484
<b>LTIF - Alpha</b>	154.61	7.52%	17.75%	54.6%	€ 93
<b>LTIF - Energy</b>	132.61	0.82%	-6.11%	32.6%	€ 24
<b>LTIF - Stability</b>	198.9	9.65%	20.32%	28.5%	CHF 21
<b>MSCI World Index</b>	3'442	1.64%	5.46%		

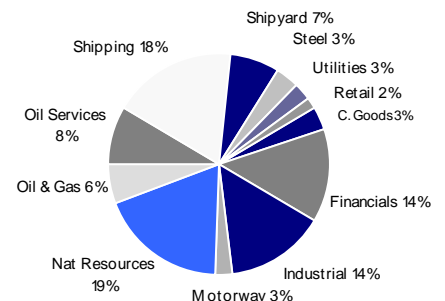
It's obvious that these are excellent results, both in absolute and in relative terms. But we would like to underline, as we do almost every quarter, that these are not the important results. Share prices go up and then they go down. What matters for long-term investors is the profits generated by the companies they own. And in this respect we are very satisfied. A large number of our investments, from Korean shipyards to European steel distributors are reaping fantastic results, growing sales and profits at a fast pace. We are convinced that our portfolio is poised for an excellent overall return in the next couple of years, even if we are pretty sure, based on experience, that the price of the fund will drop sharply in the next few months (although of course we don't know when, nor we know how much it will have gone up before it goes down, and how long it will take to recover).

In the **Classic** fund we have been working on systematic diversification, a task we started about two years ago. We have now about one hundred companies, that can be grouped in about twenty "themes", covering a wide array of industries and situations, as shown in figure 7 and 8. Although our objective is not to avoid volatility but to obtain long-term profits, our diversification effort shows quantitatively in a relatively low standard deviation of 3.29% over the last year, just 83 basis points above that of the MSCI World Index, which is one of the least volatile indices in the world (being the broadest).

**Figure 7**  
Breakdown by industry



**Figure 8**  
Breakdown by geographic area



Of course, we plan to continue searching for great undervalued companies. We have to, because the rise in our share prices pushes us to constantly look for replacements. But, with a forward average PE of 7, our investors can rest in the knowledge that the Fund is going to do well in the medium term, regardless of the market's episodic "sound and fury".

**Table 2:** LTIF portfolio - measures of Value

LTIF portfolio ratios	31.03.07
Earnings per share - EPS (€) (2008e)	€ 49.7
Price/Earnings - PE (2008e)	6.9
Earnings Yield (2008e)	14.4%
Dividend Yield - DY	2.0%
EV / EBIT (2008e)	5.3
EV / EBITDA (2008e)	4.3

We keep also working on finding more efficient hedges for the **Alpha** fund. Efficiency, in this context, means to protect the NAV against market drops (by somehow shorting the market), but without paying too much of a penalty when the market rises, which it always does over the long term. In this respect we have purchased some puts, which protect the downside but limit the losses in case of upside, and do so at a very reasonable cost. We have also added some specific protection of the emerging markets shares we own. Overall, the Fund should continue returning something like 15% a year, regardless of market movements, although it may experience some short-term drops: when the "sound and fury" start, people over-sell many of the shares we own.

The **Stability** fund is starting to grow, having now reached a total investment of 21 million Swiss Francs. Its "performance" in the first months of the year is probably not representative of the future. It did much better than the Alpha because it has a lower share of natural resources companies, and those dropped sharply in January, and it has a higher weighting of infrastructure companies, particularly Chinese, that did very well in that same month. Also, the relative drop of the Swiss Franc against the Euro in this first quarter (4%) flatters its results against the Alpha fund. Going forward, it should however maintain its goal of a low double digit return with very little volatility, i.e., very few months "in the red".

Finally, the **Energy** fund has been subjected to an in-depth restructuring of its portfolio. As our investors know, we have been disappointed by the profits of many oil producing companies, not because the price of oil has been lower than we expected (it hasn't) but because costs have exploded everywhere in the industry. Not only the oil sands developments in Canada are now twice as expensive to set up as they were just one year ago, but the UK Offshore Operators Association reckons finding and development costs per barrel rose by 45% in 2006. On top of this, governments worldwide (starting with the British) have increased taxes and royalties on the oil companies: few investors know, for instance, that most major oil companies pay up to 80% of the price of each barrel to the host government.

All this makes for a sustained high oil price, but not in a way that benefits most oil producers. For this reason, we have narrowed our choice of oil producers to those with a combination of costs/reserves that can prosper in this environment, and have added an important proportion of companies selling goods and services to the oil producers — in a way, the companies responsible for the costs increases.

These companies go from producers of specialized tubes used in oil rigs to the actual owners of the rigs, typically rented to oil explorers; from specialists in seismic surveys necessary to ascertain future prospects for oil production to the owners of the vessels used to supply off-shore platforms. Most of those products and services' prices have more than doubled in the last 18 months, and their profitability has exploded. Of course, supply will eventually be put forward to capture those profits, and margins will decline. But it's going to take a long time, given bottlenecks in many facilities, such as specialized shipyards, or simply the availability of qualified personnel. The prices at which we can now buy those companies ensure an excellent return over the next few years, as shown, for instance by Atwood Oceanics, a US-based owner of oil rigs, that it leases to oil-producing companies.

As of today, Atwood Oceanics owns eight such rigs, of different characteristics. A ninth is to be delivered in September next year. The company rents its rigs out in medium to long-term contracts (one to two years). Most of the rigs are fully committed for the next two years. Daily rates have gone from about \$150,000 in current contracts to more than \$300,000 for next year's contracts. This gives good profits visibility, and a 2008 PE of about 6. What's more, we keep a detailed list of all the rigs to be delivered in the next three years (this as far as shipyards will take orders for) and there is simply no way that supply can keep up with demand, thus making sure that rates will stay high. In effect, some companies are already signing five-year contracts at current prices.

After restructuring the portfolio towards service providers, in addition to oil producers, we can now say that the expected return of the Energy fund is as good as that of the Classic fund (if not better): its forward PE is 6.9. But it has an important advantage: it protects investors' portfolios from a prolonged rise in the oil price, rise that is going to happen, in our opinion, sooner or later, given the dynamics of supply and demand.

#### **SIA News**

Most of our investors will have already received notice of a few changes in the Prospectus of the Luxembourg funds, already implemented. These come down to two things: the already-explained restructuring of the Energy fund's portfolio; and the fact that SIA Funds AG is now the official manager of the fund, instead of Pictet et cie. This is the end of the long legal process to establish Strategic Investment Advisors as a Swiss fund manager, fully supervised by the Swiss Federal Banking Commission, managing on-shore, Luxembourg- and Swiss-based funds.

The other piece of news is that we have started hiring some young graduates to help us follow our companies. We fully expect them to become good analysts, contributing to our long-term performance. They will join us over the next few months and we will introduce them to our investors in these Newsletters.

Finally, and this will be explained in a specific communication, we are preparing a "mining fund". We continue to see enormous value in many mining companies and would like to offer our investors the opportunity to participate in that value, beyond the necessarily limited part of the current funds that we invest in them.

## Legal Notice - Luxembourg

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. Reports are available from SIA Funds AG. Past performance is no guarantee of future trends.

Long Term Investment Fund is an open-ended investment company of the umbrella type organised as a "société anonyme" under the laws of the Grand Duchy of Luxembourg and qualifies as a Société d'Investissement à Capital Variable ("SICAV") under Part I of the Luxembourg law of 20th December, 2002. It has three active compartments, called "Classic", "Alpha", and "Energy", which fully resemble both the Long-Term Investment Fund in BVI (classes "Classic" and "Alpha") and the Global Energy Value Fund with regard to their investment objectives and operational structure. This newsletter is only addressed to qualified private investors who have expressed a desire to receive it, and by no means constitutes an offer to sell financial products that may not be suitable for its readers.

**Administrator:**

Pictet & Cie (Europe) S.A.  
1, Boulevard Royal  
L-2016 Luxembourg  
Luxembourg

**Investment Manager:**

SIA Funds AG  
3, Seedammstrasse  
CH-8808 Pfäffikon  
Switzerland

**Custodian:**

Pictet & Cie (Europe) S.A.  
1, Boulevard Royal  
L-2016 Luxembourg  
Luxembourg

**Registered Office:**

1, Boulevard Royal  
L-2016 Luxembourg  
Luxembourg

**LTIF – Classic**

ISIN: LU0244071956  
Telekurs: CH2432569  
Bloomberg: LTIFCLA LX

**LTIF – Alpha**

ISIN: LU0244072178  
Telekurs: CH2432573  
Bloomberg: LTIFALP LX

**LTIF – Global Energy Value**

ISIN: LU0244072335  
Telekurs: CH2432575  
Bloomberg: LTIFGEV LX

## Legal Notice - Switzerland

Performance up to 30.09.06 is that of the LTIF BVI Fund, restated in CHF, of which the LTIF Stability is an identical successor. Previous performance is audited by Ernst & Young. Reports are available from SIA Group. Past performance is no guarantee of future trends.

Long Term Investment Fund Stability (SIA Funds) was approved by the Swiss Banking Commission on July 13, 2006. The fund started trading denominated in Swiss Francs as of October 1st, 2006. This newsletter is only addressed to qualified private investors who have expressed a desire to receive it, and by no means constitutes an offer to sell financial products that may not be suitable for its readers.

**Administrator:**

Pictet Funds SA  
29, boulevard Georges Favon  
CH-1204 Geneva  
Switzerland

**Investment Manager:**

SIA Funds AG  
3, Seedammstrasse  
CH-8808 Pfäffikon  
Switzerland

**Custodian:**

Pictet & Cie  
29, boulevard Georges Favon  
CH-1204 Geneva  
Switzerland

**LTIF – Stability**

ISIN: CH0026389202  
Telekurs: CH2638920  
Bloomberg: LTIFSTA SW