Long Term Investment Fund

Our funds have had a very negative NAV evolution during the last three months. Specifically, for the Classic fund, -21%. It was worse for the Mining fund, -30%, and not good for the Energy fund, -13%. What may bother some investors even more, our "hedged" funds have also had a negative three-month period, which basically means that our shares have done broadly worse than the overall market (Alpha -11% and Stability -6%).

This situation has already happened in the past (October 2005, May 2006, August 2007, and January 2008), but not to this extent: after at most two "bad" months, the funds' share price has always "rebounded", improving on the general indices. But now the "slump" seems to be both longer and deeper. Since we now live in a far more pessimistic "macro" environment than we've had for the last few years, it's more than understandable if our clients may be wondering whether their money is after all well invested in our funds.

In these pages we intend to explain why we believe they are indeed good investments, why their market price has dropped, and what we should expect in the near future.

Volatility and risk

Our investors know well the difference we make between volatility and risk. Volatility refers to the fact that some variables (say, profits or their long-term consequence, share prices) simply move up and down a lot. Risk means that the variable has a good chance of going down permanently. Is the recent drop in the value of our shares due to volatility or to risk? In other words, do we still own very valuable companies, which the market simply does not like for the time being, or does the drop reflect a fundamental deterioration in the profitability of our companies? This is the key question of course, together with the related one of what should we expect in the coming months.

The key variable: earnings per share

We have argued for years that investors should not look at the fund as just a "financial instrument" whose value goes up or down more or less randomly, but as a company in itself, diversified in a number of businesses throughout the world. Like for any company, its shares' long-term price will be determined by the evolution of its earnings per share, regardless of the market's day-to-day movements. This is why we report our PE and earnings per share, something very few funds do: this way investors can make an informed decision whether the fund is a worthy investment or not.

Figure 1 shows the evolution of the fund's earnings per share since its inception. Its increase from early 2002 to the end of 2007 amounts to 341% (28.5% annualized), which is not very far from

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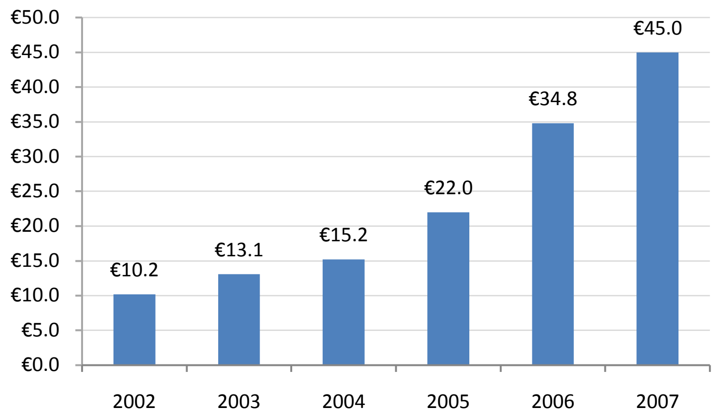
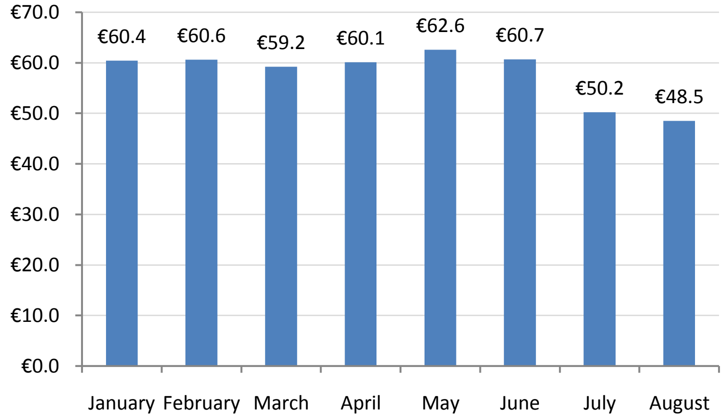
the increase in the fund's share value, which was 313% (26.7% annualized). That's why we argued back in 2007 (and earlier) that, although the fund's share price was sharply up, it was not really more expensive than in the past, because its underlying profits had grown at roughly the same rhythm: in technical terms, its PE had not changed.

Figure 1
LTIF EPS since inception



This is the past. Let's now look at the recent evolution in the fund's expected earnings per share. When we started the year 2008, we expected to earn some €56 in 2008 and a bit more than €60 in 2009, corrected by the necessary adjustments described in our December 2007 Newsletter. This would have represented an earnings per share increase in 2008 of 24% over 2007, and of 7% in 2009 over 2008. Logically, we adjust these estimates as the year progresses. Figure 2 shows how our expected profits for next year have evolved, month by month.

Figure 2
LTIF expected EPS 2009 evolution



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As can be seen, we expected, at the beginning of 2008, that our fund would earn about €60 per share in 2009. This, with a share price of €413, represented a return of 14.5%, or a PE of 6.9. That expectation remained fairly constant until June, which meant that, as the price of the fund's shares went down, its PE also went down. But, as you can see in figure 2, our expected profit for next year has gone down by 20% over the summer, which is reflected in a flat PE even after a drop in the fund's share price. What has happened?

First of all, as we explained in detail in our June Newsletter, we made two bad investments, in a UK homebuilder and in a series of oil refining companies. Those mistakes became evident during the second quarter, and had an impact of about 7% in our expected earnings per share. During June, that drop was somewhat masked by the stronger than expected rise in the oil price but, as we explain in the next paragraphs, that "compensation" has disappeared over the summer.

Indeed, more importantly than those two mistakes, the price of a number of commodities has dropped sharply in the last few months, especially US natural gas, oil, steel, and agricultural commodities, be they products (corn, wheat, soya) or their inputs (fertilizers). Simultaneously, the rates charged by shipping companies to transport those commodities have also fallen sharply.
Some of these price drops do not affect our profits: we have no material investments in agricultural commodities, for instance.

Some price drops we had already factored in our profits estimations (small downward adjustments in copper, nickel, zinc). But some did affect our expectations: if oil futures (10 years out) are at $140 per barrel, we expect our oil-producing companies to make more money than when oil (again, 10 years out) trades at $110.

All in all, we have the following percentages affected by these drops:

- Oil & gas producing companies: 16.1%
- Shipping companies: 6.1%
- Steel producing companies: 2.6%
- Zinc and Nickel producing companies: 2.3%

In addition, we have 5.9% invested in copper producing companies, 1.8% in iron ore producing companies, and 6.8% in coal producing companies. These three commodities' prices are holding very well, and we do not expect them to go down materially for at least a couple of years (in fact, many specialized analysts expect them to go up, because supply is extremely tight). Having said this, current weakness in the steel markets points to a possible long-term reduction (after 2010) in iron ore and metallurgical coal prices, which have taken into account in our expected returns.

We have applied all these drops to our future profits, in a very conservative way, for we are certainly not convinced that oil prices, for

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instance, will stay at this level for the next 40 years, which is the average reserve lives of our oil-producing companies.

But it must be stressed that, together with these adjustments, we have a large majority of companies in our portfolio where we have not adjusted our profits down… and some are actually up.

2008 profitability

Once all the adjustments made, we expect now to earn slightly more than €50 per share of the fund in 2008. This is a fairly certain prediction, for we are now ending the third quarter, and many companies have more than enough visibility to cover the next three months.

€50 is about 10% more than what we earned in 2007, and represents a profitability, over the January 1st price of the fund of 12%. This is less than our 15% objective, but it is by no means a disaster. At worst, we expect the same profits for next year, which would imply a return, from today's share price, of 16%.

Fundamental drops and volatility

Why has a fund (a "conglomerate company") that expects to earn €50 this year and next (at least) dropped so sharply, so that it trades at a PE below 7, when the S&P 500 stocks are trading at an average PE of 21? (In parenthesis, we know this is a hard to believe number, for all analysts like to give much lower PEs to convince people that the market is cheap and induce them to buy). You can check the real number as calculated by Standard and Poor's itself:

S&P 500 - Index Level Fundamentals (Link)

Alongside a drop in our fundamental expected profits of about 20% throughout the year, we have many companies whose shares have gone down "in sympathy" with no fundamental reason whatsoever. For instance, 10.8% of our portfolio is invested in oil drilling companies. These companies own and operate drilling platforms, which they rent to the oil industry on long term contracts. Every week we get news of new contracts, as the old ones expire, and they are almost always at record levels both in terms of price and duration. Most companies have all their rigs contracted out for the next three or four years: it's hard to find better visibility. Their PEs are in the single digits, around 6-7.Yet their shares have lost 30% in the last few months, as they rack up record profits and pay enormous dividends. Of course, if oil became so cheap that it would not be worth searching for it, the profitability of these companies would suffer. But we have seen already what happens when companies cut down on exploration, as they did in the last few years: oil prices explode, for there is not enough supply.

Something similar can be said of shipbuilders, which represent 3.8% of our portfolio. Some of their shares are down 50% for the year, in spite of firm order books for the next three years. Some of these companies, such as Samsung Heavy, are the world leaders

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in liquefied gas tankers. Now, the world is counting on an enormous increase in LNG trading over the next few years, the gas fields are being prepared, the liquefaction terminals being built… and there are no tankers to carry it. Demand for them is not going to drop.

We have metals distributors, whose long-term profits are unrelated to metals prices, trading at PEs of about 5, dragged down by the drop in steel prices (which is good for the shipbuilders, by the way). The market is also showing some inconsistency: for many mining companies, energy in the form of diesel represents up to a third of their costs. A drop in oil prices can only help them, first by lowering their costs and then by, in principle, stimulating economic activity. But their shares, even for copper companies whose commodity has not gone down materially in price, have dropped by 50%. And so on.

Some examples

Let us give you specific examples of some of our companies, and why we believe we have enormous value in the fund.

- **Quadra Mining** is a copper producer, based in the US, with a market capitalization of $1 bn, and $400 million in net cash. It is going to earn $250 million in 2008, thanks to record production from its only operating mine, called Robinson. It has a current year PE of 4. But it gets more interesting: in a month's time they will start production in their second mine, Carlotta, with a production of about 50% that of Robinson. In addition, they have two good projects, one in Chile and the other in Iceland, not producing yet, that they could sell in the market easily for $200 million. We leave the reader the task to estimate the "real" PE of the company, even assuming a drop in copper price from the current $3.3/lb to $3 (the futures market is above that, and many analysts expect $4).

- **IMS** is a specialty steel distributor, headquartered near Paris, and active throughout Europe. It has a market capitalization of €280 million. It conservatively expects an operating profit of $80 million for this year, and sticks to its target of 6% to 10% growth in the future.

- **Catlin Group** is a UK-based re-insurer, with a market capitalization slightly above 800 million pounds. It expects to earn more than 190 million pounds this year, and it should be able to stay close to those profits in the future, eventually increasing them. By the way, their cash dividend yield represents 8%.

- **Grande Cache Corporation** is a Canadian producer of metallurgical coal. It has a market capitalization of $450 million, and very little debt. It expects to produce 1.7 million tons in 2009, ramping up to 2.4 million in 2011. Metallurgical coal is normally sold on the basis of annual contracts, with a small proportion sold on the "spot" market. Contracts for next year

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are being signed well above $300/ton. The company has a cost per ton of some $90, which means a gross margin of a bit more than $200 per ton. Multiplied by the 1.7 million tons of production, this implies an Ebitda for 2009 of some $340 million, not very far from the company's current total market capitalization. We expect prices to start going down in a couple of years, perhaps to about $120/tn in about five years' time, for new mines cannot be opened profitably below that level. All in all, investors will recover all their investment in the next two or three years, and then have a very long-lived rent of about 10% of the current price.

- **Li Heng Chemical Fibre Corporation** is a Chinese manufacturer of artificial fibers for the textile industry. It has a market capitalization of US$ 700 million. It expects profits this year of about $150 million, with strong growth coming from new factories in the next three years. Most of its customers work for the Chinese internal market, not for export.

- **KSB AG** is a German manufacturer of pumps, specializing in the water and energy sectors. It has a market value slightly above €700 million, with €100 million of net debt. It has reported excellent mid-year results, and expects net profits of some €85 million this year, with a gentle growth of 5%-10% afterwards. Some of their products are truly unique, such as pumps for nuclear plants, which have to be replaced with pumps from the same maker. Water treatment plants are being expanded throughout the world, and there is certainly no drop in demand in sight.

- Finally, we can mention how most oil producers' reserves are now valued by the market at less than $70 per barrel, which is less than the marginal cost of finding, developing, and exploiting new oil fields. As mentioned above in the example of Mexico, depletion of existing fields is actually accelerating, and the world is going to have to "create" the equivalent of more than "one Iraq" per year just to keep current production.

What to expect

What should we expect in the coming months? We don't expect a drop in our underlying profits, even in the commodity area, for a clear reason: in most cases, commodities are now traded below the variable cost of the marginal producer, which means prices cannot drop without triggering capacity closures, which balance prices again (indeed, these have already happened in zinc, nickel, and steel-making). In those commodities where prices are above marginal costs, we don't expect short term drops, either, given the extremely tight supply situation: copper, coal, iron, manganese, molybdenum. In the case of oil, we would not be surprised by a sharp rise in price: the world has run out of spare capacity again, and some key oil producers, such as Mexico, are producing 12% less than last year due to the fast depletion of their oil fields. It has taken a doubling of the oil price in 12 months to force a demand drop of 1% in the rich countries, but demand is still growing in

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emerging markets. Regardless of a possible temporary cooling of their demand, we believe it's clear that, over the long term, billions of people are going to continue working hard to attain better standards of living, and that requires energy which, today and for many years to come, requires oil. It is remarkable that the biggest discovery in 25 years, off Brazil, contains a maximum, very optimistic amount of 30 billion barrels of oil. This sounds like a lot, but it amounts to one year of world consumption. If every 25 years we discover what we consume in 1 year, we are going to run into problems pretty fast.

As we have noted, we have extremely detailed data and analyses of all the industries in which we have invested. This is probably not the place to go into all those details, but we are certainly happy to share them with our investors, so they can appreciate directly the rationale for how we place their money.

Those analyses lead us to believe that the poor-performing commodities have not much to fall (and probably some may rise), we see no reason why our shares should continue falling. They may still correct, but certainly not in the proportions we have seen in these past months. It's a bit surprising to realize that oil prices are 15% up for the year (how many businesses can say that of their main product?), yet most oil producing companies' shares are down in this period. At the same time, the majority of our companies whose profits are not really affected by this correction in commodities will, sooner or later, reflect their intrinsic value. We believe, therefore, that the next months should see a stabilization of our share price, and eventually a recognition of the enormous value latent in our portfolio.

A last point on the commodities correction: the last weeks have seen the closing of several highly leveraged hedge funds specializing in commodities: their high leverage has multiplied their losses, and they've had to liquidate their positions. This has probably created some selling pressure that will, by its very nature, disappear. As our investors know, our funds are not leveraged and hold no futures, but just shares that we can keep for as long as our investors want.

Summary

The sharp deterioration in expectations over the summer has affected most commodities, in some cases with a speed that has surprised us. This has affected our expected profits for next year, to put them conservatively at about €50 per share, roughly the same amount we expect for 2008. Given the overall economic situation, we believe there is good value in our funds. We keep also working analyzing companies in other fields that present now good investment opportunities, after the market's correction. The following table details our positions and how they are affected (or not) by this correction.

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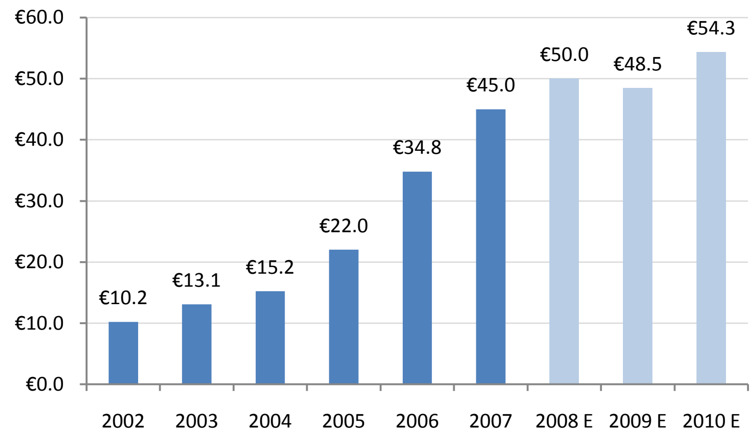
Table 1: Sector impact of dropping commodity prices

Sector	% of portfolio	Status
Oil & gas	16.1	Affected by dropping commodity prices
Zinc, lead, nickel	2.3	
Steel	2.6	
Copper	5.9	Indirectly affected by dropping commodity prices
Iron ore	1.8	
Coal	6.8	
Manganese, molybdenum	1	
Shipping	6.1	Unaffected by commodity prices
Drilling & oil services	14.4	
Banks	2	
Insurance	12.8	
Utilities	5.2	
General Industry	16.1	
Other	7.1	

In the end, our fund is like a company, with its own profitability. Figure 3 shows, like figure 1, our earnings per share for the last six years, plus the earnings we expect in 2008 and in the future. These earnings can be had now for little more than €300. It's obviously up to the investor to decide whether this is a good deal or not. But, by way of comparison, the average S&P 500 unit will earn some $60 in 2008, and probably not much more in 2009, and it trades at more than $1.200. We continue to be fully invested in our funds. We don't like these drops, we don't like to adjust our expectations downwards, but we still believe this is a very profitable "conglomerate" that can be bought very inexpensively.

Figure 3
LTIF EPS expectations



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And, by the way, so think most of our investors: over these very “bad” three months, redemptions from our funds have amounted to less than 3% of our total assets under management. Our clients clearly seem to understand our philosophy and investment methodology. This trust is what motivates us above all to continue working to deliver value.

Some news

In a few weeks we’ll open our Singapore office, dedicated exclusively to do first-hand research on Asian companies. In spite of current market jitters, it seems obvious that any successful investor must cover well that part of the world. For cultural, idiomatic and even regulatory reasons, we feel it’s very important to be close to it. Ed Yau and Jordi Costa, from our Geneva office, will move there at the end of September, and they’ll probably hire one or two local analysts over the next few months.

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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.

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Telekurs: CH2432569
Bloomberg: LTIFCLA LX

LTIF – Classic USD
ISIN: LU0301247077
Telekurs: CH3101820
Bloomberg: LTIFCLU LX

LTIF – Classic CHF
ISIN: LU0301246772
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Global Mining Value Fund is a Luxembourg multiple compartment Investment Company organised as a "societe anonyme" incorporated on June 6, 2007 and subject to the Luxembourg law of February 13, 2007 relating to Specialized Investment Funds (SIF).

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