Long-Term Investment Fund
Newsletter April 2004

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**.

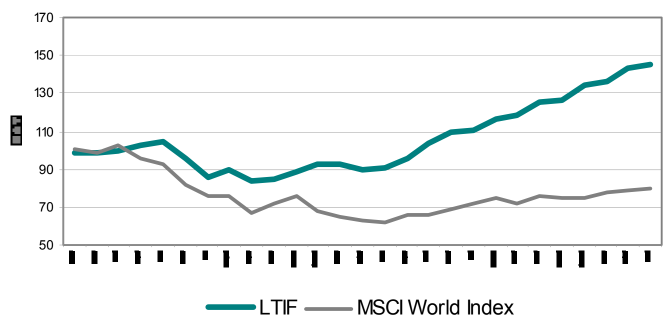
Results on our portfolio

Excellent profits at practically all companies

We have now the full data for 2003 for all our companies. With very few exceptions, they are all at record profits. Companies like McCarthy & Stone, Depfa Bank, or Canadian Natural Resources (our three largest positions) have increased profits by more than 25%, and augmented dividends. Even those that disappointed (Boskalis, Natuzzi) had good profits and improved their financial position and are well placed to improve this year. As always, you can see all the details in our web site, **www.ltif.com**

The liquidation value of the fund has gone up by 8.21%, net of all expenses, since January 1st.

The evolution of the fund's NAV per share, compared to the MSCI world shares index, with dividends (net), in euros, has been since inception as indicated by this chart:



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Total Net Asset Value has gone from €12.497.584 at the beginning of the year to 14.981.483 as of March 31st, 2004

Funds that continue to arrive, plus the 8% appreciation year-to-date, account for the 15% increase in the size of the fund over these first three months of the year.

Based on discussions with institutional investors, we foresee a continued inflow of funds for the rest of the year.

Portfolio news

We have sold two companies since the last newsletter, Dinamia and Hunter Douglas. We have added six new companies to our portfolio: Encana and Nexen, Posco, SIG, Bam, and Barratt Development.

In addition to the comments below, you have all the data on the new companies in the "Investment" section of our web site **www.ltif.com**

Dinamia and Hunter Douglas were sold at a reasonable profit (around 30% appreciation over two years)

We believe that both companies were fully priced. In the case of Dinamia, a private equity fund quoted in the Madrid Stock Exchange, we felt that the managers were not doing much with it, having done only one investment (and not a too exciting one, from our point of view) in the whole of 2003. With a market value close to its own discounted NAV, and few new opportunities, we felt there was no value left in it.

Hunter Douglas finally reported better profits, but the rise in the share price more than reflected them. In our opinion, the current price fully values the company.

We continue adding to our commodities positions with two Canadian oil & gas exploration and production companies

With an enterprise value above $25 bn, Encana is one of the world's leading independent oil and gas exploration and production companies The largest exploration and production oil & gas company in Canada, it has a very good reserves position and strong growth planned. Purchase price was low, especially taking into account the oil sands projects (see comments on Canadian Natural Resources in our previous Newsletter)

Nexen is an independent Canadian oil exploration and production company. It has operations in Canada and abroad, especially the Gulf of Mexico, Nigeria, and Yemen. It has a good track record growing its reserves, and a very reasonable price.

Posco, Korea's largest steel producer, is one more way to profit from China's economic growth

Posco, based in Korea, is the world's fourth largest steel manufacturer, and the most efficient one. Posco is a way we have found to "play" the China boom… safely. We believe that China will indeed become a strong economic power, but that investing directly is way too risky. We therefore try to invest in things they'll have to buy, such as iron ore (Caemi) and steel. Posco was extremely cheap, along with the whole Korean market, selling for PEs below 6 and sporting dividend yields above 6%.

SIG is a Swiss restructuring play, with an interesting upside and very limited risk

SIG is a Swiss-based provider of materials and equipment to the drinks industry. The company followed over the years a strategy of growth through acquisitions and diversification. As usual, this led to growth in sales, but not in profits.

The company changed its strategy a few months ago, and decided to sell everything except for two profitable divisions. At the current price, we believe it is an excellent investment, once the money-losing operations are shed.

BAM is a mispriced Dutch construction company, with impressive profitability and cash-flow

Royal BAM Group ranks among the largest construction firms in Europe. The Group is market leader in the Netherlands and has acquired significant market positions in the United Kingdom, Ireland, Belgium, Germany and the United States. In each of these home markets there are separate operating companies which are independently accountable for their own profitability.

The company has undergone several corporate transformations, merging with HBG and then divesting its dredging division, mostly to pay for it. In our opinion, this has made understanding its numbers difficult, and has led the market to seriously undervalue the company. Its share price has also been negatively affected by an anti-trust probe in The Netherlands.

Barratt Development is a leading British Housebuilder, with an excellent track record and strong growth prospects

Founded in 1958, Barratt has become one of Britain's largest housebuilders, having built and sold over 250,000 homes. They currently build and sell over 13,000 new homes a year and are building on over 400 developments throughout Britain. They provide homes for all market sectors, plus homes for rent and shared ownership. The Group has also operated in Southern California since 1980, building more than 14,000 homes.

Very profitable, strong growth, low price. The market discounts a meltdown in house prices in Britain. This may well happen, but we believe that the low share price and geographic diversification more than compensate for that eventuality.

The essence of value investing is to buy well

This is true when the market does not recognize the undervaluation…

As our investors can see, we invest in out-of-favor sectors, for that is where value is to be found. So far, our guesses have proved correct: oil prices are not collapsing, and construction companies are holding their profits. It's important to note that, if one buys a profitable company with a PE of 5, and it maintains its profitability, investors compound their profits at an annual rate of 20%, even if the market never improves its view of the company. This would be the case with McCarthy and Stone: we bought with a PE of 6, it grows profits by more than 30% a year, and the market still gives a PE of 6: our investment has grown by 70% in two years.

…when it does…

From time to time, however, the market realizes that it's not reasonable to price a company with a ROE above 20% with a PE of 6, and it proceeds to increase that multiplier. Then, the share price explodes: profits are much higher (for the company is very profitable), and they get multiplied by a bigger number. That would be the case with Depfa Bank. We bought it when it had a ROE above 20% and a PE of 6. 18 months later, ROE has gone up to 30% (that is, profits are growing very strongly), and the market is now paying 10 times for those profits. As a result, our investment has more than trebled in these 18 months.

…and even when the

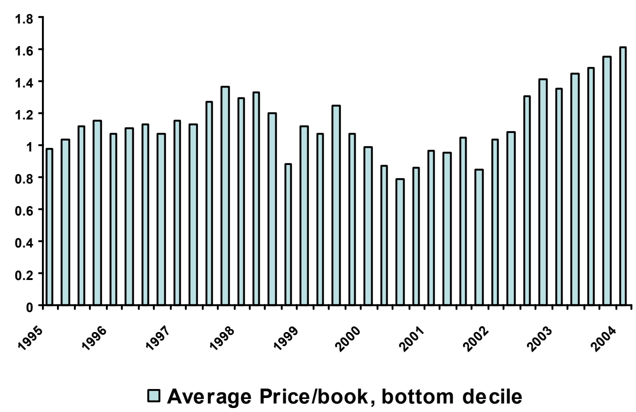
Interestingly, if one buys very cheap companies with good *company does not do too well.*

profitability records, the downside is very acceptable, even when things deteriorate. Take Boskalis or Natuzzi. We bought them with very low PEs (around 6), because the market thought their very high profitability would take a hit for a couple of years. Well, the market was right: though still positive, results for both companies have been worse in 2003 than in the past. But since that was discounted, the share price has actually gone up (by about 30%) since we bought them. Plus we keep collecting dividends, and expecting the upturn. Not too bad, if this is the worst case scenario (of course, this assumes that the companies were correctly analyzed, and that they strategic positions are not too weak).

Outlook

Markets are even more expensive than in the past…

Markets are still very expensive. In a way, they are more expensive than ever. If it is true that the main indices are lower than in 2000, that is true because a number of large companies (that weight heavily in the indices) very more expensive then. But if we look at the average company, or even more, at the relatively inexpensive ones (the ones that interest us), they are at record prices today, as shown by the graph below:



Source: Compustat, LTIF research

This graph shows the average ratio of share price to book value per share (a typical measure of how much the market is ready to pay for companies) for the 50 “cheapest” companies in the S&P 500 (the “cheapest” are those for whom that ratio is lowest), quarterly, over the last eight years. In a word, the cheaper companies are getting more expensive, even if the very expensive ones are now a bit less expensive (this, partially, explains why many value investing strategies have beaten the indices over the past three years).

This, by the way, holds true in all other main markets.

…prompting a slight change in our investment practice (not philosophy!)

Thus finding the companies that are interesting to us becomes a bit more difficult, which is prompting us to slightly change our investment style.

Ideally, we would buy excellent companies at a very low price, and keep them for ever. But this is more difficult now for two reasons: there are very few excellent companies at a low price; and, when there are, they tend to go up in price very fast.

This will force us to buy companies with a 20-40% appreciation potential (simply, because they are undervalued), and sell them relatively quickly once that potential is realized. Thus our profitability should continue to be good, but we will have to resign ourselves to parting with our companies faster... and to having to work harder at finding new companies to substitute them.

In any case, we honestly believe we can still find enough opportunities to provide our investor with solid returns: despite LTIF's exponential growth, it is still very small in absolute terms, and funds can be safely invested. As we said, as long as we place our savings in solid companies, bought at reasonable prices, we can ignore what the markets do. Over the long term, our profits will simply compound, until the market recognizes the value in our investments.