Long-Term Investment Fund
Newsletter December 2003

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**.

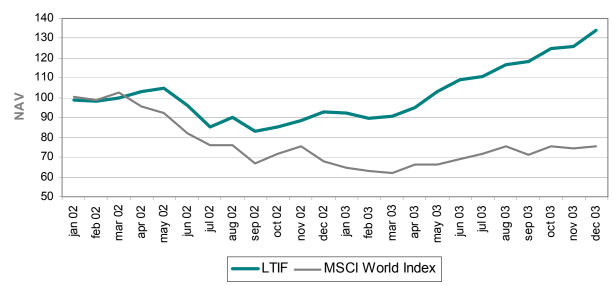
Results on our portfolio

Excellent profits at practically all companies

Again, most of our companies have done very well during the last quarter. We don't have the data yet for the full 2003, but more than half the companies we own will have a record profit for this year. In the March Newsletter we will provide the intrinsic value of the fund, once all annual results are out. But we can already anticipate a good increase. It's interesting to note that not one of the companies we acquired in 2003 has performed poorly.

The liquidation value of the fund has gone up by 44.25%, net of all expenses.

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



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In our second year of operations, the market has recognized our investment philosophy. Thus the "liquidation value" of the fund has gone sharply up, exceeding the overall appreciation of most markets. Investors in the fund will see an appreciation of their investment of 44.25% for the year, net of all fees and expenses.

Total Net Asset Value has gone from €4.818.440 to €12.497.584 in 2003

This has happened in a context of constant in-flows of money to the fund. The Net Asset Value of the fund has gone from €4.818.440 at the end of 2002 to €12.497.584 as of December 31st, 2003. That increase is due to in-flows (€4.540.111) and capital appreciation, plus dividends.

The fund's performance data are as follows:

Performance as of December 31st 2003, net of fees

· Month	6.69%
· Year-to-date	44.25%
· Since inception	34.30%
· 3 months rolling	13.63%
· 6 months rolling	23.00%
· 12 months rolling	44.25%

Statistical analysis (12 months rolling)

· Standard deviation	3.42%
· Standard deviation (annualized)	11.85%

Comparison with base index (MSCI World share index with net dividends, in euro)

· Alpha	26%
· Beta	.54

Portfolio news

We have sold two companies since the last newsletter, again for opposite reasons. We have also added two new companies to our portfolio.

Petroleum Development Corporation sold at a very large profit (capital appreciation of more than 250%)

We sold Petroleum Development because, although we continue to believe it's an excellent company, its valuation had gone beyond any reasonable fundamental justification. We bought it around $6 (adding some at $9), and sold above $22. It was a large position, and has provided the fund with an outstanding return. We still believe American natural gas is a great investment, and we have redirected some of the proceeds from the sale to increasing our holdings of Canadian Natural Resources. If PET's share price drops to a reasonable level, we might buy the company again.

Teleplan NV sold at an important loss (45%)

Teleplan NV has been a constant disappointment. First, we made the mistake of buying it too expensively, as we indicated in a newsletter last year. We have learned that when profit growth comes from acquisitions, it is difficult to assess the company's real prospects. It is perhaps the only company we have bought at a price above what we normally demand, but we thought that its excellent growth prospects warranted the richer multiples.

Well, we were wrong. First, the company surprised investors with results well below what it had led us to believe. And then, it transpired that it had closed long-term contracts in dollars, but its costs are in euros. The (relative easy to foresee) drop in the dollar has made the company basically unprofitable.

The problem is, the company had not disclosed this most serious currency risk (un-hedged) until it was too late. Otherwise, we would have sold earlier, and at a better price. But we honestly believe that, compared to the company's profit expectations, we sold at a very good price. Unfortunately, that price was about half of what we had paid.

We have added two Brazilian companies to the fund and continue to add to our positions in commodities

We have had to find new investments during the year for, as was mentioned, we have received as much new money as we had at the beginning of the year, plus we have had to re-invest the proceeds from the companies we have sold.

In the previous newsletter we said that commodity companies could be an excellent investment for the long term, if they were well managed and could be bought at a low price. We continue along that route, but the problem is that most commodity companies have become very expensive, for the market has realized the scarcity of some of the basic components necessary for economic growth.

Following our deep value approach, we have decided to buy two very interesting commodity companies, located in Brazil. Although the fund tries to concentrate on developed countries, we believe that Brazil offers a relatively secure environment for our money, particularly when the companies we are buying are basically export-oriented and have their sales thus denominated in dollars.

- Caemi is a company deriving most of its sales from iron ore, being one of the world's largest producers. It sells in Europe and China. We found it at a very low price, and has already appreciated significantly (35% in a couple of months). We believe it has an excellent future, for it has very low costs and enormous deposits. Even if iron ore demand decreases (thus diminishing the company's profits), we believe we'll be able to more than double our investment in a very few years.

- Klabin, also based in Brazil, is a pulp and paper company. They specialize in cardboard boxes. Their costs are approximately one third of US costs. They own extensive eucalyptus plantations and have solid growth plans. The company went through a phase of bad strategy, but has now finished a restructuring that has left a focused, well managed company.

Prospects for 2004

It is an essential part of the fund's philosophy not to try to guess what the "market" is going to do. Thus we profess to have no idea what share prices will do in 2004.

But we are fairly confident that the companies in our portfolio will do well. Thus, even if share prices go down in 2004, we will continue to build intrinsic value, and reap good share appreciation when the market turns around. If, on the other hand, markets keep going up, so should our shares.

In any case, there are three key points that stand out, in our opinion, when trying to peer into 2004:

- The continuing weakness of the dollar.

  Again, we don't know what the dollar will do, but we believe it's extremely likely it'll continue going down, and that it will stay low for a relatively long time. This has two implications for us. First, we must continue hedging all our dollar-based positions. Second, we must be careful when buying companies with important sales in the US. For this reason, we have not increased our positions in Natuzzi and Hunter Douglas. Both companies are based in Europe, but have 50% of their sales in the US. In both cases, sales are going up by volume, but down when translated into Euros. Fortunately, both companies have a large amount of their costs also denominated in dollars, but profits are necessarily lower than they would have been, had the dollar stayed high. We think this phenomenon will affect, long term, patterns of consumption: Europeans will consume more, and Americans less. This is fine, but companies will take time to re-direct their marketing efforts, and we must keep this process in mind.

- The growth in China and, closely related, the pressures on commodity prices.

  At the end of 2002, most commodities were far cheaper, in constant dollars, than they had been 20 years earlier. This is due to a number or reasons, but has had a clear effect: investors have not put much money into commodities production for the last 10 years. Thus capacity has, in fact, decreased in the last few years, as mines, forests and natural gas wells have been depleted without renovation.

  This is obviously unsustainable by itself, but the imbalance between supply and demand has been dramatically exacerbated by the strong growth achieved by China. This growth is going to have a tremendous impact in the near future, and it is probably the most important development for an investor in the beginning of this century.

  Other countries have developed fast in the past, from the US in the 19th century to Japan or the "Asian Tigers" (Korea, Singapore, Hong Kong and Taiwan) in the 20th. What's different this time is, of course, China's size. Thus, the impact on the rest of the world is not the same if China grows 8% as if Singapore grows 8%. Certainly, only a part of China is "advancing", but that part is bigger than most people realize. To give two examples: China's steel industry is already bigger than those of the US and Japan combined; mobile phone penetration is already 18% of the total population (by the way, this means that practically *all* growth in that industry is now happening in China).

China will not grow in a straight line. It will have its crises, like any developing country (its banking sector is, for instance, rotten). But the overall trend is obvious. In this respect, it is interesting the comparison with the US in the 19th century. In a hundred years, the US went from a rural, undeveloped economy, to being the world's largest economic power. But foreign investors lost everything six times, in various crises. Thus the long-term prospects are good, but blindly investing "in the new thing" is a sure way to lose money.

China has a big difference with the US: it is poor in natural resources. Thus China's development will necessarily put pressure on commodities that are both necessary for and foreign to China. Wisely investing in those commodities is, we believe, the best way to profit from China's long-term growth.

- The expensive price of stocks overall

The third point is somewhat related to the two previous ones. Stocks are, from a fundamental point of view, very expensive in the US, fairly expensive in Europe, and only reasonably priced in other markets if one forgets about their intrinsic risks.

After almost twenty years of rising markets, investors are still obsessed by stocks. But those are not a very good investment, taken as a whole, and will probably not be one for many years to come, given how expensive they are.

Thus we must be very careful when investing. Finding the kind of companies we want is difficult, for prices are very high in general. But it is an approach that ensures that our investments will bear fruit, if not necessarily in the short-term, certainly with a horizon of three to five years.