Long-Term Investment Fund
Newsletter July 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

Liquidation value up more than 17% in the first six months of the year

The first quarter of the year, for which we now have all the data, has seen an excellent progress in the profitability of the portfolio.

With only a couple of exceptions, that we will discuss later, all our companies have had a very profitable three months, most of them raking in record profits. Although we don't believe that quarterly results are very meaningful, for normal variance in the real world (i.e., not helped by creative accounting) tends to be high, the truth is that most of our companies enjoy a stably strong competitive position. In the next newsletter we'll present the half year return on cost and intrinsic value of the fund (most companies have not reported half year results yet), but they will be excellent.

Perhaps acknowledging this profitability, the fund's liquidation value (the value that the market gives at a given time to the portfolio), has gone up by more than 17% in these first six months, net of all costs.

LTIF Directory

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Results on our portfolio (cont.)

This valuation has been helped by an extensive currency hedging practice: every investment that is not denominated in euros is hedged. This means we have lost nothing from this year's drop in the dollar's value.

LTIF investors know that liquidation value is not a very good short term gauge of successful investing, though. Markets are now very expensive, and they may drop, taking all valuations with them. But, as long as our companies remain as profitable as they are, investors can rest assured that medium-term liquidation value will be up, given the clear undervaluation of our portfolio.

(On the other hand, markets could keep climbing: when the Nasdaq first hit 1500 in the late 90's, any serious investor would have been convinced that it was wildly overvalued. Well, it *was,* but that did not prevent it from going all the way to 5000, before dropping below 1000. We at LTIF *know* the market is expensive now, but have no idea what it's going to do in the short term).

Portfolio news

We have sold two companies, for opposite reasons, and bought another two.

- We sold Banco Andalucía because we thought it had reached a full valuation. With a PE well above 10, and unclear prospects for growth, we did not see how it could provide, at this price, our target of 15% long term return. We sold it for a capital gain of approx. 50%, after one and a half years.

- We sold ABN AMRO because we believe its medium to long-term future is not very good. The bank is making most of its profits from the mortgage business in the US. The current low interest rate has encouraged many people to refinance their mortgages (and spend the money in consumer goods, by the way, which does not bode well for the US economy or the value of the dollar looking forward). But with central rates at 1%, we don't see how this process can continue. Profits at the bank can only turn sharply south, and this for a relatively long time. We sold at a capital loss of some 15%.

We bought Husky Energy and Zehnder Group.

- Husky Energy is a Canadian company active in oil and natural gas production. They have a small distribution business in Canada, but the bulk of their activities consist of finding and extracting oil and natural gas. As stated in a previous newsletter, we believe that any good portfolio must contain some energy companies, as long as those companies are well managed, profitable, and bought at a low price. Their share price will fluctuate, for the price of the underlying commodities is volatile, but if the company reinvests well its profits and grows production volumes, it's a matter of time for a patch of high prices to produce excellent results (see our comments on PETD further down).

- Zehnder Group is a Swiss company, world leader in radiators and ventilation systems, with a world wide presence. The company has a long history of profitability, is very solid from a strategic point of view, and sells at a very low price.

Performance of our companies

Most of our companies have performed very well in the first months of 2003. In fact, a majority have attained record profits.

The most remarkable is, perhaps, McCarthy and Stone, with profits going up 80% on a 30% increase in sales. The company is so undervalued, given its excellent performance, that it received a takeover bid, which was rejected by the board, who deemed it too low. Outlook continues to be good and, although the housing market is cooling off in the UK, the niche in which the company operates (retirement dwellings), and the areas where it builds (outside of London and the South) bode very well for sustained profitability.

Interesting is also the situation of Petroleum Development Corporation. The company has been very successful in its exploration for natural gas, steadily increasing volumes. And a few months ago, the prices of natural gas went sharply up, as a result of a structural shortage. Profits have gone strongly up… as has the share price.

All other companies have done very well, with the exceptions, pointed out, of two companies: Natuzzi and Teleplan.

Natuzzi reported a sales drop of 14% for the first quarter, and profits lower by 41%, both compared to the first quarter of 2002, which had been outstanding. The main reasons given are the drop of the dollar (the company sells almost half its production in the US) and strong competition from China. Although disappointing, we are not too concerned by those results: the company is expanding its production in low-cost areas (Brazil, Romania, and China itself) and seriously strengthening its branding and distribution. The shares sell for such a low price that even a relatively long period of lower profitability would make an excellent return for shareholders.

Finally, Teleplan thoroughly disappointed investors. Just a few weeks after it gave fairly good results for 2002 and an upbeat projection for 2003, it announced much lowered profits for the first quarter of 2003, blaming the drop in the price of the dollar and the loss of a large client. We believe the low current price of the share does not justify selling it: at this price, even the diminished profitability provides a good return. Moreover, we do believe profitability should go up. But we must confess that our confidence in management has been dented, and we would like to see results for the second quarter to really make up our minds.

Liquidation value

The key statistics for the fund's liquidation value are as follows:

STATISTICS

	As of June 30, 2003
Net asset value per participating share	**€ 109.19**
Performance:	
· Month	5.79%
· Year-to-date	17.28%
· Since inception	9.19%
· 3 Months rolling	20.76%
· 6 Months rolling	17.28%
· 12 Months rolling	14.30%
Statistical analysis *(12 months rolling)*	
· Standard deviation	6.17%
· Std. dev. (annualized)	21.37%
· Sharpe ratio (annualized)	(0.33)