SIA

Strategic Investment Advisors Group

Long Term Investment Fund

Newsletter

of March 2018

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Overview of our funds

Table 1 and figures 1 through 3 show the evolution of our funds' NAV, which is broadly in line with most markets.

Table 1: **Net Asset Value - Net assets under management of our funds**

March 29, 2018	NAV	Δ 3m	Δ YTD	Annualized Return *(s.i.)*	AUM *(in mio)* ** Pool*
LTIF Classic [EUR]	381.48	-6.7%	-6.7%	8.7%	152*
LTIF Stability A Cap [EUR]	170.72	-7.3%	-7.3%	5.7%	9*
LTIF Natural Resources [EUR]	101.91	-7.9%	-7.9%	0.1%	16

Source: SIA Group

Figure 1: **LTIF Classic EUR**
vs. MSCI Daily TR Net World Index EUR

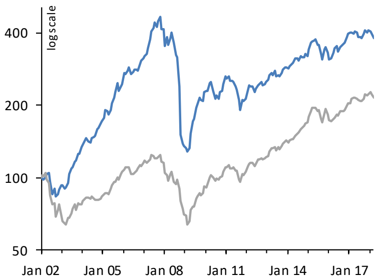


Figure 2: **LTIF Stability A Cap EUR**
vs. HFRX Global Hedge Fund Index EUR

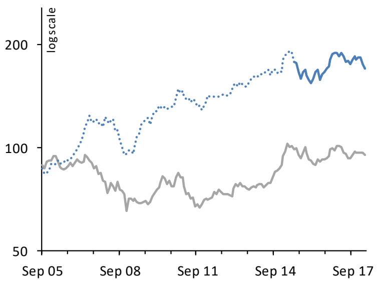
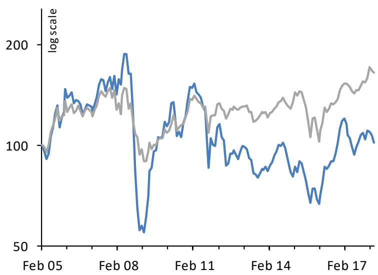


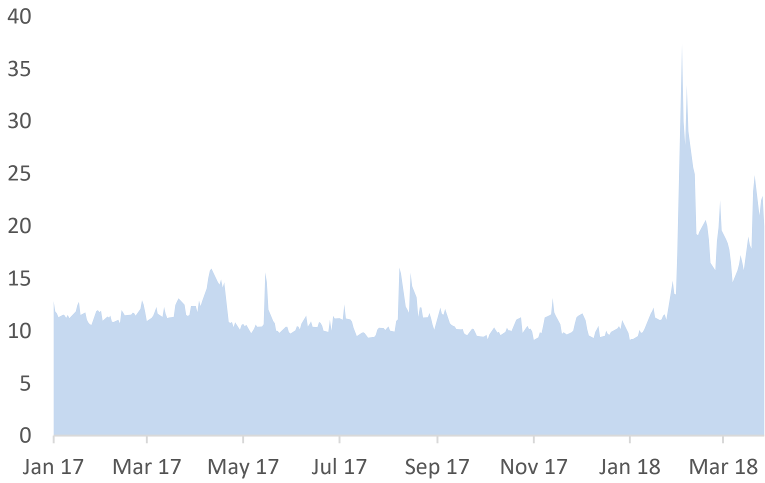
Figure 3: **LTIF Natural Resources EUR**
vs. S&P Global Nat. Res. Net TR Index EUR



This quarter has been marked by two main events: excellent economic conditions worldwide, which have helped most companies increase their profits significantly, and wild gyrations in stock prices: In the first 20 days, the MSCI World Index was up 4%, and then it dropped 8% in the following 10 days. This pattern has continued, with many daily moves of more than 1%, up or down. Remember, if the market were to move smoothly every day, it would go up by 0.025% per day to achieve its logical annual increase of 5-6% before dividends.

Much has been written about the increase in volatility in 2018. After an exceedingly stable 2017, volatility has increased enormously of late, as can be seen in the chart below.

Figure 4: **VIX graph 1.1.2017 to 31.3.2018**

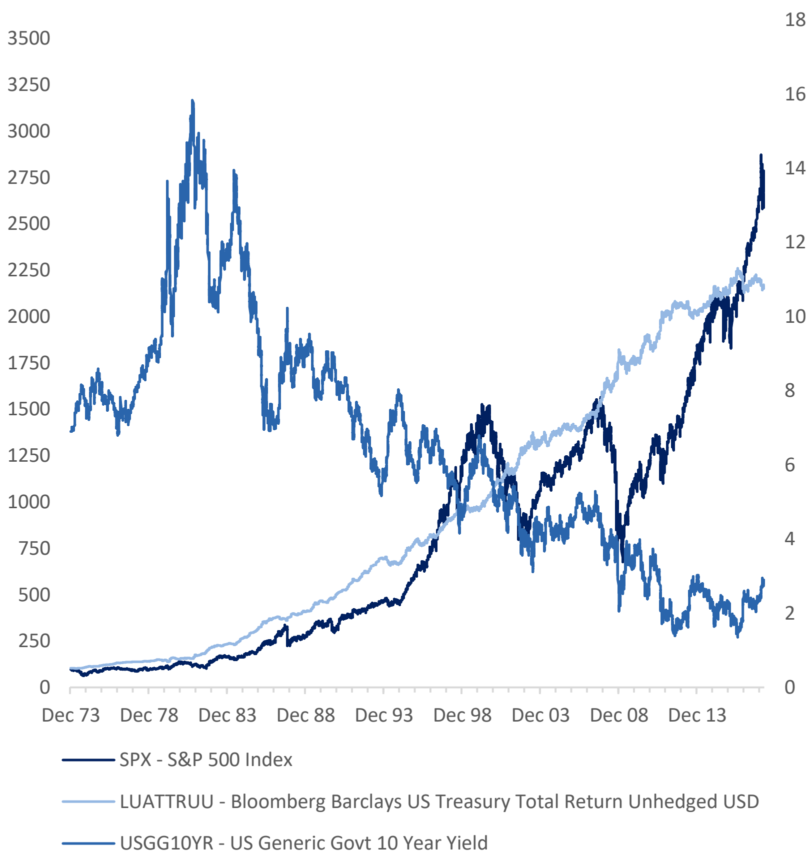


There are probably many reasons for this spike, and the truth is that nobody knows what they are. It has been suggested that the many people now trading volatility directly creates a certain feed-back loop, something very common in financial markets: If people sell when volatility goes up, it increases even more, forcing more sales. Like all feed-back loops, it eventually breaks; in this case, because value investors step in and start trying to profit from the low prices. As the fall slows down, the volatility decreases, and purchases re-start — until the next cycle.

For strategic investors, i.e., those buying stocks hoping to benefit from their long-term increase in profit and not from the short-term share appreciation, this volatility is not only irrelevant. It is, in fact, a very positive characteristic of the markets for the following two reasons.

First, since most investors truly hate volatility, stock markets almost always trade below the value that they create over the long term. This discount generates the equity risk premium: Stocks yield much more over time than bonds, as seen in the chart below, which uses the US S&P 500, a broad index with the longest history:

Figure 5: Chart S&P and Bonds (from our presentation) with the return numbers.



This is obviously extremely important for the long-term investor and is also available, as in the example above, to passive investors just buying an index.

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But volatility offers investors a second advantage, in this case, to active investors: The opportunity to profit from irrational drops in share prices.
Take the example of our investment in EasyJet. In early 2014, four years ago, we bought the shares at £16.5. We have now sold part of that investment at £16.6. At first glance this does not seem to have been a great investment. But, as the chart below shows, the share has been very volatile. That volatility allowed us to more than double our position at £9, resulting in an average buying price of £12.8. The net result is that we have earned a 30% return on the investment, plus more than 10% in dividends. It would clearly have been much better not to buy at £16.5 and to wait until it was at £9. But this we only know in hindsight.

Figure 6: Chart with EZJ price in GBp for the last 5 years

The key to profiting from volatility is to have a clear opinion of what the company's intrinsic value is. If such an opinion is held, every drop in the price is seen as a wonderful opportunity. However, lacking such an opinion, every drop is seen as a warning signal that something is amiss, a terrible loss that has to "be cut." This is why many investors will pay a very high price (i.e., accept a very low profitability) for non-volatile things. Volatility can thus be a source of problems (and therefore something to be feared and avoided), or a wonderful source of opportunity. It all depends on the investment philosophy being pursued.

Comments on our funds

We spent four days in early March in Bergen, Norway, visiting all the main salmon producers. Our investment in these producers has worked extremely well for our investors: Bakkafrost shares have multiplied 15-fold since we bought them six years ago. The other producers' shares have increased less, but they have been fantastic investments. And, amazingly, many are still inexpensive, with PEs below 10 and dividends well above 5%.

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As usual, we have not done too much trading: We have just increased our exposure to copper companies by adding Hudbay Minerals, a company in which we have been invested on and off for more than ten years. We know it well and are convinced that in an environment with strong copper prices, which we foresee for the next five to ten years, the shares offer an enormous upside.

Not much more has happened: Our companies are doing very well, profiting from the synchronized bout of growth the world economy is experiencing. Talking to our companies, we see many plans being brought forward and optimistic expectations based on real demand growth for the first time in a decade. Oil and copper prices are doing what we expected (climbing), and our companies are profiting. Although the share prices don't show it yet, the value locked in them is enormous and will continue to show. We really count on a strong increase in profits this year, which, together with very modest multiples, will result in a very attractive share price appreciation in the next quarters.

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Figures of the USD classes

Table 2: **Net Asset Value - Net assets under management in USD**

March 29, 2018	NAV	Δ 3m	Δ YTD	Annualized Return *(s.i.)*	AUM *(in mio)* ** Pool*
LTIF Classic [USD]	471.17	-4.0%	-4.0%	10.9%	188*
LTIF Stability A Cap [USD]	195.48	-4.6%	-4.6%	5.7%	11*
LTIF Natural Resources [USD]	125.87	-5.3%	-5.3%	-0.4%	20

Figure 7: **LTIF Classic USD**
vs. MSCI Daily TR Net World Index USD

Figure 8: **LTIF Stability A Cap USD**
vs. HFRX Global Hedge Fund Index USD

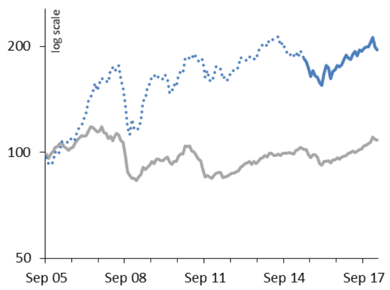
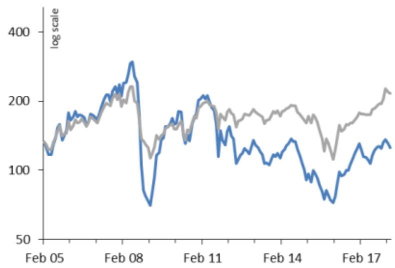


Figure 9: **LTIF Natural Resources USD**
vs. S&P Global Nat. Res. Net TR Index USD



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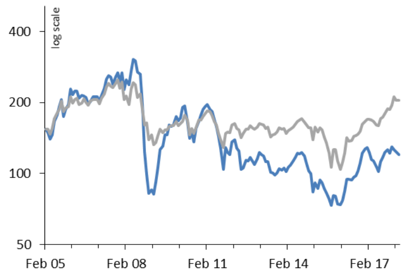
Figures of the CHF classes

Table 3: **Net Asset Value - Net assets under management in CHF**

March 29, 2018	NAV	Δ 3m	Δ YTD	Annualized Return *(s.i.)*	AUM *(in mio)* * *Pool*
LTIF Classic [CHF]	449.30	-6.1%	-6.1%	7.1%	179*
LTIF Natural Resources [CHF]	120.03	-7.3%	-7.3%	-1.9%	19

Figure 10: **LTIF Classic CHF**
vs. MSCI Daily TR Net World Index CHF

Figure 11: **LTIF Natural Resources CHF**
vs. S&P Global Nat. Res. Net TR Index CHF



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Figures of the GBP classes

Table 4: **Net Asset Value - Net assets under management in GBP**

March 29, 2018	NAV	Δ 3m	Δ YTD	Annualized Return *(s.i.)*	AUM *(in mio)* * *Pool*
LTIF Classic [GBP]	334.14	-7.9%	-7.9%	11.0%	133*
LTIF Natural Resources [GBP]	89.27	-9.1%	-9.1%	2.0%	14

Figure 12: **LTIF Classic GBP**
vs. MSCI Daily TR Net World Index GBP

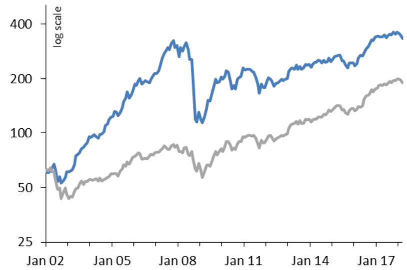
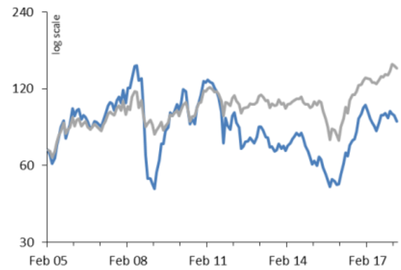


Figure 13: **LTIF Natural Resources GBP**
vs. S&P Global Nat. Res. Net TR Index GBP



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Bloomberg: LTIFCLA LX

LTIF – Classic USD
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Telekurs: 3'101'820
Bloomberg: LTIFCLU LX

LTIF – Classic CHF
ISIN: LU0301246772
Telekurs: 3'101'817
Bloomberg: LTIFCLC LX

LTIF – Classic GBP
ISIN: LU0750886714
Telekurs: 18'032'305
Bloomberg: LTIFCLS LX

LTIF – Classic EUR-D
ISIN: LU1449969846
Telekurs: 33'180'015
Bloomberg: LTIFCLD LX

LTIF – Natural Resources EUR
ISIN: LU0244072335
Telekurs: 2'432'575
Bloomberg: LTIFGEV LX

LTIF – Natural Resources USD
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Telekurs: 3'101'839
Bloomberg: LTIFGEU LX

LTIF – Natural Resources CHF
ISIN: LU0301246939
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Bloomberg: LTIFGEC LX

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