





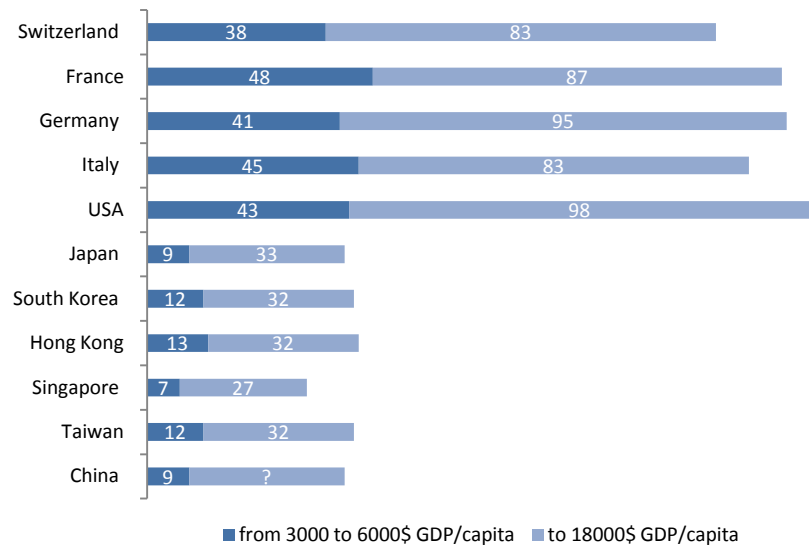








Figure 10: Number of years required to grow from \$3'000 to \$6'000 per capita income, then to \$18'000 per capita

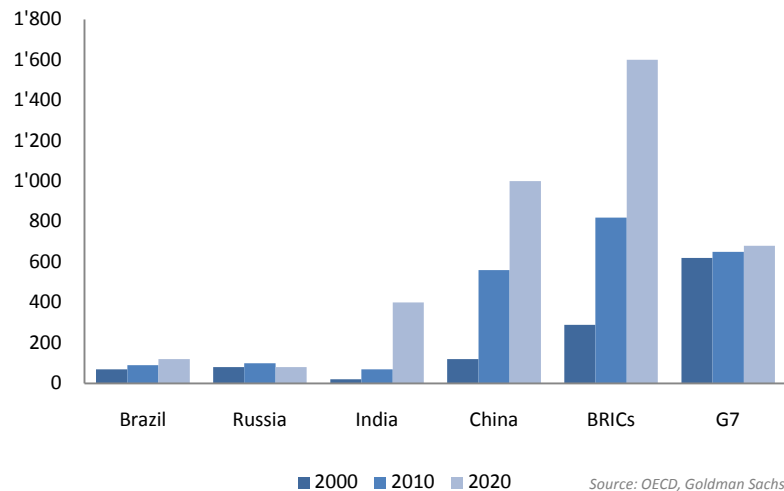


Source: OECD, Angus Maddison

One can speculate forever on why that which took the Europeans 100 years to achieve, the Asian countries achieved so much faster. The simplest explanation is probably that it's easier to copy the Industrial Revolution once it's happened somewhere than to painfully invent it. "Followers" enjoy the luxury of a more advanced market to which they can export and from which they can obtain finance and technology.

Figure 11 shows the explosive growth of middle class citizens in certain emerging countries, and how their total number is about to become *double* that in the most developed countries.

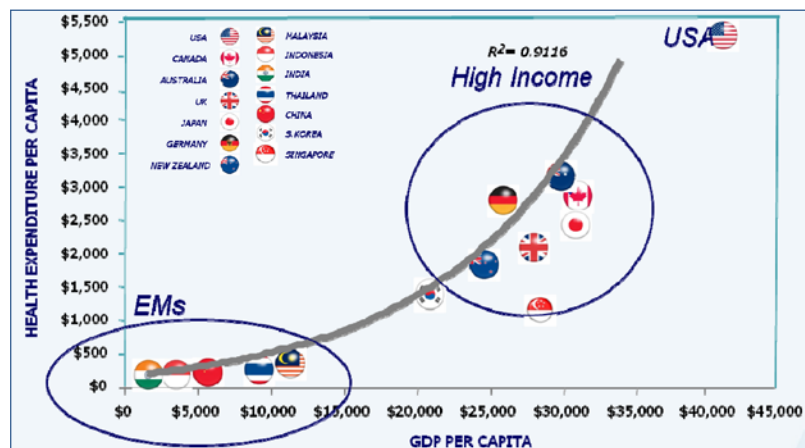
Figure 11: Millions of people in the BRICs to enter middle class income bracket by 2020



Source: OECD, Goldman Sachs

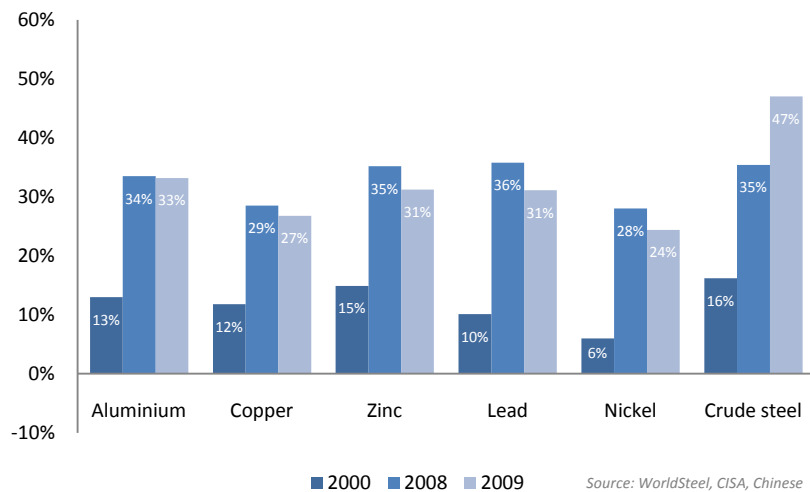
The impact of this huge transformation - it's estimated that more than 100.000 people are moving from cities to the countryside *each day* - on many industries cannot be exaggerated. From the automobile industry, where China is going from having a market half the size of the American one to having one twice the size of the American one in less than 10 years; to health care (figure 12) and to raw materials consumption (figure 13).

Figure 12: Health care expenditure per capita, emerging markets versus mature markets



Source: WHO, GSK

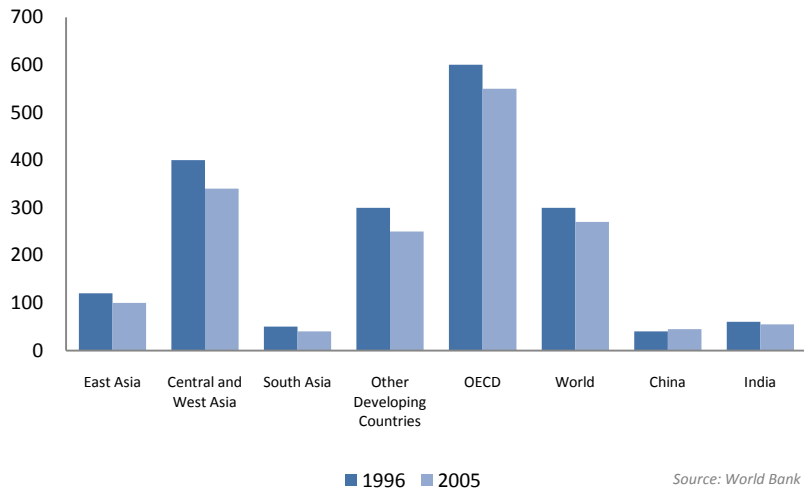
Figure 13: China's share of world demand of materials consumption, 2000-2009



Source: WorldSteel, CISA, Chinese Customs, Macquarie Research

And what's even more important: this process has just started accelerating. As figure 14 shows, the physical infrastructure in emerging markets is still very poorly developed (that's why they are still developing, after all). This lack of infrastructure, together with many of those countries' very high savings rates, ensures continued investment. It is estimated that the per capita fixed infrastructure in China is just 5% of what it is in the USA.

Figure 14: Railway density per 1m polulation in developing countries in km, 1996-2005



The conclusion from all of this is fairly simple: world economic growth is not about to collapse. It will be slow in developed markets, mostly for demographic reasons, and it will be brisk in emerging markets, for both demographic and “catch-up” reasons. The overall result will be a growth rate close to the historical average of 3% to 5% for the foreseeable future, with an eventual flattening when the main developing economies (China, India, Brazil) start reaching development levels close to those of, for instance, Korea or Spain. This will very likely take another 30 years.

At SIA we don’t do macroeconomic forecasting to guide our investments. We don’t know what the world economy will do in the next few quarters and, in all honesty, we don’t believe anybody else does either. This does not, of course, deter analysts and commentators from constantly predicting all kinds of outcomes; some of which will necessarily be right... this time.

But there is a macroeconomic scenario behind our valuations, of course. There has to be one: almost any company will sell more if the economy around it has been doing well for a prolonged period of time than if its home country is experiencing a long depression. Our macroeconomic forecast is simple: the world will continue to grow, more or less and on average, between 3% and 5% for the next 10 years. To give a reference point: growth is going to be 4.6% this year; the average during the past 10 years has been 3.5%. In other words, we believe the world will continue to turn, although not necessarily at exactly the same speed every day. As long as this is so, our forecasts will hold, and our investors will do very well.

But markets don’t take this approach. To justify their very existence, analysts, commentators and managers try to “outguess” what the economy will do next month or, more exactly, what the other investors think the

economy will do in the next month. In the immortal words of lord Keynes, "most of these persons (professional investors) are, in fact, largely concerned, not with making superior long-term forecasts of the probable yield of an investment over its whole life, but with foreseeing changes in the conventional basis of valuation a short time ahead of the general public. They are concerned, not with what an investment is really worth to a man who buys it for "keeps", but with what the market will value it at, under the influence of mass psychology, three months or a year hence." This was in 1936. Few people today care for what the market will think "a year hence": it's more like "next month".

Since our valuations are made by taking a long-term view of moderate growth, it's not surprising that our shares plummet when the market decides that there's going to be no growth. This view can, of course, only apply to the next few quarters, unless something thoroughly unique is about to happen: the permanent end of growth that started 200 years ago. However, if no economic growth is included in forecasts, then our shares are overvalued, and their drop is logical. In reality, what's happening is exactly the game depicted by Keynes: if investors believe that other investors believe that growth will stop, it's better to sell any shares whose value implies some growth right away.

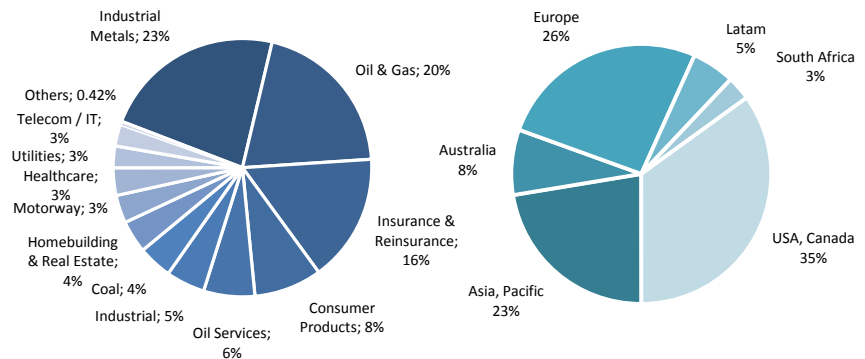
Subsequently, when those fears of a lack of growth, or those speculative games on "what's the right thing to own in the next quarter" turn around and people see that there is indeed some growth, and companies do make money, the negative speculative game turns around as well, and shares shoot up. An excellent example of this phenomenon is our Global Mining Value Fund, which we discuss in detail below.

To summarize: the long-term value of our investments is completely unaffected by short-term growth issues. As long as the world keeps growing at a reasonable pace, our investments will do very well. And everything that is happening in Asia (and large parts of Latin America) leads us to believe that this "normal" growth is by far the likeliest scenario for the foreseeable future. Since we don't adjust our investments to follow the "mood of the week", our investors will see high volatility, but we're convinced they'll also see very good returns over the long term.

**News on our funds**

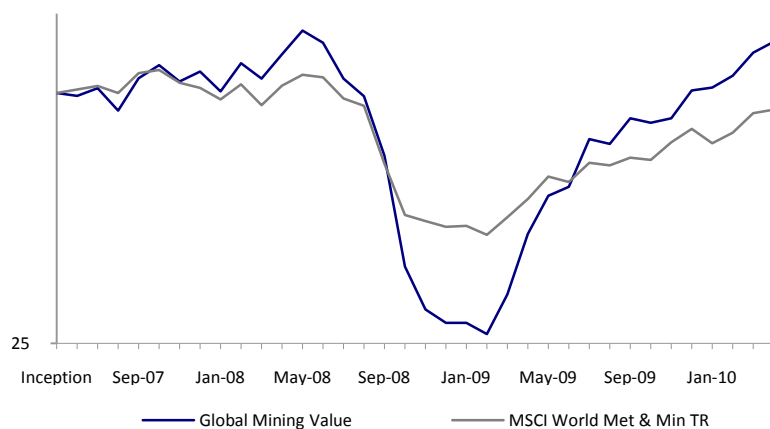
Figure 15 shows the industry and geographic breakdown of our Classic fund as of June 30<sup>th</sup>, 2010.

**Figure 15: Industry and geographic breakdown of LTIF Classic**



On April 26<sup>th</sup>, the Global Value Mining Fund was liquidated and merged into the Global Energy Value Fund to form the Natural Resources fund. A very interesting fact is that the Global Value Mining Fund had an official Net Asset Value per share in euro of 132.62 on that day. That is nearly as high as its high water mark, achieved on June 30<sup>th</sup>, 2008, which was euro 138.59. In other words, just before disappearing as an independent fund, it had recovered almost all the losses incurred after the crisis. From its inception in June 2007 to the end, its annualized return was about 11%, which is not too bad if one takes into account that one of those three years was 2008. Figure 16 shows the evolution of the Global Mining Value Fund from inception until April 26<sup>th</sup>, 2010.

**Figure 16: Value Opportunities Fund - Global Mining Value, 2007-2010**



This is one more example of how value pays in the long term - or not so long, in this case. The volatility of the fund has indeed been enormous: from top to bottom its NAV fell by 82%. But if the fundamental value is there, that volatility is not a problem for long-term investors. On the contrary, it's an opportunity. It allowed investors to buy excellent companies at an unbelievably cheap price and see their investment appreciate several times in less than a year. Steady investments may look more attractive, but don't offer these opportunities.

#### SIA news

We had presentations on "The Impact of Asia's Development on Investing" in Zurich and Geneva in early June. Interested investors can find the presentation here ([Workshop Asia](#)).

We also had a "Natural Resources Workshop" in Geneva and Madrid at the end of the month. The presentation is available here ([Workshop Natural Resources](#)).

Two new analysts have joined us during the month of May: Antoine Bachmann, at the Geneva office, and Sung Hoon Jung, at the Singapore office.

Antoine is Swiss and has 15 years of experience in equity analysis and fund management, mostly acquired at Capital International Research Inc.; he previously worked as a systems engineer and project manager at IBM. He holds a degree in Physics Engineering from the Federal Polytechnic School of Lausanne and a Master of Business Administration from Insead, in Fontainebleau.

Born in Seoul, Sung Hoon holds a Bachelor degree in Materials Science and Engineering with minor in Business Administration from Yonsei University (Korea) and a Master degree in Materials Science and Engineering from Stanford University (USA). Before he joined SIA, he worked for DBS Vickers Securities based in Singapore as a research analyst covering Korean consumer and small-mid cap sectors with focus on gaming companies.

With Sung Hoon's arrival, our Singapore office has now four full-time analysts.

**Figures of the USD classes**

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

June 2010	NAV	Δ YTD	Δ 12m	Ann. Return since Inception	AUM (in mio)
LTIF Classic [USD]	261.01	-20.11%	6.34%	13.43%	637.53 *
LTIF Classic II [USD]	138.61	-21.03%	1.66%	-1.93%	* combined Classic & Classic II
LTIF Alpha [USD]	176.83	-14.97%	-1.46%	5.79%	120.76 **
LTIF Alpha II [USD]	132.58	-15.92%	-4.68%	-5.88%	** combined Alpha & Alpha II
LTIF Natural Resources [USD] <i>(former Global Energy Value Fund)</i>	130.77	-22.42%	9.03%	-0.28%	115.32
MSCI World Index TR [USD] <i>(Bloomberg GDDUWI)</i>	3'453.89	-9.56%	10.77%	2.85% ***	*** Inception date of Classic

Figure 17  
LTIF – Classic USD

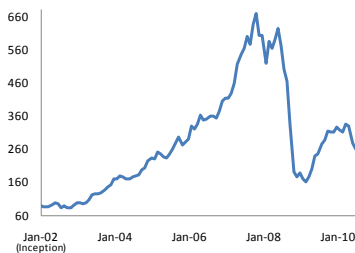


Figure 18  
LTIF – Classic II USD

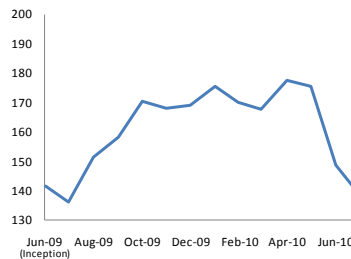


Figure 19  
LTIF – Alpha USD

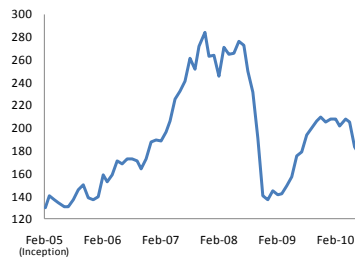


Figure 20  
LTIF – Alpha II USD

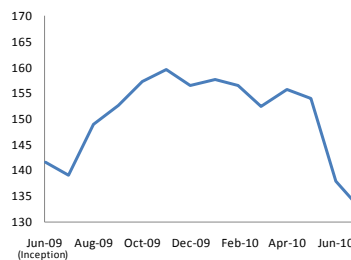
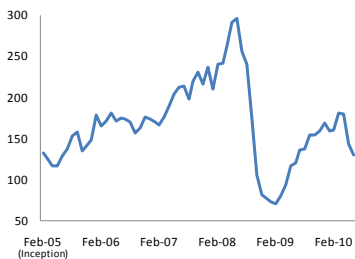


Figure 21  
LTIF – Natural Resources USD



**Figures of the CHF classes**

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

June 2010	NAV	Δ YTD	Δ 12m	Ann. Return since Inception	AUM (in mio)
LTIF Classic [CHF]	281.46	-16.67%	5.44%	7.85%	687.48 *
LTIF Classic II [CHF]	149.47	-17.63%	0.81%	-1.38%	* combined Classic & Classic II
LTIF Alpha [CHF]	190.68	-11.30%	-2.30%	3.91%	130.22 **
LTIF Alpha II [CHF]	142.97	-12.29%	-5.48%	-5.35%	** combined Alpha & Alpha II
LTIF Natural Resources [CHF] (former Global Energy Value Fund)	141.02	-19.07%	8.11%	-1.70%	124.35
LTIF Stability Series [CHF] ***	196.30	-6.83%	3.10%	5.04%	38.00
*** Total Return (incl. Dividend)	3.69	-5.24%			
MSCI World Index TR [CHF] (Bloomberg GDDUWI)	3'722.26	-5.80%	10.03%	-2.20% ****	**** Inception date of Classic

Figure 22  
LTIF – Classic CHF

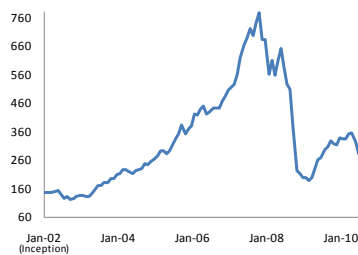


Figure 23  
LTIF – Classic II CHF

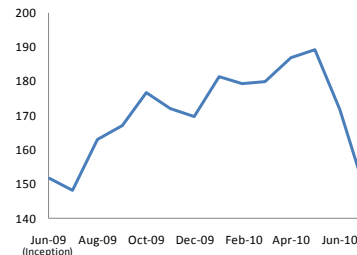


Figure 24  
LTIF – Alpha CHF

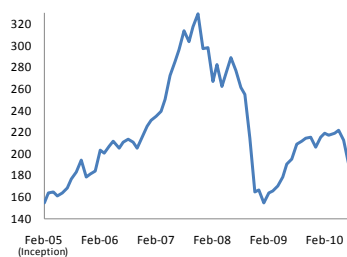


Figure 25  
LTIF – Alpha II CHF

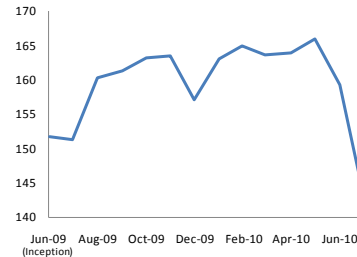


Figure 26  
LTIF – Natural Resources CHF

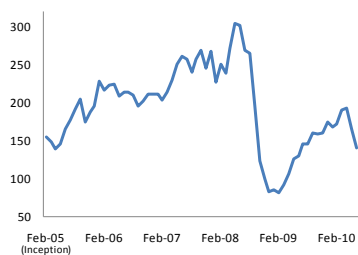
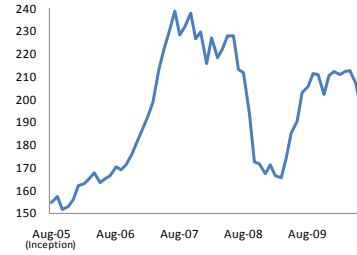


Figure 27  
LTIF – Stability CHF



**Figures of the GBP classes**

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

June 2010	NAV	Δ YTD	Δ 12m	Ann. Return since Inception	AUM (in mio)
LTIF Classic II [GBP]	92.65	-14.77%	11.91%	6.91%	426.13 (combined Classic & Classic II)
LTIF Alpha II [GBP]	88.62	-9.24%	4.93%	2.61%	80.71 (combined Alpha & Alpha II)
LTIF Natural Resources [GBP] (former Global Energy Value Fund)	87.41	-16.26%	19.80%	4.56%	77.08
MSCI World Index TR [GBP] (Bloomberg GDDUWI)	2'308.29	-2.39%	21.89%	15.49% **	** Inception date of Classic II

\* Performance up to 05.11.2009 is converted on a simulation basis from EUR in GBP. NAV's from 01.06.2009 to 04.11.2009 are not official.

Figure 28  
LTIF – Classic II GBP

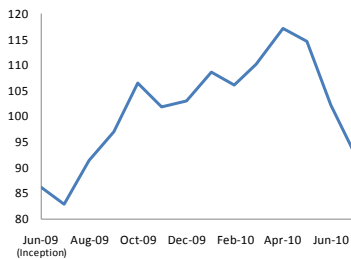


Figure 29  
LTIF – Alpha II GBP

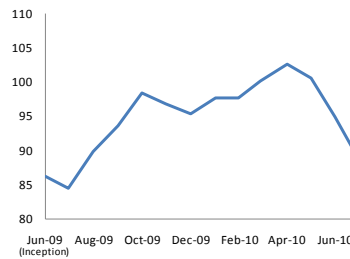
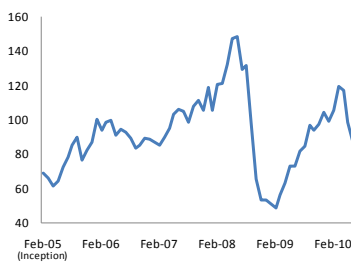


Figure 30  
LTIF – Natural Resources GBP



## Legal Notice - Luxembourg

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 organized 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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ISIN: LU0423699429  
Telekurs: 10'096'865  
Bloomberg: LTIFC2E LX

### **LTIF – Classic II USD**

ISIN: LU0423699692  
Telekurs: 10'096'889  
Bloomberg: LTIFC2U LX

### **LTIF – Classic II CHF**

ISIN: LU0423699775  
Telekurs: 10'096'893  
Bloomberg: LTIFC2C LX

### **LTIF – Classic II GBP**

ISIN: LU0457694296  
Telekurs: 10'638'930  
Bloomberg: LTIFC2G LX

### **LTIF – Alpha II EUR**

ISIN: LU0423699858  
Telekurs: 10'096'895  
Bloomberg: LTIFA2E LX

### **LTIF – Alpha II USD**

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Telekurs: 10'096'898  
Bloomberg: LTIFA2U LX

### **LTIF – Alpha II CHF**

ISIN: LU0423700029  
Telekurs: 10'097'000  
Bloomberg: LTIFA2C LX

### **LTIF – Alpha II GBP**

ISIN: LU0457693215  
Telekurs: 10'638'835  
Bloomberg: LTIFA2G LX

### **LTIF – Natural Resources EUR**

ISIN: LU0244072335  
Telekurs: 2'432'575  
Bloomberg: LTIFGEV LX

### **LTIF – Natural Resources USD**

ISIN: LU0301247234  
Telekurs: 3'101'839  
Bloomberg: LTIFGEU LX

### **LTIF – Natural Resources CHF**

ISIN: LU0301246939  
Telekurs: 3'101'836  
Bloomberg: LTIFGEC LX

### **LTIF – Natural Resources GBP**

ISIN: LU0457696077  
Telekurs: 10'638'983  
Bloomberg: LTIFGEG LX

#### **Administrator:**

Pictet & Cie (Europe) S.A.  
1, Boulevard Royal  
L-2449 Luxembourg  
Luxembourg

#### **Investment Manager:**

SIA Funds AG  
Parkweg 1  
CH-8866 Ziegelbrücke  
Switzerland

#### **Custodian:**

Pictet & Cie (Europe) S.A.  
1, Boulevard Royal  
L-2449 Luxembourg  
Luxembourg

#### **Registered Office:**

1, Boulevard Royal  
L-2449 Luxembourg  
Luxembourg

## Legal Notice - Switzerland

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Long Term Investment Fund Stability (SIA Funds) was approved by the Swiss Banking Commission on July 13, 2006. The fund started trading denominated in Swiss Francs as of October 1st, 2006. 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.

### **LTIF – Stability**

ISIN: CH0026389202  
Telekurs: 2'638'920  
Bloomberg: LTIFSTA SW

#### **Administrator:**

Pictet Funds S.A.  
Route des Acacias 60  
CH-1211 Geneva 73  
Switzerland

#### **Investment Manager:**

SIA Funds AG  
Parkweg 1  
CH-8866 Ziegelbrücke  
Switzerland

#### **Custodian:**

Pictet & Cie  
Route des Acacias 60  
CH-1211 Geneva 73  
Switzerland