# Letter to stakeholders

Antwerp, 30th June 2018

Dear Friends,

If there's one thing the financial markets don't like, it's uncertainty. Unfortunately, that's exactly what Donald Trump and his administration have managed to create with their unilateral decision to impose tariffs on imports. How is this going to play out? How are the countries most affected going to respond? Will they really go as far as they say they will or is this yet another example of Trump's negotiation strategy: make us fear the worst, only to sign off on far less draconian measures in the end?

It is obvious that the markets are nervous and that, at best, they have staggered to a standstill since the beginning of the year, while the results of the companies have so far been excellent. The emerging markets have lost nearly 10% in just a few months, Switzerland is down 7%, Europe 3% and the global index is only just positive in euros thanks to the stronger dollar, and particularly thanks to the technology sector which continues to make all other sectors green with envy. Moreover, the stock market index has remained largely positive over these first 6 months, while the Nasdaq has added +11% thanks to its high weighting of technology stocks.

For several years now, it has been technology stocks which drive the markets. No one can deny that we are living through a real technological revolution. Unlike the technological bubble of 2000, when many companies were valued at outrageous prices based on simple ideas or promises, the majority of the big tech companies today are massively profitable and extremely dominant. Never before in the history of mankind have we seen such profitable companies that needed so little investment to get to where they are.

Moreover, three of the companies we have in our portfolio that are the best performers this year are Microsoft, Alphabet (Google) and Facebook. In the first quarter Facebook showed a growth in turnover of 50%, with Google posting a growth of 26% and Microsoft of 16%. Not bad for companies worth hundreds of billions. What is remarkable is that their growth rates are even accelerating, despite these companies having become real giants. We can only regret not having invested more in this sector in recent years.

But what do we think of the markets today? First of all, and we probably repeat this in every letter: nobody knows what the stock markets will do in the short and medium term. We often read that one should be cautious because the stock markets have been going up since 2009 and that, therefore, they are expensive. This type of reasoning makes no sense. Why not take 2007 as the starting point? The increase is far less impressive over that period of time; does that mean the markets are cheap? One could just as easily argue that for the past 3 years, since Easter of 2015, the markets have gone up only very little and that, consequently, they are cheap.

The only parameters to estimate future returns are the current valuation and, obviously, future growth, which, again, is harder to predict. As for valuations, we believe they will remain acceptable with 14 times the profits for Europe and 17 times those for New York, including all the big tech names. That is nothing compared to the 35-fold in 2000 or the nearly 100-fold for Japan in 1990.

What is really important is to have quality companies in one's portfolio and to have the courage to remain invested, just like a marriage contract, in good times and in bad.

In the long term, stock prices will follow the development of the growth in profit achieved by the companies plus dividends paid, unless the price originally paid was ridiculously high.

Let's take a look at companies that we own shares of. Johnson & Johnson has posted a growth in its earnings per share plus dividend yield of 13.65% per year for the last 25 years. The stock-exchange price, dividends included, over the same period has risen by 12.65%, so almost the same. For Microsoft, the numbers are 17.56% and 16.76%. For Berkshire they are 14.15% and 13.80%.

In the meantime, there have been crises, stock market crashes and plenty of other worrisome geopolitical events, but despite all of that, stock prices have followed the same pattern as the companies' growth in profit. The key is to find well-managed companies that are likely to have much higher profits within 10 to 15 years. All the rest is optional.

The only risk is that companies won't make a profit anymore, that we will go through a long devastating economic crisis like the one during the 1930s. It may happen, but we must remember that since the Second World War the world economy has grown every year except in 2009, when it shrank by 0.1%. This gives some idea of the stability we have experienced for more than 70 years.

Our new offices at 12 Rue des Pères Blancs in Brussels have been open for two weeks. We are very pleased with the result and invite our Brussels clients to visit us.

We wish you an excellent summer!

*Thomas Vanderlinden* *Stéphane Mercier* *Vincent de Pret* *Frédéric Van Doosselaere*

P.S.: Fund factsheets attached to this letter