

Letter to stakeholders

Antwerp, 30 June 2019

Dear friends,

Even though the market is primarily confronted with trade tensions between the US and China, a new crisis in the Middle East and a global economy that is showing signs of fatigue, it further increased in the second quarter. Stock markets have remained stable mainly because interest rates are low and because we are fairly certain that central banks will not raise their rates in the medium term in response to these geopolitical and macroeconomic problems. We also know that what is best for stock market trends is an economy that is strong, but not too strong, inflation that is under control and low interest rates.

Interest rates have a huge impact on the valuation of any asset. For example, if you can buy a high-quality bond with an annual yield of 10%, you would not take risk for less than 10%. So, in such an environment, no one would buy real estate offering a 3% or 4% rental yield nor would anyone invest in private equity at more than 10 times EBITDA.

While this scenario was very real in the early 1980s, today we find ourselves in the opposite situation. Now, German government bonds are carrying negative interest for maturities up to 15 years. Belgian 10-year rates are, in turn, at 0% and US rates stand at 2%.

Since money no longer yields anything there are no opportunity costs, and you do not lose out by investing in low-yielding assets. There are no alternatives. In a zero-rate world, we are all looking for a minimum return, even if we have to take some risks. Consequently, the ease to raise venture capital is inevitably creating speculative bubbles in certain places. Now, as in the 1990s, various companies are able to float on the market receiving multi-billion dollar valuations, even though they are not turning a profit. Uber, which you will be familiar with, is a good example: the company is valued at \$75 billion on the stock market, even though it has clearly stated in its prospectus that there is a risk it will never make a profit.

In terms of the stock market, we are currently dealing with a two-speed market. On the one hand, there are companies that offer very good visibility regarding the evolution of their profits for the coming years. These companies trade at very high valuations because the future profits are discounted by analysts taking into account very low interest rates. Pension funds, in search of low-risk investments, snap up these companies to replace a portion of their bonds, which no longer yield anything. On the other hand, companies with earnings trends that are less certain or more volatile are, essentially, completely ignored by the market.

It is our duty to take advantage of the mood swings of Mr Market, so well described by Benjamin Graham, the father of value investing. According to him, the stock market should be viewed as a manic-depressive associate who, one day, may buy your shares at a high price and the next day sell you his at a fraction of the price. What is really great about this associate is that he continuously makes you offers to which you have no obligation to respond. In short, you only respond when he is completely euphoric or when he is depressed.

Today, Mr Market is prepared to purchase our shares in Microsoft, LVMH or Mondelez at a high price. Since these positions have risen 40% since the beginning of the year and we believe that we no longer have the same margin of safety, we have reduced them slightly.

Next, we have strengthened our positions in the pharmaceutical sector with the purchase of shares in Novartis and Merck. This sector does not have to deal with unreasonable valuations and is not very sensitive to the economic slowdown, an increasingly topical scenario.

The most important and certainly most reassuring thing is that the majority of our portfolio is still very reasonably valued. In our portfolios, prices remain reasonable and there are no fantasies. We remain disciplined, because that is the key to long-term success.

We hope you all received the investment report that was sent to you by mail and we also take this opportunity to advise you to download our application, Mercier Vanderlinden.

We wish you a wonderful summer and excellent holidays.

Kind regards,



Thomas Vanderlinden



Stéphane Mercier



Vincent de Pret



Frédéric Van Doosselaere

P.S.: Fund factsheets attached to this letter