Letter to stakeholders

Antwerp, 30 September 2019

Dear friends,

A question we are asked more often than usual today is whether the time is still right to invest or whether it would be better to wait a bit. This is a valid question because stock markets have already performed well since the beginning of the year.

We want to take advantage of this quarterly letter to explain how we see things.

First of all, one should reiterate that nobody knows where the markets are heading in the short or medium term. It's important to understand what we don't know because this avoids wasting time and energy on unnecessary things.

"It's tough to make predictions, especially about the future." Yogi Berra

Secondly, to protect against short-term volatility, don't invest the capital you might need within three or five years in shares.

Finally, to protect yourself in the long term, you should buy quality companies at reasonable prices and remain invested at all times, without succumbing to the temptations of regularly buying and selling. Peter Lynch, probably the best fund investor ever, emphasised this last point: "More money has been lost on the stock market by trying to avoid corrections than during the corrections themselves" or "The most important thing is not 'timing' the market but 'time in' the market".

To return to the current situation, it's important to bear in mind that recent stock market results have no value when it comes to predicting future results. Statistically, there's no higher probability that a good year will be followed by a bad one than by a good year, or vice versa. The only thing that matters is the value of the shares. When valuations are high, there is a very high chance that subsequent returns will be lower, and the opposite obviously applies when valuations are low.

As Warren Buffett says, 80% of the time, shares are valued at reasonable multiples, and 20% of the time they are too expensive or too cheap. Today, the markets are within the reasonable 80%. It would even be easier to argue that shares are cheap rather than expensive on account of historically low interest rates. The return from dividends paid is higher, in some cases significantly so, than long-term interest rates, which is quite a rare phenomenon, and the risk premium of shares compared with bonds is at its highest.

Letter to stakeholders

One approach that we like a lot and which has been quite reliable in the past is to take the parameters that impact the subsequent return on a share, so the dividend, the growth in earnings per share and the change in the multiple that the market is prepared to pay.
For the type of companies we favour, the dividend is generally quite stable. Earnings growth is less stable of course, but more durable than you might think over a long period. Here we analyse the past and estimate very cautiously what the growth should be for the next five years. For multiples, such as price/earnings or price/book value, we take the low end of the range of what has been paid in "normal" times.

Let's take an example: Unilever. It is currently valued by the market at 21,7 times earnings. It has a dividend yield of 2,9% and we estimate conservatively earnings growth per share of 7%. The five-year return should be 2.9% + 7%. We believe a more reasonable multiple of 18 times is warranted in normal times and so we come to an annualized return of 6,3% for the next 5 years.

We do this for the entire portfolio and are today achieving a 10% return. This is, obviously, not a performance guarantee. Many factors can influence the final result, but it is a sound basis, a good starting point, to analyse what future returns could be under normal conditions. Our experience tells us that there are always big surprises for individual securities, whereas we've been quite accurate for the entire portfolio. In 2008, for example, in the midst of the stock market crisis, we were achieving 16%, which clearly showed that it was a unique buying opportunity. The return after five years was ultimately 16.5%.

All this goes to say that in a world of zero or even negative interest rates, we see speculative bubbles in certain assets, but certainly not in the stock markets. Our first-day investors, who bought our equity fund on 1 January 2003, have so far achieved 9% annualised after fees, meaning that in 16.5 years their portfolio has more than quadrupled. This is only possible if you have a long-term strategy and are not influenced by short-term developments.

Kind regards,

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

P.S.: Fund factsheets attached to this letter