Letter to stakeholders

Antwerp, 31 March 2020

Dear friends,

Our last letter at the end of December once again alluded to what a superb year 2019 was, as well as to the very favourable decade we had just experienced. Unfortunately, things can be consecutive but different, and this new decade has got off to a much more complicated start.

A stock market crisis rarely comes from the place you expect. The Coronavirus is the best proof of this: it is the first time that a significant stock market correction and a severe recession have not been caused by a macroeconomic or geopolitical event. We find ourselves in unknown territory: to kill the virus, we have to kill the economy. Hence, we are about to create the most significant peacetime recession since the 1930s. According to some economists, each month of lockdown costs 3 percentage points of GDP. It is too soon to say how long this is going to last and what the long-term scars will be, but it is clear that the impact on the economy and - consequently - on corporate earnings will be very significant.

The good news is that, unlike in the 1930s, we are much better equipped today to deal with this kind of economic shock. The central banks have more tools at their disposal and have, notably, more experience in taking the right measures. We are also fortunate to be experiencing a period of extremely low or even non-existent inflation, which makes it possible to launch extraordinary stimulus programmes at the same time as avoiding the risk of triggering hyper-inflationary periods.

The measures announced by governments and by the central banks are the most significant measures ever taken, and they have been taken at exceptional speed. We can only congratulate the parties concerned for their actions. Some economists are no longer talking about a bazooka, but about a nuclear bomb. We are going to hand out money to everyone to enable us to get through this “short” period so that we can get going again immediately as soon as the virus is under control.

As things stand, the market downturn is significant, but not yet out of the ordinary. On the other hand, the speed of the plunge and the volatility we have experienced in recent weeks are quite exceptional. As always, the best defence is to have quality in the portfolio and to be well-diversified. As far as companies are concerned, 2020 will be a lost year: the first half will be a real disaster, followed probably by a period of normalisation starting in the last quarter and an upturn from 2021 onwards.

Is a company worth 30% less because it has an awful year? Clearly not. Provided the company's position within its sector has not taken a hit or the industry itself has not changed permanently. However, the value of a company is the accumulation of all future cash flows, and one year is not that important in the long term. The best companies even take advantage of a crisis to gain market share and emerge even stronger. Companies such as Nike or Inditex (Zara), for example, have very professional websites that smaller stores or smaller brands do not necessarily have, and so they are managing to attract and retain new consumers. We have taken advantage of the 30-40% drop in their share price to buy or accumulate shares in these remarkable companies.

Similarly, we are taking advantage of this crisis to buy superb companies, but which have always been too expensive, such as credit card issuer Visa, the share price of which has also fallen by more than 30%. Several names are still on our list and, indirectly, we still hope to see some good market gyrations to enable us to buy such companies and continue to build a remarkable portfolio for the next 10 years.

The same applies to the bond component. Barely one month ago, it was impossible to find attractive bonds. Rates were at 0% and risk appetite such that even risky issuers no longer had to pay attractive returns to find interested investors. Today, the opposite is true: panic, no buyers, no liquidity and no longer the slightest risk appetite. We have rarely been so active and bought so many bonds.

It is in times of crisis that you realise the benefit of having your assets spread across several sectors and across dozens of solid and leading companies. Even if this crisis were to last a little longer than expected, we are convinced that, very quickly, most of the companies in the portfolio will have left this rough patch behind them and will reach new heights, with new ambitions and new challenges.

Mercier Vanderlinden has the good fortune to be in a business where people can work from home relatively easily. New technologies mean that we are just as well informed and connected wherever we are. Thanks to a range of technological facilities, employees are in constant contact.

Please stay safe and well, and take advantage of this period of lockdown to do things you never had the time to do before.

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

P.S.: Fund factsheets attached to this letter