Letter to stakeholders

Antwerp, 30 September 2020

Dear friends,

As we write this, financial markets continue to be strongly influenced by developments concerning Covid-19. We are certainly not experts in the matter, but we would like to put forward two positive notes. First of all, there is the fact that there are fewer deaths than in March, mainly because we have better information about how to care for patients. As a result, the authorities will not be as quick to bring the economy to a complete standstill as they did during the first months of this pandemic. The second positive note is that things are moving forward and that we will have more and more positive news regarding a vaccine in the coming weeks and months. This in turn will allow the markets to focus on the post-Covid situation.

One piece of news that is not so much talked about, but that is nevertheless very important, is the announcement made a few weeks ago by the US Federal Reserve that it will keep interest rates at 0% at least until the end of 2023. It is extremely rare, and probably unheard of, that such a flexible monetary policy is already being announced for years to come. Jerome Powell, the Chair of the Federal Reserve, also said they have other tools available to boost the economy and that they will not raise interest rates, even if inflation hits 2% again. The message is clear: put your money to work and don't just leave it in a savings account. Getting into debt has never been so cheap, and the party is set to last for a few more years. Place your bets!

This is bad news for those who cannot afford to take risks, but it is good news for owners of assets the value of which is expected to rise as there are no real alternatives. We are already seeing US real estate sales setting record after record, as well as a very large number of acquisitions by private equity firms taking advantage of these low rates to buy companies using little capital and a lot of debt.

On top of that, these extremely low rates over the coming years should also be good for stock markets. Once again because there are no alternatives, but also because companies are able to obtain financing under extremely favourable conditions to invest, take over competitors or buy back their own shares. Currently, just the average dividend yield of nearly 2% is already attractive compared to long-term rates of around 0%.

When money is free, speculative bubbles emerge as a matter of fact, and the stock market is no exception to this rule. Many technology companies are currently valued at astronomical prices simply because investors are hoping to have discovered the next Amazon or Microsoft.

Yet even if certain market segments do make us think of the stock market bubbles of 1970 or 2000, we believe that the market still offers many opportunities. More than ever we are seeing a two-tier situation with, on the one hand, companies trading at very high multiples and, on the other hand, a large part of the market that continues to be priced extremely reasonably.

We regularly go through the list of shares in our portfolios and calculate the potential for each individual share for the next five years: earnings growth, dividend yield and a 'normal' valuation in five years. The potential that we currently see for all our positions is in the region of returns that we historically obtained. This clearly shows that there are still enough sectors and individual shares that offer patient investors a good return.

One of our favourite sectors is, for example, the pharmaceutical sector, which represents 22% of our portfolio and which offers several advantages: nice dividends, not very cyclical, good growth and historically cheap.

However, even some very popular companies continue to be attractive in our opinion. A company like Microsoft is currently relatively expensive, but it offers enough growth and enough visibility to justify a very decent return from here. And even a well-known name like Facebook should be a very attractive investment given that we are only paying 20 times the profits for 2021 (ex cash) while expected earnings growth remains excellent.

We avoid companies that are very expensive under the sole pretext that they are top-quality, when in fact there is no growth to justify historically high multiples.

The greatest risk over the long term is, of course, that this boost provided by non-existent interest rates will falter and that they, along with inflation, will significantly increase. This would certainly be good news for banks, insurers and cyclical companies with lots of assets, but all excessive valuations would quickly melt as snow in the sun.

Kind regards,

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

P.S.: Fund factsheets attached to this letter