Quarterly Letter

Antwerp, 30 June 2021

Dear friends,

The first half of 2021 is now behind us, and we can't complain: the funds have risen strongly, and the COVID-induced correction is now but a distant memory. The real driving force of the stock market rise is the impressive growth of company profits. Contrary to the expectations of various macro pundits, the economy has bounced back sharply, and companies have adapted quicker than expected to this new normal. Of course, this does not apply to all sectors. Yet, the ones suffering most from the current situation are poorly represented on the stock market, while those benefitting from a fast-tracked digital transformation are handsomely represented in the indices.

As Warren Buffet likes to say: "Only when the tide goes out do you discover who's been swimming naked." In other words, crises usually painfully show which companies are better equipped and prepared than others to weather and benefit from turbulent times. The strongest companies gain market share, and thus the crisis serves to accelerate an inevitable process. COVID and its lockdown have further digitalized the world around us, which benefits the larger companies able to invest and benefit from this digital transformation, leaving smaller companies with fewer resources in a weaker position. As a result, we see that currently, many large, successful corporations are beating earnings expectations and even the 2019 results that were still unaffected by COVID.

The economic bounce-back has not only lifted the value of the stock market, but also real estate values as well as natural resources. Currently, rising inflation is one of the main preoccupations of the financial markets. Central banks and fixed income markets infer that the price rise we are witnessing is transitory and does not pose serious risks. An important fact to note here is that the current global economy is in no way similar to the one 50 years ago when we witnessed the last real inflation spike. Today 70% of the economy consists of services for which the rise in inflation is much less impactful; hence the rise in commodities prices will have a smaller impact on company profits this time around.

Returns in our funds have been ahead of peers this year and better than the market index. Clients thank us for these returns, which is, of course, highly agreeable. Yet it is imperative to understand that these performances result from decisions we took last year and the years before that. Short-term returns are, in the end, predominantly random and not entirely under our control. More important is the evolution of our portfolio in the long run. That's where we feel we can make a difference and prove our value by posting good long-term results throughout various market cycles. Of course, to establish oneself in the long-term, one needs sound investment principles and a good mentality.

We have outperformed inflation by 6-7% over various periods (3, 5, 10 and 18 years). Of course, each period was characterized by different challenges and difficulties. But by focusing on quality companies, maintaining our unrelenting price discipline and by not getting carried away by the "sentiment du jour", the patient investor has been rewarded with an impressive cumulative return. These healthy principles are the only guarantee to achieve satisfying long-term returns in the future. At the same time, we are aware that the market will go through phases that do not suit our style. Other moments will make us look like we are the most brilliant guys in the room, yet the approach will not have changed one bit.

The key to impressive results is patience. Time is a very powerful force, and we can stay the course even in turbulent times since we only invest in a limited number of stocks and bonds. We follow these companies intimately and understand their business models and financials. We are owners of these quality businesses, not speculators.

Even though the markets have risen in the first half of the year, we continue to find highly compelling investment opportunities. As of September, two new analysts will strengthen our team. The fewer stones we leave unturned, the higher the likelihood to find new opportunities.

Not all assets have increased in value over the first half. Rising rates have inevitably led to small losses in the fixed income markets. However, by maintaining a short duration, our fixed income portfolio has not suffered from this effect and was able to beat the market by posting a positive absolute return.

We would like to close with two practical announcements.

We are slightly changing the cost structure of the funds: the management fees of MercLin Global Equity (as of August 1, 2021) and MercLin Patrimonium (as of September 1, 2021) will increase by 0,10%. However, by eliminating and/or reducing other costs in the funds, this will not affect the total cost borne by the client.

We also have a new portal to consult portfolios online. This portal is more user-friendly and offers more information than it did in the past: online.merciervanderlinden.com

We wish you all a wonderful summer!

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

P.S.: Fund factsheets attached to this letter