MERCIER VANDERLINDEN

Quarterly letter

Antwerp, September 30, 2021

Dear friends,

The third quarter has been a relatively quiet period for the stock market. Certain elements weighed on investor sentiment, such as China, inflation risks, central banks turning less accommodative as well as generally high market levels making some investors uncomfortable. On the other hand, various positive factors kept the market in check, such as a booming global economy, highly impressive corporate earnings and interest rates remaining at very low levels.

China has been a highly important engine of growth for the global economy for the last 15 years, yet today is inevitably slowing down. At the same time, we see Chinese authorities regulating certain industries where large corporations have become too dominant. After a long period of "laissez-faire", the government wants to step in wherever it sees important risks arise. These interventions weighed heavily on certain sectors and companies, as the market had not anticipated Beijing's interference to be as radical. We had almost forgotten that China remains China and has no desire to resemble the Western world.

A topic close to our heart that we like to explain time and again is that of market timing or selling whenever one deems the market to be overvalued.
If there is a liquidity need in the short or medium-term one should always sell. If, however, we are talking about capital invested for the long-term it is never a good idea to sell.

It is our role to convince our clients to always stay on course for the long term. Cumulative returns are an absolute miracle that should not be interrupted. We should acknowledge that we do not have a crystal ball, that no-one knows what will happen in the short-term and that inevitably time is our best friend on this journey of compound returns. Chances are that 10 years from now, the companies you hold in your portfolio will generate significantly higher profits than they do today and that, consequently, their share prices will be much higher.

Why is it still not a good idea to sell even when various headlines claim the market to be overvalued? First of all because perhaps the market is right. Stock markets are a powerful source of cumulative wisdom and maybe they simply discount correctly that corporate earnings will be stronger than expected. It is easy to remember the times when exceptionally strong markets were followed by corrections. But there are equally numerous occasions when markets considered 'expensive' are not followed by a correction at all since the economy and corporate profits simply do justice to the valuations.

Another reason not to sell is because chances are your timing will prove ill-fated. An expensive market has no problem becoming even more so and this for a protracted period. Even when this kind of run-up would be followed by a correction of 20%, there is no certainty this will then be lower than the point where you would have decided to sell.
The big challenge when playing the game of market timing is that you need to be right not once, but twice. Not only do you need to sell at the right moment, you also have to timely re-enter the market. Given the unlikely chance that you sell at the very top and re-enter at the very bottom, you already need a very large correction in order to make this a winning proposition. Luck will play a major role and for those who do succeed, we would suggest not to retry too often.

The third and probably most important argument against market timing is that there is a major difference between "the market" and what you hold in your portfolio. The market may be very expensive, but this has no direct bearing on the valuation of your own stocks. There will always be pockets in the market that are neglected or less popular. We have always advocated not to overpay; extraordinary companies don't need to trade at extraordinary prices. Yes, in the short run, everything will go down in tandem in a market correction, but the ones that trade at more reasonable valuations will bounce back a lot faster.

We have run the exercise on our portfolio and note it is less expensive today versus the 5-year historical average. This demonstrates that every environment brings opportunities for those who take the time to look and that not all is expensive. Our new positions this year, such as Syneos, CarMax or Netflix were all bought at a time when the market was not very fond of them. They are all extremely dominant and profitable companies in their industries, and we are delighted to be owners.

The most important message remains not to be too focused on short-term fluctuations (neither up nor down) but to enjoy the extraordinary results these wonderful companies produce in the long run.

End of October we will host a new webinar where we will go into more detail on the portfolio and its various positions.

Kind regards,

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

P.S.: Fund factsheets attached to this letter