Letter to stakeholders

Antwerp, March 31st, 2018

Dear friends,

In our last quarterly report of 2017 we pointed to the absence of volatility and the unusual calmness which characterized the financial markets. However, in light of the geopolitical events, it was clear that this situation would prove untenable in the long term and, low and behold, the ink of the report had barely dried when volatility made a big comeback.

The 10 first days of 2018 saw spectacular increases of 5% on average after just a few trading sessions. This upward movement was justified taking into account the approval, at the very end of the year, of the plan to reduce US corporate tax. The tax rate will be slashed significantly, from 35% to 21%, which, in theory, will allow US companies to increase their profits by about 20%. Only in theory, for the beneficial effect will be less in practice because several benefits of the past have been cancelled. Nevertheless, the conclusion is obvious: the operation is great news for shareholders as the value of companies increases substantially without any intervention on their part.

Another measure taken by the government relates to the possibility to repatriate to the United States corporate profits made abroad by paying a tax of just 14%. Many companies – especially tech companies – have large cash piles abroad which they will finally be able to invest in the United States or use to buy back their own shares and/or to pay higher dividends.

These measures, while very positive, have only had a very short-lived effect on the stock markets. The trend started to reverse in the second half of January. It is not always easy to explain, but for the financial markets an abundance of good news tends to become synonymous with bad news. The world economy reports a synchronized growth in all large countries, unemployment in the United States is at an all-time low and commodity prices have increased significantly. Paradoxically, it is precisely this good news that creates a climate of nervousness. Indeed, investors fear that an economy which is doing too well could lead to inflation risk, which would prompt the central banks to raise interest rates, which in turn would be bad for asset valuation. Similarly, the market already anticipates a possible economic slowdown in the near or more distant future as a result of rising interest rates.

It should be remembered that the Federal Reserve has raised interest rates several times since December 2015 and that another four hikes are planned for this year

Another aspect which explains the nervousness of the markets over the past few weeks is the trade war declared by President Trump, who announced he would levy import tariffs on certain products and countries (mainly China). This situation certainly is not likely to stimulate a dynamic world economy. We can only hope that, ultimately, the US president has the intelligence to limit the scope of these measures.

Since the beginning of the year we have reported significant differences in performance between the various sectors and the various countries. The best performance is always the privilege of the technology sector and the emerging markets widely outclass the other regions. The worst sector - surprisingly – is that of consumer goods. Typically, it is a rather stable sector, which is only rarely at the top or at the bottom of the list. Nonetheless, these companies have published disappointing results, which clearly shows they are not operating in a positive environment.

There is another element that clearly characterizes the bear market. Indeed, it should be kept in mind that bad news is severely punished, while good news is only rarely fully appreciated. As for our positions, for example, we received some disappointing news, which impacted share prices (Oracle, Adient), whereas very good news received did not trigger a significant rise in share prices.

For us, what matters most is not the short-term development of share prices, but rather the operational development of the underlying companies. Berkshire Hathaway, Fairfax, AB InBev, Fiat, Microsoft, Alliance Data Systems, Citigroup etc. all have announced excellent results. They all enjoy a solid position in their sector and, with time, should generate profits well above the current numbers. Another crucial element is that current share prices do not reflect unreal expectations, and that we are not paying absurd prices which have already mortgaged the future upside potential.

We make no predictions as to what the market will do in the short term. We have nothing to gain from that as we believe efforts to predict the unpredictable are nothing but a waste of energy. Nevertheless, we remain fully convinced that a diversified portfolio of solid companies, acquired at reasonable prices, is the best way to help grow capital in the long term.

For the second year running we have won, with MercLin Patrimonium, the prize for best diversified fund on the Belgian market. Like all our operations, this is not thanks to good market timing between the various assets, but rather to a careful selection of the bonds and shares.

We are very happy to be able to announce the opening of an office in Brussels in the near future. This will enable us not only to strengthen ties with our Brussels clients, but also to recruit talented staff in the Brussels region.

Kind regards,

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

P.S.: Fund factsheets attached to this letter