Letter to stakeholders

Antwerp, 31 March 2019

Dear friends,

After the worst December since the 1930s, we have just experienced the best January since 1987. This early-year rally has enabled to recover most of the losses from 2018.

While last year rising interest rates were making the markets nervous, this year rates have fallen significantly, and it is more the weakness of the economy that is of concern. The German 10-year rate has even fallen below 0%, and it raises the question: who invests in an asset for 10 years with a negative return?

The differential between the dividend yield from European shares (at 3.4%) and long rates (at 0%) is at an all-time record level. This is generally a "buy" signal for shares or, at the very least, proof that stocks are inexpensive relative to bonds and current interest rates. The same also applies to the risk premium for European shares. The earnings yield or the earnings divided by the stock price is in the region of 7%, which is also a record in relation to interest rates.

Over the last few years, a two-tier market can be seen, split between the tech sector and other companies. Since the largest technology companies are mainly located in the United States, it is there that the most significant gains have been achieved. The US S&P 500 index has advanced 40% over the past four years, while the EuroStoxx 50 has only gained 3%, including dividends, over the same period.

Some of these tech companies are booming and are influencing our world in a way that few companies have done before. However, one should remember that paying high multiples, even for the most attractive companies, can be risky. There is no guarantee that the best company of today will still be the best tomorrow, and corporate cemeteries are full of companies that were once wonderful and unique. Currently, the market is willing to pay a lot for companies experiencing high growth, even though we are living in a world that is changing faster than ever before and where visibility over the next 5 or 10 years has never been so opaque.

Markets go through cycles, trends. Today, growth shares with significant momentum are in vogue, a bit like at the end of the 1990s. "Value" shares, let's say those with lower growth, but which are a good value relative to their assets or cash flows, are currently being forsaken. The under-performance of "value" relative to "growth" is also at record levels.

"You can't buy what is popular and do well" as Warren Buffett likes to say. We are not aware of any managers who have survived long term by always buying the most attractive and most expensive stocks of the moment. All of the best very long-term results have been achieved by managers who have one thing in common: they buy companies trading at a significant discount relative to what they consider to be the intrinsic value of the company. This discount offers a necessary margin of security if things do not go as planned.

Our investment policy has always been to buy quality but preferably at a time when the sector or company itself is not popular. Our most significant position is Berkshire Hathaway, which is a cash-generating machine that is currently valued at a very reasonable 1.35 times book value. Fairfax, another historical position, has, like most insurers, fallen back to book value. This value is also at the bottom of the historical valuation range. The shares of Citigroup and Goldman Sachs we currently own are today overcapitalised but are achieving returns on equity of 12% to 14% and are barely being traded at book value.

We have just purchased Inditex shares (Zara). The stock has done nothing for four years and has finally fallen to reasonable multiples. This quarter we also bought Interactive Brokers, which is the leading global platform for placing orders in financial instruments. It has lost 35% since its peak. It has a price to earnings ratio of 20 with double-digit growth and holds 35% of its market capitalisation in cash on its balance sheet.

These are just some examples to prove that our portfolio is not expensive today and still offers a lot of potential.

"Investing is not a sprint, it's a marathon" and "to finish first, you first have to finish" are well-known sayings in the world of finance. Our management philosophy enables us to always have a relatively large margin of security to be comfortable and not take excessive risks.

Last important point: we have developed the Mercier Vanderlinden app that you can download to your smartphone to give you easy access to your portfolio. As well as an overview of your portfolio, you can also view historical performance, transactions, etc.

Please call your advisor if you have any issues accessing the application.

Kind regards,

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

P.S.: Fund factsheets attached to this letter