

## Letter to stakeholders

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Antwerp, December 31<sup>st</sup>, 2018

Dear friends,

Unfortunately, 2018 cannot be catalogued as a great year in terms of investments. It is one of the first years in history where more than 90% of assets (stocks, bonds, gold, ...) ended the year in the red (this has not been seen since 1904), hence there were few places to take shelter. The last year the stock market ended with a negative performance was 7 years ago, in 2011. Two negative years in one decade is nevertheless not unusual.

2018 started well with a strong economy and very encouraging company earnings. Little by little, doubt settled in as a result of rising interest rates in the United States, emerging markets losing momentum and finally the fear that the best may be behind us and that the economy can only go in one direction, down. This fear of a recession in the near future has meant that the sectors most affected are the ones strongly linked to economic cycles such as raw materials, chemicals, industrials, banks, automobiles, etc. The best performing sectors are electricity producers, health care and consumer goods. Although they sharply declined at the end of the year, some of the large technology companies are once again closing the year with good earnings.

Underlying the albeit moderate decline of the stock market indices, there has been carnage, with more than one stock in two having lost 20% or more. In 2018, the markets have been a real minefield. A minefield that we crossed poorly. There have been years when we were pleased and even proud of our results, but this year is one of those years where we feel that we could have done better. One year is a very short time to analyse performance since there are passing trends that can come into play and there are some investment styles that perform better in the short term than others, etc. But after analysis, we found that we should have lost two or three percent less to be satisfied. Compared to most of our competitors, our performance is acceptable, but it is in the more difficult years that we like to make a difference.

It is not the first year we have been disappointed, and it will unfortunately not be the last. Morningstar, the international investment research firm, has evaluated that our equity fund has, over the sixteen years of existence, performed better than the average thirteen times. This demonstrates significant consistency in our performance. Our Patrimonium fund has, since its creation nine years ago, always figured in the first part of the ranking.

The most important thing is to analyse our mistakes and analyse how we can improve without letting the mistakes of the past constrain us from making decisions. As Ed Wachenheim, one of the great American investors, says: "It's not the result that is important but the process". You do not fully control the result – there are too many unpredictables. Investing is managing probabilities, not certainties. It is essential to have good control over the investment process, which we believe we have. As long as the process is right, the results will follow in the long term.

We are not geniuses because we have Microsoft, that gained 30% this year, in the portfolio and we are not idiots because ABInbev lost 30%. We are building a portfolio of assets for which we are convinced the risk/return ratio is excellent. Among these assets there are those that surpass expectations and others that will unfortunately suffer backlashes. It is up to us to see if these backlashes are temporary or structural and to act accordingly.

One of our good decisions was to reduce the risk and make some liquidity in early October. We reduced equity exposure in the Patrimonium fund from 50% to 42% and in the equity funds we made 10% cash. With the market nervousness and the fall since October, we are finally, little by little, seeing some new opportunities in the bond market and we are especially seeing some stocks that are trading at very attractive pricing. Most of our stocks are now valued well under their historical valuations. We believe that from here on and taking into account very attractive pricing, our equity portfolio will offer a very good return to the long-term investor.

In the short term the market still seems very fragile, but it is important to understand that it is wishful thinking to believe that we can avoid all the decreases and capture all the increases. The best example is the following: from September 2008 to September 2018 the American S&P 500 index rose 11% per year or nearly tripled in a decade. But from September 2008 to March 2009 it first dropped by nearly 40%! Unfortunately, you cannot get one without the other.

As usual, we do not send end-of-year gifts, preferring to donate to the Anticancer Fund.

We wish you a very happy new year 2019.

Kind regards,



*Thomas Vanderlinden*



*Stéphane Mercier*



*Vincent de Pret*



*Frédéric Van Doosselaere*