Focus

Update on US elections

9 November 2016.

Executive Summary

- **We are long-term investors**: **our long-term returns will not be determined by a specific outcome in US elections**
  - We stick to our guns while monitoring our investment cases
- **Hedged strategy: on election day, we hedged 70% of the portfolio**
- **Increased short-term volatility creates investment opportunities for our "Entrepreneurial Value Investing" approach**
  - We will put our cash to work catching potential investment opportunities arising from the volatility surge

The victory of Donald Trump, who will become the 45th president of the United States, runs against the recent opinion polls and will probably leave the US society divided after a very tough campaign.

After the Brexit vote in June, we are again facing a major political event creating uncertainties and volatility on financial markets.

There is no doubt that **on a short- to medium-term, the outcome of the US elections will have an impact on the operating environment of European companies.**

Based on Trump's agenda, we can expect the following

- The increase of populistic protectionism in political decisions: any limitation of free trade could have an impact on global economic growth and obviously on exports of European companies.
- The Fed may delay rate increases resulting in USD weakness making European companies less competitive (because of a stronger EUR).

From a geopolitical point of view, Europe could be more isolated in the Middle East while the relationships with Russia remain a key question mark.

In practical terms, what does the victory of Trump imply for our European Value strategies and our portfolio positioning?

Remember, as bottom-up long-term investors, our portfolio was not positioned for a potential outcome in the US elections; it consists of a selection of 38 companies with undervalued earning power chosen in a universe of more than 1 500 companies.

Despite the emergence of a more challenging operating environment over the mid-term, the victory of Donald Trump does not put into question the earning power of the companies included in our portfolio. What matters most is the quality of their products and services, their competitive positioning and their ability to generate cash flows. **The companies we own have solid balance sheets** (average debt/EBITDA ratio much lower than the market) **that should also help them to weather the storm**.

> *"What matters for us is the earning power of the companies and the quality of their businesses"*

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Cynically, our most recent addition in the portfolio (only a few weeks ago) is *Novo Nordisk* which may emerge as a winner of Trump's victory as it was mostly Democrats pushing for lower insulin price. The recent volatility experienced by the stock because of this price pressure created an investment opportunity for us; what really matters is the long-term earning power and the margin of safety.

We will continue as always to closely monitor the companies in our portfolio and remain focused on the earnings seasons. For us, the results they are publishing (as illustration, *FL Smith* and *Europcar* will publish today) are as important (if not more) than the short-term consequences of this election.

Moreover, we always keep some dry powder in portfolio (currently 5% of cash) to take advantage of market movements bringing interesting investment opportunities. Once babies are being throwing out with the bath water, we will probably put some of this cash position to work by first adding to existing positions where our margin of safety is higher than 40% and secondly, by screening our investment universe to add new positions.

"The net exposure of our hedged portfolio has been reduced to 30%"

Last but not least, as there could only be a binary outcome to this election, for our European Value Hedged strategy, **we decided, on election day** (8 November), **to hedge 70% of the portfolio which was a more conservative stance than suggested by the model**. This positioning should enable us to limit the portfolio's volatility and drawdown in case of a large market downturn.