capital at work
Wealth Management Foyer Group

Dear Sir, dear Madam,

Contrary to what people perceive and feel, the world economy is still in full swing.

Businesses in the United States are considerably benefiting from the massive tax cuts. Several of the companies we are invested in, are positively impacted by this. For example in the media industry the merger and acquisition activity is heating up. In the technology sector companies are ramping up their investments and in other sectors companies are looking into a possible company split.

In China, the Communist Party celebrates its centenary in 2020. China's centrally planned economy continues to grow at a rate of 5% to 6%, creating tens of millions of consumers each year. This benefits some of our investments in online retailers, internet giants and the booming aviation and travel sectors in China.

What does this all mean for Europe? Well these Asian consumers, who travel more and more, are also the reason for the strong results in some of our other investments, for example in the luxury and duty free sector. Europe may not have the world leaders in the broad technology sector, but in the luxury sector, for example (fashion and cars), we are regarded as the world's leading reference.

This dynamic global economy, in which our companies operate, has ensured that the results of the companies in which we have invested for you, remain solid. The trade dispute between the United States and the rest of the world, despite causing increased volatility, is still being looked at in a relatively calmly way by investors. It's been generally accepted that this is primarily a matter of Trump's negotiating approach and will not spiral down into a genuine trade war. A trade war that even the United States wouldn't benefit from.

Let's keep in mind that eventually, in the long run, good company figures will be reflected in rising stock prices.

As you know, we have constructed a very internationally diversified bond portfolio, which includes approximately 35% US Dollar bonds. The American Central Bank continues to raise interest rates. The 10-year interest rate rose by half a per cent this year to 2.9%, and since the summer of 2016, has risen by 1.5% (see graph). This has caused the prices of these bonds to fall (temporarily). We can't feel but jealous as Euro investors. In Europe we have to invest in bonds with much lower yields, fluctuating between 0% and 1%. It's either that or leave money in a savings account that does not yield anything. In addition, the US dollar has weakened by 10% against the euro since its strongest point in March of last year.

The good news for our bond portfolio is that this negative mix of a weakening US dollar and rising interest rates is behind us. We are convinced that this part of your bond portfolio is very interesting. We are invested in a mix of American government bonds (yield 2.9%) and American corporate bonds (4%).

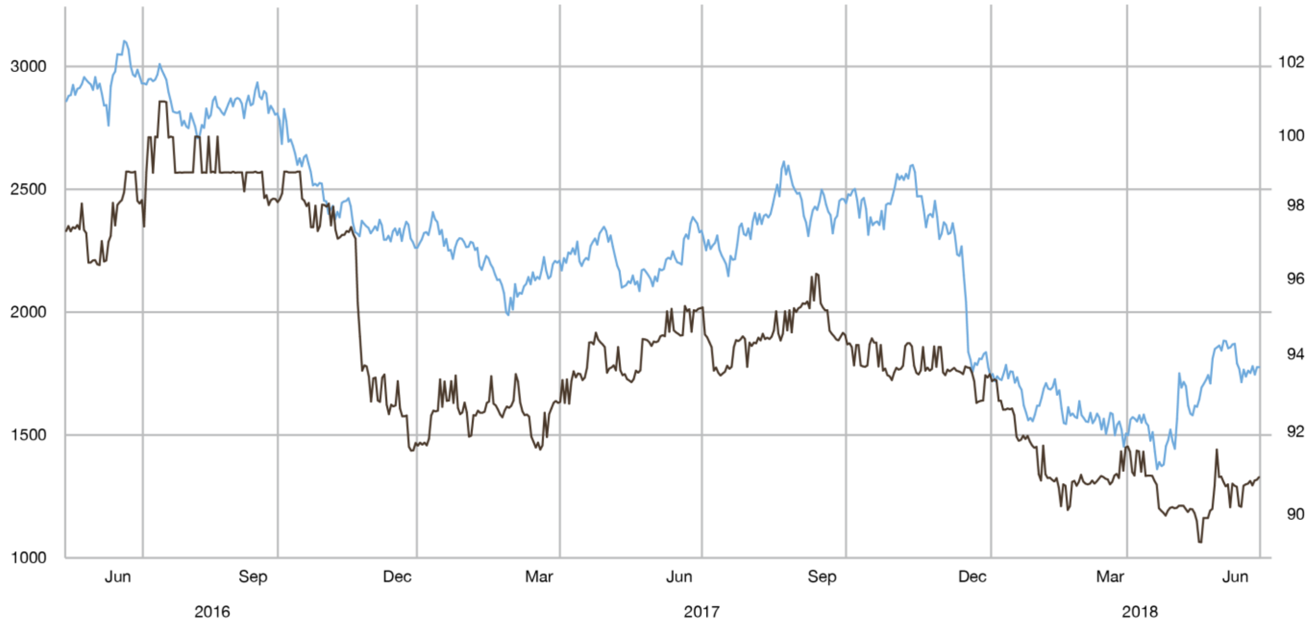
As regards to our Eurobonds, the main news is that the ECB has confirmed that it will stop buying bonds this year and that interest rates won't be much higher than 0% until well into 2019. We still have to accept and manage these very low interest rates in Europe for some time.

The difference in return between our bond and equity investments has been very pronounced in recent years. Since January 2014, our equity investments have increased by 40%. Over the same period, our bond investments increased by just 12%. Our bond investments have been trading on the same level for three years now, driven by a mix of rising interest rates (in US dollars) and more recently, a weakening US dollar. Our strong message in recent years, where we are more positive about equities than bonds, remains unchanged. But for the first time since a long time, we gradually see new opportunities emerge again to obtain returns with bond investments.

Independently from the renewed investment opportunities in bonds again, bonds will always have a place in a diversified portfolio. They ensure a guaranteed flow of income, diversification and protection in the event of turmoil on the financial markets.

As you can see in the chart below, the interest rate increase from 1.5% to 3% for this American government bond (maturity until February 2026) has brought the price down from 102% to 90%. This bond will be repaid at 100% in 2026. This 10% guaranteed price increase, coupled with an annual coupon of 1.6%, will give the investor a yield of 3% on an annual basis over the next 10 years.

Chart (source: Bloomberg)



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Not only is sustainable return important, also environmental sustainability is close to our hearts.

That's why we have decided to reduce our paper correspondence. Thanks to the optimisation of our digital services, you will be able to consult your asset statements online, whenever you want, wherever you are. Our newsletters will also be available for you this way.

As of September 2018, no correspondence will be sent by post unless you explicitly request to do so.

If you don't have access to MyCapital yet, and you would you like to contribute towards our environmental sustainability? Please contact your account manager to activate this access.

We hope, just like us, you consider environmental sustainability as a must.

Yours faithfully,

The Management of CapitalatWork Foyer Group