January 12th, 2021

Dear co-investor:

Our International, Iberian and Blue Chips funds continued to have a positive performance through the fourth quarter (+24%, +21% and +25%, respectively). The recovery from lows has reached +77% in Azvalor Internacional, +31% in Azvalor Iberia and +101% in Azvalor Blue Chips. However, all three funds have closed the year with negative results (-6%, -24% and -2%, respectively). The recovery from lows is good news and we believe it will continue over the coming years. The reason for our optimism: the portfolio is still cheaper than the market and our companies' prospects have improved (see more details below).

Iberian portfolio

We have not added any new companies to the Iberian portfolio this quarter. Instead, we have sold our position in Ence, Aena and Naturgy, and reduced it in Acerinox, Arcelor, Applus and Elecnor. With the proceeds from these sales, we have invested further in Técnicas Reunidas, following the sharp falls registered in October.

We regard the weaker performance of the Iberian portfolio vis-à-vis the International portfolio as temporary, perhaps partly explained by the greater weight of small companies and a more harmful impact of the Coronavirus pandemic in Spain.

Azvalor Iberia is focused on companies that we know well and whose prospects are improving. In the case of oil related companies (**Técnicas Reunidas, Repsol, Galp** and **Tubacex**) we think there is undue pessimism which is already beginning to correct itself (since November, the XLE energy index is beating the QQQ technology index by 30%), just like in **Meliá** with COVID-19 vaccine announcements. **Elecnor** is a robust company where traditional business is free. **Altri** and **Miquel y Costas** are two of the best-managed pulp and paper companies in Europe whose stock prices do not reflect their upside potential; much the same as **Logista**, which we discussed in our previous letter (read here). **Mota Engil** has recently sealed a very positive deal in our opinion, combining its leading commercial presence in Africa with the economic power of a leading Chinese construction firm. These 10 companies account for 61% of the portfolio and we are optimistic with regard to the upside potential that awaits us if we hold on to them.

There have been no substantial reductions in the valuation of any company in the portfolio during this quarter. **Our estimated intrinsic value of the fund has increased by 2% during the quarter up to EUR 192 per stake**, more than double the year-end level **(EUR 87)**.

International portfolio

The fourth quarter gave us the opportunity to enter several new companies we had been analyzing for some time.

Total is one of the integrated oil and gas companies with the best track record in capital allocation, which we bought below PER 10x and at an 8% dividend yield. **Kinepolis** is the world's best-managed listed cinema chain at the operational level (measured by revenue/visitor and cost/visitor) thanks to a culture involving all employees with a unique incentive system. The COVID shutdown has allowed us to reinvest in this company 8 years later paying less than 8x normalized profits. **British American Tobacco (BAT)** has a good business (high ROCE) with insurmountable entry barriers and we have invested at 7x profits. **Prairie Sky** owns land properties in Canada which it leases out to oil companies to produce hydrocarbons in return for royalties. This low capital-intensive and smoothly operating business was trading at the beginning of October at a price 80% lower than its IPO in 2014, due to the pessimism in the energy sector. We bought it then, and we see potential to double. **Hyundai's** preferred stock has returned to the portfolio as the discount on common stock exceeds 50% (despite a similar dividend) and we see potential to double. With the purchase of **Canadian Natural Resources** we have partnered with the best management in the Canadian oil sands segment, paying less than 6x normalized profits with crude oil at USD 60. **Philip Morris** has won the race for next generation tobacco, which already accounts for 25% of profits and is growing rapidly in a declining sector. We have bought it at a price 35% below its stock price 3 years ago, equivalent to a P/E of 10x our estimated normalized profits.

These acquisitions have been financed by selling our position in the copper producers First Quantum (+110% in 8 months) and Freeport (+54% in 9 months), as well as in Lundin and Grupo México (+20%). We have also exited the pulp and paper company Suzano (+50% in 9 months) and CNH Industrial (+46% in 6 months).

There have been no reductions in the valuation of our investments during the quarter. They could be led, however, by those companies with some balance sheet risk, which in total weigh 5.7% and are kept in the portfolio because of their attractive risk-return ratio.

During the 4Q20 the estimated intrinsic value of the fund has increased to EUR 233 per stake, more than double the year-end level **(EUR 105).**

Azvalor news

In terms of inflows and outflows from our funds, during this final quarter subscriptions have amounted to EUR 10M while redemptions have reached EUR 39M (meaning net outflows of EUR 29M). In a challenging year for value strategies, this is a small figure which reflects the confidence of our client base (15 thousand clients at year-end) in our investment process.

We would like to conclude this letter by thanking you again for your trust and reminding you that you may contact our Investor Relations team for any questions you may have.

Sincerely,

Azvalor Team