Azvalor.

28th of July 2021

Dear co-investor:

Our International, Blue Chips and Azvalor Managers funds performed well in 2Q21 (up 12%, 6% and 10%, respectively), making it the fifth consecutive quarter of significant gains. Our Iberian fund accrued over 11% return in the first half of the year after slipping 1% in the second quarter.

What many investors want to know (and rightly so) is how much longer the gains will go on. We have other questions, as well, that are more in line with our philosophy: Are the funds still undervalued? How undervalued? In view of the results, is this the time to sell or is there room for further investment at this level?

Although our main fund (Azvalor Internacional) piled up 132% return after registering lows, we think the gains are not a reason to sell, as the fund has accrued 30% return since its launching nearly six years ago, which amounts to a 4.5% increase per year. We think the fund is worth just over twice that amount, and if it took five years to achieve the 30% gain, the total rate of accumulated return since launching (2016–26) would be 11%, which falls short of our all-time rate and seems perfectly reasonable (and, in fact, may be achieved before 2026). As a reference, our all-time rate of return of around 15% per year would be achieved if the fund were to reach its target price in its eighth year since launching (November 2024). If it were to do so before that point, it would improve our all-time rate. In any case, when the recent results are put into context, all signs suggest that this is the beginning of a broader and longer-lasting re-rating process, in view of our history. As we have often pointed out, we believe that price and value are the only two significant variables: how much the fund is worth and its trading price. We remain optimistic regarding the future performance of all of our funds, as the portfolios are significantly more underpriced than indices and our estimated value is far in excess of current value.

Net capital flows in the whole of our investment vehicles continued to reflect stability in 2Q21. Our funds also registered an increase in the number of investors in the quarter.

Other significant new developments during the period include the implementation of the "direct-payment" system in the trading of Azvalor funds (upon the coming into effect of the PSD2 banking regulation). This innovative feature allows investors to expedite the investment process by combining in one simple step subscription orders and bank transfers in the online-trading application. This facilitates the process and improves the user's experience.

The minimum required balance for all our funds was reduced to €500 to better meet any potential needs of our investors. The change is a further development of our previously implemented reduction of the minimum amount of additional subscriptions. Along with the possibility of making periodical subscriptions, this provides investors with recurring savings (a great number of our investors had opted for this system of regular subscription).

Iberian portfolio

We have added **Acerinox** and **Línea Directa** to our Iberian portfolio, both with a reduced weighting of less than 1%.

Acerinox has long been among our picks, and we are taking advantage of a weak moment in its otherwise robust stock performance to take a small position as a means of harnessing the upside potential that we see. **Línea Directa** in an outstanding insurer that benefits from its proven business model and the impressive track record of its management. We have invested at a multiple of 13x our estimate of sustainable profit. Although this is slightly in excess of our rule of less than 10x, we think it is warranted in this case, in view of the higher quality of the company's business.

As we indicated in our preceding letter, we have begun to use our 10% margin to buy non-Iberian companies. In addition to occasional positions that we have taken during slumps and sold after rebounds, we have invested permanently in **UPC** and **Yellow Cake** as a strategy of optimization of liquidity. These vehicles provide investment in and physical ownership of uranium and are trading at a premium to NAV at uranium spot prices (USD32/pound) but at a hefty discount when one uses the uranium price required for the sector to be viable (USD60/pound).

We have sold the whole of our positions in **Applus, Cementos Molins, Codere, Euskaltel and Zegona.** Regarding **Euskaltel** and **Zegona** (the most valuable asset of which is Euskaltel), we decided to sell in view of the Mas Móvil takeover. **Cementos Molins** is clearly worth more but with reduced liquidity. When we were offered a firm price for the whole of our position, we chose to sell and to buy stock in Yellow Cake and UPC with slightly less upside potential but much more liquidity. The sales of Applus and Codere accounted for less than 0.7% of the portfolio.

As of the date of this letter, **the target price was €200.9 per share vs. the current price of around €95.8 per share.** The 1% decline in value vs. the preceding quarter is the result of several small reductions in some target prices, of the increase in liquidity and of the aforementioned change in Cementos Molins. In our opinion, our Iberian fund's underperformance of international funds is temporary. Several companies, such as Sonaecom and Elecnor (they jointly account for 11% of the fund), in which the lack of liquidity may give rise to abrupt upturns over just a few days, are worth twice as much, in our opinion. Others, such as Tubacex (10% of the fund) have been burdened by the energy sector's poor stock performance (we think this is temporary, as the price of oil remains strong) and by labor-related problems that will likely be resolved soon (which would strengthen the company and better position it for the future).

Our investment partners have increased their participation in Azvalor Iberia and now account for nearly 15% of the fund.

International portfolio

The two main positions taken in 2Q21 were **Range Resources** and **Public Power Corp (PPC)**.

Range Resources is one of the biggest US producers of natural gas. It has one of the broadest areas of operation in the Marcellus Formation, which is the most important play in the US, as well as the highest productivity and lowest costs. Having owned this stock in the past, we have taken a position anew at around USD9.0 per share. The company now has a strategy more clearly oriented to value creation, a stronger balance sheet and considerably improved fundamentals of the US natural-gas market. Although we quickly obtained nearly 60% return, we see further significant upside potential and have chosen to keep this stock in our portfolio, although with reduced presence.

PPC is the former state-run electricity monopoly of Greece. We think the market is greatly undervaluing its generation and distribution assets. Under the country's current government, we think the oft-seen interference of politicians in these undertakings is now a more limited source of risk, and the company's management have shown signs of foresight in the allocation of capital and strict discipline in the management of operations. We have taken a position at a price that is less than 8x our estimated normalized level of profits, which we think is highly appealing, given the company's prospects.

These purchases were mainly financed through the full sales of our position in **2020 Bulkers, Genco, Golden Ocean, Hyundai, IOG, Mota** and **Prosegur,** all of which were positions of less than 50bp and were sold at a profit.

In 2Q21, there were no significant changes in value among our investments. **As of the date of this letter, the estimated value of the fund stood at €290 per share vs. the current price of around €130 per share.** Taking all of this into consideration and despite the hefty upturns from COVID-related lows (up 130% since March 2020), we think our strategy of rotation of stocks (selling on gains and buying fallen stocks) and the enduring appeal of the valuation as of the end of 2Q21 allow us to anticipate returns that will outperform the market in coming years.

Azvalor Blue Chips

Value per share stands at €251. This fund's portfolio is very similar to that of Azvalor Internacional. The difference is that our Blue Chips fund is comprised of stocks of larger companies (€20bn in weighted average market cap), it has fewer companies (40 vs. 70) and is more concentrated (the top 15 account for nearly 65% vs. 50% in Azvalor Internacional).

Azvalor Managers

The fund gained 9.8% in 2Q21, constituting 36.8% return year to date (at the end of June). Although we cannot predict short-term price fluctuations, looking to the long term, we are sure that the share prices of the companies in the portfolio suggest great undervaluation. The fund's valuation ratios reflect a discount of approximately 50% to the global stock market (Morningstar data). Since the fund's launching, we have rarely seen similarly broad discounts, and we think this leaves us in a good position to outperform the market in coming years. The portfolio has an exposure of 70% to 75% to small and very small enterprises across a wide range of sectors and regions. Each stock in the portfolio has been carefully chosen by one of the fund's four international investment-management boutiques.

As always, we wish to express our gratitude for the confidence you have placed in our firm, and we invite you to contact our Investor Relations department should you have any doubts or questions.

Sincerely,

Azvalor Team