Azvalor.

26th of October 2021

Dear co-investor:

Our funds continued to register gains in the third quarter of 2021 as well as year to date. Our portfolio contains stocks that are still greatly undervalued, whereas most stocks in the market are overpriced, in our opinion.

The best news from the third quarter is the increase in our target VALUE, which we estimate at €320 per share[i] of the Azvalor Internacional fund, for example, compared to its €150 current price (once again, over 100% upside potential). The increase in value is achieved by buying solid companies whose prices have fallen, financing those acquisitions with the sale of businesses that, after having risen, are approaching their fair value.

As a result of this asset turnover, our funds, which have returned nearly 40% in 2021, remain underpriced, with a price-to-value ratio of 0.5, which is clearly attractive in comparison to our historical portfolios from the past 20 years. We believe this focus on the companies' price and value is the true key to obtain suitably high returns. Although media noise might lead one to think that being able to predict inflation or interest rates is a skill required of successful investors, we know this is not true. Greatly simplifying matters, we can surmise that US production has been dragged down by the pandemic, that demand has risen as a result of transfer payments, and that this creates inflation. Whether or not the inflation is "permanent" will depend on many interrelated variables and future political decisions, which means that any estimate has a wide margin of error. Taking the time to understand why a company's stock is trading at half of its value is a more strictly defined task with a smaller margin of error and is therefore a more profitable one. This is what we do at Azvalor to protect and enhance the savings of our co-investors.

On new developments, in this quarter, we have made available to our co-investors a new online feature that facilitates funds subscriptions. The "2-in-1" subscription process (initiation of payments) allows subscribers to complete in a unified process the order to buy fund shares and the bank payment, thus improving the users' experience and simplifying the subscription process.

Our Telegram channel (https://t.me/azvalor) now has 1,400 users and continues to register consistent growth.

Iberian portfolio

There were no new additions of Iberian companies to our portfolio in the third quarter. The most important news during the period may be the takeover bid we received for our shares of Zardoya, a company with a significant weight on the portfolio.

Zardoya Otis is a company that we have known about for over 20 years. It clearly leads the business of manufacturing, installing and maintaining elevators and escalators in Spain, which is among the most important markets worldwide. It is a high-quality line of business that benefits from very high levels of return on capital employed (ROCE) and significant entry barriers, and we have invested in it many times in the past (Schindler, Thyssen) with good results. Historically, Zardoya's stock has been overpriced, in our opinion. Nonetheless, in recent years, adverse real-estate and economic cycles in Spain and the company's hefty investment in digitization and manufacturing have dragged down its earnings and the share price. We believe that the impact on earnings is temporary and that the stock is a clear investment opportunity at this time. On 23rd of September, the US-based multinational enterprise Otis, parent company and holder of half of Zardoya's share capital, announced a takeover bid at €6.94/share (adjusted to reflect the recently paid dividend), which was 31% higher than the share price on the preceding day. This offer clearly falls short of the company's value, in our opinion. Otis is trading at much higher multiples than those implied in its bid for Zardoya, and the financial cost of its debt is smaller than Zardoya's dividend yield. For the time being, we are holding on to the greater part of our investment.

As indicated in our last update, we are using our 10% margin to buy non-Iberian companies. These stocks are part of our Azvalor Internacional fund and are picked on the basis of the best price/value.

As of the date of release of this letter, **the estimated value** of our Iberian portfolio **stands at €195/share vs. its current price of around €100/share**.

The portfolio remains highly concentrated, as the top 10 stocks comprise nearly two-thirds of the fund. We have extensive knowledge of these companies and have spoken of them at length in past letters. Specifically, the top five stocks (Tubacex, Galp, Elecnor, Técnicas Reunidas and Logista) account for nearly 40% of the fund.

International portfolio

In the third quarter, we acquired no new companies with a weighting of over 1%.

Regarding sales, we have acted on upturns to sell our position in five companies with outstanding gains: **Major Drilling (+38%), Philip Morris (+21%), Range Resources (+65%), Suncor (+59%) and Vertu (+28%).**

Toward the beginning of the year, we bought **Range Resources** at around USD9.0/share. The company is among the most important US producers of natural gas and its operations are based in the Marcellus Formation, which is the most prolific and efficient area of extraction in North America. We believe the share price was discounting unsustainably low gas prices in the long term. Several months later, gas prices have surged from USD2.5 per million cubic feet to nearly USD6.0 at this time, and the company's share price has surpassed USD24/share. Now that it has returned over 65% for our funds, we have opted to sell it in favor of other investments with more appealing combinations of upside potential and quality.

We invested in **Suncor** in the late-summer months of 2020 at around CAD18/share. Suncor is one of Canada's leading producers of crude oil, which it extracts from oil sands. The company benefits from low operating costs and the long life of its reserves, and it is the refining and marketing leader in Canada. Our research suggested that the share price was discounting unsustainably low oil prices in the long term. The stock has recently returned around 60%, and we have chosen to sell it for the same reason stated above in our comments on Range Resources.

Philip Morris, Major Drilling and Vertu are three smaller positions we have sold to finance the acquisitions of other companies whose stock performance had declined during the same period.

We have also sold our shares in **Cabot Oil & Gas, Total Energies and Galp,** as their remaining potential falls short of that of other companies in the same sector. Accordingly, we have increased our exposure to companies such as **Canadian Natural Resources** and **Bonanza Creek.**

As of the release of this letter, the estimated value of the fund stands at €320/share, vs. its current price of around €150/share. Taking into account our strategy of asset rotation (sell on gains, buy on declines) and the still attractive low valuations, we can expect to outperform the market in the coming years.

Azvalor Blue Chips

The per- share value stands at €272 vs. its current share price of €130 (we see 100% upside potential here, as well). The fund's portfolio is very similar to that of Azvalor Internacional, the differences being that the former is comprised of stocks of larger companies (€20bn in average weighted market cap), it has fewer companies (41 vs. 70) and it is slightly more concentrated (the top 15 stocks account for 63% of the whole vs. 59% for Azvalor Internacional).

Azvalor Managers

We gratefully acknowledge the trust that around 500 co-investors have placed in Azvalor Managers, which will begin its fourth year of operation in November. The fund continued to register gains in the third quarter, returning +38% by the end of September. In addition to the outstanding performance observed during the period, it is worth noting that the activities and financial positions of the companies in the portfolio fared very well, in line with the fund managers' investment cases.

It should also be observed that, in recent months, several companies have been targeted for takeovers at prices that are far in excess of our average cost, including CAI International (+80% vs. our average cost), Domtar Corp. (+171%), Fly Leasing (+37%), Shinsei Bank (+36%) and American National Group (+130%). This is a logical consequence of our investment philosophy: buying solid companies whose stocks are trading at prices that are significantly below value. The fund's valuation ratios reflect a discount of over 50% vs. the global equity market, which provides a broad margin of safety to outperform the market in coming years.

Once again, we wish to express our gratitude for the trust you have placed in our firm, and we invite you to contact our Investor Relations team should you have any doubts or questions.

Sincerely,

Azvalor Team

---

[i] *The potential upside indicated herein is calculated as the difference between the estimated value of each of the underlying assets of the portfolios, based on our internal valuation models and the current share prices of each in stock markets.*