Azvalor.

May 11th, 2022

QUARTERLY LETTER 1Q2022

Dear co-investor,

Azvalor funds have delivered an excellent performance in this first quarter of 2022. In the case of Azvalor Internacional, the fund obtained an accumulated return of 31%, which compares with the losses of the world's main equity and fixed income indices. **This is the largest outperformance to the market in a quarter in our entire history (over twenty years).**

We would like to share once again with all of our co-investors the reason behind these outstanding results, as we believe they are not attributable to a miracle or to excessive risk-taking. Warren Buffett has always repeated that you can only really tell if a portfolio is conservative or not when the markets drop. We are pleased that we were able to protect our investors by sheltering them from these falls, and proud to have generated a weighted average return across all our funds of 28.7%[1] in this first quarter.

The explanation, once again, is that we have seeded successfully, investing in good companies at attractive prices **when the market was wrong to ignore them**. Our teams based in London and Madrid put a great deal of effort into ensuring, company by company, that each investment is attractive relative to the price we pay for it.

In looking to the future, we insist that to know how much we are going to earn, we must first consider the valuations' starting level. The lower the price compared to the (intrinsic) value of an asset, the higher its future performance and vice versa. The most important ratio for us, which summarizes most of the work we do at Azvalor, is therefore the quotient between the Net Asset Value (available on our website every day) and the Intrinsic Value we calculate.

As you will read below, we still have an interesting potential upside ahead of us in all the portfolios we manage.

Azvalor Iberia

The fund grew by +11% during the quarter, compared to the decline (-0.3%) of its benchmark index over the same period.

[1] Source VDOS Stochastics.

As of the date of publication of this letter, **the target value of our Iberian portfolio stands at €209 per share[2] vs. its current price of around €116 per share[3].**

The portfolio remains concentrated in companies that we know well and of which we have spoken at length in previous letters; specifically, the top five positions (Tubacex, Elecnor, Técnicas Reunidas, Prosegur Cash and Logista) account for a substantial part of the portfolio.

This quarter, we have added some new companies to our Iberian portfolio such as Atresmedia and Catalana Occidente, and increased our exposure to Logista, Técnicas Reunidas and Línea Directa Aseguradora.

On the other hand, we have sold some positions entirely, such as Zardoya Otis (which has received a takeover bid from its parent company and main investor), and reduced our exposure in others, such as Galp Energía and Altri SGPS.

Azvalor Internacional

As mentioned at the beginning of this letter, our international portfolio has delivered an extraordinary performance during the quarter, with a 30.8% increase compared to the -6.5% drop recorded by the Euro Stoxx 600 index and the -4.9% S&P500 decline.

We still see significant potential in this portfolio, as **its target value stands at €365 per share[2] vs. its current price of around €207 per share[3].**

The new additions this quarter were mainly: Ferrexpo, Iamgold and Central Puerto, among others, meanwhile we have sold our positions in Tenaris, Chesapeake Energy and International Seaways, among others.

We have also increased our exposure to companies such as Suzano, Agnico Eagle Mines and Aurizon Holdings, and reduced our exposure to Civitas Resources, Teck Resources and Kinross Gold, among others.

Our main positions at the end of the quarter are Arch Resources, Consol Energy, Barrick Gold and Whitehaven Coal.

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[2] The target value 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.

[3] As at May 5th, 2022.

Azvalor Blue Chips

The fund's portfolio is very similar to that of Azvalor Internacional and follows the same *value* investment philosophy (like all Azvalor funds). The difference is that it is comprised of larger stocks (€20 billion in average weighted market cap), it has fewer companies (46 companies vs. 58) and is slightly less concentrated (the top 15 stocks account for 58% vs. 59% in Azvalor Internacional).

The fund's performance during the quarter was also excellent, growing by 26% compared to the aforementioned declines in its indices.

As for the evolution of its investments, they maintain a consistent similarity with those of Azvalor Internacional, although we would like to highlight some new additions such as Grifols and Bayer.

We have also increased our exposure to companies such as Aurizon Holdings, Agnico Eagle and Fresnillo, and reduced our exposure to Tenaris, Teck Resources and Total Energies, among others.

Like in the case of Azvalor Internacional, we still see significant potential in this portfolio, as its target value stands at €292[4] per share vs. its current price of around €176 per share[5].

Azvalor Managers

The objective of this fund is to find the best investment opportunities worldwide through investment delegation to external Managers, already described in previous letters. These external Managers are selected by Azvalor Asset Management's investment team, after an exhaustive qualitative manager research process, looking for those that comply with a strict set of requirements. The four Managers are the same since the fund was launched.

The fund's quarterly performance was also very positive, with an 8.9% increase.

[4] The target value 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.

[5] As at May 5th, 2022

The fund's valuation ratios continue to reflect a discount of over 50% to the global equity market. In this regard, according to Morningstar data at the end of March 2022, the **Azvalor Managers fund is trading at 8 times earnings (vs. its index, MSCI ACWI NR, which trades at 17 times) and 0.9 times book value (index at 2.5 times)**. Therefore, we believe the recent upturn in price is just a partial recovery of what the portfolio Managers estimate is their fair value, so there is still significant room to deliver returns.

Azvalor International (Azvalor Lux SICAV)

This is the first time we write about this vehicle in our quarterly letter. There are several reasons for doing so: the number of investors has increased considerably and the volume of assets under management has grown significantly (AUM is over €250M).

As for its portfolio, it is a proxy of our principal strategy represented in the Azvalor Internacional FI (Spanish domicile fund) combined with the best the options in the Azvalor Iberia fund. Its lower AUM compared to the principal strategy, gives it greater flexibility, which is an advantage over the long term as it allows to weigh the best options with no restrictions of capacity.

In the first quarter of the year, the fund obtained a return of 24.9%. Since inception of the sub fund, the accrued performance is 77% or a 9,4% annualized, well above its benchmark (MSCI Europe Total Return Net with a 43,5% accrued performance).

It is worth highlighting the good contribution of Arch Resources and Whitehaven Coal, and the addition of new companies, such as Bayer and Petra Diamonds. We have trimmed the position in Tenaris and Canadian Natural Resources after a good performance and prices approaching their intrinsic values.

Despite its excellent performance over the last 18 months (more than 100% increase), we still see significant potential in this portfolio, as **its target value stands at €3,216 per share[6], at the date of publication of this letter, vs. its current price of around €1,774 per share[7]**.

[6] The target value 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.

[7] As at May 5th, 2022

Final considerations

We would like to end this letter by pointing out that **since the lows of the COVID-19 crisis just two years ago, our main fund has already multiplied by over 3.5 times** and continues to maintain an attractive potential vs. its current price, as is clearly reflected in the good results published by the companies in the portfolio for the first quarter of the year.

It is also worth noting that most of our co-investors, who started with us in November 2015, when Azvalor was founded, have already doubled their investment.

Fulfilling expectations over these years allows us to look at the future with optimism, **but we would like to end this letter on a note of prudence and humility, which are more necessary than ever when things are going well.**

Prudence which prompts us to sell companies when they have risen in price, as a basic discipline that we have been applying for the last 20 years. **And humility** before the new paradigm in which fixed income assets, the safest in theory, have not been able to protect the purchasing power of savers; and neither have the most "fashionable" companies (like Amazon, Netflix, etc.) which have experienced sharp declines over the last year!

Therefore, we should avoid thinking that, because we made the right investments in the past, the future will be easy. As Charlie Munger says, investing is simple, but not easy. This is why we will continue to apply the same process that has worked for us for the past 20 years. We have an interesting list of companies waiting to be added to our portfolio as soon as their prices become attractive.

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