July 27, 2022

Dear co-investor,

The world's major stock markets have recorded one of their worst starts in decades. In the US, the most important equity market, we have to go back over 50 years to see a similar drop during the first half of the year (-21% in 1970 and -20% in 2022). The global stocks have posted their worst first-half performance since the MSCI ACWI index was launched in 1990. But equities weren't the only ones to suffer. US bonds have also had one of the worst starts of the year since the 18th century. **Azvalor funds, on the contrary, have performed exceptionally well, led by Azvalor Internacional, offering returns of more than 28%.**

In our opinion, this performance differential proves one thing in particular: buying cheap is ALL that matters. This is, and always will be, the backbone of our investment philosophy. But it also demonstrates an idea that Warren Buffett has often stated: the real test of just how conservative a portfolio is arises through evaluation of performance in down markets: the portfolio that is truly conservative performs exceptionally well when the market purges past excesses with sharp declines. From this perspective, our portfolio was conservative, as it has performed well in a bear market. And it will always be conservative, as we have been putting all our assets on the line with yours for the past 20 years.

While we are very pleased to have achieved something almost unprecedented in favor of our co-investors (outperforming the market by almost 50% in six months), we keep on our toes and focus every day on making the portfolio cheaper and increasing its quality.

The second key note for the first half of the year is that we have acted on upturns to sell, thereby ending this six-month period with a **high level of liquidity**.

This is part of our long-standing natural process: to maintain the discipline of selling when the price of our stock has reached our target value. Liquidity at the end of June stood at 24.7% for the Azvalor Internacional fund. Although no one likes to have liquidity, the good news is that, in our professional experience as investors, these periods have always been short-lived.

In fact, in just a few days since the end of June, we have already put a significant part of this liquidity to work, investing at very attractive prices. Part of it has been reinvested in companies that we had been selling, because they have fallen back to attractive price levels. For instance, Canadian Natural Resources, which we sold at US$70 per share, and are now buying back at US$45 per share. We have also invested part of this liquidity in new ideas across various sectors, which we have been working on for several months.

This rotation process (selling at a profit, generating liquidity and reinvesting when prices are low) is allowing us to create value. Indeed, the estimated value of our international portfolio has soared to almost €400 per share (€390 to be exact), which again translates into an upside of more than 100%. **This estimated value is four times the price of €100 per share at which we launched Azvalor Internacional nearly 7 years ago.**

Although the net asset value does not reflect this yet, we are convinced that price and value will eventually converge, as they have always done in our nearly 25-year history. In the meantime, our work remains focused on increasing value and, as we have mentioned on previous occasions, we have an attractive list of companies which gives us good reason to believe this.

Azvalor Iberia

The fund grew by +5.4% during the quarter, compared to the decline (-1.7%) in its benchmark index over the same period. So far this year, this difference has widened with an accumulated return of +17% in the first half of the year for the fund compared to a decline of -1.9% for its benchmark index.

As of the date of publication of this letter, the target value of our Iberian portfolio stands at €220 per share[1] vs. its current price of €112 per share[2].

The portfolio remains concentrated in companies that we know well and of which we have spoken at length in previous letters. The top five positions are Tubacex, Técnicas Reunidas, Elecnor, Prosegur Cash and Logista.

This quarter we have increased our exposure to Prosegur Cash, Mapfre and Línea Directa Aseguradora, among others. On the other hand, we have reduced our exposure

[1] 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.

[2] As at July 19th, 2022.

to others such as Altri and Galp. In Tubacex we have reduced (only slightly) after the sharp increase from year-to-date low of €1.50 per share to €2.60 per share at the beginning of June.

Azvalor Internacional

Azvalor Internacional delivered a return of +28% in the first half of the year compared to the -13,8% drop recorded by its benchmark index over the same period.

It is worth noting the improvement –in aggregate terms– in the fundamentals of the companies in the portfolio: earnings growth, strengthening of balance sheets (in many cases leading to net cash positions), improved competitive position, dividend increases and share buyback programs, all of which maximize the portfolio's potential.

Likewise, it is important to highlight the fund's attractive performance, as its target value stands at €390 per share[3] vs. its current share price of €187 per share[4].

The new additions this quarter were mainly Vale, Bayer and Centrais Eléctricas Brasileiras, among others. Meanwhile, we have sold our positions in Kinross Gold and Iamgold entirely.

We have also increased our exposure to Petrofac, Gold Fields and Suzano among others, and reduced our exposure to Consol Energy, Arch Resources and Drilling Co Of 1972 following their sharp increases.

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), and has fewer companies (48 companies vs. 60-70).

Year to date, the fund has delivered a positive return of +20.7%, compared to the -13.5% drop of its benchmark index, reflecting, as in the case of Azvalor Internacional, a historical difference in comparable terms.

[3] 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.
[4] As at July 19th, 2022.

During the quarter, we have reduced our exposure to Chesapeake Energy, Kinross Gold and Carrefour. We have also increased the weight of Vale, Suzano and Mosaic, all of which are old acquaintances of ours; and reduced the weight of Civitas, Canadian Natural Resources and Drilling Co Of 1972, following their sharp increases.

We still see significant potential in this portfolio, as its target value stands at €318 per share[5], at the date of publication of this letter, vs. its current price of €159 per share[6].

Azvalor Managers

Azvalor Managers has continued to grow, and currently has close to 800 co-investors and 55 million euros under management. The fund was recently honored with the 2021 Best Global Equity Fund Award by El Economista.

Over the past few months, the team has visited all the Managers in their respective offices and maintains full conviction on each and every one of them. Our Managers have remained loyal to their particular investment style for decades in very different market environments, overcoming severe crises where they proved to be a safe haven for their investors. The Azvalor Managers portfolio is diversified across a number of sectors and comprises 130 companies, most of which are small companies not included in the indices.

Over the past 18 months, the market seems to be paying more attention to valuations. However, we are still far from reaching reasonable valuation levels: according to the Value factor calculated by AQR, the valuation divergence between expensive and cheap stock remains at extreme levels (95th percentile on May 2022) only seen before the tech bubble burst, which marked the beginning of several years of Value outperforming the market. During this period (2000-02), all four Managers delivered positive returns as the market declined.

Azvalor Managers is currently trading at attractive valuation multiples. According to Morningstar, at the end of June, the portfolio was trading at 6.3 times earnings and 0.77 times book value, which is a 60% discount to global equity market valuations.

[5] 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.
[6] As at July 19th, 2022.

Finally, we would like to share with you the participation of Azvalor Managers in an event recently held at **Brown University** (*Value Investing Series Event*), which was previously attended by renowned investors like Howard Marks or Bill Nygren.

Azvalor Global Value (Pension fund)

As we did in our previous letter, we have included this fund in our quarterly. In terms of volume of assets, it is one of the few independent pension funds to exceed the €100M threshold (€119M at the end of June), despite being only six years old, and has over 2,200 co-investors. The fund recently received the 2021 Best Equity Pension Plan Award from El Economista.

The fund's portfolio combines companies present in both Azvalor Iberia and Azvalor Internacional. In the first half of the year, Azvalor Global Value obtained a return of +28.2%.

We still see significant potential in this portfolio, as its target value stands at €336 per share[7], at the date of publication of this letter, vs. its current price of €158 per share[8].

Final considerations

There were three highlights during this first half of the year.

Firstly, we managed to protect the savings of our co-investors in the stock market's worst start in 50 years, thanks to our obsessive focus on buying quality at a cheap price, and to our investors' unfailing patience. Thank you all for that!

Secondly, we have acted on upturns to sell, thereby ending this six-month period with a high level of liquidity. Dry powder to fire when the market gives us the chance, something that has already started to happen in the first days of July.

Finally, and perhaps most importantly, in looking to the future: **once again, our funds' potential is over 100% and the target value of Azvalor Internacional is close to €400 per share, almost 4 times the starting level of nearly 7 years ago.**

[7] 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.
[8] As at July 19th, 2022.

As Warren Buffett says "*someone is sitting in the shade today because someone planted a tree a long time ago*", and that is our obsession: to continue planting to make our savings grow with the same investment process that has been working for over 20 years.

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. We face the future with prudence and optimism, deeply grateful to our investors who kept their faith in us during difficult times, and satisfied with what we have accomplished together so far. But above all, we remain, as always, vigilant and humble for, as Charlie Munger says, *"It's not supposed to be easy. Anyone who finds it easy is stupid*".

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