Azvalor.

July 28, 2023

LETTER TO INVESTORS 1H2023

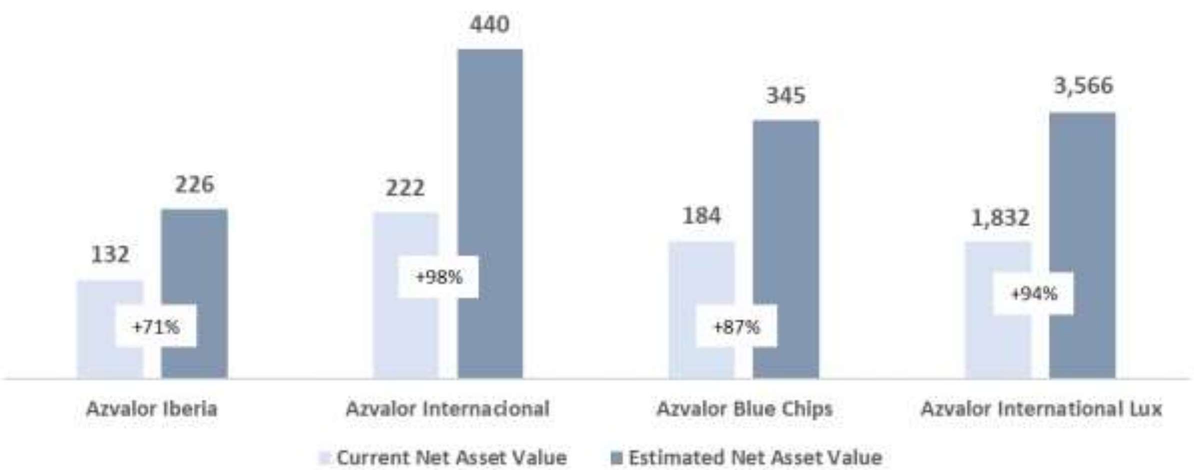
Dear co-investor,

During the first half of the year, Azvalor has delivered positive returns in its funds Azvalor Iberia (+9.4%) and Azvalor Managers (+7.2%) while the performance of Azvalor Internacional, Azvalor Blue Chips and the pension plan Azvalor Global Value has remained flat.

As always, we stress **the need to consider long periods of time to assess the investors' performance**, because trying to "chase the fads" of products which have attracted investors in the last quarter/half-year generally never pays off well for the long-term investor. This is particularly relevant today, as we will explain below.

Our funds have achieved an overall return of +27% in Azvalor Iberia, +113% in Azvalor Internacional, +76% in Azvalor Blue Chips, +41% in Azvalor Managers, and +82% in Azvalor Global Value, our pension plan, since their respective launches almost eight years ago. What can we expect in the future?

**Performance over the next five years** will not depend on the ability to predict the behavior of every stock which lands in our hands daily. **It** simply **depends on the starting point of valuations**: if they are high, future returns will be low (even if economies are doing well!), and if we start from attractive valuations, we will be making money over the following years. The ratio between the current fund price[1] and the intrinsic value of each company (calculated by us)[2] is an indicator we use at Azvalor to gauge this. According to the figure below, as of right now, this ratio indicates attractive returns for each of our co-investors.




[1] The current net asset values detailed herein are as of July 21, 2023.

[2] The estimated values indicated herein have been 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.

Yet we do not believe that this is the case for the rest of the market. The leading stock indices have performed well over the period, with the most representative index—the US S&P500—rising by almost 16%. However, this increase is "misleading" as only 10 companies have produced 82% of the index's total return, while the remaining 490 companies have barely risen by 3% and, even so, we do not consider them to be cheap enough yet.

We are again close to the valuation extremes of tech companies, as shown in the chart below.

**Chart 2: Monopolistic Tech back at highs vs Small Cap**
Nasdaq 100 vs Russell 2000


**Source:** BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

We are therefore back to where we were two years ago. An "expensive" market and "cheap" portfolios at Azvalor funds. Last year, the market fell nearly -20% while Azvalor, on average, rose more than 40%—precisely because the portfolios were much cheaper than the indices. Today we are back to a similar situation—not exactly the same—to that at the end of 2022's first half.

We can illustrate this with an example from our investment process. During this first half of the year, five companies in the portfolio have risen by between 50% and 60%, while others have seen significant cuts in their share prices, despite the fact that their businesses have shown clear signs of improvement and their fundamentals are getting stronger.

Our process takes advantage, in a disciplined manner—and after a thorough analysis of each company—of the opportunities presented by the market. This is why Tenaris—world's leading steel pipe manufacturer—was sold at around €17 per share over the past year. With the proceeds from this sale we bought JC Decaux—world leader in outdoor advertising—at around €12 per share. During this first half of the year, JC Decaux has risen to €22 per share, so we decided to sell… in order to reinvest in Tenaris below €12, after a 30% fall—compared to our last sales.

The success of this investment process basically rests on two pillars:

- A rigorous valuation of each portfolio company ("valuing well"),
- Discipline when buying and selling, avoiding "market noise".

The results show that, at Azvalor, we know how to value. And, as we said at our last conference, this is not a magical quality of a few "star" managers, but a process which has already transcended all levels of the analysis team. "Valuing well" is teamwork, and this is clearly demonstrated in private equity companies, whose investment process we have always tried to replicate for its rigor and excellence.

As for the buy/sell discipline, it is guarded by our managers, who have a combined experience of over 50 years exercising it, but in a process that has checks and balances—both for the addition of a company to the portfolio and for its weight in the fund.

## Azvalor Iberia

Azvalor Iberia's net asset value increased +9.4% in the first half of the year—to €127. In the same period, its benchmark index rose by 16.8%.

As of the date of publication of this letter, the estimated value of Azvalor Iberia stands at €226 per share vs. its current net asset value of €132.

There have been no significant sales in the portfolio during this first half of the year and the highlight has been the increased exposure to Línea Directa and Catalana Occidente.

The main positions at the end of the period are: Tubacex, Técnicas Reunidas, Prosegur Cash, Mota Engil, Elecnor and Grifols. Of these, the greatest weight corresponds to Tubacex, whose management team has recently achieved important milestones that suggest very good results for the next 3-4 years.

## Azvalor Internacional

In the first half of the year, Azvalor Internacional declined -0.3% to €213—compared to the +11.1% increase of its benchmark index over the same period.

The estimated value of the fund at the end of the first half of the year stands at €440 per share vs. its current price of €222 per share.

The main positions are National Oilwell, Barrick Gold, Arch Resources and Noble.

## Azvalor Blue Chips

Azvalor Blue Chips increased by +0.8% in the first half of the year while its benchmark index was up +12.6%.

The estimated value of Azvalor Blue Chips stands at €345 per share, vs. its current net asset value of €184.

The main positions at the end of the period are: PrairieSky Royalty, Barrick Gold, Nov and Noble.

## Azvalor Managers

Azvalor Managers' performance was +7.2% in the first half of the year, which means a return since inception of +41%. With more than 1,000 investors, the fund currently has over €60 million under management. The main highlight is the recent incorporation of two new Managers—3G Capital and SouthernSun Asset Management—selected by Azvalor's investment team among hundreds of analyzed managers over the last few years. Both firms are independent management boutiques which have "successfully" applied a robust investment process for decades, with double-digit annualized returns and outperforming their indices by a significant margin. We believe they will add a lot of value to the fund and will contribute to generating good returns in the coming years. These additions, together with the exit of Mittleman Investment Management (firm with which we have ceased our sub-delegation relationship), bring down to five the number of Managers entrusted with the management of this fund.

On the other hand, the trend of recent years—in terms of portfolio companies receiving takeover bids from third parties—has continued over the past half year, with bids received in PDC Energy (at a price offered that is +132% above our average cost) and Copper Mountain Mining (+75% above our average cost). At an aggregate level, the portfolio currently trades at a valuation of 4.15 times earnings and 0.87 times book value (source: Morningstar as at June 30, 2023), a very attractive level that offers a high margin of safety and high return potential for the coming years.

## Azvalor International Sicav Luxembourg

Azvalor International SICAV Lux, available for international investors, has a similar strategy as the rest of Azvalor investment vehicles. In this regard, the portfolio invests in companies present in our fund Azvalor Internacional—our International equities fund domiciled in Spain—and it selects the best ideas from Azvalor Iberia—our Iberian equity fund domiciled in Spain.

In the first half of 2023, the performance of the fund stands flat at -0.02%, compared to an 11.1% increase of its benchmark.

The estimated value of the investment vehicle at the end of the first half of the year stands at €3.566 per share.

At the end of June, the main positions of the SICAV are: PrairieSky, NOV, Arch Resources and Tullow Oil

## Azvalor news

During the first half of the year, Azvalor's management/analysis team and a number of its investment and pension funds received several awards:

*Expansión-Allfunds Awards:*

- Best Independent Spanish Management Company
- Best Global Equity Fund: Azvalor Internacional.
- Best Global Equity Pension Plan: Azvalor Global Value FP.
- Best Spanish Equity Fund: Azvalor Iberia.

*elEconomista Awards:*

- Best Spanish Equity Fund: Azvalor Iberia.
- Best Actively-Managed Fund: Azvalor Internacional.
- Best Equity Pension Plan: Azvalor Global Value.

Rankia Awards:

- Best Equity Fund: Azvalor Internacional.

*Hedgeweek European Awards 2023:*

- Best Equity Hedge Fund <500M: Azvalor ULTRA.

In addition, in terms of recognition for the management team, Álvaro Guzmán de Lázaro and Fernando Bernad (co-Chief Investment Officers) were voted Best Global Equity Managers at the 2023 Citywire Managers Awards.

We are delighted with these awards, but we do not want to delude ourselves: we simply could not have achieved them without our co-investors' unfailing patience. We are deeply grateful to all of them.

We would also like to highlight that during this first half of the year, we have launched Azvalor's first Joint Promotion Employment Plan, which will start making investments during the second half of the year.

We ended this first half with net inflows reaching close to +€130 million. More than 2,700 new co-investors have joined Azvalor during this period, adding up to nearly 23,000 investors. We would like to welcome all of them and thank them for sharing our long-term investment vision—which we believe is absolutely essential to deliver good results.

## Final considerations

During the past year, the market allowed us to reap "all at once" the fruits of the investments sown in previous years. Sometimes the market recognizes value in just a few days, sometimes it takes a few months, and still other times it may take a few years. But it always ends up recognizing it.

So far this year, the market has once again given us the opportunity to create value—as always—by swimming against the tide: forgetting the vertical rise of the NASDAQ and the concentration of return in a few firms, and looking at those good companies that are unpopular today. In short, with the same process, the same focus and the same intensity as always.

We therefore expect to continue to achieve the same good results as in the past. Over the last twenty years, returns have amounted to almost 15% annually, meaning a 13-fold increase of the initial capital. The current price/value ratio, our key indicator of what lies ahead, indicates returns not too far from this historical figure.

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 require any further information regarding the contents of this letter, or any other matter.

Sincerely,

Azvalor Team

Past performance is no guarantee of future results