February 28, 2024

Dear co-investor,

At the end of 2023, most of Azvalor's funds reached double-digit returns: Azvalor Iberia, +23.9%; Azvalor Managers, +15.5%; Azvalor Blue Chips, +10.5%; Azvalor Internacional, +9.8%; Azvalor Value Selection Sicav, +8.8%, the Azvalor Global Value pension plan, +9.0%; and Azvalor International Sicav Luxembourg, +9.8%..

Since their respective launches more than 8 years ago, and at the end of 2023, the cumulative returns of our funds are +44% in Azvalor Iberia, +134% in Azvalor Internacional, +93% in Azvalor Blue Chips, +52% in Azvalor Managers, +97.9% in our pension plan Azvalor Global Value and +92% in Azvalor International Sicav Luxembourg. In the last three years, over 90% of Azvalor's assets under management have doubled their net asset value.

But this is already in the past and at Azvalor we are now focusing all our efforts on preparing our portfolios to reap annualized returns which exceed the double-digit in the coming years. These efforts are grounded on analyzing each company, while avoiding the temptation to predict the future—because this is something that no one will ever manage to do.

We can, however, aspire to know the returns we might expect in a different way: by looking at the starting point of valuations. Throughout our history, when funds were trading on average at 70% of their value (in June 2007 for example) the expected annual return was less than +10%, and it turned out to be so. At 2009-lows or COVID-lows, funds were trading at 30% of their value, and the expected annual returns at that time exceeded +20%, and they actually did. Today, the funds are trading at around 55% of their value. This suggests long-term expected returns (from this point) above +10% without reaching +20%.

However, the earnings path is never linear. Let's look at the last 150 years of the US stock market (S&P 500): to generate its real annualized average return of +6/7%, there have been years of +50% but also some of -50%. If we had been invested in the index over that long period, 36% of the time we would have experienced losses, 44% of the time we would have rejoiced with double-digit returns, and only 20% of the time we would obtain a return similar to what we will get from the index on a long-term annualized basis (table 1).

S&P 500 Annual Return	Number of years	% years
+40 to +50% or more	3	2.00%
+30 to +40%	9	5.40%
+20 to +30%	21	14.10%
+10 to +20%	33	22.10%
+0 to +10%	30	20.10%
+0 to -10%	25	16.80%
-10 to -20%	18	12.10%
-20 to -30%	7	4.70%
-20 to -30%	3	2.00%
-40 to -50% or more	1	0.70%

Table 1: Source: VisualCapitalist/TradingView - 150 Years of S&P 500 Returns

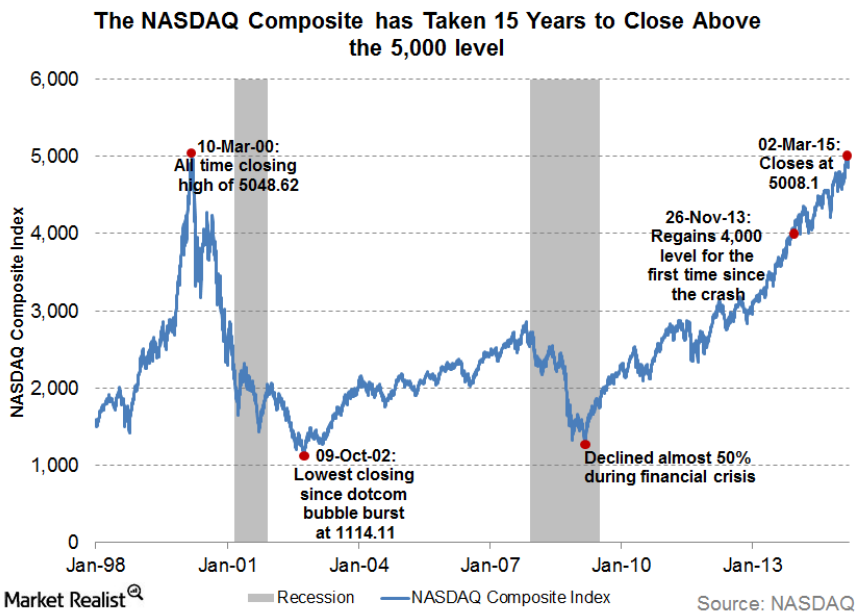
Two conclusions can be drawn from these data:

- The distribution of equity returns is "non-linear".

- Living with this uncertainty, which is reflected in such an uncomfortable distribution of returns, is essential for success in equity investment.

With regard to the environment, we see three risks behind the narratives entrenched in the market.

First, **Artificial Intelligence** "is going to change everything". Let us remember the late 1990s when, even though the Internet was going to change the world (as it did!), it did not prevent an 80% drop in the NASDAQ technology index. Those who bought during euphoria took 15 years to recover their investment!



Second, today everybody thinks that **"index investing"** is the best option (diversification at a good price). Our view is the very opposite: the price of the S&P is high and there is no such diversification (the weight of the top 7 represents almost 30% of the index).

Third and last, there is a macroeconomic risk: the high public debt burden in the developed countries. We hear that "debt, as we know, is never repaid", but it is not that simple. There are first and second order derivatives of major importance. Without going into detail, the fragility of economies rises exponentially when debt-to-GDP ratios exceed 100%. And the margin for states to "cover up all problems" is reduced. We take this into account in our company-level forecasts, but we think that the market, as an aggregate, is not accounting for it as it should.

Azvalor Iberia

Azvalor Iberia's net asset value increased +13% in the second half of the year. As of the date of publication of this letter, Azvalor Iberia's potential stands at 80%[1].

There have been no significant sales in the portfolio during this second half of the year. Some of the positions which have contributed most positively to the fund have been Tubacex and Elecnor, while those which have detracted the most have been Técnicas Reunidas and Prosegur Cash. The main positions at the end of the period are: Tubacex, Técnicas Reunidas and Prosegur Cash. We remain very confident in all of them.

Azvalor Internacional

In the second half of 2023, Azvalor Internacional's net asset value increased +10.1%. The fund's potential at the end of the second half of the year is 92%.

Some of the new additions during this period include Imperial Tobacco Group, Vale and Mobico Group, among others. The main positions at the end of the period are Barrick Gold, Nov and Endeavour Mining.

Azvalor Blue Chips

In the second half of 2023, Azvalor Blue Chips increased by +9.6%. The fund's potential at the end of the second half of the year is 89%.

Some of the new additions during this period include Whitehaven Coal and Mobico Group. The main positions at the end of the period are: Barrick Gould, Noble and Tullow Oil.

[1] 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.

Azvalor Managers

Azvalor Managers' performance reached +7.8% in the second half of the year, bringing its total return during 2023 to +15.5%. The cumulative return since inception is +51.6%.

The main highlight in 2023 was the addition of two new Managers—3D Capital and SouthernSun Asset Management—, both with decades of experience and robust investment processes, selected from among hundreds of managers analyzed. Moreover, in February 2024, we incorporated FountainCap Research & Investment, a fund manager based in Hong Kong, whose founder Xiaofang Ding has 30 years of experience. Its portfolio invests in 35-40 Chinese companies, following an analysis process based on in-depth knowledge of each company. After analyzing dozens of local managers in China, we believe this addition will be very positive for the fund in the coming years.

A further development is the number of "taken-over" companies in the portfolio (18 now!). This is a natural consequence of investing in robust companies at very interesting prices. Today the portfolio has a Price/Earnings Ratio of 8x and a Free-Cash Flow Yield of 18% (a 65% discount compared to the market), a good position to outperform the market in 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 second half of 2023, the performance of the fund stands flat at -0.02%, compared to an 4.24% increase of its benchmark.

The potential of this investment vehicle at the end of the second half of the year is 95%.

The main position added throughout the period is Tenaris. On the other hand, we sold Vale among others. Regarding performance contribution, JD Wetherspoon has been the top performer.

Azvalor news

We closed the year with net inflows reaching €196 million, 4,500 new co-investors and several recognitions for Azvalor's management/analysis team[2]:

- Azvalor, one of the best managers in Morningstar's ratings (article in Expansión)
- Azvalor Internacional, best-selling equity fund in 2023 (article in Citywire)
- Azvalor Global Value, best performing 3-year pension plan (article in Quefondos)

These accolades are due in part to the patience of our co-investors, without which it would be impossible to look to the long term. We are deeply grateful to all of them. The recently deceased Charlie Munger, who was an inspiration to countless investors, emphasized the virtue of patience in investing: "The big money is not in the buying and the selling but in the waiting".

Those who have been patient with us have multiplied their earnings 13 times between March 2003 and the end of 2023. And this despite two 50% drops in between. Downturns with us are temporary and can always be overcome. Over the last twenty years, returns have amounted to +13% annually. The current price/value ratio, our key indicator of what lies ahead, indicates returns not too far from this figure. Looking ahead, our approach is to invest in equities in amounts that we will not need in the next 5 to 7 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 require any further information regarding the contents of this letter, or any other matter.

Sincerely,

Azvalor Team

[2] All publications quoted here are in Spanish only.