Azvalor.

Those who have borne with us have multiplied their investment 14 times since March 2003

- The expected returns for the next 5 years stand between 10% and 13% annually.
- The funds maintain a high upside, close to +90%, in relation to current share prices.
- These good historical results owe it all to the rigorous investment process developed internally by the firm—based on more than twenty years of experience of the management team—: "The Azvalor Method".

August 12, 2024

Dear co-investor,

During the first half of the year, Azvalor has delivered positive returns in its Iberian (+2.4%), International (+1.4%) and Managers (+6.8%) funds, and a negative return in Azvalor Blue Chips (-1.1%).

At the end of the first half of the year, 90% of the money invested since inception in our funds has more than doubled in value from the initial capital. Hence, since their respective launches almost 9 years ago, our funds have obtained an accumulated return of +137% in Azvalor Internacional, +48% in Azvalor Iberia, +91% in Azvalor Blue Chips, and +62% in Azvalor Managers.

To put this performance in context, as of the date of publication of this letter, Azvalor Internacional has outperformed its benchmark by almost 30% (+145.4% vs. +116% for the MSCI World), despite the strong upward trend in the main world markets over the period. Similarly, Azvalor Iberia has outperformed its benchmark by almost 42% (+48.6% vs. +7% for the IGBM). In our track record as investors, the spread of our funds versus the market tends to be even wider in periods of weaker stock markets, which is interesting for the future.

If we go back even further, to the beginning of our investment journey, the results are even more positive and the differential with the market is even greater. Indeed, **those who have borne with us have multiplied their investment 14 times since March 2003**, which compares to 4.6 times for the MSCI World over the same period. **And this despite the two 50% crashes in between.** Over the last twenty years, we have delivered a return of +13% annually.

These good historical results owe much to a rigorous investment process that is unique to us and which we call the "Azvalor Method". We will shortly publish and share with you Azvalor's first Annual Activity Report, as well as an informative video, in which we will reveal more details of the Azvalor Method and other information that we hope will be of interest to you.

What can we expect from the funds in the coming years?

To answer this question, we need to look at the starting point of valuations. The "cheaper" a company is when we invest in it, the better future returns we will obtain, and vice versa. The notion of "expensive" or "cheap" is at the heart of our entire management model. How cheap would our portfolios be today? Let's compare them with our own performance over the last 21 years, in which there have been 3 types of situations:

I. **Low upside, less than 40%.** We experienced this just before the 2008 financial crisis. These were times of expensive valuations, and the subsequent annualized return of our funds was positive, but below 10% annually.

II. **High upside, more than 150%.** This occurred in March 2009 and 2020, following major stock market crashes. With these potentials, the subsequent returns of our funds were exceptional, all exceeding 20% annually.

III. **Upside close to 100%.** These are times like the present (see the specific sections for each fund below), where the returns we can expect for the next 5 years are between 10% and 13% annually.

These upsides are attractive per se, but even more so when compared to what we think can be obtained by investing today in an index such as the US S&P500, whose price-to-earnings ratio over the next twelve months is 22 times (and 36 times taking the cyclically adjusted price-to-earnings or CAPE ratio). Its 10 largest companies trade at a multiple over earnings of more than 30 times, with the rest of the index (the other 490 largest US companies) trading at around 17-18 times earnings. The index has reached all-time highs this first half of the year and its valuation ratios are, overall, very demanding. Our portfolios, in comparison, are around a price/earnings ratio of 8 times.

Neither we nor anybody else knows if August's market correction is the beginning of sharper declines. But historically, volatility has always been the most fertile ground for us, where we have found the greatest number of opportunities and where we have most increased the upside and quality of our portfolios.

If stock market declines were to temporarily affect our funds, we believe it would be a great opportunity to increase investment. When stock market crashes have dragged down our portfolio in the past (in 2020 with COVID and 2008 with the Global Financial Crisis), the subsequent rebounds were extraordinary (e.g., +62% in 2009), far outperforming the market, and new highs were soon reached.

There are also times when stock market falls do not affect our portfolios at all. In 2022, for instance, our funds climbed significantly (Azvalor Internacional +45%) while stock markets tumbled (-20% for the S&P 500).

The key for you to aspire to achieve in the future what our co-investors have achieved in the past (multiply their investment 14 times in 20 years despite the global crisis of 2009 or the COVID) is to keep your conviction and not to pay too much attention to volatility or negative media headlines. **Azvalor has been a safe haven for our savings and those of our co-investors and we believe it will continue to be** so **for those who do not sell in times of fear.**

Azvalor Iberia

Azvalor Iberia's net asset value increased +2.4% in the first half of the year, and has accumulated a 46.7% return since inception. It is a very concentrated portfolio (10 positions weigh more than 60%) in a few companies that we know very well, very good businesses, as reflected by a weighted average ROCE of 32%, and the vast majority of them have very strong balance sheets and are owner-managed. These companies trade at very attractive prices, as reflected by the weighted average FCF yield of 16%, and do so for reasons specific to each of them—which we believe are temporary—, companies of which the market will eventually recognize their value. We estimate that Azvalor Iberia offers an upside of +86%.[1]

Azvalor Internacional

In the first half of the year, Azvalor Internacional's net asset value increased +1.4% to €237.4, accumulating 147.4% since inception. The portfolio is well diversified by sector and geography, with exposure to the global economy. Its top positions include some of the best companies in their respective fields, world or local market leaders and, in general, very good businesses as reflected by a weighted average ROCE of 25%. Most of these companies have very strong balance sheets and are managed keeping in mind the generation of value for the shareholder—something increasingly difficult to find among listed companies. The portfolio is made up of companies trading at attractive prices for cyclical or one-time reasons, which we believe represent a clear investment opportunity with a long-term horizon. The fund trades at an average FCF yield of 12%, much more attractive than the 4%-6% at which Western markets are trading. We estimate that Azvalor Internacional offers an upside of +89%.

[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.

With almost 55 million euros of net subscriptions in the first half of the year (Inverco data), it is the independent equity fund with the most net inflows in 2024, as well as the equity fund with the most capital under management among Spanish independent asset managers.

Azvalor Blue Chips

Azvalor Blue Chips' special feature is that it invests in companies with a minimum size. The fund currently has around 70 million euros under management and, therefore, still has a size that allows for the "agility" to invest in some smaller companies, which in aggregate weigh slightly more than 20%. In terms of companies, the fund today still has a high degree of overlap with Azvalor Internacional and Azvalor Iberia, although it may differ significantly in the different company weights. In the first half of the year, its net asset value declined -1.2%, accumulating a 61.9% return since inception. The fund trades at an average FCF yield of 11.5% and we estimate it offers an upside of +93%.

Azvalor Managers

Azvalor Managers' performance was +6.8% in the first half of 2024, accumulating +61.9% since it was launched just over five years ago. With more than 1,400 co-investors, the fund has recently exceeded 100 million euros under management. The main highlight in 2024 is the incorporation of a new manager (FountainCap Research & Investment), which is an interesting addition to the other five Managers to which this fund delegates the management of the portfolio.

The trend of portfolio companies receiving takeover bids from third parties has continued, with five takeover bids in the portfolio—in different sectors and countries—during the first half of the year, in all cases coming from an industrial competitor. In total, 23 of our companies have been taken over in recent years, which we believe is a natural consequence of investing in small yet robust companies at very attractive prices. Today the portfolio has a price/earnings ratio of 9x, which is more than a 50% discount compared to the global equity market. Similarly, the fund offers a dividend yield of over 2%, as a result of the significant cash flows generated by our companies and their financial strength. We believe that these factors place the fund in a good position to try to meet its goal of giving an annual return of more than 10% over the next few years.

Azvalor.

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 2024, the performance of the fund stands flat at 0.9%, compared to an 9.0% increase of its benchmark.

The fund trades at an average FCF yield of 11.5% and a weighted average ROCE of 23%. The upside of this investment vehicle at the end of the second half of the year is +89%.

The main position added throughout the period is Sprott Physical Silver Trust. On the other hand, we sold New Gold and Endeavour Mining among others. Regarding performance contribution, Técnicas Reunidas was the top performer.

Azvalor news

During the first half of the year, Azvalor has received several **awards**:

- **For the second year in a row**, Azvalor has been chosen as the **Best Independent Fund Manager** at the Expansion-Allfunds Awards.
- Azvalor has received the **Citywire award for Best Management Team of 2023** in the categories of **Global Equities**, for Azvalor Internacional, and **Iberian Equities**, for Azvalor Iberia.

We would like to thank the jury members and most particularly our co-investors for their patience and trust, without which it would be impossible to achieve such good returns.

Since June 11, and in line with our commitment to encourage early and long-term saving, **people under the age of 25 may start investing in Azvalor funds with a minimum contribution of €500.**

Once again, we wish to express our gratitude for the trust you have placed in our firm, hope you have a wonderful summer and 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