Dear Investor,

The underlying reason for writing a letter to our investors is to discuss our performance and detail our investment outlook. In an ideal world, this letter would be written every five years, in keeping with our minimum investment horizon. However, we believe our Investors should have all the necessary transparency to judge our work and evaluate our evolving viewpoints. It is in this spirit that we formulate this quarterly correspondence, which we hope you will find useful to better understand our firm and our investment process.

Our funds’ performance is reflected in the tables below, though the individual return of each Investor depends on the net asset value at which they subscribed: The results obtained by our funds are reflected in the tables below. The individual return of each investor depends on the net asset value at which they subscribed:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Jan-Dec</th>
<th>Jan-Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>azValor Internacional FI</td>
<td>3.3%</td>
<td>19.0%</td>
</tr>
<tr>
<td>MSCI Daily Net TR Europe Euro*</td>
<td>10.2%</td>
<td>13.2%</td>
</tr>
<tr>
<td>Return vs. Index</td>
<td>-6.9%</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

**Includes dividends**

The Iberian Portfolio

In 2017 the Iberian portfolio had reasonably good absolute performance, delivering a return of 19%. In relative terms, its evolution has also been satisfactory, exceeding benchmark returns by almost six percentage points. Since inception, azValor Iberia has appreciated 36%, compared with 10% obtained by the index. We are satisfied with this growth, but of course, it is in the past.

The present focuses on the quality of the companies within the Iberian portfolio and the prices we paid for them. On both measures, we are optimistic: as unitholders, we own 27 companies that are highly relevant in their business sectors. They are generally well managed, and, more importantly, were purchased at attractive prices. This combination usually warrants some optimism with regard to future returns.

The future of the portfolio will depend both on our capacity to continue finding opportunities and on market volatility. In this sense, the more, the merrier: if we think we are good at analysing businesses, the more their prices fluctuate, the more we will benefit.

The estimated future value of our portfolio is around €200 per unit, thus harbouring upside potential of 45%. This figure does not indicate how much we will return this year, only the
degree to which the portfolio is attractively underwritten. The higher the portfolio’s upside potential, the lesser the risk and the more chances of success. Although we do not know if this potential will crystallise in one year or in five, we believe that the return will be attractive in absolute terms, and very attractive compared to the near-zero-return environment within fixed income today.

Fernando Bernad will give us a case study within the Iberian fund to illustrate the rigorous analytical process we undertake in each of our investments:

**Investment example: MOTA ENGIIL**

We invested in Mota Engil at the end of 2015 and the beginning of 2016, when it had declined over 70% from its previous peak in mid-2014. Market agents (analysts, brokers, etc.) saw a “broken” company, suffering from indirect exposure to plummeting commodity prices in its construction businesses in “risky” areas including Africa and Latin America. Moreover, its fragile balance sheet (with a high level of indebtedness) posed a potential risk of bankruptcy. ‘Stay away’ was the prevailing doctrine in the market.

Mota is a company we have known for almost 10 years and therefore we were aware of the quality of its competitive position and the reputation of the Mota family and its management team. Additionally, the apparent high indebtedness was not so precarious if we considered the large number of non-strategic assets belonging to the company, some of which were very valuable despite not contributing significantly to the results of the group. Furthermore, all these factors came on top of our view at the start of 2016 of the long-term unsustainability of commodities prices and therefore our conviction that a strong cyclical recovery would follow.

It may seem that these facts alone, together with the sharp fall in share price, would be more than enough to justify a significant investment in Mota Engil.

However, faithful to our rigorous process, we set our analytical work in motion, finally leading us to make Mota one of our highest conviction investments of the Iberian portfolio. Without getting into un-necessary detail, these were the main steps of the due diligence process:

- We met experts from the construction industry in Portugal, Poland, Mexico and Spain that had dealt with Mota as (former) employees, competitors or customers, to gather expert and disinterested opinion on its corporate culture, in particular its prudence in the calculation of construction risks and contingencies in bidding, as well as an opinion on the quality in the execution of works.

- We met (former) company employees with executive capacities in accounting/finance functions to verify the prudence of their accounting criteria, a key aspect when it comes to judging the quality of profits reported in a sector such as construction.
- We met experts from the Portuguese financial sector to understand the vision and perception of the main financial backers of the company regarding its solvency and the quality of its assets and collaterals.

- We carried out a thorough forensic analysis of its accounts, with a special emphasis on understanding the evolution of items of unbilled production, overdue and unpaid bills, debt and capital movements between its different subsidiaries and the debt and profitability of non-strategic assets that were not part of the consolidated group. An analysis which, in fact, had not been carried out by any of the sell-side analysts that cover it.

- We travelled to Portugal several times to meet the following managers of the company:
  
  • Antonio Mota, Chairman and founder of the company
  • Gonsalo Moura Martins, CEO and Chairman of Mota Africa
  • Jose Pedro Freitas, CFO
  • Joao Parreira, CEO Latin America
  • Carlos Mota Santos, Chairman of Europe and Latam
  • Manuel Mota, CEO Africa
  • Joao Vermelho, Head of Investor Relations
  • Maria Borrega, Director of Investor Relations

Since 2015 the company has sold a series of non-strategic assets such as companies holding concessions for ports, treatment and municipal distribution of water and motorways in Portugal at very attractive valuations. This has allowed the firm to reduce indebtedness significantly. At the same time, the order book of its construction business in Africa, Portugal and Poland has grown to record levels.

Mota Engil is an investment that clearly reflects both our process and philosophy. To date, its return has contributed significantly to the Iberian portfolio. We purchased Mota at approximately €1.68 per share, its weight was close to 5% of the portfolio and it currently trades at €4 per share.

The International Portfolio

In 2017 our portfolio returned 3% in Euro terms, significantly lower than that of its benchmark. However, in investment terms, if the end of 2015 and beginning of 2016 was sowing season, the rest of 2016 was harvest season. We believe that 2017 has been another year of sowing and we are confident that harvesting will come in due course. This is, in our view, the essence of value investing: sowing seasons followed by harvest seasons; sweat and hard work in the former, and reaping the fruits in the latter.

Our portfolio does not resemble the indexes. It is made up of businesses trading at a fraction of the prices of six or seven years ago against a stock market at historic highs after a fourfold
gain in the last 10 years. The businesses we own have favourable perspectives for the coming years. Their balance sheets are in general healthy, a key condition to avoid great disappointments such as bankruptcies or suspension of payments. They are businesses for which a buyer interested in purchasing 100% would pay significantly more than what their share prices reflect today.

As we explained in our previous quarterly letters (4Q 2015, 4Q 2016, 3Q 2017), we might occasionally make mistakes. But our valuations are supported, in each of our portfolio companies, by a thorough analysis of their history, forensic examination of their accounts, meetings with competitors, customers and suppliers; and in all cases, a visit to the headquarters or the location of their main assets.

This investment process has included visits to Buenaventura’s mines in Peru, Cameco’s uranium mines in Canada, New Gold’s gold mines also in Canada, Mandalay’s mines in Sweden and even Teranga’s mines in Senegal. In the cold of Pittsburgh, at minus 14ºC, Jorge, Fernando and I shared a couple of days with the chief executives of CNX Resources and Consol Energy. We do the same with all the other stocks in the portfolio.

Our main thrust is taking risks that can be measured, instead of measuring the risks we take. The difference is huge. There are several hundred hours of analysis conducted behind each portfolio company, and each position is the result of a rigorous and disciplined investment process, always informed by the value, price and quality of the company, as well as by the range of existing alternatives.

So, we re-affirm our core investing philosophy: there will be a sowing period and we believe that the harvest will be bountiful in the medium to long term (azValor International has an upside potential of 100%). However, anything can happen in the short term, from a vertical rise “against the market”, as experienced in 2016 (+45% in just four months in a flat market), to sharp falls. These falls, if they occurred, are more likely to generate panic in the markets today because the general positioning in indexes is extreme at the moment (4Q, 2Q, 3Q 2017). We would not be honest if we did not warn and reiterate this.

It is for this reason that we ask you, our co-investors, to continue having the same patience you have shown during other sowing periods. Without this patience, our effort to harvest simply cannot bear fruit. Both Fernando and I have the clear majority of our net worth in azValor’s funds. We believe this is the best way of aligning interests with our unitholders. It is not a very common practice in the sector. If you suffer, we will almost certainly suffer more. If Lehman Brothers executives had had a similar alignment, I daresay they would not have even created the excesses that ended up with the bank declaring bankruptcy 10 years ago.

Finally, despite 2017 offering low returns in euros, we are comforted by azValor Internacional rising by 17% in dollar terms during the year. Perhaps this comfort is a slight illusion. We and our co-investors live and spend in euros but our return in US dollars compares very well with the returns from the US asset managers we consider competitors, and whom we admire for their long history of profitability. We apologise for this small gesture of self-indulgence… it is merely the result of our weak human nature (that would seem to need to ascertain that it has not done that badly!)
As for the Iberian portfolio, Fernando will give us another investment example to illustrate our process.

**Investment example: SHUTTERFLY**

Shutterfly is an undisputed leader with a market share nine times greater than that of its next competitor. It enjoys strong brand recognition and a scale of operations that confer upon the company a significant competitive advantage vis-à-vis its competitors. Despite these virtues, its weakness was a management team that embarked on an aggressive and incoherent acquisition policy coupled with an extravagant incentive structure where shareholders were not made the priority. This caused the price of its shares to languish since 2011, oscillating between $40 and $50 per share, in a period when stock markets had more than tripled in value.

When at the end of 2015, thanks to the actions taken by an activist shareholder, its CEO stepped down, we decided to launch an in-depth analysis of the strengths and weaknesses of its businesses and the actions it had to carry out to put the company back on track.

As part of this process, we met industry experts including former managers of the main companies acquired by the firm, managers of rival companies, managers of customer companies within the sector, and even managers of similar companies, but not direct rivals, such as the main players in Europe, the geographic market where Shutterfly did not compete.

In March 2016, the appointment of a new CEO was announced: Amazon UK’s managing director for 10 years, who was leaving behind an outstanding track record. Shortly after, we met with the new executive and travelled to Minneapolis to visit the production plants. After verifying that the diagnosis and strategy of the new CEO corresponded exactly to the conclusions of our analysis and interviews with industry experts, we decided to increase our investment in Shutterfly to a significant position of the international portfolio at about $48 per share. We saw a leading company, with no debt and with a serious management team trading at an attractive price.

Since then, the company has cut some brands, reduced costs, promoted its strategy and mobile architecture, and redesigned its system of incentives. The market recognised the improvement after the results of the crucial fourth quarter (when 100% of the year’s profits are generated), boosting the share price by 40%. When our hypothesis proved correct, we sold all our shares at around USD70 per share.
azValor news

As in our previous Letters to investors, we would like to give each of our founding partners the opportunity to explain issues of special interest in their respective areas.

Sergio Fernández-Pacheco (Founding partner, CFO and Head of Regulation at azValor)

The implementation in Spain of MiFID II has affected some internal processes at azValor and highlighted the urgent need for professional certifications for employees who have a financial dialogue with our co-investors. We also need to prepare an additional report to investors before any operations are undertaken. At azValor we share the objective of this new regulatory framework, which is focused on improving transparency and protection of investors so from 3rd January 2018, the date MiFID II came into force, we have adapted to its new requirements.

We ended 2017 with over 17,000 transactions processed and only three incidents that led to claims addressed to our Customer Service Department (less than 0.02% of transactions processed). We will continue working this year to further strengthen the processes and quality controls of our operating platform and improve the information available in the private area of our website.

Beltrán Parages (Founding Partner and Head of Investor Relations)

In 2017 a total of 5,000 new unitholders invested in our investment funds and pension funds, to a total of 17,000 today. Our sincere appreciation and warm welcome to all of you. In addition, there have been over 7,000 new contributions from existing investors.

While flattered by the increase of unitholders, we would like to emphasise that what really matters is imbuing in all our co-investors a long-term investment perspective. This involves maintaining (or increasing) contributions in adverse times, and this is when investing becomes more interesting. In 2017 we experienced times that put us to the test and the abovementioned numbers speak for themselves of our solid investor base. Thank you all!

Total assets in equity funds managed by the company have increased by €267 million, of which €190 million come from capital contributions from investors and €77 million from the increase in value of portfolios due to the market effect. Our Luxembourg SICAV is particularly relevant with an increase of €117 million in the year, the origin of this capital being, for the most part, experienced international and/or institutional investors (with a deep understanding of our investment philosophy).

Direct communication with our investors is vital for us. This is why we set out on this task with special resources and effort. We have a team of 14 professionals all of whom are passionate about speaking face-to-face with investors, of conveying our philosophy and our values, and ensuring that those who invest in our funds do so for the right reasons. This has led us to discourage people from investing if they feel they will need the money in less than 3-4 years - an uncommon practice in the sector.
In 2017 we held over 500 meetings in our offices with investors and potential unitholders, as well as another 1,200 meetings with investors outside the office. Moreover, our call centre has answered over 10,700 calls to solve the questions and needs of our unitholders.

Beyond all this, we have also created azValor You with the aim of sharing what we do and how we do it with our fund’s co-investors or potential co-investors. In just four months, we have nearly 28,000 views of more than 40 videos available on our YouTube channel, where we already have more than 1,500 followers. This really confirms how necessary this initiative is in the same spirit of transparency, we opened up social networks as another means of communication, actively participating in Twitter and LinkedIn with matters that we believe can help improve awareness of our philosophy and encourage long-term investment among our unitholders. Communication, direct dialogue and transparency, sharing what we do with our partners or co-investors, has become a cornerstone in our company that, as demonstrated, generates value for everyone.

**Analyst team**

In 2017 our six analysts have continued improving and have provided invaluable assistance to both Fernando and me. Think of them as the tireless workers of azValor’s vineyard: constantly monitoring events that could potentially have an impact on companies; jealous guardians of our demanding financial models; and craftsmen that each quarter, with the publication of results, make the pieces of the investment jigsaw fit together with the new information available.

Some of them are starting to suggest possible investment ideas. In this sense, we believe that the passing of time will only reinforce this team, lifting the bars they can aspire to. My heartfelt thanks to each one of them.

With the opening of our office in London at the end of last year, we are convinced that azValor takes a giant step forward. Firstly, because we will be able to visit many more companies from there, thus substantially increasing the probability of finding “investment pearls”; and secondly, because the person who joins us at the head of the London office, Michael Alsalem, has clearly shown himself to be an extraordinary investor.

**daValor**

daValor, azValor’s solidarity project, closes 2017 fulfilling a dream that seemed impossible only a few months ago, when in September we publicly launched this initiative: we have exceeded €1 million in contributions in less than three months!!!

At our next conferences in Madrid and Barcelona, José María Márquez, director of África Directo and responsible for allocating these funds, will briefly explain how they will be used. And on our website, we will periodically upload relevant information to help you understand how and who will benefit from the generosity of our co-investors.
To close this Letter, we hope to have the opportunity of meeting you at our forthcoming conferences in Madrid and Barcelona. In the meantime, our Investor Relations team led by Beltrán Parages will be pleased to answer any questions you may have.

Sergio Fernández-Pacheco

Beltrán Parages

Álvaro Guzmán de Lázaro

Fernando Bernad
Postscript on the recent market volatility

In view of the declines recorded these last few days in international markets, we would like to point out that azValor does not consider these moves to be abnormal. In fact, in our past five quarterly Letters we warned that stock indexes were expensive. Therefore, we set to work to build a portfolio that was different from the indexes, buying companies that had suffered sharp falls over the past years, and trading at 8x profits today, implying a discount of nearly 50% relative to the market.

As value managers, buying low is paramount to us, and this generally occurs due to the presence of problems that we consider temporary. While less patient investors tend to flee, we believe that the right thing to do is to keep calm. With time, value will eventually surface in share prices, thus rewarding the patient investor.

We encourage our co-investors to be patient and maintain confidence. We believe that the portfolio will significantly outperform the market in the long-term. Consider some past episodes: at the beginning of 2016, the international fund dropped by 20% and then increased by 45% in five months, in a flat stock market environment. Those who were patient, and better yet, increased their investments, greatly benefited from this circumstance.

We thank you for your loyalty and your trust.

Yours sincerely.