Madrid, January 31st, 2019

Dear investor,

Fernando Bernad
Founding Partner and Co-Chief Investment Officer at Azvalor

this is my second opportunity to address you through one of our quarterly letters. As is usually the case, at the end of the year, my colleagues founding partners, Álvaro Guzmán de Lázaro, Sergio Fernández-Pacheco and Beltrán Parages, will also make a few remarks.

As you know, we would prefer to write to you every five years as that is our minimum investment horizon. But, we also believe that it may be helpful for our co-investors to understand the constant evolution of our investment strategies, particularly during volatile periods. We therefore hope this letter provides you with the level of transparency and accountability you deserve to better inform you of our investment views. The results of our funds in 2018, are highlighted in the tables below. The individual return of each investor depends on the net asset value upon time of subscription:

	Jan-Dec
Azvalor Internacional FI	**-10.5%**
MSCI Daily Net TR Europe Euro **	-10.6%
Return vs Index	0.1%

***Includes dividends*

	Jan-Dec
Azvalor Iberia FI	**-16.8%**
85% IGBMT ** / 15% PSI 20 TR	-11.1%
Return vs Index	-5.7%

***Includes dividends*

If we look back just over three years, since their launch in November 2015, our fund returns have been positive and outperformed their benchmarks, as shown in the following tables:

	ITD*
Azvalor Internacional FI	**16.5%**
MSCI Daily Net TR Europe Euro **	5.6%
Return vs Index	10.9%

***Includes dividends* **13/11/2015*

	ITD*
Azvalor Iberia FI	**20.5%**
85% IGBMT ** / 15% PSI 20 TR	5.0%
Return vs Index	15.5%

***Includes dividends* **13/11/2015*

At the end of 2018 we welcome 1,300 additional clients, amounting to a total of 18,100, while capital inflows have reached €82.2 million net. As we have said on many occasions, delivering returns, NOT growth, is our primary focus and we remain committed to closing our main funds when we reach €2.5 billion under management. This is a limit that we will NOT exceed as we do not wish to sacrifice capacity for generating returns over size – two issues which are at odds with each other.

The fact that we have received net inflows is particularly positive given the recent falls in stock markets and so in our funds. This outcome is very much to your credit given that the average investor tends to "shy away" in such circumstances. May I also remind you that the "recipe" for success on the road to obtaining high returns has two factors: 1) that managers choose the right investments: this is our greatest endeavor and conviction, and 2) that co-investors are aligned with us, not forcing managers to sell what they actually want to buy, precisely at the worst possible time.

I would like to highlight another issue which I find particularly relevant. Since the 4th December 2018, we offer the possibility of making **regular subscriptions**. In **Azvalor** we have always recommended long-term investment in equity, and in our previous letter we reminded you that it has historically generated greater returns than other alternatives. A long term perspective is an essential requirement because the nature of equities is to alternate between abrupt booms and busts. But the data shows, quite overwhelmingly, that hardly anyone has been able to systematically guess when the right time is to invest. Therefore, a word of advice is not to waste time thinking about "when", and to do it automatically, as savings are generated. In fact, the best strategy is to do it periodically, and the more regular the frequency, the better. Thus, in addition to the inherent benefit of investing long term, there is an additional diversification in terms of time of investment.

Let's take an extreme example: imagine we have the misfortune to decide to invest in the stock market at the worst time recorded in the last 100 years: in the Dow Jones in October 1929. This was followed by the sharpest fall ever recorded in the US stock exchange, down 90% to rock bottom in July 1932. If this had been our only investment, we would have had to wait more than 30 years to recover the value of our investment in nominal terms! How unlucky… Now, let's say that we start to invest a certain amount at such unfavorable time, but that we make monthly periodic investments of the same amount over the next 34 months until it hits rock bottom in July 1932. In this second scenario, investors would have already started making money in real terms in 1936, and after 30 years, they would have obtained a real annualized return of 13%! This shows the positive effect of diversification through time of investment in a very trying and real case study, right in the midst of the 1929 "crash".

The International Portfolio

We are convinced that our international portfolio is a great investment opportunity. The portfolio is a collection of companies, most of which have good assets, strong balance sheets and "skin in the game", either because they are managed or supervised by an owner or because there is a healthy alignment of incentives. But these are just some initial "filters" that add security to the main point which is their UNDERVALUATION. Most of them have been bought after suffering sharp market falls, and our analysis indicates that these were due to circumstantial, not structural, causes.

We have already explained on many occasions that business valuation is a thorough, complex and long process that goes far beyond calculating a number. But to give you a better idea of the extraordinary price at which we are invested, we could summarize it by saying that it trades at a normalized **weighted average Free Cash Flow (FCF) yield, taking into account net debt, of 14.1%.** To draw an analogy, this would be the annual return generated by "the rent, less all costs, on the value of the house including the mortgage".

Another way of illustrating this is by giving a few examples from a different angle:

- Our investment in **Consol Energy**, the best coal miner in the United States, is trading at a quarter of the net replacement value of its assets. In a context where the supply of coal in the US has fallen from 1.2 billion tons to less than 800 million in the last 10 years, Consol's production has increased, thus reflecting its privileged competitive position.

- In our investments in maritime transport, we are buying tankers at a discount of up to 40% vis-à-vis their historical values. Meanwhile, in 2018, almost 5% of the world fleet has been scrapped, which is the highest figure since 2003, and this is correcting the excess supply that has weighted heavily on the sector in recent years.

- We are buying offshore rigs at **one third of their replacement value.**
- **Hyundai**, one of the leading automotive companies especially well positioned in the main emerging markets, trades "free of charge" if we consider its net cash balance and a conservative estimate of other non-core assets.
- The Italian company of industrial and medical gases, **SOL SpA**, trades at multiples that are just over half what has been historically paid in several dozen transactions registered in the private market on comparable companies. In **SOL** we are "in the hands" of the Fumagali family, which has an extraordinary track record of value creation, with adjusted EPS up 8.1% annually during the past 20 years while generating an average adjusted ROCE of 15%.

Overall, we estimate that the portfolio is worth 117% more (on the net asset value of 29th January, of €116.5 per unit).

As you know, we are not fond of using up ink to emphasize short-term returns – equally, we do not draw much from the negative figures of the second half of 2018 nor from the positive figures of the beginning of 2019. But it should be noted that the pace of positive news affecting the companies in our portfolio is recently accelerating. Some examples include the takeover bid we received for **Ophir** (with a premium of 65% from its undisturbed price); the Chairman of the Board and one of the main shareholders of **Hudson's Bay** (it could be said that he knows the company best) has increased his stake by buying a large stake from a financial investor at a price 30% above the last closing price; or that **Serco** has published major awards and renewals of contracts that would bring a clear improvement in results and that have led to a 33% increase in the share price since mid-December, "knocking out" its competitors who are suffering poor results and going into a tailspin on the stock exchange.

The general context

In Azvalor we are exclusively dedicated to analyzing companies and their markets (bottom-up analysis) and this is what gives us the conviction and confidence in the portfolio. It certainly doesn't hurt to take a look at what "surrounds us" and compare it with the most common alternatives that, by default, are within the reach of the average investor. The following table is a simple comparison (only indicative) of the relationship between price and profitability (implicit or explicit) of Azvalor International versus the different asset "classes":

FCF Yield Azvalor Internacional	14.1%
Earnings Yield S&P 500	6.2% invest in the US stock markets
Earnings Yield Stoxx Europe 600	7.5% invest in European stock markets
Rental Yield Prime Real Estate[1]	3-3.5% invest in housing in some of the major capital cities
L-T Sovereign Fixed Income USA	2.8% invest in US government debt
L-T Sovereign Fixed Income Germany	0.15% invest in European government debt
L-T Corporate Fixed Income AAA USA	3.51% invest in US corporate debt
L-T Corporate Fixed Income AAA Europe	0.79% invest in European corporate debt

1. New York, London, Paris, Madrid.
Sources: Factset, Merrill, Jones Lang LaSalle, Cushman & Wakefield.

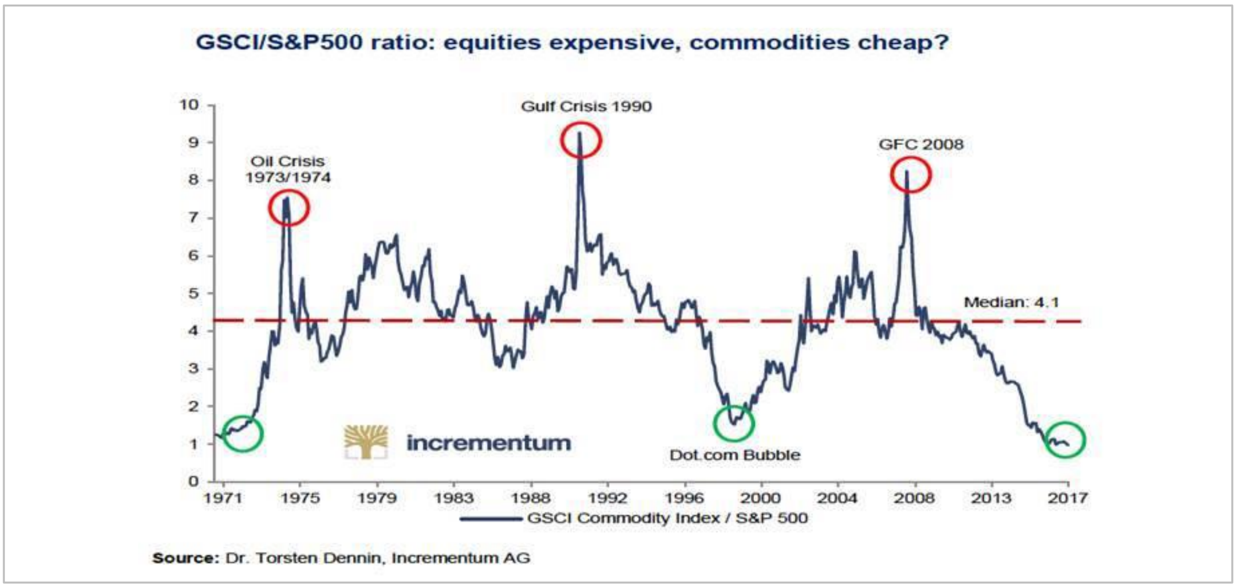
Moreover, we believe our portfolio offers a better relationship between value and price than the alternatives we have included in the table. We also think that our portfolio PROTECTS us better against some potential RISKS, such as inflation (given that they are real assets) or disruption (at least against the online phenomenon which is affecting so many industries and traditional business models). And this protection is achieved without having to "pay a premium" for it.

The context of Commodities

Currently, a large part of the international portfolio is invested in companies related to certain commodities. Moreover, from a "bird's eye" perspective, it is worth mentioning the preconditions that have historically (4 times in the last 100 years) marked the beginning of a bullish trend in the commodities sector.

- Undervaluation of commodities companies vis-à-vis other assets.

This point is clearly illustrated in the following chart which we have included in previous letters.



- A strong previous bearish cycle in the price of commodities.

Prices have suffered cumulative falls of 35-85% in the past 5-10 years, depending on the specific commodity.

- A long period of excessive growth of monetary aggregates.

The world's largest central banks have embarked on a program of money supply growth unprecedented in size (Q*uantitative Easing*).

- A period of financial speculation.

In our opinion, the speculative "environment" can, at least, be glimpsed in some examples such as cryptocurrencies, the spectacular rise in the price of certain shares with a difficult fundamental pillar such as Tesla or some companies dedicated to marijuana/cannabis, or in the fact that investing in the stock market on margin (with debt) has exceeded all records and, by far, the previous high recorded in 2007.

It goes without saying that in **Azvalor** we tend to be skeptical of top-down analyses and of trying to fit the present conditions to alleged archetypes of historical circumstances based on 3 or 4 isolated variables. Markets are complex systems and the performance of their aggregate parts is something which is ALWAYS very difficult to predict. But there is no doubt that the above analysis is worthy of merit from a fundamental point of view and that it provides additional comfort and the reassurance that we are invested in the right assets.

CAMECO: Narratives?

One of the goals we have set ourselves in these quarterly letters is to give you a better understanding of what we do. On previous occasions, we have explained that it is NOT easy being a value investor and that it often requires investing against the tide in “uncomfortable” or unpopular assets. Our work consists in a rigorous and objective analysis of data that sometimes leads us to dismantling FALSE NARRATIVES strongly ingrained in the dominant opinion. The tendency to embrace fallacious narratives is a powerful behavioral trap, of a cognitive nature, which occurs more or less frequently. Although there are many examples to illustrate the power of this behavioral trap, let’s consider Tversky and Kahneman’s experiment (1983) known as the “Linda problem”. Linda was presented to a group of university students with the following description: 31 years old, outspoken, very bright, she majored in philosophy and, as a student, she was deeply concerned with issues of discrimination and social justice. The respondents were asked: Which of the following scenarios is more likely? 1. Linda is a bank teller, or 2. Linda is a bank teller and is active in the feminist movement. A clear majority of the respondents deemed scenario 2 was more likely than scenario 1, which is an obvious cognitive error (it is very simple to understand why the probability of two events occurring together, in “conjunction”, is always less than or equal to the probability of either one occurring alone) caused by the seductive power of a “beautiful story”. In other words, we tend to quickly develop a mental representation of reality by taking shortcuts in our prejudices and heuristics to the detriment of an objective and in-depth analysis of the data, a process which is far more demanding and slower.

The legendary strategist James Montier explained it very well: "Investors faced with chronic uncertainty will turn to any vaguely plausible explanation and cling to it. Base rate information is essentially ignored in favor of the anecdotal story". Let's look at a brief example:

Nuclear energy has a bad reputation in the West and, therefore, the days of demand for uranium are numbered. It will not disappear tomorrow, but it is a declining market and a value trap. There are many anecdotes and headlines in this regard: Germany is going to close all its nuclear power plants; France wants to reduce its dependence on this energy source; the few recent projects in the West have been fiascos; after Fukushima, Japan will never restart its entire fleet of nuclear power plants; there is a huge excess of uranium inventories; nuclear power causes huge problems in waste management and security; renewable energies and the inexorable improvement in energy storage technology in batteries will make nuclear energy redundant; the price of uranium has fallen by 85% since its previous highs for very good reasons…

Without pretending to completely disregard all the arguments put forward, in the analysis of the data it can be verified that global nuclear power capacity and the demand for uranium is growing, the construction of nuclear power plants exceeds the planned closures, and there are many more if we add the projected plants, 16 countries have nuclear power plants under construction and another 18 underway, and many are making their debut using this energy source. China, which suffers from major environmental problems, obtains less than 4% of its generation mix from nuclear energy and aims to reach 10-15%. Japan is restarting several plants and aims to restart half of them. Nuclear energy offers a clean, abundant source of baseload energy (non-intermittent and with low variable costs) with a better safety record than any other source, and it is almost essential in the context of the electrification of the global vehicle fleet in any realistic scenario in the long term. The price of uranium is leading to uranium mine closures as well as deficits and, therefore, it is not sustainable in a scenario of demand growth. Most uranium inventories are non-commercial and are outside the available supply, etc.

We are certainly not the only ones who see the uranium market like this, but the incontrovertible fact, and this is the most important thing, is that the price of uranium and Cameco's shares have recorded significant falls, a completely different performance from that of the stock markets. If we add to this that in Azvalor we are prepared to wait long term for the uranium market to reflect the fundamentals and willing to tolerate likely volatility in the interim, we certainly belong to a tiny minority. If we are wrong in the fundamentals, we can be assured that our main investment in the sector, the Canadian mining corporation **Cameco**, is a low-cost producer with a strong balance sheet and a great management team. We find it particularly difficult to envisage a scenario in which we suffer a permanent loss, and we believe that our most pessimistic scenarios would "only" result in mediocre returns, as a greater evil (this would comply with a key principle that we try to apply and which could be summarized in the toss "heads, I win; tails I don't lose"). For now, the price of uranium in 2018 has already started to recover from its lows, and **Cameco**'s shares are up 24%. Even so, both prices are still far from their previous highs.

The Iberian Portfolio

In 2018, our Iberian portfolio has performed slightly worse than its benchmark (a combination of the Madrid Stock Exchange Index and the main Portuguese index) and similar to the Ibex-35. However, the accumulated return since its launch, as we said at the beginning of this letter, continues to be clearly higher.

Despite its recent performance, we are convinced of the great potential of the portfolio. As an indication of the attractive price at which we are invested, I would highlight that the portfolio trades at a **normalized weighed FCF yield, including debt, of 10.1%.** Just as we have done for the international portfolio, we will briefly outline some examples that illustrate this:

- The oil company **Galp** trades at 6x the estimated FCF in 2020 with the price of crude oil at $65/bbl. In addition to being the main refining, marketing and gas company in Portugal, its main asset is the acreage it owns in the pre-salt basin of Brazil, a privileged area that almost all of the world's largest oil companies have "set eyes on" because of its attractive low cost production and growth potential. The 6x multiple does not reflect all the value in Brazil nor its participation in one of the largest gas discoveries in the world in recent years in Mozambique, which will begin production in 2022.

- **NOS** is one of the largest "telecom" companies in Portugal (along with Altice) and trades at less than 10x FCF. It has a state-of-the-art fixed and mobile infrastructure and a better cost structure than the usual at former monopolies in Europe, in a telecommunications market, the Portuguese, which we find particularly attractive. Our investment in the holding company **Sonaecom** (whose main assets are a stake in **NOS** and cash) is even cheaper, and implies indirectly investing in **NOS** at less than 5x FCF.

- **Elecnor**, a family-owned company with over 60 years of history, has wind power assets in Brazil, Spain and Canada, electricity transmission networks in Brazil and other energy assets, which together cover practically all market value and debt. Therefore, the stock price implies their most traditional engineering business is being "given away for free", which has one of the most remarkable track records of profitability and a management team which has proved to be brilliant, especially in terms of prudence, vis-à-vis its competitors.

Overall, we estimate that the portfolio is worth 92% more (on the net asset value of 29th January, of €120.5 per unit).

Azvalor news

Azvalor Managers

Late last year (2018), we launched the new fund, **Azvalor Managers**. The underlying reason for launching this fund is the clear and constant verification of our own limitations. We do not reach all geographic areas, we do not understand all sectors and we do not govern all capacities. Throughout our history, we have met some extraordinary managers who have achieved outstanding returns and with whom we share the same method in its common denominator (buy cheap), yet who do it "differently". We believe it is a good idea to invest a (smaller) part of our savings outside our own funds in such managers.

Javier Saénz de Cenzano, the person in charge of this fund whom we have known for several years, has an excellent track record in the analysis of managers, an activity to which he has devoted his entire professional life. He trained for years learning from the best, such as Don Phillips, who was probably the first professional analyst of managers, and spent the last 10 years as the leader in Spain of the analysis team of the most prestigious firm (Morningstar) in this activity globally. Javier has put all hopes and efforts, and to a large extent has bet his future career, to the success of the fund. All of the above is a good starting point, but what we truly believe you should be aware of, which is what should make the difference, is the exhaustive due diligence that Javier deploys in his analysis of managers, to which Álvaro and I contribute in the "last mile", by analyzing the investment process. This demanding process ends up being extremely selective, as only a small handful of managers has been selected from the numerous professionals who were scrutinized.

For further information about **Azvalor Managers**, please visit our website. But allow me to emphasize just a few important aspects: this is not a fund a funds and therefore investors do not have to pay two "layers" of fees, as is the case in FOF, and it is transferable with tax exemption like any other fund authorized by the National Securities Market Commission (CNMV). We believe the 4 managers to whom we have delegated the management are truly exceptional and, as you would expect (otherwise we would not recommend it), Javier, Álvaro, others members of the **Azvalor** team and myself are significant investors of the fund (around 25%).

Value Invest New York

In December we were invited to participate in Value Invest New York, a prestigious event attended by renowned investors such as Howard Marks, Joel Greenblatt or David Iben, where we had the opportunity to present Compañía de Minas Buenaventura as an investment idea. The feedback we received was very positive.

Value Investor Insight

On 30th September, Value Investor Insight published an extensive interview where Álvaro and I answered questions about our investment philosophy and about 4 of our investments (**Buenaventura**, **Consol Energy**, **Serco** and **SOL SpA**). This publication is aimed at professionals, mainly value managers. Once again, we believe it is a good channel to spread some of our investment ideas where we have already reached our target size and which, in principle, we will not increase.

Azvalor Annual Investor Conference

Next 28th February in Barcelona and 4th March in Madrid, we will celebrate the 4th edition of our Annual Investor Conference.

We will soon provide you with the necessary information in case you wish to attend (it will also be broadcast live online). We believe this is a good opportunity to listen to an overview of the portfolios and to answer, as far as possible, to all the questions and comments you wish to raise.

Davalor.

We are delighted to announce the great news that the solidarity initiative Davalor that we have sponsored from Azvalor has raised a total of €1,070,084. Our deepest thanks to all those who have decided to help. Projects have already been launched for a total value of €572,615 and there is a large number of awarded projects that will deplete the total amount of aid obtained. The projects are distributed in a large number of African countries, including Uganda, Tanzania, Cameroon, Sudan, Malawi, Congo and Sierra Leone, among others, and include schools, health centers, maternity wards and projects that help secure water and energy resources.

Sergio Fernández-Pacheco

Founding Partner, Chief Financial Officer and Chief Operating Officer at Azvalor

As in 2017, this past year has been intense in regulatory adaptations with the entry into force last May of the General Data Protection Regulation (*Reglamento General de Protección de Datos*) which made it necessary to reinforce procedures and systems in order to ensure compliance with the new legal requirements.

We would like to highlight the change we made in all of our prospectuses earlier last year to allow people under 23 to start investing in our funds with a minimum amount of €500, compared to the previous €5,000, a change that goes in line with our objective of promoting long-term savings.

The possibility of making periodic contributions to our investment funds, an operational functionality recently implemented, further supports this objective. Those co-investors who wish to make a recurring contribution will only have to sign the corresponding order with Azvalor indicating the fund of their choice as well as the periodicity and the amount of their investment. In addition, they must order a periodic transfer to the account of their chosen fund at their bank, for the same amount and periodicity indicated in the order signed with Azvalor. This is a simple procedure that only requires signing at the beginning, automatically activating from then on the investment chosen by the unitholder. With this new functionality, by making subscriptions on a recurring basis, in addition to the operational ease derived from the automation of the investment, market swings are smoothed, thus optimizing long-term investments.

We closed the year 2018 with 16,000 transactions processed and only 3 incidents that have led to claims addressed to our Customer Service Department (less than 0.02% of transactions processed). We will continue working during this year to further strengthen the processes and the quality controls of our operating platform.

Beltrán Parages

Founding Partner, Head of Investor Relations at Azvalor

In the business area, the highlight of 2018 has once again been the support of our co-investors. It has been a challenging year, with two very distinct parts in terms of the evolution of the net asset value (at the end of the first half of the year, our main fund, Azvalor Internacional, accumulated a positive return of over 8%) and, once again, we have witnessed how the vast majority of our co-investors supported our management at times of great market tension, which is precisely when there are better opportunities.

This fact has become clear again, not only because of the large number of new co-investors and net capital inflows throughout the year, but above all due to the fact that we have received the largest number of new investors and new contributions precisely at the allegedly "worst" time of the year (August and December) for investors in general, when markets were falling more sharply. We believe these situations present a clear opportunity to invest at greater discounts and, therefore, with higher expected returns. However, it is equally or more important that our co-investors see it this way, as it has proven to be the case. Without your trust at the most interesting, yet also most challenging times, we could not guarantee the expected returns, well above the benchmarks or other managers subject to stock market "ups and downs".

It is essential that our co-investors, as well as the partners and employees of Azvalor who invest with us maintain or increase their investments at times when the market falls and the consequent fall in a company's share price is not justified. By doing so, they give us the freedom to invest, rather than forcing us to sell when we want to buy and take advantage of the best opportunities. The regular contribution approach we mentioned earlier, also helps enhance these opportunities. This is why we encourage you to consider investing through regular contribution into our Azvalor funds.

Álvaro Guzmán de Lázaro

Founding Partner, CEO and Co-Chief Investment Officer at Azvalor

To conclude, I would like to go over the principles that guide us. We will continue to pursue **Excellence** in the analysis, in investor relations, and in regulation. This will place greater pressure on everyone, especially managers and analysts. As only 6-8% of managers actually outperform the benchmarks in the long-term, we understand the pressure, which is intrinsic to our business. Along with this demanding pursuit of excellence we will embrace our second principle: the **Need for Humility**. Humility alone will divert us from making certain mistakes and humility alone will enable us to quickly detect investment errors. Our third principle will be to make further progress in the coordination and motivation of this great **Team** of 40 people, in Madrid and London, that makes up **Azvalor**. A team that, as a whole, holds the largest investment in our funds, with more than twice as much cash as the next largest investor. We want to continue "eating first" the food that we serve to our clients. This is our fourth principle: "risking our necks" with you; in other words, having **Skin in the Game**

We appreciate your attention. The Investor Relations team will be pleased to answer any questions you may have.

Thank you.