January 8, 2020

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Head of Azvalor Managers FI

Dear investor,

First of all, I would like to thank you for your interest and trust in Azvalor Managers. The fund has closed its first full year of existence with a 9.5% return.

During the year there have been important events such as the launch of the Luxembourg-domiciled version of the fund in the summer, or the consolidation of the fund in terms of size and co-investors. In this respect, the size of the fund has increased threefold (up to €21 million, at the end of December) and the number of co-investors has increased six-fold. More importantly, we have seen that in periods of market declines some investors have taken advantage of the opportunity to initiate or increase their position in the fund, demonstrating their long-term investment horizon and their understanding of the fund's nature. Remember that risk and volatility are different things, and if the underlying asset has not suffered a permanent loss in value, price declines may offer buying opportunities to investors, as happened last August. In the same way, Azvalor's employees, including myself, have increased our position in the fund throughout the year, and as a group we continue to be the fund's largest investor, thus aligning our interests with those of all our co-investors.

The portfolio building process was completed in the first quarter of the year, and the turnover of companies in the portfolio has been very low throughout the year, as is usual with our Managers, given their long-term investment approach. The most significant change has been the addition of some names to the Donald Smith & Co. portfolio, with the aim of refreshing the portfolio, after a very strong return of almost 40% in the year. Although it is a very short time-period to make any relevant conclusions, the return generated by this Manager is truly significant, taking into account that it has been a year where small and cheap companies (their investment focus) have significantly underperformed the large and expensive counterparts. In other words, in aggregate, cheap companies became cheaper and expensive stocks became more expensive, which contrasts with investment logic and with the stock markets' historical trend in the long term, as we can see in the following table:

Returns by Size and Valuation (Price-to-Book) in 2019 (left) and over the last 30 years (right)

2019 YTD							
US		Expensive				Cheap	
	Quintiles	1	2	3	4	5	Average
Small	1	13.7%	7.4%	6.3%	7.4%	0.7%	7.1%
	2	15.1%	22.2%	19.8%	12.5%	-3.0%	13.3%
	3	25.4%	19.5%	23.9%	17.8%	6.4%	18.6%
	4	25.6%	24.4%	21.3%	15.0%	10.9%	19.4%
Large	5	25.3%	23.0%	23.6%	19.7%	14.0%	21.1%
	Average	21.0%	19.3%	19.0%	14.5%	5.8%	

Last 30 Years							
US		Expensive				Cheap	
	Quintiles	1	2	3	4	5	Average
Small	1	5.0%	12.1%	14.1%	16.9%	19.4%	13.5%
	2	7.1%	12.3%	14.7%	14.5%	14.2%	12.5%
	3	8.2%	13.0%	12.9%	14.8%	15.7%	12.9%
	4	10.3%	11.1%	12.1%	13.8%	13.2%	12.1%
Large	5	9.5%	11.0%	11.7%	10.8%	12.4%	11.1%
	Average	8.0%	11.9%	13.1%	14.2%	15.0%	

Source: Ken French, provided by Verdad Capital.

Azvalor Managers fund holds high exposure to the red areas in the left-hand side table above, i.e. to small and mid-cap, cheap companies, which have gone up much less in 2019, but that are areas that have outperformed, in aggregate, over the last 30 years (in green in the right-hand side table). Although the historical pattern might not necessarily be repeated in the exact way, nor does the fund have a predefined exposure to that segment, we believe that the Azvalor Managers' portfolio offers a good long-term investment opportunity, considering that the Managers' conviction in their companies (selected individually through in-depth analysis) is very high, their respective businesses and financial situation are doing well, including some with very good recent news (e.g. takeover bids in Almacenes Éxito or Village Roadshow), but their share prices are far from reflecting their intrinsic value. On an aggregate basis, the portfolio's valuations are very attractive and provide us with a remarkable margin of safety in the long term, as we can see, for simplicity's sake, in the portfolio's price-to-earnings ratio of 10.98x versus 18.26x for the MSCI AC World index, or in the price-to-book value ratio of 0.77x versus 2.26x for the index (Morningstar data). We believe that the major stock market indices are currently very risky in terms of price, a risk that we prefer to avoid. The fund's active share relative to the aforementioned index is close to 100% (i.e. almost the entire portfolio is invested in companies that are not included in the index), which will lead to significant return divergences between the two in the short and medium term, as we have seen in 2019. The fund's upside potential (the difference between the current price and the estimated value of the portfolio) is around 110%.

One piece of news that caught us by surprise in the last quarter of the year was the passing at the age of 78 of Donald Smith, founder of the firm Donald Smith & Co., which is one of the four Managers of the fund. In the Appendix II of this update you will find our column that Funds People magazine published about what a great person Donald was, both as a legendary figure in the investment world and, above all, in relation to his outstanding contribution to social causes. As far as the Azvalor Managers fund is concerned, we must point out that Richard Greenberg, Co-Chief Investment Officer, has been working for the firm for 38 years and is now at the helm of the company, leading a team of professionals that has been very stable and solid over the years. He is part of the firm's shareholder structure and invests his personal money in the strategies he manages ("skin in the game"). We have had the opportunity to get to know the entire team in depth over the last few years, including Jon Hartsel, who has been with the firm for almost two decades and is now also Co-Chief Investment Officer. In practice, nothing changes in the day-to-day operations at the firm, and we are convinced that continuity in their portfolio management quality is guaranteed, despite the absence of Donald Smith. We have spent a great deal of time analyzing the likely implications of this situation, and we will be happy to answer any questions investors may have in this regard. On the other hand, one can familiarize with Richard Greenberg, and in general with the asset management firm he leads, watching his appearance in Madrid, last September, available on the 'Azvalor You' Youtube channel.

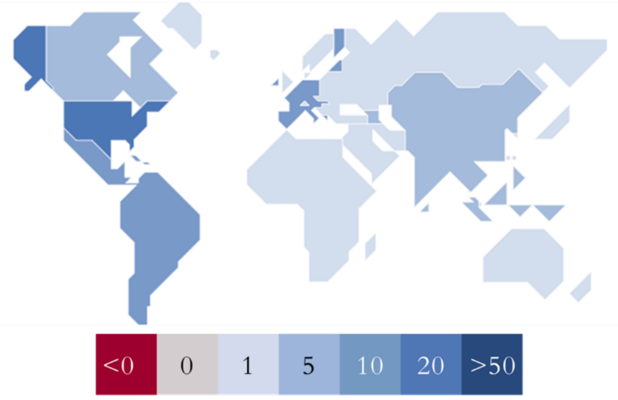
Thank you for your attention,

Javier Sáenz de Cenzano

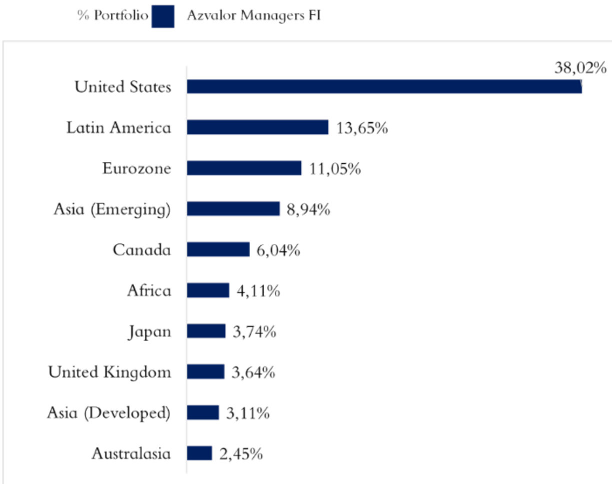
APPENDIX I

The following charts and tables provide further information on the fund's portfolio:

COMPANY REVENUE WORLD MAP
30/09/2019 | Azvalor Managers FI

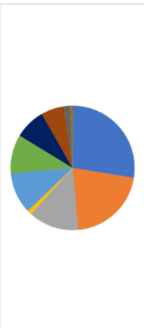


REVENUE EXPOSURE
30/09/2019 | Azvalor Managers FI



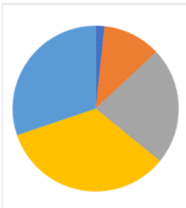
Note: the charts above show the regional exposure of the fund (%) based on the portfolio companies' source of revenue.

SECTOR EXPOSURE



Energy	25,0%
Basic Materials	19,1%
Financial Services	11,9%
Industrials	10,2%
Communication Services	9,8%
Consumer Cyclical	9,1%
Consumer Defensive	7,3%
Real Estate	5,5%
Technology	1,4%
Healthcare	0,6%

MARKET CAP EXPOSURE



Giant	1,7%
Large	11,3%
Mid	22,9%
Small	33,9%
Micro	30,2%

TOP 10 HOLDINGS

	Portfolio Weighting %
Aimia Inc	4,99%
Revlon Inc A	3,91%
Nutrien Ltd	2,75%
Clear Media Ltd	2,48%
Spectrum Brands Holdings Inc	2,47%
International Game Technology PLC	2,35%
Bonanza Creek energy Inc	2,10%
Arcos Dorados Holdings Inc	2,05%
AMC Entertainment Holdings Inc Class A	2,01%
BR Properties SA	2,01%

Note: excludes cash. Source: Morningstar, as of December 27, 2019.

APPENDIX II

Tribute to Donald Smith; column originally published by Javier Sáenz de Cenzano in Funds People on November 27, 2019.

Donald Smith is still alive

Donald Smith passed away just a few weeks ago. He was a legendary investor, relatively unknown to the European public, who delivered extraordinary returns to his investors, during a long career of more than fifty years.

I had the privilege of meeting Donald some time ago, and I could see how his investment principles, ideals and human values went far beyond good returns, transmitting those principles to his team, to the whole ecosystem of the Donald Smith & Co. firm, and especially to Richard Greenberg, with whom he worked for almost 40 years, and who is now at the helm of the asset management firm.

Donald Smith grew up in a small farm in Illinois, where his early interest in investments led him to frequently visit the local library to read The Wall Street Journal. He bought his first stock with the money he earned raising and selling pigs. As a child he was quite an entrepreneur, selling encyclopedias and insurance products, managing an ice cream cart, and even working at a funeral home, where he did all kinds of tasks, such as playing the piano and then running off to take the hearse to the cemetery. After graduating from college, he earned his PhD at UCLA, where he met and became friends with the father of Value Investing, Benjamin Graham.

This encounter shaped his investment style, based on buying companies at very depressed prices. The consistency, passion and rigor of Donald and Richard Greenberg in applying this strategy is extraordinary, as they have demonstrated in difficult periods, particularly at the end of the 1990s, when their management style rose substantially less than other competitors, more focused on growth and on following what was in the market's favor. This perseverance and consistency subsequently led them to obtain returns of more than 50% between 2000 and 2002, while the market suffered a severe downturn. Their ability and determination to go against the tide, and stay away from market fads, has kept them from falling into multiple stock market bubbles over the decades, saving their investors from very large losses.

Donald's investment philosophy was also reflected in his way of life. He was a humble person and, for example, never bought a Ferrari, although financially he could have. When asked why he always flew in economy class and not in a private jet, or why he took the bus instead of a taxi after a business dinner, he used to say: "I save up to spend it on what is important to me: freedom, justice, free markets... that stuff!"

Indeed, Donald donated much of his fortune, about $100 million, to causes related to freedom, justice and free markets during his lifetime. His philanthropic vision intentionally avoided public or social recognition; most of those who benefited from his help will never know that Donald's generosity made their lives better. In fact, his contribution helped to prevent civil wars, on at least two occasions, that would have ended the lives of thousands of people in Nepal and Kyrgyzstan. Smith declined to use the ESG label (so popular today) for marketing or recognition purposes, opting instead for a low-profile social effort that had a major impact.

Until his last day he was a passionate investor, and also a great person who made this world a better place to live in. May he rest in peace. Fortunately, his legacy is immense, and we are convinced that Richard Greenberg and the rest of his team will continue the excellent work done so far, not only from the standpoint of making great investments but also through a remarkable charitable endeavor.