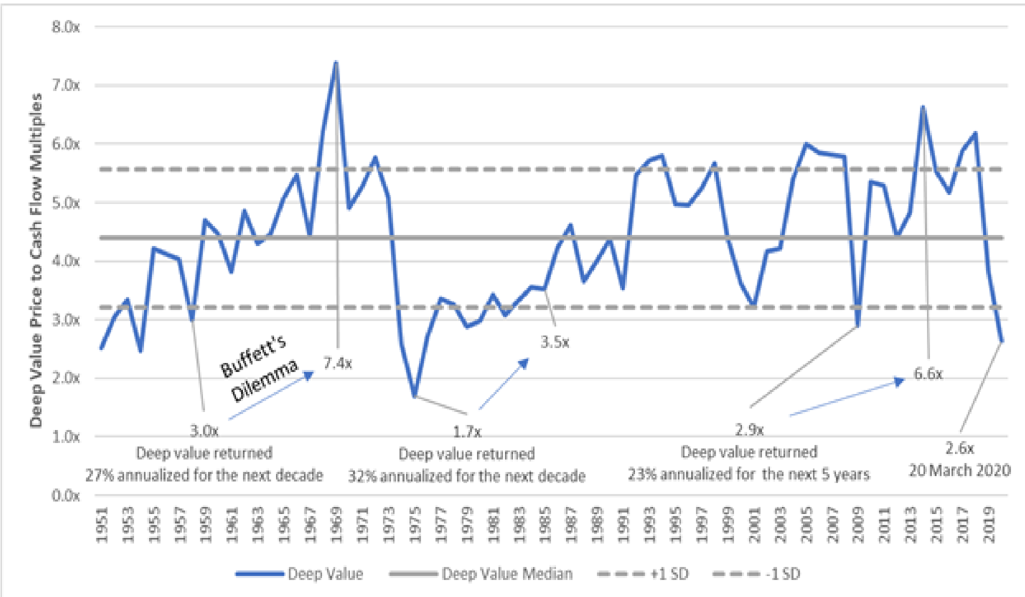
June 9th, 2020

Dear co-investor,

First of all, I sincerely hope that you and your relatives have handled the situation of these last few months as best you could.

As you know, the strategy of this fund, and of Azvalor in general, is based on investing in businesses trading at low prices with respect to their intrinsic value. Unfortunately, this investment approach has not seemed to work particularly well over the past decade or so, when expensive stocks have outperformed cheap stocks, and especially in the last two years, with the most expensive market segments performing much better than the rest, despite the fact that their profit or cash flow fundamentals have not been any better than those of the cheap companies, in aggregate. This has left us with an irrational market in which the **cheapest segment is at a level of attractiveness that we have rarely seen in the last seventy years.** When this has happened in the past, these companies have delivered spectacular returns over the following decade, as illustrated in the graph below:

Figure 1: Deep Value Price-to-Cash-Flow Multiples over Time



Source: Ken French, tenth percentile breakpoint on price-to-cash-flow multiples and tenth decile price-to-cash-flow long-term equal-weight returns.

The question now is: **Is it any different this time? Is Value Investing dead?** The prestigious American investment management firm AQR has recently published a very interesting paper, Is (Systematic) Value Investing Dead?, in which it tests the most popular hypotheses in this regard, which I will try to summarize below:

HYPOTHESIS 1: The usual value spread analysis (the ratio of how "expensive" expensive stocks are vs. cheap stocks) is wrong because the Price-to-Book ratio is not an adequate measure, due to the higher level of intangible assets in companies today.

FALSE: Using any other method such as Price-to-Sales, Price-to-Earnings (trailing) or Price-to-Earnings (forecast), the value spread remains extreme and close to historical highs.

HYPOTHESIS 2: We live in a new world where the winners take it all, and if we exclude the MAGFANT (Microsoft, Amazon, Google, Facebook, Apple, Netflix and Tesla), which may deserve higher multiples, there is no such spread.

FALSE: If we exclude these companies (the tech industry, large companies or mega-caps, or the top 10% most expensive stocks) from the analysis, the valuation spread is still extreme. The study concludes that this is not a phenomenon caused by a new MAGFANT world, but rather that it is widespread in the market.

HYPOTHESIS 3: There is a sectoral bias in the spread, that is, it is produced exclusively by some industries that are very expensive as opposed to others that are very cheap.

FALSE: If we analyze intra-industry valuations, using an industry-neutral analysis, the value spread is still extreme. In other words, within each industry we also observe this valuation spread between cheap and expensive stocks.

HYPOTHESIS 4: The reason for the spread is because expensive stocks are very expensive, but cheap stocks are not necessarily very cheap.

FALSE: Both factors contribute to the wide value spread, although more is coming from the cheap side. That is, the value spread is mostly driven by a depression in cheap stock prices rather than by a euphoria in the expensive stocks (although this also influences, being more expensive than usual).

HYPOTHESIS 5: The value spread is justified because cheap companies are of far worse quality than before versus expensive companies. That is, they are cheap for a good reason.

FALSE: If we look at gross profitability or the return-on-assets (ROA), the difference between cheap and expensive stocks is in line with the historical median, so this does not explain the wide value spread. However, if we consider the level of leverage, cheap stocks are in fact less leveraged than expensive ones in the absolute and versus their average historical tendency.

HYPOTHESIS 6: Low (and falling) interest rates explain the poor performance of cheap companies.

FALSE: The May 2020 study "Value and Interest Rates – Are rates to blame for value's torments?" by Thomas Maloney (AQR Capital) and Tobias J. Moskowitz (Yale University) concludes that the performance of Value is not easily assessed based on the interest rate environment, as the economic significance of the relationship is small and not robust.

Therefore, we still cannot find a reason to justify the wide value spread offered by the market. In our opinion, **market irrationality won't last forever and, sooner or later, the fundamentals will matter.** In fact, the longer this spread lasts and the more it widens, the closer we will be to reversing it. After the first quarter of 2020 in which Value has suffered more sharply than ever (since 1926, for which data are available), we believe we have a clear long-term investment opportunity. The Azvalor Managers fund has spiked 50% from its mid-March lows, when we sent our previous quarterly update to our investors, yet its performance is still about -20% since inception. We believe that for those investors who can withstand this volatility in the short and medium term, the long-term rewards will be substantial, as has always been the case throughout history when you invest in the right companies at these valuation levels. To give you two simple but illustrative figures, the fund is now at a **Price-to-Earnings ratio of 7.68x and a Price-to-Book Value of 0.56x**, according to Morningstar data of May 31, 2020.

The four Managers of the fund have experienced similar situations of market stress in the past and continue to focus their investment process on selecting each company individually based on a thorough fundamental analysis. **Turnover has been very limited in recent months**, thus reflecting the strong conviction of the Managers in the companies in the portfolio and demonstrating an unusual temperament on their part. However, they have also taken advantage of the exceptional circumstances to invest in some new names whose price had plummeted to irrational yet enormously attractive levels.

On the other hand, there has also been **significant progress in several of the main companies** in the fund's portfolio, such as the takeover bid executed last May on the Hong Kong firm Clear Media, which was the third position of the fund, or the current battle between some private equity funds to buy the Australian company Village Roadshow, also in the top ten. Hence, it is not surprising to see this type of transactions in our portfolio, given the very interesting price at which our companies are traded.

As always, we reiterate our maximum commitment to Azvalor Managers, and rest assured that we will continue to manage the fund as if it were our own capital because, in fact, it is.

Thank you for your attention,

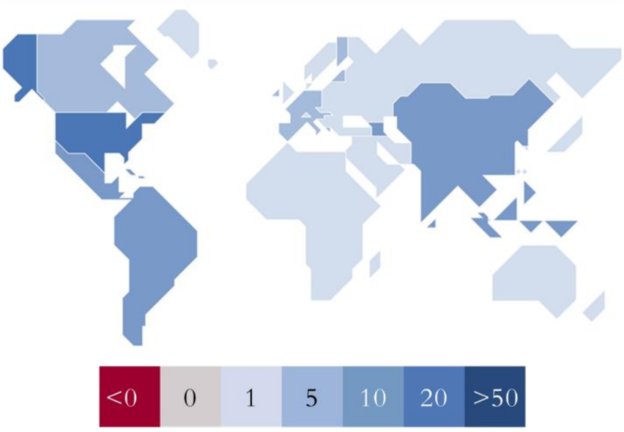
Javier Sáenz de Cenzano, CFA

APPENDIX I

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

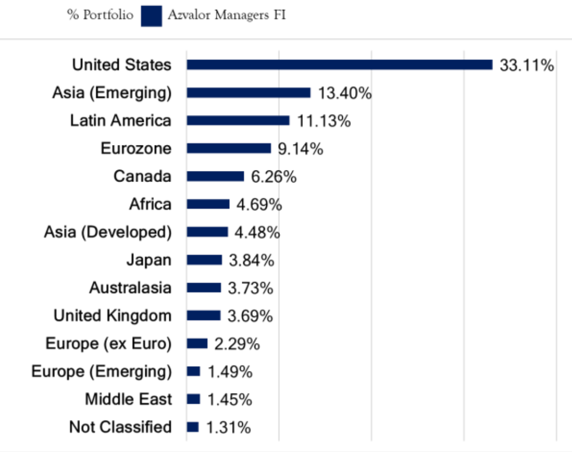
COMPANY REVENUE WORLD MAP

31/03/2020 | Azvalor Managers FI



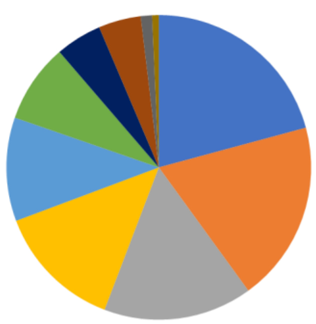
REVENUE EXPOSURE

31/03/2020 | Azvalor Managers FI



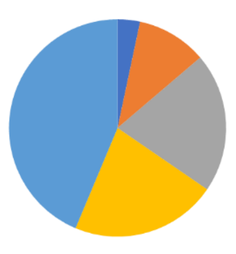
Note: the charts above show the regional exposure of the fund (%) based on the portfolio companies' source of revenue.

SECTOR EXPOSURE



Energy	20.80%
Basic Materials	19.20%
Industrials	15.80%
Consumer Cyclical	13.50%
Financial Services	11.00%
Communication Services	8.40%
Consumer Defensive	4.90%
Real Estate	4.50%
Technology	1.20%
Healthcare	0.70%

MARKET CAP EXPOSURE



Giant	3.0%
Large	9.4%
Mid	18.7%
Small	19.6%
Micro	39.3%

Note: excludes cash. Source: Morningstar, as at May 31, 2020.