

January 20th, 2021

Dear co-investor,

On this fund, each Manager tries to avoid the constant headline noise, **focusing efforts on investing in companies they know in great depth**, by means of a thorough analysis of their business, their cash-flow generation, their balance sheet, their competitive environment, their management team and, of course, their valuation.

In this respect, **our fund has not changed much over the past twelve months**, even though the volatility in the net asset value might suggest otherwise. In the first quarter of 2020, the fund saw its net asset value plummet by around -50%, in just two months. Since then, from the trough on March 18 to date (as of latest NAV; January 15, 2021), the fund has appreciated by more than +86%, bringing the fall since inception to around 4%. **The stock market often overreacts, especially during extreme events that generate great uncertainty, and 2020 was a good example of that.** In an article we published in November 2019 ([Investment Lessons from 'God's portfolio'](#)) we stressed that strong price swings are not uncommon in the stock market, and that even an investor who could perfectly predict future stock performance would be subject to them. In theory, "God's portfolio" would have suffered drawdowns of more than -20% on a recurring basis, with the maximum drawdown being around -75%, although it would have generated around +30% annually for decades. It is important to refresh this concept, now that it feels more present than ever from our own experience, knowing that, ideally, investors should hold or increase positions in times of panic, as long as that the investments made are sound, which we are convinced is the case on Azvalor Managers.

This conviction does not come from a macro view on the market or on general investment themes, but from an in-depth knowledge from our Managers on the companies they invest in, mostly under the radar and seldom followed by the investment community, which is why we can buy them at a price well below their estimated value, thus increasing our upside potential and our margin of safety. **According to the conservative valuations of each of the Managers on their respective companies, our fund's portfolio is worth more than double its current stock price.** We think it is only a matter of time before its value is reflected on its price, as has historically been the case with these four Managers; in times when the discount between price and value has been as significant as it is now, they have obtained excellent returns in subsequent periods, considerably outperforming the market. Moreover, **we believe that the risk we take with this portfolio** (in terms of probability of a permanent loss of capital) **is much lower than the risk present in the global market's portfolio.**

To provide some simple but illustrative figures, the **fund's free cash-flow (FCF) yield is currently 16%**, which almost doubles the FCF yield on the MSCI AC World index and more than triples the FCF yield on the S&P 500 index (Morningstar data, as of December 31, 2020). The portfolio is diversified across a wide range of countries and sectors worldwide, with a strong bias towards small-cap companies, an area where there are numerous opportunities and where we believe that in-depth company research can add more value.

As mentioned, the portfolio has remained relatively unchanged throughout the year, with the Managers sticking to their guns through robust investment processes that have been proven over decades. One of the main positions which has recently exited the portfolio is an **australian company, Village Roadshow, that was bought out by private capital through a takeover bid**, crystallizing an interesting gain for our fund (+27% from average cost). Similarly, another top ten position, Hong-Kong listed **Clear Media**, was also bought out by private capital earlier in the year. We believe that these transactions are **symptomatic of the degree of undervaluation of the companies in our portfolio.**

Below there is a brief description of the Managers in our fund. They are the same since late 2018, when the fund was launched; we follow them very closely and maintain full conviction on each and every one of them:



Firm founded in the early 1980s by Donald Smith, a former student of legendary investor Benjamin Graham, Warren Buffett's intellectual father. Richard Greenberg is now Co-Chief Investment Officer and managed portfolios alongside Donald for nearly four decades. The investment team is rounded out by four other people, including Jon Hartsel, who joined the firm in 2003 and has nearly 25 years of experience. Its portfolio consists of small- and micro-cap companies in the US.



Firm led by renowned asset manager Amit Wadhwaney, who worked for two decades alongside legendary investor Marty Whitman in the US-based investment firm Third Avenue. Amit holds an M.B.A. in Finance from the University of Chicago as well as a B.A. in Economics. He also holds B.S. degrees in Chemical Engineering and Mathematics, and speaks six languages. The firm was founded by Amit in 2015 along with three former colleagues from Third Avenue: Michael Campagna, John Mauro and Benjamin Belfer. Its portfolio invests in companies of any size, sector and region (including emerging markets).



Firm founded in 2015 by Leigh R. Goehring and Adam A. Rozencwajg, specializing in natural resource equity investments. Leigh started managing funds in this segment back in 1991, first at Prudential Jennison, and since 2005 at Chilton, where he started working with Adam in 2007, managing one of the world's most successful funds in this area. They are one of (if not the) most experienced investment teams globally in the natural resources sector.



Chris Mittleman is the firm's Chief Investment Officer and boasts 30 years of experience. Chris founded the firm with his two brothers in 2002. The firm follows a "Private Equity" approach applied to the universe of public companies, performing a very exhaustive research process on each company, and in some occasions taking an activist role. Its portfolio is concentrated in about 15-20 stocks of any region, sector and size, with a bias towards smaller capitalization companies.

As always, we reiterate our utmost commitment to Azvalor Mangers, and rest assured that we will continue to manage the fund as if it were our own capital because, in fact, it is¹.

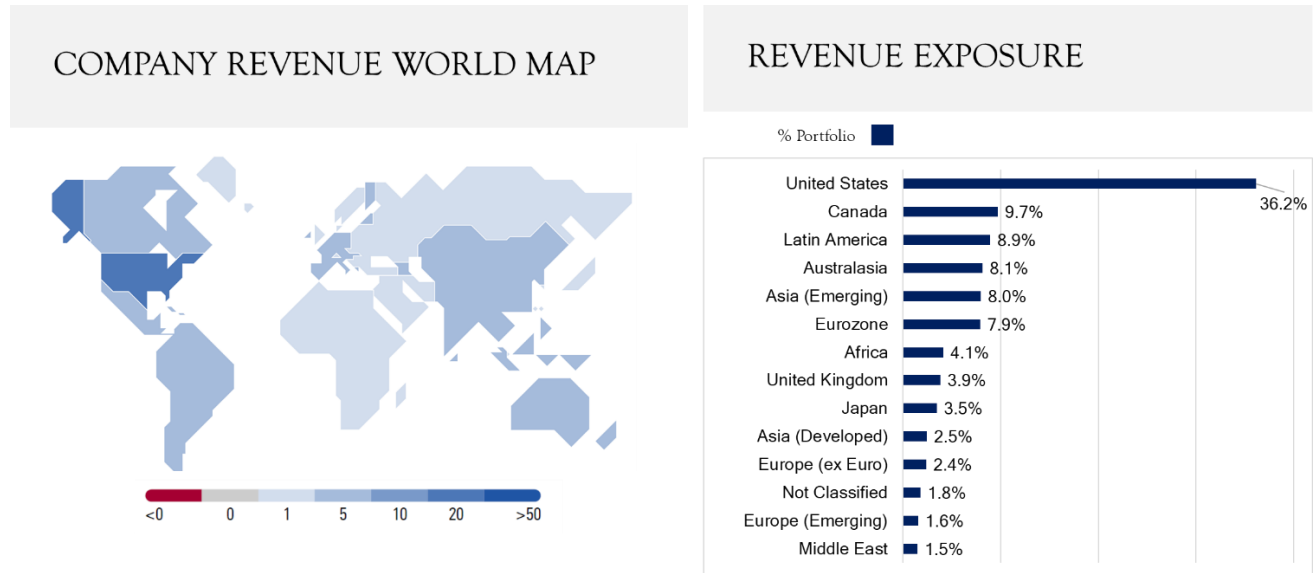
Thank you for your attention,

Javier Sáenz de Cenzano, CFA, Head of Azvalor Managers

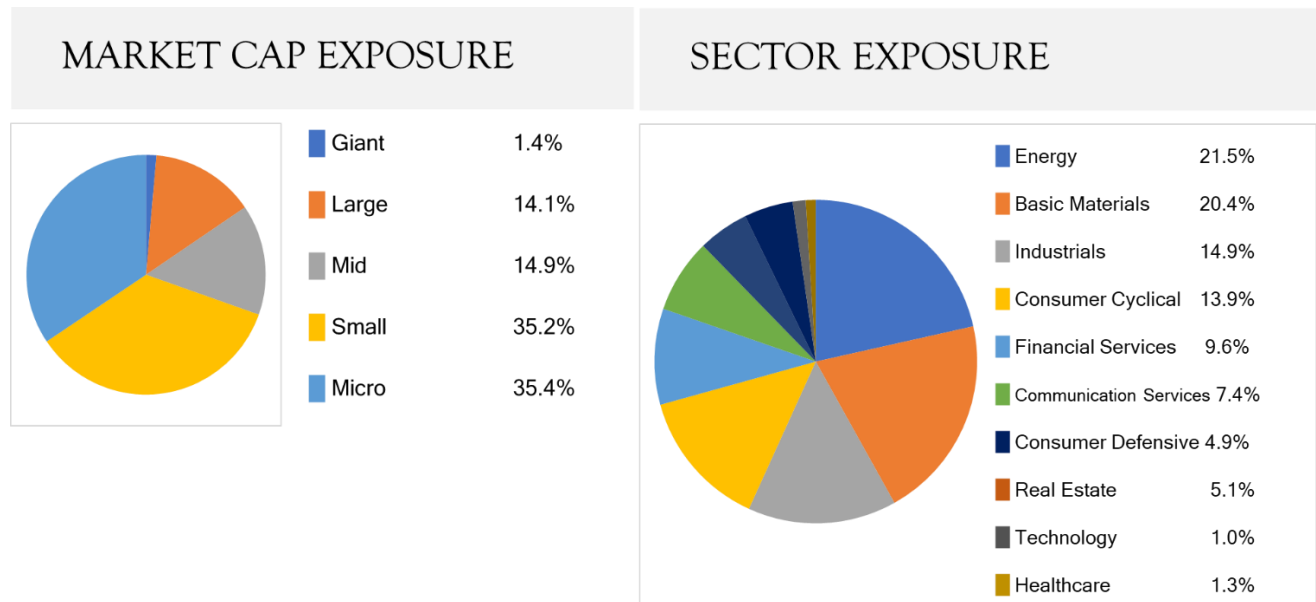
¹ Azvalor's employees are, as a group, the fund's largest investor by volume.

APPENDIX I

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



Note: the charts above show the regional exposure of the fund (%) based on the portfolio companies' source of revenue. Source: Morningstar, as of September 30, 2020.



Note: excludes cash. Source: Morningstar, as of December 31, 2020.