MARCH 2021

Sustainability Report

Azvalor.

Sustainability Report

INDEX

1. INTRODUCTION TO THE SUSTAINABILITY RISK INTEGRATION POLICY IN THE INVESTMENT DECISION-MAKING PROCESS

As an independent asset management boutique founded in 2015, Azvalor develops its long-term investor vocation by applying fundamental analysis criteria in its investment process, analyzing each investment thoroughly and aligning its interests with those of its co-investors as part of its fiduciary responsibility towards them.

Sustainability risk or ESG risk is defined as any environmental, social or governance event or condition which, if it occurs, could cause an actual or potential material negative impact on the value of the investment. In this respect, Azvalor has no specific product labelled as ESG nor does it fall under the European Commission's classification of environmentally sustainable activities. The European Securities Market Regulator (ESMA) recently expressed its concern about ESG ratings, highlighting the heterogeneity of methodologies and, therefore, the current difficulty of comparability for investors. We understand that this lack of unification of criteria will be corrected as the implementation of the new regulations progresses.

Azvalor dedicates a lot of time and effort to find, understand and analyze listed companies, trying to invest in good businesses, managed by honest managers whose interests are aligned with shareholders. We study the financial situation of the company, the quality of its management team, the evolution of its business and its competitive environment, its cash generation, and, of course, its valuation. The objective of Azvalor is to invest in companies whose intrinsic value is not reflected in their share price, trying to take advantage of the short-term inefficiencies between price and value, in order to maximize long-term investment returns, minimizing, as far as possible, errors or permanent losses in value. This process includes interviews and meetings with different stakeholders of each company, including key executives, employees, former employees, competitors, customers, suppliers, regulators and experts in the particular industry or company, among others. This analysis is carried out both before the decision to invest in said companies is taken and during the investment period, monitoring that there are no changes that question the investment decision taken.

A complete analysis of a company entails for Azvalor the identification and analysis of all the potential risks that may negatively affect the future value of the company, and within this framework are included, among many others, those sustainability risks related to its corporate governance, social and environmental practices, which could affect its future value and therefore the profitability for the shareholder in the long term. The holistic integration of the analysis of all types of risks is inherent to the philosophy that Azvalor's investment team has been practicing for more than two decades. However, in light of the new regulatory framework related to ESG (Regulation 2019/2088, in force since March 10, 2021), we now incorporate some risk control tools, so that risks are monitored in a more visible and explicit way, with the help of complementary risk analysis platforms and which we detail later in this document.

The ESG and political correctness phenomena are leading a growing number of investors and institutions to completely disregard sectors that are absolutely essential to maintain and improve global well-being. This is not the approach taken by Azvalor which, consistent with its corporate culture values in line with the free market, prudently decides not to disregard any sector in general, but to evaluate each case individually on a company-by-company basis. Each situation is unique and, therefore, Azvalor considers the relevant facts and risk factors in each case individually.

[1] The preparation of this report has taken into account international benchmarks for ESG reporting in asset management, such as SASB (sectorial asset management & custody activities), TCFD (climate risk implications of portfolios), GRI standards, and the recommendations of the INVERCO association. The PRI principles (Principles for Responsible Investment) as well as the industry's best practices in ESG integration and transparency have also been taken into account.

With the entry into force of Regulation 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector, and in an environment in which during 2021 and 2022 we will see further developments within the European Commission's Sustainable Finance Plan, Azvalor's intention is to offer regular information in this regard, although no products are marketed under taxonomy.

If you have any questions, please do not hesitate to contact us through our various communication channels (toll-free number +34917374440 or info@azvalor.com).

2. INTEGRATION POLICY. REGULATORY COMPLIANCE AND RISK CONTROL

In compliance with the transparency requirements of Regulation 2019/2088 (entry into force March 10, 2021) on sustainability-related disclosures in the financial services sector, the Board of Directors of Azvalor has approved the new sustainability risk integration policy, which is incorporated into the Risk Policy.

In order to identify the levels of exposure to sustainability risk of the assets and portfolios, the following analyses are performed on a recurring basis:

1. Sustainability analysis of each of the underlying assets, with a breakdown of each of the three ESG pillars. This information, which incorporates in-house and external analysis, is integrated into the analysis template used by Azvalor's analysts and managers for each invested company.

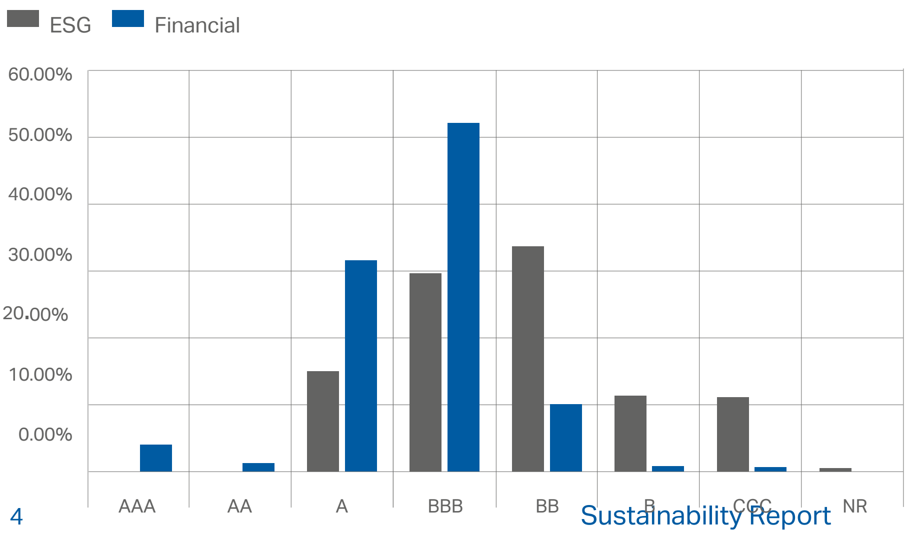
2. Aggregate analysis of the portfolio to obtain its average sustainability profile, based on external suppliers.

3. Assessment of the portfolio's extra-financial risk (ESG) with a parameterization similar to the assessment of financial risk (market, credit and liquidity), comparing both sources of risk jointly. Example:

		Numerical ranking*	Qualitative rating**
SUSTAINABILITY RISK	ESG	5.99	BB
	E (ENVIRONMENTAL)	6.37	BB
	S (SOCIAL)	5.93	BB
	G (GOVERNANCE)	4.75	BBB
FINANCIAL RISK	FINANCIAL	4.44	BBB
	M (MARKET)	5.37	BBB
	C (CREDIT)	1.00	AAA
	L (LIQUIDITY)	2.60	AA
SECTOR PORTFOLIO		5.84	
DIFFERENCE PORTFOLIO VS SECTOR		0.15	

(excludes governments and investment funds)
* ESG rating on a scale of 1 to 10, where 10 is the worst case

RATING DISTRIBUTION



RATING	ESG	Financial
AAA	0.00%	4.25%
AA	0.00%	1.19%
A	14.96%	31.42%
BBB	29.47%	52.23%
BB	33.75%	9.95%
B	11.05%	0.75%
CCC	10.75%	0.21%
NR	0.02%	0.00%

4. Aggregate portfolio analysis of ESG risk exposure by sector. Example:

	Sector	Weight %	ESG (1best, 10 worst)	Rating	Financial R. (1 best, 10 worst)	Rating
1	Mining	49.6%	5.85	BB	4.62	BBB
2	Industry	17.7%	5.47	BBB	5.09	BBB
3	Transport	8.1%	8.65	CCC	4.09	A
4	Construction and Real Estate	4.5%	6.37	BB	5.06	BBB
5	Banks and Savings banks	4.5%	1.84	AA	0.92	AAA
6	Energy	4.5%	4.97	BBB	5.04	BBB
7	Technology	3.3%	7.18	B	4.86	BBB
8	Telecommunications	2.5%	8.29	B	4.84	BBB
9	Goods and Services	2.0%	6.65	BB	5.26	BBB
10	Health	1.1%	3.51	A	3.65	A
11	Treasury	0.8%	2.98	A	1.00	AAA
12	Investment funds	0.7%	6.08	BB	5.47	BBB
13	Consumer and Leisure	0.6%	5.16	BBB	5.71	BB
14	Derivatives	0.0%		NR	6.33	BB
	TOTAL	100.0%				

5. Aggregate portfolio analysis of ESG risk exposure by sector with a breakdown of each of the pillars (E, S and G). Example:

	Sector	Weight %	Impact Risk Three Pillars: Environmental Ranking	Social Ranking	Governance Ranking	Carbon Footprint % of Total
1	Mining	49.6%	6.29	6.03	4.53	23.47%
2	Industry	17.7%	5.87	5.35	4.56	10.86%
3	Transport	8.1%	9.46	8.26	6.38	25.84%
4	Construction and Real Estate	4.5%	7.21	5.76	5.29	11.37%
5	Banks and Savings banks	4.5%	2.09	1.91	1.14	0.18%
6	Energy	4.5%	3.40	3.38	4.78	13.40%
7	Technology	3.3%	7.67	6.58	5.98	0.01%
8	Telecommunications	2.5%	8.82	7.67	7.03	13.51%
9	Goods and Services	2.0%	7.09	6.40	5.71	1.04%
10	Health	1,1%	4.66	3.51	2.82	0.29%
11	Treasury	0.8%	3.07	3.79	2.07	0.00%
12	Investment funds	0.7%	6.51	5.89	4.99	0.00%
13	Consumer and Leisure	0.6%	5.52	5.01	4.45	0.03%
14	Derivatives	0.0%				0.00%
	TOTAL	100.0%				100.0%

6. Evolution of the portfolio's ESG risk factors over time, in aggregate and by segment (sector, country, and type of asset), which allows us to evaluate the appropriate transition of the different risk exposures.

Sector	Weight %	ESG (1 best, 10 worst)	Rating	Sector average by pillar E	Sector average by pillar S	Sector average by pillar G	Deviations Dev. E	Deviations Dev. E	Deviations Dev. E
Mining	49.6%	5.85	BB	6.50	5.88	5.16	-0.213	0.15	-0.630
Industry	17.7%	5.47	BBB	4.26	3.61	4.67	1.610	1.74	-0.114
Transport	8.1%	8.65	CCC	5.76	5.35	5.29	3.702	2.91	1.093
Construction and Real Estate	4.5%	6.37	BB	5.37	4.49	5.57	1.831	1.27	-0.280
Banks and Savings banks	4.5%	1.84	AA	4.01	3.59	4.36	-1.925	-1.67	-3.227
Energy	4.5%	4.97	BBB	3.39	3.37	4.79	0.009	0.00	-0.004
Technology	3.3%	7.18	B	5.88	4.05	4.84	1.787	2.53	1.139
Telecommunications	2.5%	8.29	B	5.36	4.18	5.48	3.463	3.49	1.545
Goods and Services	2.0%	6.65	BB	4.96	4.59	4.74	2.123	1.81	0.965
Health	1.1%	3.51	A	4.66	3.51	2.82	0.000	0.00	0.000
Treasury	0.8%	2.98	A	--	--	--	--	--	--
Investment funds	0.7%	6.08	BB	--	--	--	--	--	--
Consumer and Leisure	0.6%	5.16	BBB	3.92	3.24	5.24	1.603	1.77	-0.784
Derivatives	0.0%	0.00		--	--	--	--	--	--

7. Data quality analysis: confidence level of the data used, and percentage of the portfolio requiring approximations or adjustments.

NOTES

Market Risk — Shows an absolute risk score from 1 to 10, where 50% of VaR or higher (1 sigma) would mean a score of 10, and a reduced VaR would mean a score of 1.

Credit Risk — Shows a risk score from 1 to 10 based on the Credit VaR.

Liquidity Risk — The liquidity ranking of the assets in the portfolio (Serfiex internal methodology where 10 is an illiquid asset): "The exogenous liquidity ranking is calculated and calibrated based on qualitative characteristics of the instrument and the quantitative characteristics of its trading data, issuance, and variables that help evaluate its market depth".

SOURCE OF DATA

Real	84.76%
Proxy	14.53%
Fund/LT	0.69%
No Data	0.02%

ESG Risk Ranking

Based on portfolio sustainability risk analysis using Bloomberg data, where 1 indicates sustainable companies and 10 indicates unsustainable companies. In the case of government bonds and notes, an internal methodology based on country risk indicators is used.

SERFIEX Ranking (1 best, 10 worst)	SERFIEX Rating
1 – 1.4	AAA
1.4 – 2.9	AA
2.9 – 4.3	A
4.3 – 5.7	BBB
5.7 – 7.1	BB
7.1 – 8.6	B
8.6 – 10	CCC
-	NR

Carbon footprint (CO^2 tons) financed — Based on the total CO2 emissions and equivalents in tons, taking into account the value of the asset in the portfolio and its market capitalization.

"Source ESG Score: Proxy: associated by sector" — Proxy associated by sector is an average of all the assets that Serfiex has been gathering in a database, averaging them by NACE sector and equating the companies.

Emission intensity (GHGs) — Emission intensity is the rate of CO2 emissions and equivalents during the activity carried out by the company.

'GHG intensity of investee companies' shall be calculated in accordance with the following formula:

$$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{current value of all investments (€M)}}\times\frac{\textit{investee company's Scope 1, 2 and 3 GHG emissions}_i}{\textit{investee company's €M revenue}_i}\right)$$

2.1 Sources of information

For the analysis of sustainability risk, information and analytical software from three suppliers is used to complement the different sources of financial information handled by Azvalor. This process aims to ensure the highest degree of integrity and solvency of risk reports. The suppliers are:

- Azvalor's regular supplier of financial information, a leading entity of recognized international prestige. It also provides information on ESG indicators at issuer level. (*Bloomberg*)

- Fintech supplier, specialized in financial risk management and modelling, which provides a periodic integrated analysis of financial and extra-financial risks, both of the aggregate portfolio and of specific issuers, including a breakdown of each pillar (E, S and G). Its report takes into consideration potential ESG controversies that ultimately affect the corresponding rating. (*Serfiex*)

- External platform specializing in ethical and social valuation, which provides quantitative and qualitative information on all the companies in Azvalor's portfolio. (*Altum Explorer*)

A relevant aspect of the process is to ensure a good quality of ESG data from the different international suppliers, a quality that is currently very heterogeneous and therefore needs to be considered in this context. In terms of ESG risk analysis of a specific company or investment, the qualitative criteria of Azvalor's analyst or investment manager will prevail, which is focused on a global and holistic risk analysis carried out during the due diligence process of each company.

Although Azvalor has a sustainability risk integration policy, it does not take into consideration in the management of its funds the adverse impacts of investment decisions on sustainability factors, as it does not currently have due diligence policies in relation to such adverse impacts.

2.2. Corporate governance, engagement and active exercise of voting rights

Following the procedure for the exercise of rights inherent to the securities that make up the portfolio and as co-owners of the companies in which it invests, Azvalor exercises the political rights inherent to minority shareholders. There is no proxy advisor providing voting recommendations, but the direction of the vote will seek to ensure the maximum protection of minority shareholders' interests. Normally the direction of the vote is aligned with the company's proposal, as the analysis of the board structure, the quality of the management team, its strategy, business management, and alignment of interests are critical variables before investing in a specific company. However, the voting decision is made on a case-by-case basis in an agile manner thanks to an in-depth knowledge of its corporate governance, which includes meetings with its management team and other stakeholders.

Furthermore, Azvalor has one of the most advanced and widely used proxy edge platforms at national and international level (*Broadridge*), which provides early warning of all shareholder meetings and agenda items. This platform has recently incorporated additional ESG options to strengthen financial and non-financial risk integration. As mentioned, Azvalor usually exercises voting rights, including those aspects related to the ESG implications of the company, and always with a comprehensive risk management perspective.

In addition to the thorough analysis prior to the investment, Azvalor maintains a periodic and intense level of engagement or involvement with the management team of the companies over time. Meetings, calls, on-site visits, news tracking and other forms of engagement enable a close and detailed monitoring of the corporate governance of its investments. This concept of engagement, in ESG terminology, is something that Azvalor's investment team has been doing throughout its professional life, as an integral part of the long-term investment philosophy.

3. AZVALOR AND SUSTAINABILITY

While the previous section of the report develops the sustainability risk integration policy in investment decision making, the following paragraphs review the various corporate governance, social or environmental initiatives and measures that Azvalor develops as an entity.

3.1. Skin in the game

Nassim Nicholas Taleb (author of the famous book The Black Swan) compares the attitude of bankers to that of pilots in risk taking. Airline pilots do not take unnecessary risks for obvious reasons. Azvalor's employees and partners are, jointly, the largest investor in its funds, aligning interests with its co-investors, and sharing both risks and returns ("co-investment"). Azvalor does not offer investors any investment products in which its own employees and partners do not invest.

Reinforcing this skin in the game objective, the remuneration policy requires partners to invest at least 50% of their annual variable remuneration in funds managed by Azvalor and, in the case of other employees, at least 25%.

3.2. Remuneration policy and sustainability risks

Azvalor Asset Management SGIIC, S.A. has a remuneration policy for its employees approved by its Board of Directors, in accordance with current regulations. The remuneration policy is composed of a fixed remuneration, depending on the functional level and responsibility assigned to each employee, and a variable remuneration, linked to the achievement of individual, departmental and company objectives. This remuneration policy is in line with rational risk management and does not induce the assumption of risks incompatible with the profile of the vehicles managed. This remuneration policy is reviewed at least once a year to ensure that it is properly updated where necessary.

Azvalor's remuneration system takes into account the financial implications of an adequate management of the factors that may have an impact on the Company's reputation, variables that are increasingly tangible in today's environment. The Company, as established in its Sustainability Risk Integration Policy, has included sustainability risk among the risks to be considered, more explicitly than in the past. Therefore, the evaluation of the performance of those employees with an impact on risk control will incorporate those ESG metrics that are considered particularly relevant for Azvalor's investments.

3.3. Financial education and communication

One of Azvalor's objectives is to encourage or promote the improvement of society's financial education, which is considered essential for better investment decision making.

In an attempt to bring value investing closer to universities, the firm organizes the annual Azvalor Summer Course, which is part of the Summer Courses offered by the Complutense University of Madrid. This course stems from the need to improve the financial education of people interested in the world of investment and as a complementary educational alternative for those students who have decided to pursue a degree in Economics, Finance or Business Administration.

In this environment of dissemination and financial education, the *Club del Lector Value* (Readers Club) has also been created as a repository of those books that are considered essential reading on value investing, the Austrian School or general thinking. With the same purpose, Azvalor uses other means of dissemination such as the Azvalor You channel and other social networks.

3.4. ESG impact initiatives in Azvalor

3.4.1. Social impact initiatives

Davalor

Davalor is a joint project with the NGO África Directo which finances, through donations, projects with high social impact in Africa. On Azvalor's website you can find out more about this initiative and about the projects and African countries receiving 100% of the donations made (with zero administration costs).
Since its foundation in 2015, Azvalor's employees, partners and co-investors have contributed over 2 million euros to initiatives related to education, healthcare, assistance to vulnerable groups, agricultural developments and microfinance. In addition, Azvalor's founding partners donate through Davalor/África Directo approximately 10% of the annual dividends received.
On the other hand, Azvalor also makes donations to other NGOs such as the Pablo Horstmann Foundation, an independent, non-profit entity, with a clear purpose of social assistance and development cooperation, inspired by the principles of social justice and Christian values.

Auara

Collaboration with the NGO Auara, which dedicates 100% of its dividends to developing clean water access projects for those who need it most. This NGO has provided more than 70 million liters of water to developing countries and has developed 94 infrastructures in 17 different countries. Each liter of Auara consumed in Azvalor guarantees 4 liters of drinking water in developing countries. In addition, the packaging is 100% recycled and 100% recyclable.

Madrid Down – Stella Maris Foundation

Azvalor has an agreement with the Stella Maris Foundation which has allowed it to hire, since 2016 and for an indefinite period, a person who demonstrates day after day the importance of integrating people with disabilities into the labor market.

Azvalor: Great Place to Work

Following the launch of the Company and for two consecutive years, we received the support of the Great Place to Work Institute which, after an analysis of the organization, guided the Azvalor team in creating policies and practices that would contribute to the excellence of the firm's corporate culture and enable us to outline our business strategy.
Azvalor also encourages the professional development of its employees through training initiatives that complement and strengthen their skills, thus enabling them to perform to the highest standards and adapt to a constantly evolving industry.

3.4.2 Corporate governance initiatives

See sections 3.1 and 3.2. above

3.4.3 Environmental impact initiatives

Ecological projects

A few years ago, Azvalor launched the internal EcoValor project, for a more efficient use of material resources and better waste management in the workplace. In addition, in 2020 it incorporated the possibility of completing the entire subscription process for new investors as well as the regular communication process online, thus avoiding the unnecessary printing of paper and allowing the entire process to be completed digitally.

Choice of building (Azvalor office)

The building in Paseo de la Castellana 110 in Madrid where Azvalor has its main office is ISO 50001 certified, which guarantees maximum energy efficiency, integrated waste management and adequate workplace security. In line with this objective, a number of internal policies have also been defined, such as encouraging employees to use public transport to commute to work.

3.5. Key Performance Indicators - KPIs Azvalor

ECONOMIC AND GOVERNANCE INDICATORS

Total assets under management (04/03/2021)	€1.245 Bn
Nº co-investors (clients)	15,300
Nº investment funds	5
Nº pension funds	2
Nº Sicavs (Spain and Luxembourg)	5
Nº directors	4

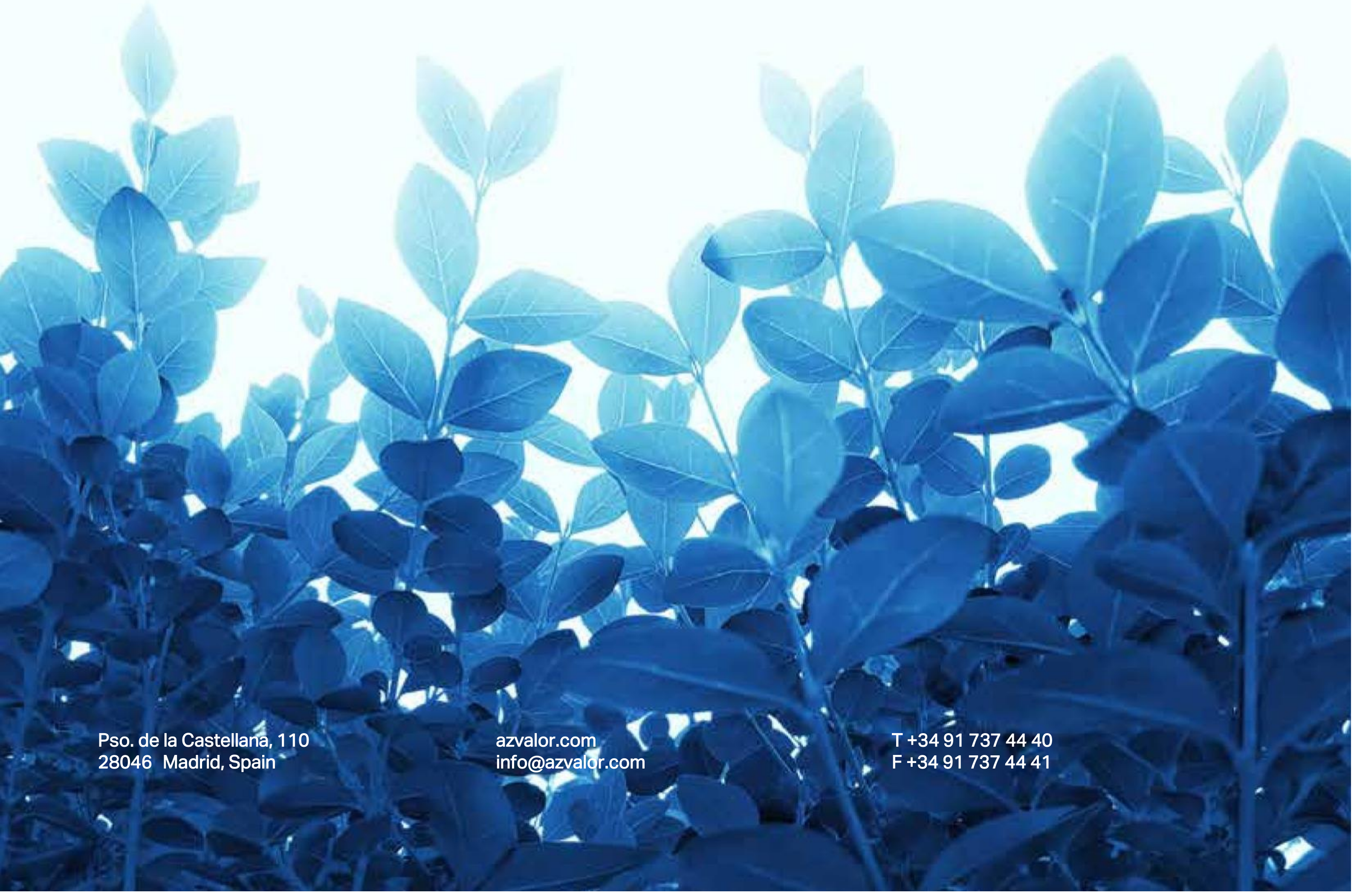
SOCIAL INDICATORS

Nº employees	38
% women	29%
% disability	3%
Total remuneration 2020 (million €)	5.145
% Total variable remuneration 2020	28%
Variation in variable remuneration vs 2019	-40%
Social network followers	33,776
Davalor donations	>€ 2 Mn

ESG PORTFOLIO INDICATORS*

% Portfolio analyzed with ESG criteria	100%
Average ESG rating of the portfolio**	5.99
Average E Rating E of the portfolio	6.37
Average S rating of the portfolio	5.93
Average G rating of the portfolio	4.75
Nº meetings at which votes have been cast	223
% meetings at which votes have been cast	61%

Source: Azvalor data and Bloomberg data modeled by Serfiex
* Bloomberg data and data modeled by Serfiex
** 1 best, 10 worst according to Serfiex modeling with Bloomberg data



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