

February 1st, 2022

Dear co-investor,

Our funds have continued their upward trend during the fourth quarter, clearly outperforming the indices on a year-to-date basis. We believe that the businesses in the portfolio still offer attractive valuations whereas most stocks in the market are overpriced, in our opinion.

We ended the year with an increase in the VALUE which we estimate at €355 per shareⁱ of Azvalor Internacional, compared to its current PRICE of €155. This increase in value is achieved by buying solid companies whose prices have fallen, financing those acquisitions with the sale of businesses that, after having risen, are approaching their fair value. As we have repeatedly stated over the past two years, we continue to believe that our funds still offer more upside potential than stock market indices, as they start from more attractive valuation levels.

For instance, the energy sector is down 20% compared to two years ago, even though the price of crude oil is up 25%, and companies are earning more than they have ever done in the last seven years. The sector already accounts for more than 6% of S&P500 earnings in the fourth quarter of 2021, yet weighs only 3.5% in this index.

On new developments, we have again registered net inflows in the fourth quarter, a trend that increased in January. We currently manage close to €1.6 billion.

On the other hand, the continuous investment in digitization has allowed us to close 2021 with only one incident in more than 10,500 executed operations. Today, we process 92% of additional operations completely digitally, without printed documentation.

We encourage you to follow our Telegram channel which already has close to 1,600 users.

We will soon announce our 7th Annual Investor Conference, where, as always, we will address any questions you may have at greater length than in these quarterly letters.

Iberian portfolio

There were no new additions to the Iberian portfolio in the fourth quarter.

As of the date of publication of this letter, the **target value** of our Iberian portfolio **stands at €209 per share vs. its current price of around €100 per share.**

The portfolio remains concentrated in companies we know well and of which we have spoken at length in previous letters; specifically, the top five positions (Tubacex, Galp, Elecnor, Técnicas Reunidas and Prosegur Cash) account for nearly 40% of the fund.

International portfolio

Regarding sales, we have acted on upturns to sell our remaining position in uranium (Cameco, Yellow Cake, SPUT) and fertilizers (Mosaic, OCI, SQM, CF Industries). We have also sold our positions in SOL, Africa Energy, Cineplex and Lookers following the strong accumulated gains and subsequent lower run up to our target price. The proceeds from these sales are being invested in two new businesses trading at attractive prices; we will talk about them when we finish building the position. This dynamic of exiting stocks that have soared to enter other attractive businesses, whose stocks have slumped, (what we call "portfolio turnover") is what allows the fund, despite having risen, to maintain the same upside potential of more than 120% for the time being.

The target value of the fund at year-end stands at **€355 per share, vs. its current price of around €155 per share.**

Azvalor Blue Chips

The value per share stands at **€301, vs. its current price of €140** (over 110% upside potential here as well). The fund's portfolio is very similar to that of Azvalor Internacional. The difference is that it is comprised of larger stocks (€20 billion in average weighted market cap), it has fewer companies (41 vs. 70) and it is slightly more concentrated (the top 15 stocks account for 63% vs. 59% for Azvalor Internacional).

Azvalor Managers

During 2021, numerous companies exited the Azvalor Managers portfolio as they were targeted for *takeovers* (all at much higher prices than our average cost) or had reached their target prices, and this capital was used to buy other stocks trading at more interesting prices. Our Managers' investment style is to select companies whose stock price has suffered significantly in the past and, in this regard, the average share prices of the portfolio companies at this time are 44% below the highs they have respectively registered at some point in the last decade. This, combined with the fact that their businesses and financial situation are generally very solid, offers a good margin of safety and clear potential to outperform the market in coming years. **The fund trades at a price/earnings ratio of less than 9x, which is a discount of about 55% to the global equity market** (Morningstar data as of the end of December).

The portfolio is diversified across sectors and geographies globally, with an emphasis on small-size companies that are whose potential has not yet been recognized by the market.

Once again, we wish to express our gratitude for the trust you have placed in our firm, and we invite you to contact our Investor Relations team should you have any doubts or questions.

Sincerely,



Azvalor Team

ⁱ *The upside potential indicated herein is calculated as the difference between the estimated value of each of the underlying assets of the portfolios, based on our internal valuation models and the current share prices of each in stock markets.*