

Dear co-investor,

The most representative equity indices in the United States and Europe have continued to suffer in the third quarter of the year. The U.S. S&P500 is down -5.3% while Euro Stoxx 600 has dropped almost 5%. On a year-to-date basis, declines have accounted for -24.8% and 20.5% respectively. In turn, IBEX 35 has declined by -9% in the quarter, which means a drop of -15.5% for the year. **Azvalor's funds, on the contrary, have performed exceptionally well, led by Azvalor Internacional, offering returns of more than 32%.**

We will avoid, as we always do, enumerating global uncertainties one by one, as our philosophy focuses on finding good companies at a good price. Indeed, **buying cheap** is the reason for the positive performance of our funds despite an environment of steep market declines, and it is the backbone of our expectations of attractive long-term returns.

While we are very pleased to have achieved something almost unprecedented in favor of our co-investors (outperforming the market by more than 50% in nine months), we keep on our toes with our London and Madrid teams focused every day on improving the potential and the quality of the portfolio.

Our demanding rotation process (selling at a profit, generating liquidity and reinvesting when prices are low) is allowing us to continue to create value. In particular, market declines in the third quarter and our high liquidity have enabled us to increase the target value of the Azvalor Internacional fund to €450 per share, which translates into an upside of more than 115%. **This estimated value is 4.5 times the price of €100 per share at which we launched Azvalor Internacional seven years ago.**

Azvalor Iberia

The net asset value of Azvalor Iberia FI decreased by -8.2% in the third quarter to €104.7, compared to the -9% decline in its benchmark index over the same period. So far this year, the difference in favor of the fund has widened considerably, with an accumulated return of +7.3% in the first nine months of the year for the fund compared to a decline of -10.8% for its benchmark index.

As of the date of publication of this letter, the target value of Azvalor Iberia stands at €237 per share¹, which translates into an upside of 128%.

¹ The target value 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.

The portfolio remains concentrated in companies that we know well and of which we have spoken at length in previous letters. The top three positions are Tubacex, Técnicas Reunidas and Prosegur Cash.

This quarter we have increased our exposure to Altri, Galp Energia and Semapa, among others, but we have not made significant reductions in any of our investments.

In conclusion, the portfolio continues to be comprised of leading, undervalued companies that are well-managed, all of which confers, in our opinion, an attractive upside potential.

Azvalor Internacional

Azvalor Internacional delivered a return of +3.4% in the third quarter compared to the -4.1% drop recorded by its benchmark index over the same period. Year to date, the fund's performance was +32.8%, compared to a decline of -17.4% for the index. Therefore, the fund maintains a strong decorrelation with its benchmark throughout 2022, outperforming it by more than 50 percentage points.

It is important to highlight the fund's attractive performance as its target value stands at €450 per share² vs. its current price of €208 per share³.

The new additions this quarter were mainly Vallourec, JCDecaux and Schindler, among others. Meanwhile, we have completely sold our positions in Total Energies, Mosaic and Alliance Resource Partners, all after strong capital gains.

We have also increased our exposure to Schlumberger, Nov and Agnico Eagle among others, and reduced our exposure to DHT Holdings, Consol Energy and Whitehaven Coal following their increases.

Azvalor Blue Chips

The fund's portfolio is very similar to that of Azvalor Internacional and follows the same *value* investment philosophy (like all Azvalor funds). The difference is that it is comprised of larger stocks (€20 billion in average weighted market cap), and has fewer companies (48 companies vs. 60-70).

The net asset value of Azvalor Blue Chips FI increased by +0.7% in the third quarter to €161.5. Over the same period, its benchmark, the MSCI World Index, increased by +0.1%.

Year to date, the fund has delivered a positive return of +21.5% compared to the -13.4% drop of its benchmark index, reflecting, as in the case of Azvalor Internacional, a historical difference in comparable terms.

During the quarter, we have completely reduced our exposure to Consol Energy and Mosaic. We have also increased the weight of Schlumberger, New Gold and Civitas Resources, and reduced the weight of Cameco and British American Tobacco, following their sharp increases. The new additions this quarter were: Geopark, JCDecaux and Prosegur Cash, among others.

We still see significant potential in this portfolio, as its target value stands at €349 per share², at the date of publication of this letter, vs. its current price of €169 per share³.

Azvalor Managers

In the article "Value vs. Growth – The Unwind Continues" the firm GMO said, earlier this month, that while value has repriced meaningfully relative to growth in recent quarters, **the statistical divergence between cheap and expensive stocks remains at an extreme valuation dislocation**, and that ultimately there must be an inexorable pull back to fair value, a process that is still only halfway complete.

This year Azvalor Managers is outperforming the market and yet the share prices of the companies in the portfolio are far below their value. In terms of the usual valuation ratios (price/earnings, price/book value), **the portfolio trades at more than a 65% discount to the market, and in absolute terms at levels unseen since the fund was launched.** The Managers invest in their best ideas for the portfolio, selecting companies that are not only cheap but also meet their quality criteria in terms of business model, competitive position, financial strength, quality of the management team, etc. Many of the portfolio companies are taking advantage of their good cash flow performance to reduce debt, buy back shares or increase dividends.

As an example of the Managers' ability to find value, just in the last quarter alone, two of our investments have received takeover bids: Resolute Forest Products and Atlas Air Worldwide, at prices 271% and 165% above our average cost, respectively. The Managers seize these situations of value crystallization to rotate to other opportunities trading at a large discount, following their contrarian philosophy of seeking value in unfollowed stocks. The fund is

² The target value 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.

³ As at October 24th, 2022.

diversified across a number of countries and sectors, about 65% is invested in smaller companies, and the portfolio's overlap with global stock market indices is near zero.

As a recent development, the [Morningstar factsheet on the fund](#) is now available on our website. Moreover, Azvalor Managers has recently received an "A" rating from Citywire.

Azvalor Global Value (Pension fund)

As we have mentioned on previous occasions, it should be noted that Azvalor Global Value is one of the few independent pension funds that comfortably exceeds the €100M threshold (€131M at the end of September), despite being only six years old, and already has over 2,400 investors.

The fund's portfolio combines companies present in both Azvalor Iberia and Azvalor Internacional. In the first nine months of the year, **Azvalor Global Value has obtained a positive return of +35.9% (outperforming its benchmark index by almost 52 percentage points)**, reflecting, as in the case of Azvalor Iberia and Azvalor Internacional, a historical difference.

We still see a significant potential of 116% in this portfolio, as its target value stands at €379 per share⁴, at the date of publication of this letter, vs. its current price of €175 per share⁵.

Azvalor News

So far this year net inflows have amounted to €220M and more than 1,900 new co-investors have joined our funds. We would like to welcome all of them and thank them.

We would like to highlight the seal of quality earned by our main products which have achieved the highest rating from the leading rating agency, Morningstar. Thus, Azvalor Internacional, Azvalor Blue Chips and our pension fund Azvalor Global Value have already received 5 stars from Morningstar in the 3-year performance rating.

Final considerations

There were two highlights during this first half of the year.

⁴ The target value 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.

⁵ As at October 24th, 2022.

Firstly, our funds have continued to be a “quiet home” to protect the savings of our co-investors in the midst of the storm, thanks to our obsessive focus on buying quality at a cheap price and to our investors’ patience. Thank you all for this.

Secondly, after a more than +40% increase in value in 2022, Azvalor Internacional is starting to rotate out of commodities, reaching an upside potential of 115%.

Peter Lynch says that if you don’t analyze the companies, you have the same chances of success as a poker player betting without looking at the cards. This is why our teams based in London and Madrid put a great deal of effort into ensuring, company by company, that each investment is attractive relative to the price we pay for it. We face the future with prudence and optimism, deeply grateful to our investors who kept their faith in us during difficult times and satisfied with what we have accomplished together so far. But above all, we remain, as always, vigilant and humble for, as Charlie Munger says, *“It’s not supposed to be easy. Anyone who finds its easy is stupid”*.

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

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.