September 18th, 2019

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Head of Azvalor Managers FI

Dear investor,

First of all, I sincerely appreciate your interest in **Azvalor Managers**. As you know, the fund was launched last November and its year-to-date return (as of September 13th) stands at **+4.4%.**

We started the year 2019 gradually building the portfolio, in the second quarter of the year the portfolio was stable and since then it has seen very little change. The four Managers that make up the fund have low-turnover portfolios, especially at times like this when the conviction in the companies is very high, the evolution of their business and financial situation is positive, but the share price is still far from reflecting their intrinsic value. At an aggregate level, portfolio valuations are very attractive, as we can see, for example, in the **price/earnings ratio of 9x**, compared to the MSCI AC World index of 16x. The **upside potential** (difference between the price and the estimated value of the portfolio) is around 120%.

Our Managers have a very long-term investment horizon. For instance, **Amit Wadhwaney**, founding partner of **Moerus Capital**, recently said in an interview with *The Wall Street Transcript* that "he usually holds portfolio positions for long periods of time", which allows him to invest in companies that are usually off the radar of most investors, where opportunities may be more interesting. For example, a few years ago, in the midst of the Brazilian economic crisis (2014-2016), he was able to find some Latin American companies at extremely cheap prices, with solid balance sheets and resilient businesses, which, after some years that called for patience, have borne fruit in recent months with stock price increases between 30% and 40%.

On the other hand, the Manager **Leigh Goehring**, from **Goehring & Rozencwajg**, discusses in this short video the opportunity he identifies in gold mining companies, as, in his opinion, gold price is starting a bull market cycle similar to the one experienced in the early 2000s, when it multiplied by more than 6 times throughout the decade, something that **Leigh Goehring** himself publicly predicted in 2000 in the prestigious American magazine *Barron's*, when the market consensus thought that such an approach was absolute nonsense. In his last quarterly letter, he mentions that "the price of commodity stocks has never been so cheap, compared to the broad stock market, as it is today, and is only comparable to market troughs like in 1929, 1969 and 1999". At those points, like today, the degree of pessimism regarding the commodities sector was enormous, while other irrational trends attracted investors' interest. Those three moments of sheer panic about the sector were followed by years of excellent returns, and Goehring & Rozencwajg think that we are **on the verge of a similar bull market.**

Donald Smith & Co, another Manager of the fund, has also found attractive opportunities in the **gold sector**, among others. The total weight of Azvalor Managers in companies related to gold production is around 7%. Despite the good performance of **Donald Smith & Co** so far this year (+23.7% thru September 13th), its portfolio, which is made up of small- and micro-cap companies, is at a level of undervaluation **(0.61x in terms of price/tangible book value**, for example) that the Manager has witnessed on very rare occasions, during almost 40 years of successful investment management experience. The last time it was at these levels was in 2008, after which its small-company strategy achieved a return of 276%, over the next five years.

On the other hand, in the **Mittleman Brothers**' portfolio, periods of returns below the index like the one it has experienced since 2014, have historically been followed by periods of strong revaluation. Mittleman Brothers is a Manager with concentrated positions where returns usually come through in short periods of time. For example, in its best five years since it started in 2002, the average annual return was +79% (2003: +82.6%, 2009: +150.9%, 2010: +64%, 2012: +49.2%, 2013: +49.5%). The Manager believes that a strong recovery in returns is highly probable in the next few years, considering the estimated undervaluation of the companies in his portfolio, where there have been no significant permanent capital losses, and to which he assigns an **upside potential of 130%**, in line with the potential it had at times like 2008 (let us remember that it delivered a return of +150% in 2009 and +64% in 2010). In words of **Chris Mittleman**, "Today, as in 1999, what the Fund owns is very cheap, and what is popular is very expensive. The popular, expensive shares have won the race over the past few years, and decisively so, as was the case in 1999 and the previous years, until it ceased to be so".

On a different note, we would like to report that the **Luxembourg-domiciled** version of this fund (domiciled in Spain) is now available, and it holds the same investment portfolio. Moreover, due to its structure (feeder), it benefits in operating costs from the asset volume of the Spanish fund, as well as from the critical mass and scale of the Azvalor group in Luxembourg. Both the firm Azvalor and myself as manager have recently made **personal investments** to this "clone" version in Luxembourg, in addition to those we already hold in its Spanish sibling.

In early July, the professor of the **OMMA** higher education center and editor-in-chief **of inBestia, Ángel Martín Oro**, published an interview in which we reviewed in detail certain aspects of the Azvalor Managers fund, and the analytical process followed to select Managers. On the other hand, **Fernando Luque, Morningstar's chief editor**, recently highlighted the fund as "Stars to be discovered" and published a video interview about it.

We are absolutely convinced that, through these four Managers that we consider to be of the highest quality, we have access to a diversified and global investment portfolio at very attractive prices, while the market, represented by the indices, is at historic highs and trading at very high valuation multiples. Our approach gives us an interesting margin of safety, and in the long-term we believe this will be reflected in returns well above the market for our co-investors, that includes **Azvalor's employees** as the first investing group in this fund. The four Managers of the fund also invest their own wealth in their respective portfolios, thus aligning their interests with investors (**Skin in the Game**).

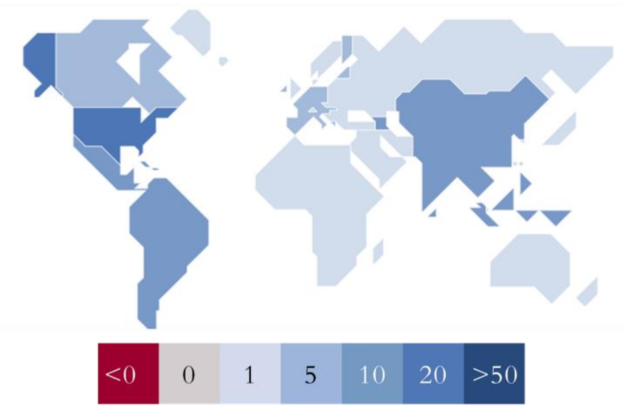
Thank you for your attention,

Javier Sáenz de Cenzano, CFA

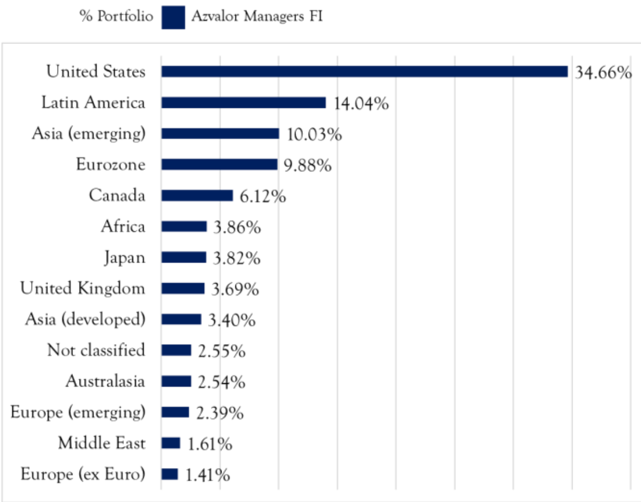
APPENDIX

The following charts and tables provide further information on Azvalor Managers' investment portfolio:

COMPANY REVENUE WORLD MAP
30/06/2019 | Azvalor Managers FI

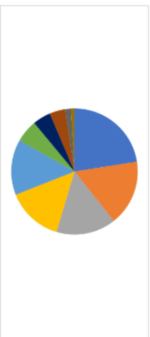


REVENUE EXPOSURE
30/06/2019 | Azvalor Managers FI



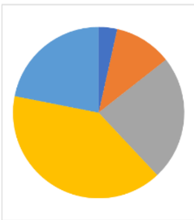
Note: the charts above show the regional exposure of the fund (%) based on the underlying companies' source of revenue.

SECTOR EXPOSURE



Basic Materials	22.50%
Energy	16.80%
Consumer Cyclical	15.30%
Financial Services	14.40%
Industrials	14.20%
Consumer Defensive	5.80%
Communication Services	4.60%
Real Estate	4.00%
Technology	1.50%
Healthcare	0.90%

MARKET CAP EXPOSURE



Giant	3.40%
Large	12.90%
Mid	25.00%
Small	35.20%
Micro	23.50%

TOP 10 HOLDINGS

	Portfolio Weighting %
Aimia Inc	6.23%
Nutrien Ltd	2.97%
Revlon Inc A	2.67%
Spectrum Brands Holdings Inc	2.25%
International Game Technology PLC	2.20%
BR Properties SA	2,17%
Standard Chartered PLC	2.08%
KT Corp ADR	2.02%
Jefferies Financial Group Inc	1.89%
Clear Media Ltd	1.82%

Note: excludes cash. Source: Morningstar, as of 4 July 2019.