

3rd August 2016

Dear investor,

The ultimate reason for writing a letter to investors is to illustrate the results obtained. In our ideal world, this letter would be written every five years, as this is our minimum investment horizon. However, we believe that our co-investors should have all the necessary information to judge our work. It is in this spirit that we address these quarterly missives.

The results obtained by our funds are reflected in the tables below. The individual return of each investor depends on the net asset value at which they subscribed:

	January-June	YTD (29-July)
azValor Iberia	-1.3%	5,6%
IGBM Total	-12.5%	-7.3%
Difference	11.2%	12.9%

	January-June	YTD (29-July)
azValor Internacional	12,5%	19,0%
MSCI Daily NET TR Europe Euro	-7.2%	-4.0%
Difference	19.7%	23.0%

azValor Internacional	12,5%	19,0%
MSCI World	-2.8%	0.6%
Difference	15.2%	18.4%

Since our previous quarterly letter, azValor Iberia increases even further the performance vs benchmark at the close of the first half year (30th June). In the case of azValor Internacional, the trend is the same: we have more absolute return and a greater difference with our relevant benchmarks. On the last available NAV before going to press (29th July), Az Internacional was beating its EUR benchmark by over 22%.

Portfolios

In our last two letters we considered it necessary to provide a breakdown of our investments and their underlying thesis because:

1. Although we're "old" (and well known) to many clients, our firm is brand new and a letter is usually an opportunity for new clients to better understand what we do.
2. Some of our investments in commodities were so laughed at that we believe our duty was to at least provide our reasoning, trying in this way to communicate our strong confidence in them.

However, today we are convinced that the best way of protecting our holders' interests is by NOT REVEALING too much what shares we are buying and selling (unfortunately, we are required by law to publish the entire portfolio at the end of each quarter, and we are aware that many people copy ideas from it).

- a) Suffice it to say that **azValor Internacional** is made up of companies with a ROCE of 28% which trade below 7x our earnings estimates for 2017. Despite this year's increase, the upside potential is still significant. The liquidity level at the end of the quarter (about 16%) has an expiry date as more companies reach the price set to buy them. If they do not reach said price, we'll do nothing. To this day, we maintain a 20% exposure in commodity-related companies; another 20% is invested in what we call "cyclical with owner" (the best example would be BMW); and the rest in higher ROCE businesses, with significant barriers to entry and long-term upside potential.

- b) In the case of **azValor Iberia**, the average ROCE is 16% and investments trade at 11x the expected earnings for 2017. Upside potential is attractive. At the end of the quarter we maintain about 11% of liquidity.

Even though 1. the ROCE of the Iberian portfolio is worse, 2. it has a higher P/E ratio, and 3. surely the nuance between "significant" and "attractive" hasn't gone unnoticed, when we talk about its upside potential we would like to add something that is key: **the degree of confidence in the estimates of each of them**. In the case of azValor Iberia, the companies that make up the fund are very "old" companies which we know well, and I believe the margin of error is lower than with almost any foreign company. Therefore, both Fernando and I have a very significant exposure to our Iberian portfolio, despite the fact that its ratios are somewhat less attractive than those of the international portfolio.

The environment

Nobody knows TODAY what will end up moving markets in the future. That is we believe we add little value by discussing what is already being discussed by everyone. But since some of our clients value and request it, and this is something we can do without putting them at risk (unlike publishing/explaining the portfolio in real time!), here are our opinions on today's "hot topics":

a/ Brexit: We don't know what is in store for the British economy. But we are certain that the European economy will definitely feel the impact.

1. We already have a neighbour competing with us in tax matters. We wish good luck to those betting against the British and in favour of Europe...
2. With no British in future European negotiations, there is a growing risk of bureaucracy/socialism. Likewise, there is a higher probability that a heavily indebted country succumbs to the temptation of devaluing its currency in order to fulfil populist promises. Forex investment is not our strength, but with these probabilities on the table, we

wouldn't bet strongly against the pound nor strongly in favour of the euro...

b/ Markets: As always, we have absolutely no idea how the stock market will perform in the short term. We notice some interesting aspects however:

1. We are witnessing one of the greatest **dispersions of valuation** in history, similar to the one which occurred during the dotcom bubble. Thus, even though the S&P reaches new all-time highs, there are still some investment opportunities at reasonable prices.

For instance: The automobile manufacturer Tesla sells for 30 billion USD while not making any money. Its counterpart Hyundai has more net cash than the entire market cap and can be bought effectively GRATIS in the stock market. Some people will try to twist this statement arguing that Tesla will take control of the future market of batteries for electric cars (Tesla sold 50 thousand cars in 2015 and lost almost 900 million USD), and that Hyundai is an outdated company in steady decline (Hyundai sells close to 6 million cars worldwide and in 2015 it earned 4 billion USD)... Place your bets, gentlemen!

2. We are now getting an inkling of **the first holes in the keel of the Central Bank's great Keynesian plan.**
 - a. In spite of increasing doses of QE, economies are not recovering. In the USA and Japan, which are rich countries, people are withstanding (for the time being!) Let's see elsewhere. There is already a date for the show in Italy this year (referendum in October); France will jump on stage in 2017. Economic problems lead to political problems. **And political problems, in turn, lead to "political" solutions full of good intentions which, however, usually obtain the exact opposite of what they pretended.** If you think this a horror movie, google Marine Le Pen, Donald Trump or Italy's Five Star Movement on the Internet and check the beauties of their electoral programmes.
 - b. We don't waste time trying to predict the unpredictable, but what we *do* know is **that QE does not work, and that the alternatives being considered (more QE, Helicopter Money) don't either.** Continuing these policies will remove economic growth, although in the short term it might "help" politicians by POSTPONING the solution of current problems. However, borrowed time is not eternal, the problem only gets worse, and stronger measures need to be implemented in to order to achieve increasingly smaller effects.

3. The world is not just made up of the USA, the UK, Europe, Australia and Japan... In emerging countries, people work more, less has been promised to population (pensions/Social Security), demographics is more favourable, and sooner or later they eventually have access to almost every first-world-gadget-which-leads-to productivity increases. We have many companies domiciled in the first world that are going to help/benefit from/to the predictable increase of welfare in the emerging world.

azValor news

Enthusiasm has been the electricity of life in azValor since its launch.

In the research department, we continue working "to the fullest": Carmen Pérez, Iván Chvedine, Juan Huerta, Juan Cantús and Jorge Cruz could be even smarter or have even more experience, but I find it difficult to believe that they could work harder. Fernando and I try to keep up with all of them, often "huffing and puffing to catch up" (we could also be smarter or have 40-years experience, but we are what we are and we have just about 20 years of experience each). Mingkun Chan from China is no less than any of us 7. We are eight people working (overworking?) enthusiastically to find value. Without this enthusiasm, the theory of value can be "told" but it would be impossible to "apply" because it requires too much effort for those who are not passionate about it.

In the investor relations department, Andrea Barbaranelli, Carlos Romero, Santi Cortezo, and their support team, all of them under the lead of Beltrán Parages, have answered thousands of calls and met hundreds of investors. They have the nasty task to explain that "shares don't always rise" and that market panics are NEVER a right time to sell; with this approach, they attract increasingly confident and patient clients. Without them, we would simply NOT be able to make such long-term investments as we do. Last time we checked the size of our "investor family" we counted 6,500. To this day, we manage 850 million EUR in institutional mandates/SICAVs and 1,024 million EUR in investment funds.

The team led by Sergio Fernández-Pacheco (**Admin/back-office**) has managed to achieve a goal I didn't believe in myself: to launch pension funds before the summer (Sergio didn't specify if he meant the beginning or the end of the summer... I am as worried as you: Janet Yellen wants him with her!). Thanks to the work of all of them, two pension funds are now available: one 100% global equity (azValor Global Value) and another more conservative which invests only 50% in equities (azValor Consolidación).

We would like to thank you for the trust you have placed in our management and your support at all times. We are especially grateful for the numerous

compliments and displays of affection received from many of you for the performance of our funds. We will continue working with great enthusiasm and discipline, confident that this is the best way of not disappointing you in the long term.

The commercial team, led by Beltrán Parages, will be pleased to answer any questions you may have.

Álvaro Guzmán de Lázaro Mateos

CEO and Chief Investment Officer