HORОS
ASSET
MANAGE-
MENT

QUARTERLY LETTER
TO OUR CO-INVESTORS

APRIL 2021

APRIL 2021

Dear co-investor,

In the first quarter, the trend that began with the announcement of the successful launch of the COVID-19 vaccines in November 2020 continued, characterized by the outperformance of companies with more cyclical businesses, as well as those of smaller size and less liquidity. In this "new" market environment, our funds have had an excellent performance, getting close to or even exceeding their all-time highs. Horos Value Internacional gained 21.5% over the quarter, compared to 8.9% in its benchmark index. In the same period, Horos Value Iberia returned 13.0%, beating the 5.4% rise of its benchmark. Since inception of the Horos funds (May 21, 2018), Horos Value Internacional has returned 6.4%, while Horos Value Iberia -1.6%. Since 2012, the international portfolio has gained 160% and the Iberian portfolio 146%, compared to 182% and 59% in its benchmark indices, respectively.[1]

On the other hand, next May Horos will celebrate its third anniversary, and we can certainly not say that it has been a bed of roses for those of us who are part of this family. In these years we have lived through a period of great political and economic uncertainty (Trump, China, brexit...), in addition to the worst pandemic that humanity has suffered in the last century. A period that, as we have explained throughout our communications, has severely hindered our investment philosophy, with the specialized press announcing the death of value investing. To navigate these turbulent waters, it has taken a lot of patience, calmness and conviction in our work. Personally, the Stoic philosophy, to which I regularly refer, has been a great compass to guide me. I will devote part of this quarterly letter to describing some of its (surprising?) similarities with the value investing philosophy.

Thank you for your confidence.

Yours sincerely,

Javier Ruiz, CFA
Chief Investment Officer
Horos Asset Management

[1] The data includes the performance of the portfolio management team in its previous professional period (May/September 2012 to May 21, 2018).
Past performance is not a guarantee of future performance.

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Executive summary

You have power over your mind – not outside events. Realize this and you will find strength.
— Marcus Aurelius

These last few years have certainly not been easy for anyone, and neither has it been for value investors. After a period of two years in which, as pointed out on previous commentaries, the search for certainty (in the face of brexit fears and the impact of the trade wars between the United States and China) led investors to seek refuge in companies with greater earnings visibility, as well as greater size and liquidity, to the detriment of smaller, illiquid companies with more cyclical businesses, the arrival of the coronavirus accelerated this great performance divergence to absurd extremes.

At Horos, we have tried at all times to stick to our investment process, concentrating the portfolio on the cheaper ideas, regardless of what their share price might indicate. The arrival of vaccines has been a clear turning point, reversing this divergence and driving stocks trading at more attractive valuations higher. It is in these challenging environments that it is most important to have an objective decision-making process and a calm mind, allowing you to implement your investment philosophy, even when the world seems to be going against you. Understanding cognitive biases and relying on tools such as Stoicism can be of great help in navigating these rough seas to maximize the chances of success. We will dedicate the first part of this letter to talk about them.

Additionally, we will talk about the most significant changes in our portfolios. Among others, we can highlight that in Horos Value Internacional we exited our position in **PSB Industries**, after receiving a takeover bid from the owner families, as well as in **Baidu** and **The ONE Group Hospitality**, following their excellent performance. On the other hand, we initiated three new stakes in the quarter. Specifically, we invested in the Chinese real estate services company Kaisa Prosperity, in the Spanish REIT **MERLIN Properties SOCIMI** and in **Power REIT**, which owns, among other things, greenhouses used to grow cannabis for medicinal purposes. In Horos Value Iberia, we exited from **Greenalia** and **Ence** after their strong performance, and acquired a stake in **Alantra Partners**, as an interesting investment opportunity arose in a company in which we have already been shareholders.

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The path of the value investor

He who intends to reach a certain place should take only one path and not try many at the same time, because the latter is not walking but wandering.
— Seneca

I recall a few years ago hearing Iván Martín, Chief Investment Officer of the asset manager Magallanes Value Investors, say that for him value investing, more than a way of investing, was a philosophy of life. I must admit that I was not convinced by this idea at the time. However, with the passage of time, I have come to the conclusion that it cannot be understood in any other way. The value investing philosophy delivers, as we like to repeat at Horos, satisfactory and sustainable returns in the long term. However, **the road to the long term is never easy** and constantly puts you to the test, which means that only a small group of investors remain committed to this style of investing.

> *Value investors must be strong and resilient, as well as independent-minded and sometimes contrary.* ***You don't become a value investor for the group hugs****.*[2]

But why is the road to the long term never easy? In my humble opinion, there are two obstacles that the investor must overcome in order to implement this investment philosophy. The first is to remain **fully committed and dedicated** to your research. If you don't spend countless hours understanding a company and the industry in which it operates, if you can't understand which companies are most profitable in a sector and why, if you don't know which one is growing the most and why, if you can't answer what a company's real free cash flow generation capacity is, if you don't spend time studying management decisions and analyzing their historical capital allocation, or if you can't figure out what the margin of safety of an investment is, to name a few examples, then you haven't spent enough time on analysis. There are no shortcuts. This way of investing depends, at least in this pillar, on the number of hours spent per person, as my colleague Alejandro often says.

If one overcomes this first obstacle, an investor then faces another (much) more difficult one to deal with: **the time inconsistency of returns** or, to be more precise, its consequences. Whether we like it or not, the market is very capricious and reflects the value of the companies in which one invests when it pleases.

[2] Klarman, Seth (2015). Baupost Limited Partnerships 2015 Year-End Letter. Bold added for emphasis.

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Sometimes, assuming our work is correct, an investment thesis can materialize in a few months, and sometimes it takes several years. Sometimes this is even true for a portfolio as a whole, with all that this entails.

One of the consequences of this time inconsistency of returns is the challenge of keeping your investment philosophy intact if your **environment** is not comfortable with it. On the one hand, as we have pointed out in the past, **it is critical that the asset management firm and the portfolio managers are fully aligned**. It is no use if the fund managers, as has always been our case, have the bulk of their assets invested in the funds they manage, if ownership does not assume that there will be periods when value investing underperforms. In the end, frictions will arise that will be difficult to cope with. Hence the importance, as is the case at Horos, of the portfolio management team having control over the decisions taken at the firm level. This is the only way to ensure that the focus remains on maximizing the returns for co-investors with a long-term vision.

Precisely, on the other hand, our co-investors also need to understand the implications of our investment approach. **We all want long-term returns, but not all are willing to pay the price that this entails**. Namely, periods of time, which may be longer or shorter, when our portfolios do not seem to perform as expected. Indeed, it has not been easy to be a Horos investor in these almost three years of life of our project. As you well know (and have suffered from), we have been through a long period of underperformance against our benchmarks—as well as poor performance in absolute terms—since we started the project in May 2018 until November last year, for the reasons we have tried to explain in our quarterly letters, our annual conferences and other usual communication channels. We will not, again, further elaborate on these reasons. The reality is that, since the announcement of the development of the vaccines to combat COVID-19, investor sentiment seems to have turned 180 degrees, boosting the share price of the companies we hold in our portfolios and allowing us to recover all the losses in a short period of time. Of course, we can only be grateful for the confidence and calmness shown by the majority of our co-investors during this period.

However, the time inconsistency of returns not only requires value investors to be aligned with their environment. It also requires them to beat their worst enemy: themselves. There is no point in doing an excellent analysis, or surrounding themselves with an environment that is favorable to this investment philosophy, if the investors themselves then undermine everything they have achieved in the face of the first setbacks. Although we do not want to admit it, **we are slaves of our mind**. Learning how it works (and how to tame it) is essential in order to succeed as investors.

Haste makes waste

This is your System 1 talking. Slow down and let your System 2 take control.
— Daniel Kahneman

To understand the role of our brain in our decision making, one must undoubtedly refer to the work of Daniel Kahneman and Amos Tversky, cornerstones, along with Richard Thaler, in the development of behavioral economics in the 1980s.[3] Specifically, Kahneman and Tversky developed what they called the **prospect theory** (also known as the loss aversion theory), according to which we make irrational decisions, detached from probabilistic logic, in environments of uncertainty. The reason? Our subjective judgments affect how we perceive reality and influence the way we act.

To explain his findings for a wider audience, Kahneman published in 2011 the book "**Thinking, Fast and Slow**," possibly the best work to understand the biases and heuristics that influence our decisions.[4] To do so, Kahneman relies on an idea that is very simple for everyone to understand. Basically, he divides our brain into two fictitious systems that guide our behaviors: System 1 and System 2. In the author's own words, **System 1** *operates automatically and quickly, with little or no effort and no sense of voluntary control*. **System 2**, on the other hand, *allocates attention to the effortful mental activities that demand it, including complex computations. The operations of System 2 are often associated with the subjective experience of agency, choice, and concentration*.[5]

Therefore, System 1 is what governs our most mundane decisions, which makes perfect evolutionary sense. Can you imagine having to think calmly about any action you take throughout the day? It is also what drives our most primal impulses. It is this system that makes us react instinctively in dangerous situations, when it is time to act rather than think. System 2, on the other hand, is activated when we pause to think about a plan of action, such as comparing the characteristics of two smartphones to choose the one we are going to buy, or walking at a faster pace than usual, without leaving us air to evade our mind.

As you may have already concluded with what we have just said, System 2 requires self-control and mental work that consumes energy. Again, we are evolutionarily

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[3] Daniel Kahneman and Amos Tversky: "Prospect Theory: An analysis of decision under risk," *Econometrica*, Vol. 47, No. 2, 1979, pp. 263-291. Richard Thaler: "Toward a Positive Theory of Consumer Choice," *Journal of Economic Behavior and Organization, Vol. 1, No. 1*, 1980, pp. 39-60.
[4] Kahneman, Daniel (2011): *Thinking, Fast and Slow*. Farrar, Straus and Giroux.
[5] *Idem*.

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designed to optimize our energy expenditure, so our brain will try, by all means, to automate our actions and decisions as much as possible, that is, to put System 1 before System 2. But how can System 1 solve problems that require more concentration and effort? By cheating. Indeed, System 1 uses **heuristics** or mental shortcuts to reach a quick conclusion, often modifying, without us even realizing it, the original question posed by the problem.

What is the relevance of all this for investors, regardless of their investment style? It is hugely relevant. System 1 is particularly activated in environments with **complex, incomplete, changing and highly uncertain information**. It seems clear that financial markets match this description perfectly, so, of course, investors are constantly at risk of falling into mental traps that lead us to make (and justify) decisions that are totally harmful to our interests. I cannot help but think of those acquaintances who often tell me that they have invested in a large Spanish company because it pays a good dividend. Obviously, the dividend payment should not be the criterion for deciding whether a company is a good investment. However, in order to avoid having to thoroughly analyze the business and assess whether or not it is attractive to invest in at the price at which it trades, their brain takes the mental shortcut of equating a high dividend with a good investment. System 1, as you can see, can be very skillful and persuasive.

In what other ways can System 1 impact our decisions as investors? There is quite a long list of biases and heuristics that can affect us. Without being exhaustive, some of the most relevant might be:

- **Loss aversion**: we suffer more from watching our investments decline than we enjoy the gains, which can lead us to cover up our investment mistakes (by not selling) while not reaping the full potential of an investment (by selling too early). This effect is magnified in highly volatile markets, such as last 2020.

- **Overconfidence**: there are many studies that show that most of us think we are better than average at some skill, such as driving, when, obviously, that is impossible. This can lead us to be overconfident in our research, assuming too much of the good and too little of the bad that can happen to our investments. As Charlie Munger often reminds us, *smart people aren't exempt from professional disasters from overconfidence*.[6]

[6] "Charlie Munger on Getting Rich, Wisdom, Focus, Fake Knowledge and More". Farnam Street Blog

- **Illusion of knowledge**: overconfidence can lead us to think we know more than we think we do about an industry, for example, prompting us to step outside our circle of competence and take on more risk than we think.

- **Overoptimism**: we are evolutionarily designed to be optimistic, which is obviously highly desirable. However, this optimism, combined with overconfidence and the illusion of knowledge, can lead us to make mistakes in our research. For example, if one looks at analysts' annual earnings estimates for S&P500 companies, one can see how they have revised these estimates downwards over almost all of the last 30 years.

- **Availability heuristic**: our emotions interfere with our judgment to lead us to assign more probability of occurrence to recent events, and especially if they are out of the ordinary. When there are sharp stock market declines, especially after periods of sustained bullish trends, our brain seems to activate some kind of alert, which leads us to imagine scenarios of continued declines, overlooking how attractive these moments tend to be to increase our market exposure.

- **Herd behavior**: it is the result of all the previously mentioned biases combined, which is the reason why herd behavior is behind the big bubbles (and "anti-bubbles") that markets go through from time to time. This effect accounts for the large money inflows at all-time highs and the large outflows at the lows, when it should be just the opposite.

Of course, knowing how our brains work and some of the biases and heuristics we unconsciously fall into can help us, on the one hand, to avoid falling into these traps and, on the other, to take advantage of the inefficiencies that arise in the markets when most of the other market participants do fall into them. However, one should have a large toolkit to combat these continuous mental traps. In fact, although it may seem hard to believe, Kahneman himself has commented on more than one occasion that he himself, who has studied cognitive biases throughout his professional career, continues to incur in them. What hope is left, then, for the rest of us? First, we can look for objective tools to adhere to so as not to fall prey to our emotions. And second, we must try to educate our mind to control these emotions. In my personal case, this is where **Stoicism** plays an increasingly relevant role.

An eminently practical philosophy

To live without philosophy is to live without direction.
— Marcos Vázquez

(I do not intend to summarize the Stoic philosophy here, far from it, since there are numerous publications on the subject and it is not the purpose of this letter.[7] *Instead, we are going to highlight some ideas and tools that may be useful in our investing journey.)*

Founded twenty-five centuries ago by **Zeno of Citium**, Stoicism already brought forward everything we have just discussed through the writings and experiences of its members. Some of the most outstanding figures were as diverse as **Epictetus** (who lived for several years as a slave), **Seneca** (one of the richest people of his time, in addition to a life dedicated to politics) and **Marcus Aurelius** (Roman Emperor). Although it may initially come as a surprise, the reality is that human nature, with all its emotions, has not changed at all since then, hence his teachings are still fully valid. Nowadays, Stoicism is often equated with suppressing or hiding emotion. Nothing could be further from the truth. Stoic philosophy *is about acknowledging our emotions, reflecting on what causes them, and redirecting them for our own good.*[8]

What is interesting and where the main attraction of Stoicism lies is in its eminent practical character, giving us mental tools to deal with our emotions. Obviously, a philosophy like this is of great value in all facets of life that have to do with our behavior. Therefore, it can be, in my opinion, a great complement to improve our investment decisions and, in particular, to help us recognize the cognitive biases in which we can incur and give us guidelines to avoid them.

First of all, the Stoics encourage us to **pay attention** to our thoughts, as a necessary step to be able to control them and act less impulsively. In short, to contain System 1 and let System 2 act.

> *Don't let the force of an impression when it first hits you knock you off your feet; just say to it, "Hold on a moment; let me see who you are and what you represent. Let me put you to the test."*[9]

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[7] I particularly recommend the writings of Marcos Vázquez, Ryan Holiday, Massimo Pigliucci and William E. Irvine.
[8] Pigliucci, Massimo (2017): *How to Be a Stoic: Using Ancient Philosophy to Live a Modern Life*. Basic Books.
[9] Epictetus.

While it seems hard to believe, in today's world, where there is a flood of information and it is more accessible than ever, all external stimuli encourage us to act without thinking too much and to follow the crowd without questioning why. Financial markets are no exception to this phenomenon. Certainly, as investors, we are constantly bombarded with information that urges us to react impulsively. For example, a company may report a profit warning for the year and, as a result, its share price plunge that day. Our first impulse (remember System 1) will be to sell, as the share price seems to be declining with good reason. However, we should stop and calmly analyze the reasons behind the earnings downgrade, how it impacts our valuation (if at all), and whether or not our long-term view of the business has been affected by this new piece of information. If not, we will have been wrong to sell, as the lower share price may have created a great investment opportunity.

> *The mind, unconquered by violent passions, is a citadel, for a man has no fortress more impregnable in which to find refuge.* [10]

Once we understand the power of controlling our thoughts, it is important to define the **principles that will guide** our lives, to define how we want to be. Do we want to let ourselves be led by the herd without having a clear identity or, on the contrary, to be critical and independent thinkers? Are we willing to invest with our own criteria or in whatever is hot at any given moment? It has certainly not been gratifying to be a value investor in recent years, when the market has continued to favor the same type of companies—large caps with high liquidity and certainty in their earnings, becoming more and more expensive, to the detriment of those of smaller size, less liquidity and greater cyclicality in their earnings, becoming cheaper and cheaper. However, **we cannot let ourselves be carried away by the impulse to invest in what the market loves at any given moment in time** (herd behavior). Satisfactory and sustainable returns over time are not achieved in this way, but by being consistent with a solid and proven investment process.

> *On such journeys you are prevented from going astray by some recognized road and by questions put to local people, but on this one all the most well-trodden and frequented paths prove the most deceptive. We should not, like sheep, follow the herd of creatures in front of us, making our way where others go, not where we ought to go.* [11]

It is evident that it is one thing to know that we must be aware of our thoughts and another to be able to control them. For this reason, the Stoics used a number

[10] Marcus Aurelius.
[11] Seneca.

of mental tools to achieve the life guided by reason that they longed for. One of the best known is the idea of the **dichotomy of control**, which means that there are things that are under our control and others that are not. If we are able to fully grasp this fact, we can more easily focus on what depends on our actions, instead of getting frustrated and lamenting about what we cannot influence.

> *In life our first job is this, to divide and distinguish things into two categories: externals I cannot control, but the choices I make with regard to them I do control.*[12]

For this reason, we have to try to objectify our investment process as much as possible and focus exclusively on our work (what we control), regardless of short-term market volatility (what we do not control). If our analysis is correct, returns will eventually reflect the upside potential that the portfolio has today, but the timing of this is beyond our control.

> *The wise man regards the reason for all his actions, but not the results. The beginning is in our own power; fortune decides the issue, but I do not allow her to pass sentence upon myself.*[13]

Likewise, the Stoics exhorted to live, sporadically, with certain **discomforts and privations**. On the one hand, as a preparation for a future in which life would not smile on us and, on the other hand, to value more highly what we enjoy today. In terms of health, for example, practices such as intermittent fasting or exposure to cold, in addition to other benefits, can help us to increase our self-control. In the investment world, a clear example would be to get used, as soon as possible, to market volatility. This is the only way to overcome the loss aversion we mentioned at the beginning and to take advantage of the market ups and downs. As we like to say at Horos, **volatility has to be our friend, not an enemy to run away from every time it appears**.

> *Set aside a certain number of days, during which you shall be content with the scantiest and cheapest fare, with course and rough dress, saying to yourself the while: 'Is this the condition that I feared?'*[14]

At the company research level, we also have interesting stoic tools that we can apply. In particular, there are two closely related ideas that I would like to highlight. The first is **negative visualization**. The Stoics recommended spending some time

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[12] Epictetus.
[13] Seneca.
[14] Seneca.

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thinking about or visualizing the worst that could happen to them, such as losing a loved one, their wealth, their job or their own death (***Memento Mori***). This helped them to prevent and change whatever was in their hands, to mitigate its potential impact and, finally, to accept it. How can we apply this concept to our company research? Indeed, by trying to think about everything that can ruin our investment thesis. At Horos, as we have explained before, we have an investment process whereby a manager does the initial research of a company and, once it is completed, the rest of the team has to try to **kill the company**, that is, look for everything that can go wrong with our investment thesis.[15] If the idea makes it through this phase, then it is a candidate to be added to the portfolio. As we always say, this way of working is more time-consuming and tedious, but it helps make our investment process more robust and reduces potential investment mistakes.

> *Everyone faces up more bravely to a thing for which he has long prepared himself. Those who are unprepared, on the other hand, are panic-stricken by the most insignificant happenings. We must see to it that nothing takes us by surprise.*[16]

The other idea is **fatalism**. In this case, instead of focusing on what could go wrong, the Stoics tried not to think about what could go right. In this way, they managed to control their emotions through low expectations and, whatever happened, their mood would always be positive. In short, if nothing changes, that is okay, and if it gets better, then great. Note the similarity to the idea of investing in situations with a very compelling risk-return ratio. For example, investments that offer us **convexity** (e.g. uranium through investment vehicles that store uranium physically, as we have explained in previous letters, where the downside risk is minimal and the potential gains are very high) and **free optionality** (e.g. Keck Seng Investments, where its market capitalization only includes part of its US hotel assets and gives us "for free" the rest of the hotels in Canada, Japan, Vietnam or residential real estate in Macau). We can also implement this fatalism in our valuations, assuming realistic but also **conservative** scenarios as our base cases. In this way, we guarantee a higher margin of safety in our investments, maximizing returns while minimizing the risks incurred to obtain them.

> *The fatalism advocated by the Stoics is in a sense the reverse, or one might say the mirror image, of negative visualization: Instead of thinking about how*

[15] One of the managers who has popularized this concept the most is Bruce Berkowitz (Fairholme Funds).
[16] Seneca.

our situation could be worse, we refuse to think about how it could be better. [17]

It is not easy to remember, assimilate and practice these and many other Stoic ideals, not even for their greatest proponents. That is why they always encouraged to **repeat these principles**, in order to turn them into habits that would always accompany them. Similarly, as investors, we can use a **checklist** of principles that our investments should meet, as well as repeat and improve the process with each research we make of a company.

I am still urging on myself the things which I praise, but I don't yet convince myself about them. Even if I had convinced myself, I would not yet have things in readiness or so thoroughly practiced that they could successfully confront all chance events. [18]

Finally, the Stoics always intended to teach by example through their actions. As Nassim Taleb always reminds us, there is a very important difference between thinkers and doers. There is no point in getting the lesson right and preaching it if you are not the first to put it into practice. Your satisfaction should come from a job well done and what it brings you, not from the applause and recognition of others. How can we ensure, for example, that the portfolio manager of a fund behaves like this? Quite simply, by making sure that he or she has **skin in the game**. At Horos, the three of us in the portfolio management team have almost all of our assets invested in the funds we manage. Therefore, we are the first ones interested in maintaining total commitment and full dedication to our work. We don't do it for recognition, we do it for ourselves.

Be your own spectator; seek your own applause. [19]

In short, it is not easy to be an investor, and it is certainly not easy to be a value investor. As we have seen, in addition to the difficulty of analyzing a company, there are the risks associated with the time inconsistency of the expected returns. Our environment and ourselves can be our worst enemies. However, if we manage to overcome all this, the long-term performance can be very rewarding.

What would have become of Hercules do you think if there had been no lion, hydra, stag or boar – and no savage criminals to rid the world of? What would he have done in the absence of such challenges? Obviously he would have just

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[17] Irvine, William B. (2008): *A Guide to the Good Life*. Oxford University Press.
[18] Seneca.
[19] Seneca.

rolled over in bed and gone back to sleep. So by snoring his life away in luxury and comfort he never would have developed into the mighty Hercules.[20]

Main changes to our portfolios

If a business does well, the stock eventually follows.
— Warren Buffett

The following is a summary of the most significant changes to our funds' portfolios:

HOROS VALUE INTERNACIONAL
Stake decreases & exits:

FINANCIALS
Exposure trimmed from 22.2% to 20.9%
Holdings discussed: AerCap (4.7%) and Value Partners (exited)

AerCap, the leading aircraft leasing company, announced this quarter the acquisition of GECAS, the other major player in the sector, in exchange for 111.5 million shares, $24 billion in cash and another $1 billion in **AerCap** bonds or cash. At the price at which **AerCap** was trading at the time, the company was acquiring the GECAS fleet at c. 10% discount. This move is definitely reminiscent of others of similar size made by the company. In particular, this acquisition has important similarities with that of ILFC in 2013. Firstly, both belonged to a forced seller: the insurer **AIG** in the case of ILFC and **General Electric** in the case of GECAS. Secondly, like GECAS, ILFC was one of the big players in the sector. Also, the acquisition of ILFC was made at a discount on its fleet (15%) and gave **AerCap** access to an attractive order book for new aircraft—just like the current deal does now. Finally, **AerCap** sold those ILFC aircraft that did not fit its long-term strategy, and then repurchased shares at a deep discount to the company's NAV, creating tremendous value for its shareholders. Will it make a similar move after the GECAS acquisition?

As for the differences, we think that GECAS has a "cleaner" fleet, as it has been making fleet adjustments for years. It also brings new divisions to **AerCap**, such as

[20] Epictetus.

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the engine leasing business (quite attractive) or the helicopter leasing business (potential future divestment). Additionally, it is noteworthy that, on this occasion, **AerCap** will have a less leveraged balance sheet after the transaction (most likely something needed to finance such a large acquisition).

All in all, this is a move that, being conservative, will help create about 9% of shareholder value (in terms of NAV per share) and, given **AerCap**'s strong balance sheet and its ability to generate profits, plus the potential sale of unattractive aircraft for the company, it is expected that at some point **AerCap** will resume its (aggressive) share buyback program if the company continues to trade at a discount to its underlying value. Following the strong performance of the stock, we slightly trimmed our position.

In addition, we would like to highlight the exit of our stake in **Value Partners**, the Hong Kong-based value asset manager, after its positive share price performance and, as a consequence, its lower upside compared to other investment alternatives, which we will discuss later on. This is the second time in recent years that we have taken advantage of a sharp (and unjustified) decline in this asset manager's share price to initiate a position and obtain significant capital gains.

REAL ESTATE

Exposure increased from 16.9% to 24.2%
Holding discussed: Brookfield Property Partners (2.7%)

There have been significant portfolio changes this quarter in the real estate sector, with several new stakes, discussed below, and one corporate transaction. In particular, here we provide an update on the status of our investment in **Brookfield Property Partners** ("BPY"). In our latest quarterly letter, we noted that on January 4 the company received a takeover bid from **Brookfield Asset Management** ("BAM") for the remaining shares it does not control, at a price of 16.5 dollars per share, which seemed too low to us. Hence, our intention was to decline the takeover bid and hold our shares, awaiting a potential increase in the offer price that **BAM** had in fact historically made in other similar acquisitions. Finally, on April 1, **BAM** announced it had increased its offer by 10% to 18.17 dollars per share. In this case, shareholders will have a choice of cash, **BAM** common stock or **BPY** preferred stock, limited to a maximum of 50% cash for the total offer, 42% for **BAM** common stock and 8% for **BPY** preferred stock. The offer price represents a discount to **BPY**'s NAV of 32%, very much in line with the historical average at which this vehicle has historically traded.

OTHER
5.7% of the fund
Holdings discussed: PSB Industries (exited), Baidu (exited) and The ONE Group Hospitality (exited)

Again, this quarter some of the companies we hold in our portfolios received takeover bids. One of them was **PSB Industries**. On March 25, the French company received a takeover bid from the owner families for the 22% of the shares they did not control, at a price of 30 euros per share (a 61% premium). As our long-standing co-investors know, this is an investment that this team has held in its portfolio since 2014.

During this period, we have seen the company undergo a major transformation. Now specialized in the manufacture of packaging for the cosmetics industry (**L'Oreal** or Chanel, for example, are among its clients), **PSB Industries** has been making significant corporate moves over these seven years. On the one hand, in 2018 it sold its plastic packaging business for the food industry (CGL Pack) and spun-off its chemical division (**Baikowski**), distributing it as a dividend to its shareholders. On the other hand, in 2021 the company sold Plastibell, its business of containers, packaging and plastic parts for the industrial and healthcare sectors.

All in all, including the spin-off of **Baikowski**, **PSB Industries** has distributed more than 27 euros per share over the seven years that we have been shareholders, which is evidence of the value created by its management team. Finally, this time we decided to sell our shares, as it was a reasonable price, given the difficulties the company could have in competing with larger players such as Albéa or Shya Hsin, which are owned by private equity funds.

We have also fully exited our stakes in **Baidu** and **The ONE Group Hospitality** ("ONE"), following their outstanding performance during the period and their lower relative upside potential compared to other investment alternatives, which we will discuss below.

The Chinese technology platform company **Baidu** has also been held in the portfolios managed by Alejandro, Miguel and myself for several years. During this period, we have seen very high volatility in its share price, which we have taken advantage of to make significant rebalancing moves in our position (in fact, we even sold our entire position once, when we thought the stock's upside potential was exhausted). After several years of instability, market sentiment turned very positive, putting an end to the historical advertising problems in the healthcare sector, the divestments in O2O (Online-to-Offline) businesses that continued to weigh on the company's margins, the IPO of part of the **iQiyi** streaming business (which hid Baidu's underlying cash generation capacity) and the tough competition from other industry giants such as **Tencent** and **Alibaba**, as well as the entry of new players with disruptive business models (**ByteDance**). At the same time, the company's recent commitment to electric vehicles contributed even more to this change of narrative. **Baidu**'s share price rose almost fourfold from the March 2020 lows to all-time highs and reached a valuation where the margin of safety, in our view, was too narrow.

Of course, our investment in **ONE**, a restaurant company with such well-known brands in the United States as STK ("Steakhouse") or Kona Grill, has been much shorter, since we initiated our position amidst the worst moments of the coronavirus pandemic, betting on the financial position of the company and the leadership of the new management team led by Emanuel "Manny" Hilario. It did not take long for the market to prove us right. On the one hand, the cost containment achieved by the company during this difficult period, as well as the bet on home food delivery—leveraging heavily on social networks with 1.5 million subscribers—and, on the other hand, the gradual increase in occupancy rates, as well as the reopening of some restaurants in cities with greater restrictions, allowed **ONE** to maintain the same level of debt (it did not burn cash) in an absolutely hostile environment for this type of business. However, given its good future prospects, its share price has multiplied several times since our purchase, so, with a very low upside left, we decided to sell.

Finally, it is interesting to remember that **ONE**'s business is very similar to that of **Tang Palace**, the other investment in the restaurant sector that we initiated right in the middle of the pandemic and whose business is also beginning to reflect the gradual recovery of activity, as well as the good work of its management team. In the case of this Hong Kong company, despite the good stock performance, we continue to see an attractive upside potential.

Stake increases & new stakes:

FINANCIALS

Exposure trimmed from 22.2% to 20.9%
Holding discussed: Semapa (5.6%)

The Portuguese holding company **Semapa**, owner of 69.4% of the paper company **The Navigator Company** ("Navigator"), is another of the companies in our portfolio that received a takeover bid during the period. It was launched in mid-February by Sodim, a holding company controlled by the Queiroz Pereira family

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and owner of c. 74% of **Semapa**. As my colleague Miguel already explained on a Twitter thread (see here), we think that the offer price of 11.40 euros per share is far from a reasonable valuation of the company. To give you an idea of why we say this, at the takeover bid price, the dividend that **Semapa** receives from Navigator represents a 12% annual yield on its Enterprise Value (market capitalization plus net debt). In fact, if **Semapa** were to pay no dividend for the next two years and repay its debt, this yield would rise to 15%. On the other hand, if we consider the €1,377 million market value of **Navigator** at the time of the takeover bid, plus the €410 million we think the cement (Secil) and environmental (ETSA Group) divisions are worth, we see that the price was far from the 18.70 euros of market value of the company at that time. However, the discount is even greater if we take into account that **Navigator** is trading, in our opinion, below its intrinsic value (4 euros per share). Based on our valuation, **Semapa** should be trading at around 26 euros per share, that is, around 130% above the price offered by Sodim.

The market, of course, interpreted the situation in the same way as we did, and was quick to price **Semapa** shares above the offer price. It soon became clear in the press that the company's institutional shareholders, mostly independent asset management companies like ours, were also unhappy with the price. After several weeks, on April 7, Sodim decided to increase the offer price to 12.17 euros (6.75% more). We continue to believe that this price is very far from **Semapa**'s intrinsic value, so Horos will turn down this takeover bid and, unless the terms are substantially improved, we are confident that it will not succeed, as it would be the best option for its minority shareholders.

REAL ESTATE

Exposure increased from 16.9% to 24.2%
Holdings discussed: Kaisa Prosperity Holdings (3.7%), Power REIT (3.3%) and Merlin Properties SOCIMI (1.9%)

Kaisa Prosperity Holdings ("Kaisa Prosperity") is a Chinese real estate services company and a subsidiary of **Kaisa Group**, a Hong Kong-listed real estate company, which controls c. 67% of the shares and which spun-off this division in 2018. Specifically, **Kaisa Prosperity** operates four business lines: property management services, consulting and pre-sales services, value-added services and, finally, smart solutions services. Currently, the company has about 325 properties under management, spread across 44 cities and 15 provinces, municipalities and autonomous regions in China. Although historically very dependent on revenues from services offered to its parent company**, Kaisa Group**, the company has been reducing its exposure each year, and this trend has accelerated since its IPO, as it has been focusing on inorganic growth (acquisitions). In fact, in June 2020, they

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raised capital to further boost this role as a consolidator in a highly fragmented industry.

As for **Kaisa Prosperity**'s valuation, it is a very profitable business (operating margins above 20%) with low capital requirements, which results in a significant cash generation capacity (13% yield). In addition, the company has a very robust balance sheet, with a comfortable net cash position that represented, at the time of our investment, around 50% of its market capitalization. We believe that the stock decline caused by the pandemic over the last twelve months has created a great investment opportunity in this company, which is of a reasonable quality and has the capacity to significantly increase its cash flow generation over the next few years.

The second new position we have initiated during the period is **Power REIT**, a US company that has made a 180-degree change to its business model with the arrival of its new CEO and main shareholder, David Lesser. Specifically, **Power REIT** was historically dedicated to operating a very long-term railway concession, but with the arrival of Lesser, they changed their focus to concentrate on investing in renewable assets and, especially, in greenhouses for the cultivation of cannabis for medicinal purposes. Precisely, greenhouses are the main attraction of this investment. The reason? As they are slowly being legalized, with the added bonus of the bad press they may still have, there is not a well-developed market for financing this type of project. **Power REIT** is taking advantage of this situation to acquire greenhouses and then rent them out for long term operation, earning high returns in the process. At the time of our investment, the company had very promising growth opportunities, which will materialize over the next few months. In this sense, the capital raise carried out in January contributes to achieving these goals, while creating significant shareholder value.

Finally, we also added **Merlin Properties SOCIMI**, a company that we have already mentioned on several occasions, as it is one of the top holdings in Horos Value Iberia. Its excellent management team, its solid balance sheet and the quality of its assets, along with a very attractive valuation at current prices, are the reasons for adding it to Horos Value Internacional.

HOROS VALUE IBERIA
Stake decreases & exits:

COMMODITIES

Exposure trimmed from 19.0% to 15.4%
Holdings discussed: Ence Energía y Celulosa (exited), Aperam (3.1%) and Acerinox (2.9%)

We decided to sell our stake in **Ence Energía y Celulosa** ("Ence"), due to the excellent performance of its share price since we invested in the company. Thus, in just a few months, all the upside we expected from this company has been realized. If you recall, last quarter we initiated this position following the announcement of the sale of 49% of its energy business—unrelated to the pulp activity—and the inefficiency that was evident at the time. Namely, at the sale price, the market valued **Ence**'s pulp division at virtually zero. Indeed, the inefficiency did not last long, and in a short period of time, the share price rallied, helped by a recovery in pulp prices. Then we took the opportunity to exit with significant capital gains.

We trimmed our exposure to our stainless-steel companies, **Aperam** and **Acerinox**, following their strong stock performance (**Aperam** in particular). Both **Aperam** and **Acerinox** have benefited, first, from the price recovery in Europe, as a result of the increase in demand, especially from China, which has largely absorbed the excess capacity in this market. And second, from the lower imports from Asia, due to the increase in freight costs and the tariff measures imposed in Europe. In addition, the companies have seen a significant margin increase in the period, due to the price gains since the fourth quarter of 2020. Finally, we believe that their strategy of focusing on higher value-added products (such as specialty alloys) will contribute to improving the competitive positioning of both companies and the future profitability of their business. If we add to all this their solid financial structure, cash generation capacity and attractive valuation, it is reasonable for us to maintain a 6% allocation combined.

OTHER

5.3% of the fund
Holdings discussed: Greenalia (exited), Meliá Hotels International (2.6%) and Catalana Occidente (4.9%)

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There is little new to comment on these holdings, other than their solid performance. In the case of **Greenalia**, a renewable energy company, we already reported last quarter that we had significantly trimmed our stake, after it had risen by more than 80% over the past year. It continued its run at the beginning of 2021, so we sold our entire position.

Regarding stake decreases, **Catalana Occidente** has again performed extremely well, demonstrating to the market, as we argued months ago, that its credit insurance business is going to get through the current crisis with flying colors. We continue to believe that the market is not taking into account the underlying earnings power of this division, nor is it putting any value on the more than 800 million euros of excess capital that the company has, which could be used to make accretive acquisitions, as its excellent management team has historically done.

Finally, **Meliá Hotels International** ("Meliá"), where the business situation remains challenging, as it cannot be otherwise given the current environment. That said, an early glimpse of an eventual recovery is beginning to emerge. In addition**, Meliá** is considering divesting assets for between 150 and 200 million euros. All in all, the change in market sentiment, due to the greater future visibility with the arrival of the COVID-19 vaccines, has contributed to a large increase of its share price in recent months, reaching over 7.30 euros per share in March (around three times higher than the lows of March 2020). Although we continue to see upside, we have been adjusting our valuation downwards in recent quarters, in light of the business' cash burn and the deterioration in the value of its assets.

Stake increases & new stakes:

FINANCIALS
Exposure increased from 16.8% to 19.9%
Holdings discussed: Semapa (10.7%), Corporación Financiera Alba (4.0%) and Alantra Partners (0.3%)

We have already explained our view of the takeover bid received by **Semapa** in our commentary on Horos Value Internacional.

Corporación Financiera Alba ("Alba") is another company that has been involved in several corporate transactions during the quarter, although, in this case, in two of the portfolio companies of this investment holding company: **Naturgy** and **Euskaltel**. The first one took place at the end of January, when IFM announced that it was launching a partial takeover bid for 22.69% of **Naturgy**, a company in which

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Alba indirectly controls 5.5% of the capital, representing, in NAV terms, 15% of the holding's total value. The company has announced that it will not participate in the transaction. On 28 March, the telecommunications company **MásMóvil** announced that it was launching a takeover bid for **Euskaltel**, in which **Alba** holds 11%. In terms of NAV, **Euskaltel** represents just over 4%. In this case, **Alba** has already announced its commitment to accept the takeover bid.

These deals, coupled with the takeover bid received by **Bolsas y Mercados Españoles** in 2019, of which **Alba** was the main shareholder (c. 12% of the company), demonstrate the value of this holding company's investments and how the current discount at which it trades the stock is unjustified. Although we would like the management team to be more active in creating value for shareholders, we believe that the margin of safety of this investment is very high, which is why it remains one of Horos Value Iberia's top positions.

Lastly, this quarter we acquired a stake in another historical holding in our Iberian portfolio: **Alantra Partners** ("Alantra"). We took advantage of its solid business performance in recent years, something that has not yet been recognized by the market, to invest again, for the fourth time in our professional career, in this asset management company. Despite the difficulties of 2020, **Alantra** has demonstrated the resilience of its business, making nearly 24 million euros in earnings. In the future, we expect to see an earnings recovery as the credit activity normalizes, which was particularly hit during the past year due to the paralysis of its activity in an environment of a liquidity shock that hindered the type of transactions that **Alantra** advises on.

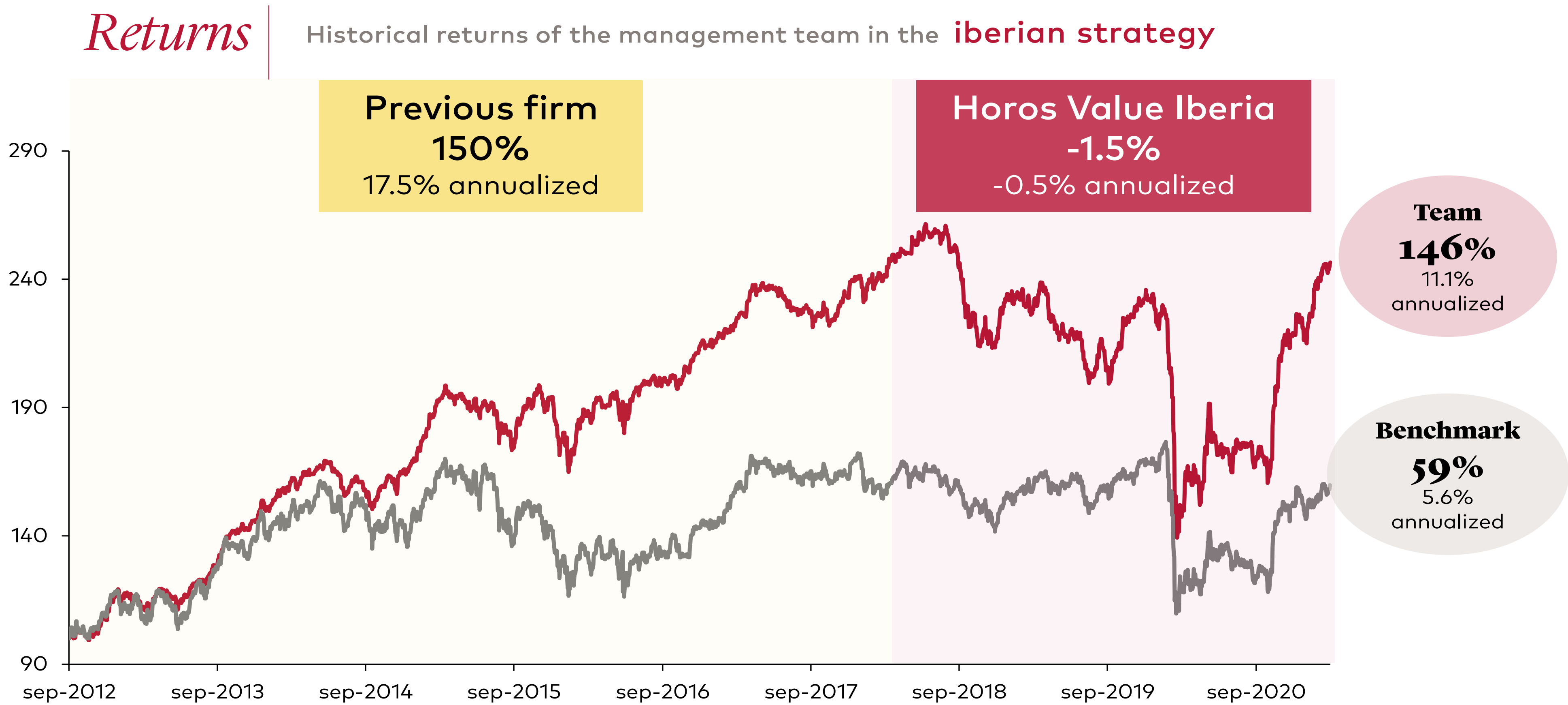
On the other hand, **Alantra** has a very healthy financial position (adjusted net cash accounts for around 30% of its market capitalization), in addition to minority stakes in other companies in the sector, which the market does not value at all. This, along with an excellent management team and staff, fully aligned with shareholders' interests, as well as a strong cash generation capacity, led us to reinvest in this great financial company.

OTHER

1.4% of the fund
Holding discussed: Sonae (6.8%)

We added to our position in the Portuguese company **Sonae**, given the strength shown by its food distribution business (Sonae MC) during the year, increasing its sales and margins as well its market share in the Portuguese market. In addition, the current management team, led for the last few years by Claudia Azevedo (remember that the Azevedo family is the main shareholder of Sonae), is taking the necessary operational measures to create shareholder value. Among others, we would like to highlight the restructuring of Worten Spain in 2021, with the sale of 17 stores to MediaMarkt and the closure of another 14 (maintaining a physical presence in the Canary Islands), betting heavily on online sales, after years in which they have failed to achieve adequate profitability. Likewise, last 2020 the company increased its stake in **NOS** by c. 7.4%, taking advantage of the legal problems of another of its significant shareholders (Isabel do Santos). All in all, taking into account the valuation of all the company's businesses and the good performance of its management team, **Sonae**'s market capitalization is far below its fair value.

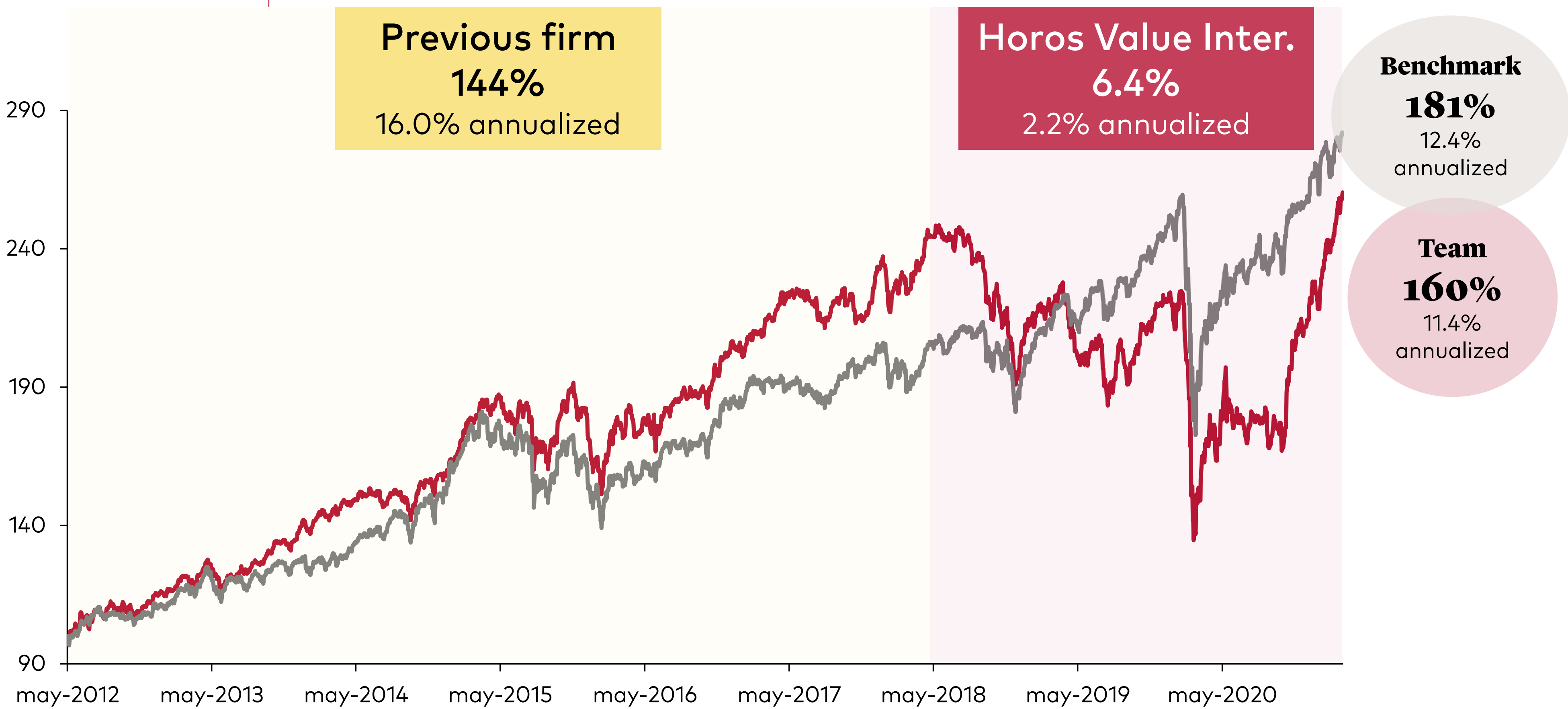
Annex



Past performance is no guarantee of future performance. The Fund's investments are subject to market fluctuations and other risks inherent to investing in securities, so the acquisition of the Fund and the returns obtained may vary both upwards and downwards and an investor may not recoup the amount initially invested. Decisions to invest or divest in the Fund must be made by the investor in accordance with the legal documents at all times, and in particular on the basis of the Regulations and the Fundamental Data for the Investor (DFI) of each Fund, accompanied, where appropriate, by the Annual Report and the last quarterly Report. All this information, and any others, will be available to you at the headquarters of the Manager and through the website: www.horosam.com

Returns

Historical returns of the management team in the **international strategy**



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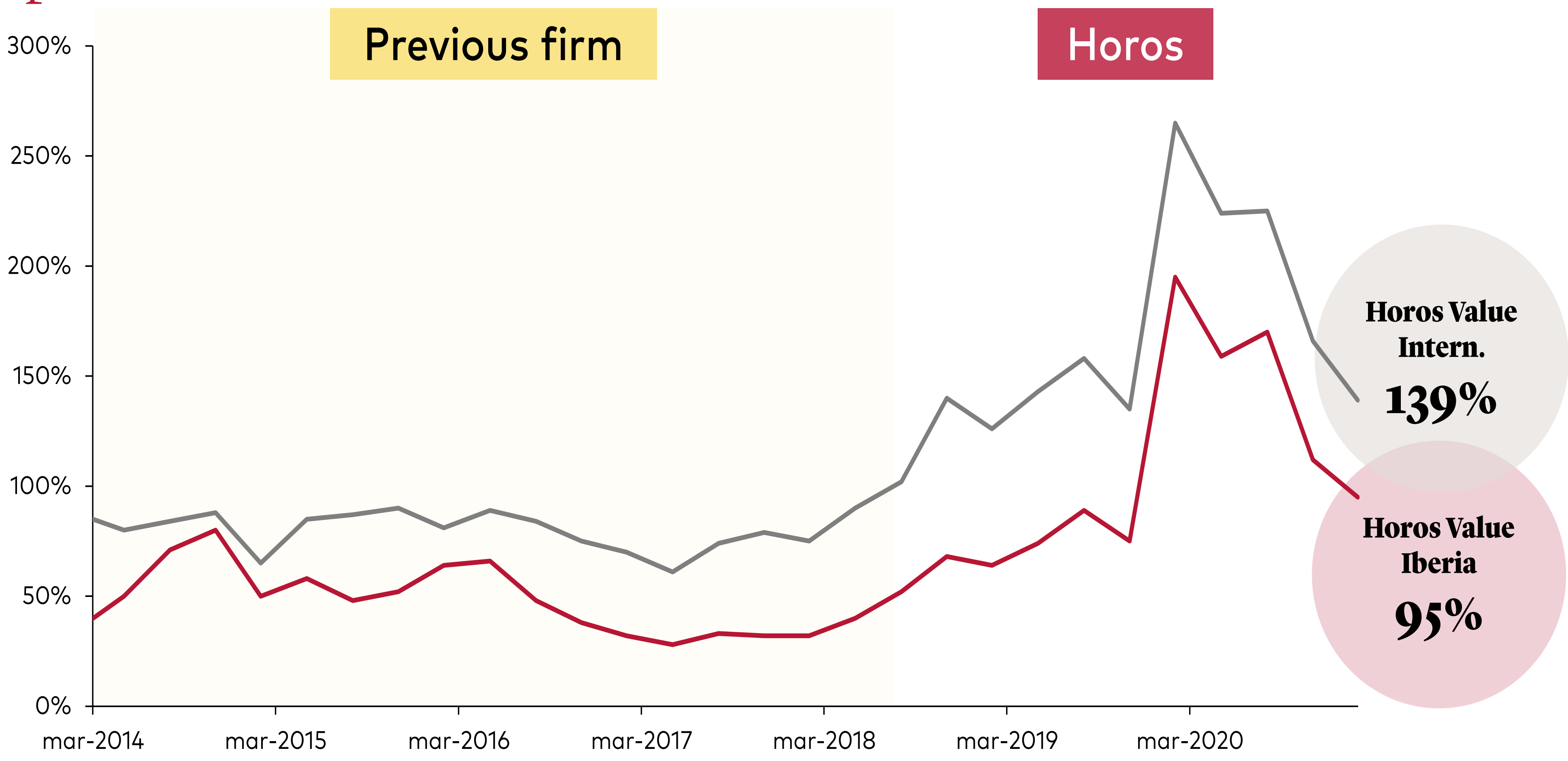
Upside potential

Historical potential of the management team

Data from 31 March 2014 to 31 March 2021

**Until 21 May 2018 includes the potential of the management team in its previous firm and since then in Horos AM.*



Top 10 Holdings
Horos Value Iberia

Holding	%	Theme
Semapa	10,7%	Financial
Merlin Properties	7,8%	Real estate and construction
Sonae SGPS	6,8%	Distribution
Horos Value Internacional	6,5%	Financial
Catalana Occidente	4,9%	Financial
Elecnor	4,9%	Engineering
Renta Corporación	4,4%	Real estate and construction
Ercros	4,4%	Commodities
Gestamp	4,3%	Industrial
Corp. Financiera Alba	4,0%	Financial

Top 10 Holdings
Horos Value Internacional

Holding	%	Theme
Semapa	5,6%	Financial
Aercap Holdings	4,7%	Financial
Asia Standard	4,2%	Real estate and construction
Teekay Corp.	4,0%	Commodities
Catalana Occidente	3,9%	Financial
Yellow Cake	3,8%	Commodities
Kaisa Prosperity Holdings	3,7%	Real estate and construction
Uranium Participation	3,6%	Commodities
Keck Seng Investments	3,5%	Real estate and construction
Fairfax India	3,5%	Financial