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MENT

QUARTERLY LETTER
TO OUR CO-INVESTORS

AUGUST 2024

AUGUST 2024

Dear co-investor,

After wrapping up the second quarter of 2024, we can highlight few new developments in financial markets. The reality is that the euphoric dynamics in the technology sector persist, to a greater or lesser extent, pushing the U.S. stock market to new highs and helping this market to continue outperforming most other regions. This letter will focus on the potential unsustainability of this and the importance of investing with a high margin of safety.

Against this market backdrop, our Horos Value Internacional and Horos Value Iberia funds posted returns of 0.7% (6.6% in 2024) and 2.1% (3.2% in 2024), respectively, over the quarter. Of course, as we always point out, these results are purely anecdotal, as our goal is to generate sustainable and satisfactory returns over the long term. Hence, we always share the performance that Alejandro, Miguel and I have achieved in our joint career as a portfolio management team. Specifically, at the time of writing, the cumulative returns over more than twelve years of track record amount to 281% and 216% or, in other words, 11.7% annualized in the international strategy and 10.3% in the Iberian strategy.[1]

These returns have led our Horos Value Internacional fund to rank at the top of its category in the 5-year ranking prepared by the prestigious investment fund analysis firm Citywire, with Horos Value Iberia in second place in its category (see **here**). Undoubtedly, these data confirm the importance of investing with a long-term vision and give us the energy to remain faithful to our investment process.

Thank you for your confidence.

Yours sincerely,

Javier Ruiz, CFA
Chief Investment Officer
Horos Asset Management

[1] As of July 10, 2024. The data includes the performance of the portfolio management team in its previous professional period working for another asset management firm (from May 31, 2012 for the international strategy and September 30 for the Iberian strategy, until May 22, 2018 in both cases, when they joined Horos AM).
Past performance is not a guarantee of future performance.

Executive summary

The margin of safety is always dependent on the price paid. For any security, it will be large at one price, small at some higher price, non-existent at some still higher price.
— Benjamin Graham

The performance of the stock markets in the first half of 2024 maintained the same dynamics of recent times, in which the artificial intelligence boom continues to boost the growth of large technology companies, while at the same time fueling continued optimism about their future among the investment community. At Horos, we do not know if this trend will continue in the future, nor do we know what the ultimate outcome will be. What is clear to us is that a maxim to achieve satisfactory and sustainable returns over the long term is to invest in situations that offer a high margin of safety, as we will point out throughout this quarterly letter.

As usual, we will also discuss the most significant changes that we made to our portfolios during the second quarter. Among others, we can highlight that Horos Value Internacional initiated a new position in the U.S. telecommunications holding company **Liberty Global**. In addition, we sold our entire positions in the U.K. financial company **S&U**, in the investment holding **Pershing Square Holdings** and in the liquefied natural gas carrier **Cool Company**. We also exited our residual positions in the cannabis-related companies **Power REIT** and **Millennium Sustainable Ventures**. Finally, the SOCIMI (REIT) **Árima Real Estate** was added to Horos Value Iberia.

That illusory idea called reality

Reality is that which, when you stop believing in it, doesn't go away.
— Philip K. Dick

In the previous quarterly letter (see **here**) we reviewed the history behind the emergence and explosive growth of index funds. Specifically, we talked about the role played by the work of Bachelier, Samuelson and Fama in the development of the theory of market efficiency and its impact on the emergence and later dominance of entities such as **Vanguard** and **BlackRock**, managers of these passive products. In the 1950s and 1960s, other academics, such as **Harry Markowitz** and his disciple **William Sharpe**, developed another theoretical framework of enormous relevance for the asset management industry with the various essays presenting their models of portfolio management (also known as the Markowitz model) and financial asset valuation (CAPM or Capital Asset Pricing Model).[2] In particular, they explained how an investor can estimate the expected return of a stock and how to allocate, in the most efficient way, a portfolio of assets. This work by Markowitz and Sharpe led them to achieve the highest possible academic recognition, being awarded the Nobel Prize in Economics in 1990. However, as one of the many aphorisms attributed to the baseball player Yogi Berra so aptly puts it:

> *In theory there is no difference between theory and practice. In practice there is.*[3]

Why do I say this? Because, as Jaime Rodríguez de Santiago reminds us in his highly recommended book ***La realidad no existe*** (Reality does not exist), what we call reality is so extremely complex that we humans are not capable of fully capturing it, much less of understanding it.[4] That is why we need simplifying models of reality that can evolve and be improved. Indeed, models are extraordinary and essential tools to help us better understand everything around us and, in this way, be able to aspire to make the best decisions. **The problem is when we forget that models are simplifications of reality**.

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[2] Markowitz H. (1952) "Portfolio Selection", Journal of Finance, Vol. 7, No 1., pp. 77-91; Sharpe, William F. (1964) "Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk." Journal of Finance. Vol. 19, No. 3, pp. 425-42.
[3] In fact, this phrase has also been attributed, among others, to the physicist Albert Einstein.
[4] Rodríguez de Santiago, Jaime (2023). *La realidad no existe: Cómo entender el mundo cuando entiendes que no entiendes nada* (Reality does not exist: How to understand the world when you understand that you understand nothing. Only available in Spanish). AGUILAR.

Understanding the world begins with accepting our own limitations in understanding it.[5]

For whom the bell tolls?

Therefore, send not to know for whom the bell tolls, it tolls for thee.
— John Donne

The concepts and ideas embodied in Markowitz and Sharpe's work are useful for intuitively understanding basic aspects of investing, such as the risk-return tradeoff or the general factors that impact the expected return of a stock. However, there is a vast gap between grasping these basics and blindly applying these simplifications to make investment decisions. Possibly, of all the simplifications used by Markowitz and Sharpe in their models, the most damaging have been the assumption of a normal distribution in the returns of financial assets and the assimilation of volatility as a measure of the risk of an investment. There is little left to comment on the second idea that has not already been said on countless occasions. Since Benjamin Graham and his allegory of Mr. Market, the value investing community has amply demonstrated why volatility does not equal risk and, in fact, why it is almost always an opportunity to be exploited:

Market is there to serve you, not to guide you.[6]

The assumption of normality refers to the probability distribution discovered by Abraham de Moivre in 1733 and later popularized by Pierre-Simon Laplace and Carl Friedrich Gauss. This statistical method states that many phenomena can be explained and estimated by knowing their mean and variance (dispersion versus mean). The graphical representation of its density function is a bell, so it is also known as a **Gaussian bell**. In this normal distribution (and this is the interesting thing I want to emphasize) the most extreme observations are highly improbable and, moreover, have little impact on the mean. Think, for example, of a sample of thousands of people whose height we measure. Taller and shorter people do not affect the mean of that sample very much. The same is true for their life expectancy. We can assume, therefore, that their distribution is normal. However, here lies the crux of the matter: the fact that this statistical tool is suitable for certain areas does not make it valid for all areas.

[5] *Idem*.
[6] Warren Buffett's letter to Berkshire Hathaway shareholders in 1987. https://www.berkshirehathaway.com/letters/1987.html

It certainly loses all its descriptive and predictive power in the investment world. Ignoring this reality has been largely responsible for historical financial disasters, such as the collapse of Long-Term Capital Management or the implosion of countless portfolios managed based on the VAR model and the like (an evolution of Markowitz's ideas) in the Great Recession of 2008.[7] **Whether we like it or not, financial markets do not belong to the normal Gaussian world, but to the world of extremes** or, following Nassim N. Taleb, to the province of **Extremistan**.[8]

A world of extremes

Its nickname in this book is GIF, Great Intellectual Fraud.
— Nassim N. Taleb on the Gaussian bell curve

But what is Extremistan? To explain it, Taleb also introduces another more vulgar and boring province, as its name suggests, **Mediocristan**. In this province, there are no great differences or extreme events of great impact. The measurement of the height or the life expectancy of humans, which we saw before, would be examples of this. Also the income distribution of occupations whose product or service is not very scalable, such as that of a plumber or a cab driver. In this province of Mediocristan, the tyranny of the majority reigns and, therefore, the Gaussian bell does have a place as a descriptive and predictive model. However, **Extremistan** is a totally different world. In this province, a single unit can disproportionately affect the whole to which it belongs. Of course, this also applies to those events with the lowest probability of occurring. Hence, this type of universe is more prone to suffer the famous Talebian **black swans** (improbable and unpredictable events of great impact).

Another very interesting characteristic of Extremistan is that, in this province, there are dynamics of concentration derived from its scalability. Think, for example, of the success of novel writers. How many best-selling authors exist out of the total number of people who publish a novel every year? Very few. The bulk of sales in Spain is monopolized by authors such as Pérez-Reverte, Gómez-Jurado or Posteguillo, to name a few that come to mind now. Therefore, total and average book sales are greatly affected by these few successful writers. As many will have thought reading these lines, the same dynamic occurs with the distribution of wealth, as already anticipated in 1906 by the Italian economist **Vilfredo Pareto**. Specifically, Pareto observed that approximately 80% of land was concentrated in

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[7] Mayer, T. (May 20, 2021). Por qué la Teoría Financiera Moderna está condenada al fracaso. *FundsPeople*.
[8] Taleb, N. N. (2008). *The Black Swan: The Impact of the Highly Improbable (English Edition)*. Kindle version. Penguin.

the hands of 20% of the Italian population.[9] This principle, which became known as the Pareto principle or the 80/20 rule, was gradually extended to other areas, such as health or productivity, demonstrating its explanatory effectiveness. Of course, these percentages are not rigid, but the general sense of the principle always prevails.

If we focus on financial markets, there are countless studies that show that not being invested in *only* the ten best performing days of the market over an entire decade can have a dramatic negative impact on our returns.[10] Or, to put it another way, a few days account for a very substantial part of the market's long-term performance. **This is the futility and danger of trying to anticipate market moves and why we recommend our co-investors to make consistent contributions**. In short, the phenomena occurring in the province of Extremistan are not governed by the normal principles of the Gaussian bell, but show dynamics such as those envisaged by Pareto and his subsequent principle. Strictly speaking, the normal probability distribution gives way to the so-called **potential laws**.

An area of investing that is clearly governed by these laws is venture capital. In this area, the managers of these vehicles invest in private (unlisted) companies that are usually just starting out as businesses or that still need capital contributions to increase their growth and consolidate their position in the sector in which they operate. As these are companies in the making, many of them are unlikely to survive. For this reason, the portfolios of a venture capital fund usually show a performance as described by potential laws, where a small percentage of the investments is responsible for almost all of the portfolio's return.[11]

However, is this type of behavior in the performance of venture capital funds also applicable to other more "mundane" environments, such as stock market indexes? This is certainly a very pertinent question in view of what has been happening in the equity markets for some time now.

A phenomenon never seen before?

It is possible to have too much of a good thing.
— Aesop

[9] Pareto, V. (1896–1897). Cours d'Économie Politique (in two volumes). F. Rouge (Lausanne) & F. Pichon (Paris).
[10] Stevens, P. (May 24, 2021). This chart shows why investors should never try to time the stock market. *CNBC*.
[11] To learn more about the exciting history of venture capital, I recommend reading Mallaby, S. (2022). *The Power Law: Venture Capital and the Art of Disruption*. Penguin.

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As we have been highlighting in recent quarterly letters (see here), the U.S. stock market has become much more concentrated in recent years. Thus, the 5 largest capitalization companies in the **S&P 500** index account for around 29% of the value of this market, compared to 16% at the beginning of 2020 or 12% in 2017.[12] This increased concentration, as well as the speed with which it has occurred, has raised suspicions around its sustainability. For this reason, Michael Mauboussin (one of the market analysts we most respect) and Dan Callahan recently published a study addressing this issue and reaching some very interesting conclusions.[13] On the one hand, they point out that, although the current concentration of the U.S. market is high, it was also high in the 1930s and 1960s, so we have similar historical precedents. Not only that, although the focus is on U.S. markets because of their relevance, the reality is that many other indexes are much less diversified. For example, the market capitalization of the 10 largest companies on the Swiss, French, Australian, German or U.K. stock exchanges accounted for between 35% and 60% of their respective markets at the end of 2023. On the other hand, and in my opinion more relevant, they dedicate some pages to analyze whether this concentration is supported by fundamentals or, in other words, if there are signs of a bubble in these companies.

To do this, the two authors analyze the contribution in terms of economic profit of the ten largest companies in the U.S. market compared to the rest.[14] In this regard, the result is convincing: these ten firms contributed 69% of the total economic profit of the U.S. stock market in 2023. This same study shows that, over the last ten years, the average contribution was 47%. In short, **these companies have created far more value and profits for their shareholders than the rest of the market.** Indeed, if we look at which companies make up this select group, we conclude that (almost) all of them have excellent businesses, with competitive advantages and barriers to entry that have been difficult to overcome in recent years. Additionally, they have greatly benefited from the rise of artificial intelligence (AI). **Nvidia**, **Alphabet**, **Microsoft**, **Amazon** and **Apple** have seen their cash generation grow year after year, taking advantage of a tailwind that seems to have no end in sight. As a result, the stock market performance of these companies has been stellar. To give you an example: so far in 2024, the five companies I have just mentioned have posted, on average, a 41% return. This compares with 19% for the S&P500 and 11% on average for the other 495

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[12] Goldman Sachs Global Investment Research (July 18, 2024). Market Capitalization of Five Largest Companies as share of S&P 500 Total. *ISABELNET*.

[13] Mauboussin, M. J. and Callahan, D. (June 4, 2024). Stock Market Concentration. How Much Is Too Much? *Morgan Stanley Investment Management*.

[14] Mauboussin and Callahan define economic profit here as value creation (i.e., excess of the return on invested capital over the cost of capital of the business, or ROIC - WACC) multiplied by invested capital. Thus, **Economic Profit = (ROIC - WACC) x Invested Capital**.

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companies that make up the index.[15] Obviously, this stark difference in performance has made life extremely difficult for those active managers who have stayed away from these market darlings over the past few years, as we already discussed in our previous quarterly letter.

This is precisely the last salient point of Mauboussin and Callahan's study. In all those periods in which the concentration of the U.S. index has been increasing, active management has found it almost impossible to beat or even come close to the performance of the U.S. benchmark. However, **one thing is whether there is excessive concentration in the U.S. stock indexes or whether there are signs of a bubble, and another, quite different, is whether expectations about the future business performance of these companies leave a sufficient margin of safety**. If not, this concentration dynamic may be reversed, which would have profound implications for market behavior and, of course, for the performance of active managers like us who deviate from our benchmarks.

> *Where we go from here is anyone's guess, but assessments of sustainable competitive advantage and growth will be central to determining that path.*[16]

Got NVDA envy?

In the end, trees don't grow to the sky, and few things go to zero. Rather, most phenomena turn out to be cyclical.
— Howard Marks

As many readers of our quarterly letters will have noticed, this has been a recurring theme, approached from different angles, over the past year. Therefore, we will not delve into ideas we have already discussed. I will simply remind you that the **artificial intelligence** boom has sparked significant interest from the investment community in large U.S. tech companies (see **here**); that markets are **complex adaptive systems** and the lack of latent heterogeneity in U.S. indexes may be making these markets more fragile and susceptible to a major reversal in behavior (see **here**); and, lastly, that the rise of **index funds** could be having a considerable impact on this dynamic (see **here**). However, I would like to emphasize the dangers of assuming overly optimistic expectations for the future performance of companies, or in other words, why investing with a small margin of safety could be fatal for us as investors. To illustrate this, I will present three historical examples that show what happens after a sustained divergence in market behavior between

[15] Goldman Sachs Global Investment Research (July 19, 2024). Indexed Return. *ISABELNET*.
[16] Mauboussin, M. J. and Callahan, D. (June 4, 2024). *Idem*.

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different investment themes or when a sector or type of company trades at a valuation that leaves very little room for disappointment in the future performance of its business.

Let us start with what happened in the **late 1990s**, when the internet boom led the U.S. technology sector into the infamous dotcom bubble, in which the valuations of tech companies soared to irrational levels. We all know how this story ended. However, what is often overlooked when looking back at this period is what happened in other markets; more specifically, in emerging markets in Asia. During those years, some Southeast Asian countries, which had been dubbed the **Asian Tigers** due to their spectacular growth, experienced one of the most significant financial crises of the past century. This crisis led to major currency devaluations, a sharp economic contraction, and the consequent collapse of their financial assets. This environment was perfect for a divergence in performance between the U.S. and Asian stock markets, as highlighted by the investment firm Packer & Co in their latest quarterly letter and by manager Richard Lawrence in his excellent book *The Model*.[17] With the burst of the dot-com bubble and the resurgence of Asia, the tables eventually turned, and emerging markets posted one of the best relative and absolute performances in their history. As Lawrence aptly reminds us in his book:

> *Valuations near the end of bear markets become so compelling that years later you wonder how stocks ever got that cheap.*[18]

A second example, much more recent, occurred during the period of the most intense global lockdowns that we experienced during the coronavirus **pandemic**. During those times, businesses that were better adapted to thrive under such extreme circumstances saw their market capitalizations skyrocket, reaching levels that became unsustainable. At that time, we already warned why we believed that companies like **Zoom Video Communications** ("Zoom"), specialized in providing videoconferencing services, or **Peloton Interactive** ("Peloton"), with a business focused on facilitating home workout, were pricing in unreasonably high growth in their earnings:

> *We have no idea whether **Zoom** will be able to grow its cash flow generation to five-digit levels, but we do know that the market may be being overly generous with what it is implicitly discounting for this company.*[19]

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[17] Investigator Trust June 2024 Report. Packer & Co (see here); Lawrence, Jr., R. H. (2021). *The Model: 37 years investing in Asian equities*. Harriman House.
[18] Lawrence Jr., R.H. (2021). *Idem*.
[19] Letter to our co-investors Q320 (see here).

Today, **Zoom** has a market value 80% lower than at that time, while **Peloton** has dropped by more than 95%. The conclusions from this example are obvious. On the one hand, if the market valuation discounts an irrational scenario, the share price will eventually overcorrect. On the other hand, even more importantly, one can be right about the future performance of a company (**Zoom** has generated more than 1 billion cash per year over the last three years), but the price paid for that business will determine our return as investors.

One might rightly think that we are discussing very extreme examples. In the first case, based on the comparison of a stock market bubble versus markets hit by a major financial crisis, and in the second, based on a pandemic, where fear and short-termism could have driven certain unsustainable dynamics. Although I believe that these truths do not detract one iota from the validity of both cases, I wanted to leave the example of seemingly indestructible companies for last, and that, over long periods of time, investors tend to value them as such. Six years ago, at our 1st Annual Investor Conference (see here), we discussed the paradigmatic case of the **tobacco** sector. For decades, the market valued these companies at very high multiples, taking for granted a perennial certainty in their cash generation capacity. However, structural changes in tobacco consumption and the emergence of real alternatives led to the classic multiple contraction. Thus, companies that were always valued at between 20 and 30 times earnings are now trading at multiples of just over 10 times. Tobacco is not the only sector to have experienced this situation. More recently, we are seeing a similar dynamic in the **premium alcoholic beverages** sector. Thus, companies such as **Diageo** (owner of brands such as Johnnie Walker, Smirnoff, Tanqueray or a percentage of Moet Hennesy), **Pernod Ricard** (Absolut, Beefeater, Chivas or Jameson, among others) and **Brown-Forman** (Jack Daniels or Woodford) have seen their share prices plummet between 35% and 40% in recent months, after years of steady rises and increasingly unjustified valuations, due to the slowdown in consumption in China. A good reminder of the importance of investing with a margin of safety.

Does this mean that technology companies are trading at a crazy valuation and that the only thing that can happen is that they will sharply correct? Certainly not. We have no idea what the future performance of any company on the stock market will be and we understand that the large technology companies are excellent businesses. In fact, we have been shareholders of some of them for many years. However, we continue to see clear signs of exuberance or unsustainability in certain market dynamics. Is it normal for a company like **Apple** to rally 7.5% (the equivalent of $215 billion) for announcing at a developer conference its plans for

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services supported by artificial intelligence? [20] Does it make sense for electric vehicle manufacturer **Tesla** to see its shares rise nearly 90% in less than three months, simply because its CEO re-announced the imminent (and already delayed) launch of its robotaxi service? [21] How logical is it that **Nvidia** (chip manufacturer) has become the world's most valuable company after gaining 800% in value in a year and a half, and that its CEO looks like a rock star who even signs autographs on a woman's chest? [22]

We are not here to shout that the emperor has no clothes. That said, our job is and always will be to be faithful to our research and stock selection process and to invest only in those companies that offer a high margin of safety. In our opinion, it has been easier to find this, for some time now, in another type of companies. I will discuss some of these investments in the final part of this letter.

Main changes to our portfolios

Eschewing certainty can keep you out of trouble. I strongly recommend doing so.
— Howard Marks

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

HOROS VALUE INTERNACIONAL
Stake decreases & exits:

FINANCIALS (14%) & HOLDINGS AND ASSET MANAGEMENT (23%)
Holdings discussed: AerCap (1.5%), S&U (exited) and Pershing Square Holdings (exited)

We continued to reduce our exposure to the aircraft leasing company **AerCap** during the quarter, following its continued strong performance in recent months. Although we still think that the company is trading at attractive levels and, as we have pointed out on other occasions, has one of the best management teams allocating capital, today we find other opportunities that are more attractive.

[20] Mozee, C. (June 11, 2024). Apple market cap surges $215B in rally to record high - where AAPL stands among Mag 7 YTD. *Seeking Alpha*.
[21] Gonzales, F. (July 25, 2024). Tesla's stock falls amid disappointing results and delayed robotaxi. *BPM*.
[22] Cranz, A. (June 5, 2024). Here's Jensen Huang signing a woman's chest. *The Verge*.

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Meanwhile, we fully exited our investment in the U.K. company specializing in financing the purchase of second-hand vehicles, **S&U**, as well as in the investment holding managed by Bill Ackman and his team, **Pershing Square Holdings**. In the case of **S&U**, the relative deterioration of its business, derived from the country's economic weakness and the impacts and uncertainty caused by new sector regulations, led us to be more cautious with our valuation of the company. This, together with a lower tradability (liquidity) of its stock than other alternatives in the portfolio, explains our exit. As for Ackman's vehicle, it has performed very well on the stock market, which reduced its upside potential.

COMMODITIES (12%)

Holdings discussed: Cool Company (exited)

We also sold our stake in the liquefied natural gas carrier **Cool Company**, in order to invest the proceeds in investments with more upside, following an excellent stock market performance.

OTHER

Holdings discussed: Power REIT (exited) and Millennium Sustainable Ventures (exited)

Finally, this quarter we closed our tiny, residual positions in **Power REIT** and **Millennium Sustainable Ventures**. Both entities have been unable to overcome the price collapse experienced by the cannabis sector in the United States, leading them to an unmanageable financial situation.

Stake increases & new stakes:

HOLDINGS AND ASSET MANAGEMENT (23%)

Holdings discussed: Liberty Global (4.9%), Azimut Holding (2.9%), Petershill Partners (2.8%) and Affiliated Managers Group (2.5%)

It was a quarter of significant activity in this area, where we initiated a new stake in **Liberty Global** and increased our exposure to **Azimut Holding**, **Petershill Partners** and **Affiliated Managers Group**.

Liberty Global is a holding company with interests in the European telecommunications sector, with a presence in the United Kingdom, Ireland, Switzerland, Belgium and the Netherlands, among others. The vehicle is chaired

and controlled by the celebrated "cable cowboy" John Malone, whose capital allocation skills over the past decades have generated enormous value for the shareholders of his various companies. True to its philosophy of preferring to pay interest (always using debt in businesses with stable and predictable cash flows) to taxes, **Liberty Global** has repurchased 60% of its own shares in the last 7 years for about $14 billion (for reference, the company is currently valued at about $7 billion). Despite this, **Liberty Global**'s price action has been erratic and negative in recent times, due to the lackluster performance of its telecommunications businesses. Its complex capital structure, with three different types of shares, is not helping to unlock value either.

Against this, we find ourselves with a holding company that trades at a very high discount to the value of its investments and whose management team, aware of this, is taking steps to uncover that value (apart from the already mentioned share buyback). Specifically, last year they announced a battery of strategic measures aimed in this direction, the most relevant being the spin-off of its Swiss telecommunications subsidiary (Sunrise) scheduled for the second half of this year, with a valuation equivalent to 11 or 12 dollars per share, and which will be delivered to shareholders as a dividend. This compares to a share price of around $18 for all of **Liberty Global**, at the time we initiated our position. Therefore, if nothing changes, the remainder of **Liberty Global** would become valued by the market at around $7 per share, once it is distributed as a dividend, compared to a valuation we estimate for the ex-Sunrise group of $18 per share. This great upside potential, coupled with a management team that continually repurchases shares and is taking steps to unlock value, led us to make it one of the top positions of Horos Value International.

In addition, we increased our stake in the Italian advisory, distribution and asset management company **Azimut Holding**, as well as in the companies that invest in other asset management firms, **Petershill Partners** and **Affiliated Managers Group**, due to their greater attractiveness in terms of risk-return compared to other alternatives in our portfolio.

HOROS VALUE IBERIA

Stake decreases & exits:

INDUSTRIALS (29%):

Holdings discussed: Iberpapel Gestión (4.8%)

We slightly trimmed our stake in the **Iberpapel** paper group during the quarter. The reason for this is none other than the emergence of other more attractive investment opportunities.

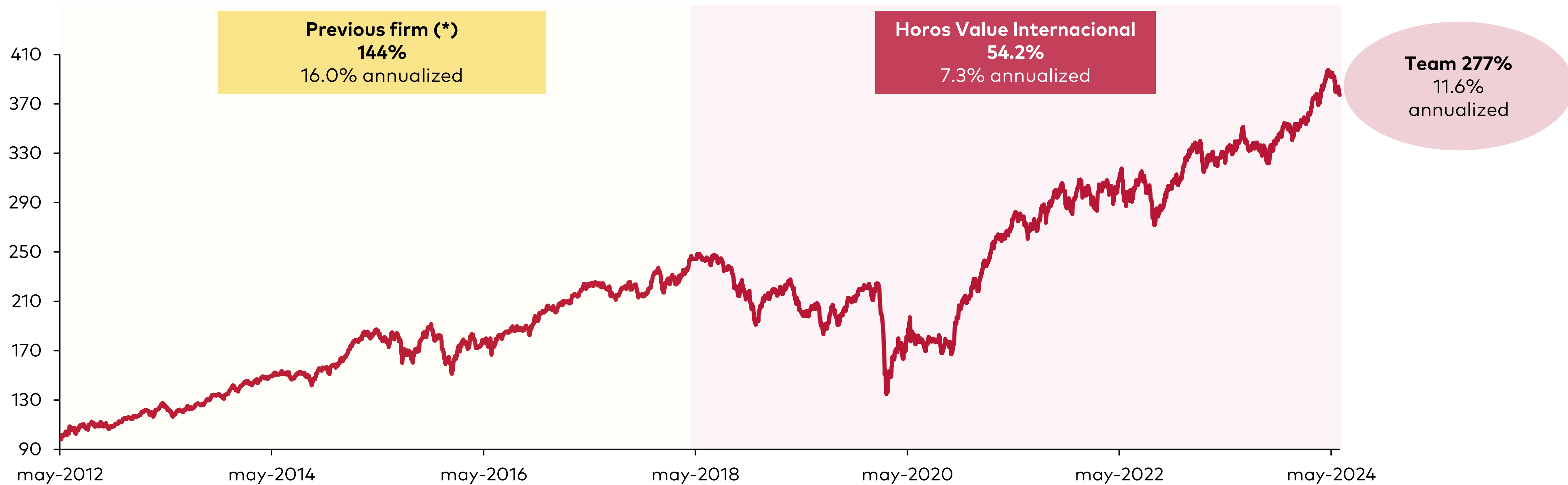
Stake increases & new stakes:

OTHER
Holdings discussed: NH Hotel Group (4.8%) and Árima Real Estate (2.1%)

This quarter, the company that saw its weight increase the most was **NH Hotel Group**. We explained the investment thesis in the previously quarterly letter, so we will not repeat it here. Additionally, we initiated a new stake in the SOCIMI (REIT) **Árima Real Estate**. The reason is simply the discount at which it is trading compared to the takeover bid launched by the SOCIMI **JSS Real Estate** in mid-May at €8.61 per share. The price offered is substantially lower than the net asset value of the company (€11.3 per share at the end of December), so we cannot rule out an upgrade in the conditions offered by the entity controlled by the Swiss bank J. Safra Sarasin.

Returns

Historical returns of the management team in the International Strategy



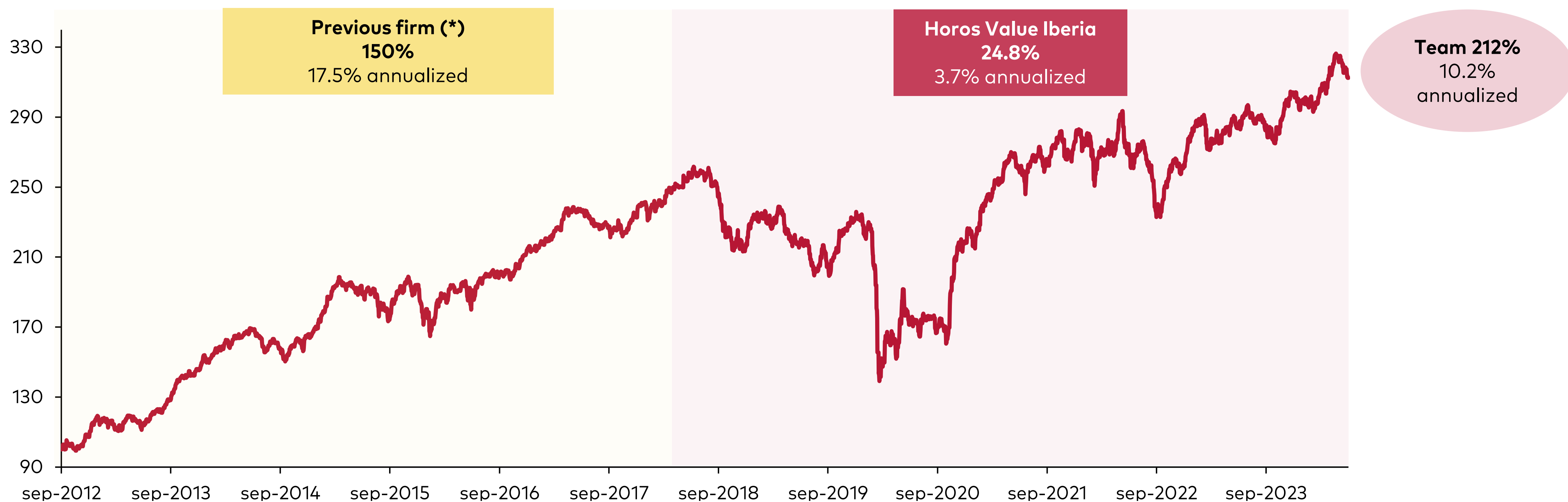
Data cover the period between the 30th May 2012 and 30st June 2024.

*Previous firm returns correspond to the management team performance achieved in their previous profesional stage, where they worked for a different asset management firm. This "previous stage" corresponds to the period between the 30th May 2012 and 22nd May 2018.

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 Iberian Strategy



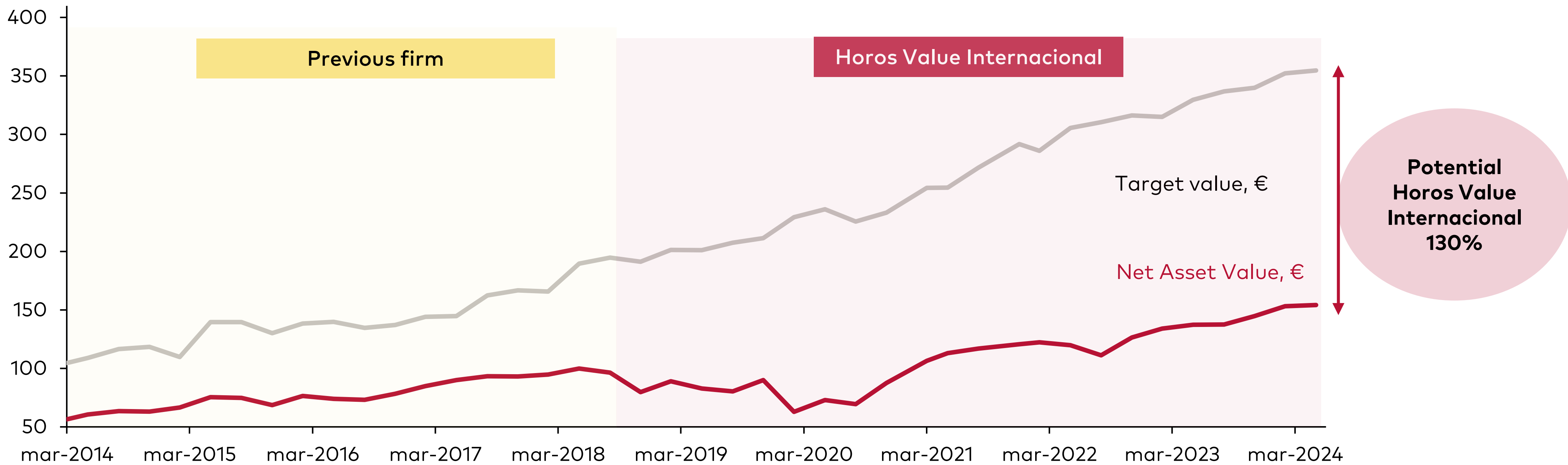
Data cover the period between the 30th September 2012 and 30st June 2024.

*Previous firm returns correspond to the management team performance achieved in their previous professional stage, where they worked for a different asset management firm. This "previous stage" corresponds to the period between the 30th September 2012 and 22nd May 2018.

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

Upside Potential

Target value vs. Net Asset Value of the Management Team



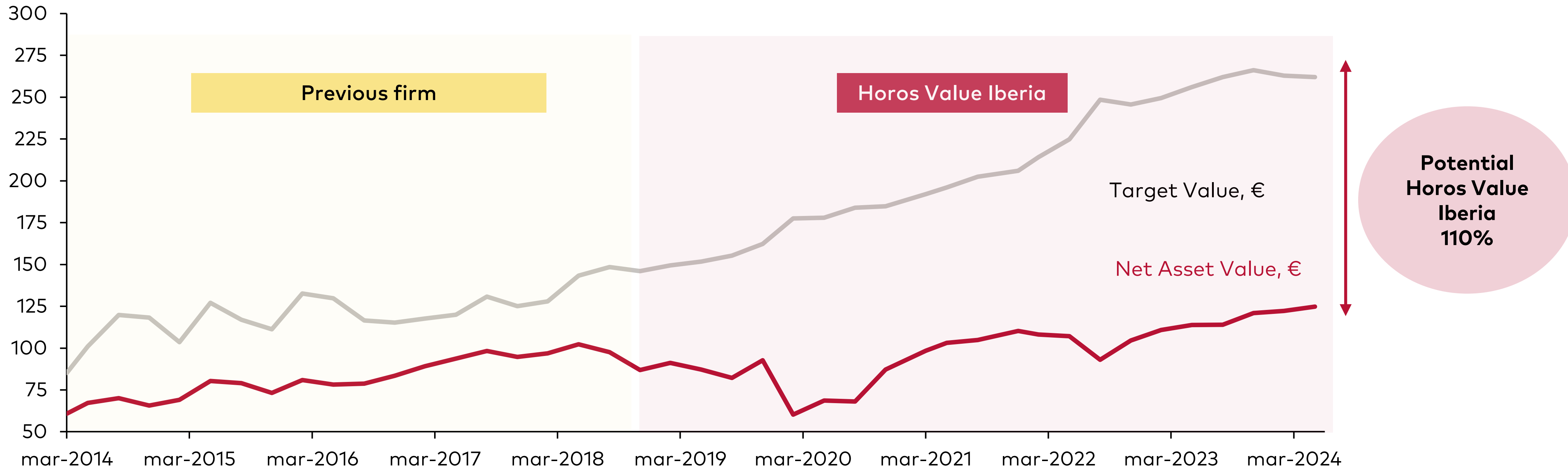
Data cover the period between the 31st March 2014 and the 30st June 2024.

Previous firm data correspond to the period when the management team worked for a different asset management firm. For the NAV calculation, this previous firm performance has been used, and as a base for retrieving the simulated NAV within this period, the NAV of Horos Value Internacional at 23rd May 2018, the day when the management team joins the project.

For the target value calculation, we perform an individual assessment of each Investment included in the portfolio. Specifically, we make a three-year estimate of the value of each company in which we invest. To do this we calculate, in a conservative way, the future cash flows we think the business will generate over the next three years in order to estimate the company future value (understood as market capitalization adjusted for net financial position). Subsequently, with this data we estimate the EV/FCF multiple (future value of the company divided by its normalised free cash flow, adjusting the latter for extraordinary items) at which each company would be priced. Finally, as a result of the qualitative analysis we do on each company, we assign an exit multiple to each investment (how much we think each business is worth trading at) and compare it with the previous figure to estimate the potential or attractiveness of the investment. Occasionally, given the nature of the investments, other generally accepted valuation methods would be used such as sum of parts, discounted cash flow or price to book value multiples.

Upside Potential

Target value vs. Net Asset Value of the Management Team



Data cover the period between the 31st March 2014 and the 30st June 2024.

Previous firm data correspond to the period when the management team worked for a different asset management firm. For the NAV calculation, this previous firm performance has been used, and as a base for retrieving the simulated NAV within this period, the NAV of Horos Value Iberia at 23rd May 2018, the day when the management team joins the project.

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Top 10 Holdings
Horos Value Internacional

Holding	%	Theme
Catalana Occidente	5.0%	Financial
Liberty Global	4.9%	TMT
Naspers	4.6%	TMT
Ayvens	4.2%	Financial
TGS Nopec	3.6%	Commodities
Atalaya Mining	3.4%	Commodities
Semapa	3.2%	Holding
Talgo	3.1%	Engineering
Sun Hung Kai And Co	3.0%	Financial
Azimut	2.9%	Financial

Top 10 Holdings
Horos Value Iberia

Holding	%	Theme
Catalana Occidente	7.6%	Financial
Semapa	6.4%	Holding
Horos Value Internacional	6.0%	Others
Alantra Partners	5.2%	Financial
NH Hotel Group	4.9%	Consumer cyclicals
Iberpapel	4.8%	Industrial
Talgo	4.5%	Engineering
Meliá Hoteles	4.3%	Consumer cyclicals
Atalaya Mining	4.3%	Commodities
Elecnor	4.2%	Engineering