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QUARTERLY LETTER TO OUR CO-INVESTORS

OCTOBER 2022

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Dear co-investor,

During the third quarter of the year, the challenges that many economies are experiencing in reconciling a tight monetary policy with a recessionary economic environment were confirmed. This conflict has impacted financial markets, leading to significant volatility and declines. Our portfolios were not immune to these movements. Our Horos Value Internacional fund fell -7.1% over the quarter (-7.7% YTD), compared to a -0.6% decline of its benchmark. Horos Value Iberia, on the other hand, was down by -12.9% over the period (-15.4% YTD), compared to -9.1% in its benchmark index.

As usual, I would like to take this opportunity to update our longer-term performance. Since the inception of Horos (May 21, 2018), Horos Value Internacional has returned 11.3%, below the 38.5% gain of its benchmark, while Horos Value Iberia has returned -6.7%, outperforming the -8.6% return of its index. Moreover, since 2012, the returns of this management team stand at 172% for the international strategy and 133% for the Iberian strategy, compared to 186% and 54% of their benchmark indices, respectively.[1]

In addition to the sources of uncertainty mentioned above, there are also those that were already present (the Chinese economy, the Russian invasion of Ukraine and inflation). However, it is in these times of anxiety and market turbulence that the greatest investment opportunities are created. I am not just saying that. In the ten professional years that this management team has just completed (fifteen years in my case), we have also experienced very complex situations. This letter serves as a reminder of what we have faced all these years, our evolution as investors and why staying true to our investment process always pays off.

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 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.

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Executive summary

In reality, no one knows what the market will do; trying to predict it is a waste of time, and investing based upon that prediction is a speculative undertaking.
— Seth Klarman

The sources of uncertainty in financial markets continued to increase during the quarter. In addition to persistent inflation, the situation of the Chinese economy and the consequences of the Russian invasion of Ukraine, there are now clashes arising between the tightening of central banks' monetary policies and the economic realities of many countries. These situations, whose final outcome is difficult to foresee, are generating a lot of nervousness. However, we at Horos make two readings of this moment. On the one hand, it is in these environments that the best investment opportunities are found, as demonstrated by the great attractiveness of our portfolios. On the other hand, we cannot lose sight of the fact that there always seem to be reasons not to be invested in the stock market. Our ten years' experience as a management team confirms this. We will dedicate this (perhaps more personal) quarterly letter to review the most important events we have experienced professionally, as well as our evolution as investors.

In addition, we will discuss the most significant changes that we have made to our portfolios. Among others, we can highlight that at Horos Value Internacional we exited our position in the car dealership company **Pendragon**, following the takeover bid received, and in the investment fund manager **Gamco Investors**, while we initiated new stakes in the glass manufacturer **Verallia** and in the car leasing company **ALD Automotive**. Horos Value Iberia has seen no exits or new names, but we increased our exposure to heavily penalized industrial companies such as **Aperam**, **Acerinox** and **Gestamp Automoción**.

The years of initiation and learning

We learn from mistakes. Success, long desirable, teaches us nothing.
— Antonio Escohotado

INITIATION TO VALUE INVESTING

May 16, 2007. Certainly, one of the most important dates in my professional life. That day I fulfilled my dream of starting to work as an analyst and assistant portfolio manager at Metagestión, one of the most renowned independent asset management firms at the time. Of course, at the age of 24, it was much more than I could have hoped and expected to start my career as an investor. At that time, I did not know what value investing was all about or, even more strikingly, the investment management style of the company I had just joined. I only knew that I wanted to work as an equity investor. After having sent my CV (on several occasions) to all the asset management firms that had investment funds in Spain at that time, as luck would have it, I ended up working there.

A few days after I joined the company, I decided that I had to find a solution to this "small" gap in my knowledge. How did I do it? By using my favorite resource, books. Since we didn't have the convenience of buying them on Amazon in those years, I greatly enjoyed my visits to bookstores. Fortunately, the book I opted for was (possibly) the most important work ever written on value investing. Indeed, I am talking about *The Intelligent Investor* by Benjamin Graham.[2] If you are wondering why I selected this book and not another, the answer is very simple: on the cover of this book there was a quote from Warren Buffett strongly recommending its reading. I was not familiar with Benjamin Graham, but it was clear to me that Buffett was one of the best investors in history, so I let myself be guided by his criteria. **Concepts such as the margin of safety, the difference between speculating and investing, how to take advantage of Mr. Market's schizophrenia or the importance of the long term, have marked my way of understanding investing from that moment onwards.**

> *The habit of relating what is paid to what is offered is an invaluable trait in investment.*[3]

[2] Graham, Benjamin (2006). *The Intelligent Investor*. Harper Business.
[3] *Idem*.

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I was most satisfied when I discovered that Metagestión was trying to follow this same philosophy. Specifically, the portfolios were based on the classic valuation measures based on multiples, such as the ratio of price to earnings (P/E) or book value (P/BV), to give two typical examples. The idea, therefore, was to acquire shares in companies with a high margin of safety. A way of investing that seemed to be paying off handsomely, based on the historical performance of the company's funds. However, my enthusiasm was short-lived...

AFTER THE BINGE, THE HANGOVER

That same summer, just a few weeks after I joined the company, people began to talk about what ended up being dubbed the **subprime mortgage crisis** (later also known as the **Great Recession**). Fifteen years later, this crisis may seem forgotten or even anecdotal, but it was a moment in history that would mark the monetary policies of central banks forever.

When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance.[4]

Today we know, as we explained in our last quarterly letter of 2020 (see **here**), that the crisis was caused by **aggregate imbalances between the consumption plans of savers and the production plans of investors or entrepreneurs**. Likewise, that the cause of these imbalances was the generalized deterioration of the liquidity position of economic agents, originated through the indiscriminate abuse of the maturity and risk mismatch (borrowing in the short term to invest in the long term) and magnified through the banking system, which acts as a financial intermediary that facilitates this mismatch. However, at that time, the world seemed to be falling apart and almost nobody understood why. I remember, in particular, those days of absolute panic, when some financial institutions, such as the biggest names in the UK banking industry, suffered unthinkable daily swings (up to 60%!) in their share prices. One could not help but wonder when that financial apocalypse would end, as the dominoes began to fall faster and faster. Finally, the bankruptcy of **Lehman Brothers** made the systemic risk unaffordable, so the central banks ended up carrying out the largest monetary expansion known to date (child's play compared to the measures they would take in the following years), to orchestrate a global rescue of the financial system. Indeed, the early days of my career were not exactly smooth.

[4] Nakamoto, M. and Wighton, D. (July 9, 2007). Citigroup chief stays bullish on buy-outs. *Financial Times*. In reference to statements made by Chuck Prince, the CEO of Citigroup at the time.

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Like most mutual funds, the products managed by the firm I was working for declined sharply (by 55% to 65%) from the highs of 2007 to the lows of the market in March 2009. Warren Buffett often says that if you can't withstand declines in your investments of more than 50% without panicking, then you should not be invested in the stock market. Like everything else, a simple idea to digest, but how hard to live with! In the end, the balance sheet expansion of central banks, along with other regulatory changes in the financial sector, as well as the stimulus plans of many governments, gave financial markets a boost in 2009, leading to a strong rally that we were able to take advantage of due to our historical exposure to the banking sector (companies such as **Banco Santander** multiplied their value several times over in a few months).

From my naivety and ignorance, I concluded that the initial nightmare of my first years as an investment professional was over and that the firm's investment style would continue to work as in the past. However, reality once again put us in our place, giving us a slap in the face that would shake the foundations of this way of understanding investing.

THE EURO CRISIS AND THE AUSTRIAN BUSINESS CYCLE THEORY

The credit expansion of the early part of the century had not only contributed to generating bubbles and misallocation of resources everywhere, but also allowed to perpetuate economic growth models that were totally unsustainable for too long. Thus, in the Middle East, the most luxurious and fashionable country of the moment, Dubai, had to be rescued by Abu Dhabi and the Central Bank of the United Arab Emirates, after years of absolute profligacy.[5] At about the same time, our European Union began to crack, calling into question the viability of the euro. With the global recession of the time, Greece's public accounts, historically on the razor's edge, deteriorated to the brink of bankruptcy.[6] **When a system is fragile, problems spread quickly**. Soon doubts surfaced in larger economies such as Portugal, in Ireland and, more worryingly for the European Union, in Spain and Italy. Day in and day out, the news opened with comments on the evolution of the risk premium of Spanish debt against German bonds. The cost of financing these economies soared to levels not seen in many years, becoming unaffordable for countries that had not yet managed to recover from the recent severe recession. Finally, in 2012, the European Central Bank decided to intervene, announcing a government bond purchase program and rescuing the Spanish banking system

[5] Reuters staff (December 14, 2009). Abu Dhabi gives Dubai $10 billion bailout. *Reuters*.
[6] Reuters staff (May 9, 2011). Timeline: Greece's debt crisis. *Reuters*.

with a loan of 100 billion euros.[7]

The ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough.[8]

You can imagine that this environment was not the most favorable for portfolios with significant exposure to the financial sector. During the twelve months prior to the bailout announced by Mario Draghi, the firm's funds declined by around 40% of their value. The reality is that banks were still digesting the poor quality loans granted during the bubble era, when the **Euro Crisis** hit them hard. Lack of confidence returned to the system and it started to become obvious that valuing these companies only by multiples, without going deep into the business cycle, was becoming a fatal mistake. **Investing in Banco Popular because it was trading well below its book value or with a historically low P/E was worthless if the following year its earnings fell by half and its assets continued to deteriorate.** Something was wrong with this way of investing and it had to be changed.

Just at that time, Carlos Cuesta, a good friend and excellent professional (he has been our broker of reference for more than ten years), recommended a book to me (again a book came to my rescue!) that could help me better understand the formation of economic cycles and why the banking sector might not be an ideal investment at that time. This book, written by Jesús Huerta de Soto (possibly the most important scholar of the **Austrian School of Economics** in Spain) and entitled *Money, Bank Credit and Economic Cycles*, deals in an extensive and accessible way with what is known as the Austrian Business Cycle Theory (ABCT).[9] According to this theory, interest rate intervention by central banks, together with monetary expansion orchestrated through the banking channel, ends up generating significant misallocation of resources that lead to unsustainable price bubbles. Only the bursting of these bubbles, usually in the form of a recession, allows for an efficient reallocation of the productive factors of the economies. Hence the importance of allowing this process, however painful it may be, to take place as quickly as possible.

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[7] House, J., Stevis, M. and Steinhauser, G. (June 9, 2012). Spain to Request EU Aid for Banks. *Wall Street Journal*.

[8] European Central Bank (July 26, 2012). *Speech by Mario Draghi, President of the European Central Bank at the Global Investment Conference in London 26 July 2012*. https://www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html

[9] Huerta de Soto, Jesús (2020). *Money, Bank Credit, and Economic Cycles*. Mises Institute. https://mises.org/library/money-bank-credit-and-economic-cycles. Today, I strongly recommend completing the analysis of this work with the contributions of liquidity theorists, giving due importance to the role played by the maturity mismatch in the formation of business cycles.

Well, we were still at a point where economies and their banking systems had to recognize this misallocation of resources on their balance sheets. Governments had lived beyond their means and banks had granted very risky loans to real estate developers and households. It was not exactly the right time to be invested in this sector, especially if there were other clearer opportunities that had suffered unjustifiably in the stock market due to the bad reputation of the European Union at that time (remember the unfortunate acronym PIIGS).[10]

However, let us not get ahead of ourselves. Something was still wrong with the investment process, as it was not only the exposure to the financial sector that had performed poorly in those years. Other investments also lost much of their value (even went bankrupt) in that period. Of course, it was necessary to understand what was going wrong and try to fix it.

"VALUE TRAPS" AND THE IMPORTANCE OF QUALITATIVE ANALYSIS

One of the greatest fears of value investors is falling for what are known as **"value traps."** This highly illustrative name corresponds to investments in companies that look cheap on the surface, but have an irremediable structural problem that deteriorates their business and turns them, therefore, into terrible investments over time. To minimize the possibility of falling into this type of error, it is necessary to analyze in depth a company's business, its positioning in relation to the competition and its place in the value chain of the industry in which it operates. It is also important to assess its financial situation and how the management team at the helm of the company allocates capital. Not doing this due diligence exercise exposes us to an increased likelihood of making investment mistakes from which we cannot easily recover.

There is no such thing as a value trap. There are investing mistakes.[11]

This is precisely what happened in those years. As Charlie Munger often says, capitalism can be a very wild place.[12] If a business does well and becomes very profitable, competitors will look for ways to steal some or all of those excess returns. The advent of the internet, as a source of instant information, and technological advances are further accelerating this process. Only businesses with barriers to entry or competitive advantages can cope, not without difficulty, with

[10] (May 18, 2010). The PIIGS that won't fly. *The Economist*.
[11] Talks at Google (July 30, 2014). *Dhandho. Heads I win | Mohnish Pabrai | Talks at Google*. YouTube. https://www.youtube.com/watch?v=E_nWM4vjgqE
[12] Charlie Munger (May 5, 1995). *A Lesson on Elementary, Worldly Wisdom As It Relates to Investment Management & Business*. Lecture at the USC Business School.

these ongoing competitive challenges.[13] And that is where value traps are found. **If a business is more vulnerable to competitive threats than we might think, its attractive valuation at the moment may be reflecting the deterioration of the business to come**.

Two clear examples of value traps that I remember with particular anger are **Nokia** and **Yell Group**. Two companies that suffered a rapid technological disruption in their business model and did not know or were not able to reinvent themselves in time. In the case of **Nokia**, we were dealing with the undisputed leader in cell phone sales. The company had an (apparently) ultra-solid balance sheet and enviable operating margins. However, the arrival of the smartphone brought a radical change to the industry, to which **Nokia** did not know how to adapt. In a short period of time, players such as **Apple** and **Samsung** wiped the Finnish giant off the map. As for **Yell Group**, owner of the famous Yellow Pages directory, although it had a more leveraged balance sheet, it had a business with massive cash-generating capacity. However, the arrival of online advertising, led by **Google** and other players, eventually put an end to a business with a long tradition and high returns. If we had analyzed the situation of their industries in sufficient depth, these investments would never have been added to the portfolio.

These and other examples motivated me to experience, when circumstances allowed it, the classic transition that many value investors have gone through, evolving from an investment style focused exclusively on price (Benjamin Graham) to one that complements it with the analysis of the business and its management team (Warren Buffett). As fate would have it, precisely at that time when I was rethinking my way of investing, Metagestión also began a restructuring phase, leaving me in charge of the company's funds in September 2012.

The great leap

It's better to hang out with people better than you.
— Warren Buffett

[13] Of course, I recommend the classic paper *Measuring the Moat* by Michael Mauboussin (see here) to learn more about these dynamics.

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ALEJANDRO'S ARRIVAL AND THE SHIFT IN PORTFOLIO MANAGEMENT

Little by little, I initiated small changes to the funds' portfolios based on the lessons learned from previous years. Obviously, the most relevant move was to exit our positions in the banking sector. Not only because of the dubious balance sheet situation highlighted above, but also because the historical capital allocation of these entities did not pass the new filter I wanted to implement in our portfolios. Basically, if a management team was destroying shareholder value with its decisions, then we could not invest in that company. In addition, I significantly reduced the number of holdings and concentrated the portfolio in companies with absolutely depressed share prices, even though they had good prospects for the following years and which doubled or more in value in a short period of time.

However, it was not all joy. At the beginning of 2013, I decided to place as the top holding in our Iberian portfolio a company with a simple-to-understand business and stable growth, a well-recognized brand and a very high expected cash generation for the next few years, which gave it a very attractive valuation. The only weakness was its high debt. However, the type of business, very defensive in nature, meant that this was not an excessively worrying factor. The company was none other than **Pescanova** and its accounting fraud was a bitter pill to swallow and took me a long time to recover from. One never forgets one's first big permanent loss as the person responsible for managing the savings of many people. What had happened? Basically, the Galician company had devised a framework of unconsolidated subsidiaries that helped it to hide its true financial situation. **Pescanova** was bankrupt and not even the most negative analysts could have suspected such a thing. Our Iberian fund lost up to 5% of its assets as a result of this investment. With the passage of time, one always wonders whether there was some clue that was missed at the time or whether the investment process was not the right one. The reality is that I can only find two red flags that I may not have given due importance. On the one hand, the company had not been generating cash for some time and was suffering from working capital strains. However, everything seemed to indicate, according to messages from its management team, that the situation would soon be reversed. On the other hand, the company's communication was not very transparent. I especially remember a meeting in which several investors were present. The president of **Pescanova** spent an hour talking at a frenetic pace, without allowing anyone to ask any questions. At the time, that way of acting caught my attention, but I could not associate it with anything more hidden. In short, a disastrous investment that even today, it is difficult for me to describe in its essence as a mistake.

In April 2013, a turning point for the future of the asset management firm occurred with the addition of my colleague **Alejandro** to the team. I met Alejandro in the spring of 2012 at a lunch that I remember fondly because, in addition to meeting my future comrade-in-arms, other professional investors and some members of the Juan de Mariana Institute (including Juan Ramón Rallo, whose work I greatly admire) also attended. Alejandro and I did not communicate with each other much for the next few months, but I followed his investment blog closely and quickly realized that he was the right person to accelerate the shift in the portfolio management style that I was implementing. Finally, Metagestión decided it was time to hire a second person to manage the funds and Alejandro joined the team. His energy, enthusiasm and full dedication immediately rubbed off on everyone, having a very positive impact on the management of the funds and the firm itself.

It took me only a few days to realize Alejandro's skills and knowledge, which were far superior to mine in accounting due to his background as an auditor, in addition to having invested his savings since he was, without exaggeration, little more than a child. As a result, from almost his very first day working together, investment decisions were always made by consensus between the two of us, regardless of my presumably higher rank as Chief Investment Officer. Making decisions in a centralized manner would have been a big mistake since, I can safely say, the results of the funds would have been worse.

Alejandro soon convinced me of the benefits of businesses controlled by their founding families, where interests are fully aligned with minority shareholders. Companies such as **Barón de Ley**, **Miquel y Costas**, **Vidrala** or **Altia Consultores** became part of the Iberian portfolio as our top holdings. These names became some of the main contributors to the great performance we achieved in the following years. As for the international portfolio, we invested in European companies with a similar family-owned profile, totally ignored by the investment community, such as the Portuguese producer of cork stoppers, **Corticeira Amorim** (a stock that our future colleague Miguel recommended to us) or **Groupe Guillin**, the French manufacturer of packaging for the food industry. In addition, we invested a significant percentage of the fund in "classic" technology companies, such as **Microsoft** or other platform owners with growth potential and a huge network effect not yet recognized by the market (it is hard to believe that such a thing is possible!), such as Google (**Alphabet**), **Paypal** or Priceline (**Booking Holdings**). These important changes allowed us to reap very positive results in our portfolios in that same year 2013, which encouraged us to maintain this "new" investment philosophy.

OUR FIRST "VALUE-AUSTRIAN" INVESTMENT

In 2012, with the Austrian Business Cycle Theory freshly internalized, I decided to embark on the analysis of the most advanced economy in terms of (big) bubbles: **Japan**. The Japanese economy was and is the classic textbook example of credit expansion, concentration of credit in the real estate sector with the formation of a huge bubble that then spread to other sectors and was clearly manifested in the stock market (the Nikkei index multiplied four times its value in only five years!). Twenty years later, real estate and equity prices were still making new lows, such was the magnitude of the bubble in the second half of the 1980s. In the asset management industry, products for investing in Asia "ex Japan" proliferated, as no one wanted to know anything about this market after those terrible two decades. On the other hand, the government's continuous stimulus plans after the crash led to the economy becoming the most indebted in the world. Despite this, Japan has historically financed itself at ridiculously low interest rates. The reason? It is an economy that does not depend on external financing, as the biggest buyers of debt are its own citizens. However, the aging population (for example, more adult diapers are consumed in Japan than baby diapers) could be leading to a tipping point where the Japanese start to tap into their savings.[14] How would the country then finance itself?

It does not seem an ideal economic scenario to invest in. However, after more than twenty years off the map, Japan's stock market had become one of the most attractively valued in the world. One could find hundreds of companies trading below their cash value. When I discussed the situation with other investors, the reasons they gave for not investing were always similar. On the one hand, they said that this situation had been going on for several years and that there was no catalyst to reverse it. On the other hand, they claimed that Japanese corporate governance was not very shareholder-friendly.

We invested in Japanese value stocks. We closed it in December of 2010, because we weren't making money, and it was immensely frustrating.[15]

Regarding the first argument, although it does not seem to me in itself a sufficient condition to rule out a market, I thought that the misfortune of the 2011 tsunami and subsequent election as prime minister of the ill-fated (he was assassinated this year) Shinzo Abe had totally changed the outlook. Abe had just announced an economic stimulus plan to get Japan back on its feet that he could only pay for by

[14] Weller, C. (January 5, 2018). 9 signs Japan has become a 'demographic time bomb'. *Business Insider*.
[15] Interview with James Grant. Norton, L.P. (September 17, 2011). Gold Still Looks Good; Japan Still Doesn't. *Barron's*.

issuing more debt. Who was going to buy it? Probably the Central Bank of Japan by issuing more currency and thus devaluing a currency that was near record highs at the time. Paradoxically, this potential devaluation was the factor that encouraged me to look at Japan with different eyes and, in particular, at exporting companies that could benefit from the new environment. As for the second argument, it was true that historically, Asian companies, in general, had not been entirely aligned with the best interests of their shareholders. Therefore, if we were to invest in Japanese companies, we had to ensure that capital allocation was not, at the very least, harmful to shareholders.

With these two premises in mind and seeing the clear upside potential in companies such as **Toyota**, **Daiwa Securities**, **Yamaha Motor** and **Mitani Group**, we decided to invest around 20% of our international portfolio in these and other Japanese companies. Although due to the prospectus of the fund we could not cover the likely FX losses, I was convinced that the earnings gains from higher sales of the exporting companies, as well as the large margin of safety embedded in their valuation, would more than offset the currency loss. And so it did. Almost all our Japanese holdings doubled or tripled in value, delivering capital gains of more than 100% in a very short period of time.

A BIG YEAR AND THE FIRST BIG INVESTING MISTAKE

After a 2013 with outstanding performance, 2014 was another rewarding year that endorsed the changes in the investment process. Our bets on quality, well-managed and very cheap companies, still far off the radar of the investment community, continued to bear fruit. This allowed us to close the year as the best Iberian equity fund and also to post great returns in our international portfolio.

However, we also got a major wake-up call that year, which encouraged us to place even more emphasis on the qualitative analysis part of our investment process. The culprit had a name: **Let's Gowex**. The Spanish company specializing in WiFi services for cities had become the stock market darling of the moment. With steady contracts signed with city councils all over the world, **Let's Gowex**'s revenues were growing at exponential rates. Without assuming major growth for the next few years, in 2013 we saw a growth company trading at very attractive levels and we invested in it. We sold our stake shortly thereafter, after a huge rally that delivered us capital gains of over 200%. In 2014, months after our sale, a devastating report by Gotham City Research, an entity specialized in short selling that we already knew (and respected) from other similar company analyses, assured that the market value of **Let's Gowex** was close to zero and that almost all of its revenues were false.[16] After the initial shock and disbelief of everyone, Jenaro García (CEO of the company) admitted, a few days later, that the fraud had begun ten years earlier.[17]

We are confident GOW is a charade & shares are worthless.[18]

Once again, a fraud exceeded our investment filters. The difference with Pescanova's case is that, despite being such a profitable investment, with the perspective of time one finds clear indications that (at the very least) in this case there were things that did not add up. Although, of course, we could never have guessed the accounting fraud of this company. Examples of this could be the use of an absolutely unknown auditor, raising capital in 2012 for 17 million euros when the company supposedly had 50 million in cash on its balance sheet or the high profitability and growth of **Let's Gowex** compared to its supposed peers (**Ruckus Wireless** and **Boingo Wireless**). In short, we were very lucky to make a great return on this investment, but it was a mistake in our investment process that could not be repeated.

THE THIRD LEG OF THE TRIPOD

We started 2015 with renewed enthusiasm and energy thanks to the addition of **Miguel** as the third member of the portfolio management team at the end of 2014. I have always thought that in this sector you have to surround yourself with people you can trust blindly and who, in addition, have a very positive impact on your work. Miguel more than fulfilled both requirements. Alejandro and Miguel are from Tenerife and met while playing squash, their other passion. Over time, they also realized that they both really enjoyed investing and their friendship grew stronger. When the possibility of hiring a third portfolio manager for the team came up, we had no doubt that Miguel would be a perfect fit. I remember that Alejandro, which says a lot for him, was very cautious in recommending me to hire Miguel because he did not want to appear that his friendship was pushing him to do so. However, I already knew Miguel and we had also shared some investment ideas, so I was convinced he was the right person for what we needed. Although, to be honest, I did not expect that his addition would improve our ability to value companies so much.

[16] "Let's Gowex: a Pescanovan Charade". *Gotham City Research*. https://ep00.epimg.net/descargables/2014/07/01/3728e3d1ea9446f8d3d13cad5ab7813d.pdf
[17] Campos, M. Ángel (July 14, 2014). Jenaro García admite que el fraude en Gowex comenzó en 2004. *Cadena Ser*.
[18] *Idem*.

After his time at, among others, ONEtoONE Corporate Finance and the investment department of the Agbar Group, Miguel exponentially raised the quality of our analysis and broadened the spectrum of investable sectors for our portfolios from the very first day. Thanks to him, we were able to delve deeper into companies with a strong cyclical profile, such as the agricultural machinery company **John Deere**, the copper producers **Antofagasta** and **Freeport-McMoran**, or the steel companies **ArcelorMittal** and **Aperam**. All of them became great investments, but I insist, the real value of Miguel's addition was what he helped us to improve as company analysts, regardless of the sector they belonged to.

That 2015 solidified our position as a portfolio management team, as we once again became the best managers in the Iberian market and had a great performance in our international portfolio.

THE END OF THE CYCLE

2016 was a very atypical year in which two events took place that created a lot of uncertainty in financial markets. The first one occurred in the summer when, to the surprise of most analysts, the population of the United Kingdom approved the country's exit from the European Union. It came as a huge shock, as the polls seemed to indicate that **Brexit** would not happen. The reaction? A stock market crash, with some companies plummeting by up to 20%. These moments of panic, in which the most leveraged investors are forced to sell, are usually an excellent time to take advantage of the attractive opportunities that always arise. As could not be otherwise, we did try, placing buy orders in several stocks that we already had in our portfolio where the investment thesis had not changed one iota by this unfamiliar scenario. However, another common feature of these crashes is that, at the lows reached in the session, the trading volume usually dries up (it is very difficult to buy) and share prices tend to recover quickly on the same day, as happened in most cases. This prevented us from being able to benefit greatly from such extreme volatility, but again demonstrated why these kinds of steep declines often provide excellent investment opportunities.

The other big shock came with the victory of **Donald Trump** in the U.S. presidential election. With a totally different profile to the classic politician, the investment community (and the rest of the world) was not sure how to interpret the victory of the new president. This time, contrary to what happened after the U.K. referendum, the stock market did not react negatively and the U.S. indices actually rallied at the start of the new president's term of office. However, as time passed, it became clear that Donald Trump promoted mercantilist policies aimed at supporting domestic companies, launching a trade policy challenge to the rest of the world and China in particular, which created uncertainty about the future actions of the different governments and its impacts on economic activity.

From this day forward, a new vision will govern... it's going to be only America first, America first.[19]

Although we closed 2016 with good returns, something was beginning to change in the equity markets and our investment style. In 2017, we began to see our portfolios' upside potential diminishing, after the strong performance in previous years. Up to that point, we had been able to recycle capital, divesting from less attractive companies and finding new investment ideas that would contribute to raising the expected return of the funds we managed. This became much more difficult from then on, as the market, in our opinion, did not offer us sufficiently attractive opportunities to add to our portfolios. The case of our Iberian fund, whose cash position at some points exceeded 30% of total assets, was particularly striking. This unusually high level of cash was evidence of two things. First, the lack of investment opportunities already mentioned. And second, **our commitment to invest only in situations where there was a high margin of safety**. The very high cash holdings did not make us nervous and we stood firm on our investment principles.

However, an even worse challenge came on top of the limited opportunities. The uncertainty associated with Donald Trump's actions or the recession drum beat in China, coupled with other factors, led to a very unfriendly environment for our investment philosophy over the next few years. However, we are anticipating events. Before this we had one big step left to take in our professional career.

The line that separates heaven and earth

Hand. Heart. Handcraft.
— Horos Asset Management motto

[19] (January 20, 2017). Donald Trump: 'America first, America first.' *BBC News*.

THE DEATH OF VALUE INVESTING

On May 23, 2018, the portfolio management team formed by Alejandro, Miguel and I announced our departure from Metagestión to start a new project at **Horos Asset Management**. Its name was (and is) a clear statement of our principles, since, in Greek etymology, "horos" refers to the line that apparently separates heaven and earth, i.e., the horizon. That long term that always guides our investment decisions. But what led us to leave what had been our professional home for so many years? As we explained at the time of our departure (see **here**), we have always argued that, in order to aspire to a long career in this competitive industry, one needs at least three pillars: a good investment process, strong emotional control and an asset management firm aligned with the first two. Unfortunately, in our previous professional stage we lacked the last pillar, so, as time went by, we realized that our professional future was starting to falter more and more clearly. This gave us the necessary push to accept the invitation of **José María Concejo**, our current CEO, to join this new company and become partners. We did not hesitate to do so, despite the significant challenges involved in starting a company of this nature from scratch. With enthusiasm, effort and hard work, we were convinced that we would be able to move the project forward. However, as it already happened in my early professional career, the obstacles did not take long to emerge… and in a significant way.

As I mentioned above, our investment style was heading into what turned out to be its worst period of relative performance compared to other investment styles in the last two hundred years.[20] There were several reasons behind this. First, the massive monetary expansion carried out by central banks since the Great Recession of 2008 drove government bonds to trade at unprecedented and even unimaginable levels only a few years ago. Two examples help to understand the anomaly of those years. In 2019, 40% of government bonds were issued with negative nominal yields, and in 2020 Austria announced the launch of another 100-year bond with a ridiculous yield of 0.88%, following the success of its previous issue with a 2% yield.[21] **In addition to an apparently insatiable demand for this type of asset, these numbers show that the world had become used to the low inflation regime of the last decade** and, of course, assumed that the situation would continue for many years to come. How could things change! These highly inflated bond prices (or, conversely, their low yields) led investors to chase other fixed income securities with higher perceived risk (such as corporate debt) and then

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[20] Wigglesworth, R. and Rovnick, N. (October 26, 2020). Covid condemns value investing to worst run in two centuries. *Financial Times*.
[21] Buttonwood (April 23, 2022). A requiem for negative government-bond yields. *The Economist*; Stafford, P. (June 24, 2020). Austria sells another 'century bond' as borrowing costs fall. *Financial Times*.

shares of defensive companies with high earnings predictability (usually large global consumer companies).

Stocks that correlate with bonds now trade at 24x earnings, while stocks that don't correlate with bonds trade at 8x earnings.[22]

This shift was also driven by a cloudy economic outlook. The outcome was what we once referred to as the **great escape** (see here). Defensive companies attracted massive and steady capital inflows, pushing up their valuations, while outflows from more cyclical companies were pushing down the multiples at which these companies were trading. Our reaction to this situation was to remain true to our investment style and process, acquiring the cheapest stocks and avoiding the more expensive ones that had no margin of safety whatsoever. As long as this dynamic continued, we were aware that our portfolios would likely underperform, but we were convinced that abandoning our principles and following the tide would only lead to disaster.

However, before we could make amends, the final straw of this terrible divergence arrived. The dramatic coronavirus pandemic acted in the first months of 2020 as an accelerator for what many had already catalogued, months before, as the death of value investing.[23] Indeed, lockdowns drove the valuations of e-commerce companies, as well as companies with business models that were set to revolutionize their respective markets, such as **Zoom Video Communications** ("Zoom") or **Peloton Interactive** ("Peloton"), to stratospheric levels (see here). On the contrary, businesses brutally impacted by the economic shutdown (and which were already trading at very attractive levels) saw their share prices plunge. Such was the case of **AerCap** (aircraft leasing), **Meliá Hotels International** (hotel chain) or **Ibersol** (restaurants), to name three sectors that were particularly hard hit. A devastating environment for our investment philosophy, which, however, changed radically with the arrival of vaccines to combat covid-19.

THE RETURN OF VALUE INVESTING

The announcement of the vaccines was a clear turning point in our investment style for two reasons. First, the eventual economic reopening would benefit those companies most affected by the shutdown, such as the three cases just mentioned. This led them to rise sharply in just a few months, which contributed to our portfolios recovering almost all of the losses from that fateful 2020. Second, the

[22] Greenlight Capital Q1 2020 Letter.
[23] Li, Y. (June 23, 2019). Is value investing dead? It might be and here's what killed it. *CNBC*.

lack of capital investments (already historically low pre-pandemic in some industries) due to everything that happened that year, together with the massive fiscal and monetary stimuli from governments and central banks, generated some very important bottlenecks that still persist in many sectors. The industry that benefited most from this tension was precisely the one to which we were most exposed: **commodities**.

As we have already pointed out on several occasions (see **here**), the commodities sector had been the ugly duckling in investing for years as a result of the oversupply inherited from the previous cycle, which had not been digested, leading to lower and lower prices. In addition, there was the impact of the ESG trend, which limited investments in sectors away from the energy transition policies of most countries (see **here**). Our analysis of the supply and demand dynamics of this industry led us to conclude that, at the depressed prices at which many commodities were trading, a significant proportion of producers were not making money and, of course, the most efficient players had no incentive to increase their current and expected production. The lack of investment would make it impossible to meet medium-term consumption needs, triggering bottlenecks and price increases in commodities to correct the lack of supply. For this reason, we increased our exposure to this sector over several years. Finally, the economic revival following the lockdowns caused significant bottlenecks and, with them, commodities prices soared, which has benefited us enormously over the last two years.

The cure for low prices in commodities is always low prices.[24]

In addition to this positive effect on the valuations of highly cyclical companies, the assets that had been most inflated during the previous years were to face a significant shock in the opposite direction. The arrival of inflation (and the reaction of central banks) reversed the complacent and speculative dynamics in fixed income markets, as well as those companies that saw the largest multiple expansion (see **here**). For instance, in 2022 global government bonds are suffering their worst annual performance in more than 80 years, with declines of around 25%.[25] Companies such as **Zoom** and **Peloton** have plunged 85% and 95% from their highs, respectively. The great divergence was coming to an end after several years. However, a more favorable environment does not mean that uncertainties have disappeared. Nor, of course, do the inefficiencies and the great investment opportunities they generate.

[24] Pan, J. (April 30, 2022). Want to invest in $100 oil? Read these tips and warnings from commodities legend Rick Rule before you dive in. *Yahoo Finance*.
[25] BofA Global Investment Strategy.

THE NEW SOURCES OF UNCERTAINTY

This year is also marked by some very important sources of concern among the investment community. On the one hand, most of the world's economies are in a difficult situation, in which central banks' monetary policies are clashing head-on with the needs, or rather the desires, of the governments of their respective countries. The awakening of inflation from its long lethargy has put monetary authorities on alert, initiating (or announcing) the reduction of their balance sheets and raising interest rates to curb rising prices.

We have got to get inflation behind us. I wish there were a painless way to do that. There isn't.[26]

However, not all central banks can react in the same way. **While the Federal Reserve is raising rates at the fastest pace in decades, the rest of the central banks seem to be running up against their economic reality, which may call into question (and not only on paper) their assumed independence**. The clearest cases, right now, are those of Japan and the United Kingdom (the next one will surely be the Eurozone). In the case of the Asian country, the central bank has made it very clear that it does not intend to tackle inflation as a priority target, but that it is willing to tolerate higher levels than those of recent decades in order to stimulate the economy. In other words, the BoJ seems willing to tolerate, in a move similar to that of Shinzo Abe in 2012, a sustained depreciation of its currency over time in order to stimulate its economy's powerful export machinery.[27] For the time being, the yen has fallen sharply, reaching a low against the dollar not seen since 1990.

For its part, the United Kingdom has experienced very turbulent weeks on an economic and political level. Liz Truss has had the shortest tenure of any prime minister, remaining in office for only 45 days.[28] The reasons? Announcing an expansionary fiscal policy at the worst possible time. Specifically, the Truss government approved a plan to cut taxes while increasing public spending by subsidizing the country's energy consumption. Hence, an extremely expansionary fiscal policy that would have to be financed with more debt, just at a time when the country (like the rest of the developed economies) is experiencing high inflation and a restrictive monetary policy. The market reacted by selling U.K. government bonds and weakening the pound, which caused much more pronounced collateral

[26] Wiseman, P. (September 22, 2022). Federal Reserve Chair Jerome Powell says inflation fight may cause a recession. *PBS*.
[27] Fukao, K. and Nishioka, S. (2021). Abenomics, the Exchange Rate, and Markup Dynamics in Japanese Industries. In T. Hoshi and P. Lipscy (Eds.), The Political Economy of the Abe Government and Abenomics Reforms (pp. 200-238). Cambridge: Cambridge University Press. doi:10.1017/9781108921145.008.
[28] Reid, J. and Ward-Glenton, H. (October 20, 2022). UK Prime Minister Liz Truss resigns after failed budget and market turmoil. *CNBC*.

effects than anyone could have foreseen. British pension plans had been leveraging themselves for years with structures that guaranteed a return to meet future liability commitments (interest rate and inflation hedges). Why such a leveraged structure? Because, as we saw earlier, public fixed income securities around the world did not offer attractive yields, so they were forced to devise financial mechanisms to alleviate this problem. However, the sharp decline in the value of government bonds, which should have been good news as it resulted in higher yields, has caused the portfolios of these pension plans to collapse, as the collateral they had to put up as a guarantee to support their financial structures lost value. This triggered a wave of forced selling of the most liquid assets (precisely, their sovereign debt holdings) that they had in their portfolios, in order to address these collateral shortfalls and the higher cash requirements. As a result, U.K. government bonds experienced a few hectic days in which some securities fell by as much as 40%.[29] At the same time, the pound began to lose value at an accelerated pace. Finally, the Bank of England had to backtrack on its restrictive monetary policy and initiated an extraordinary program of government bond purchases to avoid the pension plan debacle and its domino effect.[30] Obviously, Liz Truss resigned in the face of such a mess.

Finally, these different speeds in the central banks' fight against inflation, as well as the major uncertainties of the moment, such as the economic situation in China or the consequences of the Russian invasion of Ukraine (see here and here), are boosting the asset that always benefits in these environments (see 2008): the U.S. dollar. Thus, the greenback reached a twenty-year high a few weeks ago and remains at levels that can trigger serious problems for many economies.[31] All these factors are creating a lot of anxiety and, as always when this happens, many investment opportunities, such as those we will discuss in the next section of this letter.

In short, these fifteen years have been an exciting and intense journey of continuous learning and hard work, in which I have had the good fortune to team up with the two best fund managers I could imagine. **Working with Alejandro and Miguel has made me a much better investor** and, without them, it would have been impossible to get to where we are today. Together we have obtained very satisfactory returns, in addition to having laid the foundations for a very exciting future in this young project that is Horos Asset Management, in which we are very pleased that you are a fellow traveller.

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[29] O' Neill, M. (October 21, 2022). Should investors brave the gilts horror show? *FT*.
[30] Cumbo, J. (October 18, 2022). BoE says LDI funds 'better prepared' to manage shocks. *FT*.
[31] Juan Ramón Rallo (September 12, 2022). *Todo lo que puede "romperse" en las economías emergentes con un dólar fuerte*. YouTube. https://www.youtube.com/watch?v=XW4pe12xagM

Main changes to our portfolios

The most contrarian thing of all is not to oppose the crowd but to think for yourself.
— Peter Thiel

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

HOROS VALUE INTERNACIONAL

Stake decreases & exits:

FINANCIALS AND HOLDING COMPANIES (28.9%)
Holdings discussed: Gamco Investors (exited)

This quarter we sold our entire stake in **Gamco Investors**, despite its high upside potential. So, what happened? Basically, the asset management firm led by Mario Gabelli announced, surprisingly, its intention to stop trading on the NYSE market and start trading on the OTC market. A much more illiquid market due to the major operational constraints it poses for many investors. According to the official statement, the management team is making this strange move to save the costs incurred by the business in listing on the NYSE market. However, after speaking with them and trying to better understand the decision, we realized that it does not seem a very justified move and we see further problems ahead for the market to recognize the intrinsic value of this business. For this reason, especially in an environment of great investment opportunities, we decided to sell our position and use the proceeds in other more attractive companies.

OTHER
Holdings discussed: Pendragon (exited) and Dassault Aviation (1.0%)

This third quarter we took advantage of the takeover bid received by **Pendragon** to exit this historic position. In particular, the British car dealership company has been the subject of several attempts to change control and, finally, the Swedish dealer group Anders Hedin (led by the former CEO of **Pendragon**), which already holds 27% of its shares and launched a takeover bid months ago, has managed to get the Board to consider its offer of 29 pence (previous lower bids had been rejected). We

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consider it a reasonable offer that endorses the excellent performance of the business after the pandemic (greatly benefited by the bottlenecks in the automotive sector) and which has led its share price to rise fivefold in a very short time, returning to 2019 levels. We used the cash from the sale to invest in new companies that I will discuss later.

As for **Dassault Aviation**, we trimmed our stake in the company following its recent outperformance compared to the other alternatives present in Horos Value Internacional and which responds to the record results, in terms of orders, announced by the company in their latest earnings report.

Stake increases & new stakes:

FINANCIALS (28.9%)
Holdings discussed: AerCap (5.2%) and ALD Automotive (2.8%)

One of the companies in which we increased our exposure most significantly is **AerCap**. The world leader in the aircraft leasing business continues the recovery path of previous quarters and, following the integration of the GECAS acquisition, is in a very solid financial position that we believe will allow it to resume, in a few months, its historically aggressive share buyback policy, taking advantage of the large discount at which the company trades on the stock exchange compared to its book value.

We also initiated a new stake in the French car leasing company **ALD Automotive** ("ALD"). The company is the world's second largest player among independent entities and ranks fifth if we also include the automakers' own leasing companies. **ALD**'s business is very simple to understand. Basically, it acquires vehicles by issuing debt and leases them for several years, to companies and individuals, and then sells them on the second-hand market with a slight capital gain. The margin obtained from the leasing contract is not very high, so it is a business that benefits from economies of scale, which allow it, among other things, to get discounts with the purchase of vehicles from automakers. On the other hand, like similar companies in the financial sector (such as **AerCap**), **ALD** operates with significant financial leverage, which allows it to achieve returns on equity of close to 20%.

In addition, **ALD** is currently in the process of acquiring **LeasePlan**, its main independent competitor with a very similar fleet size. This deal would enable the new group to become the third largest player in the world, behind only **Volkswagen** and **Toyota**, as well as bringing significant synergies. On the one hand, the new group will have a more geographically diversified customer base. On the other hand, by doubling its size, it will achieve greater economies of scale that will have a positive impact on the group (the company estimates annual cost savings of 380 million euros as of 2025, after assuming necessary costs of 475 million euros in the first two years), which will enable it to reduce the cost-to-income ratio from **ALD**'s current 48% to 45% in 2025.

Despite this and the favorable environment of the last two years, in which bottlenecks have allowed the company to make large capital gains on the sale of used vehicles, the market does not recognize the real value of **ALD**. Assuming volume growth well below historical levels and a more normalized profitability scenario than the current one, the company could be trading at 0.75x its book value in three years, which is not reasonable to us considering the returns of the business and its strong positioning after the merger with **LeasePlan**.

COMMODITIES (20.8%)

Holdings discussed: Cool Company (3.0%)

We also took advantage of the weakness of **Cool Company**'s share price at the beginning of the quarter to increase our position. As we pointed out in our previous quarterly letter, this is a liquefied natural gas transportation business that benefits greatly from the current dynamics of this market, as its subsequent market performance showed.

OTHER

Holdings discussed: Verallia (3.6%)

During this period, we added a second company with large exposure to the European glass sector (last quarter we initiated a position in **Vidrala** in our Horos Value Iberia fund). This time it is the French manufacturer **Verallia**. The company is the leader in the European market, as well as having a strong position in the Latin American market, where it is the second largest player and the third largest global player. As a reminder, the European industry operates as an oligopoly, with five companies representing 70% of the market share (in the case of Western Europe the concentration is even more exaggerated, with four players accounting for 85% of the total). This industry structure, in which producers act in a disciplined manner when setting prices, is highly profitable for everyone, as evidenced by the fact that **Verallia** has achieved historical margins of over 23%, second only to **Vidrala**.

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Despite this, these companies' shares prices have suffered significant declines in recent months, which have brought their valuations to the most attractive levels in the last decade. The reason? Fear of the impact on margins of the energy crisis in Europe. The glass industry, as is the case in other industrial sectors, incurs high costs linked to the energy needed to operate its plants and, to make matters worse, a large part of these costs depend directly on the price of natural gas. However, **Verallia** is not currently being impacted by the rising cost of energy, as the company (unlike other players, such as **Vidrala**) has significant hedges in place (85% for the next three years) to guarantee a maximum energy cost. This is allowing it to keep its margins stable (or even growing) in these difficult quarters for the sector. In addition, the entire industry is being able to pass on cost increases to end customers, so they are also seeing their margins protected on the revenue side.

Finally, **Verallia** has a shareholder structure that is 28% controlled by the Brazilian entity BWSA, specialized in investing in industrial companies, 7.5% by BPIFrance and 3.5% by the company's employees. In addition, it generously rewards shareholders by distributing a dividend yield of just over 4.5%, while at the same time buying back shares at an attractive current valuation. At current prices, despite the quality of its business, **Verallia** trades at less than 8.5x its 2025e normalized free cash flow, which led us to make it one of Horos Value Internacional's top holdings.

HOROS VALUE IBERIA
Stake decreases & exits:

OTHER
Holdings discussed: Sonae (3.1%)

As was the case last quarter, we trimmed our stake in the Portuguese holding company **Sonae**, following its outperformance relative to other companies in the portfolio.

Stake increases & new stakes:

COMMODITIES (9.1%)
Holdings discussed: Aperam (4.2%) and Acerinox (2.8%)

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We again increased our position in the stainless-steel sector following its recent sharp declines in the stock market. After the record profits of previous years, the industry is experiencing a challenging environment, in which base steel prices (especially in Europe) have fallen considerably from the highs reached a few months ago and energy costs have soared. This combination is having a negative impact on **Aperam**'s and **Acerinox**'s profitability. Nevertheless, we believe that the market corrections of more than 50% in the case of **Aperam** and close to 35% in the case of **Acerinox** are excessive if we take into account the cash generation capacity of both companies, their strong competitive positioning in Brazil (**Aperam**) and the United States (**Acerinox**), as well as the excellent operational performance of their respective management teams.

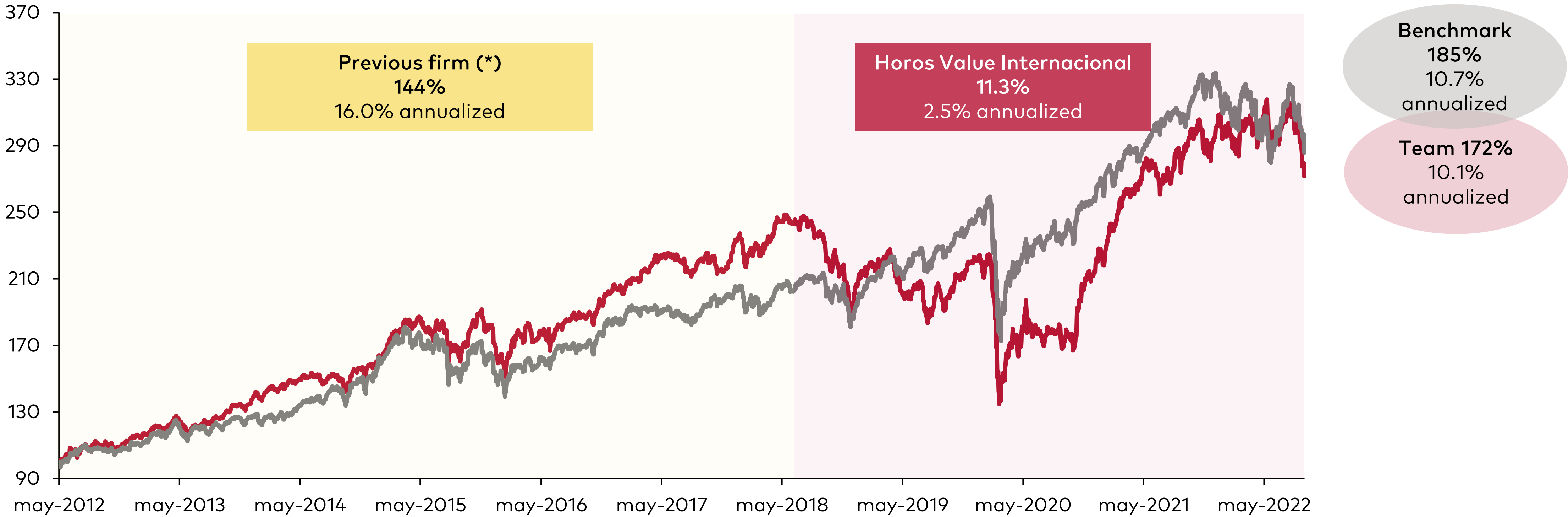
OTHER

Holdings discussed: Gestamp Automoción (5.3%)

Finally, we also increased our investment in **Gestamp Automoción** ("Gestamp"), the group that manufactures body and chassis parts for the automotive sector. As in the case of other industrial companies, fears of the impact of a recessionary environment, as well as rising energy costs, have severely penalized its share price. In the face of these fears, **Gestamp** has managed to maintain business margins at high levels for the time being, which has allowed it to continue with its expansion plan while reducing its debt. At current prices, we believe that the company has a high upside potential, which explains our decision.

Returns

Historical returns of the management team in the International Strategy



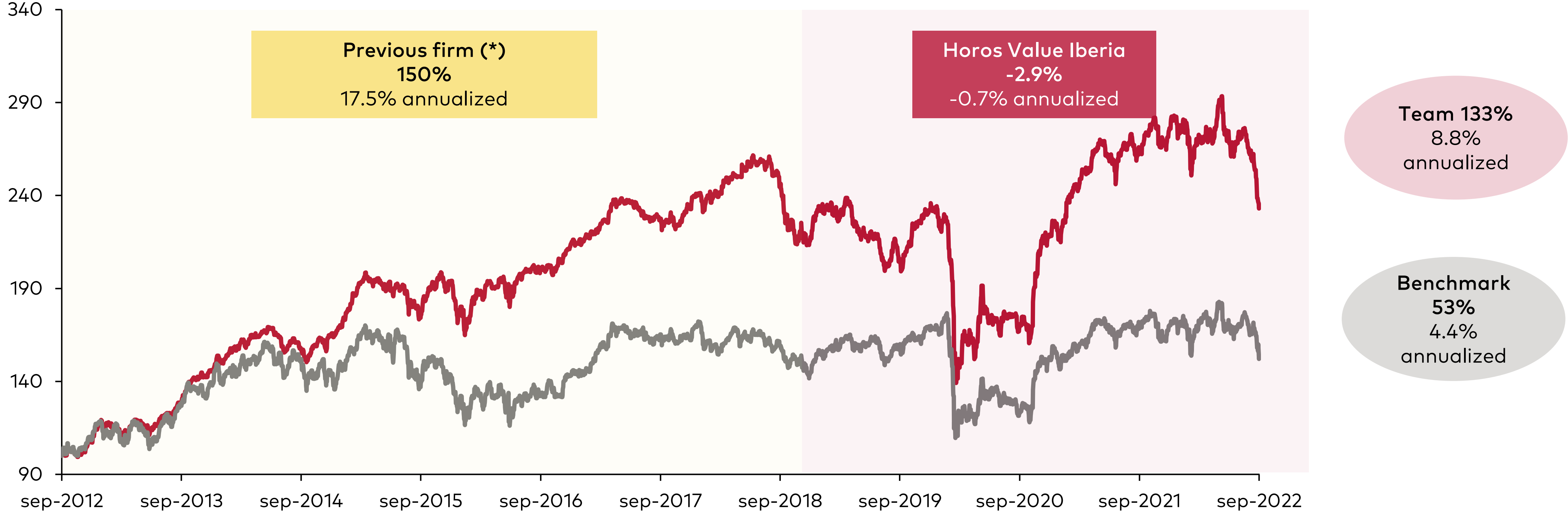
Data cover the period between the 30th May 2012 and 30st September 2022.

*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 September 2022.

*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.

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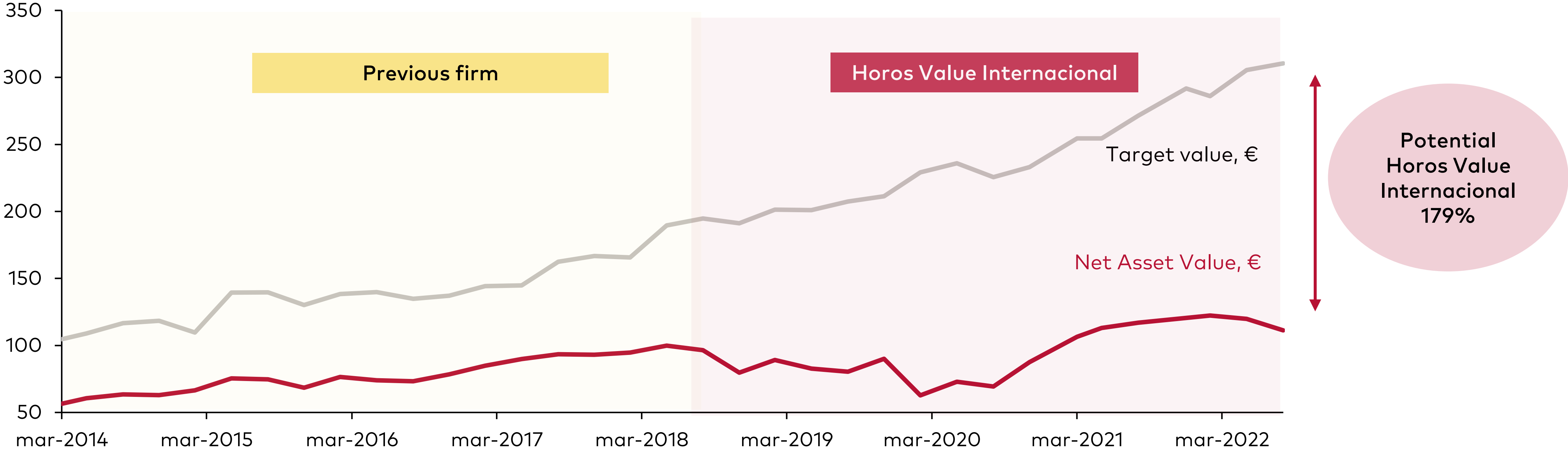
Upside Potential | Target value vs. Net Asset Value of the Management Team



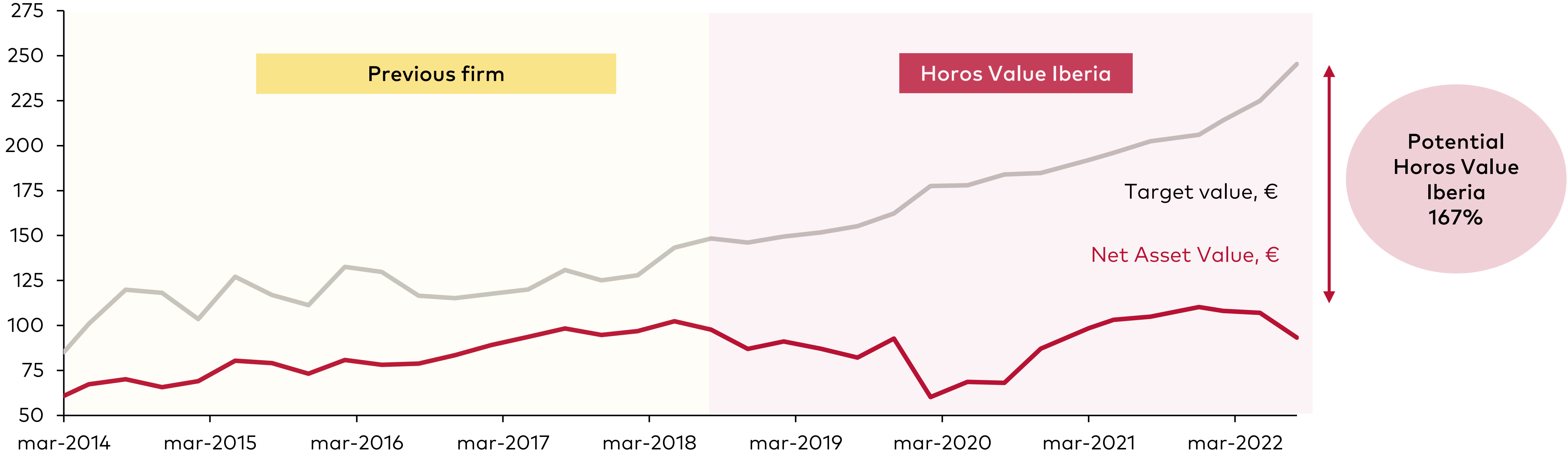
Data cover the period between the 31st March 2014 and the 30st September 2022.

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 September 2022.

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.

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.

Top 10 Holdings
Horos Value Internacional

Holding	%	Theme
Naspers	6.0%	TMT
Aercap Holdings	5.3%	Financial
Catalana Occidente	4.4%	Financial
Semapa	4.0%	Financial
Fairfax India	4.0%	Financial
Verallia	3.6%	Industrial
Sun Hung Kai And Co	3.5%	Financial
BMW	3.4%	Consumer cyclicals
CIR	3.3%	Financial
Spartan Delta	3.0%	Commodities

Top 10 Holdings
Horos Value Iberia

Holding	%	Theme
Semapa	8.2%	Financial
Catalana Occidente	7.7%	Financial
Horos Value Internacional	6.1%	Financial
Merlin Properties	5.4%	Real estate and construction
Gestamp	5.3%	Industrial
Iberpapel	5.2%	Industrial
Elecnor	4.7%	Industrial
Aperam	4.2%	Commodities
Ibersol	3.6%	Consumer Staples
Talgo	3.6%	Engineering