Comments on First Quarter 2017

Coinciding with the publication of the 2017 First Quarter Report of the Cobas Selección fund, comprising 90% international equities and 10% Iberian equities, below follows the main characteristics of the portfolio.

We began investing the fund in equities on 1 January and throughout that month we gradually completed the portfolio until it is now what could be said is the target portfolio.

At the close of the quarter, 92.7% of the fund was invested and comprised **53 stocks**, including 8 Iberian stocks representing 5.7% of the total.

This is a decrease on the 62 that we mentioned in our presentation letter, given that as the quarter progressed we increased the degree of confidence in some significant stocks, allowing us to focus the portfolio on those. The 10 most important stocks now represent 46% of the portfolio. The ongoing objective is to improve it daily, by reducing or eliminating the least attractive positions and increasing the most interesting.

The geographic distribution has surprised even ourselves, due to the greater exposure outside of Europe than that anticipated: 21.4% in the United States and 21.7% in Asia. Except for a minor position in Brazil, less than 2%, the remainder is centred in Europe.

It should be pointed out however, that the majority of the investments in the United States are global companies that are coincidentally listed there, but without being greatly exposed to that economy. In Asia, 8 of the 9 companies in the portfolio have a strong cash position, some even above their market capitalisation. The presence of Mingkun Chan in Shanghai makes it possible to adequately monitor these positions.

As indicated in the welcome letter, the portfolio has some very attractive characteristics: **ROCE of 30%, PER of 8.4x and a revaluation potential of 70%**. In the last five years, and with the exception of some commodities in 2015, it has not been possible to form a portfolio with such a similar combination of quality and potential.

In spite of the previously mentioned revaluation potential, this is a **conservative portfolio**. 38% of the companies have net cash and the another 20% are companies with a cash position equivalent to 50% of their market capitalisation. In addition, 80% of the portfolio is made up of family run or single shareholder companies

As can be seen in the graphs, against a backdrop in which the group of our classic stocks have had joint revaluation of 50% over the last three years, with a market that has increased 19%, the group of 5 main stocks in our portfolio today has depreciated by more than 50% in the last three years, some of which have even lost 80% of their quoted market price.

In other words, we have changed stocks with a relative behaviour among them of 100%, investing in stocks that have suffered significant losses at a time when the most important markets are at historic highs.

Evidently, we think that the market has exaggerated the change in prices in our companies, as it often does, thus the valuations in no way have been reduced in proportions similar to the falls in their quoted market prices.

There are three types of company in the portfolio:

– Those we already know: **BMW Pref, Hyundai Pref, Samsung Pref, Dassault Aviation, Cir/Cofide, Danieli, Next, Sol, Tesco, Casino, Ralph Lauren, Exor, LG Household Pref and Amore Pacific Group Pref.** In Spain and Portugal we have **Corporación Alba, Semapa, Nos, EDP, Elecnor, Navigator, Sonae, Viscofán.**

– Those in commodities: **ICL, Teekay Corp, TNK, Phosagro, Polymetal, Randgold, Euronav, DHT, TIL, BW Offshore, SLC Agricola.**

– New companies: **Aryzta, TGP, GS Home Shopping, Hyundai Home Shopping, Dynagas, Gaslog, Pico Far East, Daiwa Industries, Fukushima Industries, Babcock International, Beni Stabili, Bolloré, EVN, G III, Howden Joinery, Iliad, Maire Technimont, OVS, Schaeffler, Travis Perkins.**

Over time we will give you more details regarding the characteristics of the main stocks, of which we expect to have very significant revaluations.