PORTFOLIO NOTE **APRIL 2023**

Dear participant:

Como comentamos en nuestra última carta trimestral del pasado mes de enero, siguiendo el cambio As we mentioned in our last quarterly letter last January, following the regulatory change established by the CNMV, we will now be publishing our detailed portfolio comments on a semi-annual basis. However, in consonance with our vocation to explain and inform all our co-investors on a regular basis, we will publish a short fund update note when the situation requires it and after the close of the first and third quarters. We would also like to remind you that the Investor Relations team is at your disposal to update you on the status of the funds whenever you need it.

During the beginning of the year, our funds have performed reasonably well. At the end of March, the returns obtained are as follows: **International Portfolio** +4.68%[1], **Iberian Portfolio** +8.6%[2] and **Large Companies Portfolio** +1.64%[3]. This continues the positive performance of the funds since the announcement of the vaccines in November 2020, with more than two years of de-correlation with the market. Despite this price appreciation, the potential value of the funds is close to their historical highs. The target price of our international portfolio stands at 240 euros per unit **(142% potential)**, while our Iberian portfolio's target price is 238 euros per unit **(122%)**. This is really our job: daily, we are constantly working to ensure that this target price continues to grow, generating the greatest possible value for our unitholders over the long term.

This profitability and de-correlation have been possible mainly due to the structure of our portfolio, which has a significant exposure to the oil and gas sector, but also includes value-oriented, family-owned industrial companies with good cash generation and high ROCEs. This combination has allowed our funds to continue to perform reasonably well, despite the market noise generated by rising interest rates or the speculation of a possible recession in Europe or the United States.

Some of the events that have taken place during the first few months of the year may have caused concern among our investors. On the one hand, as we have discussed extensively in other quarterly letters or conferences, it was expected that after years of seeing money being pumped into the financial system and exceptionally low interest rates being maintained, at some point inflation would spike upwards. The reaction of the central banks has not been long in coming, and a cycle of rate hikes has begun to reverse or at least slow down the current situation of sudden price rises. For our side, for howe-

Notes (1), (2), (3): The returns shown correspond to Class C (ES0119199000, ES0119184002 and ES0113728002, respectively) in each of the funds. Past performance is no guarantee of future performance.

***Revaluation potential**: This is the difference between the target value and the aggregate market price of the portfolio. To calculate the target value, we apply a multiple to the normalised cash flow based on each company's own estimates.

ver long the situation lasts, our companies are prepared against this situation and maintain margins and cash flows, which as you know, is always what will determine the share price in the long term.

On the other hand, the recent turbulence in the financial system with the failure of US bank Silicon Valley Bank and the subsequent rescue of Credit Suisse by UBS with the support of the Swiss regulator is something we have experienced before. When the financial system is put on a "diet", excesses come from somewhere. Many times, as it happened with LTCM, it is more a question of a lack of a correct analysis of the real risks, than some kind of systemic problem. Due to our well-known view on investing in banks, we are once again out of the woods, as in 2008 we are not invested in any of them either. Only in exceptional situations throughout our history have we invested in domestic banks on an ad hoc basis.

It must be remembered that banks, by their nature, are extraordinarily "indebted" entities; with a large part of the liabilities that can be withdrawn at any time, as opposed to assets that are invested for the longer term. This is an act of trust in the State, which supports the bank.

On the other hand, and changing the path, to be a long-term investor, a fundamental quality is necessary, and that is to have a decisive realistic optimism. In our view, there are risks in the Western economy, but as always, we have confidence in the world economy as a whole and that in a few years' time we will all be relatively better off and will see these uncertain times as a past opportunity.

Regarding our portfolio companies, throughout the quarter and in the last few weeks we have had relevant news. In order of succession of events, at the beginning of January we received an IPO for **Gaslog**, one of our liquefied natural gas maritime transport companies, which we do not intend to take part in, expecting to receive a more attractive price, as we understand that it is still far from our target value. Continuing with more IPOs, which as we know is something that can take place when we buy at 4-6x earnings, on April 18 the majority shareholders of **EXMAR** communicated their offer to acquire the entire company at a premium of 32% over the average share price of the last few weeks. The price here is appropriate for us and we will sell our shares soon. These two cases exemplify our view that the market is not reflecting the true intrinsic value of our companies and make us very optimistic about the future performance of our funds.

At the aggregate level, the other companies in the portfolio continue to have a reasonable development of their business plans in line with our estimates, which will allow us to continue generating value by rebalancing the portfolios, selling those companies with better performance and reinvesting in those in which the value has not yet emerged.

On the other hand, we did not want to leave without mentioning the capital increase of **Técnicas Reunidas**. A business that we have known for a long time and, therefore, in depth. The company has been suffering the effects of the pandemic for some years, which has caused its business and its share price to suffer. This is now returning to normal and following the invasion of Ukraine there has been a general change in the perspectives of the oil and gas industry. Companies, governments, and institutions are seeing the need to invest in this industry to achieve energy security. This puts **Técnicas Reunidas** in a privileged position to win contracts of significant size and value. In this context and being a contractor, the strength of the balance sheet is a very important point that is analyzed by clients and banks that must provide guarantees for projects. For this reason, and to take advantage of the sector cycle, Técnicas Reunidas has decided to increase its capital by €150M. This amount will be subscribed by the Lladó family with our support, as the company has publicly announced. This decision is based on our confidence in the family that is managing the company and the prospects behind its business model, which makes us very optimistic about the situation. We are confident that it will generate good returns in the long term.

Finally, I would like to confirm that we will be announcing the date of our regular annual investor conference in the coming days. As always, we will go into more detail on all matters concerning our portfolio and view on the market and the economy in general. We will also make out best efforts to resolve any questions you may have as a participant in the fund.

Investment team.