cobas

asset management

Comment
First Quarter 2020

Cover photo: **Pan Demin, Shutterstock**

Dear co-investor,

Our first message is one of encouragement and support for those who have lost a loved one, and for those who are still suffering from the disease: our greatest wish is for our investors and their families and relatives to be in good health. We would also like to thank the health workers and all those people in essential activities who are working in the fight against this pandemic.

The first quarter of 2020 has been one of the hardest I have ever experienced as an investor, both because of the personal situation we all find ourselves in and because of the potential economic impact of these circumstances.

We have always said that we do not have to worry if the prices of good stocks fall because we can take advantage of these falls in the long term. This is true, of course, but it does not prevent us from recognising that most of our investors are suffering significant losses in their savings, savings that have been built up over the years. And even though we know that the losses are temporary, this places a psychological burden on many that is difficult to bear.

We are trying to help in the best way we know how: with transparency, sincerity and looking to the future. I know of no other way we can help the people who trust us. Perhaps it can help us get through these times by treating our investments as if they were private, unlisted companies, where until we sell we don't know if we've made gains or losses. In these investments the only thing that interests us is the performance of the business, which is what will ultimately determine whether we will have good returns. That is the attitude that makes it easier to deal with this situation.

Personally, this impact on the unitholders is my only concern. And this is because, as we will see later, the companies in which we invest are going to see a relatively small impact on their future performance. And this is no accident. After many years of bull markets, we have sought out investments that are unaffected by economic cycles, and this is the case for most of our investments at this time.

Some wonder why, despite this, the crisis has affected our share prices so much when businesses are not affected, and we have no answer to that question. In times of crisis, the market exacerbates its irrationality, and it is difficult to escape it. This happened in 2008 and it has happened again. It is surprising to see the **Teekay Group** (our largest investment at this time) undergo sharp price falls during this crisis when on 16 April **Teekay LNG** confirmed a 36% increase in its dividend; a unique situation, at a time when countless companies are eliminating the dividend. To our knowledge, there is no known company that has confirmed an increase of this kind in the last month. In the meantime, **TGP** has gone from a P&E ratio of 5x to 3x, etc.

After recent declines, our international funds have gone from a P&E ratio of 7x to below 5x. In each company you can explain the reason for the undervaluation, but we cannot avoid it for the time being, and it is essential to understand the cause and whether it will change. At least, in the most significant investments for us, management is aware of the problem and is wor-

Notice of closure in a shop window in the center of Madrid. Photo: **Anastasiia Chelspinka, Unsplash**

king to solve issues that makes it difficult for the market to make a correct assessment vs. similar companies, and therefore to make a proper valuation. In several cases it is quite possible that such measures could be taken later this year.

We can complain about how unfair the situation may be, but only with patience can valuations be corrected.
Others ask if we will take the opportunity to increase the quality of the portfolio. Yes, this is clearly a non-stop task that we continue to do. We already explained in our annual conference how we are selling the oil and deriva-

Eduard Toll, the first arctic methane tanker of Teekay. Photo: **Teekay** tives shipping companies, a business evidently without entry barriers, replacing them with other businesses with higher barriers and returns on capital.

And we insist that we "own" quality businesses: which have long-term contracts that ensure us revenue in almost any circumstance, captive customers for whom they are essential, with technological leadership, etc. The fact that the infrastructure companies of LNG, **CIR** and **Babcock** are trading at significant discounts compared to companies that have similar businesses makes no sense, and we would only sell these shares if clearly better opportunities arose.

We insist, a discount compared to similar business, not to completely different business. In other words, among all our companies we find companies in similar businesses that are trading at reasonable prices, so we know that our companies will also eventually trade at their value.

We have indeed made sales in businesses where the future has become significantly bleaker, such as the banking sector. We have reinvested the proceeds in assets that have suffered similar losses, but where we see a clearer future performance and a more diversified risk in other countries.

And generally, the criterion for reinvestment of cash inflows and partial sales of some assets has been simple: companies with little debt, well known to us and which for some illogical reason have fallen as much or more than the market.

Finally, with respect to our portfolios, we have carried out a detailed examination in all companies measuring the impact of the crisis on the different businesses. We have been conservative and realistic (for example, at **Renault** we have reduced our valuation by 50%), resulting in a drop of just over 10% in our target prices for the different portfolios. In the following section we will show the breakdown by company for this year, but will I say beforehand that we believe this is a remarkable result during the biggest global recession in the last 50 years. With these new values, the upside potential is obviously increased, given that the falls in prices have been much larger, with upside amounting to three times the current prices.

The mechanism is simple: companies are trading at a P&E ratio of 5x and our overall valuation is a P&E ratio of 15x. That is, we are buying the portfolio at a third of its value.

We think that the current crisis will pass, as it is already doing in some countries. In China the sales of cars, gas and other products are already rising in April, and here we would recommend the video from our partner Mingkun issued a few days ago, which can be seen here. Some think that our behaviour, that of consumers, is going to change from now on. I do not know, but one has to be a little sceptical in this respect; we should remember that after the terrible flu of 1918 (and the horrific First World War) came the "roaring" 1920s, an unprecedented (economic) boom. Fortunately, our species tends to emerge stronger from crises.

Photo: **Cobas AM**

However, the serious problem we face as a society is that the necessary assistance to people who are suffering job losses and other losses may affect the solvency of states, central banks and their currencies. Sadly, many states and central banks have gone into the crisis with very high debts and highly extended balance sheets, and the increases that are taking place may become unbearable for paper money.

We have already explained that the only defence against a potential loss of value of a currency is to own real assets: shares, real estate assets, etc. And this is our most urgent recommendation at this time.

Lastly, we would reiterate that the losses are temporary as long as we do not sell our positions, and this is extremely important: most of our companies are generating profits every day, therefore increasing their value every day, as we have seen with the increase of dividends of **Teekay LNG.** It is natural that when we want to sell, the value that is being created is being reflected in their share prices.

Before I conclude, a word of thanks: despite the fact that March was one of the worst months for the markets in living memory, we had net inflows of money and new investors in the funds in March and April, so I want to thank our unitholders for their trust.

Francisco García Paramés

How might Coronavirus impact our valuations?

Let's illustrate this with an example. Imagine that we have a flat in the best street in the city (to illustrate a good quality asset, like most of our portfolio companies), where they are going to make a parking and there is going to be construction work for a year, so we will not be able to rent the flat. Therefore, our "profit and loss" statement for that year is going to be "awful". However, if we have the necessary liquidity to pay the mortgage and the expenses, the value of the flat will be minimally affected by this problem. At most the value of the flat could go down by the amount we have stopped receiving from the rent, but in no case more than 40%, the way the stock market has fallen these months.

Therefore, depending on their ability to recover revenues or the liquidity they have to cope with this lockdown, we have separated our companies into two groups according to the impact they might have: those where the impact on their valuation will be small and those where the impact will be negative. Now, we will explain this in detail for both our **International Portfolio** and our **Iberian Portfolio.**

Adjustments in our valuations

We will now analyse the portfolio situation. Remember we work based on estimates or forecasts of future business performance and financial results, and these are based on the expectations of Cobas AM and exposed to factors, risks and circumstances that could affect financial results, so they may not be met.

INTERNATIONAL PORTFOLIO

The adjustment we have made to our **International Portfolio** is nearly 13% compared to our December 2019 valuation, up to €162 euros/unit.

Companies with a small impact:

In about 70% of the **International Portfolio,** the reduction in our valuation was less than 10%, with the average reduction being about 8%.

LNG infrastructure (~24% of the portfolio): To understand this graphically, let us say that these businesses are the "gas motorways", which allow the gas to be brought from the place of origin, normally in the Middle East, Russia or the United States; passing through the processes of liquefaction, transport and regasification; to the areas of the world where consumption is found, mainly in Asia.

Like every motorway, someone has to build it and operate it. Usually it is not the customer, but an infrastructure company, in exchange for being able to charge a "toll" for 20-30 years. But even these "motorways" have two advantages over a normal motorway: i) there is no traffic risk: the customer pays a fixed "volume", and the gas price only affects them marginally; and (ii) customers are very solid companies. For all this, when all the "motorways" that our companies are building are finished, we hope that the market will recognize them for what they are, a quasi-bond, with the advantages and drawbacks (inflation) that this implies.

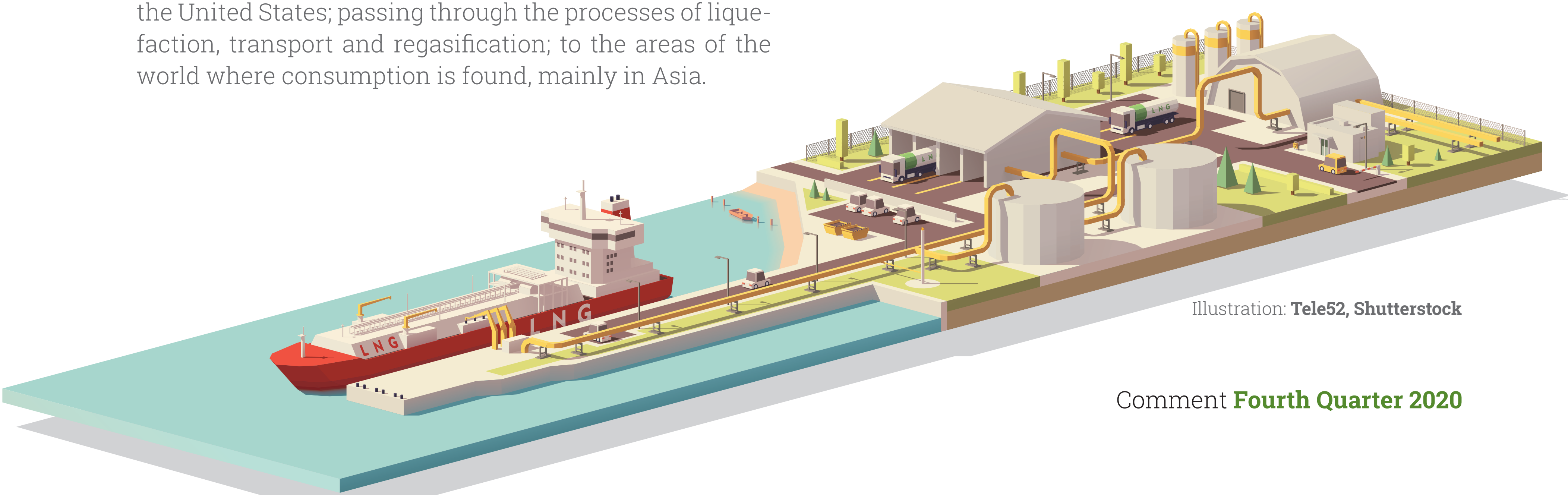


Illustration: **Tele52, Shutterstock**

Owing to these characteristics, the adjustment we have made in our models is minimal, on average 8%, and this is mainly due to the revision in **Golar LNG** that we explain below.

In addition, we believe that our investments in the LNG transport and infrastructure sector offer exposure to a **growth industry.** This is due to the replacement of coal and oil by cheaper and cleaner gas and because gas is the back-up energy needed by renewable energies (which are by their nature unstable), and that our companies will continue to provide these infrastructures on the basis of the nearly 100 long-term contracts they hold. We should remember that 78% of the demand for LNG in 2019 came from Asia, which seems to have passed the peak of the crisis. For example, gas consumption in China has already grown by 1% in March compared to the same month last year, showing a gradual improvement, with growth of 5% expected for the year as a whole; also in South Korea there was a 20% increase in gas imports in the first quarter.

Teekay LNG (~6% of the portfolio: which rises to 10% of the portfolio if we include TK Corp) continues to operate normally on the 50 or so ships it has, in line with its scheduled plans, although with care so that crews do not become infected, it maintains the earnings estimate it has previously disclosed to the market of $250mn. They are trading at three times earnings and have confirmed their dividend of $1, which represents a dividend yield of 9% at the current price (and let us remember that they only pay out 1/3 of their earnings in dividends) and maintain their plan to buy back their own shares.

Golar LNG (~9%) announced that one of the contracts it holds, which is under construction, for floating liquefaction of Natural Gas (FLNG), will be delayed one year until 2023, as **BP** declared force majeure, owing to its inability to meet the initial timetable owing to the impact of the Covid-19. This delay will have a small impact on our valuation. In addition, we have been somewhat more conservative in other projects not yet contracted.

On the positive side, it has announced a new agreement to establish a terminal in the state of Pernanbuco (Brazil) and distribute LNG in that state, and a new agreement with the distribution subsidiary of Petrobras to distribute LNG throughout the country. This is in addition to the commissioning at the end of March of the thermal power plant in Sergipe, Brazil, the largest in Latin America, as well as the LNG import terminal. With this, the company expects to start earning about $100 Mn a year for 25 years.

CIR (~8%) we should remember that, after the divestment of assets, it has nearly 70% of its capitalization in cash; they are practically giving us a great deal of the other businesses for free. The main business, KOS, of nursing homes and hospitals continues to operate and tighten preventive and control measures and because they took early isolation measures they have had few centres with cases of Covid-19. We have adjusted our valuation by 9% because this year we assumed higher costs to deal with the crisis.

Crude oil shipping companies (~9%) that have received very high freight rates (>$100,000/day) in recent months. They very well may decrease owing to the production cut announced by OPEC, but we think that in the year as a whole they will be above standardised level (new investment incentive) that we use in our model, generating significant cash flow (according to the market consensus it could be around 40% of capitalization). Looking head to the medium term we continue to see an attractive market due the adjustment of supply and we are maintaining our valuations.

Babcock (~5%). The main impact of COVID-19 is on its helicopter emergency services division (10-12% of income) and training services. Lockdown policies are resulting in a reduction in the number of accidents, so we have marginally adjusted the valuation. At these prices, the market is giving us an extraordinary opportunity to buy good businesses with unique assets (maintenance of nuclear submarines and frigates in the UK, support and dismantling of nuclear power plants) with long-term contracts, that are well managed, and at very attractive prices.

Other solid businesses (~20%): we include those companies that would have a neutral impact such as **Sol** (~2%) (industrial gases for the health and food sector; for example, it produces oxygen for hospitals); **OCI** (~2%) belonging to the fertiliser sector: the company expects its volumes to grow at double digits this year.

Within the health sector we have low exposure (~2%), where we expect small impacts. The other companies with little impact all have owners and net cash, such as Maire Tecnimont (~3%), **Danieli** (~4%), **Samsung C&T** (~2%) and **Daiwa** (~2%). For example, in **Daiwa** and **Danieli** net cash is higher than their current capitalization.

Helicopter manufactured by Babcock for the Emergency Medical Services of the Parpado Hospital in Messina, Italy. Photo: **Depaz, Shutterstock**

Companies with a negative impact

In about 30% of the **International Portfolio,** the reduction in our valuation was above 10%, with the average reduction being above 20%.

Automotive companies (~7%) will clearly have an impact from lower sales and the key will be whether they have enough liquidity to hold out for a few months with very low sales and structurally high costs. All our companies have net cash. **Renault** confirmed that it has 15 billion euros in cash, between cash and credit availability, and we should remember that in 2009 its cash losses were 4 billion euros. In addition, it is important to remember that **Renault** has the support of the French state (the company's main shareholder) which could help it to obtain low-cost bank financing with government guarantees. The automotive sector is considered a key pillar in the economy of many countries and it would not be surprising if measures were taken to help companies weather the storm (as was done in the 2008-09 crisis), and to help demand for cars improve once the situation returns to normal.

Oil sector (~8%) We have, first of all, oil extraction companies **(Kosmos, Cairn, IPCO)** that will suffer profit losses due to the drop in oil prices, but we think they are well prepared because they have production costs between $20 and $30 per barrel, which gives them the strength to withstand the current price war. Also, we have oil service companies **(Petrofac, Subsea7, Saipem)** that have an owner behind them and two of them have net cash. **Saipem** has little debt and we think that all of them are prepared to overcome this period of difficulties.

Retail companies (~7%). They will be affected in general, and in our case the only significant impact will be on **Dixons.** The company announced that until the end of March the business had performed well. However, with the closure of stores in the UK since March 24, and although the performance of the online channel is being very positive, a significant drop in sales will be inevitable during these months. We should recall that **Dixons** is the leading UK electronics distributor and has not only proved that it can compete effectively with **Amazon,** but has consistently gained market share in recent years. In addition, its exposure to Nordic countries, where stores have remained partially open, partly mitigates the losses in the UK.

Aryzta (~4.6%). As we have indicated in previous letters, the closures of restaurants, hotels, and the rest of the wholesale channel, which together account for more than 50% of sales, will have a negative impact that will not be offset by the increase in sales in supermarkets. The company had €360 Mn in cash at the end of March to withstand these difficult months and has no significant debt repayments until the end of 2021.

Wilhemsen (~3%) is a Norwegian holding company with a family behind it, with net cash and a presence in leading companies in its sector. The holding company has a presence in service and maritime transport companies, for the automotive industry and heavy equipment for construction, agriculture and mining, which are being negatively affected by the stoppage of activity.

Previous page, Renault assembly plant in Valladolid. Photo: **Renault**

IBERIAN PORTFOLIO

As with the **International Portfolio,** we have also adjusted the valuation of our **Iberian Portfolio** in line with the effects we expect the coronavirus to have on the economy. Specifically, we have adjusted our valuation by 13%, compared to the valuation we had at the end of 2019, to €161/unit.

Companies with a small impact

In nearly 45% of the **Iberian Portfolio,** the reduction in our valuation was less than 10%, with the average reduction being about 7%.

Elecnor (~9%): The impact will be minimal as ~40% of our valuation comes from businesses related to infrastructures, electricity transmission networks **(Celeo)** and wind farms **(Enerfin).** The remaining 60% of our valuation comes from the traditional engineering business, half of which are recurring maintenance services to various utilities, the other half are engineering contracts (EPC) with an order book of 1.5-2 years widely distributed across various sectors. Recently there was an independent valuation of **Celeo**'s business that is higher than our valuation, so in this case we have barely touched on our valuation of **Elecnor.**

Técnicas Reunidas (~8%): It could be affected by the lower capex of the oil companies in the future, but the company has an order book at record highs that covers the next 2 years of sales, and it has not had cancellations even in projects that it has just won and that the client could have cancelled with no problem. In addition, the company has a net cash position of nearly €400 Mn and access to credit lines, so we think the impact on valuation should be moderate.

Cyclical businesses with no major problems (~8%): Atalaya Mining is a cyclical company exposed to copper with no debt problems, and whose price could be affected in the short term, but we are optimistic in the long term as 2/3 of copper demand comes from Asia (China represents 50% of global demand) and copper is essential for growth and electrification of developing countries.

Befesa could be temporarily affected in the short term, but we are positive as Befesa is helping the steel industry to transform some of its waste into zinc concentrate. Lastly, in Ence, demand for tissue (toilet paper, napkins, etc.) is more than offsetting the fall in demand for pulp from other sectors.

Other solid businesses (~11%): Corporación Financiera Alba is a holding company controlled by the March family in which approximately 70% of our valuation comes from very stable businesses such as **Naturgy, Euskaltel, Ebro Foods, Viscofan,** etc. The **Sonae Group** is a Portuguese holding company mainly exposed to very stable sectors such as supermarkets and telecommunications, with significant market shares in both businesses in their respective markets. **Logista** and **Miquel y Costas** are companies with cash, and with clear competitive advantages exposed to the tobacco sector, but successfully diversifying into other sectors.

Companies with a negative impact

In nearly 50% of the portfolio, the reduction in the valuation was above 10%, with the average reduction being about 18%.

Semapa (~9%): is a holding company whose main asset is **Navigator** (~85-90% of our valuation); Navigator is a leader and the most cost-efficient producer of office paper in Europe. We believe that in a recessionary scenario it may suffer temporarily, so we have cut our target price slightly as a result of the delay in our normalised earnings from **Navigator** and the reduction in normalised earnings from **Secil** (its cement division).

Real estate developers (~9%): In Spain, virtually no housing has been built in the last 10 years, so the starting point is not at all comparable to that seen in the crisis of 2008. That is why we think that there is demand, and that depending on how severe the recession is, the purchase of homes will be delayed more or less, but that sooner or later it will end up coming back.

This investment is distributed among four companies **(Aedas, Metrovacesa, INSUR** and **Quabit),** all of them with core shareholders and with hardly any debt except for **Quabit** (~3%) which has a loan to value ratio (debt/asset value) of ~45%. But even in this case, the maturity of the debt is conditional on the delivery of the homes, many of them pre-sold and pending delivery. What we have done in recent months has been to strengthen our position in companies with no debt problems.

Vocento (~9%): A recession scenario could affect advertising revenues in the short term, but we believe that in the long term this crisis could help accelerate market concentration, cost efficiencies and speed up the digital transition. In any case, Vocento has a very moderate debt (~1x Ebitda).

Meliá (~5%): Melia may be one of the most affected in the short term, but we think it will be temporary, since it has very moderate debt, it has the support of the value of its properties and that of a family that has always acted with a long-term vision. A valuation made by JLL, an indepen-

Previous page, Atalaya Rio Tinto copper mine in Huelva. Photo: **Denis Zhitnik, Shutterstock**

dent appraiser, assigned a value to its real estate of ~€16/share. Even so, we have cut our valuation.

Direct/indirect exposure to oil (~5%): We have three companies that will be affected by the drop in oil prices, **Sacyr, Mota-Engil** and **Tubacex.** The main one by far is Sacyr. Although at **Sacyr** the bulk of our valuation comes from its traffic-free motorway concessions business, it also controls ~8% of **Repsol,** where falling oil prices have caused us to reduce its valuation.

Photo: **Corlafra, Shutterstock**

PORTFOLIOS

Comment **Fourth Quarter 2020**

Our portfolios

Spanish domiciled funds

Name	Capitalisation	Assets Under Management	Market Capitalisation	Strategies: International	Strategies: Iberian	Number of holdings
Internacional FI	258.5 Mn€	270.5 Mn€	Multi Cap	●		52
Iberia FI	27.8 Mn€	30.8 Mn€	Multi Cap		●	33
Grandes Compañías FI	11.3 Mn€	14.1 Mn€	70% ≥ 4Bn€	●	●	32
Selección FI	424.4 Mn€	471.5 Mn€	Multi Cap	●	●	64

Data 31/03/2020. We would recall that the target price of our funds is based on internal estimates and Cobas AM does not guarantee that its calculation is correct or that they will be reached. We invest in assets that the managers deem to be undervalued. However, there is no guarantee that these assets are actually undervalued or that, even if they are, their price will move in the direction expected by the managers.

As you are probably aware, at **Cobas AM,** we manage three portfolios: the **International Portfolio,** which invests in companies worldwide, excluding those listed in Spain and Portugal; the **Iberian Portfolio,** which invests in companies listed in Spain and Portugal, or that have their operational hub on the Iberian Peninsula; and, last but not least, the **Large Company Portfolio,** which invests in global companies, of which at least 70% have over 4 billion euros in stock market capitalisation.

With these three portfolios, we built and have managed the various equity funds as of 31 March.

Total assets under management

(Including Institutional mandates)

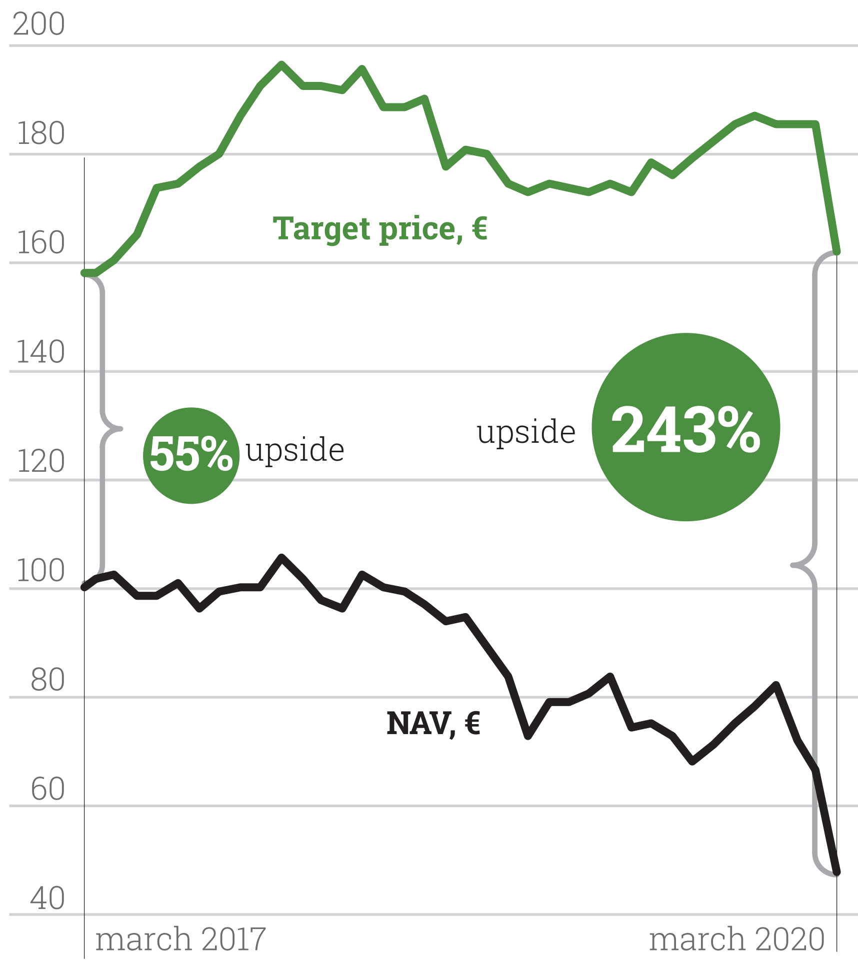
1.150 Mn€

International Portfolio

Over the first quarter of 2020, our **International Portfolio** posted a return of -42.5% versus the -22.6% posted by its benchmark index, the **MSCI Europe Net Total Return** index. Since the **Cobas Internacional FI** fund began investing in equities in mid-March 2017, it has obtained a return of -52.7%, while its benchmark index has obtained a return of -7.1% for the same period.

During the first quarter we made few changes in the **International Portfolio** in terms of inflows and outflows. We have completely exited five companies that together had a weight that was less than 3% and we have entered two companies that, jointly, are less than 1%. But we did rotate the weights of the companies in the rest of the portfolio. First, we have increased our exposure to **CIR** (by +2.2%) and **Golar** (+1.4%), as we think they have fallen much more than this crisis could affect them; on the other hand, our exposure to **Aryzta** has fallen by 3.4%.

During the quarter we reduced the **target value of the**



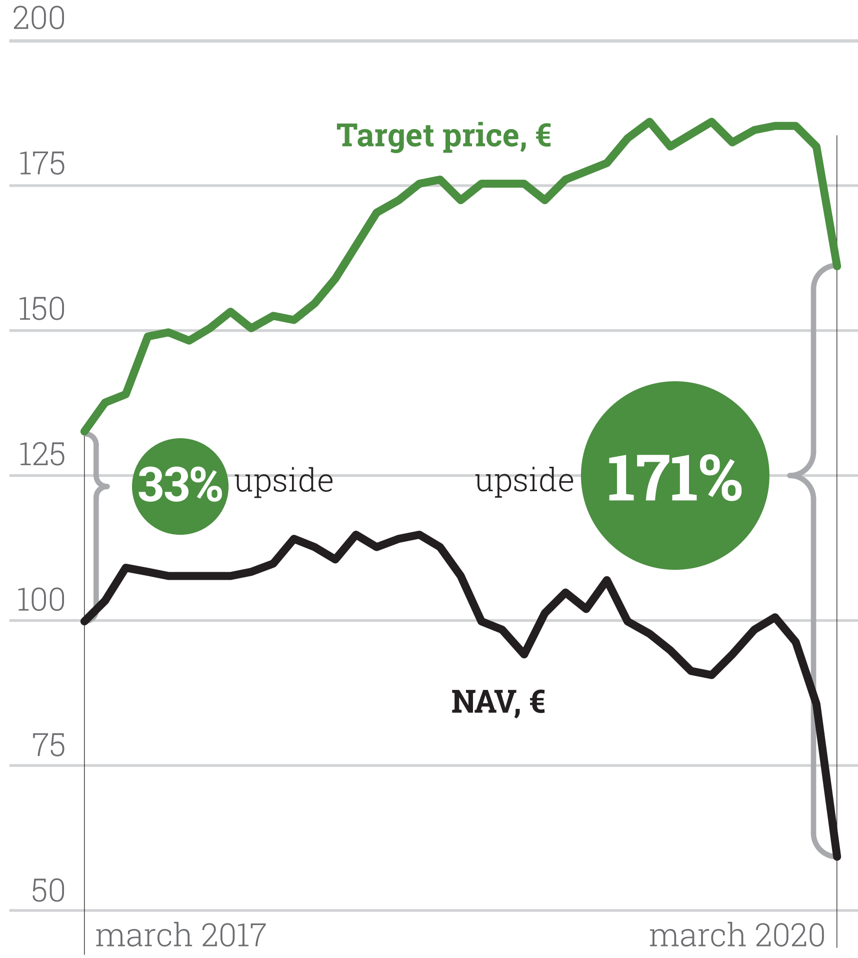
International Portfolio by 13%, to **€162 euros/unit,** compared to a fall of 42.5% in the net asset value, as a result of which the upside potential has risen to **243%**.

Obviously, as a result of all this potential and our trust in the portfolio, we are invested at 97%, close to the legal maximum. Overall, the portfolio trades at an estimated 2020 P/E ratio of 4.7x, versus 11.9x for its benchmark index, and with a ROCE of 25%. If we focus on the ROCE and exclude maritime transport and commodities companies, it would be 31%.

Iberian Portfolio

The net asset value of our **Iberian Portfolio** in the first quarter of 2020 was -41.1%, compared with -27.5% for its benchmark index. If we extend the comparison period since we started investing in equities until the end of 2019, it has obtained a return of -40.5%, while its benchmark index has obtained a return of -23.9% for the same period.

Over the first quarter we changed the composition of the Iberian Portfolio to a significant extent. We invested in three new companies **(Prisa, CIE and LAR)** whose combined weight is nearly 3.4% at the end of March. On the other hand, we have completely sold six companies that together had a weight close to 4.6% at December 2019, with most significant being **Repsol, Caixabank, Arcelor** and **Indra,** each with a weight close to 1% at December 2019. In addition, we reduced our exposure to **Bankia** (by -2.4%) and **Unicaja** (-1.6%) for the reasons stated at the beginning of this letter.



During the quarter we reduced the **target value of the Iberian Portfolio** by 13%, to **€161 euros/unit,** compared to a fall of 41.1% in the net asset value, as a result of which the upside potential has risen to **171%.**

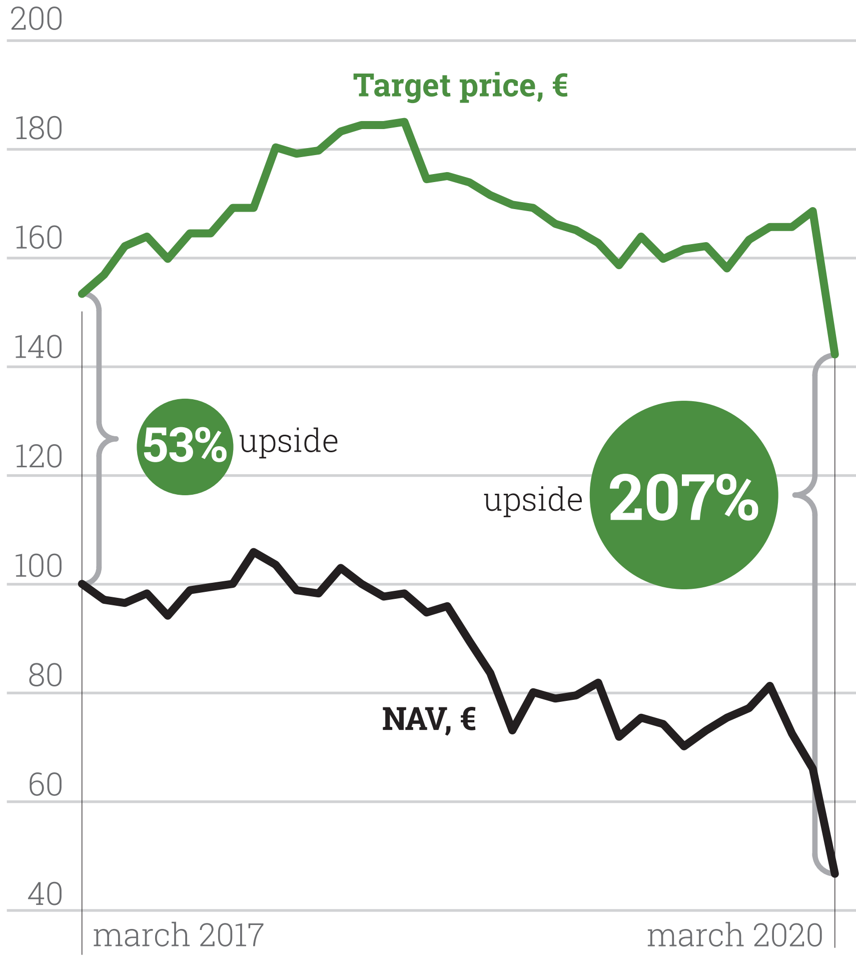
In the **Iberian Portfolio,** we are 94% invested and, as a whole, the portfolio trades with an estimated 2020 P/E ratio of 6.1x, compared to the 12.0x of its benchmark index, and with a ROCE of 21%.

Large Company Portfolio

During the first quarter of 2020, our **Large Company Portfolio** had a return of -42.7% versus -19.2% in the benchmark index, **MSCI World Net.** Since the **Cobas Grandes Compañías FI** fund began investing in equities in early April 2017, the return has been -53.5%. In that period, the benchmark index rose by 3.2%.

In the **Large Companies Portfolio** we completely exited **Gilead** (as it did its defensive work against the market), **Iliad** and **International Seaways** which had a combined weight of ~5% as of December, and we have entered **Repsol** and **CK Hutchison,** which had a combined weight of ~3.2% at the end of March. We also increased our position in **Dassault Aviation** (by +3.4%), **Teekay Corp** (+1.3%) and **Golar LNG** (+1.1%).

We have increased our exposure in **Dassault Aviation,** an "old acquaintance", because we believe that the market has penalised it excessively for its exposure to a cyclical business such as the business aircraft division (Falcon)



because the market forgets that the sum of the cash plus the market value of the 25% it has in **Thales** is higher than its market value, to which should be added the value of the recurring business and the nearly €18,000 Mn euros (>3 years of turnover) of its current order book.

In February, **ThyssenKrupp** agreed to sell its elevator division for €17.2 billion, compared to its €2.9 billion in market capitalization. In **Cobas AM** we think that this "injection" of liquidity will allow it to undertake the restructuring of its other businesses in a more orderly manner. In addition, something has happened in the last year that has not happened in the last 20 years, and that is that the current management team has the backing of the main shareholders (including the **Krupp Foundation**) and unions to carry out this restructuring.

During the quarter we reduced the **target value of the Large Company Portfolio** by 8%, to **€143 euros/unit,** compared to a fall of 42.7% in the net asset value, as a result of which the upside **potential** has risen to **207%.**

Overall, the portfolio trades at an estimated 2020 P/E ratio of 4.9x, versus 13.9x for its benchmark index, and with a ROCE of 28%.

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asset management

COBAS NEWS

Comment **Fourth Quarter 2020**

Our **Cobas AM** news section aims to give you a preview of the asset management projects and initiatives, while sharing some of the most important milestones to have been reached in the last quarter.

Fourth Annual Investor Conference

On 31 January and 17 February we held our **Fourth Annual Investor Conference** in Barcelona and Madrid, respectively, with more than one thousand attendees in total. The event was broadcast live through different channels with a following of more than 6,000 people.

During the conference, our Analysis team led by Francisco García Paramés presented its investment strategy and reviewed the current situation of the manager and of our portfolios. To close the conference, there was a Q&A session in which our manager and our analysts responded to the questions asked by the attendees in person or through the mobile application that we designed especially for the event.

Cobas Events

We at the **Investor Relations department of Cobas AM** have continued to organise events in different cities across Spain as we believe it is essential to transmit our investment philosophy and strategy to all our fellow investors.

This quarter, due to the situation of the Covid-19, the only city to host our information day was Seville, on March 5th.

On behalf of the management and analysis team, Juan Huerta de Soto was responsible for reviewing our portfolios while Carlos Gonzalez, Director of Retail Investor Relations, shared the key figures of the manager and our investment philosophy.

Procedure for registration in Cobas AM with Covid-19

Firstly, we can confirm that at **Cobas AM** we are working from home and that all procedures are working correctly, both the registration and cancellation procedures, as well as the procedures for obtaining the net asset value and

the purchase/sale of securities.

Having contacted the regulator, we have decided to temporarily simplify our customer registration procedure in order to expedite the process at this time.

When subscribing, once you have completed the registration form on our website **www.cobasam.com** in the "Invest" section, we will contact you in order to provide you with the current account number of the fund to be subscribed to and to which you will have to make the bank transfer. Once this has been done, you must send us the proof of this by email together with a photocopy of the ID card of the holders.

In transfer registrations, once the registration form has been completed on our website **www.cobasam.com** in the "Invest" section, we will contact you so that you can provide us with the most position statement of the fund to be transferred together with a photocopy of the holders' ID.

Photo: **Arturo Laso**

Ability to withdraw from a pension plan owing to Covid-19
A new Royal Decree-Law will make it allow unitholders who meet certain requirements, and on an exceptional basis, to have access to the rights vested in the plans.

These requirements are as follows:
a) Being in a legal situation of unemployment as a result of temporary redundancy plan owing to the situation of health crisis caused by the COVID-19. In this case, the unitholder must provide a photocopy of the redundancy notice.

b) Being the owner of establishments whose opening to the public has been suspended as a result of the provisions of Article 10 of Royal Decree 463/2020 of 14 March.

c) In the case of self-employed workers who had previously been integrated into a social security scheme as such and have ceased their activity as a result of the health crisis caused by Covid-19.

The liquidity window is not unlimited, as workers may be reimbursed up to the maximum amount of the wages they no longer receive due to the situation of redundancy, and employers and self-employed workers may will not exceed the amount they estimate as the net income loss in this period.

Photo: **Diego Martínez and Arturo Lado** valueschool

Cobas AM collaborates with **Value School** to promote financial literacy from an independent perspective and help savers make conscientious investment decisions. At the end of the day, being a value investor is more than just buying cheap and then being patient. It is a philosophy of life.

VS webinars

As long as the exceptional circumstances we are living through continue, **Value School** continues its weekly schedule of online events with its new **VS Webinars,** a 100% online format for their popular weekly events.

New courses of Value Academy

Value School continues to expand the course offerings of its **Value Academy** platform with two new programmes that can be followed remotely: **The conscientious investor** and the **Behavioral Finance Programme.** Once the classes are over, the students will always have the videos and audios of the sessions in their personal section of the Value Academy.

New edition of the Executive Programme on Value Investing and Behavioural Finance

Interviews and registrations have already begun for the second round of this pioneer program in value investment and behavioural finance that **Value School** has developed together with **ICADE** and **INIV.** The classes of this course, which is suitable for professional and private investors, will begin in early October 2020. All information on registration, faculty and subjects can be found at the **ICADE** website.

Recertify

Accreditation of the training hours required to meet current regulations poses a problem for any professional in the financial sector**. "Recertify"** offers a solution to this problem. **Value School,** in collaboration with **W&K Financial Education,** have launched this platform of carefully selected resources that allows professionals in the sector to conveniently certify their hours of continuous training with content tailored to their interests.

Value Kids Blog

Although financial education workshops in primary and secondary schools have been suspended, the **Value Kids** project continues to promote savings and responsible consumption among families and young people through their blog and **YouTube** channel.

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ANNEXES

Comment **Fourth Quarter 2020**

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Spanish Funds

Fund	Net Asset Value	Target Value	Upside potential	Q4 Performance		Performance YTD		Perf. since inception		PER	ROCE	AUM mn€	Equity exposure
				Cobas	Benchmarck	Cobas	Benchmarck	Cobas	Benchmarck				
Selección FI	49.6 €	169 €	240%	-43.0%	-22.6%	-43.0%	-22.6%	-50.4%	-3.8%	4.7x	25%	424.4	97%
Internacional FI	47.3 €	162 €	243%	-42.5%	-22.6%	-42.5%	-22.6%	-52.7%	-7.1%	4.7x	25%	258.5	97%
Iberia FI	59.5 €	161 €	171%	-41.1%	-27.5%	-41.1%	-27.5%	-40.5%	-23.9%	6.1x	21%	27.8	94%
Grandes Compañías FI	46.5 €	143 €	207%	-42.7%	-19.2%	-42.7%	-19.2%	-53.5%	3.2%	4.9x	28%	11.3	96%
Renta FI	88.4 €			-8.5%	-0.1%	-8.5%	-0.1%	-11.6%	-1.2%			16.8	15%

Pension Funds

Fund	Net Asset Value	Target Value	Upside potential	Q4 Performance		Performance YTD		Perf. since inception		PER	ROCE	AUM mn€	Equity exposure
				Cobas	Benchmarck	Cobas	Benchmarck	Cobas	Benchmarck				
Global PP	46.1 €	157 €	240%	-42.8%	-22.6%	-42.8%	-22.6%	-53.9%	-10.5%	4.7x	25%	30.3	97%
Mixto Global PP	55.7 €	158 €	184%	-34.8%	-11.5%	-34.8%	-11.5%	-44.3%	-5.0%	4.7x	19%	2.9	71%

• The **target value** of our funds is based on internal calculations and estimates and Cobas AM does not guarantee that its calculation is correct or that they will be reached.
• **Inception of the funds**. Cobas Selección FI: 31-dec-16; Cobas Internacional FI: 15-march-17; Cobas Iberia FI, Cobas Grandes Compañías FI y Cobas Renta FI: 3-april-17; Cobas Concentrados FI: 31-dec-17; Cobas Global PP and Cobas Mixto Global PP: 18-jul-17.
• **Benchmark.** MSCI Europe Total Return Net for Cobas Selección FI, Cobas Internacional FI, Cobas Concentrados FI and Cobas Global PP; MSCI World Net EUR for Cobas Grandes Compañías FI; IGBM Total 80% and PSI 20 Total Return 20% for Cobas Iberia FI.

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Radiography of our funds

First Quarter 2020

Top 10

Cobas Internacional FI (ES0119199000)

Company	Current quarter weight	Previous quarter weight
Golar LNG	8.6%	7.2%
CIR & COFIDE	8.3%	6.1%
International Seaways	7.5%	6.5%
Teekay LNG	5.9%	5.3%
Babcock	4.7%	4.3%
Aryzta	4.6%	8.0%
Teekay Corp.	4.5%	4.3%
Dixons Carphone	3.7%	4.3%
Daineli	3.5%	3.1%
Maire Tecnimont	3.2%	2.8%

Cobas Iberia FI (ES0119184002)

Company	Current quarter weight	Previous quarter weight
Elecnor	9.3%	10.0%
Semapa	9.2%	9.2%
Vocento	8.5%	7.7%
Técnicas Reunidas	8.3%	9.8%
Meliá	4.7%	4.6%
Corp. Fin. Alba	4.3%	3.7%
Atalaya Mining	3.8%	4.9%
Sacyr	3.5%	3.9%
Prosegur Com	3.3%	3.2%
Befesa	3.3%	2.8%

Cobas Grandes Compañías FI (ES0113728002)

Company	Current quarter weight	Previous quarter weight
Israel Chemicals	8.3%	7.4%
Golar LNG	6.7%	5.6%
Mylan	6.4%	6.4%
Samsung C&T	5.3%	4.7%
BMW Pref.	4.8%	3.9%
Dassault Aviation	4.7%	1.3%
Thyssenkrupp	4.6%	5.8%
Porsche	4.2%	3.8%
OCI	4.2%	3.9%
Renault	3.5%	4.3%

Cobas Selección FI (ES0124037005)

Company	Current quarter weight	Previous quarter weight
Golar LNG	7.8%	6.5%
CIR & COFIDE	7.5%	5.6%
International Seaways	6.8%	5.9%
Teekay LNG	5.3%	4.8%
Aryzta	4.2%	7.2%
Babcock	4.2%	3.9%
Teekay Corp.	4.0%	3.9%
Dixons Carphone	3.3%	3.9%
Danieli	3.2%	2.8%
Maire Tecnimont	2.9%	2.5%

Cobas Renta FI (ES0119207001)

Company	Current quarter weight	Previous quarter weight
Golar LNG	3.9%	2.3%
Teekay Corp.	3.0%	1.9%
Teekay LNG	1.8%	1.5%
CIR & COFIDE	1.0%	1.2%
International Seaways	0.8%	1.2%
Babcock	0.8%	0.9%
Dixons Carphone	0.6%	1.0%
Técnicas Reunidas	0.5%	1.0%
Aryzta	0.5%	1.6%
Elecnor	0.4%	0.6%

Geographical breakdown (Current Quarter Weight %)

Cobas Internacional FI

Eurozone	31.6%
USA	31.4%
Rest of Europe	24.7%
Asia	11.0%
Other	1.3%

Cobas Iberia FI

Spain	67.7%
Portugal	25.2%
Other	7.1%

Cobas Grandes Compañías FI

Eurozone	39.6%
USA	26.0%
Asia	16.5%
Other	11.1%
Rest of Europe	6.7%

Cobas Selección FI

Eurozone	37.2%
USA	28.3%
Rest of Europe	23.4%
Asia	9.9%
Other	1.2%

Cobas Renta FI

Eurozone	80.9%
USA	14.5%
Rest of Europe	4.7%

Currency breakdown (% Gross)

Cobas Internacional FI

Euro	31.6%
USD*	31.4%
Sterling Pound	13.0%
Korean Won	8.6%
Swiss Franc	4.6%
Norwegian Krone	5.5%
Japanese Yen	2.4%
Other	3.0%

(*) EUR/ USD 100% hedged

Cobas Iberia FI

Euro	96.2%
Other	3.8%

Cobas Grandes Compañías FI

Euro	39.6%
USD*	26.0%
Israel Shekel	10.3%
Korean Won	9.5%
Sterling Pound	3.6%
Swiss Franc	3.1%
Japanese Yen	2.9%
Taiwanese Dollar	2.7%
Other	2.2%

(*) EUR/ USD 100% hedged

Cobas Selección FI

Euro	37.2%
USD*	28.3%
Sterling Pound	12.7%
Korean Won	7.7%
Swiss Franc	4.2%
Norwegian Krone	4.9%
Japanese Yen	2.2%
Other	2.7%

(*) EUR/ USD 100% hedged

Cobas Renta FI

Euro	80.9%
USD*	14.5%
Swiss Franc	2.1%
Norwegian Krone	1.2%
Sterling Pound	1.3%

(*) EUR/ USD 100% hedged

Performance contributors (Contribution to return %)

Cobas Internacional FI

Contributors	
Kongsberg Gruppen	0.1%
O-I Glass	0.0%
Catcher Tchnology	0.0%
Amorepacific	0.0%
Sol SPA	0.0%

Detractors	
Teekay LNG	-1.8%
Hoegh	-1.9%
Dixons Carphone	-2.2%
Golar LNG	-3.6%
Aryzta	-6.2%

Cobas Iberia FI

Contributors	
Indra	0.1%
Caixabank	0.0%
Sacyr (derechos)	0.0%
Repsol (derechos)	0.0%
Acerinox	0.0%

Detractors	
Atalaya Mining	-3.0%
Elecnor	-3.2%
Vocento	-4.1%
Semapa	-4.3%
Técnicas Reunidas	-5.0%

Cobas Grandes Compañías FI

Contributors	
Gilead Science	0.2%
Iliad	0.0%
International Seaways	0.0%
Repsol	-0.2%
Arcelormittal	-0.3%

Detractors	
Renault	-2.5%
Transocean	-2.8%
Golar LNG	-2.8%
Thyssenkrupp	-3.9%
Aryzta	-4.1%

Cobas Selección FI

Contributors	
Kongsberg Gruppen	0.1%
O-I Glass	0.0%
Sacyr	0.0%
Catcher Technology	0.0%
Amorepacific	0.0%

Detractors	
Teekay LNG	-1.6%
Hoegh	-1.7%
Dixons Carphone	-1.9%
Golar LNG	-3.2%
Aryzta	-5.5%

In & out of the portfolio

Cobas Internacional FI

In the portfolio
- Affiliated Managers Group
- Fnac

Out of the portfolio
- O-I Glass
- Euronav
- Kongsberg Gruppen
- Catcher Technology

Cobas Iberia FI

In the portfolio
- Cie Automotive
- Lar España
- Grupo Prisa

Out of the portfolio
- Repsol
- Indra
- Caixabank
- Arcelormittal
- Acerinox
- Sonae Industria

Cobas Grandes Compañías FI

In the portfolio
- Repsol
- CK Hutchison Holding

Out of the portfolio
- Iliad
- Gilead Science
- International Seaways

Cobas Selección FI

In the portfolio
- Affiliated Managers Group
- Fnac
- Prosegur Com.
- Sacyr

Out of the portfolio
- O-I Glass
- Euronav
- Kongsberg Gruppen
- Catcher Technology
- Unicaja

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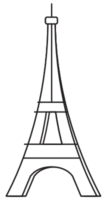

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