

Sustainability Report



Azvalor.

Sustainability

Report

Updated in March 2023

INDEX

1. INTRODUCTION TO THE SUSTAINABILITY RISK INTEGRATION POLICY IN THE INVESTMENT DECISION-MAKING PROCESS	P. 3
<hr/>	
2. INTEGRATION POLICY. REGULATORY COMPLIANCE AND RISK CONTROL	P. 4
<hr/>	
2.1 SOURCES OF INFORMATION	P. 7
<hr/>	
2.2. CORPORATE GOVERNANCE, ENGAGEMENT AND ACTIVE EXERCISE OF VOTING RIGHTS	P. 7
<hr/>	
3. AZVALOR AND SUSTAINABILITY	P. 8
<hr/>	
3.1. SKIN IN THE GAME	P. 8
<hr/>	
3.2. REMUNERATION POLICY AND SUSTAINABILITY RISKS	P. 8
<hr/>	
3.3. FINANCIAL EDUCATION AND COMMUNICATION	P. 8
<hr/>	
3.4. ESG IMPACT INITIATIVES IN AZVALOR	P. 9
<hr/>	
3.4.1. SOCIAL IMPACT INITIATIVES	P. 9
<hr/>	
3.4.2 CORPORATE GOVERNANCE INITIATIVES	P. 9
<hr/>	
3.4.3 ENVIRONMENTAL IMPACT INITIATIVES	P. 9
<hr/>	
3.5. KEY PERFORMANCE INDICATORS - KPIs AZVALOR	P. 10
<hr/>	

1. INTRODUCTION TO THE SUSTAINABILITY RISK INTEGRATION POLICY IN THE INVESTMENT DECISION-MAKING PROCESS

As an independent asset management boutique founded in 2015, Azvalor develops its long-term investment approach by applying fundamental analysis criteria across its investment process, analyzing each investment thoroughly and aligning the firm's interests with those of its co-investors as part of its fiduciary responsibility towards them.

Sustainability risk or ESG risk is defined as any environmental, social or governance event or condition which, if it occurs, could cause an actual or potential material negative impact on the value of an investment. In this respect, Azvalor has no specific product labelled as ESG nor does it fall under the European Commission's classification of environmentally sustainable activities. The European Securities Market Regulator (ESMA) recently expressed its concern about ESG ratings, highlighting the heterogeneity of methodologies and, therefore, the current comparability complexity for investors. We understand that this lack of unification of criteria will be corrected as the implementation of the new regulations progresses.

Azvalor dedicates a lot of time and effort to find, understand and analyze publicly listed companies, trying to invest in good businesses, managed by honest managers whose interests are aligned with shareholders. Azvalor does research on the financial situation of the company, the quality of its management team, the evolution of its business and its competitive environment, its cash generation, and, of course, its valuation. Azvalor's objective is to invest in companies whose intrinsic value is not reflected in their stock price, trying to take advantage of the short-term inefficiencies between price and value, in order to maximize long-term investment returns, and minimizing, as much as possible, errors or permanent losses in value. This process includes interviews and meetings with different stakeholders of each company, including key executives, employees, former employees, competitors, customers, suppliers, regulators and experts in a particular industry or company, among others. This analysis is carried out both before the investment decision on a given company is made, and during the investment period, monitoring that there are no developments that could hamper the investment decision taken.

A complete analysis of a company entails for Azvalor the identification and analysis of all the potential risks that may negatively affect the future value of the company, and within this framework are included, among many others, those sustainability risks related to its corporate governance, social and environmental practices, which could affect its future value and therefore long-term shareholder returns. The holistic integration of the analysis of all types of risks is inherent to the philosophy that Azvalor's investment team has been practicing for more than two decades. However, in light of the new regulatory framework related to ESG (Regulation 2019/2088, in force since March 10, 2021), we now incorporate some risk control tools, so that risks are monitored on a more visible and explicit way, with the help of complementary risk analysis providers and which we detail later in this document.

ESG trends and political agendas are leading a growing number of investors and institutions to completely disregard sectors that are absolutely essential to maintain and improve global well-being. This is not the approach taken by Azvalor which, in line with its free-market corporate culture values, prudently decides not to screen out any sector as a whole, but instead has a company-by-company approach, evaluating each case individually. Each situation is unique and, therefore, Azvalor considers the relevant facts and risk factors on each case individually.

¹ The preparation of this report has taken into account international benchmarks for ESG reporting in asset management, such as SASB (sectorial asset management & custody activities), TCFD (climate risk implications of portfolios), GRI standards, and the recommendations of the INVERCO association. The PRI principles (Principles for Responsible Investment) as well as the industry's best practices in ESG integration and transparency have also been taken into account.

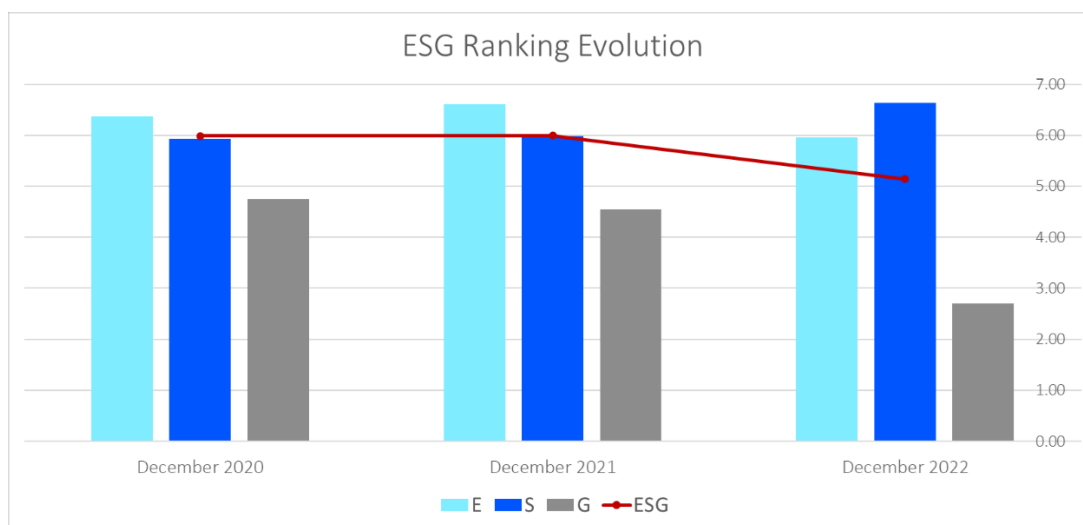
If you have any questions, please do not hesitate to contact us through our various communication channels (telephone number +34917374440 or info@azvalor.com).

2. INTEGRATION POLICY. REGULATORY COMPLIANCE AND RISK CONTROL

In compliance with the transparency requirements of Regulation 2019/2088 (entry into force March 10, 2021) on sustainability-related disclosures in the financial services sector, the Board of Directors of Azvalor has approved the new sustainability risk integration policy, which is incorporated into the Risk Policy.

In order to identify the levels of exposure to sustainability risk of the assets and portfolios, the following analyses are performed on a recurring basis:

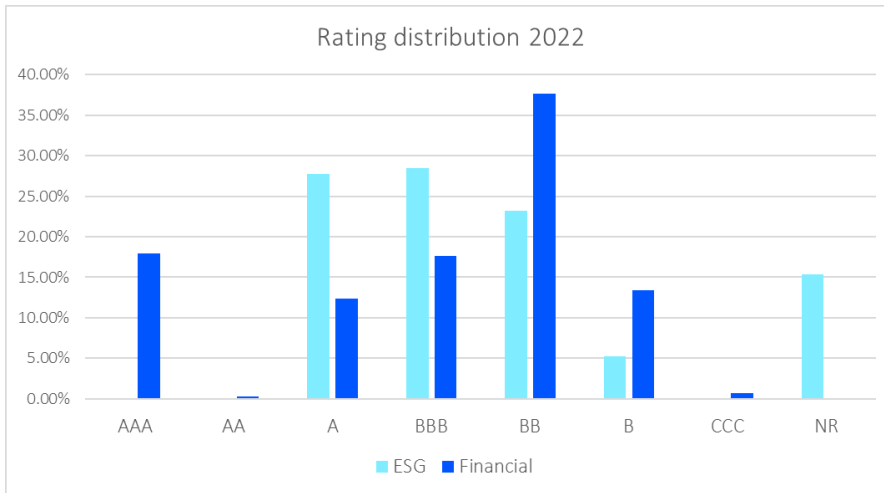
1. Sustainability analysis of each of the underlying assets, with a breakdown of each of the three ESG pillars. This information, which incorporates in-house and external analysis, is integrated into the analysis template used by Azvalor's analysts and portfolio managers for each invested company.
2. Assessment of Azvalor's aggregate portfolio regarding its average sustainability profile, based on external suppliers data.



3. Assessment of Azvalor's aggregate portfolio regarding extra-financial risk (ESG), with a parameterization similar to the assessment of financial risk (market, credit and liquidity), comparing both sources of risk jointly.

		Numerical ranking	Qualitative rating
SUSTAINABILITY RISK	ESG	5.15	BBB
	E (ENVIRONMENTAL)	5.96	BB
	S (SOCIAL)	6.64	BB
	G (GOVERNANCE)	2.70	AA
FINANCIAL RISK	FINANCIAL	5.44	BBB
	M (MARKET)	7.03	BB
	C (CREDIT)	1.00	AAA
	L (LIQUIDITY)	2.27	AA

(excludes government bonds and investment funds)



Rating	ESG	Financial
AAA	0.00%	17.90%
AA	0.01%	0.27%
A	27.75%	12.38%
BBB	28.43%	17.66%
BB	23.23%	37.67%
B	5.22%	13.44%
CCC	0.04%	0.68%
NR	15.32%	0.00%

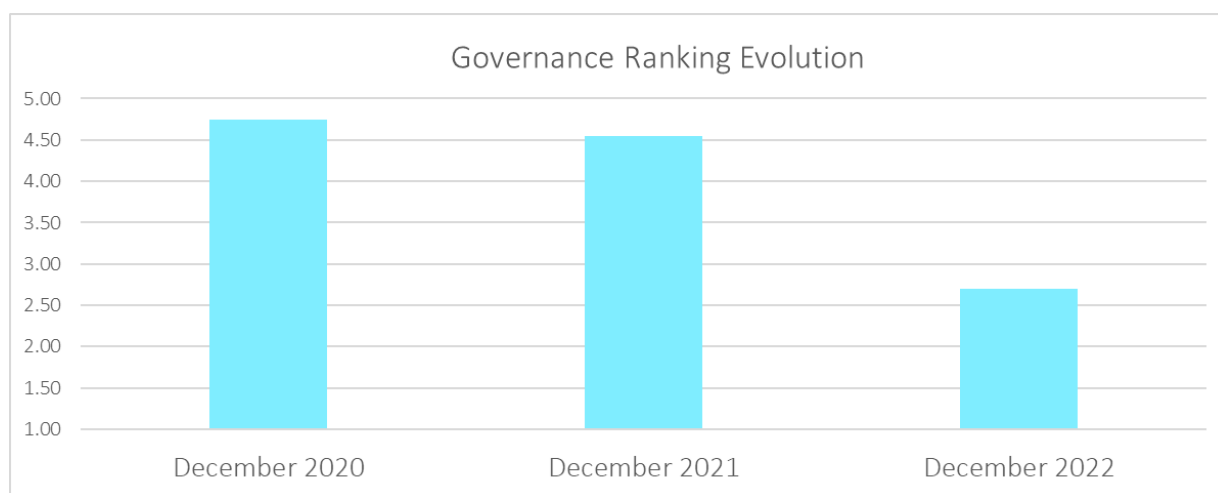
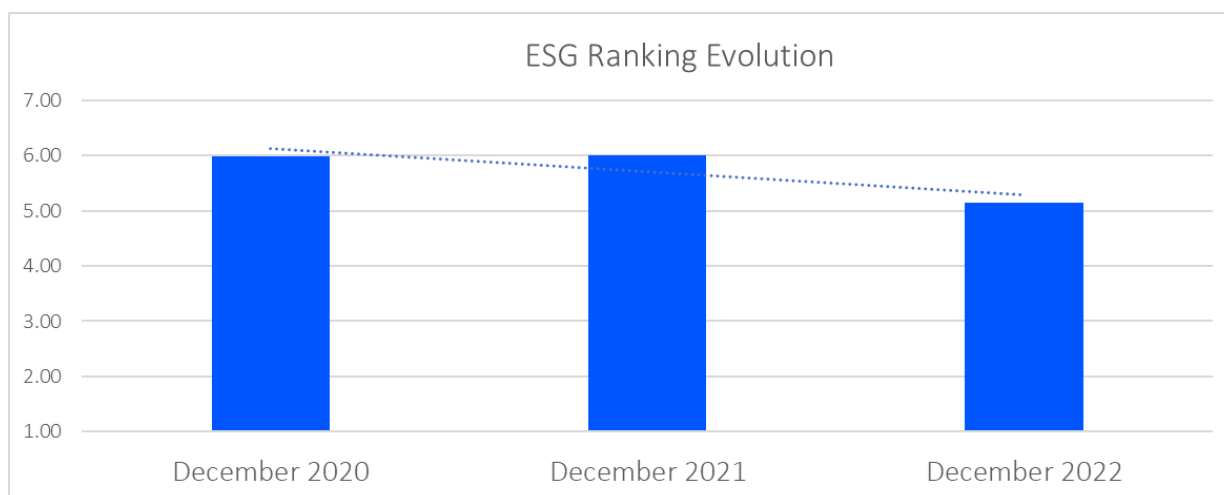
4. Assessment of Azvalor's aggregate portfolio regarding ESG risk exposure by country.

Country	Market Value	% Weight	ESG	Rating	Financial	Rating
1 Canada	590,736,754	24.8%	4.95	BBB	5.82	BB
2 UK	356,327,563	15.0%	4.52	BBB	5.95	BB
3 USA	170,811,051	7.2%	6.03	BB	4.81	BBB
4 Spain	165,972,807	7.0%	5.30	BBB	5.04	BBB
5 Brasil	114,180,653	4.8%	4.79	BBB	6.78	BB
6 Australia	86,808,508	3.6%	6.62	BB	5.74	BB
7 France	77,711,920	3.3%	4.74	BBB	6.29	BB
8 Switzerland	75,872,811	3.2%	3.61	A	6.62	BB
9 Jersey	66,878,223	2.8%	5.11	BBB	6.77	BB
10 Germany	64,655,372	2.7%	3.97	A	4.51	BBB
11 Bermuda	58,318,499	2.4%	7.51	B	5.71	B
12 Peru	43,362,548	1.8%	7.00	BB	6.33	A
13 Chile	31,285,977	1.3%	4.91	BBB	6.69	BB
14 Greece	26,491,452	1.1%	5.35	BBB	6.96	BB
15 Portugal	24,153,715	1.0%	7.12	B	5.25	BBB
Others	67,226,611	2.8%	<i>1 best / 10 worst</i>		<i>1 best / 10 worst</i>	
TOTAL	2,020,794,464	84.8%				

5. Assessment of Azvalor’s aggregate portfolio regarding ESG risk exposure by sector, including a breakdown of each pillar (E, S and G).

Country	Market Value	% Weight	Impact Risk Three Pillars		
			E	S	G
Canada	590,736,754	24.8%	5.87	6.85	1.99
UK	356,327,563	15.0%	5.31	6.04	2.21
USA	170,811,051	7.2%	6.58	8.12	3.13
Spain	165,972,807	7.0%	***	6.56	3.68
Brasil	114,180,653	4.8%	4.64	5.41	4.34
Australia	86,808,508	3.6%	8.86	7.68	3.20
France	77,711,920	3.3%	5.21	7.43	1.57
Switzerland	75,872,811	3.2%	3.92	4.85	2.05
Jersey	66,878,223	2.8%	6.69	6.17	2.42
Germany	64,655,372	2.7%	5.14	4.93	1.85
Bermuda	58,318,499	2.4%	9.99	6.90	3.41
Peru	43,362,548	1.8%	7.80	7.95	4.80
Chile	31,285,977	1.3%	4.69	5.80	4.22
Greece	26,491,452	1.1%	5.46	6.66	3.95
Portugal	24,153,715	1.0%	8.43	8.52	4.42
Others	67,226,611	2.8%			
TOTAL	2,020,794,464	84.8%			

6. Evolution of Azvalor’s aggregate portfolio’s ESG risk factors over time, in aggregate and by segment (sector, country, and asset class), which allows to evaluate an appropriate risk exposure evolution.



7. Data quality analysis: confidence level of the data used, and percentage of Azvalor's aggregate portfolio requiring approximations or adjustments.

NOTES		SOURCE OF DATA	
Market Risk	Shows an absolute risk score from 1 to 10, where 50% of VaR or higher (1 sigma) would mean a score of 10, and a reduced VaR would mean a score of 1.	Real	84.76%
Credit Risk	Shows a risk score from 1 to 10 based on the Credit VaR.	Proxy	14.53%
Liquidity Risk	The liquidity ranking of the assets in the portfolio (Serfiex internal methodology where 10 is an illiquid asset): "The exogenous liquidity ranking is calculated and calibrated based on qualitative characteristics of the instrument and the quantitative characteristics of its trading data, issuance, and variables that help evaluate its market depth".	Fund/LT	0.69%
		No Data	0.02%
Based on portfolio sustainability risk analysis using Bloomberg data, where 1 indicates (1 best, 10 worst) SERFIEX Ranking SERFIEX Rating sustainable companies and 10 indicates unsustainable companies. In the case of government bonds and notes, an internal methodology based on country risk indicators is used.		ESG Risk Ranking	
		1 – 1.4	AAA
		1.4 – 2.9	AA
		2.9 – 4.3	A
		4.3 – 5.7	BBB
		5.7 – 7.1	BB
		7.1 – 8.6	B
		8.6 – 10	CCC
		-	NR
Carbon footprint (CO² tons) financed	Based on the total CO2 emissions and equivalents in tons, taking into account the value of the asset in the portfolio and its market capitalization.		
"Source ESG Score: Proxy: associated by sector"	Proxy associated by sector is an average of all the assets that Serfiex has been gathering in a database, averaging them by NACE sector and equating the companies.		
Emission intensity (GHGs)	Emission intensity is the rate of CO2 emissions and equivalents during the activity carried out by the company.		

2.1 Sources of information

For the analysis of sustainability risk, information and analytical software from three suppliers is used to complement the different sources of financial information employed by Azvalor. This process aims to ensure the highest degree of integrity and solvency of risk reports. The suppliers are:

- Azvalor's regular supplier of financial information, an international best-in-class and highly regarded entity. It also provides information on ESG indicators at the issuer level. (*Bloomberg*)
- Fintech supplier, specialized in financial risk management and modelling, which provides a regular integrated analysis of financial and extra-financial risks, both on the aggregate portfolio and on specific issuers, including a breakdown of each pillar (E, S and G). Its report takes into consideration potential ESG controversies that ultimately have an impact on the rating. (*Serfiex*)
- External platform specialized in ethical and social valuation, which provides quantitative and qualitative information on all the companies in Azvalor's portfolio. (*Altum Explore*)

A relevant aspect of the process is to ensure a good quality of ESG data from the different international suppliers; this data is currently very heterogeneous and therefore needs to be considered in this context. In terms of ESG risk analysis of a given company or investment, a qualitative assessment by Azvalor's analysts or investment managers will prevail, and is focused on a global and holistic risk analysis carried out during the due diligence process on each company.

Although Azvalor has a sustainability risk integration policy, it does not take into consideration in the management of its funds the adverse impact of investment decisions on sustainability factors, as it does not currently have due diligence policies in relation to such adverse impacts.

2.2. Corporate governance, engagement and active exercise of voting rights

Following the procedure for the exercise of rights inherent to the securities that make up the portfolio and as co-owners of the companies in which it invests, Azvalor exercises the political rights inherent to minority shareholders. There is no proxy advisor providing voting recommendations, but the direction of the vote will seek to ensure the maximum protection of minority shareholders' interests. Normally the direction of the vote is aligned with the company's proposal, as the analysis of the board structure, the quality of the management team, its strategy, business management, and alignment of interests are critical variables before investing in a specific company. However, the voting decision is made on a case-by-case basis in an agile manner thanks to an in-depth knowledge of its corporate governance, which includes meetings with its management team and other stakeholders.

Furthermore, Azvalor has one of the most advanced and widely used proxy edge platforms globally (*Broadridge*), which provides early warning of all shareholder meetings and agenda items. This platform has recently incorporated additional ESG options to strengthen financial and non-financial risk integration. As mentioned, Azvalor usually exercises voting rights, including those aspects related to the ESG implications of a company, and always with a comprehensive risk management perspective.

In addition to the thorough analysis prior to the investment, Azvalor maintains a periodic and intense level of engagement or involvement with the management team of the invested companies over time. Meetings, calls, on-site visits, news-flow tracking and other forms of engagement enable a close and detailed monitoring of its investments' corporate governance. This concept of engagement, in ESG terminology, is something that Azvalor's investment team has been doing throughout its professional life, as an integral part of a long-term investment philosophy.

3. AZVALOR AND SUSTAINABILITY

While the previous section of the report defines the sustainability risk integration policy in the decision making process, the following paragraphs review various corporate governance, social and environmental initiatives and practices that Azvalor develops as an entity.

3.1. Skin in the game

Nassim Nicholas Taleb (author of the famous book *The Black Swan*) compares the approach to risk taking of bankers to that of pilots. Airline pilots do not take unnecessary risks for obvious reasons. Azvalor's employees and partners are, jointly, the largest investor in its funds, aligning interests with its co-investors, and sharing both risks and returns ("co-investment"). Azvalor does not offer investors any investment products in which its own employees and partners do not invest.

Reinforcing this skin in the game objective, the remuneration policy requires partners to invest at least 50% of their annual variable remuneration in funds managed by Azvalor and, in the case of other employees, at least 25%.

3.2. Remuneration policy and sustainability risks

Azvalor Asset Management SGIC, S.A. has a remuneration policy for its employees approved by its Board of Directors, in accordance with current regulations. The remuneration policy is composed of a fixed remuneration, depending on the functional level and responsibility assigned to each employee, and a variable remuneration, linked to the achievement of individual, departmental and company objectives. This remuneration policy is in line with rational risk management and does not induce the assumption of risks incompatible with the profile of the vehicles managed. This remuneration policy is reviewed at least once a year to ensure that it is properly updated where necessary.

Azvalor's remuneration system takes into account the financial implications of an adequate management of the factors that may have an impact on the Company's reputation, variables that are increasingly tangible in today's environment. The Company, as established in its Sustainability Risk Integration Policy, has included sustainability risk among the risks to be considered, more explicitly than in the past. Therefore, the performance assessment of those employees involved in risk control tasks will incorporate those ESG metrics that are considered particularly relevant for Azvalor's investments.

3.3. Financial education and communication

One of Azvalor's objectives is to encourage or promote the improvement of society's financial education, which is considered essential for better investment decision making.

In an attempt to bring value investing concepts closer to universities, the firm has organized several editions of the Azvalor Summer Course, which is part of the Summer Courses offered by the Complutense University of Madrid. This course stems from the need to improve the financial education of people interested in the world of investment and as a complementary educational alternative for those students who have decided to pursue a degree in Economics, Finance or Business Administration.

Azvalor also volunteers to teach courses on "Rumbo a tus sueños", a program organized by Junior Achievement Foundation along with Inverco, which aims to create awareness in young people in respect to the relevance of long-term financial planning, emphasizing how saving is a critical aspect for achieving their financial goals.

In this environment of financial education and awareness, the *Club del Lector Value* (Readers Club) has also been created as a repository of those books that are considered essential reading on value investing, the Austrian School or general thinking. With the same purpose, Azvalor uses other communication avenues such as Azvalor You channel (on Youtube) and other social networks.

Also noteworthy is Azvalor's Investment team involvement as teaching staff on the Master in Value Investing and Cycle Theory of OMMA Business School, with an eminently pragmatic orientation, and whose primary objective is to educate students in performing a complete analysis on public companies.

Certified Professionals

Around 10% of Azvalor's team has specialized certification in Socially Responsible Investment, a training that aims to guarantee the necessary knowledge for professional ESG inclusion across all areas of the company.

Certificate in ESG Investment, awarded by the CFA Society United Kingdom, provides the knowledge and skills to integrate ESG factors in the investment process. Developed by professionals for professionals, in consultation with leading companies and with the support of the UN PRI.



Funds Expert Certificate in Collective Investment Schemes (Funds Expert Certificate), which includes an extensive module studying the various aspects of Socially Responsible Investment from a professional standpoint.



3.4. ESG impact initiatives in Azvalor

3.4.1. Social impact initiatives

Davalor

Davalor is a joint project with the NGO África Directo which finances, through donations, projects with high social impact in Africa. On Azvalor's website there is more information about this initiative and the projects in African countries that are receiving 100% of the donations made (with no administration costs).

Since its foundation in 2015, Azvalor's employees, partners and co-investors have contributed over €3.1 million to initiatives related to education, healthcare, assistance to vulnerable groups, agricultural developments and microfinance. In addition, Azvalor's founding partners donate through Davalor/África Directo approximately 10% of the annual dividends received.

Pablo Horstmann Foundation

Azvalor regularly donates to Pablo Horstmann Foundation, an independent, non-profit organization with a social assistance and development cooperation purpose, inspired by the principles of social justice and Christian values. In 2022 Azvalor also participated in its 1st Charity Golf Tournament, the proceeds of which went to the Pablo Horstmann Pediatric Hospital in Anidan (Kenya), where 1,500 children will be taken care of with those funds.

Auara

Collaboration with the NGO Auara, which dedicates 100% of its dividends to developing clean water access projects for those who need it most. This NGO has provided more than 70 million liters of water to developing countries and has developed 94 infrastructures in 17 different countries. Each liter of Auara consumed in Azvalor guarantees 4 liters of drinking water in developing countries. In addition, the packaging is 100% recycled and 100% recyclable.

Madrid Down – Stella Foundation

Azvalor has an agreement with the Stella Maris Foundation which has allowed the firm to hire, since 2016 and for an indefinite period, a person who demonstrates day after day the importance of integrating people with disabilities into the labor market.

A Smile for Christmas

In 2022 Azvalor's team delivered gifts and made financial donations to children, as part of "A Smile for Christmas", an International Cooperation initiative that aims to reach people in most need at Christmas time, distributing each year more than 8,000 gifts to children at risk of social exclusion.

Operation Kilo

In 2022, Azvalor organized Operation Kilo, in favor of Madrid's Food Bank. Partners and employees, as well as the company itself, made a contribution, partly in the form of non-perishable food and partly in the form of financial donations, which exceeded one ton of food.

"España Rumbo al Sur"

Azvalor has collaborated with the 2022 edition of "España Rumbo al Sur", with the sponsorship of two participants and a financial donation. ERS is an immersive training program, that aims to raise social awareness about good values through direct action, work and effort from young people in the field.

3.4.2 Corporate governance initiatives

See sections 3.1 and 3.2. above

3.4.3 Environmental impact initiatives

Ecological projects

A few years ago, Azvalor launched an internal EcoValor project, for a more efficient use of material resources and better waste management in the workplace. In addition, in 2020 the firm incorporated the possibility of completing online the entire investment subscription process for new investors as well as regular communication activities, thus avoiding the unnecessary printing of paper and allowing the entire process to be completed digitally.

Choice of building (Azvalor office)

The building at Paseo de la Castellana 110 in Madrid, where Azvalor has its main office, is ISO 50001 certified, which guarantees maximum energy efficiency, integrated waste management and adequate workplace security. In line with this objective, a number of internal policies have also been defined, such as encouraging employees to use public transport to commute to work.

3.5. Key Performance Indicators - KPIs Azvalor

ECONOMIC AND GOVERNANCE INDICATORS

Total assets under management (12/31/2022)	€2.392 Bn
Nº co-investors (clients)	20,094
Nº investment funds	5
Nº pension funds	2
Nº Sicavs (Spain and Luxembourg)	3
Nº directors	4

SOCIAL INDICATORS

Nº employees	31
% women	30%
% disability	3%
Total remuneration 2022 (million €)	7.161
% Total variable remuneration 2022	56%
Variation in variable remuneration vs 2021	+101%
Social network followers	39,080
Davalor donations	>€3.2Mn

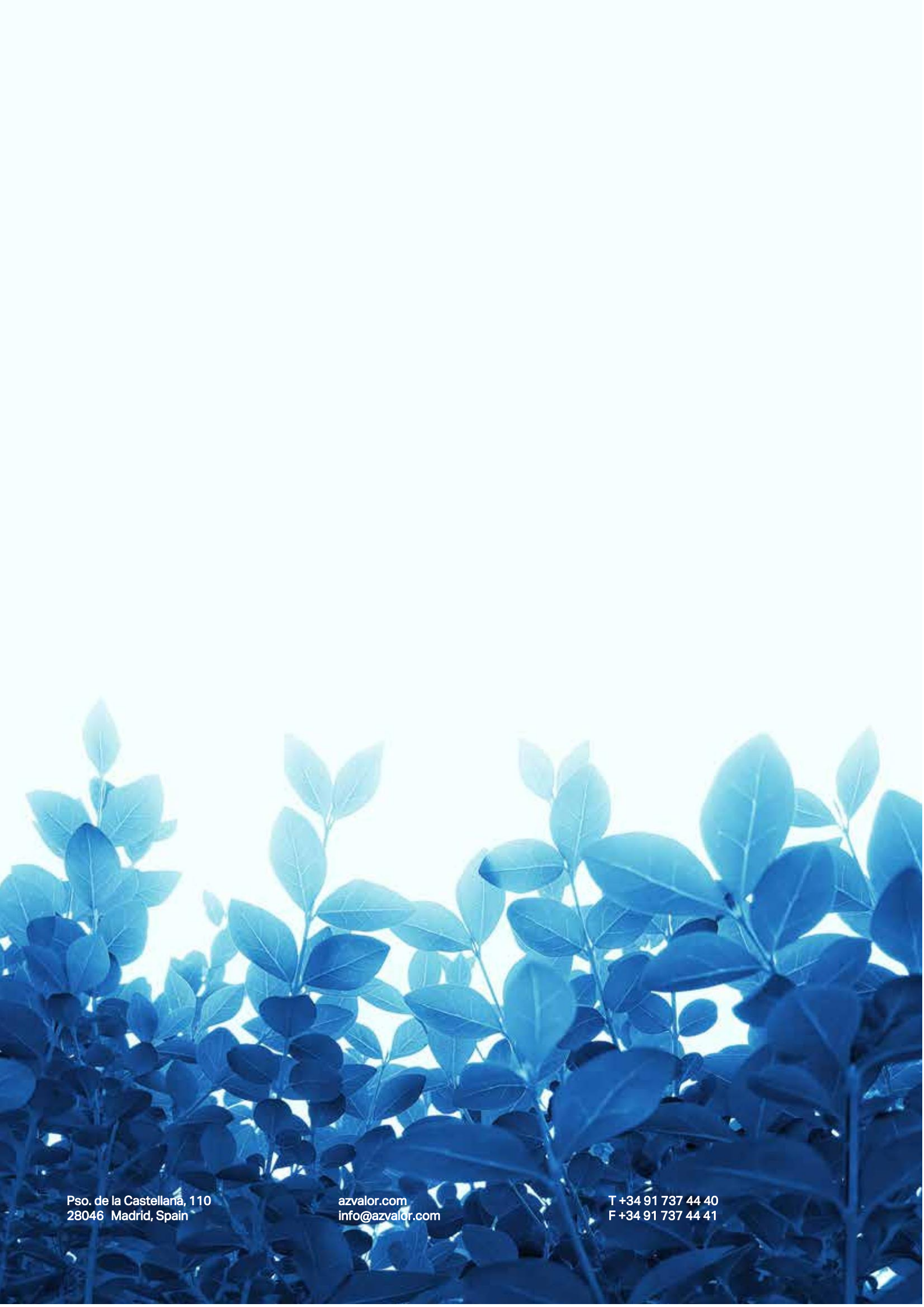
ESG PORTFOLIO INDICATORS

% Portfolio analyzed with ESG criteria	100%
Average ESG rating of the portfolio	5.15
Average E Rating E of the portfolio	5.96
Average S rating of the portfolio	6.64
Average G rating of the portfolio	2.70
Nº meetings at which votes have been cast	285
% meetings at which votes have been cast	55%

Source: Azvalor data and Bloomberg data modeled by Serfiex

Update: 12/31/2022

Rankings: 1 best, 10 worst according to Serfiex modeling with Bloomberg data



Pso. de la Castellana, 110
28046 Madrid, Spain

azvalor.com
info@azvalor.com

T +34 91 737 44 40
F +34 91 737 44 41