cobas

asset management

Comment
Second Quarter 2020

Dear co-investor:

When in 2017 we recommenced our activity under the structure of **Cobas Asset Management,** markets in general, were not cheap, but we were capable of identifying companies trading at a considerable discount. We invested at an average of 8-9 times profits and, now, following COVID-19, we are trading at 5-6 times, unsustainably low levels. As a whole, our estimated normalised profits have not varied significantly and, hence, target values have not undergone changes either.

In the past, we have faced crises and exceptional uncertainty, which have proven to be source of extraordinary opportunities for those that were capable of resisting and investing. Once again, we are faced with one of these situations. The novelty, as we know, is the health and political uncertainty which has led part of the global economy to temporarily suspend its activity. Faced with this scenario, it is not surprising that the stock markets are functioning especially badly and do not reflect, in many cases, the intrinsic (future) value of the underlying assets.

There are various ways to visualise why this is the case. On the one hand, it is easy to emphasise with the non-professional private investor which, burdened with daily problems (children, sentimental and business partners, mortgages, neighbours, etc.) and uncertainties beyond their control (quarantine, prohibitions, etc) ends up taking investment decisions that are too quick, instinctive, scantly justified and, therefore, wrong. On the other hand, governments and central banks are obliged to save companies to reduce the possible impact of the virus on their economies as far as possible. This is generating higher deficits that are financed by issuing newly created debt and money. This massive emissions policy, which would be considered undesirable in other circumstances, is finding especially scarce political opposition and is, among other effects, distorting asset prices in capital markets.

Money is earned on the stock markets in the long term, maintaining a good psychological state which enables to invest, obtaining more than what we paid, regardless (and frequently to the contrary) of what others do. This is

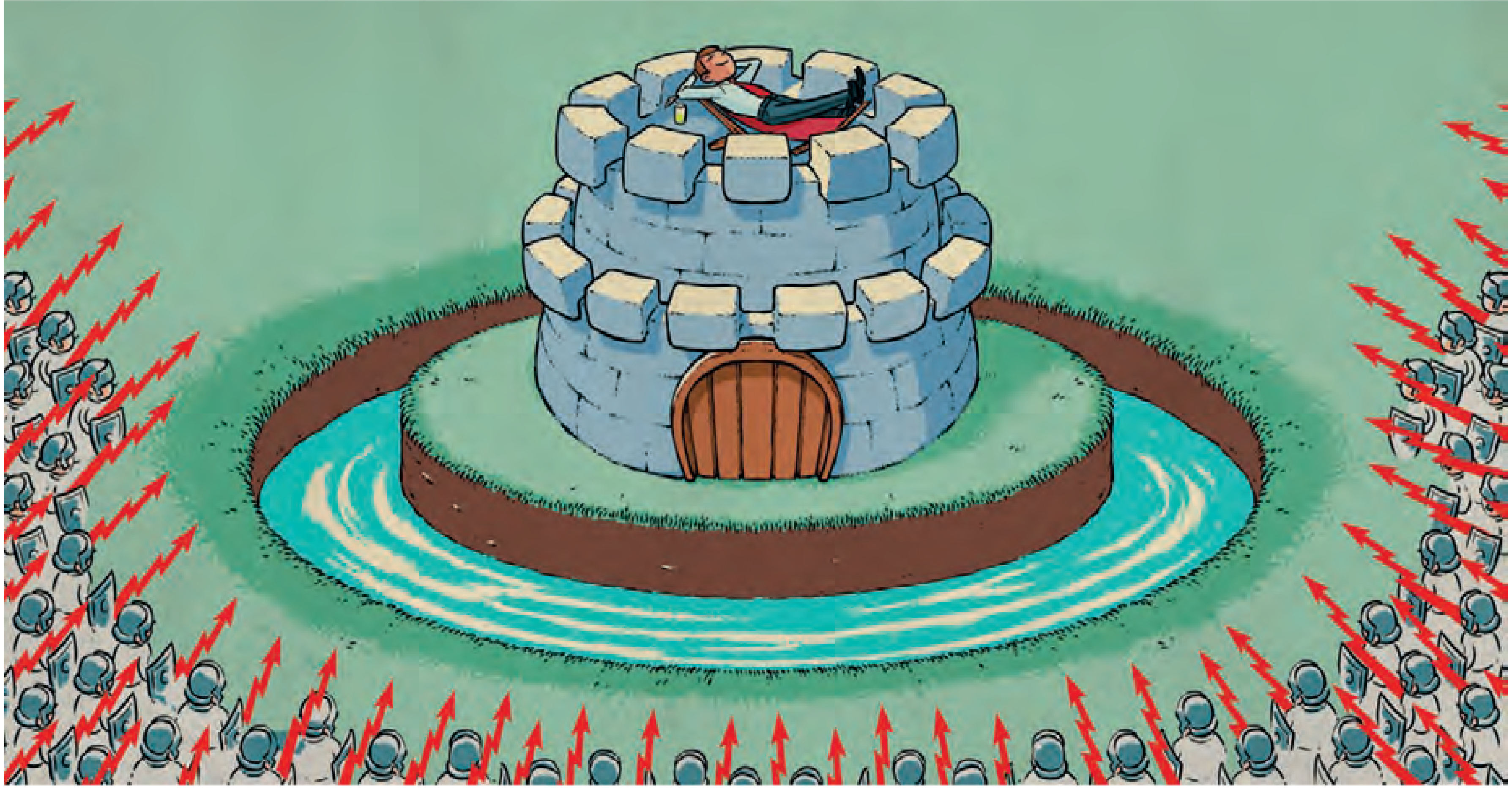
especially important in these circumstances.

The resilience of our portfolios

To help our unitholders to conserve this mental peace in relation to our investments, in March and April, we wrote four letters in which we broke down and estimated an impact of COVID-19 on the values of our Iberian and international portfolios of approximately -13%. During the following months, it is being verified that the impact is small, as we said. Naturally, this is comforting, since it has been a tough test faced with a series of unexpected events and because our companies are better prepared for the possible future impacts.

Later on, we develop examples that prove how irrational it is that our net asset value does not reflect the strength of our portfolios. However, in this introductory part, it

Poster designed to highlight the actions one can do to increase physical and mental well-being during the period of isolation. The image is the work of **Chevon Beckley** for **United Nations Global Call Out To Creatives project** created to raise awareness and help stop the COVID-19 spread. Illustration: **Chevon Beckley, Unsplash**



could be appropriate to illustrate it by employing the analogy that **Warren Buffett** uses with his shareholders. He explains with didactic spirit that, if we invest in strong companies, and for that he uses the comparison of impregnable castles with wide moats, they will be capable, in the event of unexpected attacks, of coming out of them unscathed. At **Cobas AM,** we have invested in companies that have defended themselves very well, but their shares (land belonging to the castle) have been abandoned by frightened owners at derisory prices. Result: we had and we maintain good well-defended business which are now authentic bargains. When ratio-

Illustration: **Daniel Gete**

nality eventually returns, in line with the comparison, many will flock to dispute these well-defended fertile lands and their prices (and therefore the net asset values of the funds) will rise, probably quickly, since all of them will want the best ones and nobody will want to go without such evident opportunities.

Sometimes, these opportunities are more evident because investors expect risks to occur that they consider obvious (i.e. second wave of coronavirus) to be able to buy even cheaper. But this is a strategy that may turn out to be expensive. Firstly, because the risks that everyone is aware of are generally reflected in the prices. Secondly, because there will always be risks, which dissuades them from acting. And thirdly and most importantly, because on the stock markets, returns are distributed asymmetrically. In a few days, returns are obtained sown, sometimes over many years, and the opportunity cost of not being invested may be very high.

We are aware of the inconvenience and discouragement that may be caused by such low net asset value levels but, on the other hand, this generates historical opportunities that will be a source of psychological and capital satisfaction in the coming years. Companies analysed over so long, with their strengths proven in an extreme scenario, bought at good prices and which, furthermore, are now trading much more cheaply, are the perfect recipe for extraordinary returns. Accordingly, from the Analysis and Investment team, we have continued to invest in these last few months.

We are not alone

Before commenting on the performance of our businesses, it is advisable to clarify an important point. In talks with co- investors, we have detected that some consider that our shares trade cheaply because they are found in sectors that are not very interesting for third parties. We do not share that view. The shares that we hold have traded above our target values and virtually all of them have comparables that currently trade at higher multiples. Any businessman that wishes to compete with our companies will find it much more expensive to invest in developing businesses than buying them from us through the stock market... If only we, the current shareholders, agreed to sell them at the price at which they were traded!

A recent interesting piece of news is the investment that **Berkshire Hathaway**, the holding company of **Warren Buffett,** has just made to acquire a natural gas transportation business for 10,000 million dollars. According to our estimates, Buffett would have paid 8 times profit, undoubtedly an attractive price, but significantly more expensive than our shares of **Teekay LNG** trading at 4 times profit, for example. For us, it is much easier to invest in better multiples because we manage much lower capital.

Buffett, is not the only one interested in similar businesses to ours. In December 2019, in an interview with the prestigious magazine **Barrons,*** the legendary fund manager **Peter Lynch** made comments on where it found value:

"There's a real shortage now of growth companies. That is

Photo: **Cobas AM**

a red flag, because all the money is flowing into [a few companies]. There's an end to that game. It will scare me if this trend continues for a couple more years."

"I'm looking at industries that are doing badly; that for some reason will get better. Shipping. If you want to buy a ship, it's a two- or three-year wait. People haven't ordered ships for a long time, because by the time one comes in, prices may be down again."

"Energy services is awful; that could have a major turn in the next year or two. Oil is interesting. Look, longer term, solar, windmills really work. But you need natural gas and oil to bridge to this. Everybody's assuming the world's going to not use oil for the next 20 years. [...] I'm buying companies that I don't think will go bankrupt."

That investors that we admire so much, such as **Warren Buffett** or **Peter Lynch,** coincide with **Cobas Asset Management** in where to "hunt", is not a coincidence. These are exceptional opportunities.

Our international portfolio

Before commenting specific investment cases, it is advisable to take into account that all our businesses are real and tangible and many have been declared to be essential by the governments during this pandemic. Significant examples are our energy businesses **(Teekay, Golar LNG** and **Hoegh),** the management of care homes for the elderly **(CIR),** defence **(Babcock),** the transportation of crude **(International Seaways** and **Diamond Shipping)** or technology **(Samsung Electronics).** We have only had two companies with problems of little importance **(Valaris** and **Petra)** which we liquidated and in the few cases in which the coronavirus had a greater impact, our business have had the support of governments in the form of stimulation and liquidity lines to soften the temporary fall in demand **(Renault, Porsche, Hyundai** and **BMW).** It is also interesting to mention the performance of our retail sale companies **(Dixons, G-III, Matas, Fnac** y **OVS),** which, during the coronavirus outbreaks, have offset their lower sales at stores with higher on-line sales and they have improved their competitive position.

(*) Peter Lynch Draws on 50 Years of Stock-Picking to Find Growth Opportunities in Today's Market, Leslie P. Norton, Barrons.

During this quarter, the breakdown of the **international portfolio** has not varied significantly. The listings of our main defensive positions **(Teekay, Golar LNG, CIR y Babcock)** have traded as if they were cyclical and, therefore, it was not advisable to rotate the portfolios. Below, we offer greater details in this regard.

We have explained the investment theory in **Teekay LNG** (5.6% of the portfolio),), engaging in the maritime transportation of liquified natural gas through long-term contracts, on numerous occasions since it commenced in 2017. In recent months, progress in the execution of the company has been notable and completely according to plan. The main progress was:

1. Completion of the growth programme, which increased the size of the company by approximately 60%, all with very long-term contracts

2. Beginning of accelerated debt repayment due to the substantial increase in cash generation once the growth phase has been concluded.

3. An increased quarterly dividend from $0.14 per share to $0.19 in May 2019 (+35% rise), and more recently to $0.25 per share in May 2020 (+31% rise), a cumulative dividend rise of 78% in a little more than a year.

4. The simplification of the corporate structure with the recent elimination of the "IDRs" (asymmetric remuneration mechanism in favour of the parent, which was not considered by the market).

Accordingly, **Teekay LNG** is nowadays a very different company in comparison with three years earlier, although the market has not yet reflected it in the valuation. Let us also recall that this company is very different to the remaining listed alternatives, since its long-term contracts, protected in volume and price, have not suffered the impact of COVID-19 in any way. While many companies on the market cut back or suspend dividends, **Teekay LNG** has the visibility and trust to continue to increase them, while it reduces its debt. Currently, its earnings per dividend were 9% with a PER of 4x.

With respect to **Teekay Corp** (2.9%), the parent of **Teekay LNG,** the investment theory has also progressed materially, not only due to everything that affects its participation in **Teekay LNG** (42% following the conversion of the IDRs into shares), but also due to the progressive divestment of its FPSO platforms, and also due to the significant improvement in the balance sheet of its investee **Teekay Tankers.** The latter has benefitted from the extraordinary increase in daily fleet rates. Our investment theory in crude tankers (also applicable for our investment in **International Seaways)** envisaged an improvement from such depressed levels in recent years, but the levels reached in the last three quarters have been extremely good, which enabled them to reduce their debt by over 20% in the first semester of the year. This accelerated deleveraging is occurring in the whole maritime sector, which for the time being remains very disciplined (they do not order new boats), which foretells a good business in the coming years, as we expected in our original theory. Even so, the sector continues to trade below the net asset value.

The Stena Natalita ship of the Teekay company entering the port of Rotterdam. Photo: **Bjoern Wylezich, Shutterstock**

With respect to **Golar LNG** (7.6%), the theory is possibly also familiar, but it is still a relatively complex company which perhaps it is worth recalling with 3 main blocks as sources of value:
- FLNG floating liquefaction (long-term contracts).
- LNG maritime transport.
- Marketing of LNG (long-term contracts), nowadays in Brazil.

Given these blocks, **Golar LNG** participates in the LNG value chain, the energy of the transition towards a future of reduced emissions, in a diversified manner. This protects it against variations in its value sources: when the low price of LNG discourages new liquefaction projects, in turn, it favours marketing and vice versa. **Golar LNG** has also made material progress in some of its fronts over recent months, despite COVID-19:
- Beginning of **Sergipe** in Brazil, the largest thermal plant in Latin America, with the accompanying generation of FCF.
- Signing of an exclusive contract with **Petrobras Distribuidora** for the sale of LNG at petrol stations.
- Progress of other LNG projects in Brazil **(Barcarena, Suape…).**

However, COVID-19 has delayed the progress of certain FLNG projects. These delays do not affect the current business, rather the generation of additional value in the future. In any case, **Golar LNG** is nowadays a much richer company with less uncertainty than two years ago when our investment commenced. Its vision is already tangible, with FCF flowing increasingly stronger each quarter, and the growth in EBITDA, in accordance with that planned, it is evident and sustainable. The market however not only does not recognise the improvement, rather it values it at a higher discount than before. The greatest concerns continue to be the complexity (something which **Golar LNG** LNG is working to improve) and the availability of liquidity to finance growth **(Gimi project)**. However, the company has shown its great performance capacity and its growth plans are very attractive.

Our natural gas infrastructure companies **(Teekay, Golar LNG, Hoegh, Exmar** y **Dynagas)**) are backed by around

100 long-term contracts. Despite COVID-19, only two of them have performed differently to that envisaged. One was delayed, as we mentioned in the previous quarter's letter and in the other (at **Exmar**) a non-payment was declared by YPF, one of our weaker counterparties. Even in these two contracts, we consider that the impact will be limited. This reflects the robustness of these contracts, which are not being renegotiated despite the significant fall in the price of gas. We have a good example of its quality at **Dynagas LNG,** which succeeded in being refinanced at 3.5% despite being the most indebted company in our portfolios. As a reaction, its listing rose from $1 to more than $3 per share in the quarter.

CIR (8.0%) is one of our main positions because it has close to 70% of its capitalisation in cash and because its main asset, **KOS,** , geriatric homes and rehabilitation hospitals in the north of Italy, is in a sector in which the prospects are favourable.

Following the initial negative impact of COVID-19, the situation in the care homes now seems to be under control, but little by little, the number of active cases of COVID-19 is decreasing and new patients are being re-admitted. This company proves the resilience of the sector, since the populational pyramid is being increasingly inverted and the service provided by **KOS** is basic and highly necessary, now and in the future. By way of an example, to cite simple number, in Spain there are approximately 3 million people over 80, there are 373 thousand beds in care homes and the deficit is estimated at around 70 thousand beds. This situation is similar in the whole of Europe.

This pandemic has proven the wise move of the management team in the diversification undertaken last year by entering into Germany, a country which has scarcely had coronavirus cases and whose virulence has been much lower. No one could have imagined a perfect storm such as that experienced by **KOS:** : a virus which attacks its target patients in the geographical area in which it has most of its operations.

With respect to the future, we believe care homes will

have to assume certain additional costs and there will be small operators that cannot assume such costs due to their size. We believe this situation will accelerate the concentration of the sector (at more reasonable prices) and **KOS** will be one of the companies leading this concentration.

Meanwhile, the price of **CIR** shares has scarcely rallied from minimums, unlike what happened with shares of **Orpea** or **Korian,** , its main rivals, which rallied from minimums by ~40% and ~20%, respectively. These companies are trading at higher multiples in comparison with our valuation of **KOS.**

Naturally 2020 will be a difficult year for **KOS** and the sector, but we are optimistic for 2021 and onwards. Once again, a good business, well managed, which trades at very attractive prices due to a clearly temporary problem.

Babcock International (3.9%), the second largest supplier of defence services in the United Kingdom and leader in emergency services through aircraft in Western Europe,

KOS Santo Stefano center in Porto Potenza Picena, Italy. Photo: **CIR**

Canada and Australia, is a company with clear competitive advantages (unique assets, exchange costs and economies of scale) and scantly cyclical (with 80% of its contracts at long term), which was affected in 2020 by the obligatory stoppages imposed by the governments.

In emergencies, with governments asking their citizens not to leave their homes, the number of accidents fell and the use of salvage, rescue and health services dropped. Consequently, margins will shrink this year, because they have had to continue paying the helicopter leases. Fortunately, per contract they receive compensation for installed capacity and value will be destroyed. Also, in defence services, part of the military training was postponed and in the maintenance services for military assets, productivity has fallen. This will have an impact on the savings which **Babcock** traditionally obtains from the British Defence Ministry and, consequently, margins will also be reduced in this business this year.

Once again, the important thing here is to discern that they

Above, Vanguard-class submarine, model for which Babcock International performs maintenance. Photo: **Babcock International** are not cyclical businesses, although as a result of the quarantine periods they may seem to be at first sight. This market is reacting in an exaggerated manner to temporary problems that clearly do not affect their business in the medium term: there will continue to be accidents and it will be necessary to continue maintaining the armed forces. Accordingly, while our valuation falls by 10%, **Babcock** listing has fallen by 50% this year, from already cheap levels. Currently, companies with businesses comparable to those of **Babcock,** which, in our opinion, are not expensive, are trading at multiples between two and three times higher. We consider that **Babcock** listing should more than triple in the coming years.

We can therefore conclude that, given the sound employer performance of the most stable businesses, and the non-recurring nature of the negative impacts that have arisen as a result of the coronavirus, and since these facts have not been appropriately reflected in the listings, it was not appropriate to substitute the companies that we have with the new ideas already prepared to be included in **the international portfolio.**

Our Iberian portfolio

At the end of the last quarter, we began to sell shares of the Spanish banks that we had in our portfolio, because their prospects of generating profit and the quality of the information that we obtained was deteriorating significantly. Fortunately, there were shares of less affected companies, with greater visibility and more tangible, which saw their listings fall the same or more than banks and we took the opportunity to substitute them. Some of these companies are: **Applus, Atalaya, Meliá** and **Metrovacesa,** among others.

Applus (1.1%), one of the new companies in the portfolio, stands out for being the world leader in terms of the inspection, verification and control of infrastructure related with oil and gas, with special implementation in North America and Europe. Also, in the vehicle inspection business (known as ITV in Spain), **Applus** is one of the global leaders, with strong positions in Ireland, the United States and Spanish-speaking countries, such as Spain, Costa Rica, Chile and Uruguay. Also, **Applus** integrates other quality businesses, such as the supervision of infrastructures that produce and distribute energy, and the testing of the development of new vehicles or pharmaceutical products. All the businesses have competitive advantages, with their good reputation being the most important **(Applus** earns money because its "stamp" grants security to its customers, not because it is the cheapest). When we bought **Applus,** the valuation of the ITV business alone, which generates 40% of operating profit in the absence of coronavirus, was already greater than its stock market capitalisation. We obtained the remaining 60% virtually free, something not very frequent in a company of these characteristics. In this case, the market has already recognised part of Applus's value, and its listing has risen by 40% since we bought it.

Atalaya (5.0%), owner of the millennial Riotinto copper mine (Huelva), succeeded in being listed at the beginning of the quarter at less than the investment made in the last two years to expand its production (from 9.5 to 15 Mtpa). Something totally out of place in our opinion. We had the value of the mine free before the expansion, the probable success of extending its useful life following the investments in exploration and the optionality of the mining project in Touro, among other options. Even undeveloped copper mining projects with a comparable capacity were trading at more expensive prices. We took advantage to buy more shares and since then their price has doubled, backed by the sound performance of the price of copper. Despite this, it continues to be very cheap and we feel very comfortable with its management team, which has the habit of achieving what it promises and often more.

Meliá (4.0%). In our letter for the first quarter, we indicated that **Meliá** was one of the companies most affected at short term, but the impact at long term would be limited, since it has a moderate debt and owns unique real estate assets with a valuation in normal circumstances of approximately 16€ per share and a family with a future vision.

Here the key factor is what its resistance capacity will be before its value decreases below the listing price (for example, assuming that there are no earnings due to closure, maintaining staff costs, leases on the hotels it does not own, etc.). The reality is that it can bear a lot more that can reasonably be expected. Even in a scenario involving a one-year stoppage, the revaluation potential would be quite more than doble.

Perhaps the most important thing about **Meliá** aside from the value of its assets, is that it does not have debt or liquidity problems. The current situation differs from that lived during the 2008-09 crisis mainly in this aspect. Only a tenth of its real estate assets have mortgage debt, that is, in a scenario in which this situation is prolonged a lot more, **Meliá** could mortgage or sell property.

It is also important to indicate that most of **Meliá's** assets are very well situated, with investments in the reconditioning and improvement from 3-4 stars to 4-5 stars already made. The hotel sector will obviously suffer over these months, but the smaller ones will suffer more and there will be some family hotels that will end up closing, partly offsetting reduced demand with reduced supply.

As a result of all of this, we consider that with a long-term vision, our investment in **Meliá** will also be highly profitable.

A final message

During limited periods of time, difficult to anticipate a priori, investment in value behaves worse than other investment styles. **Benjamin Graham,** "the father of value investing" or as he was known then "the Dean of Wall Street", used a verse from Horace in the dedication of his book Security Analysis (1934): "many that have now perished will return and many that are now honest will perish". It was a warning for all those that go out on a limb in this passionate world. He lived many ups and downs, also like many other extraordinary investors such as **Buffett,** who saw **Berkshire Hathaway's** shares fall by -50% three times, as his partner **Charlie Munger** commented. Logically, the strategy of buying cheaply, with a considerable discount with respect to the business value, regardless of how shares fluctuate temporarily, has always ended up having good results. We also prefer good volatile profitability to poor non-volatile profitability. With this philosophy we build our portfolios.

The higher permanent loss of Cobas AM

In May, **Mayte Juárez** left us. For decades, she was the person ultimately responsible for purchasing shares for our portfolios. All her colleagues remember with affection all the contributions she has made to Cobas, and to other inititiatives, since it was founded, and to the development of the people that train them. Her intellectual curiosity, her combative and non-conformist spirit, her tenacity and professionalism, her humanity and optimism and her friendship have been, and will remain an example for all of us.

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PORTFOLIOS

Comment **Second Quarter 2020**

Our portfolios

Spanish domiciled funds		Luxembourg domiciled funds				Strategies		
Name	Capitalisation	Name	Capitalisation	Assets Under Management	Market Capitalisation	International	Iberian	Number of holdings
Internacional FI	280.6 Mn€	**International** Fund	12.6 Mn€	293.2 Mn€	Multi Cap	●		46
Iberia FI	30.2 Mn€	**Iberian** Fund	3.6 Mn€	33.8 Mn€	Multi Cap		●	38
Grandes Compañías FI	12.4 Mn€	**Large Cap** Fund	3.1 Mn€	15.5 Mn€	70% ≥ 4Bn€	●	●	33
Selección FI	461.4 Mn€	**Selection** Fund	42.2 Mn€	503.6 Mn€	Multi Cap	●	●	57

Data 31/06/2020. 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 have built the various equity funds we manage at 30 June:

Total assets under management
(Including Institutional mandates)

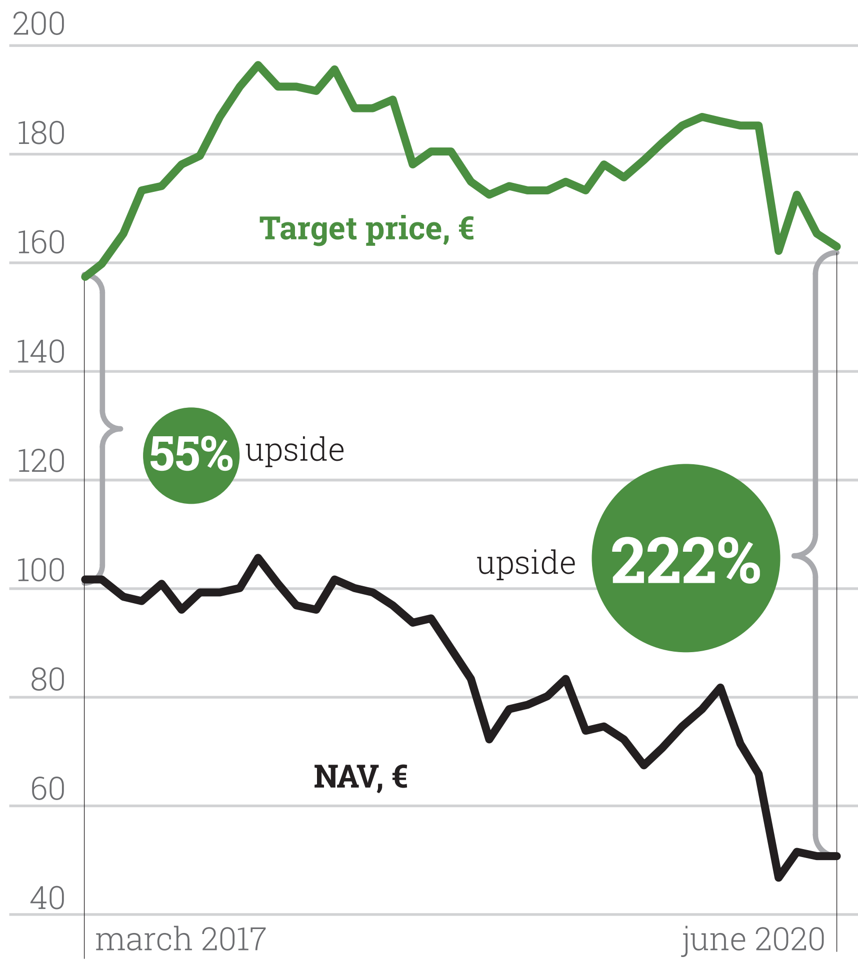
1.246 Mn€

International Portfolio

Over the second quarter of 2020, our **International Portfolio**posted a positive return of +7.3% versus the 12.6% profitability posted by its benchmark index, the **MSCI Europe Total Return Net.** Since the **Cobas Internacional FI** fund began investing in equities in mid-March 2017, it has obtained a return of -49.3%, while its benchmark index has obtained a return of 4.1% for the same period.

During the second quarter we made few changes to the **International Portfolio.**We made a complete departure from three companies **(KT Corporation, Valaris** and **Petra Diamonds)** the joint weight of which barely accounted for 1%, and took up with **Golar LNG Partners,** , a subsidiary of **Golar LNG Limited,** accounting for less than 1%.

The largest contributors to returns during the quarter were **Kosmos Energy** (+1.6%), **Dynagas LNG** (+1.1%), **Teekay LNG** (+1.1%), **Aryzta** (+0.9%) y **Cairn Energy** (+0.7%) while the largest detractors were **International Seaways** (-1.9%), **Exmar** (-1.2%), **Golar LNG** (-1.0%), **Babcock Interna-**



tional (-0.9%) y **Teekay Corporation** (-0.7%).

During the quarter the **target value** of the **International Portfolio** remained stable at +0.7%, up to **€163 euros/unit,** compared to a rise of 7.3% in the net asset value, as a result of which the upside **potential** is an estimated **222%.**

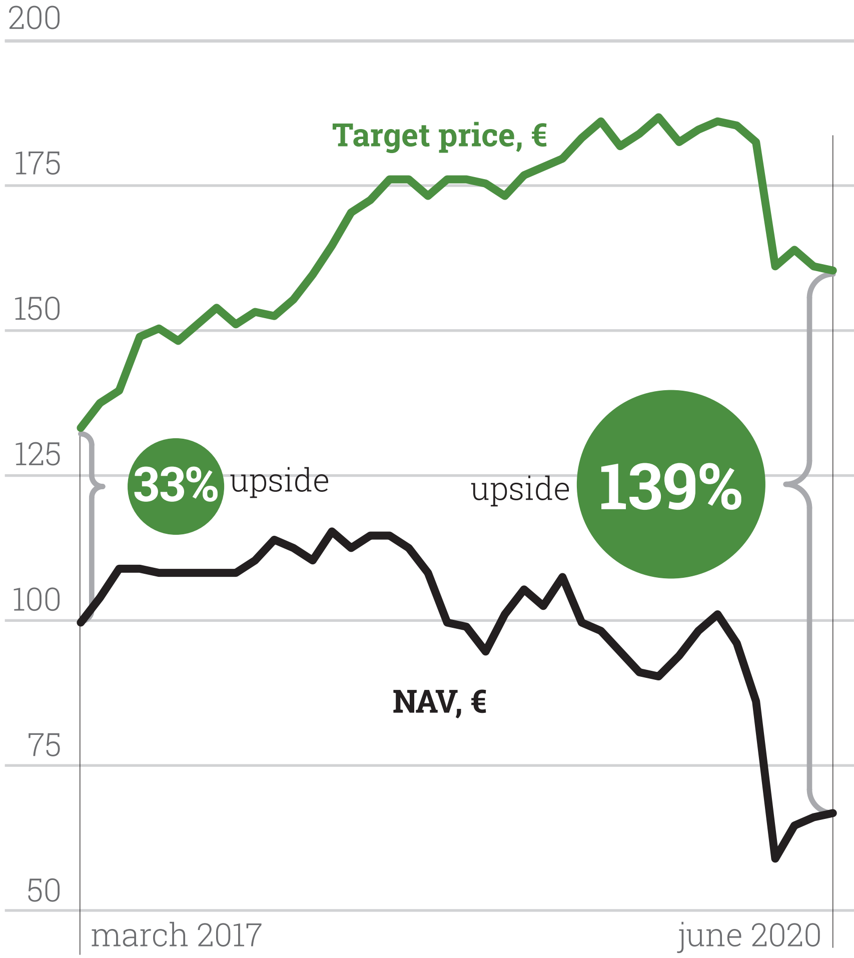
Obviously, as a result of all this potential and our trust in the portfolio, we are invested at 99%, close to the legal maximum. Overall, the portfolio trades at an estimated 2020 P/E ratio of 5.5x and has a ROCE of 26%. If we exclu-de maritime transport and commodities companies, which are more capital-intensive, portfolio ROCE would be 36%.

Iberian Portfolio

The net asset value in the second quarter of 2020 for our **Iberian Portfolio** was +12.7%, compared with +8.5% for its benchmark index. If we extend the comparison period since we started investing in equities, the portfolio has obtained a return of -33%, while its benchmark index has obtained a return of -11.7% for the same period.

Over the second quarter we rotated the **Iberian Portfolio** to a significant extent. We invested in 9 new companies **(Acerinox, Applus, Merlin, Repsol, ArcelorMittal, Indra, Global Dominion, Ibersol** and **Altri)** the joint weight of which was around 9.6% at the closing date in June. We also sold 3 companies outright **(Bankia, Unicaja** and **Ezentis)** with a joint weight of almost 4.7%.

The largest contributors to returns during the quarter were **Elecnor** (+3.0%), **Atalaya Mining** (+2.6%), **Técnicas Reunidas** (+1.5%), **Sacyr** (+1.2%) y **Metrovacesa** (+0.8%) y los mayores detractores **Prosegur** (-0.3%), **Prosegur Cash** (-0.2%), **Unicaja Banco** (-0.2%), **Prisa** (-0.2%) y **CTT** (-0,2%).



During the quarter the **target value** of the **Iberian Portfolio** remained stable up to **€160/unit,** compared to a rise of 12.7% in the net asset value, as a result of which the upside **potential** stands at **139%.**

In the **Iberian Portfolio,** we have invested 98% and, as a whole, the portfolio trades with an estimated 2020 P/E ratio of 6.6x, with a ROCE of 24%.

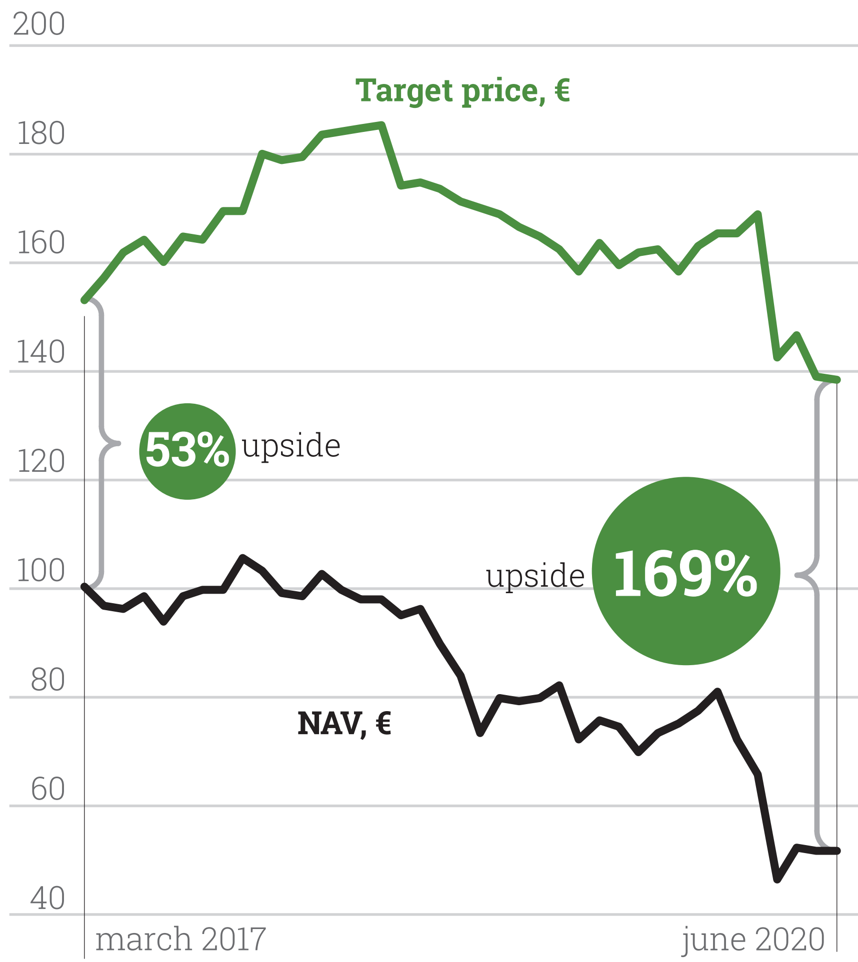
Large Cap Portfolio

During the second quarter of 2020, our **Large Cap Portfolio** had a return of +10.8% versus +16.6% 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 -48.5%. In that period, the benchmark index rose by +19.4%.

The largest contributors to returns during the quarter were **Thyssenkrupp** (+1.6%), **Porsche** (+1.4%), **Samsung C&T** (+1.2%), **Renault** (+0.9%) y **Continental** (+0.9%), y los principales detractores **Teekay Corporation** (-0.8%), **Golar** (-0.8%), **OCI** (-0.6%), **Israel Chemicals** (-0.5%) y **Babcock** (-0.4%).

In the **Large Cap Portfolios** we left **Transocean** outright and went into **Glencore** and **Lear Corporation** with a joint weight at the June closing date of approximately 2.1%.

Glencore thas the largest global logistics network for



basic metals, comparable only to its competitor **Trafigura.** It controls approximately 20% of world copper and zinc demand, and almost 9% of lead, nickel and carbon. It is also one of the largest producers of these metals. The company is well diversified, well managed and has manageable debt, which is lower than it appears, thanks to high liquidity in its stocks. In early April we bought in the wake of a -50% fall in the price pre-COVID and -70% from top marks. Since then the share price has made significant gains.

Lear is the world's second largest manufacturer of car seats, accounting for 20% of the market. It forms part of a consolidated business, in which only the two largest companies have a global presence, with entry barriers and good returns on the capital employed. It is cautiously managed, it has a very good reputation and is still outgrowing the market, mainly by eating into the share of **Adient,** its main competitor, which is undergoing a restructuring process and faces higher levels of debt. **Lear's** price was hit by the COVID-19 virus, and previously it had been "contaminated" by pessimism concerning automotive component companies. We feel this makes no sense because, regardless of the propulsion technology used for cars, there will obviously still be demand for car seats.

During the quarter we reduced the **target value** of the **Large Cap Portfolio** by -2.3%, up to €143/unit, compared to a rise of 10.8% in the net asset value, as a result of which the upside **potential** stands at **169%**.

Overall, the portfolio trades at an estimated 2020 P/E ratio of 5.7x and has a ROCE of 28%.

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NEWS

Comment **Second Quarter 2020**

Our **Cobas Asset Management** news section aims to give you a preview of company's projects and initiatives, while sharing some of the most important milestones to have been reached in the last quarter.

Contact with our shareholders

Despite the anomalous situation caused by the COVID-19 pandemic, the Investor Relations team has continued working normally by maintaining our availability and close contact with our shareholders, through conference calls, video calls and webinars.

It should be noted that we have had more than 14,260 contacts with our co-investors throughout the second quarter of 2020.

Resumption of services in Cobas AM after COVID-19

Firstly, as we already mentioned in our letter for the first quarter of 2020, all the operating procedures and investor support services have been working correctly since the outbreak of COVID-19.

Since June, we have been working at full capacity from our offices, with our co-investors having the option to attend in person by appointment.

Likewise, since 22 June, the usual client sign up procedure that was in place prior to the transitory situation caused by COVID-19, which we mentioned in the first quarter letter, has been resumed. The original signed registration documentation must be either sent by post or handed in at **Cobas Asset Management** premises.

Reduction in the minimum contribution of Spanish pension plans

The pension plan specifications have been amended, where it has been established that from 1 September 2020:

• The extraordinary minimum contribution to invest in our pension plans is €150. Said minimum contribution will become €100.

• In terms of the monthly and quarterly periodic minimum contributions, these will become €100, which to date were €30 and €90 respectively. Therefore, the minimum amounts remain at €100, €180 and €360, with a monthly, quarterly, semi-annual or annual frequency, respectively, depending on the frequency selected by the shareholder.

You can consult these amendments in article 11.1 of the specifications of our Cobas Global PP and Cobas Mixto Global PP.

Chinese version of Investing for the Long-Term

On 11 june the Chinese edition of **'Invirtiendo a largo plazo' (Investing for the Long-Term)** was launched in Shanghai. The book was written by **Francisco García Paramés.** The online presentation was viewed by more than 100,000 users.

Other initiatives of

SANTA COMBA

valueschool

Cobas AM collaborates **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.

Value School Summer Summit

At **Value School,** the summer season is synonymous with **Summer School** and, despite extraordinary circumstances, this year could not be an exception. So **Value School Summer Summit 2020** has been launched: an on-line conference circle that is fully open in order to promote financial education and personal development with the participation of national and international experts. Throughout the summer of 2020, the recordings of the talks will be published free of charge for all those who have not been able to attend live.

Summer Summit Value School poster . Design: **Beatriz Naranjo**

Executive Program in Investing in Value and Behavioral Finance

After the success of the first edition of the program in collaboration with **ICADE Business School,** , the second edition will be held. We remind you that the objective of the program is to achieve the student's understanding of all the phases of a process of investment in value or 'valueinvesting'. More information: See program

'The Promises We Live By' and 'The Boglehead's Guide to Investing`' publications

In keeping with the commitment to publish translations of great classics from the investment and economic fields, **Value School** has recently expanded its collection with two new titles. These are **'The Promises We Live By'** by **Harry Scherman** and **'The Boglehead's Guide to Investing'** by **M. Lindauer, T. Larimore** and **M. LeBoeuf.** For further information, please visit the Value School Library section of to enjoy these and other reading recommendations.

The Conscious Investor Course

Throughout the 2nd quarter of 2020 the first edition of **The Conscious Investor investor online course** was held. In this course, more than 300 students have learned about the principles of conscious investment to protect their savings and generate long-term wealth.

End of the fisrt cycle of Value School seminars

With the arrival of the summer break, the first cycle of **VS Webinars** concludes. The **Value School** activity will return in September with more training: including courses, events and webinars. In the meantime, if you want to continue training, we recommend that you pay attention to the content that we regularly publish in our **YouTube channel.**

GSI GLOBAL SOCIAL IMPACT

On 10 July, **Santa Comba Gestión Group** received authorisation from the **CNMV** to launch **Global Social Impact Investment SGIIC,** an independent manager specialised in social impact investment funds that invest in companies with the dual objective of generating positive financial returns for its shareholders and a positive social and/or environmental impact on society. For further information, please visit: www.globalsocialimpact.es

One of the first milestones reached by **GSI**, is the alliance with **Mapfre AM,** the investment management arm of the insurance group, to grant financing to companies with high social impact both in frontier and emerging markets. They will do it through an open private debt fund, called **Global Social Impact Fund (GSIF),** which will put the focus initially in consolidated business models of Sub-Saharan Africa and will potentially expand to Latin America. Thefund, which aims to reach 50 million euros as the first objective, will be managed by **GSI** and is born with **Santa Comba** and **Mapfre** as main investors. **Mapfre AM** will assume the role of advisor to investments.
For more information: See press release

open value foundation

The **Universidad Pontificia de Comillas, Open Value Foundation, Fundación Repsol Foundation** and **Management Solutions** have launched a Chair in Social Impact that was created with the aim of promoting knowledge, research and innovation around impact investing, business philanthropy and its metrics, as well as the relationship between the sustainable growth of companies and their increasing association with social and environmental impact.

For more information, please visit the website of the foundation, www.openvaluefoundation.org, where you can sign up to receive their monthly newsletter with the latest news and events of the impact ecosystem.

cobas asset management

ANNEXES

c o b a s

asset management

Spanish Funds

Fund	Net Asset Value	Target Value	Upside potential	Q2 Performance		Performance YTD		Perf. since inception		PER	ROCE	AUM mn€	Equity exposure
				Cobas	Benchmarck	Cobas	Benchmarck	Cobas	Benchmarck				
Selección FI	53.8 €	169 €	215%	8.4%	12.6%	-38.2%	-12.8%	-46.2%	15.7%	5.5x	26%	461.4	98%
Internacional FI	50.7 €	163 €	222%	7.3%	12.6%	-38.3%	-12.8%	-49.3%	4.1%	5.5x	26%	280.6	99%
Iberia FI	67.0 €	160 €	139%	12.7%	8.5%	-33.6%	-21.4%	-33.0%	-11.7%	6.6x	24%	30.2	98%
Grandes Compañías FI	51.5 €	139 €	169%	10.8%	16.6%	-36.5%	-5.8%	-48.5%	19.4%	5.7x	25%	12.4	98%
Renta FI	88.6 €			0.2%	-0.1%	-8.3%	-0.2%	-11.4%	-1.3%			14.5	14%

Pension Funds

Fund	Net Asset Value	Target Value	Upside potential	Q2 Performance		Performance YTD		Perf. since inception		PER	ROCE	AUM mn€	Equity exposure
				Cobas	Benchmarck	Cobas	Benchmarck	Cobas	Benchmarck				
Global PP	50.0 €	157 €	214%	8.4%	12.6%	-38.0%	-12.8%	-50.0%	0.7%	5.5x	26%	34.3	98%
Mixto Global PP	59.2 €	153 €	159%	6.3%	6.3%	-30.7%	-6.0%	-40.8%	1.0%	5.6x	19%	3.0	73%

Luxembourg Funds

Fund	Net Asset Value	Target Value	Upside potential	Q2 Performance		Performance YTD		Perf. since inception		PER	ROCE	AUM mn€	Equity exposure
				Cobas	Benchmarck	Cobas	Benchmarck	Cobas	Benchmarck				
International EUR	47.6 €	153 €	221%	-41.1%	-12.8%	-41.1%	-12.8%	-52.4%	-1.4%	5.5x	26%	12.2	98%
International USD	$58.3	$187	221%	-40.1%	-12.8%	-40.1%	-12.8%	-48.4%	-0.9%	5.5x	26%	0.4	98%
Selection EUR	10.250.0 €	32.419 €	216%	-39.1%	-12.8%	-39.1%	-12.8%	-50.1%	3.5%	5.5x	26%	35.3	99%
Selection USD	$17.985.9	$56.887	216%	-38.0%	-12.8%	-38.0%	-12.8%	-45.5%	3.5%	5.5x	26%	6.9	99%
Iberian EUR	72.6 €	173 €	138%	-33.2%	-21.4%	-33.2%	-21.4%	-27.4%	-18.1%	6.6x	24%	3.6	98%
Large Cap EUR	67.6 €	182 €	169%	-36.6%	-5.8%	-36.6%	-5.8%	-32.4%	0.5%	5.7x	25%	3.1	98%

• 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.

cobas asset management

Radiography of our funds

Second Quarter 2020

Cobas Internacional FI — ES0119199000

Top 10

Company	Current quarter weight	Previous quarter weight
CIR	8.0%	8.3%
Golar LNG	7.6%	8.6%
Teekay LNG	5.6%	5.9%
Aryzta	4.3%	4.6%
Maire Tecnimont	4.1%	3.2%
Dixons Carphone	4.0%	3.7%
International Seaways	4.0%	7.5%
Babcock	3.9%	4.7%
Wilhelmsen	3.5%	2.6%
Danieli	3.4%	3.5%

Geographical breakdown (Current Quarter Weight %)

Eurozone	31.7%
USA	30.4%
Rest of Europe	26.6%
Asia	10.2%
Other	1.1%

Currency breakdown (% Gross)

Euro	31.7%
USD*	30.4%
Sterling Pound	13.0%
Korean Won	8.2%
Norwegian Krone	6.9%
Swiss Franc	4.3%
Japanese Yen	2.0%
Other	3.6%

(*) EUR/ USD 100% hedged

Performance contributors (Contribution to return %)

Contributors	
Kosmos Energy	1.6%
Dynagas LNG	1.1%
Teekay LNG	1.1%
Aryzta	0.9%
Cairn Energy	0.7%

Detractors	
Teekay Corp.	-0.7%
Babcock	-0.9%
Golar LNG	-1.0%
Exmar	-1.2%
International Seaways	-1.9%

In & out of the portfolio

In the portfolio
- Golar LNG Partners

Out of the portfolio
- KT Corp.
- Petra Diamonds
- Valaris

Cobas Iberia FI — ES0119184002

Top 10

Company	Current quarter weight	Previous quarter weight
Elecnor	10.1%	9.3%
Semapa	8.6%	9.2%
Técnicas Reunidas	8.5%	8.3%
Vocento	8.2%	8.5%
Atalaya Mining	5.0%	3.8%
Metrovacesa	4.1%	1.7%
Sacyr	4.0%	3.5%
Meliá	4.0%	4.7%
Corp. Fin. Alba	3.9%	4.3%
Prosegur Comp. Seguridad	2.9%	3.3%

Geographical breakdown (Current Quarter Weight %)

Spain	66.3%
Portugal	25.9%
Other	7.8%

Currency breakdown (% Gross)

Euro	95.0%
Other	5.0%

Performance contributors (Contribution to return %)

Contributors	
Elecnor	3.0%
Atalaya Mining	2.6%
Técnicas Reunidas	1.5%
Sacyr	1.2%
Metrovacesa	0.8%

Detractors	
CTT - Correios de Portugal	-0.2%
Prisa	-0.2%
Unicaja	-0.2%
Prosegur Cash	-0.2%
Prosegur Comp. Seguridad	-0.3%

In & out of the portfolio

In the portfolio
- Acerinox
- Altri
- Applus Services
- ArcelorMittal
- Global Dominion
- Ibersol
- Indra
- Merlin Properties
- Repsol

Out of the portfolio
- Bankia
- Ezentis
- Unicaja

Cobas Grandes Compañías FI — ES0113728002

Top 10

Company	Current quarter weight	Previous quarter weight
Israel Chemicals	6.4%	8.3%
Mylan	6.4%	6.4%
Golar LNG	5.9%	6.7%
Thyssenkrupp	5.7%	4.6%
Dassault Aviation	5.1%	4.7%
Samsung C&T	4.7%	5.3%
Porsche	4.5%	4.2%
Renault	4.0%	3.5%
BMW	3.8%	4.8%
Teekay LNG	3.5%	3.2%

Geographical breakdown (Current Quarter Weight %)

Eurozone	44.1%
USA	26.6%
Asia	15.7%
Rest of Europe	6.1%
Other	7.5%

Currency breakdown (% Gross)

Euro	44.1%
USD*	26.6%
Korean Won	8.3%
Israel Shekel	6.4%
Sterling Pound	4.1%
Japanese Yen	2.8%
Taiwanese Dollar	2.6%
Swiss Franc	2.0%
Other	3.1%

(*) EUR/ USD 100% hedged

Performance contributors (Contribution to return %)

Contributors	
Thyssenkrupp	1.6%
Porsche Pref.	1.4%
Samsung C&T	1.2%
Renault	0.9%
Continental	0.9%

Detractors	
Babcock	-0.4%
Israel Chemicals	-0.5%
OCI	-0.6%
Golar LNG	-0.8%
Teekay Corp.	-0.8%

In & out of the portfolio

In the portfolio
- Glencore
- Lear

Out of the portfolio
- Transocean

Cobas Selección FI — ES0124037005

Top 10

Company	Current quarter weight	Previous quarter weight
CIR	7.1%	7.5%
Golar LNG	6.8%	7.8%
Teekay LNG	5.0%	5.3%
Aryzta	3.9%	4.2%
Maire Tecnimont	3.7%	2.9%
Dixons Carphone	3.6%	3.3%
International Seaways	3.5%	6.8%
Babcock	3.5%	4.2%
Wilhelmsen	3.1%	2.3%
Danieli	3.1%	3.2%

Geographical breakdown (Current Quarter Weight %)

Eurozone	37.5%
USA	27.1%
Rest of Europe	25.4%
Asia	9.1%
Other	1.0%

Currency breakdown (% Gross)

Euro	37.5%
USD*	27.1%
Sterling Pound	13.2%
Korean Won	7.3%
Norwegian Krone	6.1%
Swiss Franc	3.9%
Japanese Yen	1.8%
Other	3.2%

(*) EUR/ USD 100% hedged

Performance contributors (Contribution to return %)

Contributors	
Kosmos Energy	1.4%
Dynagas LNG	1.0%
Teekay LNG	1.0%
Aryzta	0.8%
Atalaya Mining	0.7%

Detractors	
Teekay Corp.	-0.6%
Babcock	-0.8%
Golar LNG	-0.9%
Exmar	-1.1%
International Seaways	-1.7%

In & out of the portfolio

In the portfolio
- Golar LNG Partners

Out of the portfolio
- Bankia
- KT Corp.
- Petra Diamonds
- Valaris

Cobas Renta FI — ES0119207001

Top 10

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 %)

Eurozone	80.9%
USA	14.5%
Rest of Europe	4.7%

Currency breakdown (% Gross)

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

(*) EUR/ USD 100% hedged

Cobas LUX SICAV Cobas Selection Fund — LU1372006947 EUR y LU1372007168 USD

Top 10

Company	Current quarter weight	Previous quarter weight
CIR	7.2%	7.5%
Golar LNG	6.9%	7.8%
Teekay LNG	5.1%	5.3%
Aryzta	4.6%	4.4%
Maire Tecnimont	3.7%	2.9%
Dixons Carphone	3.6%	3.4%
International Seaways	3.6%	6.8%
Babcock	3.5%	4.3%
Wilhelmsen	3.1%	2.3%
Danieli	3.1%	3.2%

Geographical breakdown (Current Quarter Weight %)

Eurozone	35.6%
USA	26.4%
Rest of Eurpe	27.8%
Asia	9.2%
Other	1.0%

Currency breakdown (% Gross)

Euro	35.6%
USD*	27.8%
Sterling Pound	13.4%
Korean Won	7.4%
Swiss Franc	4.6%
Norwegian Krone	6.2%
Japanese Yen	1.8%
Other	3.2%

(*) EUR/ USD 100% hedged

Performance contributors (Contribution to return %)

Contributors	
Kosmos Energy	1.4%
Teekay LNG	1.2%
Dynagas LNG	1.1%
Aryzta	1.0%
Dixons Carphone	0.8%

Detractors	
Teekay Corp	-0.6%
Golar LNG	-0.6%
Babcock	-0.7%
Exmar	-1.1%
International Seaways	-1.8%

In & out of the portfolio

In the portfolio
- Golar LNG Partners

Out of the portfolio
- Bankia
- KT Corp.
- Petra Diamonds
- Valaris

Cobas LUX SICAV Cobas International Fund — LU1598719752 EUR y LU1598719919 USD

Top 10

Company	Current quarter weight	Previous quarter weight
Golar LNG	7.7%	8.5%
CIR	7.7%	8.3%
Teekay LNG	5.6%	5.8%
International Seaways	4.2%	7.4%
Aryzta	4.1%	5.0%
Dixons Carphone	4.1%	3.6%
Maire Tecninmont	4.0%	3.2%
Babcock	3.9%	4.7%
Wilhelmsen	3.5%	2.6%
Danieli	3.5%	3.5%

Geographical breakdown (Current Quarter Weight %)

USA	30.8%
Eurozone	26.6%
Rest of Europe	31.4%
Asia	10.0%
Other	1.1%

Currency breakdown (% Gross)

USD*	31.4%
Euro	30.8%
Sterling Pound	13.0%
Korean Won	8.0%
Norwegian Krone	6.9%
Swiss Franc	4.1%
Other	3.7%
Japanese Yen	2.0%

(*) EUR/ USD 100% hedged

Performance contributors (Contribution to return %)

Contributors	
Kosmos Energy	1.6%
Dynagas LNG	1.3%
Teekay LNG	1.3%
Aryzta	1.1%
Dixons Carphone	0.9%

Detractors	
Teekay Corp	-0.7%
Golar LNG	-0.7%
Babcock	-0.7%
Exmar	-1.1%
International Seaways	-2.0%

In & out of the portfolio

In the portfolio
- Golar LNG Partners

Out of the portfolio
- KT Corp.
- Valaris
- Petra Diamonds

Cobas LUX SICAV Cobas Iberian Fund — LU1598721493 EUR

Top 10

Company	Current quarter weight	Previous quarter weight
Elecnor	10.2%	11.5%
Técnicas Reunidas	8.7%	8.2%
Semapa	8.6%	9.3%
Vocento	8.2%	8.6%
Atalaya Mining	5.0%	3.7%
Metrovacesa	4.2%	1.4%
Meliá	4.1%	4.5%
Sacyr	4.1%	3.3%
Corp. Fin. Alba	3.9%	4.4%
Prosegur Comp.	2.9%	3.5%

Geographical breakdown (Current Quarter Weight %)

Spain	74.8%
Portugal	17.3%
Other	7.8%

Currency breakdown (% Gross)

Euro	95.0%
Other	5.0%

Performance contributors (Contribution to return %)

Contributors	
Elecnor	3.1%
Atalaya Mining	3.0%
Tecnicas Reunidas	1.6%
Sacyr	1.5%
Metrovacesa	0.9%

Detractors	
Grupo Prisa	-0.1%
CTT - Correios de Portugal	-0.2%
Unicaja	-0.2%
Prosegur Cash	-0.2%
Prosegur Comp. Seguridad	-0.5%

In & out of the portfolio

In the portfolio
- Acerinox
- Altri
- Applus Services
- ArcelorMittal
- Global Dominion
- Merlín Properties
- Ibersol
- Indra
- Repsol

Out of the portfolio
- Bankia
- Ezentis
- Unicaja

Cobas LUX SICAV Cobas Large Cap — LU1598720172 EUR

Top 10

Company	Current quarter weight	Previous quarter weight
Israel Chemicals	6.4%	10.4%
Mylan	6.4%	6.4%
Golar LNG	5.9%	6.8%
Thyssenkrupp	5.7%	4.6%
Dassault Aviation	5.1%	4.6%
Samsung C&T	4.8%	5.5%
Porsche	4.5%	4.2%
Renault	4.1%	3.4%
BMW	3.8%	4.9%
Teekay LNG	3.5%	3.2%

Geographical breakdown (Current Quarter Weight %)

Eurozone	43.5%
USA	27.1%
Asia	15.9%
Other	7.5%
Rest of Europe	6.1%

Currency breakdown (% Gross)

Euro	43.5%
USD*	27.1%
Korean Won	8.3%
Israel Shekel	6.4%
Sterling Pound	4.1%
Japanese Yen	2.9%
Other	3.1%
Taiwanese Dollar	2.6%
Swiss Franc	2.0%

(*) EUR/ USD 100% hedged

Performance contributors (Contribution to return %)

Contributors	
Thyssenkrupp	1.7%
Porsche	1.5%
Samsung C&T	1.5%
Renault	1.1%
BMW	1.0%

Detractors	
ICL	-0.2%
Babcock	-0.3%
OCI	-0.5%
Golar LNG	-0.6%
Teekay Corp	-0.8%

In & out of the portfolio

In the portfolio
- Glencore
- Lear

Out of the portfolio
- Transocean

The **positions** of Maire Tecnimont, CIR, Wilhelmsen and Danieli bring together the joint exposure to the different types of portfolio shares of these companies, whose ISINs are shown below:
Maire Tecnimont: IT0004931058 and XXITV0000107; CIR: XXITV0000180 and IT0000070786; Wilhelmsen: NO0010571698 and NO0010576010; Danieli: IT0000076486 and IT0000076502. Information broken down by ISIN code is available in the report available on the CNMV website.

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