QUARTERLY REPORT

TO OUR INVESTORS

First Quarter 2021

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Bestinver Madrid

Dear investor,

We come to the end of a quarter marked by the widespread roll-out of vaccination programmes across the globe. These efforts represent the beginning of the end of a journey fraught with personal and economic challenges that started just over a year ago. We wish all the best to the people hardest hit by the crisis and send our thanks to those who continue to fight, on behalf of everyone, to overcome it.

On the financial side, the global equity markets have performed well, closing the quarter with close to double-digit gains in Europe and the United States (in euros). There were more modest performances by the Asian indexes (Japan, +3.8% and China, +0.4%) and slumps in Latin America (-2.3%).

There has been considerable churn, which continues to benefit the sectors most exposed to the economic recovery to the detriment of those that are more defensive, including the technology sectors. Logically, in this context the shares making up global value indexes have fared better (+13.3%) than those in growth indexes (+4.1%). The differences in prices between the two groups are still significant, albeit much smaller than a few quarters ago.

Commodity prices, on the other hand, have continued to shoot up since the start of the year, while public debt has been the big loser in the markets over the first three months of 2021.

The markets appear to be protected against prevailing headwinds but, in our opinion, a large dose of prudence and restraint is the order of the day. This is because it is becoming ever more common to see certain cases of excesses that are not reassuring. We are referring, for instance, to the speculative frenzy at the start of the year around a group of North American shares – including GameStop – sparked by a forum called WallStreetBets and fuelled by the frenetic use of a broker called Robinhood that offers commission-free trading.

The boom of special purpose acquisition companies (SPAC) is also concerning. These vehicles are effectively a blank cheque for their promoters because they are entities with no specific business or commercial purpose other than to raise capital on the promise of using it in the future to buy or take over a non-listed company.

Of course, who also cannot forget the recent implosion of Archegos Capital Management: a family office that saw its assets ($10 billion) evaporate into thin air after a number of investment banks forced a sell-off of its investments to (unsuccessfully) recoup the money they had lent it (approximately $40-50 billion) – a veritable disaster.

These anecdotes form part of the speculative folklore we are referring to. Folklore founded on an economic recovery we can see on the horizon, supported by vast sums of cash that the central banks keep pumping into the markets and fuelled this quarter by the fiscal stimuli announced by the new government in the US.

A ghost called Inflation

A fabulous (and inflammable) combination for some investors who are very happy to join the party but, it must be said, have seen their enthusiasm dinted somewhat by the appearance of a ghost that has not raised its head in recent years. A ghost that has not managed to spook the equities indexes – although the churn of these has been epic – but has shaken other types of assets such as fixed income and commodities. A ghost called Inflation.

We are facing a new (old) guest invited to dine at the table of investments. A guest who could cause a change in direction for financing conditions that would require big changes to the recipe (and ingredients) used by the investment community to cook up savings over the last few decades.

We will discuss this threat with you throughout this letter, despite not having enough space to thoroughly reflect on such an interesting and, potentially, very important matter. We have therefore decided to publish a series of articles on the investment team blog (I, II and III) in which our team exhaustively analyses the truths and myths surrounding inflation and its impact on the investment world.

Marginal utility and the level of prices in an economy

First, we need to define exactly what inflation is. In short, inflation is the continuous and sustained increase in prices in an economy. In other words, the phenomenon that results in us being able to buy less with the euros in our pockets than we could before.

But what causes this? It happens because the things we want increase in value versus our euros or because the euros we have depreciate relative to what we want. Initially, it appears difficult to determine what is "guilty" of this alteration in the terms of exchange we are describing. The concept of utility therefore has to be defined; better still, the term "marginal utility".

Utility is the satisfaction or benefit derived from consuming a product or service. However, this benefit is not always the same and does not increase forever. Imagine we are starving hungry. A burger is extremely "useful" in this situation (eating it is hugely satisfying). If we are still hungry, a second burger might also bring us a benefit but, clearly, less that the first. A third, on the other hand, would no doubt make us feel bad. Its utility would be zero or even negative. This "variation" in satisfaction is what marginal utility measures.

So how does this concept apply to our previous discussion? It is relevant because it explains the level of prices of goods and services in an economy. This level is nothing more than a reflection of the relationship between the marginal utility of "things" and the marginal utility of the money used to buy them.

This can be expressed mathematically as follows:

Level of prices in an economy = Marginal utility of the "things" / Marginal utility of money

But how do we go from here to explaining the concept of inflation? It's simple. One only needs to understand that this ratio, like any, is higher when the numerator increases or the denominator decreases.

Inflation therefore occurs when:

1) The numerator increases, i.e. when the marginal utility of "things" goes up. And why does this happen? Because demand for those things rises or supply falls.

2) The denominator decreases, i.e. when the marginal utility of money goes down. When does this occur? When the supply of money increases or when demand to save it (or not spend it) falls.

Tense calm

Applying all these concepts to the present situation, we could describe it as a "tense calm". Here's why:

The demand for "things" has slumped due to the pandemic, so their marginal utility is low. At the same time, savings rates are extremely high – money has a high marginal utility – because of the clear barriers we are facing to spend and also because there is still somewhat of an aversion to risk due to the uncertainty sparked by this unprecedented crisis. Inflation therefore appears to be contained, despite the (massive) increase in countries' liabilities (amount of money in circulation and public borrowing).

This situation may persist if the economy continues to struggle to return to normal (new strains of the virus, delays in vaccinations etc.) or we see prolonged unemployment because of the pandemic's impact lingering on certain sectors. In other words, if the marginal utility of things remains low.

Equally, there will be no inflationary risks provided that, once the recovery is in full flow, the vast amounts of money in circulation are drained through more restrictive monetary policies (interest rate hikes) and/or the levels of public debt are pared back (higher taxes and/or less public spending). In such a scenario, the marginal utility of money would not decrease.

An unsettling economic recovery

The market is not too sure; neither are we.

On the one hand, there are signs the economy will rebound rapidly when vaccinations enable us to head out into the street. A recovery that would also be fuelled by the vast fiscal stimuli announced by the US in recent weeks: a first package of $1.9 trillion approved in early March, equating to 8% of North American GDP or 2% of global GDP (the US accounts for 25% of this), plus another $2.3-trillion package unveiled at the start of this month, equivalent to almost 10% of North American GDP (2.5% of global GDP).

On the other, there is also a monetary backdrop that does not help quell anxiety because during the pandemic, liquidity created by those responsible for the monetary policies of the leading economies in the world equates to 21%

of global GDP. This liquidity continues to find its way into the markets every day, which we do not see will reverse in the next few years and can be described as a pile of extremely flammable fuel that would burst into flames from an inflationary spark in the future.

We are therefore facing a somewhat worrying economic recovery. What a paradox!

We deem it to be a concern because in the future, the vast piles of public liabilities could significantly drag down the marginal utility of money (reducing the denominator in the equation above), while the surge in demand – driven by fiscal policies that were absent a decade earlier – and destruction of supply caused by Covid-19 in many sectors may exert significant upward pressure on the marginal utility of goods and services (increasing the numerator). The result (the ratio) would be high inflation that could last for several years.

This may be a somewhat simplistic, albeit realistic, summary explaining some of the shocks that have shaken the markets in the last quarter. Nothing to worry about for now, some would say. Sure, but we don't get paid for considering what is happening today. We get paid for analysing and evaluating what tomorrow holds and, above all, the potential impact of tomorrow on our work and portfolios.

This is exactly what we have done: consider a challenge that has not yet materialised and we do not know if it will, but that we are ready for here at Bestinver. This we have done because it is our duty. This is how we see our fiduciary duty, repaying the trust you have placed in us by analysing each and every aspect that could affect how your savings are managed.

Not all shares are on an equal footing in the face of inflation

Bestinver has an investment team with a number of members who are going grey (or have even lost their hair completely) but none of them are old enough to remember having analysed or managed investments during a prolonged inflationary environment. Indeed, the vast majority of us investors have been immersed for so long in exactly the opposite environment that our thought processes, how we navigate through the markets (our "algorithm"), is not well suited to this type of scenario.

This is clearly a handicap compared to the investment managers of 40 or 50 years ago and others who are accustomed to operating in more inflationary markets than ours (emerging economies).

This is why the exercise we are carrying out is so important.

Fortunately, we are shareholders of a large number of businesses with very experienced owners and directors, and we also have the knowledge of Ignacio Arnau (manager of the Bestinver Latam fund) who has successfully dealt with this type of challenges in Latin America. We mustn't overlook Eduardo Roque and his team either: investors who are well versed in evaluating inflation forecasts and spreads when they are setting the returns they expect on the bonds of the companies they are analysing.

In general, we are aware that shares offer decent protection against inflation. As a business owner, one receives nominal cash flows that grow over time as prices rise. This is a reality… albeit somewhat theoretical. In practice, the truth is that inflation represents a considerable headwind for shares. Unfortunately, for other types of assets and for deposits, it is equivalent to a hurricane.

But not all shares are on an equal footing in the face of inflation. This headwind doesn't affect every company in the same way. Our task is to find those that are better prepared to withstand it.

Operational winds

As shareholders of listed companies, we face two winds that we must guard against in a climate of high and long-lasting inflation: operational wind and market wind.

The first of these batters any company that is unable to increase its returns as inflation rises. Alas, not every company is able to produce those "sparkles" they can get out of their assets or capital proportional to the continuous rise in prices in an economy affected by inflationary pressures.

If we somewhat excessively reduce the operational sauce down, we could say that the "sparkles" depend on sales or, better still, the margins that such sales generate. We will therefore need to analyse both a company's cost structure – part of which is fixed and part variable – and its market positioning or power to set prices.

Of course there are many other factors to take into account but in general and from an operational perspective, we can say that a business with relatively fixed costs that can increase its prices and sales in line with inflation is a good shipmate.

In terms of the asset, the key here is how "efficient" that asset is at generating sales. Put another way, how much needs to be invested in the asset to replenish it (and continue generating sales) and how costly is such a reinvestment.

In an inflationary environment where the cost of capital is constantly rising, the less the asset "wears out", the better. If it does wear, the less costly or less "inflationary" the reinvestment needed to maintain it, also the better.

The companies which have the sparkle and right asset tend to have a long-lasting competitive advantage and a product with high turnover, and can grow when prices are going up without requiring much capital.

Market winds

The problem with these companies is that they don't normally come cheap; quite the opposite, in fact. They are therefore not well equipped to sail in market winds. Winds that buffet valuation multiples and strongly in times of high inflation.

As we explained in our letter for the third quarter of last year, a company is worth the free cash flow or dividends it is able to generate over its lifetime, discounted at an appropriate rate or cost of capital. This cost of capital rises with inflation and therefore, erodes the company's valuation.

It increases, in practice, because of the ball and chain effect of inflation on companies' returns, and, in real times, these don't tend to be sufficiently high to replenish or maintain capital.

This capital ends up being consumed, making it scarcer and, consequently, more costly. In response to this greater cost, investors then demand higher returns on their investments, in other word, paying lower valuation multiples.

We can therefore deduce that a company valued with competitive multiples, offering a comfortable margin of safety, will be much better equipped to shield itself from the inevitable deflation of valuations that inflation processes always cause.

Meritocratic winds

There is a third type of wind companies are exposed to: meritocratic wind.

This wind gives rise to natural selection in the business world, debilitating the weakest and bolstering the strongest (to the detriment of the former). Only those with a characteristic we haven't mentioned until now: financial robustness, can ride this wind.

We talked before about the sparkle and asset but not about how this asset is financed. A solvent company, which finances its asset with capital and not debt, is better prepared for this Darwinian process we are referring to. Not only because the cost (interest rate) of any debt rises during periods of inflation but also because a company financed to survive a rainy day is one that can benefit from the opportunities that always flourish when operational and market winds strengthen.

Such financial solvency and the (marvellous) optionality this offers is fruit of past and future decisions a company's management takes. It is therefore crucial to associate oneself with companies with an experienced and capable management team who have the talent to find their way across tumultuous seas and know how to protect capital when they need to and build it up when it is possible.

We are not deterministic or dogmatic

Broadly speaking, we have just described the main characteristics any company wanting to find its way through inflationary waters without difficulty must have. They must have a good combination of sparkle and asset – a vital structure to withstand operational winds. Their valuations must be competitive, with wide margins of safety that provide protection against market winds. And lastly, they have to be well managed and prudently financed to be able to exploit the opportunities that meritocratic winds bring.

Companies that we already boast in our portfolios, capable of generating wealth today and also able to protect it and make it grow if the risks we described at the beginning of this letter arise in the future.

We don't know what this future holds for us and it cannot be disconnected from the economic context we lived through before Covid-19 hit. A decade and a half of monetary policies that appeared to be "extraordinary" but have become permanent and essential.

Policies that have driven significant inflation of assets that nobody talks about and a constant deflationary pressure in the system that, evidently, has not enabled the public sector to pare back its ever-burgeoning debt.

This is a challenging context in which it is impossible to determine if the unquestionable inflationary spark we will see in the coming months will be merely a flash or may become a more permanent economic wildfire.

We know the economic measures put in place to tackle the effects of the pandemic may be the icing on an inflationary cake that has been in the oven for some time. At the same time, however, we suspect the economic, geopolitical and even social ground we are walking on lacks the nutrients needed for the inflation seed to sprout.

We aren't sure and we don't want to be deterministic or dogmatic. Nothing is pre-written, much less an economic outcome that depends on a multitude of actions (and reactions) we cannot predict. Is there a lack of conviction? Yes, of course it could be interpreted that way, but we prefer to say there are strong arguments on both sides and we are not able to lean one way or the other.

Whatever the case, the aim of our analysis is not to take sides: black or white (we support the greys here in Bestinver), rather to examine and identify the dangers to the companies we are searching for and in the portfolios we manage of a widespread and prolonged increase in prices in the economy.

Bestinver is prepared

This is exactly what we have done. We don't know if we will move into an inflationary climate in forthcoming years, but what we do know is that Bestinver is prepared for this eventuality.

We have an investment team with the talent needed to choose the operationally most appropriate companies. Our value investing philosophy means we have the temperament and patience needed to pay the right price for them and, of course, we have a major shareholder that brings solidity, solvency and permanence – always indispensable qualities but even more so should a ghost that is floating around the markets without spooking them decide to take a seat at the investment table. A ghost called Inflation.

Corporate information

We also wanted to update you on Bestinver Infra FCR. Bestinver's new infrastructure fund is now up and running, and we have completed a first funding round of €100 million. This Bestinver fund offers investors the chance to invest in an alternative, stand-out global product focusing on real infrastructure assets. We plan to launch new funding rounds over the course of the year to achieve our final target of €300 million.

Lastly, we would like to invite you to read the managers' updates on each of our funds. These round-ups summarise the managers' vision, the main movements in each fund's portfolio and the investment theses of some of the companies in which the funds have invested.

Best regards,
The investment team.

Bestinver in numbers

50,000 investors trust us

We manage €6.8 billion

Independence: Acciona Group

Several awards in recent years prove our worth

Figures at: 31/03/2021. Source: Bestinver.

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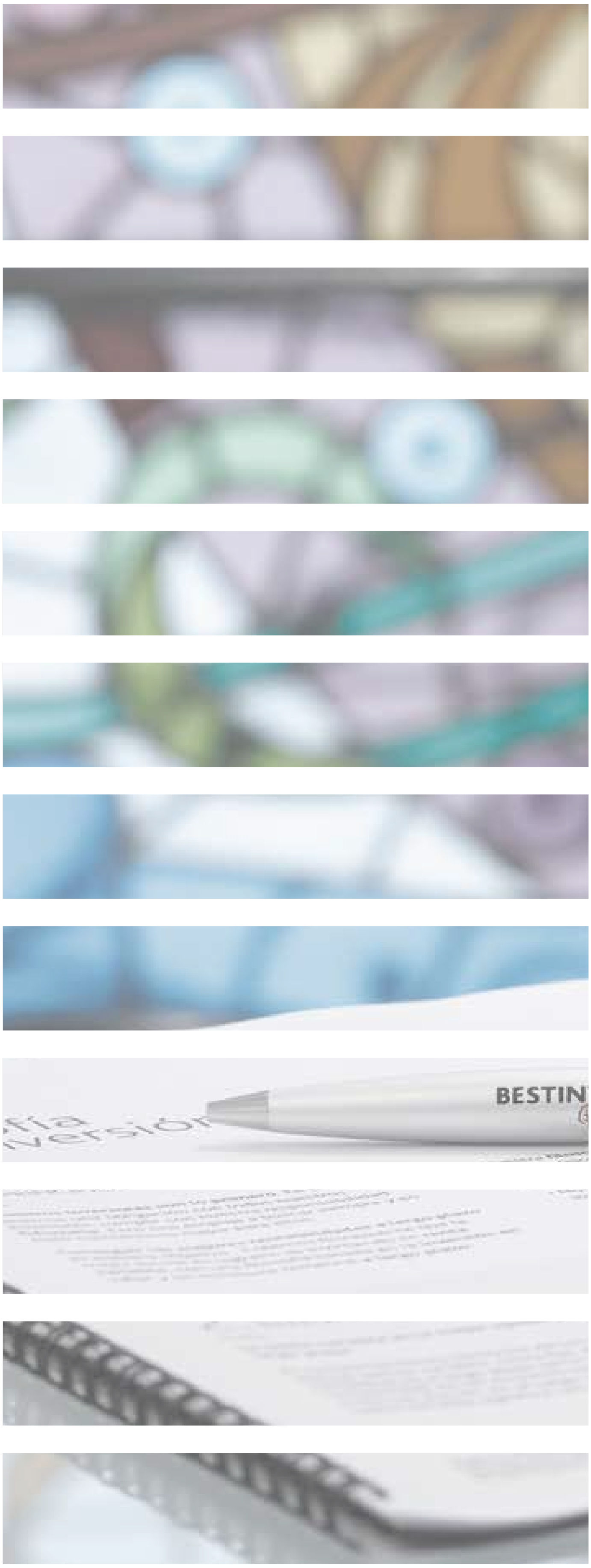
LEGAL WARNING

All of Bestinver's returns are expressed in € and in net terms, after expenses and commissions.

Potential: The growth potential that, in the opinion of Bestinver's managers, the fund has at any given time, calculated as the difference between the current PER and the target PER. This does not represent the gain that the fund will make in a certain period, given that, although the fund will achieve a specific return, the objective of the managers is to increase, or at least maintain, that potential.

PER: The free cash-flow price at which the fund trades, based on the PER estimated by Bestinver's managers for each company (including adjustments such as: debt, point in the cycle, price, currency, etc.).

Target Price: the Net Asset Value that the shares in the fund may reach on the basis of the intrinsic value that all of the stocks that form the portfolio have, in the opinion of Bestinver's managers.



Investment funds

Bestinver Barcelona

BESTINFUND

This is an investment fund aimed at investors with a long view (over 5 years). The fund invests up to 100% in global equities, with companies listed in Europe making up the bulk of the portfolio. The objective of the fund is to generate long-term returns by selecting attractive businesses that are well managed and show considerable upside potential. The fund is managed based on the three pillars that form the foundations of our investment philosophy: in-house fundamental analysis, appropriate risk management and an investment time horizon that is common to investors and fund managers alike.

Fund managers

Tomás Pintó
International Equities Director

Jorge Fuentes
International Equities Manager

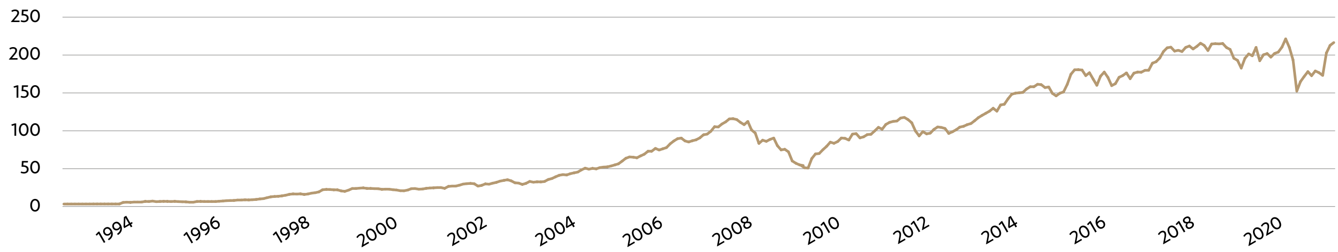
Table of annualised returns

	Q1 2021	2020	2019	2018	2017	2016
Bestinfund	**9.73%**	**-3.83%**	**20.81%**	**-13.39%**	**11.58%**	**10.87%**
Reference index*	9.23%	6.33%	30.02%	-5.30%	18.19%	0.80%

Table of annualised returns

	3 years	5 years	10 years	15 years	Launch
Bestinfund	**4.25%**	**6.42%**	**7.43%**	**6.43%**	**13.78%**
Reference index*	13.95%	10.83%	10.41%	6.40%	10.05%

Net Asset Value (€)



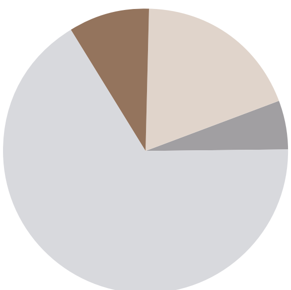
Figures as at close of business: 31/03/2021. Source: Bestinver. Periods of more than 1 year at annualised rate. Launch date: 13/01/1993. Since 01/01/2016, the reference index has included net dividends. Past performance is not a guarantee of future returns.
*The index changed on 05/09/2018 and is now the MSCI World NR EUR. The historical return data for the reference index have been calculated taking as a reference the data obtained for the index in force at any given time.
The full prospectus, periodic reports and KIID for the fund are available at www.bestinver.es and www.cnmv.es

RISKS ASSOCIATED WITH THE INVESTMENT

Investments could entail, among others, equity-market risk, interest-rate risk, exchange-rate risk, risk of investing in emerging economies risk, and geographical and sectoral concentration risk.
Investment in this fund is inadvisable for time horizons of less than 5 years.

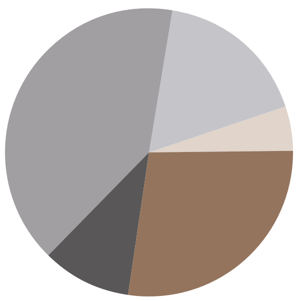
DISTRIBUTION OF THE PORTFOLIO

Geographical distribution



Europe	66.2%
Iberia	9.2%
Other	18.9%
Liquidity	5.3%

Sectoral distribution



Consumer	27.6%
Financial	9.6%
Industrial	40.5%
Communication & Technology	16.5%
Liquidity	5.3%

Main positions by sector

CONSUMER	% OF PORTFOLIO
HELLOFRESH	3.83%
DELIVERY HERO	2.60%
GLAXOSMITHKLINE	2.44%

INDUSTRIAL	% OF PORTFOLIO
ASHTEAD GROUP	3.01%
KONECRANES	2.72%
STELLANTIS	2.61%

COMMUNICATION & TECHNOLOGY	% OF PORTFOLIO
INFORMA	3.01%
SAMSUNG ELECTRONICS	2.70%
TENCENT	2.39%

FINANCIAL	% OF PORTFOLIO
BERKSHIRE HATHAWAY	2.68%
INTESA SANPAOLO	2.30%
ING GROUP	1.96%

Manager's round-up

Bestinfund started the year with decent yields (9.73%), outperforming the main benchmark indexes. We have a balanced portfolio, with a long-term goal of outperforming the global equity markets. We expect to achieve this when these are performing both well and not so well.

This balance requires building a fund with a certain weight of companies that are well prepared when the cycle turns against them: companies that offer us stability and predictability. Businesses that generate abundant amounts of cash, and are prudently financed and have an owner or management team prepared to sacrifice a quick buck today for greater returns tomorrow. Companies that have the "capacity to suffer", as we referred to them in our previous letter.

There isn't anything much more painful for companies – and portfolios – than a period of high and prolonged inflation in an economy. In fact, there is only one: periods of intense deflation. We cannot say for sure that our fund won't suffer in such conditions (we also don't expect them), but our aspiration is that it won't if these conditions remain in the shadows of the phenomena that shape the markets, the so-called "reflationary" or "disinflationary" phases. These periods can be extremely intense; however, balanced portfolios like ours should fare well during them. Enjoy the warmth without burning and the cold without freezing; that's our goal.

Duration (of the cycle) is what matters

Talking of (extreme) heat, the editorial to this letter discusses some of the difficulties companies and their owners (us) face during times of high inflation. We classified them as two types: operational difficulties and market difficulties. The first of these refer to returns, the second to multiples. Not that this matters much; when prices rise, both shrink.

We know there are few companies capable of increasing their returns (those "sparkles" they can get out of their assets) proportional to the continuous rise in prices in an economy affected by inflationary pressures. Some do though, and our work is to find them.

A good combination of "sparkle and asset" has a lot to do with a very important feature of a company: the "duration" of its cycles.

Here we mean the lengths of its product cycle and its customer cycle. The first refers to how long or short the life cycle of the good or service produced by the company is. In other words, how long the product remains relevant. This relevance will depend on many factors: the competition, elasticity of demand, technological obsolescence, market saturation etc., and ultimately determines how long the product will retain its competitive advantage. Obviously, the longer it lasts, the better.

The customer cycle refers to how and when the customer buys the product the company is selling. A discretionary or occasional purchase is not the same as buying a subscription or maintenance service; neither is purchasing consumables compared to durables. These specific factors affect production time periods and therefore investment and financing needs. In short, the duration of a product's customer cycle will depend on the recurrency or regularity of the sales of that product. In this case, the shorter the duration, the better.

It is important to remember that we are generalising these concepts and that, of course, there are hundreds of nuances that can be found, especially during periods of sustained, high inflation. Nevertheless, in general, we search for businesses with long product cycles and short customer cycles, as this type of company doesn't normally need to reinvest large amounts of capital in the business, while the frequency or regularity of its sales allow it to adjust its operations in line with inflation.

Companies also have the chance to boost their returns on the liabilities side by borrowing more or reducing the cost of debt. For us, such an approach is less attractive and definitely more difficult to implement when interest rates are high. It is tool (or luxury) reserved only for companies with healthy balance sheets (such as our investees).

Inflation, deflation and linear thinking

The other challenge as investors in a world of high inflation is deflation – deflation of valuation multiples.

Inflation severely damages returns on capital. In real terms, the majority of the time capital is not built up, it is eroded. When there is less capital, it becomes more valuable and, understandably, investors become more selective and tentative about contributing to it. Demanding higher returns on our investments – reducing the multiples in our valuations – is a rational way we can protect ourselves from inflation.

That said, this austere stance we must adopt is not as obvious as it seems. Of course we have to be restrained but to what extent depends on the point in the cycle we are in. This is not easy to calculate, and this is because we are used to thinking linearly. However, this type of thought process isn't much use in the investment world.

Investors tend to systematically increase multiples (reducing the returns we demand from investments) when inflation rates are low and, on the contrary, reduce them when inflation rates are high. That's not to say this behaviour isn't rational; it's lineal.

The problem is that the high earnings multiples we pay when inflation is low are associated with low nominal and real (inflation-adjusted) returns in the future. Oppositely, the low multiples at which shares are traded when inflation is high tend to be associated with subsequently high real and nominal returns.

The explanation for this is that investors see low inflation (not deflation) as conducive to investing and therefore, we raise share valuations to levels that compromise future returns on them. On the flip side, when inflation is high we tend to penalise the valuations so that the foundations on which the shares will offer very good returns in the future are laid.

We therefore understand that transitions from high to low rates of inflation are quite welcome, while upward movements in inflation tend to be unusually painful.

This is why our work is marvellous but complicated.

We don't know if we are entering one of these painful phases. What we do know is that we want to have a portfolio of companies that can find their way through the operational pitfalls caused by inflation. We also want to buy them at the lowest possible price, especially at this point in the cycle. So, let's don our inflationist glasses and briefly analyse two of the businesses in our portfolio.

Berkshire Hathaway

We delved into the investment case that is Berkshire in a post on the investment team blog back in February. This company has a lot of the characteristics we are looking for in a company we want to protect us from inflation: barriers to entry, asset durability, corporate culture, financial prudence etc. We will now examine how prepared its businesses would be for an inflationary environment.

The railway business is clearly capital intensive but its "duration" mix is excellent: a never-ending product cycle and short customer cycle. Its capital intensity is also nuanced. The trains carrying freight from A to B obviously need maintaining but think about the other part of the asset, the important bit: the rails joining these two points. They are perpetual. Berkshire has also been over-investing in the business during all these years (of low inflation), benefiting from a favourable fiscal regime that enables it to depreciate these investments at an accelerated rate. It operates with ridiculously low leverage which, if necessary, it could optimise to boost its returns.

The energy arm comprises a series of electricity and gas generation and distribution assets offering predictable and growing (in the case of renewables) revenues. Like the railway business, it is capital intensive although a significant part offers a regulated return allowing any increases in prices/interest rates to be passed on. Think again about the (eternal) product cycle and (recurrent) customer cycle, and the almost non-existent debt on its balance sheet. These give it a clear competitive advantage if capital becomes scarcer again.

The MSR division comprises a range of businesses (Clayton Homes, Fruit of the Loom, Precision Catsparts, Marmon, Shaw Industries, McLane etc.) with very different characteristics but some common denominators: sector leaders, big cash generators, offering high returns on the capital they use and, once again, prudently managed.

And lastly, the insurance arm. Insurance firms are affected by inflation in a number of ways, although the biggest impact is the potential increase in the cost of future pay-outs on existing policies (which have been arranged without taking into account high inflation rates). As far as Berkshire is concerned, however, we are very relaxed. It has been underwriting risk in a profitable manner its entire life and we don't think things will be any different this time round. Of course its investment portfolio won't be immune to higher interest rates, but we suspect that Buffett doesn't lose any sleep over this possibility and neither are we.

Turning to its valuation, it must be said that the returns on Berkshire's capital are OK and predictable but not great (8-10%). This explains its low trading multiples. The biggest problem with Berkshire in this respect, which we don't see as bad, is its huge cash pile ($150 billion). This surplus affords it a raft of options if inflation rears its head again.

Nevertheless, over and above this more quantitative aspect of Berkshire's businesses, is a qualitative aspect. In the editorial, we mentioned the obvious handicap we have compared to fund managers who have dealt with truly inflationary periods during their careers. Think Warren Buffet. Someone who 40 to 50 years ago, when many of us were babies, was raising capital from shareholders by offering returns of 20% to almost match the rampant inflation that was plaguing the US at the time.

Over those years, they held stakes in capital intensive businesses, such as aluminium and steel producers, knowing that they didn't need to worry about sales because these companies could pass on any price rises in the economy. These were companies that the shareholders sold as and when they had to replace their asset base (inflationary reinvestment), to buy companies that were not capital intensive: communications firms, advertising companies, popular consumer brands etc. These are companies with few assets that generate huge amounts of cash and offer massive (and cheap) returns on capital. This is because Buffett bought them when their prices had shrunk due to the inevitable effect of inflation on their valuation multiples.

But that's not all. It is admirable to see how he was able to borrow in such an environment, thanks to the prudent balance sheet he had maintained in the years before, knowing that the opportunity that existed in the markets to raise these funds (when everyone had fled from them) was far greater than the extremely high interest rates he was paying for them.

A route map for the near term and a long-term investment view from the best investor of all time. An investor who we not only admire but must learn from and who can now protect us.

Facebook

As we've mentioned communications businesses, we'd like to talk about Facebook – a company we have been adding to our portfolios in the last few months.

Some years ago (2012) when Facebook had just been floated, we read the opinion of one of its shareholders: an old gent (we can't recall the name of) who didn't appear to match the profile of an investor interested in an apparently technological company. We still remember his short but powerful thesis: "half the population love exhibitionism and the other half enjoy voyeurism. It's certain to be a global success". And hasn't it just!

We say "apparently technological" because really it isn't so much. Facebook has a business model that is very similar to those of other traditional media such as radio and TV companies. It generates content to attract an audience and sells this audience to advertisers looking for customers. Facebook's model is almost identical, although it does have four specific features that make it far more appealing.

First, Facebook doesn't need to create content to attract its audience; the users themselves upload the photos, videos and news they produce. We can't think of a reinvestment that could be less inflationary than this "non-investment".

Second, the scale and global reach of its platform is unparalleled. Some 2.6 billion people use one of Facebook's apps every day. That means 70% of the world's population who have internet access (excluding China) use its platform daily. This global scale is very hard for any traditional (and indeed, non-traditional) media company to replicate.

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These four particular characteristics considerably boost Facebook's appeal (its competitive advantage) compared to the sector – advertising – providing it with extremely interesting fundamentals in an inflationary environment.

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As we have seen, there are few sectors where a more attractive combination of "sparkle and asset" than that we have just described can be found.

If Facebook's investment in maintenance is practically zero, its spending on growth isn't or at least hasn't been until now. Facebook has dedicated a vast amount of resources to enhance the cybersecurity of its applications following the Cambridge Analytica scandal a few years ago. The bulk of this incremental investment has now been made. Meanwhile Facebook's investment in tangible assets (known as Capex) amounts to $16 billion per annum, building and expanding its own network infrastructure, servers and data centres. This volume of investment is more than double the reported depreciation.

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Finally, we don't need to perform complex calculations to forecast notable growth in its revenues in the coming years; revenues that are increasing at 25-30% every year. Facebook operates in the online advertising space. This segment made up 45% of the total advertising market in 2019, and will continue to grow significantly in the years ahead (total advertising is set to grow – online more so than offline). Facebook currently boasts a market share of 20%, which it may retain and even increase in the future (last year alone its share increased from 23 to 25% in the US).

Turning to its valuation, you'll understand that a business of this quality cannot be priced with very low multiples. However, they are definitely not excessive. We have tried to normalise margins and investment levels and forecast the expected growth in online advertising, and we believe Facebook will be generating around $50 billion per annum in two or three years (market consensus is closer to $60 billion). At the current share price, having risen by almost 30% since mid-January, Facebook is trading at 15.5x its normalised FCF (a return of 6.5%) or 19x its earnings next year, if we adjust its stock market value by the cash it has on its balance sheet ($60 billion).

This is a fantastic shipmate with whom to navigate the operational winds of inflation, with gross margins of over 80% and operating margins of close to 40%. It generates normalised returns on capital of over 35%, is capable of withstanding market winds, has a cash surplus predicted to grow upwards of 20% for several years, and also offers great optionality, in fact huge optionality. Think about WeChat (Tencent) and the global super app that Whatsapp could become. Think about Instagram's opportunity in social commerce or the infinite possibilities for interaction offered by virtual reality. We have tried to quantify this optionality (because it could represent its actual stock market value) for which we don't pay anything and which requires practically no additional capital. We will discuss this optionality, among many other matters, in our investment team blog in the coming weeks.

Movements in the portfolio

We added a new company to the portfolio over the quarter: InPost, which is a Polish company producing automatic lockers that cut the last-mile logistics cost of e-commerce sales. You can read our more detailed investment thesis for this company in the manager's update on Bestinver Hedge Value.

We have increased our position in Jerónimo Martins. The Portuguese supermarket chain is going through a tough time in Poland: a market in which it operates under its Biedronka brand that contributes the lion's share of its earnings and valuation. Food and alcoholic beverage prices are on the brink of deflation in the country, and a new retail tax has also been announced, which will have a not insignificant impact on the company's margins in the near-mid term. However, we are confident Biedronka will be able to neutralise the effect of this tax in the long term, and we do not believe the low inflation rate for foodstuffs will last for long. These two headwinds have opened a window for us to increase our position at a price we haven't seen in a long time. This valuation discounts the lasting effects on margins and returns – effects we believe will be temporary.

We have increased our position in Harley-Davidson. We think the change in strategy by the new CEO, Jochen Zeitz, simplifying, paring back and innovating its range of models is not duly reflected in the current share price. The campaign to strengthen the brand has also been overlooked. Few brands are as iconic and ripe for monetising their merchandising as the North American motorcycle manufacturer, and Zeitz is deemed to be a specialist in restructuring processes. He revived the Puma clothing brand from its comatose state at the beginning of the 1990s, implementing a long-term development plan that culminated in the company's sale to the luxury goods giant, Kering, in 2007 (Puma's shares rose from €8.6 in Zeitz's first year as CEO to an all-time high of €350 in 2007). He has won awards for entrepreneurial spirit and the best commercial policies, and has received widespread accolades for his efforts to boost sustainability criteria in the corporate environment. He has co-written several books on innovative business practices and heads up a major art gallery in Africa. A friendly visionary who has joined Harley-Davidson at the perfect time.

We have also bought shares in the Danish jewellery business, Pandora. Again, this is a story of restructuring, this time far more advanced and visible, and the margins and returns we forecast for the coming years should justify slightly higher valuations than at present.

We have also continued to increase our exposure to the automotive and cement sectors and Zurich Airport.

This quarter we exploited the improved offers for Tikkurila and Kaz Minerals and sold our positions.

Another offer, this time from the Australian infrastructure management company, IFM, for part of Naturgy's capital allowed us to once again quickly post gains. It is most likely that the slump in Naturgy's results has come to an end, while the recent divestment of assets in Chile brings significant relief to its balance sheet. Both these aspects afford this investee the chance to explore new growth avenues (in renewables), without hindering its aggressive dividend policy. Whatever the case, its valuation factors in these operational improvements, and the long-term strategy for our position will depend on the outcome of the deal. It is subject to the corresponding regulatory approval, which requires a minimum degree of acceptance (17%), and must also be authorised by Spain's Council of Ministers following the law enacted last year enabling acquisitions (by a non-EU investor) of more than 10% of a Spanish company in a strategic sector to be vetoed.

On the other hand, we have exited Schlumberger following the impressive rebound in its share price over the last two quarters (+74%). This American firm is becoming a more international player, more profitable and less capital intensive. However, its continuous restructuring and the smaller investments in exploration and production by the major integrated oil companies in recent years heavily complicate normalising its results.

We have readjusted and pared back our exposure to the banking sector. We have sold our stakes in BNP and Standard Chartered to concentrate our investments in Intesa and ING.

The French bank is exposed to investment banking, which has been a savour over the last long year of operational difficulties for traditional banking. That said, it is an arm we fail to sit comfortably with and do not believe it will achieve the same results in forthcoming years. At Standard, meanwhile, the imminent change in CEO adds strategic confusion to a bank to which we have assigned a high cost of capital due to the geographical mix of its business (China, South East Asia and the Middle East) but doesn't, however, achieve the growth that would be expected given the geographical areas in which it operates. Its competitive position continues to weaken in these markets where the disruption of new players (fintechs) is limiting its results.

ING and Intesa – two banks we have spoken about in the past – on the other hand are relatively simple banks that are far more accessible to us. They have excess capital (that they can and will return to their shareholders) and, like the rest of the sector, should benefit from interest rates that are not so low or not so negative in the future.

Lastly, we'd like to mention that we have slightly reduced our position in Siltronic. We sold some of our shares to drive and contribute to the success of the GlobaWafers' public tender offer. This offer was ultimately improved from €125 + €2 of dividend to €145 + €2 of dividend (our experience and intuition were, this time, profitable) and has served to consolidate and increase the value of a sector that will enjoy a fantastic tailwind in the years ahead.

A challenge we are prepared to face

We would like to sign off by thanking you again for your faith in us and promising, as ever, to continue striving to offer you a solid and balanced portfolio.

A continuous and intense rise in prices in an economy is a formidable challenge for businesses and a vicious burden on savers who don't own businesses or real assets. It is a challenge that has not yet materialised and we do not know if it will, but that many of our investees are ready for. They have the right assets, are prudently financed and have managers with the talent and experience to find their way through difficult environments such as the one we have outlined in this letter.

A challenge we are also prepared to face – prepared but not programmed. Our portfolio includes companies that will afford us adequate protection if the incendiary elements we see in the economy end up igniting the inflation flame. They are also companies that will shield us if such a fire is not able to burn off the dangerous deflationary clouds of low interest rates and modest growth of the last few years.

They are portfolios that enable us to enjoy the warmth without burning and the cold without freezing.

Movements in the portfolio

ADDITIONS	INCREASES
INPOST	FACEBOOK INC CLASS-A FLUGHAFEN ZURICH AG-REG HARLEY-DAVIDSON INC PANDORA A/S LAFARGE JERONIMO
EXITS	**REDUCTIONS**
KAZ MINERALS SCHLUMBERGER STANDARD CHARTERED APERAM BNP	BOSKALIS DASSAULT SILTRONIC FLS

Date: 31/03/2021. Source: Bestinver

BESTINVER INTERNATIONAL FUND

This is an investment fund aimed at investors with a long view (over 5 years). The fund invests up to 100% in global equities (excluding Iberian equities), with companies listed in Europe making up the bulk of the portfolio. The objective of the fund is to generate long-term returns by selecting attractive businesses that are well managed and show considerable upside potential. The fund is managed based on the three pillars that form the foundations of our investment philosophy: in-house fundamental analysis, appropriate risk management and an investment time horizon that is common to investors and fund managers alike.

Fund managers

Tomás Pintó
International Equities Director

Jorge Fuentes
International Equities Manager

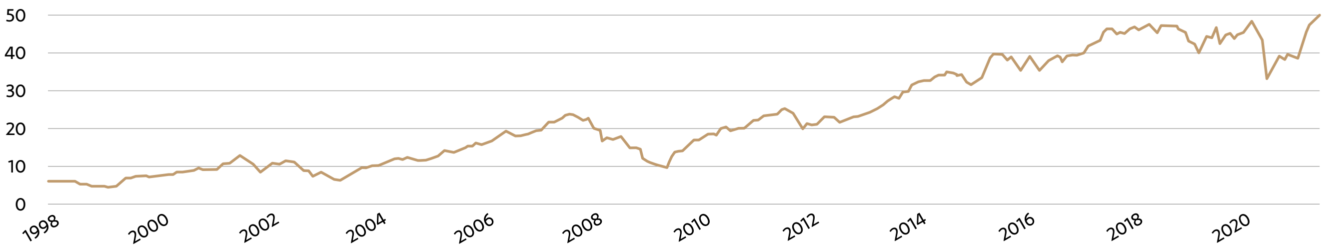
Table of annualised returns

	Q1 2021	2020	2019	2018	2017	2016
Bestinver International Fund	**9.89%**	**-1.38%**	**23.34%**	**-14.15%**	**11.74%**	**11.30%**
Reference index*	9.23%	6.33%	30.02%	-3.67%	7.38%	10.76%

Table of annualised returns

	3 years	5 years	10 years	15 years	Launch
Bestinver International Fund	**5.87%**	**7.18%**	**8.40%**	**7.10%**	**9.61%**
Reference index*	14.75%	12.71%	10.91%	6.01%	5.03%

Net Asset Value (€)



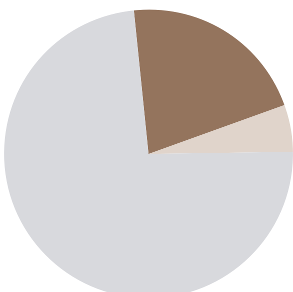
Figures as at close of business: 31/03/2021. Source: Bestinver. Periods of more than 1 year at annualised rate. Launch date: 19/11/1997. Since 01/01/2016, the reference index has included net dividends. Past performance is not a guarantee of future returns.
*The index changed on 05/09/2018 and is now the MSCI World NR EUR. The historical return data for the reference index have been calculated taking as a reference the data obtained for the index in force at any given time.
The full prospectus, periodic reports and KIID for the fund are available at www.bestinver.es and www.cnmv.es

RISKS ASSOCIATED WITH THE INVESTMENT

Investments could entail, among others, equity-market risk, interest-rate risk, exchange-rate risk, risk of investing in emerging economies risk, and geographical and sectoral concentration risk.
Investment in this fund is inadvisable for time horizons of less than 5 years.

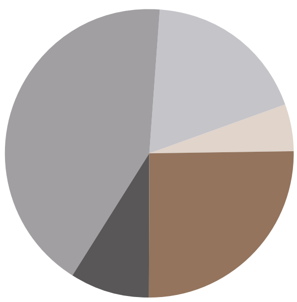
DISTRIBUTION OF THE PORTFOLIO

Geographical distribution



Europe	73.2%
Other	20.9%
Liquidity	5.2%

Sectoral distribution



Consumer	25.3%
Financial	9%
Industrial	42.1%
Communication & Technology	18.4%
Liquidity	5.2%

Main positions by sector

CONSUMER	% OF PORTFOLIO
HELLOFRESH	4.24%
DELIVERY HERO	2.88%
GLAXOSMITHKLINE	2.71%

INDUSTRIAL	% OF PORTFOLIO
ASHTEAD GROUP	3.34%
KONECRANES	3.00%
STELLANTIS	2.93%

COMMUNICATION & TECHNOLOGY	% OF PORTFOLIO
INFORMA	3.34%
SAMSUNG ELECTRONICS	3.00%
TENCENT	2.65%

FINANCIAL	% OF PORTFOLIO
BERKSHIRE HATHAWAY INC-CL B	2.97%
INTESA SANPAOLO	2.54%
ING GROUP	2.17%

Manager's round-up

Bestinver International Fund started the year with decent yields (+9.89%), outperforming the main benchmark indexes. We have a balanced portfolio, with a long-term goal of outperforming the global equity markets. We expect to achieve this when these are performing both well and not so well.

This balance requires building a fund with a certain weight of companies that are well prepared when the cycle turns against them: companies that offer us stability and predictability. Businesses that generate abundant amounts of cash, and are prudently financed and have an owner or management team prepared to sacrifice a quick buck today for greater returns tomorrow. Companies that have the "capacity to suffer", as we referred to them in our previous letter.

There isn't anything much more painful for companies – and portfolios – than a period of high and prolonged inflation in an economy. In fact, there is only one: periods of intense deflation. We cannot say for sure that our fund won't suffer in such conditions (we also don't expect them), but our aspiration is that it won't if these conditions remain in the shadows of the phenomena that shape the markets, the so-called "reflationary" or "disinflationary" phases. These periods can be extremely intense; however, balanced portfolios like ours should fare well during them. Enjoy the warmth without burning and the cold without freezing; that's our goal.

Duration (of the cycle) is what matters

Talking of (extreme) heat, the editorial to this letter discusses some of the difficulties companies and their owners (us) face during times of high inflation. We classified them as two types: operational difficulties and market difficulties. The first of these refer to returns, the second to multiples. Not that this matters much; when prices rise, both shrink.

We know there are few companies capable of increasing their returns (those "sparkles" they can get out of their assets) proportional to the continuous rise in prices in an economy affected by inflationary pressures. Some do though, and our work is to find them.

A good combination of "sparkle and asset" has a lot to do with a very important feature of a company: the "duration" of its cycles.

Here we mean the lengths of its product cycle and its customer cycle. The first refers to how long or short the life cycle of the good or service produced by the company is. In other words, how long the product remains relevant. This relevance will depend on many factors: the competition, elasticity of demand, technological obsolescence, market saturation etc., and ultimately determines how long the product will retain its competitive advantage. Obviously, the longer it lasts, the better.

The customer cycle refers to how and when the customer buys the product the company is selling. A discretionary or occasional purchase is not the same as buying a subscription or maintenance service; neither is purchasing consumables compared to durables. These specific factors affect production time periods and therefore investment and financing needs. In short, the duration of a product's customer cycle will depend on the recurrency or regularity of the sales of that product. In this case, the shorter the duration, the better.

It is important to remember that we are generalising these concepts and that, of course, there are hundreds of nuances that can be found, especially during periods of sustained, high inflation. Nevertheless, in general, we search for businesses with long product cycles and short customer cycles, as this type of company doesn't normally need to reinvest large amounts of capital in the business, while the frequency or regularity of its sales allow it to adjust its operations in line with inflation.

Companies also have the chance to boost their returns on the liabilities side by borrowing more or reducing the cost of debt. For us, such an approach is less attractive and definitely more difficult to implement when interest rates are high. It is tool (or luxury) reserved only for companies with healthy balance sheets (such as our investees).

Inflation, deflation and linear thinking

The other challenge as investors in a world of high inflation is deflation – deflation of valuation multiples.

Inflation severely damages returns on capital. In real terms, the majority of the time capital is not built up, it is eroded. When there is less capital, it becomes more valuable and, understandably, investors become more selective and tentative about contributing to it. Demanding higher returns on our investments – reducing the multiples in our valuations – is a rational way we can protect ourselves from inflation.

That said, this austere stance we must adopt is not as obvious as it seems. Of course we have to be restrained but to what extent depends on the point in the cycle we are in. This is not easy to calculate, and this is because we are used to thinking linearly. However, this type of thought process isn't much use in the investment world.

Investors tend to systematically increase multiples (reducing the returns we demand from investments) when inflation rates are low and, on the contrary, reduce them when inflation rates are high. That's not to say this behaviour isn't rational; it's lineal.

The problem is that the high earnings multiples we pay when inflation is low are associated with low nominal and real (inflation-adjusted) returns in the future. Oppositely, the low multiples at which shares are traded when inflation is high tend to be associated with subsequently high real and nominal returns.

The explanation for this is that investors see low inflation (not deflation) as conducive to investing and therefore, we raise share valuations to levels that compromise future returns on them. On the flip side, when inflation is high we tend to penalise the valuations so that the foundations on which the shares will offer very good returns in the future are laid.

We therefore understand that transitions from high to low rates of inflation are quite welcome, while upward movements in inflation tend to be unusually painful.

This is why our work is marvellous but complicated.

We don't know if we are entering one of these painful phases. What we do know is that we want to have a portfolio of companies that can find their way through the operational pitfalls caused by inflation. We also want to buy them at the lowest possible price, especially at this point in the cycle. So, let's don our inflationist glasses and briefly analyse two of the businesses in our portfolio.

Berkshire Hathaway

We delved into the investment case that is Berkshire in a post on the investment team blog back in February. This company has a lot of the characteristics we are looking for in a company we want to protect us from inflation: barriers to entry, asset durability, corporate culture, financial prudence etc. We will now examine how prepared its businesses would be for an inflationary environment.

The railway business is clearly capital intensive but its "duration" mix is excellent: a never-ending product cycle and short customer cycle. Its capital intensity is also nuanced. The trains carrying freight from A to B obviously need maintaining but think about the other part of the asset, the important bit: the rails joining these two points. They are perpetual. Berkshire has also been over-investing in the business during all these years (of low inflation), benefiting from a favourable fiscal regime that enables it to depreciate these investments at an accelerated rate. It operates with ridiculously low leverage which, if necessary, it could optimise to boost its returns.

The energy arm comprises a series of electricity and gas generation and distribution assets offering predictable and growing (in the case of renewables) revenues. Like the railway business, it is capital intensive although a significant part offers a regulated return allowing any increases in prices/interest rates to be passed on. Think again about the (eternal) product cycle and (recurrent) customer cycle, and the almost non-existent debt on its balance sheet. These give it a clear competitive advantage if capital becomes scarcer again.

The MSR division comprises a range of businesses (Clayton Homes, Fruit of the Loom, Precision Catsparts, Marmon, Shaw Industries, McLane etc.) with very different characteristics but some common denominators: sector leaders, big cash generators, offering high returns on the capital they use and, once again, prudently managed.

And lastly, the insurance arm. Insurance firms are affected by inflation in a number of ways, although the biggest impact is the potential increase in the cost of future pay-outs on existing policies (which have been arranged without taking into account high inflation rates). As far as Berkshire is concerned, however, we are very relaxed. It has been underwriting risk in a profitable manner its entire life and we don't think things will be any different this time round. Of course its investment portfolio won't be immune to higher interest rates, but we suspect that Buffett doesn't lose any sleep over this possibility and neither are we.

Turning to its valuation, it must be said that the returns on Berkshire's capital are OK and predictable but not great (8-10%). This explains its low trading multiples. The biggest problem with Berkshire in this respect, which we don't see as bad, is its huge cash pile ($150 billion). This surplus affords it a raft of options if inflation rears its head again.

Nevertheless, over and above this more quantitative aspect of Berkshire's businesses, is a qualitative aspect. In the editorial, we mentioned the obvious handicap we have compared to fund managers who have dealt with truly inflationary periods during their careers. Think Warren Buffet. Someone who 40 to 50 years ago, when many of us were babies, was raising capital from shareholders by offering returns of 20% to almost match the rampant inflation that was plaguing the US at the time.

Over those years, they held stakes in capital intensive businesses, such as aluminium and steel producers, knowing that they didn't need to worry about sales because these companies could pass on any price rises in the economy. These were companies that the shareholders sold as and when they had to replace their asset base (inflationary reinvestment), to buy companies that were not capital intensive: communications firms, advertising companies, popular consumer brands etc. These are companies with few assets that generate huge amounts of cash and offer massive (and cheap) returns on capital. This is because Buffett bought them when their prices had shrunk due to the inevitable effect of inflation on their valuation multiples.

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This is a fantastic shipmate with whom to navigate the operational winds of inflation, with gross margins of over 80% and operating margins of close to 40%. It generates normalised returns on capital of over 35%, is capable of withstanding market winds, has a cash surplus predicted to grow upwards of 20% for several years, and also offers great optionality, in fact huge optionality. Think about WeChat (Tencent) and the global super app that Whatsapp could become. Think about Instagram's opportunity in social commerce or the infinite possibilities for interaction offered by virtual reality. We have tried to quantify this optionality (because it could represent its actual stock market value) for which we don't pay anything and which requires practically no additional capital. We will discuss this optionality, among many other matters, in our investment team blog in the coming weeks.

Movements in the portfolio

We added a new company to the portfolio over the quarter: InPost, which is a Polish company producing automatic lockers that cut the last-mile logistics cost of e-commerce sales. You can read our more detailed investment thesis for this company in the manager's update on Bestinver Hedge Value.

We have increased our position in Harley-Davidson. We think the change in strategy by the new CEO, Jochen Zeitz, simplifying, paring back and innovating its range of models is not duly reflected in the current share price. The campaign to strengthen the brand has also been overlooked. Few brands are as iconic and ripe for monetising their merchandising as the North American motorcycle manufacturer, and Zeitz is deemed to be a specialist in restructuring processes. He revived the Puma clothing brand from its comatose state at the beginning of the 1990s, implementing a long-term development plan that culminated in the company's sale to the luxury goods giant, Kering, in 2007 (Puma's shares rose from €8.6 in Zeitz's first year as CEO to an all-time high of €350 in 2007). He has won awards for entrepreneurial spirit and the best commercial policies, and has received widespread accolades for his efforts to boost sustainability criteria in the corporate environment. He has co-written several books on innovative business practices and heads up a major art gallery in Africa. A friendly visionary who has joined Harley-Davidson at the perfect time.

We have also bought shares in the Danish jewellery business, Pandora. Again, this is a story of restructuring, this time far more advanced and visible, and the margins and returns we forecast for the coming years should justify slightly higher valuations than at present.

We have also continued to increase our exposure to the automotive and cement sectors and Zurich Airport.

This quarter we exploited the improved offers for Tikkurila and Kaz Minerals and sold our positions.

On the other hand, we have exited Schlumberger following the impressive rebound in its share price over the last two quarters (+74%). This American firm is becoming a more international player, more profitable and less capital intensive. However, its continuous restructuring and the smaller investments in exploration and production by the major integrated oil companies in recent years heavily complicate normalising its results.

We have readjusted and pared back our exposure to the banking sector. We have sold our stakes in BNP and Standard Chartered to concentrate our investments in Intesa and ING.

The French bank is exposed to investment banking, which has been a savour over the last long year of operational difficulties for traditional banking. That said, it is an arm we fail to sit comfortably with and do not believe it will achieve the same results in forthcoming years. At Standard, meanwhile, the imminent change in CEO adds strategic confusion to a bank to which we have assigned a high cost of capital due to the geographical mix of its business (China, South East Asia and the Middle East) but doesn't, however, achieve the growth that would be expected given the geographical areas in which it operates. Its competitive position continues to weaken in these markets where the disruption of new players (fintechs) is limiting its results.

ING and Intesa – two banks we have spoken about in the past – on the other hand are relatively simple banks that are far more accessible to us. They have excess capital (that they can and will return to their shareholders) and, like the rest of the sector, should benefit from interest rates that are not so low or not so negative in the future.

Lastly, we'd like to mention that we have slightly reduced our position in Siltronic. We sold some of our shares to drive and contribute to the success of the GlobaWafers' public tender offer. This offer was ultimately improved from €125 + €2 of dividend to €145 + €2 of dividend (our experience and intuition were, this time, profitable) and has served to consolidate and increase the value of a sector that will enjoy a fantastic tailwind in the years ahead.

A challenge we are prepared to face

We would like to sign off by thanking you again for your faith in us and promising, as ever, to continue striving to offer you a solid and balanced portfolio.

A continuous and intense rise in prices in an economy is a formidable challenge for businesses and a vicious burden on savers who don't own businesses or real assets. It is a challenge that has not yet materialised and we do not know if it will, but that many of our investees are ready for. They have the right assets, are prudently financed and have managers with the talent and experience to find their way through difficult environments such as the one we have outlined in this letter.

A challenge we are also prepared to face – prepared but not programmed. Our portfolio includes companies that will afford us adequate protection if the incendiary elements we see in the economy end up igniting the inflation flame. They are also companies that will shield us if such a fire is not able to burn off the dangerous deflationary clouds of low interest rates and modest growth of the last few years.

They are portfolios that enable us to enjoy the warmth without burning and the cold without freezing.

Movements in the portfolio

ADDITIONS	INCREASES
INPOST	FACEBOOK INC CLASS-A FLUGHAFEN ZURICH AG-REG HARLEY-DAVIDSON INC PANDORA A/S LAFARGE
EXITS	**REDUCTIONS**
KAZ MINERALS SCHLUMBERGER STANDARD CHARTERED APERAM BNP	BOSKALIS DASSAULT SILTRONIC FLS

Date: 31/03/2021. Source: Bestinver

BESTINVER IBERIAN FUND

This is an investment fund aimed at investors with a long view (over 5 years). The fund invests up to 100% in Iberian equities (Spain and Portugal). The objective of the fund is to generate long-term returns by selecting attractive businesses that are well managed and show considerable upside potential. The fund is managed based on the three pillars that form the foundations of our investment philosophy: in-house fundamental analysis, appropriate risk management and an investment time horizon that is common to investors and fund managers alike.

Fund managers

Ricardo Seixas
Iberian
Equities Director

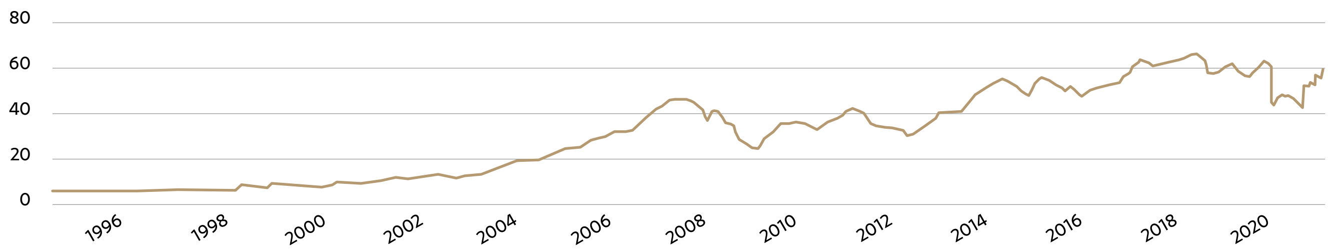
Table of annualised returns

	Q1 2021	2020	2019	2018	2017	2016
Bestinver Iberian Fund	**10.56%**	**-14.01%**	**10.51%**	**-8.66%**	**10.36%**	**8.69%**
Index (80% IGBM / 20% PSI)	4.45%	-5.20%	16.40%	-10.46%	13.12%	1.27%

Table of annualised returns

	3 years	5 years	10 years	15 years	Launch
Bestinver Iberian Fund	**-1.90%**	**3.67%**	**3.74%**	**4.12%**	**9.50%**
Index (80% IGBM / 20% PSI)	1.74%	4.77%	0.71%	-0.49%	2.96%

Net Asset Value (€)



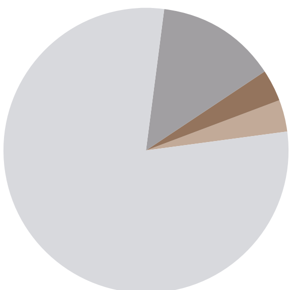
Figures as at close of business: 31/03/2021. Source: Bestinver. Periods of more than 1 year at annualised rate. Launch date: 28/06/1994. Since 01/01/2016, the reference index has included net dividends. Past performance is not a guarantee of future returns.
The full prospectus, periodic reports and KIID for the fund are available at www.bestinver.es and www.cnmv.es

RISKS ASSOCIATED WITH THE INVESTMENT

Investments could entail, among others, equity-market risk, interest-rate risk, exchange-rate risk, risk of investing in emerging economies risk, and geographical and sectoral concentration risk.
Investment in this fund is inadvisable for time horizons of less than 5 years.

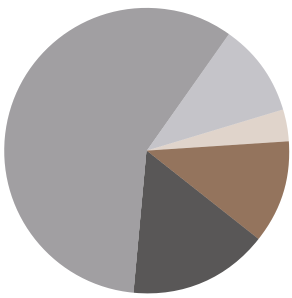
DISTRIBUTION OF THE PORTFOLIO

Geographical distribution



Spain	79.3%
Portugal	13.7%
Europe	3.4%
Liquidity	3.6%

Sectoral distribution



Consumer	11.8%
Financial	15.8%
Industrial	58.3%
Communication & Technology	10.5%
Liquidity	3.6%

Main positions

	% OF PORTFOLIO
BANCO SANTANDER SA	7.09%
ENCE ENERGIA Y CELULOSA SA	5.92%
ACERINOX	5.70%
ACS ACTIVIDADES CONS Y SERV	4.72%
CIE AUTOMOTIVE	4.62%

Manager's round-up

Bestinver Iberian Fund is a fund for investors with a long-term view that aims to generate returns by identifying undervalued companies in Spain and Portugal. We therefore have a team of four specialists focusing exclusively on the Iberian market who, along with the specific knowledge of our sector experts from the international team, provide us with a unique competitive advantage to invest in the region.

Bestinver Iberian Fund posted a return of 10.56% over the quarter at a time when the Spanish market has been extremely volatile. After a difficult January that brought to an end the sharp rises seen at the end of the year and possible delays in the much wanted vaccination roll-out started to be seen, February and March ended in positive territory, with the IBEX gaining +6.27% year to date. Despite the noise, we do not believe the medium-term outlook has changed much. It is possible that the vaccine supply complications and increased transmissibility of new strains of the virus could extend the time frames and slow the reopening of the economy in the near term. Nevertheless, isolating ourselves from these temporary uncertainties, the effectiveness of the vaccine has not been put into doubt and the expectation of a strong economic recovery and rebound of business profits remains the same.

Another factor that fuelled volatility during the first three months of the year was the sharp spike in long-term interest rates from February. Talk of a possible return of inflation and speculation about the intensity of post-Covid global growth has started to filter through to interest rates and, as a result, the valuation of financial assets. The vast amount of stimuli, huge piles of savings and a consumer who is about to be "freed" also look likely to add fuel to the fire in forthcoming quarters. In this respect, given our positioning we do not consider we are particularly exposed to the debates surrounding a reappreciation of the cost of capital that could impact certain market segments. Around 90% of the companies in the fund's portfolio are considerably cyclical, were acquired with modest valuations and are supported by a rapid acceleration of profits more than a pure expansion of their valuations. In general, we therefore believe the portfolio's sensitivity to fluctuations in interest rates is low.

Movements in the portfolio

Looking at the steps we have taken during the quarter, we are continuing to rotate the portfolio towards cyclical companies; therefore closing out the position in EDP and reducing the weight of EDPR, following an exceptional performance by both of them. We have also increased the weight of CIE Automotive and have included a new position in the Portuguese company, CTT. We will provide more detailed information about CTT in the near future but we would just like to say that we believe we have taken a stake in it at a very interesting time when property sell-offs, possible enhancements to its ordinary postal service agreement in Portugal and operational improvements to its parcel delivery business in Spain may help push up the cruising speed of earnings growth to above that priced in by the market.

We received a public offering for our stake in Semapa in February, and a similar thing happened with our investment in Euskaltel at the end of March. We explained at the Annual Investors Conference that many assets in Iberia are trading at prices that could attract buyout offers from other investors. This has certainly rung true in the first quarter of 2021.

Sodim, Semapa's majority shareholder with a 74% equity stake, launched a voluntary tender offer at €11.4/share. Semapa's board has already declared it deems the offer to be reasonable and we are awaiting an announcement on the matter from the Portuguese Security Markets Commission (CMVM). After its expected approval, the period for all shareholders to accept the tender offer will commence. The offer is on the table but is it reasonable? The market doesn't think so.

The share has traded above €11.40/share since the day the deal was announced. We take the same view; the calculation is straightforward. Given that Semapa has a stake in Navigator, a company listed in Portugal, at its present price we could assume that Semapa's other businesses would be valued at practically zero, when they generate an adjusted EBITDA of close to €100 million. The debate about the minimum valuation threshold is open but it's clear that it is significantly higher than that currently offered by Sodim. During this stage of proceedings, as always, we will explore all avenues to defend out unit holders' interests.

At the time of writing these lines, Sodim has announced it would raise the offer price to €12.17/share. As before, the market price still sits above this improved offer.

In Euskaltel's case, the offer was made by MásMóvil at €11.17/share, providing a premium of 16.5% on the previous close. Against all expectations and following months of rumours about a potential merger with Vodafone España, it appears MásMóvil has decided to trigger Plan B since an agreement hasn't be reached. The offer is still conditional upon obtaining approval from shareholders owning a minimum of 75% of capital and the pertinent regulatory approval. There are arguments on both sides suggesting the likelihood of the deal going ahead is high. On the one hand, three shareholders owning 52.3% of capital have given an irrevocable commitment to accept it; on the other, there appears to be little chance that the regulator will raise any major objections. Turning to the price, we are of the opinion that it only reflects part of the value of a solid long-term project, led by a formidable management team, and that the company had started showing the first promising signs of gaining traction in its national expansion. Whatever the case, we will calmly assess the situation and our investment alternatives before making a decision.

Tourist sector and adoption of ESG criteria

One question we are often asked is if we are invested in the tourist sector. The answer is yes but with one important caveat: we have been extremely selective. We incorporated two positions at the back of ESIG last year: Airbus and Amadeus. Compared to the other alternatives in the Iberian market, we have valued their robust balance sheets, leadership in oligopolistic markets, the limited likelihood of irrational price changes, their global reach and geographically diverse revenue streams. Above all, they are two businesses we have seen have made structural improvements that will bear fruit once the pandemic ends.

A change of topic now, as we would like to share with you the first findings on adopting ESG analysis for the Iberian fund. As we have reported for a number of months now, introducing an analysis method based on environmental, social and governance (ESG) factors has strengthened our position as value investors. Including these criteria has given us a complementary tool to deepen our knowledge of businesses, helping us identify new risks when investing in them, and thus providing an additional means to enhance how we manage our funds.

From a practical perspective and very broadly speaking, we can report that 60% of our portfolio (in terms of both the number of companies and their relative weight) achieve an ESG score of good or excellent. The remaining 40% comprise a group of companies that, having passed the examination, are implementing plans to improve governance or we are working with them to understand how they could improve certain sustainability and environmental aspects we deem to be important. Lastly, there is a group of securities that do not comply with the minimum ESG requirements we demand while their management teams also haven't shown us that they are willing to change. These companies have been screened out of our investment universe.

Delays in vaccinations and the ongoing restrictions could hinder the economy's progress until the summer in Europe and especially Spain. Investment conditions will, however, remain favourable. While the countries leading the way with their vaccination programmes such as Israel, the UK and the US light the path back to normality, the difficulties we could face in the near term will continue to remain in the shadow of the optimistic economic forecasts for the medium term. As we have said on a number of occasions since last year, the Spanish market is extremely dependent on the reopening and it is where we can find the greatest valuation mismatches caused by the pandemic. We are confident we can continue converting this opportunity into returns for you. We would like to end this letter by thanking you again for your faith in us.

Movements in the portfolio

ADDITIONS	INCREASES
CORREIOS DE PORTUGAL DOMINION	CIE AUTOMOTIVE AIRBUS
EXITS	**REDUCTIONS**
EDP	EDP RENOVAVEIS SA

Date: 31/03/2021. Source: Bestinver

BESTINVER LATIN AMERICA FUND

This is an investment fund aimed at investors with a long view (over 7 years). The fund invests up to 100% in Latin American equities. It primarily invests in Brazil, Mexico, Chile, Colombia and Peru. It may enter into transactions with derivative financial instruments traded on organised derivatives markets for hedging and speculative purposes and those not traded on organised markets for hedging and speculative purposes. The aim of the strategy is to be very different from the reference indexes and other investment alternatives in the region – all highly exposed to commodities, infrastructures and banking. Our strategy is primarily centred on all aspects related with consumption and the expansion of the middle classes in these countries. The objective of the fund is to generate long-term returns by selecting attractive businesses that are well managed and show considerable upside potential. The fund is managed based on the three pillars that form the foundations of our investment philosophy: in-house fundamental analysis, appropriate risk management and an investment time horizon that is common to investors and fund managers alike.

Fund managers

Ignacio Arnau
Bestinver Latam Manager

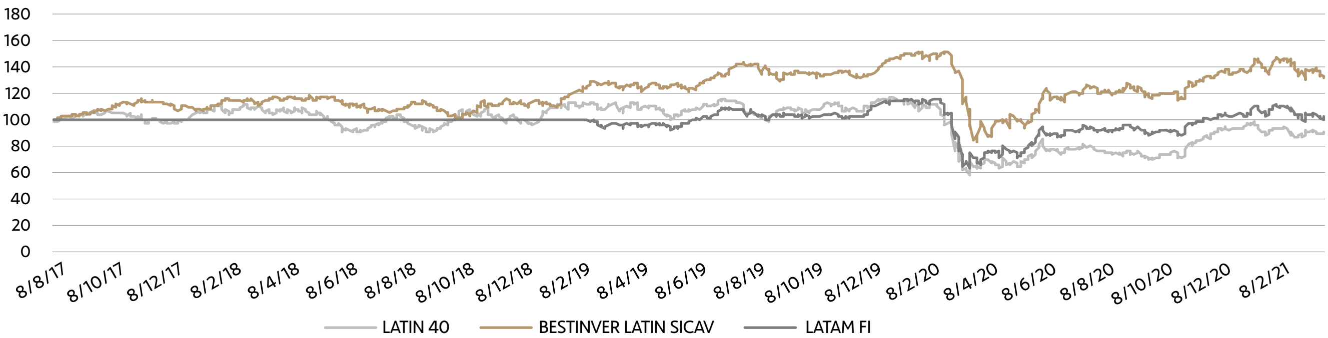
Table of annualised returns

	Q1 2021	2020	2019	2018
Bestinver Latin America SICAV	-1.85%	-6.27%	32.67%	-0.29
SP LATIN AMERICA 40NR	**-2.19%**	**-18.82%**	**15.90%**	**-1.69%**

Table of annualised returns

	3 years	Launch
Bestinver Latin America SICAV	5.55%	8.75%
SP LATIN AMERICA 40NR	**-5.41%**	**-0.94%**

Net Asset Value (€)



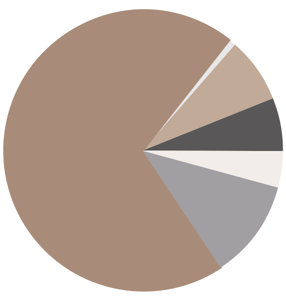
Figures as at close of business: 31/03/2021. Source: Bestinver. Date of launch of Bestinver Latam FI: 18/01/2019. Date of launch of Bestinver Latin America SICAV: 05/07/2017.
Past performance is not a guarantee of future returns. The full prospectus, periodic reports and KIID for the fund Bestinver Latam FI are available at www.bestinver.es and www.cnmv.es.
Bestinver Latin America belongs to Bestinver SICAV (registered in Luxembourg). It is not registered with the Spanish National Securities Market Commission (CNMV) and is therefore not commercialised in Spain.

RISKS ASSOCIATED WITH THE INVESTMENT

Investments could entail, among others, equity-market risk, interest-rate risk, exchange-rate risk, risk of investing in emerging economies risk, and geographical and sectoral concentration risk.
Investment in this fund is inadvisable for time horizons of less than 7 years.

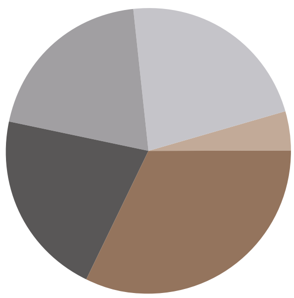
DISTRIBUTION OF THE PORTFOLIO

Geographical distribution



Liquidity	4.2%
Brazil	62.4%
Chile	11.4%
Colombia	0.8%
Mexico	7.5%
Peru	6.0%

Sectoral distribution



Consumer	32.4%
Financial	21.1%
Industrial	20.1%
Communication & Technology	22.3%
Liquidity	4.2%

Main positions by sector

CONSUMER	% OF PORTFOLIO
VIA VAREJO	5.23%
HYPERMARCAS	4.07%
SENDAS DISTRIBUIDORA	3.48%

INDUSTRIAL	% OF PORTFOLIO
COMPANHIA DE LOCACAO	4.25%
CIA SUD AMERICANA DE VAPORES	2.81%
EMBRAER SA-SPON ADR	2.55%

COMMUNICATION & TECHNOLOGY	% OF PORTFOLIO
LOCAWEB SERVICOS DE INTERNET	5.28%
TOTVS ON	4.65%
ARCO PLATFORM LTD - CLASS A	4.08%

FINANCIAL	% OF PORTFOLIO
IGUATEMI EMP DE SHOPPING	4.89%
MRV ENGENHARIA E PARTICIPACOES	3.75%
PAGSEGURO DIGITAL	3.72%

Manager's round-up

Bestinver Latin America Fund primarily invests in Brazil, Mexico, Chile, Colombia and Peru, following the same investment process and philosophy as the rest of our equity funds. The aim of the strategy is to be very different from the reference indexes and other investment alternatives in the region – all highly exposed to commodities, infrastructures and banking.

Our strategy mainly focuses on the digital and economic transformation of these countries, their burgeoning middle classes, and changes to and expansion of their ecosystem of consumers. This ecosystem is increasingly diverse and includes a large number of vertical segments such as traditional consumption, e-commerce, payment services, fintech, software, mobility, education, healthcare, leisure, videogaming and media.

During this first quarter of 2021, the markets in the region were erratic and volatile, mainly because of rising Covid-19 cases (especially in Brazil). Unfortunately, there has been a very high number of cases and deaths, leading to new full or partial lockdowns in the region. Nonetheless, economic indicators point to clear signs of a recovery and, while initially slow, the vaccination programmes are gathering speed.

Uncertainty regarding the outcome of the crisis and investor pessimism, however, have led to Latin American equity indexes ending the quarter in negative territory. This is in stark contrast to the positive tone of global markets, with the Brazilian market (and its currency) the hardest hit in the region. BI Latam ended the quarter slightly down at 1.25% (Lux Sicav). This was a little better than the reference index which posted a fall of 2.15%. Once again, we were able to outperform the market – despite over 70% exposure to the Brazilian market – posting a cumulative return of more than 40% compared to our reference index since the strategy was launched.

In our opinion, this greater profitability is partly due to the adoption from the beginning of ESG criteria in the companies we analyse. These, especially regarding governance in emerging markets, have enabled us to mitigate the risk to which our investments are exposed in the short, medium and long term.

A chance to improve our portfolio

In this market environment, which is highly influenced by tactical decisions based on almost daily macroeconomic factors, we will stay focused on and committed to our investment universe and the long-term potential of our investees.

The high levels of volatility offer an opportunity to boost our portfolio's potential and quality. This is an opportunity we have exploited by buying new companies, selling others and rebalancing the weights of those hardest hit and those with the brightest future. These changes have resulted in greater than normal portfolio churn. This churn has increased the asymmetry and quality of the potential long-term returns on the portfolio.

As said, we have taken new positions in Brazilian companies with fantastic business models and wide margins of safety: Mobile game distribution market leader, Bemobi, and Burger King: the owner of the master franchise of the North American burger chain.

Also, leading out-of-home digital communications and advertising company, Eletromidia, and Enjoei, which is the largest digital platform for selling and distributing second-hand clothes. Lastly, Rio de Janeiro-based Pagseguro: the largest payment processor in the micro-enterprises segment based in the country.

As well as using some of our cash (earmarked for this type of opportunity), we have fully divested three companies to fund these acquisitions. Two of them have been subject of takeover bids: Linx, the Brazilian provider of software to retailers, and the Colombian power utility, the ISA Group The third sell-off at odds was Banco ABC Brasil which, after performing excellently, exhibited very limited upside potential in our opinion.

As a result of the notable share price gains for our investments and continuing our prudent management of portfolio risk, we have pared back our positions in the following businesses: Arcos Dorados, owner of the McDonalds master franchise in LatAm; Vapores, Hapag-Lloyd's investment vehicle belonging to the Luksic Family; and SQM, the largest and most efficient lithium producer in the world.

At the same time, the indiscriminate falls in value of some of our investments have significantly increased their potential, which we have opted to exploit by increasing their weight in our portfolio. Here we are referring to Iguatemi, owner of high-end shopping centres (Brazil's Fifth Avenue); Locaweb, the largest facilitator of business digitalisation in Brazil; MRV, the top affordable housing development and construction firm in the country; and lastly, Via Varejo, leading furniture and electrical products retailer, also in Brazil, which boasts a multi-channel platform and logistics operations that are extremely attractive in the online shopping sphere and is developing a very promising finance business in its digital channel.

Locaweb: the Shopify of Brazil

This is the largest position in our portfolio: a strategic and very special asset in a country that is at the beginning of its digital development journey. Locaweb helps its clients digitalise, develop their e-commerce, and improve customer relationships, how they use their data, logistics, payments etc. It is the indisputable leader in Brazil and targets small- and medium-sized enterprises with enormous market potential.

We believe Locaweb will become a top player in Brazil's future consumer ecosystem, either alone or as part of an e-commerce/payments/applications/fintech mega-platform. As global investors, we find a plethora of companies with this mix of enormous growth potential (the e-commerce segment is growing exponentially); competitive leadership (No. 1 in Brazil and five times bigger than their nearest competitor); valuable unit economics (Customer Lifetime Value to Customer Acquisition (LTV:CAC) ratio of 11x in Software as a Service (SaaS) and 25x in e-commerce); high profitability (consolidated EBITDA margin of 29% and 44% in their e-commerce segment); cash generation (cash conversion ratio (CCR) of 62%); good governance (headed up by founders with a 48% stake and a highly professional team that are on exactly the same page as their majority shareholder); robust balance sheet (net cash position thanks to funds raised through their flotation and financial prudence); and good track record of mergers and acquisitions (considerable discipline regarding the valuations paid and excellent rate of retention of management teams); and corporate actions – nine since floating – that they will continue to perform and that have reinforced their platform and value proposition.

Prominent green shoots of recovery

The fund currently has positions in 36 companies that, in our opinion, are the best investment opportunities in the region. Its cash level stands at around 3%. From a geographical perspective, Brazil (70% of exposure) is the country where we have identified the greatest number of opportunities, followed by Chile (12%). By sector, Consumer (34%) and Media and Technology (24%) are the most represented in our portfolio.

Despite the inevitable delay caused by the dramatic increase in the number of confirmed cases, we believe the economies in the region are ever closer to reopening which, buoyed by a very favourable global environment, are already showing prominent green shoots of recovery.

An ever-faster vaccination rate, gradual return to the path of structural reforms and fiscal orthodoxy seen prior to the pandemic, and current valuations, which are extremely attractive in absolute terms, will enable us to continue extracting higher positive absolute returns in the long term.

Movements in the portfolio

ADDITIONS	INCREASES
BEMOBI MOBILE TECH SA BK BRASIL OPERACAO E ASSESSO ELETROMIDIA SA ENJOEI.COM.BR ATIVIDADES DE PAGSEGURO DIGITAL LTD-CL A	IGUATEMI EMP DE SHOPPING LOCAWEB SERVICOS DE INTERNET MRV ENGENHARIA E PARTICIPACOES VIA VAREJO S.A.
EXITS	**REDUCTIONS**
LINX BANCO ABC ISA	ARCOS DORADOS HOLDINGS INC-A CIA SUD AMERICANA DE VAPORES SQM

Date: 31/03/2021. Source: Bestinver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