

ELCANO has returned 2.0% so far during 2012. Since inception in December 2009, cumulative performance is 17.8%, equivalent to an annual compounded return of 6.8%.

The highlights of the period are the following:

- ELCANO sold its entire position in **American Express (AXP:US)** for an over 50% return since December 2009. The shares have re-rated from 12x to 15x expected earnings after growing 20% during the period. Investors didn't fully appreciate Amex competitive advantage based on its brand and its closed-loop model, besides having a flexible cost structure. On the contrary, they have focused on temporary phenomenon like delinquencies, regulatory uncertainty and an ongoing litigation with the Department of Justice. Scandals, litigation, technical and human errors, etc. often lead to attractive opportunities for the investor-analyst who is able to come out with a rough estimate of the potential liability and profit from the market's overreaction. Since ELCANO operates, there has been several high profile events that we have partially exploited:

Company	Date	Event	Price Fall	Subsequent Return	Market Return	Outperformance
News Corp	July 2011	Hacking scandal	-20%	40%	3%	37%
BP	April 2010	Oil spill	-55%	50%	23%	27%
Wal-Mart Stores	April 2012	Corruption scandal	-8%	21%	-1%	22%
American Express	June 2010	Litigation	-20%	48%	27%	21%
JP Morgan Chase	June 2012	Trading loss	-32%	N/A	N/A	N/A

- ELCANO has bought shares in French media and telecommunications conglomerate **Vivendi (VIV:FP)** for a 5% portfolio's weight. Vivendi has controlling stakes in six highly-recurrent businesses with strong barriers to entry:
 - SFR, a French telecom operator with 21mn mobile subscribers (33% market share) and 5mn broadband customers (25% market share).
 - Universal Music Group, one of the three dominant music publishing companies left after the concentration process that the music industry has gone through.
 - Canal+ (80%) stake, the pay-TV leader in France with 11mn subscribers.
 - Global Village Telecom (GVT), an alternative telecom operator in Brazil with 6mn broadband customers, equaling 20% share of the market under its footprint.
 - Maroc Telecom (53% stake), the telecommunications incumbent in Morocco with 17mn mobile subs (45% market share) and 1.2mn fixed subs (98% market share). Additionally, it owns the incumbent operators in four African countries with a total 11mn customers and an average market share of 40%.
 - Activision Blizzard (60% stake), a leading video game developer and publisher with two strong franchises: Call of Duty and World of Warcraft.

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Adding up the fair values of the individual businesses (estimated by applying a combination of market prices, private market multiples of discounted cash flow values) results in an enterprise value around eur60bn. After deducting eur12bn of net debt and eur11bn of minority interests we arrive at a fair value for the shares of eur35bn, more than twice the current market capitalization. As the free cash flow yield is over 20% we do not need a re-rating of the shares to make a good return on our investment.

ELCANO SICAV currently trades at book value, 8.1x expected 2012 earnings and over a 5.5% dividend yield. We are confident that the combination of quality and low valuations will result in attractive returns over the medium and long run.

Please find attach below an updated chart with ELCANO's performance versus other equity indexes:

Thank you for your trust and please do not hesitate to contact us should you have any queries.

All the best,



Marc Batlle, CFA
Partner



JJ Fernández
Partner

Investment approach

Elcano Inversiones Financieras, SICAV, S.A. seeks to acquire shares in exceptional businesses at a discount to its intrinsic value. Elcano looks for companies with a sustainable competitive advantage that we can understand, a strong financial position and an honest and skilled management team. Decisions are based on financial and strategic analysis, and we are not restricted to any particular asset class, geography or sector.

Comments on recent activity

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Top Holdings

Company	Sector
Wells Fargo	Banking
GDF Suez	Utilities
Vivendi	Telecom
General Electric	Industrial
Symetra	Insurance

Portfolio Recent Actions

Increase/ In	Decrease/ Out
Vivendi	American Express
Dell	General Electric

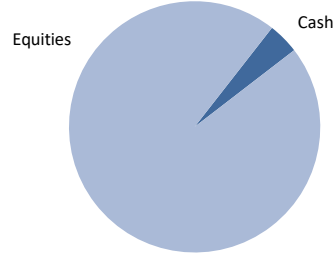
Main Terms

Investment universe	: Global equities
Asset management company	: Credit Suisse Gestión, SGIC
Depository	: Credit Suisse AG, Suc. España
Auditors	: PricewaterhouseCoopers
Regulator	: CNMV
Listed market	: <i>Mercado Alternativo Bursatil</i>
Management fee / Others	: 1.75% per annum
Depository fee	: 0.10% per annum
ISIN code	: ES0118626037
Inception date (new Board)	: 1 st December 2009
Currency	: EUR
Liquidity	: Daily
Bloomberg code	: CIF SM <equity>

Net Asset Value: 11.65 euros (07/01/2012)

Source: Credit Suisse Gestion, Elcano Sicav.

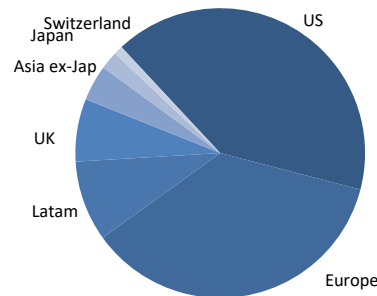
Asset Distribution



Asset Class

Equities	94%
Fixed Income	0%
Cash	6%

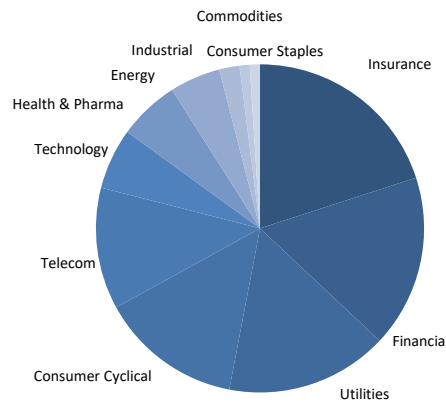
Geographical Distribution



Region

US	41%
Europe	36%
Latam	9%
UK	7%
Asia ex-Japan	4%
Japan	2%
Switzerland	1%

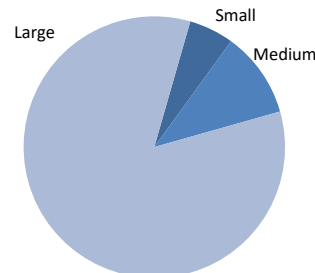
Sector Distribution



Sector

Insurance	20%
Financial	17%
Utilities	16%
Consumer Cyclical	14%
Telecom	12%
Technology	6%
Health & Pharma	6%
Energy	5%
Industrial	2%
Commodities	1%
Consumer Staples	1%

Capitalization Distribution



Capitalization

Below €1bn	6%
€1bn to €5bn	11%
Above €5bn	83%

Currency Distribution

Unhedged		Hedged (ELCANO Portfolio)	
EUR	51%	EUR	85%
USD	34%	USD	0%
GBP	5%	GBP	5%
CHF	9%	CHF	10%

Return and Volatility Data

Source: CreditSuisse SGICC, Bloomberg, ELCANO SICAV

Return

Year 2012 (Until 1 st of July)	+2.0%
Year 2011	+3.8%
Year 2010	+10.7%
Since inception (1 st Dec 2009)	+17.8%

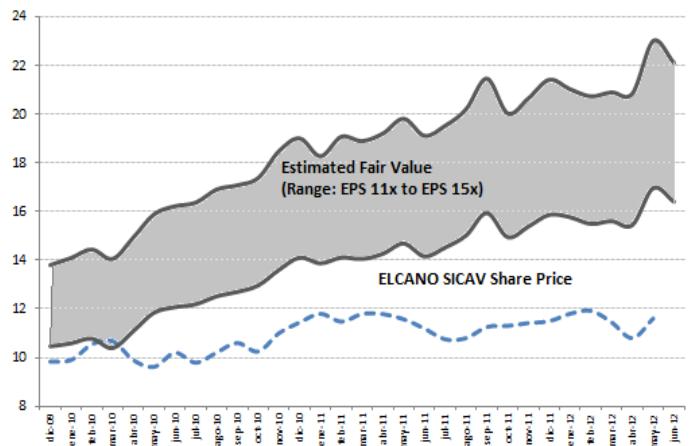
Volatility 16.8%

Price of ELCANO vs. Other Major Equity Indices



Source: Bloomberg (Since Dec 2009).

ELCANO Share Price Vs. Estimated Fair Value (Range EPS 11x - EPS 15x)



Source: ELCANO SICAV, Bloomberg.

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