

ELCANO returned -4.2% in 2014, net of fees and expenses. Since inception in December 2009, cumulative performance is 62.0%, equivalent to a compound annual return of 10.0%.

These are the highlights of the period:

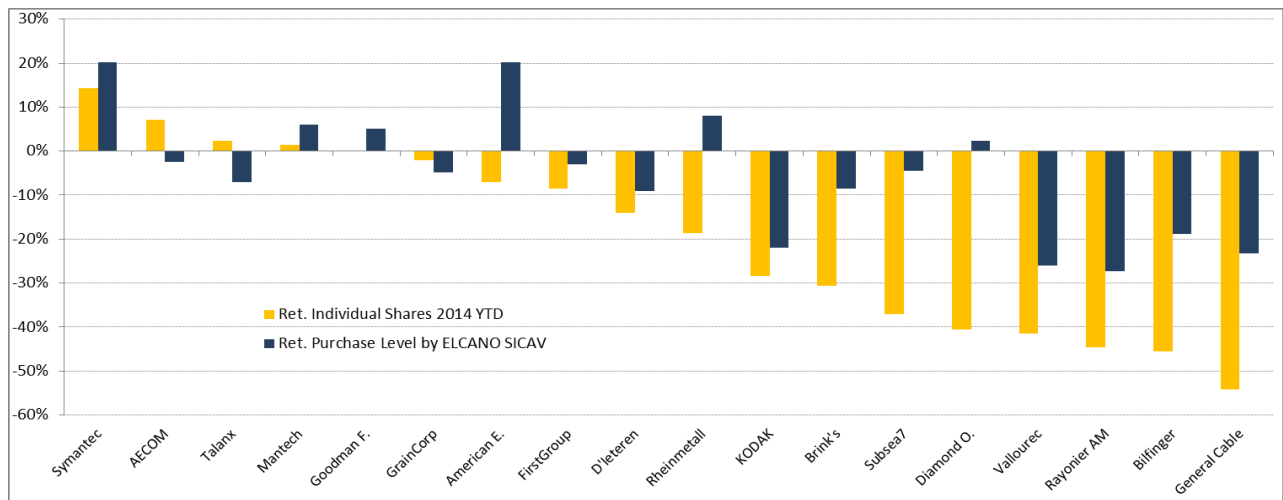
- Disposal of the shares in **Valmet (VALMT:FH)**, a leader in machinery and services for the pulp and paper industry. We have made 42.4% on our investment during 12 months with a 4% portfolio weight. The proceeds have been reinvested in companies we already own with better risk-reward.

As we just closed the year and 2014 marks our 5th anniversary, we will explain the reasons behind our return during the current year, and shed some light on our investment strategy and positioning for the next five years.

Results during 2014

After a very strong 2013, we have recycled most of the portfolio to preserve the margin of safety and the potential for future profits. As always, we found opportunities in the neglected but, despite paying very low prices, it has not been possible to catch the bottom. The Chart below shows the performance during 2014 of the shares we bought this year (-20% on average) compared to our performance after buying them (-5%).

Chart 1



Source: Bloomberg, ELCANO SICAV

In 2014 market participants have voted for large companies and particular sectors perceived as promising and safe (e.g. Healthcare, Tech, Utilities) even if trading at elevated prices that cannot be justified by traditional valuation metrics. Buying the expensive and selling the cheap has been the best trading strategy during 2014.

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ELCANO strategy

Our investment strategy is based on three principles:

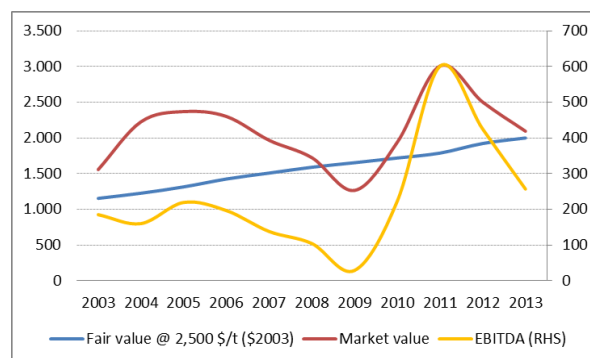
- We are investors, not speculators. As such we seek safety of principal plus an adequate return. Each investment should carry a margin of safety, defined as the difference between price and value, determined by quantitative and qualitative analysis.
- We concentrate the portfolio in the best ideas, subject to a reasonable degree of diversification. Tracking the indices and reducing volatility are not decision criteria.
- We wait patiently until the discount closes, which in our experience can happen between one month and five years.

Investment opportunities are typically found in unknown or misunderstood situations (for example, spin-offs) and, more often, in unpopular/neglected securities or industries. This happens due to the fact that the market is operated by people and, as such, often guided by emotions or experiences instead of reason. Using the experiential system leads to a miscalculation of probabilities and risks and an exaggeration of the importance and potential duration of the present moment.

The lack of change reaffirms the prevailing bias (positive or negative) making the cheap cheaper and the dear even more expensive. However, at some point perception and reality are so disconnected that an unexpected surprise (results deviated from consensus, restructuring announcement, etc.) leads to a reset of expectations and convergence of price and value. Positive/negative surprises impact the loved and hated stocks in a diametrically opposed way. A positive surprise will be neutral for a favored stock and very positive for an unwanted stock. On the other hand, a negative event will hit a favorite stock, and have little effect on a neglected one.

The market, in its obsession with the present moment, ignores that reversion to the mean is a very powerful force as we are constantly looking for opportunity. An industry making high profits attracts competition and complacency that often leads to a reduction of these. Or, for instance, a mismanaged company making little money can in many cases be restructured or merged and have its profitability restored.

This Chart illustrates the psychology of the market. **Kronos (KRO:US)** is a producer of titanium dioxide, a cyclical industry with its profits fluctuating depending on capacity utilization. However, despite the peaks and valleys, on average the industry earns a market return on invested capital. So fair value is a function of installed capacity. The market, however, seems to forget the fact that the industry is cyclical, systematically overpaying when profits are high and undervaluing both Kronos and the industry when profits are depressed.



Source: Bloomberg, ELCANO SICAV

ELCANO SICAV buys when expectations are low with the idea that a) if there is no improvement, we will earn a decent return; b) there is a high probability that internal (restructuring) or/and external changes will translate into higher profits and a change in market perception.

The next five years

Before trying to estimate intrinsic value, we should make sure that companies preserve their value, as no price is low enough if shareholder value eventually vanishes. Probabilities are high when the following conditions are met:

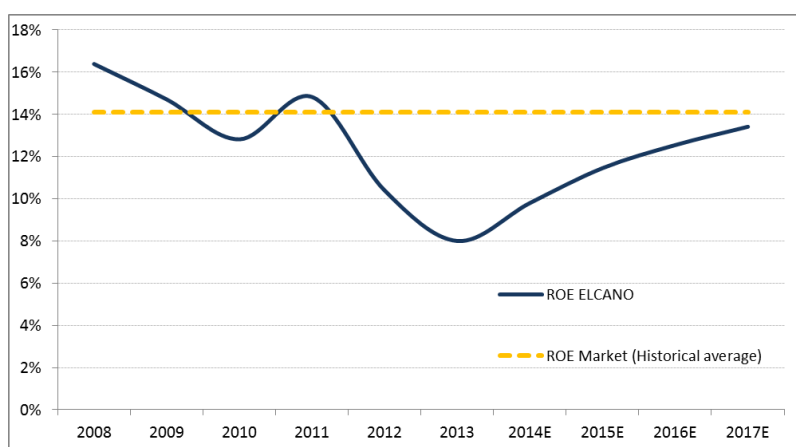
- An industry with a stable or growing demand.
- A strong balance sheet that allows shareholders to keep control of the firm when cycles and unexpected troubles eventually come.
- Profits above cost of capital across the cycle.
- A shareholder oriented management team, often supervised by a board with a large stake in the company.

The companies in the portfolio tick all the boxes in 95% of the cases. In the rest, we think risks are bearable.

Our returns will depend on the increase in the value of the companies and the closing of the valuation discount. We estimate intrinsic value will grow at 9% annually for the next 5 years including dividends, which means that if the discount does not close, we will make 9% a year.

Regarding the valuation discount, companies in the portfolio trade on average at 10x 2014 earnings and 0.9x book value. In addition, we think there is a high probability for profits to raise by a third with the execution of the turnaround plans (30% of the cases) an improvement in sector cycles (30% of the cases) and a combination of both (25% of the cases). The Chart below shows this normalization of profits.

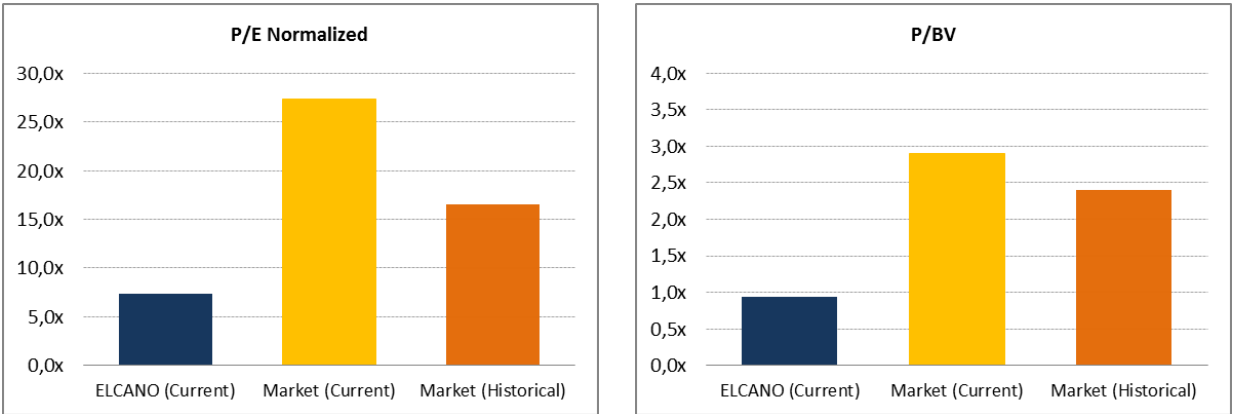
Chart 2



Fuente: Bloomberg, ELCANO SICAV

The general market trades above 25x normalized profits and 2.9x book value, against an historical mean of 17x and 2.4x respectively. An equivalent or higher business quality than the market together with valuations that are much more attractive puts the odds in our favor.

Chart 3



Fuente: Bloomberg, ELCANO SICAV

To conclude with, our rational and conservative approach has delivered excellent returns in these first five years. The attractiveness of the current valuations, the constant search of opportunity and the determination not to succumb to short term pressure puts us in an excellent position for the next five years.

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

All the best,

Marc Batlle, CFA
Consejero

JJ Fernández
Consejero

Net Asset Value: €16.02 euros (12/31/2014)
Source: Credit Suisse Gestion S.G.I.I.C., S.A.

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

Disposal of the shares in **Valmet (VALMT:FH)**, a leader in machinery and services for the pulp and paper industry. We have made 42.4% on our investment during 12 months with a 4% portfolio weight. The proceeds have been reinvested in companies we already own with better risk-reward.

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Top Holdings

Company	Sector
Diamond Offshore	Oil & Gas Services & Equip
Apache	Energy
Subsea7	Oil & Gas Services & Equip
Bilfinger	Professional Services
General Cable	Capital Goods

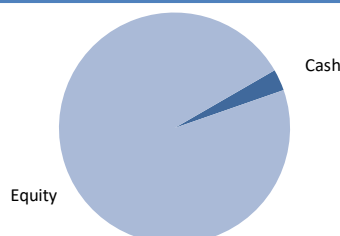
Portfolio Recent Actions

Increase/ In	Decrease/ Out
	Valmet

Main Terms

Investment Universe	: Global equities
Asset Management Company	: Credit Suisse Gestion, SGIC
Depository	: Credit Suisse AG, Suc. España
Auditors	: Deloitte
Regulator	: CNMV
Listed Market	: <i>Mercado Alternativo Bursatil</i>
Management Fee	: 1.50% per annum
Annual Performance Fee	: 10% above 5% level (with HWM)
Depository Fee	: 0.10% per annum
ISIN Code	: ES0118626037
Inception Date (new Board)	: 1 st December 2009
Currency	: EUR
Liquidity	: Daily
Asset Under Management	: €91,500,000 (12/31/2014)
Number of Shareholders	: 685 (11/01/2014)
Bloomberg Code	: CIF SM <equity>
Ticker	: S0646

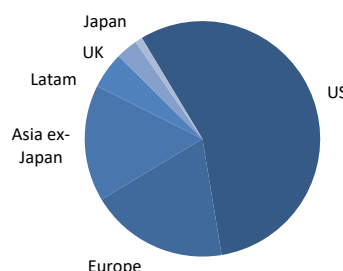
Asset Distribution



Asset Class

Equities	97%
Fixed Income	0%
Cash	3%

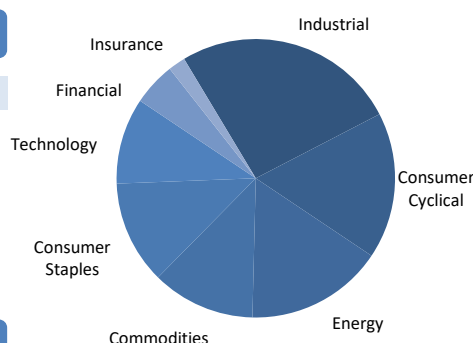
Geographical Distribution



Region

US	56%
Europe	19%
Asia ex-Japan	16%
Latam	5%
UK	3%
Japan	1%
Switzerland	0%

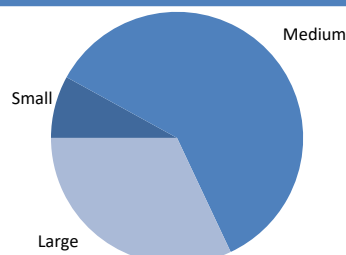
Sector Distribution



Sector

Industrial	26%
Consumer Cyclical	17%
Energy	16%
Commodities	12%
Consumer Staples	12%
Technology	10%
Insurance	5%
Financial	2%
Telecom	0%
Utilities	0%
Health & Pharma	0%

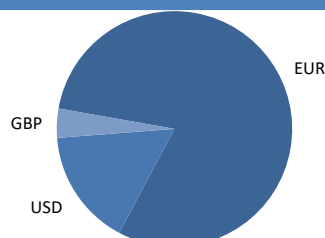
Capitalization Distribution



Capitalization

Below €1bn	8%
€1bn to €5bn	60%
Above €5bn	32%

Currency Exposure



Includes FX Hedge

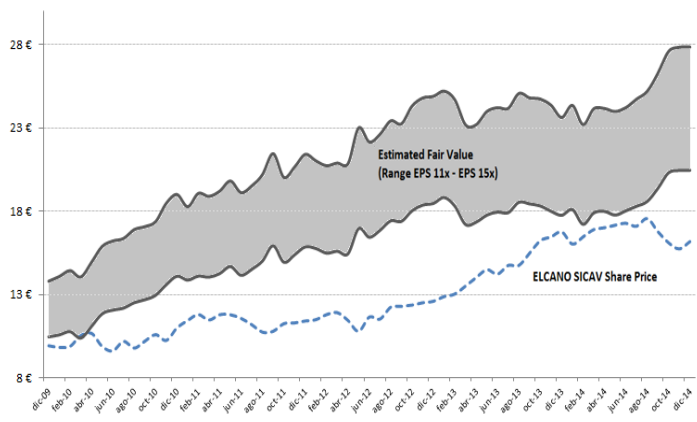
EUR	80%
USD	16%
GBP	4%
CHF	0%

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)



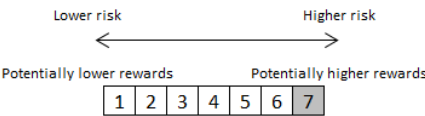
Source: ELCANO SICAV, Bloomberg.

Return and Volatility Data

Return	
2014	-4.2%
Year 2013	+32.6%
Year 2012	+10.4%
Year 2011	+3.8%
Year 2010	+10.7%
Year 2009 (From 1 st to 31 st Dec 2009)	+0.4%
Since inception (1 st Dec 2009)	+62.0%
Volatility	14.5%

Source: CreditSuisse SGICC, Bloomberg, ELCANO SICAV

Risk & Reward Profile (SRRI)



ELCANO SICAV's "SRRI" rating: 7 in a risk metric going from 1 up to 7.

The SRRI represents the risk and return profile present in the Key Investor Information Document (also called "DFI", or "Datos Fundamentales para el Inversor"). The lowest category does not imply that there is no risk. The SRRI is not a guarantee and may change over time.

Source: DFI Document ("Datos Fundamentales para el Inversor"); www.cnmv.es.

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