2015 Annual Letter

T&A P	International Fund		Return	Participation
[redacted]		2014	**15%**	**89%**
		2015	**-3.15%**	**66%**
S&P		***2015***	***1.40%***	
T&A P	**Colombian Fund**			
		2014	**-8%**	**11%**
[redacted]		2015	**-18.36%**	**34%**
Colcap		***2015***	***-19.00%***	

This is the second annual letter I am writing to update you with our results from the previous year as well as our strategy going forward, and I am pleased to say that this year sees more investors joining us on our exciting journey.

Firstly let me start by discussing the results from last year. In 2015 the International fund, which held two-thirds of the total assets, showed a total return of -3.15%, and the Colombian fund, where we substantially increased the allocation to 34% due to the extremely low prices in Colombian stocks, generated a return of -18.36%. Please bear in mind that no assets were sold from the international fund to purchase the stocks in Colombia, and that all increases in allocations were exclusively on new inflows.

It is never satisfactory to report negative returns, which also means that I did not get paid a penny, and my savings diminished in the same proportion as the fund. Remember that for the moment we only charge after a 6% return and my savings are invested in the fund so my interests are fully aligned with yours.

Make no mistake, we are value investors, and when we buy an asset we have to bear in mind that the price of that asset could continue falling for an unknown period of time - if we cannot bear that in mind investing is not for us. That being said I am confident in the companies we hold today and the price at which they were obtained last year.

One of the most important aspects in having a successful partnership is to have the right type of investor with the appropriate appetite for risk. In our case it is choosing investors who exclusively think long term, and are not put off by short term moves against us. I cannot be happier with the partners I have; to give an example, on August 24th 2015 we experienced one of the biggest market crashes in a long time yet I did not receive a single phone call. This enabled me to enter into our biggest purchase at the time, and despite the roller coaster of emotions I was able to remain calm and focused throughout. Given the confidence in my partners I am always happy to disclose how our portfolio is invested as long as it does not generate increased pressure on my side.

This is the last time I will divide the fund into two segments. I have partners who are exclusively in the international fund, so I will disclose a sub segment of the international fund for them, but from 2016 onwards we will have a unique return based in US Dollars. This return of course will take into account any FX related move for non US assets and I will disclose the performance in emerging stocks in local currency as well.

For those of you that read the last letter remember that I have been transitioning from macro investor to value investor. I was still holding a position in an ETF tracking the Japanese market - last year I sold the ETF after having generated a positive 23% return after dividends. We also entered in a similar ETF tracking European equities, this ETF was sold in 2016. Although we have done well with these investments from now on I will stay away from ETF's, as I cannot claim to be a value investor whilst holding market trackers in my portfolio.

2015 was a very dynamic year (as is evident from the length of this letter!) and we were very busy encountering various ideas (all disclosed below). 2015 was also a very challenging year with one of the main risks stated in last year's letter materializing: The overvaluation of Chinese stocks. While I was protected by not having any company with a large exposure to China nor Chinese companies, the collapse on the Chinese stock market in August led to a global sell off that in a part enabled us to buy securities at very attractive prices but also affected our existing holdings (the risk is as strong as ever as the Chinese economy continues to be extremely leveraged). The negative return in the international fund was due to my wrong timing on acquiring oil stocks (too early); also Berkshire Hathaway generated a – 8% return since the day I bought it. As history has showed us, when there are high flying tech (momentum) companies such as the so called: FANG (Facebook, Amazon, Netflix, Google) which accounted for more than 100% of the S&P's total gain, value investing underperforms, as the "normal" thing to do is to buy stocks that are going higher, regardless of their valuation. Before I start explaining our holdings, please check the table below from Semper Augustus Investments Group, it will give you an idea of current valuations. Does Berkshire not look cheap to you versus FANG?

	Sales *	Net Profit *	Price/Sales	Price/Earnings	Market Cap #
Facebook	$17.9 B	$3.6 B	17.0x	83x	$305 B
Amazon	107	0.6	3.0	545	325
Netflix	6.7	0.12	7.6	425	51
Google/Alphabet	75	18.5	7.1	29	534
Total	$206 B	$22.9 B	5.9x	53x	$1,215 B
Berkshire Hathaway	$220 B	$25 B	1.5x	13x	$325 B

Oil

Howard Marks famously once said “Rule number one; most things will prove to be cyclic. Rule number two; some of the greatest opportunities for gain and loss come when other people forget rule number one”. Oil is indispensable in today’s economy - we cannot replace oil in the short or medium run (maybe in the long run), however its uses have changed. Today oil has been replaced by renewables, gas and nuclear in terms of power generation; nonetheless its main use as fuel for transport (on roads, in the air and across the sea) remains intact, which makes oil demand relatively constant despite huge price movements. We have been in a very pronounced downturn in the oil sector for some time, but this time I believe we are seeing a secular shift in the industry as oil companies have been forced to become more efficient, leaner or ultimately bankrupt, and this has brought enormous opportunities for patient investors.

In January 2015 we entered into two companies in the oil industry: Precision drilling in Canada and Ecopetrol in Colombia. In terms of exposure the position in Precision is substantially bigger than Ecopetrol. Before I start explaining the rationale on the two companies let us understand what is generally happening in the oil sector and what we think about it.

In the commodities world we have seen the oil price increase almost tenfold from 1970 to 2014, whilst prices of other commodities such as metals have increased by 68% in real terms during the same period. The recent collapse is due to the ‘shale revolution’; therefore we need to understand what the shale revolution actually is, and whether this downturn in oil is temporary. My conclusion is this; the oil sector is having a major transformation - while short term prices are impossible to predict, the technology in place today is a game changer, and what the industry has learnt in terms of extraction of oil cannot be forgotten or disposed of. Let me expand on this with a bit of history.

Prior to 1970 the oil industry was dominated by the so called ‘seven sisters’; seven private enterprises which controlled around 85% of the world’s oil reserves (today you see them called Exxon Mobil, Shell, BP among others). One exception was Mexico and Iran; during the 1960’s and 70’s the world faced many nationalizations which reduced the control of the ‘seven sisters’ in the oil industry, and governments started to take control of the production and reserves of oil in their respective countries. By 1979 55 percent of world oil (excluding the Socialist countries) became government owned, thus OPEC was created and for almost a decade the price of oil was determined by a reference price set on Saudi Arabia’s Light Arabian oil. In the period 1980-85 the high prices generated an expansion on production by non-OPEC producers, which resulted in a decrease in OPEC demand by almost 10 million barrels per day. During these 5 years OPEC output decreased by 40 percent and Saudi Arabia by 65 percent; this was the first lesson on how important it is to not lose market share, therefore it’s no surprise Saudi Arabia fights to maintain market share at all cost by burning international reserves at high speed.

In 1986 OPEC gave up with the reference price and the market started to adopt the New York Mercantile Exchange (NYMEX) oil futures contract, which remains the reference price for the market today, with Brent and WTI the most popular contracts.

In 1988 OPEC still played a major role however its impact started to weaken with the increase of non-OPEC production; the biggest oil companies were nationalized and the price began to be dictated by supply and demand (having removed the 'reference' price). But has OPEC been relevant in disrupting the oil market by dictating production? To answer this question it is interesting to see the distrust among OPEC members today - many of them have explicitly announced that they cannot prove other members will maintain their quotas of production. In the past decades, OPEC members have actually only maintained their quotas in the period of 2005-2006 when the production ceiling was actually higher than the limits of each member's available production capacity. In 2004 the IEA produced a study that showed that whilst there were quotas assigned by and for its members, OPEC production was 94% of actual capacity. Saudi Arabia was the only member with relevant unused capacity, so excluding Saudi Arabia the capacity utilization would have been 96 percent. This means that no country has actually met its quotas when capacity is not at its limit; therefore cutting production by OPEC has not worked and most likely would not work now. There will always be short term big swings in the price of oil when there are announcements of this kind. An interesting observation is that OPEC has never mandated measures to constrain capacity expansion, a measure which clearly can affect the long term supply of oil.

Let's define capacity - as defined by the IEA capacity is the level of production that can be attained within three months and then sustained for at least several months. It is important to understand that capacity to produce oil is exclusively the result of investments in exploration, reserve appreciation and construction of facilities and instruments that extract the oil discovered. If OPEC had actually mandated policies on capacity, the medium and long term effects would have had a clear impact on real supply. However this did not happen, and governments incentivised by oil revenues ignored the quotas and maintained production at or close to maximum capacity; I therefore conclude that OPEC policies have no real impact on the long term dynamics of the oil sector. As a result I consider OPEC policy irrelevant to our investments in the oil sector.

Now let's see if depletion (deterioration of the resources under exploitation) can be a reason for long term price dynamics; just to have a clear example extractable reserves have constantly been revised upwards in the last decades. Only in times of war in producing countries (Iraq, Libya, Kuwait) have they temporary decreased for these countries, but as the ability to extract oil increases, the reserves have increased instead of decreased, therefore the price increase of the past cannot be explained by depletion.

After carefully analyzing this sector I came to the conclusion that the reason of the massive price increase (not counting wars in the middle east) is a consequence of the nationalization of oil companies since the 70's and the particularities that this brought to the market. Once governments took control of the oil sector, the new established companies lacked the talent and human capital to run such a complex operation, the new managers lacked the skills but eagerly went to run the newly formed companies; thus these companies became inefficient and costly mistakes were made such as maintaining operations at full capacity, cost management and incorrect capital allocation decisions. It is of severe importance to mention that the extreme inefficiencies in government owned metal companies led to a wave of privatization in the metals and mineral industry in the 90's, yet did not occur in the oil sector.

Besides the reason above, governments started aggressively seeking oil rent; for instance taxes always increased in up markets and never decreased in down ones. In my view the most important aspect is the lack of competence in executing investments which ultimately held back production growth. Examples of the above are vast; a very clear one is when some companies sent their entire surplus of oil to the government, then applied for state funding to cover the needs of future exploration. All of this has led to supply constraints in the long run, which in my view was the reason why we had such an increase in oil prices during the last decades.

In addition to the inefficiencies of running large oil companies and inability to develop a quick and cheaper way to extract oil, private companies have developed technology to extract oil from reserves previously thought non extractable. I assume this is a game changer for the long run, so let's see what this new technology is and why I hold a company with the best drills to extract oil.

The "new" technology is basically horizontal drilling and hydraulic fracturing. Neither is new - horizontal drilling began in 1929 in Reagan County Texas and hydraulic fracturing started in the US in 1940, and both have been widely used since then. What is totally new is the innovation to drill horizontal wells that can be hydraulically fractured in multiple stages; basically the rock bed containing the oil is fractured simultaneously in different sections and sealed off with plugs before all plugs are removed to initiate production. This new method led to an extreme increase in extraction, and as this new method is almost exclusively used in North America, US production as a result increased from 5mbd in 2008 to almost 10 mbd in 2015.

A final note on an insight; an oil formation is composed of the source rock – (the origin of oil), reservoir rock, seal rock and fluid content. Reservoir and source rock are shale, however the permeability of the reservoir is considerably higher than the source rock, so the term shale is associated with tight oil given its low permeability. Conventional oil happens in the reservoir, as its permeability is high; horizontal drilling and hydraulic fracturing commonly target the source rock, where there has always been oil but the low permeability made its extraction very hard. However what if conventional extraction techniques start using this "new" technology? Reservoirs would be able to extract oil assumed non extractable in conventional wells and the impact of this would be tremendous – I can only imagine that amongst the ones to benefit financially would be the drillers if companies with conventional weels start using the "new" technology, however that will not be quick.

The reason I am invested in oil despite my belief that oil will be lower than the average price of the last five years is that non-US companies with the need to cut costs, increased efficiency and having the opportunity to extract oil from previously assumed non extractable locations will ultimately start adopting the use of alternative drilling as explained above, and companies such as Precision Drilling with the technology and rig fleet will benefit from international and domestic demand alike. I cannot predict the timing of the start of this trend (or if it ever happens) and cannot ignore that if it does not occur and oil prices remain at 30 USD per barrel Precision will start burning cash, so I need to constantly determine the sustainability of the moat. I chose Precision over its competitors due to valuation (biggest difference between intrinsic value and price), size (it may be a potential target for Helmerich or Schlumberger) and its debt has no main capital payments until 2019 so it does not have issues with large cash outflows for at least 3 years.

To finalize on the oil sector we are also invested in Ecopetrol which is the Colombian Oil Company; 11% is owned by private investors and the remainder by the Colombian Government. Ecopetrol operates upstream, midstream and downstream operations; it has just begun operations in its new refinery in Cartagena where its sales will give a boost in margins.

Being government owned, Ecopetrol is not exempt from bureaucracies, inefficiencies and even corruption cases, however it has one medium term advantage and some enduring competitive advantages; the oil it produces is a heavy oil, it is not the same produced in the US (US oil is lighter) and the US has never stopped imports of heavier oil such as Ecopetrol's product. They have imposed limits for light oil, but capacity to refine for heavier oil remains healthy, providing constant demand and space for Ecopetrol's oil. Its newly open Reficar refinery has started operations, and if the segment becomes profitable once again in Q2- Q3 2016 a new line of products will be produced and sold at much higher margins. Its conversion factor of crude into refined products is expected to be 97% which is impressive (its other refinery Barracabermeja facility's ratio is 72%). Ecopetrol's loss last year was mainly on its impairments; it generated positive cash flow and its transport segments helped sustain the impact of the oil prices.

Ecopetrol is incurring a major cost cutting program, and while I recognize companies should not wake up one day and say "let's cut costs today", I nonetheless believe in a company with EBITDA margins of 39% in a low oil price environment which is becoming much more efficient (imagine when it will be a client of precision) and long term oriented, (Ecopetrol did not distribute dividends in 2015).

Ecopetrol cash flow remains healthy and EBITDA margins remain very high for the oil industry. The price at which we bought Ecopetrol was a bit early, however its intrinsic value remains much higher than current and purchased price, so I am satisfied seeing Ecopetrol's results. In case oil increases in price, Ecopetrol's profits can easily increase three fold as its refinery and upstream business become profitable. Ecopetrol in the long run has the potential to be a compelling investment.

Air

We entered in the airline business in 2015. Do not be afraid - it is common wisdom that the airline industry is a tough one and it is hard to extract value, so let me elaborate why we are invested here.

I believe the airline industry has failed to generate substantial profits despite its massive growth during the last 60 years i.e. passenger kilometers (the number of passengers multiplied by the distance they fly) has gone from 0 to 5 trillion. This is due to the high nationalization of airlines in the early days, where regulation controlled meticulously which airlines could fly, fares charged and numbers of seats available, again ensuring that, as in the oil sector, government involvement led to inefficiency and ultimately losses for shareholders. The other main reason for subdued profits is that airlines operate a commodity business, and in such a model operators having the lowest costs have the competitive advantage.

However, airlines have become private in the last few years; oil (which accounts for approximately 30- 50% of an airline cost) has fallen substantially and firms are becoming increasingly efficient. Its no surprise 2015 was the best year in history for the airline industry, generating around USD 33 billion in net income, and 2016 looks even better with a forecast of USD 36 billion. Despite these record profits shares in US airlines (where the majority of efficiency gains have taken place) failed to show the improvement on the business in 2015.

One of the main reasons why airlines have started to record some profits is consolidation in the industry. Airlines tended to aggressively engage in price wars, reducing PRASM (passenger revenue per available seat mile). PRASM is highly regarded by Wall Street, and I have seen several cases where the profitability increases (higher yields) but the PRASM decreases and stocks subsequently sell-off after an earnings release. We have seen several mergers and acquisitions in the airline industry in the last couple of years which has led to bigger companies exiting a route if it is not profitable enough (as it cannot operate everywhere). Price wars will remain from time to time less pronounced, however the trend is clear; the fewer the number of airlines the more the need to operate profitable routes. Consolidation, I believe, is a key driver of why the industry is reporting the highest profits ever made.

We entered in Avianca Holdings in early November in the Colombian Stock Exchange - I can say this is pure value investment in the Graham style (Quantitative). We bought at a price over book value of 0.35. Avianca operates three segments; passengers, cargo and life miles (loyalty program). To illustrate the importance of the ancillary business, Avianca generates 20% of its revenue in non-passenger business. Avianca has one of the clearest examples on value disconnect. In July 2015 Avianca announced the sale of 30% of Life Miles to Advent for a price of USD 343.7 million giving a valuation of the Life Miles segment of only USD 1.145 billion. At the time of writing the market cap of Avianca Holdings was USD 625 million at the prevalent USD/COP exchange rate. We are basically getting one USD of value for substantially less, it is equivalent to buying a garden for USD 10 where the price of a single apple tree in the garden is

USD 12, let alone all the value of all other trees and plants. I can say with a sense of certainty that we have bought Avianca with a substantial margin of safety.

We first got interested in the company after the massive sell-offs experienced in Q3 2015. The fall on the stock price was severe enough that the dividend reached a 10% yield which we have already been paid, but rest reassured dividend yields are of no interest to us as return on equity is our favorite metric generally speaking. The downside of Avianca is its high leverage; however the company is committed to reduce it aggressively starting in 2016, when Avianca announced a substantial reduction on Capex to pay debt. The other drawback is the decrease in yields (the difference between revenues and cost per mile flown). Avianca generated positive operating profits in a very challenging year (the reported loss in Net Income is due to the impairment on the cash held in Venezuela without which the company would have generated profits). On Avianca I am expecting to hold the company until it reaches our intrinsic value; once again this is a pure value play.

We also bought Spirit Airlines in the US before the end of the year, when their share price had fallen 52% from its high in December 2014. Spirit has grown 20 -30% per year in the last few years and is expected to continue growing another 15-20%. Spirit has generated a return on equity higher than 25% in the last 3 years, its operating margins are higher than 20% and its stock price reached an earnings multiple of 8-9 times (despite its impressive growth!). The stock is very cheap - where else do you find a growing company already generating such returns at such depressed prices!

Spirit Airlines is a ULCC (Ultra Low Cost Carrier) meaning keep fares as low as possible and charge for any extras such as extra leg room, baggage, food; to illustrate the potential in Europe the ULCC market share ten years ago was 12%; today it is 23% with Ryan Air being the main player. By contrast, in the US ULCC market share is 5% with Spirit market share at 2%, leaving the remaining 3% split between the rest of the ULCC market. If we assume a similar increase in market share in the US, ULCC would end in some years time with a 16% market share (and Spirit 10%), so upside potential is enormous. Not only would the market share increase, but the size of the total pie would increase, given the fact that Spirit's low fares would attract people that would not fly otherwise. Spirit has the youngest fleet in the US and it is flexible in terms of routes - if a route is not profitable it is cancelled with no strings attached.

Spirit's competitive advantage is being the lowest cost carrier; average break even cost per ticket is USD 105 for Spirit compared to American Airlines (USD 166), and Southwest Airlines (USD 145). The cost structure at Spirit is impressive and as said in the company presentation, "on average Spirit's low fare grow the traffic base by 37%". We expect to hold Spirit for a long time, assuming management continues operating the same business model, and would even look to add to the position if it falls further.

BRK

We bought Berkshire Hathaway in 2015 with the aim of being long term shareholders for a long period of time. Berkshire offers almost zero risk of permanent loss, given its diverse source of revenues, and it is trading incredibly cheap compared to its intrinsic value. We have learnt from Buffett's letters that since Berkshire's shift to the outright ownership of business the difference between intrinsic value and book value has gotten larger as time passes, as the losers are written off but the winners are never written up (under GAAP) - do not forget that those winners are many and have increased in value by a very large extent.

The insurance business shows another reason why intrinsic value is considerably higher than book value; Berkshire operates an underwriting profit (basically premiums earned are more than expenses and payments on claims), and on top of that they get their float to invest so basically they get paid to hold money. The float is entirely booked in the liability side, however as Buffett writes in his letter "the full amount of our float is deducted as a liability, just as if we had to pay it out tomorrow and could not replenish it. But to think of float as strictly a liability is incorrect. It should instead be viewed as a revolving fund." The list can continue but these two examples will give you a clear notion of the intrinsic value of Berkshire.

To give a simple quantitative view on Berkshire; per share investments were USD 159,794, pre-tax EPS excluding income from investments was USD 12,304. Taking a very reasonable multiple of 11 times earnings gives us a price of USD 295,138, and again this does not include the adjustments mentioned earlier, so this is a very conservative estimate. Berkshire Book Value currently is USD 155,540, and Buffett has announced that he will be delighted to buy back shares at 1.2 times book value. At the time of writing Berkshire traded at a multiple of 1.36, so in case the stock falls we will be happy as we would increase our position, and if it moves towards its intrinsic value we already have a sizable position. There are very few times Berkshire has had such a large difference between intrinsic value and its stock price, creating an extraordinary opportunity for us.

Whiskey

"A few major opportunities, clearly recognizable as such, will usually come to one who continuously searches and waits, with a curious mind, loving diagnosis involving multiple variables. And then all that is required is a willingness to bet heavily when the odds are extremely favorable, using resources available as a result of prudence and patience in the past." -Charlie Munger

MGP Ingredients is our biggest holding today and I began with Munger's quote above as I believe this is one example of such an opportunity. I am optimistic with a hint of caution as I am fully aware that the biggest risk in an investment is not what I do not know, but what I do not know that I do not know. To put it differently, as Mark Twain says, "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."

We bought MGP late last year and have added to it in 2016 already. It was founded in 1941 by Cloud Cray, and today is a producer and supplier of premium distilled spirits and specialty wheat proteins. On the distilled segments, MGP white labels its products to major global brands and also to smaller craft brands; as of now it has an 8% market share on all American Whiskey (out of 18.5mio cases), an astonishing 70% of American Rye Whiskey, and is by far the largest producer of Gin in America with a market share of 40%.

As of December 2015 the distillery products segment counted for 83% of total revenue and food grade alcohol was 85% of the total revenues on the distillery segment, so you know where I am going: MGP is a liquor company, the market has been treating MGP as a commodity producer and indeed they still have that business but the shift in the last two years has dramatically started to change the nature of the company.

MGP is indeed a very large and important distillery; you might not know about it due to the fact that it is not covered by Wall Street yet. MGP had been producing by a large extent white spirit distillate where margins are the smallest (single digits) and it is shifting towards aged brown distillates where margins are the highest and ultimately to its own branded products. To give you an idea Brown Forman margins are around 50-70%, so MGP has a lot of room to improve margins as you can see below.

MGP's competitive advantage relies on operating in a business with high barriers of entry (scale, human capital, reputation) and MGP is in a unique position in understanding white space in the market given its various clients – for example in 2013 it surveyed 100 of its customers in order to understand consumer behaviors. MGP's CEO Gus Griffin, who joined in 2014, comes after working for 24 years with Brown-Forman where he was senior Vice president and Global Managing Director of the company's flagship Jack Daniels. I do not see anyone better than him to drive MGP towards the branded products.

In 2014 the new management announced a four-fold increase in operating income in 5 years; operating income then was USD8.33mio, with 2015 results reporting the following numbers: operating income increased 97.7% to 32.9mio compared to 2014 and gross profit increased 105.9%. The results could not have been better and show the shift at MGP towards brown spirits and its owned branded products, which are way ahead of the original guidance. Finally, MGP already released its own brands: Till Vodka, Metze's Medley and Metze's select; the latter sold 6000 bottles at a premium price of USD 75 and received an "outstanding" rating from a prominent industry publication (Whiskey Advocate).

To finalize, let me explain one of the biggest examples of the hidden value at MGP. Under inventory in MGP's balance sheet you have a segment called barrelled distillate which is owned by MGP and booked at cost. This will be kept during the aging process and sold at three times the cost four years later. MGP can wholesale it or use it for its own brands, which represent an important element of the real intrinsic value of MGP.

MGP is my highest conviction idea, the recent releases confirm the investment thesis and I could not be more satisfied with the results shown so far by MGP.

Banks

On the 24th of August (global market crash day), we deployed an important portion of our fund into Bancolombia where we had already invested a small part in 2014. Bancolombia is the largest bank in Colombia with almost 8 million domestic customers and 11 million customers in total. 70% of its revenues come from Colombia, the remaining part come from its operations in Panama (Bancolombia Panama and Banitsmo), Guatemala (BAM), and el Salvador (Banco Agricola). Bancolombia has had compounding book value growth in the last 10 years of 17%, has delivered consistent profits and operates in markets where it can capture a large spread between deposits and loans.

We can debate that banks are not a great business nowadays due to the increase of regulation, capital requirements, fierce competition and extreme low interest rates, or negative rates as is the case in Japan and Europe. These arguments are valid and to me banks in the developed world do not look to be a place where I want our money to be deployed, however in emerging countries the difference is day and night. Bancolombia operates with a healthy net interest margin in loans of 5.6%, and in investments of 5.1%. In Colombia the banking penetration is only 35% so the opportunity to grow is enormous.

Stocks in Colombia in 2015 touched a low last seen in 2009 (financial crisis) due to the collapse of oil where approximately 66% of Colombian exports are derived. Bancolombia's share price touched 6 year lows and a price / book value of 1 (including no-tangibles), despite being a solid bank; its risk non-performing loans continue at a healthy 3% (30 days) and 1.8% (90 days), not to mention its loan portfolio grew 27% during 2015.

Bancolombia has had to adjust provisions in case of an increase of NPL such as the case in Q3 where a major client defaulted, and its loan to deposit ratio is at 120% (a level I would like to see lower). If Bancolombia fails to attract deposits it would need to increase other sources of financing in order to maintain its loans.

The intrinsic value of Bancolombia is substantially higher than the price reflected during our purchases in 2015, and its long term growth prospects make an investment I feel comfortable allocating some funds into.

I hope this annual letter clearly explains the philosophy we use to allocate the capital you have entrusted us, and I believe that if we stick to our guns we will start to see some fruits soon. In the mean time do not hesitate to contact me with any questions you may have.

Jean Philippe Tissot