



2nd Quarterly Letter to Investors

30/06/2021

MAGALLANES VALUE INVESTORS, S.A. SGIC

Dear Investor,

Performance in the first half of 2021 was +22.30% for our European fund, +16.93% for our Iberian fund and + 31.96% for our Microcaps fund.

Few things have changed from the first quarterly letter, proving the old English proverb “no news is good news” to be true.

And the truth is that the post-pandemic global growth environment continues on its course, even with clear symptoms of continuity, acceleration and vigour beyond the current year of 2021. In this sense, prospects for 2021 and 2022 are constantly being revised upwards by various entities. Specifically, the ECB has increased the growth forecasts for the Euro zone to +4.6% for this year and +4.7% for 2022 compared to the previously forecast +4.1%. Similarly, the Bank of Spain improved its growth forecast to +6.2% for this year for the Spanish economy. Meanwhile, The IMF estimates a +7% growth for the US economy.

Not only do we find ourselves facing a historic moment thanks to high rates of global economic growth, but this time it is accompanied, according to the investment bank JPMorgan, by increases in productivity in the range of +4% to +5%. It hasn't been seen in more than a decade, which is a clear sign of solid and robust growth.

This greater optimism reflects additional fiscal support in some economies, such as the €1.8 trillion from the EU Recovery Fund, and the \$1.2 trillion infrastructure plan by the Biden administration in the US. Normalization in the global economy is being driven by favourable progress in vaccination programs in major developed countries that bring major economic indicators closer to pre-Covid-19 levels.

All the above brings with it increasing inflation rates, although the main central banks classify them as temporary for the moment and do not plan changes in the next few quarters to their current zero-interest-rate policies and their asset purchase programmes. However, at its last meeting, the Fed left the door open to making two increases in its benchmark rate at the end of 2023 and slightly reduce its bond purchases.

In conversations with the companies in our funds, we can corroborate how price increases (temporary or not) are a reality, as well as significant. The key that this reality does not lead to something uncontrollable lies in the management skills of central banks. A portfolio like ours seems like a good investment in a scenario like the current one, since most of these companies, due to their business model or the quality of their products, are, de facto, ‘originators’ or ‘carriers’ of this inflationary pressure.



Reflections on the present moment: T. Rowe Price, 50 years later¹

If history serves any purpose, the case of legendary investor Thomas Rowe Price bears quite a few similarities to the current market situation. The term 'growth stock' is attributed to Mr. Price; it wasn't in vain that he was the first of his time to launch a fund dedicated to growth companies. He was a pioneer of investment in flagship companies such as Black & Decker, 3M, IBM, Pfizer and DuPont, during the 1930s and 40s.

A staunch defender of investing in this type of company, he considered it essential to invest in the best companies within industries in strong growth phases based on very long-term horizons.

By 1965, Mr. Price had been successfully investing in growth companies for more than thirty years (for so long that these companies were popularly known as 'T. Rowe Price Stocks'). However, he began to observe that many of these stocks, although being good businesses per se, were beginning to show signs of overheating, to such an extent that he began to recommend 'moving away' from them. His reasoning: the prices had gone far beyond the fundamentals, reaching share prices trading at multiples of more than 40 or 50 times their earnings.

"...When growth stocks fell out of favour in 1974, the term 'growth stock' itself became taboo on Wall Street. The same organizations that had bought Avon shares in 1973, considering them a promising stock at \$120 (55 times earnings), sold them off massively in 1974 at \$25 (13 times earnings) ..."

T. Rowe Price: Mr. Growth Stock, "Money Masters of Our Time"

Between 1973 and 1974 when the growth company bubble known at the time as the 'Nifty-Fifty' burst, Mr. Price's worst omens came true. The price of many of these stocks fell between -70% and -80%; the flagship fund T. Rowe New Horizons lost -42% of its net asset value in 1973 and -39% in 1974.

Today in July 2021, at the time I'm writing this letter, the American S&P 500 index has reached a new all-time high, as have many of the growth companies that are so fashionable today, with multiples that mirror (even exceed) those seen more than fifty years ago.

But while the above may be a cause for concern, it does not have to be extrapolated to other parts of the market. We are specifically talking about the European equity market, whose valuations are around their averages and far from historical highs. In fact, some regions such as Spain and Italy are still at very low levels. This is an opportunity.

¹ Some of the information in this section comes from the chapter dedicated to T. Rowe Price in John Train's book, 'Money Masters of Our Time'.



A lower historical weight in Europe in industries linked to growth, together with a lack of sustainable economic growth in that region, may be some of the factors that have weighed down the behaviour of these stocks compared to their American counterparts.

However, so far this year, this behaviour has been changing. The better performance of the European stock market is supported by a strong inflow of funds, the highest since 2015 according to Goldman Sachs. This movement is being fed back as the vigorous recovery of the European economy, supported by fiscal and monetary stimuli, is coinciding in a timely manner with big flows by investors towards a reduction of the historically lower weights of this region in their investment portfolios.

Beyond flows, and more importantly in our opinion, Europe's ability to distinguish itself positively from the rest of the markets on its own merits will continue to depend on the ability of its companies to continue along their path of earnings growth that started a year ago, higher than those of other geographical areas mainly due to being highly cyclical, as well as their healthy financial balance sheets.

The best formula for profitable investment: attractive valuations, earnings growth and robust balance sheets. We believe that the European stock market, with a value focus, is one of the few assets in the world capable of bringing together these three attributes today.

Our funds

We consider that the positioning of our funds is optimised as they are invested in companies capable of making the most of the current economic growth environment. Specifically, those of an industrial nature and that are capital intensive. Ultimately, industries and primary sectors that are necessary for growth and are linked to the Old Economy.

There are reasons to believe that the accumulated underinvestment in capital goods in recent years could be coming to an end, precisely in response to the current Covid-19 pandemic.

The supply shock has been of such a magnitude that the world's need for a network of reliable and safe infrastructure, facilities and capital goods has become more evident than ever, in a way that guarantees a good supply chain without affecting the endured and dreaded supply shocks that we are currently experiencing. For example, the current bottlenecks in maritime transport that are driving freight prices to maximum levels, with their consequent pressure on prices throughout the rest of the supply chain.

Over the last few years, significant capital has gone to financing low-capital-intensive businesses, platforms, or software companies; regardless of, or without realizing, that many of these businesses would be of little use without a tangible structure behind to support them. In other words, investments in tangible assets, vital to the proper functioning of an economy, have lagged far behind.



According to the Financial Times², capital expenditure to depreciation ratios are at their lowest in the last 25 years, being the level of capital expenditure to depreciation less than 1 for the first time in the historical time series (a ratio below 1 would not guarantee the replacement of current production assets).

The replacement of the main production assets that the world needs to continue progressing would imply an increase in demand for value-style assets or companies, such as those that make up our funds today. This is one of the points to which we are referring when we state that our funds are well-positioned.

In this context, and after the strong revaluation they have seen so far this year, our funds continue to be at very attractive fundamental valuation levels, with significant returns expected in the future. This is due to the fact that the rise in the price of the shares has been more than compensated for (sometimes much more) by increases in corporate profits.

In addition, these companies continue to surprise the market with announcements of increases in shareholder remuneration, in the form of dividends or share buybacks. The high level of corporate activity, mainly through takeover bids, mentioned in previous letters, has continued to be a factor during the second quarter of this year, thus confirming the attractive valuation of our companies.

Activity in the second quarter of 2021

In the European fund, we have continued to increase exposure in the airline **easyJet**, the airport catering firm **Autogrill SpA**, beverage company **C&C Group plc** and **Euronav** among others. In terms of selling, we have reduced our exposure in **Signify** upon reaching historical highs.

In the Iberian fund, we have increased our position in **Línea Directa Aseguradora**. Regarding selling, our position in **Almirall** has been marginally reduced after a very good performance after the release of their earnings report.

In the Microcaps fund, we have increased our positions in **Ibersol**, **Miquel y Costas** and **Waberer's**. And in terms of exits, we have sold off our position in **Naked Wines plc** completely after reaching our target price of the company, with an accumulated gain of +100%.

² <https://www.ft.com/content/882dd72f-56a3-4482-87c8-e95bc54be27c>



Thank you

As always, we are at your service in everything you need in relation to your wealth invested with us, helping you in everything you might need and being available through any of the Magallanes contact channels.

I wish you an excellent summer on behalf of the entire team.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Iván', written in a cursive style.

Iván Martín Aránguez, CFA
Chief Investment Officer



ANNEX. RETURNS BY FUND AND CLASS as of 30/06/2021

MAGALLANES IBERIAN EQUITY, FI

FUND	NAV	3 M	6 M	12 M	2021	2020	2019	2018	2017	2016	2015 ¹	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity FI "M"	145,1960	3,56%	16,64%	41,37%	16,64%	-12,92%	6,02%	-9,22%	15,45%	15,48%	8,04%	40,81%	96,9%
Iberian benchmark		3,90%	9,55%	23,74%	9,55%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-5,73%	5,85%	
Magallanes Iberian Equity FI "P"	149,9178	3,69%	16,93%	42,08%	16,93%	-12,48%	6,55%	-8,76%	16,03%	16,09%	6,32%	42,48%	96,9%
Iberian benchmark		3,90%	9,55%	23,74%	9,55%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-11,27%	-0,60%	
Magallanes Iberian Equity FI "E"	157,3421	3,88%	17,37%	43,15%	17,37%	-11,83%	7,35%	-8,07%	16,91%	16,91%	12,72%	57,34%	96,9%
Iberian benchmark		3,90%	9,55%	23,74%	9,55%	-11,07%	15,38%	-11,59%	12,13%	0,52%	2,57%	15,50%	

¹ Class M 29/01/2015; Class P 26/02/2015; Class E 09/01/2015. Returns net of fees. Iberian benchmark: 80% Ibox35 Net TR + 20% PSI20 Net TR.

MAGALLANES VALUE INVESTORS UCITS IBERIAN EQUITY – LUXEMBOURG

FUND	NAV	3 M	6 M	12 M	2021	2020	2019	2018	2017	2016 ¹	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity Lux "R"	127,6251	3,44%	16,26%	39,84%	16,26%	-13,94%	5,68%	-9,61%	14,79%	16,33%	-	27,63%	97,4%
Iberian benchmark		3,90%	9,55%	23,74%	9,55%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	10,84%	
Magallanes Iberian Equity Lux "I"	131,3452	3,56%	16,54%	40,53%	16,54%	-13,51%	6,21%	-9,14%	15,42%	16,99%	-	31,35%	97,4%
Iberian benchmark		3,90%	9,55%	23,74%	9,55%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	10,84%	

¹ Class R 31/12/2015; Class I 31/12/2015. Returns net of fees. Iberian benchmark: 80% Ibox35 Net TR + 20% PSI20 Net TR.

MAGALLANES EUROPEAN EQUITY, FI

FUND	NAV	3 M	6 M	12 M	2021	2020	2019	2018	2017	2016	2015 ¹	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity FI "M"	161,0499	5,67%	21,99%	53,00%	21,99%	-3,30%	21,48%	-19,19%	19,52%	12,89%	3,47%	61,69%	97,2%
European benchmark		6,46%	15,35%	27,94%	15,35%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,42%	42,76%	
Magallanes European Equity FI "P"	166,3444	5,81%	22,30%	53,76%	22,30%	-2,81%	22,09%	-18,78%	20,12%	13,45%	4,23%	67,41%	97,2%
European benchmark		6,46%	15,35%	27,94%	15,35%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,43%	42,77%	
Magallanes European Equity FI "E"	174,5570	6,00%	22,75%	54,92%	22,75%	-2,08%	23,01%	-18,17%	21,02%	14,31%	4,29%	74,56%	97,2%
European benchmark		6,46%	15,35%	27,94%	15,35%	-3,32%	26,05%	-10,57%	10,24%	2,58%	9,77%	36,05%	

¹ Class R 27/01/2015; Class P 29/01/2015; Class E 09/01/2015. Returns net of fees. European benchmark: MSCI Europe Net TR.

MAGALLANES VALUE INVESTORS UCITS EUROPEAN EQUITY – LUXEMBOURG

FUND	NAV	3 M	6 M	12 M	2021	2020	2019	2018	2017	2016 ¹	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity Lux "R"	150,9262	5,53%	21,62%	52,17%	21,62%	-3,82%	20,89%	-19,43%	19,11%	18,30%	-	60,55%	96,9%
European benchmark		6,46%	15,35%	27,94%	15,35%	-3,32%	26,05%	-10,57%	10,24%	9,39%	-	51,60%	
Magallanes European Equity Lux "I"	155,2465	5,66%	21,91%	52,92%	21,91%	-3,33%	21,50%	-19,00%	19,76%	27,76%	-	77,45%	96,9%
European benchmark		6,46%	15,35%	27,94%	15,35%	-3,32%	26,05%	-10,57%	10,24%	19,66%	-	65,84%	
Magallanes European Equity Lux "P"	158,2991	5,76%	22,15%	53,53%	22,15%	-2,96%	21,96%	-18,70%	20,16%	12,08%	-	58,30%	96,9%
European benchmark		6,46%	15,35%	27,94%	15,35%	-3,32%	26,05%	-10,57%	10,24%	2,58%	-	42,16%	
Magallanes European Equity Lux "ING"	109,7600	6,48%	16,94%	44,48%	16,94%	2,15%	14,72%	-19,91%	-	-	-	9,76%	96,9%
European benchmark		6,46%	15,35%	27,94%	15,35%	-3,32%	26,05%	-10,57%	-	-	-	22,93%	

¹ Class R 29/01/2016; Class I 12/02/2016; Class P 31/12/2015; Class ING 17/01/2018. Returns net of fees. European benchmark: MSCI Europe Net TR.

MAGALLANES MICROCAPS EUROPE, FI

FUND	NAV	3 M	6 M	12 M	2021	2020	2019	2018	2017 ¹	2016	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Microcaps Europe, FI "B"	127,1653	13,04%	31,96%	66,73%	31,96%	-0,61%	10,59%	-21,98%	12,37%	-	-	27,17%	95,8%
European benchmark		6,75%	22,25%	64,42%	22,25%	18,66%	22,39%	-13,38%	8,14%	-	-	66,31%	
Magallanes Microcaps Europe, FI "C"	125,1033	12,92%	31,69%	65,89%	31,69%	-1,16%	10,10%	-22,18%	7,81%	-	-	20,24%	95,8%
European benchmark		6,75%	22,25%	64,42%	22,25%	18,66%	22,39%	-13,38%	7,22%	-	-	64,88%	

¹ Class B 17/03/2017; Class C 31/03/2017. Returns net of fees. European benchmark: MSCI Europe Micro Cap Net Total Return.