3rd Quarterly Letter to Investors
09/30/2020
MAGALLANES VALUE INVESTORS, S.A. SGIIC

Dear Investor,

Performance during third quarter of 2020 has been +7.4% for the European fund, +7.6% for Microcaps fund -1.6% for the Iberian fund. Since March's lows, the worst part of the pandemic in terms of stock declines, said funds have appreciated +38.6%, +34.5% and +17.9% respectively.

Despite the seriousness of the current situation in terms of infections and fresh restrictions on movement, there are reasons to be thinking ahead in terms of a relatively strong recovery in the global economy which will continue to support the good performance data of recent months. This especially applies to Magallanes' funds which can be characterized by sectors such as industrial, cyclical, capital goods and basic resources.

Manufacturing activity in China improved again in September, with PMI data indicative of strong economic growth, supported by a recovery in production and exports comparable to pre-Covid levels. Along these lines, there are several companies that, when referring to their activity in China say that they are observing a clear 'return to normality'.

In the US and Europe, business activity indicators are also showing clear signs of economic recovery, which suggests very positive GDP growth for the coming quarters.

The implementation of expansive economic measures, both at a monetary level by central banks and at a fiscal level by governments, together with the upcoming appearance on the market of one or more effective vaccines against the virus, will ensure this economic recovery continues on the right path. It may even gather more traction than is currently discounted by the market.

Our opinion is that the current recovery situation of our portfolios responds to a "typical" cyclical recovery, anticipating said economic recovery. Hence the companies classified as cyclicals are the ones that have performed the best since the lows of the pandemic. It is in these companies where the portfolios are more strongly positioned, as that is where we see more relative value compared to other listed companies.

Furthermore, recent statements by the Federal Reserve and the European Central Bank aimed at relaxing inflation targets suggest a future risk of possible spikes in prices. This could be due to the combined effect of an economic recovery from depressed levels, low inventory levels as a result of supply shocks due to the pandemic, and last but not least, due to the large quantity of money in circulation due to expansionary fiscal and monetary policies.

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Traditionally, investments linked to cyclical and industrial companies, capital goods, raw materials or food retailers among others are good natural hedges against inflation risks due to their ability to pass-through increased input costs onto the final consumer.

It is worth noting how in the last review of the EuroStoxx50 Index constituents, among the companies that exited the Index were **BBVA**, **Telefónica** or **Fresenius** among others, making way for technology companies such as **Adyen** and **Prosus**, companies at stratospheric valuations. In Spain and within the Ibex 35, the departure of **ENCE** was announced, practically at historical lows due to the entry of **Pharma Mar** after several months of excellent stock market performance.

Beyond the symptoms of the current state of the market, where expensive companies are rewarded and the cheap ones are left aside, this fact also serves to show that the strategy of buying the securities that become part of an index (often also the obsession of some company executives for being part of the Ibex35), it is generally not the best indicator of good future performance.

All the while, the spread between expensive and cheap companies continues to widen. Investors tend to look for what promises them certain security and future growth in an environment of maximum uncertainty. Sometimes the price to pay is so high that the cord that should link the fundamentals of a company with its price quoted on the Stock Exchange is broken.

According to the American research firm Bernstein, the spread between expensive and cheap stocks is at its highest in the last 90 years. Most interesting is the fact that for the first time, the spread is explained by both extreme multiples of "expensive" and ridiculously cheap multiples of "cheap". Specifically, in terms of price/earnings ratio, the former is listed at 85x and the latter at around 10x[1].

Bernstein also compares the current level of technology companies with the dotcom bubble of 2000. There are several data to take into account: the weight of technology companies in the indices that is already higher than that of the dotcom bubble, one third of them are loss-making companies, the valuation differential with other non-technology companies is at a maximum and the flows of retail investors through low-cost accounts (Robinhood) are very high, as they were in 2000[2].

[1] Value is dead, long live value. Bernstein Research. 24/09/2020

[2] How does Tech compare with the 2000 bubble? Should investors be worried? Bernstein Research. 14/09/2020

During the third quarter of the year we have continued to see a high level of activity in our portfolios. Movements have been made in order to increase the upside potential of the funds.

In the European fund, we have increased our weight in securities such as **ArcelorMittal**, **Metro AG**, **Aker BP**, **OCI NV** and **NOKIA**, among others.

In the Iberian fund, we have been particularly active mainly due to the heavy punishment suffered by the Spanish stock market. Increases have been in a wide range of companies, including **Repsol**, **Miquel y Costas**, **Naturgy**, **Inditex**, **ArcelorMittal**, **Applus**, **Gestamp** and **Mapfre** among others.

Finally, in the Microcaps fund, **MPC Container Ships** and **Safestyle Plc** have been some of the companies in which we have increased our exposure.

In terms of selling, our activity has focused on stocks whose potential has been reduced thanks to good stock market performance, most of them at record highs. Specifically, in the European fund we have trimmed our stakes in **Hornbach**, **Signify** and **Antofagasta**. In the Iberian fund we have reduced exposure in **Siemens-Gamesa** and **Fluidra** and in the Microcaps fund, we would highlight the partial sale of **Italian Wine Brands**. It is important to point out that these sales respond to partial reductions in exposure, and our conviction in these companies is in accordance with their upside potential. The only total sale was, within the Microcaps fund, was **Gunnebo AB** following a takeover bid.

The economic recovery, inflationary risks, fiscal and monetary stimulus packages and the potential rotation of portfolios from expensive stocks to cheap ones make us very positive and calm with our funds. In fact, we cannot find a better portfolio to be able to benefit, perhaps also be protected, from the development of these events.

On top of the aforementioned situation we can add the attractive valuation level of the three funds, which have already experienced strong recoveries from March's lows. In this sense, the potential for revaluation is close to +100% and the average multiple in terms of EBITDA is around 6x.

A special mention should be given to the Iberian fund which has faced a significant drop in the year. The Spanish political situation and the lack of concrete measures to relaunch an economy that is more vulnerable than its European counterparts make Spain an undesirable place for investors currently. But although it may sound strange, it is in these moments that good companies can be bought at good prices. Prices that already reflect, to a high degree, the negative situation described in the previous lines. A well-diversified portfolio of securities, such as that of our Iberian fund, represents a good investment opportunity for those investors capable of navigating the current delicate situation.

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The extraordinary number of takeover bids received in recent weeks for some of our portfolio securities is striking. Approximately 5% of securities in our funds have been subject to takeover bids during the last quarter. This goes to show that good companies at great prices do not last long in the market.

These transactions tend to follow the same pattern, of family businesses that know their business well and “take advantage” of the current price levels to delist them from the stock market. In other words, recent takeover bids demonstrate the very low valuations of these businesses, as well as the power of having a family or control group behind them. However, as much as it can be good news to receive such offers, in some cases the taste can be bittersweet, as they have been produced below our price targets.

Speaking of potentials and returns and specifically of how they are generated, it is worth talking about our historical investment in **Hornbach** that was discussed in the previous letter. On this occasion, it is worth explaining the disparity between expected and actual returns, which rarely coincide in time and form, giving weight to the expression "good things come to those who wait."

In our letter for the first quarter of 2019, in the ‘Anatomy of the Stock Exchange’ section we attempted to explain that stock market returns are not linear:

> *“Market returns are not lineal, though. If we take the USA’s S&P 500 Index, we see that the average yearly returns achieved over the past century is of 10%. Which does not mean that every year it grows by 10%, this has actually happened only very exceptionally, really no more than five times in the period. What usually happens is that the shares deviate themselves greatly from their “normal average”. Any attempt by a naïve investor to compare stock market returns with those of bonds, where the returns are known beforehand and are identical over a period, is bound to be frustrating. Indeed, it may lead to rejection upon seeing that said returns do not correspond, annually, with long-term expectations."*

1st Quarter Letter to Investors, Magallanes, March 2019

At the end of the third quarter, our accumulated performance in **Hornbach** is approximately +60%, in about five and a half years since the first investment, equivalent to +9% compounded annually. Somewhat more than acceptable results. But getting those returns has not been easy, as it has required a great deal of patience as well as going against the tide most of the time. We appeared to be wrong and we even lost (on paper) more than -50% of our investment. Finally, in the short space of a few months, the value has multiplied by almost 4 from its lows. The outcome is the performance that I explained before.

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It is an extreme case, but a good example to show the value of the basic attributes of investing in the stock market: patience, a capacity for suffering and contrarian spirit. All the while, being aware that the expected return can occur in the most unexpected way, sometimes even capriciously, or differently to how we might have imagined it. The pattern repeats itself; buy cheap, preferably family businesses, with a solid balance sheet and an understandable and viable business over the long term.

Given the recent new outbreaks due to the spread of Covid-19, our greatest wish from Magallanes is that all of you as well as your family and friends are in good health. Regarding your investments with us, we want to help you with anything you might need. As always, we are at your disposal through any of the Magallanes contact channels.

Thank you very much as always for your continued trust in the management of your investments together with ours in an environment as complicated as the current one.

Yours sincerely,

Iván Martín Aránguez, CFA
Chief Investment Officer

ANNEX. RETURNS BY FUND AND CLASS as of 09/30/20

MAGALLANES IBERIAN EQUITY, FI

FUND	NAV	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity FI "M"	100,9104	**-1,71%**	**-1,75%**	**8,11%**	**-25,88%**	**-29,41%**	**6,02%**	**-9,22%**	**15,45%**	**15,48%**	**8,04%**	**-2,14%**	97,0%
Iberian benchmark		-3,98%	-6,67%	1,06%	-23,23%	**-26,52%**	15,38%	-11,59%	12,13%	0,52%	-5,73%	-20,17%	
Magallanes Iberian Equity FI "P"	103,8034	**-1,67%**	**-1,63%**	**8,38%**	**-25,51%**	**-29,14%**	**6,55%**	**-8,76%**	**16,03%**	**16,09%**	**6,32%**	**-1,35%**	97,0%
Iberian benchmark		-3,98%	-6,67%	1,06%	-23,23%	**-26,52%**	15,38%	-11,59%	12,13%	0,52%	-11,27%	-25,03%	
Magallanes Iberian Equity FI "E"	108,3352	**-1,61%**	**-1,44%**	**8,79%**	**-24,95%**	**-28,74%**	**7,35%**	**-8,07%**	**16,91%**	**16,91%**	**12,72%**	**8,34%**	97,0%
Iberian benchmark		-3,98%	-6,67%	1,06%	-23,23%	**-26,52%**	15,38%	-11,59%	12,13%	0,52%	2,57%	-12,88%	

[1] Class M 29/01/2015; Class P 26/02/2015; Class E 09/01/2015. Returns net of fees. Iberian benchmark: 80% Ibex35 Net TR + 20% PSI20 Net TR.

MAGALLANES VALUE INVESTORS UCITS IBERIAN EQUITY - LUXEMBOURG

FUND	NAV	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity Lux "R"	89,5285	**-1,94%**	**-1,90%**	**7,50%**	**-26,43%**	**-29,81%**	**5,68%**	**-9,61%**	**14,79%**	**16,33%**	**-**	**-10,47%**	98,3%
Iberian benchmark		-3,98%	-6,67%	1,06%	-23,23%	**-26,52%**	15,38%	-11,59%	12,13%	0,52%	-	-16,40%	
Magallanes Iberian Equity Lux "I"	91,8008	**-1,90%**	**-1,78%**	**7,77%**	**-26,06%**	**-29,55%**	**6,21%**	**-9,14%**	**15,42%**	**16,99%**	**-**	**-8,20%**	98,3%
Iberian benchmark		-3,98%	-6,67%	1,06%	-23,23%	**-26,52%**	15,38%	-11,59%	12,13%	0,52%	-	-16,40%	

[1] Class R 31/12/2015; Class I 31/12/2015. Returns net of fees. Iberian benchmark: 80% Ibex35 Net TR + 20% PSI20 Net TR.

MAGALLANES EUROPEAN EQUITY, FI

FUND	NAV	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity FI "M"	112,9249	**-1,18%**	**7,28%**	**21,37%**	**-11,74%**	**-17,28%**	**21,48%**	**-19,19%**	**19,52%**	**12,89%**	**3,47%**	**13,37%**	95,4%
European benchmark		-1,41%	0,10%	12,71%	-7,76%	**-12,75%**	26,05%	-10,57%	10,24%	2,58%	0,42%	11,69%	
Magallanes European Equity FI "P"	116,2018	**-1,14%**	**7,41%**	**21,68%**	**-11,30%**	**-16,97%**	**22,09%**	**-18,78%**	**20,12%**	**13,45%**	**4,23%**	**16,95%**	95,4%
European benchmark		-1,41%	0,10%	12,71%	-7,76%	**-12,75%**	26,05%	-10,57%	10,24%	2,58%	0,43%	11,70%	
Magallanes European Equity FI "E"	121,2578	**-1,08%**	**7,62%**	**22,13%**	**-10,63%**	**-16,50%**	**23,01%**	**-18,17%**	**21,02%**	**14,31%**	**4,29%**	**21,26%**	95,4%
European benchmark		-1,41%	0,10%	12,71%	-7,76%	**-12,75%**	26,05%	-10,57%	10,24%	2,58%	9,77%	22,09%	

[1] Class M 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	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity Lux "R"	106,3083	**-1,22%**	**7,19%**	**21,15%**	**-12,19%**	**-17,60%**	**20,89%**	**-19,43%**	**19,11%**	**18,30%**	**-**	**13,09%**	96,8%
European benchmark		-1,41%	0,10%	12,71%	-7,76%	**-12,75%**	26,05%	-10,57%	10,24%	9,39%	-	18,61%	
Magallanes European Equity Lux "I"	108,9535	**-1,18%**	**7,32%**	**21,45%**	**-11,75%**	**-17,29%**	**21,50%**	**-19,00%**	**19,76%**	**27,76%**	**-**	**24,54%**	96,8%
European benchmark		-1,41%	0,10%	12,71%	-7,76%	**-12,75%**	26,05%	-10,57%	10,24%	19,66%	-	29,75%	
Magallanes European Equity Lux "P"	110,7669	**-1,15%**	**7,43%**	**21,69%**	**-11,41%**	**-17,05%**	**21,96%**	**-18,70%**	**20,16%**	**12,08%**	**-**	**10,77%**	96,8%
European benchmark		-1,41%	0,10%	12,71%	-7,76%	**-12,75%**	26,05%	-10,57%	10,24%	2,58%	-	11,22%	
Magallanes European Equity Lux "ING"	81,3700	**0,36%**	**7,11%**	**24,51%**	**-9,49%**	**-11,44%**	**14,72%**	**-19,91%**	**-**	**-**	**-**	**-18,63%**	96,8%
European benchmark		-1,41%	0,10%	12,71%	-7,76%	**-12,75%**	26,05%	-10,57%	-	-	-	-3,82%	

[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	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS	2020	2019	2018	2017 [1]	2016	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Microcaps Europe, FI "B"	82,0912	**0,59%**	**7,63%**	**25,29%**	**-7,12%**	**-15,33%**	**10,59%**	**-21,98%**	**12,37%**	**-**	**-**	**-17,91%**	92,7%
European benchmark		-0,93%	9,18%	34,50%	8,61%	**-3,67%**	22,39%	-13,38%	8,14%	-	-	10,43%	
Magallanes Microcaps Europe, FI "C"	81,0150	**0,55%**	**7,43%**	**24,93%**	**-7,78%**	**-15,71%**	**10,10%**	**-22,18%**	**7,81%**	**-**	**-**	**-22,14%**	92,7%
European benchmark		-0,93%	9,18%	34,50%	8,61%	**-3,67%**	22,39%	-13,38%	7,22%	-	-	9,49%	

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