

# MAGALLANES



VALUE INVESTORS

## Quarterly Letter to Investors

1<sup>st</sup> Quarter of 2016

MAGALLANES VALUE INVESTORS, S.A. SGIC

Dear Investor,

The first quarter of 2016 will be remembered as one of the most complex starts to the year of recent times regarding stock markets. The Spanish Ibex-35 Index declined almost -20% at the worst moment in mid-February to end up closing the quarter with a decline of -9%.

In this environment, it is worth highlighting very positively our Iberian strategy, in which the Magallanes Iberian Equity fund appreciated around +1.5%. The European strategy is not immune to market corrections and registered a setback of -2.4%, although much lower than European benchmarks' declines of more than -7% during the period.

Our investment funds reached one year since inception. Even though Magallanes was founded at the end of 2014, the Iberian and European Equity funds started their journey between January and February of 2015.

For us one year is short term and thus any bad or good performance might be influenced by certain dose of good or bad luck, respectively. This being said, the balance of performance of the funds since inception is successful: both Iberian and European Equity funds show positive performance, far above the declines experienced by the market (see Annex of returns).

We are on the right track to fulfil our main long-term goal which as you may know is to preserve and increase the capital of our clients. The concept of preserving capital when investing in shares resides on the ability of losing the less possible money when things go wrong. It is of special importance to protect the portfolios against sharp declines in difficult environments; in favourable moments portfolios take care of themselves.

Some of the companies we own have experienced significant fluctuations in their market prices. Does it make any sense that a well-managed company, which generates profits, could increase or decrease its value by 20% in a matter of days? No, it does not.

The pendulum movement explains this phenomenon making the markets to be guided in the short-term by the most basic instincts of human being, which basically swings between euphoria and fear.

It is easy to move from one mood to another when a series of events take place over time, even at the same time: economic slowdown in China, monetary policy of zero or negative interest rates, the crisis of refugees in Europe coming from Middle East, the decline of



commodities, the terrorist attacks, the high indebtedness of many countries and even the absence of Government in our own country.

These aspects are serious and transcendent enough to be worried, but hereby comes into play another factor which betrays us once again and is inherent to human being: the natural tendency of people to extrapolate things into the future. We think misfortunes of today will last forever. But as in life, bad and good things come and go.

With this I do not want to mean the latter is not important, it obviously is and justifies the sell-offs experienced during the first sessions of the year. That China is growing less than expected affects world trade, that interest rates are negative is a financial aberration, that millions of refugees are fleeing from a warlike clash is a drama, the absence of government in Spain after more than 100 days since elections says little about our politicians. Everything affects the economy, the behaviour, the psychology, the emotions and hence the markets. What I want to emphasize is that, historically, the best moment to buy shares of listed companies tends to match with the worst moment of market sentiment, which is precisely when you can purchase good businesses at good prices, sometimes even at bargain levels.

As an example, in the last Letter we explained how the commodities' sector had been one of the most penalized over the year, with some of its companies even trading at historic lows. Today, three months later, this sector has been the only one which not only has not declined but has managed to obtain returns of over +10%. The most striking case is ArcelorMittal, which multiplied its value by more than 2 times after reaching a historic low of 2 Euros per share, to end up the quarter with a rise of more than +30%.

Other penalized holdings which gave good buying opportunities were some real estate companies like Axiare or Immofinanz, well-managed industrial companies such as Lingotes Especiales, businesses with exposure to Latin America like Prosegur and companies within favorable competitive environments such as the Italian cement producer Buzzi Unicem.

Investors like us need the existence of stock markets such as the present, where the combination of negative events along with the nervous and impulsive behavior of the average investor generates unique investment opportunities. This is why I think volatility, that transitional madness, is something good for the intelligent investor, the patient, the one that knows how to wait and stays away from the herd.

In this sense, our stock market forecast for the year is the same as for the next ten: to take advantage of those moments of transitional madness of the market to buy; to take advantage of those moments of relax, complacency and exuberance to sell. We should not take investment decisions for the future looking at today's market prices on the press, just as we should not stop from running an ice-cream shop on the beach only because of a cloudy day.

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As a novelty this quarter it is worth mentioning the launch of two new investment vehicles: Magallanes Value Investors UCITS European Equity and Magallanes Value Investors UCITS Iberian Equity. Both funds are domiciled in Luxembourg and follow the European and Iberian strategies, respectively.

On the 2nd of March took place our first Annual Investors Conference. The full video can be seen at our webpage <http://www.magallanesvalue.com/>. Up to 400 people attended the event and more than 1.000 followed us online.

Today Magallanes, thanks to you our partners, is a great family of investors with close to 2.000 shareholders. You are our main asset.

Thank you in behalf of the whole team at Magallanes for entrusting us with the management of your money.

Kind regards,

Iván Martín Aránguez, CFA  
Chief Investment Officer





### ANNEX 1. STRUCTURE OF THE FUNDS

#### MAGALLANES IBERIAN EQUITY FI

The fund closes the quarter with an investment level of 92.1%, comprised of 26 Spanish and Portuguese companies.

The portfolio keeps a clear bias towards the consumer and industrial sectors, where it is worth highlighting: Barón de Ley, Prosegur, Miquel y Costas, Iberpapel Gestión and Inmobiliaria Colonial. Top ten holdings account for 52% of the fund.

Spain represents 69.8% of total investment of the fund and Portugal accounts for 22.2%.

The prevailing size of the companies in the portfolio does not exceed €3 bn of market cap, accounting for 74.8% of the fund. A 17.2% of the fund is invested in companies with market cap of over €3 bn.

Current investment level of the fund seems to be adequate for us. The number of companies in the portfolio will not significantly change in the medium term.

#### MAGALLANES EUROPEAN EQUITY FI

The fund closes the quarter with an investment level of 92.8%, comprised of 32 companies.

The portfolio has a clear bias towards the industrial, distribution and consumer staple sectors; sectors represented, for example, by holdings such as Hornbach AG, Orkla ASA, Buzzi Unicem SPA, Pargesa Holding SA - GBL and C&C Group Plc. Top ten holdings account for 46.6% of the fund.

As a result of the holdings in the portfolio the exposure to France, Germany and Switzerland is greater compared to that to other countries, with an aggregated weight of 44.3% for such countries.

The prevailing size of the companies in the portfolio does not exceed €5 bn of market cap, accounting for 68.4% of the fund. A 24.4% of the fund is invested in companies with a market cap of over €5 bn.

Current investment level of the fund seems to be adequate for us. The number of companies in the portfolio will not significantly change in the medium term.

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## ANNEX 2. RETURNS BY FUND AND CLASS as of 31/03/16

### MAGALLANES IBERIAN EQUITY, FI

FUND	1 MONTH	3 MONTHS	12 MONTHS	2016	SINCE INCEPTION	INCEPTION DATE	INVESTMENT LEVEL
<b>Magallanes Iberian Equity FI "M"</b>	<b>7,98%</b>	<b>1,44%</b>	<b>1,83%</b>	<b>1,44%</b>	<b>9,59%</b>	29/01/2015	92,1%
Iberian benchmark	3,40%	-7,77%	-21,13%	-7,77%	-13,05%		
<b>Magallanes Iberian Equity FI "P"</b>	<b>8,02%</b>	<b>1,57%</b>	<b>2,34%</b>	<b>1,57%</b>	<b>7,99%</b>	26/02/2015	92,1%
Iberian benchmark	3,40%	-7,77%	-21,13%	-7,77%	-18,16%		
<b>Magallanes Iberian Equity FI "E"</b>	<b>8,09%</b>	<b>1,76%</b>	<b>3,11%</b>	<b>1,76%</b>	<b>14,70%</b>	09/01/2015	92,1%
Iberian benchmark	3,40%	-7,77%	-21,13%	-7,77%	-5,40%		

Return net of fees. Iberian benchmark: 80% Ibex35 Net TR + 20% PSI20 Net TR.

### MAGALLANES EUROPEAN EQUITY, FI

FUND	1 MONTH	3 MONTHS	12 MONTHS	2016	SINCE INCEPTION	INCEPTION DATE	INVESTMENT LEVEL
<b>Magallanes European Equity FI "M"</b>	<b>5,41%</b>	<b>-2,45%</b>	<b>-3,62%</b>	<b>-2,45%</b>	<b>0,94%</b>	27/01/2015	92,8%
European benchmark	1,33%	-7,06%	-13,71%	-7,06%	-6,67%		
<b>Magallanes European Equity FI "P"</b>	<b>5,46%</b>	<b>-2,33%</b>	<b>-3,14%</b>	<b>-2,33%</b>	<b>1,80%</b>	29/01/2015	92,8%
European benchmark	1,33%	-7,06%	-13,71%	-7,06%	-6,66%		
<b>Magallanes European Equity FI "E"</b>	<b>5,53%</b>	<b>-2,14%</b>	<b>-2,41%</b>	<b>-2,14%</b>	<b>2,05%</b>	09/01/2015	92,8%
European benchmark	1,33%	-7,06%	-13,71%	-7,06%	2,02%		

Return net of fees. European benchmark: MSCI Europe Net TR.

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## MAGALLANES VALUE INVESTORS UCITS IBERIAN EQUITY – LUXEMBOURG

FUND	1 MONTH	3 MONTHS	12 MONTHS	2016	SINCE INCEPTION	INCEPTION DATE	INVESTMENT LEVEL
<b>Magallanes Iberian Equity Lux "R"</b>	8,23%	3,43%	-	3,43%	3,43%	31/12/2015	92,0%
<i>Iberian benchmark</i>	3,40%	-7,77%	-	-7,77%	-7,77%		
<b>Magallanes Iberian Equity Lux "I"</b>	8,28%	3,58%	-	3,58%	3,58%	31/12/2015	92,0%
<i>Iberian benchmark</i>	3,40%	-7,77%	-	-7,77%	-7,77%		

*Return net of fees. Iberian benchmark: 80% Ibex35 Net TR + 20% PSI20 Net TR.*

## MAGALLANES VALUE INVESTORS UCITS EUROPEAN EQUITY – LUXEMBOURG

FUND	1 MONTH	3 MONTHS	12 MONTHS	2016	SINCE INCEPTION	INCEPTION DATE	INVESTMENT LEVEL
<b>Magallanes European Equity Lux "R"</b>	5,28%	-	-	-	4,15%	29/01/2016	92,4%
<i>European benchmark</i>	1,33%	-	-	-	-0,89%		
<b>Magallanes European Equity Lux "I"</b>	5,32%	-	-	-	12,07%	12/02/2016	92,4%
<i>European benchmark</i>	1,33%	-	-	8,42%	8,42%		
<b>Magallanes European Equity Lux "P"</b>	5,35%	-1,96%	-	-1,96%	-1,96%	31/12/2015	92,4%
<i>European benchmark</i>	1,33%	-7,06%	-	-7,06%	-7,06%		

*Return net of fees. European benchmark: MSCI Europe Net TR.*