MAGALLANES

VALUE INVESTORS

1st Quarterly Letter to Investors
31/03/2021
MAGALLANES VALUE INVESTORS, S.A. SGIIC

Dear Investor,

Performance for the first quarter of 2021 has been +15.6% for the European fund, +12.8% for the Iberian fund and +16.7% for the Microcaps fund.

The performance of the three funds is noteworthy, for as well as being well above the performance achieved by their respective peer group, we are at the highest levels since launching in early 2015 in the specific case of the European strategy, with accumulated performance close to +60%.

It's normal for the stock market to rise, even if it doesn't appear so

It is one year since the first and most severe lockdown that the world has experienced in recent history. Even today, multiple countries are coexisting with various kinds of restrictions on movement in an attempt to stop third or fourth waves of infections. Despite the battle against the virus and the uneven success in the mass vaccination process, the reality is that global optimism, at least economically, is the main protagonist in the early stages of 2021.

So, although it might seem strange, it is normal that stock markets have started the year strongly, particularly portfolios like ours that are made up of companies exposed to the recovery of the economic cycle, which is ultimately what we are now experiencing.

We could say that the world is at the beginning of a new cycle of synchronized economic growth that has not been seen for many years. Therefore, taking as a reference point the global growth estimates recently reported by the IMF, world GDP is expected to rise by +6.0% and +4.4% for 2021 and 2022 respectively, without forgetting that the fall in GDP in 2020 it was -3.3%, penalized by the effects of Covid-19.

Thus, there are compelling reasons to believe that this good start to the year will continue over time, encouraged as well by the overwhelming amount of money resulting from the enormous fiscal and monetary stimulus plans approved by the main world economies. To this we should add the positive effect on economic growth from the pent-up demand for goods and services that is yet to come, as restrictions are gradually lifted across different countries. Besides this, the economic and financial health of economic agents (mainly households and companies) is at high levels, with accumulated savings rates at the highest levels in recent years.

As a result, and with the exception of extreme valuations such as the case of certain technology companies in the United States, stock market prices seem to be well-founded

to continue enjoying good returns, especially for the part of the market known as 'value'. The reasoning is simple: the highest growth in corporate profits is taking place in these kinds of companies, so it is no surprise that the price of their shares reacts more positively than the rest of the market. If business is doing well, stock price follows suit.

Our funds are well positioned

In the same vein, our fund's portfolios are benefiting from the current environment. A high percentage of our exposure comes under the "cyclical" heading, and sectors such as paper, metals, car manufacturers, energy companies, fertilizer producers, airlines and financials among others are all part of this classification. In essence, and given the current circumstances, we could say that Magallanes' funds "are invested where they should be".

This does not mean that we are always going to see such a defined cyclical bias, or that the value strategy must necessarily always be to buy companies traditionally condemned to trading at low multiples, regardless of the market moment. One of the distinctive aspects sof Magallanes is that the sectoral distribution (and therefore the companies') is the result, solely and exclusively, of our constant search for value. This leads us to buying good businesses temporarily penalized by the market, regardless of whether they belong to one sector or another of the economy.

This has brought us, throughout our history and depending on the market environment, to invest on certain occasions for example, more significantly sometimes in small companies, other times in larger companies, and sometimes in more stable or defensive businesses, always depending on the market environment. We have even invested in some technology companies that we would not even look at now due to their valuations being beyond what we consider reasonable.

The decision to buy some stocks over others is determined by their intrinsic value, regardless of the sector or industry to which they belong.

A world of extremes (Part 2) and why the rise in bond yields negatively affects the price of certain companies

The final quarter of 2020 will be remembered as one of the moments of greatest divergence of performance between 'expensive and cheap companies' (the former falling and the latter rising), and the first months of 2021 continue to be characterized by the continuity, or by even greater acceleration if possible, of such movement.

Despite the evident rotation, the accumulated differences in valuation and price between the two categories of assets are still at high levels compared to their historical averages. This accumulated differential, together with the imminent recovery of the economy, suggest

that the 'great rotation to value', as some market strategists call it, continues its trend in favour of cheap companies, as has been happening for a number of months.

It should be remembered that a growth environment benefits those companies linked closest to the business cycle, because they are the main protagonists of the reactivation of the real economy. This economic reactivation generates pressure on prices, eventually inflation, which causes the yields of long-term bonds to rebound. This is what is currently happening in the United States, whose ten-year government bond yield has gone from 0.91% to 1.7% during the first quarter of the year, translating into a fall in the price of said bond close to -7% (according to S&P US Treasury Bond 10-Year Index), and close to -14% for the Bloomberg Barclays Long US Treasury Index, the largest correction since 1980[1]. A drop worthy of equities, but remember, we are talking about US government bonds. A warning to navigators.

In light of this, the current investor faces implicit and explicit risks. The implicit ones have to do with not investing in the asset class "according to the present moment", in other words, in companies belonging to the real economy linked to the economic growth, many of which are under the value investment label. This risk is really an opportunity cost, and, in any case, it would be the "risk of not being invested".

On the other hand, there is the explicit risk, and it is undoubtedly the most damaging. It is that risk of those investors who, seeking a sense of security and predictability in their investments, have bought bonds, or worse, assets similar to bonds, the so-called proxy bonds, or even worse still, technology companies promising implausible growth that is impossible to achieve.

The same as when, as is well known, the rise in the yield of a bond negatively affects its price, there is also a negative effect on the price of assets "similar to bonds", specifically in those stocks with very high multiples, or even without a multiple. In the same vein, the higher the multiple of a company, the greater the negative impact of the rise in the yield of long duration bonds. This is as it has been during the first quarter of 2021 due to the historic fall of the American government bonds.

Is it possible to combine ESG criteria with purely financial aspects?

Yes, and in fact, our funds always have done so. We believe that financial and non-financial aspects go hand in hand, contrary to the idea that value-type funds and ESG criteria are incompatible. History shows that only those companies committed to sustainability, both environmental and social and corporate governance, survive in the long term.

[1] https://www.ft.com/content/c7107a3b-483d-4c6f-80c1-1f555ac38a97

Perhaps this apparent confrontation comes from a short-sighted part of the market that assumes that the best way to promote ESG criteria is by prohibiting investment in certain sectors or industries.

Our conception is different insofar as we understand that the concept of good ESG practices must refer to the promotion, support and interaction with all agents involved for the sake of a better world for us to live and work in, placing a special emphasis on all those businesses that promote society's social and economic progress. These sectors can be from renewable energies to steel producers, through to car manufacturers or financial services providers, all valid as long as they contribute to said progress with clear and firm sustainability policies and commitments, with a spirit of continuous improvement.

However, we understand that there are certain activities that contribute nothing to the progress of society, or rather, the opposite. On these rare occasions we do consider exclusion as an appropriate tool in accordance with good practices. For example, pornography, antipersonnel mines or gambling companies are some activities that would contribute little or nothing to the fundamental principles of sustainability.

In relation to the above, on March 10th the new European regulation regarding sustainable investments came into force[2]. Broadly speaking, and in compliance with these regulations, Entities must classify their investment products according to the level of sustainability on three levels: (i) Article 6, which is applied to products that only include sustainability risks as part of the investment process; (ii) Article 8, applied to financial products that promote environmental or social characteristics; (iii) Article 9, applied to financial products whose specific target is sustainable investments.

As a result of the above, our European and Iberian strategies implemented in the Luxembourg-domiciled funds are compliant with article 8 of the regulation. The information corresponding to investment funds under Spanish law will soon be disclosed.

This is not at odds with the purely financial aspects of our portfolios, in fact as a reflection of the good moment of earnings growth of our stocks, the three funds show an attractive valuation, with a high upside potential in the medium term.

In much the same way, we want to continue to insist in the excellent financial health of our portfolios, where the norm continues to be the non-existence of bankruptcy of any of the portfolio's companies in the more than six-year history of Magallanes.

[2] European level I regulation: Regulation (EU) 2019/2088 of the European Parliament and of the Council, of November 27, 2019 on the EU Sustainable Finance Disclosure Regulation (SFDR). SFDR is the result of the development of the Commission's Action Plan of March 8, 2018. SFDR establishes for the asset manager certain transparency obligations on sustainability issues upon coming into force, both at entity and product level. At Entity level: policies for integrating sustainability risks into their investment decisions, the evaluation of these risks in the profitability of the products, due diligence policies in relation to the main adverse incidents of investment decisions on sustainability factors or justification for their non-application, including in the remuneration policies its consistency with the integration of sustainability risks.

Activity in the first quarter of 2021. New names in the portfolios

We have had a high level of activity in our portfolios in the first quarter of the year, with the purchase of new companies in some funds and total exits of some stocks. These moves have been done in order to increase the upside potential of the funds.

In the European fund, consistent with the arguments provided regarding the economic situation in which we find ourselves currently and especially because of their attractive fundamental valuations, we have added three new companies to the portfolio, the airline **easyJet plc**, the bank **ING Groep** (more on banks below) and the airport catering company **Autogrill SpA**.

In the Iberian fund, we have also added **Bankinter** and **Aena**, in addition to having increased our positions in **Mapfre** and the Portuguese company **NOS.**

Finally, in the Microcaps fund, we have increased our exposure in **Iberpapel**, **Miquel y Costas**, **Sonaecom**, **Rottneros**, **KSB** and **Orsero**.

Regarding exits, in the European fund we have fully sold our positions in various stocks after they reached their target prices, including **Hornbach Baumarkt**, **A.P. Moller-Maersk**, **Draegerwerk**, and **E.ON**. In the Iberian fund we have fully sold our position in **Fluidra** and in the Microcaps fund, we have partially reduced our positions in **Naked Wines plc** and **La Doria**.

Banks in Magallanes' funds

As value investors, sometimes we have been asked why we do not have a single bank in our funds' portfolios, being, apparently, one of the cheapest sectors on the stock market. The sad reality of recent years is that few things have been quite 'as expensive' as buying a 'cheap bank' in Europe.

Buying cheap is not synonymous with 'only' buying companies at low multiples, in fact, analyses based simply on isolated metrics do not give the full picture behind an investment. A 'value trap' is the term used to define this phenomenon. The case of European banking stocks has been a good example of this.

More than ten years after the great financial crisis, the problem of banks today has, in general terms, ceased to be one of solvency and is now one of profitability. The multiple processes of recapitalisation, bailouts, mergers, more stringent capital regulation requirements, and successive capital increases have created a sector that is not as vulnerable as the one that we had some time ago, although it is still not without risk. However, the profitability of these businesses provided by the current zero interest rate

environment and even though the majority are solvent, constitutes the main Achilles heel of the sector.

This serves to explain that not just 'anything goes'. Traditionally, faced with an environment of strong economic recovery and prospects for higher yields on longer maturities, the banking sector has been one of the great beneficiaries of greater commercial activity, greater consumption, greater investments; in short, an increase in financing needs and therefore credit growth. This supports, in part, our decision to buy both **ING** and **Bankinter**, although honestly, there are other specific important elements that justified the introduction of these companies into the portfolio.

Bankinter is possibly the best banking franchise in Spain in terms of profitability, efficiency and customer satisfaction. With just over 500 offices in Spain and just under 5,000 employees, it is the only Spanish bank that has not been immersed in a restructuring process like the rest of its competitors. Furthermore, despite living in a low interest rate environment, it has been able to generate satisfying returns on equity. And on top of this, within **Bankinter** is hidden one of the main jewels of the insurance sector at the national level, **Línea Directa Aseguradora** (**LDA**), with 3.2 million insurance policies, 900 million euros in premiums, a combined ratio of 83% which is clearly below sector average, and an excellent return on equity of over 35%. **LDA's** great competitive advantage lies in its direct-channel based business model, without the need for intermediaries, in addition to the fact that more than 60% of car repairs are carried out in their own repair shops. All of the above means that their cost ratios are very low, below those of the competition, which allows them to make money and gain market share even with policy premiums below their competitors. **Bankinter** plans to distribute a large part of **LDA's** shares among its current shareholders, through a 'spin-off' formula.

Turning now to **ING**, which makes 70% of its income from retail banking and operates mainly in strong economies such as Benelux or Germany. Thanks to its leadership in the field of digital transformation, it can serve 40 million customers through less than 1,400 offices. For example, it is striking that in Germany it serves 9 million customers without a single office. It also stands out for its low-risk profile business model capable of generating high returns on equity. **ING** is one of the banks with the highest solvency with a CET1 capital ratio of 15.5%, one of the highest in Europe, which opens up the possibility of shareholders remuneration towards the end of the year in the form of dividends or share buybacks of about 20% of its market capitalisation.

MAGALLANES

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Thank you

Today, Magallanes is, with its six-year history, an independent asset management company with close to 2 billion euros under management and 20,000 clients. I want to thank you on behalf of the entire team for entrusting your wealth along with ours. In fact, around 20% of the assets under management belong to its founding partners and employees. Faithful to the commitment to protect your money in order to make it grow, and in view of the historical returns obtained, we will continue to work with the same enthusiasm and dedication as we did on the very first day.

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.

Yours sincerely,

Iván Martín Aránguez, CFA
Chief Investment Officer

ANNEX. RETURNS BY FUND AND CLASS as of 03/31/2021

MAGALLANES IBERIAN EQUITY, FI

FUND	NAV	3 M	6 M	12 M	2021	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION [1]	INVESTMENT LEVEL
Magallanes Iberian Equity FI "M"	140,2083	**12,64%**	**38,94%**	**50,21%**	**12,64%**	**-12,92%**	**6,02%**	**-9,22%**	**15,45%**	**15,48%**	**8,04%**	**35,97%**	98,4%
Iberian benchmark		5,44%	27,61%	28,96%	5,44%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-5,73%	1,88%	
Magallanes Iberian Equity FI "P"	144,5876	**12,78%**	**39,29%**	**50,96%**	**12,78%**	**-12,48%**	**6,55%**	**-8,76%**	**16,03%**	**16,09%**	**6,32%**	**37,41%**	98,4%
Iberian benchmark		5,44%	27,61%	28,96%	5,44%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-11,27%	-4,33%	
Magallanes Iberian Equity FI "E"	151,4645	**12,99%**	**39,81%**	**52,10%**	**12,99%**	**-11,83%**	**7,35%**	**-8,07%**	**16,91%**	**16,91%**	**12,72%**	**51,46%**	98,4%
Iberian benchmark		5,44%	27,61%	28,96%	5,44%	-11,07%	15,38%	-11,59%	12,13%	0,52%	2,57%	11,17%	

[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	3 M	6 M	12 M	2021	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION [1]	INVESTMENT LEVEL
Magallanes Iberian Equity Lux "R"	123,3836	**12,40%**	**37,81%**	**48,15%**	**12,40%**	**-13,94%**	**5,68%**	**-9,61%**	**14,79%**	**16,33%**	**-**	**23,38%**	98,5%
Iberian benchmark		5,44%	27,61%	28,96%	5,44%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	6,68%	
Magallanes Iberian Equity Lux "I"	126,8299	**12,53%**	**38,16%**	**48,89%**	**12,53%**	**-13,51%**	**6,21%**	**-9,14%**	**15,42%**	**16,99%**	**-**	**26,83%**	98,5%
Iberian benchmark		5,44%	27,61%	28,96%	5,44%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	6,68%	

[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	3 M	6 M	12 M	2021	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION [1]	INVESTMENT LEVEL
Magallanes European Equity FI "M"	152,4012	**15,44%**	**34,96%**	**63,80%**	**15,44%**	**-3,30%**	**21,48%**	**-19,19%**	**19,52%**	**12,89%**	**3,47%**	**53,00%**	96,8%
European benchmark		8,35%	20,06%	35,32%	8,35%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,42%	34,09%	
Magallanes European Equity FI "P"	157,2147	**15,59%**	**35,29%**	**64,62%**	**15,59%**	**-2,81%**	**22,09%**	**-18,78%**	**20,12%**	**13,45%**	**4,23%**	**58,22%**	96,8%
European benchmark		8,35%	20,06%	35,32%	8,35%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,43%	34,11%	
Magallanes European Equity FI "E"	164,6690	**15,80%**	**35,80%**	**65,86%**	**15,80%**	**-2,08%**	**23,01%**	**-18,17%**	**21,02%**	**14,31%**	**4,29%**	**64,67%**	96,8%
European benchmark		8,35%	20,06%	35,32%	8,35%	-3,32%	26,05%	-10,57%	10,24%	2,58%	9,77%	46,58%	

[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	3 M	6 M	12 M	2021	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION [1]	INVESTMENT LEVEL
Magallanes European Equity Lux "R"	143,0137	**15,25%**	**34,53%**	**62,97%**	**15,25%**	**-3,82%**	**20,89%**	**-19,43%**	**19,11%**	**18,30%**	**-**	**52,13%**	96,0%
European benchmark		8,35%	20,06%	35,32%	8,35%	-3,32%	26,05%	-10,57%	10,24%	9,39%	-	42,40%	
Magallanes European Equity Lux "I"	146,9370	**15,39%**	**34,86%**	**63,79%**	**15,39%**	**-3,33%**	**21,50%**	**-19,00%**	**19,76%**	**27,76%**	**-**	**67,95%**	96,0%
European benchmark		8,35%	20,06%	35,32%	8,35%	-3,32%	26,05%	-10,57%	10,24%	19,66%	-	55,77%	
Magallanes European Equity Lux "P"	149,6763	**15,50%**	**35,13%**	**64,43%**	**15,50%**	**-2,96%**	**21,96%**	**-18,70%**	**20,16%**	**12,08%**	**-**	**49,68%**	96,0%
European benchmark		8,35%	20,06%	35,32%	8,35%	-3,32%	26,05%	-10,57%	10,24%	2,58%	-	33,53%	
Magallanes European Equity Lux "ING"	103,0800	**9,82%**	**26,68%**	**57,74%**	**9,82%**	**2,15%**	**14,72%**	**-19,91%**	**-**	**-**	**-**	**3,08%**	96,0%
European benchmark		8,35%	20,06%	35,32%	8,35%	-3,32%	26,05%	-10,57%	-	-	-	15,47%	

[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 [1]	INVESTMENT LEVEL
Magallanes Microcaps Europe, FI "B"	112,4998	**16,74%**	**37,04%**	**71,70%**	**16,74%**	**-0,61%**	**10,59%**	**-21,98%**	**12,37%**	**-**	**-**	**12,50%**	96,8%
European benchmark		14,52%	41,07%	89,74%	14,52%	18,66%	22,39%	-13,38%	8,14%	-	-	55,79%	
Magallanes Microcaps Europe, FI "C"	110,7922	**16,63%**	**36,76%**	**70,85%**	**16,63%**	**-1,16%**	**10,10%**	**-22,18%**	**7,81%**	**-**	**-**	**6,48%**	96,8%
European benchmark		14,52%	41,07%	89,74%	14,52%	18,66%	22,39%	-13,38%	7,22%	-	-	54,45%	

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