1st Quarterly Letter to Investors
31/03/2022
MAGALLANES VALUE INVESTORS, S.A. SGIIC

Dear Investor,

Performance for the first quarter of 2022 has been **+4.0%** for the European fund, **-0.6%** for the Iberian fund and **-4.3%** for the Microcaps fund. Since inception, accumulated returns are **+77%**, **+45%** and **+34%** respectively.

The war was undoubtedly the event that marked the first quarter of the year, with a very significant impact on practically all financial assets, both stock markets and fixed income. The S&P500 index, in one of its worst quarters in recent years, dropped around -5%, with a fall of -9% for its technology comparable, the Nasdaq Composite. In Europe, the Stoxx Europe 600 fell by more than -6%. Within the emerging markets, the poor performance of countries such as Russia and China, among others, should be highlighted.

Fixed income markets were no exception, with even worse performances if we take into account the "defensive" profile attributed to this type of asset. Global bond markets have suffered their deepest decline since 1990, with the Bloomberg Global Aggregate Index, a broad gauge of government and corporate debt, falling more than -11% from its peak in January 2021.

The Austrian 100-year bond with a coupon of 0.85% issued in mid-2020 is worth highlighting. It has lost -25% in value so far this year, more than -50% from its peak and more than -30% since it came to market. It is worth remembering that this is a sovereign bond of the Austrian government, with the second-best possible credit rating, AA+, awarded by the rating agency S&P, which theoretically gives it the attributes of a safe and stable investment.

The counterpoint comes from the spectacular performance of most commodities, including oil, nickel, wheat, etc. The Bloomberg Commodity generic index closed the quarter with a rise of +24.5%.

The war has exposed certain imbalances that had been brewing since before the war. Therefore, its consequences do not so much imply an abrupt and sudden change but rather an acceleration of some of the risk factors mentioned in previous letters.

Among other factors, the most striking would be inflation, poor planning in the strategy and security in the energy transition and its effects on energy prices, systematic under-investment in capital-intensive industries and, in general, certain political decisions that have led certain regions, especially Europe, to a situation of energy dependence and economic fragility.

Sanctions against Russia have only aggravated the situation. The consequences of these sanctions are clearly detrimental for Russia, particularly for its population, but also for other countries or regions. Such is the case of Europe, mainly due to its high dependence on both energy (the EU imports about 47% of its annual natural gas consumption from Russia) and other raw materials, especially those related to agriculture such as fertilisers and cereals.

In economic terms, Russia is relatively small - its economy represents less than 2% of world GDP - but it is critical in some raw materials: the world's largest producer of wheat and palladium, the second largest producer of gas, the third largest producer of nickel, potash and gold, as well as producing 10% of the world's oil, to name but a few.

If we add Ukraine to the above, we find that almost 30% of global wheat exports and 19% of maize exports are under threat. Ukraine is the world's largest producer of sunflower oil, and Russia the second largest, according to S&P Global Platts. Between them they account for 60% of world production. [1]

With data such as the above, it is difficult to distinguish between winners and losers, if it is possible to speak of any winners in a situation such as the current one, so chaotic, dramatic and plagued by decisions that are, at first sight, surprising and contradictory.

Among them, the EU's decision to replace Russia with the United States, the world's leading producer of natural gas with 914.5 billion cubic metres in 2020, mostly from fracking, as a preferential supplier in exchange for a drastic price increase of +40%[2]. Surprising because of the clear benefit to the US and contradictory because the EU has traditionally opposed the extraction of natural gas by fracking on EU territory, not to mention the eye-catching price "negotiated" for such a supply. Decisions that could possibly have a rational explanation in the absence of better options.

From a purely financial point of view, and in line with what we said at the beginning, the war has exposed important imbalances that have accumulated over time. This has revealed some of the trends that had already been occurring for some time, namely the increase in prices resulting from the lack of investment in sectors and industries of prime necessity (raw materials, food, heavy industries, steel, chemicals, fertilisers or reliable and stable sources of energy). In short, the instantaneous disappearance of part of the world's supply has demonstrated the Western world's inability to replace supply.

It is well known that when supply does not keep up with demand, the adjustment factor is price, thus causing an acceleration in the inflationary spiral with negative effects for the consumer.

[1] https://www.bbc.com/mundo/noticias-internacional-60693406
[2] https://gaceta.es/actualidad/eeuu-reemplaza-a-rusia-como-proveedor-preferencial-de-gas-de-la-ue-a-cambio-de-un-drastico-aumento-del-precio-20220327-1953/

In various letters and presentations, we have tried to argue with facts and objective data that the transitory nature of inflation seemed difficult to defend. This problem is more accentuated in those countries that have implemented more interventionist measures (increased spending, labour market rigidity, low productivity, minimum wages, indexation to inflation, limits on rents). In this line, the +9.8% inflation rate in Spain, above its European peers, is striking.

For whatever reason, inflation is present, and it is starting to hurt. That is why central banks have clearly shifted towards a restrictive monetary policy, by raising interest rates combined with a halt in government bond-buying programmes.

All in all, the greatest risk facing the world today is that of low economic growth, high prices, and interest rate hikes beyond levels that the economy can afford.

Therefore, it is more important than ever to invest savings in portfolios that are able to withstand and overcome potential risks ahead, with a management style that has proven resilient and capacity to recover from past crises, not too far away.

Our investment process leads us to prioritise companies with good balance sheets above all else, with the ability to generate profits being of paramount importance. This gives the portfolio the ability to survive and then flourish in the next economic cycle. First the balance sheet and then the income statement, in that order.

Speaking of cycles, it is important to clarify that a significant part of the businesses in the portfolio is experiencing a particular virtuous cycle, encouraged by the situation of imbalances described above. As we have pointed out on previous occasions, the lack of investment over the years in some sectors of industrial activity has led to such structural imbalances that their equilibrium cannot suddenly be restored overnight. As long as this situation persists, these businesses will continue to generate high profits with the security of robust balance sheets.

The fundamental value of each of the companies in our funds remains well above current share price levels, which would imply significant upside potentials for the NAV of the funds over the coming quarters, even more so after the adjustments in the portfolio we have made during the quarter (see "Portfolio Changes" below).

This new war crisis has demonstrated the importance of being invested in a diversified and well-balanced portfolio, capable of not incurring irrecoverable losses when things go wrong, and of recovering quickly when the storm subsides. We do not have the ability to anticipate the negative and predict the positive, but we do have the ability to select, ex-ante, a collection of companies whose balance sheets, income statements, valuations and management teams offer certain guarantees of at least not causing a disaster in a stormy situation.

The following arithmetic analysis serves as an example: at the worst of the pandemic, our European portfolio plummeted by -40% in little more than a month, to close 2020 at almost zero and more than doubled just a year and a half later. Now in 2022, the drop since the outbreak of war was close to -11% in a matter of days, to close the quarter with a +4% return.

At our lunch with Peter Lynch a few years ago, he reminded us that the stock market investor would live better if he internalised that the stock market, from time to time, falls, and sometimes a lot, and then recovers in the long run. That is all you need to know, he said. To which one should also add the need for a large dose of "mental coolness to endure it".

You can't avoid a steep fall - indeed, it is pointless to waste time predicting it, or worse, to stop being invested because of it. But you can work on building a portfolio, so that when it does happen, which it will, it does not leave behind an irrecoverable damage for life.

Portfolio changes in the first quarter of the year

The high volatility in the quarter led to a high level of activity in the portfolios. These adjustments were aimed at increasing the intrinsic value of the funds, widening the margin of safety and the potential for future revaluation.

We have partially reduced exposure to sectors and companies whose margin of safety has narrowed as a result of their excellent performance during the quarter. On the other hand, we have used part of these funds to buy back some of the companies that were severely penalised during the worst of the crisis. Fertilisers and oil companies in the first place, and financials and industrials in the second.

It is important to note that the positive of the current market volatility is that it gives us the opportunity to invest in good companies at very attractive prices. Although we have not added any new positions yet, the pipeline of new ideas analysed is at very healthy levels. This provides a good pool of potential investments in case some of the existing companies are sold if reaching target price. These ideas are related to sectors such as automotive component suppliers, infrastructure, leisure, airlines and healthcare, among others.

Thus, in Europe, we have taken advantage of the sharp falls in European banking to raise our stakes in **UniCredit SpA**, **Commerzbank**, **Eurobank Ergasias** and **ING Groep**. We also increased exposure to **Renault**, **Savencia** and **Covestro AG**, among others. On the sell side, the most significant exit was **Hella**, after accepting the takeover offer from **Faurecia**, with a total return of c. +60%. We have reduced some exposure to the fertilisers **Nutrien** and **OCI**, as well as to the oil company **Aker BP**, although they still form an important part of the portfolios today.

In Iberia, the most significant buying move was to increase our exposure to **Inditex**. A loss of a third of its value since we reduced weight at the end of last year alone is enough to explain this decision. This shows us, once again, that what is important is not so much the discussion about "good" and "bad" businesses but knowing how to distinguish between "good" and "bad" entry prices.

The rest of the purchases in the Iberian portfolio are made up of adding to positions in **Caixabank** and **Bankinter**. Also, in the airline **IAG**, in the component's supplier **Gestamp** and in the certification company **Applus**. On the other hand, we reduced our exposure to **Sonae** and **Repsol**.

In the Microcaps fund, we initiated new positions in the French holding company **Peugeot Invest SA** and the Austrian toll management company **Kapsch TraffiCom AG** and increased our weighting in **Rosenbauer**. On the sales side, we accepted and liquidated the entire positions in **La Doria S.p.A** and **SITI**, accepting the received takeover bids.

Thank you

In such a dramatic situation as the current one, our greatest wish is for the end of the conflict and for the number of victims of barbarism to stop. Without forgetting a definitive normalisation of the current post-pandemic situation, which, on the other hand, continues to distress a large part of the population.

For all the above reasons, I would like to convey to you that we are fully focused on protecting and finding opportunities for your assets invested with us. That is why we are at your entire disposal and service, helping you in everything you need through any of the Magallanes contact channels.

Thank you very much for continuing to entrust us with the management of your assets.

Yours sincerely,

Iván Martín Aránguez, CFA
Chief Investment Officer

MAGALLANES

VALUE INVESTORS

ANNEX. RETURNS BY FUND AND CLASS as of 31/03/2022

MAGALLANES IBERIAN EQUITY, FI

FUND	NAV	3 M	6 M	12 M	YTD	2021	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity FI "M"	146,7291	-0,68%	-1,09%	4,65%	-0,68%	18,69%	-12,92%	6,02%	-9,22%	15,45%	15,48%	8,04%	42,29%	97,1%
Iberian benchmark		-0,54%	-0,41%	5,40%	-0,54%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-5,73%	7,38%	
Magallanes Iberian Equity FI "P"	152,0706	-0,56%	-0,85%	5,18%	-0,56%	19,28%	-12,48%	6,55%	-8,76%	16,03%	16,09%	6,32%	44,53%	97,1%
Iberian benchmark		-0,54%	-0,41%	5,40%	-0,54%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-11,27%	0,84%	
Magallanes Iberian Equity FI "E"	160,5027	-0,38%	-0,48%	5,97%	-0,38%	20,18%	-11,83%	7,35%	-8,07%	16,91%	16,91%	12,72%	60,50%	97,1%
Iberian benchmark		-0,54%	-0,41%	5,40%	-0,54%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	2,57%	17,18%	

[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	YTD	2021	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity Lux "R"	128,1492	-1,01%	-1,58%	3,86%	-1,01%	17,93%	-13,94%	5,68%	-9,61%	14,79%	16,33%	-	28,15%	98,4%
Iberian benchmark		-0,54%	-0,41%	5,40%	-0,54%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	12,44%	
Magallanes Iberian Equity Lux "I"	132,4170	-0,88%	-1,32%	4,41%	-0,88%	18,53%	-13,51%	6,21%	-9,14%	15,42%	16,99%	-	32,42%	98,4%
Iberian benchmark		-0,54%	-0,41%	5,40%	-0,54%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	12,44%	

[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	YTD	2021	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity FI "M"	169,3378	3,88%	3,60%	11,11%	3,88%	23,49%	-3,30%	21,48%	-19,19%	19,52%	12,89%	3,47%	70,01%	93,5%
European benchmark		-5,32%	1,95%	9,34%	-5,32%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,42%	46,61%	
Magallanes European Equity FI "P"	175,5622	4,00%	3,86%	11,67%	4,00%	24,11%	-2,81%	22,09%	-18,78%	20,12%	13,45%	4,23%	76,69%	93,5%
European benchmark		-5,32%	1,95%	9,34%	-5,32%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,43%	46,63%	
Magallanes European Equity FI "E"	185,2701	4,20%	4,25%	12,51%	4,20%	25,04%	-2,08%	23,01%	-18,17%	21,02%	14,31%	4,29%	85,27%	93,5%
European benchmark		-5,32%	1,95%	9,34%	-5,32%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	9,77%	60,26%	

[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	YTD	2021	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity Lux "R"	159,0389	4,05%	3,80%	11,21%	4,05%	23,17%	-3,82%	20,89%	-19,43%	19,11%	18,30%	-	69,18%	94,2%
European benchmark		-5,32%	1,95%	9,34%	-5,32%	25,13%	-3,32%	26,05%	-10,57%	10,24%	9,39%	-	55,69%	
Magallanes European Equity Lux "I"	164,2543	4,19%	4,08%	11,79%	4,19%	23,80%	-3,33%	21,50%	-19,00%	19,76%	27,76%	-	87,75%	94,2%
European benchmark		-5,32%	1,95%	9,34%	-5,32%	25,13%	-3,32%	26,05%	-10,57%	10,24%	19,66%	-	70,32%	
Magallanes European Equity Lux "P"	167,9247	4,28%	4,27%	12,19%	4,28%	24,26%	-2,96%	21,96%	-18,70%	20,16%	12,08%	-	67,92%	94,2%
European benchmark		-5,32%	1,95%	9,34%	-5,32%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	-	46,00%	
Magallanes European Equity Lux "ING"	114,3900	4,94%	2,40%	10,97%	4,94%	16,14%	2,15%	14,72%	-19,91%	-	-	-	14,39%	94,2%
European benchmark		-4,71%	0,23%	8,46%	-4,71%	17,37%	-3,32%	26,05%	-10,57%	-	-	-	20,55%	

[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	YTD	2021	2020	2019	2018	2017 [1]	2016	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Microcaps Europe, FI "B"	134,2307	-4,33%	2,40%	19,32%	-4,33%	45,60%	-0,61%	10,59%	-21,98%	12,37%	-	-	34,23%	92,5%
European benchmark		-9,33%	-7,13%	-0,50%	-9,33%	25,67%	18,66%	22,39%	-13,38%	8,14%	-	-	55,01%	
Magallanes Microcaps Europe, FI "C"	131,7831	-4,40%	2,26%	18,95%	-4,40%	45,10%	-1,16%	10,10%	-22,18%	7,81%	-	-	26,66%	92,5%
European benchmark		-9,33%	-7,13%	-0,50%	-9,33%	25,67%	18,66%	22,39%	-13,38%	7,22%	-	-	53,68%	

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