1st Quarterly Letter to Investors
31/03/2023
MAGALLANES VALUE INVESTORS, S.A. SGIIC

Dear Investor,

Performance for the first quarter of 2023 has been **+12.9%** for the European fund, **+8.4%** for the Iberian fund and +**6.2%** for the Microcaps fund. Since inception, accumulated returns are **+102.2%**, **+55.4%** and **+35.0%** respectively[1], outperforming their respective benchmarks.

The last few weeks of the first quarter of the year were dominated by the banking crisis in the US following the collapse and subsequent rescue of the regional bank **Silicon Valley Bank**, followed a few days later in Europe by the collapse of the Swiss bank **Credit Suisse**, subsequently absorbed by its rival **UBS AG**, with the support of the Swiss authorities.

In this environment, market volatility was the general tone, although stock markets managed to close the quarter in positive territory, specifically +7.8% for European shares, as measured by the STOXX Europe 600 index, and +5.1% for the American S&P 500 in euro. Ten-year bonds, both German and Spanish, ended the quarter without much change compared to the end of the year, 2.3% and 3.4% respectively. For its part, the one-year Euribor in Europe rose to 3.6% from 3.3% at the end of the year, although below the almost 4% it reached in mid-March.

Summary of the recent banking crisis

In their race to tame inflation through tighter monetary policy, the major central banks now face a major dilemma: whether or not to keep raising interest rates, as the rapid rise in recent months is behind the recent crisis that has hit the most vulnerable banks, namely US regional banks. In essence, the combination in the US of lax regulatory oversight and an improvable risk management explains the vulnerability of these banks to the new higher interest rate scenario.

While international standard banking regulation is governed by Basel III, which aims to strengthen the regulation, supervision and risk management of the banking sector, the key difference lies in the way in which this regulation is transposed to the different geographical jurisdictions. Specifically, the European Union legally transposed this regulatory framework through directives and regulations focused on further strengthening the supervision and capital requirements of banks and, therefore, making them better prepared for events such as those experienced now. Hence, in the face of the recent crisis, EU economy commissioner Paolo Gentiloni ruled out the possibility of real contagion in European banks.

The reality of banking on both sides of the Atlantic is indeed very different. Even within Europe, the regulation of countries such as Switzerland is very different from that of its EU neighbours - look at the example of **Credit Suisse**.

[1] Ver Anexo 1 para mayor detalle de rentabilidades en función de la estrategia de inversión, fecha de lanzamiento y clase.

The years following the great financial crisis that began in 2007 were particularly hard for the European economy and specifically for its financial sector, which even had to be bailed out in certain member states. For example, the case of Spain is striking: of the 70 banks supervised by the regulatory body in that year, barely more than ten remain today, with 75% of the market controlled by just four banking groups. This is undoubtedly one of the most severe industrial adjustments in recent economic history, even beyond banking. With cases like this, one can better understand why there is a need for greater supervision and demands from the European authorities: there is nothing like being in the ICU to assess life and prevent risky behaviour in the future. This is precisely what makes the difference with the US, Switzerland and other geographies, and what makes it difficult for the American or Swiss crisis to spread to other European banks.

That said, confidence in the financial system is key, with the degree of liquidity or solvency that a bank may have taking second place. This is why the actions of supervisory bodies are very important at times of crisis of confidence such as the one we are experiencing. In this respect, the European Central Bank made two relevant statements a few days ago: the first was to recall and clarify that the additional capital instruments of banks (known as AT1[2]) will always have a priority order over shareholders in a liquidation or rescue situation (unlike **Credit Suisse's** AT1, which were valued at zero compared to the rescue of ordinary shareholders in shares of the bank **UBS AG**), and two, that it does not observe, based on the monitoring of the banks under its supervision, indications of greater capital requirements, an example of which is the approval of the share buyback programme of 3,340 million euros for the Italian bank **UniCredit SpA**. These are important signs of the ECB's confidence in European banks.

Moreover, in the current interest rate environment, European banks continue to post good quarterly results, which translates into higher returns for shareholders and strength of their capital base.

The importance of stock selection and risk management

Just as investing in American stocks is not the same as investing in European stocks, investing in American banks is not the same as investing in European banks, and within European banks, investing in **Deutsche Bank** is not the same as investing in **UniCredit SpA**. The right stock selection, with appropriate risk management, makes the difference.

Our banking exposure in the funds is 14% in Europe, 7% in Iberia and 2.5% in Microcaps. The average of the seven banks that make up these weightings is providing us with significant capital gains since they entered the portfolios of the respective funds. We believe that the exposure we have is adequate and sufficient to take advantage of the future recovery in European banking, and at the same time sufficient not to compromise the total return of the portfolios should volatility return. A measured weighting of sector exposures (no more than 15% in any one sector) has been one of the most successful risk management tools in Magallanes' history.

[2] A contingent convertible bond, also known as a CoCo or Additional Tier 1 Capital (AT1), is a hybrid issue with characteristics of both debt (pays interest to the investor) and equity (has loss-absorbing capacity).

The banks in our portfolios have much better liquidity ratios, solvency, loan to deposit ratios and percentage of guaranteed deposits, among other metrics, than their US peers.

In Spain, **CaixaBank**, the largest banking franchise in the Iberian Peninsula, with more than 20 million customers and a market share of 25% (loans and deposits), is a good example of this. It stands out for its solvency through a Tier 1 capital ratio of 12.5%, or 400 basis points above the minimum required by the regulator, a liquidity ratio of close to 200% compared to the minimum 100% required and a percentage of guaranteed deposits of approximately 70% (as a reference, **Silicon Valley Bank** had only 4% of guaranteed deposits before its intervention and **Credit Suisse** 15% before its absorption). Due to its excess capital and earnings generation, **CaixaBank** has the capacity to distribute through dividends and share buybacks some 9,000 million euros until 2024, which represents a third of its current stock market value, part of which has already been distributed to investors. All are banks, but none are the same, some fall and some do not.

Another example is the Italian bank **UniCredit SpA**, with ratios similar to those mentioned above, its excess capital and excellent results have led it to pay shareholders a total of 5,250 million euros this year, consisting of 1,910 million in dividends and 3,340 million in share buybacks (recently authorised by the ECB), representing 15% of its current market capitalisation, which could rise to 60% in the period from 2022 to 2025 after completing its commitment to buybacks and dividend payments.

Such a generous remuneration would not make sense for a bank in a bad solvency and liquidity situation. Likewise, it would not make sense for a regulator like the ECB if it saw anything alarming or worrying in its constant monitoring of the assets and liabilities of the banks it supervises. Excess solvency, good results, dividend payments and share buybacks are positive developments that in turn send a clear and important message of confidence in the system.

Having said all of the above, the portfolios of the funds managed at Magallanes are not excessively linked to the performance of the banking sector, nor to any other sector in particular. Remember that, above all, no matter how much value we see in a company or sector, we will never compromise, by excessive weight, the aggregate performance of the rest of the portfolio. Under no circumstances do we intend to become a thematic fund. This is the essence of diversification.

Energy, telecommunications, tourism, food distributors, mining, car manufacturers and component suppliers, chemicals and cement. Each of the companies and sectors in the portfolio responds to a particular investment thesis, with its risks and opportunities, and with a weighting in the portfolio that is representative enough to impact performance when the thesis works, but moderate enough not to irreparably damage the fund when these theses take longer to see the light of day.

Expressed in numbers and taking the European fund as a benchmark, this translates into a return of over +100% since its launch and +13% so far this year, well above indices and market peers. This return is the result of the active management we have always advocated since our inception more than eight years ago, based on proper stock selection and risk management as explained above.

MAGALLANES

VALUE INVESTORS

Movements during the first quarter

Consistent with what has been explained so far, the most significant movements during the first quarter consisted of purchases of securities belonging to the most penalised sectors, such as banking, insurance, autos and energy. The high level of liquidity that we held in the portfolios, especially in the European fund, has been of great value when buying without the need to sell anything in return. There is nothing like having liquidity available to buy when you are being offered assets for less than they are worth.

In Europe we have reweighted positions in Norwegian oil company **Aker BP ASA** and oil rig operator **Shelf Drilling Ltd**. We have also added exposure to European car manufacturers **Renault, Stellantis NV** and **Volkswagen AG Pref**. Banks are also among the most recent purchases after the falls, so we have slightly added weight in **UniCredit SpA, Commerzbank AG, ING Groep NV** and **Eurobank Ergasias Services**.

On the European sell side, we continued to take profits in **Scorpio Tankers** and **Mytilineos** SA, both with gains of over +100%.

In Iberia, we bought **Prosegur Cash SA** for the first time and increased in the parent company **Prosegur SA**. We also increased exposure in **Grupo Catalana Occidente, Bankinter, Línea Directa Aseguradora, CaixaBank, Applus** and **Repsol**. On the sell side, we would highlight the reduction of weight in **Logista**.

In the Microcaps fund, we bought **C&C Group Plc** for the first time and increased our weighting in **Grupo Catalana Occidente** and **Shelf Drilling North Sea**.

Thank you for continuing to entrust us with the management of your assets alongside our own.

Yours sincerely,

Iván Martín Aránguez, CFA
Director de Inversiones

ANNEX 1. RETURNS BY FUND AND CLASS as of 31/03/2023.

MAGALLANES IBERIAN EQUITY, FI

FUND	NAV	3 M	6 M	12 M	2023	2022	2021	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity FI "M"	156,9830	8,22%	20,72%	6,99%	8,22%	-1,82%	18,69%	-12,92%	6,02%	-9,22%	15,45%	15,48%	8,04%	52,24%	97,5%
Iberian benchmark		11,25%	24,34%	10,90%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-5,73%	19,08%	
Magallanes Iberian Equity FI "P"	163,5133	8,36%	21,03%	7,52%	8,36%	-1,33%	19,28%	-12,48%	6,55%	-8,76%	16,03%	16,09%	6,32%	55,40%	97,5%
Iberian benchmark		11,25%	24,34%	10,90%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-11,27%	11,83%	
Magallanes Iberian Equity FI "E"	173,8791	8,56%	21,48%	8,33%	8,56%	-0,58%	20,18%	-11,83%	7,35%	-8,07%	16,91%	16,91%	12,72%	73,88%	97,5%
Iberian benchmark		11,25%	24,34%	10,90%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	2,57%	29,95%	

[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	2023	2022	2021	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity Lux "R"	136,7026	8,19%	20,37%	6,67%	8,19%	-2,40%	17,93%	-13,94%	5,68%	-9,61%	14,79%	16,33%	-	36,70%	94,9%
Iberian benchmark		11,25%	24,34%	10,90%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	24,70%	
Magallanes Iberian Equity Lux "I"	142,0184	8,34%	20,69%	7,25%	8,34%	-1,87%	18,53%	-13,51%	6,21%	-9,14%	15,42%	16,99%	-	42,02%	94,9%
Iberian benchmark		11,25%	24,34%	10,90%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	24,70%	

[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	2023	2022	2021	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity FI "M"	192,8670	12,74%	27,51%	13,89%	12,74%	4,94%	23,49%	-3,30%	21,48%	-19,19%	19,52%	12,89%	3,47%	93,63%	89,2%
European benchmark		8,61%	18,98%	3,82%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,42%	52,22%	
Magallanes European Equity FI "P"	200,9585	12,88%	27,82%	14,47%	12,88%	5,47%	24,11%	-2,81%	22,09%	-18,78%	20,12%	13,45%	4,23%	102,25%	89,2%
European benchmark		8,61%	18,98%	3,82%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,43%	52,24%	
Magallanes European Equity FI "E"	213,6673	13,09%	28,30%	15,33%	13,09%	6,26%	25,04%	-2,08%	23,01%	-18,17%	21,02%	14,31%	4,29%	113,67%	89,2%
European benchmark		8,61%	18,98%	3,82%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	9,77%	66,39%	

[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	2023	2022	2021	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity Lux "R"	180,7166	12,39%	28,10%	13,63%	12,39%	5,20%	23,17%	-3,82%	20,89%	-19,43%	19,11%	18,30%	-	92,24%	89,5%
European benchmark		8,61%	18,98%	3,82%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	9,39%	-	61,64%	
Magallanes European Equity Lux "I"	187,6553	12,54%	28,44%	14,25%	12,54%	5,77%	23,80%	-3,33%	21,50%	-19,00%	19,76%	27,76%	-	114,49%	89,5%
European benchmark		8,61%	18,98%	3,82%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	19,66%	-	76,83%	
Magallanes European Equity Lux "P"	192,5208	12,64%	28,67%	14,65%	12,64%	6,14%	24,26%	-2,96%	21,96%	-18,70%	20,16%	12,08%	-	92,52%	89,5%
European benchmark		8,61%	18,98%	3,82%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	-	51,58%	
Magallanes European Equity Lux "ING"	136,2200	11,52%	28,76%	19,08%	11,52%	12,05%	16,14%	2,15%	14,72%	-19,91%	-	-	-	36,22%	89,5%
European benchmark		7,56%	19,13%	7,96%	7,56%	-4,36%	17,37%	-3,32%	26,05%	-10,57%	-	-	-	30,14%	

[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	2023	2022	2021	2020	2019	2018	2017 [1]	2016	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Microcaps Europe, FI "B"	134,9529	6,18%	18,14%	0,54%	6,18%	-9,42%	45,60%	-0,61%	10,59%	-21,98%	12,37%	-	-	34,95%	96,9%
European benchmark		0,17%	7,17%	-17,00%	0,17%	-24,87%	25,67%	18,66%	22,39%	-13,38%	8,14%	-	-	28,65%	
Magallanes Microcaps Europe, FI "C"	132,1321	6,12%	17,99%	0,26%	6,12%	-9,67%	45,10%	-1,16%	10,10%	-22,18%	7,81%	-	-	26,99%	96,9%
European benchmark		0,17%	7,17%	-17,00%	0,17%	-24,87%	25,67%	18,66%	22,39%	-13,38%	7,22%	-	-	27,55%	

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