2nd Quarterly Letter to Investors
30/06/2022
MAGALLANES VALUE INVESTORS, S.A. SGIIC

Dear Investor,

Performance for the second quarter of 2022 was **-7.97%** for the European fund, **-1.65%** for the Iberian fund and **-6.28%** for the Microcaps fund. Since inception, accumulated returns have been **+63%**, **+42%** and **+26%** respectively.

Of all the market headlines of the year, the one that stands out is that the American stock market has closed the worst first half of the year since 1970, with the S&P 500 falling by more than -20%. Likewise, the famous ARK Innovation fund, the champion of technological transformation "for a better world", as a summary of the principles it advertises on its website, has lost nearly -75% of its value since its last year's highs. The broader and more representative Nasdaq technology index is also down close to -30%, with many of its components falling by more than -50% so far this year. In Europe the situation is not much different, with most indices falling between -15% and -20%, from the STOXX Europe 600 to the German Dax 30, to name but a few.

Even fixed income was not spared, what seemed safe and "fixed" is not so safe, so much so that the global bond market, as measured by the Bloomberg Global Agg Index, which tracks bonds of different durations and regions, has fallen by just over -14%, the biggest loss ever in a six-month period.

Another type of pseudo-asset has fared even worse, cryptocurrencies, which have seen last year's highs volatilise, with some bankruptcies and receiverships along the way for some of their main players. One example is the ubiquitous Bitcoin, which has lost more than -70% from its highs of last year and which was said to be the perfect hedge against inflation and even market declines.

We could go on, for instance, both business and consumer sentiment indices in different regions are at historically low levels, some of them never seen before.

In view of the above, something (not very good) must be happening. In a nutshell: the risk of recession coupled with or triggered by indomitable inflation, in a cycle of rising interest rates.

Such a cycle of interest rate hikes initiated by central banks suddenly coming out of lethargy and denial explains an important part of the above. Lethargy because of the delay in taking the decision, and denial because they did not see what the world had been showing them since even before the war: that the lack of supply and the excess demand stimulated by a lax monetary policy, together with the desire to consume post-covid, would end up adjusting on the price side, in the form of a spike, naturally.

The icing on the cake would be the energy disruptions resulting from the war, aggravated by the clumsy decisions taken by some leaders of the "western world".

Inflation, like the genie in the lamp, is very difficult to control when it is released. In fact, central bank actions can only have some effect on demand and not so much on supply, through interest rate hikes and especially, as we see is now the case, by driving household and business expectations downwards, openly conveying the possibility of a recession over the next few quarters.

Hard as it is to believe, this near catastrophic scenario has good things in it.

If there is one skill the market has, it is the ability to immediately reflect future expectations, whether good or bad, and now it is clearly the bad ones. The sharp price decline in many companies seems to be already discounting a very gloomy scenario, which we are likely to see reflected in the economic data of the coming months or quarters, i.e. the possible slowdown or recession that the market is fearful of.

Secondly, the normalization of financial conditions through the existence of positive interest rates is serving to purge all the excesses resulting from many years of an “open bar”, easy money and future promises no matter what was behind them. Speculation versus investment. In general, all those projects whose motto, with more cynicism than honesty, was to change the world regardless of the bottom-line profitability for their shareholders.

History shows that the current turmoil and chaos is usually a good time to separate the wheat (good businesses) from the chaff (bubbles), buying real economy companies, necessary for the true progress of society, which are currently discounting a recession scenario, and are therefore trading at prices well below their true fundamental value. This is the case for all companies under the *Value* philosophy label. It is therefore no coincidence that this segment of companies is outperforming the rest of the market, as is the case with Magallanes’ funds.

Financial assets, specifically the stock market, are a good leading indicator of good or bad economic performance. This is also a positive insofar as we are currently immersed in a real bear market, so that, as history dictates, the stock market recovery tends to start with the publication of the first data on the decline in real activity.

Fear always outweighs fundamentals, so when this happens, as now, it creates great investment opportunities.

This situation has led us, for yet another quarter, to be very active in the portfolios, with the objective of continuing to increase the intrinsic value of the funds, in order to maximise their upside potential.

As a result of recent movements, Magallanes' portfolios are in excellent financial condition, combined with single digit earnings valuation multiples, which historically translate in very good future performance.

There were some new developments during the quarter, mainly in Europe, where we have partially rotated the portfolio towards those sectors most penalised by the current bleak outlook. Such is the case of airlines, which are also going through their own particular turbulence in the short term due to staffing bottlenecks. Within this sector we have bought Europe's most efficient low-cost airline, **Wizz Air**.

Another new entry into the European fund was **HeidelbergCement**, in the cement industry which we know well from past investments. Cement, which is the second most consumed material in the world after water, and whose contribution to the progress of society cannot be questioned, is under a perfect storm due to the aforementioned risk of recession. This translates into historically low valuations, coupled with extraordinarily strong balance sheets, making **HeidelbergCement** in particular, and the cement sector in general, a good investment opportunity for the future, just in time for the storm to abate.

The acquisitions of French automotive components company **Faurecia**, logistics and forklift leader **Kion** and global bearings leader **SKF** round out the other new names added to the European portfolio. The current low share prices have given us the opportunity to enter real world-class companies in their respective sectors.

On the sales side, it is worth highlighting the total sale of **Nutrien** and **GBL**, both reaching their respective target prices, with a cumulative gain of more than +80% for both companies.

In Iberia, we also increased exposure to stocks penalised by the market, taking advantage of the current low-price environment, such as **IAG**, **Prosegur**, **Applus** and **Metrovacesa**. On the other hand, we reduced part of our exposure to **Sonae** and sold **Ramada** as it reached its target price, with a revaluation of close to +100%.

In the Microcaps fund, we added the Italian family-owned cement company **Cementir**, the world leader in gas springs and shock absorbers **Stabilus SA** and, finally, the Spanish cash management company **Prosegur Cash**. On the sell side, we fully sold **MPC Container Ships** with a cumulative gain of +150% as well as the French refining company **ESSO SAF** after a gain of close to +60%.

Thank you

We are committed to the protection and search for opportunities for the assets invested with us, and we remain as always at your disposal and service, helping you in everything you need through any of the Magallanes contact channels.

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

Yours sincerely,

Iván Martín Aránguez, CFA
Chief Investment Officer

MAGALLANES

VALUE INVESTORS

ANNEX. RETURNS BY FUND AND CLASS as of 30/06/2022

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"	144,1278	**-1,77%**	**-2,44%**	**-0,74%**	**-2,44%**	**18,69%**	**-12,92%**	**6,02%**	**-9,22%**	**15,45%**	**15,48%**	**8,04%**	**39,77%**	94,9%
Iberian benchmark		-1,84%	-2,37%	-0,42%	-2,37%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-5,73%	5,40%	
Magallanes Iberian Equity FI "P"	149,5609	**-1,65%**	**-2,20%**	**-0,24%**	**-2,20%**	**19,28%**	**-12,48%**	**6,55%**	**-8,76%**	**16,03%**	**16,09%**	**6,32%**	**42,14%**	94,9%
Iberian benchmark		-1,84%	-2,37%	-0,42%	-2,37%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-11,27%	-1,01%	
Magallanes Iberian Equity FI "E"	158,1492	**-1,47%**	**-1,84%**	**0,51%**	**-1,84%**	**20,18%**	**-11,83%**	**7,35%**	**-8,07%**	**16,91%**	**16,91%**	**12,72%**	**58,15%**	94,9%
Iberian benchmark		-1,84%	-2,37%	-0,42%	-2,37%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	2,57%	15,02%	

[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"	125,4560	**-2,10%**	**-3,09%**	**-1,70%**	**-3,09%**	**17,93%**	**-13,94%**	**5,68%**	**-9,61%**	**14,79%**	**16,33%**	**-**	**25,46%**	98,2%
Iberian benchmark		-1,84%	-2,37%	-0,42%	-2,37%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	10,37%	
Magallanes Iberian Equity Lux "I"	129,8088	**-1,97%**	**-2,83%**	**-1,17%**	**-2,83%**	**18,53%**	**-13,51%**	**6,21%**	**-9,14%**	**15,42%**	**16,99%**	**-**	**29,81%**	98,2%
Iberian benchmark		-1,84%	-2,37%	-0,42%	-2,37%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	10,37%	

[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"	155,6464	**-8,09%**	**-4,52%**	**-3,36%**	**-4,52%**	**23,49%**	**-3,30%**	**21,48%**	**-19,19%**	**19,52%**	**12,89%**	**3,47%**	**56,26%**	97,5%
European benchmark		-9,00%	-13,84%	-6,54%	-13,84%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,42%	33,42%	
Magallanes European Equity FI "P"	161,5688	**-7,97%**	**-4,29%**	**-2,87%**	**-4,29%**	**24,11%**	**-2,81%**	**22,09%**	**-18,78%**	**20,12%**	**13,45%**	**4,23%**	**62,60%**	97,5%
European benchmark		-9,00%	-13,84%	-6,54%	-13,84%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,43%	33,44%	
Magallanes European Equity FI "E"	170,8220	**-7,80%**	**-3,93%**	**-2,14%**	**-3,93%**	**25,04%**	**-2,08%**	**23,01%**	**-18,17%**	**21,02%**	**14,31%**	**4,29%**	**70,82%**	97,5%
European benchmark		-9,00%	-13,84%	-6,54%	-13,84%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	9,77%	45,85%	

[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"	145,8548	**-8,29%**	**-4,57%**	**-3,36%**	**-4,57%**	**23,17%**	**-3,82%**	**20,89%**	**-19,43%**	**19,11%**	**18,30%**	**-**	**55,16%**	98,2%
European benchmark		-9,00%	-13,84%	-6,54%	-13,84%	25,13%	-3,32%	26,05%	-10,57%	10,24%	9,39%	-	41,69%	
Magallanes European Equity Lux "I"	150,8408	**-8,17%**	**-4,32%**	**-2,84%**	**-4,32%**	**23,80%**	**-3,33%**	**21,50%**	**-19,00%**	**19,76%**	**27,76%**	**-**	**72,41%**	98,2%
European benchmark		-9,00%	-13,84%	-6,54%	-13,84%	25,13%	-3,32%	26,05%	-10,57%	10,24%	19,66%	-	54,99%	
Magallanes European Equity Lux "P"	154,3463	**-8,09%**	**-4,15%**	**-2,50%**	**-4,15%**	**24,26%**	**-2,96%**	**21,96%**	**-18,70%**	**20,16%**	**12,08%**	**-**	**54,35%**	98,2%
European benchmark		-9,00%	-13,84%	-6,54%	-13,84%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	-	32,87%	
Magallanes European Equity Lux "ING"	107,0800	**-6,39%**	**-1,77%**	**-2,44%**	**-1,77%**	**16,14%**	**2,15%**	**14,72%**	**-19,91%**	**-**	**-**	**-**	**7,08%**	98,2%
European benchmark		-7,30%	-11,66%	-6,28%	-11,66%	17,37%	-3,32%	26,05%	-10,57%	-	-	-	11,76%	

[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"	125,7995	**-6,28%**	**-10,34%**	**-1,07%**	**-10,34%**	**45,60%**	**-0,61%**	**10,59%**	**-21,98%**	**12,37%**	**-**	**-**	**25,80%**	91,8%
European benchmark		-13,49%	-21,56%	-19,37%	-21,56%	25,67%	18,66%	22,39%	-13,38%	8,14%	-	-	34,10%	
Magallanes Microcaps Europe, FI "C"	123,4168	**-6,35%**	**-10,46%**	**-1,35%**	**-10,46%**	**45,10%**	**-1,16%**	**10,10%**	**-22,18%**	**7,81%**	**-**	**-**	**18,62%**	91,8%
European benchmark		-13,49%	-21,56%	-19,37%	-21,56%	25,67%	18,66%	22,39%	-13,38%	7,22%	-	-	32,95%	

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