2nd Quarterly Letter to Investors
30/06/2024
MAGALLANES VALUE INVESTORS, S.A. SGIIC

Dear Investor,

Performance for the first half of 2024 has been **+3.6%** for the European fund, **+12.6%** for the Iberian fund and +**4.8%** for the Microcaps fund. Since inception, accumulated returns are **+126.0%**, **+83.9%** and **+51.1%** respectively[1], outperforming their respective benchmarks.

Equity markets continue to perform positively throughout the year, supported mainly by global economic growth forecasts above 3% for this year and next.

However, there are divergences across regions, with weak forecasts in economies such as Europe versus stronger growth in the US, as well as in other emerging market economies.

The weakest link in Europe remains Germany, whose economy is slowly recovering from the downturn experienced in the second half of 2023. Growth in 2024 is expected to be very modest (around +0.2%). Germany, as Europe's leading exporter, is particularly suffering from the tight monetary policy of the major Central Banks, which is dampening demand for capital goods. In addition, the latest trade tensions with China due to higher tariffs on Chinese electric vehicles could be a further setback for the German country, and thus Europe.

Another setback for the continent, at least in the short term, is the political uncertainty arising from the recent European Parliament elections, as well as the possible impact on financial markets in the difficult situation after the French elections.

Why is Europe not catching up with the US?

There is ample evidence of the rift between two of the world's major economic powers in recent years, the US and Europe. With a similar population of 330 million Americans versus 440 million Europeans, and almost identical sizes of wealth in 2007, around 14.5 trillion dollars of GDP, today, 16 years later, the US economy has almost doubled in size to 27.5 trillion dollars compared to Europe's meagre 25% accumulated during that period.

Obviously the financial markets have echoed this. The overperformance of the American stock market compared to the European one has been a constant year after year, reaching truly surprising levels. Among many anecdotes, the US chipmaker NVIDIA reached $3.3 trillion in market size, surpassing the value of all listed companies in Germany, France and the UK[2].

The various social and economic policies pursued by the different world regions over the last few years have had much to do with this, painting an international economic picture

[1] See Annex 1 for further details of performance by investment strategy, inception date and class.
[2] https://www.cnbc.com/2024/06/20/nvidia-tops-the-stock-market-values-of-germany-france-and-the-uk.html.

sadly caricatured by the saying "America innovates, China replicates and Europe regulates".

In view of the data, it seems that over-regulation, as well as its sometimes damaging consequences, has led to Europe's continued competitive disadvantage on the international stage. This in turn translates into a decline in the purchasing power and welfare of its citizens in different metrics, for example, the average American wage is almost twice as high as the average European wage.

Some examples of this would be the ban on the sale of internal combustion cars from 2035 onwards without first exploring other technological possibilities beyond pure electrification, for example by promoting the use of synthetic fuels currently on the market. Another example would be the whole energy transition towards almost exclusively renewable sources of generation, neglecting along the way the importance of a stable, secure and affordable supply. All this has had terrible consequences in the form of very high energy costs for both households and businesses based in Europe.

More examples, equally damaging have been the CO_2 allowance mechanism applicable to companies based on the continent for sectors such as steel or cement that have to compete in global markets not subject to such regulatory measures.

Without going into environmental assessments, European regulation has led to paradoxes that are difficult to understand, such as that caused by the ban on the extraction of natural gas through hydrofracking on European territory at the same time as contracts have been signed to supply American gas extracted with this same technology. The same technology that has led to the prosperity of the US in terms of energy self-sufficiency in recent years. It is ironic indeed.

Faced with this, some European companies are thinking of changing jurisdiction or are forced to take more extreme decisions such as closing production capacity forever. We have seen the case of the world's largest chemical company, Germany's BASF, announcing the closure of 10% of its ammonium production capacity at its legendary Ludwigshafen plant while at the same time promoting the largest investment project in its history in China, estimated at some 10 billion dollars, which will increase its exposure to the Asian country from the current 13% to 20% of its sales.

Be that as it may, the EU's regulatory decisions seem to have been aimed more at projecting an image of global morality and political correctness, rather than focusing on the real welfare and progress of its citizens and businesses. This has resulted in measures that, instead of favouring Europe's internal development as a region, have generated contradictory effects, calling into question the effectiveness of such regulations in meeting their stated objectives.

This can also be seen in the field of innovation, where of the 50 most representative technology companies in the world, only four are European. This is hard to understand for a region with a market size per population that exceeds that of the United States, with a technical capacity of top-level professionals and a network of world-class European business schools.

Perhaps, when you think of the multiple challenges facing any European company from any EU member state: different regulations, taxation, prohibitions and even different languages, then many things become clear. In reality, we are faced with an inoperative "single market", which frustrates some of the very foundations of the creation of the European Union - bigger, more market and more scale.

Over-regulation coupled with little local interest by individual member states to give up their share of power in favour of the Union is possibly behind the missed opportunity so far, leaving Europe missing the boat on economic and social progress in the new world order.

But in extremes lie opportunity, the value of change and survival.

We have not discovered anything new with the above reflection, something that even the Commission's leaders recognise. In September 2023, during her State of the Union address, the President of the European Commission, Ursula von der Leyen, announced that she had commissioned Mario Draghi to produce a report on the competitiveness of the European Union. Although this report has not yet been made public, much of its content is already known through Draghi's comments and lectures, such as his speech at the High Level Conference on the European Pillar of Social Rights, held in Brussels last April[3].

The common denominator of these initiatives is the implementation of the necessary transformative measures that must be geared towards establishing a strategy that protects our traditional industries in the new world economic order without imposing obstacles, guaranteeing regulatory and legal stability, as well as cheap and secure access to energy. We must also take advantage of the scale effect thanks to the size of the European market, from a common defence policy to telecommunications infrastructures, via different sectors of the European industrial fabric.

Despite all this, and surprising as it may seem, European companies have not only survived, but have managed to excel. In the almost ten years of our European fund's existence, the cumulative total return has been +126%, despite a relatively hostile political environment, with wars, Brexit, sovereign state crises, and one of the biggest pandemics in recent history. All this has occurred alongside the rise of various populist parties of extreme ignorance in their postulates. Imagine, then, the potential for returns over the next ten years in a more sensible European political environment focused on what really matters. It is not unreasonable.

European companies that have moved ahead have developed a valuable skill: the ability to adapt and survive. There are many examples of this. When energy prices are high, they economise on other costs by improving the efficiency of other processes. If one market closes, they seek to open a new one. If financing is a problem, they pay more attention to the generation and use of cash flow.

A clear example is European banking, which was on the verge of extinction for almost a decade, shrinking to a trickle. Two years ago we discussed our position on European banking, highlighting how the best prepared learned to survive and thrive in a hostile

[3] https://legrandcontinent.eu/es/2024/04/16/un-cambio-radical-es-necesario-la-union-revisada-por-mario-draghi/

environment. Today, European banking is one of the best performing sectors on the stock market, thanks to its ability to adapt, which has allowed it to generate good financial results and generous shareholder returns.

The same is true of many other companies in Europe, most of them industrial companies, which have adapted to living at a disadvantage compared to their international competitors: car manufacturers, cement, steel, paper, oil, chemicals and airlines, among others. Many of these companies are included in our funds.

The stock market is constantly discounting the future based on information available in the present. However, when the current situation is at extremes of either optimism or pessimism, as is currently the case in Europe, the market is also influenced by perceptions or value judgements. These perceptions, such as "Europe can never be like the United States", can divert valuations from their rational basis.

Currently, valuations of Europe show a discount of more than 40% compared to the US, suggesting that many of the negatives are already reflected in European market prices. This situation indicates a lack of confidence among the investment community about Europe. However, this extreme pessimism creates significant opportunities for those investors able to identify and exploit discrepancies between market perception, which is not always accurate, and underlying reality.

The abundance of negativity, partly justified by the external merits of countries such as the US and the EU's own missteps, but also based on overly pessimistic perceptions, carries an unusual risk: the possibility that Europe may surprise favourably in the future. Those who choose to stay out of Europe at this time could miss out on significant potential returns in the not too distant future.

For our funds in particular, valuations are even more attractive, trading at 9 times forward earnings combined with a dividend yield in excess of 5% is a considerable opportunity. In view of all this, there is no reason to believe that we will not achieve very different returns in the future to those achieved so far.

Movements during the second quarter

In the European fund's portfolio, it is worth highlighting the incorporation of the Belgian manufacturer of specialised chemical products, **Syensqo**, a high value-added product that is very present in our daily lives, for example, 80% of aircraft use its components, as well as 45% of electric and hybrid cars, it is also present in 80% of the packaging for medicines or in 25% of the shampoos we use daily, among many other applications.

In addition, we have also increased exposure to existing stocks in our portfolio such as **Anglo American**, **Aker BP** and **Porsche AG** among others. On the sell side, we have marginally reduced our exposure to European banks such as **Unicredit**, **ING** or **Commerzbank** as well as the copper miner **Antofagasta**, following the strong revaluations in these stocks.

In the Iberian fund, the most important development was the purchase of **Acerinox**, a world leader in the manufacture of stainless steel. We also increased our weighting in existing stocks in the portfolio such as **Prosegur Cash**, **IAG** and **NOS**. On the sell side, it is worth noting the acceptance of the takeover bid for **Applus Services** at EUR 12.78 per share, which implies a cumulative gain of over +60% after a full year since the first bid for the company at EUR 9.50, about which we wrote just in the summer of last year that "it is insufficient as it does not reflect the fundamental value of the company, which should clearly be well above EUR 10, so any bid that seriously aspires to take control of the company should go in that direction". Patience and conviction in our ideas generate satisfactory results.

In the same vein, it is worth noting **BBVA**' s takeover bid for **Banco Sabadell**, an offer that confirms the level of undervaluation that we identified in January this year when we started buying shares in the target bank. We have not taken any decision on this for the time being, but we believe that there are arguments to justify an improvement in the offer.

Finally, in the Microcaps fund, we have continued to increase our exposure to leading UK brick manufacturer **Ibstock Plc**, as well as **PRIM** and **Stabilus**. On the other hand, we have reduced some exposure to Italian industrial gases company **Sol Spa** following its strong stock market performance.

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

Yours sincerely,

Iván Martín Aránguez, CFA
Chief Investment Officer

ANNEX 1. RETURNS BY FUND AND CLASS as of 30/06/2024.

MAGALLANES IBERIAN EQUITY, FI

FUND	NAV	3 M	12 M	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity FI "M"	184,6450	**3,72%**	**14,37%**	**12,35%**	**8,22%**	**-1,82%**	**18,69%**	**-12,92%**	**6,02%**	**-9,22%**	**15,45%**	**15,48%**	**8,04%**	**79,06%**	92,8%
Iberian benchmark		1,13%	12,56%	5,97%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-5,73%	46,83%	
Magallanes Iberian Equity FI "P"	193,5325	**3,85%**	**14,94%**	**12,63%**	**8,36%**	**-1,33%**	**19,28%**	**-12,48%**	**6,55%**	**-8,76%**	**16,03%**	**16,09%**	**6,32%**	**83,93%**	92,8%
Iberian benchmark		1,13%	12,56%	5,97%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-11,27%	37,82%	
Magallanes Iberian Equity FI "E"	207,7410	**4,04%**	**15,81%**	**13,05%**	**8,56%**	**-0,58%**	**20,18%**	**-11,83%**	**7,35%**	**-8,07%**	**16,91%**	**16,91%**	**12,72%**	**107,74%**	92,8%
Iberian benchmark		1,13%	12,56%	5,97%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	2,57%	60,11%	

[1] Class M 29/01/2015; Class P 26/02/2015; Class E 09/01/2015. Returns net of fees. Iberian benchmark: 80% MSCI Spain Net TR + 20% MSCI Portugal Net TR.

MAGALLANES VALUE INVESTORS UCITS IBERIAN EQUITY – LUXEMBOURG

FUND	NAV	3 M	12 M	YTD	2023	2022	2021	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity Lux "R"	160,9586	3,55%	14,65%	12,10%	8,19%	-2,40%	17,93%	-13,94%	5,68%	-9,61%	14,79%	16,33%	-	60,96%	92,2%
Iberian benchmark		1,13%	12,56%	5,97%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	54,67%	
Magallanes Iberian Equity Lux "I"	168,3508	3,69%	15,27%	12,40%	8,34%	-1,87%	18,53%	-13,51%	6,21%	-9,14%	15,42%	16,99%	-	68,35%	92,2%
Iberian benchmark		1,13%	12,56%	5,97%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	54,67%	

[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	12 M	YTD	2023	2022	2021	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity FI "M"	214,1473	**-2,58%**	**9,61%**	**3,33%**	**12,74%**	**4,94%**	**23,49%**	**-3,30%**	**21,48%**	**-19,19%**	**19,52%**	**12,89%**	**3,47%**	**115,00%**	90,8%
European benchmark		1,32%	13,68%	9,05%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,42%	77,04%	
Magallanes European Equity FI "P"	224,5312	**-2,45%**	**10,16%**	**3,58%**	**12,88%**	**5,47%**	**24,11%**	**-2,81%**	**22,09%**	**-18,78%**	**20,12%**	**13,45%**	**4,23%**	**125,97%**	90,8%
European benchmark		1,32%	13,68%	9,05%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,43%	77,06%	
Magallanes European Equity FI "E"	240,9804	**-2,27%**	**10,99%**	**3,97%**	**13,09%**	**6,26%**	**25,04%**	**-2,08%**	**23,01%**	**-18,17%**	**21,02%**	**14,31%**	**4,29%**	**140,98%**	90,8%
European benchmark		1,32%	13,68%	9,05%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	9,77%	93,53%	

[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	12 M	YTD	2023	2022	2021	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity Lux "R"	200,8058	**-2,70%**	**9,54%**	**3,20%**	**12,39%**	**5,20%**	**23,17%**	**-3,82%**	**20,89%**	**-19,43%**	**19,11%**	**18,30%**	**-**	**113,61%**	91,2%
European benchmark		1,32%	13,68%	9,05%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	9,39%	-	88,00%	
Magallanes European Equity Lux "I"	209,9306	**-2,57%**	**10,13%**	**3,47%**	**12,54%**	**5,77%**	**23,80%**	**-3,33%**	**21,50%**	**-19,00%**	**19,76%**	**27,76%**	**-**	**139,95%**	91,2%
European benchmark		1,32%	13,68%	9,05%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	19,66%	-	105,66%	
Magallanes European Equity Lux "P"	216,3182	**-2,48%**	**10,52%**	**3,65%**	**12,64%**	**6,14%**	**24,26%**	**-2,96%**	**21,96%**	**-18,70%**	**20,16%**	**12,08%**	**-**	**116,32%**	91,2%
European benchmark		1,32%	13,68%	9,05%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	-	76,30%	
Magallanes European Equity Lux "ING"	147,5000	**-3,32%**	**9,08%**	**1,37%**	**11,52%**	**12,05%**	**16,14%**	**2,15%**	**14,72%**	**-19,91%**	**-**	**-**	**-**	**47,50%**	91,2%
European benchmark		0,48%	12,32%	6,70%	7,56%	-4,36%	17,37%	-3,32%	26,05%	-10,57%	-	-	-	46,05%	

[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	12 M	YTD	2023	2022	2021	2020	2019	2018	2017 [1]	2016	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Microcaps Europe, FI "B"	151,1078	**2,70%**	**16,19%**	**4,75%**	**6,18%**	**-9,42%**	**45,60%**	**-0,61%**	**10,59%**	**-21,98%**	**12,37%**	**-**	**-**	**51,11%**	94,5%
European benchmark		5,65%	6,34%	4,95%	0,17%	-24,87%	25,67%	18,66%	22,39%	-13,38%	8,14%	-	-	34,36%	
Magallanes Microcaps Europe, FI "C"	147,4496	**2,63%**	**15,87%**	**4,61%**	**6,12%**	**-9,67%**	**45,10%**	**-1,16%**	**10,10%**	**-22,18%**	**7,81%**	**-**	**-**	**41,72%**	94,5%
European benchmark		5,65%	6,34%	4,95%	0,17%	-24,87%	25,67%	18,66%	22,39%	-13,38%	7,22%	-	-	33,21%	

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