MAGALLANES
VALUE INVESTORS

3rd Quarterly Letter to Investors
30/09/2022
MAGALLANES VALUE INVESTORS, S.A. SGIIC

Dear Investor,

Performance during the third quarter of 2022 was -2.7% for the European fund, -9.7% for Iberian and -9.2% for Microcaps.

We are living in unprecedented times and navigating in uncharted waters in view of the social, political and financial events that are unfolding throughout 2022. And this is being reflected in the main world markets, where this year the S&P500 is down -24.8%, the technology index Nasdaq -32.4%, the European STOXX Europe 600 -20.5% and the Ibex35 -15.5%, to name but a few.

In addition to the energy crisis and bottlenecks due to lack of components, the major central banks have accelerated their race to tighten monetary conditions in their attempt to tame inflation, "whatever it takes".

This has brought interest rates above zero at last, even to levels not seen in the last decade. Something that many market participants have not seen during their respective careers. To cite a few cases, the 12-month Euribor, the benchmark par excellence for most mortgage loans in Spain, closed September at levels above 2.556% compared to -0.5% in January of this year. For its part, the 10-year Spanish government bond offers a yield of 3.31%, with the US and the UK being even more striking, with yields on their respective bonds at that term at around 4%.

There is a lot of negative news circulating these days: the prolongation of the war, uncontrolled inflation, slowdown in growth, rising interest rates and fiscal pressure. For example, the OECD recently cut growth for Spain to +1.5% by 2023 and expects Germany to enter recession. All this has a consequent effect on markets, logically in the form of a correction.

In such an environment, the dollar has once again become practically the only safe-haven asset, reaching the highest levels in decades against other currencies, especially the euro and the pound, which have been hitting consecutive lows.

With the exception of the dollar and some types of investment strategies such as Value Investing, all other assets are recording double digit or greater losses for the year. For example, the quintessential financial market standard, the "60/40 portfolios"[1] recorded one of the worst years in their history, with declines of close to -20%.

[1] 60% in equities and 40% in bonds, is the description of the typology of investment funds and portfolios managed for clients with a "moderate" approach to risk, able a priori to extract the best of being invested in both equities and bonds in a diversified and balanced way.

The rise in interest rates brings with it a decline in the stock market, but not only in the stock market, but also in other assets such as bonds or housing, and in general, all kinds of financial instruments whose value today depends on the income they will generate in the coming years.

We are sometimes asked about this relationship between interest rates and other assets. Although the answer may seem simple, it is because of the time value of money theory (a euro today is worth more than a euro tomorrow as long as there is an interest rate), and possibly more relevant now, because of the corrective effect it is having on those assets that benefited most from precisely the opposite situation, i.e. a world of low or non-existent interest rates for a long time, too long, where a euro tomorrow was worth the same or more than a euro today. This phenomenon encouraged the creation of projects, mostly of a technological nature, where almost the only reason for their existence was the promise of generating a lot of money at some point in the (usually very distant) future.

High interest rates mean that the present value of future incomes is worth less today, the less the more (1) these incomes are farther in the future and (2) they cannot be raised or updated periodically. Therefore, one can understand the reason for the very strong corrections we are seeing throughout the year, which are more pronounced in those financial instruments that do not even meet criterion number 1, for the simple reason that many of these assets have no income to discount, but many losses to digest. There is another major factor in the equation, the level of corporate, household and government indebtedness, which obviously adds to the negative effect of such a rate hike through higher financial spending.

The world of low rates has long bred corporate and pseudo-financial malformations, which are now, at last, rapidly adjusting. This is a good thing, and desirable.

It is at this time that the value of active management, capable of significantly distancing itself from the poor performance of its peers and the market in general, becomes particularly important.

We are talking about active management based on a careful selection of companies, with proven business models, led by good management teams and with solid balance sheets. This results in a collection of companies in the portfolio with the capacity to continue to generate high returns in the near future, and therefore to rise significantly once the current dark clouds that are weighing so heavily on the market have passed.

The publication of bad macroeconomic data (basically inflation and economic slowdown) together with the negative expectations of businessmen and consumers are feeding back into this depressed environment.

But, hard as it may be to believe, there are starting to be reasons to be optimistic, for those investors with a sufficiently long term horizon. For example, with inflation being the sword of Damocles at the moment, it is no less true that we are beginning to see a correction in the price of certain commodities, for example copper, aluminium, lumber, soya and even oil to name but a few. There is no better solution to high prices than higher prices, through the "destruction" of demand, precisely because many consumers cannot afford such prices.

In the current highly complicated environment, the funds' portfolios continue to be in excellent financial condition, combined with single-digit earnings valuation multiples, which leads well to the possibility of very good results in the future thanks to one of the highest upside potentials in their history. In addition, the funds maintain a higher than usual level of cash as a result of the rotation we are carrying out in the portfolios.

By way of illustration, a portfolio with a low multiple, say 7x earnings, would be equivalent to an asset with an expected return of +14.3% p.a., not bad in the current environment.

During the third quarter we made some movements in the portfolio with the aim of continuing to increase the intrinsic value of the funds, in order to maximise their future upside potential.

In line with the above, rotation in the portfolios continues to be from companies with good performance, with significant rises so far this year and approaching their target values, to other more penalised companies, where we believe an extremely negative scenario is being discounted. These movements are possible thanks to the active management mentioned above, which results in a balanced portfolio of companies with different performances, allowing us to rotate according to the valuation of each of our portfolio companies.

Thus, in Europe we sold our entire position in **Serco Plc**, after reaching our target price, with a cumulative gain of more than +60%. We also reduced our weighting in shipping companies such as **Euronav** and **Scorpio Tankers**. Part of the funds were used to reweight portfolio companies heavily penalised by the current situation, such as **HeidelbergCement** and **Covestro AG**, among others.

In Iberia, we sold the entire position in **Sonae SPGS** and reweighted **Línea Directa Aseguradora** and **AENA**.

In the Microcaps fund, we reduced exposure in **Orsero Spa** and **IPCO** and reweighted **Peugeot Invest** among others.

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 30/09/2022

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"	130,0339	**-9,78%**	**-11,38%**	**-12,35%**	**-11,98%**	**18,69%**	**-12,92%**	**6,02%**	**-9,22%**	**15,45%**	**15,48%**	**8,04%**	**26,10%**	95,7%
Iberian benchmark		-9,13%	-10,81%	-11,17%	-11,29%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-5,73%	-4,23%	
Magallanes Iberian Equity FI "P"	135,1059	**-9,66%**	**-11,16%**	**-11,91%**	**-11,65%**	**19,28%**	**-12,48%**	**6,55%**	**-8,76%**	**16,03%**	**16,09%**	**6,32%**	**28,40%**	95,7%
Iberian benchmark		-9,13%	-10,81%	-11,17%	-11,29%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-11,27%	-10,06%	
Magallanes Iberian Equity FI "E"	143,1345	**-9,49%**	**-10,82%**	**-11,24%**	**-11,16%**	**20,18%**	**-11,83%**	**7,35%**	**-8,07%**	**16,91%**	**16,91%**	**12,72%**	**43,13%**	95,7%
Iberian benchmark		-9,13%	-10,81%	-11,17%	-11,29%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	2,57%	4,51%	

[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"	113,5730	**-9,47%**	**-11,37%**	**-12,78%**	**-12,27%**	**17,93%**	**-13,94%**	**5,68%**	**-9,61%**	**14,79%**	**16,33%**	**-**	**13,57%**	95,7%
Iberian benchmark		-9,13%	-10,81%	-11,17%	-11,29%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	0,29%	
Magallanes Iberian Equity Lux "I"	117,6725	**-9,35%**	**-11,13%**	**-12,31%**	**-11,91%**	**18,53%**	**-13,51%**	**6,21%**	**-9,14%**	**15,42%**	**16,99%**	**-**	**17,67%**	95,7%
Iberian benchmark		-9,13%	-10,81%	-11,17%	-11,29%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	0,29%	

[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"	151,2604	**-2,82%**	**-10,68%**	**-7,46%**	**-7,21%**	**23,49%**	**-3,30%**	**21,48%**	**-19,19%**	**19,52%**	**12,89%**	**3,47%**	**51,86%**	89,6%
European benchmark		-4,11%	-12,74%	-11,04%	-17,38%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,42%	27,94%	
Magallanes European Equity FI "P"	157,2139	**-2,70%**	**-10,45%**	**-6,99%**	**-6,87%**	**24,11%**	**-2,81%**	**22,09%**	**-18,78%**	**20,12%**	**13,45%**	**4,23%**	**58,22%**	89,6%
European benchmark		-4,11%	-12,74%	-11,04%	-17,38%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,43%	27,95%	
Magallanes European Equity FI "E"	166,5323	**-2,51%**	**-10,11%**	**-6,29%**	**-6,34%**	**25,04%**	**-2,08%**	**23,01%**	**-18,17%**	**21,02%**	**14,31%**	**4,29%**	**66,53%**	89,6%
European benchmark		-4,11%	-12,74%	-11,04%	-17,38%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	9,77%	39,85%	

[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"	141,0794	**-3,27%**	**-11,29%**	**-7,92%**	**-7,70%**	**23,17%**	**-3,82%**	**20,89%**	**-19,43%**	**19,11%**	**18,30%**	**-**	**50,08%**	93,4%
European benchmark		-4,11%	-12,74%	-11,04%	-17,38%	25,13%	-3,32%	26,05%	-10,57%	10,24%	9,39%	-	35,86%	
Magallanes European Equity Lux "I"	146,0989	**-3,14%**	**-11,05%**	**-7,42%**	**-7,33%**	**23,80%**	**-3,33%**	**21,50%**	**-19,00%**	**19,76%**	**27,76%**	**-**	**66,99%**	93,4%
European benchmark		-4,11%	-12,74%	-11,04%	-17,38%	25,13%	-3,32%	26,05%	-10,57%	10,24%	19,66%	-	48,62%	
Magallanes European Equity Lux "P"	149,6261	**-3,06%**	**-10,90%**	**-7,10%**	**-7,08%**	**24,26%**	**-2,96%**	**21,96%**	**-18,70%**	**20,16%**	**12,08%**	**-**	**49,63%**	93,4%
European benchmark		-4,11%	-12,74%	-11,04%	-17,38%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	-	27,40%	
Magallanes European Equity Lux "ING"	105,7900	**-1,20%**	**-7,52%**	**-5,30%**	**-2,95%**	**16,14%**	**2,15%**	**14,72%**	**-19,91%**	**-**	**-**	**-**	**5,79%**	93,4%
European benchmark		-2,25%	-9,38%	-9,17%	-13,64%	17,37%	-3,32%	26,05%	-10,57%	-	-	-	9,25%	

[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"	114,2312	**-9,20%**	**-14,90%**	**-12,86%**	**-18,59%**	**45,60%**	**-0,61%**	**10,59%**	**-21,98%**	**12,37%**	**-**	**-**	**14,23%**	90,3%
European benchmark		-10,48%	-22,56%	-28,08%	-29,78%	25,67%	18,66%	22,39%	-13,38%	8,14%	-	-	20,04%	
Magallanes Microcaps Europe, FI "C"	111,9864	**-9,26%**	**-15,02%**	**-13,10%**	**-18,76%**	**45,10%**	**-1,16%**	**10,10%**	**-22,18%**	**7,81%**	**-**	**-**	**7,63%**	90,3%
European benchmark		-10,48%	-22,56%	-28,08%	-29,78%	25,67%	18,66%	22,39%	-13,38%	7,22%	-	-	19,02%	

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