



3rd Quarterly Letter to Investors

30/09/2023

MAGALLANES VALUE INVESTORS, S.A. SGIC

Dear Investor,

Accumulated returns for the year are **+16.4%** for the European fund, **+13.3%** for the Iberian fund and **+4.6%** for the Microcaps fund. Since inception, accumulated returns are **+108.5%**, **+62.5%** and **+32.9%** respectively¹, outperforming their respective benchmarks.

During the third quarter of the year a large part of the market's attention has been focused on the risks of economic recession and the duration of the current restrictive monetary policy. Regarding the former, and with the latest OECD² estimates, global growth is expected to be +3% this year and +2.7% next year, with India and China leading the way with growth above +5%, and Germany trailing with a -0.2% decrease this year and a modest +0.9% in 2024.

In the Eurozone, +0.6% in 2023 and +1.1% in 2024 are estimated. Based on these data, and trusting in the predictive power of this body, except in the particular case of Germany, it seems that we could be in an environment of a certain economic slowdown rather than a recessionary environment. On the other hand, a consensus is emerging among the various market players on the existence of an environment of high interest rates for longer than initially expected, especially after comments on the persistence of inflation from the various central banks.

In this context, fixed income assets are performing very negatively in price, even more so as their duration increases. In a move unprecedented in many years, ten-year government bond yields in the US, Germany and Spain rose to 4.6%, 2.8% and 3.9% respectively, levels not seen in more than a decade. The stock market experienced slight declines, but these were insignificant compared to the strong movement in bonds, which is noteworthy given the historical correlation between the two assets.

Opportunities in an uneven market

Part of the explanation can be found in the strength of the US stock market and specifically in the technology sector, so much so that some analysts are beginning to refer to the S&P7 index (also known as the Magnificent Seven because of the companies that make it up) as opposed to the S&P493³, which would include the rest of the American listed companies within the emblematic S&P500 index. Such is the discrepancy in performance that the former rises by more than +50% over the year while the latter barely achieves a positive return.

In more general terms, the American stock market has reached such a level of (excessive?) valuation that the weight of its shares within the rest of the markets in a global index such

¹ See Annex 1 for further details of performance by investment strategy, inception date and class.

² <https://www.oecd.org/economic-outlook/september-2023/>

³ <https://www.businessinsider.nl/chart-of-the-day-the-sp-500s-top-7-stocks-have-soared-more-than-50-in-2023-while-everything-else-is-basically-flat/>



as the MSCI All Countries World Index reaches practically two thirds of this⁴, which is shocking when one observes that the American economy represents around 25% of the world's GDP. As a reference, the United Kingdom, with a weight in world GDP of around 3%, represents 3.5% of the index, or the Eurozone itself, even more extreme, barely reaches 10% of the index, while its economy represents around 15% of the world total.

There is no doubt that an important part of this very high relevance at a global level may be due to the merits of a country like the USA (good economic and social policies, progress and productivity, private property...) but it seems that there is another part of the equation that can only be explained by the desire of certain investors to own US shares regardless of the price to be paid for them, to the point of creating real valuation bubbles. In line with the above references, the price/earnings ratio of the US stock market is around 30 times compared to 10 times for the British or European stock markets.

Thus, except in the case of the US stock market, the fear of recession together with a restrictive monetary policy based on withdrawing liquidity from the system and raising rates is causing an increase in risk aversion. The big losers are the European stock market as a whole, small and medium-sized companies, emerging markets and companies related to the economic cycle, to such an extent that many of these assets are trading at historic lows in terms of price and valuation.

The good news is that, like two sides of a coin, it is often the case that for every market bubble that is created there is also another side made up of cheap and forgotten companies. These and other valuation asymmetries allow managers like us to identify buying opportunities in good businesses at low prices.

Movements during the second quarter

In Europe we have reweighted positions in the energy sector, adding weight in the Norwegian oil company **Aker BP** and the oil drilling company **Shelf Drilling**. We also increased our exposure to the Dutch lighting company **Signify**, the Finnish company **Nokia** and the chemical and fertiliser company **OCI NV**. On the sell side, we partially reduced exposure in German cement maker **Heidelberg Materials** and Italian bank **Unicredit**. In Iberia, the most significant movement was to increase our position in **Almirall** and trim our weighting in **Logista**. In the Microcaps fund, we received a takeover bid for the Norwegian traffic management company **Q-Free** at a premium of +100% to its pre-offer price.

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

Sincerely yours,

Iván Martín Aránguez, CFA
Chief Investment Officer

⁴ <https://www.msci.com/documents/10199/8d97d244-4685-4200-a24c-3e2942e3adeb>

MAGALLANES



VALUE INVESTORS

ANNEX 1. RETURNS BY FUND AND CLASS as of 30/09/2023.

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"	163,7474	1,42%	4,31%	25,93%	12,89%	-1,82%	18,69%	-12,92%	6,02%	-9,22%	15,45%	15,48%	8,04%	58,80%	96,8%
Iberian benchmark		-0,17%	4,24%	29,61%	15,96%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-5,73%	24,13%	
Magallanes Iberian Equity FI "P"	170,9872	1,55%	4,57%	26,56%	13,31%	-1,33%	19,28%	-12,48%	6,55%	-8,76%	16,03%	16,09%	6,32%	62,50%	96,8%
Iberian benchmark		-0,17%	4,24%	29,61%	15,96%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-11,27%	16,58%	
Magallanes Iberian Equity FI "E"	182,5119	1,74%	4,96%	27,51%	13,95%	-0,58%	20,18%	-11,83%	7,35%	-8,07%	16,91%	16,91%	12,72%	82,51%	96,8%
Iberian benchmark		-0,17%	4,24%	29,61%	15,96%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	2,57%	35,46%	

¹ Class M 29/01/2015; Class P 26/02/2015; Class E 09/01/2015. Returns net of fees. Iberian benchmark: 80% Ibx35 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"	142,3426	1,39%	4,13%	25,33%	12,66%	-2,40%	17,93%	-13,94%	5,68%	-9,61%	14,79%	16,33%	-	42,34%	98,2%
Iberian benchmark		-0,17%	4,24%	29,61%	15,96%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	29,98%	
Magallanes Iberian Equity Lux "I"	148,2792	1,53%	4,41%	26,01%	13,11%	-1,87%	18,53%	-13,51%	6,21%	-9,14%	15,42%	16,99%	-	48,28%	98,2%
Iberian benchmark		-0,17%	4,24%	29,61%	15,96%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	29,98%	

¹ Class R 31/12/2015; Class I 31/12/2015. Returns net of fees. Iberian benchmark: 80% Ibx35 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 ¹	2015 ¹	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity FI "M"	198,3302	1,52%	2,83%	31,12%	15,93%	4,94%	23,49%	-3,30%	21,48%	-19,19%	19,52%	12,89%	3,47%	99,12%	89,0%
European benchmark		-2,06%	0,20%	19,22%	8,83%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,42%	52,53%	
Magallanes European Equity FI "P"	207,1694	1,65%	3,09%	31,78%	16,37%	5,47%	24,11%	-2,81%	22,09%	-18,78%	20,12%	13,45%	4,23%	108,50%	89,0%
European benchmark		-2,06%	0,20%	19,22%	8,83%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,43%	52,54%	
Magallanes European Equity FI "E"	221,1007	1,84%	3,48%	32,77%	17,02%	6,26%	25,04%	-2,08%	23,01%	-18,17%	21,02%	14,31%	4,29%	121,10%	89,0%
European benchmark		-2,06%	0,20%	19,22%	8,83%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	9,77%	66,73%	

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"	186,1989	1,57%	3,03%	31,98%	15,80%	5,20%	23,17%	-3,82%	20,89%	-19,43%	19,11%	18,30%	-	98,07%	88,7%
European benchmark		-2,06%	0,20%	19,22%	8,83%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	9,39%	-	61,97%	
Magallanes European Equity Lux "I"	193,8745	1,71%	3,31%	32,70%	16,27%	5,77%	23,80%	-3,33%	21,50%	-19,00%	19,76%	27,76%	-	121,60%	88,7%
European benchmark		-2,06%	0,20%	19,22%	8,83%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	19,66%	-	77,19%	
Magallanes European Equity Lux "P"	199,2506	1,80%	3,50%	33,17%	16,58%	6,14%	24,26%	-2,96%	21,96%	-18,70%	20,16%	12,08%	-	99,25%	88,7%
European benchmark		-2,06%	0,20%	19,22%	8,83%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	-	51,89%	
Magallanes European Equity Lux "ING"	139,1100	2,88%	2,12%	31,50%	13,88%	12,05%	16,14%	2,15%	14,72%	-19,91%	-	-	-	39,11%	88,7%
European benchmark		-1,00%	-1,08%	17,84%	6,40%	-4,36%	17,37%	-3,32%	26,05%	-10,57%	-	-	-	28,74%	

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"	132,8795	2,17%	-1,54%	16,33%	4,55%	-9,42%	45,60%	-0,61%	10,59%	-21,98%	12,37%	-	-	32,88%	94,2%
European benchmark		-4,69%	-6,39%	0,32%	-6,23%	-24,87%	25,67%	18,66%	22,39%	-13,38%	8,14%	-	-	20,43%	
Magallanes Microcaps Europe, FI "C"	129,9280	2,10%	-1,67%	16,02%	4,35%	-9,67%	45,10%	-1,16%	10,10%	-22,18%	7,81%	-	-	24,88%	94,2%
European benchmark		-4,69%	-6,39%	0,32%	-6,23%	-24,87%	25,67%	18,66%	22,39%	-13,38%	7,22%	-	-	19,40%	

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