3rd Quarterly Letter to Investors
30/09/2024
MAGALLANES VALUE INVESTORS, S.A. SGIIC

Dear Investor,

Performance for the first nine months of 2024 has been **+1.8%** for the **European** fund, **+17.2%** for the **Iberian** fund and **+2.6%** for the **Microcaps** fund. Since inception, accumulated returns are **+122.2%**, **+91.4%** and **+47.9%** respectively[1], outperforming their respective benchmarks.

Volatility has been the protagonist during the summer months, especially at the end of July and the beginning of August when the main stock market indices fell sharply, with the Japanese stock market falling by nearly 13% in a single day, only to rise by 10% the following day. Nevertheless, the end result is that virtually all indices returned to levels not dissimilar to the close of the previous quarter.

There are many possible factors behind these movements, which we could summarise as some of the following: the risk of a pronounced slowdown in the economies of the main global powers, with special emphasis on China, the change in monetary policy, the resurgence of tariff wars between different world economic powers or the intensification and potential military escalation of the current wars between countries.

In addition, there are specific particularities in certain regions, as is the case in Europe, where Germany, once the locomotive of the European bloc, is struggling to remain at the back of the pack, with an expected fall in GDP of -0.3% this year. There are many comments and reports that question the German production model, which does not seem to be up to the new rules of the world trade game, in view of the loss of competitiveness observed in recent years. Higher energy and wage costs, less technological innovation and excessive and sometimes self-harming legislation are the sword of Damocles behind this loss of market share, with a direct effect on the European economy.

The 'Draghi report'[2] published in September attempts to provide some guidelines for relaunching the European economy in the new world order. The report proposes a significant change in EU economic policy. It focuses on four main areas, innovation, decarbonisation, competitiveness and national security, which would imply investment needs of 800 billion euros per year, almost 5% of European GDP.

It is an extensive and detailed 400-page report that proposes a series of ambitious measures, whose potential for implementation could have a positive impact on the Europe of the future[3].

[1] See Annex 1 for further details of performance by investment strategy, inception date and class.
[2] https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en#paragraph_47059
[3] https://magallanesvalue.com/wp-content/uploads/MAGALLANES-CARTA-2T24.pdf

We will be watching the response of the competent authorities, both the German government and the new European Competition Commission, to the intention of the Italian bank **UniCredit** to acquire its German counterpart **Commerzbank**, of which it already controls 21% of the capital. We view this transaction highly favourably, given our role as shareholders in both entities, as it would contribute to the creation of a major European player, clearly benefiting customers, employees, regulators and shareholders.

Maximums and Minimums. Expectations and Realities.

It is curious to note how, despite the fact that most stock market indices are at all-time highs, some specific sectors are touching lows. This is the case, for example, in Europe, of the shares of companies linked to cyclical sectors, such as the production of consumer goods (automobiles), raw materials (such as steel or copper), energy (oil companies) and chemical products, among others, which have experienced significant falls. In general, this has been the case for all types of industrial companies that offer value-added products to their customers and users.

To some extent it makes sense that these companies, sensitive to the fluctuations of the economic cycle, are more affected by an economic slowdown, as this temporarily reduces the demand for their products, impacting negatively on their financial results. And it still makes sense that as a consequence their share price will also fall, but to what levels?

Let us take the case of **Stellantis**, a car manufacturer with a strong presence in the US and Europe, present in the **European** fund's portfolio, which has fallen nearly -50% since the year's highs. The lower demand for vehicles in the markets where it operates, especially in the US, which has led to an accumulation of inventories, has caused the company to expect a drop in sales for 2024 of -15% and -50% in operating profit, which will nevertheless remain at around 10 billion euros.

Being such an abrupt adjustment, it is hard to believe that the temporary halving of its profits would necessarily imply a permanent halving of its value as a company.

Fortunately, the fundamental value of a company is not defined by a single year's profit or loss, but by the present value of all future cash flows, from the present to many years in the future, spanning its entire operating life.

Other companies in the sector are also experiencing similar adjustments due to supply cost issues, a decline in demand, particularly in North America and China, and a slowdown in the purchase of electric vehicles in Europe, the sector faces significant challenges. At the same time, growing Chinese competition in the market poses a growing threat, while the European industry is under increasing pressure to meet stringent CO_2 emissions targets set by the European Union for next year.

But the heavy stock market punishment of these companies reflects an extremely pessimistic outlook.

The pessimism is such that the low valuation levels are not taken into account, even in a truly adverse scenario. Nor is the strong net cash position on the balance sheet valued, nor is the benefit of the doubt given as to the industry's ability to develop competitive products in the face of growing Chinese competition, as was once the case with Japanese or Korean vehicles.

Also overlooked is the possibility that restrictive emissions regulations and a ban on the sale of combustion cars in Europe could be revised, or that new incentives for electrification, both in infrastructure and in the purchase of electric cars, could be approved to revitalise demand. All in all, while we are aware of the short and medium-term challenges and risks facing the sector, the fact that things may not turn out as unfavourable as the market anticipates could open up interesting opportunities for the long-term investor.

In this respect, maintaining the fund's current weight in the auto sector at 10.5% seems to us sufficient and prudent, considering the balance between upside potential and expectations on the risks mentioned above.

Over almost ten years of track record, we have gone through similar situations where the fundamentals of certain sectors or geographies seemed to crumble, only to later become some of our most successful investments. We have seen this with Greek companies in 2015, power generation companies when free energy was being speculated on due to the emergence of renewables, shipping companies and European banking, among others.

It has been more than two years since we started investing in banks, a sector that has been one of the most underappreciated in the last decade and currently represents 12.5% of our European portfolio. It is important to take a moment to reflect on the fact that the capital gains to date, most of them above 100%, have been achieved by overcoming really challenging periods, such as the banking crisis of March 2023, caused by the collapse of several regional banks in the US, including **Silicon Valley Bank**, as well as the demise of the flagship **Credit Suisse** in Europe.

It is also interesting to note the recent strong performance of our **Iberian** fund, which contrasts with the progressive and growing lack of interest of most global investors in Spanish companies over the last few years.

In one way or another, the pattern repeats itself: companies, sectors and geographies face temporary difficulties that make expectations about them much worse than the reality they are experiencing or have ahead of them. This translates into significant falls in their share prices, regardless of the value of what is being sold, which in turn creates excellent long-term investment opportunities.

Before discussing portfolio movements, it is worth mentioning another example of expectations, realities and valuations. On 17 September, the Swedish company **SKF**, a holding in our **European** fund and a world leader in the manufacture and distribution of rolling bearings, announced its intention to separate its two divisions: industrial and automotive. This news triggered a +10% increase in its share price within minutes of the announcement. However, the mere separation of the businesses would not a priori justify an increase in their valuation; in theory, the sum of the parts should equal the whole. This market reaction highlights the low expectations for the company, which were not aligned with the reality of its business, as is the case for most European industrial and cyclical companies today.

When the market refocuses on these companies, many of them present in our funds, such as **SKF,** it will realise the remarkable discrepancy between expectations and reality, which should be reflected in an increase in the value of most of these companies. Reflecting this is the current attractive valuation level of our funds, where we expect significant returns in the coming years.

Movements during the third quarter

We have taken advantage of the falls during the summer months to increase exposure to many of the existing stocks in the portfolio by putting to work a significant part of the liquidity we had in the funds.

Thus, in the **European** fund's portfolio, among the many purchases, the increases in **Syensqo**, **Anglo American**, **Avolta**, **Signify**, **Carrefour** and **Evonik** were particularly noteworthy due to the greater volume of cash. No positions were fully sold, although weight reductions were made in **UniCredit**, **Commerzbank** and **ING**, among others.

Following the same line of argument, in the **Iberian** fund we have increased exposure in **Atalaya Mining**, **Repsol** and **Acerinox**, among others. Likewise, we have not exited any positions, although we have reduced our weighting mainly in **Caixabank** and **Bankinter**.

Finally, in the **Microcaps** fund, we continued to increase our exposure to **Ashmore Group**, as well as **Deutz** and **Peugeot Invest**. On the other hand, we have reduced some exposure to **IPCO** and **KRKA**.

We thank you very much for continuing to entrust us with the management of your investments alongside our own. In this regard, we are pleased to share that, during the summer months, a significant part of the Magallanes team made subscriptions, thus reaffirming our commitment to our funds and investors.

Yours sincerely,

Iván Martín Aránguez, CFA
Chief Investment Officer

MAGALLANES

VALUE INVESTORS

ANNEX 1. RETURNS BY FUND AND CLASS as of 30/09/2024.

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"	191,8536	**3,90%**	**17,16%**	**16,74%**	**8,22%**	**-1,82%**	**18,69%**	**-12,92%**	**6,02%**	**-9,22%**	**15,45%**	**15,48%**	**8,04%**	**86,05%**	96,1%
Iberian benchmark		8,25%	24,18%	14,71%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-5,73%	58,94%	
Magallanes Iberian Equity FI "P"	201,3410	**4,03%**	**17,75%**	**17,18%**	**8,36%**	**-1,33%**	**19,28%**	**-12,48%**	**6,55%**	**-8,76%**	**16,03%**	**16,09%**	**6,32%**	**91,35%**	96,1%
Iberian benchmark		8,25%	24,18%	14,71%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-11,27%	49,19%	
Magallanes Iberian Equity FI "E"	216,5305	**4,23%**	**18,64%**	**17,84%**	**8,56%**	**-0,58%**	**20,18%**	**-11,83%**	**7,35%**	**-8,07%**	**16,91%**	**16,91%**	**12,72%**	**116,53%**	96,1%
Iberian benchmark		8,25%	24,18%	14,71%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	2,57%	73,32%	

[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"	166,9817	**3,74%**	**17,31%**	**16,30%**	**8,19%**	**-2,40%**	**17,93%**	**-13,94%**	**5,68%**	**-9,61%**	**14,79%**	**16,33%**	**-**	**66,98%**	95,7%
Iberian benchmark		8,25%	24,18%	14,71%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	67,43%	
Magallanes Iberian Equity Lux "I"	174,8869	**3,88%**	**17,94%**	**16,77%**	**8,34%**	**-1,87%**	**18,53%**	**-13,51%**	**6,21%**	**-9,14%**	**15,42%**	**16,99%**	**-**	**74,89%**	95,7%
Iberian benchmark		8,25%	24,18%	14,71%	11,25%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	67,43%	

[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"	210,2606	**-1,81%**	**6,02%**	**1,45%**	**12,74%**	**4,94%**	**23,49%**	**-3,30%**	**21,48%**	**-19,19%**	**19,52%**	**12,89%**	**3,47%**	**111,09%**	94,4%
European benchmark		2,35%	18,80%	11,62%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,42%	81,21%	
Magallanes European Equity FI "P"	220,7333	**-1,69%**	**6,55%**	**1,83%**	**12,88%**	**5,47%**	**24,11%**	**-2,81%**	**22,09%**	**-18,78%**	**20,12%**	**13,45%**	**4,23%**	**122,15%**	94,4%
European benchmark		2,35%	18,80%	11,62%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,43%	81,23%	
Magallanes European Equity FI "E"	237,3515	**-1,51%**	**7,35%**	**2,41%**	**13,09%**	**6,26%**	**25,04%**	**-2,08%**	**23,01%**	**-18,17%**	**21,02%**	**14,31%**	**4,29%**	**137,35%**	94,4%
European benchmark		2,35%	18,80%	11,62%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	9,77%	98,08%	

[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"	197,6242	**-1,58%**	**6,14%**	**1,56%**	**12,39%**	**5,20%**	**23,17%**	**-3,82%**	**20,89%**	**-19,43%**	**19,11%**	**18,30%**	**-**	**110,23%**	95,8%
European benchmark		2,35%	18,80%	11,62%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	9,39%	-	92,43%	
Magallanes European Equity Lux "I"	206,8852	**-1,45%**	**6,71%**	**1,97%**	**12,54%**	**5,77%**	**23,80%**	**-3,33%**	**21,50%**	**-19,00%**	**19,76%**	**27,76%**	**-**	**136,47%**	95,8%
European benchmark		2,35%	18,80%	11,62%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	19,66%	-	110,50%	
Magallanes European Equity Lux "P"	213,3680	**-1,36%**	**7,09%**	**2,24%**	**12,64%**	**6,14%**	**24,26%**	**-2,96%**	**21,96%**	**-18,70%**	**20,16%**	**12,08%**	**-**	**113,37%**	95,8%
European benchmark		2,35%	18,80%	11,62%	8,61%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	-	80,45%	
Magallanes European Equity Lux "ING"	142,7500	**-3,22%**	**2,62%**	**-1,90%**	**11,52%**	**12,05%**	**16,14%**	**2,15%**	**14,72%**	**-19,91%**	**-**	**-**	**-**	**42,75%**	95,8%
European benchmark		0,45%	13,95%	7,18%	7,56%	-4,36%	17,37%	-3,32%	26,05%	-10,57%	-	-	-	46,70%	

[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"	147,9429	**-2,09%**	**11,34%**	**2,55%**	**6,18%**	**-9,42%**	**45,60%**	**-0,61%**	**10,59%**	**-21,98%**	**12,37%**	**-**	**-**	**47,94%**	95,6%
European benchmark		-0,02%	11,54%	4,93%	0,17%	-24,87%	25,67%	18,66%	22,39%	-13,38%	8,14%	-	-	34,33%	
Magallanes Microcaps Europe, FI "C"	144,2690	**-2,16%**	**11,04%**	**2,35%**	**6,12%**	**-9,67%**	**45,10%**	**-1,16%**	**10,10%**	**-22,18%**	**7,81%**	**-**	**-**	**38,66%**	95,6%
European benchmark		-0,02%	11,54%	4,93%	0,17%	-24,87%	25,67%	18,66%	22,39%	-13,38%	7,22%	-	-	33,18%	

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