



3rd Quarterly Letter to Investors

30/09/2025

MAGALLANES VALUE INVESTORS, S.A. SGIC

Dear Investor,

Returns for the first nine months of 2025 were **+17.2%** for the European fund, **+34.6%** for the Iberian fund, and **+20.1%** for the Microcaps fund. Since their launch, cumulative returns have been **+152.1%**, **+161.6%**, and **+68.9%**, respectively, outperforming their corresponding benchmark indices¹.

Paradox of the current situation

The international climate is fraught with multiple open fronts (armed conflicts, strategic rivalry, polarization), yet the major indices have continued to rise. In September, the S&P 500 recorded its best September in fifteen years; in Europe, the Euro Stoxx 50 recovered levels not seen in almost a quarter of a century and the FTSE 100 has renewed historical highs. These are telling facts: political unrest coexists with prices that, on a global scale, remain at high levels.

In view of the above, it is important to analyse the valuations of these markets. Thus, on the other side of the Atlantic, US equities seem to be discounting a very favourable future. The P/E ratio of the S&P 500 is around 22.5 times, above its 5- and 10-year averages, reaching levels characteristic of very advanced stages of the stock market cycle. It should not be forgotten that the United States accounts for nearly 65% of the capitalization of the MSCI ACWI global index, a proportion well above its weight in the global economy, which is around 26% of global GDP. The contrast between "valuation" and "weighting" is evident, and at unprecedented levels.

Europe offers the opposite picture. In terms of capitalization, the European stock market as a whole represents around 14%, slightly below the 15% weight of its GDP in relation to the global economy. Furthermore, its valuation is significantly lower, with a multiple of 14.5 times compared to 22.5 times for the S&P 500. The relative discount, close to 35%, is striking in terms of its magnitude and duration, based on historical data.

It is worth qualifying the above: a high valuation does not in itself equate to a bubble, just as a low valuation does not guarantee a bargain. However, the long-term arithmetic is stubborn: when you pay above value, it is reasonable to expect modest returns; when you buy at a discount, the odds are skewed towards higher returns.

Added to this is a change in German fiscal policy, which, if implemented, would have a significant impact on the economy of the old continent.

As a reminder, a reform of the fiscal framework was approved in March, creating a €500 billion infrastructure fund (about 13% of GDP), which aims to exclude defense spending above 1% of GDP from the "debt ceiling" and allows greater indebtedness for the Länder. According to

¹ See Appendix 1 for more details on returns based on investment strategy, launch date, and class.



Vanguard², if the program is implemented, GDP growth in the euro area could be boosted by +0.4-0.5 percentage points until the end of 2026 and, in the longer term, German GDP would increase by +1.25% in 2029, with a consequent positive impact on the EU as a whole.

The creation of a European defence industry capable of rivalling the American giants will have a very positive impact on the entire European industrial fabric and on many of the companies in our portfolio. According to European Commission estimates, a linear increase in defence spending to 1.5% of GDP between 2025 and 2028 could raise the EU's real GDP by 0.5% above the baseline scenario for 2028.

In view of the above arguments, it is therefore not surprising that various comments from global management entities point to a gradual reorientation towards European equities³.

In short, the divergence between the perception of instability and the reality of indices at record highs is not new, but it does require discipline: distinguishing price from value. With Europe still underrepresented in global indices, trading at a discount to the United States and with significant fiscal support in Germany that will begin to be felt in 2026, we believe that the global rebalancing of portfolios towards quality European businesses at attractive valuations is well founded when it comes to diversifying an investment portfolio.

Sweden: productivity, precision, and barriers to entry

During our recent visit to Sweden, we had the opportunity to meet with executives and visit the factories of some of our Nordic portfolio companies, specifically **SKF**, **Sandvik**, and **Husqvarna**, where we were able to see firsthand the competitive advantages of a European industry that competes at the highest global level in terms of technology, processes, and the critical nature of the products and services it offers.

These are companies whose value lies in the precision and reliability they bring to global supply chains: bearings, cutting tools, automation and maintenance solutions that, due to their critical role in improving customer productivity, are virtually irreplaceable.

For example, in addition to its high-precision bearings, **SKF** integrates lubricant management solutions such as *RecondOil* technology into its offering, which is capable of purifying and recirculating industrial oils, extending their useful life and reducing downtime. This is a good example of how process efficiency engineering translates into productivity and savings for the customer, which is especially relevant in a world like ours where 20% of all energy consumed is used to overcome friction.

Sandvik Coromant, recognized by the World Economic Forum as a *Lighthouse*⁴ plant for Industry 4.0, illustrates well how precision translates into productivity. As an illustrative and practical example, in the manufacture of a commercial aircraft, between 1.5 and 3 million drill holes are made, depending on the aircraft model; when the tool maintains micron-level tolerances (to put

² <https://corporate.vanguard.com/content/corporatesite/us/en/corp/vemo/what-germany-fiscal-shakeup-means-markets.html> "What Germany's fiscal shakeup means for markets | Vanguard."

³ <https://am.jpmorgan.com/gb/en/asset-management/per/insights/portfolio-insights/investment-trust-insights/europe/europe-wakes-as-the-us-shakes/?utm>

⁴ <https://www.weforum.org/press/2025/09/global-lighthouse-network-2025-world-economic-forum-recognizes-12-new-sites-driving-holistic-transformation-in-manufacturing/?utm>



this into perspective, the thickness of a human hair is around 50–80 microns), the difference compared to cheaper but less precise solutions translates into fewer breakages, shorter cycles, and superior hole quality, with enormous cumulative impacts on program-wide times and costs.

In short, tools that not only reduce friction or cut metal: they increase customer productivity and reinforce barriers to entry that are difficult to replicate.

Finally, it is important to highlight the importance of automation in these companies, where there were hardly any employees on the factory floor. When automation reduces the weight of the labour factor in the total cost, the advantage based solely on wages becomes less relevant in relation to competition from other places with lower wages or longer working hours.

It is clear that these businesses are, above all, highly technology-intensive industries. Their offering is not a catalogue of parts, but precision and reliability at the service of the customer, which makes them reliable, indispensable, and difficult to replace suppliers. When automation is added as the norm (traceability, robotization, online control), the result is a competitive moat that stands the test of time. If, in addition, they can be acquired at cheap valuations, as has been our case, all that remains is to let the quality of the business and the productivity they bring to the fore in the results over the years, and therefore in the price of their shares.

Market inefficiencies: Zegona as an example

We sometimes comment that, although the market tends toward equilibrium in the long term, in the short term it tends to ignore stories that require a certain amount of patience and a high degree of analysis. The case of **Zegona**, one of our portfolio investments, is illustrative. Here is a simple and very schematic overview of what has happened so far:

Zegona, a fund acquired by **Vodafone Spain** in 2024, has sold part of its fibre networks while managing to refinance its debt on more favourable terms. With the money targeted from this process, **Vodafone Plc** could be paid in full for the preferred shares (those that gave the right to be paid before the others) and, in addition, there would be room for an extraordinary dividend to ordinary shareholders. In practice, this cleans up and simplifies the financial structure, with the cancellation of these preferred shares held by **Vodafone Plc**, resulting in an extraordinary transfer of value, through a 69% reduction in outstanding shares, from that shareholder to the rest of us minority shareholders who still remain in the capital, equivalent to approximately tripling our weight in the company and, therefore, in the percentage of future profits and dividends to be received. A true creation of value.

But, in addition, the "new Zegona," despite the sharp rise in its share price in 2025, continues to trade at a discount to the sector, mainly because **Vodafone Spain's** business is performing reasonably well, stemming the loss of customers, gaining efficiency through cost reductions and, consequently, increasing profit margins.

Our Funds



The composition of our Funds' portfolios remains, in essence, a collection of European businesses such as those mentioned above, with clear competitive advantages, healthy balance sheets, and attractive valuations. Overall, we estimate significant upside potential based on multiples of around 10 times next year's earnings, with dividend yields and share buybacks close to 5%. This is a value proposition to consider for long-term wealth creation.

Movements during the quarter

In the European Fund, we have increased our holdings in companies where we believe the upside potential is very attractive, such as offshore drilling services company **Noble Corp**, French conglomerate **Bouygues SA**, German car manufacturer **Volkswagen AG**, and chemical distribution company **Brenntag SE**.

On the sales side, we continue to reduce European banks as they approach our target prices, crystallizing very significant capital gains in the process.

We have not made any significant moves in the Iberian and Microcaps Funds.

Thank you

Thank you very much for the trust you have placed in our management. We continue to work with the utmost rigor and dedication to achieve the goals set in accordance with our investment process and to look after your interests.

As always, we are at your disposal for any questions or suggestions.

Sincerely,



Iván Martín Aránguez, CFA
Chief Investment Officer

MAGALLANES



VALUE INVESTORS

APPENDIX 1. RETURNS BY FUND AND CLASS as of 09/30/2025

MAGALLANES IBERIAN EQUITY, FI

FUND	NAV	3 M	6 M	12 M	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015 ¹	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity FI "M"	260,9263	7.25%	16.71%	36.00%	34.10%	18.40%	13.30%	-1.82%	18.69%	-12.92%	6.02%	-9.22%	15.45%	15.48%	8.04%	153.04%	91.4%
Iberian benchmark		11.50%	19.92%	30.63%	37.79%	8.75%	22.58%	-0.84%	11.74%	-11.07%	15.38%	-11.59%	12.13%	0.52%	-5.73%	107.63%	
Magallanes Iberian Equity FI "P"	275,2011	7.38%	17.00%	36.68%	34.60%	18.99%	13.87%	-1.33%	19.28%	-12.48%	6.55%	-8.76%	16.03%	16.09%	6.32%	161.55%	91.4%
Iberian benchmark		11.50%	19.92%	30.63%	37.79%	8.75%	22.58%	-0.84%	11.74%	-11.07%	15.38%	-11.59%	12.13%	0.52%	-11.27%	94.89%	
Magallanes Iberian Equity FI "E"	298,1894	7.59%	17.44%	37.71%	35.36%	19.89%	14.72%	-0.58%	20.18%	-11.83%	7.35%	-8.07%	16.91%	16.91%	12.72%	198.19%	91.4%
Iberian benchmark		11.50%	19.92%	30.63%	37.79%	8.75%	22.58%	-0.84%	11.74%	-11.07%	15.38%	-11.59%	12.13%	0.52%	2.57%	126.41%	

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	6 M	12 M	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016 ¹	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity Lux "R"	225,7714	7.11%	16.36%	35.21%	33.85%	17.48%	13.64%	-2.40%	17.93%	-13.94%	5.68%	-9.61%	14.79%	16.33%	-	125.77%	99.1%
Iberian benchmark		11.50%	19.92%	30.63%	37.79%	8.75%	22.58%	-0.84%	11.74%	-11.07%	15.38%	-11.59%	12.13%	0.52%	-	118.71%	
Magallanes Iberian Equity Lux "I"	237,7486	7.26%	16.68%	35.94%	34.39%	18.11%	14.25%	-1.87%	18.53%	-13.51%	6.21%	-9.14%	15.42%	16.99%	-	137.73%	99.1%
Iberian benchmark		11.50%	19.92%	30.63%	37.79%	8.75%	22.58%	-0.84%	11.74%	-11.07%	15.38%	-11.59%	12.13%	0.52%	-	118.71%	

¹ Class R 31/12/2015; Class I 31/12/2015. Returns net of fees. Iberian benchmark: 80% Ibox35 Net TR + 20% PSI20 Net TR.

MAGALLANES EUROPEAN EQUITY, FI

FUND	NAV	3 M	6 M	12 M	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015 ¹	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity FI "M"	237,4046	5.02%	9.46%	12.91%	16.78%	-1.91%	21.15%	4.94%	23.49%	-3.30%	21.48%	-19.19%	19.52%	12.89%	3.47%	138.34%	92.5%
European benchmark		3.51%	4.55%	9.31%	12.36%	8.59%	15.83%	-9.49%	25.13%	-3.32%	26.05%	-10.57%	10.24%	2.58%	0.42%	98.08%	
Magallanes European Equity FI "P"	250,5053	5.16%	9.75%	13.49%	17.23%	-1.42%	21.76%	5.47%	24.11%	-2.81%	22.09%	-18.78%	20.12%	13.45%	4.23%	152.11%	92.5%
European benchmark		3.51%	4.55%	9.31%	12.36%	8.59%	15.83%	-9.49%	25.13%	-3.32%	26.05%	-10.57%	10.24%	2.58%	0.43%	98.10%	
Magallanes European Equity FI "E"	271,3615	5.36%	10.15%	14.33%	17.88%	-0.68%	22.67%	6.26%	25.04%	-2.08%	23.01%	-18.17%	21.02%	14.31%	4.29%	171.36%	92.5%
European benchmark		3.51%	4.55%	9.31%	12.36%	8.59%	15.83%	-9.49%	25.13%	-3.32%	26.05%	-10.57%	10.24%	2.58%	9.77%	116.52%	

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	2024	2023	2022	2021	2020	2019	2018	2017	2016 ¹	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity Lux "R"	225,1129	5.12%	10.72%	13.91%	18.26%	-2.18%	21.01%	5.20%	23.17%	-3.82%	20.89%	-19.43%	19.11%	18.30%	-	139.47%	91.7%
European benchmark		3.51%	4.55%	9.31%	12.36%	8.59%	15.83%	-9.49%	25.13%	-3.32%	26.05%	-10.57%	10.24%	2.58%	-	110.34%	
Magallanes European Equity Lux "I"	236,9395	5.26%	11.03%	14.53%	18.75%	-1.65%	21.67%	5.77%	23.80%	-3.33%	21.50%	-19.00%	19.76%	27.76%	-	170.83%	91.7%
European benchmark		3.51%	4.55%	9.31%	12.36%	8.59%	15.83%	-9.49%	25.13%	-3.32%	26.05%	-10.57%	10.24%	19.66%	-	130.10%	
Magallanes European Equity Lux "P"	245,2191	5.35%	11.23%	14.93%	19.06%	-1.31%	22.10%	6.14%	24.26%	-2.96%	21.96%	-18.70%	20.16%	12.08%	-	145.22%	91.7%
European benchmark		3.51%	4.55%	9.31%	12.36%	8.59%	15.83%	-9.49%	25.13%	-3.32%	26.05%	-10.57%	10.24%	2.58%	-	97.23%	
Magallanes European Equity Lux "ING"	171,9200	7.32%	16.02%	20.43%	25.58%	-5.92%	19.12%	12.05%	16.14%	2.15%	14.72%	-19.91%	-	-	-	71.92%	91.7%
European benchmark		5.47%	9.11%	14.66%	18.61%	3.61%	13.13%	-4.36%	17.37%	-3.32%	26.05%	-10.57%	-	-	-	68.22%	

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	2024	2023	2022	2021	2020	2019	2018	2017 ¹	2016	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Microcaps Europe, FI "B"	168,9017	3.52%	11.20%	14.17%	20.14%	-2.55%	13.51%	-9.42%	45.60%	-0.61%	10.59%	-21.98%	12.37%	-	-	68.90%	95.7%
European benchmark		4.94%	13.12%	12.00%	14.65%	2.51%	-0.32%	-24.87%	25.67%	18.66%	23.39%	-13.38%	8.14%	-	-	50.46%	
Magallanes Microcaps Europe, FI "C"	164,5814	3.46%	11.02%	14.08%	19.87%	-2.59%	13.20%	-9.67%	45.10%	-1.16%	10.10%	-22.18%	7.81%	-	-	58.18%	95.7%
European benchmark		4.94%	13.12%	12.00%	14.65%	2.51%	-0.32%	-24.87%	25.67%	18.66%	23.39%	-13.38%	7.22%	-	-	49.17%	

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