4th Quarterly Letter to Investors
31/12/2021
MAGALLANES VALUE INVESTORS, S.A. SGIIC

Dear Investor,

Performance during the fourth quarter of 2021 was **-0.14%** for the European fund, **-0.29%** for the Iberian fund and **+7.03%** for the Microcaps fund. In 2021, the accumulated returns were **+24.11%**, **+19.28%** and **+45.60%** respectively.

The global economic recovery continues on its course, although the spreading of the new variant of coronavirus, Omicron, has increased uncertainty in the final weeks of 2021, slightly weakening growth expectations.

In spite of recent setbacks, the OECD maintains its outlook for strong economic growth in its last update in December 2021. This forecast projects a rebound of 5.6% for 2021 and 4.5% for 2022, before stabilizing at 3.2% in 2023, very close to the rates observed before the pandemic.

Meanwhile, global economies still face supply chain bottlenecks, as supplies fail to meet the increase in demand for certain goods as economies reopened during 2021.

Rising prices for energy and other raw materials, rising labor costs and problems in the supply chain add to the cost pressures that have characterized recent quarters. As a result, inflation has risen considerably in this recovery phase.

Special mention should go to the high increase in the price of energy in the midst of the Energy Transition promoted by the European Commission, with the firm intention of reaching climate neutrality in the form of net-zero emissions by 2050. Europe has never paid so much for electricity as it did in 2021. The temporary shortage of natural gas, lower wind speeds, the natural intermittency of solar energy, as well as the outage of nuclear power plants were the key reasons for the increase in energy prices. According to EEX (European Energy Exchange), German energy prices for next year are currently above €200/MWh after hitting highs above €400 recently. Only a year ago these prices were at levels of around €50.

Having this in mind, too rapid, radical and unbalanced decarbonization in power generation technologies is clearly having inflationary consequences.

These cost pressures have pushed inflation to very high levels. Inflation in the US has risen to 6.8% in November, its highest level since 1982. Persistent inflation has surprised the Fed, abandoning the thesis that it was a ‘transitory’ event due to bottlenecks in supply chains. As a result, the Fed announced the tapering of its monthly bond purchases and opened the door to three possible hikes in the base rate from 2022 in its last statement.

In the UK, where inflation is expected to peak at 6% at the beginning of 2022, the BoE has raised its official rates by 15 basis points to 0.25% to combat 'persistent inflationary pressures'.

The European Central Bank is also taking its first step to wind down its stimulus by stopping its bond purchases under the Pandemic Emergency Purchase Program (PEPP) of 1.85 trillion euros by the end of March, but it has committed to continuing with asset purchases under the Asset Purchase Program (APP). At the same meeting, the ECB ruled out any interest rate hike in 2022 even though the current inflation rate is extraordinarily high; close to 5% in the euro area. The case of Spain is particularly challenging, with an annualized rate of 6.7% in December 2021, the highest for almost thirty years.

In view of all the above, the transitory nature of inflation seems difficult to defend. In fact, recent statements and actions by central banks point to a more-than-likely less expansionary monetary policy with more restrictive overtones.

How does all the above affect the different asset classes?

The most affected asset is, without any doubt, fixed income. The yield of the 10-year US Treasury Bond has increased to 1.51% at the end of 2021, compared to 0.92% at the end of 2020. The 10-year German Government Bond closed the year with a yield of -0.18%, compared to -0.58% a year ago. This has made government fixed income securities one of the worst performing assets of the year in terms of performance.

But there are other assets that, without being purely fixed income, run a high risk of poor performance in the current macroeconomic scenario. They are those that have risen relentlessly in the heat of dovish monetary conditions that have driven interest rates to zero or negative for a long time. This 'free money' has been the perfect fuel to get the 'easy money', through the proliferation of a multitude of financial assets based almost exclusively on expectations, most of them unrealistic, until reaching and even exceeding valuation levels not seen since the previous dot-com bubble of 2000.

Although most stock indexes have closed the year at all-time highs, especially in the US, a detailed analysis of this aforementioned scenario shows the poor relative relationship between overvalued assets and interest rate hikes due to the rise in inflation rates. For this type of asset, the main reason, is that its valuation has been determined by the ability of some 'investors' to sell it to other 'investors' at a higher price, and not so much by its ability to generate cash flows. Speculation versus investment.

Some examples of the above are found in recently created 'electric car' companies with hardly any revenues, in assets related to renewable energies or related to ESG, in cryptocurrencies, in SPACs (Special Purpose Acquisition Company, also known as 'blank check companies', these are vehicles that are listed on the market without any business activity with the sole purpose of raising money for the acquisition of a company) and generally speaking in all those projects whose mottos, which contain more cynicism than honesty, are to change the world regardless of the bottom line for their shareholders.

The fundamental value of a company comes from the current value of the cash flows generated from today until doomsday. The problem for many bubble companies is that their cash flows are closer to doomsday than to the present day, if (and it is a big 'if'), they even manage to get there one day. In other words, their value depends almost exclusively on the future, on expectations.

It is easy to see then how in a world of zero-percent interest rates and without inflation, the value of 1 euro today is the same as that of 1 euro many years from now. Thus, long-term assets, those whose profits are yet to be realized, perform better (the lower the interest rates, the better) than the rest. If you add the component of high expectations to this equation, the result can be striking.

And this is how it has happened in recent years. As rates fell, companies with higher expectations did better, unlike other companies generating cash flows in the shorter term but with more moderate expectations, albeit much more realistic. This has sparked the famous debate regarding the divergence in performance and valuation of growth and value stocks, which we prefer to refer to as expensive and cheap companies. The above phenomenon is very prominent in the case of the American stock market, where not only growth or technology companies are at maximum valuation levels but also a large part of the market in general.

Our portfolios are well positioned for the current environment we are facing, specifically through companies belonging to the real economy that are listed in Europe but with global exposure and are trading at very attractive valuation multiples. They are far from those expensive and fashionable companies, mostly American ones and other similar assets, or pseudo-assets that have been inflated to bubble-like levels due to the environment of extraordinarily low interest rates and recent poor economic growth. These factors, as we saw previously, have begun to reverse, clearly benefiting those companies which are leading the current economic recovery.

In this vein, the intrinsic value of each of the companies that make up our portfolios is well above current trading levels, which would imply very significant upside for the net asset value of the funds in the coming quarters as the expectations of economic recovery continue to materialize, and the risks and alarmism related to new strains of the coronavirus diminish.

Changes in our portfolios in the final quarter of the year

Our trading activity carried out during the quarter have been aimed at strengthening the thesis that shapes our central scenario of economic growth and attractive valuations.

Specifically, we think that sectors such as energy (oil exploration companies and drillers), companies in copper mining, steel, chemicals, fertilizers, car manufacturers, airlines and companies linked to the reopening of the economy post-Covid or financials, especially banks, make up a set of consistent, coherent industries benefiting from the environment described above.

Thus, in the European fund, we have continued to strengthen our thesis on banks that began at the beginning of 2021, with the purchases of Italian bank **UniCredit SpA**, the German **Commerzbank** and the Greek **Eurobank Ergasias**. We have also increased our position in **Antofagasta**, the French cheese company **Savencia**, the Irish drinks company **C&C Group** and the French car manufacturer **Renault**, among others. In terms of selling, there are no significant movements to highlight, except for small adjustments due to strong share price performance in certain companies.

In the Iberian fund, it is worth highlighting an increase also in the banking sector with the entry in **Caixabank**, the Iberian leader in retail banking after its merger with **Bankia**. Additionally, we have increased our weight in **Bankinter**. Meanwhile, we have taken advantage of corrections in **IAG** to increase our position in the airline. On the selling side, we have reduced approximately half of our position in **Inditex** due to the excellent performance throughout the year, approaching our fundamental value.

In the Microcaps fund, we have initiated a position in **Deep Value Driller** and we have also increased the weight in **Ibersol** and **Lucas Bols**. On the sales side, we have exited our positions in **Avance Gas** and **Reno de Medici**, due to the takeover bids received, which brings the number of companies that have been taken over in the fund to practically 20% during the last year and a half. This is without a doubt irrefutable proof of the fundamental value that our companies offer.

Thank you and happy new year

After the second year of this pandemic, the Magallanes team wishes you a year full of health, hope and happiness for 2022.

As always, we are at your service for everything you need in relation to your wealth invested with us, helping you in everything you might need and being available through any of the Magallanes' contact channels.

Thank you very much for your continued trust in the management of your wealth together with our own.

Yours sincerely,

ANNEX. RETURNS BY FUND AND CLASS as of 31/12/2021

MAGALLANES IBERIAN EQUITY, FI

FUND	NAV	3 M	6 M	2021	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity FI "M"	147,7396	**-0,41%**	**1,75%**	**18,69%**	**-12,92%**	**6,02%**	**-9,22%**	**15,45%**	**15,48%**	**8,04%**	**43,27%**	98,0%
Iberian benchmark		0,13%	1,99%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-5,73%	7,96%	
Magallanes Iberian Equity FI "P"	152,9292	**-0,29%**	**2,01%**	**19,28%**	**-12,48%**	**6,55%**	**-8,76%**	**16,03%**	**16,09%**	**6,32%**	**45,34%**	98,0%
Iberian benchmark		0,13%	1,99%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-11,27%	1,39%	
Magallanes Iberian Equity FI "E"	161,1107	**-0,10%**	**2,40%**	**20,18%**	**-11,83%**	**7,35%**	**-8,07%**	**16,91%**	**16,91%**	**12,72%**	**61,11%**	98,0%
Iberian benchmark		0,13%	1,99%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	2,57%	17,81%	

[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 – LUXEMBURGO

FUND	NAV	3 M	6 M	2021	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity Lux "R"	129,4555	**-0,58%**	**1,43%**	**17,93%**	**-13,94%**	**5,68%**	**-9,61%**	**14,79%**	**16,33%**	**-**	**29,46%**	97,5%
Iberian benchmark		0,13%	1,99%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	13,05%	
Magallanes Iberian Equity Lux "I"	133,5892	**-0,44%**	**1,71%**	**18,53%**	**-13,51%**	**6,21%**	**-9,14%**	**15,42%**	**16,99%**	**-**	**33,59%**	97,5%
Iberian benchmark		0,13%	1,99%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	13,05%	

[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	2021	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity FI "M"	163,0200	**-0,26%**	**1,22%**	**23,49%**	**-3,30%**	**21,48%**	**-19,19%**	**19,52%**	**12,89%**	**3,47%**	**63,67%**	97,0%
European benchmark		7,68%	8,47%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,42%	54,86%	
Magallanes European Equity FI "P"	168,8039	**-0,14%**	**1,48%**	**24,11%**	**-2,81%**	**22,09%**	**-18,78%**	**20,12%**	**13,45%**	**4,23%**	**69,89%**	97,0%
European benchmark		7,68%	8,47%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,43%	54,87%	
Magallanes European Equity FI "E"	177,8089	**0,05%**	**1,86%**	**25,04%**	**-2,08%**	**23,01%**	**-18,17%**	**21,02%**	**14,31%**	**4,29%**	**77,81%**	97,0%
European benchmark		7,68%	8,47%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	9,77%	69,27%	

[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 – LUXEMBURGO

FUND	NAV	3 M	6 M	2021	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity Lux "R"	152,8470	**-0,24%**	**1,27%**	**23,17%**	**-3,82%**	**20,89%**	**-19,43%**	**19,11%**	**18,30%**	**-**	**62,59%**	98,7%
European benchmark		7,68%	8,47%	25,13%	-3,32%	26,05%	-10,57%	10,24%	9,39%	-	64,44%	
Magallanes European Equity Lux "I"	157,6478	**-0,10%**	**1,55%**	**23,80%**	**-3,33%**	**21,50%**	**-19,00%**	**19,76%**	**27,76%**	**-**	**80,19%**	98,7%
European benchmark		7,68%	8,47%	25,13%	-3,32%	26,05%	-10,57%	10,24%	19,66%	-	79,89%	
Magallanes European Equity Lux "P"	161,0315	**-0,01%**	**1,73%**	**24,26%**	**-2,96%**	**21,96%**	**-18,70%**	**20,16%**	**12,08%**	**-**	**61,03%**	98,7%
European benchmark		7,68%	8,47%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	-	54,21%	
Magallanes European Equity Lux "ING"	109,0100	**-2,42%**	**-0,68%**	**16,14%**	**2,15%**	**14,72%**	**-19,91%**	**-**	**-**	**-**	**9,01%**	98,7%
European benchmark		5,18%	6,09%	17,37%	2,13%	18,99%	-9,57%	-	-	-	26,51%	

[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	2021	2020	2019	2018	2017 [1]	2016	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Microcaps Europe, FI "B"	140,3079	**7,03%**	**10,34%**	**45,60%**	**-0,61%**	**10,59%**	**-21,98%**	**12,37%**	**-**	**-**	**40,31%**	95,3%
European benchmark		2,43%	2,79%	25,67%	18,66%	22,39%	-13,38%	8,14%	-	-	70,95%	
Magallanes Microcaps Europe, FI "C"	137,8414	**6,96%**	**10,18%**	**45,10%**	**-1,16%**	**10,10%**	**-22,18%**	**7,81%**	**-**	**-**	**32,48%**	95,3%
European benchmark		2,43%	2,79%	25,67%	18,66%	22,39%	-13,38%	7,22%	-	-	69,49%	

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