4th Quarterly Letter to Investors
31/12/2022
MAGALLANES VALUE INVESTORS, S.A. SGIIC

Dear Investor,

Performance during the fourth quarter of 2022 was **+13.2%** for the European fund, **+11.7%** for Iberian and **+11.3%** for Microcaps. Since their respective launches, the cumulative returns are +**79.2%**, **+43.0%** and **+27.1%** respectively[1].

The year 2022 has been characterised by extraordinary events, clearly marked by the war between Russia and Ukraine, as well as by the tightening of monetary policy by the major Central Banks, mainly through interest rate hikes.

Global stocks and bonds lost more than $30tn for 2022. The war in Ukraine, the sharp slowdown of the Chinese economy, the very sharp increase of inflation and interest rates have triggered the heaviest losses in asset markets since the global financial crisis. The broad MSCI All-World index of developed and emerging market equities has shed a fifth (-19.6%) of its value this year, the biggest decline since 2008.

Bond markets have also endured heavy selling: the US 10-year government bond yield, a global benchmark for long-term borrowing costs, has shot up to 3.88%, the biggest annual increase in Bloomberg records stretching to the 1960s. Bloomberg Global Aggregate Index, a broad gauge of government and corporate debt, falling more than -16% in 2022.

One of the biggest ramifications of the war in Ukraine from an economic standpoint was the huge increase of energy prices. A poor strategy in energy transition policy in Europe and systematic underinvestment in in capital-intensive industries such as oil & gas, together with the huge dependence from Russian energy imports has exposed the fragility of the energy system. Gas prices in Europe have increased from less than €70/MWh before the invasion to reach highs of close to €350/MWh in August, settling down to <€80/MWh at the end of 2022. The impact on global food and fertilizer prices is also significant.

As a result of the events mentioned above, coupled with disruptions in the supply in a post-Covid world, due to a long period of under investments in capital-intensive industries and a tight labour market, inflation hit a 40-year high during 2022. In the US, inflation rose to 9.1% in June, the highest since 1981, before falling back to 7.1% currently. In the euro zone, inflation reached a record high of 10.6% in October.

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

In view of the above, major central banks globally have drastically changed their stance on monetary policy after a long period of ultra-expansionary policy, shifting towards a more restrictive policy, mainly by rapidly raising interest rates and reducing or cancelling sovereign debt purchase programmes. Thus, the FED increased its official rates from a range of 0.00% - 0.25% to 4.25% - 4.50% while the ECB raised its rates from 0% to 2.5% during 2022.

In this context, the yield of the US 10 Year Treasury Bond has increased to levels of 3.88% at the end of 2022, compared to 1.51% at yearend 2021. The German 10 Year Government Bond closed the year at a yield of 2.53%, coming from -0.18% one year ago. The 12-month Euribor, the benchmark for most mortgages in Spain, closed the year at levels above 3%, compared with -0.5% at the end of the previous year.

The performance of the main global stock market indices was negative along year 2022. The MSCI Europe has declined by -11.9%, the Spanish IBEX 35 lost -5.6% while the S&P 500 was down by -19.4%, in local terms. The standout loser was the technology-laden Nasdaq which plummeted by -33.1%. It is worth mentioning the positive performance of the Bloomberg Agriculture Index and the Bloomberg Commodity Index which have increased by +13.2% and +6.8%, respectively.

Past and Future

In view of these developments, it is clear that something significant is happening in financial markets. Many are asking: "why has what has worked so well over the last few years suffered so much, what has changed, will it come back?".

The short answer is that the world is returning to a certain normality. And that normality is the existence of positive interest rates for the first time in a long time. It is therefore logical to think that "the party has come to an end" for all those assets and pseudo-assets that benefited from a zero or negative interest rate environment.

But what is happening is not new, it is a dynamic that repeats itself periodically with similar patterns, although with different protagonists, as happened in previous bubbles such as the Nifty Fifty in the 1970s or the dotcoms in 2000, to name but a few. The combination of excess liquidity and unbridled optimism leads to the formation of bubbles which, sooner or later, for some reason (war, rising interest rates, recession, fraud...) deflate or burst abruptly, on their way back to normality. Thus breaking with the dogmas of faith established until then, recognisable by blunt and timeless statements such as: "this cannot fall", "this is the future", "price and valuation do not matter", "nothing bad can happen"....

In a world of low rates for a long time, there are few alternatives to make money with little risk, by definition it is frankly difficult to achieve acceptable and safe returns, unless one is willing to take a higher risk. The risk of overpaying for certain assets which, while being good businesses, ultimately turn out not to be good investments; the risk of buying "novel" assets and investment vehicles which are difficult to understand, most of which are not in line with the client's real risk tolerance; and finally, perhaps the most dangerous, the risk of venturing into financial witticisms which have no rational basis or foundation whatsoever, based solely on unrealistic futuristic daydreams (many of these witticisms end up being frauds, as in the case of **FTX**[2] and its derivatives).

In relation to the latter, the following excerpt from Forbes magazine could pass for a modern-day article, were it not for the fact that it was written in 1977 about the Nifty Fifty:

"What held the Nifty Fifty up? The same thing that held up tulip-bulb prices in long-ago Holland — popular delusions and the madness of crowds."

The return to a world of positive interest rates, towards financial normality, is good news, especially for investors like us. On the one hand, it "cleans up" the excesses of the previous "free bar", and on the other, and more importantly, it rewards the patient and disciplined investor, giving priority to the act of saving and investing in the long term in companies with a healthy balance sheet and real, understandable and necessary businesses that are essential for the world to continue advancing and prospering in the long term.

Magallanes's fund portfolios are invested in these types of companies, hence the good results so far. More importantly, the environment described above continues to benefit these businesses, which is evidenced by the high upside potentials that our funds continue to offer over the medium and long term.

Portfolios that represent a profitable, and solid, option to protect savings by being invested in a collection of well-managed, financially sound companies, operating in strategic and necessary businesses, through the manufacture of products and services desired and valued by their customers. All this while paying less than ten times this year's earnings and with a dividend yield of close to 4%.

More on risks

The combination of high rates and excessive debt can be explosive. That is why it is worth making a special mention, as a warning, of all those assets, investment vehicles (many linked to Private Equity) and companies that have made excessive use of debt over the last few years, especially if they paid dearly for the assets they bought with such indebtedness.

[2] https://www.ft.com/content/b62a2e86-ee61-4c4e-8ce3-418ae216d8a7

If history shows us anything, it is that asset value is subjective and changeable, unlike debt on the other side of the balance sheet, which remains fixed and unchanged, and can even become more burdensome as interest rates rise. This can trigger one of the biggest real risks, the possibility of losing all or part of what is invested with no realistic chance of recovering it.

Most bankruptcies, crises and fraud cases have had to do with over-indebted balance sheets, sometimes to buy assets, companies, or businesses well above their fair market values. In other words, paying dearly with borrowed money.

For this reason, at Magallanes, we have always placed special emphasis on companies with little debt, with solvent and manageable balance sheets. Our objective is to buy companies below their fundamental value, offering a high potential for revaluation, but just as important is that they also present balance sheets that are robust enough to withstand the adversities of the moment. Strong balance sheets and attractive valuation, in that order, remain our basic investment assumptions.

Thinking differently

Our work is based on being different. Looking at our past, the success of our investments can be explained by the decisions we have made, which have always turned out to be different from those of others, in most cases even contrary to those of others.

Only with a different way of thinking, which is both well-founded and balanced in terms of risk-taking, can we aspire to achieve results that are different from those offered by the market. This goes without saying, what makes the difference is the fact that the risks and benefits of "thinking differently" are well calibrated. It is not a matter of always taking a contrarian and confrontational attitude to the world around us, but rather of finding asymmetries, inefficiencies and temporary misalignments in the companies we buy, so that the benefit gained in the future compensates for the risk taken of thinking differently, or even looking wrong, most of the time.

An example of this is **Heidelberg Materials AG**, a German company with 150 years of history, more than 51,000 employees in 2,500 plants in more than 50 countries, is one of the largest integrated manufacturers of building materials and solutions globally, with leading market positions in cement, aggregates and ready-mixed concrete. At year-end **Heidelberg Materials AG** represents an important position within the European fund.

During last summer we started our first purchases and made some purchases at levels below 40 euros. A reasonable replacement valuation of the company[3] gave us an intrinsic value of just over 100 euros per share, a very significant revaluation potential. But, being relatively easy to arrive at a valuation above the current share price, the question was: why didn't the market buy the shares of this company, at the lowest price in recent years, when it was trading so cheaply? It can be said that, at that time, practically nobody was interested in **Heidelberg Materials AG**, nor in any related company in the cement and building materials sector.

The reasons given at the time that weighed heavily on the company's share price were, among others, that it was a company clearly affected by the soaring energy prices due to the very high prices of natural gas, the high level of CO_2 emissions linked to this type of business and whose cost increased in the same way, and finally the risk of a fall in volumes due to the rumblings of a possible economic recession in certain economies.

But, oddly enough, the market was not wrong, it was picking up a really negative environment at that very moment. And yet we decided to buy. The ability to think differently, to shift the focus to the long term, to analyse the industry and the company (supply-demand balance, installed capacity and the observation of pricing power) calmly and in detail made it easier for us to make the decision. We did not invest for the next five months, but for the next five years.

It was not difficult to observe, with sufficient time horizon, that their products would still be needed in the coming years, that the energy price tensions might be transitory, and that the industry (particularly **Heidelberg Materials AG**) was working seriously on reducing its emissions very significantly.

This is thinking differently and, consequently, acting contrary to how the market was doing at the time. This way of doing things allowed us to enter a market leader, with excellent cash generation and a healthy balance sheet, paying half its intrinsic value. Proof of its extraordinary financial robustness was the launch of a €1bn buyback programme, equivalent to more than 10% of its market capitalisation at the time, a historic event for the company, also ignored by the market.

In addition to strengthening our investment in **Heidelberg Materials AG**, during the last quarter of the year we have made other moves in order to further increase the intrinsic value of the funds, in order to maximise their future upside and resilience.

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[3] The replacement value is that which it would theoretically cost to replicate from scratch a company equal to the existing one, considering the prices paid by industrialists in the market for the installed production capacity of that business. Valuation based on the sum of parts: 150 million tonnes of installed cement capacity at an average price of real market transactions of 125 million euros per tonne, plus 18,900 m^3 of aggregates at an average of 0.5 million per m^3. From this total enterprise value, we subtract all liabilities, including minority interests and pension deficit, which would lead to a fundamental share value of 21 billion euros, or 108 euros per share.

In Europe, we fully sold our position in the crude oil shipping company **Euronav**, after reaching our target price, with a cumulative gain of close to +130%. We also fully sold our positions in **Porsche Automobil Holding SE** and **Autogrill SpA**.

In **Porsche**, following the completion of the reorganisation of the **Porsche AG** investee through the IPO and the subsequent purchase of 25% of the ordinary shares by **Porsche Automobil Holding SE**, we decided to remain invested in the **Volkswagen Group**, but directly through the listed shares of **Volkswagen AG Pref**, without taking on the excessive financial risk, in our view, of the family holding company **Porsche Automobil Holding SE** after the completion of the transaction. Within the auto sector, we have added **Stellantis Group** to the portfolio, the result of the merger of **Fiat Chrysler Automobiles** and **Peugeot SA**, making it the third largest car manufacturer in the world, with brands such as Fiat, Abarth, JEEP, Lancia, Dodge, Chrysler, RAM, Peugeot, Opel Vauxhall, Citroën, DS, Alfa Romeo and Maserati.

As a result of the takeover bid launched by **Dufry AG** for **Autogrill SpA**, we decided to continue investing in the tourism recovery by acquiring **Dufry**, the world's leading duty-free company and now, with the ongoing acquisition of **Autogrill SpA**, also in the catering sector, mainly in airports.

In addition, we have increased our exposure to other stocks that we previously held in our portfolio, taking advantage of occasional falls in price, such as **SKF AB**, **Signify**, **Faurecia**, **Husqvarna** and **KION Group**, among others.

In Iberia, there were no significant movements during the quarter.

In the Microcaps fund, we sold our entire position in **Muehlhan AG** after reaching our target price with a cumulative revaluation of close to +50%. On the buy side, we added a new position through the purchase of North Sea oil rig operator **Shelf Drilling North Sea**.

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 31/12/2022

MAGALLANES IBERIAN EQUITY, FI

FUND	NAV	3 M	6 M	2022	2021	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity FI "M"	145,0548	**11,55%**	**0,64%**	**-1,82%**	**18,69%**	**-12,92%**	**6,02%**	**-9,22%**	**15,45%**	**15,48%**	**8,04%**	**40,67%**	95,6%
Iberian benchmark		11,77%	1,56%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-5,73%	7,05%	
Magallanes Iberian Equity FI "P"	150,9028	**11,69%**	**0,90%**	**-1,33%**	**19,28%**	**-12,48%**	**6,55%**	**-8,76%**	**16,03%**	**16,09%**	**6,32%**	**43,42%**	95,6%
Iberian benchmark		11,77%	1,56%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-11,27%	0,53%	
Magallanes Iberian Equity FI "E"	160,1726	**11,90%**	**1,28%**	**-0,58%**	**20,18%**	**-11,83%**	**7,35%**	**-8,07%**	**16,91%**	**16,91%**	**12,72%**	**60,17%**	95,6%
Iberian benchmark		11,77%	1,56%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	2,57%	16,81%	

[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 – LUXEMBOURG

FUND	NAV	3 M	6 M	2022	2021	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Iberian Equity Lux "R"	126,3495	**11,25%**	**0,71%**	**-2,40%**	**17,93%**	**-13,94%**	**5,68%**	**-9,61%**	**14,79%**	**16,33%**	**-**	**26,35%**	94,5%
Iberian benchmark		11,77%	1,56%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	12,09%	
Magallanes Iberian Equity Lux "I"	131,0884	**11,40%**	**0,99%**	**-1,87%**	**18,53%**	**-13,51%**	**6,21%**	**-9,14%**	**15,42%**	**16,99%**	**-**	**31,09%**	94,5%
Iberian benchmark		11,77%	1,56%	-0,84%	11,74%	-11,07%	15,38%	-11,59%	12,13%	0,52%	-	12,09%	

[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	2022	2021	2020	2019	2018	2017	2016	2015 [1]	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity FI "M"	171,0725	**13,10%**	**9,91%**	**4,94%**	**23,49%**	**-3,30%**	**21,48%**	**-19,19%**	**19,52%**	**12,89%**	**3,47%**	**71,75%**	92,8%
European benchmark		9,55%	5,05%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,42%	40,16%	
Magallanes European Equity FI "P"	178,0300	**13,24%**	**10,19%**	**5,47%**	**24,11%**	**-2,81%**	**22,09%**	**-18,78%**	**20,12%**	**13,45%**	**4,23%**	**79,17%**	92,8%
European benchmark		9,55%	5,05%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	0,43%	40,17%	
Magallanes European Equity FI "E"	188,9390	**13,45%**	**10,61%**	**6,26%**	**25,04%**	**-2,08%**	**23,01%**	**-18,17%**	**21,02%**	**14,31%**	**4,29%**	**88,94%**	92,8%
European benchmark		9,55%	5,05%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	9,77%	53,21%	

[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	2022	2021	2020	2019	2018	2017	2016 [1]	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes European Equity Lux "R"	160,7948	**13,97%**	**10,24%**	**5,20%**	**23,17%**	**-3,82%**	**20,89%**	**-19,43%**	**19,11%**	**18,30%**	**-**	**71,05%**	91,2%
European benchmark		9,55%	5,05%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	9,39%	-	48,83%	
Magallanes European Equity Lux "I"	166,7441	**14,13%**	**10,54%**	**5,77%**	**23,80%**	**-3,33%**	**21,50%**	**-19,00%**	**19,76%**	**27,76%**	**-**	**90,59%**	91,2%
European benchmark		9,55%	5,05%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	19,66%	-	62,82%	
Magallanes European Equity Lux "P"	170,9202	**14,23%**	**10,74%**	**6,14%**	**24,26%**	**-2,96%**	**21,96%**	**-18,70%**	**20,16%**	**12,08%**	**-**	**70,92%**	91,2%
European benchmark		9,55%	5,05%	-9,49%	25,13%	-3,32%	26,05%	-10,57%	10,24%	2,58%	-	39,57%	
Magallanes European Equity Lux "ING"	122,1500	**15,46%**	**14,07%**	**12,05%**	**16,14%**	**2,15%**	**14,72%**	**-19,91%**	**-**	**-**	**-**	**22,15%**	91,2%
European benchmark		10,75%	8,27%	-4,36%	17,37%	-3,32%	26,05%	-10,57%	-	-	-	21,00%	

[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	2022	2021	2020	2019	2018	2017 [1]	2016	2015	SINCE INCEPTION	INVESTMENT LEVEL
Magallanes Microcaps Europe, FI "B"	127,0939	**11,26%**	**1,03%**	**-9,42%**	**45,60%**	**-0,61%**	**10,59%**	**-21,98%**	**12,37%**	**-**	**-**	**27,09%**	93,6%
European benchmark		6,99%	-4,22%	-24,87%	25,67%	18,66%	22,39%	-13,38%	8,14%	-	-	28,43%	
Magallanes Microcaps Europe, FI "C"	124,5114	**11,18%**	**0,89%**	**-9,67%**	**45,10%**	**-1,16%**	**10,10%**	**-22,18%**	**7,81%**	**-**	**-**	**19,67%**	93,6%
European benchmark		6,99%	-4,22%	-24,87%	25,67%	18,66%	22,39%	-13,38%	7,22%	-	-	27,33%	

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