Mobius
— INVESTMENT TRUST —

Q3 2019 MANAGER COMMENTARY

"If you dwell on statistics you get short sighted;
if you aim for consistency, the numbers will be there at the end"
Tom Seaver, Baseball Pitcher

23 October 2019

Dear fellow MMIT shareholder,

The first three quarters of 2019 have undeniably been challenging, and clearly MMIT's recent investment performance is below what we intend to deliver. As experienced practitioners, we have always held the view that challenges are what make investing interesting and overcoming them is what makes our job meaningful. Therefore, we continue to focus on our bottom up process and engage intensely with portfolio companies.

We are confident the substantial upside we have identified across our portfolio holdings has not diminished. Consequently, we believe MMIT is an increasingly attractive opportunity given the discount at which the shares currently trade. We remain confident that MMIT's performance will reach our original target of an annualised 12-15% return over the longer term.

In Q3, the macro environment remained volatile in both emerging and frontier markets with the best performing country returning 8.2% (Romania) and the worst down 47.0% (Argentina)[1].

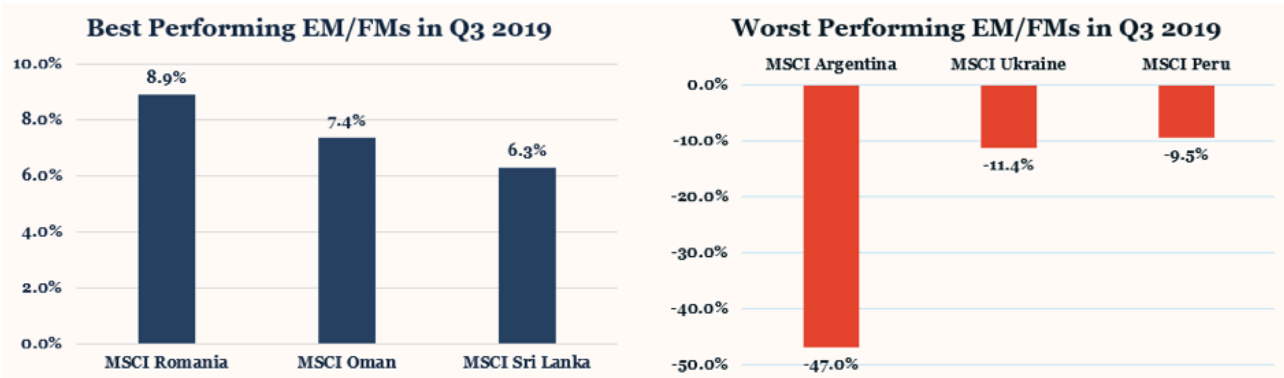

Figure 1- Best and worst performing emerging and frontier markets in Q3 2019 (as ranked by MSCI indices). Source: Bloomberg

As long-term investors, we preach the merits of patience. Our aim remains to achieve a multi-year holding period for portfolio companies. However, in the last quarter, we exited from three holdings (CCC, Cosmecca and Matahari), after we had to lower our expectations regarding the initial investment thesis.

CCC was affected by internal business changes, Cosmecca over-promised regarding what would be operationally achievable while we became concerned about a deterioration in Matahari's anticipated profitability. After assessing the likelihood and materiality of the engagement under these new conditions, it was decided that the underlying investment opportunity had been weakened and the capital could be deployed more effectively elsewhere. These decisions

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have not been taken lightly but in two of the three cases have saved further capital losses. We conduct post-mortems on every company three months after disposal and constantly evaluate our decision making process.

It should be noted that across the majority of our holdings, management has expressed a strong desire to partner with us and we have already started to see a number of our proposals implemented (*see Figure 2 below and section on the MCP Investor Day later in this commentary*). Supported by a strong Pillar 1 investment case, these holdings have seen valuations steadily increase.

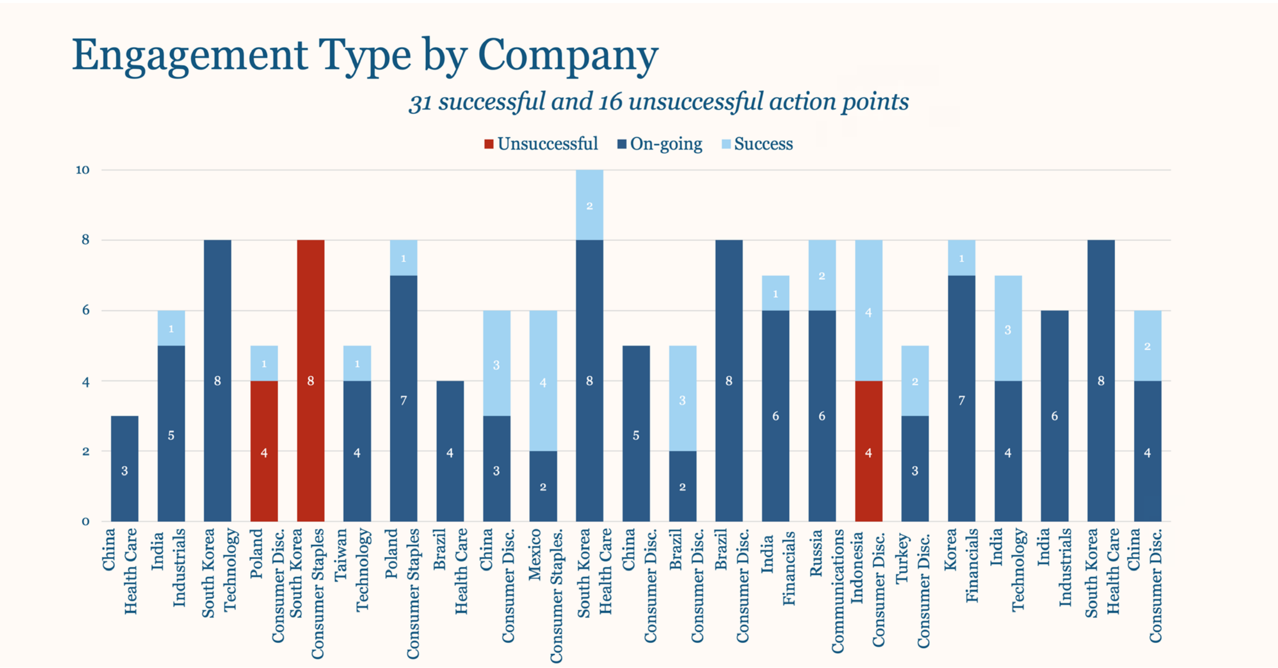

Figure 2- As of September 2019 |Please note this chart depicts the portfolio holdings during Q3 2019
The 16 unsuccessful action points are all linked to the disposed holdings in Q3 2019 (as referenced earlier in this commentary)

During the third quarter, we saw a few significant developments which caused positive share price reactions. Particularly of note were the performances of AK Medical, Mavi and Lojas Americanas (*see attribution in the performance section later in the commentary*) which we summarise below:

China: AK Medical designs, develops, produces and markets orthopaedic implants, with a focus on hip and knee replacements. With a population of 250mln pensioners[2], the investment case is based on the strong growth in Chinese implants over the next 5 years. The company has a leading market share as well as best-in-class technology and R&D. On a per capita healthcare expenditure basis, China is still in its infancy compared to the US or Europe. As part of our ongoing engagement, we aim to focus on optimising shareholder returns by pushing for a strong dividend as well as collaborating on initiatives which focus on working capital improvements and clarity on capex.

Turkey: Mavi is the leading branded apparel retailer and jeans manufacturer in Turkey. It was founded in 1991 as a denim company and has evolved into a broader clothes manufacturer. The company has grown at a CAGR of 26% over 2014-2018, with 20% of sales outside of Turkey.

Our investment case is based on favourable demographics, excellent management execution and further geographical expansion including in Russia and East Asia. We have already had some early engagement success with the introduction of an employee stock ownership scheme for the CEO and other members of senior management. While an announcement of this nature did not immediately trigger a share price re-rating, it ensures alignment of interests which we believe is of the upmost importance as we continue to put forward further proposals.

Brazil: Lojas Americanas is a Brazilian multi-channel retail business with 1,518 stores in 617 cities across the country. The business has a strong core growth profile, strengthened by the expected roll-out of a convenience store format in coming years, and its online offering – B2W – is a leading ecommerce player in Brazil and fully integrated. B2W is separately listed and 62% owned by Lojas. We continue to work closely with the management team to improve ESG reporting, address governance issues and improve working capital.

"We have started to see a number of our suggestions implemented. These holdings have seen valuations steadily increase."

We have also added two new holdings to our portfolio in the last quarter. Fleury is the second largest operator of diagnostics centres in Brazil. The company not only has the highest profitability in the industry due to its brand presence and operational excellence, but also has a strong balance sheet. The second position is NICE Holdings, a South Korean credit bureau with several investments in payments and non-core industrial assets. The company enjoys a number of competitive advantages (high market shares in oligopolistic businesses) and growth opportunities amid supportive regulatory changes. We will provide further insight into these positions in future commentaries.

Performance

The Net Asset Value (NAV) of MMIT decreased by 5.6% over Q3 2019, reaching a high of 99.3p on 04 July and closing at 92.4p on 30 September 2019. The MSCI Emerging Markets Index (GBP) and the MSCI Frontier Markets Index (GBP) were down 2.0% and 4.0% respectively over the same period.

MMIT's share price decreased to 86.2p in Q3 2019 (down 14.0%), trading at an average discount to NAV of 1.3% (compared to a premium of 1.7% in Q2 2019). The discount widened to 6.7% at close on 30 September 2019. In accordance with our discount management policy, MMIT's Board has been notified that the average monthly discount has recently breached 5.0% and discussions are ongoing to consider the most effective steps to ensure this is reduced.

Key positive contributors to the performance over this period were AK Medical (+1.86%), Mavi Giyim Sanayi ve Ticaret (+0.91%) and Lojas Americanas (+0.35%).

Magma Fincorp (-2.96%), Goodbaby International (-1.32%) and Mail.Ru Group (-0.9%) were the largest negative contributors. All three of these companies presented at the recent Mobius Capital Partners Investor Day, outlining how they have overcome recent headwinds before reemphasising the underlying investment opportunity and drivers for future growth.

Investment Update

MMIT's top ten holdings are shown below:

Top 10 Holdings (%):	Country	(%) of MMIT portfolio
Yum China Holdings Inc	China	6.5%
Grupo Lala S.A.B. de C.V.	Mexico	5.8%
Lojas Americanas S.A.	Brazil	5.7%
Mavi	Turkey	5.4%
Fleury SA	Brazil	5.4%
Mail.Ru Group	Russia	5.0%
Eurocash S.A.	Poland	5.0%
IMAX China Holdings Ltd	China	5.0%
eMemory Technology Inc	Taiwan	4.9%
AK Medical Holdings	China	4.8%
Total		53.5%

Please note, we have not scheduled a supporting Q3 MMIT conference call this month, due to the close proximity to the Mobius Capital Partners Investor Day. The next call will take place in January 2020 to capture Q4 and a summary of 2019. If you would be keen to speak with the Mobius Capital Partners team before then, please do not hesitate to get in touch (harry@mobiuscapitalpartners.com).

Focus – MCP Investor Day

A question frequently posed by investors during early-stage meetings is "*what makes Mobius Capital Partner's engagement unique?*" Given the majority of active managers' claim to perform some form of stewardship role, capital allocators often want to understand if our approach offers a genuine point of differentiation.

As you would expect, this is a subject we are passionate about. We understand that successfully integrating engagement into an investment strategy can be a significant source of alpha over the long term.

We have the utmost confidence that our philosophy, frequently characterised as a private equity approach in public markets, separates us from peers. Our single, concentrated strategy (20-30 stocks) and intense due diligence process allows us to collaborate closely with management teams and wider stakeholders. The ability to unlock additional value is central to every stock's investment thesis and cannot be compromised.

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Despite engagement being embedded within our process, we recognise the most powerful advocate of our approach will come from our portfolio companies themselves. As a result, we decided to host the inaugural Mobius Capital Partners Investor Day on 18 September and to create an opportunity for our investors to hear feedback directly from the senior management teams we have been working alongside over the last year.

Three of our current portfolio companies kindly agreed to participate:

- Mail.Ru, a Russian internet and media company operating across the CIS (represented by Matthew Hammond, CFO)
- Goodbaby International, a durable juvenile products company headquartered in Shanghai (represented by Dave Taylor, SVP, Group Business Development)
- Magma Fincorp, an Indian non-banking financial company (represented by Sanjay Chamria, Vice Chairman and Managing Director)

All three speakers provided a fascinating insight into their firm's background, future growth prospects and reflected on key areas of the business they feel are misunderstood by investors. This final point is particularly pertinent. Following the implementation of MiFID II and an increasing lack of analyst coverage, we have found that knowledge asymmetry and misconceptions are a growing trend across small and mid-caps in emerging and frontier markets (*see Figure 3*).

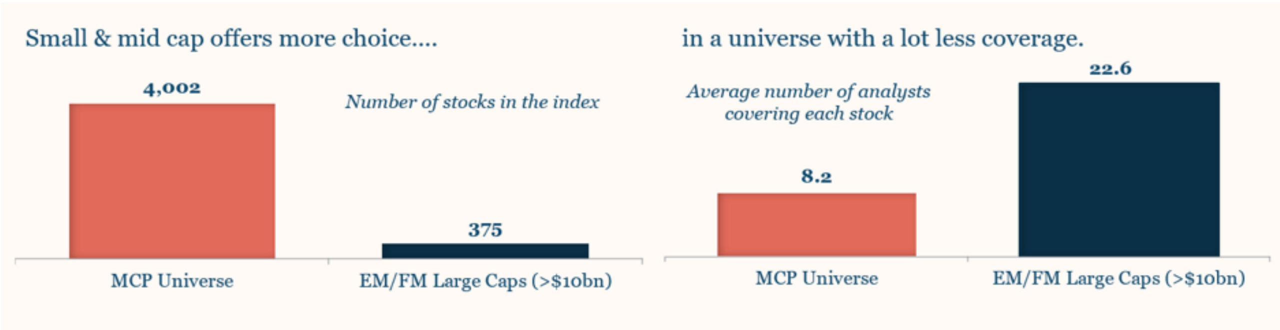

Figure 3- Source: Bloomberg, MSCI and Blackrock- September 2019

This was touched on by Dave Taylor when discussing Goodbaby's recent H1 2019 earnings announcement. Given the company's listing in Hong Kong, he was aware of growing investor concern around potential disruption caused by the protests across the administrative region. However, the market had failed to recognise that all of Goodbaby's Chinese retail stores are located on the mainland so would be unaffected. Similarly, the company's share price continues to be adversely affected by the latest headlines around the ongoing trade war. However, Goodbaby is uniquely positioned with manufacturing capabilities in both China and the US, allowing the business to mitigate against tariffs. Clearly this information gap presents an increasingly attractive opportunity set for active managers.

It was also thought-provoking to hear the company's representatives highlight frequent instances of short termism when interacting with shareholders. Matthew Hammond commented that he had attended a number of meetings with investors where he felt there was a lack of preparation and independent research. In contrast, he felt that our desire to have a deeper understanding of the business allowed us to be realistic about challenges and execution. This immediately ensures the discussions can be constructive, with Matthew noting it has already led to material improvements in Mail.Ru's reporting, particularly around divisional disclosure.

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Sanjay Chamria's presentation picked up on a similar theme, citing the benefits of our "*value additive engagement*" due to the team's knowledge of the local business environment, reflecting on our (at times) critical yet supportive approach. This reinforces our view around the merits of a collaborative approach.

"If you are not engaged,
you are never going to be good shareholders."

Listen to Matthew Hammond (CFO of Mail.Ru) talking about working with MCP

On ESG, all of the attending companies stressed that many emerging and frontier market companies are initially sceptical as they see it less as an ethical endeavour and more as a cash generative business for rating agencies. Mail.Ru has previously had off-putting experiences with consultants that work on a negative reinforcement principle (i.e. unless you specifically declare you don't do various practices, it is automatically presumed you do). Instead firms are looking to "*get away from a box ticking exercise*" and want to understand how higher ESG standards can improve their business. That is why ESG is front and centre when we present our tailored engagement decks to companies. It allows us to reflect on how greater transparency and awareness on these issues can have several advantages, most notably around share price improvements and risk management.

We want to conclude by once again thanking Matthew, Dave and Sanjay for presenting at the Mobius Capital Partners Investor Day. For those unable to attend, we hope some of the shared insights on working with shareholders from a corporate's perspective have proved illuminating. Engagement remains at the heart of our investment strategy and we will continue to evolve and improve how we most effectively collaborate with our portfolio companies to unlock the maximum value within the business.

Mark Mobius, Carlos Hardenberg and Greg Konieczny

Founding Partners
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Endnotes:

1. Bloomberg
2. http://www.china.org.cn/china/2019-08/07/content_75076267.htm

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