

# Mobius

— INVESTMENT TRUST —

## MANAGER'S REPORT

Dear fellow MMIT shareholder,

We would like to start by thanking you for your support.

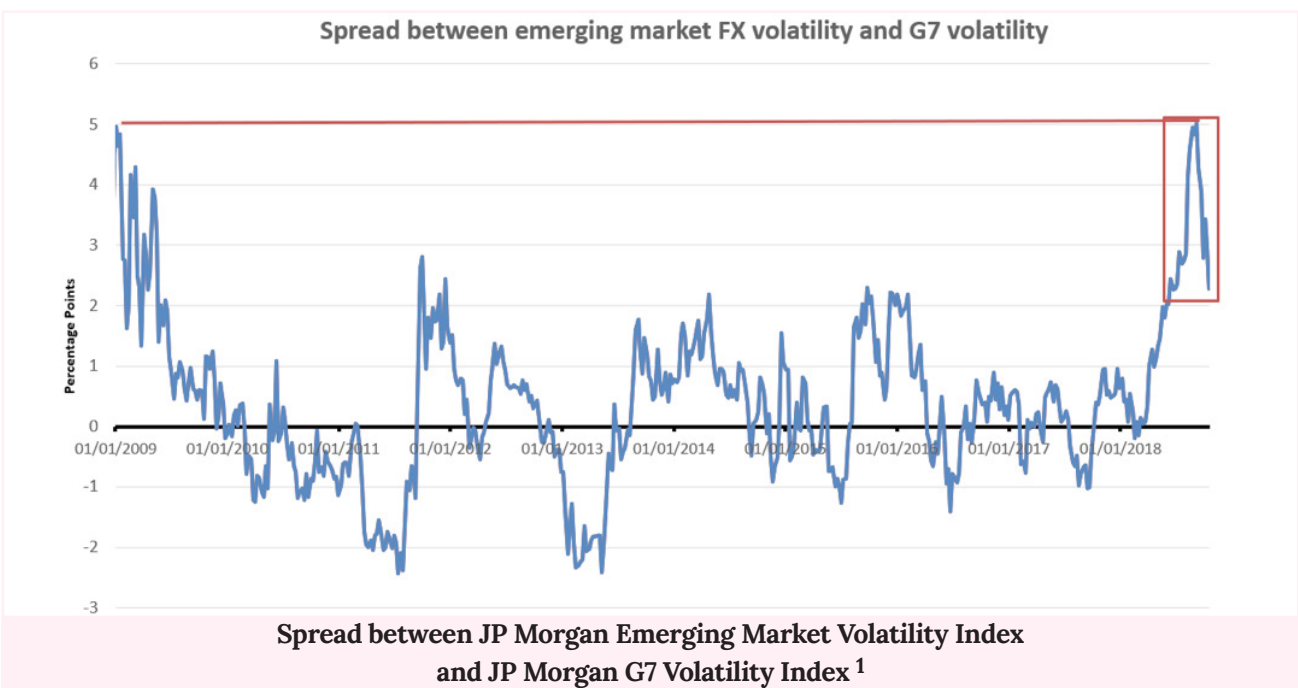
We founded Mobius Capital Partners because we wanted to do something different. We wanted to change the way we approached investing in emerging and frontier markets. Our decades of experience consistently showed that when we actively partnered with portfolio companies, we unlocked significant value. This proved most effective when we invested in highly attractive small to medium sized corporates and worked with management to make operational and ESG improvements.

A closed-ended structure perfectly complements this strategy. It allows access to less liquid stocks and markets, with greater inherent inefficiencies and therefore greater potential upside. This became the genesis of the Mobius Investment Trust.



The team at London Stock Exchange on the first day of trading

We were delighted to raise £100mln through the MMIT IPO, as the recent market instability made it a difficult environment for fundraising. In September, the spread between FX volatility in EM and G7 countries was at the highest level since 2009 (see chart below).



These sudden market movements traditionally lead to investor unease and caution. However, they also present fantastic opportunities to identify firms that are unfairly dragged down by weak currencies and discounted valuations.<sup>2</sup>

As investors we must try to look beyond the short-term noise, the irrational exuberance and excessive pessimism. Instead we must focus on the long-term drivers. The fundamentals. The facts.

## Myth-busting the bear market

The typical warning signs for emerging and frontier markets are an unbalanced GDP composition, high levels of debt, limited FX reserves and growing current account deficits. Comparing the current data to the last standout entry point for these markets in 2002 makes valuations look attractive:

- Emerging market share of global GDP (in PPP-adjusted terms) has increased from 44% to 59% between 2002 and 2017. Importantly, this new growth has been driven by health care, real estate, consumer discretionary, and utilities<sup>3</sup>
- Emerging market government debt (as a % of GDP) is now lower than in 2002, at 49%<sup>4</sup>
- Emerging market central banks control 73% of the world's FX reserves (USD 8.6 trillion) compared to 60% in 2002<sup>5</sup>
- Emerging market FX reserves have increased almost five times from USD 1.70 trillion to over USD 8.00 trillion from 2002 to 2017<sup>6</sup>

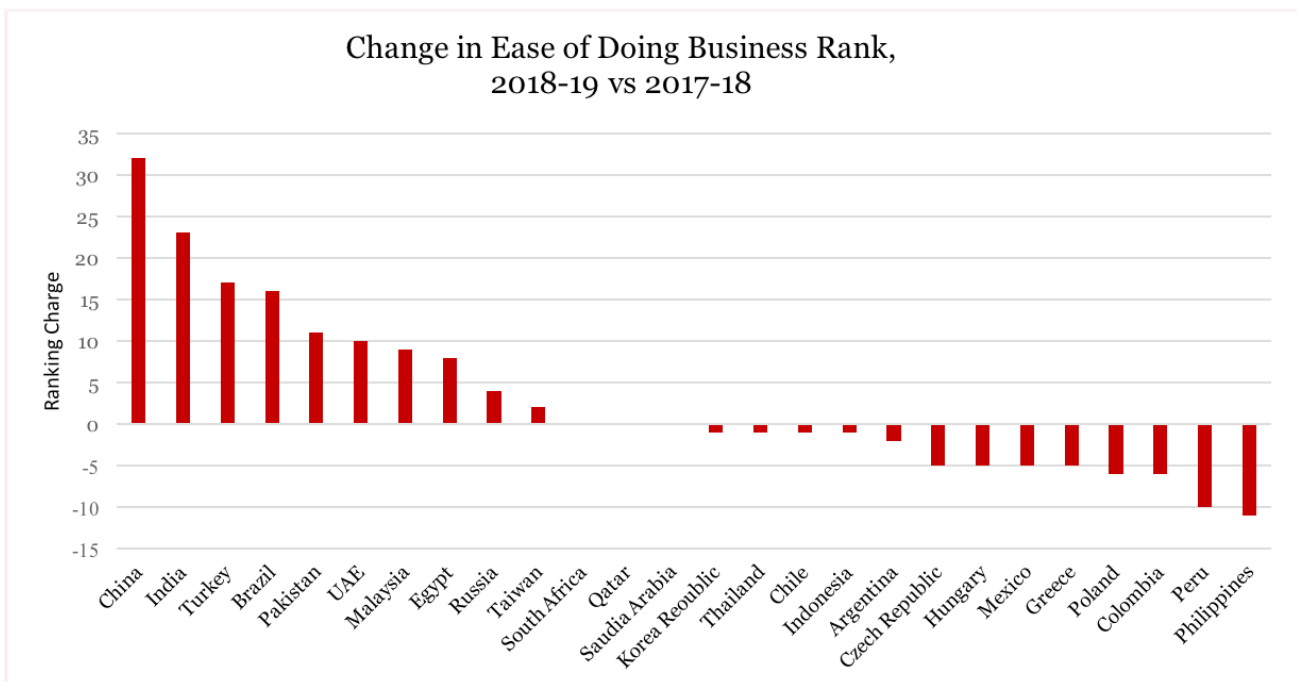
A review of current account surpluses and deficits also paints a nuanced picture, with a roughly even split across the developing world. No countries except for Argentina and Turkey have deficits in the range of 5% or more.<sup>7</sup>

| Current Account Surplus |                | Current Account Deficit |             |
|-------------------------|----------------|-------------------------|-------------|
| Singapore               | Russia         | Turkey                  | Mexico      |
| Taiwan                  | China          | Argentina               | Chile       |
| Thailand                | Poland         | South Africa            | Philippines |
| South Korea             | Czech Republic | Colombia                | Brazil      |
| Hong Kong               |                | Indonesia               |             |
| Malaysia                |                | India                   |             |
| Hungary                 |                | Peru                    |             |

Crucially, intra-emerging markets trade has also increased significantly in the last few years, now representing 41% of total EM trade. Intra-Asian trade has become a notable and common theme across technology, fashion, shipping, media, and many other verticals.<sup>8</sup>

## Did you know that...

*The recently published World Bank's Doing Business 2019 Report captures business regulation reforms across the world. This year, there has been big improvements in China (up 32 positions), India (up 23), Turkey (up 17) and Brazil (up 16). China makes it into the top 50 (46th), as does Turkey (43rd), India into the top 100 (77th).<sup>9</sup>*



## MMIT Investment Update

Following the listing of the Mobius Investment Trust on 1 October we have started to allocate capital, investing in six companies listed in Brazil, China, Hong Kong, Poland, Russia and Turkey. We remain on schedule and expect to be fully invested in Q4 2018.

As MMIT has a 3-5 year investment horizon, after a month we believe it would be inappropriate to spend too long focusing on performance. Instead we wanted to reflect on how we engage with portfolio companies.

While we continue to closely assess the valuation of stocks in our model portfolio, we also spend a substantial amount of time understanding whether we have the opportunity to 'actively engage' with management and stakeholders. This engagement forms a vital pillar to our investment strategy, and in time, can catalyse a re-rating and produce significant valuation upside.

In the pursuit of target companies over the last three months we estimate having coordinated over 600 meetings and calls with companies in 19 countries and 9 different sectors.

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Through an open dialogue, we assess issues around governance, strategy, capital allocation and operations. We try to establish what inefficiencies drive the company's discount and how value can be unlocked. Through our monthly reports, we will ensure we keep you updated with our progress.

As the investment manager of the Mobius Investment Trust, we will strive to adopt best in class communications with shareholders to ensure we are as transparent as possible. We recognise that as we encourage our portfolio companies to improve corporate governance, it is vital that we act as an example to follow. With this in mind, we hope to communicate through not only these monthly reports, but also regular videos, webcasts and our inaugural Mobius Capital Partners investor day. We also post news and announcements via our Twitter ([@MobiusCap](#)) and [LinkedIn](#) channels.

Finally, we would also invite you to reach out with any questions or comments to Harry Stein ([harry@mobiustcapitalpartners.com](mailto:harry@mobiustcapitalpartners.com)) who is directly responsible for MMIT investor relations. Once again, thank you for your support.

Mark Mobius, Carlos Hardenberg and Greg Konieczny

Founding Partners

Mobius Capital Partners

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1 Source: Bloomberg

2 EM forward P/E multiples are currently just 11.4x – lower than in 2009 and 2007, and far lower than the >15x multiples we saw in the 90s.

3 IMF Figures- <https://www.imf.org/external/datamapper/PPPSH@WEO/OEMDC/ADVEC/WEOWORLD>

4 IMF Figures- [https://www.imf.org/external/datamapper/GGXWDG\\_NGDP@WEO/OEMDC/ADVEC/WEOWORLD](https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/OEMDC/ADVEC/WEOWORLD)

5 World Bank, IMF, National Central Banks; Bloomberg

6 World Bank, IMF, National Central Banks; Bloomberg

7 Lazard Asset Management- Outlook on Emerging Markets: [http://www.lazardnet.com/us/docs/spo/145/LazardOutlook\\_EmergingMarkets\\_2015Q4.pdf?pagename=Outlook](http://www.lazardnet.com/us/docs/spo/145/LazardOutlook_EmergingMarkets_2015Q4.pdf?pagename=Outlook)

8 IMF Direction of Trade Statistics

9 The World Bank's 2018-19 Doing Business survey- <http://www.doingbusiness.org/en/reports/global-reports/doing-business-2019>

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