Q4 2019 MANAGER COMMENTARY

*"For last year's words belong to last year's language,
And next year's words await another voice"*
T. S. Eliot, Author

22 January 2020

Dear fellow MMIT shareholder,

As we bid farewell to 2019 and enter a new decade, it is worth reflecting on a period which offered plenty of opportunities as well as challenges for emerging market investors. Despite trailing developed markets by 70% since 2010,[1] the decade offered a wide array of compelling investment opportunities. We have witnessed a far-reaching transformation in emerging markets since 2009, as a new wave of innovative technology and consumer businesses appeared and thrived against long established incumbents. Stronger consumption trends and ever more competitive product development for global exports markets have shaped a solid platform to leave emerging markets well prepared for the decade ahead.

Focusing on the last twelve months, emerging markets investing was defined by multiple rotations, which have often been sharp and volatile. The first quarter was driven by a surge in China (more specifically A-shares) as sentiment improved on corporate credit quality and more sanguine growth prospects. As we moved into the second quarter, trade war newsflow dominated markets with a sharp trade-triggered reversal in May which saw some level of stabilisation the following month.

A strong technology (hardware) rally in the third quarter was shaped by optimism about 5G infrastructure investment spend, iPhone volumes and a memory turnaround which offset the ongoing drags from trade. Indeed 2019 proved to be Taiwan's best year of relative outperformance vs. Asia since 2001.[2] As we close out 2019, the ongoing rally in technology and Taiwan has been bolstered by a strong recovery in South Korea.

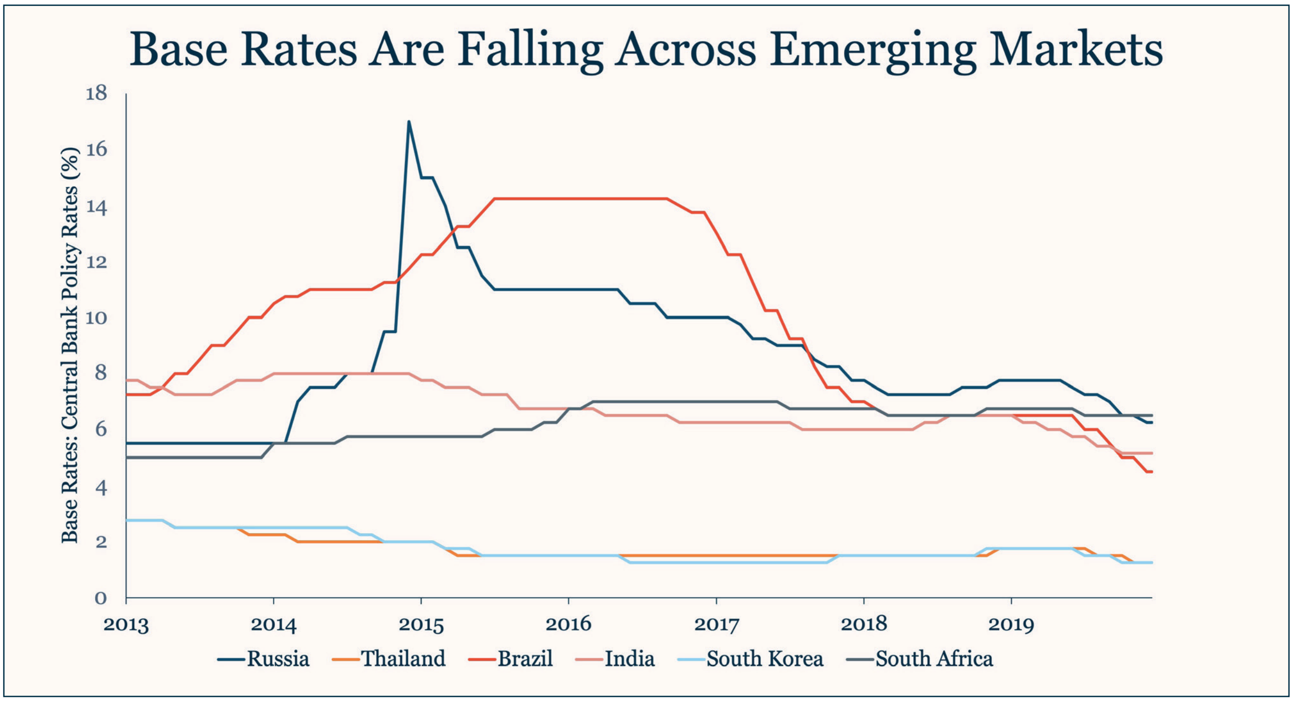
*"The emerging markets outlook for the new year is supportive.
It points to a higher growth outlook vs. the 4.1% registered in 2019"*

It is now clear that trade frictions (primarily between the US and China) have been a source of great uncertainty and partial market overreaction in the more recent past. However, the fallout from a more aggressive policy easing programme from global central banks has been sharp outperformance of 'growth' as an investment style. As bond yields have fallen globally, this has supported long duration assets and facilitated multiple expansion. However, there is evidence to suggest that this may begin to change as we look to 2020.

The emerging markets outlook for the new year is supportive. The geopolitical backdrop has improved: whilst details on a trade war resolution are yet to be clarified, the incremental newsflow is brighter. Fiscal easing has begun to gain momentum in Asia (China, South Korea, India and

25 Southampton Buildings London WC2A 1AL
www.mobiusinvestmenttrust.com

Thailand have made particular progress) which should loosen financial conditions and support near term growth expectations. Even though manufacturing remains weak, inventory positions are becoming leaner and PMIs have begun to inch up in Asia.



Source: Bloomberg

All of this points to a higher growth outlook in emerging markets vs. the 4.1% that was registered in 2019. As bond yields begin to stabilise, and in turn begin their ascent higher, we see terrific opportunities emerging in the 'value' end of the market, particularly amongst smaller companies. Whilst political risks are never too far from focus in emerging markets, 2020 sees a relatively calm calendar with only a handful of elections. This contrasts to 2019, which saw nearly a third of the world's population hit the polls in noisy – and at times, disruptive – campaigns.

Focus: India

The fund continues to have sizeable exposure to Indian equities (second only after our China weighting) with just under 18% allocated. This comes on the back of disappointing performance from Indian equities which have underperformed regional peers in three of the last four years, including 2019. This may surprise some.

Despite oil prices remaining relatively benign, the strongest Indian government in a generation elected in May, external vulnerabilities continuing to shrink with inflation tamed and FX reserves at all-time highs, the broad-based macro set up has been weak for much of this year. Investment remains sluggish, real consumption contracted in 2018 for the first time in four decades whilst real GDP growth fell from 8% in 2Q 2018 to 5% this year. Despite this, India could well be the key emerging market turnaround story for 2020.

A more favourable set up for India is shaped by an above normal monsoon (10% higher than average), a positive lagged impact from this year's aggressive interest rate cuts alongside support from renewed government spending. Corporate earnings have been boosted ~7ppt by market friendly corporate tax rate cuts with the corporate sector already through a painful balance sheet repair process – businesses are leaner and will soon view leverage as a tailwind to boost rising return on equity. Valuations are moderate vs. regional peers and India's history with investor positioning also light.

Combining India's urgency for reforms with the ruling BJP's substantial political capital, an acceleration in the reform agenda could well surprise equity markets going into next year. Despite the troubled 2019, MMIT has registered positive attribution from India over the last quarter, with 3.0% contribution to performance.

Performance

The Net Asset Value (NAV) of MMIT increased by 4.2% over Q4 2019, reaching a high of 97.1p on 30 December 2019 and closing at 96.3p on 31 December 2019. At the time of writing, the NAV was up 10.3% since the start of Q4, making it the second-best performing investment trust in the peer group.[3]

MMIT's share price dropped to 85.5p in Q4 2019 (down 0.8%), trading at an average discount to NAV of 7.8%. This decreased to 11.2% at close on 31 December 2019. As previously highlighted, in accordance with MMIT's discount management policy, the Board has been notified that the monthly average discount has widened beyond 5.0% and continues to monitor the situation closely.

Over the period, the top three largest contributors to performance were Lojas Americanas S.A. (+1.4%), APL Apollo Tubes (+1.3%) and Polycab India (+1.3%). Grupo Lala S.A.B de C.V. (-1.7%), IMAX China Holdings Ltd (-0.9%) and Cafe24 Corp (-0.5%) detracted the most from performance.

Whilst the improving sentiment towards emerging markets has certainly contributed to the improving NAV over the last quarter, we believe any outperformance can be primarily attributed to a trend we have seen across a number of the portfolio holdings in recent months.

MMIT's investment process is built around finding fundamentally attractive businesses that, due to a variety of short-term factors, are trading at a discount to peers and/or historical valuations. In a significant number of instances over the last year, despite these headwinds abating shortly after we built our position, the underlying negative market view towards the stocks took longer to dissipate than we had expected. This had resulting negative implications on the portfolio's performance.

However, over the last few months, improving fundamentals enhanced by 12 months of our customised engagement, has led to a dramatic shift in investor awareness and understanding around these businesses. The resulting demand has acted as a catalyst for share price re-ratings (see Goodbaby and Lojas Americanas S.A. as clear examples).

Looking ahead, our conviction in the existing portfolio remains high and we are already seeing further value unlocked via our engagement with company management teams.

Investment Update

As of 31 December 2019, MMIT had invested 85.7% of capital raised at IPO, with 21 holdings across 10 countries. As previously stated, we always look to exercise caution and discipline in allocating capital in volatile markets.

MMIT's top ten holdings are shown below:

Top 10 Holdings (%):	Country	(%) of MMIT portfolio
Fleury	Brazil	6.4%
Yum China Holdings	China	6.1%
APL Apollo Tubes	India	6.0%
eMemory Technology	Taiwan	5.7%
Lojas Americanas	Brazil	5.7%
Persistent Systems	India	4.9%
Polycab India	India	4.8%
AK Medical Holdings	China	4.7%
Cogna Educacao	Brazil	4.5%
Mail.Ru	Russia	4.4%
Total		53.2%

During Q4 we acquired two new holdings:

Safaricom is the leading integrated telecoms operator in Kenya with more than 63% market share. With an established network supported by strong underlying infrastructure, we believe the business is well positioned to capitalize on the rapid growth of mobile money payments across Africa, which are up 900% since 2011. This is a trend we see across emerging and frontier markets, as cash increasingly becomes less secure and convenient in comparison to mobile payments on a P2P, P2B and B2B basis.

Despite the company's impressive track record, we have identified some specific areas where our engagement can enable further success. We have started a constructive dialogue with management and have already made progress on a number of value unlocking initiatives. We continue to build our position in the second holding.

Engagement Wrap-Up

Much of last year has been defined by the engagement traction we have generated with our portfolio companies. The winds of change continue to accelerate in the investing world – with passive and smart beta products taking a disproportionate share of investment flows. The active management industry is undergoing an identity crisis – closet index trackers have been exposed, whilst characteristic-led smart beta products are a formidable threat to funds solely dependent on high active share.

Our approach is to change the characteristics of companies through partnering with decision makers and management teams. We believe that this engagement is most effective when it focuses on improving a company's characteristics to drive a higher return on invested capital (ROIC). Over time, this should lead to a higher market capitalisation. We believe that both passive and machine-based investing strategies may be effective in some areas of the market but will struggle to compete against this customised engagement approach.

Over the course of 2019, we raised more than 170 engagement action points with our portfolio companies. These focussed on 5 primary areas: governance, strategy, capital allocation, operational and ESG improvements. We have found that the initial steps on engagement target an improvement in a company's governance framework – this provides the foundations for better decision making over the longer term through improved alignment between decision makers and investors.

We have already enjoyed some early success across a number of countries and sectors which had a material impact on share price appreciation. Examples include the creation and adoption of a value based incentive programme for senior management at **Mavi** (Turkey); direct involvement with the hiring of the Head of Strategy at **APL Apollo** (India) alongside a market friendly auditor change; an increase in Board independence and initiation of K-12 business spin off at **Kroton** (now called Cogna) (Brazil); an improved related party dealing policy at **Grupo Lala** (Mexico) and a drive to increase sell side coverage at **NICE Holdings** (South Korea) and **Polycab** (India).

"We have already enjoyed some early success across a number of sectors which had a material impact on share price appreciation"

Improved disclosure was a feature of our engagement with **Goodbaby** (China) which resulted in more regular financial reporting, whilst **Eurocash** (Poland) recently had its ESG rating upgraded by MSCI (from BBB to AA) following our interactions. We have more than 40 governance action points outstanding. Once stronger governance frameworks are in place, it sets a platform for potentially more material engagement.

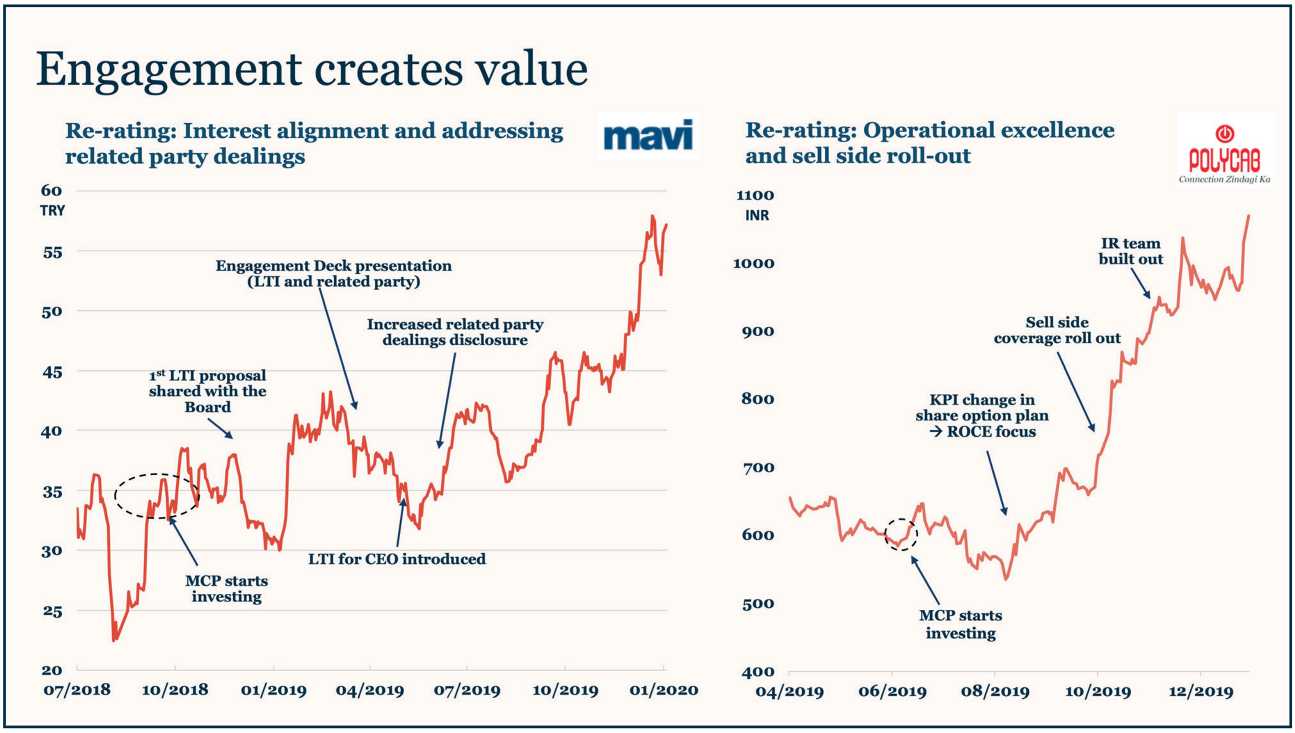
Typically, the focus will progress to capital allocation, strategic and operational improvements that release cash and improve total shareholder return. We were instrumental in increasing the buyback authority at **Matahari Department Store** (Indonesia) with an accelerated purchase pathway with further success with **Hugel** (South Korea), **Persistent Systems** (India) and **Yum China**.

Goodbaby exited a number of low profitability and loss-making brands following our interaction, whilst **Oriflame** (a global business listed in Sweden) was taken private by the founding family at a significant premium with recognition of the issues we had raised. As we look forward to 2020, we have over 70 engagement action points that centre on strategy, capital allocation, operational and ESG improvements.

There have been some important learning lessons for us too. Whilst many peer funds talk passionately about 'themes' that help shape their investment outlook, as previously highlighted (see Q2 2019 MMIT Manager Commentary) we prefer to identify common characteristics that create a fertile environment to engage successfully. Broadly, there are four key characteristics that excite us. Firstly, family run businesses can offer attractive opportunities – particularly when the next generation is receptive and thoughtful with regards to providing an environment that rewards superior decision making. Examples from our portfolio include **Mavi, APL Apollo** and **Polycab**.

Secondly, emerging market companies which have experienced private equity involvement can be appealing. In many cases, private equity investors have begun to shape strong incentive structures through improved alignment and have begun the journey of creating a pathway towards a higher ROIC. We seek to partner with such investors and look to accelerate this journey through our insight and differentiated perspective. Examples would include **Hugel, Lojas Americanas** (Brazil) and **Grupo Fleury** (Brazil).

Thirdly, harnessing a management turnaround is often a productive environment in which to engage. New management are typically receptive to operating with clear financial targets and seek to be rewarded through stock option plans for long term thinking and achievement of relevant KPIs. Our focus here has been on companies such as **Goodbaby, Grupo Lala** and **Persistent** which are undergoing their own internal change.



Finally, opportunities for engagement can arise from one off events which represent special situations. Examples include **NICE Holdings** where a generational change in ownership has created a material inheritance tax liability for the controlling family. In order to meet this, the company are forced to think creatively to unlock value in their holding company – primarily by maximising cashflow. This has provided us an opportunity to lend our perspective on how this can best be implemented.

There is still a lot more work to be done. Our engagement process is not focussed on financial engineering, but rather on supporting our portfolio partners in their quest to become the emerging market blue chip businesses of the years to come. They are the experts in their specific field, but we hope that it is through our involvement that they gain a perspective and approach that will help them stand taller than their competition.

It is our hope that this truly differentiated approach to active management will generate superior returns over the long term.

We look forward to speaking with you directly over the coming year and want to thank you again for your support.

From the Mobius Capital Partners Team

Footnotes:

1. Between 31/12/2009 and 31/12/2019 total return of the MSCI World Index (with dividends reinvested) was 162% and the MSCI EM Index was 48%
2. MSCI EM Taiwan Net Total Return USD Index had the best year of outperformance against the MSCI AS Asia Pacific Index
3. As of 14 January 2020. Peer group includes BlackRock Frontiers Investment Trust. Fundsmith Emerging Equities Trust, Genesis Emerging Markets Fund, JPMorgan Emerging Markets Investment Trust, JPMorgan Global Emerging Markets Income Trust, Jupiter Emerging & Frontier Income Trust, Templeton Emerging Markets Investment Trust and Utilico Emerging Markets Trust

25 Southampton Buildings London WC2A 1AL
www.mobiusinvestmenttrust.com

IMPORTANT NOTICE

This Manager's Report is not intended to provide the basis for any decision in respect of the Company. An investment decision must be made solely on the basis of the prospectus issued by Mobius Investment Trust PLC (the "Company"). This Manager's Report has been prepared solely to provide a basis for potential investors to consider whether to pursue an acquisition of shares. No information in this document should be construed as providing financial, investment or other professional advice.

No reliance may be placed, for any purposes whatsoever, on the information contained in this Manager's Report or on its completeness and this Manager's Report should not be considered a recommendation by the Company or Mobius Capital Partners LLP ("Mobius"). No representation or warranty, express or implied, is given by or on behalf of the Company, Mobius or Jefferies, or any of their respective directors, partners, officers, employees, advisers or any other persons as to the accuracy, fairness or sufficiency of the information or opinions contained in this Manager's Report. Save in the case of fraud, no liability is accepted for any errors, omissions or inaccuracies in such information or opinions.

This Manager's Report includes forward-looking statements. These forward-looking statements include all matters that are not historical facts, statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, the Company's results of operations, financial condition, prospects, strategies and the industry in which the Company will operate. By their nature, forward-looking statements involve risks and uncertainties. You are cautioned that forward-looking statements are not guarantees of future performance and that the Company's actual results of operations, financial condition and the development of the industry in which the Company operates may differ materially from those made in or suggested by the forward-looking statements contained in this Manager's Report. Past performance is not a guide to future performance.

This Manager's Report is being made on the basis that the recipients keep confidential any information contained herein or otherwise made available, whether orally or in writing, in connection with the Company. This Manager's Report must not be copied, reproduced, published, distributed, disclosed or passed to any other person at any time without the prior written consent of Mobius. By accepting this Manager's Report you will be taken to have represented, warranted and undertaken that: (i) you have read and agree to comply with the contents of this notice; and (ii) you will treat and safeguard as strictly private and confidential all the information contained herein and take all reasonable steps to preserve such confidentiality. This Manager's Report is directed only at: (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO"); (ii) high net-worth companies, unincorporated associations and other bodies within the meaning of Article 49 of the FPO; or (iii) persons to whom it is otherwise lawful to make the Manager's Report. The investment or investment activity to which this Manager's Report relates is available only to such persons and will be engaged in only with such persons. Persons who fall outside categories (i) and (ii) above must check that they fall within category (iii). If they do not, they may not attend this Manager's Report. Any person who does not fall within categories (i) to (iii) above may not rely on or act upon the matters communicated at this Manager's Report. Any person falling outside categories (i) to (iii) who has received any document forming part of this report must return it immediately. The shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, US Persons (as defined in Regulation S under the Securities Act). In addition, the Company has not been and will not be registered under the US Investment Company Act of 1940, as amended, and the recipient of this Manager's Report will not be entitled to the benefits of that Act. This Manager's Report should not be distributed into the United States or to US Persons.

This Manager's Report does not constitute an offer to sell, or the solicitation of an offer to acquire or subscribe for, shares in any jurisdiction where such offer or solicitation is unlawful or would impose any unfulfilled registration, qualification, publication or approval requirements on the Company, Mobius or Jefferies. The offer and sale of shares has not been and will not be registered under the applicable securities laws of Australia, Canada or Japan. Subject to certain exemptions, the shares may not be offered to or sold within Australia, Canada or Japan or to any national, resident or citizen of Australia, Canada or Japan.

25 Southampton Buildings London WC2A 1AL
www.mobiusinvestmenttrust.com