"Firemen who talk to each other for too long come to agree on many things that an outside, impartial observer would find ludicrous. This is known as the firehouse effect"
Nassim Taleb, *Fooled by Randomness*

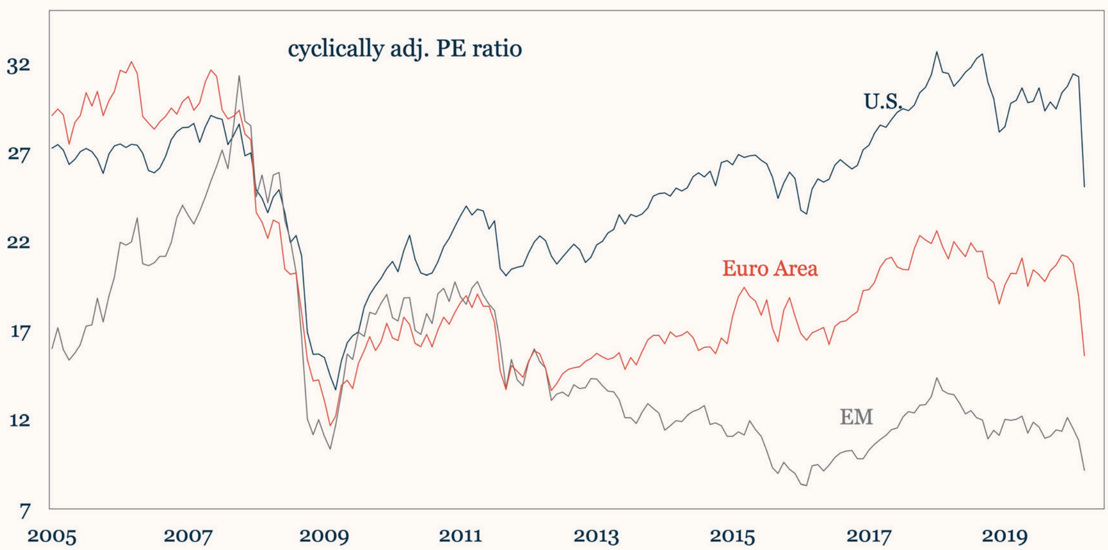
23 April 2020

Dear fellow MMIT shareholder,

The investment team at Mobius Capital Partners has recently been discussing Nassim Taleb's research on fat tailed distributions. If you haven't had an opportunity to read his fantastic book, in summary, "*the extremes of the normal probability curve, far from the peak, fall away exponentially, so that unlikely events become really unlikely and are never seen. Fat-tailed distributions decay more slowly, allowing room for outliers and freaks.*"[1] Taleb argues that in many instances these "fat tail" distributions are ignored, leading to underlying biases.

Taleb's research has felt particularly relevant over the last quarter, as we have witnessed enormous volatility across emerging and frontier markets. Equity valuations today stand at a 65% discount to U.S. equities, making the current valuation gap the largest we have witnessed throughout our careers.[2] This is not surprising, despite China, South Korea and Taiwan showcasing how best to contain the virus while minimising economic disruption. Emerging markets are always the most significantly impacted by any global crisis of confidence. The drivers behind this are well established, if perhaps in some instances slightly outdated. Crucially, we believe that with the benefit of hindsight, the current market conditions will be viewed as yet further evidence of the "fat tail" in the distribution of EM and FM investment returns.

EM Equity Valuations At A 65% Discount To U.S. Equities



Source: Bloomberg and the Institute of International Finance (IFC)

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If our assumption is correct, the subsequent question is what action should investors take. In the markets we operate in, the recent uncertainty has clearly had a large impact, even if China's $430 billion financial stimulus (including special lending by policy banks), is less than either the United States or Germany[3] have thus far earmarked.

"We hold the view that EM tend to overreact to external shocks and are far less efficient in pricing in risk than their developed counterparts."

More than $52bn was pulled out of emerging market equity funds in March 2020 alone.[4] This is significantly larger than the redemptions we saw in 2008. MMIT's NAV lost 20.6% in GBP terms over the quarter, and while this is a slight improvement on the MSCI EM Mid Cap Index over the same period (-26.1%), it undeniably remains a hefty draw down.

As fundamental investors with a long-term investment horizon, the questions we must pose are:

1) Is the current market reaction in emerging and frontier markets warranted? Is the market correctly pricing in the macroeconomic and idiosyncratic risk?

2) How long will this correction last? And, most crucially;

3) Is our strategy positioned appropriately to perform well in the current environment?

We believe that in answering questions 1 and 2 we must carefully review the conditions in emerging and frontier markets. As previously indicated, we hold the view that both tend to overreact to external shocks and are therefore far less efficient in pricing in risk than their developed counterparts. In particular, it is worth observing the 2008 drawdown in the EM small and mid-cap space and the subsequent recoveries in 2009. In contrast, developed markets (as evidenced by the MSCI World index) recovered by 30% in 2009.

Indices (USD)	2008 (%)	2009 (%)
MSCI Emerging Markets	-53.2	79.0
MSCI Emerging Markets Mid Cap	-55.9	94.4
MSCI Emerging Markets Small Cap	-58.2	113.8
MSCI World	-40.7	30.0

Data taken from MSCI EM Mid Cap Index (USD) factsheet [5]

The answer to the third question is a resounding yes. We have reached this conclusion by assessing three key drivers: (1) the portfolio's highly concentrated approach; (2) our focus on quality companies with a high return on invested capital; (3) our engagement approach which is now bearing fruit.

(1) Concentration:

The MSCI EM Index currently has over 1,400 constituents whilst the MSCI EM Mid Cap Index currently has over 600 constituents. The wider investment universe across emerging and frontier markets offers over 15,000 listed companies. Our strategy typically invests in less than 30 holdings which we have identified as unique, mispriced and attractive investment opportunities, whilst being receptive to our constructive engagement efforts. MMIT's top 10 holdings represent 55% of the strategy. We know our portfolio companies extremely well following the rigorous and independent due diligence we routinely perform as part of our investment process. We have the ability to significantly increase the weighting to companies which are benefiting from the recovery.

It is worth remembering Warren Buffett comments in his 1996 letter, "*what an investor needs is the ability to correctly evaluate selected businesses*." We continue to focus on a limited number of high-quality companies which we have carefully selected. Whilst we believe in the benefits of concentration, we do not want to compromise the rules of diversification. In terms of countries, the strategy is exposed to 12 countries and 13 currencies. Furthermore, we are exposed to 7 different sectors with the maximum exposure of 23.5% to an individual sector. Many managers during this period may dilute their best ideas to manage volatility relative to a benchmark. Now, more so than ever before, we cannot emphasise the importance of knowing our companies extremely well and backing ideas where we have the highest conviction.

(2) Robust and conservative return matrix:

We invest in quality companies, which we define as those offering a superior return on invested capital. We also tend to own companies which operate with low levels of debt compared to peers (*see portfolio characteristics table below*).

Our Companies Operate With Lower Levels Of Debt

MMIT's characteristics against respective MSCI emerging and frontier market indices (as of 31 March 2020)

	MMIT*	MSCI EM	MSCI EM Mid Cap	MSCI Frontier EM
Market Cap (USD mln)	3,100	116,222	3,409	7,729
Operating Margin (%)	20.1	19.0	10.5	27.6
Profit Margin (%)	15.2	17.0	5.8	18.5
Net Debt/EBITDA (%)	-0.2	0.2	2.7	2.1
ROE (%)	19.6	17.4	13.7	17.8
ROA (%)	11.7	7.4	5.0	5.1
Sales Growth (%)	17.7	27.6	116.5	11.1
Forward P/E 2020e	19.7	21.4	15.8	12.0
Forward P/CF 2020e	13.6	152.5	11.7	8.3
Forward EV/EBITDA	11.5	13.0	11.3	8.4
Dividend Yield (%)	2.4	3.5	4.2	5.6
FCF Yield (%)	4.6	5.4	2.4	3.9
Total Analyst Recommendations	12	30	16.0	11

Source: Bloomberg, all figures calculated on weighted average approach
**Figures are based on available data for portfolio companies*

As we know from our own experience over multiple market cycles, in times of stress, inflated balance sheets can result in severe problems for companies. At Mobius Capital Partners, 'Quality' means moats, i.e. competitive strengths which management build up over time. In a highly concentrated portfolio like ours, we do not underestimate the power of strong moats.

"As we know from our own experience over multiple market cycles, in times of stress, inflated balance sheets can result in severe problems."

We believe that all of our portfolio companies have this attribute in some way, ensuring each individual investment case is strong. Whilst there may be some short-term declines in cash flows, given the characteristics of our portfolio companies, we remain optimistic that current valuations do not reflect the long-term earnings power of these high-quality businesses.

3) Engagement:

Our engagement is bearing fruit. We are one of the first emerging and frontier market funds with a focus on constructive engagement. This has benefitted us in two ways. It allows us to gain a granular insight into businesses, management teams, operational drivers and risks, whilst also allowing us to scrutinise and understand the corporate culture of our holdings. We believe that businesses without a shareholder friendly culture will suffer over the long-term as we know from our previous experience.

During the quarter, we continued to engage with companies and were successful with a range of action points, including in China, Korea and India. In addition, we encouraged all our portfolio companies to prioritise understanding the likely business impact of the COVID-19 outbreak and start contingency planning. Our portfolio companies are led by excellent management teams who exhibit the skills to deal with the current crisis and we have been impressed with the quick and robust actions which have been taken thus far.

Performance

The Net Asset Value (NAV) of MMIT decreased by 20.6% over Q1 2020, reaching a high of 103.8p on 20 January 2020 before closing at 76.5p on 31 March 2020. MMIT's share price dropped to 65.6p in Q1 2020 (down 23.3%), trading at an average discount to NAV of 9.9%. This increased to 14.2% at close on 31 March 2020. Both MMIT NAV and share price performance were above the peer group average[6] (-23.1% and -25.7% respectively).

Over the period, the top three largest contributors to performance were AK Medical (+0.6%), Unnamed Holding[7] (+0.2%) and Yum China (+0.1%). Cogna Educacao (-2.6%), APL Apollo Tubes (-2.5%) and Lojas Americanas (-2.1%) detracted the most from performance.

Investment Update

As of 31 March 2020, MMIT had invested 91.5% of capital, with 26 holdings across 12 countries. We have used the sharp selloff across emerging and frontier markets to rotate out of a number of holdings we felt were not best placed to capitalise on the immediate recovery. In addition, given the strong performance of some holdings before the spread of COVID-19, we trimmed positions

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at the end of January. These funds have been used to gain access to attractive companies whose valuations we previously felt were too high but have fallen significantly as a result of the wider market movements.

MMIT's top ten holdings are shown below:

Top 10 Holdings (%):	Country	(%) of MMIT portfolio
Yum China Holdings	China	8.1%
AK Medical Holdings	China	7.2%
APL Apollo Tubes	India	5.5%
Polycab India	India	5.3%
Persistent Systems	India	5.3%
Safaricom	Kenya	5.2%
eMemory Technology	Taiwan	5.0%
Mail.Ru	Russia	4.9%
Hugel Inc	South Korea	4.4%
NICE Holdings	South Korea	4.1%
Total		55.0%

During Q1 we acquired six new holdings, two of which have now reached target weight so we can provide some further details:

Leeno Industrial is a leading semiconductor testing business based in South Korea. Revenues are focused around two central products (accounting for ~90% revenues): pins and logic test sockets. Leeno has been operating for 40 years, developing a widely diversified client base and products supplied to around 2,800 companies including Qualcomm, Apple, TSMC and Samsung. It is a cash generative business with a strong balance sheet.

Logo Yazilim is a Turkish business that develops and markets enterprise resource planning (ERP). With a 24% market share, Logo is the second biggest player in Turkey (after SAP), and the fastest growing IT company with more than 800 dealers and a broad distribution network. Logo has two business primary areas (software and services) and a number of recent acquisitions have increased exposure to Romania, which like Turkey is an underpenetrated market.

With both businesses, we have identified some specific areas where our engagement can enable further success. We have started a constructive dialogue with management teams.

We wanted to conclude by reemphasising the underlying message in last month's COVID-19 update. As fundamental investors, we take a long-term view with an investment horizon of 5+ years. Despite the mounting number of people infected, the worrying death toll and the roller coaster within stock markets, we believe the impact will diminish over time and the virus will eventually be contained. A tremendous amount of resources are currently being devoted to prevent the spread of the virus and towards developing a vaccine. We believe with our diversified portfolio of robust companies, we are well-positioned to generate alpha, whilst navigating the current short-term pressures.

If you would be interested in joining an update call with the Mobius Capital Partners' investment team, please email harry@mobiuscapitalpartners.com to register your interest.

Thank you for your continued support.

The Mobius Capital Partners Team

Footnotes:

1. ('Fat Tails' by Brian Hayes in American Scientist)- https://www.americanscientist.org/article/fat-tails
2. IIF Weekly Insight: COVID-19 hammers equity valuations (02 April 2020)
3. https://blogs.wsj.com/dailyshot/2020/03/26/the-daily-shot-how-will-americans-spend-stimulus-cash/
4. Chinese equities had outflows of $12.3 billion while the rest of emerging market equities suffered a $40.1 billion outflows. Source: International Institute of Finance (IIF).
5. https://www.msci.com/documents/10199/c0db0a48-01f2-4ba9-ad01-226fd5678111
6. Jupiter Emerging & Frontier Income Trust,JPMorgan Global Emerging Markets Income Trust, JPMorgan Emerging Markets Investment Trust, Templeton Emerging Markets Investment Trust, Genesis Emerging Markets Fund, BlackRock Frontiers Investment Trust, Utilico Emerging Markets Trust, Fundsmith Emerging Equities Trust
7. New position yet to reach target weight

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