Q4 2020 MANAGER COMMENTARY

20 January 2021

Dear fellow MMIT shareholder,

It seems Q4 2020 might have proved a turning point in a year full of uncertainty and volatility. During the period, a number of pharmaceutical companies published encouraging interim results from the phase 3 COVID-19 vaccine trials showing a high level of efficacy. The UK was the first Western country to approve one of these vaccines in early December and started its roll-out shortly after. Furthermore, the Biden victory in the US Presidential elections seemed to promise more stability and further stimulus action in the US. On the back of this positive news flow, markets in general, and recovery stocks in particular rallied.

The Mobius Investment Trust (MMIT) ended a strong year with a strong quarter with the NAV and share price growing by 6.6% and 15.8% respectively, driven primarily by stock selection. Engagement with companies continued to mature and gain effectiveness. We have also started to report on a wide measure of ESG and 'Culture' (ESG+C) metrics throughout the portfolio which we will continue to report on a quarterly basis (*Please see section "Introducing ESG+C reporting" below for more information*). We believe the Mobius Investment Trust is now strongly positioned to benefit from a number of positive developments which are boding well for emerging markets in 2021:

> *"The Mobius Investment Trust ended a strong year with a strong quarter with the NAV and share price growing by 6.6% and 15.8% respectively"*

We expect a sharp improvement of sentiment towards emerging markets over the coming quarters. We believe that due to the spreads in valuations between DM and EM, as well as the continued out-performance in growth coupled with earning improvements, the heavy underweight position of investors in emerging markets will not last much longer. Already the reversal of flows back into the EM asset class has accelerated (*see chart 1 below*), driven by a weak USD, the Biden victory and the hopes for a swift recovery with the COVID-19 vaccination programs set to begin in a number of countries. Furthermore, central banks in EM have overwhelmingly reacted decisively to the crisis supporting the most vulnerable people and sectors. Interest rates in EM are now at much lower levels than at the beginning of the year setting favourable conditions for a recovery.

The IMF has forecasted emerging markets to grow by 6% in 2021[1]: growth that will benefit companies and investors. Whilst the pace of the recovery will vary by region, China and Asia will lead, other markets will follow. Furthermore, certain sectors will continue to outperform. Technology and healthcare are the prime beneficiaries of the changed consumer behaviour in the wake of the pandemic (*see chart 2 below*).

With the second U.S stimulus package passed by Congress and signed by President Trump and further stimulus measures expected under the new Biden administration we believe the US Dollar will continue to be relatively weak.

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GDP Growth and Interest Rates are driving EM Flows

GDP Forecast (%)

	2020f	2021f
DM	-5.8	3.9
EM	-3.3	6.0
China	1.9	8.2
India	-10.3	8.8

Central Bank Policy Rate (%)

	Jan 2020	Jan 2021
	4.50	2.00
	6.25	4.25
	5.15	4.00
	4.15	3.85
	6.50	3.50

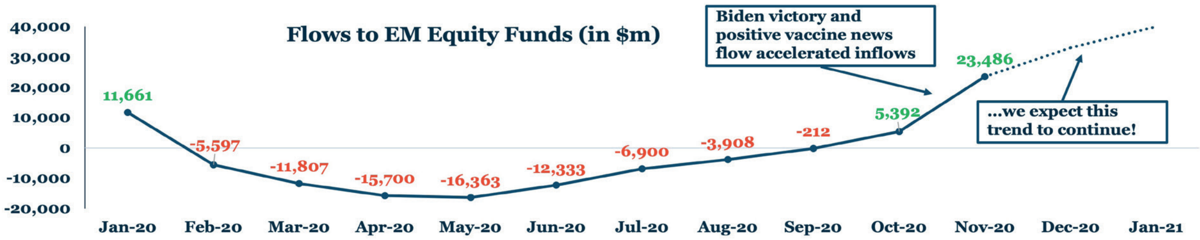
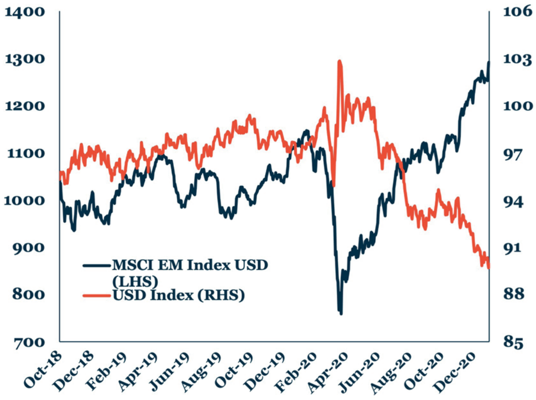
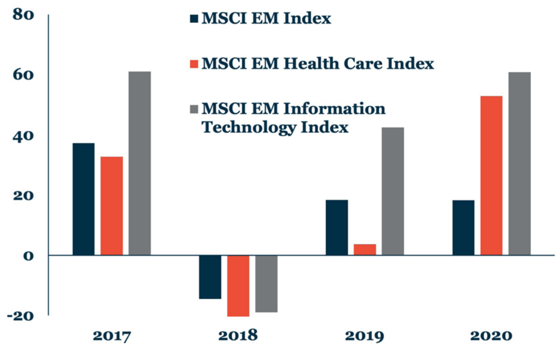


Chart 1, Source: Bloomberg, EPFR, IMF, Interest rates as of Jan 01 2020 and 2021 respectively

This will benefit emerging markets as investors are looking for yield elsewhere. As mentioned in the Q3 commentary, experience has shown that EM equities generally tend to outperform developed markets during periods of US dollar weakness. The Mobius Investment Trust with its bias towards Asian equities and the health care and technology sectors (*see chart 3 below*) is well positioned to benefit from an increase in technology, healthcare and education spending, as well as a recovery in domestic consumption in general. The swift and decisive action taken by the management teams of our holdings has left them in a strong position for the recovery phase.

EM Sectors Benefit from USD Weakness and Shifts in Consumer Behaviour





With a USD 900bn Stimulus Package approved by the US Congress and further stimulus action expected, we believe that the USD will continue relatively weak benefitting Emerging Markets

Chart 2, Source: Bloomberg, MSCI

MMIT Portfolio Overview: Sector Analysis

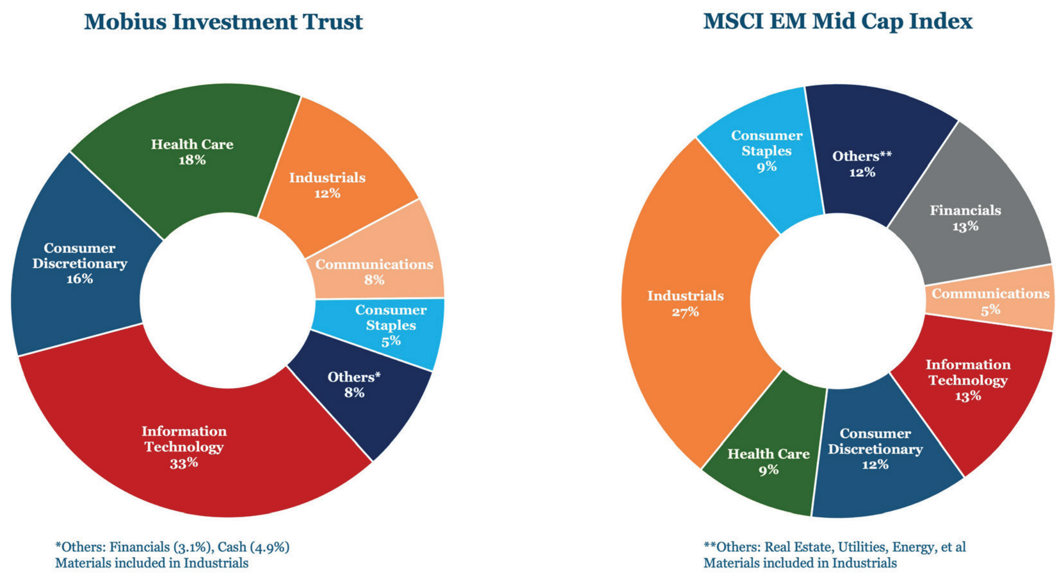


Chart 3, Source: Bloomberg, MSCI

No doubt, there remain some risks and uncertainties as the discovery of more aggressive variants of the virus and the renewed lockdowns in a number of countries in recent weeks have shown. A swift and well-organised global vaccine roll-out will be crucial, as will the actual efficacy of the respective vaccines.

However, in summary, we are looking with confidence to the next year and are cautiously optimistic that emerging markets are entering a phase of outperformance.

Performance

In Q4 2020, the Net Asset Value (NAV) and share price increased by 6.6% and 15.8%, while the average discount driven by investor interest narrowed to 3.8% on 31 December, down from the Q4 average of 6.6%. In October, the Mobius Investment Trust was added to Interactive Investor's "Super 60" list replacing the Templeton Emerging Markets Smaller Companies fund. Interactive Investor is one of the largest retail investment platforms in the UK.

The top contributor was Apollo Tubes (+2.7%), the leading branded steel products manufacturer in India, whose strategic actions taken during the pandemic resulted in significant market share gains. eMemory Technology, a Taiwan-based technology company, which has seen a surge in demand for its services with the work from home drive and reaped the benefits of the on-going roll-out of 5G, contributed +1.3%.

The third biggest contributor (+1.0%) was Turkish clothing retailer Mavi, which continued its recovery with a slow return to a more regular business environment. Mavi also reported better than expected results for Q3 in December as swift and decisive action taken by management, including the strengthening of online sales channels, helped mitigate the repercussions of the Covid-19 related lockdowns.

The top detractors were Chinese health care companies AK Medical (-1.3%) and Kangji Medical (-0.9%). Investor sentiment was affected by the extension of the Chinese government's Group Purchasing Organisation (GPO) to high-value medical commodities. Year-to-date, AK Medical remains one of the largest contributors to performance. The third largest detractor was Malaysian semiconductor company Pentamaster International (-0.5%).

Investment Update

As of 31 December 2020, MMIT had invested 95.1% of capital, with 31 holdings across 12 countries.

MMIT's top ten holdings are shown below:

Top 10 Holdings (%):	Country	(%) of MMIT portfolio
Persistent Systems Ltd	India	9.4
eMemory Technology	Taiwan	7.4
APL Apollo Tubes	India	7.0
Yum China Holdings Inc	China	5.9
Fleury	Brazil	5.3
Polycab India	India	4.7
LEENO Industrial	South Korea	4.5
Hugel Inc	Turkey	4.4
Safaricom	Kenya	4.3
Totvs	Brazil	3.8
Total		56.7

During Q4, we invested in Parade Technologies, a leading supplier of mixed-signal integrated circuit (IC) chips for high-speed interface standards, as used in products such as tablets, notebooks, displays, and other consumer electronics. Parade Technologies is listed on the Taiwan Stock Exchange yet headquartered in Silicon Valley, and counts renowned brands such as Apple, HP, and Dell amongst its customers.

Why we invested**:**
- Parade is a market leader in a highly innovative segment of the semiconductor market. We expect increased usage of data to drive a sustainable demand growth for Parade's products.
- Parade is a highly profitable business with an attractive valuation.

Engagement

While international travel continued to be heavily restricted in Q4 due to the Covid-19 pandemic, we were very pleased by the effectiveness of virtual meetings. During the period, the investment team had regular calls with portfolio companies to follow-up on engagement. They reported good progress on a number of action points particularly with regards to ESG improvements. This was acknowledged by the wider market with the inclusion of Brazilian medical company Fleury and Chinese restaurant company Yum China in the Dow Jones Sustainability Index Emerging Markets, recognising both companies' achievements in the area of sustainability.

Introducing ESG+C™ reporting

Since the establishment of Mobius Capital Partners, integrating ESG+Culture factors into our research and engagement has been a core component of our investment process. As we continuously strive to enhance our investment communications, we are excited to launch our ESG+C™ reporting today. Given our focus on a single strategy, combined with running a highly concentrated portfolio, our ability to conduct thorough research an engagement with all portfolio companies differentiates us from our peers. Accordingly, our ESG+C™ reporting aims to provide transparency on a range of factors, using a framework which is systematic and consistent.

What do we mean by ESG+Culture and why is it important?
Whilst a focus on "Environmental", "Social" and "Governance" (ESG) factors have become common over the years, we believe a crucial and missing component within this is corporate culture. Whilst some may categorise this factor within governance or even social, we believe culture warrants a distinct and separate categorisation. This is particularly true for emerging market investors, who interact and engage with an incredibly diverse range of corporate cultures throughout the world. There is strong evidence showing that ESG leaders outperform their peers. We believe that by integrating corporate culture into our research process, the outperformance should be greater.

Engagement on ESG Creates Value in Emerging Markets

ESG Leaders outperform their peers across emerging markets (annualised performance, 2013 - 2019)

	MSCI EM	MSCI EM ESG Leaders	MSCI China	MSCI China ESG Leaders
Return (%)	4.7	6.9	8.9	13.6
Max Drawdown (%)	35.2	30.5	42.1	39.3
Sharpe Ratio	0.25	0.41	0.4	0.61

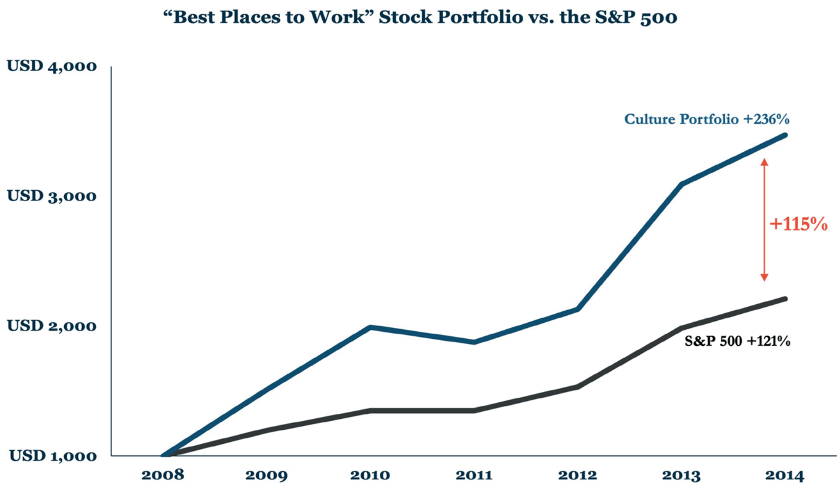
The UN PRI conducted a study using 2013 - 2019 data from MSCI. It found that ESG data incorporation in investment analysis suggests **ESG is a source of alpha in emerging markets.**

Chart 4, Source: UNPRI Report: ESG and Alpha in China/MSCI, all risk and return figures are annualised (USD)

From 1980 onwards, the concept of corporate culture started gaining attention from academics as well as managers[3]. According to the Harvard Business Review, there is evidence that a strong corporate culture benefits a company's performance. Harvard academic James L. Heskett states that corporate culture "can account for 20–30% of the differential in corporate performance"[4]. Furthermore, Andrew Chamberlain, chief economist at Glassdoor, investigated the relationship of a company's share price development after the companies' inclusion in the '100 best firms to work for' ranking[5]. Chamberlain constructed a portfolio of 36 publicly traded companies of the 2009 Glassdoor "Best Places to Work" ranking.

The portfolio consisting of companies such as Netflix (4.4 Glassdoor score) and Procter & Gamble (3.9 Glassdoor score) performed 236% over a five-year period. This equals an outperformance of the S&P 500 of 115.6%[6]. By weighting the companies within the portfolio according to their Glassdoor score, the performance could be improved by 6.7% over a five-year period.

Outstanding Corporate Cultures Create Shareholder Value



	S&P 500	Culture Portfolio	Difference
2008	$ 1,000	$ 1,000	0%
2009	$ 1,197	$ 1,511	26%
2010	$ 1,350	$ 1,992	48%
2011	$ 1,350	$ 1,875	39%
2012	$ 1,531	$ 2,128	39%
2013	$ 1,984	$ 3,092	56%
2014	$ 2,210	$ 3,470	57%

Chart 5, Does Company Culture Pay Off? -Andrew Chamberlain, Ph.D. Chief Economist, Glassdoor

Within emerging markets, we are yet to find a consistent ranking of ‘best firms to work for’ and accordingly it is difficult to replicate the Glassdoor study. LinkedIn for example published a list of top companies in China to work for using data from 40 million users. Top companies included Chinese companies (Alibaba) as well as U.S. companies operating in China (Tesla). However, we believe more consistent rankings will be published over the next decade. What is clear is that assessing corporate culture provides us with a differentiated lens and allows us to select outstanding companies to hold for the long-term.

How do we measure ESG+Culture factors:
Within the process of creating the ESG+C™ factsheet, we faced two major challenges:

Our Framework:
By adding culture to the assessment of ESG factors, we decided to create a proprietary framework which allows us to assess corporate culture. Our culture framework consists of five focus areas: “Equality”, “Freedom”, “Recruitment”, “Innovation” and “Remuneration”. The five focus areas within culture are subdivided into different factors influencing the focus area. Many of these factors cannot be quantified themselves. However, proxies can be used to ensure the inclusion of different factors on a quantitative basis.

Data Sources and Limitations:
Information from companies is only considered if it is publicly available and traceable to the source. Accordingly, we avoided private questionnaires or surveys as such a process is difficult to replicate on a quarterly basis. Based on this principle, annual reports are one of the central data sources. Unfortunately, not every company is reporting in English in emerging markets.

Furthermore, the reliability of existing data sources is sometimes questionable. Many companies have recognised the importance of ESG and therefore include it into their reporting. Still, there exists a great inconsistency among the various ESG reports. Data is always subject to adjustments due to regulatory requirements from national stock exchanges.

Quantifying qualitative data:
ESG reporting from many of our competitors running emerging market portfolios typically utilises case studies of single portfolio companies. These individual assessments do not show a holistic picture nor do they show the development of the overall portfolio. Culture is often assessed by conducting surveys, a complex and resource intensive approach. Both are lacking transparency and are not objective.

"Harvard academic James L. Heskett states that corporate culture can account for 20–30% of the differential in corporate performance".

Quantifying qualitative data helps to evaluate the overall portfolio and provides comparable data. In general, three different groups of proxies can be identified. First, proxies based on a binary evaluation verifying the existence or implementation of standards or services. Secondly, the weighted average of factors such as the proportion of women in leadership positions. Thirdly, by using external scores such as ratings from the Carbon Disclosure Project.

Portfolio findings:
Whilst this is by no means an empirical exercise, we have several observations from the data within our portfolio. Within the environmental category, whilst 50% of the portfolio publishes an environmental report, only 13% of portfolio companies' (13%) formulated concrete environmental targets. Among the social factors, more than 40% of the portfolio companies report on their contribution to the UN Sustainable Development Goals (SDG). Most of these portfolio companies contributed to the 8th goal (decent work and economic growth), the 3rd goal (good health and well-being), and the 4th goal (quality education).

Reporting according to the standards of the "Global Reporting Initiative (GRI)" has been identified as one of the governance metrics. Across the portfolio, 42% of companies report in line with GRI reporting standards. This is closely correlated to companies which report on the UN SDG goals. While it is common in Latin America to report in line with the GRI standards (100%), Asian companies within the portfolio tend not to utilise the GRI framework (21%). This is not surprising as Brazil became one of the first GRI hubs already in 2007. GRI hubs in Asia were launched later und usually cover multiple countries, increasing the complexity of integrating the GRI standards into different regulatory systems. Reporting in accordance with the GRI standards enables companies to disclose their environmental, social and governance activities. The GRI standards include, for example, reporting on the contribution to the UN Sustainable Development Goals.

As previously described, remuneration is one of the five areas of the culture framework. From our decades of experience of investing in emerging markets, share option schemes can provide employees the opportunity to take real ownership within a business. Furthermore, share option schemes create a long-term incentive to act in the interests of a company.

72% of portfolio companies offer share option schemes to their employees. The assessment of share option schemes revealed regional differences. Companies within the portfolio incorporated in Europe, Middle East, or Africa (EMEA) tend not to (33%) offer share option schemes to employees. In contrast, Asian (68%) and especially Latin American (100%) companies offer

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share option schemes to a large extent. Employee satisfaction and engagement is an important dimension to assess culture. Typically, internal surveys are used to measure these factors. As these surveys often lack transparency and their reliability needs to be questioned, we decided to only use publicly available data.

Therefore, job and recruiting websites such as Glassdoor appeared to be a suitable data source. Using Glassdoor data is supported by an approach published in the MIT Sloan Management Review. The main reasons for utilising this approach is the reduction of polarization through a series of policies designed to promote honest and representative reviews by Glassdoor. Additionally, unlike other platforms, Glassdoor reviews gravitate towards the centre of the distribution, with fewer extremely positive or negative ratings, drawing a more realistic and less extreme picture. Whilst not all companies in the portfolio have a Glassdoor score, 71% do. Across the portfolio, the average Glassdoor score has an average of 3.63 on a five-point scale.

What are the implications of the ESG+C findings for our engagement:
Based on the reporting, we were able to derive implications for future engagement.
Across the portfolio, 18% percent of board members and 17% of management teams are female. As a result of this observation, we will continue to engage on improving gender diversity at the board level as well as across the C-suite.

Only 16% of portfolio companies set quantitative environmental targets. We will continue to engage on this area to significantly increase the percentage of portfolio companies with concrete environmental targets. Quantitative environmental targets include the reduction of waste production, reduction of water consumption and CO_2 emissions. These quantitative targets can be directly linked to the executive compensation and therefore play a central role in improving the sustainability profile of portfolio companies.

Whilst ESG reporting has become more common for portfolios investing in developed markets, the data challenges within our investment universe have made this task difficult for our portfolio. Nonetheless, we anticipate more companies across the market cap spectrum in emerging and frontier markets will improve their reporting over the next decade. At Mobius Capital Partners, we will continue to act as long-term stewards of your capital by engaging with all portfolio companies and will continue to enhance our ESG+C reporting.

Please do reach out to us with any suggestions you may have as we embark on this journey. Your feedback and comments are invaluable to us. You can reach Anna von Hahn at anna@mobiuscapitalpartners.com should you have any questions or would like additional information.

Thank you for your continued support,

The Mobius Capital Partners Team

Footnotes:

1. https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD
2. Global Mid and Small Cap Emerging Market peer group as determined by Morningstar
3. The Handbook of Organizational Culture and Climate – Sonja A. Sackman - Neal M. Ashkanasy et al.
4. Does Company Culture Pay Off? - Andrew Chamberlain - Glassdoor
5. What Great Companies Know About Culture - John Coleman – Harvard Business Review
6. https://www.glassdoor.com/Award/Best-Places-to-Work-2009-LST_KQ0,24.htm

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