

# Mobius

— INVESTMENT TRUST —

## Q1 2023 MANAGER COMMENTARY

*“Truth is stranger than fiction,  
but it is because fiction is obliged to stick to possibilities; truth isn’t.”  
Mark Twain, Author*

28 April 2023

Dear fellow MMIT shareholder,

The years since the inception of the Mobius Investment Trust have been full of jaw-dropping twists and turns for emerging markets worthy of a bestselling suspense novel. No author could have thought of more elaborate turning points. A pandemic of an unprecedented scale that cost millions of lives and saw people locked up in their homes for months; a brutal war in the midst of Europe; US-China tensions over technology involving advanced semiconductors, space stations and spy balloons; and the most aggressive monetary tightening cycle since the 1980s. Each of these events would merit its own book. However, while the rise and fall of the plot in a novel is steadily moving towards a climax, when everything changes for better (or worse), in real life it is hard to know when this final turning point is reached. This is all too well illustrated by the roller coaster ride of investor confidence over the last few years which has been alternating between hope and fear.

### Global Events Weighed On Investor Confidence

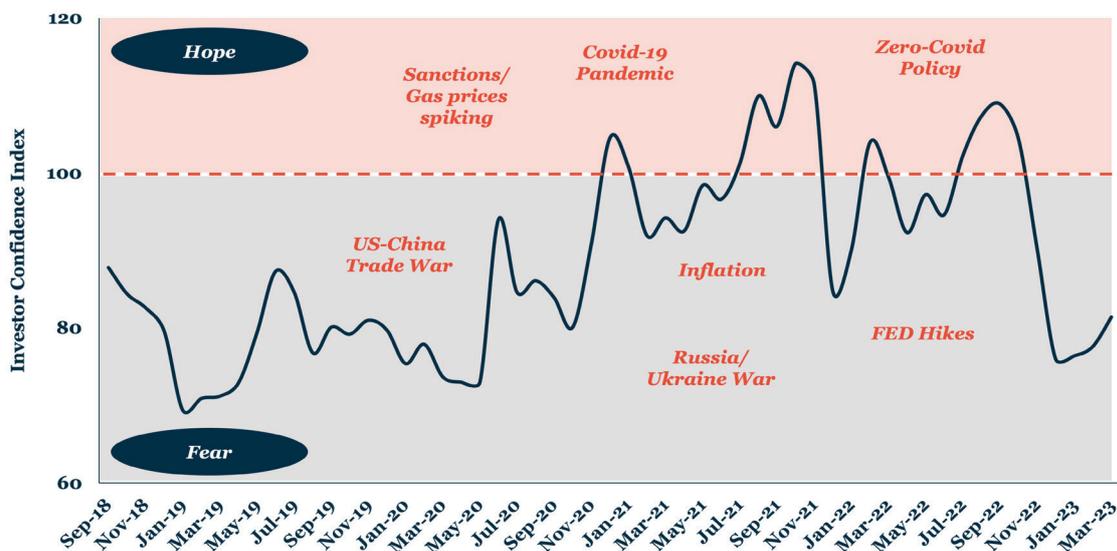


Chart 1: Source: State Street Investor Confidence Index, Sept 2018 until March 2023.

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The first three months of 2023 made for another eventful quarter for emerging market equities. After an optimistic start into the new year as China lifted its Covid restrictions and shifted its policy focus to reviving growth, renewed US-China tensions over an alleged Chinese spy balloon and the biggest failure of a US bank since the global financial crisis, eroded investor confidence. The Mobius Investment Trust had a strong start into the year but was subsequently impacted by cautious sentiment as events unfolded and the Federal Reserve pushed through another rate hike, bringing the target rate to between 4.75% and 5%.<sup>1</sup> Over the first quarter, MMIT delivered a NAV return of 0.5%, while the share price declined by 1.5%. In Q1, MMIT traded at an average premium of 0.1%. Driven by investor interest, MMIT has issued 2.1m shares since the beginning of the year (as of 28 April).

We expect volatility to continue for much of this year, driven by inflation, continued monetary tightening (albeit at a slower pace), the fall-out from the banking crisis and geopolitical tensions. All of this is bound to have an impact on emerging markets but it might be less pronounced than in previous crises. The tale of emerging markets since the term was coined in the mid-80s is a coming-of-age story. Emerging markets have come a long way, and MCP's founding partners have witnessed (and successfully navigated) these crises first-hand for decades. Emerging markets have learned their lessons from the past and are now better equipped to deal with the challenges mentioned above. The latest evidence of this is the resilience financial institutions in EM have shown in the aftermath of the SVB and Credit Suisse collapses. Many emerging economies embraced major banking sector reforms after the financial crises of the 1990s. Today, EM bank balance sheets are often more conservatively managed than developed market ones. Prudent central bank policies in many EM in the aftermaths of the pandemic have put them ahead in the tightening cycle and inflationary pressure, especially in Asia, remains contained.

### Banking Sector Performance (09 Mar – 23 Mar 2023)

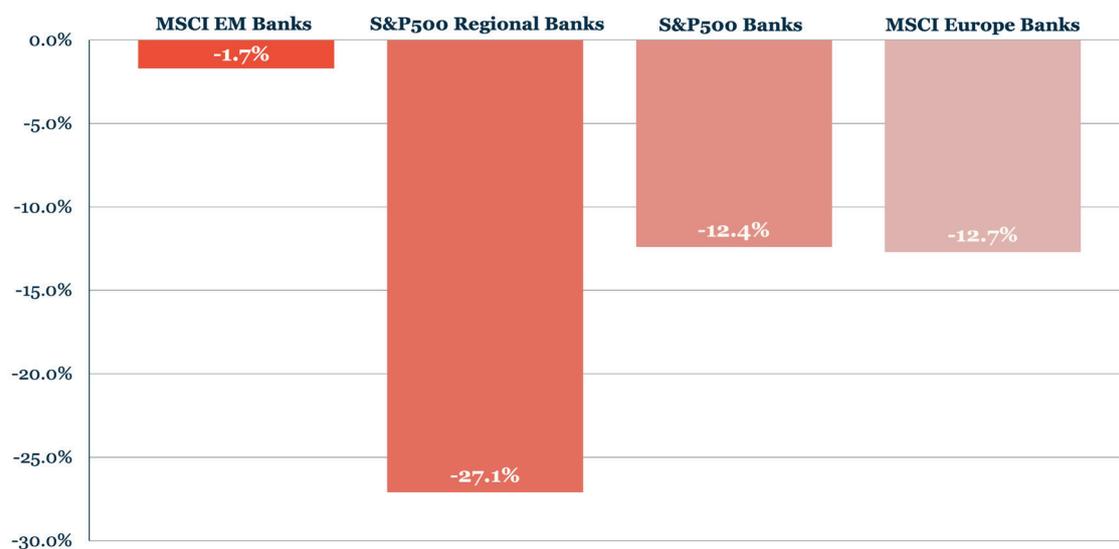


Chart 2: Source: Bloomberg, index sub-sector performance between 09 March and 23 March 2023

For investors, periods of volatility come with opportunities. Emerging markets are trading at a 15-year record discount (price/earnings and price/book) to developed markets.<sup>2</sup> The team at MCP has used the recent downturn to add three new high-conviction companies to the portfolio.

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These companies (see section *Investment Update* below) are true MCP stocks with:

- sustainable competitive advantages (moats)
- strong local brands with a diversified and loyal customer base
- expanding industry profit pools
- profit growth and increasing dividends
- outstanding cultures and strong innovation
- engagement opportunities
- low financial, industry and business risk over 5 years

Before we invested, we engaged with all three companies in person. In Turkey and India, we met their management teams, visited their offices, and talked to employees and customers. While video conferencing has proven an extremely efficient tool over the last years, we strongly believe that on-the-ground research adds significant value, especially in the small- and mid-cap universe in emerging markets where external research is hard to come by.

Our recent trip to India, where we spent over a month, confirmed our bullish view on the country (see section *India Thriving* below), and yielded two exciting new investment ideas that are currently going through our meticulous 360-degree due diligence process. Further trips to Asia are planned later this year.

The last ten years have been challenging for emerging markets and EM equities have underperformed developed market equities amid a multitude of macroeconomic headwinds. We believe that this storyline is near a turning point. The stars are starting to align for emerging markets. Valuations are low and offer an attractive entry point. Inflation is moderating and the current rate-hiking cycle may be close to an end. Emerging market GDP is forecast to grow at a much faster pace than developed market GDP and EM companies are leading the earnings growth recovery.<sup>3</sup> Accordingly, Morningstar sees the highest returns in EM equity markets over the next 10 years.

### Highest Return In EM Over The Next 10 Years



Chart 3: Source: Morningstar

Furthermore, the latest GDP numbers from China—which grew at its fastest pace in a year during Q1 2023 (4.5% year-on-year)—should reignite hopes for a robust recovery as the country emerges from zero-Covid. This should have a positive impact on other emerging markets which trade with China, particularly in Asia. Asian countries will be driving global growth in the coming years. MMIT’s Asian exposure accounts for over 65% of the portfolio as the team continues to find the most attractive investment opportunities in the region. MMIT’s portfolio companies that cater to growing trends—including AI, renewable energy, digitisation and cybersecurity—are well positioned to benefit from the recovery in the region.

### EM Asia Will Lead Global GDP Growth

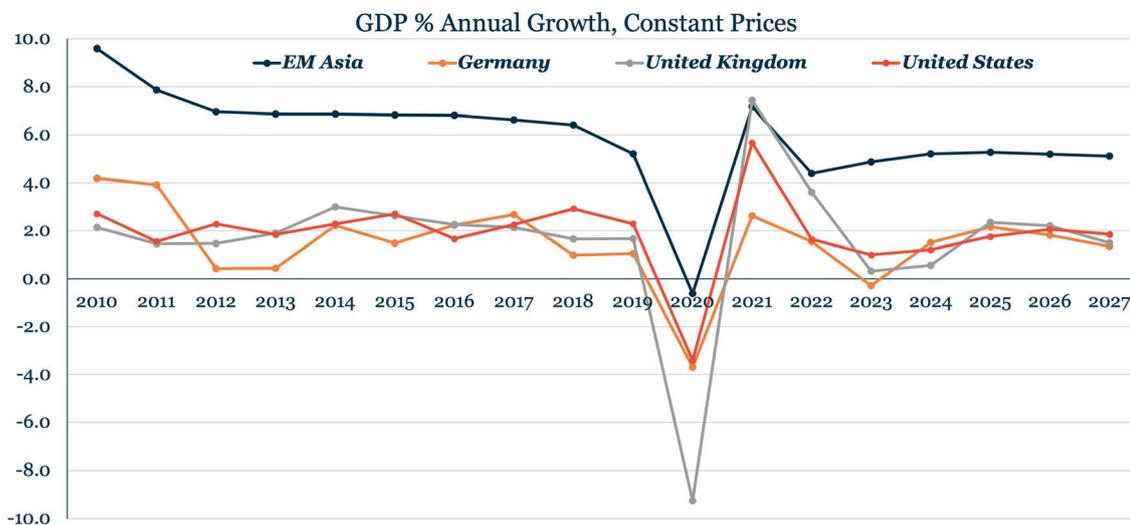


Chart 4: Source: IMF World Economic Outlook October 2022 Dataset

### Performance

During Q1, MMIT’s net asset value (NAV) increased by 0.5%, while the share price declined by 1.5%. Driven by strong investor interest, MMIT traded at a premium for much of the quarter, and has been issuing shares on several occasions. Over the same period the MSCI EM Mid Cap Index Net TR GBP delivered a return of 0.9%. Top contributors to Q1 performance were MMIT’s Taiwanese technology holdings, with eMemory Technology and SINBON Electronics contributing 1.8% and 0.9% respectively, followed by Indian software firm Persistent Systems (+0.9%). Over the reporting period, the main performance detractors were Hong Kong-based EC Healthcare (-2.0%), Safaricom (-1.4%) from Kenya, and Turkish clothing retailer Mavi (-0.7%).

While 2022 was dominated by value stocks and cyclical sectors such as energy and commodities, the new year has seen a return to growth and technology stocks now that the monetary tightening cycle seems to be approaching its peak. Accordingly, MMIT’s technology stocks contributed almost 5% (GBP) to performance during the period. Technology exposure accounts for over 50% in the portfolio and is well diversified across software, hardware and semiconductors. Technology has been a significant driver of performance since inception, contributing 46% to the trust’s (gross) return.

### Performance since Inception

As of 31 March 2023

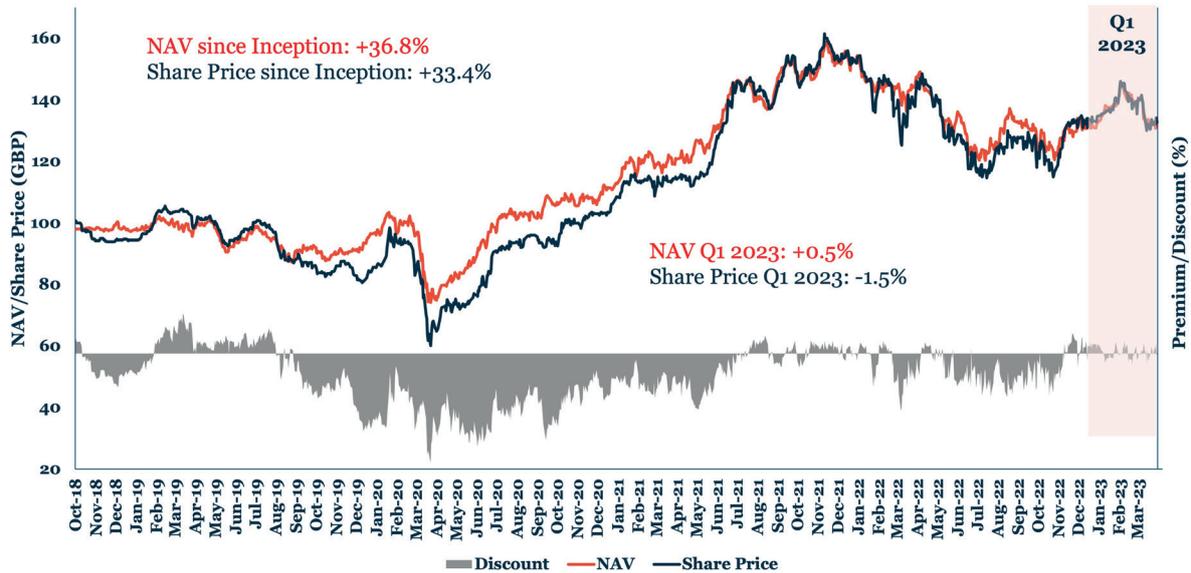


Chart 5: Source: Bloomberg

We now look towards the end of the year and beyond, where we see indications that the semiconductor cycle might be turning. In times of heightened volatility, it is important not to lose sight of the long term. Semiconductors are key to the big emerging technologies, including AI, IoT, autonomous driving and 6G. McKinsey projects the chip industry to become a trillion-dollar industry by 2030.

### Semiconductors To Become A Trillion-Dollar Industry By 2030

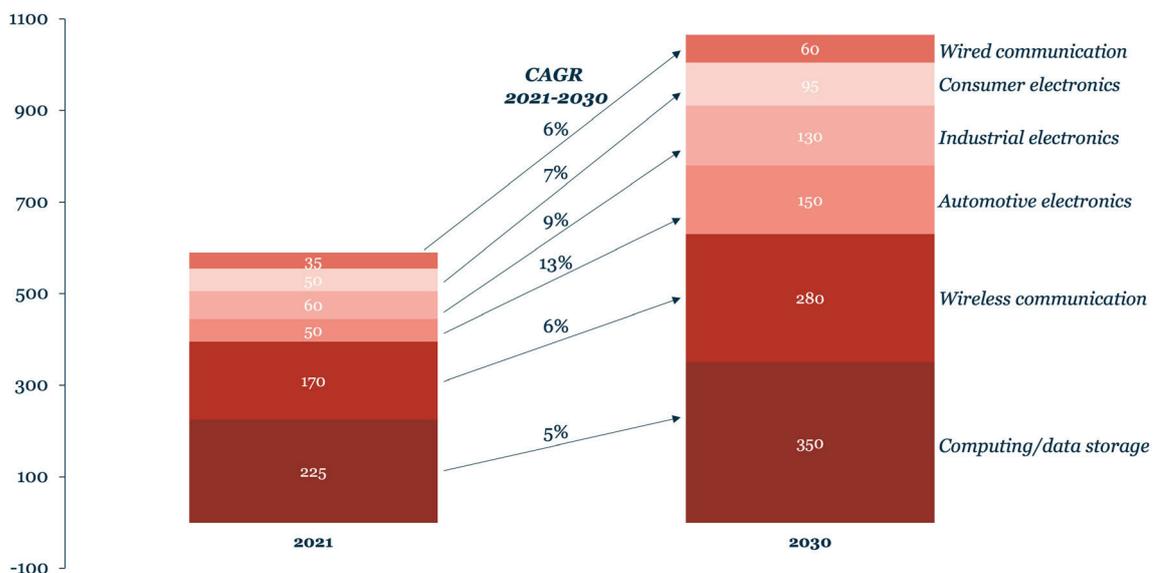


Chart 6: Source: McKinsey & Co

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Our companies are deeply embedded in the semiconductor value chain. They are leaders in their respective niches and deliver products and services to the large foundries. With Park Systems we recently added another quality company with a differentiated product essential to the semiconductor industry to the portfolio (see *Investment Update* below).

### Investment Update

As of 31 March 2023, MMIT had invested 92.2% of capital, with 24 holdings across 10 countries..

Top 10 Holdings (%)	Country	% of MMIT's portfolio
<b>EC Healthcare</b>	China	6.6
<b>LEENO Industrial</b>	South Korea	6.6
<b>Persistent Systems</b>	India	6.5
<b>EPAM Systems</b>	US	6.4
<b>APL Apollo</b>	India	5.9
<b>Classys</b>	South Korea	5.7
<b>TOTVS</b>	Brazil	5.6
<b>Sinbon Electronics</b>	Taiwan	5.1
<b>ZillTek Technology</b>	Taiwan	4.1
<b>eMemory Technology</b>	Taiwan	3.9
<b>Total</b>		<b>56.4</b>

The largest geographic exposure was Taiwan (24.0%), followed by India (16.5%) and South Korea (14.6%). The largest sector exposure was technology (58.1%), followed by health care (16.6%) and consumer staples (6.1%).

During the reporting period, MCP added three new high-conviction ideas to the portfolio: Turkish software company Hitit Bilgisayar Hizmetleri AS provides IT solutions to the airline industry in Turkey and internationally. Hitit offers customers IATA compliant state of the art solutions at significantly lower cost (-30%) than its competitors. Eighty percent of the company's revenues are generated in USD and EUR, providing Hitit with a natural hedge against currency risks.

South Korean hardware company Park Systems is a developer and manufacturer of atomic force microscopes and a pioneer in AFM Nanometrology. Its flagship "NX Wafer" product provides surface analysis solutions to microchip manufacturers. MCP believes growth will be driven by 1) smaller chips, 2) wider usage in the BioTech space and 3) usage in the EUV (extreme ultraviolet) mask repair industry.

### Portfolio Company Spotlight: CE Infosystems (MapMyIndia) – India/Technology

By constantly monitoring India's vast landscape of innovative technology businesses, MCP came across MapMyIndia, a leading provider of advanced digital maps, geospatial software and IoT technologies. After multiple virtual interactions with the management, the team visited the company's headquarters in Delhi, and met with senior stakeholders as part of MCP's in-depth due diligence process. The firm was founded in the '90s by an entrepreneurial couple who met

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during their engineering studies in the US. The couple own roughly 50% of shares and manage the firm together with their son—a true family-run business. MapMyIndia offers digital maps under software as a service (SaaS) and platform as a service (PaaS) models to 2,000+ large and small customers, including Apple, Hyundai and Amazon. Clients tend to be sticky with 3–5-year contracts and receive customised solutions leading to high client retention.

With a strong balance sheet (net cash), high operating leverage and strong cash flow generation, MCP added this quality company to the portfolio to get exposure to the fast-growing digital map services industry. The \$97bn geospatial technology and mapping industry is growing at >15% annually, with the local Indian market being relatively small and growing faster at >18%. The government intends to further liberalise regulations around geospatial data usage by domestic entities, and growing penetration of smartphones and increasing number of e-commerce platforms requiring domestic map services will fuel demand growth. Already benefitting from a diverse board and good governance, MCP is currently formulating an engagement plan regarding best-in-class reporting and governance practices.

### **Engagement and ESG+C® Update**

Over the last almost five years, we have found our portfolio companies not only to be receptive to engagement but, in many cases, they were already allocating resources towards improving ESG. Throughout Q1 2023, MCP continued to engage with companies on ESG+C® factors through letters as well as virtual and in-person meetings. Among the ongoing 166 engagement points, discussions around governance factors accounted for almost half (49%). Good governance is the key to avoid scandals and drive improvements in the environmental, social and culture fields. We believe a truly independent and diverse board of directors that will ask the right questions is critical to governance success. Therefore, board independence has been one of the focus areas for the team at MCP. We were pleased to see that, during Q1 2023, software companies Logo and EPAM appointed additional female independent board members.

*“During the quarter, the overall share of MCP’s portfolio companies reporting their CDP score increased to 54%.”*

During the quarter, the overall share of MCP’s portfolio companies reporting their CDP score increased to 54% (from 32% at the end of Q4 2022). The team at MCP engages with every portfolio holding on CDP reporting. Reporting in line with the Carbon Disclosure Project’s standards is key to providing full transparency regarding emissions, climate actions and climate risks. This collective framework also enables stakeholders to hold companies accountable. We would like to congratulate Mavi, Turkey’s leading denim retailer, who earned an “A” rating in their CDP disclosure for climate change for the first time during Q1 2023. Mavi has committed to becoming a climate-positive company by 2050. It aims to reduce Scope 1 and Scope 2 greenhouse gas (GHG) emissions by 50% by 2030 and to become a carbon neutral company by 2040.

As of Q1 2023, the portfolio’s Glassdoor score (a measurement of corporate culture) stood at 3.8, with 5 being the highest possible score. EPAM Systems was recognised as a top employer in the US, Germany, Switzerland and Poland by Glassdoor, Built In, kununu and Great Place to Work.

Having visited Turkey and Brazil in 2022, and India earlier this year, MCP is currently planning company visits in South Korea, Hong Kong and Taiwan for H2 2023 to further engagement and conduct on-the-ground research.

### India Thriving – A Report from Our Recent Research Trip

We have recently returned from a research trip to India, a visit we had been very excited about as we had missed in-person interactions with our holdings and interesting businesses that we have been following for a while. While our regular calls and meetings in London have allowed us to stay in close contact, a personal meeting with CEOs and managers on site cannot be substituted.

#### India in the Portfolio

India has been an important allocation for the Mobius Investment Trust since its inception. MMIT's Indian holdings have contributed 39% to return as of the end of March 2023. This was almost entirely driven by stock selection. Our visit has confirmed our bullish outlook on the region, and the exciting companies diligent stockpickers can find in India.

#### Some Important Facts about India

India, a country of 1.4 billion people, and soon expected to be the most populous country in the world, offers a plethora of opportunities for us as long-term, quality-oriented investors. Companies have evolved, are increasingly more professionally managed, and are focused on corporate governance and sustainability efforts, which has helped in attracting domestic and foreign capital flows. Innovation is omnipresent, and India has created 100 unicorns in the last five years. Unrelenting deal activity in PE and VC also means new and innovative businesses available to invest in as public market investors. There are over 6,000 listed companies in the small- and mid-cap space.

### India – Facts & Figures

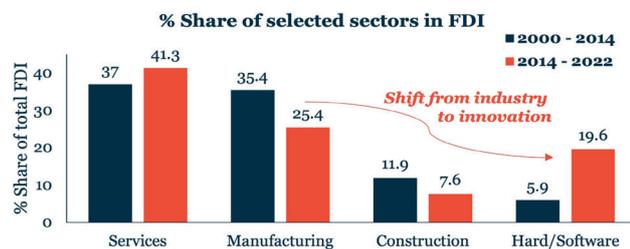
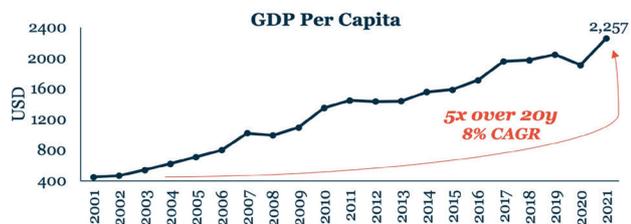


Chart 7: Source: Bloomberg, RBI

#### Growing Middle Class

In India, we observe income inequality and a changing social fabric, as in most other emerging markets, but are convinced that rapid income acceleration, technological adoption and corporate spending—aided by favourable economic and fiscal policies—will keep India on a steady growth path. GDP per capita has quintupled over the last 20 years<sup>6</sup>. By 2030, the Indian economy will be led by the middle class, and upward income mobility will continue to drive consumption.

## Sustainable Growth Through Rising Middle-Class Spending

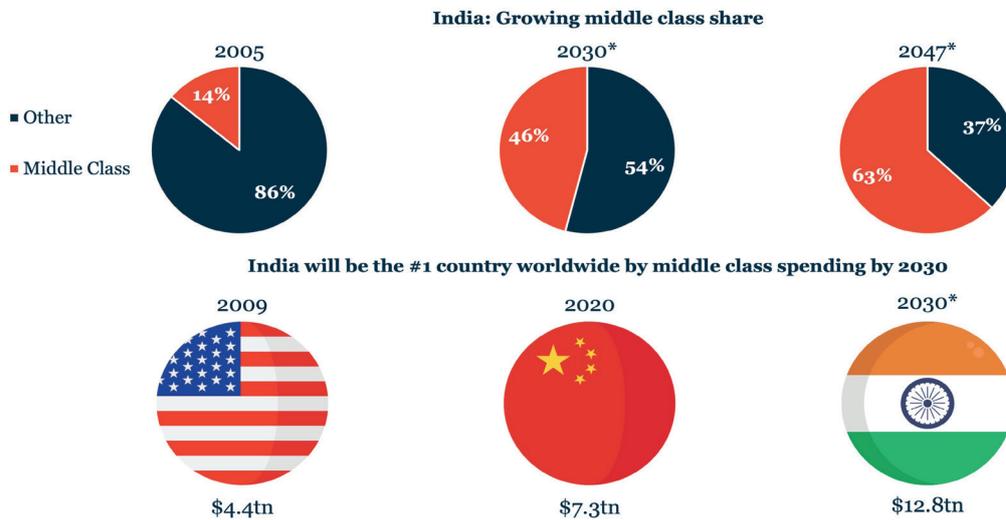


Chart 8: Source: Brookings Institution, as of 2020, People Research on India's Consumer Economy. \*Asterix indicates forecast

### The Growth Premium

In its latest World Economic Outlook, the IMF forecast India to grow 5.9% in 2023 and 6.3% in 2024, more than any other major economy. This compares to 1.3% and 1.4% projected growth for advanced economies.<sup>7</sup> The Indian economy clearly has recovered from the pandemic-related slowdown and is now on an impressive, sustained growth trajectory for the next decade. Growth will primarily come from the increase in private consumption (and we have witnessed this on the ground with busy markets and fully occupied restaurants and shopping malls) and will be fuelled by a broad-based expansion of capital expenditure by the private and public sectors.

## India Will Grow Faster Than Any Other Major Economy

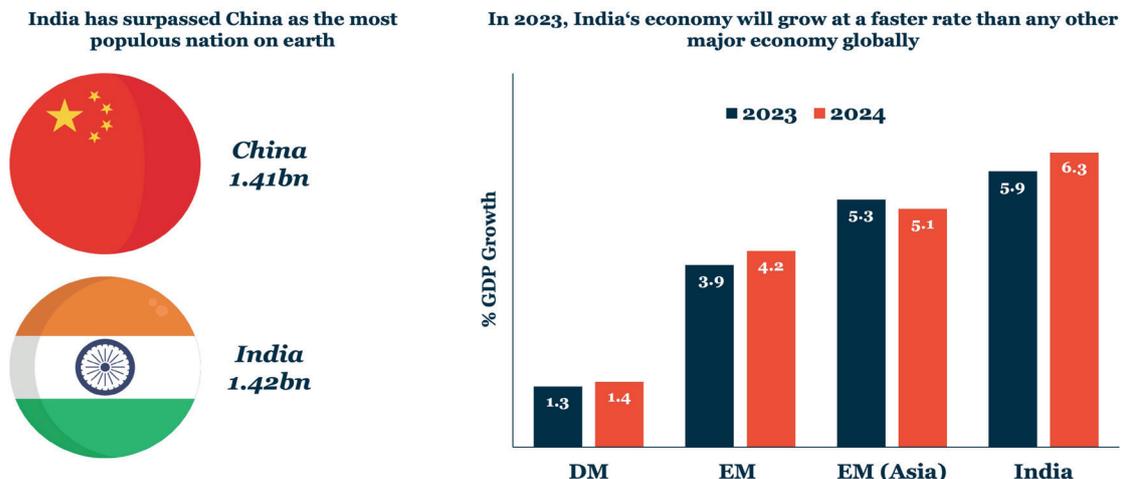


Chart 9: Source: World Population Review, IMF World Economic Outlook Update April 2023

### Supportive Government Policies

We view the recent economic policies—including increased spending on infrastructure, incentives to boost certain niche manufacturing segments, focus on improving ease of doing business and fiscal measures undertaken to keep inflation in check—largely positively. Shortly before our visit, India’s government announced a raise in capital expenditure of 33% to 10 trillion rupees (\$122.29 billion) in the next fiscal year to drive investments in infrastructure. We witnessed first-hand rampant construction activity across the cities we visited. The scale of expansion of the Metro (public rail transport) is mind-boggling and is being talked about by everyone we met. Further, construction of new expressways, bridges and airports continues to support the public infrastructure and we see this as a good indicator of the economic growth the country is witnessing.

## Supportive Government Policies Drive Growth In India

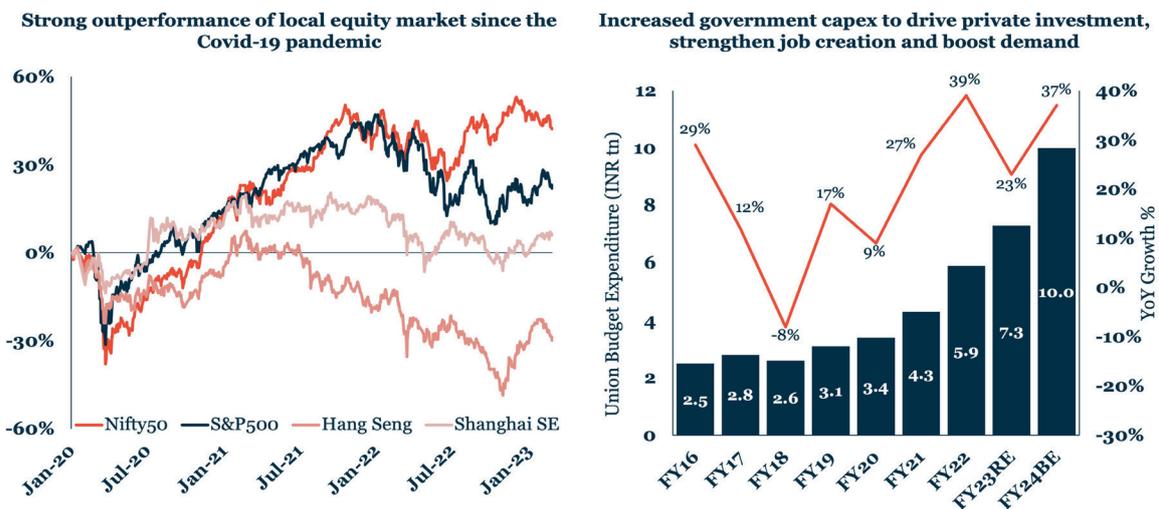


Chart 10: Source: Bloomberg, Macquarie Research, As of 28 February 2023 (FY -> Apr – Mar)

### Digitalising the Financial System

Another key driver of economic growth is a healthy credit cycle with multiple banks competing and lending activity again on the agenda. Our interactions with small and large banks also point to the good health of corporate credit in India which is the cornerstone of future expansion. India’s financial system has made significant progress in efficiency with technology and innovation becoming mainstream. The digital payment system UPI is basically used by every Indian and has almost replaced cash entirely (UPI enabled approximately 2,300 transactions a second in 2022). Ever-increasing smartphone penetration, combined with the government’s efforts to reduce cash transactions, has brought the majority of the population into the digital payment ecosystem. As a result, about 80% of Indians own a bank account today<sup>8</sup>, a significant change from only five years ago.

### China plus 1

During our visit, the world was surprised to learn about one of the largest airplane deals in recent history with Air India (the erstwhile national carrier, now owned by the Tata Group, among India’s largest conglomerates) ordering over 400 planes from Airbus and Boeing. Our visit also coincided with several global investor summits and G20 meetings and we constantly heard of the large-scale investments across diverse sectors such as manufacturing and renewable

energy. India’s recovery and robust position is clearly no secret, and a term we heard everywhere was ‘China plus 1’. Although we don’t invest directly in airlines, infrastructure or asset-heavy manufacturing companies, we have found small businesses that fit our quality criteria and are poised to benefit from these sectoral tailwinds. As part of our research, we met over 20 companies during our trip in addition to economists, local fund managers, entrepreneurs and private investors.

### India – Leading The Digital Transformation

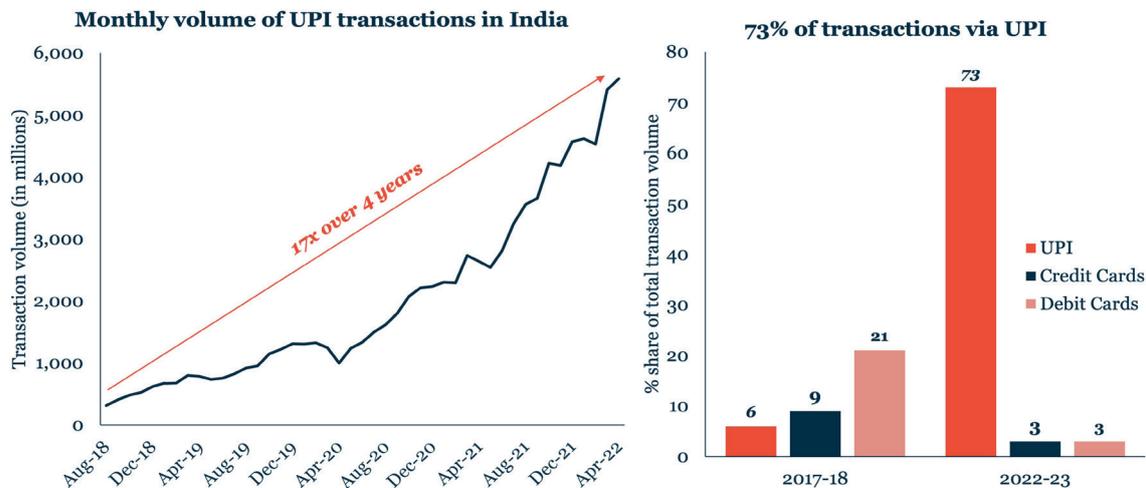


Chart 11: Source: Ministry of Finance (India)

### Our Portfolio Holdings

The most satisfying finding from our trip was that our holdings are doing even better than we had expected. APL Apollo Tubes, one of our key holdings for over three years, had just reported its highest ever quarterly volume of 600k tons of steel tubes. The passion and the vision of the founder MD, his attention to detail and strong intent to professionalise the organisation with the right talent, continues to impress us. We are firm believers in investing in companies with good culture and this meeting with the MD reaffirmed APL’s focus on their culture—employees are considered family. During the visit to the warehouse of a distributor to APL for 10+ years we clearly saw the brand appeal and scale of distribution of APL Apollo superseding that of their peers. At a visit to one of their plants, we witnessed the highly efficient manufacturing process with >90% of energy needs met through renewable energy.



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A key holding—and one of the top performers for us since inception—is Persistent Systems, a global digital engineering company that differentiates itself from the other IT companies in India by catering to a niche customer segment. Despite the macro headwinds, Persistent continues to be among the fastest growing companies and has kept up its trajectory of new deal wins. All our interactions with competitors and other investors highlighted the quality of management, the recent success in reorganisation and its ability to continue to grow in a difficult market. We remain firm believers in their long-term success and have successfully engaged with the company on various initiatives over the years.

### **A New Investment**

We continue to find similar promoter-run businesses in India led by professional management teams and with a clear succession plan in place. One such new addition to our portfolio is CE Infosystems (MapMyIndia), a small yet exciting business that is a domestic leader in providing geospatial technology and automotive navigation solutions in India (please also see *Company Spotlight* above). Our interactions with the founding family—including the CEO and the heads of different businesses who have been with the company for over 10 years—highlighted the importance of culture in the organisation. Promoters have gradually transferred ownership in the form of ESOPs to key employees, even before ESOPs became common among tech companies in India. Coincidentally, CE Infosystems was celebrating its 25th anniversary on the day of our visit and were preparing for an organisation-wide cricket tournament. After our visit to their experience centre and the interactions with the team, we walked away with the feeling that they can innovate continually and combat disruption, while maintaining their sticky customer base.

### **Conclusion**

India will remain an exciting country for us, and we will watch closely as the country is headed into elections in May 2024 during which the incumbent government needs to successfully navigate current economic headwinds for a third victory. During our trip we identified new potential investments in niche segments within financials, manufacturing and technology sectors which would benefit from the longer-term opportunities the country offers across consumer and corporate spending.

We are now looking beyond 2023. Company earnings will be an important driver of the mean reversion. Estimated EPS growth for MMIT's portfolio over the next three to five years (CAGR) is 24.1%.<sup>9</sup> This is significantly stronger than forecasted for the MSCI EM Index (9.0%) or the S&P500 (6.3%). The fundamental quality of MMIT's holdings and the focus on growing trends will help to deliver on these predictions as stars align for emerging markets.

We would like to thank our shareholders for your continued support. Please email Anna von Hahn at [anna@mobiuscapitalpartners.com](mailto:anna@mobiuscapitalpartners.com) should you have any questions.

Best wishes,

The Mobius Capital Partners Team

### Footnotes:

1. <https://www.federalreserve.gov/monetarypolicy/openmarket.htm>
2. Bloomberg: MSCI EM Index to S&P 500
3. Bloomberg, Best LTG EPS
4. [http://www.stats.gov.cn/english/PressRelease/202304/t20230419\\_1938796.html](http://www.stats.gov.cn/english/PressRelease/202304/t20230419_1938796.html)
5. Bloomberg/DZ Bank
6. Reserve Bank of India
7. <https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023>
8. Ministry of Finance
9. Bloomberg BEst LTG EPS as of 31 March 2023

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### IMPORTANT NOTICE

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