Q4 2021 MANAGER COMMENTARY

"The person who follows the crowd will usually go no further than the crowd. The person who walks alone is likely to find himself in places no one has ever seen before."
Attributed to Albert Einstein

25 January 2022

Dear fellow MMIT shareholder,

2021 has been the strongest year for the MCP strategy since its inception in October 2018. It was the year where the differentiated investment approach was able to showcase its edge over competitors. The focus on quality companies with strong balance sheets in combination with active engagement contributed to the portfolio's resilience in times of volatility and drove outperformance against peers. In 2021, the Mobius Investment Trust (MMIT) delivered a NAV and share price return of 36.9% and 41.9% respectively, leading the peer group by a wide margin. At the same time, the MSCI EM Mid Cap Index returned +7.8% while the MSCI EM Index returned -3.7% in GBP terms.[1]

MMIT – Performance

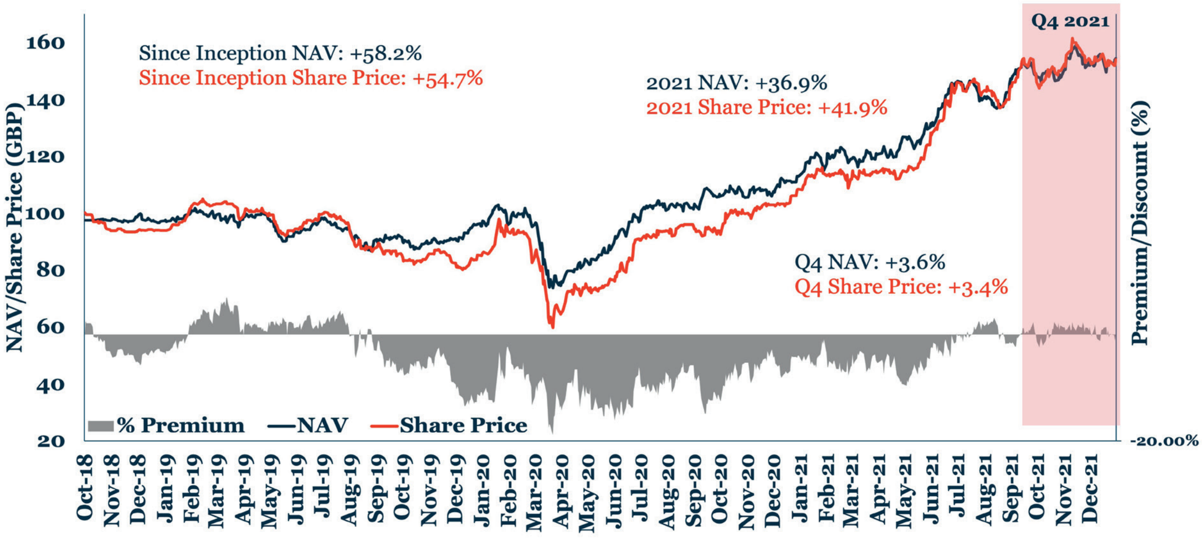

Chart 1; Source: Bloomberg, Mobius Capital Partners; Inception 01 October 2018; Data as of 30 December 2021

After a lot of optimism at the beginning, driven by vaccine efficacy, 2021 turned out to be a challenging year, especially for emerging markets. Vaccination progress was slow and new waves of Covid-19 variants meant that the speed of the recovery was uneven. Many developing countries took longer to emerge from lockdowns. Even now, two years after Covid-19 emerged in China, a great part of Asia remains closed to foreign visitors.

During Q4, it became evident that high inflation on the back of an accelerating recovery, supply chain bottlenecks, pent-up demand and rising energy prices would not be as transitory as the Fed might have hoped. This led to a turn from a dovish to a more hawkish stance at the end of the year. While rising interest rates and a stronger USD would affect emerging markets, we don't believe the relationship between rate hikes and EM flows is as strong as sometimes portrayed.

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More recent evidence suggests that emerging market economies can withstand tighter financial conditions without significant downside. Tighter monetary conditions in the US usually reflect a strong US economy which is positive for EM exporters in general, somewhat offsetting the higher cost of financing. At the same time, in stark contrast to the 1980s or 1990s, EM economies are in much better condition, with more prudent fiscal and monetary frameworks, better managed currencies, more diversified funding structures, and largely stable financial sectors with far more prudent lending policies. We do not rule out a temporary negative effect of rate hikes by the Fed on emerging markets; however, the impact according to our assessment should be limited.

Renewed Covid-19 outbreaks during Q4 2021 and the emergence of the Omicron variant in mid-November added to market volatility throughout the period. Local events including China's regulatory campaign, the Chinese real estate crisis, an irrational monetary policy in Turkey and the threat of an expensive welfare scheme in Brazil worried investors. We are watching all these developments very carefully and regularly speak to the management teams of our portfolio companies to understand the challenges they are facing.

We are less concerned about China. According to our assessment, the anti-monopoly and regulatory tightening period has peaked. As communicated by China's Politburo in December 2021, policy will change from regulatory tightening to supporting growth. The growth target which will be announced in March is expected to be around 5.5% and we would not underestimate Beijing's ability to achieve this. A first significant impulse was evident as early as December 2021, when the banks' reserve requirements were lowered.

On the bright side, strong corporate earnings for Q3 in developed and emerging market companies were taken as a positive sign of the ongoing global recovery. China reported a record trade surplus for December and the whole year. Fed rate hikes are now being priced in. The year ended with the hope that Omicron would be milder than previous variants and the beginning of life with Covid-19 without restrictions.

What we have learned in the last two years, is that nothing is certain when it comes to dealing with Covid-19. Progress has been slow and there have been setbacks along the way. We believe we will continue to see this pattern well into the second quarter of this year. We are cautiously optimistic that this will be followed by a phase of stabilisation and hope that things will be getting back to normal in the second half of 2022. Supply chains should start to normalise and this, in combination with the trickle-down effect of higher base rates, should help to ease the inflationary pressure.

Growth will still see decent levels, with some countries like India, one of our largest exposures, expected to grow their GDP by 9%[2]. The vaccine roll-out in emerging markets has picked up pace. At the same time, some emerging markets have reached high levels of immunity through infection. Corporate earnings will be driven by continued consumer spending on the back of pent-up demand and still-easy monetary policy.

Outlook 2022

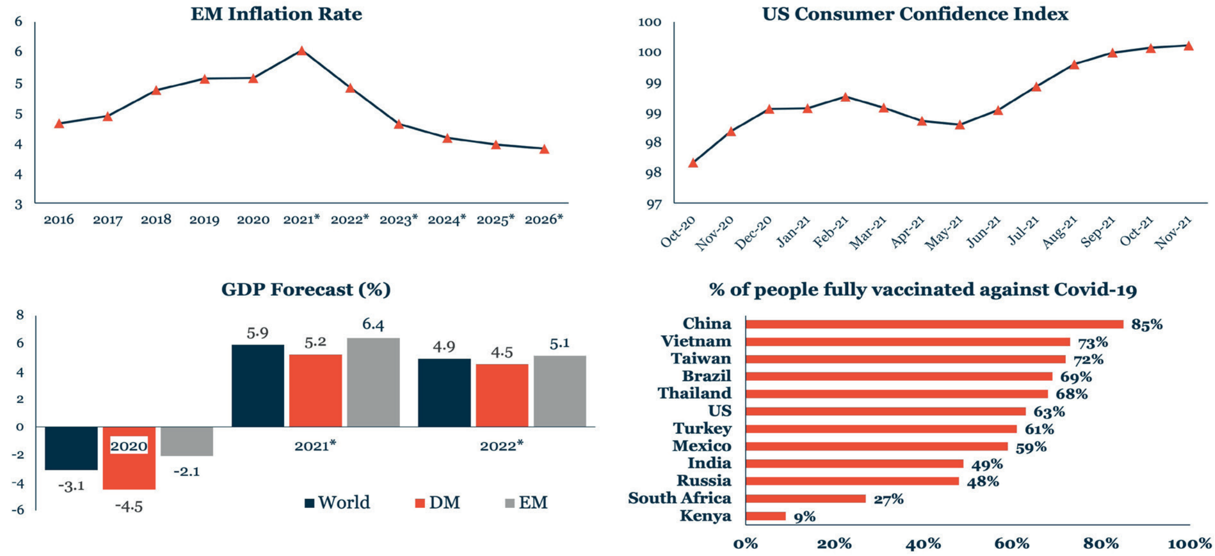

Chart 2; Source: Statista, OECD, IMF, Our World In Data, University of Oxford

We are bullish on the long-term prospects of our holdings. The portfolio has not only proven resilient to the high levels of volatility in the last two years but has delivered outsized returns. The key to this success, we believe, lies in the nature of the companies in the portfolio. Careful stock selection lies at the heart of the strong performance.

In recent weeks we have seen a sector rotation towards value stocks and investors are frequently asking us about our investment style. We invest in growing, quality companies at a reasonable price. These companies are typically not on the radar of international investors. Their average market cap is between $3bn to $5bn, they are often still family-/founder-owned and most are yet to receive an ESG-rating.

These companies are often leading players in their respective niches with strong local brands. They are very entrepreneurial, constantly innovate and highly competitive. They are led by excellent management teams and have outstanding cultures. The majority have already started on the path of improving their ESG-footprint and they are open to working closely with us on becoming leaders in this field. The companies we look for have strong balance sheets, low levels of debt and high profitability. In many cases their quality and competitive edge has enabled them to gain market share during the last couple of years.

Furthermore, many of our companies focus on specialised components that are catering to some of the most innovative industries and trends such as AI, autonomous driving, sensor technology, renewable energy, internet of things and cybersecurity. These trends are well on the way and have accelerated during the pandemic. This, we believe, will continue to drive the demand for our companies' products. Our investment pipeline is strong as we continue to find disruptive and innovative businesses with strong moats and sound balance sheets, especially in Asia. Let's not forget, periods of volatility always come with an opportunity for long-term investors.

Performance

During Q4 2021, the net asset value (NAV) and share price of MMIT increased by 3.6% and 3.4% respectively. Over the reporting period, MMIT traded at an average premium of 0.38%, closing at a discount of -0.28% on 31 December.

In Q4, yet again, stock selection was an important driver of performance across geographies. The top contributor to performance was Indian software firm Persistent Systems (+2.3%), followed by Indian steel pipes manufacturer APL Apollo (+1.4%), and Taiwanese IC design house eMemory Technology (+1.0%). The largest performance detractors over the reporting period were Turkish software business Logo Yazilim (-0.9%), Brazilian software company TOTVS (-0.8%), and Chinese restaurant operator Yum China (-0.6%).

Investment Update

As of 31 December 2021, MMIT had invested 87.4% of capital, with 27 holdings across 11 countries. MMIT's top ten holdings are shown below. Due to strong performance, we trimmed a number of our large positions to comply with regulations and our risk parameters. We are currently conducting due diligence on a number of strong, new investment ideas and will deploy existing cash levels carefully across new and existing positions.

Top 10 Holdings (%)	Country	% of MMIT portfolio
Persistent Systems	India	8.5
Polycab India	India	7.9
APL Apollo	India	7.6
eMemory Technology	Taiwan	6.3
EC Healthcare	China	5.3
LEENO Industrial	South Korea	4.6
Clicks Group	South Africa	4.6
Safaricom	Kenya	4.0
Vinamilk	Vietnam	3.9
Yum China	China	3.6
Total		**56.3**

Engagement & ESG
With travel still limited throughout Q4, MCP continued to actively engage with portfolio holdings on operational and ESG+C® issues via video conferencing. As mentioned in previous reports, we believe that successful ESG integration in emerging and frontier markets has little in common with the box-ticking approach to ESG issues used by many passive emerging market investors. Our investment strategy makes minimal use of ESG ratings and is built on a customised and constructive engagement approach that focuses on what is material to each and every holding.

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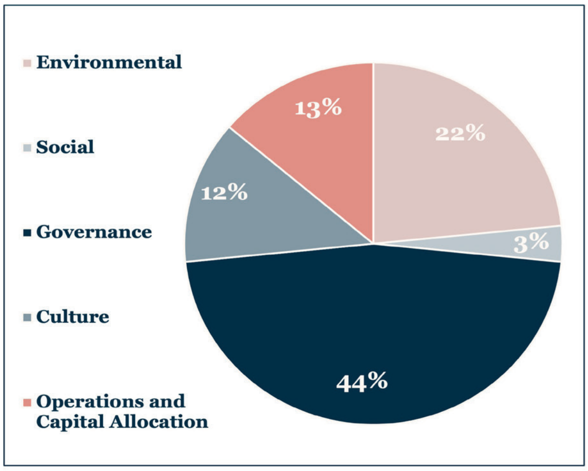
Q4 Engagement Update

Engagement by Category*



Q4 Portfolio Highlights

	• **Clicks Group** received an A from the CDP recognizing the company's efforts to reduce its carbon footprint. • **Yum China** reaffirmed its commitment to reducing food waste with a Food Bank Program.
	• **Vinamilk** has raised VND 10bn for a public health campaign and donated 1m glasses of milk. • **Clicks Group** offered free clinical services for people without health insurance five days a week at the start of the Covid-19 lockdown.
	• **Sinbon** established a Sustainability Strategy Division and appointed a Chief Sustainability Officer. • **Clicks Group** was included in the FTSE4Good Index for 5 years, as well as the FTSE/JSE Responsible Investment Top 30 Index.
	• Nine companies improved their Glassdoor score in Q4. The aggregate score stands at 3.71. • **Persistent Systems** extended its ESOP to a wider employee base to address attrition issues in the IT industry.

Chart 3; Sources: Mobius Capital Partners; *156 Action Points, as of Q4 2021

Over the last quarter we continued to engage with companies on a range of issues including the adoption of the Task Force on Climate-Related Financial Disclosure (TCFD) recommendations, the publication of sustainability reports with clear long-term ESG-targets, the improvement of board diversity and independence, the enhancement of investor relations, and the optimisation of balance sheets.

We have seen some encouraging progress within the portfolio over the last year, and the last quarter. Indian software company Persistent Systems, for example, extended its ESOP (executive stock option program) to cover approximately 80% of employees to address attrition issues faced by the IT industry. This provides the company with an edge in attracting quality talent. Persistent also made progress on several other engagement points. The management initiated disclosures on carbon footprint and reduction on the CDP portal in line with TCFD guidelines, set a target for a carbon footprint reduction of 10% p.a. and committed to publish their first ESG report this year. Furthermore, Persistent Systems appointed a female independent director to their board increasing board diversity and independence.

Other highlights included:
Clicks Group, a South African pharmacy chain, received an "A" rating from the Carbon Disclosure Project (CDP). Additionally, the company offered free clinical services for people without health insurance during the lockdown period. Recognising the company's leadership regarding sustainability issues, Clicks Group was included in the FTSE4Good Index for five consecutive years, as well as the FTSE/JSE Responsible Investment Top 30 Index.

Sinbon Electronics, a Taiwan-based manufacturer of electronic components, established a Sustainability Strategy Division, acknowledging the importance of communicating internal efforts to raise sustainability standards to investors. Lily Huang, the former director of the firm's Strategy Marketing Division, will be taking up the position of Chief Sustainability Officer (CSO).

Vinamilk, a Vietnamese dairy producer, which has been widely recognised as a leader in the sustainability space, raised over VND 10bn for a public health campaign, dedicated to supporting children affected by the Covid-19 pandemic. Additionally, the company donated one million glasses of milk to disadvantaged children through the "Stand Tall Vietnam Milk Fund".

MCP's portfolio companies have also made progress regarding corporate culture standards. In Q4, nine companies were able to improve their Glassdoor score.

Mobius Capital Partners will publish their first active ownership report in Q2 2022 which will provide more detail on the engagement over the last year and since inception.

Culture Can't Be Bought But Does It Pay?

At Mobius Capital Partners, our thesis is that companies which cultivate an authentic and effective culture generate superior and durable value. This section is an excerpt from a paper[3] we will publish in due course which looks at corporate culture as a driver of performance in emerging market companies.

We define corporate culture as the ways in which people do things, from the most routine to the strategic, and the intangible qualities those people prize. This incorporates for instance, how criticism is valued, the presumption of honest dealing, which characteristics are privileged in what the company produces, such as design excellence or customer advocacy. As with society overall, corporate culture is essentially behavioural, organic by development (even where directed) and learned through doing and continual group re-enforcement.

It comes as little surprise then, that there is no generally accepted model or dataset that captures the nuanced and esoteric qualities of corporate culture, which can vary from sector to sector, company to company, country to country.

The Research
With our "culture study" we contribute to the small number of studies exploring correlations between some of the more obvious and knowable indicators of a healthy corporate culture and long-term share price outperformance, but with a focus on the lesser studied emerging markets.

Glassdoor's study *Does Company Culture Pay Off?* (2015) described a strong correlation between a company's culture and its positive stock performance. Between 2009 and 2014, a portfolio of Fortune's 'Best Companies to Work For' outperformed the S&P 500 by 84.2%, while a similar portfolio of Glassdoor's 'Best Places to Work' outperformed by 115.6%.

A similar link was shown in a Great Places to Work research report, which looked at the average annual stock market returns for public companies on Fortune's '100 Best Companies to Work For' list from 1997 to 2013. When the average annual results were compared to major stock market indices, the outperformance was significant: the 'Best Companies to Work For' portfolio returned 11.8% average annual results, compared to 6.4% for the Russell 3000 Index and 6.0% for S&P 500 Index.[4]

Furthermore, the 13 public companies that successfully stayed on the Fortune list every single year throughout the period scored a cumulative return of 495%, compared to 170% for the Russell 3000 and 156% for the S&P 500. The Great Places to Work research report and Glassdoor study were both limited to the US.

Additionally, a report by Forbes[5] in 2018 highlighted that companies with strong cultures saw a fourfold increase in revenue growth.

The EM Culture Portfolio
We investigated the differences in investment performance between emerging market companies scoring highest for culture and their benchmark and constructed a portfolio of 40 companies which are recognised as outstanding places to work. The companies' culture scores were obtained from three external ranking sources[6]. The performance of the portfolio was back-tested against the MSCI Emerging Markets (EM) Index over a 10-year period between 2010 and 2020. This resulted in an EM Culture Portfolio where every holding exhibited the best culture scores in its country, with a geographic diversification and country weighting by market capitalisation similar to the MSCI EM Index.

Our 40-stock portfolio came from 11 countries and spanned 10 industries. Although the portfolio was relatively diversified, Taiwan, South Korea and India led the IT-bias and therefore represented 12 of the 15 IT companies.

"Over 10 years, the EM Culture Portfolio provided a return of 490.2% against the MSCI EM return of 30.5%."

The Findings
Over 10 years, the EM Culture Portfolio provided a return of 490.2% against the MSCI EM return of 30.5% and the EM Culture Portfolio returned 19.4% annualised against MSCI EM Index's annualised return of 2.7%. This significant difference suggests a very strong a priori correlation between companies that are awarded 'best places to work' top ratings. Chart 5 below shows that the EM Culture Portfolio performed strongly compared to the MSCI EM Index over every calendar year. It even provided positive returns when the MSCI EM Index had negative returns in 2013, 2014 and 2015. For our portfolio, the worst performing year was 2018 with -16.4%, while 2017 was the year with the highest return of 56.6%.

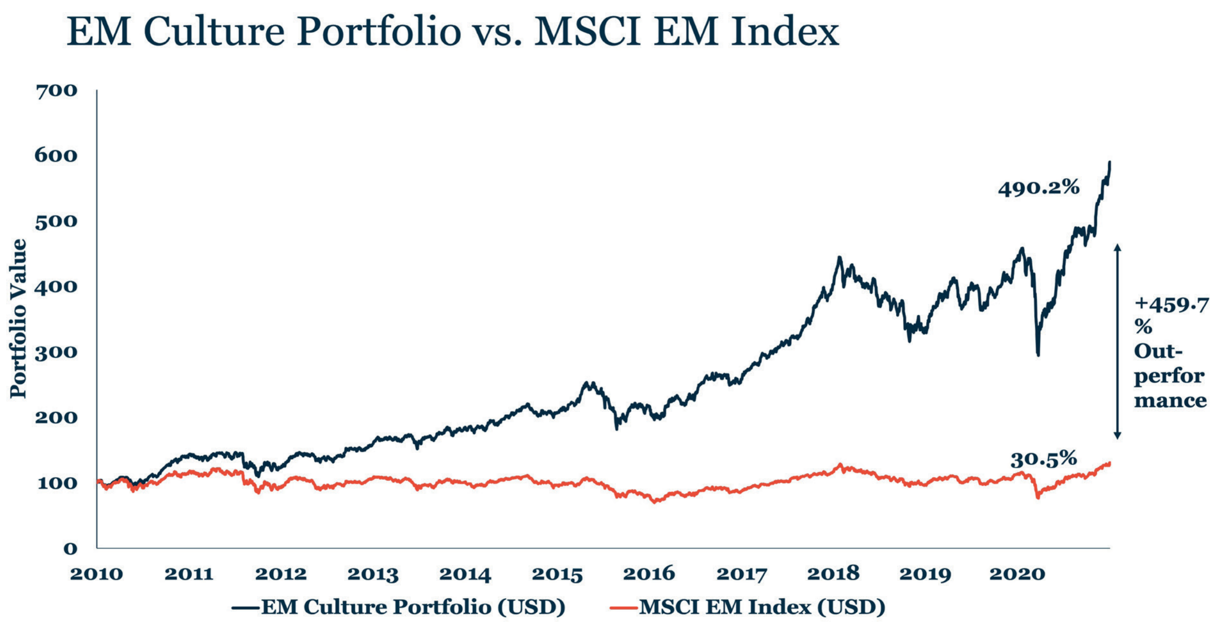


Chart 4; Sources: Bloomberg, Mobius Capital Partners

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Annual Returns of EM Culture Portfolio vs. MSCI EM Index

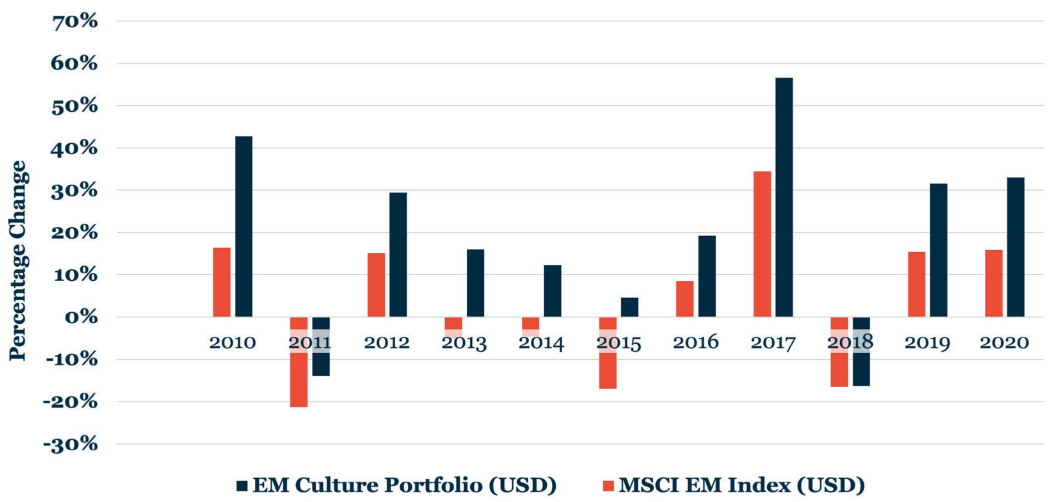

Chart 5; Sources: Bloomberg, Mobius Capital Partners

Considering the gap in returns between our portfolio and the MSCI EM Index, we went back to the industry weightings as the primary contributor to the disparity. We found that even when measured against their own sector indices, the top-ranking companies within the three top-ranking industries generated higher returns than their respective MSCI EM Indeces. Therefore, we could conclude that, even within industries, the EM Culture Portfolio outperformed the MSCI EM Index.

While it is too early to declare definitive attribution, there are good grounds to believe there is a strong correlation between a positive corporate culture and stock price performance over the long term. It would take further work to rule out other plausible explanations not within the scope of our study. This includes whether the selected portfolio is genuinely idiosyncratic or could just as likely be selected by reason of other more conventional factors that have greater explanatory power. Nevertheless, the sheer size of these differences in returns is remarkable and cautiously good news for our thesis.

At Mobius Capital Partners, we have coined the term ESG+C® in recognition of the fact that culture is neglected by investors at their cost and that conventional ESG metrics do not suffice. We have developed a proprietary culture framework which is applied throughout our 360-degree research process, which we are committed to enriching and refining over time.

On behalf of the entire team, we would like to thank our shareholders for your continued support. Please reach out should you have any questions or suggestions. You can contact Anna von Hahn at anna@mobiuscapitalpartners.com.

Best wishes,

The Mobius Capital Partners Team

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Endnotes

1. Source: Bloomberg
2. https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021
3. *Culture can't be bought but does it pay? Corporate culture as a driver of performance in emerging market companies* by Mobius Capital Partners, Julianna Eng (University of Chicago), Maria Luisa Cicognani, publication date: February 2022
4. CFO, Treat Employees Well, See Stock Prices Soar, 2014.
5. Forbes, Culture Is A Company's Single Most Powerful Advantage. Here's Why, 2021.
6. Forbes, LinkedIn, Glassdoor

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