Q1 2022 MANAGER COMMENTARY

"When written in Chinese, the word 'crisis' is composed of two characters. One represents danger and the other represents opportunity"
John F. Kennedy

26 April 2022

Dear fellow MMIT shareholder,

2022 started off with many uncertainties. Global capital markets headed for a volatile first half of the year, driven by concerns about high inflation, rising interest rates, supply chain bottlenecks, Covid-19 outbreaks and slowing economic growth. Growth stocks, and the technology sector in particular—which had benefited from the Covid-19 pandemic—took a hit in the face of rising rates and tighter regulation. The S&P 500 recorded its worst January since 2008.

Human tragedy hit as Russian forces invaded Ukraine at the end of February. This devastating step by the Russian leader took many by surprise and global markets tumbled (*Chart 1*). It brought war to Europe and unbelievable suffering to the Ukrainian people. Western leaders united on an unprecedented scale and the economic response was strong and coordinated with wide-ranging sanctions targeting the Russian economy and financial system.

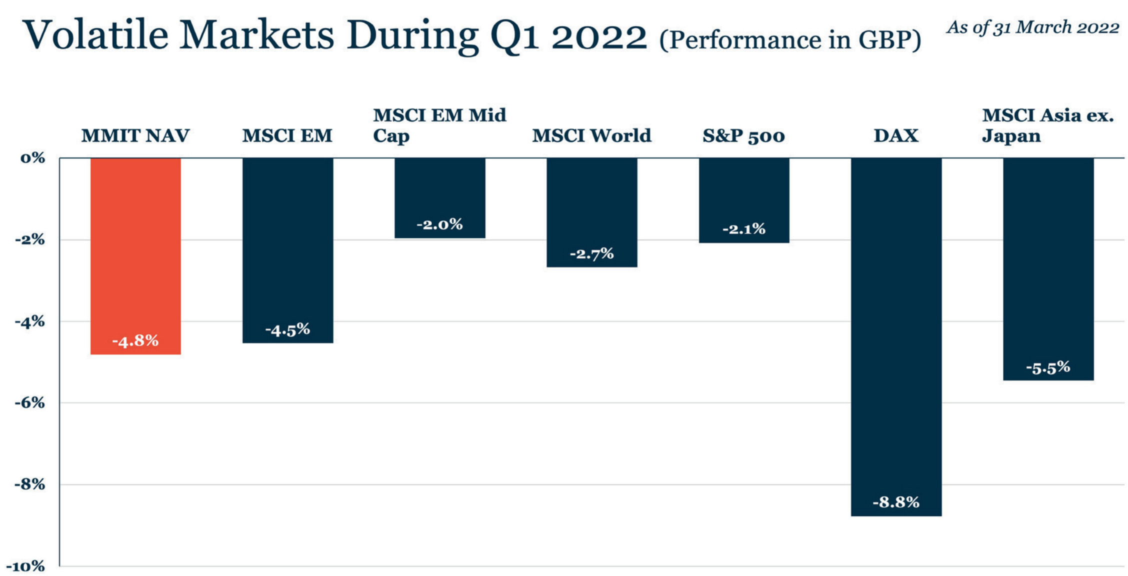

Chart 1: Source: Bloomberg, Mobius Capital Partners

The war is not only a disaster for the Ukrainian people, but it also poses a challenge to the global economic recovery in the wake of the pandemic. Spiralling commodity prices will impact the growth outlook as companies and consumers are facing higher costs. This aggravates

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the already strong inflationary pressure, further increasing the cost of living and impacting household consumption, especially with Russia and Ukraine being important suppliers of many key commodities, including coal, steel, titanium, palladium, wheat and corn. We had expected the pandemic's stranglehold on the global economy to loosen in 2022 with a slow normalisation of supply chains and a decline in inflation in the second half of the year. However, the war in Ukraine will likely prolong the recovery phase. In addition, China's zero-Covid policy will continue to add to the bottlenecks in global supply chains, as the recent lockdowns of several Chinese cities—including Shanghai—have shown.

While equity markets recovered towards the end of the quarter as peace talks between Russia and Ukraine breifly appeared to make some progress, investors remained cautious and the MSCI EM Index was down -4.5% points during the period (in GBP terms). The Mobius Investment Trust (MMIT) was affected by the market volatility and after a very strong 2021, the net asset value (NAV) declined by -4.8% over the period.

What impact do these conditions have on emerging markets? Some investors have been worrying about another taper tantrum hitting the asset class. The expectation was that rising interest rates in the US, on the back of high inflation and slowing growth in China, would lead investors to turn their back on emerging markets. We don't think that this will be the case. As previously stated, we believe that emerging markets today are very different compared to 20 or even 10 years ago. EM central banks reacted more swiftly—and possibly more sensibly—than the Fed to inflationary pressure. Many began raising interest rates in early 2021 when the US central bank was still describing the inflation as transitory. Compared to historic levels, inflation numbers remain relatively low across emerging markets (*Chart 2*). At the same time major EM currencies have remained robust amid inflationary pressure. Commodity-exporting emerging markets have benefited from the recent surge in energy and food prices. The Brazilian real has risen 17% against the dollar during Q1 2022[1]. Brazil is MMIT's third largest exposure and Brazilian holdings have contributed around 2.7% (GBP) to performance during Q1. (*Please see section 'Brazil: Challenges and Opportunities' below*.)

Inflation in Emerging Markets

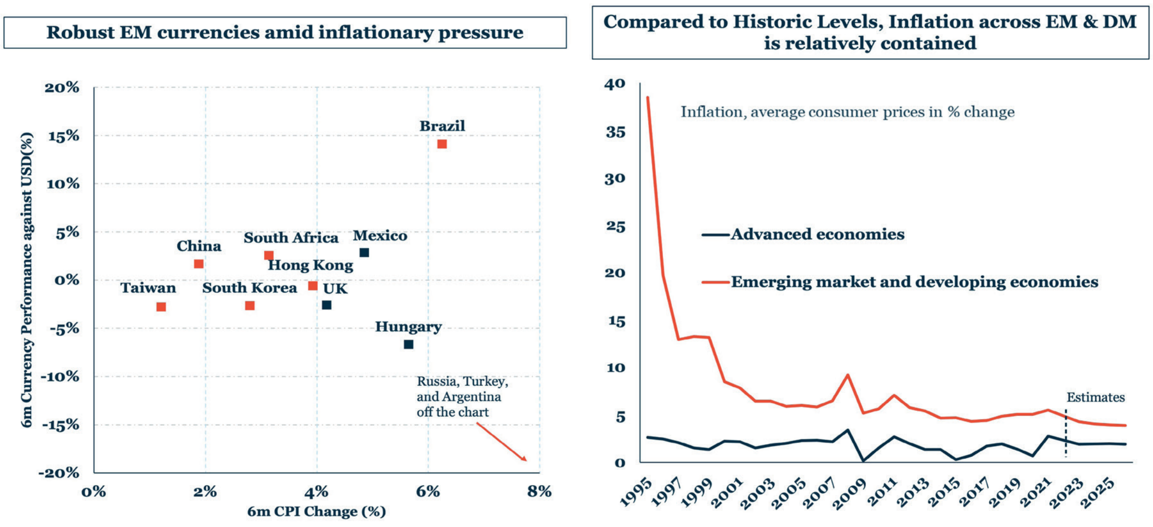

Chart 2: Source: Bloomberg, IMF; Currencies/CPI as of 31 March 2022, Historic inflation levels as of 31 January 2022

Emerging Markets Debt

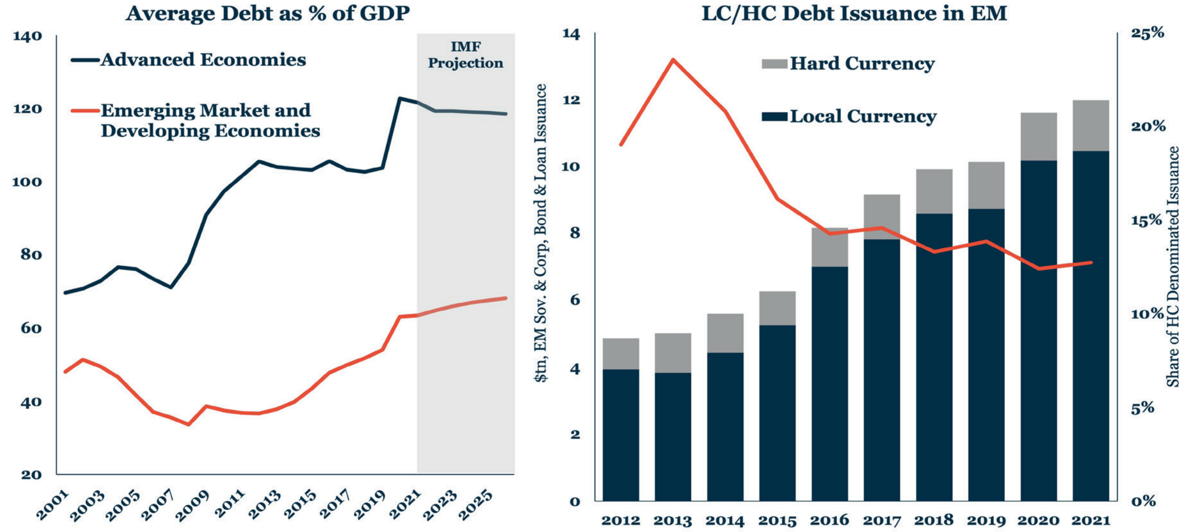

Chart 3: Source: Reuters, Bloomberg, IMF

Furthermore, if we compare the levels of debt-to-GDP ratios in developing countries to advanced economies, debt levels are more reasonable overall (*Chart 3*). At the same time, emerging markets are relying increasingly on local currency debt which provides some safeguard against the added pressure from a strengthening US dollar. Most importantly, emerging market equities are trading at a 14-year low compared to the US (*Chart 4*). This provides some downside protection as well some great opportunities for diligent stock pickers.

Good Value in EM

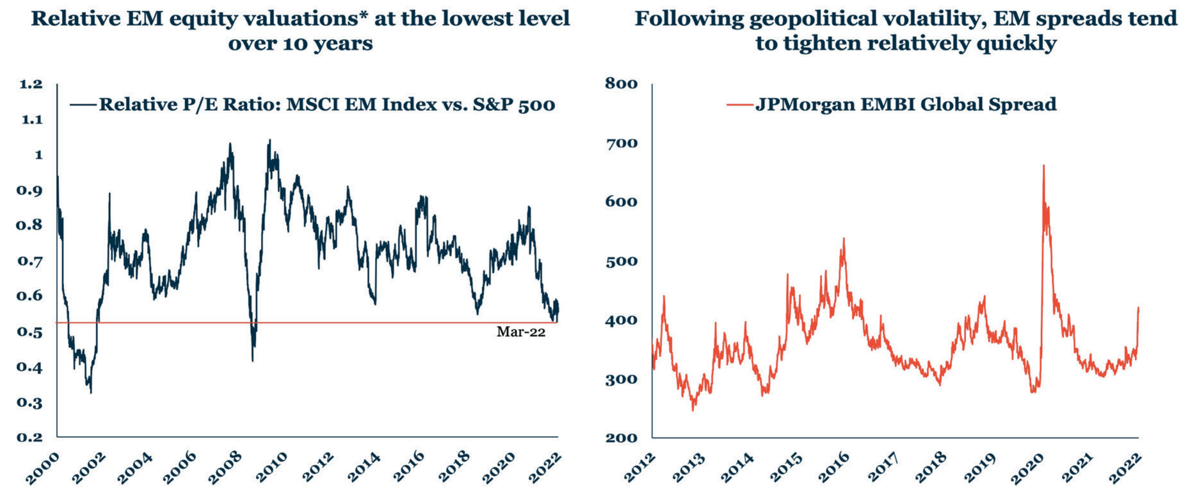

Chart 4: Source: Bloomberg; *Average P/E ratios in the MSCI EM Index relative to the S&P500 Index; As of 31 March

MCP has used the recent downturn to add to some portfolio holdings which were unfairly dragged down by the negative sentiment which did not reflect the fundamental quality and compelling business case these companies present.

As long-term investors, it is important to focus on the fundamental quality of the portfolio, especially in times of heightened volatility. MMIT's portfolio of quality companies with strong capital structures is geared towards innovative industries and structural trends, including AI, Internet of Things and renewable energy. These trends, we believe, are less dependent on short-term developments or cyclical fluctuations. At the same time, the team has a strong preference for companies which benefit from good and steadily improving governance. We have developed a clear preference for quality in macroeconomic conditions, which is characterised by independent central banks, governments which offer policies supportive of business, sound fiscal and monetary policy making, adequate regulatory frameworks and a stable financial sector. This approach has led to the fund not holding any Russian assets nor any company with significant exposure to Russia. Our largest exposure remains Asia, with about 70% of portfolio holdings based in that region.

Russia – Governance Concerns

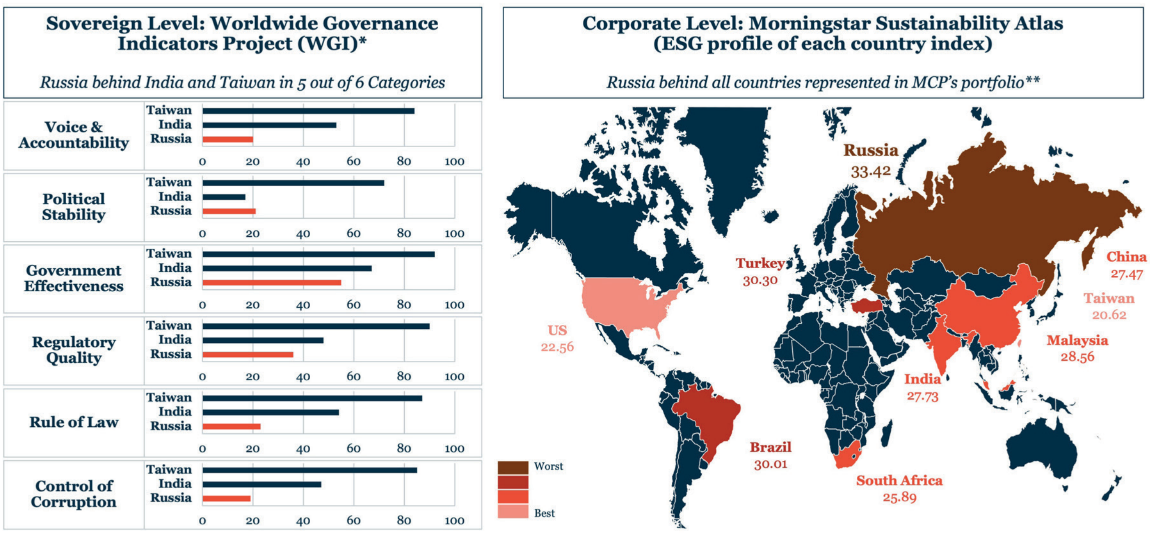

Chart 5: Source: World Bank/Worldwide Governance Indicators Project, Morningstar*values are percentile ranks from lowest (best) to highest (worst) among 200 countries**Morningstar sustainability assessment only for available countries

When we invest in a company we look for:

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

At the same time, we avoid companies with an:

- inability to control levers of profitability (global pricing, regulated macro environment)
- unsustainable capital structures
- irreversibly poor governance

Companies in MMIT's portfolio usually have net cash or low debt levels (*Chart 6*) and are less vulnerable to rising interest rates. Furthermore, the strong brand and positioning enables them to pass on cost increases to customers. During the pandemic, their fundamental strength led several holdings to gain market share from competitors who battled with higher debt levels. This was one factor in the fund's significant outperformance in 2021.

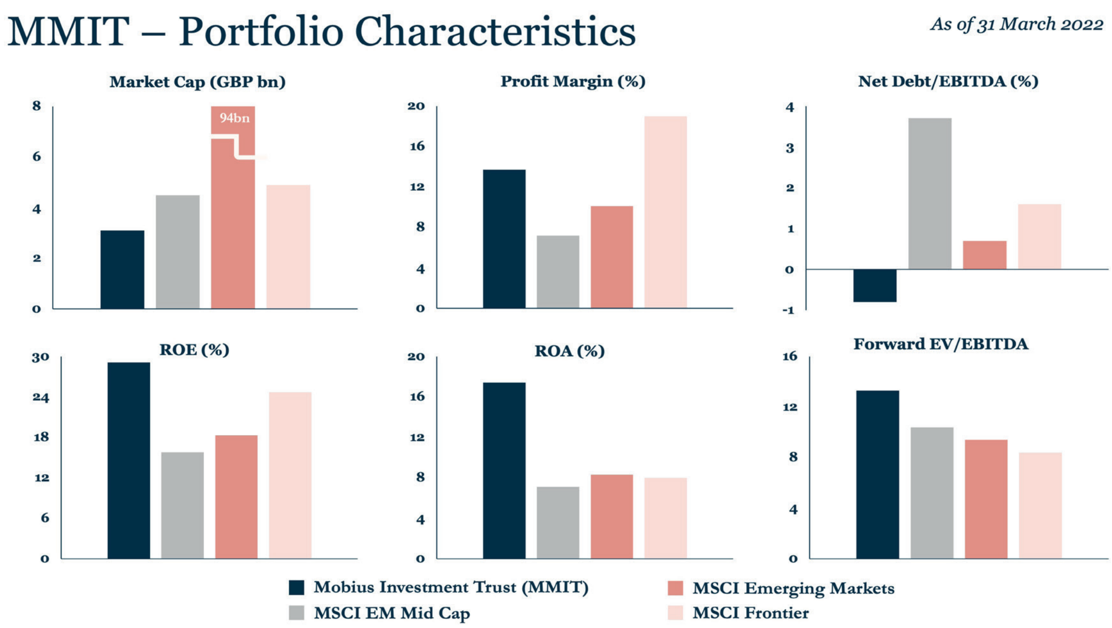

Chart 6: Source: Bloomberg

Generally, we would expect high inflation and higher inflation expectations to lead to increased equity allocation in the medium term. Emerging market companies present an attractive opportunity set especially to active, quality investors as diligent stock selection and in-depth understanding of the companies becomes even more important in times of crisis.

"MMIT's portfolio companies usually have net cash levels and are less vulnerable to rising interest rates."

Covid-19 is going to end. And, we all deeply hope, so will the war in Ukraine. Despite the uncertainties we are currently facing, developing countries especially in Asia will see decent growth levels in the coming years[2]. We believe that some of the countries with the largest mean reversion are to be found in that region. Asia will continue to offer great opportunities at the forefront of innovation as the technology transformation is pushed more than ever before. MMIT—with its focus on innovative, quality companies in Asia in particular—is well-positioned to continue its strong performance.

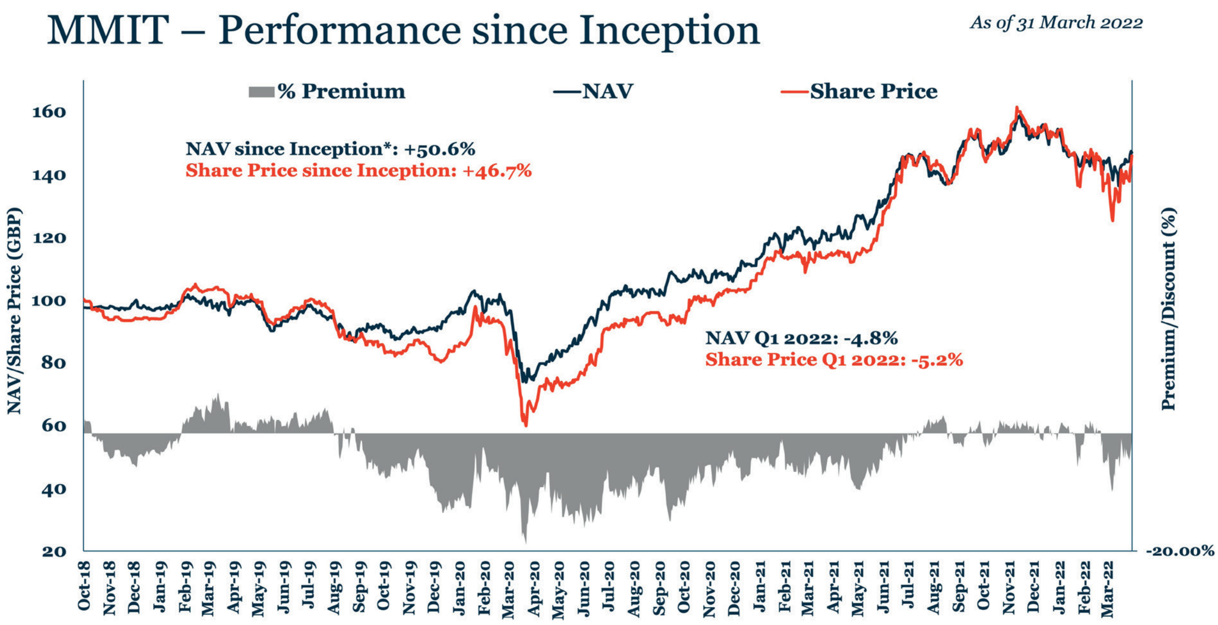

Chart 7: Source: Bloomberg

Performance

During Q1 2022, the net asset value (NAV) and share price of MMIT decreased by -4.8% and -5.2% respectively. MMIT traded at an average discount of -1.9%, which narrowed to -0.7% at the end of March. The top contributors to performance were Brazilian software firm TOTVS (+2.2%), South African pharmacy chain Clicks Group (+0.4%), and South Korean medical devices manufacturer Classys (+0.4%). The largest performance detractor was Hong Kong-based health care company EC Healthcare (-1.5%), followed by Taiwanese IC design house eMemory Technology (-1.0%) and Metropolis Healthcare (-1.0), an Indian chain operating laboratories and diagnostics centres.

Investment Update

Top 10 Holdings (%)	Country	% of MMIT's portfolio
EC Healthcare	China	6.6
APL Apollo	India	6.3
Persistent Systems	India	6.2
TOTVS	Brazil	5.9
eMemory Technology	Taiwan	5.6
LEENO Industrial	South Korea	4.9
Vinamilk	Vietnam	4.5
Clicks Group	South Africa	4.3
Safaricom	Kenya	4.2
Elite Material	Taiwan	4.3
Total		**52.9**

As of 31 March 2022, MMIT had invested 83.5% of capital, with 24 holdings across 11 countries. During the quarter, MCP exited some holdings which reached target price and added select investment ideas in which the team had built high conviction after several months of in-depth due diligence.

Portfolio Holdings

During Q1 2022, MCP started building a position in Classys Inc., a South Korean provider of medical aesthetics devices. With a broad client base including clinics, hospitals and beauty salons, Classys has a global market share (ex-US) of 30%, thus leading the market for non-surgical, painless fat reduction instruments. Its 'razor and blade' business model offers continuous gross margin improvements, and high R&D spending ensures a technological edge, as well as a wide product portfolio. While the company benefits from a global footprint already, there is significant potential for market expansion.

MCP also added Plover Bay Technologies to the portfolio, a leading internet connectivity company focusing on the design, development, marketing and sale of software-defined products and services under the brands Peplink and Pepwave. Plover Bay benefits from a superior balance sheet with low leverage, strong forecasted top-line growth (20-25% over the next five years), and an outstanding management team. It is also a direct beneficiary of a multi-year 5G upgrade cycle.

In Q1, MCP sold its shares in Polycab India, an Indian cable manufacturer, as the stock had reached its target price. Since inception, the stock had appreciated by more than 266% in value (in USD terms) and was among the top contributors to performance since inception.

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Engagement & ESG

Throughout Q1, MCP continued to engage with portfolio holdings on ESG+C® issues, predominantly via video conferencing. As travel restrictions are being lifted around the globe, MCP's investment team has scheduled trips to India, Brazil and Turkey during Q2 to meet with portfolio holdings and potential portfolio candidates.

Tailored engagement continues to produce encouraging results and significant progress was made on a range of operational and ESG+C® issues over the last quarter and year. 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 holding. The aim is to help our companies to become sustainability leaders in their respective fields, drive share price performance in the long run, and thus generate sustainable, outsized returns for investors.

Select Engagement Highlights

Already a member of the Dow Jones Sustainability EM Index, Brazilian health care firm Fleury made significant progress on a range of ESG+C® aspects. The company introduced a new ESG board committee to ensure commitment to the revised ESG strategy and started linking executive compensation to sustainability goals. Fleury also announced the first female CEO in the company's history and commited to becoming a Net Zero company by 2030.

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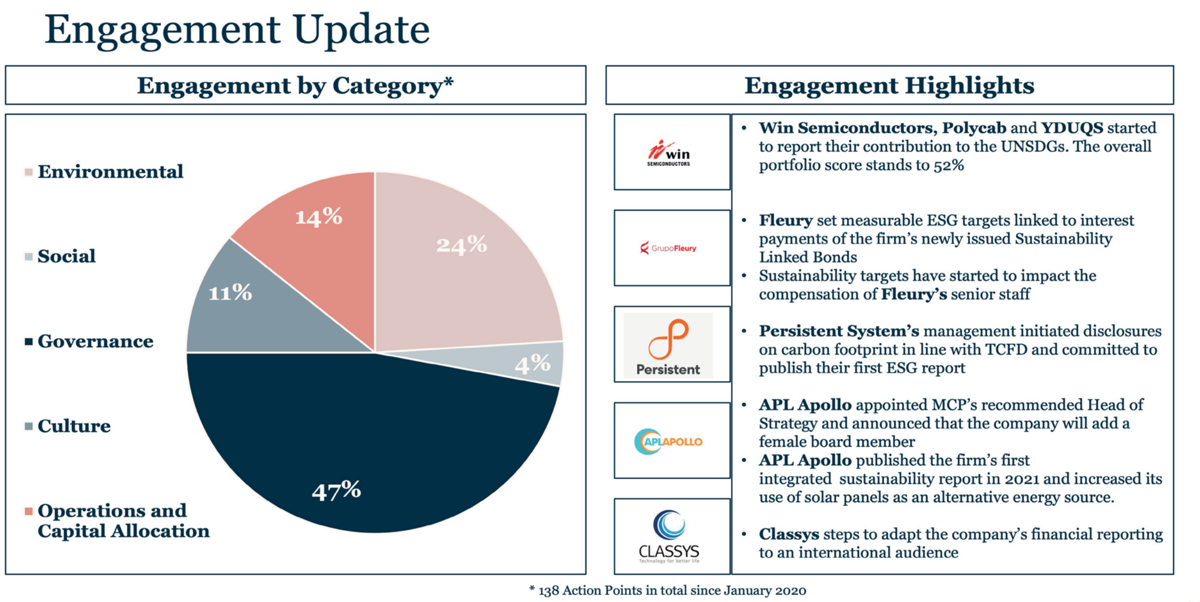

Chart 8: Source: Mobius Capital Partners

TOTVS, a Brazilian software firm, is adding an additional independent female board member to their board. Over the decades that MCP's founding partners have been investing emerging markets, they have witnessed repeatedly that board diversity and independence are crucial in driving good governance.

MCP also saw early signs of effective engagement in the case of Classys Inc. MCP engaged with the company on several issues including improving the reporting for international investors. In the latest conversation with the company's management, the CFO laid out several steps to adapt the company's financial reporting to an English-speaking audience.

Brazil: Challenges and Opportunities

Since the launch of the strategy in 2018, Brazil has been a volatile market for investors. The Brazilian stock market (Ibovespa-main index) returned 53% between September 2018 and March 2022 in local currency and 32% in USD terms. During that period, inflation has more than doubled from 3.7% to 8.4%, while the Brazilian real declined by almost 16% against the USD. In the first quarter of 2022, inflation increased from 7.0% to 8.4% while the stock market returned 38% in USD terms and 115% in Brazilian real[3]. (*Chart 8.*)

This reflects the strong performance of the Brazilian currency, which rose by 17% against the USD, making it one of the world's top performing currencies during the period. The appreciation of the Brazilian real is partly a consequence of the Brazilian central bank's monetary policy. The interest rate (Selic rate) has now been raised at nine consecutive meetings from around 2% a year ago to 11.75% at the end of March 2022. At the same time, Brazil as a commodity-exporting country has profited from the surge in commodity prices in the wake of the Russian invasion into Ukraine. However, for 2023, analyst consensus reflects lower interest rates with lower inflation.

Brazil Stock Market and BRL Performance

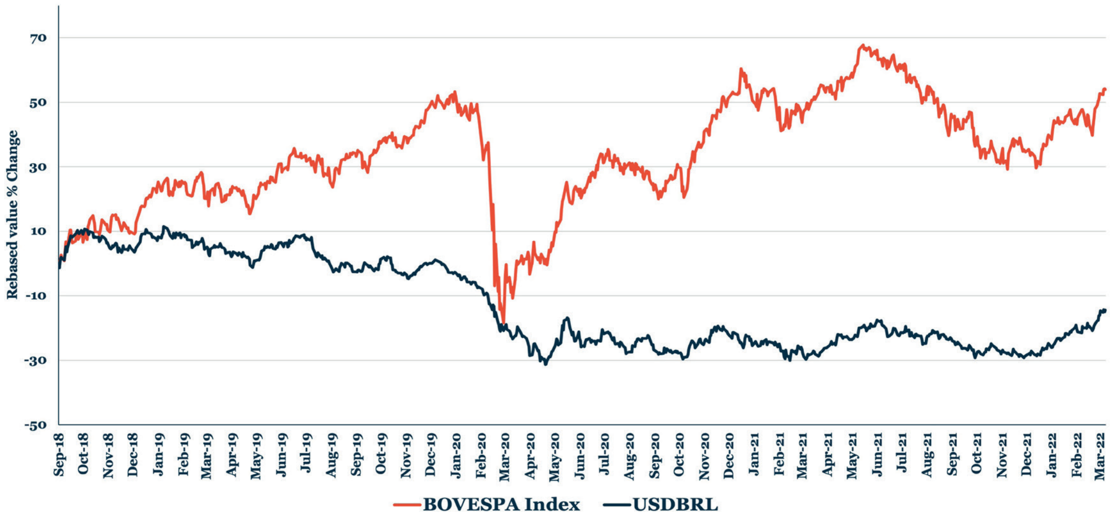

Chart 9: Sources: Bloomberg

The main index (Ibovespa Brasil Sao Paulo Stock Exchange Index) has a total market capitalisation of 1 trillion USD and is composed of 91 companies[4]. The public Brazilian universe entails approximately 400 companies[5]. Due to high interest rates and inflation, growth stocks in particular, have been struggling in Brazil over the past two years. Since 2020, valuations have come down significantly and are yet to recover. More recently, the combination of funds facing redemptions and hedge funds short- selling the illiquid small and mid-cap growth stocks, led to a further de-rating of the asset class.

	2016 Y	2017 Y	2018 Y	2019 Y	2020 Y	2021 Y	2022 Y Est	2023 Y Est
Price/ Earn-ings	29.98	48.53	23.35	33.79	28.4	17.27	15.07	13.23
EV/ Sales	1.63	2.36	1.8	2.29	1.97	1.17	0.86	0.83
EV/ EBITDA	10.64	14.62	10.43	13.2	11.11	9.9	7.1	6.32

In this context, Brazil may hold interesting opportunities, especially in the small- and mid-cap space (*Chart 9*). Brazil is already the third largest exposure of MMIT (9.4%) and—next to Asia—the geography where the team has been finding the most exciting, quality companies with excellent management teams and compelling, innovative business models. MCP's investment team will be visiting portfolio companies and meeting with potential portfolio candidates in Brazil in June 2022. The visit is strategically scheduled before the upcoming elections in October 2022 to leverage the local network of investors, analysts and policymakers to sharpen MCP's view on Brazil's outlook.

MSCI Brazil Mid Cap Growth Index

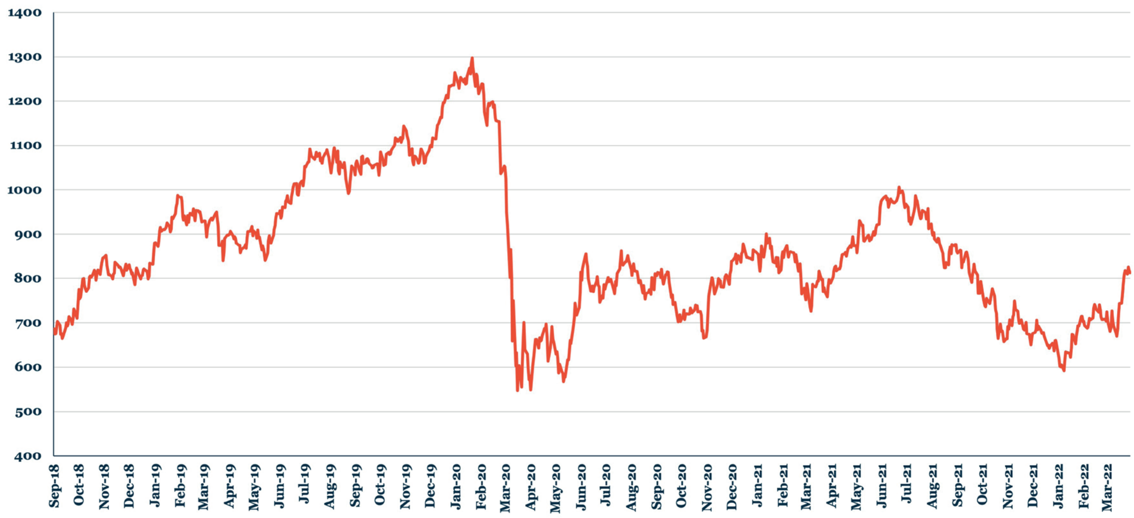

Chart 10: Source: Bloomberg

The elections will decide if either the current president Jair Bolsonaro or former president Luiz Inácio Lula da Silva will lead Brazil through the next legislation period. Since January 2022, Jair Bolsonaro was able to narrow the gap in the polls between himself and Lula from over 20% to less than 5%[6]. Bolsonaro benefitted from candidates withdrawing from the election. Lula has been the frontrunner in the elections since the Brazilian Supreme Court overturned bribery convictions against him last year. Whichever candidate wins, he will face a challenging economic situation with high public debt levels. But, let's not forget, periods of volatility always come with an opportunity for long-term investors.

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

Endnotes

1. Source: Bloomberg
2. *https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022*
3. Source: Capital IQ
4. Source: Bloomberg
5. Source: Capital IQ
6. https://www.bloomberg.com/news/articles/2022-04-13/lula-s-lead-shrinks-to-narrowest-this-year-in-latest-brazil-poll

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