Mobius

INVESTMENT TRUST

Q4 2022 MANAGER COMMENTARY

"Science has not yet mastered prophecy.
We predict too much for the next year and yet far too little for the next ten."
Neil Armstrong, Astronaut

27 January 2023

Dear fellow MMIT shareholder,

Few people believed what President Kennedy promised in 1961: that the US would put a man on the moon before the end of the decade. When Neil Armstrong made his "giant leap for mankind" in 1969, it signified the victory of progress, technology and persistence. It took eight years, and 10 practice-run missions, an estimated 400,000 engineers, scientists and technicians, and — in today's money — roughly £150bn to make the first tentative steps on another planet. The moon landing drove revolutionary innovations including the invention of the microchip, as NASA required light, compact, powerful computers. It ended the Cold War Space Race and gave mankind a new perspective of Earth and humanity in an infinite universe.

Today, the US have entered a new space race with a new competitor: China. The country successfully launched its own space station in November last year, highlighting the Communist Party's policy of self-reliance only weeks after the US had announced their latest round of sanctions, targeting China's advanced computing and semiconductor sectors. Geopolitics has been one of the many factors that made 2022 the challenging year it has been for many. Space is one of the few remaining areas of cooperation between Russia and the US after the invasion of Ukraine.

After an optimistic start, 2022 turned out to be a tumultuous year for investors. Many short-term predictions were proven wrong. Russia invaded Ukraine against the odds, global growth predictions had to be downgraded significantly, inflation forecasts were completely off target, the Fed changed gear on monetary policy faster and more determinedly than anyone had expected, and the US dollar continued its rally against expectations.

All of the above led to significant corrections in emerging and developed markets. The MCSI World was down -10% in 2022, the S&P500 had one of its worst years in history with -10% and tech stocks took an even bigger hit with the NASDAQ tumbling 25%. Emerging markets didn't fare much better. The MSCI EM Index lost 13%.[1] (GBP).This broad 'risk-off' environment has left EM valuations trading at a multi-decade low and, according to our assessment, a very attractive entry point. (See section *Why the Tide Should Be Turning for Emerging Markets* below)

We agree with Neil Armstrong that it is important not to lose sight of the long term, especially in volatile times like these. We did not deviate from our strategy by following short-term trends. We did not jump on the commodity bandwagon, nor did we rotate into value stocks, but we continued to focus on fundamental quality and on sectors that we believe will deliver sustainable growth not only in the short term, but for decades to come. We believe that we are at the beginning of a multi-year earnings growth recovery, and this will be driven by the reopening in Asia.

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VIX Index: Ongoing Volatility Throughout 2022

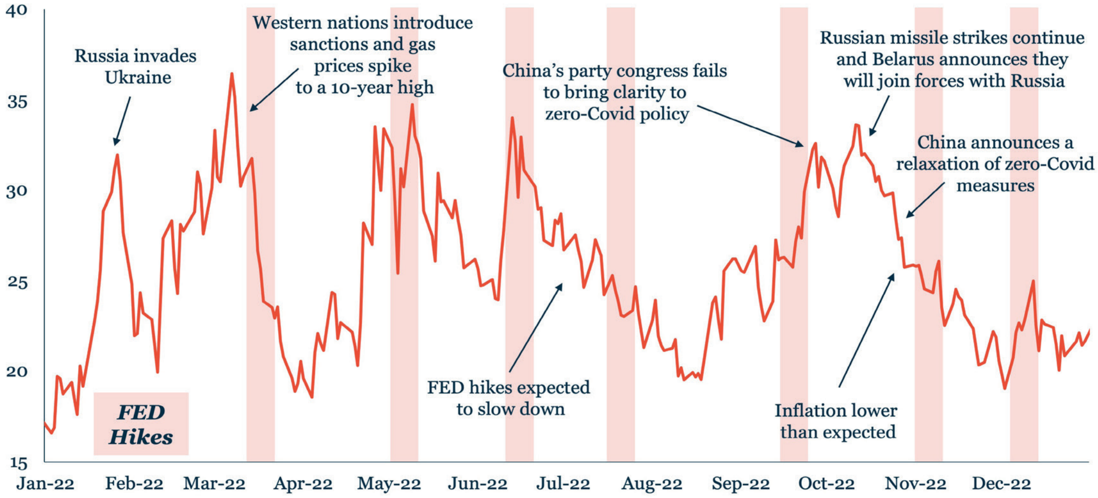

Chart 1: Source: Bloomberg, as of 03 January 2022

Throughout 2022, we carefully monitored macro developments and the potential impact on our holdings. We revisited each portfolio company in view of the changing macro conditions. In many cases, we were able to visit companies in person again to get an in-depth understanding of the challenges management were facing. What we found is that our focus on fundamental quality — companies with pricing power, strong balance sheets, little to no debt and leading brands with strong management teams — has meant that companies were generally coping well in an environment of rising interest rates and higher input prices, and are now, we believe, in a strong position to benefit from the recovery, once it sets in.

In addition, we used the recent downturn to add some highly innovative businesses to the portfolio. These companies had been on our watchlist for some time and when valuations reached attractive entry levels during last year's sell-off, we started to buy.

Once again, our focus on improving ESG+ C® factors (see section *Engagement and ESG+C® Update* below) and the regular exchange with management teams that comes with it, have served as effective risk management tools. It meant that we had no exposure to Russia, any ex-Soviet states or Eastern Europe when Russia invaded Ukraine. It had also led us to invest very conservatively in China at a time when many of our competitors were hit by the Chinese government's regulatory crackdown. Finally, we recently sold one of our Brazilian holdings over governance and strategy concerns months before an accounting scandal came to light and the company filed for bankruptcy.

There is no doubt that 2023 will be another challenging year with recession looming in Europe and the US, uncertainties remaining about the impact of the Covid resurgence in China, about China-US relations and about the ongoing war in Ukraine. During the Apollo 11 mission in July 1969, NASA astronauts Neil Armstrong and Buzz Aldrin deposited a small gold olive branch on the moon — a symbol of peace. We can only hope that peace will come sooner rather than later to the people of Ukraine.

Performance

The NAV and share price of the Mobius Investment Trust (MMIT) fell by 14% and 12.3% during 2022. This was driven by the unfavourable sentiment towards equities and emerging markets, rather than company fundamentals. In addition, the cyclical downturn in the semiconductor industry — with weak demand and high inventories after two years of rapid pandemic-induced growth — also affected performance. However, once again we believe it is important to look beyond 2023, when we expect demand to pick up and the chip industry to resume its growth path. Performance continues to be strong compared to the peer group.[2] Over three years and since inception in October 2018, the Mobius Investment Trust is the best-performing EM equity investment trust listed on the London Stock Exchange. MMIT was awarded the Citywire Investment Trust Award in the global emerging market equities category for the best three-year performance at the awards ceremony in November.

"MMIT was awarded the 2022 Citywire Investment Trust Award in the global emerging market equities category for the best 3-year performance."

During Q4 2022, investor sentiment improved, driven by China's U-turn on the zero-Covid policy, easing inflation and a weakening US dollar. Emerging market equities posted strong returns during the quarter. MMIT's NAV and share price increased 6.5% and 9.6% respectively. The top contributors to performance were Hong Kong-based EC Healthcare (+3.3%), Turkish denim retailer Mavi (+1.6%) and South Korean health care business Classys (+1.4%). EC Healthcare had been heavily impacted by China's zero-Covid policy, as mainland Chinese were unable to travel to the Hong Kong-based clinics. Since the reversal of China's zero-Covid policy in November, the company's share price has more than doubled. Software company EPAM Systems (-1.4%), Taiwanese technology business E Ink (-0.9%) and Kenyan communications company Safaricom (-0.7%) were the main detractors during Q4.

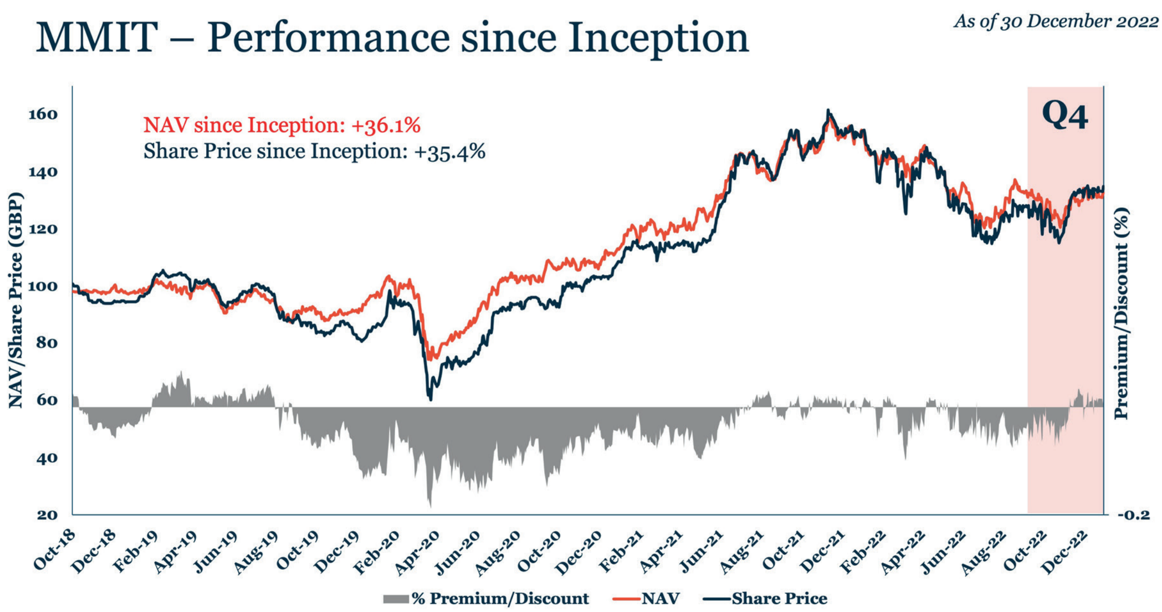

Chart 2: Bloomberg, MCP, Frostrow

Investment Update

As of 30 December 2022, MMIT had invested 88.1% of capital, with 22 holdings across 11 countries. At the time of writing, MCP has started adding two additional high-conviction ideas to the portfolio. These will be disclosed once they have reached target weight.

Top 10 Holdings (%)	Country	% of MMIT portfolio
EC Healthcare	China	8.8
EPAM Systems	US	7.3
Persistent Systems	India	5.6
APL Apollo	India	5.5
TOTVS	Brazil	5.5
LEENO Industrial	South Korea	5.4
Classys	South Korea	5.1
Safaricom	Kenya	4.7
eMemory Technology	Taiwan	4.6
SINBON Electronics	Taiwan	4.2
Total		**56.7**

The largest geographic exposure was Taiwan (22.2%), followed by India (12.9%) and China (11.1%). The team continues to find the most attractive investment ideas in Asia. The region accounts for over 60% of the portfolio. The largest sector exposure was technology (50.7%), followed by health care (18.1%) and consumer staples (6.0%).

Portfolio Company Spotlight: EC Healthcare (Health Care/Hong Kong)
EC Healthcare is Hong Kong's leading provider of non-hospital services and has been a constituent of MCP's portfolio since Q1 2020. Benefitting from a strong capital structure and a world-class management team, the company expects to grow by 25% annually – driven by expansion in the medical segment, both organically and through acquisitions. Other segments, such as aesthetics and wellness & beauty, are forecast to grow at 60%+ YoY.[3] Being based in Hong Kong and enjoying an excellent reputation among customers from mainland China, EC is in the process of opening a range of new clinics and entering new industries such as veterinary care. The firm stands to benefit significantly from China's reopening and the return of travellers from China and the rest of Asia. MCP has engaged with EC Healthcare on a variety of key ESG+C® factors and has established a close relationship with the company's leadership team. Co-CEO Leslie Lu presented the firm at MCP's 2022 Investor Day and talked about the various initiatives the company has started as a result of MCP's engagement.

Engagement and ESG+C® Update
Throughout 2022, MCP saw strong progress on ESG+C® factors among portfolio companies, after having engaged with every single holding. Among the 162 engagement points, discussions around governance factors accounted for almost half (48%) of all touch points. We believe that establishing robust governance standards is key to unlocking further improvements in the environmental, social and culture fields. Almost 80% of holdings have now launched environmental reporting initiatives, with 55% measuring quantitative environmental targets.

Upon launch of MCP's proprietary ESG+C® framework, the portfolio's Glassdoor score (a measurement of corporate culture) stood at 3.63. As of Q4 2022, this has improved to 3.8, with 5 being the highest possible score. As seen below, a number of MCP's portfolio companies implemented employee share option schemes, introduced non-financial benefits, hired dedicated sustainability professionals and established key policies around anti-corruption and ethics.

Based on the many conversations we have had with management teams in 2022 around ESG+C®, we strongly believe that there are more improvements to come throughout 2023. MCP is dedicated to working closely with portolio companies to make further improvements going forward.

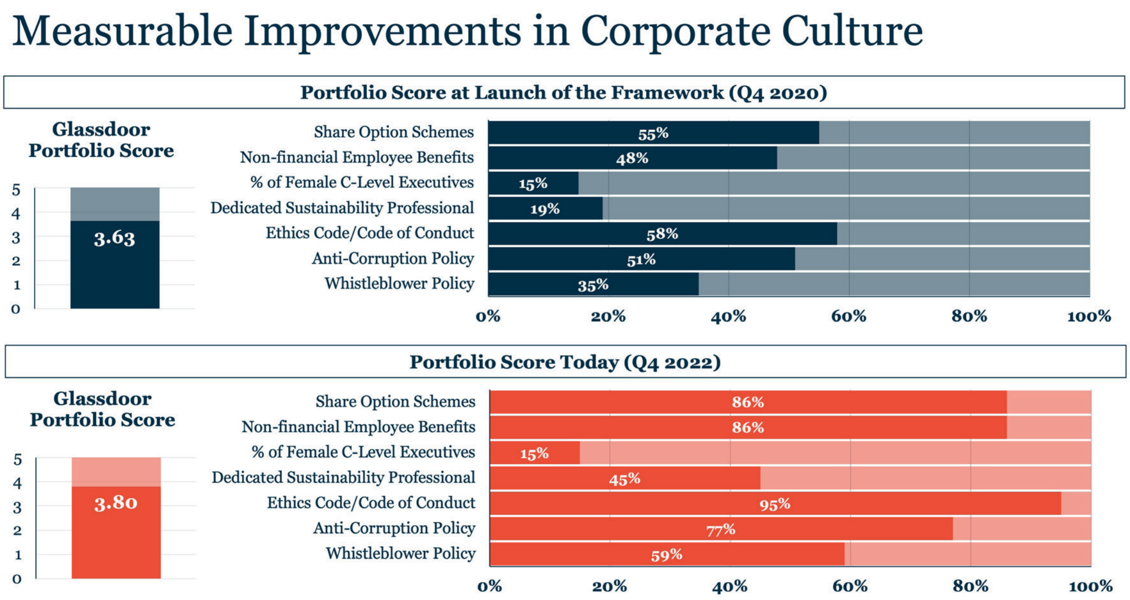

Chart 3: Source: MCP

In October, MCP spent a week in Istanbul to meet with portfolio companies and speak with a range of economists, policy experts and local entrepreneurs to get a better picture of the current economic climate and outlook for the new (election) year. We visited the headquarters of Mavi, Turkey's leading denim retailer and one of MCP's best-performing stocks of 2022. We have worked with Mavi on enhancing gender diversity and improving functional expertise within the board, implementing long-term incentives for management, and improving reporting quality. Based on MCP's recommendation, Mavi hired an external sustainability specialist to help set long-term ESG targets for the company. The company published their first sustainability report in 2021.

Driven by innovation and technology, Mavi successfully introduced a sustainable fashion line. "All Blue" products are made with organic, recycled and upcycled materials and the manufacturing processes consume less energy, less water and fewer chemicals. The company aims for the whole denim collection to consist of sustainable "All Blue" products by 2030.
Having visited Turkey and Brazil in 2022, MCP is currently planning company visits in China, Hong Kong, Taiwan and India for H1 2023.

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Outlook: Why the Tide Should Be Turning for Emerging Markets

Emerging market investors have witnessed troubled waters over the past few years: a global pandemic that had a negative impact on trade, consumption and supply chains; increased geopolitical tensions between the US and China; a war in Europe with wide ramifications for global trade and fiscal policies resulting in rising inflation, tighter monetary policy and appreciation of the US dollar. Furthermore, volatile commodity prices that benefitted a few countries but hurt many, and very difficult capital market conditions made it particularly difficult for emerging markets. In summary, all of this has led to very low confidence, record capital outflows and a sell-off of tha sset class. Over the last 10 years, emerging markets have delivered close to negative real returns on an annualised basis. After this prolonged period of weak performance, we now see several indicators suggesting that the tide is turning.

"Emerging markets are trading at the largest discount to developed markets since 2008."

Valuations at a Record Low

Investors should never lose sight of valuations. At the moment, we are witnessing record-low valuation levels in EM — the current average price to book value at nearly 1.5x is in the 30-year bottom quartile. The current P/E and EV/EBITDA market valuation indicate that emerging markets are trading at the largest discount to developed markets since 2008. At the same time, many emerging market currencies are currently undervalued.

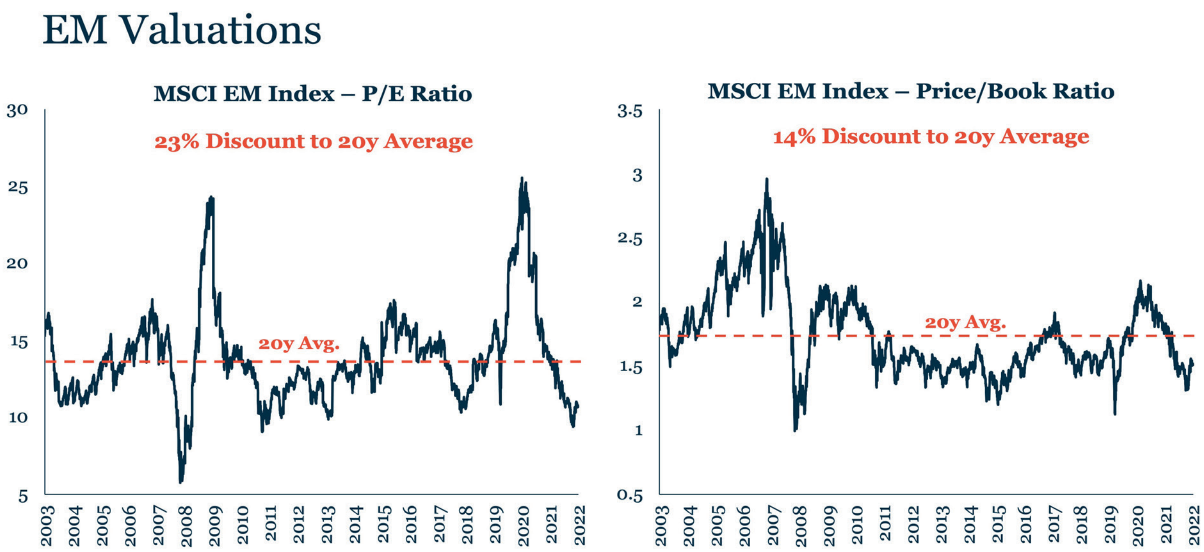

Chart 4: Source: Bloomberg, as of 03 January 2022

Inflation and Monetary Easing

Inflation pressure in the US is moderating. Inflation declined to 6.5% in December compared with a year earlier, down from 7.1% in November.[4] The slowing pace in inflation is a clear indicator that the Fed's rate-hiking cycle is nearing its peak and monetary policy is expected to ease. Many emerging markets are ahead of developed markets in the hiking cycle and inflationary pressure, especially in Asia, remains contained. Developed markets saw an inflation increase from around 1% to around 7% on average, while inflation in Asia averages around 4%.[5]

Highly Innovative Businesses in EM
Over the past 20 years, business models in emerging markets have significantly evolved. Investors can find highly innovative companies with unique business models led by excellent management teams that are still relatively undiscovered by the market, and currently most certainly under-owned. The new driver in emerging markets is technological innovation in areas including, but not limited to, factory automation, autonomous driving, renewable energy, AI or Internet of things (IOT), as well as digitalisation and modern and efficient service offerings. We are particularly interested in companies with predictable and stable recurring revenue streams and stable margins, for example in the software development industry.

Ever-growing Consumption and Faster Real-wage Accretion
Favourable demographic dynamics and urbanisation in emerging markets remain structural tailwinds for the long term. The middle class in emerging economies is younger, increasingly more educated and has demonstrated accelerated adoption of technology. The macroeconomic growth, combined with technological innovation, has yielded higher wage growth and disposable income in these countries. This in turn will result in higher spending and boost domestic consumption. For example, Taiwan and South Korea are expected to jump ahead of Japan in terms of GDP per capita in 2022–23.[6]

Corporate Earnings Recovery
The corporate earnings recovery will be driven by the reopening in Asia. The average EPS growth forecast over three years annualised (CAGR) for the MSCI EM Index is 13% and for MMIT's portfolio 15%.

Strong Long-term Earnings Growth

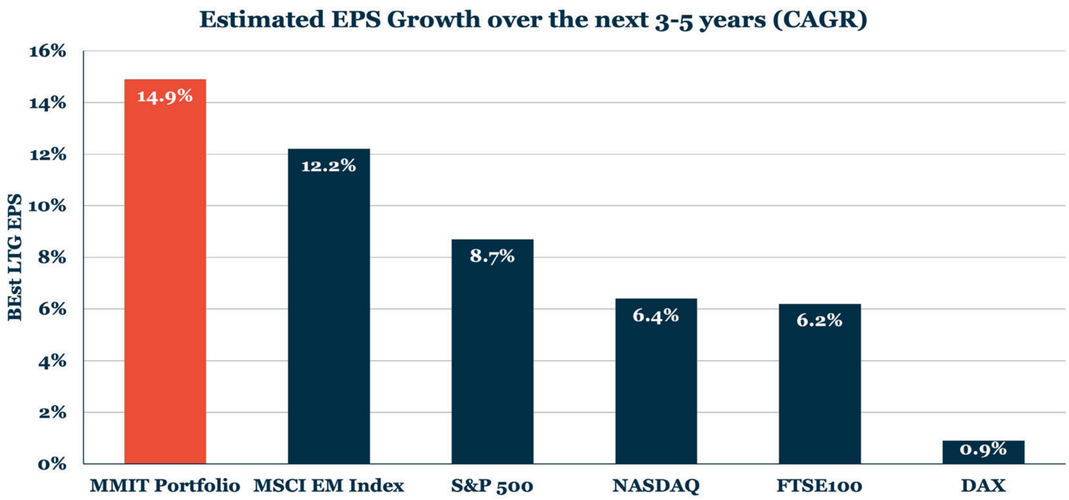

Chart 5: Source: Bloomberg, BEst LTG EPS as of 30 December 2022

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EM Currencies Picking Up as USD Rally Loses Steam

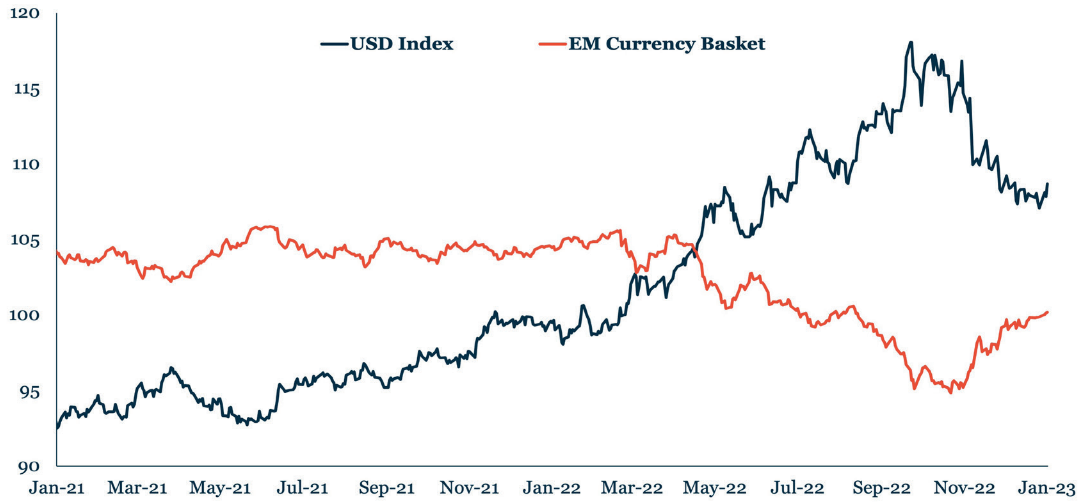

Chart 6: Source: Bloomberg, as of 05 January 2022

US Dollar Rally Losing Steam

The US dollar rally is losing steam on the back of favourable inflation data, easing the pressure on emerging market currencies, debt and monetary policy.

Relaxation of Chinese Zero-Covid Policy

Chinese economic activity — that is, consumption, trade and mobility of its population — has been radically weakened during "zero-Covid". Now, for the first time in years, there are clear signs that China is relaxing its zero-Covid policy which will have a very positive impact on growth and supply chains. We must be mindful and prepare for a stony path into the recovery.

China – Outlook

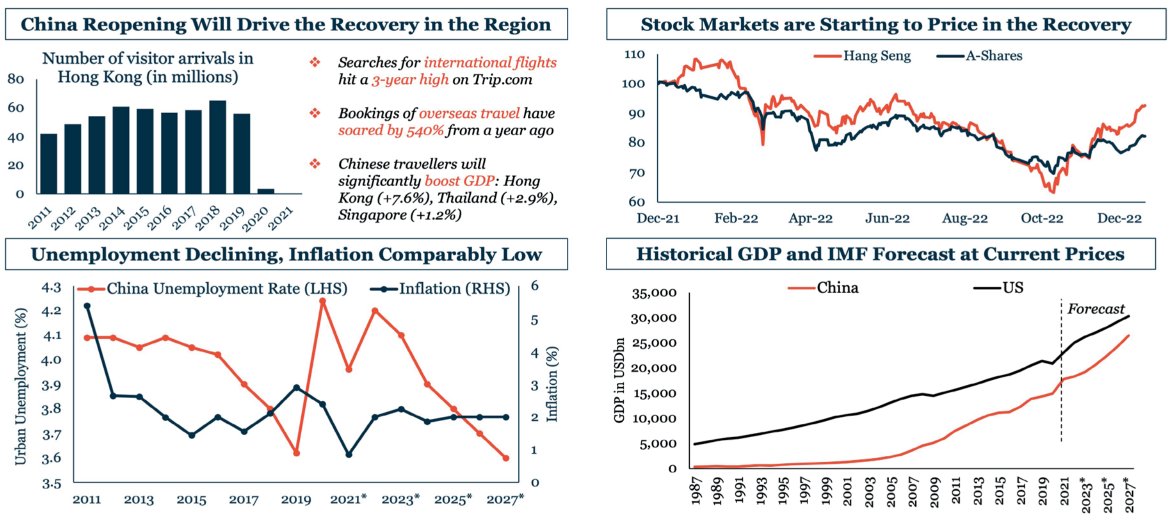

Chart 7: Source: Bloomberg, Mobius Capital Partners LLP, S&P Capital IQ, IMF, National Bureau of Statistics of China, World Economic Outlook Database October 2022, CNN

Exports this year could be negatively impacted by weak demand from the EU and the US, booster rates among the elderly in China remain very low and the desire to reach herd immunity can take time. However, a post-pandemic recovery in China will not only serve as a domestic impulse, but positively affect all countries which trade with China, particularly in Asia.

Conclusion
We have heard many differing opinions about what investors can expect from the coming year. We share the view of Neil Armstrong that, “We predict too much for the next year and yet far too little for the next ten.” And one longer-term prediction continues to hold true: a recovery is still to come. A recovery not from one bad year, but a recovery from a pandemic of an unprecedented scale,- at least in living memory. As always, markets will price this in first. We have already seen a gradual reversal of fund flows back into emerging markets.

MSCI EM Index: Rallies Following Crises

Chart 8: Source: Bloomberg

At Mobius Capital Partners, we continue to focus on the long-term potential of our companies which are catering to growing trends like digitalisation, quality health care, factory automation and renewable energy and on creating long-term, sustainable shareholder value for our investors.

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

Best wishes,

The Mobius Capital Partners Team

Footnotes:

1. Source: Bloomberg, as of 30 December 2022
2. Peer Group Source: Morningstar, as of 30 December 2022; Morningstar Peer Group consists of the following categories: Global EM Equity, Global EM Small Mid/Cap Equity, and Global Frontier Markets Equity
3. Source: EC Healthcare, Mobius Capital Partners
4. Source: World Bank, Federal Reserve
5. Source: World Bank, local sources
6. Source: IMF, Japan Center for Economic Research

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