Mobius
— INVESTMENT TRUST —

Q1 2024 MANAGER COMMENTARY

"The only constant in life is change."
Heraclitus

26 April 2024

Dear fellow MMIT* shareholder,

The ancient Greek philosopher Heraclitus' famous argument that you can never step into the same river twice underlines the principle that change is an absolute and universal truth. A truth that also applies to the global economy; perhaps Heraclitus would have said that you can never invest in the same market twice.

Heraclitus' principle is particularly worth remembering during periods of slow growth, as the inevitability of change ensures an eventual upturn. We believe that a full and sustained global recovery from the Covid-19 pandemic has so far been prevented by the drag on global economic activity due to ongoing supply chain issues, geopolitical tensions, rising inflation, monetary tightening and structural headwinds in China. However, the outlook appears more positive, especially for the second half of 2024 and beyond.

We might already have observed the onset of a new cycle this year, propelled by several factors: an economic recovery driven by enhanced consumer sentiment and expectations of looser monetary policy, a bullish trend in equities supported by positive earnings forecasts, and a sustained upswing in the semiconductor industry due to the surge in artificial intelligence.

EM Have Seen A Strong Recovery After Previous Crises

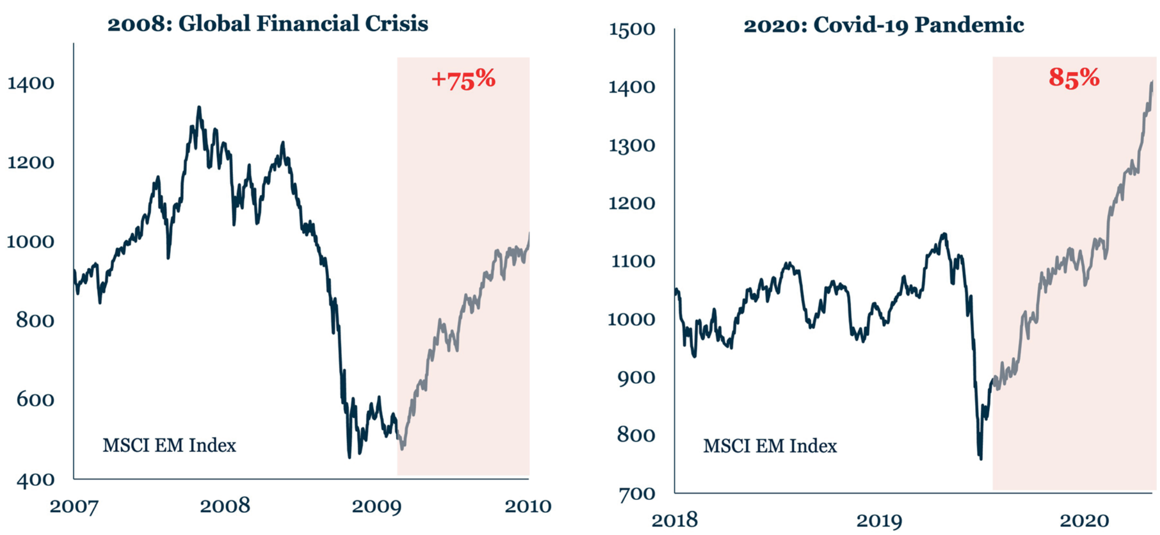

Chart 1: Source: Bloomberg

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At the same time, the stars seem to be aligning for emerging markets (EM) after a long period of underperformance. Emerging markets are set to grow faster than developed markets (4.1% and 1.5% respectively in 2024), have cheaper valuations, a growing middle class boosting domestic demand and EM ex-China will continue to benefit from nearshoring and friendshoring. In addition, structural reforms have started to take effect in several EMs, leading to lower debt ratios and greater economic stability. EM have consistently delivered strong returns in the aftermath of past crises, and we expect this trend to continue in this recovery phase.

Global inflation data shows a downward trend that is expected to continue this year. However, the path to lower inflation has not been smooth, with inflation in many countries proving stubbornly resistant to central bank targets. Nevertheless, the trend remains one of moderation, albeit with some volatility. The downward trend is expected to initiate a monetary easing cycle and boost consumer sentiment, both of which are essential for a full economic recovery.

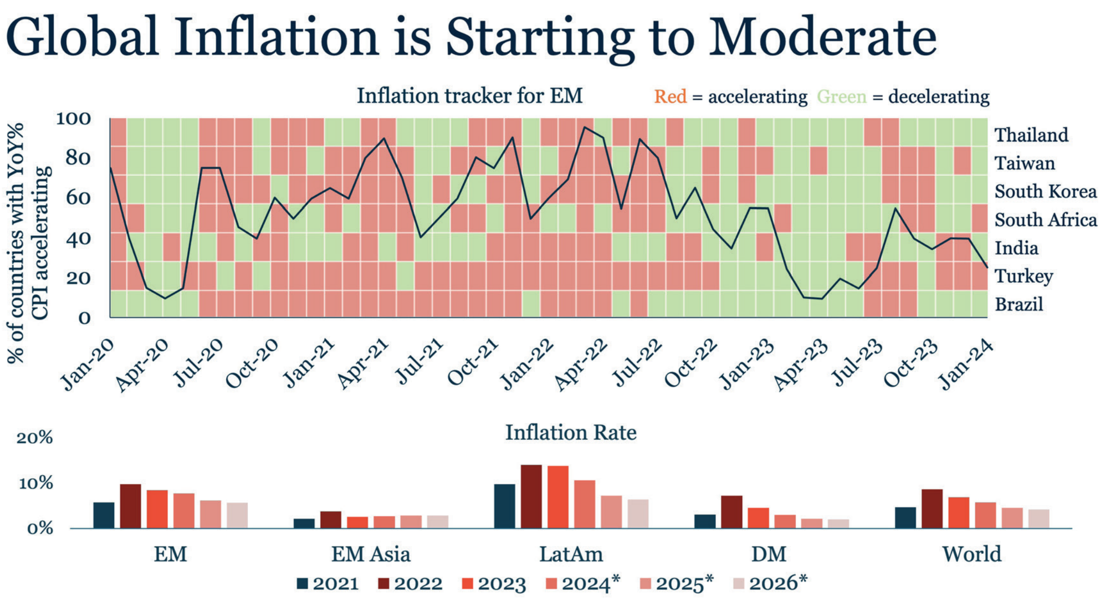

Chart 2: Source: IMF, IBGE, TurkStat, MoS&PI, HCSO, Stat SA, KOSTAT, NSO

For the most part, global interest rates have been on hold since the third quarter of last year, with central banks anticipating and waiting for inflation to fully moderate; the Fed, BoE and ECB last raised rates in July, August and September respectively. On the other hand, some emerging markets have already started their easing cycles. Brazil, for example, started cutting rates in July 2023 and is gradually reducing them from a peak of 13.75%. In our view, the general question of rate cuts is not if, but when. While we do not think it is worth speculating on the exact timing of cuts, we are confident that they are coming soon.

To stay with Heraclitus' river analogy, rivers rarely flow in a straight line to their destination. There will be twists and turns along the way, and sometimes unexpected obstacles. Emerging markets underperformed in the first quarter, driven by fears of a prolonged period of higher for longer interest rates in the US, as economic data remained strong. At the same time, consumer sentiment in China remained weak and geopolitical events added to volatility. Over the quarter, the Mobius Investment Trust's net asset value (NAV) and share price declined by 2.4% and 2.6% respectively in GBP terms while the MSCI EM Mid Cap Index Net TR GBP returned +1.0%. The underperformance was partly due to a correction in the share price of some portfolio companies, particularly in the technology sector. We believe this was driven by profit taking in a volatile market environment and after a strong performance in 2023, rather than fundamentals or the outlook for 2024.

We look for companies that can generate positive returns across cycles, and it is this focus on quality that has driven our outperformance since inception against a backdrop of unfavourable conditions for emerging markets. Robust Q4 earnings and our discussions with portfolio companies confirm our positive outlook for the second half of the year. Inventories are normalising, orders are increasing and the consumer spending cycle appears to be on an upward trajectory. Many portfolio companies are planning to expand into new countries and regions, which should allow them to capture more global market share, gain international exposure for their brands and increase revenues and profits (*see Investment Update below*).

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In addition, we have seen strong investor interest in the strategy this quarter and the open-ended UCITS fund received a significant inflow in February. According to the IIF Capital Flows Tracker, net flows into emerging markets remained positive in March for the fifth consecutive month. The increased investor interest in the asset class is one of many indicators that the tide may be turning for emerging markets. While we expect equity markets to remain volatile this year, with corrections along the way, the recent bull run in global stocks suggests that a robust and sustained economic recovery is being priced in by markets, driven by interest rate cuts and continued moderation in inflation.

So, with the philosophy of Heraclitus in mind, we are preparing to bid farewell to the decade-long underperformance of emerging markets and look forward to sailing on new waters that may sweep away the obstacles of the past. We believe our portfolio is well positioned to catch the tailwinds and navigate the challenges of this new cycle.

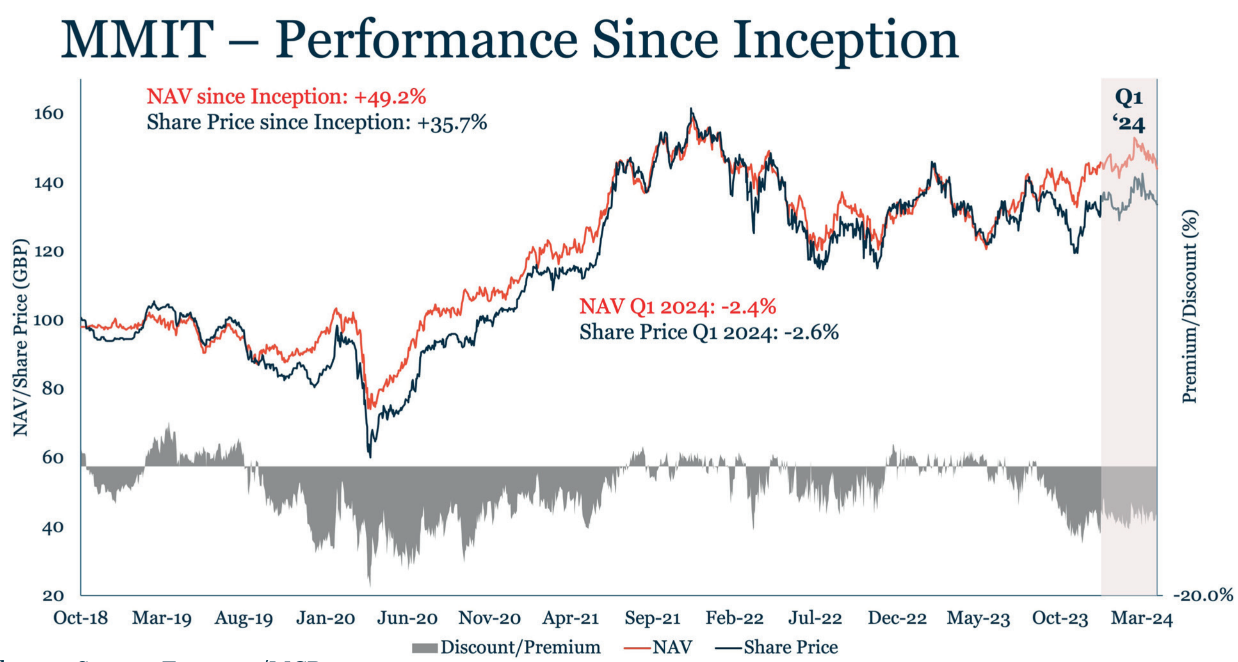

Chart 3: Source: Frostrow/MCP

Performance

During Q1, MMIT's NAV and share price declined by 2.4% and 2.6% respectively in GBP terms, while the MSCI EM Mid Cap Index Net TR GBP returned +1.0%. The top contributors to Q1 performance were Korean semiconductor testing business LEENO Industrial (+1.5%), and Kenyan communications company Safaricom (+1.1%). Semiconductor testing company LEENO's Q4 operating profit reported in March beat market consensus by 44% and the company maintained a positive outlook for 2024. Over the period, the main detractors were Brazilian software company TOTVS (-1.1%) and Taiwanese IC design house Parade Technologies (-0.9%). As mentioned above, some of the strong performing companies saw some profit taking amid the recent volatility and flight to safe-haven assets.

Investment Update

As of 28 March 2024, MMIT has invested 93.3% of capital, with 29 holdings across 11 countries. The largest geographic exposure was Taiwan (24.6%), followed by India (18.3%) and South Korea (13.7%). The team continues to find the most high-conviction ideas in Asia, with the region accounting for over 60% in the portfolio. The largest sector exposure was technology (58.5%), followed by health care (11.2%) and consumer discretionary (6.2%).

Top 10 Holdings (%)	Country	% of MMIT's portfolio
EPAM Systems	US	5.8
Classys	South Korea	5.6
TOTVS	Brazil	5.0
E Ink	Taiwan	4.6
Elite Material	Taiwan	4.1
Persistent Systems	India	4.1
LEENO Industrial	South Korea	4.1
Park Systems	South Korea	3.9
Sinbon Electronics	Taiwan	3.8
APL Apollo	India	3.8
Total		**44.8**

Allocation may vary over time.

During the first quarter of 2024, MMIT started adding two innovative, high-conviction ideas to the portfolio. These will be announced as they reach target weight. In addition, the team maintained an ongoing dialogue with existing holdings and continued to carefully adjust positions based on earnings reports, outlook and broader macro considerations. Several portfolio companies are expanding into new countries and new product lines to capture more global market share, increase international brand exposure and grow revenues and profits. For example, Classys, a Korean health and beauty brand, is expanding into Hong Kong, Japan, Thailand, Indonesia, Brazil, Taiwan, Russia and Australia; and EPAM Systems, a digital engineering services provider recently recognised as the top IT sourcing provider in Europe, will continue to grow its workforce in India & LatAm. EPAM expects India to be its largest delivery centre by the end of this year.

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E Ink is expanding its manufacturing facilities, in part to support its expansion into China's education sector, where its devices can complement LCD devices for digital learning, potentially replacing traditional textbooks and pens as well as the traditional price tags in stores with electronic shelf label (ESL) in markets outside of China. Kangji Medical, a leading Chinese provider of instruments for the minimally invasive surgery industry, has invested significantly in the development of a laparoscopic surgical robot (where robotic arms mimic the surgeon's hands) which is currently undergoing clinical trials.

Company Spotlight: Leeno Industrial (South Korea / Semiconductors)
LEENO Industrial, a specialist supplier of semiconductor test components, was added to the portfolio in 2021 and has since become one of the top ten holdings. It is a key supplier with a diverse customer base of over 1,000 customers worldwide, including industry giants Qualcomm, NVIDIA, Apple, TSCM and Samsung. LEENO has a robust business model, being involved in both R&D and production testing of chips. The company has demonstrated strong competitiveness by consistently attracting new customers and expanding its services to existing customers. LEENO's share price has risen more than 70% since November and the recovery in the semiconductor industry, together with the increasing demand for AI applications, should continue to drive performance.

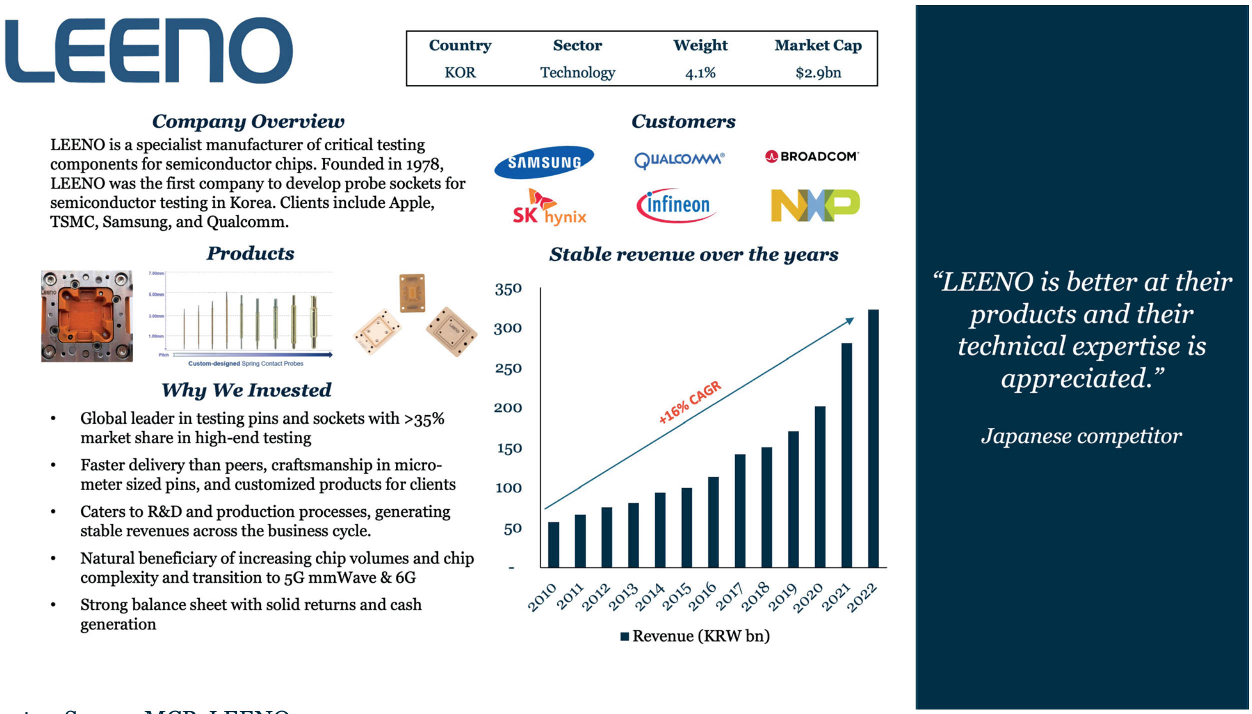

Chart 4: Source:MCP, LEENO.

Engagement & ESG+C®
During the quarter, our commitment to ESG+C® engagement remained steadfast as we continued to actively engage with each portfolio company, and we are pleased to report tangible progress from several companies. Governance issues continued to be a focus, representing 50% of our engagement points.

A standout in our portfolio in terms of cultural standards is EPAM Systems. A leading digital transformation services and product engineering company, it has been named as an Employee's Choice Winner in Glassdoor's Top 100 Best Places to Work in 2024. In addition, FirstJob's

2024 Top of Mind Index Tech study recognised EPAM as the preferred tech company among young professionals in Colombia, ranking sixth out of more than 1,400 companies identified, up five places from 2023. These are in addition to the company's already extensive list of cultural awards and recognition, and we're sure they won't be the last! In addition, EPAM has made improvements in governance this quarter, having announced a performance-linked ESOP. This means that senior management and executive officers will be eligible to receive Performance Restricted Stock Unit (PSU) awards if they achieve certain adjusted revenue growth, adjusted EPS and relative TSR targets over a three-year period.

We have also seen improvements in our holding company's environmental and social commitments. 360 One published its first integrated sustainability report, including contributions to the UN SDGs, an important step in improving its sustainability transparency. Metropolis Healthcare has conducted a study on hereditary cancer syndromes that has yielded significant findings, published ahead of World Cancer Day. This study contributes to cancer awareness efforts and promotes proactive measures for individuals with familial risks.

Persistent Systems, in partnership with Microsoft, launched a generative AI-powered population health management solution that uses predictive risk modelling to help patients access the care they need at the right time and optimise capacity and costs for health care providers. In addition, Persistent Systems launched a Women's Returnship Programme, which recruits exclusively women who have taken a career break. This programme underlines the company's commitment to empowering women in the workplace and promoting diversity.

In May, MCP's investment team will be spending time in Taiwan, China and Hong Kong, followed by a research trip to Southeast Asia in June. In-person meetings on the ground facilitate engagement and allow investors to get a better feeling for a company's situation and outlook – this is always rounded off by conversations with local investors, competitors and sector experts as channel checks. The team will also be attending a conference alongside US policymakers, economists and AI experts, and we look forward to sharing our takeaways in upcoming investor communications.

Decoding the Semiconductor Industry

The history of semiconductors dates back to the 19th century, marked by Karl Ferdinand Braun's discovery of rectification in 1874. Practical applications then emerged in the early 20th century, such as the cat's whisker detector, a rudimentary semiconductor device used in early radio receivers. This device consisted of a thin wire, or 'whisker', that made contact with a semiconductor crystal, such as silicon, to detect and convert electrical signals into audio signals. Since its inception, the industry has been characterised by cyclicality as well as its relentless pursuit of innovation, defined by Moore's Law, which states that the number of transistors on computer chips double every two years with little change in price. Of course, the industry has come a long way since those first primitive semiconductors and their applications, and continuous advances have given way to semiconductors so sophisticated that they have become indispensable to the functioning of modern society. The industry's rapid evolution is reflected in its staggering growth, with annual sales quadrupling in just two decades - soaring from $139 billion in 2001 to $573.5 billion in 2022[1]. This rapid growth is well illustrated by the development of ASML's market capitalisation below.

Cyclicality and Semiconductors
Most recently, the semiconductor industry has faced global supply chain disruptions, triggered by the Covid-19 pandemic. While some sectors, notably automotive, faced reduced orders, most,

such as consumer electronics, saw unprecedented growth due to the shift to remote working. US sanctions on companies with ties to China, combined with factors such as the 5G rollout, the Russia-Ukraine war and severe weather events, added to sector volatility. Semiconductor manufacturers responded to heightened demand during the pandemic by increasing inventories, supported by government subsidies. However, the end of the consumer electronics replacement cycle resulted in an industry slowdown in the latter half of 2022 and excess chip inventories.

Moore's Law of Chip Development

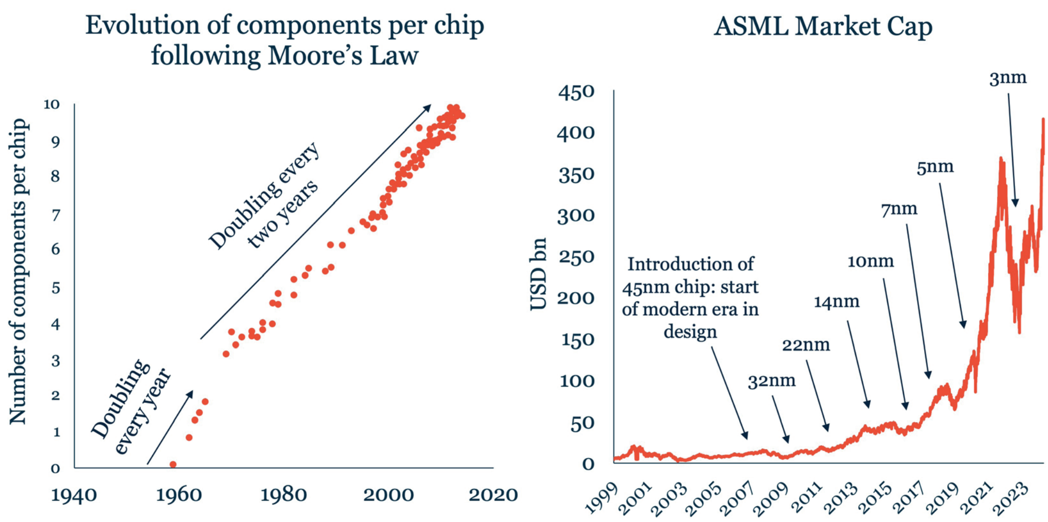

Chart 5: Source:Refinitiv, Boston Consulting Group, Bloomberg, ResearchGate

A year later, inventory levels stabilised, particularly in the global IT components sector, marking a turning point in the cycle. TSMC's revenue, a key indicator of industry health given they manufacture around 90% of the world's advanced chips, rose by 14.4% in Q4 2023 from the previous quarter[2]. Some concerns persist regarding oversupply, especially for foundational chips, as Chinese chipmakers continue to increase production. Nonetheless, the industry is expected to maintain its upward trajectory, with sales revenue estimated to reach between US$588-613 billion in 2024, surpassing 2022's record of US$574 billion, and 2027 forecasts come in around US$736.40 billion[3].

Geopolitics and Semiconductors

The global shortage of semiconductors provided a wake-up call for many governments, particularly in the US and Europe as it served to highlight the vulnerability of over-reliance on the global supply chain. In response, governments began efforts to de-risk their supply chains through onshoring and nearshoring production. This trend has proved beneficial to some players in the supply chain as the total addressable market for existing suppliers increases in line with an increase in capacity and production. For example, Park Systems, which supplies wafer inspection equipment, is benefitting from the increasing demand of smaller nodes and the corresponding expansion of manufacturing lanes.

The US government's 2022 CHIPS Act is a prime example of efforts to onshore. It allocated $52.7 billion[4] in federal subsidies to support domestic chip R&D, manufacturing and workforce development. Just recently, President Biden announced up to $8.5 billion direct funding to US chipmaker Intel under the CHIPS Act to fund new chip plants in the US.

Semiconductors – The Tide May Be Turning

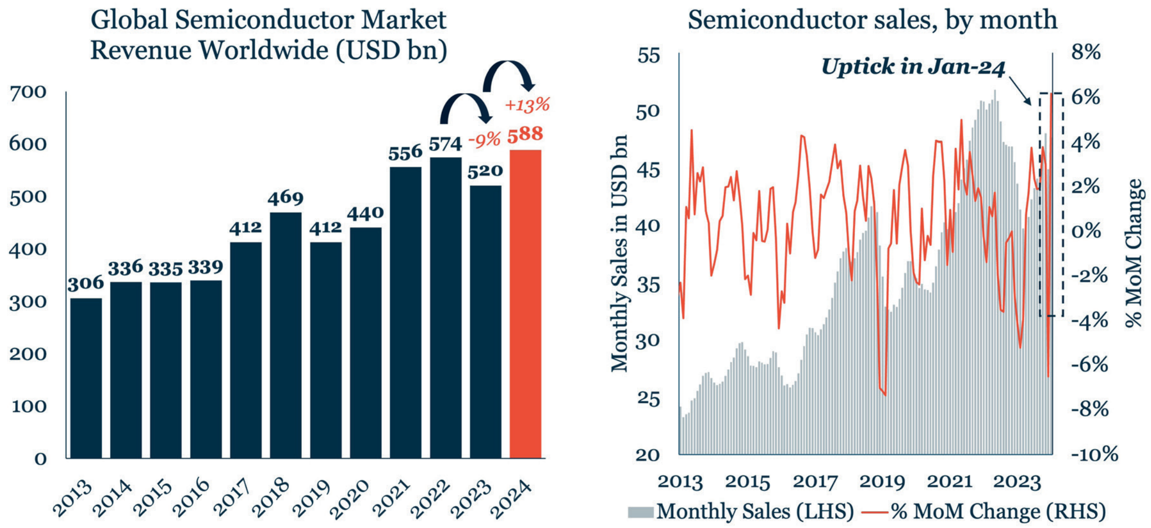

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Chart 6: Source: Statista, Semiconductor Industry Association, Bloomberg

The US government-imposed restrictions on the export of advanced chips and chip manufacturing equipment to China in October 2022, and tightened the restrictions in November 2023. The move was intended to pre-empt the prospect of Chinese global dominance in the industry, as the Chinese government also sought self-sufficiency. However, the move has yielded mixed results. While it has hindered China's progress in advanced chip manufacturing and AI development, leading to a focus on foundational chip manufacturing instead, it has likely accelerated China's path to self-sufficiency by making this an even higher priority for Beijing and forcing Chinese companies to be more innovative in order to develop their own advanced chips. For example, in October 2023 Beijing announced a $40bn state-backed fund to boost the semiconductor sector, and at the same time, scientists at China's Tsinghua University announced the development of the world's first fully system-integrated memristor chip in October 2023, with significant applications in AI and autonomous driving[5].

Semiconductors and Artificial Intelligence

In 2024, the consumer electronics sector is poised for solid growth with a forecasted 3.5% and 4% increase in PC and smartphone sales respectively according to Gartner. This upswing is fuelled in part by a new notebook renewal cycle, as well as a wave of smartphone replacements driven by on-device AI, which allows smartphones to process data within the device rather than on a remote cloud server; this reduces security issues and enables AI services without internet connection. This development, we believe, will benefit a number of our portfolio companies that cater to this industry. One example is Elite Material, a key supplier of high-density copper clad laminates, a crucial component used in advanced chip production. Another example is LEENO which is set to see higher revenue growth in 2024 given their significant R&D exposure to on-device AI.

NVIDIA's recent Q4 2023 report of a 265%[6] increase in quarterly revenues from one year ago serves as a prime example of the substantial growth AI can drive, with CEO Jensen Huang asserting that AI has reached a 'tipping point'. The seemingly limitless potential of the AI revolution will sustain growth in the semiconductor industry for years to come, benefiting well-established companies like NVIDIA and Arm, as well as lesser-known businesses in our portfolio that cater to such industry giants.

eMemory Technology

Within the semiconductor industry, eMemory, a world-leading IP provider to over 2,400 foundries, IDMs and fabless companies, is a prime example of the type of company we like to invest in, with deep moats, sound balance sheets and a strong outlook based on sustainable growth and expansion. In a recent quarterly earnings call, chairman Charles Hsu summarised their strong growth potential: "Our total addressable market will increase as the world expands foundry capacity and move toward more advanced technology. Our technology coverage in each foundry will increase as more technology processes develop and more fabs are established." To this end, the company has several advanced 3/4/5nm semiconductor projects underway and has successfully licensed its 3nm OTP and PUF technology to a US foundry customer with whom it will work to develop the most cutting-edge processes. In addition, the royalty income for each foundry is increasing, as is the demand for licensing, resulting in increased licensing income, all of which increases eMemory's profitability.

The promising outlook for eMemory, which will very likely profit from both increasing semiconductor capacity and complexity, is reflected in the positive outlook for many of our other portfolio companies. For example, LEENO, (*see Company Spotlight above*) should be benefiting from the increasing complexity of chips, which require more advanced pins and sockets for testing in the R&D phase.

Increasing Scope of Semiconductor End Markets

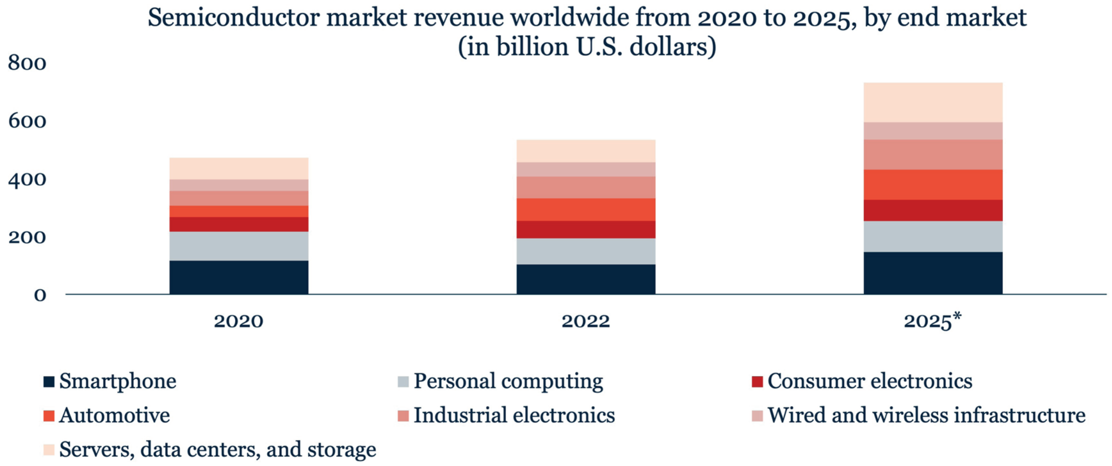

Chart 7: Source: Statista

Outlook

The expanding total addressable market of semiconductor end markets, facilitated by this expansion in semiconductor capacity and complexity, suggests we may come to see a potential reduction in the industry's cyclicality. The industry may become increasingly shielded from the vulnerabilities associated with single market trends with dampened demand in one sector likely having a less pervasive effect on the overall semiconductor industry and its supply chain. Furthermore, many of the new end markets, such as automotive, industrial automation, 5G infrastructure, AI and cloud computing, have larger chip demands per unit compared to those associated with consumer electronics.

The outlook for the semiconductor industry is positive, not just for 2024, but for the next decade. Despite historical peaks and troughs, the industry's overarching trend is one of exponential growth, with forecasts pointing to a milestone of $1 trillion in market revenues by 2030.
At MCP, we avoid trying to time each cycle perfectly and instead focus on identifying highly innovative companies that are positioned to benefit from the industry's long-term trends, such as eMemory. This strategy does not begin and end with the semiconductor industry, but extends to all the industries in which we invest. In this way, we aim to create long-term, sustainable value for our investors.

To find out more about portfolio manager Carlos Hardenberg's and the MCP team's insights into the semiconductor industry, listen to *Decoding the Semiconductor Industry*. This episode is part of our new podcast channel, *Insiders and Outliers - MCP on Emerging Markets*. Monthly episodes are available on Spotify, Apple Podcasts and Soundcloud.

Lastly, we would like to thank you, our shareholders, for your continued support.

Best wishes,

The Mobius Capital Partners Team

Footnotes:

1. SIA.
2. TSMC
3. Statista
4. The White House
5. CSIS
6. NVIDIA

Risks

- MMIT pursues a very active management style. Its performance may therefore deviate considerably from that of a comparable market return.
- Pronounced fluctuations in price are characteristic of emerging and frontier economies. Other characteristics include specific risks such as lower market transparency, regulatory hurdles, illiquidity of markets as well as political and social challenges.
- Focusing intentionally on stocks in small and medium cap companies may entail additional risks (e.g. lower liquidity).
- The risk calculation as per the UK KID calculation method is 5 out of 7. The risk of potential losses from future performance is classified as medium-high. In the event of adverse market conditions, it is possible that the ability to carry out your return request will be affected.
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