Q4 2018 MANAGER COMMENTARY

21 January 2019

Dear fellow MMIT shareholder,

On the face of it, 2018 was a year to forget for emerging and frontier markets. Characterised by elevated volatility and political uncertainty, investors were stalked by the threat of trade barriers and protectionism, with the backdrop of a strengthening dollar, tighter monetary conditions, and weaker commodity prices. The uncertainty pendulum swung towards the developing markets and dragged down global risk appetite.

Looking beyond the headlines however, 2018 may not have been such a disappointing year. Speculation around NAFTA's demise was exaggerated with the final outcome more of a re-branding exercise. The results of elections in Malaysia, Mexico, Pakistan and Brazil were well received by the market, and emerging market earnings expectations started to rise. The looming trade negotiations between the US and China weigh heavily on sentiment, yet both partners still point towards the existential importance of the relationship.

Naturally, at Mobius Capital Partners we will remember 2018 fondly. We celebrated our launch in May and the successful listing of the Mobius Investment Trust on London Stock Exchange in October. We are thrilled by the quality of the team we have been able to attract, with such diverse and distinguished backgrounds. This Manager Commentary reflects upon MMIT's first three months of trading (Q4 2018) and is accompanied by the inaugural monthly factsheet.

"Fundamental stock picking and actively engageing with companies"

As a management team, we are now in a position to share with investors details of our holdings, as well as articulate our investment rationale. We want to convey how the 'two pillars' of our investment strategy work in practice, based on: fundamental stock-picking (pillar 1) and actively engaging with portfolio companies on operational and ESG issues to unlock value (pillar 2).

Performance

The Mobius Investment Trust (MMIT) listed on London Stock Exchange on 01 October 2018. The Net Asset Value (NAV) decreased by 0.3% over Q4 2018, reaching a high of 100.43p on 04 December 2018 and closing at 97.71p on 31 December. The MSCI Emerging Markets Index and MSCI Frontier Markets Index were down -7.47% and -4.32% (respectively) over the same period.

MMIT traded at an average discount to NAV during this period of -2.6%, which had narrowed to -1.16% at close on 18 January 2018.

Investment Update

As of 31 December 2018, MMIT had allocated 56.2% of capital raised at IPO, with 15 holdings across ten countries. As reflected in our recent MMIT Investment Update[1], due to current market volatility we believe it is in the interests of shareholders to exercise caution and discipline in allocating capital. MMIT's top ten holdings are shown below. During the last quarter, the investment team have undertaken research trips to Brazil, China, Eastern Europe, Hong Kong, South Korea, Taiwan and Turkey, conducting

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approximately 300 calls and meetings with target company stakeholders. This has provided an opportunity to develop a deep understanding of the companies we have identified as long-term investment targets, resulting in 118 company summary one pager reviews and 38 recommendations to the Investment Committee.

Top 10 Holdings (%)	Country	(%) of MMIT Portfolio
Hugel	South Korea	5.0
Matahari Department Store	Indonesia	4.6
Iochpe Maxion	Brazil	4.6
Eurocash	Poland	4.6
Oriflame Holdings	Global EM	4.4
Cafe24	South Korea	4.4
eMemory Technology	Taiwan	4.2
Mavi Giyim Sanayi Ve Ticaret	Turkey	3.9
Mail.Ru	Russia	3.8
Brilliance China Automotive	China	3.6
Total		43.1

In addition, we have also undertaken intensive on-the-ground company research in India. As of January 2018, we received approvals from the market regulator to purchase local securities. As a result, Indian exposure within the portfolio is expected shortly.

"Research trips to Brazil, China, Eastern Europe, Hong Kong, South Korea, Taiwan and Turkey, conducting 300 calls and meetings with target companies"

Below we have outlined how our two key investment pillars apply to our five largest holdings within our current portfolio, with pillar 1 (fundamental stock-picking) summarised under '*Why We Invested*', and pillar 2 (active engagement) summarised under '*Key Engagement Topics*'. Please note, however, that our full plans for engagement with each company are sensitive, and so cannot be disclosed in detail in this commentary.

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Hugel (South Korea)

Hugel is a biopharmaceutical company ($1.4bn market cap) manufacturing products for medical aesthetics and medical therapeutics (neurological disorders and strokes). Founded in 2001, the business floated on the KOSDAQ in 2015. The largest shareholder is Bain Capital, who acquired a 41% stake in June 2017 (via new share issuance) and Dr Kim Byung-Gun, an early investor who owns 6.3%.

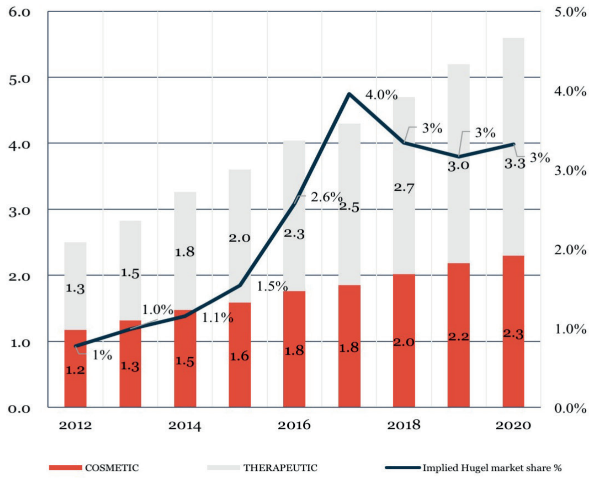
Fergus Argyle and Greg Konieczny meet Hugel Team

Why we invested

- **Growing aesthetic and therapeutic botox market (~11% CAGR)**: Hugel is well placed to benefit from international demand given strong international partners (China, Europe & US) and under-utilised plant capacity in South Korea
- **Proven product**: Hugel grew their market share in South Korea from 0% to ~40% in eight years. The company enjoys significant barriers against new entrants from their intellectual property, the requirement for regulatory approvals and clinician relationships
- **Deep discount relative to peers**: Negative sentiment around Hugel's exports at the time of investment meant that the shares were trading at a deep discount to competitors and their trading history

3-year share price chart (USD)

Global botox market ($bn), ~11% CAGR



Source: Bloomberg/Allergan

Key Engagement Topics

Our plans for engagement include a focus on capital management, strategy (particularly exploring new market opportunities and applications) and reporting disclosures, especially ESG. With a new management team in place this year, we are excited about their prospects.

Matahari Department Store (Indonesia)

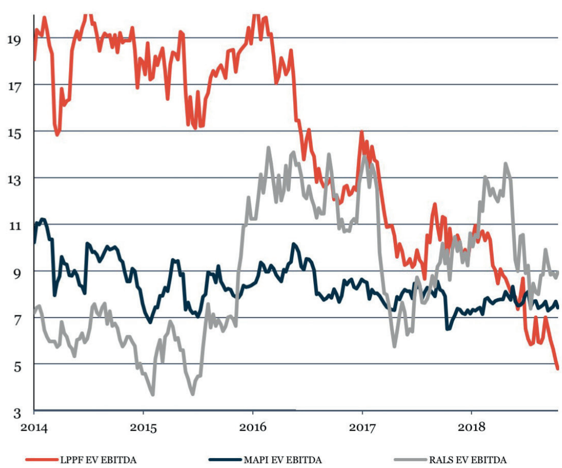
As the market leader in Indonesia, Matahari Department Store ($1.3bn market cap) sells a wide array of fashion, accessories, beauty and homeware products across the Indonesian archipelago. Matahari has a dominant position within its target segment of middle-income Indonesian consumers. This represents over 50% of the population and is a cohort larger than the entire size of Mexico.

Why we invested

- **Gross margin superiority (60%+) driven by brand advantage and scale**: As one of the world's most profitable retailers, Matahari's size advantage provides bargaining power over suppliers, allowing the company to outspend peers on fixed costs
- **Distribution network**: Matahari charges apparel vendors to use their extensive logistics network (a 27,000 m2 distribution centre which supports five regional hubs). This revenue generating entity also drives negative working capital (through extended payables), which is a significant boost to free cash flow generation. This formidable distribution and logistics network could also offer a 'New Retail' solution to many well capitalised e-commerce players
- **Attractive valuation**: Despite Matahari's competitive advantages, at the time of investment the valuation had de-rated to an all-time low (moving from 20x EV/fEBITDA in 2016 to less than 5x). Comparative peers, with more challenged business models, traded at nearly double this multiple

5-year share price chart (USD)

Matahari (LPPF) derating vs. peers



Source: Bloomberg

Key Engagement Topics

There are a number of levers to unlock hidden value. We have found Matahari's management team to be thoughtful and receptive to new ideas which bodes well for the future. Our action plan centres around capital structure, strategic direction in bolstering their omnichannel profile and incremental capital allocation.

Iochpe-Maxion (Brazil)


Mark Mobius visiting Iochpe-Maxion

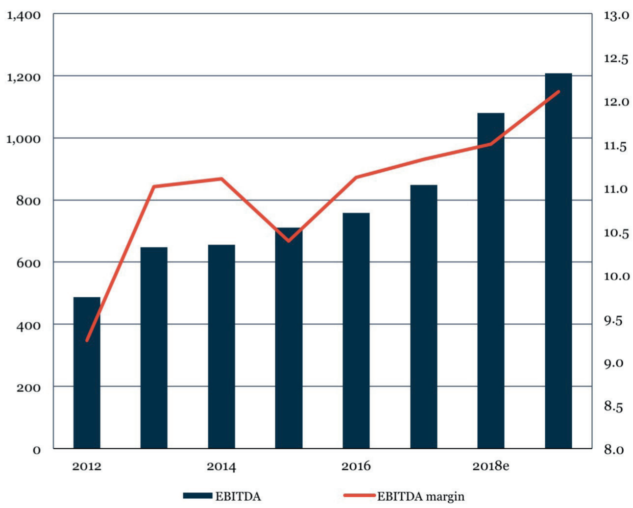
Iochpe-Maxion is a leading producer of wheels, side rails and chassis components in the Americas ($900mln market cap). The company is based in Brazil and has a total of 31 manufacturing plants in 14 countries. Iochpe operates under three divisions: steel wheels (~50% of sales), aluminium wheels (~35% of sales) and structural components (~15% of sales). Geographical sales are split principally between Europe (~38%), North America (~28%) and South America (~25%). The company's biggest shareholders are the Iochpe family.

Why we invested

- **True global partner for original equipment manufacturers (OEMs)**: Iochpe-Maxion has become a global partner for OEMs which is a significant competitive advantage vs. competitors that usually operate on a regional scale
- **Focus on innovations**: The company is very focused on innovations in both the steel and aluminium wheels segment (significant and sustainable competitive edge)
- **Growth opportunity in aluminium wheels and premium quality wheels**

5-year share price chart (USD)

EBITDA and % margin trend



Source: Bloomberg

Key Engagement Topics

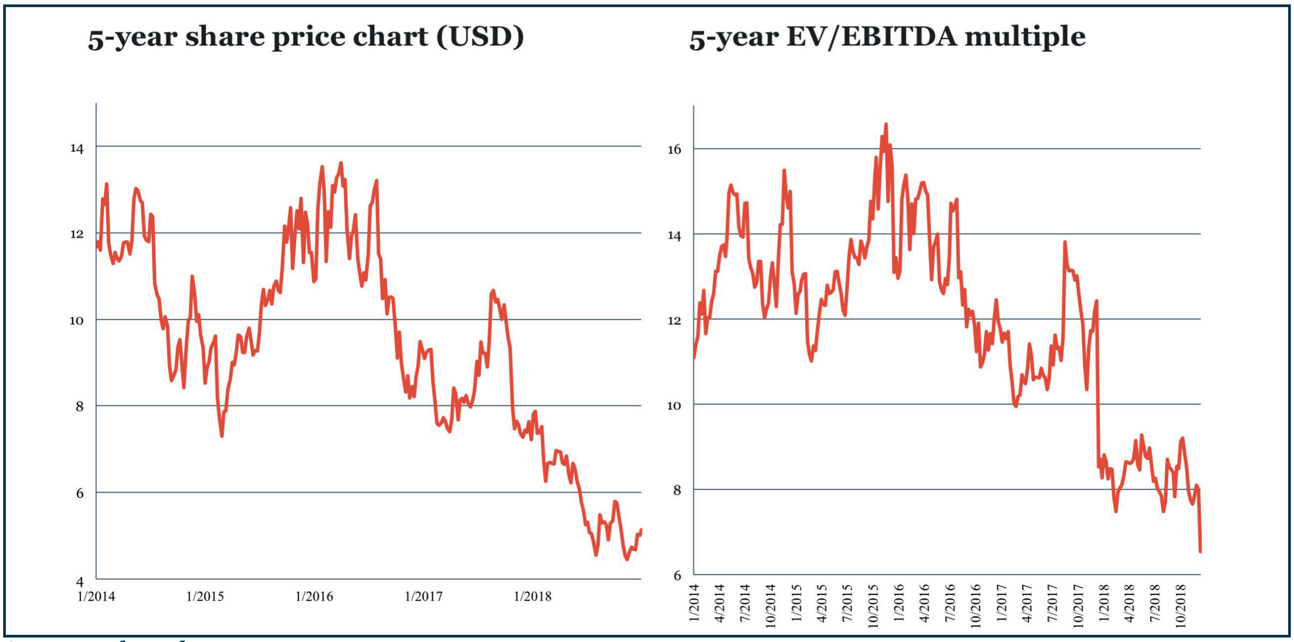
Our plans for engagement focus on board composition, remuneration, incentivisation, environmental disclosure, and labour relationship-related risks.

Eurocash (Poland)

Eurocash is a Fast-Moving Consumer Goods (FMCG) wholesaler ($715mln market cap) in Poland with 27% market share and the biggest FMCG ecommerce platform. It operates wholesale food distribution through Cash&Carry warehouses, as well as direct distribution. The company has also entered into the food retail business with #7 market position and ~1,500 stores. The company is 44% controlled by Mr. Luis Amaral who is also the CEO.

Why we invested

- **Wholesale business is undervalued**: At the time of investment, the market valuation in our view did not properly reflect the value of the attractive wholesale business which can act as a logistical platform and infrastructure to develop new online business initiatives
- **Retail business upside**: Food retail business offers additional upside – Eurocash's retail business EBITDA could increase significantly if the management delivers on their expansion plan
- **Valuation and the sentiment toward the company**: Previous M&A integration and a deflationary environment in Poland negatively impacted the business' valuation to an attractive entry level



Source: Bloomberg

Key Engagement Topics

Our plans for engagement focus on strategy formulation and communication, more transparent financial and segment reporting, leadership team and management incentivisation.

Oriflame Holding (Global Emerging Markets)

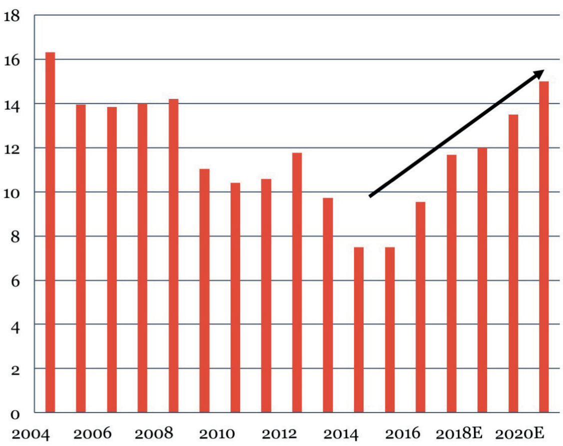
Founded in 1967 with a strong Swedish heritage, Oriflame is a personal care company ($1.4bn market cap) which utilises a direct selling model. With consultants around the world, Oriflame is present in more than 60 countries, with its largest sales volumes in Russia, China, India, Indonesia, Mexico and Turkey. The company has a vision to be the #1 direct selling beauty company globally. The largest shareholders are the Jochnick family who founded the company in 1967 and continue to be involved through their board seats.

Why we invested

- **Direct selling model**: Direct selling continues to grow globally within the beauty and personal care segment, aided by digitalisation
- **Ability to improve its operating margin**: Currently standing at 11.7%, Oriflame has an opportunity to increase its margin to 15%
- **Valuation**: With a PE of 12x at the time of investment, Oriflame trades at a multiple which is 60% lower than the median for its peer group

5-year share price chart (USD)

5-year EV/EBITDA multiple



Source: Bloomberg

Key Engagement Topics

Oriflame has benefitted from Sweden's high standards of corporate governance, but we believe there are a number of areas which could be improved. Our plans for engagement focus on compensation, board independence, operational efficiencies, investor relations as well as a number of environmental and social initiatives.

Did you know that...

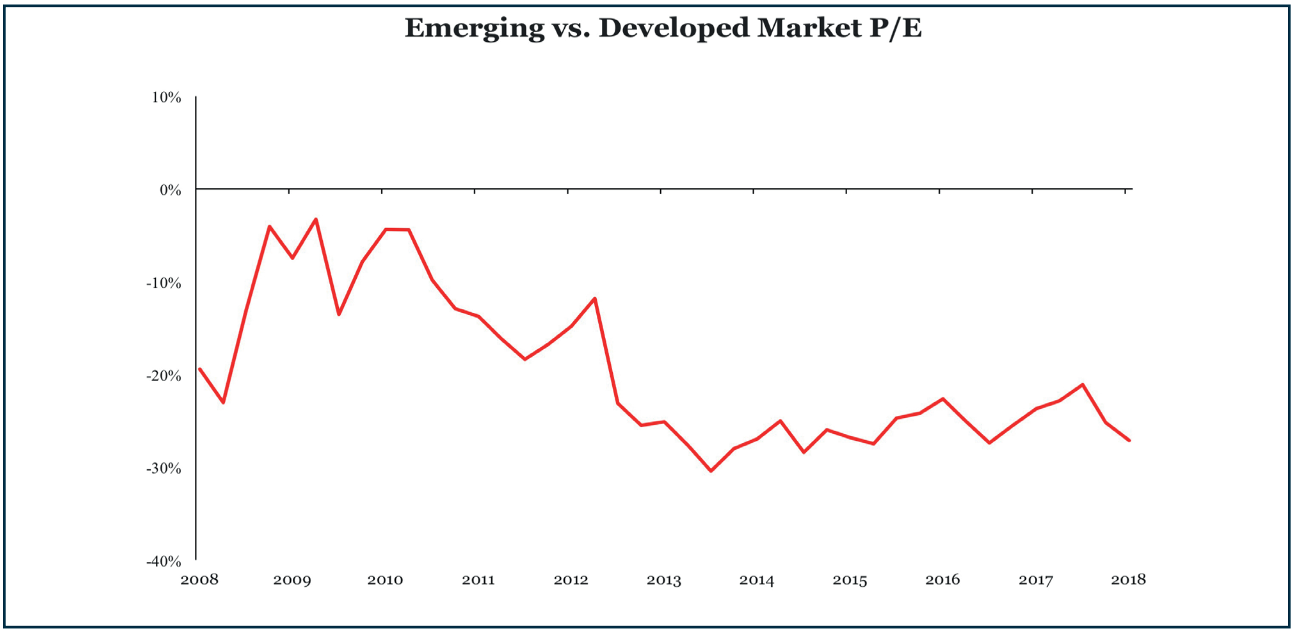
India's stock market reached $2.08 trillion in December, surpassing Germany ($1.97 trillion), making it the world's seventh-largest[2]

Emerging market voters head to the polls en masse in 2019, with 13 countries holding elections including Argentina, India, Indonesia, Poland, South Africa and Thailand

China recently landed the first spacecraft on the far side of the moon and is working on a robotic Mars mission that is scheduled to launch in mid-2020 and arrive in early 2021[3]

Outlook

There is a tangible opportunity for a recovery across emerging markets, either through a reversion to the mean, or propelled by more fundamental changes to the macro environment. This injection of confidence can be attributed to (1) generally accommodating monetary conditions, (2) lower oil and wider commodity prices (Brent crude is down -27.8% from 01 October 2018[4]) , (3) weaker USD and (4) Chinese economic transition and rebalancing project.



Source: Bloomberg, MSCI

We believe that emerging and frontier markets have now priced in a lot of the concerns; the valuation differential between emerging markets and developed markets are near an all-time high (27% P/E discount, see graph below), making the former clearly look very attractive from a valuation standpoint.

Given the number of important elections in 2019, (Turkey, Argentina, India, Thailand, South Africa to name a few) we remain alert to political risks. There are, however, three key reasons why we see robust upside in the medium term:

1. **Macroeconomic Fundamentals**: Most central banks have managed inflation well and deployed a prudent policy mix. At the same time, domestic demand, industrial production and consumer spending are showing signs of strength. Domestic household consumption is gradually replacing dependency on exports. Reasonable leverage and big war chests of FX reserves are the new norm.

2. **Idiosyncratic factors**: Corporates have deleveraged, diversified and initiated a drive to efficiencies. Never before have companies in emerging and frontier markets been in a more robust competitive position. Technology is the name of the game, with increasingly ubiquitous smartphones and cloud computing.

3. **China**: Concerns regarding private and public sector debt, and the slowdown in growth and increase in costs, are valid. However, we believe that China has the means to successfully manage its economic transition towards greater consumption and higher value industrial output. Recent initiatives to stimulate the economy, including the investment in logistics and infrastructure, attracting high-tech investments and facilitating R&D spending, all point towards a competent and credible policy mix to deal with the transition. It won't happen overnight, but the Chinese are true long-term thinkers.

In addition to the points raised above, we believe that the universe of smaller companies offers a particularly attractive opportunity over the coming years. These companies are more agile, often growing their international market share in their niches, more flexible in responding to a fast-changing environment, less owned and less well understood by the market. Importantly, these businesses are often led by founders with a determined entrepreneurial spirit, driven to succeed. As a newly established firm ourselves, this is something we can relate to at Mobius Capital Partners.

Here's to an exciting 2019.

Mark Mobius, Carlos Hardenberg and Greg Konieczny

Founding Partners
Mobius Capital Partners

Footnotes:

1. MMIT Investment Update (12 December 2018)- https://www.mobiusinvestmenttrust.com/application/files/2915/4478/6198/MMIT_Investment_Update_Dec_2018_FINAL_121218.pdf

2. India's Stock Market Leapfrogs Germany's to Become World's Seventh-Biggest: https://www.bloomberg.com/news/articles/2018-12-21/indian-stock-market-leapfrogs-germany-s-as-economy-booms?srnd=markets-vp

3. Business Insider https://www.businessinsider.com/china-mars-spacecraft-launch-2020-rover-sample-return-2019-1?r=US&IR=T

4. Bloomberg: Brent & WTI active contract px

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