

“A market downturn doesn’t bother us. It is an opportunity to increase our ownership of great companies with great management at good prices.”

Warren Buffet, Investor

22 October 2020

Dear fellow MEMF shareholder,

Since we shared our last update, the world remains in an immensely fragile state with the IMF’s expectation of an economic contraction of 3.2% for emerging markets and developing economies. As we are writing, the threat of rapidly increasing COVID-19 cases is impacting our investment universe and beyond. In the absence of an effective and globally available vaccine, sentiment and actual economic activity can only be kept out of the intensive care unit with the recipe of heavy-handed economic stimuli by governments and central banks. Domestic containment measures and weak external demand have hit all markets, while countries that depend on tourism and exports have been hit the hardest. The decisive and simultaneous action by governments which we have witnessed in Emerging Markets has provided a lot of relief, resulting in the stabilisation of sovereign spreads and a reversal of capital outflows. The overall robust condition of emerging market public and private sector balance sheets, deeper pools of reserves and years of macroprudential discipline have helped to mitigate the impact of the crisis.

The recovery in emerging markets since the lows in March has been strong but varied depending on the respective governments’ ability to contain the virus swiftly and implement effective stimulus packages.

Changes in the Performance of Leading Local Market Indices (%) (24 Mar to 15 October):

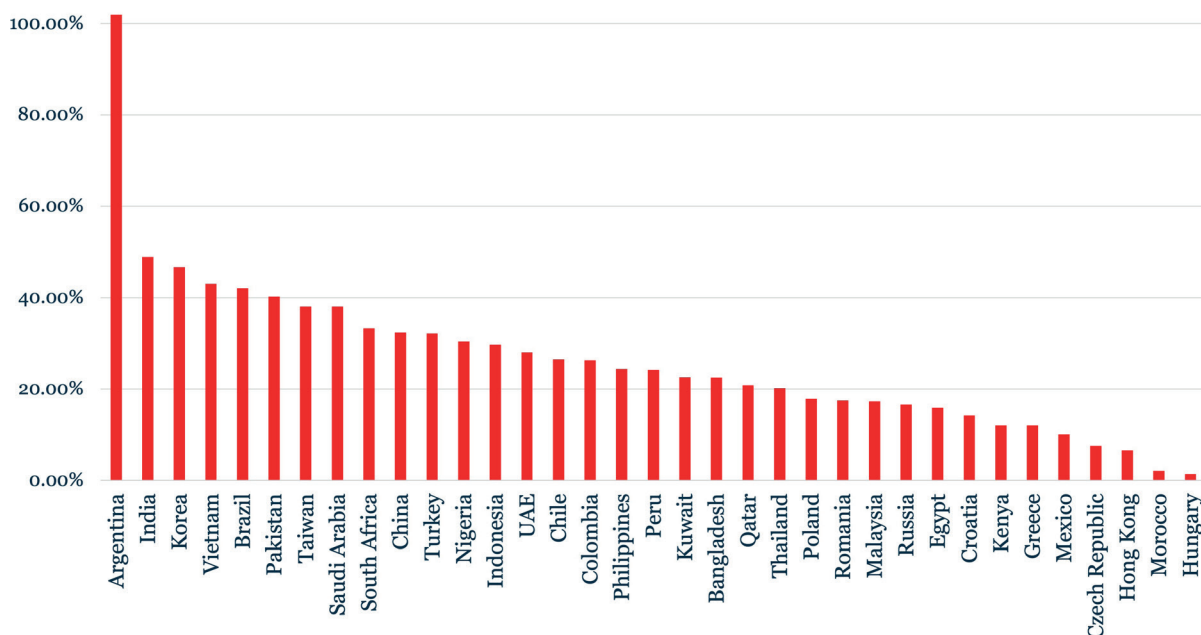


Chart 1, Source: Bloomberg

Q3 2020 MANAGER COMMENTARY

We are now at a very important crossroads: the largest risk we are facing is a prolonged period of global weakness, and a larger health crisis which would jeopardise the stability of the financial system. But one rule will prevail even this time: the crisis offers an opportunity to invest in companies which will come out strong.

At a time like this, diligent stock picking becomes ever more important. We have been very cautious in our stock selection to avoid any outsized idiosyncratic risks as well as macro risks. Stock selection has been a main driver of the continued good performance of the Mobius Emerging Markets Fund in Q3. We have observed strong numbers, in particular among the Indian small cap stocks, as well as within our technology exposure, which is now almost 30%. We have seen a number of companies launching new, innovative products which have enabled them to benefit from the shifts in consumer behaviour in the wake of the COVID-19 pandemic.

Generally, we are pleased with the way portfolio companies have been communicating and handling the crisis. We continue to be in close and regular contact with management teams to monitor their responses to the ongoing pandemic and the progress on engagement actions raised with the individual companies. In India, for example, we have observed strong engagement progress with several companies including Persistent Systems who increased their buyback authority and Polycab who have improved their sell-side coverage.

On a macro level, as we move into the final quarter of the year, we will be watching the progression of the second wave of COVID-19 and related government reactions very closely. At the same time, we will keep a close eye on the results of the US election, the continuing US-China tensions, and, in particular, the situations in Brazil, India and Turkey.

While we are facing a lot of uncertainty at this point in time, not all is bleak in emerging markets - especially for investors with a long-term horizon. The IMF predicts growths in emerging markets to pick up again in 2021 by 6.1% followed by growth of 5% in 2022.¹ Analysts polled by FactSet predict emerging markets earnings to be rebounding more than U.S. earnings next year.² Emerging markets stocks remain under-owned and their valuations are at historically low levels compared to developed market stocks (*see Chart 2 below*). This, in combination with a weaker dollar is already encouraging a return of flows into emerging markets.³

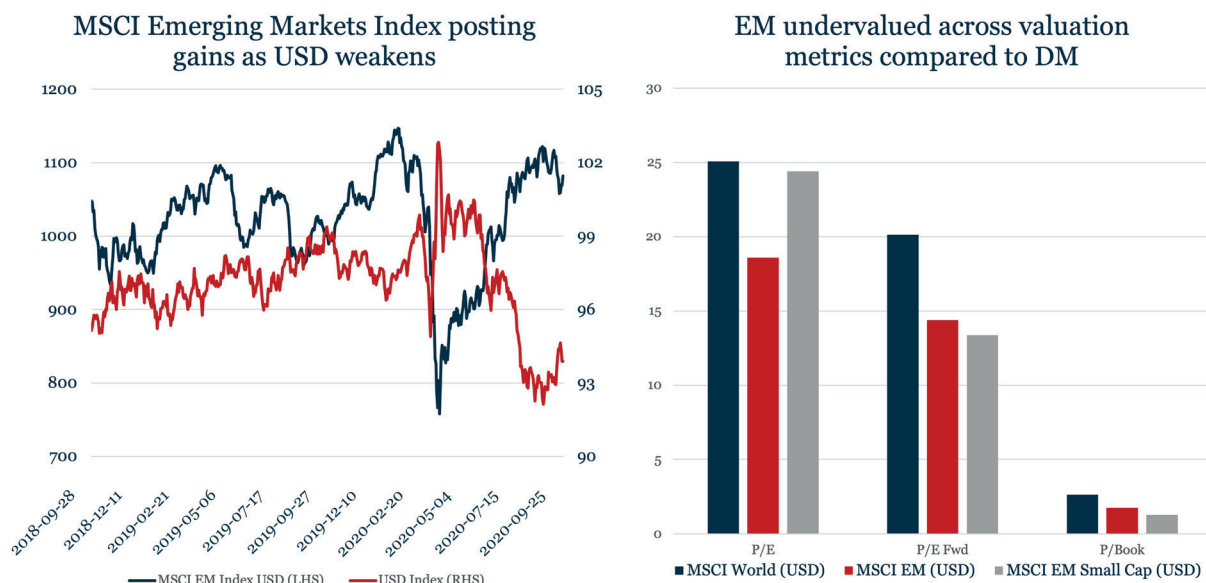


Chart 2, Source: Bloomberg, MSCI

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Let us also not forget market movements are cyclical and a downturn is usually followed by an upturn and we are beginning to see the first signs of this. Whilst we remain vigilant, we believe now is a unique time to invest into a carefully selected and well diversified high-conviction emerging markets portfolio.

Performance

The Net Asset Value (NAV) of the Founders Share Class increased by 12.9% (USD) and 8.1% (EUR) in Q3 2020 (please see *Founders, Institutional and Retail factsheets for details on performance of other individual share classes*) placing MEMF in the top quartile of the Global Emerging Markets Small/Mid-Cap Equity peer group⁴ YTD and over the last 1, 3, 6 and 12 months.

As mentioned above, stock selection in India was an important driver of performance. The top contributors in Q3 were two of our Indian holdings: Apollo Tubes, the leading branded steel products manufacturer in India, contributed +5.1%. This holding is an example of an industrial company that is coping with the Covid-19 situation in India better than its peers – with an optimized cost structure and improved working capital management. Persistent Systems which benefits from increased demand for digitalization with its IT-related services contributed +4.6%. The third positive contributor (+0.8%) was South Korean Health Care company Hugel, which is expected to receive approval by the Chinese regulator to enter the Chinese Botox market with its products later this year.

The main detractors from performance were Mavi (-1.0%), A.K. Medical (-0.9%) which saw a correction after strong performance in the first half of the year and Nice Holdings (-0.4%).

Investment Update

As of 30 September 2020, MEMF had invested 89.8% of capital, with 26 holdings across 10 countries. MEMF's top ten holdings are shown below:

Top 10 Holdings (%):	Country	(%) of MEMF portfolio
APL Apollo Tubes Ltd	India	9.3%
Persistent Systems Ltd	India	7.5%
eMemory Technology Inc	Taiwan	7.3%
Yum China Holdings Inc	China	5.6%
LEENO Industrials	South Korea	4.4%
Hugel Inc	South Korea	4.3%
Polycab India	India	4.3%
Clicks Group Ltd	South Africa	4.2%
AK Medical Holdings	China	4.1%
Safaricom Ltd	Kenya	3.9%
Total		54.9%

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During Q3, we added Metropolis Healthcare Limited to our portfolio. The company provides pathology and related healthcare services in India. The company offers clinical laboratory tests, and profiles and support services to patients, smaller labs, nursing homes, and hospitals. It offers diagnostic services for oncology, neurology, gynecology, and nephrology, as well as various health check-up packages. The diagnostics industry in India is a high growth industry which is expected to grow at above 10% per annum. Engagement focuses on ESG reporting improvements and strategic communication on digitalization projects.

Air Pollution in India - A Case For Active Engagement On ESG

As an active investor we maintain regular dialogue with each of our portfolio companies. Through our customised engagement, we seek to identify and discuss key risks in order to best mitigate them. A good example for this is air pollution in India which was first raised during a due diligence process. In light of our exposure to India, we continue to monitor the situation and the regulatory environment.

While urban air pollution is typically associated with China, 21 out of 30 of the most polluted cities in the world were in India in 2019 in terms of fine particulate matter.⁵ Indeed more than 4 in 10 Indians are exposed to five times the safe limit of particulate matter in the air they breathe.⁶ The WHO identified the chief causes as vehicular pollution, industrial emissions, thermal power plants, construction dust, waste burning and the use of cheap and dirty fuels such as wood and cow-dung for cooking by millions of poor households.

The problem of air pollution is not unique to India and it is an environmental, social and financial risk that costs the world economy more than \$5 trillion each year.⁷ A 2016 report by the OECD found that the economic costs of air pollution result from three principal effects: reduced crop yields, increased healthcare spending and reduced labour productivity.

As shareholders and allocators of capital, investors have the ability and responsibility to be more than reactionaries to the challenge of air pollution. Rather, it is in their best interest to actively engage with firms to reduce emissions and to be innovative in developing solutions. Such engagement has the potential to improve operations, positively impact valuations and decrease the long-term environmental risk of air pollution to their investments. After all, as a shared resource, air quality has implications for all sectors of the economy and aspects of human well-being.

In August we discussed the issue with one of our Indian companies, APL Apollo Tubes, India's leading branded steel products manufacturer. The Indian construction industry is directly impacted by regulations aimed at reducing air pollution. The Indian government has banned highly polluting construction activities for between 2 and 3 months every year when air pollution reaches its highest levels. This, of course, significantly impacts companies' productivity and returns. However, APL Apollo is insulated from this regulation risk due to their use of steel and is thus able to keep its manufacturing facilities open year-round. The relative environmental efficiency of steel compared to wood or other metals cannot be overstated. It is the world's most widely recycled material and produces the least wastage.⁸ This is because it is a zero liquid discharge material and 90% of the water used in its production is cleaned, cooled and returned to the source, often cleaner than extracted, making it a metal of choice.⁹ By switching to more environmentally efficient materials or finding solutions to reduce emissions, companies are able to react positively to the problem for both their own profit margins and the environment.

Therefore, our view is that it is in the best interests of both companies and investors to act to reduce emissions and seek innovative solutions. Given the disproportionate impact that air

pollution has in emerging markets, investors in the space can play a critical role by engaging with the companies in their portfolios. As well as encouraging executives to reduce their companies' pollutant emissions, investors can also share examples of best practice to implement. In turn, improvements to air pollution levels help to mitigate this financial risk and are also linked to improved worker productivity. Companies that more effectively manage this risk are thus improving their cost management and efficiency, and we expect this to be reflected in their margins and future valuations.

“Companies that effectively manage air pollution are improving their cost management and efficiency, as well as their margins and future valuations.”

This reinforces our belief in the approach we take at Mobius Capital Partners. We believe it is our responsibility to fulfil this role as stakeholders in the long-term future of our companies and their markets. It is by actively engaging with our portfolio companies that we can work together for financial, environmental and social improvements.

Thank you for your continued support. Please contact Anna von Hahn at anna@mobiusscapitalpartners.com should you have any questions or would like additional information.

The Mobius Capital Partners Team

Footnotes:

1. IMF World Economic Outlook, October 2020: <https://www.imf.org/en/Publications/WEO>
2. FactSet Earnings Insight
3. IMF Monthly Portfolio Flow Dataset
4. Global Mid and Small Cap Emerging Market peer group as determined by Morningstar
5. IQ Air Rankings <https://www.iqair.com/us/world-most-polluted-cities>
6. Financial Times <https://ig.ft.com/india-pollution/>
7. Time Magazine <https://time.com/4484027/air-pollution-economic-toll-world-bank/>
8. https://www.aplapollo.com/wp-content/uploads/2018/09/APL_APOLLO_ANNUAL_REPORT_2017-18.pdf
9. ibid

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