

*Two roads diverged in a wood, and I—  
I took the one less traveled by,  
And that has made all the difference.*  
**Robert Frost, Poet**

26 July 2021

*Dear fellow MEMF shareholder,*

Six months into 2021, we are still not “out of the woods”. Covid-19 continues to dominate the headlines. Progress on vaccinations varies between the developed world and emerging markets but also between developing countries. Variants and vaccinations race against each other. And while investors worry about the alpha and beta performance of their portfolios, the world watches the alpha, beta, gamma and delta variants spreading around the globe.

However, there are also clear signs that a recovery is on the way in many emerging markets as even laggards like Brazil have finally returned to growth. The IMF has forecasted a strong year for emerging markets in general, and Asia in particular, with GDP growth estimated at 8.6% in 2021<sup>1</sup>. And, while we have seen growth in China slowing down during Q2, it still remains at robust levels. Asian equities account for about 70% of the Mobius Emerging Market Fund’s portfolio. In the US, GDP growth stood at 6.4% in Q1 and S&P 500 earnings are currently projected to increase 36.5% in 2021<sup>2</sup>. In line with the economic recovery, global trade increased by about 10% year-over-year, driven to a large degree by exports from East Asian countries. This trend is set to continue. UNCTAD projects global trade to grow by 16% in 2021<sup>3</sup>. Furthermore, consumer confidence has been growing over the last six months, while household saving rates have reached their highest level this century in some countries, according to the OECD<sup>4</sup>. Credit rating agency Moody’s estimates consumers are sitting on an extra US\$5.4 trillion.

## Consumer Confidence and Trade Levels Are Rising



**Since the start of the pandemic, consumers have accumulated an extra US\$5.4tn of savings**

Chart 1, Sources: OECD, WTO, Moody’s

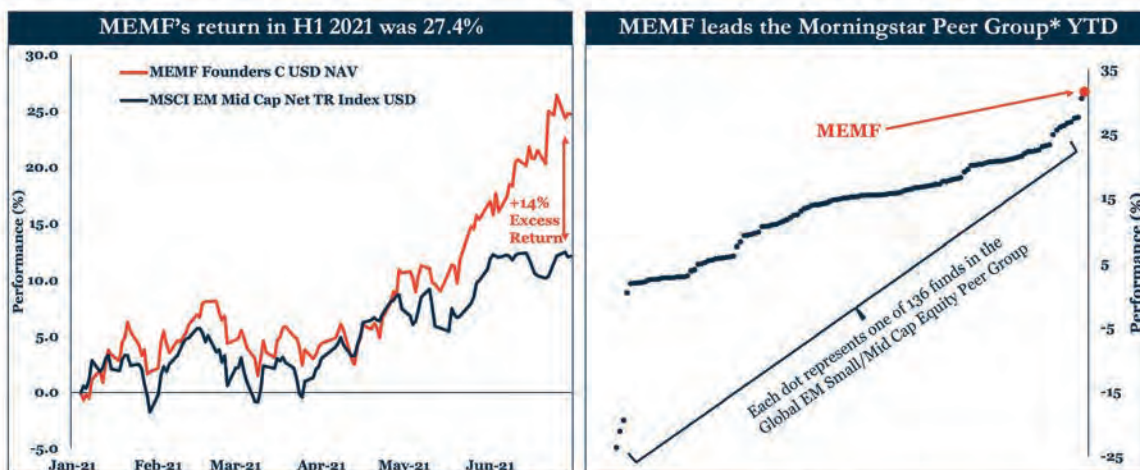
## Q2 2021 MANAGER COMMENTARY

No doubt uncertainties remain, as the emergence of rapidly spreading Covid-19 variants has shown. However, the combination of pent-up demand, excess savings and unprecedented stimulus action by governments bodes well for a continued global recovery and for export-oriented emerging markets.

We previously emphasised our belief that companies with strong fundamentals, improving ESG+C® factors, innovative business models and strong management teams will be better equipped to weather crises and come out stronger. Our portfolio has displayed strong resilience throughout the pandemic and to renewed local challenges.

The Mobius Emerging Markets Fund (MEMF) has continued to outperform in Q2 and is leading the Morningstar Peer Group (137 global EM small- and mid-cap funds) by a wide margin over the last three months and year-to-date (as of 30.06.2021). Furthermore, MEMF would rank among the top five performing funds of over 2,100 GEM funds in the Morningstar universe in H1 2021. This significant outperformance was driven by stock selection based on a clearly differentiated strategy that focuses on fundamentals, a concentrated portfolio, a high active share of over 96%, engagement and regular interaction with all companies.

### MEMF Leads the Peer Group with Strong Outperformance



**In the wider Global EM Equity Universe\*\*, MEMF ranks within the Top 5 Funds in H1 2021, among 2,128 Funds**

Chart 2, Sources: Source: Bloomberg, Mobius Capital Partners, Morningstar

\*Morningstar Global EM Small/Mid Cap Equity Peer Group consists of 136 funds, as of 30 June 2021

\*\* Morningstar Global Emerging Markets Equity Peer Group consists of 2,128 funds, as of 30 June 2021

During Q2, EM investors were faced with a number of macro challenges, linked to inflation fears and new Covid-19 outbreaks in some emerging markets. The two largest exposures in our portfolio – India and Taiwan – saw a surge in Covid-19 cases during the period. This led to the Taiwanese market plummeting in mid-May as fears of renewed restrictions rose. We consider the extreme market movements in Taiwan in Q2 an overreaction. The country has a stable currency, a large current account surplus and no external borrowings. This is supplemented by a set of highly innovative and market-leading companies across a range of sectors (see section *Taiwan: A Land of Opportunities* below). Accordingly, the local TAIEX index has seen a continuous recovery from the drawdown we witnessed in mid-May. Our Taiwanese holdings contributed 5.2% to performance during Q2.

The Indian stock market saw volatility continue during the first half of Q2 in view of the rapid surge in Covid-19 cases and mortalities. The crisis reached a sad milestone in May with the official death toll passing 300,000. We are, however, seeing signs that the situation is improving. Our Indian holdings are a good example of the resilience the portfolio has shown throughout the pandemic and in view of local challenges. From a bottom-up perspective, we have identified highly competitive business models with strong moats. All of our Indian holdings have outperformed the local market significantly YTD and have proven very robust in the current crisis. They are local brand leaders in areas such as infrastructure, health care and software. During Q2, the Indian holdings contributed 6.7% to performance.

### Why We Remain Bullish on India

MCP has stayed in a close dialogue with all Indian holdings to monitor the situation

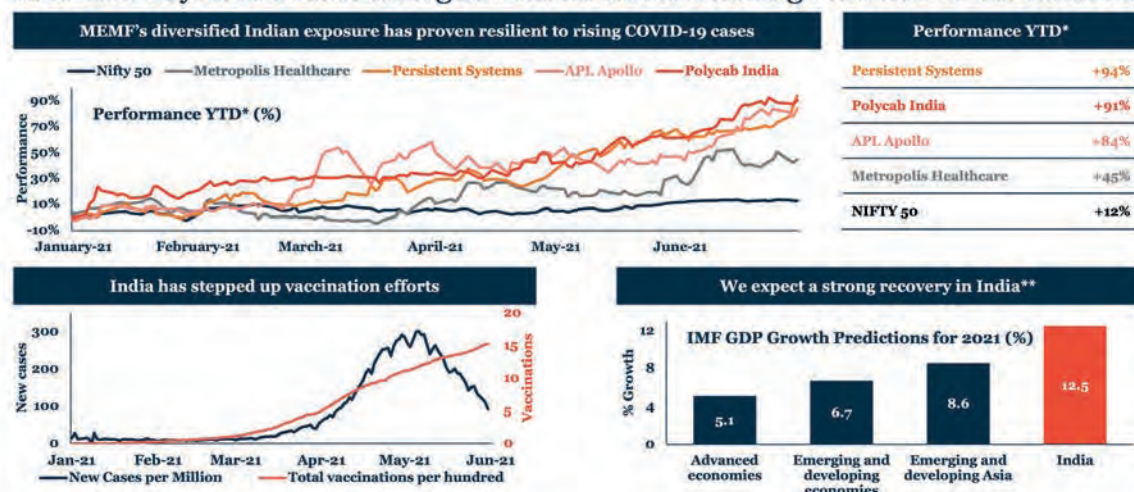


Chart 3, Sources: Bloomberg, IMF World Economic Outlook, Our World in Data (University of Oxford)  
 \*Until 30.06.2021, \*\*Real GDP, annual percent change, Performance shown in % (rebased on 31.12.2020)

A big jump to 5% in US inflation in May (up from 4.2% in April) – the highest rate since 2008 – unnerved investors who worried the Fed might raise interest rates and reduce their bond purchasing program sooner than previously thought. Fed meetings were carefully watched by market participants. While higher interest rates would impact emerging markets, in our view, the Fed is unlikely to move rates in the short term, while a potential rise in the future is already being priced in. Furthermore, the Fed has signalled longer lead times for any change, to avoid another taper tantrum. We believe a strong US economy and a relatively weak USD will benefit trade and export-oriented emerging markets.

Accordingly, we remain bullish about emerging markets, which have the potential, particularly in Asia to enter a period of outperformance after years of lagging behind. In our opinion, this is especially true for small- and mid-cap companies in EM, where the valuation discount remains compelling. These companies continue to trade at lower multiples, are less covered by analysts and largely remain undiscovered by the wider market. At the same time, many of these companies are innovative, disruptive and agile. They often focus on profitable niches and have created strong brands in their particular areas. Furthermore, they are often led by the founding families who have an entrepreneurial mindset and think long term. These companies might be small today, but they have the potential to become the leaders of tomorrow.



### Performance

The net asset value (NAV) of the Founders Share Class increased by 19.8% (USD) and 18.5% (EUR) in Q2 2021 (see *Institutional and Retail factsheets for details on performance of other individual share classes*) outperforming the MSCI EM Mid Cap Index (USD) by 10.2%, and 14.0% YTD. With this significant outperformance, MEMF is leading the Morningstar Peer Group (137 global EM small- and mid-cap funds) by a wide margin over the last three months.

### MEMF Performance

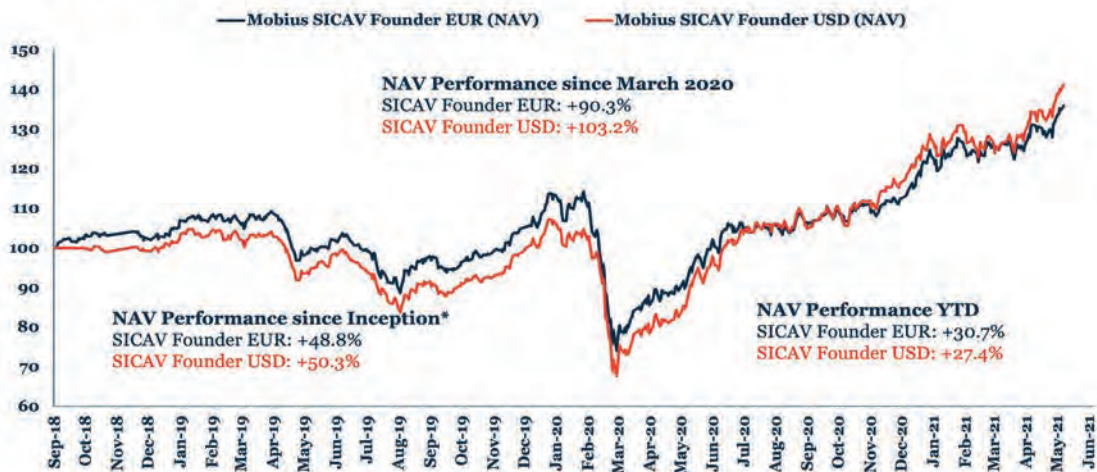


Chart 4, Sources: Bloomberg; \*Inception Date 24.09.2018

As mentioned above, in Q2, yet again, stock selection was an important driver of performance across geographies. The top contributor was EC Healthcare, a Hong Kong-based provider of non-hospital medical services, which is rapidly expanding to mainland China upon strong brand recognition and proven quality of services. Taiwan-based eMemory Technology, and Indian software business Persistent Systems contributed 4.2% and 3.5% respectively. Both technology companies benefitted from increasingly digitalised processes and the arising demand for their software and cybersecurity solutions.

*“MEMF is leading the Morningstar Peer Group by a wide margin over the last three months.”*

The largest performance detractor was Turkish software company Logo Yazilim (-0.5%), with the country having suffered amidst concerns regarding inflation and the appropriate monetary policy response. The second largest detractor was Taiwanese foundry Win Semiconductors (-0.2%), followed by Pentamaster International (-0.1%), a technology company based in Malaysia.

### Investment Update

As of 30 June 2021, MEMF had invested 89.8% of capital, with 28 holdings across 11 countries.

#### MEMF's Top Ten Holdings:

| Top 10 Holdings (%):      | Country      | (%) of MEMF portfolio |
|---------------------------|--------------|-----------------------|
| <b>eMemory Technology</b> | Taiwan       | 9.3                   |
| <b>APL Apollo</b>         | India        | 7.8                   |
| <b>Persistent Systems</b> | India        | 7.7                   |
| <b>EC Healthcare</b>      | China        | 6.2                   |
| <b>Polycab India</b>      | India        | 4.5                   |
| <b>AK Medical</b>         | China        | 4.5                   |
| <b>Yum China</b>          | China        | 3.8                   |
| <b>LEENO Industrial</b>   | South Korea  | 3.6                   |
| <b>Safaricom</b>          | Kenya        | 3.2                   |
| <b>Clicks Group</b>       | South Africa | 3.2                   |
| <b>Total</b>              |              | <b>53.8</b>           |

In early May this year, we added Zilltek Technology Corp to our portfolio – an analog and mixed signals IC design house in Taiwan. Its products are used in PCs, wearable devices and TV applications. Zilltek is the market leader in the notebook digital microphone segment with an estimated market share of 40% (expected to reach 50% by the end of 2021). The company provides the highest product specifications in the whole industry, allowing for a solid customer base in the automotive, smart home and wearables segment. Zilltek's activities in the headphone and headset segment will be accelerated by active noise cancellation and true wireless stereo being widely adapted. Both technologies require highest signal-to-noise ratios, in which Zilltek is one of the leaders. The company has the potential to gain market share in a US\$ ~7billion market which is expected to grow to over US\$ 11billion by 2025.

#### Engagement

During Q2, the investment team was finally able to resume travel and visit some of our companies in person again. This included a trip to Turkey, where we met with the management of our holdings to discuss progress on engagement, as well as challenges the companies were facing due to local events. However, most meetings were still conducted remotely, and we have seen some positive outcomes from our engagement with management teams during the period.

These included progress on a US listing for Lojas Americanas/B2W, and the announcement of the first female CEO in the company's history by Fleury, who also introduced a new ESG board committee to ensure commitment to their revised ESG strategy. Win Semiconductors, Polycab and YDUQS started reporting their contribution to the UN SDGs during Q2. Yum China committed to the Science Based Targets Initiative to reinforce climate actions efforts, while Kangji Medical's environmental protection test results met international emission standards. During

## Q2 2021 MANAGER COMMENTARY

the period, companies in MEMF’s portfolio completed the corporate culture survey that – along with stakeholder interviews and external rating providers such as Glassdoor – will help us to further customise the engagement for each company within this area. The portfolio’s Glassdoor rating increased by 0.13 points since the last quarter to 3.73. There is strong evidence that integrating corporate culture into the investment process will lead to greater outperformance. Since January, we have been reporting on a quarterly basis on the progress MEMF’s portfolio is making along environmental, social, governance and corporate culture factors. Please visit [www.esgplusc.com](http://www.esgplusc.com) to view the latest ESG+C® Factsheet covering Q2 2021.

### Taiwan: A Land of Opportunities

Taiwan has long been an interesting market for us. Back in 1986, our founding partner Mark Mobius was President of the Mega International Investment Trust, the first fund management company in Taiwan. He and his team launched the first Taiwanese fund listed on the New York Stock Exchange: the ROC Taiwan Fund. Much has changed in the years since then. The Taiwan Stock Exchange Index, which first reached 1,000 points in 1986, grew to above 17,500 as of June 2021. In this commentary, we would like to provide an insight into why we believe the country remains highly attractive for investors.

### Taiwan: A Land Of Opportunities



Chart 5, Sources: Bloomberg, MCP, IMF, Reuters, University of Oxford; \*Figures in US\$, as of 30.06.2021  
ROA, ROE and EPS forecasts are for the MSCI Taiwan Information Technology Index as of 31.05.2021

### Some Background Information on Taiwan

Taiwan is located in Southeast Asia, off the south-eastern coast of China. It has a population of over 23 million. Taiwan’s GDP per capita reached USD25,909 in 2019<sup>5</sup>, which is similar to that of Sweden and Denmark and higher than that of Japan and South Korea when compared on a purchasing power parity basis. Taiwan ranks close to Switzerland and Poland in terms of nominal GDP. By sector, services accounted for over 61% of GDP in 2020, while industry, i.e., manufacturing, electricity and gas supply, and construction account for over 36% of GDP. Agriculture makes a small percentage of GDP at only 1.7%.

Taiwan has a high level of industrialisation, a 12-year compulsory education system and 124 universities that supply talent, as well as close cultural and economic ties, across the strait with China. Of its population of 23 million, 5 million hold post-secondary degrees and an estimated 1.3 million hold graduate degrees.

### **Taiwan's Proximity to the World's Second Largest Consumer Market: China**

Mainland China offers a large market volume and has dependency on Taiwanese exports – it is the largest trade partner of Taiwan for both imports and exports. Semiconductors are a top-five import and export for mainland China, though its exports are primarily low-end chips while its imports are high-end chips for the assembly of smartphones, telecom equipment and consumer electronics. The close geographical and cultural proximity to consumers supports product innovation and economies of scale for Taiwanese businesses. The easy access to talent, infrastructure and the relatively cheap labour force and supply in mainland China also allows Taiwan to continuously focus on R&D of higher value-added products to maintain a high position in the value chain. China is the island's number one destination for foreign direct investment. In August 2012, the Taiwan Central Bank signed a memorandum of understanding (MOU) on cross-Strait currency settlement with its Chinese counterpart. The MOU allows for the direct settlement of Chinese renminbi (RMB) and the New Taiwan dollar across the Strait, which has helped Taiwan develop into a local RMB hub.

### **The Taiwan Stock Exchange**

There are currently 926 companies listed on the Taiwan Stock Exchange (TWSE), 101 of which have primary sectors in semiconductors or semiconductor equipment, and over 300 are in the electronic components, technology and industrial machinery and equipment sectors. The Taiwan Capitalization Weighted Stock Index (TAIEX), which includes all companies traded on the TWSE, serves as an appropriate proxy for Taiwanese stocks. The index posted a 47.5% 12-month return as of June 2021. As of FY 2020, its P/E ratio was 19x, the gross margin was 16% and ROE was 11%. As of the end of June 2021, the index traded at a P/E of 18x. As of the end of May 2021, Taiwan has a weighting of 13.87% in the MSCI Emerging Markets Index, the second highest weighting by country following China with 37.59%.

### **Taiwan's Resilience During the Covid-19 Pandemic**

In 2020, while global GDP posted negative year-over-year growth at -3.27%, Taiwan posted growth of 3.11%, which ranked as one of the highest globally. This momentum carried on into the first quarter of 2021, with GDP growth of 8.2% YoY. Taiwan's GDP is expected to expand 5.46% this year<sup>6</sup>, up from a forecast made in February for 4.64%, which would be its fastest since 2010's 10.25%. The unemployment rate dropped to 3.64% as of April 2021 from 4.03% in April 2020. In response to Covid-19 disruptions, a support scheme of NT\$300 billion (US\$11 billion) was made available last year. Another NT\$100 billion (US\$3.6 billion) loan was announced in May 2021 to help companies cope with the recent spike in infection numbers and tightened lockdown measures. With the latest rate decision, the discount rate remained at a historical low of 1.125%.

S&P Global Ratings raised Taiwan's long-term foreign and local currency issuer credit ratings to AA from AA-, stating their positive outlook reflected expectations that Taiwan's economy would maintain good growth over the medium term. The resilience of the Taiwanese economy during the Covid-19 pandemic has been supported by strong industrial manufacturing, particularly with the exporting of electronics, machinery and petrochemicals. Taiwan's export orders are a leading indicator of demand for high-tech gadgets and Asia's exports, and typically lead actual exports by two to three months. Export orders were up 33% YoY in March 2021 and jumped to 43% YoY to almost US\$55 billion in April, boosted by the surging demand for laptops, tablets and other equipment to support the work- and study-from-home trend. In previous years, Taiwan



has run a surplus with many economies, including China and the US, and its foreign reserves are the world's fifth largest as of May 2021 behind those of China, Japan, Switzerland and India.

### Taiwan: Historical & Forecast Macroeconomic Data

|                         | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021<br>e | 2022<br>e |
|-------------------------|------|------|------|------|------|------|------|-----------|-----------|
| <b>Real GDP (YoY%)</b>  | 4.7  | 1.5  | 2.2  | 3.3  | 2.8  | 3.0  | 3.1  | 5.5       | 3.0       |
| <b>CPI (YoY%)</b>       | 1.2  | -0.3 | 1.4  | 0.6  | 1.4  | 0.6  | -0.2 | 1.5       | 1.4       |
| <b>Unemployment (%)</b> | 4.0  | 3.8  | 3.9  | 3.8  | 3.7  |      | 3.9  | 3.7       | 3.6       |

Chart 6, Sources: Bloomberg, as of 30.06.2021

#### Taiwan's Leading Role in Semiconductors

Semiconductors are a choke point in the global shift to independence, and Taiwan plays a dominating role in the manufacturing and the assembly, packaging and testing stages within the semiconductor supply chain. Taiwan benefitted from the increase in prices of microchips amid a worldwide shortage that is hurting industries from automobiles to consumer electronics. A TSIA (Taiwan Semiconductor Industry Association) survey showed that the Q1 2021 Taiwan semiconductor industry revenue as a whole totalled NT\$904.7 billion (USD\$30.6 billion) (2.6% growth on-quarter and up 25.0% on-year). Taiwan's manufacturers, such as the world's largest chipmaker TSMC, are a key part of the global supply chain for technology giants such as Apple.

*“Taiwan semiconductor industry revenue as a whole totalled NT\$904.7 billion (US\$30.6 billion) in Q1 2021 (up 25.0% year-on-year).”*

#### SMEs: Taiwan's Growth Powerhouse

Small- to medium-sized enterprises (SMEs) are the backbone of the Taiwanese economy and a powerhouse for growth. According to a 2020 annual white paper released by the Taiwanese Ministry of Economic Affairs' Small and Medium Enterprise Administration, the number of SMEs increased to 1.49 million in 2019, up 1.72% YoY, accounting for 97.65% of all Taiwanese businesses. SMEs accounted for 34.83% of Taiwan's total domestic sales and 13.42% of total exports. Roughly 15% of SMEs lie in the industrial sector. Approximately 9 million Taiwanese employees worked at SMEs last year, making up almost 79% of the nation's total workforce. SMEs generated NT\$12.71 trillion overall sales last year, up 0.7% YoY, representing 30% of all business revenue. The Taiwanese government recognised its current leading position in the industrial and electronics sectors and has continuously demonstrated initiatives to improve the knowledge and capacity of enterprises at each stage of development.



## Q2 2021 MANAGER COMMENTARY

The DIGI+ Strategy and the 5+2 Innovative Industries Plan, planned from 2017 to 2025, focus on infrastructure, innovation, talent acquisition, regulation, industry, globalisation, incubation, governance and ‘smart cities’ to create a supporting environment for technology start-ups and technical innovation in traditional industries. Associated low-interest entrepreneurship loans and interest subsidies are also in place. SMEs under the 5+2 Innovative Industries Plan, operating in sectors such as biomedical, green energy, smart machinery, defence technology, agricultural modernisation and the circular economy, are offered credit guarantees of up to 90% by the Taiwan SME Credit Guarantee Fund (SMEG) under the Preferential Guarantee Measures for Innovative Industries for Asia’s ‘Silicon Valley’ scheme.

### **Pushing Sustainability Standards**

Simultaneously, improvement in corporate environment, social and governance (ESG) practices could continue to help Taiwanese companies retain a long-term competitive edge. According to Bloomberg ESG scores, Taiwan is rated as number one for ESG disclosure in Asia, highlighting that governance and sustainability issues were embedded on the management level into business models and corporate plans. Furthermore, complex global supply chains necessitate that Taiwan remains on top of global sustainability standards to meet the needs of suppliers and customers globally.

### **Geopolitical Risks**

The China-Taiwan relationship has historically been tense, as China does not accept the legitimacy of Taiwan’s declaration of independence as a result of the Chinese Civil War (1927–1949), despite a significant increase in communication and collaboration in recent decades. Geopolitical risks associated with mainland China have risen in recent years as China-US tensions further intensified, posing threats to the stability of the Taiwanese economy as its trade dependency on China remains high.

### **Investing in Taiwan: Two High-Conviction Ideas from MEMF’s Portfolio**

**WIN Semiconductors** has established itself as a leading global producer of compound semiconductors. Compound semiconductors are different from regular silicon semiconductors in that they are made of two or more elements. Compound semiconductors have high heat- and frequency-resistance and thereby are of critical importance in applications such as mobile telecommunication (5G), wi-fi technology, satellite technology and data centres. WIN Semiconductors was founded in October 1999 and has become the first pure-play 6-inch GaAs (gallium arsenide) foundry in the world. The demand for their products is expected to grow steadily, and the company continues to invest in its manufacturing capabilities. We added WIN Semiconductors to MEMF’s portfolio in Q4 2020. Since then, the share price (USD) has risen by 34%.

**eMemory Technology** offers industry leading comprehensive platforms for Logic NVM (non-volatile memory) silicon IPs, including hardware security IPs. The company successfully established itself as a leading developer of highly innovative technology with a very successful research and development track record. One of the key areas of focus for eMemory is the development of authentication and encryption technology for global semiconductor clients. For example, eMemory is a leading supplier of IC design to Taiwan Semiconductor Manufacturing Company (TSMC), the largest semiconductor foundry in the world. We added eMemory to MEMF’s portfolio in Q4 2018. Since then, the share price (USD) has quadrupled.

These are just two examples of the type of innovative and disruptive companies with outstanding management teams that we find in Taiwan. Both of these companies benefit from a highly motivated and world-class workforce, supported by a corporate culture which rewards innovation. Our bottom-up stock selection has made the country the second largest exposure

## Q2 2021 MANAGER COMMENTARY

in MEMF's portfolio with 19%. And we continue to see great potential in the country and its entrepreneurial ecosystem of high-growth, agile and ground-breaking companies.

On behalf of the entire team, we would like to thank our shareholders for your continued support. **We would like to take the opportunity to invite you to join us for MEMF's virtual investor day, which will take place on Thursday 30 September 2021 between 11 am and 1 pm (BST). This will mark the week when MEMF will reach its three-year track record.** An official invitation with more details will follow in due course.

In the meantime, please reach out should you have any questions or suggestions. You can contact Anna von Hahn at [anna@mobiustopitalpartners.com](mailto:anna@mobiustopitalpartners.com).

Best wishes,

The Mobius Capital Partners Team

---

### Endnotes

1. IMF World Economic Outlook, April 2021 <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>
2. <https://www.reuters.com/business/investors-eye-high-mark-us-profit-growth-inflation-fears-deepen-2021-06-21/>
3. [https://unctad.org/system/files/official-document/ditcinf2021d2\\_en.pdf](https://unctad.org/system/files/official-document/ditcinf2021d2_en.pdf)
4. <https://data.oecd.org/hha/household-savings-forecast.htm#indicator-chart>
5. [https://www.taiwan.gov.tw/content\\_7.php](https://www.taiwan.gov.tw/content_7.php)
6. The forecast was made by the Directorate General of Budget, Accounting and Statistics in early June 2021

### IMPORTANT NOTICE

This document has been issued by Mobius Capital Partners LLP pursuant to section 21(2)(a) of the Financial Services and Markets Act 2000 (as amended). This document is for information purposes only and does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Mobius Emerging Markets Fund (the “Fund”) or any other sub-fund of Mobius SICAV. Nothing in this document should be construed as investment advice or a recommendation to buy or sell shares. We recommend you discuss any investment decisions with a financial adviser. The information in this document is as at 31 March 2021.

You should note that your capital is at risk with this investment. The value of shares in the Fund may fluctuate and you may get back less than you invested. Past performance is not a guide to future performance. The Fund is subject to various other risks and you should refer to the Prospectus for more information.

The Fund is a sub-fund of Mobius SICAV, a UCITS fund incorporated as a Société Anonyme in Luxembourg and organised as a Société d’investissement à Capital Variable (SICAV). This information is only directed at persons residing in jurisdictions where the Fund and its shares are authorised for distribution or where no such authorisation is required.

Mobius Capital Partners LLP has used all reasonable efforts to ensure the accuracy of the information contained in this document but makes no guarantee or representation as to the reliability, completeness or accuracy of such information. Subscriptions for shares of the Fund should only be made on the basis of the latest Prospectus and Key Investor Information Document relating to the shares, together with the latest annual report and any subsequent interim report of Mobius SICAV (if published), copies of which are available (in English) at [www.mobiuscapitalpartners.com/fund](http://www.mobiuscapitalpartners.com/fund).

Mobius Capital Partners LLP is authorised and regulated by the Financial Conduct Authority in the United Kingdom. Its registered office is 42 Upper Grosvenor Street, London, England, W1K 2NH, United Kingdom.