



Gain Access to a Wealth of Resources



FMG Mongolia Report | Q2 2013

We've been managing...

... emerging market funds for over 23 years and during this period few opportunities have excited us as much as Mongolia does today. The Mongolian investment thesis is very compelling. With an estimated commodity endowment worth some US\$ 2 trillion, Mongolia sits on some of the world's greatest deposits of minerals which

include gold, copper, coal and various rare earth metals. With roughly 3 million people living on 1.5 million square kilometers, Mongolia is the world's most sparsely populated country. As the world's 19th largest country by land mass, Mongolia is blessed with more than 6,000 known mineral deposits consisting of 80 different minerals.

"The world's second largest deposits of rare earth metals"

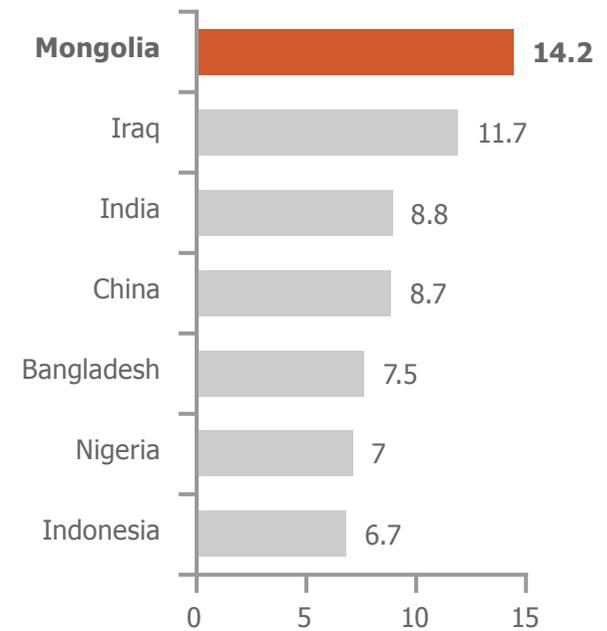
THE ECONOMY

It's forecast that Mongolia's economy will double every 4 to 5 years, for years to come. The Mongolian economy is in many respects a leveraged play on Chinese economic growth and the future direction of commodity prices. Mining is the lifeblood of the economy, however the government is moving towards diversifying into other sectors such as finance, agriculture, cashmere production and tourism. Mongolia share borders with China; the world's second largest economy, and one of the fastest growing. Over ninety percent of mineral exports go to China, being transportation costs are considerably lower than it takes Australian mines to ship to China. Government public

sector debt runs at roughly 25% of GDP, manageable when compared to debt ratios in developed countries. Notwithstanding S&P's BB sovereign debt rating, the government's 2012 US\$ 1.5 billion global bond issue was oversubscribed. Recent CPI numbers suggest annualized inflation rates are roughly 10%, down from the 2012 highs of 15%. The central bank has remained vigilant, raising bank reserve

“The world's fastest growing economy with an abundance of natural resources”

GDP Growth (% YoY) 2010-2015



Source: Citigroup, ML, BDBSec, Business Monitor International



requirements and interest rates 50 bps twice in 2012, to the current 13.25% rate. Economic forecasts estimate inflation will moderate to roughly 5% in 2015. Going forward the central bank, unlike its G-7 colleagues, is in the enviable position of having significant scope to lower rates should economic

conditions warrant it. The Mongolian Tugrik has been stable, trading at roughly 1400 to the dollar and we believe the currency will appreciate, as export demand increases. The central bank sits on roughly US\$ 4 billion dollars in foreign reserves which we also expect will increase in the years to come.

“Mongolia sits atop an estimated US \$2 trillion worth of commodities”

Mining

The Mongolian government has granted over 3000 mining exploration licenses; however none stand out as do the Oyu Tolgoi and Tavan Tolgoi mines - two of the world's largest with huge potential output. Oyu Tolgoi is owned jointly by the Mongolian government (34%) and Turquoise Hill* (66%). It is said to be sitting on 6 billion tons of copper and 600,000 ounces of gold. The mine itself is the size of Manhattan, cost over US\$ 11 billion to develop and will employ up to 3500 people. It's forecast that it will contribute up to a third of the Mongolian economy when it's in full production. The IMF estimates exports from this mine alone can reach US\$

*Turquoise Hill is itself 51% owned by Rio Tinto.



7 billion by 2020. The Tavan Tolgoi mine is the world's largest untapped coal facility and is majority owned by the government. It's said to be sitting on over 6.4 billion tons (between 100-200 year's worth) of thermal and

good quality coking coal. Mongolia Mining, a part owner of the Tavan Tolgoi complex, is also in the process of building a railway system to the Chinese borders which will expedite coal shipments.

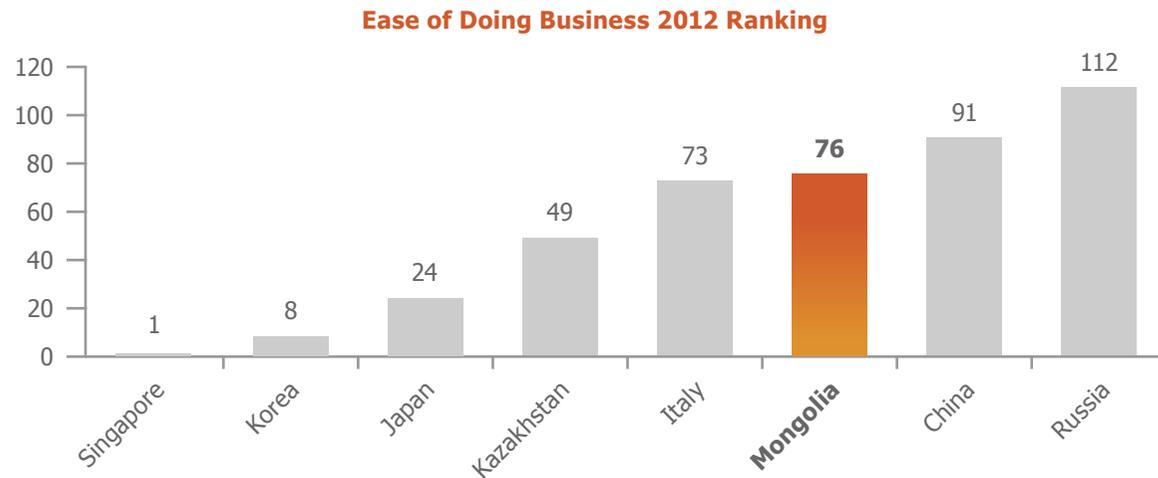
Abundance of Resources



“22% of the country’s vast land mass is under license for mineral exploration, with some 3000 licenses having been issued”

Geopolitical Stability

Although Mongolia spent much of the twenty century as a Soviet satellite, it's today a thriving parliamentary democracy. Even though allegations of corruption have at times been leveled at high level government officials, Mongolia is considered by many international agencies as a good place to do business. The U.S. government has praised Mongolia for contributing to stability, and promoting economic reforms and democracy within the region. The Wall Street Journal has ranked Mongolia 75th out of 177 countries in its 2013 Economic Freedom Index. Likewise the Economist magazine, suggests that Mongolia ranks above average in its Political

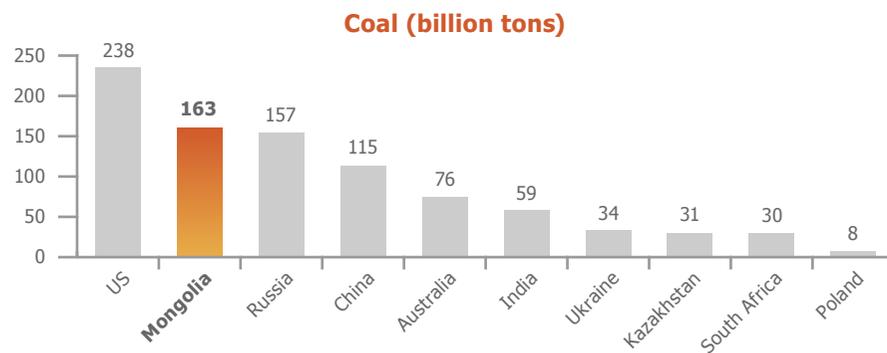
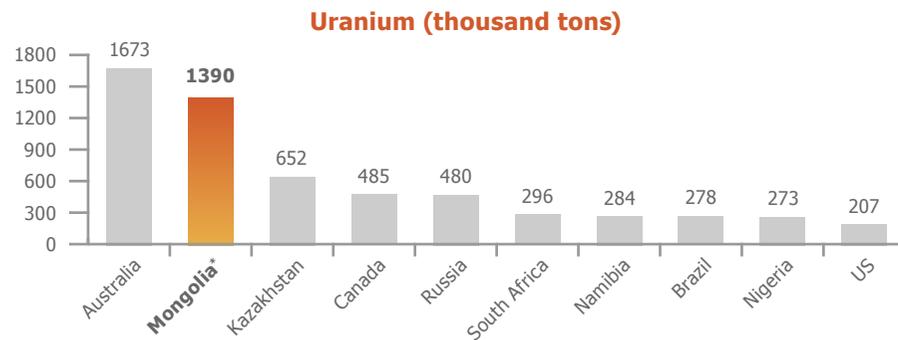
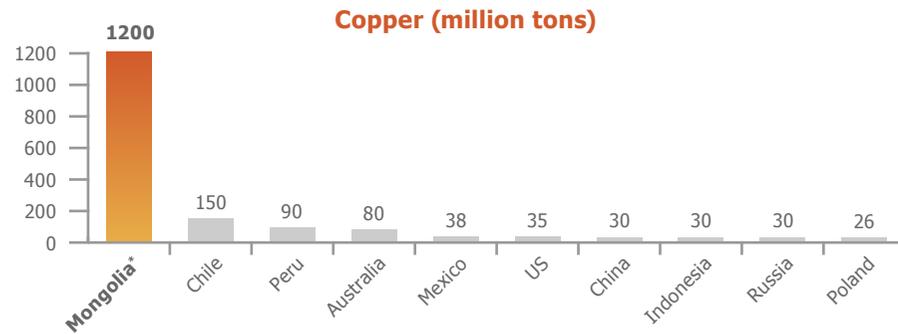


Source: The World Bank- Doing Business 2012 rankings

Stability Index. Also Mongolia moved up the table from 88 to 76 out of 185 economies in the World Bank's Ease of Doing Business 2012 ranking.

The government has friendly relations with both its neighbors; Russia to the north and China to its south, both of

which are leading trading partners. Mongolia is currently governed by a coalition government with 75% of the cabinet seats occupied by the pro business Democratic Party. Since the ratification of the new constitution in 1992, and with the exception of



*Estimated untested reserves.

some political upheaval seen in 2008, Mongolia has been a well functioning Democracy and is a signatory to most international treaties and conventions including the World Trade Organization (WTO). Its judicial system is generally considered fair and is considered by some international advocates as being one of the most transparent in the region. In 2012 there were some controversial legislative enactments including the Draft Minerals Law, and Strategic Entity Foreign Investment Laws, which have since been re-written and watered down considerably. The government has also backed off recently from its equally controversial call to renegotiate the Oyu Tolgoi investment management agreement with Rio Tinto. We believe the government has learned much from its well-publicized policy missteps last year, and is on the path towards welcoming more foreign investment.

The Stock Market

Peter Lynch the famed Wall Street fund manager coined the term GARP (growth at a reasonable price), which we consider is a fair representation of Mongolian equity prices today. BD Securities a leading Mongolian brokerage published a study recently which cited 22 top Mongolian growth companies which over the last two years, grew their earnings at an average 54%, growing their revenues 38%, had average price to earnings multiples of 11, price to book ratios of 1.2, and collectively had very little debt. We are extremely bullish the building and materials sector, being Mongolian infrastructure in many instances is dilapidated or lacking. Some 75% of Mongolians don't have central heat and

running water. The housing shortage in the capital Ulan Bator (UB) - where over 40% of the population lives, is acute. The government has said it wants to build over 100,000 low to mid income homes within the environs of UB at a cost of some US\$ 6 billion. Throughout the country paved roads are also in short supply. To reiterate we are bullish Mongolian equities which we believe will be driven by this expected boom in housing and infrastructure build. We also like local consumer discretionary and of course mining names. The Draft Securities Law which is expected to be ratified by parliament this year will allow for double listings of equities both on and offshore which should improve liquidity.



Moving Forward

Not only does Mongolia offer very competitive raw material prices at low operating costs, but it also has favorable individual and corporate tax structures. Its cheap labor offers foreign businesses a friendly investment environment. We believe foreign direct investment, after slowing in 2012, will re-accelerate into 2014 and beyond. Over the past 20 years Mongolia transitioned from communism to a thriving democracy. Over the next 20 years we expect Mongolia to become a commodity exporting powerhouse and transition to a very rich country in the process. We believe the FMG Mongolia Fund is well positioned to take advantage of today's exceptional value along with tomorrow's exceptional growth.



**“The Oyu Tolgoi mine alone
will generate US \$60 billion
in sales over 30 years”**

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