



Harris Kupperman  
CEO and Chairman of the Board

# Letter to Shareholders

Q2 2020 Letter to Shareholders - MD&A

## Dear Shareholders

Our core Mongolian business suffered during the second quarter as the impact of quarantines and other restrictions upon businesses dramatically reduced rental revenue. We have done everything we can to reduce costs and blunt the impact of the collapsing Mongolian economy, but there is only so much we can do. Unfortunately, we are not optimistic about future revenues until the government takes steps to ease restrictions and allow the economy to recover. Even then, we worry that the recovery will be slow and uneven, particularly as so much of the economy relies on summer tourism which effectively did not happen this year.

During the recurring years of economic crisis within Mongolia, our focus has been on retaining stable tenants and working with them when they have short-term difficulties as we know how difficult it is to find tenants who are reliable and we always want to avoid the costs associated with vacancy. COVID-19 has added a new dimension to this struggle. We selectively have worked with many of our best tenants to keep occupancy high and achieve any revenue where we can, despite the fact that their businesses are also suffering. While bad debt expense has been low thus far, we anticipate an increase in bad debt in future quarters. Unfortunately, during the second quarter, our revenues were greatly reduced while our expenses stayed roughly constant, hence our losses from operations increased substantially. While we are hopeful that things recover over the next few months, unfortunately July's revenues look rather similar to run-rates during the second quarter. If there is an upside thus far, it is that most of our tenants are committed to continuing their current business operations and we hope that rental rates can return to prior levels at some point in the future.

Our securities portfolio produced a \$20,116 unrealized gain and a \$1,043,445 realized gain, along with a \$19,820 foreign exchange gain for the quarter. I would like to note that our portfolio is invested in a highly concentrated manner and often a handful of positions comprise the majority of the portfolio. Therefore, I would expect the portfolio to be substantially more volatile than an index fund and focus your attention on realized gains—which are indicative of where investments were underwritten compared to fair value. Unrealized gains can and will fluctuate wildly based on movements in our holdings—however if we purchased these investments at an attractive enough valuation, they should eventually accrete towards fair value and allow us to continue realizing gains. During the quarter, global equity markets experienced one of the sharpest rallies in the past century and our portfolio experienced a recovery from first quarter levels. The portfolio's value has continued to increase in value during July. Currently, the portfolio's largest exposures are a number of companies that transport crude oil, refined products and propane along with a natural gas producer, an entity that owns Bitcoin, a crypto-currency investment bank, a life settlement company, companies tied to housing and construction, and a large owner of land.

Overall, I'm unhappy with our returns over the past six quarters. I style myself as a value investor; which means that I often invest in companies that trade at large discounts to tangible book value or a low single-digit multiple on cash flows. Investment trends go in cycles and currently value investing is highly out of favor. As a result, these securities have suffered. I believe strongly that there will come a part of the cycle where these securities once again appreciate towards fair value. Until then, our results will be at the mercy of the markets. I would like to note that as the market has become more volatile, we have been utilizing a number of Event-Driven strategies including put writing to achieve surprisingly strong results. While there can be no certainty about anything in investing, should market volatility remain high, these strategies are likely to continue performing well.

Returning back to our overall business, my hope remains that as we successfully monetize certain property assets in Mongolia, we can increase the size of our public securities portfolio and begin to actually increase book value through future realized gains on our securities portfolio along with the economic benefits of any business in North America that we may start or acquire.

In summary, while we remain optimistic about Mongolia's long-term future, we are realistic about our own company's predicament. Our property business is subscale and we expect that when combined with our corporate overhead, MGG will likely produce operating losses (excluding potential gains from our public securities portfolio) for the foreseeable future. As a result, we remain focused on selling non-core property assets (particularly in office and re-development) so that we can diversify the business, while keeping our core portfolio and management team so that we can pivot back to Mongolia if the government ever takes a stance that is supportive of economic growth.

I remain of the opinion that our shares are undervalued. During the third quarter, the Company re-purchased 370,500 shares under our Normal Course Issuer Bid at a cost of \$66,386. This reduced pace of share re-purchases is primarily related to our desire to husband cash for future acquisitions.

**Sincerely,**

A handwritten signature in blue ink, appearing to read 'HK1', is positioned above the printed name.

**Harris Kupperman**  
**CEO**