Letter to Shareholders

Q4 2020 Letter to Shareholders - Annual Report

Dear Shareholders

2020 was a difficult year for most businesses and ours was not spared. Between COVID-19 and repeated rounds of lock-downs, many of our tenants saw their businesses suffer. This was then compounded by travel restrictions and a declining economy. As a property company, we are only as successful as our tenants and when our tenants' businesses cannot operate, we are unable to charge the rent we are owed. Additionally, as the economy went into lock-down, our 3rd party sales and leasing business effectively ground to a halt—which is particularly frustrating as we were gaining real traction there.

Fortunately, we now have nine years of experience operating this business despite a never-ending series of economic crises. COVID-19 in many ways was just an average Tuesday at our company and our staff reacted intelligently and professionally in dealing with tenants who would have liked to have paid rent, yet couldn't due to the inability to operate their businesses. We offered various discounts to tenants and believe we have retained the majority of tenants assuming that things return to normal in the near future. Unfortunately, we have zero visibility into how long this COVID-19 crisis will last and when or even if business operations will return to normal. As a result, our focus remains on reducing costs in Mongolia and extending the runway on our liquidity situation as a result of our currently elevated burn rate.

During 2020 we reported $756,283 of rental revenue and $68,170 of other revenue, offset by $860,936 of property operating expenses in Mongolia. For the first time in our Corporation's history, Mongolia produced negative cash flow (defined as total revenue minus property operating expenses), whereas previously, Mongolia partly offset negative cash flow at the corporate level. As I noted above, we have zero visibility into when or if this will change. As a result, we'll continue to soldier on under impossible circumstances—with the view that it often comes out even worse than our wildest expectations in Mongolia. Unfortunately, due to the economic situation in Mongolia, we experienced a $2,700,069 fair value impairment to the portfolio and an additional $36,426 fair value impairment to our headquarters building which we classify as Property & Equipment. During the year, we sold 3 assets for $690,134 and a gain on sale of $106,762.

As our property revenues are largely out of our control, let's discuss what we're doing to diversify this business. Despite repeated efforts, to date, we have yet to find a business in North America that we can acquire. This inability is a combination of prudence on our side in terms of purchase price and a view that public market securities offer dramatically cheaper valuations along with immediate liquidity should we find an ideal acquisition. We remain focused on finding a business, but until valuations are reasonable, we will not purchase something just to keep ourselves busy. Instead, we have focused the past half year on building out a data-analytics service which tracks various Event-Driven strategies called KEDM. To learn more, subscribe at http://www.KEDM.COM

For the past few months, KEDM has been in an extended Beta test as we continue to onboard various data sets and respond to reader feedback which improves our data quality. To date, the reception to the free trial has dramatically exceeded our expectations, both in terms of total number of users and engagement. That said, we will not know the future revenue possibility of this service until we initiate a paywall and see what our conversion rate looks like—which will likely occur during the second quarter. Assuming that the uptake is acceptable, our plan is to reinvest a healthy percentage of the revenue in new hires in order to continue to build out additional data sets and improve KEDM. While it is far too early to say if this business will be profitable, it clearly has found an unmet demand amongst active investors and traders. My sincere hope is that it will generate enough cash flow to offset our corporate overhead, even after that overhead expands due to the increased needs of KEDM. That said, I do not believe that KEDM will ever really move the needle in terms of our overall business and should be seen as a way to hopefully reduce our burn rate while we seek out a business to launch or acquire.

Previously, the largest impediments to any diversification of our business were our burn rate and lack of liquidity. I am hopeful that KEDM solves for the former and our public security holdings appear to slowly be solving for the latter. Our securities portfolio produced a $4,265,403 unrealized gain and a $3,288,803 realized gain. This is primarily the result of well-timed security purchases during the depths of the COVID-19 crisis along with the utilization of various Event-Driven strategies. Additionally, the portfolio's value has continued to increase since the end of the year. 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.

Starting with this annual letter, we will be giving additional details on any portfolio position that comprises more than 10% of our securities portfolio. At year-end, the portfolio's largest exposures were an entity that owns Bitcoin, a large landowner in Florida, a natural gas producer, a transporter of propane and a company tied to housing and construction. While our public securities investments have helped offset operating losses during 2020, there are legal and tax reasons why it is inadvisable to grow this portfolio beyond a certain point. Instead, we see public securities as a highly liquid alternative to owning cash as we seek out an operating business to launch or acquire in North America. Additionally, my expectation is that 2020 is an outlier in terms of what you should expect in terms of our public securities portfolio's performance—results are unlikely to be this good in future periods.

Conceptually, as this Corporation continues to evolve, I see an entity with a core Mongolian presence, but also the ability to act like something of a Merchant Bank; having a strong and liquid capital base for launching and acquiring businesses, while using the flexibility of permanent capital to bridge the gap between public and private markets in terms of how we own these businesses. While this plan remains somewhat abstract, the launch of this first internally developed data business (however small) is the first concrete step in that direction. I hope to have more information in subsequent letters as we continue to refine the plan.

Returning to our overall business, 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 when the economy returns to attractive growth rates. I remain convinced that our team in Mongolia is our most valuable asset as it gives us the optionality to move rapidly should the economy ever stabilize. I hope that one day we will be able to prove that value to shareholders.

Finally, I remain of the opinion that our shares are undervalued. During 2020, the Company re-purchased 1,642,500 shares under our Normal Course Issuer Bid at a cost of $339,688.

Sincerely,

Harris Kupperman
CEO