

Seeking a bonanza in Ulan Bator

» Mongolian fund hopes to capitalise on demand for mining and infrastructure services

With the final results from parliamentary elections due as *Shares* went to press, Mongolia finds itself in the rare situation of being a poor country on the verge of becoming incredibly rich. China's neighbour is set to make \$1.3 trillion profit from its gold, copper and coal reserves, according to market forecasts. It is therefore no wonder that luxury goods companies including **Burberry (BRBY)** and Louis Vuitton have opened up shop in this land of opportunity.

Mining is central to the country's economic prospects. One of the biggest mine developments in the past few decades, Oyu Tolgoi, is almost complete with initial start-up expected in August before commercial production in 2013. The mine, 51% owned by FTSE 100 miner **Rio Tinto (RIO)**, contains an estimated 82 billion pounds of copper and 46 million ounces of gold. Significant amounts of coal are being exploited by several companies including Tavan Tolgoi which hopes to raise \$3 billion by floating on the London and Mongolian stock markets next year.

Eager to take advantage of the investment going into Mongolia's growing mining industry is the **MSE Liquidity Fund**, an open-ended investment vehicle that intends to buy into private and public companies in Mongolia. It will also look to take advantage of high interest savings deposit rates north of 16% offered by Mongolian commercial banks. Among its investment targets are service companies that have products needed by miners to run operations efficiently and safely.

Burning opportunity

The fund is helping to reverse a fire extinguisher business called Eurofeu Asia into Mongolia-listed cash shell Solongo Express. It owns stakes in both businesses and should see a decent uplift in value as Eurofeu becomes a listed entity. 'Every 25 square metres of space in Mongolia needs a fire extinguisher. Miners cannot afford

MSE LIQUIDITY FUND (MONGOLIA)

Objective: Exposure to undervalued positions on the Mongolian stock exchange and high interest term deposits

Fund administrator: Apex Fund Services

Investment advisor: Origo Asset Management

Minimum subscription: \$10,000

Currencies: Mongolian Tugrik, Net Asset Value (NAV) reported in US dollars

Fund type: Open-ended

Management fee: 2% of the fund's NAV, monthly

Performance fee: 20% of the annual increase in the NAV, quarterly

Source: MSE Liquidity Fund

to have accidents so they should be easy clients for Eurofeu,' says portfolio manager Eric Zurrin.

Launched in October 2011, the fund has delivered eight consecutive months of positive returns, rising 10.4% since inception. The fund's investment adviser is Origo Asset Management, a subsidiary of Aim-quoted private equity group **Origo Partners (OPP:AIM)** which has stakes in a range of companies that stand to benefit from the urbanisation and industrialisation of China.

A second private investment for the fund is an undisclosed position in Gachuurt Dairy, which is based in the same town as **Centerra Gold's (CG:TSX)** Gachuurt 2.4 million ounce gold deposit. The company is an established producer of powered and long-life milk. It approached the fund in February for help in developing a pasteurised milk business following demand for more 'luxury' dairy products in Mongolia. 'They already have the equipment, their own farm and own cows,' says Zurrin. 'Pasteurised milk prices have increased consecutively per month over the last three years. The company has the skills and management in place and we are helping to them get onto the Mongolian stock market.'

Gachuurt Dairy has been valued on the basis of its fixed assets and Zurrin reckons the fund should see two to three times upside for its investment. This will be realised upon selling shares once the business is more mature, comments Zurrin.

Boom town

Elsewhere, the fund has stakes in 'a handful' of Mongolian-listed equities. There are approximately 320 companies on the stock market, the second biggest of which is \$200 million market cap **Apu (APU:MSE)**. The fund owns a small position in the bottled water distributor and hopes to benefit if Apu achieves its goal of listing on an international stock exchange. It also has a position in **Remikon (RSC:MSE)**, an \$11 million concrete maker. 'There's 40 buildings under construction in Ulan Bator, all needing concrete. Remikon is an infrastructure play.'

Mongolia was the world's best performing equity market in 2010, rising by 174% in dollar terms. Zurrin admits stocks are highly illiquid but believes this will change once a partnership with the London Stock Exchange goes live. He believes this will improve settlement of trades and is designed to stimulate more investment.

Zurrin reckons Mongolia will become a net exporter towards the end of 2012. It is a net importer at the moment, predominantly linked to the capital goods required to build the Oyu Tolgoi mine. Mongolia's situation will dramatically change once the mine's production of copper and gold gets underway, with the economy also set to get a boost from increased exports of coal to China over the coming years. Taxes, royalties and dividends generated by Oyu Tolgoi are expected to add a third to the country's gross domestic product by 2020. **S**

