

# GETTING ACCESS TO MONGOLIA'S GROWTH STORY

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Documentary - PART 1  
Building the investment case in  
Mongolia



Ministry of Economic  
Development - Understanding  
the investment opportunity



Documentary - PART 2  
Accessing Mongolia's growth  
story



Ministry of Economic  
Development - An inside look at  
Mongolia's wealth journey

# WHY INVEST IN MONGOLIA

## THE KEY FACTS

### GENERAL OVERVIEW

#### POPULATION

2.97 million

#### MEDIAN AGE

27.1 years

#### INDUSTRY MIX

(based on GDP)

Agriculture - 16.5%

Industry - 32.6%

Services - 50.9%

#### SIZE & LANDSCAPE

About 1.56 million sq km, only 10,560 sq km is water and there is no coastline. There are vast areas of semi-desert and desert plains, mountains in the West and South-west, and the Gobi Desert to the South.

### POLITICAL & REGULATORY

1

- **Mongolia has political** and financial ties with the US, Japan and the EU
- **The Financial Regulatory Commission (FRC)**, Mongolia's capital market regulator, signed MOUs with the Hong Kong Securities and Futures Commission and the Financial Services Agency of Japan in 2013 and 2014 respectively, to improve the regulatory framework
- **New Investment Law**  
Removes the previous discrimination between domestic and foreign investors; provides certainty and incentives for all investors
- **Revised Securities Market Law** paves the way for custodians and custodian banks to enter the market by simplifying the process for international investors to access Mongolian securities. It also streamlines and simplifies the listing process, allows for dual listings and depository receipts while introducing stricter governance and reporting regulation
- **Investment Fund Law**  
To govern the creation and activities of local investment funds and investment managers

# THE ECONOMY

## 2

- **Per capita Income** (US\$) > 2,310; Income group > Lower middle income
- **GDP growth** of 11.8% in 2013, forecast for 2014 is 9.5% GDP growth
- **Forecasts for GDP** per capita until 2030 varying, up to US\$67,000 predicted
- **Inflation rate** 8.2% in 2013
- **Mongolia's central bank** raised interest rates by 1.5% to 12% to help stabilise the economy in the face of high inflation and falling foreign investment in its mining sector (August 2014)
- **Moody's lowered its credit** rating to B2, Standard & Poor's rates Mongolia BB-
- **More than 75%** of the public debt is denominated in foreign currency
- **Main trading partners** are Russia and China - the biggest market for Mongolian export

## 3

# INVESTMENT NOTES

- **The Mongolian Stock Exchange (MSE)** is one of Asia's smallest stock exchanges with a current market capitalisation of approximately US\$1 billion, and has recently opened up to foreign ETFs, mutual funds & institutions for the first time
- **Mongolia has one of the world's largest** natural resource endowments and the potential to become one of the world's dominant commodity suppliers (coal, copper, gold, uranium, rare earths, molybdenum, tin, tungsten, lead, iron ore & zinc)
- **Industrial and infrastructure** mega-projects requiring investment of over US\$56 billion are planned
- **Mongolia is constructing** railways from mines directly to China
- **The Development Bank** of Mongolia working to finance a total of 120 projects with its first Eurobond of US\$580 million, the Chinggis Bond, Samurai Bond, and its own assets

# HIGHLIGHTS - INVESTMENT OPPORTUNITIES & OUTLOOK

## A TROUBLED RECENT PAST

The Mongolian market has performed extremely poorly over the last few years. However, this can be partly blamed on the political climate and legislative error.

- Despite being a fully-functional democracy Mongolia had parliamentary and presidential elections in the last two years consecutively
- These elections created an increase in nationalist rhetoric which scared off some foreign investors
- A rushed law was passed two years ago to halt a Chinese state-owned firm taking over one of the largest coal deposits in Mongolia – but the law impacted much-needed foreign investment
- Foreign investment dropped by over 50% in 2013 and up to 60% so far in 2014

## DEVELOPING FROM A FAVOURABLE LOCATION

Mongolia clearly benefits from its prime geographic location and a significant pool of natural resources. Plus, the investment law has now been repealed and a far more favourable one introduced that incentivises foreign investment.

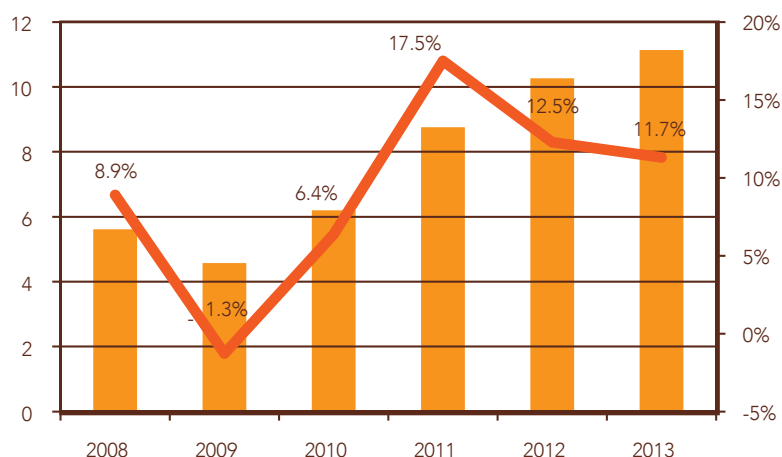
- The country is wedged between China and Russia
- There is a huge resource endowment – for example, coal deposits, copper, gold, tungsten, tin, uranium and iron ore
- In 2011, Mongolia exported more coal to China than Australia exported to China – all delivered by road

## THE ROLE OF MONGOLIA WITHIN PORTFOLIOS

Mongolia is an exciting opportunity for investors interested in such frontier market. The country can provide diversification into emerging markets, for example, and should be regarded as a long-term investment.

- Mongolia is a straight beta play. It has had a turbulent two years, and the currency is trading at its lowest ever, plus inflation is in double digits
- Yet the legislative progress the country has made in the last year is set to have a dramatic effect on attracting foreign investment
- This should be considered a long-term investment

## GDP & GDP GROWTH



Source: Khan Investment Management

## NOT JUST A RESOURCE OPPORTUNITY

**The investment opportunity has been compared to that of Qatar in the 1990s. Despite the fact there has been double-digit GDP growth in Mongolia, sceptics often put this down as a mining boom. However, it has been an investment boom into the mining sector.**

- For example, Oyu Tolgoi, which started producing in 2013, as a project took US\$7 billion of investment and is now the 3rd largest gold copper mine in the world
- This young economy is entirely dependent on foreign investment to achieve its development goals
- The majority of foreign investors tend to be Asian given their proximity and therefore better understanding

## IMPROVEMENTS PLANNED FOR INFRASTRUCTURE

**There is a vital need for infrastructure development in Mongolia. For the country to export to the levels it desires, there needs to be an improvement in transportation links.**

- Some improvement has already been made with roads around the capital city created and access to the international airport
- There has been unprecedented development on the Gobi Desert railway that will link China to Mongolia
- Mongolia aims to build 4,000km of rail over the next three years
- As Russia and China aim to build stronger transport links, Mongolia will benefit given that these links will have to go through the country

## INVESTMENT OPTIONS TO GET ACCESS

**The Mongolian market is not necessarily that easy to invest in, mainly due to a lack of accessibility, plus the stock exchange is small. But this is all set to change.**

- Khan Investment Management created a fund focusing on a general Mongolian theme with investments onshore as well as in Mongolian companies listed offshore
- Opportunities to invest in fixed income are available via a small number of internationally-listed Mongolian companies
- One of the stand-out options is the Mongolian Mining Corporation, listed in Hong Kong, either through buying its stock or its March 2017 bond paying a 9% coupon

## POSITIVE PREDICTIONS

**Many market experts and respected authorities, including the IMF, have made a number of very positive predictions about Mongolia.**

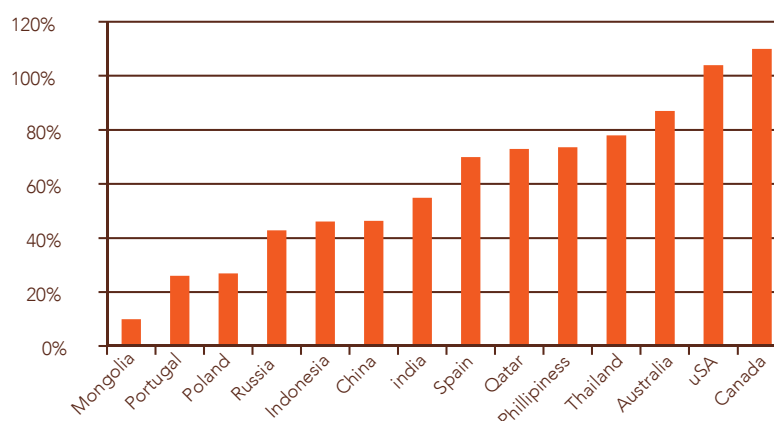
- Investment projects are in the pipeline in 2014 which are multiples of previous years' GDP
- While GDP per capita is only US\$3,500 now, the IMF predicts this will rise to US\$67,000 by 2032
- Opportunities for Mongolia outside of mining will become larger as the economy grows – for example, farming, financial services and food production
- The government has a programme through which it expects to give one-third of the shares or capital structure of privatised companies to Mongolian citizens

## UNDERSTANDING THE RISKS

**As with any emerging market, there are risks for investors to consider, even as Mongolia works to overcome previous hurdles and issues it has faced.**

- One of the main risks is in terms of China and the role it plays within Mongolia
- Essentially if China decided to close its border to Mongolia then exportation would become very complicated (but the reality of this happening is slim as China given demand for Mongolia's resources)
- There is a liquidity problem in Mongolia, simply because it has been so arduous for foreign investors to access the Mongolian market

## MARKET CAP AS % OF GDP



Source: Khan Investment Management

# EDITORIAL SUMMARY - AN INSIDE LOOK AT MONGOLIA

## FUTURE INVESTMENT

1

Travis Hamilton of Khan Investment Management discusses what makes Mongolia an exciting investment destination for the future.

**Geographically located in-between China and Russia, Mongolia is blessed with a huge resource endowment and a convenient location, says Travis Hamilton in an interview.**

Until a few years ago, before it underwent some turbulence, the country was, as Hamilton describes it, the “darling of the emerging markets world”. But he is adamant that Mongolia will continue to develop and grow going forward, leveraging off some of the world’s largest mines.

### MONGOLIA IN PERSPECTIVE

From an economic context, the country is often compared with Qatar, he says, yet GDP per capita is only around US\$3,500. Despite this, the IMF predicts that by 2032 GDP per capita in Mongolia will reach US\$67,000. Other aspects of the country Hamilton finds fascinating include its climate, for example, which is

one of the most extreme on the planet with a temperature which ranges from -44 degrees in winter to +40 in the summer months. Mongolia also has some breath-taking landscape and an abundance of national beauty, he adds.

### INVESTMENT LANDSCAPE

In terms of Mongolia’s investment environment, it has a turbulent history. Performance over the last three years has been poor, which Hamilton puts down largely to the country’s political instability and legislative uncertainty.

For example, he explains, the election cycle which has just finished was dominated by a lot of populist and nationalist rhetoric, scaring off many foreign investors.

Moreover, prior to the 2012 parliamentary elections, the Mongolian government introduced a hastily-drafted law to stop a Chinese state-owned enterprise buying a substantial portion of the country’s coal deposits, he adds.

Unfortunately, this legislation was not well thought-through, says Hamilton, in turn creating a real hurdle to foreign direct investment. As a result, that flow has fallen by at least half for the last two years consecutively.

However, the law has been amended and now incentivises foreign investors. Further, adds Hamilton, the infrastructure is being significantly improved, with road and rail production increasing considerably, and therefore meaning that resource exportation will also increase.

As an example of the scale of the opportunity, Hamilton says that in 2011, Mongolia exported for the first time more coal to China than Australia exported to China – and Mongolia was only using trucks to do that.

# EDITORIAL SUMMARY - MONGOLIAN INVESTMENT OPPORTUNITIES

## FINDING INVESTMENTS

2

Travis Hamilton of Khan Investment Management explores the various opportunities for international investors to tap into Mongolia's growth story..

**Mongolia is a very resource-rich country with huge deposits of coal, gold, copper, tin, uranium and iron ore.**

From this perspective, the country is comparable with Australia, for example, says Travis Hamilton in an interview. And while there is currently a slower production rate, due to a lack of credible transportation infrastructure, this is being addressed.

As a result of this, investing in Mongolia, a country which Hamilton says is expected to grow at a double-digit GDP growth rate for the rest of this decade, is becoming a far more interesting proposition for many investors today.

### INVESTING WISELY IN MONGOLIA

However, Hamilton acknowledges that Mongolia doesn't necessarily represent an easy investment. Therefore, his firm has created a Mongolian-focused fund which invests both onshore and also in Mongolian countries listed offshore.

Other ways to get access to Mongolia include debt products via fixed interest investments. Given that Mongolia is not a straight-forward market to invest in, there are opportunities which can also be found on the international market – for instance, it is possible to invest in listed debt in a number of Mongolian companies, plus there are internationally-listed equities, he says.

### KEY NAMES

Some of the stand-out companies that Hamilton says are internationally-listed but provide access to Mongolia include Turquoise Hill Resources and the Mongolian Mining Corporation.

As a personal recommendation, Hamilton prefers the latter. As someone who is personally invested in the company, he cites its stock and bond options as sound investment opportunities.

There is also the Mongolian Stock Exchange (MSE), he adds, run by the London Stock Exchange, which has been instrumental introducing new trading systems and readying the exchange for the raft of expected privatisations. Regardless of these opportunities, however, Hamilton explains that the market is still very much in its infancy.

Looking forward, the legislative reforms that he says the government is focused on are expected to change the face of the Mongolian capital market – for example, streamlining the IPO process and allowing for dual listings.



# EDITORIAL SUMMARY - HOW TO GET EXPOSURE TO MONGOLIA

## ASSESSING THE OPTIONS

3

Travis Hamilton of Khan Investment Management looks at different vehicles for investing in Mongolia, and assesses some of the risks.

**It is notable that the last couple of years have been difficult for Mongolia from an economic and investment perspective, says Travis Hamilton in an interview.**

For example, the country's economy has struggled and inflation is currently in the double digits. At the same time, he adds, the level of foreign investment has significantly decreased as a result of rushed legislation.

However, Hamilton sees this changing, and cites the growing interest his firm is experiencing in relation to investing in Mongolia as proof.

### SUPPORTIVE SIGNS

Essentially, the underlying fundamentals supporting Mongolian growth haven't changed in the last seven years, says Hamilton. The country has a very strong growth thesis, with a vast resource base and positioned on the doorstep of China. Moreover, as Hamilton explains, legislative changes have been made to encourage further foreign investment.

As a result, China and Russia have both been showing a considerable amount of interest in terms of investment.

### INVESTMENT OPTIONS REMAIN LIMITED

From the perspective of investors willing to invest in the country, however, the options are quite limited.

Hamilton launched his Khan Mongolia Equity Fund in 2011, which he says gives clients access and flexibility. Further, since he is purely focused on Mongolia, this boosts the level of knowledge and expertise.

Hamilton also believes that as the Mongolian economy grows, the government-owned industries will no doubt become privatised. That will provide an even larger opportunity to invest directly into the country's key industries.

### SOME CAUTION NEEDED

Clearly, there are risks that accompany this style of investment, and Hamilton explains that Mongolia is certainly not a risk-free country.

Perhaps the biggest hurdle for Mongolia would be if China were to close its borders with the country, although Hamilton admits that is an unlikely scenario given the Chinese thirst for resources.

A more stabilised political situation, however, combined with more favourable legislation, create a supportive environment for foreign investment.

With an overall sound investment outlook, he expects to see the options for investment to increase along with the economy itself.

# HOW TO GET EXPOSURE TO MONGOLIA

We have found through our research various ways that investors can get access and exposure to Mongolia.

## ARD Capital



ARD Capital group is a leading Mongolian securities company founded in 2007 with a service scope including brokerage, dealing, underwriting, IPO, private placement and investment consultancy. The firm is licensed by the Mongolian Financial Regulatory Commission (FRC), and is a member of the Mongolian Stock Exchange. International investors can access the latest financial news to make investment decisions while local companies are able to raise capital from around the world and receive advice on international investments via the firm. ARD Capital produces customised research and analysis on capital markets and business financials as well as other customised solutions designed to help their clients reach their goals. The firm currently trades equities on main international exchanges such as the Hong Kong Stock Exchange, London Stock Exchange, Australian Stock Exchange, and

New York Stock Exchange on a real-time basis and has solid partnerships with Bank of New York Mellon, Bank of China International and Credit Suisse. For further information click [here](#)

## Aspire Mining Limited



Aspire Mining Limited is an Australian Securities Exchange-listed company focused on discovering and developing premium coal deposits in Mongolia. The company is a partnership of Mongolian Australian interests with a primary focus on Mongolia, as it wholly owns an Ovoid Coking Coal Project in the northern part of the country, which is classed as the second largest coking coal reserve in Mongolia. The project had received a mining licence, and approval from the Mineral Resource Authority of Mongolia for its Mongolian feasibility study. At full production, it is capable of producing up to 10 million tonnes per year of premium quality coking coal. The company owns an infra-

structure subsidiary, Northern Railways LLC, which is working on a railway project connecting to the Trans-Mongolian Railway at Erdenet in northern Mongolia. For further information click [here](#)

## Interconsulting Group



Interconsulting Group is a professional consulting company providing investment and financial advisory, management consulting, project development and project management services. Based in Mongolia, the group advises companies eager to access the country to define their business strategy and to potentially find a suitable partner to achieve the best outcome in the Mongolian market. The group also works with local companies to develop international ventures, find joint-venture partners, and locate additional capital on international financial markets. For further information click [here](#)

## Khan Investment Management

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Co-founded by Travis Hamilton and Narantuguldur SaijraKh in March 2011, Khan Investment Management provides access to a wide range of investment and business opportunities to leverage the growing economy of Mongolia. With offices in Singapore and Ulaanbaatar, global investors can participate in Mongolia's growth story via the Khan Mongolia Equity Fund, which is one of the first open-ended Mongolia exposure vehicles. The fund is a stand-alone vehicle, specifically investing in top-tier companies with significant assets and operations in Mongolia that are listed both internationally and on the Mongolian Stock Exchange. Singapore-based Asia Capital and Advisors is appointed as the investment manager. For further information click [here](#)

## Kincora Copper

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A mining and exploration company focused on copper and gold deposits in Mongolia, Kincora Copper is based in Vancouver, and listed on the TSX Venture Exchange. The company owns a Bronze Fox copper-gold deposit which is located in southeast Mongolia, just 200 kilometres from the Chinese border.

On top of the major asset in Mongolia, it has an experienced management team with experienced mining developers and years of background in the country, making sure all business conducts are done professionally and effectively. For further information click [here](#)

## Mongolia Growth Group

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Mongolia Growth Group is a property and capital market services conglomerate with full operations in the economy of Mongolia. The diversified entity, co-founded by Harris Kupperman and Jordan Calonego, is the only institutional property management platform in the country with a full suite of services including acquisitions, property management, leasing, renovations and development. For international companies coming to Mongolia seeking a long-term business perspective, the entity is an option in terms of leasing needs. The firm was listed in Canada in February 2011, providing global investors with leverage to the growth of Mongolia's GDP through the ownership of high-quality commercial property assets in downtown Ulaanbaatar. For further information click [here](#)

## Mongolian Investment Banking Group

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The Mongolian Investment Banking Group (MIBG) is a financial boutique, providing a wide range of corporate financing and capital market transactions for the mining and resources sector of Mongolia. The MIBG team consists of dedicated professionals who are committed to ensuring that the highest standard of service is provided to their clients. Located in Ulaanbaatar, the firm has an established network of senior corporate level executives among mining and resources companies, which enables it to source and create investment opportunities for global investors. The firm has its own equity research team, publishing stock reports of companies active in the Mongolian mining and resources sector while its market research team makes sovereign economic and political commentary available to global investors. Currently, the company has trading rights on various international stock markets including the Mongolian Stock Exchange and direct access to international exchanges including the Toronto Stock Exchange, Australian Stock Exchange, Hong Kong Stock Exchange, New York Stock Exchange, and the London Stock Exchange. For further information click [here](#)

## Mongolian Mining Corporation



The Mongolian Mining Corporation is a coking coal producer and exporter in Mongolia which owns and operates two open-pit coking coal mines – Ukhaa Khudag and Baruun Naran – both located in Southern Gobi province of Mongolia. After years of operations, the company listed on the main board of the Hong Kong Stock Exchange in 2010, becoming the first Mongolian company to offer shares on a global stage. With international project management practices and advanced technologies, the company is now the largest producer and exporter of washed coal in Mongolia. For further information click [here](#)

## Quam Mongolia Fund



The Quam Mongolia fund invests in Mongolia's energy and related industries. The company firmly believes in the country's potential and is tapping into this opportunity by investing mostly in Mongolian companies listed in foreign markets, which have transparent accounting procedures and transparent operation processes. For further information click [here](#)

## Turquoise Hill Resources



Turquoise Hill Resources is an internationally active mining company. It focuses on copper, gold, and coal mines in the Asia Pacific region. Its principal assets include a 66% interest in one of the largest copper-gold silver mines worldwide which is now catering to customers in China with concentrate. Turquoise Hill also has a 56% interest in SouthGobi Resources, an established Mongolian coal miner that currently is expanding production and exports to China. For further information click [here](#)

## Xanadu Mines



Xanadu Mines is a Sydney-based Mongolian exploration company with a long history of business development and partnership in Mongolia. It primarily focuses on developing its coal assets and the exploration and development of gold, copper-gold and polymetallic ore bodies in Mongolia. The company has also partnered with the Noble Group of Hong Kong in a coking coal joint venture, and holds two thermal coal assets. The company is currently listed on the Australian Securities Exchange and acquired a 90% interest in the Kharmagtai porphyry copper-gold project from Turquoise Hill Resources in February 2014. For further information click [here](#)