



November 2, 2011

## October 2011 Monthly Newsletter

Dear Shareholders of Mongolia Growth Group Ltd.,

September and October were months of significant turbulence in the global financial markets. I have always operated under the assumption that no matter how bullish an investment thesis is, nothing is ever completely immune to global turmoil. Mongolia has put that thesis to the test. For the past two months, we have greatly slowed our pace of property acquisition in the hope that property prices would pause in their relentless climb—instead; prices appear to be appreciating at an even more rapid pace. Mongolia is simply experiencing a very powerful bull market and almost everything goes up in price— even when the rest of the world is in chaos.

While we have slowed the pace of our acquisitions, we did make one sizable purchase—a five story office building which will become our corporate headquarters and be renamed the Mandal Building. An unfortunate result of our rapid growth in employees is that our headquarters and property division have been operating in a separate location from our insurance operation for about four months now and this is less than ideal. When the renovations to the Mandal Building are complete, we can finally put our whole family back into the same location. It has taken us nearly six months to find, complete due diligence and acquire the perfect location for our company. I am hopeful that the renovation is speedy so that we can all be together again in the same place. I believe that this will significantly increase our efficiency and communication across the whole company.

In our July monthly letter, I discussed a bit about our philosophy when it comes to real estate. In particular, I discussed how newly acquired property seems to “ripen” for a number of months before it is adequately integrated into our rental portfolio. Part of this relates to our desire to renovate vacant units and part of this relates to our intention of honoring existing leases when we acquire a property— even if these leases are struck at prices that are materially below current rental rates. Given the speed of our recent growth, a substantial portion of our property has always been “ripening” at any one time. For these reasons, we have had a hard time when it comes to accurately explaining our portfolio to investors. Given the lull in acquisitions, we finally have a moment in time where we can actually examine our ability to manage the portfolio.

To start with, I think it is instructive to look at the chart above as it shows our pace of acquisitions. Absent the purchase of our new corporate headquarters and one small land purchase, the portfolio has been roughly static for three months now.

1.3% 1.8%

### Property Usage Breakdown

59.5%

2.6%

27.3%

7.5%

Rented

Leases in Negotiation Corporate Use Renovation

Land

Vacant



In the previous chart, we have chosen to use six categories of property usage to describe our portfolio by percent of total capital. The largest of these categories is rented property. In order to become rented, a property must first go through a lease negotiation period. This category includes properties that we have a reasonable expectation that we will sign a lease on as the majority of the terms have been negotiated. Unfortunately, getting from negotiation to finally getting a lease signed can take a few weeks. Quite a few of these are properties that have legacy tenants in them that came with property purchases and we are just waiting on finalizing various aspects of the new lease. The other large item is corporate use. This includes our new corporate headquarters (part of which will be leased to third party tenants), our current temporary headquarters (which will be leased out after we have moved) and some employee housing. The other items are vacancies, properties undergoing renovation and land.

You will note that our vacancies number is quite low. We are always amazed at the vibrancy of the Mongolian economy and our experience is that most properties have indications of interest from tenants within a day of us advertising them as vacant. Our renovation pool has gradually begun to shrink as we are finally catching up on our backlog. The final category is land, which will always be vacant until we build upon it and unfortunately earns us no yield today.

If we want to delve deeper into the numbers, our weighted average yield on the rented properties stands at 9.2% before expenses. Remember that many of our properties are leased at substantially below market rates. We also must factor in that a substantial portion of our portfolio consists of properties that have low yields today because we intend to redevelop them in the future. Many of these older structures currently produce very moderate revenue for us. If we selectively eliminate a few of these properties, our average yield before expenses climbs into the low to mid-teens. I point this out because we intend to acquire a number of additional properties like this in the future—these are buildings that are well located, but valued mainly for the land below them, not for the current structures. Our hope is to then be part of the modernization of Ulaanbaatar when we redevelop these locations in the future.

In summary, the Ulaanbaatar property market is very strong and thus far seemingly immune to economic events outside of the country. Our own operations continue to grow with the economy of Mongolia and we are glad that we are finally in a position to start supplying additional property information to shareholders. Going forward, we will update the two graphics above in our monthly presentation on our website.

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## Forward-looking Information Cautionary Statement

Except for statements of historic fact, this news release contains certain forward-looking information within the meaning of applicable securities law. Forward-looking information is frequently characterized by words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “estimate” and other similar words, or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are based on the opinions and estimates of management relying on their experience at the date the statements are made, and are subject to a variety of risks, uncertainties and other factors that could cause actual events or results to differ materially from those anticipated in the forward-looking statements including, but not limited to delays or uncertainties with regulatory approvals, including that of the CNSX, changes in the business environment that might impact the intended use of proceeds and changes in the intention of the parties to subscribe to the private placement. There are uncertainties inherent in forward-looking information, including factors beyond MGG’s control. MGG undertakes no obligation to update forward-looking information if circumstances or management’s estimates or opinions should change except as required by law. The reader is cautioned not to place undue reliance on forward-looking statements. Additional information identifying risks and uncertainties that could affect financial results is contained in MGG’s filings with Canadian securities regulators, which filings are available at [www.sedar.com](http://www.sedar.com). The CNSX has not reviewed and does not accept responsibility for the adequacy or accuracy of this release.

