

March 2013 Monthly Newsletter

Dear Shareholders of Mongolia Growth Group Ltd.,

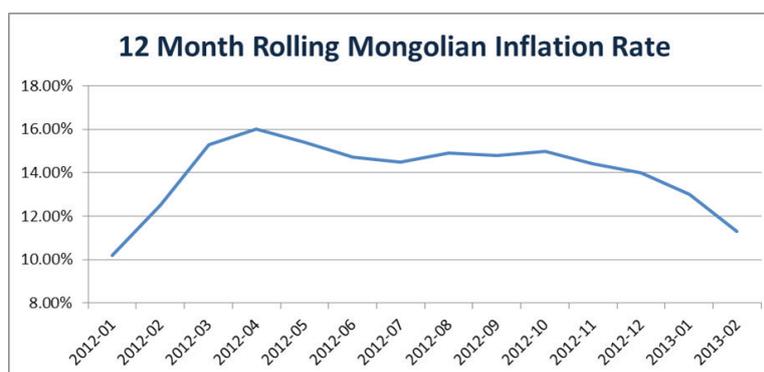
I am now in Ulaanbaatar watching as the snow slowly melts away. With the warmer temperatures, leasing activity is beginning to pick up. Once again, we are seeing increases in rents as the 2013 season begins. Just as interestingly, we see very robust demand for high quality locations.

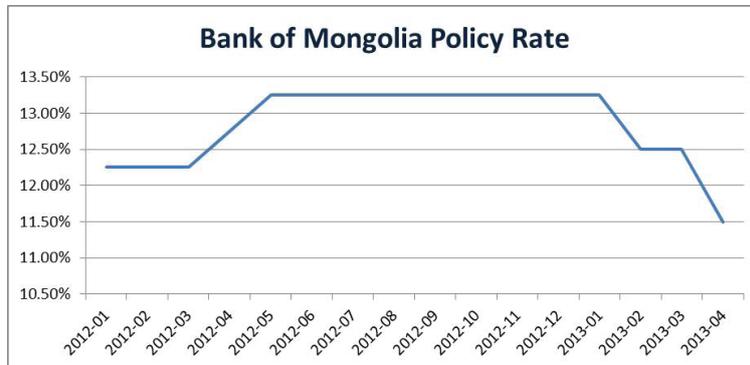
If you look at why real estate investment in an emerging economy is so successful, there are really two drivers to increasing valuations. The first driver—the one that is very important in the earlier stage of a country’s development—is the rapid increase in rents due to a growing economy. We have already witnessed this in many ways over the past two years—in very rough terms, retail rents in downtown have effectively doubled while office rents aren’t very far behind that. While, office rents will eventually top out due to increases in supply, our research shows that retail rents should continue to increase with the increase in disposable income created by a booming economy.

The other factor in property price appreciation, which shows up later in the cycle, is the creation of a strong banking sector and mortgage market. For a point of reference, today in Ulaanbaatar, if you want to borrow US Dollars they will cost you nearly 20% while Mongolian Togrog will cost you over 25% a year. In addition, it is difficult to get mortgages that are longer than a few years in duration. Clearly, this is the reason for mid-teen yields on premium stabilized assets—with many second tier assets valued at over 20% yields. In the past few months, we have seen a number of data points that would make us believe that interest rates may have begun to decline and lead to this second leg of price appreciation becoming relevant.

In 2012, the Mongolian government raised \$1.5 billion at interest rates of 4.125% for \$0.5 billion and 5.125% for \$1.0 billion. This money is now filtering into the economy as the government chooses various programs to finance. For a country that has been starved of capital, \$1.5 billion of low cost capital injected into a \$9.96 billion 2012 GDP goes a very long way towards reducing everyone’s cost of capital. Even more importantly, with inflation starting to moderate, the Mongolian Central Bank has recently reduced the policy rate to 11.5 percent from 13.25 percent as recently as March, 2013. I expect that this will spur additional economic growth. Finally, it is rumored that a number of multi-national banks have recently applied for banking licenses in Mongolia. While there is no way to know if they will be granted licenses, reduced borrowing costs would go a long way towards lowering property yields and increasing property prices.

In summary, I feel that we are at the start of the period where Mongolian interest rates begin to decline to rates similar with more developed countries. This all seems to support a new growth phase in property prices following the dip in prices in the last half of 2012. More importantly, evidence on the ground seems to support this thesis as we’ve seen some increases in prices as the weather has grown warmer.





At MGG, we are very proud of our success over the past two years. Please join me at New York’s Hotel Pennsylvania on May 9th 2013 at 5:30pm for a presentation on what we’ve accomplished and what we are looking at for the rest of 2013. Naturally, this presentation will be accompanied with our standard hospitality, including cookies.

In addition, we have announced the dates for our shareholder visits to Mongolia. As you are likely aware, it’s one thing to read a bunch of dry filings from our company—it’s quite different to actually travel to Mongolia and see our assets in person. Much more importantly, you’ll be able to visit a country that has become quite special to me.

Since we started this company, we’ve had dozens of visitors and I hope that you will come and join us this year during our two scheduled visiting dates of June 15-18 and September 7-10. As always, the trip will include visits to our assets, a tour of Ulaanbaatar and meetings with prominent Mongolians so that you will be able to improve your understanding of what makes the Mongolian economy work. Finally, no trip to Mongolia is complete without a trip to the countryside. I look forward to seeing all of you.

Sincerely,

Harris Kupperman
Chairman & CEO
Mongolia Growth Group Ltd.

For further details on the foregoing document, please refer to the Corporation’s filing on SEDAR. For more information on Mongolia Growth Group Ltd., please see our website:

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Forward-looking Information Cautionary Statement

Information and statements contained in this Letter to Shareholders that are not historical facts are “forward-looking information” within the meaning of applicable Canadian securities legislation and involve risks and uncertainties.

Forward-looking information is necessarily based upon a number of assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. MGG cautions the reader that such forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results and developments to differ materially from those expressed or implied by such forward-looking information.

Such risks and uncertainties include, but are not limited to: risks associated with investment in and development of real property in Mongolia and the insurance business in Mongolia; competition, financing and refinancing risks; risks related to economic conditions; risks related to regulation of the real estate and insurance business in Mongolia; political risk in Mongolia; changes in Mongolian taxation rules; claims against our insurance policies differing from our assumptions; reliance on key personnel; environmental matters; tenant and policyholder risks; risk of insurance fraud; and other risk factors more particularly described in in MGG’s filings with Canadian securities regulators, which filings are available at www.sedar.com. Additional risks and uncertainties not presently known to MGG or that MGG currently believes to be less significant may also adversely affect MGG. Forward-looking information is designed to help you understand management’s current views of our near and longer term prospects, and it may not be appropriate for other purposes. MGG does not undertake any obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except to the extent legally required.

The TSXV has not reviewed and does not accept responsibility for the adequacy or accuracy of this Letter to Shareholders.

