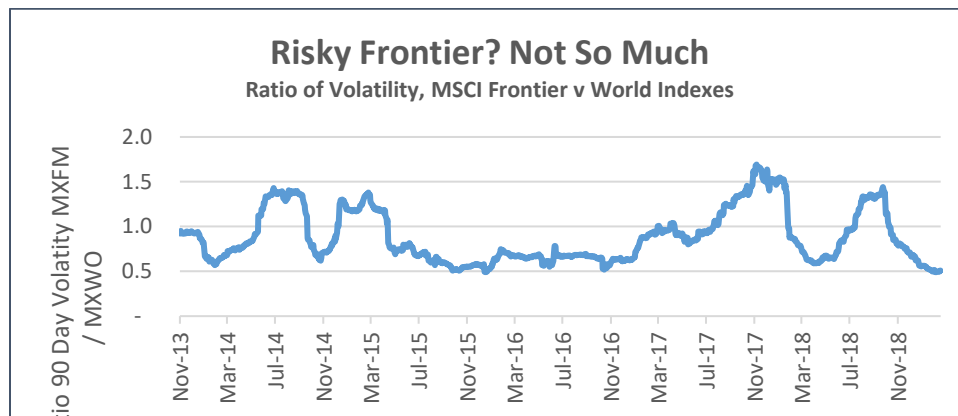


OUTLOOK: The Differences that Make a Market

“Without losers, where would the winners be?” Casey Stengel

Recent events in Frontier countries again paint a picture of unpredictability, as they often have. February events included delayed presidential elections in Nigeria, a surprise military conflict between Pakistan and India, and a failed attempt in Vietnam to end the Korean war after six decades. Those countries have populations of 190 million, 200 million, 1.4 billion, and 95 million, respectively, so altogether hold six times the number of people as the U.S. One might expect events in Frontier markets to increase their risk profile versus the rest of the world.

In reality, however, Frontier risk as measured by stock market volatility is usually lower than in Developed and Emerging markets, and is currently about as low as it gets (below). What explains the steadiness in such uncertain times?



The likeliest explanation for the apparent calm is that the group of Frontier countries features a broader range of economies than is found in the rest of the world. While Nigeria and Kazakhstan are big oil producers, Kenya and Bangladesh mainly consume it, so their reaction to changing oil prices may move in opposite directions. Consumer trends between, say, Kuwait, with GDP per capita of \$66k per year, and Tanzania, at under 1/20th that level, will be very different. Frontier includes both Estonia, #18 in Transparency International's Corruption Perceptions Index 2018, and Zimbabwe, at #160. Almost any given economic driver might produce different market reactions from different Frontier markets.

Kyklos Capital

In practice, the large differences in economic drivers mean that stock market performance will have large variations between countries, which act to offset each other, lowering overall volatility in Frontier to the benefit of global investors. In February, Frontier market performances included a ripping Romania at +14% (for the MSCI Romania Index), but also a plunging Argentina at -11% (MSCI Argentina).

Kyklos added to holdings in Egypt in February. The current valuation of the fund, at a trailing PE ratio of 5.2 and a dividend yield of 6.3%, remains well below that of Frontier, Emerging and Developed indexes.

Charlie Gushee
March 1, 2019

Interesting February Reading

Talking about long-term: CS sees historical EM equities performance since 1900 below global markets, but better since 1950. <https://www.credit-suisse.com/corporate/en/articles/news-and-expertise/global-investment-returns-yearbook-201902.html>

Adjusted Private equity returns are no better than comparable listed equity according to AQR: <https://www.aqr.com/Insights/Research/White-Papers/Demystifying-Illiquid-Assets-Expected-Returns-for-Private-Equity>

McKinsey points to signs of a Private Equity bubble:

<https://www.mckinsey.com/~media/mckinsey/industries/private%20equity%20and%20principal%20investors/our%20insights/the%20rise%20and%20rise%20of%20private%20equity/the-rise-and-rise-of-private-markets-mckinsey-global-private-markets-review-2018.ashx>

... yet Blackrock sees investors still adding to private assets and cutting public ones:

<https://www.blackrock.com/institutions/en-us/insights/rebalancing-survey>

The new port is a game-changer for Georgia: <https://www.economist.com/europe/2019/02/16/shrinking-the-black-sea>

EM faces a major slowdown per Capital Economics: <https://research.cdn-1.capitaleconomics.com/4c83dd/ems-facing-synchronised-downturn.pdf>

Heroin trafficking in Africa is the wrong kind of free trade: <https://www.economist.com/middle-east-and-africa/2019/02/02/africa-is-heroin-new-highway-to-the-west>

Value investing may have bottomed versus Growth: <https://www.economist.com/finance-and-economics/2019/02/02/value-investing-is-long-on-virtue-but-has-been-short-on-reward>

1350 Avenue of the Americas
2nd Floor
New York, NY 10019
t: 646.738.8078
cgushee@kykloscapital.com

Kyklos Capital

IMPORTANT DISCLOSURE INFORMATION

* Prior to the launch of Kyklos Capital Partners April 1, 2016, Charles Gushee ran a personal account which generated a real-money track record, utilizing a similar methodology to Kyklos Capital Partners. Audited 2015 results for that account are available upon request. The investment process for that account is representative of the investment process that Kyklos Capital intends to employ in most situations. However, Kyklos Capital may deviate from that process on a case-by-case basis in its discretion. Future quarterly updates will discuss Kyklos Capital Partners' performance. The fact that the Account has realized gains in the past is not an indication that any fund or account managed by Kyklos Capital will realize any gains in the future. **Past performance is not necessarily indicative of future results.** This information is intended solely for the addressee, for informational purposes only, is confidential, is not intended for public use or distribution, and may not be reproduced or distributed without the express written consent of Kyklos Capital LLC ("Kyklos Capital") or Charles Gushee.

In addition, the positions discussed in this letter are being provided only for illustrative purposes in order to provide examples of the idea generation, research, and investment process of Charles Gushee. The issuers discussed in this letter do not represent all of the positions selected by Charles Gushee in the Fund. No representation is made as to whether or if the investment ideas represented in the positions discussed in this letter have been or will be profitable. It should not be assumed that Kyklos Capital will be able to identify similar investment opportunities in the future or that any such opportunities will be profitable.

The information in this letter is current only as of the date indicated, and may be superseded by subsequent market events or for other reasons. Statements concerning financial market trends are based on current market conditions, which will fluctuate.

This information does not constitute an offering of any security, product, service or fund, including interests in the Fund. An offer or solicitation of an investment in the Fund will only be made pursuant to a confidential private offering memorandum (the "Private Offering Memorandum") and other documents of the Fund (the "Fund Documents") in jurisdictions where permitted by law, and only the information in the Fund Documents should be relied upon when making a decision to invest.

The purchase of interests in the Fund is speculative and suitable only for sophisticated investors for whom an investment in the Fund does not constitute a complete investment program and who fully understand and are willing to assume the risks involved in the Fund's investment program. The Fund will employ certain trading techniques, such as short selling and the use of leverage, which may increase the risk of investment loss. As a result, the Fund's performance may be volatile, and an investor could lose all or a substantial amount of his or her investment. Further, the Fund has substantial limitations on an investor's ability to redeem or transfer its interests, and there is no secondary market for interests in the Fund and none is expected to develop. All of these risks, and other important risks, are described in detail in the Fund's Private Offering Memorandum. Prospective investors are strongly urged to review the Private Offering Memorandum carefully and consult with their own financial, legal and tax advisors **before** investing.

This information is not for distribution in isolation and must be viewed in conjunction with the Fund Documents as it is not intended to be a complete description of the risks of an investment in the Fund or its investment strategies. To the extent there is any inconsistency between this information and any of the Fund Documents, the Fund Documents govern in all respects. Although the information contained herein is believed to be accurate as of the letter date, Kyklos Capital and Charles Gushee do not make any warranty regarding its accuracy or completeness, and will not accept responsibility for any errors in the information, and undertake no obligation to update any information set forth herein. Any projections, market outlooks, or estimates in this document are forward-looking statements based upon certain assumptions, and should not be construed to be indicative of the actual events that will occur. Any information regarding portfolio composition or investment restrictions are intended as examples or guidelines which may be modified or changed by Kyklos Capital at its discretion and without notice to you. Further, as noted in the document, all positions discussed are positions that were held in the Account, which is intended to serve as the development account for the Fund, and such positions do not necessarily represent the positions that will be held by the Fund.