

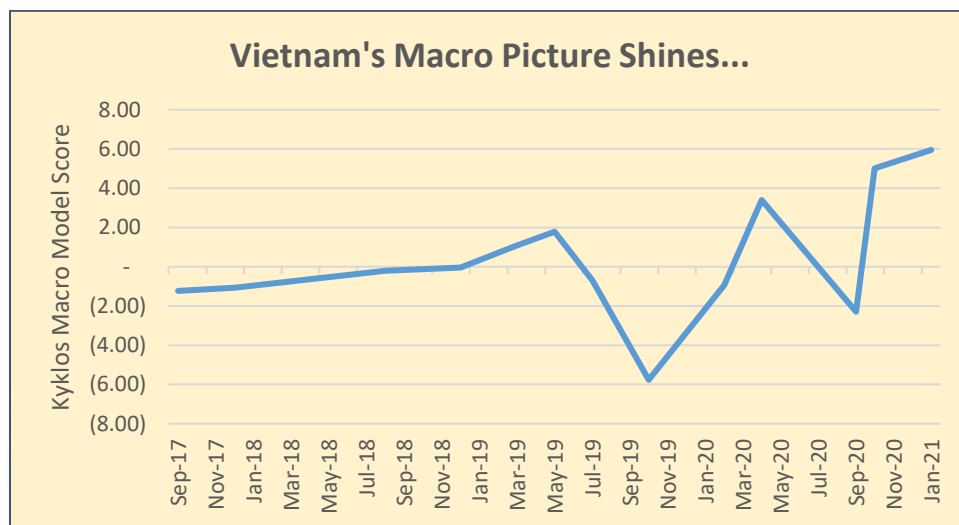
## Kyklos Capital

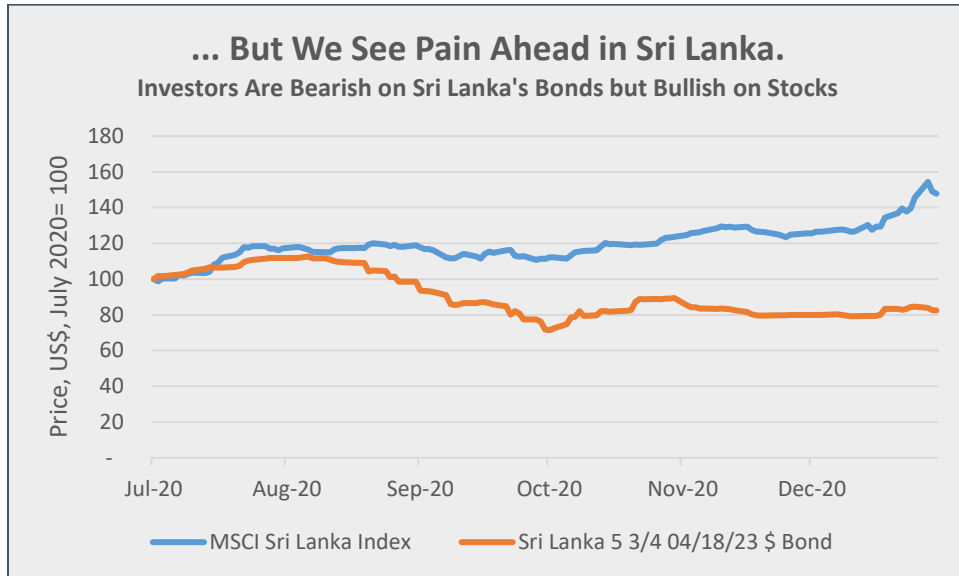
### OUTLOOK: Buying Countries As Well As Companies

*"You can't be a real country unless you have a beer and an airline."* Frank Zappa

Bottom-up investors such as Kyklos are susceptible to falling in love with good Frontier companies, that benefit from high-growth economies, big cost advantages, lower levels of competition, and battle-tested executives able to manage through tough conditions. At the same time however, Frontier countries offer higher levels of political risk, less information flow, and less policy stability than Developed countries. Kyklos' macro country risk-scoring model provides a useful reality check. We use six economic factors to score each of our target countries according to data changes, relative to the group of Frontier markets. It helps to anticipate potential currency appreciations or depreciations, which add or subtract directly from our investment returns and create operating benefits or challenges for our companies, and to manage concentration risks in our portfolio allocations.

Our model's latest updated rankings look good for our current portfolio. Our biggest country exposure, Vietnam, improved to a #13 ranking out of 40 countries, with its highest-ever risk score (below). Our portfolio holds six of the top 10 countries (Pakistan, Kazakhstan, Botswana, Georgia, Slovenia, and Ghana). Among low-ranked countries, we have limited exposure to Nigeria (#37), and exited Sri Lanka (#35) in January after a strong recovery for our last position there. The local investors in Sri Lanka have driven its stock market up over +50% since July (MSCI Sri Lanka Index). Meanwhile, investors in Sri Lankan government bonds went the other way, and demand yields above 25% for bonds that traded at less than 6% one year ago. Our model implies that both investor views will not win, and we have acted accordingly.





Charlie Gushee  
February 1, 2021

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