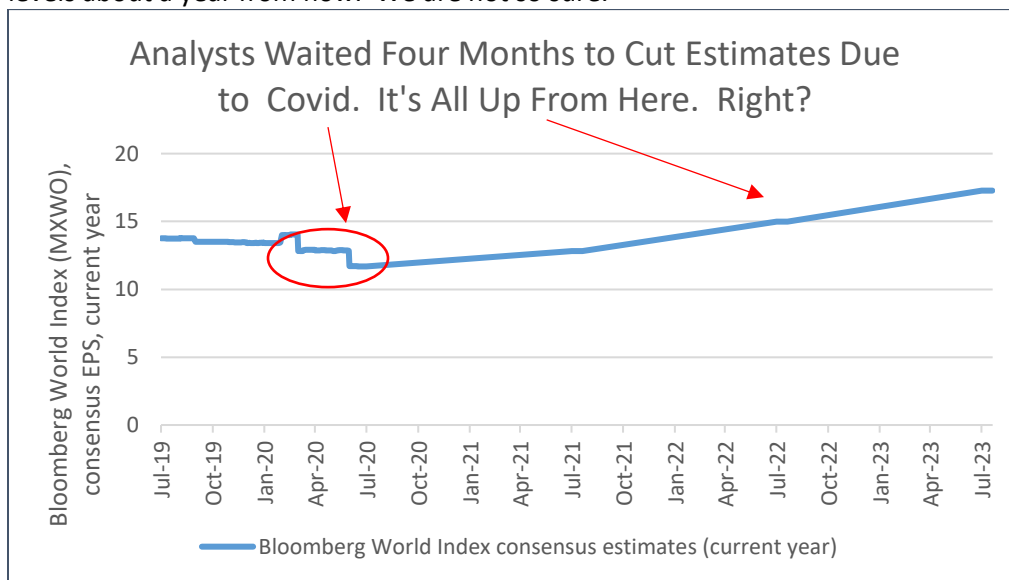


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OUTLOOK: Forget About 2020-- It's All About the Future

"The future is unwritten". Joe Strummer

Portfolio managers and sellside analysts don't have a clue as to what companies will earn in 2020, for reasons we all know. For Kyklos, we have higher confidence in the long-term than in the short-term earnings of our holdings, which is abnormal. (When it comes to predicting long-term events, the performance of pundits is statistically worse than chimpanzees throwing darts at a target, as noted long ago by Philip Tetlock.¹) A quick look at how sellside analysts adjust their predictions is enlightening. Current-year consensus earnings estimates for global equities were, logically, trimmed a bit when Covid reared its head in February. But the bulk of the downgrades happened only in June, as if the measures to contain Covid measures were a big surprise. And the expectations from here are for a straight-line recovery, to pre-Covid earnings levels about a year from now. We are not so sure.



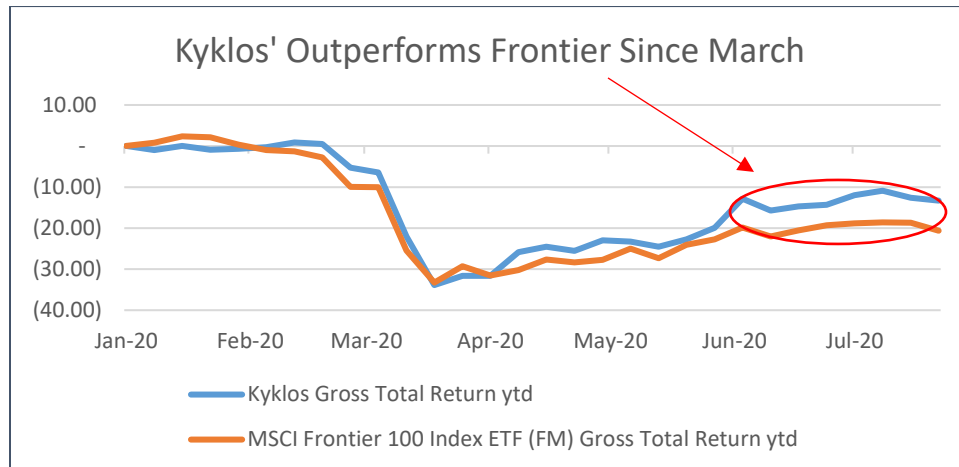
Our preference is to ignore the shaky data of 2020 and avoid predicting the twists and turns of Covid. Since March, Kyklos has instead focused on longer-term demonstrable earnings potential in individual companies on a bottom-up basis, modeled macro signals pointing to limited or positive currency risks, and a greater weight than usual on short-term technical

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¹ <https://www.wired.com/2011/08/do-political-experts-know-what-theyre-talking-about/>

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signals to dodge falling knives. We are cautiously optimistic that we are on the right track, as shown below:



Our best performer in July, Frontier Digital Ventures (FDV), is an example of our willingness to bet on long-term potential over short-term earnings. FDV is a holding company focused on leading online property and autos classified advertising businesses in Frontier markets, and is listed in Australia. As an internet investment play, the company currently loses money overall, so no traditional earnings multiples are useful in order to value the stock. Classifieds are a classic internet story, where the advantages of search, geographic reach, in-real-time listings and pricing, data access, and ability to transact create a winner-take-all business model. Covid is a clear accelerant to online usage generally, and consumers will permanently be more likely to use online solutions, leading to bigger market share gains for leading sites everywhere. While FDV currently makes operating losses, the latest quarter showed 10 of their 12 holdings with either higher profit or lower losses, as management focused on cash generation and cost cuts. FDV's top asset is a 30% stake in Pakistan's leading property site, Zameen. Long-term, as Pakistan's internet penetration climbs from the current 35% and booming population growth create housing demand, Zameen should grow user numbers and revenues significantly. Valuation is notoriously tricky for unprofitable internet companies, but FDV's stock continues to trade at a deep discount to similar business models in other (often Developed) markets based on revenue. A recent strategic shareholder transaction for Zameen implies a value for FDV's stake which is near its total market capitalization. We don't know what FDV's future profit numbers are, but we think they will be far higher than they are currently, as will the stock's valuation.

Charlie Gushee
August 1, 2020

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