

### Outlook: Vietnam's Covid Honeymoon Ends. A Muddy Message From Our Macro Model.

*"Even if you're on the right track, you'll get run over if you just sit there". Will Rogers*

**Vietnam** is Kyklos's largest country exposure, at almost one-quarter of the portfolio. The country is a longstanding market darling for most Frontier investors, for its pro-business regime, low political risk thanks to one-party rule, an enormous entrepreneurial class, and a blossoming consumer culture. Our love affair with its investment case is quite recent, with minimal exposure before late 2019. After Covid, we made it our top country pick for all of those reasons, while its cost-competitive manufacturers could gain from supply chain disruption in China, and its government's management of the crisis would benefit from the Chinese experience. The bet has panned out, and the MSCI Vietnam Index has nearly doubled the performance of the MSCI Frontier Emerging Markets Index off the March 2020 bottom. Our Vietnam positions benefit from growth in trade, demand for consumer electronics, an eventual return of travel, and high stock exchange trading volumes and potential new issues. As such, the portfolio holds both Covid and re-opening beneficiaries, all of which we consider mispriced and with significant long-term earnings growth potential.

Now, Vietnam's Covid risk has changed. Through 2020, it was one the best-performing countries in the world thanks to targeted lockdowns and widespread contact tracing. The latest wave is ugly, however, with over half of Vietnam's total Covid deaths (of about 1000) reported just last week. It will affect every sector. Mobility data from July 19, courtesy of Google, showed that work-from-home is back with a vengeance, with the fewest number of people in transit in the Covid period at 62% below early 2020 levels. The number of people at workplaces were down 41%, and even grocery and pharma shoppers were down 29%. <sup>1</sup>

We have selectively trimmed some Vietnam positions over time to control our risk. Much like in March 2020, we require a bigger upside on a longer-term time horizon for any fresh positions, and the coming Covid crunch may offer better opportunities. Stay tuned.

#### And speaking of macro...

July's global economic uncertainty was reflected in our latest update of the Kyklos proprietary macro risk scoring model for Emerging and Frontier countries. Updated for currency valuation, currency volatility, stock valuations, and credit ratings, it shows significant volatility in the rankings.

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

<sup>1</sup> [https://www.gstatic.com/covid19/mobility/2021-07-19\\_VN\\_Mobility\\_Report\\_en.pdf](https://www.gstatic.com/covid19/mobility/2021-07-19_VN_Mobility_Report_en.pdf)

## Kyklos Capital

Peru has shot to the top of our rankings, thanks to a cheaper currency (based on Real Effective Exchange Rates, or REER). The obvious reason for the FX selloff, however, is recent, as newly-anointed President Castillo represents a big governance risk, and investors are voting with their wallets. We have decided to steer clear for now. Argentina, Colombia, and India all climbed from bottom to middle rankings. Decliners included Kenya and the Czech Republic.

Slovenia, Georgia and Kazakhstan, where Kyklos holds positions, ranked in the top 25% of all Frontier/ EM, while three other countries where we have exposure, Nigeria, Estonia, and Botswana, rank in the bottom 25%. Botswana's decline from a previously high ranking was due to a rare credit rating downgrade.

The model is useful for highlighting top-down risks that can be missed in a bottom-up stockpicking process, such as our companies' growth environments and currency exposures, helping us to value stocks and size our positions accordingly. As a timing tool, not so much.

Charlie Gushee

August 1, 2021

## Kyklos Capital

**IMPORTANT DISCLOSURE INFORMATION** 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.

t: 646.738.8078  
cgushee@kykloscapital.com