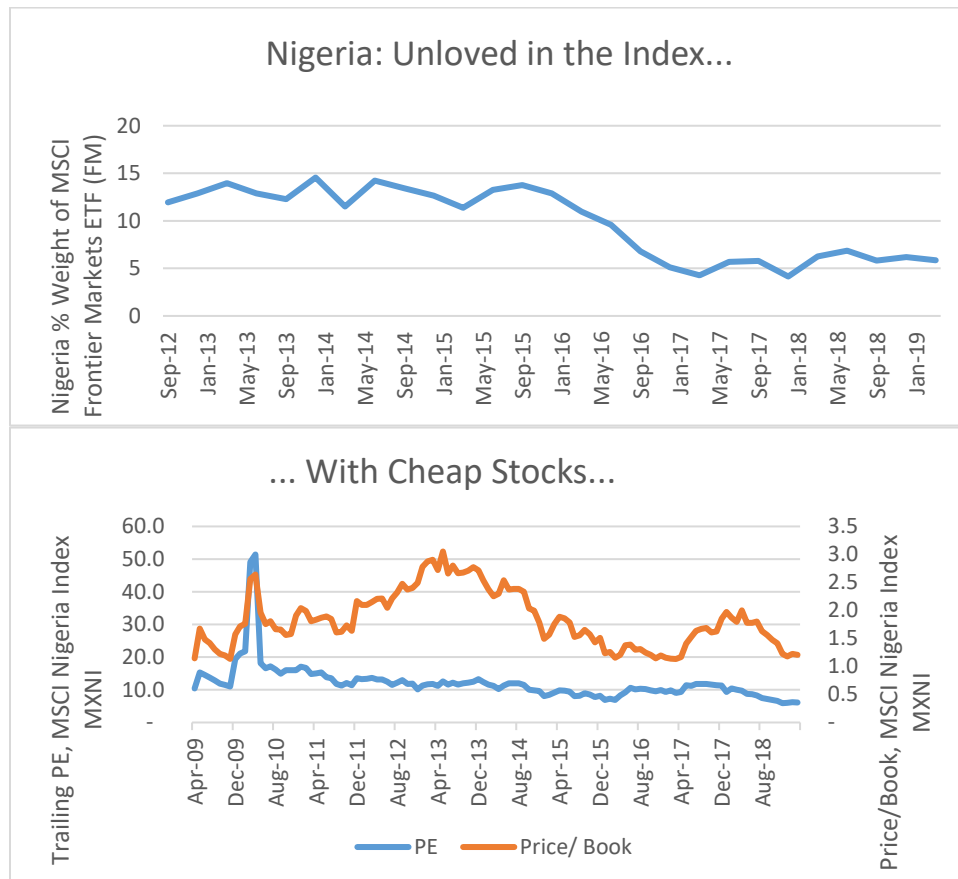
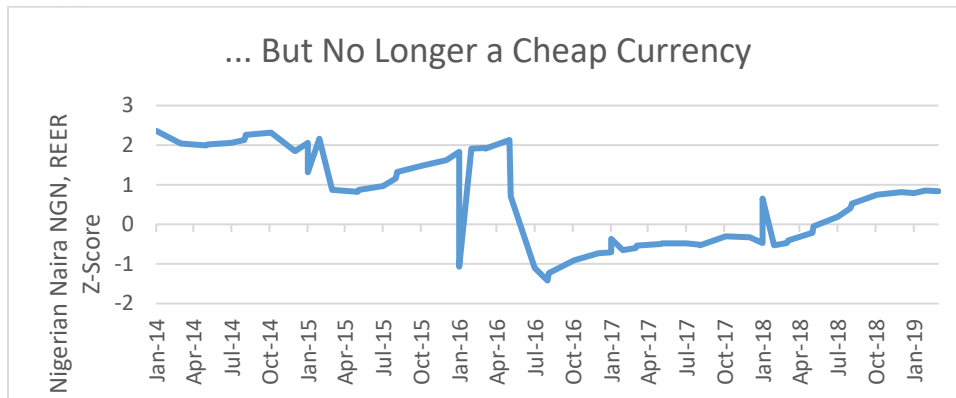


OUTLOOK: READY, SET...

"Life is much more manageable when thought of as a scavenger hunt as opposed to a surprise party." Jimmy Buffett

During March I visited Nigeria to meet with many of the largest listed companies and with government officials. Nigeria boasts of Africa's largest population of some 180 million, which is young and growing, and should power future growth for the country's consumer, banking and infrastructure companies. Stock valuations are at 10-year lows, and foreign investors have already fled, as illustrated by its much-reduced weight in the MSCI Frontier Markets ETF (below).





Sources: Bloomberg, MSCI, IMF

The catalyst to turn around the Nigerian market's long under-performance is hard to pinpoint, however. Consumption growth remains slow, due to rampant unemployment and wage growth far below inflation, with a possibly looming sales-tax increase to aggravate it further. Possible devaluation of the naira, Nigeria's currency, would help improve Nigeria's trade and current account balances, but also cuts the value of stocks owned by foreign investors, like a nasty-tasting dose of needed medicine. Nigerian stocks fell leading up to the last devaluation in 2015-16, and the naira is now expensive again after micromanagement by the central bank and continued inflation, so yet another devaluation may be around the corner. The government that was responsible for such questionable policy choices was just re-elected in February, so hopes for bold policy solutions have faded. Almost one-half of petrol consumption goes to electric generators to cover power failures, and banks are required to park 30% of deposits with the central bank, rather than lending it out for more-productive purposes. Nigerian economic growth and corporate earnings should therefore continue to disappoint investors.

The best bet as a game-changer may be a much higher oil price, which would improve deficits, support the currency, and boost consumption-- but is notoriously hard to predict. In its existing positions, Kyklos benefits from natural hedges because the Nigerian companies in the portfolio would see significantly higher earnings if the currency devalues, supporting their share prices should the market sell off. Sometimes, the payoff for hard work is simply to avoid mistakes.

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Interesting March Reading

- Capital Economics dives a little deeper on their dim long-term EM outlook: <https://research.cdn-1.capitaleconomics.com/574ae6/will-emerging-markets-outperform-in-the-long-run.pdf>
- How Egypt plans to cut government headcount-- slowly: <https://www.economist.com/middle-east-and-africa/2019/03/30/millions-of-retiring-arab-civil-servants-need-not-be-replaced>
- The Frontier markets buy case, updated: <https://internationalbanker.com/brokerage/is-it-worth-investing-in-frontier-markets/>
- You can “close your eyes” and buy EM: <https://www.bloomberg.com/news/articles/2019-03-07/top-stock-fund-manager-bets-emerging-markets-surge-will-continue>

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.

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