

## Kyklos Capital

### OUTLOOK: Some Reasons to Like Georgia, + More on Argentina

*"The right time is any time that one is still so lucky as to have."* Henry James

In May, Kyklos added to a small existing position in Georgia Capital PLC. The company was spun out of Bank of Georgia in 2018, and is an investment company engaged in venture capital in Georgia. Georgia's strong economic development story is based on world-class governance and policy choices. The country ranks in the top 10 worldwide for ease of doing business, with consumption, tourism and exports growing rapidly. Current account and fiscal deficits may appear high at -8% and -3%, respectively, but over one-quarter of government expenditure is for investment, and much of its imports are equipment and energy to support its high expected GDP growth rate of over +5%. Fitch and Standard & Poors have both recently upgraded the government's debt, and Georgia scores well across the board in Kyklos's internal country risk model. Georgia Capital owns large stakes in the Bank of Georgia and Georgia Healthcare, both top-ranked in their sectors and growing, and both listed on the London Stock Exchange. The remaining portfolio consists of leading growth businesses at different stages of maturity, such as the country's top water utility, beverages, renewable energy, and housing firms. Management targets a multiplication of shareholder value by 10 over 10 years. After a recent fall in the share price, Kyklos estimates an upside of some 50% to current prices, which aligns with management's view as shown by its ongoing share buyback program.

### **Update on Argentina**

Argentina's markets showed signs of potential recovery in May, as its currency stabilized for the first time this year, and its stock market rebounded somewhat following its earlier plunge. May's positive performance was driven by the index gurus at MSCI, who announced the specific stocks to be added to their Emerging Markets Index in June, which duly led the rally. Kyklos, which outlined its positive investment case for the country and its positions in its April letter, largely missed out in May, as neither of its positions are on MSCI's list, including one which was sold by some speculators who had expected it to make the cut.

As for Argentina's looming elections, unpredictability reigns. Peronista frontrunner Cristina Kirchner, to universal shock, announced that she will stand for vice president, with hitherto ignored Alberto Fernandez aiming for the top job, which opens an unlimited range of new speculative possible outcomes. Apart from attractive fundamentals and valuations, Kyklos's positions would benefit from a Macri win. As we highlighted in April, polls are extremely unreliable, and we are sticking with our bets.

2nd Floor

Charlie Gushee  
May 31, 2019

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### **Interesting May Reading**

LIBYA: as bad as you thought it was. <https://www.foreignaffairs.com/articles/libya/2019-05-30/libyas-new-civil-war?mod=djem> Frontiers

China is on track to overtake the US in tech: <https://www.economist.com/special-report/2019/05/18/america-still-leads-in-technology-but-china-is-catching-up-fast>

Turns out, hedge funds already sell in May so they can preserve their bonuses: <https://www.linkedin.com/pulse/hedge-funds-seasonality-effort-k-c-hamann/>

The Warren Buffett hedge fund fee structure: -4 and 50. (old but interesting) <http://www.scmessinacapital.com/blog/2015/03/what-was-the-fee-structure-of-warren-buffetts-first-investment-partnership-started-in-1956>

Public infrastructure investment in developing countries hits an all-time low. <https://www.ft.com/content/e5ea7032-719e-11e9-bbfb-5c68069fbd15>

China: cautionary tale of Chinese investing in Nigeria: <https://www.theafricareport.com/12656/in-nigeria-250000-jobs-and-19-firms-hit-by-wempco-exit/?mod=djem> Frontiers

6% growth in Vietnam sounds great- except it used to be 7%: <https://www.voanews.com/a/vietnam-braces-for-hard-landing-amid-world-trade-tensions/4908672.html?mod=djem> Frontiers

EU= The Holy Roman Empire: <https://www.the-american-interest.com/2019/05/07/the-holy-roman-union/>

Study confirms the thematic GDP bull case for big population countries in the very long term—as in 500 years: <https://www.economist.com/finance-and-economics/2019/04/17/where-growth-is-concerned-is-population-destiny>

IMF “sheds a light” on North Korea’s gdp/capita—it’s barely half official of estimates: <https://www.imf.org/en/Publications/WP/Issues/2019/04/09/Illuminating-Economic-Growth-46670>

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