

## Outlook: What Looks Good, Bad or Ugly in Frontier Countries

*“Beauty is bought by judgement of the eye.” William Shakespeare*

As an active bottom-up investor, Kyklos’ primary process focuses on finding well-managed companies with sustainable and highly profitable business models, whose shares we find deeply undervalued versus our estimated future price targets. That said, we also use a proprietary country macro model, scoring Frontier countries for economic and currency risk. A good fisherman knows where they lurk and what they bite, but pays a lot of attention to the weather forecast. With economic data-points changing rapidly due to Covid, we refreshed the model for some new country betting guidance.

**Downgrades** dominate the model’s latest significant country ranking changes, led by Croatia, Kazakhstan, Argentina, Estonia, Botswana, Serbia and Nigeria. Among these, Kyklos already trimmed or sold positions in Argentina, Estonia, Kazakhstan and Nigeria over the 12 months before Covid hit, but has taken significant recent pain nevertheless. In Botswana and Slovenia, we actually added or entered positions before and during Covid, in trades that have outperformed recently. No single one of the model’s six factors drove overall downgrades, showing that many things start to go wrong in a crisis.

**The list of significant upgrades** is shorter, led by Sri Lanka, Pakistan, Vietnam and Kenya. Sri Lanka is a small exposure for us after trimming or exiting positions pre-Covid and again in March (before its stock exchange shut down), and we are only a small beneficiary of its May rally. Kyklos recently switched positions in Pakistan, successfully increasing overall during the recent market bounce before trimming in late May. As highlighted above, Vietnam is our biggest country exposure, while we have none in Kenya, which appears correctly valued to us.

As for fresh positions, this preponderance of recent downgrades encourages us to pick our bets very carefully. That view aligns with our bottom-up screens, which imply that Frontier shares are a bit less tempting overall after the recent fast-and-furious rebound. We remain focused on finding long-term beneficiaries of the current disruptions, at deeply discounted valuations based on our longer-term earnings estimates, and offering improved trading liquidity versus our current positions. Buy ‘em when you find ‘em.

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