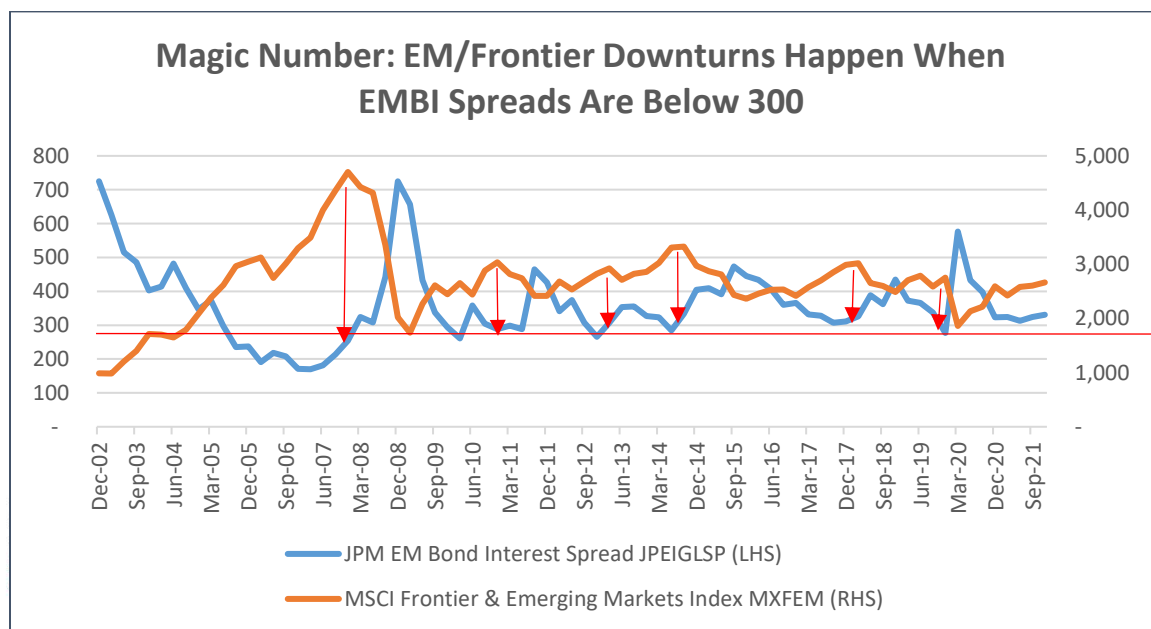


Outlook: Why We Think Interest Rates Won't Crater Our Markets

"Distinguishing the signal from the noise requires both scientific knowledge and self-knowledge." Nate Silver

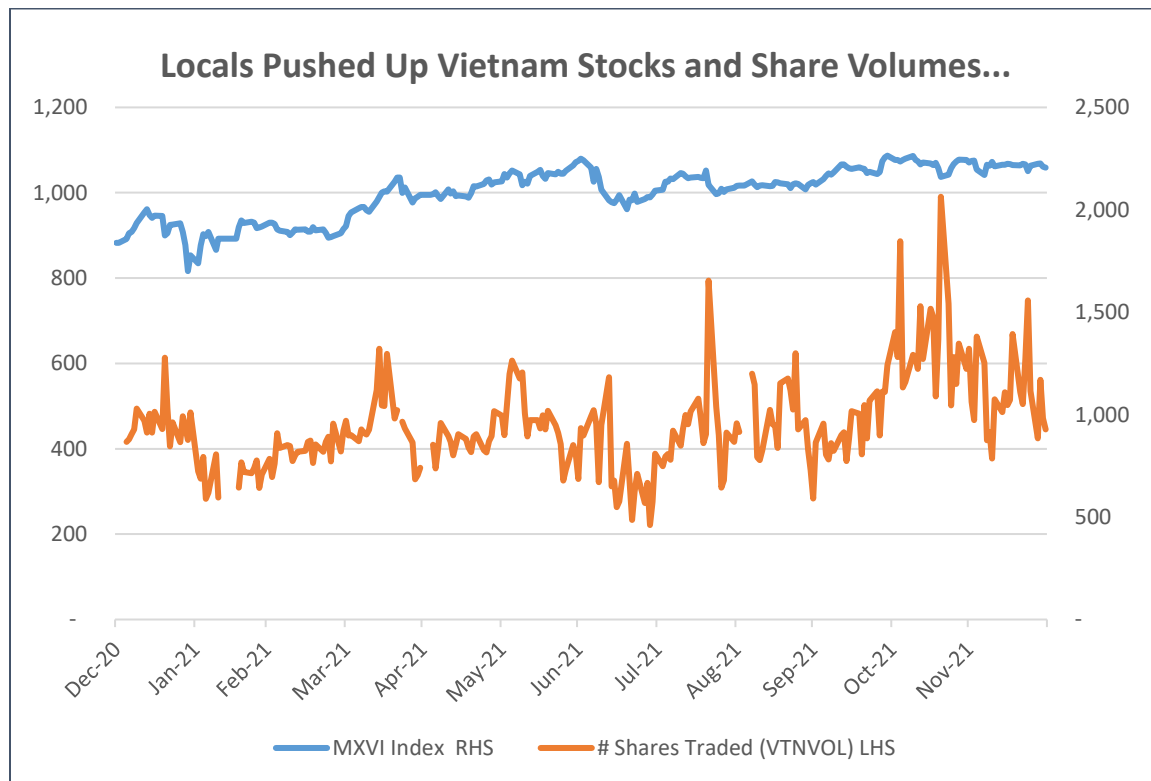
Higher interest rates are usually cited as 2022's biggest macro risk for our markets. As a bottom-up manager, Kyklos targets companies more than macro trends, and most macro commentary is noise to us. For consistency and efficiency, we use specific tools to monitor macro risk, one of which is the interest rate premium required by investors to buy Emerging government bonds instead of US Treasuries, to compensate for Emerging country risks.

Our tool tells us that **our markets are unlikely to fall apart right now.** The chart below shows the interest rate spread between the JPMorgan Emerging Markets Bond Index (EMBI) and US Treasuries, versus the price of the MSCI Frontier & Emerging Markets Index (MXFEM). Almost every major downturn in these stock markets over the past 20 years was preceded by a drop in the Emerging bond interest rate premium to less than 300 basis points (i.e. 3%). That 300 "magic number" reflects points in time when investors were overly-optimistic on the economic prospects of those markets. Right now, investor optimism is moderate, with Emerging bonds paying about 325 basis points (i.e. 3.25%) more than Treasuries. That spread is somewhat lower than the long-term average of about 360, but it means that some investors have already sold positions, and prices already reflect some amount of fear.

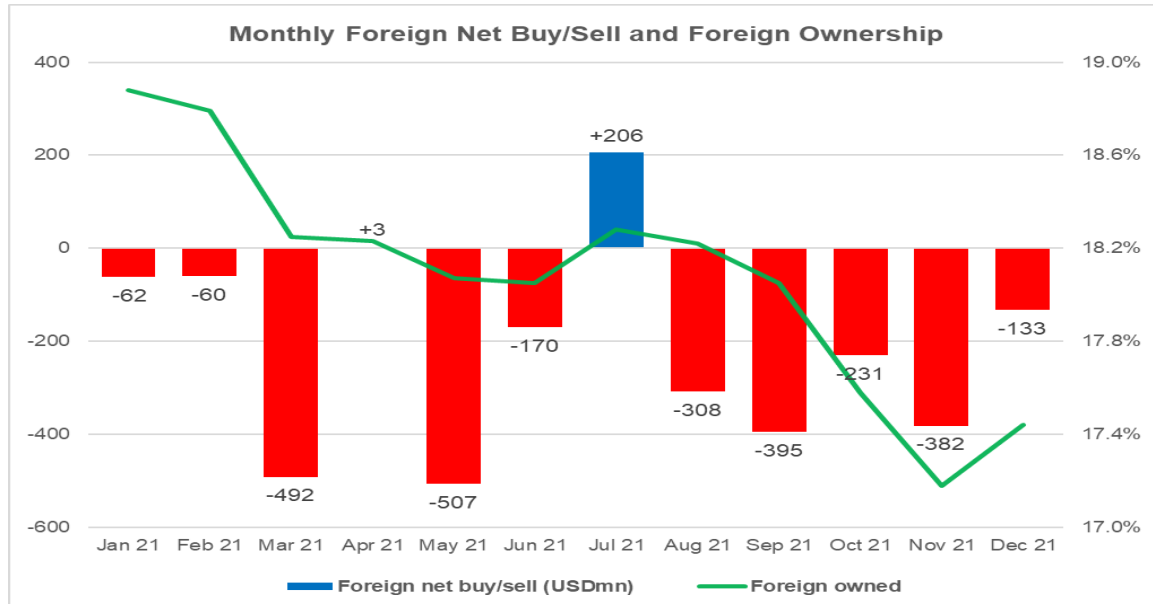


Kyklos Capital

Another reason for our confidence is that **foreign stock ownership in small Emerging and Frontier markets is already low**, because those investors have already sold. Even in market favorites like Vietnam, foreign investors sold as share prices and volumes rose in 2021 thanks to local buyers. We think that the risk of a downturn in our markets caused by foreign selling is lower in 2022 than in recent years.



... While Foreigners Sold and Foreign Ownership in Vietnam Fell in 2021.



Source: HSC Securities

We continue to look for fresh opportunities in 2022. Watching, not waiting.

Charlie Gushee
December 31, 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