

### Outlook: Another Day, Another Microbe.

*"Hindsight bias makes surprises vanish."* Daniel Kahneman

**Kyklos is managing through the latest Omicron panic as we have throughout the Covid period.**

- Omicron, for us, is not a game-changer. Governments will be far faster to react, vaccines will take less time to be produced, and resistance to vaccination will gradually do less damage in the face of this constant science barrage.
- The short-term future operating environment for companies continues to be exceptionally unpredictable, and not just because of Covid. Raw materials costs for all manufacturers have sky-rocketed, such as the price of cotton or oil, both almost +50% in the past twelve months, while costs to ship most products are over +100%. Chasing cheap valuation multiples based on short-term earnings estimates is therefore unlikely to work. We have extended our time horizons for our portfolio bets, with more priority on big price appreciation with more-flexible timing.
- Our portfolio mix includes Covid "beneficiaries" as well as "re-opening" plays, all selected for strong business models and management teams, above-average business returns and margins, low levels of debt, and significant price discounts to our estimate of their value in two to three years. Overall, we have increased our exposure to the decreasing impact of Covid, but our November performance was largely led by our longstanding technology-related positions, in line with the past year.
- During the Covid period, our recipe has been very successful. Our 12-month performance of +45% ranks above most Frontier and small Emerging market funds, and the portfolio is +133% since the March 2020 bottom.
- In November, **we added a new position in Despegar.com**. Largely thanks to its smart acquisitions, the company has the leading online brands for airline tickets and hotel bookings in Brazil, Mexico, and Argentina. Long-term, travel is a growth industry that is rapidly moving online. In the current stop-and-go travel recovery, Despegar is able to maintain a strong cash position thanks to flexibility in its payment terms with suppliers, which significantly reduces risks in the downturn. Its leading brands have allowed management to increase pricing, while it has reduced operating costs meaningfully. Although not yet profitable, its latest quarterly performance neared breakeven, and total bookings recovered in almost all markets, to 72% of 2019 levels. Our purchase cost was less than one-half of its 2017 IPO price, and when (or if) travel just returns to **past levels**, we see the potential for its share price to multiply.

## Kyklos Capital

Speaking of timing, however, the stock has lost about 25% just in the last three days of November thanks to panic selling due to Omicron, which is painfully reflected in Kyklos's performance numbers. A crystal ball, we ain't.

**Red flags from our November macro model**, which scores Frontier and Emerging countries for financial and currency risks, were plentiful. Upgrades included Chile, Czech Republic, Hungary, Kazakhstan and the Philippines. Downgrades included Bulgaria, Zambia, and Peru, which has the most undervalued currency-- a big positive—but suffered a credit rating cut from Moody's. Kyklos's exposures of concern include Nigeria (which we reduced-- see above), Egypt, and Peru.

Charlie Gushee  
November 30, 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