LACUNA | **On Site**

Georgia - Hunting for value at the crossroads of Eastern Europe and Western Asia

"I'd say the necessary condition for the existence of bargains is that perception has to be considerably worse than reality. That means the best opportunities are usually found among the things most others won't do. After all, if everyone feels good about something and is glad to join in, it won't be bargain-priced." – Howard Marks

We recently had the chance to do on the ground due diligence and meet the management of our portfolio holding Georgia Capital in Tbilisi. It was the first field research trip for us since the pandemic hit and after a variety of Zoom/Team/Skype calls to stay in touch with representatives of portfolio companies, it was for sure a good thing to be back on the road.

Georgia Capital, an investment holding that invests in both publicly traded and private businesses in the country of Georgia, might appear as rather atypical investment for healthcare focused investors like us. Our engagement originates from accepting a share exchange deal it offered to take private our original portfolio holding Georgia Healthcare Group in 2019. We accepted the deal to not only stay exposed to our original investment, which we believe is a secular growth story in the context of a continued build-out of the Georgian Healthcare sector, but we wanted to capitalize on the chance of getting exposure to a range of additional quality assets in Georgia's Banking, Insurance, Renewables, Utilities and Private Education industries.

We didn't only get the chance to meet Georgia Capital CEO Irakli Gilauri during our trip, who is in our view an outstanding capital allocator, but we were also offered site visits to a flagship hospital as well as a diagnostic laboratory of Georgia Healthcare Group and a Banking branch of SOLO, a sub-unit of affiliate Bank of Georgia. Exchanging with operating subsidiary level business leaders was insightful and our impression was that there are a couple of motives that run like a red thread through the conglomerate: Execute well, grow profitable and optimize capital efficiency.

We remain confident on the value creation taking place at Georgia Capital, but we also got more convinced of the growth longevity of Georgia's overall economy, which is expected to return to annual real GDP growth rates of 5%+ from FY21 onwards. At current prices, Georgia Capital's stock trades at c. 40% discount to its NAV and at 7x our estimate of FY21 look-through EBIT, which represents an attractive relative valuation in the face of the underlying growth potential. The interplay of still promising growth runways for most of Georgia Capital's portfolio holdings and a likely continuation of strong growth in the underlying economy itself, builds a strong foundation for future NAV growth. Additionally, we think the company provides a comfortable way to gain diversified exposure to a fast-growing and well-run small emerging market economy, which is hardly accessible for investors otherwise.

We see this investment as a growth stock trading at the relative valuation of a value stock. The dislocation might be rooted in transient factors like the stock being underfollowed and more generally due to the unwillingness of the mainstream to look for values beyond the comfort zone or in emerging economies in particular. As common sense suggests, the market pendulum might eventually swing back, especially when the company executes on its value realization plans.

LACUNA | On Site| Georgia

Background

Our interest in Georgia originated with an investment we made in the formerly listed Georgia Healthcare Group (GHG) through our Lacuna Global Health fund in 2019.

When we entered GHG, the stock was trading at just 10x Owner Earnings, which we deemed to be an **attractive valuation for a local industry leader in Hospitals/Polyclinics as well as Pharma Wholesale/Distribution**. Additionally, it was a way to gain exposure to a secular growth story, as the Georgian Healthcare system has still been rather immature with a lot of potential left for rising Healthcare expenditures as Georgians become more health-conscious and as broadly rising disposable income enables to spend more on medical treatment.

We were not the only ones to see a dislocation between GHG's market price and the underlying intrinsic value and **shortly after initiating our position, GHG's former parent company Georgia Capital** (GCAP) **expressed its interest to take GHG private** through a share exchange deal. We were already familiar with GCAP and knew about the strong track record the investment holdings' Management had built in Georgia over a 15+ years timespan.

In our view, **GCAP itself was significantly undervalued back then** and we were able to not only retain our exposure to a secular growth play on the Georgian Healthcare sector but were on top offered to get incremental exposure to a variety of other quality businesses that are local leaders in industries such as Banking, Insurance and Utilities. Hence, **we decided to swap our GHG position into GCAP and continued being exposed to Georgia**, which led us to learn more about the country's economy and all businesses that underpin the holding.

In July 2021, our fellow investors and friends Alpay Ece and Axel Krohne from EM Value AG gave us the opportunity to join a field research trip to Tbilisi, which allowed us to conduct on the ground due diligence and exchange with GCAP's business leaders on future capital allocation objectives and their view on underlying business prospects.

Georgia - A short excurse on an economic success story

Georgia has come a long way from an ex-Soviet Republic to a business-friendly and politically stable country, run by a democratic government that promotes free markets, free trade with foreign trading partners and economic liberty as well as independence.

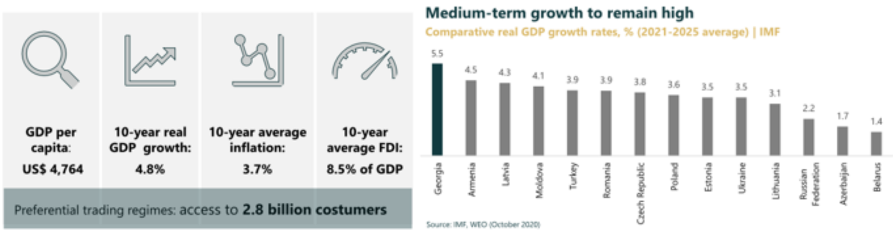
In 2003, the **bloodless *Red Rose* Revolution**, which led the back then President Eduard Shevardnadze to resign, **marks an inflection point in the development of the country**. In January 2004, Mikheil Sakaashvili became president, who started rolling out important economic reforms, initiatives to fight the high level of corruption at the time and adopted principles of pro-NATO as well as pro-West politics in his foreign policy, which has brought the country closer to the Western powers that are seen as allies today. After a couple of years, the **economic and liberalization reforms began to bear fruit** and led to substantial economic growth, increasing foreign direct investments and improvement in living standards of the currently 3,7m Georgians – **GDP/Capita rose from USD 1.010 to USD 4.764** over a 16-year period.

From a struggling former Soviet republic to a small, fast-growing open market economy in only 16 years.

Both the military conflict with Russia in 2008, when the Russians annexed the former Georgian provinces South Ossetia and Abkhazia, and right afterward the impact from the Great Financial Crisis in 2009, which caused a lot of mayhem in the Georgian Banking landscape, interrupted the economic development and produced temporary distress for a 3-year period – GDP of 2008 was only surpassed by 2011, unemployment rate peaked at 27% in 2010 and EBRD poured c. USD 1 billion into the country within the scope of an economic aid program.

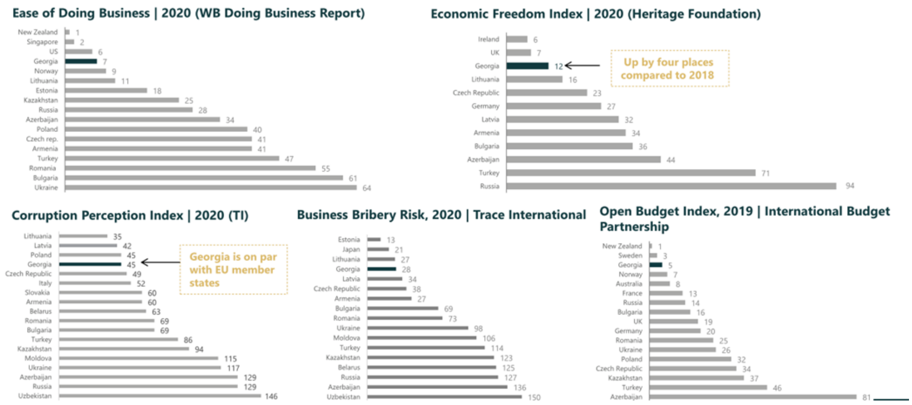
Since 2010/2011, the Georgian economy is back on its economic growth path. Real GDP growth has averaged at 4,8% p.a. over the last 10 years and from 2021 onwards, the **economy is expected to return to real GDP growth rates of 5,5% p.a. throughout 2025**.

Real GDP growth averaged at 4,8% in the 10-year period up to the pandemic. Georgia has experienced the 2nd highest real GDP growth amongst Eastern European and Central Asian peers.



Source: GCAP FY20 Investor Day Presentation.

Despite the high growth rates, **inflation has averaged at a modest level of 3,7% over the past decade.** Compared Eastern European and Central Asian peers, Georgia has experienced the 2nd highest real GDP growth since 2010 (Turkey ranks 1st). We consider the setup for continued meaningful real GDP growth as very attractive compared to the likely dismal growth many developed market economies will experience over the medium-term.



Source: GCAP FY20 Investor Day Presentation.

Corruption and Bribery are on par with EU member states. Business-friendly environment attracts continuously high flows of foreign direct investments.

As investors, we appreciate the progress Georgia has made from being one of the most corrupt places in the early 2000s, to be **on par with EU member states when it comes to corruption and bribery risk**. Being a serious place to do business helped with attracting continued foreign direct investment, which clearly supported the Georgian currency.

Economic Liberty Act (ELA) reform builds the foundation for prudent fiscal and monetary policy.

What needs to be also mentioned is the **Economic Liberty Act** (ELA), which has been implemented in 2014 and represents the **foundation for macro-financial stability**. The ELA caps government expenditures at 30% of GDP, Debt/GDP at 60% and Fiscal Budget deficit to 3% of GDP. So far, the economic reform has served well in terms of promoting prudent fiscal and monetary policy.

Pandemic and its impact on the for Georgia important tourism industry was only a temporary setback. Indicators show that the economy is bouncing back, with an expected real GDP growth of 5,5% p.a. from 2021-2026.

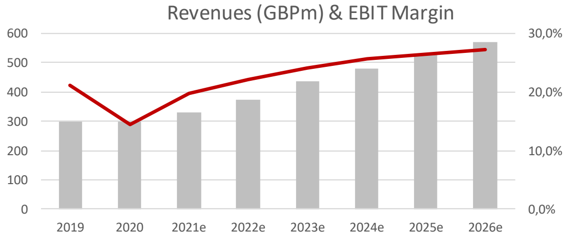
In hindsight, the **reform did also prove helpful regarding mitigation of the economic fallout from the pandemic**, as conservative finances enabled Georgia to have sufficient borrowing capacity (USD 3bn funding facility, c. 17% of GDP) for the roll-out of a meaningful government stimulus program. Especially the **high share of the tourism industry in Georgia's GDP** (c. 19% in 2019) **was a painful element during the pandemic**, as inbound tourism was literally gone from April 2020 to January 2021. Further pressure on the balance of trade was caused by shrinking exports, which although seem to have turned the corner since April 2021 (+3% YoY compared to pre-pandemic level). The stimulus program has pushed government's finances to the boundaries of the ELA with Debt/GDP standing at c. 60%, Government Expenditure/GDP at c. 27% and Fiscal Budget boasting a whopping 9,3% deficit. The government aims to work these issues off and return to the spectrum set out by the ELA over the next 2-3 years.

Recent macro indicators imply that the economy is bouncing back, with Remittances at a record high, Exports returning to positive YoY growth and a pick-up of inbound travel further benefitting the recovery. Additionally, the **Georgian Lari has broken out from its past trend and has appreciated against the USD** since May, moving from USD/GEL 3,46 to USD/GEL 3,14.

Comparing the Georgian monetary and fiscal practices to what we are seeing in most developed market economies, with large fiscal deficits, mad money printing and ludicrous financial asset purchasing programs of Central Banks, we aren't feeling too uncomfortable having a fraction of our portfolio invested in this region.

Georgia Capital

Look-Through Financials (GBPm)	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Growth		1%	11%	13%	17%	10%	10%	8%
Revenue	298	300	332	373	436	479	527	570
EBIT (Incl. Mgmt. P&L)	63	44	65	83	105	123	139	156
EBIT Margin	21,1%	14,5%	19,7%	22,2%	24,1%	25,7%	26,4%	27,3%
NOPAT	53	37	56	70	89	105	118	132
NOPAT Margin	17,9%	12,3%	16,8%	18,9%	20,5%	21,9%	22,4%	23,2%
CEPS in GBP	1,16	0,81	1,21	1,53	1,94	2,28	2,57	2,88



Market Cap in GBP	303,6
Enterprise Value in GBP	473,5
Unlevered P/E 2021	5,5x
EV/EBIT 2021	7,2x
Lacuna Scoring	
Growth	4/5
Economic Moat	5/5
Management	5/5
Valuation	5/5

Source: Company Filings, Lacuna Estimates.

GCAP is a publicly traded investment holding that focuses on equity investments in Georgia. It's one of just three publicly traded businesses from Georgia and in our view a comfortable way to get diversified exposure to the secular growth potential of the Georgian economy.

LSE traded, PE focused investment holding that offers diversified exposure to the growth potential of the Georgian economy.

The **company became standalone publicly listed on the London Exchange in 2018**, when it was spun off from its former parent BGEO Holdings. BGEO Holdings itself comprised Bank of Georgia, the 2nd largest universal bank in the country (now LSE:BGEO), and the investment arm of the bank that had to be separated as it was getting too big.

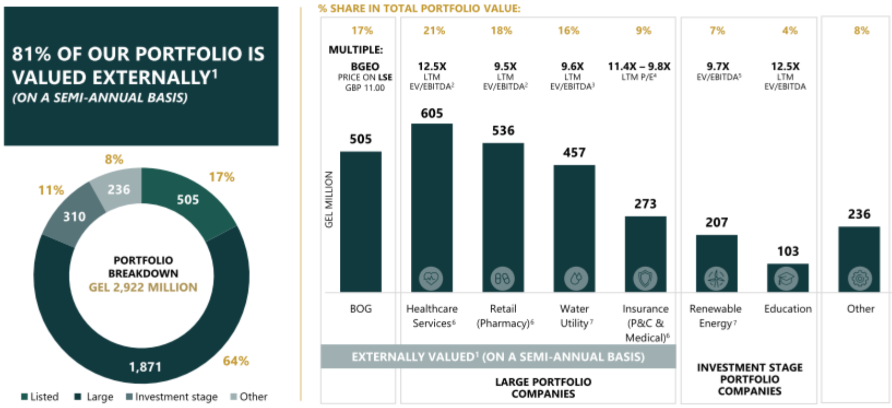
GCAP's **main objective is making PE investments in Georgian business opportunities,** either through acquiring owner-operated private business platforms or through pursuing greenfield initiatives in industries with high growth potential and structural undersupply. Generally, it aims to **form leaders in industries that are intended to benefit from continued growth and diversification of the local economy**.

The company perceives itself of having three responsibilities: 1) Provide strategic advice and management capabilities to portfolio holdings, 2) Corporate governance support and 3) Provide access to cheaper funding for organic and inorganic growth opportunities.

Experience of 15+ years, limited competition from other local institutional investors and a broad local network help the company with sourcing investment opportunities at attractive prices. So far, **GCAP has successfully built local market leaders in areas such as Banking, Healthcare as well as Insurance**.

Plenty of experience, good reputation, a broad local network and strong track record of building industry leaders in Banking, Healthcare and Insurance.

The **subsequent exhibit gives a good indication of portfolio structure**, implied valuation of respective holdings and relative shares in the aggregate investment portfolio value. It is a **positive that 81% of the portfolio is externally valued** through EY, which makes the NAV derivation less arbitrary and thus mitigates potential issues that can arise when looking at holding companies that have a high share of private market investments.



Source: GCAP 1Q21 Investor Presentation.

Bank of Georgia (BOG)

A **market-leading universal bank in Georgia**, which competes in a basically **duopolistic market** with the slightly bigger player TBC Bank. The **two players hold an aggregate market share of 74% in gross loans and 75% in deposits**, while BOG itself controls 35% in gross loans and 39% in deposits.

Quality bank asset with 10-year average ROTE of c. 20% and 10-year CAGR in Book Value of c. 15%. Player #2 in duopolistic market.

TBC and BOG are the only banks that earn money in the local industry. Other players lack scale to compete against BOG and TBC and **the two banks are also leaders in terms of Digital Banking**, which means that another angle for potential disruption from upstart players can be ruled out. BOG is the **only publicly traded holding in GCAP's portfolio** and is valued via mark-to-market (GCAP controls 20,6%).

We think **BOG's current valuation at 5,6x Fwd PE is rather undemanding**, when considering the strong operational track record with 10-year average ROTE at c. 20% as well as 10-year CAGR in Book Value of c. 15%. Recently, the company announced that it has enough leeway in terms of regulatory capital to resume dividend payments, which indicates that **NPLs arising from the pandemic have most likely peaked** and that credit risk is not as worse as market consensus obviously thinks.

The **bank thinks it can keep growing its loan book at 10% p.a. over the medium-term** and continued adoption of Digital Banking within BOG's customer base should be helpful to bring the efficiency ratio towards 35%, which could provide some margin expansion potential.

Georgia Healthcare Group (GHG)

GHG comprises all GCAP affiliates that operate in the Georgian Healthcare sector. **GHG is the only fully integrated Healthcare provider in the region**.

Only fully integrated Healthcare player in Georgia. Market leader in both Hospitals/Polyclinical and Pharma Wholesale/Distribution.

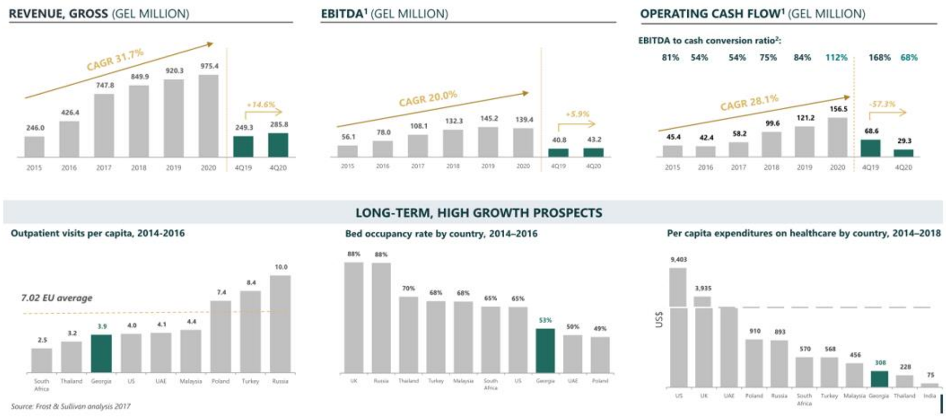
The **business can be divided into two parts**, **Healthcare Services** (29% Revenue, 45% EBITDA) and **Retail/Pharmacy** (71% Revenue, 55% EBITDA).

Healthcare Services comprises a collection of 17 referral hospitals, 19 community clinics, 15 polyclinics and the so called "Megalab", which is the largest multi-profile diagnostics laboratory in the Caucasus region and the only laboratory in Georgia that complies with JCI standards. **Retail/Pharmacy comprises 309 pharmacies** and is **Georgia's largest retailer** in terms of revenue and bills issued. It has a two-pronged go-to-market approach with its GPC brand for the high-end customer segment and Pharmadepot as a brand for the mass retail segment.

In Healthcare Services, **GHG holds a 20% market share** by the number of hospital beds and is **4x the size of the biggest competitor Aversi**. In Retail/Pharmacy the group is also market leading with a c. 30% market share, whereas the industry structure is rather oligopolistic with competitors PSP and Aversi having 28% and 19% market share, respectively.

GHG has shown strong operating performance over the years, with Revenue and EBITDA CAGR of c. 32% and c. 20% since 2015.

Since 2015, GHG had strong operational performance with Revenue and EBITDA CAGR of 32% and 20%, respectively. A variety of indicators show that the Georgian Healthcare sector is still immature and early-stage, providing a good setup for further growth.



Source: GCAP 1Q21 Investor Presentation.

A variety of indicators like bed occupancy rates or per capita healthcare expenditures indicate that the **Georgian Healthcare sector is still rather immature**, even when compared to other Emerging Market countries, and that there is significant room for future growth in healthcare-related expenditures.

Medium-term targets for the Healthcare Services segment imply >10% Revenue CAGR going forward, with **EBITDA and FCF likely growing a bit faster** as positive operating leverage should realize from improving bed utilization (60% -> 75%) and as little incremental CapEx requirements allow for elevated cash conversion rates.

Improving utilization of pre-built capacity and negligible Growth CapEx requirements will lead to accelerated EBITDA and FCF growth, driven by margin expansion and higher cash conversion.

Retail/Pharmacy is expected to continue growing at >10% CAGR, while some anticipated **margin pressure will likely lead to slightly lower earnings growth**.

We appreciate that **GHG emphasizes the need to generate a reasonable ROIC**, which it **aims to increase towards 15%-17%** (1Q21: 13,9%) on the back of improving asset utilization.

Main Entrance Caucasus Medical Center and a surgeon demonstrating an Alcon Wavelight Laser for Eye Surgery.

GHG showed us around in the Caucasus Medical Center, one of the group's largest hospitals, **as well as in the adjacent Megalab**. We were impressed by the quality and standard of the infrastructure, which was not far off from what we are used to from a standard German hospital.

Although coming from a low base, **we see positive optionality embedded in the Megalab**, which might become a high-margin growth engine over the medium- to long-term. The current run-rate of the diagnostic laboratory is 3m tests per year and 8k tests per day, which is said to equal c. 50% capacity utilization. In the coming 2 years, the Lab wants to ramp towards 15k tests per day and simultaneously targets a positive business mix shift with a higher share of B2C testing, which is expected to triple the current topline (FY20: 1,5% of GHG). Beyond that, **Megalab considers entering the diagnostic services markets of Georgia's neighbor countries**, which makes sense as there seems to be a **structural undersupply in terms of quality diagnostic services in the wider Caucasus area** (Megalab won 25% market share in 2 years).

Site visits indicate that quality of infrastructure in flagship hospital and Megalab is close to German standards.

GHG is with its 39% share in GCAP's portfolio the most important asset as of today, but it will in our view **remain a key value creator going forward**.

Water Utility

Regulated monopoly in Georgia's capital Tbilisi. It provides water and wastewater services to c. 36k entities and 1,4m residents. GCAP earns a regulated return in this business, which makes it predictable and stable. It's not a capital-light asset and further growth potential appears limited.

Monopoly operator of a Water Utility in the Georgian capital Tbilisi.

Insurance

Includes both P&C and Medical Insurance. It owns with Aldagi the **leading player in the Georgian P&C Insurance industry** (29% market share by gross premiums).

Aldagi is a quality business with a **best in class combined ratio of 83%** (Industry Avg. c. 90%) and **ROE in the 25%-30% range**. In recent years, it has sacrificed relative market share for profitability, as it didn't want to get involved in the uneconomic underwriting practices of peers.

Georgia's P&C Insurance penetration is crazy low at just 1,3% and Government considers the **introduction of mandatory Car Insurance over the next 2-3 years**, which could tremendously increase Insurance penetration as well as the addressable market and thus mark a **significant growth opportunity for Aldagi**.

Owns market leader in P&C Insurance, which boasts best-in-class operating performance with 83% combined ratio and 25%-30% ROE. P&C Insurance penetration in Georgia is low and the potential introduction of a mandatory car insurance could increase the market size multi-fold.

The **Medical Insurance business is the 2nd largest player** (26% market share by gross premiums) in the underlying industry. It is specialized on Georgian corporate and state entity clients and was originally included in GHG due to its role as a feeder for the Healthcare Services and Pharmacy business.

Renewable Energy

Developer of hydro and wind power plants in Georgia. Comprises three 100%-controlled commissioned renewable assets: 1) Mestiachala hydro power plant with 50MW, 2) Hydrolea 3x hydro power plants with 20MW (includes 19MW greenfield project, commissioned by end of FY22) and 3) Qartli wind farm with 21MW.

In terms of pipeline, the business has a project backlog of up to 172MW over the next 3 years (comprises wind farms in Tbilisi as well as Kaspi and hydro power plants in Zoti as well as Darchi).

Renewable energy is one of the growth-stage businesses in GCAP's portfolio, for which an exit at GEL 500m equity value is seen as realistic. Currently, renewable energy assets are in high demand, with **peers trading at between 11-18x LTM EBITDA**. Considering a **target EBITDA level of GEL 120m in 3-5 years**, a GEL 500m in equity value isn't too ambitious, bearing all projects will be realized.

Renewable Energy and Private Education are GCAP's growth-stage businesses, which it aims to scale towards GEL 500m in equity value over the next 3-5 years.

Education

Private education is another growth-stage business in the portfolio. GCAP plans to take advantage of the **organic growth and consolidation opportunity in the Georgian K-12 private education market**, which has grown by 16% p.a. between 2013 and 2019. **Georgia's private education penetration rate is low** in the international context (10% Enrolment Rate vs. 15% Europe vs. 15% East Asia).

The industry is quite fragmented - GCAP is market leader with 4% market share (2x size of Player #2). Hence there's **significant consolidation opportunity**, especially when you're the **only player that has access to cheap funding** and thus **act as de-facto price setter** (GCAP can buy at less than 6x EV/EBITDA). Since 2019, it has made 3 acquisitions and now addresses all facets of the market from premium to affordable.

Capacity and EBITDA stand currently at 2,8k learners and GEL 10m. **GCAP plans to cross 21k learners and GEL 50m in EBITDA by 2025** (15k learners to be acquired in the affordable segment).

Unit economics in this business are attractive (ROIC 20%+, EBITDA Margins 30%-40%) and the **industry appears as a "Buyers" market**, which allows for capital-light expansion.

Other

Collection of subscale businesses in Real Estate Development, Hospitality/Commercial Real Estate, Alcoholic Beverages (Wine, Beer), Auto Services and Digital Services. Except for Auto Services, growth potential of those businesses appears limited and **GCAP has communicated that it will look to divest most of them in the next 2-3 years**.

Long-tail of the investment portfolio comprises mostly subscale businesses that lack structural growth potential and will predominantly be sold over the next 2-3 years.

Besides the core base of quality assets, **one aspect that we think needs to be stressed is the quality of Management**.

Chairman and CEO Irakli Gilauri ran originally the parent company of GCAP, which he ultimately left to focus on the opportunities of the Spin-Co.

During his 12-year period as CEO of BGEO Holdings and Bank of Georgia, **he built a strong track record**, **compounding book value at c. 14% p.a.** and generating a TSR of c. 13% p.a. for his shareholders. **He takes 100% of his compensation via equity** and **holds a 4,3% stake in the company**, which we appreciate as we think it aligns his incentives with our interests as minority shareholders.

We met Irakli for a long dinner and got his view on GCAP's portfolio companies as well as future capital allocation priorities.

GCAP is run by a long-term focused owner-operator that understand capital allocation and the fundamental laws of shareholder value creation.

We learned that **he thinks like a prototypical owner-operator**, who is permanently focused on shareholder value creation. He thinks for instance very opportunistically about the trade-off between buybacks, dividends and reinvestment for growth and says that the **baseline for every decision is the GCAP share itself** – if repurchasing the stock provides better value to shareholders than other investment alternatives, he will always go for buybacks. **Within the conglomerate, IRR and ROIC are used as key metrics** when the relative attractivity of new investments is assessed and when decisions about reinvestment for growth at the portfolio company level need to be made – Regarding the obsession with ROE/ROIC a recent sale of one of GHG's largest hospital assets that was earning subpar ROIC implies that they do walk the talk.

Despite all his past achievements**, he appeared humble and open to also speak honestly about past mistakes** and the learnings he took away. We think he **combines a lot of important traits that make a good leader and long-term value creator** and we appreciate that he tries to run the collection of assets in a decentralized fashion a la Berkshire Hathaway. In this whole context, **he really sees himself as a capital allocator** and doesn't want to get too much involved in day-to-day operations, which helps him with keeping an unbiased and strategic big picture view.

We are confident that the fundamental value creation going on in the group and upcoming value realization measures that Management aims to take will improve the convergence of market price and underlying intrinsic value over the next 1-2 years.

Upcoming divestment of one large portfolio holding as a trigger to improve convergence of market price and intrinsic value. Potential use of proceeds to pay down HoldCo debt would significantly de-risk the investment from a financial leverage standpoint.

The key objective is to sell one of the large portfolio holdings that qualifies for a trade sale exit in the GEL 500m range by year end 2022. From a ticket size perspective, only exiting parts of GHG or the Water Utility come into consideration, while **we think it is more likely than not that the Water Utility gets sold** due to subpar ROIC and mediocre growth potential. GCAP has no pressure from a liquidity standpoint and thus they can afford to wait for an appropriate offer.

The Management thinks that the market has doubts about the legitimacy of the company's NAV and thus **selling respective asset above NAV would be deemed a best-case scenario**.

We believe there is a **good chance that the proceeds would be used to retire a good junk of the HoldCo Net Debt** of c. GEL 760m, which is going to come due in 2023.

Summary

At the current share price of GBP 6,50, the **stock trades at a 42% discount to the underlying NAV**. While NAV discounts are a standard feature for holding companies in today's market, **we believe the extent of GCAP's discount is overdone and should narrow down based on the strategic roadmap for value realization measures** in the next 18-36 months. On top of that, we believe **GCAP will be able to compound wealth and grow the underlying NAV over time**, which doesn't appear too optimistic in the face of still favourable growth runways for most of its portfolio companies. Additionally, we think there's a chance that **as cash generation in the private company portfolio keeps improving a buyback program would be announced**, which would be a supportive element for the stock price over the short-term.

On a look-through basis, the **stock trades at c. 7x FY21 aggregate EBIT** of the portfolio holdings. In the face of potential 15%-20% annual growth in look-through EBIT, based on what medium-term expectations for the underlying businesses imply, we feel the **risk-reward setup is very asymmetrical and favourably skewed** at the current price. Furthermore, we think GCAP is appealing due to the smooth access it provides to a small, well-run and fast-growing emerging market economy, which is hardly accessible otherwise.

Nothing better than buying quality growth businesses at the relative valuation levels of value stocks.

More than idiosyncratic risks, **we see the geopolitical risk in the form of renewed Russian aggression as a key tail risk**. However, Georgia's proximity to Western forces in the EU and North America would make any sort of military intervention by the Russians much harder than it was back in 2008.

Apart from business-related matters, we have got to know Tbilisi as a vibrant, exciting and beautiful place, which we felt is far more advanced and closer to what we are used to from continental European standards than what plain statistics would imply.