



August 2021 Monthly Comment

as of 1 PM Chicago time August 31

We estimate our [hypothetical investor](#) is up 4% this month, our second best result ever for August, behind 2009. August had been our worst month historically on both a mean and median basis and even now we've still only made money in August six times in 14 years. August is the first in a four-month seasonally unfavorable stretch through the end of November, with September being the only positive month for us on average since inception. August tends to determine how we fare in this stretch. When August was up, we made money collectively in the three months that follow (September through November) five years out of five. But when August was down, we lost money collectively September through November six of eight years. Past results don't guarantee anything of course, but these facts at least feel good.

In Figure 2 on page 7 of our [Q2 letter](#), we label the sale in the last row as "undisclosed." We can now explain this. On June 9, we decided to exit our two positions in Sri Lanka for country macro reasons. (We began 2021 with a 6% country weight, sold one position in March, and had 4% remaining.) We exited Hatton National Bank Non-Voting (HNBVN) shares, the undisclosed position, the next day. Our exit of the final position, LB Finance, occurred July 2 but we did not receive all the USD until August 5. As both exits were for the same reason, we didn't want to discuss either until we had all our money back. We think Sri Lanka is flirting with multiple interrelated crises in its currency, balance of payments, foreign reserves, government deficit, and debt levels—in other words, a classic emerging markets currency crisis. We've seen this movie many times in different countries and the usual warning signs are flashing here. Timing is difficult to predict as Sri Lanka's politicians are adept at kicking the can down the road and will continue to try to do this. In the medium to longer term, however, the math the country faces appears to us inexorable, barring some extreme good

fortune or bailout by a non-economic actor like China. On the present course, after trying all other possibilities, we think Sri Lanka will eventually default on its debt (although it will choose more soothing words like restructuring, reprofiling, or extension). An IMF program could accompany default. Authorities typically deny this up until the day they welcome the IMF's financial assistance. We note today a spokesperson said the government has made no decision on the IMF, a softening compared to prior rhetoric that rejected IMF involvement. The currency has declined in 2021, with losses growing in recent weeks using realizable rates. Our repatriation experience is illustrative. We first observed significant slippage of ~300 basis points between quoted and actual FX rates in January. Until June, there were no delays as we received USD in the US the day after a stock trade settled. On our final June 10 \$2.9 million HNBVN sale, however, our custodian paid us USD in four tranches three to six days after settlement at 205 per dollar, versus a quoted rate of 199. Our custodian paid our final July 2 \$2.2 million LB Finance sale to us in nine tranches from July 22 through August 5 (10-19 days after settlement) at rates of 206-209 while quoted Bloomberg rates remained at fictional levels of 199-200 per central bank diktat. We have no actual rate experience since August 5, but news articles today cite 226-230 for institutional FXs. Local investors are using the stock market as a store of value for their depreciating rupees, driving up local share prices. This benefited us. Altogether this year, we made \$1.0 million in USD (before fund fees) in Sri Lanka, a 16% gain. We were unwilling to gamble, though, that USD gains would last when measured against future actual FX rates. While a short-term boost in reserves from FX swap lines and the \$0.8 billion SDR allocation may help temporarily, the FX window may slam shut at some point, possibly trapping foreign investors in the country for an extended time while their rupee investments depreciate.

# Frontaura Global Frontier Fund

## Fund Objective & Investment Strategy

Bloomberg Tickers: FRGLFRO US, FRGLFRC KY

Investing exclusively in publicly traded companies in frontier markets, provide investors with a net return series that over multiple years exceeds that of the major global developed and emerging equity indices.

We seek to exploit pricing inefficiencies in frontier equity markets. Our investment approach uses both top-down country factors and bottom-up company factors. At the country level, we examine sovereign risk and calculate country scores that measure currency vulnerability. At the company level, we model each company's discounted cash flow using our proprietary valuation tool that accounts for expected exchange rate changes and fading rates of return on invested capital and profit growth as time passes. Ultimately, we aim to own solid businesses at attractive prices in stable or improving countries.

## Performance through August 2021<sup>1, 2</sup>

Period	Frontaura	MSCI Frontier Small Cap	MSCI Frontier	MSCI Emerging	MSCI EAFE	S&P 500
2016 Q1	-1%	-1%	-1%	6%	-3%	1%
2016 Q2	4%	5%	0%	1%	-1%	2%
2016 Q3	2%	4%	3%	9%	6%	4%
2016 Q4	1%	6%	0%	-4%	-1%	4%
2017 Q1	4%	12%	9%	11%	7%	6%
2017 Q2	7%	3%	6%	6%	6%	3%
2017 Q3	3%	3%	8%	8%	5%	4%
2017 Q4	3%	3%	6%	7%	4%	7%
2018 Q1	2%	-1%	5%	1%	-2%	-1%
2018 Q2	-7%	-9%	-15%	-8%	-1%	3%
2018 Q3	-5%	-4%	-2%	-1%	1%	8%
2018 Q4	-3%	-5%	-4%	-7%	-13%	-14%
2019 Q1	2%	-1%	7%	10%	10%	14%
2019 Q2	3%	0%	5%	1%	4%	4%
2019 Q3	-5%	-3%	-1%	-4%	-1%	2%
2019 Q4	-1%	2%	7%	12%	8%	9%
2020 Q1	-22%	-24%	-27%	-24%	-23%	-20%
2020 Q2	6%	12%	15%	18%	15%	21%
2020 Q3	4%	8%	8%	10%	5%	9%
2020 Q4	20%	14%	11%	20%	16%	12%
2021 Q1	2%	5%	1%	2%	3%	6%
2021 Q2	20%	14%	14%	5%	5%	9%
2021 Q3	5%	5%	3%	-6%	3%	6%
2008	-28%		-54%	-53%	-43%	-37%
2009	46%		12%	79%	32%	26%
2010	37%		24%	19%	8%	15%
2011	-15%	-29%	-19%	-18%	-12%	2%
2012	18%	6%	9%	18%	17%	16%
2013	26%	32%	26%	-3%	23%	32%
2014	-3%	6%	7%	-2%	-5%	14%
2015	-5%	-8%	-14%	-15%	-1%	1%
2016	7%	15%	3%	11%	1%	12%
2017	17%	23%	32%	37%	25%	22%
2018	-13%	-17%	-16%	-15%	-14%	-4%
2019	-1%	-2%	18%	18%	22%	31%
2020	3%	5%	1%	18%	8%	18%
2021	28%	26%	18%	1%	12%	22%
LTM	57%	46%	32%	19%	26%	31%
ITD	142%		7%	33%	45%	290%

## Holdings Summary<sup>2</sup>

Country	Holding	Region	Holding
		Sub-Saharan Africa	34%
		Southeast Asia	25%
Philippines	15%	Middle East / North Africa	15%
Kazakhstan	11%	Eurasia	13%
Vietnam	7%	Latin America & Caribbean	6%
Ghana	7%	South Asia	5%
Egypt	6%	USA (cash & accruals)	2%
Rwanda	6%		
Côte d'Ivoire	5%	<b>Sector</b>	<b>Holding</b>
Senegal	5%	Financials	41%
Turkey	5%	Consumer Staples	23%
Nigeria	4%	Communication Services	11%
United Arab Emirates	4%	Consumer Discretionary	7%
Colombia	3%	Real Estate	5%
Papua New Guinea	3%	Industrials	4%
Pakistan	3%	Energy	3%
Botswana	2%	Cash & accruals (all countries)	3%
Bangladesh	2%	Health Care	2%
Chile	2%		
USA (cash & accruals)	2%	<b>Portfolio Statistics</b>	
Georgia	2%	Portfolio Price to LTM Earnings	7.8
Uganda	1%	Portfolio Price to Book	1.31
Niger	1%	Portfolio LTM Dividend Yield	4.7%
Ecuador	1%	Portfolio Turnover (12 Months)	21%
Kenya	1%	Portfolio Turnover (ITD)	29%
Tanzania	1%	Standard Deviation (36 Months)	17%
		Standard Deviation (ITD)	14%
		Beta to S&P 500 (36 Months)	0.52
		Beta to S&P 500 (ITD)	0.50
		Assets Under Management	\$141m

## Terms

Subscriptions	Monthly. New investor minimum \$250,000. Additional subscriptions may be any amount.
Redemptions	Quarterly with three-month notice. No initial lock-up. Exit restrictions apply. <sup>2</sup>
New Investor Terms <sup>2</sup>	<p><b>Series A:</b> 2% mgt fee, 10% incentive, 4-qtr exit. <b>Series B:</b> 2% mgt fee, 0% incentive, 8-qtr exit.</p> <p><b>Relative Performance Series:</b> 1.75% mgt fee, 20% incentive vs. FM ETF hurdle, 8-qtr exit.</p> <p><b>Absolute Performance Series:</b> 1.50% mgt fee or 30% incentive vs. 5% hurdle, 8-qtr exit.</p> <p>For all series above, mgt fee cut 25bp at \$200m real fee-paying AUM and another 25bp at \$400m.</p>

## Service Providers

Attorney	Faegre Drinker Biddle & Reath LLP
Auditor	RSM US LLP
Fund Administrator	Michael J. Liccar & Co.
Global Custodian	Bank of New York Mellon

<sup>1</sup> Frontaura returns are net of all fees for a hypothetical investor joining the fund at inception, making no further contributions, making no withdrawals, and converting to Series B in 2021 Q2. Investors joining on other dates, making additional contributions, making withdrawals, or not converting to Series B in 2021 Q2 may have different results. Our auditor has audited results through 2020. Frontaura returns use a subject-to-change estimate for the current month, as of intraday Tuesday 31 August 2021. Index returns are total returns, net of any withholding tax for a US investor, through 30 August 2021. Final investor and index returns for all periods that include the current month may differ from the numbers on this page. We discuss our returns and different series [here](#).

<sup>2</sup> Click [here](#) for disclosures regarding performance, terms, series conversions, redemptions, index descriptions, holdings and portfolio statistics calculations, and performance attribution.

## Disclaimer

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