



September 2022 Monthly Comment

as of 9 AM Chicago time Friday September 30

With markets still open, we estimate we are presently -7% [net of fees](#) this month. Around one-third of this loss is due to currency. A strong US dollar is more than an emerging market (EM) or frontier market (FM) phenomenon. The most traded currencies—the euro, Japanese yen, and British pound have all performed *worse* than our average currency this year. In yen or pound terms, our YTD performance is flat to positive, versus -18% in USD. A strong dollar may continue hurting performance and it may cause collateral damage in markets (e.g., British bonds this week) or vulnerable countries, such as the ones we sold these past 15 months. There is, however, a silver lining: developed world currencies mean revert over time. GMO estimates the dollar was 17% overvalued *before* September. We agree with their view that an expensive dollar should provide a future performance boost for non-US assets.

September results were dismal for the indices we track. Total returns through September 29 were -9% for FM and FM small cap, -12% for EM, -10% for EAFE, and -8% for the S&P 500. YTD, these indices are down 22% to 27%.

A month's losses are bad when from memory you can recite all other months with similar or worse losses. For us they are September-November 2008 (-7.90%, -17.46%, and -10.72%, respectively), May 2018 (-6.75%), March 2020 (-19.35%), and June 2022 (-7.07%). We studied performance after these drops (excluding the June 2022 drop as it is too recent to measure its subsequent record). One year later, we rose 24% on average, with the worst outcome being -5% and the best being +48%. Two years later, we rose 50% on average, with the worst being -27% (due to the COVID selloff that was a new event unrelated to the initial May 2018 drop) and the best being +96%. Further declines after the initial drop are normal, but the ultimate low typically

was not far away (within five months four times out of five). This further decline to the bottom averaged 14%, but within six months of the initial drop, we recovered to be only 1% below the initial drop level, on average.

Continued earnings growth (+34% in USD in Q2, with 96% of results in) and lower prices have improved our portfolio PE, price/book, and weighted average dividend to 5.3, 0.97, and 6.8%, respectively. Our Value Score (VS), equal weighting these three metrics, is now our 6th best ever at 97 (100 = cheapest ever), while our Quality Value Score (QVS) that adds ROE as a fourth metric is 98, our 4th best ever. The only months with a better VS or QVS were in early 2009 around the GFC low or after the COVID selloff, both times where strong gains followed. Regressions of QVS (or VS) and future 12- and 24-month performance have strong statistical significance. Our latest QVS regression shows gains of 25% and 49% over the next one and two years, respectively. Although coincidence, these numbers nearly match and seem to support our past one- and two-year gains after large drops like September.

To conclude, two signals exist that in the past preceded future strong gains: low valuations and a large monthly selloff. Yet, investors may feel it is early because the US and the developed world still face significant interest rate hikes and recession. What is a rational investor to do? Investing now makes sense, but the record shows losses are likely before the gains kick in. We propose this to investors who think it early and who may want to consider our pronounced positive seasonality that begins in December. A \$5 million investor might invest \$1 million in four consecutive months December 2022 through March 2023 and hold \$1 million back in case of a longer drawdown tail. It probably won't feel comfortable investing (it never tends to around market bottoms), but past situations like the present are where our greatest gains occurred.

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 September 2022^{1, 2}

Period	Frontaura	MSCI Frontier Small Cap	MSCI Frontier	MSCI Emerging	MSCI EAFE	S&P 500
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	4%	8%	3%	-8%	0%	1%
2021 Q4	5%	10%	1%	-1%	3%	11%
2022 Q1	-5%	0%	-8%	-7%	-6%	-5%
2022 Q2	-6%	-16%	-14%	-11%	-15%	-16%
2022 Q3	-7%	-7%	-6%	-12%	-10%	-3%
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	34%	42%	20%	-3%	11%	29%
2022	-18%	-22%	-26%	-27%	-27%	-23%
LTM	-13%	-14%	-25%	-28%	-25%	-14%
after 2020 Q8	36%	28%	0%	-17%	-9%	7%
after 2020 Q3	46%	52%	23%	10%	13%	46%
ITD	110%		-19%	-7%	5%	218%

Holdings Summary²

Country	Holding	Region	Holding
Philippines	16%	Sub-Saharan Africa	35%
		Southeast Asia	31%
Vietnam	10%	Latin America & Caribbean	12%
		Middle East / North Africa	9%
Rwanda	8%	USA (cash & accruals)	8%
Côte d'Ivoire	8%	South Asia	5%
		USA (cash & accruals)	8%
Cambodia	6%	Sector	Holding
United Arab Emirates	6%	Financials	35%
		Consumer Staples	24%
Senegal	5%	Cash & accruals (all countries)	11%
		Consumer Discretionary	9%
Peru	5%	Real Estate	6%
		Industrials	6%
Namibia	4%	Communication Services	5%
		Health Care	2%
Nigeria	3%	Energy	2%
		Colombia	3%
Chile	3%	Portfolio Statistics	
		Portfolio Price to LTM Earnings	5.3
Tanzania	3%	Portfolio Price to Book	0.97
		Portfolio LTM Dividend Yield	6.8%
Pakistan	3%	Weighted Average ROEE	24.1%
		Weighted Median ROEE	21.6%
Bangladesh	2%	Positions	31
		Countries	21
Bahrain	2%	Weighted Average Market Cap	\$1,413m
		Weighted Median Market Cap	\$601m
Uganda	2%	Portfolio Turnover (12 Months)	48%
		Portfolio Turnover (ITD)	30%
Niger	1%	Standard Deviation (36 Months)	18%
		Standard Deviation (ITD)	14%
Egypt	1%	Beta to S&P 500 (36 Months)	0.56
		Beta to S&P 500 (ITD)	0.48
Others	1%	Assets Under Management	\$112m

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. ²
New Investor Terms ²	<p>Series A: 2% mgt fee, 10% incentive, 4-qr exit. Series B: 2% mgt fee, 0% incentive, 8-qr exit.</p> <p>Relative Performance Series: 1.75% mgt fee, 20% incentive vs. FM ETF hurdle, 8-qr exit.</p> <p>Absolute Performance Series: 1.50% mgt fee or 30% incentive vs. 5% hurdle, 8-qr exit.</p> <p>For all series above, mgt fee cut 25bp at \$217m fee-paying AUM and another 25bp at \$434m.</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

1 Frontaura returns are net of all fees for a reference 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 2021. Frontaura returns use a subject-to-change estimate for the current month, as of intraday Friday 30 September 2022. Index returns are total returns, net of any withholding tax for a US investor, through 29 September 2022. 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](#).

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

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