Quarterly Letter – 2013 Q2

In this letter, we'll review the 11 positions we've sold over the past year to provide some color on our selling process. Before that discussion, let's start this letter with our typical review and outlook, and then we'll conclude the letter with fund news, the most significant item being that we have closed to existing investors as we announced in our May comment. In the last section, we discuss our waitlist and the possibility of returning cash to investors.

Q2 review and Q3 outlook

We gained 5.45% in Q2 and are now up 16.49% for 2013. As Figure 2 in the Appendix shows, our results top all of the global indices we commonly cite. We show our monthly performance history in Figure 3.

A June pause or the start of something new? The S&P 500 had a dramatic intraday reversal on May 22, hitting its all-time intraday high of 1687.18, then closing down sharply after Fed Chairman Ben Bernanke spoke about tapering QEternity. On June 19, Bernanke spoke again, talking further about tapering. By June 24, 10-year US treasury bonds yields hit 2.66%, an incredible rise from 1.61% on May 1. Is this truly the end of a three-decade bond bull market, as PIMCO's Bill Gross says? If so, what does this mean for global stocks and Frontaura? Is the increase in equity market volatility that began mid-May signaling a volatile second half of 2013 or was June's selloff just a pause that refreshes?

We don't have a strong viewpoint on this, as it doesn't really affect how we invest. We welcome opportunities to add to current positions at lower levels, but the June selloff wasn't severe enough to increase our buying materially. In terms of selling, we did exit one position during the quarter due to overvaluation, and we sold about half of another overvalued position before the price dropped below our sell point. At times, we had four other valuation-based sell orders in place, none of which were hit (our sell point was above market). If the pre-June rally were to resume, it's possible that prices would recover and we would exit some of these stocks. On the other hand, if the June swoon resumes and stocks hit our buy points, then we'll be judicious purchasers with a long-term investment horizon.

EM vs. FM vs. Frontaura. Looking at indices, what stands out so far this year is the divergence of the MSCI Frontier Market (FM) Index from the MSCI Emerging Markets (EM) Index, given how poorly the latter has fared. MSCI FM is +11% YTD, while MSCI EM is -10%. That the two have diverged is nothing new, but this 21-percentage-point gap is the most that FM has beaten EM for a six-month period in Frontaura's history (next best was the 16 percentage points FM beat EM for the six months ending April 2008 as FM had yet to begin its global financial crisis selloff). While these kind of statistics are interesting, we wouldn't make too much of them. After all, EM beat FM by a staggering 51 percentage points for the six months ending May 2009, as EM rebounded more quickly from its financial crisis low. Since our inception, EM still has a 16-percentage point lead over FM, so one could argue that FM is still catching up. On the other hand, as the episodes above demonstrate, EM leads FM at turning points. Or, said another way, trends in FM tend to lag global markets. It could be that the 6% FM drop in June is FM finally responding to EM wobbles evident beginning in January. But even this is not clear, as EM's wobbles seem more specific to EM this time. For example, total returns for both the S&P 500 and FM were impressively positive for seven consecutive months before June.

Looking at MSCI valuation data on Bloomberg as of the end of June, we see that EM and FM PEs and price/book ratios are similar, while FM has the more compelling dividend yield. Frontaura's valuation ratios are superior to both indices, however. With regard to PE, FM has a trailing *operating* PE of 11.9, while EM's is 11.8. Add roughly one point to each of these multiples to compare them to our trailing *reported* PE of 6.3. Both FM and EM have a 1.5 price/book ratio, while Frontaura is at 1.1. FM's dividend yield of 4.2% is higher than EM's 2.9%, but lower than Frontaura's 5.1%. Finally, on return on equity, FM slightly edges EM, 12.9% to 12.6%, but Frontaura is much higher, at 21.5%. We should note that we calculate our ROEs using ending equity, not average equity, which biases our calculation negatively. We show Frontaura's portfolio statistics in Figure 4 in the Appendix, along with our country mix.

Country attribution. Turning to countries, we made money in 15 countries in Q2, lost money in 13, and were flat in one. Five countries were million-dollar winners for us, with no million-dollar losers. On the winning side were Tanzania, up $4.4 million, a percentage gain of 42%; Vietnam, up $1.7 million, or 8%; Pakistan, up $1.6 million, or 30%; Iraq, up $1.6 million, or 18%; and Nigeria, up $1.1 million, or 7%. For perspective, Frontaura's assets under management were $139 million on April 1 and $150 million on June 30. We also gained nearly $1.0 million in Senegal, up 27%. We made $6.6 million in Africa, all in Sub-Saharan Africa, for a gain of 13% in that region. Sub-Saharan Africa comprised 36% of the portfolio at quarter end. The best performing region in percentage terms was South Asia, up 22%, propelled by Pakistan. Our biggest losing countries in dollar terms were Serbia, down $0.6 million, or 11%; Botswana, down $0.6 million, or 12%; and the United Arab Emirates, down $0.4 million, or 8%. The other country losers were all down $0.2 million or less on a rounded basis. Our worst region was Eastern Europe, down $0.6 million, or 5%. Figure 5a in the Appendix shows our top and bottom performing countries by dollars, while Figure 5b shows the same information by percentages. Figures 6 and 7 show portfolio mix and concentration changes during the quarter.

Index changes don't affect Frontaura. In June, MSCI announced a number of changes to its emerging and frontier indices. None of these changes affects our universe. Since our inception, we have defined our universe as any country that is less than 0.1% of the MSCI All-Country World Index (ACWI). The MSCI ACWI consists of all countries MSCI classifies as developed or emerging, but not any countries they classify as frontier. So our universe consists of 1) countries MSCI does not classify as developed or emerging and 2) countries MSCI does classify as developed or emerging, but which have a very small weight in the ACWI. Further, once a country is in our universe, we don't kick it out until its weight reaches 0.2% of the MSCI ACWI, and even then, we don't have a forced sell rule. We won't buy more of an existing position if the country is no longer in our universe, but we can keep the existing shares of the position if we think the investment is sound.

Here we discuss the relevant MSCI index changes, and the effect on Frontaura:

- MSCI demotes Morocco from an emerging market to a frontier market, effective November 2013. Morocco has always been in our universe due to it being less than 0.1% of the MSCI ACWI. We have never invested in Morocco due to high valuations there, although valuations are less high than when we started Frontaura.

- MSCI demotes Greece from a developed market to an emerging market, effective November 2013. Even though it was a developed market, Greece fell into our universe last year as its declining market capitalization made it less than 0.1% of the MSCI ACWI. Portugal also entered our universe for the same reason. We have researched companies in Greece and Portugal, but we have not invested in either. Generally, we find stocks in these countries, even in their diminished state, valued above where we want to buy them, considering the issues at hand. Nevertheless, we did seriously consider a couple of Greek stocks last year. These stocks have performed well since we passed on them, so we are less likely to invest now, absent a material selloff.
- MSCI promoted Qatar and the United Arab Emirates (UAE) from frontier markets to emerging markets, effective May 2014. We estimate each country is likely to have less than a 0.1% weight when they enter the MSCI ACWI, so we expect each to remain in our universe. We have invested heavily in these two countries in the past. Qatar was our largest country holding for 34 of our 68 months of history, although today it is only 2% of the fund. The UAE is 3% of our fund today; it peaked in March 2010 with a 13% portfolio weight.
- MSCI is monitoring developments in Egypt, and, if the situation worsens, may launch a public consultation on whether they should demote Egypt from an emerging market to a frontier market. Were it to occur, a future demotion of Egypt would not affect Frontaura, as—like Morocco—Egypt has been in our universe since our inception due to it being less than 0.1% of the MSCI ACWI. We have not owned anything in Egypt since May 2011, but it was 11% of our portfolio in October 2008.

Why We Sell

In recent years, we've been reticent to write about positions we own, given our fund's growing size and the illiquidity inherent in our markets. Our stocks can be hard to buy and revealing our secrets to others could hurt Frontaura's returns. In this section, though, we list the 11 positions we've completely exited over the past year, to provide some of the color on our holdings that's been missing, and to discuss our investment and selling process.

We assign one of seven reasons each time we exit a position. Over our entire history, the most common reason we sell is (over)valuation, followed by (declining) fundamentals. These two factors can be hard to disentangle. For example, if a company's prospects wane, or if we need to correct our initial overestimation of its prospects, its intrinsic value can decline, and it can become overvalued without its stock price increasing. We use the valuation reason when the source of overvaluation is more stock-price driven and we use the fundamentals reason when the source of overvaluation is due more to a declining intrinsic value.

Of the 11 exits in the past year, four resulted from valuation and three from fundamentals. Two others were because of size: the position was too small to move the needle on fund performance, so we sold it. This can happen when we cannot buy enough stock due to illiquidity (one case of the two size-related exits) or when the position size shrinks with time as our fund size grows (the other case of the two). In the latter situation, we aren't buying more of the stock as the fund grows because the price is out of our buy zone, because either the price went up or intrinsic value declined. Finally, there was one case each of an exit due to acquisition, and an exit due to (poor corporate) governance. Two other exit reasons did not occur over the past year. One is country, meaning either that we decide deliberately to reduce country weight in the portfolio by selling a stock, or that a macro shock occurs at the country level (e.g. Arab Spring in Egypt) materially impairing company intrinsic values such that we no longer wanted to own certain stocks (even with a likely plummeting stock price). The other exit reason is trade, meaning that we bought a stock opportunistically. Examples of trade exits include an arbitrage mispricing between local shares and a global depository receipt, or participating in an IPO with strong demand where we do not intend to hold the shares for long. While we did have some favorable arbitrage trades in the past year, they did not involve complete position exits, so we do not discuss the positions here.

Figure 1
Frontaura Global Frontier Fund LLC
Position Exits July 2012 – June 2013
30 June 2013

Company	Country	Description	Exit Reason	First Buy	Last Sell	Cost ($000K)	Profit ($000K)	IRR	Price / IV First Buy	Price / IV Last Sell	PE Buy Date	PE Sell Date
Jordan Duty Free	Jordan	duty free shops	size	08-Dec-10	26-Aug-12	285	(2)	-0.4%	-21%	61%	7.6	9.4
Vinamilk	Vietnam	dairy	valuation	14-Feb-11	16-Oct-12	344	377	60.0%	50%	77%	8.7	15.3
Andreou & Paraskevaides	Cyprus	Pepsi bottler	size	04-Nov-10	14-Nov-12	305	69	13.2%	-6%	13%	7.8	6.9
Corporate Commercial Bank	Bulgaria	bank	fundamentals	16-Nov-10	27-Nov-12	1,484	169	5.6%	-2%	23%	4.7	10.5
Proteccion	Columbia	pension fund manager	fundamentals	05-Dec-09	27-Nov-12	871	119	4.7%	1%	37%	10.0	14.5
Qatar Fuel	Qatar	gas stations & jet fuel	valuation	01-Nov-07	04-Dec-12	446	1,008	29.7%	-50%	41%	8.2	12.4
Qatar Insurance	Qatar	property & casualty insurance	fundamentals	01-Nov-07	24-Jan-13	2,468	856	13.4%	-16%	63%	14.1	10.3
Fan Milk	Ghana	ice cream	valuation	08-Dec-09	11-Feb-13	598	1,539	56.7%	-18%	75%	7.0	20.6
Dinh Vu Port	Vietnam	port operator	valuation	18-Mar-11	09-Apr-13	1,791	1,301	36.9%	-6%	95%	6.6	7.4
Indochina Capital Vietnam	Vietnam	closed-end fund	acquisition	28-Aug-08	17-May-13	1,211	550	76.6%	-32%	0%	NA	NA
Econet Wireless	Zimbabwe	mobile phone network	governance	01-Feb-12	22-Apr-13	2,427	1,018	42.6%	-35%	10%	4.2	6.1

Figure 1 shows each exit in order of date of last sale. In text further below we comment on each position. Let us explain the columns in Figure 1. The leftmost columns show the company name, country, company description, reason for selling, the date of our first buy, and the date of our last sell. Realize that buys subsequent to the first date we show could continue for months or years; likewise, sells could precede the last date we show for months or years. We list the cost of each position and the profit of each position, both in thousands of US dollars. The cost is the sum of all buys including commissions, fees, and foreign exchange costs (FX); while the profit is the total sale and dividend proceeds, net of all commissions, fees, FX, and tax withholding, minus the total cost to buy. Some of the cost and profit dollar figures look modest, but realize that most of these positions date from 2007-2010 when our fund size ranged from $2 million to $45 million, a fraction of our current size. We show the annualized internal rate of return (IRR) on all USD cash inflows and outflows (buys, sells, and dividends) for each position. Note that the cost, profit, and IRR figures are before any Frontaura management or performance fees, as these fees are levied on the fund in its entirely and are not specific to any position. The next two columns show the discount or premium the stock price traded at relative to our estimate of intrinsic value on the first buy or the last sell date (a negative percentage indicates a discount to intrinsic value, a positive percentage indicates a premium). We should explain that we calculate our intrinsic value estimates such that we are comfortable buying up to intrinsic value. When you read portfolio managers saying in the press that they only buy stocks at a 50% or more discount to intrinsic value and that they sell as the stock approaches intrinsic value, you can be reasonably certain that these managers are more aggressive than we are in modeling assumptions or discount rate. The final two columns show the trailing reported PE using the closing price on the day of first purchase and last sale (not our actual transaction price).

What We Sold

Jordan Duty Free. We never were able to buy much of this illiquid stock and its fundamentals deteriorated some after the Arab Spring. The position was only 28 basis points of the portfolio when we began selling.

Vinamilk (Vietnam). We adhere rigidly to our processes nearly all of the time, but occasionally we come across a no-brainer investment idea where we will make an exception. Vinamilk is the leading dairy in Vietnam, and a highly sought after stock that is usually impossible for us to buy, due to it being at its 49% foreign ownership limit. In the second half of 2010 and throughout 2011, market sentiment on Vietnam was negative—unreasonably so, in our opinion—and we snapped up this blue-chip stock when foreigners were selling for less than 9 times trailing earnings. We label Vinamilk an exception to our process because we bought it despite its stock price being high relative to our intrinsic value estimate. Its margins had risen sharply for several years, and our mean-reversion modeling approach assumed margins would decline back to their long-term average, depressing its intrinsic value. Our gut instinct was that this might not happen right away. Further, we applied a different kind of reversion-to-the-mean reasoning. We assumed that this former darling stock was only temporarily out of favor, due to macro sentiment which was poor, and not due to its own fundamental performance, which had remained good. Inevitably, we thought, a new generation of Vietnam investors would discover Vinamilk and fall in love with it all over again, allowing it to trade at a higher PE multiple. That is exactly what happened. The only flaw was that the window to buy closed quickly, when the stock hit the foreign ownership limit again. Thus, we didn’t get a big position. Still, we doubled our money in 20 months. We sold at a 15 PE and a 77% premium to our intrinsic value estimate. The stock has continued rising after our sale as the company’s margins have yet to revert to the mean. We should reiterate there are few situations where we would override our process and buy a stock in excess of our estimate of intrinsic value. The risk/reward has to be overwhelmingly favorable; with Vinamilk it was.

Andreou & Paraskevaides (Cyprus). In isolation, we look rather clever to have made a 13% IRR on this Cyprus investment in 2010-2012, considering the Cyprus General Market Index dropped 93% from the end of 2009 to the end of 2012 (it’s down further since then). But, as we have written before (most recently in our March 2013 monthly comment[1]; see also our confession on page 7 of our 2011 Q4 quarterly letter[2]), we had two positions in Cyprus, and the other, while thankfully not a bank, has performed rather less well. For now, we’ll stick to the more positive story. We never established a significant position in Andreou & Paraskevaides because it is illiquid and it often traded beyond our estimate of

[1] http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2013_03.pdf
[2] http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2011Q4.pdf

intrinsic value. At only a 34-basis-point size in the second half of 2012, and with storm clouds darkening over Cyprus, we sold it.

Corporate Commercial Bank (Bulgaria). Due to its conservative lending practices, Corporate Commercial Bank came through the financial crisis well, growing EPS 62% in 2008, and 58% in 2009. It was progressing toward a further 17% EPS growth in 2010 when we bought the shares. At year-end 2010, non-performing loans (NPLs) were less than 1% and were more than 100% provisioned. Despite these impressive numbers, the stock traded for less than 5 times earnings, around 1.2 times book, and had a 8.3% yield. It would be fair to say that sentiment in Bulgarian stocks remained depressed in late 2010. The Bulgarian Stock Exchange Sofix Index ended 2010 80% below its 2007 close. Corporate Commercial's margins had risen rapidly in recent years, so our standard modeling approach assuming they would decline back to their mean and thus we projected declining profit. As a result, the stock traded near our estimate of intrinsic value despite its low PE. We got the direction right on profits declining; unfortunately, we underestimated the magnitude. EPS fell 20% in 2011 and was down 32% year-over-year through nine months 2012 when we exited the position. The delayed effect of the financial crisis hit the bank harder than we expected. The bank's decision not to pay a dividend in the spring of 2011 on 2010 profit was an early warning sign. We held on, and the signs didn't improve. Fortunately, we bought the stock low enough that we actually made a small profit on this holding, despite fundamentals steadily declining during our two-year holding period.

Proteccion (Colombia). Throughout our history, Columbia has been a country we liked, with a great macro story. Its stocks, however, were a different matter—valuations fully reflected its bright outlook. Then we found Proteccion, a company that seemed to have as good a story as did the country it was in. Proteccion is one of the leading pension fund managers in Colombia, which like many Latin American countries has privatized its social security system. Colombia was about two decades behind Chile in this regard, and given good demographics in Colombia, one could imagine Proteccion having annuity revenue streams lasting for decades. Due to its illiquidity owing to its small float, the stock traded at 10 times earnings, high for us, but not high for the Columbian market where companies often traded at 20 or 30 multiples. We bought around intrinsic value. As much as we wanted to love this company, its earnings releases typically confounded us, each revealing that we knew less about its financial model than we thought we did. Each quarterly release would send us back to the drawing board, with more questions to the company and to our broker, as we tried to decipher the numbers. After our initial buys, the stock generally traded above our estimate of intrinsic value, so we weren't buying more of it, and its weight in the portfolio shrank as our assets grew. Our choice eventually became to have its weight shrink further or to dispose of it, making way for a new position we understood better. We chose the latter route. We would not be surprised if our original thesis on Proteccion proves correct. But it would have taken us significant additional effort to regain our confidence in how the company's financial model worked under varying financial conditions. This effort had no certainty of any significant payoff, since earnings would have to grow substantially or the price would have to fall considerably for us to buy more. So, with some regret, we decided to part ways with Proteccion, pocketing an immaterial gain.

Qatar Fuel. We bought Qatar Fuel and Qatar Insurance, discussed below, on the day Frontaura began investing, 1 November 2007. We sold each just over five years later. We made 3.3 times our money on Qatar Fuel. At the time of purchase, Qatar Fuel was known as a personal account favorite due to its unique foreign ownership limit that no foreign investor could own more than—at that time—10,000 shares, equal then to around

$420,000. This made it too small for many funds to bother with, but it was fine for Frontaura back then. In 2007, Qatar was a hot market, but Qatar Fuel traded at a big discount to the market, at around 8 times trailing earnings. By the time we sold, Qatar Fuel sported a multi-billion dollar market cap and traded at a premium to the market. Its larger market cap made it a more viable institutional investment. Not only was the stock more visible, but the company itself upgraded from rather modest and cramped headquarters to a gleaming new eponymous office tower, opened in 2012. Most importantly, the stock now traded at a premium to our estimate of intrinsic value instead of a large discount, and even if the price fell, we could not buy more shares due to the foreign ownership limit. Time to move on.

Qatar Insurance. We sold Qatar Insurance in January when it announced a rights offering. Before the rights offer, the stock traded above our estimate of its intrinsic value, but not by enough that we were motivated to sell it. The below-market rights offer, however, presented us with two undesirable choices: don't participate and suffer stock price dilution; or participate and buy 20% more shares in Qatar Insurance at a price relative to intrinsic value that was inferior to what existed elsewhere in our universe. Instead, we opted for a third path and sold the stock, avoiding both the stock price dilution and having to buy at an unattractive price for us. The price at which we sold Qatar Insurance was about the same as we bought it at more than five years earlier. The PE on the day we sold, 10.3, was nearly four multiple points below the PE on the day we bought, 14.1, due to earnings growth. We made a decent 13% IRR due to intervening buys at lower prices and dividends collected. In hindsight, our original intrinsic value was too optimistic, reflecting the times in which we first modeled and bought the stock. We also learned that no one really seems to know how to value insurance companies, even analysts who have covered the sector for years. Buy at book, sell at two times book, seems to be as good a rule as any, and a lot less complicated than the detailed models we created to try to disaggregate the insurance business from its investment operations.

Fan Milk (Ghana). We made 3.6 times our money on Fan Milk in just over three years, giving it the highest money multiple, largest profit, and second highest IRR of any sale in the past year. This was a textbook case of what you want to happen. We met the company in April 2007, but waited 32 months for the right entry point. We bought the stock cheap, a 7 PE and discount to intrinsic value; it grew earnings satisfactorily in USD terms; and we sold it at a much higher multiple, a 21 PE and a premium to intrinsic value. Still, we could have done even better. We could have bought more; we began trimming the position too early; and we could have exited at an even higher price, as the current love affair that international frontier investors have with consumer staples stocks like this dominant ice cream producer have allowed its price to rise further after our February exit. We don't worry about the last point, as we waited for and realized a 35% gain over the final month before selling, and we recall the market adage about pigs getting slaughtered. On the first two points, position sizing is a topic we've written about several times before and an area when we think we have improved, but where we can become better still.

Dinh Vu Port (Vietnam). We held this port for about two years, making a 37% IRR. The PE multiple we sold at was only about 1 point higher than where we bought (earnings grew and it paid a good dividend), but we model it now as significantly overvalued. Why? The port operates at capacity now and its ability to expand is unclear. Further, border closures with China over technical issues meant extra warehousing revenue in 2012 that we don't see repeating this year. Finally, margins are above the long-term average and we project them to revert downward. Our model projects flattish earnings for the next three years, not keeping pace with inflation. As always with our models, we aren't so much making a specific prediction of what will occur, but rather presenting a base case of what might occur from which we can assess the risk and reward of owning a stock. We don't think the risk/reward of Dinh Vu Port's stock is favorable, even though it appears to trade at a reasonable PE. If we are wrong, it's most likely because margins stay firm or foreign portfolio flows into Vietnam overwhelm our analysis and the stock works anyway.

Indochina Capital Vietnam. We remember our first meeting in August 2008 with Indochina Capital Vietnam (ICV) well. ICV management began by asking, "Are you aware of what's happening with our share price?" Usually it's a warning sign when management talks about the stock price. Within 10 minutes, Nick excused himself from the meeting. Was the meeting so bad that he could no longer stand to be in the room? Actually, on the contrary, the story sounded so good, he found it hard to believe and wanted to double check the numbers by consulting a Bloomberg terminal. Somewhat baffled by Nick's sudden disappearance, Steve carried on the meeting. Nick re-entered the room about 15 minutes later, and we bought this stock, a closed-end fund, the following day. We never set out to own a closed-end fund, but this was too good an opportunity to pass up. The basic story is this. ICV's sponsors raised a London-listed equity fund at the top of the Vietnam bull market (ICV debuted 2 March 2007, the VNINDEX peaked 12 March 2007). The initial owners tended to be brand name firms and hedge funds who didn't normally invest in frontier markets. As the Vietnamese market collapsed and the global financial crisis began, these firms sold their shares, creating the wide discount to NAV. By the time we first bought, the VNINDEX had dropped 53% from its peak, and ICV traded at a 32% discount to NAV. Before year-end 2008, the index was 75% off its peak, and our last ICV buy was at a 65% discount to NAV. We bought steadily for a year, over that time getting to know management, many of the Board members, and several other investors in ICV. While there were issues—turnover in who managed the portfolio and some private equity positions that were hard to value—we felt the discount to NAV more than compensated for this. At one point in 2009, ICV was 11% of Frontaura's portfolio—we were that confident in a positive outcome. About two months after our last buy in August 2009, we had recouped more than all of the money we invested, as the board began to wind up the fund, making the first of five cash distributions to its holders. While there was a long tail on these distributions, the last being in May 2013, we realized a 77% IRR due to their front-end loaded nature.

Econet Wireless (Zimbabwe). We owned the leading mobile operator in Zimbabwe for just over a year, earning a 43% IRR. The company and the stock's strong points were its low valuation—a 4.2 PE when we bought—and its high return on equity, 46% when we bought, reflecting its dominate market share. At the time of sale, each of these metrics was slightly less attractive, but still good overall. We sold because the company decided to buy a bank, purportedly necessary for its push into mobile payments. This premise is questionable—the global leader in mobile payments, Safaricom in Kenya, has a significant portion of Kenya's GDP paid for through M-Pesa network, yet Safaricom owns no bank. But even if we took the leap and gave Econet's management a pass on the need to own a bank, what was more unacceptable to us was that the bank's owner happened to be Econet's chairperson. Add that the bank wasn't performing so well and that the price seemed rather full and you can see why Econet is no longer in our portfolio.

Fund and management company news

Please e-mail us if you are interested in an end-of-quarter phone call. Steve is available from July 8 through July 26. Due to travel, Nick is available July 22 onward.

Fund closes. As we've previously written, we closed to new investors after January 1, 2013 and we closed to existing investors after June 1, 2013. Although our present size, around $150 million, is still small by traditional fund standards, frontier markets are illiquid (and we tend to find the better values in the more illiquid markets and stocks), so we don't want to outgrow our ability to perform well. Maximizing assets does not motivate us; delivering good returns for our investors does.

We maintain waitlists for both existing and for new investors. Contact us if you want us to send you the one-page waitlist form. Upon receipt of a completed form, we'll add you to the respective waitlist. Should we open the fund again, we'll allow those on the waitlists to invest first, in the order they appear on the list, with preference given to existing investors.

Looking forward, if Frontaura continues to grow through appreciation, we could distribute cash to existing investors at some point, perhaps when our fund size is around $200 million. We are not promising to do this, nor is $200 million a certain level if we do decide to distribute cash. We mention the possibility of distributing cash to inform you that we are thinking about this. We will make any final decision at a future time if and when it's clear to us that it's in the best interests of the fund to distribute cash, considering valuation levels in the market, liquidity, our cash balance, and other relevant factors. Another possibility, and again we are unsure if we want to or would do this, is to make an annual distribution that roughly equals cash the fund receives from dividends. This kind of distribution would be smaller than what we contemplate in the text above. An open point is whether this amount would be net of management fees and expenses or not.

Travel. We visited the following countries in Q2: Bosnia-Herzegovina, Costa Rica, Ecuador, Malawi, Montenegro, Mozambique, Panama, Paraguay, Serbia, Trinidad and Tobago, and Zimbabwe. Further, we attended investment conferences in London, with companies throughout Sub-Saharan Africa attending, and in New York City, with companies from Bangladesh, Pakistan, and Sri Lanka attending. We wrote about Panama and Costa Rica in our April monthly comment[3], Paraguay in our May comment[4], and Malawi, Mozambique, and Zimbabwe in our June comment[5].

Reporting. Our administrator is planning to e-mail Q2 statements on July 5.

We thank you for being a Frontaura client.

Best regards,

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[3] http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2013_04.pdf
[4] http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2013_05.pdf
[5] http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2013_06.pdf

Appendix

Figure 2
Frontaura Global Frontier Fund LLC
Performance[6]
30 June 2013

Period	Frontaura	S&P 500	MSCI EAFE	MSCI Emerging	MSCI Frontier
2013 Q1	10%	11%	5%	- 2%	8%
2013 Q2	5%	3%	- 1%	- 8%	3%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	37%	15%	8%	19%	24%
2011	-15%	2%	- 12%	- 18%	- 19%
2012	18%	16%	17%	18%	9%
2013	16%	14%	4%	- 10%	11%
Inception to Date	72%	18%	- 18%	- 19%	- 35%
ITD CAGR	10.1%	2.9%	- 3.5%	- 3.7%	- 7.4%

Figure 3
Frontaura Global Frontier Fund LLC
Monthly Performance
30 June 2013

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007											0.4%	1.6%	2.0%
2008	0.7%	0.6%	-0.1%	3.4%	3.9%	-1.0%	-0.8%	-2.2%	-7.9%	-17.5%	-10.7%	1.4%	-28.1%
2009	-2.0%	-0.4%	0.7%	7.7%	14.4%	4.1%	1.4%	4.7%	10.6%	-1.4%	-0.2%	0.2%	46.0%
2010	-0.9%	4.2%	6.6%	4.5%	-1.2%	1.9%	3.4%	0.7%	4.7%	3.5%	1.5%	3.3%	37.1%
2011	2.8%	-3.7%	2.7%	-0.4%	1.0%	-1.7%	-2.4%	-4.0%	-3.9%	-1.6%	-4.9%	0.7%	-14.8%
2012	-0.5%	3.9%	2.6%	2.4%	-4.4%	-1.3%	2.1%	1.4%	1.9%	2.6%	2.2%	4.3%	18.1%
2013	7.3%	1.9%	1.0%	1.8%	3.8%	-0.3%							16.5%

[6] Returns commence 1 November 2007. Frontaura returns are net of all fees, for an investor joining the fund at inception, making no further contributions, and making no withdrawals. Investors joining on other dates, making additional contributions, or making withdrawals may have different returns. Index returns are in US dollars on a total return basis, net of any withholding tax. Note that MSCI includes Middle Eastern market results for Sunday, 30 June in July, but Frontaura includes these results in June.

Figure 4
Frontaura Global Frontier Fund LLC
Portfolio Mix and Statistics[7]
30 June 2013

Holdings Summary

Country	Holding
Vietnam	12%
Nigeria	11%
Tanzania	10%
USA (cash only)	9%
Iraq	7%
Ukraine	6%
Zimbabwe	5%
Pakistan	3%
Serbia	3%
Cambodia	3%
Senegal	3%
United Arab Emirates	3%
Botswana	3%
Lebanon	3%
Romania	3%
Estonia	2%
Papua New Guinea	2%
Rwanda	2%
Qatar	2%
Kazakhstan	2%
Cote d'Ivoire	2%
Montenegro	2%
Oman	1%
Sri Lanka	1%
Laos	1%
Ghana	1%
Others	1%

Industry	Holding
Banks	35%
Consumer Staples	15%
Industrials	14%
Cash	10%
Consumer Discretionary	10%
Telecommunication Services	7%
Energy	3%
Specialty Finance	3%
Materials	2%
Diversified	1%

Portfolio Statistics

Portfolio Price to Earnings	6.3
Portfolio Price to Book	1.1
Portfolio Dividend Yield	5.1%
Return on Ending Equity	21.5%

[7] Portfolio valuation statistics use the most recent 12 months of reported fundamental data as of 30 June 2013. Portfolio PE and PB are the harmonic means of all positions, weighted by position size. Portfolio dividend yield and return on ending equity are the means of all positions, weighted by position size. The yield on Frontaura Global Frontier Fund is less than our portfolio dividend yield due to cash held, withholding taxes, management fees, and operating expenses. At present, we retain all income rather than distribute it.

We hold most, but not all cash, in the United States. We also include in the US total any euros or other currencies we hold in countries outside of our investment universe. These other currency amounts often are immaterial. We include all other cash we hold outside the US in that country's total, regardless of currency. For example, Vietnam is a prefunding market, so we include our cash there in the Vietnam total, even though this cash typically is in US dollars.

Figure 5a
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Dollar Return)
2013 Q2

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return[8]	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Tanzania	4.4	42%	--	Serbia	- 0.6	-11%	-14%
Vietnam	1.7	8%	-11%	Botswana	- 0.6	-12%	-5%
Pakistan	1.6	30%	14%	UAE	- 0.4	-8%	13%
Iraq	1.6	18%	--	Cambodia	- 0.2	-5%	--
Nigeria	1.1	7%	-1%	Ukraine	- 0.2	-2%	-11%

Figure 5b
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Percentage Return)
2013 Q2

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Ghana	0.3	45%	-2%	Cyprus	- 0.1	-21%	--
Tanzania	4.4	42%	--	Botswana	- 0.6	-12%	-5%
Pakistan	1.6	30%	14%	Serbia	- 0.6	-11%	-14%
Senegal	1.0	27%	--	UAE	- 0.4	-8%	13%
Malawi	0.1	19%	--	Laos	- 0.1	-7%	--

[8] MSCI country indices stated on a total return basis with dividends net of any withholding tax. We show "--" if MSCI does not have an index for a given country.

Figure 6
Frontaura Global Frontier Fund LLC
Significant Quarterly Country Mix Changes[9]
2013 Q2

Country	Percentage Point Change	Explanation
Tanzania	+2	Outperformance relative to fund; small addition to an existing position
Vietnam	- 3	Exited two positions, realizing long-term capital gains; dividends repatriated; reduced one position

Figure 7
Frontaura Global Frontier Fund LLC
Portfolio Concentration[10]
30 June 2013

			Change from Prior Quarter	
	Companies	Countries	Companies	Countries
Positions	51	29	- 1	+2
Top 5	23%	45%	+1	--
Top 10	37%	62%	+1	- 3
Top 20	61%	85%	+1	- 2
Top 20 + US (Cash)	70%	94%	+1	- 2

[9] We show countries whose weighting has changed by two percentage points or more. Total may not add to 0 due to rounding and exclusion of countries changing by less than two percentage points. Note that we do not show the United States as we only hold cash there. See the Figure 4 footnote for a discussion of how we classify cash by country.

[10] We do not include the US in our country count and most of the percentage totals as we hold only cash there. Change from Prior Quarter represents the change in the number of positions and the change in percentage points for the top 5, 10, and 20 positions. The Top 20 + US row does include the US cash percentage in the percentage totals. See the Figure 4 footnote for a discussion of how we classify cash by country.