



May 2016 Monthly Comment

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We estimate that we gained ~3% in May, putting us up 5% in Q2, and around 3.5% for the year. Index results for May varied. Through May 30 (final index values not available at this writing), the S&P 500 had a total return of 2%, MSCI EAFE dropped 1%, MSCI Emerging Markets (EM) fell 4%, while MSCI Frontier Markets (FM) rose 2%.

We attended a timely investor conference in Nigeria this month. The government announced a deregulation of gas prices at the end of the first day of the conference, followed by a speech from Vice President Yemi Osinbajo to the conference attendees, where he broke with President Muhammadu Buhari's position to preserve a fixed exchange rate. The Lagos market rallied strongly on this double dose of good news, and we gained 33% in Nigeria for the month. In the 16 months through February 2016, Nigeria was our worst performing country in dollar terms due to falling oil prices. While the central bank initially let the naira unpeg from the low 160s level, they have stubbornly held it at around 200 to the dollar from February 2015 onward, in part due to the wishes of President Buhari, who assumed office in May 2015. Predictably, an increasingly overvalued currency led to a dollar shortage, a parallel exchange rate, goods shortages and subsequent inflation, a foreign investment halt, falling asset and stock prices, and stagnant economic growth. Many of these outcomes were already underway due to lower oil prices, but the overvalued exchange rate exacerbated the problem. Shortages were particularly acute with gasoline. A below-market retail price cap meant that the government needed to subsidize importers of refined fuel (despite its oil wealth, Nigeria has inadequate refinery capacity). The dollar shortage and subsidy payment delays lowered gas imports and led to long lines at gas stations. On May 11, the government hiked the cap for retail gas prices by 68%, basing the new

price on the parallel exchange rate rather than the official rate. They also ended import quota restrictions. Hopefully, this action will spell the end of the subsidy scheme that cost billions of dollars per year. "Deregulation at last! [Federal Government] bows to common sense" was the next day's lead headline in *Business Day*. Osinbajo's speech immediately followed the gas announcement that same evening, and he left no doubt that he and other officials favored a more flexible approach as the best way to fix the FX problem. On May 24, the monetary policy committee of the central bank voted unanimously for "greater flexibility" in FX with details published in the "coming days." In a May 29 speech, Buhari seemed to acknowledge that devaluation is coming, but offered no specifics. We expect Nigeria to maintain a peg just under 200 for some vital goods as a face saving measure for Buhari, while allowing most items to transact in a band weaker than 200.

When it happens, this devaluation will have a materially negative hit to the USD worth of our Nigerian stocks. We have long expected, however, that this may be only temporary, as we anticipate depressed local stock prices will rally post-devaluation. We observed this most recently in Egypt in March, where USD prices were roughly break-even four days after devaluation. One could argue that May's performance is actually our expected post-devaluation rally occurring beforehand. In part, this may be true as the government trickles out the news rather than making a single, shock announcement. Yet even after May's rally, our combined Nigerian stocks trade on a trailing PE of 4.4, with a 0.3 price/book, and a 9.7% dividend yield. With those metrics, we posit that further local currency gains exist. Although we don't know if our Nigerian value in USD terms will be worth more, less, or a similar amount in a few months' time, assuming devaluation and local price reaction, we remain sanguine.

Frontaura Global Frontier Fund

Fund Objective

Bloomberg Tickers: FRGLFRO US Equity, FRGLFRC KY Equity

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.

Investment Strategy

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 May 2016¹

Period	Frontaura	S&P 500	MSCI EAFE	MSCI Emerging	MSCI Frontier
2011 Q1	2%	6%	3%	2%	- 5%
2011 Q2	- 1%	0%	2%	- 1%	0%
2011 Q3	- 10%	- 14%	- 19%	- 23%	- 12%
2011 Q4	- 6%	12%	3%	4%	- 2%
2012 Q1	6%	13%	11%	14%	6%
2012 Q2	- 3%	- 3%	- 7%	- 9%	- 7%
2012 Q3	5%	6%	7%	8%	7%
2012 Q4	9%	0%	7%	6%	3%
2013 Q1	10%	11%	5%	- 2%	8%
2013 Q2	5%	3%	- 1%	- 8%	3%
2013 Q3	1%	5%	12%	6%	6%
2013 Q4	7%	11%	6%	2%	7%
2014 Q1	- 1%	2%	1%	0%	7%
2014 Q2	4%	5%	4%	7%	12%
2014 Q3	1%	1%	- 6%	- 3%	2%
2014 Q4	- 7%	5%	- 4%	- 5%	- 12%
2015 Q1	- 3%	1%	5%	2%	- 3%
2015 Q2	3%	0%	1%	1%	0%
2015 Q3	- 6%	- 6%	- 10%	- 18%	- 11%
2015 Q4	1%	7%	5%	1%	- 1%
2016 Q1	- 1%	1%	- 3%	6%	- 1%
2016 Q2	5%	2%	2%	- 3%	5%
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	26%	32%	23%	- 3%	26%
2014	- 3%	14%	- 5%	- 2%	7%
2015	- 5%	1%	- 1%	- 15%	- 14%
2016	3%	4%	- 1%	2%	4%
ITD CAGR	6.9%	5.9%	- 1.2%	- 3.5%	- 4.1%

Holdings Summary²

Country	Holding	Industry	Holding
Vietnam	10%	Financials	49%
Nigeria	10%	Consumer Staples	12%
Sri Lanka	7%	Cash	10%
Pakistan	7%	Utilities	7%
Kenya	7%	Consumer Discretionary	7%
Papua New Guinea	6%	Energy	5%
Bangladesh	6%	Industrials	5%
Rwanda	5%	Materials	3%
Tanzania	5%	Telecommunication Services	2%
USA (cash only)	4%	Information Technology	1%
Montenegro	3%		
Cambodia	3%		
Georgia	3%		
Romania	3%		
Argentina	3%		
Lebanon	3%		
Serbia	3%		
Ghana	2%		
Mongolia	2%		
Oman	2%		
Macedonia	2%		
Ecuador	2%		
Uganda	1%		
Qatar	1%		
Botswana	1%		
Peru	1%		
Mozambique	1%		
Kuwait	1%		
Others	1%		

Portfolio Statistics²

Portfolio Price to LTM Earnings	6.8
Portfolio Price to Book	1.0
Portfolio LTM Dividend Yield	6.4%
Return on Ending Equity	17.4%
Positions	51
Countries	28
Average Market Cap	\$638m
Median Market Cap	\$236m
Portfolio Turnover (LTM)	41%
Portfolio Turnover (ITD)	28%
Standard Deviation (ITD)	14%
Beta to S&P 500 (ITD)	0.51
Assets Under Management	\$120m

Terms / Service Providers

Management Fee	2%	Attorney	Foley & Lardner LLP
Performance Fee	20% with high-water mark	Auditor	RSM McGladrey, Inc.
Subscriptions	Monthly. New investor minimum \$1,000,000. Additional subscription minimum \$10,000.	Fund Administrator	Michael J. Liccar & Co.
Redemptions	Quarterly with three-month notice. Restrictions may apply. ²	Global Custodian	Bank of New York Mellon

¹ Frontaura returns are actual returns, net of all fees, through 31 May 2016 with a subject-to-change estimate for the most recent month, 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. ITD returns commence 1 November 2007. Index returns are on a total return basis, net of any withholding tax for a US investor, through 30 May 2016, as final index values for the current month are not available at time of publication. Click this link for an explanation of the indices we show: http://http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2015_09_30.pdf

² Click this link for an explanation of our holdings and portfolio statistics and our redemption provisions: http://http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2015_09_30.pdf

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