March 2009 Monthly Comment written 31 March 2009 11AM CDT

Last month we wrote that a bear market rally in global markets could erase some of our outperformance this year. That is exactly what happened in March, as through March 30, the S&P 500, EAFE, MSCI Emerging Markets, and MSCI Frontier Markets posted total returns of 7%, 10%, 13%, and 8%, respectively (we write this mid-day Tuesday, March 31, after all of our frontier markets have closed, but while markets in the Americas remain open). Having not sold off in January and February, we did not participate in this partial rebound. We estimate Frontaura had a slight gain of between 0% and 1% for March, and a slight loss of between -1% and -2% for Q1. This continues a four-month stretch of flattish results for us from December forward, ranging from -2% to +1% per month. Global markets have been far more volatile, and generally finished Q1 far worse, with total returns on the four aforementioned indices at -12%, -16%, -1%, and -17% for Q1 through March 30. Our correlation to these indices has fallen between 0.12 and 0.21 points since October, as some normalcy returns after the post-Lehman global selloff.

We traveled throughout March, attending investment conferences in Egypt, for companies throughout the Middle East and North Africa, and London, for sub-Saharan African companies; and visiting the countries of Columbia and Peru in South America, and Cote d'Ivoire, Ghana, and Nigeria in West Africa. Many companies posted double-digit percentage EPS growth in 2008 and some expect similar results in 2009. We are skeptical of this outlook in many cases, but in others, it is plausible. A few companies already affected by the global recession in 2008 reported noticeable volume increases in January and February—the common theme between comments of disparate companies being that sizable price cuts produced volume rebounds. It will take longer for revenue and margins to rebound. Overall, we expect profit of our portfolio holdings this year to be about flat with last year on a weighted average basis.

Valuations in Columbia were lower naturally than at our prior visit in May 2008, but are still not that cheap by our standard. We finally visited Peru after this formerly expensive market collapsed in price last year, and our visit seemed to reinvigorate valuations with the Peru Lima General Index rising 5% the week we were there, 8% the next week, and 21% two weeks later. Perhaps a rise in the price of copper, its main export, from roughly $3,000 to $4,000 per ton during 2009 had more to do with improved sentiment than our presence. (We are still waiting for a similar salutary effect on our portfolio holdings in Zambia, another copper exporter). In Nigeria, a potential banking crisis of local origin, unrelated to global banking woes, continues to unfold slowly. Lower oil prices versus 2008 are also pressuring this economy. On the other hand, oil is the potential answer to Ghana's macroeconomic imbalances, as the country races to begin production to offset their ever-worsening budget and current account deficits. Finally, Cote d'Ivoire appears on track for significant debt reduction over the next few years as it continues its post-civil war recovery.

Our investment approach for 2009 remains one of patience. We sold one position in March as it rallied nearly 75% from its October low to a point beyond our estimate of intrinsic value. Although we have many companies on our watch list, we made no purchases, as we await the resolution of specific issues we've identified. Sale proceeds, dividends, and investor inflows have caused our cash to grow to 18% of the portfolio. Our weighted average trailing valuation and return metrics remain excellent with the portfolio PE, dividend yield, and ROE at 6.3, 6.7%, and 34%, respectively.

Frontaura Global Frontier Fund

Fund Objective

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 February 2009[1]

Month	Frontaura	S&P 500	MSCI EAFE	MSCI Emerging	MSCI Frontier
2007 Q4	2%	- 5%	- 5%	- 7%	4%
2008 Q1	1%	- 9%	- 9%	- 11%	- 2%
2008 Q2	6%	- 3%	- 2%	- 1%	2%
2008 Q3	- 11%	- 8%	- 21%	- 27%	- 23%
2008 Q4	- 25%	- 22%	- 20%	- 28%	- 39%
2009 Q1	- 2%	- 12%	- 16%	- 1%	- 17%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009 YTD	- 2%	- 12%	- 16%	- 1%	- 17%
ITD	- 28%	- 47%	- 55%	- 57%	- 61%

Holdings Summary

Industry	Holding
Banking	18%
Cash	18%
Telecommunication Services	14%
Consumer Discretionary	13%
Consumer Staples	13%
Diversified	7%
Oil Marketing	7%
Industrials	4%
Asset Management/Brokerage	3%
Insurance	3%

Country	Holding
USA (cash only)	16%
Qatar	14%
United Arab Emirates	11%
Sri Lanka	9%
Vietnam	7%
Zambia	6%
Philippines	5%
Cote d'Ivoire	5%
Bangladesh	5%
Senegal	5%
Botswana	4%
Egypt	3%
Pakistan	3%
Tanzania	2%
Nigeria	2%

Portfolio Statistics[2]

Portfolio Price to Earnings	6.3
Portfolio Price to Book	1.0
Portfolio Dividend Yield	6.7%
Weighted Average ROEE	33.6%

Terms / Service Providers

Management Fee	2%	Attorney	Foley & Lardner LLP
Performance Fee	20% with high-water mark	Auditor	RSM McGladrey, Inc.
Subscription	$100,000 minimum, new investors accepted monthly	Fund Administrator	Michael J. Liccar & Co.
Withdrawals	2-year lockup, quarterly with 90-day notice	Global Custodian	Bank of New York Mellon

[1] Frontaura returns are actual returns, net of all fees, with a subject-to-change estimate for the most recent month, for an investor joining the fund at inception and making no further contributions. Investors joining on other dates or making additional contributions may have different returns. Returns for 2007 Q4 commence 1 November 2007. Index returns are on a total return basis, net of any withholding tax, through 30 March 2009, as 31 March 2009 returns were not available at distribution time.

[2] Market, portfolio, and most recent 12 months of reported fundamental data as of 31 March 2009. Portfolio PE and PB are the harmonic means of all positions, weighted by position size. Portfolio dividend yield and return on ending equity (ROEE) are the means of all positions, weighted by position size.

Disclaimer

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