July 2009 Monthly Comment written 31 July 2009 11AM CDT

Frontaura gained an estimated 1% in July, its fifth consecutive monthly gain. It was a placid month for us, with the month-to-date return never varying more than one percentage point from break-even. This contrasts with global markets, where the S&P, EAFE, and MSCI EM all dropped 3%-4% through July 10, then rallied strongly to be up 7%-10% for the month through July 30 (index results through July 31 are not available as we write this). The MSCI Frontier index, like us, was up 1% through July 30, but it followed the global market path (down 6% through July 10, then rallying), rather than our more stationary path. Our concentrated value-oriented portfolio continues to exhibit less volatility than you would expect from a frontier fund. Our inception to date annualized standard deviation of monthly returns is 22%, barely above that of the S&P 500 at 20%, and below that of EAFE (26%), MSCI EM (35%), and MSCI Frontier (27%).

We initiated small positions in two new countries, Iraq and Zimbabwe. We view our 1% exposure to each country as an option, meaning that it could become worthless over time, or it may return several times our original investment. We would not want an entire portfolio of such positions, but we think a limited number of high risk/high return investments within an overall portfolio diversified by country makes sense. The case for Iraq is a macro one. The country has the world's fourth largest reserves of oil, but its oil production has been stagnant for three decades, due to the 1980-1988 Iran-Iraq War, the 1990-1991 Persian Gulf War, UN sanctions that followed, and the 2003 US-led coalition invasion. The country does not need to do anything brilliant for its economy to grow; it just needs to stop the cycle of infrastructure-destroying warfare. This is not certain, of course, but we'll take the bet that things are more likely to get better than worse. We watched the Iraq Stock Exchange and its steady progress since we launched Frontaura in 2007. The exchange has opened to foreigners, electronic trading has replaced paper shares and whiteboards, broker research is appearing, and one of our agency brokers, US-based Auerbach Grayson, now has a local partner in the country we can trade through. The exchange has just under 100 stocks listed, with a total market cap of around $2 billion. Weekly trading volume in 2008 averaged $5 million. These are all figures already ahead of many frontier countries we invest in. Nevertheless, as is often the case in our markets, liquidity is concentrated in a minority of names and buying the companies you want to own can be difficult. We mentioned our visit to Zimbabwe in last month's comment as dollarization instantly turned hyperinflation to mild deflation. Economic activity is returning to this once more prosperous country. While Mugabe's inept leadership has severely frayed the infrastructure around the edges, it is still intact, as the country never experienced all-out destructive war. Life has returned to the stock exchange. Its total market capitalization is $4 billion and daily trading activity exceeds $1 million, already surpassing most sub-Saharan African markets. We've had indirect exposure to Zimbabwe since 2007 through Imara Holdings, a Botswana-listed asset manager and broker who runs a Zimbabwe fund and operates one of the leading brokers in the country. We have added exposure that is more direct by investing in OK Zimbabwe, the leading supermarket chain.

At month end, we held 27 positions in 15 countries, counting our Iraq holdings as one position, since we are taking a basket approach there. We exited Bangladesh, becoming concerned about rising NPLs and declining NPL coverage at Bank Asia, our one holding there. Still, we like the country and would re-enter if we could find a company we like at the right price.

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 July 2009[1]

Period	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%	- 11%	- 14%	1%	- 17%
2009 Q2	28%	16%	25%	35%	35%
2009 Q3	1%	7%	8%	10%	1%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009 YTD	27%	11%	17%	49%	13%
ITD	- 7%	- 34%	- 38%	- 35%	- 46%

Holdings Summary

Country	Holding
USA (cash only)	26%
Qatar	15%
United Arab Emirates	10%
Vietnam	9%
Sri Lanka	7%
Zambia	7%
Senegal	5%
Botswana	4%
Cote d'Ivoire	4%
Egypt	3%
Philippines	3%
Pakistan	2%
Nigeria	2%
Zimbabwe	1%
Tanzania	1%
Iraq	1%

Industry	Holding
Cash	27%
Banks	20%
Diversified	14%
Consumer Discretionary	11%
Consumer Staples	10%
Telecommunication Services	8%
Oil Marketing	4%
Specialty Finance	3%
Asset Management/Brokerage	1%
Industrials	1%
Insurance	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	8.1
Portfolio Price to Book	1.2
Portfolio Dividend Yield	7.0%
Return on Ending Equity	26.4%

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 through 31 July 2009, 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. Index returns are through 30 July 2009, as 31 July 2009 returns were not available at distribution time.

[2] Market, portfolio, and most recent 12 months of reported fundamental data as of 31 July 2009. 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.

Disclaimer

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