August 2009 Monthly Comment written 31 August 2009 3PM CDT

We estimate Frontaura gained between 4% and 5% in August, bringing our quarter-to-date performance to +6%. About half of our monthly gain came in the final three trading days (Friday, Sunday, and Monday), August 28-31) on somewhat low volume, so a retracement of these gains in September would not surprise us. Global indices had roughly similar monthly results through Friday, August 28 (index results through August 31 are not available as we write this). The S&P, EAFE, MSCI EM, and MSCI Frontier Market indices gained 4%, 6%, 1%, and 5%, respectively, on a total return basis. We are nearly back to break-even since our November 2007 inception, down 2%. In contrast, these indices are still down 31%-43% since then.

We made purchases throughout the month, mainly in Africa, often a lagging market. The MSCI Frontier Africa index remains down 12% this year versus a +19% performance for the frontier index overall. Much of this is due to Nigeria, discussed in depth last week in Frontaura Observer #14. We also bought in Vietnam and to a lesser extent, Iraq. Overall, though, our cash barely declined, from 27% to 25%, as new contributions, dividends, and proceeds from an acquisition of Pilipino Telephone (Piltel) in the Philippines offset our buying. Piltel was one of the three telecom M&A deals we highlighted in our Q1 letter as examples of strategic owners increasing their ownership stake in mobile operators selling at bargain prices. We are sorry to lose Piltel at what to us seemed too low of an acquisition premium. With its owner PLDT buying the minority of shares it did not already control, though, the outcome was never in doubt.

In last month's comment, we profiled small positions we established in Iraq and Zimbabwe. Both countries were winners for us this month, with Iraq up 13% and Zimbabwe up 7%. News reports stated that supermarket chain OK Zimbabwe that we hold was an acquisition candidate of Shoprite, the South African-based retailer.

Reviewing our four largest country holdings, we gained 5% for the month in Qatar, the UAE was up 18% for us on low volume, our stake in Vietnam grew 4%, while Sri Lanka continued its end-of-war gains, up 17% for us. The Colombo All-Share Index in Sri Lanka is now up 71% this year in US dollars. Our holding in Vietnam, Indochina Capital Vietnam, has round tripped from roughly $4 per share one year ago when we first bought, to just below our low-purchase price of $2 in November and December, to now back to just under $4. It's a closed-end fund that's gone through numerous management and board changes and shareholder proposals to narrow its discount to NAV. We bought it for the discount that at one point ballooned to 65% after the Lehman bankruptcy. In September, the company will announce voting results on the current proposal, which we favor and think is a significant step toward fixing the problem. We expect an NAV boost, as the accretive proposal buys out exiting shareholders at a discount, and then a discount narrowing as the buyout eliminates a complicated overhang issue. The shares currently trade at a 26% discount to last reported NAV, a 30% discount to our estimate of current NAV, and a 41% discount to the theoretical maximum NAV post-buyout. We'd buy more shares if the holding were not already 10% of our fund. The main risk is volatility in the Vietnam market, up 70% this year in US dollars, and more than double its February low. As we expected for a hotel operator in this environment, UAE-domiciled Kingdom Hotel Investments reported weak, but still profitable, first half results. Nonetheless, the stock trades at only one-half of a non-revalued book value, making it good value for the longer term, and a good recovery play given its broad geographic exposure. It's our biggest winner this year, up 250%.

# 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 August 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 | 6% | 12% | 16% | 12% | 7% |
| | | | | | |
| 2008 | - 28% | - 37% | - 43% | - 53% | - 54% |
| 2009 YTD | 34% | 16% | 25% | 53% | 19% |
| | | | | | |
| ITD | - 2% | - 31% | - 33% | - 33% | - 43% |

## Holdings Summary

| Country | Holding |
|---|---|
| USA (cash only) | 23% |
| Qatar | 15% |
| United Arab Emirates | 11% |
| Vietnam | 10% |
| Sri Lanka | 8% |
| Zambia | 7% |
| Senegal | 6% |
| Cote d'Ivoire | 5% |
| Botswana | 4% |
| Egypt | 3% |
| Pakistan | 2% |
| Philippines | 2% |
| Nigeria | 2% |
| Zimbabwe | 1% |
| Iraq | 1% |
| Tanzania | 1% |

| Industry | Holding |
|---|---|
| Cash | 25% |
| Banks | 21% |
| Diversified | 15% |
| Consumer Discretionary | 12% |
| Consumer Staples | 11% |
| Telecommunication Services | 7% |
| Oil Marketing | 3% |
| Specialty Finance | 3% |
| Industrials | 1% |
| Insurance | 1% |
| Asset Management/Brokerage | 1% |

## Portfolio Statistics[2]

| | |
|---|---|
| Portfolio Price to Earnings | 8.6 |
| Portfolio Price to Book | 1.2 |
| Portfolio Dividend Yield | 6.6% |
| Return on Ending Equity | 27.8% |

## 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 August 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 Friday 28 August 2009, as Monday 31 August 2009 returns were not available at distribution time.

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