September 2009 Monthly Comment written 30 September 10PM CDT

We estimate Frontaura gained 10% or better in September, bringing our Q3 gain to 17% and our YTD gain to nearly 48%. Since our November 2007 inception when global markets were at their peak, we are up 8%. Importantly, we have made money for over 90% of our investors, who joined at different times and made varying initial and follow-on contributions over the past two years. In contrast, total returns since our inception for the S&P 500 are negative 29%; EAFE is off 31%; MSCI EM is down 28% (despite gaining 64% this year), and MSCI Frontier Markets (FM) lost 41%. These indices performed similar to us for Q3, with gains ranging from 11% to 21%. All of the indices beat us in July, but in turn we bested them all in September, making up the QTD deficit. YTD, only EM performance is better than ours is, and we have more than doubled returns of the S&P 500 and FM indices (see page two for all figures). While our results are satisfactory, we want to repeat the caution present in last month's comment where we noted that some of our gains are on low volume, and a retracement could occur. Certainly, we were not expecting the month following our original warning to be the second best in our history. While obvious, we will state it anyway: the seven month streak of positive returns since March is going to end at some point and no one should expect double-digit percentage gains every quarter, let alone in a month.

Our two largest holdings—Indochina Capital Vietnam (ICV) and Kingdom Hotel Investments, discussed last month—continued to perform, driving our September results with identical gains of 26%. Both remain below NAV or book value. Nevertheless, we were disappointed with the results of the ICV proxy vote, as shareholders holding 67% of shares voted to cash out at 85% of NAV. This 15% discount would have boosted NAV for the remaining shareholders like us. However, the 67% voting to exit were too many for the fund to remain viable. This tripped a provision that if more than 65% wanted out, management would liquidate the entire fund, with all shareholders receiving payments over time that equal NAV as management sold positions, including some private equity holdings. So we won't receive the NAV accretion, and we will have to reinvest our proceeds elsewhere. Still we can't complain much, as the liquidation news further reduced the NAV discount that once was 65% late in 2008 down to 11%, we estimate, at present.

We traveled to Latin America during September visiting companies in Panama; attending the first-ever institutional investor conference in Medellin, Colombia; spending a weekend observing the curious case of Hugo Chavez's 21st Century Socialism in Venezuela; and finishing with a day of company meetings in Trinidad and Tobago. As we wrote in Frontaura Observer #8, Medellin, in stark contrast to its outdated image in the US as the epicenter of drug trafficking and gangland violence is one of nicest cities in our investment universe, with perfect weather, scenic mountains, and a vibrant nightlife. Its rise this decade is the mirror image of the violence-plagued decline of neighboring Venezuela. The conference lineup was well-stocked with leading companies and high-ranking government officials. Two common political topics of discussion were the US-Colombia Trade Promotion Agreement, shamefully stalled by a grandstanding US Congress, and a possible third term for President Alvaro Uribe. Dow Jones has written a couple stories on the Uribe issue recently, highlighting our views along with other foreign investors. We actually think Uribe has done an incredible job—having as much positive impact on his country's fortunes as any 21st Century leader we can think of, but changing the constitution for extended time on stage is a bad precedent that we oppose.

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 September 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	17%	16%	19%	21%	11%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009 YTD	48%	19%	29%	64%	24%
ITD	8%	- 29%	- 31%	- 28%	- 41%

Holdings Summary

Country	Holding
USA (cash only)	15%
Qatar	15%
United Arab Emirates	12%
Vietnam	11%
Zambia	9%
Sri Lanka	9%
Botswana	6%
Senegal	6%
Cote d'Ivoire	5%
Egypt	3%
Pakistan	3%
Tanzania	2%
Zimbabwe	2%
Philippines	2%
Nigeria	1%
Iraq	1%

Industry	Holding
Banks	21%
Cash	17%
Diversified	16%
Consumer Discretionary	13%
Consumer Staples	12%
Telecommunication Services	8%
Specialty Finance	5%
Oil Marketing	3%
Industrials	2%
Asset Management/Brokerage	1%
Insurance	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	9.2
Portfolio Price to Book	1.4
Portfolio Dividend Yield	6.1%
Return on Ending Equity	27.3%

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 30 September 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, through 30 September 2009.
[2] Market, portfolio, and most recent 12 months of reported fundamental data as of 30 September 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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