January 2010 Monthly Comment written 29 January 5PM CST

With trading for January 99% complete (16% of our portfolio has one trading day remaining on Sunday, January 31), we estimate Frontaura is down about 1% to date. The indices we monitor have fared worse. Through Thursday, January 28 (Friday index levels not yet available), the MSCI Frontier Market (FM) Index is down 2%, while the S&P 500, EAFE, and the MSCI Emerging Markets Index are all down 3%-5%. January's index performance is often a leading indicator for the year, so the weak start could be ominous, although January 2009 gave a significant false negative. One year ago on a total returns basis, the S&P 500 dropped 8% in January but gained 26% for the year, while the MSCI FM Index plummeted 18% the first month, yet finished the year up 12%. The January effect has yet to be accurate for Frontaura. We lost 2% last January, but rose 46% for the year. In January 2008, we rose 1%, before dropping 28% for the year.

Similar to December, there was not much movement in the portfolio this month. Our monthly loss is half due to a stronger dollar and half due to declines in local stock prices. In December and January, only one country gained more than 10%, and it was Sri Lanka both times. No country had a double-digit loss this month. We continue to think Sri Lanka, up 11% in January, is overdue for a pause to digest its rapid gains. We aren't likely to buy more there for now, but our holdings are hardly expensive. Two companies trade at trailing PEs of 7 and 8, and while the third is higher, at 15, it sports a 6.2% dividend yield due to its 80% return on capital. Sri Lanka had another bad inflation report, with prices rising 6.5% year-over-year in January, up from only 0.7% four months ago. We expect double-digit inflation in three months, and continue to think officials there are too sanguine about this risk. With President Rajapaksa re-elected this week, perhaps the central bank can now act.

Recall from Frontaura Observer #15 that Zimbabwe's inflation hit 89.7 sextillion percent annualized in mid-November 2008 before the country dollarized. Recently reported year-over-year inflation for December 2009 was -7.7%. So in one year, Zimbabwe went from the second worst bout of hyperinflation in recorded human history to having the lowest inflation (highest deflation) rate in the world.

In other news this month, Lufthansa said it was evaluating whether to fly from its Frankfurt and Munich hubs to Iraq later this year. President Obama unveiled the Volcker Rule, a proposal to eliminate proprietary trading at US deposit-taking institutions. We support this concept. As we have written, conservative regulation of many frontier banking systems allowed these countries to come through the global financial crisis relatively unscathed. Frontier banks tend to take deposits, make loans, and do little else. We think that's a good model for what a bank that has implicit government and taxpayer backing ought to be. Finally, alternative investment newsletter *Opalesque* featured Frontaura in January, and the Frontaura Global Frontier Fund now has a Bloomberg ticker (FRGLFRO US Equity).

In both our August and September comments, we cautioned that some retracement of performance could occur, and wouldn't you know it, January is now our fourth blah month in a row. There's plenty to fret about on the global stage, from the US to Greece to Dubai to China. These issues may cause some waves in our portfolio in the short run, and we do have inflation concerns in some of our countries. Nevertheless, we continue to take comfort from our low valuations (portfolio PE below 9), our high dividend yield (around 7%), and the improving prospects for frontier economic growth in 2010.

Frontaura Global Frontier Fund

Fund Objective

Bloomberg Ticker FRGLFRO US 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 January 2010[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%
2009 Q4	- 1%	6%	2%	9%	- 10%
2010 Q1	- 1%	- 3%	- 4%	- 5%	- 2%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
ITD	6%	- 26%	- 32%	- 26%	- 48%

Holdings Summary

Country	Holding
Qatar	16%
Sri Lanka	13%
Zambia	11%
United Arab Emirates	10%
Cote d'Ivoire	8%
Botswana	7%
Senegal	6%
Colombia	5%
Zimbabwe	3%
Pakistan	3%
Ghana	3%
Egypt	2%
Montenegro	2%
Iraq	2%
Tanzania	2%
Uganda	2%
Philippines	2%
US (cash only)	2%
Vietnam	1%

Industry	Holding
Banks	26%
Consumer Staples	18%
Consumer Discretionary	13%
Telecommunication Services	12%
Asset Management/Brokerage	7%
Diversified	6%
Specialty Finance	5%
Industrials	5%
Insurance	3%
Oil Marketing	3%
Cash	2%

Portfolio Statistics[2]

Portfolio Price to Earnings	8.8
Portfolio Price to Book	1.4
Portfolio Dividend Yield	6.9%
Return on Ending Equity	25.7%

Terms / Service Providers

Management Fee	2%	Attorney	Foley & Lardner LLP
Performance Fee	20% with high-water mark	Auditor	RSM McGladrey, Inc.
Subscription	Minimum: $250,000; 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, through Friday 29 January 2010 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 28 January 2010, as final index levels for 29 January were not available at production time. Note that final January 2010 performance for Frontaura, but not for the indices, will include Islamic market trading on Sunday, 31 January.
[2] Market, portfolio, and most recent 12 months of reported fundamental data as of 29 January 2010. 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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