July 2010 Monthly Comment written 30 July 2010 3 PM CDT

We estimate Frontaura gained 3% in July, bringing our YTD result to +20%. Global markets posted large gains in July, rebounding partially from even larger losses during the prior 10 weeks. We were up slightly during these 10 weeks, so we had no pre-July losses from which to rebound. For the month through July 29 (July 30 index values are not final as we write this) on a total returns basis, the S&P 500 gained 7%, EAFE rose 10%, MSCI Emerging advanced 9%, and MSCI Frontier was up 6%. YTD, three of these four indices range from -4% to +2%, with MSCI Frontier slightly better at +6%. Our portfolio metrics continue to be attractive relative to developed and emerging markets, with a trailing PE of 8.7, a price/book of 1.5, and a dividend yield of 6.0%.

With European banks stress test results available, let's compare three banks passing the tests to our three largest bank positions. We'll look at a simple ratio of tangible common equity to tangible assets. The *Financial Times* calls this the Basel 0 capital adequacy ratio (CAR), a tongue-in-check reference to how investors have come to prefer a transparent balance sheet ratio when assessing bank vulnerability to the more opaque regulatory CARs that greatly underestimated risk going into the financial crisis. Using year-end 2009 balance sheet data on Bloomberg, National Bank of Greece has a Basel 0 ratio (higher is better) of 5.85%, while Allied Irish Bank is at 5.50%, and Deutsche Postbank registers only 1.28%. Our three largest bank holdings and their most recently reported Basel 0 ratios are National Societe Generale Bank (Egypt) 9.67%; Aik Banka (Serbia) 35.26%; and Commercial Bank of Qatar 20.14%. The inverse of the Basel 0 ratio tells you how many times the bank is levered (lower is better). We prefer leverage ratios of 10 or less. The leverage ratio of the three European banks we cited are National Bank of Greece at 17.1, Allied Irish at 18.2, and Deutsche Postbank at a whopping 77.9! At that level of leverage, a 1.3% drop in asset values wipes out all of Deutsche Postbank's equity. Remember the regulators deemed these banks stable enough to pass a stressed situation with declining economic activity and falling asset prices. Meanwhile, the leverage ratio of our holdings is 10.3, 2.8, and 5.0, respectively. Our banks appear much safer, yet trade at reasonable prices, with higher ROEs and better growth potential. Releasing the stress test results was a good idea we think, and the exercise appears to have calmed markets for now. But we can't take too seriously any test that does not acknowledge the possibility of Greece's likely eventual default. Perhaps Europe's regulators decided the banking system could not handle the truth, and politics trumped what the bond market is saying.

Not all frontier banks capitalize themselves better than their developed world counterparts. Consider Kazakhstan, where Steve visited in June. Commodities drive the economy, but this sector does not make much use of local banks, so banks are over reliant on an anemic real estate sector. Kazakhstan's real estate bubble peaked July 2007 when the banks began to have trouble refinancing their wholesale funding. The foreclosure process is slow, and often banks restructure loans with lengthy no-payment grace periods. Despite this, banks continue to accrue interest income during the grace periods. In one leading bank, well owned by frontier investors, about 30% of its interest income is unpaid. At this same bank, accrued but unpaid interest equaled about 9% of the loan book and 60% of equity as of March 2010. Roughly one-half of this bank's loan book consists of either restructured loans or NPLs. More than two years after our first visit to Kazakhstan in April 2008, its troubled banking sector remains far too risky for us. We have never invested in Kazakhstan.

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 July 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	10%	5%	1%	2%	11%
2010 Q2	5%	-11%	- 14%	- 8%	- 10%
2010 Q3	3%	7%	10%	9%	6%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	20%	0%	- 4%	2%	6%
ITD CAGR	9.4%	- 9.6%	- 13.3%	- 8.2%	- 18.7%

Holdings Summary

Country	Holding
Qatar	16%
Zambia	8%
Sri Lanka	8%
Pakistan	8%
Cote d'Ivoire	8%
United States (cash only)	6%
Senegal	5%
Egypt	5%
Serbia	5%
Tanzania	5%
Botswana	4%
Colombia	3%
Nigeria	3%
Ghana	3%
Montenegro	3%
Cyprus	3%
Zimbabwe	3%
Iraq	3%
Uganda	2%
Philippines	1%

Industry	Holding
Banks	34%
Consumer Staples	14%
Diversified	11%
Telecommunication Services	11%
Cash	7%
Industrials	7%
Specialty Finance	4%
Insurance	4%
Asset Management/Brokerage	3%
Consumer Discretionary	2%
Oil Marketing	2%

Portfolio Statistics[2]

Portfolio Price to Earnings	8.7
Portfolio Price to Book	1.5
Portfolio Dividend Yield	6.0%
Return on Ending Equity	24.8%

Terms / Service Providers

Management Fee	2%	Attorney	Foley & Lardner LLP
Performance Fee	20% with high-water mark	Auditor	RSM McGladrey, Inc.
Subscription	Minimum: $1,000,000; 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 30 July 2010 with a subject-to-change estimate for the most recent month, for an investor joining the fund at inception, making no further contributions, and making no withdrawals. Investors joining on other dates, making additional contributions, or making withdrawals 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 29 July 2010, as final index values for July are not available at time of publication.

[2] Market, portfolio, and most recent 12 months of reported fundamental data as of 30 July 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. The yield on Frontaura Global Frontier Fund is less than our portfolio dividend yield due to cash held.

Disclaimer

FRONTAURA

180 North Stetson Avenue, Suite 1935 Chicago, Illinois 60601 USA T +1 312 265 6882 F +1 312 268 5004 info@frontauracapital.com www.frontauracapital.com