August 2010 Monthly Comment written 31 August 2010 2 PM CDT

We estimate Frontaura was up 0% to 1% in August, bringing our QTD and YTD results to +4% and +21%, respectively. Global markets sold off in August, continuing their ping-pong pattern—down in June, up in July, down in August. We gained in each of these months. For the month through August 30 (August 31 index values are not final as we write this) on a total returns basis, the S&P 500 lost 5%, EAFE dropped 3%, MSCI Emerging dipped 2%, and MSCI Frontier was flat. For the year, the S&P 500 is -5%, EAFE is -8%, MSCI EM is flat, and MSCI FM is +6%. Our portfolio metrics continue to be attractive relative to developed and emerging markets. Our trailing PE is 7.7, down a full point from last month, mainly due to Q2 earnings. Our price/book and dividend yield are 1.5 and 6.0%, respectively.

Half-year earnings were decent for our companies, albeit less dramatic than the S&P 500's 49% year-over-year Q2 EPS growth, as our companies were not digging themselves out from an earnings hole in the prior year. Looking at some results reported in August, AIK Banka (Serbia) grew first half profit after tax (PAT) by 28%. Its trailing PE is 4.0; its price/book is 0.6. National Bank of Pakistan's first half PAT is up 25%, giving it a PE of 4.4, with a price/book of 0.7 and a yield of 9.3%. CRDB (Tanzania) grew PAT 52% in the first half, dropping its PE to 4.3 and its price/book to 1.1. It yields 6.4% with a return on ending equity of 23.5%. Credit quality is an issue at CRDB, however, as last year's drop in cotton prices required it to restructure loans to ginners, and government support is proving less robust than originally promised. Provision expense in 2010 is within our expectations, and well down from last year when this issue surfaced. The question is whether loan loss reserves are sufficient with NPLs at 10.2% of gross loans and only 30% reserved for. Staying in Tanzania, airport logistics firm Swissport grew first half EPS 7%. Its PE is 5.5 and its yield is 14.1%. Dairibord, Zimbabwe's leading dairy, nearly tripled profit versus last year's first half when the country dollarized, awakening from a hyperinflation slumber. A more relevant comparison is probably to the immediately prior half year, and on this sequential basis, PAT rose 40%. Dairibord's shares are up 32% since it released earnings, yet it still trades with only a 6.7 PE and its price/book is only 1.0. Sonatel, the French West Africa telecom blue chip, saw profit dip 9% on 2% revenue growth. Unlevered profit was flat, in line with our expectations. Sonatel has a trailing PE of 7.5 with a yield of 10.2%. Return on ending equity is 40.1%.

With summer ending, our travel schedule is picking up. Last week, Nick was in the three countries of the Caucasus—Armenia, Azerbaijan, and Georgia—and two countries in Central Asia, Turkmenistan and Uzbekistan. Next week, Nick will be in Vietnam, and later in September and early October, Steve will attend investment conferences in Nigeria and Austria, the latter covering Central and Eastern Europe, with country visits to Ghana and Cote d'Ivoire. In mid-September, Steve will be at another Nigerian investment conference, this time in New York, and both Steve and Nick will be in New York on Friday, September 17, meeting current and potential clients.

Frontier markets continue to gain media attention. *Barron's* quoted us in its August 2 cover story on investing in Africa, while *The Wall Street Journal* quoted us in an August 7 feature on frontier markets. We added a fourth member to our team in August, with Tom Egbert joining as a research analyst. Tom is a 2009 *summa cum laude* graduate of Wheaton College with a BA in Economics. He spent a year at the London School of Economics and has passed the CFA Level II examination.

Frontaura Global Frontier Fund

Fund Objective

Bloomberg Tickers: FRGLFRO US Equity, FRGLFRC KY 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 August 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	4%	2%	7%	6%	6%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	21%	- 5%	- 8%	0%	6%
ITD CAGR	9.4%	- 10.8%	- 14.0%	- 8.6%	- 18.2%

Holdings Summary

Country	Holding
Qatar	17%
United States (cash only)	8%
Sri Lanka	7%
Zambia	7%
Pakistan	7%
Cote d'Ivoire	7%
Tanzania	6%
Senegal	5%
Serbia	5%
Egypt	5%
Botswana	4%
Colombia	3%
Zimbabwe	3%
Ghana	3%
Iraq	3%
Montenegro	3%
Cyprus	3%
Nigeria	2%
Uganda	2%
Philippines	1%

Industry	Holding
Banks	34%
Consumer Staples	14%
Telecommunication Services	10%
Diversified	10%
Cash	10%
Industrials	7%
Insurance	4%
Specialty Finance	4%
Asset Management/Brokerage	3%
Consumer Discretionary	2%
Oil Marketing	2%

Portfolio Statistics[2]

Portfolio Price to Earnings	7.7
Portfolio Price to Book	1.5
Portfolio Dividend Yield	6.0%
Return on Ending Equity	28.0%

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 31 August 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 30 August 2010, as final index values for August are not available at time of publication.

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

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