September 2010 Monthly Comment written 30 September 2010 3 PM CDT

We estimate Frontaura was up 4%-5% in September, bringing our QTD and YTD gains to +9% and +26%, respectively. In September, global markets confounded investors who were worried about seasonal weakness. As we write this intra-day on September 30 (final index values for the month not yet available), the S&P 500 is having its best month since April 2009, up 9% on a total return basis. Looking further back using the *Ibbotson SBBI Yearbook,* we note that this September is the best for US large caps since 1939's 17% advance. Let's hope the market is smarter now than it was during that foolish rally, when it saw the outbreak of World War II as bullish for corporate profits. Unlike World War I, it wasn't, and stocks did not return to their September 1939 level until January 1943 on a total returns basis or until December 1944 on a price basis.

Rounding to the nearest percentage, this is the fifth consecutive month that the S&P 500 has been either up or down by at least 5%. Since the end of April, it has recorded two positive months and three negative months, with a cumulative return of -3%. Our "risky" frontier markets fund, on the other hand, has neither advanced nor declined by more than 5% per month during this period, with our worst result being down 1% in May, and our cumulative return over these five months being +10%. This explains why in a very good month, we gained "only" 4%-5%. MSCI EAFE, Emerging Markets, and Frontier Markets gained 10%, 11%, and 7%, respectively, for the month through September 29, but all trail us significantly for the year, as shown on page two. Our concentrated portfolio, presently consisting of only 32 frontier positions, now has an annualized standard deviation since inception of 21%—equal to the S&P 500, while our beta to the S&P is only 0.61. Our beta to MSCI EAFE, EM, and FM are lower still. Our diversification in 21 frontier countries dampens our volatility. Frontier markets, unlike developed and emerging markets, do not tend to move in unison because local retail investors—not global institutional investors—dominate these markets.

A question investors frequently ask us is where we are finding value currently. Our buys in September were similar to recent months, occurring mainly in Sub-Saharan Africa, Eastern Europe (primarily former Yugoslavia), and to a lesser extent, Pakistan. Comparing our mix in these places to one year ago, Sub-Saharan Africa has increased from 30% to 41%, Eastern Europe (for us Cyprus, Macedonia, Montenegro, and Serbia), has increased from 0% to 12%, and Pakistan has increased from 3% to 7%. We continue to trim Sri Lanka, although you would not know it, as its weighting remains resilient at the 7%-8% level of the prior three months due to continued high performance. Our holdings there were up another 17% in September. Much of what we are buying are banks, boosting our bank weight to its highest ever at 38% versus 21% a year ago. This is higher than we would prefer in theory (although still underweight, as banks are about half of our universe), but theory doesn't always allow you to buy stocks at four times trailing earnings or one-half book value. Most of what we bought in September were at these valuations and most of what we bought were banks. These are simple banks—they take deposits, they make loans, and they aren't sophisticated enough to do much else. If there were, we would probably not own them! Our portfolio trailing PE is now 8.1 with a 5.6% yield.

Investor contributions for October 1 make it our second best month ever, with the majority of money coming from non-US investors. About one-third of our inflows in 2010 have come from outside of the US, appropriate given our geographic scope as a global frontier fund.

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 September 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	9%	12%	17%	17%	14%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	26%	4%	2%	10%	14%
ITD CAGR	10.9%	- 7.8%	- 10.8%	- 5.2%	- 14.9%

Holdings Summary

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

Industry	Holding
Banks	38%
Consumer Staples	14%
Telecommunication Services	11%
Diversified	10%
Industrials	7%
Insurance	7%
Specialty Finance	4%
Cash	4%
Asset Management/Brokerage	3%
Consumer Discretionary	2%
Oil Marketing	2%
Materials	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	8.1
Portfolio Price to Book	1.4
Portfolio Dividend Yield	5.6%
Return on Ending Equity	25.6%

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 September 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 September 2010, as final index values for September are not available at time of publication.

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

Disclaimer

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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