October 2010 Monthly Comment written 29 October 2010 4 PM CDT

We estimate Frontaura is up 3%-4% so far in October, exactly in line with global indices (see page two). YTD, we are now up 31%. Note that 17% of our portfolio trades one more day this month on Sunday, October 31. The monthly index figures we cite are through Thursday, October 28, as final October index values are not available.

Steve traveled twice in October, first to an investment conference in Vienna, Austria featuring many frontier companies from Central and Eastern Europe (CEE). A difficulty we have in this region is that many companies--holdovers from the days of communism--still have asset-heavy businesses with low returns on capital. The CEE stocks we have invested in tend to be stable companies selling at low multiples of earnings or at discounts to book value, rather than growth companies earning high returns. Undeterred, Steve ventured to Bulgaria this week, before spending a day with investors in London. In November, Nick will attend a Middle East investment conference in New York and meet investors.

Our fund is now three years old, an appropriate anniversary to assess how we've done against our stated objective to "provide investors with a net return series that over multiple years exceeds that of the major global developed and emerging equity indices" using a strategy seeking "to exploit pricing inefficiencies in frontier equity markets". We describe our investment philosophy as contrarian, intrinsic value focused, rigorous, and disciplined. These are not just a string of adjectives. Our contrarian bent and value focus caused us to avoid overvalued or overleveraged areas in 2007 and 2008 such as CEE, the former Soviet Union, Vietnam, and Middle Eastern real estate and construction, while they were frothy. We have since invested in several of these areas, generally after prices fell 50%-80%. Our rigorous research process and intensive travel schedule has allowed us to uncover value where others did not see it. Our discipline meant we bought only when conditions were favorable for us, sold when conditions were unfavorable, and waited when the situation was unclear. For example, glamour stocks that everyone loves and owns and which we could trade easily do not tempt us if they do not have a tempting valuation. Our results? The numbers tell the story. We've estimate we gained 40% since inception after fees, or 11.8% compounded annually. Our start--November 1, 2007--was just after global markets peaked, so broad global indices have lost money during our history. On a total returns basis, developed markets lost 18% in the US (S&P 500) and 26% elsewhere (MSCI EAFE). The investment world's current darling, emerging markets, lost 12% (MSCI EM), while frontier markets were the dog of the group, down 36% (MSCI FM), an annual compounded loss of 14.0%. We think we have demonstrated convincingly that there are pricing inefficiencies in frontier markets that an active, boutique fund manager can exploit. Naturally, we will not always outperform, and during risk-on periods, our style might actually be at a performance disadvantage. Nevertheless, with an attractively priced portfolio--trailing PE of 8.3, price/book of 1.4, and a 5.4% dividend yield--we should do well over the long run.

Investor contributions for November 1 topped October 1, making for our second best month ever two months running. Again, the majority of new money comes from non-US investors. We have a loyal group of long-term minded investors who have been generous in referring us to their network of contacts around the world. We would be remiss not to cite our clients, who are patient and believe in our investment philosophy. They have been an essential part of our success over our first three years and we thank them wholeheartedly.

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 October 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%	11%	16%	18%	14%
2010 Q4	3%	4%	4%	3%	4%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	31%	8%	5%	14%	19%
ITD CAGR	11.8%	- 6.5%	- 9.6%	- 4.1%	- 14.0%

Holdings Summary

Country	Holding
Qatar	15%
Cote d'Ivoire	7%
Zambia	7%
Serbia	7%
Pakistan	7%
Tanzania	6%
Sri Lanka	6%
Senegal	6%
Nigeria	6%
United States (cash only)	5%
Egypt	5%
Zimbabwe	4%
Colombia	3%
Botswana	3%
Cyprus	3%
Iraq	3%
Ghana	2%
Montenegro	2%
Vietnam	1%
Uganda	1%
Macedonia	1%
Philippines	1%

Industry	Holding
Banks	38%
Consumer Staples	14%
Telecommunication Services	11%
Diversified	9%
Cash	6%
Industrials	6%
Insurance	4%
Asset Management/Brokerage	3%
Specialty Finance	3%
Consumer Discretionary	2%
Oil Marketing	2%
Materials	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	8.3
Portfolio Price to Book	1.4
Portfolio Dividend Yield	5.4%
Return on Ending Equity	24.6%

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 29 October 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 28 October 2010, as final index values for October are not available at time of publication. Note that final October 2010 performance for Frontaura, but not for the indices, will include Islamic market trading on Sunday, 31 October 2010.

[2] Market, portfolio, and most recent 12 months of reported fundamental data as of 29 October 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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