December 2010 Monthly Comment written 31 December 2010 5 PM CST

Although our estimate is rougher than usual due to year-end activities, we estimate Frontaura gained 3% in December and 8%-9% in Q4. For 2010, Frontaura is up 37% and our CAGR since inception is now 12.9%. Despite good performance, the trailing portfolio PE of 7.9 is less than the 9.0 level a year ago. The dividend yield has dropped some, but is still high at 5.6%, and the price/book remains reasonable at 1.4. Global markets did better than we did in December (and answered last month's question of whether November's drop was the end of a powerful rally or just a brief pullback—it was the latter); about the same as we did in Q4; and worse than we did in 2010. Through December 30 (final index values for the month not available as we write this) on a total returns basis in 2010, the S&P 500 gained 15%, MSCI EAFE (developed markets) gained 7%, MSCI EM (emerging markets) gained 18%, and MSCI FM (frontier markets) rose 23%.

Cote d'Ivoire was in the spotlight this month as Laurent Gbagbo clung to power after disputed presidential elections. Most of the world views challenger Alassane Ouattara as the legitimate winner, but he has been unable to assume office as Gbagbo still controls the military. While disappointed with this outcome, and fearful that events could spin out of control, we have been pleasantly surprised at Africa's unified and tough stance to date against Gbagbo. The past tendency to look the other way or to propose a unity government is for now being rejected. A delegation of leaders from neighboring countries has even threatened forcible removal of Gbagbo if he does not step down. It's unclear if they have the means to carry through on this threat, however. Importantly, Cote d'Ivoire is part of the West African franc currency union, and the regional central bank has stripped Gbagbo of his signing authority. This run-out-the-clock strategy could starve his regime of funds. The stock market has continued to function during this crisis, as it did during the 2002-2004 civil war (see Frontaura Observer #7), with stocks barely budging. The largest stock on the exchange, telecom operator Sonatel, which we hold, has gained during the crisis, but based in Senegal, it has no operations in Cote d'Ivoire. Excluding Sonatel, we have 6% of our portfolio in Cote d'Ivoire. News that is more positive came from Qatar, 13% of our portfolio, which won out over the US to host the 2022 World Cup.

At year-end, we held 35 positions in 23 countries. One position exiting the portfolio was Celtel Zambia, where new parent Bharti Airtel of India bought out the minority shareholders through a tender offer. Our modest US dollar gain of 13% after all transaction costs looks more respectable when considering a) we first bought Celtel in August 2008, a month before Lehman Brothers collapsed; and b) the Zambian kwacha was 25% lower at the time of sale than when we first bought. Further, Celtel faced increased competition and had disappointing earnings in 2010.

Investing guru Marc Faber mentioned us again in his December monthly market comment, highlighting our Kosovo trip (see Frontaura Observer #19). CNBC invited Nick to appear on Streets Signs as part of a weeklong feature it did on Iran's investing and business climate. We visited Iran in May (see Frontaura Observer #18), and discussed our investing and business observations from that trip with Erin Burnett. To watch the interview, click: http://www.cnbc.com/id/15840232?video=1690386418&play=1.
Several clients forwarded the following BBC video to us, which neatly summarizes global history of the last 200 years in less than five minutes, presenting the optimist's case for continued global growth and human progress (and indirectly explaining why we think investing in frontier markets makes sense) We think you will enjoy it: http://www.youtube.com/watch?v=jbkSRLYSojo.

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 December 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	9%	11%	6%	7%	8%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	37%	15%	7%	18%	23%
ITD CAGR	12.9%	- 4.2%	- 8.5%	- 2.6%	- 12.4%

Holdings Summary

Country	Holding
Qatar	13%
Pakistan	10%
Serbia	7%
Nigeria	6%
Zambia	6%
Senegal	6%
Tanzania	6%
Botswana	6%
Cote d'Ivoire	6%
Egypt	5%
Cyprus	4%
Zimbabwe	3%
Iraq	3%
Bulgaria	3%
Vietnam	3%
Ghana	3%
Sri Lanka	3%
Colombia	2%
Montenegro	2%
USA (cash only)	1%
Uganda	1%
Macedonia	1%
Philippines	1%

Industry	Holding
Banks	41%
Consumer Staples	15%
Diversified	8%
Telecommunication Services	8%
Consumer Discretionary	6%
Specialty Finance	6%
Industrials	4%
Cash	3%
Insurance	3%
Asset Management/Brokerage	2%
Oil Marketing	2%
Materials	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	7.9
Portfolio Price to Book	1.4
Portfolio Dividend Yield	5.6%
Return on Ending Equity	24.3%

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

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