January 2011 Monthly Comment written 31 January 2011 5 PM CST

We estimate Frontaura gained between 2% and 3% this month. January saw a number of divergent events--increased investor confidence in the US and in the euro, rising inflation and interest rate worries in emerging markets, rapid frontier market inflows, and the return of political risk in emerging and frontier countries. Political risk captured the bulk of the headlines as the month ended, but so far has had less overall global market impact than the other January events. Through January 28 (January 31 final index values not available as we write this), the S&P 500 and MSCI EAFE (developed markets) each gained 2%, although EAFE's gain was less than half this in euro terms. MSCI EM (emerging markets) lost 2%, with nine of its 21 countries dropping by 7% or more. MSCI FM (frontier markets) gained 2%.

Several of our countries raced to double-digit percentage gains in the first two weeks of January on the back of strong beginning-of-year inflows, putting us up about 4.5% mid-month. Just under half of this gain fell away over the remainder of the month, primarily due to political risk in Egypt. It is one of the smallest EM countries, making it eligible also for our universe. We hold about 5% of Frontaura in Egypt. Other countries with political risk issues now include Tunisia, where we have not invested since 2009, and Cote d'Ivoire, where we hold 4%. Authorities have kept the Egyptian Exchange closed since January 27, but several of its largest stocks have GDRs still trading in London. The average performance of the three largest Egyptian GDRs, representing over 50% of the EGX 30 index, from the January 27 Egypt price to the January 31 London price translated to Egyptian pounds is -8.2%. We marked down our two holdings in Egypt by this amount at month end, bringing our Egypt monthly loss to -22%. MSCI's Egypt index dropped 21% without any end-of-month markdown.

Events in Egypt are fast moving, with anything possible, and specific predictions difficult to make. We see the military as the real power behind the throne, as political leaders since 1952 (e.g. Nasser, Sadat, Mubarak) have come from it. The media is vulnerable to under reporting the military's role, as angry demonstrators make for better TV than behind-the-scenes meetings. Uprisings like these are often battles of willpower--whoever has the most prevails. Bluntly, this may mean the willpower to kill dozens, hundreds, or thousands of citizens. If a government is willing to do that, they usually can put down the protests (e.g. failed uprisings in East Germany 1953, Hungary 1956, Czechoslovakia 1968, China 1989, and Iran 2009). For now, the military has ruled out a Tiananmen Square scenario, which may give the upper hand to the people. Mubarak's grip on power is tenuous, and we expect the military will ease him out. We suppose they may prefer to do this at a time of their choosing in the coming months leading up to, or simultaneous with, September elections. But if protests continue, they could shove him aside quickly in the coming days. Ultimately, we hope for a peaceful, more democratic Egypt. We note, however, that Egypt already began significant economic liberalization in 2004 (a reason why the stock market is up over 10-fold since 2002), so a people power revolution will not necessarily signal immediately brighter times for the country economically. As investors, our concern is actually the opposite--a populist new regime could undermine the pro-business stance of the current government. Protests, revolution, and democracy can be messy, after all.

Our portfolio trades at 8.2 times trailing reported earnings with a 5.6% dividend yield. While political risk is real, with these reasonable valuations, we feel good about Frontaura's prospects going forward.

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 January 2011[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%	7%	7%	8%
2011 Q1	3%	2%	2%	-2%	2%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	37%	15%	8%	19%	24%
ITD CAGR	13.5%	- 3.6%	- 7.4%	- 3.1%	- 11.5%

Holdings Summary

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

Industry	Holding
Banks	37%
Consumer Staples	13%
Telecommunication Services	9%
Cash	9%
Consumer Discretionary	7%
Specialty Finance	7%
Diversified	6%
Industrials	5%
Insurance	2%
Asset Management/Brokerage	2%
Oil Marketing	1%
Materials	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	8.2
Portfolio Price to Book	1.5
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 January 2011 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 January 2011, as final index values for January are not available at time of publication.

[2] Market, portfolio, and most recent 12 months of reported fundamental data as of 31 January 2011. 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. At present, we retain all income, rather than distribute it.

Disclaimer

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