February 2011 Monthly Comment written 28 February 2011 5 PM CST

Political risk in the news in January caught up to us in February, with Frontaura's estimated return at -4%. For 2011, we are now -1%. MSCI Frontier Markets are -5% for the month and year, while MSCI Emerging Markets are -2% for the month and -4% for the year. Developed markets to date have shrugged off these risks. The S&P 500 and MSCI EAFE are +3% and +2%, respectively, for February, and both are +5% for the year. (All indices are total returns through February 27, as month-end values are not available as we write this). Our portfolio trades at 8.1x trailing reported earnings with a 5.6% dividend yield.

Cote d'Ivoire's political situation has deteriorated since we wrote about it in December, with the illegitimate President Gbagbo becoming increasingly aggressive and desperate as he runs out of cash. Note to dictators: be sure you control your country's currency before staying beyond your mandate. Cote d'Ivoire is one of eight countries to use the West African franc. The central bank in Senegal cut off Gbagbo, so he seized the leading foreign banks to get cash to pay civil servants and soldiers. The stock exchange and the banking system last traded and operated normally on February 11. We wonder whether Zimbabwe's Robert Mugabe feels jealousy or admiration for Gbagbo. While Mugabe ruined Zimbabwe's former currency, he took nearly the entire last decade to (mis)manage this and he never collapsed a banking system, something Gbagbo pulled off in only three months. More seriously, how do we value the three listed stocks we have on the BRVM exchange in Cote d'Ivoire? We own Societe Generale, the country's largest bank, now claimed by two sets of owners, one led by the French parent and shareholders like us, the other being Gbagbo's administration. Even though the BRVM relocated to Mali and will attempt to resume trading this week, we think it could take months or years to resolve the bank's ownership. Even then, the value of the bank is unclear, given its inherent leverage. Its liquidity problem could become a solvency problem in light of likely large increases in problem loans as the political crisis begets an economic crisis. We value it at 0 now. We hope for a better outcome, naturally, but we think it prudent to take all of the pain upfront. Our second position provides consumer staples and operated successfully through the last civil war. It is naturally illiquid, especially recently, so we mark it down by a 35% illiquidity discount to its last traded price. Our final position is telecom firm Sonatel, based in Senegal. We don't see the case for assigning a large discount to it, as it does not operate in Cote d'Ivoire. We note that since the exchange closed, the MSCI FM Africa Index is down 2.5% in USD, or 4.2% in West African franc terms if we remove the franc's gains against the dollar. So we mark down Sonatel's local currency price by 4.2% (to be updated through February 28). In total, these BRVM markdowns cost us over 2 percentage points of performance. With March 1 inflows, our exposure to Cote d'Ivoire will be 1%, Senegal will be 6%, and Egypt 4%.

Egypt resumes trading March 1, after closing January 27. Last month we marked Egypt down 8.2% using London prices. That method calls for a markup this month, to a price level 5.6% below January 27. It seems wrong to us to increase Egypt prices. We decided to mark down our Egypt holdings slightly to 10% (the daily limit down maximum) below their January 27 price. London GDRs and the US EGPT ETF suggests equilibrium is above this; several traders suggest equilibrium is below this, so there's a case either way, but we think a 10% markdown is reasonably objective. The market could fall further than this of course, but it becomes impossible to disentangle March trading from February valuation at some point.

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 February 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	-1%	5%	5%	-4%	-5%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	37%	15%	8%	19%	24%
ITD CAGR	11.9%	- 2.5%	- 6.6%	- 3.7%	- 13.2%

Holdings Summary

Country	Holding
USA (cash only)	13%
Qatar	10%
Pakistan	9%
Serbia	7%
Botswana	7%
Senegal	7%
Vietnam	6%
Nigeria	6%
Tanzania	6%
Zambia	4%
Egypt	4%
Iraq	3%
Cyprus	3%
Bulgaria	3%
Zimbabwe	2%
Ghana	2%
Sri Lanka	2%
Colombia	2%
Montenegro	1%
Cote d'Ivoire	1%
Others	2%

Industry	Holding
Banks	34%
Cash	15%
Consumer Staples	12%
Telecommunication Services	8%
Specialty Finance	7%
Consumer Discretionary	7%
Industrials	6%
Diversified	5%
Insurance	3%
Asset Management/Brokerage	2%
Oil Marketing	1%
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	22.8%

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 28 February 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 27 February 2011, as final index values for February are not available at time of publication.

[2] Market, portfolio, and most recent 12 months of reported fundamental data as of 28 February 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, withholding taxes, management fees, and operating expenses. At present, we retain all income, rather than distribute it.

Disclaimer

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