June 2011 Monthly Comment written 30 June 2 PM CDT

We estimate that we lost 2% in June and 1% in Q2, similar to global markets. The indices we cite all presently have lost between 1% and 3% for June and between 0% and 2% for Q2. For 2011, we are flat. YTD, the S&P 500, up 5%, and MSCI EAFE (developed markets) up 3%, are ahead of us; MSCI EM (Emerging Markets) is flat like us; and MSCI FM (Frontier Markets) has performed worse than us, losing 6%. All index figures are total returns through June 29 (June 30 values are not available at this writing); Frontaura's estimate is through June 30. Flat performance and the passage of time can result in a portfolio becoming more cheaply valued, even more so if one invests new cash at valuations below the portfolio average. Frontaura's weighted average trailing reported PE is now 7.8. Our month-end PE was last lower in August 2010, at 7.7, before the global rally commenced after Bernanke's QE2 announcement. The last time the PE was materially lower was in June 2009, at 6.8, only a few months after markets hit their global financial crisis low. Frontaura's price/book is 1.2, a level last seen in August 2009, and last lower in May 2009, at 1.1.

Steve spent a week in Vietnam in June, our second visit this past year. We first profiled the country, favorably, in Frontaura Observer #9 in 2008. Our percentage exposure there went from 0% to double digits, back to nearly 0%, and is now again in double digits. We made good money on our first round trip, investing in a special situation and avoiding this manic market's period of extreme overvaluation. We like the country for its dynamicism and its demographics. Every time we visit, we observe advancement. Nonetheless, we acknowledge that the government has made a real hash of its economic and monetary policy. Year-over-year inflation through June is 20.8%, lower than Venezuela (and Argentina's unofficial figures), but higher than every other country per Bloomberg. The budget deficit and the current account deficit are high; international reserves are low; the currency has been weak historically; and central bank rate hikes from 8% in November 2010 to 15% in May 2011 will likely slow growth. At the company level, many businesses are state-owned, with the negative stereotypes that can imply; many have high debt levels; and many are unfocused, dabbling in real estate and other non-core businesses. Further, Vietnamese accounting standards do not require companies to deduct certain director and employee expenses on the income statement. This understates PEs by about 10%. (Annoyingly, this is the norm in several emerging and frontier countries; we adjust our PEs to reflect proper expensing.) To sum up, there's a lot not to like about investing in Vietnam. On the other hand, hundreds of listed companies exist, so for every few dozen dogs there may be one worth owning. We've accumulated a basket of Vietnamese companies, generally trading at 4 to 6 times trailing, properly adjusted, earnings, with low debt, and returns on capital ranging from the mid-teens to over 40%. We may be too early. The rate increases, a necessary and welcome change from the prior growth-at-any-cost mentality, may nonetheless disrupt the economy and debt-laden companies. The stock market could drop further, even though the Ho Chi Minh City exchange is down 15% this year, while the Hanoi exchange is down 38%, both on a USD price basis. We are well aware that today's 6 PE can become tomorrow's 4 PE, through further price declines, or tomorrow's 15 PE, through an EPS collapse. So risks abound, but our models account for this quantitatively, and we evaluate this qualitatively. We find the long-term risk/reward in Vietnam actually favorable, even with an uncertain near term. We are patient and expect good returns from Vietnam eventually, but it may take years for our thesis to play out.

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 June 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	2%	6%	3%	2%	- 5%
2011 Q2	- 1%	- 1%	0%	- 2%	-1%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	37%	15%	8%	19%	24%
2011	0%	5%	3%	0%	- 6%
ITD CAGR	11.2%	- 2.4%	- 6.4%	- 2.2%	- 12.3%

Holdings Summary

Country	Holding
Vietnam	14%
USA (cash only)	10%
Pakistan	9%
Qatar	8%
Tanzania	8%
Serbia	8%
Senegal	5%
Nigeria	5%
Botswana	5%
Iraq	5%
Zambia	4%
United Arab Emirates	3%
Zimbabwe	3%
Cyprus	2%
Bulgaria	2%
Ghana	2%
Sri Lanka	2%
Colombia	1%
Cote d'Ivoire	1%
Montenegro	1%
Uganda	1%
Others	1%

Industry	Holding
Banks	31%
Cash	14%
Consumer Staples	12%
Industrials	11%
Consumer Discretionary	7%
Telecommunication Services	6%
Specialty Finance	5%
Materials	4%
Insurance	3%
Diversified	2%
Health Care	2%
Asset Management/Brokerage	1%
Oil Marketing	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	7.8
Portfolio Price to Book	1.2
Portfolio Dividend Yield	4.3%
Return on Ending Equity	21.9%

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 June 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 29 June 2011, as final index values for June are not available at time of publication.

[2] Market, portfolio, and most recent 12 months of reported fundamental data as of 30 June 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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