July 2011 Monthly Comment written 31 July 12 PM CDT

July was somewhat a repeat of June. Global markets declined due to slowing economic growth and concerns over sovereign debt problems in the US and Europe. Three of the four indices we cite were down either 2% or 3% in July (see page two), and we performed similarly, with an estimated loss of between 2% and 3%. We now have lost about 2% for 2011. As we mentioned last month, prices that drift down tend to make a portfolio cheaper. Our trailing reported month-end PE of 7.6 is the lowest since it was 6.8 for June 2009, a few months after stock markets bottomed during the global financial crisis. Since then, we've gained 56%, but our portfolio is only slightly more expensive on an earnings multiple basis.

We've never met a broker who complained that trading volumes were too high, but the usual moaning about low volumes seems to us to be above normal now. Inflows into the frontier markets asset class have subsided currently after being strong for the first few months of 2011. We've experienced this before and it actually creates a good environment for us to buy stocks. We were active throughout July, with the last week of the month recording our largest net purchases in 16 weeks. Cash is now 9% of the portfolio, down from 20% two months ago, having been elevated due to inflows. None of this is a prediction about short-term market direction, which we believe to be inherently unforecastable. Simply put, though, we have a methodology of buying companies we want to own, typically with high returns on capital, when their stock prices are below our estimate of intrinsic value. Right now is a buyer's market for us. If markets decline further, that is likely to be even more the case, although we do adjust our intrinsic values for changes in the fundamental outlook.

Speaking of fundamentals, let's turn to earnings. Frontier earnings season is a long one, and to date only 27% of our portfolio has reported their June calendar quarter. Reports will continue into August, with some stragglers going into September or beyond. Individually, most reports have been okay, with revenue and earnings growers outnumbering decliners by two to one, and forecast increases outpacing decreases. A couple of outliers have dragged us down, however, such that our weighted average Q2 revenue growth is only 4% so far with after-tax profit dropping 6%. Qualitatively, this pattern is similar to Q1, as we discussed in our Q2 letter earlier this month. We should pause to explain that our portfolio companies' earnings results over the past five years has been markedly different from that of US companies, requiring a different frame of reference. US company earnings peaked in 2006, dropped in 2007, cratered in 2008 and early 2009, then began to recover around mid-2009, with high percentage rates of growth continuing through the present time, but absolute levels of earnings only now approaching the pre-crisis peak. In contrast, our portfolio had great results in 2007 that mostly continued into 2008. Since then results have been flattish, remaining around record levels. So for about two years, developed world companies have had higher percentage earnings growth than our portfolio as they are making up for their horrible results during the crisis. We can attribute nearly all of our July performance loss to two banks, one in Africa and one in Eastern Europe, whose prices ran up significantly at the beginning of the year and since have retraced all of those gains and then some as earnings disappointed. Each presently trades at 0.5 book value and they each have among the highest ratio of balance sheet equity to assets that we know of in our universe today, at over 25%. We expect the compelling nature of their low valuation and high capitalization to outlast eventually the issues that presently bog down the stock price.

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 July 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%	0%	2%	- 1%	0%
2011 Q3	- 2%	- 2%	- 2%	0%	-3%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	37%	15%	8%	19%	24%
2011	- 2%	4%	3%	0%	- 8%
ITD CAGR	10.2%	- 2.6%	- 6.2%	- 2.0%	- 12.5%

Holdings Summary

Country	Holding
Vietnam	14%
Pakistan	9%
Qatar	8%
Tanzania	8%
Serbia	8%
USA (cash only)	7%
Botswana	5%
Iraq	5%
Senegal	5%
Nigeria	5%
Zambia	4%
Romania	3%
United Arab Emirates	3%
Zimbabwe	3%
Bulgaria	2%
Cyprus	2%
Ghana	2%
Sri Lanka	2%
Colombia	1%
Cote d'Ivoire	1%
Montenegro	1%
Uganda	1%
Others	1%

Industry	Holding
Banks	32%
Consumer Staples	13%
Industrials	12%
Cash	9%
Consumer Discretionary	7%
Telecommunication Services	6%
Specialty Finance	5%
Energy	4%
Materials	3%
Insurance	3%
Diversified	2%
Health Care	2%
Asset Management/Brokerage	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	7.6
Portfolio Price to Book	1.2
Portfolio Dividend Yield	4.8%
Return on Ending Equity	21.8%

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 31 July 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 July 2011. Note that MSCI includes Middle Eastern market results for Sunday, 31 July in August, but Frontaura includes these results in July. This difference is immaterial.

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