August 2011 Monthly Comment written 31 August 11 AM CDT

We estimate that Frontaura lost 4% in August. As of this writing, we don't have final index values for the month, but through August 30 on a total returns basis, the MSCI Frontier Markets (FM) Index was down 5% and the S&P 500 was down 6%. MSCI EAFE and MSCI Emerging Markets (EM) each lost 11%. For the year, we are now down 6%, behind the S&P 500's 2% loss, but ahead of MSCI FM's 13% drop. MSCI EAFE and MSCI EM are down 8% and 10%, respectively, this year.

Volatile moves in the S&P 500 in August drove global markets down, up, down, and then up again. If the S&P 500 continues its month-end rally today, it could finish with a result similar to us. Within the month though, it had a much more volatile path. The S&P 500 fell 13.3% through August 8, regained half its loss in the following week, then retested its monthly lows through August 22, before rallying strongly into the month-end. In contrast, at our worst on August 9, we were down 4.7%; by August 17, our loss had shrunk to only 2.0%; by August 26, however, we were back down to -4.6%; then we improved only modestly to -4.0% at month-end. The S&P gained or lost 4% or more on six trading days and had 1% moves over 60% of the time. We had only one 1% daily move. This is similar to what we observed in 2008—we tend to have smaller losses and we tend not to rebound as sharply. Our monthly beta since inception is 0.59 to the S&P 500 and 0.55 to the MSCI FM. This is not something we manage; it is just the natural result from our style of investing. Diversification across 26 countries with a low institutional presence, along with low valuation of our companies, are the primary factors to date that lessen our volatility and limit our downside. The weighted average trailing PE of our portfolio companies is now 7.3, the lowest since June 2009, with a price/book of 1.1, the lowest since April 2009. The weighted average dividend yield of our companies is 4.7%, which helps support their prices in falling markets. Roughly one in five of our companies has a double-digit dividend yield. The weighted average return on ending equity of our portfolio is an impressive 23.1%. Our non-financial companies tend to have little debt, and this lack of leverage also helps in down markets. We were steady buyers throughout August, reducing our cash balance below 5%, prior to September 1 inflows. We have allocated nearly all of our cash to upcoming corporate actions or other commitments, such that for the first time in a while we actually could use more cash. We have no redemption requests and the inquiries we're receiving are from those contemplating whether to add funds, not whether to redeem. We do worry about recession and sovereign contagion risk in developed countries and the knock-on effect these events would have in the frontier universe. Further, we think it is impossible to predict short-term market performance, so we won't attempt to call whether a bottom has occurred, or when it may occur. Nevertheless, the values we see are the best since the 2008/2009 period.

With regard to Q2 earnings, 88% of our portfolio has reported now, with the August results slightly better than what came out in July. Q2 weighted average revenue growth is now 11%, unlevered profit is up 4%, and EPS is up 1%. These results are similar to Q1, and we view them as somewhat ho-hum, although we note that taken together earnings remain at record levels. See our discussion last month for more color on this.

With summer ending, our travel schedule picks up. Nick visits Tunisia, Estonia, Latvia, and Lithuania in September, and attends a conference on Central and Eastern European companies in October. He'll also see some of Frontaura's European clients in the UK and continental Europe. Steve visits Rwanda, Lebanon, and Iraq in October.

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 August 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	- 6%	- 8%	- 12%	- 11%	- 8%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	37%	15%	8%	19%	24%
2011	- 6%	- 2%	- 8%	- 10%	- 13%
ITD CAGR	8.8%	- 4.1%	- 8.9%	- 4.8%	- 13.5%

Holdings Summary

Country	Holding
Vietnam	16%
Qatar	9%
Tanzania	9%
Pakistan	8%
Serbia	7%
Nigeria	5%
Iraq	5%
Botswana	5%
Senegal	5%
Zambia	4%
USA (cash only)	3%
Romania	3%
United Arab Emirates	3%
Zimbabwe	2%
Bulgaria	2%
Sri Lanka	2%
Cyprus	2%
Ghana	2%
Rwanda	2%
Colombia	1%
Cote d'Ivoire	1%
Montenegro	1%
Estonia	1%
Others	1%

Industry	Holding
Banks	33%
Industrials	14%
Consumer Staples	13%
Consumer Discretionary	8%
Telecommunication Services	6%
Specialty Finance	5%
Cash	5%
Energy	4%
Insurance	3%
Materials	3%
Diversified	2%
Health Care	2%
Asset Management/Brokerage	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	7.3
Portfolio Price to Book	1.1
Portfolio Dividend Yield	4.7%
Return on Ending Equity	23.1%

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 August 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 30 August 2011, as final index values for August are not available at time of publication.

2 Market, portfolio, and most recent 12 months of reported fundamental data as of 31 August 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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