October 2011 Monthly Comment written 31 October 2 PM CDT

We estimate that Frontaura lost 2% in October. This is quite a contrast from the rest of the world, which rallied strongly after sharp drops in August and September. As of this writing, we don't have final index values for the month, but through Friday, October 28 on a total returns basis, the S&P 500, MSCI EAFE (developed markets), and MSCI EM (emerging markets) all rose 14% or 15%. MSCI FM (frontier markets) did not rally as strongly, gaining 3%. Including the August and September losses, the S&P 500 is now flat over the past three months, while the other three indices have dropped between 6% and 11%. We are down 9% during this period. With no price gains and good Q3 earnings so far, our weighted average trailing portfolio PE dropped by half a point during October to 6.5. Our price/book is now 1.0 and the dividend yield is 5.1%. Our weighted average return on ending equity has risen to 23.6%.

Our worst performing region in Q3, Central and Eastern Europe, returned to positive territory in October, but it gained only 1%, despite a 13% rise in Estonia. Sub-Saharan Africa continued to lag as it did in Q3, off 4% in October, with currency accounting for nearly 30% of the drop. Nigeria, down 14%, led our African losses. Our largest single-country position, Vietnam, continues to chart its own path. It fell 2% in October, after posting a slight cumulative gain over the months of August and September. Like Vietnam, Iraq also reversed course after Q3 gains, down 11% in October. Overall, we lost 1% in the Middle East, with Oman's 19% gain offsetting Iraq's decline.

While Frontaura is a frontier markets fund, the topic that investors ask us most about these days is the European sovereign debt crisis. This makes sense, as for nearly our entire four-year history the biggest risks to frontier countries are events emanating from the developed world. We've seen overleveraged institutions collapse, developed world economic growth stop, and policy responses cause global food and energy price inflation. Markets greeted warmly the latest summit to save the euro—realize there has been nearly one of these per month over the past year and a half—before and after its conclusion on Thursday, October 27. The Euro Stoxx 50 Index rose 6% that day alone. The summit's results are the most encouraging yet, as leaders now admit that the Greek debt haircut needs to be at least 50% and they require European banks to lower leverage by raising more capital. Nevertheless, the latest "comprehensive solution" has the usual unanswered questions and details to be filled in later. It may buy some time, but the euro is going to require an even more comprehensive solution, we think. The October rally is also due in part to good Q3 earnings and economic growth in the US. But positive US economic headlines rest on the twin pillars of all-time high corporate profit margins and consumers consuming beyond their income. Neither of these can be sustained indefinitely, so another source of growth (for example, job growth, higher wages, or rising house prices) may be necessary for the recent good US economic news to continue. In our Q3 letter, we discussed how we have continued our investing process despite global uncertainty. We bought throughout August and September because the discounts available relative to our estimates of intrinsic value were the highest we'd seen since the 2008/2009 period. Our 2008/2009 buys eventually, although not immediately, made money for our investors. We continued to buy in October, funding our purchases by selling a stock trading above its intrinsic value.

During October, we traveled to Rwanda, Lebanon, and Iraq, three formerly war-torn countries. Rwanda and Iraq should grow RGDP 7%-10% in 2011, so frontier progress continues despite developed world travails.

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 October 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	- 10%	- 14%	- 19%	- 23%	- 12%
2011 Q4	- 2%	14%	14%	15%	3%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	37%	15%	8%	19%	24%
2011	-11%	4%	- 3%	- 10%	- 15%
ITD CAGR	6.8%	- 2.4%	- 7.4%	- 4.6%	- 13.5%

Holdings Summary

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

Industry	Holding
Banks	30%
Consumer Staples	14%
Industrials	14%
Consumer Discretionary	9%
Cash	6%
Telecommunication Services	6%
Energy	4%
Specialty Finance	4%
Materials	4%
Insurance	3%
Diversified	3%
Health Care	1%
Asset Management/Brokerage	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	6.5
Portfolio Price to Book	1.0
Portfolio Dividend Yield	5.1%
Return on Ending Equity	23.6%

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

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