December 2011 Monthly Comment written 30 December 10 AM CST

We estimate that Frontaura gained less than 1% in December, breaking our six-month string of losses. For the quarter, we lost 6%, while we were down 15% for the year. The year's entire drop was in the second half; at the end of June, we were break-even for the year. None of the indices we cite had a particularly good 2011. Through December 29 (final index values for the year are not available as we write this) on a total returns basis, the S&P 500 did best, up 3%, while MSCI's indices for frontier markets and emerging markets did the worst, each down 19%. MSCI EAFE (developed countries ex-US) lost 13%.

Over our history, our performance has run in streaks, six in total, three up, and three down. Streak 1 ran from November 2007 through May 2008, when we were up six months out of seven, gaining 11%. Streak 2 saw us lose eight months out of nine through February 2009, losing 35%. We rebounded with Streak 3 from March 2009 through September 2009, gaining seven months in a row, advancing 52%. Streak 4 was a brief pause, when we were down three months out of four through January 2010, dropping 2%. In the following 12 months through January 2011, we were up 11 times, gaining 42% in Streak 5. From February 2011 through November 2011, Streak 6, we dropped eight months out of 10, declining 18%. The question is whether December's gain represents a new streak or if the prior downturn remains intact. Looking forward to 2012, we are enthused by the low valuations we have and the good operating characteristics of our companies. The trailing, reported PE of our portfolio continues to fall, down now to 6.1. One year ago it was 30% higher at 7.9 and it has been as high as 9.4. By way of comparison, the lowest month-end PE we've ever had was 5.9 in January 2009, although we did reach 5.7 intra-month in November 2008. Low PEs at the beginning of Streak 3 helped us to more than double performance by the end of Streak 5. The portfolio price/book is 0.9, the lowest we've ever had. Meanwhile our weighted average dividend yield is 5.8% and the return on ending equity is 23.1%. On the other hand, our enthusiasm is tempered by negative macro issues around the world, not in frontier countries, but in the largest global economies. Europe may well be in or headed for recession, the euro situation is unresolved, structural imbalances within the eurozone are unsustainable, yet most investors we talk to think it will all work out. We think it will not. The composition of the euro must change, probably beginning in 2012, and this has the potential to be quite messy and bad for all risk-based asset classes, including frontier markets. So for 2012 we feel good about the companies we own, but we acknowledge readily the uncertainty in the greater world.

Later today, we will hold our annual prognosticator's lunch with Chicago area clients and friends making predictions for the coming year. Among the predictions received so far, the consensus seems to be for little change in 2012, with the S&P 500 up 2% to 1286, oil down 3%, and gold up 3%. Our predictors expect US house prices to fall another 0.5% with the US economy continuing to grow sluggishly at 1.8% and US unemployment falling slightly from 8.6% to 8.1%. They see 10-year US treasury yields at 2.15%, up 25 basis points. The group projects Obama to win re-election by the tightest possible margin, gathering 270 electoral votes out of 538, the exact minimum needed to win. Divided government will prevail; with our predictors expecting Democrats to gain 16 seats in the House of Representatives (still leaving Republicans in control) while losing three seats in the Senate, putting it into a 50-50 deadlock between the parties. Our group cited ECB President Mario Draghi most often as the 2012 *Time* magazine Person of the Year, for better or for worse.

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 December 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	- 6%	12%	2%	4%	- 2%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	37%	15%	8%	19%	24%
2011	-15%	3%	- 13%	- 19%	- 19%
ITD CAGR	5.5%	- 2.6%	- 9.5%	- 6.6%	- 13.9%

Holdings Summary

Country	Holding
Vietnam	15%
USA (cash only)	13%
Qatar	9%
Tanzania	8%
Pakistan	7%
Serbia	5%
Iraq	5%
Nigeria	5%
Botswana	4%
Senegal	4%
United Arab Emirates	3%
Romania	3%
Estonia	3%
Bulgaria	2%
Zimbabwe	2%
Laos	2%
Rwanda	2%
Oman	1%
Cyprus	1%
Ghana	1%
Sri Lanka	1%
Colombia	1%
Cote d'Ivoire	1%
Montenegro	1%
Zambia	1%
Others	1%

Industry	Holding
Banks	30%
Cash	14%
Industrials	13%
Consumer Staples	12%
Consumer Discretionary	9%
Telecommunication Services	5%
Specialty Finance	4%
Energy	4%
Insurance	3%
Diversified	2%
Materials	2%
Health Care	1%
Asset Management/Brokerage	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	6.1
Portfolio Price to Book	0.9
Portfolio Dividend Yield	5.8%
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 30 December 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 December 2011, as final index values for December are not available at time of publication.

2 Market, portfolio, and most recent 12 months of reported fundamental data as of 30 December 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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