FRONTAURA
FRONTAURA CAPITAL LLC
FRONTAURA GLOBAL FRONTIER FUND LLC

January 2012 Monthly Comment written 31 January 1 PM CST

Last week, we hit the road, with Steve visiting Argentina and Uruguay and Nick traveling to Qatar and Pakistan. We discuss our impressions from South America below after reviewing January performance. This month was like October, three months ago, when global markets rallied and frontier markets did little. Through January 30, on a total returns basis (final index values for the month are not available as we write this), the S&P 500 and MSCI EAFE each gained 5%, while the MSCI Emerging Markets Index rose 10%. But the MSCI Frontier Markets Index was flat, and we estimate that we will finish January losing less than 1%. Frontier markets often lag a change in trend in global markets. For example, global markets peaked in October 2007, but frontier markets continued up until June 2008. In 2009, global markets rallied strongly from their lows, but several African frontier markets had down years, and overall, MSCI Emerging trounced MSCI Frontier 79% to 12%. In 2010, this reversed, with frontier beating emerging. If the global market rally that began in October continues for another three to six months, we think money will begin to flow into frontier again and it may be poised for better relative performance. The question is whether the developed world will hold together for the global rally to continue. Meanwhile, it remains a good time for picking frontier stocks and our portfolio gets ever cheaper as earnings rise and prices fall. Our weighted average trailing PE is now 5.9, tying January 2009 for the lowest ever month-end value. Price/book remains at a record low 0.9 with the dividend yield at 5.7%. The weighted average return on equity of our companies is 22.6%.

We've long had a bias against Argentina. There's a joke, perhaps unfair, but with some historical basis, that it is a country that has a crisis every decade, lasting for about 10 years. The last crisis, a sovereign debt default a decade ago, was severe, but in fairness, it did not last long and the country's had relatively good times in recent years. Several investors and others we respect have put a bug in our ear over the past year about the Argentine bull case. So we left a Chicago snowstorm behind to experience summer in Buenos Aires. We'll cut to the conclusion: our bias is confirmed. Nearly every company we spoke with cited government interference in their business activities. We have never heard this degree of complaint during a country visit. The banks look like a dream, with ROEs in the 20s and 30s, reasonable leverage, high yields, and mid-single-digit PEs, but we're not confident that the government will keep their hands off these profitable enterprises. Their meddling may have begun on the last day of our visit when the central bank raised the reserve requirement. Our broker thought this was to limit the dividend amount banks can remit to their foreign owners, to prevent further foreign currency outflows. We'll wait until the next crisis before we examine Argentina again.

A visitor to Uruguay's grandiose stock exchange, founded in 1867, will see scenes of bustling trading activity on one of Latin America's most vibrant exchanges. Unfortunately, the scenes are black-and-white pictures from many decades ago, when Uruguay had dozens of stocks. Today, only three stocks trade with any regularity and brokers use only a corner of the opulent trading hall for 30 minutes daily. As contrarians, we like this situation. Reversion to the mean could portend a more robust future for Uruguay's capital markets. As pragmatists, though, we have trouble visualizing this. A 1.5% corporate wealth tax encourages debt and discourages listings—better to remain private where your value is not so transparent. Further, strong unions are a barrier to privatizations. As much as we dislike the term, Uruguay needs some kind of catalyst to jolt its docile market out of its decades-long slumber.

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 January 2012[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%	3%	4%	- 2%
2012 Q1	- 1%	5%	5%	10%	0%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	37%	15%	8%	19%	24%
2011	-15%	2%	- 12%	- 18%	- 19%
ITD CAGR	5.3%	- 1.7%	- 8.0%	- 4.4%	- 13.6%

Holdings Summary

Country	Holding
Vietnam	15%
USA (cash only)	11%
Tanzania	9%
Qatar	9%
Pakistan	8%
Serbia	6%
Nigeria	6%
Iraq	5%
Senegal	4%
Botswana	4%
Estonia	3%
United Arab Emirates	3%
Romania	3%
Bulgaria	2%
Zimbabwe	2%
Laos	2%
Rwanda	2%
Oman	1%
Cyprus	1%
Colombia	1%
Ghana	1%
Cote d'Ivoire	1%
Montenegro	1%
Zambia	1%
Others	1%

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

Portfolio Statistics[2]

Portfolio Price to Earnings	5.9
Portfolio Price to Book	0.9
Portfolio Dividend Yield	5.7%
Return on Ending Equity	22.6%

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 January 2012 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 January 2012, as final index values for January are not available at time of publication.

2 Market, portfolio, and most recent 12 months of reported fundamental data as of 31 January 2012. 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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