February 2012 Monthly Comment written 29 February 11 AM CST

We estimate that we gained around 4% in February, our best performance in 17 months. Vietnam, our largest country exposure, powered over half our gain, rising 14%. Other notable contributors were Estonia, Qatar, Romania, and Zimbabwe. Through February 28, on a total returns basis (final index values for the month are not available as we write this), the MSCI Frontier Markets Index rose 3%, while the other global indices we track were up 5%-6% (see page 2). Last month we wrote that frontier often lags global trends before responding, and February felt like the response may be beginning. We continue to think that—provided the developed world can hold itself together, a significant caveat—money inflows into frontier markets could well pick up in the coming months. The combination of low valuations (our trailing PE is 6.4), improving inflows, disinflation, and interest rate cuts in frontier countries could be powerful. The disinflation/rate easing cycle that we predicted back in the Q2 2011 quarterly letter is occurring, albeit somewhat slower and with less consistency globally than we expected. Moreover, surging oil prices since October (in euro terms, prices equal their July 2008 high) could derail this trend.

Nick recently traveled to Qatar and Pakistan. While the bulk of its massive LNG capacity expansion is now complete, Qatar's economy continues to do well. After a string of six consecutive years when RGDP grew between 12%-26% annually, propelling Qatar to become the richest country on earth per capita, the IMF estimates that growth will settle down to a more normal 6% this year. The "slowdown" has been expected for years so it is not an investment issue. Qatar remains arguably the most stable country we hold. In contrast, there is Pakistan, a country we enjoy visiting but which makes one nervous when reading the news. We left Pakistan feeling even better about the companies there, but with a heightened concern about its macroeconomic outlook. Others focus on political factors, but we tend to concentrate on economic statistics—current account balance, international currency reserves, debt levels, inflation, and so forth—when assessing a country's risk outlook. Over the years, Pakistan has tended to be vulnerable on these measures, with these risks manifested in a weakening currency that directly reduces our investment return. A year ago, the country surprised many when its current account balance turned positive. Now that temporary phenomenon has reversed, and we think the outlook for reserves is worse than official projections suggest. So the currency may come under renewed pressure later this year. Having said that, we have to comment that prices of ordinary goods in Pakistan are already cheap in dollar terms, among the cheapest we've encountered in our years of travel. Consider the price of a 1.5-liter bottle of Nestle water in a 5-star hotel. Now 5-star hotels don't tend to offer particularly good value when selling outside products, and such a large bottle of water could cost up to $10 in some places we visit. Pakistan price: $0.67. Our room on an executive floor in this prime hotel in a prime location cost $113 before tax, including free breakfast, internet, and round-trip chauffeured transport to the airport. Pakistan has roughly 600 public companies, nearly all selling at reasonable to low PEs, often 5 or less. Many are well managed; they have to be to survive the difficult operating conditions, although exceptions exist. Further, few investors visit. Our broker has hosted only a couple foreign investors in the past year, whereas five years ago they had visitors every week. As a result, you can meet almost any company or institution you desire. So Pakistan has attractive stocks to own, but we manage country exposure carefully given the currency vulnerability. In March, we visit Belarus, Estonia, Latvia, Lithuania, and Ukraine.

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 February 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	3%	9%	12%	17%	3%
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	6.1%	- 0.6%	- 6.6%	- 2.9%	- 12.8%

Holdings Summary

Country	Holding
Vietnam	16%
Tanzania	10%
USA (cash only)	9%
Qatar	9%
Serbia	6%
Pakistan	6%
Nigeria	5%
Iraq	5%
Zimbabwe	5%
Senegal	4%
Botswana	3%
Estonia	3%
United Arab Emirates	3%
Romania	3%
Bulgaria	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	27%
Cash	14%
Industrials	13%
Consumer Staples	12%
Consumer Discretionary	10%
Telecommunication Services	8%
Energy	4%
Specialty Finance	3%
Insurance	3%
Materials	3%
Diversified	2%
Asset Management/Brokerage	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	6.4
Portfolio Price to Book	1.0
Portfolio Dividend Yield	5.2%
Return on Ending Equity	22.5%

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 29 February 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 28 February 2012, as final index values for February are not available at time of publication.

2 Market, portfolio, and most recent 12 months of reported fundamental data as of 29 February 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.

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