March 2012 Monthly Comment written 30 March 11 AM CDT

We estimate that we gained just over 2.5% in March, finishing the quarter up over 6%. The MSCI Frontier Markets Index was up 2% in March and 5% for the quarter through March 29 (final monthly and quarterly values for all indexes we cite are not available as we write this; all figures are on a total returns basis). Global markets were mixed in March, but advanced strongly in Q1 due to January and February gains. The S&P 500 was up 3% in March, while MSCI EAFE dropped 1%, and MSCI Emerging Markets fell 4%. These three indices gained 10%-13% for Q1. Similar to last month, Vietnam, our largest country holding, contributed over half our gain in March. For the quarter, Vietnam rose 25%. Other notable quarterly winners included Romania, up 33%; the United Arab Emirates, up 18%; Pakistan, up 11%; and Qatar, up 10%. While trends can change overnight, qualitatively, interest in frontier markets resumed in Q1, with the tone of the market more positive than in Q4. Investors seem to be noticing how frontier markets lagged from October through February. Our portfolio remains attractively valued with a 6.3 trailing PE, price/book of 1.0, a 5.0% dividend yield, and return on equity of 23.3%.

Travel in March took us to Belarus, Estonia, Latvia, Lithuania, and Ukraine. These five former Soviet republics all have one of their borders with Russia and another border with Central Europe or the Baltic Sea. Their orientation to the West varies significantly, however. The three Baltic countries of Estonia, Latvia, and Lithuania joined the European Union in 2004 and identify with the West, although 25%-30% of the population of Estonia and Latvia is of Russian ethnicity. At the other end of the spectrum is Belarus, clearly in the Russian sphere of influence, and with many remnants of the Soviet era still in place. Ukraine is in between. In 2004, the Orange Revolution propelled Ukraine toward the West, and talk commenced of it joining the EU and NATO one day. This was a step too far for Russia, which, as Ukraine's major energy supplier, occasionally reasserts influence over Ukraine by reducing its natural gas supply in the cold winter months. Now it appears the most reasonable course for Ukraine may be that of non-aligned country, engaging with both the West and with Russia on a case-by-case basis, but permanently aligning with neither. The country feels more Russian than Western, and its capital markets do fit the Russian stereotype—plenty of oligarchs in control, uneven corporate governance and transparency, unclear minority shareholder rights, and occasional creative accounting. Valuations are low, reflecting investor skepticism, again similar to Russia. Many leading Ukrainian companies have their primary listing outside of the country in Frankfurt, London, Paris, or Warsaw. If you want to make a fortune, invest only in Ukraine, going either all long or all short in a given year. The KP-Dragon Ukraine index has either gained or lost 40% or more every year for 15 years running. Better get the direction correct, though, as the index lost 90% in 1998 and 85% in 2008.

We found Belarus fascinating as it upheld the Frontaura Rule of Travel Expectations (a place usually sounds worse from far away than it is in person). The country has a horrible reputation ("The Last Dictator of Europe"; "The Land that Time Forgot") well documented elsewhere. The economy remains mainly state run as in the Soviet days, and this inevitably will have to change. Yet for all of its inherent inefficiency, the bureaucracy sort of works. It ranks a respectable enough #69 in the World Bank's Ease of Doing Business Survey (Russia is #120, Ukraine #152), and is #9 in the subcategory of starting a business. While its own stock market is not that investable, a couple of quality Belorussian companies do list on foreign exchanges.

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 March 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	6%	12%	10%	13%	5%
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	6.6%	0.0%	- 6.7%	- 3.6%	- 12.2%

Holdings Summary

Country	Holding
Vietnam	18%
Tanzania	10%
USA (cash only)	8%
Qatar	8%
Serbia	6%
Nigeria	5%
Iraq	5%
Pakistan	5%
Zimbabwe	4%
United Arab Emirates	4%
Senegal	4%
Botswana	3%
Estonia	3%
Rwanda	3%
Romania	2%
Bulgaria	2%
Laos	2%
Oman	1%
Cyprus	1%
Colombia	1%
Ghana	1%
Cote d'Ivoire	1%
Montenegro	1%
Others	1%

Industry	Holding
Banks	26%
Industrials	15%
Cash	13%
Consumer Staples	12%
Consumer Discretionary	10%
Telecommunication Services	7%
Energy	4%
Specialty Finance	3%
Insurance	3%
Materials	3%
Diversified	2%
Asset Management/Brokerage	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	6.3
Portfolio Price to Book	1.0
Portfolio Dividend Yield	5.0%
Return on Ending Equity	23.3%

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

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