April 2012 Monthly Comment written 30 April 1 PM CDT

We estimate we gained over 2% in April, bringing our YTD advance to between 8% and 9%. Through Friday, April 27, the MSCI Frontier Markets Index fell 1% in April and has gained 4% YTD (final monthly values for all indexes we cite are not available as we write this; all figures are on a total returns basis). The other global indices we track for the US, developed markets, and emerging markets (see page 2) varied from flat to down 2% through April 27, but they remain up 9%-12% this year.

We participated in the opening of Cambodia's stock exchange in April, booking a 48% profit on a small number of IPO shares of Phnom Penh Water Supply Authority. Setting up for this exchange took months of paperwork, beginning last year, over 100 e-mails, and numerous FedEx packages to Cambodia. At times, the process was comical, such as when we had to explain to the largest bank in Cambodia that their requirement that we show up in person at a branch each time we had a wire request was not workable for foreign investors and would need to be changed. Impediments like these tend to occur in new markets, but to their credit, our bank has responded positively to our feedback, and unworkable processes are becoming more flexible. After our hard work to set up, we decided to have only a token participation in this IPO for two reasons. First, the company—a utility—is not the type we prefer to invest in due to its inherent low returns on capital. Second, the valuation was too high. Priced at 6,300 per share, the 2012 PE was 18.7 according to one broker, with a price/sales ratio of 4.4. We sold our immaterial-sized holding on April 18 at 9,400, the first day high. After peaking at 10,300 on April 23, the stock fell limit-down for the past five days to 8,000, as the initial IPO euphoria wears off. We continue to have economic exposure to Cambodia through another holding, listed outside of the country. We expect further Cambodian IPOs later this year.

When talking with investors about the attributes of frontier markets, we often state that there is a dichotomy in valuation between the most liquid frontier stocks—which may trade at the same PEs as stocks in the S&P 500—and less liquid frontier stocks. Thus, those willing to invest beyond the most liquid frontier stocks could have a performance advantage, provided they remain patient and committed during difficult market periods when less liquid stocks may perform worse. Keeping frontier fund size small is important, so that size does not force you to invest in the more liquid, more expensive companies out of necessity. MSCI reinforced our view this month when they released the constituent list of their new Frontier Markets 100 Index. This index, a more tradable version of their original Frontier Markets Index, consists of the 100 largest and most liquid frontier companies. We noted that despite having met with most of the companies on the constituent list, often multiple times, we do not own a single stock in the FM100. Many of these stocks are good companies, but they do not trade at the most attractive valuations. We have only ever owned two of the FM100 companies. On April 30, Frontaura's weighted average trailing PE is 6.2, with a 1.0 price/book, a 5.2% dividend yield, and a 24.1% return on ending equity. In contrast, the most recent data we have for the MSCI Frontier Markets Index shows that index with a PE of 10.7 on March 30, a price/book of 1.5, a yield of 4.3%, and a return on equity of 13.6%. We suppose the FM100 Index has similar valuations. Frontaura's valuations are cheaper, and as we detailed in our Q1 letter, while less liquid, the businesses we own are substantial ones that are poised to benefit as their frontier economies grow.

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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 April 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%
2012 Q2	2%	0%	- 2%	- 2%	- 1%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	37%	15%	8%	19%	24%
2011	-15%	2%	- 12%	- 18%	- 19%
2012	9%	12%	9%	12%	4%
ITD CAGR	7.1%	0.0%	- 6.8%	- 3.7%	- 12.1%

Holdings Summary

Country	Holding
Vietnam	17%
Qatar	8%
Nigeria	8%
Tanzania	8%
Pakistan	6%
Zimbabwe	5%
Estonia	5%
Iraq	5%
Serbia	5%
Cambodia	4%
United Arab Emirates	3%
Botswana	3%
USA (cash only)	3%
Senegal	3%
Ukraine	3%
Rwanda	2%
Romania	2%
Bulgaria	2%
Cote d'Ivoire	1%
Laos	1%
Cyprus	1%
Oman	1%
Colombia	1%
Ghana	1%
Montenegro	1%
Others	1%

Industry	Holding
Banks	27%
Consumer Discretionary	16%
Consumer Staples	15%
Industrials	14%
Telecommunication Services	6%
Cash	5%
Specialty Finance	3%
Energy	3%
Insurance	3%
Materials	3%
Diversified	2%
Asset Management/Brokerage	1%

Portfolio Statistics

Portfolio Price to Earnings	6.2
Portfolio Price to Book	1.0
Portfolio Dividend Yield	5.2%
Return on Ending Equity	24.1%

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 April 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 27 April 2012, as final index values for April are not available at time of publication.

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