July 2012 Monthly Comment written 31 July 11 AM CDT

July's performance was satisfying for two reasons. First, we gained an estimated 2%. Second, the initial mid-year earnings reports of our companies were good enough that our trailing portfolio PE declined again, despite the price gains. We begin August at another new record low valuation, with a trailing reported PE of 5.6. This PE has never been lower, not even in the depths of 2008-2009. Other portfolio statistics are similar to last month. Price/book is 0.9, the weighted average dividend yield is 5.7%, and return on ending equity is 21.9%. The total return indices we track all gained 1%-2% in July through July 30 (final index values for the month not available as we write this). One might assume that we moved in line with these indices, but looking within the month, this was not the case. Through July 25, the S&P 500, EAFE, and MSCI Emerging Markets indices were all down 2%-4% for the month, while we were up about 2.5%. Then came the Draghi Promise to do "whatever it takes" to save the euro. A month-end rally ensued, as markets again showed a Pavlovian response to any central banker or politician ringing a bell. Frontier markets gained only a little post-Draghi and we actually lost a bit. A similar result happened four weeks earlier, when the last euro summit concluded around the end of June. Global markets rallied for a few days; we did not. When the ringing bells go silent, global markets then sell off, but we may not decline in sympathy. This all just feels like trading noise unless something bigger happens, either good or bad, at which point frontier markets and our portfolio may join the trend, perhaps with some delay. Nevertheless, fundamentally, many of our companies are reporting good news and that did boost our stocks in July in the days when global markets were suffering.

Let's now look at second calendar quarter earnings. So far, 38% of our portfolio has reported, with aggregate EPS up 24% in USD terms. One positive outlier (that nicely happens to be our largest position) influences this heavily and thus we expect lower percentage growth for the portfolio when the bulk of earnings arrive in August and September. For perspective, in Q1, our portfolio grew USD EPS 21%—the best result in at least five quarters—and we did not expect Q2 to be as strong. We don't try to project quarterly EPS; instead, our effort goes toward estimating a company's unlevered profit over an entire multi-year economic cycle. One benefit of this approach is that it allows us to see value in companies that have recently performed worse than their cyclical average. Of course, this could also be trap—an industry in decline (e.g. newspapers) may never revert upward to its cyclical average. Anyway, our largest position, a Sub-Saharan African bank, had a more than five-fold EPS gain in Q2 against an easy comparison. This stock was a major performance drag in 2011 ahead of its earnings turn, so we are glad to see it in the winning column now. Nonetheless, we are not overconfident about its recovery, as it still has much to prove. Fortunately, the stock price doesn't reflect an earnings recovery, as it trades at 3.9 times trailing earnings with a 0.3 price/book and a 10.3% yield. Looking at the rest of our top five USD EPS gainers in Q2 so far, we see two Iraqi banks growing EPS above 50%; a Middle Eastern consumer staples provider nearly tripling EPS from a soft quarter last year; and one of our Vietnamese industrials more than doubling EPS from last year's Q2. Vietnamese companies report early, so they show up in both the winners and losers columns. With YTD RGDP growth slowing to just over 4%, earnings of many Vietnamese companies that are used to faster growth are now under pressure. So while we have four Vietnamese companies with EPS growth over 30%, we also have four with EPS dropping over 30%, most of these comparing against good results in 2011.

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 July 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%	13%	11%	14%	6%
2012 Q2	- 3%	- 3%	- 7%	- 9%	- 7%
2012 Q3	2%	2%	1%	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	5%	11%	4%	6%	- 1%
ITD CAGR	5.8%	- 0.1%	- 7.4%	- 4.7%	- 12.4%

Holdings Summary

Country	Holding
Vietnam	15%
Nigeria	8%
Tanzania	8%
Qatar	7%
Zimbabwe	6%
Pakistan	5%
United Arab Emirates	5%
Iraq	5%
USA (cash only)	5%
Ukraine	5%
Estonia	5%
Cambodia	4%
Serbia	4%
Senegal	3%
Botswana	3%
Rwanda	2%
Bulgaria	2%
Romania	2%
Laos	1%
Oman	1%
Cyprus	1%
Ghana	1%
Colombia	1%
Cote d'Ivoire	1%
Others	1%

Industry	Holding
Banks	28%
Industrials	17%
Consumer Discretionary	15%
Consumer Staples	14%
Telecommunication Services	6%
Cash	5%
Insurance	3%
Specialty Finance	3%
Energy	3%
Materials	2%
Diversified	2%
Asset Management/Brokerage	1%

Portfolio Statistics

Portfolio Price to Earnings	5.6
Portfolio Price to Book	0.9
Portfolio Dividend Yield	5.7%
Return on Ending Equity	21.9%

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

2 Market, portfolio, and most recent 12 months of reported fundamental data as of 31 July 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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