August 2012 Monthly Comment written 31 August 11 AM CDT

For the fourth month in a row, our portfolio is at a new record low month-end PE. We are now at 5.5 times trailing reported EPS, having even reached 5.4 times at one point intra-month. Like last month, the lower PE does not result from lower prices, as we estimate we are up 1% in August and up 3% in Q3. Through August 30 (final index values for the month not available as we write this), monthly performance of the global indices we cite on page two ranged from -1% to +2% for the month, and +1% to +3% for Q3.

The biggest news headline in our universe in August was the arrest for financial irregularities of two individuals, a co-founder and the CEO of Asia Commercial Bank (ACB), a leading bank in Vietnam. The Ho Chi Minh Stock Index sold off 12% on this news from August 21-28. We have always been skeptical of Vietnam's banks and have never owned one. We visited ACB in September 2010 when the bank claimed to us that their non-performing loans were less than 1% and this low number wasn't due to write-offs or loan restructurings. We told them in the meeting that either their execution was phenomenal or this figure was too good to be true. Eventually, after repeated questioning, they acknowledged they moved some bad loans off their books, although we never quite understood exactly what their process was. For several years now, it has been an open secret among portfolio managers that one should not trust the NPL figures of Vietnamese banks. Recently, even government officials have admitted this publically. The long overdue cleanup of the Vietnamese banking system has commenced, and we expect further negative headlines such as the ACB news to emerge. Vietnam is our largest country holding, despite our critical view of how the government has managed fiscal and monetary policy. We bought the market steadily over six quarters from Q4 2010 through Q1 2012 because—at that time—its stocks were the cheapest in the world that we could find. We have not been active in Vietnam lately due to the market's gains in 2012 and the portfolio weight for the country being at our target. With the August selloff, several stocks are now closer to our buy points, and we could be buyers if further weakness occurred.

"No. Definitely not. This is completely out of the question." So said Egypt's President Mohamed Morsi on August 27 when Reuters asked if the Egyptian pound might devalue. Mr. Morsi may find currency markets more difficult to outmaneuver than the Egyptian military. We suggest that when a politician states something is out of the question, one must plan for its inevitability. The Egyptian pound dropped to a near-eight-year low of 6.10 on August 30. We have no holdings in Egypt, but will travel there in September.

We were in Sri Lanka last week, our first visit since 2008. Then, it was the cheapest market globally, and we loaded up on stocks there. Four years ago this month we had a 21% weight in Sri Lanka. Its civil war ended in 2009, the market roughly doubled two years in a row, and we sold everything. Now with the Colombo All-Share Index more than 30% off its 2011 peak, and brokers despondent, we are back for another look. While PEs seem reasonable to cheap, it's not the same easy pickings as before the war ended. The stocks with the lowest PEs either have non-core gains boosting profits or operate in sectors where earnings have peaked, and the fundamental outlook is deteriorating. There remains a cultural overreliance on debt in capital structures, and an unhealthy desire to be a conglomerate spanning several unrelated sectors. Government has made policy mistakes, mismanaged the currency, and remains too bureaucratic. Nevertheless, we optimistically continue to search, unsuccessfully so far, for a company we like at a price we like.

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 August 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	3%	3%	3%	1%	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%
2012	6%	13%	6%	5%	1%
ITD CAGR	6.0%	0.1%	- 6.8%	- 4.7%	- 11.9%

Holdings Summary

Country	Holding
Vietnam	14%
Nigeria	8%
Tanzania	8%
Qatar	7%
USA (cash only)	6%
Zimbabwe	6%
Pakistan	5%
United Arab Emirates	5%
Iraq	5%
Ukraine	5%
Estonia	4%
Serbia	4%
Cambodia	4%
Senegal	3%
Botswana	3%
Rwanda	2%
Romania	2%
Bulgaria	2%
Laos	1%
Oman	1%
Ghana	1%
Cote d'Ivoire	1%
Cyprus	1%
Colombia	1%
Others	1%

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

Portfolio Statistics

Portfolio Price to Earnings	5.5
Portfolio Price to Book	0.9
Portfolio Dividend Yield	5.6%
Return on Ending Equity	21.1%

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

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