September 2012 Monthly Comment written 30 September 6 PM CDT

We estimate we gained just under 2% in September. Our trailing reported PE of 5.7 is up slightly from our record low of 5.5 set last month, but unchanged from where the quarter began, despite a Q3 performance gain of approximately 5.5%. Our price/book ratio of 0.9 and the weighted average 5.7% dividend yield of our companies are also identical with beginning-of-quarter levels. Our weighted average return on ending equity is 20.9%.

Global markets seemed to get everything they wanted in September, from the European Central Bank's (ECB's) Outright Monetary Transactions (OMT), to a pro-liquidity German Constitutional Court ruling, to the US Fed's QE3. This allowed the global indices we cite to record September total return gains that range from 3% (S&P 500, MSCI EAFE) to 4% (MSCI Frontier Markets) to 6% (MSCI Emerging Markets). For the quarter, these indices gained between 6%-8%. With this triple dose of morphine injected, one may wonder where the next dose of good news will come from. Certainly the US and European establishment will continue to try to delay any bad news until after the November 6 US Presidential Election. To us, though, global markets seem to have entered a dangerous period with good news in, markets extended, and earnings growth and economic data weak. There appears not much room for error, yet plenty of things that could go wrong. Whether this matters for frontier markets and for Frontaura is a separate question. In extremis, it does, but otherwise, perhaps not.

September was a busy travel month, as we visited Egypt, Kenya, Morocco, Papua New Guinea, and the Philippines, in addition to seeing clients in London. We will be in New York October 24-25 to speak at a conference, and we will visit Boston clients October 26. Last month's comment chided Egypt's President Morsi for saying currency devaluation was out of the question, but complimented him on outmaneuvering the military. We may have been wrong on both counts. We do continue to expect a gradual decline in the Egyptian pound, but we think a sudden, sharp devaluation less likely than before. It's a confidence game, and if Egypt can secure enough foreign lending quickly enough, this will feed on itself and a further reserves drop will become less likely. Qatar, Saudi Arabia, and Turkey have each pledged $2 billion to Egypt, with two other Mideast countries also potentially lending $2 billion each. An IMF loan for up to $5 billion is more likely than not, so Egypt could roughly double its reserves from $15 billion to $30 billion rather quickly. Most of this has yet to occur, however, and pledges don't always lead to cash received, as Pakistan has learned repeatedly. Further, if Egypt's economy does turn up, the current account deficit could expand, hurting reserves once again. And, eventually, Egypt must repay these loans, so other sources of hard currency such as FDI and tourism must resume. Foreign M&A is picking up already, however, with Qatar showing interest in Egyptian assets. With regard to Morsi's reassertion of civilian control over the military in August when he retired top brass, we now think junior military officers dissatisfied with senior military leadership may have orchestrated this, presenting it to Morsi as a fait accompli, in exchange for retention of military perks. In this scenario, as a politician instinctively does, Morsi marched to the front of the parade to receive the credit. We continue to have no exposure to Egypt, but we wouldn't avoid it anymore because of the currency. Of course, with the Hermes Index up over 50% this year, the obvious bargains are gone. We anticipated the difficulty of timing this market when in our 2011 Q4 letter we wrote that "we still don't know if our decision to exit Egypt will save us money or cost us money in the end."

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 September 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	5%	6%	7%	8%	7%
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	8%	16%	10%	12%	6%
ITD CAGR	6.3%	0.7%	- 6.1%	- 3.4%	- 10.9%

Holdings Summary

Country	Holding
Vietnam	13%
Nigeria	11%
Qatar	7%
Tanzania	7%
Zimbabwe	6%
Pakistan	5%
United Arab Emirates	5%
Iraq	5%
Ukraine	5%
USA (cash only)	5%
Estonia	4%
Serbia	4%
Cambodia	4%
Senegal	3%
Botswana	3%
Rwanda	2%
Romania	2%
Bulgaria	2%
Oman	1%
Laos	1%
Ghana	1%
Cote d'Ivoire	1%
Cyprus	1%
Colombia	1%
Others	1%

Industry	Holding
Banks	29%
Consumer Staples	16%
Industrials	16%
Consumer Discretionary	14%
Telecommunication Services	6%
Cash	5%
Energy	3%
Insurance	3%
Specialty Finance	3%
Materials	2%
Diversified	2%
Asset Management/Brokerage	1%

Portfolio Statistics

Portfolio Price to Earnings	5.7
Portfolio Price to Book	0.9
Portfolio Dividend Yield	5.7%
Return on Ending Equity	20.9%

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 30 September 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 September 2012. Note that MSCI includes Middle Eastern market results for Sunday, 30 September in October, but Frontaura includes these results in September. This difference is immaterial.

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