February 2013 Monthly Comment written 28 February 1 PM CST

We estimate that we gained nearly 2% in February. Global indices had mixed results through February 27 (final index values for the month are not available as we write this), with the S&P 500 up 1%, MSCI EAFE and MSCI Emerging Markets (EM) each down 2%, and MSCI Frontier Markets (FM) flat, all on a total returns basis. Notably, our trailing portfolio PE dropped from 6.2 in January to 5.9 today—the same PE as where it began the year, despite a 9% YTD gain. Looking a bit further back, we note that we also had a 5.9 PE 13 months ago in January 2012; since then Frontaura has gained 30% with no PE multiple expansion. We ended February with a portfolio price/book of 1.1, a weighted average dividend yield of 5.0%, and weighted average return on ending equity of 22.6%.

This month we participated in the largest initial public offering (IPO) in the Middle East since 2008. Asiacell, one of three mobile phone operators in Iraq, sold 25% of its existing shares on the Iraq Stock Exchange in a $1.24 billion deal. At the time of listing, the company's market cap was nearly $5 billion—effectively doubling the size of the Iraq's entire stock market overnight. We first wrote about Asiacell in Frontaura Observer #16 in October 2009, when we met the company in their Sulaimaniyah, Iraq headquarters. Asiacell is now majority owned by Qatar Telecom, a company we've known for five years. A requirement of Asiacell's licensing agreement was listing its shares on the Iraqi stock market, and this condition applies to the two other mobile operators in Iraq, Korek and Zain. So the size of the Iraqi market may roughly double again with these two future IPOs.

Requiring regulated multinationals to list a portion of their local operations on a local stock exchange is smart government policy, in our opinion, promoting the development of local capital markets. During our February travels, we saw other examples of this. Mozambique, which has had major resource discoveries in recent years, will require megaproject operators to list 5%-20% of their local shares. Brazilian resource behemoth Vale, for one, mines coal in Mozambique and could list a small portion of its Mozambican operations on that country's exchange in the coming years. It's likely that the regulator will give preference to local investors, and could prohibit foreigners from the IPO and even aftermarket trading, although it has yet to determine these details. Mozambique is a tiny market today with only three stocks—foreigners can't buy one; another has never traded since its IPO last year, which explains its absence from Bloomberg; and the final one openly trades, but irregularly. Further, setting up in Mozambique is difficult, as you may have to translate your fund documents to Portuguese to open a custody account. Nevertheless, progress is evident—there was only one listing when we launched Frontaura in 2007—and the IPOs of large resource projects should help the exchange grow further.

Namibia is another small market (most listings are dual-listed South African stocks rather than Namibian domiciled companies) that may grow by requiring multinationals to list a portion of their local operations; again, though, authorities may prohibit foreigners from participation in the IPOs themselves. We write this comment from Ukraine, and we'll close by noting that the former Soviet Union countries, in contrast to the examples here, have done less to promote development of their capital markets. For example, many leading Ukrainian companies trade not in Kiev, but in London, Warsaw, or elsewhere. To reverse this missed opportunity, Russian President Putin has recently proclaimed that Russian state companies should list in Moscow going forward, possibly setting an example for his neighbors.

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 February 2013[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%
2012 Q4	9%	0%	7%	6%	3%
2013 Q1	9%	7%	3%	- 1%	8%
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	18%	16%	17%	18%	9%
ITD CAGR	9.4%	1.8%	- 3.9%	- 2.3%	- 8.3%

Holdings Summary

Country	Holding
Vietnam	13%
Nigeria	12%
USA (cash only)	8%
Zimbabwe	7%
Tanzania	7%
Ukraine	6%
Iraq	6%
Serbia	4%
Pakistan	4%
United Arab Emirates	4%
Cambodia	3%
Botswana	3%
Estonia	3%
Senegal	3%
Lebanon	3%
Rwanda	2%
Qatar	2%
Kazakhstan	2%
Romania	2%
Cote d'Ivoire	1%
Oman	1%
Laos	1%
Papua New Guinea	1%
Montenegro	1%
Others	1%

Industry	Holding
Banks	32%
Consumer Staples	16%
Industrials	16%
Consumer Discretionary	12%
Cash	9%
Telecommunication Services	7%
Specialty Finance	3%
Energy	3%
Materials	2%
Diversified	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	5.9
Portfolio Price to Book	1.1
Portfolio Dividend Yield	5.0%
Return on Ending Equity	22.6%

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 28 February 2013 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 February 2013, as final index values for February are not available at time of publication.

2 Market, portfolio, and most recent 12 months of reported fundamental data as of 28 February 2013. 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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