May 2013 Monthly Comment written 31 May 2 PM CDT

We estimate that we gained nearly 4% in May. We are up 6% for Q2 and 17% for 2013. Effective with the publication of this comment, we are no longer accepting additional cash contributions from our existing investors. We will honor previous commitments that our existing investors made for June 1, or in a few cases, dates later in 2013, and we have factored those commitments into our decision to close. Existing investors wanting to make new commitments, should we open Frontaura again, may contact us to receive our waiting list form. Recall that we stopped accepting new investors after January 1, 2013, and we have a waitlist for new investors. We are grateful to the group of like-minded, long-term focused investors that have allowed us to build Frontaura successfully with assets on May 31 of over $150 million. Although this is not large for a traditional fund, we think it is sizable enough within frontier markets. As always, we want to limit our fund size to maintain the ability to perform well.

Frontier markets continued their hot pace in May with the MSCI Frontier Markets Index up 5%. The S&P 500 gained 4%, but MSCI EAFE and MSCI Emerging Markets both fell, down 1% and 2%, respectively. QTD, YTD, and ITD results for these indices appear on page 2. Index results are total returns through May 30, as May 31 results are not yet available at this writing. Our estimated results are net of fees, through May 31.

We traveled to six countries in May on two separate trips. Tom visited Bosnia-Herzegovina, Montenegro, and Serbia, in the former Yugoslavia, and Steve visited Ecuador, Paraguay, and Trinidad and Tobago, in Latin America and the Caribbean. This was our first visit to Paraguay, a landlocked country in the heart of South America. Paraguay's small size—population 6.7 million with a GDP of $26 billion in 2012—has led to volatile economic growth. In 2012, a series of supply shocks, including drought, meat export restrictions related to foot and mouth disease, and cement shortages, caused GDP to fall by over 1%. The country also experienced political turmoil last year when the legislature ousted leftist President Fernando Lugo. He called his removal a "parliamentary coup," and countries throughout Latin America likewise denounced this move. Lugo was the first opposition president after 60 years of rule by the right-leaning Colorado Party, which retained control of the legislature. Regularly scheduled elections in April 2013 saw the Colorado Party back on top, with Horacio Cartes now the president-elect. The economy appears to have recovered, with the IMF projecting robust 11% growth for 2013, followed by a more-normal 4.6% estimate for 2014. Like many countries, Paraguay has taken advantage of low global interest rates, issuing a $500 million US dollar bond in January with a 4.625% coupon. The country has a low debt to GDP ratio of only 14% according to its finance ministry, and can use the debt proceeds on road building, electricity generation, and other infrastructure projects. Culturally, there seems to be the same preference for debt over equity that we have observed in many Latin American countries. The stock exchange is sleepy, with total volume in the year through March totaling only $12 million. Many stocks have multiple classes of preferred shares, some convertible, and even getting a correct count of the number of common shares outstanding is difficult for us. Bank interest rate spreads are wide and rates are high, indicative of the early stage of financial system development. Some consumer loans command annualized rates of 60%-80%. Attractive as that is, some of these institutions rely more on debt-type financing—versus stickier deposits—than we ideally like. We will research Paraguay further, but we are unsure if any common stocks are viable or buyable for Frontaura.

# 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 May 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 | 10% | 11% | 5% | - 2% | 8% |
| 2013 Q2 | 6% | 6% | 4% | - 1% | 9% |
| | | | | | |
| 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% |
| 2013 | 17% | 17% | 9% | - 3% | 18% |
| | | | | | |
| ITD CAGR | 10.3% | 3.5% | - 2.7% | - 2.5% | - 6.5% |

## Holdings Summary

| Country | Holding |
|---|---|
| Vietnam | 12% |
| Nigeria | 11% |
| Tanzania | 8% |
| USA (cash only) | 8% |
| Iraq | 6% |
| Ukraine | 6% |
| Zimbabwe | 6% |
| Pakistan | 5% |
| Serbia | 3% |
| United Arab Emirates | 3% |
| Cambodia | 3% |
| Senegal | 3% |
| Botswana | 3% |
| Lebanon | 3% |
| Romania | 3% |
| Estonia | 2% |
| Papua New Guinea | 2% |
| Rwanda | 2% |
| Qatar | 2% |
| Kazakhstan | 2% |
| Cote d'Ivoire | 2% |
| Oman | 1% |
| Laos | 1% |
| Montenegro | 1% |
| Sri Lanka | 1% |
| Ghana | 1% |
| Others | 1% |

| Industry | Holding |
|---|---|
| Banks | 34% |
| Consumer Staples | 16% |
| Industrials | 14% |
| Cash | 12% |
| Consumer Discretionary | 10% |
| Telecommunication Services | 6% |
| Energy | 3% |
| Specialty Finance | 3% |
| Materials | 2% |
| Diversified | 1% |

## Portfolio Statistics[2]

| | |
|---|---|
| Portfolio Price to Earnings | 6.4 |
| Portfolio Price to Book | 1.1 |
| Portfolio Dividend Yield | 4.9% |
| Return on Ending Equity | 21.6% |

## 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; presently closed, with waiting list for existing and new investors | 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 May 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 30 May 2013, as final index values for the current month are not available at time of publication.

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

## Disclaimer



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