August 2013 Monthly Comment written 30 August 12 PM CDT

We estimate that we lost over 2% in August, nearly reversing a similar gain in July. Global indices were down through August 29 on a total returns basis (final index values for the month are not available as we write this), with the S&P 500 off 3%, MSCI EAFE with a slight loss that rounds to 0, the MSCI Emerging Markets (EM) Index down 3%, and the MSCI Frontier Markets Index dropping 2%. August's loss is our worst since May 2012 and our second loss in three months, although cumulatively we are flat during these three months. We think a new global environment began on May 22 with Bernanke's tapering speech. The smooth sailing period when we posted 11 consecutive monthly gains through May 2013 has ended, as inevitably it had to.

The culprits in August are Nigeria, Zimbabwe, and Tanzania. Collectively, these three, which comprise about one-quarter of our portfolio, accounted for our entire monthly loss, with the other 26 countries we hold breaking even. Last month we highlighted the strong performance run of Zimbabwe and Tanzania, stating that Zimbabwe's market was "overdue for a breather" and that we expected Tanzania's performance to moderate. Right on cue, Zimbabwe's market peaked August 1, dropped 11% August 5, and is down 22% through August 30. Mugabe's reelection was no surprise, but his subsequent indigenization statements have scared foreign investors. We have always taken seriously his 2008 indigenization law requiring all companies be over 50% Black Zimbabwean owned, so we invest only in companies that meet this criteria already. Nevertheless, one of our two holdings had a significant stock drop on poor first half earnings. Earnings also told the story in Tanzania with one company posting surprisingly flat results on higher-than-expected operating expenses. Its stock slumped accordingly, overwhelming gains in all of our other Tanzania positions.

In Nigeria, our Q2 earnings were in line with our expectations, yet we lost 8% in the country in August. Nigeria is one of the larger frontier markets and we think its performance may relate to the global repatriation of money out of EM. Ironically, though, whereas many of the EM countries suffering now are those with current account deficits, Nigeria has a large current account surplus and a balanced budget.

About 10% of our August loss was due to currency, but frankly, given how some EM currencies have dropped, we're surprised our currency losses aren't higher. Many of our countries have large current account deficits. Our five countries with the biggest August currency losses in US dollars include those with historically weak currencies such as Pakistan, Sri Lanka, and Ghana, but also resource rich countries such as Papua New Guinea and Botswana. Missing from our list of August currency losers are East African countries such as Tanzania, Rwanda, and Kenya, which often have weak currencies, and Ukraine, where the peg to the US dollar has held, a situation that will not persist forever. The probability of further currency losses in the coming months is higher than normal. While we generally cannot hedge, we do bake estimated future currency losses into all of our valuation models before we buy any stock. To summarize, global markets are wobbling going into September, history's worst performing month, and October, known for its crashes. There's some risk of an EM crisis due to rapid portfolio outflows in fear of higher real interest rates. Nevertheless, valuation research from Jeremy Grantham and others shows that EM already offers good value and should perform well from current levels over a seven-year horizon. Our portfolio remains much cheaper than EM, with a 6.3 trailing PE, a 1.1 price/book ratio, and a 5.4% yield. So the long run continues to look good, despite possible near-term turbulence.

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 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	5%	3%	- 1%	- 8%	3%
2013 Q3	0%	2%	5%	- 2%	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	18%	16%	17%	18%	9%
2013	17%	17%	9%	- 11%	15%
ITD CAGR	9.8%	3.2%	- 2.7%	- 3.9%	- 6.7%

Holdings Summary

Country	Holding
Vietnam	13%
Tanzania	10%
Nigeria	10%
Iraq	7%
Ukraine	5%
Sri Lanka	5%
Zimbabwe	4%
USA (cash only)	4%
Serbia	3%
Cambodia	3%
Pakistan	3%
Romania	3%
Senegal	3%
Estonia	3%
Lebanon	3%
Montenegro	2%
Botswana	2%
United Arab Emirates	2%
Qatar	2%
Papua New Guinea	2%
Laos	2%
Rwanda	2%
Kazakhstan	2%
Cote d'Ivoire	2%
Oman	1%
Ghana	1%
Malawi	1%
Others	1%

Industry	Holding
Banks	40%
Consumer Staples	14%
Industrials	14%
Consumer Discretionary	9%
Telecommunication Services	8%
Cash	5%
Energy	4%
Specialty Finance	2%
Materials	2%
Diversified	1%

Portfolio Statistics[2]

Portfolio Price to Earnings	6.3
Portfolio Price to Book	1.1
Portfolio Dividend Yield	5.4%
Return on Ending Equity	21.7%

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 30 August 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 29 August 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 30 August 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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