September 2013 Monthly Comment written 30 September 2 PM CDT

September was the month where the expected did not happen. The US did not bomb Syria; President Obama did not name Larry Summers as the next Fed Chair; and the Fed did not taper QE. We do wonder about continuing excessive monetary stimulus to a growing US economy in its fifth year of recovery when the academic studies show QE isn't boosting growth anyway. How will this *not* lead to negative consequences in the medium term? As economist David Rosenberg suggests, Bernanke's legacy may yet morph from the man who saved the world to the second coming of Arthur Burns, although—given how inflation hurts the poor—we think Montgomery Burns may become just as apt a metaphor. Mr. Market, now a monetary heroin addict, welcomed another hit of QE smack. And so the lack of change juiced the market in what traditionally is the seasonally weakest month, with the S&P 500 up 4%, MSCI EAFE up 7%, MSCI EM also up 7%, and MSCI FM up 3%, all of these numbers total returns through Friday, September 27, as final index values for the month are unavailable at this writing. In last month's comment, we called out EM as looking cheap, and further noted that our portfolio was even cheaper. The markets ratified our former statement, while ignoring our latter statement. We estimate that Frontaura broke even for the month.

Our travels in September took us to Cyprus and Mongolia, and to Iraq, where an investment conference begins tomorrow. Cyprus entered depression with the collapse of Cyprus Popular (Laiki) Bank in March. The IMF forecasts real GDP to decline 8.7% this year, with an additional 3.9% drop next year. The collapse wiped out uninsured deposits (over 100,000 euros) at Laiki, while 47.5% of uninsured deposits at Bank of Cyprus were lost. Capital controls remain, freezing our one *de minimis* position. As previously discussed, we marked it down 35% in March, and it's only 18 basis points of our portfolio at its present valuation of 0.1 times book value. The island country continues to have its challenges. For example, it's presently consolidating its 93 cooperative banks, many of which may be insolvent individually, into 18 units. Nevertheless, it has numerous long-term advantages including: EU/euro membership (if it can maintain these), good location and climate, frequent use of English common law, and recent offshore gas discoveries. We continue to think that its present crisis offers the opportunity to reconcile with Turkey, and end the decades-long division of the island. To date, politicians aren't taking up this initiative.

Mongolia offers a case study in investor euphoria and despair. For the five years ending February 2011, the Mongolian Stock Exchange Top 20 index rose 29-fold. Investors probably asked us more about Mongolia in 2010 than any other country, even though we did not invest there. Then in April 2012, a Chinese company, Chalco, tried to acquire SouthGobi Resources, a Mongolian coal mine operator. Mongolian politicians rushed through legislation blocking this, and thus suffered the law of unintended consequences, killing positive investor sentiment and the country's open-to-foreign-investment reputation. The index today is off 58% from its peak, and the currency has plummeted from around 1200 per dollar in 2011 to over 1700 earlier this month. In USD terms, the stock index is now down since our November 2007 inception. An extraordinary session of parliament that ended September 27 was to revoke the strategic foreign investment law and pass a new investment law, but did neither. Further, the government and Rio Tinto have not reached agreement on the $5 billion stalled phase 2 investment plan for the Oyu Tolgoi copper and gold mine. Even so, we expect these things eventually are more likely to be worked out than not.

# 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 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 | 1% | 6% | 13% | 7% | 6% |
| | | | | | |
| 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% | 21% | 17% | - 3% | 18% |
| | | | | | |
| ITD CAGR | 9.7% | 3.8% | - 1.4% | - 2.5% | - 6.1% |

## Holdings Summary

| Country | Holding |
|---|---|
| Vietnam | 13% |
| Tanzania | 10% |
| Nigeria | 9% |
| Iraq | 6% |
| USA (cash only) | 6% |
| Ukraine | 6% |
| Zimbabwe | 5% |
| Sri Lanka | 5% |
| Serbia | 3% |
| Romania | 3% |
| Pakistan | 3% |
| Cambodia | 3% |
| Senegal | 3% |
| Estonia | 3% |
| Lebanon | 3% |
| Montenegro | 3% |
| Botswana | 2% |
| Qatar | 2% |
| Papua New Guinea | 2% |
| Laos | 2% |
| Cote d'Ivoire | 2% |
| Rwanda | 2% |
| Kazakhstan | 2% |
| Oman | 1% |
| Ghana | 1% |
| Others | 2% |

| Industry | Holding |
|---|---|
| Banks | 40% |
| Consumer Staples | 15% |
| Industrials | 12% |
| Consumer Discretionary | 9% |
| Telecommunication Services | 8% |
| Cash | 7% |
| Energy | 5% |
| 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 | 5.3% |
| Return on Ending Equity | 22.2% |

## 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 September 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 September 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 September 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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