February 2014 Monthly Comment written 28 February 2 PM CST

We estimate we had a February loss that rounds to 0%, cutting our YTD gain to 0%, also rounded. February brought negative headlines from around the frontier world. Protestors toppled Ukraine's government, Kazakhstan had a shock devaluation, Ghana introduced capital controls (although these don't affect us), and Nigeria's president fired the respected central bank head. Surprisingly, total net returns for MSCI Frontier Markets (FM) were +3% through February 27, and +4% YTD, but this is due solely to the Gulf Cooperation Council (GCC) countries. Ex-GCC, MSCI FM returned -1% through February 27 and -5% YTD. We have a 14% GCC gain YTD, but our GCC mix is only 2.4% now, versus much higher levels in the past. Other global indices rebounded, reversing their January losses. YTD, total returns on the S&P 500 and MSCI EAFE are +1%, while MSCI EM is -4%.

In Ukraine, every time the protests that began in November lost momentum, President Yanukovych brought them back to life through heavy-handed initiatives. Now he's deposed. This offers the possibility of a better future eventually for Ukraine, but next year's path will certainly be worse than the former status quo. From the short-term perspective, Ukraine was financially better off with relatively no-strings-attached Russian support than it will be with IMF-led loans that insist on painful, but necessary reforms such as ending energy subsidies. In our December comment, we outlined a devaluation-then-possible-upward-re-rating scenario for 2014, but said we were unsure of this following the $15 billion Russian loan package that allowed Ukraine to continue scraping by. That package is now likely dead, which resuscitates our scenario. Devaluation is occurring; will re-rating follow? We don't expect this soon. The economy will shrink this year, inflation will rise because of devaluation, and disposable income will drop. But imagine this optimistic scenario: in six or nine months, sellers are gone, IMF loans exist, presidential elections occur, Russia doesn't treat Ukraine like it did Georgia in 2008, and protests don't recur. A bull market could ensue. Some leading stocks already trade at trailing PEs of 3 and the MSCI Ukraine Index has plunged 93% in USD from its May 2007 peak. One US dollar buys 9.95 hryvnia now (it hit a high of 11.31 intraday on February 27), against 8.24 at the end of 2013. We've lost 6% in Ukraine in February and 10% YTD. Two companies we own are exporters that benefit from devaluation (sales in USD, costs in hryvnia). Devaluation hurts our other holding, which is more than half of our 7% country exposure, as its domestic business exceeds its exports.

The last time we recall frontier headlines this negative was in Q1 2011, with the Arab Spring and a brief return to civil war in Cote d'Ivoire. Our break-even first half of 2011 gave way to a painful 15% loss in the second half as frontier inflows stopped and global markets developed their own problems (recall the S&P 500 had a 18.4% total return loss July 7 through October 3 over the euro crisis and a possible US debt default). Yet we remember 2011 as a time when bargains emerged, especially in Vietnam, a market then ignored. We bought Vietnam heavily, increasing its weight from 3% to 15% during 2011. Since then, we have gained 30% in Vietnam in 2012, 59% in 2013, and 13% so far in 2014. Now everyone loves Vietnam. Our painful second half losses in 2011 fueled Frontaura gains of 18% in 2012 and 26% last year. Over the three years 2011-2013, we recovered to an 8.2% compounded return, despite the 2011 loss. This is not to say that 2014's results will repeat our 2011 experience. But if negative headlines turn into losses this year, those losses may plant the seeds for gains in future years. This is how emerging and frontier markets often work. Panic and pain today, gain tomorrow.

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 2014[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%	- 41%
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%	5%	12%	6%	6%
2013 Q4	7%	11%	6%	2%	7%
2014 Q1	0%	1%	1%	- 4%	4%
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	26%	32%	23%	-3%	26%
ITD CAGR	10.4%	5.2%	- 0.5%	- 2.8%	- 4.2%

Holdings Summary

Country	Holding
Vietnam	14%
Nigeria	10%
Tanzania	9%
Ukraine	7%
USA (cash only)	7%
Iraq	6%
Sri Lanka	5%
Botswana	5%
Montenegro	3%
Rwanda	3%
Pakistan	3%
Romania	3%
Serbia	3%
Zimbabwe	3%
Lebanon	3%
Estonia	2%
Cote d'Ivoire	2%
Laos	2%
Papua New Guinea	2%
Kazakhstan	1%
Cambodia	1%
Oman	1%
Qatar	1%
Ecuador	1%
Mongolia	1%
Ghana	1%
Others	2%

Industry	Holding
Financials	44%
Consumer Staples	17%
Industrials	12%
Consumer Discretionary	7%
Cash	7%
Energy	5%
Telecommunication Services	5%
Materials	2%

Portfolio Statistics[2]

Portfolio Price to Earnings	6.8
Portfolio Price to Book	1.0
Portfolio Dividend Yield	4.5%
Return on Ending Equity	20.0%

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 28 February 2014 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 2014, 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 28 February 2014. 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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