May 2014 Monthly Comment written 31 May 11 AM Central Africa Time

We estimate our May gain to be 2%, making our Q2 gain 3%-4%, and our YTD return 3%. The S&P 500 and MSCI EAFE also gained 2% on a total returns basis in May, while MSCI Emerging Markets (EM) advanced 3%. MSCI Frontier Markets (FM) struggled for the first two-thirds of the month, down 1% through May 20, then surged 7% in the last eight trading days to gain 6% for the month. FM has a major shuffle effective after the May 30 close, with United Arab Emirates and Qatar promoted out of FM to EM, which should increase institutional allocations to these two countries. Together these two represented 35% of FM at April 30. They each rose 11% in May. As we have been writing, FM has performed incredibly well all year, now up 20% YTD. There's been a debate in FM investing circles as to the degree that these index changes are driving index performance. Presumably, EM funds have bought UAE and Qatar ahead of May 30, while large FM funds boosted their allocations to other FM countries as index weights will increase by roughly 50% in the remaining countries once UAE and Qatar leave FM. We don't have a particular view on this, as it doesn't affect how we invest, but to the extent any distortions existed, they will now subside.

It seems the BRICS have it in for us. Earlier this year, Russia annexed Crimea, causing a selloff in our Ukraine stocks; now, China is bullying Vietnam in the South China Sea, which led to a correction in Vietnam this month. In the first week of May, China announced that it would begin drilling for oil within territory that Vietnam claims. After an incident where a Chinese ship rammed a Vietnamese boat, Vietnam sold off 6% on May 8, its biggest one-day fall since 2001. Note that limit-down rules restrict daily falls in most Vietnamese stocks to 7%, so the selling was even more intense than the percentage indicates. We think the selloff was more about the market and less about China. The main local index, the VNINDEX rose rapidly from the beginning of the year, gaining 20% by March 24 (this index is price-return only, excluding dividends). It was already cooling off, and this incident accelerated the correction. By the May 13 bottom, its YTD gain was down to 2%. By month-end, it was back to a 9% YTD gain, having lost only 3% in May. We lost 4% in May, but we've gained 11% YTD. Viewing the selloff as a potential opportunity, for three days we stopped nearly all other research and launched an all-hands-on-deck effort to scour Vietnam for bargains. We looked at 75 stocks, but in the end bought nothing, as the price declines were not quite deep enough for us. This wasn't a surprise—we weren't buying Vietnam at similar price levels when the year began. Nevertheless, we wanted to ensure that we did not miss anything. Vietnam continues to be our largest holding at 13% of the fund, but after racking up gains of 30% in 2012 and 59% in 2013, we are more likely to be sellers than buyers at present.

By coincidence, Steve was in Vietnam when the boat ramming occurred. He reports, "The theme we heard repeatedly this visit was that the domestic economy was weak and this showed up in 2013 company earnings and 2014 guidance. Government budget cuts in mid-2013 and a steep reduction in loan growth as banks tidy up their balance sheets have taken their toll on spending." Definitely, Vietnam's economy is in a slow patch, which for it means real growth of only 5%-6%, as it slowly cleans up banking system NPLs resulting from the Global Financial Crisis and stimulative policies thereafter. Fortunately, inflation has come down. May prices were only 4.7% higher than a year ago, down from 6.0% at the end of 2013, 6.8% at the end of 2012, and 18.1% at the end of 2011. Lower inflation has meant lower interest rates and a higher stock market, despite mediocre company fundamentals.

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 2014[1]

Period	Frontaura	S&P 500	MSCI EAFE	MSCI Emerging	MSCI Frontier
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	- 1%	2%	1%	0%	7%
2014 Q2	4%	3%	3%	4%	12%
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%
2014	3%	5%	4%	3%	20%
ITD CAGR	10.4%	5.7%	0.0%	- 1.6%	- 1.9%

Holdings Summary

Country	Holding
Vietnam	13%
Nigeria	13%
Tanzania	9%
Iraq	6%
Ukraine	6%
Sri Lanka	5%
Botswana	5%
USA (cash only)	5%
Montenegro	4%
Romania	3%
Serbia	3%
Rwanda	3%
Lebanon	3%
Zimbabwe	2%
Pakistan	2%
Ghana	2%
Cote d'Ivoire	2%
Estonia	2%
Laos	2%
Kazakhstan	2%
Papua New Guinea	1%
Qatar	1%
Oman	1%
Cambodia	1%
Argentina	1%
Ecuador	1%
Cyprus	1%
Mongolia	1%
Malawi	1%
Others	1%

Industry	Holding
Financials	49%
Consumer Staples	16%
Industrials	11%
Cash	7%
Consumer Discretionary	6%
Energy	5%
Telecommunication Services	4%
Materials	2%

Portfolio Statistics[2]

Portfolio Price to Earnings	7.4
Portfolio Price to Book	1.1
Portfolio Dividend Yield	4.8%
Return on Ending Equity	19.1%

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 May 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. ITD returns commence 1 November 2007. Index returns are on a total return basis, net of any withholding tax for a US investor, through 30 May 2014.

2 Portfolio valuation statistics use the most recent 12 months of reported fundamental data as of 30 May 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.

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