July 2014 Monthly Comment written 31 July 5 PM CDT

We estimate we're about flat (slight loss) in July. Despite global turmoil, these past two months have been among the most placid in our returns history. In 81 months, only once before did we have consecutive monthly returns rounding to 0% (the last two months of 2009, where we paused after gaining 46% that year). This is not to say that global crises have left us unscathed. Losses in some crisis countries have limited our 2014 gain to a modest 3%, below most of the global indices we track (see page 2).

Here follows a summary of some of this year's hotspots. We continue our Ukraine freezer strategy—not buying or selling for one year—as we outlined in March's comment. Ukraine makes up 7% of our portfolio and our YTD loss there has improved from -24% after March to -14% today. We will evaluate this strategy in September at its six-month checkpoint. We turned bearish on Iraq in the first half of June and we have reduced the size of our basket there from above 6% of our fund to below 1%. Unlike Ukraine, valuations in Iraq before selling—a trailing PE of 12.2 versus 3.0 in Ukraine—did not provide an adequate margin of safety for us to stay invested during an unpredictable crisis. Another country that we have reduced significantly this year is Zimbabwe, now suffering from deflation. Ask this question at your next cocktail party: what is the annualized rate of Zimbabwe inflation from 2009 onward? The answer is a shocker for those with outdated perceptions: 0.65%. The second worst hyperinflation in history ended when Zimbabwe abandoned the Zim dollar primarily for the US dollar in 2009. Its consumer basket worth $100.00 December 2008 costs $103.65 June 2014, down slightly from $103.74 June 2013. That, Janet Yellen, is price stability! But as Ms. Yellen would observe, it's certainly not been a panacea lately for Zimbabwe. Four years of recovery 2009-2012 with average GDP growth of 10.5% have given way to a stagnant economy 2013-2014 with prices falling, consumer incomes strained, and businesses retrenching. Zimbabwe was once 7% of our portfolio, but now our equity holdings there are only 1%. Finally, in the battle for 2014's biggest currency loser, Ghana now holds the title, taking over from Ukraine. We'll visit Ghana, a 2% portfolio holding, in September. Argentina had an early lead this year, and may yet challenge for the ignoble title again if a second devaluation there occurs before year-end, as we expect. Currency devaluation has boosted bank profits in both countries, although more so in Argentina, 1% of our portfolio. In USD terms, Argentine stocks are a winner for us in 2014, +25%, while Ghana is a loser, -25%. Despite hotheaded and sometimes comical rhetoric from the country's officials, we see Argentina's default yesterday as a rational, calculated move given its legal straightjacket. Court orders prevented Argentina from making further interest payments unless it paid certain debt holdouts in full. Making full payment would 1) expose it to me-too claims from other holdouts and 2) trigger a so-called RUFO clause that requires it to increase payments to debtholders it settled with years ago. The RUFO clause expires at the end of this year, so we expect a negotiated resolution in 2015. Until then, look for a worsening recession, another currency devaluation, stock market losses beyond today's selloff (which only reverses yesterday's euphoric rally), as well as other unpredictable negatives. In other words, things are pretty much going to plan. We see Argentina as a trade (given the country's history, it can never be a long-term investment) based upon a likely change in political regimes with the next presidential elections in October 2015. Kirchnerism will end. All of the leading candidates to succeed President Fernandez are more moderate, which should allow for a couple of good years post-election before old, bad habits recur.

# 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 July 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% | 5% | 4% | 7% | 12% |
| 2014 Q3 | 0% | - 1% | - 2% | 2% | 2% |
| | | | | | |
| 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% | 6% | 3% | 8% | 22% |
| | | | | | |
| ITD CAGR | 10.1% | 5.6% | - 0.2% | - 0.9% | - 1.6% |

## Holdings Summary

| Country | Holding |
|---|---|
| Nigeria | 13% |
| Vietnam | 12% |
| Tanzania | 10% |
| Ukraine | 7% |
| USA (cash only) | 6% |
| Sri Lanka | 5% |
| Pakistan | 5% |
| Botswana | 5% |
| Romania | 3% |
| Montenegro | 3% |
| Serbia | 3% |
| Rwanda | 3% |
| Lebanon | 3% |
| Ghana | 2% |
| Cote d'Ivoire | 2% |
| Laos | 2% |
| Estonia | 2% |
| Zimbabwe | 2% |
| Kazakhstan | 2% |
| Papua New Guinea | 2% |
| Oman | 1% |
| Qatar | 1% |
| Cambodia | 1% |
| Argentina | 1% |
| Ecuador | 1% |
| Iraq | 1% |
| Cyprus | 1% |
| Mongolia | 1% |
| Malawi | 1% |
| Others | 1% |

| Industry | Holding |
|---|---|
| Financials | 44% |
| Consumer Staples | 15% |
| Industrials | 12% |
| Cash | 9% |
| Consumer Discretionary | 7% |
| Energy | 5% |
| Telecommunication Services | 4% |
| Utilities | 2% |
| Materials | 2% |

## Portfolio Statistics[2]

| | |
|---|---|
| Portfolio Price to Earnings | 7.1 |
| Portfolio Price to Book | 1.1 |
| Portfolio Dividend Yield | 5.1% |
| Return on Ending Equity | 20.7% |
| Positions | 58 |
| Countries | 33 |
| Average Market Cap | $678m |
| Median Market Cap | $235m |
| Portfolio Turnover (LTM) | 25% |
| Portfolio Turnover (ITD) | 26% |
| Standard Deviation (ITD) | 16% |
| Beta to S&P 500 | 0.52 |
| Assets Under Management | $171m |

## 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 July 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 31 July 2014.

2 Portfolio valuation statistics use the most recent 12 months of reported fundamental data as of 31 July 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

This document does not constitute an offer to sell, or a solicitation of an offer to buy, membership interests in Frontaura Global Frontier Fund LLC or shares in Frontaura Global Frontier Fund Offshore Limited. We will not make such offer or solicitation prior to the delivery of an offering memorandum, an operating agreement or articles of association, a subscription booklet, and other materials relating to the matters herein. Before making an investment decision, we advise potential investors to read these materials carefully and to consult with their tax, legal, and financial advisors. We have compiled this information from sources we believe to be reliable, but we cannot guarantee its accuracy. We present our opinions without warranty as of the publication date. We may change our opinions at any time. Past results are no guarantee of future performance. 

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