September 2014 Monthly Comment published 30 September 5 PM CDT

We estimate we made 2% in September. It's been a tough month for most indices we cite with the exception being the MSCI Frontier Markets (FM) Index, up 1% through yesterday. We write this intraday Tuesday, so index results are total returns only through Monday, 29 September. The S&P 500 is down 1%, MSCI EAFE is down 4% and MSCI EM is down 7%. For Q3, we estimate we gained 1%, the same as the S&P 500 and FM, and above EM, down 3%, and EAFE, down 6%. For the year, we're up 4%, behind FM's 22% and the S&P 500's 9% but above EM's 3% and EAFE's -1%.

This month we visited Tanzania and Ghana, with a weekend in Ethiopia. Tanzania has performed well this year—we've made 43% before fees—as stocks advanced anticipating the elimination of the foreign ownership limit. This occurred September 26, meaning that total foreign ownership was no longer limited to 60% of a listed company's shares. We bought Tanzania from 2008 through May 2013, observing at that time that PE ratios were roughly half or less than those in neighboring Kenya. The two countries have roughly the same population, 45-48 million, yet Kenya's capital markets and economy are more developed. In its first two decades post-independence into the 1980s, Tanzania had a socialist economic system that held the country back. As can often be the case, the bad policies of yesteryear can benefit today's investor if those policies vanish and do not return. When we started Frontaura, Kenya's per capita GDP was 70% higher than that of Tanzania. We reasoned that as neighbors with similar population and demographics, their per capita GDP levels ought to converge, and thus Tanzania ought to grow faster. This is happening. From 2008-2013, Tanzania's real GDP growth averaged 6.8% to Kenya's 4.1%. Fast GDP growth itself is no guarantee of making money, however, as high valuations may already reflect the anticipated growth. But as we mentioned, that wasn't the case in Tanzania when we bought. The opposite was true—faster growth was available at discount valuations. This gave us two sources of return over the years—earnings growth and growth in the multiple on those earnings. This combination made Tanzania the biggest country winner in Frontaura's history. Alas, good growth remains, but valuations are no longer cheap; we've trimmed our Tanzanian positions steadily over the past year. Tanzania remains our third biggest country at 9% of the portfolio.

Ghana, 3% of the portfolio now, has been a loser for us this year, erasing some past glory in that country, where we did well from 2010 to 2013. The culprit has been the currency, which lost 39% YTD through August 21. After hitting a low that day at 3.89 cedis to the dollar (1 cedi being worth $0.26), the cedi has rallied now to around 3.30 per dollar (1 cedi worth $0.30). This appreciation has cut our YTD loss in Ghana before fees from 25% through August to only 9% now. We believe the cedi temporarily overshot on the downside as speculators bet on its continued fall. With the reversal, those speculators are dumping dollars, allowing the cedi to rebound upward. As this plays out, seasonal and structural factors will take over, and the cedi will weaken again, albeit hopefully not at the pace of earlier this year. For the past decade, the cedi devalued at a 12% annual rate, and we expect roughly that decline in the next year. Ghana is a net importer with large current account and fiscal deficits. Its oil discoveries help, but production volumes are too small to change the equation. An IMF team was in town at the same time as we were, and if the government can negotiate a program successfully, IMF oversight should help restrain the country's fiscal profligacy. Investors should watch government spending closely in 2016, the next presidential election year, as spending tends to go out of control in these years.

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 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	1%	1%	- 6%	- 3%	1%
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	4%	9%	- 1%	3%	22%
ITD CAGR	10.0%	5.9%	- 0.7%	- 1.6%	- 1.6%

Holdings Summary[2]

Country	Holding
USA (cash only)	15%
Nigeria	13%
Vietnam	12%
Tanzania	9%
Sri Lanka	6%
Pakistan	5%
Serbia	3%
Romania	3%
Montenegro	3%
Rwanda	3%
Ghana	3%
Lebanon	3%
Ukraine	2%
Cote d'Ivoire	2%
Laos	2%
Papua New Guinea	1%
Oman	1%
Kazakhstan	1%
Estonia	1%
Botswana	1%
Qatar	1%
Ecuador	1%
Zimbabwe	1%
Argentina	1%
Cambodia	1%
Mongolia	1%
Bangladesh	1%
Cyprus	1%
Others	2%

Industry	Holding
Financials	41%
Cash	16%
Consumer Staples	15%
Industrials	10%
Consumer Discretionary	6%
Energy	5%
Telecommunication Services	4%
Utilities	2%
Materials	2%

Portfolio Statistics[2]

Portfolio Price to LTM Earnings	8.0
Portfolio Price to Book	1.1
Portfolio LTM Dividend Yield	5.2%
Return on Ending Equity	21.3%
Positions	58
Countries	33
Average Market Cap	$799m
Median Market Cap	$352m
Portfolio Turnover (LTM)	31%
Portfolio Turnover (ITD)	26%
Standard Deviation (ITD)	15%
Beta to S&P 500	0.51
Assets Under Management	$174m

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 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 29 September 2014, as final index values for the current month are not available at time of publication.

2 Click this link for an explanation of our holdings and portfolio statistics: http://www.frontauracapital.com/monthlycomments/Frontaura_Fact_Sheet_2014_09_Notes.pdf

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