October 2014 Monthly Comment written 31 October 1 PM CDT

We estimate that our October gain will round up to 1%, increasing our 2014 gain to 5%. It was a tumultuous month for global indices. Although it's up for the month as we write this, the S&P 500 had a monthly loss of 7.7% at its intraday low on October 15. Around that time, we were up 0.7% for the month. The S&P then regained all of its losses and more, while we were flat over the second half of October. You've seen us write repeatedly on this theme. The volatility of our 33 different countries tends to offset, with the resulting portfolio return being more placid than one would imagine for a frontier markets fund. This year, surging prices in Tanzania and Pakistan have compensated us for plummeting prices in Iraq and Ukraine, for example. Our inception to date standard deviation is now 15.4%, below the S&P 500's 18.2% over the same period. Our beta to the S&P is 0.51. We write this comment before final index values for October are available. Through October 30, the S&P 500 was up 1% for October, MSCI EAFE was down 3%, MSCI Emerging Markets was flat, and MSCI Frontier Markets was down 5%, all on a total returns basis.

The question we get most from investors now is what happens to frontier markets with the US Federal Reserve ending quantitative easing and potentially raising interest rates next year. We think any knock-on effect from this Fed policy change will appear first in emerging markets, not in frontier markets. This anticipation of rising rates occurred last year with the taper tantrum in May and June of 2013, when MSCI EM had a 16% drawdown. Another risk-off period for EM, also tied to rising US 10-year yields, began in Q4 2013 and led to a 12% EM drawdown that carried into 2014. MSCI FM lost only 6% during the taper tantrum (we lost less than 1%) and FM and Frontaura rose during Q4 2013. EM economies and stock markets integrate more with the developed world than do those of FM. This financial market integration—driven by traders on desks in New York, London, and Hong Kong—determines much of the EM volatility. Local sentiment governs FM, however, and often this is disconnected from the views of global traders. Of course, in a severe enough crisis, FM tends to notice what's happening in the rest of the world. Think of the 2008-2009 global financial crisis rather than the 2013 taper tantrum—FM held up through mid-2008 before utterly collapsing in the second half of the year. The answer to the question of how rising rates affects FM then is the degree to which EM suffers. More EM suffering means a greater chance that FM will capitulate eventually. As we have said before, we have been surprised that FM currencies haven't had more across-the-board weakness in 2013 and 2014. This remains a risk for next year.

Another risk is falling oil prices. Some of our countries import oil and benefit from Brent crude at $85, down from $115 in June. These importers should see a shrinking current account deficit, lower budget deficit (to the extent they subsidize energy prices), and increased consumer discretionary income. Other countries we own, Nigeria being the most significant example at 13% of our portfolio, are oil exporters who face challenges. A lower oil price means less government revenue, widening fiscal deficits, shrinking current account surpluses, and pressure on their foreign currency reserves and exchange rate. We think Nigeria will probably do whatever it takes to maintain the naira in the 160s to the US dollar through the February 2015 presidential election, even raising interest rates and using reserves to defend the currency. A weaker naira means higher inflation as the country imports most goods, and Nigerian officials are sensitive to the inflation rate, especially at election time. Post-election, if the oil price remains low, devaluation becomes more likely.

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 October 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%	2%
2014 Q4	1%	1%	- 3%	0%	- 5%
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	5%	10%	- 4%	3%	17%
ITD CAGR	10.1%	6.0%	- 1.1%	- 1.6%	- 2.2%

Holdings Summary[2]

Country	Holding
USA (cash only)	18%
Nigeria	13%
Vietnam	12%
Tanzania	9%
Sri Lanka	6%
Serbia	3%
Romania	3%
Ghana	3%
Pakistan	3%
Montenegro	3%
Lebanon	3%
Rwanda	3%
Cote d'Ivoire	2%
Ukraine	2%
Laos	1%
Papua New Guinea	1%
Estonia	1%
Botswana	1%
Oman	1%
Kazakhstan	1%
Qatar	1%
Zimbabwe	1%
Ecuador	1%
Cambodia	1%
Argentina	1%
Macedonia	1%
Bangladesh	1%
Mongolia	1%
Cyprus	1%
Others	2%

Industry	Holding
Financials	41%
Cash	20%
Consumer Staples	14%
Industrials	8%
Energy	5%
Telecommunication Services	4%
Consumer Discretionary	4%
Utilities	3%
Materials	2%

Portfolio Statistics[2]

Portfolio Price to LTM Earnings	7.5
Portfolio Price to Book	1.1
Portfolio LTM Dividend Yield	5.3%
Return on Ending Equity	20.4%
Positions	55
Countries	33
Average Market Cap	$802m
Median Market Cap	$341m
Portfolio Turnover (LTM)	33%
Portfolio Turnover (ITD)	27%
Standard Deviation (ITD)	15%
Beta to S&P 500	0.51
Assets Under Management	$175m

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 October 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 October 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_10_Notes.pdf

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