November 2014 Monthly Comment written 30 November 5 PM CST

We estimate that Frontaura lost around 4.5% in November, our worst monthly result since November 2011's -4.9%. We suppose we had this coming to us, having tempted fate by writing in our Q3 letter and our October comment about the placidness of our returns (no monthly losses worse than 1.0% after August 2013, and none worse than 2.1% after May 2012). Four countries explain our negative result. We lost 18% in Nigeria, our largest country holding when November began. Falling global oil prices hurt stocks and the currency there, accounting for three-fifths of our overall decline. After years of gains in Tanzania, that market finally corrected, presenting us with a 12% loss that accounted for one-fifth of our November drop. We are still up 48% YTD in Tanzania, now 7% of our portfolio. The remaining one-fifth of our November loss occurred in Ukraine and Kazakhstan. Each reacted negatively to Russia, although for different reasons, with Kazakhstan's fall mostly due to lower oil prices and diminishing competitiveness against the plunging Russian ruble. We lost 21% in Ukraine and 15% in Kazakhstan. Each country is now 2% of our fund. Overall, we made money in 14 countries and lost in 20, with the gains and losses in the 30 countries we didn't name roughly canceling out.

We've said before that the biggest risk to our performance tends to be global macro events that become significant enough to affect frontier countries. A 39% decline in the Brent oil price from $115.06 on June 19 to $70.15 on November 28 is such an event, but a different kind of one. Most global macro risks are quite bad for nearly all countries. In contrast, lower oil prices are moderately good for most countries and wholly bad for a minority. Most of our countries are net energy importers, and lower prices should lower current account deficits, budget deficits, and inflation, while boosting GDP and international reserves, all good outcomes. Countries like Nigeria are in the opposite situation, however, and price drop has a disproportionately large effect on it. In other words, we are getting concentrated pain upfront, before any dispersed benefits appear in the rest of our portfolio. The MSCI Frontier Markets (FM) Index has high exposure to oil exporters, with Kuwait and Nigeria comprising 43% of the index at the end of October. FM had a total return loss of 4.6% in November, increasing its QTD loss to 8.8%, versus a 3.6% drop for us. MSCI Emerging Markets fell 1% for November, MSCI EAFE gained 1% and the S&P 500 rose 3%, all on a total returns basis.

Major global price changes, whether in commodities, interest rates, currencies, real estate, or stocks, tend to be disruptive events whose knock-on effects are unpredictable. It's hard to say if we will directly observe the dispersed benefits of lower oil prices, as these benefits could be lost among other factors. For example, lower oil prices tend to correlate with a stronger US dollar, which hurts returns in non-US funds like ours. The countries where we have the most exposure to oil and gas are Nigeria (12% of the portfolio); Papua New Guinea (5%); Kazakhstan (2%); Oman, Qatar, and Ecuador (1% each); and others including Iraq that collectively add to 1%. We also have 1% in an Estonian company that sells to Russia, giving it oil and gas country exposure.

When stock prices fall, we buy. We bought $18 million in November, our highest ever dollar purchase amount (although not a record in percentage terms), reversing our recent trend of selling more than buying. Our portfolio PE is now 7.1, having been 8.0 only two months ago. Our weighted average dividend yield is up to 6.2%, the highest since May 2010. If our buys and sells in December offset each other, we project we'll finish 2014 with 6% cash.

# 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 November 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 | - 4% | 5% | 0% | 0% | - 9% |
| | | | | | |
| 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 | 0% | 14% | - 1% | 3% | 11% |
| | | | | | |
| ITD CAGR | 9.2% | 6.5% | - 0.8% | - 1.6% | - 2.8% |

## Holdings Summary[2]

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

| Industry | Holding |
|---|---|
| Financials | 47% |
| Consumer Staples | 14% |
| Cash | 11% |
| Industrials | 9% |
| Energy | 5% |
| Telecommunication Services | 4% |
| Consumer Discretionary | 4% |
| Utilities | 3% |
| Materials | 3% |

## Portfolio Statistics[2]

| | |
|---|---|
| Portfolio Price to LTM Earnings | 7.1 |
| Portfolio Price to Book | 1.0 |
| Portfolio LTM Dividend Yield | 6.2% |
| Return on Ending Equity | 20.8% |
| Positions | 62 |
| Countries | 34 |
| Average Market Cap | $738m |
| Median Market Cap | $278m |
| Portfolio Turnover (LTM) | 33% |
| Portfolio Turnover (ITD) | 27% |
| Standard Deviation (ITD) | 15% |
| Beta to S&P 500 | 0.51 |
| Assets Under Management | $167m |

## 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 November 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 28 November 2014. Note that MSCI will include Islamic market results for Sunday, 30 November in December, but Frontaura includes these results in November. This difference is immaterial.

2 Click this link for an explanation of our holdings and portfolio statistics: http://www.frontauracapital.com/monthlycomments/Frontaura_Fact_Sheet_2014_11_Notes.pdf

## Disclaimer



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