December 2014 Monthly Comment written 31 December 11 AM CST

We estimate that Frontaura lost 3%-4% in December. Following November's 4.48% loss, our approximate 8% drawdown from October's peak is already the third worst in our history, behind a 35% peak-to-trough drawdown in 2008-2009 and an 18% drawdown in 2011. This bah humbug end to the year gives us a 7% loss for Q4 and a 3% loss for 2014. The main culprit in December, and in Q4, was the falling oil price, affecting us severely in Nigeria, and in countries adjacent to Russia, such as Estonia, Kazakhstan, and Ukraine. The Brent oil price traded below $56 today, down from $70.15 at the end of November. The ongoing correction in Tanzania (unrelated to oil) also hurt. Frankly, we could have updated the numbers in our November comment with December's figures, and republished last month's text today, as the explanation of our losses has been similar both months.

December was bipolar—panic in the first half, followed by recovery. The MSCI Frontier Markets Index (FM) exhibits this best. Through December 17, it was down 12% for the month, then it gained 9% from December 18 through December 30, leaving it down 4% MTD (all index figures are total returns through December 30 including dividends; final values for December 31 are not available at this writing). At the December 17 low, FM was down 2% for the year, having been up 23% on August 7. FM is now down 12% QTD, but up 7% YTD. In our typical pattern, we experienced less panic and less recovery, as our MTD loss through December 17 was under 6%. Other global indices showed similar intra-month reversals. The S&P 500 was down 4.5% MTD December 16, but is now up 1%. This is the second month in three where the S&P had a mid-month turnaround. In October, it was down 7.7% at the October 15 intraday low, before finishing October with a 2.4% gain. Despite its wobbles, the S&P 500 has gained 6% QTD and 15% YTD. MSCI EAFE lost 3% in the month and quarter so far, and 5% YTD. Finally, MSCI Emerging Markets lost 5% MTD and QTD, and 2% for the year so far.

A common theme in the numbers above was that a strong US dollar hurt the USD performance of non-US indices and funds. For example, FX losses cost us about 10 percentage points of performance (before fees and incentive allocation) in 2014, meaning that we would have had a positive return for the year had our currencies been flat. We expect the strong dollar to continue in 2015 and we expect further currency losses in Nigeria in 2015, where voters go to the polls February 14 for a presidential election. Investors often ask us if we hedge, perhaps to imply that hedging would allow us to recapture currency losses. This is a usually a fallacy—the cost of hedging is high, often higher than the devaluation you expect or get. And often no market exists to hedge our currencies. So even if we hedged everywhere we could have, we think we would still have lost money in 2014. Over time, we believe hedging has no performance benefit.

Although our pace of stock purchases slackened from November's record $18 million, we continued to buy in December, adding $5.6 million of stock ($4.6 million net of sales). During the month, we reversed an earlier decision not to replenish investor withdrawal outflows, and we began to call upon our waitlist. Cash is now 8%, including January 1 inflows. Had we not used the waitlist, cash would have dwindled to about 3.5%. Falling prices improved our trailing portfolio valuation metrics further, with our PE, price/book, and weighted average dividend yield now at 6.8, 1.0, and 6.6%, respectively. The weighted average return on equity of our companies is 21.7%. All of these metrics are similar what they were one year ago, except for the yield, which was only 4.9% in December 2013.

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 December 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	- 7%	6%	- 3%	- 5%	- 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%	15%	- 5%	- 2%	7%
ITD CAGR	8.6%	6.5%	- 1.2%	- 2.3%	- 3.3%

Holdings Summary[2]

Country	Holding
Vietnam	14%
Nigeria	12%
USA (cash only)	7%
Tanzania	7%
Sri Lanka	7%
Papua New Guinea	5%
Bangladesh	4%
Pakistan	3%
Ghana	3%
Serbia	3%
Kazakhstan	3%
Montenegro	3%
Lebanon	3%
Rwanda	3%
Romania	3%
Cote d'Ivoire	2%
Ukraine	2%
Laos	2%
Oman	2%
Ecuador	1%
Botswana	1%
Qatar	1%
Argentina	1%
Cambodia	1%
Macedonia	1%
Estonia	1%
Jamaica	1%
Zimbabwe	1%
Mongolia	1%
Others	2%

Industry	Holding
Financials	48%
Consumer Staples	13%
Industrials	10%
Cash	8%
Telecommunication Services	6%
Energy	5%
Consumer Discretionary	4%
Utilities	3%
Materials	3%

Portfolio Statistics[2]

Portfolio Price to LTM Earnings	6.8
Portfolio Price to Book	1.0
Portfolio LTM Dividend Yield	6.6%
Return on Ending Equity	21.7%
Positions	62
Countries	35
Average Market Cap	$704m
Median Market Cap	$256m
Portfolio Turnover (LTM)	32%
Portfolio Turnover (ITD)	27%
Standard Deviation (ITD)	15%
Beta to S&P 500 (ITD)	0.50
Assets Under Management	$161m

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 December 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 December 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_12_Notes.pdf

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