May 2015 Monthly Comment written 29 May 3 PM CDT

We estimate that we were just above break-even for May. Through Thursday, May 28, (final monthly index values not available at this writing), the S&P 500 total return was 2%. Non-US indices did worse, with MSCI EAFE flat, MSCI Emerging Markets down 3%, and MSCI Frontier Markets losing 4%. Our final May results could vary slightly as 6.5% of our portfolio trades on Sunday, May 31. We include May 31 in May; MSCI includes it in June. We are up 4% for Q2 and 1% for 2015. Frontaura's trailing portfolio PE is 7.2 with a 6.1% weighted average dividend yield.

From July 2014 through mid-March 2015, international funds like Frontaura encountered US dollar strength. Then, through mid-May, we enjoyed a two-month respite of dollar weakness. But from mid-May onward, dollar strength has returned. Overall, currency effects reduced our results this month by nearly one percentage point.

Bucking this currency trend was Mongolia, where the tugrik appreciated nearly 3%, our best performing currency for May. On May 19, after two years of delays and contentious negotiations, the government of Mongolia and Rio Tinto finally signed an agreement on the $5.4 billion phase II development of Oyu Tolgoi (OT II), a huge copper and gold mine. This agreement signals Mongolia is back in business after three years of negative government moves that changed it from an investment darling to an investment pariah. Foreign direct investment in Mongolia dropped nearly 90% from 2011 to 2014. We made a small, contrarian bet on the country, beginning in September 2013. We expected the government and Rio Tinto to sign OT II eventually because of its considerable mutual benefit. Frankly, it took longer than we anticipated and while the stock market slumped significantly, valuations never reached the bargain basement level we've seen elsewhere in the world when foreign investors abandon a country. As a result, we only accumulated a small country position, 48 basis points of our portfolio today. So while Mongolia was our second biggest percentage winner in May, up 13%, it was only our ninth biggest dollar winner.

We visited Nigeria again this month and we will return to Vietnam in June. Today, May 29, was Muhammadu Buhari's inauguration as Nigeria's president, marking the first democratic transfer to an opposition party in that country's history. This is a milestone event for Nigeria, and for the continent, as Nigeria is Africa's most populous country with 176 million people. Buhari's significant challenges include, among other things, a deteriorating fiscal position due to low oil prices, an overvalued currency, power and fuel shortages (despite being a major oil exporter!), widespread corruption and kleptocracy, the Boko Haram insurgency and the presence of other militant groups. We expect low oil prices will lead to rising non-performing loans (NPLs) in Nigeria's banking system this year and next. Bank numbers through Q1 do not show this, and bank guidance does not acknowledge this. Nonetheless, we believe bank valuations reflect investor concern about NPLs. The median price/book ratio of the dozen largest Nigerian banks is only 0.65, per Bloomberg data. The banking system had a major crisis that developed in 2008, erupted in 2009, and was cleaned up in 2010 and 2011. The central bank took over failing banks and created an asset management company to assume problem loans (a "bad bank," analogous to the Resolution Trust Corporation in the US after the 1980s savings and loan crisis). Lending and regulatory oversight is far more cautious now than in those cowboy days, and this gives us comfort that the NPL problem is containable. While anything is possible, we rate the chances of two major Nigerian banking crises within a decade as low. Nigeria is 11% of Frontaura's portfolio.

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 May 2015[1]

Period	Frontaura	S&P 500	MSCI EAFE	MSCI Emerging	MSCI Frontier
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%	5%	- 4%	- 5%	- 12%
2015 Q1	- 3%	1%	5%	2%	- 3%
2015 Q2	4%	3%	4%	4%	0%
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%	14%	- 5%	- 2%	7%
2015	1%	4%	9%	6%	- 3%
ITD CAGR	8.3%	6.5%	0.0%	- 1.4%	- 3.6%

Holdings Summary[2]

Country	Holding
Vietnam	13%
Nigeria	11%
USA (cash only)	8%
Sri Lanka	7%
Tanzania	6%
Papua New Guinea	5%
Bangladesh	5%
Pakistan	5%
Montenegro	3%
Serbia	3%
Ghana	3%
Lebanon	3%
Rwanda	3%
Romania	3%
Cambodia	2%
Oman	2%
Jamaica	2%
Argentina	2%
Cote d'Ivoire	1%
Ecuador	1%
Botswana	1%
Laos	1%
Macedonia	1%
Qatar	1%
Iran	1%
Zimbabwe	1%
Colombia	1%
Mozambique	1%
Malawi	1%
Others	3%

Industry	Holding
Financials	48%
Cash	11%
Consumer Staples	9%
Industrials	8%
Energy	8%
Materials	5%
Utilities	4%
Consumer Discretionary	4%
Telecommunication Services	2%

Portfolio Statistics[2]

Portfolio Price to LTM Earnings	7.2
Portfolio Price to Book	1.0
Portfolio LTM Dividend Yield	6.1%
Return on Ending Equity	18.2%
Positions	57
Countries	38
Average Market Cap	$804m
Median Market Cap	$281m
Portfolio Turnover (LTM)	33%
Portfolio Turnover (ITD)	27%
Standard Deviation (ITD)	15%
Beta to S&P 500 (ITD)	0.51
Assets Under Management	$163m

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 29 May 2015 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 May 2015, as final index values for the current month are not available at time of publication. Note that final May 2015 performance for Frontaura, but not for the indices, will include Islamic market trading on Sunday, 31 May 2015.
Click this link for an explanation of the indices we show: http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2015_05_12.pdf

2 Click this link for an explanation of our holdings and portfolio statistics: http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2015_05_12.pdf

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