December 2015 Monthly Comment published 31 December 11AM CST

At this writing on the morning of the last day of the year, we are around break-even for December, with a 1% gain for Q3, and a 5%-6% loss for 2015. Through December 30 (final index values for the month not yet available), all but one of the indices we quote monthly are down 1%, with MSCI Emerging Markets (EM) down 3%. For 2015 through December 30, the S&P 500 had a total return of +2%, while MSCI EAFE was flat. MSCI EM and MSCI Frontier Markets (FM) each fell 15%. For EM, in terms of down years, this is its third in a row, its fourth in the past five, and its fifth in the past eight. Since our November 2007 inception, the FM index has had fewer down years than EM (three versus five), yet it has performed slightly worse than EM, -33% to -28%. We are up 71% since our inception, even though we've been down two years in a row and four of the past eight. Our gain is ahead of the S&P 500's 59% (with only one down year) and EAFE's -9%.

Two months ago, we wrote about frontier elections, including Argentina, where market-friendly challenger Mauricio Macri finished better than expected in the first-round presidential election. Macri won last month's runoff, assuming office on December 10 with a strong technocratic team vowing to roll back 12 years of Kirchnerism. Wasting no time, in his first week, Macri removed export duties on agricultural products and floated the peso. A dollar now buys 13 pesos, up from 9.75 at the official rate when he took office. While the official rate has devalued, the peso actually shows an appreciation from December 10 when measured using the free market blue-chip swap rate. The Argentine stocks we own traded implicitly at the blue dollar rate, so we suffered no devaluation effect. Anticipation of Kirchnerism's end gave us a return in Argentina over 30% in 2015. In dollars, the country was our fourth biggest winner, despite being only a 1%-2% position.

This month, our portfolio bounced off its September 2015 lows. As we are only 1% above those lows now, it's premature to conclude that our recent drawdown is over. Compared to the two other significant drawdowns in our history, this selloff is the shallowest, but already the longest even if it did end in September. Our deepest drawdown occurred during the Global Financial Crisis. We fell 35% from our May 2008 peak to our February 2009 low, nine months later. We regained all of our losses in 13 months, hitting a new all-time high in March 2010, 22 months after our prior high. Our second drawdown was in 2011 in the midst of a series of events: Arab Spring, Cote d'Ivoire civil war, a second summer of euro crisis, and a US debt default scare. We peaked January 2011, then bottomed November 2011, 10 months later and 18% lower. We hit a new all-time high January 2013, 14 months after our bottom, and 24 months after our prior peak. Our third drawdown, which we call the strong dollar/low oil selloff, began from an October 2014 high. Through the September 2015 low, we lost 14% over 11 months.

Our preliminary estimate is that dollar strength cost us 8-9 percentage points of performance in 2015, meaning we gained a few percentage points in constant currency terms. This outcome is similar to 2014. An unfortunate attribute of currency losses is that the performance hit doesn't necessarily make the valuation multiples of your stocks cheaper, as the local currency price is unchanged (although the USD valuation is lower). Nevertheless, our valuations remain attractive. While our 7.1 trailing portfolio PE is about average for our history, our 0.9 price/book ties our lowest ever, and our 6.6% weighted average dividend yield is within the top one-sixth of all month-end values. Overall, the average rank of these three measures across our history is in the top quintile.

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 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	3%	0%	1%	1%	0%
2015 Q3	- 6%	- 6%	- 10%	- 18%	- 11%
2015 Q4	1%	8%	5%	0%	- 2%
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	- 5%	2%	0%	- 15%	- 15%
ITD CAGR	6.8%	5.9%	- 1.1%	- 4.0%	- 4.8%

Holdings Summary[2]

Country	Holding
Vietnam	14%
Nigeria	9%
Pakistan	7%
Sri Lanka	7%
Papua New Guinea	6%
USA (cash only)	5%
Bangladesh	5%
Tanzania	5%
Rwanda	5%
Ghana	4%
Montenegro	4%
Romania	3%
Kenya	3%
Cambodia	3%
Lebanon	2%
Serbia	2%
Argentina	2%
Oman	2%
Ecuador	2%
Macedonia	2%
Mongolia	1%
Laos	1%
Iran	1%
Qatar	1%
Botswana	1%
Mozambique	1%
Peru	1%
Others	2%

Industry	Holding
Financials	43%
Consumer Staples	14%
Cash	8%
Energy	8%
Industrials	8%
Utilities	7%
Consumer Discretionary	5%
Materials	4%
Telecommunication Services	3%

Portfolio Statistics[2]

Portfolio Price to LTM Earnings	7.1
Portfolio Price to Book	0.9
Portfolio LTM Dividend Yield	6.6%
Return on Ending Equity	18.5%
Positions	52
Countries	36
Average Market Cap	$605m
Median Market Cap	$218m
Portfolio Turnover (LTM)	37%
Portfolio Turnover (ITD)	28%
Standard Deviation (ITD)	14%
Beta to S&P 500 (ITD)	0.50
Assets Under Management	$122m

Terms / Service Providers

Management Fee	2%	Attorney	Foley & Lardner LLP
Performance Fee	20% with high-water mark	Auditor	RSM McGladrey, Inc.
Subscriptions	Monthly. New investor minimum $1,000,000. Additional subscription minimum $10,000.	Fund Administrator	Michael J. Liccar & Co.
Redemptions	Quarterly with three-month notice. Restrictions may apply.[2]	Global Custodian	Bank of New York Mellon

1 Frontaura returns are actual returns, net of all fees, through 31 December 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 30 December 2015, as final index values for the current month are not available at time of publication. Click this link for an explanation of the indices we show: http://http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2015_09_30.pdf

2 Click this link for an explanation of our holdings and portfolio statistics and our redemption provisions: http://http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2015_09_30.pdf

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