February 2016 Monthly Comment published 29 February 1PM CST

Our February results are in the red at this writing, between 0% and -1%. Total index returns through Friday, February 26 (final index values not yet available) include the S&P 500 +1%, MSCI EAFE -2%, MSCI Emerging Markets (EM) 0%, and MSCI Frontier Markets (FM) +4%. YTD, we are -5%. MSCI FM and the S&P 500 are slightly ahead of us at -3% and -4%, respectively, while MSCI EM and MSCI EAFE trail at -7% and -9%, respectively. February was a placid month for us, with our performance during the month ranging from slightly positive to slightly worse than -1%. In contrast, the S&P 500 and MSCI EAFE indices were each down 6% for the month at their February 11-12 lows. Why did the frontier index perform so much better than we did this month? Well, we've never had much index overlap, and looking at our 100 months of history, a monthly divergence of 4 percentage points or more from the index occurs 22% of the time, with us outperforming the index 15 times, and underperforming 7 times. With regard to February, we observe that the MSCI FM Small Cap index lags the MSCI FM index by about 3.5 percentage points. While we are cap-agnostic, we do tend to own smaller companies, which we often find to be better values than the largest, most liquid stocks.

We spent the first week of February in Buenos Aires, Argentina, where a remarkable political transformation is unfolding at a breathtaking pace. We'll say this: the current government in Argentina is among the most competent, pragmatic, and action-oriented that we've encountered in frontier markets—a sharp contrast to the prior regime. Now before anyone accuses us of getting soft, let us say upfront that given its checkered history, we always consider Argentina to be a trade, not a permanent investment. History shows, however, that Argentine trades can be extraordinarily profitable. From 1988 to mid-1992, during which time the country pegged its currency to the US dollar, ending hyperinflation, the MSCI Argentina index rose 20-fold. Then, from mid-2002 to mid-2008, as Argentina's depression ended and a fortuitous commodities boom began, the total returns index grew 16 times. Finally, from late 2012, the index has tripled during the present end-of-Kirchnerism cycle.

Since President Macri took office December 10, 2015, he has let the currency float; lifted ag export duties; begun dismantling capital controls; raised below-market electricity prices roughly two- to seven-fold, with similar plans for natural gas; replaced the central bank head and begun to re-establish central bank independence; begun an overhaul of the national statistics agency to make it credible; established fiscal and inflationary targets; raised the income tax floor so that fewer people pay, with plans to increase tax bracket thresholds to account for years of double-digit inflation that had most paying the top 35% marginal rate; and settled some debt holdout claims, with the remaining claims moving toward a resolution that would allow Argentina to borrow again in global markets. While many of Macri's changes are orthodox conservative economic policy, there is a surprising pragmatism, perhaps gained from eight years as mayor of Buenos Aires. Simultaneous with a reduction of wasteful spending, conditional cash transfers for poor children are increasing, as are infrastructure investments. Macri's challenges are great. Some of his policies, while utterly sensible in the long run, work at cross-purposes to his economic targets in the short run. The currency float and utilities price increases will keep inflation stubbornly high, feeding further devaluation. Tariff elimination and higher income tax brackets will reduce government revenue. We expect Macri to succeed, but we concede it is not certain.

In March, we will visit Kuwait, Oman, the United Arab Emirates, and Vietnam.

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 February 2016[1]

Period	Frontaura	S&P 500	MSCI EAFE	MSCI Emerging	MSCI Frontier
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%	7%	5%	1%	- 1%
2016 Q1	- 5%	- 4%	- 9%	- 7%	- 3%
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%	1%	- 1%	- 15%	- 14%
ITD CAGR	5.9%	5.1%	- 2.3%	- 4.6%	- 5.0%

Holdings Summary[2]

Country	Holding
Vietnam	12%
USA (cash only)	10%
Pakistan	7%
Sri Lanka	7%
Nigeria	7%
Papua New Guinea	6%
Bangladesh	5%
Rwanda	5%
Tanzania	5%
Montenegro	4%
Romania	3%
Kenya	3%
Ghana	3%
Lebanon	3%
Cambodia	3%
Argentina	3%
Oman	2%
Serbia	2%
Macedonia	2%
Ecuador	2%
Mongolia	1%
Iran	1%
Laos	1%
Qatar	1%
Mozambique	1%
Botswana	1%
Peru	1%
Others	2%

Industry	Holding
Financials	40%
Consumer Staples	13%
Cash	11%
Industrials	8%
Energy	8%
Utilities	7%
Consumer Discretionary	5%
Materials	4%
Telecommunication Services	3%
Information Technology	1%

Portfolio Statistics[2]

Portfolio Price to LTM Earnings	6.9
Portfolio Price to Book	0.9
Portfolio LTM Dividend Yield	7.0%
Return on Ending Equity	18.4%
Positions	54
Countries	36
Average Market Cap	$621m
Median Market Cap	$234m
Portfolio Turnover (LTM)	36%
Portfolio Turnover (ITD)	28%
Standard Deviation (ITD)	14%
Beta to S&P 500 (ITD)	0.51
Assets Under Management	$116m

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 29 February 2016 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 26 February 2016, 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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