June 2016 Monthly Comment originally published 30 June 3PM CDT, updated 6 July

In June, macro events buffeted Frontaura. First, with the most impact, was Nigeria's long-awaited currency devaluation. On Monday, June 20, the naira per dollar rate was 282.5 versus 199 before, as a dollar purchased 42% more naira, and conversely, the naira bought 30% fewer dollars. Nigeria's currency peg exit—let's call it *Nipegexit*—gave us a 2.8% loss that day, among our worst ever single-day results. Second, four days later, on Friday, June 24 came the negative global market reaction to the Brexit vote. At this writing, however, we estimate we'll finish June flattish, with a loss rounding to 0%. The Friday through Monday Brexit selloff cost us only about 2.1%, the majority of which we recovered in the last three days as markets snapped back. Moreover, as bad as Nipegexit was for us on the day it occurred, the other days of the month pre-Brexit (i.e. June 1-19 and June 21-23), more than offset our June 20 loss. For June, we lost 30% in Nigeria in dollar terms, undoing May's 33% USD Nigeria advance, when local stock prices began rising, anticipating devaluation. Combined, we lost 7% in dollar terms in Nigeria in May and June. We suspect Nigeria's local stock price rally may resume after its Brexit interruption.

For June, final index values show disparate performance. MSCI Emerging Markets (EM) had a 4% gain, but MSCI Frontier Markets (FM) and MSCI EAFE both fell 3%, and the S&P 500 was flat. For Q2, our estimated 4% gain is ahead of these indices. The S&P 500 was up 2%, MSCI EM was up 1%, MSCI FM was flat, and MSCI EAFE was down 1%. Our 3% year-to-date gain trails MSCI EM's 6% rise and the S&P 500's 4% advance, but is ahead of MSCI FM's flat performance, and MSCI EAFE's 4% loss. All index figures are on a total returns basis.

Let's return to Nigeria's devaluation. The Central Bank of Nigeria (CBN) surprised us positively in two ways. First, there's one exchange rate, not a dual-rate system once mooted to preserve the old rate for a few items. The 280-285 trading range is reasonable, even if some modest naira declines are possible in the coming months. Second, on June 20, the CBN cleared an impressive $4 billion from the queue waiting to convert to US dollars. This queue was an overhang that could have continued pressuring the naira. Nevertheless, in the first two weeks, the naira trading range has been tight—appearing more like a trading band at a new level than the market-driven rate the CBN trumpeted. So perhaps this is not Nipegexit at all. The CBN remains the main dollar supplier, although the oil majors and others have also sold dollars. In fairness, the Brexit turmoil may have forced the CBN to be more active than it otherwise would be. With time, we'd like to see more of a two-way currency market develop. We suspect the CBN has done enough to prevent MSCI from kicking Nigeria out of its FM index, although this is an open question. As for the banks, we expect the devaluation to boost their profitability in local currency terms, possibly quite significantly. For example, we saw an explosion of bank profit in Argentina in Q1 2014 and in Malawi in 2012-2013, after those countries adjusted their currency pegs. Of course, Nigeria faces significant risks: diminished oil output due to ongoing Niger Delta attacks, a pause in economic growth, rising inflation, and credit quality pressure in the banking sector. On balance, though, we are bullish on Nigeria, due to the extraordinary cheapness in some parts of the market. Our Nigerian portfolio has a trailing PE of 4.3, with a 0.3 price/book ratio and a 9.8% weighted average dividend yield.

Nick will be in New York City on Monday, July 25 to meet investors. We are seeing buying opportunities throughout the world and our Q2 buys were the highest in six quarters. Our cash level is now under 5% and we would welcome additional funds.

Frontaura Global Frontier Fund

Fund Objective

Bloomberg Tickers: FRGLFRO US Equity, FRGLFRO 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 } u ‰ vÇ[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 June 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	-1%	1%	-3%	6%	-1%
2016 Q2	4%	2%	-1%	1%	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	-5%	1%	-1%	-15%	-14%
2016	3%	4%	-4%	6%	0%
ITD CAGR	6.7%	5.9%	-1.6%	-3.0%	-4.6%

Holdings Summary[2]

Country	Holding
Vietnam	10%
Sri Lanka	8%
Kenya	7%
Pakistan	7%
Papua New Guinea	7%
Nigeria	7%
Bangladesh	5%
Rwanda	5%
Tanzania	5%
Cambodia	3%
Romania	3%
Georgia	3%
Montenegro	3%
Argentina	3%
Serbia	3%
Lebanon	3%
Kuwait	2%
USA (cash only)	2%
Ghana	2%
Mongolia	2%
Oman	2%
Ecuador	2%
Macedonia	2%
Uganda	1%
Peru	1%
Qatar	1%
Botswana	1%
Mozambique	1%
Others	1%

Industry	Holding
Financials	48%
Consumer Staples	12%
Consumer Discretionary	10%
Utilities	7%
Industrials	5%
Energy	5%
Cash	5%
Materials	5%
Telecommunication Services	2%

Portfolio Statistics[2]

Portfolio Price to LTM Earnings	7.1
Portfolio Price to Book	1.1
Portfolio LTM Dividend Yield	6.1%
Return on Ending Equity	19.8%
Positions	54
Countries	29
Average Market Cap	$651m
Median Market Cap	$262m
Portfolio Turnover (LTM)	39%
Portfolio Turnover (ITD)	28%
Standard Deviation (ITD)	14%
Beta to S&P 500 (ITD)	0.51
Assets Under Management	$117m

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 30 June 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 30 June 2016.
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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