September 2016 Monthly Comment published 30 September 11AM CDT

We estimate we gained around 1% in September, finishing Q3 with a 2% gain. Year-to-date, we are now up 5%, and we are 12% higher than our intraday low on January 21. Through September 29 (final index values not available at this writing), the S&P 500 was off 1% for the month, while the MSCI EAFE, Emerging Markets (EM), and Frontier Markets (FM) indices all had a total return of +2%. MSCI EM is up 10% for the quarter, and 17% for the year, while MSCI FM is up only 2% for the quarter and year. This could bode well for frontier if this index—which often lags emerging at turning points—catches up. Through yesterday, MSCI EAFE has had a strong quarter, up 7%, pushing it into the black for the year, up 2%. The S&P 500 is up 3% for the quarter and 7% this year.

September was an active research month for us, as we attended a Middle East / North Africa investment conference in London and visited Argentina. Additionally, we hosted companies we own from Kenya, Georgia, and Romania in our Chicago office. Also visiting us were two brokers from Egypt, a pan-Asia analyst from Hong Kong, and companies from Pakistan and Sri Lanka.

While commentators often talk of the Middle East collectively, company feedback in London varied dramatically across countries. Within Saudi Arabia, things have unequivocally gotten worse in 2016. Government payments—and by extension the economy—are at a standstill, consumer sentiment is deteriorating, and the business outlook is extremely pessimistic. The Saudi Tadawul All Share Index (TASI) lost over 3% on two consecutive days this week after the government canceled state employee bonuses, reduced overtime, and cut ministerial pay by 20%. The TASI is nearly back to its January lows, when the Brent oil price was below $28, versus above $48 now. We own no Saudi companies. In Egypt, on the other hand, even despite a significant shortage of FX, corporate sentiment was far more optimistic. Most company leaders are expecting more level-headed government policy and an imminent devaluation spearheaded by IMF involvement to restore the country’s economic growth trajectory. We have not had a significant presence in Egypt since the 2011 Arab Spring, yet we have researched it extensively these past five-plus years, and would potentially re-enter if the currency moves closer to a free-market value. With the black market rate already beyond 12, we’d like to see the Egyptian pound at 11.5 or higher instead of around its current level of 8.9. This would be a 29% increase in the number of pounds a dollar buys, or inversely a 23% fall in the pound’s value. Some think Egypt may contemplate a devaluation of that magnitude, while others expect a lesser initial devaluation with a drift toward 11.5 over time. The latter path is the route most countries take and what Egypt has typically done since 2000. Meanwhile, within the United Arab Emirates (UAE), Dubai remains the clear regional bright spot, continuing to attract safe haven flows. Preparation work for Expo 2020 continues at a robust pace, with significant government-led infrastructure and hospitality-related investment. This month, we re-entered the UAE market for the first time since 2013, with a 2% position.

In Argentina, 3% of the portfolio, we believe our investment thesis is intact, despite some short-term negative headlines. Fixing the economy after 12 years of Kirchnerism has meant that some things must get worse before they get better. For example, reducing subsidies on utilities prices means temporarily higher inflation, while removing harmful export taxes means lower government revenue in the short run and higher deficits for now. Nevertheless, we expect lower inflation and economic recovery in 2017.

Frontaura Global Frontier Fund

Fund Objective & Investment Strategy

Bloomberg Tickers: FRGLFRO US, FRGLFRC KY

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.

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 September 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%
2016 Q3	2%	3%	7%	10%	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%	1%	- 1%	- 15%	- 14%
2016	5%	7%	2%	17%	2%
ITD CAGR	6.8%	6.0%	- 0.9%	- 1.9%	- 4.2%

Holdings Summary[2]

Country	Holding
Sri Lanka	10%
Vietnam	8%
Pakistan	8%
Papua New Guinea	7%
Nigeria	6%
Bangladesh	5%
USA (cash only)	5%
Tanzania	5%
Rwanda	4%
Georgia	4%
Kenya	3%
Romania	3%
Argentina	3%
Cambodia	3%
Serbia	3%
Kuwait	3%
Lebanon	3%
United Arab Emirates	2%
Oman	2%
Philippines	2%
Macedonia	2%
Ghana	2%
Ecuador	1%
Botswana	1%
Montenegro	1%
Peru	1%
Uganda	1%
Qatar	1%
Mozambique	1%
Others	1%

Region	Holding
Sub-Saharan Africa	24%
South Asia	23%
Southeast Asia	19%
Middle East / North Africa	10%
Eastern Europe	9%
Latin America & Caribbean	6%
USA (cash only)	5%
Eurasia	4%

Sector	Holding
Financials	44%
Consumer Discretionary	13%
Consumer Staples	10%
Cash	9%
Utilities	8%
Materials	7%
Energy	4%
Industrials	3%
Real Estate	2%
Others	1%

Portfolio Statistics[2]

Portfolio Price to LTM Earnings	6.8
Portfolio Price to Book	1.2
Portfolio LTM Dividend Yield	6.1%
Return on Ending Equity	24.9%
Positions	52
Countries	31
Average Market Cap	$791m
Median Market Cap	$454m
Portfolio Turnover (LTM)	36%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	14%
Beta to S&P 500 (ITD)	0.51
Assets Under Management	$119m

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. No lock-up. Restrictions may apply.[2]	Global Custodian	Bank of New York Mellon

1 Frontaura returns are actual returns, net of all fees, through 30 September 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 29 September 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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