December 2016 Monthly Comment published 30 December 11AM CST

We estimate that we had a monthly gain of just under 1% in December, with a Q4 estimated gain of 1%. For 2016, we are up 6.6% presently, a figure likely to change, as several markets remain open at this writing. Final index returns for 2016 are not yet available, but through December 29, among the indices we cite, the S&P 500 leads with a 12% total return, followed by MSCI Emerging Markets (EM), up 11%, and MSCI Frontier Markets (FM), up 2%. MSCI EAFE is flat. MSCI EM had a bad start and a weak end to 2016, yet gained 37% from January 21 to September 8. MSCI FM rose 18% from January 20 to its 2016 high on June 17, before Nigeria devalued. We rallied 13% from January 21 through year-end.

From our November 2007 inception, we've made 82%, while the MSCI FM has lost 32% on a total returns basis. MSCI EM is down 20% and MSCI EAFE is off 9%. The S&P 500 has nearly matched us with a 77% gain, but it carries a much higher valuation, which could be an impediment for its ongoing performance. The S&P 500 has a trailing, reported PE of 25.2 versus 6.7 for Frontaura, while the S&P's yield is 2.0%, about one-third of our 5.9% yield. Our weighted average return on ending equity of 26.7% is also significantly better than that of the S&P 500. Our ROE increased over eight percentage points in 2016 due to improving portfolio quality resulting from our buys and sells and good earnings. Our ROE is now the highest it's been since 2010.

A year never feels average at its end, considering events of the prior 12 months. For example, frontier markets faced numerous headwinds in 2016: a brutal global sell-off in January, Nigerian devaluation and Brexit in June, Kenyan interest rate caps in August, the return of the strong dollar with the Trump election in November, and flows out of the asset class throughout the year. Yet, after all that tumult, 2016 turned out to be an average year: our 6.6% estimated gain nearly matches our 6.8% nine-plus year compounded annual return. Great years and poor years feed into a geometric average, but rarely do you get the average return. Previously, 2014's -2.9%—nearly 10 percentage points below our present compounded return—was the result nearest our geometric average. Next closest were 2012's 18.1% and 2015's -5.5%.

Philippines President Rodrigo Duterte took office June 30, 2016 and we traveled there in December. A stock market rally underway at Duterte's inauguration has since given way to a correction, or a bear market, depending on the index you cite. From mid-July highs to lows around Christmas, the Philippines Stock Exchange All Share Index fell 17% while the large cap-dominated MSCI Philippines Index had a -24% USD total return. Initially, we sensed opportunity with this selloff. We are less sure now, as the acid-tongued president's policy flip-flops can alter the investment outlook for some companies or sectors overnight. We continue to hold a small 2% position that we established in September, but we have lowered our target weight due to our perception of higher risk. We last invested in the Philippines from 2008 through 2011, in the wake of the global financial crisis. Since then, valuations there have been too high for us.

We continue to see excellent values throughout the frontier world, not concentrated in any particular country or sector. Our 2% cash level, the lowest since Q1 2010, reflects this. We've had a good response from existing investors adding to their accounts around year-end, but we would welcome more still, including from new accounts. We have the best buying environment we've seen in several years, but—having bought—we are out of resources to take further advantage of the opportunities we see.

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 December 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%	4%	6%	9%	3%
2016 Q4	1%	4%	- 1%	- 5%	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	7%	12%	0%	11%	2%
ITD CAGR	6.8%	6.4%	- 1.0%	- 2.4%	- 4.1%

Holdings Summary[2]

Country	Holding
Sri Lanka	10%
Pakistan	9%
Vietnam	8%
Nigeria	7%
Papua New Guinea	7%
Tanzania	6%
Bangladesh	6%
Argentina	5%
Kuwait	5%
Georgia	4%
Rwanda	4%
Kenya	3%
Romania	3%
Lebanon	3%
United Arab Emirates	3%
Cambodia	3%
Serbia	2%
Macedonia	2%
Oman	2%
Ghana	2%
Philippines	2%
Ecuador	1%
Botswana	1%
Uganda	1%
Peru	1%
Qatar	1%
Mozambique	1%

Region	Holding
Sub-Saharan Africa	25%
South Asia	24%
Southeast Asia	19%
Middle East / North Africa	13%
Eastern Europe	8%
Latin America & Caribbean	7%
Eurasia	4%

Sector	Holding
Financials	47%
Consumer Discretionary	14%
Consumer Staples	10%
Utilities	9%
Materials	6%
Industrials	6%
Energy	3%
Real Estate	3%
Cash	2%
Others	1%

Portfolio Statistics[2]

Portfolio Price to LTM Earnings	6.7
Portfolio Price to Book	1.2
Portfolio LTM Dividend Yield	5.9%
Return on Ending Equity	26.7%
Positions	49
Countries	30
Average Market Cap	$790m
Median Market Cap	$480m
Portfolio Turnover (LTM)	33%
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. 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 December 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 December 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

Disclaimer

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