We estimate we have a January gain of nearly 3%, boosted by, among others, Argentina, Bangladesh, Kuwait, Macedonia, Nigeria, and Romania. Notable losses were concentrated in the East African countries of Tanzania and Kenya. Global markets also did well in January. Through January 30, (January 31 index returns are not available at this writing), total returns for the S&P 500, MSCI EAFE, MSCI Emerging Markets and MSCI Frontier Markets were up 2%, 3%, 6%, and 7%, respectively. Our beta to these indices ranges from 0.36 to 0.54, so we often lag during a strong month.

We made two trips to Egypt in January. First, we spent four days visiting with CEOs and management of many of the country's leading corporations. Then we attended an investment conference. With our first visit, we arrived with clarity and left confused. By way of background, the Egyptian pound now trades around 19 to the dollar, a loss in value of over 50% from its level around 9 before it floated on November 3, 2016. We avoided investing in Egypt deliberately in the months prior to this expected devaluation. With the pound down more than expected, and looking cheap, we thought it might be a good time to invest. In fact, while we were in Cairo, the IMF in a January 18 online press briefing supported the widely held view that Egypt had achieved a "true market rate" and the currency may now be "more depreciated than it later turns out to be." Our observations in Cairo confirmed that consumer prices are quite cheap in dollar terms. What surprised us, though, was to hear numerous corporates state that 1) the central bank was interfering in the rate-setting process by verbally guiding the prices at which the market should trade and 2) shortages of dollars persist, even for food importers, who have the highest allocation priority. One CEO said the central bank's verbal intervention increased from December 20 when a dollar fetched 19.67 pounds. It has not traded at that level again, and dollar availability has worsened. Several corporates said they have returned to the parallel market, unable to get the dollars they need through the banking system (we should note, though, that the black market premium today is not much above the official rate, a positive sign). Further, with the central bank directing banks to allocate dollars to new economic activity, there is a backlog—estimates range from $2 billion to $10 billion—of unmet FX requests. Some corporates speculate that the pound may need to trade into the 20s to achieve a true equilibrium. What we heard was troubling. Nevertheless, the challenge is to have the correct perspective. Let's imagine two scenarios. The first we call It All Works Out in the End. Under this scenario, a multi-year positive cycle of economic and currency reform eventually gets underway, with positive stock market performance in USD terms. This scenario assumes that the vast improvement in Egypt's FX situation since November 3 matters more than the imperfections we describe above in the new FX regime. Yes, it will take longer than expected initially for the FX market to normalize and for economic recovery to kick in. Moreover, the hoped-for reversal of the exchange rate overshoot may never quite materialize to the degree imagined. In big picture terms, however, reform and recovery are already in motion. The other scenario we call the Slippery Slope. In this scenario, the central bank continues directing the market, but the market doesn't behave, so the central bank ratchets up the pressure, possibly burning reserves or implementing other administrative measures. The parallel market begins trading at a premium, investor confidence is lost, dollars become scarce, and the reform cycle is stillborn. We think It All Works Out in the End is the base case scenario, but this outcome is not as certain as we thought prior to our first January trip.

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 January 2017[1]

Period	Frontaura	S&P 500	MSCI EAFE	MSCI Emerging	MSCI Frontier
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%	- 4%	0%
2017 Q1	3%	2%	3%	6%	7%
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%	1%	11%	3%
ITD CAGR	7.0%	6.6%	- 0.6%	- 1.7%	- 3.3%

Holdings Summary[2]

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

Region	Holding
Sub-Saharan Africa	24%
South Asia	23%
Southeast Asia	18%
Middle East / North Africa	15%
Eastern Europe	8%
Latin America & Caribbean	7%
Eurasia	4%

Sector	Holding
Financials	47%
Consumer Discretionary	15%
Consumer Staples	9%
Utilities	8%
Materials	6%
Industrials	6%
Energy	3%
Real Estate	3%
Cash	2%
Others	1%

Portfolio Statistics[2]

Portfolio Price to LTM Earnings	7.0
Portfolio Price to Book	1.27
Portfolio LTM Dividend Yield	5.7%
Return on Ending Equity	26.6%
Positions	49
Countries	30
Average Market Cap	$852m
Median Market Cap	$515m
Portfolio Turnover (LTM)	33%
Portfolio Turnover (ITD)	28%
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 31 January 2017 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 January 2017, 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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