September 2017 Monthly Comment published 29 September 10 AM CDT

At this writing, our September estimated performance is between 0% and 1%. Our outcome could vary, as still trading are some London stocks and all of Latin America (altogether 11%-12% of our portfolio), along with many of our currencies globally. Through September 28 on a total returns basis, MSCI Frontier Markets (FM), MSCI EAFE, and the S&P 500 all had gains rounding up to 2%, while MSCI Emerging Markets (EM) dropped 1%, in what could be its first monthly loss since November 2016. For Q3, our estimated gain is presently 3%, with a 14% advance for the year. Note that due to travel, we may publish our October comment one day later than normal on Wednesday, November 1.

September was a busy travel month that took us to investment conferences in Kenya and UAE, with side trips to Tanzania, Rwanda, and Kuwait. In total, we met with 34 different companies from eight countries. In Kenya, our trip followed the September 1 Supreme Court decision to nullify the results of the August 8 presidential election, with the revote currently planned for October 26. While corporates all voiced frustration with the prolonged process, few expected a repeat of the violent clashes that marred the 2007 vote. Despite the cloud of election uncertainty, we found growing consensus from corporates and regulators that the interest rate caps, instituted last year (see our August and October 2016 comments for background), will be softened, sometime in the latter half of 2018. Ultimately, though, this is a political decision, which may not be guided by economic rationality. Under the caps, credit to the highest risk segments of the economy—consumers and SMEs—has ground to a halt. Non-performing loans within these segments have also increased sharply, and overall bank profitability has deteriorated. Kenyan bank stocks, meanwhile, have posted strong gains this year, surprising us and others, in a rally seemingly ahead of the fundamentals.

Tanzania has changed little from our visit one year ago. Corporates continue to blame President Magufuli's corruption crackdown and the aggressive tax authority for increased uncertainty, bringing profit growth and corporate investment to a standstill. Year-over-year GDP growth has slowed some to 5.7% in the latest report, but Magufuli retains his rural popularity.

In August, Rwanda re-elected Paul Kagame to his third seven-year presidential term with 99% of the vote. Rwanda has done extremely well since Kagame's RPF army ended the 1994 genocide, but growth slowed sharply at the start of the year, and most agree that it may be challenging for the country to return to the 8% average real GDP growth rate it posted in the decade through 2015. As part of its next chapter, Rwanda seeks to transform itself into a convention and tourism hub. The government is leading a heavy investment program focused on a new convention center, airport, and five-star hotels and lodges, while also expanding the national airline.

We attended a Middle East / North Africa (MENA) conference in Dubai, UAE, where we met primarily with corporates from Egypt. Every Egyptian company we spoke to cited a dramatic improvement in foreign exchange availability since the beginning of the year. We also found reassuring commentary on auto sales, which have shown some sign of a rebound into Q3, as well as a more positive demand outlook from consumer companies. Government's pace and willingness to implement its IMF-backed reform package has impressed us, but the operating environment in Egypt is still challenging, weighed down by high inflation, fiscal consolidation, and elevated interest rates. We expect the economy to enjoy a broad rebound in 2018, as all three of these impediments ease and corporate investment starts to recover.

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 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	4%	6%	7%	11%	9%
2017 Q2	7%	3%	6%	6%	6%
2017 Q3	3%	4%	5%	7%	8%
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%
2017	14%	14%	19%	27%	24%
ITD	107%	101%	9%	2%	- 14%

Holdings Summary

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

Region	Holding
Middle East / North Africa	23%
Sub-Saharan Africa	20%
South Asia	17%
Southeast Asia	13%
Latin America & Caribbean	10%
USA (cash only)	9%
Eastern Europe	5%
Eurasia	3%

Sector	Holding
Financials	48%
Consumer Discretionary	11%
Cash	11%
Consumer Staples	8%
Utilities	6%
Real Estate	5%
Industrials	5%
Materials	5%
Energy	1%
Telecommunication Services	1%

Portfolio Statistics

Portfolio Price to LTM Earnings	7.8
Portfolio Price to Book	1.41
Portfolio LTM Dividend Yield	5.3%
Return on Ending Equity	25.0%
Positions	45
Countries	26
Average Market Cap	$1,201m
Median Market Cap	$610m
Portfolio Turnover (LTM)	27%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	14%
Beta to S&P 500 (ITD)	0.51
Assets Under Management	$130m

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 $500,000. 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 29 September 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 28 September 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

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