January 2018 Monthly Comment published 31 January 1 PM CST

We estimate we will finish January with a 2% gain. Through January 30 (final monthly index values not available at this writing), global markets had a strong month, with the S&P 500 up 6%, MSCI EAFE up 5%, MSCI Emerging Markets (EM) up 8%, and MSCI Frontier Markets (FM) up 5%. These figures are all on a total returns basis.

In the last week of January 2017, one year ago, we re-entered Egypt. We bought a basket of stocks, giving us broad exposure to the country, following its November 2016 decision to float its currency and to implement economic reforms under an International Monetary Fund (IMF) program. This was our first significant commitment to Egypt since the country's 2011 political and economic upheaval soured us on investing there. One year on, as we assess progress, we are pleased with the course Egypt has charted, the outlook for 2018, and our returns to date (+21% before fees in 2017). Egypt is one of the countries we are most bullish on right now. As we wrote earlier this month in our Q4 letter, we have high expectations for Egypt in 2018, as we think it will enter a virtuous cycle of disinflation, interest rate cuts, increased economic growth, and portfolio flows transitioning from debt to equity markets.

Egypt now constitutes 8% of our portfolio, up from 0 on 25 January 2017. It had the biggest increase in weight of any country for us in 2017. We have two positions there, the aforementioned macro basket of prominent, liquid stocks, and an individual position in a smaller, but fast-growing company. We occasionally use stock baskets to gain broad exposure to a situation quickly. A basket helps ensure that if we are right on a macro thesis—currency liberalization unleashing a multi-year positive reform cycle that could allow stocks to rise several-fold as investors return—we make money from the thesis. In these situations, then, our analysis focuses more on macro issues than bottoms-up stock picking. This doesn't rule out stock picking, however, as our second Egyptian position in a single company indicates.

The IMF's January 2018 update report on Egypt was quite positive and we agree, as we observe measurable progress on numerous indicators. The currency devaluation of roughly 50% doubled import prices, with inflation peaking at 33.0% in July 2017 on a year-over-year basis. That figure fell to 21.9% by December 2017 and Bloomberg consensus estimates expect a further drop to 14.4% by December 2018. With the devaluation date more than one year in the past, import-price inflation has subsided, but there is an ongoing challenge of government subsidy removal pushing up consumer prices (this has been a major issue for Argentina which began its currency reform 11 months before Egypt in December 2015, yet still suffers year-over-year inflation in the mid-20s). The Bloomberg consensus is for 4.5% real GDP growth in 2018, the fastest pace since 2010. The current account and budget deficits are each expected to shrink about two percentage points this year per Bloomberg forecasts. Helping the current account balance is the Zohr offshore gas field in the Mediterranean, which began producing in December 2017, only two years after its discovery. The central bank lending rate remains high at 19.75%, but we expect easing as disinflation continues. Back in November, we polled Egyptian corporates as to the magnitude of rate cuts to expect by the end of 2018. The answers ranged from 200-600 basis points (bp), with the median around 400. We are somewhat less optimistic; we think the lower end of the range most likely. But we don't believe that will matter. Provided an easing cycle does begin, we don't expect the equity market to quibble too much over the magnitude of the cuts.

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 2018[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%	8%	8%
2017 Q4	3%	7%	4%	7%	6%
2018 Q1	2%	6%	5%	8%	5%
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	17%	22%	25%	37%	32%
2018	2%	6%	5%	8%	5%
ITD	118%	127%	21%	19%	- 4%

Holdings Summary

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

Region	Holding
Middle East / North Africa	26%
Sub-Saharan Africa	24%
Southeast Asia	15%
South Asia	15%
Latin America & Caribbean	10%
Eastern Europe	5%
USA (cash only)	3%
Eurasia	3%

Sector	Holding
Financials	49%
Consumer Staples	11%
Consumer Discretionary	11%
Cash	7%
Real Estate	6%
Industrials	6%
Utilities	4%
Materials	4%
Others	1%

Portfolio Statistics

Portfolio Price to LTM Earnings	8.3
Portfolio Price to Book	1.42
Portfolio LTM Dividend Yield	5.2%
Return on Ending Equity	23.2%
Positions	50
Countries	28
Average Market Cap	$1,246m
Median Market Cap	$716m
Portfolio Turnover (LTM)	35%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	13%
Beta to S&P 500 (ITD)	0.50
Assets Under Management	$138m

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 31 January 2018 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 2018, 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://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2018_01_12.pdf

2 Click this link for an explanation of our holdings and portfolio statistics and our redemption provisions: http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2018_01_12.pdf

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