February 2018 Monthly Comment published 28 February 1 PM CST

We estimate we will finish February with a loss of 1%. Through 27 February (final monthly index values not available at this writing), the S&P 500 fell 3%, MSCI EAFE dropped 4%, MSCI Emerging Markets (EM) was off 3%, and MSCI Frontier Markets (FM) declined 2%. These figures, and those that follow, are all on a total returns basis. We often say that when global markets fall, we lose less. February was a good example of this. To see this most clearly, let's go back to the end of January, and look at the returns in the two weeks after global markets peaked on Friday 26 January. From Monday 29 January through Thursday 8 February (nine trading days), the S&P 500 dropped 10.1%. By mid-day on Friday 9 February, the S&P's loss widened to 11.7% at worst, before a rally kicked in, ending the selloff. For the full 10 trading days through Friday 9 February, the S&P pared its loss to 8.7%. The US rally on the afternoon of 9 February did not affect non-US indices and Frontaura that much, so we'll look only at their returns for the entire 10 days from 29 January through 9 February. The losses for MSCI EAFE, MSCI EM, and MSCI FM were -8.8%, -10.2%, and -6.0%, respectively. Frontaura, however, lost only 2.6% during these 10 days. These results are no aberration. Other selloffs such as 2008; annual euro-crisis spring and summer selloffs in 2010, 2011, and 2012; the 2013 taper tantrum; and China concerns in August 2015 and January 2016 also show us losing less than these global indices.

When 9 February ended, we and MSCI FM were both flat for 2018, while the other indices were down 1%-3%. Global markets have since come roaring back, with MSCI EM now up 5% for 2018 through 27 February. MSCI FM, the S&P 500, and MSCI EAFE are up 4%, 3%, and 1%, respectively. Our 2018 gain is now 1%, as our pattern of recent years where we tend to lag in the strongest markets is again present. This two-week-selloff episode—where our loss was only one-quarter to two-fifths that of these leading global indices—nonetheless shows that our long-standing attribute of providing some downside protection continues. We don't strive for this directly through hedging or raising our cash level, rather it is a natural by-product of our investment style and comes from: 1) low valuations in our portfolio; 2) generally owning stocks other than those that are the most popular and most liquid (and often the most volatile); and 3) country diversification, with risk-oriented limits to country exposure that we think are more sensible than are the index country weights.

Frontier elections are a constant, so here's an incomplete lightning round of contests in the next year. In Egypt, Sisi has no real opposition, making its 26 March presidential election a non-event, in our opinion. Pakistan has a series of elections this year, most notably on 15 July for its National Assembly, which will choose its next prime minister. Zimbabwe will elect a president and parliament sometime in Q2 or Q3. Credible elections are a necessary precursor for debt forgiveness and possible new aid and loans that may begin to address Zimbabwe's untenable currency situation. Zimbabwe adopted the US dollar in 2009, but its government has issued so much dollar-denominated debt that its banking system is awash in electronic dollars that have significantly less street value than actual physical cash. This shortage of real dollars means that investors can't get their money out of the country. Fortunately, we exited Zimbabwe without difficulty in 2015 before this shortage developed. We view Zimbabwe as presently uninvestable until a two-way flow of dollars resumes, which may take some time even if elections go well. Finally, Georgia elects its president in October 2018, Bangladesh must elect its parliament and prime minister no later than 28 January 2019, while Nigeria has presidential elections on 16 February 2019.

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 February 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	1%	3%	1%	5%	4%
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	1%	3%	1%	5%	4%
ITD	116%	121%	16%	15%	- 6%

Holdings Summary

Country	Holding
Sri Lanka	10%
Vietnam	9%
Nigeria	9%
Egypt	9%
Argentina	7%
United Arab Emirates	6%
Papua New Guinea	6%
Kuwait	6%
Kenya	5%
Rwanda	4%
USA (cash only)	4%
Pakistan	3%
Lebanon	3%
Serbia	3%
Macedonia	3%
Georgia	2%
Oman	2%
Uganda	1%
Tanzania	1%
Ecuador	1%
Bahrain	1%
Botswana	1%
Iraq	1%
Bangladesh	1%
Peru	1%
Others	1%

Region	Holding
Middle East / North Africa	28%
Sub-Saharan Africa	22%
Southeast Asia	15%
South Asia	14%
Latin America & Caribbean	9%
Eastern Europe	5%
USA (cash only)	4%
Eurasia	3%

Sector	Holding
Financials	49%
Consumer Staples	11%
Consumer Discretionary	11%
Industrials	6%
Real Estate	6%
Cash	6%
Utilities	4%
Materials	4%
Others	2%

Portfolio Statistics

Portfolio Price to LTM Earnings	8.2
Portfolio Price to Book	1.38
Portfolio LTM Dividend Yield	5.3%
Return on Ending Equity	23.3%
Positions	48
Countries	27
Average Market Cap	$1,192m
Median Market Cap	$670m
Portfolio Turnover (LTM)	35%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	13%
Beta to S&P 500 (ITD)	0.50
Assets Under Management	$137m

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 28 February 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 27 February 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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