July 2018 Monthly Comment published 31 July 2 PM CDT

We estimate we lost 1% in July, putting us at -6% for the year. The MSCI Frontier Markets Index (FM) rebounded this month after its dreadful -15% Q2 performance. FM's July total return gain is 4% through July 30 (final July index results not yet available), bringing its YTD loss to -7%. Our top performer for July is Argentina, up 18%, recovering some from Q2's plunge. For FM, Argentina gained 14% through July 30, but with its 17% index weight at the beginning of July (versus 2% for us), this had a much greater performance impact, accounting for the majority of FM's July gain. We've written several times, including at the beginning of July in our Q2 letter, that these differing weights can produce quite different outcomes for us versus the index, better or worse. We invest where we see value and avoid where we do not, ignoring whether MSCI includes a stock or a country in its index. We sold our last Argentina position today, as its price hit our intrinsic-value-based limit. Our 2% weight in Argentina will drop to zero once we repatriate the proceeds in early August.

Data releases in July were favorable. It's summer vacation season, so let's begin with a look at tourism in Egypt and Vietnam. Recovery of Egypt's vital tourism industry—which can account for about a tenth of Egypt's economy—was one part of our thesis for re-entering the country in January 2017 after the crucial late 2016 currency devaluation. A triple whammy of revolution (2011), counter-revolution (2013), and terrorism (2015), reduced foreign tourist arrivals from 14.7 million in the peak year of 2010 to a nadir of 5.4 million in 2016. Arrivals rebounded 53% in 2017 to 8.3 million, with a further 37% gain in Q1 2018. Tourist revenue jumped 81% in Q1. These figures do not include the likely boost from returning Russian tourists. Direct flights from Russia to Egypt resumed in April (Russia suspended them after the bombing of a Russian plane departing Egypt in October 2015). In contrast to Egypt's recovery, Vietnam has set new tourist records each year after 2009, with international arrivals growing from 3.8 million then to 12.9 million in 2017. The first half of 2018 saw further 25% growth over 1H 2017. We own several companies in Vietnam that benefit from increased foreign and domestic tourism. Vietnam's broader economy continues to hum along, with 1H 2018 RGDP growth up 7.1%. The country posted 6.8% RGDP growth in 2017.

Q2 company earnings from July are encouraging. We caution that frontier companies report late relative to developed countries, so we have not yet seen most Q2 numbers. Thus, this picture is far from complete and could change materially. Our two largest consumer stocks in Vietnam, comprising over half of our equity holdings there, grew Q2 EPS by 47% and 41%, respectively, with revenue advancing by 11% and 39%, respectively. Consumer names we own in Egypt have also had good results so far. Of those who have reported, three have EPS growth of at least four-fold over depressed prior-year numbers (where devaluation initially crushed margins), with a fourth turning from a loss to a profit. Revenue growth of these four ranged from 22% to 100%, with the tourism recovery boosting the latter. We are not implying that our entire portfolio, or other companies in these two countries, are all doing this well. Certainly, though, select consumer names in Egypt and Vietnam are thriving, either recovering from company or country specific problems, or enjoying secular growth. Falling prices and rising earnings have improved Frontaura's valuation levels lately. Our portfolio presently trades on a trailing, as-reported PE of 7.2 with a 6.6% dividend yield. Our companies have a weighted average return on ending equity of 24.2%. That PE is our lowest in 17 months, while the dividend yield is the highest in 27 months.

# 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 July 2018[1]

| Period | Frontaura | S&P 500 | MSCI EAFE | MSCI Emerging | MSCI Frontier |
|---|---|---|---|---|---|
| 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% | - 1% | - 2% | 1% | 5% |
| 2018 Q2 | - 7% | 3% | - 1% | - 8% | - 15% |
| 2018 Q3 | - 1% | 3% | 3% | 2% | 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 | - 6% | 6% | 0% | - 4% | - 7% |
| ITD | 100% | 128% | 14% | 5% | - 16% |

## Holdings Summary[2]

| Country | Holding |
|---|---|
| Vietnam | 16% |
| Sri Lanka | 9% |
| Egypt | 9% |
| Nigeria | 9% |
| United Arab Emirates | 6% |
| USA (cash only) | 6% |
| Papua New Guinea | 6% |
| Rwanda | 6% |
| Kuwait | 6% |
| Kenya | 5% |
| Pakistan | 3% |
| Georgia | 3% |
| Lebanon | 2% |
| Macedonia | 2% |
| Argentina | 2% |
| Uganda | 2% |
| Tanzania | 2% |
| Ecuador | 1% |
| Bahrain | 1% |
| Botswana | 1% |
| Iraq | 1% |
| Peru | 1% |
| Paraguay | 1% |
| Others | 1% |

| Region | Holding |
|---|---|
| Middle East / North Africa | 26% |
| Sub-Saharan Africa | 23% |
| Southeast Asia | 22% |
| South Asia | 13% |
| USA (cash only) | 6% |
| Latin America & Caribbean | 4% |
| Eurasia | 3% |
| Eastern Europe | 2% |

| Sector | Holding |
|---|---|
| Financials | 45% |
| Consumer Staples | 14% |
| Consumer Discretionary | 11% |
| Cash | 11% |
| Industrials | 7% |
| Real Estate | 6% |
| Utilities | 3% |
| Health Care | 1% |
| Materials | 1% |

## Portfolio Statistics

| | |
|---|---|
| Portfolio Price to LTM Earnings | 7.2 |
| Portfolio Price to Book | 1.22 |
| Portfolio LTM Dividend Yield | 6.6% |
| Return on Ending Equity | 24.2% |
| Positions | 53 |
| Countries | 26 |
| Average Market Cap | $1,044m |
| Median Market Cap | $547m |
| Portfolio Turnover (LTM) | 38% |
| Portfolio Turnover (ITD) | 29% |
| Standard Deviation (ITD) | 13% |
| Beta to S&P 500 (ITD) | 0.49 |
| Assets Under Management | $131m |

## 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 $250,000. Additional subscription minimum $10,000. | Fund Administrator | Michael J. Liccar & Co. |
| Redemptions | Quarterly with three-month notice. No lock-up. Restrictions apply.[2] | Global Custodian | Bank of New York Mellon |

1 Frontaura returns are actual returns, net of all fees, through 31 July 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 July 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

## Disclaimer

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