August 2018 Monthly Comment published 31 August 12 PM CDT

We estimate that we lost 2% in August, putting us at -8% year to date (YTD). MSCI Frontier Markets (FM) dropped 6% this month to reach -13% YTD. Note that as we are writing intraday, all returns in this comment, including indices and stocks, are US dollar (USD) total returns through August 30. We estimate Frontaura's returns through August 31, however. There is a clear pecking order for August and YTD, with the US in the lead, followed by developed non-US markets, then less developed markets. The S&P 500 gained 3% more in August, making new highs, to reach +10% YTD. MSCI EAFE dropped 1% and is -2% YTD. MSCI Emerging Markets (EM) fell 3% this month and is -7% YTD.

Argentina again drove FM's results, as MSCI Argentina had a 32% August loss, its fourth consecutive month (three down, one up) with a double-digit absolute value percentage return. Recall from our last comment that we sold our final Argentine stock July 31 due to valuation after it rose 18% in July. It dropped 42% this month, a loss we thankfully avoided. These figures through yesterday exclude Argentina's strong rally as of mid-day today.

Two months ago, we announced changes in terms making it easier to invest. The immediately lower $250,000 minimum remains in effect. The new 2%/10%, $5 million, 8-quarter exit series for institutions, trading off lower fees for a longer exit, will debut October 1 now that we have revised our legal documents. Contact us for details.

The value creation process of lower prices and higher earnings grinds on, with our valuation metrics looking better nearly every month. Our 7.0 trailing portfolio PE was last lower in December 2016 (20 months ago); our portfolio price/book of 1.19 is the lowest since two years ago in August 2016; other than last month, our weighted average dividend yield of 6.4% was last higher in April 2016 (28 months ago), and our weighted average return on ending equity of 25.1% is the best since August 2017. Our quality value score, a composite of these four metrics, is the best since December 2016 and is superior to over 70% of our historical values.

Others are drawing similar conclusions. GMO (Jeremy Grantham's firm that called the 2000 and 2007 US market peaks and the March 2009 market low based upon their long-term asset class return research) wrote this month in their Q2 letter that while there may be some more short-term pain, "Emerging market value stocks are the best asset we can find [relative to other asset classes at present], by a margin that is just off of the largest we have ever seen." Our universe includes both small EM countries and all of FM, and to us FM looks even more compelling than EM at present.

September means that travel resumes. Nick and Tim will be at a London conference September 10-13, with a schedule to meet over one-quarter of our portfolio. Nick has some availability for outside meetings on Friday, September 14, so contact us if you'd like to meet. The last week of September and first week of October, Tim will venture to Pakistan, Sri Lanka, Bangladesh, and Myanmar. Also, in the last week of September, Nick will be in Turkey. Recall that Turkey, through its unorthodox mismanagement of its currency, fell into our university definition in May, even though it is an EM country. We view Turkey as uninvestable until it demonstrates a more sensible approach to macroeconomics. Nevertheless, we continue to get up to speed on the companies there as conference and meeting opportunities arise, hoping that there may be a long-run payoff to our investment of time. Turkey is vying with Argentina as the worst market of 2018. MSCI Turkey is -30% this month. YTD it's down 54% to Argentina's -58%.

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 August 2018[1,2,3]

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	- 3%	7%	1%	0%	- 3%
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	- 8%	10%	- 2%	- 7%	- 13%
ITD	96%	136%	13%	2%	- 21%

Holdings Summary[2]

Country	Holding
Vietnam	17%
Egypt	10%
Sri Lanka	9%
Nigeria	9%
USA (cash only)	7%
United Arab Emirates	6%
Papua New Guinea	6%
Rwanda	6%
Kuwait	6%
Kenya	5%
Pakistan	3%
Georgia	2%
Lebanon	2%
Macedonia	2%
Uganda	2%
Tanzania	2%
Ecuador	1%
Bahrain	1%
Iraq	1%
Botswana	1%
Paraguay	1%
Peru	1%
Bangladesh	1%
Others	1%

Region	Holding
Middle East / North Africa	27%
Sub-Saharan Africa	23%
Southeast Asia	23%
South Asia	13%
USA (cash only)	7%
Latin America & Caribbean	3%
Eurasia	3%
Eastern Europe	2%

Sector	Holding
Financials	44%
Consumer Staples	15%
Consumer Discretionary	12%
Cash	10%
Industrials	7%
Real Estate	6%
Utilities	3%
Health Care	1%
Materials	1%

Portfolio Statistics

Portfolio Price to LTM Earnings	7.0
Portfolio Price to Book	1.19
Portfolio LTM Dividend Yield	6.4%
Return on Ending Equity	25.1%
Positions	53
Countries	25
Average Market Cap	$1,063m
Median Market Cap	$636m
Portfolio Turnover (LTM)	35%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	13%
Beta to S&P 500 (ITD)	0.49
Assets Under Management	$128m

Terms

Subscriptions	Monthly. New investor minimum $250,000. Additional subscriptions may be any amount.
Redemptions	Quarterly with three-month notice. No initial lock-up. Exit restrictions apply.[2]
Terms	Series A: 2% management fee, 20% incentive allocation, 4-quarter exit[2], $250,000 minimum. Series B[3]: 2% management fee, 10% incentive allocation, 8-quarter exit[2], $5 million minimum.

Service Providers

Attorney	Akin Gump Strauss Hauer & Feld LLP
Auditor	RSM US LLP
Fund Administrator	Michael J. Liccar & Co.
Global Custodian	Bank of New York Mellon

1 Frontaura returns are actual returns, net of all fees, through 31 August 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 August 2018, as final index values for the current month are not available at time of publication.

2 Click link for details on the indices we show, our holdings and portfolio statistics, and our redemption terms: http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2018_08_29.pdf

3 Series B available from 1 October 2018 onward. All returns above are for Series A.

Disclaimer

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