November 2018 Monthly Comment published 30 November 11 AM CST

We estimate that we lost 1% in November. We have now endured the continued losses in October and November that our Q3 letter forecast as part of a bottoming process that might ultimately lead to a recovery. This comment gives our outlook for that rally. In preview, prospects are favorable. For most of the month, we were positive and projecting to make money based on past intramonth patterns. On November 23 (when, on a closing-price basis, the S&P 500 logged its second 10% correction this year) we slipped into the red and our loss grew over the final week. Through November 29 (final monthly index values not available as we write this), total returns for the indices we cite all were better than Frontaura, a reverse of the terrible October index results, when they all lost more than we did. The quarter-to-date results, then, are probably the most meaningful, with MSCI Frontier Markets (FM) -2%, MSCI Emerging Markets (EM) -5%, the S&P 500 -6%, and MSCI EAFE -8%. We are -4% for Q4. Year to date for 2018, Frontaura and FM each are -14%, EM is -12%, EAFE is -9%, while the S&P is +4%.

While 2018 will finish as a bad year for us, we are optimistic for eight reasons. No one can know what future we will get, but we think that the present drawdown is likely at or near the end of its run, and we believe an investment now has, on a probabilitized basis, substantial appreciation potential. First, our Quality Value Score (QVS) is now 86, indicating valuation is in the top one-seventh of all data points in our history. QVS equally combines PE, price/book, dividend yield, and ROE, scaled from 0 (worst) to 100 (best). QVS is a statistically significant predictor of future return, and a regression equates an 86 QVS with one- and two-year compounded returns around 20% net. We presently have a portfolio PE of 6.6, a price/book of 1.14, a dividend yield of 6.4%, and a return on ending equity of 25.1%. We calculate these metrics on a trailing, as-reported basis, with all expenses included. Second, numerous other firms corroborate our QVS conclusion with their own valuation research. Most recently, we've seen GMO's October 31 seven-year projected asset class real (after inflation) CAGRs of -3.9% for US large cap stocks and +7.7% for emerging value stocks. GMO's figures present a stark choice. If PEs and profit margins revert to their means over the next seven years, you can stay invested in the S&P 500 and lose money or you can invest in EM value and double your money (including inflation). While GMO does not project frontier value returns, we suspect such numbers would be as good or better than those of EM value.

While the case seems strong from a valuation perspective, low valuation by itself is not a timing indicator. Timing also looks fortuitous to us, however. We continue our list. Third, we've now had seven consecutive monthly losses, the longest streak in our history. While in theory this could go on forever, in reality—much like an LSU-Texas A&M football game—exhaustion will set in and cause the streak to end eventually, perhaps serendipitously at a count of seven. Fourth, the depth of this drawdown nearly matches our last two. On a peak to trough month-end basis, we lost 18% in 2011 and 17% in the oil crash that ended in early 2016. We're now down 16% from our January 2018 peak. Fifth, our inception-to-date CAGR is down to 5.6%, the lowest since 5.5% in June 2012, where we made 34% in next 12 months. Sixth, November is our seasonally worst month. Our seasonally prosperous period runs from December to July, with the strongest results occurring March through May. Seventh, throughout our history, we have a pronounced pattern of one bad year followed by two good years. Eighth, we are beginning to see examples of capitulation selling across different frontier countries. We've seen this before. These are the buying conditions you dream about, and how markets can create significant future appreciation potential.

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 November 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	- 5%	8%	1%	- 1%	- 2%
2018 Q4	- 4%	- 6%	- 8%	- 5%	- 2%
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	- 14%	4%	- 9%	- 12%	- 14%
ITD	84%	124%	4%	- 3%	- 22%

Holdings Summary[2]

Country	Holding
Vietnam	15%
Sri Lanka	9%
Nigeria	9%
Egypt	8%
Rwanda	7%
USA (cash only)	7%
Papua New Guinea	7%
United Arab Emirates	7%
Kuwait	5%
Kenya	4%
Lebanon	3%
Georgia	2%
Macedonia	2%
Côte d'Ivoire	2%
Pakistan	2%
Uganda	2%
Ecuador	1%
Bahrain	1%
Tanzania	1%
Botswana	1%
Iraq	1%
Paraguay	1%
Niger	1%
Peru	1%
Jordan	1%

Region	Holding
Sub-Saharan Africa	27%
Middle East / North Africa	25%
Southeast Asia	22%
South Asia	11%
USA (cash only)	7%
Latin America & Caribbean	3%
Eurasia	3%
Eastern Europe	2%

Sector	Holding
Financials	48%
Consumer Staples	16%
Consumer Discretionary	12%
Cash	9%
Industrials	5%
Real Estate	5%
Health Care	2%
Utilities	2%
Materials	1%

Portfolio Statistics

Portfolio Price to LTM Earnings	6.6
Portfolio Price to Book	1.14
Portfolio LTM Dividend Yield	6.4%
Return on Ending Equity	25.1%
Positions	50
Countries	27
Average Market Cap	$1,073m
Median Market Cap	$578m
Portfolio Turnover (LTM)	30%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	13%
Beta to S&P 500 (ITD)	0.49
Assets Under Management	$115m

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 30 November 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 29 November 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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