December 2018 Monthly Comment published 31 December 10 AM CST

We had a good December, gaining an estimated 1% and breaking our seven-month losing streak. US market turmoil did not affect us much as we were in the black throughout the month, even when the S&P 500 was -15% month-to-date (MTD) at Christmas. Through December 28 (final monthly index values not available at this writing), MTD total returns are: the S&P 500 -10%, MSCI EAFE -5%, and MSCI Emerging Markets (EM) and MSCI Frontier Markets (FM) each -3%. As page two shows, we are ahead of these indices for Q4 by two to 11 percentage points. For 2018, the S&P 500 lost the least, at -5%, followed by us -13%, EAFE -14%, EM -15%, and FM -17%.

We've been writing for three months now how our 2018 drawdown might end, setting the stage for a 2019 rally. To a surprising degree, our results have matched our scenario of several months ago—when the US market was around its high—namely, continued losses for us in October and November, before we turned positive around year-end, with our main risk being a US correction or bear market. This remains our view (see last month's comment that lists eight valuation and timing reasons why we are bullish). A US bear market is still a risk, although December was an excellent test that we passed. Additionally, if we examine the bottoming process from our past drawdowns, we cannot rule out further negative months. Nevertheless, breaking a long losing streak is a strong signal. When we broke a six-month losing streak in December 2008, we made 46% in the next year and 100% in the next two years, even though January and February 2009 were loss months. When we broke a six-month losing streak in December 2011, we made 18% in the next year and 49% in the next two years, even though January 2012 was a loss month. Our high net worth investors have heard our message and responded; over 10% have added money for November 1, December 1, or January 1.

In December, we traveled to Prague to attend a Central and Eastern Europe investment conference, meeting 35 companies from Croatia, the Czech Republic, Greece, Hungary, Romania, Serbia, Slovenia, and Turkey. Regional growth in 2017 was the best in a decade, fueled in recent years by increased consumption, low interest rates, billions in EU funding, and foreign investment looking to take advantage of lower costs relative to Western Europe. We heard multiple companies complain, however, about increased wage pressure likely exacerbated by populist government policies, labor shortages, and unfavorable demographics. These complaints were most evident from companies in Romania where the government has drastically raised minimum wages and public sector salaries and benefits. We exited our six-year investment in Romania in August 2017 after trial balloon talk of nationalizing pensions and imposing an asset tax on banks. Although the prime minister at the time walked back these comments, the Social Democrat-led government's train of thought was evident. Ultimately, they would have to fund the series of populist tax cuts and wage hikes they introduced since the December 2016 general election.

Earlier this month, faced with a potential breach of EU fiscal deficit limits, the Romanian government shocked investors with a package of emergency tax and anti-free market proposals. These measures included the previously mooted bank tax, now christened a "tax on greed," new revenue-based levies on energy and telecom companies, price caps on natural gas prices, and incentives to encourage Romanians to pull private sector pension assets. The final rules moderated some of the initial proposals, but MSCI Romania is still down 16% MTD through December 28. We are cautious about re-entering the country given the direction of the current government.

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 December 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	- 3%	- 14%	- 13%	- 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	- 13%	- 5%	- 14%	- 15%	- 17%
ITD	86%	104%	- 2%	- 6%	- 24%

Holdings Summary[2]

Country	Holding
Vietnam	17%
Sri Lanka	9%
Egypt	8%
Rwanda	8%
Papua New Guinea	7%
Nigeria	7%
United Arab Emirates	7%
Kuwait	5%
Kenya	4%
USA (cash only)	4%
Lebanon	3%
Georgia	3%
Botswana	2%
Macedonia	2%
Côte d'Ivoire	2%
Uganda	2%
Pakistan	2%
Ecuador	1%
Bahrain	1%
Tanzania	1%
Niger	1%
Iraq	1%
Paraguay	1%
Peru	1%
Jordan	1%

Region	Holding
Sub-Saharan Africa	28%
Middle East / North Africa	25%
Southeast Asia	25%
South Asia	11%
USA (cash only)	4%
Latin America & Caribbean	3%
Eurasia	3%
Eastern Europe	2%

Sector	Holding
Financials	49%
Consumer Staples	18%
Consumer Discretionary	13%
Industrials	5%
Cash	5%
Real Estate	5%
Health Care	2%
Utilities	2%
Materials	1%

Portfolio Statistics

Portfolio Price to LTM Earnings	6.7
Portfolio Price to Book	1.21
Portfolio LTM Dividend Yield	6.5%
Return on Ending Equity	25.2%
Positions	49
Countries	27
Average Market Cap	$1,089m
Median Market Cap	$567m
Portfolio Turnover (LTM)	29%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	13%
Beta to S&P 500 (ITD)	0.46
Assets Under Management	$113m

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 December 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 28 December 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.

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