February 2019 Monthly Comment published 28 February 12 PM CST

We estimate that we have a February gain between 0% and 1%. This is our third consecutive modest monthly gain after a long losing streak. Our results continue to conform to the four-part scenario we outlined in early October, and we have now seen the first three parts of that scenario occur: 1) continued near-term losses (October and November); 2) a bottoming process of a few months, with results around break-even (December through February); and 3) risk of US market turbulence (December, although notably we made money that month). The stage is now set for the final and most important part. The question now is whether we will get the typically robust seasonal performance of March through May that strengthens and deepens our nascent rally. Valuation remains favorable. Our trailing portfolio PE is 6.4, with a price book of 1.24, and a weighted average dividend yield of 6.3%. Our companies have a weighted average return on ending equity (ROE) of 25.6% and our quality value score (QVS) that equally weights these four metrics is presently 79 on a 0-100 scale, where 100 is the most attractive in our history. A statistically significant regression of QVS and future returns projects a 20% one-year return (in a range of 7% to 33%, with 95% confidence). One factor that caused us to develop our scenario was that frontier market sentiment was terrible around the end of September 2018, worse than even during the global financial crisis by our qualitative reckoning. We reasoned that such pessimism more likely than not signaled that a bottom was near. Today, we are pleased to report sentiment much improved. Since we began pounding the table, we've had 16 high net worth investors add money to their Frontaura investment (November 1 through March 1). This represents around 30% of such investors, a meaningful total. Markets feel better too—stocks are setting more near-term highs than new lows as they rebound from a poor 2018. Of course, the risk of US market turbulence upsetting our forecast remains, even if we have not seen this since before Christmas.

Nigeria held its presidential election February 23 and the incumbent Muhammadu Buhari won handily 56% to 41% in an election that pundits expected to be much closer. The challenger Atiku Abubakar is contesting the results, charging ballot fraud, but this seems to us as an all-but-impossible claim to prove given that vote totals show him nearly four million votes behind. The stock market rallied in February, in part hoping that the more business-friendly Abubakar would prevail. A modest selloff has occurred the past three days as the market absorbed the Buhari win. We had mixed views on each candidate and the reasons for our Nigerian stock investments did not hinge on the election outcome. We agree that Abubakar would have likely ushered in faster economic growth and improved handling of exchange rate policy, but his rule probably would have rolled back Buhari's anti-corruption gains. Our 7% weight in Nigeria carries a combined trailing PE of 3.8 with a 10.2% yield and a 19.2% ROE. Another presidential election in West Africa occurred February 24 in Senegal. Incumbent Macky Sall prevailed over two main challengers with 58% of the vote. We have no investments in Senegal presently, although we have in the past.

The indices we track had continued gains this month. Through February 27 (final index monthly results not available yet), the S&P 500 and MSCI EAFE had total returns of 3%, while MSCI Emerging Markets gained 1%, and MSCI Frontier Markets (FM) gained 2%. The first three indices are up 10%-12% this year, while FM is up 7%. We're up 2% this year, but we're not particularly bothered by this performance difference. We prefer our steadier low-beta results and greater downside protection to the indices' yo-yo performance of the past 14 months during which they have repeatedly cycled from strong rallies to violent selloffs.

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 2019[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%	- 7%	- 4%
2019 Q1	2%	12%	10%	10%	7%
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%	- 4%	- 14%	- 15%	- 16%
2019	2%	12%	10%	10%	7%
ITD	90%	130%	8%	4%	- 19%

Holdings Summary[2]

Country	Holding
Vietnam	18%
Egypt	10%
United Arab Emirates	9%
Sri Lanka	8%
Rwanda	8%
Papua New Guinea	7%
Nigeria	7%
Kuwait	5%
Kenya	5%
Côte d'Ivoire	3%
Georgia	3%
Botswana	2%
North Macedonia	2%
Uganda	2%
Pakistan	1%
Bahrain	1%
Lebanon	1%
USA (cash only)	1%
Ecuador	1%
Tanzania	1%
Philippines	1%
Niger	1%
Paraguay	1%
Others	1%

Region	Holding
Sub-Saharan Africa	28%
Middle East / North Africa	27%
Southeast Asia	26%
South Asia	10%
Eurasia	3%
Eastern Europe	2%
Latin America & Caribbean	2%
USA (cash only)	1%

Sector	Holding
Financials	46%
Consumer Staples	19%
Consumer Discretionary	10%
Cash	8%
Real Estate	8%
Information Technology	3%
Industrials	2%
Health Care	2%
Utilities	1%
Materials	1%
Energy	1%

Portfolio Statistics

Portfolio Price to LTM Earnings	6.4
Portfolio Price to Book	1.24
Portfolio LTM Dividend Yield	6.3%
Return on Ending Equity	25.6%
Positions	48
Countries	26
Average Market Cap	$1,110m
Median Market Cap	$422m
Portfolio Turnover (LTM)	33%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	13%
Beta to S&P 500 (ITD)	0.46
Assets Under Management	$116m

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 28 February 2019 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 2019, 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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