April 2019 Monthly Comment published 30 April 12 PM CDT

We believe that we will have another small gain this month, rounding to 0, our fifth consecutive monthly advance. Through April 29 (final monthly index values not available at this writing), the MSCI Frontier Markets (FM) Index has a small total return loss that also rounds to 0. Over the five months since we've bottomed, we have gained 4%, while FM is up 3%. The other indices we track performed more strongly in April, with monthly total returns through April 29 of 4% for the S&P 500, 3% for MSCI EAFE, and 2% for MSCI Emerging Markets (EM). Earnings growth and portfolio changes have kept our valuations low. Our trailing portfolio PE is now 6.3, its lowest level since September 2013. Our weighted average dividend yield and return on ending equity are 6.4% and 24.6%, respectively.

During Easter weekend, a string of simultaneous terrorist attacks struck Sri Lanka across numerous hotel and church targets. Over 250 died with hundreds more injured. This ended a long stretch of peace following the conclusion of the Sri Lankan Civil War in May 2009. These brutal attacks and the associated negative press will undoubtedly hurt both the economy and tourism, which makes up about 5% of GDP. This comes after an already difficult stretch in recent years as overborrowing forced the country into an IMF program while political paralysis and fiscal consolidation led to subdued growth. GDP growth has fallen from 5.0% in 2015 to 4.5%, 3.3%, and 3.0%, respectively, the past three years. In dollar terms, the Colombo Stock Exchange All Share Total Return Index recorded losses in 2015, 2016, 2018, and so far in 2019. (2017 had a 0.3% USD total return.) This underperformance has depressed stock market valuations. Bloomberg and MSCI data show the market as whole cheaper than a year before the end of the civil war, although we think some individual values were better then. In any event, while Sri Lanka does face significant challenges, we think the situation is not nearly as dire as it was in 2008 when we began investing there. It has already completed most of the necessary fiscal adjustment to put the economy on more solid footing than it was before the IMF stepped in. Although the rupee could depreciate further, we no longer believe it to be significantly overvalued. In fact, the rupee has appreciated 4% in 2019 after falling 16% last year. It is down 1.2% since the bombings, however, and we expect further near-term pressure. The central bank has rebuilt its FX reserves to five months of import cover, and the IMF is set to extend its program to June 2020, one year past its original deadline, which should provide investors with additional comfort that its oversight won't immediately cease. With many negatives priced in, it is difficult to say how vulnerable Sri Lanka is to further selling. Our Sri Lankan holdings trade at a significant discount to the local market and to our portfolio with a composite trailing PE of 4.3 and a composite price/book ratio of 0.62. Even if valuation limits our downside, risk remains that our holdings could be dead money in US dollar terms for a while longer. We invest 8% of Frontaura in Sri Lanka, across five companies. None are in tourism, but some of our financials could have modest secondary exposure to a tourism slowdown.

In our opinion, one of Sri Lanka's major issues is poor political leadership and unpredictable economic policy since 2015 under President Sirisena. With presidential elections before the end of this year and parliamentary elections next year, we think Rajapaksa and his clan, who have a strong record on security having ended the civil war, are well-positioned to seize and consolidate power. To be clear, the Rajapaksas also have baggage (nepotism, cronyism, corruption, and a lack of ethnic inclusiveness), as we've discussed before. Nevertheless, an end to the political stalemate might provide a much-needed catalyst for the local stock market.

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 April 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%	14%	10%	10%	7%
2019 Q2	0%	4%	3%	2%	0%
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%	18%	13%	13%	6%
ITD	91%	143%	11%	6%	- 19%

Holdings Summary[2]

Country	Holding
Vietnam	13%
Egypt	10%
United Arab Emirates	9%
Nigeria	8%
Sri Lanka	8%
Rwanda	7%
Papua New Guinea	7%
USA (cash only)	6%
Kuwait	5%
Côte d'Ivoire	3%
Kenya	3%
Georgia	3%
Botswana	2%
North Macedonia	2%
Uganda	2%
Bahrain	2%
Pakistan	1%
Ghana	1%
Ecuador	1%
Philippines	1%
Niger	1%
Tanzania	1%
Paraguay	1%

Region	Holding
Sub-Saharan Africa	29%
Middle East / North Africa	27%
Southeast Asia	21%
South Asia	9%
USA (cash only)	6%
Eurasia	3%
Eastern Europe	2%
Latin America & Caribbean	2%

Sector	Holding
Financials	48%
Consumer Staples	17%
Consumer Discretionary	10%
Cash	8%
Real Estate	7%
Information Technology	3%
Health Care	2%
Industrials	2%
Utilities	1%
Energy	1%
Materials	1%

Portfolio Statistics

Portfolio Price to LTM Earnings	6.3
Portfolio Price to Book	1.23
Portfolio LTM Dividend Yield	6.4%
Return on Ending Equity	24.6%
Positions	42
Countries	25
Average Market Cap	$1,135m
Median Market Cap	$425m
Portfolio Turnover (LTM)	32%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	13%
Beta to S&P 500 (ITD)	0.45
Assets Under Management	$117m

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 April 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 29 April 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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