June 2019 Monthly Comment published 30 June 10 AM CDT, updated 1 July

We gained an estimated 2% in June, our seventh consecutive monthly advance. The MSCI Frontier Markets (FM) Index also rose 2%. Other indices did better in June, offsetting May losses that we and FM did not have. The S&P 500 gained 7%, with MSCI EAFE and MSCI Emerging Markets (EM) up 6%, all on a total returns basis. Since we bottomed at the end of November, we've slowly gained 7%, similar to the 8%-9% gains in the other indices. Our 7.2% weighted average dividend yield ties our fourth highest on record. We last topped this level exactly 10 years ago in June 2009, which proved an opportune time to invest.

In June, we took our first trip to Uzbekistan since 2010. After more than a quarter century in power, Uzbekistan's long-standing dictator Islam Karimov died in September 2016, leaving behind a repressive police state and a command-driven isolated economy with real GDP per capita less than one-third of neighboring Kazakhstan. Shavkat Mirziyoyev, Karimov's long-time Prime Minister, took power following December 2016 elections. As an insider, most observers expected Mirziyoyev to maintain continuity. Instead, he has delivered a dramatic program of economic reforms—with a more market-based, open economy and less dependence on the public sector to drive growth.

Investors are paying attention. In a more-than-five-times-oversubscribed deal, Uzbekistan sold $1 billion of Eurobonds in February in its first ever foray into foreign debt markets. Early movers are also launching Uzbekistan-focused equity and closed-end funds. From our perspective, the most consequential reforms were the 48% September 2017 exchange rate devaluation and liberalization and the March 2019 lifting of restrictions on repatriating foreign currency. While this in theory makes the country now investible for Frontaura, the capital markets remain underdeveloped, with public equity investment opportunities slim, in our view.

A large part of the 105 listed companies are state-owned banks, which account for 85% of the banking system and a similar percentage of overall equity market turnover. Only three listed non-banks have market caps larger than $50 million with the most liquid of these being a cement company that has an average daily trading value of only $7,000. The majority of listed companies are state-controlled, and while the government hopes to sell large stakes to strategic investors in private transactions, this will not increase float. This leaves current and ex-employees, many of which acquired shares during the mass privatizations of the 1990s following the Soviet Union's collapse, as the only source of stock supply. This lack of liquidity and small free float means that stock market investors can "make their own performance" through their buying, as share prices move dramatically even from relatively minor investor inflows. We think of Mongolia which, in dollar terms, rose 5-fold in 2007, lost three-quarters of its value in less than a year from its 2008 peak, then rose 9-fold in two years to its 2011 peak, before falling 84% to its 2016 low, all on low volume.

After over two decades of decisions driven by state-directed diktat, we found listed company management teams to be unimpressive and bureaucratic with little attention paid to minority shareholders. Private enterprise remains overburdened by the state's heavy hand in the economy; and corruption, despite some improvement, remains an endemic issue that continues to weigh on the business environment. Frontaura does have some minor exposure to Uzbekistan from its position in Georgia's largest bank which is investing in the Uzbek banking market; however, we presently don't see investing directly into the local equity market as prudent.

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 June 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	3%	4%	4%	1%	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%	- 4%	- 14%	- 15%	- 16%
2019	6%	19%	14%	11%	12%
ITD	96%	144%	13%	4%	- 15%

Holdings Summary[2]

Country	Holding
Vietnam	12%
Egypt	10%
United Arab Emirates	10%
Nigeria	9%
Rwanda	8%
Papua New Guinea	7%
Sri Lanka	7%
USA (cash only)	5%
Kuwait	5%
Côte d'Ivoire	4%
Philippines	3%
Georgia	3%
North Macedonia	2%
Kenya	2%
Botswana	2%
Pakistan	2%
Ghana	2%
Uganda	2%
Ecuador	1%
Bahrain	1%
Niger	1%
Tanzania	1%
Paraguay	1%

Region	Holding
Sub-Saharan Africa	31%
Middle East / North Africa	26%
Southeast Asia	23%
South Asia	9%
USA (cash only)	5%
Eurasia	3%
Eastern Europe	2%
Latin America & Caribbean	2%

Sector	Holding
Financials	47%
Consumer Staples	19%
Consumer Discretionary	10%
Real Estate	8%
Cash	7%
Information Technology	3%
Health Care	2%
Industrials	2%
Utilities	1%
Energy	1%
Materials	1%

Portfolio Statistics

Portfolio Price to LTM Earnings	6.4
Portfolio Price to Book	1.27
Portfolio LTM Dividend Yield	7.2%
Return on Ending Equity	24.3%
Positions	43
Countries	26
Average Market Cap	$1,186m
Median Market Cap	$582m
Portfolio Turnover (LTM)	31%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	13%
Beta to S&P 500 (ITD)	0.44
Assets Under Management	$118m

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 June 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 28 June 2019. Note that final June performance for Frontaura, but not for the indices, includes Islamic markets trading on Sunday, 30 June 2019. Indices will include June 30 trading in their July results. This difference is immaterial.

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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