We estimate that we have a July gain that rounds down to 0%, our eighth consecutive monthly advance. Indices we track have mixed results through July 30 (final monthly values through July 31 not yet available), with total returns of MSCI Frontier Markets +2% while MSCI Emerging Markets is -1%. Among developed countries, the S&P 500 is +3%, but MSCI EAFE is -1%. Our portfolio valuation remains attractive with a 6.4 trailing PE and a 7.1% dividend yield.

In the last week of June, we attended an investor conference in Argentina. Talk centered around the upcoming Presidential elections that should see the reform-minded incumbent President Mauricio Macri face off against a populist ticket of Alberto Fernandez and ex-President Cristina Fernandez de Kirchner (known by her initials CFK and no relation to Alberto), among other candidates. While CFK will run as vice-president, most Argentines see her as the main driver of policy, with Alberto, her former chief of staff, as a puppet candidate.

In the past three decades, Argentina has had wild policy swings from populism to Washington-consensus liberal economic policies. The most recent swing, which was quite profitable for Frontaura investors, occurred in 2015 when Argentines elected Macri president on his promise to revitalize and reform the moribund economy following 12 years of populist Kirchnerism, begun by the late President Nestor Kirchner and continued by his wife CFK. While Macri has made progress on his reform agenda, he has failed to deliver economic stability. A currency crisis engulfed Argentina last year, forcing him to seek an unpopular $56 billion IMF bailout, the biggest in IMF history. This has meant fiscal and monetary contraction, deepening Argentina's recession and denting Macri's popularity, opening the door for CFK to possibly make a dramatic comeback. The most optimistic election forecasters now admit Macri's re-election chances are at best a coin-flip. While our base case remains that Macri wins, we think investors—in an echo chamber where they talk mainly to like-minded individuals—are overestimating the probability of this. Outside of the investment conference, every person we talked to on the street would not vote for Macri.

Argentina faces severe challenges even if voters return Macri to office. June's inflation rate was 56% versus one year ago. The benchmark interest rate of 60% is the highest in the world. IMF data shows public debt at 86% of GDP at the end of 2018, a worrying level, and they project four-fifths of this to be in foreign currency at the end of this year. This ties debt sustainability to exchange rate stability and the uncertain prospect of real exchange rate appreciation. In addition, the country has a poor record of fiscal discipline. According to Capital Economics, since 1870 Argentina "has only ever run a balanced overall budget a handful of times." Argentina has defaulted on its debt seven times in the past 100 years, including the then largest sovereign default in history in 2001. The never-too-negative IMF judges Argentina's debt to be "sustainable, but not with a high probability," and admits that the fiscal consolidation path it envisions for Argentina would be "in the top 5 percent of the distribution of fiscal consolidations achieved by a broad sample of program countries." In other words, the IMF is signaling its plan may well fail. In our opinion, investors also underestimate the probability of another Argentina debt default (authorities will politely call it a reprofiling or a restructuring), which we think could possibly occur even if Macri wins.

Argentina holds primary elections August 11; the first round of Presidential elections October 27; and, if no clear winner emerges, a potential second round November 24. We sold our last Argentine holding one year ago today, and we have considered the country too risky to invest in since.

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 July 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%
2019 Q3	0%	3%	-1%	-1%	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	- 13%	- 4%	- 14%	- 15%	- 16%
2019	6%	22%	13%	10%	14%
ITD	97%	150%	11%	3%	- 13%

Holdings Summary[2]

Country	Holding
Vietnam	13%
United Arab Emirates	10%
Egypt	10%
USA (cash only)	8%
Nigeria	8%
Sri Lanka	7%
Papua New Guinea	7%
Rwanda	7%
Kuwait	5%
Côte d'Ivoire	4%
Philippines	3%
Kenya	2%
North Macedonia	2%
Botswana	2%
Pakistan	2%
Ghana	2%
Uganda	2%
Ecuador	1%
Niger	1%
Paraguay	1%
Tanzania	1%
Others	1%

Region	Holding
Sub-Saharan Africa	29%
Middle East / North Africa	26%
Southeast Asia	23%
South Asia	9%
USA (cash only)	8%
Eastern Europe	2%
Latin America & Caribbean	2%

Sector	Holding
Financials	44%
Consumer Staples	18%
Consumer Discretionary	11%
Cash	10%
Real Estate	8%
Information Technology	3%
Industrials	2%
Health Care	2%
Energy	1%
Utilities	1%
Materials	1%

Portfolio Statistics

Portfolio Price to LTM Earnings	6.4
Portfolio Price to Book	1.28
Portfolio LTM Dividend Yield	7.1%
Return on Ending Equity	25.7%
Positions	43
Countries	25
Average Market Cap	$1,267m
Median Market Cap	$475m
Portfolio Turnover (LTM)	30%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	13%
Beta to S&P 500 (ITD)	0.44
Assets Under Management	$119m

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 July 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 30 July 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.

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