August 2019 Monthly Comment published 30 August 11 AM CDT

Our eight-month winning streak ended in August with what we estimate to be a 4% loss. Through August 29 (final monthly values not yet available), total returns for the indices we follow were: -2% S&P 500, -3% MSCI EAFE, -6% MSCI Emerging Markets (EM), and -2% MSCI Frontier Markets (FM). The escalating US-China trade war again caused a global equity selloff, as the US has become the source of global equity instability over the past 20 months. From a peak on July 26, the S&P fell 6% to August 14, before recovering nearly half this loss through yesterday. This is the fourth S&P 500 selloff since 2018 began, and so far, the mildest. With a global trade war raging, high US valuations and an inverted yield curve, the BLS signaling August 21 that a massive annual 501,000 downward revision in US job creation is forthcoming, and the often market-unfriendly months of September-October at hand, we have a sense of foreboding about the US market. On the other hand, with US recession calls now common, it's always possible something else happens. The S&P 500 did recover to new highs from its prior three selloffs, after all.

Not that we wish for it, but we do shine relatively when the S&P falters. Using the S&P 500's peak and trough dates, our outperformance vs. the S&P is: 1Q18 selloff -2% vs. -10%; 2H18 selloff -3% vs. -19%; 2Q19 selloff +1% vs. -7%; and 3Q19 selloff -3% vs. -6%. On average, during these four episodes, we've lost 2% while the S&P dropped 11%, MSCI EAFE and MSCI EM both fell 8%, and MSCI FM lost 3%. This is consistent with earlier selloffs. As our 1Q18 quarterly letter chronicled, using S&P 500 peak and trough dates, we beat all four of these indices during each of the nine most significant selloffs in our history up to that point. If you are bearish on global equities but want to stay invested, we would give you excellent relative downside protection, should our historical pattern hold. If you are not worried about global equites, then we also have an excellent story to tell: our Quality Value Score (QVS) is 96, our highest reading since the financial crisis, from which we had our best performance ever. For example, in October 2008, our QVS of 96 preceded a 73% gain the next two years. Our metrics are: 6.1 trailing portfolio PE, 1.22 portfolio price / book, weighted average 7.3% dividend yield, and 25.7% weighted average return on ending equity.

Nick and Tim will be at a London conference September 9-12, meeting over one-quarter of our portfolio. We have some availability Friday, September 13. Nick will be in New York Monday, September 23. Please contact us if you'd like to meet during either trip.

We ended July's comment by stating that since our exit in July 2018, Argentina was too risky for investment and investors were underestimating the probability of another debt default. Rarely will we see such an immediate and overwhelming validation of our assertion that a country is uninvestable. Three weeks ago, on August 11, in a nationwide presidential primary, Argentines gave fewer votes than expected to the incumbent Macri, signaling that he likely will lose the actual election to a less market-friendly candidate in October. In dollar terms, Argentina's Merval stock index dropped 48% the next day. In a story picked up by news services around the world, Bloomberg labeled this the second-largest single-day crash globally on record in data they track back to 1950. Two days ago, authorities announced a default. As we had suggested, they favored polite phrases such "debt reprofiling" and "maturity extension" instead of speaking the D word outright. In a footnote to the Bloomberg story, we found an erroneous data point in Bloomberg's historical prices: the crash they labeled as the worst ever (-62% in Sri Lanka, June 1989) never occurred. Correcting for this, Argentina's recent rout becomes the world's worst one-day USD fall since at least 1950.

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 August 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	- 4%	0%	- 4%	- 7%	1%
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%	9%	2%	13%
ITD	89%	143%	8%	- 4%	- 14%

Holdings Summary[2]

Country	Holding
Vietnam	11%
Egypt	10%
United Arab Emirates	10%
Nigeria	8%
Papua New Guinea	8%
Rwanda	8%
Sri Lanka	7%
USA (cash only)	6%
Côte d'Ivoire	5%
Kuwait	5%
Pakistan	3%
Philippines	3%
Kazakhstan	3%
North Macedonia	2%
Kenya	2%
Ghana	2%
Uganda	2%
Botswana	1%
Ecuador	1%
Niger	1%
Paraguay	1%
Tanzania	1%

Region	Holding
Sub-Saharan Africa	30%
Middle East / North Africa	25%
Southeast Asia	22%
South Asia	11%
USA (cash only)	6%
Eurasia	3%
Eastern Europe	2%
Latin America & Caribbean	2%

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

Portfolio Statistics

Portfolio Price to LTM Earnings	6.1
Portfolio Price to Book	1.22
Portfolio LTM Dividend Yield	7.3%
Return on Ending Equity	25.7%
Positions	42
Countries	24
Average Market Cap	$1,197m
Median Market Cap	$495m
Portfolio Turnover (LTM)	31%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	13%
Beta to S&P 500 (ITD)	0.44
Assets Under Management	$114m

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 August 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 August 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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