September 2019 Monthly Comment published Monday 30 September 2 PM CDT

On September 25 we announced several changes that, all else equal, should boost long-run investor performance by lowering or eliminating incentive fees, reducing minimums to access these lower fees, and providing ways to lower management fees. Click here for details.

We estimate we lost 2% in September, the same as the MSCI FM Index as frontier's selloff continued. Our valuations grind ever lower with our trailing portfolio PE now 5.9 and our weighted average dividend yield at 7.5%. Q3 selloffs in the four indices we watch began in July, with drawdowns ranging from 5% to 9%. The other three indices hit bottom last month and gained this month with the S&P 500 up 1%, MSCI EAFE up 3%, and MSCI EM up 2%. FM's selloff began and ended (if it has) last, and was the shallowest. Final monthly index values aren't available yet, so all index performances we cite are total returns through September 27.

Last week, we attended an investor conference in Turkey, which entered our universe definition in May 2018 following a dramatic currency collapse and stock market selloff. Since we last visited the country a year ago, during the depth of the crisis, the economic situation has improved. The IMF forecasts GDP growth up 0.25% this year defying earlier expectations of contraction. The current account deficit has improved dramatically, reaching a surplus for the first time in 17 years thanks to import compression and export growth, coupled with strong tourism inflows. Inflation has fallen faster than expected to 15.0%, providing the central bank with cover to cut interest rates by 750 basis points over the past two months from a peak of 24% to 16.5% today. We think further cuts are likely to come at the end of October. Despite lower rates, the Turkish lira has recovered some of its lost ground, appreciating over 20% against the US dollar from its August 2018 low. A stabilizing relationship with the US, a backdrop of global easing, and Turkey's still-positive real policy rate have also driven capital flows back to the market and supported the currency. Notwithstanding the recent constructive developments, our assessment is that the economy remains on fragile footing with unorthodox economic policy the biggest risk to a lasting recovery. President Erdogan has been adamant in his unconventional view that higher interest rates cause inflation and has pledged to bring down interest rates to the single-digits as soon as possible, setting himself up on a collision course with the markets if inflation proves more resilient than expected. In July, he fired the central bank head for not cutting interest rates quickly enough, eroding any semblance of central bank independence.

While both the IMF and World Bank have urged the government to pursue structural reforms to set the country on a sustainable growth trajectory, President Erdogan has ignored their advice and instead reverted to his preferred formula of ramping up fiscal stimulus and pushing credit growth. The government has already loosened the fiscal taps significantly and the budget deficit is set to deteriorate to the worst level since 2010 while the current account, despite the year-to-date improvement, is still likely to end the year in deficit. Turkey's history of twin deficits and reliance on external financing makes it prone to negative changes in investor sentiment. Corporate balance sheets, meanwhile, are still highly levered, primarily in foreign currency, making them vulnerable to further lira depreciation. Turkish corporates have experience managing crises, but unlike past slumps, this one is unlikely to have a V-shaped recovery making it more challenging for companies to navigate. The Turkish stock market continues to trade at a sharp discount to other emerging markets partly reflecting some of the aforementioned risks. We have yet to make any investments in Turkey.

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 September 2019[1, 2]

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	- 5%	1%	- 1%	- 4%	-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	0%	20%	13%	6%	11%
ITD	86%	147%	12%	0%	- 16%

Holdings Summary[2]

Country	Holding
Vietnam	11%
Egypt	10%
United Arab Emirates	10%
USA (cash only)	9%
Nigeria	9%
Papua New Guinea	8%
Rwanda	8%
Sri Lanka	7%
Côte d'Ivoire	5%
Pakistan	4%
Philippines	3%
Kenya	3%
Kazakhstan	2%
North Macedonia	2%
Ghana	2%
Uganda	2%
Botswana	1%
Ecuador	1%
Niger	1%
Paraguay	1%
Tanzania	1%

Region	Holding
Sub-Saharan Africa	31%
Southeast Asia	22%
Middle East / North Africa	20%
South Asia	11%
USA (cash only)	9%
Eurasia	2%
Eastern Europe	2%
Latin America & Caribbean	2%

Sector	Holding
Financials	49%
Consumer Staples	18%
Cash	11%
Real Estate	8%
Consumer Discretionary	5%
Information Technology	2%
Health Care	2%
Industrials	2%
Energy	1%
Utilities	1%
Materials	1%

Portfolio Statistics

Portfolio Price to LTM Earnings	5.9
Portfolio Price to Book	1.14
Portfolio LTM Dividend Yield	7.5%
Return on Ending Equity	23.9%
Positions	40
Countries	23
Average Market Cap	$1,185m
Median Market Cap	$414m
Portfolio Turnover (LTM)	35%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	13%
Beta to S&P 500 (ITD)	0.44
Assets Under Management	$110m

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 for New Investors from January 2020[2]	**Series A**: 2% mgt fee, 10% incentive, 4-qtr exit. **Series B**: 2% mgt fee, 0% incentive, 8-qtr exit. **Relative Performance Series**: 1.75% mgt fee, 20% incentive vs. FM ETF hurdle, 8-qtr exit. **Absolute Performance Series**: 1.50% mgt fee or 30% incentive vs. 5% hurdle, 8-qtr exit. For all series above, mgt fee cut 25bp at $200m real fee-paying AUM and another 25bp at $400m.

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 September 2019 with a subject-to-change estimate for the current month, for an investor joining the fund at inception, making no further contributions, and making no withdrawals. We assume this investor converts to Series B January 2020. Investors joining on other dates, making additional contributions, making withdrawals, or remaining in their legacy series after 2019 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 September 2019 as final index values for the current month are not available at time of publication.

2 Click here for disclosures including: current and future terms and redemption requirements, performance calculations, indices we show, and our holdings and portfolio statistics calculations.

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