October 2019 Monthly Comment published 31 October 12 PM CDT

We estimate that we lost 1% in October. We continue to have a trailing PE below 6 and a dividend yield of 7%. Through October 30, total returns in the indices we cite were S&P 500 2%, MSCI EAFE 4%, MSCI Emerging Markets (EM) 4%, and MSCI Frontier Markets (FM) 1%. Small caps and value stocks continue to underperform in EM and FM with FM Small -1%. We updated our investment presentation to reflect the current situation: crisis-era valuations, an out of favor frontier asset class, recent global underperformance of small and value, and our new lower fees. Click here to see our new slides or here for the full presentation.

In October, massive cross-sectarian protests against austerity and corruption rocked Lebanon, putting further strain on its fragile economy and leading to the resignation of the Prime Minister Saad Hariri. As one of the most indebted countries in the world with government debt/GDP exceeding 150% and a 2018 current account and budget deficit of 26% and 11%, respectively, Lebanon is highly dependent on foreign funding. For years, investors have given this small economy the benefit of the doubt, helped by a currency peg, diaspora remittances, and foreign donor largesse. This thinking is now in question. Both donors and investors have become increasingly reluctant to provide funding with a worsening financial situation, a restless population, and a fragile sectarian political system. An $11 billion aid package donors agreed to at an April 2018 conference remains frozen due to the government's inability to implement required reforms. Lebanese 10-year eurobonds, meanwhile, trade at 55 cents on the dollar while credit default swaps on the sovereign have blown out to levels unseen even during the global financial crisis.

Questions have also arisen around the viability of Lebanon's currency peg to the dollar which has held at its present level since 1998. For years, the central bank has managed to keep the currency peg viable and government-funded aided by borrowing US dollars from the banking system at above-average rates and then turning around and investing that liquidity into government debt. This cozy arrangement only works if banks can keep sourcing dollars from depositors. This has become more difficult as deposit flows, which are mostly from non-residents and short-term, dry up. As of mid-year, banking sector exposure to the central bank and government has risen to 69% of assets, or nearly eight times capital, leaving the sector highly vulnerable to a debt restructuring or a break of the currency peg. Nor does it help confidence that banks have remained closed since October 18 because of the protests, risking a deposit run when they re-open November 1.

In February, we first heard of retail depositors facing difficulties in converting Lebanese pounds to US dollars and repatriating dollars outside of the country. We immediately sold our Blom Bank position after six profitable years (see pages 4-5 of our Q2 letter) and brought our money back to the US. Since then, the foreign currency shortage has gotten worse as banks are heavily restricting dollar supply and, in turn, forcing both businesses and individuals to secure dollars at a higher parallel rate in the black market. The price of Blom's London-traded shares is now less than half of our exit price. Blom's Lebanon-listed shares have a higher price, but have not traded recently and it is unclear to us if one could now repatriate sale proceeds.

While this won't always be the case, we've avoided major crises this year in Zimbabwe, Argentina, and now Lebanon, exiting each country profitably (see our May, July, and August comments). We left Zimbabwe in 2015 and Argentina in 2018 long before there were issues in getting your money out. In all three cases, we are more than content to watch from the sidelines going forward.

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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 October 2019[1, 2]

Period	Frontaura	S&P 500	MSCI EAFE	MSCI Emerging	MSCI Frontier
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%	2%	- 1%	- 4%	-1%
2019 Q4	-1%	2%	4%	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	-1%	24%	17%	10%	12%
ITD	84%	154%	15%	4%	- 15%

Holdings Summary[2]

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

Region	Holding
Sub-Saharan Africa	30%
Southeast Asia	22%
Middle East / North Africa	19%
South Asia	12%
USA (cash only)	8%
Eastern Europe	5%
Eurasia	3%
Latin America & Caribbean	2%

Sector	Holding
Financials	49%
Consumer Staples	18%
Cash	9%
Real Estate	7%
Consumer Discretionary	7%
Industrials	2%
Health Care	2%
Information Technology	2%
Materials	1%
Energy	1%
Utilities	1%

Portfolio Statistics

Portfolio Price to LTM Earnings	5.9
Portfolio Price to Book	1.13
Portfolio LTM Dividend Yield	7.0%
Return on Ending Equity	22.3%
Positions	42
Countries	24
Average Market Cap	$1,171m
Median Market Cap	$414m
Portfolio Turnover (LTM)	33%
Portfolio Turnover (ITD)	29%
Standard Deviation (ITD)	13%
Beta to S&P 500 (ITD)	0.44
Assets Under Management	$109m

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	Faegre Baker Daniels 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 October 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 30 October 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.

Disclaimer

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