February 2020 Monthly Comment as of 4 PM Chicago time February 28

In the six trading days from February 19 to February 27, coronavirus fears led the S&P 500 to record the fastest correction (a drop of 10% or more from its all-time high) in its history. We estimate that we will have a 5% loss in February with our year-to-date (YTD) loss at 4%. Departing from our usual practice, we delayed this note until US markets closed so we could estimate index returns including today rather than reference day-old values. On a total returns basis, our YTD estimates through February 28 are MSCI Frontier Markets Small Cap -4%, MSCI Frontier Markets -6%, MSCI Emerging Markets -10%, MSCI EAFE -11%, and the S&P 500 -8%. This outcome is consistent with our history that shows we nearly always lose less than the main frontier, emerging, and developed world indices when markets are at their worst. Our portfolio PE is 5.7 on a trailing, as-reported basis with a 7.1% weighted average dividend yield. Our companies have a weighted average return on ending equity (ROEE) of 22.3%.

Halyk Bank is Kazakhstan's largest bank and a name to which we've long paid attention. A confluence of positive political and company-specific developments coupled with an attractive valuation lead us to re-enter the country and buy this stock in mid-2019. Last March, Kazakhstan's President Nursultan Nazarbayev, then 78 and in power for three decades, unexpectedly announced his resignation (although he remains head of the ruling party). Senate Speaker Kassym-Jomart Tokayev constitutionally assumed the presidency and then easily won a June 2019 presidential election. Tokayev's pro-growth policies and reform agenda have helped push 2019 GDP growth to a six-year high of 4.5%. While perhaps not the full-fledged pivot to democracy some observers would have hoped for, the smooth transition has still, in our view, greatly diminished political risk.

Kazakhstan is an oil exporter so the weakening oil price this year is an obvious negative development. Nevertheless, the country has significant macroeconomic buffers. Investment bank Renaissance Capital estimates that GDP growth would remain positive even if Brent oil prices average $30 in 2020. At the end of 2019, Kazakhstan's sovereign wealth fund (SWF) had $62 billion of assets, equal to 39% of GDP, providing scope for budgetary support. It has a further $29 billion of international reserves, equal to 7 months of import cover, per the IMF (import cover including the SWF would be two years). Its policymaking is prudent with a manageable 1% budget deficit in 2019. Importantly, since its significant devaluation in 2015, the tenge currency has freely floated (a policy action we recommend to Nigeria). Helped by the tight monetary policy of the central bank which raised rates from 9.00% to 9.25% last September (one of the few countries in our universe to increase recently), the tenge is presently around 382, about where it began the year. Inflation is 5.6%, making for a positive real interest rate of 3.65%.

Halyk has consolidated market share over the past decade and now accounts for a third of Kazakhstan's banking system with a deposit share four times that of the number two player. EPS grew 47% for 9M 2019 driven in part by the successful acquisition and integration of the "good bank" assets of its largest rival Kazkommertsbank in 2018 and a general trend of improved asset quality and falling non-performing loans. The bank also boosted its dividend policy last year, promising to pay out over 50% of earnings going forward. We estimate that a 60% payout would provide a 12% yield on the current $14 stock price. The annual ex-dividend date has occurred mid-April the past two years. Halyk trades on 4.5 times trailing earnings with a ROEE of 28.3%. Its average daily value traded has exceeded $2 million per day since an oversubscribed secondary offering in September 2019 that boosted its float by a third.

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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 February 2020[1, 2]

Period	Frontaura	MSCI Frontier Small Cap	MSCI Frontier	MSCI Emerging	MSCI EAFE	S&P 500
2015 Q1	- 3%	-4%	- 3%	2%	5%	1%
2015 Q2	3%	2%	0%	1%	1%	0%
2015 Q3	- 6%	-6%	- 11%	- 18%	- 10%	- 6%
2015 Q4	1%	-1%	- 1%	1%	5%	7%
2016 Q1	- 1%	-1%	- 1%	6%	- 3%	1%
2016 Q2	4%	5%	0%	1%	- 1%	2%
2016 Q3	2%	4%	3%	9%	6%	4%
2016 Q4	1%	6%	0%	- 4%	- 1%	4%
2017 Q1	4%	12%	9%	11%	7%	6%
2017 Q2	7%	3%	6%	6%	6%	3%
2017 Q3	3%	3%	8%	8%	5%	4%
2017 Q4	3%	3%	6%	7%	4%	7%
2018 Q1	2%	-1%	5%	1%	- 2%	- 1%
2018 Q2	- 7%	-9%	- 15%	- 8%	- 1%	3%
2018 Q3	- 5%	-4%	- 2%	- 1%	1%	8%
2018 Q4	- 3%	-5%	- 4%	- 7%	- 13%	- 14%
2019 Q1	2%	-1%	7%	10%	10%	14%
2019 Q2	3%	0%	5%	1%	4%	4%
2019 Q3	- 5%	-3%	-1%	- 4%	- 1%	2%
2019 Q4	-1%	2%	7%	12%	8%	9%
2020 Q1	-4%	-4%	-6%	-10%	-11%	-8%
2008	- 28%		- 54%	- 53%	- 43%	- 37%
2009	46%		12%	79%	32%	26%
2010	37%		24%	19%	8%	15%
2011	- 15%	-29%	- 19%	- 18%	- 12%	2%
2012	18%	6%	9%	18%	17%	16%
2013	26%	32%	26%	- 3%	23%	32%
2014	- 3%	6%	7%	- 2%	- 5%	14%
2015	- 5%	-8%	- 14%	- 15%	- 1%	1%
2016	7%	15%	3%	11%	1%	12%
2017	17%	23%	32%	37%	25%	22%
2018	- 13%	-17%	- 16%	- 15%	- 14%	- 4%
2019	-1%	-2%	18%	18%	22%	31%
2020	-4%	-4%	-6%	-10%	-11%	-8%
ITD	78%		-16%	1%	7%	148%

Holdings Summary[2]

Country	Holding
United Arab Emirates	10%
Vietnam	9%
Egypt	9%
Papua New Guinea	9%
Sri Lanka	9%
Rwanda	7%
Côte d'Ivoire	6%
Pakistan	6%
Nigeria	6%
Kazakhstan	5%
Ghana	5%
Turkey	4%
USA (cash only)	4%
Philippines	2%
Kenya	2%
Uganda	2%
Botswana	1%
Ecuador	1%
Niger	1%
North Macedonia	1%
Paraguay	1%

Region	Holding
Sub-Saharan Africa	30%
Middle East / North Africa	23%
Southeast Asia	20%
South Asia	15%
Eurasia	5%
USA (cash only)	4%
Latin America & Caribbean	2%
Eastern Europe	1%

Sector	Holding
Financials	48%
Consumer Staples	18%
Consumer Discretionary	7%
Real Estate	7%
Cash	6%
Industrials	3%
Energy	3%
Communication Services	3%
Utilities	2%
Materials	2%
Health Care	2%
Information Technology	1%

Portfolio Statistics	
Portfolio Price to LTM Earnings	5.7
Portfolio Price to Book	1.12
Portfolio LTM Dividend Yield	7.1%
Return on Ending Equity	22.3%
Positions	39
Countries	21
Weighted Average Market Cap	$1,205m
Weighted Median Market Cap	$627m
Portfolio Turnover (12 Months)	27%
Portfolio Turnover (ITD)	29%
Standard Deviation (36 Months)	7%
Standard Deviation (ITD)	12%
Beta to S&P 500 (36 Months)	0.16
Beta to S&P 500 (ITD)	0.44
Assets Under Management	$106m

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]
New Investor Terms[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 28 February 2020 with a subject-to-change estimate for the current month, for an investor joining the fund at inception, making no further contributions, making no withdrawals, and converting to Series B. Investors joining on other dates, making additional contributions, making withdrawals, or remaining in the 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 28 February 2020 using our estimates for final day performance as of the 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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