August 2020 Monthly Comment as of 2 PM Chicago time August 31

August is often a cruel month for us. In our history, we have lost money two-thirds of the time, including six of the last seven years. Events today nearly conspired to trip us up again, as a liquidation trade on the last day of the month from a fund that is closing forced us to make a material markdown in what was one of our top 10 positions. Nevertheless, performance was strong enough before today that we will still record a monthly gain between 0% and 1%.

In the quarterly letters and monthly comments we have published this year, we have described how allocators have redeemed continually from frontier funds from late 2014 onward. Even before 2020 began, more money had flowed out of large global and regional frontier market funds than remained. A sampling we did in our Q4 letter of some of the largest funds (see page 3) indicated their 2019 ending assets were about ¼ of their peak. Large fund outflows continued in 2020 with COVID-19 and we suspect this has or will soon reach its climatic end. Templeton closed their US frontier markets mutual fund in March and we are seeing other prominent frontier funds now winding up their greatly diminished operations by selling a few remaining illiquid positions before this calendar year ends. One such example occurred today where a fund that is liquidating sold its shares in Bralirwa at a price 64% (!) below the last traded price. We now mark this position at this price; in March, we marked it down 35% below the last traded price as it never corrected in the COVID-19 selloff.

We think the best time to be a buyer is when conditions force others to be sellers at non-economic prices. This is a good example of the fantastic buying environment that we have described in recent months, which is so different from more developed markets where little value remains. While we do have some stocks that have rebounded sharply from their March lows, others have yet to recover much, and a few continue to set new lows. We have been buying these latter two situations at a measured pace for months now as we detailed in our Q2 letter (see pages 2-4). While big markdowns can limit performance in the near term, they tend to store up future performance. The only other time in our history when we saw a similar buying environment was in 2008-2009, with the returns through 2013 illustrating well the stored-up performance payoff. Here's an example from earlier this year. A trade like what we saw today occurred in Q1 in another stock we owned and we increased our existing markdown to match the price of that trade. By the end of Q2, the trading price was 43% higher on that position.

We remember fondly buying Pepsi Philippines at a 3 PE in Q4 2008. Although we sold before the peak, its shares topped out with a near 9-fold rise from our last purchase price just over four years later. Today's trade values Heineken's majority-owned Rwandan subsidiary Bralirwa at three times its peak earnings. As a multiple of 2019 free cash flow, currently the market prices Heineken itself at 20.1 times, while Bralirwa traded today at 3.5 times. In terms of enterprise value per hectoliter of beer sold in 2019, Heineken trades at $304, Bralirwa at $51, one-sixth its owner's level. Bralirwa dominates beer sales in fast growing Rwanda, with 75% market share. Further, Bralirwa has 90% share in soft drinks, as they are the Coca-Cola bottler. Rwanda has handled COVID-19 especially well and its economy will still grow this year versus 2019.

Investor interest continues to rise from the COVID-19 low as we are receiving unsolicited inquiries from allocators we last talked to several years ago. As good as the buying environment is, we are constraining our purchases and foregoing some potential buys to not use our cash too quickly. Given the opportunity set, we would welcome and benefit from having more cash to invest.

# 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 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 | -22% | -24% | -27% | -24% | -23% | -20% |
| 2020 Q2 | 6% | 12% | 15% | 18% | 15% | 21% |
| 2020 Q3 | 2% | 6% | 7% | 13% | 8% | 13% |
| | | | | | | |
| 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 | -16% | -10% | -10% | 2% | -5% | 10% |
| | | | | | | |
| ITD | 55% | | -20% | 14% | 15% | 197% |

## Holdings Summary[2]

| Country | Holding |
|---|---|
| Philippines | 11% |
| USA (cash only) | 10% |
| Vietnam | 8% |
| Papua New Guinea | 7% |
| Côte d'Ivoire | 6% |
| Sri Lanka | 6% |
| Pakistan | 6% |
| Ghana | 6% |
| Turkey | 5% |
| Colombia | 5% |
| Nigeria | 5% |
| Kazakhstan | 5% |
| Rwanda | 4% |
| Egypt | 2% |
| Bangladesh | 2% |
| Ecuador | 2% |
| Senegal | 2% |
| Kenya | 2% |
| Uganda | 2% |
| Botswana | 1% |
| Niger | 1% |
| Paraguay | 1% |
| Tanzania | 1% |

| Region | Holding |
|---|---|
| Sub-Saharan Africa | 31% |
| Southeast Asia | 26% |
| South Asia | 14% |
| USA (cash only) | 10% |
| Latin America & Caribbean | 8% |
| Middle East / North Africa | 8% |
| Eurasia | 5% |

| Sector | Holding |
|---|---|
| Financials | 45% |
| Consumer Staples | 23% |
| Cash | 12% |
| Communication Services | 6% |
| Consumer Discretionary | 4% |
| Energy | 3% |
| Health Care | 2% |
| Utilities | 2% |
| Real Estate | 2% |
| Materials | 1% |

| Portfolio Statistics | |
|---|---|
| Portfolio Price to LTM Earnings | 5.2 |
| Portfolio Price to Book | 0.89 |
| Portfolio LTM Dividend Yield | 6.8% |
| Return on Ending Equity | 21.3% |
| Positions | 38 |
| Countries | 22 |
| Weighted Average Market Cap | $788m |
| Weighted Median Market Cap | $358m |
| Portfolio Turnover (12 Months) | 40% |
| Portfolio Turnover (ITD) | 30% |
| Standard Deviation (36 Months) | 12% |
| Standard Deviation (ITD) | 13% |
| Beta to S&P 500 (36 Months) | 0.45 |
| Beta to S&P 500 (ITD) | 0.48 |
| Assets Under Management | $91m |

## 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.<br>**Relative Performance Series**: 1.75% mgt fee, 20% incentive vs. FM ETF hurdle, 8-qtr exit.<br>**Absolute Performance Series**: 1.50% mgt fee or 30% incentive vs. 5% hurdle, 8-qtr exit.<br>For all series above, mgt fee cut 25bp at $200m real fee-paying AUM and another 25bp at $400m. |

## Service Providers

| | |
|---|---|
| Attorney | Faegre Drinker Biddle & Reath 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 August 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 August 2020 as final index values for the current month are not available at 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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