Quarterly Letter – 2012 Q1

Interregnum?

In Q1, an event investors feared for two years finally occurred. Greece defaulted, but markets rallied sharply in the quarter, regaining money lost in 2011. Politicians patted themselves on the back, and then resumed complacency. We gained 6.1% in Q1, the MSCI Frontier Markets Index performed similarly, up 5.5% on a total returns basis. Other global markets did even better, with the S&P 500, MSCI EAFE, and MSCI Emerging Markets indices up 12.6%, 10.9%, and 14.1%, respectively, including dividends. But in March and the beginning of April, some markets began to wobble as investors realized all was not over and that the pain in Spain may cause rain that washes away Q1's gain. Thus, the question on the brain is whether the last quarter was all in vain.

Before we get to that, let's amuse and remind ourselves that much of what politicians say is utter tripe. It would be funny if they weren't the ones in power.

Dec. 11 [2009] (Bloomberg) -- Greek Prime Minister George Papandreou said that European Central Bank President Jean-Claude Trichet and Luxembourg Prime Minister Jean-Claude Juncker see "no possibility" of a Greek default. Papandreou was speaking to reporters at a European Union summit in Brussels. "There is no possibility of a default for Greece," Papandreou said today.

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March 9, 2012 International Swaps and Derivatives Association statement:[1]

The [Determinations Committee] resolved that a Restructuring Credit Event has occurred under Section 4.7 of the ISDA 2003 Credit Derivatives Definitions…following the exercise by The Hellenic Republic of collective action clauses to amend the terms of Greek law governed bonds issued by The Hellenic Republic (the Affected Bonds) such that the right of all holders of the Affected Bonds to receive payments has been reduced.

Translation: The "no possibility" event occurs. Greece defaults.

………

PARIS, March 27 [2012] (Xinhua[2]) -- French President Nicolas Sarkozy said on Tuesday the eurozone's financial crisis was ended and economy of the single-currency bloc was recovering. In an interview with the regional daily Ouest-France, the incumbent head of state said that confidence in European financial markets was restored after month-long of volatility and morosity. "I think we came out of the financial crisis, that confidence is restored and we are in the process of economic recovery," Sarkozy said, adding "Europe has an economic government which overcame the Greek crisis."

………

"The euro zone has gone through a huge crisis. I believe that this crisis is now almost over.[3]"
--Mario Monti, Italian Prime Minister and Minister of Finance

[1] http://www.isda.org/dc/docs/EMEA_Determinations_Committee_Statement_09032012.pdf
[2] http://news.xinhuanet.com/english/business/2012-03/27/c_131493012.htm
[3] http://www.guardian.co.uk/business/2012/mar/28/eurozone-debt-crisis-mario-monti-almost-over?CMP=twt_gu

Since we're a frontier fund, not a global macro fund, we'll limit our global view to this one paragraph. Greece is not solved; it will default again eventually, and we still think that one day it will print new drachmas (either switching completely or possibly retaining the euro in a dual-currency system). Portugal and Ireland may present problems, but the big, potentially unmanageable issue now is Spain, more so than Italy. The Long-Term Refinancing Operation (LTRO) was the most successful attempt yet to kick the can down the road, but Europe may need a third, fourth, and potentially perpetual helping of LTRO to avoid refinancing issues in the years to come. The odds of a Chinese hard landing have risen a bit from three months ago, but it could still go either way. It's possible that China's double-digit growth years are forever behind it. The good news is that the Chinese economic model is becoming more balanced structurally and the yuan is no longer obviously overvalued. US economic growth is okay, not great, about the best you can hope for in a deleveraging world. It could slow and if so Easy Ben will loosen again in some form, with or without a new acronym. 2013 and the run up to it will be a challenge for the US as there presently is a fiscal wall of tax increases and spending cuts scheduled. Domestic can-kickers in Washington will likely push off some of this fiscal discipline. Japan continues to inch toward its end game in the coming years like a turkey counting the days to Thanksgiving. Any number of factors—Europe, China, the US, Japan—could lead to a global recession, but it's just as possible that somehow, some way, the world manages through smoke and mirrors and a dose of continuing good growth from emerging and frontier markets to hold itself together.

And in similar frenetic style, our view on frontier markets follows. We discuss global events because in the extreme they can affect frontier, more so through stock market performance than economic performance, but some of each. Generally, frontier countries are doing fine. Some countries of Central and Eastern Europe are an exception, but many stocks there have low valuations. For that matter, so does the frontier universe as a whole. So if the world holds itself together (that is, absent an extreme event), frontier markets are priced to perform well. Inflows are increasing; investors have noticed that frontier markets have lagged the global rally since October. From February onward, frontier performance has improved. So we are bullish on frontier, with a caveat that global events could upset our frontier outlook. Global overhang risk has been with us for several years now and in a deleveraging world could be with us for years to come. This being a semi-permanent situation, frontier is priced low enough to invest in now, as most likely one won't get the exact timing right anyway. (If you wait until all your global fears are gone, frontier stocks could be up 50% or 100%, so we think the opportunity cost of being risk adverse on frontier is too high.) Frontaura's weighted average trailing valuation is a 6.3 PE, 5.0% dividend yield, 1.0 price/book, and 23.3% return on ending equity. That's good in this environment, why wait?

What does $100 million buy these days?

On April 1, counting April inflows, our assets under management were $95.5 million. That's close enough to the century mark to ask, "What can you get in frontier for $100 million?" What follows is a stylized and selective summary of what our companies do, and thus taken together what $100 million can buy as of this writing on April 12, 2012.

$100 million in frontier buys you all of the following:

- 3% of the entire automotive production capacity in a country of 180 million people.

- 2% of the entire plastic pipe capacity in a country of 90 million.
- 4% of the largest dairy producer in a country of 10 million.
- 3.5% of the nicest hotel in a Sub-Saharan African country.
- 2% of one of the largest fish exporters in an Asian country.
- 2% of one of the best-known women's clothing brands in several former Soviet countries.
- 2% of a top 10 bank in a country of 160 million people.
- 2% of the largest airport cargo-handling operator in a country of 40 million.
- 10% of the largest confectionary maker in a Middle Eastern country.
- 1% of the entire banking system in a country with 40 million people.
- 1% of the largest bank in an Asian country that grew GDP around 8% last year.
- 3% of the largest bank in an African country that grew GDP over 8% last year.
- 65,000 hens that lay 16 million eggs per year.
- We could go on and on as all of the above represents less than 40% of our portfolio. So, conceptually, multiply the above 2.5 times to get the full view of what $100 million can buy in frontier markets.

Alternatively, instead of our portfolio, you could own 1/6065th of Apple. Or you could buy around 1% of Groupon. What does $100 million buy these days? It all depends on where you do your shopping.

Travel

In Q1, we visited Argentina, Belarus, Estonia, Latvia, Lithuania, Pakistan, Qatar, Ukraine, and Uruguay. A summary of these trips appeared in our January, February, and March monthly comments. Additionally, we attended investment conferences in New York for Pakistani and Sri Lankan companies and in London for Sub-Saharan African companies. Finally, we visited investors in London, New York, and Florida and we spoke at a CFA emerging markets conference in New York.

For Q2, we have visits scheduled to Cambodia, Laos, Myanmar, Tanzania, Vietnam, and Zimbabwe and we'll see investors in Hong Kong.

Conclusion

Our year-end letter was extra hefty with nine pages of text, so we'll take it easy on you this quarter by stopping at three pages. Our normal set of tables appears in the pages that follow. We thank you for being a Frontaura investor.

Regards,

Nick Padgett, CFA
Stephen Mack
Managing Directors
Frontaura Capital LLC
180 North Stetson Avenue, Suite 1935
Chicago, Illinois 60601 USA
+1 312 265 6882
info@frontauracapital.com

Appendix

Figure 1
Frontaura Global Frontier Fund LLC
Performance[4]
31 March 2012

Period	Frontaura	S&P 500	MSCI EAFE	MSCI Emerging	MSCI Frontier
2012 Q1	6%	13%	11%	14%	6%
2008	- 28%	- 37%	- 43%	- 53%	- 54%
2009	46%	26%	32%	79%	12%
2010	37%	15%	8%	19%	24%
2011	- 15%	2%	- 12%	- 18%	- 19%
Inception to Date	33%	0%	- 26%	- 14%	- 43%
ITD CAGR	6.6%	0.1%	- 6.6%	- 3.4%	- 12.1%

Figure 2
Frontaura Global Frontier Fund LLC
Monthly Performance
31 March 2012

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007											0.4%	1.6%	2.0%
2008	0.7%	0.6%	-0.1%	3.4%	3.9%	-1.0%	-0.8%	-2.2%	-7.9%	-17.5%	-10.7%	1.4%	-28.1%
2009	-2.0%	-0.4%	0.7%	7.7%	14.4%	4.1%	1.4%	4.7%	10.6%	-1.4%	-0.2%	0.2%	46.0%
2010	-0.9%	4.2%	6.6%	4.5%	-1.2%	1.9%	3.4%	0.7%	4.7%	3.5%	1.5%	3.3%	37.1%
2011	2.8%	-3.7%	2.7%	-0.4%	1.0%	-1.7%	-2.4%	-4.0%	-3.9%	-1.6%	-4.9%	0.7%	-14.8%
2012	-0.5%	3.9%	2.6%										6.1%

[4] Returns commence 1 November 2007. Frontaura returns are net of all fees, 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. Index returns are in US dollars on a total return basis, net of any withholding tax.

Figure 3
Frontaura Global Frontier Fund LLC
Portfolio Mix and Statistics[5]
31 March 2012

Holdings Summary

Country	Holding
Vietnam	18%
Tanzania	10%
USA (cash only)	10%
Qatar	8%
Serbia	6%
Nigeria	5%
Iraq	5%
Pakistan	5%
Zimbabwe	4%
United Arab Emirates	4%
Senegal	4%
Botswana	3%
Estonia	3%
Romania	2%
Bulgaria	2%
Rwanda	2%
Laos	2%
Oman	1%
Cyprus	1%
Colombia	1%
Ghana	1%
Cote d'Ivoire	1%
Montenegro	1%
Others	1%

Industry	Holding
Banks	26%
Industrials	15%
Cash	14%
Consumer Staples	12%
Consumer Discretionary	10%
Telecommunication Services	7%
Energy	4%
Specialty Finance	3%
Insurance	3%
Materials	3%
Diversified	2%
Asset Management/Brokerage	1%

Portfolio Statistics

Portfolio Price to Earnings	6.3
Portfolio Price to Book	1.0
Portfolio Dividend Yield	5.0%
Return on Ending Equity	23.3%

[5] Portfolio valuation statistics use the most recent 12 months of reported fundamental data as of 31 March 2012. Portfolio PE and PB are the harmonic means of all positions, weighted by position size. Portfolio dividend yield and return on ending equity are the means of all positions, weighted by position size. The yield on Frontaura Global Frontier Fund is less than our portfolio dividend yield due to cash held, withholding taxes, management fees, and operating expenses. At present, we retain all income rather than distribute it.

We hold most, but not all cash, in the United States. We also include in the US total any euros or other currencies we hold in countries outside of our investment universe. These other currency amounts often are immaterial. We include all other cash we hold outside the US in that country's total, regardless of currency. For example, Vietnam is a prefunding market, so we include our cash there in the Vietnam total, even though nearly all of this cash is in US dollars.

Figure 4
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries
2012 Q1

5 Best Countries			5 Worst Countries		
Country	**Frontaura Return**	**MSCI Return[6]**	**Country**	**Frontaura Return**	**MSCI Return**
Romania	33%	26%	Ghana	-13%	1%
Vietnam	25%	24%	Laos	-13%	--
Cambodia	20%	--	Uganda	-10%	--
United Arab Emirates	18%	17%	Bulgaria	-7%	-7%
Cote d'Ivoire	14%	--	Iraq	-7%	--

Figure 5
Frontaura Global Frontier Fund LLC
Significant Quarterly Country Mix Changes[7]
2012 Q1

Country	Percentage Point Change	Explanation
Vietnam	+3	Strong stock performance
Zimbabwe	+2	New position
Pakistan	- 3	Exited two positions

[6] MSCI country indices stated on a total return basis with dividends net of any withholding tax. We show "--" if MSCI does not have an index for a given country.
[7] We show countries whose weighting has changed by two percentage points or more. Total may not add to 0 due to rounding and exclusion of countries changing by less than two percentage points. Note that we do not show the United States as we only hold cash there. See the Figure 3 footnote for a discussion of how we classify cash by country.

Figure 6
Frontaura Global Frontier Fund LLC
Portfolio Concentration[8]
31 March 2012

	Companies	Countries	Change from Prior Quarter Companies	Change from Prior Quarter Countries
Positions	48	25	- 2	- 2
Top 5	22%	47%	- 1	+3
Top 10	39%	69%	+1	+4
Top 20	62%	88%	+2	+5
Top 20 + US (Cash)	71%	97%	- 1	+2

[8] We do not include the US in our country count and most of the percentage totals as we hold only cash there. Change from Prior Quarter represents the change in the number of positions and the change in percentage points for the top 5, 10, and 20 positions. The Top 20 + US row does include the US cash percentage in the percentage totals. See the Figure 3 footnote for a discussion of how we classify cash by country.