



Quarterly Letter – 2013 Q3

In this letter, we'll discuss key concepts we use when calculating intrinsic value of a company. Before that discussion, we'll provide our typical review and outlook, and we'll finish the letter with fund and management company news.

Q3 review and Q4 outlook

We gained 0.58% in Q3 and are now up 17.16% for 2013. In Figure 3 in the Appendix, we show our results against the global indices we commonly cite. We show our monthly performance history in Figure 4.

We're in it for the long run, so we try not to focus too much on short run performance. Nevertheless, we lagged other markets significantly in two of the months of Q3 (July and September) and for the quarter overall, so in writing this letter, we sought to better understand why. After looking at market performance over many recent timeframes, we concluded that in Q3 global equities merely regained their losses following Fed Chairman Ben Bernanke's May 22 speech on tapering quantitative easing. We didn't have much of a loss, so we didn't have much of a recovery. Dedicated readers will recognize that we've often said similar words. We tend to be lower beta when markets sell off, and when they recover from the selloff. This episode illustrates the point dramatically, as we show in Figure 1. From May 22 through June 24 when global markets bottomed¹, the S&P 500 lost 6%, MSCI EAFE dropped 10%, MSCI Emerging Markets fell 15%, while MSCI Frontier Markets was off 4%. We lost 1%. From June 25 through September 30, the indices just cited rallied 6%-14%. We were up 2%. Combined from May 22 through September 30, all of these markets other than emerging markets did about the same. EAFE grew 3%, the S&P 500 advanced 2%, Frontaura and MSCI Frontier each were up 1%, while MSCI Emerging finished last, down 5%.

Figure 1
Frontaura Global Frontier Fund LLC
Returns since Bernanke's May 22 Taper Speech
30 September 2013

	22 May 2013- 24 June 2013	25 June 2013 - 30 Sept 2013	22 May 2013- 30 Sept 2013
Frontaura	-0.8%	2.0%	1.2%
S&P 500	-5.6%	7.5%	1.5%
MSCI EAFE	-10.1%	14.4%	2.9%
MSCI Emerging	-15.3%	12.7%	-4.6%
MSCI Frontier	-4.3%	5.7%	1.1%

¹ The S&P 500, MSCI EAFE, and MSCI Emerging all bottomed on June 24. MSCI Frontier bottomed two days later, but for consistency we use June 24 as the ending day for the down period for all indices and for Frontaura.



If our July, September, and Q3 underperformance is an illusion due to period-end timing, what does this say about future performance? Well, it doesn't say anything really. Short run returns are always unpredictable. MSCI Frontier catching up to us doesn't necessarily signal that the index and Frontaura will now move in lockstep, or that we are due to resume beating the index. Just as likely is that the index's relative outperformance in Q3 could continue. To set expectations, we've made the two points that follow many times:

1. While we expect to do well against the MSCI Frontier over time (since inception we've outperformed it +73% to -31% after fees on a total returns basis), we probably aren't going to beat it every year. That we have beaten it every year to date, five years running, suggests the index may be due to better us.
2. Why would this be? Well, as money flows into frontier, it's going to flow to the biggest companies and most liquid names first. Those names trade at higher valuations as a result, and don't tend to be what we own.² So money flows may take a while to trickle down to us and the index could outperform us as a result.

Whereas one cannot consistently predict short-run performance, long run performance is more predictable. Over periods of seven years or more, the factor most important in determining performance is starting valuation. Frontaura starts its future with a portfolio trailing PE of 6.3, price/book of 1.1, and weighted average dividend yield of 5.3%. Further, our weighted average return on ending equity is a lofty 22.2%. We don't know what Q4 will bring, but we expect a portfolio with these statistics will perform well against broad global indices over long periods.

Country attribution. Of our 30 countries, we made money in 17 in Q3 and lost money in 13. In dollar terms, Nigeria was our big loser, down \$2.4 million, or 14%; followed by Iraq, down \$0.7 million, or 7%; and Sri Lanka, down \$0.6 million, or 8%. For reference, we began Q3 with \$152 million of net asset value and we ended with \$153 million. In our August comment, we wrote about poor performance in Tanzania and Zimbabwe that month. For the entire quarter, though, these two countries collectively added to performance, as gains in July and September offset the August decline. Tanzania was up \$1.4 million, or 10%, for Q3, while Zimbabwe fell \$0.4 million, or 5%. Besides Tanzania, our other big winning Q3 contributors were Vietnam, up \$2.3 million, or 13%, and Romania, up \$0.9 million, or 23%. We should note that all attribution figures are before management fees or incentive allocation. See Figure 5 in the Appendix for our mix by country and sector. Figure 6a in the Appendix shows our top and bottom performing countries by dollars, while Figure 6b shows the same information by percentages. Figures 7 and 8 show portfolio mix and concentration changes during the quarter.

Nigeria's Q3 loss gives back about half of the money we made in the country this year through June. The MSCI Nigeria index was up 3% in Q3, a much better performance than our result, but YTD we are each up 18%. The fundamentals of all three Nigerian companies we own performed in line with our expectations in both Q1 and Q2, so we attribute Q3's poor stock performance to company-specific trading flows. Ecobank Transnational Inc. (ETI), a pan-African bank whose largest country exposure is Nigeria, has received negative press, with the *Financial Times* writing a series of stories about its corporate governance practices. While it is never comfortable to read these kinds of stories about something in

² Here's a good example to support our point that we don't tend to own the most widely held frontier stocks. MSCI introduced its MSCI Frontier Markets 100 Index in 2012, which Barclays now uses for a frontier markets ETF. We examined the original constituent list last year and noted that despite meeting most of the companies, some multiple times, we owned none of the FM 100 index constituents.



your portfolio, we continue to hold ETI for four reasons. First, the accusations are financially immaterial. Second, we suspect the practices the *FT* describes are not unusual with frontier boards and management. Frontier investors must have some tolerance for the way things are, provided improvement with time is likely. It's the improvement in standards—not continual high standards—that can provide a boost to investment performance. Third, following the prior point, we think these articles may serve as a positive catalyst to improve governance given that a handful of international financial organizations own around half of ETI shares, have board representation already, and could force board, management, or policy changes. Fourth, on September 30, the stock traded at only 5.4 times trailing earnings and 0.7 times book value, with a 4.7% dividend yield. Earnings are growing and the allegations do not suggest that they are misstated. We write this not to defend ETI but rather to disclose the situation to our investors now rather than later should the situation worsen. We have met ETI numerous times over the past six years, we have had a dialog with the *FT*, and we continue to monitor the situation. If the facts change, we'll reevaluate our stance. Ironically, ETI was the best performing of our three Nigerian stocks in Q3, losing only \$0.1 million, down 4%. ETI is also our top Nigerian stock YTD on a percentage basis, up 21%.

Figure 2
Frontaura Global Frontier Fund LLC
Portfolio Earnings per Share Growth³
30 September 2013

	Q1	Q2	Q3	Q4	Year
2011					
US Dollar	- 14%	- 2%	10%	- 8%	- 3%
Constant Currency	- 11%	- 5%	14%	- 3%	- 1%
2012					
US Dollar	23%	6%	8%	32%	16%
Constant Currency	27%	14%	8%	32%	19%
2013 YTD					
US Dollar	- 6%	- 2%	- -	- -	- 3%
Constant Currency	- 4%	- 1%	- -	- -	- 2%

Weak earnings. Six months have passed from our Q1 2013 letter where we explained how we calculate US dollar earnings per share (EPS) growth in our portfolio. Results since then have been disappointing. We did not comment after Q1 results given the inherent volatility in these figures. Frontier companies don't tend to manage and massage their earnings as US companies do, so the results for any particular period can vary greatly.⁴ But

³ Q2 2013 and 2013 year-to-date data through the first half 2013 is 99% complete. One company has yet to report 2013 first half EPS.

⁴ The average change in our portfolio's year-over-year EPS change from one quarter to the next over the past 10 quarters is 18 percentage points. For example, if the average rate of change occurs in Q3, we could expect year-over-year EPS to fall 20% or rise 16%, given the starting point of Q2 2013's -2% result.



now with two weak quarters in 2013, we think a comment is appropriate. Figure 2 updates and extends a figure from our Q1 letter. After a 32% US dollar EPS gain in Q4 and 16% growth for all of 2012, we've had two lackluster quarterly results with Q1 down 6% and Q2 down 2%. Year-to-date US dollar EPS is down 3%. We thought Q1 was an anomaly when Q2 results started strong. Q2 year-over-year EPS growth was as high as 16% with over 40% of earnings reported. But this growth fell apart as the remaining figures came in.

We've debated internally how much effort we should expend to predict quarterly EPS versus just tabulating the results as they occur. Later in this letter, we discuss our forecasting process. To jump ahead briefly, we forecast years rather than quarters or half years.⁵ We aren't trying to predict the exact profit level a company will earn in each specific future year the way sell-side analysts do. Rather we try to predict what the company is likely to earn aggregated over a full economic cycle. We use up to 10 years of historical data and assume margins revert to the mean. We monitor quarterly results and adjust our full-cycle forecasts as necessary, but we don't forecast periods less than a fiscal year. The benefit of our approach is that we are more likely to identify when a company is operating at an unsustainable level. Margins well above or well below the long-term mean aren't likely to persist, a fact that the sell-side often misses. It's difficult, however, to get the exact timing of the turning point correct, so our near-term estimates may not be that accurate. Sell-side estimates are better than ours most of the time, until the turning point does occur and they are completely wrong.

Our current belief is that we shouldn't expend additional effort to forecast periods less than one year. These forecasts would be time consuming and they wouldn't be a useful input to our current investment process. Nonetheless, we are making some technology enhancements to refine and expand the information we extract from our existing company valuation models. The first round of enhancements are modest, and we just finished this work as we are writing this letter, so we cannot yet say whether it will give us additional insight on near-term portfolio earnings growth or not. Several additional increasingly complex phases may be necessary to gain more insight. Once we live with the phase one enhancements for a while, we'll evaluate whether additional improvements are worth the effort or not.

Valuation Concepts

Our quarterly letters in the past year have explained aspects of our investment process. For example, in our Q3 2012 letter, we showed how we calculate metrics such as PE, PB, dividend yield, and return on equity at the portfolio level and we warned that a surprising number of funds use mathematically dubious methods to calculate their metrics. The Q4 2012 letter contained our annual list of investment mistakes. In Q1 2013, we detailed the effort involved to calculate US dollar EPS growth. We observed how high profit growth that some funds advertise may just be an illusion resulting from lack of calculation rigor. Finally, in last quarter's letter, we provided our rationale for every position exit over the prior year.

Valuation can be a complex topic and authors have written entire textbooks on the subject.⁶ To describe every detail of our work would try the patience of even our most loyal client, as

⁵ Some of our companies report every three months, while others report every six months.

⁶ Perhaps the most widely used book on valuation, in our opinion, is *Valuation: Measure and Managing the Value of Companies* by McKinsey & Company Inc., Tim Koller, Marc Goedhart, and David Wessels. Wiley Finance published



our mechanical calculations are complex. Rather than describe the mechanics, we'll discuss three key concepts we employ when calculating a company's intrinsic value. They are:

- We disaggregate operating performance from capital structure by focusing on return on capital (ROC)
- We revert margins and ROC to cyclical averages, so as not to be fooled by peak or trough earnings; then, over time, we fade ROC toward our discount rate
- We forecast exchange rate changes based on inflation differentials to normalize earnings in US dollars, to learn how cheap a stock must be in a high inflation country

These three concepts are areas where our approach is different from most investment managers. We don't think our approach is controversial—most managers would agree intellectually with what we are doing—it's just that most don't focus as much on this area as we do. We can understand why most don't bother—sometimes the details are not relevant when the investment case is clear, and even when relevant, these details can be tremendously time consuming and complex to process. Fortunately, we have automated this process through standard Excel model templates with key inputs parameterized. Our Excel models all use the same macro script, with integrated Bloomberg functions to retrieve data. We store results and produce reports through automated e-mails using an Access database. We can produce a first cut at the intrinsic value of a company, making future projections that use up to 10 years of historical data in about 15 minutes. If this first-cut valuation looks good, we will then begin a lengthier process to hand comb and manually enter a decade's worth of the company's fundamental data. Often data is missing or inaccurate, requiring us to manually retrieve or request it from multiple data sources. This process is cumbersome, taking many hours and sometimes stretching over weeks in cases where historical financial reports are particularly hard to find. Nonetheless, this search for additional data often allows us to uncover facts, see patterns, or gain insight we would not otherwise have. While this letter may give an impression that we are quantitatively oriented, actually the approaches we describe here supplement our qualitative processes of company visits, management meetings, and country macro risk assessment. A stock must pass both our qualitative and quantitative tests before we buy—it must be good enough *and* cheap enough. Neither attribute alone is reason for us to buy.

Disaggregating operating performance from capital structure. We favor companies with high returns on capital and intelligent capital allocation. To assess a company's operating performance, we calculate return on capital (ROC) as unlevered profit divided by total capital.⁷ Unlevered profit is the profit a firm would earn if it had no leverage; or said

the voluminous 840-page 5th edition in 2010. The first edition of this book inspired us in business school, while the fourth edition was useful in the early days of Frontaura as we designed our company valuation model template. We simplified many of the book's ideas for a more pragmatic implementation, especially considering data limitations that exist in frontier markets. We also credit data-driven research practitioners such as Applied Financial Group (AFG), Credit Suisse HOLT, and LifeCycle Returns, for stimulating our thinking with regard to various aspects of our valuation approach.

⁷ We use ending capital in our denominator, so our ROC calculation is return on ending capital. Academics and most practitioners prefer return on average capital rather than ending capital. Their rationale, which we have no issue with, is that since a company earns the profit in the numerator of the calculation over an entire period, it's a better match to have the denominator use the average of beginning and ending capital for the period rather than just the ending value. We agree with this reasoning; nevertheless, we just use ending capital anyway. Why? We have found in practice that it is useful to have a conservative calculation where we maximize sensitivity to capital increases. A growing company that has a significant capital increase can permanently change its ROC outlook, potentially never revisiting its pre-capital-increase return level. Thus, we prefer to have the capital increase fully and immediately impact the return calculation, rather than to have a staggered effect over two years, as occurs



another way, if it were all equity financed (no debt, no preferred shares) with all subsidiaries owned 100%. Unlevered profit is profit after tax before paying any capital providers; that is, after-tax profit before interest payments, preferred and common shareholder cash dividends, and the allocation of profit to non-controlling shareholders of subsidiaries (minority interest). The denominator of our calculation, total capital, is the sum of common equity, preferred equity, non-controlling interests (minority interest), short and long-term debt, and any short and long-term debt equivalents (e.g. capital leases, retirement benefits).⁸

We prefer ROC to return on equity (ROE) because ROC is a better measure of a firm's underlying performance, independent of its capital structure. By accounting for all capital in a firm's capital structure, ROC is a steadier measure for firms with a changing capital structure mix (either increasing or decreasing amounts of debt). In good times, a firm can boost its ROE through leverage, a strategy that can come back to bite them when the inevitable cyclical downturn occurs. In contrast, changes within the capital structure do not change ROC. We should note that we are discussing non-financial firms here; we must treat financials, which are inherently highly levered, differently. For financials, we do use ROE rather than ROC. We still worry about highly leveraged financials, but we analyze this through separate risk calculations focused specifically on leverage. When we calculate statistics for the entire portfolio, we report ROE, weighted by position size, not ROC. This is because we can calculate ROE for all companies—both financials and non-financials—whereas we only calculate ROC for non-financials.

Reverting to the mean and fading. Our models employ two related concepts: business is cyclical and nothing lasts forever. Rather than project future profit from only the most recent year, we use up to 10 years of historical data. We assume the last decade may tell us more than about a company's future margins and ROC than the last year. The most recent year could be an economic peak, or it could be at the trough in the cycle (or anywhere in between). In any event, we think a 10-year average smoothes out these peaks and troughs and is a good base case predictor for how the company will fare in the aggregate over a full economic cycle. Clearly, there are exceptions to this—such as in a dying industry like newspaper publishing—so we make overrides to default projections when the situation calls for it.

Because nothing lasts forever, we don't assume the historical averages persist indefinitely, however. Competition intensifies, companies lose their way, and returns on capital tend to revert over time, either up or down, toward an industry-wide average cost of capital.

Combining these ideas, we tend to revert unlevered pretax margin and ROC from their value in the last reported year to the last-decade mean within three years, then slowly fade return on capital from the historical mean toward our discount rate. A company with its average ROC above our discount rate is earning a positive economic profit, but once ROC equals the discount rate, the company operates at a zero economic profit. Holding ROC

when using average capital. A side benefit is that pragmatically we find it much easier to work with a denominator based on a single value rather than an average of two values. By similar reasoning to what we wrote above, when calculating return on equity, we use ending equity not average equity.

⁸ To measure ROC purely, an item included in our capital denominator should have its corresponding payment or expense excluded from our profit numerator. For example, debt is in the denominator while we exclude interest expense from the numerator. This is trickiest with regard to debt equivalents. If we cannot identify the expense or payment related to the debt equivalent, we don't include the debt equivalent in capital.



equal to the discount rate is a modeling technique that can mitigate the large terminal value issue with which many discounted cash flow valuation models struggle. We do make some exceptions where we allow high average ROC companies to continue to earn a positive economic return indefinitely. Economic theory says this should not occur, but academic research shows there is some persistence to above-average returns on capital (think of leading consumer staples companies that have maintained brand leadership over decades). We also have forecasts where companies are perpetually below our discount rate.

Academic research is also clear that fast revenue growth has no long-term persistence. We calculate the ratio of a company's real (after removing inflation) revenue growth to RGDP, but for companies growing faster than the economy as a whole, we quickly fade this ratio to 1 within three years so the company grows at only the country's nominal GDP growth rate. We can customize this fade period to be longer or shorter by company. As circumstances dictate, we can also vary the ratio of real revenue growth to RGDP to values below 1, based upon our view of their long-term revenue growth potential. If the ratio equals 0, revenue only grows in line with inflation. In some cases, the ratio could be negative, implying the company is shrinking in real terms.

Forecast exchange rates from inflation differentials. Inflation hurts the value of companies in multiple ways. Working capital cycles tend to expand, reducing free cash flow. Nominal interest rates rise because of the inflation, increasing the discount rate used to value those free cash flows. Higher inflation countries should trade at lower PE ratios, all else equal. Thus, a fund that invests in companies in multiple countries should not directly compare valuation multiples and free cash flows reported in different local currencies. We find most investors know this, but make direct comparisons anyway. Investors tend to make a mental adjustment to expect a lower PE multiple in a higher inflation country, but having not done the math, they fall victim to the this-stock-seems-cheap-enough fallacy whenever the PE is in single digits. We recall that in the first half of 2008 when Sri Lanka was running 20% inflation, the only stocks we bought all had PEs below 5 at the time of first purchase. A seemingly cheap 6 or 7 PE often was too expensive for us in that country with that inflation rate.

Thus, investors with discounted cash flow models of companies in different currencies should translate the local currency free cash flows to common currency free cash flows (in our case the US dollar) using assumed future exchange rate values. We assume a currency appreciates or depreciates against the US dollar based upon the inflation differential between that country and the US. In other words, we assume the current exchange rate is correct, and through purchasing power parity (PPP) the exchange rate will move in the future as inflation rates in the two countries differ. In any given year, this PPP concept isn't particularly accurate, but over multiple years, it does a reasonably good job of explaining currency movements. This is consistent with our approach in forecasting company free cash flow—we aren't trying to nail a given year, but we try to be reasonably accurate over a full economic cycle. Twice per year, the IMF publishes inflation estimates for up to six future years for nearly every country in the world.⁹ Beyond this, we use a fade algorithm so that we can compute future exchange rates for years beyond the IMF projections. Here's an abbreviated example that shows the depreciation we project for the Sri Lankan rupee for the next three years, using the IMF's April 2013 inflation projections for Sri Lanka. The IMF projects Sri Lankan inflation during 2014-2016 to be 7.10%, 6.82%, and 6.04%. They

⁹ We monitor monthly inflation reports by country and may override the IMF estimates if actual inflation trends deviate materially from their projections. Further, the IMF itself may update its inflation estimates for a country on an ad-hoc basis between its semi-annual global updates.



estimate US inflation to be 1.71%, 1.88%, and 2.02% during these years. We calculate that the US dollar will appreciate against the Sri Lankan rupee by 5.30% in 2014, 4.85% in 2015, and 3.94% in 2016.¹⁰

Intrinsic value in practice. We use the concepts above in our discounted free cash flow models when we calculate a company's intrinsic value, which is the amount per share we think the company is worth. The intrinsic value is the maximum we would pay when buying a stock. Usually we buy at a discount to intrinsic value, but we would still earn an acceptable return buying at intrinsic value assuming our model is roughly correct. Other managers who use intrinsic value may calibrate their calculations differently. Some sell at intrinsic value or even before a stock price reaches intrinsic value. That we would buy at our estimate of intrinsic value while others would sell at their estimate of intrinsic value, does not say that we are buying more expensively (our trailing portfolio PE is only 6.3!) or that we expect a lesser return. Rather, our estimates of intrinsic value tend to be more conservative. Last quarter's letter discussed reasons why we sell. Most often the stock price is significantly higher than intrinsic value, either because the stock price rose or because fundamentals deteriorated such that we lowered our estimate of intrinsic value to well below the stock price. Last quarter's letter provides examples of the discounts we typically buy at, and the premiums we typically sell at.¹¹

The rigor of our valuation practices—evaluating return on capital using a company's entire capital structure, assuming mean reversion and fading returns over time, considering the magnitude of currency devaluation likely to occur due to inflation differentials, and not paying more than intrinsic value—give us a disciplined, replicable investment process. This process provides the margin of safety that has allowed us to perform much better than frontier equities as a whole.

Fund and management company news

Please e-mail us if you are interested in an end-of-quarter phone call or visit. Nick and Steve should be available throughout October.

Fund news. We remain closed to new investors and new commitments from existing investors. While we don't see this changing in the present environment, investment conditions can turn suddenly, so we continue to maintain and actively promote our waiting lists for existing investors and for new investors. Contact us if you want us to send you the one-page waitlist form. Upon receipt of a completed form, we'll add you to the respective waitlist. Should we open the fund again, we'll allow those on the waitlists to invest first, in the order they appear on the list, with preference given to existing investors.

Our Q2 letter mentioned the possibility of distributing cash to investors. With a permanent caveat that what we are about to say is subject to change as conditions or our opinion changes, here is our thinking as of this writing. Since Q2, our AUM is steady and our cash has declined. Thus, it is a low probability that we would announce a large distribution this calendar year. A modest distribution is more likely. We'd assign a 50% probability to that

¹⁰ US dollar appreciation = $(1 + \text{Sri Lankan inflation}) / (1 + \text{US inflation}) - 1$. For 2014 this is $1.0710 / 1.0171 - 1 = 1.0530 - 1 = .0530 = 5.30\%$. A less-precise approximation is Sri Lanka inflation - US inflation. That would yield $7.10\% - 1.71\% = 5.39\%$. We use the more precise formula in our work.

¹¹ See Figure 1 in http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2013Q2.pdf



now, although we caution that we will decide upon any distribution as future events in Q4 unfold, rather than by where we stand now, so there's a wide standard deviation on that 50% probability. If a distribution occurs, we'd likely declare it around year-end. The cash flow may happen within this year, but it may not occur until 2014 (even if we declare the distribution in Q4), depending on, among other things, the timing of dividend cash payments from our portfolio companies.

If we assume 0% investment return in Q4, we project we will finish 2013 with AUM of \$150 million. There is a significant incremental regulatory burden for us if we finish at or above \$150 million, as this is the threshold at which the SEC requires us to become a registered investment advisor (RIA). We believe the benefit to investors of our being registered is minor. Considering the ongoing compliance time burden, it's fair to say that in investment terminology—SEC registration is a negative NPV project. Nevertheless, we expect our investments to appreciate over the years, so unless the sum of distributions and withdrawals exceed appreciation, it's inevitable that we will finish some calendar year end above \$150 million and need to become an RIA. We are well placed to do this. Steve and Nick have brought a company public in the US and while that process is different than becoming an RIA, we nonetheless have extensive experience interacting with SEC regulators and regulations both during an initial registration process and thereafter. Registration has never been a hot button issue with our investors or prospects, however. Some of our investors who themselves are RIAs have advised us to avoid this red tape as long as we legally can. So if Frontaura's assets are just above \$150 million at year-end, a small tactical distribution may push off this overhead burden for an additional year.

Travel. Our Q3 travel schedule was seasonally light after heavy travel in the first six months of 2013. In Q3, we visited Cyprus, Ecuador, and Mongolia, with client visits in London. We also began our journey to Iraq for an investment conference the first week of October. We wrote about Ecuador in our August monthly comment¹², and Cyprus and Mongolia in our September comment¹³. We've not settled our frontier itinerary for Q4 yet, but it is likely we will visit East Coast clients in the New York and Boston area.

Reporting. Our administrator emailed Q3 statements on October 8.

CFAs. Finally, we congratulate Eric Dahl on becoming a Chartered Financial Analyst (CFA) charterholder. Eric joined Frontaura four years ago in October 2009. Our other two employees, Tom Egbert and Tim Raschuk, have passed all three levels of the CFA exam, and are eligible to become charterholders once they meet the work experience requirement.

We thank you for being a Frontaura client.

Best regards,

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¹² http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2013_08.pdf

¹³ http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2013_09.pdf



Appendix

Figure 3
Frontaura Global Frontier Fund LLC
Performance¹⁴
30 September 2013

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%
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	17%	20%	16%	- 4%	18%
Inception to Date	73%	24%	- 9%	- 15%	- 31%
ITD CAGR	9.7%	3.7%	- 1.6%	- 2.7%	- 6.1%

Figure 4
Frontaura Global Frontier Fund LLC
Monthly Performance
30 September 2013

	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%	2.4%	-4.4%	-1.3%	2.1%	1.4%	1.9%	2.6%	2.2%	4.3%	18.1%
2013	7.3%	1.9%	1.0%	1.8%	3.8%	-0.3%	2.6%	-2.1%	0.2%				17.2%

¹⁴ 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 5
Frontaura Global Frontier Fund LLC
Portfolio Mix and Statistics¹⁵
30 September 2013

Holdings Summary			
Country	Holding	Industry	Holding
Vietnam	13%	Banks	40%
Tanzania	10%	Consumer Staples	15%
Nigeria	9%	Industrials	12%
Iraq	6%	Consumer Discretionary	9%
USA (cash only)	6%	Telecommunication Services	8%
Ukraine	6%	Cash	7%
Zimbabwe	5%	Energy	5%
Sri Lanka	5%	Specialty Finance	2%
Serbia	3%	Materials	2%
Romania	3%	Diversified	1%
Pakistan	3%		
Cambodia	3%		
Senegal	3%		
Estonia	3%		
Lebanon	3%		
Montenegro	3%		
Botswana	2%		
Qatar	2%		
Papua New Guinea	2%		
Laos	2%		
Cote d'Ivoire	2%		
Rwanda	2%		
Kazakhstan	2%		
Oman	1%		
Ghana	1%		
Others	2%		

Portfolio Statistics	
Portfolio Price to Earnings	6.3
Portfolio Price to Book	1.1
Portfolio Dividend Yield	5.3%
Return on Ending Equity	22.2%

¹⁵ Portfolio valuation statistics use the most recent 12 months of reported fundamental data as of 30 September 2013. 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 this cash typically is in US dollars.



Figure 6a
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Dollar Return)
2013 Q3

5 Best Countries				5 Worst Countries			
Country	Frontaura Return (\$millions) ¹⁶	Frontaura Return (%)	MSCI Return ¹⁷	Country	Frontaura Return (\$millions)	Frontaura Return (%)	MSCI Return
Vietnam	2.3	13%	1%	Nigeria	- 2.4	-14%	3%
Tanzania	1.4	10%	--	Iraq	- 0.7	-7%	--
Romania	0.9	23%	19%	Sri Lanka	- 0.6	-8%	-9%
Cambodia	0.5	11%	--	Zimbabwe	- 0.4	-5%	-10%
Malawi	0.5	133%	--	Papua New Guinea	- 0.4	-11%	--

Figure 6b
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Percentage Return)
2013 Q3

5 Best Countries				5 Worst Countries			
Country	Frontaura Return (\$millions)	Frontaura Return (%)	MSCI Return	Country	Frontaura Return (\$millions)	Frontaura Return (%)	MSCI Return
Malawi	0.5	133%	--	Nigeria	- 2.4	-14%	3%
Mongolia	0.1	25%	--	Papua New Guinea	- 0.4	-11%	--
Ghana	0.2	24%	-1%	Rwanda	- 0.3	-10%	--
Romania	0.9	23%	19%	Cyprus	- 0.0	-10%	--
Cote d'Ivoire	0.4	22%	--	Oman	- 0.2	-10%	5%

¹⁶Frontaura country returns, in both dollars and percentages, are before management fees and incentive compensation. Returns are for stock positions only, and include exchange rate movements and transaction fees. The returns above do not include exchange rate movements on cash we hold in these countries. We calculate percentage return as (ending value + dividends + sale proceeds) / (beginning value + purchases) - 1, with each value stated in US dollars.

¹⁷ 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.



Figure 7
Frontaura Global Frontier Fund LLC
Significant Quarterly Country Mix Changes¹⁸
2013 Q3

Country	Percentage Point Change	Explanation
Sri Lanka	+4	Added new position
United Arab Emirates	- 3	Position exit

Figure 8
Frontaura Global Frontier Fund LLC
Portfolio Concentration¹⁹
30 September 2013

	Companies	Countries	Change from Prior Quarter	
			Companies	Countries
Positions	53	30	+2	+1
Top 5	23%	44%	--	- 1
Top 10	38%	64%	+1	+1
Top 20	62%	88%	+1	+2
Top 20 + USA (Cash)	68%	93%	-2	-1

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¹⁶ 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 5 footnote for a discussion of how we classify cash by country.

¹⁷ 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 5 footnote for a discussion of how we classify cash by country.