Quarterly Letter – 2013 Q4

Our Q4 letter is our report card issue, where we review mistakes of the past year and discuss process changes we've made, often in response to our errors. We'll depart from our usual convention, and dive straight into our main topic. After that discussion, we'll review 2013 performance results, then present some macro items that could affect 2014, before closing with fund and management company news, including a waitlist update.

2013 Report Card

As a reminder from past Q4 letters, we focus on process mistakes in this section, rather than simply explaining negative performance attribution. A process mistake doesn't always lead to negative performance, just as negative performance isn't always the result of a mistake. Nevertheless, over time, the fewer process mistakes we make, the better our performance should be. For this reason, we seek to identify and correct process mistakes that we recognized in 2013. The mistake itself may originate in an earlier year—we write about it once we recognize it. First we present what we did wrong, followed by improvements we made.

What we did wrong:

1. **Anticipating a turning point, but underestimating its magnitude.** Mid-year we were negotiating selling our sizable position in a blue chip company. The buyer's limit was at the market price, while we were seeking 5% more based upon on our intrinsic value driven selling rules. Neither side compromised, and the trade didn't happen. Had we conceded to their price, we would have forfeited $0.2 million. Later, the company's fundamentals deteriorated. We still hold the stock, but at year-end it traded around half the price we could have sold it at. We lost $2.2 million[1] since the would-be sale failed, in this our biggest mistake of 2013.

   As often occurs, it's easy to misdiagnose the root cause of the mistake. While this first appears to be a trading mistake—not selling when we could have—it's actually a research failure. You see, shortly before our near sale, we had met the company and it was clear to us its fortunes were sagging. We did lower our forward projections and our intrinsic value estimate, but by not nearly enough. Usually investors miss the turning point, but this time we actually saw a profit decline coming. We erred, however, by completely underestimating the magnitude of the fundamental change. By year-end, we cut our estimates a second and a third time, with our second revision repeating our original mistake of getting the magnitude wrong materially. In Q3, we again had a chance to sell (not at the mid-year price to be sure, but still above our sell point today). It's true that we could not have foreseen all of the bad news that befell the company in 2013, but we've been analyzing companies long enough to know that the first problem is rarely the last. Occasionally, a problem is one-and-done, but that's an exception and not the rule.

[1] Note that when we quantify the size of our mistakes in dollars, we often have to make speculative assumptions. We find this quantification exercise valuable, even if an occasional assumption is tenuous. All dollar estimates are before any management fees or incentive compensation. For perspective, we began 2013 with assets under management (AUM) of $117 million and we ended with AUM of $165 million.

In this case, we unwittingly modeled for the exception rather than the rule and we cost our investors over one percentage point in extra 2013 performance in this blunder.[2] The company's competitive position is such that we are willing to hold it at the current price as it works through a difficult time. But everything has its price, and there is a price—higher than the current price, but lower than what we could have realized mid-year and in Q3—where we would sell this company.

2. **Not buying a basket of stocks in Malawi.** In percentage terms, Malawi was our biggest country winner in 2013, up 160%. But in actual dollars, our gain is less impressive, only $0.5 million, reflecting the illiquidity of the position we held (we couldn't buy that much of it). A solution to a known issue of a market being small and hard to trade is to buy multiple stocks in the market. We considered and rejected this several times before and during the period we were accumulating shares. In hindsight, we were wrong. We speculate we might have made multiples of what we actually did had we taken a more flexible approach. We prefer to own fewer positions rather than more; to own the best company rather than a bunch. We made a deliberate exception to this in Iraq, where we have employed an outright basket strategy since 2009. In Vietnam, we have owned a large number of companies since 2011, presently 12, in part because each is small, although each met our investment test on its own merits.[3] In Malawi, we stuck to a single company, even though there were at least two others that met our criteria on their own merits. A Vietnam approach where we would have invested in all three of the Malawian stocks we liked would have made us more money. We didn't do this because we did not want to violate our self-imposed rule of having not much more than 50 positions, a rule we later cast off in Q4, realizing it had become a straightjacket and a barrier to making money. An Iraq approach where we would have bought the Malawian market through a basket of stocks would have made us more money still and probably would have been the best course. From this experience, we developed a set of rules on when to employ a basket strategy. We discuss these ideas further in the Baskets and Positions section below.

   Some background on Malawi is in order. We first visited the country in 2007, and we have been watching it closely since 2009 when we suspected its currency, the kwacha, would break its peg of 140.6 to the US dollar. We waited, and waited, and waited, not wanting to buy into the market until devaluation occurred, fearing it could be significant. We were right, but it took a long time. President Mutharika resisted devaluation until he died unexpectedly in April 2012. Devaluation came the following month, and it was breathtaking. From 167 at the end of April 2012, the kwacha fell to 269 a month later. Three months of calm belied further drops to come. By the end of September 2012, the currency was at 300; it then continued falling every month through April 2013, reaching a low of 416 on April 22. We first bought stock on April 17, 2013, sensing the market had become a great bargain on an intrinsic value and PE basis and in US dollar terms. The stock we bought was trading at 3.8 times trailing EPS with a 12.4% dividend yield and a 35% return on ending equity. In the year to April 22, 2013, the kwacha fell 60%, and many of the country's leading businesses were selling for less than $100 million. It was a textbook case of a devaluation/high inflation spiral that freezes foreign money flows

[2] Meaning that after-fee performance might have been at least 27% on a rounded basis instead of 26%.

[3] We have always counted each Vietnam holding as a separate position whereas we have always counted our Iraq basket as only one position.

and devastates company valuations and US dollar enterprise values. We anticipated it, we timed our entry nearly perfectly, we made a great IRR, but we made far too little money due to our rigidity in sticking to a single position. We should have realized—earlier instead of after the fact—that conditions dictated a bold approach of buying the market before others did. Because eventually others did, while we stuck to buying dribs and drabs of a single stock. The entire market lifted off its lows, doubling from April to November in US dollar terms. Despite our profit here, Malawi caused us more angst than any other situation in 2013. It's possible we have never been so right and profited so little from it.

3. **Knowing we need to trade aggressively, yet not doing it.** We've written in past letters about the need to trade aggressively. Here are two cases where we don't seem to have read our own memo.

    a. **Rwanda.** In November and December 2012, we observed that Bank of Kigali, which we owned, had languished in price for over one year, making it underweight in our portfolio. It wasn't quite at the price where our rules would tell us to buy more of it, but due to the time value of money, it would become cheap enough sometime in early 2013. A seller existed, something that is not always present. Knowing that a flood of new money often increases African stock prices come January, we should have bought ahead when we could rather than wait and risk that the seller went away or that the price increased. Someone else bought the shares. The stock had a US dollar total return of 79% in 2013 and we never bought more. We estimate that not buying in late 2012 cost us $0.9 million.
    b. **Ghana.** Ghana is a tough market to trade. Stocks are illiquid and prices tend to move in one direction for a long time due to supply/demand imbalances. Brokers actively moan about this market. In January 2013, we began buying shares of a company we thought to be severely undervalued. We used above-market limits, but below what we were willing to pay. That was a mistake, because when a seller did appear, another buyer outbid us. We tried to be too cute and keep a bit of the upside for ourselves with a limit price, but instead we missed large volume. Finally, in a fit of pique with the stock running away from us beyond our true limit, we dumped our still small position in one trade in February, booking a 17% profit. The story didn't end there, however. Our dump trade temporarily seemed to turn the market's greed to fear, and prices stopped rising. Noticing this surprising turn of events, we were able to re-enter the stock a month later, buying a position about three times the size of what we sold in February. In April, the stock price began to rise again, and for the year we made $0.4 million, or 42% on this company. Nevertheless, our good recovery aside, we could have made another $0.2 million had we traded more aggressively in January and bought the blocks where others outbid us. In effect, this was a $0.6 million mistake in 2013, saved in part by a $0.4 million recovery. But on an ongoing basis, we have a smaller position than we could have had, so if the stock performs as we expect, the cost of our mistake will compound in future years.

What we got better at:

Here are some things we think we do better than we used to. Many of these items represent changes we've made to try to avoid repeating our past missteps.

1. **Distinguishing quality and paying more for it.** Like many value investors, we're vulnerable to selling too early. We've observed this especially with some of our best franchises, often letting go of blue-chip consumer staples companies, only to watch them continue zooming upward. In 2013, we instituted a simple quality rating, rating each company we analyze an A, B, or C. Most are C's, some are B's, and only a few are A's. The rating is subjective and qualitative, but often obvious ("you know it when you see it"). A company with a consistently high return on capital, low leverage, predictable financial results, good corporate governance, low customer and supplier concentration, with a dominant market position, selling a recurring revenue product or service will be at least a B with strong consideration to be an A. A bank, which has an inherently leveraged business model, is never an A, and only occasionally a B. Our quality rating has nothing to do with valuation, nor is growth a prerequisite for high quality, although the absence of growth can diminish the quality rating. For higher quality companies, we require less of a discount to intrinsic value when buying, and more of a premium to intrinsic value when selling. For example, presently, we want a 30% discount to intrinsic value when buying, but we only require a 20% discount for quality B companies, and we will buy quality A companies right up to the point of intrinsic value. We change these percentages as market conditions and our cash level changes.

2. **Uncovering small gems.** After two years of good gains in frontier markets, we remain able to find mispricings, but it is more difficult, and more often the mispricings are in smaller, illiquid stocks. This turned into an unexpected theme in 2013. We had six new, small positions that posted double-digit percentage gains in 2013. Collectively, they contributed $1.8 million of profit on $3.0 million invested. Three of the six doubled, two of those in only a few months. The price gains did not surprise us—we thought the positions were that undervalued, and we expect this group to gain further. The immediacy of our payoff, though, was unexpected. If these small positions represent a profit source, but an ephemeral one, we need to detect these mispricings and act quickly on them. To that end, we've improved the automation of our intrinsic valuation modeling process that forecasts company fundamentals assuming historical averages revert to the mean. We now have automatically generated intrinsic values on over 3,000 companies. We can generate about 1,000 models per day using up to 10 years of historical data on returns on capital, unlevered pretax profit margins, tax rates, and the rate of real revenue growth to real GDP. This replicates but does not replace our manual modeling process. It's a starting point to screen large quantities of companies using a rigorous valuation approach. The problem is the data. More often than not, data errors lead to a misleading valuation. This is why we still hand comb and manually enter all data for companies we analyze in depth. If fundamental data for frontier companies were as clean as what exists for US companies, we might use our valuation screener to run a fundamentally based quantitative portfolio. Alas, data quality issues postpone that day well into the future for frontier markets.[4] Nevertheless, we have developed a good proprietary screening tool that we now use daily to generate research ideas. Finally, we are better able to implement these ideas now, as we discuss in the Baskets and Positions section below.

[4] We should mention there's also a benefit to poor data quality. While it's annoying and slows down our research, it affects and possibly misleads others as well, and it certainly creates a barrier to entry. If data were perfect and frontier markets priced more efficiently, we might find fewer opportunities to invest in, even though our valuation screener would be a more accurate and powerful tool.

3. **Honing our investment checklist process.** This is an example of how process improvement is a continuing goal that you never fully complete. Mistake 2 in our Q4 2011 letter (not refreshing our research on a familiar stock before buying) led us in early 2012 to create an investment checklist of routine things we must vet before buying a stock. In most situations we were doing all of the checklist items intuitively, but given the error in 2011, we wanted to be sure we didn't make an in-the-heat-of-the-moment oversight before placing a buy order. This checklist process evolved in 2013 from a self-administered analyst checklist to a checklist meeting of three or more people that ferrets out investment gotchas earlier in the research process. This approach now works reasonably well, with critical path issues identified earlier and ideas rejected before we expend too much research effort.

4. **Keeping a trading diary.** In 2013, we began keeping a portfolio management and trading diary to help us better anticipate and think through difficult allocation and trading decisions, so that we could more proactively anticipate events rather than respond reactively to the market. Writing about something causes you to think through a situation, giving you insight that allows for a better decision. Further, rereading what you wrote in the past helps you understand past decisions and allows you to identify where you were wrong.

5. **Not freezing up over past mistakes.** Human behavior can be such that once you realize you made a mistake, you block out anything to do with that issue because it's too painful to acknowledge your error. In investing, this could mean that failing to pull the trigger on a stock near its low makes you unwilling to buy it later if the price rises, even if it is still a good value. We identified a couple of situations in 2013 where ideally we should have bought more of a stock we already owned but for various reasons did not. Mistake 3a on Bank of Kigali is an example. In that case, the opportunity to buy did not linger. But in other cases it did, and recognizing our error of inaction, we swallowed our pride, and bought at a higher price because the stock remained undervalued. Two situations we have in mind, one in Romania, the other in Cote d'Ivoire, went on to perform well in 2013, ratifying our tardy purchase decision even if we flubbed buying as low as we could have.

Baskets and Positions

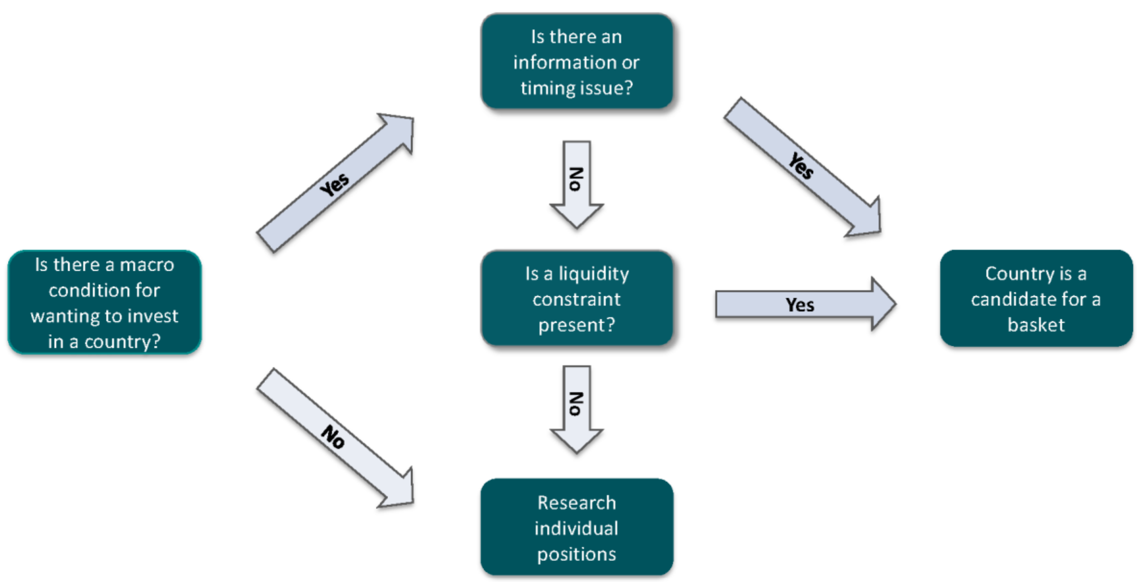
This section expands upon what we discussed above in our Malawi mistake and the uncovering small gems point. In turn, we discuss when we might use baskets and why we have become more relaxed about the number of positions we hold.

Baskets. In October, we verified to ourselves that baskets can have a useful role in frontier market portfolio construction and that we had erred in not using one in Malawi. The result of our evaluation was to develop guidelines to allow us to better recognize a basket situation. To date, we continue to have only one basket, Iraq, which we initiated in 2009.

A country merits basket consideration if several criteria are present. To begin, a macro condition for strongly wanting exposure to a country must exist. Examples include: a resource boom, a war ending, a favorable regime change, a significant crisis no longer worsening (the second derivative turns positive), significant disinflation (the inflation rate declining), FX rates stabilizing after a massive devaluation, market-wide cheap valuations, or the beginning of a credit boom. Several of these could happen concurrently. For example, when we invested in Iraq in 2009, each of the first five conditions existed. A war resulted in regime change in 2003; the trailing 12-month number of violent deaths from the post-war sectarian violence peaked in 2007 and dropped by over 80% through mid-2009 (the second derivative on a significant crisis was positive). Moreover, the country was on the verge of a resource boom as peace and sanctions removal allowed for increased oil production and exploration; and, finally, the average inflation rate dropped from 30%-50% 2005-2007 to 3% in 2008.

A macro condition by itself is not enough. To invest through a basket, there should be a macro condition accompanied either by an information issue or by a timing issue; or, if there is no information issue and no timing issue, then a liquidity constraint should be present. Before we define each of these terms, please refer to the flowchart in Figure 1 for visual depiction of this decision tree.

Figure 1
Frontaura Global Frontier Fund LLC
Basket Guidelines Flowchart
31 December 2013



An information issue could be that financial disclosure is poor, untimely, or not available in English, or that independent, third-party information sources are weak. This was the case in Iraq in 2009 and is still an issue today, although to a lesser degree. A timing issue means that there may not be enough time to do thorough company-by-company research without sacrificing significant price performance. We aim to be thorough, but as we've written before, there is a price to this. If you take six months to do your research and then buy individual companies, certainly you will have more confidence that you've picked the fundamentally best companies. But if the market doubled while you did your research, the opportunity cost of your effort was too high. We did not need to rush to invest in Iraq in 2009 due to the slowness with which perception about the country was changing and due to the immature state of the market. But when a quarter-century of civil war ended in Sri Lanka in 2009, there was no time to pick individual winners. The market rocketed upward, doubling in 2009 and again in 2010. Fortunately, we'd already invested significantly in individual stocks in 2008, so we participated fully in the post-war rally.

A liquidity constraint means simply that there is not enough float available to get the exposure you want through one or two individual positions. You may want to reject the country for this reason. But often positions will be homogeneous enough that a basket makes sense. Valuations could be so low that the vast majority of stocks will rise, as was the case with Sri Lanka in 2009 post-war or with Malawi in 2013 post-devaluation.

Positions. When Frontaura began in 2007 with $2 million, we desired a concentrated portfolio of 20-25 positions that we considered undervalued relative to our estimate of intrinsic value. As we grew, it was clear that either we'd need to relax our valuation discipline or our constraint on the number of positions. Our valuation discipline was more sacrosanct, so we allowed our positions to rise, first to 30, then 40, then 50. When we hit 51 positions in August 2011 (AUM $81 million), we decided that was enough and we vowed to keep our number of positions around 50 going forward. We did that for over two years despite assets doubling. Our positions ranged from 48-53 through November 2013. While this 50ish position limit has its merits, we decided belatedly in Q4 to abandon it. Not doing so sooner cost us some performance in 2013, and at times kept us on the sidelines when we should have been buying. A rule that demands pause and reflection before action can be beneficial. Mostly this was a good rule, but it had reached the end of its usefulness in 2013 once it began to restrict our profit or dictate that we sell positions we preferred to keep. Our jettisoning this rule does not portend a spike in our position count; rather, our positions may increase gradually. We finished 2013 with 55 positions. If we find good ideas that merit investment, we'll buy them. We closed the fund, so there is not position creep due to new inflows. Further, Frontaura now has five people whereas we only had four when we created the 50-position rule in 2011, and the experience level and research capabilities of our employees is much greater now than it was in 2011. Finally, we now have the automated valuation and screening advances mentioned earlier that allow us to monitor thousands of stocks. So, on balance, we think this is a positive change to make.

Performance review

We gained 7% in Q4 and 26% for 2013. For the year, among the indices we commonly cite, the S&P 500 did best, up 32%, followed by MSCI Frontier at 26%, MSCI EAFE at 23%, with MSCI Emerging in the basement, losing 3%. Our return is net of all fees and the index returns include dividends, net of withholding taxes. In Figure 2 in the Appendix, we show our results against these indices. We show our monthly performance history in Figure 3.

To be more precise, we gained 25.88% for the year and the MSCI Frontier Markets Index gained one basis point more, to finish at 25.89%! So our streak of beating the index each year since our inception has ended. This was a real Bush-Gore 2000 election back-and-forth drama with results not final until well after the year-end. When we left the office December 31, we thought we were Bush, but when the dust settled and our administrator e-mailed statements on January 9, we had morphed into Gore. After brief consideration, we've decided to stay clean-shaven, maintain our present body weight, and not start a global environmental movement and media career. We forsake a chance at a Nobel Peace Prize in our effort to make more money for our investors in 2014. These records of beating the index so many years in a row are fun to talk about, but they can focus on a kind of junk statistic. Bill Miller's Legg Mason Value Trust beat the S&P 500 for 15 years through 2005, but then came the financial crisis and he underperformed by an annualized 9 percentage points per year over the next 6 years. So maintaining excellent long-term returns and avoiding debilitating losses is what really matters. As such, we are happy with 25.88% in 2013 and hope that you are too. Recall that we don't pay attention to index weights. We note that in 2013 six of our 10 biggest country dollar winners as well as six of our 10 biggest country dollar losers are countries not in the MSCI Frontier Markets Index.

In the interest of shortening an already long letter, we eschew any discussion of portfolio mix, statistics, attribution, mix changes, or concentration. We show our usual comprehensive data on these items in Figures 4-8 in the Appendix.

2014 Outlook

Here are four macro items to watch as Frontaura enters 2014. First, if the S&P 500 PE and its profit margin both revert to the mean, total returns on the index will trail inflation over the next seven years, according to Jeremy Grantham's firm GMO. Frontaura can still perform well even if the S&P has mediocre returns, as our trailing, reported PE on December 31 is 6.8 to the S&P's 19.6. But if the S&P is routed severely enough, there is a point at which a selloff will begin to affect frontier markets and Frontaura. Second, if the increase in US government bond yields continues in 2014, will there be another period like the May 22-June 24 taper tantrum when global equities sold off (emerging markets fell 15%)? We lost less than 1% during the tantrum, but a longer, stronger selloff due to rising yields could affect us eventually. Third, is the European recovery for real? We note that while Western European markets are well off their 2011 lows, some Eastern European markets have not appreciated much over the past two years. This could be a source of return for us in 2014, if the recovery persists and these lagging equity markets rebound.[5] Finally, within our portfolio, will it be another year of multiple expansion like in 2013, or earnings growth like in 2012, or both, or neither?

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 January.

Fund news. We remain closed to all cash inflows from either existing or new investors and we continue to add investors to our waitlist. However, we have advance notice of a redemption and we are presently evaluating whether to fund this from existing cash or whether to allow some existing investors already on the waitlist to cover this redemption through additional investment. 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 waitlist. Should we open the fund again, we'll allow those on the waitlist to invest first, in the order they appear on the list, with preference given to existing investors.[6]

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[5] A question we've asked ourselves is whether we should continue to hedge euro, euro-pegged (e.g. the West African franc), and euro-correlated currencies (e.g. Romanian leu, Serbia dinar). We've done so since early 2010 not to speculate against the euro, but rather to simplify our decision making, so that we do not have to devote too much attention to potential crisis-driven currency movements in our portfolio decisions. For now, we've made no change and we continue to hedge, as it is cheap and easy for us to do so.

[6] More precisely, the sort order on our waitlist is presently: 1) existing investors before new investors; 2) those who have never redeemed before those who have (applies to existing investors only); 3) those who are investing in their existing account before those who want to invest from a different legal entity (applies to existing investors only); and 4) waitlist entry date, earliest first. We may change these criteria or apply additional rules as we see fit.

Our Q3 letter discussed a possible modest tactical cash distribution at the end of 2013. We did not do this. Such a distribution could have allowed us to push off the regulatory burden of SEC registration for another year if AUM was just over the $150 million registration threshold. We had the high-class problem of good returns in Q4 rendering this idea void. We will register with the SEC in 2014 and we have already begun this process.

We ended 2013 with a 5% cash balance. We remain open minded about returning cash to investors at some point, but for now this doesn't seem likely as we don't have much cash and we can still find stocks to buy. Our decision to be more flexible on the number of positions we hold has allowed us to implement some smaller ideas, reducing cash and lowering the medium-term likelihood of a distribution. Any distribution decision we make will depend on factors at the time—cash level, valuations in the market, our research pipeline, possible sale candidates, known and forecasted redemptions, time of year (Q2 is the strongest period annually for dividends), amount of time we've had an elevated cash position, and so forth. Of those who have voiced an opinion, we would characterize our investor base as neutral on the idea of distributions.

Travel. In Q4, Nick, Steve, and Tom visited Cote d'Ivoire, Georgia, Libya, Malta, Montenegro, Romania, Rwanda, Serbia, and Zimbabwe all for work, while Tim took a personal driving tour through his native Ukraine, as well as Belarus, Lithuania, Latvia, and Estonia. Nick visited most of our East Coast clients in December with stops in New York, Connecticut, Boston, and Florida, while many of our Chicago clients attended our 6th annual prediction lunch the week prior to Christmas. Country visits we've scheduled in Q1 and early Q2 so far include Ghana, Jamaica, Nigeria, and Ukraine.

Reporting. Our administrator emailed Q4 investor statements January 9. We expect our onshore audit to finish by mid-February and our offshore audit to be complete a few weeks later. We expect our administrator to e-mail K-1 tax forms to onshore investors in the first week of March. There are no material changes in these dates from past years. Please e-mail or call us if you have anything to discuss. We thank you for being a Frontaura client.

Best regards,

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Appendix

Figure 2
Frontaura Global Frontier Fund LLC
Performance[7]
31 December 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%
2013 Q4	7%	11%	6%	2%	7%
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%
Inception to Date	86%	37%	- 4%	- 13%	- 27%
ITD CAGR	10.6%	5.2%	- 0.6%	- 2.3%	- 4.9%

Figure 3
Frontaura Global Frontier Fund LLC
Monthly Performance
31 December 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%	3.1%	2.6%	1.6%	25.9%

[7] 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 4
Frontaura Global Frontier Fund LLC
Portfolio Mix and Statistics[8]
31 December 2013

Holdings Summary

Country	Holding
Vietnam	12%
Nigeria	11%
Tanzania	9%
Iraq	6%
Ukraine	6%
Sri Lanka	5%
Botswana	5%
USA (cash only)	4%
Zimbabwe	4%
Serbia	3%
Romania	3%
Pakistan	3%
Senegal	3%
Montenegro	3%
Lebanon	2%
Estonia	2%
Cambodia	2%
Rwanda	2%
Cote d'Ivoire	2%
Laos	2%
Kazakhstan	2%
Papua New Guinea	2%
Qatar	1%
Oman	1%
Mongolia	1%
Ecuador	1%
Ghana	1%
Others	1%

Industry	Holding
Financials	43%
Consumer Staples	16%
Industrials	12%
Consumer Discretionary	9%
Telecommunication Services	8%
Cash	5%
Energy	5%
Materials	2%

Portfolio Statistics

Portfolio Price to Earnings	6.8
Portfolio Price to Book	1.1
Portfolio Dividend Yield	4.8%
Return on Ending Equity	21.4%

[8] Portfolio valuation statistics use the most recent 12 months of reported fundamental data as of 31 December 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 5a
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Dollar Return)
2013 Q4

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)[9]	Frontaura Return (%)	MSCI Return[10]	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Tanzania	3.9	25%	--	Zimbabwe	- 0.6	-8%	8%
Nigeria	2.9	20%	10%	Papua New Guinea	- 0.4	-13%	--
Vietnam	1.2	6%	3%	Ghana	- 0.2	-18%	4%
Cambodia	1.1	25%	--	Laos	- 0.1	-3%	--
Iraq	1.1	11%	--	Malawi	- 0.0	-4%	--

Figure 5b
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Percentage Return)
2013 Q4

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Cyprus	0.3	91%	--	Ghana	- 0.2	-18%	4%
Mongolia	0.5	68%	--	Papua New Guinea	- 0.4	-13%	--
Rwanda	1.0	33%	--	Zimbabwe	- 0.6	-8%	8%
Cambodia	1.1	25%	--	Mozambique	- 0.0	-5%	--
Tanzania	3.9	25%	--	Malawi	- 0.0	-4%	--

[9] Frontaura 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.

[10] 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 6a
Frontaura Global Frontier Fund LLC
10 Best and Worst Performing Countries (Dollar Return)
2013

10 Best Countries				10 Worst Countries			
Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Tanzania	10.6	109%	--	Papua New Guinea	- 0.8	-22%	--
Vietnam	9.5	59%	7%	Ukraine	- 0.6	-6%	-16%
Nigeria	5.3	37%	29%	United Arab Emirates	- 0.4	-9%	90%
Cambodia	2.8	75%	--	Cyprus	- 0.2	-23%	--
Pakistan	2.2	46%	35%	Mozambique	- 0.0	-5%	--
Iraq	1.8	19%	--	Zambia	0.0	2%	--
Rwanda	1.8	79%	--	Laos	0.1	3%	--
Romania	1.7	45%	32%	Sri Lanka	0.2	2%	10%
Senegal	1.6	47%	--	Oman	0.2	10%	16%
Cote d'Ivoire	1.1	56%	--	Estonia	0.2	4%	12%

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

10 Best Countries				10 Worst Countries			
Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Malawi	0.5	160%	--	Cyprus	- 0.2	-23%	--
Tanzania	10.6	109%	--	Papua New Guinea	- 0.8	-22%	--
Kenya	0.3	93%	48%	United Arab Emirates	- 0.4	-9%	90%
Mongolia	0.5	87%	--	Ukraine	- 0.6	-6%	-16%
Rwanda	1.8	79%	--	Mozambique	- 0.0	-5%	--
Cambodia	2.8	75%	--	Sri Lanka	0.2	2%	10%
Vietnam	9.5	59%	7%	Zambia	0.0	2%	--
Cote d'Ivoire	1.1	56%	--	Botswana	0.2	3%	19%
Kazakhstan	1.1	55%	9%	Laos	0.1	3%	--
Senegal	1.6	47%	--	Estonia	0.2	4%	12%

Figure 7a
Frontaura Global Frontier Fund LLC
Significant Quarterly Country Mix Changes[11]
2013 Q4

Country	Percentage Point Change	Explanation
Botswana	+2	Added new position

Figure 7b
Frontaura Global Frontier Fund LLC
Significant Annual Country Mix Changes
2013

Country	Percentage Point Change	Explanation
Sri Lanka	+5	Re-entered country, adding two new positions
Montenegro	+2	Bought more shares of existing position
United Arab Emirates	- 4	Position exit at a loss
Qatar	- 4	Exited two positions, with a net long-term capital gain
Zimbabwe	- 2	Exited position, realizing long-term capital gain

Figure 8
Frontaura Global Frontier Fund LLC
Portfolio Concentration[12]
31 December 2013

	Companies	Countries	Change from Prior Quarter		Change from Prior Year	
			Companies	Countries	Companies	Countries
Positions	55	31	+2	+1	+5	+5
Top 5	23%	45%	- 1	+1	--	+1
Top 10	37%	65%	- 1	+2	- 1	- 2
Top 20	62%	89%	- 1	+1	--	- 1
Top 20 + USA (Cash)	66%	93%	- 2	--	- 2	- 3

[11] 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 4 footnote for a discussion of how we classify cash by country.

[12] 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 4 footnote for a discussion of how we classify cash by country.