Quarterly Letter – 2014 Q1

Frontaura treaded water in Q1, losing 0.6%. Three of the four global indices we cite also hugged the break-even performance mark in Q1. On a total returns basis, the S&P 500 gained 1.8%, MSCI EAFE advanced 0.7%, while MSCI Emerging Markets fell 1.4%. The exception was the MSCI Frontier Markets (FM) Index, which posted a 7.0% gain. See the performance tables in Figures 2 and 3 in the Appendix. We consider Q1 to be a lousy quarter for us, not just because of our underperformance relative to the FM Index—which is bound to happen on occasion, as we pay no attention to the index when constructing our portfolio—but also due to the poor earnings our companies reported for Q4. Let us first discuss performance by country and region, and then we will discuss Q4 earnings. We finish the letter with some news on portfolio companies and countries, and updates on the fund and management company.

Performance attribution

Country winners and losers. We held investments in 31 countries during the quarter—30 at quarter end. We made money in 15 countries in Q1.[1] Portfolio mix by country and sector appears in Figure 4. Figures 5a and 5b show the five best and worst performers in dollar and percentage terms, while Figures 6 and 7 show significant mix changes and portfolio concentration. For reference, we began Q1 with assets under management (AUM) of $165 million, and we had no inflows during the quarter, as the fund is closed. Our biggest country holding at 14% of the portfolio, Vietnam made $3.3 million; up 16% and our biggest dollar gainer. Vietnam continues to be a consistent winner for us after returning 30% in 2012 and 59% in 2013. As valuations have risen, we became a modest net seller in Vietnam beginning one year ago in April 2013, although our Vietnamese weight has held steady due to appreciation. Our second biggest country at 12% of the portfolio, Nigeria more than offset Vietnam's gains. Nigeria fell 16%, costing us $3.7 million. As prices fell in Nigeria, we initiated one new position and increased an existing position. The market did not immediately reward us for doing so. Ukraine was another big loser, dropping 24%, or $3.1 million. It was 6% of the portfolio at quarter end. As discussed in our March comment[2], we decided in early March that we would not buy or sell in Ukraine for one year, although we will assess this policy in six months. Pakistan and Rwanda each gained over one-third in Q1, making $1.7 million and $1.4 million, respectively.

Regional outcomes. Regionally, we did worst in Eurasia[3], which lost 22% or $3.8 million. In addition to Ukraine, Kazakhstan and Mongolia also suffered double-digit percentage losses of 20% and 15%, respectively, although our weight in each of these two countries was only 1% at quarter end. Kazakhstan devalued its currency, the tenge, in a surprise

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[1] All Frontaura country and regional returns presented in this section, in both dollars and percentages, are before management fees, fund expenses, and any incentive compensation. Returns are for stock positions only, and include exchange rate movements and transaction fees. The returns 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.

[2] http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2014_03.pdf

[3] We define Eurasia as Mongolia plus all of the countries of the former Soviet Union except for Russia, which is an emerging market not in our frontier universe, and the Baltics. We classify the Baltic countries of Estonia, Latvia, and Lithuania as Eastern Europe.

move in February, and stocks sold off sympathetically later that month and in March as conditions deteriorated in Ukraine and Russia annexed Crimea. In Mongolia, construction of phase 2 of Oyu Tolgoi, the huge copper and gold mine, remains stalled as the government and Rio Tinto still have not reached agreement. This further pressured the tugrik currency and our stocks. The next worst region was Eastern Europe, where we lost money in every country but Cyprus. Overall, Eastern Europe declined 5%, led by Estonia where we gave up $0.8 million or 20%. The company we hold there primarily sells to the former Soviet Union, and the weakening Russian economy, even before Crimea, has hurt its sales. We expect our holding to have a tough year in 2014 as we foresee Russia experiencing a recession. In Cyprus, we received identical opinions from both our custodian and a local attorney that capital controls introduced last year should not now affect us materially. Thus, in March 2014 we removed the 35% valuation discount for Cyprus that we implemented in March 2013. We now value our single position there at its last traded price. Removing this discount provided the bulk of our $0.4 million Q1 Cyprus gain. It's notable that the last traded price of our position has more than doubled from its September 30, 2013 low, as the stock market appears to be signaling that this country's misfortune has bottomed out. Our final regional loser was Sub-Saharan Africa, where we dropped $1.0 million, or just under 1.5%. We had seven country winners in this region and five country losers, but the winners did not contribute enough to offset the Nigeria loss.

GCC boosts FM. We made money in four regions: Southeast Asia, driven by Vietnam, gained $3.0 million, or 10%; South Asia gained $2.1 million, or 16%, primarily from Pakistan; Middle East/North Africa (MENA) rose $0.7 million or 4%, while we made a negligible 1% in Latin America. Despite our 4% MENA gain, that region was a major contributor to us underperforming the FM Index during Q1. The FM Index has around half its weight in Kuwait, United Arab Emirates (UAE), and Qatar. We've been below this weight throughout our history, even though at times Qatar was over 20% of our portfolio and UAE was over 10%. Today, Qatar is 1% for us and we have nothing in Kuwait or UAE. Most of our MENA exposure today is in Iraq, at 7% of our portfolio, which is not in the FM Index. We gained $0.3 million or 3% in Iraq, but we could not compete with FM Index gains of 25% in UAE, 15% in Qatar, and 11% in Kuwait. Surprisingly, the FM Index lost 1.6% in Q1 if you exclude the Gulf Cooperation Council (GCC) countries (Kuwait, UAE, and Qatar, plus the small markets of Oman and Bahrain).[4] We're not big fans of excluding so-called one-offs, having frequently observed the human tendency to exclude unusually bad things but not to exclude unusually good things. (Some humans have perfected this skill so well that society bestows special titles on them, such as chief executive officer or sell-side analyst.) So consider our mention here of the GCC's gains an observation and an explanation, but not an excuse. FM flat out beat us handily this quarter due to GCC, just as we beat FM handily for much of our history, sometimes because GCC did not do so well.

Our return lagged the FM Index by 7.6 percentage points, Frontaura's worst quarterly relative performance since our inception. In absolute value terms, however, this was only the sixth biggest divergence between our performance and the index (we beat the index in each of the five occurrences with a greater divergence). The median quarterly absolute value divergence between Frontaura and the FM Index is 4.2 percentage points, which shows how we don't try to track the index. We suspect, but cannot prove, that one reason

[4] Saudi Arabia is the largest GCC country, but it is not in the MSCI FM Index as it is not directly investable by foreigners. MSCI's GCC Index ex-Saudi Arabia had a total net return of 16% in Q1. Including Saudi Arabia, the MSCI GCC Index rose 13%, as Saudi Arabia advanced 11%. Note that on May 31, 2014, the UAE and Qatar graduate from the MSCI Frontier Markets Index to the MSCI Emerging Markets Index. Thus, if these two countries were to sell off after May following strong gains in 2013 and Q1 2014, it won't affect the FM Index.

the FM Index is doing so well now is that inflows are strong, with money flowing primarily to the most liquid stocks. In our 2013 Q3 letter six months ago, we wrote this could occur:

> *"…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. So money flows may take a while to trickle down to us and the index could outperform us as a result."*

Poor Earnings

For the fourth calendar quarter[5], our companies have released the worst year-over-year earnings per share (EPS) change in the 12 quarters we've tracked.[6] Through April 16, companies representing 91% of our portfolio reported, with our collective USD earnings dropping by 31% from the prior year's quarter in EPS terms. This result is nearly the mirror image of the 44% EPS gain we enjoyed one year earlier in 2012 Q4. Nevertheless, -31% is an embarrassingly bad outcome and one that we've spent considerable time analyzing to understand what happened. Here, at length, we discuss our findings.

It's clearest to speak in dollar terms. Our share of EPS from the companies we owned at year-end who have reported results was $6.5 million in Q4 2012 but only $4.5 million in Q4 2013, a $2.0 million drop. We analyzed the six companies with the largest EPS decline, collectively accounting for 113% of our EPS drop. This means that the EPS change of all other reporting companies, some of them showing increases and some of them showing decreases, netted to a small positive figure. When 2013 ended, the portfolio rank of these six big EPS decliners were 1 (our largest position), 2 (our second largest position), 7, 9, 15, and 22.[7] These six were 19% of our portfolio when 2013 ended, but they contributed 51% of 2012 Q4 earnings, the base period from which we compute 2013 Q4 EPS change.

Impact of low PE stocks and less frequent reporters. To understand the disproportionate influence of these six companies, recall two observations we made in our 2013 Q1 quarterly letter on how we calculate earnings growth. First, companies that report less frequently than quarterly will have greater weight in the quarterly profit pile when they do report. Our 9th largest position and our 15th largest position at year-end report only semi-annually, so their contribution is double most companies, magnifying the impact of their earnings drop. Second, low PE stocks have greater impact on earnings change because they have more dollars of profit per dollar we invest. To illustrate, suppose we have a $200 million portfolio with $100 million invested equally in two stocks. If one stock grew annual earnings 50% and the other had a 50% earnings drop, what is the change in earnings at the portfolio level? The intuitive answer—that earnings are unchanged—is only true when each stock in the portfolio trades at an identical PE. In other words, the intuitive answer is never correct in practice. If one stock traded on a trailing PE of 5, it contributed

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[5] We consider companies with period ends from the end of November through end of January to be fourth calendar quarter reporters. An example of a company that does not report during the fourth calendar quarter would be a company with a March fiscal year that reports semi-annually.

[6] See the 2013 Q1 quarterly letter for a detailed discussion of how we track and calculate year-over-year EPS change. Note our calculations use earnings on a per share basis (EPS) so that we properly account for share dilution. Nevertheless, our text here conversationally interchanges EPS and earnings for readability. Note that one could use the terms earnings, profit, profit after tax, and net income interchangeably throughout this section.

[7] The portfolio ranks of these stocks were different at the end of Q1, but we think it most relevant to refer to the ranks at the end of Q4, before they reported EPS.

$20 million to the prior-year earnings pile. If the other stock traded on a 20 PE, it contributed only $5 million, so the total prior-year earnings are $25 million. In the current year, assume the lower-PE company's earnings contribution dropped 50% from $20 million to $10 million, while the higher-PE contribution rose 50% from $5 million to $7.5 million. Thus, the total pile dropped from $25 million to $17.5 million, a 30% fall. For simplicity in this example, we assumed each company only reports once per year. Let's change this to assume that the higher-PE company reports quarterly and has a 50% gain each quarter. If the lower-PE company reports only semi-annually with EPS declining 50% each half year, then our Q4 earnings drop is 39%.[8] If the lower-PE company reports only annually, then our Q4 earnings drop reaches 44%.[9]

Figure 1
Frontaura Global Frontier Fund LLC
Portfolio Earnings per Share Growth[10]
16 April 2014

	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%	44%	18%
Constant Currency	27%	14%	8%	43%	22%
2013					
US Dollar	- 5%	- 2%	- 10%	- 31%	- 13%
Constant Currency	- 4%	- 2%	- 9%	- 29%	- 12%

These examples illustrate phenomena present in our Q4 earnings. Some of our low PE stocks had poor results and some of these companies report only semi-annually, magnifying the impact of poor results. This can work two ways, of course. If these same companies had good results, the same phenomena would give us impressive earnings gains. The takeaway is that our measured earnings growth can be more volatile, up or down, than one might expect. We note, for example, that 2012 Q4 EPS increased 44%[11], making it two consecutive Q4s where the absolute value of EPS change exceeded 30%.[12]

[8] The higher PE company has $1.25 million of quarterly earnings, growing to $1.875 million. The lower PE company has $10 million of semi-annual earnings, falling to $5 million. The fourth quarter earnings pile declines from $11.25 million to $6.875 million, a 39% drop.

[9] The higher PE company has $1.25 million of quarterly earnings, growing to $1.875 million. The lower PE company has $20 million of annual earnings, falling to $10 million. The fourth quarter earnings pile declines from $21.25 million to $11.875 million, a 44% drop.

[10] Q4 2013 and 2013 year-to-data data is 91% complete. Five companies have yet to report their fourth calendar quarter results.

[11] We reported 2012 Q4 EPS growth as 32% in both our 2013 Q1 and our 2013 Q3 letters. While writing this quarter's letter, we changed our thinking with regard to how to calculate the earnings change for one company that

We should also reiterate another point we've said before. Many prospective investors assume we have fast earnings growth given the underlying growth rates of many frontier economies. But we don't go looking for fast growers. We look for stocks that we consider undervalued after factoring in the most likely growth over a full economic cycle, assuming growth rates, margins, and returns on capital revert to the mean. Often, investors bid up valuations excessively because of past high growth that they expect to continue, but which ultimately does not. Since our models have a bias—a correct one we think—to assume growth decelerates, we are less likely to own growth stocks and more likely to own value stocks.[13] Thus, since we don't seek fast growers, we often have mediocre earnings growth. But this is not as bad as it seems. Low starting valuation is a more important determinate of future stock price performance than past growth rate. So we focus on the attribute that drives performance, even if we must explain unsatisfying earnings growth at times. With this approach, our fund has a portfolio PE of around 7, trading at book value, with a dividend yield just under 5%, and a weighted average return on ending equity of nearly 20%. We find these metrics attractive even if the portfolio sometimes lacks growth.

Company results. Let's turn back to the Q4 results by company. Our largest position saw Q4 earnings fall 169%, moving from positive to negative, and lowering our earnings pile by $0.9 million. Several issues were present. Most important, central bank regulatory changes that increased cash reserve requirements on some types of deposits restricted this bank's ability to make new loans, which lowered revenue and profitability. Our experience with banks is that there are numerous moving parts to a bank's income statement. As long-term global investors, we try not to get lost in the nuances of each moving part. Some changes cancel each other out; some changes are cyclical, meaning a particular line item may be down now, but might bounce back at a different point in the cycle; and some changes, while possibly structural, might only be an issue for a few quarters, before the bank figures out a way to compensate.[14] For example, if a regulatory change reduces a bank's net interest margin (NIM), the bank may raise non-interest fees in response. There may be a lag, but eventually profitability tends to return to the prior level before the NIM decline, even if the NIM itself does not revert to its prior level. We think this is the most likely outcome with regard to this bank, although we always acknowledge we could be wrong or it could take longer than we expect. Another issue for this bank in Q4 was an unexpected charge relating to NPLs it sold to the government bad bank in 2011 when the central bank was cleaning up the system following a 2008-2009 banking crisis. Most analysts would exclude

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recently switched accounting standards. Our new method increases comparability across multiple years. This greater comparability boosted 2012 Q4 earnings growth materially. This change in the base year, however, did make for a more difficult comparison in 2013 Q4. We do think our present method is the most accurate presentation of what occurred.

[12] We are aware that a 44% gain is not quite as good as a 31% loss is bad, although it is close, because cumulatively over the two years earnings have shrunk by almost 1%. The two-year return = ((1 + 0.44) * (1 – 0.31)) – 1 = (1.44 * 0.69) – 1 = 0.9936 – 1 = -0.0064 = -0.64%.

[13] This does not mean we never own growth stocks. Among our top dozen holdings at quarter end was a 15-PE stock where EPS grew 26% in 2013 to an all-time high, and a 36-PE stock where we forecast the company will grow unlevered profit 55% to an all-time high in its current fiscal year. These situations are not the norm for us but there are a few carefully considered instances where we will pay a higher multiple for a sustainable growth story.

[14] Also possible, however, is that a change is structural and compensating factors will not offset it fully, permanently reducing (or boosting) bank profitability and return on equity. For example, many US and European banks have or will likely experience a structural reduction in return on equity due to higher capital requirements and other regulation post financial crisis.

this item; as a rule, we do not. Even if we did, we would acknowledge that this company has a history of negative Q4 surprises. While each event by itself might be ignorable, the company's reporting history suggests it would be shortsighted for investors not to consider Q4 charges when assessing the steady-state profit level. Despite its flaws, as of April 16, we still find this company undervalued, trading at 0.4 times book, with a trailing PE of 7.5, even with its Q4 loss. Its indicated dividend yield is 7.0%, a payout we consider sustainable.

Our 2nd and 7th largest holdings at year-end saw EPS fall 40% and 52%, respectively, primarily due to difficult comparisons, reducing our earnings pile collectively by $0.7 million. Half the earnings fall for the 2nd largest holding would disappear if the tax rate were unchanged from the prior year, while a significant portion of the remainder was due to a provision release in the prior year that did not recur in 2013. Absent these two factors, this company did have some minor softness due to a higher cost/income ratio. Our 7th largest holding had its best quarter ever in 2012 Q4, boosted by other income that did not repeat in 2013. Operating income (before other income) was up slightly in 2013 Q4. For completeness, we note that while we did observe companies that had earnings gains due to easy comparisons, these added only added $0.3 million to our earnings pile, and thus offset the earnings reductions from tough comparisons only partially.

Finally, our 9th, 15th, and 22nd largest positions at year-end, all banks, suffered from increased provisions, reducing our earnings pile collectively by $0.6 million. We did not observe any banks that benefited significantly from provision releases in 2013 Q4. Two of the three with much higher provisions report only semi-annually, increasing the impact of the earnings drop, as discussed above. Collectively, this group trades on a below-average PE, again magnifying the earnings decline. While the provision figures of these three were greater than we expected, we were aware of the possibility of higher provisions. So the negative surprise was in the magnitude and not in the event. The stock prices of these three companies did not have an observable negative reaction to their earnings; collectively, they recorded a small gain for the quarter.

Despite a severe earnings drop, our weighted average company-level estimates of intrinsic value declined by only 2.5%.[15] That doesn't sound like much, although in an efficient market this would immediately reduce stock price values by 2.5%, meaning we might have gained 1.9% in Q1 instead of losing -0.6%, had our companies performed in line with our expectations.

Portfolio News

ETI update. In our 2013 Q3 letter, we discussed how the *Financial* Times was reporting on corporate governance issues at one of our holdings, the pan-African financial institution Ecobank Transnational Inc. (ETI). In that letter, we explained why we continued to hold the stock. We wrote back in October 2013:

> *"…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*

[15] This is an average, weighted by portfolio mix, of the percentage change in our estimate of intrinsic value per share (stated in the stock-trading currency) for all companies before and after they report earnings. Unlike our EPS change calculations, it is not a USD-based calculation of the total change in intrinsic value for our portfolio.

> *shares, have board representation already, and could force board, management, or policy changes."*

We are happy to report that the corporate governance matters have now been resolved successfully with both the board chair and the CEO replaced, and better practices implemented. We are satisfied with the outcome at ETI and think it represents a victory for improved governance in Africa. We believe our decision to not sell the shares because of the *FT* articles was correct. The articles themselves, while uncomfortable upon first reading, ultimately did play a positive role that should benefit ETI shareholders going forward.

ABC. Another multi-country African bank entered the news on March 31, when Bob Diamond, formerly CEO at Barclays, announced that his acquisition vehicle Atlas Mara was acquiring ABC Holdings, which operates as BancABC—ABC being a mnemonic for African Banking Corp. Frontaura owns 2.8% of ABC, which is dual-listed in Botswana and Zimbabwe, with operations also in Mozambique, Tanzania, and Zambia. The timing of the news was such that this deal had no performance impact in Q1. The acquisition, which does not yet have regulatory approval, is for a stated price of $0.82 per ABC share, payable in cash or Atlas Mara shares. While the deal is a nice signal of foreign interest in African banking, we are neutral on this transaction. The stated price is too low in our opinion, at only 1.3 times book value. Nonetheless, if the deal gets approval, Atlas Mara will control enough shares that the price is likely a *fait accompli*. Our average cost basis including commissions, fees, and FX costs is $0.59, and we would make around $1.6 million at the stated price. Beyond the low price/book takeout multiple, two other factors make our reaction lukewarm. First, the determination of the cash and share mix comprising the stated price is unclear. If it's our decision and we can choose all cash, then this issue disappears. We are not interested in holding London-listed Atlas Mara shares, as we believe the economic arrangement governing these shares favors Mr. Diamond over Atlas Mara shareholders. Second, unless there is a delay in regulatory approval, our gain will likely be short-term (less than one year), meaning that for US taxable investors the tax authorities benefit nearly as much from this deal as Frontaura's investors do. It is possible, however, that one might change the taxation from short-term to long-term by electing to take Atlas Mara shares temporarily instead of cash, and then selling the shares once the one-year holding period passes. At this point, we do not know if such a share exchange would be tax-free, or if a lock-up would restrict a subsequent share sale. Further, we do not find owning the shares desirable, as mentioned. Even so, odds are that we will have a modest performance gain from this deal.

Capital controls. Q1 brought both good and bad news in terms of capital controls. Most notable, as discussed earlier, currency controls in Cyprus should now not affect us materially. Negative capital control news emanated from Costa Rica, Ghana, and Ukraine, however. While this news has not had any effect on us to date, the trajectory of the capital controls news worldwide is negative, in that we observe more governments restricting capital flows than easing them. In Ghana, the central bank restricted certain types of transactions that convert local currency to USD. This curb does not apply to foreign portfolio investors like us. In Ukraine, the central bank introduced a six-day waiting period on transactions that convert local currency to USD. Unlike Ghana, this does apply to us, although we note that it is a delay, not a prohibition. The central bank has since reduced the six-day wait to five days, with an announced intent to reduce it further to four days. During the global financial crisis, Ukraine introduced a similar waiting period, and then eliminated it once the pressure on its currency subsided. The most onerous potential control we learned of recently from one of our brokers is in Costa Rica, a country where we have no investments. Our understanding is that a new law allows the central bank to specify a cash reserve on inward foreign investment of up to 25%, meaning that if you want to invest $1 million, you have to set aside up to $250,000 in Costa Rica in addition to your $1 million investment. Argentina has a similar 30% requirement, although there are ways around this, and Colombia had a requirement in its past, although it eliminated it before we invested there in 2009. Further, Costa Rica had an outbound tax, of up to 3%, that now can be up to 18%, at central bank discretion, applying to any outflow, including portfolio investment and foreign direct investment. Our understanding is that the central bank has not made any rulings with regard to this new law, but admittedly, we are not following Costa Rica closely. We have no plans to invest there, so one should not rely solely on what we say here. Nonetheless, this serves as a sobering example of the type of investor unfriendly policies that could affect us.

Fund and management company news

Please e-mail us if you are interested in an end-of-quarter phone call or visit. Nick is available April 21 through May 2. Steve is available through April 18 and April 28-May 1. Both are available again May 12 onward.

Waitlist success. Our waitlist proved its benefit in Q1, when we drew upon it to replace outgoing cash from redemption. All existing investors on the waitlist and a few new investors on the waitlist had the opportunity to invest on April 1. We satisfied the redemption fully without having to sell any stock. This helps keep taxes low for taxable investors and prevents any performance hit from transaction fees or market impact. We have since rebuilt our existing investor waitlist. We will handle future sizable redemptions in a similar manner, with waitlist investors allowed to invest in the order that they joined the waitlist, with existing investors given first priority.[16] 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.

AUM. We finished March with $160 million of assets under management (AUM), after subtracting the redemption. We began April with AUM of $165 million, after adding the redemption-replacing inflows. So while technically our AUM dropped by $5 million for a moment in time, in practical terms AUM remained constant at $165 million. For this reason, we calculated all of the portfolio mix percentages mentioned throughout this letter and shown in Figure 4 on a $165 million base rather than the $160 million figure.[17] With regard

[16] 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 with no increase in their 3(c)(1) look-through count before those who want to invest from a different legal entity or those with an increased 3(c)(1) look-through count (applies to existing investors only); and 4) waitlist entry date, earliest first. Further, we limit new investments such that no investor can increase their investment to 10% or more of our fund size. We may change these criteria or apply additional rules as we see fit, without prior notification.

[17] We managed the portfolio as if AUM stayed at $165 million, so we thought it most useful to show the mix statistics that we actually used internally. Going forward, we will continue to include any first-of-the-next-month inflows in our portfolio mix AUM base to the extent they offset end-of-month outflows. We will not include inflows beyond outflows in portfolio mix AUM base. That is we make a distinction between replacement inflows (included in the portfolio mix AUM base) and net new inflows (not included in the portfolio mix AUM base). Most recently, from December 2012 through February 2014, we calculated portfolio mix strictly on the end-of-month AUM. Before December 2012, we calculated AUM using AUM prior to the management fee, expenses, and any end-of-month outflows. This method dated from our inception when the management company was reinvesting the management fee in the fund and paying the fund's expenses. With time, we ended these practices; thus, this calculation method lost relevance, and we changed it belatedly in December 2012.

to cash, this means we show it at 5%, including April 1 inflows to the extent they offset March 31 outflows, rather than at 2%, which was the cash percentage after the March 31 outflows but before the April 1 replacement inflows.

Travel. In Q1, Nick, Steve, Tim, and Tom visited Argentina, Ghana, Jamaica, Moldova, Mongolia, and Nigeria between them. In Q2, we have already visited Ukraine, and we have trips planned to Argentina, Papua New Guinea, Vietnam, and Zimbabwe. We may add other countries.

Reporting. Our onshore audit finished January 31 and our offshore audit completed February 24, with our administrator e-mailing the appropriate audited financials to all investors. Our administrator also e-mailed K-1 tax forms to onshore investors on February 28 and Q1 statements to all investors on April 8-9.

We remain on track to register with the SEC in Q2 as an investment advisor. The SEC requires us to do this because AUM exceeded $150 million at year-end.

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
Quarterly and Annual Performance and Index Returns[18]
31 March 2014

Period	Frontaura	S&P 500	MSCI EAFE	MSCI Emerging	MSCI Frontier
2014 Q1	- 1%	2%	1%	- 1%	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	85%	39%	- 3%	- 14%	- 21%
ITD CAGR	10.1%	5.3%	- 0.5%	- 2.4%	- 3.7%

Figure 3
Frontaura Global Frontier Fund LLC
Monthly Performance
31 March 2014

	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%
2014	0.8%	-0.4%	-1.0%										-0.6%

[18] 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 for a US investor.

Figure 4
Frontaura Global Frontier Fund LLC
Portfolio Mix and Statistics[19]
31 March 2014

Holdings Summary

Country	Holding
Vietnam	14%
Nigeria	12%
Tanzania	9%
Iraq	7%
Ukraine	6%
Sri Lanka	5%
Botswana	5%
USA (cash only)	4%
Pakistan	4%
Rwanda	3%
Romania	3%
Montenegro	3%
Serbia	3%
Zimbabwe	3%
Lebanon	3%
Cote d'Ivoire	2%
Estonia	2%
Laos	2%
Papua New Guinea	1%
Cambodia	1%
Kazakhstan	1%
Oman	1%
Qatar	1%
Ecuador	1%
Ghana	1%
Mongolia	1%
Cyprus	1%
Others	1%

Industry	Holding
Financials	47%
Consumer Staples	16%
Industrials	12%
Consumer Discretionary	8%
Energy	5%
Cash	5%
Telecommunication Services	4%
Materials	2%

Portfolio Statistics

Portfolio Price to Earnings	6.8
Portfolio Price to Book	1.0
Portfolio Dividend Yield	4.7%
Return on Ending Equity	19.6%

[19] Portfolio valuation statistics use the most recent 12 months of reported fundamental data as of 31 March 2014. 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 include in the US total any euros or other currencies we hold in countries outside of our investment universe. These other currency amounts are often immaterial. We include all other cash we hold outside the US in that country's total, regardless of currency. For example, we include all prefunding cash in Vietnam in the Vietnam total, even though we hold this cash in US dollars typically.

We include in our cash total and AUM base any first-of-the-next-month cash inflows, but only to the extent they offset end-of-the-month cash outflows. For example, assume we have cash outflows of $5 million on December 31, reducing cash to $10 million and AUM to $160 million, and cash inflows of $6 million on January 1, increasing cash to $16 million and AUM to $166 million. In this case, our AUM base for calculating December mix would be $165 million, including cash of $15 million. These amounts are identical to the AUM and cash figures before the cash outflow occurred. Since first-of-the-next-month inflows replace the outflows immediately, we use these numbers internally for portfolio management.

Figure 5a
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Dollar Return)
2014 Q1

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)[20]	Frontaura Return (%)	MSCI Return[21]	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Vietnam	3.3	16%	16%	Nigeria	- 3.7	-16%	-14%
Pakistan	1.7	36%	7%	Ukraine	- 3.1	-24%	-5%
Rwanda	1.4	35%	--	Estonia	- 0.8	-20%	-9%
Senegal	0.5	10%	--	Kazakhstan	- 0.6	-20%	-14%
Cote d'Ivoire	0.5	14%	--	Serbia	- 0.3	-6%	-4%

Figure 5b
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Percentage Return)
2014 Q1

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Cyprus	0.4	81%	--	Ukraine	- 3.1	-24%	-5%
Pakistan	1.7	36%	7%	Estonia	- 0.8	-20%	-9%
Rwanda	1.4	35%	--	Kazakhstan	- 0.6	-20%	-14%
Oman	0.4	25%	3%	Nigeria	- 3.7	-16%	-14%
Kenya	0.1	21%	3%	Mongolia	- 0.2	-15%	--

[20]Frontaura country returns, in both dollars and percentages, are before management fees, fund expenses, and any incentive compensation. Returns are for stock positions only, and include exchange rate movements and transaction fees. The returns 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.

[21] 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 6
Frontaura Global Frontier Fund LLC
Significant Quarterly Country Mix Changes[22]
2014 Q1

Country	Percentage Point Change	Explanation
Senegal	-3	Exited position, realizing long-term capital gain

Figure 7
Frontaura Global Frontier Fund LLC
Portfolio Concentration[23]
2014 Q1

	Companies	Countries	Change from 2013 Q4		Change from 2013 Q1	
			Companies	Countries	Companies	Countries
Positions	55	30	--	-1	+3	+3
Top 5	23%	47%	--	+2	+1	+2
Top 10	38%	68%	+1	+3	+2	+3
Top 20	62%	90%	+1	+1	+2	+3
Top 20 + USA (Cash)	66%	94%	+1	+1	-3	-2

[22] 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.

[23] We do not include the US in our country count and most of the percentage totals as we hold only cash there. Change from the prior quarter and the year ago quarter represent the change in the number of positions and the change in percentage points for the top 5, 10, and 20 positions. The Top 20 + USA 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.