Quarterly Letter – 2015 Q2

We devote our Q2 letter each year to reviewing our position exits over the prior twelve months. After that discussion, we'll briefly review Q2 performance results, and then close with fund and management company news. Jumping ahead to fund news, though, on July 6, we re-opened Frontaura to both new and existing investors. We accept investments monthly, with the next time to invest being 1 August 2015. This applies to Frontaura Global Frontier Fund LLC and to its offshore feeder fund, Frontaura Global Frontier Fund Offshore Limited. The investment minimum for new investors is $1 million; however, existing investors may make additional investments in any amount $10,000 or more. See the last section of this letter for more information.

What We Sold

It is our policy to disclose all position exits annually, regardless of the performance of the closed position. Figure 1 on the next page shows 18 position exits from July 2014 to June 2015. We describe each in chronological order below, but let us begin with some summary observations. First, we exited more positions in the past year than prior years—18 versus 8 a year earlier, and 11 two years ago. Second, while winners outnumbered losers 10-8, it was a closer contest than the two prior years when winners outpaced losers by a combined 16-3. This is in line with performance. The twelve months ending June 2013 and June 2014 each had double-digit percentage gains while the most recent twelve months showed a loss. In total, we lost $0.5 million on the past year's 18 exits. Third, we exited several notable losers that we've discussed previously—Ukraine, other Eastern Europe stocks in Estonia and Cyprus, and Iraq, where a big market selloff in 2014 turned a previous winner into a small loser. These collectively accounted for seven of our eight loss-making exits, with the remaining loser being just under break-even. Fourth, while the text below often cites the price/earnings (PE) ratio as a shorthand valuation measure that most people are familiar with, internally we rely more on the relationship of a stock price to our estimate of intrinsic value, looking to buy stocks at a discount to intrinsic value and sell them at a significant premium to intrinsic value. Figure 1 shows the discount or premium to intrinsic value at the time of first buy and last sale. Finally, we remind you that all returns we cite on individual stocks are before management fees, fund expenses, and incentive compensation, as those deductions occur at the fund level and not at the individual stock level.[1]

Agricultural Printing & Packaging (Vietnam)

Right after we began buying this small company, its price shot up beyond our intrinsic value-determined buy point and never returned. We sold the next month with an immaterial dollar gain, 22% above our cost.

African Banking Corp. (Botswana)

We held this position for less than a year, but that was not by choice. Atlas Mara acquired BancABC for 39% more than we paid, not long after our purchase, yielding a $1.7 million

[1] Click this link for an explanation of how we calculate performance for individual stocks: http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2015_07_10.pdf.

profit. This is the sixth position exit due to acquisition in our seven-year history. We made a collective 49% IRR on these six deals, but in four, including this one, we considered the acquisition price too low. Nonetheless, there was little we could do as in all of these cases, either the majority owner was taking out minority holders, or the acquirer had locked up a majority of votes in favor of the deal.

Figure 1
Frontaura Global Frontier Fund LLC
Position Exits July 2014 – June 2015[2]

Company	Country	Description	Exit Reason	First Buy	Last Sell	Cost ($000K)	Profit ($000K)	Return Multiple	IRR	Holding Period (Years)	Price / IV First Buy	Price / IV Last Sell	PE Buy Date	PE Sell Date
Agriculture Printing & Packaging	Vietnam	printing	size	06-Jun-14	02-Jul-14	55	12	1.22	43.5%	0.1	-32%	-6%	4.8	6.0
African Banking Corp.	Boswana	bank	acquisition	20-Dec-13	13-Aug-14	4,306	1,661	1.39	39.2%	0.6	-46%	-19%	5.4	9.1
Motor Sich	Ukraine	helicopter engines	country	11-May-12	06-Oct-14	5,452	(2,076)	0.62	-24.7%	2.4	-25%	-41%	2.9	2.3
Indus Motor	Pakistan	Toyota vehicle assembly	valuation	29-Oct-10	17-Oct-14	2,877	4,199	2.46	31.0%	4.0	-17%	80%	5.6	15.9
Swissport	Tanzania	airport services	valuation	17-Jun-08	23-Oct-14	328	1,794	6.47	44.4%	6.4	-51%	84%	6.9	20.5
Krukivsky Carriage Works	Ukraine	rail car production	country	05-Feb-13	01-Dec-14	1,242	(828)	0.33	-65.2%	1.8	-29%	37%	3.5	3.6
Avangard equity	Ukraine	eggs	country	04-Apr-12	16-Jan-15	7,454	(4,412)	0.41	-49.9%	2.8	-26%	16%	3.8	1.7
Avangard debt	Ukraine	eggs	country	06-Nov-14	13-Feb-15	2,223	(1,094)	0.51	-50.4%	0.3	na	na	na	na
Iraq basket	Iraq	banks, mobile phone network, soft drinks, industrials	country	21-Sep-09	26-Feb-15	8,836	(508)	0.94	-2.8%	5.6	na	na	na	na
Silvano Fashion Group	Estonia	lingerie	country	10-Aug-11	26-Feb-15	5,170	(2,143)	0.59	-21.0%	3.6	-23%	5%	4.3	5.3
International Breweries	Nigeria	beer	fundamentals	05-Sep-12	03-Mar-15	2,370	729	1.31	11.8%	2.5	-64%	94%	21.5	36.9
Construction Investment Corp.	Vietnam	construction materials	fundamentals	04-Jun-14	06-Apr-15	833	(20)	0.98	-3.0%	0.8	-38%	56%	4.4	5.2
FHL I Kiriakidis Marbles & Granites	Greece	marble quarries	size	29-Dec-14	07-Apr-15	25	9	1.34	35.0%	0.3	-50%	-17%	2.8	6.0
Doan Xa Port	Vietnam	port operator	fundamentals	14-Jan-11	16-Apr-15	658	370	1.56	13.5%	4.3	-55%	61%	3.9	8.6
CNG Vietnam	Vietnam	compressed natural gas	fundamentals	16-Jan-13	17-Apr-15	1,444	898	1.62	29.1%	2.3	-26%	1%	5.7	8.4
Kcell	Kazakhstan	mobile phone network	fundamentals	12-Dec-12	28-Apr-15	5,428	309	1.06	6.3%	2.4	5%	87%	5.3	5.4
Dimco	Cyprus	lighting	size	26-Mar-10	29-May-15	1,673	(1,128)	0.33	-21.9%	5.2	-48%	-39%	5.6	16.8
Ecobank Transnational	Nigeria	bank	valuation	23-Apr-12	18-Jun-15	3,410	1,760	1.52	17.2%	3.2	-28%	76%	5.1	6.2

[2] Here are definitions for the Figure 1 columns. Exit Reason is a standardized reason why we sold a stock. See pages 3-4 in http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2014Q2.pdf for an explanation of the reasons. First Buy and Last Sell are the dates we first bought a stock and the day we last sold a stock. Buys subsequent to the first date we show could continue for months or years; likewise, sells could precede the last date we show for months or years. Cost is the USD sum of all buys including commissions, trading fees, and foreign exchange costs (FX); Profit is the total USD sale and dividend proceeds, net of all commissions, trading fees, FX, and tax withholding, minus the Cost. Return Multiple is Profit / Cost + 1. IRR is the internal rate of return on all USD cash inflows and outflows in the Profit calculation. Holding Period is the number of years between the First Buy and the Last Sale dates. We annualize the IRR, except for when the Holding Period is less than one year. Note that the Cost, Profit, Return Multiple, and IRR figures are before any management fees, fund expenses, or incentive compensation, as those deductions occur at the fund level and not at the individual stock level. Price / IV First Buy and Price / IV Last Sell show the discount or premium the stock price traded at relative to our estimate of intrinsic value on the First Buy or Last Sell date. A negative percentage indicates a discount to intrinsic value; a positive percentage indicates a premium. PE Buy Date and PE Sell Date show the trailing reported PE using the closing price (not our actual transaction price) on the day of First Buy and Last Sell.

Motor Sich (Ukraine)

Motor Sich is a Soviet-era maker of helicopter and aircraft engines for both military and civilian uses. It sells primarily to governments, including Russia, Ukraine, China, and numerous others. Contrary to what you might expect, its fundamentals have held up fine throughout the conflict between Ukraine and Russia and the stock price has done okay in local currency terms. We actually made money in hryvnia over 2.4 years. But the devaluation of the hryvnia meant that for every dollar we invested in Motor Sich, we ended up with only 62 cents. In late August 2014, we decided to reduce our Ukraine country exposure,[3] and we began selling Motor Sich, finishing in early October. We feared that the company's cozy relationship with Russia was vulnerable due to a change in mood from either the Russian government (who might no longer want to purchase military hardware from a Ukrainian company) or the Ukrainian government (who might prohibit sales to Russia). Neither has happened so far, but the ongoing devaluation made us glad we exited. In USD terms, the stock is down 27% from our last sale on 6 October 2014 through 10 July 2015. At one point, when the currency was at its all-time low in February 2015, the stock was down over 50% in dollars.

Indus Motor (Pakistan)

Both Indus and Swissport, which we discuss next, are textbook examples of what we look for. Indus assembles Toyota cars in Pakistan. We bought it during a cyclical low at a PE less than 6 and a price 17% below our intrinsic value estimate. We sold it four years later during a cyclical upswing on a 16 PE at a price 80% above our intrinsic value. We made a 31% IRR in those four years, with a $4.2 million profit, 2.5 times our cash invested. While we have no regrets since we followed our process, we note the stock has had a further 64% USD total return since we sold through July 10 as the company's cyclical strength continues.

Swissport (Tanzania)

Swissport is the largest provider of ground handling and other airport services in Tanzania. It had numerous positive attributes: it was a cheap stock in a neglected market, with a multinational parent, a secular growth story, a high return on capital, and a generous dividend payout. We held it for 6.4 years, watched the PE increase from 7 to 21 on growing EPS. We realized proceeds that were 6.5 times our original investment, the highest return multiple we have achieved on an exited position in our history. One regret: when we first bought this position, we did not take the entire block available, limiting our position size to 2.5% of the fund. Shares in this illiquid name were hard to come by and we should have allowed a larger initial weight, knowing that we could never be sure when we'd be able to buy more. Only in the aftermath of the financial crisis could we buy more, but by then our AUM was bigger, so we were never able to get Swissport up to its target weight in our portfolio, despite its strong appreciation. Our realized profit was $1.8 million on a $0.3 million investment. It's also worth noting that three years after we first bought, our total return was about flat, despite earnings growing. We saw no reason to sell; we considered the stock to be an even bigger bargain than at the time of purchase. We stuck with it and eventually reaped the benefit of our patience.

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[3] We discuss this decision and review our Ukraine experience through 2014 in our Q4 2014 quarterly letter. See pages 2-4 in http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2014Q4.pdf.

Krukivsky Carriage Works (Ukraine)

The best thing we can say about this investment is fortunately it was never that big. We lost $0.8 million in just under two years. We bought at a 3.5 PE and sold at around that same multiple but on a much lower earnings figure. The massive devaluation in the hryvnia compounded our local currency stock price loss, resulting in us losing two-thirds of every dollar invested. Krukivsky makes passenger and freight railcars, obviously a cyclical business. Ukraine's troubles that began last year meant the Ukrainian government had little money for new railcar purchases. Further, most of Krukivsky's sales were to Russia, who stopped buying for political reasons. This ultimately pushed Krukivsky into a loss for all of 2014. When we decided in late August 2014 to lower our Ukraine exposure, it was a no-brainer to dump Krukivsky. From our first buy through our last sale, our intrinsic value estimate for Krukivsky plummeted 79%. Through 10 July 2015, the USD value of the stock is down a further 40% from our last sale in December 2014.

Avangard (Ukraine)

Avangard traded at a 3.8 PE when we first bought it in 2012. It was the world's second biggest egg producer and the only one in the top 10 outside of North America. We knew there were some questionable governance issues with it, but it was so cheap for a frontier consumer stock that it compelled us to purchase it. Russia's invasion of Crimea and Eastern Ukraine in 2014 has put this company's future in question. People will always eat eggs, but you won't sell all you once did if your production facilities are in a war zone. The real killer for Avangard, however, was the collapse of the Ukraine currency, which dropped from 8 to the dollar to 22 to the dollar presently (having spiked to 34 to the dollar at one point). This caused Avangard's USD debt to balloon from what appeared to be a modest level to a level where a restructuring is necessary, making the value of the equity, if any, unclear. This illustrates well why we prefer companies with little to no debt. When something unfathomable happens, the presence of debt can unexpectedly turn a healthy company into a sick or dying one more quickly than you would have thought possible.

In November 2014, we had reduced our Ukraine exposure to around 1.6%. We'd sold all our Motor Sich shares, we'd made substantial reductions in both Avangard and Krukivsky, and we were determined to sell all of the latter. As we discussed in our Q4 letter on mistakes, we should have exited the country then, but we hesitated without clear direction. We still, mistakenly, had not yet given up altogether on the country and a consumer staple stock like Avangard. Further, we observed then that Avangard's debt was trading at a level that seemed to offer better risk/reward and better downside protection than its equity. We thought a 2.5% weighting for the country justifiable, well down from the 7.5% Ukraine exposure we had in January 2014. Thus, we made a small investment, 1% of the fund, in Avangard's debt. Events so far have proven out our observation about the relative attractiveness of Avangard's debt to its equity, but this hardly mattered. You see, we continued to overestimate the enterprise value of Avangard greatly. We underestimated how much the currency might collapse (it was around 14 then). Ultimately, currency weakness pushed Avangard into a debt distress situation that crushed the company's enterprise value, making both Avangard's debt and its equity overvalued. We lost big on the debt, and from that point, even bigger on the equity. We should have avoided all securities from this company.

Over not quite three years, we managed to lose $4.4 million on Avangard equity, by far the biggest dollar loser in our history. For every dollar we put in, we got out only 41 cents. Our last sale of Avangard set the all-time low in the stock to that point, and to spite us, the stock more than doubled in the next month. It's since dropped 73% and on July 10, it was 40% below our last sale.

We lost an additional $1.1 million on the debt, getting back only 51 cents for every dollar invested. We accomplished this shameful loss in only three months.

Iraq basket

In 2009, we invested in a basket of stocks in Iraq on a simple thesis of misperception and opportunity. People misperceived that the sectarian clashes of 2006-2007 were still raging, but by mid-2009 the violent death rate had actually dropped over 80% from its 2007 peak. The opportunity was that the country had one of the world's largest oil reserves, even with no serious new oil exploration since the 1970s. We weren't counting on Iraq's political leadership to be brilliant. If the country could just stop its nearly three-decade cycle of war and sanctions, we thought its oil wealth and recovery potential would be enough to make a good return in an overlooked investment destination. We thought there was about a two in three chance events would prove us right. In the end, we got the one in three outcome.

Through 2013, things were going according to plan. Iraq's political leadership wasn't good, yet we were up $3.1 million, with a respectable 18% IRR. We were aware of the Islamic State, but like almost everyone, we underestimated its potential to wreak havoc in Iraq. We began selling everything we owned on 12 June 2014 without regard to price impact, two days after the capture of Mosul. We completed over two-thirds of our selling that month, and most of the rest in July 2015, such that our Iraq weight was under 1%. Exiting Iraq had a long tail, due to the Iraqi market custom of suspending individual stocks for months at a time when corporate actions like stock splits and rights offerings occur. Due to this, we were only able to complete our exit in February 2015. All told, we lost $0.5 million, or 6% of the cash we invested over five years. Our losses in 2014 were substantial though, at $3.4 million. We're glad we got most of our money out when we did. From the end of July 2014 through its March 2015 low, the Rabee Securities Index fell a further 38% in dollar terms. The market has rallied significantly since then, but the USD index remains 7% below its July 2014 ending level.

In our Q4 2014 letter, we discussed at length the mistakes we made in Iraq.[4] As detailed there, we think these missteps cost us about $1.0 million. Most significant, was letting our position weight climb to 7%—we should have limited it to 5%. We think our original thesis was valid; we just got the bad outcome we knew was possible.

Silvano Fashion Group (Estonia)

We wrote a page in our Q4 2014 letter about this company,[5] and briefly noted in our Q1 letter that we sold the position. There's not more we have to say, so we'll lick our wounds and tally our losses. We lost $2.1 million on Silvano, or 41 cents out of every dollar we invested. We don't regret the investment per se—it has a great market position in basic women's lingerie throughout much of the former Soviet Union, but macro events (Ukraine-related sanctions, the falling oil price, and weak Russian economy) overwhelmed these attributes despite a starting PE in August 2011 of 4.3 with a yield of 10.0%. Sometimes

[4] See pages 4-6 in http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2014Q4.pdf.
[5] See pages 6-7 in http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2014Q4.pdf.

you just get unlucky. As we said in the Q4 letter, our mistake was holding on for too long once it was clear that Silvano's luck had changed materially for the worse.

International Breweries (Nigeria)

Ignoring valuation, brewers, especially brewers that SABMiller owns, are among our favorite companies in which to invest. Their results tend to be predictable, they are a direct play on the local consumer economy, and SAB ensures excellent capital allocation and fair treatment of minority shareholders. It was with mixed feelings that we sold this SAB-backed brewer in Nigeria. International Breweries (Intbrew) was never cheap—its PE was 22 when we bought—but it offered fast growth. Unlike in many African countries, SAB was playing catch up in Nigeria, not having a strong market position. Nevertheless, this made the stock more attractive, as it offered growing market share in a growing market. The main risk was that Intbrew was only one of three SAB horses in the Nigeria race, and even SAB couldn't predict which of their horses would still be running in a decade.[6] Recent times have been tough for Nigerian consumers with the companies who serve them seeing slowing growth, lower margins, and falling profit. While we are long-term minded and may be willing to wait for the consumer to bounce back, high valuation stocks require constant fast growth to justify their price. Belatedly, reluctantly, we sold Intbrew in March 2015 when it became clear to us that the reality on the ground was not supporting the expectations in the stock price. Our gain had once been $3.6 million on this stock, but we finished with a $0.7 million profit, for a 12% IRR over 2.5 years. Okay, but somewhat disappointing.

Construction Investment Corp. (Vietnam)

Construction Investment was a cheap Vietnamese small cap of middling quality at an inexpensive valuation—a 4.4 PE with an 8.7% yield. This combination has worked very well for us from 2011 onward. In this case, though, we didn't like some of the strategic changes management began to contemplate, so we sold at an immaterial loss after 10 months.

FHL I Kiriakidis Marbles & Granites (Greece)

The story of this holding is a repeat of what we described above with Agriculture Printing & Package. We bought the shares in a selloff, but the price turned around quickly and moved well past our buy point. Three months later, we sold this immaterial position at a 34% gain when it was clear we were unlikely to get more shares.

Doan Xa Port (Vietnam)

We made a 14% IRR on this port operator in just over four years. Earnings shrank during this time, but a 3.9 starting PE is a good entry point from which to make money. We sold at an 8.6 PE into strong Q1 2015 fundamentals that we do not expect to persist.

CNG Vietnam

CNG primarily distributes compressed natural gas to corporate customers. We bought the company cheap at below 6 times earnings and sold it with a 62% gain 27 months later

[6] Nevertheless, we were confident that SAB would treat minority shareholders like us fairly if one of the other SAB companies in Nigeria swallowed Intbrew.

when we realized lower oil prices were going to affect their margins and profitability beyond what we had expected.

Kcell (Kazakhstan)

We bought Kcell, one of the two large Kazakh mobile operators, in its December 2012 IPO. The deal came shortly after the bigger and more prominent MegaFon Russia IPO struggled. This kept pricing down on Kcell, allowing us to buy it at 5.3 times earnings with the promise of a double-digit dividend yield. Through 2013, the low starting valuation and high yield gave us a good return, up 67%. But 2014 was an *annus horribilis* for stocks we owned in the former Soviet Union. A devaluation of the Kazakh tenge in February 2014, poor company results for the year, and fears of another tenge devaluation all drove the stock price and our intrinsic value estimates down. We finally sold in April 2015 when our intrinsic value estimate cratered well beyond the level of the stock price. We sold at a 5.4 PE—nearly identical to our starting multiple, but on lower EPS. In the end, we still made a smidgen, $0.3 million, due to the high dividend payouts that Kcell provided.

Dimco (Cyprus)

In our March 2013 monthly comment, when we marked down this lighting fixture distributor and retailer by 35% due to capital controls in Cyprus, we said this investment "is on the short list of the worst buy decisions we've ever made." (That list was longer than we realized then, as we had invested in Ukraine, but hadn't suffered big losses there yet.) Putting a positive spin on the matter, we sold our shares to the majority owner 26 months later at a euro price 81% above our March 2013 mark. But that's a triple illusion. First, most of this "gain" was due to the reversal of the 35% markdown once capital controls no longer applied—the change in the non-marked down euro price was only 18%. Second, accounting for euro weakness, the USD price was roughly flat over these 26 months. Third, what's the point of trumpeting the last 26 months anyway, when you lost most of your investment in the first 36 months? So the true accounting is that in March 2010, we put in a dollar in, and over five years later, we took out less than 33 cents. Indeed, this was our second worst return multiple ever, even slightly worse than Krukivsky in Ukraine.[7] The actual loss was $1.1 million, as this microcap was always a modest part of our portfolio.

We discussed our ill-fated entry into this company before,[8] and to that earlier telling, we would add that our 9% holding in the company was too high. We believe now that having to report your ownership level, and your buys and sells publicly, can put us at a disadvantage, so for the past several years, based on this and one other indiscretion, we've stayed below the ownership filing threshold, which is 5% in most countries. Remaining below the filing threshold can also help guard against having too big of an illiquid stake in a small company, which is what happened here. We wrote in early 2012 that we'd hold our position because the company was trading around liquidation value. Three years on, we

[7] The all-time worst return multiple in our history resulted from a complete wipeout. We lost 100% on Pangaea Development Holdings, a development stage pan-African housing developer in which we invested in March 2008. Although the investment was unwise from the start, among other things, the global financial crisis presented financing challenges the company could not overcome and it ceased operations. Reflecting our small fund size at the time, our loss was only $50,000.

[8] See page 7 of our 2011 Q4 letter, beginning with the sentence, "That position is in Cyprus; we bought it in early 2010." http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2011Q4.pdf.

sold for a lower price, even though our liquidation value estimate had risen. Why? With the Cypriot economy still struggling and no end in sight to the Greek crisis, there simply were no buyers in our sizable position, save one, the majority owner. We could have continued to hold for years. Maybe a better opportunity would present itself, but maybe not, and at only 35 basis points of our portfolio, we'd already hung on a few years too long. Buying our shares required the majority owner to conduct a tender offer, so the price we agreed with them was toward the limit for which they could get financing to conduct the offer. Unwittingly, we had booked ourselves into Hotel California, and belatedly we took the only opportunity to check out that existed.

Ecobank Transnational (Nigeria)

ETI is a pan-Africa bank, headquartered in Togo, but Nigeria accounts for over 40% of revenue and more than half of profit. The stock trades in Nigeria, Ghana, and Cote d'Ivoire—we owned it on all three exchanges at various times, but our primary holding was always Nigeria due to its superior liquidity. We held ETI for 3.2 years, earning a solid, but not spectacular, $1.8 million with a 17% IRR. The stock ran up on rumors that one of its significant holders, Qatar National Bank (QNB), wanted to increase its ownership, which we expect to happen at some point in the next decade. Against a backdrop of earnings uncertainty this year and next in Nigeria, the stock became too expensive for us on an intrinsic value basis when we sold last month, even though its trailing PE was only 6.2. Our earnings projections in the near term may be too low, and QNB's desire may make the stock continue to perform regardless of earnings.

Performance

We gained 2.7% in Q2. This surpassed the return of all four of the global indices we typically cite—they all finished between 0.0% and 0.7%. Our Q2 gain erased most of our Q1 loss, leaving us at -0.4% for the first half. MSCI EAFE was the strongest first half performer, up 5.5%, followed by MSCI Emerging Markets at 2.9%, and the S&P 500 at 1.2%. The laggard was MSCI Frontier, down 3.2%. The frontier index has had three consecutive quarterly losses[9] now, after nine previous consecutive gains.

Valuation and ROE. At quarter-end, our trailing portfolio PE and price/book are 7.2 and 1.0, with a weighted average trailing dividend yield of 6.3%. Our weighted return on ending equity of 17.0% deserves some explanation since it—while still good—is down from 21.0% three months ago. We invested in two special situations in Q2, together representing just over 5% of our portfolio. Each pushes down our ROE average. The larger investment has an ROE around zero, while the smaller investment had significant losses over the past year. In both cases, the ROE is not particularly germane to the investment thesis, especially with the smaller position. We present our metrics as they are, based on reported profitability, without adjustment or exclusion. We think this is the fairest and most honest presentation, even when the numbers go against us. We expect our ROE to decline further in Q3 as the smaller position builds.

[9] MSCI Frontier had a total return of -0.045% in Q2 2015. While this rounds up to 0.0% in the text and 0% in Figure 2 in the Appendix, it still is a loss.

Fund and management company news

Please e-mail us if you are interested in an end-of-quarter phone call or visit. At present, Nick and Steve are available most days in July.

Re-opening. On July 6, we re-opened Frontaura for investment from both new and existing investors. We accept investments monthly, with the next time to invest being 1 August 2015. This applies to Frontaura Global Frontier Fund LLC and to its offshore feeder fund, Frontaura Global Frontier Fund Offshore Limited. The investment minimum for new investors is $1 million; however, existing investors may make additional investments in any amount $10,000 or more.

After several years of rapid inflows, Frontaura constrained its acceptance of new investments in January 2013.[10] Current conditions now allow us to lift these restrictions, meaning that new and existing investors may invest on a monthly basis. Nonetheless, our intention to limit our fund size to maximize performance is unchanged. Thus, it is possible we could close the fund again in the future, as conditions dictate, without prior notice.

This re-opening has generated significant inquiries, meeting requests, and questions, so we'll discuss here some of the background leading to our decision.

When we closed Frontaura, frontier markets were hot: we were in the midst of back-to-back years of double-digit percentage gains and our fund size had grown over 24-fold in four years. Now frontier markets are cold: the total return of the index is negative 14% in the year through June 30, and frontier markets as an asset class are seeing outflows. With performance down and macro risks in China, Greece, and from the strong dollar, many investors aren't interested in frontier right now. We consider this environment to be simply the down part of the never-ending cycle of asset classes moving in and out of favor. Over the next decade or two, we're confident there will be large inflows into frontier markets overall, but coupled with several future periods of negative sentiment, where outflows may occur. We've seen two other times in our history where frontier markets were unpopular—during the global financial crisis and in the aftermath of the Arab Spring in the second half of 2011. Each unpopular period set the stage for two subsequent favorable years of performance.[11] As value-focused contrarians, we get more excited about out-of-favor markets than hot markets.

During our closed period, our existing investor waitlist provided nearly all of the inflows that offset outflows. After three capital calls, however, this group largely had invested all they wanted to for now. Further, we thought some existing investors didn't want to bother with the waitlist process, but might invest more if we re-opened. Events have validated that view, as we've had a couple of existing investors make new commitments in the first week of re-opening.

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[10] We closed to new investors after 1 January 2013 and we stopped taking new commitments from existing investors after 1 June 2013. Since then, we've had three capital calls. The first was for contributions on 1 April 2014, the second was for contributions for 1 January and 1 February 2015, and the third was for contributions 1 July through 1 October 2015. When the commitment period for this capital call ended, we re-opened Frontaura.

[11] We gained 46% in 2009 and 37% in 2010 following the global financial crisis that erupted in 2008. We gained 18% in 2012 and 26% in 2013 after the Arab Spring year of 2011, which also saw the euro crisis arguably at its worst, along with fears of a US debt ceiling default.

The downside of the solid support we've had from existing investors is that there was little opportunity for new investors to join our fund. In fact, until last month, we had room for only two brand new investors to join, each at our investment minimum. Frankly, our waitlist had grown stale after 2.5 years, as there was no occasion for a new institution to make a sizable investment during that period. Most new investors had joined the waitlist in 2013, and by now, they often had found another frontier manager, or lost interest waiting. For those still interested, they were generally not ready to make a quick decision to invest in Frontaura, since they were not current on the fund or were concerned about macro risks.

Given the backdrop described above, it made sense to re-open the fund.

One question that several investors asked is whether we have a target for how much we'd like to raise. We do not. While we do forecast the items that add and subtract to cash—buys, sells, dividends, redemptions, and inflows—the amounts are often lumpy, and our forecasts are volatile.

We finished Q2 with AUM of $158 million. Known redemptions for the second half are $20 million. Our June 30 cash and accruals balance is sufficient to fund these redemptions, so we don't need to raise any money, but we also no longer see a reason to remain closed. Simply subtracting redemptions from AUM, ignoring other items, would lower our fund size to $138 million. Our peak AUM was $175 million and conceptually we are not seeking to exceed that level from inflows (i.e., assuming flat performance).

We are not saying that we'd close precisely at that level, however. Inflows and outflows never offset exactly, and we can imagine a scenario where we'd go a bit beyond that level. For example, if AUM were $170 million and a prospective investor would only invest if they could put in $10 million, we'd likely say yes, then close, then let AUM drift down, as we have done in the past, by not replenishing outflows for a while. This is just a hypothetical example. We'll do what makes sense at the time, considering our cash level, valuations in the market, and many other factors. Managing to an optimal fund size is something we think about daily, constantly fine-tuning our thinking, rather than managing to fixed targets. Our overriding aim is to maintain the ability to perform well by keeping the fund size small enough that our investment opportunity set remains as large as possible.

Our usual statistical tables appear in the pages that follow. 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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Please contact us if you would like any materials, such as our investment presentation, monthly comments, legal documents, or Frontaura Observer trip report newsletters, or if you would like access to our web site, that also contains all of these materials.

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Appendix

Figure 2
Frontaura Global Frontier Fund LLC
Performance[12]
30 June 2015

Period	Frontaura	S&P 500	MSCI EAFE	MSCI Emerging	MSCI Frontier
2015 Q1	- 3%	1%	5%	2%	- 3%
2015 Q2	3%	0%	1%	1%	0%
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%
2014	- 3%	14%	- 5%	- 2%	7%
2015	0%	1%	6%	3%	- 3%
Inception to Date	80%	57%	- 3%	- 13%	- 24%
ITD CAGR	8.0%	6.1%	- 0.5%	- 1.8%	- 3.5%

Figure 3
Frontaura Global Frontier Fund LLC
Monthly Performance
30 June 2015

	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%	1.6%	2.0%	0.1%	-0.3%	-0.8%	2.2%	0.9%	-4.5%	-3.3%	-2.9%
2015	-4.3%	1.0%	0.4%	3.9%	0.4%	-1.6%							-0.4%

[12] 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. Click this link for an explanation of the indices we show: http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2015_07_10.pdf.

Figure 4
Frontaura Global Frontier Fund LLC
Portfolio Mix and Statistics[13]
30 June 2015

Holdings Summary

Country	Holding
Vietnam	13%
USA (cash only)	10%
Nigeria	8%
Sri Lanka	7%
Tanzania	6%
Papua New Guinea	6%
Pakistan	5%
Bangladesh	5%
Serbia	3%
Montenegro	3%
Rwanda	3%
Lebanon	3%
Ghana	3%
Romania	3%
Cambodia	2%
Oman	2%
Jamaica	2%
Ecuador	2%
Argentina	2%
Cote d'Ivoire	1%
Botswana	1%
Laos	1%
Iran	1%
Qatar	1%
Macedonia	1%
Mongolia	1%
Zimbabwe	1%
Kenya	1%
Mozambique	1%
Malawi	1%
Colombia	1%
Others	2%

Industry	Holding
Financials	46%
Cash	13%
Consumer Staples	9%
Industrials	8%
Energy	8%
Utilities	5%
Materials	4%
Consumer Discretionary	4%
Telecommunication Services	2%

Portfolio Statistics

Portfolio Price to LTM Earnings	7.2
Portfolio Price to Book	1.0
Portfolio LTM Dividend Yield	6.3%
Return on Ending Equity	17.0%
Positions	57
Countries	38
Average Market Cap	$702m
Median Market Cap	$250m
Portfolio Turnover (LTM)	32%
Portfolio Turnover (ITD)	27%
Standard Deviation (ITD)	15%
Beta to S&P 500 (ITD)	0.51
Assets Under Management	$158m

[13]Click this link for an explanation of our holdings and portfolio statistics:
http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2015_07_10.pdf.

Figure 5a
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Dollar Return)
2015 Q2

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)[14]	Frontaura Return (%)	MSCI Return[15]	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Nigeria	1.7	10%	5%	Tanzania	-0.6	-6%	--
Pakistan	1.0	15%	11%	Ghana	-0.5	-10%	-8%
Vietnam	0.9	4%	9%	Argentina	-0.4	-16%	-14%
Botswana	0.6	35%	21%	Laos	-0.3	-13%	--
Sri Lanka	0.5	4%	1%	Gabon	-0.1	-15%	--

Figure 5b
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Percentage Return)
2015 Q2

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Botswana	0.6	35%	21%	Angola	-0.1	-25%	--
Jamaica	0.3	15%	11%	Albania	-0.1	-19%	--
Pakistan	1.0	15%	11%	New Zealand	-0.1	-17%	-13%
Macedonia	0.2	14%	--	Argentina	-0.4	-16%	-14%
Cambodia	0.4	14%	--	Gabon	-0.1	-15%	--

[14] Frontaura country returns are before management fees, fund expenses, and any incentive compensation, as those deductions occur at the fund level and not at the individual stock or country level. Click this link for an explanation of how we calculate country returns:
http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2015_07_10.pdf.

[15] 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
Significant Quarterly Country Mix Changes[16]
2015 Q2

Country	Percentage Point Change	Explanation
Kazakhstan	- 2	Sold one position with a slight long-term gain

Figure 6b
Frontaura Global Frontier Fund LLC
Significant LTM Country Mix Changes
30 June 2014 to 30 June 2015

Country	Percentage Point Change	Explanation
Bangladesh	+5	Re-entered country in 2014, continuing to build positions in 2015
Papua New Guinea	+4	Increased existing position materially in 2014
Botswana	- 3	In 2014, exited one position due to acquisition; reduced another position due to increased business risk
Iraq	- 4	Exited country, with nearly all of our stock sales completed in 2014
Tanzania	- 4	In 2014, sold one position, reduced two others, all due to valuation; weak currency in 2015 reduced exposure
Nigeria	- 4	Sold two positions due to valuation, partially offset by new positions; country underperformed
Ukraine	- 7	Exited country in Q3 2014 through Q1 2015

[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. Click this link for a discussion of how we classify cash by country: http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2015_07_10.pdf.

Figure 7
Frontaura Global Frontier Fund LLC
Portfolio Concentration[17]
30 June 2015

	Companies	Countries	Change from Prior Quarter		Change from Prior Year	
			Companies	Countries	Companies	Countries
Positions	57	38	-2	+6	-1	+6
Top 5	23%	40%	+2	-4	+3	-7
Top 10	36%	59%	+1	-3	+2	-6
Top 20	58%	79%	+1	-4	-1	-8
Top 20 + USA (Cash)	68%	89%	+2	-3	+4	-3

[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 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. Click this link for a discussion of how we classify cash by country: http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2015_07_10.pdf.