Quarterly Letter – 2015 Q3

This quarter's letter has a different focus than usual. We think Q3 was a successful quarter for Frontaura, but not for reasons you might expect. True, our 6% loss in Q3 was better than that of all the indices we commonly cite, but we don't believe relative outperformance is the headline for the quarter.

We think Q3 was a pivotal quarter in the evolution of Frontaura, as three major fund events occurred:

- Frontaura re-opened.
- We absorbed the largest and most concentrated set of redemptions in our history during a time of global market turmoil, without notable performance impact.
- We decreased large redemption risk substantially going forward by implementing new fund liquidity terms, approved by our investors with no dissenting votes.

These points are related, and result from events that began in June, as we will explain later. The second and third points increase our confidence about the future. To state them in another way, the changes we made mean the redemption scenario we have just faced is less likely to occur again, but if it does, we have demonstrated that we can handle it well, even in a challenging market environment.

We suspect that our terms now make Frontaura among the best protected of any global frontier fund with regard to large redemption risk. In our opinion, this is more than a subtle abstraction—we consider it a major selling point—and we have received quite positive feedback from potential investors on our terms changes and the enhanced protection these terms provide. This is an important point for any investment fund that owns illiquid securities, as we do. The actions of investors in the fund can affect the fund's returns materially. For example, redeeming investors may force a fund to sell at the worst possible time—with prices plunging and few buyers present. Further, such a fund would not be able to buy the bargains the market offers. Our unconstrained ability to buy depressed frontier stocks in 2008-2009 and again in 2011 boosted fund performance in 2009-2010 and 2012-2013, respectively, and we think it important to preserve this ability. All things equal, our new liquidity structure boosts our return potential when compared to the status quo if we had done nothing.

We'll get into more details about our terms changes later in this letter. Before we do, let's review Performance, Valuation, Attribution, Currency Effects, and Travel.

Performance

We lost 6.0% in Q3. For reference, on a total returns basis, the S&P 500 fell 6.4%, MSCI EAFE (developed markets outside North America) dropped 10.2%, MSCI Emerging Markets (EM) plummeted 17.9%, while MSCI Frontier Markets (FM) lost 10.6%. For the S&P, MSCI EAFE, and MSCI EM it was the worst quarter since Q3 2011. But for us and for MSCI FM, it was only the worst since Q4 2014, when sentiment on frontier markets began to turn negative.

Through September, we're down 6.4% for the year. The S&P 500 and MSCI EAFE have done slightly better, each down 5.3%. MSCI EM and MSCI FM have done worse, down 15.5% and 13.4%, respectively. September was the fourth consecutive losing month for us, after the four prior months were all gainers. The three months before that (November 2014 through January 2015) were consecutive losers that began our present drawdown. We are now off 13.5% from our all-time high at the end of October 2014. This is the third-worst drawdown in our history, behind a 35.4% drawdown June 2008 through February 2009 and a 17.7% drawdown February 2011 through November 2011.

Global equity markets, commodities, and currencies have had an impressive rebound beginning September 30 and continuing through this writing on the morning of October 9. Our fund, with its low beta and volatility characteristics, tends not to participate fully in these rallies, just as we don't tend to lose as much in the selloffs. Nevertheless, we estimate that we have gained approximately 1.8% in October so far, through October 8.

Figures 1 and 2 in the Appendix show the historical performance of Frontaura and the indices we cite.

Valuation

The weighted average 7.0% trailing dividend yield our companies now have really stands out, as only four months in our nearly eight-year history have had a higher yield.[1] Our trailing portfolio PE is now 6.9 with a portfolio price/book of 1.0. Quarter-ending AUM was $136 million spread across 52 positions in 39 countries.

Figure 3 in the Appendix presents a table of our portfolio statistics and our portfolio composition by country.

Currency Effects

Of our Q3 before-fee[2] loss on our stock holdings, 63% was due to lower local stock prices and 37% was due to currency losses against the US dollar. For the year, however, we are up in local stock prices, with all of our loss and then some due to currency weakness. In dollar terms before fees, we've made $5.4 million year to date due to higher local stock prices, but lost $12.6 million due to currency effects.

Attribution

We made money in only five out of 39 countries in Q3. This is an unusually lopsided outcome for us. We generally have more winners than this even in quarters where we suffer worse percentage losses. In local currency terms, we made money in 10 countries. Our biggest dollar winner was Vietnam, which also is our largest country exposure, at 12% of the portfolio at quarter end. We made $1.5 million in Vietnam before fees, a gain of 8%. Macedonia was our largest percentage winner, up 21%. Our position there is small,

[1] Our weighted average dividend yield was 8.3% June 2009, 7.6% October 2008, 7.4% November 2008, and 7.2% May 2010. We equaled the present 7.0% weighted average yield on two occasions: July 2009 and December 2009.

[2] All dollar figures in the currency and attribution section are before fees and expenses, as we make these deductions at the fund level rather than at the position and country level.

however, so in dollar terms, we made only $0.4 million. Serbia, Bangladesh, and Kenya were the other countries with Q3 gains, all of them small.

Leading the losing countries were Pakistan, -$1.7 million or -15%; Nigeria -$1.6 million or -11%; and Tanzania, -$1.0 million, or -11%. These are the 3rd, 2nd, and 7th largest countries in our portfolio, respectively. Beyond these three, no country lost more than $0.6 million for us, even as we racked up some big percentage losses in commodity countries where we have small exposures.

Figures 4a and 4b in the Appendix details the top 5 and bottom 5 countries for Q3 performance, in dollar and percentage terms.

Figure 5a and 5b shows changes to country mix for the last 3 and 12 months. Figure 6 shows portfolio concentration by company and country.

Travel

We visited Egypt, Nigeria, and Peru in Q3. See our September monthly comment[3] for our discussion of Peru. We have visited Kenya so far in Q4 and hope to make our second trip to Iran in November.

Terms Changes

In last quarter's letter, we discussed at length our July 6 decision to re-open Frontaura, effective August 1. Please refer to that text[4] for our rationale. As explained then, we are not looking to increase AUM beyond the level we have been at in the past. We want to continue to keep Frontaura small to maximize the ability to perform well.

Here we'd like to provide more background on the events just before and just after the re-opening that led to our terms changes. Then we will explain the terms changes themselves. This information will be familiar to many of our investors, who may want to skip ahead a few pages to the Current Status section at the end of this topic. Nevertheless, we think it is useful to provide a behind-the-scenes summary that addresses the numerous investor questions we have answered over the past quarter. Although this is an unusual level of detail for us, or any manager to go into, we think the topic is important. As we stated in the opening of this letter, liquidity events can affect fund returns significantly. We've had a tough test, have come through it well, and have improved our defenses. We would encourage prospective frontier market investors to probe how any frontier market fund might perform under liquidity stress.

We should explain before we begin that our liquidity terms from our inception through September 30, 2015 locked up new investors (they could not redeem) for two years, after which they could redeem any amount quarterly, with 90 days' notice.

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[3] http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2015_09.pdf

[4] See pages 9-10 in http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2015Q2.pdf

June surprise. In June, we received $20 million[5] in redemption requests from two investors. Most of this was to exit Frontaura on September 30, with the remainder to exit December 31. Each investor redeemed for reasons specific to them.[6] Frankly, these redemptions startled us for numerous reasons. First, in size, the redemptions nearly equaled prior cumulative redemptions over Frontaura's entire history. Second, in timing, they occurred only 10 days apart, without warning, in a benign market environment (we were flat for the year when we received the first redemption notice). Third, both came from investors who we would have placed at the top of our list of most stable investors. Fourth, we had an excellent relationship with each investor (and we still do, as the redemption reasons were unrelated to any Frontaura issue). Our takeaway was that any investor can redeem at any time for any reason, no matter how good the relationship, how long-term oriented the investor is, and how stable the source of the investor's funds. We knew this in theory—we recall one of our investors advising us years ago "if you are in business long enough, eventually your biggest investor will redeem in full." Nonetheless, there's nothing like a firsthand lesson to burn this into your mind.

July meetings. This episode taught us that perhaps we were more vulnerable to large investor redemption risk than we realized. Upon reopening, negative feedback from potential investor meetings reinforced our suspicion. Potential investors told us they were reticent to join a fund where most of the other investors could redeem in full the next quarter. We had not heard this before. Our two-year lockup had served us well throughout our history, but during our multi-year closure, that lockup had expired in all but a few cases.[7] Thus, it became clear to us that some terms changes were necessary to address both our own and prospective investor concerns over large redemption risk.

August reaction. We consulted with our largest investors in August and proposed changes to all investors at the end of that month. Our investors approved these with no dissents and the changes took effect October 1. The two significant changes are:

1. Investors joining October 1 or later will not have a two-year lockup, but instead are able to redeem ¼ of their balance each quarter with three months' notice,[8] meaning that a full redemption will take one year. This longer tail on redemptions gives us more time to raise cash, either from inflows or by selling stock.

   If we had thought of this term in 2007, we would have had it since our inception. We're grateful to the prospective investor who suggested it and the other potential investors

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[5] This figure fluctuates due to performance between the time of the redemption notice and the time the investment exits the fund (September 30 and December 31).

[6] In one case, the investor had grown its own assets tremendously and was winnowing the investment managers it used to a smaller number. Its remaining managers would each oversee up to $50 million, a figure beyond what our fund size could support in terms of single investor concentration. In the other case, the investor transitioned from using outside managers such as Frontaura to managing their investments directly.

[7] After we closed the fund, a few new investors joined us through our waitlist process that offset redemptions, and their lockups have not yet expired.

[8] One minor change we made for simplicity was to alter our redemption notice period from 90 days to three months, so that the notice deadline is always the last day of a calendar quarter. We found in practice that with 90 days' notice investors (and ourselves) could never quite remember exactly what day was the notice deadline since months have a differing number of days.

who endorsed it as an improvement over the lockup, which provides full protection initially, but no protection once expired.

This first change is not retroactive to pre-October 1 investors. We thought it would be unfair to impose a new liquidity rule on every existing investor, all of whom will eventually have served two years under lockup. Over time, as we gain new investors, this new rule helps mitigate large redemption risk, by spreading out the timing of the redemptions. Not imposing it retroactively, however, meant that this risk would remain today. Thus, we made a second change that does apply to all investors, old and new.

2. The amount any investor can redeem per quarter is limited to 2.5% of fund AUM (or $2.5 million, whichever is greater).[9] So, if AUM is $136 million, an investor could redeem $3.4 million in that quarter. In practice, this only applies to large investors. It's not a change that any one large investor would volunteer for, but the rationale is that collectively all large investors are better off under a rule that binds everyone.

Another subtle benefit of the second rule is that it simplifies how we approach very large potential investors. In the past, we were nervous when a single investor was more than 10% of the fund, as a large amount of money could leave the fund in a single decision. Now, while a large investor exit could still occur in a single decision, the redemption tail is much longer. For example, a 15% investor would exit over six quarters now instead of one quarter. The investor can choose whether to invest with us or not, and what size of investment they are comfortable with, considering this constraint.

To this point, some of our large investors did reduce their positions with us because of this second rule change, even though they agreed with the change and voted in favor of it. We thought this was a worthwhile exchange—better protection for the investors in the fund, even with the loss of some assets.

Fund gate. Our final line of defense has always been the fund gate, which remains unchanged. Our fund gate rule potentially limits redemptions to 20% of fund AUM over six months. When we combine a) the second-order redemptions in response to the terms changes and b) the original redemptions that led to the terms changes, total redemptions will exceed 20% of AUM. We will not invoke the fund gate this time for three reasons. First, we think it would be unfair to do so given that some of the redemptions resulted directly from terms changes we initiated. Second, our large investors gave us significant warning about the second-order redemptions, so we were able to generate cash in advance of receiving formal notice. Third, candidly, some stigma exists when managers invoke a fund gate. With the new terms in place, the chance that redemptions will trigger a fund gate on a go-forward basis is lower. Having said this, the fund gate language exists for a reason, for use in case of an emergency. Should emergency conditions occur at some future point, we would use the tool we have, if it were in the best interests of the fund to do so, after exhausting all other reasonable possibilities. We think this is what our investors would expect us to do—stigma or not.

[9] When clients have multiple investment accounts with us, this maximum quarterly redemption amount is the most they can redeem collectively across all accounts they control. There are additional subtleties to this rule that can increase the maximum quarterly redemption amount if fund inflows exceed fund outflows. Please refer to the Frontaura Global Frontier Fund LLC Amended and Restated Operating Agreement that governs the fund for the exact rules.

Current status. Where do we stand today? The June redemption notices were for withdrawals to occur September 30 and December 31. Subsequent notices received in Q3 were for withdrawals December 31 and March 31, 2016. In total, investors will withdraw $37 million from Frontaura between September 30 and March 31. Most of these funds are still invested with us, so the actual figure will vary up or down with our performance. As of October 1, our future cash projections are in balance, meaning that we should not need to sell anything to meet these redemptions obligations. Our sources of cash include our existing US cash balances, Q3 stock sales, future dividends, future inflows, and repatriation of foreign cash to the US. While we were significant sellers of stock in Q3, it is now business as usual for us. The portfolio is in a steady state, with some buys and some sells each day, based on intrinsic values, qualitative fundamental criteria, and our usual portfolio construction techniques.

Four large clients account for over 99% of the $37 million in redemptions. Two are the clients who first served notice in June; both are now both exiting completely, and these two alone account for $30 million, or over 80% of the total. The other two large clients were at least in part second-order redeemers, meaning the terms changes—that they supported—did cause them to lower their investment with us. To our knowledge, they have no present intention to redeem more. Two other clients made minor trims to their position, accounting for less than 1% of our redemptions during this period. It is our belief that none of the redemptions were in response to the Q3 market downturn or Frontaura performance. We received few calls in Q3 from investors worried about global markets. We continue to believe that our investor group overall is more long-term focused and less prone to panic than investors in general are.

Once all known redemptions occur, each of our present clients will be less than 10% of AUM. Our top 5 clients will then account for 32% of AUM, while our top 10 clients will be 43%.[10] Frontaura personnel will control another 12% not included in the top 5 and top 10 figures.

We'd be remiss if we didn't thank all of our investors, especially our large investors, for working with us through these terms changes. Our investors have been open-minded, thoughtful, and full of constructive suggestions. We appreciate their ability to separate their own personal interests from what is in the collective interest of the fund and all of its investors. And even though two investors kicked off this process by redeeming, they were gracious and accommodating in scheduling their redemptions over time to minimize the effect on fund performance.

Communication

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 October.

Year-end is a natural time where existing investors may make follow-on investments. Before we closed, we often saw a number of such investments annually on December 1, January 1, and February 1. For the first year-end since 2012, existing investors can invest as they please, in any amount $10,000 or more, in any month. For our planning purposes, please inform us if you are considering a follow-on investment. We would be happy to visit or have a phone call with you and answer questions you have.

[10] Where one client controls multiple accounts, we have aggregated their total.

Our 8th annual prediction lunch for Frontaura investors in the Chicago area occurs on Thursday, December 17. This year-end social event and prediction competition is not frontier markets specific—most topics focus on the US and common global asset classes. Think of it as Fantasy Economics. E-mail us if you would like more information. Frontaura investors not in the Chicago area can still enter the contest remotely. Prizes are more frugal than what DraftKings may offer, we will not feature winners pulling their hair out in television commercials, and no one will receive a life changing shipload of money. Nevertheless, your sense of accomplishment and self-worth may inflate (or deflate) all the same.

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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Appendix

Figure 1
Frontaura Global Frontier Fund LLC
Performance[11]
30 September 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%
2015 Q3	- 6%	- 6%	- 10%	- 18%	- 11%
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	- 6%	- 5%	- 5%	- 15%	- 13%
Inception to Date	69%	47%	- 13%	- 28%	- 32%
ITD CAGR	6.9%	5.0%	- 1.8%	- 4.1%	- 4.8%

Figure 2
Frontaura Global Frontier Fund LLC
Monthly Performance
30 September 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%	-1.5%	-3.7%	-0.9%				-6.4%

[11] 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_09_30.pdf.

Figure 3
Frontaura Global Frontier Fund LLC
Portfolio Mix and Statistics[12]
30 September 2015

Holdings Summary

Country	Holding
USA (cash only)	13%
Vietnam	12%
Nigeria	9%
Pakistan	7%
Papua New Guinea	6%
Sri Lanka	6%
Bangladesh	5%
Tanzania	5%
Montenegro	3%
Romania	3%
Ghana	3%
Cambodia	2%
Lebanon	2%
Rwanda	2%
Ecuador	2%
Serbia	2%
Oman	2%
Jamaica	2%
Argentina	2%
Macedonia	2%
Mongolia	1%
Laos	1%
Qatar	1%
Kenya	1%
Iran	1%
Cote d'Ivoire	1%
Botswana	1%
Zimbabwe	1%
Mozambique	1%
Malawi	1%
Others	2%

Industry	Holding
Financials	40%
Cash	16%
Consumer Staples	10%
Energy	8%
Industrials	8%
Utilities	7%
Consumer Discretionary	4%
Materials	4%
Telecommunication Services	2%

Portfolio Statistics

Portfolio Price to LTM Earnings	6.9
Portfolio Price to Book	1.0
Portfolio LTM Dividend Yield	7.0%
Return on Ending Equity	18.2%
Positions	52
Countries	39
Average Market Cap	$611m
Median Market Cap	$225m
Portfolio Turnover (LTM)	37%
Portfolio Turnover (ITD)	28%
Standard Deviation (ITD)	15%
Beta to S&P 500 (ITD)	0.51
Assets Under Management	$136m

[12] Click this link for an explanation of our holdings and portfolio statistics: http://www.frontauracapital.com/disclosures/Frontaura_Disclosures_as_of_2015_09_30.pdf.

Figure 4a
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Dollar Return)
2015 Q3

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)[13]	Frontaura Return (%)	MSCI Return[14]	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Vietnam	1.5	8%	-11%	Pakistan	-1.7	-15%	-13%
Macedonia	0.4	21%	--	Nigeria	-1.6	-11%	-6%
Serbia	0.3	6%	-2%	Tanzania	-1.0	-11%	--
Bangladesh	0.1	2%	-2%	Mongolia	-0.6	-24%	--
Kenya	0.0	0%	-13%	Ghana	-0.6	-14%	-10%

Figure 4b
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Percentage Return)
2015 Q3

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Macedonia	0.4	21%	--	Angola	-0.2	-58%	--
Vietnam	1.5	8%	-11%	Iraq	-0.2	-47%	--
Serbia	0.3	6%	-2%	Albania	-0.2	-47%	--
Bangladesh	0.1	2%	-2%	Gabon	-0.3	-40%	--
Kenya	0.0	0%	-13%	Kazakhstan	-0.1	-40%	-37%

[13] 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_09_30.pdf.

[14] 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 5a
Frontaura Global Frontier Fund LLC
Significant Quarterly Country Mix Changes[15]
2015 Q3

Country	Percentage Point Change	Explanation
none		

Figure 5b
Frontaura Global Frontier Fund LLC
Significant LTM Country Mix Changes
30 September 2014 to 30 September 2015

Country	Percentage Point Change	Explanation
Bangladesh	+5	Re-entered country in 2014
Papua New Guinea	+5	Increased existing position materially in 2014
Ukraine	- 2	Country exit completed Q1 2015
Nigeria	- 4	Country underperformance
Tanzania	- 5	Sold two positions; weak currency in 2015 reduced exposure

[15] 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_09_30.pdf.

Figure 6
Frontaura Global Frontier Fund LLC
Portfolio Concentration[16]
30 September 2015

	Companies	Countries	Change from Prior Quarter		Change from Prior Year	
			Companies	Countries	Companies	Countries
Positions	52	39	-5	+1	-6	+6
Top 5	21%	40%	-2	--	+2	-6
Top 10	33%	59%	-4	--	--	-2
Top 20	53%	77%	-4	-2	-2	--
Top 20 + USA (Cash)	66%	90%	-2	+1	-4	-2

[16] 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_09_30.pdf.