Quarterly Letter – 2015 Q4

We deviate from our usual schedule of the Q4 letter being our process mistakes issue, to review instead position exits that we made over the past half year. Let's begin with a year-end examination of Performance, Currency Effects, Valuation, and Attribution. Then after a brief Process Review, we'll get to the meat of this letter, which are the Position Exits. We finish with Fund and Management Company News.

Performance

Q4. We gained 1.0% in Q4. Developed market indices did better than we did, while emerging and frontier market indices did worse. On a total returns basis, the S&P 500 rose 7.0%, while MSCI EAFE (developed markets outside North America) gained 4.7%. MSCI Emerging Markets (EM) advanced 0.7%, while MSCI Frontier Markets (FM) fell 1.2%. During a difficult Q3, we outperformed (lost less than) all of these indices. The indices recovered strongly in October, all outpacing our own gain that month, and then fell back over the rest of the quarter, especially in less developed markets.

2015. For the year, we lost 5.5%. As with Q4, developed market indices bettered us, while we beat the emerging and frontier indices. The S&P 500 had total returns of 1.4%, while MSCI EAFE lost 0.8%. MSCI EM lost 14.9% and MSCI FM fell 14.5%.

Losing streaks. EM has now had three consecutive annual losses as previously it dipped 2% in 2014, and 3% in 2013. EM is also down four of the past five years. At year-end, EM was 26% below its April 2011 month-end peak and 28% below its October 2007 all-time month-end high. The FM index has had fewer recent down years, with losses occurring in only 2011 and 2015, but it has done worse overall. At December 31, FM is now 25% off its July 2014 month-end peak and 38% below its February 2008 all-time month-end high.

As for us, 2015 was our second down year in a row, as we lost 3% in 2014, and it was our third loss in the past five years. Through year-end, we are 13% off our October 2014 all-time high. Nevertheless, unlike the EM and FM indices, we are well up from pre-financial crisis levels.

ITD. Figure 2 in the Appendix shows our entire return history by year, along with the indices we cite. From our November 2007 inception through December 2015, we have gained 71% after fees, while the S&P 500 had total returns of 58%. The MSCI indices we quote have all lost money, with EAFE down 9%, EM down 28% and FM down 33%. Figure 3 in the Appendix shows Frontaura's monthly return history.

2016. Equity markets are giving everyone a hard time so far in 2016. We are down as well, although as is often the case for us, not by as much as most indices. Our motto could be "Frontaura—we lose less when markets are at their worst." Through Tuesday, January 13, we are off 3.6%. Total returns for the indices we track are as follows: S&P 500 -7.4%, MSCI EAFE -6.1%, MSCI EM -8.1%, and MSCI FM -5.5%.

Currency Effects

The strong US dollar took away 42% of our Q4 before-fee[1] local currency gain on our stock holdings. This has been a significant issue for us since the dollar began strengthening in July 2014. For the year, our stocks made $10.5 million in local currency and lost $15.4 million due to exchange rate effects. This is before fees and does not include any FX movements on our foreign cash holdings. This is nearly identical to our $15.3 million FX loss on our stock holdings in 2014. In percentage terms, we lost 8 percentage points of before-fee performance due to FX losses on stocks in 2015, a bit worse than our 7-percentage point loss in the prior year. As we have written before, in our opinion, hedging currency on our stock positions is generally not feasible. Often the ability to hedge does not exist; where it does, it usually has such a high cost that we believe hedging would detract from performance over the long run.[2] We believe academic research supports our view.

Valuation

On December 31, our 7.1 trailing portfolio PE equals the average for our history, but our 0.9 price/book tied our cheapest level ever, and our 6.6% weighted average dividend yield is within the top one-sixth of all month-end values. A composite ranking, weighting these three measures equally, shows that our valuation was in the 82nd percentile of our history (top quintile) in terms of cheapness.

Quarter-ending AUM was $122 million spread across 52 positions in 36 countries. Figure 4 in the Appendix presents a table of our portfolio statistics and our portfolio composition by country.

Attribution

Figures 5 and 6 in the Appendix show the top and bottom performing countries for Q4 and for all of 2015 in both dollar and percentage terms and how our performance compared to MSCI's index for the country. We'll discuss only the full year results in the text here. All results are before fees and expenses.

There are 17 distinct countries in Figure 6 that have MSCI indices. We outperformed the index in 14 of these 17 in 2015. In dollar terms, for 2015 we had more losing countries (29) than winning countries (14) by a two-to-one margin. In local currency, we were even, with 22 losers and 21 winners.

Vietnam. Our largest country weight, Vietnam at 14%, contributed the most for us in 2015, with a $5.1 million gain, up 21%, compared to -5% for MSCI Vietnam, on a total return basis. This country has been a consistent winner for us in recent years, in both absolute and relative terms. We made $2.5 million in 2014 (+11% versus +6% for the index), $9.5 million in 2013 (+59% versus +7% for the index), and $3.8 million in 2012

[1] 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.

[2] Exceptions exist. In recent years, it has been cheap and easy to hedge euro stock exposure. We shorted the euro from February 2010 through May 2014 to hedge foreign currency exposure on our Eastern European and French West African stocks. We think this was worthwhile as it simplified decision making for us during the worst of the euro crisis. Nevertheless, we lost a small amount of money doing so.

(+30% versus +19% for the index).[3] The Vietnamese dong devalued 5% in 2015 and we expect similar or slightly more devaluation in 2016 as the country will want to keep its exports competitively priced against China and other neighboring countries.

Other winners. Jamaica was a small position for us, only 2% at its peak, but we made $1.6 million on it, our second largest dollar winner. Its 95% return was our top percentage gainer. Two other small positions delivering nice returns were Argentina and Macedonia. Argentina's $0.7 million gain was our fourth largest, while its 32% gain was our third best percentage winner. Macedonia's $0.6 million gain was fifth best, with its 35% return the second best percentage leader. South Asian oil importing countries Sri Lanka, Pakistan, and Bangladesh all benefit from cheaper oil, and were our third, sixth, and ninth biggest dollar winners.

Commodity losers. Conversely, commodity plays dominated our country losers, as you might expect in a year where commodity prices collapsed. Our top nine country percentage losers all resulted from either a commodity company or a company being located in a country with significant commodity exports. In the latter case, the currency tended to perform poorly and this overwhelmed the fundamentals of the business, even if the company itself was not commodity related. Fortunately, many of these countries had low weights in our portfolio. Looking at dollar losers, only five out of the top 10 were commodity related.

Nigeria. We lost $3.1 million in Nigeria, our biggest loss at the country level. Its 13% loss was not particularly bad for 2015, but it was our second biggest country weight throughout the year, starting the year at 12% and ending at 9%. Over half our Nigeria loss was due to currency. We expect further, and larger, currency losses in Nigeria in 2016, but we don't necessarily expect these to result in overall losses, as local price gains may offset a weaker naira, as we have previously written. There's no guarantee of this of course, but it is possible that if the country takes its medicine and undergoes inevitable currency devaluation, money on the sidelines waiting for this event will rush into the local equity market. The longer Nigeria waits, however, the more likely the currency unpegging could become messy, with money staying sidelined.

Other losers. Second worst was Tanzania with a $2.4 million loss, 87% of this due to currency. Tanzania had been a long-term winner for us before this reversal year. Mongolia was our third biggest loser, down $0.9 million, or 34%, despite significant positive news flow in 2015. Three-quarters of the dollar loss was due to currency. In May, the Mongolian government and Rio Tinto finally signed a deal to develop the oft-delayed phase II of Oyu Tolgoi (OT II), the huge copper and gold mine. Lenders signed a $4.4 billion OT II project financing agreement in December. We exited Ukraine in Q1, but it was still our fourth biggest loser, as we recorded a further $0.8 million loss on top of our $6.9 million debit in 2014. Our fifth largest loss, also at $0.8 million, was in Ghana. Our 13% loss was entirely due to currency.

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[3] Calling out a country like this probably tempts fate and could signal that our luck may be due to run out. In our 2014 Q3 letter, we trumpeted how Tanzania was then our all-time leading dollar winner. Since then, we've lost $2.9 million in five quarters. Vietnam is now our all-time leading dollar winner. For a presentation of inception through 2014 Q3 profit and loss by country, see pages 4-7 in http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2014Q3.pdf

Figure 7 in the Appendix shows how and why our country mix has changed over the quarter and the year. Figure 8 shows portfolio concentration changes over the past quarter and the past year.

Process Review

Since 2008, our Q4 letter has been our mistakes issue where we discuss process errors (not negative performance attribution) we made in the calendar year just ended. These letters tend to be our most popular, because we've never hesitated to be quite critical of ourselves when we think it warranted. Nevertheless, last year's letter generated a few appeals for us to lighten up. One reader said, "You are tougher on yourself than any other manager I know." Another thought "you are now erring on the side of too much retrospective analysis." These readers may be relieved that we have little to say about 2015. As for the majority, who seem to enjoy our self-flagellation, we are sorry to disappoint you this time.

To be sure, we aren't thumping our chest after losing 5%, even if the FM index did worse. Not all of portfolio changes we made in 2015 were winners: several have had stinking performance so far. And certainly, we made some mistakes we do not yet realize. In terms of process, though, we are satisfied with our actions last year, and we don't want to highlight anything at this time.

Without being self-satisfied, we think the laundry list of process changes we discussed over several pages in this letter one year ago and years prior have largely worked. We would have had a bigger loss in 2015 without them; they kept us from repeating some errors of the past. So after seven years of airing our dirty laundry and devising corrective methods to reign in our foolish impulses and oversights, it appears we've plateaued for now on process improvement, even though we continue to tweak certain aspects of what we do. We generally think that we have a robust system, and we are content to keep working our processes within the daily euphoria and despair that markets throw at us. But we know this is just a temporary state. Markets, information, and investors evolve continually, and aspects of our methodology will need to evolve as well, even if our core principle of intrinsic value based investing does not.

Our experience in Nigeria in 2015 demonstrates how several of the process changes we listed in last year's letter limited losses this year.[4] First, using non-deliverable forwards (NDFs) instead of inflation differentials in projecting future exchange rates significantly lowered our intrinsic value estimates. Second, more proactively reducing near-term earnings projections rather than dogmatically sticking to cyclical averages further lowered intrinsic values. Despite these two valuation-reducing measures, some Nigeria companies still trade low enough where we would buy them. But our rule to limit our exposure to possible value traps by capping the amount we buy of a declining stock or country has stayed our hand for much of 2015. We think this appropriate as we have meaningful exposure to Nigeria already with a 9% portfolio weight. Without these controls, we would have continued buying into a declining Nigerian market using intrinsic values that were too high, increasing our 2015 loss.

[4] For background on the process changes we discuss in this paragraph, please see pages 7-9 in http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2014Q4.pdf

Position Exits

Continuing our break with tradition, we make the heart of this letter a review of position exits in the second half of 2015. Normally, we've used the Q2 letter to discuss exits over the prior 12 months. We had more exits than normal in the past half year, so there is plenty to talk about here without waiting another two quarters.

Figure 1
Frontaura Global Frontier Fund LLC
Position Exits July 2014 – June 2015[5]
31 December 2015

Company	Country	Description	Exit Reason	First Buy	Last Sell	Cost ($000K)	Proceeds ($000K)	Profit ($000K)	Return Multiple	IRR	Holding Period (Years)	Price / IV First Buy	Price / IV Last Sell	PE Buy Date	PE Sell Date
CFC Stanbic	Kenya	bank	size	09-Jan-13	16-Jul-15	287	660	373	2.30	40.1%	2.5	-32%	39%	4.8	8.7
Binh Duong Minerals & Construction	Vietnam	stone quarries	fundamentals	14-Nov-14	04-Aug-15	1,287	1,497	210	1.16	21.9%	0.7	-29%	59%	6.7	6.6
AIK Banka	Serbia	bank	fundamentals	17-Feb-10	13-Aug-15	5,612	2,726	(2,886)	0.49	-14.8%	5.5	-37%	-14%	3.8	6.2
TOL Gases	Tanzania	industrial gases	size	26-Nov-14	24-Aug-15	140	155	15	1.10	16.1%	0.7	-12%	34%	21.1	19.4
Nui Nho Stone	Vietnam	stone quarries	fundamentals	08-Jun-11	24-Aug-15	655	2,043	1,388	3.12	46.8%	4.2	-85%	171%	2.9	6.1
Desnoes & Geddes	Jamaica	beer	size	17-Feb-15	11-Sep-15	22	29	6	1.29	30.4%	0.6	-31%	-1%	5.9	8.4
CRDB Bank	Tanzania	bank	valuation	29-Jan-10	28-Sep-15	3,124	8,514	5,390	2.73	28.3%	5.7	-16%	5%	7.4	6.7
CBZ Bank	Zimbabwe	bank	country	18-May-12	29-Sep-15	3,251	3,390	139	1.04	2.1%	3.4	-80%	-81%	1.5	1.4
Solibra	Cote d'Ivoire	beer, soft drinks	fundamentals	08-Jan-10	20-Oct-15	1,619	2,530	911	1.56	14.1%	5.8	-30%	69%	7.3	24.0
Vietnam Container Shipping	Vietnam	port operator	valuation	23-Feb-11	28-Oct-15	635	2,627	1,992	4.14	40.8%	4.7	-37%	72%	4.4	12.3
National Commercial Bank of Jamaica	Jamaica	bank	valuation	19-Nov-14	04-Dec-15	1,737	3,269	1,532	1.88	93.5%	1.0	-42%	18%	4.0	7.5

Why more exits? Recall that in last quarter's letter, we discussed redemptions we received from June 2015 onward. The need to raise cash for these redemptions, as well as the related need to keep aspects of our portfolio mix in balance (e.g. not allowing our financials mix to become too high as fund size declined), led to more exits than normal in the past half year. Certainly, though, many of these exits would have happened without any redemptions.

As we said last quarter, this Q3 selling was a good test for us, as we had elevated sales when markets were in turmoil. Despite many of our positions being naturally illiquid, in Q3 we outperformed (lost less than) not only the MSCI Frontier index, but also the MSCI

[5] 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). Proceeds are the total USD sale and dividend proceeds, net of all commissions, trading fees, FX, and tax withholding. Profit is the Proceeds minus the Cost. Return Multiple is Proceeds / Cost. 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, Proceeds, 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 of the closing stock price (not our actual transaction price) 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 stock price (not our actual transaction price) on the day of First Buy and Last Sell.

Emerging, MSCI EAFE, and the S&P 500 indices. Further, as chronicled last quarter, we modified terms to decrease fund vulnerability to large redemptions in the future.

Figure 1 lists our position exits in chronological order from July 2015 through December 2015. We discuss each in that same order.

CFC Stanbic (Kenya)

When we bought CFC in January 2013, it was cheap (4.8 PE, 0.6 book), perhaps in part because its 12% return on ending equity (ROEE) was below its leading Kenyan peers. We assumed over time that its parent would fix this. Standard Bank, one of South Africa's big four banks, had bought CFC in 2008, just before the financial crisis and had conducted a rights offer in late 2012 to recapitalize the bank. We sold 2.5 years later, earning $2.30 for every dollar invested. The PE had jumped from 4.8 to 8.7 during this time as the ROEE improved some to 14%. In dollars, our $0.4 million profit was modest, as our position size was small. The stock was usually at the 75% foreign ownership limit and thus we could only buy shares when another foreigner sold. We liquidated CFC to raise a bit of money because its size in the portfolio was small, and it was overvalued. The sale proved timely, as the stock has dropped by 30% in USD through January 13 due to difficulties in South Sudan, where it is one of the larger foreign banks.

Binh Duong Minerals & Construction (Vietnam)

This small company, along with Nui Nho Stone, detailed further below, and Construction Investment Corp., which we described in our Q2 2015 letter after its sale, are in similar businesses of operating stone quarries. We made our Nui Nho Stone investment first in 2011, and seeking to replicate its success we invested in Bing Duong Minerals in November 2014. However, visits to Vietnam in March and June of 2015 changed our opinion on the long-term ability of these businesses to sustain their returns on capital, and eventually we sold all three of these small investments. On Binh Duong, we made 16% in less than a year, earning a modest profit of $0.2 million. Urban development was encroaching on its quarry and we became less confident in its ability to extend its mining concession beyond the next few years. This was a known issue, but touring the various quarries and their surrounding areas firsthand changed the calculus for us. To continue to hold Binh Duong Minerals, we would have to assume that either they would get concession renewals (which we previously believed, but now no longer did) or they would be successful with their contingency plans to redirect their business into real estate development. While the market seems confident in management's plans for the future (after our exit, the stock gained 27% on a USD total return basis through January 13), we thought the investment had become too much of a gamble, and we have no regret that we sold.

AIK Banka (Serbia)

AIK Banka is a case of a premature speculation and a not fully satisfying conclusion. We bought the bank February 2010 after meeting them. Their good results during the financial crisis in 2008 and 2009 convinced us that we were getting a resilient bank at a bargain price—a 3.8 PE and a price/book of 0.6—with a good ROEE of 17.0%. However, similar to what we have seen with other Eastern European companies such as Corporate Commercial

Bank in Bulgaria and Dimco in Cyprus,[6] the global financial crisis hit AIK with a delay. AIK's profit grew modestly in 2010 to a record high, before plummeting 84% from 2010 to 2013. Since then results are improving, but still well below past highs.

In 2015, we twice evaluated whether to keep or sell AIK. In the first half of the year, when the majority owner made an at-market tender offer to buy out minority shareholders, we narrowly favored keeping the shares to see if the recovery would continue. The tender, as we expected, did not receive enough support to trigger a squeeze-out mechanism, so the shares remained listed. In the second half of the year, with our financials exposure pushing our self-imposed 50% limit, and with the need to raise some cash to meet redemptions, we decided we would exit AIK if we could still get the tender price. After a one-month standoff, we got our price and sold with mixed feelings.

Having held through three bad years, 2011-2013, we were reluctant to give up in the second year of recovery. Our base case was that the recovery would continue. But AIK was once a serial disappointer, so our conviction wasn't high. Further, we expected the majority owner would acquire enough shares eventually such that either the shares would delist or they would remain listed but become increasingly illiquid. This wildcard promised unpredictable upside (if the owner offered a higher takeout price to clean up the remaining minorities) or downside (if the share price languished with little trading), depending on the path taken. Wanting to constrain our financials exposure, needing some cash, and with a ready buyer, we think it was rational to sell AIK, even though it modeled as slightly undervalued. We raised $2.7 million in a single trade. Nonetheless, when the bank later declared a large special dividend (which we believe might help the owner acquire more minority shares), it illustrated in part the upside potential that we have foregone. Altogether, our unfulfilling AIK experience gave us a loss of $2.9 million over 5.5 years.

TOL Gases (Tanzania)

We met TOL, the former British Oxygen business in Tanzania, for the first time in 2012 as it was about a year-and-a-half into a turnaround under a new CEO after years of neglect. We liked what we heard, but it was still early days. A return visit in 2014 showed the turnaround on track and convinced us to buy. We tried, but we could never obtain a meaningful position in this illiquid stock that tended to gap upward on small volume when it did trade. The price moved beyond where we'd buy more, and we sold the small position we'd gathered at an immaterial profit after nine months.

Nui Nho Stone (Vietnam)

When we bought this quarry operator, it was trading at a 2.9 PE with a 20% dividend yield, 55% ROEE and no debt. It was 2011. Vietnam and its small cap stocks were out of favor. Nui Nho Stone was small—its market cap was only $10 million as we began to buy 4.9% of the company over two months. We made a 47% IRR over 4.2 years, earning $3.12 for every dollar invested, or $1.4 million in total. As discussed above with Binh Duong

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[6] We wrote about our small profit in Corporate Commercial Bank in our Q2 2013 letter. See page 6 in http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2013Q2.pdf. We can add a postscript that Bulgaria's central bank placed Corporate Commercial Bank under supervision in 2014, declaring it insolvent, sparking fears of a banking crisis. Its shares trade near 0 today. We wrote about the exit from our unfortunate investment in Dimco in our Q2 2015 letter. See pages 7-8 in http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2015Q2.pdf. As expected, Dimco delisted in December 2015 following the tender offer that our sale to management triggered.

Minerals, we exited because 1) we no longer believed that Nui Nho Stone would be able to renew or obtain new mining concessions on similar economic terms; and, 2) if that was correct, we did not want to gamble on management's ability to redirect the company into other business lines. The company has built up a huge inventory of unsold stones that could sustain its results for a couple of years. Eventually, though, earnings could collapse unless the company develops new mines or new business activities.

Desnoes & Geddes (Jamaica)

Desnoes & Geddes (D&G) makes Red Stripe beer. We met the company for the first time in November 2007, touring its brewery during the month Frontaura began investing. There were issues with it as an investment—the country had an unsustainable debt position as we discuss below in the National Commercial Bank of Jamaica entry, and the stock had too high of a PE given this. We put Jamaica on our list of uninvestable countries. Despite this, we reviewed D&G in 2011, 2013, and 2014, with several management contacts. We were not encouraged in early 2011 as 2010 had the lowest profit in the past decade. With perfect foresight, that would have been the ideal time to buy, although it would have taken a leap of faith. Gradually, performance improved under new management. Meanwhile, the country's situation recovered on the margin after two debt restructurings. In February 2015, for the first time, the right combination of company fundamentals, country fundamentals, and valuation occurred to allow us to buy D&G. By utter coincidence, we happened to be vacationing in Jamaica when our first trade occurred. We raised a glass of Red Stripe in a toast to our new investment at dinner that evening.

That proved to be our high point of optimism on this investment. Like TOL above, this illiquid stock, then majority owned by Diageo and minority owned by Heineken, tended to gap up whenever it traded, and it soon was out of our buy zone. We cleaned house in September, selling our immaterial stake 29% above where we bought. Then Heineken poked us in the eye less than a month later, when it acquired control of D&G as part of a global asset swap between it and Diageo. The price Heineken put on D&G meant that we sold for about one-quarter of the price Heineken paid to control 100% of the shares in the subsequent tender offer. But we owned so few shares that this lost profit would have been only $0.1 million, so while this was a psychological blow, it was not much of a financial one.

CRDB Bank (Tanzania)

We made $5.4 million, or 2.7 times our money on our nearly six-year roller-coaster investment in CRDB, one of the top two banks in Tanzania. We began buying CRDB in January 2010, about seven months after its IPO. Too soon, it turned out, as within three months we bought at the stock's all-time low, 29% less than our first trade. During our first 14 months of ownership, we accumulated $3.1 million of stock. The stock price fell, formed a base, recovered, and then zoomed upward such that it was our largest position in March 2011 and we had a sell order to trim back the position. The price reached one tick below our limit, then reversed and the stock lost over half its value in the next 17 months. This put it back around its all-time lows in August 2012. Earnings had been lackluster in 2010 and 2011 (+3% and -20% in local currency), but finally took off in 2012 when EPS more than doubled. The stock responded, moving almost five-fold in just over two years. With the valuation rising, our portfolio weight in the stock high, and a rights offer looming, we sold gradually over the 15 months ending September 2015. Our sells had a pattern similar to our buys: they began too early, but eventually hit the top tick, then continued somewhat off the best prices, especially in USD terms as the Tanzanian shilling lost 19% in 2015.

CRDB from 2010 through 2015 had several dramatic price rises and several frustrating price falls. Our trading in it wasn't perfect, yet we can make the unusual claim of having made a six-figure buy at its all-time low and a six-figure sell at its all-time high. While its earnings progression was not always steady, its earnings were less volatile than its stock price. In turn, our estimates of its intrinsic value were more stable than its earnings. What worked for us in CRDB was applying our (relatively) stable intrinsic value against a fluctuating stock price. At times, it was a buy, at other times a sell. We worked our process and that worked for us.

In Q3 2015, we had sold most of our position already and our remaining holding was less than a typical portfolio weight. The stock price had dipped, but remained slightly overvalued. We were unenthused about investing in the announced rights offer. As discussed above with AIK, we also needed to constrain our financials weight and to raise some cash, so we sold our remaining CRDB shares.

CBZ Bank (Zimbabwe)

We exited CBZ, the leading bank in Zimbabwe and the last of our Zimbabwean investments, on 29 September 2015, the day global markets bottomed in 2015. We made a miniscule profit of $0.1 million on CBZ, selling at a seemingly ridiculous PE of 1.4, similar to the valuation at which we bought in May 2012. Our base case assumption was that CBZ still offered a good return—and the stock is up about one-third since our exit. So why did we sell?

We sold for macro reasons and behavioral reasons. The macro issue is that with all of its political, economic, and currency issues, we found Zimbabwe's future impossible to ascertain. One could joke this is always the case, and we would have agreed with you during the country's hyperinflation period through 2008, when we did not invest. With dollarization in 2009, we did invest, as the dollar provided much-needed stability for the country. Zimbabwe still uses the dollar, but in 2013, we began to realize that while dollarization had solved the horrible problem of hyperinflation, it created a new problem of uncompetitiveness. You see, the commodity-exporting countries around Zimbabwe tend to have free-floating currencies that rise and fall along with commodity prices. In mid-2011, commodities and currencies of commodity countries began to fall, gradually at first, but then accelerating, with the rout still ongoing at this writing. Consider that $1 in Zimbabwean input costs equaled 6.57 South African rand in April 2011, but now cost 16.57 rand as of 13 January 2016. Zimbabwe's economy is now largely uncompetitive when compared to its neighbors. Imports are flooding in, gutting a significant portion of what remained of the Zimbabwean manufacturing sector post-hyperinflation. In 2014, we began to wonder if—although it would have been extremely difficult politically to do so—Zimbabwe would have been better off adopting the rand in 2009 instead of the dollar.

As our macro concerns mounted, we trimmed our CBZ position from 2.7% to 1.0% of the portfolio in mid-2014. A year later, we decided we no longer wanted Zimbabwe investments because we had no clarity on when or how the economic situation (not to mention the politics) would play out. CBZ was our last Zimbabwe position, and by selling it, we could draw a positive line under our Zimbabwe experience, booking a decent 12.7% IRR on four money-making investments over six years. If we continued to hold, any outcome was possible, from making multiples on our CBZ position, as we had originally hoped, to a complete wipeout on CBZ. A wipeout is always possible with a bank, as all banks inherently have high leverage, but a wipeout of a levered position becomes more likely in a politically unstable country with an extremely overvalued currency, where there is no lender of last resort. Behaviorally, we chose to close the book on our Zimbabwe experience, labeling it overall as a modest success. We are willing to re-enter Zimbabwe with a clear head should some clarity develop, or should non-levered companies trade at low-enough valuations.

Solibra (Cote d'Ivoire)

Solibra is the dominant brewer and soft drinks bottler in Cote d'Ivoire. It has the kind of business we love and its results held up well through two civil war episodes in a decade. But as the saying goes, sometimes it's more difficult to manage the peace. The combination of an upstart competitor and an excise tax increase affected Solibra's results far more than we would have expected. On flat revenue, EPS dropped 19% in 2013 and 35% in 2014. Solibra's return on capital fell from 27.0% in 2012 to 10.6% in 2014. Solibra finally solved the problem of the rival brewer by buying it, but competitor trouble may surface again as Heineken has committed to opening a brewery in Cote d'Ivoire. Usually, we don't worry too much about new competition, but Heineken would likely be a stronger player than was the competitor that so bedeviled Solibra in 2013-2014. In any event, Solibra's PE reached 24 and our intrinsic value framework showed it as overvalued significantly, so we sold. To spite us, Solibra reported its best half year since 2H 2012 shortly after we sold, as it is temporarily free of significant competition.

We made a $0.9 million profit on a 14% IRR over 5.8 years. We hate selling brewers. It's possible that we held on too long (as our profit was once much greater before suffering through two poor years) or that we capitulated at the wrong time (having held on, perhaps we should have kept holding). But our system said sell, and we think that was the right call, even as we acknowledge the quality of Solibra's brands and market position may mean that its assets may one day trade for a much higher price, whether that occurs under present management, new management, or new ownership.

Vietnam Container Shipping

Over the years, we've owned four different port operators in Vietnam. Vietnam Container Shipping emerged as our favorite over time, being both the best managed, in our opinion, and our most profitable port investment. We bought it at a 4.4 PE and sold it at a 12.3 PE, making $2.0 million on a $0.6 million investment, a 40.8% IRR over 4.7 years. Our original investment was small because the stock often traded at its 49% foreign ownership limit, meaning we could only buy when other foreigners sold.

National Commercial Bank of Jamaica

We owned NCBJ for just over a year, nearly doubling our money, booking a profit of $1.5 million. We expect the stock to rise further—its PE was only 7.5 at the time of our sale, up from 4.0 when we bought—but we think Jamaica is a country where it's wise to sell in good times because it may be difficult to sell without significant price impact in bad times. Jamaica is in a difficult spot of having too much debt, yet not being poor enough to receive debt forgiveness. The government restructured its debt in 2010 and again in 2013 and is currently performing well against IMF program targets. In fact, Jamaica's macro story is the best it's been during Frontaura's history. This macro improvement allowed us to invest finally in NCBJ in November 2014, seven years after we first met the company. But while we commend the macro improvement, we also note that IMF economic growth targets get tougher, beginning in the current year. Further, from a starting point of 136% government debt to GDP, Jamaica's government debt level only drops below the still-elevated level of 100% of GDP in 2020, and that's if the country hits every IMF target. Cycles come and go. Surely, this positive cycle, helped by falling oil prices, won't persist forever in Jamaica. As the country's largest bank and with government bonds being a significant part of its balance sheet, the macro outlook affects NCBJ greatly. The country's debt overhang means we require a bigger intrinsic value discount to buy Jamaican stocks and we sell sooner than we would in other countries. When our model told us to sell NCBJ after its significant price rise, we waited a short time for our gains to become long-term, and then we exited, despite our gut instinct being that the shares may trade higher.

Fund and Management Company News

Please e-mail us if you are interested in an end-of-quarter phone call or visit.

Open for investment. As a reminder, Frontaura is no longer closed and we accept new investments monthly. We invest money received on or before the last business day of each month on the first day of the following month. For example, funds received on or before Friday, January 29 will be invested as of February 1, funds received on or before Monday, February 29 will be invested as of March 1, and so on. For new investors, our minimum is $1 million; for existing investors, the minimum follow-on investment is $10,000. There is no additional paperwork for follow-on investments.

Travel. We visited Kenya and Iran in Q4. See our November monthly comment for our discussion of Iran.[7] We also made a brief trip to Brazil in December, which is not in our universe, to assess the impact of that struggling economy on other Latin American countries and companies where we can invest. Finally, we attended an investment conference in Chicago on Austrian companies. Surprisingly, that developed market has fallen into the technical definition of our universe,[8] but more importantly, Austrian companies often operate in frontier European markets.

Nick will visit clients and prospective investors in New York City on January 21-22. Trips to Argentina, the United Arab Emirates, and Vietnam are among the possibilities for Q1.

Reporting. Our administrator emailed Q4 investor statements January 8. We expect our onshore audit to finish by mid-February and our offshore audit to be complete a few weeks later. We expect our administrator to e-mail K-1 tax forms to onshore investors in the first week of March. There are no material changes in these dates from past years.

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[7] http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2015_11.pdf

[8] Our universe includes any country with a stock exchange that is less than 0.1% of aggregate market capitalization of the MSCI All-Country World Index (ACWI) of developed and emerging countries. This includes both (a) small countries in the MSCI ACWI that have a market capitalization of less than 0.1% of the index, and (b) countries with stock markets that are not included in the MSCI ACWI. A country remains in our universe until its weighting in the MSCI ACWI is 0.2% or greater. At that point, we won't make new investments in that country, but we will continue to hold an existing investment if we believe the investment remains sound.

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 2
Frontaura Global Frontier Fund LLC
Performance[9]
31 December 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%
2015 Q4	1%	7%	5%	1%	- 1%
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	- 5%	1%	- 1%	- 15%	- 14%
Inception to Date	71%	58%	- 9%	- 28%	- 33%
ITD CAGR	6.8%	5.7%	- 1.2%	- 3.9%	- 4.8%

Figure 3
Frontaura Global Frontier Fund LLC
Monthly Performance
31 December 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%	3.3%	-2.4%	0.1%	-5.5%

[9] 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 4
Frontaura Global Frontier Fund LLC
Portfolio Mix and Statistics[10]
31 December 2015

Holdings Summary

Country	Holding
Vietnam	14%
Nigeria	9%
Pakistan	7%
Sri Lanka	7%
Papua New Guinea	6%
USA (cash only)	5%
Bangladesh	5%
Tanzania	5%
Rwanda	5%
Ghana	4%
Montenegro	4%
Romania	3%
Kenya	3%
Cambodia	3%
Lebanon	2%
Serbia	2%
Oman	2%
Argentina	2%
Ecuador	2%
Macedonia	2%
Mongolia	2%
Laos	1%
Iran	1%
Qatar	1%
Botswana	1%
Mozambique	1%
Peru	1%
Others	2%

Industry	Holding
Financials	43%
Consumer Staples	14%
Cash	8%
Energy	8%
Industrials	8%
Utilities	7%
Consumer Discretionary	5%
Materials	4%
Telecommunication Services	3%

Portfolio Statistics

Portfolio Price to LTM Earnings	7.1
Portfolio Price to Book	0.9
Portfolio LTM Dividend Yield	6.6%
Return on Ending Equity	18.5%
Positions	52
Countries	36
Average Market Cap	$605m
Median Market Cap	$218m
Portfolio Turnover (LTM)	37%
Portfolio Turnover (ITD)	28%
Standard Deviation (ITD)	14%
Beta to S&P 500 (ITD)	0.50
Assets Under Management	$122m

[10] 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 5a
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Dollar Return)
2015 Q4

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)[11]	Frontaura Return (%)	MSCI Return[12]	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Vietnam	2.5	17%	2%	Nigeria	-1.7	-13%	-10%
Jamaica	0.7	32%	35%	Laos	-0.2	-12%	--
Argentina	0.7	35%	26%	Mongolia	-0.2	-9%	--
Ghana	0.6	16%	7%	Colombia	-0.2	-34%	-9%
Pakistan	0.4	5%	-1%	Papua New Guinea	-0.2	-2%	--

Figure 5b
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Percentage Return)
2015 Q4

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Argentina	0.7	35%	26%	Albania	-0.1	-44%	--
Jamaica	0.7	32%	35%	Iraq	-0.1	-40%	--
Kazakhstan	0.1	24%	8%	Colombia	-0.2	-34%	-9%
Vietnam	2.5	17%	2%	Angola	0.0	-23%	--
Ghana	0.6	16%	7%	Gabon	-0.1	-23%	--

[11] This footnote applies to all columns labeled "Frontaura Return ($millions)" and "Frontaura Return (%)" on this page and the following page. 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.

[12] This footnote applies to all columns labeled "MSCI Return" on this and the following page. MSCI country indices stated on a total return basis with dividends net of any withholding tax. We show "--" if MSCI does not have an index for a given country.

Figure 6a
Frontaura Global Frontier Fund LLC
10 Best and Worst Performing Countries (Dollar Return)
2015

10 Best Countries				10 Worst Countries			
Country	Frontaura Return ($millions)[13]	Frontaura Return (%)	MSCI Return[14]	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Vietnam	5.1	21%	-5%	Nigeria	-3.1	-13%	-20%
Jamaica	1.6	95%	79%	Tanzania	-2.4	-22%	--
Sri Lanka	0.9	8%	-22%	Mongolia	-0.9	-34%	--
Argentina	0.7	32%	-1%	Ukraine	-0.8	-33%	-40%
Macedonia	0.6	35%	--	Ghana	-0.8	-13%	-25%
Pakistan	0.6	6%	-14%	Romania	-0.8	-15%	1%
Serbia	0.3	6%	-28%	Laos	-0.7	-28%	--
Lebanon	0.3	5%	4%	Cote d'Ivoire	-0.6	-21%	--
Bangladesh	0.2	2%	-17%	Rwanda	-0.6	-7%	--
Botswana	0.2	9%	-5%	Gabon	-0.5	-60%	--

Figure 6b
Frontaura Global Frontier Fund LLC
10 Best and Worst Performing Countries (Percentage Return)
2015

10 Best Countries				10 Worst Countries			
Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Jamaica	1.6	95%	79%	Albania	-0.3	-76%	--
Macedonia	0.6	35%	--	Angola	-0.3	-74%	--
Argentina	0.7	32%	-1%	Gabon	-0.5	-60%	--
Greece	0.0	22%	-61%	Colombia	-0.5	-55%	-42%
Vietnam	5.1	21%	-5%	Egypt	-0.4	-50%	-24%
Botswana	0.2	9%	-5%	Iraq	-0.4	-43%	--
Sri Lanka	0.9	8%	-22%	Zambia	-0.1	-40%	--
Serbia	0.3	6%	-28%	New Zealand	-0.1	-35%	--
Pakistan	0.6	6%	-14%	Mongolia	-0.9	-34%	--
Lebanon	0.3	5%	4%	Ukraine	-0.8	-33%	-40%

[13] The Frontaura Return footnote on the prior page applies to all Frontaura Return columns on this page.
[14] The MSCI Return footnote on the prior page applies to all MSCI Return columns on this page.

Figure 7a
Frontaura Global Frontier Fund LLC
Significant Quarterly Country Mix Changes[15]
2015 Q4

Country	Percentage Point Change	Explanation
Vietnam	+3	Higher prefunding cash balance, strong stock performance, offset by net sales
Rwanda	+3	Added new position

Figure 7b
Frontaura Global Frontier Fund LLC
Significant Annual Country Mix Changes
2015

Country	Percentage Point Change	Explanation
Pakistan	+4	Added new position
Kenya	+2	Added new position, offset by smaller position sale
Tanzania	- 2	Three position exits; currency weakness
Kazakhstan	- 3	Position exit
Nigeria	- 3	Two position sales in excess of buys; currency weakness

[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 8
Frontaura Global Frontier Fund LLC
Portfolio Concentration[16]
31 December 2015

	Companies	Countries	Change from Prior Quarter		Change from Prior Year	
			Companies	Countries	Companies	Countries
Positions	52	36	--	-3	-10	+1
Top 5	22%	43%	+1	+4	+1	-1
Top 10	36%	65%	+3	+6	+1	+4
Top 20	58%	87%	+5	+10	+1	+5
Top 20 + USA (Cash)	63%	92%	-3	+3	-2	+3

[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.