Quarterly Letter – 2016 Q4

In our November monthly comment,[1] we alluded to research we were conducting where we use regressions to project future performance from current valuations. We devote the bulk of this letter to that research. The punch line is that our value score regression, based on a composite measure of PE, price/book, and dividend yield, now projects a 9% return for 2017 and a 23% return (11% annualized) for the two years 2017 and 2018. We introduce two similar regressions, one on PE and dividend yield, the other a derivative of our value score that also includes ROE (return on equity). Each of these regressions projects a 15% return for this year and a similar gain for 2018. These results use as inputs our December 2016 valuation metrics: 6.7 portfolio PE, 1.2 portfolio price/book, 5.9% weighted average dividend yield, and 26.7% weighted average return on ending equity.

We'll dive straight into this topic. Following it, we'll examine Performance for Q4 and 2016 (up 1.1% and 6.6%, respectively), including Currency Effects and Attribution. We finish this letter with Fund and Management Company News, including a note on taxes and reporting dates, followed by our usual Statistical Appendix.

Regression Research Findings

Before we begin, let's provide the necessary caveats. These are simply statistical forecasts that assume that there is a historical relationship between valuation and performance and that this relationship holds going forward, which may not be the case. Of course, past results are no guarantee of further performance, and whatever path the future may take will undoubtedly be different from what we show here. Finally, any single-point projections we provide are just the mid-point of a wide range of outcomes, as we explain in the Regression Projections section.

This research follows work we presented in our Q1 2016 letter[2] showing how our value score mapped against future performance. Figure 2 in that letter showed visually that future performance tends to follow the value score, with high value scores (low valuations) tending to lead to good performance, and low value scores (higher valuations) tending to lead to poorer performance.

Rather than rely on a visual depiction of what two lines on a graph (value score and future performance) have done in the past, we thought it would be useful to run regressions to see what future performance we might expect for current valuation levels. Here are our key conclusions after running dozens of regressions:

1. There is a statistically significant relationship between value score and future one- and two-year performance.

   This is no surprise, as it confirms statistically what was visually apparent in the Q1 2016 letter, and it is consistent with established academic research that valuation is predictive of future performance.

[1] http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2016_11.pdf.

[2] http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2016Q1.pdf.

2. Regressing on the individual variables of PE, price/book (PB), and dividend yield instead of a composite value score variable showed the PE and yield variables are statistically significant, but the PB variable is not.

   This was a mild surprise to us. PB in our regressions has some performance predictability, but it is not statistically significant. Since academia has shown repeatedly that PB can predict performance at a statistically significant level, the question is why our results did not. It could be that we have too few data points or there were random unexpected outcomes in the data points we have (e.g. low PB stocks did not perform as well as expected). These are two ways to saying that given additional time, PB may become more predictive for us.[3] Alternatively, maybe we aren't doing as well as we should be when investing in low PB stocks. For example, maybe we are falling into too many value traps, possibly due to greater-than-expected currency devaluation. We should emphasize that our low PB portfolios have outperformed our high PB portfolios, but not by a statistically significant amount.

3. Given the surprising price/book result, we ran numerous other regressions to see what insight we could gain. The solution to our PB dilemma seemed to either be 1) exclude it as a variable or 2) include a measure of quality along with PB, to address potential value traps. Two regression results caught our eye, with greater statistical significance than our value score regression, with all variables being significant. We call the first regression PE yield as it uses two of the three variables that feed into value score—PE and dividend yield—but not the third variable, price/book, since PB was usually not statistically significant for us. The second regression we call quality value score. We create a derivative of our value score by adding return on equity as a fourth variable to PE, PB, and dividend yield. ROE is a proxy for quality, with higher ROE denoting higher quality and lower ROE indicating lower quality.[4]

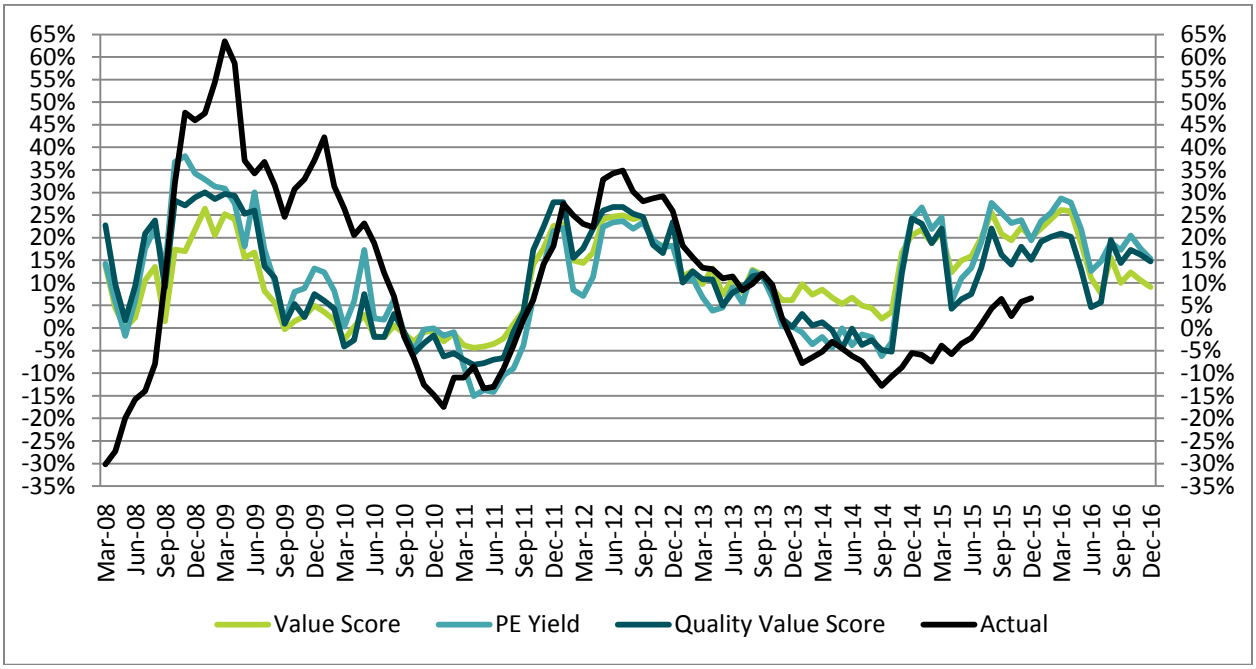
   We should emphasize that while the PE yield and the quality value score regressions have greater predictive ability than the value score regression, all three of these regressions are more similar than different. For example, visually you may not be able to tell which of these three regressions are most accurate when looking at a plot of their predicted performance against our actual performance. Figure 1 shows this. In tabular form, the superiority of the PE

[3] A possible flaw with our historical price/book data is that we traditionally have only reported and stored it to one decimal place (e.g. 0.9 instead of 0.85 or 0.94). We think data is too often presented with too many decimals of precision. This decimal clutter provides no incremental benefit, and may distract the reader. In this case, however, our habit to only show and record only one decimal point of price/book data means that in our entire history, we have only nine portfolio price/book values (0.9 through 1.7). This contrasts with portfolio PE where we have 37 distinct values in our history, ranging from 5.5 to 9.3. Clearly, in hindsight, it would have been better if we had calculated and stored PB to two decimal places, to give more differentiation in price/book valuations across time. For example, we have 15 months with identical 0.9 PBs, but obviously the two-decimal PB value could have been as high 0.94 in some of these months and as low as 0.85 in others, a spread of over 10%. We will use two decimal points going forward, but we cannot recreate our historical data to more than one decimal.

[4] We prefer return on capital (ROC, including both debt and equity in the denominator) to return on equity (ROE) for non-financials, but we use ROE for comparability across our entire portfolio of financials and non-financials. We point out that high ROE does not automatically mean a company is high quality. If the high ROE results from high leverage (debt), the company could be risky and low quality. For Frontaura, this is not much of a concern, as we are strongly biased against (too much) debt in a company's capital structure and we don't like highly leveraged financials either. Thus, in a Frontaura context, we do think ROE is a reasonable proxy for quality.

yield regression and the quality value score regression over the value score regression is more apparent, as Figures 2 and 3 show.

Figure 1
Frontaura Global Frontier Fund LLC
Future 1-Year Performance: Regression Predictions & Actual
March 2008 through December 2016



Regression Projections

Our value score regression predicts we will gain 9% in 2017 and 11% annualized (23% total) over the next two years, 2017 and 2018. The PE yield regression and the quality value score regression both expect better performance: 15% each in 2017 and 15%-16% annualized (32%-35% total) for the two years 2017-2018.

Naturally, there's a wide range of possible outcomes. With 95% confidence, the quality value score regression expects 2017 performance will be between 1% and 28% with a 15% mid-point. Our two-year performance regressions have higher statistical significance than our one-year regressions, and the range of outcomes, when stated on an annualized basis, thus narrows. For example, with 95% confidence, the quality value score regression expects 2017-2018 performance to be between 8% and 22% annualized, with a mid-point of 15% annualized.

We show the projected return from each of these regressions for past one-year (Figure 2) and two-year (Figure 3) periods. At times, the projections are surprisingly accurate. For example, let's focus only on the two-year quality value score projections in Figure 3.

Figure 2
Frontaura Global Frontier Fund LLC
1-Year Performance: Prediction & Actual
2009 – 2017

Year	Actual Performance	Value Score Projection	Quality Value Score Projection	PE Yield Projection
2009	46%	22%	29%	**34**%
2010	37%	5%	7%	**13**%
2011	-15%	-1%	**-2**%	0%
2012	18%	23%	28%	**22**%
2013	26%	18%	**23**%	18%
2014	-3%	6%	**0**%	0%
2015	-5%	**21**%	24%	24%
2016	7%	20%	**15**%	19%
2017		9%	15%	15%

Note: Bold indicates the most accurate regression prediction each year

Figure 3
Frontaura Global Frontier Fund LLC
2-Year Performance: Prediction & Actual
2009 – 2018

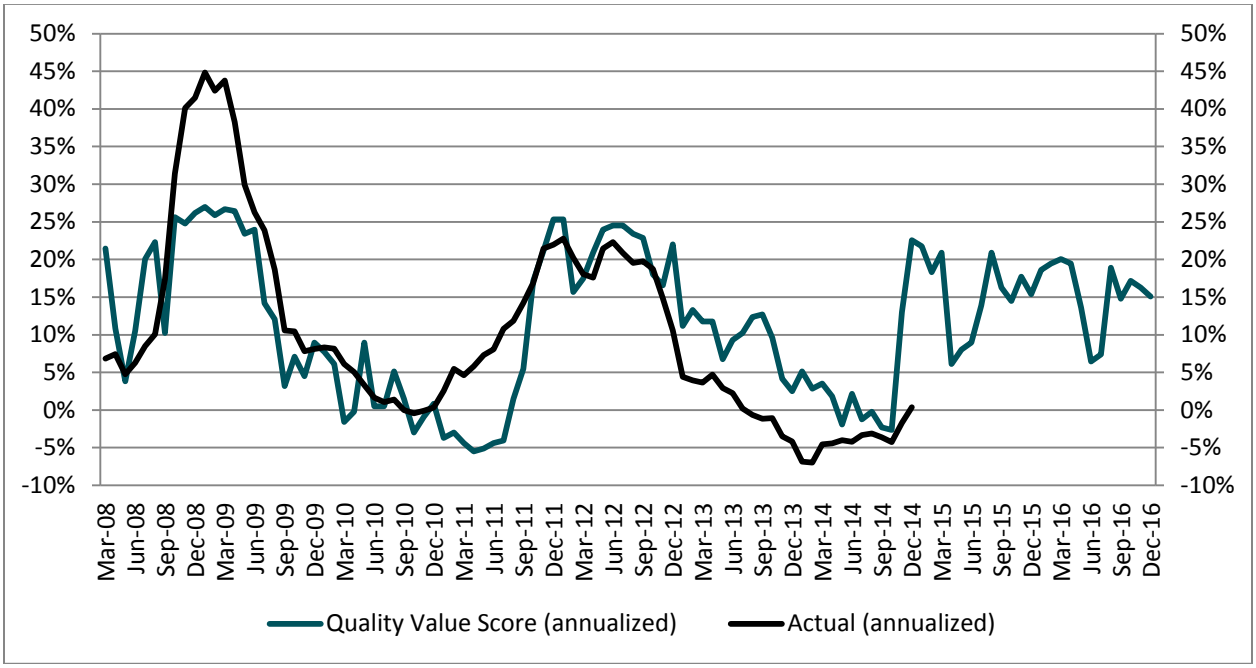
Years	Actual Performance (annualized)	Value Score Projection (annualized)	Quality Value Score Projection (annualized)	PE Yield Projection (annualized)
2009-2010	41%	23%	26%	**30**%
2010-2011	8%	7%	**9**%	15%
2011-2012	0%	1%	**1**%	4%
2012-2013	22%	23%	25%	**21**%
2013-2014	11%	19%	22%	**18**%
2014-2015	-4%	8%	**3**%	4%
2015-2016	0%	**21**%	23%	23%
2016-2017		21%	15%	19%
2017-2018		11%	15%	16%

Note: Bold indicates the most accurate regression prediction each period

The quality value score regression predicted strong gains for 2009-2010 (up 26% annualized), which we achieved (up 41% annualized). For 2010-2011, it expected average performance, up 9% annualized, a figure we nearly matched with an 8% actual annualized return. For 2011-2012, it thought we would go nowhere, up 1% annualized, and it was right (actual of 0% annualized). For 2012-2013, it predicted great results, up 25% annualized. We delivered 22% annualized. For 2013-2014, quality value score forecast an above-average result of 22% annualized. We fell short of this, but still provided above-average returns of 11%. For 2014-2015, the projection was for a meager 3% annualized, and a bad result did follow, at -4% annualized. Next comes the one big exception so far. For 2015-2016, quality value score foresaw a 23% annualized gain. We were flat over these two years. We discuss this further in the next section. For 2016-2017, the projection

was for 15% annualized. We made 7% in the first year of this period. We'd need to return 25% in 2017 to match the 2016-2017 projection. That may seem a stretch (although we've had that annual return or better one-third of the time), but if we think of quality value score as a directional indicator rather than a precise predictor, its call for average to above average results over 2016-2017 seems reasonable at this time. Figure 4 shows visually how the two-year annualized projections from the quality value score regression compares to actual performance.

Figure 4
Frontaura Global Frontier Fund LLC
Future 2-Year Annualized Performance: Regression Predictions & Actual
March 2008 through December 2016



Explanation of 2015-2016

Let's address why the reality of the last two years (flat returns) deviated so much from the quality value score two-year projection (23% annualized). Frontaura outperformed the MSCI Frontier Markets Index handily during these two years,[5] so this was an asset class issue rather than a manager-specific issue. The following familiar list of macro factors were present in these two years, hampering performance: strong dollar, oil price drop and commodities rout, asset class outflows, and related to all of these factors, poor African performance, especially in Nigeria, one of the largest frontier markets.

Beyond these factors, we think a data issue in the regression explains much of why it projected performance that was too high in 2015-2016. In October 2014, when our inception-to-date performance was at an all-time high before the oil price drop selloff began, the quality value score regression predicted lousy two-year forward results (-3%

[5] In 2015, Frontaura lost 5% while MSCI FM lost 14%. In 2016, Frontaura gained 7% while MSCI FM gained 3%. For the two years combined, Frontaura gained 1% (0% annualized) while MSCI FM lost 12% (-6% annualized).

annualized). This proved a good call, as the actual result of the next two years was -4% annualized. We had significant losses in November and December 2014. This improved valuations. Stock prices were lower, but the oil crash had not yet affected reported earnings and dividends. Lower prices and unchanged earnings and dividends meant lower PEs and higher dividend yields. By April 2015, the oil crash was impacting fundamentals. PEs were higher and ROEs lower due to lower earnings, while dividend yields were lower due to lower dividends. Thus, the value quality score two-year performance projection was back to a more reasonable 6% annualized. We conclude that the quality value score regression made sensible projections in October 2014 and April 2015, with actual results underperforming slightly due to the macro issues above that we identified.[6] During the five months in between, November 2014 through March 2015, the regression made inaccurate projections, as it didn't foresee the oil crash impact on fundamentals. Figure 4 shows the errant spike in the regression's performance projection in these months.

There's a good lesson here. Valuation and regressions that use valuation to project performance are just tools. Useful, but not infallible. The regression cannot see around corners to anticipate negative macro events. Reality will chart its own path, and while it may be constrained by valuation, valuation does not dictate what the returns will be.

Looking Forward to 2017-2018

With the lesson of the last two years in mind, we'll list some of the factors that could derail the regression projection for the upcoming two years. The strong dollar could continue, a global trade war could break out, Europe could fracture, the oft-predicted Chinese hard landing may occur, and rising interest rates in the US could cause unforeseen global consequences after nearly a decade of low rates.

We frequently heard people say last year that global risks seem higher than normal. Generally, they had in mind Brexit, the US election, and perhaps various terrorist incidents or armed conflicts. Without intending to diminish those risks, our response to these concerns was to opine that the same could be said for every year of our history, which began in November 2007. Investors tend to focus on recent events, with a tendency to forget some of the risks of past years. Most of the time, the risks investors fear don't happen or don't have the market impact investors expect if the risk does materialize. Occasionally, the risks do occur with devastating market consequences, as the first year of our history (2008) demonstrated. However, it's hard to predict when this will happen. In fact, it's fair to say that fear was at a minimum and complacency at a maximum in 2007, at exactly the wrong time. Looking at the global investment environment today, cautiousness, not complacency, reigns for non-US equities.

Our regressions are a decent, albeit imperfect performance prediction model. There are leads and lags in model performance versus actual performance. When real events, usually negative, intervene, actual performance tends to lag predicted performance (e.g. see 2008 and 2011 in Figure 1). Then actual performance catches up (e.g. see 2009-2010 and 2012 in Figure 1). Actual performance has lagged predicted performance from 2014 on. This

[6] Through December 2016, 20 of the 24 months of the April 2014 two-year projection are complete and we are flat. We don't know what performance will be from January-April 2017, of course, but if we just assume normal seasonality, we would finish up 3% annualized, making the April 2014 6% annualized projection reasonably accurate.

could continue, but if our model is any good, we expect the lag to reverse eventually, with actual results possibly even leading predicted outcomes.

Look-Ahead Bias

There are two forms of look-ahead bias in our regressions. Neither bothers us much, but we want to state that they are present. First, the performance projections we show for *past* periods are calculations we are making *today*, not calculations we made at *past* points in time. For example, the projection of future performance we show for 2009 based upon on 2008-ending valuations is a calculation we could not have made at the end of 2008 because we didn't have enough data points in 2008 to conduct a statistically valid regression. This form of look-ahead bias doesn't bother us because it is not present in the projections we make for 2017 and 2017-2018 using December 2016 valuation and ROE data. In other words, the point of our regressions is to make a projection about the future and we can make an unbiased projection today.

The second look-ahead bias issue also pertains only to past data points and not to our most current projection using December 2016 data. In our Q1 letter, we explained that by design we recalculate all historical value scores monthly, re-ranking and scaling all data points from 0-100. We use similar methods for quality value score and for the percentiles that feed into our PE yield regression. Thus, all of the variables in all of our regressions change slightly with each new month of data. Nevertheless, we have run regressions using raw variables rather than scaled rank variables[7] and the forward performance projections are similar. We do calculate point-in-time (PIT) value scores and the general shape of a PIT value score curve resembles that of our value score curve once we built up about three years' worth of monthly data points. Thus, the monthly rescaling of variables is a subtle change, and this look-ahead bias does not bother us either. Nonetheless, we want to state openly that there is look-ahead bias in our historical predictions. See the Q1 letter for a longer discussion of our rationale and for a detailed explanation of how we calculate value scores.[8]

Performance

Q4. We gained 1.1% in Q4. Of the indices we typically cite, the S&P 500 did better, with a 3.8% total return, while the others did worse. MSCI Frontier Markets (FM) gained 0.5%,

[7] Using dividend yield, here's an example of what we mean by raw variables and by scaled rank variables. Our raw dividend yield for December 2016 is 5.9%. The scaled rank value for this yield is 52.38, on a scale from 0 (lowest yield in our history) to 100 (highest yield in our history). We like working with scaled rank variables for two reasons. First, the scaled rank provides information on how the dividend yield compares to its historical range. A scaled rank of 52.38 tells us that a 5.9% yield is slightly above the median yield in our history, since 52.38 is slightly above 50, the mid-point of our 0-100 scale. Second, scaled ranks provide comparability between variables. The scaled rank for PE at December 2016 is 63.81 (where 0 = expensive, a high PE; and 100 = cheap, a low PE), so we know that the portfolio is a bit cheaper on a PE basis than on a dividend yield basis. Further, this comparability allows us to understand the relative weights the regression gives to each variable by examining each variable's coefficient. In our PE yield regression, the PE variable has a coefficient of 0.2750 and the dividend yield has a coefficient of 0.3426. Therefore, we can tell that the regression weighs yield slightly more than it weighs PE. We can compare the coefficients directly to each other because each variable has the same potential range of values, from 0 to 100. We cannot compare coefficients of raw variables directly.

[8] http://www.frontauracapital.com/quarterlyletters/Frontaura_Quarterly_Letter_2016Q1.pdf. See page 3 for the look-ahead bias discussion and the Appendix, beginning on page 7, for how we calculate value scores.

MSCI EAFE (developed countries outside North America) lost 0.7%, and MSCI Emerging Markets (EM) dropped 4.2%.[9]

2016. Frontaura was up 6.6% for the year. The S&P 500 led the way with a 12.0% total return, followed by MSCI EM at 11.2%, MSCI FM at 2.7%, and MSCI EAFE at 1.0%.

2016 started with a global selloff and we lost 6% in the first three weeks of the year. From January 21, we gained 13% through year-end. The indices had an even rougher start than we had, recovered more, but then the non-US indices saw their rallies fade at points later in the year.[10] Excluding Q1, it was a placid year for us, ending with three consecutive quarterly gains. Our monthly losses after Q1 were all less than a half-percentage point, despite Brexit, Nigerian devaluation, Kenyan interest rate caps, and the US election bringing back the strong dollar. Having said that, those macro events were the difference between a good year with a double-digit performance gain and the average year we had with only a single-digit performance gain.

ITD. From our November 2007 inception, we've made 82%, while the MSCI FM has lost 31% on a total returns basis. MSCI EM is down 20% and MSCI EAFE is off 8%. The S&P 500 has nearly matched us with a 77% gain, but it carries a much higher valuation, which could be an impediment for its ongoing performance. Figure A1 in the Statistical Appendix shows returns since inception for all of these indices, while Figure A2 shows our monthly returns since inception.

Currency Effects

The strong dollar was an issue for us from July 2014 through January 2016. Then, for most of 2016, currency effects were not an issue. In Q4, though, the strong dollar returned, and we see this as our biggest investment risk for 2017. As noted, however, we did make money in USD terms in Q4, including both November and December, the two months where the US election outcome affected currency values.

For all of 2016, currency effects took away 43% of our local currency gain. Before fees, we made $18.0 million in local currency and lost $7.7 million due to currency for an overall gain of $10.4 million. The $7.7 million currency loss was only one-half the amount of the currency loss we suffered in both 2014 and 2015.

Attribution

Quarter-ending AUM was $116 million spread across 49 positions in 30 countries. Figure A3 in the Appendix presents a table of our portfolio statistics and our portfolio composition by country and region.

Figures A4-A7 in the Appendix show the top and bottom performing countries for Q4 and for all of 2016 in both dollar terms and in percentage terms, with how our performance compared to MSCI's index for the country. We'll discuss only the full year dollar results

[9] Throughout this letter, all index returns are total returns including dividends, net of any withholding taxes on US investors.

[10] We discuss this in a bit more detail in our December comment: http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2016_12.pdf.

(Figure A6) in the text here. All attribution results are before fees and expenses, as those deductions occur at the fund level, rather than the country level.

We had investments in 41 countries during 2016. In dollar terms, we made money in 23; in local currency, we made money in 25.

Vietnam. Vietnam was our biggest country dollar winner, making $5.9 million, up 30%. The MSCI Vietnam Index lost 8%. Our result was similar to 2015, when Vietnam was our biggest dollar winner, making $5.1 million, up 21%, while the index lost 5%. We had four individual Vietnamese stocks that gained $1.0 million or more in 2016. Three of these we sold during the year, but the fourth was a new position we bought in January 2016. It gained 57% or $1.8 million, making it our biggest Vietnamese contributor and our third best contributor overall in the portfolio. At 4.2%, it is our fifth largest position in the portfolio and represents over half of our Vietnamese exposure at year-end. In fact, 85% of our Vietnam portfolio at year-end was new to the portfolio in 2016.

Other winners. Kuwait has had the largest weight in the MSCI FM Index throughout our history, but we only invested in the country for the first time in 2016. Our single stock there, which is not in the energy sector, was the year's best performer, making $2.9 million, or 108%. It is our third largest stock holding at year-end at 4.8%.

Our second best stock performer in 2016 was also a new position. We invested in Georgia for the first time and made $2.2 million, or 80%. Pakistan was our fourth best market in 2016, also making $2.2 million with a 24% gain. The MSCI Index did even better, up 40%. Pakistan is our second largest country now at 8%. MSCI is promoting it from its FM Index back into its EM Index, where it was from 1994 to 2008. We can continue holding Pakistan after promotion, but we might trim or sell if valuations run up in advance of its 31 May 2017 index entry. Rounding out our top five countries is Papua New Guinea, where we gained 20% or $1.5 million. Our patience in PNG may be paying off finally, as we are now just above break-even on an investment we initiated in 2012.

Losses in Sub-Saharan Africa. Figure A8, which is new to our Appendix, shows that we made money in every region of the world in 2016 except Sub-Saharan Africa, where we suffered a $7.1 million, or 16% drop. Returning to Figure A6, African countries dominated our biggest attribution losers list, with Nigeria, Kenya, Rwanda, and Ghana in the top four positions, losing $2.9 million, $1.5 million, $1.3 million, and $0.8 million, respectively. All of these countries had double-digit percentage losses, ranging from -17% to -24%. The Philippines interrupted the African string, as our fifth worst country, barely ahead of Tanzania as sixth worst. Both had $0.7 million losses. Nigeria, which has had a terrible run since Q4 2014, when the oil price crashed, suffered in 2016 due to its June devaluation.[11] Kenya was off for us due to its August 2016 interest rate cap policy blunder.[12] Overall, the African investment environment is marked by policy mistakes, mediocre fundamentals, weak currencies, portfolio outflows, and investor apathy. It may still be too early to call the bottom on the continent, but as contrarians, we do find it interesting now.

[11] http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2016_06.pdf.

[12] We discussed Kenya in both our August and our October monthly comments:
http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2016_08.pdf.
http://www.frontauracapital.com/monthlycomments/Frontaura_Monthly_Comment_2016_10.pdf.

Figures A9-A10 in the Appendix shows how and why our country mix has changed over the past quarter and year. Figure A11 shows portfolio concentration changes over these periods.

Fund and Management Company News

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

Investment. Our year-end top-up appeal in our November monthly comment along with a follow-up e-mail to existing investors generated a good response. Over a dozen investors have added or plan to add to their accounts from December 1 through March 1. Our November buying spree in response to numerous bargains in different sectors and different countries around the world has left us with only 2% cash at year-end, our lowest level since Q1 2010. We continue to see good values that we are not able to take advantage of due to lack of cash. Qualitatively, this is the best buying environment we have had in several years. Thus, we would welcome further investments from existing and new investors.

Travel and events. In Q4, we visited Kenya, the Philippines, Rwanda, Tanzania, and Uganda. In Chicago, we attended a conference for Austrian companies, many of whom have operations in Eastern Europe and the former Soviet Union. Nick visited clients and prospects in New Hampshire, Boston, Connecticut, New York, and Florida, while Steve had a couple meetings in London around Christmas. We hosted our 9th Annual Frontaura Prediction Lunch in Chicago in December with a record number of attendees and predictors.

In January, Nick will be in Cairo to visit Egyptian companies following the country's November devaluation and free floating of its currency. Tim will follow two weeks later to attend a conference in Cairo for Egyptian and some Sub-Saharan Africa companies, with a side trip to Kuwait. We will be back in the region in March, at a Dubai conference for Middle East and North African companies.

Reporting. Our administrator emailed Q4 investor statements January 11. 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.

Tax note for taxable investors. This section addresses questions and comments we've received from taxable investors in the past year. In 2016, the fund as whole had dividend income, a short-term capital loss (STCL), and a long-term capital gain (LTCG), with the STCL slightly exceeding the LTCG. In other words, netting all capital gains and capital losses, there is a slight net taxable loss.

Taxable gains and losses flow through to all investors through a set of complex calculations our tax accountant performs. We cannot predict the exact outcome of this process. We can offer some general guidelines, although actual results by investor will vary. As a general principle, if you did not redeem anything during the year, your flow-through taxes should resemble what the fund as a whole experienced (in 2016, dividend income, LTCG, STCL, with the loss slightly exceeding the gain), but this is not guaranteed and there will be exceptions to this. If you redeemed, the calculation gets more complicated as the tax allocation method tries to ensure that the redemption amount does not contain any untaxed gains. Overall, the allocation method assigns capital gains to investors with the largest gap

between their account value and their cost basis.[13] This redemption tax accounting can feedback and affect the tax accounting for non-redeemers as well, which is why we cannot be too precise in what we say here.

You should expect to have dividend income every year as a high yield is an attractive investment attribute Frontaura offers. Whether the dividend income is taxed at ordinary income tax rates or qualifies for lower dividend tax rates depends on tax treaties in place (or not) between the US and the country where the dividend is from. To some extent, our management fee may offset ordinary income that you receive from Frontaura. This is true in the United States if your total miscellaneous expenses (the IRS classifies investment management fees as a miscellaneous expense) from all sources exceed 2% of your adjusted gross income.

We strive to minimize short-term capital gains, which the IRS taxes at ordinary income rates. However, we will not put the tax cart before the portfolio management horse, if there is a situation where the prudent decision would be to sell immediately rather than wait for the one-year anniversary of when we purchased stock. This could occur 1) when a rapid price run-up leads to extreme overvaluation, 2) where we expect a sudden deterioration in fundamentals, or 3) when we assess the investment thesis to be valid no longer. In the case of overvaluation, we often set our sell point in a short-term capital gain (STCG) scenario higher than we would have it in a long-term capital gain scenario, such that our after-tax gain is equivalent in either scenario. This is not an absolute rule. If we thought a stock carried too much downside risk, and was unlikely to reach its STCG tax-equivalent price, then we would sell right away.

In the long run, you should expect long-term capital gains. If we don't deliver these, the fund is not appreciating sufficiently. There is no way to avoid long-term capital gains over time while managing the fund successfully.

Our usual Statistical Appendix follows this page. If you have anything you'd like to discuss, please e-mail or call us. We thank you for being a Frontaura client.

Best regards,

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[13] The allocation method would allocate capital losses to redeeming investors in a loss position (their account value is lower than their cost basis).

Statistical Appendix

Figure A1
Frontaura Global Frontier Fund LLC
Performance[14]
31 December 2016

Period	Frontaura	S&P 500	MSCI EAFE	MSCI Emerging	MSCI Frontier
2016 Q1	- 1%	1%	- 3%	6%	- 1%
2016 Q2	4%	2%	- 1%	1%	0%
2016 Q3	2%	4%	6%	9%	3%
2016 Q4	1%	4%	- 1%	- 4%	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	- 5%	1%	- 1%	- 15%	- 14%
2016	7%	12%	1%	11%	3%
Inception to Date	82%	77%	- 8%	- 20%	- 31%
ITD CAGR	6.8%	6.4%	- 0.9%	- 2.4%	- 4.0%

Figure A2
Frontaura Global Frontier Fund LLC
Monthly Performance
31 December 2016

	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%
2016	-4.8%	-0.6%	4.2%	1.8%	2.9%	-0.3%	1.6%	-0.4%	1.1%	-0.4%	0.7%	0.8%	6.6%

[14] 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 A3
Frontaura Global Frontier Fund LLC
Portfolio Mix and Statistics[15]
31 December 2016

Country	Holding
Sri Lanka	10%
Pakistan	8%
Vietnam	8%
Nigeria	7%
Papua New Guinea	7%
Tanzania	6%
Bangladesh	6%
Argentina	5%
Kuwait	5%
Georgia	4%
Rwanda	4%
Kenya	3%
Romania	3%
Lebanon	3%
United Arab Emirates	3%
Cambodia	3%
Serbia	2%
Macedonia	2%
Oman	2%
Ghana	2%
Philippines	2%
Ecuador	1%
Botswana	1%
Uganda	1%
Peru	1%
Mozambique	1%
Qatar	1%

Region	Holding
Sub-Saharan Africa	25%
South Asia	24%
Southeast Asia	19%
Middle East / North Africa	13%
Eastern Europe	8%
Latin America & Caribbean	7%
Eurasia	4%

Sector	Holding
Financials	47%
Consumer Discretionary	14%
Consumer Staples	10%
Utilities	9%
Materials	6%
Industrials	6%
Energy	3%
Real Estate	3%
Cash	2%
Others	1%

Portfolio Statistics	
Portfolio Price to LTM Earnings	6.7
Portfolio Price to Book	1.2
Portfolio LTM Dividend Yield	5.9%
Return on Ending Equity	26.7%
Positions	49
Countries	30
Average Market Cap	$790m
Median Market Cap	$480m
Portfolio Turnover (LTM)	33%
Portfolio Turnover (ITD)	28%
Standard Deviation (ITD)	14%
Beta to S&P 500 (ITD)	0.51
Assets Under Management	$116m

[15]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 A4
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Dollar Return)
2016 Q4

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)[16]	Frontaura Return (%)	MSCI Return[17]	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Kuwait	2.3	71%	11%	Philippines	-0.8	-29%	-13%
Pakistan	1.5	17%	16%	Tanzania	-0.7	-9%	--
Georgia	0.4	9%	--	Sri Lanka	-0.5	-4%	-5%
Kenya	0.4	9%	-6%	Cambodia	-0.4	-12%	--
Nigeria	0.4	6%	-4%	Rwanda	-0.4	-7%	--

Figure A5
Frontaura Global Frontier Fund LLC
5 Best and Worst Performing Countries (Percentage Return)
2016 Q4

5 Best Countries				5 Worst Countries			
Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Kuwait	2.3	71%	11%	Philippines	-0.8	-29%	-13%
Mozambique	0.2	26%	--	Cambodia	-0.4	-12%	--
Pakistan	1.5	17%	16%	Mongolia	0.0	-10%	--
United Arab Emirates	0.3	10%	-1%	Romania	-0.3	-9%	-5%
Kenya	0.4	9%	-6%	Serbia	-0.3	-9%	13%

[16] This footnote applies to all columns labeled "Frontaura Return ($millions)" and "Frontaura Return (%)" on this page and any page with a similar table. 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.

[17] This footnote applies to all columns labeled "MSCI Return" on this page and any page with a similar table. 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 A6
Frontaura Global Frontier Fund LLC
10 Best and Worst Performing Countries (Dollar Return)
2016

10 Best Countries				10 Worst Countries			
Country	Frontaura Return ($millions)[18]	Frontaura Return (%)	MSCI Return[19]	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Vietnam	5.9	30%	-8%	Nigeria	-2.9	-24%	-36%
Kuwait	2.9	108%	3%	Kenya	-1.5	-16%	1%
Georgia	2.2	80%	--	Rwanda	-1.3	-21%	--
Pakistan	2.2	24%	40%	Ghana	-0.8	-17%	-27%
Papua New Guinea	1.5	20%	--	Philippines	-0.7	-26%	-7%
Bangladesh	1.1	18%	10%	Tanzania	-0.7	-9%	--
Lebanon	0.6	21%	9%	Montenegro	-0.6	-13%	--
Argentina	0.6	12%	5%	Ecuador	-0.3	-11%	--
Mongolia	0.5	28%	--	Laos	-0.2	-15%	--
Macedonia	0.5	20%	--	Egypt	0.0	-4%	-12%

Figure A7
Frontaura Global Frontier Fund LLC
10 Best and Worst Performing Countries (Percentage Return)
2016

10 Best Countries				10 Worst Countries			
Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return	Country	Frontaura Return ($millions)	Frontaura Return (%)	MSCI Return
Kuwait	2.9	108%	3%	Iraq	0.0	-43%	--
Albania	0.1	88%	--	Angola	0.0	-33%	--
Georgia	2.2	80%	--	Philippines	-0.7	-26%	-7%
Vietnam	5.9	30%	-8%	Nigeria	-2.9	-24%	-36%
Mongolia	0.5	28%	--	Rwanda	-1.3	-21%	--
Peru	0.2	25%	56%	Ghana	-0.8	-17%	-27%
Pakistan	2.2	24%	40%	Kenya	-1.5	-16%	1%
Lebanon	0.6	21%	9%	Laos	-0.2	-15%	--
Macedonia	0.5	20%	--	Montenegro	-0.6	-13%	--
Papua New Guinea	1.5	20%	--	Ecuador	-0.3	-11%	--

[18] The Frontaura Return footnote on the first attribution table on a prior page applies to all Frontaura Return columns on this page.
[19] The MSCI Return footnote on the first attribution table on a prior page applies to all MSCI Return columns on this page.

Figure A8
Frontaura Global Frontier Fund LLC
Performance by Region

Region	2016 Q4		2016	
	Frontaura Return ($millions)[20]	Frontaura Return (%)	Frontaura Return ($millions)	Frontaura Return (%)
Eastern Europe	-0.5	-4%	0.3	2%
Eurasia	0.4	7%	2.7	56%
Latin America & Caribbean	-0.3	-3%	0.5	6%
Middle East / North Africa	2.8	21%	3.9	26%
South Asia	1.2	4%	3.5	13%
Southeast Asia	-1.0	-4%	6.5	19%
Sub-Saharan Africa	-0.5	-2%	-7.1	-16%

[20] The Frontaura Return footnote on the first attribution table on a prior page applies to all Frontaura Return columns on this page.

Figure A9
Frontaura Global Frontier Fund LLC
Significant Quarterly Country Mix Changes[21]
2016 Q4

Country	Percentage Point Change	Explanation
Kuwait	+2	Strong stock performance

Figure A10
Frontaura Global Frontier Fund LLC
Significant Annual Country Mix Changes
2016

Country	Percentage Point Change	Explanation
Kuwait	+5	Added new position Q2 2016; strong stock performance
Georgia	+4	Added new position Q2 2016; strong stock performance
Sri Lanka	+3	Added two positions Q2-Q3 2016
United Arab Emirates	+3	Added new position Q3 2016
Argentina	+3	Added new position Q4 2016; gains in existing position
Montenegro	-4	Exited country in 2016
Vietnam	-7	Multiple position exit sales exceed appreciation and multiple new position buys

[21] 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 A11
Frontaura Global Frontier Fund LLC
Portfolio Concentration[22]
31 December 2016

	Companies	Countries	Change from Prior Quarter		Change from Prior Year	
			Companies	Countries	Companies	Countries
Positions	49	30	-3	-1	-3	-6
Top 5	26%	39%	+2	+1	+4	-4
Top 10	44%	65%	+5	+5	+7	--
Top 20	70%	92%	+6	+7	+10	+4
Top 20 + USA (Cash)	70%	92%	+1	+1	+5	-1

[22] 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.