



Frontier Market Liquidity – A Rising Tide

By Lawrence Speidell

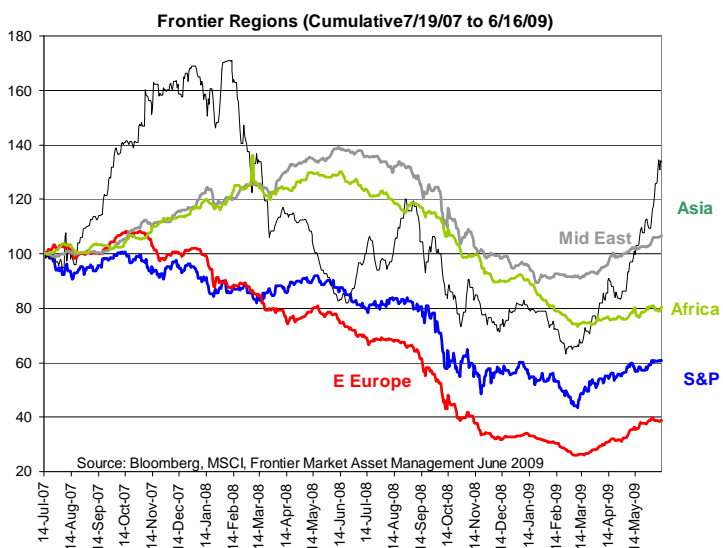
June 2009

Since our review of frontier market liquidity in March, much has changed, and it is time for another look.

The tables and chart below summarize the bear market in terms of the major indexes plus our own composite of 28 frontier markets. From the high in mid-2007 to March 6, 2009, our average of frontier markets declined 40% compared with 56% for the S&P. Since then, Markets have rallied significantly.

Exhibit 1

	S&P 500	DJIA	EAFE	Emerging Mkts	Frontier Markets (Average of 28)
7/19/2007	1,553.1	14,000.4	2,327.9	1,144.1	100.0
12/31/2007	1,468.4	13,264.8	2,253.4	1,245.6	138.3
8/31/2008	1,282.8	11,543.6	1,821.1	956.3	105.1
12/31/2008	903.3	8,776.4	1,237.4	567.0	72.1
3/6/2009	683.4	6,626.9	925.9	488.3	60.4
6/12/2009	945.4	8,791.8	1,352.6	791.0	99.4
% Chg 7/19/07-3/6/09	-56.0%	-52.7%	-60.2%	-57.3%	-39.6%
% Chg 12/31/07-12/31/08	-38.5%	-33.8%	-45.1%	-54.5%	-47.9%
% Chg 8/31/08-12/31/08	-29.6%	-24.0%	-32.0%	-40.7%	-31.4%
% Chg 12/31/08-3/6/09	-24.3%	-24.5%	-25.2%	-13.9%	-16.2%
% Chg 3/6/09 - 6/12/09	38.3%	32.7%	46.1%	62.0%	64.5%



	Frontier Markets (Average of 28)	Frontier Asia (3)	Frontier Africa (4)	Frontier Europe (9)	Frontier Mid-East (12)
% Chg 7/19/07-3/6/09	-39.6%	-33.0%	-25.7%	-74.3%	-7.9%
% Chg 12/31/07-12/31/08	-47.9%	-51.7%	-21.7%	-67.7%	-18.5%
% Chg 8/31/08-12/31/08	-31.4%	-29.4%	-21.8%	-50.2%	-27.3%
% Chg 12/31/08-3/6/09	-16.2%	-19.5%	-19.1%	-20.7%	-4.0%
% Chg 3/6/09 - 6/12/09	64.5%	103.5%	8.2%	48.4%	16.1%

Source for exhibit 1: Bloomberg, Frontier Market Asset Management, June 2009

2218 Avenida de la Playa
La Jolla, CA 92037
United States

p 1+858-456-1440
f 1+858-456-2040

www.frontiermkt.com

As shown by the table, within frontier markets Asia has doubled (driven by Vietnam) and Africa has lagged. Meanwhile, there are some interesting changes in the economic indicators we monitor:

Exhibit 3

	Oil Brent Futures	Gold	Copper	Euro	3 mo T-Bill	10 Yr Gov	10 Yr TIPS	Expected Inflation
7/19/2007	73.7	677.5	7920.0	1.38	4.98	5.02	2.64	2.38
12/31/2007	88.9	833.9	6715.0	1.46	3.24	4.03	1.70	2.32
8/31/2008	119.2	831.2	7450.0	1.47	1.7	3.81	1.67	2.15
12/31/2008	55.8	882.1	2935.0	1.40	0.08	2.21	2.09	0.12
3/6/2009	48.1	939.4	3725.0	1.27	0.20	2.87	2.03	0.85
6/12/2009	71.0	940.1	5290.0	1.40	0.17	3.80	1.87	1.93
% Chg 7/19/07-3/6/09	-34.8%	38.6%	-53.0%	-8.3%	-96.0%	-42.7%	-23.1%	-64.4%
% Chg 12/31/07-12/31/08	-37.2%	5.8%	-56.3%	-4.2%	-97.5%	-45.0%	22.9%	-94.7%
% Chg 8/31/08-12/31/08	-53.1%	6.1%	-60.6%	-4.8%	-95.3%	-41.9%	25.4%	-94.3%
% Chg 12/31/08-3/6/09	-13.9%	6.5%	26.9%	-9.4%	148.1%	29.8%	-3.2%	595.1%
% Chg 3/6/09 - 6/12/09	47.6%	0.1%	42.0%	10.7%	-15.4%	32.2%	-7.7%	127.6%

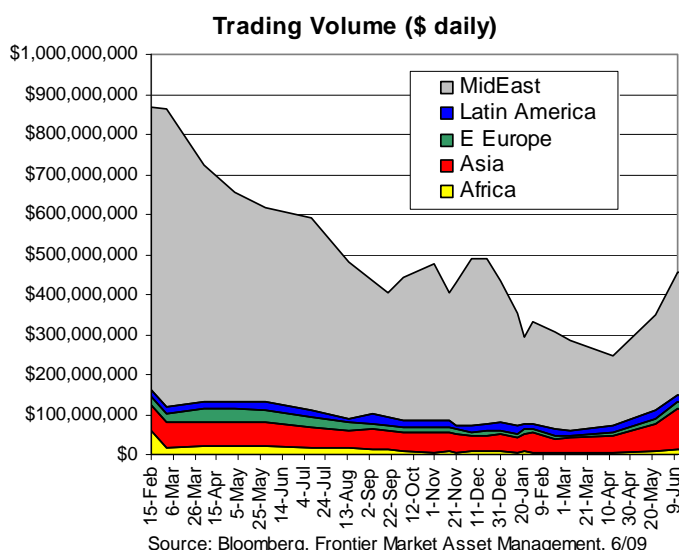
Source: Bloomberg, Frontier Market Asset Management, June 2009

Some signs of improvement can be seen in the rises in copper prices, oil prices and expected inflation.

Trading Volume

As shown in exhibit 4, trading volume has recovered sharply since March across all the frontier regions.

Exhibit 4



Asian trading volume is far above its level last fall, while other regions have recovered nicely to roughly where they were before the financial crisis began.

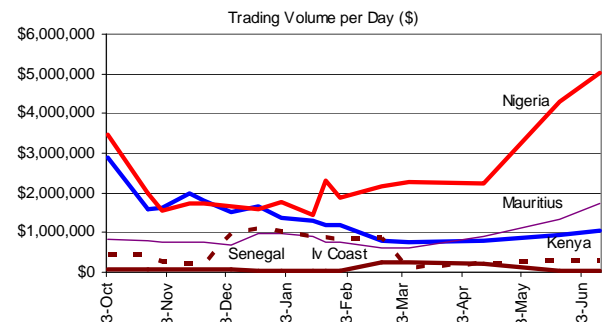
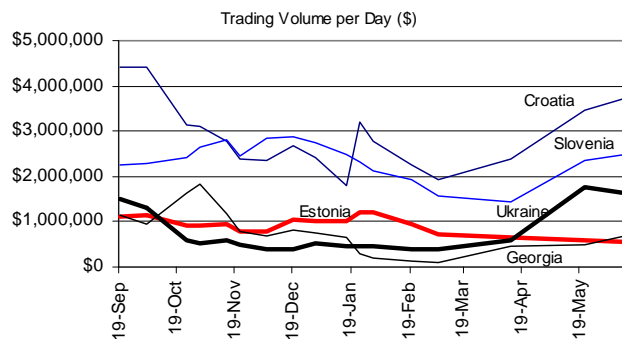
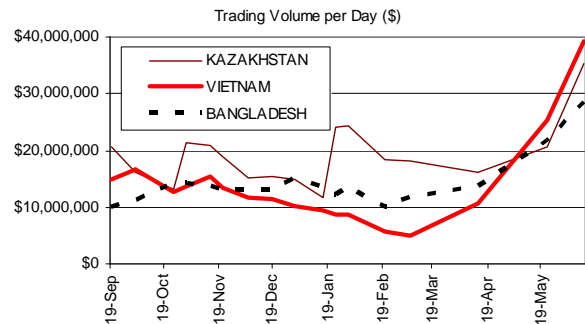
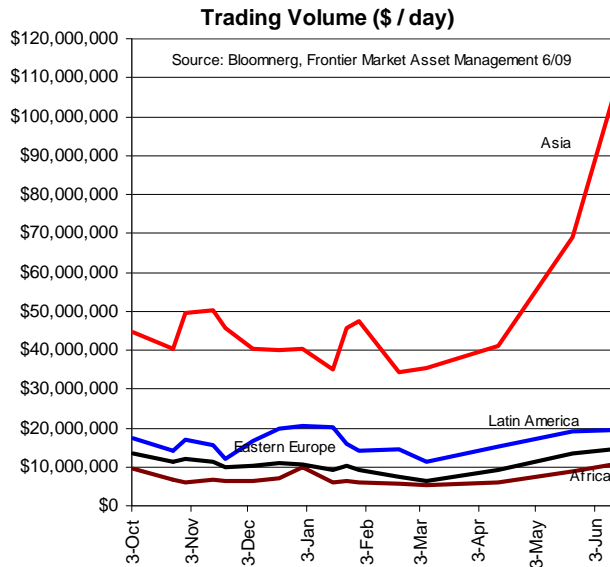
Exhibit 5

	10/3/2008	3/6/2009	6/12/2009	% chg Oct-Mar	% chg Mar-Jun
Africa	\$9,620,050	\$5,354,799	\$10,701,475	-44.3%	99.8%
Asia	\$44,475,667	\$35,403,221	\$104,546,763	-20.4%	195.3%
E Europe	\$13,491,511	\$6,511,808	\$14,554,693	-51.7%	123.5%
Latin America	\$17,219,535	\$11,271,457	\$19,443,224	-34.5%	72.5%
MidEast	\$356,742,715	\$227,359,599	\$308,165,870	-36.3%	35.5%
Total	\$441,549,478	\$285,900,884	\$348,699,849	-35.3%	22.0%
Ex-GCC	\$84,806,763	\$58,541,286	\$149,246,156	-31.0%	154.9%

Source: Bloomberg, Frontier Market Asset Management, June 2009

Our focus for investing in this asset class is on the poorest frontier countries outside the Middle East (ex-GCC); so we examine them in more detail below. Although volumes are down, these regions collectively trade roughly \$150 million per day compared with only \$58 million at the beginning of March. Individual countries have fared differently; volume is down from March levels in Estonia, Botswana and Ivory Coast, but volumes are up roughly 5 times in Ghana, Sri Lanka and Vietnam.

Exhibit 6



Source for exhibit 6: Bloomberg, Frontier Market Asset Management, June 2009

Some markets are clearly more active than others, with the Middle East, Asia and Latin America having turnover around 50%, while in Eastern Europe and Africa it is closer to 5%. Part of this difference is cultural, while part may also be due to a higher portion of market cap in closely held positions of strategic partners rather than in the float. In general, turnover in markets has not declined despite lower market levels. While dollar trading equivalent volumes have declined, trading activity has continued in these markets.

In our universe of more than 300 stocks, there are 162 stocks that currently trade more than \$100,000 per day, compared with 98 in March and 112 stocks last October. Some of the more liquid stocks are shown below in exhibit 7.

Exhibit 7

Name	Country	Volume \$/day
COPA HOLDINGS SA-CLASS A	PANAMA	\$18,463,621
BANCOLOMBIA S.A.-SPONS ADI	COLOMBIA	\$16,520,602
KAZMUNAIGAS EXPLORATION	KAZAKHSTAN	\$13,812,832
SAIGON THUONG TIN COMMER	VIETNAM	\$13,370,420
MOBINIL-EGYPTIAN MOBILE SE	EGYPT	\$7,715,988
SUMMIT POWER LTD	BANGLADESH	\$7,248,347
TITAS GAS TRANSMISSION & DI	BANGLADESH	\$5,094,289
REFRIGERATION ELECTRICAL I	VIETNAM	\$3,611,615
CABLES AND TELECOMMATER	VIETNAM	\$3,589,833
FPT CORP	VIETNAM	\$3,369,839
BEXIMCO PHARMACEUTICALS I	BANGLADESH	\$2,900,878
BEXTEX LTD	BANGLADESH	\$2,646,789
TAN TAO INVESTMENT INDUST	VIETNAM	\$2,287,414
SONGDA URBAN & INDUSTRIAL	VIETNAM	\$1,835,331
KRKA	SLOVENIA	\$1,693,231
DHAKA ELECTRIC SUPPLY CO I	BANGLADESH	\$1,674,350
BRD-GROUPE SOCIETE GENER	ROMANIA	\$1,665,561
SIF 5 OLTENIA	ROMANIA	\$1,607,510
POWERGRID CO OF BANGLAD	BANGLADESH	\$1,543,017
HRVATSKE TELEKOM DD	CROATIA	\$1,524,133
INDOCHINA CAPITAL VIETNAM I	VIETNAM	\$1,484,704
PHALAI THERMAL POWER JSC	VIETNAM	\$1,338,378
UNITED BANK FOR AFRICA PLC	NIGERIA	\$1,245,144
		<u>\$116,243,827</u>

Source: Bloomberg, Frontier Market Asset Management, June 6, 2009

Finally, we consider the stocks currently available for a pro forma \$20 million portfolio at various levels of liquidity. For the purpose of this example, we look at a \$20 million portfolio, which is targeting a minimum of 1% positions, equal to \$200,000 each in frontier countries outside the Mid East.

Exhibit 8

Portfolio Size:	Number of Stocks at 1% positions less than:			
	< 3.3 days	< 10 days	< 20 days	20 days +
\$200,000 =				
Africa	30	46	58	17
Asia	56	62	63	6
E Europe	43	62	69	17
Latin America	3	7	9	7
Total (ex-GCC)	132	177	199	47

Source: Bloomberg, Frontier Market Asset Management, June 2009

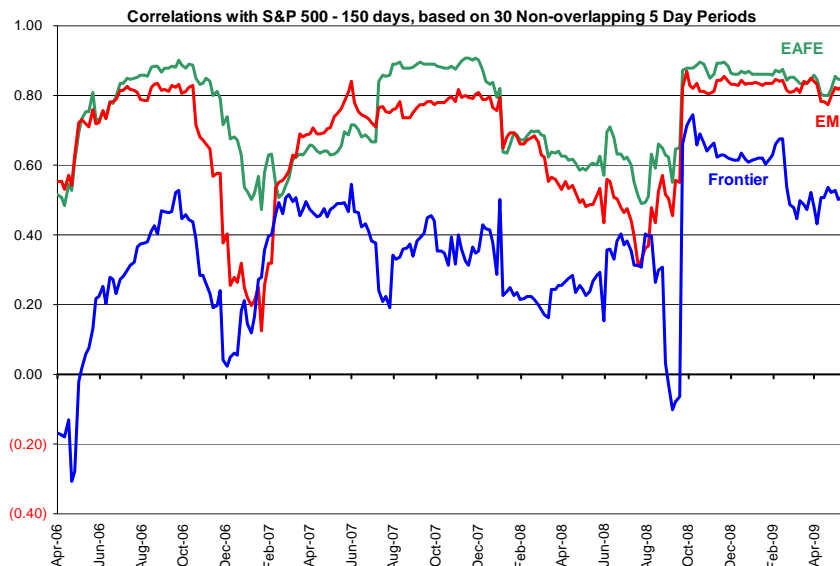
There are 199 stocks where a 1% (\$200,000) position would be less than 20 days volume. For 177 of these, a 1% position would be less than 10 days volume and for 133 stocks it would be less than 3.3 days. Considering the 133 stocks in the most liquid group, the average stock is quite liquid. If we chose the best quartile of these, we could invest \$108 million in each of them before exceeding 3.3 days trading volume.

For a firm overall, where liquidity needs are spread across different clients, we believe that it is reasonable to manage positions sizes to 15 days trading volume. As mentioned above, total daily volume across the regions of Africa, Asia, Eastern Europe, in exhibit 5 (page 2), is roughly \$150 million. If a firm were to own the best quartile of these stocks, the average daily trading volume of its holdings today would be \$37 million. If the firm held an average of 15 days volume, it would have the capacity for roughly \$550 million in assets under management. These estimates are more than double the level we estimated in March, because trading volumes have increased substantially.

Conclusion

These remain very challenging times, but we believe that frontier markets are an attractive opportunity. Liquidity has made a huge recovery from the dark days of winter. Given the relatively good performance of frontier and emerging markets during these crisis times, we believe more investor interest is headed their way. The best investors, however, will be those who are less concerned about liquidity and more committed to playing a long term role as investors in these markets.

Exhibit 9



Source: Bloomberg, Frontier Market Asset Management, June 2009

About Frontier Market Asset Management

Founded in 2006, Frontier Market Asset Management holds more than 35 years worth of investment experience including work in Emerging and Frontier Markets since 1987. For more information, please contact us at (858) 456-1440.

This is not an offering. An offering will be made only by means of a final offering memorandum and only in those jurisdictions where permitted by law. The fund is subject to a variety of risks, including but not limited to: investments may be volatile depending on the type of hedging techniques employed and subject to stock market risk; investments may be illiquid; an investor could lose all or a substantial amount of any investment in the fund; there is no secondary market for interests in the fund nor is one expected to develop, and there are substantial restrictions on transferring an investment in the fund; fees and expenses of the fund may be higher than those of other investments and will reduce the portfolio return. Consult the fund's offering memorandum for complete risk disclosures and other important information.

Frontier Market Asset Management, LLC © 2009. The information has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its correctness. Opinions are presented without guarantee.