



The new decade is off to a great start, with the MSCI Frontier Europe index up over 8% for the quarter and 66% for the past year. For Q1 '10, your fund is up over 30%.

## **Ukraine stocks: best in the world for Q1 '10**

In anticipation of the political stabilization there, which is in fact now occurring, we added a number of holdings in the Ukraine, in steel and in agribusiness where their famous “black earth” again appears increasingly bountiful. Ukraine stocks have appreciated over 52% in the first quarter, the best performance globally. Real GDP grew 5% YoY and industrial output surged 11% YoY for the quarter.

The MSCI frontier index's 29 percent price-to-book discount to the emerging gauge is more than double the average 14 percent since Bloomberg began compiling the data in July 2008. The frontier gauge yields 2.9 percent in dividends, compared with 2 percent for the MSCI emerging index, Bloomberg data show.

Consumer goods companies in the MSCI frontier index are projected to increase operating profits at a 20 percent pace for the next five years, compared with 18 percent for companies in the MSCI emerging gauge and 13 percent for those in the MSCI World Index of advanced nations, according to estimates compiled by Bloomberg.

While overall earnings are forecast to grow faster in the biggest developing countries, they are valued at cheaper levels in frontier markets. The MSCI frontier gauge of companies with an average market value of \$2.1 billion trades at 10 times this year's profit estimates, compared with 13 times for the emerging index, where the average company has a value of \$8.7 billion.

## **Russia – Ukraine Axis**

These two neighbors, close in history, culture and geography, recently announced a swap of a discount on gas supplies for a long-term lease on a Black Sea naval port. Diplomacy is rearing her handsome head in the region and closer co-operation, including investment and business opportunities, portend.

At a 9.3 P/E, Russia remains today one of the cheapest in the Emerging Markets space, selling at a 30% discount to the MSCI EM Index. For the last decade, while the S&P lost 23%, the MICEX in Russia gained 694%. In the 2003-2008 five-year period, the EM share of Global Economic Output has increased from one-fifth to one-third! And, according to Morningstar, 4 out of 5 of the most profitable equity funds have investments in Russia. Finally, according to EPFR Global data, more than 95% of analysts ratings on Russian stocks remain “Buy” or “Hold” recommendations, an endorsement of future prospects....And our investment themes for Frontier Europe remain the same: domestic consumption recovery, liberalizing of markets, infrastructure spending and increasing economic links to China (a leading destination for Russia-Ukraine commodity exports).

## Igor Shuvalov, first deputy prime minister: Modernization of the Economy

From continuing privatization to spurring innovation to encouraging foreign investment, Russia's top officials see economic modernization as a key to the country's future. The person on whom much of the responsibility falls for making this happen is First Deputy Prime Minister Igor Shuvalov. I met in a small group with Mr. Shuvalov in late March in his White House offices in Moscow to discuss his vision for Russia's economic future. I liked what I heard – both in his realistic analysis of what has hampered Russia's progress and in his plans for overcoming those challenges.

Shuvalov, who, like President Dmitry Medvedev, is trained as a lawyer, noted that Russian judges are now paid good salaries and receive solid “social packages” (housing and health care), so their conduct is expected to be above reproach and, should they misbehave, sanctions will be swift. Prosecutions of errant government officials in Russia today are in fact numerous.

## Foreign Investment

Corruption, of course, has an ancient history in Russia and “leakages” from the budget remain endemic. Partly for this reason, it seemed, Shuvalov was open to foreign firms financing projects such as toll roads, for example, in return for a 20- year or longer lease, with the title reverting to the public authority after the bonds which financed construction have been retired....

Easing of business visa requirements are now in the offing – one of my perennial themes!

## Fund Brochure & Website

Investors have helped us re-shape our Presentation, giving it more focus on specific company investment targets. Please let me know at [jtcthirdmillennium@yahoo.com](mailto:jtcthirdmillennium@yahoo.com) if you would like a copy....Also, please visit our new website at [www.FrontierEuropeFund.com](http://www.FrontierEuropeFund.com).

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