
Advance Frontier Markets Fund Limited

Annual report 2014



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Investment objective

The objective of Advance Frontier Markets Fund Limited (the "Company") is to generate long-term capital growth for its shareholders. The Investment Manager invests predominantly in a diversified portfolio of funds and other investment products which derive their value from Frontier Markets. The proportion of the portfolio invested in each component of Frontier Markets varies according to where the Investment Manager perceives the most attractive investment opportunities to be. Investee funds may include closed and open-ended funds, exchange traded funds, structured products, limited partnerships and managed accounts.

Performance

For the year ended 30 June 2014

Net asset value ("NAV") per share (in US dollar terms)	+22.4%
Share price (in US dollar terms)	+27.9%

As at 30 June 2014

NAV per share	\$1.0811
Share price (in GB pounds)	£0.5900
Share price (in US dollars)	\$1.0092
Net assets	\$183.2m

Financial calendar

Annual General Meeting	3 December 2014 at 11:00 a.m. 11 New Street St Peter Port Guernsey GY1 2PF
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The Annual Report can be downloaded in electronic format from www.frontiermarketsfund.com.

Chairman's statement

On behalf of your Board, I am pleased to present to you the Annual Report for Advance Frontier Markets Fund Limited ("AFMF", the "Company", the "Fund") for the financial year ended 30 June 2014.

Frontier markets delivered strong returns during the year as the asset class attracted increasing interest from global investors. In this environment, the Company performed well with its NAV per share increasing by 22.4% and its share price returning 27.9% in US dollar terms as the discount at which the Company's shares trade narrowed from 10.7% to 6.6%.

Continuation vote

I would like to remind shareholders that in accordance with the Company's admission document, a resolution that the Company should continue in existence will be proposed at the Annual General Meeting in 2014. Having consulted with our advisors and considered the interests of shareholders as a whole, the Board recommends that shareholders vote in favour of the continuation of the Company.

Shareholders will be afforded an opportunity to fully realise their investment in the Company at the then prevailing net asset value less costs by way of proposals to be put to shareholders at the time of the Company's Annual General Meeting in 2016.

Alternative Investment Fund Managers ("AIFM") Directive

Advance Emerging Capital Limited ("AECL"), the Company's investment manager, received its authorisation as an Alternative Investment Fund Manager from the UK's Financial Conduct Authority ("FCA") in July 2014. In line with the requirements of the directive, the Board expects to appoint Northern Trust (Guernsey) Limited as depositary of the Company in the near future.

Changes at Investment Manager

Dr Slim Feriani was appointed Executive Chairman of the Board of Directors of AECL with effect from 1 July 2014, having acted as Chief Investment Officer of AECL since 2005. From 1 July, the Chief Investment Officer responsibilities passed to Bernard Moody and Andrew Lister who are now jointly responsible for the investment management of the Company. Bernard and Andrew are long standing and senior members of the AECL investment team, with 28 years' combined experience of investing in emerging and frontier markets through both open and closed end funds.

Gearing

In April, the Company announced that it had entered into a one year US dollar revolving loan facility with Investec Bank plc. Under the terms of the facility the Company may draw down loans of, in aggregate, up to US\$9 million. The objective is for the facility to be used to allow the Company to be more fully invested on a look-through basis thus offsetting the drag on performance caused by cash positions held by underlying investee funds. At the end of the period US\$6.5 million was drawn down from the facility and the remainder of the facility has been drawn down since the year end.

Future prospects

As discussed in the Investment Manager's report, we believe that frontier markets remain an attractive investment opportunity. The Board remains convinced that the Investment Manager's approach of focusing on the most desirable markets and investing with the most skilled fund managers in those markets should prove to be rewarding for long term investors in the Company.

Grant Wilson

12 September 2014

Investment Manager's report

Performance review

During the year to 30 June 2014 the Company's net asset value per share (NAV) and share price rose by 22.4% and 27.9% in US dollar terms respectively. The discount to net asset value at which the Company's shares trade reduced from 10.7% to 6.6%.

In a generally supportive environment for frontier markets AFMF benefitted from the strong performances of a number of its larger holdings including Advance Copernico Argentina Equity Fund (NAV total return 84.1%), Romanian holding Fondul Proprietatea (share price total return 57.2%), EFG-Hermes Saudi Arabia Fund (NAV total return 42.8%) and Ashmore Middle East Equity Fund (NAV total return 45.4%). Somewhat less rewarding was the Company's investment in Sustainable Capital Nigeria Fund which delivered an NAV total return of just 7.5%.

Figure 1: Advance Frontier Markets Fund Performance Report

	12 Months	3 Years	5 Years	Since inception
AFMF NAV	22.4%	29.3%	63.5%	11.6%
AFMF Price	27.9%	40.5%	81.1%	0.9%

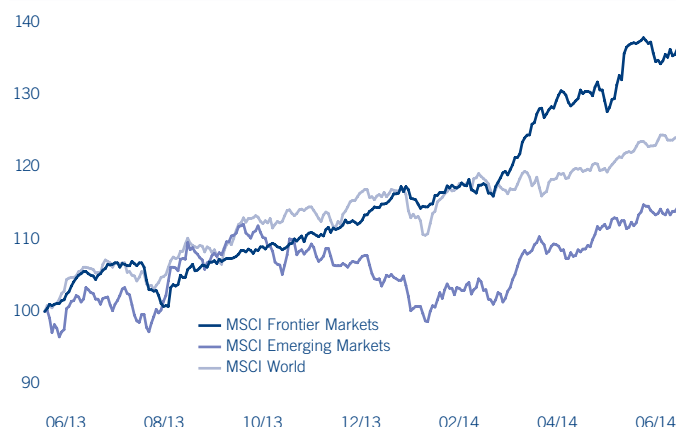
Source: Advance Emerging Capital Limited, Bloomberg, all figures in US dollar terms to 30 June 2014

Inception was 15 June 2007 (initial NAV per share after share issue expenses was US\$ 0.9685).

Market environment¹

Frontier markets performed strongly during the financial year, with the MSCI Frontier Markets Index posting a gain of 36.2%, significantly ahead of the returns from both emerging and developed markets. The overall index gain was however somewhat flattered by index changes that took place at the end of May. The United Arab Emirates and Qatar which had accounted for 35% of the frontier index and which had risen by 108.5% and 54.6% respectively in the first 11 months of AFMF's financial year, were promoted to emerging market status and removed from the frontier markets index. Their subsequent falls of 24.1% and 21.8% following lower than expected foreign inflows were not captured by the frontier index as these two markets were no longer included in the index.

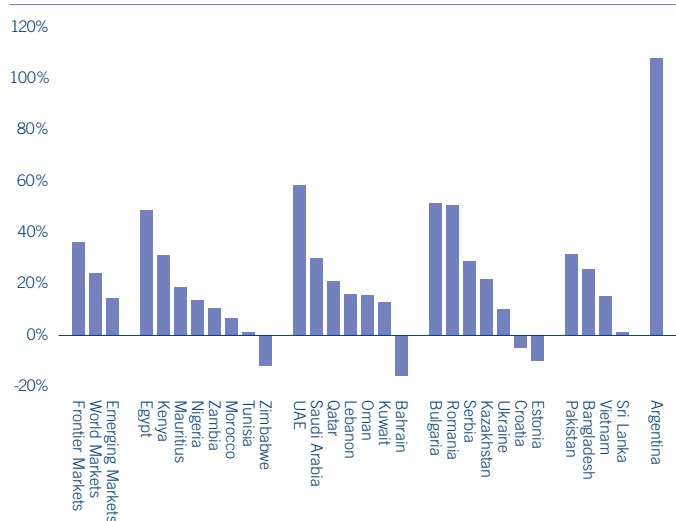
Figure 2: Performance of MSCI Frontier Markets Index compared with Emerging and Developed Markets over year to 30 June 2014



Source: Bloomberg, MSCI, net total return in US dollar terms, one year to 30 June 2014

Notwithstanding the comments above, it still proved to be a good year for the majority of other frontier markets as they witnessed heightened attention and significant flows from global investors. Amongst the standout markets to which AFMF was significantly exposed were Argentina (+107.2%), Romania (+50.2%), Pakistan (+31.4%), Kenya (+31.2%), Saudi Arabia (+29.7%) and Qatar (+20.9%). This was countered to some extent by the Fund's modest exposures to Tunisia (+1.3%) and Zimbabwe (-11.7%).

Figure 3: Market returns over the year to 30 June 2014 in US dollar terms



Source: Bloomberg, MSCI, S&P and local market indices, total return indices where available in US dollar terms, one year to 30 June 2014

¹ All returns in this section are in US dollar terms in respect of the twelve months ended 30 June 2014 unless otherwise stated.

Portfolio

The Fund's asset allocation at the end of the period is shown on page 5. In terms of regional exposure AFMF continued to maintain significant allocations to Africa, Asia and the Middle East.

At the period end, Africa accounted for 39.2% of net assets, up modestly from 38.1% at the start of the financial year. We have a generally positive outlook for East Africa, driven by recent energy discoveries and the emergence of Kenya as a regional services hub. We chose to add significantly to Kenya which accounted for 5.0% of the Fund at the end of June, up from 2.2% at the start of the period following a new investment into an East African focused share class of the PineBridge Sub-Saharan Fund made in the first half of the financial year. This was largely funded by a reduction in exposure to Zimbabwe which was reduced from 3.7% at the start of the year to 1.9% at period end with AFMF's only dedicated holding in the market fully exited in the first quarter of 2014 after a country visit confirmed a deteriorating macro-economic outlook, continued political uncertainty and company valuations that no longer appeared to offer a meaningful margin of safety.

In the final months of the period we made a meaningful allocation to Steyn Capital Africa Fund, taking the final tranche of capacity offered by the manager before the fund closed to new investors. Steyn's investment process targets undervalued companies which are identified through the careful analysis of company financials. The approach tends to see the portfolio skewed towards less well-known companies across the continent which are often overlooked by sell-side analysts and other institutional investors. The fund has enjoyed excellent returns in the past whilst also demonstrating defensive qualities in more challenging markets.

In Asia, the Company's exposure increased from 19.2% to 20.9% of net assets. We initiated a 1.8% position in Bangladesh, achieved through an exchange traded fund, which is justified, we believe, on the back of improving fundamentals at a country level, robust GDP growth and reasonable valuations. We also chose to add to Vietnam's allocation bringing it to 11.0% compared with 9.7% a year before. Vietnam's macroeconomic concerns have receded over the past year with inflation, the country's external position and currency all stabilising, leading to an acceleration in growth. The breadth and depth of the market is likely to improve as more state owned enterprises are listed and foreign ownership restrictions are reformed, and progress is being made with the task of addressing bad debts in the banking sector. We are conscious of tensions with China over oil rights in the seas between the two countries but believe the issue will not be allowed to escalate to an extent that will damage Vietnam's investment climate. The stock market itself appears attractive for active investors willing to look beyond the handful of dominant market counters. Elsewhere in Asia we allowed Kazakhstan's weighting to decline by 0.9% as we exited a residual holding in Tau Capital following a series of tender offers as that fund is entering the final stages of its liquidation.

AFMF's 24.5% allocation to the Middle East remained similar to the level at the start of the year although there were changes at the country level. The Company's allocation to Saudi Arabia increased through a combination of performance and a further investment into an open ended fund from EFG-Hermes. Supported by its hydrocarbon industry, currency peg to the dollar and strong GDP growth, Saudi Arabia remains one of our preferred markets within the Gulf region. In particular, private consumption is expected to be boosted by consumer credit growth, wage inflation and increased government expenditure. The recent announcement of the intention to allow foreign investors to invest directly in its stock market is a further positive. Qatar's weighting declined by 1.6% to stand at 5.7% of net assets at year end after we sold stock in Qatar Investment Fund in the market in the latter part of the year on asset allocation grounds after the market's strong run in the lead up to its promotion to emerging market status. We also took advantage of a 10% tender offer from the same fund in late 2013.

In Eastern Europe, Romania remained the centre of our attention and AFMF's allocation increased to 6.1% through a combination of additional purchases of closed end fund Fondul Proprietatea, NAV performance and a discount that narrowed from 46.2% to 31.9%. AFMF also benefitted from a small tender conducted by Fondul Proprietatea in the fourth quarter of 2013. The fund was established by the Romanian government in 2005 to compensate individuals who lost property under the communist regime with successful claimants awarded shares in the fund. Franklin Templeton won the management contract in September 2010 and the fund listed on the Bucharest Stock Exchange in January 2011. The portfolio is comprised of listed and private equities with the former representing around 50% of net assets and rising as companies within the portfolio are brought to market. We believe there is further upside to come from a number of short and medium term catalysts. These include an upcoming London listing, operational performance improvements at underlying companies, an attractive dividend yield and an aggressive share buyback program. Increased research coverage should also help generate additional demand for the fund's shares.

Despite continued challenges facing Argentina, which recently entered a technical debt default, we remain of the view that the long term outlook for the market is promising. Elections in 2015 have the potential to be a watershed event for the country. A combination of a resurgent equity market and a further subscription into Advance Copernico Argentina Equity Fund led the Fund's exposure to roughly double to 4.7%.

At the end of the period the portfolio was composed of 33 holdings, with the top 20 holdings representing 96.4% of NAV. The fund was 67.0% invested through open ended funds, 32.4% through closed end funds, 2.8% through individual equities with directly held cash and other net assets of -2.2% resulting from the introduction of the gearing facility discussed in the Chairman's Statement. The average discount to NAV on the closed end holdings within the portfolio was 18.9% at year end.

Throughout the year we strived to reduce the overall level of fees paid on underlying investments whilst at the same time maintaining a portfolio that gives investors exposure to the best talent available within frontier markets. This is becoming somewhat easier as competition increases and relationships with managers develop.

Market outlook

The past twelve months saw frontier markets deliver on their promise as economic growth across many of our markets was translated into earnings growth. We remain confident in the longer term frontier story backed by strong growth, healthy corporate and sovereign balance sheets, favourable demographics, large natural resource endowments and attractive valuations.

We note that interest in frontier markets has increased and there is a risk that continued foreign investor inflows may push valuations to unsustainable levels. So far this is not the case with the MSCI Frontier Markets Index trading on trailing Price to Earnings and Price to Book multiples of 12.1x and 1.9x respectively at period end. Furthermore, the index only represents a small subset of the opportunities available in the hugely diverse frontier space.

Political risk has always been paramount when investing in individual frontier markets. Renewed conflict in the Middle East and the rise of militant extremism in Sub-Saharan Africa are two issues that we will be monitoring especially closely over the next year. So far, their direct impact on the Fund's portfolio has been limited, with manager meetings and country visits by the investment team confirming that many companies within frontier markets continue to deliver strong growth despite these headline-grabbing events.

The strong run in UAE and Qatari equities ahead of their promotion to the MSCI Emerging Market Index and subsequent sharp sell-off highlights the risks of pursuing an index based strategy. We shall continue to invest in what we view to be the most attractive markets and opportunities irrespective of their relative index position.

We remain confident that accessing the attractive valuations on offer in frontier markets through a portfolio of best of breed managers and closed end funds in each region should generate attractive returns over the coming years.

Advance Emerging Capital Limited

12 September 2014

Asset allocation

As at 30 June 2014 Country split	Percentage of net assets	As at 30 June 2014 Country split	Percentage of net assets
Africa	39.2%	Eastern Europe	7.8%
Botswana	1.2%	Romania	6.1%
Dem. Rep. of Congo	0.6%	Other Eastern Europe	1.7%
Egypt	3.2%		
Ghana	2.0%	Middle East	24.5%
Ivory Coast	0.8%	Bahrain	0.6%
Kenya	5.0%	Kuwait	1.2%
Mauritius	0.7%	Oman	0.5%
Morocco	1.1%	Qatar	5.7%
Namibia	0.2%	Saudi Arabia	12.3%
Nigeria	13.4%	UAE	3.6%
Senegal	1.6%	Other Middle East	0.6%
South Africa	0.1%		
Tanzania	0.6%	Latin America	5.1%
Tunisia	2.0%	Argentina	4.7%
Zambia	2.6%	Other Latin America	0.4%
Zimbabwe	1.9%		
Other Africa	2.2%	Non-specified	1.9%
		Cash (including cash in the underlying funds)	0.6%
Asia	20.9%	Total	100.0%
Bangladesh	1.8%		
Kazakhstan	2.3%		
Pakistan	4.1%		
Vietnam	11.0%		
Other Asia	1.7%		

The above analysis has been prepared on a portfolio look-through basis.

Twenty largest investments

Fund name	Asset class	Investment manager	Style	Structure	At 30 June 2014 Valuation \$'000	At 30 June 2014 % of net assets
Ashmore EMM Middle East Fund	Middle East equities	Ashmore Group	Bottom up fundamental value and quality	Dublin OEIC	17,259	9.5
EFG Hermes – Saudi Arabia Equity Fund	Saudi Arabian Equities	EFG-Hermes KSA	Growth and value	Saudi Open-ended fund	16,696	9.2
Sustainable Capital Nigeria Fund	Nigerian equities	Sustainable Capital	Value	Mauritius OEIC	15,999	8.8
VinaCapital Vietnam Opportunity Fund	Vietnam Equities	VinaCapital	Growth and value	Cayman closed-end fund	12,011	6.7
Africa Opportunity Fund	African equities & debt	Africa Opportunities Partners	Value and arbitrage	Cayman closed end fund	11,348	6.2
Sustainable Capital Africa Consumer Fund	African consumer equities	Sustainable Capital	Value	Mauritius OEIC	11,144	6.1
Fondul Proprietatea	Romanian listed and private equities	Templeton AM	Value	Romanian closed end fund	10,982	6.0
Africa Emerging Markets Fund	African equities	Ashmore Group	Value	Cayman OEIC	9,790	5.3
PineBridge Sub-Saharan Fund	East African equities & fixed income	PineBridge Investments	Value	Cayman OEIC	9,205	5.0
Advance Copernico Argentina	Argentinian equities	Copernico Capital Partners	Deep value	Cayman OIEC	8,664	4.7
Sturgeon Central Asia Equities Fund	Central Asian equities	Sturgeon Capital	Value	Luxembourg SICAV	8,511	4.6
Qatar Investment Fund	Qatari equities	Qatar Insurance Company	Growth and value	Isle of Man closed end fund	7,212	3.9
SCM Africa Fund	African equities	Steyn Capital	Deep value	Maltese SICAV	7,047	3.8
PXP Vietnam Fund	Vietnam listed and private equity	PXP Vietnam AM	Value	Cayman closed end fund	6,980	3.8
Picic Growth Fund	Pakistani equities	Picic AMC	Growth	Pakistan closed end fund	5,394	2.9
MENA Alchemy Fund	Middle East and N African equities	Mena Capital	Value	Bermuda OEIC	5,094	2.8
Tugela Africa Resources Fund	African Resource equities	Laurium Capital	Value	BVI OEIC	4,418	2.4
DB MSCI Bangladesh	Bangladeshi equities	DB Platinum Advisors	Index Tracker	Luxembourg SICAV	3,386	1.8
Avaron Emerging Europe Fund	Eastern European equities	Avaron AM	Value	Estonian OEIC	3,346	1.8
Picic Investment Fund	Pakistani equities	Picic AMC	Growth	Pakistan closed end fund	2,101	1.1
Top twenty holdings					176,587	96.4
Other holdings					10,683	5.8
Total holdings					187,270	102.2
Cash and other net assets					(4,066)	(2.2)
Net assets					183,204	100.0%

Directors' report

The directors present their report and accounts for the year ended 30 June 2014.

Investing policy

Investment objective and policies

The objective of the Company is to generate long-term capital growth for its shareholders. The Investment Manager invests predominantly in a diversified portfolio of funds and other investment products which derive their value from frontier markets. The proportion of the portfolio invested in each component of frontier markets varies according to where the Investment Manager perceives the most attractive investment opportunities to be.

Investee funds may include closed-end and open-ended funds, exchange traded funds, structured products, limited partnerships and managed accounts. The number of investments in the portfolio varies depending on the availability of attractive opportunities but, under normal market conditions, falls within a range of 20 to 50. The Company does not seek to control its investments.

The Company may, at the Investment Manager's discretion, hold cash or cash equivalents to protect shareholders' capital although it is envisaged that the value of these will not generally exceed 10% of net asset value.

Investment philosophy, strategy and process

The Investment Manager's investment philosophy is that the high degree of diversity seen across markets creates opportunities that are best exploited by specialist fund managers investing in specific regions, countries or sectors. By using a fund of funds approach to investment, the Investment Manager believes it can access such specialist investment talent, ideas and themes within this asset class.

The strategy employed by the Investment Manager consists of three core components: investee manager selection, geographical asset allocation and participation in special situations.

A. Investee Manager Selection

The Investment Manager aims to identify funds and Investee Managers which it considers are likely to deliver consistent capital growth over the long term. The Investment Manager believes that qualitative aspects of a fund are the strongest indicators of the prospects for future performance. The Investment Manager has substantial experience in the appraisal and selection of Investee Managers. The Investment Team also has the benefit of a global network of contacts in the fund industry.

B. Geographical Asset Allocation

The Investment Manager takes a long-term view on asset allocation and, where a high degree of conviction exists, may position the portfolio aggressively. Investee Managers have a key role to play as they will typically have extensive experience of investing in their respective markets. They will have dedicated resources at their disposal used in the collection and analysis of market information on which they base investment decisions and hence their own asset allocation. The Investment Manager uses its regular contact and good relationships with Investee Managers to benefit from the Investee Manager's experience and knowledge when determining the Company's asset allocation.

The Investment Manager's internal view on market prospects is used to validate and challenge those views expressed by Investee Managers, who may be focused on a single market or region. The Investment Manager aims to identify markets within its investment universe that offer the most attractive combinations of quality, value, growth and change. This helps to temper market bias amongst Investee Managers and therefore, in the identification of the optimum balance of investments, on an inter and intra-regional basis.

The assimilation of these factors combined with the effect of bottom-up decisions relating to individual investment opportunities will determine the actual geographic split of the Company's funds at any one point in time.

C. Special Situations

The Investment Manager seeks to identify pricing anomalies in investment products and use such opportunities to add value to the Company's portfolio. Normally, this will involve investing in closed-end funds that are available for purchase at a discount to their net asset value. Discounts usually arise as a result of imbalances in supply and demand for the shares of a fund. The Investment Manager will then implement a strategy to realise value from the special situation.

Investment restrictions

The Investment Manager is required to adhere to the following investment restrictions:

- **Geographical Focus.** The Company will limit exposure to any individual country to 15% of the Company's Net Asset Value at the time of investment. If, at any time, this limit is exceeded, the Company will seek to rebalance its portfolio of investment so that the restriction is adhered to.
- **Investment Size.** No single investment position in any fund will exceed 10% of the Company's Net Asset Value at the time of the investment.

Gearing

The Company may borrow up to 10% of its net assets (calculated at the time of draw down) for investment purposes. Furthermore, the Company may use an overdraft and/or other short-term borrowing facilities to meet its working capital needs, including for the payment of any expenses or fees. The same facilities may be used to take advantage of favourable investment opportunities pending the payment of proceeds from the sale or redemption of investments.

Business activities

The Company is a closed-ended investment company incorporated and resident in Guernsey and quoted on the AIM market of the London Stock Exchange and listed on the Channel Islands Securities Exchange.

Memorandum and articles of incorporation

A Special Resolution was passed at the Company's Annual General Meeting held in December 2013 to amend the Company's Memorandum and Articles of Incorporation to take into account changes in applicable law arising from The Companies (Guernsey) Law, 2008 ("the Law").

Results and dividends

The Company's profit on ordinary activities after taxation for the year was \$33,465,000 (2013: profit of \$25,525,000).

The Company's revenue return on ordinary activities after taxation for the year amounted to profit of \$631,000 (2013: loss of \$30,000). In accordance with its statement in the Admission Document of the Company, the directors do not recommend a final dividend.

Investment report and outlook

The Chairman's Statement and Investment Manager's Report incorporate a review of the highlights during the year.

Market information

The net asset value per share is calculated weekly and published through a regulatory information service.

Ordinary shares in issue

During the year and at the year end the Company had 169,460,000 (2013: 169,460,000) ordinary shares in issue.

Purchases of own shares

There were no share re-purchases during the year.

The Company's present authority to make market purchases of its own ordinary shares will expire at the conclusion of the forthcoming Annual General Meeting. As stated in the Company's Admission Document, a renewal of this authority will be sought from shareholders at each annual general meeting of the Company. The timing of any purchase will be decided by the Board. Any shares bought back by the Company will either be cancelled, or if the directors so determine, held in treasury (and may be re-sold). Purchases of own shares will only be made at a price representing a discount to net asset value per share.

The directors recommend that the Company is granted authority to purchase up to a maximum of 25,402,054 ordinary shares (subject to a maximum of 14.99% of the ordinary shares in issue at the date of the Annual General Meeting). A resolution to this effect will be put to the Annual General Meeting.

Further share issues

The directors have authority to issue shares on a non pre-emptive basis up to an amount representing 20% of the issued share capital immediately following the completion of the placing of shares in June 2008 (equivalent to 33,880,000 ordinary shares). Unless authorised by shareholders, the Company will not issue further shares or re-sell shares out of treasury for cash at a price below the prevailing net asset value per share unless they are first offered pro rata to existing shareholders.

Proposals for periodic opportunities for a return of capital

On 10 December 2012, following consultation with major shareholders in the Company, the Board announced that, at the time of the Company's annual general meeting in 2016, the Board will put forward proposals to shareholders that will provide them with the opportunity to fully realise their investment in the Company at the then prevailing net asset value less costs. The directors intend to offer shareholders the same opportunity at five yearly intervals thereafter.

Life of the Company

The Company does not have a fixed life but the directors consider it desirable that shareholders have the opportunity to review the future of the Company at appropriate intervals. At the Annual General Meeting, a resolution will be proposed that the Company will continue in existence. If the resolution is not passed, the directors will be required to formulate further proposals to reorganise, reconstruct or wind up the Company. It is the Board's intention thereafter to replace the commitment to put a similar resolution to shareholders every three years with the exit opportunity at five yearly intervals described above.

Borrowings

Under the Company's Articles of Association, the Board may exercise all the powers of the Company to borrow provided that the aggregate principal amount of all borrowings does not, at the point of drawdown, exceed 10% of the Company's net assets.

On 11 April 2014, the Company entered into a one year US\$9 million revolving loan facility with Investec Bank plc. Under the terms of the facility the Company may draw down loans of, in aggregate, up to US\$9 million.

Management

The management of the Company's investments is contracted to Advance Emerging Capital Limited ("AECL"), which is authorised and regulated by the FCA.

Fees payable to the Investment Manager

The Investment Manager is appointed under a contract subject to six months' notice and is entitled to remuneration comprised of a basic fee and in certain circumstances a performance fee.

The Investment Manager receives a basic management fee payable by the Company monthly in arrears equal to one twelfth of 1.25% of the lower of Market Capitalisation and Net Asset Value.

The Investment Manager may receive, in addition to the basic fee, a performance fee in respect of each Performance Period equal to a percentage (set forth below) of the excess of the Net Asset Value per share over the Target Net Asset Value per share. Any such fee is paid annually in arrears out of the assets of the Company. A Performance Period is a period in respect of which the Company produces audited accounts and, if different, the final period for which the management agreement subsists.

The Target Net Asset Value per share means the higher of (i) the High Watermark and (ii) Net Asset Value per share at the start of the relevant Performance Period as increased by the Hurdle Rate. The High Watermark is the higher of (i) one US dollar and (ii) the Net Asset Value per ordinary share, after the deduction of the relevant performance fee, as at the end of the latest Performance Period in respect of which the Investment Manager was awarded a performance fee.

The performance fee in respect of a particular Performance Period will be an amount equal to 12% of the amount (if any) by which the Net Asset Value per share at the end of that Performance Period, before the

deduction of any performance fee, exceeds the Target Net Asset Value per share multiplied by the weighted average number of shares in issue during the relevant Performance Period.

The performance fee in respect of a particular Performance Period will not exceed 3% of the Company's Net Asset Value, before the deduction of any performance fee, at the end of that Performance Period.

A performance fee of \$1,870,607 was payable in respect of the year ended 30 June 2014 (2013: \$nil).

Two thirds of the basic fee and the entirety of any performance fees are allocated to the capital column of the Statement of Comprehensive Income.

Alternative Investment Fund Manager's Directive ("AIFMD")

AECL received its authorisation as an alternative investment fund manager from the UK's FCA. The effective date of authorisation was 1 July 2014.

Custody and depositary services

During the year, custody of the Company's investments was contracted to The Northern Trust Company. As a consequence of AIFMD, it is expected that Northern Trust (Guernsey) Limited will be appointed to provide depositary services (including custody of assets) to the Company before the end of September 2014. The appointment of The Northern Trust Company as custodian to the Company will be terminated on the effective date of the appointment of Northern Trust (Guernsey) Limited.

Company secretary and administrators

Legis Fund Services Limited ("Legis") is appointed as Administrator and Secretary to the Company. Legis is appointed under a contract subject to six months written notice. Legis receives a fee at a rate of £30,000 per annum, as well as the fees payable to the UK Administration Agent, Cavendish Administration Limited. The UK Administration Agent receives from the Administrator a monthly fee equal to one twelfth of 0.1% of the Company's net assets subject to a current maximum fee cap of £124,000 per annum.

Cavendish Administration Limited is appointed by Legis to act as administration agent in the United Kingdom. Cavendish is appointed under a contract subject to six months notice. The aggregate amount payable to Legis and Cavendish is detailed in note 3 of the accounts.

Settlement of share transactions

Transactions in the Company's shares can be settled through CREST share settlement system.

Donations

The Company did not make any donations during the year under review.

Anti-bribery and corruption

It is the Company's policy to conduct all of its business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates. The Company's policy and the procedures that implement it are designed to support that commitment.

Going concern

Following an assessment of the Company's financial position as at 30 June 2014 and other relevant matters, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

A resolution proposing the continuation of the Company in its current form will be put to shareholders at the Annual General Meeting on 3 December 2014. The directors are recommending that shareholders vote in favour of this resolution. In light of their recommendation and in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the directors believe that it is appropriate to prepare the financial statements on a going concern basis. Accordingly the financial statements do not include any adjustments that may arise from a reconstruction or liquidation of the Company. Such adjustments would include expenses of reconstruction or liquidation along with any costs associated with realising the portfolio.

Auditors

In accordance with The Companies (Guernsey) Law, 2008, a resolution for the re-appointment of Grant Thornton Limited as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held on 3 December 2014. The notice of Annual General Meeting is included in this document.

Corporate governance

The corporate governance statement on pages 11 to 13 forms part of this report.

Statement of directors' responsibilities

The statement of directors' responsibilities on page 10 forms part of this report.

John Whittle

Grant Wilson

12 September 2014

Statement of directors' responsibilities

The directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the year and of the profit or loss for the year and are in accordance with The Companies (Guernsey) Law, 2008.

In preparing these accounts, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates which are reasonable and prudent;
- State whether applicable International Financial Reporting Standards ("IFRS") as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts have been properly prepared in accordance with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with The Companies (Guernsey) Law, 2008, there is no relevant audit information of which the Company's auditor is unaware. The directors also confirm that they have taken all steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The financial statements are published on the Company's website (website address: www.frontiermarketsfund.com) and on the Investment Manager's website (website address: www.advance-emerging.com). The maintenance and integrity of the Investment Manager's website, so far as it relates to the Company, is the responsibility of the Investment Manager. The work carried out by the auditor does not involve consideration of the maintenance and integrity of these websites and accordingly, the auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on these websites. Visitors to the websites need to be aware that legislation in Guernsey governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

The directors confirm that to the best of their knowledge and belief the report and accounts taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the Company's performance, business model and strategy.

Corporate governance

This corporate governance statement forms part of the Directors' Report.

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide") as issued in February 2013. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The Guernsey Financial Services Commission ("GFSC") Finance Sector Code of Corporate Governance (the "Guernsey Code") applies to all companies which hold a licence from the GFSC under the regulatory laws of Guernsey or are registered or authorised as collective investment schemes by the GFSC. Companies which report under the UK Code or the AIC Code are deemed to meet the requirements of the Guernsey Code.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Code includes provisions relating to:

- the role of the chief executive
- executive directors' remuneration
- the need for an internal audit function

For the reasons set out in the AIC Corporate Governance Guide for Investment Companies, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations.

The Board

Composition

All of the directors of the Company were appointed with effect from 25 April 2007 with the exception of John Whittle who was appointed on 1 February 2012 and hold their office in accordance with the Company's Articles of Incorporation.

The Board believes that during the year ended 30 June 2014 its composition was appropriate for an investment company of its nature and size. The directors have a broad range of relevant experience which meets the Company's requirements.

Grant Wilson, aged 52, is Chairman of the Company.

Grant Wilson is the Chief Investment Officer of International Asset Monitor Limited, based in Guernsey. He was an institutional fund manager for over twenty years and has been a director of several fund management companies including Martin Currie Investment Management Limited and Gartmore Investment Trust Management Limited. He is also a Trustee of the Church of Scotland Investors Trust and a director of China Absolute Fund Limited. Grant is a member of the CFA Society of the UK and an associate of the Institute of Chartered Secretaries and Administrators.

Helen Green, aged 51, is a non-executive director of the Company.

Helen Green is a Chartered Accountant. She has been employed by Saffery Champness, a UK top 20 firm of chartered accountants since 1984. She qualified as a chartered accountant in 1988 and became a partner in the London office in 1997. Since 2000 she has been based in the Guernsey office where she is client liaison director responsible for trust and company administration. Helen serves on the boards of a number of companies in various jurisdictions.

Richard Hotchkis, aged 63, is a non-executive director of the Company.

Richard Hotchkis has 30 years' investment experience. Until October 2006, he was an investment manager at the Co-operative Insurance Society, where he started his career in 1976. Richard has wide experience of equity investment in both the UK and overseas and also of the externally managed funds industry, including investment trust and other closed-ended funds, offshore funds and hedge funds.

John Whittle, aged 59, is a non-executive director of the Company.

John Whittle is a Chartered Accountant and was Finance Director of Close Fund Services where he successfully initiated a restructuring of client financial reporting services and was a key member of the business transition team. He was at Price Waterhouse in London before embarking on a career in business services, predominantly in telecoms. He co-led the business turnaround of Talkland International (now Vodafone Retail). He is a non-executive director of a number of offshore investment funds and other companies.

The Chairman is independent, in accordance with principle 1 of the AIC Code. The Chairman has extensive knowledge of the investment management industry and his background provides the foundation for his role as Chairman.

The structure of the Board is such that it is considered unnecessary to identify a senior non-executive director other than the Chairman. All other directors are, however, available to shareholders if they have concerns over issues they feel have not been dealt with through the normal mode of communication with the Chairman.

All of the directors of the Company are independent of the Investment Manager, AECL. There were no contracts subsisting during or at the end of the year in which a director was or is materially interested.

A policy of insurance against directors' and officers' liabilities is maintained by the Company.

At 30 June 2014 and at the date of this report the directors had the following shareholdings in the Company.

	Ordinary shares At 30 June 2014 and at the date of this report	Ordinary shares At 1 July 2013
(James) Grant Wilson	200,000	200,000
Helen Green	18,664	18,664
Richard Hotchkis	80,000	80,000
John Whittle	—	—

A procedure has been adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

In the year ended 30 June 2014 there were 5 meetings of the Board. Grant Wilson, Richard Hotchkis, and Helen Green attended all of those meetings. John Whittle attended four meetings.

Re-election of directors

The services of each of the directors are provided under the terms of letters of appointment between each of them and the Company and appointment is subject to termination upon three months' notice.

In accordance with the Company's Articles of Incorporation one third of the directors will put themselves forward for election or re-election on an annual basis. Mr Wilson will retire and put himself forward for re-election at the Annual General Meeting.

The Board has reviewed the contribution made by Grant Wilson and in accordance with the performance evaluation detailed below recommends that he should be re-elected.

Board committees

The Company has established an Audit Committee, a Management Engagement Committee and a Nominations Committee. Since all the directors are non-executive, the Board has not formed a Remuneration Committee as it is satisfied that any relevant issues can be properly considered by the Board as a whole. Other committees of the Board may be formed from time to time to deal with specific matters.

Audit Committee

A report on page 14 provides details of the role, composition and meetings of the Audit Committee together with a description of the work of the Audit Committee in discharging its responsibilities.

The Audit Committee has formal terms of reference and copies of these are available on request from the Company Secretary.

Management Engagement Committee

The Company has established a Management Engagement Committee which meets formally at least on an annual basis to consider the appointment and remuneration of the Investment Manager. The Management Engagement Committee also considers the appointment and remuneration of other suppliers of services to the Company. The Management Engagement Committee currently comprises Helen Green, John Whittle and Grant Wilson. Helen Green is the Chairman of the Management Engagement Committee. Since the year end, Richard Hotchkis has been appointed to the Management Engagement Committee.

During the year ended 30 June 2014 there was one meeting of the Management Engagement Committee. This was attended by Helen Green, John Whittle and Grant Wilson.

Nominations Committee

The Company has established a Nominations Committee, which currently comprises Helen Green, John Whittle and Grant Wilson. The Nominations Committee has been established for the purpose of identifying and putting forward candidates for the office of director of the Company. The Nominations Committee meets as and when it is required. Grant Wilson is Chairman of the Nominations Committee.

During the year ended 30 June 2014 there were no meetings of the Nominations Committee.

Board diversity

The Company's policy is that the Board should have a broad range of skills. Consideration is given to the recommendations of the AIC Code and other guidance on boardroom diversity.

Performance evaluation

A formal annual performance appraisal process is performed. The Chairman appraises the performance of the individual directors and the Board. The results are discussed so that any necessary action can be considered and undertaken. A separate appraisal of the Chairman is carried out and the results are reported back to the Board and the Chairman.

Risk management and internal controls

The AIC Code requires the Board to review the effectiveness of the Company's system of risk management and internal controls. The Board recognises its ultimate responsibility for the Company's system of risk management and internal controls and for monitoring its effectiveness. The system of risk management and internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable assurance against material misstatement or loss. The Board has undertaken a review of the aspects covered by the Financial Reporting Council ("FRC") guidance on internal controls and has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as being matters of particular importance upon which it requires reports. The Board believes that the existing arrangements, set out below, represent an appropriate framework to meet the internal control requirements. By these procedures the directors have kept under review the effectiveness of the systems of risk management and internal controls throughout the year and up to the date of this report.

The Board and the Audit Committee use a risk assessment programme to consider the main risks and controls for the Company. The programme is reviewed and updated on at least an annual basis.

The Board has contractually delegated to external agencies, including the investment manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the affairs of the Company.

Financial aspects of internal control

The directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded. As stated above, the Board has contractually delegated to external agencies the services the Company requires, but they are fully informed of the internal control framework established by the Investment Manager, the administrator and the UK administration agent to provide reasonable assurance on the effectiveness of internal financial controls. The Board does not consider that an internal audit function would be appropriate to the nature and circumstances of the Company.

The key procedures include monthly production of management accounts and weekly NAV calculations, monitoring of performance at regular board meetings, review by directors of the valuation of securities, segregation of the administrative function from that of securities and cash custody and of both from investment management, maintenance of appropriate insurance and adherence to physical and computer security procedures. In addition, the Board keeps under its own direct control all material payments out of the Company other than for investment purposes. Payment of management fees is authorised only by directors after they have studied the financial data upon which those fees are based.

The Statement of Directors' Responsibilities in respect of the financial statements is on page 10 and a statement of going concern is on page 9. The Independent Auditor's Report is on page 16.

Other aspects of internal control

The Board holds at least four regular meetings each year, plus additional meetings as required. Between these meetings there is regular contact with the Investment Manager, the administrator and the UK administration agent.

The Investment Manager and the Company Secretary report in writing to the Board on operational and compliance issues prior to each meeting, and otherwise as necessary.

Directors receive and consider regular monthly reports from the UK administration agent, giving full details of all holdings in the portfolio and of all transactions and of all aspects of the financial position of the Company. The administrator and UK administration agent report separately in writing to the Board concerning risks and internal control matters within their purview, including internal financial control procedures and secretarial matters. Additional ad hoc reports are received as required and directors have access at all times to the advice and services of the Corporate Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

This contact with the Investment Manager, administrator and UK administration agent enables the Board to monitor the Company's progress towards its objectives and encompasses an analysis of the risks involved. These matters are assessed on an ongoing basis through the year.

Shareholder relations

The Company invites all shareholders to attend the Annual General Meeting and seeks to provide twenty working days' notice of that meeting. The Notice of Meeting sets out the business of the Annual General Meeting and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for each substantive issue.

Exercise of voting powers

The Company nearly always exercises its voting powers in respect of general meetings of investee companies. The Company considers shareholder voting to be an important issue in the pursuance of its investment objective. The Company and the Investment Manager support the principles of the UK Stewardship Code issued by the FRC in September 2012. The Investment Manager's proxy voting policy and a statement of the compliance with the principles of best practice of the Stewardship Code are available on the Investment Manager's website.

Social and environmental policy

The Company is a closed-end investment company and therefore has no staff, premises, manufacturing or other operations. The Investment Manager takes into account the environmental social and governance policies of potential investee funds as part of its investment process.

Report of the Audit Committee

Role of the Audit Committee

The AIC Code recommends that Boards should establish audit committees consisting of at least three, or in the case of smaller companies two, independent non-executive directors. The Board is required to satisfy itself that at least one member of the audit committee has recent and relevant financial experience. The main role and responsibilities of the audit committee should be set out in written terms of reference covering certain matters described in the AIC Code. The Company complies with the AIC Code.

The Audit Committee meets at least twice a year and its main functions include, inter alia, reviewing and monitoring internal financial control systems and risk management systems on which the Company is reliant, considering annual and interim accounts and audit reports, making recommendations to the Board in relation to the appointment and remuneration of the Company's auditors and monitoring and reviewing annually their independence, objectivity, effectiveness and qualifications. The Committee is responsible for the development and implementation of a policy on the supply of any non-audit services provided by the auditor.

During the year, the Audit Committee performed a review of the internal financial control framework applicable to the Company and no matters of concern were noted.

Composition

During the year, the Audit Committee comprised Helen Green, John Whittle and Grant Wilson. Helen Green is the Chairman of the Audit Committee. The Audit Committee has formal written terms of reference and copies of these are available on request from the Company Secretary. All members of the audit committee have recent and relevant financial experience. The Audit Committee has considered the need for an internal audit function and considers that this is not appropriate given the nature and circumstances of the Company. The Audit Committee keeps the need for an internal audit function under periodic review. Since the year end, Richard Hotchkis has been appointed to the Audit Committee.

Meetings

During the year ended 30 June 2014 there were three meetings of the Audit Committee. All of the meetings were attended by Helen Green, John Whittle and Grant Wilson.

Financial statements and significant accounting matters

The Audit Committee considered the following significant accounting issues in relation to the Company's financial statements for the year ended 30 June 2014.

Valuation and existence of Investments

The Company, as an investment company, invests virtually all of its assets into funds invested in frontier markets. As at 30 June 2014, investments represented approximately 102% of its net assets. The valuation and existence of investments is therefore the most significant factor in relation to the accuracy of the financial statements. Over 99% of the portfolio at the year end consisted of investments in either quoted investment companies or open ended funds with observable independent values. The Audit Committee reviewed the procedures in place for ensuring accurate valuation and existence of investments and discussed the valuation and existence of the Company's investments at the year end with the Investment Manager and the UK Administration Agent.

The Auditor presented its audit plan to the Audit Committee prior to the commencement of the audit. The audit plan covered the area of valuation and existence of investments. The results of the audit in this area were reported by the external auditor and there were no significant issues raised.

Going concern

The Audit Committee reviewed the Company's financial resources and other relevant matters (including the continuation vote at the forthcoming AGM) and concluded that it is appropriate for the Company's financial statements to be prepared on a going concern basis.

Conclusion with respect to the annual report and financial statements

The Audit Committee has concluded that the annual report for the year ended 30 June 2014, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's business model, strategy and performance. The Audit Committee has reported its conclusions to the Board of Directors. The Audit Committee reached this conclusion through a process of review of the document and enquiries to the various parties involved in the production of the annual report.

Provision of non-audit services

The Audit Committee has put a policy in place on the supply of any non-audit services provided by the external auditor. Such services are considered on a case-by-case basis and may only be provided to the Company if the provision of such services is at a reasonable and competitive cost and does not constitute a conflict of interest or potential conflict of interest which would prevent the auditor from remaining objective and independent. In the year ended 30 June 2014 there were no non-audit services provided. Since the year end, Grant Thornton Limited has provided advice on FATCA to the Company.

Audit tenure

Grant Thornton Limited has been the external auditor to the Company for 7 years. The appointment of the external auditor is reviewed annually by the Audit Committee and the Board and is subject to approval by shareholders. The last audit partner rotation took place in 2013.

Effectiveness of external audit

The Audit Committee received a presentation of the audit plan from the external auditor prior to the commencement of the audit and a presentation of the results of the audit following completion of the main audit testing. The Audit Committee performed a review of the external auditor following the presentation of the results of the audit. The review included a discussion of the audit process and the ability of the external auditor to fulfil its role. Following the review, the Audit Committee agreed that the re-appointment of the Auditors should be recommended to the Board and the shareholders of the Company.

Helen Green

Audit Committee Chairman

Directors' remuneration report

Since all directors are non-executive, a remuneration committee has not been formed as the directors are satisfied that any relevant issues can be properly considered by the Board as a whole.

Policy on directors' fees

The Board's policy is that the remuneration of non-executive directors should be fair and should reflect the experience, work involved, responsibilities and potential liabilities of the Board as a whole. The non-executive directors' fees are determined within the limits set out in the Company's Articles of Association and they are not eligible for bonuses, pension benefits, share benefits, share options, long-term incentive schemes or other benefits. It is intended that this policy will continue for the year ending 30 June 2015 and for subsequent years.

The maximum amount currently payable in aggregate to the directors is £200,000 per annum. This amount may be changed by the passing of an ordinary resolution of the Company. The current maximum amount was approved by shareholders at the Company's Annual General Meeting held in December 2013.

No services have been provided by, or fees paid to, advisers in respect of remuneration policy during the year ended 30 June 2014.

Directors' service contracts

The directors do not have service contracts. The directors have appointment letters subject to termination upon three months' notice. The directors are all subject to re-election by shareholders at a maximum interval of three years.

Directors' emoluments for the year

Following a review, the directors resolved that with effect from 1 October 2012, the directors' fees would be payable in sterling and at a rate of £30,000 per annum to the Chairman and £22,500 per annum for Helen Green, Richard Hotchkis and John Whittle. Helen Green receives an additional fee of £5,000 per annum for the position of Chairman of the Audit Committee.

The following emoluments in the form of fees, which were paid in sterling, were payable in the year ended 30 June 2014 to the directors who served during that year.

	Fees 2014 \$	Fees 2013 \$
Grant Wilson	49,882	47,078
Helen Green	45,725	42,382
Richard Hotchkis	37,412	34,301
John Whittle	37,412	35,308
	170,431	159,069

Independent auditor's report

To the shareholders of Advance Frontier Markets Fund Limited

We have audited the financial statements of Advance Frontier Markets Fund Limited (the "Company") for the year ended 30 June 2014 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities on page 10, the directors are responsible for the preparation of the financial statements which give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Auditor commentary

An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Company's business and is risk-based. The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to third-party service providers. Accordingly, our audit work is focussed on obtaining an understanding of, and evaluating, internal controls at the Company and the third-party service providers, and inspecting records and documents held by the third-party service providers. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and the management of specific risks.

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. We established materiality for the financial statements taken as a whole to be US\$1,832,040, which is 1% of the Company's net asset value.

We have determined the threshold at which we communicate misstatements to the Audit Committee to be US\$91,602. In addition, we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Our assessment of risk

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual transactions, account balances or disclosures.

Financial assets designated at fair value through profit or loss (FVTPL)

The principal activity of the Company is to invest in a portfolio of funds and other investment products invested in frontier markets with a view to generate long-term capital growth for its shareholders. Accordingly, the investment portfolio is a significant and material item. The recognition and measurement of the investment portfolio is therefore a risk that requires particular audit attention.

Our audit work included, but was not restricted to, obtaining an understanding of how valuations are performed and understanding management's process to recognise and measure investments including ownership of those investments.

For quoted investments, our audit work also included obtaining a confirmation of investments held at the year end directly from the independent custodian's statements and reconciling these to the records maintained by the Company's administrator, testing a selection of investment additions and disposals to supporting documentation, and agreeing the valuation of the quoted investments to an independent source of market prices.

For unquoted investments, our audit work also included obtaining an understanding of how valuations are performed, assessment of whether the valuations were made in accordance with published guidance, discussions with the investment manager and challenging the valuation in conjunction with inspection of supporting documentation.

The Company's accounting policy and other disclosures on financial assets designated at FVTPL are included in Notes 1(b) and 9.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2014 and of its profit for the year then ended;
- are in accordance with IFRSs as adopted by the European Union; and
- comply with The Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that were communicated to the audit committee which we consider should have been disclosed.

Under The Companies (Guernsey) Law, 2008 we are required to report to you, if in our opinion:

- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Grant Thornton Limited
Chartered Accountants
St Peter Port
Guernsey
Channel Islands

12 September 2014

Statement of comprehensive income

For the year ended 30 June 2014

	Notes	Revenue \$'000	Capital \$'000	2014 Total \$'000	Revenue \$'000	Capital \$'000	2013 Total \$'000
Gains on investments	12	–	36,018	36,018	–	26,645	26,645
Capital losses on currency movements		–	–	–	–	(73)	(73)
Net investment gains		–	36,018	36,018	–	26,572	26,572
Investment income	2	2,123	–	2,123	1,166	–	1,166
Total income		2,123	36,018	38,141	1,166	26,572	27,738
Investment management fees	3	(646)	(3,136)	(3,782)	(509)	(1,017)	(1,526)
Other expenses	3	(721)	–	(721)	(620)	–	(620)
Net profit from operations before finance costs and taxation		756	32,882	33,638	37	25,555	25,592
Finance costs	4	(23)	(48)	(71)	–	–	–
Net profit before taxation		733	32,834	33,567	37	25,555	25,592
Taxation	7	(102)	–	(102)	(67)	–	(67)
Net profit/(loss) after taxation		631	32,834	33,465	(30)	25,555	25,525
Earnings/(loss) per ordinary share	8	0.37c	19.38c	19.75c	(0.02c)	15.08c	15.06c

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared under IFRS as adopted by the European Union. The revenue and capital columns, including the revenue and capital earnings per share data, are supplementary information prepared under guidance published by the Association of Investment Companies. The Company does not have any income or expenses that are not included in the profit/(loss) for the year and therefore the "Net Profit/(loss) after taxation" is also the total comprehensive income for the year, as defined by IAS 1 (revised).

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

The notes on pages 22 to 29 form part of these financial statements.

Statement of financial position

At 30 June 2014

	Notes	2014 \$'000	2013 \$'000
Non-current assets			
Investments designated as fair value through profit or loss	9	187,270	145,173
Current assets			
Financial commitments paid	9	1,250	1,250
Other receivables		643	302
Cash and cash equivalents		2,854	3,292
		4,747	4,844
Total assets		192,017	150,017
Current liabilities			
Loans payable	10	6,500	–
Other payables		2,313	278
		8,813	278
Total assets less current liabilities		183,204	149,739
Capital and reserves attributable to equity holders			
Share premium account		88,788	88,788
Share purchase reserve		82,319	82,319
Capital reserve	12	11,614	(21,220)
Revenue reserve		483	(148)
Total Equity		183,204	149,739
Net assets per ordinary share (US cents)	13	108.11c	88.36c
Exchange rate GBP/USD (mid market)		0.5846	0.6574
Net assets per ordinary share (pence)		63.20p	58.09p

Approved and authorised for issue by the Board of directors on 12 September 2014 and signed on their behalf by:

John Whittle

Grant Wilson

The notes on pages 22 to 29 form part of these financial statements.

Statement of changes in equity

For the year ended 30 June 2014

	Share premium account \$'000	Share purchase reserve \$'000	Capital reserve \$'000	Revenue reserve \$'000	Total \$'000
Opening shareholders' funds	88,788	82,319	(21,220)	(148)	149,739
Profit for the year	–	–	32,834	631	33,465
Closing equity	88,788	82,319	11,614	483	183,204

For the year ended 30 June 2013

	Share premium account \$'000	Share purchase reserve \$'000	Capital reserve \$'000	Revenue reserve \$'000	Total \$'000
Opening shareholders' funds	88,788	82,319	(46,775)	(118)	124,214
Profit/(loss) for the year	–	–	25,555	(30)	25,525
Closing equity	88,788	82,319	(21,220)	(148)	149,739

The notes on pages 22 to 29 form part of these financial statements.

Statement of cash flows

For the year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
Operating activities			
Cash inflow from investment income and bank interest		2,410	1,168
Cash outflow from management expenses		(2,486)	(2,005)
Cash inflow from disposal of investments		42,209	46,261
Cash outflow from purchase of investments		(48,766)	(46,938)
Cash outflow from foreign exchange costs		–	(73)
Cash outflow from taxation		(104)	(68)
Net cash flow used in operating activities	14	(6,737)	(1,655)
Financing activities			
Increase in bank borrowings		6,500	–
Finance charges and interest paid		(201)	–
Net cash flow from financing activities		6,299	–
Net decrease in cash and cash equivalents		(438)	(1,655)
Cash and cash equivalents opening balance		3,292	4,947
Cash outflow		(438)	(1,655)
Cash and cash equivalents balance at 30 June		2,854	3,292

The notes on pages 22 to 29 form part of these financial statements.

Notes to the financial statements

1 Accounting policies

Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), approved by the International Accounting Standards Board and as adopted by the European Union.

The financial statements give a true and fair view of the state of affairs of the Company as at the end of the year and of the profit or loss for the year and are in accordance with The Companies (Guernsey) Law, 2008.

Under IFRS, the Statement of Recommended Practice (SORP) issued by the Association of Investment Companies has no formal status, but the Company has taken the guidance of the 2009 SORP into account to the extent that it is deemed appropriate and compatible with IFRS and the Company's circumstances.

The particular accounting policies adopted are described below:

(a) Accounting convention

The accounts are prepared under the historical cost convention, except for the measurement at fair value of investments.

(b) Investments

As the Company's business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, financial assets are designated as fair value through profit or loss on initial recognition in accordance with International Accounting Standard ("IAS") 39. These investments are recognised on the trade date of their acquisition. At this time, fair value is the cost of investment.

After initial recognition such investments are valued at fair value which is determined by reference to:

- (i) market bid price for investments quoted on recognised stock exchanges;
- (ii) net asset value per individual investee funds' administrators for unquoted open-ended funds; and
- (iii) by using other valuation techniques to establish fair value for any other unquoted investments.

Investments are derecognised on the trade date of their disposal. Gains or losses are recognised in the capital column of the Statement of Comprehensive Income.

(c) Income from investments

Dividend income from ordinary shares and units in open-ended funds deemed equivalent to ordinary shares is accounted for on the basis of ex-dividend dates. Income from fixed interest shares and securities is accounted for on an accruals basis using the effective interest method. Special Dividends are assessed on their individual merits and are credited to the capital column of the Statement of Comprehensive Income if the substance of the payment is a return of capital; with this exception all other investment income is taken to the revenue column of the Statement of Comprehensive Income. Bank interest receivable is accounted for on a time apportionment basis.

(d) Capital reserves

Profits and losses on disposals of investments and gains and losses on investments held are allocated to the capital reserve via the capital column of the Statement of Comprehensive Income.

(e) Revenue reserves

The balance of all items allocated to the revenue column of the Statement of Comprehensive Income in each year is transferred to the Company's revenue reserves. Any dividends paid by the Company would also be allocated against the revenue reserves of the Company.

(f) Investment management fees

Two thirds of the basic investment management fee is allocated to the capital column of the Statement of Comprehensive Income. The entirety of any performance fee is allocated to the capital column of the Statement of Comprehensive Income. Fees allocated to the capital column are taken to the capital reserve.

(g) Foreign currency

The Company's shares were issued in US dollars and the majority of the Company's investments are priced in US dollars and this is considered to be the functional currency of the Company. Therefore, it is the Company's policy to present the accounts in US dollars. The Company's shares are traded in Sterling on AIM and the Channel Islands Securities Exchange.

Assets and liabilities held in currencies other than US dollars are translated into US dollars at the market rates of exchange prevailing at the reporting date. Currency gains and losses arising on retranslating investments are allocated to the capital column of the Statement of Comprehensive Income. All other currency gains and losses are allocated to the capital or revenue columns of the Statement of Comprehensive Income depending on the nature of the transaction.

(h) Finance costs

Finance costs include interest payable and direct loan costs. In line with the Company's policy for investment management fees, two thirds of finance costs are allocated to the capital column of the Statement of Comprehensive Income. Fees allocated to the capital column are taken to the capital reserve. Loan arrangement costs are amortised over the term of the loan.

(i) Financial liabilities

Financial liabilities (including bank loans) are classified according to the substance of the contractual arrangements entered into. Loans payable are valued at amortised cost.

(j) Cash and cash equivalents

Cash and Cash Equivalents in the Statement of Cash Flow comprise cash held at the bank or by the custodian.

(k) Operating segments

IFRS 8, 'Operating segments' requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Board, as a whole, has been determined as constituting the chief operating decision maker of the Company. The Board has considered the requirements of the standard and is of the view that the Company is engaged in a single segment of business, which is to generate long-term capital growth for its shareholders by investing in a diversified portfolio of funds and other investment products which derive their value from frontier markets.

The Board of directors is responsible for ensuring that the Company's investment objective is followed. The day-to-day implementation of this has been delegated to the Investment Manager but the Board retains responsibility for the overall direction of the Company. The Board reviews the investment decisions of the Investment Manager at regular Board meetings. The Investment Manager has been given full authority to make investment decisions on behalf of the Company in accordance with the investment objective.

(l) New standards, interpretations and amendments

The following new standard, which became effective and has been applied for the current period, is relevant to the Company's operations:

- IFRS 13, 'Fair value measurement', establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between willing market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 "Financial Instruments: Disclosures". Notwithstanding the above, the adoption of this new Standard has had no significant impact on the measurements of the Company's assets and liabilities.

At the date of approval of these financial statements, the following standards, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS 12, 'Disclosures of interests in other entities', effective for annual periods beginning on or after 1 January 2014, includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Under the Standard, the Company would classify interests in joint arrangements as either joint operations or joint ventures depending on whether the Company had rights to the assets and obligations for the liabilities of the arrangement. When making this assessment, the Company will need to consider the structure of any arrangements that might exist, the legal form of any separate vehicles, the contractual terms of such arrangements and other fact or circumstances that may exist.
- IFRS 10, 'Consolidated financial statements', effective for annual periods beginning on or after 1 January 2014, introduces a new control model that is applicable to all investees, by focusing on whether a company has power over an investee, exposure or rights to variable returns from its involvement in the investee and the ability to use its power to affect those returns. The amendments to IFRS 10 provide an exemption to consolidation requirements in IFRS 10, for controlled "investment entities" meeting IFRS 10's exemption criteria, and require "investment entities" to measure particular subsidiaries at fair value through profit or loss, rather than consolidating them.
- IFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1 January 2018, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria.

The Board is currently considering the impact of the above standards.

(m) Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from such estimates. These financial statements have been prepared on a going concern basis which the directors of the Company believe to be appropriate.

The most critical judgements, apart from those involving estimates, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are the functional currency of the Company (see Note 1(g)) and the fair value estimation of financial assets designated as at fair value through profit or loss (see Notes 1(b) and 17).

(n) Going concern

Following an assessment of the Company's financial position as at 30 June 2014 and other relevant matters, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

A resolution proposing the continuation of the Company in its current form will be put to shareholders at the Annual General Meeting on 3 December 2014. The directors are recommending that shareholders vote in favour of this resolution. In light of their recommendation and in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the directors believe that it is appropriate to prepare the financial statements on a going concern basis. Accordingly the financial statements do not include any adjustments that may arise from a reconstruction or liquidation of the Company. Such adjustments would include expenses of reconstruction or liquidation along with any costs associated with realising the portfolio.

2 Investment income

	2014 \$'000	2013 \$'000
Income from investments		
Dividends from investments	2,100	1,094
Interest receivable from investments	23	72
Total income	2,123	1,166

3 Investment management fees and other expenses

	Revenue \$'000	Capital \$'000	2014 Total \$'000
Investment management fees – basic	646	1,292	1,938
Performance fee*	–	1,844	1,844
Total investment management fees	646	3,136	3,782
Administration fees	222	–	222
Custodian's fees	63	–	63
Registrar's fees	30	–	30
Directors' fees	170	–	170
Auditor's fees	32	–	32
Nominated Adviser fees	32	–	32
Broker fees	40	–	40
Other expenses	132	–	132
Total other expenses	721	–	721
Total expenses	1,367	3,136	4,503

	Revenue \$'000	Capital \$'000	2013 Total \$'000
Investment management fees – basic	509	1,017	1,526
Performance fee	–	–	–
Total investment management fees	509	1,017	1,526
Administration fees	186	–	186
Custodian's fees	50	–	50
Registrar's fees	30	–	30
Directors' fees	159	–	159
Auditor's fees	32	–	32
Nominated Adviser fees	40	–	40
Broker fees	40	–	40
Other expenses	83	–	83
Total other expenses	620	–	620
Total expenses	1,129	1,017	2,146

Further details on the management agreement is provided in the directors' report on page 8.

The Company's ongoing charges for the year ended 30 June 2014 calculated in accordance with the AIC methodology were 1.58% (2013: 1.54%). The ongoing charges figure does not include performance fees.

*The final performance fee payable in respect of the year ended 30 June 2014 was \$1,870,607.

4 Finance costs

In accordance with directors' expectations of the split of future returns being mostly of a capital nature, two thirds of finance costs are charged as capital items in the Statement of Comprehensive Income.

	Revenue \$'000	Capital \$'000	2014 Total \$'000
Facility and arrangement fees	14	30	44
Interest charges	9	18	27
Total finance costs	23	48	71

	Revenue \$'000	Capital \$'000	2013 Total \$'000
Facility and arrangement fees	–	–	–
Interest charges	–	–	–
Total finance costs	–	–	–

5 Directors' fees

The fees paid or accrued were \$170,431 (2013: \$159,069). There were no other emoluments. Full details of the fees of each director are given in the Directors' Remuneration Report on page 15.

6 Transaction charges

	2014 \$'000	2013 \$'000
Transaction costs on purchases of investments	27	112
Transaction costs on sales of investments	55	18
Total transaction costs included in gains/(losses) on investments at fair value through profit or loss	82	130

7 Taxation

The Company is resident for tax purposes in Guernsey.

The Company is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinances 1989 and 1992 and was charged an annual exemption fee of £600 (2013: £600) during the year.

During the year, the Company suffered foreign withholding tax on income from investments totalling in aggregate \$101,862 (2013: \$67,933).

8 Earnings/(loss) per ordinary share

Earnings per share is based on the net gain of \$33,465,000 (2013: profit of \$25,525,000) attributable to the weighted average of 169,460,000 (2013: 169,460,000) ordinary shares of no par value in issue during the year to 30 June 2014.

Supplementary information is provided as follows: revenue per share is based on the net revenue profit of \$631,000 (2013: loss of \$30,000) and capital earnings per share is based on the net capital gain of \$32,834,000 (2013: net capital gain of \$25,555,000) attributable to the above ordinary shares.

9 Investments designated as fair value through profit or loss

	2014 \$'000	2013 \$'000
Closed-end fund shares and warrants	64,559	50,991
Open-ended fund and limited liability partnership investments	122,711	94,182
Total fixed asset investments at fair value	187,270	145,173
Investments at cost		
Opening balance of investments, at cost	134,344	132,420
Additions, at cost	48,766	48,537
Disposals, at cost	(31,015)	(46,613)
Cost of investments at 30 June	152,095	134,344
Revaluation of investments to fair value		
Opening balance	10,829	(16,147)
Investment holding gains, taken to capital reserve	24,346	26,976
Balance at 30 June	35,175	10,829
Fair value of investments at 30 June	187,270	145,173

Financial commitments paid at 30 June 2014 totalled \$1,250,000 (2013: \$1,250,000). This represents amounts paid prior to the year end for investments with trade dates after the year end.

The Company held more than 10% of the share capital of the following funds:

Fund	Number of shares held	% ownership	Cost (\$'000)	Value (\$'000)
Africa Opportunity Fund	10,042,212	14.0%	7,163	11,348

10 Loans payable

On 11 April 2014, the Company entered into a one year US\$9 million revolving loan facility with Investec Bank plc. Under the terms of the facility the Company may draw down loans of, in aggregate, up to US\$9 million. The rate of interest on each loan is calculated at LIBOR plus a margin of 3.25% per annum. An arrangement fee of US\$72,000 was payable at the commencement of the facility and a commitment fee calculated at the rate of 1.2% per annum is payable on any undrawn amounts. The loan is secured through a charge on the Company's assets (including its investments).

11 Share capital

At 30 June	2014	2013
<i>Authorised</i>		
Ordinary shares of no par value	Number	Unlimited
<i>Allotted, issued and fully paid</i>		
Ordinary shares of no par value	Number	169,460,000

Voting rights

At General Meetings of the Company every member present in person or proxy shall have one vote for every ordinary share of which they are the registered holder.

12 Capital reserve*Disposal of investments*

	2014 \$'000	2013 \$'000
Opening balance	(32,049)	(30,628)
Gains/(losses) from disposal of investments	11,672	(331)
Investment management fees charged to capital	(3,136)	(1,017)
Finance charge to capital	(48)	–
Foreign exchange losses	–	(73)
Balance at 30 June	(23,561)	(32,049)

Investments held

	2014 \$'000	2013 \$'000
Opening balance	10,829	(16,147)
Movement on valuation of investments held	24,346	26,976
Balance at 30 June	35,175	10,829
Capital reserve balance at 30 June	11,614	(21,220)

Gains on investments (per Statement of Comprehensive Income)

	2014 \$'000	2013 \$'000
Gains/(losses) on disposal of investments	11,672	(331)
Movement on valuation of investments held	24,346	26,976
Balance at 30 June	36,018	26,645

13 Net assets per ordinary share

Net assets per ordinary share is based on net assets of \$183,204,000 (2013: \$149,739,000) divided by 169,460,000 (2013: 169,460,000) ordinary shares in issue at the Statement of Financial Position date.

14 Reconciliation of operating profit to net cash flow from operating activities

	2014 \$'000	2013 \$'000
Operating profit	33,567	25,592
Less: Tax deducted at source on income from investments	(102)	(67)
Add: Realisation of investments at book cost	31,015	46,613
Less: Purchase of investments	(48,766)	(48,537)
Less: Adjustment for unrealised (gains)	(24,346)	(26,976)
(Increase)/decrease in debtors	(341)	1,644
Increase in creditors	2,236	76
Net cash flow used in operating activities	(6,737)	(1,655)

15 Related party transactions

Details of the management contract can be found in the Directors' Report on page 8. Fees payable to the Investment Manager are detailed in note 3 on page 24. Other payables include accruals of basic management fees of \$351,220 (2013: \$139,296) and a performance fee provision of \$1,844,000 (2013: \$nil).

The directors' fees are disclosed in note 5 and the Directors' Remuneration Report on page 15.

16 Financial instruments – risk profile

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

Market risks

(i) Risks associated with Frontier Markets

The Company invests in Frontier Markets. Investing in Frontier Markets involves certain risks and special considerations not typically associated with investing in other more established economies or securities markets. Such risks may include (a) the risk of nationalisation or expropriation of assets or confiscatory taxation; (b) social, economic and political uncertainty including war and revolution; (c) dependence on exports and the corresponding importance of international trade and commodities prices; (d) less liquidity of securities markets; (e) currency exchange rate fluctuations; (f) potentially higher rates of inflation (including hyper-inflation); (g) controls on foreign investment and limitations on repatriation of invested capital and a fund manager's ability to exchange local currencies for US dollars; (h) a higher degree of governmental involvement and control over the economies; (i) government decisions to discontinue support for economic reform programmes and imposition of centrally planned economies; (j) differences in auditing and financial reporting standards which may result in the unavailability of material information about economics and issuers; (k) less extensive regulatory oversight of securities markets; (l) longer settlement periods for securities transactions; (m) less stringent laws regarding the fiduciary duties of officers and directors and protection of investors; and (n) certain consequences regarding the maintenance of portfolio securities and cash with sub-custodians and securities depositories in Frontier Markets.

(ii) Currency risk

As stated under (i) above the Company invests in Frontier Markets. It is therefore exposed to currency risks which affect both the performance of its investee funds and also the value of the Company's holdings against the Company's base currency, the US dollar. Currency exposures are not hedged by the Company. An analysis of investee funds by reference to the currencies in which the funds are priced is provided at the end of this note.

(iii) Interest rate risk

The Company is normally fully invested in funds but holds interest bearing assets from time to time and whilst investing proceeds from share issues and redemptions. The Company's interest bearing assets are typically bank deposits.

The funds that the Company invests in may invest in Frontier Market debt securities. These securities may be unrated or rated in lower rating categories by various credit rating agencies. These securities are subject to greater risk of loss of principal and interest than higher rated securities.

On 11 April 2014, the Company entered into a one year US\$9 million revolving loan facility with Investec Bank plc. Under the terms of the facility the Company may draw down loans of, in aggregate, up to US\$9 million. The rate of interest on each loan is calculated at LIBOR plus a margin of 3.25% per annum. A commitment fee calculated at the rate of 1.2% per annum is payable on any undrawn amounts. Due to the loan being of a relatively short tenure and its revolving nature it has not been considered appropriate to fix the finance costs relating to the loan for the entire period of the loan availability. Finance costs are, however, kept under frequent review.

(iv) Other price risk

Investor returns

Investors contemplating an investment in the ordinary shares should recognise that their market value can fluctuate and may not always reflect their underlying value. Returns achieved are reliant upon the performance of the funds in which the Company's assets are invested. No guarantee is given, express or implied, that Shareholders will receive back the amount of their investment in the ordinary shares.

Due to the overall size, concentration in particular markets and maturities of positions held indirectly by the Company (i.e. through funds selected by the Investment Manager), the value at which its investments can be liquidated may differ, sometimes significantly, from the valuations calculated by the Investment Manager. In addition, the timing of liquidations of investments may also affect the values obtained at liquidation. Securities held indirectly by the Company may routinely trade with bid-offer spreads that may be significant.

Diversification

Although the Investment Manager seeks to obtain diversification by investing with a number of different funds with different strategies or styles, it is possible that the selected funds may take substantial positions in the same security or group of securities at the same time. This possible lack of diversification may subject the investments of the Company to more rapid change in value than would be the case if the assets of the Company were more widely diversified.

(v) Management of market risks

As stated above the Investment Manager seeks to obtain diversification within the Company's portfolio. The Company has imposed a restriction so that no single position in any fund will exceed 10% of the Company's net asset value at the time of the investment.

The Investment Manager's strategy consists of three core components: investee manager selection, geographical asset allocation and participation in special situations.

Investee manager selection

Using both qualitative and quantitative techniques, the Investment Manager aims to identify funds and Investee Managers which it considers are likely to deliver consistent capital growth over the long term.

Geographical asset allocation

The Investment Manager takes a long term view in this area. The Company has an investment restriction which states that exposure to any individual country will be limited to 15% of the Company's net asset value at the time of investment. If, at any time, this limit is exceeded, the Company will seek to rebalance its portfolio of investments so that this restriction is adhered to.

The geographical asset allocation is analysed on a look through basis.

Special situations

The Investment Manager seeks to identify pricing anomalies in investment products and use such opportunities to add value to the Company's portfolio. Normally this will involve investing in closed-end funds that are available for purchase at a discount to their net asset value.

(vi) Quantitative analysis

The twenty largest investments are shown on page 6 and a breakdown of the pricing denominations of the funds in which the Company is invested is below.

The Company's financial assets and liabilities at 30 June 2014 comprised:

	Cash flow interest rate risk \$'000	No interest rate risk \$'000	2014 Total \$'000
Non-current investments at fair value:			
US dollar denominated	148	153,682	153,830
Euro denominated	–	3,981	3,981
GB pound denominated	–	1,770	1,770
Pakistan rupee denominated	–	7,495	7,495
Tunisian dinar denominated	–	3,498	3,498
Saudi Arabian Riyal denominated	–	16,696	16,696
Cash at bank			
Floating rate – US\$	2,854	–	2,854
Short term debtors	–	1,893	1,893
Short term creditors	(6,500)	(2,313)	(8,813)
	(3,498)	186,702	183,204

	Cash flow interest rate risk \$'000	No interest rate risk \$'000	2013 Total \$'000
Non-current investments at fair value:			
US dollar denominated	125	121,587	121,712
Euro denominated	–	3,387	3,387
GB pound denominated	–	1,478	1,478
Pakistan rupee denominated	–	5,990	5,990
Tunisian dinar denominated	–	1,844	1,844
Saudi Arabian Riyal denominated	–	10,762	10,762
Cash at bank			
Floating rate – US\$	3,292	–	3,292
Short term debtors	–	1,552	1,552
Short term creditors	–	(278)	(278)
	3,417	146,322	149,739

(vii) Sensitivity analysis

The Company had borrowings of \$6,500,000 at the year end (2013: \$nil). A 1% per annum increase or decrease in LIBOR would result in an increase or decrease of \$65,000 in the annual interest charge on a loan of \$6,500,000.

A 10% increase or decrease in the valuation of the investment portfolio at the end of June 2014 would have resulted in a \$18,727,000 (2013: \$14,517,000) corresponding increase or decrease to the Company's Statement of Comprehensive Income, all other things being equal.

	30 June 2014	30 June 2013	Change
Trade weighted US dollar Index*	79.8	83.1	-4.0%
Federal Funds Target Rate	0.25%	0.25%	–
Advance Frontier Markets Fund NAV US\$	\$1.08	\$0.88	+22.4%
Advance Frontier Markets Share Price (expressed in US dollars)	\$1.01	\$0.79	+27.9%

*The US dollar Index indicates the general international value of the US dollar. It is calculated by averaging the exchange rates between the US dollar and 6 major world currencies.

Neither the value of the US dollar nor the level of domestic interest rates within the United States of America are considered to be primary drivers of returns to investors in the Company. The returns to investors in the Company are more dependent on the prospects for economic growth, corporate profitability and socio-political developments within the countries in which the Company is ultimately invested.

Credit risk*Frontier Market debt securities*

The funds selected by the Investment Manager may invest in Frontier Market debt securities, including short-term and long-term securities denominated in various currencies. These securities may be unrated or rated in the lower rating categories by the various credit rating agencies. These securities are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally subject to greater risk than securities with higher credit ratings in the case of deterioration of general economic conditions. Additionally, evaluating credit risk for Frontier Market debt securities involves great uncertainty because credit rating agencies throughout the world have different standards, making comparisons across countries difficult. Because investors generally perceive that there are greater risks associated with lower-rated securities, the yields or prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for Frontier Market debt securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which securities are sold. In addition, adverse publicity and investor perceptions about emerging market debt securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such securities.

The estimated amount invested in Frontier Market debt securities on a look through basis at the year end was \$4,334,000 (2013: \$3,110,000).

Other credit risk

The Company's direct credit risk is the risk of default on cash held at the bank. Cash at bank at 30 June 2014 included \$2,765,000 (2013: \$3,218,000) held by the Company's custodian, The Northern Trust Company. Interest is based on the prevailing money market rates.

Substantially all of the assets of the Company at the year end were held by The Northern Trust Company (the "custodian"). During September 2014, the Company expects to appoint Northern Trust (Guernsey) Limited (the "depository") to provide depository services (including custody of assets). Bankruptcy or insolvency of the depository or any sub-custodian used by the depository may cause the Company's rights with respect to securities held by the custodian to be delayed or limited. The Board monitored the credit quality of The Northern Trust Company and at the time of this report it had a credit rating of A-1+ per Standard & Poor.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions with brokers is considered to be low as trading is almost always done on a delivery versus payment basis. When investments are made in open-ended funds, the Investment Manager performs due diligence on those funds before making any investment.

The Company has one interest bearing investment which was valued at \$148,090 (2013: \$125,000) at the year end.

Liquidity risks

The underlying investee funds selected by the Investment Manager may have significant investments in smaller to medium sized companies of a less seasoned nature whose securities are traded in an "over-the-counter" market. These "secondary" securities often involve significantly greater risks than the securities of larger, better-known companies, due to shorter operating histories, potentially lower credit ratings and, if they are not listed companies, a potential lack of liquidity in their securities. As a result of lower liquidity and greater share price volatility of these "secondary" securities, there may be a disproportionate effect on the value of the investee funds and, indirectly, on the value of the Company's portfolio.

The fact that the Company may invest in funds that are not traded on investment exchanges or do not permit frequent redemptions including funds that may have "lock-up" periods or "gateways", or otherwise do not permit redemptions for significant periods of time, an investment in the Company may be a relatively illiquid investment.

As a result of liquidation or redemption of a holding in a fund, limited partnership or other investment vehicle, or due to the creation of an illiquid investment or receipt of an illiquid asset in lieu of an existing holding, the Company's portfolio may contain illiquid assets.

The Investment Manager reports to the directors on the liquidity of the Company's quoted investments on a monthly basis.

The Investment Manager has estimated the percentages of the portfolio that could be liquidated within various timescales. The results are shown below.

	2014	2013
One month	53.3%	55.0%
Three months	85.4%	87.2%
One year	94.5%	94.7%
Three years	98.8%	97.1%
Five years	99.2%	98.4%
Greater than five	100.0%	100.0%

All financial liabilities are due within one year.

Capital management

The Company considers that its capital consists of its share capital and reserves and the bank loan.

The Company's authorised share capital consists of an unlimited number of ordinary shares of no par value. At 30 June 2014 there were 169,460,000 (2013: 169,460,000) ordinary shares in issue.

The Company is permitted to borrow, at the point of drawdown, up to 10% of its net assets. On 11 April 2014, the Company entered into a one year US\$9 million revolving loan facility with Investec Bank plc. Under the terms of the facility the Company may draw down loans of, in aggregate, up to US\$9 million. The rate of interest on each loan is calculated at LIBOR plus a margin of 3.25% per annum. An arrangement fee of US\$72,000 was payable at the commencement of the facility and a commitment fee calculated at the rate of 1.2% per annum is payable on any undrawn amounts. The loan is secured through a charge on the Company's assets. The Company is required to comply with various covenants contained in the facility documentation. The Company provides monthly compliance certificates to Investec Bank plc. The Company had no borrowing facility in place at 30 June 2013.

The Investment Manager and the Company's broker monitor the demand for the Company's shares and the directors review the position at Board meetings. Details on the Company's policies for issuing further shares can be found in the Directors' Report.

17 Fair value estimation

The Company complies with IFRS 13. The Company's financial assets and liabilities are valued at fair value.

IFRS 13 requires the Company to classify its investments in a fair value hierarchy that reflects the significance of the inputs used in making the measurements. IFRS 13 establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy under IFRS 13 are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Company's investments measured at fair value:

	2014 Investments designated as fair value through profit or loss \$'000	2013 Investments designated as fair value through profit or loss \$'000
Level 1	59,514	40,494
Level 2	126,077	102,815
Level 3	1,679	1,864
Total	187,270	145,173

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities. The Company does not adjust the quoted price for these instruments.

Investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include monthly priced funds.

Investments classified within level 3 have significant unobservable inputs as they trade infrequently. The level 3 figure consists of limited partnerships investing in distressed debt and Global MENA Financial Assets. Global MENA was delisted from the London Stock Exchange on 27 January 2010 and the entity publishes its net asset value on a quarterly basis. The directors apply a discount formula to the net asset value as an alternative valuation technique, which they believe better reflects its fair value.

Reconciliation of the Level 3 classification investments during the year to 30 June 2014 is shown below:

	2014 \$'000	2013 \$'000
Opening balance at 1 July	1,864	2,719
Additions during the year	23	–
Disposals during the year	–	(375)
Valuation adjustments*	(208)	(480)
Closing balance at 30 June	1,679	1,864

*These adjustments form part of the "Gains on Investments" figure in the Statement of Comprehensive Income.

The valuation policies used by the Company are explained in the Accounting Policies Note 1(b) on page 22.

Notice of meeting

Notice is hereby given that the Annual General Meeting of Advance Frontier Markets Fund Limited (“the Company”) will be held at 11 New Street, St Peter Port, Guernsey at 11:00 a.m. on 3 December 2014, for the following purposes:

Ordinary resolutions

1 To receive and adopt the financial statements for the year ended 30 June 2014, with the reports of the directors and auditors thereon.

2 To re-elect Grant Wilson as a director of the Company, who retires by rotation.

3 To re-appoint Grant Thornton Limited as auditor to the Company.

4 To authorise the directors to determine the remuneration of Grant Thornton Limited for the forthcoming year.

5 That the Company continue in existence in its current form.

6 That the Company acting through its Board of directors be and is hereby generally and unconditionally authorised in accordance with Section 315 of the Companies (Guernsey) Law, 2008 to make market purchases as defined in that Law of its ordinary shares (either for retention as treasury shares for future reissue and resale or transfer, or cancellation), PROVIDED THAT:

(i) the maximum number of ordinary shares hereby authorised to be purchased shall be 25,402,054 (subject to a maximum of 14.99% of the Company's issued share capital at the time of this Annual General Meeting);

(ii) the minimum price (exclusive of expenses) which may be paid for an ordinary share is \$0.01;

(iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be the lower of (a) 5% above the average of the middle market quotation for a share for the 5 business days immediately preceding the day on which that ordinary share is purchased and (b) the last published diluted net asset value per ordinary share;

(iv) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2015 or, if earlier, on the anniversary of the passing of this resolution; and

(v) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

Notes

1 A Shareholder entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote instead of him or her. A proxy need not be a member of the Company. A form of proxy accompanies this Notice. Completion and return of the form of proxy will not preclude members from attending or voting at the meeting, if they so wish. A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him.

2 To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is executed (or a notarially certified copy of such power of attorney) must be deposited at the UK office of the Company's Registrar, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not less than 48 hours before the time for holding the Meeting.

3 CREST members may utilise the CREST proxy appointment service by following the directions set out on the form of proxy. Completion and return of the form of proxy will not prevent a Shareholder from subsequently attending the meeting and voting in person if he so wishes.

4 A holder of Shares must first have his or her name entered on the register of members not later than 4:30 p.m. on 1 December 2014. Changes to entries in that register after that time shall be disregarded in determining the rights of any holders to attend and vote at such meeting.

Form of proxy

I/We _____ of _____ (BLOCK CAPITALS PLEASE)

being (a) member(s) of Advance Frontier Markets Fund Limited ("the Company") appoint the chairman of the meeting

or (see note 1) _____ of _____

as my/our proxy to attend and vote for me/us and on my/our behalf at the annual general meeting of the Company to be held at 11 New Street, St Peter Port, Guernsey, on 3 December 2014 at 11:00 a.m. and at any adjournment thereof.

Please indicate with an X in the spaces provided how you wish your votes to be cast on the resolutions specified.

Resolution	For	Against	Withheld
<i>Ordinary resolutions</i>			
1 To receive and adopt the financial statements for the year ended 30 June 2014, with the reports of the directors and auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 To re-elect Grant Wilson as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-appoint Grant Thornton Limited as auditors to the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 To authorise the directors to determine the remuneration of Grant Thornton Limited for the forthcoming year.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 That the Company continue in existence in its current form.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 To renew authority for the Company to purchase its own shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Subject to any voting instructions so given the proxy will vote, or may abstain from voting, on any resolution as he may think fit.

Signature _____ Dated this _____ day of _____ 2014

Notes

1 If you so desire you may delete the words 'chairman of the meeting' and insert the name of your own choice of proxy, who need not be a member of the Company. Please initial such alteration.

2 The proxy form must be lodged at the Company's registrars, Capita Asset Services, not less than 48 hours before the time fixed for the meeting. In default the proxy cannot be treated as valid.

3 Alternatively, in the case of CREST members, voting may be effected by using the CREST electronic proxy appointment service. CREST members who wish to utilise the CREST service may do so by following the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's agent, Capita Registrars (whose CREST ID is RA10) by the specified latest time for receipt of proxy appointments. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed.

4 A corporation must execute the proxy under its common seal or under the hand of an officer or attorney duly authorised.

5 If this proxy form is executed under a power of attorney or other authority, such power of attorney or other authority or a notarially certified copy thereof must be lodged with the Registrars with the proxy form.

6 In the case of joint holders the vote of the senior shall be accepted to the exclusion of the other joint holders, seniority being determined by the order in which the names stand in the register in respect of the joint holding.

Your completed and signed proxy form should be posted, in the enclosed reply paid envelope, to the Company's Registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, BR3 4TU, so as to arrive before 11:00 a.m. on 1 December 2014 (48 hours prior to the Annual General Meeting).

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Directors, Investment Manager and advisers

Directors

(James) Grant Wilson (Chairman)
Helen Green
Richard Hotchkis
John Whittle

Broker

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Auditor

Grant Thornton Limited
Lefebvre House
Lefebvre Street
St Peter Port
Guernsey GY1 3TF

Custodian

The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

Advisers as to Guernsey law

Mourant Ozannes
1 Le Marchant Street
St Peter Port
Guernsey GY1 4HP

Advisers as to English law

Lawrence Graham LLP
4 More London Riverside
London SE1 2AU

Investment Manager

Advance Emerging Capital Limited
1st Floor, Colette House
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London W1J 0DX
Telephone: 020 7016 0030
www.advance-emerging.com

Nominated adviser

Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU

Secretary and administrator

Legis Fund Services Limited
11 New Street
St Peter Port
Guernsey GY1 2PF

Registrar

Capita Registrars (Guernsey) Limited
Longue Hougue House
St Sampson
Guernsey GY2 4JN

UK administration agent

Cavendish Administration Limited
145-157 St John Street
London EC1V 4RU

Registered office*

11 New Street
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