Advance Frontier Markets Fund Limited
Annual report 2013

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Directors, Investment Manager and advisers inside back cover

Investment objective

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 and open-ended funds, exchange traded funds, structured products, limited partnerships and managed accounts.

Performance

For the year ended 30 June 2013	
Net asset value ("NAV") per share (in US dollar terms)	+20.5%
Share price (in US dollar terms)	+19.3%

As at 30 June 2013	
NAV per share	$0.8836
Share price (in GB pounds)	£0.5188
Share price (in US dollars)	$0.7891
Net assets	$149.7m

Financial calendar

Annual General Meeting	3 December 2013 at 3:00 p.m. 11 New Street St Peter Port Guernsey GY1 2PF

The Annual Report can be downloaded in electronic format from www.frontiermarketsfund.com.

Cover image: Museum of Islamic Art, Doha.

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 2013.

AFMF's Investment Manager seeks to exploit investment opportunities in Frontier Markets in three principal ways:

- Manager selection – allocating capital to exceptional specialist managers.
- Geographic allocation – committing capital to the most attractive markets.
- Discount opportunities – investing in closed end investment companies trading at substantial discounts to asset value with the expectation that such discounts will reduce in future.

It was pleasing to see frontier markets deliver strong returns during the year. The Investment Manager provides greater detail on the asset class, portfolio and the specifics of individual markets and holdings in its report.

I am of the view that, despite outperforming both emerging and developed markets over the period, the case for investing in frontier markets remains strong with the asset class offering a compelling mix of attractive valuations and solid corporate profits growth combined with low correlation between markets and lower levels of volatility than generally perceived by investors.

Turning to corporate developments, I would like to remind shareholders of the comments I made in the Company's half yearly report drawing shareholders' attention to the announcement made by the Company on 10 December 2012. At the time of the Company's annual general meeting in 2016, the Board will put 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. I would also highlight the fact 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. 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 noted above.

The Board considered several options for reducing the discount to net asset value at which shares in the Company trade and believes that offering a periodic exit at the then prevailing net asset value less costs is an attractive solution for shareholders while avoiding any immediate impact on the liquidity or total expense ratio of the Company.

The discount at which the Company's shares trade narrowed from 14.9% just prior to the aforementioned announcement to 10.6% at the close of the year. This is hopefully the start of a trend that should accelerate as frontier markets attract interest from global investors.

A Special Resolution will be put forward at the Annual General Meeting 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"). A draft of the proposed Memorandum and Articles of Incorporation is being sent out with this Annual Report and details of the main changes can be found in the Directors' Report.

Once again I would like to thank our shareholders for their continued support and my fellow Directors and the Investment Manager for their efforts over the past year.

Grant Wilson
18 September 2013

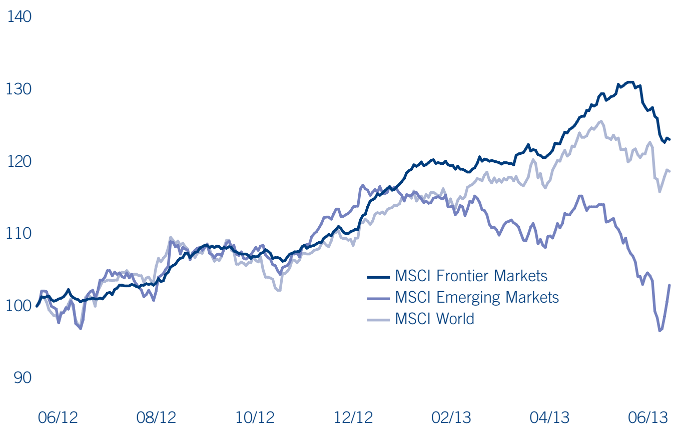
Investment Manager's report

Frontier markets performed strongly during the financial year, with the MSCI Frontier Markets Index returning 23.0% in US dollar terms. This was ahead of returns from both developed and emerging markets. The MSCI World and Emerging Markets Indices rose by 18.6% and 2.9% respectively.

The strength of frontier markets was in part the result of renewed interest in and resultant flows into the asset class, with investors tempted by attractive valuations, the solid structural growth story, strong fundamentals including favourable demographics, high productivity growth and low debt levels.

The outperformance of frontier markets over emerging markets during the financial year should be taken in context as frontier markets lagged both emerging and developed markets by a significant margin during the recovery from the financial crisis.

Figure 1: Performance of MSCI Frontier Markets Index compared with Emerging and Developed Markets over year to 30 June 2013



Source: Bloomberg, MSCI, net total return in US dollar terms, one year to 30 June 2013.

AFMF delivered a Net Asset Value (NAV) return of 20.5% during the financial year. The share price rose by 19.3% and the discount to NAV at the end of the year was 10.6%.

The largest contributors to AFMF's performance were its holdings in Sub-Saharan Africa, the Middle East, Pakistan, Vietnam and Romania. Less helpful was the Fund's exposure to natural resource funds, where the sector performed poorly as Chinese growth concerns impacted both sentiment and the price of most commodities.

Figure 2: Advance Frontier Markets Fund Performance Report

	12 Months	3 Years	5 Years	Since inception
AFMF NAV	20.5%	21.8%	-14.3%	-8.8%
AFMF Price	19.3%	26.5%	-27.8%	-21.1%

Source: Advance Emerging Capital Limited, Bloomberg, all figures in US dollar terms to 30 June 2013.

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

Market environment

The returns from various frontier and other equity markets over the twelve months are illustrated in figure 3. Although the overall frontier market index and the majority of markets rose there was a broad range of returns from individual markets. The lack of correlation between individual market returns continues to provide us with the ability to construct a diversified portfolio that delivers less volatile returns than most investors would expect from the asset class.

In Africa there was a clear split in terms of performance between the North African and Sub-Saharan markets. Political uncertainty continued to negatively affect markets such as Egypt (-11.9%) and Tunisia (-4.9%) while their southern counterparts Nigeria (+69.2%), Zimbabwe (+60.0%) and Kenya (+57.4%) delivered strong gains. In Nigeria and Kenya, strong earnings growth was the key driver of returns, with overall market valuation multiples only expanding modestly. Sentiment in Kenya was helped by peaceful presidential elections in March. In the case of Zimbabwe, equity valuations have risen as the economy continues to recover from its hyperinflationary crisis, although following the recent re-election of President Mugabe the market gave up some of its prior gains.

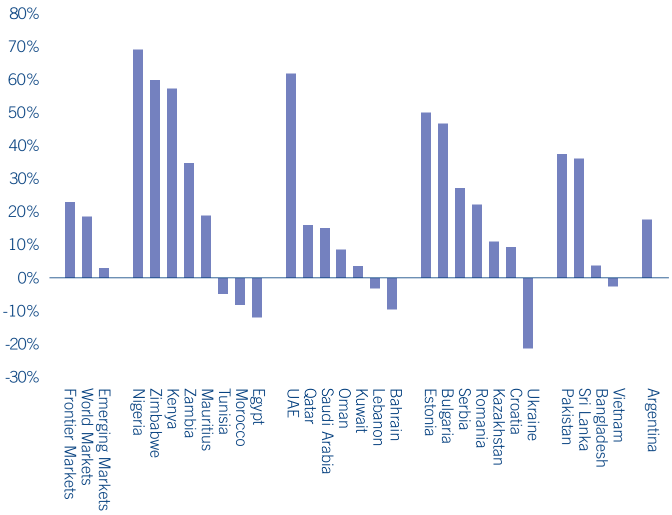
With the exception of the United Arab Emirates (UAE) (+61.9%), the main Middle Eastern markets generally provided more modest gains (Qatar +16.0, Saudi Arabia +15.1%, Kuwait +3.5%). In the UAE there is growing evidence that the economies of both Dubai and Abu Dhabi are recovering. In Dubai, a previously moribund real estate market appears to have bottomed and transaction volumes, rents and prices are picking up, while in Abu Dhabi, government spending is driving the recovery. Qatar continues to be something of a conundrum with a positive macro story failing to translate into anything more than modest stock market returns. The Saudi Arabian economy and stock market continued to perform well, helped by an accommodative fiscal and monetary policy stance from the authorities there, partly aimed at reducing the risk of contagion from the ongoing "Arab Spring".

In Asia, Pakistan led the way with a rally of +37.5%. The market gained impetus following the resounding victory by opposition candidate Nawaz Sharif in the March elections. This is the first time in Pakistan's history a civilian party has peacefully transitioned power to another civilian party. Sharif has a strong mandate to implement policy given his powerful majority in parliament; economic revitalisation and law and order will be his key priorities. Sri Lanka (+36.1%) also made good headway buoyed by renewed interest from foreign investors. Vietnam (-2.5%) proved to be somewhat disappointing as concerns over bad debts in the banking sector diminished investor appetite in the first half of the financial year. An asset management company was established late in the period which will issue bonds in exchange for non-performing loans but it remains to be seen how successful the scheme will be in terms of addressing the underlying problem. In Central Asia, the substantial correction in the commodity sector also held back returns in Kazakhstan which managed only a modest gain of 11.0% despite the market trading on deeply depressed valuations.

The smaller markets of Eastern and Central Europe also enjoyed strong returns. The Estonian benchmark (which is composed of only a handful of companies) rallied by 50.1% on stock specific news. This performance is, we believe, out of synch with the prospects for the economy itself. The Ukraine, however, had a disappointing year and its market dropped by 21.3% as fears over currency devaluation combined with a second recession in five years deterred foreign investors.

Argentina (+17.7%) delivered a solid return, albeit off a low base, despite rising concerns about unorthodox economic management and a continuing legal battle with holders of its defaulted debt. The market continues to offer some of the most attractively valued companies in the frontier market universe. Mid-term elections in October appear to present a challenge to Cristina Kirchner's previously outright political control.

Figure 3: Market returns over the year to 30 June 2013 in US dollar terms



Source: Bloomberg, MSCI, S&P and local market indices, total returns in US dollar terms, one year to 30 June 2013.

Portfolio

The Fund's asset allocation at the end of the period is shown on page 6. In terms of regional exposure AFMF continued to maintain significant allocations to Africa, Asia and the Middle East.

Africa remains the Fund's largest regional exposure. Over the year the allocation rose to just over 38% of NAV, with most of that increase the result of the strong performance from Sub-Saharan markets. Nigeria represents by far the largest country weighting within the portfolio at 14.2%. We continue to view Nigeria as the quintessential frontier market, with attractive demographics, strong GDP growth and scope for massive productivity gains through infrastructural improvements. This combination of factors is likely to drive the market significantly higher over the next decade. Valuations are now high in the consumer sector but remain reasonable in the banking sector. In Zimbabwe we were pleased with the market's strong performance, but the future drivers are less tangible than in other markets and we chose to trim the allocation at year end. We continue to explore ways to access East Africa more directly, given the attractiveness of the region's stock exchanges, with Kenya a particular focus as a hub for regionally oriented corporates. We remain in "wait and see" mode in relation to Northern Africa, as the political backdrop in Tunisia, Morocco and Egypt continues to cloud the long term outlook.

In the Middle East, the Saudi Arabian and Qatari markets remain our two preferred plays. Growth remains strong in Saudi Arabia, supported by high oil prices and government spending. Our investment focus there remains on the sectors of the market that benefit from that domestic economic strength. Qatar also offers strong growth, some interesting bottom up investment opportunities and should also see support from the recent MSCI upgrade to Emerging Market status that takes effect in mid 2014 and will bring the market to the attention of a broader range of international investors.

In Asia, which represented 19.2% of the portfolio at period end, Pakistan's weighting increased materially as we added to that market and it subsequently performed very strongly. As noted above the market was given further impetus from the resounding victory by opposition candidate Nawaz Sharif in the recent elections. Economic data presents a mixed picture, but the market remains reasonably valued despite its strong run and still trades at a discount to the rest of the region. The Fund's holdings in Pakistan are closed ended vehicles trading on discounts in excess of 30% with portfolios invested in blue chips equities. In Vietnam, we maintained a material exposure on the grounds of attractive closed end fund discounts and a favourable long term outlook although we were disappointed with weaker growth and the slow progress on addressing bad debt issues in the banking sector.

In Central Asia, Kazakhstan's weighting declined during the period as a result of corporate activity in Tau Capital which entered liquidation and began returning capital to shareholders. The liquid part of the portfolio was sold down over a relatively short time period while the two remaining private equity holdings will require a somewhat longer period in order to best realise value. We continue to hold a constructive view on the Kazakh economy in general, with valuations again being supportive.

In Eastern and Central Europe, Romania remains AFMF's main exposure in the region through a position in Fondul Proprietatea, a closed end fund, which trades on a discount to NAV of 46% and should benefit from progress in the government's privatisation program.

Latin America remains underrepresented in the portfolio on account of continued challenges facing the main frontier market there, Argentina. We continue to monitor the political situation very closely for any signs that a turning point has been reached, beyond which more rational economic management may be adopted. Distressed valuations offer the potential of substantial returns under such circumstances.

At the end of the period the portfolio was composed of 37 holdings, with the top 20 holdings representing 85.4%. The fund was 62.9% invested in open ended funds, 31.8% in closed end funds and 2.2% in individual equities. The average discount to NAV on the closed end holdings was 21.2%.

Further details of the Fund's largest ten holdings at the year end:

AshmoreEMM Middle East Fund (7.4% of NAV)
Our core regional Middle Eastern fund had a strong period, with significant value added from stock picking, especially in the UAE. The fund's NAV rose by 41.8%. We added to the holding during the period.

EFG Hermes Saudi Arabia Equity Fund (7.2% of NAV)
EFG Hermes is the largest and most established investment house in the Middle East and their open ended Saudi Arabian fund offers one of the few attractive routes available for AFMF to invest in that market. Financials and petrochemicals are the dominant sectors within the portfolio. Performance during the period was good with the NAV increasing by 27.7% compared with a total return of just 16.1% from the local Tadawul Index.

Africa Opportunity Fund (7.1% of NAV)
The period under review was rewarding, with an NAV total return of 26.6%. Performance was helped by meaningful positions in Ghana and Nigeria but held back slightly by exposure to natural resources companies and ongoing litigation relating to Shoprite shares which are listed on the Lusaka stock exchange. The manager remains confident of a favourable solution in regard to its holding in Shoprite. The discount to NAV finished the period where it started, at 12.9%, but was subject to considerable volatility, exceeding 20% on occasion whilst also trading as narrowly as 3.5%. The fund has a continuation vote in 2014 and we are in consultation with the fund's managers, board and advisors as to how to make the fund attractive to a broader audience and, in doing so, improve liquidity and reduce the discount to NAV.

Sustainable Capital Nigeria Fund (6.3% of NAV)
The fund did a good job of keeping up with a rampant Nigerian equity market during the period, with the NAV rising by 59.3%. The portfolio was largely unchanged during the year, with a continued focus on buying the best managed domestically focused companies. Just over 60% of the portfolio was invested in financials at the end of the period, which we and the manager continue to believe offer the best value at present.

Qatar Investment Fund (5.7% of NAV)
The Company's only dedicated Qatar vehicle delivered 19.4% on a price return basis and 17.2% on an NAV basis, outperforming the 16.0% gain in the MSCI Qatar Index. AFMF also benefitted from corporate activity as the fund conducted a tender offer for 20% of its shares in issue at a 1% discount to NAV less costs in conjunction with the passing of its continuation vote in late 2012. Two further tenders for 10% of shares in issue are scheduled for December 2013 and 2014 if the twelve month average discount is wider than 10%. The discount at the end of the period was 12.6%.

Africa Emerging Markets Fund (5.6% of NAV)
The second AshmoreEMM managed fund in the portfolio, Africa Emerging delivered a strong performance with a rise in the NAV of 30.8% driven by the fund's substantial exposure to Nigeria and particularly banks.

VinaCapital Vietnam Opportunity Fund (5.3% of NAV)
This multi-strategy Vietnam vehicle held a discontinuation vote shortly after period end which saw a large majority of shareholders support the continuation of the company. In the lead up to the vote the Board brought forward proposals that introduced a range of corporate governance enhancements and also revised the investment management and performance fees to re-align the manager's interests with those of shareholders. Performance during the year was more than satisfactory in a difficult year for the Vietnamese market with the share price gaining 42.1% and NAV up by 19.2% while the MSCI Vietnam Index fell by 2.5%. The fund's shares traded at a discount to NAV of 25.7% at year end.

Sustainable Capital Africa Consumer Fund (5.0% of NAV)
Following on from the successful launch of Sustainable Capital Nigeria Fund, we again elected to partner with this Cape Town and Mauritius based group to launch a fund focussed on African consumer companies. An initial investment was made in March 2013.

The fund's remit is to invest across Africa (excluding South Africa) in companies that offer exposure to sectors including beverages, consumer goods, food, pharmaceuticals, real estate and micro finance. We believe that such investments will generate significant returns for investors over the long term given Africa's favourable demographics and rising incomes.

Duet Africa Opportunities Fund (4.9% of NAV)
The fund was amongst the best performing of all African funds during the period, with an NAV return of 49.7%. This was driven by stock picking and helped by the fund's focus on Sub-Saharan markets, particularly Nigeria and Kenya.

Sturgeon Central Asia Equities Fund (4.8% of NAV)
This new investment was initiated in part to replace exposure to Central Asian markets following the liquidation of the majority of Tau Capital's assets. Sturgeon's credentials in the region are solid as evidenced by the fact that they were appointed by the board of Tau in mid-2012 (following a review of its investment management arrangements) to manage the liquidation of the listed equity portfolio. The Sturgeon Central Asia Equities Fund is a Luxembourg-domiciled UCITS IV compliant fund that was launched in October 2012 although the team has been managing money in the region since 2006. The fund provides AFMF with exposure to countries such as Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Mongolia, Georgia and Azerbaijan.

Market outlook

The strong performance of frontier markets relative to emerging markets during the year was pleasing. Frontier markets have not been affected by the capital outflows seen in more mainstream emerging markets. In the Middle East, currencies pegged to the US dollar have unquestionably helped, as has a reasonably stable oil price. In Sub-Saharan Africa it is noticeable that the major currencies held up well.

In June, MSCI announced upcoming changes to its family of indices, which redress some of the more glaring anomalies in its current country classifications. Qatar and the UAE will be promoted from frontier to emerging market status in May 2014. Morocco will be downgraded in the opposite direction. Greece will, somewhat belatedly, make the move back from developed market to emerging market status in November 2013. The practical implications of these changes for AFMF are limited, but the general trend is unmistakeable. Over the long term, we would expect more of the struggling small emerging markets of today to eventually be reclassified downwards, whilst the rapidly growing, sizeable and relatively liquid frontier markets will become candidates for promotion.

We are resisting complacency though. Recent events in Egypt and Tunisia highlight that political risk remains highly unpredictable and the biggest risk (ahead of corporate governance risk) when investing in frontier markets. Recent elections in Zimbabwe proved to be a case in point with the market selling off sharply post the announcement of President Mugabe's re-election. The second half of the calendar year will also see mid-term elections in Argentina, which could determine the political fate of President Kirchner, another controversial leader. Recent protests have been indicative of Kirchner's dwindling support. We will be watching closely in the hope of an opportunity to add to AFMF's exposure on current low stock market valuations and the prospect of more orthodox economic management. We will also continue to monitor developments in Egypt and Tunisia, where we may see parliamentary and/or presidential elections by year end, which could give some visibility on the political, social and economic outlook in the short and medium-term.

From a portfolio perspective, we anticipate modest shifts away from those areas that have performed well for us and where pricing anomalies have been eroded (Sub-Saharan Africa) and into those areas that offer more appealing value and growth (Middle East, Eastern Europe, Central Asia), at all times endeavouring to do so through the most attractive vehicles available to us.

Advance Emerging Capital Limited

18 September 2013

Asset allocation

As at 30 June 2013 Country split	Percentage of net assets
Africa	**38.1%**
Botswana	1.2%
Dem. Rep. of Congo	0.5%
Egypt	1.9%
Ghana	2.2%
Ivory Coast	0.8%
Kenya	2.2%
Mauritius	1.0%
Morocco	1.1%
Namibia	0.2%
Nigeria	14.2%
Senegal	1.8%
South Africa	0.7%
Tanzania	0.3%
Tunisia	1.6%
Zambia	3.1%
Zimbabwe	3.7%
Other Africa	1.6%
Asia	**19.2%**
Kazakhstan	3.2%
Pakistan	4.2%
Vietnam	9.7%
Other Asia	2.1%

As at 30 June 2013 Country split	Percentage of net assets
Eastern Europe	**6.4%**
Bulgaria	0.2%
Croatia	0.1%
Estonia	0.1%
Romania	3.4%
Serbia	0.2%
Other Eastern Europe	2.4%
Middle East	**23.6%**
Bahrain	0.6%
Kuwait	1.0%
Oman	0.8%
Qatar	7.3%
Saudi Arabia	10.0%
UAE	3.0%
Other Middle East	0.9%
Latin America	**2.9%**
Argentina	2.3%
Other Latin America	0.6%
Non-specified	**3.2%**
Cash (including cash in the underlying funds)	6.6%
Total	**100.0%**

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 2013 Valuation $'000	At 30 June 2013 % of net assets
Ashmore EMM Middle East Fund	Middle East equities	Ashmore Group	Bottom up fundamental value and quality	Dublin OEIC	11,020	7.4%
EFG Hermes – Saudi Arabia Equity Fund	Saudi Arabian Equities	EFG-Hermes KSA	Growth and value	Saudi Open-ended fund	10,762	7.2%
Africa Opportunity Fund	African equities & debt	Africa Opportunities Partners	Value and arbitrage	Cayman closed end fund	10,579	7.1%
Sustainable Capital Nigeria Fund	Nigerian equities	Sustainable Capital	Value	Mauritius OEIC	9,397	6.3%
Qatar Investment Fund	Qatari equities	Qatar Insurance Company	Growth and value	Isle of Man closed end fund	8,558	5.7%
Africa Emerging Markets Fund	African equities	Ashmore Group	Value	Cayman OEIC	8,340	5.6%
VinaCapital Vietnam Opportunity Fund	Vietnam Equities	VinaCapital	Growth and value	Cayman closed-end fund	7,917	5.3%
Sustainable Capital Africa Consumer Fund	African consumer equities	Sustainable Capital	Value	Mauritius OEIC	7,496	5.0%
Duet Africa Opportunities Fund	African equities	Duet AM	Small cap value	Jersey OEIC	7,284	4.9%
Sturgeon Central Asia Equities Fund	Central Asian equities	Sturgeon Capital	Value	Luxembourg SICAV	7,247	4.8%
PXP Vietnam Fund	Vietnam listed and private equity	PXP Vietnam AM	Value	Cayman closed end fund	5,542	3.7%
Fondul Proprietatea	Romanian listed and private equities	Templeton AM	Value	Romanian closed end fund	4,799	3.2%
Frontaura Global Frontier Fund	Frontier market equities	Frontaura Capital	Value	Cayman OEIC	4,565	3.0%
Picic Growth Fund	Pakistani equities	Picic AMC	Growth	Pakistan closed end fund	4,095	2.7%
Blakeney Investors	Middle East and African equities	Blakeney AM	Value	Luxembourg SICAV	4,050	2.7%
Zambezi Fund	Zimbabwean equities	Laurium Capital	Value	BVI OEIC	3,763	2.5%
Advance Copernico Argentina	Argentinian equities	Copernico Capital Partners	Deep value	Cayman OIEC	3,578	2.4%
Tugela Africa Resources Fund	African Resource equities	Laurium Capital	Value	BVI OEIC	3,212	2.1%
MENA Alchemy Fund	Middle East and N African equities	Mena Capital	Value	Bermuda OEIC	2,972	2.0%
Tau Capital	Kazakhstan listed and private equity	Compass AM	Wind down mode	Isle of Man closed end fund	2,750	1.8%
Top twenty holdings					**127,926**	**85.4%**
Other holdings					17,248	11.6%
Total holdings					**145,174**	**97.0%**
Cash and other net assets					4,565	3.0%
Net assets					**149,739**	**100.0%**

Directors' report

The Directors present their report and accounts for the year ended 30 June 2013.

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 shareholder's 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 per cent. 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 Stock Exchange.

Memorandum and articles of incorporation
The Notice of the Annual General Meeting includes a Special Resolution 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").

A number of administrative and substantive changes to the Memorandum and Articles of Incorporation are proposed, in particular, without prejudice the generality of the foregoing:

• Memorandum – this is much simplified – note that a general, unrestricted objects clause is now permissible.

• Definitions – it will be noted that there are a number of new definitions to conform with the Law and terms used therein.

• Article 4 – issue of shares – this has been simplified and clarified. However, the basic principle remains that any issue of shares is subject to the pre-emption provisions in Article 4.3 unless and to the extent that the Company in general meeting has resolved to the contrary.

• Articles 5 and 6 – rights of members and class rights – these Articles have been simplified and clarified and, in the case of class rights, brought into line with the Law.

• Article 14 – general restrictions on registration of shares – the powers of the directors in this regard have been slightly expanded by the introduction of Article 14.1(v).

• Article 17 – general meetings – this has been clarified and amended to bring it into compliance with the Law.

• Article 18 – notice of general meetings – this has been expanded to bring it into compliance with the Law.

• Article 19 – proceedings of general meetings – this has been expanded to bring it into compliance with the Law.

• Article 20 – votes of members/proxies – this has been expanded to bring it into compliance with the Law.

• Article 21 – written resolutions – this new provision reflects the enabling powers in the Law.

• Article 22 – class meetings – this has been amended to reflect the Law which is more restrictive in terms of the passing of resolutions to amend the rights of any particular class of shareholders.

• Article 28 deals with conflicts of interest/transactions with directors and now reflects the mandatory provisions of Section 162 of the Law in terms of disclosure.

• Article 31 – Secretary and Resident Agent – this had been updated to reflect the current provisions of the Law. The engagement of a Company Secretary is not mandatory and its duties shall be largely as agreed between the Directors and Secretary, subject only to mandatory provisions of the Law from time to time.

• Article 34 – this reflects the new structure of the Law with regard to the declaration of dividends. Broadly the law requires a solvency test to be passed and certified by the board.

• Article 37 – Accounts and Audit – these expanded provisions reflect the Law as it now stands.

• Article 38 – Notices – these provisions reflect the Law as it now stands and facilitate electronic communications.

• Article 40 – Indemnity – this has been redrafted to reflect the mandatory provisions of Section 157 of the Law in terms of permitted director indemnities.

A draft of the proposed Memorandum and Articles of Incorporation is enclosed herewith.

A black line of the proposed Memorandum and Articles of Incorporation marked against the current Memorandum and Articles of Association adopted on 1 June 2007 may be obtained from the Administrator, Legis Fund Services Limited, by email on fund.enquiries@legisgroup.com or by telephone on +44 (0) 1481 726034 or by accessing the Company's website www.frontiermarketsfund.com.

Results and dividends
The Company's profit on ordinary activities after taxation for the year was $25,525,000 (2012: loss of $17,425,000).

The Company's revenue return on ordinary activities after taxation for the year amounted to loss of $30,000 (2012: profit of $369,000). 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 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 to be held in 2014, 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.

Custody
Custody of the Company's investments has been contracted to The Northern Trust Company since business operations commenced.

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.

The Company did not have a loan facility during the year under review.

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.

No performance fee was payable in respect of the year ended 30 June 2013 (2012: $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.

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.

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 to the accounts.

Payment of suppliers
It is the Company's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used. The Company contracts with its suppliers the terms on which business will take place and abides by such terms; a high proportion of expenses, including management and administration fees, are paid within the month when invoiced. There were no invoices outstanding from trade creditors at 30 June 2013 (2012: $nil).

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
After making inquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

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.

Helen Green

Richard Hotchkis
18 September 2013

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.

Corporate governance

The directors recognise the value of the UK Corporate Governance Code and have taken appropriate measures to ensure that the Company complies, as far as practicable and to the extent appropriate given the Company's assets, liabilities and other relevant information. The Guernsey Financial Services Commission ("GFSC") Finance Sector Code of Corporate Governance (the "Guernsey Code") came into effect on 1 January 2012 and 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. By reporting against the UK Corporate Governance Code, as far as practicable, the Company is deemed to meet the Guernsey Code.

The Board

Composition

All the directors were appointed by the Company 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 Association.

Grant Wilson, aged 51, 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 50, 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 62, 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 58, is a non-executive director of the Company.
John Whittle is a Chartered Accountant and was until recently 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.

All the directors are independent of the Investment Manager, Advance Emerging Capital Limited ("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 2013 and at the date of this report the directors had the following shareholdings in the Company.

	Ordinary shares At 30 June 2013 and at the date of this report	*Ordinary shares At 1 July 2012*
(James) Grant Wilson	200,000	*200,000*
Helen Green	18,664	*18,664*
Richard Hotchkis	80,000	*45,000*
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 2013 there were 4 meetings of the Board. Grant Wilson, Richard Hotchkis, Helen Green and John Whittle attended all of those 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 Association, Richard Hotchkis will retire and put himself forward for re-election at the Annual General Meeting.

The Board has reviewed the contribution made by Richard Hotchkis 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
The Company has established an Audit Committee, which currently comprises Helen Green, John Whittle and Grant Wilson. The Audit Committee normally meets on a twice yearly basis 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. Helen Green is the Chairman of the Audit Committee.

The Company's external auditors also attend the Audit Committee meeting at its request and report on their work procedures, the quality and effectiveness of the Company's accounting records and their findings in relation to the Company's statutory audit.

During the year ended 30 June 2013 there were two meetings of the Audit Committee. Both meetings were attended by Helen Green, John Whittle and Grant Wilson.

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 will also consider 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.

During the year ended 30 June 2013 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 2013 there were no meetings of the Nominations Committee.

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 UK Corporate Governance 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 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 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 12 and a statement of going concern is on page 11. The Independent Auditor's Report is on page 17.

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 ("AGM") and seeks to provide twenty working days' notice of that meeting. The Notice of Meeting sets out the business of the AGM and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for each substantive issue.

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.

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 Financial Reporting Council 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.

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 2014 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 Company will be putting forward new Articles of Incorporation for approval at the Annual General Meeting. The new Articles of Incorporation retain the current maximum aggregate amount payable to the directors. However, the directors have reviewed the position and consider that the aggregate maximum should be changed to sterling as the individual directors fees are paid in sterling and also that the amount should be increased to £200,000 per annum to reflect the increased responsibilities of the directors since the Company’s launch in 2007 and in order to provide the flexibility to remunerate new and existing directors at current market rates and to provide for Board succession. The directors consider that the changes to the maximum aggregate amount should be set out in a separate ordinary resolution which will be put forward for approval at the Annual General Meeting.

No services have been provided by, or fees paid to, advisers in respect of remuneration policy during the year ended 30 June 2013.

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 were payable in the year ended 30 June 2013 to the directors who served during that year.

	Fees 2013 $	*Fees 2012 $*
Grant Wilson	47,078	*47,757*
Helen Green	42,382	*39,797*
Richard Hotchkis	34,301	*31,838*
John Whittle (appointed 1 February 2012)	35,308	*14,858*
	159,069	***134,250***

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 for the year ended 30 June 2013 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 auditors' 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 described in the Statement of Directors' Responsibilities on page 12 the company's directors are responsible for the preparation of the financial statements and for being satisfied that they 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of 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 matters where The Companies (Guernsey) Law, 2008 requires us to report to you, if in our opinion:

- the company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received 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

18 September 2013

Statement of comprehensive income

For the year ended 30 June 2013	Notes	Revenue $'000	Capital $'000	2013 Total $'000	*Revenue $'000*	*Capital $'000*	*2012 Total $'000*
Gains/(losses) on investments	11	–	26,645	26,645	*–*	*(16,799)*	*(16,799)*
Capital losses on currency movements		–	(73)	(73)	*–*	*(16)*	*(16)*
Net investment gains/(losses)		**–**	**26,572**	**26,572**	***–***	***(16,815)***	***(16,815)***
Investment income	2	1,166	–	1,166	*1,500*	*–*	*1,500*
Total income		**1,166**	**26,572**	**27,738**	***1,500***	***(16,815)***	***(15,315)***
Investment management fees	3	(509)	(1,017)	(1,526)	*(467)*	*(934)*	*(1,401)*
Other expenses	3	(620)	–	(620)	*(579)*	*–*	*(579)*
Profit/(loss) on ordinary activities before finance costs and taxation		**37**	**25,555**	**25,592**	***454***	***(17,749)***	***(17,295)***
Finance costs	4	–	–	–	*(23)*	*(45)*	*(68)*
Profit/(loss) on ordinary activities before taxation		**37**	**25,555**	**25,592**	***431***	***(17,794)***	***(17,363)***
Taxation	7	(67)	–	(67)	*(62)*	*–*	*(62)*
Profit/(loss) on ordinary activities after taxation		**(30)**	**25,555**	**25,525**	***369***	***(17,794)***	***(17,425)***
Earnings/(loss) per ordinary share	8	(0.02c)	15.08c	15.06c	*0.22c*	*(10.50c)*	*(10.28c)*

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared under IFRS. 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 "Profit/(loss) on ordinary activities 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 28 form part of these financial statements.

Statement of financial position

At 30 June 2013	Notes	2013 $'000	*2012 $'000*
Non-current assets			
Investments designated as fair value through profit or loss	9	145,173	*116,273*
Current assets			
Financial commitments paid	9	1,250	*2,828*
Other receivables		302	*368*
Cash and cash equivalents		3,292	*4,947*
		4,844	*8,143*
Total assets		**150,017**	***124,416***
Current liabilities			
Other payables		278	*202*
		278	*202*
Total assets less current liabilities		**149,739**	***124,214***
Capital and reserves attributable to equity holders			
Share premium account		88,788	*88,788*
Share purchase reserve		82,319	*82,319*
Capital reserve	11	(21,220)	*(46,775)*
Revenue reserve		(148)	*(118)*
Total equity		**149,739**	***124,214***
Net assets per Ordinary Share (US cents)	12	88.36c	*73.30c*
Exchange rate GBP/USD (mid market)		0.6574	*0.6367*
Net assets per Ordinary Share (pence)		58.09p	*46.67p*

Approved and authorised for issue by the Board of directors on 18 September 2013 and signed on their behalf by:

Helen Green

Richard Hotchkis

The notes on pages 22 to 28 form part of these financial statements.

Statement of changes in equity

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**

For the year ended 30 June 2012	*Share premium account $'000*	*Share purchase reserve $'000*	*Capital reserve $'000*	*Revenue reserve $'000*	*Total $'000*
Opening shareholders' funds	*88,788*	*82,319*	*(28,981)*	*(487)*	*141,639*
(Loss)/Profit for the year	–	–	*(17,794)*	*369*	*(17,425)*
Closing equity	***88,788***	***82,319***	***(46,775)***	***(118)***	***124,214***

The notes on pages 22 to 28 form part of these financial statements.

Statement of cash flows

For the year ended 30 June 2013	Notes	2013 $'000	*2012 $'000*
Operating activities			
Cash inflow from investment income and bank interest		1,168	*1,224*
Cash outflow from management expenses		(2,005)	*(1,995)*
Cash inflow from disposal of investments		46,261	*46,388*
Cash outflow from purchase of investments		(46,938)	*(45,034)*
Cash outflow from foreign exchange costs		(73)	*(16)*
Cash outflow from taxation		(68)	*(62)*
Net cash flow (used in)/from operating activities	*13*	**(1,655)**	***505***
Financing activities			
Loan facility and arrangement fee paid		–	*(4)*
Interest paid		–	*(52)*
Net cash flow used in financing activities		**–**	***(56)***
Net (decrease)/increase in cash and cash equivalents		**(1,655)**	***449***
Cash and cash equivalents opening balance		4,947	*4,498*
Cash (outflow)/inflow		(1,655)	*449*
Cash and cash equivalents balance at 30 June		**3,292**	***4,947***

The notes on pages 22 to 28 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 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 Stock 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) Cash and cash equivalents
Cash and Cash Equivalents in the Statement of Cash Flow comprise cash held at the bank or by the custodian.

(i) 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.

(j) New standards
(i) Standards, amendments and interpretations to existing standards effective 1 July 2012

There are no standards, interpretations or amendments to existing standards that are effective that have had a significant impact on the Company.

(ii) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted

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

IFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1 January 2015, 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.

IFRS 13, 'Fair value measurement', effective for annual periods beginning on or after 1 January 2013, improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

The Board is yet to assess the impact that the new standards are likely to have on the financial statements of the Company.

(k) 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 of financial assets designated as at fair value through profit or loss (see Notes 1(b) and 16).

(l) Going concern
The Board has assessed of the Company's financial position as at 30 June 2013 and the factors that may impact its performance in the forthcoming year and are of the opinion that it is appropriate to prepare these financial statements on a going concern basis.

2 Investment income

	2013 $'000	*2012 $'000*
Income from investments		
Dividends from investments	1,094	*1,362*
Interest receivable from investments	72	*113*
Total income from investments	1,166	*1,475*
Other income	–	*25*
Total income	**1,166**	***1,500***

3 Investment management fees and other expenses

	Revenue $'000	Capital $'000	2013 Total $'000
Investment management fees – basic	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**

	Revenue $'000	*Capital $'000*	*2012 Total $'000*
Investment management fees – basic	*467*	*934*	*1,401*
Administration fees	*173*	–	*173*
Custodian's fees	*50*	–	*50*
Registrar's fees	*30*	–	*30*
Directors' fees	*134*	–	*134*
Auditor's fees	*32*	–	*32*
Nominated adviser fees	*40*	–	*40*
Broker fees	*40*	–	*40*
Other expenses	*80*	–	*80*
Total other expenses	***579***	**–**	***579***
Total expenses	***1,046***	***934***	***1,980***

Further details on the management agreement is provided in the directors' report on page 10.

The Company's ongoing charges for the year ended 30 June 2013 calculated in accordance with the AIC methodology were 1.54% (2012: 1.53%)

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	2013 Total $'000
Facility and arrangement fees	–	–	–
Interest charges	–	–	–
Total finance costs	**–**	**–**	**–**

	Revenue $'000	*Capital $'000*	*2012 Total $'000*
Facility and arrangement fees	*9*	*17*	*26*
Interest charges	*14*	*28*	*42*
Total finance costs	***23***	***45***	***68***

5 Directors' fees

The fees paid or accrued were $159,069 (2012: $134,250). There were no other emoluments. Full details of the fees of each director are given in the Directors' Remuneration Report on page 16.

6 Transaction charges

	2013 $'000	*2012 $'000*
Transaction costs on purchases of investments	112	*18*
Transaction costs on sales of investments	18	*47*
Total transaction costs included in gains/(losses) on investments at fair value through profit or loss	**130**	***65***

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 during the year.

During the year, the Company suffered foreign withholding tax on income from investments totalling in aggregate $67,933 (2012: $61,646).

8 Earnings/(loss) per ordinary share

Earnings per share is based on the net gain of $25,525,000 (2012: loss of $17,425,000) attributable to the weighted average of 169,460,000 (2012: 169,460,000) ordinary shares of no par value in issue during the year to 30 June 2013.

Supplementary information is provided as follows: revenue per share is based on the net revenue loss of $30,000 (2012: gains of $369,000) and capital earnings per share is based on the net capital gain of $25,555,000 (2012: loss of $17,794,000) attributable to the above ordinary shares.

9 Investments designated as fair value through profit or loss

	2013 $'000	*2012 $'000*
Closed-end fund shares and warrants	50,991	*52,467*
Open-ended fund and limited liability partnership investments	94,182	*63,806*
Total fixed asset investments at fair value	**145,173**	***116,273***
Investments at cost		
Opening balance of investments, at cost	132,420	*147,837*
Additions, at cost	48,537	*41,953*
Disposals, at cost	(46,613)	*(57,370)*
Cost of investments at 30 June	**134,344**	***132,420***
Revaluation of investments to fair value		
Opening balance	(16,147)	*(10,227)*
Investment holding gains/(losses), taken to capital reserve	26,976	*(5,920)*
Balance at 30 June	**10,829**	***(16,147)***
Fair value of investments at 30 June	**145,173**	***116,273***

Financial commitments paid at 30 June 2013 totalled $1,250,000 (2012: $2,828,000). This represents amounts paid prior to the year end for investments made 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	10,872,212	25.5%	7,755	10,579
PXP Vietnam	1,217,950	10.2%	4,226	5,542

10 Share capital

At 30 June		2013	*2012*
Authorised			
Ordinary shares of no par value	Number	Unlimited	*Unlimited*
Allotted, issued and fully paid			
Ordinary shares of no par value	Number	169,460,000	*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.

11 Capital reserve

Disposal of investments

	2013 $'000	*2012 $'000*
Opening balance	(30,628)	*(18,754)*
Losses from disposal of investments	(331)	*(10,879)*
Investment management fees charged to capital	(1,017)	*(934)*
Finance charge to capital	–	*(45)*
Foreign exchange losses	(73)	*(16)*
Balance at 30 June	**(32,049)**	***(30,628)***

Investments held

	2013 $'000	*2012 $'000*
Opening balance	(16,147)	*(10,227)*
Movement on valuation of investments held	26,976	*(5,920)*
Balance at 30 June	**10,829**	***(16,147)***
Capital reserve balance at 30 June	**(21,220)**	***(46,775)***

Gains/(losses) on investments in year (per Statement of Comprehensive Income)

	2013 $'000	*2012 $'000*
Losses on disposal of investments	(331)	*(10,879)*
Movement on valuation of investments held	26,976	*(5,920)*
Balance at 30 June	**26,645**	***(16,799)***

12 Net assets per ordinary share

Net assets per ordinary share is based on net assets of $149,739,000 (2012: $124,214,000) divided by 169,460,000 (2012: 169,460,000) ordinary shares in issue at the Statement of Financial Position date.

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

	2013 $'000	*2012 $'000*
Operating profit/(loss)	25,592	*(17,295)*
Less: Tax deducted at source on income from investments	(67)	*(62)*
Add: Realisation of investments at book cost	46,613	*57,370*
Less: Purchase of investments	(48,537)	*(41,953)*
Less: Adjustment for unrealised (gains)/losses	(26,976)	*5,920*
Decrease/(increase) in debtors	1,644	*(3,161)*
Increase/(decrease) in creditors	76	*(314)*
Net cash flow (used in)/from operating activities	**(1,655)**	***505***

14 Related party transactions

Details of the management contract can be found in the Directors' Report on page 10. Fees payable to the Investment Manager are detailed in note 3 on page 23. Other payables include accruals of management fees of $139,296 (2012: $116,785). The Directors' fees are disclosed in note 5 and the Directors' Remuneration Report on page 16.

15 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.

(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 7 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 2013 comprised:

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

			2012
	Cash flow interest rate risk $'000	*No interest rate risk $'000*	*Total $'000*
Non-current investments at fair value:			
US dollar denominated	*500*	*101,159*	*101,659*
Euro denominated	–	*2,602*	*2,602*
GB pound denominated	–	*3,054*	*3,054*
Pakistan rupee denominated	–	*1,362*	*1,362*
Tunisian dinar denominated	–	*1,960*	*1,960*
Saudi Arabian Riyal denominated	–	*4,484*	*4,484*
South African rand denominated	–	*1,152*	*1,152*
Cash at bank			
Floating rate – US$	*4,947*	–	*4,947*
Short term debtors	–	*3,196*	*3,196*
Short term creditors	–	*(202)*	*(202)*
	5,447	***118,767***	***124,214***

(vii) Sensitivity analysis

The Company had cash in the portfolio at the year end and no borrowing. A 10% increase or decrease in the valuation of the investment portfolio at the end of June 2013 would have resulted in a $14,517,000 (2012: $12,421,000) corresponding increase or decrease to the Company's Statement of Comprehensive Income, all other things being equal.

	30 June 2013	*30 June 2012*	Change
Trade weighted US dollar Index*	83.1	*81.6*	+1.8%
Federal Funds Target Rate	0.25%	*0.25%*	–
Advance Frontier Markets Fund NAV US$	$0.88	*$0.73*	+20.5%
Advance Frontier Markets Share Price (expressed in US dollars)	$0.79	*$0.66*	+19.3%

*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 Advance Frontier Markets Fund Limited. 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 $3,110,000 (2012: $5,745,000).

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 2013 included $3,218,000 (2012: $4,964,000) 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 are held by The Northern Trust Company (the "custodian"). Bankruptcy or insolvency of the custodian or any sub-custodian used by the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited. The Company monitors the credit quality of the custodian.

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 $125,000 (2012: $500,000) 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.

	2013	*2012*
One month	55.0%	*61.6%*
Three months	87.2%	*76.8%*
One year	94.7%	*90.1%*
Three years	97.1%	*97.1%*
Five years	98.4%	*97.6%*
Greater than five	100.0%	*100.0%*

Capital management

The Company's authorised share capital consists of an unlimited number of ordinary shares of no par value. At 30 June 2013 there were 169,460,000 (2012: 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. Any borrowings will not be used to fund investments but may be used to meet working capital requirements or to take advantage of favourable investment opportunities pending the payment of proceeds from the sale or redemption of investments. No borrowing facility was in place at 30 June 2013 (2012: Nil).

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.

16 Fair value estimation

IFRS 7 requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- 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:

	2013 Investments designated as fair value through profit or loss $'000	*2012 Investments designated as fair value through profit or loss $'000*
Level 1	40,494	*51,143*
Level 2	102,815	*62,411*
Level 3	1,864	*2,719*
Total	**145,173**	***116,273***

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.

A total of $9,034,000 comprising of Yatra Capital, PXP Vietnam and TAU Capital has been transferred from level 1 and level 2 in the year as the securities have not been actively traded on their respective markets.

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 2013 is shown below:

	2013 $'000	*2012 $'000*
Opening balance at 1 July	2,719	*2,594*
Additions during the year	–	*500*
Disposals during the year	(375)	*(298)*
Valuation adjustments	(480)	*(77)*
Closing balance at 30 June	**1,864**	***2,719***

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 3:00 p.m. on 3 December 2013, for the following purposes:

Ordinary resolutions

1 To receive and adopt the financial statements for the year ended 30 June 2013, with the reports of the directors and auditors thereon.

2 To re-elect Richard Hotchkis 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 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 2014 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.

Special resolution

6 To adopt new Memorandum and Articles of Incorporation in the form enclosed with the notice of the meeting.

Ordinary resolution

7 To change the maximum aggregate remuneration payable to the directors of the Company to £200,000 per annum.

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. A member may appoint more than one proxy provided each proxy is appointed to exercise voting rights in respect of 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 Registrars, 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 2013. 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 2013 at 3:00 p.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
Ordinary resolutions			
1 To receive and adopt the financial statements for the year ended 30 June 2013, with the reports of the directors and auditors thereon.	☐	☐	☐
2 To re-elect Richard Hotchkis as a director.	☐	☐	☐
3 To re-appoint Grant Thornton Limited as auditors to the Company.	☐	☐	☐
4 To authorise the directors to determine the remuneration of Grant Thornton Limited for the forthcoming year.	☐	☐	☐
5 To renew authority for the Company to purchase its own shares.	☐	☐	☐
Special resolution			
6 To adopt the new Memorandum and Articles of Incorporation as in the form enclosed with the notice of the meeting.	☐	☐	☐
Ordinary resolution			
7 To change the maximum aggregate remuneration payable to the directors of the Company to £200,000 per annum.	☐	☐	☐

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 __________ 2013

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 Registrars, 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 Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU, so as to arrive before 4.30 p.m. on 1 December 2013 (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
52/55 Piccadilly
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
Mont Crevelt House
Bulwer Avenue
St Sampson
Guernsey GY2 4LH

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

Registered office*
11 New Street
St Peter Port
Guernsey GY1 2PF

www.frontiermarketsfund.com

*Registered in Guernsey No. 46809

AdvanceEmergingCapital

Advance Emerging Capital Limited
1st Floor, Colette House
52/55 Piccadilly
London W1J 0DX
United Kingdom

T +44 (0)20 7016 0030

www.advance-emerging.com