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# Advance Frontier Markets Fund Limited

## Annual report 2009



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## Investment objective

The objective of the Company is to generate long-term capital growth for its shareholders. The 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 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.

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## Performance

For the year ended 30 June 2009

Net Asset Value ("NAV") per share – undiluted	-36.0%
Net Asset Value ("NAV") per share – diluted	-35.9%
Share price	-49.0%

As at 30 June 2009

NAV per share – undiluted	\$0.6611
NAV per share – diluted	\$0.6611
Share price	\$0.5575
Warrant price	\$0.0300
Total assets	\$112m

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## Financial Calendar

Annual General Meeting	25 November 2009 at 11am Valley House Hirzel Street St Peter Port Guernsey GY1 4HP
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The Annual Report can be downloaded in electronic format from [www.frontiermarketsfund.com](http://www.frontiermarketsfund.com)

# Chairman's statement

## On behalf of your Board, I am pleased to present to you the Report & Accounts for Advance Frontier Markets Fund Limited ("AFMF", "the Fund" or "the Company") for the financial year to 30 June 2009.

To attempt to sum up the global backdrop and the course of events over the year in a few sentences is a daunting task. That economies and financial markets endured their most testing period in living memory is certain. That frontier markets proved to be no safe haven was also, sadly, true. In the global panic and market carnage there were no safe havens for equity focussed investors. The lesser degree of economic and financial ties that frontier markets have to the global system proved irrelevant as foreign investors fled in a panic in the late summer of 2008. AFMF's Net Asset Value ("NAV") finished the period 36.0% lower on an undiluted basis. The share price declined by 49.0%, with the shares' premium rating turning to a discount.

Such a drop in the net asset value is disappointing given the Fund's relative youth and an issue price of \$1 or more for both capital raisings. We feel very strongly though that this is merely an unfortunate start to a long term project. Your Manager argues eloquently that the Frontier Markets theme is here to stay and we support that notion strongly. We will continue to monitor their investments very closely to ensure that investors are given exposure to a balanced range of assets within the geographic remit. At present we believe that this is the case and that many of those investments are attractively valued.

### Discount issue

During the dark months of September and October a limited number of forced sellers and some uncertainty as to the nature of the Fund's investments pushed AFMF's share price to a substantial discount to NAV. At the time, we were in regular contact with the Manager to keep up to date with the situation, which was very fluid. In October, an announcement was made stressing the following points:

- AFMF does not gear to fund its investments
- AFMF does not hedge market or currency exposure or use derivative instruments
- AFMF is closed ended, so does not suffer from redemptions
- AFMF's portfolio gives core exposure to frontier markets in the Middle East, Africa, Asia and Eastern Europe through liquid open and closed ended funds
- AFMF's shareholder register is dominated by blue chip institutions taking a long term view and not by speculative investors
- AFMF is witnessing opportunities to invest in closed end funds on discounts not seen since the Russian crisis in 1998

The above points remain true today and, in addition, AFMF remains the only UK listed vehicle offering investors diversified access to global frontier markets. As promised in the announcement, your Manager visited current and potential investors and other market participants to reiterate these points and address the favourable long term outlook for the asset class which, at the time, was not reflected in market performance. This process, combined with a general improvement in the market, helped narrow the discount from 31.2% at its widest to 15.7% at the end of the year without the need to buy back any of the Company's own shares. This is consistent with the Manager's contention that there was never a significant overhang of stock, as was the case with many other specialist closed end funds which traded on similar discounts.

The Board expects to see the discount narrow further as market sentiment continues to improve and the Manager's relationship management efforts continue under the new brokerage arrangements discussed below. We will, of course, continue to monitor this trend closely and reserve the right to employ the share buyback facility if it is deemed necessary.

### Brokership arrangements

In early May AFMF appointed Numis Securities Limited to replace Fairfax IS as the Company's broker, following the loss of key personnel at the latter. Numis were selected following a beauty parade, in which the Board was impressed with the level and breadth of experience within the Numis team and their dedication to more specialist products. We look forward to working with them in raising AFMF's profile and in marketing the Fund to a wider audience. We thank the Fairfax IS team for their efforts in the IPO, the secondary fundraising and the general marketing and trading of the Fund's shares.

Finally, I wish to thank my fellow directors for their hard work over the course of the last year.

**Aly El-Tahry**

28 September 2009

# Manager's report

## Performance review

At the time of writing last year's report, developed markets were already reflecting growing concern about the state of Western economies and, in particular, the financial systems therein. Emerging and Frontier markets were, in contrast, showing signs that the much debated "decoupling" theory, whereby their economies and markets cease to be dependent on developed markets, was in the process of being proven. By the middle of September though, all hopes of such a shift were dashed, with the collapse of Lehman Brothers sparking a tidal wave of risk aversion that would leave no market unscathed.

While global markets declined, frontier markets generally declined with them but, as other markets began to bottom and then rally, frontier markets continued to fall. Between the time that most emerging markets reached their lows (27 October 2008) and the end of June 2009, the MSCI Frontier Markets Index (not an ideal proxy for what the Fund invests in, but the best available) registered a loss of 11.2% while the MSCI World Index rallied by 17.9% and the MSCI Emerging Markets Index re-rated by a phenomenal 70.3%, the largest rally ever witnessed in that asset class in such a short period of time (all figures quoted are net total returns in US dollar terms).

We attribute the underperformance in frontier markets during this recovery to two factors. First, with these markets as inefficient and illiquid as they are it took longer for forced sellers, of which there were many, to find a price at which willing buyers existed. Redemptions from open ended funds in Africa and the Middle East, only really ceased in February 2009. Second, the recovery in other asset classes was driven by liquidity. Investors wanted instant access on the way in and an easy exit in case the "green shoots" turned out to be weeds. Neither criterion is satisfied by the frontier market asset class. We believe investor behaviour will change as markets consolidate and people begin to pay more attention to valuations, which are now considerably cheaper in frontier markets than emerging markets.

For the financial year as a whole, frontier markets suffered a decline of 49.1%, while the emerging markets declined by 28.1%. From a contextual perspective, Advance Frontier Markets Fund saw its NAV decline by 36.0%. This performance is outlined in the table below.

**Table 1: Advance Frontier Markets Fund performance report**

	3 Months	6 Months	12 Months	Since Inception
AFM NAV	+27.0%	+15.7%	-36.0%	-31.7%
AFM NAV (Diluted)	+27.0%	+15.7%	-35.9%	-31.7%
AFM Price	+42.0%	+21.2%	-49.0%	-44.3%

Source: PDML, Bloomberg, all figures in USD and to 30 June 2009. Inception was 15 June 2007.

Over half the decline in the NAV was accounted for by the Fund's investments in Middle Eastern funds, with most managers failing to preserve capital to any extent while suffering significant redemptions. The Fund's investments in Africa fared relatively better overall, but nevertheless accounted for approximately one quarter of the decline in NAV. The Fund's investment in Optis Africa proved particularly defensive, as did the investments in Tunisia, one of the few markets to generate a positive return over the year. In Asia, the Fund's bias towards closed end funds of property and private equity was punitive as many such products moved to substantial discounts to their headline NAVs, irrespective of the quality of their assets. However, two exceptions were the Fund's exposure to the Bangladesh market as well as building a large stake in Indochina Vietnam Fund at around a 40% discount to NAV and its subsequent sale at a much tighter discount and a much higher price when reconstruction proposals were announced. We were actively involved in bringing about the reconstruction.

In Latin America a follow on investment made in Brazil in October proved well timed and led to a positive contribution for the region as a whole over the year. Similarly, the Fund's investments in funds with a global remit were accretive to performance after significant purchases around the bottom of the market, mostly in deeply discounted closed end funds. The Fund's exposure to Eastern Europe and the Balkans was low, as those markets fared particularly badly on the back of concerns that a full blown currency crisis may materialise there.

## Portfolio

The Fund's asset allocation is shown on page 5. At the end of the year the portfolio had exposure to 52 markets. It is our intention for the Fund to continue to have such a diversified portfolio.

The level of cash in the portfolio has been significantly reduced since last year as the final proceeds of the June capital raising were invested towards the tail end of 2008, when markets had already suffered the worst of their declines. Purchases were made across all regions.

The weighting in Africa increased most significantly, to 31.4% overall. This was the result of relatively better performance in the Fund's holdings there and also additions to both Africa Opportunities Fund and Duet Africa Opportunities Fund during the year, both of which gave the Fund discounted exposure to the region at a time when valuations were deeply depressed. The Fund redeemed half of its position in EMM's Africa Emerging Markets Fund following the departure of John Niepold, the lead manager of that product since its inception in 1993. We are monitoring the performance of the new team very closely. The bulk of AFMF's exposure continues to be through funds invested on a regional basis, but the Fund continues to hold country specific investments in Tunisia and Zimbabwe, both of which have served the Fund exceptionally well over the year.

In the Middle East, the weighting declined due to the poor performance of markets, underlying investments and the sale of two key positions, both due to staff turnover. The first was EMM's Middle East Fund, in which the Fund also halved its position when the manager departed. The second was the Arab Gateway Fund managed by Shuaa Capital in Dubai, which suffered from generally high turnover of management staff. The proceeds of these sales were recycled into various investments across all markets. One such trade was the building of a 2% position in Epicure Qatar Equity Opportunities Fund, a closed end fund of Qatari equities that the Fund was able to buy at a discount in excess of 30% to net asset value.

The Fund's Asian weighting increased through both performance and additions to uncorrelated investments across the region including ARC Capital Holdings Ltd, a closed end fund of private equity investments focussed on the Chinese retail sector. Purchases of this fund were made at discounts of up to 60%. The Fund also increased its holding in a regional Asian fund of environmental stocks, a theme which we believe has excellent long term prospects.

In Latin America a follow on investment was made into the Tarpon All Equities Fund, the Fund's core Brazilian position, following an insightful trip to Brazil during the heart of the crisis in October. The subsequent strong performance of that investment has propelled it into the Fund's ten largest investments, as shown on page 6. The management team at Tarpon highlighted this period as the best opportunity since the Brazilian crisis to invest in small and midcap domestically oriented stocks on deeply discounted valuations. The building of the private equity component of their portfolio has been put on hold while valuations in listed stocks are so attractive.

The Fund remained under-exposed to Eastern Europe throughout the year, as the situation there unravelled with considerably greater deterioration in the long term fundamentals than in the other frontier regions. We continue to view the region with a healthy dose of scepticism, despite recent strong performance.

As can probably be gleaned from the above, AFMF's exposure to closed end funds over the period increased markedly, as risk aversion and volatility lead to significant discounts on the handful of closed end funds that operate in specific areas of the frontier world. At the end of June, almost 35% of the portfolio was invested in closed end funds, even after some significant sales where quick profits were realised. The same figure a year ago was just 24%. The activist approach to extracting value from such opportunities is something that is second nature to your Investment Manager, but not something we were envisaging would contribute materially to performance at the time AFMF was launched, when most funds were trading at parity and were therefore unattractive to us. We have been very selective in the stakes that have been built up, preferring to buy portfolios of equities wherever possible, rather than property, private equity or infrastructure funds, whose NAVs are notoriously difficult to model accurately and where reconstructions are more difficult to effect.

Having said that, there were opportunities where the discounts in those non-equity asset classes were excessive relative to the quality of the underlying assets. Exposure to private equity and property funds (all closed end structures) was 10% and 6% of NAV at the end of the year.

#### Market outlook

In a rare piece of broker research on global frontier markets published in March, Merrill Lynch described the asset class as "last into the de-leveraging vortex" and "unlikely to be the first out." This, it transpires, was a correct assessment in terms of subsequent market performance. Thankfully, they agree with us that the secular story remains intact and stated that two conditions were required for the frontier bear market to end – higher oil prices and a recovery in global risk appetite. The oil price has already more than doubled from its lows. Risk aversion has decreased dramatically from previously unseen levels. A response of sorts has been seen in frontier stock markets, but nothing like that seen in other asset classes. We believe this presents an opportunity, with frontier markets now a "laggard trade" on a global recovery.

In terms of the secular story, the Fund's pillars of quality, value, growth and change remain valid. Frontier economies overall have been spared the very worst of the crisis due to their general lack of leverage, the key measure of quality in our eyes given the causes of the crisis. Indeed, the Middle East remains flush with petrodollars (more than enough to deal with the problems that arose in Dubai). The spill over effect into North Africa will continue to be significant. Sub Saharan Africa may not have the same level of sovereign wealth, but the historically high cost of capital has ensured that debt levels remain low, both at a corporate and household level. Asian frontier markets, like their more established neighbours, learnt their lesson during the Asian crisis. Eastern Europe is the one exception, having picked up some nasty habits from its Western neighbours. The direct and indirect costs of the crisis have been significantly lower for frontier markets therefore, which translates into a premium in terms of growth, as can clearly be seen in Table 2. Growth in the Middle East and Africa remains particularly robust. It is no coincidence that the Fund has in excess of 50% of the portfolio exposed to these two regions.

**Table 2: GDP growth forecasts frontier and developed markets**

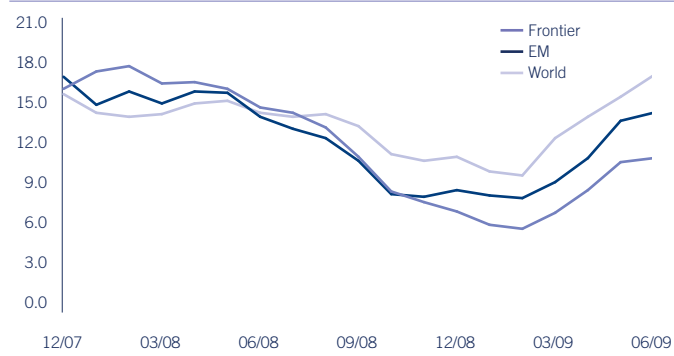
Frontier regions	2009	2010	2011
Asia (Bangladesh, Cambodia, Pakistan, Sri Lanka, Vietnam)	2.5	3.9	5.6
Eastern Europe (Bulgaria, Croatia, Estonia, Romania)	-4.9	-0.5	3.0
CIS (Kazakhstan, Ukraine, Uzbekistan)	-1.0	3.2	5.9
Africa (Botswana, Kenya, Mauritius, Morocco, Nigeria, Tunisia, Zambia)	1.3	5.1	5.1
Western Hemisphere (Argentina, Colombia, Peru)	0.7	2.1	4.4
Middle East (Bahrain, Iraq, Kuwait, Qatar, Saudi Arabia, UAE)	4.1	5.6	5.2
Frontier region average	0.4	3.2	4.8
Developed regions	2009	2010	2011
G7	-3.8	0.0	2.7

Source: IMF World Economic Outlook Database, April 2009

In terms of valuations, the picture is equally as clear cut. Frontier markets trade at a discount to both mainstream emerging and developed markets. Charts 1 and 2 below illustrate the trailing valuation multiples for the three regions using MSCI data. The most intangible of our criteria, that of incremental macro and micro change, is something we see time and again on the ground. During the year, members of the Management team visited many frontier and emerging markets, including Egypt, Tunisia, Russia, Mongolia, Korea, Brazil, Vietnam, China, Thailand, India, Oman, Kuwait, Bahrain, Kenya, UAE, Turkey, South Africa and Zimbabwe.

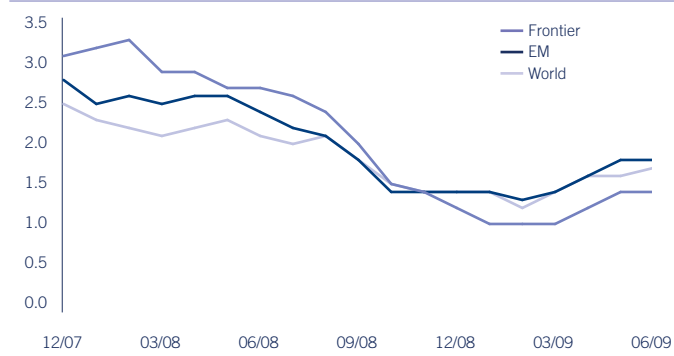
Within the portfolio, the ability to invest in selected assets at discounts to their intrinsic value is something that the Fund's long term investors should be encouraged by, although we obviously regret that it took a crisis of such magnitude to bring about these discounts. While the asset allocation may not change dramatically over the coming year we are exploring ever more inventive ways of gaining exposure to those difficult to access markets, which we believe is part and parcel of the remit that shareholders have granted us. In Asia, Sri Lanka looks particularly interesting, while in Latin America we are keen to explore the Andean markets as well as Argentina but have yet to find appropriately structured and cost-effective products. We will continue to target a portfolio that offers low valuations, high growth and low correlation to global markets. Although the performance of the last year was disappointing, we believe that in the long term investors will be rewarded. We thank you, the shareholders, for your support during what has been a very challenging year.

**Chart 1: Trailing price to earnings ratios**



Source: MSCI, data to 30 June 2009

**Chart 2: Trailing price to book ratios**



Source: MSCI, data to 30 June 2009

Progressive Developing Markets Limited

28 September 2009

# Asset allocation

at 30 June 2009

Country split	Percentage of net assets	Country split	Percentage of net assets
<b>Africa</b>	<b>31.4%</b>	<b>Middle East</b>	<b>23.4%</b>
Botswana	0.6%	Bahrain	0.8%
Egypt	3.9%	Jordan	0.8%
Kenya	1.9%	Kuwait	2.3%
Mauritius	1.7%	Lebanon	0.5%
Morocco	0.2%	Oman	1.5%
Nigeria	4.2%	Qatar	6.9%
Senegal	1.4%	Saudi Arabia	5.0%
Tunisia	4.1%	UAE	4.3%
Zambia	1.0%	Other Middle East	1.3%
Zimbabwe	1.9%	<b>Latin America</b>	<b>6.0%</b>
Other Africa	10.5%	Brazil	5.7%
<b>Asia</b>	<b>23.4%</b>	Other Latin America	0.3%
Bangladesh	1.4%	<b>Non-specified</b>	<b>2.4%</b>
China	8.6%	<b>Cash (including cash in underlying funds)</b>	<b>8.0%</b>
India	3.1%	<b>Total</b>	<b>100.0%</b>
Indonesia	0.9%		
Pakistan	0.4%		
Vietnam	1.8%		
Other Asia	7.2%		
<b>Eastern Europe</b>	<b>5.4%</b>		
Bulgaria	0.3%		
Croatia	2.2%		
Romania	0.4%		
Other Eastern Europe	2.5%		

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

# Ten largest investments

at 30 June 2009

Company	Current Value \$,000	Percentage of net assets
EFG-Hermes MEDA*	8,755	7.8%
Alpha MENA*	6,731	6.0%
Blakeney Investors*	5,802	5.2%
Optis Africa*	5,292	4.7%
Africa Emerging Markets*	5,159	4.6%
Worldwide Opportunity Class CEF*	5,130	4.6%
Imara African Opportunities*	4,828	4.3%
Tarpon All Equities+	4,683	4.2%
Morgan Stanley Frontier^	4,612	4.1%
Utilico Emerging Markets^	3,836	3.4%
Utilico EMM Subscription Shares^	749	0.7%
<b>Ten largest investments</b>	<b>55,577</b>	<b>49.6%</b>
Other investments	54,366	48.5%
<b>Total investments</b>	<b>109,943</b>	<b>98.1%</b>
Cash and other net assets	2,082	1.9%
<b>Total net assets</b>	<b>112,025</b>	<b>100.0%</b>

^Quoted closed-end fund

\*Open-ended fund

+Limited liability partnership



# Directors' report

The directors present their report and accounts for the year ended 30 June 2009.

## 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 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 ten per cent. 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-ended 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 per cent. 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 per cent. of the Company's Net Asset Value at the time of the investment.

### *Gearing*

The Company will not borrow to fund its investments but 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.

## Results and dividends

The Company's loss on ordinary activities after taxation for the year was \$63,137,000 (2008: profit of \$4,055,000).

The Company's revenue return on ordinary activities after taxation for the year amounted to \$301,000 (2008: 252,000). 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 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.

**Issues of shares and warrants**

At the year end the Company had 169,460,000 ordinary shares and 16,940,000 warrants in issue.

There were no ordinary shares issued or warrants exercised during the year.

**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 diluted net asset value per share.

The directors therefore 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 per cent. 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 (item 4 in the Notice of 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. Unless authorised by shareholders, the Company will not issue further shares (otherwise than pursuant to the exercise of warrants) 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.

**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 or reconstruct or wind up the Company. If the resolution is passed, the Company will continue its operations and a similar resolution will be put to shareholders every three years thereafter.

**Custody**

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

**Borrowings**

The Company is permitted to borrow, at the point of drawdown, up to 10 per cent. 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. The Company does not presently have an overdraft facility.

**Management**

The management of the Company's investments is contracted to Progressive Developing Markets Limited, which is authorised and regulated by the FSA.

*Fees payable to the Manager*

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

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

The 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 Manager was awarded a performance fee.

The performance fee in respect of a particular Performance Period will be an amount equal to 12 per cent. 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 per cent. 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 2009 (2008: \$nil).

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

**Company secretary and administrators**

Legis Corporate Services Limited ("Legis") was the secretary of the Company for the entire period under review, and remains so. Legis is also responsible for all administrative matters. 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 has been appointed by Legis to act as administration agent in the United Kingdom. Cavendish is appointed under a contract subject to six months notice. The UK Administration Agent receives from the Administrator a monthly fee equal to one twelfth of 0.1 per cent. of Net Asset Value. This fee was subject to a maximum administration fee of £100,000 per annum at the time of the Admission of the Company's shares to AIM and the CISX ("Admission"). On each anniversary of Admission, the maximum fee is increased by the change in the UK Retail Price Index (all items) over the preceding 12 months and the current maximum fee is £102,940 per annum.

**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 2009 (2008: \$nil).

**Settlement of share transactions**

Share transactions in the Company can be settled by the CREST share settlement system.

**Donations**

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

**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 accounts.

**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**

**(James) Grant Wilson**

28 September 2009

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# Statement of directors' responsibilities

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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 have been followed, subject to any material departures disclosed and explained in the accounts; 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. Each director also confirms that they have taken all steps they ought to have taken as a director 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](http://www.frontiermarketsfund.com)) and on the Manager's website (website address: [www.pro-asset.com](http://www.pro-asset.com)). The maintenance and integrity of the Manager's website, so far as it relates to the Company, is the responsibility of the Manager. The work carried out by the auditors does not involve consideration of the maintenance and integrity of these websites and accordingly, the auditors accept 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 Company is not required to comply with the provisions of the Combined Code or any Guernsey corporate governance regime. However, the directors recognise the value of the Combined 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 Board

### Composition

All the directors were appointed by the Company with effect from 25 April 2007 and hold their office in accordance with the Company's Articles of Association.

*Aly El-Tahry, aged 55, is Chairman of the Company.*

Aly El-Tahry is a director and co-founder of Beltone Financial, a regional financial services group operating in the fields of investment banking and asset management, with offices in Cairo, Dubai, Riyadh and Jeddah. In 1991, he co-founded Kidder, Peabody & Co.'s Middle-East regional office in Cairo where he was co manager and was involved primarily in corporate finance activities such as privatisations. Aly co-founded Hermes in 1993, the largest investment bank in the Middle-East and up to the time of his departure as an executive in 1999, he managed, during two different periods, its sales and trading as well as the corporate finance divisions. In 2002, Aly co-founded Beltone Financial, which has assets under management of over 16.8 billion Egyptian pounds. Currently, Aly serves as director of two international investment funds and historically he served on the board of EFG-Hermes and the Cairo Stock Exchange. The October 1997 and September 1998 issues of Global Finance magazine named Aly as one of the 600 'World's Most Powerful People in Finance.' Aly received his MBA from the Krannert Graduate School of Management at Purdue University, West Lafayette, Indiana, USA, in 1987. He also holds Bachelor of Science degrees in both Physics-Engineering and Mechanical Engineering from Washington & Lee University, Lexington, Virginia, USA, and Rensselaer Polytechnic Institute, Troy, New York, USA, respectively.

*Helen Green, aged 46, 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 and she is currently a non-executive director of Landore Resources Limited and Advance AIM Value Realisation Company Limited (both of which are traded on AIM), Kenmore European Industrial Fund Limited, Acorn Income Fund Limited and Henderson Diversified Income Fund (which are listed on the Official List of the London Stock Exchange).

*(James) Grant Wilson, aged 47, is a non-executive director of the Company.*

Mr Wilson is the Chief Investment Officer of International Asset Monitor Ltd., 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 Development Capital (GP) Limited.

*Richard Hotchkis, aged 58, 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.

All directors are entirely independent of the Manager, Progressive Developing Markets Limited. There were no contracts subsisting during or at the end of the period 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 2009 and at the date of this report the directors had the following shareholdings in the Company.

	Ordinary shares At 30 June 2009 and at the date of this report	Ordinary shares At 1 July 2008	Warrants At 30 June 2009 and at the date of this report	Warrants At 1 July 2008
Aly El-Tahry	172,474	172,474	Nil	Nil
Helen Green	18,664	18,664	Nil	Nil
(James) Grant Wilson	200,000	200,000	Nil	Nil
Richard Hotchkis	35,000	20,000	Nil	Nil

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 2009 there were four meetings of the Board. All the directors 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, Helen Green will retire and put herself forward for re-election at the Annual General Meeting.

The Board has reviewed the contribution made by Helen Green and in accordance with the performance evaluation detailed below recommends that Helen Green 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 comprises all the members of the Board other than the Chairman. 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.

In the period from the Company's listing up to the date of this document there have been two meetings of the Audit Committee. All of the committee members attended both meetings.

#### *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 Manager. The management engagement committee will also consider the appointment and remuneration of other suppliers of services to the Company. The management engagement committee comprises all the members of the Board. Richard Hotchkis is the Chairman of the Management Engagement committee.

In the period from the Company's listing up to the date of this document there has been one meeting of the Remuneration and Management Engagement Committee. This was attended by all the committee members.

#### *Nominations Committee*

All of the directors are members of the Nominations Committee. It has been established for the purpose of identifying and putting forward candidates for the office of director of the Company. The Nominations Committee will meet as and when it is required. Grant Wilson is Chairman of the Nominations Committee.

In the period from the Company's listing up to the date of this document there have been 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.

### Internal controls

The Combined Code requires the Board to review the effectiveness of the Company's system of internal controls. The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. The system of 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 internal control system throughout the period 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 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 accounts is on page 10 and a statement of going concern is on page 9. The report of the independent auditors is on page 15.

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

*Shareholder relations*

The Company invites all shareholders to attend the Annual General Meeting and seeks to provide twenty working days' notice of that meeting. The Notice of Meeting sets out the business of the 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. All investee company general meetings are researched by the investment manager and the Company takes action following the completion of this process. The Company is opposed to mechanistic 'box-ticking' approaches to voting at shareholder meetings.

*Social and environmental policy*

The Company is a closed-ended 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 2010 and for subsequent years.

The maximum amount currently payable in aggregate to the directors is \$200,000 per annum and this may only be changed by the passing of an ordinary resolution of the Company.

No services have been provided by, or fees paid to, advisers in respect of remuneration policy during the period ended 30 June 2009.

## 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 the first annual general meeting of the Company.

## Directors' emoluments for the period

Fees are payable to the directors at a rate of \$30,000 per annum. Fees have been payable since the Company's Shares were admitted to trading on AIM on 15 June 2007.

The following emoluments in the form of fees were payable in the year ended 30 June 2009 to the directors who served during that period.

	Fees 2009 \$	Fees 2008 \$
Aly El-Tahry	30,000	31,377
Helen Green	30,000	31,377
Grant Wilson	30,000	31,377
Richard Hotchkis	30,000	31,377



# Independent auditor's report

**To the Members of Advance Frontier Markets Fund Limited**

We have audited the financial statements of Advance Frontier Markets Fund Limited for the year ended 30 June 2009 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement 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 issued by the IASB as adopted by the European Union.

This report is made solely to the company's members, 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 members 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 members 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 10 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 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.

**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 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as issued by the IASB as adopted by the European Union; and
- have been prepared in accordance with The Companies (Guernsey) Law, 2008.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under The Companies (Guernsey) Law, 2008 we are required 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; 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

28 September 2009

# Income statement

For the year ended 30 June 2009

	Notes	Revenue \$'000	Capital \$'000	2009 Total \$'000	Revenue \$'000	Capital \$'000	2008 Total \$'000
<b>Gains/(losses) on investments designated as fair value through profit or loss</b>							
Disposal of investments		–	(17,909)	(17,909)	–	1,454	1,454
Investments held		–	(44,673)	(44,673)	–	3,206	3,206
Capital losses on currency movements		–	(36)	(36)	–	(62)	(62)
<b>Net investment (losses)/gains</b>		<b>–</b>	<b>(62,618)</b>	<b>(62,618)</b>	<b>–</b>	<b>4,598</b>	<b>4,598</b>
Investment income	2	1,243	–	1,243	1,212	–	1,212
Total income/(loss)		1,243	(62,618)	(61,375)	1,212	4,598	5,810
Investment management fees	3	(410)	(820)	(1,230)	(397)	(795)	(1,192)
Other expenses	3	(527)	–	(527)	(540)	–	(540)
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>306</b>	<b>(63,438)</b>	<b>(63,132)</b>	<b>275</b>	<b>3,803</b>	<b>4,078</b>
Taxation	6	(5)	–	(5)	(23)	–	(23)
<b>(Loss)/profit on ordinary activities after taxation</b>		<b>301</b>	<b>(63,438)</b>	<b>(63,137)</b>	<b>252</b>	<b>3,803</b>	<b>4,055</b>
<b>Earnings per ordinary share</b>							
	7						
– Basic		0.18c	(37.44c)	(37.26c)	0.28c	4.23c	4.51c
– Diluted		0.18c	(37.44c)	(37.26c)	0.28c	4.21c	4.49c

The total column of this statement represents the Company's Income Statement, 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.

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

The comparatives relate to the period from 25 April 2007 to 30 June 2008. The Company was incorporated on 25 April 2007 and its shares commenced trading on AIM and the Channel Islands Stock Exchange on 15 June 2007.

The notes on pages 20 to 27 form part of these accounts.

# Balance sheet

At 30 June 2009

	Notes	2009 \$'000	2008 \$'000
<b>Non-current assets</b>			
Investments designated as fair value through profit or loss	8	109,943	140,010
<b>Current assets</b>			
Cash held in escrow pending investment	8	1,000	7,500
Other receivables		62	61
Cash and cash equivalents		1,229	27,974
		2,291	35,535
<b>Total assets</b>		<b>112,234</b>	<b>175,545</b>
<b>Current liabilities</b>			
Other payables		209	383
		209	383
<b>Total assets less current liabilities</b>		<b>112,025</b>	<b>175,162</b>
<b>Capital and reserves attributable to equity holders</b>			
Share premium account	10	88,788	88,788
Share purchase reserve		82,319	82,319
Capital reserve – disposal of investments	11	(18,168)	597
Capital reserve – investments held	12	(41,467)	3,206
Revenue reserve		553	252
<b>Total equity</b>		<b>112,025</b>	<b>175,162</b>
Net assets per Ordinary Share –undiluted	13	66.11c	103.36c
Net assets per Ordinary Share – diluted	13	66.11c	103.06c

Approved by the Board of Directors on 28 September 2009 and signed on their behalf by:

**Helen Green**

**(James) Grant Wilson**

The notes on pages 20 to 27 form part of these accounts.

# Statement of changes in equity

For the year ended 30 June 2009

	Share premium account \$,000	Share purchase reserve \$,000	Capital reserve – disposal of investments \$,000	Capital reserve – investments held \$,000	Revenue reserve \$,000	Total \$,000
Opening shareholders' funds	88,788	82,319	597	3,206	252	175,162
(Loss)/profit for the period	–	–	(18,765)	(44,673)	301	(63,137)
Closing equity	88,788	82,319	(18,168)	(41,467)	553	112,025

For the period from 25 April 2007 to 30 June 2008

	Notes	Share premium account \$,000	Share purchase reserve \$,000	Capital reserve – disposal of investments \$,000	Capital reserve – investments held \$,000	Revenue reserve \$,000	Total \$,000
Issue of shares	9	175,503	–	–	–	–	175,503
Share issue expenses		(4,396)	–	–	–	–	(4,396)
Transfer from share premium to share purchase reserve	10	(82,319)	82,319	–	–	–	–
Profit for the period		–	–	597	3,206	252	4,055
Closing equity		88,788	82,319	597	3,206	252	175,162

The comparatives relate to the period from 25 April 2007 to 30 June 2008. The Company was incorporated on 25 April 2007 and its shares commenced trading on AIM and the Channel Islands Stock Exchange on 15 June 2007.

The notes on pages 20 to 27 form part of these accounts.

# Cash flow statement

For the year ended 30 June 2009

	Notes	2009 \$'000	2008 \$'000
<b>Operating activities</b>			
Cash inflow from investment income and bank interest		1,243	1,183
Cash outflow from management expenses		(1,815)	(1,497)
Cash inflow from disposal of investments		34,492	145,038
Cash outflow from purchase of investments		(60,507)	(287,888)
Cash outflow from foreign exchange costs		(36)	(62)
Cash outflow from taxation		(5)	(23)
<b>Net cash flow used in operating activities</b>	14	<b>(26,628)</b>	<b>(143,249)</b>
<b>Financing activities</b>			
	9,10		
Proceeds of share issues		–	175,443
Expenses of share issues		(117)	(4,280)
Warrants exercised		–	60
<b>Net cash flow (used in)/from financing activities</b>		<b>(117)</b>	<b>171,223</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(26,745)</b>	<b>27,974</b>
Opening balance		27,974	–
Cash (outflow)/inflow		(26,745)	27,974
<b>Balance at 30 June 2009</b>		<b>1,229</b>	<b>27,974</b>

The comparatives relate to the period from 25 April 2007 to 30 June 2008. The Company was incorporated on 25 April 2007 and its shares commenced trading on AIM and the Channel Islands Stock Exchange on 15 June 2007.

The notes on pages 20 to 27 form part of these accounts.

# Notes to the financial statements

## 1 Accounting policies

### *Basis of accounting*

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect at the date of this document and to the extent that they have been adopted by the European Union.

The financial statements give a true and fair view of the state of affairs of the Company as at 30 June 2009 and its profit or loss for the year then ended and comply with The Companies (Guernsey) Law, 2008.

There are new and amended standards that are effective for periods subsequent to June 2009. The following new standards are relevant to the Company which the Company will apply in accordance with their transitional provisions.

IAS 1 (Revised 2007):	Presentation of Financial Statements
Amendments to IFRS 7 (March 2009):	Financial Instrument: Disclosures
IFRS 8:	Operating Segments

Below is a discussion of the possible impact of these accounting standards.

(i) IAS 1 (Revised 2007), Presentation of Financial Statements (effective from 1 January 2009). The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of IAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature. Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Company will apply IAS 1 (Revised 2007) in its 2010 financial statements.

(ii) Amendments to IFRS 7 (March 2009), Financial Instrument: Disclosures (effective from 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. It introduces a three-level hierarchy for fair value disclosures: Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). There are other disclosures required as a result but the first year application of these amendments does not require comparative disclosures. The Company will apply the amendments to IFRS 7 in its 2010 financial statements.

(iii) IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). Under this new standard, a reportable operating segment is identified based on the information about the components of the entity that management uses to make decisions about operating matters. In addition, segment resources, liabilities and performance, as well as certain disclosures, are to be measured and presented based on the internal reports prepared for and reviewed by the chief decision makers. The Company identifies operating segments and reports on segment resources, liabilities and performance based on internal management reports, adoption of this new standard will not have a material impact on the Company's financial statements.

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 Income Statement.

### *(c) Income from investments*

Investment 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 Income Statement 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 Income Statement. Income from Treasury Bills is accounted for using the effective interest method. Bank interest receivable is accounted for on a time apportionment basis.

*(d) Capital reserves*

Profits and losses on disposals of investments are allocated to the capital reserve – disposal of investments via the capital column of the Income Statement. Gains and losses on investments held are allocated to the capital reserve – investments held via the capital column of the Income Statement.

*(e) Share purchase reserve*

The proceeds from the June 2007 issue of shares net of share issue expenses were transferred to the share purchase reserve pursuant to approval from the Royal Court of Guernsey. The share purchase reserve is available to be used for the purchase of the Company's own shares.

*(f) Investment management fees*

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

*(g) Foreign currency*

The Company's shares are 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.

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

*(h) Cash and cash equivalents*

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

**2 Investment income**

	2009 \$'000	2008 \$'000
<b>Income from investments</b>		
Dividends from investments	1,196	575
<b>Other income</b>		
Treasury Bill Income	–	137
Bank interest receivable	47	500
	<b>1,243</b>	<b>1,212</b>

**3 Investment management fees and other expenses**

	Revenue \$'000	Capital \$'000	2009 Total \$'000
Investment management fees – basic	410	820	1,230
Administration fees	159	–	159
Custodian's fees	45	–	45
Registrar's fees	29	–	29
Directors' fees	120	–	120
Auditors' fees	25	–	25
Nominated Adviser fees	42	–	42
Miscellaneous expenses	107	–	107
<b>Total other expenses</b>	<b>527</b>	<b>–</b>	<b>527</b>
<b>Total expenses</b>	<b>937</b>	<b>820</b>	<b>1,757</b>

	Revenue \$'000	Capital \$'000	2008 Total \$'000
Investment management fees – basic	397	795	1,192
Administration fees	161	–	161
Custodian's fees	33	–	33
Registrar's fees	19	–	19
Directors' fees	126	–	126
Auditors' fees	31	–	31
Nominated Adviser fees	50	–	50
Miscellaneous expenses	120	–	120
<b>Total other expenses</b>	<b>540</b>	<b>–</b>	<b>540</b>
<b>Total expenses</b>	<b>937</b>	<b>795</b>	<b>1,732</b>

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

The Company's total expense ratio for the year (based on average net assets) was 1.5%.

**4 Directors' fees**

The fees paid or accrued were \$120,000 (2008: \$125,508). There were no other emoluments. Full details of the fees of each director are given in the Directors' Remuneration Report on page 14.

**5 Transaction charges**

	2009 \$'000	2008 \$'000
Transaction costs on purchases of investments	37	68
Transaction costs on sales of investments	115	15
<b>Total transaction costs included in gains/(losses) on investments at fair value through profit or loss</b>	<b>152</b>	<b>83</b>

**6 Taxation**

The Company is resident for tax purposes in Guernsey.

With effect from 1 January 2008, Guernsey abolished the exempt company regime. Thereafter, the Company will be taxed at the company standard rate (0%). Prior to that, the Company was 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 period, the Company suffered foreign withholding tax on income from investments totalling in aggregate \$5,170 (2008: \$22,577).

**7 Earnings per share**

Earnings per share is based on the net loss of \$63,137,000 (2008: profit of \$4,055,000) attributable to the weighted average of 169,460,000 (2008: 89,861,832) ordinary shares of no par value in issue during the year to 30 June 2009.

Earnings per share may be diluted by the impact of the warrants in issue during the course of the year.

There was no dilution to earnings per share during the year ended 30 June 2009.

The diluted earnings per share for the period ended 30 June 2008 is based on the net profit on ordinary activities after taxation above attributable to the diluted weighted average of 90,287,216 ordinary shares.

Supplementary information is provided as follows: revenue per share is based on the net revenue profit of \$301,000 (2008: \$252,000) and capital earnings per share is based on the net capital loss of \$63,438,000 (2008: profit of \$3,803,000) attributable to the above ordinary shares.

**8 Investments**

	2009 \$'000	2008 \$'000
Quoted & listed closed end fund shares and warrants	32,267	35,707
Open ended fund and limited liability partnership investments	77,676	104,303
<b>Total fixed asset investments at fair value</b>	<b>109,943</b>	<b>140,010</b>
Movement during the period:		
Opening balance of investments, at cost	136,804	–
Additions, at cost	67,007	280,388
Disposals, at cost	(52,401)	(143,584)
<b>Cost of investments at 30 June</b>	<b>151,410</b>	<b>136,804</b>
<b>Revaluation of investments to fair value</b>		
Opening balance	3,206	–
Investment holding (losses)/gains, taken to capital reserve – investments held	(44,673)	3,206
<b>Balance at 30 June</b>	<b>(41,467)</b>	<b>3,206</b>
<b>Fair value of investments at 30 June</b>	<b>109,943</b>	<b>140,010</b>

At the year end the Company had also made a payment of \$1 million for the purchase of units in the Harding Loevner Frontier Markets Fund which had a subsequent trade date of 1 July 2009. This is classified in the Balance Sheet as cash held in escrow pending investment.



**9 Share capital and warrants**

At 30 June	2009		2008
<i>Authorised</i>			
Ordinary shares of no par value	Number	Unlimited	<i>Unlimited</i>
<i>Allotted, issued and fully paid</i>			
Ordinary shares of no par value	Number	169,460,000	169,460,000
Warrants	Number	16,940,000	16,940,000

(i) *Placing of ordinary shares of no par value (with warrants) – June 2007*  
On 15 June 2007, the Company issued 85,000,000 ordinary shares, raising gross proceeds of \$85,000,000. The net proceeds of this placing were \$82,319,406.

In aggregate, 17,000,000 warrants were issued on the basis of one warrant for every five shares subscribed in the above placing. Each warrant entitles its holder to subscribe for one ordinary share at a subscription price of \$1.00 per ordinary on 15 June in each of the years 2008 to 2010 inclusive.

(ii) *Placing of ordinary shares – June 2008*

On 21 May 2008, the Company sent a circular to shareholders detailing proposals to place additional shares in the Company. Pursuant to these proposals, on 9 June 2008 the Company issued 84,400,000 ordinary shares which raised gross proceeds of \$90,443,040. The net proceeds of this placing were \$88,726,791.

(iii) *Exercise of warrants – June 2008*

On 16 June 2008 the holders of 60,000 warrants subscribed in cash for ordinary shares on a one warrant for one ordinary share basis and at a subscription price of \$1.00 per ordinary share. As a result 60,000 new ordinary shares were issued. In aggregate, net proceeds of \$60,000 were received for these ordinary shares. The new ordinary shares were admitted to trading on AIM and the CISX on 24 June 2008.

**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.

**10 Share premium account**

	2009 \$'000	2008 \$'000
Opening balance	88,788	–
On June 2007 placing of shares	–	85,000
Share issue costs of June 2007 placing of shares	–	(2,681)
Transfer to share purchase reserve	–	(82,319)
On June 2008 placing of shares	–	90,443
Share issue costs of June 2008 placing of shares	–	(1,715)
On June 2008 exercise of warrants	–	60
<b>Balance at 30 June</b>	<b>88,788</b>	<b>88,788</b>

The proceeds from the June 2007 issue of shares net of share issue expenses were transferred to the share purchase reserve pursuant to approval from the Royal Court of Guernsey.

**11 Capital reserve – disposal of investments**

	2009 \$'000	2008 \$'000
Opening balance	597	–
Transfer from capital reserve – investments held	3,830	–
Gains/(losses) from disposal of investments by reference to revalued book costs	(21,739)	1,454
Investment management fees charged to capital	(820)	(795)
Foreign exchange losses	(36)	(62)
<b>Balance at 30 June</b>	<b>(18,168)</b>	<b>597</b>

**12 Capital reserve – investments held**

	2009 \$'000	2008 \$'000
Opening balance	3,206	–
Transfer to capital reserve – disposal of investments	(3,830)	–
Revaluation of investments	(40,843)	3,206
<b>Balance at 30 June</b>	<b>(41,467)</b>	<b>3,206</b>

### 13 Net assets per ordinary share

Undiluted net assets per ordinary share is based on net assets of \$112,025,000 (2008: \$175,162,000) divided by 169,460,000 (2008: 169,460,000) ordinary shares in issue at the Balance Sheet date.

Diluted net asset value is based on all warrants being converted in to Ordinary Shares at a price \$1.00 per ordinary share. There was no dilution effect to net asset value 30 June 2009. Diluted net assets per ordinary share for the year ended 30 June 2008 is based on net assets of \$192,102,000 divided by 186,400,000 diluted ordinary shares at the Balance Sheet date.

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

	2009 \$'000	2008 \$'000
Operating profit	(63,132)	4,078
Less: Tax deducted at source on income from investments	(5)	(23)
Add: Realisation of investments at book cost	52,401	143,584
Less: Purchase of investments	(67,007)	(280,388)
Less: Financial commitments paid	(1,000)	(7,500)
Less: Adjustment for unrealised losses/(gains)	44,673	(3,206)
Decrease/(Increase) in debtors	7,500	(60)
(Decrease)/Increase in creditors	(58)	266
Net cash outflow from operating activities	(26,628)	(143,249)

### 15 Related party transactions

Details of the management and UK administration contracts can be found in the Directors' Report on pages 8 to 9. Fees payable to the Manager are detailed in note 3 on page 21. Other payables include accruals of management fees of \$98,410 (2008: \$159,712) and UK administration fees of \$9,234 (2008: \$12,777).

### 16 Financial instruments – risk profile

#### 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 and Treasury Bills.

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 and warrants 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 and warrants.

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 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 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 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 per cent. of the Company's net asset value at the time of the investment.

The 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 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 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 per cent. 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.

*Special situations*

The 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-ended funds that are available for purchase at a discount to their net asset value.

## (vi) Quantitative analysis

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

The Company's financial assets and liabilities at 30 June 2009 comprised:

	Cash flow interest rate risk \$'000	No interest rate risk \$'000	2009 Total \$'000
Non-current investments at fair value:			
USD denominated	–	92,473	92,473
EUR denominated	–	4,019	4,019
GBP denominated	–	9,197	9,197
PKR denominated	–	434	434
TND denominated	–	3,820	3,820
Cash at bank:			
Floating rate – \$	1,229	–	1,229
Short term debtors	–	1,062	1,062
Short term creditors	–	(209)	(209)
	1,229	110,796	112,025
2008			
	Cash flow interest rate risk \$'000	No interest rate risk \$'000	Total \$'000
Non-current investments at fair value:			
USD denominated	–	114,800	114,800
EUR denominated	–	12,399	12,399
GBP denominated	–	11,349	11,349
PKR denominated	–	1,462	1,462
TND denominated	–	–	–
Cash at bank:			
Floating rate – \$	27,974	–	27,974
Short term debtors	–	7,561	7,561
Short term creditors	–	(383)	(383)
	27,974	147,188	175,162

## (vii) Sensitivity analysis

The Company had cash in the portfolio at the year end and no borrowing. A 5% increase or decrease in the valuation of the investment portfolio at the end of June 2009 would have resulted in a £5,497,000 corresponding increase or decrease to the Company's net asset value and profit or loss, all other things being equal.

	30 June 2009	30 June 2008	Change
Trade weighted US Dollar Index*	80.1	72.5	10.5%
Federal Funds Target Rate	0.25%	2.00%	(1.75%)
Advance Frontier Markets Fund NAV (undiluted)	\$0.66	\$1.03	(36.0%)
Advance Frontier Markets Share Price	\$0.56	\$1.09	(49.0%)

\*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. 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 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 period end was \$2,314,267 (2008: \$3,440,026).

#### 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 2009 included \$1,173,000 (2008: \$27,989,000) 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 fund are held by The Northern Trust Company (the "custodian"). Bankruptcy or insolvency of 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 Manager performs due diligence on those funds before making any investment.

### Liquidity risks

The underlying investee funds selected by the 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 Manager reports to the directors on the liquidity of the Company's quoted investments on a monthly basis.

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

One month	79%
Three months	83%
One year	86%
Three years	98%
Five years	99%
Greater than five years	100%

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**Capital management**

The Company's authorised share capital consists of an unlimited number of ordinary shares of no par value. At 30 June 2009 there were 169,460,000 (2008: 169,460,000) ordinary shares in issue. At that time, the Company also had 16,940,000 (2008: 16,940,000) warrants in issue to subscribe for ordinary shares at \$1 on a one for one basis.

The Company is permitted to borrow, at the point of drawdown, up to 10 per cent. 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. The Company does not presently have an overdraft facility.

The Manager and the Company's broker monitor the demand for the Company's shares and the directors review the position at Board meetings. The Company's initial placing of shares was in June 2007 and a further placing of shares took place in June 2008. Further details on the Company's policies for issuing further shares can be found in the Directors' Report.

The Company does not have any externally imposed capital requirements.

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# Directors, manager and advisers

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**Directors**

Aly El-Tahry (Chairman)  
Helen Green  
(James) Grant Wilson  
Richard Hotchkis

**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**

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

**Registered office\***

1 Le Marchant Street  
St Peter Port  
Guernsey GY1 4HP

**Manager**

Progressive Developing Markets Limited  
145-157 St John Street  
London EC1V 4RU

**Nominated adviser**

Grant Thornton Corporate Finance  
30 Finsbury Square  
London EC2P 2YU

**Secretary and administrator**

Legis Corporate Services Limited  
1 Le Marchant Street  
St Peter Port  
Guernsey GY1 4HP

**Registrar**

Capita Registrars (Guernsey) Limited  
Longue Hougue House  
St Sampson  
Guernsey GY1 3US

**Banker**

Lloyds TSB Bank Plc  
34 Moorgate  
London EC2R 6PL

**UK administration agent**

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

[www.frontiermarketsfund.com](http://www.frontiermarketsfund.com)

# Notice of meeting

Notice is hereby given that the Annual General Meeting of Advance Frontier Markets Fund Limited will be held at Valley House, Hirzel Street, St Peter Port, Guernsey at 11am on 25 November 2009, for the following purposes:

1 To receive and adopt the financial statements for the year ended 30 June 2009, with the reports of the directors and auditors thereon.

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

3 To re-appoint Grant Thornton Limited as auditors to the Company and to authorise the directors to fix their remuneration.

4 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 Ordinance 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 per cent. 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 2010 or, if earlier, on the anniversary of the passing of this resolution; and

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

## Notes

1 A Shareholder entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote instead of him or her. A proxy need not be a member of the Company. A form of proxy accompanies this Notice. Completion and return of the form of proxy will not preclude members from attending or voting at the meeting, if they so wish. A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. 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, at Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, 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 4.30pm on 23 November 2009. 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 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 Valley House, Hirzel Street, St Peter Port, Guernsey, on 25 November 2009 at 11am 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
1 To receive and adopt the directors' report, the annual accounts and the auditors' report for the year ended 30 June 2009.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 To re-elect Helen Green as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-appoint Grant Thornton Limited as auditors to the Company and to authorise the directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 To renew authority for the Company to purchase its own shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

Signature \_\_\_\_\_ Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2009

## 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.

Second fold

Business Reply  
Licence Number  
MB122



Capita Registrars  
Proxy Department  
PO Box 25  
Beckenham  
Kent  
BR3 4BR

First fold

Cut along dotted rule

Third fold and tuck in





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**Progressive Developing Markets Limited**  
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