
Advance Frontier Markets Fund Limited
Half-yearly financial report 2009



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Investment objective

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

Performance

For the six months ended 31 December 2009

Net Asset Value ("NAV") per share – undiluted	+7.5%
Net Asset Value ("NAV") per share – diluted	+7.5%
Share price	+10.1%

As at 31 December 2009

NAV per share – undiluted	\$0.7110
NAV per share – diluted	\$0.7110
Share price	\$0.6138
Warrant price	\$0.0300
Net assets	\$120m

Chairman's statement

On behalf of your Board, I am pleased to present to you the Half-yearly Report for Advance Frontier Markets Fund Limited (“the Fund” or “the Company”) for the six months to 31 December 2009.

Against the backdrop of muted performance across most frontier markets I am pleased to report that the Fund's NAV rose by 7.5% over the six months to December. As market volatility subsides from the extremes seen over the prior two years, my fellow directors and I are confident that the Fund is well positioned and that the Manager has constructed a diversified portfolio that offers a compelling combination of both value and growth attributes.

I am also pleased to note the change in ownership of the Investment Manager and its rebranding as “Advance Emerging Capital Limited”. Your Board welcomes this development and believes that the change will, over time, bring benefits to our shareholders in terms of additional investment resources, improved shareholder communication and the potential to widen the shareholder base through enhanced marketing capabilities.

Turning to future prospects, it is clear to me that the arguments supporting the long term case for investing in frontier markets remain intact and are, if anything, even stronger today than before the recent financial crisis. Your Manager delves into these arguments in more detail in its report; suffice it to say that the Board supports this view and is confident that long term investors in the Advance Frontier Markets Fund will be rewarded. We thank you for your continued support.

Aly El-Tahry
18 February 2010

Manager's report

Performance review

The second half of 2009 proved to be rather dull for the overall performance of frontier markets with, by way of example, MSCI's Frontier Markets Index gaining just 0.1%. Emerging markets by comparison continued their spectacular recovery, adding 31%. The disappointing relative performance of the frontier region was largely due to the fact that frontier markets saw little by way of inflows through the latter stages of 2009. In part, this is explained by the fact that the MSCI Frontier Markets Index bottomed only in early March 2009, a good four months after emerging markets, as forced sellers took longer to exit positions in the less liquid frontier space. In the recovery phase frontier markets were somewhat overlooked as investors scrambled back into large capitalised emerging markets such as Brazil, Russia and India. The other part of the explanation for frontier markets' underperformance was due to very specific issues in a number of countries.

One such market was Nigeria, which fell by almost 20% in dollar terms in the last six months of 2009. The principal reason for the decline was a clean up and capital injection into Nigeria's tarnished banking sector. This is something that we view as a positive structural change. The remaining banks are well capitalised and soundly provisioned with greater transparency and accountability. Oil production is increasing rapidly in Nigeria following a peaceful settlement in the Niger delta although we cannot forget that political and religious tensions remain an issue. The hospitalisation of the incumbent President during the fourth quarter also increased the uncertainty. Government finances are however in good shape and for a decade the country has run trade and budget surpluses. With a population of 150 million people there is a large and growing consumer market for companies to tap into. Valuations are certainly not excessive, MSCI has the market on a trailing Price to Earnings ratio of 10.4x and a Price to Book ratio of 1.5x with earnings numbers only just starting to be upgraded.

The other notable country specific news to break during the period came out of Dubai. In late November tensions rose and markets around the region fell as Dubai World, a holding company of the Government of Dubai, announced that it needed at least six months grace from some of its most onerous debt repayments. In mid December, a cash injection of US\$10 billion from neighbouring emirate, Abu Dhabi, helped shore up confidence and inspired the Dubai authorities to officially rename the world's tallest building, the erstwhile "Burj Dubai", the "Burj Khalifa" after the ruler of Abu Dhabi. For the six month period as a whole the MSCI Arabian Markets Index rose by just 4.9%.

For the reporting period Advance Frontier Markets Fund's NAV did somewhat better than the frontier market average. The Fund's NAV increased by 7.5% over the half year. While for the calendar year as a whole the NAV gained 24.5% and began to recover some of the ground lost from inception.

Advance Frontier Markets Fund Performance Report

	6 Months	12 Months	Since Inception
AFM NAV	+7.5%	+24.5%	-26.6%
AFM NAV (Diluted)	+7.5%	+24.5%	-26.6%
AFM Share Price	+10.1%	+33.4%	-38.6%

Source: AECL, Bloomberg, all figures in USD and to 31 December 2009. Inception was 15 June 2007.

The Fund's large exposures to listed equity markets in Africa and Asia over the period were the largest contributors to the positive return. Middle Eastern and Latin American holdings also made positive, though less significant, contributions. In terms of individual positions, the Fund's holdings of best-of-breed African focused managers generally delivered solid returns. One such notable investment was Africa Opportunity Fund, a London traded closed end fund with a portfolio comprising a mixture of equity and debt which benefitted from re-rating of its underlying holdings over the period. The fund's investment approach is to invest with a value bias into lowly geared companies that supply goods or services that are in short supply in Africa and its NAV and share price both rose by in excess of 20% over the period. Several other holdings in the same broad geographical area also performed well, including EMM Africa Emerging Markets Fund which gained over 15% and Blakeney Investors which added 11%, a creditable result bearing in mind that it also invests in the Gulf markets. In Pakistan, the Company's investment in the PICIC Growth Fund returned 87%, helped by a discount that narrowed from 63% at the end of June to 47% at year end. The average discount over the previous seven years was just 23%. The Fund's investment with the Brazilian manager Tarpon, which falls into the category of an uncorrelated investment in a mainstream emerging market also performed excellently, rising by 54%. The only significant detractors from the Company's performance were in the real estate sector where discounts to reported NAVs remain significant as the sector continues to suffer from negative perceptions relating to project financing, potential exit routes and managements' abilities to execute plans as originally envisaged. Advance Frontier Markets Fund had under 5% of its NAV invested in the real estate funds at the end of the period.

Portfolio

The Fund’s asset allocation is shown on page 6.

The portfolio’s broad geographical allocation at the end of the period was largely unchanged from that at the beginning. Africa remains the largest single regional constituent with a weighting of 32%, following by Asia at 25% and the Middle East at 24%.

At the country level however there were some changes of note. Nigeria increased from 4.1% to 6.1% following the purchase of a country specific fund managed by the respected team at Imara. As discussed above, we believe that the conclusion to the banking crisis and market valuations close to historic lows represented an opportunity to build a more meaningful position.

A new investment was also made into a fund investing solely in Zimbabwe where we were able to take advantage of the rare opportunity to buy units in an open ended fund at a 25% discount to NAV from a distressed seller who could not wait for the next liquidity window. This investment followed a trip to Zimbabwe in June which confirmed that broad based progress is being made in the country. Zimbabwe represented 3.0% of the Company’s portfolio at the end of the period, a level we are satisfied with given the risk profile of the market.

In the Middle East, the weighting of Saudi Arabia increased from 5.0% to 6.1% as regional managers rotated their portfolios into a market that has little exposure to Dubai and benefits from an expansionary government spending program. We continued to add to the Fund’s Qatari exposure, taking the position to 7.4% by year end. That economy is expected to grow at over 10% in 2010 and valuations are low in comparison to the rest of the region with a Price to Earnings ratio of around 8x for 2010 (Source: HSBC).

Market outlook

Frontier markets today offer many of the same strong fundamentals that characterise mainstream emerging markets. Frontier markets have emerged as “relative winners” from the subprime crisis, alongside emerging markets, for two key reasons: (1) the quality of their sovereign, corporate and household balance sheets, which have never looked stronger compared with developed countries; and (2) the resilience of their economic and corporate earnings growth which is and will probably continue to be superior to that of the developed world in both real and nominal terms in the medium-term. One illustration of this superior growth can be found in the IMF forecasts for economic growth. The most recent forecast data are shown in the following table.

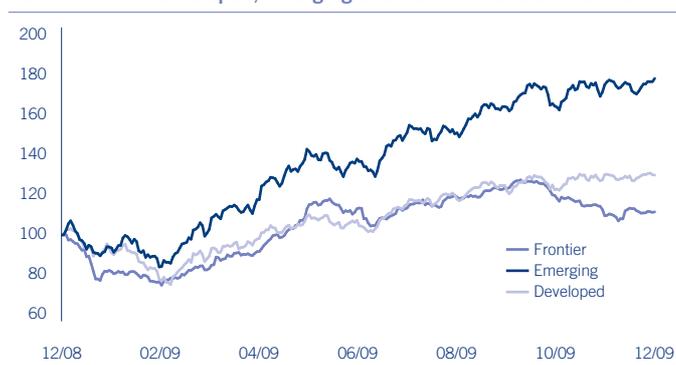
GDP growth forecasts for emerging, frontier and developed economies

	2008	2009	2010	2011	2012
G7	0.3	-3.6	1.3	2.4	2.4
Emerging and developing economies	6.0	1.7	5.1	6.1	6.4
Emerging/frontier regions					
Developing Asia	7.6	6.2	7.3	8.1	8.4
Central and Eastern Europe	3.0	-5.0	1.8	3.8	4.2
Africa	5.2	1.7	4.0	5.2	5.3
Middle East	5.4	2.0	4.2	4.6	4.6
Western Hemisphere	4.2	-2.5	2.9	3.7	4.1
Regional average	5.1	0.5	4.1	5.1	5.3

Source: IMF World Economic Outlook Database, October 2009

These superior growth characteristics were certainly not evidenced by market performances in the closing months of 2009. Over the second half of 2009 frontier markets lagged their emerging market counterparts by 31% according to data from index provider MSCI and for the calendar year the difference was a massive 67%. Frontier markets even lagged the recovery in developed markets where the level of economic and corporate resurgence could be described as anaemic, at best.

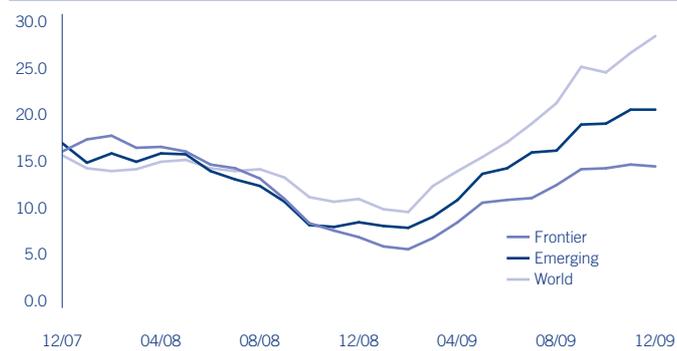
Performance of developed, emerging and frontier markets in 2009



Source: MSCI Barra. Data shown are net total returns in USD terms of MSCI Emerging Markets, MSCI Frontier Markets and MSCI World Indices.

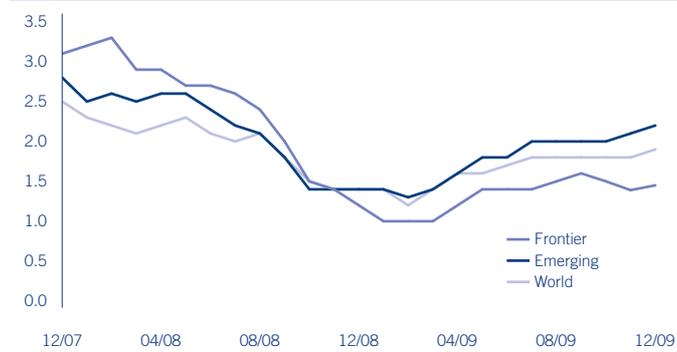
The natural corollary of this is that the value proposition offered by frontier markets is more compelling than in either developed or emerging markets. The following charts illustrate the valuation discount that currently exists in frontier markets.

Trailing price to earnings ratios



Source: MSCI, data to 31 December 2009

Trailing price to book ratio



Source: MSCI, data to 31 December 2009

Despite the obvious attractions of frontier markets many retail and institutional investors have little exposure to this asset class today. This will change over time and we expect the composition of future global equity indices to look very different to those of today. Frontier markets will certainly feature more prominently as they are promoted to replace those emerging markets that progress to developed market status.

We remain very excited about the prospects for our markets, which are in a positive virtuous cycle where stability breeds confidence and confidence breeds success. We are committed and dedicated to this asset class, we are long-term investors and we look forward to continuing to exploit the increasing number of investment opportunities in the coming years. The Company will continue to hold a portfolio that offers attractive valuations, high growth potential and low correlation to global markets. Finally, we thank you, the Company's shareholders, for your support of the Fund since its launch in what can certainly be described as "interesting times".

Advance Emerging Capital Limited

18 February 2010

Ten largest investments

At 31 December 2009	By valuation \$'000	Percentage of net assets
EFG-Hermes MEDA	9,000	7.5%
Alpha MENA	6,930	5.8%
Tarpon All Equities	6,917	5.7%
Blakeney Investors	6,402	5.3%
EMM Africa Emerging	5,953	4.9%
Worldwide Opportunity Class CEF	5,104	4.2%
Imara African	5,083	4.2%
Optis African	5,026	4.2%
Duet Africa Opportunities	4,644	3.9%
Morgan Stanley Frontier	4,463	3.7%
Top ten holdings	59,522	49.4%
Other holdings	57,324	47.6%
Cash and other net assets	3,639	3.0%
Net Assets	120,485	100.0%

Asset allocation

on a portfolio look through basis

Country split	Percentage of net assets	Country split	Percentage of net assets
Africa	32.0%	Eastern Europe	3.6%
Botswana	0.7%	Bulgaria	0.3%
Congo	0.4%	Croatia	0.8%
Egypt	3.6%	Romania	0.4%
Ghana	1.1%	Russia	1.0%
Kenya	1.9%	Other Eastern Europe	1.1%
Malawi	0.9%		
Mauritius	1.7%	Middle East	24.2%
Morocco	0.4%	Bahrain	0.8%
Nigeria	6.1%	Jordan	0.8%
Senegal	1.4%	Kuwait	2.3%
South Africa	1.5%	Lebanon	1.2%
Tunisia	4.1%	Oman	1.1%
Zambia	1.0%	Qatar	7.4%
Zimbabwe	3.0%	Saudi Arabia	6.1%
Other Africa	4.2%	UAE	3.6%
		Other Middle East	0.9%
Asia	24.5%		
Bangladesh	1.5%	Latin America	7.0%
China	9.3%	Brazil	6.5%
India	3.2%	Other Latin America	0.5%
Indonesia	1.0%	Other	2.1%
Malaysia	0.6%	Cash (including cash in underlying funds)	6.6%
Pakistan	0.7%	Total	100.0%
Philippines	0.5%		
Thailand	3.8%		
Vietnam	2.0%		
Other Asia	1.9%		

Income statement

	6 months to 31 December 2009 Revenue \$'000	6 months to 31 December 2009 Capital \$'000	6 months to 31 December 2009 Total \$'000	6 months to 31 December 2008 Revenue \$'000	6 months to 31 December 2008 Capital \$'000	6 months to 31 December 2008 Total \$'000
Gains/(losses) on investments designated as fair value through profit or loss						
Disposal of investments	–	(1,832)	(1,832)	–	(9,622)	(9,622)
Investments held	–	10,854	10,854	–	(67,916)	(67,916)
Capital losses on currency movements	–	(15)	(15)	–	(38)	(38)
Net investment gains/(losses)	–	9,007	9,007	–	(77,576)	(77,576)
Investment income	459	–	459	262	–	262
Total income/(loss)	459	9,007	9,466	262	(77,576)	(77,314)
Investment management fees	(222)	(444)	(666)	(249)	(496)	(745)
Other expenses	(309)	–	(309)	(286)	–	(286)
Profit/(loss) on ordinary activities before taxation	(72)	8,563	8,491	(273)	(78,072)	(78,345)
Taxation	(31)	–	(31)	(5)	–	(5)
Profit/(loss) on ordinary activities after taxation	(103)	8,563	8,460	(278)	(78,072)	(78,350)
Earnings per ordinary share						
– Basic and diluted (cents)	(0.06)	5.05	4.99	(0.16)	(46.07)	(46.23)

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

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

Balance sheet

	At 31 December 2009 \$'000	At 31 December 2008 \$'000	At 30 June 2009 \$'000
Non-current assets			
Investments designated as fair value through profit or loss	116,846	87,160	109,943
Current assets			
Cash held in escrow pending investment	–	6,000	1,000
Other receivables	3,207	177	62
Cash and cash equivalents	630	5,903	1,229
	3,837	12,080	2,291
Total assets	120,683	99,240	112,234
Current liabilities			
Other payables	198	2,428	209
	198	2,428	209
Total assets less current liabilities	120,485	96,812	112,025
Share premium account	88,788	88,788	88,788
Share purchase reserve	82,319	82,319	82,319
Capital reserve – disposal of investments	(20,459)	(9,559)	(18,168)
Capital reserve – investments held	(30,613)	(64,710)	(41,467)
Revenue reserve	450	(26)	553
Total equity	120,485	96,812	112,025
Net asset value per ordinary share (cents)	71.10	57.13	66.11
Number of ordinary shares in issue	169,460,000	169,460,000	169,460,000

Statement of changes in equity

	6 months to 31 December 2009 \$'000	6 months to 31 December 2008 \$'000	Year ended 30 June 2009 \$'000
Opening shareholders' funds	112,025	175,162	175,162
Profit/(loss) for the period	8,460	(78,350)	(63,137)
Closing shareholders' funds	120,485	96,812	112,025

Cash flow statement

	6 months to 31 December 2009 \$'000	6 months to 31 December 2008 \$'000
Operating activities		
Cash inflow from investment income and bank interest	294	236
Cash outflow from management expenses	(979)	(929)
Cash inflow from disposal of investments	21,550	10,877
Cash outflow from purchase of investments	(21,418)	(32,095)
Net cash outflow on foreign exchange transactions	(15)	(38)
Net cash outflow from taxation	(31)	(5)
Net cash flow from operating activities	(599)	(21,954)
Financing		
Share issue expenses	–	(117)
Decrease in cash	(599)	(22,071)
Opening balance	1,229	27,974
Cash flow	(599)	(22,071)
Closing balance	630	5,903

Notes

Company information

The Company is a closed-ended investment company incorporated and resident in Guernsey. Its ordinary shares and warrants to subscribe for ordinary shares are listed on the Channel Islands Stock Exchange and quoted on AIM.

Accounting policy

These financial statements have been prepared under International Financial Reporting Standards ("IFRS").

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.

Income statement

The total column of the income statement is the profit and loss account of the Company. The capital and revenue columns provide supplementary information which has been prepared using the presentational format of the Statement of Recommended Practice 'Financial statements of investment trust companies' ("SORP") issued by the Association of Investment Companies.

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

Earnings per share

Earnings per share is based on the gain of \$8,460,000 (2008: \$78,350,000 loss) attributable to the weighted average of 169,460,000 ordinary shares in issue in the 6 months ended 31 December 2009 (2008: 169,460,000).

Earnings per share may be diluted by the impact of the warrants in issue during each period. There was no dilution to earnings per share during the period ended 31 December 2009.

Taxation

The charge for taxation relates to tax suffered on dividends received from overseas investments.

Investments

Investments have been classified as "fair value through profit and loss".

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.

Net asset value per share

Undiluted net asset value per ordinary share is based on net assets of \$120,485,000 (2008: \$96,812,000) divided by 169,460,000 (2008: 169,460,000) ordinary shares in issue at the period end.

Net asset value per share may be diluted by the impact of the warrants in issue at the end of each period. There was no dilution to net asset value per ordinary share at the end of the period due to the NAV being lower than the conversion price of the warrants. Diluted figures are based on all warrants being converted into ordinary shares at a price of \$1.00 per ordinary share.

Warrants

At 31 December 2009 there were 16,940,000 warrants remaining in issue. The final subscription date of the warrants is 15 June 2010.

Dividend

The directors do not recommend an interim dividend. As the Company's investment objective is based on capital appreciation and it expects to re-invest realised returns from investments that are consistent with its investment strategy, the directors do not presently intend to make dividend distributions to shareholders.

Related party transactions

Fees payable to the Manager are shown in the Income Statement. No performance fee accrual has been made (2008: nil). No performance fee payments were made during the year ended 30 June 2009.

At 31 December 2009, Manager's fees of \$108,000 (2008: \$262,000) were accrued in the balance sheet.

Status of this report

These financial statements are not the Company's statutory accounts. They are unaudited. This report will be sent to shareholders and copies will be made available to the public at the registered office of the Company. It is also available on the Company's website, www.frontiermarketsfund.com

The half-yearly report was approved by the Board of directors on 18 February 2010.

Directors, investment manager and advisers

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Helen Green
(James) Grant Wilson
Richard Hotchkis

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