
Advance Frontier Markets Fund

Quarterly Update

for the quarter ending 31 December 2011



Advance Frontier Markets Fund



Investment Objective

To provide shareholders with long term capital growth by investing in the Frontier Markets of Africa, the Middle East, Eastern Europe, Asia and Latin America.

Investment Philosophy & Process

The team at Advance Emerging Capital believes that frontier markets offer investors the likelihood of superior long term investment returns relative to those achievable from developed markets. In addition, we believe that pricing anomalies are generally more widely available in emerging and frontier markets. We believe that the people best placed to take advantage of these anomalies are locally based managers with extensive experience of their specific markets. We view discounts on closed end funds as an opportunity to add further value.

Our aim is to construct a portfolio of funds that gives investors access to the most attractive frontier markets through the most attractive vehicles available.

Fund Manager and Location

Dr. Slim Feriani
London

Top 10 Investments (Percentage of NAV)

Fund Name	Details (Asset Class, Investment Manager, Style, Structure)	Percentage
1 Africa Opportunity Fund	(African equities & debt, Africa Opportunities Partners, value/arbitrage, AIM closed-end Fund)	6.3%
2 Qatar Investment Fund PLC	(Qatari equities, Epicure Managers Qatar Ltd, value / GARP, AIM closed-end Fund)	6.2%
3 Tau Capital	(Kazakh listed and private equity, Compass AM, value, AIM closed-end fund)	5.8%
4 Alpha Mena Fund	(Middle East & North Africa equities, Algebra Capital, value / GARP, Bahrain OEIC)	5.8%
5 Worldwide Opps - CEF Class S2	(Fund of distressed GEM property funds, Terra Partners, deep value / discount trading, Cayman OEIC)	5.3%
6 Blakeney Investors	(Middle East & African equities, Blakeney AM, value, Luxembourg SICAV)	5.1%
7 Africa Emerging Markets Fund	(African equities, Emerging Market Management, value, Dublin OEIC)	4.8%
8 Tarpon All Equities Fund	(Brazilian listed and private equity, Tarpon Investimentos, deep value, Cayman feeder into Delaware LLC)	4.6%
9 RBS MSCI Frontier Markets ETF	(Frontier Markets equities, RBS Holdings, index tracker, Luxembourg SICAV)	4.4%
10 Duet Africa Opportunities Fund	(African equities, Duet AM, small cap value, Jersey OEIC)	3.9%
Total		52.3%

Asset Allocation

Fund	Fund	Fund	Fund
AFRICA	31.1%	ASIA	27.1%
Botswana	0.5%	Bangladesh	0.3%
Egypt	2.2%	China	2.3%
Kenya	1.4%	India	2.0%
Mauritius	1.6%	Indonesia	1.9%
Morocco	0.2%	Kazakhstan	6.1%
Nigeria	8.5%	Macau	3.0%
Senegal	1.8%	Pakistan	1.7%
South Africa	2.2%	Thailand	2.9%
Tunisia	1.2%	Vietnam	6.5%
Zambia	3.8%	Other Asia	0.4%
Zimbabwe	2.5%		
Other Africa	5.2%	Non-specified	1.6%
		MIDDLE EAST	22.4%
		Bahrain	0.7%
		Jordan	0.3%
		Kuwait	3.0%
		Lebanon	0.6%
		Oman	0.7%
		Qatar	10.0%
		Saudi Arabia	3.9%
		UAE	2.8%
		Other Middle East	0.4%
		Indirect Cash	4.4%
		Portfolio Cash	2.5%
		EASTERN EUROPE	2.4%
		Croatia	0.5%
		Romania	0.7%
		Other Eastern Europe	1.2%
		LATIN AMERICA	8.5%
		Argentina	4.2%
		Brazil	4.3%
		Colombia	0.0%
		Peru	0.0%
		Other Latin America	0.0%
		TOTAL	100%

Fund Details

Structure	Closed-end Investment Company
Geographic Remit	Global Frontier Markets
Launch Date	15 June 2007
Bloomberg Ticker	AFMF LN Equity
ISIN Code:	GG00B1W59J17
Shares Outstanding	169,460,000 (ords)
Management Fee	1.25% (of market cap)
Performance Fee	12% (12% hurdle)
Year end / AGM	June / November
Suitable for ISAs and SIPPs	Yes

Investment Strategy

To invest predominantly in a diversified portfolio of funds and other investment products which derive their value from Frontier Markets.

Performance (USD)

Data as at 31 Dec 2011

	1M	3M	6M	1Y	2Y	3Y	Since Start*
NAV	0.3%	-1.7%	-13.4%	-15.3%	2.2%	27.5%	-25.2%
Price	-1.9%	-3.3%	-14.5%	-22.1%	0.1%	33.5%	-38.6%
MSCI Frontier Index TR**	-1.1%	-1.9%	-13.8%	-18.7%	0.6%	12.3%	-41.2%
			2011	2010	2009	2008	2007*
NAV			-15.3%	20.7%	24.7%	-45.9%	8.4%
Price			-22.1%	28.5%	33.4%	-56.2%	5.0%
MSCI Frontier Index TR**			-18.7%	23.8%	11.6%	-54.1%	14.3%

* Inception 15 June 2007

** The MSCI Frontier Index is shown for reference purposes only. It does not constitute a benchmark for the fund's performance, nor does the investment team refer to it when deciding the fund's asset allocation

Volatility (Since Inception)

AFMF NAV	17.6%	S&P 500	19.5%
MSCI Frontier	24.5%	FTSE All Share	23.7%
MSCI Emerging	30.1%		

Net Asset Value / Price Information

NAV per share	£0.4660	Discount	-15.2%
Share Price	£0.3950	Fund Size	£79.0mn

Investment Manager

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Advance Frontier Markets Fund

Quarterly Update

for the Quarter to 31st December 2011

Market Environment

(All performance figures are in US Dollar terms)

Frontier markets experienced a disappointing final quarter to the year, with a decline of 1.9% in the MSCI Frontier Markets Index while other global indices generally turned positive. The MSCI Emerging Markets Index and the MSCI World Index gained 4.4% and 7.6% respectively over the quarter. The underperformance was driven mostly by poor performance in Asian and European frontier markets, and especially Vietnam (-21.8%), Bangladesh (-16.7%), Serbia (-14.2%) and the Ukraine (-13.5%). Markets in the Middle East fared much better. Africa's markets were mixed, with Kenya standing out, as it rallied hard to recover some of the 39.3% decline that the market and currency combined sustained during the first 9 months of the year.

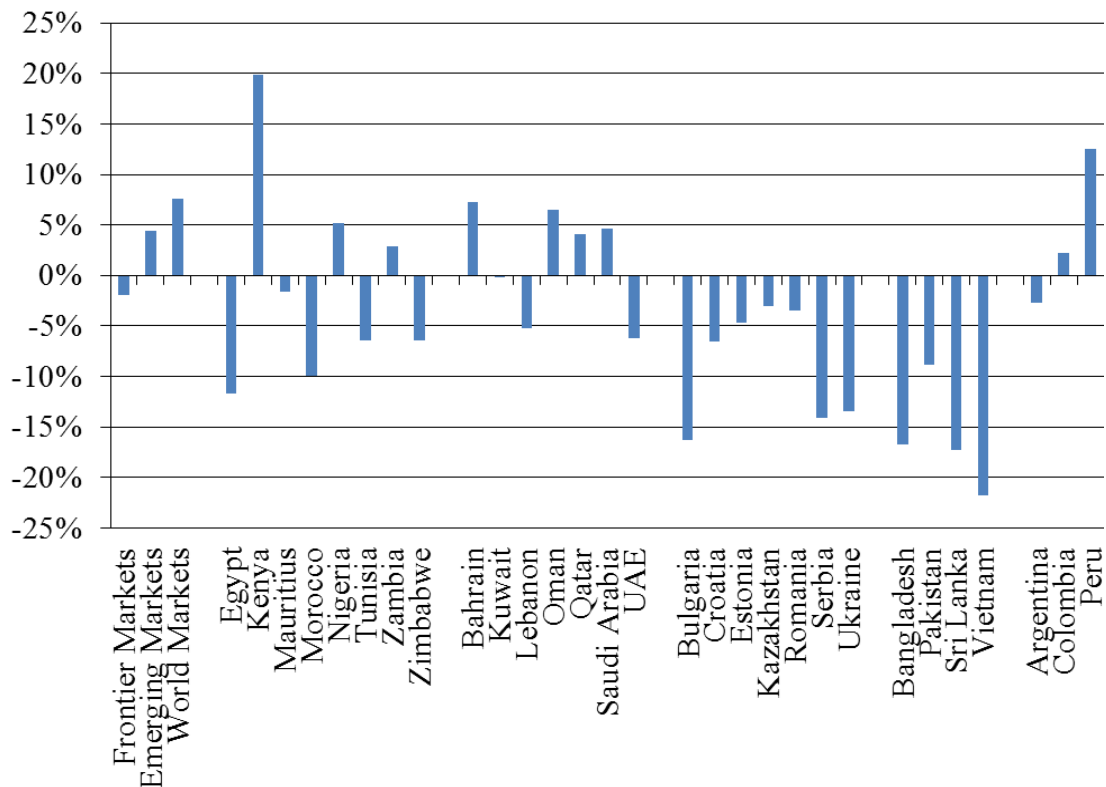


Chart 1: Frontier market performance during 4Q11

Source: Bloomberg

For the calendar year as a whole, the picture was similar, with the biggest losses being seen from the frontier markets of Asia and Eastern Europe. Zambia (+18.3%), Qatar (+8.2%), Saudi Arabia (-0.4%) and Zimbabwe (-3.6%) stood out as markets that performed above average. We were fortunate to be reasonably exposed to all of these markets. Egypt (-46.9%), Ukraine (-45.8%), Bangladesh (-43.6%) and Argentina (-38.6%) were amongst the worst performing. Regrettably, the fund had a reasonable level of exposure to both Egypt and Argentina, although we successfully avoided Bangladesh and Ukraine. The usual range of returns and lack of cross correlation between markets was still very much in evidence, even at a time when larger global markets have never been *more* correlated.

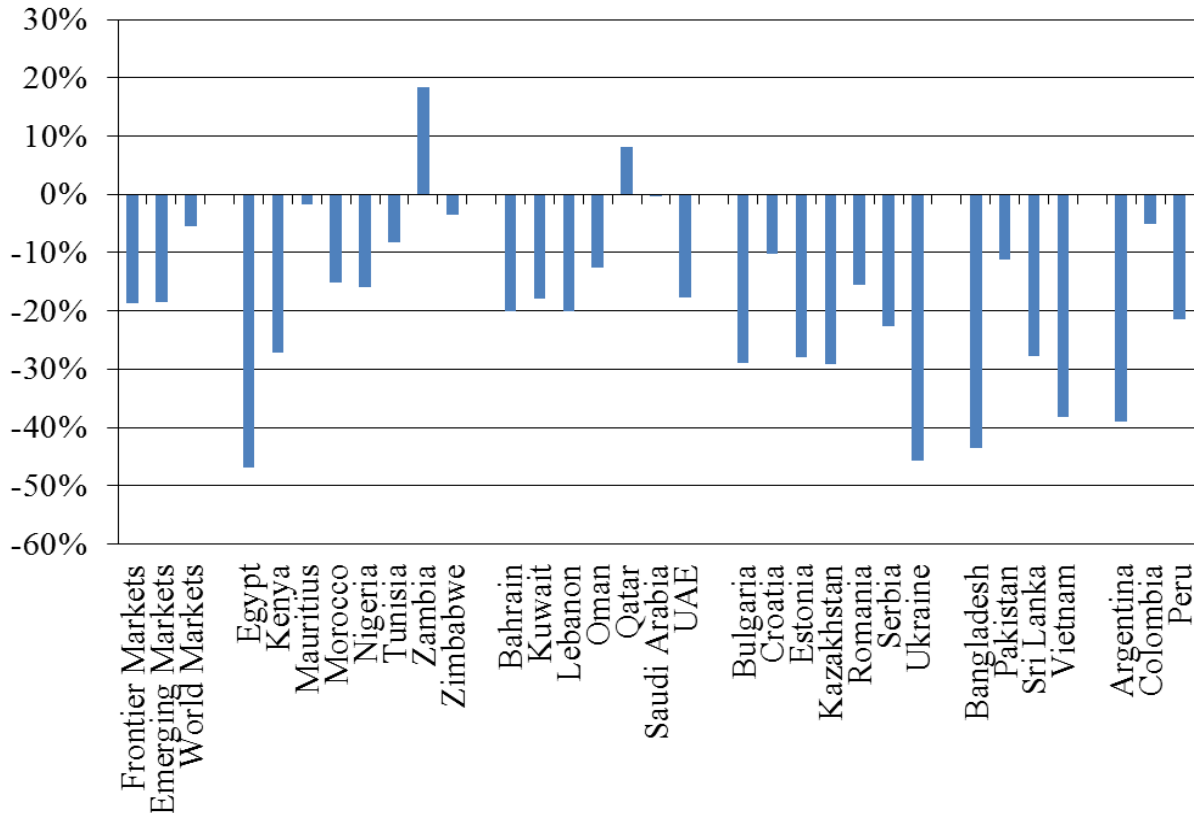


Chart 2: Frontier market performance during 2011

Source: Bloomberg

Fund Performance

In the fourth quarter, the Fund's NAV and share price declined by 1.7% and 3.3% respectively. The MSCI Frontier Markets Index declined by 1.9%.

For the full calendar year, the NAV declined by 15.3%, while the index declined by 18.7%. The share price declined by 22.1% with the discount to NAV at the end of the year at 15.2%, a level that we believe offers good value in an already undervalued asset class and with a portfolio that includes closed end funds which themselves trade on discounts to NAV (see below).

Performance Attribution

The marginal outperformance of the Fund's NAV over the various frontier indices during the year was largely explained by asset allocation. A broadly underweight position to the smaller European frontier markets throughout the year served AFMF well, as did above index exposure to Sub Saharan Africa. The Fund's position in the Middle East continues to reflect a material underweight, with almost half the regional exposure being to Qatar, the best performing market during the year.

At the end of the year, the portfolio was 35.4% invested in closed end funds. This reflects a small rise from a year earlier, when closed end funds represented 32.2% of the NAV. The average discount on closed end funds in the portfolio widened from 20.8% at the end of 2010 to 26.1% at the end of 2011, predominantly through the purchase of new holdings on wider discounts rather than discount widening on existing investments.

Portfolio Activity / Composition

As alluded to above, trading in the final quarter of the year was dominated by additions to existing closed end fund holdings. Despite the strong performance of the Qatari market described above, Qatar Investment Fund continues to trade at a discount to NAV that regularly exceeds 15%. We were able to buy additional shares at discounts in excess of 17%.

In Africa Opportunities Fund, the placing of a long standing overhang of shares enabled us to increase our position materially at a discount to NAV of 23%. Now that this overhang is placed, there is significant scope for the discount to narrow of its own accord. The fund has one of the best track records of any African focussed fund.

Asset Allocation

There were no major changes made to the Fund's asset allocation in the final quarter.

Over the year as a whole, major increases were seen in AFMF's exposure to Qatar (from 7.2% to 10.0%), Vietnam (from 3.5% to 6.5%), Kazakhstan (from 3.0% to 6.1%), Zambia (from 1.5% to 3.8%) and Argentina (from 2.9% to 4.2%). Notable decreases occurred in Tunisia (from 4.2% to 1.2%), Egypt (from 4.3% to 2.2%) and Saudi Arabia (from 6.3% to 3.9%). Regional weightings were largely stable.

Market Outlook

If Germany and/or the ECB don't draw a line in the sand regarding the European debt crisis sooner rather than later, then a plunge in the Eurozone will lead the whole EU into recession; the hit on confidence can easily drive a struggling US into a double-dip; and the ongoing slowdown in China will accelerate as recession in the external sector will hit Small and Medium Enterprises particularly hard and the loss of confidence will drive housing prices to fall more than otherwise. Under this scenario all bets are off! However, if Germany and/or the ECB can successfully extricate themselves from the mess they have created, then markets are likely enjoy a sustained rally as equity risk premium normalises. Under both scenarios, emerging and frontier markets will continue to overtake the developed world in terms of their rapidly growing slice of the global wealth pie.

Collectively, frontier market fundamentals have never been this strong, even more so when compared to their emerging and developed peers. Frontier market equity valuations are at the bottom of their 20 year historical range and at a significant discount to those of developed markets. However, as long as the European saga rumbles on and the outlook for the US economy and politics does not improve, fundamentals are likely to remain an afterthought for investors while technicals, momentum and sentiment will continue to drive global markets. In the meantime, we remain invested with best of breed managers within these inefficient markets in the expectation that they will, over the longer term, convert those inefficiencies into outperformance. Wherever attractive, we continue to add to closed end funds trading on discounts to NAV that can reasonably be expected to narrow. From a top down standpoint, we will continue to invest in those markets with strong sovereign balance sheets, strong domestic growth drivers and attractive valuations. We count ourselves fortunate to be investing in an asset class with many such markets to choose from.

In Focus – Sri Lanka

Our first visit to Sri Lanka took place in November. It is abundantly clear that the end of the Tamil insurrection in the North has been a catalyst for growth in an economy that had been held back for many years by the war. Sri Lanka is attempting 20 years of catch up in a hurry and the economy grew in GDP terms in 2010 at 8% and 8.5% is expected in 2011 and 2012; a remarkable jump from the 3.5% growth in

2009, the last year of conflict. With such a low base this level of growth is achievable regardless of what is happening elsewhere in the world. Inflation is running at 7%, the currency is reasonably stable, 1 year treasury bills are yielding 7.3%, the fiscal deficit is 6%, foreign exchange reserves are large enough to cover 6.3 months of imports, FDI inflows were c.US\$435m in 2011 and interest rates have fallen in three years from 18% to 6%. Further and surprisingly overseas worker remittances are US\$3-4Bn a year giving a surplus on the current account when set against the trade deficit.

As well as the growth of the domestic economy Sri Lanka sits in a unique position at the foot of India and it is finding a growing role as a breaker down of freight/containers from large ocean going vessels to smaller coastal ships that are better suited to distributing cargo to Indian ports where the waters tend to be shallow. The port of Columbo is being massively enlarged to satisfy this trade.

Sri Lanka has a small population of only 23 million people but the economy is diverse and encompasses shipping, finance and insurance, tourism, garment manufacture, telecoms, breweries and plantations (tea, rubber and palm oil). Sri Lanka sees itself as a major tourist destination and many of the companies we saw are busy in building new 'Spa style' hotels to cater for the trade they believe will follow for the quality of the beaches, the unspoilt nature of the Island and the friendliness of the people. In 1981, 400,000 tourists visited Sri Lanka and in 2011 this number will be 700,000 with growth in 2010 of 46% and 35% in 2011.

In Thailand between 1981 and 2011 tourist numbers swelled from 1million to 15 million a year and Sri Lanka sees itself as taking a larger share of the long distance tourist trade with all the above listed advantages aided by the fact that Columbo is also closer to the European markets by some 3 to 4 hours flying time. Colombo has 2,400 hotel rooms that are 2 stars or better whereas Bangkok has 63,000. Average room rates in Colombo have tripled in the last three years but are still just US\$125 a night. Many of the hotel groups in Sri Lanka are prominent in the adjacent Maldive Islands as well and although that market seems saturated at present with several resorts losing money it is worth noting that growing Chinese tourist arrivals there have risen in three years from 5,000 a year to 120,000.

The stock market is dominated by banks and other financials (23% of total) and 'diversified companies' (23%) which are typically old trading companies that have become holding companies running multi business platforms. Initially they would have been plantation companies involved in the growing and exporting of tea and importing goods from the 'Empire' but like Jardines and Swires in Hong Kong they have evolved to be fully diversified. The remaining large components of the market are beverages, food and tobacco at 12%, telecoms at 6% and hotels at 7%.

The stock market has been a major outperformer since the end of the war and valuations peaked at over 45x on a trailing price to earnings basis. However whilst profits growth has continued unabated the market has seen selling and fell along with most global markets in the second half of 2011. Thus valuations are now not unreasonable at a trailing price to earnings ratio of 12.9x, given the growth that corporates can be expected to achieve over the next three years.

Advance Frontier Markets Fund currently has no direct investments in Sri Lanka.

BM & CB

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SS Samir Shah, Senior Investment Analyst

VB Viktor Broczko, Investment Manager
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