QuotedData

Annual overview | Investment companies

26 March 2018

Aberdeen Frontier Markets

No closet-tracker

In a major shift in how its structured, Aberdeen Frontier Markets (AFMC) last year moved from investing indirectly via funds to investing directly into shares of listed companies. This was mostly completed by the end of June 2017. AFMC has underperformed the MSCI Frontier Markets Index by some margin and this, in turn, has led to a widening discount. However, AFMC is not and does not want to be seen as a closet index-tracker. The manager believes its focus on quality will be rewarded in the long run.

This report looks at the MSCI Frontier Markets Index and why it isn't the perfect tool for analysing AFMC's performance. It also explains how the manager's investment approach leads it to construct a portfolio that is very different from the index

Direct investment in frontier markets

AFMC aims to generate long-term capital growth, primarily from investment in equity and equity-related securities of companies listed in, or operating in, frontier markets. Frontier market countries may include countries within the MSCI Frontier Markets Index or additional countries that the investment manager believes to be frontier markets in character.

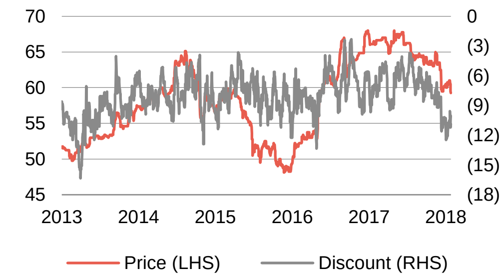
Year ended	Share price total return (%)	NAV total return (%)	MSCI Frontier Markets TR (%)	MSCI Emerging Markets TR (%)	MSCI World total return (%)
28/02/14	10.9	8.4	11.2	(14.6)	10.8
28/02/15	(1.3)	0.8	10.0	14.3	17.6
29/02/16	(12.4)	(9.4)	(7.0)	(14.8)	(0.7)
28/02/17	37.1	29.7	27.3	45.5	36.6
28/02/18	(8.3)	(2.2)	17.1	18.3	6.6

Source: Morningstar

Sector	Global emerging markets
Ticker	AFMC LN
Base currency	GBP
Price	59.25p
NAV	66.48p
Premium/(discount)	(10.9%)
Yield	2.6%

Share price and discount

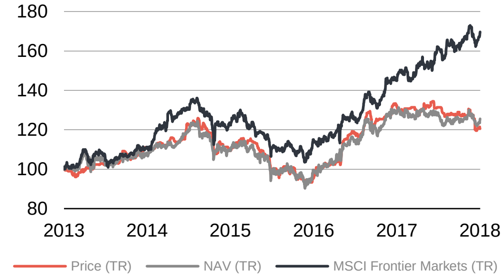
Time period 28/02/2013 to 23/03/2018



Source: Morningstar, Marten & Co

Performance over five years

Time period 28/02/2013 to 28/02/2018



Source: Morningstar, Marten & Co

Domicile	United Kingdom
Inception date	15 June 2007
Manager	Mark Gordon-James and Gabriel Sacks
Market cap (GBPm)	50.5
Shares outstanding	85,262,608
Daily vol. (1-yr. avg.)	201,546
Net gearing	Nil

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Why frontier markets?

Frontier markets are developing economies that are more developed than the least developing countries, but not developed enough to be considered for inclusion in the MSCI Emerging Market Index. Investing in them offers a way to capture the superior long-term growth of pre-emerging countries as they develop, and their economies grow. Figure 1 shows estimated GDP per capita and estimated GDP growth for a selection of frontier markets..

Figure 1: GDP per capita and estimated GDP growth for some of AFMC's larger frontier market allocations versus advanced economies

	GDP per capita in 2017 (US$)	Annualised real GDP growth rate 2017-2022 (%)
Bangladesh	1,532	7.0
Vietnam	2,306	6.2
Romania	10,372	3.9
Nigeria	2,092	1.6
Sri Lanka	3,906	4.9
Kenya	1,678	5.9
Argentina	14,062	2.9
Advanced economies	47,977	1.8

Source: IMF World Economic Outlook – October 2017, Marten & Co

Frontier markets are less sophisticated than developed markets. Nevertheless, many have large and often young populations, entrepreneurial cultures, a willingness to embrace technological change and an overall trend towards a more favourable political environment. Both the lack of sophistication in their stock markets and lower availability of investment research help create opportunities for investors.

Another attraction is that these stock markets offer returns that are less correlated with global markets, as is evident in Figure 2.

Figure 2: Correlation matrix of key AFMC frontier markets and indices

	MSCI World	Argentina	Bangladesh	Egypt	Kenya	Nigeria	Sri Lanka	Vietnam
MSCI World	1.00	0.50	0.25	0.28	0.25	0.22	0.30	0.32
Argentina		1.00	0.06	0.10	0.13	0.08	0.12	0.14
Bangladesh			1.00	0.23	0.26	0.24	0.33	0.25
Egypt				1.00	0.19	0.18	0.23	0.21
Kenya					1.00	0.29	0.34	0.25
Nigeria						1.00	0.24	0.22
Sri Lanka							1.00	0.33
Vietnam								1.00

Source: Morningstar, Marten & Co

The economies of these countries are less integrated with the global economy and it is often the case that their stock markets are dominated by local investors. This can lead to the performance of their stock markets being different (uncorrelated) from that of larger emerging and developed economies. The latter point means, however, that fund flows from foreign investors can have a significant impact on these markets. This is especially true when a market is promoted from the MSCI Frontier Markets Index to the MSCI Emerging Markets Index. In April 2017, it was Pakistan's turn.

Benchmark problems

Pakistan's promotion to the MSCI Emerging Markets Index temporarily boosted its stock market

Figure 3 shows what happened to the MSCI Pakistan Index in the wake of the announcement of Pakistan's promotion and after it became effective. Money flooded into Pakistan's stock market. Investors were hoping to benefit when funds tracking the MSCI Emerging Index were forced to buy Pakistani stocks. This drove up the market ahead of the promotion and immediately afterwards. However, because investors tried to cash in their gains, the market fell back again.

The rise in the market occurred largely while Pakistan was in the MSCI Frontier Markets Index but the subsequent collapse happened after it had left. This distorts the Frontier Index's returns, but the effect was barely noticeable within the MSCI Emerging Index where Pakistan accounts for just 0.4% of the composition of the index.

Figure 3: MSCI Pakistan (local currency, rebased to 100)

Source: Morningstar, Marten & Co

Promotions, demotions and rumours thereof cause gyrations in the MSCI Frontier Markets Index

This rollercoaster ride has been repeated many times and sometimes speculators get caught out. Saudi Arabia is earmarked for an upgrade this year. Argentina was on the brink but has not been selected to move up this time around (although AFMC's manager thinks an upgrade is likely in 2019). In 2016, Peru narrowly avoided demotion, which would have catapulted it into the Frontier Markets Index as the second largest country. With such rapid change in the country representation of the index, the manager believes the best approach is to focus on selecting quality companies and disregard the gyrations caused by index rebalancing exercises.

The manager has strong feelings, both for and against, some of the major constituent stocks within the MSCI Frontier Market Index. It believes that focusing on quality and value when selecting investments is a better strategy, long-term, than trying to ride the roller coaster and second guess the index moves.

Fund profile

Long-term capital growth from markets in the MSCI Frontier Markets Index and those with frontier-like characteristics

The investment objective of the company is to generate long-term capital growth, primarily from investment in equity and equity-related securities of companies listed in, or operating in, frontier markets Frontier market countries may include countries within the MSCI Frontier Markets Index or additional countries that the investment manager believes to be frontier markets in character, including many constituents of the MSCI Emerging Markets Index.

You can access the fund's website at [www.aberdeen frontiermarkets.co.uk](http://www.aberdeenfrontiermarkets.co.uk)

AFMC is managed by Aberdeen Standard Investment's Global Emerging Market team. Aberdeen Standard Investments is well-known for its emerging markets expertise. The global emerging markets team, which is distributed across offices in seven countries, had assets under management of $49.6bn at the end of September 2017. AAM has been running a dedicated frontier markets strategy since 2009 and has been investing in the area since the 1980s. The frontier markets strategy had assets of $557m at the end of September 2017.

Manager's view – commodity producers versus manufacturers

Investors are warming to frontier markets once again

The manager believes that investors are warming to frontier market equities once again. After a couple of years of net outflows, 2017 saw modest inflows from fund managers that actively allocate their funds on a global basis and/or select companies' shares, regardless of the index's make-up.

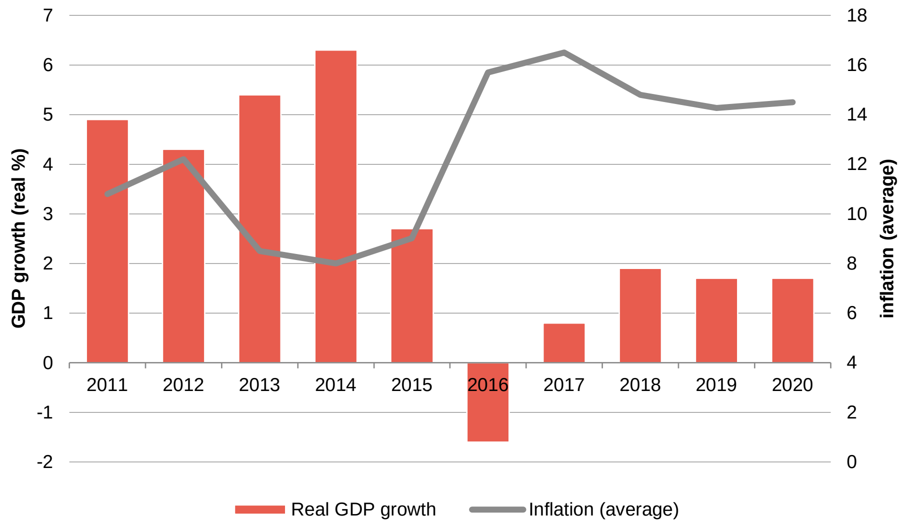
Many frontier market economies are net exporters of commodities. Weaknesses in commodity prices, notably oil, had a negative impact in 2016/2017, which affected sentiment. However, there are some signs of improvement and the manager believes that frontier market countries in Africa should see a recovery in GDP growth and more stable currencies.

Nigeria is recovering from its first recession in 25 years

Nigeria is a good example of this phenomenon. Nigeria had its first recession in 25 years in 2016, as the oil price fell. This in turn weakened its currency, triggering a rise in inflation which was exacerbated by food price inflation as a consequence of poor harvests. While many external commentators are yet to be convinced, the Central Bank of Nigeria is optimistic that inflation will soon fall back to single digit levels.

In 2017, a higher oil price was a welcome development. However, the government recognises that it has to rebalance the economy away from oil and improve its balance of trade through a process of industrialisation and import substitution; manufacturing more domestically; and growing more of its own food. Nigeria was exporting oil and importing almost all of its refined petroleum products. However, a new US$9bn oil refinery, being built by Nigerian industrialist Aliko Dangote, is on course for completion in 2019 and Nigeria is therefore expected to become a net-exporter of refined products by the end of 2019.

Figure 4: Nigeria real GDP growth and inflation



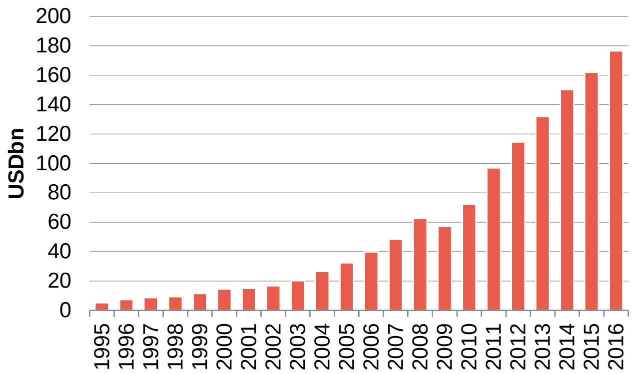
Source: IMF, Central Bank of Nigeria, Statista

Many Asian frontier markets more driven by manufacturing and exports

By contrast, the growth of many Asian frontier economies is more driven by manufacturing and exports. The dramatic export growth experienced by markets such as Vietnam and Bangladesh are strengthening currencies, improving government finances and job creation. Figure 6 shows the dramatic improvement in Vietnam's balance of trade (exports minus imports) since 2012 as manufacturers moved production from plants elsewhere in Asia.

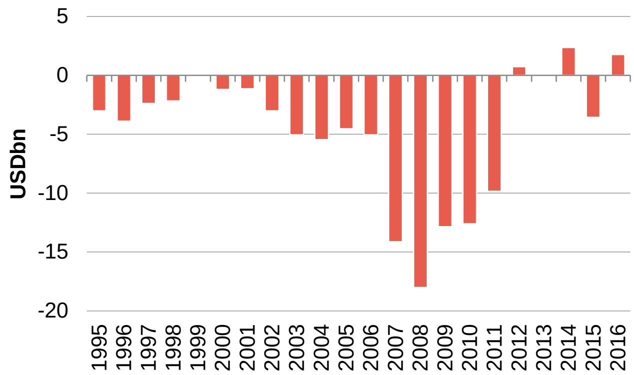
The US might have declined to participate in the Trans Pacific Partnership but 11 other countries, including Vietnam, have pushed ahead with a revised deal that was signed on 8 March 2018.

Figure 5: Vietnam exports 1995-2016



Source: General Department of Vietnam Customs

Figure 6: Vietnam exports minus imports 1995-2016



Source: General Department of Vietnam Customs

The manager is not attracted to some of Vietnam's largest quoted companies and so the shape of AFMC's Vietnamese exposure differs markedly from the VN Index. In addition, foreign ownership limits that are still in place on some key Vietnamese stocks (such as the mobile phone companies) distort the market.

Underweight exposure to Kuwait on corporate governance concerns

The manager remains uncomfortable with corporate governance within many Kuwaiti companies and therefore AFMC remains structurally underweight here.

President Macri's election in 2015 and the liberalising economic reforms that followed, kickstarted the rehabilitation of Argentina in the eyes of foreign investors. Inflation is coming down and credit growth is surging. However, the manager feels that valuations of many Argentinian stocks have run ahead of themselves, perhaps as speculators bet on Argentina's possible promotion to the MSCI Emerging Markets Index. The managers cite as an example Grupo Financiero Galicia, Argentina's largest commercial bank, which is trading on a valuation of more than five times the book value of company. Argentina's banks are some of the most expensive in the world. The manager has been looking elsewhere for value. In addition to BBVA Banco Francés, it has invested in a shopping mall business, Irsa Propriedades, which has an attractive development pipeline and has tenants that pay rents matched to inflation.

Chinese infrastructure investment could transform countries such as Pakistan, Bangladesh, Vietnam and Sri Lanka

The managers like Pakistan, which they feel is benefiting from improved security and a considerable programme of investment. These are from domestic sources and as part of China's One-Belt, One-Road initiative*. The China-Pakistan economic corridor or CPEC involves more than $60bn of projects, not just in ports, motorways and rail links but also factories and power plants. China's enormous infrastructure investment programme should also bring benefits to other countries that feature highly in AFMC's portfolio, such as Bangladesh, Vietnam and Sri Lanka. The managers say that Pakistan and Sri Lanka are amongst the cheapest stock markets globally. Sri Lanka has been cutting its fiscal deficit, in compliance with an IMF programme. Economic reforms are happening, but slowly. Pakistan will have to devalue its currency at some point; the managers are expecting that this will happen after its forthcoming elections and says it should be priced into markets. Foreigners own very little of Pakistan's stock market, but interest may build after the devaluation.

The Pakistani Rupee was allowed to weaken by around 5% recently and has adjusted by 9.24% against the dollar since December. The manager believes that the central bank recognises that smaller adjustments, sooner, will have a better outcome than a bigger adjustment later. The current account deficit has widened as a result of the capital imports for "China-Pakistan Economic Corridor" projects, although this will improve Pakistan's productivity and boost its export sector in the long term. Pakistan's economy is growing at a 10-year high of about 6% yet its market trades at a forecast 2019 Price earnings ratio of 8.4 time, which is a 36% discount to MSCI EM Asia.

The managers are positive on Egypt which is in a three-year IMF programme. Much of the associated pain is during the earlier phases of the programme. Its current account is now in surplus. Inflation spiked but is now falling and interest rates should follow suit. Politicians are supportive of reforms. The manager believes the currency is cheap.

As frontier markets' economies grow, so does consumers' spending power as a middle class emerges. AFMC's portfolio has a strong bias towards consumer stocks, which the manager believes offers an attractive way to invest for economic growth.

Investment process

Good quality companies at a sensible price

The manager aims to invest in good quality companies at a sensible price. All potential investments are subject to detailed scrutiny. The manager does not try to second guess short-term macroeconomic movements, play the cycle of companies being upgraded or downgraded in the MSCI index or invest with the herd. The focus is on stock selection and getting to know the companies it invests in.

The managers select stocks based on fundamental analysis of companies' intrinsic values, by examining related economic and financial factors and looking for long-term increase in share prices from mispriced value or growth.

Continuous environmental, social and governance (ESG) analysis

The manager places great importance on governance when assessing a company's quality and worth. Continuous environmental, social and governance (ESG) analysis is done once AFMC becomes a shareholder. The managers, together with an ESG analyst, visit existing holdings every six months. The manager will always vote at shareholder meetings and will explain why to the companies.A range of valuation measures is used to assess whether a stock is cheap or expensive. Market volatility is used as an opportunity to trim or add to positions but turnover is fairly low. The average holding period is close to eight years, reflecting the manager's long term, across the cycle investment horizon. Holdings may be sold if they fail ESG criteria or, alternatively, the manager may engage with management to encourage compliance.

Risk control is about diversification, avoiding low quality companies and not overpaying for investments

Risk control is about ensuring the portfolio is adequately diversified, avoiding low-quality companies and ensuring that AFMC does not overpay for its investments. There is a maximum 10% exposure to any one stock at the time of purchase and 15% in any one country. Index benchmark weights are not taken into account when constructing the portfolio and there are no sectoral restrictions. Typically, the manager expects that the fund will have between 40 and 70 holdings.

The portfolio's holding of cash should not exceed 10% of NAV and, likewise, net gearing will be limited to 10% of NAV. The manager is permitted to use derivatives and other instruments in the management of the portfolio.

More exposure to small caps than equivalent open-ended funds

The manager likes the flexibility that AFMC's closed-end structure brings. Relative to the open-ended funds that the manager runs, AFMC may have slightly more exposure to smaller companies. It cites the example of Purcari Wineries, a Romanian wine producer with vineyards mainly in Moldova. It has a strong domestic franchise but is expanding internationally. AFMC acquired shares in Purcari's February IPO when the company issued shares worth €40m.

Asset allocation

As at the end of January 2018, AFMC was invested in 55 companies. The shift to investing directly required the fund to open custody accounts in a number of countries and this process took time. The new portfolio has been in place since 1 July 2017.

Style

An analysis of the portfolio by Style Research demonstrates the portfolio's bias to higher quality companies relative to the MSCI Frontier Markets Index. AFMC's companies have higher ROCE, on average, higher cash flow yields, less debt and a lower beta. Significantly perhaps, AFMC's portfolio is far less exposed to momentum plays than the index and this is reflected in its recent performance.

At the end of December 2017, the fund's holdings were trading on 12.5 times greater than 2018 earnings, on average. The manager is expecting double digit earnings growth from the portfolio.

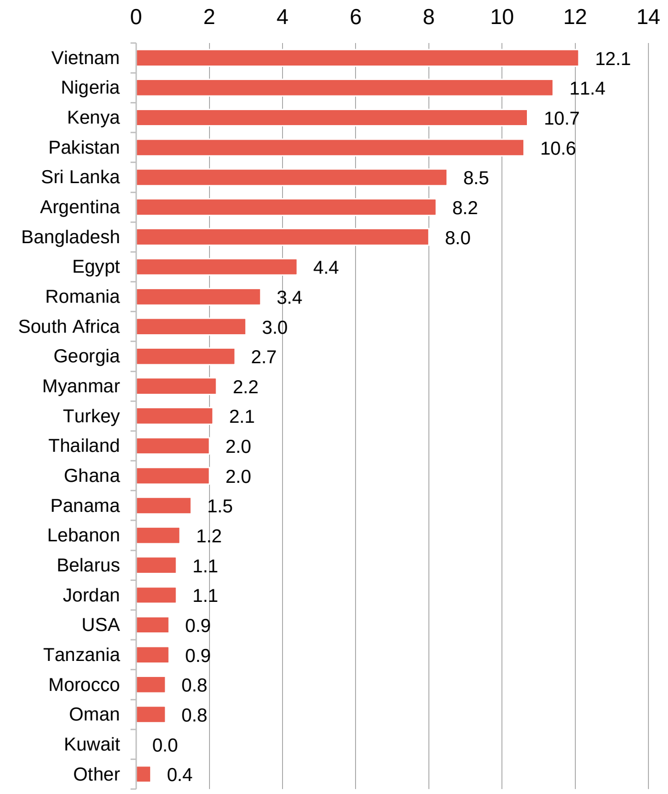
Low volatility and high-quality portfolio could be defensive in a sell-off

The manager believes that AFMC, being more diversified than the index and with lower volatility and higher quality characteristics, should therefore prove defensive in a sell-off.

Geographical weights

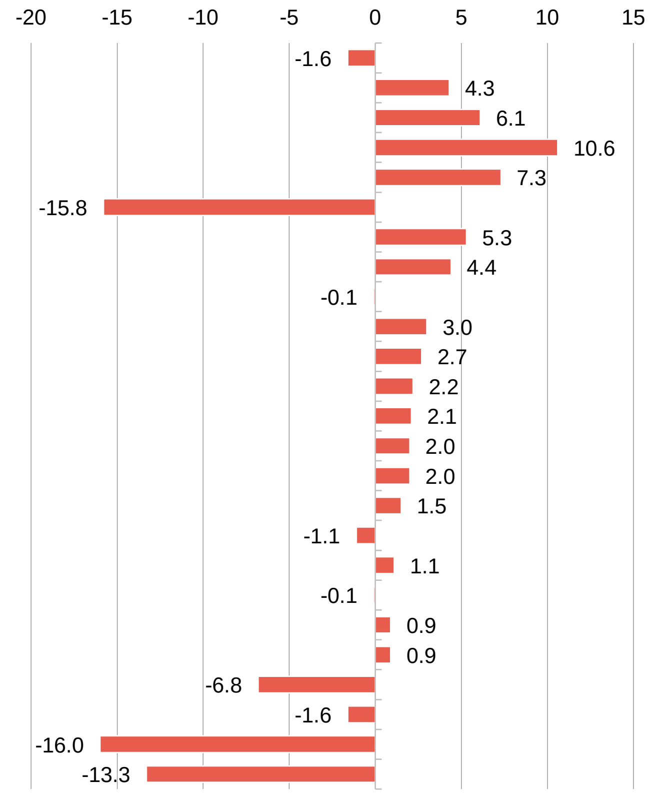
Geographical weights arise from the managers' stock selection decisions. Figures 7 and 8 illustrate just how far AFMC's geographic asset allocation varies from that of the MSCI Frontier Markets Index. AFMC has meaningful positions that are not represented in the index and large underweights in stocks in markets such as Argentina and Kuwait, on both quality and valuation grounds.

Figure 7: AFMC asset allocation by country as at 31 January 2018



Source: Aberdeen Asset Management

Figure 8: AFMC geographic weightings relative to MSCI Frontier Markets Index as at 31 January 2018



Source: Aberdeen Asset Management

Industrial sector analysis

Figure 9: AFMC industrial sector weightings as at 31 December 2017

	portfolio (%)	benchmark (%)	difference (%)
Consumer staples	24.3	11.4	+12.9
Information technology	6.0	1.0	+5.0
Consumer discretionary	5.3	0.4	+4.9
Industrials	7.1	4.0	+3.1
Materials	5.6	4.1	+1.5
Health care	5.1	2.8	+2.3
Telecoms	10.6	13.4	-2.8
Utilities	0.0	3.7	-3.7
Real estate	2.4	6.8	-4.4
Energy	3.0	8.0	-5.0
Financials	28.4	44.3	-15.9
Cash	2.3	-	+2.3

Source: Aberdeen Asset Management

The manager's preference for consumer-facing companies is clear in Figure 9. This is offset by an underweight exposure to the financials sector. The absence of holdings in Kuwaiti and Argentinian stocks, such as National Bank of Kuwait, Grupo Financiero Galicia, Kuwait Finance House and Banco Macro (which made up 18.2% of the MSCI Frontier Markets Index at the end of February 2018), accounts for this.

10 largest holdings

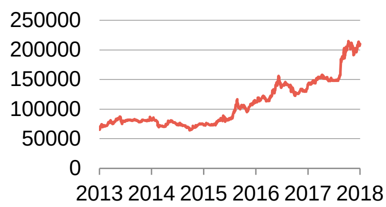
Figure 10: Top 10 holdings as at 31 January 2018

Holding	Country	Sector	Allocation 31/01/18 (%)	Allocation 30/06/17 (%)	Percentage point change
Vietnam Dairy Products	Vietnam	Consumer staples	4.6	5.3	(0.7)
Safaricom	Kenya	Telecoms	4.5	5.2	(0.7)
BBVA Banco Francés	Argentina	Financials	4.4	0.0	4.4
Guaranty Trust Bank	Nigeria	Financials	4.3	3.1	1.2
John Keells	Sri Lanka	Industrials	4.3	5.6	(1.3)
FPT Corporation	Vietnam	Telecoms	3.5	0.0	3.5
Mobile World Investment corp	Vietnam	Telecoms	3.3	0.0	3.3
Grameenphone	Bangladesh	Telecoms	3.1	1.7	1.4
BGEO	Georgia	Financials	2.7	2.7	-
BRD Groupe Société Générale	Romania	Financials	2.4	3.0	(0.6)
Total top 10 holdings			37.1		

Source: Aberdeen Asset Management, Marten & Co.

Vinamilk

Figure 11: Vinamilk

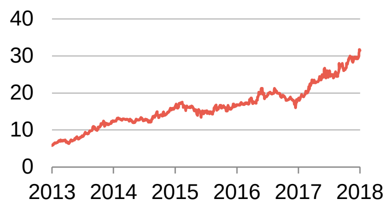


Source: Bloomberg, Marten & Co

Vietnam Dairy Products, commonly known as Vinamilk, is Vietnam's largest manufacturer and distributor of dairy products, with a 58% market share. Revenue grew by 8.9% over 2017 and net profits were up 9.7%. Vinamilk has attracted interest from some large regional players. In November 2017, companies controlled by Jardine Matheson paid $900m for an 8% stake in the company. ThaiBev, through Fraser & Neave, is already a large investor in Vinamilk with 16% of its equity.

Safaricom

Figure 12: Safaricom

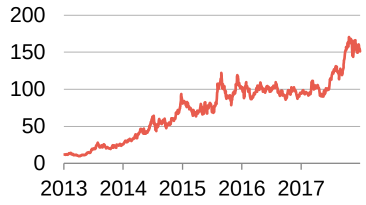


Source: Bloomberg, Marten & Co

Safaricom is Kenya's largest listed company and its leading mobile network operator with a 70% plus market share; well ahead of Airtel and Telecom Kenya. It also owns a mobile commerce platform, M-Pesa, which provided 27% of its revenue in 2017 and dominates the mobile payments market in Kenya. M-Pesa is a great example of the way in which frontier markets, unburdened by legacy systems, can leapfrog developed markets when it comes to the adoption of new technologies. Kenyans tend to use mobile payments in preference to credit and debit cards. M-Pesa is now also available in Albania, the Democratic Republic of Congo, Egypt, Ghana, India, Lesotho, Mozambique, Romania and Tanzania.

BBVA Banco Francés

Figure 13: BBVA Banco Francés

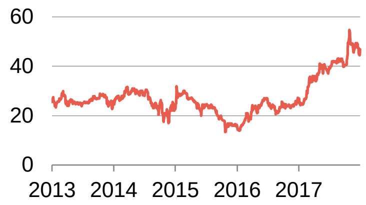


Source: Bloomberg, Marten & Co

BBVA Banco Francés is AFMC's largest investment in Argentina. For many years, its Spanish parent, BBVA, constricted the Argentinian subsidiary's lending. Now, however, the brakes are off and it is growing fast. The manager says it trades at a 25%-30% discount to its peers.

Guaranty Trust Bank

Figure 14: Guaranty Trust Bank



Source: Bloomberg, Marten & Co

Guaranty Trust Bank is a leading private sector bank in Nigeria. It recorded a 21% uplift in its 2017 profit before tax. A McKinsey report, published in February 2018, states that Guaranty Trust Bank is good at servicing more affluent Nigerian customers and doing so from a relatively compact branch network. It thinks that this contributed to the bank's average ROE of 30% between 2011 and 2016, outperforming Nigeria's other top five banks, which posted ROEs of 11% to 22%. It almost doubled its customer base over this period and increased its market share.

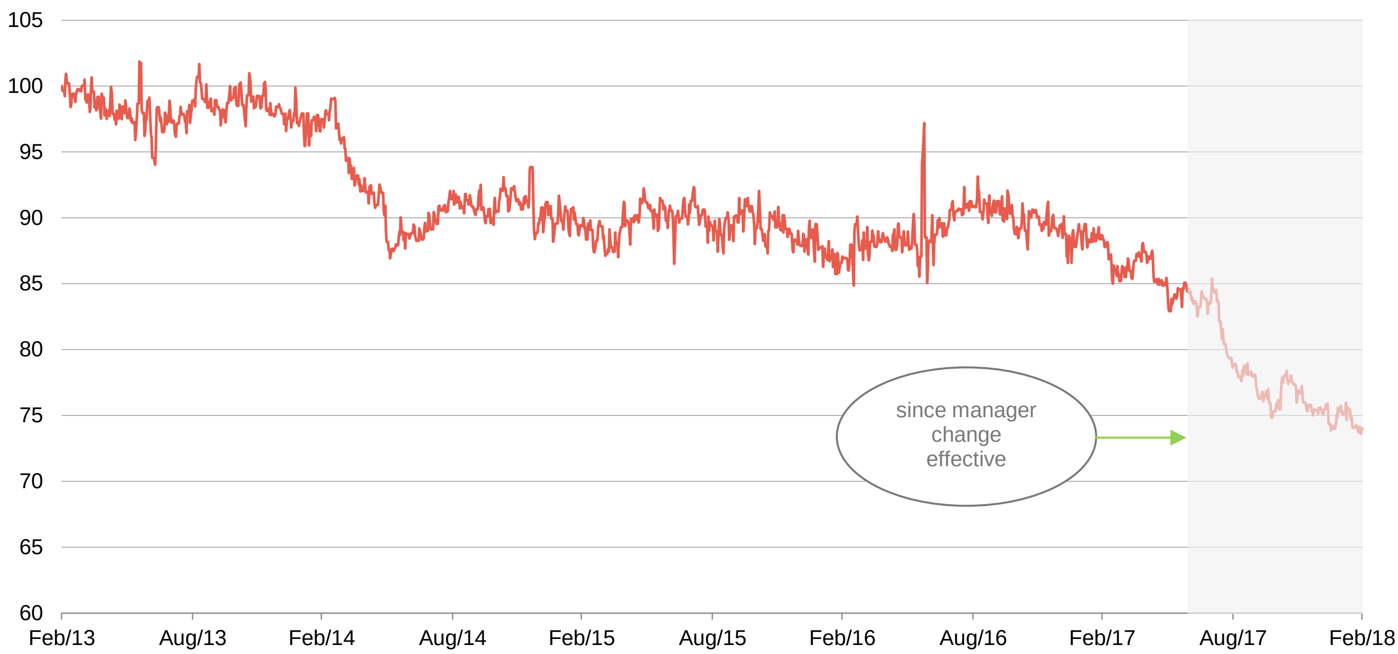
Of the remainder, John Keells is a Sri Lankan conglomerate with interests in transport infrastructure, property, IT, hotels, food and retail. FPT and Mobile World (in Vietnam) and Grameenphone (in Bangladesh) are benefiting not only from increased penetration of smartphones and higher data usage but also higher subscriber numbers in 2G products. Grameenphone benefits from Bangladesh's high population density, which bolsters the economics of rolling out 3G and 4G coverage despite very low data pricing, and therefore is encouraging the adoption and use of smart phones in the country.

Performance

QuotedData.com has more up to date figures and a comparison with AFMC's peers

Figure 15 shows the performance of AFMC in NAV total return terms over five years to the end of February 2018 versus the MSCI Frontier Markets Index.

Figure 15: Total return NAV performance of AFMC versus the MSCI Frontier Markets Index



Source: Morningstar, Marten & Co

Frontier markets have been strong over the past year, but returns have been skewed by three big geographical constituents: Argentina, Vietnam and Kuwait. These account for more than half of the MSCI Frontier Markets Index and account for most of its return in 2017. AFMC has had an underweight exposure to these three markets for the reasons outlined on pages 5 to 7.

Peer group comparison

Figure 16: Peer group NAV total return performance to end February 2018 (annualised for periods over one year)

	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
Aberdeen Frontier	1.6	(1.3)	(2.2)	4.7	4.7
Aberdeen Emerging	3.7	3.5	16.1	13.9	6.4
Blackrock Frontiers	11.9	10.2	19.1	15.5	13.9
Fundsmith Emerging	2.1	3.5	13.3	6.9	
Genesis Emerging	5.2	5.2	16.1	12.3	6.4
JPMorgan Emerging	6.9	5.2	20.5	14.7	8.9
JPMorgan Global Emerging Markets Inc.	7.8	5.9	14.6	10.6	6.2
Jupiter Emerging & Frontier Income	4.3	5.5			
Templeton Emerging	2.5	1.8	19.1	12.8	5.4
Terra Capital	0.4	(2.8)	(1.8)	12.6	10.0
Utilico Emerging Markets	5.4	2.0	12.2	10.7	8.2
AFMC rank	10/11	10/11	10/10	10/10	9/9

Source: Morningstar, Marten & Co.

Comparing AFMC to its peers, there is no disguising its poor performance record. Picking out a couple of funds from the group, BlackRock Frontier Markets invests far more in Argentina and Kuwait than AFMC does and this has helped propel it to the top of the table over most time periods. While more focused on emerging markets, Fundsmith Emerging Equities has some similarity in its investment approach to AFMC and has a similar underweight exposure to financial stocks and overweight exposure to consumer-facing stocks.

Figure 17: Peer group comparison – size, fees, discount, yield, gearing as at 23 March 2018

	Discount (%)	Dividend yield (%)	Ongoing charges (%)	Market cap (£m)	Net gearing (%)
Aberdeen Frontier	(10.9)	2.6	1.66	51	0
Aberdeen Emerging	(11.3)	2.5	1.08	308	10
Blackrock Frontiers	4.9	3.1	1.49	311	4
Fundsmith Emerging	2.1	0.0	1.91	303	0
Genesis Emerging	(13.7)	1.5	1.43	922	0
JPMorgan Emerging	(12.0)	1.3	1.07	1,043	0
JPMorgan Global Emerging Markets Inc.	(2.8)	3.8	1.30	384	6
Jupiter Emerging & Frontier Income	1.7	1.8		102	10
Templeton Emerging	(11.6)	1.1	1.21	2,000	3
Terra Capital	(14.0)	0.0	2.02	39	0
Utilico Emerging Markets	(13.3)	3.3	0.93	497	5
AFMC rank	5/11	4/11	8/10	10/11	

Source: Morningstar, Marten & Co

Dividend

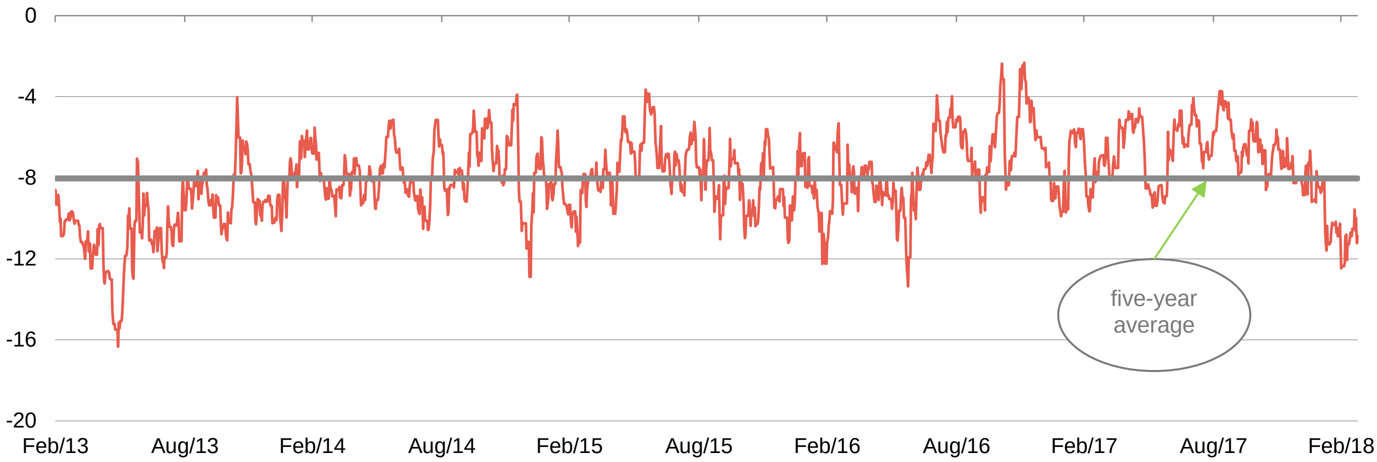
Semi-annual dividends declared in US dollars

The board considers that dividends are an increasing part of the rationale for investing in frontier markets and the portfolio has a yield in excess of 3%. Dividends are declared semi-annually in US dollars. AFMC paid its first dividend, 1.2 cents, for the year to the end of June 2016. For the year ended 30 June 2017, it declared two 1 cent dividends. In the current financial year, the board expects to declare an interim dividend in May 2018, payable in June and a final dividend to be paid in December.

Discount

AFMC held a tender offer in March 2017 in conjunction with the shift to direct investing. The discount has been widening since September 2017. This may reflect some shareholders' frustration with AFMC's relative performance. AFMC has been buying back stock over the course of March 2018; 190,000 shares have been bought back and are being held in treasury. AFMC has said that it will not reissue these at a discount unless shareholders approve this.

Figure 18: Premium/(discount) over five years



Source: Morningstar, Marten & Co.

Discount triggered tender offer

15% tender offer if discount exceeds 10% for Q2

If required, the board can apply an additional strategy to control the discount. This is in the form of a “discount-triggered tender offer”. If the average discount over the three month period immediately prior to the company’s yearend (currently 30 June) exceeds 10% then, at the discretion of the board, the company will hold a tender offer for up to 15% of its issued share capital at a tender price equal to 98% of the prevailing NAV (less the direct costs, including any realisation costs of underlying investments, of implementing the tender offer).

Fees and costs

The manager is entitled to a base management fee at the rate of 1.0% per annum of the NAV, payable monthly in arrears. There is no performance fee. The management agreement is terminable by either party giving to the other not less than six months’ written notice.

Two thirds of the basic fee is allocated to capital and one third to revenue.

Vistra Fund Services (Guernsey) Limited is the administrator and secretary to the company. PraxisIFM Fund Services (UK) Limited has been appointed by Vistra to act as the UK administration agent. Vistra receives a fee at a rate of £30,000 per annum, plus a monthly fee equal to one twelfth of £20,000 plus 0.075% of the net assets subject to a current monthly minimum fee of £5,500. AFMC has agreed to pay a fee to Aberdeen Asset Managers Limited for the provision of promotional activities at an annual rate of £43,000.

The company’s ongoing charges for the year ended 30 June 2017 calculated in accordance with the AIC methodology were 1.66%. This “ongoing charges” ratio relates to a year where management fees were higher for part of the year and the fund was much larger.

Capital structure and life

AFMC has one class of ordinary share in issue. These are listed on the AIM segment of the London Stock Exchange

AFMC has a simple capital structure with one class of ordinary share in issue. Its ordinary shares are listed on the AIM segment of the London Stock Exchange and, as at 23 March 2018, there were 85,262,608 in issue with 640,000 held in treasury.

Borrowing via a revolving loan facility

AFMC is permitted to borrow and has a US$6m revolving loan facility, with Investec Bank Plc, where the managers have the flexibility to drawdown, repay and redraw loans advanced to them. Borrowings, for investment purposes, are limited to 10% of net assets, at the time of drawdown. The managers would normally expect gearing to be approximately 3% but would expect the fund to be close to fully invested on a look through basis. In addition to this, AFMC is permitted to use an overdraft or another short-term borrowing facility, to meet its working capital needs.

Life

AFMC has an indefinite life. Shareholders are given the opportunity to exit the company, at NAV less costs, at five-yearly intervals.

AFMC has an indefinite life. Previously shareholders were offered three-yearly continuation votes (the last of these was held at the company's AGM in 2014), but AFMC's board decided to replace this with a commitment to offer shareholders the opportunity to exit the trust at NAV less costs at five-yearly intervals. An opportunity to exit for cash was offered to shareholders in 2016, which many took up and another is planned for 2021.

Financial calendar

The company's year-end is 30 June. The company's annual results are usually released in September (interims in February) and its AGMs are usually held in December of each year. The company is introducing semi-annual dividend payments. It is anticipated that an interim dividend will be paid in June and a final dividend paid in December of each year.

Board

The board comprises three non-executive directors, all of whom are deemed independent of the investment manager. A fourth director retired on 31 March 2017 and the board decided that, given the size of the company, he would not be replaced. The board considers that, collectively, the current directors demonstrate a breadth and depth of skills and experience required to steward the company.

The company's articles of association require that one third of the directors put themselves forward for re-election, on an annual basis, and that all directors automatically stand for election at the first AGM following their appointment.

Figure 19: Board member - length of service and shareholdings

Director	Position	Appointed	Length of service (years)	Annual director's fee (GBP)	Share-holding
John Whittle	Chairman	1 February 2012	6	35,000	18,350
David Warr	Chairman of the Audit Committee	9 September 2015	2.5	30,000	-
Lynne Duquemin	Director	18 February 2016	2	25,000	-

Source: Aberdeen Frontier Markets Investment Company, Marten & Co

Previous research

QuotedData published an initiation note on Aberdeen Frontier Markets Investment Company on 10 November 2016 entitled *Long-term growth opportunity*. This was updated with *Direct investing*, published on 6 March 2017.

QuotedData

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