CITY OF LONDON
Investment Management Company Limited

An Update on Frontier Markets

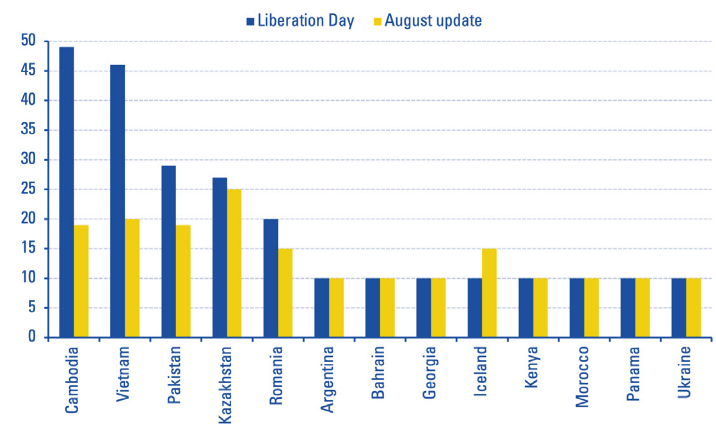
August 2025

Following on from months of uncertainty triggered by the announcement of reciprocal tariffs by the US on April 2nd, many countries with penalizing tariffs have now negotiated lower tariffs, with the notable exception of China. Whilst the situation remains volatile, there is sufficient clarity for most countries to assess where their competitive advantages lie. This will allow capital investments to resume but growth will be impacted by a period of restructuring as exporters seek to find new markets for products on expectations of lower demand from the US. Identifying areas which can benefit from relatively insulated domestic demand will be key to earnings growth in the next couple of years, as global trade adjusts. As such frontier markets offer access to markets that have young and growing consumer bases that have low levels of foreign investor participation reducing correlation between markets. Our frontier market fund uses closed-end funds to access these markets, providing a source of alpha through discount to net asset value (NAV) volatility independent of the underlying exposures. For this article we explore some of these markets, new developments and opportunities, with all figures to the end of July 2025.

Vietnam continues to be a large portfolio overweight with over 30% of the Frontier Market fund in this one country. The combined elements of positive demographics, a skilled workforce and a stable disciplined government have allowed Vietnam to generate sustained high growth rates. The government is targeting 8.3-8.5% growth this year[1] , to be driven by capital investment in infrastructure and real estate, aided by efforts to reduce bureaucracy and increase the involvement of the private sector. This programme is being described by investors as Doi Moi 2, a reference to the 1986 reforms which began the transition from a centrally planned to a market-oriented economy. The reforms ultimately are driven by the wish to avoid the middle-income trap, seeing its future centred around technology. The growth of Artificial Intelligence (AI) has already led to a partnership between NVIDIA and FPT Corp, a local IT services & education company to develop AI capabilities through a R&D centre and late last year partnered with the government to establish its 3rd global AI research hub after those in California and Taiwan. To assist these ventures and others, the government is encouraging tenders for various infrastructure projects to be led by private companies, which include a $60bn proposal for a high-speed train line linking Ho Chi Minh City in the south to Hanoi in the north (1684km), reducing the journey time to approximately 5 hours (non-stop) from well over 30 hours currently.

In recent years the stock market has expanded significantly reflecting new listings and the growth in the economy with a total market capitalization of $265bn[2] and an average daily turnover of $1bn. However, foreign investors have been largely absent, leaving the market to domestic retail traders.

Figure 1: US Reciprocal Tariffs for Frontier Markets (%)

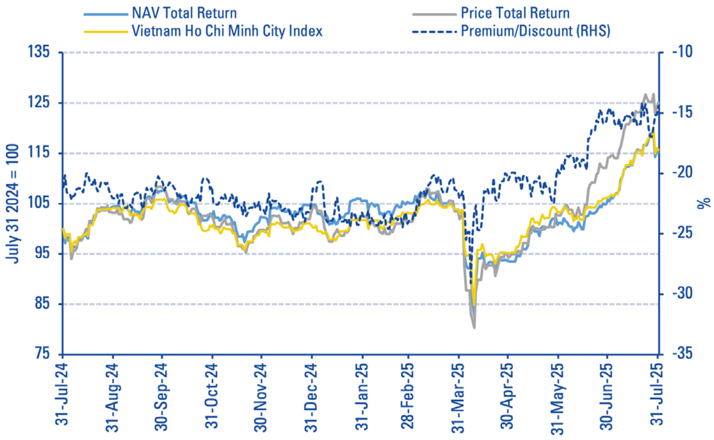


Source: Federal Register, Further Modifying the Reciprocal Tariff Rates, August 6, 2025

As such volatility has been high especially with uncertainty over tariffs. Negotiations have settled on a 20% tariff rate, squarely where expectations were, but more importantly this rate does not place Vietnam at a disadvantage to regional peers that have negotiated similar rates[3] . Transhipments will be charged a penalty rate of 40% and whilst the exact definition of what might be considered a transhipment has not been disclosed, it encourages more components to be domestically produced. We access this market via several closed-end funds, but mostly through three dedicated funds listed in London. The largest of these funds has seen its discount fluctuate between 14% and 28% (see figure 2) in the last year, with narrowing driven by a number of events including: 1) a significant pickup in the fund's share buyback activities with 11% of shares outstanding bought back in the last year and 2) the adoption of a 100% tender offer conditional upon the NAV outperforming the VN index in the five years to March 31st 2030.

[1] *Socialist Republic of Viet Nam, eGovernment News, Gov't outlines five key tasks to achieve 2025 GDP growth target, August 6th, 2025.*
[2] *Based on Vietnam Ho Chi Minh Stock Index, commonly known as the VN index, data from Bloomberg as of August 12th, 2025.*
[3] *Thailand 19%, Indonesia 19%, Philippines 19%, Bangladesh 20%, Pakistan 19% and India 25%: US Reciprocal Tariffs for Frontier Markets (%). Source: Federal Register, Further Modifying the Reciprocal Tariff Rates, August 6th, 2025.*

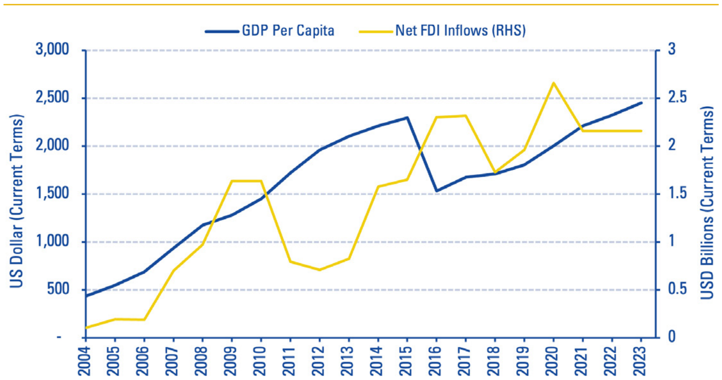
Figure 2: Vietnam Closed End Fund Example, Data in USD



Source: CLIM, Bloomberg Data

In Central Asia, a new closed-end investment company was established at the beginning of the year in Uzbekistan. Since assuming office in December 2016, President Shavkat Mirziyoyev has pursued the modernization of his country through opening the country to foreign investors and increasing transparency. As a result, many foreign investors are already participating in this opportunity to provide services and to improve productivity in a nation of 36 million people (see figure 3). With $1.7 billion worth of assets, the fund represents the state's efforts to modernize and privatize state-owned assets. Much of the past 12 months have been spent bringing financial accounts up to IFRS standards, assess valuations and reform board structures. Leading this effort is a large US investment manager who have successfully led efforts to reform and privatize assets in Romania for a similar fund there, resulting in significant gains for investors across a decade (see later section). The manager is mandated to dispose of its holdings via listings within the next ten years with opportunities for investors as these companies become more efficient and market oriented. The company is looking to list in London and Tashkent in early 2026 and we will be participating in a research trip in October this year as part of our due diligence process.

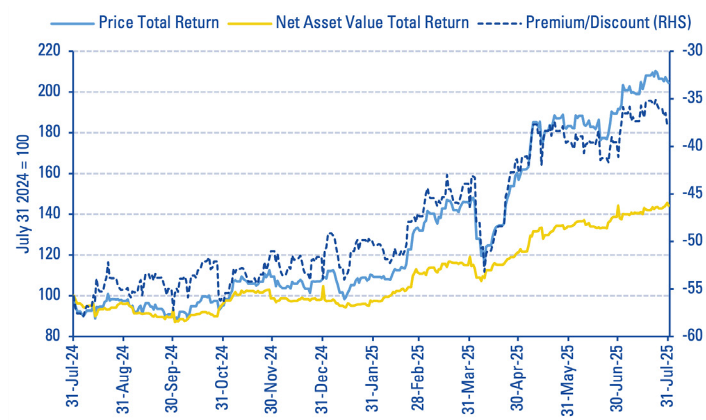
Figure 3: Uzbekistan GDP Per Capita vs Net FDI Inflows in Current USD Over the Past 20 Years



Source: World Bank

In Georgia, our investment into a Georgian investment company listed in London has continued to bear fruit (see figure 4). Anti-government protests in 2024 failed to slow the Georgian economy, with 9.4% GDP growth recorded in 2024 and early indications of 8.3% growth in the first half of 2025[4] . The economy continues to benefit from its growing IT services and tourism sectors, as well as revenue from its trade corridor connecting the Southern Caucuses & Central Asia with the Black Sea. In the past twelve months the company's discount to NAV has fluctuated between 57% and 35%, as the discount has narrowed spurred on by the company's efforts to buy back shares. Despite the high growth rates in Georgia, the management team and board are vocal that their best use of capital is to buy-back their highly discounted shares. In the last twelve months they have repurchased 12% of shares outstanding and indicated that they will return a further 25% of the current market capitalization to shareholders by the end of 2027 through a combination of share buybacks, dividends and or de-leveraging.

Figure 4: Georgian Investment Company Example, Data in USD



Source: CLIM, Bloomberg Data

Romania, for the past decade has experienced relatively high levels of growth as it integrates with the European Union, but recent public spending has resulted in a large budget deficit estimated to be around 9% of GDP in 2025 on a no policy change basis. This is placing significant pressure on consumer and business confidence as austerity measures are being introduced for this year and the next resulting in deceleration in real GDP growth to an estimated 0.3% in 2025[5] . Whilst the macro environment is not encouraging (we are underweight Romania) it may create opportunities. One vehicle to which we have had long-time exposure in the past is trading at a wide discount and has minority positions in several state-owned enterprises including airports, ports and mining. Negotiations are currently underway regarding the end of the current manager's mandate and a share capital increase in the fund's airport business, which will provide clarity to the fund's future strategy. The fund has seen significant success in the past, with a successful IPO realizing its largest position in 2023. The fund has continued to return capital to investors despite significant pressure from the previous

[4] *Georgia Capital, 1H 2025 Macroeconomic Overview, August 6th, 2025.*
[5] *ING, Monitoring Romania: tackling Europe's largest deficit, July 16th, 2025.*

government to pursue state goals. With the state looking for additional sources of revenue, there is renewed pressure to privatize assets, which could energize the realization of these assets.

City of London Investment Management (CLIM) is a global specialist in closed-end funds, with a firm history of more than 30 years. The strategy exercises its skill in identifying and trading attractively discounted closed-end funds & investment companies combined with a macro-overlay providing guidance on the risks and challenges of each of these frontier markets (a separate document is available). The use of closed-end fund structures allows the underlying managers the opportunity to concentrate on their markets providing exposure to stocks not typically available through open-end funds due to their higher liquidity requirements, as well as a see-through diversification benefit not normally possible in a single fund. The arbitrage of discounts also provides a source of alpha aided by good corporate governance practices[6]. CLIM's Frontier Emerging Market Fund has a 20-year history, experiencing several investment cycles. The fund is led by two portfolio managers with a combined 46 years of experience and supported by CLIM's extensive team.

[6]*CLIM's corporate governance principles are defined in its Annual Stewardship Report: https://citlon.com/wp-content/uploads/2025/03/AnnualStewardshipReport3-25.pdf*

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