Investing in frontier markets with investment trusts

How investment trusts provide exposure to the dynamic growth story in frontier markets.

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The global growth engine has shifted. Emerging and developing economies now account for over 85% of the world's population and more than 40% of GDP. With GDP growth running at more than twice the pace of advanced economies over the next five years, their global influence is likely to grow further.

Yet this growing economic weight is not reflected in global equity markets, with emerging markets representing just over 20% of global market capitalisation. Goldman Sachs expects this gap to narrow sharply, forecasting that emerging markets could overtake the US in terms of market capitalisation by 2030. Growth-seeking investors looking beyond the Magnificent Seven are already reaping some of these benefits, with the MSCI Emerging Markets Index delivering double the return of the S&P 500 over the past year.

But the headline numbers do not tell the whole story: emerging markets may offer regional diversification from advanced economies, but the rapid rise of Taiwan and South Korea has left the index looking increasingly concentrated. TSMC, Samsung Electronics and SK Hynix account for nearly 30% of the MSCI Emerging Markets Index alone, compared with 20% for NVIDIA, Apple and Microsoft in the US equivalent (as at 31/08/2026). As a result, the emerging markets index has become highly sensitive to the fortunes of the US technology sector.

We take a closer look at frontier markets, where a broader range of economies and companies offers investors a more differentiated and diversified way to access the growth story of emerging economies.

What are frontier markets?

The term was coined in the 1990s by the International Finance Corporation to describe smaller, less liquid markets that typically sit earlier in their economic and financial development than emerging markets. However, some developed countries, such as Iceland and Bahrain, are included due to their smaller size and/or trading restrictions.

Classification systems vary but the MSCI framework defines frontier markets as equity markets not included in the MSCI Emerging Markets Index that demonstrate sufficient openness and accessibility for foreign investors. Countries classified as developed markets, as well as those experiencing extreme economic or political instability, are excluded.

The result is a universe of 28 countries in the MSCI Frontier Markets Index, as shown in the map below. Some funds will also include 'off-benchmark' geographies from smaller emerging markets with similar characteristics.

Frontier markets across Asia, Africa and Europe

CHART UNAVAILABLE

Source: MSCI factsheets

Why invest in frontier markets?

Frontier markets offer strong growth, pricing inefficiencies and a differentiated return profile compared to developed and emerging markets, as we explore below.

Growth opportunities

A key attraction of frontier markets is the exposure to smaller, faster-growing economies with a longer runway for growth.

According to the IMF, average annual GDP growth across frontier markets is forecast to exceed 4% over the next five years, compared to 1.1% and 2.3% for the Euro area and North America respectively. Several of these countries, including Vietnam, Niger, Côte d'Ivoire and Benin, are forecast to grow by more than 6% a year.

Demographics provide another powerful tailwind: almost one billion people live in frontier markets, many of which have young and growing populations, in contrast to the ageing (and in some cases, shrinking) populations of developed economies. Rising disposable incomes are also fuelling the expansion of a burgeoning consumer class, creating a growing domestic market alongside export-led economic growth.

Frontier markets are also benefiting from shifts in global supply chains. The 'China Plus One' strategy is encouraging multinationals to diversify manufacturing beyond China, while efforts to 'friend-shore' supply chains have intensified amid geopolitical tensions. Apple, Samsung and Nike have scaled up their manufacturing operations in Vietnam, while Bangladesh has become a major textiles exporter, supported by companies such as H&M and Zara.

The investment case combines these strong growth prospects with valuations that remain at a significant discount to emerging and developed markets. As frontier economies mature and their capital markets become more accessible, there is scope for this valuation gap to narrow.

Alpha generation

Companies in frontier markets often receive little or no analyst coverage, and publicly available information can be limited. This can create pricing inefficiencies, particularly where valuations fail to reflect a company's growth prospects.

Active managers seek to exploit these inefficiencies through detailed company-level research, on-the-ground due diligence and an in-depth understanding of the economic, political and regulatory backdrop in each country. This enables managers to identify mispriced companies overlooked by the wider market, providing greater scope to generate alpha through stock selection.

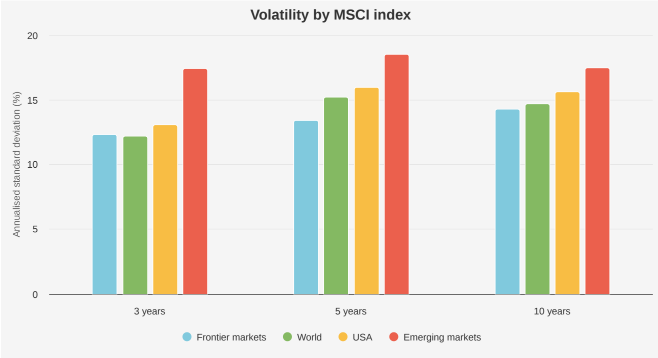
Portfolio diversification

Frontier markets can also provide a useful source of diversification. The idiosyncratic dynamics of domestic markets often play a more significant role than global drivers, meaning individual markets may behave differently to the wider global economy.

Over the past five years, the MSCI Frontier Markets Index has shown lower correlation with the S&P 500 and MSCI World indices than Emerging Markets, as well as low correlations between frontier markets themselves. Their relatively low institutional ownership can also make them less exposed to global fund flows and reduce their sensitivity to shifts in global investor sentiment, although they are not always immune to major global sell-offs.

Frontier markets may often be viewed as more volatile but, as shown below, the MSCI Frontier Markets Index has exhibited lower volatility than the Emerging Markets, US and World indices over the last decade.

Frontier markets offer lower volatility than other indices



Source: MSCI factsheets (as at 31/08/2026)
Past performance is not a reliable indicator of future results

For investors, the combination of low correlation and relatively low volatility means that an allocation to frontier markets could help diversify a broad-based global portfolio and potentially reduce overall portfolio risk.

How difficult is it to invest in frontier markets?

Frontier markets can be challenging for investors to access, with restrictions on foreign ownership, currency controls and lower liquidity all creating barriers to entry. For UK retail investors, access can be particularly limited, with none of the three major investment platforms currently offering direct dealing on frontier market exchanges.

There are also challenges in assessing individual companies: public information can be limited, while companies may have little third-party or analyst coverage and reports may not be available in English. A strong understanding of the political and economic backdrop in each country is also important when assessing potential investments.

For private investors, accessing and navigating frontier markets can therefore be difficult without the specialist knowledge and resources to conduct thorough research.

Investing in frontier markets using investment trusts

Investment trusts provide a simple way for investors to gain diversified exposure to frontier markets. As London-listed companies, their shares can be bought and sold in the same way as other UK investments, giving investors access to a portfolio of companies across multiple frontier markets.

Fund managers can also overcome some of the practical challenges of investing directly in frontier markets, from navigating the bureaucracy involved in buying and selling shares to managing liquidity and currency risks that would be cumbersome and costly for private investors.

In addition, active managers have greater resources to analyse the broad universe of companies, assessing macroeconomic, regulatory and political factors alongside individual businesses. This research is supported by on-the-ground visits, allowing managers to meet companies, competitors, suppliers and local officials, to build a broader understanding of the corporate ecosystem than can't be obtained from public information alone.

There are currently ten trusts in the AIC Global Emerging Markets category. Most focus primarily on emerging markets, with more limited exposure to frontier markets, while three specifically include frontier markets in their investment objectives. The approach varies between trusts, with some investing in a concentrated portfolio and others taking a broader approach.

Case study: BlackRock Frontiers (BRFI)

Launched: 2010

Investment manager: BlackRock Fund Managers

Managers: Sam Vecht and Emily Fletcher

Dividend policy: Aims to pay a dividend semi-annually

Benchmark: MSCI Emerging ex Selected Countries + Frontier Markets + Saudi Arabia Index (net total return, USD)

BlackRock Frontiers (BRFI) is currently one of the few investment trusts listed on the London Stock Exchange that provides investors with dedicated exposure to frontier markets and smaller emerging markets. There is also no open-ended fund that invests in the same markets.

The trust was launched just over a decade ago in 2010 and is managed by Emily Fletcher and Sam Vecht, with a combined experience of almost 50 years.

BRFI invests in a bespoke investment universe of the MSCI Emerging Markets and MSCI Frontier Markets indices, minus the eight largest countries by market capitalisation (being Brazil, China, India, Korea, Mexico, Russia, South Africa and Taiwan). Saudi Arabia is also in the investable universe, although it does not currently fit under either classification.

The trust provides investors with a diversified portfolio that has a low correlation to developed markets, combined with superior growth potential.

1) What is the trust's goal?

BRFI aims to achieve long-term capital growth by investing in companies that are listed in, or that derive the bulk of their revenue from, less developed countries.

2) What kind of stocks do the managers invest in?

The managers invest in companies that have strong balance sheets and can translate top-line revenue growth into strong free cash flow.

3) Are investments driven by a particular style?

BRFI's investments aim to take advantage of the growth potential that frontier markets offer. Nonetheless, their focus on cash-generative businesses also means they have a long track record of paying a dividend.

Frontier markets tend to be more subject to macro-risk compared to developed markets. As a result, the managers combine both top-down and bottom-up analysis in their decision-making.

With regard to the former, the managers use a proprietary dashboard to monitor factors like liquidity, currency and political risk. If these factors pose significant risks, the managers will not invest, regardless of how attractive a company's fundamentals might be.

4) How many companies does the trust normally hold?

The trust typically has exposure to 35-65 holdings diversified across regions and sectors, aided by the lack of correlation within frontier markets.

5) What is the trust's dividend policy?

The trust does not have a specific dividend target but pays a semi-annual dividend. The dividend yield was 4.1% as at 31/07/2026.

6) What are the trust's ongoing charges?

The trust's ongoing charges are 1.42% (ex-performance fee).

7) Does the trust have a performance fee?

The trust has a performance fee equal to 10% of any NAV outperformance relative to the cumulative benchmark returns since inception. This fee is capped at 2.5% of gross assets if absolute returns are positive (or 1% if not).

8) How much attention do the managers pay to their benchmark, and to what extent are absolute returns important?

BRFI uses a bespoke benchmark index, which it deviates from markedly on both a sectoral and country allocation basis. Although the managers can (and do) use derivatives to take short positions in the market, this is not an absolute returns strategy. The maximum permissible exposure to short positions is 10% of net assets.

9) Does the trust use gearing? Is it structural or opportunity-led?

BRFI uses opportunity-led gearing, which is typically achieved by buying or selling contracts for difference (CFDs). The managers take both short and long positions in the market using derivatives.

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