BlackRock Latin American IT

Navigating difficult markets

Investment trusts

The BlackRock Latin American Investment Trust (BRLA) provides investors with managed exposure to equities in the region, with the main country weightings being Brazil and Mexico (c 87% together). Over the last year, concerns over weakening global growth and US monetary policy have affected Latin American currencies and equities. The manager is cautious on Brazil but sees better near-term economic prospects for Mexico and Peru, where the portfolio holds overweight positions. With much of the bad news potentially built into market prices, sentiment could rapidly turn and in the meantime, holders of BRLA benefit from a 6.7% yield.

12 months ending	Total share price return (%)	Total NAV return (%)	MSCI EM LatAm TR (%)	FTSE AllSh TR (%)	MSCI World TR (%)	MSCI EM TR (%)
31/10/11	(18.7)	(16.4)	(11.1)	0.6	1.3	(8.3)
31/10/12	(9.4)	(4.2)	(3.6)	9.8	10.3	3.2
31/10/13	(3.0)	(0.1)	(2.2)	22.8	26.8	7.2
31/10/14	(1.4)	(2.9)	(5.0)	1.0	9.7	1.4
31/10/15	(29.6)	(31.1)	(32.3)	3.0	6.0	(11.1)

Source: Thomson Datastream. Note: All sterling adjusted, total return basis.

Investment strategy: Sifting for growth at right price

The manager uses a blend of top-down and bottom-up analysis to select a portfolio of 50-75 stocks, with a focus on achieving growth at a reasonable price. The management team, two of whom are based in Sao Paulo, undertake detailed fundamental analysis and meet companies in order to identify stocks that can provide superior long-term performance. The approach is benchmark-aware but not index-driven, with diversification by country, industry and market capitalisation size. Stocks are continually monitored and may be sold as a result of significant changes in fundamentals or valuation.

Market outlook: Challenges and opportunities

The benchmark Latin American index has only been moderately weak in local currency terms over the last 18 months, but in sterling terms is down more than 30%, reflecting concerns over both global macro trends (for example, commodity prices and China's growth) and internal political and economic challenges. These factors remain in play, but arguably, are in large part built into market thinking. It is also important to remember the differentiation within the region; looking at IMF forecasts the expectation for GDP growth in the two largest economies in 2016 is -1% for Brazil and +2.8% for Mexico. Valuations in the region remain reasonable and, while cautious on Brazil, the manager continues to identify investment opportunities.

Valuation: Discount remains on market weakness

BRLA trades at a 9.3% discount to cum-income net asset value; above the five year average of 8.2%. The BRLA board primarily controls the discount through the use of tender offers, with the next due in 2016 subject to certain conditions. See pages 6/7 for further information.

3 November 2015

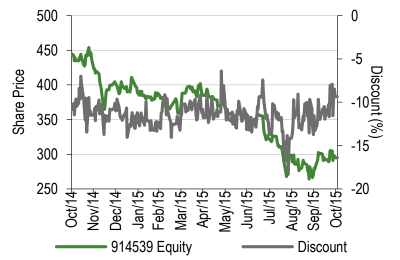
Price	**295.0p**
Market cap	**£116.1m**
AUM	**£126.4m**

NAV*	323.00p
Discount to NAV	8.7%
NAV**	325.35p
Discount to NAV	9.3%

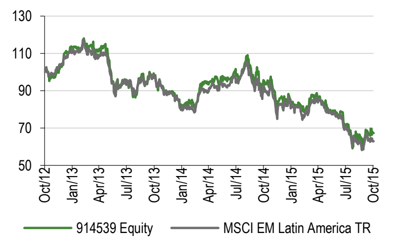
*Excluding income. **Including income. At 29 October 2015

Yield	6.7%
Ordinary shares in issue	39.4m
Code	BRLA
Primary exchange	LSE
AIC sector	Latin America

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	454.3p	264.3p
NAV* high/low	510.1p	304.0p

*Including income.

Gearing

Gross*	0.0%
Net*	-1.4%

*At 30 September 2015.

Analysts

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BlackRock Latin American Investment Trust is a research client of Edison Investment Research Limited

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Exhibit 1: Trust at a glance

Investment objective and fund background

The BlackRock Latin American Trust seeks long-term capital growth and an attractive total return primarily through investing in quoted Latin American securities. The trust was launched in 1990 and management was transferred to BlackRock on 31 March 2006 following a tender process. The manager follows a mainly bottom-up approach (with top-down views taken into account) that is flexible, but seeks growth at a reasonable price. The trust has an indefinite life subject to a two-yearly continuation vote. The benchmark is the MSCI Emerging Markets Latin America index.

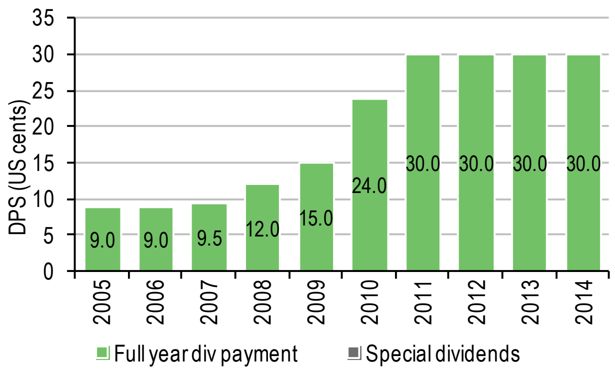
Recent developments

18 Aug 2015: interim results for the six months to 30 June 2015. NAV TR –8.8% in USD (-9.6% in sterling); MSCI EM Latin America index TR –6.2% in USD (-7.0% in sterling).
24 Feb 2015: final results for the year ended 31 December 2014: NAV TR -9.3% for period; MSCI EM Latin America index TR -12.0%.

Forthcoming		Capital structure		Fund details	
AGM	April 2016	Ongoing charge	1.2%	Group	BlackRock Fund Managers
Year end results	March 2016	Net cash	1.4%	Manager	William Landers
Year end	31 December	Annual management fee	0.85% of NAV	Address	12 Throgmorton Avenue, London, EC2N 2DL
Dividends paid	April, September	Performance fee	Yes (see page 7)		
Launch date	July 1990	Trust life	Indefinite	Phone	+44 (0) 20 7743 3000
Continuation vote	Two-yearly: next AGM 2016	Overdraft facility	Up to $40m	Website	blackrock.co.uk/brla

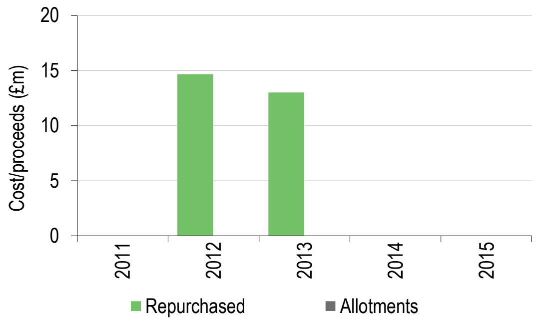
Dividend policy and history

The company aims to maintain the dividend and increase it in the medium term.

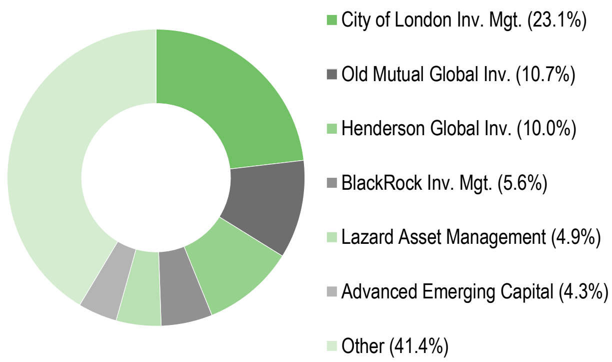


Share buyback policy and history

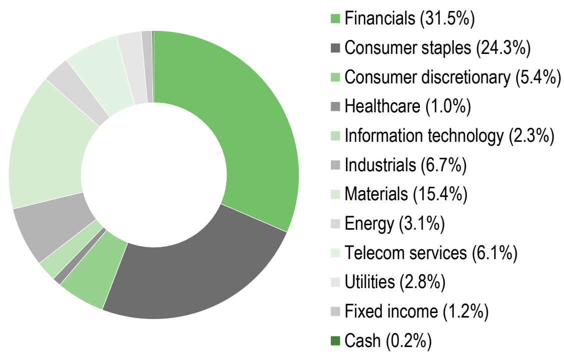
BRLA is authorised both to repurchase up 14.99% of its ordinary shares and to allot shares up to approx 5% of the issued share capital.



Shareholder base (as at 30 September 2015)



Sector exposures of portfolio (as at 30 September 2015)



Top 10 holdings as at 30 September 2015

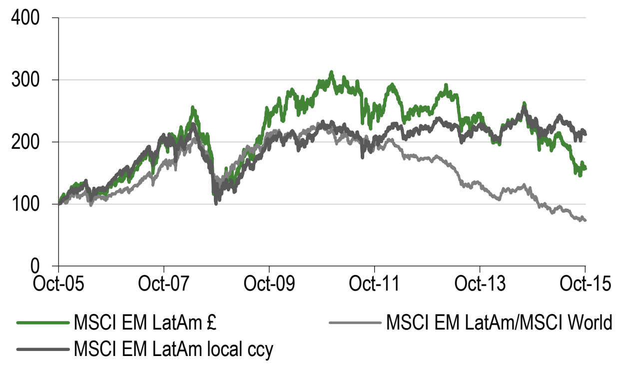
			Portfolio weight %		Benchmark weight %	Active weight
Company	**Country**	**Sector**	**30 Sep 2015**	***30 Sep 2014**	**30 Sep 2015**	**30 Sep 2015**
Itau Unibanco	Brazil	Banks	4.7	8.6	4.7	0.0
Banco Bradesco	Brazil	Banks	4.0	6	4.2	-0.2
AmBev	Brazil	Beverages	5.8	4.8	5.3	0.5
Cemex	Mexico	Basic materials	4.8	N/A	2.1	2.7
FEMSA	Mexico	Beverages	6.2	N/A	3.8	2.4
Grupo Financiero Banorte	Mexico	Financial services	3.9	N/A	2.8	1.1
BRF	Brazil	Food producers	4.2	3.7	2.7	1.5
America Movil	Mexico	Mobile telecoms	4.0	3.7	6.2	-2.2
Credicorp	Peru	Financial services	4.3	3.5	1.7	2.6
Wal-Mart de Mexico	Mexico	Retailer	4.7	N/A	3.0	1.7
Top 10 companies			**46.6**	**51.2**	**36.5**	

Source: BRLA, Edison Investment Research, Morningstar, Thomson. Note: *N/A where not in September 2014 top 10.

Market outlook: Macro factors leading the way

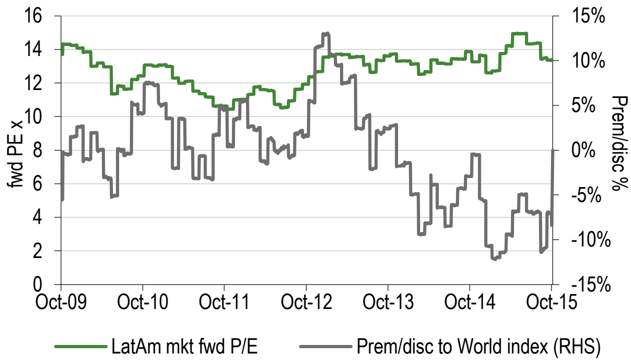
Since staging a recovery after the global financial crisis, Latin American markets in local currency terms have ranged within a relatively narrow band (see Exhibit 2), but in sterling terms have shown more volatility and have experienced marked weakness over the last 18 months in particular. In this period the MSCI Emerging Market Latin America index in local currency was down 5.0% to end October, while currency weakness amplified this to a 29.7% decline in sterling terms. Factors playing a part included elections, the prospect of normalisation of US monetary policy, fears over China's growth rate and accompanying commodity weakness. Exhibit 2 also shows that the Latin American index has lagged the world market since 2010, in large part reflecting the strength of the US market over this period. Internal political difficulties have added to the external shock of weaker commodity demand and prices. Brazil has been the salient example here with President Rousseff's new economic team grappling with inflation and the fiscal balance, while business confidence has been dented by the Petrobras corruption scandal.

Exhibit 2: Latin American index performance



Source: Thomson Datastream, Edison Investment Research

Exhibit 3: LatAm forward P/E and relative P/E



Source: Thomson Datastream, Edison Investment Research

Looking ahead, the IMF has continued to trim GDP growth estimates, but even for Brazil, is expecting a smaller contraction in 2016 than 2015 and a resumption of positive growth from 2017. The estimates for Mexico, Peru and Colombia have been more resilient and are notably higher. From a valuation perspective, the regional forward P/E for the Datastream LatAm index stands at a 10% premium to its 10-year average (at 13.4x), but is still well below its high point (15.0x). Given the likelihood that earnings are relatively depressed (the market ROE is only 60% of its 10-year average), this valuation does not appear demanding. On balance, regional markets are likely to face continued challenges, but this should already be built into expectations and there will be divergent trends creating opportunities for an actively managed fund such as BRLA.

Fund profile: Diversified portfolio with risk controls

BlackRock took over management of BRLA, which was previously F&C Latin American Trust, in March 2006. William Landers, who is based in Princeton, New Jersey, is supported by four investment professionals working from Princeton, NJ, New York, NY and on the ground in Sao Paulo. The trust's main aim is to deliver both capital growth and an attractive total return from investments in Latin American equities. Position sizes are controlled to ensure that while the portfolio is diversified sufficiently across countries, sectors and market capitalisations it is not taking excessively large bets away from its benchmark index, the MSCI EM Latin America. A combination of top-down and bottom-up factors are taken into consideration in order to arrive at a portfolio of 50-75 stocks. London listed, BRLA reports its financial statements in US dollars, while the shares are priced in sterling and NAVs reported in both sterling and US dollars.

The fund manager: William Landers

The manager’s view: Brazil and Mexico allocation converging

Manager William Landers has continued to trim his exposure to Brazil, given its ongoing political and economic difficulties. With Brazilian GDP expected to contract next year Landers remains wary of the situation there. The next step for the country is to resolve the judicial and political battle around the Petrobras scandal. Brazil has demonstrated it has a strong, independent judiciary system and there may yet be members of the government caught up. As and when the fallout from the scandal subsides, alongside the backdrop of an improving fiscal situation, companies such as Petrobras could pick up and Landers may look at taking a position in the stock again.

Brazil currently makes up 43.7% of the portfolio (at 30 September), with Mexico a close second at 42.0%. The weightings of the two countries have been converging for some time, which reflects their relative strength in the LatAm region and Mexico’s economic recovery. While Mexico’s equity market is not cheap, recent earnings revisions have been positive.

Landers also remains positive on Peru and has a 7.4% allocation to the country, well ahead of the benchmark weighting. Peru is seen has having a strong domestic growth story. Most leading presidential candidates for the 2016 election appear market friendly and the country would benefit from any strengthening of the copper price. It could also be an interesting middle-class growth story, and in his view, is a market which understands the need to attract investment. Conversely, Chile has suffered from meddling by its administration and is the largest underweight in the portfolio. Cash has been at historical highs (c 3.5% but currently 1.4%), with Landers looking to use it to take tactical advantage of opportunities as and when they arise.

On a three- to five-year view Landers is upbeat on the prospects for LatAm. Over that time frame Brazil should have made further progress in addressing its political and economic challenges, while on a regional view there is a reasonable basis for expecting stronger consumer growth based on the emergence of a larger middle class. Further volatility cannot be ruled out but in the longer term things are moving in the right direction.

Asset allocation

Investment process: Mix of top-down and bottom-up factors

While the manager is benchmark aware, he is not benchmark driven and is happy to take off-benchmark positions or have zero weights to large benchmark constituents where appropriate. The team combines top-down views on factors such as currency, inflation and politics with bottom-up analysis at both an industry and individual company level in order to construct the portfolio. Self-imposed risk controls limit positions in large-cap names to 500bp above or below the index weighting; mid-caps have a 200bp limited applied, while small-cap stocks usually have at least a 50bp position. In practice this rarely has the effect of restricting stock selection; only two stocks at 30 September (América Móvil and Ambev) accounted for more than 5% of the index.

An initial liquidity screen narrows the investment universe of more than 400 listed companies in the region to around half that number. Landers and his team then take country and sector views into account leaving c 175 stocks worthy of detailed fundamental analysis. Broadly, the managers are looking for growth at a reasonable price, although they will take dividends into account, given BRLA’s total return objective. Typically, around two thirds of the portfolio is in large caps, with the remaining third split between mid-cap and smaller companies. Stocks are closely monitored on an ongoing basis, and if a significant change in either fundamentals or valuation is noted they may be sold.

The BRLA investment team is also able to draw on the expertise of other BlackRock investment professionals. Those with expertise in natural resources and Asia Pacific, a key trading region for Latin American companies, often prove most useful. BlackRock also has significant resources in sales, marketing and other non-investment related functions.

The selective writing of covered call options on portfolio holdings is outsourced to another team within BlackRock, and is used as a way of enhancing income for BRLA.

Current portfolio positioning

At 30 September the top 10 holdings accounted for 46.6% of the portfolio; lower than the figure six months ago and a reflection of the increased level of diversification as the Brazil and Mexico allocations moved towards similar levels. Options cover 6% of the portfolio, with premiums used to enhance income.

Exhibit 4: Sector analysis as at 30 September 2015

	Trust weight (%)	Index weight (%)	Trust active weight	Trust weight/ index weight	Trust (%) end Sept 2014	Change y-o-y
Financials	31.5	27.0	4.5	1.2	33.0	-1.5
Consumer staples	24.3	23.8	0.5	1.0	20.0	4.3
Consumer discretionary	5.4	6.6	-1.2	0.8	11.3	-5.9
Healthcare	1.0	0.3	0.7	3.3	0.0	1.0
Information technology	2.3	2.2	0.1	1.0	0.6	1.7
Industrials	6.7	6.9	-0.2	1.0	7.4	-0.7
Materials	15.4	13.6	1.8	1.1	10.1	5.3
Energy	3.1	6.1	-3.0	0.5	10.4	-7.3
Telecom services	6.1	7.7	-1.6	0.8	3.6	2.5
Utilities	2.8	5.8	-3.0	0.5	1.6	1.2
Fixed income	1.2	0	1.2	N/A	0.4	0.8
Cash	0.2	0	0.2	N/A	1.6	-1.4
	100.0	**100.0**			**100.0**	

Source: BlackRock Latin American Investment Trust, Edison Investment Research.

Exhibit 5: Geographical allocations as at 30 September 2015

	Trust weight (%)	Index weight (%)	Trust active weight	Trust weight/ index weight	Trust (%) end Sept 2014	Change y-o-y
Brazil	43.7	46.6	-2.9	0.9	58.2	-14.5
Mexico	42.0	36.5	5.5	1.2	29.2	12.8
Peru	7.4	2.9	4.5	2.6	6.0	1.4
Chile	3.7	9.8	-6.1	0.4	2.1	1.6
Colombia	1.4	4.2	-2.8	0.3	2.5	-1.1
Argentina	0.4	0.0	0.4	N/A	0.0	0.4
Cash & FI	1.4	0.0	1.4	N	2.0	-0.6
	100.0	**100.0**	**0.0**		**100.0**	

Source: BlackRock Latin American Investment Trust, Edison Investment Research.

Landers entered the fourth quarter with a defensive, low-beta portfolio, with a relatively high cash level (1.4%), which can be utilised if he sees attractive and timely opportunities. The portfolio remains 2.9 percentage points below the benchmark exposure in Brazil as Landers does not believe the economy has bottomed out yet. The government's inability to get its fiscal programme approved, which led S&P to downgrade the country below investment grade, continues to weigh on business and consumer confidence. Mexico remains an overweight as the gradual domestic economic improvement continues.

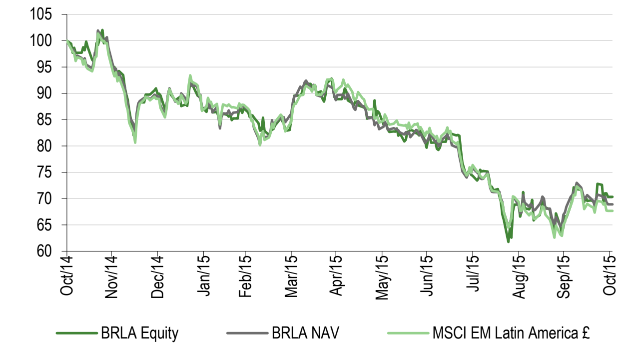
From a sector perspective, the portfolio is currently overweight non-bank financials and dollar earners, and underweight banks, steel and materials. At a stock level, Landers recently added to the position in BB Seguridade Participacoes, taking advantage of the market dislocation. He has continued to reduce exposure to Brazilian banks Itaú Unibanco and Banco Bradesco as a result of the Brazilian downgrade. Should the situation in Brazil improve, Landers may rebuild his position in large-cap stocks Petrobras and Vale. A position was initiated in Valid, a producer of chips for credit cards and mobile phones, which conducts around half its business outside Brazil and is a top-three provider in the US market. Credicorp continues to be the top pick in Peru, accounting for half the allocation to that market.

Performance: Ahead of benchmark over most periods

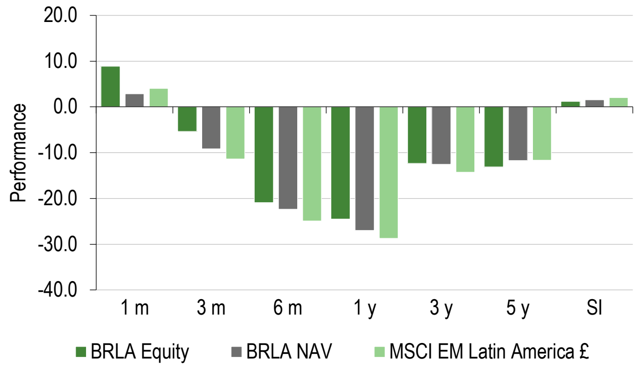
Latin American equity markets (particularly Brazil, which dominates the MSCI index) have struggled in recent years, falling c 24% year-to-date in sterling terms (Exhibit 6). BRLA's total NAV return performance has been ahead of the benchmark index over one and three years and close to the index over five years and since inception, with share price returns tending to lag NAV, consistent with a widening discount (see Discount section, below). NAV performance has benefited from an underweight position in Brazil and overweight positions in Mexico and Peru, with zero exposure to Brazilian stocks such as Petrobras and Vale being positive contributors.

Exhibit 6: Investment trust performance to 30 October 2015

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: SI – since managed by BlackRock, 31 March 2006. Three, five and 10-year performance figures annualised.

Exhibit 7: Share price and NAV total return performance, relative to benchmarks (%)

	1 month	3 months	6 months	1 year	3 years	5 years	SI
Price relative to MSCI EM Latin America TR	4.6	6.8	5.3	3.9	7.0	(7.9)	(8.0)
NAV relative to MSCI EM Latin America TR	(1.1)	2.5	3.4	1.8	6.2	(0.7)	(4.5)
Price relative to FTSE AllSh TR GBP	4.0	(1.8)	(16.1)	(31.7)	(47.3)	(64.8)	(30.1)
NAV relative to FTSE AllSh TR GBP	(1.7)	(5.8)	(17.7)	(33.1)	(47.7)	(62.0)	(27.5)
Price relative to MSCI World TR GBP	2.8	(3.6)	(18.1)	(33.6)	(54.3)	(69.9)	(39.5)
NAV relative to MSCI World TR GBP	(2.8)	(7.5)	(19.6)	(35.0)	(54.7)	(67.5)	(37.2)

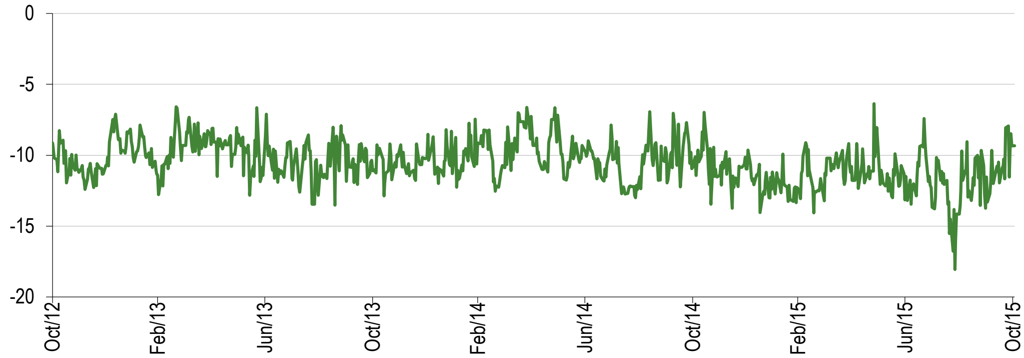
Source: Thomson Datastream, Edison Investment Research. Note: Data to 30 October 2015. Managed by BlackRock from 31 March 2006. Geometric calculation.

Discount: Widest point in five years in August

BRLA hit its widest discount in five years in August 2015, at 18.1%. By the end of September, this had narrowed to a 13.7% discount to cum-income NAV and now stands at 9.3%, above its five-year average of 8.2%. Over the past three years the discount has been broadly in a range of 6% to 14%, as shown in Exhibit 8 below, which reflects a period during which Latin American equities have generally underperformed global markets.

The BRLA board is able to allot or buy back shares as it sees fit in order to manage the premium or discount, although there have been no ad hoc buybacks since 2012. The previous policy of twice-yearly 5% tender offers for ordinary shares was halted in mid-2013, although in September 2013 a tender saw the redemption of $64m of convertible bonds. In August 2013, the board adopted a new discount policy, which it feels is in the better interests of long-term shareholders. From the 2016 continuation vote onwards, a 25% tender will be triggered if BRLA has underperformed the benchmark in US dollar total-return terms by more than 1% a year over the previous two financial years, and if the average discount to NAV has exceeded 5% over the same two-year period.

Exhibit 8: Discount over three years (NAV at fair, including income)



Source: Thomson Datastream, Edison Investment Research. Note: Negative values indicate a discount, positive values a premium.

Capital structure and fees

BRLA has one class of shares with 39.4m in issue. It is subject to a continuation vote every two years, with the next due at the AGM in April 2016. The trust is permitted to gear up to a maximum of 25% of net assets, and has a bank borrowing facility of $40m. No gearing is currently employed and at 30 September BRLA had a net cash position of 1.4%. BlackRock Investment Management is paid an annual management fee of 0.85% of NAV, charged 75% to capital and 25% to income. Ongoing charges were 1.2% for the year ended 31 December 2014. There is also a performance fee of 10% of any outperformance of the benchmark, subject to a 1% hurdle. The performance fee is only payable if the cumulative total return since 1 July 2007 is ahead of the benchmark. No performance fee has been paid since the 2010 financial year.

Dividend policy and record

BRLA's objective is to achieve an attractive total return as well as long-term capital growth. Dividends are paid twice yearly (September and April) in US dollars. For the last four financial years the trust has paid a dividend of $0.30 a share and has paid an interim dividend of $0.15 a share in 2015. Since 2013, the trust has paid the dividend in two equal instalments; prior to this the final dividend was much larger than the interim. While in FY14 the dividend was fully covered by income ($0.31 per share), dividend cover for the interim FY15 dividend was 0.90. A portion of portfolio income continues to come from premiums on option writing rather than from underlying dividends; option income tends to be higher in more volatile market conditions. Options may be written over a maximum of 20% of the portfolio at any one time. Recent price weakness for BRLA has seen the yield rise to 6.7%.

Peer group comparison

With only two London-listed investment companies with Latin American mandates, comparisons can be difficult. Exhibit 9 below includes two US-listed closed-end funds as well as a selection of onshore and offshore open-ended funds (with sterling share classes), in order to provide a wider peer group. BRLA is the largest of the closed-ended funds. The closed-ended funds have outperformed the open-ended funds in aggregate over three and five years, although BRLA's NAV total return over five years is below average for the closed-ended peer group. While the table below reflects a difficult period for Latin American equities, as noted earlier, BRLA has managed to modestly outperform its benchmark over one and three years. Ongoing charges are the lowest of any of the closed-ended funds, while the yield is the second highest of the closed-ended vehicles (the highest-yielding fund has a specific income remit).

Exhibit 9: Latin American funds

% unless stated	Market cap/ fund size £m	Exchange	TR one year	TR three years	TR five years	Ongoing charge	Discount	Net gearing	Yield	Sharpe NAV 1 year	Sharpe NAV 3 years
Investment Trusts/CEFs											
BlackRock Latin American	116.1	LSE	-30.6	-34.1	-46.9	1.2	-6.8	100.0	6.6	-2.9	-0.7
Aberdeen Latin America Equity	82.3	NYSE	-30.0	-37.8	-38.5	1.3	-10.4	98.0	3.4	-2.4	-0.8
Aberdeen Latin American Income	30.8	LSE	-31.5	-39.0	-36.4	2.0	-9.0	115.0	7.4	-2.8	-0.9
Latin American Discovery Fund	36.4	NYSE	-32.5	-37.4	-46.2	1.5	-10.6	100.0	2.0	-2.1	-0.8
Weighted average			**-30.8**	**-36.3**	**-42.9**	**1.3**	**-8.7**	**101.1**	**5.1**	**-2.6**	**-0.8**
Rank	1		2	1	4	4	1	2	2	4	1
Mutual funds											
Aberdeen Latin American Equity	107.9		-28.5	-40.1	-	2.0					
BlackRock Global Funds - Latam	770.3		-30.4	-35.7	-50.3	2.1					
Fidelity Funds - Latam	335.0		-30.5	-36.6	-45.0	2.0					
Invesco Perpetual Latin American	137.8		-30.5	-39.4	-45.5	1.8					
Schroder ISF Latin America	112.3		-31.5	-42.5	-50.0	0.1					
Templeton Latin America	575.6		-29.7	-41.9	-51.9	2.3					
Threadneedle Latin American	286.8		-31.8	-41.7	-50.8	1.8					
Weighted average			**-29.5**	**-38.2**	**-46.0**	**2.0**					

Source: Morningstar, Edison Investment Research. Note: TR=total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets. Priced as at 30 October 2015. Mutual fund size at end September.

The board

BRLA has five non-executive directors. Peter Burnell joined the board in 1990, the year of launch, and has been chairman since 1997. The Earl St Aldwyn became a director in 1996, with Laurence Whitehead joining the board in 2003. Antonio Monteiro de Castro, the senior independent director, was appointed in 2007 and Mahrukh Doctor became a director in 2009. All the directors have long associations with Latin America through business or academic interests.

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