EDISON

BlackRock Latin American IT

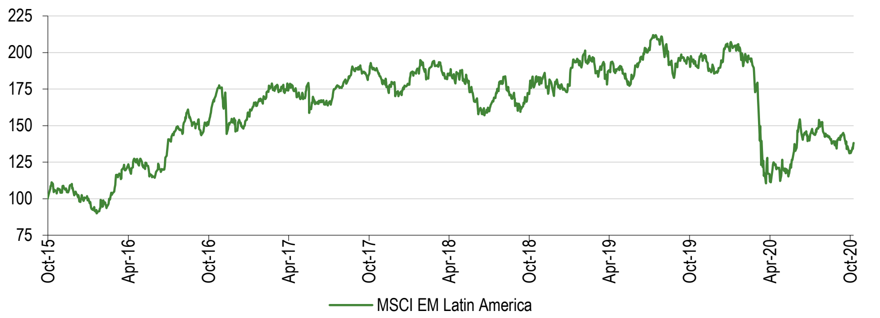
Finding opportunities across the region

Investment trusts
Latin American equities

12 October 2020

BlackRock Latin American Investment Trust (BRLA) is managed by Sam Vecht and Ed Kuczma. Since their appointment in late December 2018, they have concentrated the portfolio and employed gearing more tactically. While mindful of the risks surrounding the global pandemic, the managers are cautiously optimistic on the outlook for Latin America, expecting a sharp improvement in Brazilian economic growth in 2021 helped by robust Chinese demand for commodities. US dollar weakness has also historically been very supportive for equities in the region. Although Latin American earnings estimates have been under significant pressure due to COVID-19, the managers anticipate a sharp rebound in coming quarters.

Potential opportunity following coronavirus-led market sell-off in LA in 2020



Source: Refinitiv, Edison Investment Research

The market opportunity

The relative weakness of Latin American equities this year in the face of the coronavirus outbreak may signal an attractive entry point for investors interested in the longer-term growth prospects within the region. In aggregate, Latin American shares are trading at a significantly wider discount to the world market compared with the five-year average.

Why consider investing in BRLA?

- Two very experienced managers supported by BlackRock's well-resourced investment team.
- Tactical use of gearing has proved successful in both rising and falling markets.
- Attractive dividend yield of 6.2% with the ability to make distributions out of the trust's significant reserves when required.
- Potential for improved absolute and relative performance; longer-term record has been negatively affected by the coronavirus pandemic.

Discount broadly in line with historical averages

BRLA is currently trading at a 10.6% share price discount to cum-income NAV, which compares with average discounts of 10.5%, 12.3%, 12.7% and 10.4% over the last one, three, five and 10 years, respectively. There is potential for a narrower discount if there is a step-up in the trust's performance or there is increased investor appetite for Latin American equities.

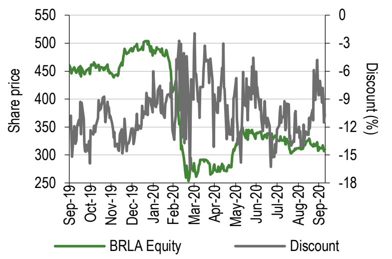
Price	**310.0p**
Market cap	**£122m**
AUM	**£150m**

NAV*	343.6p
Discount to NAV	9.8%
NAV**	346.9p
Discount to NAV	10.6%

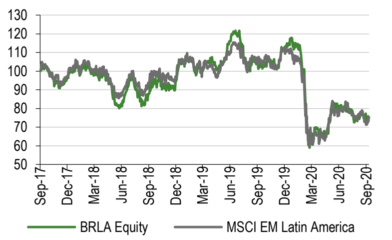
*Excluding income. **Including income. As at 8 October 2020.

Yield	6.2%
Ordinary shares in issue	39.3m
Code	BRLA
Primary exchange	LSE
AIC sector	Latin America
Benchmark	MSCI EM Latin America

Share price/discount performance



Three-year performance vs index



52-week high/low	504.0p	253.0p
NAV* high/low	570.2p	277.1p

*Including income.

Gearing

Net*	8.2%

*As at 31 August 2020.

Analysts

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

Exhibit 1: Trust at a glance

Investment objective and fund background

BlackRock Latin American Investment 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 managers follow a mainly bottom-up approach (taking top-down views 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.

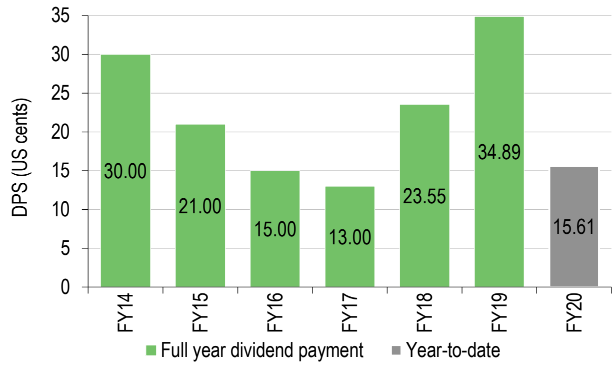
Recent developments

- 1 October 2020: Announcement of third quarterly dividend of 5.45c/share.
- 10 September 2020: Six-month results ending 30 June 2020. NAV TR -37.6% vs benchmark TR -35.2%. Share price TR -33.1% (all figures in $).
- 8 July 2020: Announcement of a positive adjustment of 1.06% to the 7 July 2020 NAV due to the recognition of an expected receipt of tax reclaims on foreign income.
- 1 July 2020: Announcement of second quarterly dividend of 5.57c/share.
- 7 April 2020: Annual results ending 31 December 2019. NAV TR +18.2% vs benchmark TR +17.5%. Share price TR +22.0% (all figures in $).

Forthcoming		Capital structure		Fund details	
AGM	May 2021	Ongoing charges	1.13% (FY19)	Group	BlackRock Fund Managers
Final results	April 2021	Net gearing	8.2%	Managers	Ed Kuczma and Sam Vecht
Year end	31 December	Annual mgmt fee	0.8% of NAV	Address	12 Throgmorton Avenue, London, EC2N 2DL
Dividend paid	Quarterly	Performance fee	None		
Launch date	July 1990	Trust life	Indefinite, subject to vote	Phone	+44 (0) 20 7743 3000
Continuation vote	Two-yearly – next 2022 AGM	Loan facilities	Up to $40m	Website	www.blackrock.co.uk/brla

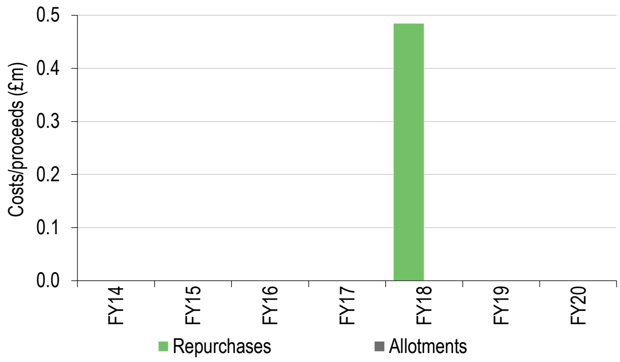
Dividend policy and history (financial years)

Starting in FY18, dividends paid quarterly, equivalent to 1.25% of quarter-end $ NAV. FY18 was a transitional year with three quarterly dividends paid.

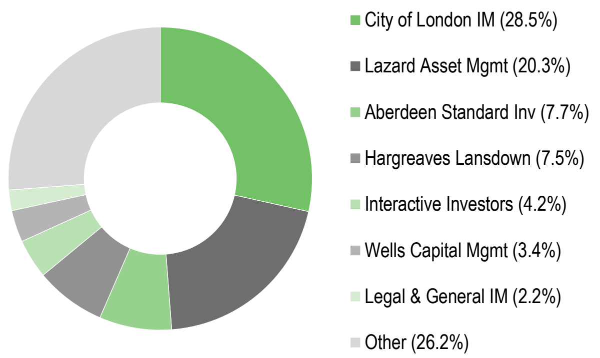


Share buyback policy and history (financial years)

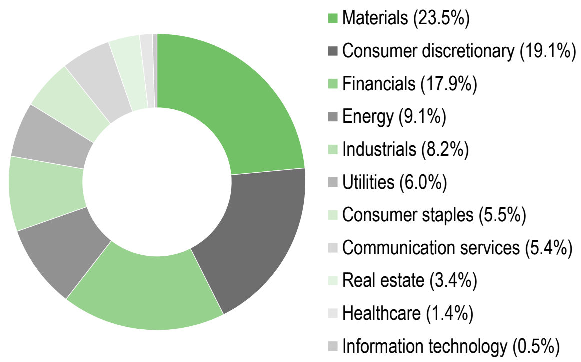
Renewed annually, BRLA is authorised both to repurchase up to 14.99% of its ordinary shares and to allot shares up to 5% of the issued share capital.



Shareholder base (as at 31 August 2020)



Portfolio exposure by sector (as at 31 August 2020)



Top 10 holdings (as at 31 August 2020)

Company	Country	Sector	Portfolio weight %		Benchmark weight	Active weight vs benchmark
			31 August 2020	31 August 2019*		
Vale	Brazil	Materials	9.5	N/A	8.3	1.2
Petrobras	Brazil	Energy	8.2	10.2	7.1	1.1
America Movil	Mexico	Telecommunication services	5.4	4.0	4.2	1.2
B3	Brazil	Diversified financials	4.9	3.2	4.6	0.3
Ternium	Argentina	Materials	4.0	N/A	0.0	4.0
Banco Bradesco	Brazil	Banks	3.9	5.7	4.4	(0.5)
Grupo México	Mexico	Materials	3.8	N/A	1.7	2.1
Afya	Brazil	Medical education	3.2	N/A	0.0	3.2
Grupo Financiero Banorte	Mexico	Banks	3.2	4.1	1.9	1.3
Lojas Americanas	Brazil	Retail	3.0	N/A	1.1	1.9
Top 10 (% of portfolio)			**49.1**	**52.2**		

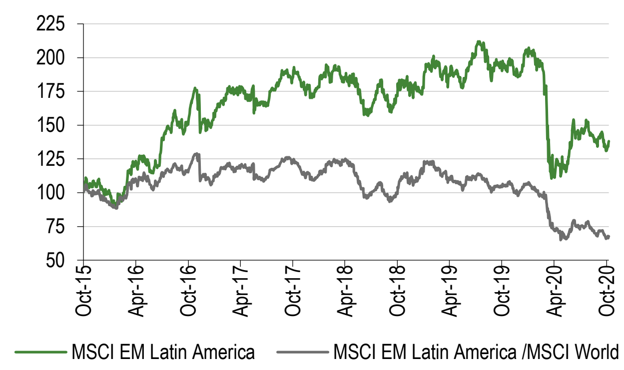
Source: BRLA, Edison Investment Research, Morningstar. Note: *N/A where not in end-August 2019 top 10.

Market outlook: Attractive entry point?

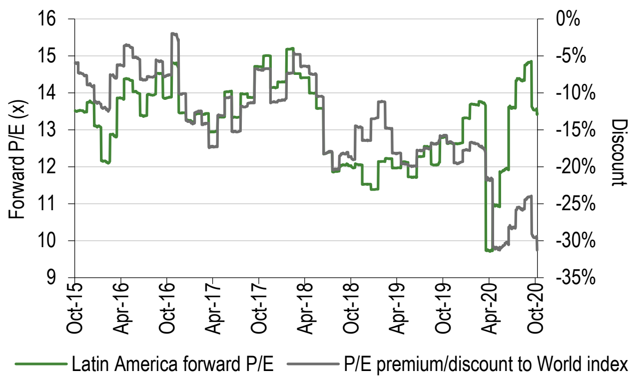
As shown in Exhibit 2 (LHS), Latin American equities have performed relatively poorly this year as the region has been hit hard by the coronavirus pandemic. However, this could provide an attractive entry point for investors with a longer-term perspective. In Brazil, the largest economy in the region, the central bank target rate has been reduced to a record low of 2% and inflation is under control, which should be supportive for future growth, while there is an active programme of reforms within the country. Latin American equities remain attractively valued compared to the world market. The Datastream Latin America Index is trading on a forward P/E earnings multiple of 13.4x, which is a 31.3% discount to global equities, considerably wider than the 14.1% average discount over the last five years.

Exhibit 2: Market performance and valuation

Latin America index performance (last five years, in £ terms)



Datastream Latin America index forward and relative P/E (last five years)



Source: Refinitiv, Edison Investment Research. Note: At 9 October 2020.

Fund profile: High-conviction equity portfolio

Launched in July 1990, BRLA has been managed by BlackRock since March 2006. Its shares are quoted, in sterling, on the Main Market of the London Stock Exchange, while its financial statements are reported in US dollars, and its NAV is quoted in both US dollars and sterling.

Since 24 December 2018, BRLA has been co-managed by Sam Vecht (a managing director in BlackRock's global emerging markets equities team) and Ed Kuczma (a director in its global Latin America equity team). They aim to generate long-term capital growth and an attractive total return from a diversified portfolio of companies whose shares are listed in, or whose main operations are in, Latin America. The trust's performance is benchmarked against the MSCI Emerging Markets Latin America Index. In order to mitigate risk, there are a series of investment limits in place. BRLA's exposures to Brazil, Mexico, Chile, Argentina, Peru, Colombia and Venezuela may deviate from those of the benchmark by a maximum plus or minus 20pp, while other countries are plus or minus 10pp. Up to 15% of the portfolio, at the time of investment, may be in a single company; the fund may not hold more than 15% of a company's market capitalisation; and a maximum 10% of BRLA's gross assets may be invested in unquoted securities. Derivatives may be used for efficient portfolio management or to reduce risk (covering up to 20% of the portfolio), and currency exposure is unhedged. The managers can employ net gearing of up to 25% of NAV (in normal market conditions) with the aim of enhancing returns. BRLA's board considers 5% gearing as a neutral level over the longer term, and borrowing is utilised actively in a range of 5% net cash to 15% geared (at the time of drawdown). At end-August 2020, the trust had net gearing of 8.2%.

The fund managers: Ed Kuczma and Sam Vecht

The manager's view: Cautiously optimistic

Kuczma explains that Latin America was in a 'tough spot' going into the coronavirus crisis in terms of fiscal deficits and insufficient hospital capacity. He says that within the region there have been different responses to the pandemic in terms of fiscal stimulus; Brazil has employed very generous measures such as the 'corona voucher' handout of BRL600 (c £90) per month for low-income households, which has been supportive for a range of consumer businesses. However, the Mexican government did not do as much to support corporates and individuals as other countries in the region, and the manager suggests that this lack of stimulus is translating into relatively lower economic growth as evidenced by early Q320 data points.

Brazil's reform programme has been interrupted by the pandemic, but Kuczma believes that progress could be a positive catalyst for sentiment towards the country later this year. Areas of focus include sanitation and administration reform, and a number of public-private partnership (PPP) infrastructure projects, while the manager says that an important future development on the horizon is tax reform. The Brazilian Congress upheld a veto on increasing salaries for public sector employees due to a big commitment to keeping to its fiscal target, which Kuczma believes is a positive development given that the biggest risk to the real is spending getting out of control. With the government committed to tightening spending – outside of the short-term response to the coronavirus, which is running around 3.5% of GDP (a higher percentage than other countries in the region) – the manager thinks this should contribute to sustainable future economic growth in Brazil. Kuczma says that consensus growth expectations for Brazil's 2020 GDP growth have already improved from -8.0% to -4.5%.

The manager comments that stimulus measures in China mean its economy is growing faster than the rest of the world and is driving robust demand for commodities, which is beneficial for BRLA's materials positions including Vale (iron ore prices are at a five-year high), lithium producer Sociedad Química y Minera de Chile (SQM) and Southern Copper. Turning to currencies, Kuczma says that US dollar weakness has meant a rebound in Latin American currencies; he suggests this could persist, 'which would be a nice tailwind'. He highlights that looking at the last nine periods of dollar weakness, on average during these times the Brazilian equity market has risen by 53% compared with 36% for emerging markets as a whole.

When questioned about his outlook on the prospects for Latin America over the next 12 months, Kuczma says he 'cautiously optimistic' due to the uncertainty around the pandemic, suggesting that the 'number of deaths and new cases is flattening, but it has taken a while'. He is encouraged by the rebound in economic data in the region, noting that 'Brazil is improving faster than expected'. The manager highlights features of Latin American stock markets this year, which have been led by those stocks benefiting from people staying at home; these are trading at lofty valuations, while companies at the other end of the spectrum are much more reasonably valued, including airlines, department stores, malls and financial stocks. Kuczma says some of these areas are providing interesting opportunities, although it is important to determine which businesses may be permanently scarred by the pandemic. The manager says that many Mexican stocks are trading at one standard deviation below their long-term average valuations, although the lacklustre growth outlook in the country is not helped by friction between the president, Andrés Manuel López Obrador ('AMLO'), and the private sector. As examples, AMLO has changed regulations, leading to the cancellation of renewable energy projects, and halted the construction of a new Corona beer project. Kuczma notes that in aggregate, Brazilian stocks are trading above their average valuation multiples; however, he suggests that given their significant earnings growth potential, 'above-average multiples are somewhat justified'.

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Asset allocation

Investment process: Bottom-up selection with macro overlay

While taking the macro environment into account, stocks are selected on a bottom-up basis, following thorough fundamental analysis. The managers seek companies that have positive fundamentals in terms of good long-term earnings growth and cash flow generation, robust balance sheets and well regarded management teams, and which are trading on reasonable valuations. Kuczma highlights the importance of assessing a company's environmental, social and governance (ESG) credentials; this is now an element of every investment decision.

BRLA has a high-conviction portfolio of c 45 positions across the market cap spectrum, broadly split 60:35:5 between large (greater than $10bn), mid- and small-cap firms respectively. Stocks are selected from an investible universe of c 250 companies compared with c 110 in the MSCI Latin America Index. The manager notes that Brazil has a healthy pipeline of initial public offerings (IPOs), which will bring new companies and sectors to consider for the fund. Portfolio turnover in 2020 is running ahead of the 86% in 2019, in part due to the tactical use of gearing; historically turnover was typically 40–60% pa.

In terms of the macro backdrop, the managers take four 'C's into consideration:

- Consumption – lower, stable interest rates are supportive for the Brazilian consumer and the central bank is undertaking moves to reduce interest costs to the end borrower (mortgage rates of c 7% are considerably higher than the benchmark Selic 2% rate). The shift to online purchasing in Latin America, and elsewhere, is a trend that is likely to continue.
- Commodities – the managers are positive on the outlook for commodities, helped by demand from China.
- Credit – monetary responses to the coronavirus pandemic have been strong, leading to high levels of liquidity in Latin America.
- Currencies – the Mexican peso is one of the managers' preferred currencies as Mexico has one of the highest real interest rates in the world. Latin American currencies could be supported by improved current account balances.

Kuczma highlights a number of themes represented in BRLA's portfolio. **Structural growth** includes companies that are benefiting from secular growth trends that can continue through a business cycle. These are businesses with underpenetrated demand, that are gaining market share and are industry consolidators. Sectors include e-commerce, healthcare and software. **State-owned entities (SOE) improvement** covers stocks with expected improving operations and profit-focused management teams, such as Eletrobras. **Bond proxies with attractive valuations** benefit from a lower cost of equity as rates compress. The managers focus on companies with high levels of free cash flow and attractive dividend yields. **Low leverage and high dividend yield** is a theme recognising that strong balance sheets are important during volatile periods and companies with above-average yields are attractive in a low-yield environment. Sectors include real estate, telecoms and utilities.

Current portfolio positioning

At the end of August 2020, BRLA's top 10 positions made up 49.1% of the fund, which was modestly lower than 52.2% a year earlier; five names were common to both periods. Looking at the trust's geographic breakdown in Exhibit 3, over the 12 months to the end of August the largest changes were a higher weighting to Chile (+2.9pp), although this remains underweight versus the benchmark, while there is no longer any Colombian exposure (-2.2pp). The fund has overweight positions in Argentina, Brazil, Panama and Mexico.

Exhibit 3: Portfolio geographic exposure vs benchmark (% unless stated)

	Portfolio end-August 2020	Portfolio end-August 2019	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Brazil	65.6	67.1	(1.5)	64.2	1.4	1.0
Mexico	21.7	22.8	(1.1)	21.4	0.3	1.0
Chile	5.1	2.2	2.9	7.0	(1.9)	0.7
Argentina	4.8	4.4	0.4	1.7	3.1	2.8
Peru	1.8	0.0	1.8	3.3	(1.5)	0.5
Panama	1.0	1.3	(0.3)	0.0	1.0	N/A
Colombia	0.0	2.2	(2.2)	2.4	(2.4)	0.0
	100.0	**100.0**		**100.0**		

Source: BlackRock Latin American Investment Trust, Edison Investment Research. Note: The trust weightings exclude net current assets/liabilities and fixed interest.

Changes in BRLA's sector exposure over the 12 months to the end of August are more marked. The largest increases were in consumer discretionary (+14.9pp, leading to a meaningful 11.7pp overweight versus the index) and materials (+12.2pp), while there are lower weightings in financials (-10.0pp), consumer staples (-7.8pp) and energy (-4.6pp).

The consumer discretionary sector includes BRLA's holdings in e-commerce and education stocks as well as traditional retailers, which the managers believe will benefit as people have been taking out loans for larger-ticket goods. Kuczma highlights the trust's current underweight exposure in banks, where earnings have been under pressure due to low interest rates. He says that their 'valuations are super cheap' and he is optimistic that 'they cannot get much worse', so the team is carefully monitoring the sector. The manager notes that banks are generally well reserved against a rise in non-performing loans, so if GDP comes in better than expected there is room for provisions to be reduced, which could provide a positive surprise for 2021 earnings.

Exhibit 4: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-August 2020	Portfolio end-August 2019	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Materials	23.5	11.3	12.2	17.6	5.9	1.3
Consumer discretionary	19.1	4.2	14.9	7.4	11.7	2.6
Financials	17.9	27.9	(10.0)	25.7	(7.8)	0.7
Energy	9.1	13.7	(4.6)	9.5	(0.4)	1.0
Industrials	8.2	8.4	(0.2)	6.7	1.5	1.2
Utilities	6.0	6.1	(0.1)	6.4	(0.4)	0.9
Consumer staples	5.5	13.3	(7.8)	15.0	(9.5)	0.4
Communication services	5.4	5.7	(0.3)	6.6	(1.2)	0.8
Real estate	3.4	5.0	(1.6)	1.1	2.3	3.1
Healthcare	1.4	3.0	(1.6)	2.4	(1.0)	0.6
Information technology	0.5	1.4	(0.9)	1.6	(1.1)	0.3
	100.0	**100.0**		**100.0**		

Source: BlackRock Latin American Investment Trust, Edison Investment Research. Note: The trust weightings exclude net current assets/liabilities and fixed interest.

Highlighting BRLA's portfolio activity in recent months, Kuczma says there is a new holding in Afya (medical school education). The company is benefiting from the low number of doctors in Brazil, as new graduate positions are being opened; all of the company's seats are filled every year. While the majority of Afya's revenues are generated from new doctor roles, it also offers continuing education programmes and the firm generates a stable income stream.

Companhia de Locacao das Americas (Locamerica) has also been added to the portfolio. It is a car rental company, primarily focused on fleet rentals for corporates, which should benefit from the anticipated rebound in the Brazilian economy in 2021. The manager explains that fleet rental is an attractive structural growth story as companies become more asset light. Car manufacturers in Brazil are currently under pressure due to a lack of demand for new vehicles, so Locamerica is able to purchase them at more attractive prices; in addition, higher demand for used cars means when the company retires vehicles from its fleet it is receiving better prices than historically.

Railroad operator Rumo has returned to the portfolio having been sold prior to the onset of the pandemic as the stock had performed relatively well. It transports grain from centre of Brazil to the ports; the company is a beneficiary of higher Chinese demand for soft commodities and of the US-China trade dispute. Kuczma says that Brazil is a low-cost producer of soft commodities and he expect its share of the global export market to rise.

Other new holdings are: conservative bank Banco de Chile, which has a high level of provisions for non-performing loans, which could be released as the economy improves; and retailer Via Varejo, which has quickly shifted physical store operations online, while a recent fund-raising ensures the company is well capitalised.

The manager participated in the recent IPO of Vasta Platform, a primary and secondary educational technology provider in Brazil that was spun out of Cogna and benefits from the long-term trend towards online delivery. During the pandemic, Vasta has provided some free material as a social service; its pipeline for 2021 bookings is looking very solid and Kuczma has a high degree of confidence in the company's investment case.

Four holdings have been sold: healthcare service companies Notre Dame Intermedica and Qualicorp Consultoria on valuation grounds; food manufacturer M. Dias Branco due to rising wheat prices, which are putting the company's margins under pressure; and Brazilian bank Itaú Unibanco, a low-conviction position with earnings risk from continued low interest rates and rising competition from new technology-focused entrants to the sector.

Performance: Hurt by 2020 market weakness

Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI EM Latin America (%)	CBOE UK All Companies (%)	MSCI World (%)
30/09/16	49.6	46.4	50.5	17.4	30.6
30/09/17	23.9	22.4	22.0	12.0	15.0
30/09/18	(12.4)	(8.7)	(6.1)	5.9	15.1
30/09/19	19.5	13.5	13.3	2.7	8.4
30/09/20	(29.4)	(32.1)	(32.4)	(17.9)	5.8

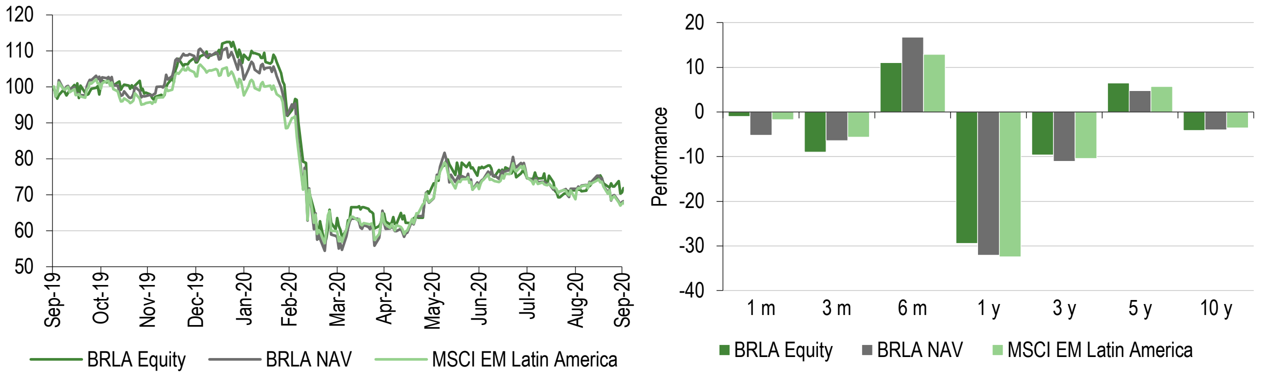
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Unfortunately, BRLA's longer-term performance record has been negatively affected by the stock market weakness in 2020. Over the last decade to the end of September its NAV and share price total returns of -4.0% pa and -4.1% pa compare with the benchmark's -3.6% pa total return. However, this may signal an attractive entry point for investors interested in Latin America over the long term. As shown in Exhibit 5 above, looking over the last five discrete years there have been periods when the trust has generated significant returns, namely in the 12 months ending September 2016, 2017 and 2019.

BRLA recently reported its H120 results, with NAV and share price total returns of -37.6% and -33.1% respectively compared with the benchmark's total return of -35.2%. The top three contributors to the trust's relative returns were: B2W Cia Digital (+87bps – its online presence led to strong gross merchandise volume growth during the pandemic); Via Varejo (+52bps – this Brazilian retailer benefited from the turnaround of the firm's e-commerce platform under new management); and Lojas Americanas (+47bps – another Brazilian retailer). The three largest relative detractors were: Banco do Brasil (-63bps – lower interest rates and concerns about rising defaults); Magazine Luiza (-53bps – not held in the portfolio); and GOL Linhas Aéreas Inteligentes (-52bps – a Brazilian low-cost airline whose share price fell in response to COVID-19 and fears of a global recession).

Exhibit 6: Investment trust performance to 30 September 2020

Price, NAV and benchmark total return performance, one-year rebased | **Price, NAV and benchmark total return performance (%)**



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

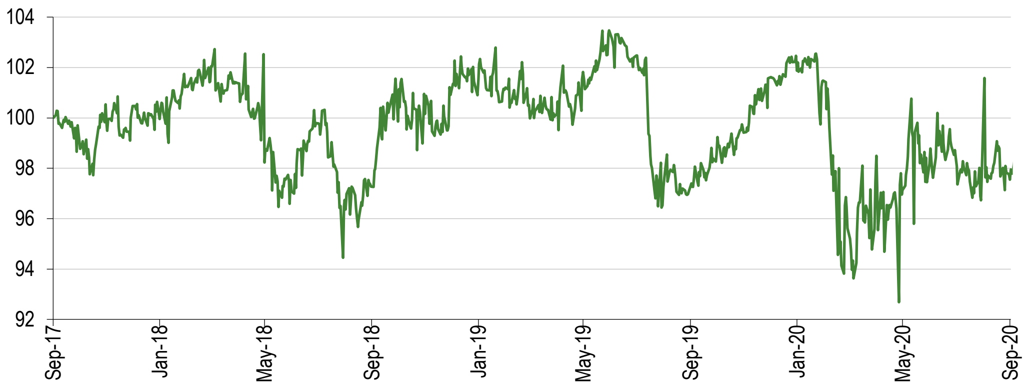
Looking at BRLA's relative returns in Exhibit 7, its NAV is ahead of the benchmark over the last six months and one year, while lagging over the other periods shown. Its share price is ahead of the index over the last month, and over one, three and five years. Kuczma explains that over the last six months market leadership has been very narrow and momentum strong. BRLA holds a number of stocks that have outperformed, but also has not held some that have done particularly well. He believes that the market should broaden out and expects some under-owned sectors to perform relatively better.

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

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI EM Latin America	0.8	(3.6)	(1.7)	4.5	2.8	3.8	(5.7)
NAV relative to MSCI EM Latin America	(3.6)	(0.8)	3.3	0.6	(2.0)	(4.4)	(4.0)
Price relative to CBOE UK All Companies	0.9	(5.5)	4.5	(14.0)	(17.2)	16.6	(59.7)
NAV relative to CBOE UK All Companies	(3.5)	(2.8)	9.9	(17.2)	(21.1)	7.5	(59.1)
Price relative to MSCI World	(1.0)	(11.9)	(10.4)	(33.3)	(44.0)	(31.0)	(79.2)
NAV relative to MSCI World	(5.3)	(9.4)	(5.8)	(35.8)	(46.6)	(36.4)	(78.9)

Source: Refinitiv, Edison Investment Research. Note: Data to end-September 2020. Geometric calculation.

Exhibit 8: NAV total return performance relative to benchmark over three years



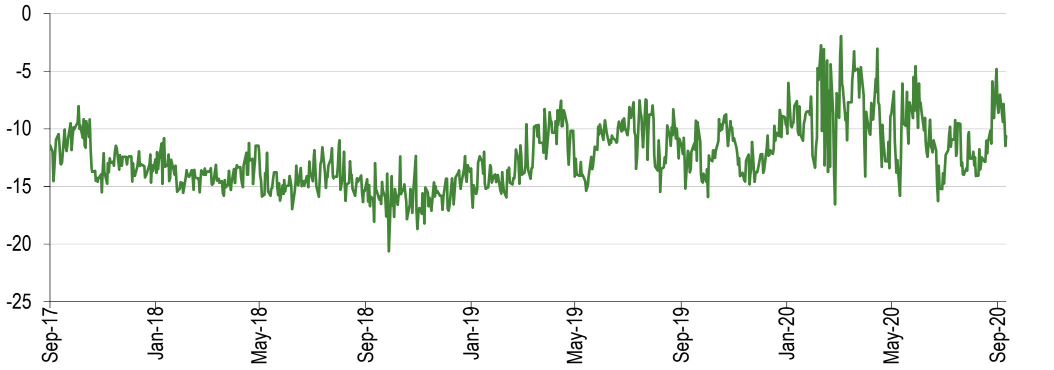
Source: Refinitiv, Edison Investment Research

Discount: Back into historical range

In keeping with many other investment trusts, BRLA's discount volatility increased during the coronavirus-led stock market weakness earlier in 2020. Its current 10.6% share price discount to cum-income NAV compares with the 2.0% (a five-year low) to 16.6% range of discounts over the last 12 months. It compares with the 10.4% to 12.7% range of average discounts over the last one, three, five and 10 years.

The board employs a discount control mechanism aiming to reduce BRLA's discount volatility, favouring a conditional tender offer rather than share repurchases. Subject to the biennial continuation vote in 2022 being passed, a 24.99% tender will be triggered if the trust underperforms its benchmark by greater than 1% pa over the four years ending on 31 December 2021, or if BRLA's average share price discount to cum-income NAV exceeds 12% over this period.

Exhibit 9: Share price discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

BRLA is a conventional investment trust with one class of share; there are 39.3m ordinary shares in issue. The trust has an overdraft facility for up to $40m with Bank of New York Mellon, at an annual rate of Libor +1%. Gearing up to 25% of NAV is permitted; at end-August 2020, BRLA had net gearing of 8.2%, which is towards the higher end of the historical range of a net cash position to c 12% geared. Kuczma says that tactical use of gearing has been positive for the trust's performance. He explains that net gearing was neutral in February this year at 5%; he moved to a net cash position during the March stock market sell-off before increasing gearing in April to 10%, benefiting from the subsequent market rally.

BlackRock is paid an annual management fee of 0.80% of NAV, charged 75:25 to the capital and income accounts respectively. No performance fee is payable. In FY19, BRLA's ongoing charge was 1.13%, which was 10bp higher year-on-year.

BRLA is subject to a two-yearly continuation vote; the next is due at the May 2022 AGM.

Dividend policy and record

BRLA historically paid semi-annual dividends based on the fund's level of income. However, aiming to narrow the trust's discount by making it more attractive to income-orientated investors, the board introduced a new dividend policy with effect from July 2018. Regular quarterly dividends equivalent to 1.25% of US dollar NAV at the end of each calendar quarter are paid in May, August, November and February; these can be paid out of income or capital, ensuring the managers are not forced to seek a higher portfolio yield, which may be detrimental to BRLA's capital growth.

So far in respect of FY20, a first interim dividend of 4.59c per share has been paid (-46.4% year-on-year) along with a second interim payment of 5.57c per share (-39.1% year-on-year), while a third interim dividend of 5.45c per share (-32.1% year-on-year) has been declared. Based on its last four quarterly dividends, the trust currently offers an attractive 6.2% yield. In H120, BRLA's revenue profit per share was 2.85 cents, which was 64.0% lower year-on-year. The significant fall in dividend income was due to the negative effects of the coronavirus outbreak on company revenue and profit streams. At the end of the period the trust had distributable reserves of $150m, which is equivalent to 67x the second interim dividend payment.

On 8 July 2020, the board announced a positive adjustment of 1.06% to the 7 July 2020 NAV due to the recognition of an expected receipt of c £1.6m of tax reclaims on foreign income. This will result in a 4.0p uplift to BRLA's revenue earnings per share for FY20.

Peer group comparison

BRLA is one of just two funds in the AIC Latin America sector. They follow different mandates, with c 40% of Aberdeen Latin American Income Fund being invested in government bonds. BRLA's NAV total returns rank second over the periods shown. It is currently trading on a narrower discount, has a more competitive ongoing charge and a lower level of gearing. The trust's attractive dividend yield is lower than its peer's. To enable a broader comparison, in Exhibit 10 we also include a selection of open-ended funds that invest in Latin America. BRLA's NAV total returns are below the average over one, three and five years, but modestly ahead over 10 years.

Exhibit 10: Selected peer group as at 9 October 2020*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
BlackRock Latin American	121.7	(28.8)	(29.7)	22.8	(31.8)	(11.7)	1.1	No	108	6.2
Aberdeen Latin American Income	27.9	(25.7)	(24.2)	35.2	(10.8)	(15.1)	2.0	No	116	7.2
Average	**74.8**	**(27.2)**	**(26.9)**	**29.0**	**(21.3)**	**(13.4)**	**1.6**		**112**	**6.7**
BRLA rank	**1**	**2**	**2**	**2**	**2**	**1**	**2**		**2**	**2**
Open-ended funds							**TER**			
ASI Latin American Equity	84.2	(31.6)	(32.6)	30.1			1.6			0.9
Fidelity Latin America	398.8	(25.4)	(24.9)	33.2	(22.8)		1.1			0.0
Schroder ISF Latin American	112.9	(22.9)	(21.8)	33.5	(30.2)		1.9			4.2
Templeton Latin America	474.9	(25.8)	(25.4)	28.6	(36.3)		2.3			0.9
Threadneedle Latin America	252.8	(26.3)	(26.9)	20.4	(38.9)		1.7			1.1
Average	**264.7**	**(26.4)**	**(26.3)**	**29.2**	**(32.1)**		**1.7**			**1.4**

Source: Morningstar, Edison Investment Research. Note: *Performance as at 8 October 2020 based on ex-par NAV. TR = total return. TER = total expense ratio. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

BRLA's board has five directors, all of whom are non-executive and independent of the manager. The chairman is Carolan Dobson, who joined the board on 1 January 2016 and assumed her current role on 2 March 2017. The other four directors and their dates of appointment are: Mahrukh Doctor (17 November 2009); Nigel Webber (1 April 2017); Craig Cleland (1 January 2019); and Laurie Meister (1 February 2020).

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