EDISON

BlackRock Latin American IT

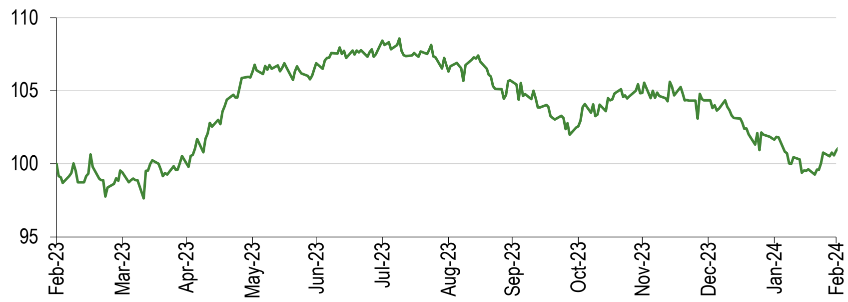
Worthy allocation as part of a global portfolio

Investment trusts
Latin American equities

14 March 2024

BlackRock Latin American Investment Trust's (BRLA's) lead manager Sam Vecht and deputy manager Christoph Brinkmann remain optimistic about the prospects for the region. Interest rates are coming down as Latin American central banks have been more proactive than those in developed markets in raising interest rates to combat higher inflation, which should be supportive for economic growth and asset prices. Latin America has remained relatively isolated from global geopolitical conflict, enabling trade with both eastern and western nations. The region has been overlooked by global investors, which has led to very attractive valuations on both absolute and relative terms.

NAV outperformance versus the benchmark over the last 12 months



Source: Refinitiv, Edison Investment Research

Why consider BRLA?

Latin America has been out of favour with investors despite its favourable growth prospects and attractive valuations. The region makes up less than 10% of the MSCI Emerging Markets Index, while BRLA is now the only fund in the AIC Latin America sector. Unsurprisingly, given its economic dominance in Latin America, the trust's largest exposure is to Brazil (c 60% of the fund), although the managers are not constrained by BRLA's benchmark's weightings; for example, there are allocations to Argentina and Panama, which are not represented in the index.

Vecht and Brinkmann are positive on the outlook for Brazil as they believe the inflation outlook is benign and the government has a relatively prudent fiscal policy. This should allow the Brazilian central bank to lower interest rates faster than the consensus expects, which in turn should lead to local equity capital inflows.

The trust's two managers have significant experience investing in Latin America and can draw on BlackRock's extensive resources when required; this major asset manager has made a public commitment regarding investment in the region.

BRLA has a formal dividend policy, whereby regular distributions are made based on the trust's quarter-end NAV, which ensures that yield considerations do not affect stock selection. BRLA currently offers an attractive 5.7% dividend yield. The trust's 11.2% discount compares with the 6.7% to 18.6% 12-month range, and the 12.7%, 10.6%, 10.6% and 11.7% average discounts over the last one, three, five and 10 years respectively.

Price		**405.0p**
Market cap		**£119m**
Total assets		**£141m**
NAV*		456.0p
Discount to NAV		11.2%

*Including income. At 12 March 2024.

Yield		5.7%
Ordinary shares in issue		29.4m
Code/ISIN		BRLA/GB0005058408
Primary exchange		LSE
AIC sector		Latin America
Financial year end		31 December
52-week high/low	454.5p	334.0p
NAV* high/low	508.1p	372.7p

*Including income

Net gearing*	5.3%

*At 31 January 2023.

Fund objective

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 trust has an indefinite life subject to a two-yearly continuation vote. The benchmark is the MSCI Emerging Markets Latin America Index.

Bull points

- Diversified Latin American equity fund with a defined dividend policy and attractive yield.
- Latin America is benefiting from geopolitical and economic isolation from global geopolitical conflicts.
- Latin America is attractively valued compared with other regions and its own history.

Bear points

- Higher political and currency risk in Latin America than in developed economies.
- Latin American equity market can be volatile.
- Latin America is less well researched compared with developed markets.

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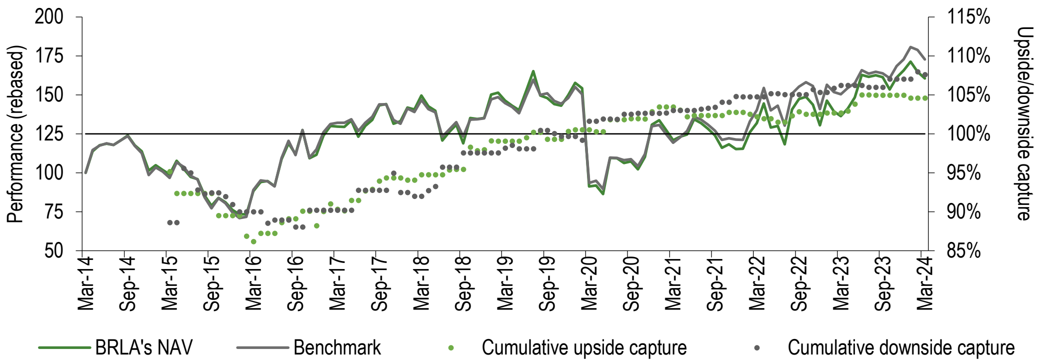
BRLA: Interesting complement to developed markets

Latin America has been overlooked by investors and now represents less than 10% of the MSCI Emerging Markets Index. Admittedly, over the last decade, the region has performed relatively poorly compared with global indices. However, in 2023 it delivered a greater than 25% total return (in sterling terms), suggesting potential benefits of an allocation to Latin America within a broader global portfolio.

BRLA's upside/downside analysis

Exhibit 1: BRLA's upside/downside capture



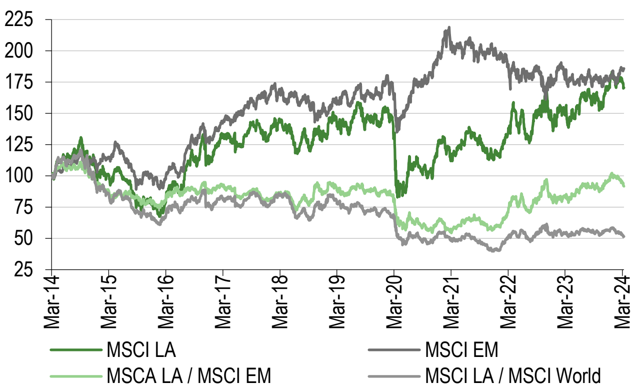
Source: Refinitiv, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

BRLA's upside/downside capture over the last decade is shown in Exhibit 1. The trust's upside capture is 105%, while its downside capture is 108%. These data suggest that BRLA is likely to modestly outperform its benchmark during periods when Latin American share prices rise and underperform to a slightly larger degree during periods of market weakness.

Market performance and valuation

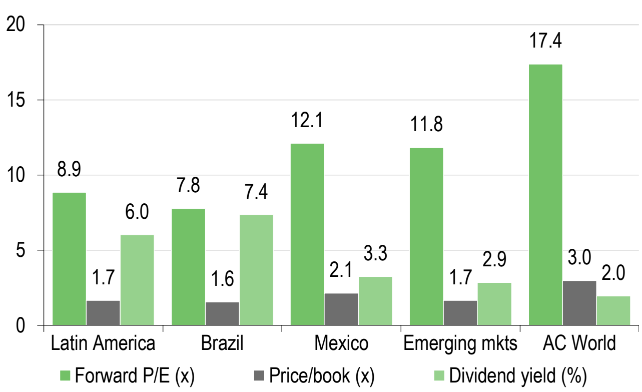
Exhibit 2: Market performance

Absolute and relative index performances (last 10 years, in £ terms)



Source: Refinitiv, Edison Investment Research. Note: LA is Latin America and EM is emerging markets.

Valuation of MSCI indices (at 29 February 2024)

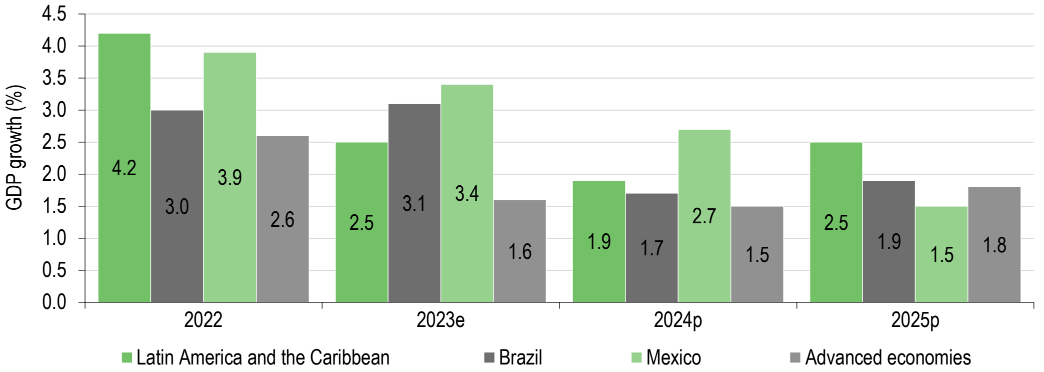


Source: Refinitiv, Edison Investment Research

Over the last decade, Latin America has performed broadly in line with other emerging markets (Exhibit 2, left-hand side); its outperformance in recent years has been helped by the weakness in Chinese shares. However, compared with the world market, Latin America has performed very poorly over the last 10 years. This is largely due to the dominant US market, which now makes up around 60–70% of global indices and has performed relatively strongly for much of the last decade.

Despite its relative historical performance, risk-tolerant investors may benefit from an allocation to Latin America. The region has superior growth prospects compared with developed economies, as shown by International Monetary Fund (IMF) data in Exhibit 3. This is helped by growing populations with increased spending power and global demand for its abundant natural resources. As shown in Exhibit 2, right-hand side, Latin American valuations look relatively attractive (particularly Brazil), with forward P/E and price-to-book multiples considerably lower than those of the MSCI All-Countries World Index, while also offering a much higher yield.

Exhibit 3: Higher growth prospects in Latin America compared with advanced economies



Source: International Monetary Fund World Economic Outlook January 2024, Edison Investment Research. Note: e is estimated and p is projected.

Perspectives from one of BRLA's managers

Vecht says that there are reasons to be optimistic about Latin America. Although the region should not be considered risk free, he believes it is a worthwhile proposition for long-term investors. There has been more focus on Latin America's resources, such as lithium and energy, partly as a replacement for Russian supplies over the last two years. The manager believes that these resources can be extracted at a favourable economic cost in an environmentally friendly way.

Latin America has kept itself apart from global geopolitical conflicts, so is able to do business with both eastern and western nations. The Mexican economy is also benefiting from Asian companies that are setting up in the northern part of the country in order to sell their products/services into the United States.

Central banks in Latin America have been more proactive than those in developed markets in raising interest rates to help combat higher inflation. Prior to the last two years, it has been 30–40 years since western countries experienced high levels of inflation, unlike in Latin America, where central banks, politicians, corporates and individuals are used to dealing with inflation and interest rates are coming down, which should be supportive for the economy and asset prices. In Brazil, the base rate rose from 2.00% in 2021 to 13.75% in 2022 and is now down to 11.25%. Vecht believes that positive real interest rates in Latin America should lead to capital inflows in the region.

Turning his attention to valuations, the manager highlights that on a forward P/E multiple basis, Latin America is trading towards the low end of its 20-year average, so looks attractive versus its own history and compared with western markets. At the end of February 2024, on a forward P/E multiple basis, Latin America was trading at a c 25% discount to emerging markets and around a 50% discount to the world market. Vecht believes that a discount versus global equities is warranted, as historically there have been periods of political instability in Latin America, but thinks the current level is too wide.

Current portfolio positioning

At the end of January 2024, BRLA's top 10 positions made up 54.3% of the portfolio, which was a higher concentration than 51.2% 12 months earlier; eight positions were common to both periods.

Exhibit 4: Top 10 holdings (at 31 January 2024)

			Portfolio weight %			
Company	**Country**	**Sector**	**31 Jan 2024**	**31 Jan 2023***	**Benchmark weight (%)**	**Active weight vs benchmark (pp)**
Petrobras - ADR**	Brazil	Energy	9.6	7.2	11.1	(1.5)
Vale - ADS	Brazil	Materials	9.0	9.1	7.3	1.7
Walmart de México y Centroamérica	Mexico	General retailing	6.1	N/A	3.4	2.7
Banco Bradesco - ADR**	Brazil	Banks	5.8	6.1	3.3	2.5
FEMSA - ADR	Mexico	Food, beverages & tobacco	4.7	5.3	4.2	0.5
B3	Brazil	Diversified financials	4.2	4.9	2.4	1.8
Ambev - ADR**	Brazil	Food, beverages & tobacco	4.1	4.8	4.7	(0.6)
Grupo Aeroportuario del Pacifico - ADS	Mexico	Airport operator	3.8	N/A	1.0	2.8
Itaú Unibanco - ADR	Brazil	Banks	3.7	3.0	5.1	(1.4)
Grupo Financiero Banorte	Mexico	Banks	3.3	5.1	4.2	(0.9)
Top 10 (% of holdings)			**54.3**	**51.2**		

Source: BRLA, Edison Investment Research. Note: *N/A where not in end-January 2023 top 10. **Equity and preference shares.

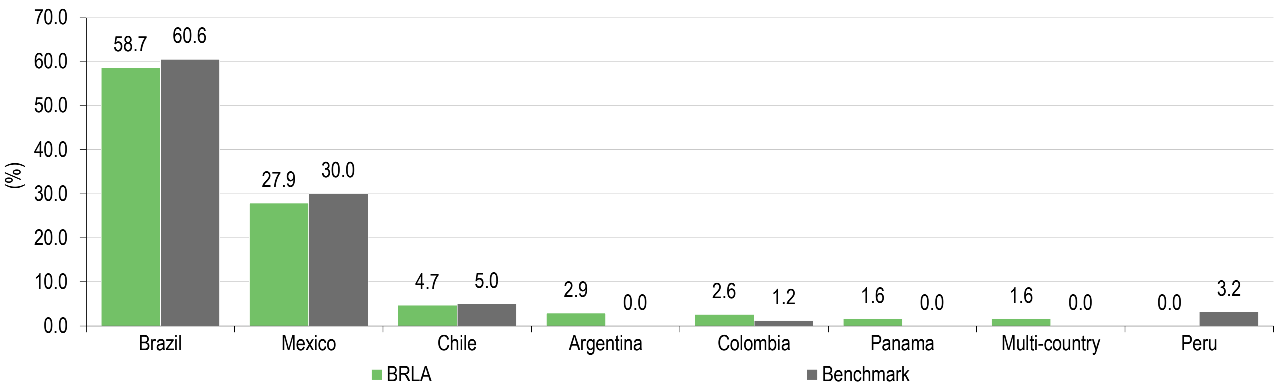
The Latin American market is heavily weighted towards Brazil and Mexico, which together make up more than 85% of the benchmark. In the 12 months to the end of January 2024, the largest changes in BRLA's geographic weightings were a new allocation to Colombia (+2.6pp), a higher exposure to Mexico (+2.5pp) and a lower weighting in Brazil (-5.1pp). At the end of January 2024, BRLA had around 5% invested in two non-index countries, Argentina (2.9%) and Panama (1.6%), with a further 1.6% in a multi-country company (see note in Exhibit 5).

Exhibit 5: Portfolio geographic exposure versus benchmark (% unless stated)

	Portfolio end-January 2024	Portfolio end-January 2023	Change (pp)	Active weight vs benchmark (pp)
Brazil	58.7	63.8	(5.1)	(1.9)
Mexico	27.9	25.4	2.5	(2.1)
Chile	4.7	5.7	(1.0)	(0.3)
Argentina	2.9	2.9	0.0	2.9
Colombia	2.6	0.0	2.6	1.4
Panama	1.6	2.2	(0.6)	1.6
Multi-country*	1.6	0.0	1.6	1.6
Peru	0.0	0.0	0.0	(3.2)
Total	**100.0**	**100.0**		

Source: BRLA, Edison Investment Research. Note: Excludes cash. *Lundin Gold, which is a Canadian mining company with a gold mine in Ecuador.

Exhibit 6: BRLA and benchmark geographic breakdowns at 31 January 2024



Source: BRLA, Edison Investment Research

Versus the benchmark, the trust's largest active weights were Peru (-3.2pp) and Argentina (+2.9pp). The managers have reduced BRLA's Mexican exposure as the country has outperformed over a multi-year period and is the most exposed Latin American country to any US economic slowdown. There is also a Mexican general election in early June 2024, which could potentially increase the risk of market volatility. Vecht explains that many of BRLA's Brazilian holdings are interest rate sensitive names such as payments acquirer PagSeguro and homebuilder EZTEC. There is a relatively new position in Lojas Renner, a Brazilian clothing retailer, and the managers expect an improvement in the company's credit book.

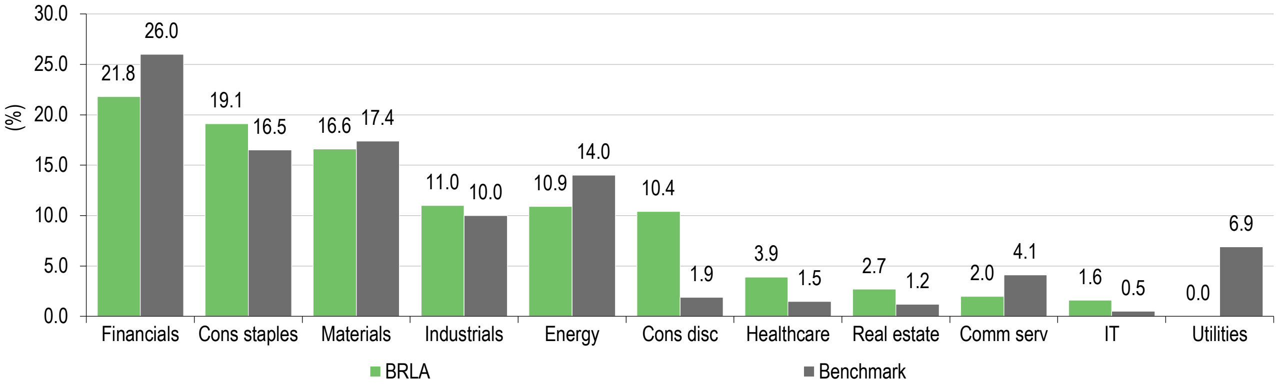
The trust's sector exposure is shown in Exhibit 7. The largest changes in the year ending 31 January 2024 were a higher weighting in consumer discretionary (+6.4pp), with lower allocations to materials (-3.2pp), real estate (-2.7pp) and financials (-2.6pp). BRLA's largest active weights were consumer discretionary (+8.5pp) and utilities (-6.9pp).

Exhibit 7: Portfolio sector exposure versus benchmark (% unless stated)

	Portfolio end-January 2024	Portfolio end-January 2023	Change (pp)	Active weight vs benchmark (pp)
Financials	21.8	24.4	(2.6)	(4.2)
Consumer staples	19.1	16.9	2.2	2.6
Materials	16.6	19.8	(3.2)	(0.8)
Industrials	11.0	12.9	(1.9)	1.0
Energy	10.9	8.8	2.1	(3.1)
Consumer discretionary	10.4	4.0	6.4	8.5
Healthcare	3.9	4.1	(0.2)	2.4
Real estate	2.7	5.4	(2.7)	1.5
Communication services	2.0	2.4	(0.4)	(2.1)
Information technology	1.6	1.3	0.3	1.1
Utilities	0.0	0.0	0.0	(6.9)
Total	**100.0**	**100.0**		

Source: BRLA, Edison Investment Research. Note: Excludes cash.

Exhibit 8: BRLA and benchmark sector breakdowns at 31 January 2024



Source: BRLA, Edison Investment Research

Performance: NAV above the index over the last year

Exhibit 9: Five-year discrete performance data

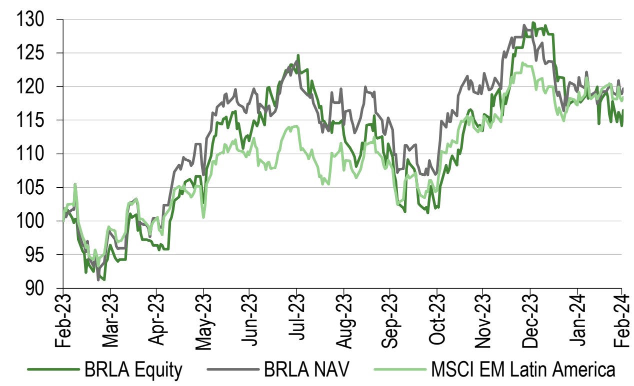
12 months ending	Share price (%)	NAV (%)	MSCI EM Latin America (%)	CBOE UK All Companies (%)	MSCI World (%)
29/02/20	(5.1)	(7.6)	(7.9)	(2.1)	9.6
28/02/21	(9.9)	(14.2)	(13.9)	2.8	18.8
28/02/22	13.1	12.2	19.6	16.7	15.9
28/02/23	5.3	7.3	11.2	8.2	3.2
29/02/24	14.2	18.9	17.8	0.7	20.2

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

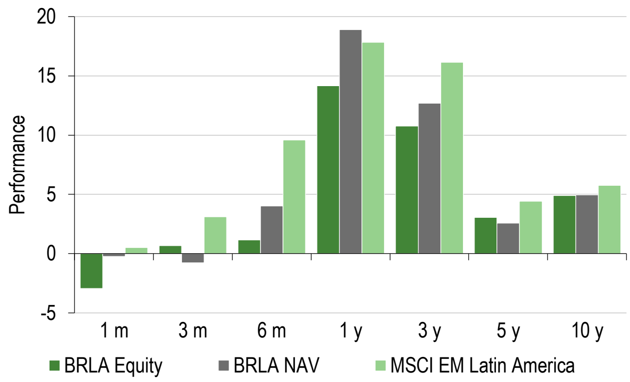
As shown in Exhibit 10, right-hand side, absolute returns in Latin America over the last decade have been modest, at around 5% per year. However, there are periods when returns are much higher; in 2023, the MSCI EM Latin America Index appreciated by more than 25% (in sterling terms). This illustrates the potential benefits of an allocation to the region as part of a long-term global strategy.

Exhibit 10: Investment trust performance to 29 February 2024

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.

BRLA's relative returns are highlighted in Exhibit 11. The trust's NAV has modestly outpaced the benchmark over the last 12 months.

Exhibit 11: Share price and NAV total return performance, relative to index (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI EM Latin America	(3.4)	(2.4)	(7.7)	(3.1)	(13.2)	(6.4)	(7.8)
NAV relative to MSCI EM Latin America	(0.7)	(3.8)	(5.1)	0.9	(8.6)	(8.6)	(7.3)

Source: Refinitiv, Edison Investment Research. Note: Data to end-February 2024. Geometric calculation.