BlackRock Latin American IT

New dividend and discount management policies

Investment trusts

BlackRock Latin American Investment Trust (BRLA) is managed by Will Landers, who says that investor attitudes towards Latin American equities have changed. 2017 was a period of confidence in the region's prospects, but now there is more scepticism about the growth outlook. However, the manager remains optimistic about potential returns from Latin American equities. In the key Brazilian economy, he cites higher domestic demand and a favourable interest rate environment, with the benchmark interest rate having more than halved to a record low level. BRLA has recently announced new dividend and discount management policies, which may lead to a narrowing in its discount over time. Dividends will now be paid four times a year, equivalent to 1.25% of the dollar-based, quarter-end NAV. As a result, the trust now offers an attractive prospective yield.

12 months ending	Share price (%)	NAV (%)	MSCI EM Latin America (%)	FTSE All-Share (%)	MSCI World (%)
30/06/14	2.2	(0.2)	(3.0)	13.1	10.6
30/06/15	(20.5)	(17.8)	(16.5)	2.6	10.9
30/06/16	9.1	9.6	9.1	2.2	15.1
30/06/17	16.7	16.6	18.8	18.1	22.3
30/06/18	(2.4)	(1.9)	(1.4)	9.0	9.9

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

Investment strategy: Primarily bottom-up approach

Landers and his team undertake thorough fundamental analysis, aiming to identify high-quality companies with robust cash flow and earnings growth, and strong management teams. On-the-ground research is an important element of the investment process and includes meeting companies, their competitors and government officials. The manager also takes account of the macro environment when deciding on portfolio asset allocation. Gearing of up to 25% of NAV is permitted; at end-May 2018, net gearing was 6.8%.

Market outlook: Potential opportunity in LatAm

So far in 2018, Brazilian economic growth has been lower than consensus expectations. However, there is potential for improvement, as the key central bank interest rate is the lowest on record and President Temer's reform programme is having a positive economic effect. Latin American equities are attractively valued compared to global stocks. On a forward P/E multiple basis, they are trading at a 14.0% discount, which is much wider than the 4.7% average over the last 10 years. This backdrop may provide an opportunity for investors with a longer-term view.

Valuation: Discount remains wide

BRLA's current 13.4% share price discount to cum-income NAV is at the wider end of the range of discounts (8.0% to 17.0%) over the last 12 months. It compares with the historical averages over the last one, three, five and 10 years of 13.4%, 13.2%, 12.1% and 8.3% respectively. The trust's revised dividend policy, whereby distributions may be funded from reserves as well as income, means that BRLA now offers an attractive prospective yield of c 4.0%, rising to c 5.5% from FY19.

17 July 2018

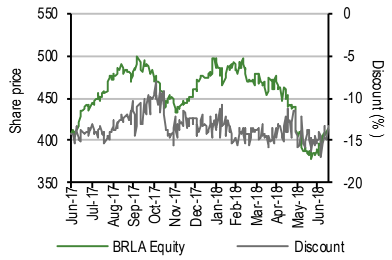
Price	**415.0p**
Market cap	**£163m**
AUM	**£193m**

NAV*	478.7p
Discount to NAV	13.3%
NAV**	479.2p
Discount to NAV	13.4%

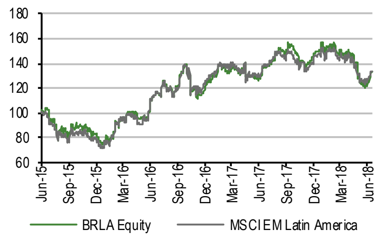
*Excluding income. **Including income. As at 16 July 2018.

Prospective yield (see page 7)	c 4.0%
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	499.0p	378.0p
NAV** high/low	580.9p	444.2p

**Including income.

Gearing

Net*	6.8%

*As at 31 May 2018.

Analysts

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

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 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.

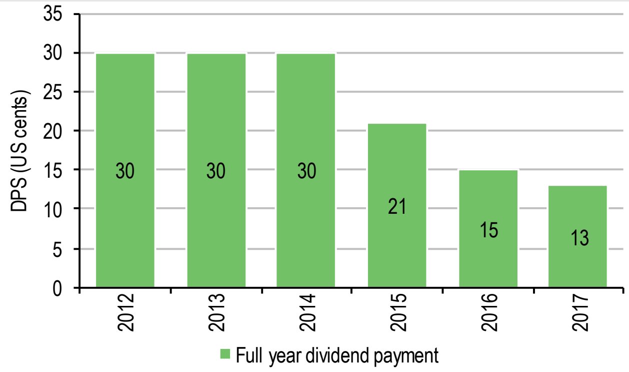
Recent developments

- 3 July 2018: Announcement of first quarterly interim dividend of 7.57c/share.
- 30 May 2018: Continuation vote passed at AGM (91.37% in favour).
- 23 May 2018: Exchange rate set for final dividend at 1.3316, meaning 7.00c translates to 5.26p/share.
- 13 March 2018: Change in the discount control mechanism and dividend policy (see page 7).
- 13 March 2018: Annual results ending 31 December 2017. NAV TR +29.0% in $ (+17.7% in £) vs benchmark TR +24.2% in $ (+13.4% in £).

Forthcoming		Capital structure		Fund details	
AGM	May 2019	Ongoing charges	1.1%	Group	BlackRock Fund Managers
Interim results	September 2018	Net gearing	6.8%	Manager	Will Landers
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	Phone	+44 (0) 20 7743 3000
Continuation vote	Two-yearly – next 2020 AGM	Loan facilities	Up to $40m	Website	www.blackrock.co.uk/brla

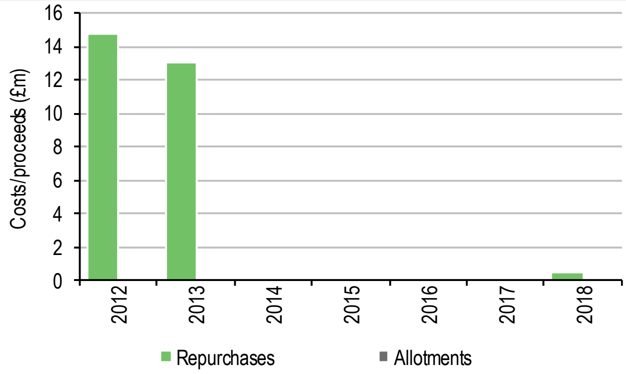
Dividend policy and history (financial years)

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

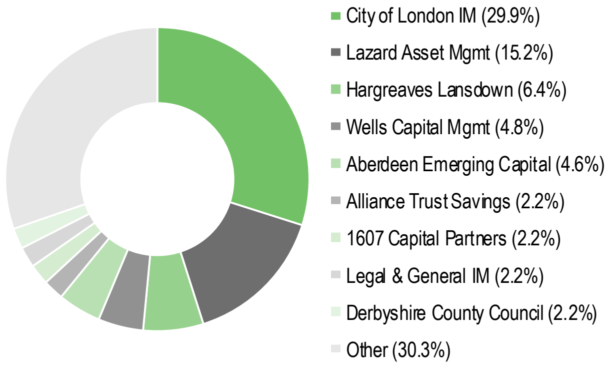


Share buyback policy and history (financial years)

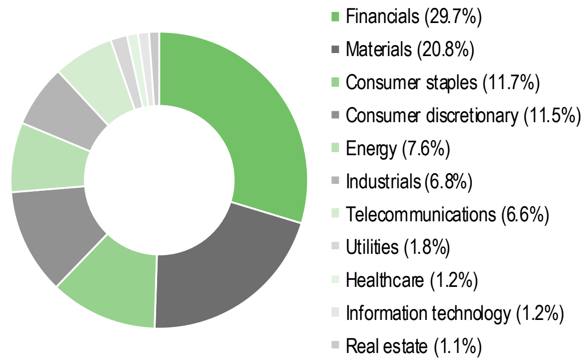
Renewed annually, BRLA is authorised both to repurchase up to 14.99% of its ordinary shares and to allot shares up to 5% of the issued share capital.



Shareholder base (as at 30 June 2018)



Portfolio exposure by sector (as at 31 May 2018)



Top 10 holdings (as at 31 May 2018)

			Portfolio weight %			
Company	**Country**	**Sector**	**31 May 2018**	**31 May 2017***	**Benchmark weight**	**Active weight vs benchmark**
Vale	Brazil	Materials	9.7	5.7	7.5	2.2
Itau Unibanco	Brazil	Banks	7.9	7.9	6.5	1.4
Banco Bradesco	Brazil	Banks	7.7	5.8	5.8	1.9
Petrobras	Brazil	Energy	6.2	6.5	6.5	(0.3)
America Movil	Mexico	Telecommunication services	4.7	3.6	4.5	0.2
Femsa	Mexico	Food, beverages & tobacco	3.9	4.3	2.8	1.1
B3**	Brazil	Diversified financials	3.3	3.9	2.1	1.2
Walmart de México	Mexico	General retailing	3.2	N/A	2.3	0.9
Grupo Financiero Banorte	Mexico	Banks	2.8	3.1	2.3	0.5
Rumo Logistica Operadora Multimodal	Brazil	Logistics	2.7	N/A	0.7	2.0
Top 10			**52.1**	**47.8**		

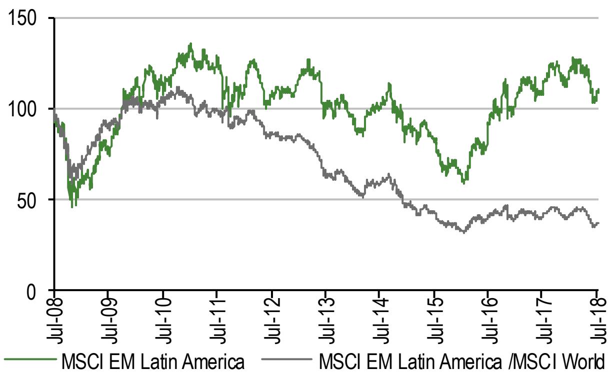
Source: BlackRock Latin American Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-May 2017 top 10. **Formerly BM&F Bovespa.

Market outlook: Relative valuations remain attractive

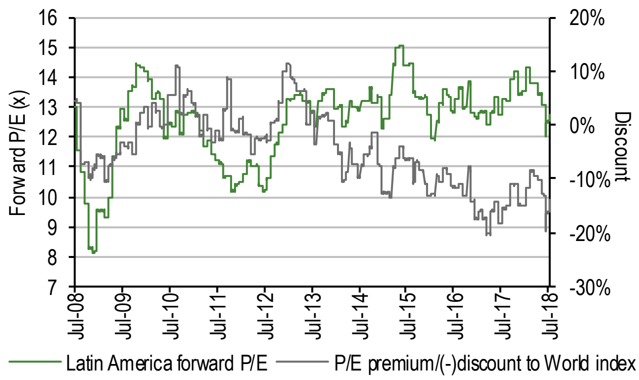
As shown in Exhibit 2 (LHS), Latin American equities have had a tough start to 2018. Within the key Brazilian market, economic growth has been softer than expected; factors include a weaker currency versus the US dollar and a truckers' strike. As always, politics has been a key driver of Latin American stock markets – there has recently been a presidential election in Mexico and one is due in Brazil in October 2018. However, despite the weakness so far this year, investors willing to take a longer-term view on Latin American equities may be rewarded. While slower than expected in the near term, the Brazilian economy is growing, the key Selic interest rate is down to 6.5%, which is the lowest on record, and President Temer's programme of reforms is having a positive impact. In Mexico, the recent overwhelming presidential election win by Andres Manuel Lopez Obrador is considered positive for equity markets, as he is anti-corruption and has gained more support from moderate voters. In terms of valuation, the year-to date market setback has made Latin American equities look even more relatively attractive versus the rest of the world. The Datastream Latin America index forward P/E multiple is 12.8x, which is a 14.0% discount to world equities. This is considerably wider than the 4.7% average discount over the last decade.

Exhibit 2: Market performance and valuation

Latin America index performance



Datastream Latin America index forward P/E and relative P/E (last 10 years)



Source: Thomson Datastream, Edison Investment Research. Note: As at 13 July 2018.

Fund profile: Bottom-up and top-down stock selection

BRLA was launched in July 1990 and is listed on the Main Market of the London Stock Exchange. Since March 2006, the trust has been managed by BlackRock. Manager Will Landers, who has 27 years' investment experience, aims to generate long-term capital growth and an attractive total return, primarily from a portfolio of quoted Latin American equities. The closed-end structure of the fund enables him to take a long-term view and, when appropriate, invest in less liquid mid- and small-cap companies. BRLA is benchmarked against the MSCI EM Latin America index. Gearing of up to 25% of net assets is permitted. The board considers that 5% net gearing is a neutral position and the manager should actively manage gearing in a range of plus or minus 10% compared to this level (ie 5% net cash to 15% geared). At end-May 2018, net gearing was 6.8%. Various portfolio construction rules are in place. In terms of geography, Brazilian, Mexican, Chilean, Argentinian, Peruvian, Colombian and Venezuelan exposure is limited to 20pp above or below the index. For other Latin American countries, exposure is limited to 10pp above or below the index weighting. The manager is permitted to invest in companies whose primary operations are in Latin America, but which are listed on exchanges outside of the region. A maximum 15% of the portfolio may be in a single company and up to 10% may be held in unquoted securities. The use of derivatives is permitted for efficient portfolio management. Writing call options is used to generate income, with portfolio coverage of up to 20% permitted. BRLA's currency exposure is not hedged.

The fund manager: Will Landers

The manager's view: Remains positive, despite 2018 weakness

Landers says that sentiment has been driving the relative performance of emerging markets equities. He says that investors are not yet ready to rotate into Latin America; the focus has been on the Asia Pacific region, especially internet and consumer names, despite higher earnings from cyclical sectors, which have not enjoyed a positive rerating. The general perception is that Latin America is export-heavy and geared towards Chinese growth, which has led to investor caution towards the region. However, the manager highlights that Latin America is no longer a leveraged play on the Chinese economy – he says that only 12% of Brazil's GDP is exports, with China accounting for just a quarter of this. Landers explains that the make-up of the economy has changed in recent years and there is now a much greater contribution from domestic demand. In general, within the region, he expects domestic consumption to rise, while inflation and interest rates continue to decline. For these reasons, he remains constructive on the outlook for Latin American equities.

Within the portfolio, Brazil is a key overweight (c 67%, which is 10pp above the index weighting). The country has undergone an aggressive easing cycle over the last 18 months, with the key Selic interest rate declining from more than 14% to 6.5%, which is likely to be a floor given the pressure that lower interest rates bring on the Brazilian currency. With inflation still below target, the manager expects a pick-up in domestic demand. However, he is mindful that the path for Latin American equities is also affected by the magnitude and pace of change in US monetary policy. Given Brazil's large weighting in the index, Landers acknowledges that the country's economy has to advance for the Latin American stock market as a whole to appreciate. He says that the Brazilian presidential election outcome is still up in the air, but that whoever is elected in the autumn, he believes that the country's reform programme will continue. The manager notes that changes in the labour market are already having a positive effect on the economic and pension reform is a necessary next step. While reform is painful, it can lead to faster economic growth eg Landers highlights the positive effects of demonetisation and the implementation of the goods and services tax in India.

Asset allocation

Investment process: Fundamental and macro considerations

The manager aims to identify undervalued companies with strong management teams and good corporate governance records, strong balance sheets, and robust earnings and cash flow growth. Landers and his team conduct thorough fundamental research on potential investee companies and on-the-ground research is an important part of the investment process, including meetings with company competitors and suppliers, as well government officials, central bankers and industry regulators. The BlackRock Latin American portfolio management team has been in place for more than a decade. There is primary and secondary coverage on a sector basis, to enable team members to research the universe of c 200 investible companies in detail. The primary analyst role includes in-depth financial modelling, while the role of the secondary analyst is to act as 'devil's advocate' and to uncover extra nuggets of information pertinent to the investment case. Investment decisions are made on the basis of company-specific research, along with a consideration of the macro environment. The resulting portfolio typically has 50-75 holdings, with turnover of 40-60% pa.

Current portfolio positioning

At end-May 2018, BRLA's top 10 positions made up 52.1% of the portfolio. This was an increase compared with 47.8% a year earlier; eight positions were common to both periods. In terms of geographic exposure (Exhibit 3), the largest increases to end-May were Brazil (+4.0pp) and Chile (+3.1pp), while the largest decrease was Mexico (-3.7pp). More recently, the manager has increased exposure to Mexico, moving to a modest overweight as he believed that the political uncertainty was already priced into the Mexican stock market – this was achieved by adding to existing positions rather than adding new names to the portfolio.

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

	Portfolio end-May 2018	Portfolio end-May 2017	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Brazil	66.7	62.7	4.0	57.0	9.7	1.2
Mexico	22.6	26.3	(3.7)	24.4	(1.8)	0.9
Chile	4.5	1.4	3.1	10.6	(6.1)	0.4
Argentina	4.2	4.9	(0.7)	0.0	4.2	N/A
Peru	2.0	4.2	(2.2)	3.8	(1.8)	0.5
Colombia	0.0	0.5	(0.5)	4.2	(4.2)	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.

There have been more significant changes in BRLA's sector exposure (Exhibit 4), with the largest increases in materials (+6.3pp) and consumer discretionary (+5.8pp), both cyclical sectors, and a 9.4pp lower weighting in consumer staples, which is a more defensive sector.

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

	Portfolio end-May 2018	Portfolio end-May 2017	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	29.7	30.1	(0.4)	30.3	(0.6)	1.0
Materials	20.8	14.5	6.3	18.6	2.2	1.1
Consumer staples	11.7	21.1	(9.4)	15.8	(4.1)	0.7
Consumer discretionary	11.5	5.7	5.8	5.1	6.4	2.3
Energy	7.6	10.3	(2.7)	9.6	(2.0)	0.8
Industrials	6.8	6.5	0.3	6.0	0.8	1.1
Telecommunications	6.6	5.7	0.9	6.3	0.3	1.0
Utilities	1.8	3.3	(1.5)	5.2	(3.4)	0.3
Healthcare	1.2	0.0	1.2	0.8	0.4	1.5
Information technology	1.2	1.2	0.0	0.9	0.3	1.3
Real estate	1.1	1.6	(0.5)	1.4	(0.3)	0.8
	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.

We highlight some of the newer positions in BRLA's portfolio:

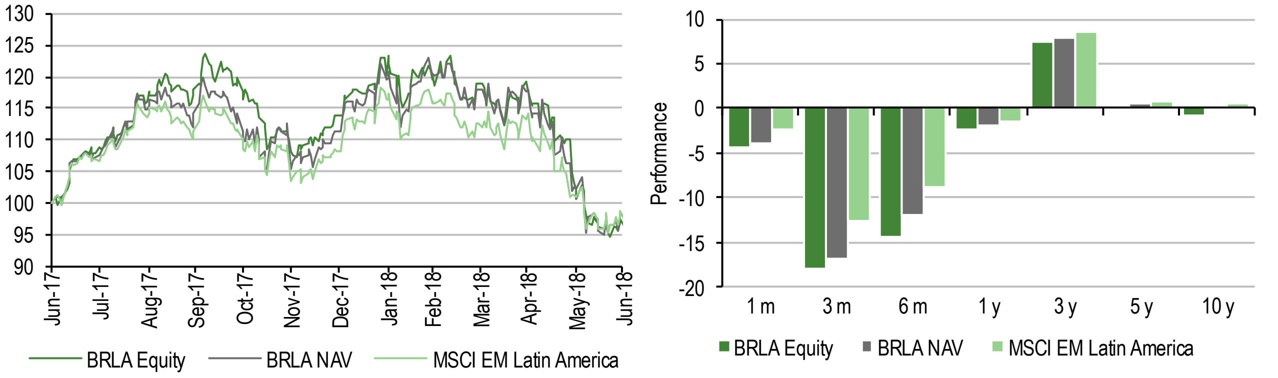
- Antofagasta – a Chilean copper producer with by-products of gold, molybdenum and silver. It has a portfolio of high-quality assets, with future growth potential;
- Cosan – a Brazilian conglomerate, whose operations include agribusiness, fuel and natural gas distribution, lubricants and logistics;
- Gerdau – a Brazilian steelmaker and major supplier of speciality long steel; and
- Suzano Papel e Celulose – a Brazilian pulp and paper company, the largest in Latin America, with operations in more than 80 countries.

Performance: Three months affects longer-term record

During FY17, BRLA outperformed the benchmark. Its NAV total returns of +29.0% and +17.7% in dollar and sterling terms respectively were ahead of the benchmark returns of +24.2% ($) and +13.4% (£). The trust's share price total returns were even better at +31.3% ($) and +19.9% (£), which led to a narrowing of the discount over the period. The greatest positive contributor to returns was Brazilian stock selection, where equities were supported by further interest rate cuts. BRLA's exposure to Argentina (which is currently not represented in the index) was also a positive contributor, while the trust's below-index weighting in Chile had a negative effect on performance.

Exhibit 2: Investment trust performance to 30 June 2018

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



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

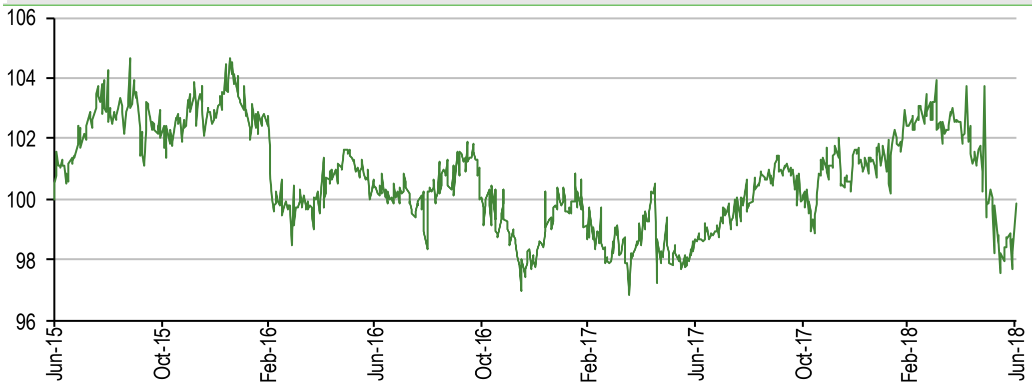
Looking at BRLA's and the index's total returns over the last 10 years (Exhibit 5, RHS), Latin America has experienced something of a 'lost decade'. While there are periods when equities in the region have performed strongly, such as during 2017, stock market volatility suggests that investors in Latin American equities need to be very nimble or very patient. BRLA's long-term record of outperformance versus the index has been negatively affected by a tough period of relative performance over the last three months. This was primarily due to being levered in a falling stock market and having overweight exposures in Brazil and Argentina.

Exhibit 3: 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	(2.2)	(6.1)	(6.0)	(1.0)	(2.7)	(2.3)	(14.2)
NAV relative to MSCI EM Latin America	(1.7)	(4.9)	(3.4)	(0.5)	(1.8)	(0.5)	(5.0)
Price relative to FTSE All-Share	(4.2)	(24.8)	(15.7)	(10.5)	(5.6)	(33.9)	(56.8)
NAV relative to FTSE All-Share	(3.8)	(23.8)	(13.3)	(10.0)	(4.7)	(32.7)	(52.1)
Price relative to MSCI World	(5.1)	(24.2)	(17.0)	(11.2)	(19.7)	(46.8)	(68.8)
NAV relative to MSCI World	(4.7)	(23.2)	(14.6)	(10.7)	(18.9)	(45.8)	(65.5)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-June 2018. Geometric calculation.

Exhibit 4: NAV total return performance relative to benchmark over three years



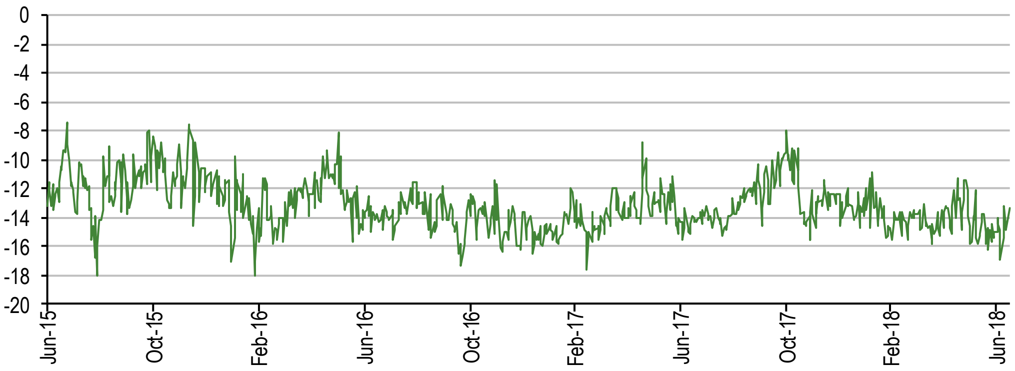
Source: Thomson Datastream, Edison Investment Research

Discount: Updated discount control mechanism

While long-term economic growth expectations are strong, most Latin American economies are more cyclical than the broader global economy, meaning the discounts of Latin American investment trusts can remain wide. BRLA's current 13.4% share price discount to cum-income NAV compares with the averages over the last one, three, five and 10 years (range of 8.3% to 13.4%).

BRLA has recently announced a change in its discount control mechanism. Previously a tender offer for 24.99% of shares was triggered if the trust underperformed the benchmark by more than 1% pa over a two-year period (ending 31 December) and the average share price discount to cum-income NAV exceeded 5% over this time. For the two years ending 31 December 2017, while the average discount was 13.4%, BRLA's NAV increased by 61.7% and the benchmark increased by 63.2%. As a result, no tender offer was implemented in 2018. The board believes that it is in the interests of shareholders if investment performance is assessed over a longer period. Under the revised discount control mechanism, a 14.99% tender offer will be triggered (subject to passing the biennial continuation votes in 2020 and 2022) if the trust underperforms the benchmark by more than 1% pa over a four-year period (ending 31 December) and the average share price discount to cum-income NAV exceeds 12% over this time.

Exhibit 5: Share price discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

BRLA is a conventional investment trust with one class of share in issue. Following the resumption of share repurchases (Exhibit 1), there are currently 39.3m ordinary shares outstanding. The trust has an overdraft facility with Bank of New York Mellon for up to $40m, at a rate of Libor +1%. Gearing of up to 25% of net assets is permitted; at end-May 2018, net gearing was 6.8%. BRLA is subject to a biennial continuation vote, next due at the May 2020 AGM. BlackRock is paid a 0.80% annual management fee, split 75:25 between the capital and income accounts. Prior to 1 January 2017, the fee was 0.85% and a performance fee was payable, which has now been removed. In FY17, BRLA's ongoing charge was 1.1% (down from 1.2% in FY16).

Dividend policy and record

Under BRLA's new dividend policy, rather than semi-annual dividends based on the level of income, the board will pay quarterly dividends of 1.25% of quarter-end US dollar NAV. These will be paid in February, May, August and November. Dividends may be funded out of revenue and capital reserves as well as income. FY18 will be a transitional year, with three dividends being paid based on end-June, September and December NAVs. The board believes that the higher distribution policy will lead to a narrowing of the trust's discount over time. While portfolio income may be boosted by option writing, during FY17, no call options were written, as the manager had a bullish view on Latin American equities. As a result, the revenue return of 13.03c was meaningfully lower than 17.89c in FY16. Dividend growth in BRLA's underlying portfolio was c 17%. The FY17 annual dividend of 13c compared with 15c in FY16. Based on the FY17 dividend, BRLA is yielding 2.4%. However, considering the end-June NAV of $605.5, assuming no increase in NAV or share price during the year, the trust has a prospective yield of c 4.0%, based on three quarterly payments, rising to c 5.5% in FY19.

Peer group comparison

BRLA is one of two trusts in the AIC Latin America sector. Its NAV total return is first over one and five years and second over three years. To enable a broader view, we compare the trust with a selection of open-ended funds. Its NAV total returns are above the average for these funds over all periods shown. BRLA's fees and dividend yield are also competitive versus the open-ended funds.

Exhibit 9: Selected peer group as at 13 July 2018*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
BlackRock Latin American	161.0	(1.8)	34.5	11.6	16.1	(14.7)	1.1	No	107	2.4
Aberdeen Latin American Income	38.0	(9.0)	35.1	0.4		(13.8)	2.0	No	112	5.0
Average	**99.5**	**(5.4)**	**34.8**	**6.0**	**16.1**	**(14.3)**	**1.6**		**109**	**3.7**
BRLA rank	**1**	**1**	**2**	**1**	**1**	**2**	**2**		**2**	**2**
Open-ended funds							TER			
Aberdeen Latin American Equity		(8.0)	37.2	1.7			2.0			0.9
Fidelity Latin America		(5.4)	24.9	(0.8)	24.9		2.0			0.5
Schroder ISF Latin American		(1.0)	29.4	(3.1)	2.1		1.9			2.2
Templeton Latin America		(6.9)	29.3	(3.1)	3.2		2.3			0.8
Threadneedle Latin America		(6.9)	16.7	(11.2)	(2.9)		1.7			1.1
Average		**(5.6)**	**27.5**	**(3.3)**	**6.8**		**2.0**			**1.1**

Source: Morningstar, Edison Investment Research. Note: *Performance as at 12 July 2018. 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 is made up of five directors, all of whom are non-executive and independent of the manager. The chairman is Carolan Dobson, who was appointed as a director on 1 January 2016 and assumed her current role on 2 March 2017. Antonio Monteiro de Castro is the senior independent director and chairman of the audit committee; he was appointed as a director on 12 November 2007. The three other directors and their dates of appointment are: Laurence Whitehead (3 December 2003), Mahrukh Doctor (17 November 2009) and Nigel Webber (1 April 2007). Monteiro de Castro and Whitehead have announced their intention to step down. The board is undertaking a search and selection process and new directors will be announced in due course.

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