EDISON

BlackRock Latin American IT

Economic progress in Brazil

Investment trusts

BlackRock Latin American Investment Trust (BRLA) is a well-established fund offering exposure to Latin America via a diversified equity portfolio. Manager William Landers aims to generate an attractive total return from a portfolio of 50-75 holdings invested across the capitalisation spectrum. He notes that despite negative political headlines in Brazil (the largest economy in the region), there is economic progress helped by falling interest rates and an inflation rate that is lower than the Central Bank of Brazil's target. Landers is positive on Brazil's political agenda and believes that the recent passing of the labour reform bill suggests that there is a broad appetite for reform, less conditional on President Temer than may have been thought. The manager is positive on the outlook for Latin American equities, while acknowledging that there will be "bumps along the way". BRLA's current dividend yield is 2.7%.

12 months ending	Share price (%)	NAV (%)	MSCI EM Latin America (%)	FTSE All-Share (%)	MSCI World (%)
30/06/13	(3.7)	(1.5)	(3.6)	17.9	23.3
30/06/14	2.2	(0.3)	(3.0)	13.1	10.6
30/06/15	(20.5)	(17.9)	(16.5)	2.6	10.9
30/06/16	9.1	10.1	9.1	2.2	15.1
30/06/17	16.7	17.4	18.8	18.1	22.3

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

Investment strategy: Bottom-up and top-down

Landers combines bottom-up fundamental research with an assessment of the macro environment to construct a portfolio that is diversified by geography and sector. He is able to draw on the deep resources of BlackRock's Latin American and wider investment teams, seeking financially strong companies with favourable growth prospects that are trading on attractive valuations. An assessment of the management of potential investee companies is an important part of the investment process. Gearing of up to 25% of net assets is permitted; at end-June 2017 net gearing was 4.8%.

Market outlook: Reasons to be optimistic

While remaining mindful of the historical volatility of Latin American equities, there are reasons to be optimistic about the region. Despite negative political headlines in Brazil, the country is moving ahead with its economic reforms and the economy is improving, helped by lower interest rates and lower inflation. Upcoming political elections in the region in coming months could see the appointment of market-friendly candidates, and Latin American company valuations are looking relatively attractive versus world equities; trading on a much wider-than-average discount.

Valuation: Discount wider than historical averages

BRLA's current 13.8% share price discount to cum-income NAV is broadly in line with the 14.0% average of the last 12 months and wider than the averages of the last three, five and 10 years (range of 7.8% to 12.4%). There is potential for the discount to narrow if there is improved investor sentiment towards Latin American equities or BRLA is able to build on its performance track record.

31 July 2017

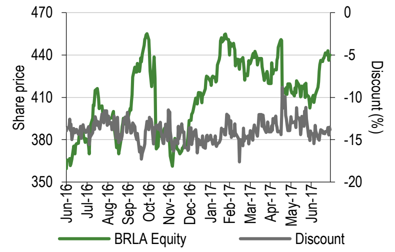
Price	**440.0p**
Market cap	**£173m**
AUM	**£204m**

NAV*	505.2p
Discount to NAV	12.9%
NAV**	510.6p
Discount to NAV	13.8%

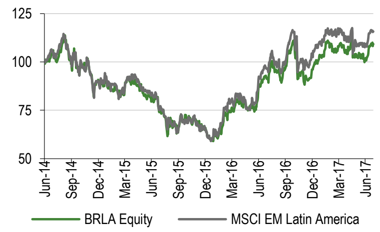
*Excluding income. **Including income. As at 28 July 2017.

Yield	2.7%
Ordinary shares in issue	39.4m
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	455.1p	361.3p
NAV** high/low	534.0p	426.4p

**Including income.

Gearing

Net*	4.8%

*As at 30 June 2017.

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Edison profile page

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.

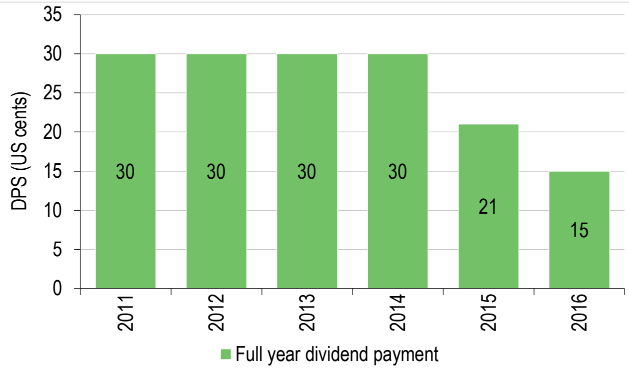
Recent developments

- 9 March 2017: Annual results for the year ending 31 December 2016. NAV TR +25.2% in US$ (+49.2% in £) vs benchmark TR +31.5% in US$ (+56.8% in £). Share price +22.2% in US$ (+45.9% in £). Final dividend of 9c declared.
- 2 March 2017: Retirement of two non-executive directors – Peter Burnell (chairman) and Michael St Aldwyn. Appointment of Nigel Webber as non-executive director.
- 9 September 2016: Six-month results ending 30 June 2016. NAV TR +23.0% in US$ (+35.6% in £) vs benchmark TR +25.7% in US$ (+38.6% in £). Share price +19.3% in US$ (+31.6% in £). Interim dividend of 6c declared.

Forthcoming		Capital structure		Fund details	
AGM	May 2018	Ongoing charges	1.2%	Group	BlackRock Fund Managers
Interim results	August 2017	Net gearing	4.8%	Manager	William Landers
Year end	31 December	Annual mgmt fee	0.80% of NAV	Address	12 Throgmorton Avenue, London, EC2N 2DL
Dividend paid	Twice a year (see page 7)	Performance fee	No		
Launch date	July 1990	Trust life	Indefinite	Phone	+44 (0) 20 7743 3000
Continuation vote	Two-yearly – next 2018 AGM	Loan facilities	Up to $40m	Website	www.blackrock.co.uk/brla

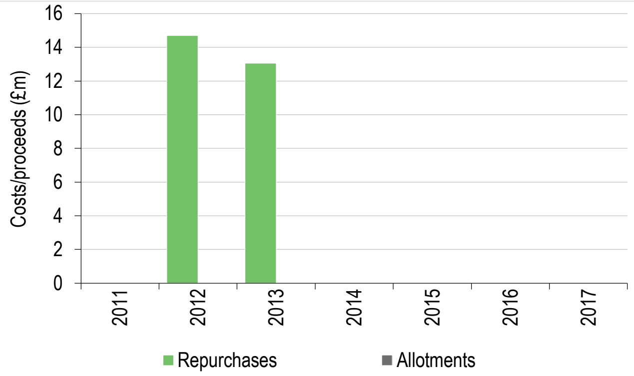
Dividend policy and history

The board now intends to pay dividends that are in line with revenues.

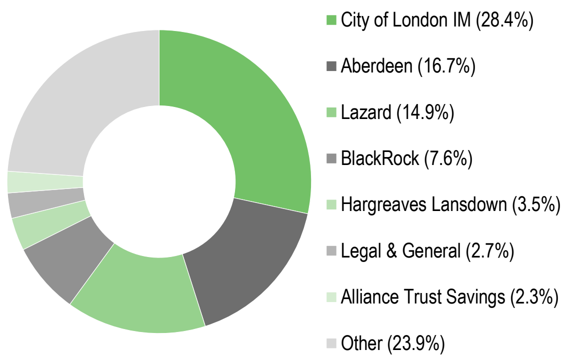


Share buyback policy and history

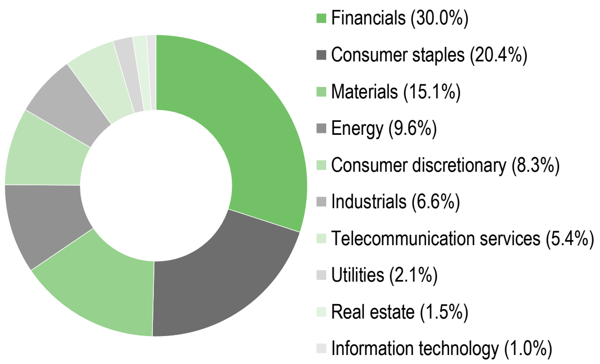
BRLA is authorised both to repurchase up 14.99% of its ordinary shares and to allot shares up to 5% of the issued share capital.



Shareholder base (as at 30 June 2017)



Portfolio exposure by sector (as at 30 June 2017)*



Top 10 holdings (as at 30 June 2017)

Company	Country	Sector	Portfolio weight % 30 June 2017	Portfolio weight % 30 June 2016**	Benchmark weight	Active weight vs benchmark
Itau Unibanco	Brazil	Banks	7.8	8.4	6.2	1.6
Petrobras	Brazil	Energy	6.9	4.5	4.6	2.3
Vale	Brazil	Materials	6.0	N/A	4.7	1.3
Banco Bradesco	Brazil	Banks	5.6	6.7	5.9	(0.3)
Femsa	Mexico	Food, beverages & tobacco	4.4	4.9	3.3	1.1
BM&F Bovespa	Brazil	Diversified financials	4.0	N/A	2.1	1.9
AmBev	Brazil	Food, beverages & tobacco	3.9	7.4	4.5	(0.6)
Grupo Financiero Banorte	Mexico	Banks	3.6	3.8	2.8	0.8
America Movil	Mexico	Telecommunication services	3.4	N/A	4.7	(1.3)
Cemex	Mexico	Materials	2.9	N/A	2.4	0.5
Top 10 (% of holdings)			**48.5**	**49.1**		

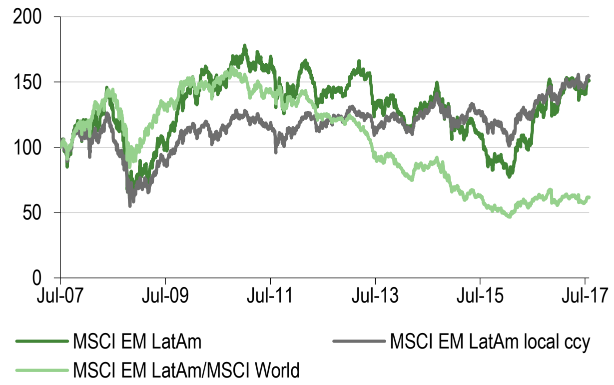
Source: BlackRock Latin American Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *Excludes net current assets and fixed interest. **N/A where not in June 2016 top 10.

Market outlook: Some good things happening

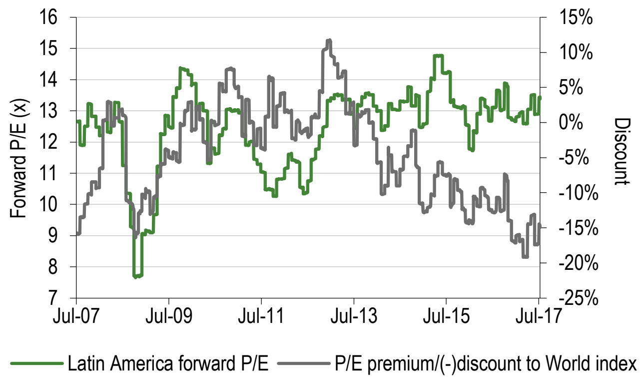
While Latin American equities have trailed world equities in recent years (Exhibit 2, left-hand side), there are reasons to be optimistic. Despite negative political headlines surrounding Brazil's President Temer, recent data points show the Brazilian economy is improving, and the country is working through an important series of economic reforms. There are a number of upcoming political elections in Latin America for the balance of 2017 and 2018 including in Argentina, Brazil, Chile and Mexico; the majority of the favoured candidates are right- rather than left-wing, which should be supportive for stock markets in the region. In addition, Latin American equities remain attractively valued. The 13.4x forward P/E multiple of the Datastream Latin America index is a 14.9% discount to the Datastream World index; this is much wider than the 4.5% average discount of the last 10 years. While acknowledging the inherent volatility of investing in Latin America, investors aiming to gain exposure to the region may be attracted to a well-established, diversified fund.

Exhibit 2: Market performance and valuation

Latin America index performance (in £ unless stated otherwise)



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



Source: Thomson Datastream, Edison Investment Research. Note: As at 31 July 2017.

Fund profile: Diversified Latin American portfolio

BRLA was launched in 1990 as F&C Latin American Trust, with BlackRock assuming management in March 2006, following a tender process initiated by the board. The trust is listed on the London Stock Exchange, with its shares quoted in sterling; its financial statements are reported in US dollars, while its NAV is quoted in both sterling and US dollars. BRLA is managed by William Landers, who aims to generate long-term capital growth and an attractive total return from a diversified portfolio of Latin American equities. Foreign exchange exposure is not hedged. The trust is benchmarked against the MSCI Emerging Markets Latin America index. BRLA is permitted to invest outside of the benchmark; however, there are some broad investment limits in place. The portfolio weighting in Brazil, Mexico, Chile, Argentina, Peru, Colombia and Venezuela is limited to plus or minus 20pp of the index weights; for all other Latin American countries the limit is plus or minus 10pp. BRLA may invest in the securities of quoted companies whose main activities are in Latin America, but which are not incorporated in the region or quoted on a local exchange. Up to 10% of gross assets may be invested in unquoted securities. At the time of investment, up to 15% may be in a single company and BRLA may not hold more than 15% of the market capitalisation of any one company. Derivatives may be used for efficient portfolio management, but no more than 20% of the portfolio may be under option at any given time. Gearing of up to 25% of NAV is permitted; at end-June 2017 net gearing was 4.8%.

The fund manager: William Landers

The manager's view: Continued improvement in Brazil

Landers comments that the situation in Brazil is complicated: President Temer – who replaced President Rousseff at the end of August 2016, following her impeachment – is himself now under investigation, having been charged with passive corruption for allegedly discussing bribes with the former chairman of JBS, the world's largest meatpacker. In May 2017, the consensus was that this latest corruption scandal would paralyse everything and derail the economic recovery. However, the manager says that Brazilian auto production and sales, employment and retail sales are all improving, feeding into a slow and steady economic recovery.

The manager notes the recent change in Brazilian legislation with the approval of the labour reform bill, which he regards as very positive as it will allow companies more leeway to negotiate with the unions. Employees will no longer have to be part of a union, which will mean more flexibility and a lower cost of doing business in Brazil. Landers says that changes in legislation are still a work in progress, but concerns about a political impasse have receded. The labour bill was passed with a large majority, which the manager views positively as it indicates that the reform agenda in Brazil goes beyond just President Temer's efforts.

Landers suggests that regarding Mexico, the original concerns following the election of US President Trump have receded into the background. The manager recently visited Mexico and notes that the consensus outlook appears different to the prevailing views on his previous visits in November 2016 and late January 2017. There is now more confidence that NAFTA negotiations will result in a better outcome for all three countries (US, Canada and Mexico). It appears unlikely that the US will pull out of the agreement, given the pushback that the idea has received from US exporters. Landers comments that a significant amount of BRLA's Mexican exposure is to the domestic consumer, where companies are doing fine against a broadly supportive economic backdrop.

Asset allocation

Investment process: Bottom-up and top-down inputs

The manager believes that long-term outperformance with below-average volatility can be achieved using a combination of bottom-up and top down analysis. He is able to draw on the deep experience of the BlackRock Latin American investment team, which has developed a strong network in the region, and is based in New York and Sao Paulo, Brazil, as well as gaining insights from the broader BlackRock team of investment professionals.

From a bottom-up perspective, potential investee companies undergo thorough fundamental analysis, aimed at discovering companies with attractive growth prospects, strong free cash flow generation and robust balance sheets, which are trading on reasonable valuations and reflect realistic earnings expectations. A strong emphasis is placed on the quality of the management team, which is assessed by their long-term track record, corporate governance history and regard for minority shareholders. From a top-down perspective, a variety of factors are reviewed including the economic and political environment; the manager believes that the importance of the macro environment in making investment decisions will vary over time.

BRLA invests across the market cap spectrum – the resulting portfolio typically comprises 50-75 holdings and annual turnover is generally 40-60%. Positions may be sold if there is significant change in a company's fundamentals or valuation. BRLA adopts informal risk controls, which limit large-cap stocks to 500bp above or below the index weighting; mid-cap stocks to 200bp above or below, while small-cap stocks usually have at least a 50bp position in the portfolio. In practice, these controls rarely restrict stock selection.

Current portfolio positioning

At end-June 2017, BRLA's top 10 positions made up 48.5% of the portfolio. This was a modest decrease in concentration versus 49.1% at end-June 2016. Over the last 12 months there have been meaningful changes in geographic exposure (Exhibit 3). A 6.6pp higher exposure to Brazil means that BRLA now has a larger overweight position compared to 12 months ago, while a 3.4pp lower exposure to Mexico means that the trust now has an underweight rather than an overweight position versus the index. Exposure in Brazil was reduced in mid-May as the manager was concerned about political developments, but has since been rebuilt as he views recent Brazilian economic data points favourably. He took advantage of recent weakness in the oil price to add to top 10 position Petrobras. The manager says that the company is generating free cash flow as a result of lower costs, more efficient operations, asset sales and positive refining margins.

The overweight position in Peru has been reduced. Landers viewed Peru's presidential election outcome in 2016 positively, given the winning candidate's market-friendly policies. However, the manager notes that the expected pick-up in infrastructure spending has been slow to materialise and economic growth in H116 was negatively affected by flooding, especially in northern Peru.

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

	Portfolio end-June 2017	Portfolio end-June 2016	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Brazil	62.6	56.0	6.6	54.0	8.6	1.2
Mexico	28.0	31.4	(3.4)	30.0	(2.0)	0.9
Peru	3.8	6.1	(2.3)	3.0	0.8	1.3
Argentina	3.1	2.5	0.6	0.0	3.1	N/A
Chile	1.6	2.6	(1.0)	9.3	(7.7)	0.2
Panama	0.5	0.0	0.5	0.0	0.5	N/A
Colombia	0.4	1.4	(1.0)	3.7	(3.3)	0.1
	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 sector exposure over the last 12 months have generally been more modest (Exhibit 4). The largest change is a decrease in utilities (-4.4pp).

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

	Portfolio end-June 2017	Portfolio end-June 2016	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	30.0	30.8	(0.8)	30.0	0.0	1.0
Consumer staples	20.4	21.3	(0.9)	17.6	2.8	1.2
Materials	15.1	12.2	2.9	15.0	0.1	1.0
Energy	9.6	7.5	2.1	7.6	2.0	1.3
Consumer discretionary	8.3	6.5	1.8	6.0	2.3	1.4
Industrials	6.6	6.7	(0.1)	6.7	(0.1)	1.0
Telecommunication services	5.4	5.6	(0.2)	6.5	(1.1)	0.8
Utilities	2.1	6.5	(4.4)	6.3	(4.2)	0.3
Real estate	1.5	N/A	N/A	1.7	(0.2)	0.9
Information technology	1.0	2.4	(1.4)	1.6	(0.6)	0.6
Healthcare	0.0	0.5	(0.5)	1.0	(1.0)	0.0
	100.0	**100.0**		**100.0**		

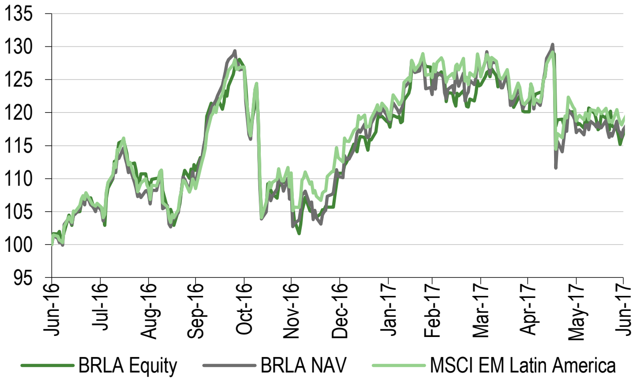
Source: BlackRock Latin American Investment Trust, Edison Investment Research. Note: The trust weightings exclude net current assets/liabilities and fixed interest. *Real estate was included in financials in June 2016.

Performance: Outperformance over five years

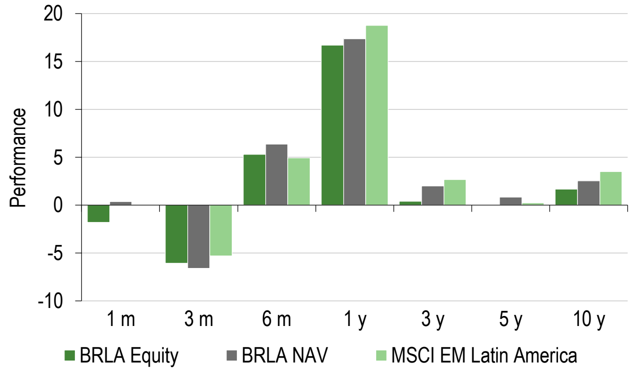
Exhibit 5 (left-hand side) shows absolute returns over one year. Of note is the weakness in Latin American equities surrounding the US presidential election in late 2016, on concerns about increased US protectionism. Over the last 12 months, absolute total returns have been enhanced by the weakness of sterling. BRLA's NAV and share price total returns of 17.4% and 16.7% are behind the benchmark's 18.8% total return.

Exhibit 5: Investment trust performance to 30 June 2017

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.

BRLA's relative returns are shown in Exhibit 6. Its NAV total return has outperformed the benchmark over five years, while lagging over one, three and 10 years. The manager highlights outperformance over six months, saying that non-benchmark exposure to Argentina has been "very helpful" despite the recent decision by MSCI not to reclassify Argentina from Frontier to Emerging Market status.

Exhibit 6: 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	(1.9)	(0.8)	0.4	(1.7)	(6.4)	(1.5)	(16.4)
NAV relative to MSCI EM Latin America	0.3	(1.4)	1.3	(1.2)	(1.9)	3.0	(9.1)
Price relative to FTSE All-Share	0.7	(7.4)	(0.2)	(1.2)	(18.3)	(39.7)	(29.9)
NAV relative to FTSE All-Share	2.9	(7.9)	0.8	(0.6)	(14.3)	(37.0)	(23.8)
Price relative to MSCI World	(1.6)	(6.4)	(0.3)	(4.6)	(35.1)	(53.2)	(51.0)
NAV relative to MSCI World	0.6	(6.9)	0.7	(4.0)	(32.0)	(51.1)	(46.8)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-June 2017. Geometric calculation.

Exhibit 7: NAV total return performance relative to benchmark over three years

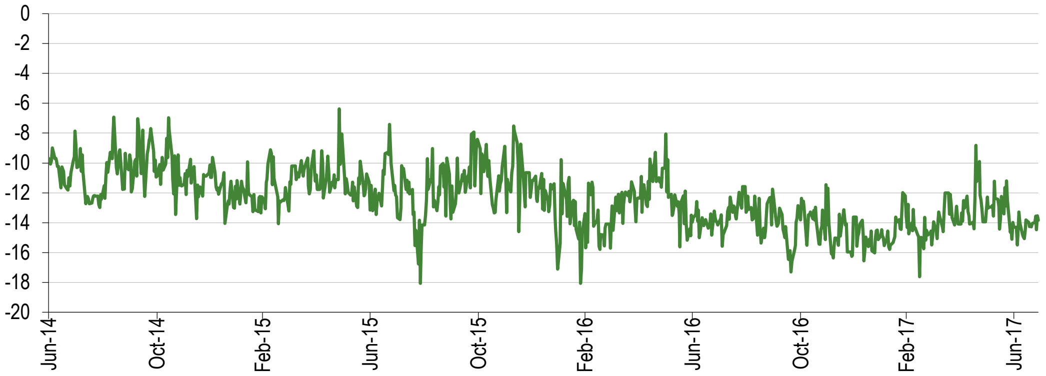
Source: Thomson Datastream, Edison Investment Research

Discount: Wider than historical averages

BRLA's current 13.8% share price discount to cum-income NAV is broadly in line with the 14.0% average of the last 12 months (range of 8.8% to 17.6%). It is also wider than the averages of the last three, five and 10 years of 12.4%, 11.4% and 7.8% respectively. There is scope for the discount to narrow if investor appetite for Latin American equities increases – which may arise if there is more political stability in Brazil – or if BRLA is able to build on its performance track record.

The BRLA board is able to repurchase up to 14.99% of its ordinary shares and to allot up to 5% of the issued share capital to manage the discount or premium. However, there have been no ad-hoc buybacks since 2012. Before mid-2013, there was a policy of twice-yearly 5% tender offers. A new discount policy was adopted in August 2013, which the board views as being in the better interests of long-term shareholders. From the 2016 continuation vote onwards, a 24.99% tender offer will be launched if BRLA has underperformed the benchmark in terms of US dollar total returns by more than 1% per year over the previous two financial years, and the share price discount to cum-income NAV has averaged more than 5% over the same two-year period. The tender price will be the cum-income NAV minus 2% (to cover the costs of the tender).

Exhibit 8: Share price premium/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; there are currently 39.4m ordinary shares outstanding. The trust is subject to a two-yearly continuation vote, next due at the AGM in April 2018. BRLA has an overdraft facility for up to $40m million with Bank of New York Mellon at an annual rate of Libor plus 1%. Gearing of up to 25% of net assets is permitted; at end-June 2017, net gearing was 4.8%. BlackRock is paid an annual management fee of 0.8% of net assets, charged 75% to capital and 25% to income. Prior to 1 January 2017, the annual management fee was 0.85% of net assets and a performance fee was payable, which has now been removed. In FY16, BRLA's ongoing charge was 1.2%, 10bp higher than in FY15.

Dividend policy and record

BRLA pays dividends twice a year, in September/October and April/May. Between 2011 and 2014 inclusive the annual dividend was 30c per share. In 2015, an interim dividend of 15c was paid, but the final dividend was reduced from 15c to 6c. BRLA's income was affected by currency weakness and dividend cuts by a number of portfolio companies, and also by lower income from writing options. The board recognised the changing environment, so instead of maintaining the historic level of dividends by paying out of capital, dividends are now paid more in line with earnings. In FY16, the annual dividend of 15c was a 29% decrease versus FY15 (FY16 revenue return of 17.89c, which included 5.67c of option income, versus 24.10c in FY15). Given the board and manager are optimistic about the outlook for Latin American stock markets, writing call options ceased in 2016; the manager will await a higher level of market volatility before restarting. Based on its current share price, BRLA has a dividend yield of 2.7%.

Peer group comparison

BRLA is one of only two companies in the AIC Latin America sector, so we have also compared it to two closed-end funds listed in the US. BRLA's NAV total return is modestly ahead of the weighted average over one year, while trailing over three, five and 10 years. Over 10 years, BRLA's 40.5% NAV total return ranks second out of three funds. We have also compared BRLA to a selection of open-ended funds investing in Latin America. Its NAV total returns are higher than the open-ended fund weighted averages over all periods shown. BRLA has the widest discount of the closed-end funds, the lowest ongoing charge and the second highest level of gearing. It also has the second highest dividend yield, 0.7pp higher than the weighted average.

Exhibit 9: Selected peer group as at 28 July 2017*

% 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 (LSE)	173.2	19.2	7.8	7.3	40.5	(12.9)	1.2	No	105	2.7
Aberdeen Latin American Income (LSE)	46.2	21.7	12.0	9.0		(11.3)	2.0	No	109	4.7
Aberdeen Latin America Equity (NYSE)	187.6	18.9	14.3	13.4	83.2	(10.5)	1.3	No	100	1.2
Latin American Discovery Fund (NYSE)	76.6	17.5	5.0	4.3	33.4	(11.6)	1.6	No	100	0.8
Weighted average		**19.0**	**10.3**	**9.4**	**57.6**	**(11.6)**	**1.4**		**103**	**2.0**
BRLA rank	**2**	**2**	**3**	**3**	**2**	**4**	**4**		**2**	**2**
Open-ended funds	**AUM**						**TER**			
Aberdeen Latin American Equity	214.0	19.0	14.3	12.9			2.0	No		0.6
Fidelity Latin America	641.4	16.2	9.2	3.9	52.9		2.0	No		0.1
Schroder ISF Latin American	180.0	18.0	1.5	(6.1)	14.9		1.9	No		2.2
Templeton Latin America	923.6	16.1	7.0	(5.0)	28.2		2.3	No		0.5
Threadneedle Latin American	450.8	14.1	(3.2)	(6.0)	24.7		1.7	No		0.7
Weighted average		**16.1**	**5.9**	**(1.3)**	**33.6**		**2.0**			**0.6**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 27 July 2017. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

Following the March 2017 retirement of chairman Peter Burnell (who had been on the board since the trust's launch in 1990 and chairman since 1997) and Michael St Aldwyn (appointed in 1996), and the appointment of Nigel Webber in April 2017, there are now five directors on the board of BRLA; all are non-executive and independent of the manager. Chairman Carolan Dobson was appointed in 2016 and assumed her current role following the retirement of Burnell. Antonio Monteiro de Castro is the senior independent director and chairman of the audit committee. He was appointed in 2007. Laurence Whitehead was appointed in 2003 and Mahrukh Doctor in 2009. Newly appointed Webber is a qualified accountant with a background in investment; his most recent position was global chief investment officer at HSBC Private Banking.

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