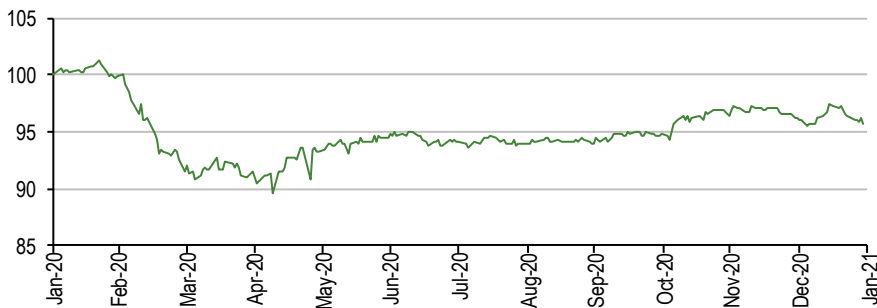


Aberdeen Latin American Income Fund

High yield and regular quarterly dividends

Aberdeen Latin American Income Fund's (ALAI) managers at Aberdeen Standard Investments (ASI) are cautiously optimistic on the outlook for the region, focusing on its long-term opportunities, while acknowledging the current challenging backdrop due to the global healthcare pandemic. They believe that Latin America is well positioned for an economic improvement and commodity reflation as vaccines are rolled out and are confident about a corporate earnings recovery given measures that companies have taken to rationalise their businesses during the downturn. The managers also point to the relatively attractive valuations compared with the global market available in the region, which may reflect investor concerns about the fiscal and political backdrop in Latin America.

NAV versus the benchmark over a volatile year – making back some relative performance following a tough period during the Q120 market selloff



Source: Refinitiv, Edison Investment Research

Why invest in Latin America now?

Latin America has been hit hard by the negative effects of the global healthcare pandemic, which has been reflected in stock market returns. In sterling terms, during 2020, the MSCI Latin America index declined by 16.2%. A positive view on the region is a contrarian call and is predicated on its longer-term growth prospects.

The analyst's view

ALAI offers global investors a broad exposure to both equities and government debt in Latin America. The company pays regular quarterly dividends and the fund currently yields 6.0%. Once the COVID-19 vaccination programme gains momentum and the global economy is on a sounder footing, there is potential for a significant improvement in corporate earnings in Latin America. This could be accompanied by a revaluation of the region as it is currently trading at a meaningful discount to the global market.

Narrower discount and attractive dividend yield

ALAI's current 7.9% share price discount to cum-income NAV is narrower than the 13.5% to 14.2% range of average discounts over the last one, three and five years. The company has continued to pay regular dividends throughout the pandemic, using revenue reserves when required; it currently offers a 6.0% yield.

NOT INTENDED FOR PERSONS IN THE EEA

Investment companies
Latin American equities/debt

23 February 2021

Price 58.4p
Market cap £33.4m
AUM £40.5m

NAV* 63.2p
Discount to NAV 7.7%
NAV** 63.4p
Discount to NAV 7.9%

*Excluding income. **Including income. As at 19 February 2021.

Yield 6.0%
Ordinary shares in issue 57.1m
Code/ISIN ALAI/IE00B44ZTP62
Primary exchange LSE
AIC sector Latin America
52-week high/low 68.5p 40.5p
NAV* high/low 79.5p 49.3p

*Including income

Net gearing* 14.0%

*As at 19 February 2021

Fund objective

Aberdeen Latin American Income Fund (ALAI) aims to provide investors with a total return and an above-average yield, primarily through investing in Latin American securities. While the portfolio is constructed without reference to any benchmark, the company measures its performance against a composite index (in sterling terms): 60% MSCI EM Latin America 10/40 Index and 40% JP Morgan Government Bond Index EM Global Diversified (Latin America carve-out).

Bull points

- Broad exposure to Latin America via both equities and government bonds.
- Attractive dividend yield.
- Well-resourced investment teams with consistent quality and value approach.

Bear points

- Higher political and currency risk in Latin America than in developed economies.
- Securities markets in the region can experience periods of volatility.
- Latin America is less well researched than developed markets.

Analysts

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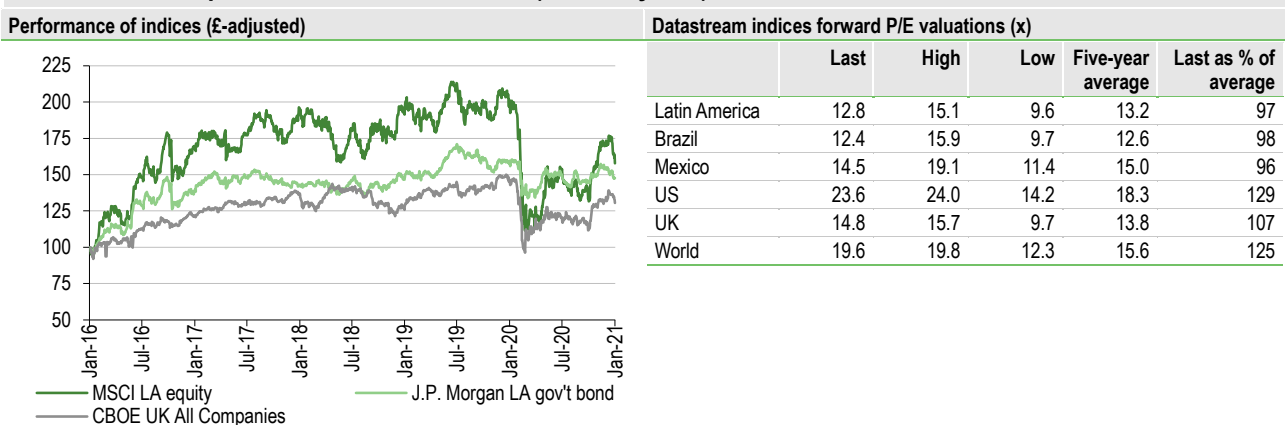
[Edison profile page](#)

Aberdeen Latin American Income Fund is a research client of Edison Investment Research Limited

Market outlook: Potential for improved sentiment

Latin American equities fell sharply in the Q120 coronavirus-led stock market sell-off and have not yet fully recovered (Exhibit 1, LHS). The region has been hit hard by the global pandemic; International Monetary Fund GDP growth expectations for Brazil and Mexico for 2020 are -4.5% and -8.5% respectively, with modest recoveries anticipated in 2021 (+3.6% in Brazil and +4.3% in Mexico). Looking at equity valuations, Latin America looks relatively attractive compared with the rest of the world. On a forward P/E multiple basis, the Datastream Latin America Index is trading at a 34.6% discount to the Datastream World Index, which is considerably wider than the 15.1% five-year average. Based on the assumption that economic conditions in Latin America should improve over time helped by the rollout of COVID-19 vaccines and a pick-up in the world economy, global investors with a longer-term perspective may consider that now is an opportune time to allocate capital to the region.

Exhibit 1: Market performance and valuations (last five years)



Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 22 February 2021.

The fund manager: Aberdeen Standard Investments

The managers' view: Cautiously optimistic

Viktor Szabó (a member of ASI's emerging market debt team) and Brunella Isper (a member of ASI's global emerging markets equities team) discuss recent events and their outlook for Latin America. Szabó highlights the significant negative economic impacts in the region as a result of COVID-19, with some countries experiencing a real GDP contraction greater than 10% in 2020, such as Peru and Argentina. However, there have been signs of economic recovery in Latin America since Q220, and positive GDP growth is expected in 2021 across the board, 'although it will not be a V-shaped recovery due to the coronavirus.' The manager says that there has been 'a decent improvement in industrial activity and household consumption has held up relatively well, although activity has not returned to pre-pandemic levels as the virus is not under control.'

Szabó reports that mass vaccination has started in the largest Latin American economies, but progress in the region has lagged behind developed markets (including the UK). For example, in early February 2021 there had been no vaccinations administered in some countries such as Colombia, Peru and Uruguay. Looking at the number of vaccine doses contracted as a percentage of local populations shows that some countries are above 100% including Brazil and Mexico at c 170%. The manager expects the vaccination programme will accelerate, with mobility restriction measures lifted, although these will be dependent on how the virus and vaccination programme progress. The number of COVID-19 cases in Latin America is currently less than in the first wave in 2020 and restrictions are lighter.

There have been significant government outlays in response to the coronavirus outbreak and debates as to whether these should be extended. The manager says that most Latin American countries will need large fiscal adjustments to stabilise their debt/GDP ratios including Brazil and Argentina, which already have high levels of debt. Brazil's, Colombia's and Mexico's funding costs for their government debt are much lower compared with previous periods, which suggests that they can tolerate higher levels of debt compared with other crises. Brazil has constitutional constraints, so while there has been political pressure to increase spending, the administration will try to maintain the country's spending ceiling; Szabó comments that 'this will not be an easy year.'

The manager suggests that as inflation is contained in Latin America, monetary policies should remain accommodative. Looking at 2021 inflation expectations, only Mexico is above its 3% target rate. While some rate hikes are possible, Szabó says the current funding environment is very favourable at both the sovereign and corporate levels, in contrast to tightening fiscal policies in the region.

Discussing the most important events in Latin America since our last note was published in [October 2020](#), the manager focuses on the start of the COVID-19 vaccination programme. He expects a global reflation trade as the number of vaccines administered rises and the volume of hospitalisations should fall. Szabó says that as economies reopen and rebound, there should be further commodity price increases, which would be positive for the value of Latin American exports. Following the US presidential election and the 'blue wave' whereby the Democrats now control both the Senate (albeit by a very narrow margin) and the House of Representatives, the manager thinks that there could be a larger US stimulus programme, which should have a short-term positive spill-over effect in Mexico and the rest of the world if the US economy gains momentum. Szabó suggests that US relations with some countries may be difficult, such as Brazil, due to environmental issues; he expects the issue of deforestation of the Amazon rainforest to feature highly, so the relationship between presidents Bolsonaro and Biden is unlikely to be smooth.

Looking at the upcoming political agenda, events include round one presidential elections in Peru and the election of members of the constitutional assembly and state governors in Chile in April 2021, Mexican mid-term elections in June 2021 and primary elections in Chile in July 2021. In some countries there has been a swing away from mainstream parties due to public dissatisfaction. There have been corruption issues in Peru and Szabó comments the new constitution in Chile will be interesting to watch in a post-COVID-19 world. However, he says 'of more importance, although a long time away, is the October 2022 Brazilian presidential election.'

Isper reports that in 2020, Latin American markets lagged the performance of both overall emerging and developed markets. She notes that according to MSCI data, Latin America is trading on a forward P/E multiple of c 12.0x (which is in line with historical averages, but profits are depressed), compared with c 14.5x for the MSCI Emerging Markets Index and c 18.5x for the MSCI World Index, where the premium is largely due to the re-rating of technology and healthcare stocks.

The manager comments that 'Latin America has been under-owned for a long time. Fund flows into the region have increased in Q420 and 2021, suggesting that perhaps Latin America is once more on the radar screens of global asset allocators due to the valuation opportunity and its position as a beneficiary of global reflation'. Isper notes that on a bottom-up basis, Latin American corporate profits declined by 70% in 2020 and consensus expectations for 2021 are a 20% uplift to the 2019 pre-pandemic levels; hence a solid earnings recovery is anticipated. She suggests that there is potential for positive earnings estimate revisions if the vaccine rollout is successful and lockdowns have less of a negative economic effect than currently expected. The manager is hopeful about a corporate profit recovery given record low interest rates and companies have streamlined their operations during the downturn. She believes that market leaders can further consolidate their positions helped by both organic growth and acquisitions.

Isper reports that messages from companies suggest that trading conditions are fluid. Due to the \$150bn fiscal stimulus in Brazil, the downturn in economic activity was a lot less than previously expected, with 2020 GDP likely to contract by 4.5% in 2020 compared with initial expectations of a 9.0% contraction. Companies have changed their outlooks. In Q220, ALAI's domestic retail- and industrial-exposed companies were under pressure, expecting sales to return to pre-pandemic levels in 2021, but due to fiscal stimulus this had occurred by Q3/Q420. However, while there has been a faster recovery for portfolio companies, the manager maintains a level of caution given the much lower amount of stimulus expected in 2021 and the related effects on employment and consumer spending.

Asset allocation

Current portfolio positioning

At end-January 2021, ALAI's fund was broadly split 63:37 between equities and fixed income. The company's top 10 positions made up 41.5% of the portfolio, which was a lower concentration than 44.5% a year earlier; seven positions were common to both periods.

Exhibit 2: Current portfolio breakdown (% unless stated)

	Portfolio end-January 2021	Portfolio end-January 2020	Change
Equity exposure	62.7	60.6	2.1
Fixed income exposure	37.3	39.4	(2.1)
Number of holdings	59	62	

Source: ALAI, Edison Investment Research

Exhibit 3: Top 10 holdings (as at 31 January 2021)

Company	Country	Sector	Portfolio weight %	
			31 January 2021	31 January 2020*
Colombia (Rep of) 9.85% 28/06/27	Colombia	Government bond	6.2	4.6
Brazil (Fed Rep of) 10% 01/01/25	Brazil	Government bond	5.7	7.9
Vale	Brazil	Materials	4.9	N/A
Banco Bradesco	Brazil	Financials	4.4	5.2
Uruguay (Rep of) 4.375% 15/12/28	Uruguay	Government bond	3.7	3.4
Mex Bonos Desarr Fix Rt 10% 20/11/36	Mexico	Government bond	3.6	4.3
Mex Bonos Desarr Fix Rt 8.5% 18/11/38	Mexico	Government bond	3.5	4.0
Petrobras	Brazil	Energy	3.3	4.9
B3	Brazil	Financials	3.1	N/A
Walmart de México y Centroamérica	Mexico	Retail	3.1	N/A
Top 10 (% of portfolio)			41.5	44.5

Source: ALAI, Edison Investment Research. Note *N/A where not in end-January 2020 top 10.

Exhibit 4: Total portfolio breakdown by geography (% unless stated)

	Portfolio end-January 2021	Portfolio end-January 2020	Change (pp)
Brazil	48.5	53.9	(5.4)
Mexico	23.5	25.4	(1.9)
Colombia	7.7	4.6	3.1
Uruguay	5.7	5.6	0.1
Chile	5.2	3.4	1.8
Peru	5.1	4.3	0.8
Argentina	3.9	1.9	2.0
Cash	0.4	0.9	(0.5)
	100.0	100.0	

Source: ALAI, Edison Investment Research

Looking at ALAI's geographic exposure, over the 12 months to end-January 2021, there was a 5.4pp lower weighting to Brazil, which now represents less than half of the portfolio. There were higher weightings to Colombia (+3.1pp), Argentina (+2.0pp) and Chile (+1.8pp). Within ALAI's equity portfolio, the fund is overweight industrials due to the number of attractively priced companies with healthy business models, good management teams, and which are beneficiaries of domestic or regional economic growth. The manager also favours the consumer discretionary

sector given diverse opportunities across a number of high-quality businesses including e-commerce, online payments, fashion retailing and online education. ALAI's positions are held for the long term. Its largest underweight exposure is to the materials sector given volatile commodity prices; this positioning has been detrimental to the fund's performance in recent months as commodity prices have rallied.

Isper highlights the main changes in ALAI's equity portfolio in recent months (there have not been any notable changes in the fixed income portfolio). There is a new position in **Arco Platform**, which is a leading provider of educational systems in Brazil. It has a comprehensive product offering, and its asset-light business model affords the company a high return on capital. Arco has traded at a premium to the market since its 2018 initial public offering, but weaker-than-expected Q320 results due to an increased number of customer dropouts provided an attractive entry point. The manager explains that the company's total addressable market is increasing as a growing number of schools are adopting Arco's systems and there is greater demand for digital delivery of learning systems. Isper believes that the company is well positioned over the long term, offering a win-win proposition for schools, parents and teachers.

ALAI has a new position in Brazilian renewable energy generator **Omega Geração**, which has a 5% market share of the country's installed energy capacity, primarily wind, but also solar and hydro generation (the company only operates renewables projects). Wind power generation has been taking share, moving from 2% to 11% of Brazil's energy matrix in recent years; Omega is well positioned to take advantage of this trend. Isper says that execution of its wind projects has been solid, while the company has successfully undertaken mergers and acquisitions. The manager was able to take advantage of a market overhang due to a follow-on offering to initiate a position.

Four names have been sold. **Ambev** was a lower-conviction position, where Isper had concerns about the company's top-line growth and increased input costs putting pressure on margins. Software firm **Linx** was subject to two takeover offers and was eventually acquired by StoneCo, which is a Brazilian payments company. ASI undertook a lot of engagement with Linx as the managers believed that the company deserved a higher valuation; while the offer price was raised, the takeout value was still below what ASI thought the company was worth. **Embotolladora Andina** 'A' preference shares were sold; it is a Chilean Coca-Cola bottler and ALAI already has similar exposure elsewhere in the portfolio. **Kimberly-Clark de Mexico** had been a good investment for the fund; it became a lower-conviction holding due to its valuation, so the position was sold.

Performance: Volatile annual total returns

Exhibit 5: Five-year discrete performance data

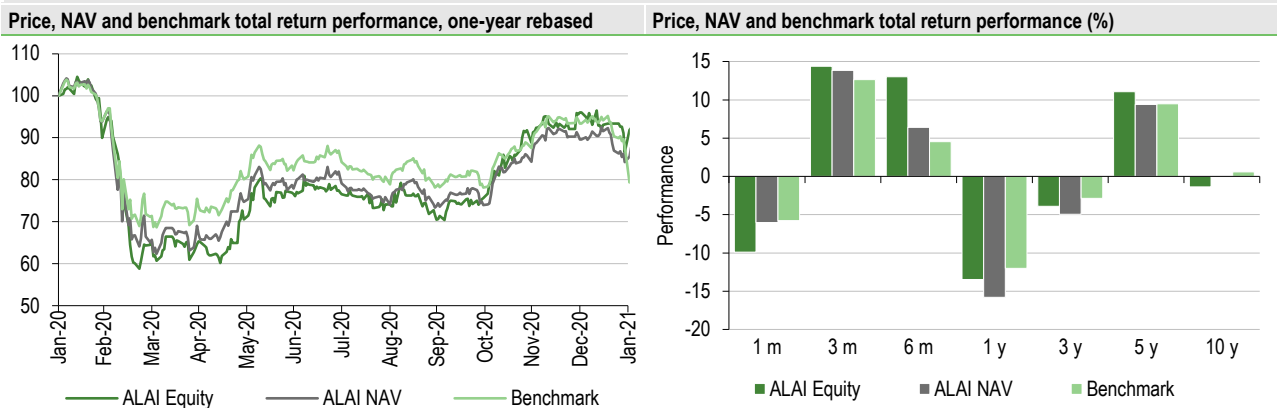
12 months ending	Share price (%)	NAV (%)	Composite benchmark (%)*	MSCI EM Latin America 10/40 (%)	JP Morgan GBI-EM Global Diversified (Latin America) (%)
31/01/17	70.1	63.6	55.8	67.2	39.0
31/01/18	12.0	11.5	10.1	15.5	2.0
31/01/19	1.1	0.6	4.4	3.1	5.7
31/01/20	1.4	1.4	(0.2)	(3.3)	3.9
31/01/21	(13.5)	(15.8)	(12.0)	(18.0)	(5.2)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. *Composite benchmark is 60% MSCI EM Latin America 10/40 Index and 40% JP Morgan Government Bond Index EM Global Diversified (Latin America carve-out).

The potential high volatility of returns achieved by investors in Latin America is illustrated in Exhibit 5. In the 12 months ending 31 January 2017, ALAI generated a net asset value (NAV) total return of 63.6% and an even higher share price total return of 70.1%; both were considerably ahead of the benchmark's 55.8% total return. In contrast, returns over the 12 months to end-January 2021 have been somewhat different. Due to the negative effects of the global pandemic, ALAI generated

NAV and share price total returns of -15.8% and -13.5% respectively, which lagged the composite benchmark's -12.0% total return.

Exhibit 6: Investment company performance to 31 January 2021



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

As shown in Exhibit 6 (right-hand side), over the last decade, ALAI's total returns along with those of its benchmark have been disappointing. Results over five years have been far more respectable: ALAI's NAV and share price total returns of 9.4% pa and 11.1% pa respectively compare with its benchmark's 9.5% pa total return. In relative terms, ALAI is ahead of its benchmark in NAV and share price terms over three and six months and in share price terms over five years, while lagging over other periods shown. Isper explains that in recent months, stocks making a positive contribution to performance include positions in Mercado Libre (e-commerce), Linx (software – acquired) and Bradespar (holding company) and not having a position in América Móvil (telecoms). Detractors to performance include not holding Grupo Mexico (copper) and Companhia Siderúrgica Nacional (steel) and the positions in Rumo (railroads) and Parque Arauco (real estate). Szabó reports that ALAI's fixed income performance was helped in recent months by its long-duration positions in Brazil and Mexico as yield curves flattened in Q420.

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 benchmark	(4.4)	1.6	8.1	(1.6)	(3.2)	7.5	(17.8)
NAV relative to benchmark	(0.3)	1.1	1.8	(4.3)	(6.3)	(0.4)	(6.5)
Price relative to MSCI EM LA 10/40	(2.9)	(4.5)	5.6	5.5	8.6	7.1	3.1
NAV relative to MSCI EM LA 10/40	1.2	(5.0)	(0.6)	2.7	5.1	(0.7)	17.3
Price relative to JP Morgan LA gov't bond	(6.4)	11.8	12.7	(8.7)	(14.8)	14.4	(35.7)
NAV relative to JP Morgan LA gov't bond	(2.3)	11.3	6.1	(11.2)	(17.5)	6.1	(26.8)
Price relative to CBOE UK All Companies	(9.0)	(1.8)	1.1	(5.3)	(8.6)	29.5	(48.9)
NAV relative to CBOE UK All Companies	(5.0)	(2.3)	(4.8)	(7.9)	(11.5)	20.0	(41.8)

Source: Refinitiv, Edison Investment Research. Note: Data to end-January 2021. Geometric calculation.

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



Source: Refinitiv, Edison Investment Research

Peer group comparison

There are just two funds in the AIC Latin America sector. They follow different mandates and so are not directly comparable; ALAI has a significant exposure to government bonds, while BlackRock Latin American Investment Trust is an equity fund.

ALAI's NAV total returns are ahead of its peer's over the last one, three and 10 years, while lagging over the last five years. It is currently trading on a narrower discount. ALAI has a higher ongoing charge, which is capped at 2.0% (its fixed costs are spread over a smaller asset base). It has a higher level of gearing and a higher dividend yield.

To enable a broader comparison, in Exhibit 9 we also highlight a range of open-ended equity funds that invest in Latin America. ALAI's NAV total returns are above their average returns over 10 years, while lagging over one, three and five years. Its dividend yield is significantly higher than all those of the open-ended funds.

Exhibit 9: Selected peer group as at 22 February 2021*

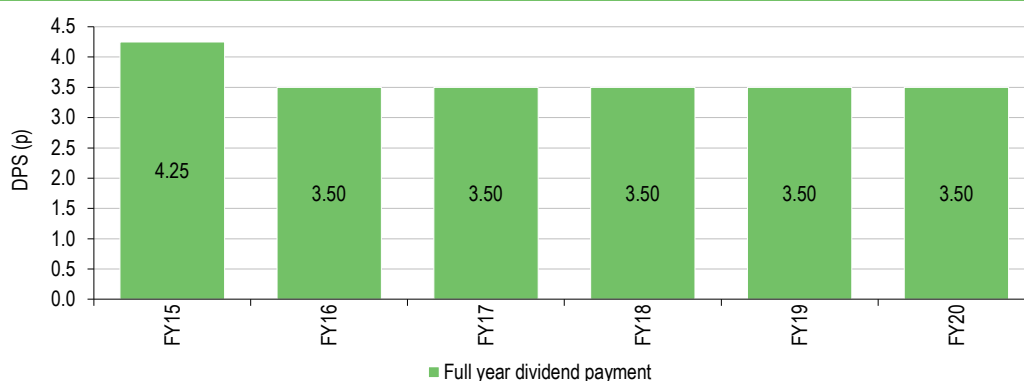
% unless stated	Market cap/ fund size £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Aberdeen Latin American Income	33.4	(17.7)	(11.6)	61.6	0.9	(7.9)	2.0	No	114	6.0
BlackRock Latin American	142.1	(18.1)	(12.7)	66.9	(13.0)	(8.8)	1.1	No	111	4.9
Average	87.7	(17.9)	(12.1)	64.3	(6.0)	(8.4)	1.6		113	5.5
ALAI rank	2	1	1	2	1	1	1		1	1
Open-ended funds							TER			
ASI Latin American Equity	104.7	(19.5)	(16.1)	64.5	(6.8)		1.6			0.7
Fidelity Latin America	535.6	(12.5)	(6.0)	66.9	(4.9)		1.1			0.0
Schroder ISF Latin American	157.1	(12.0)	(3.8)	67.7	(14.8)		1.9			1.8
Templeton Latin America	530.3	(19.6)	(12.2)	55.8	(26.8)		2.3			0.8
Threadneedle Latin America	309.8	(10.6)	(7.3)	57.5	(24.4)		1.7			0.9
Average	327.5	(14.8)	(9.1)	62.5	(15.5)		1.7			0.8

Source: Morningstar, Edison Investment Research. Note: *Performance as at 19 February 2021. TR = total return. TER = total expense ratio. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Dividends

Due to the depreciation of Latin American currencies, ALAI's annual dividend was rebased in FY16 from 4.25p to 3.50p per share. Historically, more than 60% of the fund's income is derived from its fixed income portfolio.

Exhibit 10: Dividend history since FY15



Source: Bloomberg, Edison Investment Research

In FY20, the company's earnings were 2.21p per share, which was broadly half the FY19 4.27p per share level as a result of the severe impact of COVID-19. Acknowledging the importance of income to ALAI's shareholders, the board has maintained quarterly dividends of 0.875p per share, drawing on the company's revenue reserves to finance the balance of the 0.6x covered FY20 dividend. After

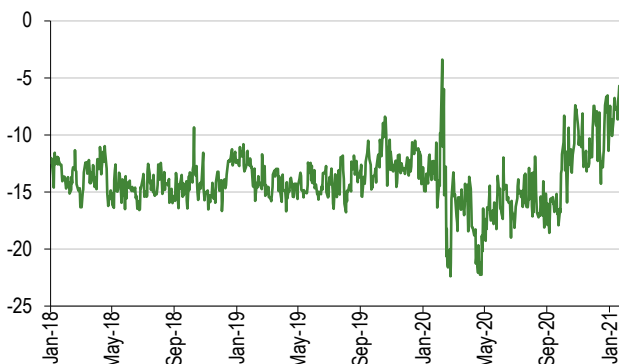
the payment of all four FY20 interim dividends, ALAI had revenue reserves of more than 0.7x the annual distribution. Given the current uncertain backdrop due to the coronavirus, the board will continue to keep the company's dividend policy under review. So far in FY21, a first interim dividend of 0.875p per share (flat year-on-year) has been paid. Based on its current share price ALAI offers a 6.0% yield.

Discount: In a narrowing trend in recent months

ALAI's discount has narrowed in recent months, which Szabó suggests may reflect greater investor interest in Latin America. The current 7.9% share price discount to cum-income NAV compares with the range of 3.4% to a decade-wide 22.4% discount (on 25 March 2020) over the last 12 months. It is narrower than the 14.2%, 13.9% and 13.5% average discounts over the last one, three and five years respectively.

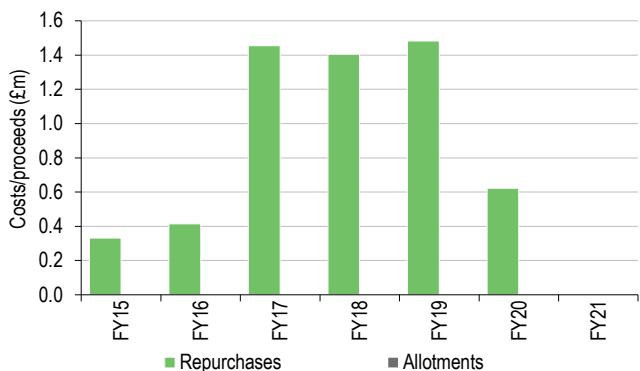
Renewed annually, the board has the authority to repurchase up to 14.99% and allot up to 10% of issued shares to manage a discount or premium. In FY20, 887k shares (c 1.5% of the share base) were bought back at a cost of c £0.6m; there have been no share repurchases since March 2020.

Exhibit 11: Discount over three years



Source: Refinitiv, Edison Investment Research

Exhibit 12: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: Equity and fixed income exposure

Launched on 16 August 2010, ALAI is a Jersey-incorporated closed-end investment company and is listed on the Main Market of the London Stock Exchange. The fund is managed by ASI's global emerging markets equities and emerging market debt teams. It aims to generate a total return with an above-average yield from a diversified portfolio of Latin American securities. ALAI's performance is benchmarked against a composite index: 60% MSCI EM Latin America 10/40 Index and 40% JP Morgan Government Bond Index EM Global Diversified (Latin America carve-out); both are sterling adjusted. The benchmark is used as a measurement rather than a portfolio construction tool, so there will be periods when the performance of the fund and that of the composite index diverge. ALAI's portfolio contains equity, equity-related and fixed income securities; at the end of January 2021 it was split broadly 63:37 between equities and government bonds. In order to mitigate risk, at least 25% of gross assets must be held in equity and equity-related investments, and at least 25% in fixed income investments. At the time of investment, a maximum 15% of gross assets may be held in a single company, with up to 25% in non-investment grade government debt (rated BB+/Ba1 or lower). ALAI has no restrictions on its geographic, sector or market cap exposure. Derivatives are permitted for efficient portfolio management and to mitigate risk (up to 50% of gross assets). Gearing of 20% of net assets is permitted at the time of drawdown; as at 19 February 2021, net gearing was 14.0%.

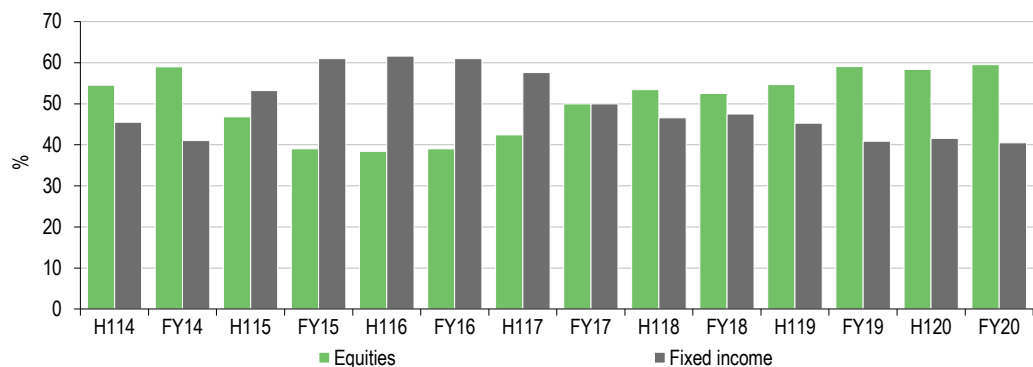
Investment process: Focus on quality and value

ALAI is managed by ASI's global emerging markets equities team and emerging market debt team, which adhere to ASI's focus on quality and value. The two teams communicate regularly to discuss the macro backdrop, findings from recent company meetings and portfolio positioning (including the level of gearing).

Stocks are selected following thorough fundamental analysis; the emerging markets equities team essentially seeks 'long-term winners'. These are high-quality companies with strong balance sheets that are cash generative and have strong management teams. An assessment of a firm's environmental, social and governance (ESG) credentials is integral to the investment process (see following section). Risk management is also an important consideration; ASI has an independent performance and risk team to ensure funds adhere to their respective guidelines and managers are aware of their risk exposures. ALAI's portfolio turnover is relatively low, generally around 15% pa, which implies an average seven-year holding period, although many equity investments have been held for considerably longer.

The emerging market debt team seeks high-quality securities that generate a sufficient level of income, so investments are biased to higher-coupon issues, ensuring that the equity team can focus on selecting companies for their total return potential rather than income. Analysis is on a bottom-up basis, with emphasis on the perceived prospects of each individual country. The team looks for relative value opportunities and builds ALAI's debt exposure accordingly. For liquidity reasons, investments are made in government or quasi-government issuers rather than corporate debt. They are generally in local rather than hard currencies, but the team can hedge or take forward currency positions. Fixed income positions are also held for the long term.

Exhibit 13: Portfolio exposure (since FY13)



Source: ALAI, Edison Investment Research

ALAI's approach to ESG

ALAI's managers embed ESG into the research of each asset class as part of the investment process. It is about active engagement, with the goal of improving the fund's performance. The managers aim to make the best possible decisions, by understanding the whole picture, before, during and after an investment is made. This includes focusing on the environmental (including climate change), social and governance risks and opportunities they present, and how these could affect the longer-term performance of investments.

ASI employs more than 1,000 investment professionals, who take ESG factors into account during their company research, stock selection and portfolio construction activities; they are supported by more than 50 ESG specialists around the world. Through engagement and exercising voting rights, the managers actively work with companies to improve corporate standards, transparency and

accountability. In doing so, they aim to deliver improved financial performance over the longer term, as well as actively contributing to a fairer, more sustainable world.

Gearing

ALAI is not permitted to take out fixed long-term borrowings. In August 2020, the company entered into a one-year £6m unsecured revolving multi-currency loan facility with Scotiabank Europe expiring on 14 August 2021 (£5.5m is drawn down). The board continues to monitor the level of gearing under recommendation from the manager and taking current market conditions into account. As at 19 February 2021, ALAI's net gearing was 14.0%.

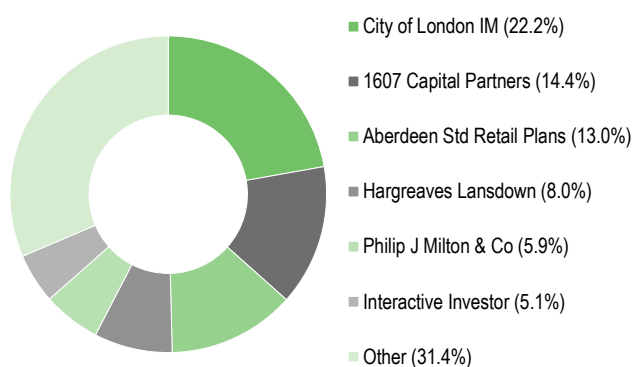
Fees and charges

ALAI pays Aberdeen Standard Capital International Limited an annual management fee of 1.0% of its NAV, which is split 40:60 between the revenue and capital accounts respectively reflecting the prospective split between future revenue and capital growth. The fund's ongoing charge ratio (OCR) is capped at 2.0%, with any excess fees rebated by the manager. In FY20 the was OCR 2.0% (FY19: 2.0%).

Capital structure

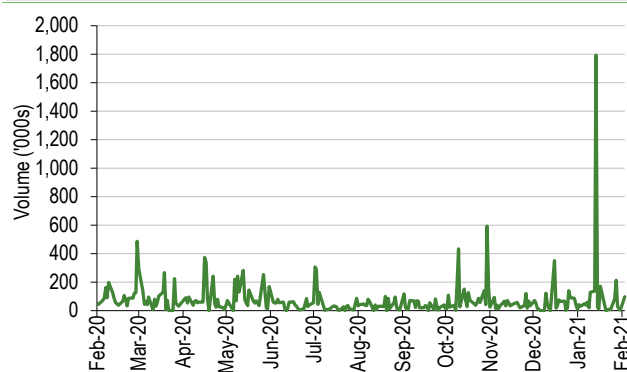
ALAI is a Jersey-registered investment company with one class of share; there are currently 57.1m ordinary shares in issue (with a further 6.1m held in treasury). Its largest holder is City of London Investment Management with more than 20% of the share base, while its average daily volume over the last 12 months is 78.2k shares.

Exhibit 14: Major shareholders



Source: ALAI, as at 31 January 2021

Exhibit 15: Average daily volume



Source: Refinitiv, 12 months to 22 February 2021

The board

Exhibit 16: ALAI's board of directors

Board member	Date of appointment	Remuneration in FY20	Shareholdings at end-FY20
Richard Prosser (chairman)	30 June 2010	£32,000	15,000
Hazel Adam	27 April 2018	£22,000	0
Heather MacCallum (audit committee chair)	24 April 2019	£25,605	0
Howard Myles	1 October 2020	N/A	0

Source: ALAI

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