EDISON

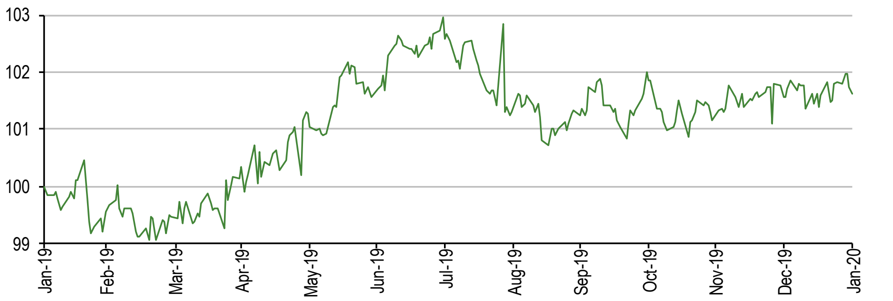
Aberdeen Latin American Income Fund

Income without compromising on capital growth

Investment companies
Latin American equities/debt

Aberdeen Latin American Income Fund (ALAI) offers exposure to Latin American equities and government debt. It is managed by Aberdeen Standard Investments' (ASI's) global emerging markets equities and emerging market debt teams. While 2019 was a difficult year in terms of economic growth, the markets performed strongly, underlining the resilience of the region. The managers remain 'cautiously optimistic' on the outlook for Latin America, led by the largest economies Brazil and Mexico, which are supported by lower interest rates and stable inflation, while there is also a positive government reform agenda in Brazil. ALAI is continuing to deliver on its income objective without compromising on its capital growth potential. It has meaningful revenue reserves and the fund offers an attractive 5.1% yield.

NAV ahead of the benchmark over the 12 months to end-January 2020



Source: Refinitiv, Edison Investment Research

The market opportunity

While Latin American markets can be volatile, there are opportunities in the region in both equities and government debt. According to the International Monetary Fund (IMF), the growth prospects in Latin America are superior to those in advanced economies, helped by population growth and rising disposable incomes. Also, equity valuations are relatively inexpensive compared with the world market.

Why consider investing in ALAI?

- Offers broad exposure to Latin America – both equities and government debt.
- Interest-rate environment in the region is supportive for economic growth.
- Outperformed the composite benchmark over the 12 months to end-January.
- Fully covered FY19 dividend and attractive 5.1% yield.
- Well-resourced investment teams, with a consistent focus on quality and value.

Scope for a narrower discount

ALAI's discount remains persistently wide, typically within a 10–16% range over the last three years. There is scope for an improved valuation if there is increased investor demand for exposure to Latin America. The current 12.5% discount to cum-income NAV compares to the 12.6% to 13.5% range of average discounts over the last one, three and five years. ALAI has paid a 3.5p per share annual dividend in each of the last four financial years and offers a 5.1% yield.

27 February 2020

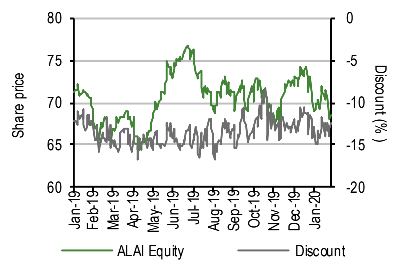
Price	**68.5p**
Market cap	**£39.1m**
AUM	**£50.4m**

NAV*	77.7p
Discount to NAV*	11.8%
NAV**	78.3p
Discount to NAV**	12.5%

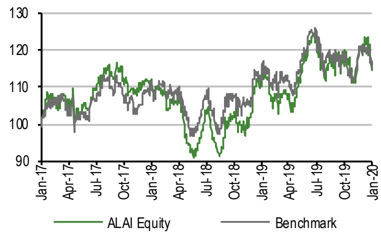
*Excluding income. **Including income. At 25 February 2020.

Yield	5.1%
Ordinary shares in issue	57.1m
Code	ALAI
Primary exchange	LSE
AIC sector	Latin America
Benchmark	Composite benchmark

Share price/discount performance



Three-year performance vs index



52-week high/low	76.8p	64.4p
NAV** high/low	90.1p	75.2p

**Including income.

Gearing

Gross*	13.3%
Net*	12.4%

*As at 31 January 2020.

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Edison profile page

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

Exhibit 1: Company at a glance

Investment objective and fund background

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 £ terms): 60% MSCI EM Latin American 10/40 index and 40% JP Morgan Government Bond Index EM Global Diversified (Latin America carve-out).

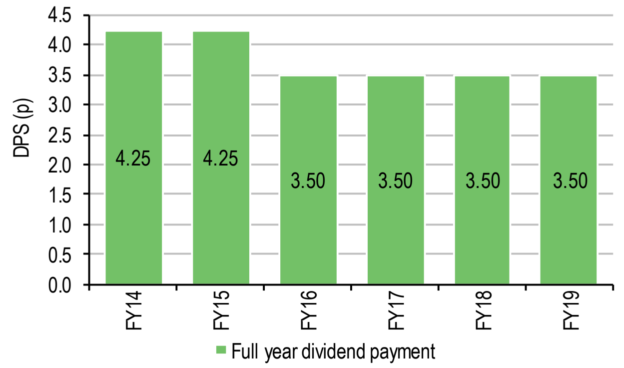
Recent developments

- 11 December 2019: declaration of 0.875p first interim dividend.
- 11 December 2019: retirement of director George Baird at AGM.
- 7 November 2019: annual results ending 31 August 2019. NAV TR +22.4% versus benchmark TR +17.4%, share price TR +19.93%.
- 19 September 2019: declaration of 0.875p fourth interim dividend.

Forthcoming		Capital structure		Fund details	
AGM	December 2020	Ongoing charges	FY19 capped at 2.0%	Group	Aberdeen Standard Investments
Interim results	April 2020	Net gearing	12.4%	Manager	Aberdeen Asset Managers
Year end	31 August	Annual mgmt fee	1.0%	Address	Sir Walter Raleigh House, 48–50 Esplanade, St Helier, Jersey JE2 3QB
Dividend paid	Jan, May, Jul, Oct	Performance fee	No		
Launch date	16 August 2010	Company life	Indefinite	Phone	0808 500 00 40
Continuation vote	None	Loan facilities	£8m (£6m drawn)	Website	www.latamincome.co.uk

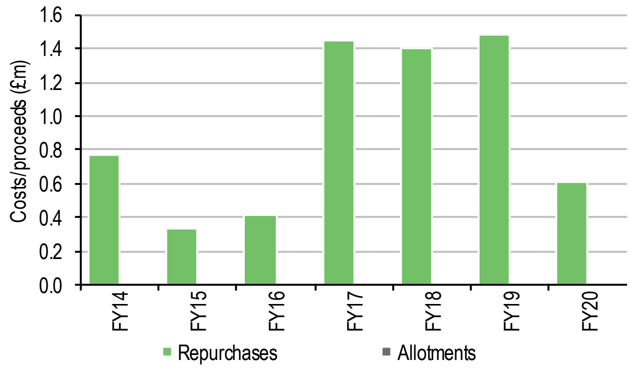
Dividend policy and history (financial years)

ALAI pays quarterly dividends in January, May, July and October.

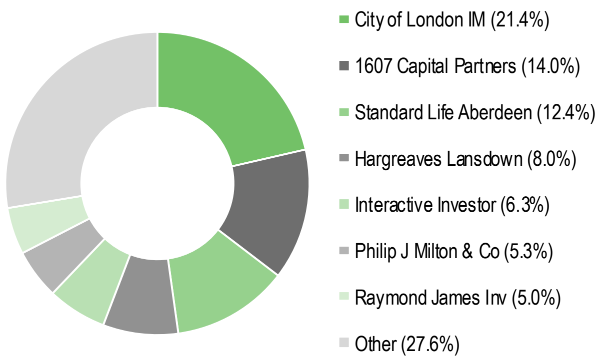


Share buyback policy and history (financial years)

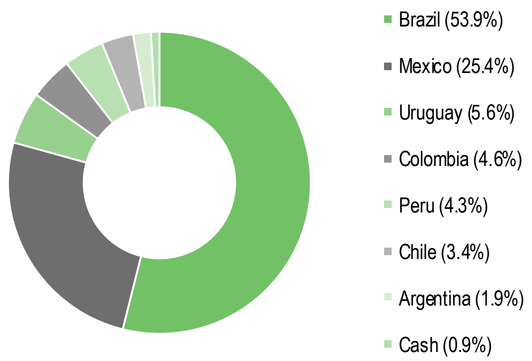
Renewed annually, the board has the authority to repurchase up to 14.99% and allot up to 10% of shares.



Shareholder base (at 3 February 2020)



Portfolio exposure by geography (at 31 January 2020)



Top 10 holdings (as at 31 January 2020)

			Portfolio weight %	
Security	**Country**	**Sector**	**31 January 2020**	**31 January 2019***
Brazil (Fed Rep of) 10% 01/01/25	Brazil	Government bond	7.9	8.8
Banco Bradesco	Brazil	Financials	5.2	5.5
Petrobras	Brazil	Energy	4.9	3.1
Colombia (Rep of) 9.85% 28/06/27	Colombia	Government bond	4.6	6.2
Mex Bonos Desarr Fix Rt 10% 20/11/36	Mexico	Government bond	4.3	2.6
Brazil (Fed Rep of) 10% 01/01/21	Brazil	Government bond	4.2	4.6
Mex Bonos Desarr Fix Rt 8.5% 18/11/38	Mexico	Government bond	4.0	3.2
Itaú Unibanco	Brazil	Financials	3.4	4.8
Uruguay (Rep of) 4.375% 15/12/28	Uruguay	Government bond	3.4	3.1
Grupo Financiero Banorte	Mexico	Financials	2.6	N/A
Top 10 (% of portfolio)			**44.5**	**44.5**

Source: Aberdeen Latin American Income Fund, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-January 2019 top 10.

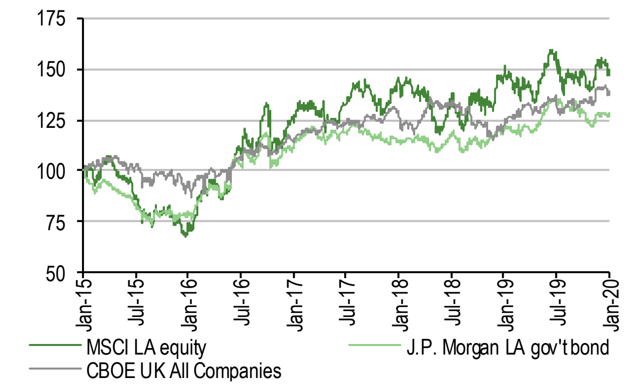
Market outlook: Favourable growth and valuation

Over the last five years, within Latin America, equities have outpaced the performance of government bonds; they have also outperformed UK equities over this period in sterling terms (Exhibit 2, LHS). IMF economic growth forecasts are for above-average growth in the region in 2021, at 2.3% versus 1.6% for advanced economies (1.6% for both in 2020). Drivers include a favourable interest rate environment, population growth and a more affluent middle class.

Looking at forward P/E valuations (Exhibit 2, RHS), in aggregate, Latin American equities are c 21% less expensive than the world market. They are trading at a 6% discount to their five-year average, while global equities are trading on a 6% premium. Although Brazil's valuation looks somewhat extended, Mexico is looking more attractive, at a 13% discount to its five-year average. With above-average growth prospects and below-average valuations, investors may wish to consider an allocation to Latin America.

Exhibit 2: Market performance and valuations (last five years)

Performance of indices (£-adjusted)



Datastream indices forward P/E valuations (x)

	Last	High	Low	Five-year average	Last as % of average
Latin America	12.7	15.6	11.5	13.5	94
Brazil	14.7	14.7	10.3	12.5	117
Mexico	13.8	19.1	11.7	15.9	87
US	18.9	19.5	14.8	17.3	109
UK	13.1	15.7	11.3	14.0	94
World	16.0	16.3	13.0	15.0	106

Source: Refinitiv, Edison Investment Research. Note: Valuation data at 26 February 2020.

Fund profile: Latin American equity/bond specialist

ALAI was launched on 16 August 2010 as 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, aiming to generate a total return with an above-average yield, primarily via investing in Latin American securities. ALAI's performance is benchmarked against a composite index comprising 60% MSCI EM Latin American 10/40 index and 40% JP Morgan Government Bond Index EM Global Diversified (Latin America carve-out); both are sterling adjusted. The portfolio is not constructed with reference to the composite index, meaning there will be periods when ALAI's performance deviates from that of its benchmark.

The manager invests in equity, equity-related and fixed income securities; at end-January 2020, the fund held c 61% in equities and c 39% in 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. There are no restrictions on geographic, sector or market cap exposure. 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). The manager may employ derivatives 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; at end-January 2020, net gearing was 12.4%.

The fund manager: Aberdeen Standard Investments

The managers' view: Constructive on the 2020 growth outlook

We met with two of ALAI's managers, Viktor Szabó (a member of the emerging market debt team) and Brunella Isper (a member of the global emerging markets equities team), who gave their perspectives on Latin America. Szabó says that 2019 was quite a disappointment in terms of economic growth, although the stock market performed very well, helped by macro developments. At the beginning of the year there were fears about higher US interest rates, but the Federal Reserve adopted a more dovish stance, the US did not tip into recession, there was progress on the US-China trade dispute and then in late January 2020, the US approved the new trade agreement with Canada and Mexico (the USMCA). The manager is encouraged by the growth prospects for Latin America this year given benign inflation and declining or already low interest rates. As an example, Brazilian rates are at a record low: the Selic has declined from 14.25% in 2016 to 4.25%. Szabó expects more investment in the country, although there may be capital outflows from domestic investors, which could put pressure on the Brazilian currency. Given low interest rates, he says bond yields in Brazil are no longer as attractive and there has been a large rotation from fixed-income securities into equities.

Szabó explains that some of the smaller Latin American countries experienced protests towards the end of 2019, namely in Chile, Colombia, Bolivia and Ecuador. The manager says the most surprising and violent unrest was in Chile, one of the wealthier and most developed economies in the region; tensions started following a rise in the Santiago Metro's underground fare. The government's knee-jerk reaction to the protests was to increase 2020 fiscal spending by 4.5%, which is above the rate of inflation, to be spent on programmes such as pensions and healthcare. There is also a proposed change to the Chilean constitution, which the manager suggests will be a very protracted and unsettling process. Szabó also highlights Peru, where there are significant political changes in progress following the dissolution of Congress, and Uruguay, where the 2019 general election saw the appointment of a market-friendly president, which the manager suggests is positive for ALAI's Uruguayan fixed income exposure.

Offering his thoughts on the impacts of the COVID-19 coronavirus on Latin America, Szabó says Mexico is the only economy that is manufacturing based, as all others in the region are mainly commodity exporters. The manager notes that while over the last 20 years, Latin America's Chinese exposure has increased, China's contribution to GDP in the region is still not that significant and he believes the shock from the virus will be much larger for Asian countries depending on the Chinese manufacturing supply chain and tourism. While oil prices have declined meaningfully since the virus outbreak, Szabó suggests this is largely sentiment driven, and he does not expect Latin American exports to collapse.

The manager says Mexican economic growth in 2019 was a real disappointment, with Q2–Q4 GDP data indicating a recession. He observes a divergence in local sentiment – consumers remain optimistic, but business sentiment is weak. President Obrador has taken steps to build bridges with the business community, but so far has been unsuccessful. On a more positive note, production declines at state oil company Pemex seem to have stabilised. If there is an increase in production, it would be positive for the Mexican economy, while the resilience in consumer sentiment bodes well for demand for services and consumption growth. Szabó says that despite the lack of growth in Mexico, the peso has remained relatively strong, which provides scope for the central bank to reduce interest rates further, which should be supportive for future economic output.

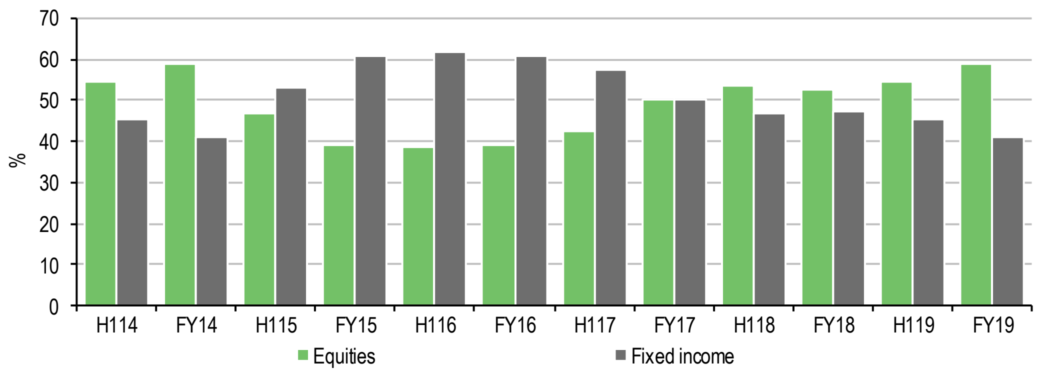
Isper says that in Brazil, the long-awaited pension reform bill was passed in October and is one of the main achievements of the Bolsonaro administration, as it should provide significant cost savings. The government acknowledges that pension reform on its own is not sufficient and is working on other programmes such as administration reform, tax reform and a reduction in public sector spending. The manager suggests that tax reform could be particularly significant given the current onerous and very bureaucratic system. She says the Brazilian government is making good progress with its privatisation agenda, which is continuing in 2020 and while low interest rates are putting pressure on the currency, they provide the impetus for companies to invest and promote credit creation. GDP growth was modest in 2019 and the big recovery following the 2015/16 recession is yet to materialise. Isper says that while government stimulus drove the economic improvement following the global financial crisis, this time a recovery must be driven by the private sector. Although this could be a more subdued pickup, she believes the recovery could be healthier and more sustainable. There are some encouraging signs for improved growth, in terms of lower unemployment and higher job creation; the manager says she is 'cautiously optimistic' on the prospects for Brazil in 2020.

Asset allocation

Investment process: Seeking quality and value

ASI employs a team-based approach, focusing on quality and value. ALAI is managed by ASI's global emerging markets equities team and emerging market debt team, who communicate regularly to consider portfolio positioning (including the level of gearing), combining macro and micro inputs and discussing findings from recent trips and company meetings. They seek investments that can be held for the long term. Risk management is integral to the investment process; ASI has an independent performance and risk team to ensure funds adhere to their respective guidelines and managers are aware of their risk exposures.

Exhibit 3: Portfolio exposure (since FY13)



Source: Aberdeen Latin American Income Fund, Edison Investment Research

In terms of equities, the manager seeks companies with strong management teams, good fundamentals and pricing power that tap into the more robust parts of the Latin American economy and are trading on reasonable valuations. Potential investee companies undergo thorough bottom-up, proprietary research. Regularly meeting company managements is a key element of the investment process and there is a keen focus on a company's environmental, social and governance track record. Isper notes that generally, firms are increasing their levels of disclosure. ALAI's portfolio turnover is relatively low at c 15% pa, which implies an average seven-year holding period, although many equity investments have been held for more than a decade.

In terms of fixed income, the manager seeks high-quality securities that generate a sufficient level of income. Analysis is undertaken on a bottom-up basis, focusing on the perceived prospects of each individual country. For liquidity reasons, ALAI invests in government or quasi-government issuers rather than corporate debt. Investments are generally made in local rather than hard currencies, but the manager can hedge or take forward currency positions. ASI's fixed income team is responsible for generating the bulk of ALAI's income, so investments are biased to higher-coupon issues. This ensures the fund's equity managers can focus on selecting companies for their total return potential rather than just focusing on income.

Current portfolio positioning

At end-January 2020, ALAI's top 10 positions made up 44.5% of the portfolio, which was in line with a year earlier; nine positions were common to both periods. Over this time, the fund's equity exposure increased by 5.2pp, while the number of holdings declined by three to 62. The equity exposure is at the high end of the historical range (see Exhibit 3), reflecting the managers' bullish outlook on the prospects for Latin America.

Exhibit 4: Current portfolio breakdown (% unless stated)

	Portfolio end-January 2020	Portfolio end- January 2019	Change (pp)
Equity exposure	60.6	55.4	5.2
Fixed income exposure	39.4	44.6	(5.2)
Number of holdings	62	65	

Source: Aberdeen Latin American Income Fund, Edison Investment Research

In terms of ALAI's geographic breakdown, the largest changes were higher weightings to Mexico (+2.6pp) and Brazil (+2.1pp) and lower exposure to Argentina (-2.7pp).

Exhibit 5: Total portfolio breakdown by geography (% unless stated)

	Portfolio end-January 2020	Portfolio end- January 2019	Change (pp)
Brazil	53.9	51.8	2.1
Mexico	25.4	22.8	2.6
Uruguay	5.6	5.9	(0.3)
Colombia	4.6	6.2	(1.6)
Peru	4.3	4.1	0.2
Chile	3.4	3.7	(0.3)
Argentina	1.9	4.6	(2.7)
Cash	0.9	0.9	0.0
	100.0	**100.0**	

Source: Aberdeen Latin American Income Fund, Edison Investment Research

Szabó highlights ALAI's lack of fixed income exposure to Argentina: the last bond was sold in Q319, before the introduction of capital controls. The manager suggests the country is now 'untradable'; it is on the brink of default as its level of debt has ballooned in recent years. Argentina has been removed from the bond index used in the fund's composite benchmark. ALAI's sole Argentinian equity position is IT and software development company Globant, which generates the majority of its sales outside of the country and is benefiting from the migration to digital strategies.

Isper highlights ALAI's most recent new equity positions:

- **Burger King Brazil** – this fast-food operator has the exclusive franchise in the country. The manager says the company has good growth potential due to rising consumption, an experienced management team that is focusing on improving efficiency and a strong balance sheet to support growth of its restaurant network.
- **Instituto de Resseguros do Brasil (IRB)** – this is the leading reinsurer in the country. Historically, it had a monopoly and it retains the largest industry share (more than a third). It has a substantial database of information derived from more than 70 years of underwriting. IRB has a wide network and strong relationships with insurers. Isper says the company has good growth opportunities domestically and in its operations in South America.
- **Mercado Libre** – this is the leading e-commerce company in Latin America, with its largest operations in Brazil. The region has low penetration; there is a high level of internet usage, but low online purchasing activity. Mercado Libre also has a growing fintech business, which could become the largest part of the company.
- **XP** – this company came to the market in December 2019 and is the largest brokerage by equity-trading volume in Brazil, with a leading open architecture platform. XP has a high

addressable market, with potential to take share from the banks due to its investments in IT and client services and a more attractive product offering. Within Brazil there has been a big investor shift from fixed income into other asset classes such as equities, which has been beneficial for XP's market share.

The manager is mindful of diluting ALAI's performance by having too many holdings, so has been selling lower-conviction positions:

- **Banco BBVA Argentina** – a domestic bank in a country with a weak economic outlook.
- **Grupo Lala** – a Mexican dairy firm. Isper is worried about the strategic direction of its operations and has corporate governance concerns about the company.
- **Tenaris** – a global manufacturer and supplier of steel pipes and related services, primarily for the energy industry. The manager says the outlook for the oil and gas sector is unexciting, particularly in the US, where the company has a large exposure.
- **Ultrapar** – a Brazilian fuel distributor. Isper says the company's operations are challenged by intense competition, and she is concerned about its future growth and strategic direction.

Within ALAI's fixed income portfolio, Szabó has been reducing the overweight to longer-dated Brazilian debt as he believes the country is close to the end of the rate-cutting cycle. However, he notes the coronavirus outbreak means interest rates could stay lower for longer. The manager is long duration risk in Mexico, as he believes there are real prospects for further interest rate cuts. The fund had no fixed-income exposure in Chile for a long while, but the manager recently took a short-term tactical currency position following the market sell-off as a result of the protests in the country. This proved successful and the position was closed, with the proceeds used to reduce the fund's underweight exposure to the Peruvian sol.

Performance: Outperformance over the last year

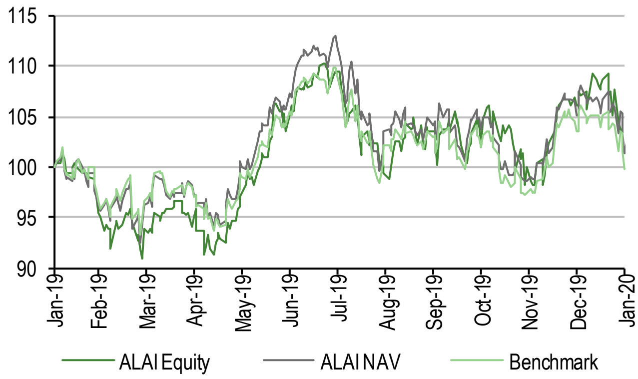
Exhibit 6: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	Composite benchmark (%)*	MSCI EM Latin American 10/40 (%)	JP Morgan GBI-EM Global Diversified (Latin America) (%)
31/01/16	(31.3)	(27.2)	(23.0)	(25.5)	(19.7)
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

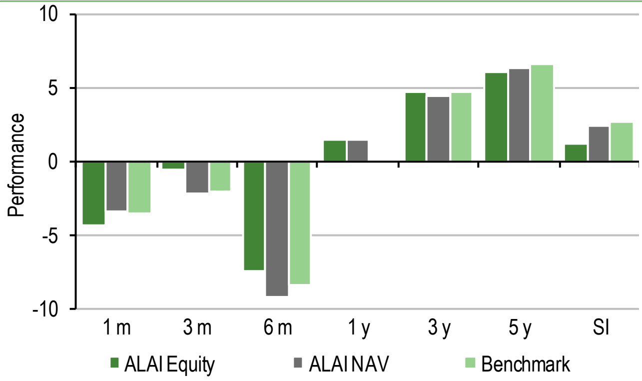
Source: Refinitiv. Note: All % on a total return basis in pounds sterling. *Composite benchmark is 60% MSCI EM Latin American 10/40 index and 40% JP Morgan Government Bond Index EM Global Diversified (Latin America carve-out).

Exhibit 7: Investment company performance to 31 January 2020

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three- and five-year and since inception (SI) performance figures annualised. Inception date is 16 August 2010.

ALAI's relative returns are shown in Exhibit 8. It has outpaced the benchmark over the last year in NAV and share price terms, while its share price has also slightly outperformed over the last three years. Latin American markets have been somewhat weak over the last six months and the fund's share price has outperformed, while its NAV is modestly weaker. Looking at ALAI's equity exposure, over this period the largest contributors to relative returns were Mexican airport operator ASUR (+68bp), Brazilian software company TOTVS (+48bp) and Mexican bank Grupo Financiero Banorte (+45bp), while the largest detractors were not holding Mexican telecoms operator América Móvil (-64bp), holding Banco BBVA Argentina (-53bp) and not holding Brazilian retailer Magazine Luiza (-41bp). On the bond side, the largest contributors to returns were a lack of exposure to Chile and issuance selection in Mexico, while the exposure to Uruguay detracted from performance.

Exhibit 8: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	SI
Price relative to benchmark	(0.9)	1.4	1.0	1.6	0.1	(2.5)	(12.5)
NAV relative to benchmark	0.1	(0.2)	(0.9)	1.6	(0.8)	(1.5)	(2.6)
Price relative to MSCI EM LA 10/40	0.7	1.2	1.2	4.8	(0.3)	(6.5)	(0.4)
NAV relative to MSCI EM LA 10/40	1.7	(0.4)	(0.8)	4.9	(1.2)	(5.5)	10.8
Price relative to JP Morgan LA gov't bond	(3.2)	1.9	1.2	(2.5)	2.4	7.1	(23.0)
NAV relative to JP Morgan LA gov't bond	(2.3)	0.2	(0.8)	(2.4)	1.5	8.2	(14.3)
Price relative to CBOE UK All Companies	(1.0)	(2.3)	(7.2)	(8.2)	(2.8)	(0.8)	(47.1)
NAV relative to CBOE UK All Companies	(0.0)	(3.9)	(9.0)	(8.2)	(3.7)	0.2	(41.1)

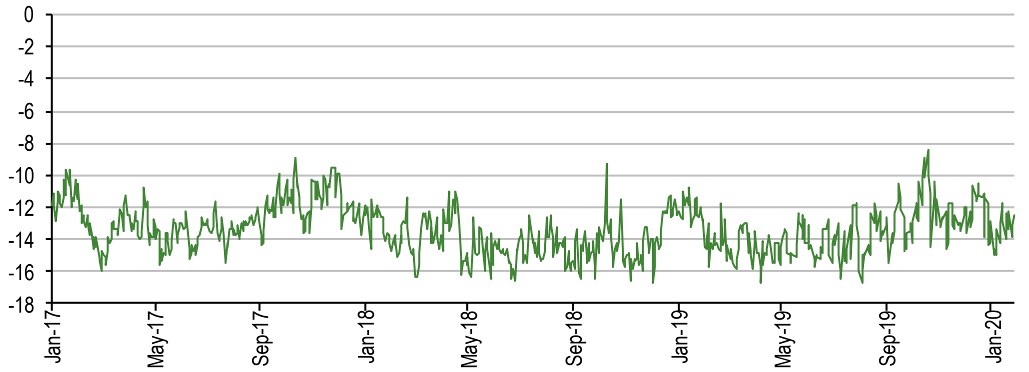
Source: Refinitiv, Edison Investment Research. Note: Data to end-January 2020. Geometric calculation.

Exhibit 9: NAV total return performance relative to composite benchmark over three years

Source: Refinitiv, Edison Investment Research

Discount: Remains in three-year band

Exhibit 10: Share price discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Over the last three years, ALAI has generally traded within a range of a c 10% to a c 16% discount. Its current 12.5% discount to cum-income NAV compares with the 8.4–16.8% range over the last 12 months. Over the last one, three and five years, ALAI's discount has averaged 13.5%, 13.4% and 12.6% 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 FY19, 2.2m shares (3.6% of the share base) were repurchased at a cost of £1.5m, which enhanced NAV by 0.46%.

Capital structure and fees

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). It has a three-year £8m (£6m drawn), multi-currency, revolving credit agreement with Scotiabank (Ireland) – the fund may not have fixed long-term borrowings. At end-January 2020, net gearing was 12.4%.

Aberdeen Standard Fund Managers is paid an annual management fee of 1.0% of ALAI's NAV. It is charged 40% to the revenue and 60% to the capital accounts, reflecting the prospective split between future revenue and capital growth. The fund's ongoing charge ratio (OCR) is capped at 2.0%, and any excess fees are rebated. In FY19 the OCR 2.0%, which was in line with FY18.

Dividend policy and record

ALAI pays quarterly dividends in January, May, July and October. The annual distribution was rebased in FY16 from 4.25p to 3.50p per share due to the depreciation of Latin American currencies. It has remained at this level for the last four financial years and the board expects this to continue. In FY19, the dividend was 1.2x covered. At the end of FY19, ALAI had revenue reserves of £2.7m, which is c 1.3x the last annual dividend payment. Based on its current share price, ALAI offers a 5.1% yield.

Peer group comparison

Exhibit 11: Selected peer group as at 21 February 2020*

% unless stated	Market cap/ fund size £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Aberdeen Latin American Income	40.4	6.8	12.4	45.5	(13.4)	2.0	No	112	5.0
BlackRock Latin American	188.1	1.2	16.4	51.9	(9.9)	1.0	No	100	5.7
Average	**114.2**	**4.0**	**14.4**	**48.7**	**(11.7)**	**1.5**		**106**	**5.4**
ALAI rank	**2**	**1**	**2**	**2**	**2**	**1**		**1**	**2**
Open-ended funds						**TER**			
ASI Latin American Equity	125.4	5.0	16.0	55.9		1.6			1.1
Fidelity Latin America	666.9	2.8	14.5	49.2		1.1			0.0
Schroder ISF Latin American	144.9	5.2	18.7	46.9		1.9			3.0
Templeton Latin America	670.2	5.2	14.0	44.9		2.3			1.2
Threadneedle Latin America	389.0	4.0	9.2	28.1		1.7			1.2
Average	**399.3**	**4.4**	**14.5**	**45.0**		**1.7**			**1.3**

Source: Morningstar, Edison Investment Research. Note: *Performance as at 20 February 2020. TR = total return. TER = total expense ratio. Net gearing is total assets less cash and equivalents as a percentage of net assets.

There are just two funds in the AIC Latin America sector and they pursue different strategies, as ALAI has a significant exposure to government bonds whereas BlackRock Latin American Investment Trust invests only in equities. ALAI's NAV total return is ahead of its peer's over one year, while trailing over three and five years. The fund has a wider discount and a higher ongoing charge, which is a function of spreading fixed costs over a smaller base. ALAI is geared, while its peer currently has a modest net cash position and it has a lower, albeit still attractive, dividend yield of 5%. To enable a broader comparison, in Exhibit 11 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 one and five years, while lagging over three years. Its dividend yield compares very favourably with all those of the open-ended funds.

The board

Following the retirement of George Baird at the December 2019 AGM, ALAI's board now has three independent, non-executive directors. The chairman, since the company's launch in 2010, is Richard Prosser. Hazel Adam joined the board on 27 April 2018, while Heather MacCallum joined last year on 24 April.

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