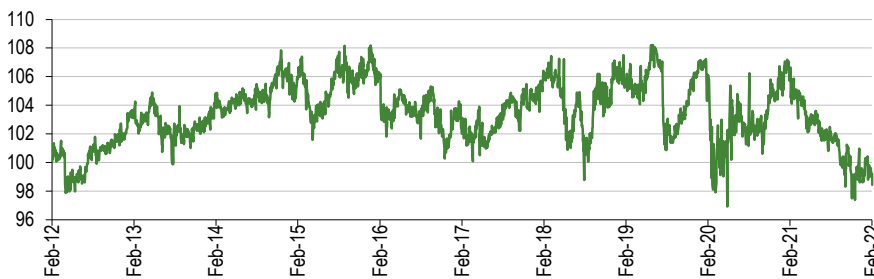


BlackRock Latin American IT

Strong start to the year for Latin America

BlackRock Latin American Investment Trust's (BRLA) two experienced managers, Ed Kuczma and Sam Vecht, remain positive on the outlook for Latin American equities, with Kuczma commenting that the region is 'under-owned, undervalued and unloved'. He says that the year-to-date stock market rally in Latin America is a good example of how quickly investor sentiment can change, especially given the global environment of rising interest rates. Kuczma points to the move from growth to value stocks, commenting that the region 'has a ton of value'.

NAV in line with the benchmark over 10 years to end-February 2022



Source: Refinitiv, Edison Investment Research

The analyst's view

The Latin American stock market has had a very strong relative start to the year, led by Brazil, as investors have reassessed the region's prospects. As at 28 February 2022, the MSCI Emerging Markets Latin America Index had appreciated by 13.6% year-to-date, while the MSCI World Index had declined by 6.8% (both in sterling terms). There is potential for this outperformance to continue, particularly in a rising interest rate environment, which traditionally favours value rather than growth stocks. The MSCI Emerging Markets Latin America Index is biased towards value sectors, with materials, financials and energy stocks representing c 60% of the total. BRLA's managers focus on quality companies and the trust has favourable relative attributes. BRLA is trading on a forward P/E multiple of 14.0x versus 15.5x for the index. The trust's estimated earnings growth for 2022 is mid-teens compared with a consensus 8% for the Latin American market, while the portfolio's return on equity of c 16% is meaningfully above the market's c 11%.

Discount in narrowing trend since September 2021

BRLA's discount has narrowed since September 2021, perhaps in anticipation of the proposed tender offer (details on pages five and six). The share price is currently at a 6.7% discount to cum-income net asset value (NAV) versus a discount ranging between 5.0% and 14.4% over the last 12 months. Over the last one, three, five and 10 years the share price discount has ranged between 9.7% and 11.7%. BRLA offers an attractive 5.2% dividend yield, which is based on 1.25% of the trust's quarterly NAV.

Investment trusts Latin American equities

3 March 2022

Price 383p
Market cap £150m
AUM £174m

NAV* 410.6p
Discount to NAV 6.7%

*Including income. As at 1 March 2022.

Yield 5.2%

Ordinary shares in issue 39.3m

Code/ISIN BRLA/GB0005058408

Primary exchange LSE

AIC sector Latin America

52-week high/low 409.0p 317.0p

NAV* high/low 461.7p 345.1p

*Including income

Net gearing* 8.6%

*As at 31 January 2022

Fund objective

BlackRock Latin American Investment Trust seeks long-term capital growth and an attractive total return, primarily through investing in quoted Latin American securities. The trust was launched in 1990 and management was transferred to BlackRock on 31 March 2006 following a tender process. The managers follow a mainly bottom-up approach (taking top-down views 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.

Bull points

- Diversified Latin American equity exposure from a fund run by two very experienced managers.
- Defined dividend policy and attractive yield.
- Latin America is attractively valued compared with other regions and its own history.

Bear points

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

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

The fund managers: Ed Kuczma and Sam Vecht

The manager's view: Improved investor sentiment

Kuczma says that Latin American currencies are bouncing back from 'a dismal 2021' as investors learn to live with the region's political risk and focus instead on soaring local interest rates and commodity prices. He notes that Brazil, Chile and Peru have the three top performing emerging market currencies so far this year; a sharp turnaround from 2021, when four of the six worst performers were in Latin America. The manager comments that currencies in the region remain inexpensive, although the combination of rising interest rates and low valuations has been attracting investors to the region.

Latin American central banks were the first to raise interest rates last year and policymakers in both Chile and Colombia have surprised markets with steep hikes this year in preparation for US Federal Reserve tightening. Meanwhile, Brazilian policymakers have increased borrowing costs to 10.75%, which is the highest in almost five years. Kuczma comments that Latin America has been proactive in hiking interest rates and is 'ahead of the curve' from a monetary standpoint relative to developed markets. He notes that having been one of the worst performing emerging market currencies in 2021, the Brazilian real has been robust this year strengthening by c 9% from 5.57/US\$ at the start of the year to 5.12/US\$ now. 'Rises in commodity prices have certainly played a role' opines the manager, with the prices of oil, soybeans and iron ore (Brazil's main commodity exports) increasing since the start of the year. 'What's more, high interest rates are making local assets more attractive', adds Kuczma.

The manager says that politics have been favourable for the performance of the real. Former president Luiz Inácio Lula da Silva (Lula), the frontrunner in the race for the presidency, has given even clearer signs this week that he will choose Geraldo Alckmin (a business-friendly politician) as his running mate, indicating that Lula would govern as a moderate.

Kuczma suggests that 'there is no clear hint that the underlying force behind the Latin American market rally is fading' as Brazil's high yields compared with those of its peers and relatively inexpensive local stock markets continue to attract foreign inflows. He says that the consensus view that Lula is moving toward a more centrist position is also 'enthusing bulls'. The manager explains that the global rotation from growth stocks into value stocks continues to boost the performance of Brazilian equities. Around 60% of the Ibovespa is made up of stocks often classified as value (mostly financials and commodities) and compares with around 15% in the US S&P 500 Index. Other Latin American countries (Chile, Colombia and Peru) also have a strong value bias. Kuczma is of the opinion that 'growth stocks remain unloved' but uncertainty on the Federal Reserve's pace of interest rate rises 'may keep investors away from growth stocks for now'.

Current portfolio positioning

Looking at Exhibit 1, at the end of January 2022, BRLA's top 10 positions made up 51.0% of the fund, which was a modestly higher concentration compared with 50.3% a year earlier; seven positions were common to both periods. The underweight in Vale has increased from 2.2pp to 3.3pp since the end of September 2021, which we highlighted in our last published [note](#) on 25 October 2021, while the underweight in Petrobras has doubled from 0.9pp to 1.8pp over this period.

Exhibit 1: Top 10 holdings (as at 31 January 2022)

Company	Country	Sector	Portfolio weight %		Benchmark weight (%)	Active weight vs benchmark (pp)
			31 Jan 2022	31 Jan 2021*		
Vale - ADS	Brazil	Materials	7.7	8.2	11.0	(3.3)
Petrobras - ADR**	Brazil	Energy	7.6	8.6	9.4	(1.8)
Banco Bradesco - ADR	Brazil	Banks	6.3	7.6	4.6	1.7
B3	Brazil	Diversified financials	5.9	4.7	3.0	2.9
América Móvil - ADR	Mexico	Telecom services	5.3	4.0	5.7	(0.4)
Grupo Financiero Banorte	Mexico	Banks	4.1	N/A	2.9	1.2
Walmart de México y Centroamérica	Mexico	General retailing	3.9	3.8	3.1	0.8
Credicorp	Peru	Diversified financials	3.9	N/A	1.7	2.2
Notre Dame Intermédica	Brazil	Healthcare	3.2	3.3	1.2	2.0
Cemex - ADR	Mexico	Materials	3.1	N/A	1.6	1.5
Top 10 (% of holdings)			51.0	50.3		

Source: BlackRock Latin American IT, Edison Investment Research. Note: *N/A where not in end-January 2021 top 10. **Equity and preference shares.

As a reminder, stocks are selected on a bottom-up basis. Over the 12 months to the end of January 2022, the largest changes in BRLA's geographic exposure were a 3.9pp higher weighting in Peru and lower weightings in Chile (-3.0pp) and Brazil (-2.9pp, Exhibit 2). The fund's diversification has increased: at the end of January 2022, it had a 3.9pp weighting in Peru and a 2.0pp weighting in Panama. Compared with the index, BRLA's largest active weights are a 2.4pp underweight in Colombia, a 2.3pp underweight in Brazil and a 2.0pp overweight in Panama. Argentina now has a zero weighting within the index due to the country's continued capital controls.

Exhibit 2: Portfolio geographic exposure vs MSCI EM Latin America Index (% unless stated)

	Portfolio end-Jan 2022	Portfolio end-Jan 2021	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Brazil	60.0	62.9	(2.9)	62.3	(2.3)	1.0
Mexico	26.5	24.8	1.7	26.6	(0.1)	1.0
Chile	6.0	9.0	(3.0)	5.7	0.3	1.1
Peru	3.9	0.0	3.9	3.0	0.9	1.3
Panama	2.0	0.0	2.0	0.0	2.0	0.0
Argentina	1.6	3.3	(1.7)	0.0	1.6	0.0
Colombia	0.0	0.0	0.0	2.4	(2.4)	0.0
	100.0	100.0		100.0		

Source: BlackRock Latin American IT, Edison Investment Research

In terms of sectors, over the 12 months to the end of January 2022, there was a notable 6.4pp increase in consumer staples (Exhibit 3, although at -4.7pp versus the index, this is the largest active weight in the fund). The biggest decreases were in the materials (-5.7pp) and consumer discretionary (-4.4pp) sectors, while the largest overweight exposure is financials (+3.7pp).

Exhibit 3: Portfolio sector exposure vs MSCI EM Latin America Index (% unless stated)

	Portfolio end-Jan 2022	Portfolio end-Jan 2021	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Financials	28.1	25.3	2.8	24.4	3.7	1.2
Materials	20.7	26.4	(5.7)	22.5	(1.8)	0.9
Consumer staples	10.2	3.8	6.4	14.9	(4.7)	0.7
Industrials	8.9	9.6	(0.7)	6.6	2.3	1.3
Communication services	8.3	6.0	2.3	8.1	0.2	1.0
Energy	7.6	8.6	(1.0)	11.8	(4.2)	0.6
Healthcare	6.1	4.4	1.7	2.7	3.4	2.3
Consumer discretionary	3.6	8.0	(4.4)	4.0	(0.4)	0.9
Real estate	3.4	4.0	(0.6)	0.6	2.8	5.7
Information technology	1.6	3.9	(2.3)	0.5	1.1	3.2
Utilities	1.5	0.0	1.5	3.9	(2.4)	0.4
	100.0	100.0		100.0		

Source: BlackRock Latin American IT, Edison Investment Research

Kuczma believes that company valuations are pricing in higher interest rates and the associated risks to corporate earnings growth. He is focusing on companies with strong fundamentals and low leverage. The manager is also adding exposure to 'reopening plays' such as Panamanian airline

Copa Holdings, which is benefiting from competitors that are in financial difficulty. Copa is increasing its capacity and taking market share.

Kuczma highlights other recent portfolio changes: in December 2021, he sold Sociedad Química y Minera de Chile (SQM), which was in the cross hairs of the Chilean presidential election. Although demand for lithium remains high driven by the demand for electric vehicles, there is a risk of a nationalisation of parts of the lithium supply chain. With the shift to the left in Chile and SQM having been granted licences by disgraced former president Augusto Pinochet, the manager took profits ahead of the presidential election.

Gerdau was added to BRLA's portfolio in November 2021. It is a Brazilian steel manufacturer with 40% of its production in the United States. Kuczma says that the global economy will be led by the United States for the first time in many years as Chinese economic growth slows. Activity in the US infrastructure sector is robust and Chinese steel exports are declining, reducing the competitive threat.

In the same month, Natura & Co exited the portfolio following weak Q321 earnings. It is a Brazilian cosmetics company with a door-to-door sales model. Its revenues had been strong, but the company has acquired the businesses of Avon Products, which had been losing market share over the last couple of years. The manager is sceptical about the business's turnaround and there has been increased spending to support the brand. Natura is also suffering from higher input costs, including for its oil-based products and packaging.

October 2021 saw the sale of Cyrela Brazil Realty, a major housing-based real estate company. Rising interest rates make mortgages less affordable and the company is suffering from higher input costs such as steel and cement. The firm had experienced strong demand during the pandemic.

During that month BRLA inherited a new position in asset manager XP, which was spun off from Itaú Unibanco. Kuczma has subsequently added to the holding based on the company's positive long-term prospects. It is a low-cost digital stockbroker in Brazil, a country where the top four traditional banks have an 80% share, which is very concentrated, and XP should be able to gain a greater share of customers' wallets. Its brokerage accounts are profitable and there are cross-selling opportunities. The manager considers XP to be a disruptor and long-term winner that has executed well.

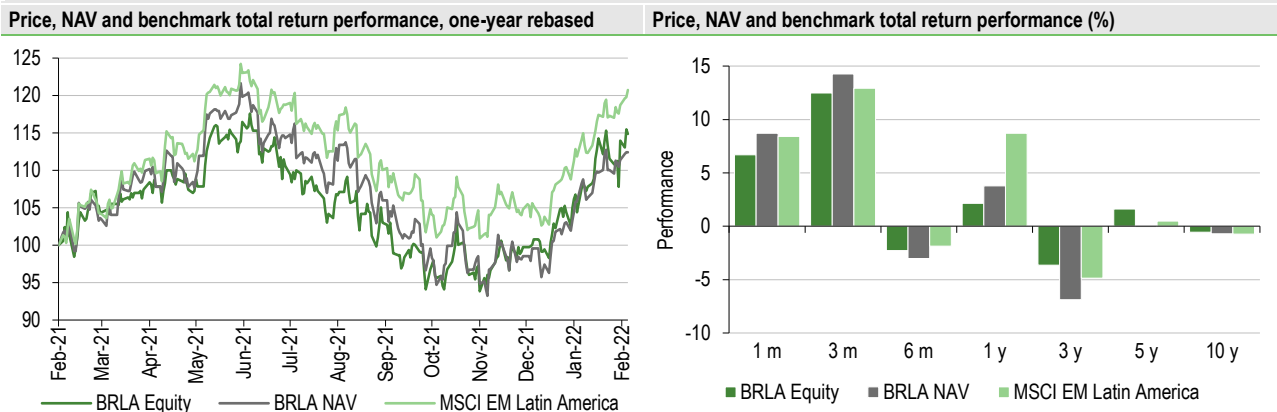
Kuczma sold BRLA's position in airline Azul Linhas Aéreas Brasileira in September 2021, having been purchased in the depths of the pandemic. The holding performed well, but then business travel did not come back as quickly as anticipated. Management lowered its business projections and renegotiated the company's debt and lease obligations, but now the business is at risk from financial difficulties.

Performance: NAV just behind the index over 10 years

Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI EM Latin America (%)	CBOE UK All Companies (%)	MSCI World (%)
28/02/18	12.7	13.9	9.7	4.4	6.6
28/02/19	0.1	(1.6)	(1.4)	1.6	4.6
29/02/20	(5.1)	(7.6)	(7.9)	(2.1)	9.6
28/02/21	(9.9)	(14.2)	(13.9)	2.8	18.8
28/02/22	13.1	12.2	19.6	16.7	15.9

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

Exhibit 5: Investment trust performance to 28 February 2022


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

Discussing BRLA's recent performance, Kuczma says that Q421, and December in particular, was 'tough'; however, markets rebounded in January 2022. As an example, B3, one of the trust's top 10 holdings, had a horrible December but a strong January as its stock had become oversold. The manager explains that from last July to the end of 2021 there were significant interest rate hikes in Latin America. During this time, the whole equity market, especially Brazil, performed very poorly. As a result, Kuczma says the region is very oversold and under-owned. However, in January 2022, foreign investors started to realise how attractively valued Latin American equities are, and that political risk is likely already priced in to stock prices.

One of BRLA's holdings that has performed well is Peruvian financial company Credicorp. Its stock price was heavily discounted prior to the presidential election, and the position was initiated at a depressed valuation. The opposition party could block political reform in Peru, so Credicorp's stock price re-rated and the company has benefited from higher interest rates. Copa Holdings has also done well. On the negative side, Notre Dame Intermedica Participacoes has been weak as there have been domestic redemptions in Brazil and the company's medical loss ratio has risen. Business has shifted towards COVID-19 related activity at the expense of more profitable elective surgery; Kuczma believes that this is temporary and should resolve itself as the pandemic eases.

Exhibit 6: Share price and NAV total return performance, relative to index (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI EM Latin America	0.3	1.4	3.1	(5.5)	2.0	6.4	1.7
NAV relative to MSCI EM Latin America	(1.1)	1.2	(2.4)	(6.2)	(6.2)	(2.8)	(0.8)

Source: Refinitiv, Edison Investment Research. Note: Data to end-February 2022. Geometric calculation.

Looking at BRLA's relative performance in Exhibit 6, its net asset value (NAV) is modestly behind the benchmark over the last decade, while its share price has outperformed over the last three, five and 10 years.

Tender offer announced

On 4 January 2022, BRLA's board announced, as part of the trust's discount control policy, a tender offer for 24.99% of its issued share capital (excluding treasury shares). We believe that this liquidity event should help to narrow BRLA's discount. The board previously stated that a tender offer would be made at a price of the latest cum-income NAV minus 2% and related portfolio transaction costs, if over the four-year period from 1 January 2018 to 31 December 2021 (the calculation period), either of the following conditions were met:

- BRLA's annualised NAV total return did not exceed the benchmark's annualised US dollar total return by more than 100bp over the calculation period; or

- BRLA's share price average daily discount to cum-income NAV exceeded 12% over the calculation period.

As at 31 December 2021, and over the calculation period, BRLA's NAV had underperformed the benchmark by 94bp pa (failing the first condition) and the average share price discount to cum-income was 11.65% (passing the second condition).

As a result, the board intends to make a tender offer; the structure will be decided by the board and a circular containing further details will be published in due course. It is anticipated that the requisite resolution to implement the tender offer will be put to shareholders for their approval at a general meeting, to be held immediately after the next AGM, which is provisionally scheduled for 19 May 2022. The tender offer will be conditional, among other things, on BRLA having the required shareholder approval and sufficient distributable reserves to repurchase tendered shares, and the trust's continuation vote being approved at the AGM.

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