BlackRock Latin American IT

The beginning of a sustained bull market?

Investment trusts

BlackRock Latin American Investment Trust (BRLA) is a long-established fund investing in Latin American equities. Manager Will Landers runs a 50-75 stock portfolio with daily input from a dedicated Latin America team. BRLA aims to generate an attractive total return, superior to that of its benchmark, the MSCI Emerging Markets Latin America Index. The fund is overweight Brazil, which surged when impeachment proceedings were brought against former president Dilma Rousseff, and underweight Mexico, where sentiment soured following the surprise Trump victory.

12 months ending	Share price (%)	NAV (%)	MSCI EM Latin America (%)	FTSE All-Share (%)	MSCI World (%)
31/12/12	1.6	6.5	4.1	12.3	11.4
31/12/13	(13.7)	(14.3)	(14.8)	20.8	25.0
31/12/14	(4.0)	(4.0)	(6.6)	1.2	12.1
31/12/15	(26.6)	(26.1)	(26.8)	1.0	5.5
31/12/16	45.8	47.6	56.8	16.8	29.0

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

Investment strategy: Vigilant and active

The manager combines a bottom-up and a top-down investment strategy. Much emphasis is placed on monitoring existing portfolio companies and seeking new investment opportunities. At the same time, the team keeps itself well briefed in order to be able to anticipate and respond quickly to political and economic developments deemed likely to affect Latin American stock values.

Market outlook: Uncertainty high, valuation low

A year ago, Brazil, whose stock market represents c 58% of the trust's benchmark and dominates the region, was mired in both corporate and political scandal. Share prices were depressed following a prolonged slump in demand for global resources. However, rising resource prices and the replacement of the incumbent president mid way through the year with reform-minded Michel Temer saw the equity market rally sharply, and the currency strengthen. Elsewhere, the outlook for Mexico, which represents nearly 26% of the index, appears better than some initially feared: on the one hand Donald Trump's victory has potentially negative implications for Mexico/US trade relations, and has hurt sentiment; on the other, Mexican valuations appear reasonable following sharp currency depreciation, while arguably President-elect Trump's protectionist bark will prove worse than his bite.

Valuation: Potential for discount to narrow

In terms of market valuation as reflected in its relative forward P/E multiple versus the rest of the world, the Latin American market appears relatively attractive. In terms of BRLA's valuation, its current share price discount to cum-income net asset value of 15.2% compares to an average of 13.5% over the last 12 months. It seems possible that this discount could narrow in a rising market fuelled by continuing firm commodity prices and in the absence of majorly negative newsflow for Brazil and Mexico.

16 January 2017

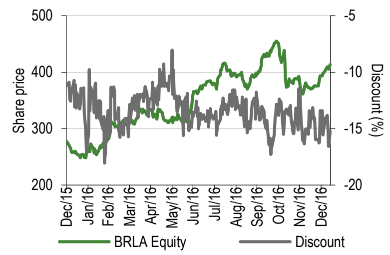
Price	**413.5p**
Market cap	**£163m**
AUM	**£187m**

NAV*	477.2p
Discount to NAV	13.3%
NAV**	487.7p
Discount to NAV	15.2%

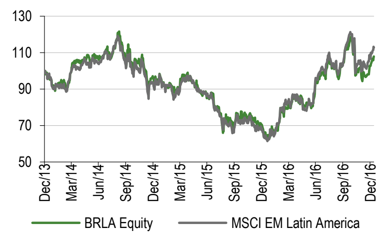
*Excluding income. **Including income. As at 12 January 2017.

Yield	2.1%
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	248.0p
NAV* high/low	534.0p	284.5p

*Including income.

Gearing

Net*	3.3%

*As at 30 November 2016.

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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.

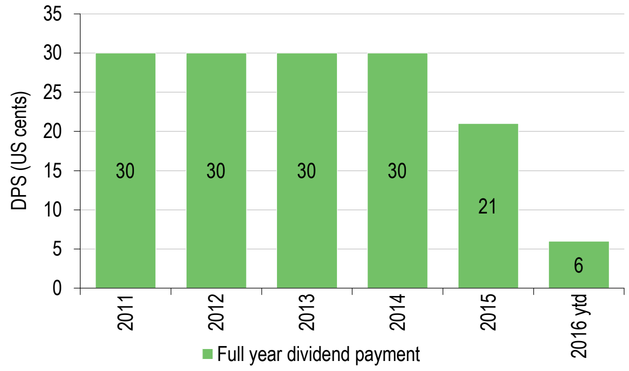
Recent developments

- 9 September 2016: Interim results for the six months ended 30 June. NAV TR +23.0% in US$ (35.6% in £) vs benchmark +25.7% in US$ (+38.6% in £). Share price +19.3% in US$ (+31.6% in £). Interim dividend of 6c declared.
- 8 March 2016: Annual results for the year ended 31 December 2015. NAV TR -30.9% in US$ (-27.0% in £) vs benchmark -30.8% in US$ (-26.8% in £). Share price -30.6% in US$ (-26.6% in £). Final dividend of 6c declared.
- 27 November 2015: Appointment of Carolan Dobson as a non-executive director.

Forthcoming		Capital structure		Fund details	
AGM	April 2017	Ongoing charges	1.1%	Group	BlackRock Fund Managers
Final results	March 2017	Net gearing	3.3%	Manager	William Landers
Year end	31 December	Annual mgmt fee	0.80% of NAV	Address	12 Throgmorton Avenue, London, EC2N 2DL
Dividend paid	September, April	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

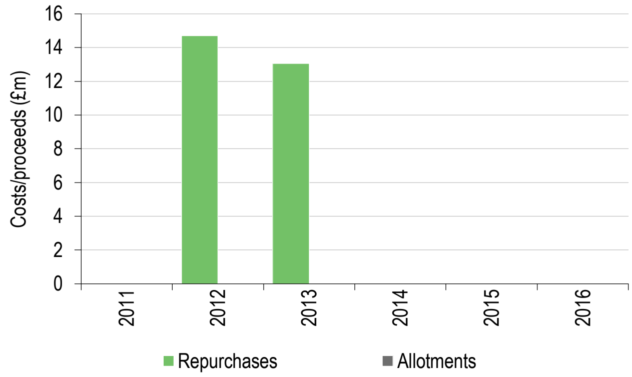
Dividend policy and history

The board no longer operates a progressive dividend policy.

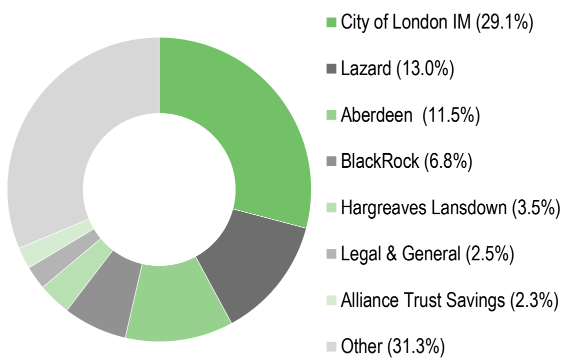


Share buyback policy and history

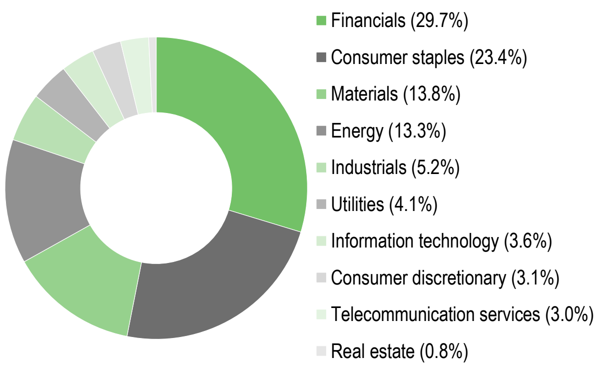
BRLA is authorised both to repurchase up to 14.99% of its ordinary shares and to allot shares up to 5% of the issued share capital.



Shareholder base (as at 29 December 2016)



Portfolio exposure by sector (as at 30 November 2016)*



Top 10 holdings (as at 30 November 2016)*

			Portfolio weight %	
Company	**Country**	**Sector**	**30 November 2016**	**30 November 2015****
Petrobras	Brazil	Energy	9.5	N/A
Itau Unibanco	Brazil	Banks	8.9	6.1
Banco Bradesco	Brazil	Banks	8.0	3.9
AmBev	Brazil	Food, beverages & tobacco	4.9	5.6
Vale	Brazil	Materials	4.9	N/A
FEMSA	Mexico	Food, beverages & tobacco	3.8	6.6
BM&F Bovespa	Brazil	Diversified financials	3.6	N/A
Grupo Financiero Banorte	Mexico	Banks	3.4	5.1
BRF	Brazil	Food, beverages & tobacco	3.2	N/A
Walmart de Mexico	Mexico	Food & staples retailing	3.1	4.3
Top 10			**53.3**	**47.0**

Source: The BlackRock Latin American Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *Excludes net current assets/liabilities and fixed interest. **N/A where not in November 2015 top 10.

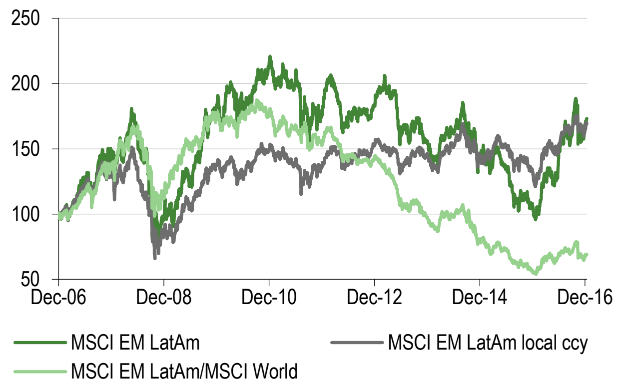
Market outlook: Favourable demographics

In 2016 the MSCI Emerging Markets Latin America Index resumed its upward trend rising by 57% in sterling terms following three years of negative returns. In spite of the strong rally in markets, the index is yet to retrace its all-time high (Exhibit 2 left-hand side) and Latin American equities continue to appear reasonably valued when compared to the rest of the world (Exhibit 2, right-hand side). In terms of forward P/E multiples, Latin America is currently trading at 12.8x, broadly in line with the five-year average of 12.9x. On a relative basis, it is trading at a 16.9% discount to world markets, which is meaningfully below the five-year average of 4.6%.

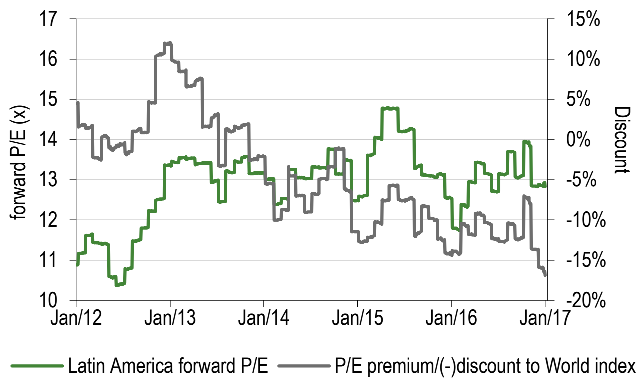
Putting to one side the current market valuation discount, and taking a long-term perspective, Latin America has one frequently overlooked but unassailable structural advantage over developed markets, and that is demographics. In short, Latin America does not have an ageing population and therefore, unlike the UK and most other developed markets, it remains unencumbered by spiralling healthcare, housing and pension costs. Combine this with the market's relatively attractive valuation, and the fact that the region's young population should accelerate household formation, further driving domestic consumer demand, and the case for investing in an actively managed specialist fund is potentially worth consideration.

Exhibit 2: Market performance and valuation

Latin America index performance (in £ unless stated otherwise)



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



Source: Thomson Datastream, Edison Investment Research

Fund profile: Diversified Latin American exposure

BRLA was launched in 1990 as F&C Latin American Trust and BlackRock took over management in March 2006. Will Landers has managed the fund since that time. He is based in New York and has been investing in Latin American assets at BlackRock since 2002 and has 26 years' investment experience. The manager is assisted by four other investment professionals based in New York and Sao Paulo, Brazil. BRLA is an actively managed fund with 50-75 holdings in Latin American companies aiming to deliver an attractive total return. The portfolio is diversified by sector, geography and market cap and the manager is encouraged by the board to look at opportunities outside of the benchmark. BRLA is listed in London and its shares are quoted in sterling. However, its financial statements are reported in US dollars and its NAV is quoted in both sterling and dollars.

When BlackRock assumed the management of BRLA in 2006, there followed a strong run of absolute return performance as extremely positive sentiment fuelled Latin American equity markets to new highs. There then followed an extreme swing in investor sentiment, which resulted in widespread indiscriminate selling of shares regardless of how individual companies were performing in terms of profitability. This environment proved challenging for pure bottom-up active stock pickers and resulted in the management team adopting more of a top-down focus in recent years, as well as bottom-up.

The fund manager: Will Landers

The manager's view: Brazil on the mend, Mexico fears overdone

At c 58% and c 26% of the index respectively, Brazil and Mexico represent the two economic powerhouses of the region and are therefore arguably the most important for the manager to get right. At the start of 2016, many were pessimistic about Brazil's economic future. However, the appointment of Michel Temer mid-year as 'acting' president raised expectations of market reform and a clamp-down on widespread government corruption. This move reversed negative sentiment and resulted in positive stock market returns. Landers turned positive on Brazil in March, believing that sounder economic management under Temer will in turn result in sustained corporate earnings growth as new market friendly reforms can now more easily be passed into law. He recognises that economic recovery will be a long, slow process but takes the view that expectations had previously been so low that only a minimal improvement in market sentiment can result in decent share price returns. As a result, he is prepared to look beyond current valuations that are based on 2016 earnings, further into the future. In short, Landers believes that Brazil, which has been mired in the worst recession in decades, is likely to resume growth by the end of this year.

While the impact of a Trump presidency on Mexico remains uncertain, Landers is positive on his portfolio holdings there, which comprise largely domestic market focused companies. Moreover, Landers has consistently argued that the knee-jerk sell-off in the wake of the surprise Trump victory was overdone. In his view, while Trump successfully attracted media attention during the campaign by threatening to slap steep tariffs on Mexican imports, he will likely be more cautious when president. His argument is supported by the following observation: trade between the Mexico, the US and Canada, the major partners in NAFTA (the North American Free Trade Agreement), topped $1.1tn in 2016, while c 6m US jobs depend on trade with Mexico, according to figures cited in a recent report produced by the Wharton Business School. As Landers observes: "There are things that can be enhanced in any trade agreement, including NAFTA, but I don't believe a rational negotiation will be as harmful as the market had expected". In short, BRLA's manager guards against being too pessimistic about Mexican equities, suggesting that self-interest will ensure that the US does not risk rupturing its trading relationship with Mexico. See 'current portfolio positioning' below for comments on smaller countries in the region.

Asset allocation

Investment process: Current emphasis on top-down

Landers seeks to limit downside and capture market upside by being ready to make swift and sometimes significant changes to the portfolio at key trigger points, be it a change in government or change in the outlook for commodity prices. The manager aims for long-term outperformance versus the benchmark with below-average volatility, using a combination of top-down and bottom-up analysis. In recent years emphasis has shifted more towards top-down factors as they are deemed to have been having the most influence on shareholder returns. From a top-down perspective the manager assesses factors such as politics, inflation and currency. In 2016, politics, both domestic (Dilma Rousseff impeachment) and overseas (the election of Donald Trump), have had the greatest influence on Latin American equity markets, but the manager observes that top-down influences will vary over time. From a bottom-up perspective, the process involves a liquidity screen whereby more than 400 listed companies in the region are narrowed down to c 175, after which bottom-up analysis and due diligence is carried out. The team has a network of professional contacts within the region, which provides additional insight.

Portfolio holdings are regularly monitored and may be sold if there is a significant change in fundamentals or valuation. When a stock gets to within 5% of its target price the analyst reviews the model and asks the question, “Is there much more juice left?” Portfolio turnover varies but the average holding period is currently around two years. When making a new investment careful attention is paid to liquidity by analysing historical share trading volumes.

Current portfolio positioning: Staying overweight in Brazil

At end-November 2016, the top 10 holdings accounted for 53.3% of the portfolio, an increase from 47.0% a year before. In terms of sectors the manager continues to favour financials and consumer staples. In terms of country allocation, BRLA started calendar year 2016 with a significant underweight in energy stocks but as the oil price showed signs of sustained recovery and as the political backdrop in Brazil improved in March, with clear signs that leadership would change, so the energy sector went from being one of the biggest portfolio underweight positions, to one the biggest overweights (Exhibit 3) as Landers looked to rebuild Brazilian exposure. The shift in energy exposure reflected the purchase of one new position – Petrobras, now the largest holding (Exhibit 1, page 2). This purchase was predicated primarily on the basis of the company being a large and liquid bellwether for the Brazilian economy, but the fact that the corruption scandal was to be concluded by the end of the year was also positive. As well as Petrobras, Landers added to Itaú and Banco Bradesco (financials), AmBev (beverages) and Vale (materials). BRLA is now has c 65% of its assets invested in Brazil and is overweight relative to the benchmark.

Although Mexico has shifted from overweight to underweight, this arose primarily out of the manager turning more positive on Brazil in March, rather than becoming negative on Mexico. Trump’s protectionist rhetoric has not altered Landers’s long-term positive stance on BRLA’s Mexican holdings, which tend to be domestic plays like Walmart de Mexico and diversified food and beverage producer FEMSA, rather than exporters. At the same time, while Trump’s rhetoric on Mexico is seen as potentially damaging, it can also be argued that his efforts at stimulating the US economy, if successful, should benefit the rest of the world, including Mexico. The overweight position in Peru has been maintained, reflecting the market friendly outcome of the presidential election. BRLA has modest exposure to Argentina, which is not part of the benchmark, on the back of progress on economic reforms and attractive valuations. Finally, the manager remains underweight Chile due largely to political concerns.

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

	Portfolio end-November 2016	Portfolio end-November 2015	Change (pp)	Benchmark weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	29.7	32.2	-2.5	29.8	-0.1	1.0
Consumer staples	23.4	24.2	-0.8	18.1	5.3	1.3
Materials	13.8	14.8	-1.0	15.5	-1.7	0.9
Energy	13.3	4.7	8.6	9.7	3.6	1.4
Industrials	5.2	6.8	-1.6	5.9	-0.7	0.9
Utilities	4.1	2.8	1.3	6.0	-1.9	0.7
Information technology	3.6	2.2	1.4	1.9	1.7	1.9
Consumer discretionary	3.1	5.1	-2.0	5.8	-2.7	0.5
Telecommunication services	3.0	6.1	-3.1	5.5	-2.5	0.5
Real estate	0.8	N/A	N/A	1.4	-0.6	0.6
Healthcare	0.0	1.0	-1.0	0.4	-0.4	0.0
Total	**100.0**	**100.0**		**100.0**		

Source: BlackRock Latin America Investment Trust, Edison Investment Research. Note: The trust weightings exclude net current assets/liabilities and fixed interest.

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

	Portfolio end-November 2016	Portfolio end-November 2015	Change (pp)	Benchmark weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Brazil	65.2	45.7	19.5	58.3	6.9	1.1
Mexico	23.8	42.0	-18.2	26.3	-2.5	0.9
Peru	4.8	5.9	-1.1	3.0	1.8	1.6
Argentina	3.4	1.6	1.8	0.0	3.4	N/A
Chile	1.6	3.6	-2.0	9.2	-7.6	0.2
Total	**100.0**	**100.0**		**100.0**		

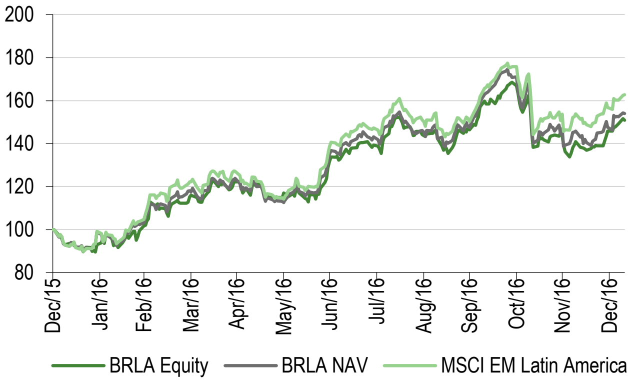
Source: BlackRock Latin America Investment Trust, Edison Investment Research. Note: The trust weightings exclude net current assets/liabilities and fixed interest.

Performance: Weak relative, improving absolute

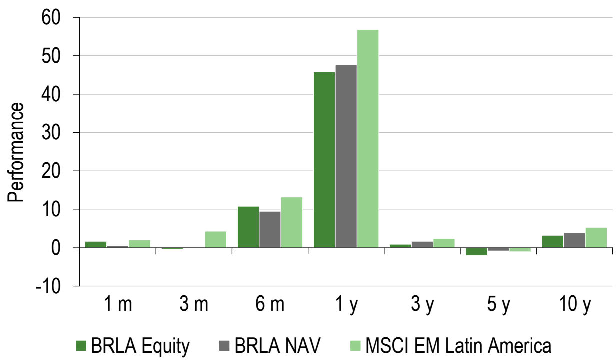
Latin American markets have lagged world stock markets in recent years, partly due to political issues within the region and partly due to impact of weak commodity prices. In 2016, however, the partial resolution of political issues in Brazil, the strengthening of the real and a rise in commodity prices saw Latin American equities outperform most other world markets. As a result, BRLA's NAV total return was 47.6% in sterling terms. While a robust absolute return however, it lagged the benchmark index, which rose by 56.8% in sterling terms. Much of the underperformance can be accounted for by the difficulty in getting invested quickly enough in Brazil when it became clear that president Rousseff would be impeached. While the expectation of leadership change prompted the immediate decision to rebuild Brazilian exposure, it was a race against time as the market bounced back both sharply and quickly. The time taken to restructure the portfolio saw returns lag the benchmark due to cash drag. Looking forwards, the removal of BRLA's progressive dividend policy announced last year should allow the management team greater flexibility and this arguably improves scope for future outperformance. It is noteworthy that returns to sterling investors were significantly enhanced as Latin American currencies strengthened relative to the pound. In recent years prior to 2016, Latin American currencies have generally depreciated relative to sterling, thereby detracting from returns.

Exhibit 5: Investment trust performance to 31 December 2016

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



Price, NAV and benchmark total return performance (%)



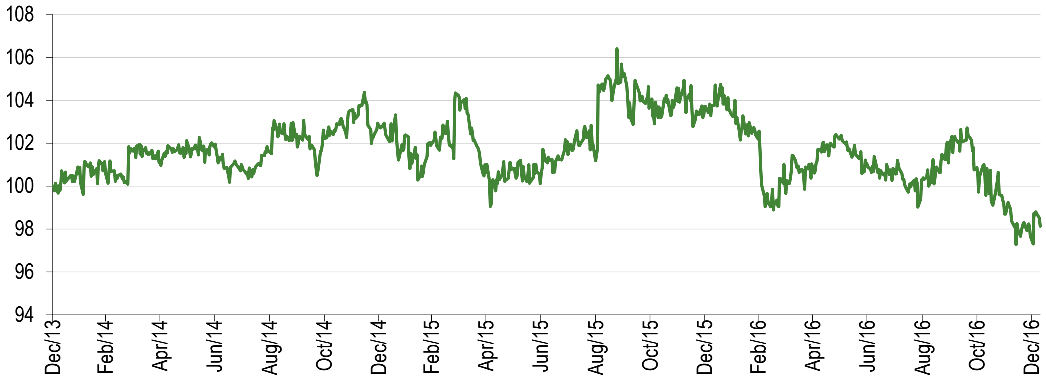
Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

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	(0.5)	(4.5)	(2.1)	(7.0)	(4.2)	(5.3)	(18.2)
NAV relative to MSCI EM Latin America	(1.6)	(4.1)	(3.4)	(5.8)	(2.3)	0.4	(12.5)
Price relative to FTSE All-Share	(3.3)	(4.1)	(1.0)	24.9	(13.9)	(44.3)	(20.5)
NAV relative to FTSE All-Share	(4.4)	(3.7)	(2.3)	26.5	(12.2)	(40.9)	(15.0)
Price relative to MSCI World	(2.0)	(7.1)	(4.3)	13.0	(32.6)	(57.6)	(44.0)
NAV relative to MSCI World	(3.0)	(6.7)	(5.6)	14.4	(31.3)	(55.0)	(40.1)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-December 2016. Geometric calculation.

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



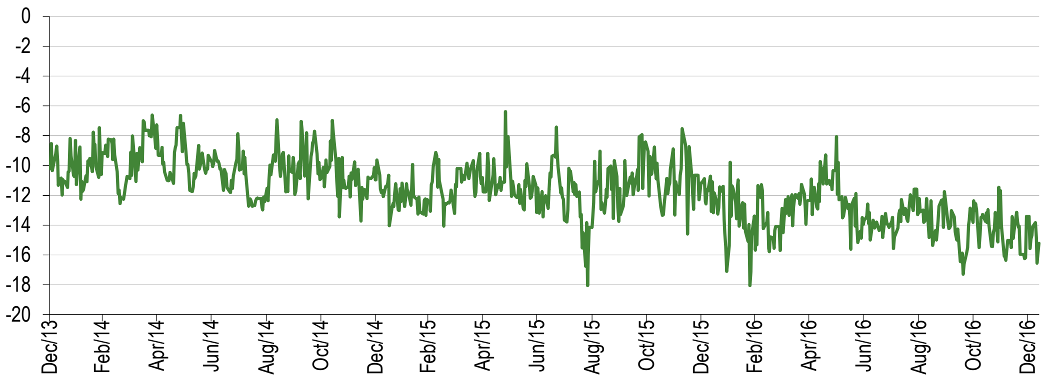
Source: Thomson Datastream, Edison Investment Research

Discount: Price lags NAV in 2016

The current 15.2% share price discount to cum-income NAV compares to the average of 13.5% over the last 12 months (range of 8.1% to 18.1%). This is a widening from the averages of the last three, five and 10 years (11.7%, 10.6% and 7.4%, respectively). In spite of the sharp rally in Latin American stocks in the second half of 2016, the share price has not kept pace with the improved NAV return (see Exhibit 5).

With effect from 1 January 2016, a 24.99% tender offer will occur in 2018 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.

Exhibit 8: Share price discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

With effect from 1 January 2017, the management fee was reduced from 0.85% of NAV per annum to 0.80% of NAV per annum. In addition, the performance fee has been removed.

BRLA is a conventional investment trust with one class of share in issue; there are currently 39.4m shares outstanding. The trust is subject to a continuation vote every two years; the next one is due at the AGM in 2018. Gearing of up to 25% of net assets is permitted. At the end of November 2016, net gearing was 3.3%.

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Dividend policy and record

Dividends are paid twice a year in September and April. In 2015 the final dividend was reduced to 6c due to a shortfall in earnings. It was decided that future dividends would be paid in line with earnings rather than seeking to maintain or increase the dividend each year as had hitherto been the trust's policy. Following the declaration of a 6c interim dividend in September the current dividend yield based on the share price at the time of writing is 2.1%.

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. The largest of all five funds, BRLA's performance is currently behind the closed-end listed fund peer group weighted average over one, three, five and 10 years, but ahead of the open-ended peer group weighted average over all four periods.

Exhibit 9: Selected peer group as at 10 January 2016

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
BlackRock Latin American (LSE)	158.9	66.2	11.7	(5.8)	57.6	1.4	(0.2)	(12.3)	1.1	No	103	2.1
Aberdeen Latin American Inc. (LSE)	43.6	68.0	12.6	3.3		1.9	(0.3)	(11.3)	2.0	No	111	5.1
Aberdeen Latin America Eq. (NYSE)	152.2	75.1	14.1	4.5	105.4	1.8	(0.2)	(11.6)	1.4	No	100	1.5
Latin American Discovery (NYSE)	65.3	68.5	6.5	(7.6)	44.9	1.6	(0.3)	(11.9)	1.7	No	100	0.7
Weighted average		**70.0**	**11.9**	**(1.4)**	**74.7**	**1.6**	**(0.2)**	**(11.9)**	**1.4**		**102**	**2.0**
Rank	**1**	**4**	**3**	**3**	**2**	**4**	**2**	**4**	**4**		**2**	**2**
Open-ended funds												
Aberdeen Latin American Equity		77.2	13.7	3.1		1.8	(0.2)			No		
Fidelity Latin America		59.0	9.6	(5.7)	69.5	1.3	(0.3)			No		
Schroder ISF Latin American		59.7	4.1	(13.4)	29.3	1.4	(0.4)			No		
Templeton Latin America		62.1	4.9	(15.5)	43.6	1.5	(0.4)			No		
Threadneedle Latin American		61.9	0.4	(15.2)	38.2	1.4	(0.4)			No		
Weighted average		**61.0**	**5.3**	**(12.5)**	**48.7**	**1.4**	**(0.4)**					

Source: Morningstar, Edison Investment Research. Note: TR=total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

There are six non-executive directors on the BRLA board. Chairman Peter Burnell joined in 1990 and was appointed chairman in 1997. He is due to retire at the end of the current financial year and his replacement is expected to be announced in due course. The Earl St Aldwyn was appointed in 1996, Laurence Whitehead in 2003, Antonio Monteiro de Castro in 2007 and Mahrukh Doctor in 2009. The newest member is Carolan Dobson, who joined the board in January 2016.

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