BlackRock Latin American IT

Optimistic outlook for Latin American equities

Investment trusts

BlackRock Latin American Investment Trust (BRLA) is managed by Will Landers, who has 26 years of experience at BlackRock. He is optimistic on the outlook for Latin American equities in 2018, due to relatively attractive company valuations and improving economies in the region, especially in Brazil, where he describes the recovery as "slow and sure". He says that in 2017, emerging market equity performance was led by Asian companies and there is potential for Latin American companies to catch up if investors have confidence in the improving economic outlook. After a recent improvement in investment performance, BRLA's NAV total return is now outperforming the benchmark over one, three and five years.

12 months ending	Share price (%)	NAV (%)	MSCI EM Latin America (%)	FTSE All-Share (%)	MSCI World (%)
31/01/14	(27.4)	(26.9)	(26.9)	10.1	12.6
31/01/15	2.8	1.9	(0.3)	7.1	17.7
31/01/16	(29.7)	(24.8)	(25.5)	(4.6)	1.1
31/01/17	67.7	62.3	67.2	20.1	32.8
31/01/18	21.4	18.9	15.5	11.3	11.9

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

Investment strategy: Both top-down and bottom-up

Landers aims to generate long-term capital growth from a diversified portfolio of Latin American equities. He considers the macro environment and undertakes diligent fundamental analysis, seeking undervalued companies with attractive growth and cash flow potential, strong balance sheets and good management teams that have positive corporate governance track records. In terms of geographic exposure, around two-thirds of the portfolio is invested in Brazil, with a further c 25% in Mexico. The largest sector exposures are financials (c 30%), materials and consumer staples (both c 15%). Gearing of up to 25% of NAV is permitted; at end-January 2018 net gearing was 6.6%.

Market outlook: Valuation is relatively attractive

While Latin American stock market performance can be volatile, there is evidence of economic improvement in the region, led by Brazil, and the valuations of Latin American equities are looking relatively attractive compared to global equities. On a forward P/E multiple basis, the 6.7% discount is wider than the 4.4% average discount over the last 10 years.

Valuation: Discount is wider than average

Over the last three years, BRLA's share price discount to cum-income NAV has been broadly in a range of c 8% to c 16%. The current 14.6% discount is wider than the range of averages over the last one, three, five and 10 years of 8.0% to 13.2%. Effective from 2016, there is a biennial 24.99% tender offer in place, which is triggered if BRLA underperforms the benchmark total return by more than 1% pa and the share price discount to cum-income NAV has averaged more than 5% over the same two-year period. The performance threshold was achieved in the two years ending 31 December 2017, so there will be no 2018 tender.

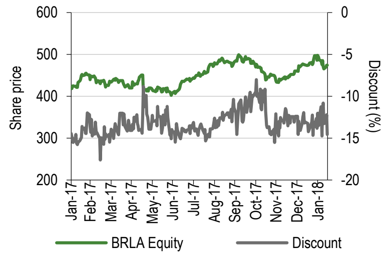
15 February 2018

Price	**474.5p**
Market cap	**£187m**
AUM	**£221m**
NAV*	550.2p
Discount to NAV	13.8%
NAV**	555.3p
Discount to NAV	14.6%

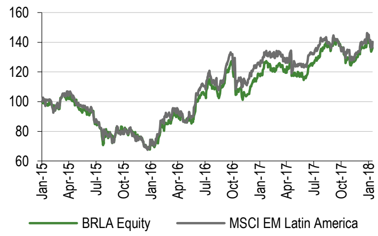
*Excluding income. **Including income. As at 14 February 2018.

Yield	2.4%
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	499.0p	402.5p
NAV** high/low	575.6p	451.8p

**Including income.

Gearing

Net* 6.6%

*As at 31 January 2018.

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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.

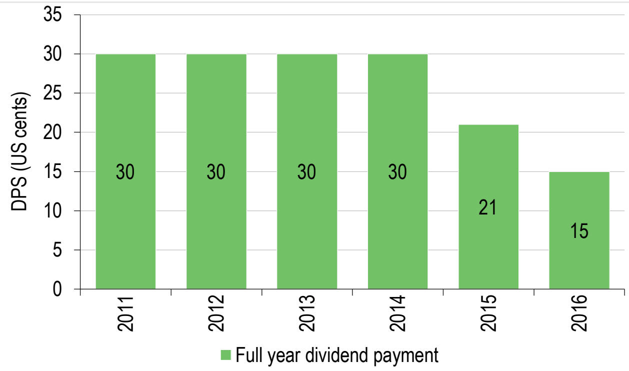
Recent developments

- 3 January 2018: Announcement – as BRLA has met the performance threshold in the two years ending 31 December 2017, the biennial tender offer will not be implemented (see page 7).
- 18 October 2017: Exchange rate set for interim dividend at 1.3166, meaning 6.00c translates to 4.56p per share.
- 27 September 2017: Six-month results ending 30 June 2017. NAV TR +11.3% in $ (+6.1% in £) vs benchmark TR +10.3% in $ (+4.9% in £). Share price +10.7% in $ (+5.3% in £). Interim dividend of 6.00c declared.

Forthcoming		Capital structure		Fund details	
AGM	May 2018	Ongoing charges	1.2% (in FY16)	Group	BlackRock Fund Managers
Final results	March 2018	Net gearing	6.6%	Manager	Will Landers
Year end	31 December	Annual mgmt fee	0.8% of NAV	Address	12 Throgmorton Avenue, London, EC2N 2DL
Dividend paid	Twice a year (see page 7)	Performance fee	None		
Launch date	July 1990	Trust life	Indefinite	Phone	+44 (0) 207 743 3000
Continuation vote	Two-yearly – next 2018 AGM	Loan facilities	Up to $40m	Website	www.blackrock.co.uk/brla

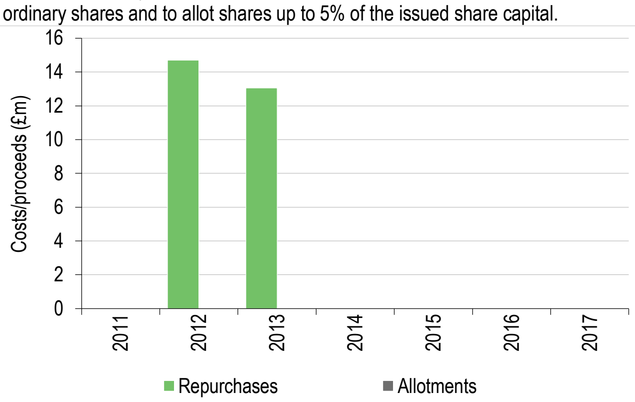
Dividend policy and history (financial years)

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

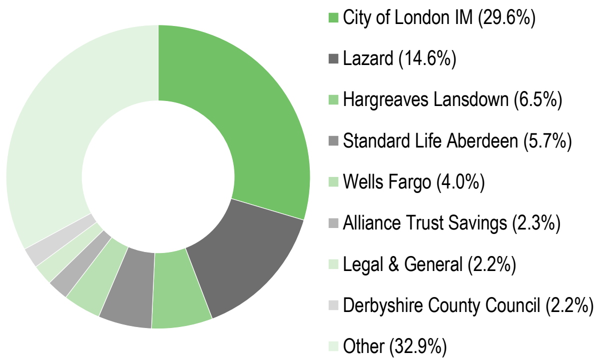


Share buyback policy and history (financial years)

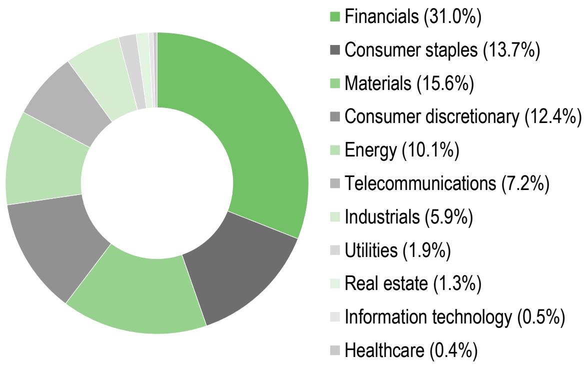
Renewed annually, BRLA is authorised both to repurchase up to 14.99% of its ordinary shares and to allot shares up to 5% of the issued share capital.



Shareholder base (as at 31 January 2018)



Portfolio exposure by sector (as at 31 January 2018)



Top 10 holdings (as at 31 January 2018)

Company	Country	Sector	Portfolio weight % 31 January 2018	Portfolio weight % 31 January 2017*	Benchmark weight	Active weight vs benchmark
Itau Unibanco	Brazil	Banks	8.4	7.8	7.4	1.0
Vale	Brazil	Materials	7.7	5.6	5.7	2.0
Banco Bradesco	Brazil	Banks	7.4	9.9	7.0	0.4
Petrobras	Brazil	Energy	7.3	8.8	6.2	1.1
America Movil	Mexico	Telecommunication services	5.4	N/A	4.4	1.0
AmBev	Brazil	Food, beverages & tobacco	4.8	3.9	4.5	0.3
Femsa	Mexico	Food, beverages & tobacco	3.6	3.4	2.6	1.0
B3*	Brazil	Diversified financials	3.2	4.0	2.3	0.9
Grupo Financiero Banorte	Mexico	Banks	2.7	N/A	2.2	0.5
Rumo Logistica Operadora Multimodal	Brazil	Logistics	2.6	N/A	0.7	1.9
Top 10			**53.1**	**52.4**		

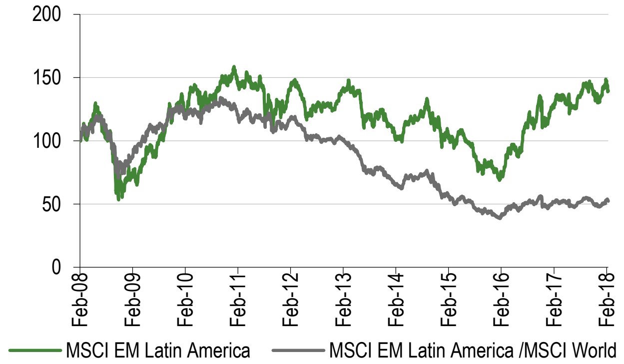
Source: BlackRock Latin American Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in January 2017 top 10. **Formerly BM&F Bovespa.

Market outlook: Relatively attractive valuations

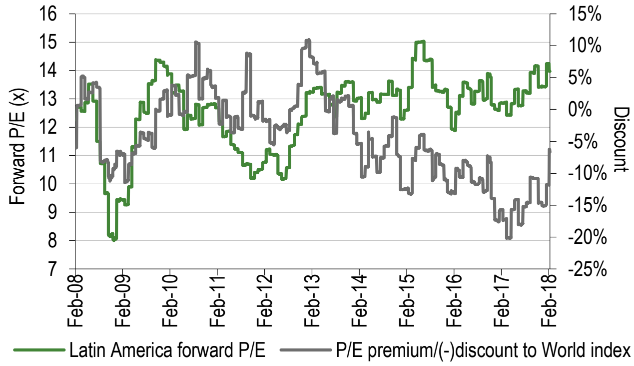
Over the last 10 years, Latin American equities have failed to keep up with the performance of world equities (Exhibit 2, left-hand side). Along with economic volatility there has been political upheaval in the region. While this may continue into the future, one may argue that these issues are already reflected in share valuations. Looking at Datastream indices in the right-hand chart, on a relative forward P/E basis, Latin American equities are trading at a 6.7% discount to global equities, which is wider than the 4.4% average of the last 10 years. It is also worth noting that over the last decade, there have been periods where Latin American equities have traded at a premium to world equities. For investors seeking exposure to the region, a well-established, relatively diversified fund, with a disciplined investment approach, may hold some appeal.

Exhibit 2: Market performance and valuation

Latin America index performance



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



Source: Thomson Datastream, Edison Investment Research. Note: As at 13 February 2018.

Fund profile: Diversified exposure to Latin America

BRLA has been managed by BlackRock since March 2006. The trust is listed on the Main Market of the London Stock Exchange. Its share price is quoted in sterling and its financial statements are reported in US dollars, while its NAV is quoted in both currencies. BRLA's objective is to generate long-term capital growth and an attractive total return from a diversified portfolio of Latin American equities. Manager Will Landers invests in line with a set of broad investment limits:

- The portfolio weightings in Brazil, Mexico, Chile, Argentina, Peru, Colombia and Venezuela are limited to plus or minus 20pp of the benchmark MSCI Emerging Markets Latin America index weights, while for all other Latin American countries the limit is plus or minus 10pp.
- The manager may invest in quoted companies that are not incorporated in or listed on an exchange in Latin America, but whose main activities are in the region.
- At the time of investment, up to 15% of the portfolio may be in a single company and a maximum 10% of gross assets may be invested in unquoted securities.

Derivatives can be used for efficient portfolio management, but no more than 20% of the portfolio may be under option at any given time. Currency exposure is unhedged. Gearing of up to 25% of NAV is permitted; at end-January 2018 net gearing was 6.6%.

The fund manager: Will Landers

The manager's view: Remaining optimistic for 2018

Landers is optimistic on the outlook for Latin American equities in 2018, noting that consensus earnings growth for 2018 is currently c 11% and the forward P/E multiple is c 14x. In Brazil, which is by far the largest country in the benchmark (c 60%), the manager says the central bank has won its battle with inflation. The current rate is below 3%, which is the lowest in c 20 years. Landers says that Brazilian interest rates have come down by more than 50%; the Selic overnight rate is now 6.90% compared with 14.15% in Q416. He expects a further one or two cuts to bring the rate down to 6.50% and says that lower interest rates have been a big boost to the economic recovery. Banks are now more willing to lend to individuals and small- and medium-sized companies. Higher commodity prices are also very beneficial to the Brazilian economy.

The manager highlights reforms in Brazil, such as those in the labour market, which are helping to reduce the cost of doing business. There are uncertainties within the country, such as the tenure of President Temer, who is under investigation for passive corruption. However, he looks set to serve the remainder of his term in office following a recent congressional vote, which increases the likelihood of expected pension reforms being announced. This is most likely after the October 2018 presidential election. Landers believes that whoever the successful candidate is, they will be able to continue with the positive programme of reforms that Temer started in 2016.

In terms of economic improvement, the manager notes the decline in unemployment in Brazil, and says that retail sales are recovering across the board. Traffic on toll roads is increasing, both for commercial and leisure purposes, and airport traffic is also picking up. Landers says that Brazil has experienced a very long recession, but is now in recovery, which he describes as “slow and sure”.

The manager now has a more cautious view on Mexico due to the ongoing NAFTA negotiations. He notes that the value of the Mexican peso tends to be a barometer of how negotiations are progressing. However, he says that a final deal is a long way off, and there is a lot at stake for President Trump and US exporters if the US were to pull out of the trade agreement.

Landers believes that investors should not overlook Latin American equities. While emerging market equity performance in 2017 was led by Asian technology companies, he says that 2018 could be the time for laggard markets to catch up if investors have continued confidence in a cyclical recovery in emerging market economies. He expects virtually all economies in Latin America to have faster economic growth in 2018 versus 2017 and, in general, inflation remains under control. The manager is expecting growth in Mexico in 2018 to be broadly in line with 2017, driven by industrial multinational companies. However, he is comfortable with the growth profiles of the Mexican companies in BRLA’s portfolio, such as bank Grupo Financiero Banorte, beverage company Femsa and telecom operator America Movil. Landers says that there have been meaningful changes in Latin American company earnings estimates over the last six months, some of which have been due to currency moves. He believes that for the first time in quite a while, earnings estimates look realistic and there is potential for upside revisions, especially in Brazil.

Asset allocation

Investment process: Top-down and bottom-up approach

Landers takes into account the macro environment and undertakes thorough fundamental analysis to construct a diversified portfolio of Latin American equities, aiming to generate long-term outperformance with below-average volatility. He seeks companies with quality management teams with good long-term track records and a positive corporate governance history, including a regard for minority shareholders. Fundamental analysis includes an assessment of a company’s growth and cash flow generation potential and the strength of its balance sheet. The manager seeks companies that are trading at a discount to their assessed underlying value. Landers is able to draw on the broad resources at BlackRock, including the Latin American investment team and a proprietary research network. BRLA invests across the market cap spectrum, although c 75% of the portfolio is invested in companies with a market cap above $8bn. It typically comprises 50-75 holdings and turnover is generally 40-60% pa.

Current portfolio positioning

Changes in geographic exposure over the last 12 months to end-January 2018 have been modest, with a 1.5pp increase in Mexico and a 2.1pp decrease in Peru (Exhibit 3).

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

	Portfolio end-Jan 2018	Portfolio end-Jan 2017	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Brazil	67.8	66.7	1.1	59.6	8.2	1.1
Mexico	23.6	22.1	1.5	23.7	(0.1)	1.0
Argentina	3.9	3.8	0.1	0.0	3.9	N/A
Peru	2.6	4.7	(2.1)	3.2	(0.6)	0.8
Chile	1.8	1.5	0.3	10.1	(8.3)	0.2
Columbia	0.3	1.2	(0.9)	3.4	(3.1)	0.1
	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.

Changes in sector exposure over the period are more significant, including a 9.0pp higher weighting in consumer discretionary, and a 6.3pp lower weighting in consumer staples. Holdings in the consumer discretionary sector include Brazilian companies Magazine Luiza (multi-channel retail), Lojas Renner (apparel) and Lojas Americana (department stores).

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

	Portfolio end-Jan 2018	Portfolio end-Jan 2017	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	31.0	31.1	(0.1)	32.0	(1.0)	1.0
Materials	15.6	14.8	0.8	15.9	(0.3)	1.0
Consumer staples	13.7	20.0	(6.3)	15.7	(2.0)	0.9
Consumer discretionary	12.4	3.4	9.0	5.3	7.1	2.3
Energy	10.1	12.6	(2.5)	9.5	0.6	1.1
Telecommunications	7.2	5.0	2.2	6.2	1.0	1.2
Industrials	5.9	5.0	0.9	6.1	(0.2)	1.0
Utilities	1.9	4.6	(2.7)	5.5	(3.6)	0.3
Real estate	1.3	1.1	0.2	1.4	(0.1)	0.9
Information technology	0.5	2.4	(1.9)	1.4	(0.9)	0.4
Healthcare	0.4	0.0	0.4	1.0	(0.6)	0.4
	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.

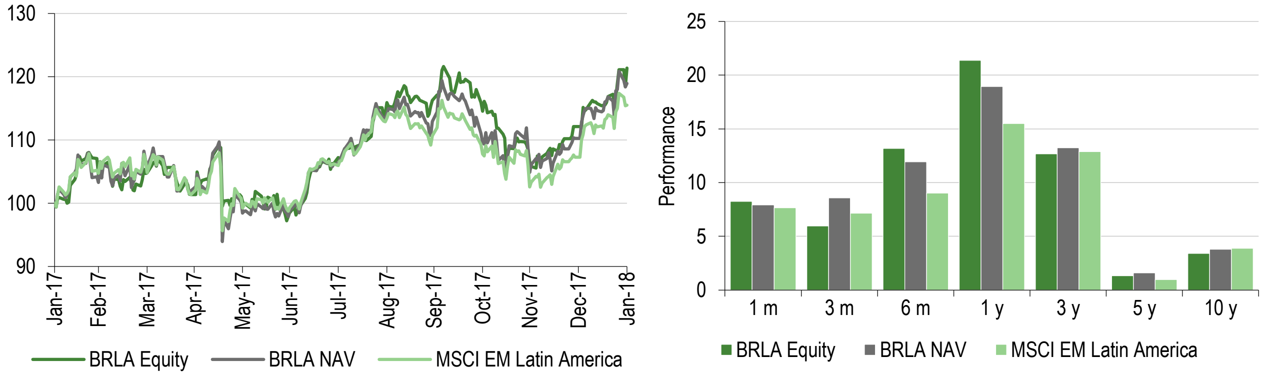
At end-January 2018, BRLA's second largest position was Vale, the world's largest producer of iron ore and nickel. The company generated a total return of c 65% in 2017, which was more than double the total return of the broader Brazilian stock market. The manager is positive on the company's new CEO (since May 2017), who has increased the focus on core operations and reduced Vale's level of debt. Landers believes there is a variety of measures that the company can take to increase margins and reduce the effects of industry volatility. Vale is also an example of a company that is improving its corporate governance record, which includes moving from two share classes to a single one. In recognition of the improvement, the company is now listed on Novo Mercado, which is a distinct level on the Brazilian stock exchange reserved for companies with a distinguished standard in corporate governance and shareholder protection.

Performance: Improving relative track record

As shown in Exhibit 5 (right-hand side), over the last 12 months, BRLA's NAV and share price total returns of 18.9% and 21.4% respectively are comfortably ahead of the benchmark's 15.5% total return. The manager says that there have been multiple contributors to the outperformance, including exposure to Argentina, which is not represented in the benchmark, and positive stock selection in Brazil such as rail logistics operator Rumo Logistica Operadora Multimodal and mining company Vale. The improvement in relative investment performance ensured that the biennial 14.99% tender offer was not triggered (see Discount section below).

Exhibit 5: Investment trust performance to 31 January 2018

Price, NAV and benchmark total return performance, one-year rebased | **Price, NAV and benchmark total return performance (%)**



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

BRLA's relative returns are shown in Exhibit 6. Due to the stronger recent relative performance, the trust's NAV total return is now ahead of the benchmark over one, three and five years, while broadly in line over 10 years.

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	0.6	(1.1)	3.8	5.1	(0.6)	1.8	(4.4)
NAV relative to MSCI EM Latin America	0.2	1.3	2.7	3.0	1.0	3.2	(0.8)
Price relative to FTSE All-Share	10.4	4.9	8.9	9.1	12.3	(28.9)	(29.3)
NAV relative to FTSE All-Share	10.0	7.5	7.7	6.9	14.0	(28.0)	(26.6)
Price relative to MSCI World	8.1	4.0	7.1	8.4	(4.8)	(46.4)	(49.2)
NAV relative to MSCI World	7.7	6.6	5.9	6.3	(3.3)	(45.6)	(47.3)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-January 2018. Geometric calculation.

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

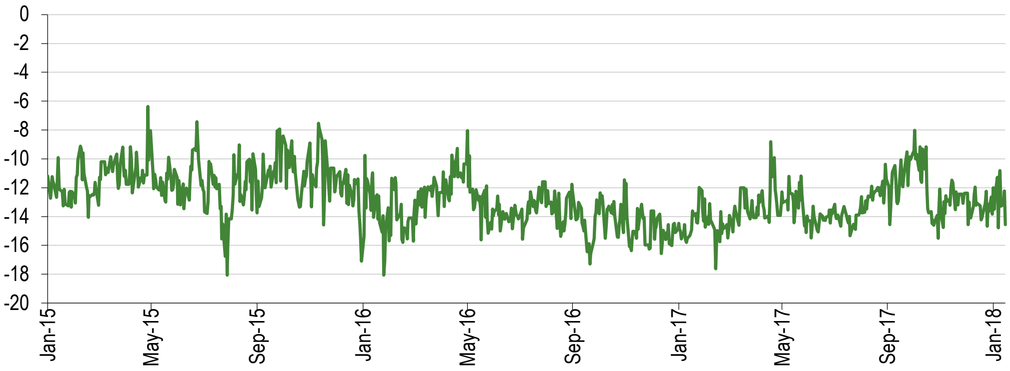
Source: Thomson Datastream, Edison Investment Research

Discount: Trading in a relatively consistent range

As shown in Exhibit 8, BRLA's share price discount to cum-income NAV has been in a relatively consistent range over the last three years of between c 8% and c 16%. The current 14.6% discount is towards the wider end of the 8.0% to 17.6% range of the last 12 months. It compares to the averages of the last one, three, five and 10 years of 13.2%, 12.8, 11.8% and 8.0% respectively.

In order to help manage a discount or premium, the board has the authority, renewed annually, to repurchase up to 14.99% of its ordinary shares and allot up to 5% of its issued share capital. Before mid-2013, there was a policy of twice-yearly 5% tender offers. On 23 August 2013, a new discount policy was introduced that the board believes is in the better interests of its long-term shareholders. From the 2016 continuation vote onwards, if BRLA has underperformed the benchmark's total return (in $ terms) by more than 1% pa 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, a 24.99% tender offer will be launched. The tender price will be the cum-income NAV less 2%, to cover the cost of the tender. Over the two-year period to 31 December 2017, BRLA underperformed the benchmark by 1.5pp, which was above the performance threshold; therefore the biennial tender offer will not be implemented.

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



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

BRLA is a conventional investment trust with one class of share in issue; there are currently 39.4m ordinary shares outstanding. The trust has an overdraft facility for up to $40m with Bank of New York Mellon at an annual rate of Libor plus 1%. Gearing of up to 25% of net assets is permitted; at end-January 2018, net gearing was 6.6%, which is broadly in the middle of the historical range of a modest net cash position to c 12% geared. The trust is subject to a two-yearly continuation vote, with the next opportunity at the May 2018 AGM.

Effective since 1 January 2017, BlackRock is paid an annual management fee of 0.80% of net assets, which is charged 75% to capital and 25% to income; the prior fee was 0.85% of net assets. Historically, a performance fee was payable to reward outperformance versus the index. This has now been removed. In 2016, BRLA's ongoing charge was 1.2%, 10bp higher than in 2015.

Dividend policy and record

BRLA pays dividends twice a year, in October and May. In 2015, rather than continuing to pay dividends out of capital, the board decided to reduce the dividend to a level more in line with earnings. During 2015, an interim dividend of 15c was paid, which was in line with the prior year, but the final dividend was lowered from 15c to 6c. In 2016, the total dividend of 15c was 29% lower than in 2015. In H117, a 6c dividend was declared, which was in line with the prior year and compares to a 7.5c revenue return over the period. Based on its current share price, BRLA has a dividend yield of 2.4%.

Peer group comparison

BRLA is one of just two trusts classified in the AIC Latin America sector. In Exhibit 9 we also compare the trust to two US-listed funds invested in the region, along with a selection of open-ended funds. BRLA's NAV total return is ahead of the closed-end fund average over one, three and five years, ranking first, second and first out of four funds respectively, while lagging the average of three funds over 10 years. The trust's ongoing charge is the lowest of the closed-end funds, it has the second highest level of gearing and the second highest dividend yield, which is broadly in line with the average.

Comparing BRLA with the open-ended funds, its NAV total returns are above average over all periods shown. Its fees and dividend yield are also competitive versus the open-ended funds.

Exhibit 9: Selected peer group as at 13 February 2018*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
BlackRock Latin American (LSE)	186.8	9.0	40.5	2.6	32.1	(11.3)	1.2	No	107	2.4
Aberdeen Latin American Income (LSE)	44.1	4.5	34.3	(5.4)		(11.4)	2.0	No	112	4.9
Aberdeen Latin America Equity (NYSE)	202.6	8.4	45.1	0.1	66.2	(8.8)	1.3	No	100	1.6
Latin American Discovery Fund (NYSE)	80.6	5.4	32.2	(4.8)	15.9	(12.3)	1.6	No	100	0.4
Average	**128.5**	**6.8**	**38.0**	**(1.9)**	**38.0**	**(11.0)**	**1.5**		**105**	**2.3**
BRLA rank	**2**	**1**	**2**	**1**	**2**	**2**	**4**		**2**	**2**
Open-ended funds	**AUM**						**TER**			
Aberdeen Latin American Equity	234.2	8.9	48.8	0.9			2.0			0.8
Fidelity Latin America	677.7	6.4	34.5	(4.9)	37.8		2.0			0.4
Schroder ISF Latin American	182.9	7.7	33.2	(14.8)	7.6		1.9			1.9
Templeton Latin America	960.4	4.7	33.2	(12.7)	14.4		2.3			0.7
Threadneedle Latin America	483.5	3.5	23.8	(16.6)	10.0		1.7			0.6
Average	**507.7**	**6.3**	**34.7**	**(9.6)**	**17.5**		**2.0**			**0.9**

Source: Morningstar, Edison Investment Research. Note: *Performance as at 12 February 2018. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

There are five directors on BRLA's board, all of whom are non-executive and independent of the manager. Chairman Carolan Dobson was appointed in 2016 and assumed her current role following the retirement of Peter Burnell in March 2017. Antonio Monteiro de Castro was appointed in 2007; he is the senior independent director and chairman of the audit committee. The other three directors and their year of appointment are Laurence Whitehead (2003), Mahrukh Doctor (2009) and Nigel Webber (2017).