abrdn Latin American Income Fund

Potential for regional re-rating

Investment companies
Latin American equities/debt

28 February 2022

abrdn Latin American Income Fund's (ALAI) managers at abrdn Capital International (abrdn) consider that Latin American equity and fixed-income assets are 'extremely inexpensive'. The region has underperformed both other emerging and developed markets in recent years despite commodity price strength, while the managers believe that Latin American political risk is already priced into the markets. They report that ALAI's portfolio has significant exposure to positive structural trends such as electrification. As an example, Chile and Peru are leading lithium and nickel producers and these materials are in high demand. The managers suggest that this trend could continue for many decades, given the long-term transition to a greener global economy.

NAV versus the benchmark over 12 months to end-January 2022

Source: Refinitiv, Edison Investment Research

The analyst's view

ALAI provides a differentiated exposure to Latin America given its equity and fixed-income exposure and its managers are able to draw on the significant resources of abrdn's global investment team. The region appears to be relatively attractively valued as data from abrdn show that Latin American equities are currently trading at a c 30% to emerging market equites, which compares to a 10-year average c 10% premium. While political events in the region can spook investors, the outcome of a significant upcoming event, the Brazilian presidential election in October 2022, seems clear. Former left-wing president Luiz Inácio Lula da Silva (Lula) is the firm favourite, as current President Jair Bolsonaro's support has waned due to his actions during the pandemic. Investors have taken comfort that this time round Lula seems to be adopting a more moderate approach.

Discount towards higher end of 12-month range

ALAI is currently trading at an 11.6% share price discount to cum-income NAV, which compares with a range of 3.1% to 16.8% range of discounts over the last 12 months and an 11.2% to 13.2% range of average discounts over the last one, three and five years. ALAI's annual dividend has held steady at 3.50p per share for the last six consecutive financial years, drawing on revenue reserves when required, and the fund offers an attractive 6.7% yield.

Price		**52.5p**
Market cap		**£30m**
AUM		**£39m**
NAV*		59.4p
Discount to NAV		11.6%
*Including income. As at 25 February 2022.		
Yield		6.7%
Ordinary shares in issue		57.1m
Code/ISIN		ALAI/JE00B44ZTP62
Primary exchange		LSE
AIC sector		Latin America
52-week high/low	58.5p	45.6p
NAV* high/low	67.7p	51.6p
*Including income		
Net gearing*		16.3%
*As at 18 February 2022.		

Fund objective

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

Bull points

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

Bear points

- Higher political and currency risk in Latin America than in developed economies.
- Securities markets in the region can experience periods of volatility.
- Relatively high level of gearing will exacerbate losses during stock market weakness.

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

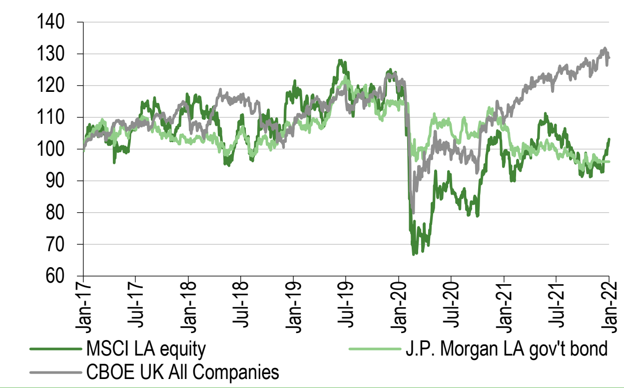
Market outlook: Potential for revaluation

Perhaps 2022 could be the year that Latin America delivers a better relative performance. It has started well, as in January 2022 the MSCI Latin America Index appreciated by 7.4%, which compares with a 1.9% decline in the MSCI Emerging Markets Index and an even greater 4.9% fall in the MSCI All Countries World Index (all in US terms). This outperformance continued in February 2022. Perhaps global investors are appreciating how inexpensive valuations in the region are, and that political risk may already be priced into Latin American share prices.

As shown in Exhibit 1 (right-hand side) the Datastream Latin America Index is trading at a 9.9x forward P/E multiple, which is a c 37% discount to the Datastream World Index's 15.7x, and a 20% discount to its five-year average. Brazil represents more than 60% of the Latin American stock market and is trading at an even larger 25% discount to its five-year average. If the global economy continues to improve, Latin America should benefit from its position as a major exporter of commodities and if modest earnings growth in the region proves to be too conservative, there is potential for Latin American companies to be afforded a higher valuation.

Exhibit 1: 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	9.9	15.1	9.5	12.4	80
Brazil	8.9	15.4	8.4	11.9	75
Mexico	13.9	17.0	11.4	14.3	98
US	19.7	23.7	14.2	19.3	102
UK	12.3	15.7	9.7	13.5	91
World	15.7	19.8	12.3	16.2	97

Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 25 February 2022.

The fund manager: abrdn

The managers' view: Region is looking very attractively valued

Viktor Szabó (a member of abrdn's emerging market debt team) and Mubashira Bukhari Khwaja (a member of abrdn's global emerging markets equities team) discussed recent events and their outlook for Latin America. Szabó says that 2021 was an interesting year for the region, a period of economic recovery following the COVID-19 pandemic and a big recession in 2020. He explains that while in aggregate, growth was robust in 2021, it was uneven as smaller countries such as Chile and Peru had GDP growth of more than 12%, although the larger economies still managed to grow around 5%. The manager reports that Brazil and Mexico experienced further waves of COVID-19 cases, but this did not meaningfully hold back economic performance, although the service sector is not yet fully recovered.

Szabó explains that things changed at the beginning of 2022, as in January there was a massive spike in COVID-19 cases, but the Omicron variant proved not to be as lethal as prior strains, so there has been less pressure on healthcare systems compared with 2020 and 2021; he does not expect mobility restrictions to be reintroduced. The manager reports that there have been significant increases in vaccination levels across Latin America, with Chile approaching 90% of the population and Mexico closer to 60%, but this country has likely maxed out, as those who wanted to be vaccinated have already been jabbed.

Inflation in Latin America has exceeded that in developed markets; in Brazil it reached 10.74% in November 2021 but is now closer to 10%. Countries that typically have low inflation have also seen higher levels, with Chile above 7% and Colombia above 5%. These are well above central banks' targets. Inflation has been persistent, which Szabó considers to be surprising; factors include higher food and energy prices, supply bottlenecks and the general economic recovery. He says that this has been unwelcome news and has forced central banks to react. Brazil led the charge in raising interest rates, but now all relevant banks in Latin America have raised rates multiple times. Recently there was a 150bp hike in Brazil and the base interest rate is now 10.75%. However, the Brazilian central bank indicated that the pace of interest rate hikes will moderate, which the manager says is the first clear indication that the rising interest rate cycle is coming to an end.

Szabó believes that a big theme for 2022 will be when inflation will peak and start to moderate. He suggests that markets are still pricing in a further 100–150bp increase in interest rates in Latin America. According to the manager, inflation could peak at the end of the first or the beginning of the second quarter of 2022. He says that after that the important issue will be how quickly inflation moderates and how much is persistent and feeds into higher wages.

According to Szabó, in 2021, Latin American markets were negatively affected by politics, especially in the Andean countries. In Peru, the second round of the presidential election was in June 2021 and was won by left-wing candidate Pedro Castillo (in Latin America, outside of Uruguay, there has been a shift to the left). The manager suggests that this is not surprising given that most countries had right or centre-right governments at the start of the pandemic, who did not handle the situation well, so have been punished by their electorates. He says that the damage to healthcare systems and economies within the region has pushed public opinion towards favouring more social provisions.

Szabó reports that stock markets sold off around the June 2021 Peruvian presidential election. Castillo's first cabinet was not market friendly and there have been two subsequent reshuffles. The president retained the Peruvian central bank governor, who has been in place since the mid-2000s, and the finance minister is an experienced technocrat who the markets can trust, says the manager. However, the political environment in Peru remains uncertain as the president managed to fend off an impeachment vote in December 2021. The Peruvian stock market has subsequentially rallied to exceed pre-election highs following the sharp sell-off in mid-2021.

The manager explains that the 2021 Chilean presidential election was won by left-wing candidate Gabriel Boric, although his key appointments show no radical shift to the left; the head of the central bank is now the minister of finance and one of the central bank directors has stepped up to become governor. Szabó suggests that these are reassuring appointments and the Chilean market recovered following a double-digit sell-off. There will be a referendum later this year regarding a change in the constitution and tax and pension reforms are top of the president's agenda. The manager says that the president is willing to increase taxes on the rich and maybe on the extractive sectors, although he realises the importance of the mining industry to Chile's economy.

In Colombia, the presidential election is due in late-May 2022, with a congressional election in mid-March 2022. Szabó says that the consensus view is that the next president will be left-wing candidate Gustavo Petro. There is a concern that he will target the extractive sector, which would be viewed negatively by the market.

The Brazilian presidential election is in October 2022. Former president Lula has the upper hand, and the manager believes that the market is taking on board that he is showing signs of being more moderate. Szabó explains when Lula was formerly in office, serious mistakes were made including corruption, so investors hope he will act more like he did during his first rather than his second term.

Brazilian asset prices have recently rebounded having been weak at the end of 2021 on concerns about abolition of the country's spending cap, which is an important policy initiative. There has been an agreement addressing the increase in court-mandated payments, which have been eating up a large amount of discretionary spending. Other changes include indexation of the spending cap and changes to welfare spending; the Auxílio Brasil programme of BRL55bn is more than double the prior package. Mandatory expenditure has risen due to inflation. Current President Jair Bolsonaro floated a wage hike for federal police, which led to a wave of protests from other public sector workers whose wages have been frozen for the last two years. The manager wonders how Bolsonaro will manage wage demands from the public sector given there is not much fiscal flexibility available in election years. Szabó comments that fuel prices are also an issue, noting that a constitutional amendment to reduce taxes on fuel would lead to a BRL65bn hole in Brazil's fiscal budget. In 2021, the country had a strong budget performance with a 0.75% primary budget surplus, the first since 2013. Over the course of last year, debt to GDP declined from 89% to 80%, which the manager considers to be a significant achievement. He notes that the Brazilian real has been one of the best performing currencies in Latin America in the year-to-date after months of weakness.

In aggregate, Szabó expects Latin American 2022 GDP growth to be lower than in 2021, which benefited from a recession rebound. He says that Brazil is likely to be the weakest at modestly above 0% with 2–4% growth in other countries. The manager comments that the commodity price backdrop is positive and Q421 saw a significant improvement in the region's terms of trade led by higher metals and oil prices.

Considering Latin American corporate earnings, Szabó says that 2021 numbers were very strong because of higher commodity prices. For 2022, consensus growth estimates have come down to a mid- to high-single digits range as the energy and materials sectors face difficult comparisons. The manager says that there has been some domestic cyclical recovery in the region, the Omicron variant is no longer an issue and there is an increase in retail sales in physical stores. Szabó notes that the outlook for the real estate and consumer discretionary sectors is positive as economies have reopened. He believes that banks' earnings growth should improve this year based on higher loan growth, while they are beneficiaries of higher interest rates. The manager suggests that there could be upside to consensus earnings estimates as expectations are low and if energy and material prices are higher for longer; although this will be dependent on the strength of the Chinese economy. Szabó considers that Latin America is very attractively valued but if the region is to enjoy a re-rating, corporate earnings growth needs to continue. He says that it is early days and there is a risk of higher inflation as companies have increased prices aiming to protect their margins amid higher input costs. The manager says that this suits ALAI's quality style, with its focus on financially robust companies with pricing power.

ALAI's approach to ESG

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

abrdn employs more than 1,000 investment professionals, who take ESG factors into account during their company research, stock selection and portfolio construction activities; they are supported by more than 50 ESG specialists around the world. Through engagement and exercising voting rights, the managers actively work with companies to improve corporate standards, transparency and accountability. In doing so, they aim to deliver improved financial performance over the longer term, as well as actively contributing to a fairer, more sustainable world.

Current portfolio positioning

At end-January 2022, ALAI's equity exposure remained higher than its historical average, approaching two-thirds of the fund, thereby illustrating the managers' continued bullish outlook. Over the 12 months to 31 January 2022, the number of portfolio holdings increased by six to 65.

Exhibit 2: Current portfolio breakdown (% unless stated)

	Portfolio end-January 2022	Portfolio end-January 2021	Change
Equity exposure	63.9	62.7	1.2
Fixed income exposure	36.1	37.3	(1.2)
Number of holdings	65	59	+6

Source: ALAI, Edison Investment Research

ALAI's top 10 positions (seven equities and three government bonds) made up 35.5% of the portfolio at the end of January 2022, which was a lower concentration compared with 41.5% a year earlier; seven holdings were common to both periods.

Exhibit 3: Top 10 holdings (as at 31 January 2022)

Company	Country	Sector	Portfolio weight %	
			31 January 2022	31 January 2021*
Brazil (Fed Rep of) 10% 01/01/25	Brazil	Government bond	5.5	5.7
Colombia (Rep of) 9.85% 28/06/27	Colombia	Government bond	5.1	6.2
Banco Bradesco	Brazil	Financials	3.6	4.4
Walmart de México y Centroamérica	Mexico	Retail	3.3	3.1
Petrobras	Brazil	Energy	3.3	3.3
B3 - Brasil Bolsa Balcao	Brazil	Financials	3.1	3.1
Grupo México	Mexico	Materials	3.0	N/A
FEMSA	Mexico	Consumer staples	3.0	N/A
Grupo Financiero Banorte	Mexico	Financials	2.8	N/A
Uruguay (Rep of) 4.375% 15/12/28	Uruguay	Government bond	2.8	3.7
Top 10 (% of portfolio)			**35.5**	**41.5**

Source: ALAI, Edison Investment Research. Note *N/A where not in end-January 2021 top 10.

In terms of ALAI's geographic exposure, in the 12 months to the end of January 2022, the most notable change is a higher (+4.0pp) weighting to Mexico. This has been more than offset by lower weightings to Argentina (-2.3pp), Chile (-2.1pp) and Peru (-1.4pp).

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

	Portfolio end-January 2022	Portfolio end-January 2021	Change (pp)
Brazil	49.1	48.5	0.6
Mexico	27.5	23.5	4.0
Colombia	7.7	7.7	0.0
Uruguay	6.3	5.7	0.6
Peru	3.7	5.1	(1.4)
Chile	3.1	5.2	(2.1)
Argentina	1.6	3.9	(2.3)
Cash	1.0	0.4	0.6
	100.0	**100.0**	

Source: ALAI, Edison Investment Research

Bukhari Khwaja highlights ALAI's equity purchases and sales since our last report was published in August 2021. There are four new holdings:

- **3R Petroleum** is a Brazilian junior exploration and production company. It was spun out from Petrobras, has a high-quality asset base and is cash generative.
- **Credicorp** has a leading banking franchise in Peru; the position was initiated following a period of share price weakness.

- **Klabin** is the biggest paper producer, exporter and recycler in Brazil. It has low-cost vertically integrated operations that play into the clean environment theme by replacing plastic packaging.
- **Raízen** was an August 2021 initial public offering and is a joint venture formed in 2010 from the merger of the sugar, fuel and ethanol derived from sugar assets of Cosan and Royal Dutch Shell in Brazil. The company participates in the clean fuel economy and is a major exporter.

There were also four complete disposals:

- **Aenza** is a Peruvian infrastructure company catering to the mining industries. The firm's business prospects deteriorated.
- **BK Brazil** is a Burger King franchise operator that is under pressure from rising costs as fast-food businesses do not have pricing power.
- **Hoteles City** is a Mexican hotel chain; the manager considered that better opportunities were available elsewhere.
- **Lojas Renner** had been a long-term holding in ALAI's portfolio. It is the largest clothing department store in Brazil. The manager believes that the company has a more challenging outlook and is not adapting well enough to the new economy, where having a growing online business is becoming increasingly important.

Within the fixed income part of ALAI's portfolio, Szabó was more cautious on duration; hence, he reduced the fund's duration in Brazil, Colombia and Mexico. He is awaiting a peak in inflation and interest rates to increase duration within the portfolio. The manager says that Brazilian government debt is starting to look attractive, but timing is tricky because of stubborn inflation. He increased the Peru currency allocation at the expense of Mexico as the Peruvian markets sold off around the presidential election.

Performance: Disappointing equity returns in 2021

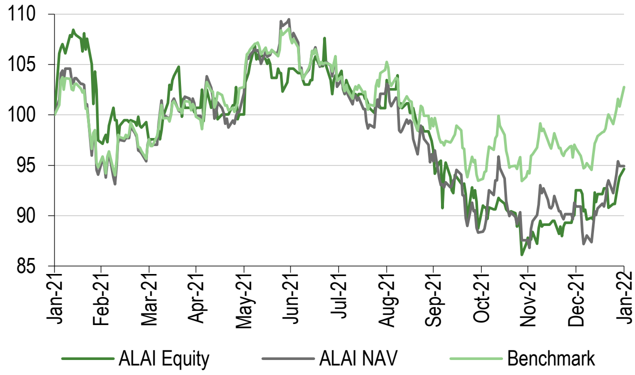
Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	Composite benchmark (%)*	MSCI EM Latin America 10/40 (%)	JP Morgan GBI-EM Global Diversified (Latin America) (%)
31/01/18	12.0	11.5	10.1	15.5	2.0
31/01/19	1.1	0.6	4.4	3.1	5.7
31/01/20	1.4	1.4	(0.2)	(3.3)	3.9
31/01/21	(13.5)	(15.8)	(12.0)	(18.0)	(5.2)
31/01/22	(5.4)	(2.6)	2.7	9.3	(7.0)

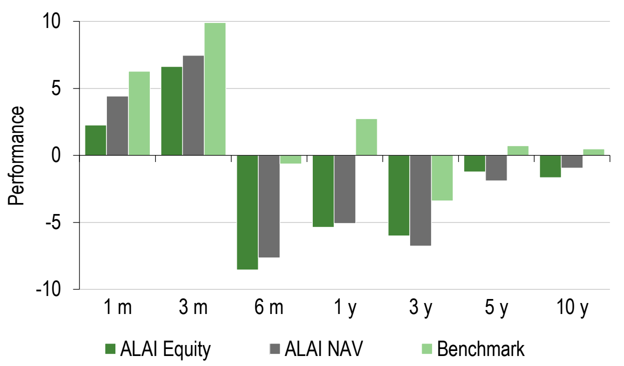
Source: Refinitiv. Note: All % on a total return basis in pounds sterling. *Composite benchmark is 60% MSCI EM Latin America 10/40 Index and 40% JP Morgan Government Bond Index EM Global Diversified (Latin America carve-out).

Exhibit 6: Investment company performance to 31 January 2022

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



Price, NAV and benchmark total return performance (%)



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

Bukhari Khwaja explains that in 2021, ALAI's equity total return was 5.8pp behind the MSCI EM Latin America 10/40 Index. She attributes this to the stock market rotation from growth to value stocks. The manager explains that a steepening yield curve led to a derating of growth stocks and there were outflows from domestic fund managers, which put pressure on the market, including the high-quality names that feature in ALAI's portfolio. Stock selection in the banking sector was a positive contributor to the fund's performance. Its consumer staples exposure was helped by not owning Natura & Co, which went through a tough time, and its holdings in Walmart de México y Centroamérica and Coca Cola bottler Arca Continental. In the consumer discretionary sector stock selection was positive, such as the holding in footwear retailer Arezzo. Detractors to ALAI's 2021 equity performance included its e-commerce exposure such as Mobly and GetNinjas. The underweight position in Petrobras also had a negative impact on the fund's total return as did the lack of exposure to America Movil, which benefited from the growth to value rotation.

Szabó reports that there was strong outperformance from ALAI's fixed income part of the portfolio helped by an overweight position in Uruguay and no exposure to Chile. There was a negative impact from the fund's Brazilian long-duration exposure in H121; however, this position has now been reduced.

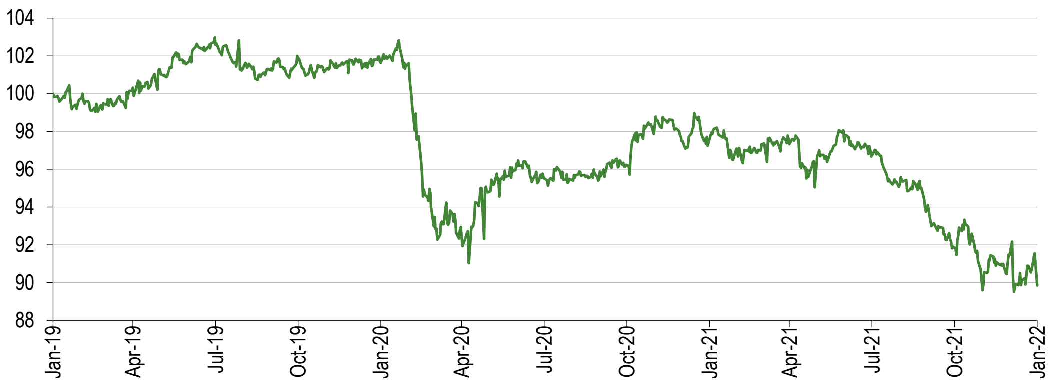
ALAI's equity underperformance in 2021 has had a detrimental effect on the fund's relative returns. Unfortunately, it is now lagging its composite benchmark over all periods shown in Exhibit 7 in both NAV and share price terms.

Exhibit 7: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to benchmark	(3.8)	(3.0)	(8.0)	(7.9)	(8.0)	(9.3)	(19.3)
NAV relative to benchmark	(1.7)	(2.2)	(7.0)	(7.6)	(10.1)	(12.3)	(13.2)
Price relative to MSCI EM LA 10/40	(5.8)	(5.7)	(7.7)	(13.4)	(4.2)	(8.9)	(10.6)
NAV relative to MSCI EM LA 10/40	(3.8)	(4.9)	(6.8)	(13.1)	(6.5)	(11.9)	(3.8)
Price relative to JP Morgan LA gov't bond	(0.6)	1.3	(8.0)	1.7	(9.4)	(4.9)	(24.3)
NAV relative to JP Morgan LA gov't bond	1.5	2.1	(7.1)	2.1	(11.5)	(8.0)	(18.6)
Price relative to CBOE UK All Companies	2.5	4.3	(13.3)	(20.7)	(31.1)	(27.0)	(58.3)
NAV relative to CBOE UK All Companies	4.7	5.1	(12.4)	(20.4)	(32.7)	(29.4)	(55.2)

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

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



Source: Refinitiv, Edison Investment Research

Peer group comparison

There are just two funds in the AIC Latin America sector, and they are not directly comparable as they follow different mandates; ALAI invests in equities and government bonds, while BlackRock Latin American Investment Trust is an equity fund. ALAI's NAV total returns rank first over the last three and 10 years and second over the last one and five years. It is currently trading on a wider discount, has a higher ongoing charge (as its fixed costs are spread over a smaller base and is capped at 2.0%) and has a higher level of gearing. The company also offers a more attractive dividend yield.

Exhibit 9: Selected peer group as at 25 February 2022*

% unless stated	Market cap/ fund size £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
abrdn Latin American Income	30.0	1.2	(13.5)	(8.6)	(7.2)	(11.8)	2.0	No	115	6.7
BlackRock Latin American	149.2	3.1	(16.3)	(1.3)	(7.8)	(6.6)	1.1	No	109	5.5
Average	**89.6**	**2.1**	**(14.9)**	**(5.0)**	**(7.5)**	**(9.2)**	**1.6**		**112**	**6.1**
ALAI rank	**2**	**2**	**1**	**2**	**1**	**2**	**1**		**1**	**1**
Open-ended funds							**TER**			
ASI Latin American Equity	81.6	1.0	(17.0)	(10.1)	(10.6)		1.6			1.5
Fidelity Latin America	421.4	(1.9)	(12.9)	(1.6)	(8.9)		1.1			0.0
Schroder ISF Latin American	263.0	9.4	(2.4)	9.5	(8.9)		1.9			5.2
Templeton Latin America	498.1	6.4	(12.4)	(3.3)	(21.0)		2.3			1.1
Threadneedle Latin America	242.6	(13.2)	(21.1)	(18.8)	(33.6)		1.7			0.1
Average	**301.4**	**0.3**	**(13.2)**	**(4.8)**	**(16.6)**		**1.7**			**1.6**

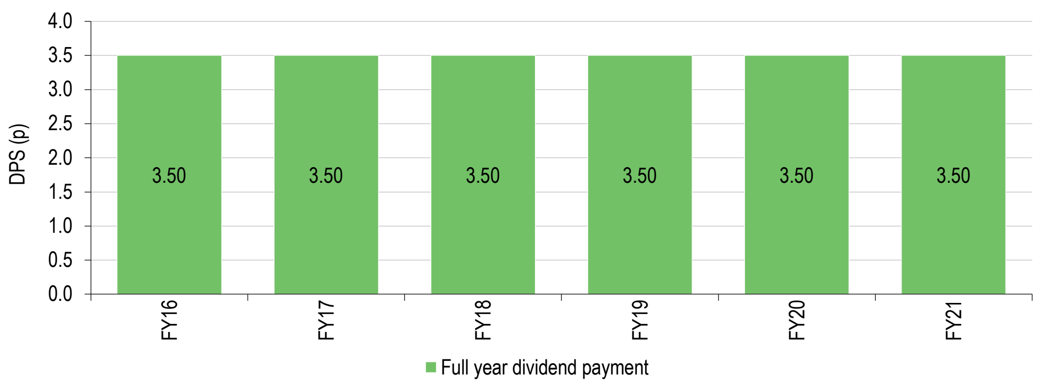
Source: Morningstar, Edison Investment Research. Note: *Performance as at 24 February 2022. TR = total return. TER = total expense ratio. Net gearing is total assets less cash and equivalents as a percentage of net assets.

To enable a broader comparison, in Exhibit 9 we also highlight a range of open-ended equity funds that invest in Latin America. ALAI's NAV total returns are above their average return over one and 10 years, broadly in line over three years, while lagging over the last five years; however, its dividend yield is more attractive than all of those offered by the open-ended funds.

Dividends

Historically, more than 60% of ALAI's income has been derived from its fixed income portfolio. In FY21, the company's earnings per share was 2.66p, which was a 20.4% increase compared with FY20. The annual dividend was held steady at 3.50p per share for the sixth consecutive financial year, drawing on £480k from ALAI's revenue reserves (the dividend was 0.76x covered). At the end of FY21, there were c £1.5m of revenue reserves remaining, which is equivalent to 0.49x the last annual dividend payment. The board has reviewed ALAI's revenue forecasts and cautions that if the volatility experienced in Latin American region continues and currencies are weak, it is likely that the payment of a sustainable and covered dividend may necessitate a lower annual dividend in future years. So far in FY22, one quarterly dividend of 0.875p per share has been paid and based on its current share price ALAI offers an attractive 6.7% yield.

Exhibit 10: Dividend history since FY16



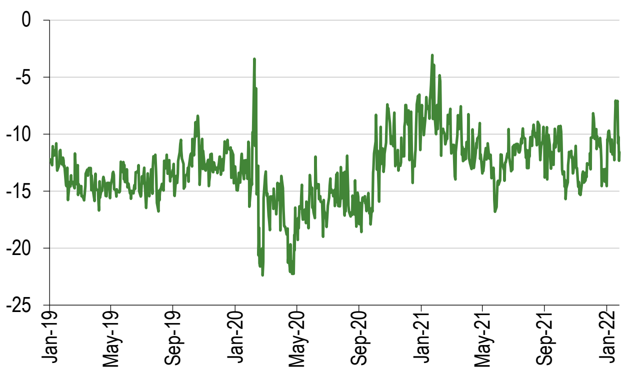
Source: Bloomberg, Edison Investment Research

Valuation: Discount in line with historical averages

ALAI's current 11.6% share price discount to cum-income NAV compares with a range of 3.1% to 16.8% over the last 12 months. It has traded at average discounts of 11.2%, 13.0%, 13.2% and 10.2% over the last one, three, five and 10 years, respectively. There is potential for a wider discount if ALAI's dividend is reduced.

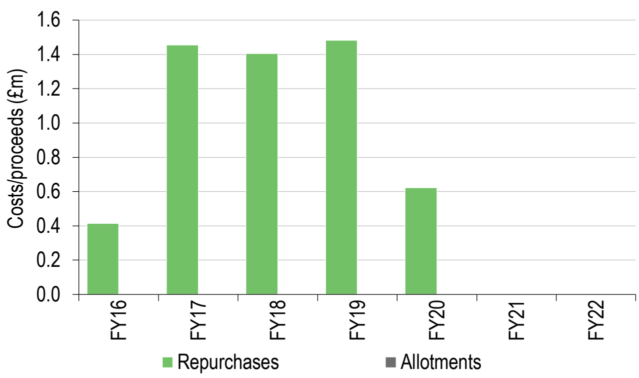
Renewed annually, the board has the authority to repurchase up to 14.99% and allot up to 10% of issued shares to manage a discount or premium. There have been no share repurchases since March 2020.

Exhibit 11: Discount over three years (%)



Source: Refinitiv, Edison Investment Research

Exhibit 12: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: Equity and fixed income exposure

Launched on 16 August 2010, ALAI is a Jersey-incorporated closed-end investment company and is listed on the Main Market of the London Stock Exchange. Following shareholder approval at the December 2021 AGM, and effective from 11 January 2022, the company's name was changed from Aberdeen Latin American Income Fund to abrdn Latin American Income Fund.

The fund is managed by abrdn's global emerging markets equities and emerging market debt teams. It aims to generate a total return with an above-average yield from a diversified portfolio of Latin American securities. ALAI's performance is benchmarked against a composite index: 60% MSCI EM Latin America 10/40 Index and 40% JP Morgan Government Bond Index EM Global Diversified (Latin America carve-out); both are sterling adjusted. The benchmark is used as a measurement rather than a portfolio construction tool, so there will be periods when the performance of the fund and that of the composite index diverge.

ALAI's portfolio contains equity, equity-related and fixed income securities; at the end of January 2022, it was split broadly 64:36 between equities and government bonds. In order to mitigate risk, at least 25% of gross assets must be held in equity and equity-related investments, and at least 25% in fixed income investments. At the time of investment, a maximum 15% of gross assets may be held in a single company, with up to 25% in non-investment grade government debt (rated BB+/Ba1 or lower). ALAI has no restrictions on its geographic, sector or market cap exposure. Derivatives are permitted for efficient portfolio management and to mitigate risk (up to 50% of gross assets). Gearing of 20% of net assets is permitted at the time of drawdown; as at 18 January 2022, ALAI's net gearing was 16.3%.

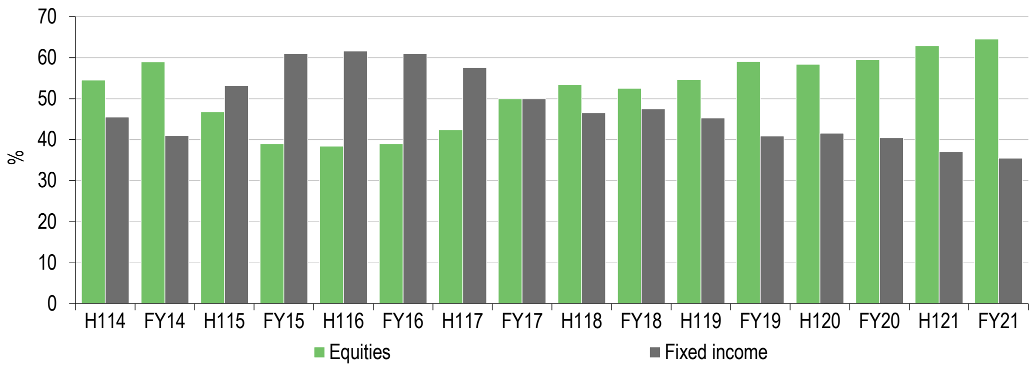
Investment process: Focus on quality and value

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

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

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

Exhibit 13: Portfolio exposure (starting in H114)



Source: ALAI, Edison Investment Research

Gearing

ALAI is not permitted to take out fixed long-term borrowings. In August 2021, the company entered into a two-year £6m unsecured revolving multi-currency loan facility with The Bank of Nova Scotia expiring on 14 August 2023 (£5.5m is drawn down). The board continues to monitor the level of gearing under recommendation from the manager and taking current market conditions into account. As at 18 February 2022, ALAI's net gearing was 16.3%.

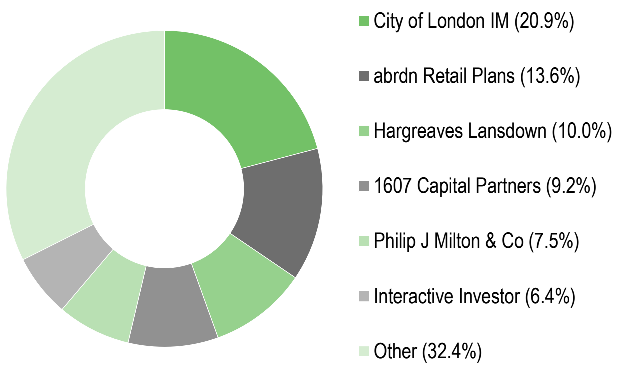
Fees and charges

ALAI pays abrdn an annual management fee of 1.0% of its NAV, which is divided 40:60 between the revenue and capital accounts respectively. This reflects the prospective split between future revenue and capital growth. The manager has agreed that the fund's ongoing charge ratio (OCR) will be capped at 2.0%, with any excess fees rebated by the manager. In FY21, the OCR was 2.0% (including a £127k rebate), which was in line with FY20 (including an £83k rebate).

Capital structure

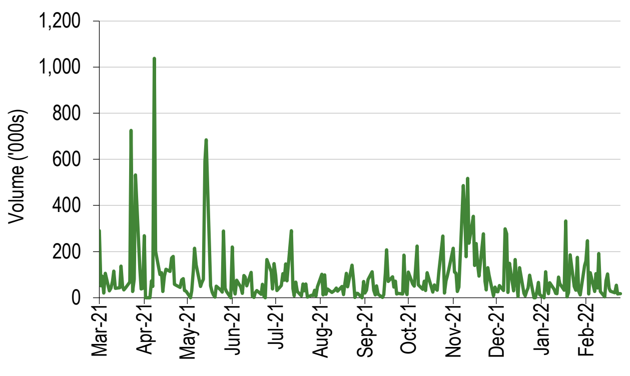
ALAI is a Jersey-registered investment company with one class of share; there are currently 57.1m ordinary shares in issue (with a further 6.1m held in treasury). Its average daily volume over the last 12 months is c 93k shares.

Exhibit 14: Major shareholders



Source: ALAI, as at 31 January 2022

Exhibit 15: Average daily volume



Source: Refinitiv, 12 months to 25 February 2022

The board

Exhibit 16: ALAI's board of directors at end-FY21

Board member	Date of appointment	Remuneration in FY21	Shareholdings at end-FY21
Howard Myles (chairman)	1 October 2020	£20,167	Nil
Richard Prosser (former chairman)*	30 June 2010	£32,000	15,000
Hazel Adam	27 April 2018	£22,000	Nil
Heather MacCallum (audit committee chair)	24 April 2019	£25,605	Nil

Source: ALAI Note: *Richard Prosser has now retired.

As part of the board's succession planning, Richard Prosser stood down as chairman at the conclusion of ALAI's AGM on 20 December 2021; he is succeeded by Howard Myers. Prosser continued to act as a non-executive director until the completion of an external search for, and the appointment of, a Jersey-resident independent non-executive director.

On 18 February 2022, the board announced the appointment of Michael Gray as an independent, non-executive director, effective immediately. He has extensive investment management experience including as a closed-end fund director. Gray has over 30 years' management experience in banking, both with ultra-high net worth clients and corporate banking. More recently, he has utilised his corporate experience across a range of industries and is now acting as an adviser to several companies with global interests. Gray is currently non-executive director of EPE Special Opportunities, Foresight Enterprise VCT, GCP Infrastructure Investments (where he is chairman of the investment committee), JTC and TEAM. He will stand for election as one of ALAI's directors at the AGM to be held on or around 14 December 2022.

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