BlackRock Latin American IT

BRLA's board addressing the fund's performance

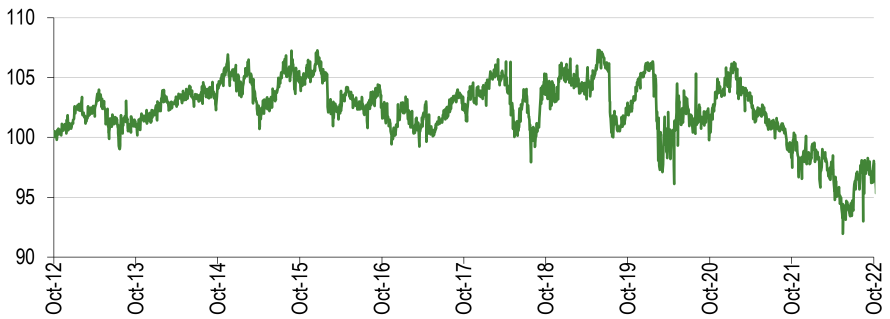
Investment trusts
Latin American equities

24 November 2022

BlackRock Latin American Investment Trust (BRLA) has a new manager. Effective from 9 September 2022, former co-manager Sam Vecht was promoted to lead manager, while Christoph Brinkmann was appointed BRLA's deputy manager, replacing former co-manager Ed Kuczma. Vecht says that the world is fractured, with rising inflation and interest rates, corporates struggling to grow and extreme political tension. He comments that these issues are not new for Latin America, while, following the recent Brazilian presidential election, the political environment in the region is more benign than normal. Vecht notes that a more stable environment in Latin America compared with developed markets is unusual. Inflation in the region has been brought under control and central banks have followed orthodox monetary policies so real interest rates in Latin America are positive, unlike in Europe and the United States, for example. The manager comments that Latin American companies are coming out of their shells, and he is finding interesting growth opportunities in the region.

Price		**372p**
Market cap		**£110m**
Total assets		**£172m**
NAV*		423.3p
Discount to NAV		12.1%
*Including income. At 22 November 2022.		
Yield		5.6%
Ordinary shares in issue		29.4m
Code/ISIN		BRLA/GB0005058408
Primary exchange		LSE
AIC sector		Latin America
Financial year end		31 December
52-week high/low	448.5p	317.0p
NAV* high/low	493.2p	345.1p
*Including income.		
Net gearing*		7.4%
*At 30 September 2022.		

NAV versus the benchmark over 10 years to end-October 2022



Source: Refinitiv, Edison Investment Research

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 trust has an indefinite life subject to a two-yearly continuation vote. The benchmark is the MSCI Emerging Markets Latin America Index.

The analyst's view

Now may be a good time for global investors to consider an allocation to Latin America given the very attractive valuation and macroeconomic backdrop. The region has worked through a heavy political cycle and Latin American central banks appear to be 'ahead of the curve' in tackling rising prices. BRLA's managers primarily select stocks on a bottom-up basis, while incorporating macroeconomic analysis into the process. They are increasing the size of the active bets in their highest-conviction positions and have reduced the number of portfolio holdings.

Dividend policy supported BRLA's valuation

BRLA's discount has widened following the May 2022 tender offer during an environment of heightened investor risk aversion. However, its valuation had been on an improving trend since the July 2018 change in the trust's dividend policy. Payments are based on 1.25% of BRLA's quarterly NAV (current dividend yield of 5.6%). The trust's 12.1% discount compares with an 8.7% to 11.4% range of average discounts over the last one, three, five and 10 years.

Bull points

- Diversified Latin American equity fund with a defined dividend policy and attractive yield.
- Latin America is benefiting from geopolitical and economic insulation from global geopolitical conflicts.
- Latin America is very 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.

Analyst

Mel Jenner +44 (0)20 3077 5700

investmenttrusts@edisongroup.com

Edison profile page

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

NOT INTENDED FOR PERSONS IN THE EEA

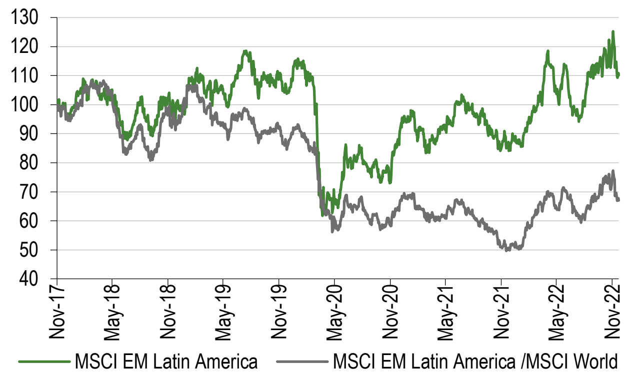
Market outlook: Very attractive valuations in LatAm

The performance of Latin American equities has been relatively lacklustre over the last five years (Exhibit 1, left-hand side). Investors have tended to gravitate towards more stable growth and less politically volatile regions. Also, until the start of this year, high-tech growth stocks were in favour, which has particularly benefited the United States as it has a very broad and well-developed technology sector. This year has been a wake-up call, with a sharp shift from growth to value stock market leadership, and many investors have never experienced a protracted period of rising inflation and higher interest rates. Commodity price increases have been exacerbated by the war in Ukraine, at a time when post-COVID-19 supply chain disruptions were already placing upward pressure on input costs.

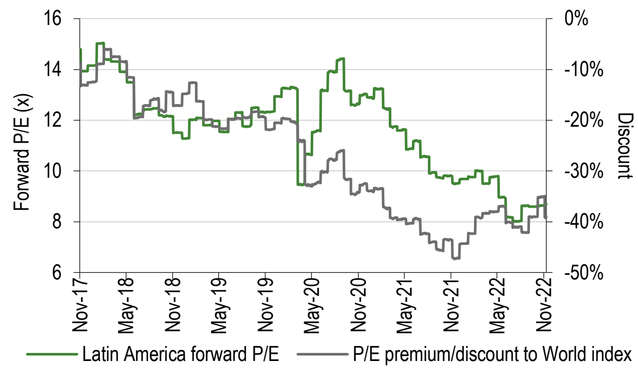
Latin America has regularly experienced periods of inflation and central banks in the region have moved rapidly to address the current price rises, which means they could be looking to reduce interest rates to support demand, just when developed markets are in a tightening interest rate mode. Politics is always a hot topic in Latin America, but following the recent Brazilian presidential election, the political backdrop appears to be relatively benign. Also, equity valuations in Latin America are looking compelling. Shown in Exhibit 1, right-hand side, on an absolute basis, the Datastream Latin America Index is trading on an 8.7x forward P/E multiple, which is a 25.6% discount to its 11.7x five-year average. Relatively, this index is trading at a 38.8% discount to the Datastream World Index, a meaningful 11.3pp differential compared with the 27.5% five-year average discount. With this valuation support in mind, global investors may benefit from considering the opportunities available in Latin America, a region that over time has been overlooked, as evidenced by its modest c 10% weighting in the MSCI Emerging Markets Index compared with c 25% 20 years ago.

Exhibit 1: Market performance and valuation

Latin America index performance (last five years, in £ terms)



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



Source: Refinitiv, Edison Investment Research. Note: At 22 November 2022.

The fund managers: Sam Vecht and Christoph Brinkmann

The managers' view: Importance of Latin America to BlackRock

Vecht highlights the importance of Latin America within BlackRock's high-profile emerging markets franchise. Indeed, BlackRock's global emerging markets investment team has the largest overweight exposure to Latin America that the manager can remember. The region makes up 10% of emerging market indices but BlackRock's global emerging market strategies have weightings of 18–25%. Vecht comments how important it is to improve BlackRock's Latin American relative performance. The world's largest asset manager is taking steps to address this issue – BlackRock's Latin American research team will be based in London, which is seen as a centre of excellence, and there have been increased resources allocated to Latin American research.

According to Vecht, there have not been changes to BlackRock's successful global emerging markets investment process, which is evidenced by analysis of the cumulative relative performance of the team's analysts' stock ratings. In aggregate, there has been significant outperformance by companies rated 'strong buy' and meaningful underperformance of those rated 'strong sell'.

Vecht and Brinkmann are taking on higher risk on both the trust's macroeconomic and individual stock positioning; however, stock selection will remain the primary determinant of BRLA's performance with country and currency risk increasing from 5–10% to 15–20% of the risk budget. The trust's leverage will now be more pro-actively managed and the number of names in the portfolio has been reduced. Historically, BRLA's portfolio had modest over- and underweight stock positions versus the benchmark, but the managers are working towards having a lower number of holdings with less than a 1.5% active positioning, with the largest active weights at 3.5–4.0% rather than the historic 2.0–2.5%. 'It is so important that we get this right,' says Vecht.

Providing his perspectives on Latin America, Brinkmann is positive on the outlook for the dominant economy, Brazil, as BlackRock's global emerging markets team's investment process shows that markets are driven by liquidity. The manager explains that the country is currently at the lowest point in its liquidity cycle as the Brazilian central bank has been very proactive in hiking interest rates and has likely reached the peak of its interest rate tightening cycle; the base rate has risen from 2.00% to 13.75% since March 2021, while the inflation rate has declined to c 7% from c 12% in April 2022. Brinkmann says that the Brazilian authorities are used to dealing with inflation and the country's attractive real interest rate should attract foreign flows. He expects economic activity in Brazil to accelerate following the recent presidential election, where the successful left-wing candidate Luiz Inácio Lula da Silva has had to become more centrist in his policies, while local equity investment could pick up now that the election overhang has lifted, and lower interest rates could lead to asset allocation shifts away from fixed-income securities.

The manager has a more neutral view on the outlook for Mexico, where economic growth has been relatively stable so far in 2022. Mexican interest rates have risen in response to higher inflation, but prices are yet to decline, so Mexico's liquidity cycle is not at its low point. Also, Mexican companies are sceptical about President Andrés Manuel López Obrador and the risk of him changing the rules, which has hampered investment and put a dampener on Mexican economic growth. However, Mexico is benefiting from US businesses nearshoring; in north Mexico, industrial real estate is sold out and Brinkmann expects the country's economic stability to continue.

In a global context, the manager suggests that Latin America is 'a great place to be'. He says that its central banks have acted intelligently, and its countries are used to living with inflation. This is a big contrast to developed markets, which are experiencing the highest inflation in 40 years, and where Brinkmann believes that central banks are way behind the curve. He notes that despite higher interest rates, the Brazilian unemployment rate has declined, illustrating latent strength within its economy, while there is a benign level of non-performing loans.

The manager considers that Latin American equity valuations are attractive and could experience a re-rating given the outlook for the rest of the globe is deteriorating. The economies of developed markets and China are slowing, while the Latin American economy is stable and there is a lack of involvement in global conflicts.

BlackRock's global emerging markets team spends a considerable amount of time on the ground, not just visiting companies, but their customers and competitors, politicians and other institutions too, to gain a full perspective and understanding of how companies work and operate. In general, Latin American companies are more worried about the global macroeconomic backdrop and less about their domestic operations; although considering the polarisation between China/Russia and 'the west', Latin American countries can do business with both.

Current portfolio positioning

At end-September 2022, BRLA's top 10 positions made up 54.0% of the fund, which was a notably higher concentration compared with 46.5% a year earlier; five positions were common to both periods.

Exhibit 2: Top 10 holdings (at 30 September 2022)

Company	Country	Sector	Portfolio weight %		Benchmark weight (%)	Active weight vs benchmark (pp)
			30 Sept 2022	30 Sept 2021*		
Petrobras - ADR**	Brazil	Energy	8.5	6.5	9.5	(1.0)
Vale - ADS	Brazil	Materials	7.7	7.4	10.3	(2.6)
Banco Bradesco - ADR	Brazil	Banks	6.7	5.4	4.7	2.0
Itaú Unibanco	Brazil	Banks	6.6	N/A	4.9	1.7
Grupo Financiero Banorte	Mexico	Banks	5.0	4.3	3.2	1.8
Ambev - ADR	Brazil	Food, beverages & tobacco	4.4	N/A	2.6	1.8
B3	Brazil	Diversified financials	4.4	4.1	2.9	1.5
FEMSA - ADR	Mexico	Food, beverages & tobacco	4.4	N/A	2.4	2.0
Hapvida Participações	Brazil	Healthcare services	3.4	N/A	1.3	2.1
Suzano Papel e Celulose	Brazil	Materials	2.9	N/A	1.2	1.7
Top 10 (% of holdings)			**54.0**	**46.5**		

Source: BRLA, Edison Investment Research. Note: *N/A where not in end-September 2021 top 10. **Equity and preference shares.

The managers highlight BRLA's three largest overweight positions. **Hapvida Participações** is an integrated Brazilian healthcare insurer. In Brazil, the healthcare system is inefficient as doctors' compensation is based on the number of procedures, which increases medical costs, the cost of insurance premiums and the burden on the Brazilian society. Hapvida Participações runs hospitals and employs doctors, it has lower medical cost ratios (so margins are higher) and lower insurance premiums, which make them more affordable. According to the managers, it is the only integrated player with a sustainable competitive advantage.

FEMSA is a Mexican bottler and convenience store operator. Its share price sold off this summer on the announcement that the company was acquiring a Swiss bakery chain; this deal was not well received by investors. The managers believe that the sell-off was unwarranted given the strength of FEMSA's fundamentals. Its Mexican operations are robust and benefiting from an increasingly mobile population (post-COVID-19 mobility in Mexico was later to normalise compared with other countries). Also, FEMSA's business efficiency increased during the pandemic.

Grupo Financiero Banorte is a Mexican bank. The outlook for financials is favourable in a rising interest rate environment as net interest margins are expanding as loans reprice faster than deposits and banks' asset quality is satisfactory given the stable economic environment. There were concerns that Banorte would acquire a competitor, which caused its share price to come under pressure; however, following an assurance that a bid will not be made the company's shares are performing better and its operating environment is strong.

BRLA has a new position in **Iguatemi**, which owns high-end shopping centres in Brazil. On a top-down basis, Brazilian interest rates have likely peaked and as they decline the valuation of real assets should increase. Also, high-income consumers are expected to be more resilient, so the managers believe that Iguatemi should continue to experience positive earnings revisions. Brazilian insurance company **IRB Brasil Resseguros** has been added to BRLA's portfolio**.** The company had performed poorly and launched a heavily discounted rights issue, which provided a good entry point. There is potential for a business turnaround, although this is not yet evidenced.

The trust's position in Chilean retail platform **Falabella** was sold, as government handouts over an 18-month period during the pandemic have now stopped, meaning consumers have less money to spend. BRLA's position in Brazilian telecom operator **TIM** was also sold as the managers had a neutral outlook on the company; the proceeds were used to fund a higher-conviction idea.

Looking at BRLA's geographic exposure in Exhibit 3, the largest changes in the 12 months to end-September 2022 were a significantly lower allocation to Chile (-5.7pp), taking the fund from an overweight to an underweight position versus the benchmark, and a 2.9pp higher weighting to Brazil. The trust has a 3.0% exposure to Argentina, which has a zero index weighting due to its capital controls, along with a 2.1% weighting to small non-index country Panama.

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

	Portfolio end-Sept 2022	Portfolio end-Sept 2021	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Brazil	65.3	62.4	2.9	64.1	1.2	1.0
Mexico	23.7	23.0	0.7	25.0	(1.3)	0.9
Chile	3.4	9.1	(5.7)	6.6	(3.2)	0.5
Argentina	3.0	2.8	0.2	0.0	3.0	N/A
Peru	2.5	1.7	0.8	2.7	(0.2)	0.9
Panama	2.1	1.0	1.1	0.0	2.1	N/A
Colombia	0.0	0.0	0.0	1.6	(1.6)	0.0
	100.0	**100.0**		**100.0**		

Source: BRLA, Edison Investment Research

BRLA's largest changes on a sector basis over the 12 months to end-September 2022 are higher weightings to financials (+7.2pp) and energy (+3.4pp) with a 4.6pp lower exposure to communication services. The largest active weights are overweight positions in financials and real estate (both +5.3pp) with an underweight exposure to utilities (-5.1pp).

Exhibit 4: Portfolio sector exposure versus MSCI EM Latin America Index (% unless stated)

	Portfolio end-Sept 2022	Portfolio end-Sept 2021	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	30.7	23.5	7.2	25.4	5.3	1.2
Materials	18.0	19.8	(1.8)	21.2	(3.2)	0.8
Consumer staples	12.7	14.2	(1.5)	14.7	(2.0)	0.9
Energy	9.9	6.5	3.4	12.2	(2.3)	0.8
Industrials	8.7	6.8	1.9	7.8	0.9	1.1
Real estate	5.9	3.6	2.3	0.6	5.3	9.8
Healthcare	4.7	5.5	(0.8)	2.4	2.3	2.0
Consumer discretionary	4.4	7.0	(2.6)	2.9	1.5	1.5
Communication services	2.6	7.2	(4.6)	6.4	(3.8)	0.4
Information technology	1.6	3.7	(2.1)	0.5	1.1	3.2
Utilities	0.8	2.2	(1.4)	5.9	(5.1)	0.1
	100.0	**100.0**		**100.0**		

Source: BRLA, Edison Investment Research

Performance: Recent relative improvement

Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI EM Latin America (%)	CBOE UK All Companies (%)	MSCI World (%)
31/10/18	(3.6)	3.4	1.8	(1.6)	5.7
31/10/19	10.5	5.1	6.8	6.9	11.9
31/10/20	(30.0)	(34.2)	(32.9)	(20.2)	5.0
31/10/21	12.9	12.9	15.4	36.0	33.0
31/10/22	30.3	38.6	38.9	(1.6)	(2.5)

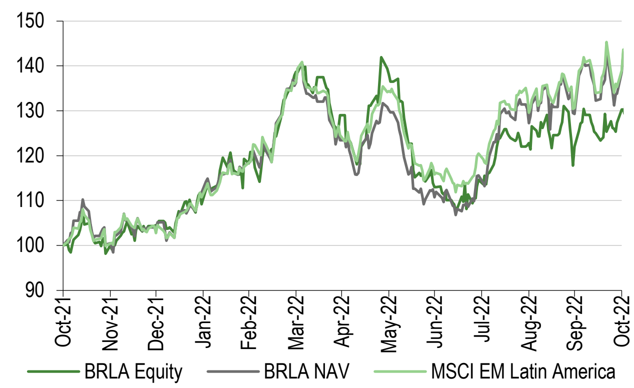
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

BRLA's relative performance is shown in Exhibit 7. Its NAV total return is ahead of the benchmark's total return over the last one, three and six months but lags over the longer periods shown. The managers explain that the trust's performance in 2022 has been negatively affected by stock selection in Brazilian, although this has started to improve. Highly rated companies have sold off in a higher interest rate environment, including BRLA's holding in Globant, an IT and software development company. The trust's holding in Cemex has underperformed despite a strong US cement market as the company has had problems passing on higher input costs; the managers expect this margin pressure to abate.

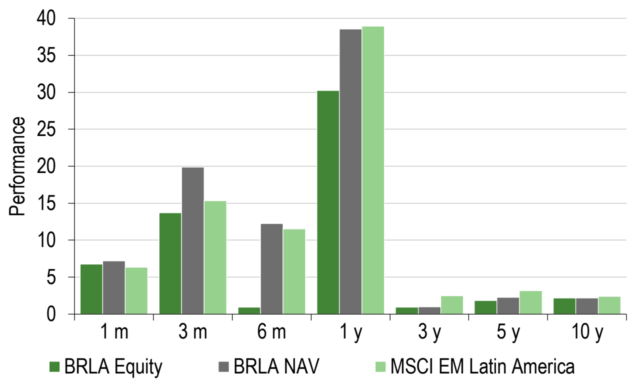
Mexican stock selection has been positive for BRLA's performance this year, including Grupo Financiero Banorte, along with the trust's Brazilian financial holdings. Also, as explained by the managers, the timing of some transactions has been helpful, such as adding to the B3 (Brazilian stock exchange) position in Q122 during a period of share price weakness.

Exhibit 6: Investment trust performance to 31 October 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.

Exhibit 7: 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	0.4	(1.4)	(9.5)	(6.3)	(4.5)	(6.3)	(2.2)
NAV relative to MSCI EM Latin America	0.8	3.9	0.6	(0.3)	(4.4)	(4.4)	(2.0)

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

Peer group comparison

Exhibit 8: Selected peer group at 22 November 2022*

% unless stated	Market cap £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 (%)
BlackRock Latin American	109.5	22.1	(4.8)	(0.8)	14.0	(12.1)	1.1	No	109	5.6
abrdn Latin American Income	31.1	20.4	(7.0)	(5.9)	2.5	(10.7)	2.0	No	115	6.5
Average	**70.3**	**21.2**	**(5.9)**	**(3.3)**	**8.3**	**(11.4)**	**1.6**		**112**	**6.1**
BRLA rank	**1**	**1**	**1**	**1**	**1**	**2**	**2**		**2**	**2**
Open-ended funds							**TER**			
abrdn Latin American Equity	90.3	19.5	(10.2)	(8.7)	0.7		1.6			3.7
CT Latin America Retail	228.0	10.9	(14.1)	(11.6)	(19.7)		1.7			1.7
Fidelity Latin America	372.6	7.0	(7.4)	(4.5)	6.8		1.1			0.0
Schroder ISF Latin American	459.4	25.5	11.0	19.4	13.6		1.9			4.1
Templeton Latin America	649.8	26.2	(3.9)	0.9	(1.8)		2.3			5.4
Simple average	**360.0**	**17.8**	**(4.9)**	**(0.9)**	**(0.1)**		**1.7**			**3.0**

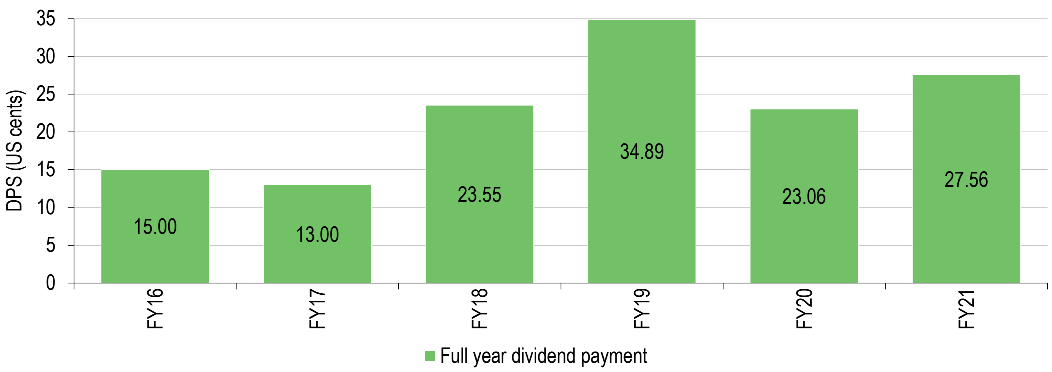
Source: Morningstar, Edison Investment Research. Note: *Performance at 21 November 2022 based on ex-par NAV. TR = total return. TER = total expense ratio. Net gearing is total assets less cash and equivalents as a percentage of net assets.

There are just two funds in the AIC Latin America sector, and they follow different mandates. BRLA has an equity portfolio, while abrdn Latin American Income's portfolio is currently broadly split 65:35 between equities and government bonds. BRLA has the higher NAV total return over all periods shown. It has a lower valuation, a more competitive ongoing charge, a lower level of net gearing and a modestly lower dividend yield. We also include a selection of open-ended funds in Exhibit 8 to enable a broader comparison. BRLA's NAV total returns are above average over the last 12 months and the last decade, and broadly in line over the last three and five years. The trust's dividend yield is higher than the mean of the open-ended funds.

Dividends: Based on NAV not income

BRLA's dividends were historically based on the trust's level of income. However, a new policy was introduced in July 2018, whereby regular quarterly dividends are paid, equivalent to 1.25% of the US dollar NAV at the end of each calendar quarter, aiming to narrow the trust's discount by making it more attractive to income-orientated investors. Distributions are made in May, August, November and February, and can be paid out of income or capital, ensuring the managers are not forced to seek a higher portfolio yield, which may hinder BRLA's capital growth prospects.

Exhibit 9: Dividend history since FY16



Source: Bloomberg, Edison Investment Research

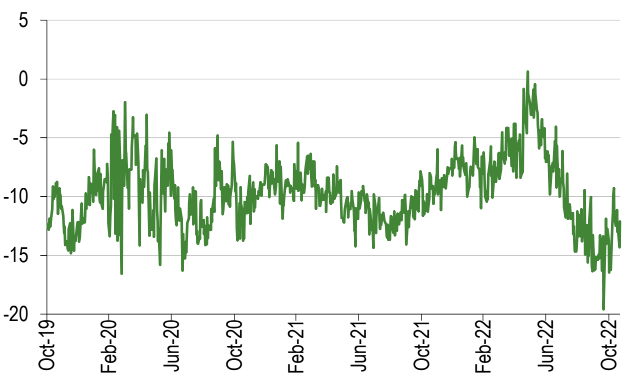
In FY21, the trust's revenue was 26.10c per share, which was c 75% higher than the pandemic-affected 14.86c per share in FY20 and also higher than the 18.10c per share income in FY19. The FY21 annual dividend of 27.56c per share was c 20% higher year-on-year. At the end of the period, the trust had c $3.8m of revenue reserves and c $165.9m in capital reserves. Based on its current share price, BRLA offers an attractive 5.6% dividend yield.

Discount: Wider following 2022 tender offer

BRLA's shares are trading at an 12.1% discount to cum-income NAV, which compares with a range of a 0.6% premium to a 19.6% discount over the last 12 months. Over the last one, three, five and 10 years, the trust has traded at average discounts of 8.7%, 9.7%, 11.1% and 11.4% respectively. BRLA's discount has widened following the May 2022 tender offer during a period of heightened investor risk aversion. However, prior to this the trust's valuation had generally been in a narrowing trend since the introduction of its new dividend policy in July 2018 (based on 1.25% of quarter-end NAV rather than the level of income).

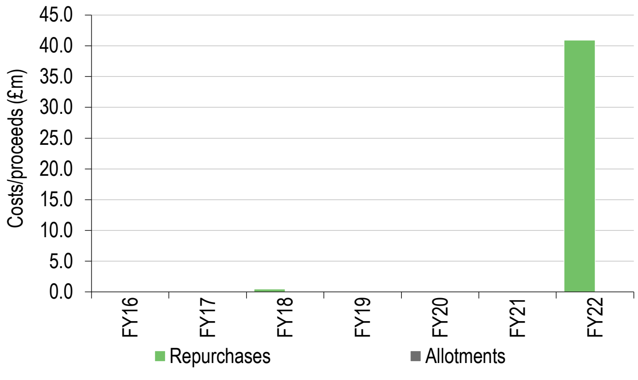
The board employs a discount control mechanism aiming to reduce BRLA's discount volatility, favouring a conditional tender offer rather than share repurchases. Subject to the biennial continuation votes in 2024 and 2026 being passed, a 24.99% tender offer will be triggered if the trust outperforms its benchmark by less than 50bp per year (previous hurdle was outperformance of 100bp per year) over the four years ending on 31 December 2025, or if BRLA's average share price discount to cum-income NAV exceeds 12% over this period. The May 2022 tender offer was undertaken as BRLA's NAV had underperformed the benchmark by 94bp per year over the four years ending 31 December 2021. Around 9.8m shares (24.99%) were redeemed with proceeds of 417.0889p per share returned to shareholders.

Exhibit 10: Discount over three years



Source: Refinitiv, Edison Investment Research

Exhibit 11: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: Diverse Latin American equity portfolio

Launched in July 1990, BRLA has been managed by BlackRock since March 2006. Its shares are quoted, in sterling, on the Main Market of the London Stock Exchange, while its financial statements are reported in US dollars, and its NAV is quoted in both US dollars and sterling.

On 9 September 2022, the trust's board announced management changes to take place with immediate effect. Former co-manager Sam Vecht is now BRLA's lead manager and Christoph Brinkmann is the trust's deputy portfolio manager (former co-manager Ed Kuczma stepped down).

Vecht is a managing director in BlackRock's Global Emerging Markets Equities team and has extensive experience in the investment trust sector, having managed a range of UK investment trusts since 2004 (and has co-managed BRLA's portfolio since December 2018). He has also been portfolio manager for the BlackRock Emerging Markets Equity Strategies Fund since September 2015, and the BlackRock Frontiers Investment Trust since 2010, both of which have invested in Latin America since launch.

Brinkmann is a vice president in BlackRock's Global Emerging Markets Equities Team who has covered multiple sectors and countries across Latin America. He joined BlackRock in 2015 after graduating from the University of Cologne with a master's degree in finance and a CEMS master's degree in international management (CEMS is a global alliance of leading business schools, multinational companies and non-government organisations).

The trust's performance is benchmarked against the MSCI Emerging Markets Latin America Index. To mitigate risk, there is a series of investment limits in place. BRLA's exposures to Brazil, Mexico, Chile, Argentina, Peru, Colombia and Venezuela may deviate from those of the benchmark by a maximum plus or minus 20pp, while other countries are plus or minus 10pp. Up to 15% of the portfolio, at the time of investment, may be in a single company; the fund may not hold more than 15% of a company's market capitalisation; and a maximum 10% of BRLA's gross assets may be invested in unquoted securities. Derivatives may be used for efficient portfolio management or to reduce risk (covering up to 20% of the portfolio) and currency exposure is unhedged. The managers can employ net gearing of up to 25% of NAV (in normal market conditions) with the aim of enhancing returns. BRLA's board considers 5% gearing a neutral level over the longer term, and borrowing is utilised actively in a range of 5% net cash to 15% geared (at the time of drawdown). At end-September 2022, the trust had net gearing of 7.4%.

Investment process: Bottom-up stock selection

Vecht and Brinkmann aim to generate long-term capital growth and an attractive total return from a diversified portfolio of companies whose shares are listed in, or whose main operations are in, Latin America. They are supported by the extensive resources of BlackRock's Global Emerging Market team, which is made up of c 40 investment professionals researching over 1,000 companies across global emerging markets including Latin America. The team's analysts look for companies where they have a differentiated view on earnings with a one- to two-year view. Stocks are assigned a rating between strong buy, buy, hold, sell and strong sell. Vecht and Brinkmann select BRLA's investments on a bottom-up basis while taking the macroeconomic environment into account. They seek companies that have positive fundamentals in terms of good long-term earnings growth and cash flow generation, robust balance sheets and well-regarded management teams, and which are trading on reasonable valuations. An assessment of a company's ESG credentials is an important element of every investment decision (see section below). BRLA's resulting portfolio is a high-conviction fund of 40–60 positions across the market cap spectrum. Stocks are selected from an investible universe of c 200 companies compared with 90 in the MSCI Latin America Index. Portfolio turnover is typically 40–60% a year.

BRLA's approach to ESG

BRLA's board believes in the importance of good ESG behaviours by investee companies. Latin American economies are large global commodity producers and there are concerns about climate change, biodiversity and proportionate and sustainable use of resources. The board considers that there is significant room for improvement in terms of disclosure and adherence to global best practices for many corporates throughout Latin America, and the region lags global peers in terms of ESG best practices. It receives regular reports from the managers on ESG matters and discusses with them when significant engagement is required with investee companies. BlackRock has extensive resources, on which the board and the managers can draw to understand the ESG risks and opportunities facing companies and industries in BRLA's portfolio. While stocks are not excluded purely for ESG reasons, any issues are considered when the managers weigh up the risk and rewards of investment decisions. The board believes that communication and engagement with portfolio companies can lead to better outcomes for shareholders. During 2021, there were 61 ESG engagements (40 in 2020) with 23 (17 in 2020) portfolio companies, which represented 76% of the year-end fund value (63% in 2020).

Gearing

BRLA has an overdraft facility for up to $40m with The Bank of New York Mellon (International), at an annual rate of the Secured Overnight Financing Rate +0.97%. Gearing is actively employed with up to 25% of NAV permitted; at end-September 2022, the trust had net gearing of 7.4%. To put this into perspective, the historical range is a net cash position to c 12% geared and during FY21 net gearing averaged 10.5%.

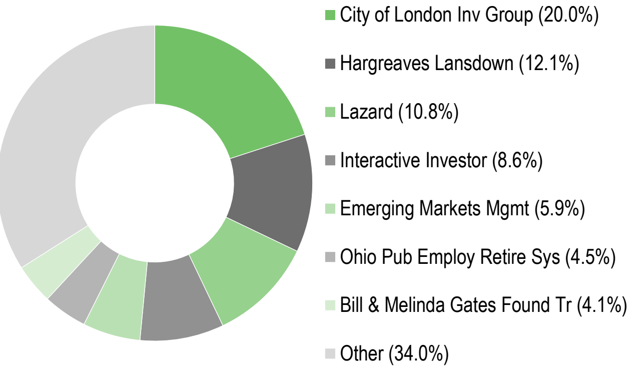
Fees and charges

BlackRock is paid an annual management fee of 0.80% of NAV, charged 75:25 to the capital and income accounts, respectively. No performance fee is payable. BRLA's FY21 ongoing charge was 1.14%, which is in line with FY20.

Capital structure

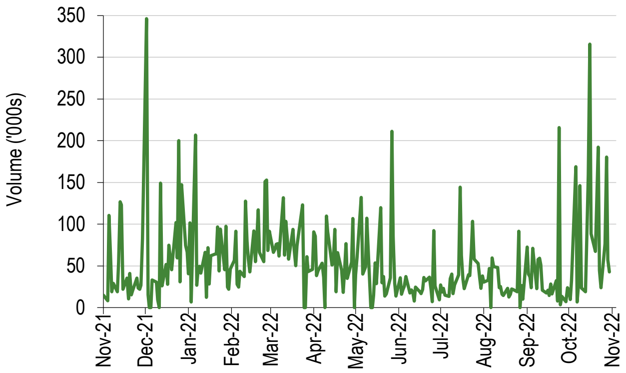
BRLA is a conventional investment trust with one class of share, there are c 29.4m ordinary shares in issue (plus a further c 2.2m held in treasury) and its average trading volume over the last 12 months was c 55k shares. The trust is subject to a two-yearly continuation vote, with the next due at the May 2024 AGM.

Exhibit 12: Major shareholders



Source: Bloomberg. Note: At 2 November 2022.

Exhibit 13: Average daily volume



Source: Refinitiv. Note 12 months to 22 November 2022.

The board

Exhibit 14: BRLA's board of directors

Board member	Date of appointment	Remuneration in FY21	Shareholdings at end-FY21
Carolan Dobson (chairman since 2 March 2017)	1 January 2016	£47,800	4,792
Mahrukh Doctor	17 November 2009	£34,600	686
Nigel Webber	1 April 2017	£32,600	5,000
Craig Cleland	1 January 2019	£36,700	10,000
Laurie Meister	1 February 2020	£32,600	2,915

Source: BRLA

General disclaimer and copyright

Australia

New Zealand

United Kingdom

United States