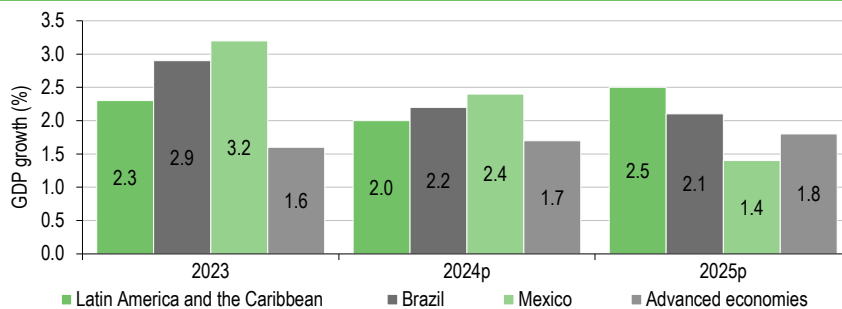


BlackRock Latin American IT

Recent visit reinforces positive regional outlook

BlackRock Latin American Investment Trust's (BRLA's) managers Sam Vecht (lead) and Christoph Brinkmann (deputy) remain upbeat about the prospects for the trust and the region, even though FY23 was a year when the MSCI Emerging Markets Index surpassed the performance of most other global indices and BRLA's results were even better. Latin American central banks have been proactive in raising interest rates to combat inflation and are now lowering rates, which should support both economic activity and asset prices. The region has distanced itself from rising geopolitical conflicts across the globe, a stance that the managers believe will attract both foreign direct investment and increasing interest from regional investors.

Higher growth outlook for Latin America versus advanced economies



Source: International Monetary Fund World Economic Outlook April 2024, Edison Investment Research. Note: p is projected.

Why consider BRLA?

Latin America offers the prospects of higher economic growth compared with developed markets, along with modest equity valuations in absolute and relative terms. BRLA has two very experienced managers, who can draw on BlackRock's extensive resources when required. As well as covering the two major markets in the region, Brazil and Mexico, Vecht and Brinkmann are always looking for opportunities in the smaller countries, regardless of whether they are part of the benchmark. The fund currently has exposure to non-index Argentina and Panama.

Regular quarterly dividends are paid, equivalent to 1.25% of BRLA's calendar quarter-end US dollar NAV, aiming to help narrow the trust's discount and make BRLA more attractive to income-orientated investors. Distributions can be paid out of income or capital, ensuring the managers are not forced to seek a higher portfolio yield, which may be at the expense of capital growth.

In an environment of elevated investor risk aversion, BRLA's 8.6% discount is narrower than the 10.6% to 12.5% range of historical average discounts over the last one, three, five and 10 years. There is scope for the trust to be afforded a higher valuation when there is a more certain macroeconomic backdrop, or if BRLA's relative performance improves.

Investment trusts Latin American equities

31 July 2024

Price 344.0p
Market cap £101m
Total assets £123m

NAV* 376.3p
Discount to NAV 8.6%

*Including income. At 29 July 2024.

Yield 6.6%

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 454.5p 339.0p

NAV* high/low 508.1p 376.3p

*Including income

Net gearing* 11.4%

*At 30 June 2024.

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.

Bull points

- Diversified Latin American equity fund with a defined dividend policy and attractive yield.
- Latin America is benefiting from geopolitical and economic isolation from global geopolitical conflicts.
- Latin America is attractively valued compared with other regions and its own history.

Bear points

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

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BRLA: Managers remain positive on the outlook for LA

Vecht highlights that 2023 was a very strong year for BRLA and Latin America, which outperformed other regions and emerging markets. He notes that 2024 has been more challenging for the performance of Latin American stocks as expectations for US interest rate cuts have moved out and investor appetite for companies that are beneficiaries of artificial intelligence continues to gain momentum. There have not been many changes to the portfolio as the managers are comfortable with their current holdings. They generally prefer domestic-focused businesses, including those in the consumer discretionary, consumer staples and financial sectors.

Reasons to be upbeat about Latin America

Despite a lack of investor interest in Latin America, which is now less than 10% of the MSCI Emerging Markets Index, the managers remain positive on the region's prospects. With increasing geopolitical tensions, the world is moving towards three blocks: US-aligned, China-aligned and non-aligned, which includes Latin America. This ensures that Latin America can trade with both aligned blocks. It is benefiting from shorter supply chains and incremental spending being directed away from China. As an example, Mexico is benefiting from global manufacturers seeking to set up operations in 'friendly' nations.

Vecht says that Latin American countries have employed sensible monetary policies. Their central banks are used to dealing with inflation, unlike those in developed markets and, as inflation moderates, interest rates are now coming down in most Latin American countries, which should support economic activity and asset prices. This in turn could lead to an increase in both foreign direct investment and local investment.

In Brazil, the Selic base interest rate has declined from 13.75% to 10.50% and the managers expect further reductions, particularly if US interest rates start to come down. Mexico's economy is considered defensive as both its fiscal and current accounts are in order, says Vecht. The June 2024 Mexican presidential elections led to volatility for the country's financial assets and significant weakness in the Mexican peso. Despite investor concerns about the impacts of the landslide win by President-elect Claudia Sheinbaum and the Morena party, having recently visited the country, the managers believe that the government will remain relatively pragmatic and fiscally prudent; they have used market weakness to add to BRLA's Mexican exposure.

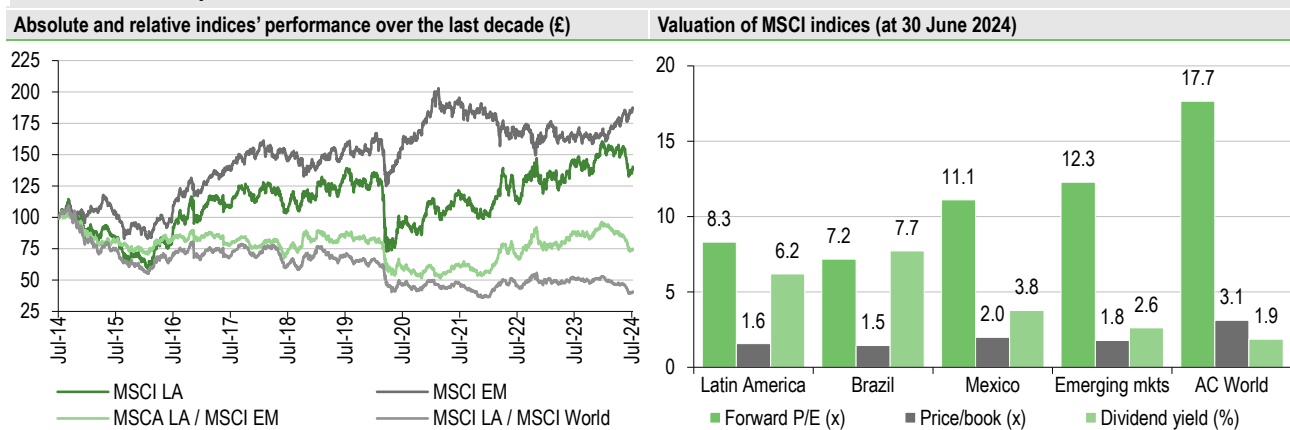
The Latin American investment backdrop

As shown in Exhibit 1 (left-hand side), Latin American shares have performed relatively poorly over the last decade, generating around half the return of the world market. However, this may provide an opportunity for global investors given the outperformance and elevated valuations in some developed regions.

Latin America has relatively favourable growth and valuation attributes. As shown in the chart on page 1, the International Monetary Fund economic growth projection is higher for Latin America and the Caribbean compared with advanced economies in 2024, and the divergence is wider for 2025.

In terms of the valuation of MSCI indices, at the end of June 2024 in Exhibit 1 (right-hand side), Latin America looked more attractive than the broader emerging markets, with lower forward earnings and price-to-book multiples and a more-than-double dividend yield. Compared with the MSCI All-World Index, the MSCI Latin America Index was trading at around a 50% discount on a forward P/E and price-to-book multiple basis, while offering a dividend yield that was around three times as large.

Exhibit 1: Index performance and valuation



Source: LSEG, MSCI, Edison Investment Research

Current portfolio positioning

BRLA's top 10 holdings are shown in Exhibit 2. They made up 54.8% of the fund at the end of June 2024, which was a higher concentration compared with the 52.8% top 10 weighting a year earlier; seven positions were common to both periods. It is interesting to note that the managers appear to be seeking incremental value by investing in a wider range of share types, which are shown in the table and the notes below.

Exhibit 2: Top 10 holdings (at 30 June 2024)

Company	Country	Sector	Portfolio weight %		Benchmark weight (%)	Active weight vs benchmark (pp)
			30 June 2024	30 June 2023*		
Petrobras - ADR**	Brazil	Energy	10.1	9.2	10.9	(0.8)
Vale - ADS***	Brazil	Materials	8.3	5.8	7.0	1.3
Grupo Financiero Banorte	Mexico	Banks	7.2	5.8	3.7	3.5
Walmart de México y Centroamérica	Mexico	General retailing	5.8	N/A	3.3	2.5
Banco Bradesco - ADR****	Brazil	Banks	5.6	6.8	2.8	2.8
B3	Brazil	Diversified financials	4.4	5.1	1.9	2.5
Grupo Aeroportuario del Pacifico - ADS	Mexico	Airport operator	4.1	N/A	1.1	3.0
Itaú Unibanco - ADR	Brazil	Banks	3.3	3.5	5.2	(1.9)
Hapvida Participações	Brazil	Healthcare services	3.1	3.1	0.6	2.5
Lojas Renner	Brazil	Department stores	2.9	N/A	0.4	2.5
Top 10 (% of holdings)			54.8	52.8		

Source: BRLA, Edison Investment Research. Note: *N/A where not in end-June 2023 top 10. **Equity, equity ADR and preference share ADR. ***ADS and equity. ****Equity ADR and preference shares.

Looking at some of the portfolio transactions in recent months, in June 2024, the managers sold Lundin Gold as the investment thesis had largely played out and in May 2024, they sold BRLA's holding in Chilean pulp and paper producer Empresas CMPC. The company had benefited from firming pulp prices due to industry supply disruptions, which may not continue. Mexican highway operator Promotora y Operadora de Infraestructura was added to the portfolio; it is conservatively run and has an undemanding valuation. Earlier in 2024, Vecht and Brinkmann initiated a position in personal care company Kimberly-Clark de México, as they see potential for earnings estimate upgrades, while the holding in Brazilian housebuilder MRV Engenharia e Participações was sold, along with Argentinian steel pipe manufacturer Tenaris, as the investment case had played out. Brazilian investment management platform XP has re-entered BRLA's portfolio, as the company has strong operating leverage to falling interest rates.

The Latin American market has a unique structure, with the MSCI Emerging Markets Latin America Index dominated by two countries, Brazil (heading towards 60%) and Mexico (c 30%). The three remaining constituents – Chile, Peru and Colombia – make up the remaining c 12%. BRLA's

managers are comfortable investing outside of the index – at the end of June 2024, 2.2% was invested in Argentina, with 1.5% in Panama.

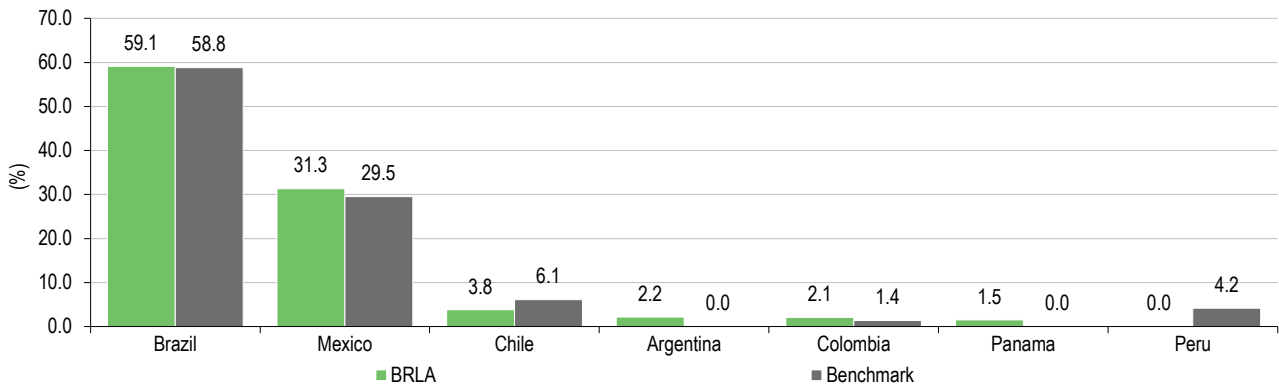
Exhibit 3: Portfolio geographic exposure versus benchmark (% unless stated)

	Portfolio end-June 2024	Portfolio end-June 2023	Change (pp)	Active weight vs benchmark (pp)
Brazil	59.1	58.8	(0.7)	0.3
Mexico	31.3	25.9	5.4	1.8
Chile	3.8	6.1	(2.3)	(2.3)
Argentina	2.2	4.0	(1.8)	2.2
Colombia	2.1	2.6	(0.5)	0.7
Panama	1.5	1.6	(0.1)	1.5
Peru	0.0	0.0	0.0	(4.2)
Total	100.0	100.0		

Source: BRLA, Edison Investment Research. Note: Excludes cash.

As shown in Exhibit 3, in the 12 months to the end of June 2024, the largest changes in BRLA's geographic exposures were a notably larger Mexican allocation (+5.4pp) and a lower weighting in Chile (-2.3pp). BRLA has a near-market weight in Brazil, and no Peruvian stocks (-4.2pp), due to political and economic uncertainty in the country.

Exhibit 4: BRLA and benchmark geographic breakdowns at 30 June 2024



Source: BRLA, Edison Investment Research

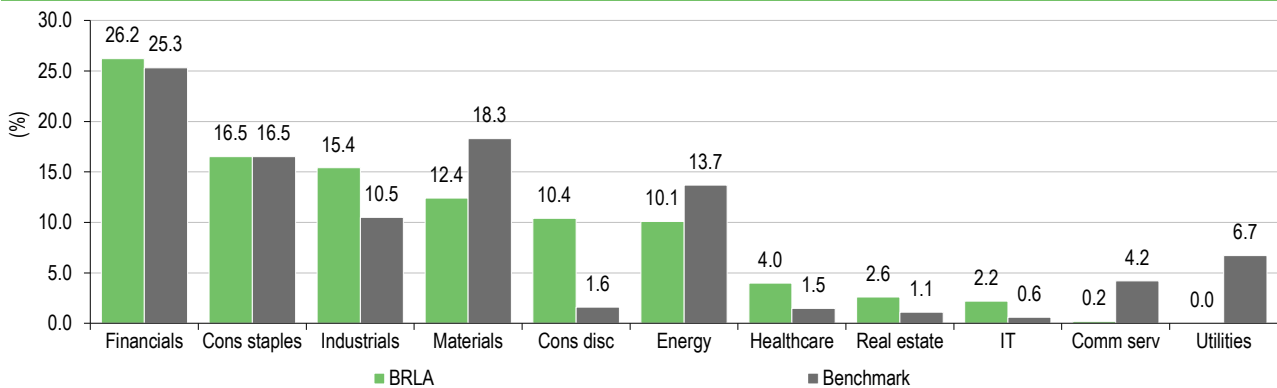
Exhibit 5: Portfolio sector exposure versus benchmark (% unless stated)

	Portfolio end-June 2024	Portfolio end-June 2023	Change (pp)	Active weight vs benchmark (pp)
Financials	26.2	27.4	(1.2)	0.9
Consumer staples	16.5	15.5	1.0	0.0
Industrials	15.4	8.9	6.5	4.9
Materials	12.4	18.5	(6.1)	(5.9)
Consumer discretionary	10.4	5.7	4.7	8.8
Energy	10.1	12.5	(2.4)	(3.6)
Healthcare	4.0	4.4	(0.4)	2.5
Real estate	2.6	2.4	0.2	1.5
Information technology	2.2	2.2	0.0	1.6
Communication services	0.2	2.5	(2.3)	(4.0)
Utilities	0.0	0.0	0.0	(6.7)
Total	100.0	100.0		

Source: BRLA, Edison Investment Research. Note: Excludes cash.

In terms of BRLA's sector exposure, which is highlighted in Exhibit 5, in the 12 months to the end of June 2024, there was a higher allocation to consumer discretionary stocks (+4.7pp), which has contributed to the trust's largest overweight position (+8.8pp) as this sector has a very low index weighting of around 2%. Other notable changes are a higher weighting to industrials (+6.5pp) and a lower allocation to materials (-6.1pp). BRLA continues to have a zero weighting in utility stocks as Vecht and Brinkmann struggle to find attractive growth opportunities in this sector.

Exhibit 6: BRLA and benchmark sector breakdowns at 30 June 2024



Source: BRLA, Edison Investment Research

Performance: Ahead of the reference index in FY23

Exhibit 7: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI EM Latin America (%)	CBOE UK All Companies (%)	MSCI World (%)
30/06/20	(30.0)	(33.4)	(30.2)	(13.6)	6.5
30/06/21	25.6	30.0	29.9	21.1	24.9
30/06/22	(8.2)	(12.0)	(4.1)	2.2	(2.1)
30/06/23	23.4	34.8	24.8	8.3	13.8
30/06/24	(10.6)	(15.0)	(4.5)	12.8	21.4

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

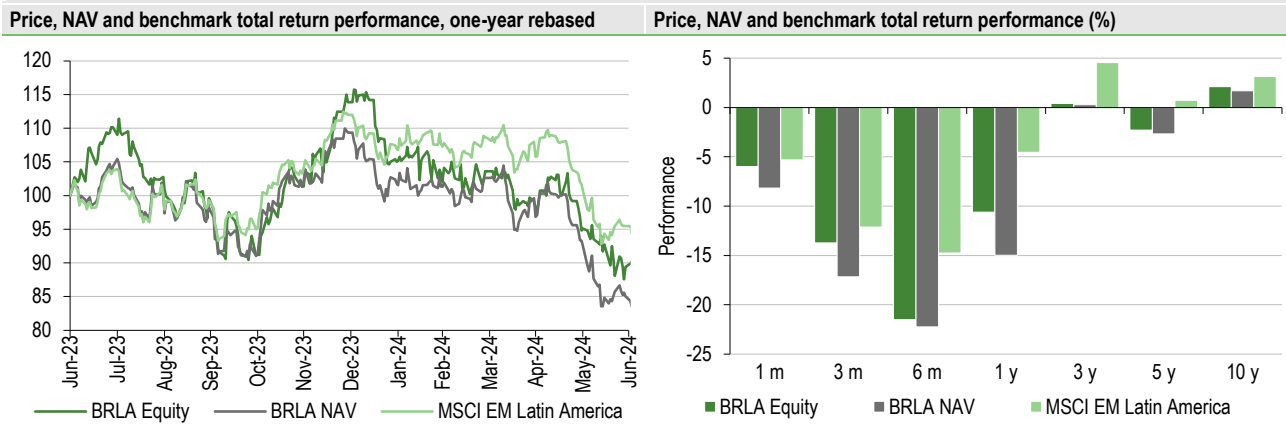
BRLA outperformed in FY23. In US dollar terms, the trust's NAV and share price total returns of +37.8% and +35.3%, respectively, compared with the reference index's +32.7% total return (in sterling terms: NAV +29.9%, share price +27.6% and index +25.2%). Looking at geographies, the largest positive contributor was Mexico due to successful stock selection. On a sector basis, the best performers were industrials and materials, while consumer staples and healthcare were the largest detractors.

In terms of stock-specific performance, the largest positive contributor was Vale (a Brazilian iron ore miner), which was an underweight position in H123 during a period of weaker iron ore prices due to lower Chinese demand. The managers added to the position in H223, which proved timely.

Brazilian investment management platform XP and homebuilder for low-income households MRV Engenharia benefited from lower interest rates, while not holding WEG, a Brazilian equipment maker, also added to BRLA's relative returns. In Mexico, overweight positions in FEMSA (strong operating performance from its convenience store chain Oxxo, although this position has now been reduced as margins are coming under pressure) and Fibra Uno Administracion, a real estate company that is benefiting from nearshoring, added to the trust's performance, as did an underweight exposure to Cemex (a cement producer that was operating in an environment of rising input costs). Other positive contributors to BRLA's performance were Ecopetrol (a Colombian petroleum producer) and Chilean lithium producer SQM ahead of a partnership with state-owned Codelco, which has extended its Atacama mining lease until 2060.

Conversely, detractors to BRLA's performance included Brazilian supermarket chain Assai due to liquidity issues at parent company Casino. Brazilian retailers Arezzo and Grupo De Moda Soma experienced margin pressure due to tax reform, while Mexican producer Mag Silver suffered from lower silver prices.

Exhibit 8: Investment trust performance to 30 June 2024



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

Exhibit 9: 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	(0.7)	(1.8)	(7.9)	(6.4)	(11.4)	(14.2)	(9.5)
NAV relative to MSCI EM Latin America	(3.0)	(5.8)	(8.8)	(10.9)	(11.8)	(15.7)	(13.2)

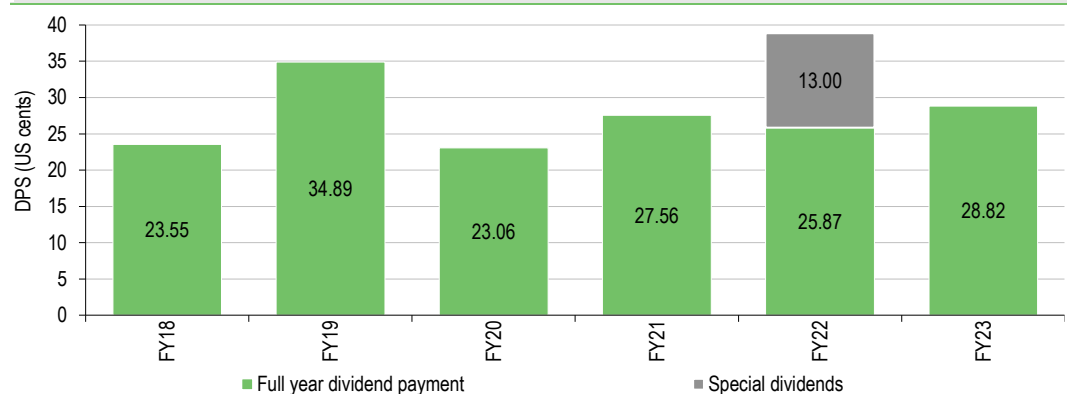
Source: LSEG, Edison Investment Research. Note: Data to end-June 2024. Geometric calculation.

Dividends: Based on quarterly NAV

Since July 2018, quarterly dividends are paid, equivalent to 1.25% of BRLA's calendar quarter-end US dollar NAV. This policy aims to help 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 be at the expense of capital growth.

In FY23, BRLA's revenue per share was 30.45c, which was a 26.6% decline versus 41.48c per share in FY22 and was largely due to lower payments from portfolio companies. At the end of FY23, the trust had c \$5.9m of revenue reserves and c \$158.8m in capital reserves. It is possible that in FY24, capital reserves will be required to supplement income to pay the dividend, whereas previous dividends have been funded from income and revenue reserves. The FY23 dividend of 28.82c per share was 25.9% lower than the 38.87c per share total distribution in FY22 (25.87c regular + 13.00c special dividend per share).

Exhibit 10: Dividend history since FY18

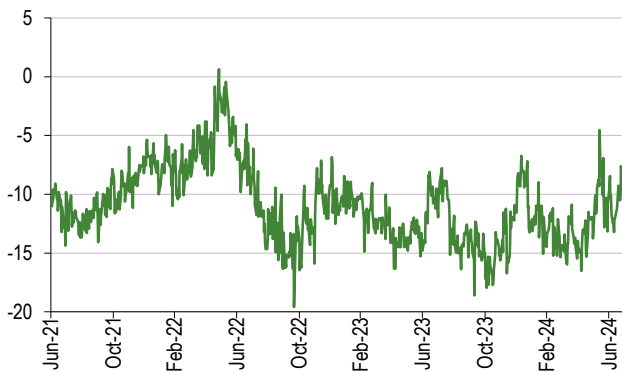


Source: Bloomberg, Edison Investment Research

Valuation: Double-digit discount remains

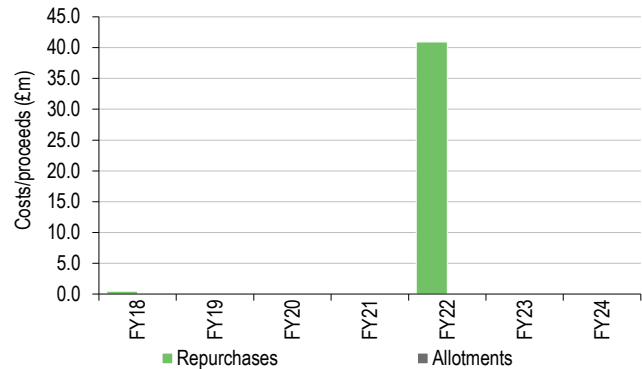
BRLA's 8.6% discount to cum-income NAV compares with the 4.5% to 18.6% range of discounts over the last 12 months. It is narrower than 10.6% to 12.5% range of average discounts over the last one, three, five and 10 years. The trust's discount widened following the May 2022 tender offer but had been in 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).

Exhibit 11: Discount over three years



Source: LSEG, Edison Investment Research

Exhibit 12: Buybacks and issuance



Source: Morningstar, Edison Investment Research

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 (the 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.

We note that neither of the conditions that would trigger a tender offer were being met at the end of FY23, as the trust was outperforming its benchmark and the trust's average discount was less than 12% for the calculation 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.

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.

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).

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 Markets team, which is made up of around 30 investment professionals researching more than 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 30–50 positions across the market cap spectrum.

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 the 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 2023, there were 53 ESG engagements (58 in 2022) with 25 (23 in 2022) portfolio companies, which represented 74% of the year-end number of holdings (75% in 2022).

Gearing

At the end of 2023, BRLA had an overdraft facility for up to \$25m 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. During FY23, net gearing averaged 3.1% (range of 0.3% to 8.9%), which was lower than the average 8.2% in FY22, and the historical range of a net cash position to c 12% geared.

Fees and charges

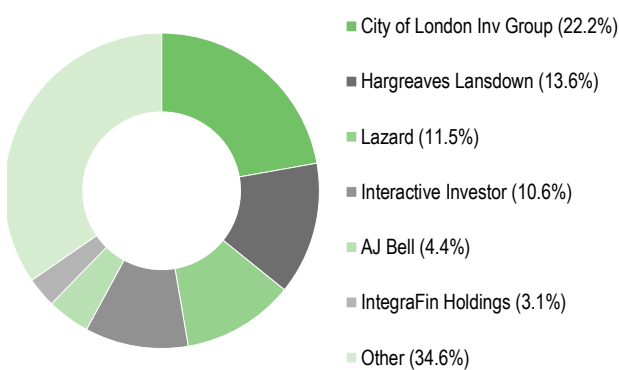
BlackRock is paid an annual management fee of 0.80% of NAV, charged 75:25 to the capital and income accounts, respectively. No performance fee is payable. BRLA's FY23 ongoing charge of 1.28% was 15bp higher than 1.13% in FY22.

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). At the end of FY23, the shareholder breakdown was as follows: retail 54.6% (53.2% at end of FY22); mutual funds 19.0% (19.8%); pension funds 15.3% (17.3%); charities 6.4% (5.7%); and other 4.7% (4.0%).

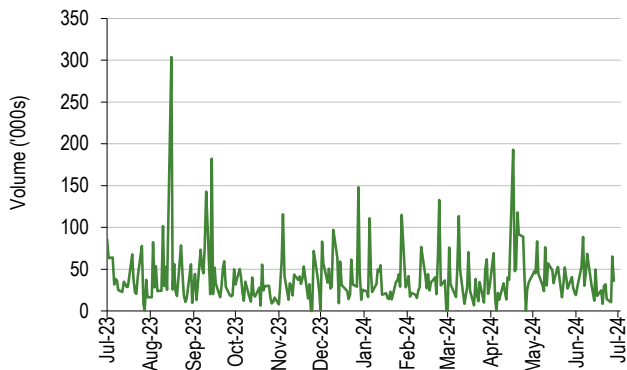
The trust's average daily trading volume over the last 12 months was c 40k shares. BRLA is subject to a two-yearly continuation vote, with the next due at the May 2026 AGM. In the May 2024 continuation vote, 44.3% of available votes were cast with 99% in favour of the trust's continuation.

Exhibit 13: Major shareholders



Source: Bloomberg. Note: At 30 June 2024.

Exhibit 14: Average daily volume



Source: LSEG. Note 12 months to 29 July 2024.

The board

Exhibit 15: BRLA's board of directors

Board member	Date of appointment	Remuneration in FY23	Shareholdings at end-FY23
Carolyn Dobson (chairman since 2 March 2017)	1 January 2016	£50,200 (+5.0%)	6,842
Nigel Webber	1 April 2017	£34,300 (+5.2%)	5,000
Craig Cleland	1 January 2019	£38,600 (+5.2%)	12,000
Laurie Meister	1 February 2020	£34,300 (+5.2%)	2,915

Source: BRLA

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