



Liontrust Latin America Fund

Q3 2023 review

Fund manager: Thomas Smith, assisted by Ewan Thompson

The Liontrust Latin America Fund returned -1.9% during the quarter, compared with a return of -0.8% for the MSCI EM Latin America Index and -1.5% for the IA Latin America sector (both comparator benchmarks)*.

After a very strong first half of the year, Latin American markets generated a small negative return during the third quarter of 2023, slightly behind the small positive return from emerging and developed markets but still comfortably ahead over the year to date. Dispersion across regional markets was high with Colombia leading the way helped by oil's 27% gain, while Argentina declined by 11% and Chile fell 6%. External factors were a drag as sharply higher yields in the US led to a stronger dollar and some pressure on regional currencies, which started to raise questions over how quickly the interest rate cutting cycles could proceed. Chile and Brazil began cutting rates in July and August and have now cut by 175bps and 100bps, respectively, with Peru following suit in September.

Weakness in Argentina was explained by the results in the primaries ahead of October's presidential election, where Javier Milei received nearly 30% of votes and is now firm favourite to become president, alongside continued deterioration in economic data. Uncertainty remains high given some of Milei's proposals include dollarising the economy and eliminating the Central Bank but his likely minority representation in Congress will make policy implementation more difficult.

Mexico's share of US imports continues to rise, now at 16% up from 14% at the beginning of the year and in stark contrast to China's share which continues to fall, at 13% and down from 20% just two years ago. This is despite container freight rates having normalised following the pandemic spike and reflects Mexico's structural competitive advantages in manufacturing – Mexico's share of US imports has been rising for the past decade but this trend has accelerated with the added geopolitical tailwind.

Latin American equities are trading at 8x forward earnings, a more than 25% discount to the broader emerging markets and 30% discount to the ten-year history. Recession fears could weigh on regional and global equities through the months ahead but relative and absolute valuations are already at extreme levels suggesting significant risks are already priced in.

Discrete years' performance (%), to previous quarter-end:

	Sep-23	Sep-22	Sep-21	Sep-20	Sep-19
Liontrust Latin America C Acc GBP	1.6%	8.2%	19.6%	-31.5%	18.2%
MSCI EM Latin America	9.2%	21.1%	22.1%	-32.7%	12.9%
IA Latin America	7.7%	12.7%	16.5%	-28.4%	14.8%
Quartile	4	4	3	3	2

*Source: FE Analytics as at 30.09.23.

**Source: FE Analytics as at 30.09.23. Quartile rankings generated on 10.10.23

For a comprehensive list of common financial words and terms, see our glossary at: <https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms>

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested.

We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

- Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.
- This Fund may have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the Fund's value than if it held a larger number of investments.
- The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.
- Investments in emerging markets may involve a higher element of risk due to less well-regulated markets and political and economic instability. This may result in higher volatility and larger drops in the value of the fund over the short term.
- Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.
- Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

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