



## Liontrust Latin America Fund

### Q2 2023 review

Fund manager: Thomas Smith, assisted by Ewan Thompson

**The Liontrust Latin America Fund returned 8.4% during the quarter, compared with a return of 10.9% for the MSCI EM Latin America Index and 10.8% for the IA Latin America sector (both comparator benchmarks)\*.**

Latin American equities resumed their outperformance during the second quarter, the 10.9% return being well ahead of the -1.9% and 3.9% of emerging and developed markets, respectively. Returns were strongest in Brazil (+14%) and Colombia (+5%), while Chile (-3.6%) and Peru (-0.1%) saw modest declines.

In Brazil, Congress was busy with both the new fiscal framework and consumption tax reform passed in the lower house. Under the new fiscal framework, which will replace the spending cap, spending will be limited to growing at 0.7x the growth in revenues with the aim to stabilise government debt to GDP by 2026 and decline thereafter. The consumption tax reform seeks to streamline five different federal, state and municipal taxes into one federal VAT and one state/municipal VAT, along similar lines to India's goods and services tax, and is expected to be followed by income and corporate tax reforms. This will help to simplify Brazil's notoriously complex tax system and should boost investment, productivity and growth. Progress on both of these reforms has helped to ease fears over the economic policies of Lula's government, contributing to a stronger currency and lower yields. Inflation in Brazil has fallen from over 12% last year to 3.16% in June and below the central bank's target of 3.25%. The passage of fiscal reforms will allow for interest rates to start falling in the second half of the year.

Mexican equities continue to benefit from further evidence of an acceleration in nearshoring. Mexico's competitive advantages in manufacturing have been a tailwind for years already, but this has been further reinforced by trade wars and geopolitical tensions, as well as the supply chain disruptions caused by the pandemic. There are clear beneficiaries in the manufacturing sector and related industries, but the economic benefits will be felt much more broadly than this. Occupancy rates in industrial real estate in the centre and north of the country remain exceptionally high, and Tesla's confirmation in March of its plans to construct a new factory in Nuevo Leon provided further evidence of this trend.

Latin American equities are trading below 9x forward earnings, a discount of more than 20% to the broader emerging markets and 25% to its ten-year history. Recession fears could continue to 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:**

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust Latin America C Acc GBP	16.4%	-16.3%	24.5%	-27.4%	32.5%
MSCI EM Latin America	24.0%	-4.5%	29.6%	-30.4%	22.9%
IA Latin America	24.3%	-12.6%	24.6%	-26.0%	23.3%
Quartile	4	4	4	3	1

\*Source: FE Analytics as at 30.06.23.

\*\*Source: FE Analytics as at 30.06.23. Quartile rankings generated on 01.07.23

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>

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**Key Risks**

Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

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.

Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The Fund may invest in emerging markets/soft currencies or in financial derivative instruments, both of which may have the effect of increasing volatility. The Fund holds a concentrated portfolio of stocks, if the price of one of these stocks should move significantly, this may have a notable effect on the value of the portfolio.

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