AJBell Investcentre

Fundamentals with Tom Selby

September 2016

Hello, I'm Tom Selby, AJ Bell's Senior Analyst, and welcome to Fundamentals, where I'm going to look at one of the most popular Exchange-Traded Funds on the AJ Bell Investcentre platform right now, namely the iShares MSCI Latin America ETF.

[CAPTION - iShares MSCI Latin America (GBP) EPIC code – LTAM SEDOL – B27YCK2 ISIN – IE00B27YCK28]

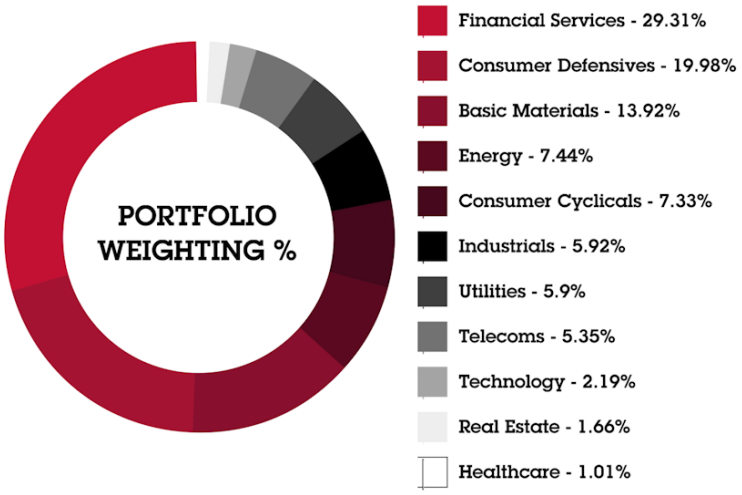
This tracker product is an Exchange-Traded Fund. It is designed to track, or mirror, the performance of the underlying assets and deliver that performance, minus any running costs. This means the tracker is following the day-to-day price movements of the MSCI EM Latin America Index as closely as it possibly can.

The ETF seeks to do this by physically holding securities that appear in the index. The product comes with a charge of 0.74 per cent.

The tracker was first launched in 2007 and has assets of just over £1.2bn. It sits at six out of seven on the Morningstar risk ratings, meaning it is a potentially high risk investment where returns could be very high…or very low. If you're interested in analyst opinions, Morningstar has given the ETF a three star rating.

The five biggest stock weightings include three Brazilian firms – Itau Unibanco, Ambev and Bank Bradesco – and two from Mexico (America Movil and Fomento Economico Mexicano).

The chart to my left shows the tracker's weightings by sector. The biggest exposures are financial services, basic materials and consumer defensive stocks.



Those are the basics, but why exactly are advisers and clients purchasing this product now?

Emerging Markets have been a dog of an investment in recent years. As developed countries flooded the economy with cheap money through vast Quantitative Easing programmes, a huge portfolio shift took place that saw assets shift towards developed regions at the expense of Emerging Market asset prices and currencies.

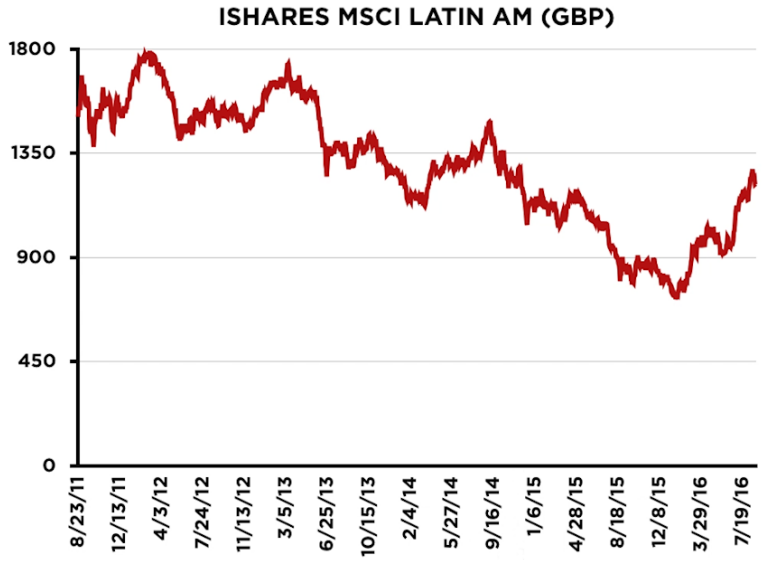
The rising dollar and falling commodity prices have also hurt Emerging Markets. And if Emerging Markets as a whole have been a dog for investors, then the biggest canine in the pound was Latin America.

According to Ashmore's Jan Dehn, Latin America's particular vulnerability to the global economic shifts stems from its greater dependence on commodities – where prices have plummeted – and heavy reliance on foreign savings and portfolio flows.

With political uncertainty in the region still rife and Mexican President Enrique Peña Nieto's ambitious reform programme seemingly running into the sand, Latin America's poor recent performance is hardly surprising.

However, in 2016 things have turned around…and dramatically so. The chart on my left shows how the iShares MSCI Latin America ETF we're focusing on today has fared in the past five years

.



In 2013 the fund dropped in value by over 17 per cent, then by almost 11 per cent in 2014 and nearly 30 per cent in 2015. This year so far, however, the ETF has delivered whacking returns of over 45 per cent…albeit after three pretty awful years of performance.

So what exactly is going on?

Well, this year has seen the price of oil, gold, wheat and sugar rise, providing a welcome boost to the commodity-reliant region.

Looking at specific countries, Brazil's interim president Michel Temer has embarked on a huge structural reform programme designed to cut spending and balance the budget. Inflation has already dropped back from over 10 per cent to below 9 per cent, with experts expecting the figure to reach 6.5 to 7 per cent by the year end. If that happens, the Central Bank may feel it has enough wiggle room to cut interest rates, lowering borrowing costs and potentially providing another filip to the economy.

Argentina's leadership has also changed in the past year or so, and President Mauricio Macri opening up the country to foreign capital and allowed the currency to float freely. However, interest rates still stand at over 35% amid soaring inflation.

It's also worth noting that, historically at least, Emerging Markets tend to move inversely against the dollar – which is currently weak on the US Federal Bank's decision to delay raising its target interest rate.

That's all from me this week, thank you very much for watching and I'll see you again next time