



Fund Update

Invesco Latin American Equity Fund

October 2019 (covering the three months ending 30 September 2019)

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Market and economic review

Concerns over global growth and a further escalation in the US-China trade war unsettled Latin American equity markets during the third quarter. With inflationary pressures abating, Brazil, Mexico and Chile joined the US Federal Reserve in cutting interest rates. The Brazilian economy continues to show a gradual slow recovery and the country's much-anticipated pension reform took another step forward in the Senate (the law was eventually passed in October 2019). In other developments Mexico's government presented a conservative 2020 budget and Argentina introduced capital controls in the foreign exchange market following a period of currency weakness.

Fund performance*

The fund fell by -6.7% during the three-month period to the end of September 2019 versus a -5.6% loss in the reference MSCI Emerging Markets Latin America Index. This placed the fund in the fourth quartile of its peer group, the GIF OS Latin America Equity sector, which declined by an average of -4.9%.

	Performance (% growth) *			
	Fund	Reference Index	Sector	Quartile
2018	-8.5	-6.6	-9.0	2
2017	16.4	23.7	25.1	4
2016	19.1	31.0	23.1	4
2015	-30.3	-31.0	-29.9	3
2014	-16.1	-12.3	-14.0	3
2013	-12.8	-13.4	-12.9	2
2012	13.7	8.7	11.5	2
2011	-19.5	-19.4	-23.2	1
YTD	3.7	6.3	7.0	4
3 months	-6.7	-5.6	-4.9	4
6 months	-2.4	-1.4	0.8	4
1 year	1.3	6.7	8.8	4
3 years	5.4	21.8	17.3	4
5 years	-20.8	-3.9	-8.2	4

Standardised rolling 12-month performance (% growth) *					
	30.09.14	30.09.15	30.09.16	30.09.17	30.09.18
	30.09.15	30.09.16	30.09.17	30.09.18	30.09.19
Fund	-40.1	25.5	14.0	-8.7	1.3
Reference Index	-38.7	28.7	25.6	-9.1	6.7

This information is updated on a calendar quarterly basis. Up-to-date information is available on our website www.invescointernational.co.uk

Past performance is not a guide to future returns

The biggest drag on performance came from some of our holdings in Brazil, particularly within the financials and materials sectors. Performance elsewhere in the region was more mixed with positive returns being generated in consumer staples and industrials.

Our largest stock detractors were Brazilian banks, namely Banco Bradesco and Banco do Brasil. While sentiment towards the country's banking sector was soured by further falls in Brazilian interest rates – they fell to a historic low of 5.5% - the underlying data on credit growth remains solid with consumer loans continuing to expand at a double-digit pace. In August, bank lending to the consumer sector rose by 10.7% year-on-year, its highest growth rate since 2015.

Brazilian toll road operator EcoRodovias was the fund's biggest stock contributor. Given its track record, local

knowledge and solid relationship with authorities, the company continues to benefit from the privatisation of highways, both the re-auctioning of existing as well as new ones. We believe that EcoRodovias has a healthy balance sheet, which should support further investments in highways, airports and urban mobility projects. The low interest rate environment in Brazil should also be supportive of the stock.

Relative performance was held back by the fund having an overweight position in the underperforming materials sector versus its weighting in the reference index. However, this was partially offset by our modest holding in Argentina – 0.3% position against its 1.6% index weight.

Strategy and outlook

After many false dawns Brazil finally approved its landmark pension changes that will see the retirement age rise to 65 for men and 62 for women. We believe the move should restore confidence in Brazil because it will address the country's poor fiscal position - the legislation is expected to save almost US\$200 billion over the next ten years. The pension overhaul is also likely to give impetus to government plans to introduce other market friendly reforms, for example privatisation and the simplification of the tax system.

In terms of fund strategy our aim is to have exposure to the best equity investment opportunities in Latin America through an approach that balances income and capital appreciation. The Brazilian and Mexican equity markets are the largest in the region and form the core of the fund, while we also diversify risk by taking positions in what we perceive to be attractively valued companies elsewhere in the region.

Geographic breakdown (%) *	Reference		
	Fund	Index	Difference
Brazil	65.5	63.0	2.5
Mexico	22.6	20.9	1.7
Peru	4.2	3.2	1.0
Chile	3.9	7.9	-4.0
Colombia	1.2	3.4	-2.2
Panama	0.9	0.0	0.9
Canada	0.8	0.0	0.8
Argentina	0.3	1.6	-1.3

There was limited fund activity during the quarter although we did initiate a new position in Petrobras Distribuidora, known by the brand name BR. This used to be the retail distribution arm of state-controlled Petrobras but is now undergoing a transformation into a privatised business. In our view, BR is well positioned to benefit from a recovery in Brazil's GDP. We also believe that that the company's recent R\$1.4 billion debt settlement with Amazonas Energia is a positive development.

We sold our interest in Mexico's Cemex, a cement company and Brazilian firm Smiles, which manages an airline loyalty program. We trimmed our position in Brazil's Tupy, a producer of engine blocks and heads. On a separate note, there was a name change for Mexico's Mexichem with the company rebranding itself as Orbia Advance to better reflect the company's mission and philosophy.

In terms of sector positioning the fund remains tilted towards materials, transportation and banks. We seek to invest in companies whose share prices are substantially below our estimate of fair value.



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Sector breakdown (%) *		Reference	
Most overweight	Fund	Index	Difference
Materials	16.2	12.9	3.3
Transportation	7.3	4.6	2.7
Banks	28.6	26.4	2.2
Consumer Durables	1.2	0.0	1.2
Retailing	5.9	4.8	1.1
Most underweight			
Diversified Financials	1.4	4.3	-2.9
Food Beverage & Tobacco	8.6	10.6	-2.0
Capital Goods	0.0	1.9	-1.9
Food & Staples Retailing	3.0	4.4	-1.4
Real Estate	0.0	1.4	-1.4
Top 10 stock holdings (%) *			
	Fund		
Petrobras	9.7		
Itau Unibanco	8.4		
Banco Bradesco	6.9		
Vale	4.3		
Credicorp	4.0		
Banorte	3.8		
Banco do Brasil	3.6		
Femsa	3.0		
Energisa	3.0		
Walmex	3.0		

Investment Risks

The value of investments and any income will fluctuate (this may partly be the result of exchange-rate fluctuations) and investors may not get back the full amount invested. As a large portion of the fund is invested in less developed countries, you should be prepared to accept significantly large fluctuations of the value of the fund.

Important Information:

*All data is as at 30/09/2019, sourced from Invesco unless otherwise stated. Fund (A Accumulation Share Class - USD) and sector average performance source: Morningstar. Fund performance figures are shown in US dollars, inclusive of gross reinvested income and net of the ongoing charges and portfolio transaction costs. The figures do not reflect the entry charge paid by individual investors. Sector average performance is calculated on an equivalent basis. The sector is GIFS Latin America Equity. The reference index information source is Refinitiv, net total return, US dollar. The reference index is the MSCI Emerging Markets Latin America Index. **There is currently a discretionary cap on the ongoing charge of 2.05% in place. This discretionary cap may positively impact the performance of the Share Class.**

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