Latin American Fund

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The Latin American Fund aims to achieve capital growth by investing in a concentrated portfolio of high-quality Latin American growth companies. The Fund seeks high absolute returns over the long term and minimises the level of long-term risk by choosing well-capitalised, high-quality investments at reasonable valuations.

INTRODUCTION

RUPERT BRANDT, CFA
Portfolio Manager

PETER CAWSTON
Portfolio Manager

The Fund returned 5.5% in the fourth quarter of 2018. We expect this recovery to gain momentum through 2019 and over the medium term.

Latin American equities were one of the few global equity markets to perform well in the fourth quarter. January has also got off to a good start with the Argentine and Brazilian stock markets both in the world's top five stock markets in US dollar terms (as at 17th Jan 2019). After a sharp correction in the US stock market, one often sees a change of leadership in terms of sectors and markets. We think Latin America's strong absolute and relative performance in this period is very promising.

The region is at the start of what should develop into a multi-year economic up-cycle. Currencies and stocks look inexpensive so there is a strong fundamental base for a potential new bull market. For the first time since we launched the fund, five out of six of the countries that we invest into have pro-business governments (Mexico being the odd one out). This should underpin continued increases in business and consumer confidence. We have approximately 96% of our NAV invested in these five countries and we feel very confident about the medium and long-term outlook.

We also appear to be getting closer to the peak of the US interest rate tightening cycle and the US dollar has started to weaken from very expensive levels. We believe that this global macro backdrop should help sentiment in Latin American markets.

As at year end 2018, we had 50.2% invested in Brazil, 15.4% in Peru, 12.7% in Argentina, 11.1% in Colombia, 5.3% in Chile and 3.9% in Mexico. Cash was 1.4%. We have increased Brazil's weight because we can find plenty of cheap stocks combined with a cheap currency at a time when the positive outcome from Brazil's presidential election should boost confidence and add power to an incipient economic recovery from very depressed levels. We also added to Argentina ahead of a likely economic recovery in 2019. This was principally financed by reducing Mexico where the political outlook has unfortunately become more complicated.

Our portfolio remains attractively valued at 13.9x 2019 and 11.8x 2020 forecast earnings[1]. In addition, the six currencies we invest into trade at an average of nearly one standard deviation below their 20-year inflation-adjusted average against the US dollar. Currency has been the biggest headwind for our dollar NAV over the last 5 years or so: if we used the average FX rate from 2011 our hypothetical year end 2018 NAV would rise from 14.07 USD to 27.41 USD (excluding the effect of Argentina's devaluation)[2]. We believe FX should become a tailwind in our US dollar NAV over the medium term.

Since inception, our current holdings' weighted average earnings per share growth rate has been 14.5%[1]. The trailing-12-months weighted average return on equity is 17.5%[1].

We don't use a relative benchmark because we feel that our clients don't need to be exposed to the MSCI Latin American Index, which includes what we consider undesirable companies such as large, state-owned enterprises, capital intensive telecom companies and cyclical commodity and companies. Instead we keep it simple by investing in high quality private sector growth companies in under-penetrated industries. These companies have high ROICs, grow their net income in double digits through the cycle, and have strong business franchises with long growth runways. We feel there is a genuinely rational reason for savers to invest their capital in companies of this type and that is what we do.

We conducted research trips in five of the six countries we invest in during the fourth quarter. We spent about seven weeks in the region over this period which is more than we believe most of our competitors spend in a year. We believe this continues to give us a competitive edge.

[1] Source: Bloomberg, Brown Advisory and broker estimates. Please see the end of this letter for methodology, exclusions and important disclosures. Data as of 31st December 2018.
[2] Source: Brown Advisory. Please see the end of this letter for methodology, exclusions and important disclosures.

FUND WEIGHTS

Country Breakdown			
COUNTRY	% WEIGHT (12.31.18)	QTD 2018 % CHANGE	YTD 2018 % CHANGE
Argentina	12.7	1.9	4.3
Brazil	50.2	10.0	12.0
Chile	5.3	-0.7	0.2
Colombia	11.1	-3.3	0.7
Mexico	3.9	-3.4	-17.7
Peru	15.4	-1.1	3.9
Cash	1.4	-3.3	-3.5

Source: Factset. Figures may not add to 100% due to rounding. Data as of 31st December 2018.

PERFORMANCE

Over the full year the Fund returned -16.8% during 2018 (including dividends). The negative contributors were Argentina (-700bps approximately), Brazil (-500bps approximately), and Colombia (-400bps approximately). Peru added to performance over the year. FX was the main problem detracting approximately 11% from our NAV over the year. The weakest currencies were the Brazilian real and the Argentine peso and to a lesser extent the Colombian peso. Despite being weak during 2018, the Mexican peso wasn't a major detractor due to our successful tactical hedging. We currently have no hedges in the portfolio.

InRetail in Peru was our top performer for the year on the back of a promising acquisition and a new hard discount food retail format. **Banco Itau** was our second-best performer. Itau is by far the best-managed universal bank in Brazil. We believe that they are likely to report an ROE of 20-25% on average over the next 5 years. The bank went through the recession with barely a scratch and we believe that it is very well positioned for both the coming economic upturn in Brazil and the increasing digitalisation of the banking industry. **Banco Frances** was our third-best performer. This leading Argentine bank has an excellent track record of managing delinquency in tough periods. We bought it close to the bottom of the sell-off in Argentina. **B3** was our fourth-best performer. B3 has the monopoly derivatives and equity exchange and post-trade services in Brazil. It also has a dominant share in the listing, registration and custody of OTC derivative and bank instruments. This is a highly cash generative franchise with state-of-the-art technology and we believe it will benefit from the likely financial deepening in Brazil in the coming cycle. **Liverpool** was our fifth-best performer and is the clear leader in the department store sector in Mexico. We sold out of this position due to the change in our macro view on Mexico. We sold profit at attractive levels which made it one of our key contributiors last year.

Two of our five largest detractors came from Argentina. These were **Grupo Supervielle** and **Banco Macro**. These bank shares suffered from a combination of the devaluation in the Argentine peso and the economic deterioration in 2018. We started taking profit in both of these holdings in 2H17 and 1Q18 but hadn't sold out entirely before the crisis hit in 2Q18. We added to Grupo Superveille and sold out of Banco Macro during the crisis. **Kroton** is the leading private university company in Brazil and experienced a de-rating to approximately 8-9x forward earnings on the back of a perception that it is likely to be a late-cycle beneficiary of the economic recovery in Brazil. We believe that this notably high-quality company has a very strong long-term outlook and we are very comfortable with our holding at this valuation. **Grupo Nutresa** in Colombia also de-rated to very attractive levels and **Ambev** was a detractor on the back of a decline in its earnings estimates related to the Argentine devaluation and weak volumes in Brazil. We have high conviction in both holdings and have recently added to Ambev, which is discussed in detail below.

As discussed above our fund looks very different to benchmarks like the MSCI Latin American Index. As a result there will be years when our Fund underperforms. 2018 was one of those years. Last year, oil & gas, commodity and government owned companies all beat the index in what was a narrow market. For instance, the Ibovespa index in Brazil declined by 1.7% in US dollar terms in 2018 if you include the four largest commodity companies (Petrobras, Vale, Suzano and Fibria), but it declined by 7.5% if you exclude them[3]. We do not invest in these types of stocks so this was a major headwind for our relative performance, although the pressure started to abate in the fourth quarter. Argentina is not in the index so it also hurt our relative performance despite some well-timed profit taking in 2H17 and 1Q18. We rebuilt our position during the sell-off in 2Q18 and 3Q18 and expect good things from Argentina in 2019.

[3] Source: Credit Suisse

In the fourth quarter performance picked up sharply for us with a 5.5% return, with local stock prices contributing approximately 600bps. The Brazilian real and Argentine peso started to recover whilst the Colombian peso weakened.

Stock returns were led by our Brazilian positions which benefited from improving sentiment following the presidential election. The top five were **Iguatemi** (the dominant luxury mall developer), **Lopes** (the leading real estate broker), **CVC** (the leading travel agency), **Arezzo** (the leading shoe and handbag retailer) and **Itau** (the leading universal bank). These five positions collectively added 5.8% to our NAV in absolute terms. Our five largest detractors reduced our NAV by 2.9%. They were Nutresa, Banorte, Kroton, Ambev and Grupo Suramericana. Banorte and Alsea are our only remaining Mexican holdings and suffered with the general malaise in that market. Having reduced Banorte earlier in the year, we took advantage of the sell off to tactically increase its weight.

PERFORMANCE CONTRIBUTION

Largest Contributors Q4 2018		
STOCK NAME	**COUNTRY**	**CONTRIBUTION TO RETURN (%)**
Iguatemi Empresa de Shopping Centers S.A	Brazil	1.4
Lopes Brasil-Consultoria de Imoveis SA	Brazil	1.3
CVC Brasil Operadora e Agencia de Viagens SA	Brazil	1.3
Arezzo Industria e Comercio S.A.	Brazil	0.9
Itau Unibanco Holding S.A. Sponsored ADR Pfd	Brazil	0.9

Largest Contributors YTD 2018		
STOCK NAME	**COUNTRY**	**CONTRIBUTION TO RETURN (%)**
InRetail Peru Corp.	Peru	1.2
Itau Unibanco Holding S.A. Sponsored ADR Pfd	Brazil	1.1
BBVA Banco Frances SA Sponsored ADR	Argentina	0.8
B3 SA - Brasil, Bolsa, Balcao	Brazil	0.7
El Puerto de Liverpool SAB de CV	Mexico	0.5

Largest Detractors Q4 2018		
STOCK NAME	**COUNTRY**	**CONTRIBUTION TO RETURN (%)**
Grupo Nutresa S.A.	Colombia	-0.9
Grupo Financiero Banorte SAB de CV Class O	Mexico	-0.6
Kroton Educacional S.A.	Brazil	-0.5
Ambev SA Sponsored ADR	Brazil	-0.5
Grupo de Inversiones Suramericana S.A.	Colombia	-0.4

Largest Detractors YTD 2018		
STOCK NAME	**COUNTRY**	**CONTRIBUTION TO RETURN (%)**
Kroton Educacional S.A.	Brazil	-2.2
Grupo Supervielle SA Sponsored ADR Class B	Argentina	-2.1
Grupo Nutresa S.A.	Colombia	-1.9
Ambev SA Sponsored ADR	Brazil	-1.8
Banco Macro SA Sponsored ADR Class B	Argentina	-1.5

Source: Factset. Figures are gross of fees and taxes. Data as of 31st December 2018.

Chart 4: FX Contribution to Return

	Q4 2018	YTD 2018
TOTAL	**0.5**	**-11.2**
Argentinian peso	1.0	-6.1
Brazilian real	1.4	-4.1
Chilean peso	-0.3	-0.6
Colombian peso	-1.2	-1.6
Mexican peso	-0.3	0.5
Peruvian sol	-0.1	-0.4
Cash	0.0	1.0

Source: Factset. Figures are gross of fees and taxes. Data as of 31st December 2018.

BRAZIL

We increased our weight in Brazil from 32.6% at the end of 2Q18 to 40.2% in 3Q18 and to 50.2% by year end. We believe that Brazil is poised to benefit from a promising combination of a cyclical economic recovery and powerful pro-market reforms following the recent presidential election.

Inflation has fallen from an 11% peak several years ago to the 4-5% range, where it seems well-anchored and is expected to remain for at least the next 2- 3 years. This has enabled interest rates to fall from 14.3% to 6.5%[4]. This is the lowest ever level in Brazil and is likely to mark the start of Brazil's first ever multi-year period of single digit interest rates. This is analogous to where the US and UK were with inflation and interest rates in the late 1980s and it should drive a material reallocation of domestic savings from fixed income into equity. In addition private sector debt to GDP has fallen from a peak of 53% in 2015 to approximately 46% in 2018[5]. **We believe that the combination of low interest rates, pent up demand following Brazil's sharp recession, job creation, real wage growth, and an acceleration in credit growth is likely to result in a clear acceleration in Brazil's real GDP growth rate in 2019 and 2020**. Business and consumer confidence has risen sharply following Bolosonaro's victory and this should add fuel to the fire.

Bolosonaro took office on January 1st 2019 and has started his administration on the front foot. His finance minister, Paulo Guedes, may be just the man Brazil needs to solve its chronic fiscal deficits. Guedes has a PhD in economics from the University of Chicago and was a co-founder of BTG Pactual which is the Goldman Sachs of Brazil. He has assembled a team of 10 or so similar individuals around him and they intend to emulate Chile's highly successful reform programme. The really good news is that they have also had the nous to keep a lot of the senior figures from President Temer's outgoing government. **These people made a good start on reforms in 2016/17 and will help the new government to hit the ground running**. We hope to see a number of reforms this year including the all-important pension reform. Some parts of the pension reform will require a 60% approval in Congress. This will require some astute negotiation from Bolsonaro's team but we believe that on balance they are likely to be successful. If so this will be a strong positive catalyst for Brazilian assets. **We believe that our Brazilian portfolio remains attractively valued here and that there is plenty of scope for the Brazilian real to appreciate against the US dollar**.

We recently added to our holding in **Ambev** which is the leading brewer in Latin America. Ambev has a 60-65% market share in Brazil's beer market and close to an 80% share of Argentina's beer market. In addition, Ambev is the largest non-cola company in Brazilian soft drinks, a leader in the Canadian beer market, and a leader in the Central American/Caribbean beer markets. The business is run exceptionally well with consolidated EBITDA margins consistently above 40% and net income margins typically around 24-25%[6]. It has net cash on its balance sheet, a ROIC well above its cost of capital, and a forward dividend yield of 4-5%[6]. Ambev should compound shareholder value for many years to come.

We also introduced several new holdings in the mid cap space. One of these is **Lojas Americanas**, one of the best-known retailers in Brazil. Roughly half of its market cap is the eponymous bricks & mortar business, which has 1400 stores selling a wide range of

[4] Source: Bloomberg.
[5] Source: Banco Itaú, 3Q18 Institutional Presentation Macroeconomic Outlook: Credit Evolution/GDP, p.9.
[6] Source: Bloomberg. Data as of 15th January 2018.

categories from back to school goods to consumer electronics. **This business is getting to the end of a 5-year period in which it has doubled its store base, and once that's complete they think they can double it again over the next 5 years**. This is a classic underpenetrated business: there are cities in Brazil that haven't really been touched by modern retail and when a modern retailer does open people queue for days beforehand. **This business earns a return on equity of around 30% with moderate leverage**[7]. **Same store sales have been well above inflation in 10 of the last 12 years and stayed healthily positive through Brazil's deep recession**[8]. Coming out of the recession same store sales are already gaining momentum, and we see scope for margin and working capital improvements on top of the rapid store rollout.

The icing on the cake for the bricks & mortar business is a new convenience format. These small stores won't move the needle much initially, but the company believes there is scope to roll out many thousands of them over time and the incremental return on equity is higher than the company average.

The other half of the market cap is invested in B2W, one of the leading ecommerce players in Brazil. Ecommerce has developed slowly in Brazil for a number of reasons. In particular delivery was too slow because modern distribution infrastructure simply didn't exist. B2W has spent the last several years developing arguably Brazil's best ecommerce distribution network, building distribution centres close to clients and third party last mile networks. This distribution system is increasingly integrated with Lojas Americanas' brick & mortar system, creating a truly nationwide omnichannel network which will only be strengthened by the rollout of thousands more stores. B2W think they are now at an inflection point where rapid delivery will drive demand. This comes just as the company completes a strategic shift from selling its own inventory online to running a marketplace selling third party inventory for a commission. This is far more profitable and requires much less working capital.

We believe both these businesses have many years of growth ahead with high returns on incremental capital. We purchased a 1.8% position in October 2018 at an attractive valuation and we expect to be long-term holders.

Between us we spent three weeks in Brazil during 4Q18.

ARGENTINA

Argentina's pro-market government has followed a very orthodox approach in dealing with its mini crisis in 2018 and we believe with high conviction that the scene is set for a clear sequential recovery in its economy during 2019. We expect inflation to halve in 2019 and interest rates to follow, taking a lot of pressure off the domestic economy. The inflation deceleration has already started. Real wages are also likely to go from negative to positive in 2019, which should help consumption. Argentina is an agricultural superpower and so far all the signs are pointing to a record harvest this year (after the record drought which helped trigger the crisis last year). Partly as a result we expect Argentina's current account deficit to move from 4-5% in 2018 to a sustainable 0-2% in 2019. We also expect the primary fiscal account to improve to a balanced position in 2019. The IMF has guaranteed all of the government's financing needs for 2019 and part of 2020.

All of this gives us confidence in the short term. Over the medium to long term, we expect more pro-market structural reforms to transform Argentina's economy. **Under better governance the economy should do very well. Agriculture is a structural grower, Argentina has one of the largest shale oil & gas formations outside the US, and the country has a very sophisticated creative sector which amongst other things houses some of the biggest and best-known e-commerce and IT companies in Latin America.** Argentina's external sector is also very competitive given that the peso is trading at nearly two standard deviations below its 10 year inflation-adjusted average against the dollar[9].

The result of the presidential election in 4Q19 will be very important. We believe that either Macri's pro-market coalition will be re-elected or that the pro-market faction of the Peronist party will win. The latter has very similar economic policies to Macri and have generally voted in favour of his reforms to date. There is a small risk that the left wing faction of the Peronist party, led by Cristina Kirchner, could win. If it wasn't for this risk, we would probably have 25% of our NAV in Argentina today as we can find some outstanding bottom up opportunities at very attractive multiples, the currency is extremely cheap and the economy appears poised to mount a major recovery.

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[7] Source: Brown Advisory.
[8] Source: BTG Pactual. Calendar year data from 2006-2017.
[9] Source: Bloomberg and Brown Advisory. Data as of 31st December.

We visited the country in 4Q18 and following that trip we added to our holding in **Bolsas y Mercados Argentinos (''ByMA'')** which is the monopoly on-shore custodian and equity exchange. Assets under custody were approximately 29% of GDP in Argentina in 2017 which compares to approximately 97% in Peru, 119% in Brazil, and 150% in Chile[10]. This gives custody plenty of room to grow over the long term and we believe that this is likely to be helped by ongoing pro-market reforms. A significant amount of these assets are denominated in US dollars which gives this business a natural hedge in periods of currency weakness. This business is hugely cash generative and accounts for 75-80% of ByMA's cash flow[11].

The other main business is the monopoly on-shore equity exchange. Argentina is currently a frontier market and has a very low market cap to GDP of approximately 13%. A typical emerging market has a market cap to GDP of close to 100%. Total ADTV in 2018 was approximately US$30m which is what one mid cap stock in the USA might trade[12]. The government passed very supportive tax and corporate governance reforms just before the crisis hit and we believe that these should facilitate the rapid growth of Argentina's onshore equity trading when the economy turns.

The exchange was demutualised about 2 years ago and ByMA has plenty of cost efficiency which is resulting in good EBIT margin growth. This helped the company produce excellent results over 2018. Despite the crisis, the company grew its revenue by 65% YoY and its EBIT by 171% in 3Q18[13]. We believe that ByMA has the ability to grow its net income tenfold over the next decade if things go well in Argentina. It's only listed on-shore and has a market cap of US$750m[14]. We don't believe that many foreign funds will even have met this business yet, let alone invested. We hope that this will start to change once Argentina is upgraded to a full emerging market in June 2019. ByMA has net cash and we added to it on approximately 8.5x and 6.5x consensus earnings estimates for 2019 and 2020, respectively. When the Brazilian exchanges were in a similar part of their long term evolution, they generally traded on 30-40x forward earnings. We increased this position from 2.7% of our NAV at the end of the third quarter to 4.3% by the year end.

THE ANDEAN BLOC - CHILE, PERU AND COLOMBIA

We spent a week in **Colombia** in December. It was a good time to go because there was a lot of noise around the new President, Ivan Duque. His plans are actively pro-business but the general market feeling was that he wasn't doing a great job of implementing them and had wasted his first 100 days. We had a broad range of meetings with companies and government officials and came away with a different view. Politics is certainly noisy in Colombia at the moment and Duque's team have made a couple of rookie errors. It doesn't help that they don't have an outright majority in Congress. But we were impressed with the government's plans and confidence, and we also got a consistent message from businesses that things are improving on the ground.

Colombia's economy is experiencing a natural acceleration after several years of slowing growth. The question is whether that acceleration can be turbocharged by some reforms. Some of those reforms have already been done – for example the last administration made some technical tweaks to the big 4G infrastructure programme. That has unjammed the financing process for projects, which will transform Colombia's road system. After years of planning we are finally hearing that 4G is gaining momentum – 18% of the dollars have already been spent and progress is accelerating - and the exciting thing is that the planning, permitting, and financing structures that have been put in place can be leveraged for decades[15]. We think Colombians will look back on their creation as one of Colombia's great legacies.

Other reforms are yet to come. For example Duque has formed a team to look at a capital markets reform with the aim of improving local liquidity and lowering the cost of capital. The rate of tax foreigners pay on local bonds has already been cut from 14% to 5% (it was 33% 5 years ago) and the new team is reportedly looking at listing state assets, allowing stock lending, and various other changes that could help local markets mature[15]. This is excellent news for our holding in **BVC**, which owns the dominant local custodian and is in the process of consolidating the local equity, derivatives, FX, and one of the local bond markets onto one electronic platform. This will allow for one central counterparty which will be able to cross-net exposures, reducing total collateral needs and driving volumes. BVC is a very cash generative company with a strong balance sheet and it will be a huge beneficiary if integrated technology, reform, and an accelerating economy combine to drive greater capital markets activity.

[10] Source: Itaú BBA, ByMA Company Update, 13th December 2018, p.6.
[11] Source: A Market Rising From the Ashes: BYMA, Itaú BBA, 25th February 2018.
[12] Source: Itaú BBA, ByMA Company Update, 13th December 2018, p.2.
[13] Source: ByMA Company 3Q18 Announcement, p. 2 & 4.
[14] Source: Bloomberg. Data as of 31st December 2018.
[15] Source: Credicorp.

Several of the proposed reforms are technical, "behind the scenes" tweaks that don't require congressional approval. We are confident those will get done. But there is one big reform that we'd like to see that does require congressional approval, which is a pension reform. Pensions aren't a big fiscal issue in Colombia, but they will be in time if a reform isn't made. More importantly, the current system favours the rich in an extraordinarily unfair way. A sensible reform could strengthen the long-term fiscal outlook, improve pension reform for the poor, and create additional opportunities for private pension providers like Grupo Suramericana, a fund holding. We'd like to think that even politicians wouldn't turn down that kind of win-win, but you never can tell.

Overall we came away feeling that things are falling into place for Colombia's continued economic recovery. Our biggest holding in Colombia, **Nutresa**, is very well placed to benefit from rising employment, salaries, and spending. We spent 4 hours with them discussing two fast-growing internal "start-ups" as well as their restaurant division. All three divisions have real potential but the market isn't paying them much attention. We also had an extensive discussion about how the company is driving efficiency and returns on capital across its whole system. This focus started 2 years ago and it is gaining internal momentum. They're measuring things they didn't measure before and they've revamped the compensation system so that a significant proportion of total pay is linked to returns. Importantly, after a series of big expensive "platform" acquisitions the company is now focussing on cheaper tuck-in acquisitions which can leverage the existing platforms to gain scale fast.

We think these changes will combine to drive big improvements in returns and free cash flow over the next several years. A recovery in consumer spending (which we expect) could really turbocharge this: Nutresa has substantial excess capacity so any volume growth will drive operating leverage and rapid free cash flow growth. This reminds us of the US in the early 2010's, when companies had pared costs to the bone so the profit leverage to even a mild economic recovery was substantial. We are excited about Nutresa.

Peru continues to perform well. The new President (in office since his predecessor was impeached in March) is doing a good job and is riding high in the polls. A recent referendum on much needed political and judicial reforms went his way and has added to his credibility. We sense that infrastructure spending is regaining momentum after the Odebrecht corruption scandal caused everything to slow down in 2017/18. This is very good news: infrastructure spending has huge multiplier effects in these economies and we expect higher loan growth, consumption, and cement demand in 2019. This directly benefits our 5 holdings in Peru, which make up 15.4% of our fund.

At the stock level we had two notable events in the quarter. **InRetail** produced an excellent set of results. In supermarkets it is outcompeting its rivals by some distance. In pharmacy the transformative acquisition they made earlier this year is doing even better than we expected. And in malls the company is making good progress building what management thinks will be its most profitable mall yet, due to open in 4Q19. We expect continued good things from InRetail in 2019. Meanwhile **Unacem** announced a merger with its controlling shareholders which we think will increase profit per share and increase liquidity. Unacem is Peru's biggest cement producer and the shares spiked on the news. We used that spike to switch some of the holding into **Cementos Pacasmayo**, the other major listed cement player. Both companies have substantial excess capacity and minimal investment needs, so they will generate lots of cash as cement demand accelerates. We originally preferred Unacem because it was cheaper but now that the valuations are more aligned we prefer to own both stocks because we know both are attractive acquisition candidates.

Chile also continues to perform well. We always felt the reaction to Sebastian Pinera's win in the 2017 presidential election was overdone, both in terms of the stock market and business confidence. It's no surprise to see both have somewhat corrected this year. However the economy continues to grow well and Pinera's plans are gathering pace. He's presented sensible tax and pension reforms and has a plan to digitalise and simplify all permitting processes onto one platform. Things like that can really spur investment and it's also an opportunity for **Sonda**, the leading IT company in Chile, which is a holding.

MEXICO

The Mexican economy is one of the fifteen largest in the world and has plenty of strengths including strong sovereign and private sector balance sheets, a highly respected central bank, a cheap currency and good momentum in its manufacturing industry (assuming the revised NAFTA is ratified by its three member countries). There are pockets of value amongst mid cap stocks and some of the large caps, and there is no shortage of high-quality companies to invest in. There are however two risks at the moment.

First, the US economic cycle appears to be closer to its end than its beginning and a slowdown would impact the Mexican economy given the close trading links between both countries. Compounding this is the fact that politics in the US appear complicated following the mid-term elections and it's possible that Congress might not ratify the revision of NAFTA. Longer term, we see Mexico's relationship with the US as solid, but this could cause short term uncertainty.

The second and arguably more important risk is policy uncertainty following the victory by Andres Manuel Lopes Obrador ('AMLO') in Mexico's presidential election. AMLO has already made some unpredictable and irrational policy decisions, which is unsettling sentiment in the private sector in Mexico. The recent cancellation of the new part-built Mexico City airport is a good example and he has also put a cap on public sector salaries which is causing some of the most senior technocrats in Mexico's civil service and regulatory agencies to resign. The risk is that AMLO replaces these high calibre individuals with political appointees. The appointments he made to the key energy sector posts certainly don't inspire confidence.

When AMLO was Governor of Mexico City he was fiscally conservative and did a reasonably good job. He has consistently said that he plans to run a primary fiscal surplus each year that he is in office. We think that this will be a good litmus test to judge him by. However he has also promised not to raise taxes and to increase social transfers to poorer Mexicans. Clearly these goals can only be met simultaneously if Mexico's economy grows rapidly – something that requires a confident private sector since the public sector only represents approximately 20-25% of Mexico's GDP. If AMLO continues unsettling the private sector we don't see how he can square the fiscal circle. However, if AMLO decides to prioritise Mexico's fiscal surplus over social programs we feel that local business confidence will rise with investment likely to follow. At this point it's not clear which path he will take.

A lot of the corporates that we met during our trip in the fourth quarter were talking about paying down debt rather than new capex or returning capital to shareholders. One high quality and conservatively-levered consumer business that has either grown or maintained its dividend for 46 years is now considering cutting their dividend to pay down debt. The leading Coca Cola bottler in Mexico has recently exercised a put option on an Asian business. They were planning to pay the resulting capital inflow as a special dividend but are now thinking of paying down debt instead. They are also conservatively-leveraged. The dominant packaged bread company in Mexico likes to use its free cash flow to selectively make acquisitions but management have decided to put a moratorium on any additional acquisitions over the next 2 years in order to pay down debt. The leading Mexican-owned bank has recently reduced its forecast loan growth rate for its 2019 budget due to an expectation that corporates will cut back on capex programs. We think this growing caution by Mexico's private sector is a direct result of rising political uncertainty and we expect real GDP growth to slow down by approximately 100bps from 2% to 2.5% in 2018 to 1% to 1.5% in 2019. This is in sharp contrast to the other five countries that we invest in where we expect to see either a clear acceleration in economic performance (Argentina, Brazil, Colombia) or continued strong performance (Chile and Peru).

We think it makes sense to have a much lower-than-normal weight in Mexico in this environment and we have reduced the weighting in stages over the last 18 months. Generally our timing has been good. We had approximately one third of our NAV invested in Mexico during the summer of 2017 and reduced that to 22% by year end 2017. We further reduced our exposure in March and April 2018, just before a bout of emerging market volatility. We also hedged the peso at that time, which protected the NAV from most of the downside in the currency through the election. The market rallied post-election and we made our final cuts in this environment. The Fund was consequently largely protected from the sharp AMLO-driven equity sell-off in Mexico in September and October.

If we continue to worry about AMLO, we can sell out of Mexico entirely - we have no reason to be invested in any particular country and we see opportunity in every other country in which we invest. We currently own two very high quality growth stocks which we believe will continue to thrive. We also expect to see single stock trading opportunities to occur from time to time in high quality companies that would normally be core holdings. For example in the 4th quarter we added 200bps to **Banorte** when the stock fell to approximately 1.2x 2019 forecast price to book and 7x 2019 forecast earnings[16]. Banorte is an extremely healthy bank which is expected to report a ROE of 19-20% in the 2018 to 2020 period[16]. We spent 10 days in Mexico around AMLO's inauguration and felt we were in a good position to make a judgement on this value opportunity and it has worked out well so far.

We are keeping a very open mind in assessing AMLO's progress. if AMLO respects Mexico's central bank, the energy reform, and its institutions, and if he generates a primary fiscal surplus each year, we think that over time political risk will fade and the market will able to perform strongly again. We don't however have the visibility to make that call today. Our next trip to Mexico will be during the first half of 2019.

[16] Source: Brown Advisory calculations. Please see the end of this letter for methodology, exclusions and important disclosures. Data as of 31st December 2018.

CONCLUSION

Currencies and stocks look cheap across Latin America just as the economic cycle is picking up. Some very promising election results have helped confidence and could underpin a long economic expansion. We believe that this is setting Latin American equities up to be a strong link in the upcoming cycle. However, we expect the NAV to remain volatile.

Our Fund's investments have grown their EPS at a 14.5% CAGR since inception and trade at an attractive PE of 13.9x and 11.8x forecast earnings for 2019 and 2020, respectively[17].

Rupert and Peter, who manage the fund, personally own approximately 1.8% of its NAV.

The Latin American Team
Portfolio Managers: Rupert Brandt, CFA & Peter Cawston

Annual Performance	Latin American Fund
Inception to Year end 2006	17.90%
2007	19.08%
2008	-55.34%
2009	142.11%
2010	34.43%
2011	-23.44%
2012	35.02%
2013	-7.55%
2014	-7.83%
2015	-35.54%
2016	24.60%
2017	25.68%
YTD	-16.76%
Cumulative performance since inception	50.39%

Source: BBH. The performance shown above includes the performance of the Findlay Park Latin American Fund between 10 October 2006 and 28 March 2018 which merged into the Brown Advisory Latin American Fund on 30 April 2018. Past performance is calculated using the U.S. Dollar class of share and net of fees. The Brown Advisory Latin American Fund was launched under Brown Advisory's Irish UCITS umbrella on 30 April 2018. Data as at 31st December 2018.

[17] Source: Brown Advisory calculations. Please see the end of this letter for methodology, exclusions and important disclosures. Data as of 31st December 2018.

Sector Breakdown			
SECTOR	FUND WEIGHT %	QTD % CHANGE	YTD % CHANGE
Banks	21.3	3.2	5.3
Consumer Staples	19.6	-0.3	3.0
Consumer Discretionary	15.3	-1.7	-7.8
Financial Exchanges	10.6	2.8	8.3
Shopping Malls	5.4	1.2	1.7
Other Financials	4.4	-2.9	-5.1
Industrials	4.3	0.9	0.8
Transportation	3.8	-2.2	-0.8
Private Education	3.7	-1.0	-2.1
Real Estate Brokers	2.9	1.4	1.4
Building Materials & Cement	2.6	-0.9	1.4
Technology-Services & Software	2.5	0.6	-0.1
Utilities	2.2	2.2	-2.4
Cash	1.4	-3.3	-3.5

Source: Factset. Data as at 31st December 2018.

Top 10 Positions Q4 2018		
SECURITY	COUNTRY	FUND WEIGHT (%)
Grupo Nutresa S.A.	Colombia	6.8
Itau Unibanco Holding S.A. Sponsored ADR Pfd	Brazil	6.5
InRetail Peru Corp.	Peru	5.4
B3 SA - Brasil, Bolsa, Balcao	Brazil	4.9
Credicorp Ltd.	Peru	4.9
Iguatemi Empresa de Shopping Centers S.A	Brazil	4.5
Bolsas y Mercados Argentinos SA	Argentina	4.3
Alicorp SA	Peru	3.9
CVC Brasil Operadora e Agencia de Viagens SA	Brazil	3.5
Ambev SA Sponsored ADR	Brazil	3.3

Source: Factset. Data as at 31st December 2018.

Largest Purchases Q4 2018	
STOCK NAME	**COUNTRY**
Itau Unibanco Holding S.A. Sponsored ADR Pfd	Brazil
Equatorial EnergiaS.A.	Brazil
M. Dias Branco SA Industria e Comercio de Alimentos	Brazil
Grupo Financiero Banorte SAB de CV Class O	Mexico
Bolsas y Mercados Argentinos SA	Argentina

Largest Purchases YTD 2018	
STOCK NAME	**COUNTRY**
Itau Unibanco Holding S.A. Sponsored ADR Pfd	Brazil
Bolsas y Mercados Argentinos SA	Argentina
B3 SA -Brasil, Bolsa, Balcao	Brazil
Grupo Financiero Galicia SA Sp. ADR Class B	Argentina
Grupo Supervielle SA Sponsored ADR Class B	Argentina

Largest Sales Q4 2018	
STOCK NAME	**COUNTRY**
Smiles Fidelidade SA	Brazil
Porto Seguro S.A.	Brazil
El Puerto de Liverpool SAB de CV	Mexico
Grupo Aeroportuario del Centro Norte SAB de CV	Mexico
Wilson Sons Ltd	Brazil

Largest Sales YTD 2018	
STOCK NAME	**COUNTRY**
Grupo Financiero Banorte SAB de CV Class O	Mexico
El Puerto de Liverpool SAB de CV	Mexico
Grupo Financiero Inbursa SAB de CV Class O	Mexico
Alsea, S.A.B. de C.V.	Mexico
Pampa Energia SA Sponsored ADR	Argentina

Source: Factset. Data as at 31st December 2018.

Brown ADVISORY
Thoughtful Investing.

Our portfolio stats are downloaded from Bloomberg. In the few cases where Bloomberg doesn't have data we source forecasts from individual brokers and historic data from company financials.

Several of the differences between the unadjusted and adjusted portfolio statistics stem from the fact that over the last two years we have allocated about 5% of our portfolio to high quality cyclical small cap stocks in Brazil. Because they are cyclical these stocks are making losses or very small profitsas they exit Brazil's major 2015-6 recession. We do not believe this performance is representative of their earnings power as the cycle normalises so we strip them out of some of the statistics so that the characteristics of the core portfolio holdings can be seen more clearly.

PE Methodology:

The total 2019 and 2020 PE is a weighted harmonic average for all holdings with a positive PE ratio.PE ratios are sourced from Bloomberg or Broker Estimates selected by the portfolio managers.

ROE Methodolgy:

Unadjusted ROE: 14.8%.

Adjusted ROE: 17.5% .

The ROE is a trailing 12 monthly weighted average. Three companies totalling 4.6% of the portfolio as of 12.31.2018 are excluded from the adjusted ROE. The excluded companies were lossmaking in the trailing twelve month period and we believe they will post materially positive ROEs in future years as Brazil's economic recovery accelerates. These companies are Marisa Lojas, BrasilBrokers, and LPS Brasil.

EPS CAGR Methodology:

Unadjusted EPS CAGR: 5.8%

Adjusted EPS CAGR: 14.5%

The EPS CAGR figure is the weighted average of local currency compound annual growth rates from Fund inception (2006) to 2017 for the portfolio as of 12.31.2018. Where stocks do not have data to 2006 the CAGR has been calculated using the earliest data available. Four companies totalling 5.3%ofthe portfolio as of 12.31.2018 are excluded from the adjusted EPS CAGR since inception. This is because these companies were lossmaking either at the start or the end ofthe period and the CAGR formula can produce anomalous results when either the numerator or the denominator is negative. For example, the formula gives CAGRs of around -200%for both Marisa Lojasand LPS Brasilso these stocks, despite only making up 3.9% of the portfolio, reduce the portfolio's weighted average CAGR by over 5 percentagepoints. We believe this is misleading and exclude these stocks, as well as BrasilBrokers and Technosfor which the CAGR formula also produces meaningless results.

Past performance is not a guarantee of future performance and you may not get back the amount invested.