Latin American Fund

QUARTERLY LETTER | FIRST QUARTER 2019

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

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The fund returned 2.1% (net of fees) in the first quarter of 2019 after a strong fourth quarter in 2018 when the fund returned 5.5% (net of fees). **The region is at the start of what should develop into a multi-year economic up-cycle. Currencies and stocks look inexpensive and there is a strong fundamental base for a potential new bull market. For the first time since we launched the fund, five out of the six countries that we invest into have pro-business governments.** This should underpin continued increases in business and consumer confidence and we have approximately 98% of our NAV invested in these five countries.

To emphasise the quality of what we own we have given a brief review of our top ten holdings in this newsletter. The current portfolio has grown its earnings per share at a weighted average rate of 13%[1] since 2006 and has an ROE of 15%[2], with relatively little debt.

At the end of the quarter we had 54.1% invested in Brazil, 17.3% in Peru, 11.3% in Colombia, 10.4% in Argentina, 4.9% in Chile and 0.7% in Mexico. Cash was 1.2%. We did not make major reallocations in the quarter but at the margin we continued to increase Brazil's weight and reduce Mexico's. In Brazil we continue to think the new government's policies are likely to usher in a disinflationary boom, while in Mexico the policy outlook is more complex and we worry that business confidence is deteriorating. In Argentina we continue to expect the economy to begin to show sequential improvements in the first half of 2019, and in the three Andean countries economic growth continues at strong and sustainable levels.

Our portfolio remains attractively valued at 14.2x 2019 and 12.0x 2020 forecast earnings[3]. 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 but we believe it is likely to be a tailwind from today's starting point.

We conducted research trips in three of the six countries we invest in during the first quarter, spending nearly four weeks in the region. This is more than we believe most of our competitors spend in a year, and we plan another three weeks in the region in the second quarter.

FUND WEIGHTS

Country Breakdown		
COUNTRY	**% WEIGHT (03.31.19)**	**QTD % CHANGE**
Argentina	10.4	-2.3
Brazil	54.1	+3.9
Chile	4.9	-0.4
Colombia	11.3	+0.2
Mexico	0.7	-3.2
Peru	17.3	+1.9
Cash	1.2	-0.2

Source: Factset®. Figures may not add to 100% due to rounding. Geographic breakdown is by country of risk and includes cash and cash equivalents. Data as of 31st March 2019.

[1] Source: Bloomberg, Brown Advisory and broker estimates. Data as of 31st March 2019. The unadjusted EPS CAGR is 13%. 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 March 31, 2019. Please see the end of this letter for methodology, exclusions and important disclosures.
[2] Source: Brown Advisory, Brown Advisory and broker estimates. Data as of 31st March 2019. The unadjusted ROE is 13%. Please see the end of this letter for methodology, exclusions and important disclosures.
[3] Source: Brown Advisory, Brown Advisory and broker estimates. Data as of 31st March 2019. Please see the end of this letter for methodology, exclusions and important disclosures.

PERFORMANCE

This quarter the Fund returned 2.4% (gross of fees). **The main positive contributors were Peru (+1.9%), Brazil (+1.2%), and Colombia (+1.1%). Argentina contributed -2%. Stocks contributed 4% and currencies contributed -1.5%[4]**.

At the stock level the top 5 contributors were InRetail, B3, Nutresa, Kroton, and TOTVS, with a total contribution of 3.6%[4]. InRetail, B3, and Nutresa are in our top ten holdings. InRetail produced a good set of results across all three divisions and we expect more of the same this year and next. Nutresa reported promising results and the stock rebounded after what we think was a technical selloff in the prior quarter. B3, Kroton, and TOTVS all reported good results and benefited from rising confidence in Brazil.

The bottom 5 contributors were Grupo Supervielle, Lopes, Arezzo, CVC, and Bolsas y Mercados Argentinos, with a total contribution of -2.7%[4]. Arezzo and Bolsas y Mercados Argentinos are in our top ten holdings. Supervielle and Bolsas y Mercados Argentinos are Argentine companies. The Argentine market was volatile this quarter as investors look for signs that the economy is turning. We believe this process has started and that the data will become clearer in the second quarter. Lopes, Arezzo, and CVC are all Brazilian companies with strong outlooks which gave up some ground after strong runs in the fourth quarter of 2018.

PERFORMANCE CONTRIBUTION

Largest Contributors Q1 2019		
STOCK NAME	**COUNTRY**	**CONTRIBUTION TO RETURN (%)**
InRetail Peru Corp.	Peru	1.2
B3 SA - Brasil, Bolsa, Balcao	Brazil	0.9
Grupo Nutresa S.A.	Colombia	0.7
Kroton Educacional S.A.	Brazil	0.5
TOTVS S.A.	Brazil	0.4

Largest Detractors Q1 2019		
STOCK NAME	**COUNTRY**	**CONTRIBUTION TO RETURN (%)**
Bolsas y Mercados Argentinos SA	Argentina	-1.2
Grupo Supervielle SA Sponsored ADR Class B	Argentina	-0.5
Lopes Brasil-Consultoria de Imoveis SA	Brazil	-0.4
Arezzo Industria e Comercio S.A.	Brazil	-0.3
CVC Brasil Operadora e Agencia de Viagens SA	Brazil	-0.3

Source: Factset®. Figures are gross of fees and taxes. Data as of 31st March 2019. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. Security returns listed represent the period when the security was held during the quarter. Contribution to return is calculated by multiplying a security's beginning weight in the portfolio by the security's return on a daily basis, and geometrically linking the return for the reporting period. Top and bottom contributors include cash and cash equivalents.

[4] Source: Factset®. Figures are gross of fees and taxes. Data as of 31st March 2019. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. Security returns listed represent the period when the security was held during the quarter. Contribution to return is calculated by multiplying a security's beginning weight in the portfolio by the security's return on a daily basis, and geometrically linking the return for the reporting period. Top and bottom contributors include cash and cash equivalents. Numbers may not total due to rounding.

FX Contribution to Return	Q1 2019
TOTAL	**-1.5**
Argentinian peso	-1.5
Brazilian real	-0.3
Chilean peso	0.1
Colombian peso	0.1
Mexican peso	0.1
Peruvian sol	-0.0
Cash	0.0

Source: Factset®. Figures are gross of fees and taxes. Data as of 31st March 2019 and includes cash and cash equivalents. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable.

LARGEST 10 HOLDINGS

With six countries to update clients on we always end up talking more about macro and less about stocks than we'd like. For all that we are positive about the macro, what will really create value over time is the quality of the businesses we own and the length of the growth runways in front of them - so before we get to the standard country review, we thought we'd do a brief review of our top ten holdings. Bear in mind that the core of our stockpicking philosophy is to find dominant companies with high returns on capital in underpenetrated industries. Underpenetration suggests the potential for a long period of rapid growth, and a high return on capital means a company can fund that growth internally, rather than by taking on debt or issuing shares. These ten holdings account for 50.7% of our NAV.

Itau Unibanco - the Rolls Royce universal banking franchise in Brazil, with a return on equity of 20-25%[5]

- We expect double digit annual loan growth over the next 5 years. Brazil's private sector debt/GDP is just 47%[6] and after years of disinflation Brazil is entering its first multiyear period of single digit interest rates, which will unleash demand for loans.
- Insurance and services like pension management generate 56%[7] of net income. These are fast-growing, high ROE businesses that reduce overall credit risk.
- Itau are leading the digital transformation of banking in Brazil. This should help them reduce costs and attract new customers among Brazil's underbanked population.

Nutresa - Colombia's leading consumer staples company

- Nutresa sells core middle class consumption categories so both volumes and value should grow well as Colombians get richer.
- Nutresa's competitive position is strong with 59%[8] market share, outstanding distribution, and some of Colombia's best-known brands.
- Nutresa is under-earning at the end of an economic slowdown, and is also at the lower end of its 10-year PE range. We foresee good profit growth and a rerating of the shares.

InRetail - Peru's leading retail company, operating in three under-developed formats

- The pharmacy division has 90%[9] market share in the formal market and is taking share from the informal market. Pharmacy spending is growing rapidly as Peru gets richer and we think this is like owning Boots 40 years ago. Return on tangible capital is very high.

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[5] Source: Banco Itaú, 4Q18 Institutional Presentation Macroeconomic Outlook: Recurring Net Income and Value creation, p.57.
[6] Source: Banco Itaú, 4Q18 Institutional Presentation Macroeconomic Outlook: Credit Evolution/GDP, p.9.
[7] Source: Banco Itaú, 4Q18 Institutional Presentation Macroeconomic Outlook: Business Model, p.61.
[8] Source: Grupo Nutresa S.A., Earnings Results 4Q 2018: Market share, p.9.
[9] Source: InRetail company meetings.

- The supermarket division is the leader with over 40%[10] share in the formal sector. It is taking share both within the formal sector and from the informal sector. It is also incubating a hard discount format which we expect to deliver rapid growth and superb economics.
- The malls division owns some of the best malls in Peru. Peru's formal retail space remains underbuilt and we expect decades of growth both at existing assets and from building new ones. Returns on capital are very attractive.

B3 - Brazil's monopoly financial exchange

- B3 has a monopoly in Brazil in onshore equity and derivatives trading, corporate bond listing and trading, OTC derivative registration, auto loan registration, and post trade services associated with equities, derivatives and OTC derivatives.
- All of these business should thrive as Brazil continues to develop and deepen its financial system. They also have very deep moats.
- B3 is highly cash generative and pays out close to 100%[11] of its earnings as dividends – providing investors with an attractive combination of rapid growth and a high yield.

Credicorp - the Rolls Royce universal banking franchise in Peru, with a return on equity of 18-20%[12]

- Credicorp has an approximately one-third share in Peru's highly consolidated and profitable banking market. The private sector loans/GDP ratio is only 40%[12] and large segments of the population remain unbanked so there is a very long growth runway ahead of the company.
- Credicorp also owns leading insurance, pension, and wealth management franchises in Peru as well as one of the best microfinance operations in the region.
- Credicorp has a superb management team focused on transforming the company to compete in the digital world. The cost of processing account and loan applications online is one-ninth[12] of what it is offline, so we see this as a major driver of efficiency and growth.

Alicorp – Peru's top consumer staples company

- Alicorp is the leading consumer staples company in Peru, with growing and cash-generative businesses in food, home care, and personal care. Recently it acquired a footprint in Bolivia and Ecuador, where we expect it will replicate its Peruvian platform in time.
- Alicorp has a world class management team. They have spent the last 3 years making the operation more efficient and extracting working capital. They plan to spend the next 3 years investing in faster innovation and data analytics.
- Alicorp has some non-core assets which we expect to be sold over time, with the proceeds likely used to fund further acquisitions in the core markets. Management have made Integration Management a core skill.

Ambev - the leading brewer in Latin America

- Ambev has approximately 65%[13] share of the beer market in Brazil. It also has significant beer businesses in Canada and the Caribbean and the second largest soft drinks business in Brazil.
- Brazil and Argentina volume has grown at 4% over the last decade and prices have risen with inflation. We expect the same over the next decade, in which case revenues will grow at around 10% and margins will rise due to operating leverage. We think Ambev can compound its profits and dividends at 10-15% per annum over the next decade.
- Ambev is very well run. It has a high ROIC and net cash on its balance sheet, and pays out close to 100% of its net income resulting in a 4.5%[14] and growing dividend yield.

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[10] Source: InRetail company meetings.
[11] Source: B3 Investor Relations Monthly presentation, February 2019, Financial highlights: p.48.
[12] Source: Credicorp 4Q18 Presentation and Credicorp company meetings.
[13] Source: Ambev.
[14] Source: Bloomberg. Data as of 31st March 2019.

Bolsas y Mercados Argentinos – Argentina's monopoly stock market and financial asset custodian

- BYMA owns Argentina's monopoly custodian for all on-shore financial assets – government debt, equity, corporate bonds, derivatives etc. It also owns the monopoly equity exchange, clearing and settlement business.
- Argentina is in a multi-year reform process which is likely to result in very rapid growth in its financial sector. Assets under custody are approximately 26% of GDP – one-fifth of the level in Brazil which gives a good idea of how much structural growth potential there is[15].
- BYMA was only recently demutualised and has plenty of scope for margin growth and new products. It grew net income by 121%[16] in real terms in 2018 despite Argentina's economic problems. It has net cash on its balance sheet and sells on a single-digit P/E.

Iguatemi – a reliable play on Brazil's rich getting richer

- Iguatemi dominates the luxury mall industry in Brazil with 16 malls[17] in the most affluent parts of the country. This makes them a 'must have' business partner for any brand targeting the A and B economic groups, which will grow fast as Brazil develops.
- Malls are very underpenetrated in Brazil. For example Brazil's mall square footage per capita is 3%[18] of the US level. As a result, Iguatemi has been able to more than double its portfolio over the last decade and compound its cash flow per share at a 14% CAGR[19].
- Iguatemi's malls have largely been designed in the internet age and typically have half of their rental footage occupied by high-end entertainment and service companies including top gyms, hairdressers and restaurants. They are also developing online marketplaces which promise delivery from a mall within 2 hours.

Arezzo – the leading women's shoe and handbag brand in Brazil

- Arezzo have compounded their revenues at c.21%[20] since 2007 and have opportunities for continued strong growth in Brazil and internationally.
- Arezzo is extremely well run with strong marketing and brand segmentation, as well as an e-eommerce division which represents 9%[21] of sales and is the fastest-growing and highest-margin channel.
- 90%[22] of shoe production is outsourced and nearly 50%[23] of stores are franchised. This results in a 29%[24] return on capital and plenty of cash generation – Arezzo has net cash and pays out 100%[25] of earnings in dividends.

THE ANDEAN BLOC - CHILE, PERU AND COLOMBIA

We have just returned from two weeks in Chile and Peru, where we met numerous companies as well as other contacts, and attended a conference where we concentrated on companies from Colombia and Argentina – effectively four countries in one trip.

Chile is the most developed country in the region and is doing what it's meant to do: compounding away at a decent clip while making sensible tweaks to its institutional and economic structure. We believe the economy will grow at 3-4% again this year and the government, having improved the (already excellent) system for regulating banks last year, is now focused on simplifying the tax system.

Although the economy grew well last year, the growth didn't really filter down to private consumption. We think that after a period of slow growth, it takes a couple of years of good growth for the labour market to tighten, salaries to rise, and spending to respond. In addition, Chile (like most countries in the region) has seen a large influx of migrants from Venezuela, which has kept the labour market looser than one might have expected otherwise. In the short term that has helped keep salary and inflation pressures

[15] Source: ByMA Argentina | Outperform, A Market Rising From the Ashes, Assets Under Custody in Argentina Are Considerably Below Other Countries: p.10.
[16] Source: ByMA announces results for full year and fourth quarter results 2018: p.1.
[17] Source: Iguatemi Empresa de Shopping Centers SA, Institutional Presentation 4Q18: p.3.
[18] Source: Iguatemi Empresa de Shopping Centers SA, Institutional Presentation 4Q18: p.60.
[19] Source: Iguatemi Empresa de Shopping Centers SA, Institutional Presentation 4Q18: p.61.
[20] Source: Arezzo & Co. Institutional Presentation 4Q18: p.30.
[21] Source: Arezzo & Co. Institutional Presentation 4Q18: p.24.
[22] Source: Arezzo & Co. Institutional Presentation 4Q18: p.17.
[23] Source: Arezzo & Co. Institutional Presentation 4Q18: p.9.
[24] Source: Arezzo & Co. Institutional Presentation 4Q18: p.5.
[25] Source: Arezzo & Co. Institutional Presentation 4Q18: p.33.

contained, but as the economy continues to grow we expect to see salary gains become a feature of Chile's economy again. That's great news for Falabella, a 1.8% holding, with leading positions in home improvement stores, shopping malls, consumer banking, department stores and supermarkets in Chile.

We spent a lot of time on this trip talking to Falabella, as well as their competitors and e-commerce experts, about whether they are able to adapt the company for the new age. We came away reassured. Falabella is working hard to ensure all its divisions are fit to compete in a digital world. It has bought a marketplace platform, is investing in state-of-the-art logistics, and has inaugurated a software factory in India. It plans to build the leading omnichannel network across the Andean countries, and it is ahead of its competitors and moving faster. Perhaps most importantly the company is working on shifting its culture. Some of the changes will be visible – no ties, and open plan offices – but more importantly they've realised that speed is key to winning in the new world and they're speeding up everything they do. We often argue that Latin companies have an advantage in that they can watch trends unfolding in the old world before they arrive in the new. Falabella is an example.

Peru is growing at about 4% with inflation very much under control. We don't see any reason, at this point, why the economy can't grow at 4% for several years to come. Loan growth accelerated last year, benefiting Credicorp, which also has an impressive plan to use digital tools to both improve customer satisfaction and increase efficiency. Consumption also started to pick up last year and remains strong, benefiting InRetail and Alicorp. Alicorp's excellent management team are highly energised about accelerating innovation, using data better, and potentially reshuffling their portfolio in a value-adding way. We think this business has years of profitable growth ahead of it. InRetail just seems to be a machine. In 2019 they will: continue to extract synergies from their 2018 pharmacy acquisition, while growing pharmacy comps ahead of inflation and taking share from the informal pharmacies that have about half the market; open their biggest mall yet with very attractive cash-on-cash returns; accelerate the rollout of their new hard discount and cash and carry food retail formats, which have huge potential; and generate rising free cash flow, enabling them to start paying down debt in absolute terms by 2020. Investing in InRetail feels analogous to investing in Boots, Sainsbury's, Aldi and Westfield 40 years ago, all wrapped into one.

Every time we meet these three companies they seem to be brimming with ideas about how to grow and strengthen their competitive positions, and we hope to own them for a very long time.

Several big mining projects and the reconstruction of northern Peru after the coastal el Nino of 2017 mean that our two cement company investments, Union Andina de Cementos SAA and Cementos Pacasmayo SAA, expect 5-6% volume growth in 2019. One of them also expects to raise price. Both will see nice operating leverage as revenues rise, and both will generate copious free cash flow as neither needs to invest in capacity for several years to come[26].

Perhaps the most eye-opening meeting we had in Peru was with the Finance Ministry. Peru's fiscal rule allowed for a deficit when the economy slowed down, which makes sense, but we wanted to confirm that the deficit would now start to reduce. (Peru has about 9% net sovereign debt/GDP, so the deficit is not a risk, but we are cautious people!) The Ministry are extremely confident that the deficit will drop from 2-3% in 2019 to 1%, which is the long-term target, over the next couple of years. Tax receipts are growing fast as the economy recovers, but we also learned that only 51% of corporate tax is collected and only 36% of VAT. The lost taxes amount to about 8% of GDP, which is huge compared to a current tax take of about 14%. These figures cover the formal sector only, so if you include Peru's huge informal sector collection rates are even lower. The Ministry has some clever plans to improve collections and encourage formalisation. **Peru's economy can easily bear a reasonable increase in the tax take, and in time it will drive more investment, better infrastructure, and better services – all of which further strengthen the economy and help stabilise politics**.

Colombia is also heading for a 3-4% growth year after starting to accelerate last year. In the interests of space, and since we updated you in the 4Q newsletter after our December visit, we will keep this section short. However we spoke to a number of Colombian companies in 1Q and our sense is that confidence in the recovery, which was somewhat lacking last year, is rising. That's good news and again we don't think there's anything to stop Colombia growing at this rate for several years. The prime portfolio beneficiary will be Nutresa, the leading food company in Colombia. We met them 8 times for nearly 14 hours last year so we've given them a break this quarter, but their 4Q results suggested our thesis is on the right track and they've recently announced investments in

[26] Source: Union Andina de Cementos SAA and Cementos Pacasmayo SAA company meetings.

their most cyclical division which suggest they're increasingly confident in the outlook. As a reminder they have substantial excess capacity and a deep efficiency programme going on, so we think they will get good operating leverage and generate a lot of free cash as volumes accelerate.

BRAZIL

As we have often discussed, we believe that the long-term structural transformation that is unfolding across our six focus countries follows a two steps forward, one step backward pattern. **Over the last twenty years, Brazil has taken many steps forward.** Severe hyperinflation in the 1980s and early 1990s has given way to a well anchored 4% rate today. Overnight interest rates have followed inflation down to all-time lows of 6.5%, and more importantly look set for their first multiyear year period in the single digits. This should allow for the continued deepening of the local debt markets and a structurally lower cost of capital. A chronic balance of payment problems, which resulted in a persistent shortage of US dollar reserves in the 1990s, has given way to recurring FDI levels of around 4% per annum and the buildup of US dollar reserves equating to approximately 20% of GDP. Brazil is now a net external creditor - its sovereign balance sheet has more US dollar cash than gross debt – meaning that the country is no longer vulnerable to sudden stops in capital flows.

However, progress has not been linear. Brazil suffered a classic step back under Dilma Rousseff's government from 2012-2016, when policy mistakes ultimately resulted in a major recession. After Dilma was impeached in 2016 the caretaker government started a new reform agenda. This included a very good labour reform and put the country back on the right path, but it didn't solve Brazil's last chronic economic problem: its fiscal accounts. Constitutionally mandated spending, indexed to inflation, makes it very hard for Brazil to balance its budget. While debt is not at crisis levels yet, the problem really needs fixing. If it is fixed the impact on local business confidence will be huge, disinflationary trends will be reinforced, and Brazil will probably regain investment grade status.

The good news is that fiscal reform is the number one focus of the new government. The new president has been likened to Donald Trump, but we think he's more of a Reagan. Reagan inherited a tough economic situation in the US and realised that he needed to listen to smart people to create the reform program that the US needed. Jair Bolsonaro is doing exactly the same. His Finance Minister, Paulo Guedes, has a PhD in economics from Chicago and was a co-founder of BTG Pactual. The Justice Minister, Sergio Moro, led the 'Car Wash' corruption investigation which ultimately put former president Lula in prison, along with plenty of other senior politicians and businessmen. And the President of the Central Bank, Roberto Campos, really understands markets and how to keep inflation under control. We think this team have the potential to make a big difference in Brazil, just as similar individuals did in the UK and the US in the 1980s.

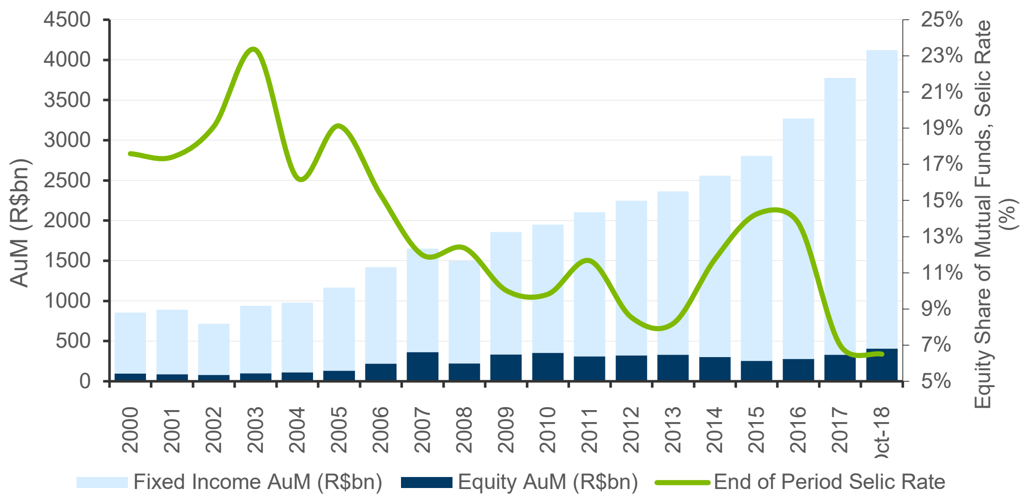
Priority number one is to reform the pension system, which is a big part of the fiscal problem. This will probably take most of 2019 to complete, as it requires some complicated constitutional amendments. This is by far the most important part of Bolsonaro's reform agenda and is likely to be a catalyst for Brazil's capital markets in 2019. However the reform package runs much deeper and includes:

- Privatisations, starting in 2019. These may be outright, or simply by selling stakes in state companies owned by other state companies - for instance the federal development bank owns approximately US$12b in Petrobras shares and US$7b in Vale shares. The proceeds of these sales will be used to pay down sovereign debt.
- A reduction in the size of the state, which won't be hard. For example, over 200 well-paid people are still employed designing the bullet train between Rio and Sao Paulo despite near-universal acknowledgement that it will never be built.
- A wave of concession auctions in the airport, port, railroad, urban mobility and highway sectors, which started in the first quarter of 2019.
- Auctions for oil and gas exploration rights in Brazil's deep water, one of the most prospective areas in the world. The plan seems to be to share the proceeds between the federal and state governments, creating a big incentive for state governors and senators to back the pension reform.
- Making the Central Bank fully independent, which will increase confidence in long term inflation and help lower the cost of capital.
- Reduced import tariffs, which should be disinflationary.
- A simplification of Brazil's super-complicated tax system, which will increase both compliance and productivity.

Many of these reforms will happen in 2019 but there will be plenty left over for 2020 and probably 2021. It is hard to understate the importance of this. **The economy is starting to accelerate naturally out of a 5 year downturn, and these reforms have the potential to turn this acceleration into a multiyear disinflationary boom**. The Brazilian stock market was flat last year in US dollar terms and we don't think that it prices in anything like that yet. We both went on a research trip to Brazil in February 2019 which we found very reassuring, and we increased the Fund's Brazil weight from 50.2% at year-end 2018 to 54.1% at the end of 1Q19.

Once disinflation really takes hold in an economy you begin a process of financial deepening that can go on for years. When inflation is high yield curves shorten, sometimes to an extraordinary degree, and this prevents the development of anything remotely resembling a normal bond market. Since all assets ultimately price off bonds, the impact is far reaching. When inflation falls, the reverse happens. This can take years but as confidence in the stability of the currency returns you find that companies can fund themselves on longer durations and individuals can borrow mortgages instead of personal loans. This is exactly what happened in Chile over the last 20 years and it creates a great environment for equities as the cost of capital falls and spending power rises. **Peru and Colombia are starting to see their asset markets develop along Chilean lines, and we believe Brazil is next in the queue**.

Another consequence of disinflation is that real interest rates fall, making bonds less attractive. Brazil has US$1tn in domestic mutual fund savings, which is an enormous amount, and most of it is in fixed income. However as you can see in the chart below, interest rates have come down over time and we think they are nearing the point where it makes sense to reallocate to equities at the margin. **Brazil's stock market only trades about US$2-3bn and the market cap is only about 50% of GDP, so we think you could see the first ever domestic driven bull market in Brazilian equities**.



Source: BTG Pactual. Data as of November 30, 2018.

Whilst we have a clearly positive view on the outlook for reforms in 2019, 2020 and 2021, there will no doubt be some setbacks along the way which is likely to cause some volatility from time to time. We saw this in 1Q19 when the new president and the leader of the lower house were pushing back establishing boundaries between each other for several weeks. We aren't overly concerned about this and see it as part and parcel of the political environment in Brazil.

MEXICO

The new government in Mexico has now been in office for just over 3 months of a six-year term. Its actions so far seem to confirm our fears that it might be anti-market and interventionist. The new president, known as AMLO, seems to want to undermine the institutions and agencies that govern Mexico's economy, pushing for the removal of the key technical staff via punitive salary caps and sometimes criticising individuals directly. One of the great leaps forward in Latin America over the last couple of decades has been the strengthening of institutions with people and rules that respect markets; weakening these institutions to allow for populist measures does not usually end well.

AMLO's most high-profile decision so far has been to cancel the new Mexico City airport. The old airport can't handle demand and from our own experience delays on busy domestic routes are averaging 2-3 hours on a good day and 5-6 hours on a bad day. The previous government commissioned an impressive new airport which is close to half-built. One of AMLO's first acts as president was to cancel this project after a referendum, run by his party not the state voting apparatus, that attracted a 1% turnout. AMLO has had to honour the airport's contractual commitments, so in effect Mexico has paid for the new airport even though it won't be built. This strikes us as entirely irrational.

AMLO increased the minimum wage by 16% on January 1st which has caused his approval rating to reach all time highs. Industrial unrest seems to be on the increase as unions want to see more general salary increases and know the government will be sympathetic. We wouldn't be surprised to see strikes becoming more common in Mexico.

The state only represents 20-25% of GDP in Mexico so private sector confidence is key for economic growth. Our conversations suggest that local business confidence is being undermined by these policies and we expect corporates to favour reducing debt over expansionary capex. This might result in lower than expected economic growth and, in turn, increases the risk that AMLO might double down with more populist policies.

We don't see these developments as being positive for either the currency or capital markets in Mexico, and we don't think they are even close to fully priced in yet. This stands in stark contrast to our outlook for every other country in the region and we have reduced our Mexican weight to 1%. One of the many advantages of not indexing is that we can avoid obvious risks like this, and we have 98% of our NAV in countries with pro-market, pro-growth economic policies. We will keep a very open mind and both of us are visiting Mexico in 2Q, but we never forget that we are investing our clients' (and our own) capital.

ARGENTINA

We continue to believe that the Argentine economy is likely to reach the bottom of its cycle during 1Q19 and should be starting to accelerate sequentially by the end of 2Q19. As is always the case with a turn in the cycle, it won't be crystal clear until after the event. Different indicators will bottom at different times. There are already some green shoots appearing, with cement sales and seasonally adjusted industrial production picking up sequentially in early 1Q19 and a larger than expected primary fiscal surplus in 1Q19. Despite a spike in 1Q which caused some market volatility, we think inflation is set for substantial declines and interest rates will follow. 2Q19 should also be helped by what is currently shaping up to be a very strong harvest.

Argentina's stock market currently offers some outstanding long-term growth franchises for sale at very cheap valuations. The currency is also very cheap against the USD on an inflation-adjusted basis. Argentina will be added to the MSCI Latam and GEM indexes at the end of May, just as we expect the economic recovery to kick in. The scene is therefore half-set for a powerful rally. The final ingredient is politics. Argentina has a presidential election in 4Q19. It currently looks likely that a pro-market party will win – either the current government, or the pro-market faction of the Peronists. We think both would do a good job, but there is a small risk that the left-wing populist ex-President Christina Kirchner could win. We are watching this very carefully and will visit Argentina in 2Q and probably again before the election, but we have a strong positive bias here and feel valuations are attractive enough to take a low-probability risk. Argentina's election is the only big one in our focus countries in 2019 and 2020.

CONCLUSION

We continue to believe we are in the early stages of a potential bull market in Latin America. This view is based on our observation that one can buy attractively-priced stocks, in attractively-priced currencies, in economies which are accelerating cyclically and which have governments enacting pro-market reforms of the kind that can lead to disinflationary booms. **We think we could see several years of rapid compounded earnings per share growth, along with some currency and multiple appreciation**.

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%
2018	-10.95%
YTD	2.06%
Cumulative performance since inception	53.49%

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 March 2019.

Sector Breakdown		
SECTOR	**FUND WEIGHT %**	**QTD % CHANGE**
Consumer Staples	21.1	+1.5
Banks	20.6	-0.7
Consumer Discretionary	14.9	-0.4
Financial Exchanges	10.4	-0.2
Shopping Malls	4.6	-0.8
Other Financials	4.5	+0.1
Private Education	4.1	+0.4
Industrials	4.0	-0.3
Transportation	4.0	+0.2
Technology-Services & Software	3.3	+0.8
Building Materials & Cement	2.8	+0.2
Utilities	2.2	0.0
Real Estate Brokers	2.1	-0.8
Cash	1.2	-0.2

Source: Factset®. Data as at 31st March 2019 and includes cash and cash equivalents. Sectors are based on a custom classification as classified by the Brown Advisory Latin American Fund portfolio managers. Numbers may not total 100% due to rounding.

Top 10 Positions Q1 2019		
SECURITY	**COUNTRY**	**FUND WEIGHT (%)**
Itau Unibanco Holding S.A. Sponsored ADR Pfd	Brazil	7.6
Grupo Nutresa S.A.	Colombia	6.9
InRetail Peru Corp.	Peru	6.2
B3 SA - Brasil, Bolsa, Balcao	Brazil	5.3
Credicorp Ltd.	Peru	4.8
Alicorp SA	Peru	4.7
Ambev SA Sponsored ADR	Brazil	4.0
Iguatemi Empresa de Shopping Centers S.A	Brazil	3.8
Bolsas y Mercados Argentinos SA	Argentina	3.8
Arezzo Industria e Comercio S.A.	Brazil	3.6

Source: Factset®. Data as at 31st March 2019. Top 10 holdings include cash and cash equivalents. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable.

Largest Purchases Q1 2019	
STOCK NAME	**COUNTRY**
Banco Bradesco S.A. Sponsored ADR Pfd	Brazil
EcoRodovias Infraestrutura e Logistica S.A.	Brazil
Itau Unibanco Holding S.A. Sponsored ADR Pfd	Brazil
Bolsas y Mercados Argentinos SA	Argentina
Arezzo Industria e Comercio S.A.	Brazil

Largest Sales Q1 2019	
STOCK NAME	**COUNTRY**
Grupo Financiero Banorte SAB de CV Class O	Mexico
Wilson Sons Ltd	Brazil
Grendene S.A.	Brazil
Marcopolo S.A. - GDR	Brazil
Marcopolo SA Rights	Brazil

Source: Factset®. Data as at 31st March 2019. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable.

Our portfolio stats are downloaded from Bloomberg and Factset. In the few cases where Bloomberg and Factset do not 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 profits as 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: 13%.

Adjusted ROE: 15% .

The ROE is a trailing 12 monthly weighted average. Two companies totalling 2.1% of the portfolio as of 03.31.2019 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 Brasil Brokers, and LPS Brasil.

EPS CAGR Methodology:

Unadjusted EPS CAGR: 13%

Adjusted EPS CAGR: 13%

The EPS CAGR figure is the weighted average of local currency compound annual growth rates from strategy inception (2006) to 2017 for the portfolio as of 03.31.2019. Where stocks do not have data to 2006 the CAGR has been calculated using the earliest data available. Two companies totalling 2.1% of the portfolio as of 03.31.2019 are excluded from the adjusted EPS CAGR since inception. This is because these companies were lossmaking either at the start or the end of the period and the CAGR formula can produce anomalous results when either the numerator or the denominator is negative.