Latin American Fund

QUARTERLY LETTER | SECOND 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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Portfolio Manager

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The fund returned 5.9% (net of fees) in the second quarter of 2019 and 8.1% during the first half of 2019. 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 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.

At the end of the quarter we had 53.8% invested in Brazil, 16.1% in Peru, 13.6% in Argentina, 9.7% in Colombia, 4.3% in Chile and 0.7% in Mexico. Cash was 1.9%. We added to Argentina during the quarter as the economic and political outlook improved and valuations were unambiguously cheap. The Brazilian market picked up towards the end of the period as it became increasingly likely that the pension reform would see progress early in the third quarter, which it has. Mexico unfortunately continues to deteriorate at the margin under its new President. In the three Andean countries economic growth continues at sustainable levels and this is helping to drive good returns.

Our portfolio remains attractively valued at 13.8x 2020 forecast earnings[1] and 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. **Value matters because we think we are moving from a period when macro news-flow dominated markets into one where bottom up fundamentals will be the main driver**. We expect the Brazilian pension reform to pass this year and the Argentine election to go well. After that, we should have a couple of years when the major macro events are likely to provide upside optionality without much downside – such as further reforms in Brazil.

This report has a slightly revised format. The country updates are shorter, and we have included two thematic sections which discuss the portfolio's ROE – why we think it's important and how we calculate it – and some high-level thoughts on how Latin America and Asia compare.

In the first half, we spent approximately nine weeks in five of the six countries we invest in. This keeps us up to date and close to events. We've already booked an additional seven weeks in the region in the second half of the year and will likely add more.

FUND WEIGHTS

Country Breakdown (30.06.19)		
COUNTRY	**% WEIGHT**	**QTD % CHANGE**
Argentina	13.6	+3.2
Brazil	53.8	-0.3
Chile	4.3	-0.6
Colombia	9.7	-1.6
Mexico	0.7	--
Peru	16.1	-1.2
Cash	1.9	+0.7

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 30th June 2019.

[1] Source: Factset® and broker estimates. Data as of 30th June 2019. The unadjusted 2020 PE is 14.6%. Please see the end of this letter for methodology, exclusions and important disclosures.

PERFORMANCE

The Fund returned 5.9% (net of fees) in the second quarter of 2019 and 8.1% during the first half of 2019. Currency was neutral in 1H19 and contributed 1.5% in 2Q19.

During the second quarter our top five performers added 4.8% to our US dollar NAV whereas our bottom five detracted 1.2%[2].

Key drivers of 1H19 performance were Brazil, which contributed approximately 6%; Peru, which contributed 2.3%; and Colombia, which contributed 0.6%. The only detractor was Chile, which detracted by -0.3%[2].

The Brazilian contribution was driven by strong performance from B3 which added 2.1%, Ser Educacional which added 0.9% and Marisa Lojas which added 0.7% to our US dollar NAV respectively[2]. However, Lopes and CVC were subject to corrections after strong fourth quarter performance. In Lopes' case, we believe that this was driven by profit taking after the stock increased by 130% in US dollars in 4Q18. Lopes is off to a flying start in 3Q. In CVC's case profit-taking may again have contributed - CVC appreciated 48% in US dollars in 4Q18 – but the stock wasn't helped by the bankruptcy of Brazil's fourth largest airline. CVC is Brazil's leading travel agent and the market feared disruption in the short term. We agree but feel that the medium and long term outlook remains highly attractive.

The Peruvian contribution was driven by InRetail, which appreciated by 39% in US dollars in 1H19, adding 2.0% to our NAV over the half and 0.6% in 2Q19[2]. This business, which includes the leading pharmacy retailer in Peru, is executing flawlessly as Peru's domestic economy picks up, and profits are growing fast.

We materially increased our positions in Grupo Fianciero Galicia and Bolsas Y Mercados Argentinos (BYMA) at notably cheap valuations during in the first half of the year. BYMA depreciated by 12% in US dollars over 1H19 which detracted 0.4% from our NAV, but the damage was done in 1Q. In 2Q19 the stock added 0.9%. Our holding in Galicia did well in both periods, rising by 30% in US dollars in 1H and adding 1.2% to the NAV[2]. These purchases were partly funded by the sale of a third Argentine stock, Grupo Superveille, as we took advantage of the 1Q selloff in Argentina to concentrate our positions in the names we like the most. **We think our Argentine positions have substantial potential upside remaining**.

It's worth noting that the market in Latin America generally and Brazil in particular continued to be led by state owned companies and global cyclicals in 1H19. These are not sectors that we ever invest in. For example, the two share classes of Petrobras appreciated by 20% (common share class) and 23% (preferred share class) in US dollars, roughly double the return of the market in Brazil. State-owned utilities performed even more strongly on privatisation speculation. The two share classes of Copel returned 61% (common share class) and 62% (preferred share class) in US dollars, while the two share classes of Electrobras returned 51% (common share class) and 34% (preferred share class) in US dollars and Sabesp (common share class) returned 55%. We could go on, but it's clear that these kinds of stocks, which make up a material portion of the market, have been a significant driver of index performance. **Not owning them has held our NAV back a little in the short term but we think that over the medium and long term, the high quality domestic growth stocks that we own are likely to perform better than cyclical commodity companies and state owned firms with dubious governance**. Our stocks will also be significant indirect beneficiaries of privatisations, which we expect to drive productivity and disinflationary growth. **We feel that the domestic economies of Brazil and Argentina in particular are close to positive inflection points, and when their economies start to accelerate domestic growth stocks will start to perform strongly. We've already seen this in Peru**, where the economic acceleration is happening and domestic stocks are outperforming. Our Peruvian holdings appreciated by 16% in US dollars in 1H19 compared to a Peruvian market return of 3%[2].

[2] Source: Factset®. Figures are gross of fees and taxes. Data as of 30th June 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. Numbers may not total due to rounding.

PERFORMANCE CONTRIBUTION

Largest Contributors Q2 2019		
STOCK NAME	**COUNTRY**	**CONTRIBUTION TO RETURN (%)**
Grupo Financiero Galicia SA Sponsored ADR Class B	Argentina	1.3
B3 SA - Brasil, Bolsa, Balcao	Brazil	1.2
Bolsas y Mercados Argentinos SA	Argentina	0.9
Iguatemi Empresa de Shopping Centers S.A	Brazil	0.9
InRetail Peru Corp.	Peru	0.6

Largest Detractors Q2 2019		
STOCK NAME	**COUNTRY**	**CONTRIBUTION TO RETURN (%)**
Grupo Nutresa S.A.	Colombia	-0.3
S.A.C.I Falabella	Chile	-0.3
CVC Brasil Operadora e Agencia de Viagens SA	Brazil	-0.2
Randon SA Implementos e Participacoes Pfd	Brazil	-0.2
Grupo de Inversiones Suramericana S.A.	Colombia	-0.2

Source: Factset®. Figures are gross of fees and taxes. Data as of 30th June 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.

FX Contribution to Return	Q2 2019
TOTAL	**1.5**
Argentinian peso	0.4
Brazilian real	1.4
Chilean peso	-0.0
Colombian peso	-0.2
Mexican peso	0.0
Peruvian sol	0.0
Cash	0.0

Source: Factset®. Figures are gross of fees and taxes. Data as of 30th June 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.

THE IMPORTANCE OF RETURN ON EQUITY

A couple of years ago we started reporting the weighted average return on equity (ROE) of the portfolio, as downloaded from Bloomberg. However the more we used this data the less convincing we found it, so we decided to build our own database. This piece explains why we think ROE is important, how we calculate it, and how we think about the output.

Return on equity (ROE) compares the profit a company makes with the amount of shareholder capital invested in the company. **We believe ROE is one of the key drivers of stock returns over time. In fact, we believe it is far more important than other factors investors usually pay more attention to, such as GDP growth.** Companies in fast growing economies may be able to get big fast, but if they don't have a high ROE they'll have to issue shares to fund their growth, so earnings per share may not grow and shareholders may not benefit. **However a company with a sustainably high ROE can reinvest profits to fund its own growth. This drives earnings per share.**

The Holy Grail is the combination of a high ROE with a long runway for rapid growth. That's why we focus on underpenetrated industries which should be able to grow faster than the broader economy for a long time to come. A high ROE company in an underpenetrated industry has the potential to generate very attractive long term shareholder returns.

Calculating ROE is simple: net income divided by shareholder's equity. However in some cases we think adjusted numbers better reflect the underlying economics. By far the most significant adjustment we make is to remove acquisition-related intangibles from equity. A purist might say that we should include these items to measure how well managements allocate capital. They're right, and we do – when we are assessing management. But different numbers show different things. **By excluding acquisition-related intangibles we believe we get a better measure of:**

1) **The competitive moats surrounding the business**. A high return on what a competitor would have to spend to replicate the business from scratch (rather than the return on what our company paid to buy the asset) suggests strong barriers to entry.

2) **The ability of the business to self-fund organic growth.** We believe the vast majority of our portfolio's growth will be organic, and much of the acquisition related intangibles on our companies' balance sheets relates to legacy acquisitions that won't be repeated.

For example, Bovespa (the Brazilian stock exchange) bought the derivatives exchange and the fixed income custodian to become B3, a top 5 holding. In reality these were mergers structured as an acquisition to create tax savings. These 'acquisitions' left large intangibles sitting on the balance sheet, but unless B3 ventures outside of Brazil there's nothing left to buy. Instead, we think future growth will be driven by the development of Brazil's financial markets, and we don't believe B3 will have to spend much to capture that growth.

We make a limited number of less significant adjustments. Please contact us if you would like a full explanation of these. It is worth noting that we generally don't adjust net income.

Including these adjustments the weighted average ROE of the portfolio is 26%[3]. This includes the impact of the 6.7% of the portfolio that is invested in "growth cyclicals". These stocks, which we have discussed extensively before, currently generate low ROEs or are lossmaking, but have strong earnings potential as the Latin economy recovers. **Excluding these growth cyclicals the weighted average ROE of our "core" portfolio is 33%[3].** We think our portfolio companies possess, on average, high barriers to entry and a very attractive ability to fund their own growth for a long time.

Incidentally, since ROE can be affected by leverage we also look at return on invested capital (ROIC) when analysing individual businesses. However ROIC isn't a relevant measure for banks so for the purposes of reporting aggregate statistics we focus on ROE, which is relevant for all companies. **To complete the picture we also report net debt, which currently stands at a weighted average of 1.2x 2019 EBITDA for our non-financial holdings[4].**

COMPARING LATIN AMERICA TO ASIA

We get a lot of questions on how Latin America compares with the rest of Emerigng Markets (EM), and particularly Asia.

Asia seems to have a much better brand image than Latin America. Much of Asia has high GDP growth rates and some high profile countries are progressing at a breath-taking rate. The idea that there are fortunes to be made in Asia doesn't seem to need much selling. Latin America doesn't get the same press – you're more likely to read about Venezuela lurching from crisis to crisis than you are Chile going from strength to strength, or the potential of Brazil's reform programme.

[3] Source: Brown Advisory and broker estimates. Data as of 30th June 2019. The unadjusted ROE is 11%. Please see the end of this letter for methodology, exclusions and important disclosures.
[4] Source: Brown Advisory and broker estimates. Data as of 30th June 2019. Please see the end of this letter for methodology, exclusions and important disclosures.

Oddly, though, the power of the brand doesn't seem to be correlated with long term index returns. The table below shows the returns from 1990 to the second quarter of 2019. This shows clearly that Latin America is an outperformer within emerging markets.

Index	Total Return	Annual Return	2019 P/E	EV/EBITDA	Dividend Yield
MSCI Emerging Markets Latin American Index	**2390%**	**11.9%**	**13.5x**	**7.5**	**3.1**
S&P 500 Index	1503%	10.2%	18.1x	12.4	1.9
MSCI Emerging Markets Index	966%	8.7%	13.0x	9.0	3.0
MSCI India	733%	8.3%	18.5x	10.0	1.7
MSCI China	48%	1.5%	12.1x	10.6	2.4

Source: Bloomberg. Date range is from 31/12/1990 to 30/06/2019 apart from India and China which is from 31/12/1992.

We think at least part of Latin America's long term outperformance vs. broader EM is due to the combination of high ROEs and long growth runways that many of its stocks offer. Many Asian companies don't have much of a positive spread between their ROE and their cost of equity and therefore GDP growth doesn't always translate into shareholder returns. China, for example, produced extremely fast GDP growth from 1992-2019 but the MSCI China index only returned 1.5% pa in US dollars as low ROE companies issued vast amounts of equity to grow. Latin American companies seem better able to turn slower GDP growth into fast earnings per share growth, and this has helped the Latin American index achieve 11.9% pa since 1990. We feel that in terms of franchise quality and shareholder returns, Latin American companies are to the rest of emerging markets what US companies often are to the rest of the developed world. **In short, we think it makes just as much sense to hunt for great companies in Latin America as it does to do it in Asia and we focus our fund on companies that we think have the magic combination of high ROEs and long growth runways.**

Hunting in Latin America should be particularly fruitful today. **The long-term outperformance shown above is particularly extraordinary when you consider that Latin America has underperformed most major equity markets, including all of the ones in the table, since 2010.** The majority of this underperformance was driven by the currencies, which peaked at 2 standard deviations above their 20-year average (against the USD, inflation-adjusted). Today currencies are nearly 1 standard deviation below their 20-year average[5]. In addition, as the table above also shows, equity valuations look similar when compared to most Emerging Market (EM) peers (and very cheap compared to India and the US). We think that this resets the opportunity for Latin America to outperform again over the coming decade.

The combination of cheap currencies and attractive multiples come at an attractive point in the cycle. Latin GDP growth slowed from 6.1% in 2010 to 2.0% in 2018, but it is now running at 2.5% (2019e)[6] and is accelerating. Economic slowdowns are not good for corporate profits, especially if companies are fat and leveraged after years of easy success. Economic accelerations, on the other hand, can be very good for corporate profits, especially if companies have cut fat in the tough times. We make no predictions about where Asia is in its cycle, but we believe the economic environment in Latin America is entering what promises to be a good 4-5 year economic upturn.

We also like Latin America's ongoing reform programme. It's not happening everywhere (Venezuela) and occasionally backwards steps are taken (Mexico), but by and large economic policy and government institutions are improving in the countries we invest in. **In our opinion Bolsonaro's reform programme in Brazil is at least the equal of Modi's in India, but it seems to get a lot less attention, despite the fact that Brazil's economy is the same size as India's. One very positive impact of the reforms and economic growth in Latin America over the last few decades is that the middle class has roughly doubled (as a percentage of the population), and we believe it has space to double again.** Not only will that generate demand for the kinds of things our companies sell, but it will continue to stabilise Latin American politics.

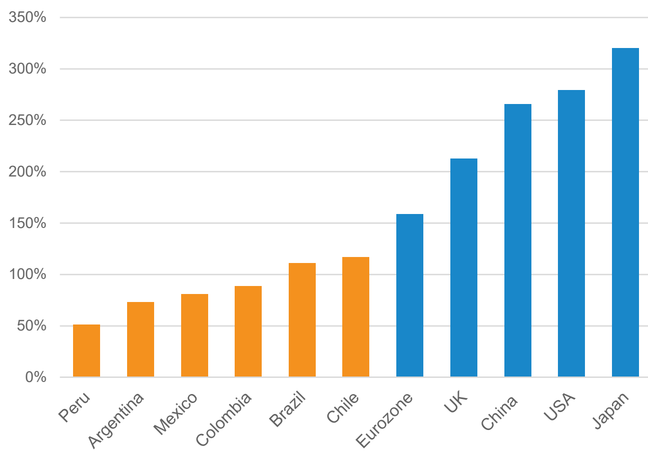
Another point is that it's hard to argue that Asia has suffered from capital scarcity for the last couple of decades. It may even have suffered excess capital and capital misallocation. **We think Latin America is in the middle of a multi-decade shift from capital scarcity to capital availability.** In the 1980s and early 1990s, hyperinflation eviscerated Latin America's capital markets. In the late 1990's and 2000's, real interest rates had to be high to bring inflation under control. As a result, good structural reforms such as making central banks independent and getting fiscal deficits under control were implemented - but the immediate impact was often uncomfortable. **Company managers learned to be exceptional stewards of existing capital, because they couldn't be sure**

[5] Source: Bloomberg. Data from 30/06/1999 to 30/06/2019.
[6] Source: World Economic Outlook Database, April 2017, International Monetary Fund.

of access to new capital. Today inflation and interest rates are low and confidence is rising that the structural reforms will stick. As a result yield curves are being built out and capital markets are deepening. **This transforms how companies and individuals can finance themselves and think about investing and spending, and we think it will generate a growing domestic bid in Latin equity markets as lower real interest rates encourage higher allocations to equities.** Chile, which has been at the forefront of economic reform for nearly 40 years, has already seen this happen and domestic buyers are the dominant buyer in Chile today. We think the same is coming elsewhere, especially in Brazil.

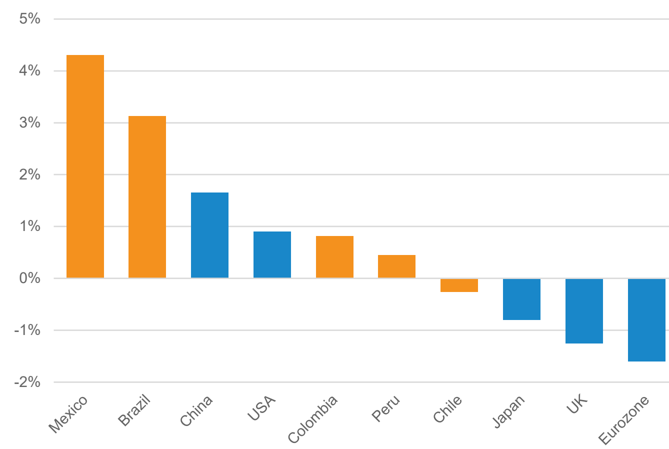
You can see part of this capital story reflected in debt statistics. Latin America generally has not accumulated huge debts. This is partly because capital has not been available and partly because the Chilean model, which is increasingly being adopted across Latin America, relies on the private sector to allocate capital and allows it to earn a return. We think this reduces risk.

Low total (public + private) Debt/GDP



Source: Bloomberg. Data as of 31st December 2017 and is the most recent data available.

...and positive real interest rates



Source: Bloomberg. Data as of 30th June 2019.

The final point we'd make is about index weights. China has gone from 1% of the MSCI Emerging Markets index in 1998 to 33% today, and according to the *Financial Times*[7] in time it will be 'about 45 per cent of the MSCI Emerging Markets Index'. That's not because its stock market has done well – it hasn't – but because more and more shares have been issued and more and more share classes have been included in the indices. By contrast, Latin America accounts for 6% of world GDP and 2.5% of world market cap, but only 1.5% of world index weight. As investors look to diversify EM risk away from China, and as the Latin American domestic bid grows, we think these figures will slowly converge, and not at the lower end.

THE ANDEAN BLOC - CHILE, PERU AND COLOMBIA

We have 30.1% of our NAV invested in the Andean Bloc. Of this 16.1% is in Peru, 9.7% is in Colombia, and 4.3% is in Chile.

Peru is leading the way in the Latin economic recovery and we expect GDP to grow 3-4% this year. Inflation is well controlled and the next move in rates is likely down. This is a good environment for our companies, which are producing healthy results. The government is also making progress with some political reforms to reduce corruption. We think this is symptomatic of a theme we've discussed before, which is that the growing middle class is increasingly demanding better governance. Peru offers outstanding companies and favourable macro and we have generally been adding to our positions this year.

Chile is growing but the pace of the recovery has disappointed so far, especially in retail sales, which have felt the impact of Venezuelan migrants competing for jobs and depressing salary growth. We have slightly increased our weight in a Chilean retailer that could generate marked operating leverage when salaries start to rise, and that may have hidden value in several internal start-ups.

[7] Source: Financial Times Ltd.©. *Chinese shares to transform emerging market investing*, By Emma Dunkley and James Kynge, *The Big Read, FT.COM*, 31 May 2018.

Colombia's economy is clearly off the bottom and we think it will continue to accelerate, driven by pent-up demand, low interest rates, and the 4G roadbuilding programme which we have been writing about for years and which is now finally happening. At the margin we have reduced our Colombian weight to fund attractive bottom-up opportunities elsewhere, but we feel the companies we own in Colombia are high quality assets that are clearly under-earning yet still trading on attractive near-term multiples.

ARGENTINA

We have 13.6% of our NAV invested in Argentina.

Argentina's economy reached a bottom between November 2018 and March 2019. Since April 2019, it has clearly returned to sequential growth. Fiscal accounts have also improved greatly and Argentina's external sector has adjusted materially. Inflation peaked in March at 4.7% per month and by June it had decelerated to 2.7%. We believe that inflation from June 2019 to June 2020 is likely to be half of what it was over the preceding twelve months. This is likely to enable a material decline in interest rates from 62.5% at the end of Q2. Salaries were recently adjusted to take into account last year's inflation and this, combined with falling current inflation, should drive real salary to growth of approximately 10% in 2H19. The 2019 harvest is almost complete and it looks like a record one, which should also drive economic growth and support the currency. Finally, a crop of highly visible infrastructure projects are starting to be completed. **All of this is good for stocks and represents a boost for the current government as we head into the election**.

We believe that the improvement in economic conditions will help a pro-market government – either the incumbent coalition or the more sensible wing of the Peronist party - to be elected in the upcoming presidential elections in October/November 2019. The current President, Mauricio Macri, recently announced that a senior and well-connected Peronist, Miguel Ángel Pichetto, will stand as his Vice-Presidential candidate. Pichetto should help broaden Macri's appeal amongst floating voters and may prove to be Macri's trump card. Pichetto is also head of the senate, so the combination may improve governability after the election.

We've long held the view that Christina Kirchner wouldn't be a competitive candidate in this election and in 2Q19 she announced that she would not stand. Instead she will run as the Vice Presidential candidate of the much more moderate Alberto Fernandez. He is able and has a good relationship going with the private sector, and he is a forceful individual not a puppet. In fact, he resigned as Christina's Chief of Staff early in her Presidency and was a very vocal critic of her government for 8 years thereafter. As a result local YouTubers have had fun putting together clips of Christina and Alberto hurling abuse at each other! Another senior centre-left Peronist, Sergio Massa, has joined this coalition. He also has a good relationship with the private sector and **while this team is not the market's choice, we think the tail risk of a really bad government has been reduced substantially. The market seems to agree with us and stocks have rallied materially**.

Whoever wins the election should inherit a balanced primary fiscal account, a healthy external sector supported by a cheap currency, and an economy at the start of a major cyclical recovery underwritten by falling inflation and interest rates. **The Argentine stock market remains very attractively valued with most of our holdings trading on 6-7x forward earnings, and the currency is trading at nearly two standard deviations below its twenty-year average** (inflation-adjusted against the dollar). To complete the set-up, Argentina entered the MSCI Emerging Markets index at the end of June 2019.

We added to BYMA in 1H19, which is the monopoly financial assets custodian and stock exchange, at around 6x forward earnings. Financial markets are deeply underpenetrated in Argentina so BYMA is growing structurally from a low base. It more than doubled its net income in real terms last year. It also generates a lot of free cash and has net cash on its balance sheet. We now have about 5% of our NAV in BYMA and we expect the stock to be a major source of alpha over the long term.

We also added to several other holdings including Loma Negra which is Argentina's leading cement producer. We are very impressed by the company's competitive advantages and in particular its ability to increase prices in local currency during the crisis: its US dollar EBITDA per ton has already returned to pre-crisis levels. A new plant next year should significantly lower average costs, increase Loma Negra's margins, and deepen its competitive advantages.

We also started a small position in Despegar, a leading on-line travel agency in the region. We believe Despegar will experience strong operating leverage as the Argentine economy recovers.

Over the first half of 2019, our Argentina positions increased our NAV by approximately 0.2% in US dollar terms. The Q1 was weak whilst our positions rebounded strongly in Q2. **We believe that the risk/return is very favourable over a 2-3 year view – in fact, if there was no election risk we would probably have closer to 25% of our NAV in Argentina at current valuations**. Rupert visited Argentina in 4Q18 and 2Q19. Pete will visit in 3Q19 and Rupert plans to visit again in 4Q19.

MEXICO

We have less than 1% of our NAV invested in Mexico.

We both visited Mexico in 2Q19 to kick the tyres with an open mind. Sadly, after a series of high-level meetings, we came home feeling our caution remains warranted. The new President, known as AMLO, continues to interfere with the private sector and to undermine Mexico's institutions. He's also made changes to the police force, resulting in a significant pick up in violent crime in areas where it wasn't bad before. In addition, Mexico's trading relationship with the US has become more complex again. AMLO's popularity remains high – probably something to do with his plan to raise the minimum wage by 15% every year for six years – but companies are cutting capex and we don't expect Mexico's economy to grow much unless things change. Indeed, Q1 GDP contracted sequentially. We don't think valuations reflect this outlook yet. For example, the best quality consumer growth stocks still trade on 20-25x forward earnings. We are not sure what, if anything, will be the catalyst for a correction but Pemex is one candidate. Pemex is the state-owned oil company, and its claim to fame is that it has more debt than any other oil company in the world without the production to support it. Unless AMLO changes his spots and encourages private sector investment, Pemex looks like it must default or receive a major injection of cash which could damage the sovereign balance sheet. Either event could spook markets, and the resignation of Mexico's fiscally conservative finance minister on July 9th may have been related to this issue.

We believe that the political risk is higher in Mexico than in Argentina - but equity valuations are two to three times higher in Mexico.

BRAZIL

We have 53.8% of our NAV invested in Brazil.

The Brazilian economy appears poised to enter a multi-year economic acceleration. **There is clear pent up demand after a five-year downturn. Jobs are being created and wages are growing a little ahead of inflation. Inflation is well anchored at around 4%. Interest rates are at an all-time low of 6.5% and look more likely to fall than rise**. This promises to be Brazil's first ever multi-year period with interest rates in the single digits, which could be transformative for confidence. Private sector banks are healthy and keen to lend. Households de-levered during the downturn and are in good shape. The currency is attractively valued and the external sector is robust.

The final necessary ingredient is sorting out Brazil's chronic fiscal deficit. The new government is trying to do this with a pension reform. So far this is going a little better than we had expected, with the Lower House voting in favour on July 11th. There will be a 2nd vote in the Lower House before the reform goes to the Senate. **We believe a pension reform will pass toward the end of 2019**, and that each stage will be a catalyst for both the markets and local confidence.

Pension reform should just be the beginning. **Brazil's government also plans a major tax reform, full independence for the central bank, and a significant privatisation program**. They also want to reduce import tariffs and open Brazil up to the global economy. The first step towards this was taken in the recently announced free trade deal with the EU. **All these reforms should be disinflationary and taken together they could herald a prolonged period of growth**.

We added a new holding in 1H19. Fleury is the clear leader in the premium segment of the clinical analysis and imaging industry. It has 185 patient service centres and conducts various diagnostic tests such as blood tests and ultrasound exams. We believe that the demand for these services will grow as Brazil's population starts to age and its middle class continues to expand. In addition their clinics are busy in the mornings and at lunchtime but tend to be quiet in the afternoon and evenings. Fleury is starting to offer general medical services in their quiet periods, and this should drive incremental growth. Fleury has compounded its revenue at a 15% CAGR since 2010[8]. We expect to see around 10% organic growth going forward and potentially some accretive acquisitions as Fleury enters new geographies in Brazil.

Fleury invests heavily in R&D and has an excellent reputation amongst physicians in Brazil. This enables them to remain at the cutting edge of new medical technologies. For instance they are the Brazilian leader in genomics which we believe is a promising new field. Fleury also has economies of scale and a strong brand name which together, we think, represent an enduring competitive moat.

Fleury is highly profitable. In 2018 it generated an EBITDA margin of 26% and a ROIC (ex-goodwill) of 45%[8]. C-level management are appraised on a combination of growth, margin, ROIC, and net promoter score which is a matrix we really like. We invested in the stock at approximately 15x forward earnings which we believe is an attractive level. In addition, Fleury pays out 90% of net income giving a dividend yield of 4-5% and growing[8].

Pete and Rupert between them have spent a month in Brazil in 1H19. Pete will be in Brazil in 3Q19 and Rupert in 4Q19. Overall they will spend over eight weeks in Brazil alone in 2019.

CONCLUSION

We have 53.8% invested in high quality Brazilian growth companies. We believe these are attractively valued at the beginning of what promises to be a substantial and long lasting economic acceleration. Brazil has one last big macro problem to fix which is its fiscal deficit. We believe that the social security reform will fix this problem and its passage is likely to act as a starting gun for this acceleration. The reform is progressing through Congress and we believe that this will be successfully concluded before year end. After that happens, we believe that macro will become more benign and less important in Brazil over the next 3-4 years which should be an ideal environment for our stock picking strategy to do well and outperform.

30.1% of our NAV is invested in the Andean Bloc, where an economic recovery has clearly started.

We have 13.6% invested in Argentina. The Argentine market looks very attractively valued to us here and we think it offers tremendous bottom-up opportunities which are further reinforced by a cheaply valued currency. The Argentine economy has entered a classic cyclical recovery. We need to see a good election result in 4Q19's presidential election to unleash the full potential of this market which we believe will happen. The market rallied sharply in 2Q19 on the back of a clear improvement in the incumbent government's chances and the movement of the previously left wing opposition to a more moderate platform headed by much more credible individuals. It's reassuring to see some confirmation of our views in market sentiment and performance.

We believe we own a portfolio of high-quality businesses with long growth runways and ample ability to fund their own growth. We believe this combination gives our holdings the ability to provide strong compounded returns over the long run. And today, we own these businesses on attractive valuations, in currencies that are below their long run inflation-adjusted average vs the US dollar, at a very promising time in the local economic cycle.

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

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[8] Source: GrupoFleury, Corporate Presentation, May 2019.

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	8.10%
Cumulative performance since inception	62.57%

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 30th June 2019.

Sector Breakdown		
SECTOR	**FUND WEIGHT %**	**QTD % CHANGE**
Banks	20.2	-0.4
Consumer Staples	19.9	-1.2
Consumer Discretionary	16.3	1.4
Financial Exchanges	11.9	1.4
Shopping Malls	5.4	0.8
Private Education	5.1	1.0
Other Financials	3.7	-0.8
Building Materials & Cement	3.7	0.8
Health Care	3.2	3.2
Transportation	2.9	-1.0
Utilities	2.2	0.1
Real Estate Brokers	1.9	-0.2
Technology-Services & Software	1.7	-1.6
Industrials	--	-4.0
Cash	1.9	0.6

Source: Factset®. Data as at 30th June 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 Q2 2019		
SECURITY	**COUNTRY**	**FUND WEIGHT (%)**
Itau Unibanco Holding S.A. Sponsored ADR Pfd	Brazil	7.5
InRetail Peru Corp.	Peru	6.0
Grupo Nutresa S.A.	Colombia	6.0
B3 SA - Brasil, Bolsa, Balcao	Brazil	5.6
Bolsas y Mercados Argentinos SA	Argentina	5.1
Credicorp Ltd.	Peru	4.4
Alicorp SA	Peru	4.4
Iguatemi Empresa de Shopping Centers S.A	Brazil	4.1
Grupo Financiero Galicia SA Sponsored ADR Class B	Argentina	3.9
Ambev SA Sponsored ADR	Brazil	3.8

Source: Factset®. Data as at 30th June 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 YTD 2019	
STOCK NAME	**COUNTRY**
Banco Bradesco S.A. Sponsored ADR Pfd	Brazil
Fleury SA	Brazil
Itau Unibanco Holding S.A. Sponsored ADR Pfd	Brazil
Bolsas y Mercados Argentinos SA	Argentina
EcoRodovias Infraestrutura e Logistica S.A.	Brazil

Largest Sales YTD 2019	
STOCK NAME	**COUNTRY**
Grupo Financiero Banorte SAB de CV Class O	Mexico
Wilson Sons Ltd ShsCert Deposito Bras Repr 1 Sh	Brazil
Marcopolo SA Pfd	Brazil
Sonda S.A.	Chile
Randon SA Implementos e Participacoes Pfd	Brazil

Source: Factset®. Data as at 30th June 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.

Methodology, Terms & Definitions

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

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:

Unadjusted 2020 PE: 14.6%.

Adjusted 2020 PE: 13.8% .

The total 2020 PE is a weighted harmonic average for all holdings with a positive PE ratio. PE ratios are sourced from Factset or Broker Estimates selected by the portfolio managers. The PE calculation for Grupo Nutresa S.A., a 6% holding in the portfolio as of 30/06/19, is adjusted to exclude Nutresa's two listed holdings which are not consolidated on the P&L statement. The PE calculation for Iguatemi Empresa de Shopping Centers S.A, a 4.1% holding in the portfolio as of 30/06/19, is adjusted to use funds from the operations instead of earnings.

ROE Methodolgy:

Unadjusted ROE: 11%.

Adjusted ROE: 26% .

We show Return on Equity (ROE) excluding goodwill and other acquisition-related intangibles as a measure of the barriers to entry our businesses possess and of their ability to internally fund organic growth. We believe the substantial majority of future growth will be organic. Most of the goodwill at these companies relates to one-off acquisitions that are unlikely to be repeated in the future.

EPS CAGR Methodology:

Unadjusted EPS CAGR: 12%

Adjusted EPS CAGR: 12%

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 06.30.2019. Where stocks do not have data to 2006 the CAGR has been calculated using the earliest data available. Two companies totalling 1.9% of the portfolio as of 06.30.2019 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.

All financial statistics and ratios are calculated using information from Factset as of the report date unless otherwise noted. FactSet® is a registered trademark of FactSet Research Systems, Inc.

An investor cannot invest directly into an index.

The MSCI AC Asia ex Japan Index captures large and mid cap representation across 2 of 3 Developed Markets countries (excluding Japan) and 9 Emerging Markets countries in Asia. With 955 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets countries. With 1,136 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Emerging Markets Latin America Index captures large and mid cap representation across 5 Emerging Markets countries in Latin America. With 107 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market. With 78 constituents, the index covers approximately 85% of the Indian equity universe.

The MSCI China Index captures large and mid cap representation across China H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 491 constituents, the index covers about 85% of this China equity universe. Currently, the index also includes Large Cap A shares represented at 10% of their free float adjusted market capitalization.

The S&P 500 Index is a capitalization-weighted index of 500 stocks that is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Market Capitalization refers to the aggregate value of a company's publicly traded stock. Statistics are calculated as follows: Weighted Average: the average of each holding's market cap, weighted by its relative position size in the portfolio (in such a weighting scheme, larger positions have a greater influence on the calculation); Weighted Median: the value at which half the portfolio's market capitalization weight falls above and half falls below; Maximum and Minimum: the market caps of the largest and smallest companies, respectively, in the portfolio.

Net Debt to EBITDA Ratio is a measurement of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. The net debt to EBITDA ratio is a debt ratio that shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant. If a company has more cash than debt, the ratio can be negative

FX Return is the actual rate of return of a currency over a given period of time

Local Currency and Local Currency Return refer to the currency in which a security is denominated and its rate of return over a given period of time; e.g. a Colombian equity is denominated locally in Colombian Pesos.

Contribution to Return is a security's impact on the actual rate of return for a pool of investments over a given time period. All of the above ratios for a portfolio are expressed as a weighted average of the relevant ratios of each portfolio holding, EXCEPT for P/E ratios, which are expressed as a weighted harmonic average.

Disclosures

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

The views expressed are those of the author and Brown Advisory as of the date referenced and are subject to change at any time based on market or other conditions. These views are not intended to be and should not be relied upon as investment advice and are not intended to be a forecast of future events or a guarantee of future results. 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. The information contained herein has been prepared from sources believed reliable but is not guaranteed by us as to its timeliness or accuracy, and is not a complete summary or statement of all available data. This piece is intended solely for our clients and prospective clients, is for informational purposes only, and is not individually tailored for or directed to any particular client or prospective client.

Performance data relates to 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. The performance is net of management fees and operating expenses. This communication is intended only for investment professionals and those with professional experience of investing in collective investment schemes. Those without such professional experience should not rely on it. Changes in exchange rates may have an adverse effect on the value price or income of the product. The difference at any one time between the sale and repurchase price of units in the UCITS means that the investment should be viewed as medium to long term. This factsheet is issued by Brown Advisory Ltd, authorised and regulated by the Financial Conduct Authority. This is not an invitation to subscribe and is by way of information only. Cancellation rights do not apply and UK regulatory complaints and compensation arrangements may not apply. This is not intended as investment advice. Investment decisions should not be made on the basis of this factsheet. You should read the Fund's prospectus in full to understand the features and risks associated with this Fund. The Fund's prospectus and Key Investor Information Document are available by calling 020 3301 8130 or visiting the Brown Advisory website. The Brown Advisory Latin American Fund is a sub-fund of Brown Advisory Funds plc, an umbrella fund with segregated liability between sub-funds. The Fund is authorised in Ireland as a UCITS pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities Regulations, 2011 as may be amended, supplemented or consolidated from time to time) and a recognised collective investment scheme for the purposes of section 264 of the Financial Services and Markets Act 2000. The Fund is managed by Brown Advisory LLC. Brown Advisory is the marketing name for Brown Advisory LLC, Brown Investment Advisory & Trust Company, Brown Advisory Securities LLC, Brown Advisory Ltd., Brown Advisory Trust Company of Delaware LLC and Brown Advisory Investment Solutions Group, LLC. **www.brownadvisory.com**.