INSIDER'S GUIDE *to Investing in* LATIN AMERICA

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OTG ASSET MANAGEMENT

Insider's Guide to Investing in Latin America

Long slighted by investors in developed markets, Latin America is increasingly surfacing—at least on the fringes—on their radars.

The interest is fueled by global realities—the region is rich in high-demand raw materials—and fundamentals—its leading stocks trade at modest valuations, especially relative to assets in developed markets.

Plus, Central and South American stocks occupy a small slice of both the MSCI Emerging Markets Index and the MSCI Frontier Emerging Markets Index—a key datapoint for those looking for true diversification.

But while savvy investors have started to explore opportunities in the region, they must understand it's not a monolith. It's a dynamic collection of nations, each complex in its own way. And without deep knowledge, the risks can compound quickly.

To help on that front, this report offers a solid starting point for investors, drawing upon our decades of exposure to and experience in Latin America.

The Wide-Angle View

According to S&P Global Market Intelligence[1], Latin America, which encompasses Central and South America but not the Caribbean nations, is currently "attracting significant and diverse foreign investment, particularly in the critical minerals, renewables, and manufacturing sectors."

Let's dig into the landscape supporting those inflows.

The region's population totals about 657 million, according to the United Nations, up from just over 600 million 10 years ago and projected to grow to 680 million over the next five years.

Five nations—Brazil, Mexico, Colombia, Chile, and Peru—account for nearly 70% of the population.

Latin America is youthful as more than 53% of the population is age 34 or younger—only Africa has a younger population among larger geographic regions. And while the region made gains in improving the education of its young people, due in part to UNESCO's 2030 Education Agenda that started in 2015, its leaders had to retrench following setbacks related to the COVID-19 pandemic.

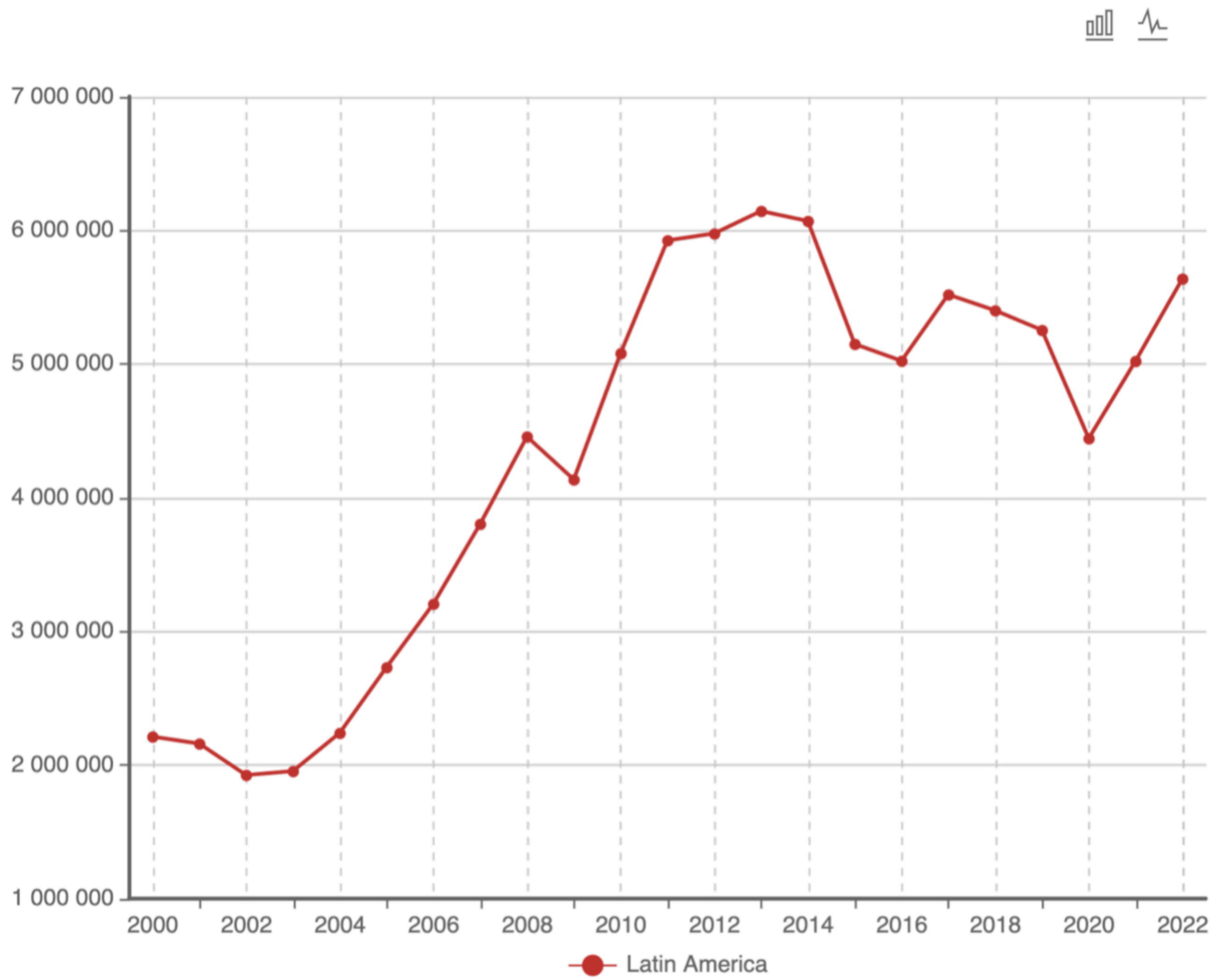
Economically, Latin America had a cumulative GDP of more than US$5.6 trillion in 2022, according to the United Nations. That was its highest level since 2014, and represented a full recovery from the sharp downturn in 2020.

[1] S&P Global Market Intelligence, "Latin America: Key themes to watch in 2024," January 9, 2024, https://www.spglobal.com/marketintelligence/en/mi/research-analysis/latin-america-key-themes-to-watch-in-2024.html

Economic / GDP and national accounts / Annual / Dollars

Total Annual Gross Domestic Product (GDP) at current prices in dolllars

(Millions of dollars)

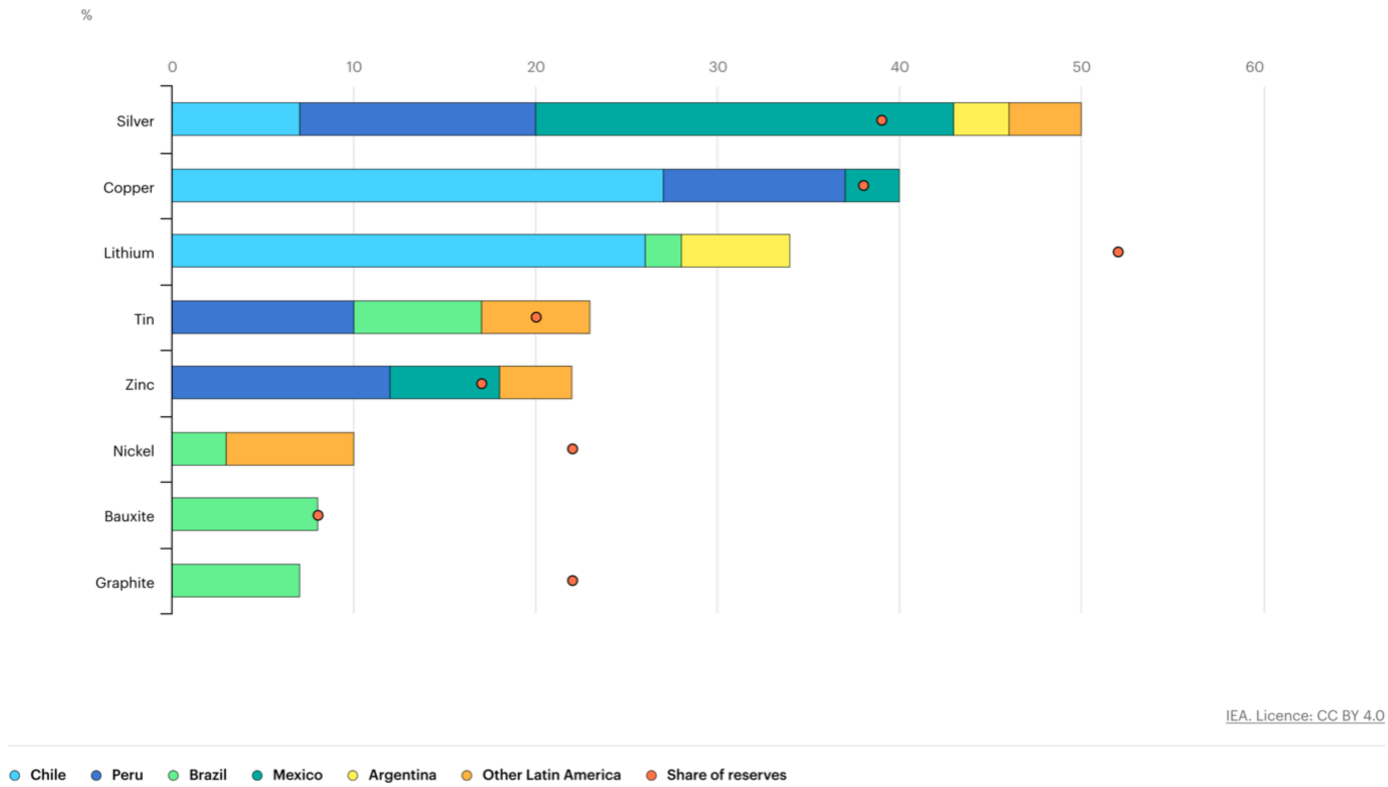


Source: CEPALSTAT – ECLAC – UNITED NATIONS
https://statistics.cepal.org/portal/cepalstat/dashboard.html?indicator_id=1&area_id=1&lang=en

Collectively, Brazil, Mexico, Colombia, Chile, and Peru account for three-quarters of the region's GDP.

The economies of South and Central America remain intrinsically tied to the global commodity markets, as the region produces 50% of the world's silver, 40% of its copper, 34% of its lithium, and more than 20% of its tin and zinc, according to the International Energy Agency. Plus, it produces 13% of the world's agricultural and fish commodities, according to the Organization for Economic Co-operation and Development (OECD).

Latin America's share in the production and reserves of selected minerals, 2021



Source: International Energy Agency,
https://www.iea.org/commentaries/latin-america-s-opportunity-in-critical-minerals-for-the-clean-energy-transition

Oil is following a less certain path as the region's share of global production dipped to 9%, according to Columbia University's Center on Global Energy Policy. And yet, Brazil's offshore resources have helped propel that country to No. 8 among the world's leading producers.

Meanwhile, Latin America's interconnectivity with the rest of the world surged between 2012–22 as the internet penetration rate jumped to 78% from 43% and exceeded China's 74%, according to Atlantico. At the country level, Chile was the most connected at 90%, followed by Brazil at 84%.

About two-thirds of the Latin America population is expected to be online via mobile access in 2025, according to industry group GSMA, and 83% of those connections are projected to be made through smartphones.

Applying an Investors' Lens

There are 20 countries between the southern border of the U.S. and the tip of Argentina. The bulk of the region's equity investment focuses on five:

- Brazil
- Mexico
- Colombia
- Chile
- Peru

While opportunities do surface on occasion in the other nations such as Argentina and Panama, since they're smaller and have varying levels of sophistication in their financial markets, viable stock offerings tend to be rarer. Separately, fixed income investments exist across the region.

For U.S.-based investors, the easiest way to invest in Central and South America is through American Depositary Receipts (ADRs), which represent a U.S.-based investment in a foreign stock—sometimes equivalent to a share or more or a fraction of a share. ADRs tend to be issued for multinational large capitalization companies such as Brazil-based brewer Ambev SA and Mexico-based cement maker Cemex.

There are roughly 113 ADRs presently offered in the U.S. market for Latin American companies. That is a fraction of the nearly 550 companies publicly traded in the five leading equity markets in the region.

Alternatively, investors based in Central and South America may access all of the region's stock markets, although about 30% of the publicly traded securities present pricing challenges due to limited liquidity.

Nonetheless, broader access beyond ADRs provides greater inter-region diversification across countries, sectors, and currencies.

Getting Political

To those outside of Central and South America, the region's politics can seem volatile with governments prone to dramatic swings to the right and left, as well as susceptible to rapid regime changes.

The truth is more nuanced.

For example, when an apparent attempted coup by a general and some soldiers occurred in late June in Bolivia, it was quickly snuffed out by President Luis Arce. The response among the wider population? A collective shrug of the shoulders.

Most importantly to investors, in the leading destinations for foreign capital, the government situations are presently largely stable:

> **Brazil** — Luiz Inácio Lula da Silva, a left-wing leader commonly referred to as Lula, was elected president in October 2022, defeating the far-right incumbent Jair Bolsonaro. Although Lula sharpened his leftist credentials while serving as the country's president in 2002–2010, he's been less of a change agent this time around. The country's central bank has been allowed to maintain a pro-market course and Lula has shown less desire to intervene across the country.
>
> **Mexico** — Claudia Sheinbaum was elected president in June 2024 and is expected to largely follow the policies of her predecessor, Andrés Manuel López Obrador. An election-day surprise occurred when Sheinbaum's National Regeneration Movement party (commonly known as Morena) captured a majority in the Senate and was part of a coalition super majority in the Chamber of Deputies.
>
> **Colombia** — The nation elected its first left-wing President, Gustavo Petro, in June 2022. One of his first achievements was to reform the country's pension program, and he turned to challenging the banking and energy industries for measures he said kept the inflation rate high.
>
> **Chile** — Leftist Gabriel Boric was elected as the country's youngest President (then 35) in December 2021. A long effort to overhaul the nation's constitution failed in September 2022 and again in December 2023, keeping in place the pro-free market, anti-regulation constitution put in place by former dictator Augusto Pinochet in 1980.

Peru — The most politically unstable of the highly investable group, perhaps spurred in part by laws against a President holding office for consecutive terms. Current President Dina Boluarte assumed the office when Pedro Castillo was impeached and ousted in December 2022 after he proposed dissolving the country's Congress.

Presently, most of the countries in Central and South America are led by individuals on the left side of the political spectrum. Yet, many have limited power to make dramatic changes as they must work with ideologically different congresses.

Plus, as the world has changed, these leaders and their parties have evolved as well. To present the stability that the rest of the world demands from trading partners, they know they cannot operate from the extreme left. Similarly, their opponents know they cannot operate from the extreme right.

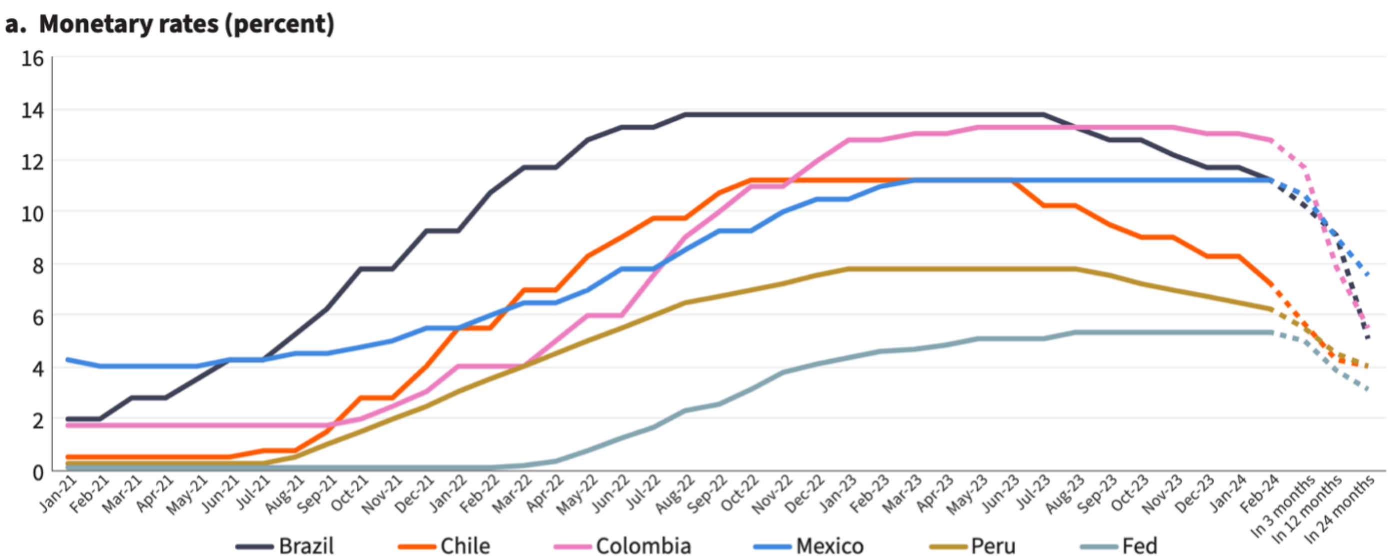
Furthermore, most countries aren't due to have elections again until 2026, so dramatic changes are unlikely over the near-term.

Monetary Policies Provide Potential Tailwinds

Immediately following the pandemic, as inflation spiked worldwide, select South and Central American central bankers led the rate-hike charge to counter out-of-control price increases. Notably, Brazil, Chile, and Mexico started aggressively raising interest rates before the U.S. Federal Reserve.

But instead of sitting on the elevated rates, many of the same central bankers actively sought a window to reverse course and those in Brazil and Chile started reducing rates less than a year after their final increase. Colombia, Peru, and others followed to ease the lending burdens.

Monetary Policy Rates Are Falling



Source: World Bank,
https://openknowledge.worldbank.org/server/api/core/bitstreams/184bce21-8fec-4b14-acad-9ee256e7db93/content

Even with the more accommodative measures, the region's inflation rate fell to 3.6% from 7.8% during 2023, and the World Bank expected target inflation rates to be achieved across the region in 2024.

The central banks' maneuvers will likely bear further fruit once the U.S. Federal Reserve starts trimming its interest rates. While lower than previously set to battle elevated inflation levels, Latin American rates will likely remain higher than the key U.S. lending rate, which historically contributes to weakness in the U.S. dollar.

Such conditions tend to lend strength to local currencies, which frequently bolsters the financial performance of companies based across the region.

Region not Without Risk

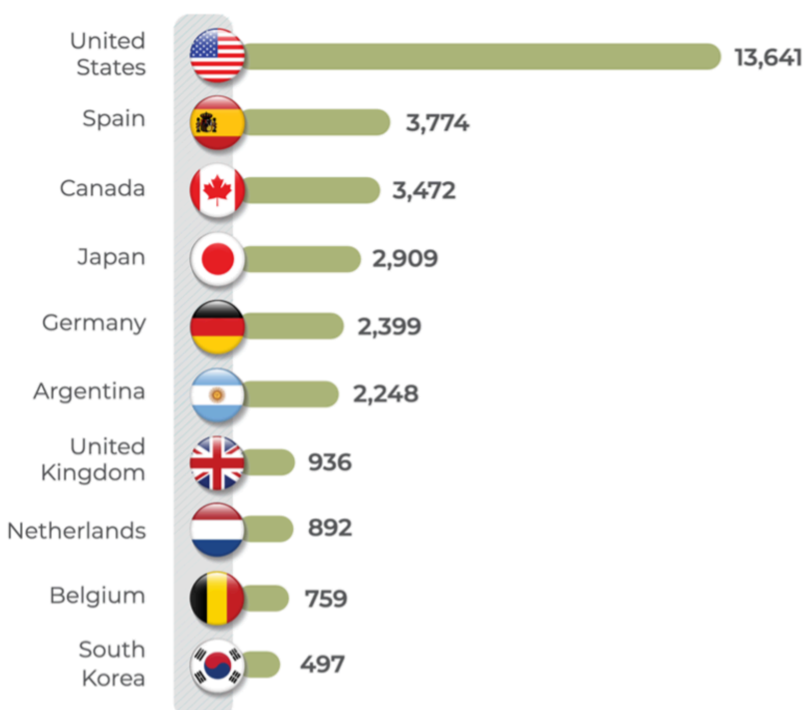
Allowing for the broad range of advances, Latin America continues to face challenges, which translate into risks for investors. These may generally be characterized as external or internal.

External risks include the health of China and the U.S., two critical trade partners for the region.

For example, China reopened after the pandemic later than many other countries, and the slowdown hit countries such as Brazil, Peru, and Chile hard. Its recovery has also been somewhat sluggish, which has continued to temper its demand for commodities.

Meanwhile, The U.S. economy generally performed better coming out of the pandemic, which aided Mexico and Colombia, which tend to be more closely aligned with the U.S. Mexico has also benefited from a global awareness of the value of a healthy supply chain, first through nearshoring interest from the U.S. and increasingly from Asian manufacturers looking to streamline entry into North American markets.

Top 10 FDI-originating countries in 2023 (million dollars)



Amounts reported as of December 31, 2023.
Secretariat of Economy | National Register of Foreign Investments (RNIE).

Source: Government of Mexico,
https://www.gob.mx/cms/uploads/attachment/file/914362/20240430_Dossier_inversion-ING_interactivo.pdf

More broadly, global geopolitical issues in regions such as the Middle East, Asia, and Russia can dramatically influence the world commodity markets. From a production standpoint, the impacts of climate change surface in agricultural outputs and outlooks, as well as inflationary pressures on food prices.

Looking inward, governments—especially left-leaning ones—must adhere to fiscal spending discipline to keep public budgets steady or ideally improving. Issuing debt at elevated interest rates can complicate a nation's fiscal health quickly.

Many leaders in Central and South America must also work to rein in organized crime, which has a considerable social impact on the region and can be an impediment to everything from outside investment to new manufacturing facilities and tourism trends. Colombia has set the standard for reform, as it has largely recovered from violence and drug-related problems that afflicted it for much of the second half of the 20th century.

The OTG Approach

Latin America is home to our investment managers and analysts. We have lived through numerous political and economic cycles across the region and continue to believe in the investment opportunities that Central and South America hold.

But it takes extensive legwork and rigorous analysis. And yes, remaining cognizant of the risks.

But we believe the best investments are found outside of the ADR lens, in longstanding businesses that serve the youthful and better educated populace. And while the commodity and energy markets continue to be cornerstones to the economic activity across the region, we are also exploring growth-oriented enterprises:

- Capitalizing on the U.S. nearshoring trend
- Benefiting from increased investment in technology
- Responding to growing demand for streamlined financial services

The investment opportunities in the coming decade could be strong, and as a Bolivia-based firm, we're encouraged by the possibilities—for ourselves and our investors worldwide.

Definitions

MSCI Emerging Markets Index — An index that captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,328 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Frontier Emerging Markets Index — An index that captures large and mid cap representation across 31 Frontier Emerging Markets countries. The index includes 235 constituents, covering about 85% of the free float-adjusted market capitalization in each country.

UNESCO's 2030 Education Agenda — A global plan the United Nations Educational, Scientific, and Cultural Organization (UNESCO) adopted in 2015 to "ensure inclusive and equitable quality education and promote lifelong opportunities for all" by 2030.

International Energy Agency — A forum of government and industry leaders from member-nations that takes an all-fuels, all-technology approach while recommending policies that enhance the reliability, affordability, and sustainability of energy.

Organisation for Economic Co-operation and Development (OECD) — A developer of evidence-based international standards in response to social, economic, and environmental challenges.

Disclosures

Investors should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. This and other information is contained in the Fund's prospectus which may be obtained by calling 888-716-7116. Please read the prospectus carefully before investing

Mutual fund investing involves risk, including possible loss of principal. The risks of investing in foreign companies, including those located in emerging market countries, can increase the potential for losses in the Fund and may include currency fluctuations, political and economic instability, less government regulation, less publicly available information, limited trading markets, differences in financial reporting standards, including recordkeeping standards, less stringent regulation of securities markets and differences in accounting methods. Small- and mid-cap investing involve greater risk not associated with investing in more established companies, such as greater price volatility, business risk, less liquidity and increased competitive threat. The Fund is actively managed. An investment in the Fund is subject to the risk that the investment techniques and risk analyses applied by the Adviser will not produce the desired results.

Diversification does not eliminate the risk of experiencing investment loss.

Mutual fund investing involves risk. Principal loss is possible. The OTG Latin America Fund is distributed by Foreside Fund Services, LLC.

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