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Latin America on institutional investment radar

BY DARREN SNYDER | WEDNESDAY, 17 MAY 2017 11:48AM

An emerging markets specialist says Latin America is offering substantial investment opportunities following Donald Trump's softening trade policy and strong business outlooks across the region.

SURA Asset Management regional head of equities Felipe Asenjo believes valuable investment opportunities especially lie in the Pacific Alliance - the countries of Mexico, Chile, Columbia and Peru.

Asenjo expects that for the next three years, companies in this region will have a compound annual growth rate (CAGR) for earnings of about 17%. He said this year alone is expected to see an increase in earnings of about 37%.

The portfolio manager said 2016 was more a reverting year where emerging countries started to grow again. He cites ETF flows as one example: "In 2015 there were outflows of about $2.5 billion in passive ETFs [in the Pacific Alliance]. Last year it saw $3 billion inflows."

Looking at the GDP spread between developed and emerging countries since 2011, the latter grew 3% more on average, Asenjo said.

"The Pacific alliance has always had a higher spread of profitability than global emerging markets. If you look at the earnings per share, you will find it was the second region in the world in the last 15 years with highest delivery of earnings growth," Asenjo said.

SURA Asset Management is the investment manager for the King Irving Sura Pacific Alliance Fund - a long-only, benchmark and geography agnostic fund that has full conviction and is alpha driven. It is run in conjunction with Australian-based King Irving Funds Management.

In Australia last week to meet with several institutional investors, SURA's Asenjo said that between 2013 and 2015 there were increases to company taxes in Chile and to a lesser extent in Peru and Mexico. Stemming from this, the countries have reformed their energy sectors and rules of competition. Columbia did the same for telecommunications before commodities fell in more recent times.

Asenjo said Chile is the biggest producer of copper in the region and the manager also like's the countries financial stocks and banks. Peru's materials, semi-agricultural and infrastructure companies are also of high interest. Both countries' main trading partner is China.

He says Columbia has a focus on oil and infrastructure, while Mexico is focused around manufacturing and telecoms. Both countries' main trading partner is the US.

"Mix in the proceeds of this diversification - exposure of the currencies and correlation of the currencies - you have an overall region that is very efficient in terms of relationship between risk and return," Asenjo said.

This is not even factoring the alliance's internal demands, he added.

On Donald Trump, the investment manager noted the US President's recent confirmation that the North American Free Trade Agreement (NAFTA) will stand and Mexico's economy has since bounced.

"Even if, by rare chance, the US does restrict trade and put in place embargo measures, Mexico's labour competitiveness would remain unparalleled. It's unlikely that nations such as China would take up any trading slack, which would leave the Mexican economy relatively unscathed," Asenjo said.

The King Irving Sura Pacific Alliance Fund is currently overweight in Peru by more than 10%, relative to the MSCI Latam Pacific Alliance Capped Index. Geographically Mexico makes up half of the investment portfolio.

In terms of sectors, the fund is overweight financials (8.4%), healthcare (2.3%), industrials (2.9%), materials (2.4%) and telecom (0.3%).

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