

IPREO REGIONAL FLOW OF FUNDS SERIES

Latin America

Q1-2017

Market Overview

- Allocations into **North American** equities have reached the lowest levels “in a decade” and 83% of fund managers in the latest **Bank of America Merrill Lynch** quarterly survey believe that **US** stocks are relatively overvalued. **European** and **Emerging Markets** equities are the beneficiaries of this scepticism. “Investors are showing love for Europe and scrambling out of US equities, as the majority find US stocks overvalued and perceive a risk of delayed US tax reform,” said **Michael Hartnett, Chief Investment Strategist at BofAML**. This optimism is reinforced by relatively low valuations (MSCI Emerging Markets Index average 12.5x earnings against 18.2x for MSCI US and 16.9x for MSCI World) and rising earning expectation.

LATAM Fund Flows

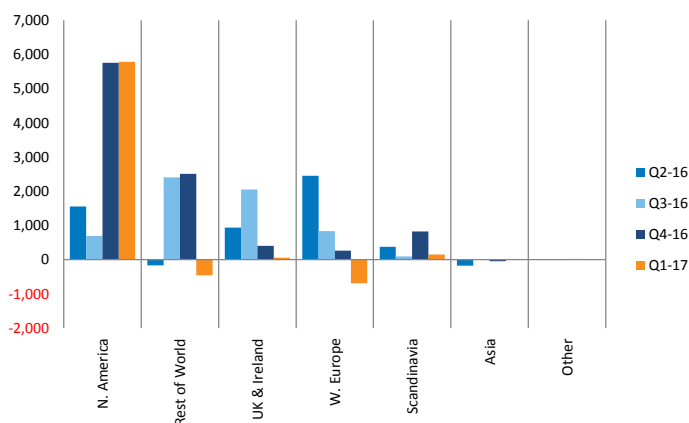
- After peaking Q4-16 (+\$9.5B) the current quarter saw the pace of inflows nearly halve to +\$5.4B.
- Whilst the second half of 2016 saw all investment styles buying **LATAM** equities led by **Growth** and **Value** investors, Q1-17 has instead seen **Growth** inflows decelerate to half of the preceding quarter inflows with more significantly **Value** flows turn negative.
- **LATAM** equities have seen strong net inflows of +\$25.8B in the 12 months to Q1-17 end. The bulk of this activity was driven by **North American** based **Index** investors.

Outlook

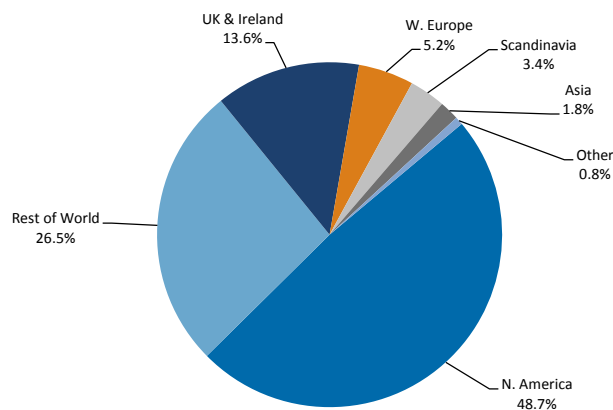
- “Analyst surveys suggest emerging markets earnings could improve by as much as 23% this year, in contrast to 1.4% growth in 2015 and 2% contraction in 2016. Financial services, energy, materials, and consumer discretionary firms are forecast to drive 60% of 2017 earnings growth.” According to **Lazard Asset Management's** Outlook Emerging Markets, April 2017. **Lazard** went on to express optimism about both the **Emerging Markets** as a whole and specifically their investor base: “We also believe that the investor base could be more stable today as the challenges of 2013–2015 have tested investors’ tolerance for the asset class’s volatility, which has helped establish a more committed pool of long-term capital allocators. Altogether, this presents the most optimistic picture we have seen in a while.” **Value** oriented **Lazard Asset Management** was also the top buyer of **LATAM** equities for Q1-17.
- “Preliminary economic data for Q1 shows that the Latin American economy emerged from recession in Q1 and recorded positive growth for the first time in nearly two years. While the Latin American economy is expected to have emerged from recession in Q1, the latest economic data signals a tortuous recovery path ahead”, **Ricard Torné, Head of Economic Research at FocusEconomics**.

Institutional Investment Flow Highlights

Net Change (\$M Value) by Region

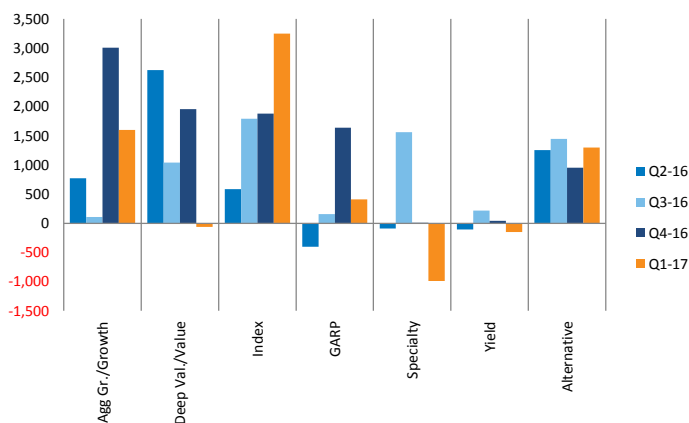


Ownership by Region

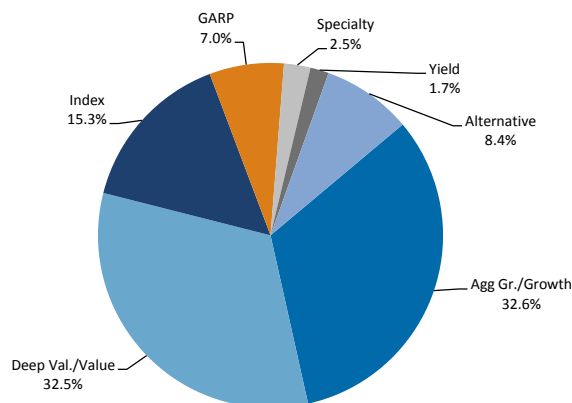


- **North American** inflows remained strong and stable in the six months to Q1-17 with inflows averaging +\$5.7B per quarter. Over 12 months, the region has also contributed +\$13.8B of inflows with the **Rest of World** a distant second (+\$4.3B) in the same time period.
- Top **North American LATAM** equity holders, **Capital World Investors** and **Lazard Asset Management**, were also amongst the top ten buyers of the region, +\$216M and +\$694M respectively. The top destinations for **Capital World Investors’** fund flows included **Financials**, **Consumer Goods** and **Utilities** whilst **Lazard Asset Management** was buying **Consumer Services**, **Energy** and **Technology** equities amongst others.
- **Rest of World** fund flows turned negative after two consecutive quarters of inflows with the current outflows driven by **Brazilian** investors, **Caixa de Previdencia dos Funcionarios do Banco do Brasil** (-\$1.0B) and **Opportunity Gestora de Recursos** (-\$155M). **Amundi Asset Management** drove **Western Europe** outflows.

Net Change (\$M Value) by Style



Ownership by Style



- **North American** investors drove **Index** inflows i.e. **Vanguard Group**, **BlackRock Fund Advisors**, **State Street Global Advisors** amongst others in an environment that has seen record inflows into Passive strategies.
- Amongst active investors, both **Growth** and **Alternative (Hedge Fund)** players were strong buyers of **LATAM** equities. **Growth** inflows were predominantly **US** and **UK** led, **Invesco Advisers** (+\$468M) and **Fidelity International Limited - FIL Investment Services (U.K.)** (+\$270M).
- Hedge Fund inflows were driven by passive-quant managers **Renaissance Technologies** and **Two Sigma Advisers** as well as active manager, **Millennium Management**. **Millennium** was buying significantly **Argentinian (Ferrous Metals, Banks and Diversified Oil & Gas)** and **Brazilian (Wireless Services, Paper Goods & Banks)** equities.

Top Invested Cities

Most Invested				
Country / City	Total Equity Assets (\$M)	Value (\$M)	Activity (\$M)	# Firms
United Kingdom (London)	2,091,923	50,627	-138	160
United States (New York)	3,239,044	43,207	2,200	206
Brazil (Rio de Janeiro)	33,567	31,651	-529	86
Brazil (São Paulo)	28,092	25,806	249	170
United States (Boston)	2,300,293	15,499	480	49
United States (Los Angeles)	1,161,659	14,887	94	17
United States (San Francisco)	478,032	12,045	-452	24
Mexico (Mexico City)	16,045	11,084	-178	19
Chile (Santiago)	13,899	10,086	158	28
Norway (Oslo)	622,665	9,001	-8	6
Excludes Passive/Index Investors	223,893	1,876	765	

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Brazil (Rio de Janeiro)	33,567	31,651	-529	86
United States (Boston)	2,300,293	15,499	480	49
Canada (Toronto)	671,915	7,351	56	46
France (Paris)	315,725	6,788	-712	46
United States (Chicago)	454,670	4,817	376	44
Spain (Madrid)	53,414	575	98	30
Chile (Santiago)	13,899	10,086	158	28
Excludes Passive/Index Investors	196,407	2,239	865	

Top Holders, Buyers & Sellers

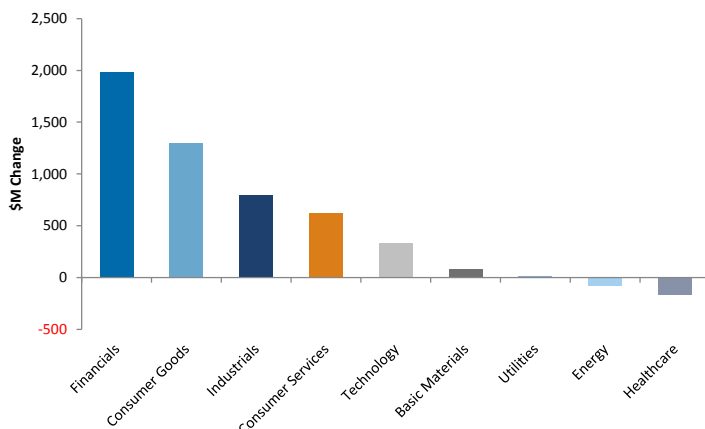
Top Holders	Country	Style	Turnover	Equity Assets (\$M)	Value (\$M)	Change (\$M)	% Port.	Chg
Aberdeen Asset Managers, LTD (U.K.)	United Kingdom	Growth	Low	103,517	14,699.0	35.7	14.2	0.2
Norges Bank Investment Management (Norway)	Norway	Value	Low	590,129	8,821.4	6.7	1.5	0.1
Capital World Investors (U.S.)	United States	Value	Low	610,973	8,247.2	216.7	1.3	2.7
Caixa de Previdência dos Funcionários do Banco do Br	Brazil	Specialty	Low	7,702	8,168.9	-1,042.1	n/a	-11.3
Dodge & Cox	United States	Value	Low	171,399	7,504.9	-138.8	4.4	-1.8
Lazard Asset Management, LLC (U.S.)	United States	Value	Medium	86,930	6,942.6	693.6	8.0	11.1
OppenheimerFunds, Inc	United States	Growth	Medium	147,090	5,897.7	-203.4	4.0	-3.3
Capital Research Global Investors (U.S.)	United States	GARP	Low	423,035	5,542.8	-148.7	1.3	-2.6
BlackRock Investment Management (U.K.), LTD	United Kingdom	Growth	Low	330,039	5,488.3	52.3	1.7	1.0
Fidelity Management & Research Company	United States	Growth	Low	842,171	4,983.1	-90.0	0.6	-1.8
					47,441.4	-921.9		

Top Buyers	Country	Style	Turnover	Equity Assets (\$M)	Value (\$M)	Change (\$M)	% Port.	Chg
Lazard Asset Management, LLC (U.S.)	United States	Value	Medium	86,930	6,942.6	693.6	8.0	11.1
Invesco Advisers, Inc.	United States	Growth	Low	176,496	2,306.2	468.6	1.3	25.5
Northern Cross, LLC	United States	Value	Low	34,161	2,029.4	394.4	5.9	24.1
Banco Clássico, S.A. (Asset Management)	Brazil	Value	High	1,385	1,384.9	366.6	100.0	36.0
J.P. Morgan Investment Management, Inc.	United States	Growth	Medium	254,855	3,116.6	287.3	1.2	10.2
Fidelity International Limited - FIL Investment Service	United Kingdom	Growth	Medium	95,188	2,134.2	269.9	2.2	14.5
Capital World Investors (U.S.)	United States	Value	Low	610,973	8,247.2	216.7	1.3	2.7
First Eagle Investment Management, LLC	United States	Value	Low	71,764	2,356.9	207.5	3.3	9.7
T. Rowe Price Associates, Inc.	United States	Growth	Low	579,206	3,779.3	194.9	0.7	5.4
J.P. Morgan Asset Management (UK), LTD	United Kingdom	Growth	Medium	105,097	2,821.6	188.8	2.7	7.2
					35,119.0	3,288.4		

Top Sellers	Country	Style	Turnover	Equity Assets (\$M)	Value (\$M)	Change (\$M)	% Port.	Chg
Caixa de Previdência dos Funcionários do Banco do Br	Brazil	Specialty	Low	7,702	8,168.9	-1,042.1	n/a	-11.3
Amundi Asset Management S.A.	France	Value	Medium	99,045	2,333.0	-542.3	2.4	-18.9
Goldman Sachs Asset Management International, LTC	United Kingdom	Growth	High	15,562	816.0	-348.7	5.2	-29.9
OppenheimerFunds, Inc	United States	Growth	Medium	147,090	5,897.7	-203.4	4.0	-3.3
Sailingstone Capital Partners, LLC	United States	Value	Low	5,792	406.2	-192.7	7.0	-32.2
Genesis Investment Management, LLP	United Kingdom	Growth	Medium	25,248	3,011.4	-170.0	11.9	-5.3
Schroder Investment Management, LTD	United Kingdom	GARP	Medium	101,579	3,187.4	-162.4	3.1	-4.8
Opportunity Gestora de Recursos, LTDA	Brazil	Growth	High	2,092	2,108.9	-155.3	n/a	-6.9
Carmignac Gestion	France	Growth	Medium	22,848	1,940.3	-154.8	8.5	-7.4
Capital Research Global Investors (U.S.)	United States	GARP	Low	423,035	5,542.8	-148.7	1.3	-2.6
					33,412.6	-3,120.4		

- **LATAM Energy and Healthcare** were the only sectors to register net outflows in Q1-17. Similar to observed institutional fund inflows across global equity markets **LATAM Financials** saw a resurgence of investor interest with close to +\$2.0B flowing in. **BB Seguridade Participacoes (Insurance)**, **Banco Bradesco (Banking)** and **Grupo Financiero Galicia (Banking)** were the top **LATAM Financials** fund inflow beneficiaries.

Most Bought & Sold Sectors



Most Bought & Sold Stocks

BOUGHT Securities	Industry	Change (\$M)
Ambev SA	Consumer Goods	666.6
CCR S.A.	Industrials	635.9
BB Seguridade Participacoes SA	Financials	536.2
Cielo S.A.	Technology	468.2
Companhia de Saneamento do	Utilities	429.6

SOLD Securities	Industry	Change (\$M)
CPFL Energia S.A.	Utilities	-1,043.5
Petroleo Brasileiro S.A. (Petrobr)	Energy	-572.9
Itau Unibanco Holding S.A.	Financials	-491.9
Energisa S.A.	Utilities	-201.8
Hypermarcas SA	Healthcare	-185.0

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