
IMPORTANCE OF THE LATIN AMERICAN WORLD TO THE FINANCIAL SERVICES INDUSTRY

In a Q&A led by Ignacio de la Maza, Head of EMEA Intermediary & LatAm at Janus Henderson Investors, Emerging Market Equity Portfolio Manager at Janus Henderson Daniel Graña and Macarena León from Excel Capital discuss the importance of the Latin American world to the financial services industry.

Why is it important to consider the impact of the Latino world on the financial industry and the global economy?

Ignacio de la Maza: Approximately 8% of the world's population is in Latin America, and almost 10% of the global population speak Spanish or Portuguese. We have also seen the ownership of bank accounts in the region increase from roughly 40% to 73% over the last 10 years. This demonstrates the importance of financial services to people in these markets, but also the opportunity it presents to investment managers globally which are able to serve these communities.

What are some of the attributes of Latin American financial service clients?

Macarena León: Latin American clients are much more professional than people in Europe and the U.S. tend to expect. The cliché is that the culture is very relaxed and nonchalant, but Latino clients tend to be extremely professional and well prepared.

Another unique trait is their way of viewing risk – particularly emerging market risk. Sitting in an emerging market country yourself, you tend to have a different vision of where emerging market risk is. One example is Asian or Chinese exposure in portfolios. Chilean pension funds often have higher exposure to Asian equities than to U.S. equities, for instance. Latino investors also need U.S. dollar exposure or offshore product exposure to protect themselves from local inflation or instability in institutions.

And finally, the regulatory environment is quite different than in the U.S. or Europe. For investment groups to successfully do business in the region, they need to understand the limitations and possibilities in each of the countries they cover.

As an expert on emerging market investing, what do you consider the biggest barriers to growth in Latin America?

Daniel Graña: We, in Latin America, are not masters of our destiny; we lack domestic engines of growth, which means we must look abroad to move our economies forward. If you look across Latin America, we're all stuck in the middle-income trap. So are other EM countries like Turkey and Thailand, so it's not exclusive to Latin America. But why are we stuck? One reason is a lack of savings, and the other is a lack of innovation.

What do we mean by lack of savings? When you have an attractive infrastructure project in Asia, you look at it in terms of yuan, rupee, and rupiah returns. But Latin America's infrastructure needs are so great that we need to import funding from abroad, and that means we need to make it attractive, more often than not in dollars.

In terms of lack of innovation, since the end of World War II, there have only been five countries in emerging markets that have gone from low income to middle income to high income: Hong Kong, Singapore, Korea, Taiwan, and Israel. If you strip away Hong Kong and Singapore, which are city states whose business models are not going to apply to a country the size of Brazil or Mexico or Peru, what do they all have in

common? Once they reached middle-income status, innovation penetrated throughout the economy.

What Latin America is missing is a more attractive innovation system. That means the quality of the universities, the quality of secondary education, and a government that's not always standing in the way. Innovation needs to happen to make that successful transition from middle-income to upper-income status.

What are the opportunities you see in the region?

Daniel Graña: First and foremost, we have seen the end of globalization. And while deglobalization is inherently inflationary – because you're no longer investing the marginal capital expenditure dollars in the cheapest producer, but rather the second-, or third-, or fourth-cheapest producer – it also creates opportunity.

Geopolitics and populism in developed markets mean that we are seeing the re-architecture of supply chains out of China. Vietnam, Mexico, India, and Indonesia are benefiting from that supply chain re-architecture. China is simply too big; there's an opportunity for other countries to put up their hand and say, "We can take some of that on as well." In fact, a lot of small-cap chief financial officers often refer to "ABC" – Anywhere but China. Companies want to manufacture elsewhere.

Decarbonization presents another opportunity. Latin America has a lot of materials that are central to the green revolution – 40% of the world's copper is in Peru and Chile.

Lastly, one thing that always gets me excited about emerging markets is the opportunity to fix inequities in the consumer experience, particularly in financial services and healthcare. While the number is growing as Ignacio referenced, almost two-thirds of Mexicans still don't have a bank account. Part of the problem is that it's not cost-effective to build a bank branch in the middle of nowhere. But what solves that? FinTech. So that represents an opportunity for long-term growth with very little competition.

There is also the problem of unequal access to healthcare across all emerging markets. And what solves that? Telemedicine. A lot of small, mid-cap, and unlisted private companies have the potential for a lot of growth without much competition in that space. More importantly, they are also doing social good.

In my view, what we need in Latin America are visionary leaders to capture these opportunities so we will be able to continue our journey from low income to middle income to, hopefully someday, upper income.

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