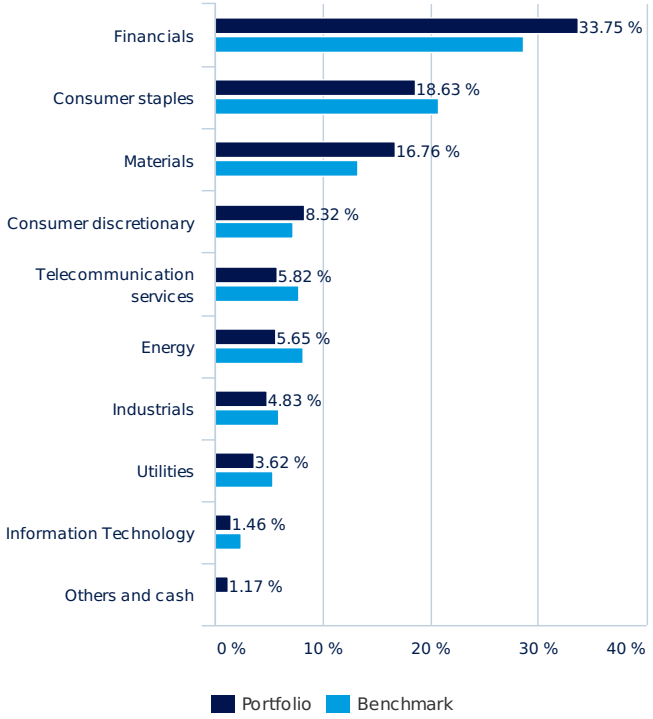
Management commentary

The Latin America MSCI closed up 1% in USD in June, outperforming both emerging (-2.6% dragged down by Chinese equities) and developed markets (-2.3% on the back of the escalating Greek crisis). Basic materials prices lost ground, including iron ore. Brazil (+3.8%) and Colombia (+1.3%) outperformed while Chile (-6.9%), Peru (-2.4%) and Mexico (-0.9%) underperformed. Brazil's strength was mostly driven by currency appreciation (supported by higher domestic interest rates) and the release of an infrastructure program while economic indicators (mainly inflation, unemployment and GDP expectations) continued to deteriorate. Colombian equities benefited from the strong positive performance of financials despite negative economic headlines, twin deficits, oil price and currency heading lower. In Mexico, consumer recovery was offset by disappointing manufacturing activity and weak currency. Chilean equities were weaker due to lower copper price, currency weakness, disappointing growth metrics and environmental emergency measures in Santiago (due to lack of rain and wind). In Peru, rising inflation and low construction outweighed decent economic activity.

The fund continued to outperform its index in June. Contributions came essentially from country allocation (large underweight on Chile) and stock picking (overweight Brazilian exporters). We continued to reduce consumption in Brazil on expected further weakness, and also reduced real estate in Mexico on expectations of rate hikes and fear of oversupply. We slightly raised materials and utilities in Brazil on stock picking.
Most Latin America economies are not yet recovering and the second half of 2015 could still fluctuate along China's economic deceleration and the perspective of US rate hikes. Still, a number of factors seem encouraging for patient investors: (i) commodity prices have adjusted and are no longer in China-investment-bubble territory (although long bear cycles in commodities could result in depressed markets for longer); (ii) monetary easing by the Bank of China should help smooth the pace of economic slowdown (even though potential risks associated with the property market and excess leverage have to be monitored); (iii) though politically painful, execution of fiscal consolidation and inflation targeting in Brazil are underway; (iv) the US recovery remains sluggish, suggesting that Fed tightening will be very gradual and limited (a scenario which seems, to a large extent, already priced into emerging and Latin America equities); (v) valuations look increasingly undemanding in the context of a bottoming cycle. We keep favoring Peru and Mexico on better macro-economic visibility but see more and more value opportunities in Brazil, while remaining cautious on the country's currency and consumption outlook. We focus on stock picking in Chile and Colombia where we stay underweight on oil and copper price uncertainties.

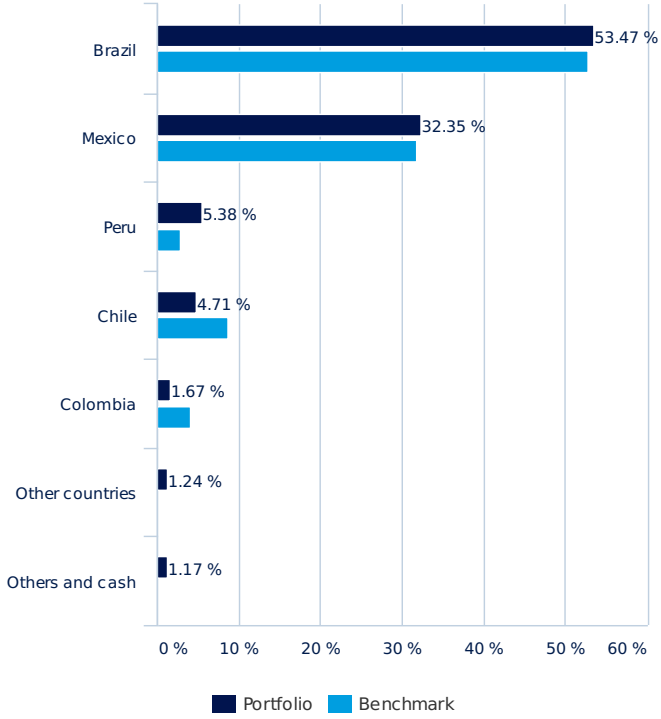
Portfolio breakdown

Sector breakdown



Excluding derivatives.

Geographical breakdown



Excluding derivatives.

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