

February 2019

Latam Bonds: an alternative in a low interest rate environment

Institutional Money Congress
Frankfurt, February 27th 2019

Alfredo Mordezki

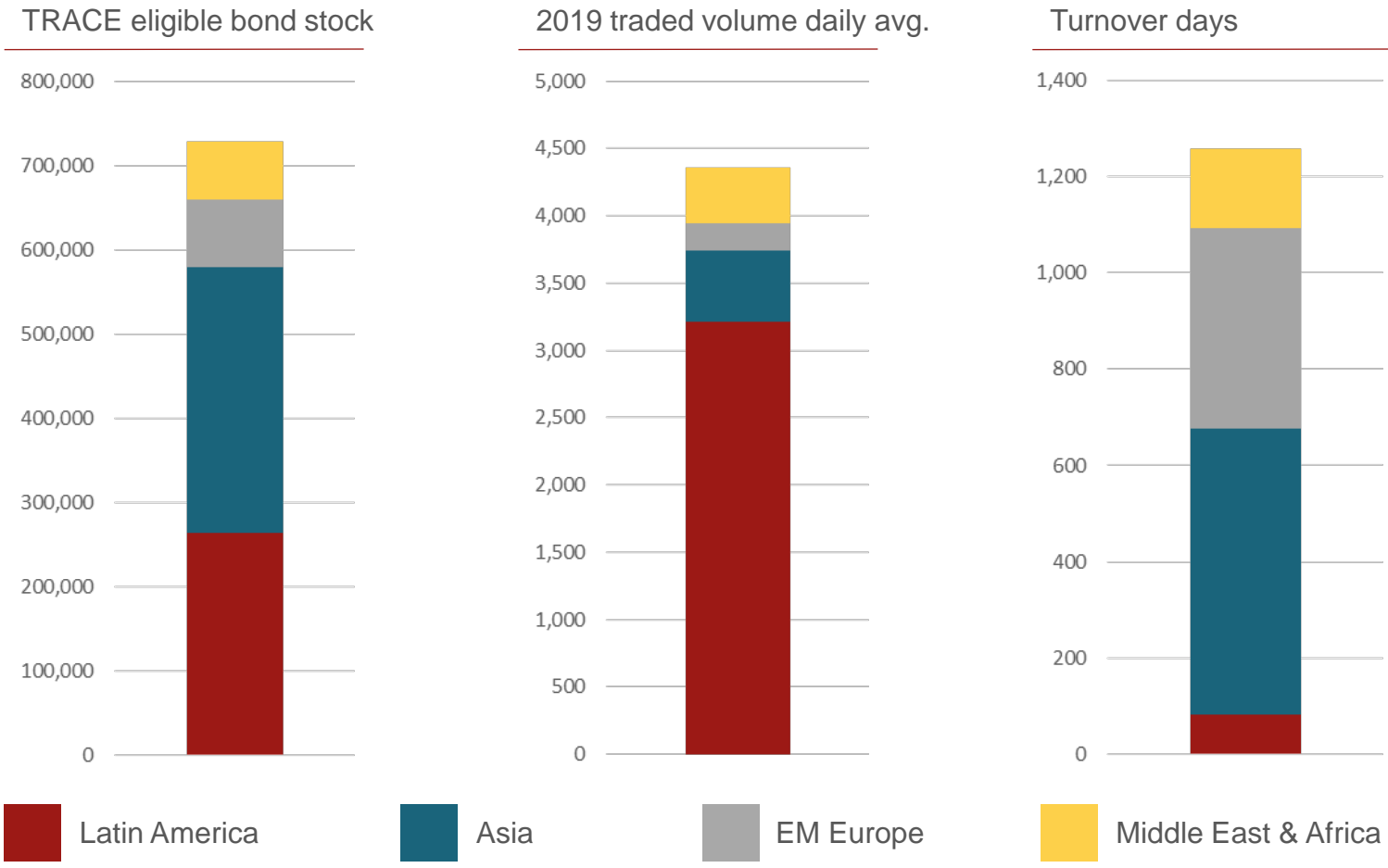
Latin American Fixed Income



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1 Latin American corporate bond market: volume and liquidity

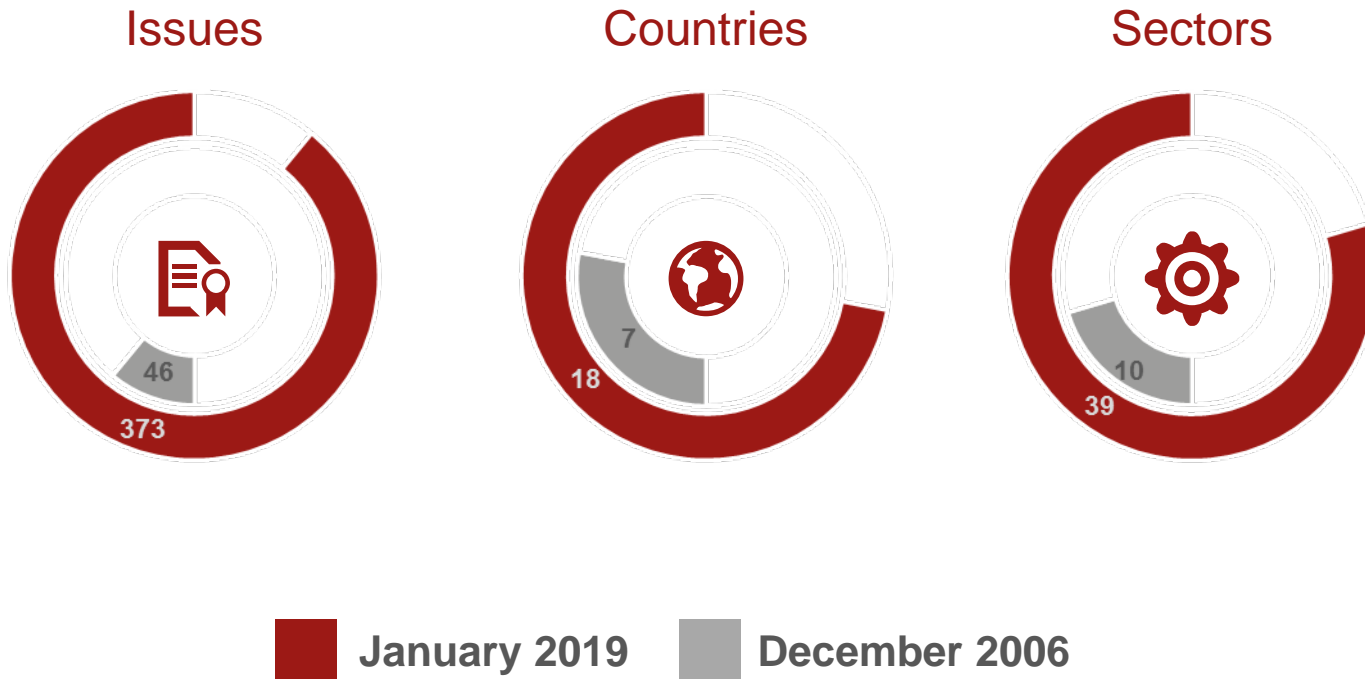


Source: J.P. Morgan Trace Volume Report, 8th February 2019

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Latin American corporate bond market: an idea of diversification.

JP Morgan Corporate EM Broad Diversified Latin American Index (CEMBI) evolution

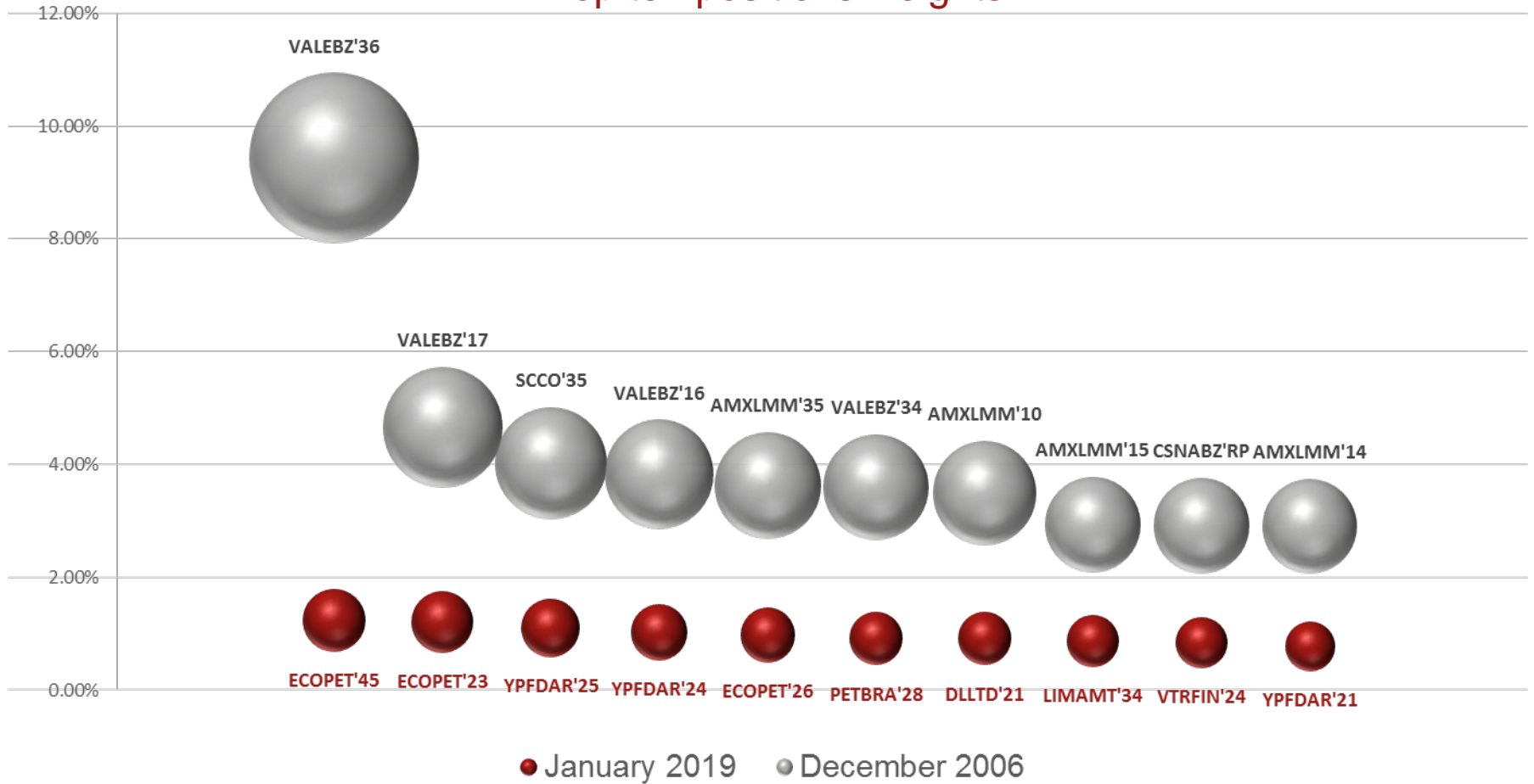


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Latin American corporate bond market: an idea of diversification.

JP Morgan Corporate EM Broad Diversified Latin American Index (CEMBI)

Top ten positions weights



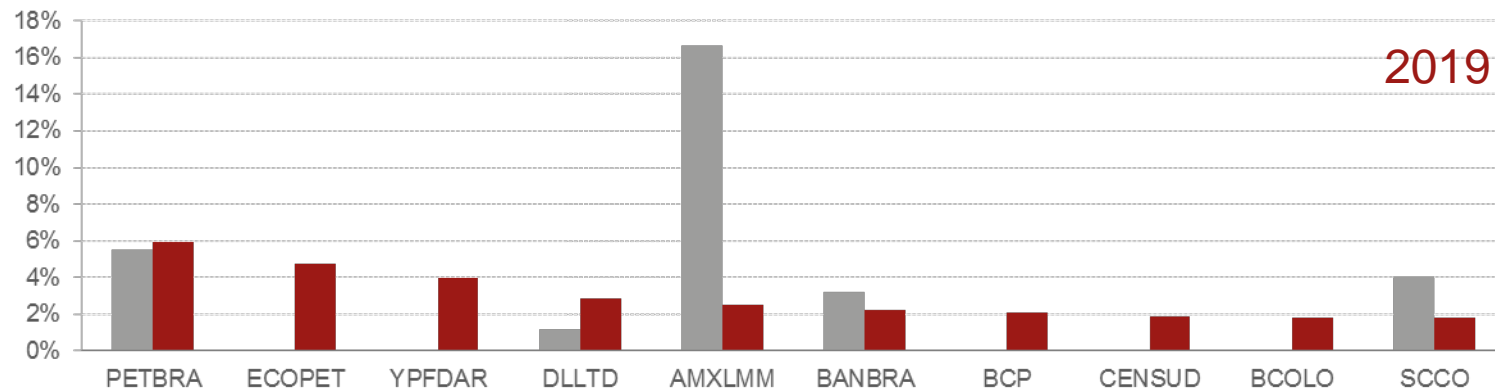
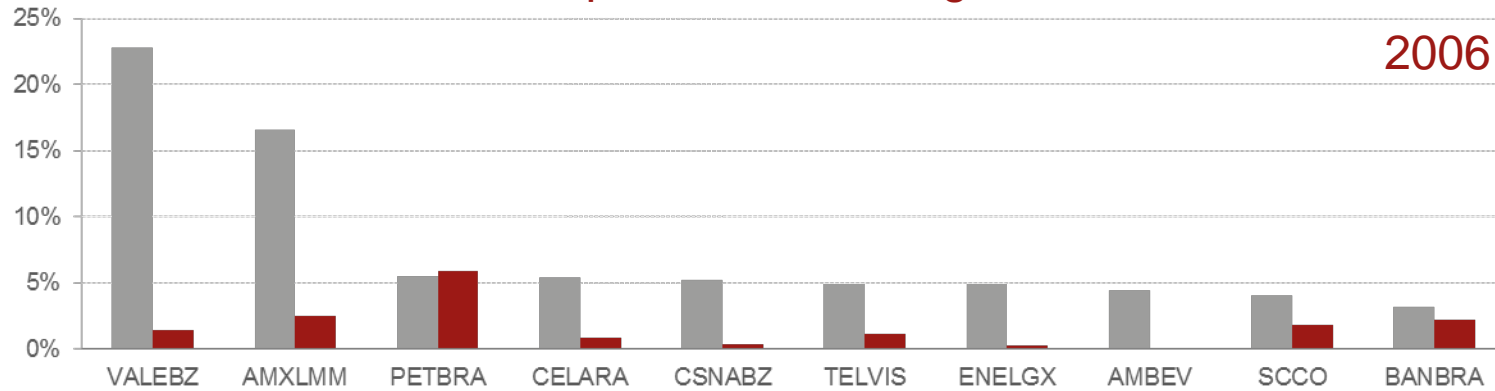
Source: SAM, Bloomberg, JP Morgan.

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Latin American corporate bond market: an idea of diversification.

JP Morgan Corporate EM Broad Diversified Latin American Index (CEMBI)

Top ten issuers weights



■ December 2006 ■ January 2019

Source: SAM, Bloomberg, JP Morgan.

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Latin American corporate bond market: an idea of diversification.

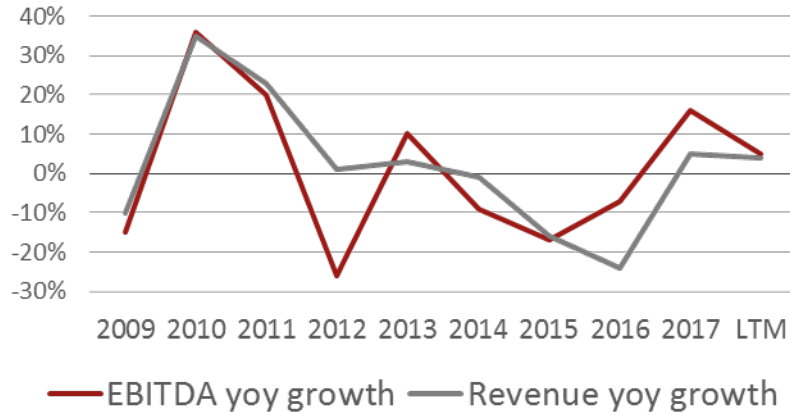
New comers (2016-2019) in JPM CEMBI Global Diversified Latam



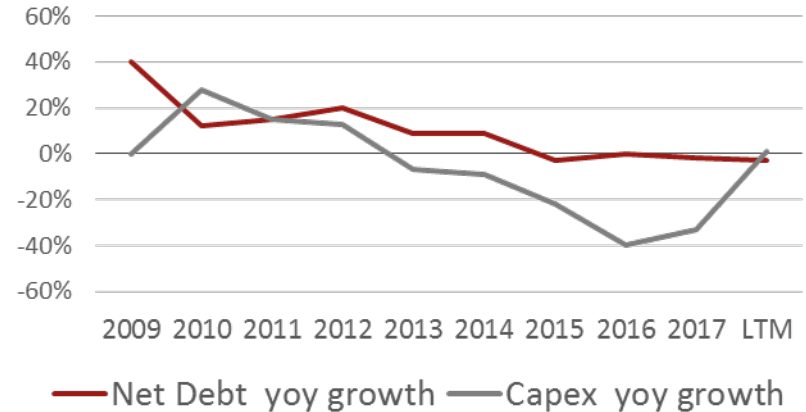
Source: SAM, JP Morgan. Comparison of issuers in the index between January 31st 2016 and January 21st 2019. Logos included are for the sole purpose of graphical representation and should not be understood to have a commercial intention

1 Market Fundamentals: balance sheets come to the forefront

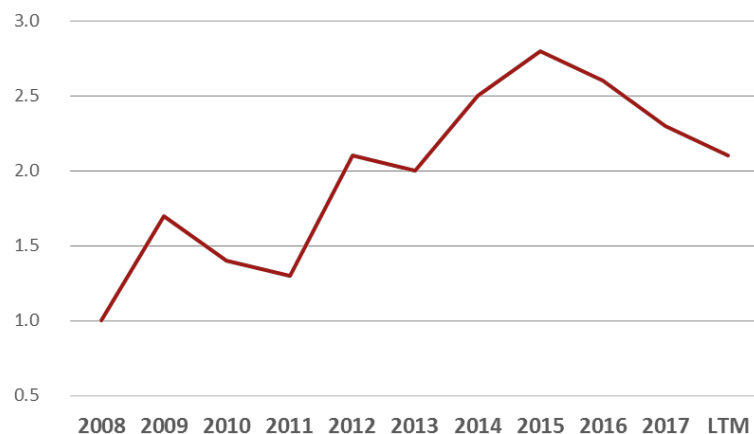
EBITDA and revenues are growing again...



... and net debt and capex are diminishing



Leverage is easing



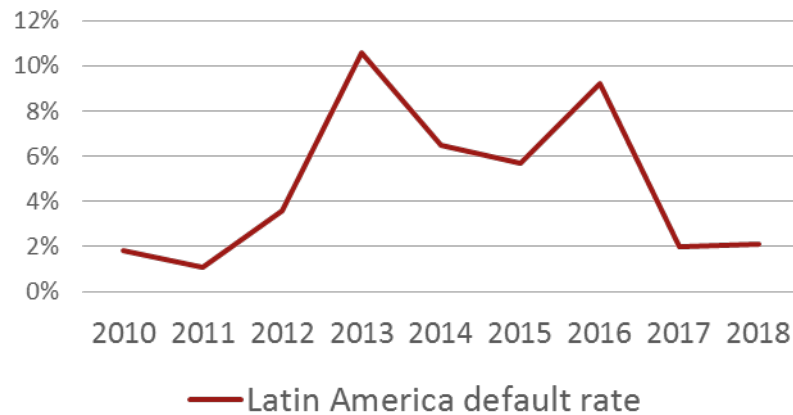
Companies have faced **lower commodity prices** in 2015 & 2016 and have adjusted with significant cuts in OPEX and CAPEX.

Deleveraging became the main goal of flagship companies such as Petrobras, Cemex or Gerdau.

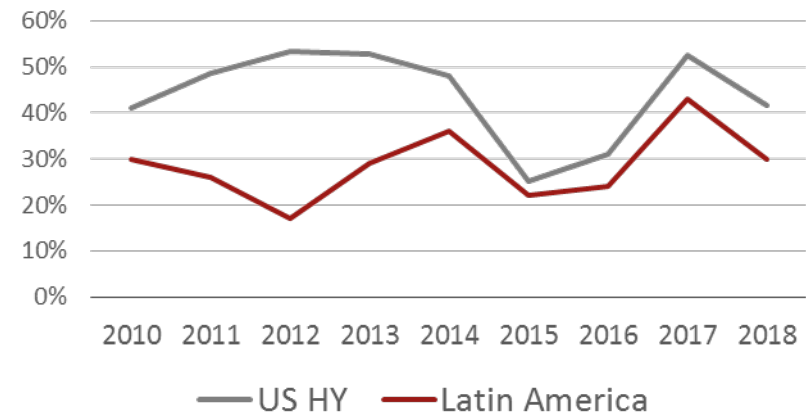
Local currency **devaluations** lowered costs, helping Margins show strong resiliency.

1 Defaults in Latam are low and expected to remain so

Default rates are back at 2010 lows



Latin America vs. US HY corporate recovery rates



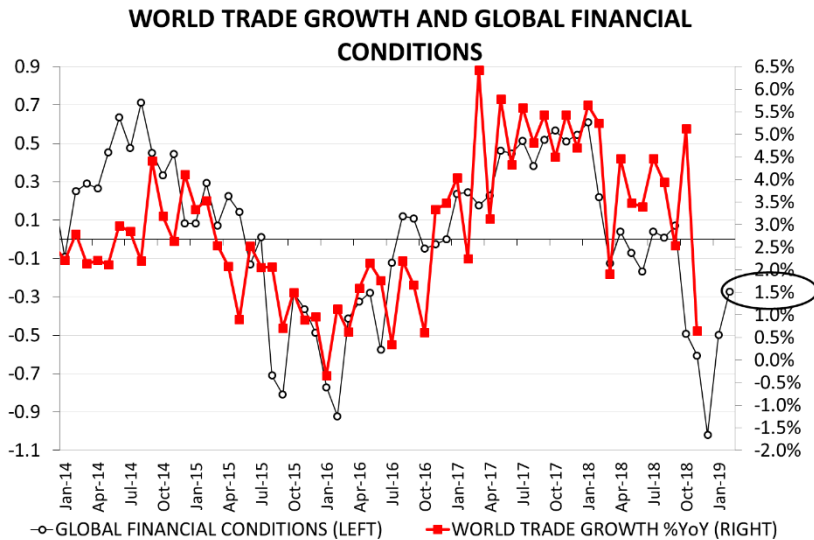
Even if defaults are not frequent, lower recoveries call for an **actively managed credit exposure**.

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Trade wars affect global financial conditions

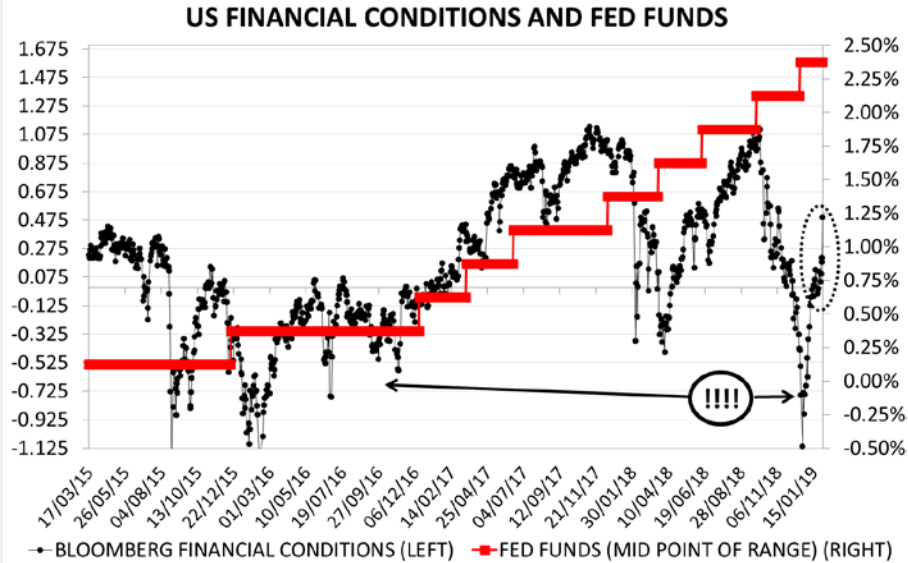
 Global financial conditions slightly improving

 Chinese imports show a timid rebound after severe drop


- World trade growth stalled after trade wars, affecting **financial conditions** through negative expectations on growth.
- **Chinese imports**, mainly from the US are the main source of trade weakness.

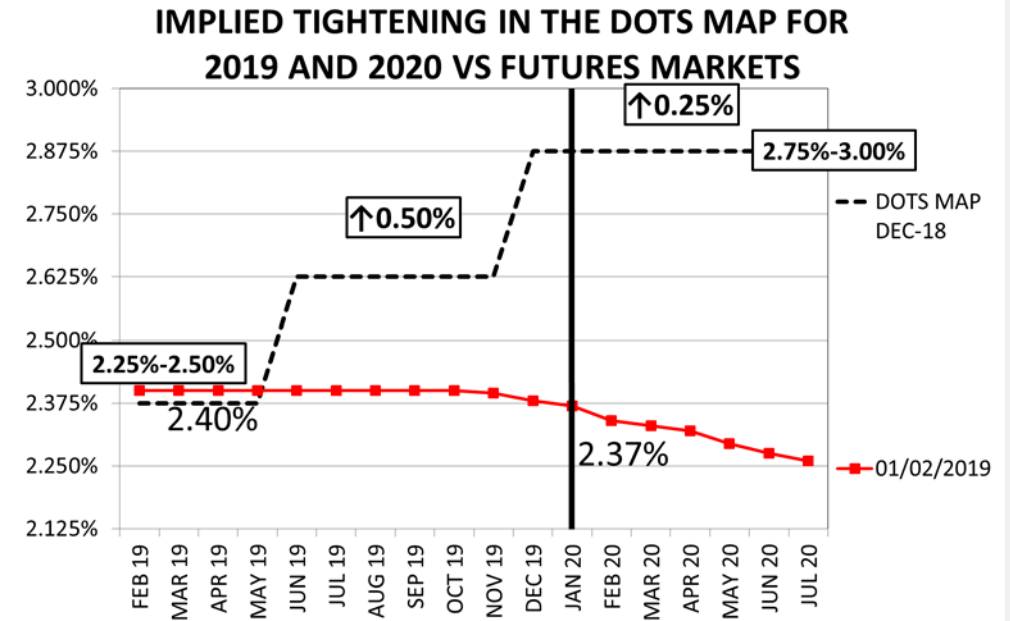
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What now for the FED?

📈 US Financial conditions partially recovered



📈 But the market is still pricing away from the dots



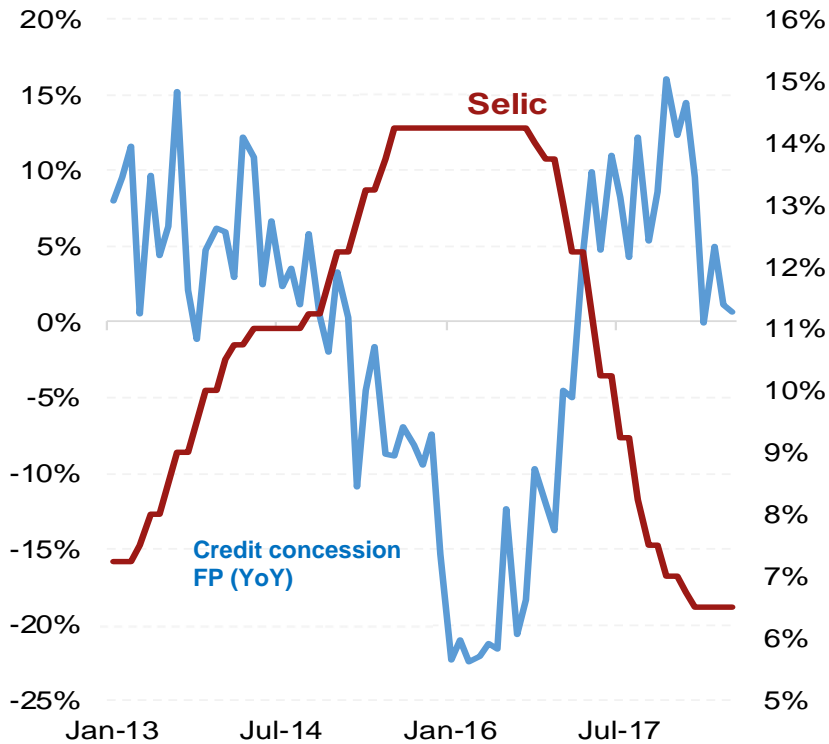
- Financial conditions are to blame for the **FED change in stance**. But their recovery do not imply an immediate resume in rate hikes.
- The market already discounts **cuts**, distancing itself from the dots. There is a risk that a recovery on financial conditions may persuade the FED to change again its stance and resume hikes.

2

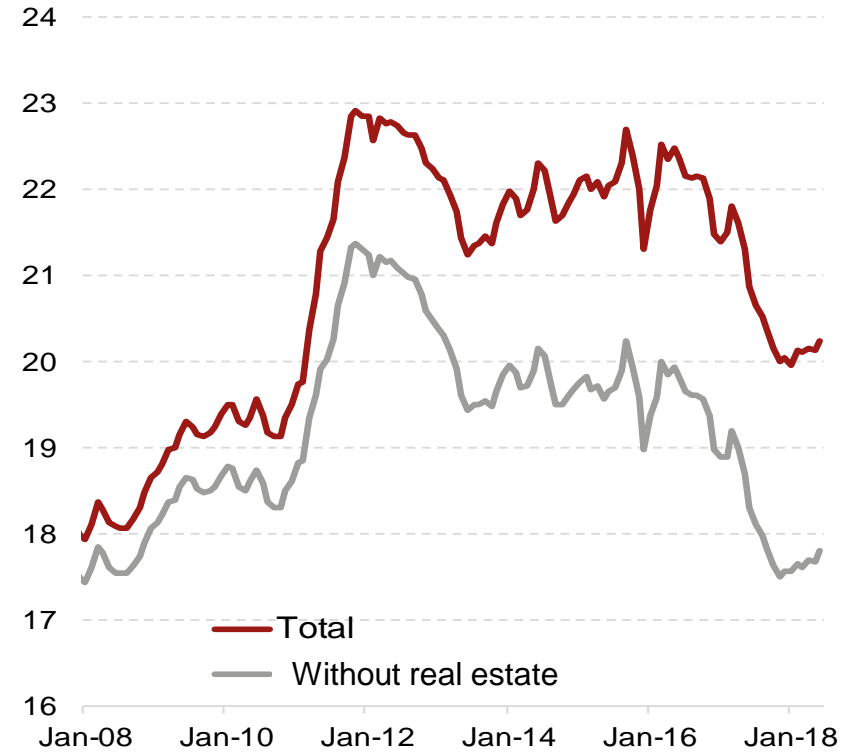


Brazil: lower Selic benefits credit market and reduces family debt service

Credit Market



Household Debt Service (%)



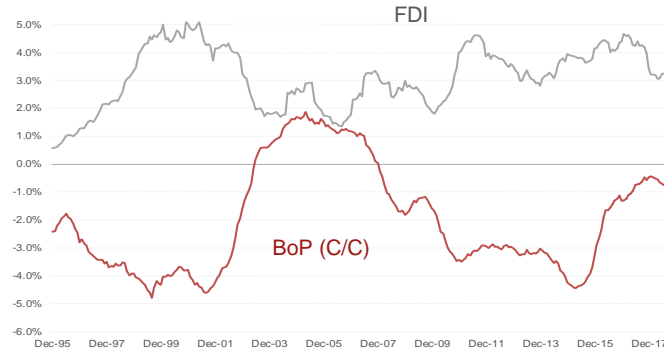
Source: SAM, BCB, IBGE

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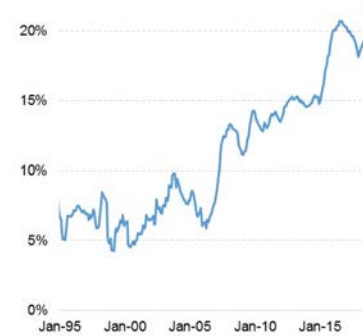


Brazil: strong external accounts and corporate investment recovery

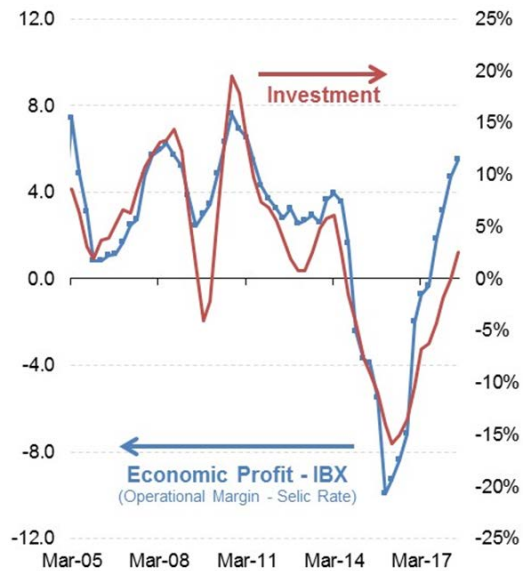
External accounts



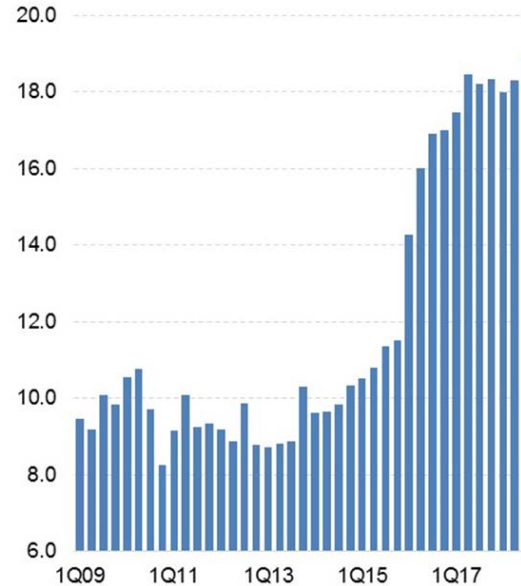
International Reserves (% of GDP)



Corporate Investment



Cash & ST investments per share



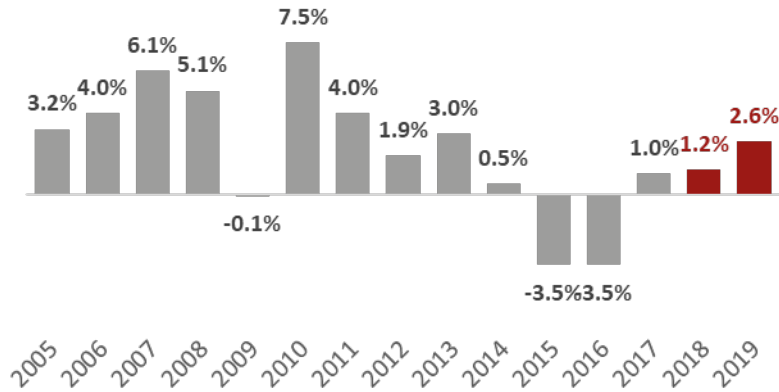
Source: SAM, BCB

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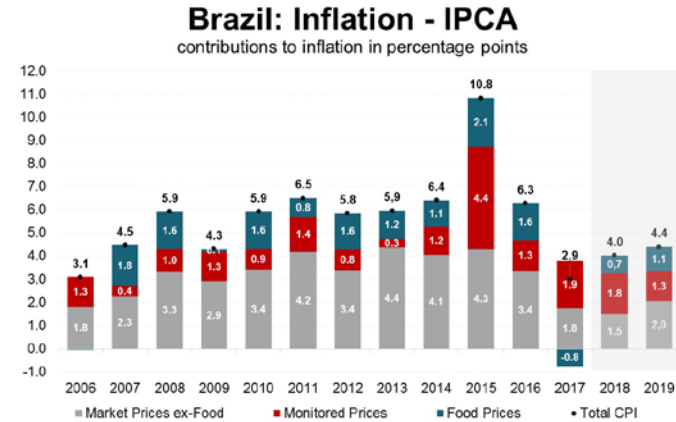


Brazil: slow recovery in GDP but with low and stable inflation

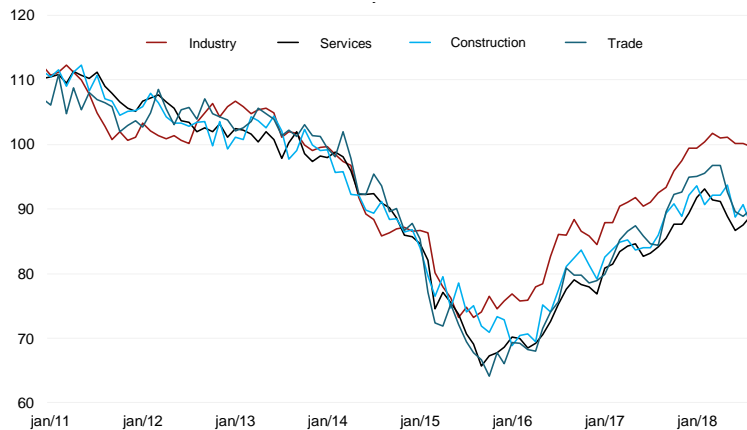
GDP – SAM Forecast



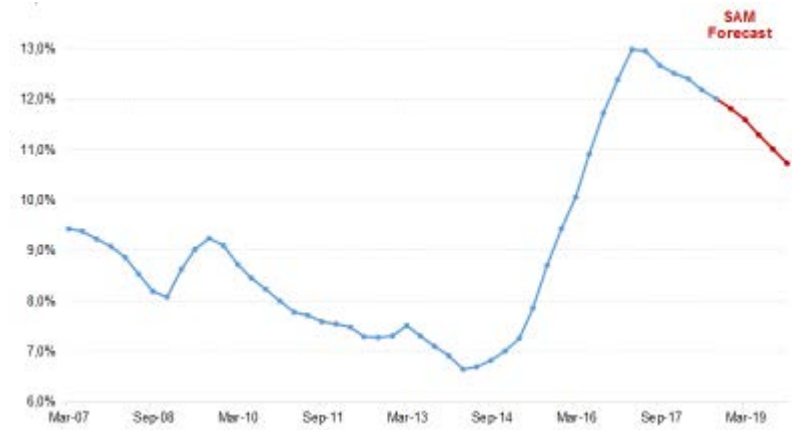
Inflation – SAM Forecast



Confidence Index



Unemployment Rate

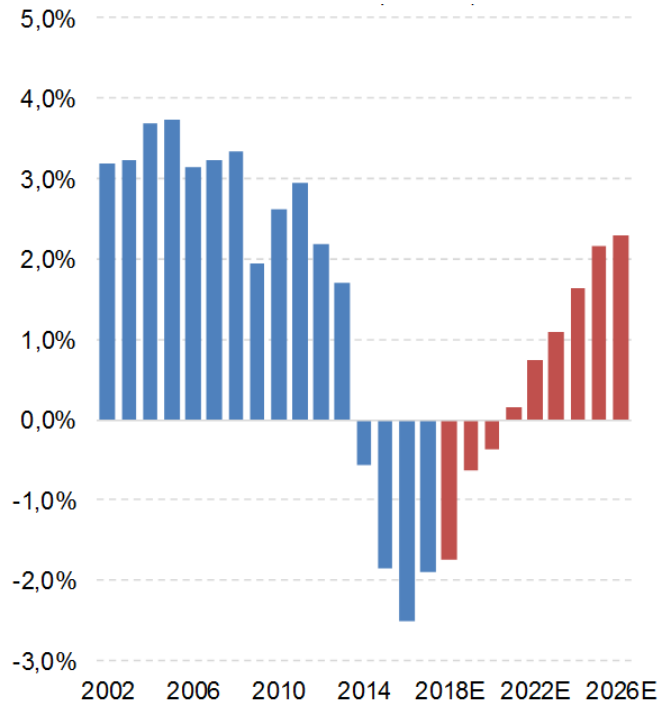


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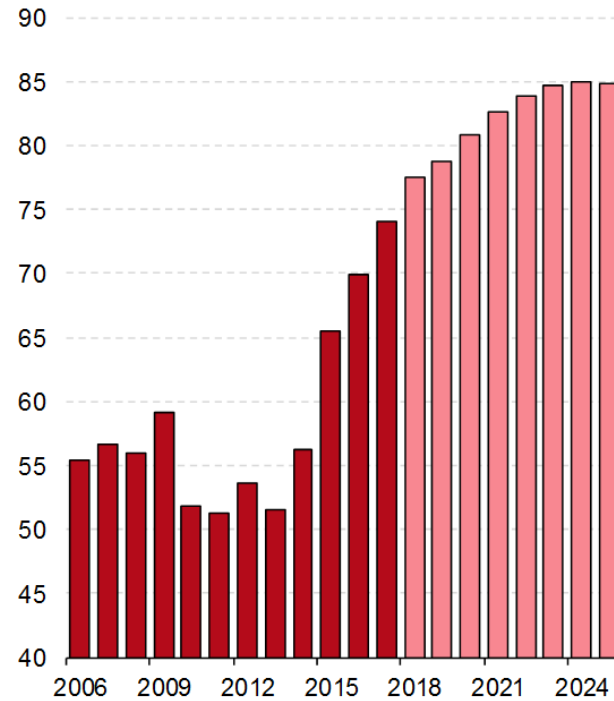


Brazil: pension reform is the challenge.
Fiscal adjustment to stabilize public debt

Primary Result (%GDP)



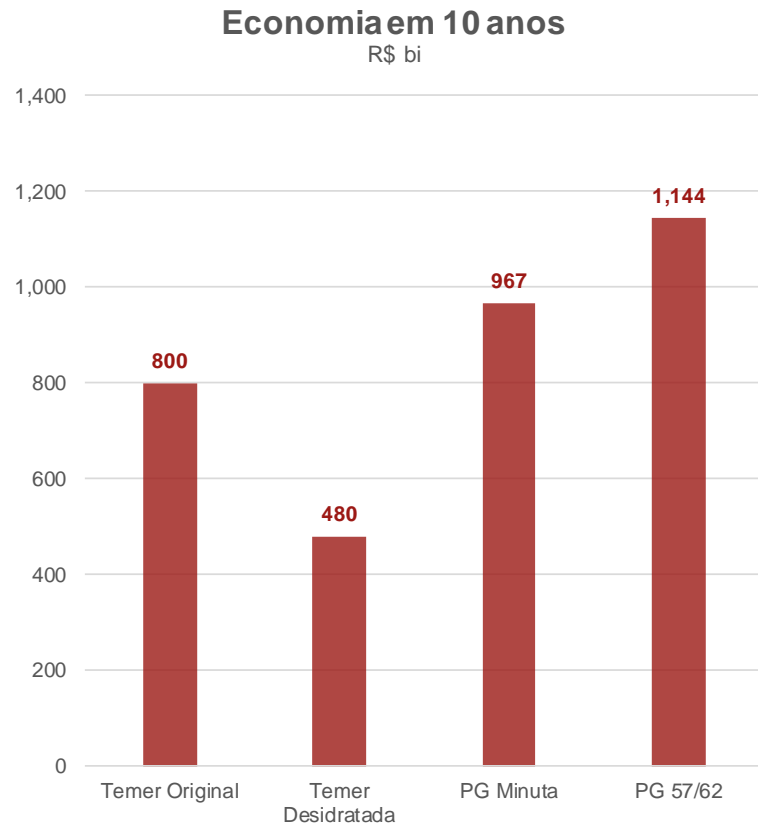
Gross Public Debt (%GDP)



Source: SAM, BCB

1 Brazil: Social security reform proposal starts with a high target

Savings with SSR proposal (BRL bn)



According to the local press, the **reform SSR** proposal should be sent to Congress by **mid-February**

2

 **Brazil: sector opportunities and vulnerabilities** **Opportunities**

Consumption related and transportation sectors. We expect 2019 growth expectation to be revised upwards and FX to remain around 3.65/3.70.

Government related entities, as elections outcome point to a less interventionist tariff environment and privatization initiatives (Eletrobras, Cemig, Banrisul).

Cyclicals: iron/steel, pulp & paper and petrochemicals are still profiting from strong international prices.

Private Banks: NIM recover x limited asset quality deterioration. We expect lending to resume.

 **Vulnerabilities**

Sovereign and quasi sovereigns (i.e. BNDES) are now pricing the delivery of reforms that still need to go through.

Mining: environmental damage caused by an accident at a dam belonging to Vale but decommissioned raised an industry-wide reassessment of operational risk for mining companies.

2

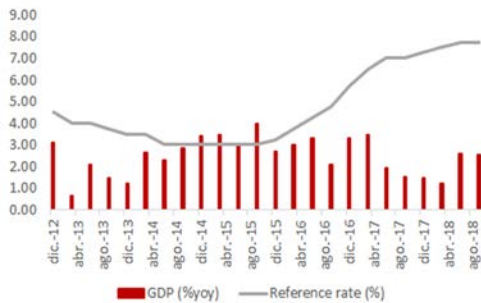
Mexico: at a glance

GDP growth has been hit by high interest rates and worse perception over political risk

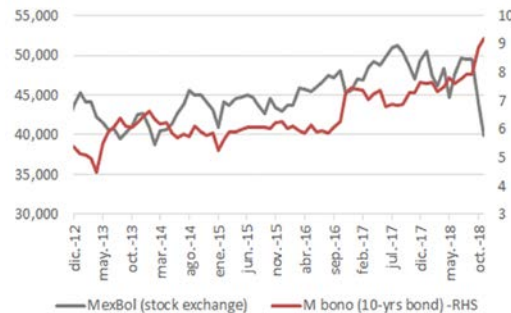
Investors became confused and deceived by the early measures taken from the Government, even if some of them were election commitments.

The use of **referendums** with no minimum quorum, some confusion on initiatives that come from his movement (banning of certain bank fees, revision of mining concessions) add to the political noise that increased the premium Mexico and Mexican assets have to pay on credit markets.

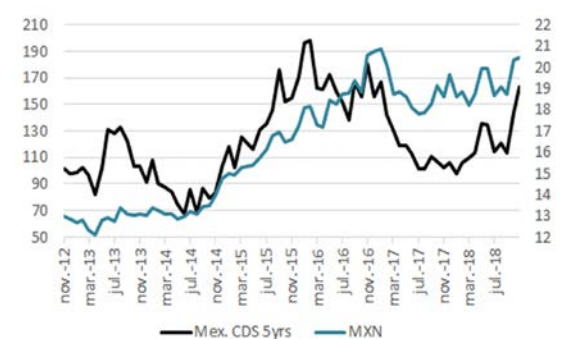
GDP growth and interest rates



Pressure on financial markets



Mexico risk

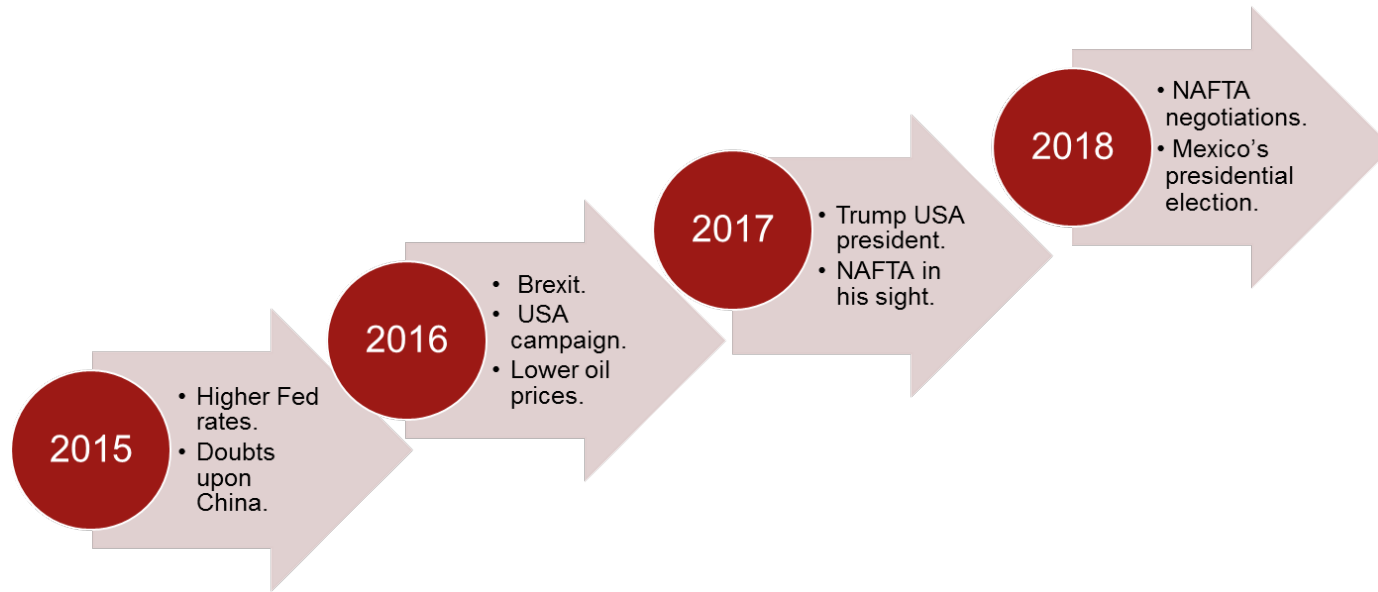


Source: INEGI

2

Mexico: at a glance

Even so Mexico GDP has been quite resilient in recent shocks.



SAM Forecasts 2019:

GDP:	3.3%
MXN:	17.21
Ref.rate:	3.25%

GDP:	2.89%
MXN:	20.72
Ref.rate:	5.75%

GDP:	2.05%
MXN:	19.66
Ref.rate:	7.25%

GDP:	2.2% e
MXN:	20.00 e
Ref.rate:	8.25% e

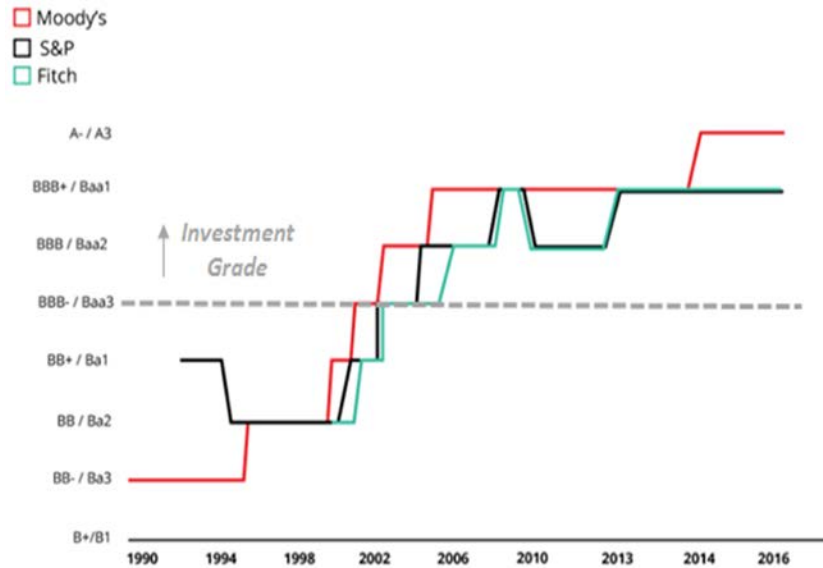
GDP :	1.9%
MXN:	20.00
Ref. Rate:	8%

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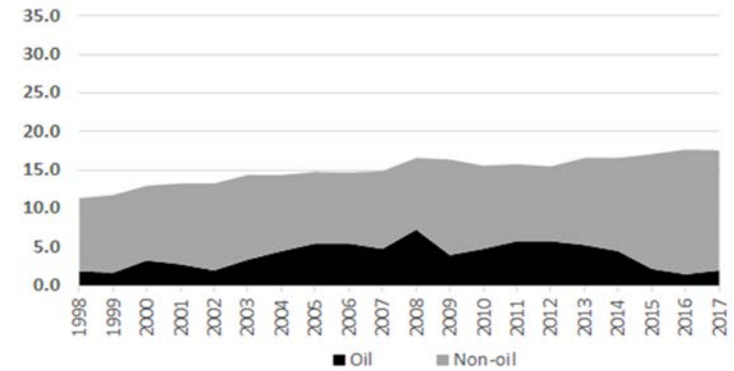
Mexico: credit metrics are solid

Only Fitch has a negative outlook; Mexico is **Investment Grade** in the three main credit agencies.

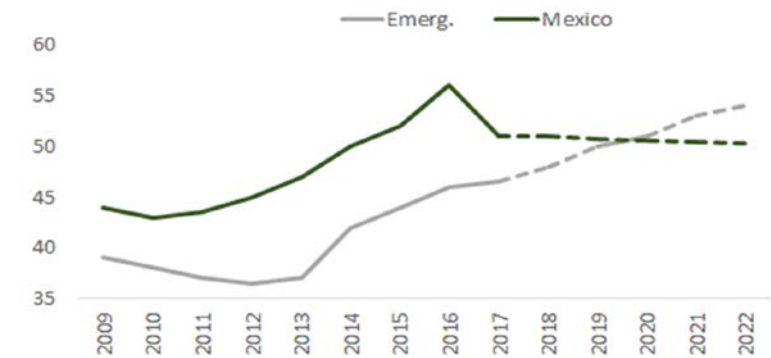
Sovereign Rating



Government revenues (% of GDP)



Public Debt (% GDP)



Source: SAM, Bloomberg, SHCP, IMF Forecast

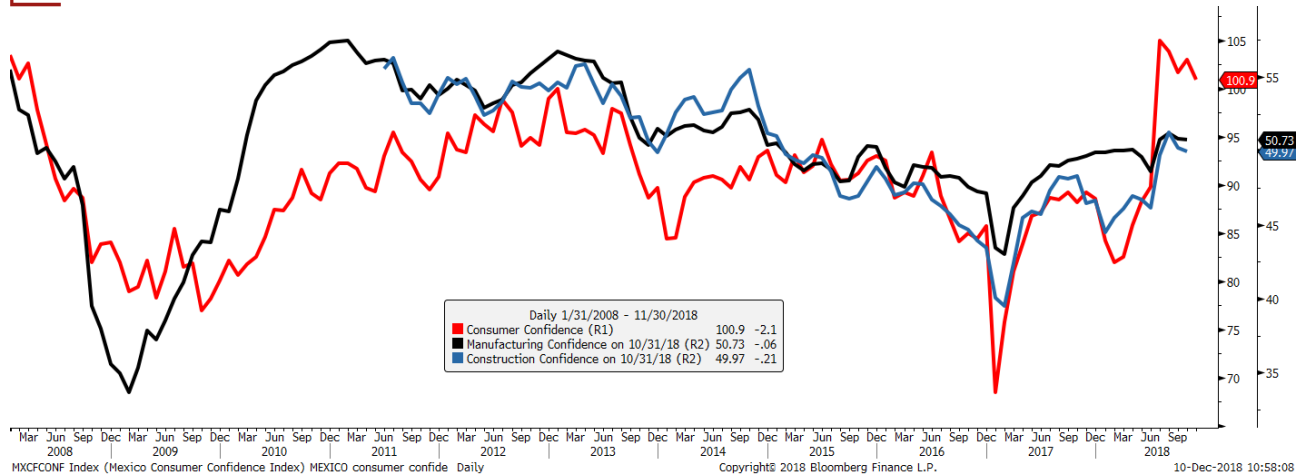
2

 Mexico

Confidence indicators recovering

Confidence indicators improved in Mexico, particularly, the consumer confidence index.

 **Confidence Indexes**



2

 **Mexico: sectors vulnerabilities and opportunities** **Opportunities**

Financial institutions which have strong capitalization and liquidity, are cheap after the strong sell-off.

Consumer sentiment is high and resilient, favoring domestic oriented companies.

Fibras are sound businesses, the removal of the NAFTA threats unlocks their value.

 **Vulnerabilities**

Potential change in the role of **Government owned** entities CFE and PEMEX.

The USMCA agreement seems to be satisfactory for Mexican **auto parts producers** but it remains untested.

2

 **Argentina: what has happened?****Accumulated imbalances**

The country accumulated several imbalances that started to generate a wave of **discomfort among investors** (high inflation, high fiscal and current account deficits).

Government officials assessed the shocks as transitory and tried to defend the currency with **low level of reserves**.

Interventions failed to calm the market; bonds and FX sold off heavily

**Bailout program from IMF**

Argentina received a historically high **bailout program from IMF** amounting to **\$57bn** with relatively low conditionality and strong political support from developed countries.

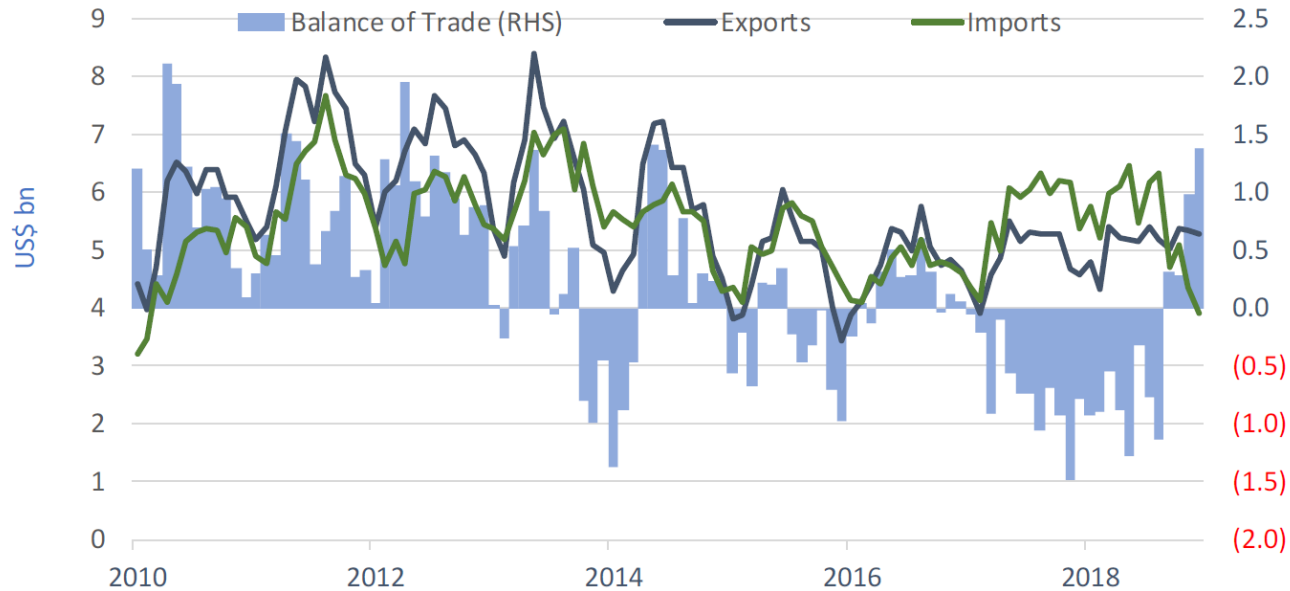
However, the **credibility** of the Central Bank authorities was questioned and the president and part of the board were replaced.

Confidence has improved but the market remain cautious. The IMF now expects the government to reduce the fiscal deficit 0% in 2019, from a previous 1.3% deficit.

2

Argentina: Economic Data – adjustment impact

Foreign Trade Statistics – Balance of Trade



Trade deficit already adjusting

Plunging imports and stable exports -with a recovery of agricultural output - corrected the trade deficit, easing the pressure on reserves.

2



Argentina: Economic Data – adjustment impact



Interest rates and inflation



Source: Bloomberg

ARLLELIQ Index (Argentina LELIQ 7-Day Notes Rate) 0214_leliq_CPI Daily 05FEB201 Copyright© 2019 Bloomberg Finance L.P. 15-Feb-2019 11:42:48

Lower inflation prints allowed the CB to place lower 7-day rates on Leliqs.

2



Argentina: sector opportunities and vulnerabilities

Opportunities

Oil & Gas sector. Oil were liberalized thus ring fenced from public needs. Gas plans have been modified to meet IMF requirements on subsidies. Some companies showed discomfort and announced legal actions.

Exporters and companies with dollar-denominated contracts can benefit in this environment.

Vulnerabilities

Construction sector due to cuts in public spending.

Banks may also expect some profitability reduction after the slowdown of the economy and depreciation of the currency.

Utilities will also see their tariff environment subject to a negotiation between Gencos and Discos.

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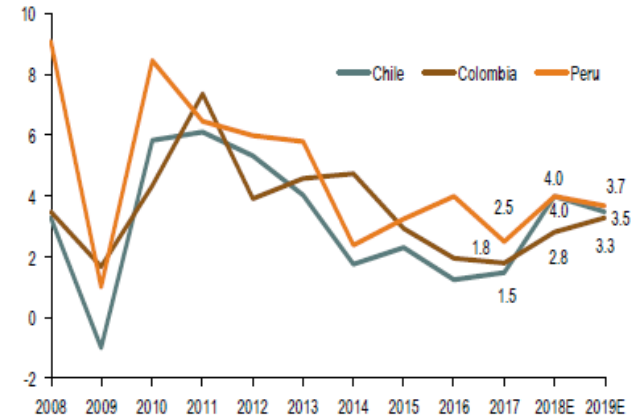


Andean Countries

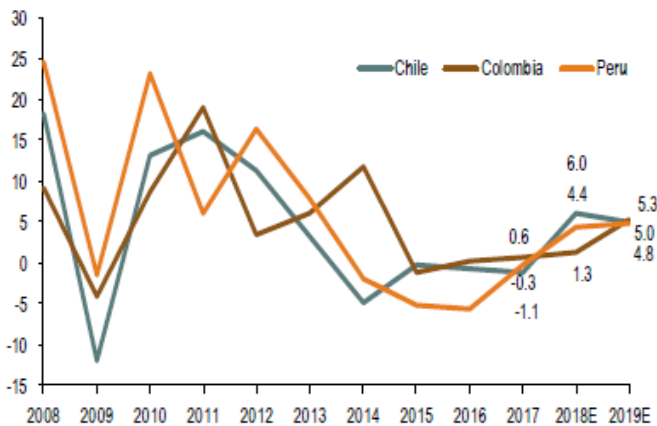
Good news from Colombia, Chile and Peru

Strong GDP numbers in all three countries, with growing investments numbers, with both inflation and fiscal deficits under control. Current accounts negative but improving.

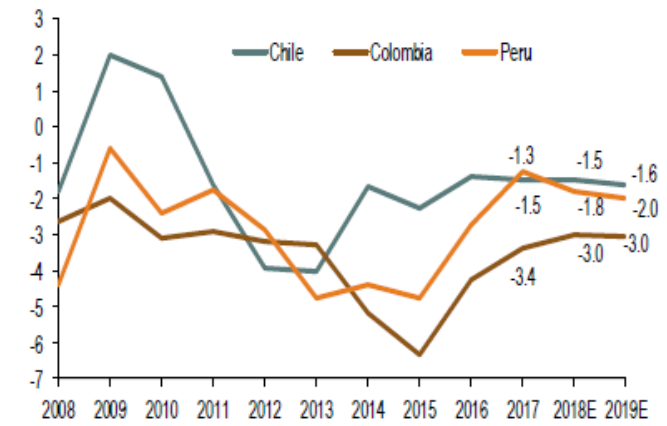
GDP Growth (% y/y)



Total Investment (% y/y)



Current Account (% GDP)



Source: BCRP, BanRep, BCCh, Credicorp Capital

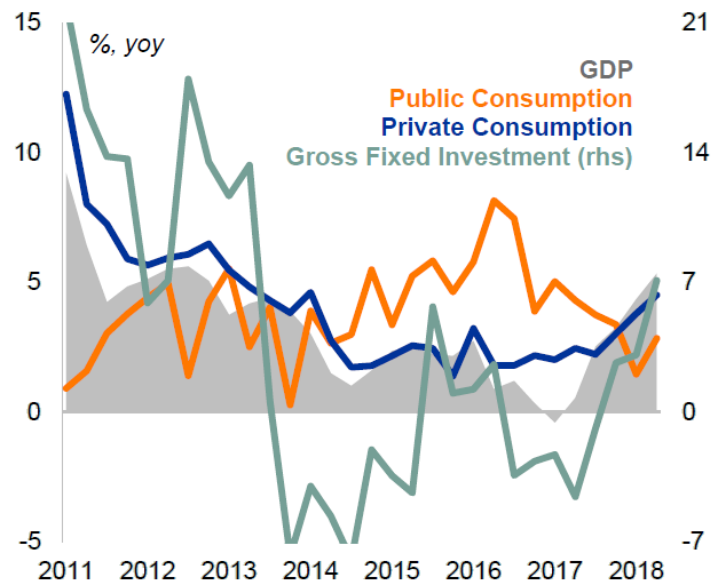
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 Chile

Strong GDP numbers led by investments

GDP expectations are 3.8% and 3.4% for 2018 and 2019 respectively (up from 1.5% in 2017).

GDP Growth (% y/y)



Source: Bloomberg, ITAU

Fiscal Reform

The proposed bill aims to **modernize the tax system and boost investment**.

One of the key changes the bill is to fully **integrate the tax system** (i.e., 100% of corporate taxes would be recognized as a tax credit by shareholders). The corporate tax rate remains unchanged at 27%.

To achieve the fiscal neutrality of the bill, it includes the mandatory use of **electronic billing** to record VAT on all transactions, new taxes on pollution, a 10% flat tax on digital platforms as well as measures to decrease tax evasion.

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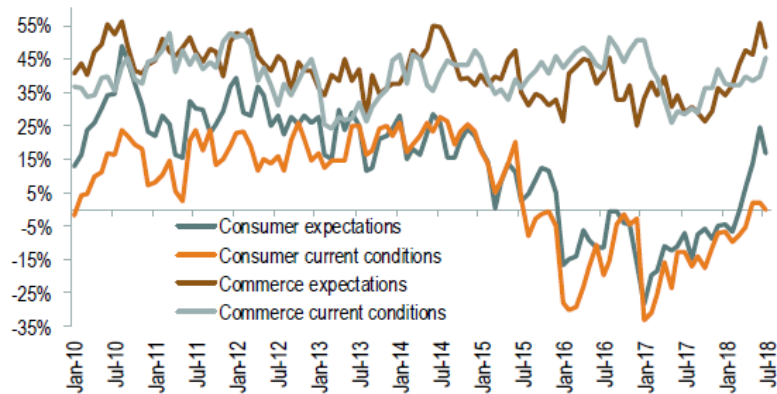

Colombia

Consumption led colombian growth in 2Q18

GDP expectations are 2.6% and 3.2% for 2018 and 2019 respectively (up from 1.8% in 2017).

Consumption (3.4%) continued providing an important basis for the country's expansion, largely explained because household confidence, lower and stable interest rates.

 **Consumer and commerce confidence (%)**

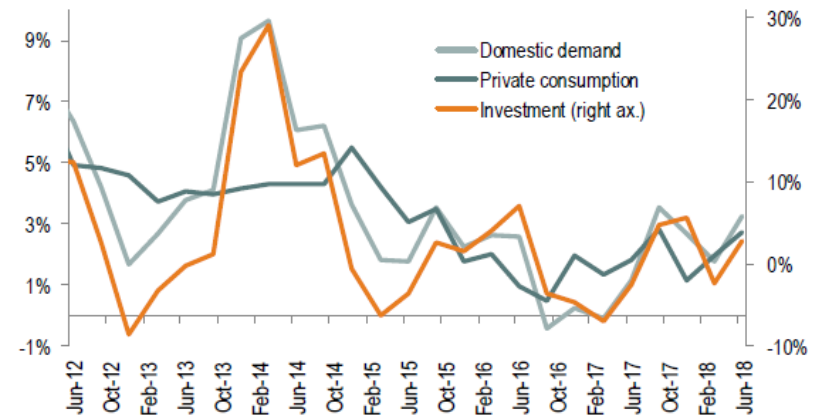


Fiscal reform

The main goal of the new fiscal reform is to **improve competitiveness**, foster entrepreneurship, and increase formality and employment. A further reduction of corporate taxes is the main proposal.

The 2016 tax reform already decreased the statutory tax rate from 40% in 2017 to 37% this year while setting an additional reduction to 33% in 2019.

 **GDP Components (% y/y)**



2

 Peru

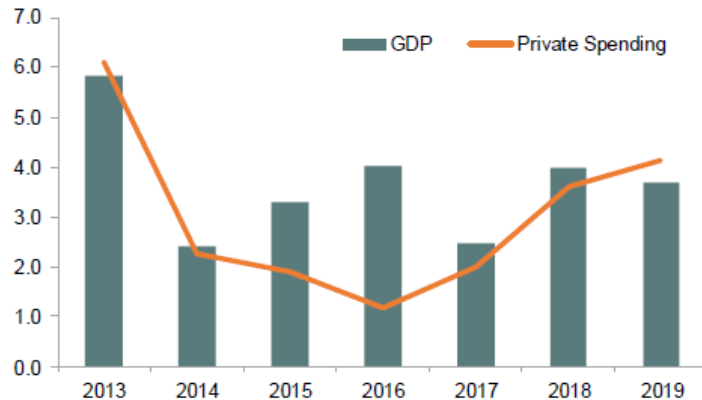
Investment had the largest acceleration among GDP components

GDP expectations are 4% and 3.9% for 2018 and 2019 respectively (up from 2.5% in 2017).

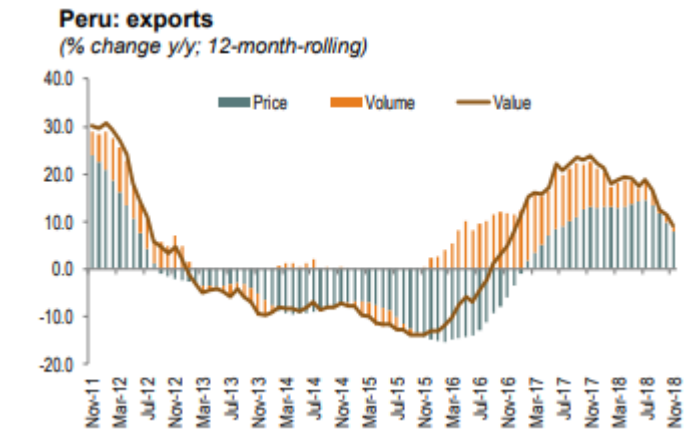
Domestic demand accelerated in 2Q18, supported by investment and private spending. Domestic demand grew 6.3% year-over-year in 2Q18 (from 4.2% in 1Q18), with private spending and investment showing the larger acceleration.

Peruvian **exports** still very resilient in spite of trade wars.

GDP and Private Spending (real % change)



Peru exports

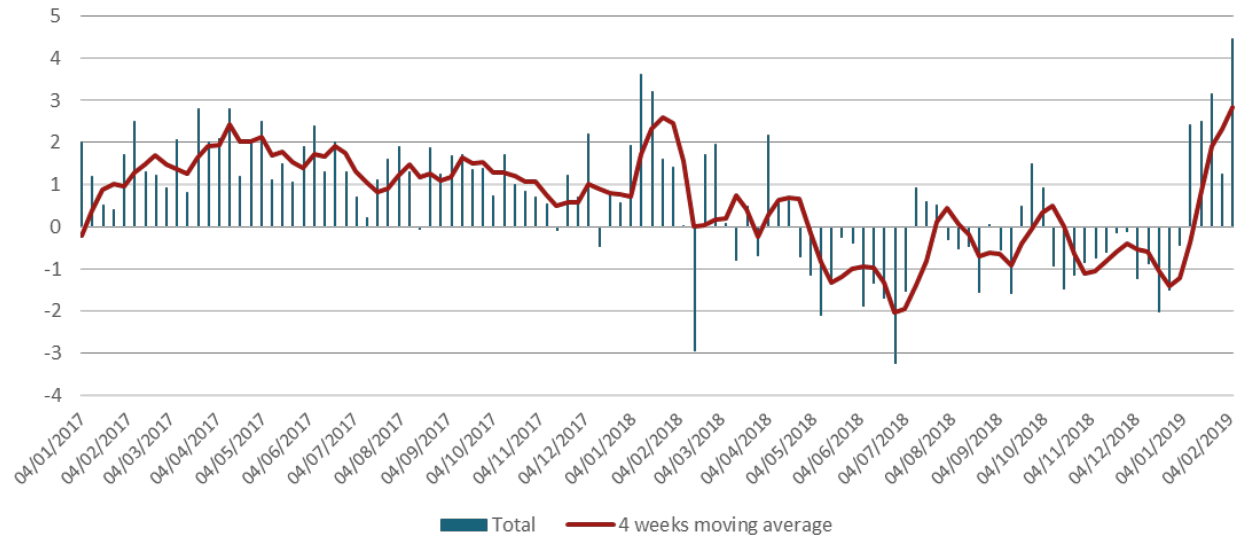


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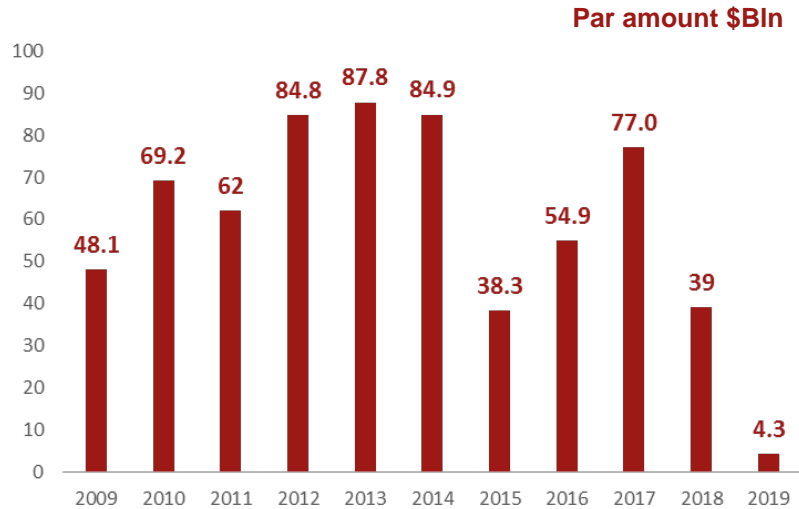
Flows into dedicated bond funds: relevant inflows in early 2019


Estimated Weekly flows to dedicated Emerging Market Bond Funds (USD Bln)


3

New issues

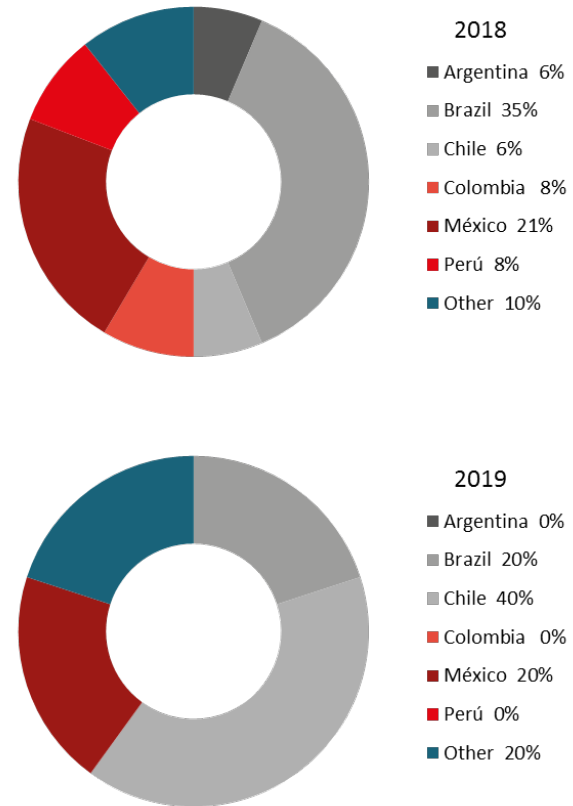
YTD total supply in Latin America bonds



In 2018: Brazil and Mexico ahead in issuance.

In 2019: Chile represents 40% of the new issues in these first months of 2019.

2018 vs. 2019 YTD supply by country



Source: EPFR, CS Latam Weekly Chartbook, February 12th 2019.

3

Latin America Corporate Gross and Net Supply

2018YTD EM corporate external bond gross and net supply

(US\$ bn)	Asia	EM Europe	Latin America	Middle East & Africa	Global EM
Gross issuance (a)	247	28	46	50	371
Estimated cashflows (b = c+d)	137	50	51	29	267
Amortizations (c)	96	36	19	19	171
Coupons (d)	41	13	31	11	96
Net issuance (e = a-c)	151	-8	26	31	200
Net financing (f = a-b = e-d)	110	-21	-5	21	104
Tender/buyback/calls (g)	21	11	42	11	86
Net issuance after tender/buyback/calls (j = e-g)	130	-19	16	20	114
Net financing after tender/buyback/calls (k = f-g)	89	-33	-47	9	18

Source: J.P. Morgan EM Corporate Technicals as of January 3rd 2019.

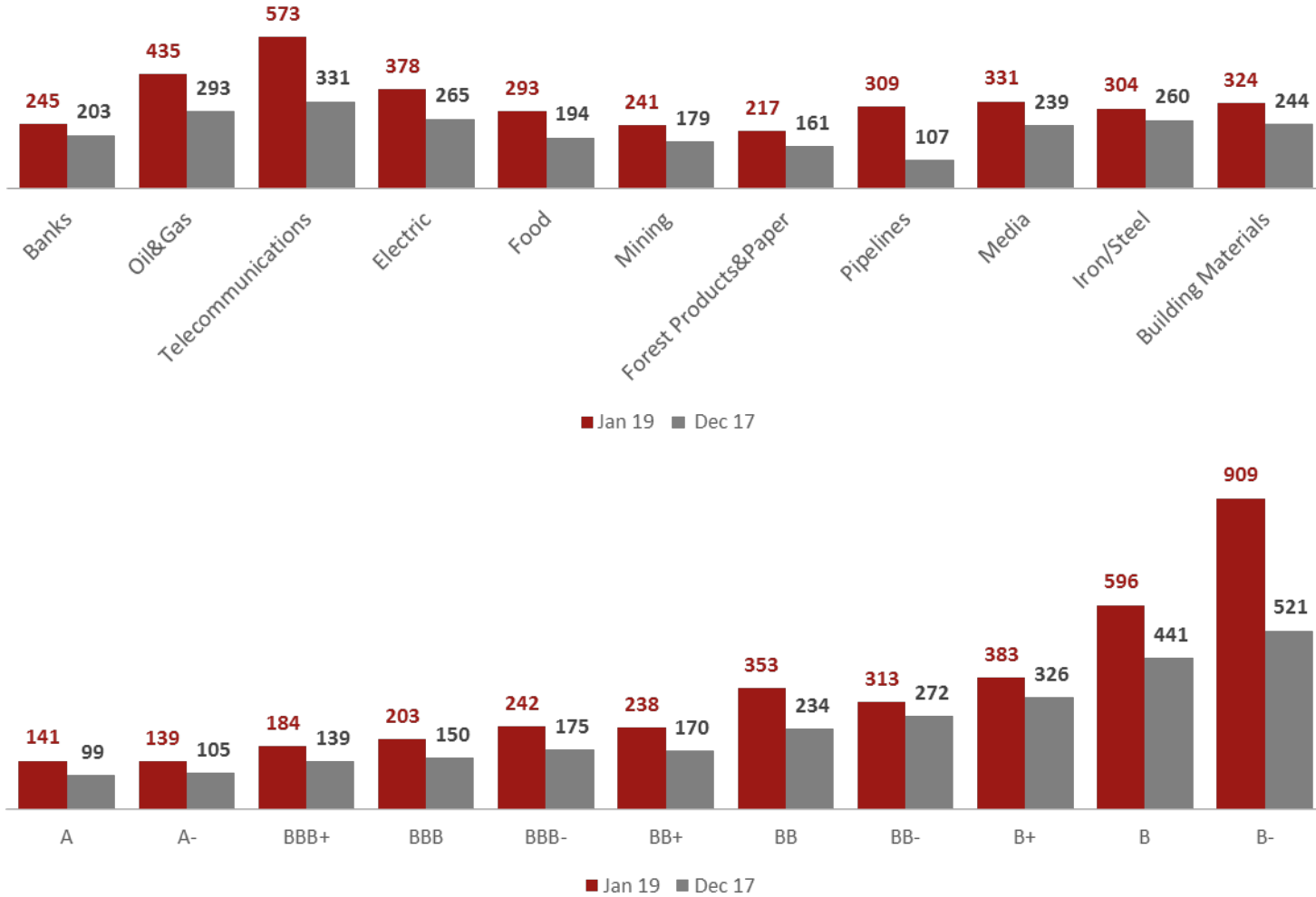
2019YTD EM corporate external bond gross and net supply

(US\$ bn)	Asia	EM Europe	Latin America	Middle East & Africa	Global EM
Gross issuance (a)	29	1	4	2	36
Estimated cashflows (b = c+d)	12	1	5	2	20
Amortizations (c)	8	1	2	1	11
Coupons (d)	4	1	4	1	9
Net issuance (e = a-c)	22	1	2	1	25
Net financing (f = a-b = e-d)	18	0	-2	0	16
Tender/buyback/calls (g)	1	0	0	0	1
Net issuance after tender/buyback/calls (j = e-g)	21	1	2	1	24
Net financing after tender/buyback/calls (k = f-g)	17	0	-2	0	14

Source: J.P. Morgan EM Corporate Technicals as of February 4th 2019.

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Market yields comparison: average G-spreads in CEMBI Latam



Source: SAM, JP Morgan, Bloomberg



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Santander AM Latin American Corporate Bond

Key facts

Asset Class	Latin American Corporate Credits issued in USD dollars
Inception Date	25/07/2008
Benchmark	CEMBI Broad Diversified LatAm Index
Total Fund Assets	\$558,6M (31 st Jan. 2019)
Fund Currency	USD
Fund Manager	Alfredo Mordezki
ISIN	LU0363170191 (Class I)
Bloomberg Ticker	SANHYDI EQUITY
Minimum Investment	\$500,000 (Class I)
Management Fee	0.60% (Class I)
TER	0.68% (31 st Dec. 2018)
Share Classes	A, AD, I

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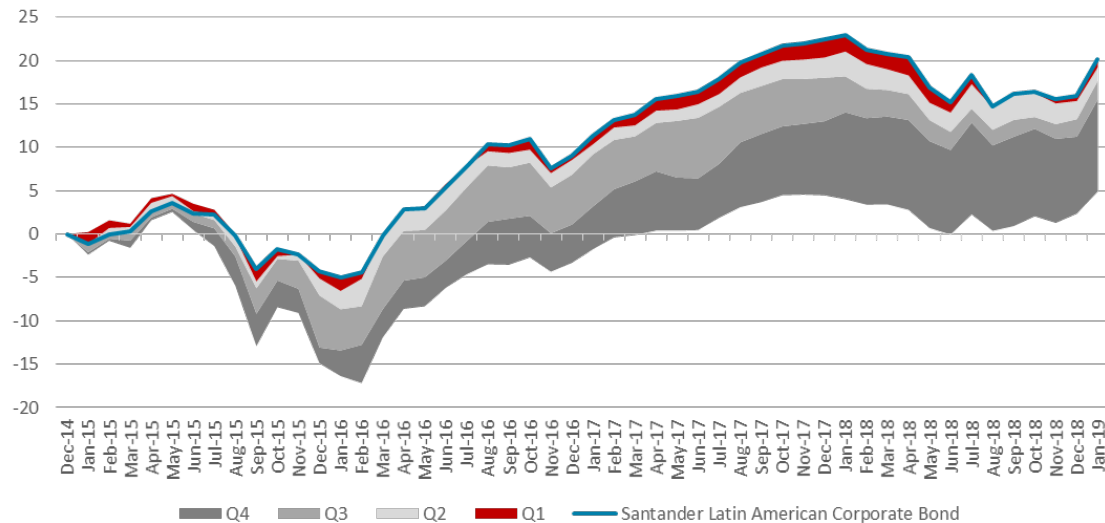
Santander AM Latin American Corporate Bond

Returns versus Benchmark (as at January 31st 2019)

	MTD	YTD	1Y	3Y	5Y
Fund	3.57%	3.57%	-2.31%	26.34%	28.16%
Index	3.42%	3.42%	0.08%	31.85%	31.20%
Difference	0.15%	0.15%	-2.39%	-5.50%	-3.04%



Peer group ranking chart



Cumulative performance from December 31st 2014 to January 31st 2019

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Santander AM Latin American Corporate Bond

 Summary

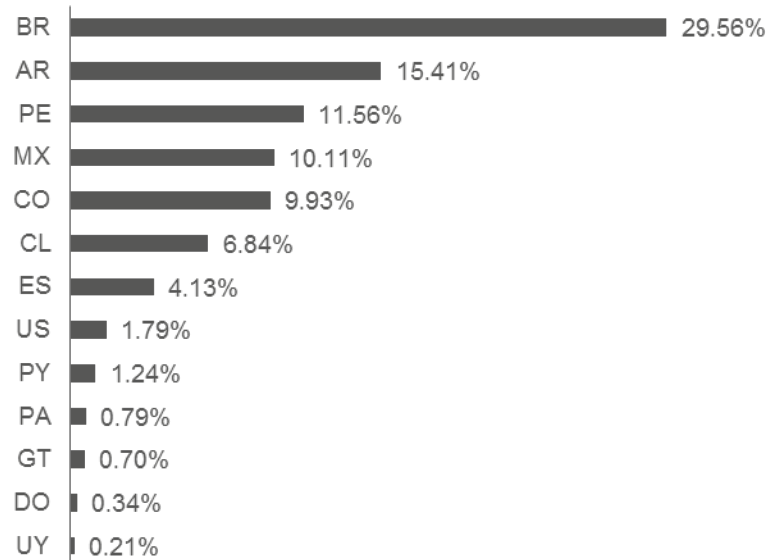
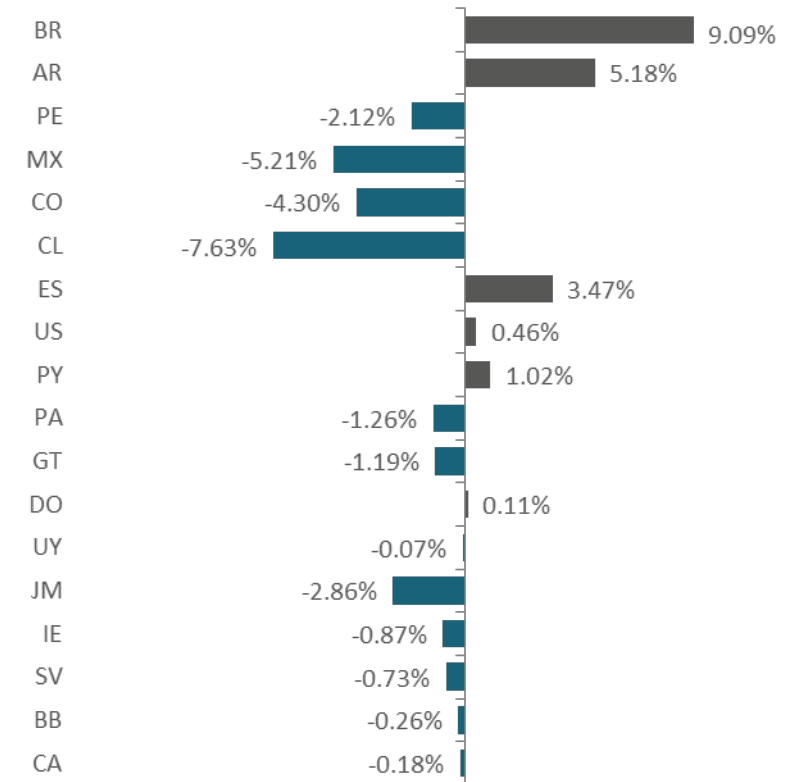
% Invested	92.63%	YTW	6.62%
% Corporates	91.54%	G-Spread	429
% Sovereigns	1.09%	Duration	4.17
% Cash	7.37%	Average Rating	BB
Number of Issues	93	AUM (USD Mio)	558.6
MTD Return	3.57%	YTD Return	3.57%

 Top Ten Holdings

10 largest holdings	Weight	YTW	Rating	G-Spread	Duration
ATENTO 6 1/8 08/10/22	2.48%	6.77%	BB-	434	3.01
LTMCI 7 1/4 06/09/20	2.27%	4.54%	B+	203	1.26
BCP 6 7/8 09/16/26	2.04%	3.93%	BBB-	148	2.34
AZULBZ 5 7/8 10/26/24	2.00%	7.15%	B+	469	4.66
CAPXAR 6 7/8 05/15/24	1.99%	9.85%	B	740	4.18
JSLGBZ 7 3/4 07/26/24	1.89%	7.99%	BB-	553	4.38
CNECN 7 1/4 05/03/25	1.89%	8.05%	B+	557	4.82
RAILBZ 7 3/8 02/09/24	1.89%	5.65%	BB-	321	3.35
HIDRVS 5.95 01/24/25	1.85%	7.12%	BB-	465	4.89
PETBRA 7 3/8 01/17/27	1.75%	5.99%	BB-	344	6.03
Total	20.06%				

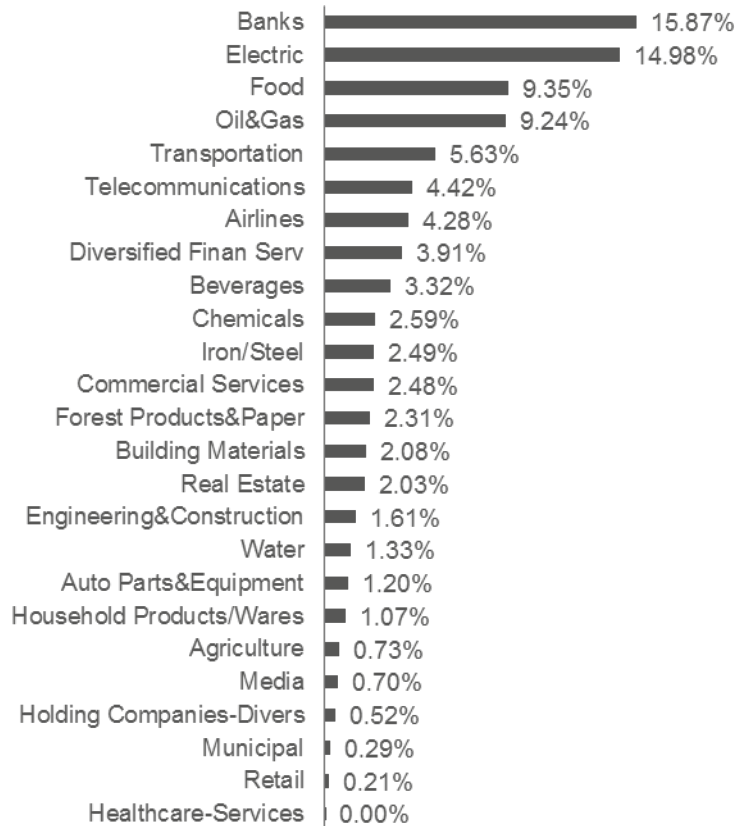
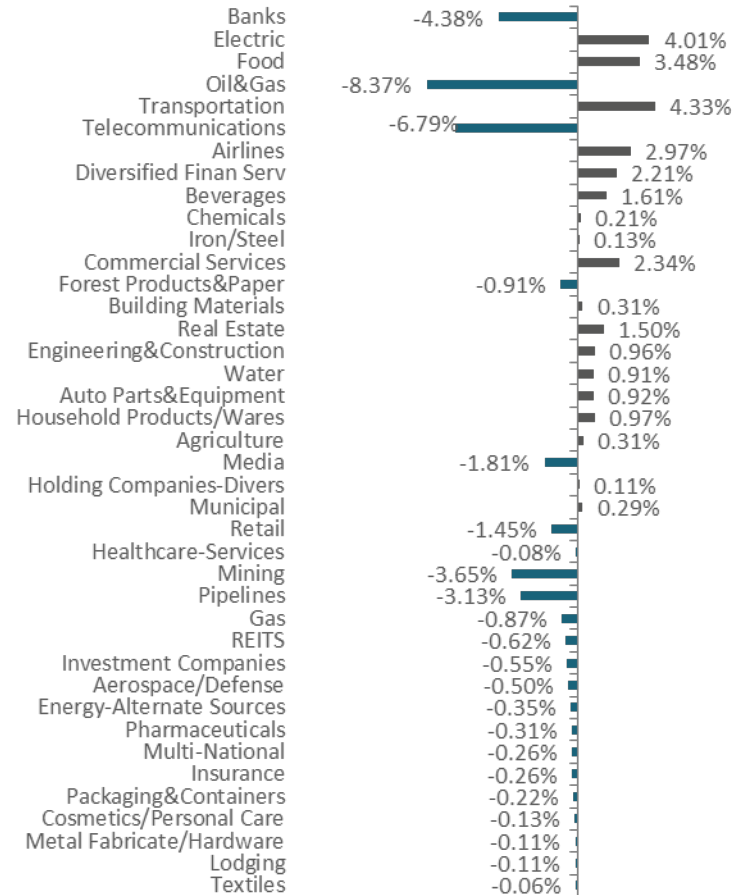
4

Santander AM Latin American Corporate Bond

 Country positioning

 Country active weight


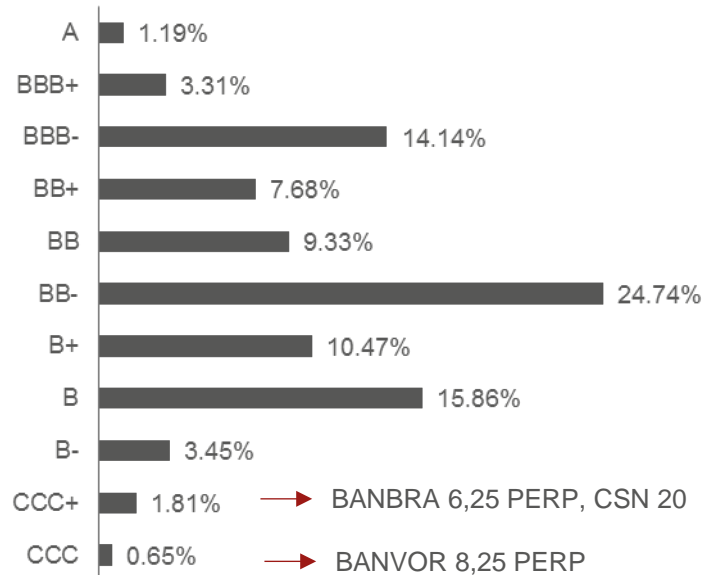
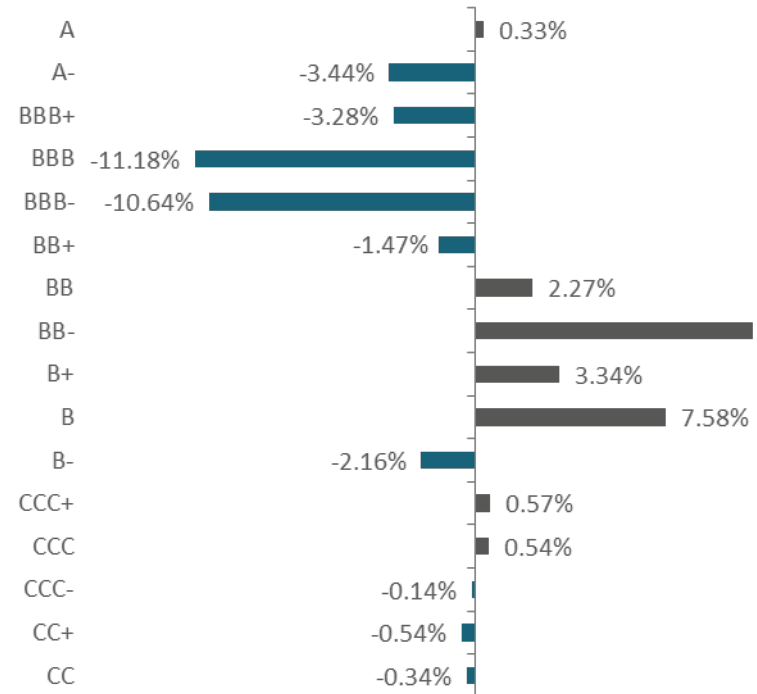
4

Santander AM Latin American Corporate Bond

 Sector positioning

 Sector active weight


4

Santander AM Latin American Corporate Bond

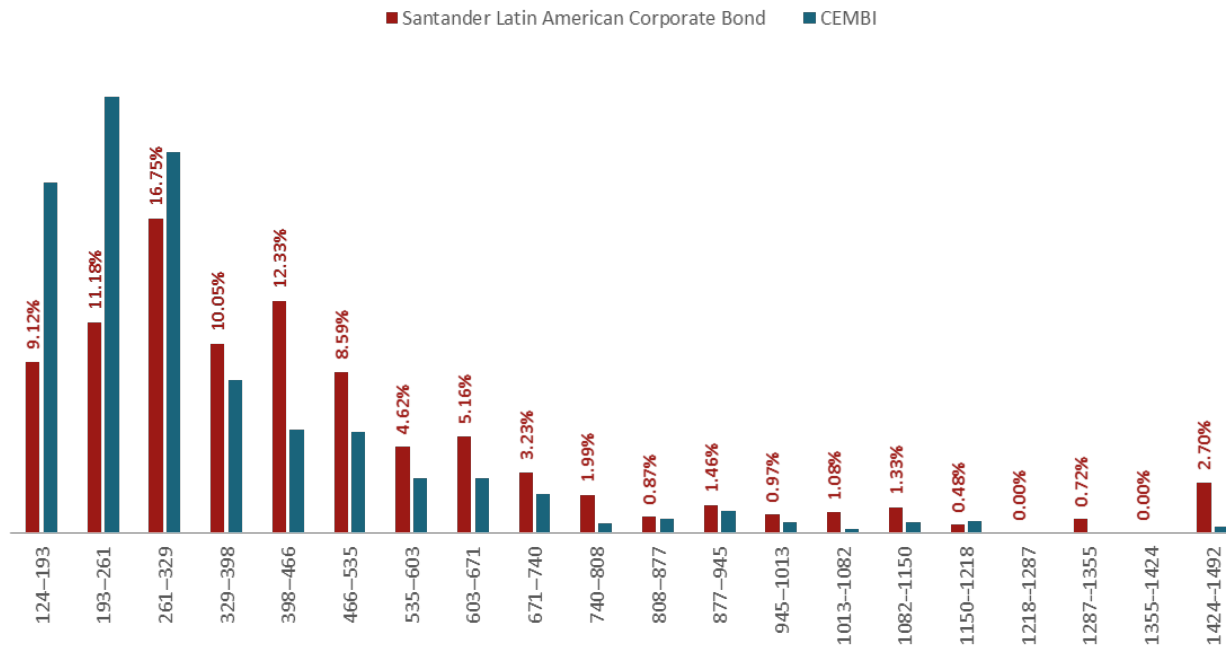
 Rating positioning

 Rating active weight


4

Santander AM Latin American Corporate Bond

Average G-Spread as at 31/01/2019 is **429bps** (compared to 359bps for the benchmark). The following graph shows the distribution of the G-Spread.

 Histogram (weight by G-Spread bucket)



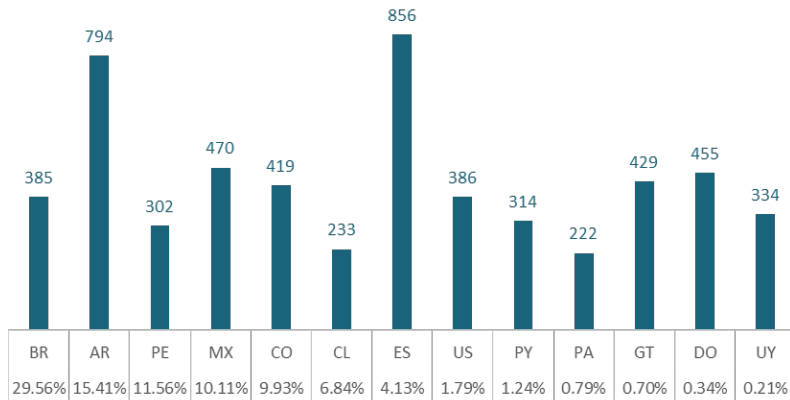
Around 68% of the positions in the portfolio (absolute weights) show a G-Spread between 124bps and 535bps.

4

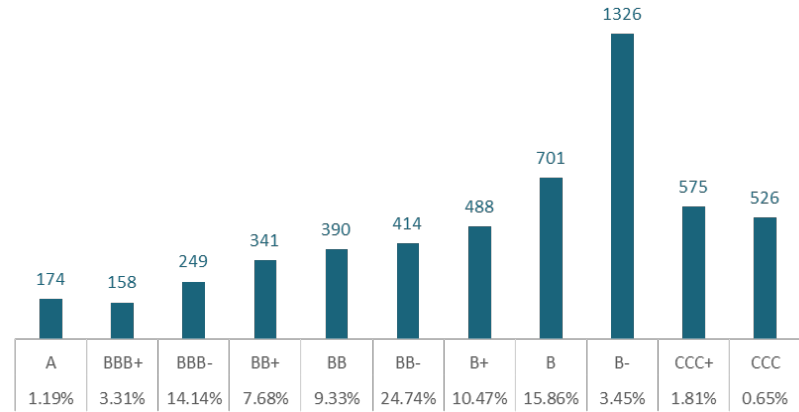
Santander AM Latin American Corporate Bond

Average G-Spreads. Each bucket is shown with its weight in the portfolio.

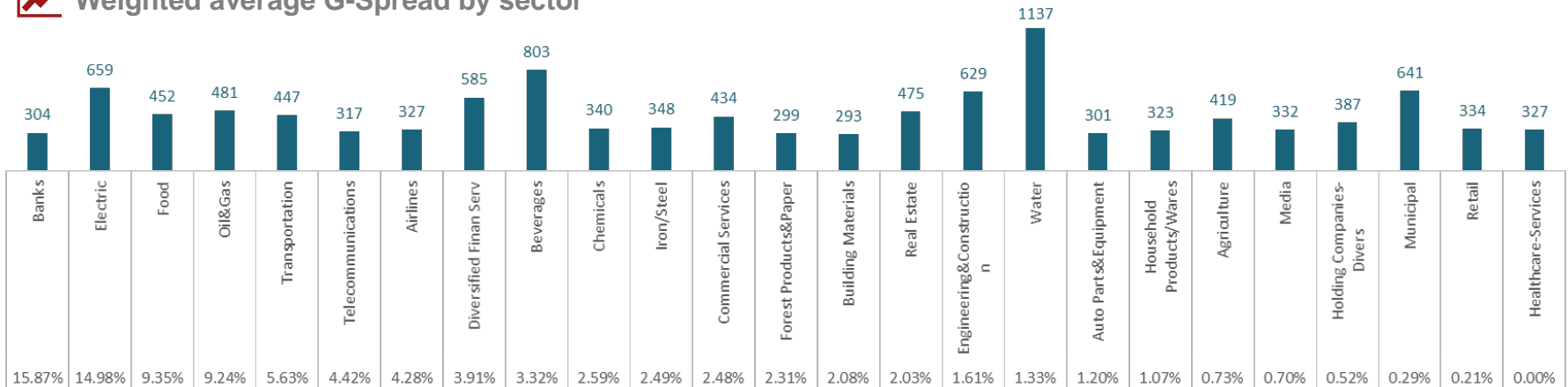
 Weighted average G-Spread by country



 Weighted average G-Spread by rating



 Weighted average G-Spread by sector



Source: SAM, JP Morgan. Fund , benchmark compositions as of January 31st 2019. Benchmark: JPM CEMBI Broad Diversified Latam. Data produced by Investment Team, not audited.

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5

LATAM Fixed Income Team

**Alfredo Mordezki**

Global Head Latam Fixed Income

London

Joined Team in 2010

Sectors: Oil&Gas, Supranational

**Marcelo Peixoto**

Credit Analyst / PM

Brazil

Joined Team in 2013

Sectors: Financials, Metals



Local support:
4 Equity Analysts
4 Macro Strategists
1 Equity Country
Coordinator
Local portfolio
managers

**María Aramoni**

Credit Analyst / PM

Mexico

Joined Team in 2012

Sectors: Food, Retail, Telecoms



Local support:
1 Equity Analyst
1 Macro Strategist
1 Equity Country
Coordinator
Local portfolio
managers

**To be appointed**

Credit Analyst / PM

Argentina



Local support:
Chile: 5 Equity Analysts
Argentina: 1 Equity
Analysts
1 Equity Country
Coordinator
Local portfolio managers

**John Montgomery**

Credit Analyst / PM

London

Joined Team in 2011

Sectors: Pulp&Paper,
Airlines**Tiago Rego**

Local currency PM

London

Joined Team in 2011

Sectors: Government

**Teresa Martínez**

Quantitative Analyst

Madrid

Joined Team in 2013

**Alfredo Mordezki**

Global Head of Latam Fixed Income, London

- Alfredo joined SAM in 2010, and is responsible of all of the firm's regional Latin American Fixed Income investments. Before joining SAM he worked for BBVA in New York and Madrid, as head of Latin American Credit Trading. He has close to 20 years financial experience.
- He coordinates the local Latin America Fixed Income teams. He graduated in Economics from Universidad de la República (Uruguay) and holds a Msc. in International Economics from same university and a Msc. in Economics and Finance from Universitat Pompeu Fabra (Barcelona).

**Teresa Martínez**

Quantitative Analyst, Madrid

- Teresa joined SAM in August 2013 as analyst. Previously she worked as a quant in Banco Santander's Fixed Income Quant Team (8 years). Before that, she held several non-tenure positions in the Universidad Autónoma de Madrid (10 years).
- She holds a PhD degree in Mathematics by the Universidad Autónoma de Madrid.

**Tiago Ventura Rego**

Local Currency Debt PM, London

- Tiago joined Santander Asset Management in 2011, as portfolio manager of the Santander Latin America Fixed Income Luxembourg fund. He has close to 10 years experience in financial markets.
- Previously worked as prop trader for Santander (2 years) as well as in Banco Espírito Santo (4 years). He also worked as a consultant for Deloitte (3 years).
- He holds a degree in Management and Industrial Engineering at Instituto Superior Técnico in Lisbon.

**John Montgomery**

Credit Analyst / PM, London

- John originally joined SAM in 2011 before spending an interim year in Santander's LatAm Corporate Finance division in New York as part of their Executive Training Programme. He rejoined the LatAm Fixed Income team in SAM in 2014. He previously managed the Investment Operations for Santander Private Banking in Jersey, Channel Islands and has 12 years' banking experience.
- John graduated with an MA in European Civilization from the University of Glasgow and is certified as completing CFA level 1, and CFA UK's Investment Management Certificate (IMC)

**María Aramoni**

Credit Analyst / PM, Mexico

- Maria joined SAM in March 2012 as analyst/portfolio manager within the Latam Global Fixed Income team. She previously worked for 2 years as senior trader of the Money Market and Currency Desk for Prudential Bank México. Prior to that, she was an equity research analyst for ING Bank, covering the Food and Beverage sector, and before that a credit analyst for Santander GBM in Madrid covering Consumer and Industrial sectors (European issuers). She started her career as trader of Fixed Income and currencies for BBVA-Bancomer in Mexico. She has 21 years' experience.
- She graduated in Economics from Universidad Iberoamericana in México and has a Msc. in Finance from CUNEF in Madrid, Spain.

**Marcelo Peixoto**

Credit Analyst / PM, Brazil

- Marcelo joined SAM in 2013. Marcelo has over 18 years' professional experience, in Brazil and abroad, working for financial institutions, rating agency and multinational industries in a wide range of areas such as: Internal Audit, Credit Analysis, Asset Management and Investments Analysis. Previously he worked at Banco Standard de Investimentos as Head of Credit. Prior to that he was an associate director at Standard and Poor's in the financial institutions and metals and mining ratings group. He has also worked for Alcan, Pirelli and Banco Citibank. He started his career as an internal auditor at Tribunal Regional Federal.
- Marcelo graduated in Business Administration from Sao Paulo University and in Accounting from Universidade Paulista. He also holds a Master in Finance by Fundacao Instituto de Administracao and is certified as completing CFA level 1.

Strategy total AUM (31/1/2019)

Funds	Brief description	\$ MM
Santander Latin American Fixed Income	Local currency fixed income	6.1
Santander Latin American Corporate Bond	USD corporate credit	558.6
Santander Renta Fija Latinoamericana		21.2
Helaba Institutional Mandate 1	IG USD corporate credit	314.6
Helaba Institutional Mandate 2		66.2
Total		966.6

5

LATAM Fixed Income Team

	Total Return	Consistent return	Preservation	Expense
Overall rating	5	5	3	5
3 year rating	3	3	3	5
5 year rating	5	5	3	5

LIPPER L	HIGHEST	5	4	3	2	1	LOWEST
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LIPPER LEADER SCORECARD

Source: Lipper as at 31st December 2018.

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Absolut
research



Source: Absolut|ranking, Emerging Market Bonds Latin America, as of 12/2018

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