Mexico's Emerging Market More Attractive Than You Think

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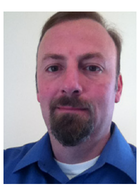

Emerging markets are an attractive investment as they can offer the possibility of greater returns over time when compared to more established markets. They also offer more risk but this does not mean they have to be risky. Many emerging markets have been able to weather the storm of slow global growth and geopolitical turmoil and Mexico is one of them. This may seem counter intuitive, the media likes to portray the country as a hot bed of drug trafficking and poverty, but reforms made since the election of Enrique Pena Nieto have gone a long way towards establishing the country as a rising star in the global economy. Along with changes in how the energy and telecommunications sectors are run, trade agreements with more than 45 countries and a higher rate of productivity than seen in other parts of the world are elevating the slogan "made in Mexico" to a position of prominence. Along the way improving labor conditions and a growing wage base are driving a thriving and growing consumer segment.

Unlike some other investment markets, foreigners are welcome to invest directly in the Bolsa Mexican de Valores, the Mexican stock exchange. It is also possible to invest in ADR's on the US exchanges. While both avenues are attractive investing in a managed fund may still be the best choice. The Mexican economy itself is relatively stable but the stock market can see some wicked volatility making it a tricky environment for the average investor.

One such fund is The Mexico Fund. This is a non-diversified closed-end fund focusing on the Mexican stock market and companies with operations in Mexico. The fund was started in 1981 and has been a steady distributor of dividends in that time. The funds objective is long term capital appreciation, the portfolio is typically 80% equities with 20% fixed income investment but these numbers may fluctuate due to market conditions or defensive positioning as management deems prudent. The investment adviser is Impulsora del Fondo Mexico, S.C. headed by by Mr. Albert Osoria, the controlling shareholder. Mr. Osorio is also the president and principal executive officer of The Mexico Fund, having risen to that position from his former roles as treasurer and senior VP.

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focused on prime growth areas in the country. The top five are industrial, consumer discretionary, real estate, banks and insurance, comprising 66% of portfolio value. Rounding out the remainder of the portfolio are investments in energy, information technology, utilities and REITS. The top 10 holdings make up just over 60% of portfolio value and include names like Wal Mart de Mexico, Kimberly Clark de Mexico, America Movil (telecom), Fomento Economico (multinational beverage, makes the real sugar Coca Cola) and Cemex (building materials).

The fund pays an annual dividend, distributed quarterly, according to its Managed Distribution Plan initiated in 2008. For those not familiar, an MDP is one of two methods a CEF may distribute dividends. It is a formulaic method which pays a percentage of income, the other method being a simple flat rate. The Mexico Funds MDP states it will pay a dividend equal to 6% of the prior years net asset value. So far in fiscal 2016 there have been two distributions equal to an annualized rate near 7% at today's prices. Distributions may come from net investment income, capital gains or return of capital which is a small worry. As of the most recent fund report directors and managers say there are "no reasonably foreseeable circumstances that might cause the termination of the MDP". To put the dividend into perspective, the fund has paid $50.87 per share in distributions since it's inception. More than half, $27.25, since the MDP was adopted.

Net asset value is always important but even more so considering the dividend is tied to it. Historically, NAV for this fund runs in the range of $18 to $21 depending on market conditions. As of last reporting NAV was $18.68, down from a peak above $30 in 2014 but relatively steady compared to the life of the fund. The discount to NAV is more important, it is currently running about -12%, well above the 3 year average discount of -4% and offering a substantial savings for new investors seeking to get into the Mexican market. The discount hit a high, above -12%, earlier this year and has been recovering from that peak in recent months so this deal may not last much longer. If performance holds true to historical trends we can expect the discount to continue narrowing into the medium and long term.

Mexico does not get the credit it deserves, at least not when it comes to investing. Sure, there are lots of issues present but when you look beyond the stories media outlets prefer to pursue you will find a vibrantly growing economy and one bolstered by ongoing reforms. Much of the changes in recent years, if not all, can be laid at the feet of President Nieto and are expected to last long into the future. These reforms are altering the business and investing environment, allowing more private businesses to enter the market, enhancing competition between new and existing business, improving global competitiveness and strengthening the consumer segment. If you are looking to get invested in Mexico The Mexico Fund is a great way to do it. The fund outperforms its benchmarks in the short and long term, it pays a nice dividend and all at an historically substantial discount to NAV. Taken together this provides an opportunity for capital appreciation, a narrowing discount and distributions to power total returns into the coming months and years.