LATIN AMERICAN STOCKS DECLINE IN NOVEMBER; CURRENCY, EUROPE WEIGH

INCA Investments, LLC

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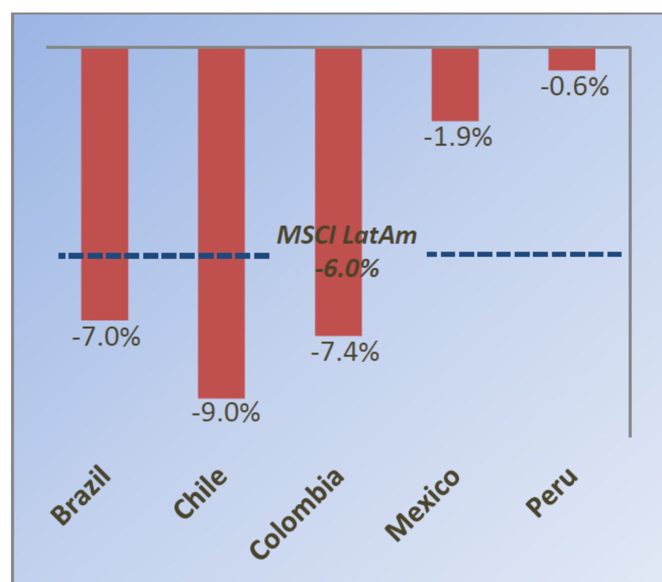
The Latin American markets, as measured by the MSCI Latin American Index, fell 6.0% in November. All of the region's main indices --which are measured in U.S. dollars-- declined during the month, led by the Chilean and Brazilian indices which fell 9.0% and 7.0%, respectively. Much of these declines were due to the depreciation of the currencies in these countries: the Chilean peso declined 5.0% and the Brazilian real fell 5.1% against the U.S. dollar in November. The Mexican and Peruvian indices also fell, but considerably less- declining 1.9% and 0.6% in November. Equity markets around the world depreciated as renewed concerns about the European sovereign debt crisis weighed on sentiment. The Latin American index performed better than the overall Emerging Markets index which fell 6.7%, although both indices underperformed the MSCI Europe index and the U.S. S&P500 index which fell 4.5% and 0.5% respectively in November.

"After the Latin American index's 17.5% gain in October, the European debt crisis and other global concerns fuelled investor risk aversion in November."

After the Latin American index's 17.5% gain in October, the above-mentioned global concerns once again fuelled risk aversion in November and the materials (-8.8%), financials (-8.7%) and telecoms (-8.3%) sectors led stock declines during the month. More defensive consumer staples and energy stocks fared better, declining 1.3% and 3.2% in November.

Mexico, which is the region's second largest economy and equity market after Brazil, performed better than the region overall, boosted by a series of promising economic data releases. In the last week of the month, Mexico's third quarter GDP growth came in at an annualized 4.5%, beating market expectations and providing additional support to the growing consensus view that the Mexican economy is not suffering from the slowdown of the U.S. economy. Among the economies of the region, Mexico has the closest ties to the U.S. and some investors had been concerned, especially at the beginning of the year, that the U.S. economic downturn would have an adverse effect on the Mexican economy. There is also further evidence that the Mexican domestic sector is supporting the country's economic growth- the country's most recent retail sales reading showed retail sales grew 4.7% compared to a year earlier, reaching a level above the previous highs set in 2008.

MSCI LATIN AMERICA MONTHLY PERFORMANCE (IN US DOLLARS)



Brazil, Latin America's largest economy, has continued to perform relatively well, but we are monitoring closely the potentially negative impact on the Brazilian economy from the expansion of consumer credit and the nation's inflationary pressures. Brazilian consumers continue to be considerably less overleveraged than their peers in much of the developed world, but consumer debt levels have increased in tandem with the economic expansion in Brazil and are higher than in most of Latin America. Also, Brazil is one of the few Latin American countries with relatively high inflation and for this reason we have avoided Brazilian companies which are vulnerable to inflationary pressures.

Regardless of how prolonged the current global economic turbulence ends up being, it is our view that the Latin American economies are in significantly better shape than their peers in the developed world and the long term outlook for the region's domestic, consumption-oriented companies is particularly promising.

GEO, HYPERMARCAS AND CCU IN FOCUS

In November Mexican homebuilder Geo, which accounts for 5.9% of the WIOF Latin American Performance Fund portfolio, declined 17.3%. Geo, which is Mexico's biggest affordable homebuilder, specializes in large scale housing developments geared towards Mexico's lower income classes and first time homebuyers. Geo is a geographically diverse company and has a presence in 20 of Mexico's 31 states, building both single-family homes and multi-family apartment buildings. The shares of Geo came under pressure along with the other Mexican homebuilders during the month in our view fuelled by continued global concerns about the homebuilding industry, especially in the U.S.

However, the headwinds facing the U.S. housing market are not applicable to Geo or the Mexican homebuilding sector. Mexico has not experienced a housing crisis such as the one that is weighing on the U.S. housing market; the operating environment in Mexico is stable and favorable for the country's homebuilders. Home sales in Mexico, for example, have been rising steadily during the past years fuelled by solid demand for new housing from Mexico's young population and lower income Mexicans which have traditionally faced a shortage of affordable housing. We believe that these two segments, which have been traditionally underserved by the housing market in Mexico, will continue to drive demand for new homes in the future. In part due to Mexico's young population, the country will need 20.2 million new homes in the next 20 years to cover its housing deficit.

"Improving the access to affordable housing in Mexico is a cornerstone of the government's strategy to improve the lives of lower-income Mexicans."

Another aspect that differentiates the Mexican housing market is the active role the Mexican government has taken in supporting the housing industry, which positively impacts companies like Geo. Facilitating access to housing in Mexico is a cornerstone in the government's strategy to improve the lives of lower-income Mexicans and to achieve this it has set up institutions to provide home loans for lower-income earners. The government mortgage system is funded with a 5% deduction from workers' salaries that once they have put enough into the system, can tap the funds for a home mortgage. The system is popular in Mexico due to its success in helping remedy the chronic shortage of adequate housing for lower income Mexicans and first-time homebuyers. Since the government mortgage system was founded in 1972, it has enjoyed support across the country's political spectrum and has increased its share of the country's mortgage steadily to the point that it now accounts for 70% of Mexico's mortgages. For Geo, these

government mortgages provide significant stability to its business, financing 95% of its home sales. It is our view that due to the popularity and universal support for the system, Geo will continue benefitting from the steady flow of government mortgages to support the affordable housing sector.

For these reasons, we believe that Geo is well positioned to continue growing its sales and benefitting from the growing demand for affordable housing in Mexico. In addition, as the country's largest affordable homebuilder, Geo benefits from scale compared to its smaller competitors, which should allow it to continue gaining market share and bolster growth as the Mexican housing sector consolidates. These competitive advantages, along with the company's stable revenue base, lead us to believe that Geo will be able to continue taking advantage of the sector's good growth prospects both in the mid and long term.

Brazilian consumer goods company Hypermarcas, which makes up 4.5% of the Fund's portfolio, also lost significantly in November, depreciating 17.5%. Hypermarcas is Brazil's biggest domestically located consumer goods company and manufactures products in the pharmaceutical, personal care as well as the home and food sectors. The bulk of the company's revenue comes from its pharmaceutical products (52% of sales) and personal care products (40% of sales). Hypermarcas' shares fell during the month when the company reported a slowdown in sales growth in the third quarter. Although the decline in sales growth was not unexpected, in the current environment investors have been strong sellers of companies which do not post positive numbers. The slowdown in sales stems from a decision Hypermarcas made in the first quarter of 2011 when the company cut the terms of payments it offers to its distributors from 90 to 60 days. In turn, Hypermarcas' distributors have been selling down their accumulated Hypermarcas product inventory without replenish their supply with new products, effectively hurting Hypermarcas sales in the short term.

We believe that by the first half of next year the company will have normalized its sales situation and are confident that this is the case for a couple of reasons. Firstly, the demand for the company's products has remained strong this year as distributors continue to post good sales from their retail client base. In addition, independent analysis from the market research firm Nielsen has shown that Hypermarcas products are maintaining their market share. It is our view that the market has overreacted to Hypermarcas' temporary sales decline and that the company's well-positioned brands and successful business model have not changed. As long term investors, it is our view that Hypermarcas represents very good value for a company with a strong market share for its products, which are consumer staples with relatively low price points, and that we expect will continue benefitting from Brazil's long term increase in consumption.

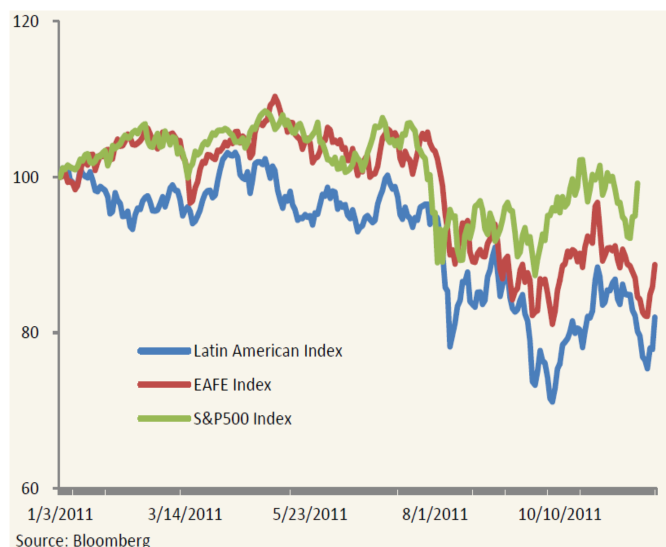
However, a major positive contributor to the Fund in November was Chilean brewer CCU, which accounts for 7.0% of the portfolio, which was up 3.5% during the month. CCU is the dominant brewer in Chile with an 80% market share and is the second-largest brewer in Argentina with a 22% market share. We believe that CCU's strong growth and its well-earned reputation as a defensive stock, has made it especially attractive for investors amid the current global market turmoil. CCU also is attractive to investors due to its stable cash flow and excellent growth opportunities. Beer consumption per capita in Chile and Argentina is about half of what it is in countries like the U.S.; and it is our view that CCU is very well positioned to continue harnessing the growth of the beer market in these two countries. CCU has also been successfully leveraging its strong branding power and extensive distribution network in Chile and Argentina to expand into the soft drinks, water, juices, wines and spirits markets, which we believe will help to bolster the company's future growth.

ASSESSING THE LATIN AMERICAN MARKETS IN A GLOBAL ECONOMIC SLOWDOWN

In this month's newsletter we have decided to take a closer look at the current global economic slowdown and the market turmoil it has provoked around the world, including in Latin America. As has been the case in the past, global external shocks have had a more pronounced impact on Latin American equity markets than on those of the developed world. It is our view though that an eventual market recovery could be significantly stronger in Latin America than in the rest of the world due to the region's strong economic situation and the solid fundamentals of its companies.

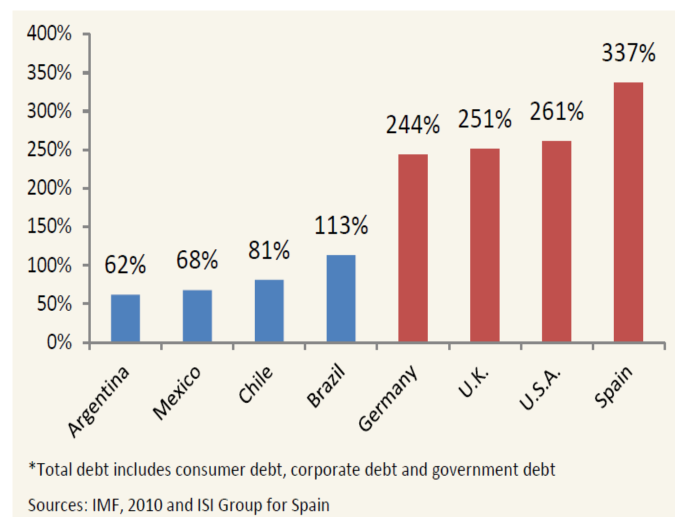
During the past months, the European debt crisis --and particularly the concern it could spread further within the single-currency region-- has weighed heavily on global markets. Despite Latin America's relatively limited exposure to Europe's most-indebted economies, Latin American markets have been more impacted than the markets of the developed world. In comparison with the U.S. S&P500 Index and the rest of the developed world --represented by the EAFE Index-- the Latin American index has underperformed both indices so far this year (see graph A).

GRAPH A: MARKET PERFORMANCE 2011 YTD



It is our view however, that the underperformance of the Latin American market this year has been driven almost entirely by these external factors since the Latin American economic picture is strong, as is the outlook for most of the region's companies. The troubled economies of the developed world, on the other hand, are suffering significantly from a period of overleveraging and high credit levels, both public and private, are weighing heavily on their economies. The debt scenario in Latin America is vastly different. Largely due to the region's relatively immature financial system and high cost of debt, Latin America has avoided the credit binges which spread across the U.S. and much of Europe in the last decade. Perhaps more importantly, historically a number of Latin American countries have had to adopt painful economic measures after taking on unsustainable debt loads. The responsible credit policies of today's Latin American governments and their citizenry are in part due to an unwillingness to repeat these errors of the past. The considerably lower debt levels, both public and private, in Latin America compared to the developed world are shown in Graph B.

GRAPH B: TOTAL DEBT AS A PERCENTAGE OF GDP*



The current scenario, both in terms of Latin America and globally, in our view is very reminiscent of the events during the Global Credit Crisis of 2007-2008.

GRAPH C: MARKET PERFORMANCE 2008 – 2010

The current scenario, both in terms of Latin America and globally, in our view is very reminiscent of the events during the Global Credit Crisis of 2007-2008. During that time, Latin American markets were more negatively impacted than the developed world, but the events that caused the worldwide market turmoil --the property boom and the subsequent overleveraging of financial institutions-- took place in the developed world, not in Latin America. While the global economy stabilized, Latin American markets bounced back considerably more than those in the developed world (see graph C).

As the emotionally-driven panic selling subsided during the Global Credit Crisis, investors realigned their focus back to economic and company fundamentals. And with the exception of Mexico, which was suffering economically due to its close ties with the faltering U.S. economy, the Latin American economic picture was considerably better than its counterparts in the developed world. Indeed, Latin America's growth rates were not only less severely impacted in 2009 than the developed world, but they were also significantly stronger during the bounce back period of 2010 and 2011 (see table D.)

Table D: Real GDP Growth

	2009	2010	2011	Average
U.S.	-3.5%	3.0%	1.5%	0.3%
E.U.	-4.3%	1.8%	1.6%	-0.3%
Japan	-6.3%	4.0%	-0.5%	-0.9%
Brazil	**-0.2%**	**7.5%**	**3.8%**	**3.7%**
Chile	**-1.6%**	**5.2%**	**6.5%**	**3.4%**
Colombia	**0.8%**	**4.3%**	**4.9%**	**3.3%**
Mexico	**-6.5%**	**5.4%**	**3.8%**	**1.4%**
Peru	**1.0%**	**8.8%**	**6.2%**	**5.3%**

Source: IMF

Table E: Expected Real GDP Growth

	2012 (e)
U.S.	1.8%
E.U.	1.1%
Japan	2.3%
Brazil	**3.6%**
Chile	**4.7%**
Colombia	**4.5%**
Mexico	**3.6%**
Peru	**5.6%**

Source: IMF

It is our view that the economic cycle of the 2007-2008 recession may be repeating itself. Latin America is again weathering the current global economic storm considerably better than its peers in the developed world and international organizations like the IMF are projecting that economic growth in Latin America will strongly outpace the developed world next year as well (see Table E.) And although we cannot fully predict how global markets will behave in the future, we are convinced that Latin America's economies and companies are in a superior position in comparison with their counterparts in the developed world.

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