



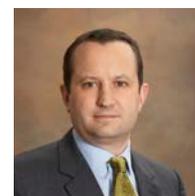
ARGENTINA: A SURPRISE SHOPPING TRIP

APRIL 2018

Argentina accounts for almost a quarter of our Frontier Markets Equity portfolio and its stock market was the top performer in the MSCI Frontier Markets Index in 2017. Mark Lawrence, Senior Analyst at T. Rowe Price, was keen to get back on the ground in February to assess whether we should be taking profits on our Argentine positions or deepen our existing overweight. Mark was accompanied by Portfolio Manager Oliver Bell and members of the T. Rowe Price Latin America team.

KEY TAKEAWAYS

- Argentina's economic revival is underway. President Mauricio Macri has truly hit the ground running with his fiscal reform plan and the confidence emanating from companies and other locals we met with was sky-high
- Fiscal progress has been tangible, but we have yet to witness much monetary policy movement. The fiscal deficit has narrowed from 5% to 3% and looks to be heading lower, but inflation remains at around 20%¹ and needs to come down
- Many institutions and companies have undergone management changes over the past two years, such as welcome leadership changes at the central bank and financial regulator
- Our meetings focused on banks, energy and telecoms. Bank loan growth is accelerating against a backdrop of improved liquidity, adequate capital and strong asset quality
- We returned with a number of new ideas and renewed confidence in our overweight country position. We are now on the hunt for buying opportunities and are ready to pounce on any market weakness



Mark Lawrence
*Analyst,
Frontier Markets*



Oliver Bell
*Portfolio Manager,
Frontier Markets Equity
Strategy*

¹ Source: Haver Analytics, IMF, 31 March 2018.

“It was striking to note the number of management changes instilled over the past two years, dovetailing with the arrival of President Mauricio Macri’s administration.”

A CLOSER LOOK

Our first Frontier Team trip to Argentina was in 2014 and the economic recovery since then has been remarkable. This was felt on the ground, with company management teams making reference to the ‘good old days’ of the 1990s. However, significant challenges still lie ahead. While fiscal reform and deregulation have played out well, monetary policy remains an issue and inflation needs to trend down in line with central bank targets – which were recently revised slightly upward.

It was striking to note the number of management changes instilled over the past two years, dovetailing with the arrival of President Mauricio Macri’s administration. While we previously noted how the new government had hit the ground running, we have also seen progress across a plethora of institutions. For example, a number of former private sector employees have taken up key positions over the past two years.

The second in command at the central bank was previously at a hedge fund, the head of the public pension fund is an ex-bond manager from Bank of America Merrill Lynch and the duo leading the financial regulator are also ex-private sector. In addition, Treasury Minister Nicolás Dujovne had previously been one of our favourite economists. Even state-owned enterprises Telecom Argentina and YPF have new boards. We met with the CFOs from those groups and each has a private sector mentality and are two years into a five-year plan.

We spent much of our time in Argentina meeting bank management teams. The stubbornly-high inflation rate is elevating the return-on-equity and price-to-book ratios of Argentine banks, making valuations seem ludicrously high upon first glance. On the bright side, loan growth is expected to accelerate at a rate of 40% for the next two years¹, liquidity is strong, asset quality is good and cost-income ratios have room to improve.

Galicia is a high-quality institution and despite the fact it has re-rated over the past two years, we remain comfortable with it as our largest Argentine position – particularly as management is proving to be a safe pair of hands. We believe a renewed focus on acquisitions and re-alignment of its credit card business should help Galicia sustain growth, as demand for loans and mortgages pick up. With the fast pace of change, we came back with additional ideas elsewhere in the sector.

Energy companies were also high on our agenda, including a very positive meeting with YPF Sociedad, our top oil and gas position. We were heartened by management's move to open its shale gas reserve Vaca Muerta to third parties. We expect further exploitation of this key asset to be a catalyst for future earnings growth.

We had other positive meetings within the telecoms sector, where the merger of high-end cable operator Cablevision and mobile business Telecom Argentina presents both opportunities and challenges. The potential synergies from capital investment and margin improvement could be significant, but we also appreciated management's honesty about the extent of the changes required across the joint business model.

While we initially thought the trip might help pinpoint potential sell ideas, it instead increased our confidence in Argentina – from both a bottom-up and top-down perspective. We are currently about 1% (as at 31 March 2018) overweight the MSCI Frontier Markets Index position and this is likely to widen as we dig deeper into these opportunities and take advantage of attractive entry points.

Key Risks - The following risks are materially relevant to the strategy highlighted in this material:

Transactions in securities denominated in foreign currencies are subject to fluctuations in exchange rates which may affect the value of an investment. Returns can be more volatile than other, more developed, markets due to changes in market, political and economic conditions. Investments are less liquid than those which trade on more established markets.

Important Information

The specific securities identified and described above do not necessarily represent securities purchased or sold by T. Rowe Price. This information is not intended to be a recommendation to take any particular investment action and is subject to change. No assumptions should be made that the securities identified and discussed above were or will be profitable.

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date noted on the material and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA—Issued in the European Economic Area by T. Rowe Price International Ltd., 60 Queen Victoria Street, London EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

T. ROWE PRICE, INVEST WITH CONFIDENCE and the Bighorn Sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc. All rights reserved.