FRANKLIN TEMPLETON INVESTMENTS

July 2017

Templeton Emerging Markets Investment Trust: AGM Investment Update

Summary of AGM Presentation, 13 July 2017

SUMMARY

- Despite some volatility, emerging markets are providing interesting investment opportunities.
- Emerging market economic indicators remain supportive of continued growth.
- TEMIT is continuing to look at the technology and consumer sectors as key themes.

Carlos Hardenberg
Lead Portfolio Manager
Templeton Emerging Markets Investment Trust

TEMIT Performs

Today I'm going to talk about the general picture in emerging markets and then more specifically about some of the changes to the fund and the holdings.

The most important factor – we have delivered very robust performance over the last two years. Markets have clearly seen a move towards historic averages as we slowly moved out of the period which was dominated by immense volatility and lot of risks, associated to commodity prices and the political environment. We are seeing a gradual improvement in the situation in emerging markets – in Asia, in Latin America, even in central Eastern Europe. Even in places like Russia things have begun to normalize to some degree and that is translating into the numbers we will talk about. (Past performance is not a guide or an indicator of future performance.)

The Risks

Let me take you through the main risks. These risks are always a surprise – there is never a risk that can be easily understood ahead of the occurrence. So we really have to do a lot of sensitivity analysis and thinking about what potential risks lie ahead of us in an environment where Brexit creates a lot of uncertainty about relationships in Europe and with Britain and the outside world. The current situation in the US provides us with an unusual degree of uncertainty with regards to trade policies but also the language about the tightening cycle by the Fed is going to have an impact on refinancing costs in emerging markets. The same applies to the ECB where a reduction of programmes put in place to support economic growth is on the horizon.

There are also risks related to political uncertainty in many of the emerging markets. Last, but not least, idiosyncratic risks are more related to businesses, corporate governance, transparency and the robustness of business models in emerging markets. That's the starting point and where we have a good degree of expertise in managing your portfolio.

There is a further risk which is a very new one. That is the risk of an ever larger pool of passive money which is pouring into the markets and changing the ownership structure of companies, changing the demand and supply conditions in the stock markets.

For the first time we are dealing with investors who have a different approach to us and, as their approach is passive, we can't collaborate with them when it comes to voting or improving corporate governance standards.

Because they are all buying the same index companies, it means that they will all be selling the same companies eventually and that is, of course, another risk factor and something we consider when positioning the portfolio.

The Economic Picture

In terms of the general picture the GDP per capita differential is still very much intact. We're seeing that growth is coming back and is normalizing in places like the Philippines, Indonesia and Vietnam, which are all growing faster than China now. In Africa we also see a lot of very fast growing economies.

In terms of the nature of the emerging market economies, when Mark Mobius started our group in 1987 the landscape looked very immature and many of the economies were just beginning to develop. In fact he was just investing in six markets at that time – now we invest in more than forty. More importantly, the total share of exports, imports and the GDP that these markets represent of the total global economy has changed dramatically. A big change that we see at the moment is the transition from emerging markets predominantly exporting to the developed world, to increasingly catering to their domestic consumer base.

Therefore we are investing to benefit from local brands – companies which are not just exporters but are branded businesses in their respective local economies.

Another big change that we've observed over the past decades is that where foreign reserves used to be a luxury owned by developed countries, now it's a very much the domain of emerging countries. The emerging markets macro-economic conditions are very solid and we are seeing that they have resources set aside in order to defend their local currencies and that is a very big difference to previous phases in the development of these markets.

Currencies are one of the single most important factors. We believe that you're not only buying into cheap companies and into companies which are growing faster, you are also buying into an environment where emerging market currencies are trading at near an all-time low. That is partially a function of the highly inflated situation in the EU and America and so there has been a big price preference to so called less risky assets and less risky currencies but it had the positive side-effect that these currencies are now hugely competitively valued. The Mexican peso, despite the fact that it's slowly coming back, is still one of the cheapest currencies in the world and you could say the same for most of the emerging market currencies.

Earnings are also extremely important. Earnings are a function not only of the dynamics in the domestic market and in the export markets, but also a function of how the individual managers feel about expanding the business and going into new areas. And that's really improving. We're seeing that the mode in emerging markets is back into growth and into expansion, so capital expenditure numbers are going up, earnings are recovering, and once again we're seeing growth rates of somewhere between ten and twenty five percent, depending on the sector and country.

Emerging markets remain under-valued and the difference between what you have to pay in the developed world, compared to the emerging markets, is close to all-time high – in other words they are extremely cheap compared to other asset classes. Looking at price-to-earnings, price-to-book and the net margin, all of these numbers are very supportive of that argument. Of course within that space you have to differentiate between certain sectors – some are traded at higher multiples, some lower. We want to make sure that we get the best of both worlds and make sure that we avoid so called value traps, and so sometimes it's worth paying a slightly higher price for the better business model.

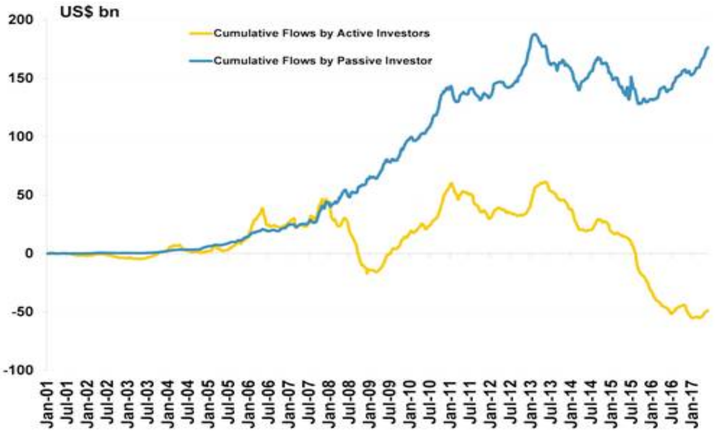
In terms of debt, this is well flagged and I'm sure you all are very aware of this, especially in this country where debt is a very severe issue especially among young people. But that's not the case in emerging markets where the debt level in both public and private sectors is extremely low.

More on the Passive Risk

The following chart [Emerging Markets: The Passive Risk] gives an indication of passive risk, I alluded to this briefly earlier, the blue line shows the amount of money coming into the markets from the so-called passive world and the orange is the actively-managed money. This is a game changer to the markets and that has multiple implications and unintended risky consequences, which you have to take into account.

Emerging Markets: The Passive Risk

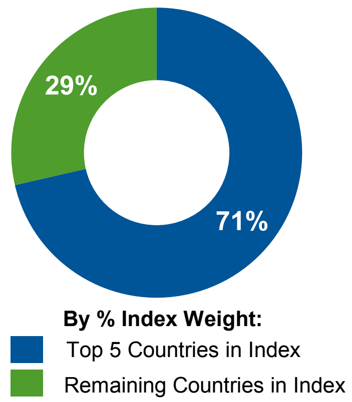
Cumulative Flows into EM Equity Funds Since 2006, US$Bn



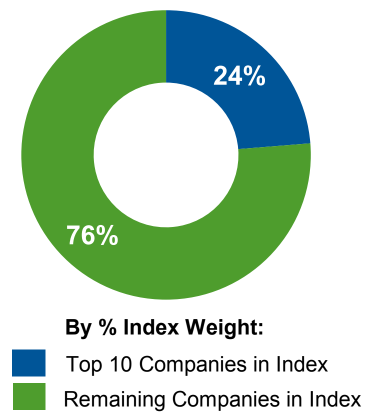
Source: Deutsche Bank data sets track more than 95 percent of EM-focused bond and equity funds, tracked EM equity funds with a total net asset value of ~800 USDbn. EM equity assets split into ~65% active and 35% passive.

Replicating an index may create unintended risk. As you can see here the five countries that dominate the benchmark make up seventy one percent of the benchmark. I would question whether that is a reasonable degree of diversification. And the same goes when you go down to the company level. If you look at the ten largest companies they make up twenty four percent of a global benchmark that has over eight hundred companies in it. So again, you have to be careful about that exposure.

5 Countries Dominate the Benchmark



Just 10 Companies = 24% of the Index



Source for Performance – Franklin Templeton over 12 months to 30/06/2017. Index is MSCI Emerging Markets Index, Market Cap Weighted as of 30/06/2017. Source Factset.

At TEMIT, we look beyond the benchmark. Over the year we avoided 74% of the index stocks, which means all of this is not in your portfolio. That gave an attribution of positive 4.1% to the performance against the index. Of course past performance is not a guide to future performance.

Embracing the Markets' Technology Theme

So the next subject to talk about is technology. I know many of you are very experienced emerging market investors and you've historically known the infrastructure theme. You know what it meant for these markets when they began to develop: ports were developed, airports were developed, roads were developed – it was really a lot of bricks and mortar, all infrastructure targeted development.

And that is kind of the story of the 1990s. This situation now in emerging markets has changed dramatically.

When I started investing in the late nineties, the technology sector was not something we ever discussed because it was all about cement, it was about retail, it was about infrastructure. Maybe telecommunication was one of the few areas which was more vibrant.

If you look at the markets today they're dominated by innovation. They're dominated by the internet. Twenty percent of the capacity utilisation within the global internet is now in China. Most of the new business models that relate to e-commerce and innovation within the technology space are now coming out of emerging markets.

As a matter of fact, if you look at patents, in the past emerging markets developed no patents at all, it was not really on the agenda. Today, half of the global patent registration is within the emerging market domain. So we need to make sure that we understand this well and participate in that opportunity. Information Technology is now 25% of the investment universe so we have five dedicated, specialist IT analysts in our group, which is probably the largest in the industry, to help us understand the opportunities within that space. We are talking about predominantly profitable businesses, diversified across the technology spectrum: hardware, equipment, software services, semiconductors and semiconductor equipment. It's also diversified by geography. It's not just Asia, there are similar developments in Latin America, Eastern Europe and even in Africa where technology is playing an increasingly large role.

Let's take DRAM, that's dynamic random access memory, as an example here. You are all carrying DRAM in your pockets, in your smart phones. Modern devices all need memory. The cars you drive have memory, maybe some of you even have new fridges – they also have memory. Everything is consuming more and more memory. The majority of memory technology is developed in Asia. Where it used to be a fragmented market now it's a three-player market so there's much more price discipline and it's dominated by Korean companies that are making a good margin. We have this reflected in the portfolio.

As an example of e-commerce growth in emerging markets, the total transactions in China in one day of sales at the Alibaba 'Single Day' event were $17.8bn, which compares to Thanksgiving, Black Friday and Cyber Monday online sales combined in the rest of the world which only amounted to about $12bn – that shows you the magnitude of growth potential.

Portfolio Geographies

On a countries view, China is now 22.9% of the portfolio – quite a bit of an underweight comparing it to the index. We do not have exposure to Chinese banks and, after a long discussion with a Chinese colleague, we continue to be rather careful about these institutions. They don't always meet all of our requirements in terms of transparency and many other measures. We are not too worried about the Chinese economy overall. While we think that there is quite a bit of debt – it went from 0% to 250% of GDP – it's all in local currency and they have very high foreign currency reserves and a positive trade account. It's a managed economy at the end of the day so we don't have to be too concerned that there will be some major blow-up.

Our main exposure there is among companies that give us direct exposure to the increasing household spending and consumer sector.

In terms of other brief snapshots, Brazil is a perfect example for a value investor. We picked companies that benefited from the currency depreciating by 30%. We invested in a local noodle producer with a very strong local brand name. We also recently invested in a local insurance broker with a very successful domestic business there in Brazil. The entire insurance sector there is really in its nascency, so the company is well positioned. Brazil is a perfect example of a strong country that is going through trouble, having a lot of political issues as we all know, but that is a good environment for picking high quality stocks.

Kenya is a new area for us and so far we have invested in three companies. They have elections on 8th August and whilst we are a little bit worried about this, the feedback we're getting is that there is going to be a controlled election process there for the most part. One of our investments is in a brewery who are very successful in selling branded beers in Kenya.

Another area to flag is Russia, where the renewals of sanctions is an issue. We have invested in technology companies in Russia, in a company which is equivalent to Google who dominate the local internet search in Russia and are doing very well.

New Investment Opportunities

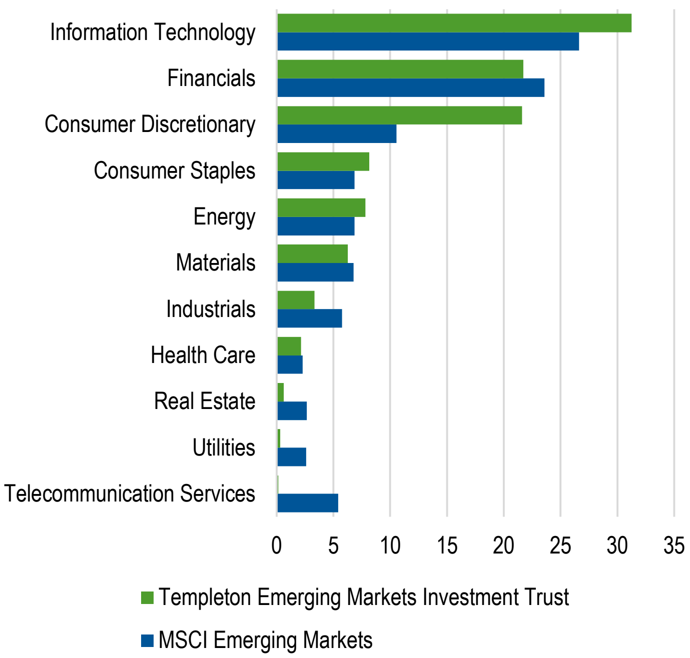
Talking about some individual stock additions, I mentioned the Brazilian insurance broker, Wiz. This is a company which you won't find in any index and possibly not in any other global emerging market fund. It was uncovered by our group on the ground in Brazil. They're an insurance broker with a long exclusivity agreement with the largest bank. They're growing by 35% each year and have a strong management team. Furthermore we picked this stock up at extremely attractive valuations.

Portfolio Sector Positioning

The current sector positioning of the portfolio, as shown below, is around 30% in information technology, with financials at a more moderate level. Consumer discretionary is a sizeable position at 22%, followed by consumer staples, a little bit in energy and materials, and the rest diversified into health care, real estate, utilities and telecommunication services.

Sector Positioning

As of 30 June 2017



As at 30/06/17. Weightings as percent of total including cash. Percentage may not equal 100% due to rounding. Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change. Indices are unmanaged and one cannot invest directly in an index.

Largest Portfolio Holdings

In terms of the portfolio's ten largest holdings (as shown in the following table) you'll be familiar with most of the names – the BMW subsidiary in China, Brilliance China Automotive, Samsung Electronics, which is doing phenomenally well right now. Taiwan Semiconductor Manufacturing is another winner in the portfolio doing very well, benefiting from the fact that the so called 'internet of things' is consuming more and more capacity, and not in only memory but also calculating capacity. We also have Tencent, which is slowly becoming the largest digital bank in China but who also provide many other services.

So you can see that whilst the portfolio is very well diversified across different sectors, they are all very strong local brands and this is what we really like.

TEMIT Top 10 Holdings

As at 30 June 2017

Issuer	Sector	Country	% of Total
Samsung Electronics	Information Technology	South Korea	7.3
Brilliance China Automotive	Consumer Discretionary	China / Hong Kong	7.2
Taiwan Semiconductor Manufacturing	Information Technology	Taiwan	4.6
Naspers	Consumer Discretionary	South Africa	4.6
Tencent	Information Technology	China / Hong Kong	3.9
Unilever	Consumer Staples	United Kingdom	3.8
Alibaba, ADR	Information Technology	China / Hong Kong	3.4
Hon Hai Precision Industry	Information Technology	Taiwan	3.4
Astra International	Consumer Discretionary	Indonesia	3.0
Buenaventura, ADR	Materials	Peru	2.7
Total			**43.9**

The Ten Largest Holdings represent the ten largest holdings of TEMIT as at the date indicated. These securities do not represent all of the securities purchased, sold or recommended for clients, and the reader should not assume that investment in the securities listed was or will be profitable. All portfolio holdings are subject to change. Holdings of the same issuer have been combined.

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The price of shares in Templeton Emerging Markets Investment Trust PLC (TEMIT) and income from them can go down as well as up and you may not get back the full amount that you invested. Past performance is not an indicator or a guarantee of future performance. Currency fluctuations may affect the value of overseas investments. When investing in a fund denominated in a foreign currency, your performance may also be affected by currency fluctuations.

An investment in TEMIT entails risks which are described in the Fund's Annual Report. In emerging markets, the risks can be greater than in developed markets. Where TEMIT invests in a specific sector, market cap or geographical area, the returns may be more volatile than a more diversified fund.

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