

Templeton Emerging Markets Investment Trust (TEMIT)



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Fund Description

TEMIT seeks long term capital appreciation through investment in companies listed in emerging markets or companies which earn a significant amount of their revenues in emerging markets, but are listed on stock exchanges in developed countries.

Fund Details

Inception 12 June 1989
Benchmark MSCI Emerging Markets Index

PORTFOLIO MANAGER INSIGHT

Market Review

Emerging-market (EM) equities began the third quarter of 2018 on a strong footing but ended the period on a subdued note. The MSCI Emerging Markets Index rose by 0.3% over the quarter, compared with a 6.4% gain in the MSCI World Index.

Mixed news on trade talks and country-specific concerns created uncertainty for EM stocks. Markets were particularly volatile in August as currency crises in Turkey and Argentina triggered fears that those troubles would spread. However, we saw limited risk of a broader EM crisis developing during that spell of volatility. Turkey's small representation in the EM equity universe, plus Argentina's absence from it, meant that both countries' travails were not representative of the overall health of the asset class.

Asian markets declined over the quarter, led lower by China. An escalation in its trade dispute with the United States resulted in several rounds of tit-for-tat tariffs. Tariffs on China have come at a challenging time, when it is embarking on the process of reducing borrowing. However, we believe that reducing borrowing and supply-side reforms could help ease the country's structural risks. Meanwhile, Thailand and Taiwan were amongst the top gainers in Asia.

Latin America was the best-performing region in emerging markets. Brazil's market benefitted from the growing popularity of a more market-friendly candidate in electoral polls ahead of a presidential election in October. Our long-term outlook for Brazil is positive as we expect the new president to press on with reforms. In Mexico, market sentiment was lifted by easing political uncertainty following Andrés Manuel López Obrador's presidential election victory. Mexico also reached a new trade deal with the United States as part of revisions to the North American Free Trade Agreement (NAFTA).

Emerging European stocks gained. Russia advanced, showing resilience in the face of new US sanctions against the country. Rising oil prices were a tailwind, as Brent crude touched US\$80 per barrel during the quarter. Robust oil prices bode well for domestic demand and corporate earnings in Russia. Elsewhere,

South Africa was hampered by a weaker rand and concerns around a proposed land reform.

Performance

For the month ending 30 September 2018, TEMIT's share price rose by 0.8%, its Net Asset Value (NAV) fell by 0.1% and its benchmark, the MSCI Emerging Markets Index, fell by 0.8% in sterling terms.

Discrete Performance – to Each Year Ended 30 Sep (Dividends Reinvested)

| As at 30 Sep | 2018 | 2017 | 2016 | 2015 | 2014 |
|-----------------|-------|-------|-------|--------|------|
| Share Price | -2.8% | 31.6% | 46.7% | -30.3% | 8.5% |
| Net Asset Value | -0.6% | 27.0% | 49.2% | -27.0% | 7.6% |
| Benchmark | 2.4% | 19.0% | 36.7% | -13.3% | 4.6% |

Cumulative Performance as at 30 Sep 2018 (Dividends Reinvested)

| | 3 Mo | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs |
|-----------------|------|-------|-------|-------|--------|
| Share Price | 1.6% | -2.8% | 87.5% | 41.9% | 159.1% |
| Net Asset Value | 1.7% | -0.6% | 88.4% | 47.9% | 152.0% |
| Benchmark | 0.3% | 2.4% | 66.6% | 51.0% | 139.3% |

Annualised Performance as at 30 Sep 2018 (Dividends Reinvested)

| | 3 Yrs | 5 Yrs | 10 Yrs |
|-----------------|-------|-------|--------|
| Share Price | 23.3% | 7.3% | 10.0% |
| Net Asset Value | 23.5% | 8.2% | 9.7% |
| Benchmark | 18.5% | 8.6% | 9.1% |

Source: Franklin Templeton Investments. Performance details are in sterling, include reinvested dividends net of basic rate UK tax and are net of management fees. Sales charges and other commissions, other taxes and relevant costs to be paid by an investor are not included in the calculations. Copyright © 2018 Morningstar, Inc. All rights reserved.

Past performance is not an indicator or a guarantee of future performance. The value of shares in TEMIT and income received from it can go down as well as up, and investors may not get back the full amount invested. Currency fluctuations may affect the value of overseas investments. An investment in TEMIT entails risks which are outlined on the next page.

Portfolio Changes & Positioning

We initiated a new position in **Hankook Tire** during the quarter. This company is a leading tyre maker in South Korea and is expanding its global presence. We are optimistic on the company's efforts to improve its brand and product mix, as well as a recovery in its US operations. Repurchases of TEMIT's own shares also occurred.

Divestments included **Perusahaan Gas Negara**; we sold out of the Indonesian natural gas company in favour of investment opportunities elsewhere. Overall, we reduced holdings in the **consumer discretionary, financials and information technology (IT)** sectors during the quarter. By country, we conducted sales in **Indonesia, South Korea and Thailand**.

Performance Attribution

The fund outperformed the benchmark MSCI Emerging Markets Index over the quarter. Key stock contributors to relative returns included chip maker **Taiwan Semiconductor Manufacturing Company (TSMC)**, **Banco Santander (Mexico)**, and Russia-based integrated energy company **Lukoil**. TSMC—one of the fund's largest holdings—gained on strong demand for its latest high-performance chips, as well as news of a competitor halting its development of advanced chip-production technology. We expect TSMC to be a key beneficiary of the technological revolution that is taking place in areas such as artificial intelligence, autonomous driving and the Internet of Things.

Lukoil rallied on the back of rising oil prices and higher quarterly earnings. The company also started repurchasing its shares under a US\$3 billion share buyback programme, and we view its efforts to improve shareholder value and corporate governance favourably.

By sector, stock selection in **financials**, **IT** and **health care** drove relative performance. From a market perspective, stock selection and an underweight position in **China** helped relative performance, as did stock selection in **India**, together with stock selection and an overweight position in **Indonesia**.

Conversely, major stock detractors included South Africa-based internet and media group **Naspers**, car maker **Brilliance China Automotive**, and Hong Kong-listed gaming company **MGM China Holdings**.

Naspers is a major shareholder in Chinese internet giant Tencent, which fell amidst regulatory uncertainty in China's online gaming industry. Nevertheless, Naspers' plan to spin off and list its pay-television business lent some support to its share price. We continue to like Tencent for the monetisation opportunities available to the company, and Naspers offers exposure to Tencent at lower valuations.

Brilliance China Automotive declined amidst uncertainty around its joint venture with German luxury vehicle maker BMW, though it recovered some ground after posting a jump in its first-half net profit. In October, after the end of the quarter, the stock declined again after BMW announced they would increase their stake to 75%. We are closely monitoring the situation and will act in the best interests of our stakeholders, taking into account the shareholder proposals.

At the sector level, stock selection in both **materials** and **consumer staples** held back relative returns, as did an overweight to **communication services**. Across markets, **South Africa**, **Brazil** and **South Korea** were relative detractors, all due to stock selection.

Outlook

Negative news headlines have triggered investor caution towards EM equities, but we aim to focus on the underlying fundamentals of companies. There is a disconnect between the downbeat market sentiment and the positive equity fundamentals that we see, including healthy earnings, rising cash flows and compelling valuations.

Rising protectionism in the West has been a worry for emerging markets that count exports as a key economic driver. However, in the last decade, China has surpassed the United States to become a far more important export market for most large emerging economies, mainly due to its burgeoning consumer market. Thus, trade growth now predominantly comes from intra-EM demand. Growing trade tensions may further pivot focus towards regional agreements. Indeed, China appears eager to replace US trade leadership in Asia.

Notwithstanding concerns around China's economy, we are encouraged by its shift towards innovation, technology and consumption as new growth drivers. This trend should also support more sustainable corporate earnings. Many companies have reported improved operating and financial results and proposed to pay out a higher portion of earnings to shareholders.

Across emerging markets, we continue to like companies that could benefit from rising consumption and structural growth in technology-related industries. Although emerging markets were once disadvantaged by poor infrastructure; digitalisation and new technologies have enabled many countries to address development challenges and leapfrog their more developed counterparts.

WHAT ARE THE KEY RISKS?

The value of shares in the Templeton Emerging Markets Investment Trust (TEMIT) and any income received from it can go down as well as up and investors may not get back the full amount invested. There is no guarantee that TEMIT will meet its objective.

TEMIT invests in equity securities of emerging markets companies. Emerging markets have historically been subject to significant price movements, often to a greater extent than more established equity markets. As a result, the share price and net asset value of TEMIT can fluctuate significantly over relatively short time periods.

Other significant risks include borrowing risk and share price discount to NAV risk. For more details of all the risks applicable to TEMIT, please refer to the Key Information Document, Investor Disclosure Document and the risk section in TEMIT's Annual Report, which can be downloaded from our website – www.temit.co.uk

IMPORTANT INFORMATION

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