FRANKLIN TEMPLETON

Quarterly Commentary
31 December 2018

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 fell over the fourth quarter, although they fared better than their developed-market (DM) counterparts. Concerns about global economic growth, US interest rate hikes and US-China trade relations stoked market volatility during the period, as they did in much of 2018. The MSCI Emerging Markets Index fell by 5.2% over the quarter, compared with an 11.2% decline in the MSCI World Index. The year proved challenging for global markets as a whole; EM equities lost 8.9%, while DM stocks shed 2.5%.

Asian equities pulled back. Technology-heavy indices in Taiwan and South Korea were hobbled by weakness in technology stocks. Chinese equities lost ground despite a temporary truce in the US-China trade row, as economic data suggested that the standoff was affecting China's economy. Various near-term challenges have, in our view, obscured the longer-term picture of Asia, which is one of transformation. We believe that technology has become a structural driver of economic growth, whether manifested through world-leading semiconductor manufacturing or e-commerce platforms fuelling rising consumption. Consumption is also a growing economic pillar, especially in China, where increasing affluence should continue to spur demand for higher-end products as part of a "premiumisation" trend.

Latin American stocks gained, with Brazil rallying on the victory of a more market-friendly candidate in the presidential election. Our outlook for Brazil is positive, as the new administration's emphasis on economic reforms could bolster growth and create a better environment for companies. Meanwhile, stocks in Mexico fell as heightened concerns about the country's economic policies contributed to weaker investor sentiment. We expect further financial market volatility amidst continued uncertainty around the government's agenda.

Emerging European markets lost ground, with lower oil prices and increased geopolitical risk weighing on Russian equities. Macroeconomic uncertainties aside, we believe that Russia continues to offer many investment opportunities at the corporate level. These include energy producers with strong operations, high dividend yields and appealing valuations, as well as industry-leading banking and technology-related companies. Elsewhere, South African stocks declined.

Performance

For the month ending 31 December 2018, TEMIT's share price fell by 3.0%, its Net Asset Value (NAV) fell by 3.1% and its benchmark, the MSCI Emerging Markets Index, fell by 2.4% in sterling terms.

Discrete Performance – to Each Year Ended 31 Dec (Dividends Reinvested)

As at 31 Dec	2018	2017	2016	2015	2014
Share Price	-10.7%	32.5%	47.9%	-24.0%	5.0%
Net Asset Value	-11.6%	30.8%	49.2%	-23.1%	7.0%
Benchmark	-8.9%	25.8%	33.1%	-9.7%	4.3%

Cumulative Performance as at 31 Dec 2018 (Dividends Reinvested)

	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Share Price	-4.2%	-10.7%	74.9%	39.6%	187.3%
Net Asset Value	-6.4%	-11.6%	72.6%	42.0%	187.4%
Benchmark	-5.2%	-8.9%	52.6%	43.8%	152.6%

Annualised Performance as at 31 Dec 2018 (Dividends Reinvested)

	3 Yrs	5 Yrs	10 Yrs
Share Price	20.5%	6.9%	11.1%
Net Asset Value	19.9%	7.3%	11.1%
Benchmark	15.1%	7.5%	9.7%

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.

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 several positions in the portfolio during the quarter, including India-based oil refinery **Bharat Petroleum and Cognizant Technology Solutions**, a US-listed technology services provider that derives much of its earnings from services produced in India. We are positive on Cognizant's pursuit of growth in strategic areas such as digital services, which potentially offer better profitability. By sector, we added to holdings in the **communication services** and **information technology (IT)** sectors. By market, we increased investments in **South Korea**, the **United States** (representing companies with considerable exposure to EMs) and **India**. Repurchases of TEMIT's own shares also occurred.

Meanwhile, we sold out of a few positions in favour of investment opportunities elsewhere. Divestments included South Korea-based engineering and construction firm **Daelim Industrial**, as well as diversified chemical company **Saudi Basic Industries Corporation**. Overall, we conducted some sales in **materials**, **energy** and **consumer discretionary** from a sector perspective, and **Peru**, **Brazil** and **Russia** from a market perspective.

Performance Attribution

Major stock detractors from the fund's performance relative to the benchmark MSCI Emerging Markets Index included auto maker **Brilliance China Automotive**, South Korea-based smartphone and semiconductor company **Samsung Electronics**, and **Banco Santander (Mexico)**.

Chinese auto stocks were pressured by policy shifts, including the government's decision to lift foreign ownership caps in the auto industry. Brilliance China fell after it agreed to let its joint venture partner, Germany's BMW, raise its stake in their tie-up to 75%. Nonetheless, we expect Brilliance China to continue benefitting from long-term growth in luxury auto demand amidst a "premiumisation" trend, and we believe the stock's discount to our assessment of its intrinsic value has been excessive.

Samsung Electronics declined. Although it reported strong quarterly earnings, an increase in memory chip inventories and drop in prices, as well as a slowdown in smartphone demand, raised market concerns. We believe that conditions in the memory chip industry should improve as inventory levels adjust. We are also positive on Samsung's market-leading position in several areas and its efforts to enhance shareholder returns.

By sector, stock selection in both **consumer discretionary** and **energy**, together with an overweight position and stock selection in **IT**, hampered relative performance. By market, stock selection in **China**, **Taiwan** and **Russia** drove relative weakness

In contrast, key stock contributors to relative returns included India-based **ICICI Bank**, Peru-based precious metals firm **Compania de Minas Buenaventura**, and Brazil-based lender **Banco Bradesco**.

India's financials stocks, including private-sector lender ICICI Bank, rose on hopes for the central bank to improve liquidity and ease lending rules in the banking system. India's private-sector banks have demonstrated their competitiveness and we expect them to gain market share from their state-owned peers. We favour ICICI Bank as it grows its retail franchise and improves its asset quality.

Buenaventura rallied on the back of higher gold and silver prices. The company is amongst global leaders in mining and has achieved encouraging results in an exercise to reduce costs and improve exploration.

At the sector level, materials, health care and financials provided relative support, all due to stock selection. By market, stock selection in both Brazil and Peru helped in relative terms, as did an overweight position and stock selection in Indonesia.

Outlook

Trade tensions have been a primary contributor to weakness in EM equities, and while exports remain a key engine of growth for EMs, they are increasingly shipped to other emerging economies; the relative importance of DMs has declined. Similarly, the roles of consumption and technology in generating economic growth have become more prominent; EMs have become more domestically oriented.

Despite slowing global growth, EMs are still widely expected to achieve faster economic growth than DMs in 2019 and for the foreseeable future. The International Monetary Fund forecasts EMs to grow by 4.7% in 2019, more than double the 2.1% estimate for DMs.[1] EM currencies are relatively cheap after declining in 2018, returning to 2001-2002 levels. We expect to see a recovery in 2019.

EM valuations have become increasingly attractive to us due to weakened confidence (and performance), yet cash flows and earnings generally remain resilient. EM earnings growth is expected to exceed that of the US and DMs, resuming the trend witnessed in 2017. These conditions, when paired with improving corporate governance that includes dividend payouts and buybacks, present an increasingly attractive long-term buying opportunity to us and should contribute to renewed optimism in the EM asset class, in our view.

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

[1] Source: International Monetary Fund, World Economic Outlook, October 2018. © 2018 By International Monetary Fund. All Rights Reserved.

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