

Templeton Emerging Markets Investment Trust (TEMIT)



Chetan Sehgal
(Lead Portfolio Manager)



Andrew Ness
(Portfolio Manager)

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 rebounded in November and outpaced developed-market (DM) stocks. Hopes for a slower pace of US interest rate hikes in 2019 lifted global markets and buoyed EM currencies against the US dollar. Tentative signs of a respite in US-China trade tensions also supported EMs. The MSCI Emerging Markets Index gained 4.3% over the month, compared with a 1.3% increase in the MSCI World Index.

Asian equities rose. Indonesia's stock market drove the advance, aided by an upswing in the rupiah after the central bank unexpectedly raised interest rates to reduce a current account deficit. Stocks in India rallied on a stronger rupee, as lower oil prices eased concerns about the oil-importing nation's trade deficit. Chinese equities climbed, as an upcoming meeting between US and Chinese leaders set the stage for potential progress in trade talks. The US and China subsequently announced a trade truce in early December. Although the move could further support market sentiment in the immediate term, longer-term uncertainties remain as both countries work towards a more permanent solution. Meanwhile, Taiwan and Thailand were amongst regional markets that fell.

Latin American markets fell, led by Mexico, Peru and Brazil. Increased political and economic policy uncertainty, coupled with concerns that persistent inflation could result in higher interest rates, weighed on Mexican stocks. Brazilian equities fell on the back of profit-taking, following a surge in October. While the country's economic growth accelerated at its highest rate this year in the third quarter, it failed to meet market expectations. Nonetheless, our longer-term outlook is sanguine. Initiatives such as pension reform and a step-up in privatisation could be expected under Brazil's incoming president.

Emerging European markets gained. Hungary was amongst markets recording strong returns. Sentiment in Hungary benefitted from better-than-expected third-quarter economic growth and an increase in the OECD's (Organization for Economic Co-operation and Development) 2018 and 2019 growth rate projections. However, lower oil prices and increased geopolitical risk weighed on Russian shares. Elsewhere, South Africa's market rose, helped by an

appreciation in the rand. We believe South Africa's economy may have bottomed out, though any recovery could be slow.

Performance

For the month ending 30 November 2018, TEMIT's share price rose by 4.9%, its Net Asset Value (NAV) rose by 4.2% and its benchmark, the MSCI Emerging Markets Index, rose by 4.3% in sterling terms.

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

As at 30 Nov	2018	2017	2016	2015	2014
Share Price	-7.8%	37.8%	39.2%	-27.2%	8.0%
Net Asset Value	-6.5%	31.6%	42.8%	-25.5%	6.9%
Benchmark	-3.2%	23.0%	31.2%	-13.3%	6.1%

Cumulative Performance as at 30 Nov 2018 (Dividends Reinvested)

	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Share Price	-0.4%	-7.8%	76.9%	39.1%	240.9%
Net Asset Value	-3.5%	-6.5%	75.8%	39.9%	233.2%
Benchmark	-3.6%	-3.2%	56.2%	43.6%	197.9%

Annualised Performance as at 30 Nov 2018 (Dividends Reinvested)

	3 Yrs	5 Yrs	10 Yrs
Share Price	20.9%	6.8%	13.1%
Net Asset Value	20.7%	7.0%	12.8%
Benchmark	16.0%	7.5%	11.5%

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

In November, we initiated a position in **Bharat Petroleum**, a leading oil refinery in India. We consider the stock's valuations and yield to be attractive. Bharat Petroleum's share price had slid in October following India's decision to cut gasoline and diesel prices, but we believe that the likelihood of further government intervention has decreased in the current muted oil price environment. Overall, we increased investments in the **industrials** and **communication services** sectors. Across markets, we added to holdings in **South Korea, India** and **Mexico**. Repurchases of TEMIT's own shares also occurred in November.

Meanwhile, we sold out of **Inner Magnolia Yitai Coal** in favour of investment opportunities elsewhere. By sector, we reduced holdings in **energy, information technology (IT)** and **consumer discretionary**. We also conducted some sales in **Taiwan, Peru** and **Brazil**.

Performance Attribution

Key stock detractors from the fund's performance relative to the benchmark MSCI Emerging Markets Index included chip maker **Taiwan Semiconductor Manufacturing Company**, China-based internet services provider **Tencent**, and Taiwan-based metal casing producer **Catcher Technology**.

The fund's underweight to Tencent held back relative returns as the company rose, helped by better-than-expected quarterly earnings. While we are upbeat on Tencent's longer-term prospects across the gaming, online advertising, cloud computing and digital content businesses, we prefer to gain exposure to the company through its major shareholder Naspers, which has been trading at lower valuations.

South Africa-based internet and media group **Naspers** was amongst major relative contributors to returns, together with Indonesian conglomerate **Astra International**, and Cambodia-based casino operator **NagaCorp**.

The fund's overweight to Naspers proved positive as the company's shares advanced. It achieved higher earnings for the first half of its financial year, thanks in part to a robust contribution from Tencent. Naspers has been trading at a discount to its stake in Tencent alone, and we believe the market has undervalued the rest of Naspers' businesses, including its fast-growing classifieds and payments units.

At the sector level, stock selection and an overweight position in **IT** weighed on relative performance, as did stock selection across **financials** and **real estate**. However, stock selection and overweight positions in **consumer discretionary** and **communication services**, as well as stock selection and an underweight position in **materials**, provided relative strength.

By market, stock selection and an underweight position in **China**, together with stock selection across **India** and **Taiwan**, drove relative weakness. Conversely, relative returns were cushioned by stock selection across **Brazil** and **South Africa**, plus an off-benchmark exposure to **Cambodia**.

Outlook

Investor sentiment towards EMs improved recently as dovish comments from US Federal Reserve Chairman Jerome Powell raised expectations of a pause in interest rate increases in 2019 and led to a more bearish view on the US dollar.

EM equities have become more attractively valued, in our view, as a result of low investor confidence earlier in the year, while cash flows improve and dividend pay outs continue. Although EM earnings growth lagged DMs in 2018, we expect a resumption of momentum in 2019; fundamentals remain strong and many EM currencies have adjusted significantly in 2018.

Despite slowing global growth, EMs are still widely expected to achieve faster economic growth than DMs in the foreseeable future. The International Monetary Fund forecasts emerging economies to grow by 4.7% in 2019, more than double the 2.1% estimate for DMs.¹ Most emerging economies also have floating foreign exchange regimes, run current account surpluses and have more favourable debt levels than their DM peers, making them more resilient to financial stress and less dependent on deficit financing.

While short-term volatility may continue, as value-oriented and long-term investors, we continue to seek companies that demonstrate sustainable earnings power and trade at a discount relative to their intrinsic value and other investments available in the market.

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

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Issued by Franklin Templeton Investment Management Limited (FTIML) Cannon Place, 78 Cannon Street, London EC4N 6HL. FTIML is authorised and regulated by the Financial Conduct Authority.

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



Franklin Templeton Investment Management Limited
Cannon Place,
78 Cannon Street,
London, EC4N 6HL
0800 305 306
temit.co.uk