Franklin Templeton
Cannon Place
78 Cannon Street
London EC4N 6HL
United Kingdom

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BREAKING STEREOTYPES: HOW INNOVATION CHANGED THE FACE OF EMERGING MARKETS

- *62% of UK investors believe that innovation in technology is increasing in emerging markets*
- *Innovative companies are leapfrogging established business models, turning previous structural weaknesses in emerging markets into strengths*
- *Yet, more than half of investors maintain outdated stereotypes of emerging markets products, believing goods and services "Made in China" to be "cheap"*

London, 17 June 2019 – The views of UK investors towards emerging markets are changing, as investors are beginning to recognise both increased levels of innovation and companies with the strong potential for growth in the region, a study by Templeton Emerging Markets Investment Trust (TEMIT)[1] has revealed.

The second instalment of the study[2], which looked at investor mindsets towards emerging markets, found that almost two thirds (62%) of UK investors agree that the development of new global technology and innovation is increasingly taking place in emerging markets.

The research also found that over half (55%) of UK investors agree that there has been an increase in companies with significant potential for growth across emerging markets, suggesting that many see the potential for emerging markets' investors to tap into future market trends and opportunities.

Furthermore, UK investors are more likely to expect levels of innovation in emerging markets to increase over the next 12 months (28%) compared to the previous 12 months. This was higher than the proportion saying the same of developed markets as a whole (22%) or the domestic UK market specifically (20%).

Andrew Ness, portfolio manager, TEMIT commented: "While many investors expect emerging markets to follow more developed markets, in reality we are witnessing companies seize the lead in innovation and leapfrog the more advanced economies in areas such as e-commerce, digital payments, mobile banking and electric vehicles. Innovative companies are turning previous structural weaknesses into strengths. Unhindered by sunk investments in legacy systems or infrastructure, they have ample room to come up with forward-thinking and profitable solutions.

"Take Chinese e-commerce as an example, where a new generation of affluent and savvy consumers, faced with a lack of retail stores and malls, began turning to their smartphones to purchase goods online. Today, e-commerce makes up a far higher percentage of retail sales in China than in the US.

“A similar trajectory can be seen in digital payments, where the slow development of credit card systems has led to consumers migrating directly to online payment platforms such as Alibaba’s Alipay and Tencent’s WeChat Pay. Alipay, for example, had a total third-party payment market share of 50% in December 2018 (total payment volume), while Tenpay also held a 35% share – with the latter expected to reach 40% market share by the end of 2019[3]. Digital payments have now become commonplace across China and the value of its digital payment market is multiple times that of the US.”

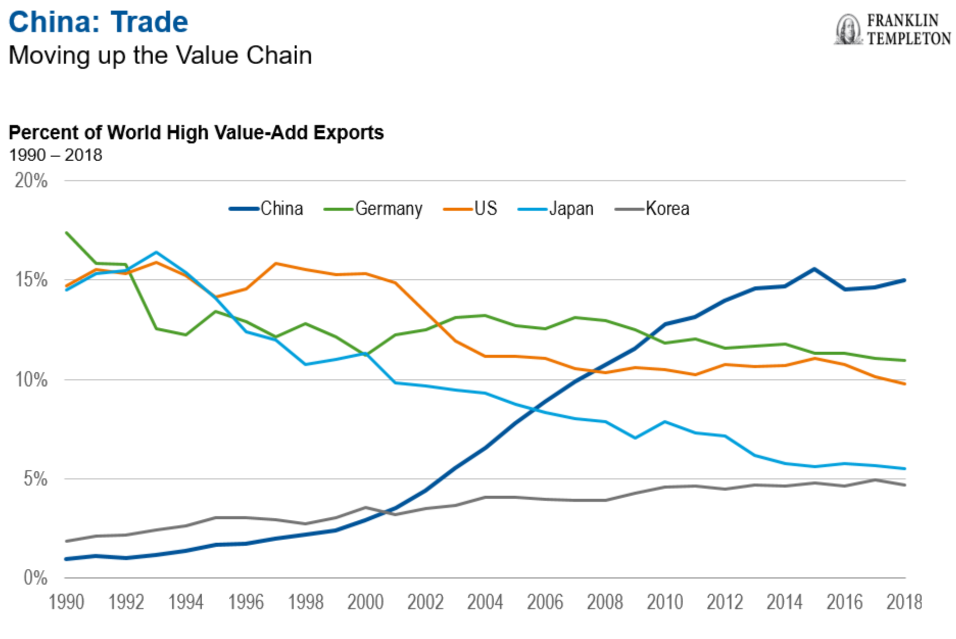
Made in China: Outdated stereotypes of emerging markets exports remain

However, the research also showed that UK investors remain hesitant about the value and quality of some emerging markets exports, with many holding outdated stereotypes of products and services “Made in China”. More than half of investors consider Chinese exports to be “cheap” (53%), with some also describing them as “poorly regulated” (38%) and “low quality” (29%). By comparison, most respondents described UK exports as “well-regulated” (62%) and “reliable” (57%), whilst Japanese products were considered to be both “high quality” (58%) and “innovative” (52%).

Ness added: “Where once emerging markets economies achieved initial success as producers of cheap home appliances or electronic parts, many of these economies have now set their sights further up the value chain.

“Indeed, with China and South Korea as leading examples, the emerging markets share of global high value-add exports has risen dramatically since the start of the twenty-first century, rendering this impression out of step with reality.”

Table 1: Percentage of world high value-add exports (1990 – 2018)[4]



Source: Intracen; Morgan Stanley As of May 2018. High Value Exports includes electrical machinery and equipment and parts thereof; sound recorders and reproducers, television, machinery, mechanical appliances, nuclear reactors, boilers; parts thereof, optical, photographic, cinematographic, measuring, checking, precision, medical or surgical, plastics and articles thereof, vehicles other than railway or tramway rolling stock, and parts and accessories thereof, aircraft, spacecraft,. and parts thereof. See www.franklintempletondatasources.com for additional data provider information. Indices are unmanaged, and one cannot invest directly in an index.

Ness concluded: "Of course, progress is uneven across emerging markets and we should not downplay the challenges that certain emerging markets still face in their development. This is where on-the-ground research and an active investment approach becomes critical.
We believe some of the most disruptive innovations have hailed from these economies and we expect them to continue to leap ahead in an increasing number of areas. Certain companies have shown exceptional agility in solving consumers' problems, and those that can continue to do so are likely to enjoy sustainable earnings growth."

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Contacts:

Saira Khan Corporate Communications Manager Franklin Templeton Cannon Place, 78 Cannon Street London EC4N 6HL Tel: 0207 073 8644 Email: saira.khan@franklintempleton.co.uk	***Victoria Haworth*** Lansons 24a St John Street, London EC1M 4AY Tel: 0207 566 9734 Email: victoriah@lansons.com

Notes to Editors:

1. **TEMIT** is a closed-end investment trust with £2.07 billion of assets under management (as at 31 May 2019) managed by Franklin Templeton. It is listed on the London Stock Exchange (mnemonic: TEM). **The price of shares in 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, nor a guarantee of future performance. Currency fluctuations will affect the value of overseas investments. When investing in a fund denominated in a currency other than sterling, performance may also be affected by currency fluctuations. In emerging markets, the risks can be greater than in developed markets. Please consult your professional adviser before deciding to invest

2. Research conducted on behalf of TEMIT by Cicero Group. All figures, unless otherwise stated, are from Cicero Group. Total sample size was 2,270 UK investors (18+), with 1,379 UK investors who invest of which 1,032 hold investments of at least £25,000. Fieldwork was undertaken between 18th – 26th February 2019. The survey was carried out online.

3. Source: HSBC analysis of Tenpay and Alipay market share.

4. Source: Intracen; Morgan Stanley As of May 2018. High Value Exports includes electrical machinery and equipment and parts thereof; sound recorders and reproducers, television, machinery, mechanical appliances, nuclear reactors, boilers; parts thereof, optical, photographic, cinematographic, measuring, checking, precision, medical or surgical, plastics and articles thereof, vehicles other than railway or tramway rolling stock, and parts and accessories thereof, aircraft, spacecraft,. and parts thereof. See www.franklintempletondatasources.com for additional data provider information. Indices are unmanaged, and one cannot invest directly in an index.

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