



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 headed into February on an upbeat note before reversing course to finish the month with modest gains in local currency terms. Investors shifted from optimism to caution as improved prospects for more US fiscal stimulus, progress in COVID-19 vaccinations globally, and a stronger outlook for the world economy stoked inflation expectations and a jump in US Treasury yields. Stock returns weakened further in sterling terms due to the currency's strength. The MSCI Emerging Markets Index lost 1.0%, while the MSCI World Index gained 0.8%, both in British pounds.

In emerging Asia, China's market fell. An initial rally riding on the economy's continued recovery gave way to profit-taking as worries of monetary policy tightening and valuation concerns took hold. We believe that China continues to offer longer-term investment opportunities, especially in parts of the new economy powered by technology, innovation, and consumption. Meanwhile, stocks in India and Taiwan were amongst the region's top performers. India's government announced an expansionary budget that lifted expectations for the economy's longer-term expansion. In Taiwan, officials raised their economic growth outlook for 2021 on the back of strong technology exports.

Latin American stocks pulled back. Brazil's equities and currency declined after the country's president removed the head of state-owned oil company Petroleo Brasileiro, raising concerns of government interference in business. We are watching the policy direction in Brazil closely, including the government's commitment to carrying out much-awaited economic reforms such as the privatisation of state-owned firms. Mexican stocks fell in sterling terms as the pound's strength eroded local-currency gains.

In the Europe, Middle East, and Africa region, Russian equities rose on higher oil prices. We believe that Russia is home to several high-quality businesses not just in the energy sector, but also in the technology and financial industries. South African stocks advanced. Declining COVID-19 infections, the start of the country's vaccination drive, and the economy's continued reopening supported market sentiment.

Performance

For the month ending 28 February 2021, TEMIT's share price rose by 3.2%, its Net Asset Value (NAV) decreased by 0.6% and its benchmark, the MSCI Emerging Markets Index, decreased by 1.0% in sterling terms.

Discrete Performance – to Each Year Ended 28 February 2021 (Dividends Reinvested)

As at 28 February	2021	2020	2019	2018	2017
Share Price	38.6%	3.3%	-2.7%	21.7%	62.2%
Net Asset Value	29.0%	9.1%	-5.8%	20.1%	60.4%
Benchmark	24.7%	2.6%	-6.3%	18.3%	45.5%

Cumulative Performance as at 28 February 2021 (Dividends Reinvested)

	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Share Price	11.6%	38.6%	39.3%	175.1%	96.6%
Net Asset Value	9.7%	29.0%	32.6%	155.2%	92.8%
Benchmark	6.5%	24.7%	19.9%	106.3%	85.5%

Annualised Performance as at 28 February 2021 (Dividends Reinvested)

	3 Yrs	5 Yrs	10 Yrs
Share Price	11.7%	22.4%	7.0%
Net Asset Value	9.9%	20.6%	6.8%
Benchmark	6.2%	15.6%	6.4%

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 © 2021 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 added to some existing positions, including **Unilever**, the UK-based global consumer goods giant that generates more than half of its sales in EMs. In our view, Unilever offers compelling exposure to longer-term consumption growth in EMs. Overall, we increased investments in consumer discretionary, consumer staples, and financials by sector, and in **South Africa**, **South Korea**, and the **United Kingdom** (Unilever) by market. We trimmed some holdings and divestments included Thailand-based **Siam Commercial Bank**. As a whole, we undertook sales in communication services, energy, and information technology at the sector level, and in **China** and **Thailand** at the market level. Another notable sale was in US-listed **IMAX**, an entertainment technology company with significant exposure to EMs.

Performance Attribution

Major stock contributors to TEMIT's performance relative to the benchmark MSCI Emerging Markets Index included China-based short-form video platform **Kuaishou Technology**, South Korean internet company **Naver**, and India-based **ICICI Bank**.

Kuaishou rallied on strong investor interest in the stock. Naver extended its upswing as the market remained optimistic about prospects for its e-commerce and other businesses. ICICI Bank rose on solid quarterly results, as well as hopes for stronger economic growth and lending activity in **India**. From a sector perspective, stock selection in both communication services and consumer discretionary buoyed relative returns, as did stock selection and an underweight in health care. In market terms, stock selection in China and South Korea, plus stock selection and an overweight in **Russia**, helped relative performance.

Conversely, key stock detractors from relative returns included Unilever, South Korean conglomerate **LG Corp**, and Brazilian lender **Itau Unibanco**. Unilever fell as its 2020 results and muted outlook disappointed the market. LG Corp tracked pullbacks in shares of its affiliated companies. Weaker investor sentiment towards **Brazil** weighed on Itau Unibanco. We continue to see longer-term investment potential in these holdings and increased our holding in Unilever.

Looking across sectors, stock selection in both financials and industrials, coupled with an underweight in materials, held back relative performance. At the market level, an off-benchmark exposure to the United Kingdom (Unilever), stock selection in **Taiwan**, and a lack of exposure to **Saudi Arabia** were areas of relative weakness.

Outlook

Amidst concerns about the sustainability of the recovery rally in global (including EM) equities, we have stayed focused on the fundamentals of individual companies. In addition to valuations, of key importance to us is whether companies have durable business models that can adapt and improve, rather than become obsolete amidst ongoing innovation globally. We remain on the lookout for companies that demonstrate sustainable earnings power, trading at discounts to our assessment of their intrinsic worth.

We continue to see numerous structural investment opportunities in EMs. Some of these stem from the growing penetration and "premiumisation" of goods and services, which is linked to favourable demographics in the emerging world. Technological innovation is another trend that we are positive about. We expect continued investments in technology to drive productivity improvements in EMs and undergird their resilience. In the semiconductor space, we see capital expenditure accelerating amidst strong chip demand from the high-performance computing, auto, and other industries. The electric vehicle and renewable energy industries have also shown rapid growth.

Company engagement is a crucial factor in EM investing. Bringing about better corporate behaviour and a better understanding of companies' responsibilities towards all stakeholders are efforts that we continue to push in our stewardship of client capital. In EMs in recent years we have seen a significant improvement in corporate governance across a wide range of areas, including enhanced capital discipline, better reporting, and a greater alignment with minority investors. We believe that all of these could lead to a potential re-rating of many EMs.

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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