



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 rose over a volatile quarter and pulled ahead of developed market stocks. Post-lockdown economic upturns, continued policy dovishness, and progress in coronavirus vaccine trials drove investor optimism, though fresh COVID-19 outbreaks and heightened US-China tensions ahead of the US presidential election fuelled bouts of uncertainty. The MSCI Emerging Markets Index gained 4.8%, while the MSCI World Index returned 3.3%, both in sterling terms.

Emerging Asian equities rallied, outpacing broader EMs. Markets in Taiwan, South Korea, and China soared on the back of strong investor interest in technology-driven heavyweights. China's economic recovery broadened, though escalating US restrictions against Chinese technology companies sparked caution. We expect continued US pressure on China regardless of the election's outcome, and bilateral tensions could reshape global supply chains. Meanwhile, stocks in Thailand fell. Cabinet resignations and anti-government protests in Thailand fed political uncertainty.

Latin American equities declined, with Brazil faring worse than the region in general. Concerns around Brazil's fiscal discipline amidst plans for a new welfare programme eclipsed ongoing reform efforts and a cut in the country's benchmark interest rate to a record low. Nonetheless, we have seen new COVID-19 cases in Brazil start to decline, and economic activity appears to be improving. We believe that the low interest-rate environment bodes well for capital market activity and companies with strong capital market exposure. Conversely, Mexican stocks edged higher. The central bank pared its key interest rate, bringing the cost of borrowing to its lowest level in four years.

Emerging European markets confronted a COVID-19 resurgence and tightening social distancing measures in parts of Europe. Russian equities fell in sterling terms as a depreciation in the ruble offset gains in local currency terms. Soft oil prices and geopolitical worries countered news of Russia's progress in developing a COVID-19 vaccine. We still see longer-term investment opportunities in Russia, not just in the "old economy" of oil, but also in the "new economy" driven by technology and consumption. In the Middle

East and Africa region, South Africa's market declined. The economy recorded a sharp contraction in the second quarter.

Performance

For the month ending 30 September 2020, TEMIT's share price rose by 0%, its Net Asset Value (NAV) rose by 0.4% and its benchmark, the MSCI Emerging Markets Index, rose by 1.9% in sterling terms.

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

As at 30 September	2020	2019	2018	2017	2016
Share Price	8.1%	13.1%	-2.8%	31.6%	46.7%
Net Asset Value	9.6%	9.8%	-0.6%	27.0%	49.2%
Benchmark	5.7%	4.1%	2.4%	19.0%	36.7%

Cumulative Performance as at 30 September 2020 (Dividends Reinvested)

	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Share Price	6.7%	8.1%	18.8%	129.2%	56.7%
Net Asset Value	6.9%	9.6%	19.7%	126.8%	63.2%
Benchmark	4.9%	5.7%	12.7%	83.3%	61.7%

Annualised Performance as at 30 September 2020 (Dividends Reinvested)

	3 Yrs	5 Yrs	10 Yrs
Share Price	5.9%	18.0%	4.6%
Net Asset Value	6.2%	17.8%	5.0%
Benchmark	4.1%	12.9%	4.9%

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 © 2020 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 holdings during the quarter and initiated a position in Taiwan-based semiconductor company **Mediatek**. We view it to be one of the industry's leading chip designers, and we believe that it is well-positioned to benefit from the increasing rollout of fifth generation wireless technology (5G) smartphones. As a whole, we increased investments in information technology, consumer discretionary, and consumer staples at the sector level, and in **Taiwan, South Africa, and China** at the market level. Repurchases of TEMIT's own shares also occurred.

We trimmed some positions and divested Taiwan-based electronics component maker **FIT Hon Teng** and India-based drug maker **Glenmark Pharmaceuticals**. Overall, we reduced investments in communication services, financials, and health care by sector, and in **Russia, Hong Kong, and Hungary** by market.

Performance Attribution

Major stock contributors to TEMIT's third-quarter performance relative to the benchmark MSCI Emerging Markets Index included chip maker **Taiwan Semiconductor Manufacturing Company (TSMC)**, Russian internet company **Yandex**, and Chinese e-commerce giant **Alibaba Group**.

Investors lifted their longer-term outlook for TSMC amidst strong demand for its leading-edge chips and production setbacks for its key competitor.

Yandex reported a ramp-up in its food delivery and media services during the pandemic, while the stock entered the MSCI Emerging Markets Index. Alibaba rallied on better-than-expected quarterly results and the upcoming dual listing of its financial technology arm **Ant Group**.

By sector, an overweight and stock selection in information technology buoyed relative returns, as did stock selection in both communication services and financials. By market, stock selection in Taiwan and China, plus an overweight and stock selection in **South Korea**, boosted relative strength.

Conversely, key relative stock detractors included Russian integrated energy company **Lukoil**, Brazilian lender **Itau Unibanco**, and South Africa-based internet group **Naspers**.

Constrained oil prices weighed on Lukoil. Itau Unibanco's quarterly earnings declined amidst the pandemic, while investors remained concerned about asset quality in Brazil's banking system. Naspers, which has a sizeable interest in Chinese internet firm **Tencent**, fell as the **United States** ordered restrictions against Tencent's WeChat messaging app in the country. We remain confident in the longer-term fundamentals of these companies.

In sector terms, stock selection in consumer discretionary and energy drove relative weakness. Across markets, **Brazil**, **India**, and South Africa capped relative performance, all due to stock selection.

Outlook

Markets had expected greater economic normalisation globally as we head into the fourth quarter. However, rising COVID-19 cases in various parts of the world have shown that the pandemic is likely to persist, and policymaking has largely remained reactive. Against this backdrop, technology-driven stocks have been resilient, with several EM companies faring well amidst the pandemic.

We expect the current economic and market environments to continue until a vaccine is widely available or herd immunity is achieved, with outcomes potentially varying widely by country. We believe that economic recoveries are likely to be shallow and uneven, contrasting with the steep downturns we saw earlier in the year. Governments have deployed massive stimulus, but many businesses have shut as lockdowns hit economies.

US-China relations have been deteriorating, and political jostling in the lead-up to the US presidential election could generate greater noise. We think that the election could drive market volatility, especially if the voting results are disputed. In our view, both US political candidates are likely to maintain pressure on China. We expect ongoing US-China trade and technology conflicts to impact supply chains, resulting in more localisation and reshoring.

Our investment focus remains on companies that demonstrate sustainable earnings power, trading at discounts to our perception of their intrinsic worth. Amongst the portfolio's key holdings are EM companies that have shown leadership in various technology-related areas such as semiconductors and internet services. The portfolio is also invested in companies that offer exposure to EMs' longer-term consumption growth potential, reflected in a rising penetration of goods and services or a "premiumisation" in demand.

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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