



Templeton Emerging Markets Investment Trust (TEMIT)



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Fund Description

TEMIT seeks long-term capital appreciation through investment in companies operating in emerging markets or whose stocks are listed on the stock markets of such countries. This may include companies which have 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

Global markets experienced a sell-off in February as worries of resurgent US inflation outweighed initial optimism about an improving world economy. Volatility spiked as investors assessed the likelihood of major central banks stepping up the pace of monetary policy tightening. Emerging markets (EM) recorded a sharp but brief correction before rebounding in the latter part of the month to recover some of the losses. As a group, emerging markets finished slightly behind developed markets. The MSCI Emerging Markets Index declined by 1.5%, compared with a 1.0% decline in the MSCI World Index. Higher risk aversion, lower oil prices and weaker EM currencies weighed on EM equities.

In Asia, most markets lost ground amidst the global stock market fall. India, China and South Korea posted the largest declines. India was particularly hampered by the government's reintroduction of a long-term capital gains tax on equities. A move by three local stock exchanges to end licensing deals with their foreign counterparts and rein in offshore derivatives also hurt sentiment. In China, slower-than-expected growth in manufacturing activity in February raised caution around the country's economic momentum. Conversely, Thailand and Pakistan finished higher. Thailand's exports surged past forecasts in January to notch their fastest rate of growth in more than five years, underpinning the government's robust economic outlook for the year.

Latin American markets ended the month lower, but as a group performed better than their EM counterparts. Brazil and Peru were among the leading regional performers, while Mexico lagged. In Brazil, lower-than-expected inflation, strong economic activity and a reduction in the benchmark interest rate to a record-low meant investors maintained a positive view despite disappointing fourth-quarter GDP growth data. Depreciation in the real accounted for the decline in the Brazilian market however. In Mexico, lower manufacturing and consumer confidence data coupled with monetary policy tightening weighed on equity prices.

Central and Eastern European markets were among the worst EM performers with Hungary especially weak. Russia bucked the global trend, ending February with a gain following a recovery in equity prices in the latter part of the month, driven by higher earnings growth prospects and undemanding valuations.

Performance

For the month ending 28 February 2018, TEMIT's share price fell by 3.9%, its Net Asset Value (NAV) fell by 1.4% and its benchmark, the MSCI Emerging Markets Index, fell by 1.5% in sterling terms.

Discrete Performance – to Each Year Ended 28 Feb. (Dividends Reinvested)

As at 28 February	2018	2017	2016	2015	2014
Share Price	21.7%	62.2%	-27.0%	13.9%	-22.5%
Net Asset Value	20.1%	60.3%	-25.1%	15.4%	-21.2%
Benchmark	18.3%	45.5%	-14.8%	14.3%	-14.6%

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

As at 31 December	2017	2016	2015	2014	2013
Share Price	32.5%	47.9%	-24.0%	5.0%	-8.9%
Net Asset Value	30.8%	49.2%	-23.1%	7.0%	-9.0%
Benchmark	25.8%	33.1%	-9.7%	4.3%	-4.1%

Cumulative Performance as at 28 February 2018 (Dividends Reinvested)

	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Share Price	0.6%	21.7%	44.1%	27.3%	104.0%
Net Asset Value	2.8%	20.1%	44.2%	31.1%	104.0%
Benchmark	5.2%	18.3%	46.7%	43.3%	93.9%

Annualised Performance as at 28 February 2018 (Dividends Reinvested)

	3 Yrs	5 Yrs	10 Yrs
Share Price	12.9%	4.9%	7.4%
Net Asset Value	13.0%	5.6%	7.4%
Benchmark	13.6%	7.5%	6.8%

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.

South African equities edged down in February but fared better than their EM peers. Investors cheered the swearing-in of African National Congress (ANC) leader Cyril Ramaphosa as South Africa's new president following the resignation of Jacob Zuma. A cabinet reshuffle that brought back Nhlanhla Nene as Finance Minister and Pravin Gordhan as Public Enterprises Minister was also well-received.

Portfolio Changes & Positioning

Geographically, investments in South Korea, South Africa and Mexico were increased. In terms of sectors, some purchases were made in information technology. Repurchases of TEMIT's own shares were also made during the month. Holdings in a number of existing companies in the financials and energy sectors, however, were reduced. Some sales were also undertaken in Brazil, China and India.

Performance Attribution

Leading stock contributors relative to the benchmark MSCI Emerging Markets Index were overweight positions in **Brilliance China Automotive** in China, **Massmart Holdings** in South Africa and **Mail.ru Group** in Russia. In terms of sectors, stock selection in consumer discretionary was the key contributor to relative performance. No exposure to real estate companies and good stock selection in the information technology sector also had a positive impact. Geographically, stock selection and allocation in China (underweight relative to the benchmark Index), Russia (overweight) and Peru (overweight) contributed the most to relative performance.

Major stock detractors from relative performance included overweight positions in **ICICI Bank** in India, **Hyundai Development** in South Korea and **Unilever**, which is listed in the UK but has significant operations in emerging markets. In terms of sectors, stock selection in financials, health care and industrials detracted the most. In terms of markets, stock selection in Taiwan, South Korea, Indonesia and Thailand weighed the most on relative performance.

Outlook

While volatility has increased recently, we believe that emerging-market fundamentals remain sound. We believe that EM equities have reached an inflection point in regard to earnings and appear to be providing us with valuation opportunities that we do not generally see in most developed markets. Our view is that earnings should continue to recover and prompt valuations to return to a more normal level. Discounted valuations is one of several trends that underpin the upside potential which we see in emerging markets today. Other positive trends include undervalued EM currencies and lower EM debt levels.

When making a case for emerging markets in the year ahead, we believe that foreign currency reserves should not be underestimated. Previous financial crises have been exacerbated by insufficient currency reserves and the inability to manage domestic savings. However, we believe that emerging markets are in a much stronger position today, with their currency reserves now exceeding those of their developed-market peers.

Meanwhile, emerging markets have doubled their share of global gross domestic product (GDP) over the past 30 years and now amount to 60% of global GDP growth. Further, 2018 EM GDP growth is expected to be double the pace of developed markets in general—the International Monetary Fund is estimating 4.9% GDP growth for emerging markets versus 2.3% in developed markets.

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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References to particular industries, sectors or companies are for general information and are not necessarily indicative of TEMIT's holding at any one time. References to indices are made for comparative purposes only and are provided to represent the investment environment existing during the time periods shown. An index is unmanaged and one cannot invest directly in an index. The performance of the index does not include the deduction of expenses and does not represent the performance of any Franklin Templeton Investments fund. All MSCI data is provided "as is." The portfolio described herein is not sponsored or endorsed by MSCI. In no event shall MSCI, its affiliates or any MSCI data provider have any liability of any kind in connection with the MSCI data or the portfolio described herein. Copying or redistributing the MSCI data is strictly prohibited.

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