

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 markets (EM) equities declined in local currency terms in July, while developed markets stocks advanced. Market sentiment was largely unsteady amidst persistent global trade tensions, a weaker outlook for world economic growth and shifting expectations for the size of a potential US interest rate cut. Stock returns were bolstered in sterling terms owing to the currency's weakness. The MSCI Emerging Markets Index rose by 2.8% over the month, compared with a 4.5% gain in the MSCI World Index, both in sterling terms.

Lingering uncertainty around US-China trade relations and a slowdown in China's economy formed a muted backdrop for Asian markets. Stocks in South Korea fell as its trade disputes with Japan and North Korea's missile launches fuelled investor caution. India's market declined as the country's budget disappointed investors who had expected more stimulus. Nonetheless, the budget included tax cuts and other measures aimed at attracting foreign investment, and we believe that the government is moving in the right direction with its focus on improving the investment climate. In contrast, Taiwan's index rose on strength in technology heavyweights.

Within Latin America, Brazil's market was the top performer. The central bank cut its benchmark interest rate to a record low, raising expectations for another rate reduction in September. Investors also cheered the passing of a landmark pension reform bill by the lower house of Congress. We view this as a positive development and are optimistic about prospects for tax reforms, privatisations and other changes aimed at improving Brazil's regulatory environment. Meanwhile in Mexico, the resignation of the finance minister, concerns about state-owned oil company Pemex's business plan and weak economic growth weighed on equities.

In the Europe, Middle East and Africa region, equities in Russia benefitted from an interest rate cut by the central bank. We continue to view improving corporate governance in Russia as a tailwind for that country's stock market. In South Africa, concerns about the country's budget deficit took centre stage as the government announced a bailout for state-owned power utility Eskom. Ratings agency Fitch also cut its outlook for South Africa's credit rating to negative from stable.

Performance

For the month ending 31 July 2019, TEMIT's share price rose by 4.6%, its Net Asset Value (NAV) rose by 4.5% and its benchmark, the MSCI Emerging Markets Index, rose by 2.8% in sterling terms.

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

As at 31 July	2019	2018	2017	2016	2015
Share Price	16.4%	2.7%	30.4%	22.6%	-18.6%
Net Asset Value	12.2%	1.9%	32.7%	21.9%	-17.3%
Benchmark	5.2%	5.3%	26.2%	17.1%	-6.0%

Cumulative Performance as at 31 July 2019 (Dividends Reinvested)

	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Share Price	6.4%	16.4%	55.9%	55.6%	136.6%
Net Asset Value	6.6%	12.2%	51.7%	53.0%	137.7%
Benchmark	3.8%	5.2%	39.8%	53.9%	118.8%

Annualised Performance as at 31 July 2019 (Dividends Reinvested)

	3 Yrs	5 Yrs	10 Yrs
Share Price	16.0%	9.2%	9.0%
Net Asset Value	14.9%	8.9%	9.0%
Benchmark	11.8%	9.0%	8.2%

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 © 2019 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

Brazil-based metals company **Vale** was a new position in the portfolio. Though a recent mining accident affected its production of iron ore, higher prices have helped to offset lower volumes, and we expect production to start picking up later this year. In line with this purchase, our investments in the **materials** sector increased. From a market perspective, we added to holdings in **Brazil, Mexico** and **India**. Repurchases of TEMIT's own shares also occurred in the month.

We divested Peru-based miner **Compania de Minas Buenaventura** and South Africa-based pay-television operator **Multichoice** in favour of investment opportunities elsewhere. By sector, we conducted some sales in **information technology, consumer staples** and **consumer discretionary**. By market, we reduced holdings in **China, Peru** and the **United States** (represented by Cognizant Technology Solutions, a US-listed technology services company that derives much of its earnings from services provided in India).

Performance Attribution

Key stock contributors to the fund's performance relative to the benchmark MSCI Emerging Markets Index included internet firm **Naver** in South Korea, chip maker **Taiwan Semiconductor Manufacturing Company (TSMC)** and Cambodia-based casino operator **NagaCorp**.

Naver surged on news that it would spin off its digital payment unit Naver Pay to form a financial services company with a major brokerage in South Korea. TSMC posted better-than-expected quarterly results amidst an industry slowdown and projected an upturn in demand for the rest of the year. NagaCorp's first-half earnings jumped on reports of growth across all segments of its business. We remain sanguine about longer-term prospects for these companies.

In sector terms, stock selection in **consumer discretionary** and **communication services** boosted relative returns, as did an overweight to **information technology**. By market, **South Korea, Taiwan and China** were relative contributors, all due to stock selection.

Conversely, major stock detractors from relative returns included conglomerate **LG Corp** and smartphone and semiconductor manufacturer **Samsung Electronics**, both in South Korea, as well as South African retailer **Massmart**.

One of LG Corp's largest affiliated companies, chemicals producer LG Chem, posted a drop in quarterly earnings amidst weakness in its petrochemicals business. Samsung fell as challenges in the memory industry and global trade environment weighed on its quarterly income and hindered its plans to return cash to shareholders. Massmart signalled a half-year operating loss due to slower sales, weaker margins and higher expenses. We continue to track the fundamentals of these holdings against our longer-term investment theses.

By sector, relative returns were capped by stock selection in both **consumer staples** and **industrials**, as well as a lack of exposure to **utilities**. At the market level, stock selection in **Indonesia and Brazil**, as well as a lack of exposure to the **United Arab Emirates**, were areas of relative weakness.

Outlook

We expect the US-China trade conflict to remain a major headwind and believe that investors should be prepared for market volatility as the two major powers continue to iron out outstanding differences. While the US and China described trade talks in July as "constructive" and are expected to meet again in September, US President Donald Trump surprised markets in early August with plans to impose fresh tariffs on another US\$300 billion of Chinese imports. In retaliation, China halted purchases of US agricultural products. The Chinese yuan fell and breached the symbolic level of 7 per US dollar.

However, we believe many good-quality companies can still be found in EMs, where macroeconomic fundamentals remain largely healthy. Amongst companies which we favour are those that are nimble in adapting to changes, demonstrate financial resilience (through characteristics such as sustainable earnings, strong cash flows and robust balance sheets) and trade at valuations that we find attractive.

The expansion of the middle class has been one of the most influential demographic changes in EMs and has underpinned much of the growth in these economies. We expect rising domestic consumer demand to contribute to EMs' resilience. Technology also remains an integral part of the EM story. It has made an impact across many parts of the economy, and we continue to see companies using technology and innovation to drive growth and earnings.

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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