

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

Emerging markets (EM) outperformed their developed-market counterparts for the sixth consecutive month in June, with the MSCI EM Index returning 0.5%, compared with a 0.2% decline in the MSCI World Index, in sterling terms. For the quarter as a whole, the MSCI EM Index was up by 2.4%, versus a 4.2% increase in the MSCI World Index. Encouraging economic data from China, fund inflows and corporate earnings growth were among the key drivers of EM performance. EM equity funds continued to record net fund inflows during the quarter, bringing the year-to-date total to over US\$40 billion, with global EM funds accounting for the majority of additional flows. The US Federal Reserve viewed the US economy as resilient and lifted baseline short-term interest rates by 0.25% in June, its third increase in six months, despite softer inflation data.

Commodity prices declined over the second quarter despite a late-June rally. WTI crude oil (a benchmark oil type) spot prices declined by 9% in the quarter but also recorded their strongest rally of 2017 at the end of June, after US producers appeared to curtail their drilling activity and government data showed a sharp drop in US gasoline supplies as summer demand picked up. Iron ore prices rallied 14% in June after buckling under tighter Chinese credit earlier in the quarter, with benchmark Chinese iron ore spot prices ultimately falling by 19% over the April-June period.

Asia was the top-performing region for the quarter with China, South Korea and Taiwan among the best performers. The MSCI Taiwan Index reached a 17-year high in June, driven by the information technology (IT) and financials sectors. Korean equities reached a record-high level in June supported by foreign buying and strength in IT and health care companies.

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Performance

For the month ending 30 June 2017, TEMIT's share price fell by 0.3%, its Net Asset Value (NAV) fell by 0.9% and its benchmark, the MSCI Emerging Markets Index, rose by 0.5% in sterling terms.

Cumulative Performance as at 30 June 2017 (Dividends Reinvested)

	3 Mo	1 Yr	3 Yrs	5 Yrs	10 Yrs
Share Price	3.2%	34.9%	25.9%	35.8%	108.7%
Net Asset Value	2.8%	33.6%	30.2%	43.2%	109.6%
Benchmark	2.4%	27.8%	37.4%	49.2%	92.9%

Annualised Performance as at 30 June 2017 (Dividends Reinvested)

	3 Yrs	5 Yrs	10 Yrs
Share Price	8.0%	6.3%	7.6%
Net Asset Value	9.2%	7.5%	7.7%
Benchmark	11.2%	8.3%	6.8%

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

As at 30 June	2017	2016	2015	2014	2013
Share Price	34.9%	-0.1%	-6.6%	2.7%	5.0%
Net Asset Value	33.6%	3.0%	-5.4%	1.5%	8.3%
Benchmark	27.8%	3.9%	3.5%	1.7%	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 © 2017 Morningstar, Inc. All rights reserved.

The prices of shares and income therefrom can go down as well as up, and investors may not get back the full amount invested. **Past performance is no guarantee of future performance.** Currency fluctuation may affect the value of overseas investments. An investment in TEMIT entails risks which are described in the annual report. Please consult your financial adviser before deciding to invest. In emerging markets, the risks can be greater than in developed markets.

Market review (continued)

The IT sector was also a key driver of performance in China, with sentiment further supported by easing concerns about monetary tightening and MSCI's announcement to add mainland A-shares (large Chinese mainland shares) to its indices next year. Equity markets in Thailand and India, however, lagged their regional peers. Challenges in the implementation of the Goods and Services Tax (GST) and profit-taking by investors impacted the Indian market.

Latin America was among the weakest-performing regions, largely due to lower oil prices and the political turmoil in Brazil, which pressured stock prices in that market after a period of strong performance. On the economic front, however, Brazil posted its first quarter of gross domestic product (GDP) growth in the first three months of 2017, following its longest recession on record, and the country's central bank continued cutting its benchmark interest rate. Elsewhere in the region, market-friendly political news and hints of an end to monetary tightening raised investor confidence in Mexico. Outperformance in Peru was supported by positive growth expectations.

Russia was among the weakest performers in Europe and globally, on investor concerns that lower oil prices could impact 2017 corporate earnings growth. Additional US sanctions also worried investors. Macroeconomic data, however, point towards a recovery, with GDP expanding in the first half of 2017, after two consecutive years of contraction.

Portfolio Changes & Positioning

Two new purchases, **B2W**, a leading Brazilian e-commerce company, and **POSCO**, a South Korean steel producer, were made during the quarter. Geographically, investments in Brazil, India, South Korea and Russia were increased the most. In terms of sectors, investments were made in financials, health care and materials. Repurchases of TEMIT's own shares were also made during the quarter.

The Investment Manager divested positions in a number of companies, as well as reduced holdings in a number of existing positions in China, Pakistan, Mexico and Saudi Arabia to raise funds for more attractive investment opportunities. Sales included **Mercadolibre**, an internet retail company, **Sunny Optical**, a Chinese optical-related products manufacturer, **American Movil**, a Mexican mobile telecommunications company, South Korean tyre maker, **Hankook Tire**, and **Hyundai WIA**. Holdings in the information technology, consumer discretionary and telecommunication services sectors were also decreased.

Performance Attribution

Leading stock contributors relative to the benchmark MSCI Emerging Markets Index were overweight positions in **Hon Hai Precision** in Taiwan, **Ping An Insurance** in China and **ICICI Bank** in India. In terms of sectors, stock selection and allocation in financials (underweight relative to the benchmark Index), information technology (overweight position) and industrials (underweight) contributed the most. Geographically, stock selection in Taiwan, China, South Africa and Brazil had a positive impact.

Major stock detractors to relative performance included overweight positions in **IMAX**, which is listed in the US but with significant operations in emerging markets, **Minas Buenaventura** in Peru and **Massmart Holdings** in South Africa. In terms of sectors, energy and consumer discretionary had a negative impact on relative performance. In terms of

markets, overweight exposures to the US and Pakistan, and stock selection in Peru and Turkey, detracted the most.

Outlook

We believe that emerging markets continue to offer superior growth compared with developed markets. The long-term trend of increased consumer penetration and improving affluence, leading to a shift to more premium products and services, should continue to bode well for these markets in the future. The biggest risks to emerging markets as a category emanate from any possible "black swan" unprecedented event. China is a dominant country within emerging markets, both as a market as well as a source for demand for many industrial commodities. Any slowdown in that market and derailment of its structural adjustment process could have short-term implications for the sentiment towards EM. On a broader level, the world is still imbalanced, with many countries having high debt levels, and market concerns on those macroeconomic factors could lead to short-term volatility. The fundamentals of emerging-market equities, however, remain attractive.

IMPORTANT INFORMATION

This document does not constitute or form part of an offer for shares or an invitation to apply for shares. An investment in TEMIT entails risks which are described in the current TEMIT annual report. **The value of investments and any income received from them can go down as well as up, and investors may not get back the full amount invested. Past performance is not an indicator, nor a guarantee of future performance.** Please consult your professional adviser before deciding to invest.

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