

# MARTIN CURRIE EMERGING MARKETS FUND

## Martin Currie Team-Managed Approach

- Martin Currie is an active equity specialist that builds global, stock-driven portfolios based on fundamental research, devoting all of its resources to delivering optimum investment outcomes and superior client relationships.

### Average annual total returns and fund expenses (%)

as of March 31, 2023

	3-mo	1-yr	3-yr	5-yr	Since Incept.	Expenses	
					(05/29/15)	Gross	Net
Class I	5.56	-11.12	6.38	-0.86	3.66	0.96	0.95
MSCI EM (Net) (USD) Index	3.96	-10.70	7.83	-0.91	N/A	-	-

#### Maximum initial sales charge -- Class I: None

**Performance data quoted represents past performance, which does not guarantee future results.** Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please call Franklin Templeton at (800) DIAL BEN/(800) 342-5236 or visit [www.franklintempleton.com](http://www.franklintempleton.com).

Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Net expenses are capped under a contractual agreement, which cannot be terminated prior to December 31, 2024 without Board consent. Actual expenses may be higher and may impact portfolio returns.

**MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Please note that an investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

## Overview

Emerging markets started the year with a second consecutive quarter of positive performance. Inflation concerns continued to impact the global economy, and the U.S. Federal Reserve increased rates by 0.25% in both February and March. There was disruption in the financial sector due to the collapse of Silicon Valley Bank and the subsequent demise of Credit Suisse. However, fears of contagion decreased towards quarter-end, and emerging markets overall saw limited impact. The U.S. dollar weakened slightly versus emerging market (EM) currencies as a group.

At the market level, Mexico, Korea and Taiwan all delivered strong performance over the period. In Mexico, data points showed positive economic growth for January and February, and robust employment growth. Both Korea and Taiwan have a high exposure to the semiconductor space, where sentiment has improved with the focus on 2024 and long-term revenue recovery driven by an increase in demand for artificial intelligence chips, and stabilisation of demand in key areas such as smartphones. China also had another positive quarter, with its efforts around re-opening its economy contributing to stronger economic growth. However, India was weaker, with equity markets affected by sentiment-led profit taking. Additionally, market reaction to controversy facing the Adani Group led to some volatility. However, there was no material change to earnings expectations, and in the Indian financials space there continues to be positive earnings revisions. Brazil

was also weaker during the month with concerns over the direction of fiscal policy continuing.

## Activity

### Complete sells

**OTP Bank.** The rationale for exit was driven by a combination of company-specific and external issues. The biggest factor was continued concerns over interference and policies from the Hungarian government. We believe this is raising the cost of equity for OTP and also influencing some of its strategic merger and acquisition decisions. The Russia-Ukraine conflict remains unresolved, but we expect OTP will remain in both countries, and it is unlikely its Russia business (which also has some tail risks) will be valued by the market. Finally, while a recovery in the Eastern European region is possible, given company-specific issues and the Hungarian government's behaviour, it is possible OTP will not participate in that recovery.

## Outlook

As has been the case for much of the last decade, China is key to the emerging markets equity outlook. The tight fiscal and monetary policy employed throughout the pandemic, combined with restrictive Covid policies, led to subdued growth and lower confidence in Chinese equities. This also impacted the perception of the broader emerging markets asset class.

However, as we have moved into 2023, China has made a clear policy shift, something the market had been hoping for. The government announced a number of measures, including the relaxation of its zero-Covid policy and definitive support for the troubled property sector. China is now in an interesting place, in sharp contrast to many developed markets, with easing policy and the potential for a significant economic rebound as the government shifts its priority towards growth in domestic consumption. The divergence of economic cycles is likely to attract investors back to emerging markets.

We exit the first quarter of 2023 with EM stocks trading on 12.4x price-to-earnings ratios, which is still below the average of the last decade but there has been some re-rating since the start of the year. Although growth expectations globally remain lower as the impact of higher interest rates is expected to weigh on consumption, regional expectations are starting to diverge. Emerging markets are forecast to outgrow advanced economies, especially in EM Asia where China has already delivered a very strong start to the year. EM companies are seeing green shoots in the earnings cycle, with areas such as Chinese internet companies and Indian banks seeing upgrades.

Reflecting this, our portfolio positioning has remained broadly unchanged, with strong domestic exposure in both China and India. We continue to find attractive investment opportunities across a broad range of countries and industries. Because our investment horizon focuses on the longer term, we remain excited by the powerful combination of technology adoption, urbanisation and services sector growth that is evident in emerging markets. We expect our highly selective, stock-focused approach will prosper through accessing companies with a high return on equity that operate in structurally growing industries.

## Top contributors

**Taiwan Semiconductor Manufacturing (TSMC).** During the quarter, TSMC's management delivered a positive outlook on operational performance, which was well received by the market. TSMC and other names in the foundry space commented on market stabilisation and said demand should return in the second half of the year.

**Tencent.** Tencent performed well during the quarter after reporting a positive set of results with strong profitability. Most of its divisions delivered robust growth, and company management was constructive on Chinese domestic growth. Management also commented on regulation, where they are seeing a more normalised environment. As a result, Tencent has been able to make significant inroads with its fintech business.

**Sea.** Sea, the leading Southeast Asian diversified internet conglomerate, also saw strength following a positive reception to its results. It delivered a group-level profit for the first time, driven by its e-commerce and digital financial services segments.

## Bottom contributors

**JD.com.** JD.com (JD) was weaker during the quarter. It announced the launch of a RMB10 billion subsidy programme targeting its value-oriented segment. The market reacted negatively to the news on concerns over margin discipline. These were addressed during JD's earnings call, where management delivered a constructive message on its long-term strategy. However, the market reacted negatively to short-term concerns related to weaker guidance around the pace of the consumption recovery.

**Meituan.** The Chinese internet and physical food-centric retailer was weaker, in part due to the overhang of the Tencent divestment, with shares delivered at the end of March. However, at the end of the period, Meituan delivered solid year-end results and its management was relatively bullish on the long-term trajectory for the business and ability to beat its competition.

**AIA.** Although the Hong Kong-based financial group posted decent full-year results in mid-March, broader financial market weakness had some impact on its performance over the period.

Sector allocation (%)	
Information Technology	28.9
Financials	23.8
Consumer Discretionary	12.8
Communication Services	10.1
Materials	7.4
Industrials	5.8
Energy	4.2
Health Care	2.8
Consumer Staples	2.6
Utilities	1.1
Cash/Other	0.5

Top 10 equity holdings (%)	
Taiwan Semiconductor Manufacturing Co Ltd	9.5
Samsung Electronics Co Ltd	8.3
Tencent Holdings Ltd	7.5
ICICI Bank Ltd	3.8
Alibaba Group Holding Ltd	3.5
AIA Group Ltd	2.7
SK Hynix Inc	2.7
Reliance Industries Ltd	2.6
HDFC Bank Ltd	2.5
Titan Co Ltd	2.4

Percentages are based on total portfolio as of quarter end and are subject to change at any time. For informational purposes only and not to be considered a recommendation to purchase or sell any security.

## Definitions and additional information

An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

**Coronavirus disease (COVID-19)** was discovered in 2019 and had not been previously identified in humans.

**The Federal Reserve Board ("Fed")** is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

**MSCI** is an investment research firm that provides indices, portfolio risk, and performance analytics and governance tools to institutional investors and hedge funds.

The **MSCI Emerging Markets Index** is a free float-adjusted market-capitalisation index that is designed to measure equity market performance in global emerging markets.

The **price-to-earnings ratio** indicates the dollar amount an investor can expect to invest in a company in order to receive one dollar of that company's earnings.





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### What should I know before investing?

**All investments involve risks, including possible loss of principal. Equity securities** are subject to price fluctuation and possible loss of principal. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. To the extent the fund focuses its **investments in a single country or only a few countries** in a particular geographic region, economic, political, regulatory or other conditions affecting such country or region may have a greater impact on fund performance relative to a more geographically diversified fund. As a **non-diversified fund**, it is permitted to invest a higher percentage of its assets in any one issuer than a diversified fund, which may magnify the fund's losses from events affecting a particular issuer. The fund may be significantly overweight or underweight certain companies, industries or market sectors, which may cause the fund's performance to be more sensitive to developments affecting those companies, industries or sectors. **The manager's portfolio selection strategy is not solely based on ESG considerations**, and therefore the issuers in which the fund invests may not be considered ESG-focused companies. **Integrating ESG considerations into the investment process is not a guarantee that better performance will be achieved.** **Derivatives**, such as options and futures, can be illiquid, may disproportionately increase losses, and have a potentially large impact on fund performance. In addition to the fund's operating expenses, the fund will indirectly bear the operating expenses of any underlying funds.

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Portfolio holdings and sector allocations may not be representative of the portfolio manager's current or future investment and are subject to change at any time.

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