

MAR 2021 | Commentary

LEGG MASON MARTIN CURRIE EMERGING MARKETS FUND

Investment objective

The Fund aims to deliver capital growth by investing directly or indirectly in equities of companies that are quoted in or operating in one or more countries deemed to be emerging markets. The Fund aims to generate after fee returns in excess of the MSCI Emerging Markets Index expressed in Australian dollars over rolling five-year periods.

Performance (%)

	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa
Fund (net)	-1.26	3.06	33.05	9.99	17.15
Benchmark	0.11	3.63	27.28	6.73	12.29

Calendar year performance (%)

	2020	2019	2018	2017	2016
Fund (net)	14.94	28.22	-9.11	38.77	13.62
Benchmark	7.77	18.61	-5.10	27.09	11.72

Fund details

Inception date	September 2011
Benchmark	MSCI Emerging Markets Index (AUD)
ISIN	AU60ETL02010
APIR	ETL0201AU

Monthly review

What happened in the market?

Emerging markets were flat in Australian dollar terms over the month of March, with the MSCI Emerging Markets index registering a 0.1% gain. Of the larger markets, China was a notable area of weakness over the month. This continues a trend since Chinese New Year and reflects expectations that monetary policy will gradually tighten from conditions in 2020.

The broad-based weakness of the Chinese market was the dominant feature in the Funds stock-level attribution in March. The majority of Chinese holdings fell in price over the month, dominating the detractors' list and, conversely, some non-held positions in Chinese stocks appeared as large contributors to relative returns.

With global demand recovering, inflation concerns started to be reflected in rising US bond yields and a handful of emerging markets moved earlier than expected to raise interest rates. We saw rate increases from Brazil, Russia and Turkey during the month.

What happened in the Fund?

After strong performance in the preceding months, Emerging Markets (EM) were reasonably flat during March despite a healthy earnings reporting season, with the MSCI Emerging Markets index gaining by 0.1%. The Fund was down however, dropping -1.26%.

At a stock level, Titan, an Indian-based jeweller and watch retailer, was among the best relative performers after it released a strong set of December-quarter earnings, a positive update on year-to-date trading and a confident outlook for 2021. EPAM, the Eastern Europe-based software engineering firm also fared well. The company is continuing to benefit from high demand for digital transformation among its corporate client base and it provided strong guidance for its yet-to-be-reported Q1 2021 trading. Elsewhere, the market responded positively as Brazilian conglomerate Cosan completed a restructuring that simplifies its corporate structure. The group also announced an acquisition and filed to IPO one of its subsidiaries. These are all significant steps forward for the company as its world-class assets were being compromised by its complex structure.

On the other side, e-commerce platform Meituan was a notable drag on Fund performance in March. Sentiment was impacted by China's weakness and was compounded by the company's fourth-quarter results released during the month. Although Meituan's revenue grew 35% year on year (yoy) in quarter four, it reported an overall loss as it invested heavily to expand new business ventures such as online grocery supply. Tencent also lost ground this month despite delivering very strong year-end results. It expanded revenue by 26% yoy in the final quarter and achieved 71% growth in net profit. Xinyi Solar, the largest solar glass manufacturer in the world, was another negative. It reported full-year 2020 results at the start of March, showing 35% revenue growth and 89% profits growth. However, the share price has been strong in recent months and this has recently given way to profit taking and fears over the sustainability of current high levels of profitability.

In terms of activity, we exited our position in optical lens manufacturer, Largan. We owned Largan alongside Sunny Optical to participate in the growing market for embedded cameras. The camera market has grown and we expect it to continue to grow, but Largan has lost competitive positioning relative to Sunny Optical in recent years. Our heightened confidence in Sunny Optical's outlook has led us to sell Largan and rely on Sunny Optical as our exposure in this sector. There were also outright sales in Cnooc and Southern Copper. Following the addition of the former to the US Office of Foreign Assets Control sanction list, we sold the stock from our funds. For the latter, we took the decision to exit the holding ahead of the implementation of the Sustainable Finance Disclosure Regulation.

Highlights

- A high conviction Fund of the best emerging market companies identified by Martin Currie's fundamental bottom up research process
- Focuses on companies where the investment team believes long-term growth prospects are not yet reflected in their stock prices
- Flexible Fund construction as investments are not restricted by market cap, country or sector limits

About us

Franklin Templeton

Franklin Resources, Inc., is a global investment management organisation, operating as Franklin Templeton, which is headquartered in California. Franklin Resources, Inc., provides, through its subsidiaries, deep investment expertise across all asset classes - including equity, fixed income, and multi-asset solutions. Franklin Resources, Inc. is listed on the New York Stock Exchange and has employees in over 34 countries.

Martin Currie

Martin Currie is an active equity global specialist manager headquartered in Edinburgh, Scotland. Founded in 1881, it has been a part of the Legg Mason group since 2014 and has a significant presence in Australia through Martin Currie Australia, dating back to 1954.



Ratings

Quantitative



The Legg Mason Martin Currie Emerging Markets Fund received an overall rating of 5 stars out of 71 Equity Emerging Markets funds as of 31 March 2021.

Qualitative



For enquiries, please contact Client Services team on 1800 679 541, email auclientadmin@franklintempleton.com or visit leggmason.com.au.

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