

OCT 2020 | 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)	4.97	7.01	13.41	8.13	12.78
Benchmark	4.17	4.82	6.20	4.97	8.26

Calendar year performance (%)

	2019	2018	2017	2016	2015
Fund (net)	28.22	-9.11	38.77	13.62	-3.35
Benchmark	18.61	-5.10	27.09	11.72	-4.30

Fund details

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

Monthly review

What happened in the market?

China was one of the market leaders in October as the country continues to exhibit strong economic recovery. Elsewhere Taiwan has now reached more than 200 days without any locally transmitted cases of COVID-19. Emerging Europe was weaker following a renewed surge in virus cases, while Latin America experienced weakness at currency level. At sector level, communication services and consumer discretionary outperformed while energy was weak on concerns over the global demand outlook.

At a market level communication services and consumer discretionary were the strongest sectors during the month, while energy was the biggest laggard. Looking regionally, Indonesia and the Philippines were the most notable positives and emerging Europe countries (Poland, Greece and Turkey) were the weakest.

What happened in the Fund?

The strong momentum in emerging markets continued into October with the MSCI Emerging Markets index up 4.2%. The Fund also rose to 5.0% .

At a stock level, Chinese internet giant Tencent was the top relative performer. With a major fintech competitor (Ant Group) set to list in a high-profile, multi-billion-dollar IPO in early November, there has been increased focus on the underlying value of this part of Tencent's ecosystem as well. The company also benefited from bullish expectations for its mobile gaming business in the upcoming quarterly results as well as strength in the broader Chinese internet sector. Elsewhere, Meituan fared well as another beneficiary of the strong performance in the Chinese internet sector alongside positivity over the continued growth in the food delivery market and a recovery in its in-store, hotel and travel segment operations. Meanwhile, the commodity producer Southern Copper was another notable positive after it reported quarterly results with stronger-than-expected volumes, inflationary pricing and good cost control.

On the other side, LG Chem was the biggest underperformer. Despite reporting a strong set of quarterly results, the stock was weak on sentiment around recalls for Hyundai's Kona Electric Vehicle – a model for which LG Chem is the principal battery provider. Software engineering firm EPAM was another notable negative for the portfolio: with limited news flow on the stock this month, share price weakness may be attributable to profit taking following a sustained period of relative outperformance. Not holding the Chinese electric vehicle manufacturer NIO was also a drag on relative returns after the company announced record monthly and quarterly deliveries and continued this strong momentum throughout the month.

In terms of Fund activity, we bought Chinese e-commerce company JD.com. Following a prolonged period of investment, the company is now profitable with positive cash flow. Despite predictions for many years of 'winner takes all' in the Chinese e-commerce space, the three major players all appear to be thriving. Chinese e-commerce penetration levels are high, but offline is still the largest component of the market and JD has years of growth potential ahead. Newer product areas, such as Supermarket & Healthcare, are in their infancy and offer significant growth opportunities. Profitability should improve over time driven by better buying terms, increasing advertising levels and economies of scale – especially in logistics. We sold gaming business Genting Malaysia as it no longer meets our investment criteria on growth and returns. Governance within the broader group has become a real concern and the combination of an uninspiring long-term outlook and doubts over future capital allocation are enough to warrant us exiting the stock at this point in time.

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 68 Equity Emerging Markets funds as of 30 October 2020.

Qualitative



Meet the team

Martin Currie has one of the most experienced and highly resourced global emerging markets team in the industry. The Fund benefits from a collaborative team-based approach which harnesses collective knowledge and enables better decisions with higher conviction.

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

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