

JAN 2022 | Commentary

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 (%)						Fund details	
	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa	Inception date	September 2011
Fund (net)	0.97	-0.52	-1.03	12.71	13.31	Benchmark	MSCI Emerging Markets Index (AUD)
Benchmark	1.24	2.21	1.03	8.43	9.92	ISIN	AU60ETL02010
Calendar year performance (%)						APIR	ETL0201AU
	2021	2020	2019	2018	2017		
Fund (net)	1.79	14.94	28.22	-9.11	38.77		
Benchmark	3.44	7.77	18.61	-5.10	27.09		

Monthly review

What happened in the market?

In January, the MSCI Emerging Market Index was up 1.24% in Australian dollar terms. The Fund was also up, rising 0.97% (net of fees) over the month.

Emerging markets continued to experience mixed performance in January. While there were notable rebounds in previously weak markets such as real estate and financials, the main notable theme in markets was the pronounced weakness in growth stocks relative to value stocks. This is reflected in the MSCI Emerging Markets Growth Index underperforming the MSCI Emerging Markets Value Index by more than 15%. This is a continuation of the style rotation which began in the latter part of 2021. In addition, geopolitical risk has risen in Russia and Eastern Europe with the prospect of potential war over the Ukraine and sanctions against Russia causing equity market weakness in the region. The continuation of a weak Australian dollar against the US dollars drove the divergence in performance between the index's base currency and the portfolio context: in the index's base currency of US dollars the weak performance in emerging markets was reflected more broadly whilst in the portfolio context there was moderate positive performance for both the index and the portfolio itself.

What happened in the Fund?

At an index level, real estate was the strongest sector during the month, while Brazil performed strongly. For relative performance within the Fund, consumer discretionary was the best-contributing sector and China was the best-contributing country. At the stock level, OTP Bank benefitted from the positive backdrop in financials in Emerging Europe, as EM investors allocated to more defensive countries to diversify away from potential geopolitical risk in Russia. Brazilian equities continued their rally, seeing a strong month of inflows from foreign investors and becoming the best performing emerging market in January. This helped to be supportive of B3, the country's leading financial exchange, and energy company Cosan.

At an index level, healthcare was the weakest performing sector, while Korea was also weak. In relative performance terms, information technology was the largest drag, while at a country level, not holding names from Saudi Arabia and South Africa was notably detractive. At the stock level, EPAM Systems ended its multi-month bull run as it was impacted by negative sentiment around Russia. Much of EPAM's staff is based in Eastern Europe, although we do not see any long-term threat to its business – the countries in which it operates (Ukraine, Belarus) are the victims and not the perpetrators of the current scenario. SEA Ltd was impacted by broader weakness in the technology/e-commerce industry, exacerbated by Tencent reducing its shareholding in the company from 21.3% to 18.7%. Meanwhile, semiconductor manufacturer Globalwafers struggled on news that German regulators still had not approved its acquisition of Siltronic, despite having received approval from Chinese regulators already. Globalwafers currently own 13.7% of Siltronic.

The Fund remains well ahead of its objective to date returning 13.31%pa (Net of fees) over the past 5 years, compared to its benchmark which has returned only 9.92%pa.

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 Martin Currie Emerging Markets Fund received an overall rating of 4 stars out of 80 Equity Emerging Markets funds as of 30 November 2021.

Qualitative



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