

Martin Currie Emerging Markets Fund

JUL 2023 | Commentary

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)	3.67	6.40	11.96	1.30	3.45
Benchmark	4.93	6.32	12.20	3.59	3.73

Calendar year performance (%)

	2022	2021	2020	2019	2018
Fund (net)	-21.39	1.79	14.94	28.22	-9.11
Benchmark	-14.33	3.44	7.77	18.61	-5.10

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 delivered positive performance during July. China continued to be strong. Further government stimulus was announced during the month, which is set to focus on boosting domestic demand, as well as providing measures to ease housing market pressures and support industrial upgrades. India was also stronger during the month. Industrial production has continued to improve, as demand for consumer durables and infrastructure and construction goods has remained healthy. Latin America was also positive. Mexico delivered a second quarter of GDP growth, ahead of expectations with services, industrial production and agriculture all showing healthy growth.

What happened in the Fund?

The Fund gained 3.67% over the month of July. Within the Fund, two notable positive contributors included Brazilian-based Cosan and Mexican Banking services company Banorte. Cosan is an industrial holding company providing diverse exposure to the country's energy, agriculture and mining industries. It has continued to perform well, having posted solid quarterly results in May and sentiment has continued to improve around its outlook and long-term opportunities. Elsewhere, Banorte delivered a decent set of results during July. Management also increased net income guidance for the full year, based on higher loan growth and the benefits from an improving macroeconomic backdrop.

On the other side, Samsung Electronics was weaker during the month. Preliminary results released in July were slightly below expectations at the revenue level, however operating profits were above. Sentiment remains for a recovery in the second half of 2023 and the long-term investment thesis is supported. Finally, Indian financial HDFC Bank delivered its first quarter results over the period. Despite delivering strong growth in profitability, slightly slower loan growth weighed on investor sentiment. Asset quality remains high and management delivered a confident message on its ability to continue to drive deposit growth in line with guidance.

Also during July the Fund received shares in JIO Financials Services (JIO). Reliance Industries had previously announced plans to demerge JIO which will eventually become a publicly listed entity. It was subsequently announced that existing shareholders of Reliance Industries would receive one share of JIO for every share they own in Reliance Industries.

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 entered 2023, China made a clear policy shift, something the market had been hoping for. The government announced several measures, including the relaxation of its "zero-Covid" policy and definitive support for the troubled property sector. Although there continues to be some scepticism in the market around the pace of recovery, we continue to monitor the situation and remain constructive on our Chinese holdings. We continue to view China as an interesting space, with easing policy and the potential for a significant economic rebound as the government shifts its priority towards growth in domestic consumption. As we reach the half-way point of 2023, emerging market stocks are trading on 12.9x price-to-earnings ratios. While this is still below the average of the last decade, 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 emerging markets Asia, where China has already delivered a very strong start to the year. Emerging market companies are seeing green shoots in the earnings cycle. As we exited the first quarter results season, we have seen upgrades to areas such as Chinese internet companies and Indian banks. The divergence of economic cycles is likely to attract investors back to emerging markets. Reflecting this, our Fund 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.

Highlights

- The Fund invests in a high conviction portfolio of listed emerging market companies.
- A professionally managed active portfolio, with a focus on bottom-up fundamental research seeking to identify long-term growth opportunities.
- The Fund is designed to take advantage of market mispricing of high quality, high return on equity companies.

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 options. Franklin Resources, Inc. is listed on the New York Stock Exchange and has employees in over 34 countries.

Martin Currie

Martin Currie Investment Management (MCIM) is a Specialist Investment Manager (SIM) within Franklin Resources Inc. and part of the Franklin Templeton group. MCIM is an active equity specialist with investment capabilities across global equities, global emerging markets, Asian equities, and European equities. The firm is a leader in integrating Environmental, Social and Governance (ESG) and responsible stewardship of capital into its investment process. MCIM is based in Edinburgh, Scotland, and has a long history extending back to 1881.

Meet the team

Alastair Reynolds, CFA

Portfolio Manager

With firm since 2011

Colin Dishington, CFA

Portfolio Manager

With firm since 2019

Paul Desoisa, CFA

Portfolio Manager

With firm since 2014

Aimee Truesdale, CFA

Portfolio Manager

With firm since 2022

Andrew Mathewson, CFA

Portfolio Manager

With firm since 2006

Divya Mathur, CFA

Portfolio Manager

With firm since 2011

Paul Sloan

Portfolio Manager

With firm since 2019

Ratings

Quantitative



The Morningstar Analyst Rating™ for Martin Currie Emerging Market strategy is 'Bronze' as at March 2023.

Qualitative



For enquiries, please contact Investor Services Team on 1800 673 776, email auclientadmin@franklintempleton.com or visit franklintempleton.com.au.

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