

Martin Currie Emerging Markets Fund

AUG 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)	-4.27	0.55	5.31	-0.23	2.85
Benchmark	-2.36	3.39	7.18	3.07	3.23

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 had a more challenging month during August. There was a reversal of the recent positive trends in China, which was amongst the weaker countries during the period. Concerns remain around the economic outlook and services activity expanded at the slowest pace this year. However, towards the end of the month the government announced several new stimulus measures, including lowering the minimum downpayment required for homebuyers across China to try and bolster the property market. On the inverse, India was amongst the stronger regions over the month. It continues to be supported by positive news flow around its ongoing GDP growth and positive economic outlook.

What happened in the Fund?

The Fund was down 4.27% over the month of August. Two of our most notable contributors over the period were long-term technology holding EPAM and Argentinian IT and software development company Globant. EPAM delivered positive second quarter results at the start of the month. Although near term pressures remain, management provided guidance that it expects growth to stabilise in the fourth quarter of this year supported by new client contributions. Elsewhere, Globant also delivered a positive set of results during the month. It continues to deliver growth ahead of its peer group. Management also delivered a constructive message around the longer-term outlook.

On the other side, two of the most notable over the period were Cosan and ENN. Softer results from its subsidiary Raizen was the predominant cause of Brazilian Energy company Cosan being weaker over the month. Elsewhere, Chinese Energy firm ENN reported a weaker set of results, due to lower gas volume sales. These were below both peer and monthly company guidance.

During August the Fund sold one stock. As existing shareholders of Reliance Industries, the Fund received shares of Jio Financial Services (RIL) in July when Reliance Industries demerged its financial services business. With limited conviction in RIL as a separate entity we took the opportunity to exit the position.

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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