

APR 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 (%)

	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa
Fund (net)	-2.00	-17.39	-18.00	2.60	6.83
Benchmark	-0.21	-11.22	-11.23	1.92	5.39

Fund details

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

Calendar year performance (%)

	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 April, the MSCI Emerging Market Index was down 0.21% in Australian dollar terms. The Fund was also down, falling 2.00% (net of fees) over the month.

Emerging markets continued to experience difficult conditions in April. There was a continuation of the value rally which has been a feature of markets globally since late 2020, becoming more pronounced in the last 6-8 months. Markets have continued to feel the impacts of the Russia-Ukraine conflict, rising interest rates and rising inflation. In addition, April saw some profit-taking in those regional markets which saw strength in the first quarter such as the Middle East and South Africa. Broad-based weakness was also felt in key index allocations Taiwan, Korea and China.

What happened in the Fund?

At an index level, utilities was the strongest sector during the month, while Saudi Arabia performed strongly among larger countries.

For relative performance within our Fund, materials was the strongest contributor and India was the best-contributing country.

At the stock level, sentiment for digital economy stocks was strong as a result of policy statements in support of these companies. This was beneficial for both Tencent and Meituan. In addition, high frequency delivery has been a bright spot in terms of consumption in China – one of the few categories to still show positive year-on-year growth against a backdrop of severe Covid shutdowns – this was supportive for Meituan. Meanwhile, Bank Rakyat Indonesia has benefited from positive investor interest in Indonesia. Indonesia was one of the few emerging markets that was positive in this period. BRI has a uniquely consumer focus with its market-leading position in SME loans and consumer loans.

On the other side, at an index level, information technology was the weakest performing sector, while Peru and Brazil were weak.

In relative performance terms, industrials were the largest drag, while at a country level China was detractive.

At the stock level, GlobalWafers struggled with the market's digestion of the Siltronic deal failure. Furthermore, there was some concern related to the impact of higher input costs (energy costs, raw materials such as polysilicon) and the ability to pass through some of the costs to customers. CATL's revenue momentum was strong however the gross margins were impacted by higher input costs which the company did not pass on to the end client. This was reflected in the company's results which were released toward the end of the month. Meanwhile, although Wuxi Lead continues to deliver above-expectation revenue outlook and orders ahead of FY22 guidance, it was impacted by increased outsourcing in a high demand quarter (in smart logistics rather than its core business).

During April, we sold the sole remaining Russian holding of digital bank TCS Group. Having decided to exit in early March, we were able to partially fill the order before trading was suspended across multiple trading platforms. We succeeded in exiting the remainder of our holding in April. Our sale of the holding was due to this risk and the potential for the extremely high cost of equity in Russia to persist and overwhelm business fundamentals. In addition, we replaced the iShares Trust MSCI Saudi Arabia ETF with Al Rajhi Bank, a leading Saudi Arabian bank. We initially held the ETF as a proxy for the bank (it has a large allocation to financials) until the fund was set up to hold Saudi Arabia-domiciled shares.

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



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

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