

MAY 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)	-1.16	-8.13	-20.29	4.56	5.82
Benchmark	-0.50	-6.22	-13.49	3.79	4.57

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

Fund details

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

Monthly review

What happened in the market?

In May, the MSCI Emerging Market Index was down 0.50% in Australian dollar terms. The Fund was also down, falling 1.16% (net of fees) over the month.

Emerging markets saw overall strength in Latin American markets balanced by some profit taking in the Middle East. The market digested the positive news flow coming from China around the Covid-related lifting of restrictions, as well as some stronger-than-expected earnings in the Chinese digital economy sector.

What happened in the Fund?

At an index level, information technology was the strongest sector during the month, while Brazil performed strongly among larger countries.

For relative performance within the Fund, information technology and Taiwan were strong contributors.

At the stock level, GlobalWafers was a beneficiary of rising positive sentiment in the silicon wafer space. Both the company and its competitive set have been showing strong pricing power and competitive resiliency in this softening technology backdrop. EPAM's management team communicated a better-than-expected return to utilisation levels in its Eastern European business as well as strong demand. Meanwhile, LG Chem reported results which beat consensus, with strong growth in most business divisions. The valuation of LG Chem relative to LG Energy Solutions continues to be highlighted as the holding company is trading at a very significant discount to the listed battery company (LGES).

On the othersider, at an index level, real estate was the weakest performing sector, while Hungary was also weak.

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

At the stock level, Titan underperformed the market after the most recent quarter's revenue was impacted by gold price volatility, covid waves and weaker consumer sentiment. Its management team views the slowdown as temporary and sees stronger trends in recent months, heading into significant demand out of the festival/wedding season. Asian Paints was impacted by market sentiment and raw materials costs. Its raw materials are oil-sensitive and we have seen some elevated pricing in titanium dioxide (a major paint input). Competitors in the space have announced significant capex expansion which has led to some fears of overheating competition. Meanwhile, WEG has some operational gearing to currency appreciation, which we saw in Brazil this month. As a significant exporter of industrial components to the US and Europe, local currency appreciation impacts its returns on capital and margins. Industrial companies that use steel/commodities and other raw materials with inflation have been hit by negative sentiment

During May, we added Grupo Financiero Banorte, Globant, Shenzhen Inovance and Walmex to the portfolio and exited Prosus. The latter has been materially impacted by the recent events in Ukraine which have reduced our conviction in the non-Tencent components of its business; although there are several other businesses in Prosus's portfolio, the materiality of those outside of Eastern Europe has diminished in the face of the full write-down of its stakes in VK and Avito which were key non-Tencent contributors to the company's performance. Mexican financial group Banorte offers a strong combination of interest rate sensitivity and value creation in a market which remains underpenetrated relative to most other emerging market countries in financial services terms. LatAm IT services company Globant operates in one of the best sector growth opportunities in emerging markets and has a positive outlook with an attractive valuation given the recent market sell-off. Chinese-based industrials-focused company Inovance has grown consistently over several years at a multiple of the wider industry. Its growth has primarily been driven by automation growth in China, market share gains (import substitution) and the development of new business areas such as the NEV business, all of which currently remain on a positive trajectory. Walmex is a compounder with a strong track record of steady growth and solid returns. It is well placed to use its strong market position and infrastructure to retain leadership and successfully transition to an omni-channel offering.

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, our global equity specialist manager, has had a presence in Australia since 1954. Today Martin Currie is a leading provider of active equity solutions in Australia, managing a growing suite of equity, multi-sector and tailored strategies across a common investment research platform.



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.

Past performance is not a reliable indicator of future performance. This publication is issued for information purposes only and does not constitute investment or financial product advice. It expresses no views as to the suitability of the services or other matters described in this document as to the individual circumstances, objectives, financial situation, or needs of any recipient. You should assess whether the information is appropriate for you and consider obtaining independent taxation, legal, financial or other professional advice before making an investment decision. Please read the relevant Product Disclosure Statements (PDSs) and any associated reference documents before making an investment decision. In accordance with the Design and Distribution Obligations and Product Interventions Powers requirements, we maintain Target Market Determinations (TMD) for each of our Funds. All documents can be found via www.franklintempleton.com.au or by calling 1800 673 776. Issued by Franklin Templeton Australia Limited (ABN 76 004 835 849, AFSL 240827). Franklin Templeton Australia Limited as Responsible Entity has appointed Martin Currie Investment Management Limited as the fund manager of the Martin Currie Emerging Markets Fund (ARSN 147 940 467). The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned Martin Currie Emerging Markets Fund (ETL0201AU) March 2021) referred to in this piece is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at Fund Research Regulatory Guidelines. **The Lonssec Rating** (assigned as follows: Martin Currie Emerging Markets Fund - April 2022) presented in this document are published by Lonssec Research Pty Ltd ABN 11 151 658 561 AFSL 421445. The Ratings are limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial products. Past performance information is for illustrative purposes only and is not indicative of future performance. They are not a recommendation to purchase, sell or hold Legg Mason Asset Management Australia Limited products, and you should seek independent financial advice before investing in these products. The Ratings are subject to change without notice and Lonssec assumes no obligation to update the relevant documents following publication. Lonssec receives a fee from the Fund Manager for researching the products using comprehensive and objective criteria. For further information regarding Lonssec's Ratings methodology, please refer to the website at: <http://www.beyond.lonssec.com.au/intelligence/lonssec-ratings>. © 2020 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'class service' have been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. Refer to our Financial Services Guide (FSG) for more information at www.morningstar.com.au/s/fsg.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. The Morningstar Rating is an assessment of a fund's past performance – based on both return and risk – which shows how similar investments compare with their competitors. A high rating alone is insufficient basis for an investment decision