

# Martin Currie Emerging Markets Fund

JUN 2022 | 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
<b>Fund (net)</b>	-3.98	-6.98	-26.47	1.14	5.04
<b>Benchmark</b>	-2.61	-3.30	-18.43	1.25	4.44

## Calendar year performance (%)

	2021	2020	2019	2018	2017
<b>Fund (net)</b>	1.79	14.94	28.22	-9.11	38.77
<b>Benchmark</b>	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 June, the MSCI Emerging Market Index was down 2.61% in Australian dollar terms. In comparison the was down 3.96% (net) over the month.

In June, the US Federal Reserve increased interest rates by 0.75%, the largest hike since 1994, to combat increasing inflationary pressure. Central banks in other developed markets announced similar tightening measures. The strength of the US dollar was reflected in a significant sell-off in several emerging market currencies. The tragic conflict in the Ukraine continued to exacerbate inflation through rising energy and commodity prices (notably food), which had a negative impact on both business and consumer confidence. While some emerging markets were adopting similar fiscal tightening policies to developed markets, China instead announced further fiscal expansion in June. Alongside some easing of Covid-related restrictions, this resulted in a recovery in market sentiment in that market.

### What happened in the Fund?

At an index level, consumer discretionary was the strongest sector during the month, while China was the strongest country.

For relative performance within our portfolio, the industrial sector was a strong contributor and our underweight exposure to several smaller Latin American countries helped to bolster relative return.

At the stock level, CATL outperformed the market following its announcement of a new, 'next generation' EV battery which will begin mass production in 2023. It also benefited from positive sentiment after a share sale via private placement of US\$6.7 billion, with the proceeds of which it plans to further invest in its business. Hong Kong-based financial AIA Group is a beneficiary of rising US bond yields and yields globally. It is also a defensive business with most of its insurance underwriting in Hong Kong/Singapore/Southeast Asia. The company has been showing resilient new business growth in most of its geographies and is embarking on a significant capital return plan. e-Commerce Alibaba had strong sales momentum around the 6.18 festival period in China, as well as improved market sentiment.

On the other side, at an index level, information technology was the weakest performing sector, while South American countries struggled.

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

At the stock level, Samsung Electronics underperformed the market amid the broad semiconductor industry sell-off which has lowered valuations by around 30%. This was due to profit-taking and general concerns over weaker end-demand markets (e.g., smartphones) coupled with rising inventory levels at end markets. GlobalWafers suffered from sentiment weakness concerning raw wafer demand following the build-up of general semiconductor inventory. However, the company has not seen any significant change in demand, and continues to see a strong pull from automotive, industrial and server demand. There is some margin pressure related to FX fluctuation and raw material/energy costs as well. Meanwhile, markets with broad sensitivity to commodities, including Latin America, continued a reversal of their previous strength this month, negatively impacting Brazilian energy company Cosan.

From a positioning perspective over the quarter, 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. We also added ENN Energy to the portfolio. ENN offers consistent returns and steady growth at an attractive valuation. It also provides balance for the Fund given our current industry and country positioning.

## 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



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