

DEC 2021 | 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 (%)						Fund details	
	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa	Inception date	September 2011
Fund (net)	-2.27	-1.71	1.79	14.47	13.60	Benchmark	MSCI Emerging Markets Index (AUD)
Benchmark	-0.65	-1.95	3.44	9.76	9.79	ISIN	AU60ETL02010
Calendar year performance (%)						APIR	ETL0201AU
	2020	2019	2018	2017	2016		
Fund (net)	14.94	28.22	-9.11	38.77	13.62		
Benchmark	7.77	18.61	-5.10	27.09	11.72		

Monthly review

What happened in the market?

In December, the MSCI Emerging Market Index was down 0.6% in Australian dollar terms. The portfolio was also down, falling 2.2% (gross) over the month.

Emerging markets experienced mixed performance during December. China, which represents roughly a third of the index, struggled due to macro weakness in property and fixed income markets. Conversely, broad-based strength in Latin America helped support markets such as Brazil and Mexico. A recovery in information technology and the semiconductor industry helped drive strength in Korea and Taiwan in particular. The currency moves experienced between the Australian and US dollars drove the negative performance in the portfolio context, while in the index's base currency of US dollars the more positive performance in emerging markets was reflected more broadly.

What happened in the Fund?

At the stock level, Samsung Electronics benefitted from stronger sentiment in the memory space. There have been strong revenue numbers in the semiconductor industry across the entire chain as companies continue to rebuild inventory. SK Hynix's performance was supported by its receipt of approval from Chinese authorities for the acquisition of Intel NAND assets – a transformative deal for the company. Meanwhile, increased trading volumes in EPAM Systems were broadly supportive of the stock price, resulting from it being added to the S&P 500 in December.

On the other side, SEA Ltd was negatively impacted by a temporary slowdown in subscribers to its game FreeFire, as well as general macro concerns about its business in Brazil. Profit taking in CATL followed the strong performance the company exhibited last month, in particular the company's colour on its battery output of 350GWh for 2022. There was also some negative sentiment-related weakness in the name amid media concerns about US firms sourcing batteries from Chinese manufacturers. Meanwhile, JD.com experienced weakness following the market's reaction to Tencent significantly reducing its stake in the company in December.

During the period, we sold our holding in China Gas. We have been increasingly concerned about deteriorating cash flow and the frequency of gas accidents (three in 2021). The latest results put further pressure on the cash flow dynamics of the company. It has essentially stopped the addition of rural customers and the accounts receivable collection has materially missed expectations. This is a thesis violation that undermines our credibility in management. Whilst the number of gas accidents at a group level benchmark favourably compared to the industry and the company has responded in an adequate way, we are concerned that a pattern is emerging.

The Fund remains well ahead of its objective to date returning 13.60%pa (Net of fees) over the past 5 years, compared to its benchmark which has returned only 9.79%pa.

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 Client Services team on 1800 673 776, email auclientadmin@franklintempleton.com or visit franklintempleton.com.au.

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