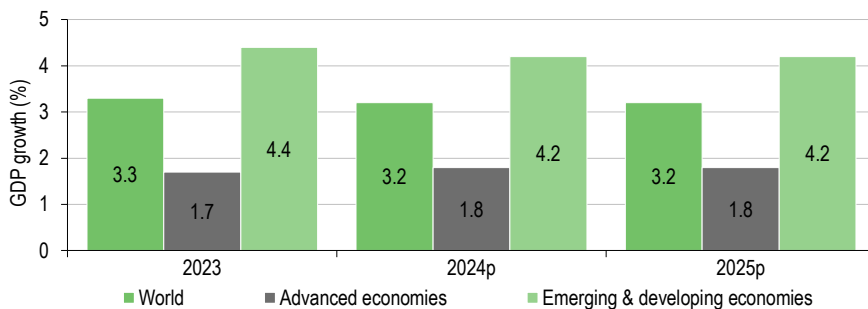


Templeton Emerging Markets IT

Solid upward performance trend is encouraging

Templeton Emerging Markets Investment Trust's (TEMIT's) co-managers, Chetan Sehgal (lead manager) and Andrew Ness, are encouraged by a solid improvement in the trust's performance, which is a result of successful stock selection rather than sector or geographic asset allocation. They reiterate how the prospects for emerging markets look particularly favourable in terms of above-average growth potential and attractive absolute and relative valuations. Sehgal and Ness consider that emerging markets are under-owned, underestimated and undervalued, and therefore provide an interesting opportunity for global investors.

Projected superior economic growth in emerging markets



Source: International Monetary Fund World Economic Outlook October 2024. Note: p is projected.

Why consider TEMIT?

TEMIT is a large, well-established fund providing a broad exposure to emerging markets. Sehgal and Ness seek companies with sustainable earnings power that are trading at a discount to their intrinsic worth. The managers are unconstrained by benchmark allocations, with a notable geographic overweight exposure to South Korea and underweight positions in China, India and Saudi Arabia. TEMIT's largest above-index sector weighting is technology.

Sehgal and Ness report that there is a wealth of high-quality growth opportunities available in emerging markets. These companies are either benefiting from rising domestic consumption, such as banks, consumer staples businesses and internet platforms, or from supplying the global economy, including with commodities, electric vehicles and semiconductors. The managers believe that investor sentiment toward the US has reached an extreme, with the country having been favoured over a multi-year period, and are very optimistic about emerging markets in 2025 due to positive fundamentals and attractive valuations.

It is worth highlighting our July 2024 [review](#), where we focused on the board's actions to increase returns to shareholders, aiming to increase demand for the trust's shares and helping to narrow TEMIT's consistently wide discount. These measures were: an acceleration in share repurchases; a commitment to at least maintain the current annual dividend; a conditional 25% performance-related tender offer; and a phased reduction in management fees. At the July 2024 AGM, the trust's five-year continuation vote was passed with 99.3% of the votes in favour.

Investment trusts Emerging markets equities

12 December 2024

Price 166.6p
Market cap £1,750m
Total assets £2,067m

NAV* 196.7p
Discount to NAV 15.3%

*Including income. At 10 December 2024.

Yield 3.0%
Ordinary shares in issue 1,050.5m
Code/ISIN TEM/GB00BKPG0S09
Primary exchange LSE
AIC sector Global Emerging Markets
Financial year end 31 March
52-week high/low 174.6p 141.0p
NAV* high/low 201.4p 163.3p

*Including income

Net debt (at 30 November 2024) 0.0%

Fund objective

Launched in June 1989, Templeton Emerging Markets Investment Trust was one of the first emerging markets funds in the UK. The trust seeks long-term capital appreciation through investment in companies operating in emerging markets or listed on the stock markets of such countries. This may include companies that have a significant amount of their revenues in emerging markets but are listed on stock exchanges in developed countries. Performance is benchmarked against the MSCI Emerging Markets Index.

Bull points

- TEMIT's managers are supported by a team of more than 80 emerging markets specialists based in 14 countries around the world.
- The fund is positioned for a rebound in consumption as emerging market monetary policies ease.
- The board is taking steps to narrow the discount.

Bear points

- Emerging markets can be more volatile than developed markets.
- Modest absolute returns from emerging market equities over the last decade.
- Stubbornly wide discount.

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**Templeton Emerging Markets
Investment Trust is a research client
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TEMIT: High-quality, reasonably valued portfolio

TEMIT is a high-conviction portfolio made up of quality companies with sustainable earnings growth that are trading at a discount to their intrinsic value. The managers are part of a very well-resourced team of more than 80 investment professionals based in 14 countries around the globe. Its local presence helps to identify interesting investment opportunities that are not included in the MSCI Emerging Markets Index or may be overlooked by other investors.

Since inception in June 1989 until the end of H125 (ending 30 September 2024), the trust has generated an NAV total return of +4,462.1%, which is considerably ahead of the benchmark's +1,891.1% total return.

Exhibit 1: Attractive valuation versus the benchmark

	Portfolio	Benchmark
Price-to-book (x)	1.6	1.8
12-month trailing P/E (x)	12.7	14.2
Dividend yield (%)	2.7	2.6
Price-to-cash flow (x)	6.5	8.3

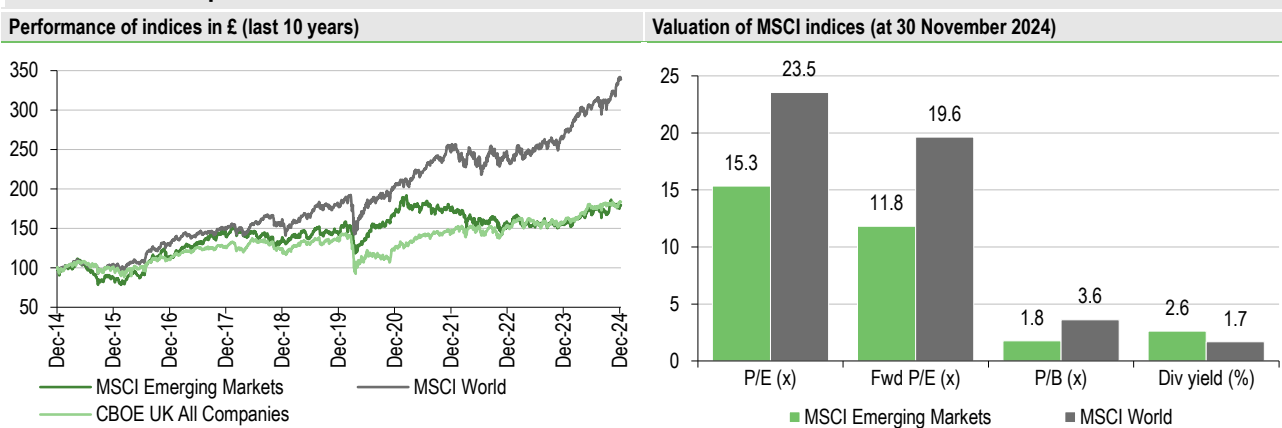
Source: TEMIT. Note: Portfolio metrics versus the MSCI Emerging Markets Index at 30 November 2024.

Why emerging markets?

Emerging markets generate most of the global growth and, according to Ness, the disparity between economic growth in emerging versus developed regions is likely to widen. Factors favouring emerging markets include positive demographic trends, an abundance of natural resources, higher productivity due to wider use of technology and increased innovation, along with significant infrastructure investment. The manager highlights that an investment in emerging markets is different compared to 10 years ago; now, there is a selection of growth themes available, such as semiconductors, electric vehicles, batteries, e-commerce, gaming and digital entertainment, and wealthy economies in the Middle East with structural reforms.

Ness believes that the 40% discount between the emerging markets and world indices on a forward P/E basis (Exhibit 2, right-hand side) should narrow over time. He reiterates his view that emerging markets are under-owned, underestimated and undervalued. In aggregate international investors have a c 5.5% allocation to emerging markets compared with a c 10.6% weighting in the MSCI AC World Index. The manager points to above-average growth, economic resilience, quality of leadership and policies, and stronger sovereign balance sheets in emerging markets, which should ensure that these regions perform relatively better over time. He notes that some emerging market economies are healthier than many developed market economies.

Exhibit 2: Market performance and valuation



Source: LSEG Data & Analytics, MSCI, Edison Investment Research

Highlighting other valuation measures, Ness says that emerging markets are trading at a 50% price-to-book multiple basis versus developed markets despite having just a 25% lower return on equity. On a cyclically adjusted price-to-earnings multiple basis, the US is looking very stretched at 33x versus 22x over its 45-year history, while emerging markets are trading on 12x. Current consensus earnings growth estimates for 2025 are c +14% for emerging markets, c +10% for developed markets and c +12% for the US.

Summary of H125 results

Performance – TEMIT’s NAV and share price total returns of +7.2% and +12.0% respectively compared with the benchmark’s +7.5% total return. The largest positive relative contributors to the trust’s performance were its holdings in: Alibaba and Prosus (+both 0.8pp); and Taiwan Semiconductor Manufacturing Company (+0.5pp). On the other side of the ledger, the largest relative detractors were: Grupo Financiero Banorte (-0.8pp); Samsung Electronics (-0.6pp) and Naver Corporation (-0.5pp).

Revenue and dividends – revenue per share in H125 was 3.60p, which was 7.8% higher than 3.34p per share in H124 (most of TEMIT’s revenues are earned in the first half of the financial year). The board has declared an unchanged interim dividend of 2.00p per share and has announced its intention to at least maintain the final dividend at 3.00p per share.

Share repurchases – as previously flagged, TEMIT’s board is increasing the rate of share repurchases. During H125, c 46.2m shares (c 4.1% of the share base) were bought back at a discount to the prevailing NAV, at a cost of c £74.3m, which added 0.57% to NAV per share.

Current portfolio breakdown

At the end of November 2024, TEMIT’s portfolio had 81 holdings with the top 10 making up 45.9% of the fund, which was a higher concentration compared with 44.3% 12 months earlier; seven names were common to both periods. The trust has diversified exposure across the market cap spectrum, which was broken down as follows: above \$50bn (c 48%); \$25–50bn (c 7%); \$10–25bn (c 19%); \$5–10bn (c 14%); \$2–5bn (c 7%); and less than \$2bn (c 5%).

Looking at some of the trust’s transactions in Q324, there was a new holding in Swiggy, an Indian online food delivery platform (which at the time was TEMIT’s first investment in an unlisted company and has recently successfully listed). Other new positions were initiated in Ola Electric Mobility (India – electric vehicles) and Weichai Power Company (China – automobiles and components). Exits from the portfolio were Brilliance China Automotive (China – automobiles), Meituan (China – local products and services platform) and One97 Communications (India – financial services).

Exhibit 3: Top 10 holdings (at 30 November 2024)				
Company	Country	Sector	Portfolio weight %	
			30 Nov 2024	30 Nov 2023*
Taiwan Semiconductor Manuf Co	Taiwan	Semiconductors & semi equipment	13.1	11.0
ICICI Bank	India	Banks	5.6	5.2
Prosus	China	Retailing	4.2	2.9
Alibaba Group Holding	China	Retailing	3.9	4.2
Samsung Electronics	South Korea	Technology hardware & equipment	3.8	5.9
Tencent Holdings	China	Media & entertainment	3.7	3.2
Naver Corporation	South Korea	Media & entertainment	3.2	3.4
HDFC Bank	India	Banks	2.9	N/A
Swiggy	India	Media & entertainment	2.8	N/A
SK Hynix	South Korea	Semiconductors & semi equipment	2.8	N/A
Top 10 (% of portfolio)			45.9	44.3

Source: TEMIT, Edison Investment Research. Note: *N/A where not in November 2023 top 10.

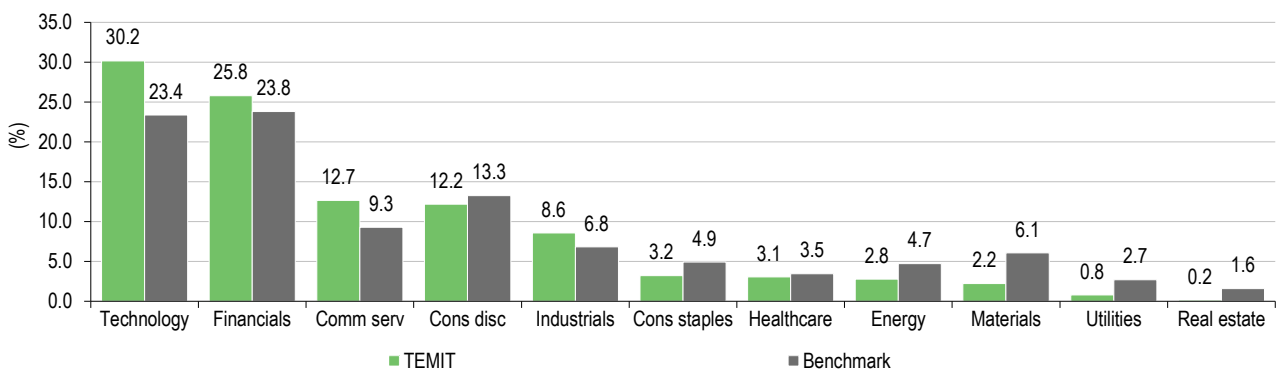
Exhibit 4 shows TEMIT's sector breakdown at the end of November 2024, which, along with the trust's geographic exposures, are a result of bottom-up stock selection. Over the prior 12 months the largest sector changes were a 3.4pp higher weighting to communication services and a 3.7pp lower weighting to materials. The largest positive active weight is IT (+6.8pp), which is diversified across semiconductors, hardware and software, while the largest negative active weight is materials (-3.9pp).

Exhibit 4: Portfolio sector changes and active weights versus benchmark (% unless stated)

	Portfolio end-Nov 2024	Portfolio end-Nov 2023	Change (pp)	Active weight vs index (pp)
Information technology	30.2	27.3	2.9	6.8
Financials	25.8	24.6	1.2	2.0
Communication services	12.7	9.3	3.4	3.4
Consumer discretionary	12.2	11.4	0.8	(1.1)
Industrials	8.6	8.8	(0.2)	1.8
Consumer staples	3.2	2.7	0.5	(1.7)
Healthcare	3.1	4.1	(1.0)	(0.4)
Energy	2.8	3.5	(0.7)	(1.9)
Materials	2.2	5.9	(3.7)	(3.9)
Utilities	0.8	0.4	0.4	(1.9)
Real estate	0.2	0.3	(0.2)	(1.4)
Other net assets	(1.6)	1.6	(3.2)	(1.6)
	100.0	100.0		

Source: TEMIT, Edison Investment Research. Note: Numbers subject to rounding.

Exhibit 5: TEMIT's sector weights versus the benchmark (at end-November 2024)



Source: TEMIT, Edison Investment Research. Note: Excludes other net assets.

In the 12 months to the end of November 2024, the largest changes in TEMIT's geographic exposures were a 3.6pp higher weighting in India and 2.7pp lower allocations to Brazil and South Korea, although this remains the largest overweight versus the index (+8.3pp).

Exhibit 6: Portfolio geographic changes and active weights vs benchmark (% unless stated)

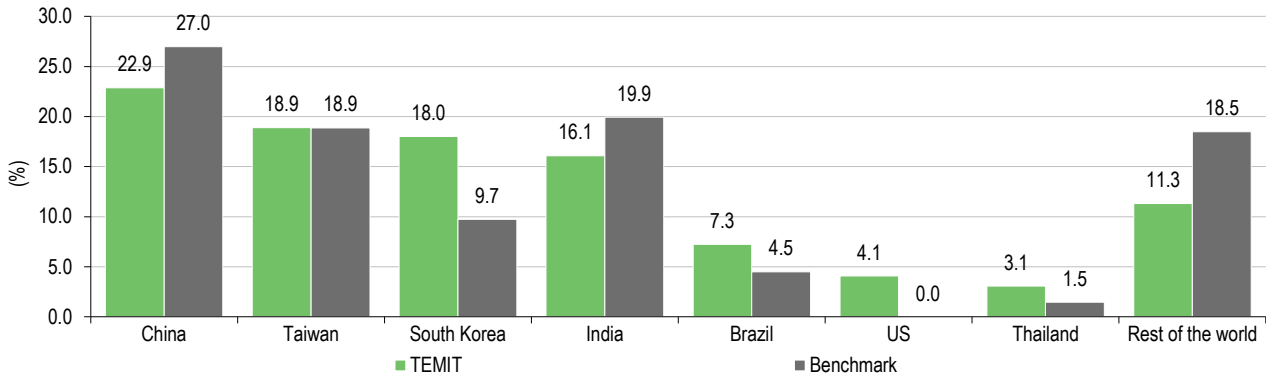
	Portfolio end-Nov 2024	Portfolio end-Nov 2023	Change (pp)	Active weight vs index (pp)
China	22.9	23.3	(0.4)	(4.1)
Taiwan	18.9	15.6	3.3	0.0
South Korea	18.0	20.7	(2.7)	8.3
India	16.1	12.5	3.6	(3.8)
Brazil	7.3	9.9	(2.7)	2.8
US	4.1	3.2	0.9	4.1
Thailand	3.1	2.3	0.8	1.6
Rest of the world	11.3	10.9	0.4	(7.2)
Other net assets	(1.6)	1.6	(3.2)	(1.6)
	100.0	100.0		

Source: TEMIT, Edison Investment Research. Note: Numbers subject to rounding.

India is one of the trust's largest single-country below-index position (-3.8pp). Sehgal and Ness recently visited the country, which reinforced their view about the availability of substantial growth

opportunities, including the government’s commitment to growing the economy, the benefits of infrastructure spending and a growing digital infrastructure, such as street vendors having QR codes so they can receive digital payments. However, the managers believe that, in aggregate, share prices are already reflecting Indian growth opportunities, so they employ a selective approach, using market weakness to add exposure to companies with sustainable earnings power.

Exhibit 7: TEMIT’s geographic weights versus the benchmark (at end-November 2024)



Source: TEMIT, Edison Investment Research. Note: Excludes net other assets.

Performance: Steady outperformance since Q222

TEMIT is one of 10 funds in the AIC Global Emerging Markets sector (we have excluded the specialist funds from Exhibit 8 to provide a more relevant comparison). Sehgal and Ness consider that TEMIT’s closest peers are Fidelity Emerging Markets (FEML) and JPMorgan Emerging Markets Investment Trust (JMG). Of these three funds, TEMIT has the highest NAV total return over the last three years and the second highest over the other periods shown. All three funds have generated similar returns over the last 12 months.

Exhibit 8: Selected emerging markets peer group at 9 December 2024*

% unless stated	Market cap (£m)	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Templeton Emerging Mkts Inv Trust	1,765.6	18.8	5.2	25.3	89.9	(14.6)	1.0	No	100	3.0
Ashoka WhiteOak Emerging Markets	40.3	19.9				(0.7)		Yes	100	0.0
Fidelity Emerging Markets	482.0	19.2	(10.2)	2.3	51.5	(13.0)	0.8	No	100	2.2
JPMorgan Emerging Markets Inv Tr	1,206.2	14.1	(3.2)	26.7	114.4	(12.1)	0.8	No	102	1.7
JPMorgan Global Emerging Mkts Inc	386.1	16.2	6.8	36.8	92.4	(12.8)	1.0	No	107	4.0
Mobius Investment Trust	161.6	6.7	2.1	68.4		(9.2)	1.4	No	100	0.9
Average (6 funds)	673.6	15.8	0.1	31.9	87.1	(10.4)	1.0		102	2.0
TEMIT rank in peer group	1	3	2	4	3	6	4		3=	2

Source: Morningstar, Edison Investment Research. Note: *Performance at 6 December 2024 based on ex-par NAVs. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

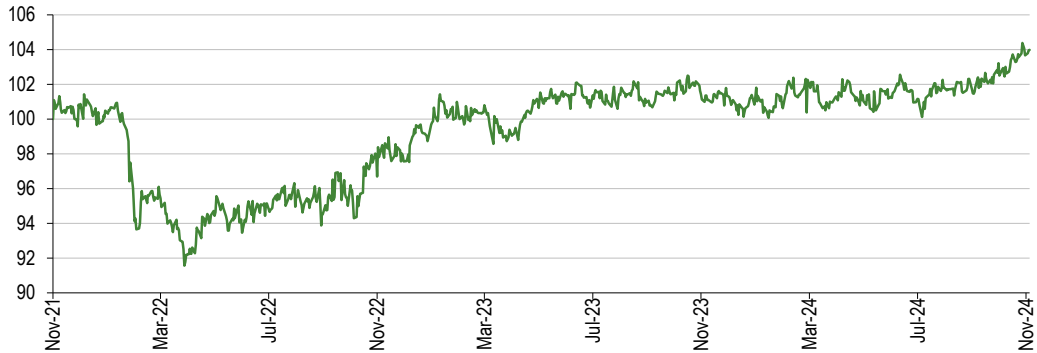
TEMIT is by far the largest of the emerging market funds shown in Exhibit 8 and is currently trading on the widest discount. The trust has an average ongoing charge and, in line with most of its peers, no performance fee is payable. TEMIT is one of four funds that is currently ungeared. The trust has the second highest dividend yield, which is 1.0pp above the mean of the selected peer group.

Exhibit 9: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI Emerging Markets (%)	MSCI World (%)	CBOE UK All Companies (%)
30/11/20	18.3	16.4	15.1	11.5	(11.2)
30/11/21	(0.8)	0.4	4.0	23.4	17.1
30/11/22	(13.2)	(10.9)	(7.9)	(0.5)	7.9
30/11/23	3.1	3.3	(1.6)	6.8	1.5
30/11/24	15.2	14.5	12.0	27.9	16.7

Source: LSEG Data & Analytics. Note: All % on a total return basis in pounds sterling.

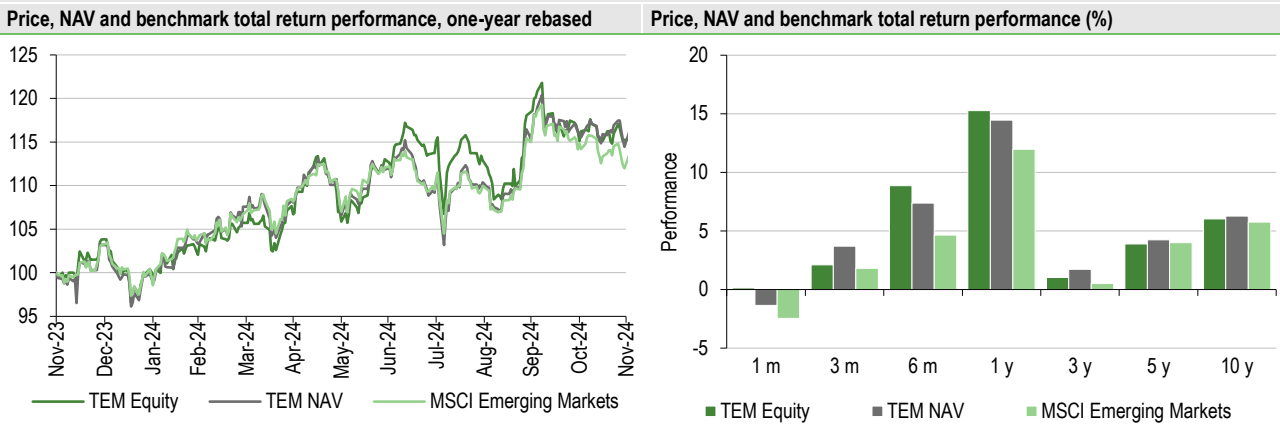
Exhibit 10: Solid trend in NAV outperformance versus the benchmark since Q222



Source: LSEG Data & Analytics, Edison Investment Research

Commenting on TEMIT’s performance this year, Ness emphasises that the improvement has been based on successful stock selection. Positive contributors include Taiwan Semiconductor Manufacturing Company, which is the leading global semiconductor foundry; industry capex momentum is providing the company with a long growth runway. Other examples of holdings that have performed well are MediaTek (Taiwan – multimedia integrated circuits), Hon Hai Precision Industry (Taiwan – electronic manufacturing services) and Brilliance China Automotive Holdings. A stock that has detracted from the trust’s performance is Alibaba. However, the managers are sticking with this position as the company’s market share is stabilising and it is exiting underperforming businesses. Ness says that investors are being paid to be patient as Alibaba is generating strong cash flows, and has increased its sizeable share repurchase plan, while consensus expectations are modest.

Exhibit 11: Investment trust performance to 30 November 2024



Source: LSEG Data & Analytics, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Exhibit 12 shows TEMIT’s relative returns; its NAV has outperformed the MSCI Emerging Markets Index over all periods shown.

Exhibit 12: Share price and NAV total return performance, relative to indices (%)

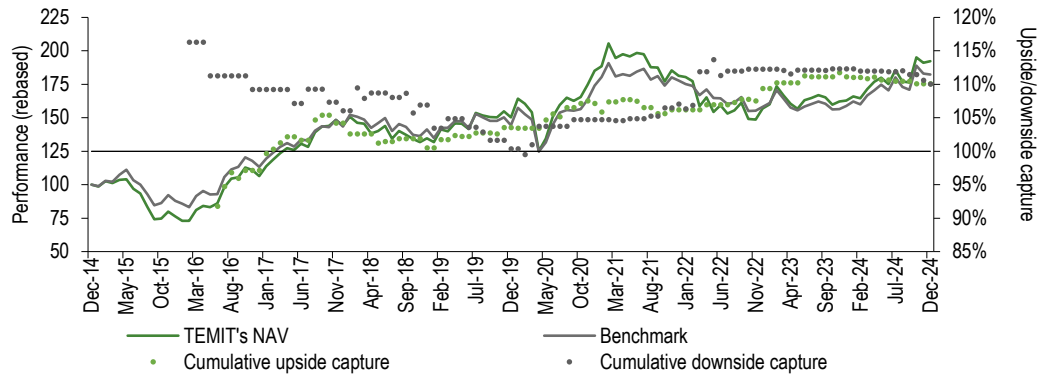
	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI Emerging Markets	2.7	0.3	4.0	2.9	1.5	(0.4)	2.6
NAV relative to MSCI Emerging Markets	1.1	1.9	2.6	2.2	3.7	1.2	5.0
Price relative to MSCI World	(5.4)	(5.5)	(2.5)	(9.9)	(24.2)	(35.3)	(47.0)
NAV relative to MSCI World	(6.8)	(4.0)	(3.8)	(10.5)	(22.6)	(34.3)	(45.8)
Price relative to CBOE UK All Companies	(2.5)	2.1	6.2	(1.2)	(19.3)	(8.9)	(1.6)
NAV relative to CBOE UK All Companies	(3.9)	3.7	4.8	(1.9)	(17.6)	(7.4)	0.7

Source: LSEG Data & Analytics, Edison Investment Research. Note: Data to end-November 2024. Geometric calculation.

Exhibit 13 shows TEMIT’s upside/downside capture rates over the last 10 years. They are very similar, with an upside capture of 110.1% and a downside capture of 110.0%, suggesting that the

fund is likely to modestly outperform its benchmark in months when emerging market share prices rise and underperform to a similar degree during months of emerging market share price weakness.

Exhibit 13: TEMIT's upside/downside capture



Source: LSEG Data & Analytics, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

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