EDISON

Templeton Emerging Markets Inv. Trust

Well-resourced emerging markets pioneer

Investment trusts

Templeton Emerging Markets Investment Trust (TEM) aims to achieve long-term capital gains through investing in companies operating in emerging markets (EM). As a pioneer in the field, the manager has extensive experience of the evolution of these markets; TEM was launched 24 years ago. Templeton Asset Management manages over £35bn of EM assets and supports a network of 18 offices providing local access. This, combined with a bottom up investment process and long-term view, is likely to have played a role in strong medium- and long-term performance, with the trust outperforming its benchmark over one, three, five and 10 years.

12 months ending	Total share price return (%)	Total NAV return (%)	MSCI Emerging Markets TR GBP	MSCI World TR GBP	FTSE AllSh TR GBP
31/05/10	45.0	44.9	36.2	26.7	22.9
31/05/11	21.4	20.3	14.0	13.6	20.4
31/05/12	(18.0)	(15.8)	(14.5)	(4.3)	(8.0)
31/05/13	18.7	19.2	16.2	30.5	30.1

Note: *Twelve-month rolling discrete performance.

Investment strategy: Fundamental stock picking

TEM is managed using a value-based bottom-up approach. Dr Mark Mobius leads a team that includes 51 investment professionals who speak more than 27 languages and dialects between them. The process comprises an initial liquidity screening and detailed analysis, which results in an assessed value that takes into account the quality of products/services and competitive position of a company. Investments and disposals are made when market values deviate significantly from the assessed value. The long-term view is evidenced by the notably low turnover in the portfolio, which was 4.7% in the year to March 2013 – encouraging for investors who share the manager's long-term approach.

Sector outlook: Strong potential

The long-term arguments for investment in emerging markets remain in place: greater diversification, exposure to economies with faster growth and access to better opportunities to uncover unrealised value. Even after recent downgrades, the IMF still looks for average 2012-18 GDP growth in emerging markets of 5.8%, compared with 2.1% for advanced economies. Couple this with reasonable relative EM valuations (see page 5) and the scope for strong relative performance is promising, although continuing macro risks should of course be considered.

Valuation: Sentiment has driven wider discount

The trust has a history of managing its discount with the salient example being the tender offer in the wake of the financial crisis in 2009, when the company bought back 30% of the share capital. Currently, the share price stands at a discount to NAV of 11%, which is above the three-year average of 7.2%, probably reflecting cautious sentiment following relative weakness in emerging markets in the first quarter as developed markets lead the migration to equities.

25 June 2013

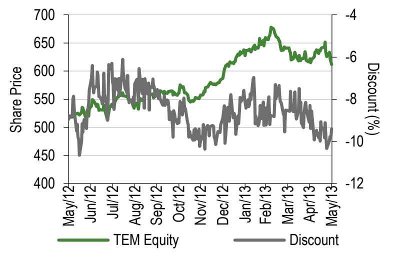
Price	**514p**
Market cap	**£1,679m**
AUM	**£1,873m**

NAV*	577.82p
Discount to NAV	11.0%
Yield	1.35%

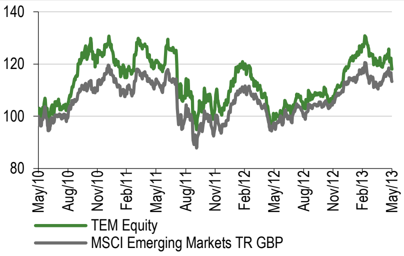
*Including income, as at 24 June 2013.

Ordinary shares in issue	326.7m
Code	TEM
Primary exchange	LSE
AIC sector	Global Emerging Markets

Share price/discount performance*



Three-year cumulative perf. graph



52-week high/low	678.0p	513.0p
NAV* high/low	735.4p	554.6p

*Excluding income. Discount: negative values indicate a discount.

Gearing

Gross	0.0%
Net	-1.0%

Analysts

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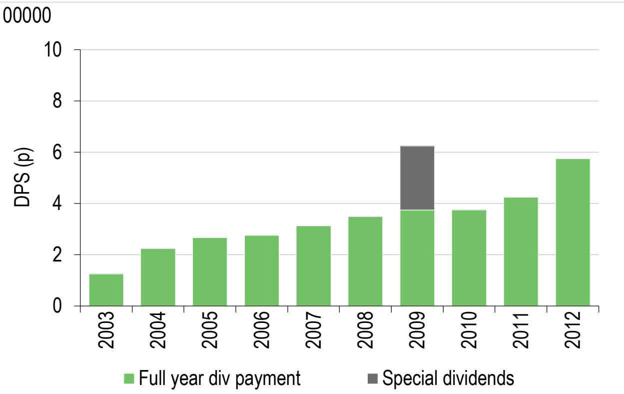
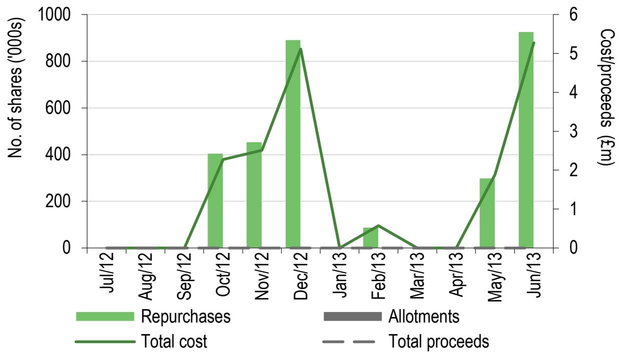
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
Launched in June 1989, TEM was one of the first emerging markets funds in the UK. Dr Mark Mobius has been the manager since launch. The trust seeks long-term capital appreciation through investment in companies operating in emerging markets or those with stocks listed on the stock markets of such countries. This may include companies that have a significant amount of their revenues in emerging markets, but which are listed on stock exchanges in developed countries. The benchmark is the MSCI Emerging Markets Index.	In the quarter to end-March 2013, the company bought back 88,598 shares for a total consideration of £0.573m. This is equivalent to 0.02% of the outstanding share capital.

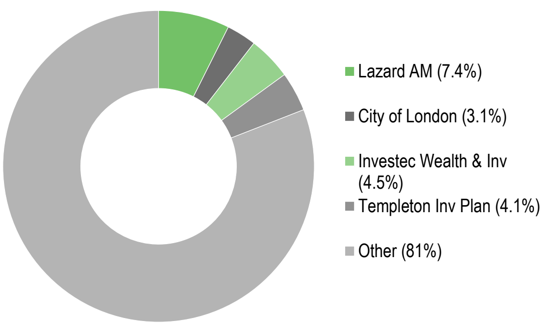
Forthcoming		Capital structure		Fund details	
AGM	July 2013	Total expense ratio	1.3% (see page 7)	Group	Templeton Asset Management
Interim results	November 2013	Net gearing	-1%	Manager	Mark Mobius and team
Year end	31 March	Ann. mgmt./admin. fee	1.2% of total net assets	Address	5 Morrison Street, Edinburgh, EH 8BH, UK
Dividend paid	July	Performance fee	None		
Launch date	1989	Trust life	Indefinite	Phone	+44 (0) 871 384 2505
Continuation vote	Every five years	Loan facilities	S-T up to 10% net assets	Website	www.temit.co.uk

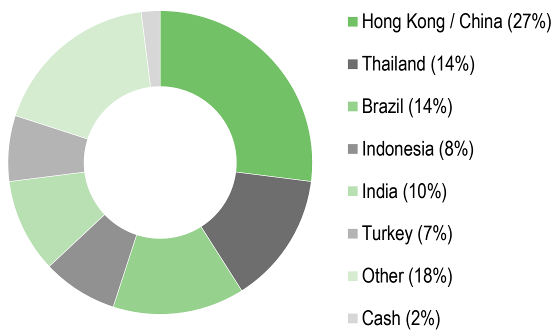
Dividend policy and history	Share buyback policy and history
An annual payment is made with a 10-year average, normal payout ratio of 83%.	TEM is authorised to repurchase up to 14.99% and allot up to 5% of its ordinary shares.



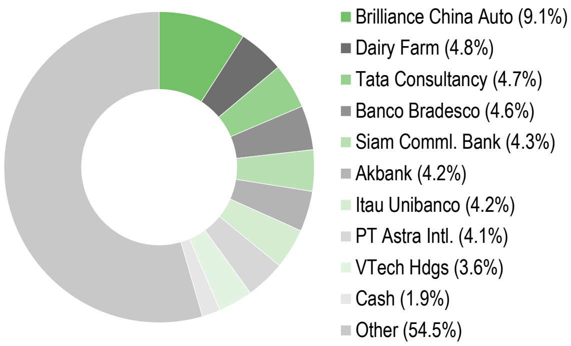


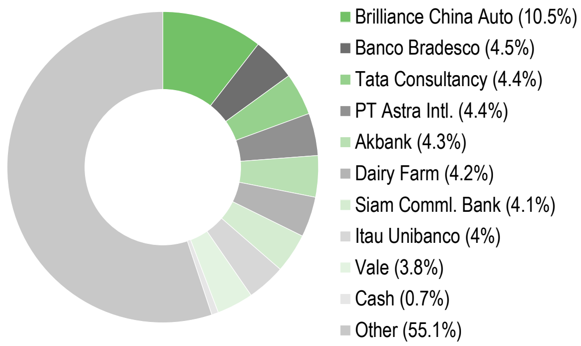
Shareholder base (as at 31 May 2013)	Geographical distribution of portfolio (as at 31 May 2013)





Portfolio composition (as at 31 May 2013)	Portfolio composition (as at 30 November 2012)

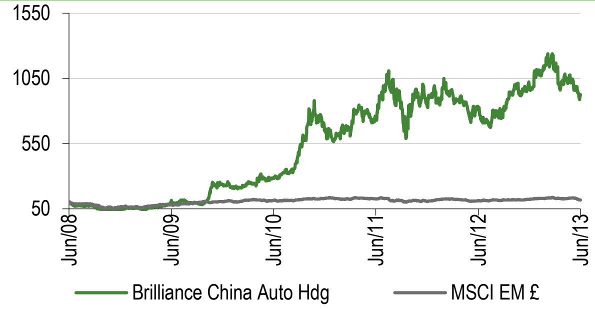




Source: Templeton Emerging Markets Investment Trust, Morningstar, Bloomberg, Edison Investment Research

Exhibit 2: Top ten holdings at a glance

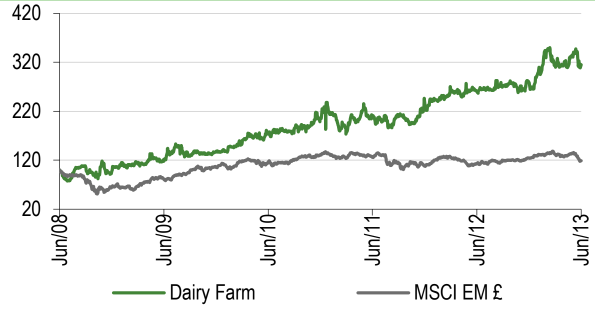
Brilliance China Automotive Holdings	Code: 1114 HK	Market cap: HKD42,367m (£3,533m)



Div Yield (trail. 12 months)	0.0%
Industry/Sector	Auto manufacturer/Consumer cyclical
Listing	Hong Kong
Website	brillianceauto.com

Brilliance China Automotive is a major auto manufacturer in China. Its joint venture with BMW for the production and sale of BMW 3 and 5 series in China has increased capacity, allowing for significantly higher levels of output. The manager looks for demand for motor vehicles in China to continue to grow over the long term. Recently announced 2012 results showed an 8% revenue decline reflecting a tough deluxe minibus market, but pre-tax profits, boosted by the BMW JV's progress, increased by 18%. While the minibus activity is expected to remain challenged in 2013/14 and Chinese GDP growth has slackened, the JV has strong sales momentum.

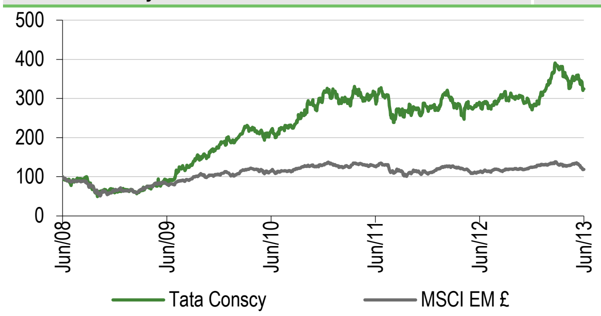
Dairy Farm International Holdings	Code: DFI SP	Market cap US$16,306m (£10,544m)



Div Yield (trail. 12 months)	1.9%
Industry/Sector	Retail staples/Consumer staples
Listing	LSE, Singapore
Website	dairyfarmgroup.com

Dairy Farm, a member of the Jardine Matheson Group, is held as a leading pan-Asia retailer that processes food and wholesales food and personal hygiene products. At the end of 2012, the group had over 5,600 outlets and generated annual sales of $11.5bn. The company's aim is to "bring to Asian consumers the benefits of modern retailing". The business has a number of strong brands in the region and benefits from a sound balance sheet with net cash of over $500m at the year end. The latest trading update in May pointed to mixed trading conditions and earnings marginally lower than in the same period last year. The group continues to develop its businesses and the balance sheet remains cash positive.

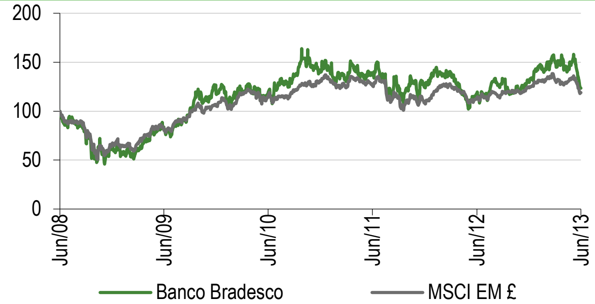
Tata Consultancy Services	Code: TCS IN	Market cap: INR2,748,916m (£29,750m)



Div Yield (trail. 12 months)	1.6%
Industry/Sector	Computers/Technology
Listing	National Stock Exchange of India
Website	www.tcs.com

Tata (TCS) is a major IT consulting company in India, with over 260,000 employees and 117 "solutions centers" in 21 countries. The manager sees it as well positioned to benefit from the trend for increasing outsourcing by US and European companies to Indian companies. This is driven by factors including the faster evolution of technology and the desire to ensure costs are flexible; Gartner estimates compound growth in worldwide IT outsourcing spend of 4.7% to 2015. TCS has recorded compound revenue and EBIT growth of 23% over the last seven years and with a market share of c 1.3% sees plenty of scope for further growth.

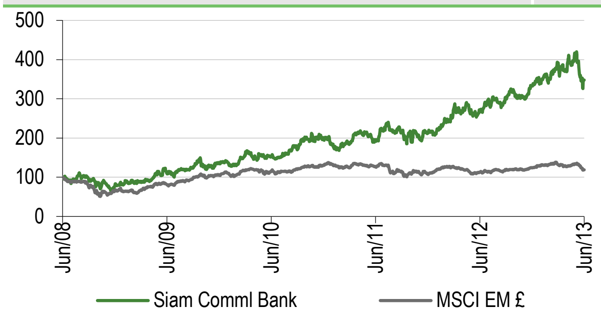
Banco Bradesco	Code: BBDC BC	Market cap: BRL20,437m (£17,411m)



Div Yield (trail. 12 months)	3.8%
Industry/Sector	Banks/Financial
Listing	BM&FBovespa
Website	bradesco.com.br

Bradesco (BBDC) is one of Brazil's largest financial conglomerates, providing a full range of banking and financial services. The manager regards BBDC as a strong beneficiary of growth in demand for financial and banking services in Brazil due to its extensive coverage of the Brazilian territory and strong retail presence. In the first quarter of the current year, the company reported net income up 3.4% y-o-y and loan portfolio growth of 11.6%. The interest margin continued to contract modestly, to 7.2%. Both profitability and balance sheet remain strong, with a return on average adjusted equity of 19.5% (up slightly, sequentially), a Tier I ratio of 11% and capital adequacy ratio of 15.6%.

Siam Commercial Bank	Code: SCB TB	Market cap:THB549,807m (£11,421m)



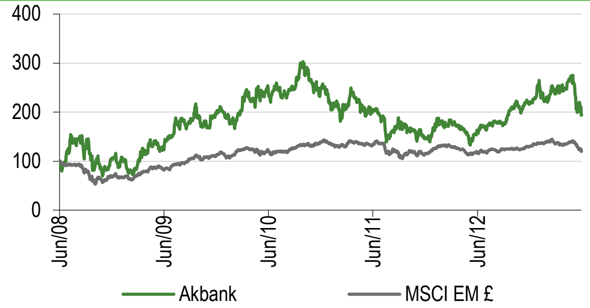
Div Yield (trail. 12 months)	2.8%
Industry/Sector	Banks/Financial
Listing	Bangkok
Website	scb.co.th

Siam Commercial Bank (SCB) is one of the leading banks in Thailand. It has a strong franchise in retail banking and a major market share in mortgages and credit cards. TEM highlights the exposure its SCB holding gives to strong economic growth and growing demand for financial and banking services in Thailand. The non-performing loan ratio has declined from 5.1% in 2008 to 2.06% in Q113, while the capital adequacy and Tier I ratios of 15.8% and 11.5% respectively are indicators of SCB's strong capital position. Following a 27% rise in net profits in Q113, the ROE stood at 23.5%, very attractive relative to many developed market banks.

Source: Templeton Emerging Markets Trust, Thomson Datastream, Edison Investment Research. Note: Charts are all total return in £.

Exhibit 3: Top ten holdings at a glance (continued)

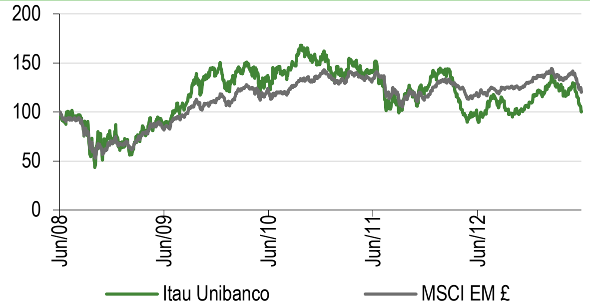
Akbank	Code: 1114 HK	Market cap: TRY31,600m (£10,576m)



Div Yield (trail. 12 months)	1.8%
Industry/Sector	Banks/Financial
Listing	Turkey
Website	akbank.com.tr

Akbank has the second largest private bank network of branches and ATMs in Turkey at 956 and 4,100 respectively providing it with a nationwide footprint. The bank provides a full range of traditional banking services and stands to benefit from the growth potential provided by the relatively low penetration of most banking products in Turkey. The country's relatively young population profile should contribute to long-term growth. The bank's Q113 results showed net profits, before securities gains and one-off items, up 80% YoY. The Tier 1 ratio was 16% and the ROE remains healthy at 15.6%. Recent protests have created market uncertainty but also lowered valuations.

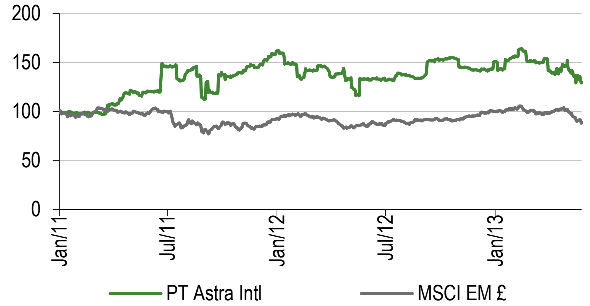
Itau Unibanco	Code: ITUB:US	Market cap BRL149,478m (£43,349m)



Div Yield (trail. 12 months)	0.7%
Industry/Sector	Banks/Financial
Listing	BM&FBovespa
Website	itau.com.br

Itau Unibanco is Brazil's largest private sector bank and also ranks among the largest 20 banks globally in terms of market cap. It has 4,957 points of sale (>4,000 in Brazil) with activities in Latin America outside its Brazilian base. As a universal bank, it offers a full range of banking services to both commercial and individual customers. Notwithstanding the somewhat disappointing economic growth recently recorded by Brazil, the bank provides a means for investors to access the expected long-term growth in consumption as the middle income bracket of the population grows. Q113 results showed lower revenues offset by lower loan loss provisions leaving net earnings stable QoQ and YoY. The recurring ROE was 19.1% and Tier 1 ratio 11.7%.

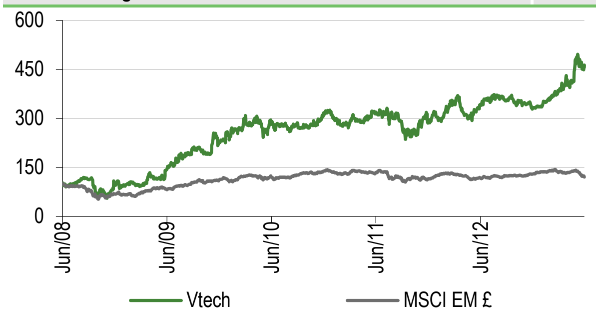
PT Astra International	Code: ASII IJ	Market cap: IDR257,070,560m (£16,830m)



Div Yield (trail. 12 months)	3.3%
Industry/Sector	Consumer Discnry./Auto Retail Stores
Listing	Indonesia
Website	astra.co.id

PT Astra International is a market leader in the distribution of cars, motor cycles and heavy equipment in Indonesia. It has agreements with leading manufacturers such as Toyota, Daihatsu, BMW, Honda and Komatsu. Other businesses lines include mining, palm oil, a toll road, logistics and information technology. The manager notes that PT Astra gives exposure to the domestic economy through its automotive activities but also to the broader region through heavy equipment distribution and mining. The results for Q113 showed revenue up 1% and net income down 7%. The share of net income from automotive activities was up at 69% versus 64% for 2012.

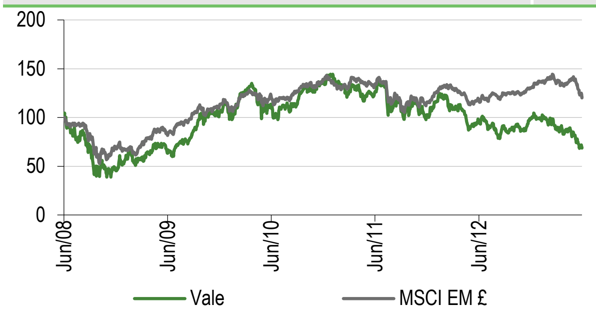
VTech Holdings	Code: 303 HK	Market cap: HKD28,942m (£2,413m)



Div Yield (trail. 12 months)	5.4%
Industry/Sector	Hardware/Technology
Listing	Hong Kong
Website	vtech.com

VTech is the world's largest manufacturer of cordless phones and largest supplier of electronic learning products (ELPs) in the US and western Europe. It is also a contract manufacturer of electronic products. Revenue is primarily derived from the US (50%) and Europe (41%). In the year to March 2013 the company increased revenue by 4%. Lower sales of residential phone products were offset by increases in other product lines/services including baby monitors, ELPs, and contract manufacturing. Higher labour costs in China were offset by lower material costs allowing margins to edge up: the group expects them to be stable this year with all product lines contributing to revenue growth.

Vale	Code: VALE3 BZ	Market cap:BRL158,961m (£17,274m)



Div Yield (trail. 12 months)	0.5%
Industry/Sector	Materials/Iron & Steel
Listing	BM&FBovespa
Website	vale.com

Based in Brazil, Vale is held in the portfolio as one of the three largest quoted metals and mining companies globally. Key market positions include the leading position in iron ore (for steel making) and second ranking in nickel production (used in stainless steel). Other materials produced include manganese, coal, copper, cobalt and fertiliser components. The group's operations are global. The group is responding to a weaker commodities price environment and the prospect of more moderate Chinese growth by trimming costs and ensuring efficient use of capital. Results for Q113 showed operating profit up 6.8% YoY although tax and other items meant EPS were down 18.9%.

Source: Templeton Emerging Markets Trust, Thomson Datastream, Edison Investment Research. Note: Charts are all total return in £.

Fund profile: Emerging market pioneer

Launched in June 1989, TEM is an investment trust quoted on the London (LSE) and New Zealand stock exchanges. TEM was one of the first pure emerging markets funds in the UK and is currently the largest UK global emerging market investment trust by some margin, with a market cap of over £2bn. The benefit of this scale for investors is primarily the resulting liquidity, while Templeton Asset Management's overall capability in emerging markets, with a total of £35.3bn of emerging market AUM, supports a significant local infrastructure with 18 offices globally.

Emerging market outlook: Strong potential

Among the arguments for investing in emerging markets, we highlight the following three:

- Provides investors with additional diversification.
- Gives exposure to faster-growing economies.
- Access to equity markets that are less mature, which potentially offer better opportunities for an active manager to unearth under-appreciated investments.

Looking more closely at the growth differential, the table below is based on the latest IMF forecasts from April this year and sets out the medium-term GDP growth forecasts, together with other key metrics for the main economies in this category compared with the world and advanced economy figures. Emerging economies are estimated to have average GDP growth of 5.8% over the medium term (2012-18), compared with 2.1% for advanced economies. Weighting the emerging economies by the exposure of the TEM portfolio (see right-hand column) gives a similar growth rate, although the initial inflation and unemployment levels are more favourable than the emerging and developing market average.

Exhibit 3: Comparing IMF April 2013 economic forecasts and the TEM portfolio

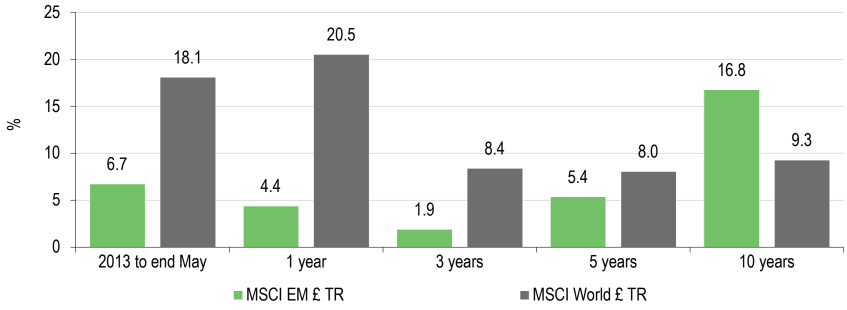
Country/area	Ave GDP growth 2012-18e	GDP per capita 2012 ($)	Inflation 2013e	Unemployment 2013e	Population 2012 (m)	Pop. growth 2011-2018e	% of TEM portfolio
Hong Kong SAR	3.8	36,667	3.5	3.2	7	5.2	
China	8.3	6,076	3.0	4.1	1,354	3.0	24.9
Thailand	4.9	5,678	3.0	0.7	64	2.4	14.4
Brazil	3.5	12,079	6.1	6.0	198	4.3	14.3
Indonesia	6.4	3,592	5.6	6.1	244	8.9	10.3
India	6.2	1,492	10.8	N/A	1,223	8.2	9.1
Turkey	3.9	10,609	6.6	9.4	75	7.1	7.0
Korea	3.5	23,113	2.4	3.3	50	2.8	4.3
Russia	3.6	14,247	6.9	5.5	142	(2.1)	3.7
World	4.0	10,331	3.8	N/A	6,941	7.2	
Advanced economies	2.1	40,390	1.7	8.2			
Emerging & developing economies	5.8	7,020	5.9	5.6			
TEM weighted average	**5.7**	**16,414**	**5.2**	**3.8**		**5.1**	

Source: IMF, Edison Investment Research. Note: Countries shown account for 88% of TEM's end-March 2013 ortfolio.

Experience suggests the link between economic trends and stockmarket performance is not direct, but as Exhibit 4 shows, the benchmark MSCI emerging market index has outperformed the developed world MSCI world index over the long term (10 years) by a comfortable margin (arithmetic annualised outperformance 6.4%), lending some support to the idea that faster GDP growth should eventually feed through to related equity values (subject to governance and a range of other issues).

The emerging market underperformance shown for the three- and five-year periods reflected the market impact of the financial crisis in 2008 and concerns in 2011 about the eurozone and general economic fragility; both increased risk aversion, which hurt emerging market equity prices despite more robust financial positions in many of these countries.

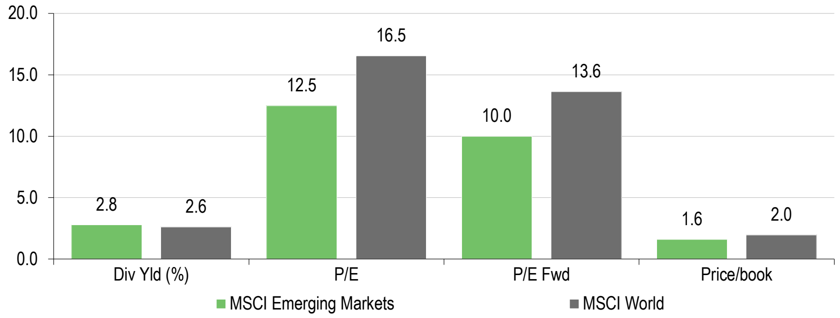
Exhibit 4: MSCI Emerging market (EM) and MSCI World (developed markets) performance



Source: MSCI, Datastream. Note: Periods to end-May. Growth rates for three, five and 10 years annualised.

Where do we stand now? As the chart above shows, as a group, the emerging markets have been through a period of relative weakness over five years and Exhibit 5 below indicates that on a range of simple valuation measures, the category has, to a greater or lesser extent, more attractive metrics than those for developed markets.

Exhibit 5: Emerging and developed market valuation comparison



Source: MSCI as at end-May 2013

This suggests a relative argument in favour of emerging markets for long-term investors. As a further cross-check, we have made a comparison of historical valuation metrics for the main markets, to which the TEM portfolio is exposed (see Exhibit 6 below). We interpret this with some caution, as the five-year average includes the period of the financial crisis. While two of the markets currently look relatively fully rated on P/Es in the context of recent history (Thailand and Brazil), the others appear reasonably valued on this comparison. The only readings currently near the top of their five-year range are the price to book values for Thailand and Indonesia.

Exhibit 6: Comparing historical equity valuation measures (over five years)

Price to earnings	Last	High	Low	Five-year average	Last % of average
Hong Kong	10.9	19.3	6.4	12.7	86%
China	11.3	32.6	10.3	17.1	66%
Thailand	15.3	18.7	5.2	13.3	115%
Brazil	14.9	17.9	7.3	12.6	118%
Indonesia	14.9	21.6	7.6	16.3	91%
India	14.0	25.3	10.3	18.5	76%
Turkey	10.2	13.7	4.3	10.5	97%
Dividend yield					
Hong Kong	3.0	6.1	2.3	3.0	101%
China	2.6	2.8	1.0	1.8	143%
Thailand	3.0	8.0	2.6	3.7	80%
Brazil	4.0	6.4	2.5	3.8	104%
Indonesia	4.0	6.6	1.9	2.7	151%
India	1.7	2.0	0.8	1.3	133%
Turkey	2.4	4.6	1.4	2.4	99%
Price to book					
Hong Kong	1.5	2.2	1.0	1.5	99%
China	1.6	3.5	1.4	2.2	73%
Thailand	2.6	2.9	1.0	1.9	136%
Brazil	N/A	N/A	N/A	N/A	N/A
Indonesia	4.2	4.6	1.6	3.3	127%
India	2.2	3.0	1.5	2.3	96%
Turkey	1.8	2.1	0.8	1.5	119%

Source: Thomson Datastream, as at 18 June 2013

The fund manager: Mark Mobius

The manager's view: Focusing on long-term opportunity

Mark Mobius and the investment team follow a bottom-up, long-term value-investing strategy and invest in companies at below their assessed valuation. The valuation assessment is the result of detailed analysis, which includes work on the industry, the company's competitive position and the financial profile, including a five-year view of potential earnings, cash flow and balance sheet (see investment process section below for a description of six steps involved in portfolio construction). The approach is based on the foundations laid by Sir John Templeton, founder of Templeton.

In keeping with the long-term approach, the manager highlights the historical outperformance of emerging markets compared with developed markets over 10 of the last 12 years, and believes this is set to continue in the future. Underpinning Templeton's confidence in emerging markets is the faster rate of economic growth recorded and expected compared with developed markets (see, for example, the IMF forecasts in Exhibit 3). Also noted are the superior finances of emerging markets as measured by foreign reserves and debt to GDP ratios, while demographic factors tend to be more favourable than developed markets, supporting the expectations for economic growth. In Templeton's view, the combination of these factors with relatively attractive valuations (see Exhibit 5 and previous section) provides the potential for superior long-term returns.

Thematically, the manager remains positive on the key themes of consumer and commodities (the latter despite/reinforced by recent weakness). These areas are expected to benefit from economic growth and the maturing of young populations, which in turn should drive domestic demand in many emerging markets. An example of this is Brazil, where Mark Mobius has recently commented on the potential for rapid change in consumption patterns as per capita income rises (currently just over $12,000 compared with $40,390 for developed economies). The Brazilian economy's high level of self-sufficiency in food and natural resources is seen as a source of strength. While acknowledging that Mexico will be an important destination for foreign investors in Latin America, Mobius does not believe it has supplanted Brazil's preeminent position in the continent, and the trust has an overweight position in Brazil, and an underweight in Mexico.

Asset allocation

Investment process: Bottom-up fundamental research

The manager follows a research-driven investment approach with substantial resources to support it. Templeton Asset Management has offices in 18 countries and 51 portfolio managers, analysts and product specialists, who between them speak over 27 languages and dialects (March 2013).

The research and portfolio construction process is summarised in the following six steps.

- Identify opportunities: a master list is compiled by screening for securities matching liquidity and market cap requirements.
- Analyse companies: detailed research of the company's industry and financial accounts, together with a company visit to assess management, product/service quality, customers and competitive position.
- Construct action list: each company is allocated buy and sell price targets based on the analysis and valuation undertaken. A company's potential earnings on a five-year view, asset value and cash flow generation feed into this judgement.
- Allocate portfolio: a weekly review ensures consistency in the portfolio and compliance with investment committee guidelines.
- Evaluate and monitor portfolio: stocks in the portfolio are monitored against updated target prices and contact with company management and competitors is maintained.
- Risk framework: an integrated investment risk management approach is used to ensure risks are recognised, rational and rewarded. Risks at a security, sector and country level are identified and monitored independently by Templeton Asset Management's global risk management team.

The process is followed rigorously, with analysts' work subject to peer review and "buy-in" reinforced by ensuring that where analysts' target prices are breached, the relevant analyst sells holdings in the portfolios where they have responsibility.

Looking more closely at risk mitigation measures, the manager spreads risks by country and company. A 10% limit is placed on any holding in a single company, but there is no stated geographical or sector limit. The company takes the view that foreign exchange exposure is an inherent risk of emerging market investment and therefore does not hedge exposure, thereby avoiding the associated costs and giving investors gearing to both the market movements in the portfolio and the specific currency mix this entails. The trust will only invest in countries where it believes there are acceptable custodial and other arrangements, and in companies with satisfactory governance procedures.

Investment may be made through collective investment schemes (for example to gain access to markets closed to foreign portfolio investors), but such investment is not likely to be substantial and at the last reported year end (March 2012), there were no such holdings. The trust may also invest in equity-linked instruments, such as convertibles when this is seen as advantageous, but again, such investments are not expected to be a significant part of the portfolio.

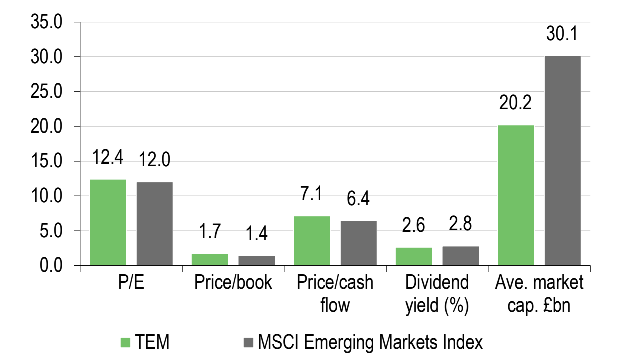
Given the high profile and long experience of team leader, Mark Mobius, it is important to note the strongly collegiate approach that he has encouraged among the team of 51 emerging market specialists. Personnel turnover has been low[1] and, as a result, he has colleagues who have worked with him for over two decades (Dennis Lim is co-chief executive of the team, while Allan Lam and Tom Wu are senior vice presidents). Sector, geographical and fund management responsibility are also devolved within the team. Together with the closely followed investment process, these factors mitigate the key man risks present in most fund managers.

[1] Among the eight senior members of the team the average tenure is 22 years and for the balance of the team, seven years (period to end March 2013).

Overview

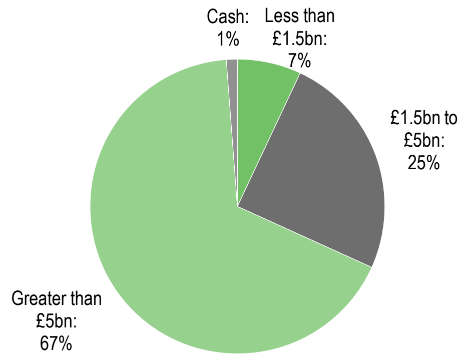
As at the end of May 2013, the top 10 holdings accounted for 47% of net assets, equities were 98.1% of assets and cash 1.9%. There were 50 holdings at the end of March, which compares with over 820 in the MSCI benchmark index and the list of c 1,300 stocks from which TEM selects holdings. Exhibit 8 shows the portfolio had an average market cap of £20.2bn, below the average for the benchmark index, with 32% in the small and mid-cap segments, up to £5bn. Valuation metrics for the portfolio versus the benchmark indicate holdings were trading on a modest premium (see Exhibit 7).

Exhibit 7: TEM versus benchmark valuation metrics



Source: TEM. Note: Weighted average values, end-March 2013.

Exhibit 8: TEM market cap distribution



Source: TEM, end-March 2013

As illustrated in Exhibits 9 and 10, sector and geographic allocations have some substantial differentials when compared with the benchmark, reflecting the manager's focus on stock selection.

Exhibit 9: Sector allocations as at 31 May 2013

	Trust weight (%)	Benchmark weight (%)	Trust active weight (%)	Trust weight/ benchmark weight
Energy	19.9	11.6	8.3	1.7
Consumer discretionary	16.2	8.0	8.2	2.0
Financials	30.4	27.8	2.6	1.1
Materials	12.0	9.8	2.2	1.2
Healthcare	0.0	1.4	-1.4	0.0
Consumer staples	7.6	9.2	-1.6	0.8
Utilities	0.0	3.4	-3.4	0.0
Industrials	2.7	6.4	-3.7	0.4
Information technology	9.3	14.8	-5.5	0.6
Telecommunications services	0.0	7.5	-7.5	0.0
Cash	1.9		1.9	N/A
Total	**100.0**	**100.0**	**0.0**	

Source: TEM, Edison Investment Research

Current portfolio positioning

From a sectoral perspective, TEM's largest active overweight positions are in energy, consumer discretionary and financials, reflecting the consumer/commodity themes pursued by the manager. At the other end of the scale, larger active underweight positions are telecoms, information technology, industrials and utilities; these positions are evidence of the value-investing approach employed by the manager.

Geographically, the largest active overweights are Thailand, Indonesia and Hong Kong/China, which together account for nearly 50% of the trust's portfolio; adding Brazil, where there is a smaller overweight, would take this to 63%. The trust has active underweights in South Korea, Mexico, Russia and a range of other smaller markets.

Exhibit 10: Geographical allocations as at end-May and March 2013

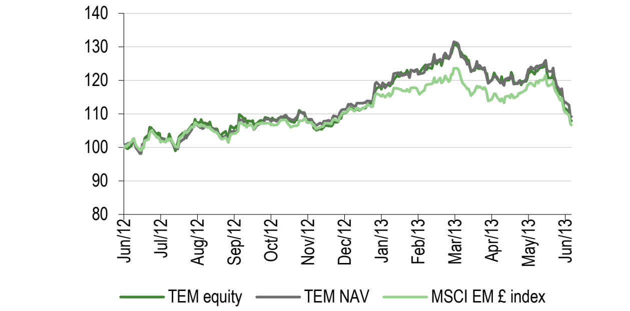
	Trust weight % May	Trust weight % March	Benchmark weight % March	Trust active weight March
Thailand	14.0	14.4	2.8	11.6
Indonesia	8.3	10.3	3.0	7.3
Hong Kong/China	26.8	24.9	18.1	6.8
Turkey	6.6	7.0	2.2	4.8
India	9.5	9.1	6.6	2.5
Pakistan	3.0	2.1	0.0	2.1
Brazil	13.9	14.3	12.7	1.6
Russia	3.6	3.7	5.9	-2.2
Mexico	2.1	2.3	5.5	-3.2
South Korea	4.3	4.3	14.9	-10.6
Other*	6.0	6.4	28.3	-21.9
Cash/cash equivalents	1.9	1.2	0.0	1.2
Total	100	100	100	0.0

Source: TEM, Edison Investment Research. Note: *Other countries includes Taiwan, South Africa, Malaysia, Chile, Poland, Columbia, Philippines, Peru, Austria, Czech Republic, Hungary, Egypt, Jordan and Morocco.

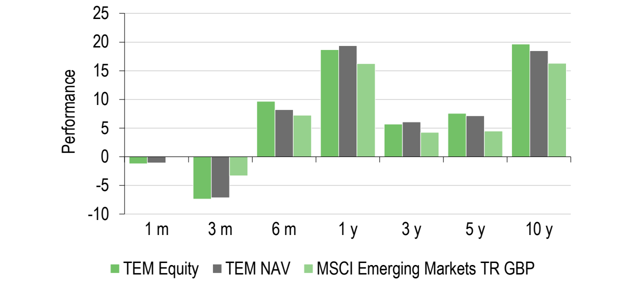
Performance: Long-term outperformance

Exhibit 11: Investment trust performance

Price, NAV and benchmark total return perf, one year rebased



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: three, five and ten year returns are annualised.

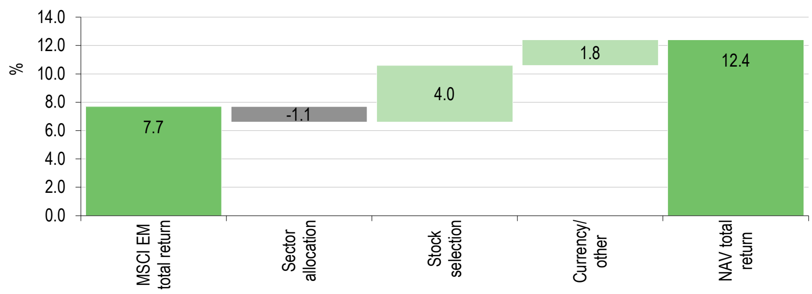
The NAV total return has outperformed the fund's benchmark over periods from six months to 10 years with the longer-term relative outperformance being most marked. Looking at risk-adjusted returns, the Sharpe ratios for three and five years, of 0.5 and 0.4 respectively, may not appear particularly strong, but are above the peer averages of approximately 0.4 and 0.07.

Exhibit 12: Cumulative share price and NAV total return performance, relative to benchmarks

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI EM £	(1.3)	(4.0)	2.4	2.4	4.7	19.3	149.3
NAV relative to MSCI EM £	(1.1)	(3.9)	1.0	3.1	6.0	16.5	93.4
Price relative to MSCI World £	(4.0)	(13.3)	(10.4)	(11.8)	(23.9)	(0.7)	362.7
NAV relative to MSCI World £	(3.9)	(13.1)	(11.9)	(11.1)	(22.6)	(3.5)	306.8
Price relative to FTSE All-Share Index	(4.1)	(12.3)	(5.6)	(11.4)	(26.1)	8.7	352.5
NAV relative to FTSE All-Share Index	(4.0)	(12.1)	(7.1)	(10.7)	(24.7)	5.9	296.5

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-May 2013 and indices GBP adjusted.

Exhibit 13: Attribution of TEM NAV performance in 12 months to 30 March 2013



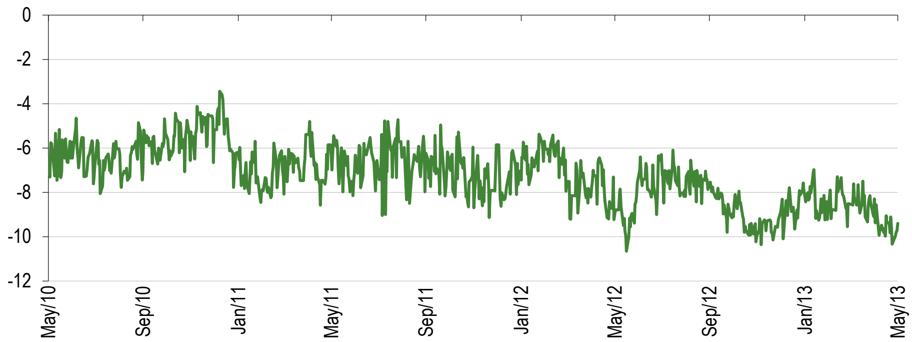
Source: Templeton Emerging Markets Investment Trust

Discount: Moderate increase recently

While an explicit commitment to maintain the discount at a particular level has not been provided, the TEM board continually monitors the share price discount to net asset value and exercises the right to buy back shares (up to 14.99% of the issued share capital) when the board considers it is in shareholders' interests to do so. In FY12 and FY11, the company only bought back shares equivalent to 0.02% of the share capital. Previously, following the financial crisis, the discount widened to a high of 14.1% in FY09 and the company bought back and cancelled just over 30% of the shares in issue, primarily through a tender offer in June 2008 at a cost of £611.2m.

The discount has risen moderately over the last 12 months, probably reflecting sentiment related to the significant underperformance of emerging markets versus developed markets over this period. A period of relative strength for emerging markets would probably lead to a contraction in the discount. The current NAV discount (cum income) of 11% is above the three-year average of 7.2%.

Exhibit 14: Discount over three years



Source: Datastream, Edison Investment Research. Note: negative values indicate a discount.

Capital structure and fees: Conventional

TEM has a conventional capital structure with one class of ordinary share in issue. In exceptional circumstances, the trust is permitted to borrow up to 10% of net assets and has a short-term borrowing facility in place. This borrowing facility has not been used in recent years. The trust may hold a net cash position of up to 10% (end-May 1.9%), in part to allow for outstanding buy orders. Templeton Asset Management receives a management/administration fee of 1.2% per year of total net assets. There is no performance fee. The management contract is of unlimited duration and can be terminated without compensation, providing at least one year's notice is given. The total expense ratio for the year to March 2012 was 1.3%, and it has been stable at this level for the last six years. TEM has an indefinite life subject to a continuation vote every five years (the next one is due to take place at the AGM in July 2014).

Dividend policy and record: Capital growth priority

An annual dividend of 6.25p is proposed for the year to end-March 2013, to be paid in July. As an emerging market pioneer with a mandate directed to long-term capital growth, income is not a priority for the trust, although the policy is to have a reasonably full distribution of revenues. The payout ratio is 0.7 compared with a 10-year average of 0.9. A special dividend of 2.5p was paid in 2009 and related to the income accrued in that year up to the date of a tender offer and attributable to the shares cancelled through the offer.

Peer group comparison

As Exhibit 15 illustrates, the AIC Global Emerging Market sector includes 10 peers (counting the Ashmore Global GBP/USD funds separately). There is a variety of styles in this group, with an Africa fund, fixed income and frontier markets, as well as more general equity funds such as TEM. Looking at the NAV total returns over one, three and five years, TEM ranks seventh, sixth and third over one, three and five years respectively. It is worth highlighting that on a 10-year perspective, there are only three others in this peer group (Advance Developing Markets, Genesis EM, JP Morgan EM). The short-term Sharpe ratio at 0.7 (one year, NAV) is below the peer group average but over three and (not shown) five year periods, the trust ratio is above the peers at 0.5 and 0.4 respectively.

Exhibit 15: Global Emerging Markets sector, as at 24 June 2013

Company	NAV total return on £100			Ongoing charges* (%)	(Disc)/ prem.	Net gearing (100=no gearing)	Five-year dividend growth (%)	Div. yield %	Sharpe ratio NAV one year	Sharpe ratio NAV three years
	One year	Three years	Five years							
Sector weighted average	**107.0**	**104.4**	**130.0**	**1.3**	**(9.4)**	**98.1**	**7.1**	**1.2**	**0.9**	**0.5**
Templeton Emerging Markets	**105.2**	**101.2**	**140.1**	**1.3**	**(9.9)**	**99.0**	**10.8**	**1.2**	**0.7**	**0.5**
Advance Developing Markets	102.2	96.0	95.5	1.1	(11.8)	96.0	N/A	N/A	0.8	0.2
Advance Frontier Markets	124.9	117.6	110.5	1.5	(9.2)	89.0	N/A	N/A	1.5	0.4
Africa Opportunity	128.6	143.3	158.3	3.0	(11.6)	98.0	(29.3)	0.8	1.3	0.7
Ashmore Global Opp GBP	100.4	88.5	80.1	1.1	(33.8)	71.0	N/A	N/A	(0.9)	(0.3)
Ashmore Global Opp USD	101.9	84.6	101.8	1.1	(32.0)	71.0	N/A	N/A	(0.9)	(0.4)
BlackRock Frontiers	142.0	N/A	N/A	1.6	1.8	102.0	N/A	2.8	1.4	N/A
Genesis Emerging Markets	104.9	103.9	140.4	1.7	(7.9)	98.0	N/A	N/A	0.9	0.6
JPMorgan Emerging Markets	105.9	106.9	130.3	1.2	(10.4)	95.0	17.6	0.8	1.1	0.6
JPMorgan Global Emerg Mkts	110.8	N/A	N/A	1.3	2.4	108.0	N/A	4.3	1.5	N/A
Utilico Emerging Markets	109.7	127.9	138.6	1.0	(6.8)	107.0	4.6	3.5	1.5	1.1

Source: Morningstar

The board

The board comprises seven non-executive directors, six of whom are independent of Franklin Templeton Investments: Peter A Smith (chairman), Christopher D Brady, Hamish N Buchan, Sir Peter Burt, Neil A Collins and Peter O Harrison. The non-independent director is Gregory E Johnson, who is president and CEO of Franklin Resources, the parent of the investment management company.

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