

Templeton Emerging Markets Inv. Trust

Favourable fundamentals for emerging markets

Templeton Emerging Markets Investment Trust (TEMIT) is an actively managed fund that invests across global emerging markets, maintaining a relatively concentrated portfolio of c 50 stocks that are well-diversified by geography and sector. The manager aims to invest in higher-quality companies for the long term, focusing on sustainable earnings prospects, and sees the recent increase in market volatility creating attractive entry points for new investments. TEMIT has a track record of long-term outperformance with NAV total returns ahead of the benchmark and peer group over 10 years.

12 months ending	Total share price return (%)	Total NAV return (%)	MSCI Emerging Markets (%)	MSCI World (%)	FTSE All-Share (%)
31/05/12	(18.0)	(16.4)	(14.5)	(4.3)	(8.0)
31/05/13	18.7	19.4	16.2	30.5	30.1
31/05/14	(8.2)	(8.9)	(5.4)	8.0	8.9
31/05/15	(1.1)	2.5	10.3	16.8	7.5

Note: 12-month rolling discrete £-adjusted total return performance.

Investment strategy: Bottom-up, long-term approach

A rigorous research-driven investment process is undertaken; opportunities are identified through a screening process before detailed research is completed, which includes industry and financial analysis, meeting management and reviewing product/service quality, customers and competitive position. Fundamental company valuations are assessed in relation to market value, considering the five-year prospective earnings outlook, asset value and cash flow generation. The aim is to select a combination of the team's best ideas to create a well-diversified fund with the greatest appreciation potential. A long-term view is taken, looking through short-term market volatility, and portfolio turnover is typically below 10% pa.

Emerging markets outlook: Scope to outperform

While expectations for slower growth across emerging markets over the next five years compared with the last decade contrasts with improving growth rates across advanced economies, the medium-term outlook is for emerging markets' economic growth to remain at a considerably higher level. In addition to superior growth prospects, emerging market valuations appear attractive relative to world markets across a range of metrics, suggesting greater potential for positive market trends to continue, driven by re-rating and earnings growth. Rather than posing a major threat to the global growth outlook, existing macroeconomic uncertainties appear more likely to contribute to periods of increased market volatility, potentially creating opportunities for longer-term investors.

Valuation: Recent widening of the discount

TEMIT's share price discount to NAV (including income) has followed a widening trend from September 2014, moving from 7.9% to stand at 12.7% currently, arguably due to a weaker relative performance. The discount is now at the wider end of the peer group range as well as higher than its 12-month average of 10.6%, suggesting there is scope for it to narrow as performance improves.

Investment trusts

3 June 2015

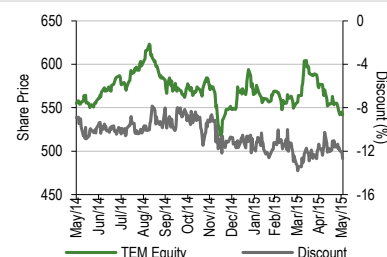
Price 542p
Market cap £1,717m
AUM £1,926m

NAV* 609.3p
Discount to NAV 11.1%
NAV** 620.3p
Discount to NAV 12.7%

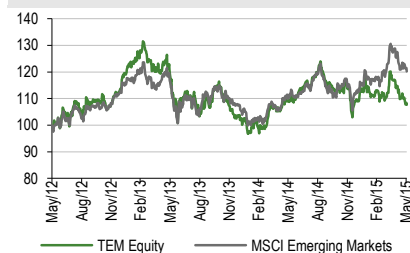
*Excluding income. **Including income.

Yield 1.3%
Ordinary shares in issue 317.0m
Code TEM
Primary exchange LSE
AIC sector Global Emerging Markets

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low 623.5p 517.5p
NAV** high/low 693.2p 580.3p

**Including income.

Gearing

Gross* 0.0%
Net cash* 5.9%

*As at 30 April 2015.

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[Edison profile page](#)

Exhibit 1: Trust at a glance

Investment objective and fund background

Launched in June 1989, Templeton Emerging Markets Investment Trust (TEMIT) 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.

Recent developments

- 21 November 2014: Interim results for six months to end September 2014 – NAV total return +8.2% vs MSCI Emerging Markets index +6.1%.
- 17 July 2014: IMS for three months to end June 2014 – NAV total return +6.1% pa vs MSCI Emerging Markets index +4.0% pa.

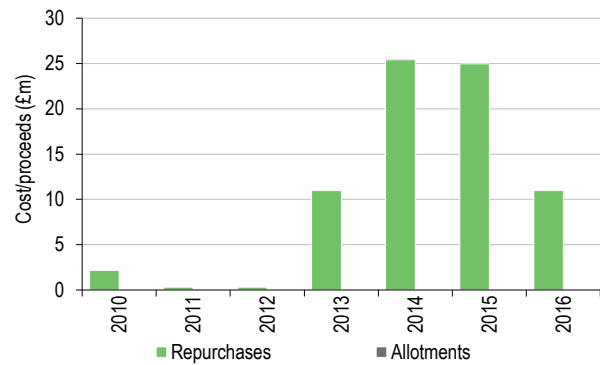
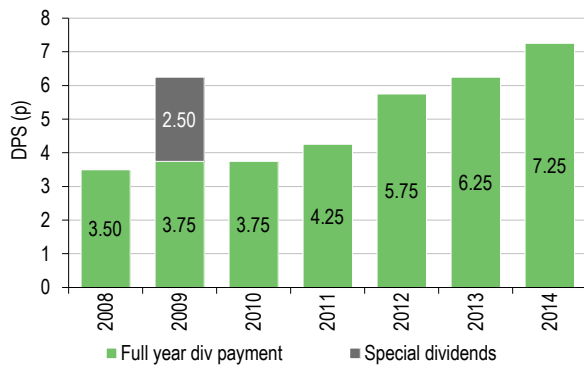
Forthcoming		Capital structure		Fund details	
AGM	July 2015	Ongoing charges	FY14 1.3% pa; H115 1.2% pa	Group	Templeton Asset Management
Preliminary results	June 2015	Net cash	5.9%	Managers	Mark Mobius and team
Year end	31 March	Annual mgmt fee	1.1% of net assets	Address	5 Morrison Street, Edinburgh, EH3 8BH, UK
Dividend paid	July	Performance fee	None	Phone	+44 (0)871 384 2505
Launch date	12 June 1989	Trust life	Indefinite	Website	www.temit.co.uk
Continuation vote	Five-yearly (last in 2014)	Loan facilities	Up to 10% of net assets		

Dividend policy and history

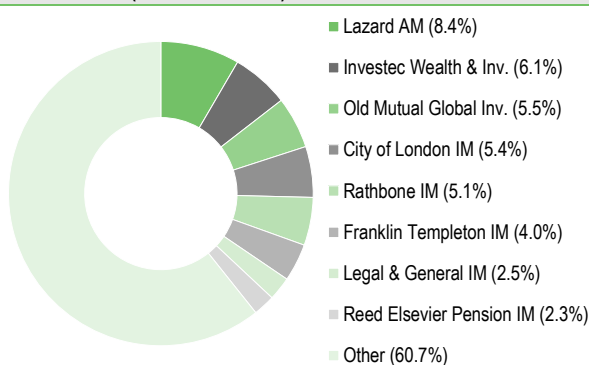
Dividends are paid annually with a 10-year average, normal payout ratio of 83%.

Share buyback policy and history

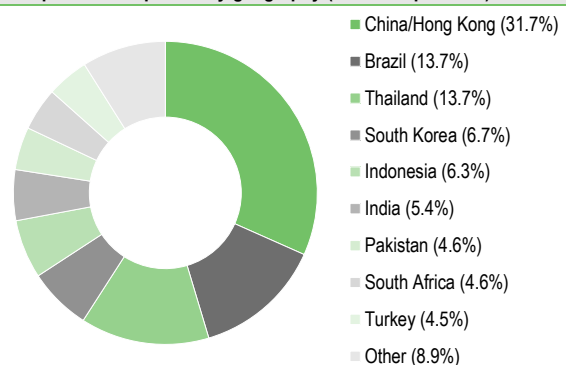
TEMIT is authorised to repurchase up to 14.99% and allot up to 5% of its ordinary shares.



Shareholder base (as at 1 June 2015)



Invested portfolio* exposure by geography (as at 30 April 2015)



Top 10 holdings (as at 30 April 2015)

Company	Country	Sector	Invested portfolio* weight %	
			30 April 2015	30 April 2014
Brilliance China Automotive	Hong Kong/China	Consumer Discretionary	10.1	8.9
Itau Unibanco, ADR	Brazil	Financials	4.5	4.7
Hyundai Development	South Korea	Industrials	4.4	N/A
Banco Bradesco, ADR	Brazil	Financials	4.1	4.3
Siam Commercial Bank	Thailand	Financials	4.1	4.0
Dairy Farm	Hong Kong/China	Consumer Staples	4.0	3.9
Vtech	Hong Kong/China	Information Technology	3.8	3.5
Unilever	UK	Consumer Staples	3.6	3.4
PetroChina, H	Hong Kong/China	Energy	3.6	N/A
MCB Bank	Pakistan	Financials	3.5	3.4
Top 10			45.8	N/A

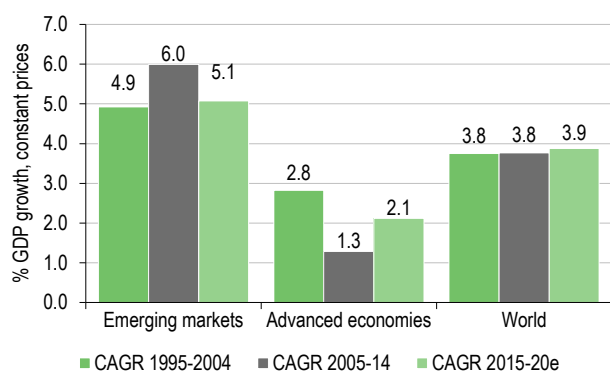
Source: Templeton Emerging Markets Investment Trust, Edison Investment Research, Morningstar. Note: *Invested portfolio excludes net cash position. N/A where not in April 2014 top 10.

Emerging markets outlook: Scope for outperformance

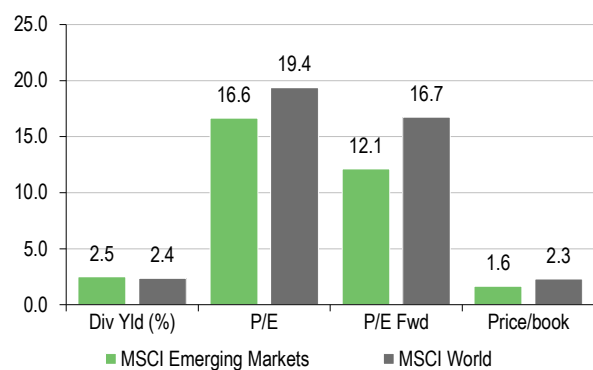
As reflected by the IMF's April 2015 projections (see Exhibit 2), a slower pace of growth is expected across emerging markets as a whole over the next five years compared with the average achieved over the last decade. While this contrasts with an improvement in projected growth rates across advanced economies, the medium-term outlook is for emerging markets' economic growth rates to remain at a considerably higher level. This provides a relatively favourable backdrop for corporate earnings growth in general. However, there are significant variations in the outlook between countries due to factors such as the recent fall in the oil price skewing growth prospects in favour of net oil importers, ongoing government reform programmes across a number of Asian countries, as well as the extent to which currency declines are providing a boost to exports.

Exhibit 2: Comparing emerging, advanced and world markets – GDP growth and valuation metrics

GDP growth rates – emerging markets vs. advanced economies and world



MSCI Emerging Markets and MSCI World indices' valuation metrics



Source: IMF April 2015 WEO, MSCI April 2015, Edison Investment Research

In addition to superior growth prospects, emerging market valuations appear attractive relative to world markets (right-hand chart in Exhibit 2) across a range of metrics, suggesting greater potential for positive market trends to continue driven by re-rating as well as earnings growth. While global macroeconomic uncertainties exist, including the timing and pace of US interest rate rises as well as ongoing conflicts in Ukraine and the Middle East, these appear more likely to contribute to periods of increased market volatility than to have a significant detrimental effect on the global economic growth outlook. Although growth prospects, valuations and risks vary across emerging markets, a fund such as TEMIT that is unconstrained by a benchmark and has a bottom-up investment approach appears well-suited to access companies that are attractively valued relative to their long-term earnings growth prospects.

Fund profile: Emerging markets pioneer

Launched in June 1989 and quoted on the London (LSE) and New Zealand stock exchanges, TEMIT was one of the first pure emerging markets funds in the UK. With a market cap of c £1.8bn, it is the largest UK global emerging market investment trust by some margin. TEMIT's investment manager, Templeton Asset Management, manages a total of £26.5bn in emerging markets assets. The portfolio manager is able to draw on Templeton's substantial resources, which include offices in 18 countries and 53 dedicated emerging markets portfolio managers, analysts and product specialists, who have over 14 years' relevant industry experience on average.

Chairman of Templeton Emerging Markets Group, Mark Mobius heads TEMIT's investment team. He has encouraged a strongly collegiate approach and personnel turnover has been low. As a result, he has colleagues who have worked with him for over two decades. Senior members of the team include Allan Lam, Chetan Sehgal and Carlos von Hardenberg.

The fund manager: Mark Mobius and team

The manager's view: Longer-term, sustainable earnings focus

The investment team sees a broadly favourable outlook for emerging markets with solid economic growth trends supported by ongoing widespread reform programmes in countries including China and India, as well as the benefit of a lower oil price to those countries dependent on oil imports. Currency devaluation has the potential to improve economic growth prospects in Latin America while Central Europe and Turkey could benefit from economic recovery in the eurozone. The focus remains on longer-term sustainable earnings prospects, with increased currency, commodity and stock market volatility across emerging markets seen as creating investment opportunities.

Exposure to the materials sector was reduced over the year to March 2015 with investments in Sesa Sterlite, Anglo American, Norilsk Nickel and National Aluminium being exited. However, the manager has a relatively positive view of the outlook for a number of materials and energy sub-sectors, including iron ore, thermal coal and platinum, and has initiated new investments in South African iron ore producer, Kumba Iron Ore and Chinese thermal coal producer, Inner Mongolia Yitai Coal. Holdings were also increased in Brazilian iron ore producer Vale, South African platinum producer Impala Platinum and Peruvian precious metals miner Buenaventura.

New purchases were also made in South African fashion retailer, Truworths International, Singapore-listed marine and offshore engineer, Sembcorp Marine, Brazilian apparel manufacturer and retailer, Hering and Nestle Nigeria, a 60%-owned subsidiary of Nestle, manufacturing branded food and beverage products. TEMIT's investment was increased in UK-listed Unilever, which has substantial exposure to emerging markets. The holding in Wal-Mart de Mexico was sold while positions were reduced in Tata Consultancy and Infosys in India as well as Brilliance China Automotive in China and Akbank in Turkey, to fund new purchases.

Asset allocation

Investment process: Bottom-up fundamental research

The manager undertakes a rigorous research-driven five step investment process:

- **Opportunity identification:** the team screens the investment universe to identify stocks that meet valuation, liquidity and market cap requirements. Valuations are assessed relative to the overall universe, market sector and on a historical basis.
- **Fundamental analysis:** detailed research to assess a company's long-term economic worth in relation to its market value. This includes industry and financial analysis and meeting with management, as well as reviewing product/service quality, customers and competitive position.
- **Team evaluation:** a peer review is undertaken and companies are allocated buy and sell price targets based on the analysis completed. A company's five-year prospective earnings outlook, asset value and cash flow generation are key factors taken into consideration.
- **Portfolio allocation:** the aim is to select a combination of the team's best ideas taking into account the risk benefits of diversification to create a diversified fund with the greatest potential for appreciation. The process seeks to minimise portfolio turnover (typically below 10% pa).
- **Portfolio monitoring and evaluation:** a weekly review ensures consistency in the portfolio and compliance with investment committee guidelines. Portfolio holdings are monitored against updated target prices, and contact with company management and competitors is maintained.

Investment risk management aims to ensure risks are recognised at security, portfolio and operational levels, comprise a rational part of the portfolio strategy, and are commensurate with the long-term reward. Templeton's risk management team monitors security, sector and country risks. Currency exposure is seen as an inherent emerging market investment risk and is not hedged.

Current portfolio positioning

TEMIT maintains a relatively concentrated portfolio of c 50 investments compared with the 835 constituents of its benchmark MSCI Emerging Markets index. At 30 April 2015, the top 10 holdings accounted for 45.8% of the invested portfolio (see Exhibit 1) with cash accounting for 5.9% of net assets. Despite TEMIT recently trimming its position, a strong performance by Brilliance China Automotive has left it as the largest holding representing 10.1% of the portfolio at 30 April 2015 (8.9% at 30 April 2014), while all other holdings are below 5.0%.

TEMIT's benchmark-agnostic bottom-up approach to portfolio construction means that sector and geographic weightings can vary considerably from the index (Exhibit 3 and 4). At 30 April 2015, the largest active overweight exposures were in the energy and consumer discretionary sectors, while the largest active underweight exposures were in information technology and telecom services. Compared with end-March 2014, the greatest changes in active weights were a 2.8ppt increase in the consumer discretionary overweight and a 5.5ppt increase in the information technology underweight. Other notable active weight changes were a 2.0ppt increase in the energy overweight, a 2.0ppt increase in the financials underweight, a 2.2ppt reduction in the industrials underweight and a 2.4ppt increase in consumer staples, moving it from underweight to marginally overweight.

Exhibit 3: Portfolio exposure by sector vs benchmark (%)

	Portfolio end April 2015	Portfolio end April 2014	Change	Benchmark index weight	Active weight vs index	Trust weight/index weight
Financials	27.1	27.3	(0.2)	29.2	(2.1)	0.9
Consumer Discretionary	19.3	15.7	3.6	9.0	10.3	2.1
Energy	20.8	20.5	0.3	8.7	12.1	2.4
Materials	10.9	12.1	(1.1)	7.2	3.7	1.5
Information Technology	7.4	10.9	(3.4)	18.2	(10.8)	0.4
Consumer Staples	8.3	9.7	(1.4)	7.8	0.5	1.1
Industrials	6.1	3.9	2.1	7.0	(0.9)	0.9
Telecom Services	0.0	0.0	0.0	7.3	(7.3)	0.0
Utilities	0.0	0.0	0.0	3.4	(3.4)	0.0
Health Care	0.0	0.0	0.0	2.3	(2.3)	0.0
Total	100.0	100.0		100.0		

Source: TEMIT, Edison Investment Research

As shown in Exhibit 4, similar to a year earlier, China/Hong Kong, Brazil and Thailand were the largest regional exposures, representing close to 60% of the portfolio at 30 April 2015. At end-March 2015 TEMIT's largest active positions were overweights in Thailand and China/Hong Kong with underweights in Taiwan and South Korea. The greatest changes in active weights compared with a year earlier were a 7.1ppts reduction in India, moving it from overweight to underweight, a 3.4ppts increase in the UK overweight and a 2.7ppts reduction in the South Korea underweight.

Exhibit 4: Portfolio exposure by geography (%)

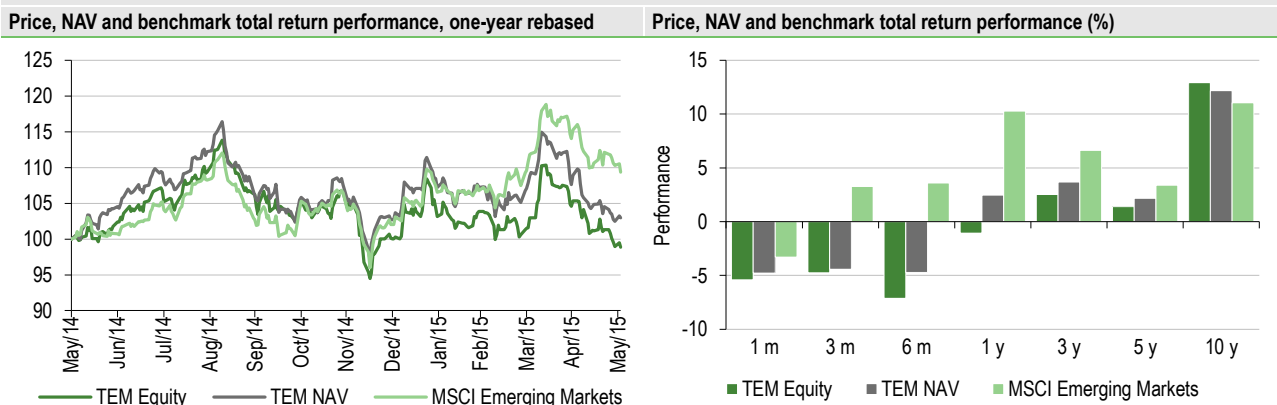
	Portfolio end April 2015	Portfolio end April 2014	Change
China/Hong Kong	31.7	25.7	6.0
Brazil	13.7	14.0	(0.3)
Thailand	13.7	12.9	0.8
South Korea	6.7	4.5	2.2
Indonesia	6.3	6.3	(0.1)
India	5.4	11.7	(6.3)
Pakistan	4.6	4.7	(0.2)
South Africa	4.6	1.1	3.5
Turkey	4.5	5.2	(0.8)
UK	3.6	3.4	0.2
Peru	2.4	2.4	0.0
Russia	2.0	4.2	(2.2)
Austria	0.2	1.1	(0.9)
Mexico	0.0	1.8	(1.8)
Qatar	0.0	0.8	(0.8)
Other*	0.6	0.1	0.5
Total	100.0	100.0	

Source: TEMIT, Edison Investment Research. Note: *Other countries are Singapore, Nigeria, Jordan.

Performance: 10-year outperformance

As shown in Exhibit 6, TEMIT's NAV total return has underperformed the benchmark MSCI Emerging Markets index over one, three and five years while outperforming over 10 years. The weaker performance over five years can be largely attributed to TEMIT not matching the positive index performance during the last six months, held back by the underperformance of materials sector holdings Vale and Kumba Iron Ore as well as Brazilian financials holdings Banco Bradesco and Itau Unibanco, which outweighed notably strong contributions from Brilliance China Automotive and Hyundai Development. Exhibit 7 illustrates that TEMIT achieved its strongest relative outperformance of the last 10 years immediately following the 2008 global financial crisis. Although a weaker relative performance has been seen since August 2011, TEMIT has held on to a proportion of the previous outperformance. TEMIT's performance relative to the MSCI World and FTSE All-Share indices has followed a similar but more accentuated trend, reflecting emerging markets' underperformance of developed markets over three and five years and outperformance over 10 years.

Exhibit 5: Investment trust performance to 31 May 2015



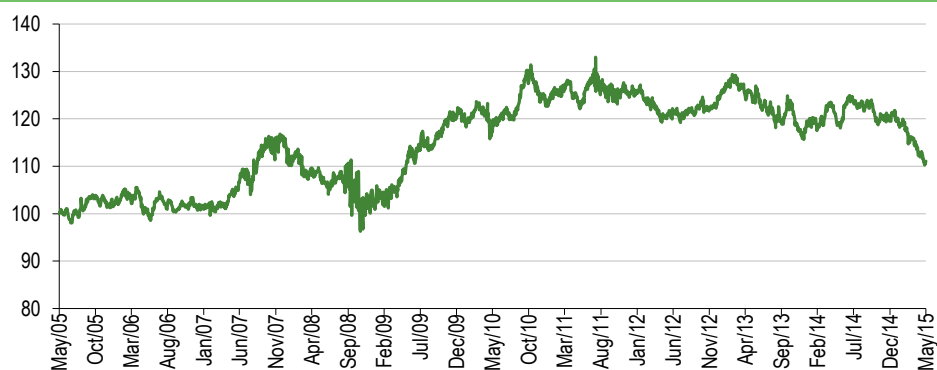
Source: Thomson Datastream, Edison Investment Research. Note: Index performance is sterling-adjusted. Three, five and 10-year performance figures annualised.

Exhibit 6: Share price and NAV total return performance, versus indices (percentage points)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price versus MSCI Emerging Markets	(2.2)	(7.8)	(10.3)	(10.3)	(11.1)	(9.3)	18.0
NAV versus MSCI Emerging Markets	(1.5)	(7.4)	(8.0)	(7.1)	(8.0)	(5.7)	10.5
Price versus MSCI World	(6.5)	(7.1)	(12.7)	(15.3)	(34.5)	(40.1)	39.3
NAV versus MSCI World	(5.9)	(6.8)	(10.5)	(12.3)	(32.3)	(37.8)	30.4
Price versus FTSE All-Share	(6.7)	(7.2)	(13.6)	(7.9)	(29.2)	(36.4)	55.4
NAV versus FTSE All-Share	(6.1)	(6.9)	(11.4)	(4.6)	(26.8)	(33.9)	45.4

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-May 2015. Geometric calculation.

Exhibit 7: NAV performance relative to MSCI Emerging Markets index over 10 years

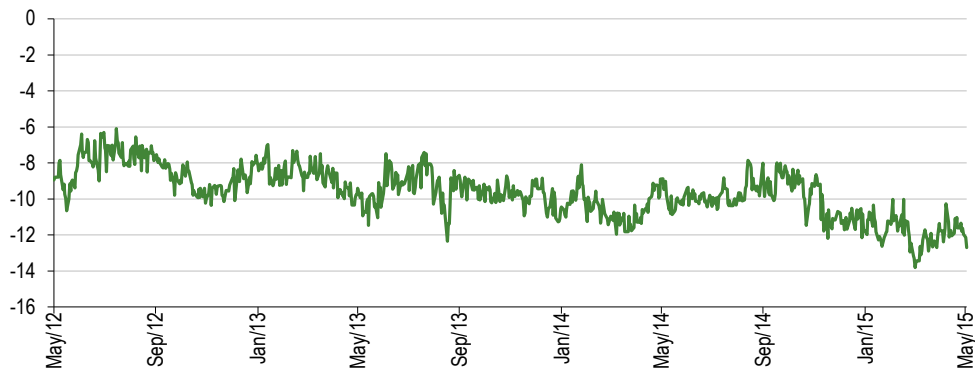


Source: Thomson Datastream, Edison Investment Research

Discount: Recent widening trend

As illustrated in Exhibit 8, TEMIT's share price discount to NAV (including income) has followed a gradually widening trend over the last three years, more notably from September 2014, since when it has moved from 7.9% to stand at 12.7% currently. The board monitors the discount, actively but selectively buying back shares when considered in shareholders' interests, and shares have been repurchased on a relatively regular basis since October 2012 (see Exhibit 1).

Exhibit 8: Share price discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

TEMIT has 317.0m shares in issue, having repurchased 1.9m shares since end March 2015 and 9.1m (2.8% of issued capital) over the last two financial years. The board has a cautious stance on gearing, seeing periods of volatility as a feature of emerging equity markets, which are generally unpredictable in both timing and extent. Gearing policy is that in exceptional circumstances, and for short periods, TEMIT may borrow up to 10% of its net assets. Borrowing facilities were not used during the last three financial years and at 30 April 2015 TEMIT had a 5.9% net cash position.

TEMIT pays a management and administration fee to Templeton Asset Management of 1.10% pa of net assets, reduced from 1.20% from 1 July 2014, and no performance fee is payable. The ongoing charge for FY14 was 1.30% pa, reducing to 1.20% pa for the six months to 30 September 2014.

Dividend policy

Although TEMIT's primary objective is capital growth, it pays an annual ordinary dividend, which it has increased in each of the last 11 years. A special dividend was also paid in 2009 (see Exhibit 1). For the year ended 31 March 2014, the dividend was increased by 16.0% to 7.25p. Despite this track record of rising dividends, the board highlights that emerging market companies' dividends are not always consistent and so steadily rising future dividend income cannot be relied upon.

Peer group comparison

Exhibit 9 shows a comparison of TEMIT with a closed-ended peer group comprising the members of the AIC Global Emerging Markets sector with a market cap of over £50m and a track record of more than one year. TEMIT's NAV total return performance is at the lower end of the peer group over one, three and five years but tops the peer group over 10 years. Similarly, TEMIT's risk-adjusted returns, as measured by Sharpe ratios, over one and three years are also below the peer

group averages. TEMIT's share price discount to NAV is wider than the peer group average but is at a similar level to peers excluding income and frontier markets funds. TEMIT's 1.29% ongoing charge is similar to the peer group average and should decline to c 1.2% following the reduction in management fee from July 2014. TEMIT is one of only five dividend-paying funds in the peer group, although its yield is lower than the average.

Exhibit 9: Global emerging markets sector as at 2 June 2015

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Net gearing	Dividend yield (%)
Templeton Emerging Markets	1,716.6	2.2	12.5	12.3	214.1	0.2	0.3	(10.3)	1.29	94	1.3
Advance Developing Markets	240.4	9.1	18.4	13.8	135.6	1.0	0.5	(10.9)	1.12	97	
Advance Frontier Markets	100.0	(1.9)	30.5	28.0		(0.3)	0.9	(5.3)	1.58	126	
BlackRock Frontiers	175.5	2.4	64.3			0.1	1.3	(0.8)	1.45	107	3.6
Genesis Emerging Markets	728.8	4.6	21.2	21.6	212.7	0.6	0.6	(10.4)	1.67	98	
JPMorgan Emerging Markets	780.3	9.5	22.8	26.1	212.5	0.9	0.6	(10.2)	1.17	98	0.9
JPMorgan Global Emerg Mkts Inc	339.2	2.9	25.3			0.3	0.6	0.9	1.22	106	4.3
Utilico Emerging Markets	410.5	15.4	36.5	70.1		1.6	1.0	(10.5)	0.90	100	3.2
Average	561.4	5.5	28.9	28.6	193.7	0.6	0.7	(7.2)	1.30	103	2.6

Source: Morningstar, Edison Investment Research. Note: TR=total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

The board comprises seven non-executive directors, six of whom are independent of Templeton Asset Management. The independent directors are chairman Peter A Smith (appointed director May 2004, chairman December 2007), senior independent director Neil A Collins (appointed September 2006), Christopher D Brady (appointed December 2007), Hamish N Buchan (appointed June 2008), Peter O Harrison (appointed November 2007) and Beatrice Hollond (appointed April 2014). Non-independent director Gregory E Johnson (appointed December 2007) is president and CEO of Franklin Resources, the parent company of the investment manager. Sir Peter Burt retired from the board in July 2014 after 10 years' service.

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