

Emerging Markets in the Post-COVID World

Webinar: Emerging Markets are powered by innovation

Emerging markets should be part of portfolio repositioning for the COVID-19 recovery, says **Andrew Ness**, portfolio manager with **Franklin Templeton Emerging Markets Equity**. Andrew is the co-portfolio manager of **Templeton Emerging Markets Fund**, which won a 2020 Refinitiv Lipper Fund Award for its five-year performance. In this webinar, Andrew explained why emerging markets are in a strong position as the global economy recovers.

2021 outlook for emerging markets

Asian emerging markets (EMs) are expected to lead the U.S. in GDP growth in 2021: 8.6% versus 6.4%¹. Markets in Asia, which is home to 80% of EMs, are well positioned for a recovery given this macro backdrop, as well as a strong fundamentals picture in terms of earnings growth, valuations, currency and dividends:

Emerging Markets: Why Now?

The Past ≠ The Future



Earnings Growth

EM Earnings Projected to Outpace U.S.

With strong expected economic recovery, EM leads the U.S. in estimated 2021 earnings growth¹:



Valuation

EM Equities Appear Undervalued

EM P/E discount to the U.S. now stands below ten-year average² at:



Currency

U.S. Dollar Bull or Bear?

Significant risks to the U.S. dollar include loose monetary policy and falling real interest rates³



Dividend

EM Expected to Continue to Lead the US

While 2020 dividend yields are expected to decline for both EM and US, EM remains higher, and 2022 projected dividend yield is:



For illustrative and discussion purposes only. Past performance is not an indicator or a guarantee of future performance.

- Source: Bloomberg. Estimated earnings growth for CY21E as of 13 April 2021. There is no assurance that any projection will be realized.
- Source: MSCI Macrobonds of 13 April 2021. 10y average EM P/E discount to important data provider notices and terms available at www.msci.com. MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further responsibility is assumed by MSCI.
- Source: © 2021 Morningstar, Inc. All Rights Reserved, MSCI and Bloomberg, as of December 31, 2020.
- Source: Bloomberg, as of 13 April 2021. There is no assurance that any projection, estimate or forecast will be realized.

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Emerging innovation economies

Innovation is the cornerstone of EM economies, and Andrew highlighted three key secular trends that will drive investment returns for years to come: **disruption, transformation and digitalization**. Technology is disrupting business models in many industries in EM, such as e-commerce, new media, online entertainment and renewable energy. In response, agile companies are adapting their business models. For example, an established South Korean chemical company, **LG Corp.**, has transformed itself into a leading manufacturer of batteries for electric automobiles.

The third trend, digitalization, is about companies that support the growth of data-driven businesses and industries. Many of these firms are creating opportunities through the essential infrastructure to support areas such as cloud computing, data servers, the Internet of Things, high-performance computing and artificial intelligence.

These secular trends are reflected in the portfolio holdings of Templeton Emerging Markets Fund, including disruptors like **Alibaba Group** in China (e-commerce/cloud computing) and **Naver** in South Korea (tech platform), transformers like **LG Corp.** in South Korea (electric batteries) and **ICICI Bank** in India (financial services), and digital enablers like **TSMC** in Taiwan (semiconductors).

Andrew said many of the secular changes shaping EM economies, such as digital transformation, are expected to be long-term trends, even if the Value style outperforms Growth in the short term.

Portfolio positioning in EMs

The Franklin Templeton Emerging Markets Equity strategy looks for structural opportunities, while seeking sustainable earnings at a discount and being responsible stewards of client capital. The investment team of Templeton Emerging Markets Fund focuses on companies with trustworthy management teams, resilient business models, balance sheets without undue leverage, and justifiable valuations, given their growth opportunities. The team considers “resilience versus vulnerability” in its investment process and focuses on businesses that have been resilient in the face of the global pandemic and the effects of digital transformation. In aggregate, the fund is overweight names in north Asia, particularly South Korea and Taiwan, two countries with innovative and technology-driven economies. The portfolio has an underweight allocation to China and India, and an overweight position in Russia for certain technology companies.

The portfolio construction approach delivers a portfolio without directional bias, but with a tilt toward companies with quality, sustainable growth characteristics at an appropriate valuation. This has helped the fund generate a balanced, consistent return profile, with a high batting average in both growth and value or up and down markets compared to many of its peers.

Franklin Templeton Emerging Markets Equity

The Franklin Templeton Emerging Markets Equity strategy offers core exposure to global emerging markets through a research-backed, diversified portfolio. The team’s edge is its locally-based research footprint of 80 investment professionals across 15 countries with 17 years of average experience, helping to uncover unique insights before the mainstream. The team are patient, long-term investors with a focus on identifying companies that demonstrate sustainable earnings power at attractive valuations, with ESG being a fully integrated part of the investment process.

Templeton Emerging Markets Fund, which won a 2020 Refinitiv Lipper Fund Award, has top quartile performance in its Morningstar category over the most recent three-month, year-to-date, three-year, five-year, and ten-year periods.² The fund uses a diversified portfolio of 70-100 stocks and a high conviction strategy—the top 10 holdings represent more than 40% of the portfolio, with an active share of 70-85%.

Important Legal Information

This material is intended to be of general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice.

The information is not a complete analysis of every aspect of any market, country, industry, security or portfolio. Statements of fact are from sources considered to be reliable, but no representation or warranty is made as to their completeness or accuracy. Because market and economic conditions are subject to rapid change, opinions provided are valid only as of the date indicated. The views expressed may not be relied upon as investment advice and are not share class specific.

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All investments involve risks, including the possible loss of principal. Investments in foreign securities involve special risks including currency fluctuations, economic instability and political developments. Investments in emerging markets, of which frontier markets are a subset, involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Because these frameworks are typically even less developed in frontier markets, as well as various factors including the increased potential for extreme price volatility, illiquidity, trade barriers and exchange controls, the risks associated with emerging markets are magnified in frontier markets. Equity and Fixed Income prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions.

Franklin Templeton Emerging Markets Equity, part of Franklin Templeton Investments Corp.

² Morningstar quartile rankings show how well a fund has performed compared to all other funds in its peer group. Each fund within a peer group is ranked based on its performance, and these rankings are broken into quarters or quartiles. Within a group, the top 25% (or quarter) of the funds are in the first quartile, the next 25% are in the second quartile, the next group in the third quartile, and the bottom 25% of funds with the poorest relative performance are in the fourth quartile. The point in which half the funds had better performance and half had worse performance is the median. If 100 funds are being compared, there would be four quartiles of twenty-five funds each. The median would be the fiftieth fund. For more details on the calculation of Morningstar star ratings or quartile rankings please, see www.morningstar.ca. © Morningstar Inc. All Rights Reserved. Templeton's Emerging Markets Fund ranks in the top 25% of its category peers over three, five and ten years, and the top 50% over one year, up to February 28, 2021.

The Lipper Fund Awards, granted annually, highlight funds and fund companies that have excelled in delivering consistently strong risk-adjusted performance relative to their peers. The Lipper Fund Awards are based on the Lipper Leader for Consistent Return rating, which is a risk-adjusted performance measure calculated over 36, 60 and 120 months. The highest 20% of funds in each category are named Lipper Leaders for Consistent Return and receive a score of 5, the next 20% receive a score of 4, the middle 20% are scored 3, the next 20% are scored 2 and the lowest 20% are scored 1. The fund with the highest Lipper Leader for Consistent Return (Effective Return) value in each eligible classification per award universe wins the Lipper Award. Lipper Leader ratings change monthly. For more information, see lipperfundawards.com. Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper.

Templeton Emerging Markets Fund (Series A) was awarded the 2020 Lipper Fund Award in the Emerging Markets Equity category for the five-year period ending July 2020. Out of a total of 29 funds assessed by Lipper in the Emerging Markets Category.

Performance for the Fund (Series A) for the period ended February 28, 2021, is as follows: 30.1% (1 year), 8.0% (3 years), 16.9% (5 years), 6.1% (10 years) and 6.7% (since inception September 20, 1991).

The corresponding Lipper Leader ratings of the fund for the same period are as follows: 4 (Overall), 4 (3 years), 4 (5 years) and 3 (10 years).

