



FRANKLIN  
TEMPLETON

# CAPTURING SUSTAINABLE EARNINGS IN EMERGING MARKETS

Franklin Templeton Emerging  
Markets Equities





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Chief Investment Officer  
Franklin Templeton Emerging Markets Equities

Emerging markets have grown and evolved significantly over the past few decades against a backdrop of real growth in GDP, a growing middle class, rising incomes, changes in consumption, and increasing leadership in technological innovation. Coupled with more effective financial oversight and stronger corporate balance sheets, this is helping to build economies that are now home to some of the world's most innovative companies and a wealth of compelling investment opportunities.

We are delighted to bring you this overview of the breadth and depth of our capabilities. As pioneers in emerging markets equity investing, with a heritage spanning over 30 years,<sup>1</sup> we believe we are uniquely placed to offer deep insights in emerging markets and the companies in which we invest. Our local presence, with a team of over 80 investors across 14 countries,<sup>1</sup> provides us with the benefits of an extensive network of local business contacts, strong access to in-person company visits and real-time responses to local market events.

The essence of our time-tested philosophy is to invest in companies with sustainable earnings power at a discount to intrinsic worth. This long-term perspective forms the bedrock of our pursuit of structural investment opportunities in emerging markets along with our belief that we are responsible stewards of our clients' capital. As active owners, company meetings and engagements form a critical part of our approach with typically over 2,000 company meetings every year that help deepen our understanding of companies and sectors.

We believe our investment approach will guide us to the opportunities that maximise the value of our clients' capital in what is an exciting time to be investing in the asset class.

1. Investment professionals include portfolio managers, analysts and traders. As of 31 December 2020.

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# HERITAGE OF EMERGING MARKETS INVESTING

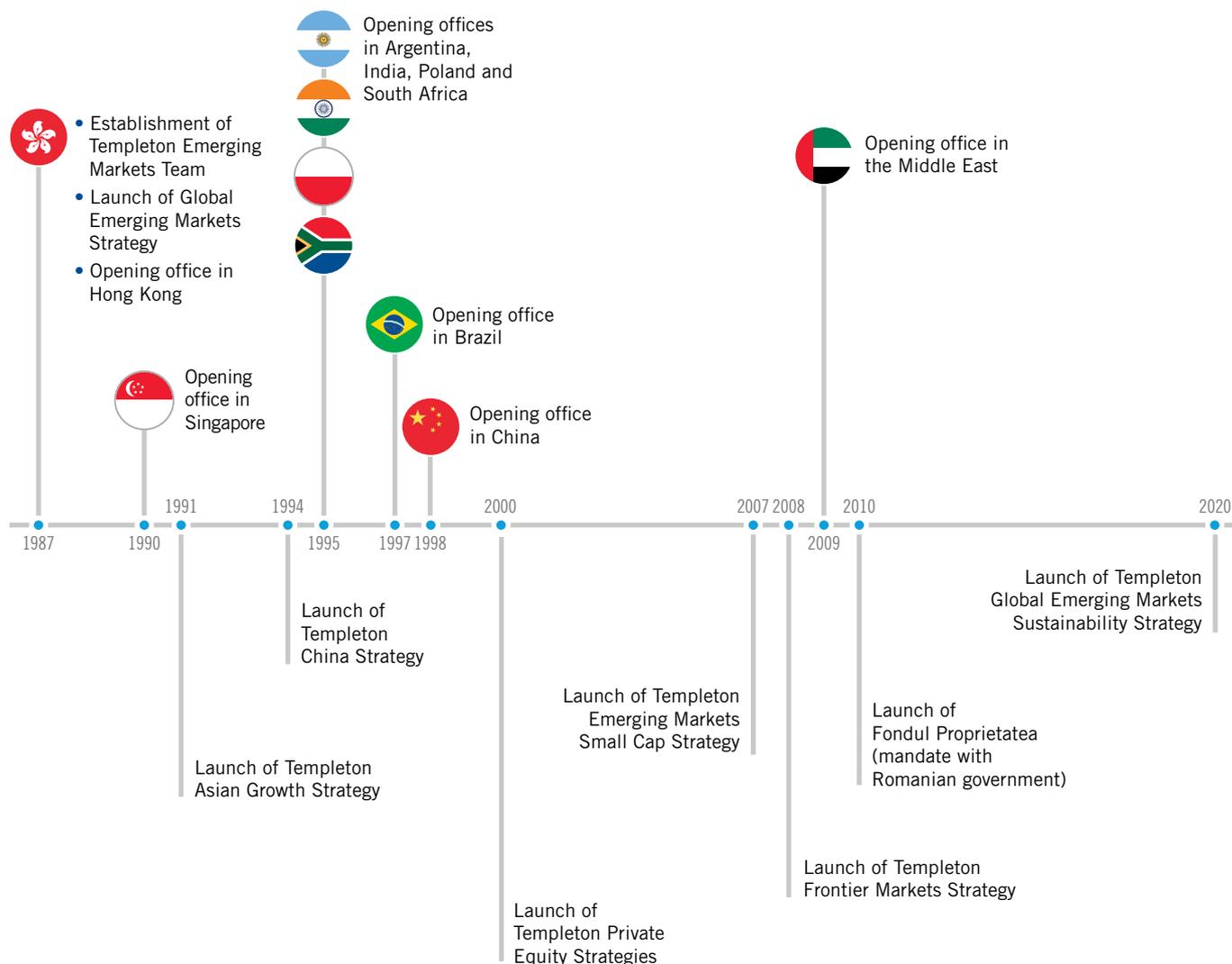
The Franklin Templeton Emerging Markets Equity team is a pioneer in emerging markets investing, with a presence in local markets dating back to 1987. This local footprint, combined with the experience of our well-resourced team, enables us to form a deep and broad understanding of local dynamics, individual companies, as well as the macro backdrop within which they operate.

Our on-the-ground network of offices enables us to engage directly with policymakers and company management teams. Our analysts speak the local language and are part of the local culture/fabric of the countries where they conduct research.

Research meetings are at the centre of our investment process and provide invaluable insights into key drivers of earnings sustainability and growth.

Our information edge is reflected in our proven track record of delivering strong risk-adjusted returns across our portfolios.

## BECOMING FRANKLIN TEMPLETON EMERGING MARKETS EQUITY



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# EMERGING MARKETS CAPABILITIES AND RESOURCES

Our experienced and long-tenured team covers a wide breadth of strategies across one global platform.

Developed over a long history of emerging markets investing, Franklin Templeton Emerging Markets Equity strategies are designed to meet a wide range of investor needs. These include broad equity strategies offering long-term capital appreciation to regional and single country strategies as well as private and hybrid equity strategies.

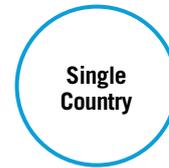
## FRANKLIN TEMPLETON EMERGING MARKETS EQUITY STRATEGIES \$33.9 Billion AUM<sup>2</sup>



- Global Emerging Markets
- Global Emerging Markets Sustainability
- Emerging Markets Small Cap
- Frontier
- BRIC (Brazil, Russia, India and China)



- Asia
- Asia Small Cap
- Eastern Europe
- Latin America
- MENA (Middle East and North Africa)



- Brazil
- China
- India
- Malaysia



- Global and Regional Private Equity
- Single-Country Private Equity
- Global Impact Private Equity
- Shariah Private Equity

## WELL-RESOURCED AND EXPERIENCED TEAM<sup>3</sup>

**14**   
countries

**80+**   
investment professionals

**16**   
years average industry experience

**8**   
years average with Franklin Templeton



2. As of 31 December 2020.

3. Investment professionals include portfolio managers, analysts and traders. As of 31 December 2020.

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# INVESTMENT PHILOSOPHY

We believe that stock prices are primarily driven by the ability of companies to sustain profitability and earnings power in the long run. Long-term investing with an independent mindset, not short-term speculation, is best placed to capture this potential.

Companies' sustainable competitive advantages can be temporarily mispriced due to factors such as market noise, short-term focused behaviour or information gaps. Opportunity arises when the market underestimates or misprices the probability, magnitude, or timing of their sustainable earnings power.

We believe that insights, skill and a repeatable process can help generate alpha over time. Specifically, we look for companies with the following characteristics:

- **Sustainable:** companies with strong competitive advantages and resilience to sustain economic profits and cash flows over the long term.
- **Earnings power:** the ability to generate and grow economic profits into the future, including in areas which could be beyond the current scope of company operations.
- **Discount to intrinsic worth:** margin of safety based on a holistic definition of value and our estimates of intrinsic value versus current market prices.

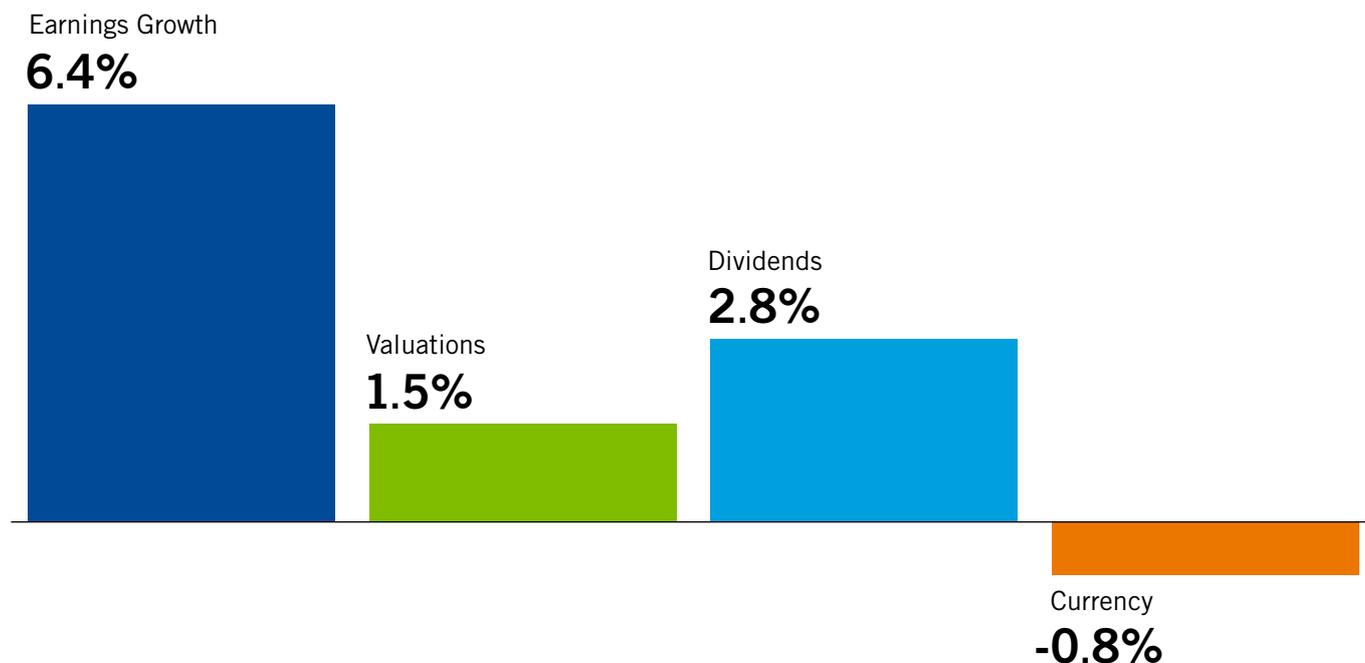
We integrate Environmental, Social and Governance (ESG) analysis alongside fundamental, bottom-up analysis and engage with companies as active owners on behalf of our clients.

As investors with significant scale across emerging markets, we believe our engagement efforts are key to developing detailed company analysis and to improve outcomes for shareholders, as well as stakeholders more broadly.

## Percentage Contribution to Total Returns MSCI Emerging Markets<sup>4</sup>

Average Annualised Rolling 5-Year Returns

From January 1999–December 2003 to January 2015–December 2020



4. Source: MSCI, Bloomberg. Monthly rolling periods from January 1999–December 2003 to January 2015–December 2020. Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI. Earnings Growth = multi-currency EPS growth rate. Valuation = price earnings ratio changes. Dividends = dividend yield. Currency = calculated as of % difference between MSCI Emerging Markets Index (USD) and MSCI Emerging Markets Index (Local Currency, Multiplication and not a sum). As most EM securities are listed on local stock exchanges and denominated in local currency, the currency effect captures the currency impact, which is essentially the return differential between the USD return and the local currency return of the securities in aggregate.

Past performance is not an indicator or a guarantee of future performance.

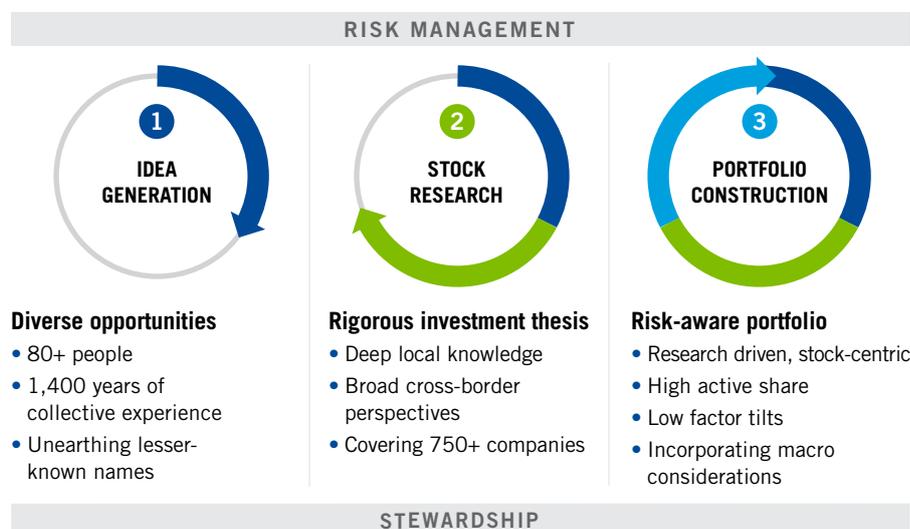
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# INVESTMENT PROCESS

Our investment process is aligned to our investment philosophy of finding and investing in companies with sustainable earnings power at a discount to intrinsic worth.

The three broad stages of our dynamic investment approach comprise: idea generation, stock research and portfolio construction. The investment process is designed to be repeatable and embeds risk management as well as ESG integration throughout these stages.

## A DYNAMIC INVESTMENT APPROACH HONED THROUGH CYCLES<sup>5</sup>



### 1. Idea Generation

Every analyst and portfolio manager contributes to idea generation. Their investment expertise, local network, ability to speak local languages and understand local dynamics allow them to identify trends and opportunities that other market participants may filter out through standard quantitative screens.

Our management and industry relationships have been cultivated over decades allowing us to receive timely and ongoing access to insights from company management, business leaders, government officials and central banks. We conduct over 2,000 company meetings a year using our industry-leading research footprint of over 80 investors in 14 countries. This can help us identify investment opportunities beyond the mainstream, often before they are recognised by the broader market.

The idea generation process is ongoing and dynamic, as analysts continually monitor their countries and industries for new opportunities.

### 2. Stock Research

Research efforts are focused on identifying stocks with sustainable earnings power trading at valuation levels that are at a discount to their intrinsic value based on long-term earnings estimates.

#### Sustainable

The ability to maintain stable/growing economic profits over time. We look for evidence by evaluating a wide range of criteria, including but not limited to:

- Sound business models
- Sustainable competitive advantages
- Management foresight
- Low leverage

#### Earnings Power

Earnings power is the demonstrated ability to generate sustainable economic profit into the future in areas which could be beyond the current scope of operations.

We look for real earnings growth by focusing on economic earnings and cash flows rather than reported earnings per share, and by differentiating between operational earnings and financial earnings. We evaluate internal versus external drivers to earnings, preferring companies with internal drivers such as management action.

### Discount to Intrinsic Worth

We seek to determine the intrinsic worth of a company by building robust models that capture our qualitative and quantitative assessment of current business characteristics.

### 3. Portfolio Construction & Management

We build high conviction, low turnover portfolios that are primarily driven by stock selection while seeking sufficient diversification. We expect the dominant driver in our portfolios to be stock-specific risk, aligned with our philosophy.

Our buy discipline is primarily designed to ensure we buy when we have both conviction in a business and it is trading below its intrinsic value; our sell discipline is designed to capture the opposite.

5. As of 31 December 2020. All information provided on this page is for illustrative purposes only. Specific portfolio processes may vary due to a variety of factors.

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# ESG INTEGRATION AND ENGAGEMENT

Stewardship is a core part of our philosophy. As responsible stewards of our clients' capital, we believe it is our fiduciary responsibility to ensure a thorough analysis of all elements of a potential investment. Through a holistic understanding of risks and opportunities, our aim is to protect our clients' capital. We carry out our stewardship through ESG integration, voting and engagement. These three elements, we believe, can have a material impact on a company's sustainable earnings power, and therefore our ability to deliver long-term, risk-adjusted outperformance to our clients.

## ESG Integration

We take a pragmatic, not dogmatic, approach towards ESG considerations—we recognise that improvements in ESG metrics can shift a headwind into a tailwind and good businesses can become even better. We look to evaluate a company's market opportunity, competitive position, management strength, financial profitability, and valuation. ESG factors can influence several of these and are assessed during our investment process. We have developed a framework of questions around ESG that take into account the materiality of any ESG issue. This analysis is recorded and shared on our platform research database. Our fully integrated approach is designed to ensure that ESG factors are both known and intended, thereby ensuring, alongside our fundamental analysis, a comprehensive view of risk and return potential.

## FONDUL PROPRIETATEA

**Example:**<sup>6</sup> When potential corporate governance concerns arise, we work directly with the countries and companies we invest in to strengthen governance where it is challenged.

In 2010, Franklin Templeton opened an office in Bucharest to begin managing the multi-billion Euro Romanian restitution fund, Fondul Proprietatea. Listed on the Bucharest Stock Exchange, Fondul Proprietatea's unique mandate is to compensate Romanians whose property and assets were seized by the country's former communist regime. As a portfolio manager, Franklin Templeton has pushed for corporate reform efforts, better standards of corporate governance, greater transparency and improved profitability in the country. By working closely with the Romanian government to institute reforms, these improvements should in turn help boost economic growth and profitability for listed companies.

Primary sources of information include engagement with management, financial statement analysis, corporate reports and third-party providers of ESG research such as MSCI and Sustainalytics.

## ESG Resources

Franklin Templeton's ESG team supports our research teams, anticipating and translating ESG risks and opportunities. Additionally, we are supported by independent risk consultants in our Investment Risk Management Group.

Our analysts are guided by the ESG Sector Framework Guides prepared by Franklin Templeton's dedicated, independent ESG team. The framework identifies a minimum set of ESG issues most likely to materially impact the operating performance or financial condition of a typical company in its industry group.

## Voting and Engagement

We typically conduct over 2,000 company meetings a year seeking to gain deep fundamental and ESG insights.

Our approach to voting is designed to enhance shareholders' long-term economic interests. All voting decisions are made in-house by our analysts/portfolio managers and in accordance with our corporate governance principles and in line with our clients' best interests.

Our engagement efforts are not just limited to companies. We use our wide footprint and deep relationships to foster positive outcomes, including pushing for better standards of corporate governance.

6. For illustrative and discussion purposes only. The information provided is not a recommendation to purchase, sell or hold any particular security. The securities or issuers listed do not represent the entire holdings and in the aggregate may represent only a small percentage of such holdings. There is no assurance that securities purchased will remain in the portfolio, or that securities sold will not be repurchased. In addition, it should not be assumed that any securities or issuers listed were or will prove to be profitable.

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# RISK MANAGEMENT

We define risk as the permanent impairment of capital and seek to ensure that active risk is well understood prior to and throughout all phases of the portfolio construction process. Through our embedded risk management approach, we aim to develop stock-driven portfolios with diversified economic drivers. Our Investment Risk Management Group works collaboratively to provide accurate, timely performance and risk analysis. We believe that a disciplined investment process that includes thorough research and careful analysis of downside risks will help to avoid undue risks at the portfolio construction level.

## Stock-Specific Risk

Stock-specific risk is evaluated through a deep understanding of the conditions/risks for sustained growth. Stock assessments include evaluations of the country and sector in which the company operates, currency risk embedded in company earnings, and exposure to government and regulatory policies and macro factors.

## Portfolio Risk

Portfolio risk is addressed by creating portfolios that are primarily driven by company-specific factors, with diversified economic drivers, while being cognizant of macro exposure. Portfolio managers carefully consider each “best idea” and how different ideas combine and interact to influence portfolio outcomes.

## Macro Risk

We seek to incorporate macro risk considerations at multiple levels of our investment process. We perform an ongoing assessment of macro political and economic risks as well as a company’s operational and balance sheet level currency exposure.

## ESG Risk

In addition to ongoing ESG analysis, we conduct quarterly ESG risk reviews to better understand the ESG profile of the investment strategy and to highlight the key ESG issues related to portfolio holdings including any improving or worsening trends.

## Risk Management Group<sup>7</sup>

The Investment Risk Management Group is an independent team aligned by asset class and strategy, to measure and manage investment risk. The risk team:

- Performs attribution analysis to dissect performance drivers and impact of timing/sizing decisions.
- Performs optimisation based on fundamental research to foster debate and corroborate or challenge portfolio construction decisions.
- Decomposes sources of risk to identify unintended risk exposures and help focus the primary source of active risk on stock selection.
- Provides insights into the exposures in the portfolio, including macro risk factors and how the different sources of risk within the portfolio interact with each other.

## RISK MANAGEMENT RESPONSIBILITIES



### Portfolio Managers

- Macro-economic research
- Short- and long-term asset class views
- Portfolio construction
- Factor profiling and weight modelling
- ESG research



### Collaboration

- Forward-looking views on portfolio risk
- Monitor customised risk limits & guidelines
- Scenario analysis & stress testing
- Pre-trade impact analysis
- Review complex securities
- Analyse liquidity, capacity and counterparty credit risk
- Perform optimisation based on fundamental research to validate decisions and maximise risk-reward ratios



### Risk Professionals

- Daily active risk monitoring
- Performance attribution, weights and exposures, and ex-ante risk
- Guideline monitoring and escalation protocols
- ESG risk monitoring

7. As of 31 December 2020.

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# COMPETITIVE ADVANTAGES<sup>8</sup>



## **Pioneer in emerging markets equity investing with a wide local research footprint**

With over 30 years of navigating market cycles in emerging markets we have built considerable expertise. Our integrated research database goes back decades, supporting our rigorous and long-term approach to bottom-up security selection.

Our analysts speak the local language and are part of the local culture/fabric. We devote significant resources and processes to building and expanding communication and debates across offices.

Our management and industry relationships cultivated over many years offer the benefits of ongoing access to insights from company management, business leaders, government officials and central banks.

We encourage a culture of transparency and continuous improvement to ensure a repeatable investment process and results for our clients.

## **Long-term oriented philosophy and bottom-up high conviction approach**

We take a long-term, low-turnover approach focused on finding businesses with sustainable earnings power at a discount to intrinsic value.

We are focused on delivering strong risk-adjusted returns driven primarily from stock-selection.

Our portfolio construction process seeks to build research-driven, high-conviction portfolios that incorporate diversified economic drivers.

## **Corporate strength and resources of Franklin Templeton**

With over 70 years of asset management experience, over 600 investment professionals, and an array of global investment platforms, we offer research and insights across a range of companies, sectors and countries.

Our longevity as an organisation and balance sheet strength allows us to be resilient in volatile markets.

We consistently rank among the top of our peers proving low trading costs and we are supported by over 100 specialised risk professionals.

The firm's global reach and deep resources allow us to provide exemplary client service including the highest degree of personal attention from the investment team.

<sup>8</sup>. As of 31 December 2020.

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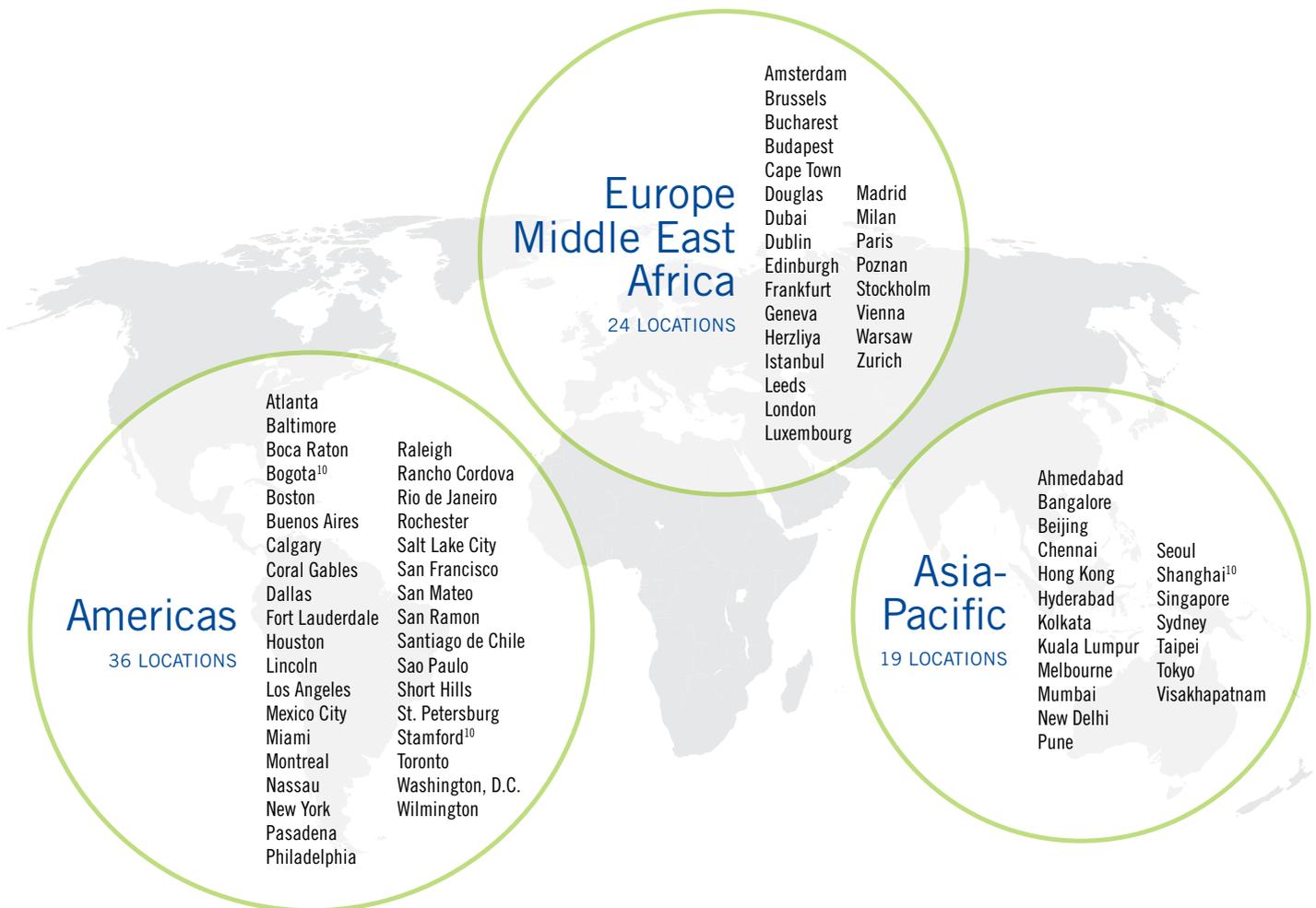
# GLOBAL SCALE AND LOCAL INSIGHTS

To realise your investing ambitions, you need on-the-ground expertise.

To make the most of that expertise, you need the financial strength of a global player.

In Franklin Templeton, you get both. We are pioneers in global investing. Since we launched one of the first global mutual funds in 1954, we've never stopped looking for new ways to invest and new markets to invest in.

Now we have an unmatched global footprint with offices in 34 countries, covering almost all the global economy. And we have a global network of investment professionals in over 50 research offices, as well as over 10 trading desks located in key markets around the world. As such, we deliver the investment solutions you desire, backed by professionals who share your aspirations.



9. As of 31 December 2020.

10. Majority ownership interest.

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