



FRANKLIN TEMPLETON  
INVESTMENTS

# EMERGING MARKETS: NEW ECONOMY OPPORTUNITIES

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# Emerging Markets: Why Now?

# Politics and Populism across Developed Markets



Source: Boris Johnson: <http://snappa.static.pressassociation.io/assets/2015/06/17124034/1434541231-dcf7a33bc96928df154a7685e03afadb-600x800.jpg>

Donald Trump: <https://www.donaldjtrump.com/about>

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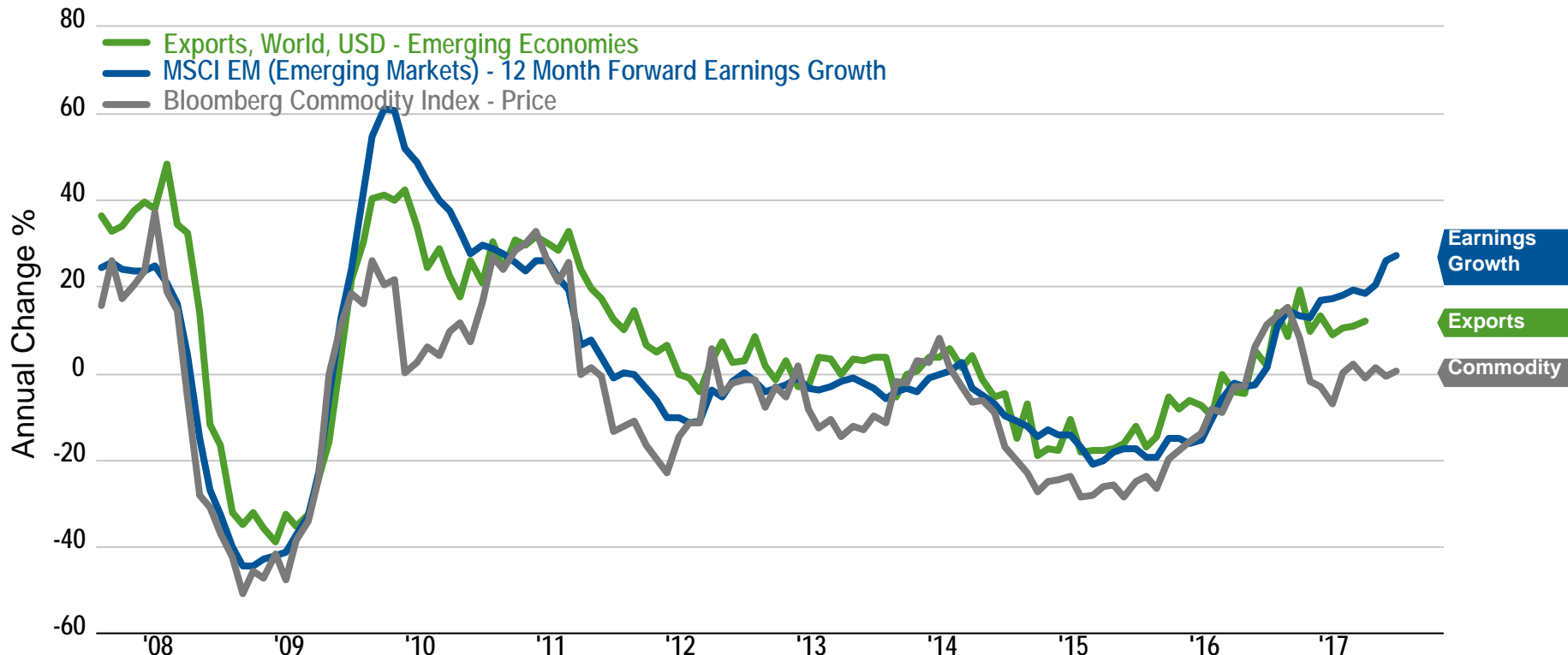


# EM Earnings Power And Cash Flows Continue To Improve

## Commodity Prices and Exports Supportive of Earnings Turnaround

### EM Exports, EM Corporate Earnings and Commodity Prices

12/31/2007 - 12/29/2017



Source : ©FactSet Research Systems, MSCI, Bloomberg. Note: Exports are based on the value of goods exported by developing countries and do not include services. Earnings are based on 12-month Commodity prices are based on the Bloomberg Commodity Index. Last Updated: Exports numbers are the latest as of 09/29/2017, The rest are updated as of 12/29/2017

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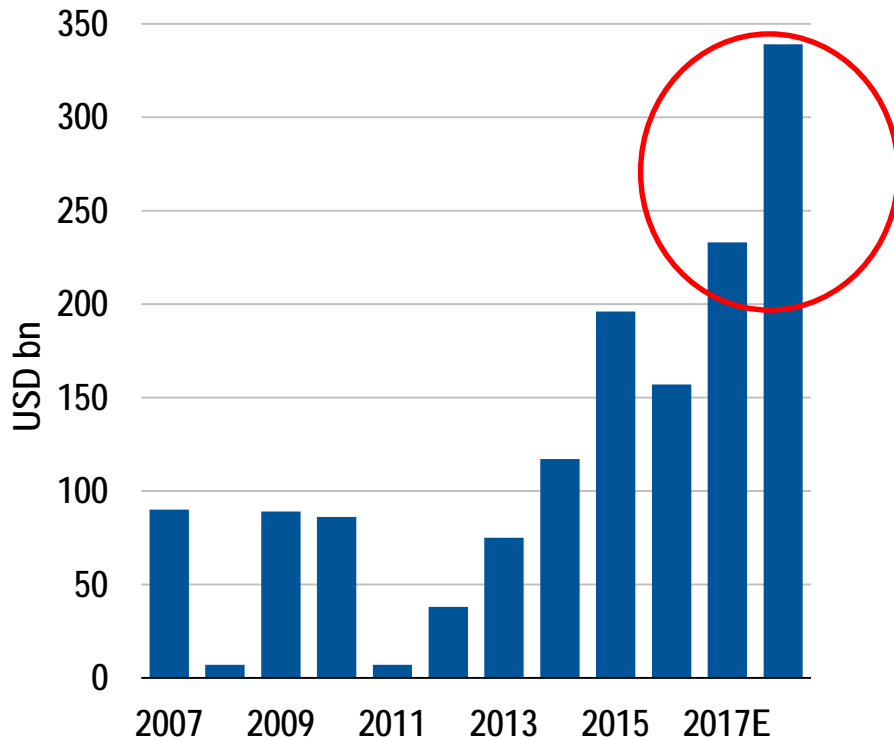


# EM Earnings Power And Cash Flows Continue To Improve

## Free Cash Flow Growth, EPS Growth

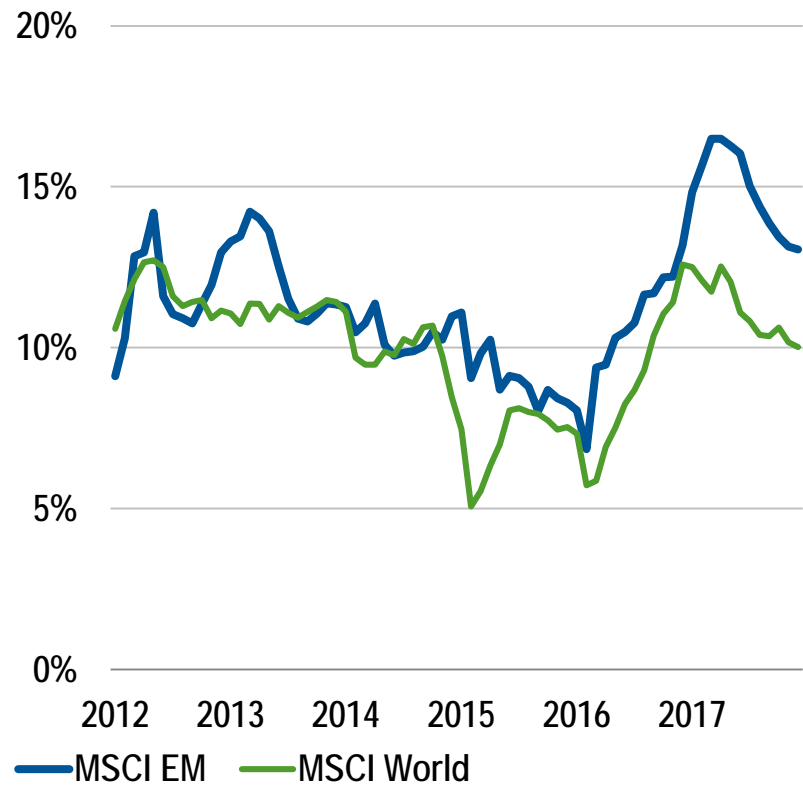
### Asia ex-Japan Free Cash Flow

2007 – 2018E



### EM Earnings Expectations Rising

January 2012 – December 2017



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Source: FactSet, BoA Merrill Lynch Global Research, MSCI, IBES estimates. 12 months forward EPS Growth.

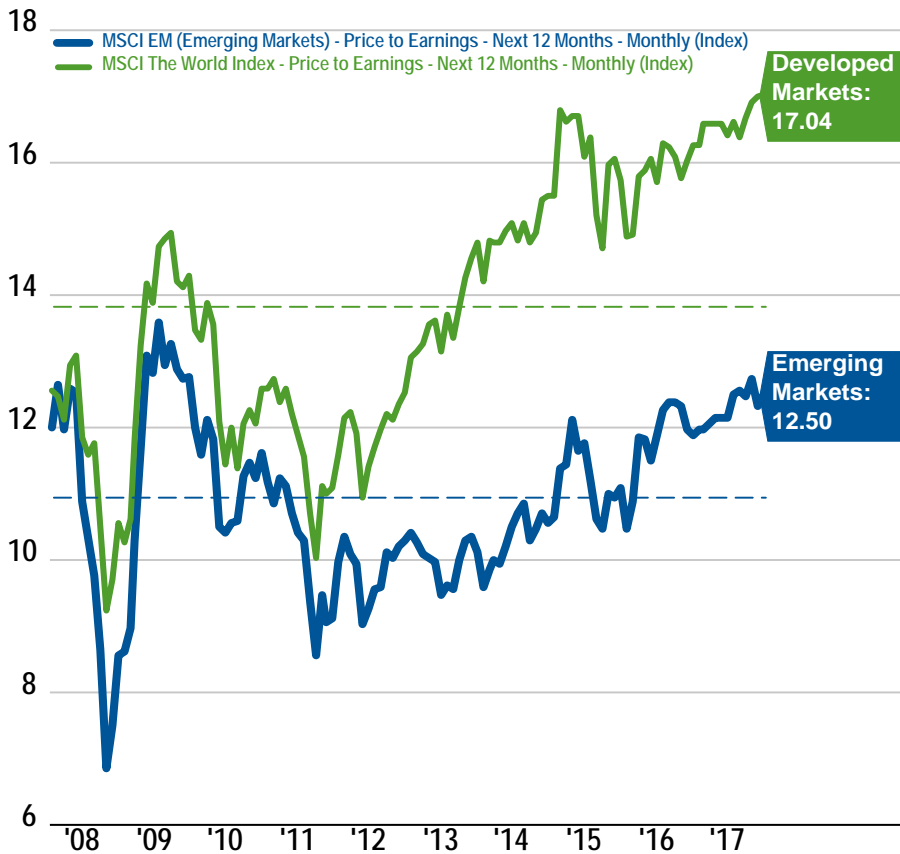
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# EM Valuations

## Cheap Relative to DM But Not Historically

### P/E NTM

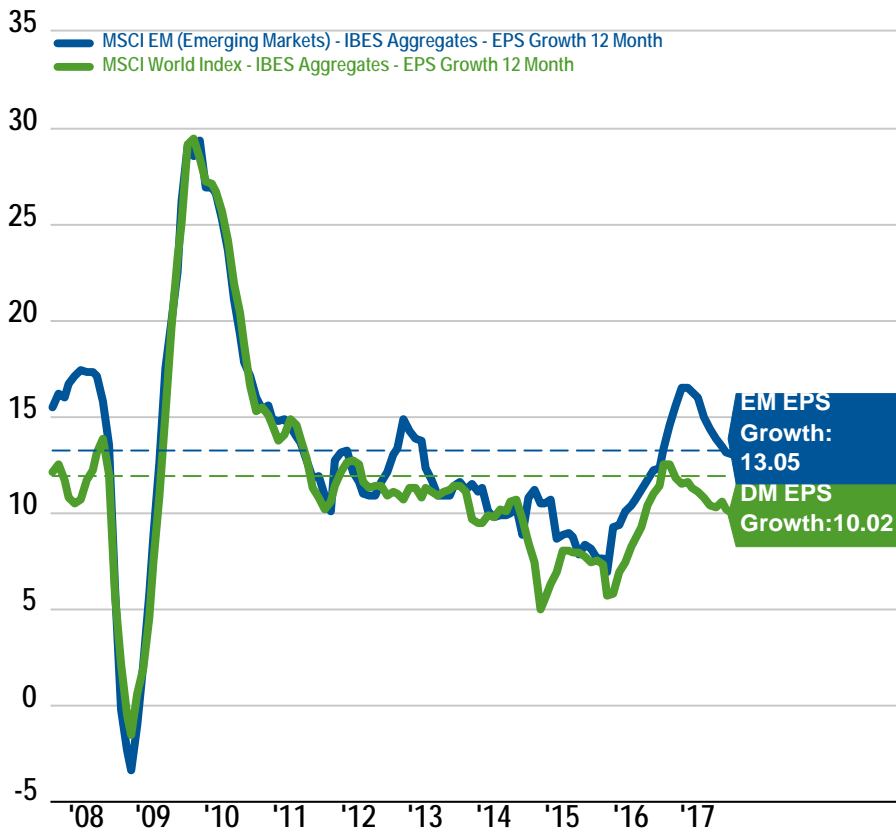
12/31/2007 - 12/29/2017



Source : ©FactSet Research Systems,  
 MSCI, Developed Markets as represented by the MSCI World ; EM as represented by MSCI EM;  
 Last Updated:12/29/2017

### 12 Months EPS Growth

12/31/2007 - 12/29/2017

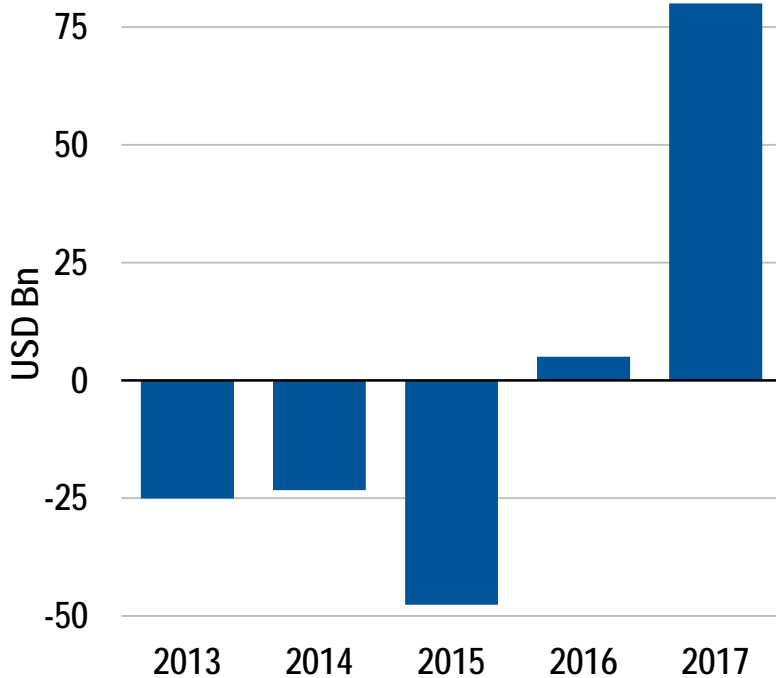


Source : ©FactSet Research Systems, MSCI, Last Updated: 12/29/2017

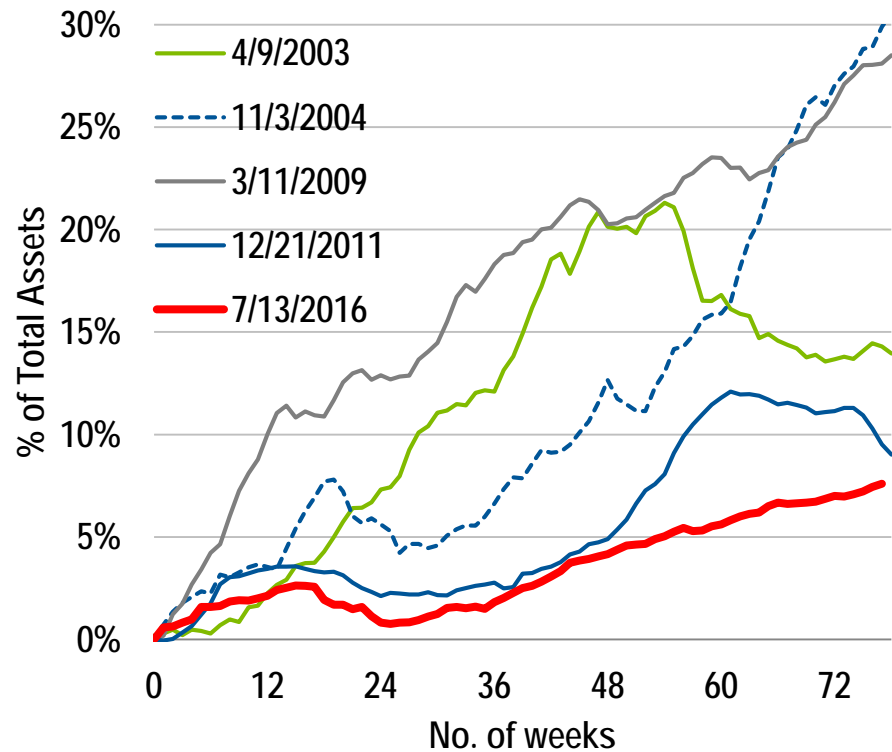
# Emerging Markets: Flows

Flows Accelerating but Remain Muted Relative to History

**EM Equity Fund Flows**  
2013 – 2017



**EM Fund Flow Cycles**  
2003 – 2017



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Source: Morgan Stanley Research, Citi Research, EPFR Global. As of December 2017.

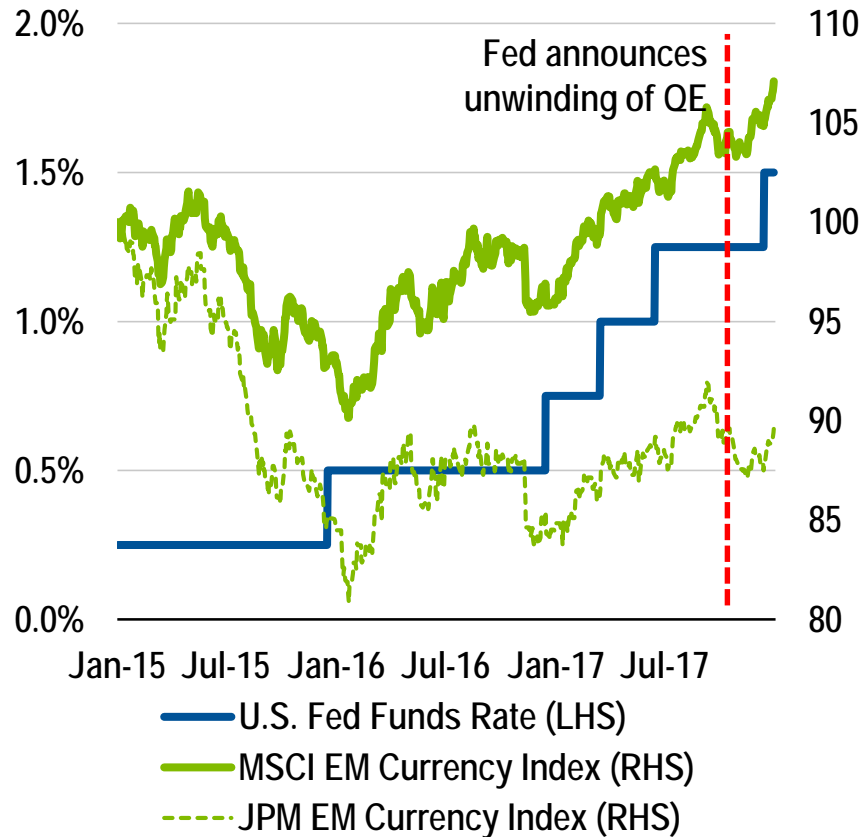
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# Emerging Markets: Fed Impact

Impact on Emerging Markets Currencies Historically Limited

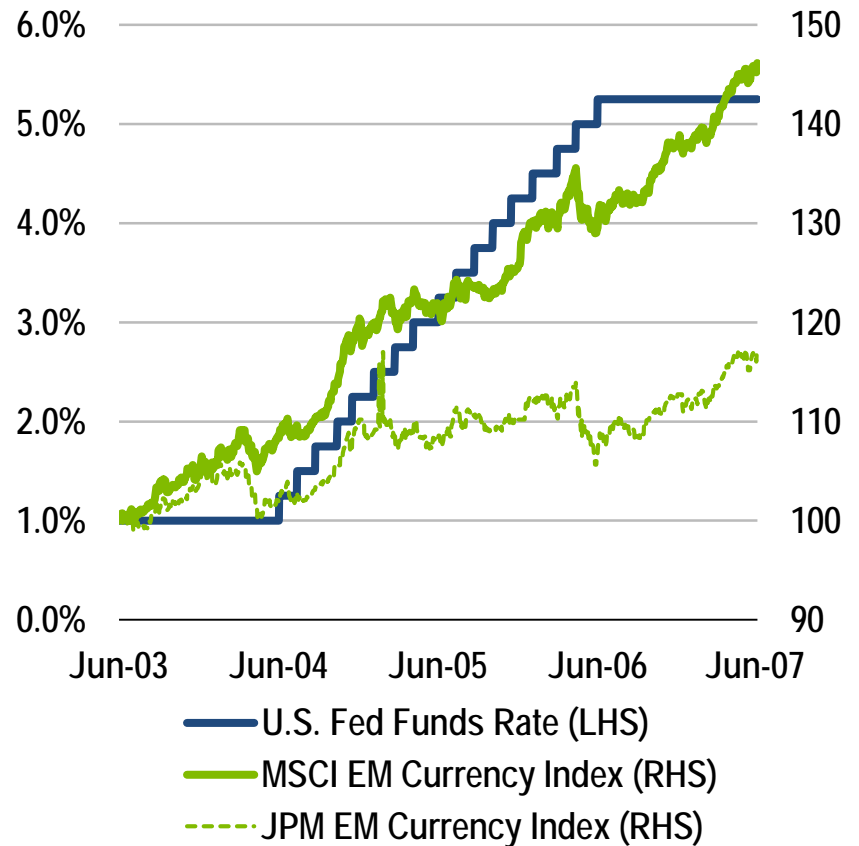
## MSCI EM Currency Index

January 2015 – December 2017



## MSCI EM Currency Index

June 2003 – June 2007



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Source: FactSet, as of December 2017. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information.

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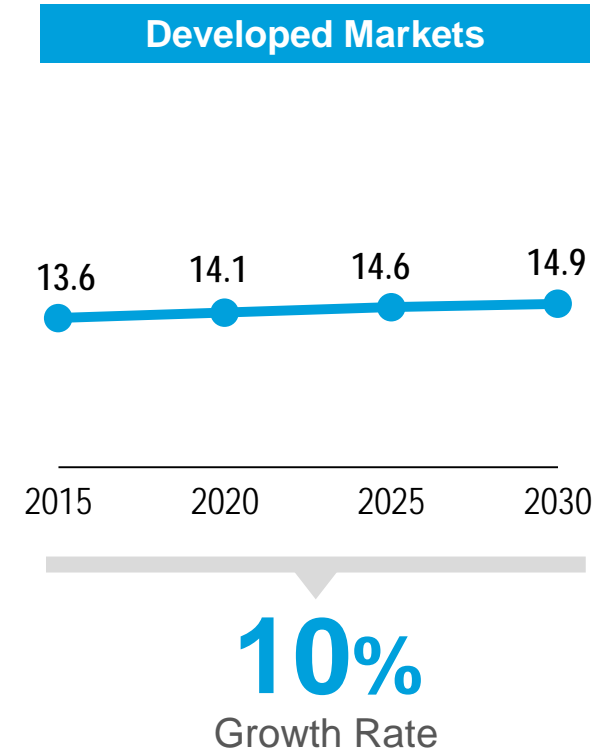
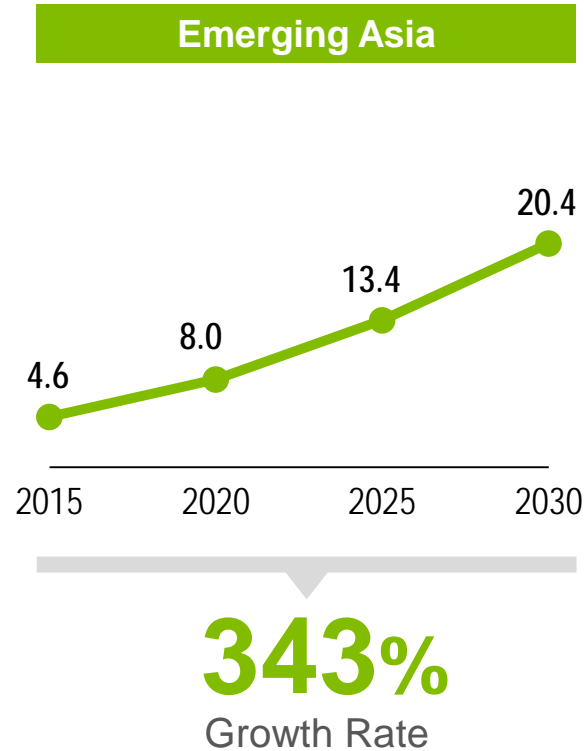
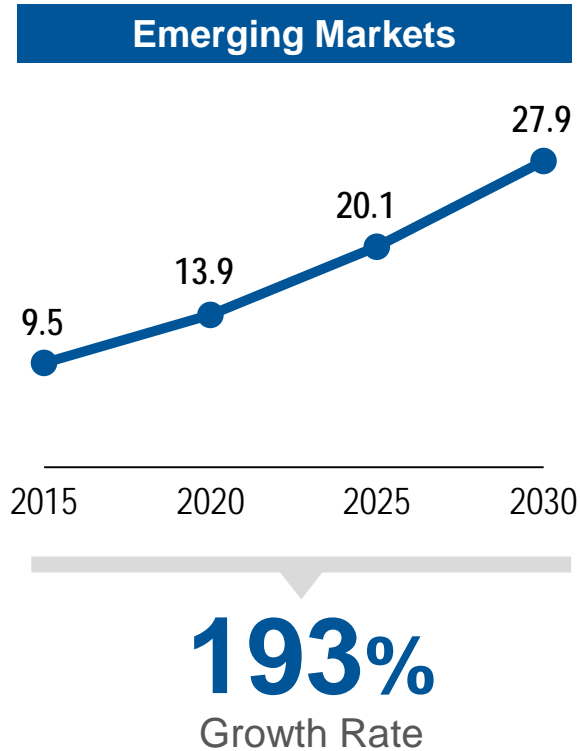
# Emerging Markets May Offer Promising Opportunities



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## Rising Wealth Expected to Fuel Strong Growth Prospects

### Consumption by the Middle Class<sup>1</sup> (USD Trillions)



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1. Source: Brookings Development Indicators, as of June 2016. There is no assurance that any projection, estimate or forecast will be realised.

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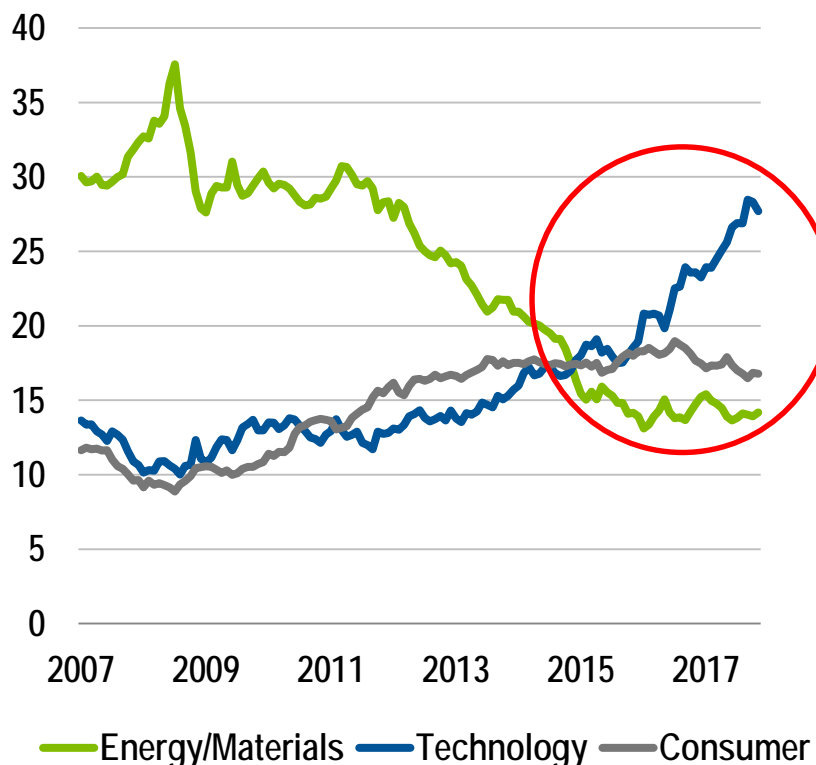
# Emerging Markets: New Economy Rising

# Technology: Secular Long Term Growth

## Emerging Markets Most Tech Dominated Index

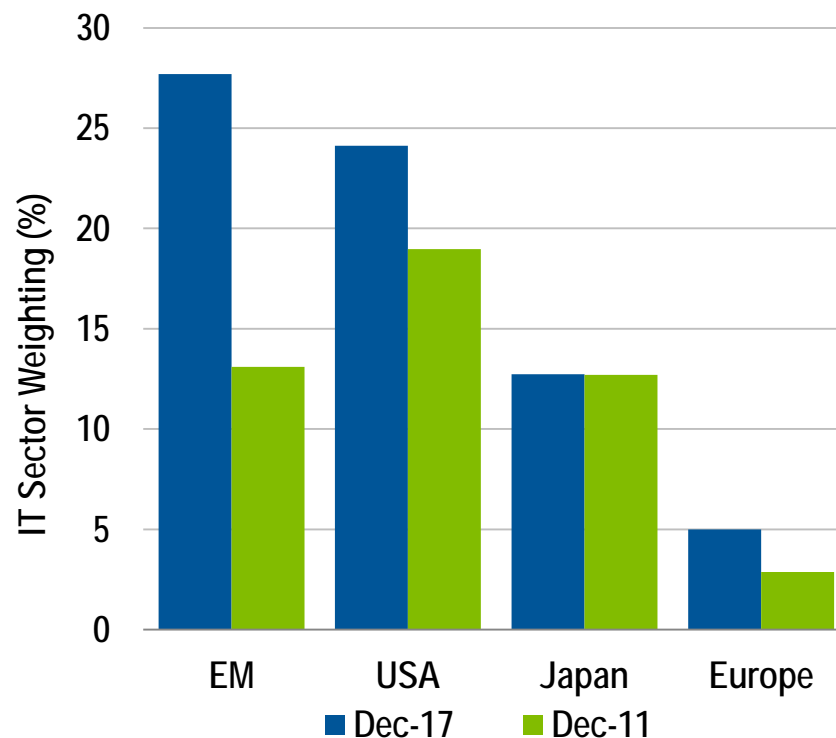
### MSCI EM Index Sector Evolution

January 2007 – December 2017



### IT Sector Weighting: MSCI Indices

December 2011 vs. December 2017



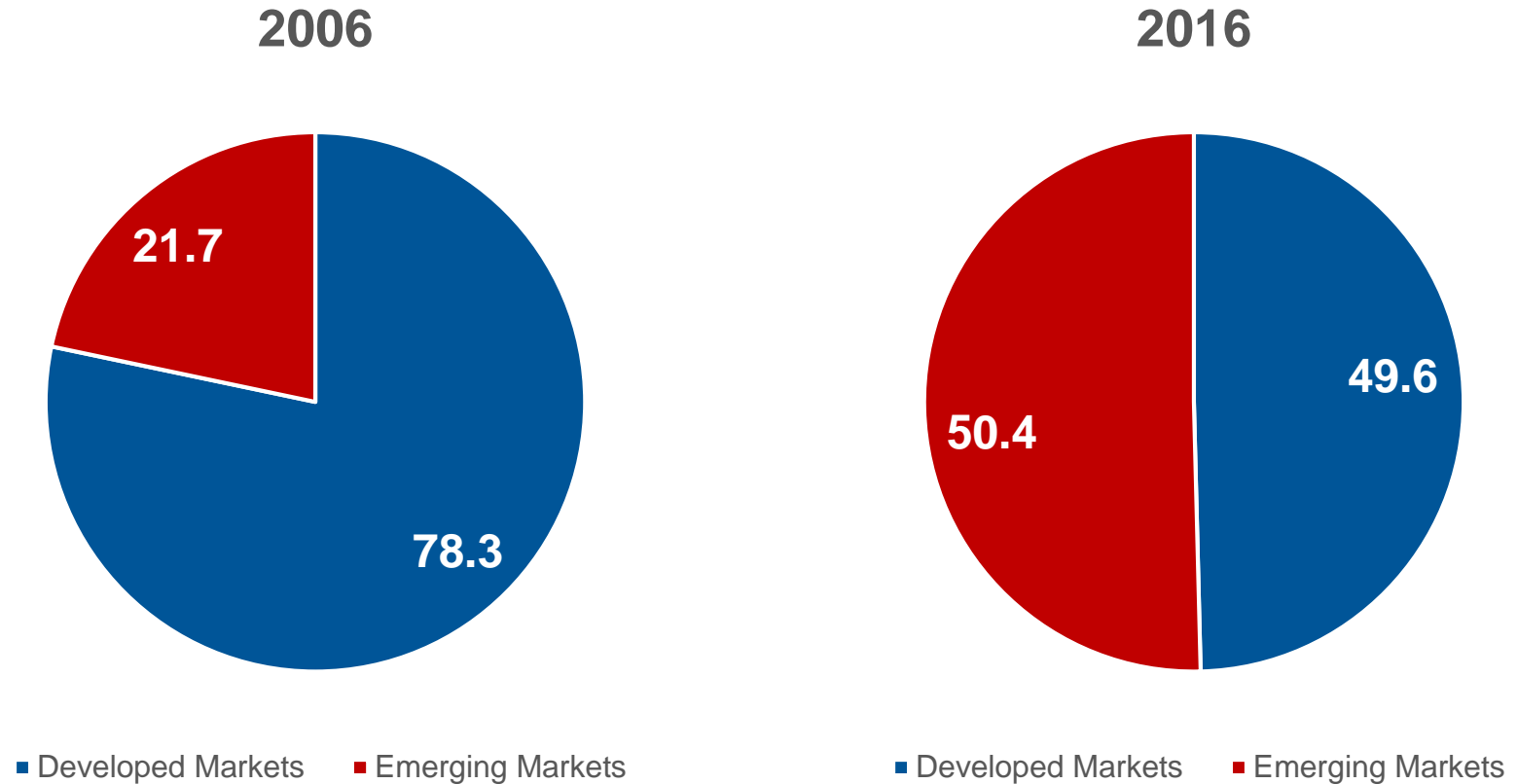
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# Technology Remains Dominant

## Emerging Vs Developed Markets: Patent Applications

% of Total Applications



# Technology Remains Dominant

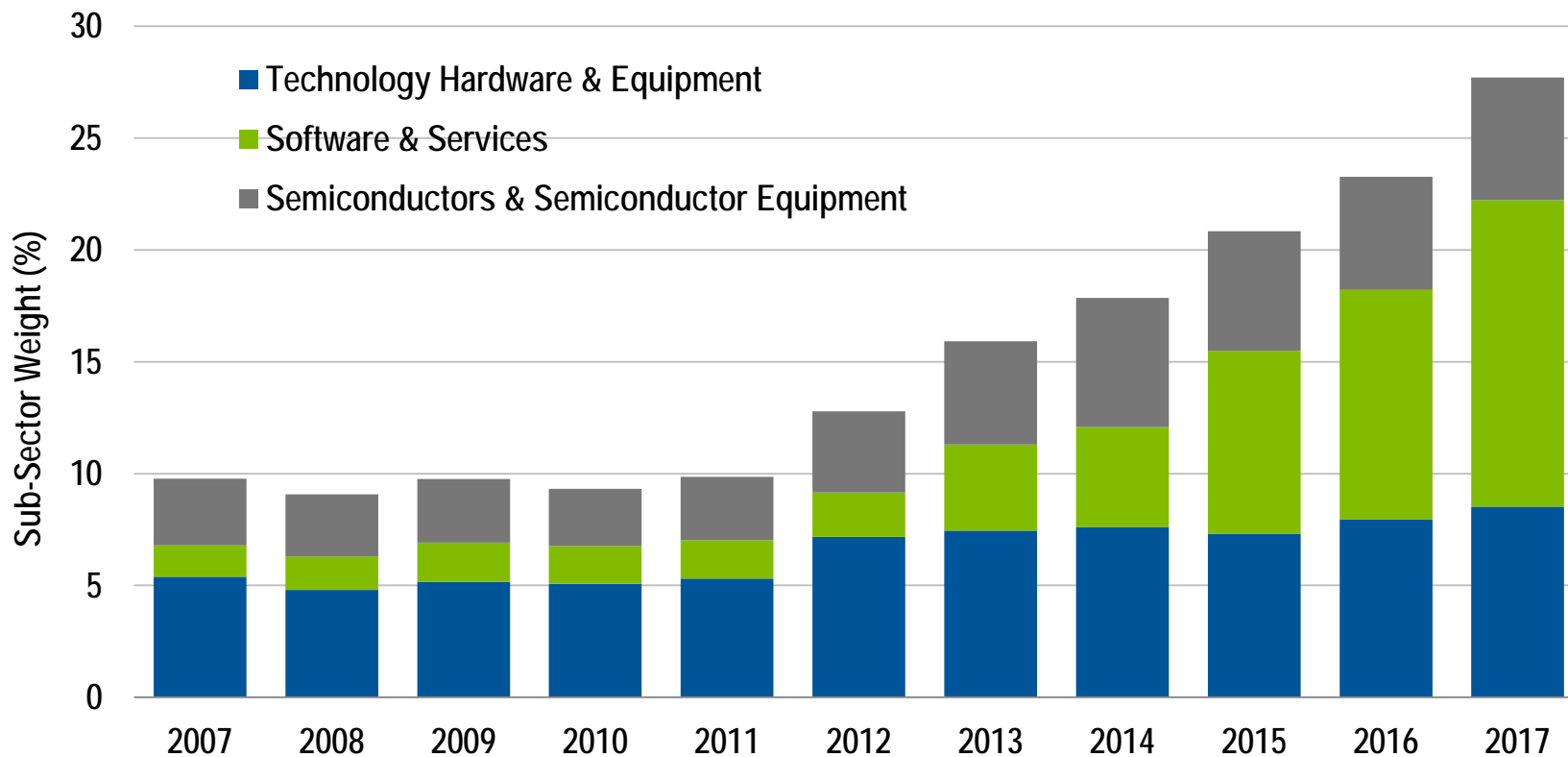
## Technology: Rising Innovation

### No Longer Simply Low Cost Component Manufacturing



## MSCI EM Index: IT Sub-Sector Evolution

December 2007 – December 2017



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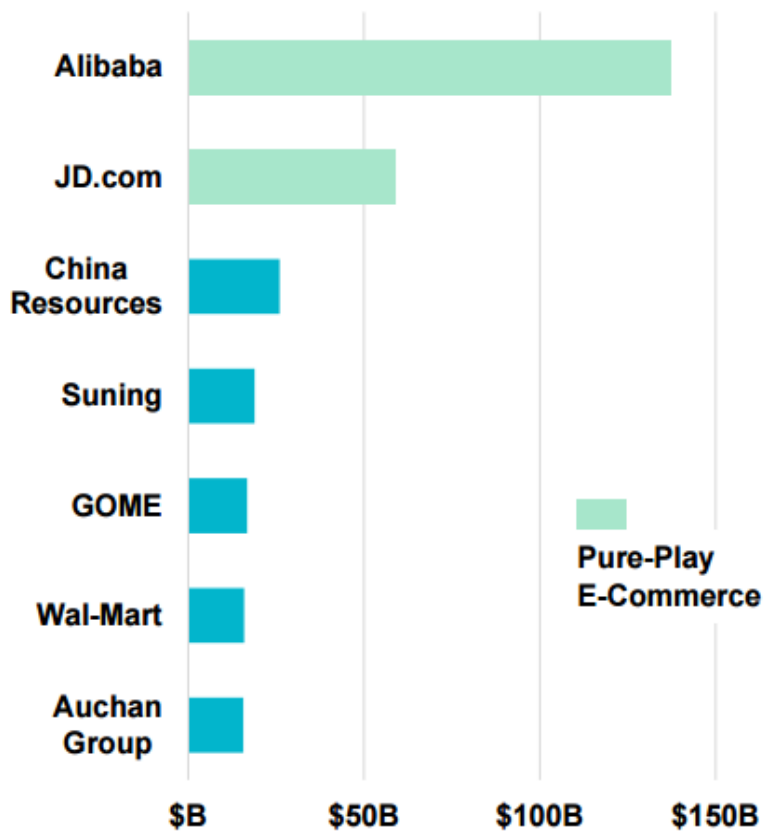
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# Consumer: eCommerce Dominance

## Transformative Impact on Chinese Retail

**China Top 7 Retailers by Revenue\***  
2015



**USA Top 7 Retailers by Revenue\***  
2015



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Source: KPCB; Euromonitor, 2015. Note: \*Revenue defined as retail value of goods excluding tax, and excluding certain transaction categories such as consumer-to-consumer, motor vehicles & auto parts, tickets, travel bookings, delivery foodservice, returns, and others, hence may differ from company disclosed total revenue or gross merchandise value figures.

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# Key Emerging Markets Investment Themes FRANKLIN TEMPLETON INVESTMENTS

Top Themes	Investment Ideas
<b>Technology Is Reshaping the Global Economy</b>	<p>E-Commerce Continues to Accelerate</p> <p>E-commerce is still very much a penetration growth story, resonating in several markets including Russia (Yandex) and South Korea (NAVER).</p>
	<p>New Mobility Is Disrupting Industries</p> <p>Many EM companies have stepped up to play a dominant role in producing automobile solutions not only in terms of software (Baidu), but also in terms of components including batteries (Samsung Electronics) and tires (Hanook Tire).</p>
	<p>Fintech Is Driving Financial Institutions Inclusion</p> <p>Banks are increasing investments into their fintech arms (Itau Unibanco, Ping An Insurance).</p>
<b>Consumerism, a Play on Demographics</b>	<p>Penetration</p> <p>Favorable demographics of young and growing middle class populations bring opportunities to untapped consumer spending potential.</p>
	<p>Premiumization</p> <p>Looking beyond the penetration story, premiumization is the next natural transition as income rises. Examples include higher-end automobiles (Brilliance China) and leisure (entertainment, resorts, movie theatres, gaming and travel).</p>
	<p>Shifting Health Care Landscape</p> <p>Demographic shifts and societal changes are intensifying pressures on health care systems, and more hospitals and pharmaceuticals are taking steps to cater to this market (Biocon, Glenmark Pharma).</p>

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# Emerging Markets Small Cap





# A Wealth of Investment Opportunities

## EM Small Cap Companies Offer a Broad Set of Options

Sizable  
Investment  
Universe



**23%**

of emerging markets' market cap  
is comprised of small cap  
companies<sup>1</sup>

Broad  
Opportunity  
Set



**18,251**

more small cap companies are  
listed than larger cap companies<sup>1</sup>

Ample  
Liquidity



**US\$39bn**

stocks of small cap companies  
are traded daily<sup>1,2</sup>

1. As of 31 December 2017. Emerging Markets Small Cap companies includes emerging markets and frontier markets within MSCI Emerging Markets and Frontier Markets Index. Small cap companies are defined as those with market cap below US\$2 billion.

2. 30-day daily average.

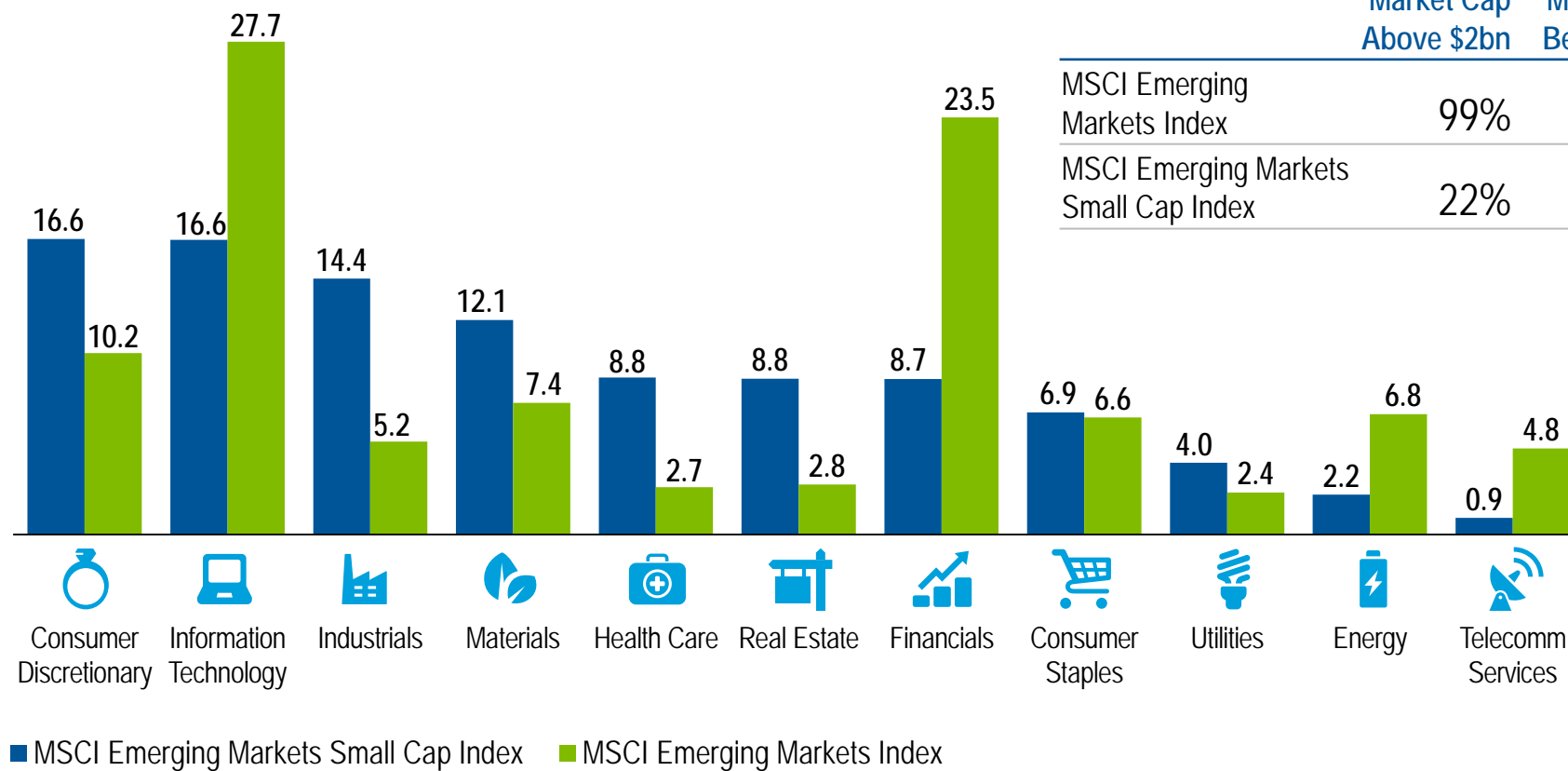
Sources: Bloomberg LP; MSCI. Please see Important Disclosures in the back of this presentation for additional information.

# Complementary to Existing Large Cap Assets

## Small Cap Companies Offer Different Exposures

### Sector Exposures

As of 31 December 2017



### Market Capitalization Exposures

As of 31 December 2017

	Market Cap Above \$2bn	Market Cap Below \$2bn
MSCI Emerging Markets Index	99%	1%
MSCI Emerging Markets Small Cap Index	22%	78%

Source: FactSet.

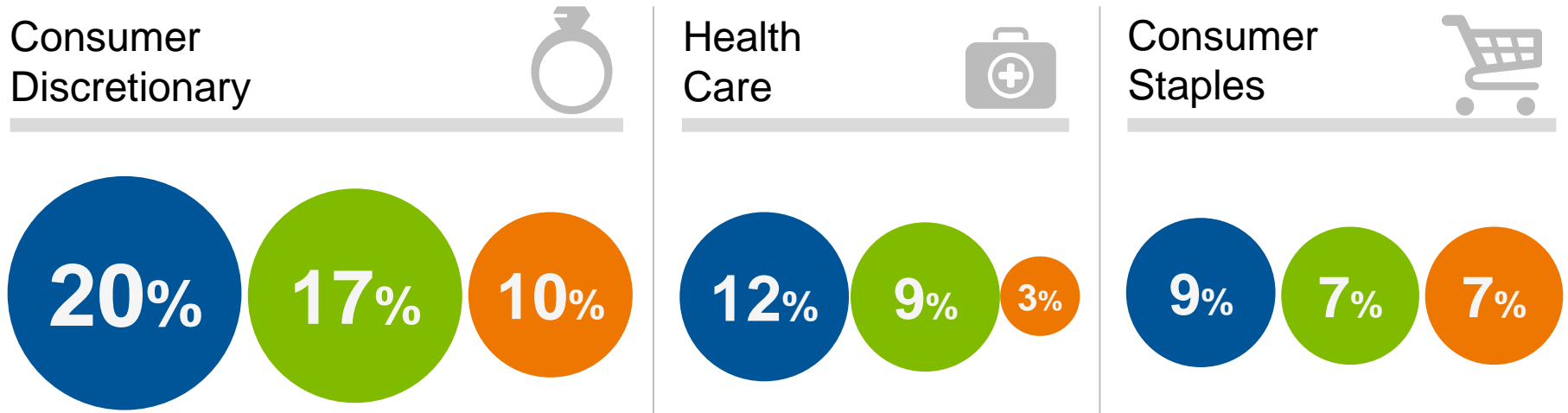
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# Templeton EM Smaller Companies Fund

## Higher Exposure to Consumer Sectors

### Sector Exposures

As of 31 December 2017



■ Templeton Emerging Markets Smaller Companies Fund   ■ MSCI Emerging Markets Small Cap Index   ■ MSCI Emerging Markets Index

Source: FactSet.

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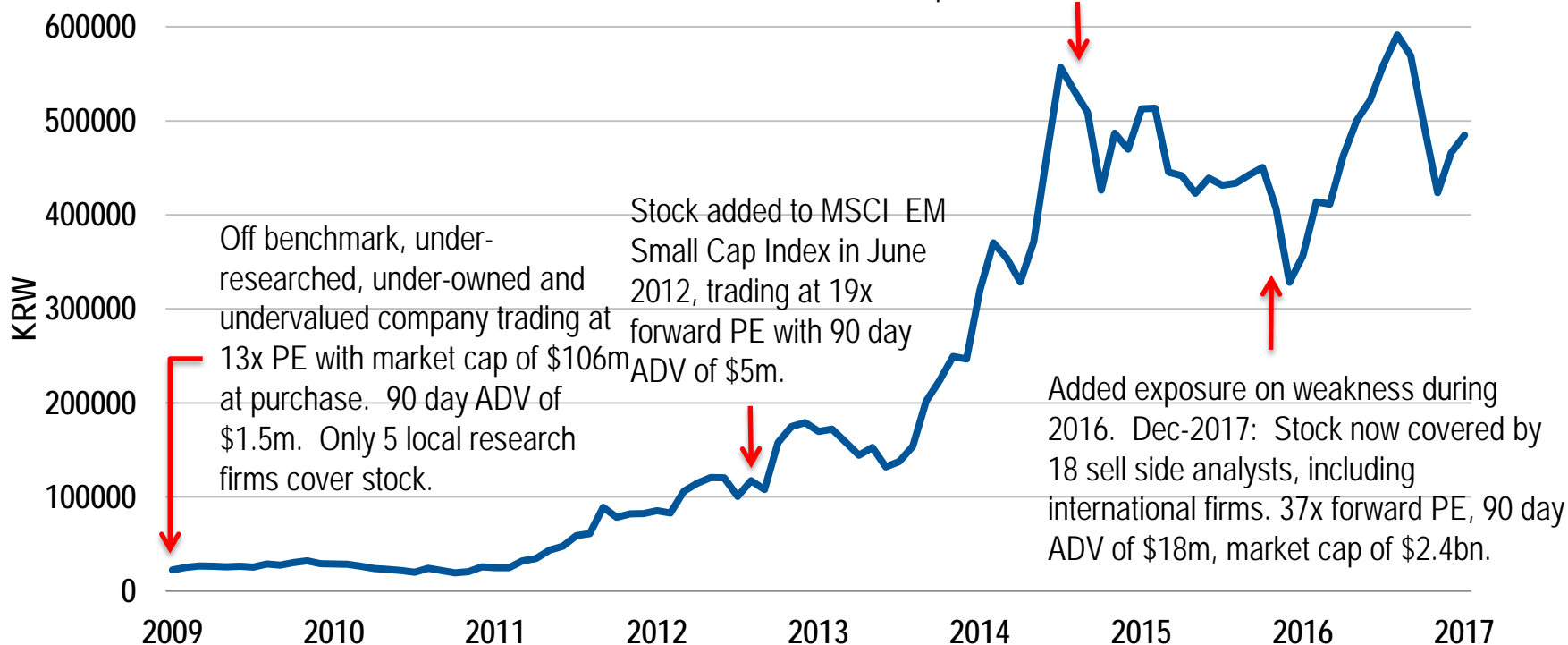
# EM Small Cap: Stock Inefficiencies



## Idiosyncratic Returns

### Medy Tox: Korean Botox Producer

Trimmed exposure during 2015. Dec-2015: Re-rated to 63x forward PE, with market cap of \$2.3bn.



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# EM Small Cap: Stock Inefficiencies

## Idiosyncratic Returns



### Medy Tox: Korean Botox Producer

Initial Analysis and Thesis	Sources of Potential Upside / Risks	Financials/Valuation As of December 2017
<p><b>Local Innovation</b></p> <ul style="list-style-type: none"><li>• One of only seven companies globally with the expertise to produce botox products, both for medical and cosmetic purposes</li><li>• Medy Tox sales have grown to over 30% of Korean market share but only c.3% globally</li><li>• Global botox market exhibiting rapid growth</li><li>• Next generation of product currently undergoing clinical trials</li></ul>	<p><b>International Licensing</b></p> <ul style="list-style-type: none"><li>• Licensing agreement with the largest botox product maker, U.S company Allergan, with c.75% global market share</li><li>• Allergan to distribute next generation of Medy Tox products in developed countries once commercialised, expected 2018 / 2019</li><li>• Company is expanding capacity with third factory to be completed in 2019</li><li>• Delay in Allergan clinical trials and Hugel lawsuit</li></ul>	<p><b>Recent Weakness</b></p> <ul style="list-style-type: none"><li>• Exceptional growth and profitability:<ul style="list-style-type: none"><li>– Strong quarterly profit growth</li><li>– 45% return on equity, 44% net profit margin</li></ul></li><li>• Halved shareholdings during 2015 on strength; resumed purchases on cheaper valuations in 2016:<ul style="list-style-type: none"><li>– Stock de-rated in 2016 from 63x forward PE to 34x by year end</li><li>– 2017/18: Rebound in share price</li></ul></li></ul>

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### Why Emerging Markets?

1. Trump and Fed: Fear and uncertainty passing
2. Fundamentals improving yet valuations still cheap; asset class under-owned
3. EM asset class has transformed: Tech, consumer, healthcare – not commodities

### Why EM Small Cap Asset Class?

1. Vast investment universe, \$39bn daily turnover, \$6.0tn market cap
2. Under-researched stocks provide opportunities
3. Market inefficiencies, corporate governance risks – ideal for active management

### Why Templeton?

1. Unparalleled on the ground research; 30 years of active EM investing
2. Enhanced team structure and research process
3. Alpha opportunities from inefficient markets and corporate governance focus

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# Appendix: Management Profile



## Templeton Emerging Markets Fund

### Management Profile

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#### **FENG DING, CFA**

Vice President

Director - Emerging Markets Equity, Global Product Management  
Franklin Templeton Companies LLC.  
San Mateo, California, United States

Feng Ding is vice president and Director of Emerging Markets Equity within Global Product Management. She works with clients around the world in support of Templeton Emerging Markets Equity strategies, including global, regional, single-country, small cap, frontier and private equity strategies. In addition, she oversees product management and development for Templeton Emerging Markets and Franklin Local Asset Management groups.

Ms. Ding has over 20 years of experience in the investment industry, having held various senior portfolio management and investment strategy roles with AXA Rosenberg, American Century Investments, Barclays Global Investors, and J.P. Morgan Investment Management prior to joining Franklin Templeton. During her tenure at BGI, she served as the senior Emerging Markets portfolio manager and investment strategist for both institutional and iShares portfolios.

Ms. Ding graduated from Bowdoin College with a major in economics and a minor in computer science. She is a Chartered Financial Analyst (CFA) charterholder.





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