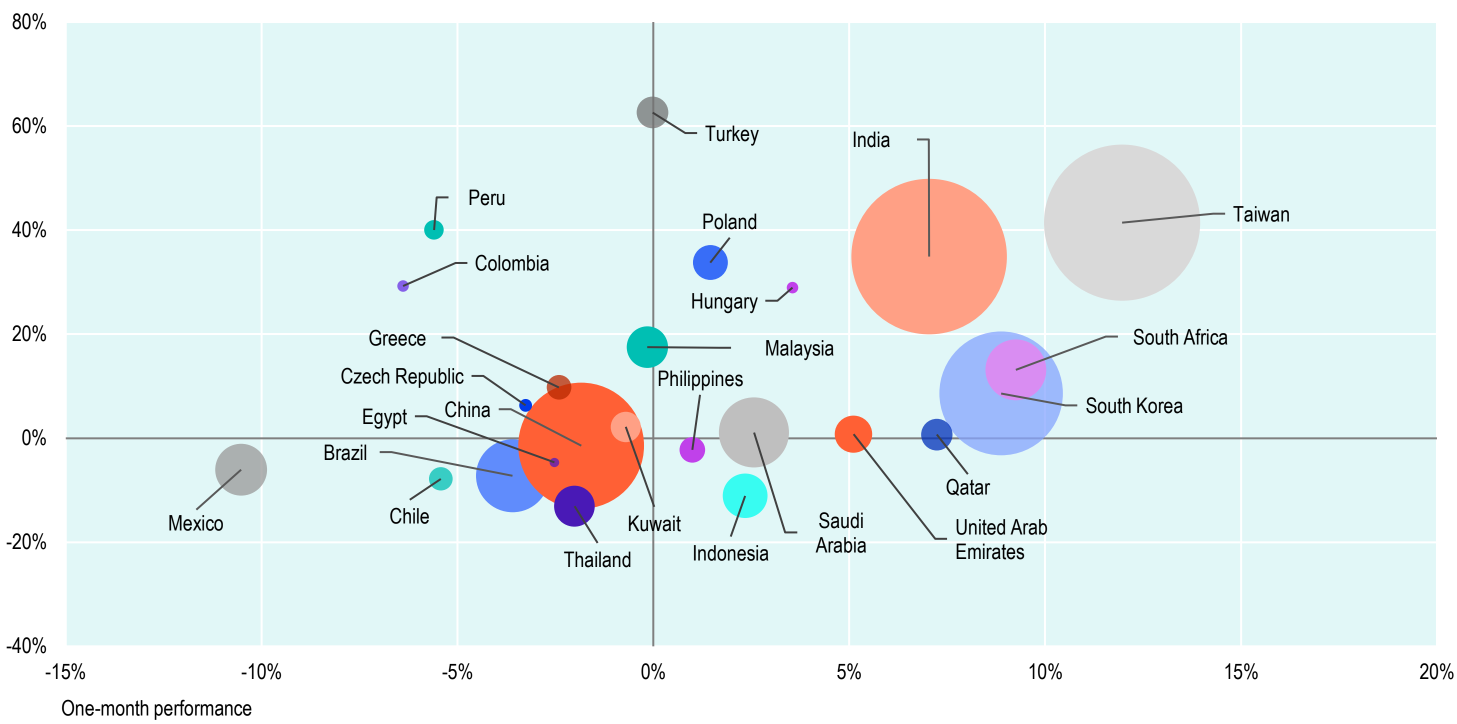
Investment team update
July 2024

Diverging growth trajectories

Emerging Markets Insights

Exhibit 1: Emerging Market Country Performance

As of June 30, 2024



Sources: FactSet, MSCI. Note: Bubbles size reflect relative market capitalization, ex China, which is resized to 50% of actual market capitalization. Performance as represented by individual/respective MCSI country indexes. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results.** For illustrative purposes only and not reflective of the performance or portfolio composition of any Franklin Templeton fund. Important data provider notices and terms available at www.franklintempletondatasources.com.

Three things we're thinking about today:

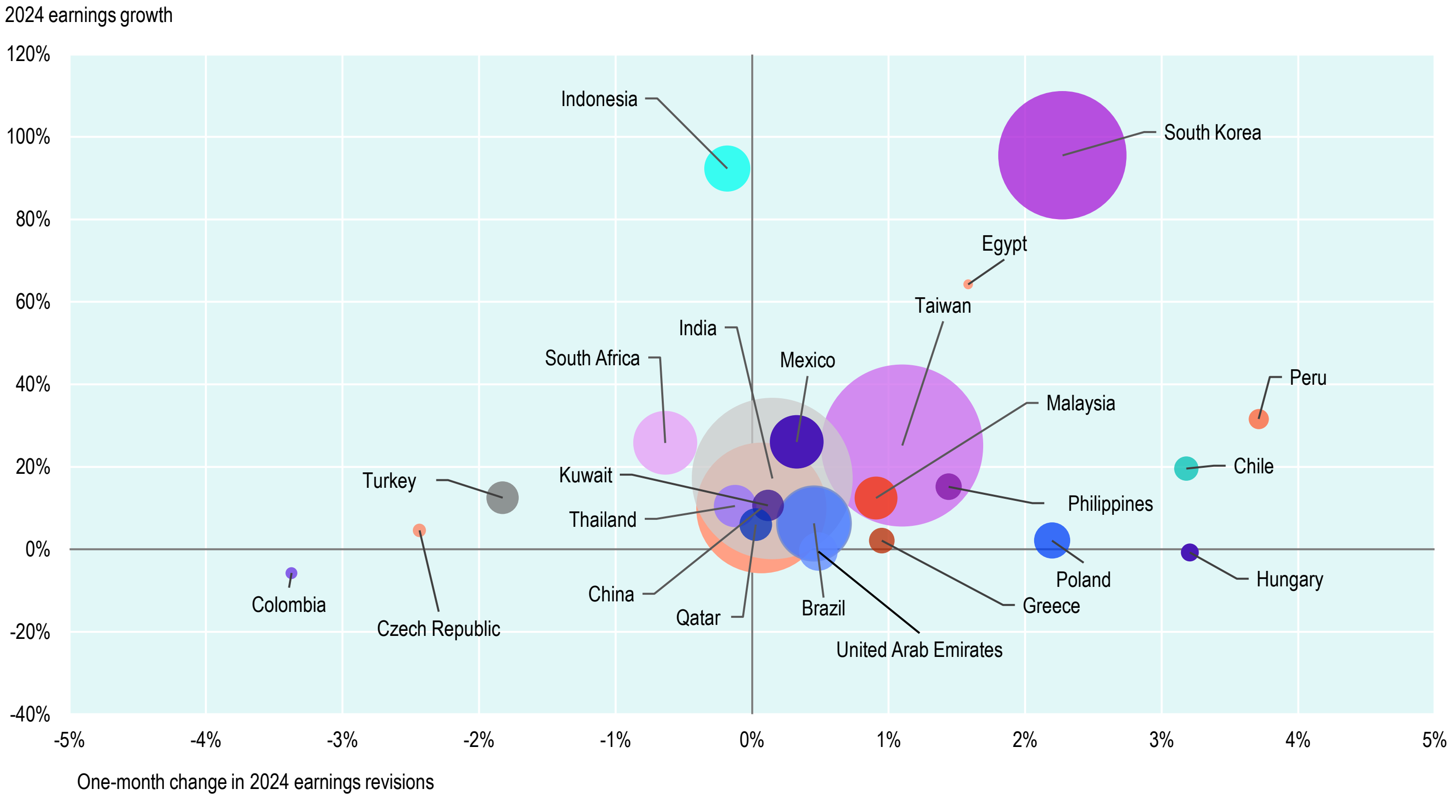
1. **Semiconductor price hikes:** The world's leading semiconductor company hinted at a possible price hike. One of its biggest clients, a semiconductor chip design company at the forefront of the artificial intelligence boom, is supportive of the price increase. This could also benefit the bottom line of other semiconductor firms. While price-sensitive customers may seek alternative suppliers, the strong global demand for semiconductors might not necessarily have a negative impact on sales at leading companies.

2. **South Korea's "Value Up" program:** South Korean companies trade at valuations which are on average the lowest among emerging market (EM) peers. This is despite hosting some of the most globally dynamic and innovative companies in the semiconductor and materials industries.[1] We believe Korea's Value-Up program is a step in the right direction. However, results will take time to materialize due to its voluntary nature and political disagreements on tax reform.

3. **Persistent geopolitical tensions:** Canada may be joining the United States and European Union (EU) in the imposition of additional tariffs on electric vehicles (EVs) made in China. With the EV segment already seeing a material slowdown in growth expectations, this has negative implications on EV makers.

Exhibit 2: Earnings Per Share (EPS) and Earnings Revisions

As of June 30, 2024



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Outlook

Emerging market (EM) equities continue to show resilience despite bouts of market volatility. Most recently, elections in key EM economies have caused equity prices to move sharply both ways. However, we believe some markets may have overreacted. Our outlook remains optimistic for medium to long-term growth in EM equities.

Our India equity portfolio manager believes the focus of the new Indian government remains centered around economic growth. In his view, this will be helpful for corporate earnings growth. In the long run, he believes that past reforms have been entrenched. India continues to be a long-term structural growth story. Companies benefiting from an increase in capital expenditure have performed well, and in his view, the momentum will continue. While our small-cap equities team is of the same view, they have found opportunities in the consumer discretionary space. They maintain a relatively lighter weight in Indian industrials and choose to hold a larger weight in consumer discretionary names.

Mexican equities fell on the back of the election outcome. Our Latin America equity team has simulated the impact of different tax rates on names that we hold. Many market-watchers have commented that a possible solution to the country's budget deficit could be a raise in taxes. The results were surprising. Even at the highest level of taxes modeled, the team held the view that there were holdings that were undervalued. This presents opportunities in a sea of over-corrected stocks. The team maintains the view that while stocks have de-rated, the impact on earnings will not be significant.

Our portfolio managers have stood by their investment philosophies. That said, we still approach investing with a well-rounded perspective. We remain cognizant of the key risks in the investment universe. We are keeping a close eye on geopolitical tensions and government policies and retain a bottom-up focus to identify opportunities in this universe of overlooked and under-researched companies.

Market Review: Second quarter 2024

EM equities climbed over the quarter. They outperformed their developed market counterparts. Elections in key EM markets led to some volatility, although the winning parties were within our expectations. For the quarter, the MSCI EM Index returned 5.12% while the MSCI World Index rose by 2.78%.

Equities in the emerging Asia region rose. Technology stocks in Taiwan and South Korea benefited from a technology rally in the US market. Major chipmakers in both Asian countries agreed to enhance their collaboration for developing advanced artificial intelligence (AI) chips. Indian equities ended on a positive note as the incumbent prime minister won the elections. The consensus is for policy continuity, despite a coalition government. The research team and our portfolio managers are of the view that economic momentum and reform orientation in India will continue. That said, they will continue to monitor how the government will manage their priorities in a coalition format, which is the first in 10 years.

Chinese equities ended the quarter with a large gain. Regulatory policies supported market returns earlier in the quarter. However, concerns over China's economic recovery continued to linger. The depreciation of the Chinese yuan and geopolitical tensions also capped returns. The EU announced additional tariffs on imports of Chinese electric vehicles. Canada is reportedly considering the same. This comes on top of higher tariffs the United States has proposed.

Equities in emerging Europe, Middle East and Africa region rose slightly overall. Saudi Arabia's secondary public share offering of its state-owned oil company saw strong demand from international investors. Proceeds from this sale may be used to fund the country's "Vision 2030" roadmap. This program seeks to reduce dependence on oil-based economic growth. South African equities rallied post the country's elections. The incumbent president won a second term and formed a coalition government. Despite the rally, our South Africa-based equity analyst is of the view that the team's South African holdings are still well below fair values. As such, the broader investment team continues to hold them.

Equities in the emerging Latin America region declined. Mexican equities fell following its elections. Its ruling party won a strong majority. This caught investors by surprise. Concerns about anti-market reforms soon followed. In Brazil, year-on-year inflation in May was higher than expected. This added onto existing negative sentiment caused by one of the nation's biggest companies. Its state-run oil firm had seen its share price fall from management changes and an increase in its capital allocation risk.

Endnote

1. Based on MSCI indexes between 2014 and 2024.

Index Definitions

1. The **MSCI Emerging Markets Index** is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global emerging markets. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator of future results.**
2. The **MSCI All Country World Index** is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global developed and emerging markets. MSCI Emerging Markets Index is a free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global emerging markets. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator of future results.**
3. The **MSCI EM Latin America Index** captures large- and mid-cap representation across five emerging markets (EM) countries in Latin America. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator of future results.**
4. The **MSCI Emerging Markets EMEA Index** captures large- and mid-cap representation across 11 emerging markets (EM) countries in Europe, the Middle East and Africa (EMEA). Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator of future results.**
5. The **MSCI EM Asia ex Japan Index** captures large- and mid-cap representation across two of three developed markets (DM) countries (excluding Japan) and eight emerging markets (EM) countries. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator of future results.**
6. The **MSCI China Index** captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator of future results.**
7. The **MSCI Emerging Markets ex-China Index** captures large and mid cap representation across 23 of the 24 Emerging Markets (EM) countries excluding China. With 672 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. **Past performance is not an indicator of future results.**

Franklin Templeton Emerging Markets Equity

Local knowledge, global reach

In a sea of overlooked and under-researched companies, there's no substitute for local market knowledge. Our on-the-ground investment team of 72 portfolio managers and analysts across nearly 14 countries distinguishes Franklin Templeton Emerging Markets Equity from the crowd. Investors benefit from our networks of local business contacts, access to in-person company visits and real time response to local market events.

Our global reach through Franklin Templeton Investments provides access to sophisticated risk management and trading resources. Portfolio management collaborates closely with the Investment Risk Management Group, which provides detailed risk analytics to complement the team's assessment of risk exposures.

- **72 portfolio managers and research analysts**
- **18 years on average of industry experience**
- **9 years on average with Franklin Templeton**

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Equity securities are subject to price fluctuation and possible loss of principal.

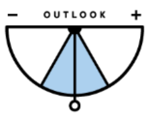
International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. These risks are magnified in emerging markets. Investments in companies in a specific country or region may experience greater volatility than those that are more broadly diversified geographically.

The government's participation in the economy is still high and, therefore, investments in **China** will be subject to larger regulatory risk levels compared to many other countries.

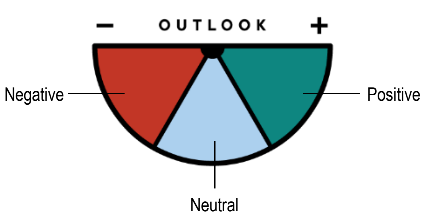
There are special risks associated with investments in **China, Hong Kong and Taiwan**, including less liquidity, expropriation, confiscatory taxation, international trade tensions, nationalization, and exchange control regulations and rapid inflation, all of which can negatively impact the fund. **Investments in Taiwan** could be adversely affected by its political and economic relationship with China.

Regional outlook

Three-month period ended June 30, 2024

Market	Conviction	Investment Thesis
Latin America		
Brazil		We maintain a constructive view of Brazil. However, we recognize the country's positive catalysts are currently more linked to US monetary policy than before. Economic activity continues to surprise on the positive side, but in our view, has not been priced into equity prices yet.
Mexico		Increased volatility in local assets and a potential slowdown in investments in the second half of the year, influenced by the US elections and the end of the political business cycle, have given rise to concerns. Medium-term growth expectations are less optimistic, with growth projected at 1.4% year-on-year for the following year.
Peru		Peru's economy shows signs of improvement with a narrowing fiscal deficit, declining inflation and expected gross domestic product growth in 2024. However, challenges remain, including tight financial conditions, weak governance and potential policy uncertainties.
Emerging Europe		
Czech Republic		In our view, growth in the eurozone should accelerate in 2024 and even more in 2025. This is positive for the Czech Republic due to high economic integration with the EU.
Hungary		In our view, growth in the eurozone should accelerate in 2024 and even more in 2025. This is positive for Hungary due to high economic integration with the EU. However, this is offset by negative political developments. The ruling party is eager to grab power over independent institutions such as the central bank and dismantle the rule of law even further.
Poland		In our view, growth in the eurozone should accelerate in 2024 and even more in 2025. This is positive for Poland due to high economic integration with the EU. In addition, there will be funds from the EU channeling to the country, and a positive political change.

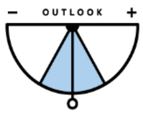
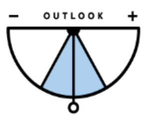
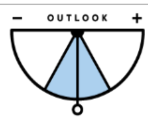
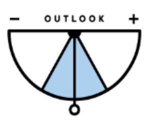
Understanding the Pendulum Graphic



The graphic reflects the views of Templeton Emerging Markets Equity regarding each region and are updated on a quarterly basis. All viewpoints reflect solely the views and opinions of Franklin Templeton Emerging Markets Equity. Not representative of an actual account or portfolio. These views reflect those of the analyst research team, those of the portfolio managers may differ.

Regional outlook

Three-month period ended June 30, 2024

Market	Conviction	Investment Thesis
Middle East		
Kuwait		Strong fiscal position but delay in reform and issuance of debt law leaves the sustainability of the longer-term path in question. Valuations have come off somewhat so the moderate growth outlook with a potentially improving political landscape leads us to a neutral market view. Potential surprises on debt and mortgage laws can be short-term positives for the market.
Qatar		Production expansion of liquefied natural gas is the central theme starting in 2025 but until then, growth is likely to be muted. Qatar offers solid macro stability due to its high sovereign reserves and a low oil budget-breakeven oil price of US$45/bbl. We believe the economy requires diversification beyond the energy sector over a longer-term period.
Saudi Arabia		The outlook is promising but remains anchored to the Public Investment Fund (PIF)/private sector spending and system-liquidity. Foreign exchange reserves and PIF assets lend comfort.
UAE		High surpluses set the stage for the government to push its growth agenda. In the medium term, an increase in Abu Dhabi's oil production capacity and Dubai's increasing population and tourism bode well for the country's growth trajectory. The privatization/initial public offering program in Dubai and Abu Dhabi is helping increase capital market depth. Decarbonization-related projects (nuclear, solar, green hydrogen) to help drive medium term growth.
Emerging Asia		
China		China's policymakers have taken stronger actions to address key issues of the economy. With improving earnings outlook, attractive valuations, and light investor positioning, risk-reward is asymmetric on the upside, in our view.
India		We believe the market is expected to move slightly upward over the next 6-12 months as some correction in valuation from current levels is offset by roll forward in earnings. Long-term themes such as under-penetration, formalization, domestic manufacturing and stable government remain intact though, in our view.
Indonesia		We believe there will be stabilization and potential euphoria in the second half of 2024 post the elections. Investors have been coming back to Indonesian equities after booking gains before the elections.
South Korea		Due to a high degree of global uncertainties, the recovery of macro indicators has been slower than government expectations. Concerns about domestic regulations have eased with the government's initiatives, but geopolitical tensions with North Korea and a future slowdown of global consumption led by high interest rates should be monitored.

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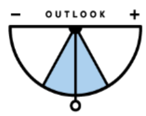
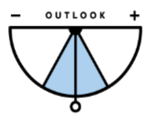
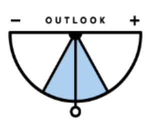
Regional outlook

Three-month period ended June 30, 2024

Market	Conviction	Investment Thesis
Emerging Asia		
Taiwan		Cross-strait geopolitical risk has always existed and is well-known. We keep the status-quo assumption unchanged, despite a recent deterioration in the relationship between China and Taiwan. There are concerns that fragile economic conditions could lead to weak consumption, resulting in low visibility of end-demand. However, we still expect a mild recovery in 2024. The corporate operating environment has been improving but mainly building on expectations of an artificial intelligence-induced boom, Meanwhile, other major end applications like smartphones, personal computers and regular servers have yet to see strong pickup in demand. The Taiwan equity market had a resilient performance in 2023, which has extended to the second quarter of 2024. Current valuations look quite demanding after the rally. We are cautious on our outlook.
Thailand		We remain positive on Thailand. The key drivers of our optimism are (1) knock-on effect from a revival in tourism revival on local sentiment and private consumption; (2) macro policy to support growth; and (3) light investor positioning.
Africa		
Egypt		The United Arab Emirates, International Monetary Fund and other multilateral/bilateral entities have supported macro rebalancing, although coming out of a debt cycle will take time. US dollar funding requirements are still quite high, estimated at about US$10 billion per year for the next two years. The army is relinquishing some control back to the private sector (for example initial public offering activity, and reforms to bolster private sector capital expenditure) which can help restore investor confidence.
Kenya		Valuations look cheap, the outlook is starting to improve on foreign exchange, and external debt with its Eurobond maturity is now resolved. Kenya seems to be moving through the inflection.
Nigeria		The risk of further currency weakness is reduced, in our view. However, a weak macro environment creates a weak environment for stocks, though some positive policy on subsidy and foreign exchange is encouraging to us.
South Africa		The near-term outlook is raising questions on country-specific risks and elections. Long-term recovery is still dependent on the ability of government to execute and commit to other reforms.

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