LWM Consultants Ltd

Meeting the fund manager

Templeton Emerging Markets

The Templeton Emerging Markets Team is truly a global brand headed up by Dr Mark Mobius. Asia Money Magazine claimed that Dr Mobius is one of the "top 100 most powerful and influential people".

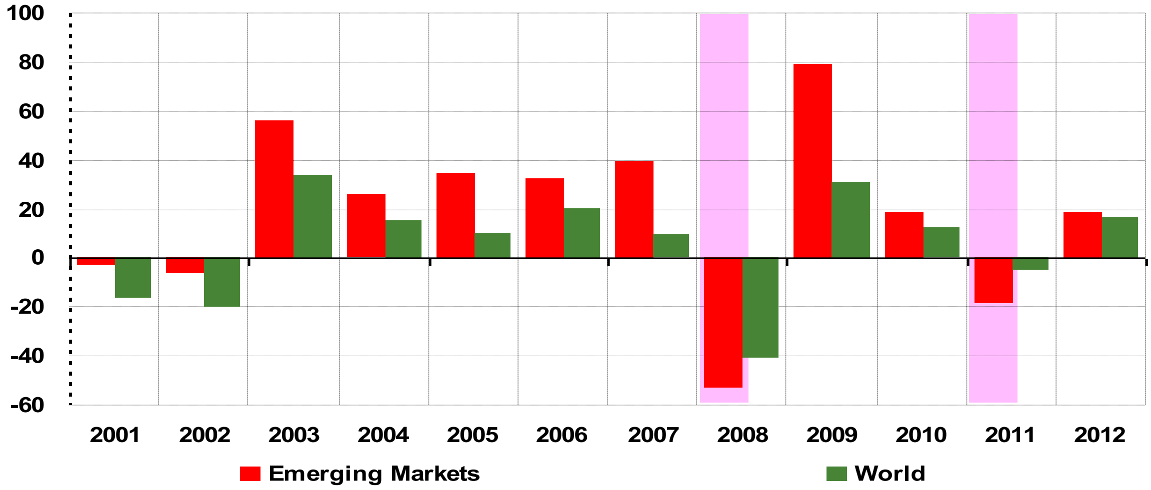
They go onto to say that he "boasts one of the highest profiles of any investor in the region and is regarded by many in the financial industry as one of the most successful emerging markets investors in the last twenty years."

He is the author of many books around investing in emerging markets and also runs his own blog. It is clear that Mark and his team have a great insight into emerging markets, Asia and frontier markets. We had the opportunity to attend a telephone conference call with Mark and his team which provided a fascinating insight into him, his team and their global reach. Clearly this is a global franchise with callers from the Philippines, Germany, and US all asking questions throughout the conference call.

The notes below are a highlight of some of the discussion points and the potential opportunities going forward. One point I thought which is important is that although Mark is head of the global brand, clearly this is very much about the team as much as it is about him.

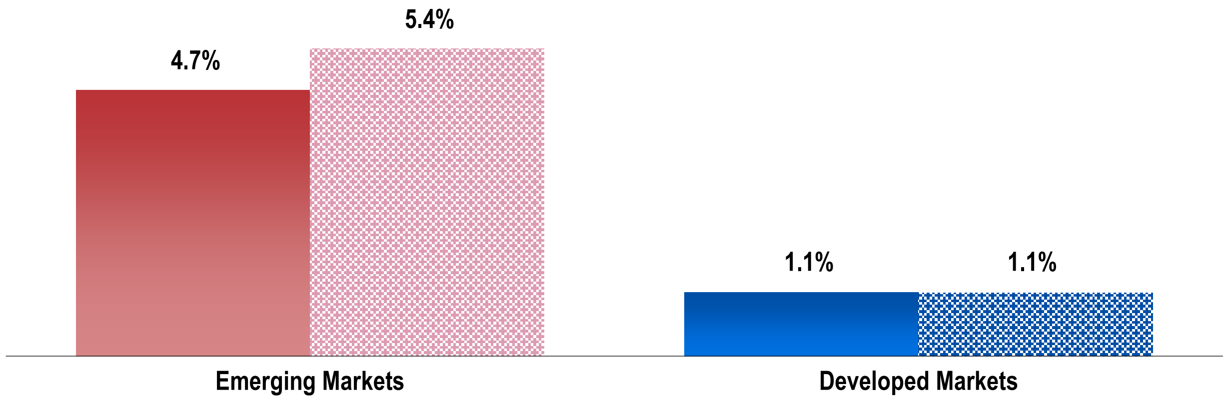
Overview

The first point was around performance, Mark explained that emerging markets have done well over the last ten years and it is his view that this will continue going forward. In 2008 it underperformed the world index and he believes that was in part due to the excellent performance in 2007. It also failed to deliver in 2011 and again he believes this was in part due to an excess of new issues in 2010.



Source: © 2013 Morgan Stanley Capital International (MSCI). © 2013 FactSet Research Systems Inc. All Rights Reserved. As of 12/31/01-12/31/12. Indexes are unmanaged, and one cannot invest directly in an index. Emerging markets as represented by the MSCI Emerging Markets Index and world as represented by the MSCI World Index. **Past performance does not guarantee future results**.

So the question really is why emerging markets will outperform the world markets. Firstly growth plays a key part to this the forecast growth for developed markets is 1.1% (it was 1.1% in 2012), in emerging market this is 5.4% (compared to 4.7% in 2012). There is also a spread of opportunities. Asia tops the league in terms of growth at around 6.6%, then Africa at 5.3%, Latin America at 3.7% and Emerging Europe at 3%.

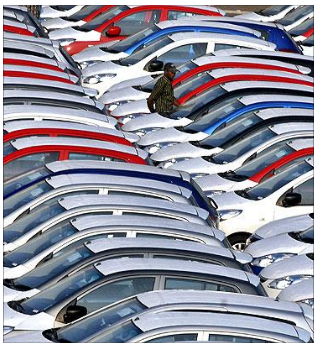


Source: Economist Intelligence Unit (EIU). Emerging markets as represented by the MSCI Emerging Markets Index and developed markets as represented by the MSCI World Index. There is no assurance that any projection, estimate or forecast will be realized; Jan 2013; 2012 is estimated (E) and 2013 is forecast (F)

Of course other factors also have to come into play. Bond reserves in emerging markets from 2005 started to surpass those of the developed markets and margins are getting larger. Debt levels are falling whereas developed market debt is increasing. Since the early nineties we have seen inflation come down dramatically and interest rates dropping.

So the economic data indicates a much better market with a variety of opportunities, but valuations also show a similar picture. The average PE ratio in emerging markets is around 10.4 compared to world ratio of 13.1 so in comparison companies are undervalued.

Interestingly Asian Intra Trade is on the rise, reducing the reliance on developed economies for growth. So for example trade to the US has significantly fallen against exports to China. Mark also touched on the fact that many "global" companies are actually becoming emerging market companies simple because the majority of their growth is from these markets. So the global economy is changing.



The opportunities are also different in the US and Japan; we have a heavier reliance on an older generation whereas in Asia (excl. Japan) there are a greater number of younger people. This is important. If we take a sector like cars, in the US the penetration of cars is around 42% - in India this is around 1% and China 4%. If these economies were to have the same penetration as the US, India would need 473 million extra cars and China 513 million.

Of course we are not saying they will reach these levels but it is just one example of the opportunities that are available.

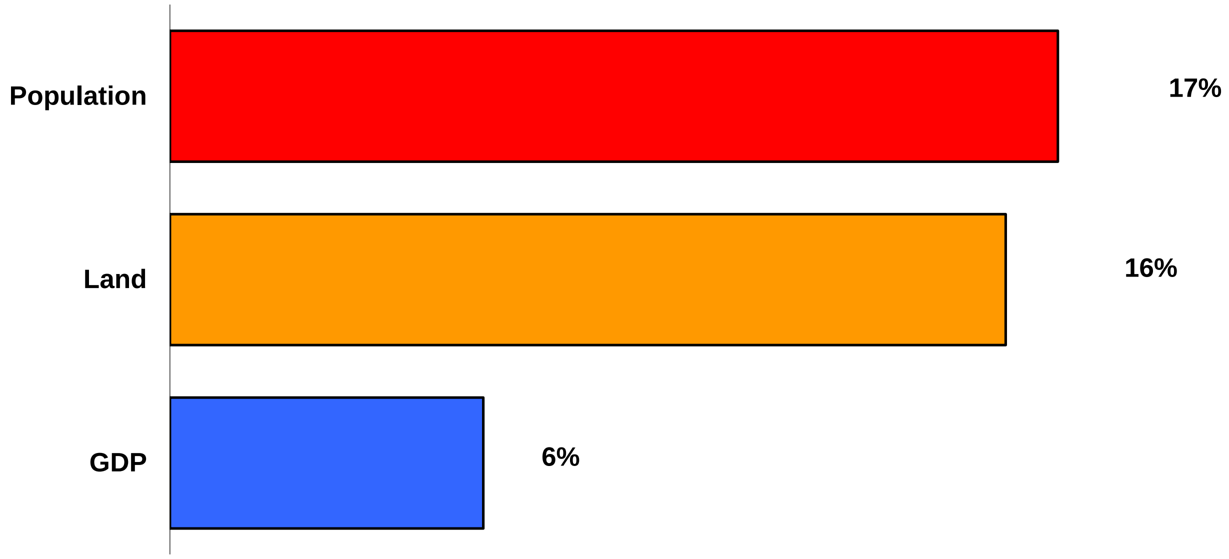
Mark does have a bias towards smaller companies because the universe of companies is much larger and they have the potential to be mega caps. So for example, Sberbank in Russia, had a market cap in 2000 of $353 million, in 2011 the market cap was $54,837 million and Astra International (Indonesia's leading Automobile player) had a market cap of $518 million in 2000 and $33,038 million in 2011.

So investment in these companies can be highly rewarding.

Of course emerging markets and Asia are one area but a new area is frontier markets. To me this sounds like bandit country investing but investing in emerging markets twenty years ago carried the same thought process. Some of the countries which would fall into the Frontier Market Sector are Bulgaria, Romania, Oman, Kuwait, Turkmenistan, Jamaica, Nigeria and Vietnam – so to understand how they tap into this opportunity was interesting.

The number of companies in the universe is around 6,000 and is surprisingly liquid. However it is undervalued (around 30% to 40% discount to emerging markets) and very under researched because simply there is not the information available. It is an area where you need to get your hands dirty and go out and meet companies but it is offering potential opportunities. For example Africa has seen GDP double in the last seven years.

Turning to the opportunity set, 17% of the world's population exists in frontier markets and at the moment it provides around 6% of the world's GDP. Nine out of the ten fastest growing economies were in Africa and therefore clearly frontier markets will generate more of the world's GDP going forward. These markets also tend to have low leverage in terms of government, private and individual debt which provides stability and opportunities.



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Banks make up a lot of the opportunities as does energy and telecoms.

In summary the discussion with Mark and his team was fascinating drawing out the opportunities in Asia, he also touched on specific regions like the Philippines which is now on the path to reform and could offer opportunities in the future. Moving away from those opportunities to have a glimpse at the potential in other global sectors, like frontier markets, clearly shows that the world is not just about the developed markets but there are many avenues to explore globally. Finally consider that Angola had GDP Growth of 11.1% between 2001 – 2010 and is expected to deliver nearly 9% in 2013, this is above China which delivered 10.5% and is expected to return around 8.5% in 2013.

Conclusion

Of course we should accept that frontier markets do carry additional risk but this is reflected in the valuations and over the long term should offer opportunities. Clearly Mark and his team have the recognition and respect globally to invest in these markets. The story for emerging markets certainly has a long way to run and actually it goes back to what one fund manager said and that is “80% of the World wants what 20% of the World has.”