

**QUARTERLY PORTFOLIO INSIGHT - Three months to 31 December 2009**

**Summary of investment objective**

The Company seeks long-term capital appreciation through investment in companies operating in emerging markets or whose stocks are listed on the stock markets of such countries.

**Company characteristics (31/12/09)**

Launch date	12/06/89
Benchmark	MSCI Emerging Markets Index (£)
Lead manager	Mark Mobius
Total Net Assets	£1.84b
Market Capitalisation	£1.73b
Gearing	100.0%
TER	1.36%

**Pricing information (31/12/09)**

NAV (Cum-Income)	557.5p
Share price	524.0p
Discount to NAV (Cum-Income)	6.0%
Current Yield (net)	1.1%

**Pricing information (Cum-income – 12 months to 31/12/09)**

Highest NAV	561.1p
Lowest NAV	264.0p
Highest share price	527.0p
Lowest share price	235.8p

For the most up-to-date information, please visit [www.temit.co.uk](http://www.temit.co.uk)

**MARKET OVERVIEW**

- During 2009, emerging markets experienced a surge after significant falls in 2008. This was a result of many factors, most significantly, the rapid increase in money supply and liquidity supplied by governments to prevent an economic depression. In sterling terms, the MSCI Emerging Markets Index returned 59% in 2009, leading to a huge influx of funds into emerging markets. In the first 11 months of 2009, emerging markets recorded nearly US\$75 billion in net inflows, about 40% more than the record-high in 2007.
- That is not to say that there haven't been some anxieties. A recent temporary setback was the announcement by Dubai World of a six-month debt payment standstill. Markets rebounded quickly after neighbouring Abu Dhabi provided funds to help repay debts. In general, as long as global money supply continues its upward trend, we believe the bullish sentiment in emerging markets can be sustained.
- We could see more money being directed into emerging markets in the next 10 years as investors realise that they can buy good value at reasonable prices. Rapid developments in emerging markets should allow markets such as China, Brazil, Russia and India to become some of the world's most important and influential countries.

**INVESTMENT OUTLOOK**

Our outlook for 2010 is optimistic. We believe that emerging markets are in a secular bull trend and the general direction of emerging markets is positive. Many countries have already returned to growth and we expect that growth to continue. However, volatility is still with us. Risks, such as the inability of governments to control the derivatives markets, loss of confidence, over or poor regulation, adoption of protectionist measures and abandonment of the market economy philosophy do exist. Therefore, we must pay attention to valuations and long-term earnings growth prospects in order to avoid buying or holding expensive stocks. Current valuations are below the five-year high valuations and are not excessive. We keep in mind that every bull market will have corrections and with the active developments in derivatives, those corrections can be large. Our optimism for emerging markets is founded on: (1) growing investor confidence in equities, (2) strong fund inflows, (3) the search for higher returns in the face of low interest rates, (4) relatively higher GDP growth, (5) the accumulation of foreign exchange reserves, (6) relatively lower debt levels, and (7) the high level of money supply globally. We believe all of these factors make emerging markets attractive to investors.

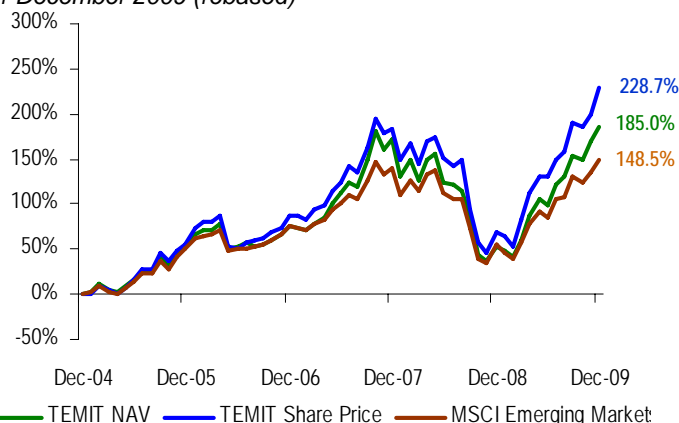
**PERFORMANCE** (All figures are based in sterling)

- For the three months to 31 December 2009, TEMIT's share price rose 13.4% compared to the MSCI Emerging Markets Index, which rose 7.5%<sup>1</sup>.

Please note that past performance is not a guide to future performance.

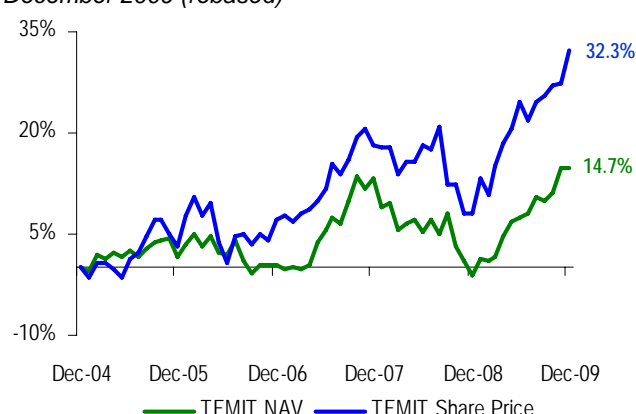
**5 Year Cumulative Performance<sup>1</sup>**

31 December 2009 (rebased)



**5 Year Relative Performance v MSCI Emerging Markets Index<sup>1</sup>**

31 December 2009 (rebased)



**Cumulative Performance<sup>1</sup>**

31 December 2009

	3 Months	6 Months	Year To Date	1 Year	3 Years	5 Years	Since Launch
TEMIT (NAV)	12.3%	42.9%	85.1%	85.1%	62.0%	185.0%	1,624.1%*
TEMIT (Share Price)	13.4%	42.4%	95.4%	95.4%	75.6%	228.7%	1,746.1%**
MSCI Emerging Mkts Index	7.5%	34.0%	59.4%	59.4%	42.0%	148.5%	854.8%**

**Discrete Annual Performance<sup>1</sup>**

To end of December each year

	31/12/08 to 31/12/09	31/12/07 to 31/12/08	29/12/06 to 31/12/07	30/12/05 to 29/12/06	31/12/04 to 30/12/05
TEMIT (NAV)	85.1%	-43.5%	54.9%	14.8%	53.2%
TEMIT (Share Price)	95.4%	-40.8%	51.8%	20.6%	55.3%
MSCI Emerging Mkts Index	59.4%	-35.2%	37.5%	16.3%	50.5%

\*NAV price is calculated from 31/07/89 (the first available date). \*\*Share price and index are calculated from 12/06/89 (TEMIT's launch date).

PAST PERFORMANCE IS NOT A GUIDE TO FUTURE PERFORMANCE.

1. Please see pages 5-6 for glossary and important information.

## PORTFOLIO CHANGES AND POSITIONING

1 October 2009 – 31 December 2009

During the quarter, TMIT increased its investments in Pakistan, China, via the Hong Kong-listed “H” and “Red-chip” shares, and Thailand as it continued to search for undervalued stocks trading at attractive valuations. We increased exposure to the diversified banking, automobile manufacturing and integrated oil and gas sectors due to their attractive fundamentals. Conversely, exposure to Taiwan was reduced.

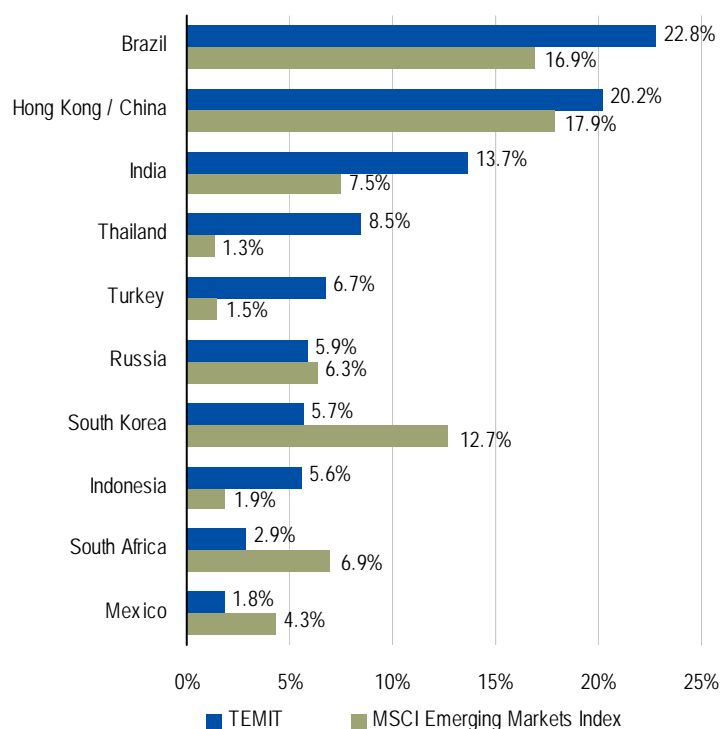
## GEOGRAPHIC INFORMATION

### Split Between Markets<sup>2</sup>

Emerging Markets	98.7%	Frontier Markets	1.3%	Developed Markets	0.0%
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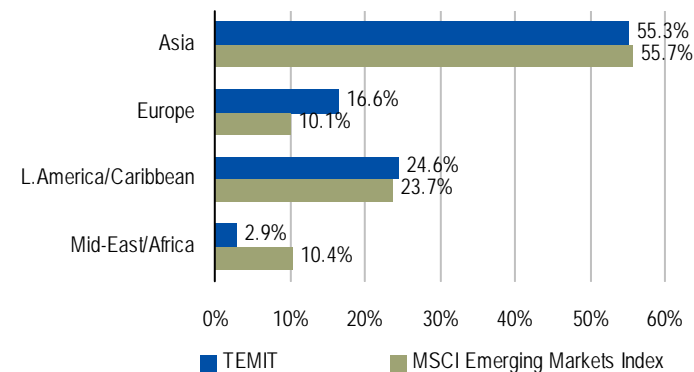
### 10 Largest Country Weightings vs. Benchmark (%)<sup>2</sup>

31 December 2009



### Regional Weightings vs. Benchmark (%)<sup>2</sup>

31 December 2009



### Largest Contributors and Detractors to Performance<sup>3</sup>

1 October 2009 – 31 December 2009

#### Top Country Contributors

Country	Contribution
India	3.7%
China	3.6%
Brazil	3.2%
United Kingdom	0.7%
Turkey	0.7%

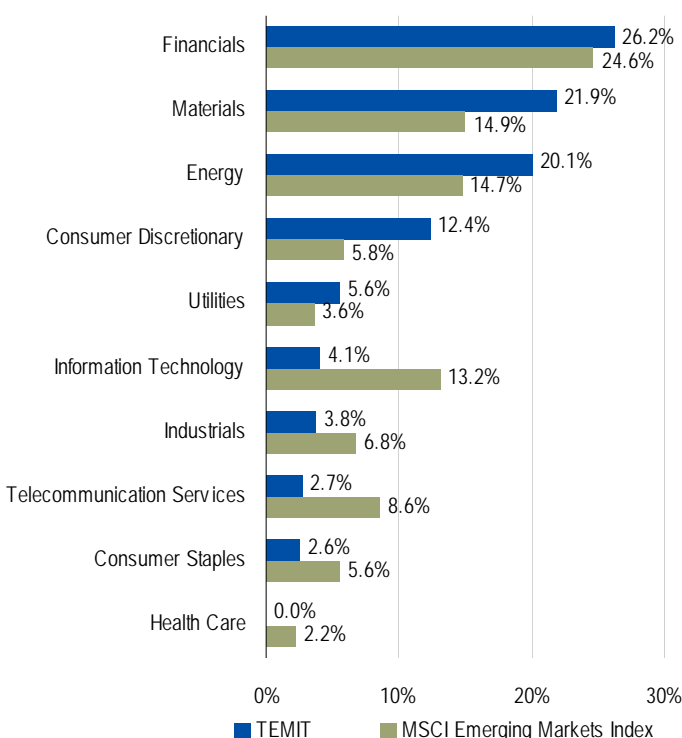
#### Top Country Detractors

Country	Contribution
South Korea	-0.7%

## SECTOR INFORMATION

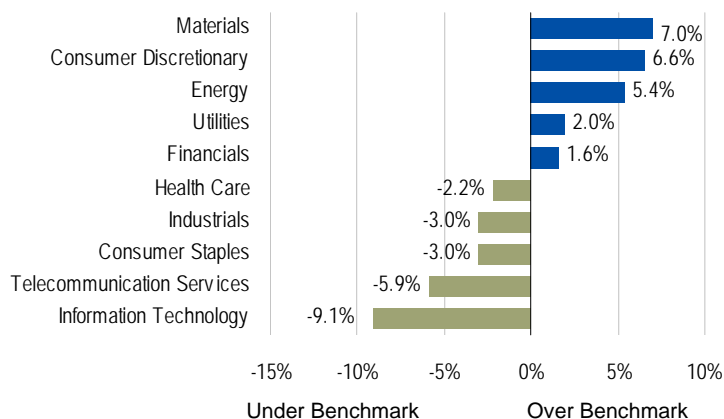
### Sector Weightings vs. Benchmark (%)<sup>2</sup>

31 December 2009



### Sector Overweights/Underweights vs. Benchmark (%)<sup>2</sup>

31 December 2009



### Largest Contributors and Detractors to Performance<sup>3</sup>

1 October 2009 – 31 December 2009

#### Top Sector Contributors

Sector	Contribution
Materials	5.3%
Consumer Discretionary	3.6%
Financials	1.9%
Energy	1.2%
Information Technology	1.1%

#### Top Sector Detractors

Sector	Contribution
Industrials	-0.4%

## TMIT HOLDINGS

### Top Ten Equity Issuers<sup>4</sup>

31 December 2009

Security	Sector	Country	% of total assets
Itau Unibanco Banco Multiplo SA, ADR	Financials	Brazil	6.6%
Sesa Goa Ltd.	Materials	India	6.1%
Vale SA, ADR, pfd. A	Materials	Brazil	6.1%
Banco Bradesco SA, ADR, pfd	Financials	Brazil	5.3%
Akbank TAS	Financials	Turkey	4.8%
Petroleo Brasileiro SA, ADR, pfd.	Energy	Brazil	4.8%
Denway Motors Ltd.	Consumer Discretionary	China	3.5%
Tata Consultancy Services Ltd	Information Technology	India	3.3%
PetroChina Co. Ltd.	Energy	China	3.2%
Aluminum Corp. of China Ltd.	Materials	China	2.9%
TOTAL			46.6%

### Portfolio Turnover Rate<sup>5</sup>

12 months to 31 December 2009

	Turnover Rate
Portfolio Turnover Rate (annualised)	12.07%

### Market Capitalisation Breakdown<sup>5</sup>

As at 31 December 2009

	Less than £1.5bn	£1.5bn to £5bn	Greater than £5bn	Cash
Market Capitalisation	10.2%	26.8%	62.4%	0.6%

### Largest Contributors and Detractors to Performance

1 October 2009 – 31 December 2009

#### Top 10 Security Contributors<sup>4</sup>

Security	Sector	Country	Contribution
Sesa Goa Ltd.	Materials	India	2.5%
Brilliance China Automotive Holdings Ltd.	Consumer Discretionary	China	2.1%
Vale SA, ADR, pfd	Materials	Brazil	1.3%
Denway Motors Ltd.	Consumer Discretionary	China	1.2%
Itau Unibanco Banco Multiplo S/A (ADS)	Financials	Brazil	0.9%

#### Top Security Detractors<sup>4</sup>

Security	Sector	Country	Contribution
Hyundai Development Co.	Industrials	South Korea	-0.4%
SK Energy Co. Ltd.	Energy	South Korea	-0.3%
Bank Danamon Indonesia	Financials	Indonesia	-0.2%
PTT Public Company	Energy	Thailand	-0.2%
Peninsula Land Ltd.	Financials	India	-0.1%

### Significant Purchases and Sales<sup>4</sup>

1 October 2009 – 31 December 2009

#### Significant Purchases

**MCB** (Existing holding)—Pakistan's fourth largest bank.

Buy reason: Attractive valuation and relatively high return on equity.

**Brilliance China** (Existing holding)—Major automobile manufacturer in a joint venture with BMW for the production/sale of BMW 3 & 5 series in China.

Buy reason: Benefiting from the growth in demand for automobiles and government stimulus measures in that sector.

**PetroChina** (Existing holding)—China's largest oil and gas company in terms of reserves.

Buy reason: Benefiting from the long-term uptrend in oil prices.

**Kiatnakin** (Existing Holding)—A commercial bank in Thailand.

Buy reason: Trading at attractive valuations and is well positioned to benefit from niche businesses like the management of distressed assets and loans to small property developers.

#### Significant Sales

**Compal Communication** (Complete sale)—Taiwan's largest handset manufacturer.

Sell Reason: Intensive competition and the weakening market position of one of its major customers.

## STATISTICS

(Please refer to glossary on page 5 for definitions of these items)

### Fundamental Portfolio Characteristics<sup>6</sup>

31 December 2009

	Price to Earnings	Price to Book Value	Price to Cash Flow	Dividend Yield	Average Market Cap (Millions)
TEMIT (Weighted Average)	17.1x	2.2x	9.3x	2.0%	£17,815*
MSCI Emerging Markets Index (Weighted Average)	20.6x	2.2x	11.0x	2.1%	£23,522

\*Average Market Cap figure for the portfolio covers 91.0% of holdings.

### Risk Statistics<sup>7</sup>

31 December 2009

	1 Year	3 Years (annualised)		1 Year	3 Years (annualised)		1 Year	3 Years
Annualised Alpha	23.9	6.92	R <sup>2</sup>	0.9	0.9	Maximum Gain	113.5	124.8
Beta	1.0	1.1	Sharpe Ratio	0.7	0.2	Maximum Loss	-8.5	-50.5
Annualised Downside Risk	7.2	10.7	Annualised Tracking Error	8.2	8.3	Negative Months	4	15
Information Ratio (Relative)	0.7	0.2	Annualised Volatility	26.4	32.3	Positive Months	8	21

## INVESTMENT STYLE

- The Investment Manager and his team use in-depth company research to find securities in any emerging market country or industry sector, regardless of company size, that they believe are undervalued by the market, but have the potential to increase in value over time.
- Templeton Emerging Markets Investment Trust, PLC (TEMIT) is actively managed, aiming to invest in those securities that the Investment Manager believes have the best potential to grow in value over a five year period. Although performance is measured against the MSCI Emerging Markets Index for reporting purposes, there is no requirement for the Investment Manager to invest in the same companies or in the same amount as the index. TEMIT's performance or portfolio positioning may therefore be very different to the index.
- TEMIT invests in emerging markets; these markets can experience significant and sudden changes in price and can carry a higher degree of risk than developed markets. An investment in TEMIT should be considered as long-term.

## INVESTMENT MANAGER AND TEAM

Mark Mobius, Ph.D., Executive Chairman of Templeton Asset Management, LLC, is the Head of the Templeton Emerging Markets Team.

The Templeton Emerging Markets Team is one of the pioneers of emerging market investment. Established in 1987, the Team has over 20 years of experience and now manages £21.3 billion in emerging markets assets for retail, institutional and professional investors across the globe (as at 31/12/09).

The Templeton Emerging Markets Team is one of the largest of its kind and has a presence in 15 offices around the world.

The Team includes 39 dedicated emerging markets portfolio managers, analysts and product specialists; senior members of the Team include Allan Lam, Tom Wu, Dennis Lim, Carlos Hardenberg, Grzegorz Konieczny and Gustavo Stenzel. Together, they speak 22 different languages and dialects. On average, each of the Team's investment professionals has 11 years of relevant industry experience, and has been with the company for 9 years (all information as at 30/09/09).



The Templeton Emerging Markets Team is based in 15 offices around the world (as at 31/12/09). The Team's on the ground presence ensures that it is able to gain a better understanding of local issues affecting emerging markets companies around the globe.

## INVESTOR SUITABILITY

TEMIT may be appropriate for investors who want to invest in emerging markets and are willing to take some risk for the potential of strong capital growth over the long-term.

Emerging market companies can be more volatile than developed markets and an investment in TEMIT could occasionally change in value significantly over the short-term. Shareholders in TEMIT should therefore consider it as a long-term financial commitment.

Please refer to the latest annual report for more details of the risks associated with an investment in TEMIT.

## GLOSSARY OF TERMS

**Alpha** - Alpha measures the difference between a portfolio's actual returns and its expected performance, given its level of risk (as measured by beta). A positive alpha means that the portfolio has over performed, a negative alpha means the portfolio has under performed; for example, an alpha of 1.0 means the portfolio outperformed the market 1.0%.

**Beta** - Beta is a measure of a portfolio's sensitivity to market movements. It measures the relationship between a portfolio's excess return over an investment in a risk-free investment such as cash (we have used a return of 3.5%) and the excess return of the benchmark index. For TMIT, this is the Investment Trusts Global Emerging Markets Universe. By definition, the beta of the benchmark (in this case, an index) is 1.00. Accordingly, a portfolio with a 1.10 beta has performed 10% better (after deducting the cash rate) than the index in up markets and 10% worse in down markets, assuming all other factors remain constant. A portfolio with a high beta will tend to move more than the benchmark, a portfolio with a low beta will tend to move less.

**Contributor** - The amount an individual stock, country or sector has added to the performance of the entire portfolio for a given period.

**Detractor** - The amount an individual stock, country or sector has subtracted from the performance of the entire portfolio for a given period.

**Dividend Yield** - The yield a company pays out to its shareholders in the form of dividends. It is calculated by the dividends paid per share over a year divided by the stock's price. For a vehicle like TMIT, which invests in a number of companies, this figure represents the weighted average annual dividend paid by all of the companies in which it invests. Because of share types, fees and other considerations, the dividend yield quoted here should not be used as an indication of the income to be received from this portfolio.

**Downside Risk** - Downside risk is a measurement which only considers negative returns. It is calculated as a downside deviation of returns below the Risk Free Rate (this is the amount a manager could expect to receive by investing in a "risk free" asset, such as with a cash deposit).

**Gearing** - Borrowings by an investment trust to boost the return on capital and income via additional investment. This may also be called leverage.

**Information Ratio** - This ratio divides the annualised average return for the portfolio by the Tracking Error (Relative). The higher the ratio, the better, as it reflects the extent to which a portfolio has outperformed the benchmark.

**Market Capitalisation** - The total market value of a company's shares. For a vehicle like TMIT, which invests in a number of companies, this is calculated by the share price on a certain date multiplied by the number of shares in issue.

**Market Cap (average)** - The weighted average of all the companies in which it invests.

**Maximum Gain** - The best possible investment period in the period analysed. This includes temporary down periods.

**Maximum Loss** - The worst possible investment period in the period analysed. This includes temporary up periods.

**NAV** - Net Asset Value, or the total value of the portfolio at any one time, including all shares and cash, divided by the number of shares in issue.

**Portfolio Turnover Rate** - The frequency with which assets within a portfolio are bought and sold by the manager. Portfolio turnover is calculated by taking either the total amount of new securities purchased or the amount of securities sold - whichever is less - over a particular period, divided by the total net asset value (NAV) of the portfolio. The measurement for a 12-month time period.

**Positive & Negative Periods** - This shows how many positive/negative months returns that a portfolio experiences across a period.

**Price to Book (P/B)** - The price per share of a stock divided by its book value (i.e. net worth) per share. For a portfolio, the ratio is the weighted average price/book ratio of the stocks it holds.

**Price to Cash Flow (P/CF)** - Supplements price/earnings ratio as a measure of relative value; it represents a weighted average of the price/cash flow ratios for the underlying portfolio holdings.

**Price to Earnings (P/E)** - The share price of a stock, divided by its per-share earnings over the past year. For a portfolio, it is the weighted average P/E ratio of the stocks in the portfolio. P/E is a good indicator of market expectations about a company's prospects; the higher the P/E, the greater the expectations for a company's future growth in earnings.

**R<sup>2</sup>** - R<sup>2</sup> or R squared, is an indication of how closely aligned the portfolio and the benchmark index are. R<sup>2</sup> ranges between 0 and 1, with 0 indicating a lot of difference and 1 indicating a perfect match. A value of 0.7 and upwards generally suggests that a portfolio's performance is very closely linked to the performance of the benchmark index.

**Share Price** - The cost of a unit of ownership in a company as purchased through the stock exchange.

**Sharpe Ratio** - Sharpe Ratio judges whether the relationship between a portfolio's risk and its return is good or bad. The underlying assumption is that a portfolio manager could invest in a riskless asset (such as cash), therefore the return of the risk free asset is deducted from the annualised average return. This net return is then divided by the total risk (annualised volatility). The higher the ratio the better the return for investors for the risk taken.

**Total Net Assets** - The total value of a company's shares. For a vehicle like TMIT, which invests in a number of companies, this is calculated by the Net Asset Value (NAV) on a certain date multiplied by the number of shares in issue.

**Tracking Error (Relative)** - Tracking Error (Relative) measures how much the return of the portfolio deviates from the benchmark index. The lower the tracking error of the portfolio, the more it resembles the benchmark in terms of risk and return characteristics.

**Trust** - A Trust, or Investment Trust, is a closed ended vehicle investing in a wide variety of underlying investments. Investment Trusts are traded in exactly the same way as any other equity on the London Stock Exchange. The price at which they are traded (share price) depends on the demand for the shares in the investment trust and is often at a variance with the value of their underlying holdings (or NAV).

**Volatility** - This is a statistical measure of the amount of movement in the price of a share or portfolio over a given period of time. If a portfolio's share price hardly moves over time, it is said to have a low volatility. Volatility is a simple measure of the consistency of returns.



## IMPORTANT INFORMATION

1. Performance is calculated NAV-NAV, GBP net of UK basic rate tax and gross of fees. Source: ©Morningstar as at 31/12/09. **Past performance is not a guide to future performance.** Emerging markets can carry a higher degree of risk than developed markets.
2. Source for the Company's "Geographic Weightings" and "Sector Weightings": Franklin Templeton Investments as at 31/12/09. Holdings of the same issuer have been combined. Weightings as percent of equity. Source for the benchmark's "Geographic Weightings" and "Sector Weightings": MSCI, as at 31/12/09. Geographic split between "Emerging Markets", "Frontier Markets" and "Other" are as per MSCI index classifications. The MSCI Index, the primary benchmark for this Company, is an equity index calculated by Morgan Stanley Capital International (MSCI). The index measures the total return (gross dividends are reinvested) of equity securities available to foreign (nonlocal) investors in the relevant geographic region as reflected in the name of the index or as defined by MSCI. Securities included in the index are weighted according to their Free Float adjusted market capitalisation (Price\*Shares outstanding\*Foreign Inclusion Factor).
3. Source for "Top Country and Sector Contributors and Detractors". FactSet Research System, Inc. as at 31/12/09. Profile data is calculated as a percentage of total. Holdings of the same issuer have been combined.
4. For the "Top Ten Equity Issuers", please note that top ten equity holdings information is historical and may not reflect current or future composite characteristics. All holdings are subject to change. Holdings of the same issuers have been combined. The information provided is not a recommendation to purchase, sell, or hold any particular security. The securities identified do not represent the Company's 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 TEMIT, or that securities sold will not be repurchased. In addition, it should not be assumed that any securities mentioned were or will prove to be profitable. Stocks mentioned in this report are not a solicitation to purchase those stocks, and are for example purposes only.  
The portfolio manager for TEMIT reserves the right to withhold release of information with respect to holdings that would otherwise be included in a top 10 holdings list.  
"Top Ten Security Contributors" and "Top Security Detractors" are holdings based on the last 3 months period. These securities do not represent all the securities purchased, sold or recommended, and the reader should not assume that investment in the security listed was or will be profitable. Holdings are subject to change, holdings of the same issuer have been combined. The information provided is not a recommendation to purchase, sell or hold any particular security.  
Source for "Top Security Contributors and Detractors": FactSet Research System, Inc. three months as at 31/12/09. Profile data is calculated as a percentage of total. Holdings of the same issuer have been combined.
5. Source for "Portfolio Turnover Rate" and "Market Capitalisation Breakdown", Franklin Templeton Investments as at 31/12/09.
6. Source for "Fundamental Portfolio Characteristics", FactSet Research System, Inc. as at 31/12/09. The Price to Earnings, Price to Cash Flow and Price to Book Value calculations shown herein use harmonic means. Values less than 0.01 (i.e. negative value) are excluded and values in excess of 200x are capped at 200x. Yields above 100% are also excluded. For the benchmarks, no limits are applied to these ratios in keeping with the benchmark's calculation methodology. Market capitalisation statistics are indicated in the base currency for the portfolio presenter.
7. Source for "Risk Statistics" ©Morningstar as at 31/12/09. Total return, annualised ratios (31/12/09). Statistics calculated using a "risk free rate" at 1.0% and the Investment Trusts Global Emerging Markets universe as a benchmark.

The price of shares in TEMIT and income from them can go down as well as up and you may not get back the full amount that you invested. **Past performance is not a guide to future performance.** Currency fluctuations will affect the value of overseas investments. In emerging markets, the risks can be greater than in developed markets.

This document does not constitute or form part of an offer for shares or an invitation to apply for shares. An investment in this Company entails risks which are described in the Annual Report and Accounts. **Please consult your professional adviser before deciding to invest.**

Due to data limitations all equity holdings are assumed to be the primary equity issue (usually the ordinary or common shares) of each security's issuing company. This methodology may cause small differences between portfolio's reported characteristics and the portfolio's actual characteristics. In practice, Franklin Templeton's portfolio managers invest in the class or type of security which they believe is most appropriate at the time of purchase. The market capitalisation figures for both the portfolio and the benchmark are at the security level, not aggregated up to the main issuer. The dividend yield quoted here should not be used as an indication of the income to be received from this portfolio.

Performance figures are not based on audited financial statements and, unless indicated otherwise, assume reinvestment of interest and dividends. When comparing the performance of TEMIT with the benchmark index, it is important to note that the securities in which TEMIT invests may be substantially different than those represented by the benchmark index. Furthermore, an investment in TEMIT represents an investment in a managed investment company in which certain charges and expenses, including management fees, are applicable. These charges and expenses are not applicable to indices. Lastly, please note that indices are unmanaged and are not available for direct investment. Certain data and other information shown have been supplied by outside sources. While we consider that information to be reliable, we give no assurance that such data and information is accurate or complete.

The indices are provided only to show the investment environment during the specific periods shown. The performance of each index does not include the deduction of expenses and does not represent the performance of any Franklin Templeton portfolio. The indices include a greater number of securities than those held in the portfolio. An index is unmanaged.

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