

TEMPLETON EMERGING MARKETS INVESTMENT TRUST – PROPOSALS FROM CITY OF LONDON

1. BACKGROUND

Templeton Emerging Markets Investment Trust (TEMIT) is the UK's largest emerging markets investment trust, by some distance.

Mark Mobius has been the fund manager for the trust's entire life, which is well over 10 years; he is also fund manager for various other Templeton emerging market funds, based offshore, in the US and elsewhere, so the total managed by him and his team is pretty colossal.

City of London Investment Management (CLIM) has accumulated a large shareholding in TEMIT. It accuses the fund managers of failing to take steps to manage the fund's NAV discount, and failing to tackle lacklustre performance by the fund. It calls on the Board to take steps to tackle these issues, and is threatening to requisition an EGM if the Board fails to take action.

CLIM are not related to City of London Investment Trust, which is managed by Aberforth Partners LLP. CLIM appear to manage only offshore and foreign funds, which suggests that the name is not only confusing but rather inappropriate. CLIM specialises in investing in emerging market investment trusts and openly takes advantage of the trusts' changing Net Asset Value (NAV) discounts to achieve outperformance.

CLIM's letter to the Board is included in this briefing (section 6).

I've also included a brief statistical analysis of TEMIT's performance (section 4).

2. INVESTORS' MEETING, 11am WEDNESDAY 7th FEBRUARY, LONDON

The Board of TEMIT is holding an open meeting for shareholders, especially smaller shareholders, at which they "will have the opportunity to express their views". Investors with TEMIT shares in nominee accounts are also very welcome.

The meeting is in the Mountbatten Room, Queen Elizabeth Centre, Broad Sanctuary, Westminster SW1P 3EE. Full details are on the website (www.temit.co.uk) – click on "TEMIT Shareholder Meeting".

This will be a valuable opportunity for you to meet the Board, to hear their position and to let them know your views. The Board would also welcome shareholders' comments by email, to rchampel@franklintempleton.co.uk

3. PROPOSALS BY CITY OF LONDON, AND UKSA'S VIEWPOINT

CLIM proposes that the following options be considered:

"a buyback of shares; a number of significant tender offers; partial open-ending by re-construction (we note that the various Franklin Templeton BRIC Funds have an open-ended structure); changes to the Board; or a transfer of the investment management contract to another (first quartile investment performance) investment manager."

UKSA believes that all these proposals, with the possible exception of limited buybacks in the market, would be against the interests of long-term shareholders, and we are therefore asking our members to support the management.

UKSA—The independent voice of the private shareholder

The United Kingdom Shareholders' Association Limited

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BUYBACK: buybacks in the market at a significant discount to NAV are the usual day-to-day method for discount management by investment trusts, and can result in significant long-term NAV benefits for shareholders. TEMIT is quite large enough to support modest reductions in the share capital for a good many years without increasing total expense ratios, so it's reasonable to ask the management why share buybacks aren't being used given the level of discount. However, the illiquid nature of emerging market shares may mean that there is little or no NAV benefit for shareholders from buybacks.

SIGNIFICANT TENDER OFFERS: these would be at a much lower discount, or even no discount at all, compared to the prevailing discount. This would result in a quick killing for arbitrageurs that participate, but very little benefit to shareholders that do not, and it reduces the potential for long-term NAV gain from steady buybacks. The forced selling of a large part of the portfolio to a fixed timetable might also get poor value, resulting in a significant loss of value to remaining shareholders. The biggest problem is that if the discount returns the arbitrageurs can simply play this game again until the fund is unviable.

PARTIAL OPEN-ENDING: There are only three emerging market investment trusts, but there are many open-ended emerging market funds (OEICS and unit trusts) in the market, including some Franklin Templeton funds. The statistical analysis shows that the open-ended funds have on average performed worse than TEMIT's NAV over every calendar year for the past 5 years – almost certainly because investment trusts are a far better way of investing in illiquid and volatile markets. So a full conversion would certainly be against the interests of all long-term shareholders, but would allow arbitrageurs to make a quick killing – probably causing significant NAV damage to those remaining – and a quick killing.

A partial conversion to OEIC would be costly, and it would have to be managed so as to cope with the likely sale of most of the OEIC's shares shortly after conversion, so it requires a major diversion of time and effort by both the Board and the fund manager – all of which would be damaging to the interests of remaining shareholders in both funds. After the conversion, the investment trust's discount will gradually return to its natural level, so there will be no compensatory benefit to long-term shareholders remaining with the investment trust.

CHANGES TO THE BOARD: This is only of value if the Board is unwilling to adopt measures that are clearly in the long-term interests of the majority of shareholders.

TRANSFER TO ANOTHER FUND MANAGER: This is not appropriate unless it can be demonstrated the TEMIT has consistently underperformed its sector (including OEICS &c.) and its benchmarks, or that there is no investor demand for TEMIT shares. In fact, of course, TEMIT has only performed poorly when compared to the two other investment trusts: it has more than held its own against the benchmarks and has done extremely well compared to OEICS and unit trusts. The fact that the discount has fallen in four of the past five years demonstrates that there is continuing and increasing investor demand for TEMIT shares.

4. PERFORMANCE

City of London accuses the fund of being "an index tracker in terms of its investment performance" over 5 years, compared to the S&P/IFCI Composite Index, so that "the company is paying investment management fees for active management but for what seems to be index tracking performance".

In fact, the TEMIT annual reports show that over the past 10 years (to April 2006)

- TEMIT's NAV has outperformed this index in 7 of the 10 years;
- In every year when this index fell (in 5 of the 10 years), TEMIT's NAV outperformed significantly, by between 5% and 15%, significantly reducing the volatility risk.
- TEMIT in fact has two benchmarks, and its NAV has generally performed even better against the other benchmark (MSCI Emerging Markets Index).

AIC statistics use two emerging market indices (FTSE All-World Emerging; MSCI Emerging Markets Free). As of 30th November, the fund's NAV total return had underperformed these indices over 1 year (by around 4%), but had outperformed over 3 years (by around 6%), 5 years (by around 12%) and 10 years (by around 22%).

AIC statistics show that as of 30th November, TEMIT was the worst-performing investment trust in its sector (Global Emerging Markets) over 1, 3, 5 and 10 years. However, there are effectively only two other funds in the sector (Advance Developing Markets and JPMorgan Emerging Markets).

By contrast, Trustnet statistics show that TEMIT outperformed global emerging market unit trusts and OEICS every single calendar year for the last 5 years: 2002 (by 6.1%), 2003 (by 5.5%), 2004 (by 1.1%), 2005 (by 4.7%) and 2006 (by 1.4%).

A fund that outperforms both its benchmarks over the medium to long term, that significantly reduces the volatility associated with the sector and that outperforms the equivalent unit trusts and OEICS every single calendar year is not, in our opinion, in radical need of a change of management.

Notes:

I've assembled these statistics from a variety of sources.

AIC: Association of Investment Companies. Website: www.aicstats.co.uk. These statistics are produced as at the end of each month, and cover total-return performance and indices over 1, 3, 5 and 10 years. Unfortunately, TEMIT NAV performance figures for end-December are not available so I've used the end-November statistics instead. AIC does not provide statistics for the S&P/IFCI Composite Index.

Trustnet: www.trustnet.com. Trustnet provides total-return performance tables separately for investment trusts and for unit trusts/oeics. It provides calendar-year performance figures for each of the past 5 years.

5. CURRENT MANAGEMENT OF THE DISCOUNT

City of London argues that the discount (share price to NAV) is too high, and that this reflects a failure of management that should be tackled.

As of 30th November, before City of London's announcement, TEMIT's discount was, at 12.6%, the highest of the three relevant investment trusts.

However, Trustnet statistics show that TEMIT's discount has fallen in four of the past five calendar years (2002, 2003, 2005 and 2006) – on average the discount has fallen by 2.4% each year.

The fund has gained authority each year to buy back shares, so it's surprising that it only bought back 2.5% of its shares in 2004/05 and none in 2005/06: significant buybacks at a high discount would only temporarily reduce the discount but should result in a steady incremental NAV benefit to long-term investors. It is worth asking the management why there has been so little buyback activity. However, it's likely that the underlying investments in emerging market companies are difficult and expensive to trade, and this could reduce or even wipe out the NAV benefit unless the discount is very high.

The discount has been falling over the past five years, so it's worth pointing out that, although getting rid of the discount would result in an instant gain for any investors selling out of the fund, most investors have bought at a similar or higher discount than 12.6%, so the discount has not cost them anything.

6. THE OPEN LETTER FROM CITY OF LONDON INVESTMENT MANAGEMENT

This letter was published on the UK Regulatory News Service at midday on 1st December 2006.

CITY OF LONDON INVESTMENT MANAGEMENT COMPANY LIMITED

OPEN LETTER TO THE CHAIRMAN OF TEMPLETON EMERGING MARKETS INVESTMENT TRUST PLC

City of London Investment Management Company Limited, a wholly owned subsidiary of City of London Investment Group PLC, wrote an open letter yesterday evening to the Chairman of Templeton Emerging Markets Investment Trust PLC, Sir Ronald Hampel. The text of the letter is set out below.

"Dear Sir Ronald,

Templeton Emerging Markets Investment Trust PLC ("the Company")

We refer to the various exchanges of correspondence and meetings we have had with you over the last several months. As a result of what we consider to be a lack of progress, we are now writing to you in the form of an open letter that we intend to publish.

As you know, City of London Investment Management Company Limited ("City of London") manages funds which in aggregate hold in excess of 13 per cent of the Company's issued shares, the largest disclosed shareholding in the Company. Some of these funds have been invested for over 4 years.

City of London's principal concern is that the Company's shares consistently trade at a wide discount to their underlying net asset value (NAV). At present, the discount is approximately 12.5 per cent; the average over the past year has been 12 per cent and over the past three years has been 14 per cent (source City of London). This level of discount has been experienced despite a bull market for emerging markets, the size of the Company and the liquidity of its shares. We find this level of discount at this point in the emerging markets cycle to be unacceptable and are particularly concerned at the probability of the discount widening further when the emerging markets bull market comes to an end.

In our discussions with you we have suggested that the Company takes the initiative to protect shareholder value and to introduce effective discount control measures. You have stated that the Board has been provided with a range of shareholder feedback and that there are those shareholders who have asked the Board not to try to manage the discount while other shareholders, such as ourselves, are keen for the Board to intervene. You have also stated that even those shareholders who want discount management have differing views on the method.

City of London believes that the implementation of appropriate measures, taken by the Board, to manage the discount are in the best interests of all shareholders and we urge the Board to canvass the views of all the Company's principal shareholders, with a view to taking action that is likely to satisfy the majority of shareholders. We find it difficult to believe that other properly-informed investors would not prefer action to be taken to manage the discount since discount widening, as the asset class falls out of favour in a cycle down-turn, will lead to destruction of shareholder value.

We have the following observations which may be contributing to the discount:-

1. Our research shows that the Company, when compared to the S&P/IFC Emerging Markets Investable Composite Index, has become over the past five years an index tracker in terms of its investment performance. Our concern is that the Company is paying investment management fees for active management but for what seems to be index tracking investment performance.
2. We expressed our concern in July this year and again in October at the errors, which resulted in the Company making announcements, that had been made by Franklin Templeton Investment Management Limited in the calculation of the NAV of the Company's shares.
3. At the recent AGM of the Company we supported your re-election to the Board in the belief that there was genuine concern within the Board regarding the issue of the discount, that you needed time to convey our message on the issue and subsequently to implement some discount narrowing measures.
4. Is it possible that Templeton Asset Management Limited has become too large, or has launched too many additional emerging markets products, as a result of which the management team has become too stretched?

City of London does not wish to prescribe a course of action to the Board in finding a solution and we remain open to consider various different options. We would not rule out any of the following being considered at this stage: a buyback of shares; a number of significant tender offers; partial open-ending by re-construction (we note that the various Franklin Templeton BRIC Funds have an open-ended structure); changes to the Board; or a transfer of the investment management contract to another (first quartile investment performance) investment manager.

At the same time, should the Board not take steps which we believe could or should reduce the discount in the interests of all shareholders, City of London will consider the option of requisitioning an appropriate resolution at a meeting of shareholders.

I look forward to receiving the Board's response.

Yours sincerely

Clayton Gillece, Director

For further information contact: Clayton Gillece, Director Simon Hudson / Clemmie Carr City of London Investment Management Company Tavistock Communications Tel: 020 7711 0771 Tel: 020 7920 3150

NOTES TO EDITORS

City of London is an asset management group whose principal activity is providing emerging market asset management products and services predominantly to institutional investors via its principal operating company City of London Investment Management Company Limited. The Group is based in the UK and also has offices in the US and Singapore. Clients include some of the US's leading blue chip institutions and endowment funds.

With total funds under management of approximately US\$3.0 billion, the Group manages several Open Ended Funds as well as a number of segregated accounts. The Group's fund mandates are mainly in emerging markets, although the Group has more recently diversified its asset management product portfolio by the launch of a natural resources fund and has also seeded three new funds: a global fund, a frontier fund and an emerging markets yield fund. The Group seeks to provide capital growth for clients through active country allocation and stock selection.

This information is provided by RNS The company news service from the London Stock Exchange

7. THE USUAL DISCLAIMER

Nothing in this briefing is intended to be or should be interpreted as investment advice, which can only be obtained from persons authorised in accordance with the Financial Services Act 1986 and subsequent legislation.

Briefing prepared by Toby Keynes, UKSA National Secretary, 24/1/2007