

PERSPECTIVE

Getting to Know Chetan Sehgal

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With more than two decades of experience investing in emerging markets, it's fair to say that this seasoned emerging-market investor has his fair share of anecdotes. As he takes on more responsibilities within Franklin Templeton Emerging Markets Equity, we learn about his early days on assignment in Russia, how he continues to cultivate a collegiate philosophy in his team, and why he thinks innovation will continue to bolster emerging market economies.

Can you recall how you took your first steps into emerging markets?

I joined Franklin Templeton in 1995 at a point in time when it was expanding across emerging markets. This included India, which had then just opened up its markets to foreign investors. It was an exciting time to be joining a preeminent organization in a nascent market. Although I was hired to analyze companies in India, it would be a while before we could invest in the markets. Custodians were not fully set up in India and the market was still based on physical share certificates. And registration processes were complex. So, my first assignment actually ended up being in Russia, which wasn't something I'd expected.

What's been your most memorable experience as an emerging-market investor?

The fact that I ended up in Russia on my first assignment certainly makes it one of the more memorable experiences. Russia was a very different place during that period. Russia's mostly state-owned industries underwent a large-scale privatization campaign that transferred ownership to private enterprises. All of this happened amid a backdrop filled with political turmoil. The first two pieces of advice I received upon arriving in Russia have stuck with me: 1. Be mindful of the security issues in Russia, and 2. Be wary of changing prices. At the time, hyperinflation in the Russian economy meant restaurant menus would be written in chalk on a blackboard to accommodate daily price fluctuations. There was no point in printing menus with fixed pricing!

How would you describe the philosophy and culture within your team?

We take a team-based approach to everything, and there is a very collegiate-like atmosphere where ideas are shared and bounced off one another. Even though our analysts are spread out across 20 local offices around the world, we approach new investment opportunities as a team and utilize the breadth of local knowledge available to us. For example, if a pharmaceutical company in South Korea has a partner in China, we'll send a Chinese analyst to assess the company. We approach it like a group project. And we want to preserve this culture for years to come. All of this feeds into our philosophy of sharing our knowledge and research, which in my view is one way of adding value in emerging-market investing. Local knowledge is crucial to our decision making.

My former boss, Mark Mobius, cultivated this philosophy in the team by insisting on two conferences a year, where all the analysts across the emerging markets would stay in the same hotel and discuss our ideas. I've calculated that I have probably spent over a year of my Franklin Templeton journey so far in hotel rooms at conferences discussing and debating ideas with analysts.

What opportunities do you see in emerging markets?

Emerging-market economies have embraced technology to an extent that in many instances they can capitalize on technology much quicker than more advanced countries. Some of the new and innovative technology I've seen coming out of emerging markets bypass existing models, and I think this is just the beginning.

The technology sector is incredibly broad and encompasses both hardware, software and related services.

While many investors have historically favored software over hardware, technology has advanced to such a level that very few companies are now at the forefront of hardware technology. As a result, demand for hardware development has surged and grown in many areas. This includes demand for microchips for harvesting cryptocurrencies, improved smartphone capabilities, to making changes in the traditional automobile sector. That's the beauty of technology, and it makes me excited about further developments in this sector.

What's the biggest change you've seen in emerging markets over the past two decades?

In the 23 years I've been investing in emerging markets, one of the biggest changes I've seen has been improvements in corporate governance. Sometimes, investors don't realize how much difference legal, regulatory and institutional frameworks make, especially in emerging-market economies. If this continues, it will likely bring emerging-market economies in line with international standards and write another chapter of the solid growth story we've been seeing.

The emerging-market space has changed rapidly over the years. Our analysis shows that in 2000, Asia represented just 45% of the MSCI Emerging Markets Index.¹ Today, it's 73%. The center of gravity has shifted towards Asia, with China's representation in the MSCI Emerging Markets Index ballooning from 6.6% in 2000 to 30.8% in 2018. China's growth has been so spectacular that it not only determines its own fate, but a lot of other economies in the emerging-market sphere too.

How would you describe your investment style?

The Templeton philosophy has always been about looking at undervalued companies on a bottom-up basis and investing in them for the long term. It's important for value investors to take a long-term perspective, especially in a changing investment environment with rapid innovation in sectors such as technology.

What's the most challenging part of your job—and the most rewarding?

The most challenging part of the job is to assess the management teams in the companies we invest. Our responsibility is to build a relationship with them and signal that we're confident in them and that we care about their long-term potential—that's the most satisfying part.

Outside of work, what are you most passionate about?

Outside of work, I try to make time to meet friends and play sports, such as table tennis—which I believe I've become quite good at! I also love reading about history and evolution.

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1. The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 emerging-market countries. Indexes are unmanaged, and one cannot directly invest in an index.

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