



FRANKLIN
TEMPLETON

ANNUAL IMPACT REPORT

Social Infrastructure Strategy

May 2020

FRANKLIN REAL ASSETS ADVISORS

WHAT'S INSIDE

Impact investing in real estate

Our impact approach

Impact performance

A look at our assets and impact

IMPACT INVESTING IN PRIVATE REAL ESTATE

Dear Investors,

We are proud to introduce the **first Annual Impact Report of our Social Infrastructure strategy**. We developed our unique dual-return objective to offer private real estate investors a “win-win” investment opportunity: an impact return in addition to a market-level financial return.



RAYMOND J. JACOBS
Managing Director,
Franklin Real Asset
Advisors

Social infrastructure can be defined as the physical assets that house and facilitate the social services that foster strong communities. While investing in these types of assets is intuitively impactful, **a true impact strategy requires standards and data that can be measured and reported in a transparent way.**

During the strategy development phase, we engaged Tideline, an established impact consultant, and together designed an Impact Management Framework that is fully integrated in each step of our investment process.

Since the launch of the strategy in July 2018 and its first investment in November 2018, we have completed twelve acquisitions in the healthcare, education, housing and justice and emergency sectors. This Annual Impact Report offers insights into our impact framework, including how we measure the community and environmental impact of acquired assets.

I am proud of what John Levy, our Impact Director, and his team have accomplished during this first year of operation. I hope you enjoy reading this report. As always, we welcome your feedback.

A handwritten signature in black ink that reads "Raymond Jacobs".

DOING WELL BY DOING GOOD: A DUAL-RETURN APPROACH



JOHN LEVY

Director of Impact,
Franklin Real Asset
Advisors

At Franklin Templeton's headquarters in San Mateo, California, a stone plaque tells the story of how Benjamin Franklin founded the Junto Club, where members "celebrated civic virtue and the improvement of self and society". Franklin believed that hard working citizens could 'Do well by doing good'. Rupert H. Johnson Sr. named our company after Benjamin Franklin in the hope that his values would become ours.

We are proud to share our first Annual Impact Report for our Social Infrastructure strategy. It highlights our philosophy and framework and our work to date. It includes key data and case studies. The Social Infrastructure strategy is our first dual-return mandate focusing on both financial returns and social and environmental impact. We are acting on our values and heeding the call to **do well for investors by doing good on their behalf.**

Achieving an attractive financial return and meaningful positive impact is a challenge and responsibility that we do not take lightly. As shown in this report, we start with a commitment to authenticity and transparency to clearly lay out what we aspire to do and how we plan to do it. We have worked diligently to design and implement a fully integrated impact management and measurement system that aligns with many global standards and is enhanced by bespoke systems specific to our Social Infrastructure mandate. We are aware of the obstacles that lie ahead of us and know that meaningful impact can be achieved only with perseverance, ingenuity and collaboration.

Not all the world's problems can be directly addressed through impact investing, and even fewer can be addressed in a market-rate, core real estate strategy. However, much more can be done than at present. **We hope to be a part of a paradigm shift where profit-seeking capital can directly address some of the world's biggest problems.** We aim to align investment strategies with the United Nation's Sustainable Development Goals (SDGs), thereby creating a virtuous circle of financial growth and positive impact.

By delivering on our dual-return mandate, we hope to scale up solutions that can slow the progress of climate change and improve the provision of quality social services. We hope you enjoy our report!

A handwritten signature in black ink, appearing to read "John Levy". The signature is fluid and cursive, with a long horizontal stroke at the end.

Our commitment to impact investing

Nine values guide our approach to impact investing:

CONTRIBUTION

We seek to make a realistic and material contribution towards impact through investment and active ownership.

OBJECTIVES

Each investment must have measurable impacts.

MEASUREMENT

We have a robust system for gathering and monitoring impact metrics.

STANDARDS

We align our investment process with industry standards, including the UN SDGs, the Impact Management Project (IMP) and the Global Real Estate Sustainability Benchmark (GRESB).

CONFIRMATION

We conduct site visits and engage with investees for real-time and transparent impact validation.

OVERSIGHT

Our advisory committee is responsible for periodic reviews.

VISION

We are committed to the continuous improvement of our impact management process.

PARTICIPATION

We disseminate ideas and best practices through thought leadership and participation at conferences and events.

TRANSPARENCY

We share lessons learned with investors and other impact investment practitioners.

Our impact strategy in numbers

As of 31st December 2019

PORTFOLIO LEVEL

Number of Assets	12
Amount invested in € (in million)	261
Total Area Owned (m ²)	125,971
Total Area Covered for CO ₂ Intensity (m ²) ¹	119,195
Total Portfolio CO ₂ emissions (kg) ² (in million)	7.1
CO ₂ Intensity (kg of CO ₂ /m ²) of the Portfolio: 2019	60.1

SECTOR LEVEL

Justice and Emergency

Number of Assets	1
Total Area Owned (m ²)	6,586
Amount invested in € (in million)	16
Average Conviction Rate (2014–2018) ⁴	63.3%
Average # of Convictions by the Court per Year (2014–2018) ⁵	1,110
Average # of Criminal Offenses Heard by the Court per Year (2014–2018) ⁶	1,763

Education

Number of Assets	3
Total Area Owned (m ²)	34,891
Amount invested in € (in million)	78
Number of University Students PI2389	12,795
Number of Youth Students PI2389	665
Number of Teachers/Professors OI5896	118

Note to the reader

For transparency and accuracy, IRIS Metrics and SDG indicators are mentioned throughout the report where relevant.

IRIS Metrics example: **OI1079**

SDG indicators example: **SDG 7.2.1**

Healthcare

Number of Assets PI1017	7
Total Area Owned (m ²)	79,756
Amount invested in € (in million)	140
Number of Nursing Home Beds	562
Number of Hospital Beds	237
Number of Accredited Beds	646

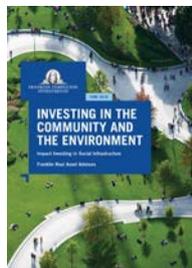
Affordable Housing

Number of Assets	1
Total Area Owned (m ²)	4,738
Amount invested in € (in million)	25
Number of Beds Offered for 2020/2021 School Year PD2532	244
Average Cost Savings vs Market Rate Unit per Year (in €) PD5833	€5,012

Contributing to the discussion

Impact investing is a relatively new discipline and we are committed to deepening understanding among the broader investment community. We publish impact research and updates on a regular basis and participate in leading conferences.

Our research



JUNE 2018 IMPACT INVESTING AND SOCIAL INFRASTRUCTURE

In this paper, we discuss how investing in social infrastructure in Europe can lead to positive impact-based outcomes for communities and the environment.



DECEMBER 2018 THE VALUE OF COMMUNITY IMPACT IN SOCIAL INFRASTRUCTURE

While the connection between environmental impact and real estate is clear and significant, the potential for creating social and community value is more complex. In this paper, we address efforts to achieve greater clarity on the ways in which social infrastructure creates social and community value.



MARCH 2019 FIVE BUILDING BLOCKS FOR IMPACT MANAGEMENT. IMPACT IN PRACTICE: SOCIAL INFRASTRUCTURE

No single, unified best practice has yet emerged for impact investing. Simply navigating through all the resources available to impact investors can be a challenge. This paper seeks to provide a guide to help investors build impact management systems and it will provide an overview of the different frameworks and tools available and classify them into five broad categories: objectives, standards, certifications, methodologies and metrics.



OCTOBER 2019 BEYOND ALIGNMENT: CONTRIBUTING TO THE UN SDGs

Our duty as investors is to raise the level of discussion and focus on how we achieve new and better results. In our experience, that starts with an understanding of which SDGs are being addressed and then shift attention to how we contribute to the achievement of the goal.

Our speaking engagements*

DECEMBER 2018	FEBRUARY 2019	MARCH 2019	APRIL 2019	MAY 2019	DECEMBER 2019	JANUARY 2020
IPE Conference & Awards Dublin	Franklin Templeton Responsible Investor Forum Toronto	Forum per la Finanza Sostenibile Milan	INREV Venice	Franklin Templeton Global Investor Forum—San Francisco	Responsible Investor Americas New York	San Mateo Leadership Council San Mateo
	Institutional Money Congress, Frankfurt		Markets Group Institutional Investor Forum Copenhagen	Mondo Institutional Rome		

*Representative list.

An aerial, top-down view of a modern office space. The room features a vibrant blue wall and several long, light-colored wooden desks arranged in a grid-like pattern. People are seated at the desks, working on laptops and papers. The lighting is bright and even, creating a professional and collaborative atmosphere. A central white rectangular box is overlaid on the image, containing a quote in blue text.

**“Integrating impact
into each stage of the
investment process
enables us to form a
holistic approach that
aligns investment and
impact considerations
from end-to-end”**

Our impact approach

SOCIAL INFRASTRUCTURE: AN OPPORTUNITY IN PRIVATE REAL ESTATE

Buildings and services with a civic and social purpose underpin our economies. At Franklin Real Asset Advisors, we define these physical assets as social infrastructure. Examples of social infrastructure include hospitals, schools, affordable housing and buildings related to justice, emergency and civil services.

While social infrastructure is crucial to the health and vibrancy of communities, these vital assets have suffered from underinvestment during the past decade. According to a report from the High-Level Task Force on Investing in Social Infrastructure in Europe, the annual investment gap in social infrastructure is estimated to be approximately €150 billion.⁷

Because public investment alone is not enough to meet society's increasing needs, social infrastructure has emerged as an important opportunity for private investors. Social infrastructure investments typically offer predictable, steady returns and tend to be relatively less exposed to market and systemic risks. In addition to financial benefits, investments in social infrastructure provide an opportunity to achieve powerful social and environmental impact.



Healthcare

Medical facilities, infrastructure

Nursing homes



Education

Primary and secondary schools

Further education and universities



Housing

Student, social and affordable housing

Public servant housing



Justice & Emergency

Court houses

Police and fire stations



Civic

Sports facilities

Community and local government facilities

CALL TO ACTION: IMPROVING COMMUNITIES AND THE ENVIRONMENT

Why impact in social infrastructure?

Our social infrastructure strategy seeks to improve the quality of social infrastructure assets while reducing the carbon footprint of the built environment. These goals were created in direct response to research citing the lack of quality social services across Europe, as well as the need to reduce carbon emissions and address climate change. **Our impact strategy has two vectors, community and environment.**

Community

A report released by the High-Level Task Force (HLTF) on Investing in Social Infrastructure in Europe⁸ highlights the importance of social infrastructure, its funding gap and the many ways to address this challenge through both public and private investment. The report notes that “high-quality social infrastructure provides benefits to individuals and communities and improves social cohesion. Appropriate access to social infrastructure generates more ‘hired, housed, healthy and happy’ people with positive spill overs on society...Social Infrastructure can boost community resilience and regeneration.”

By investing in social infrastructure, institutional investors can add **much-needed private capital to boost and protect the social services being provided to communities.**

€100–150 billion per year

The HLTF estimates the funding gap for social infrastructure in Europe at €100 billion to €150 billion per year. Clearly, not enough is being done to build and adequately maintain social infrastructure assets.

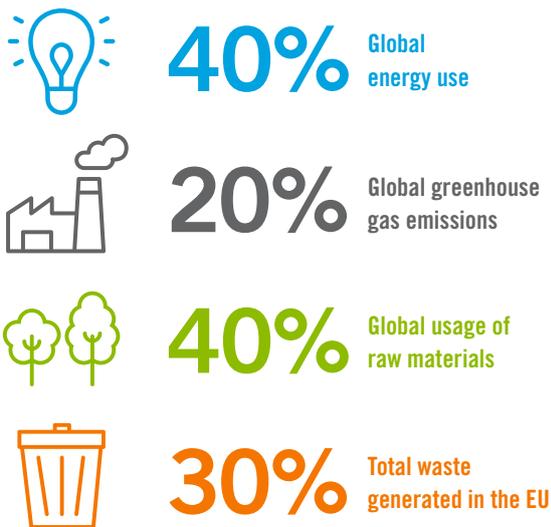
Environment

If average global temperatures rise 2°C above pre-industrial levels, we risk dramatically higher sea levels, and changes in weather patterns that will cause food and water shortages, according to the UN’s Intergovernmental Panel on Climate Change. To avert irreversible changes to our climate, the 2015 Paris Agreement aims to keep global warming to below 2°C.

The real estate industry has an important role to play in the fight against climate change. On many measures, buildings use more energy than either industry or transportation and will emit more CO₂ between now and 2030.

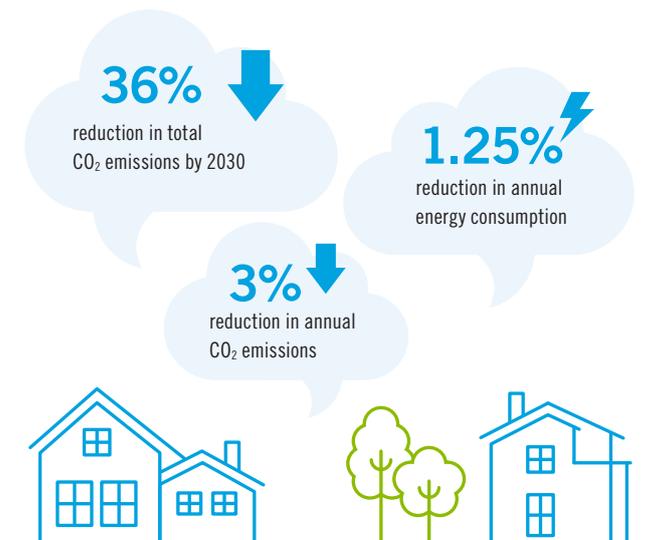
We look to reduce carbon emissions produced and associated with buildings in our investment portfolio. We do this through improving energy efficiency and on-site clean energy generation. **SDG 7.2.1, SDG 7.3.1** **We aim to reduce our portfolio-level CO₂ emissions by 5% per annum**—a more ambitious target than the one recommended by the World Economic Forum.

The real estate sector (as a % of total)



Source: “Environmental Sustainability Principles for the Real Estate Industry” World Economic Forum (WEF), World Economic Forum Industry Agenda Council on the Future of Real Estate & Urbanization and World Bank January 2016. For illustrative purposes.

CO₂ targets for the real estate sector



Source: “Environmental Sustainability Principles for the Real Estate Industry” World Economic Forum, World Economic Forum Industry Agenda Council on the Future of Real Estate & Urbanization and World Bank January 2016. For illustrative purposes

THEORY OF CHANGE—OUR ROADMAP FOR IMPACT

In order to create meaningful social and environmental impact, our strategy incorporates a **theory of change that identifies the challenges, the contributions and outcomes** we want to achieve.

1. Challenges

Our approach begins with identifying the environmental and community challenges we seek to address.

2. Contributions

We look at the best ways to allocate our efforts and investor capital. We must identify practical and material contributions to maximize our potential impact. Our five main contributions appear below.

3. Outcomes

By identifying and directly addressing community and environmental challenges, we can increase access to quality healthcare, housing, education and civic services while also enhancing the resource efficiency of our assets.

These positive outcomes require fully integrating impact management into our entire investment process.

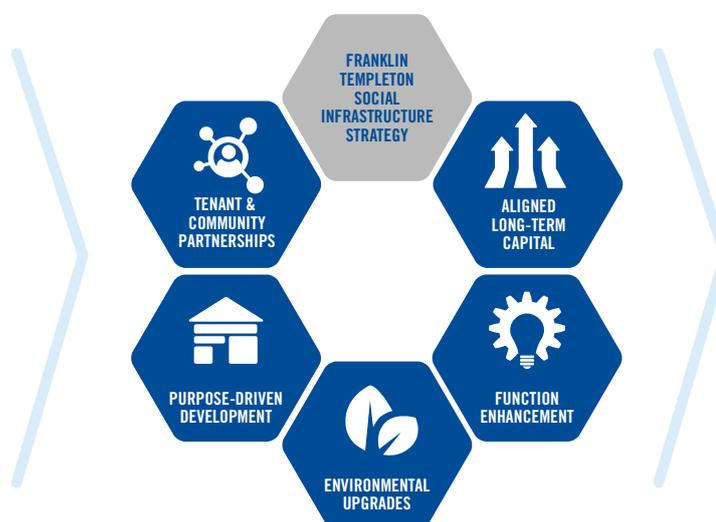
Theory of change

1. CHALLENGES

2. CONTRIBUTIONS

3. OUTCOMES

Lack of quality social infrastructure across Europe



More hired, housed, healthy and happy communities

Our five main contributions

ALIGNED LONG-TERM CAPITAL

We are committed to the stewardship of the assets we hold. Our objective is to maintain strong-performing assets and improve underperforming ones. Our capital seeks to ensure the long-term social benefit by providing much-needed liquidity to municipalities and private operating companies, freeing up their balance sheets to allow them to provide more services.

FUNCTION ENHANCEMENT

We renovate and upgrade the facilities we purchase. Examples include improving their comfort and utility for tenants. Where possible, we develop alternative uses for existing facilities to benefit the broader community.

ENVIRONMENTAL UPGRADES

We can create positive environmental impact with improvements that reduce pollution, save water and materials, and support biodiversity and clean transportation. Examples include installing energy efficient systems, creating more green space and improving recycling and waste disposal policies. [SDG 7.3.1](#)

PURPOSE-DRIVEN DEVELOPMENT

Select investments may present the opportunity to directly add to the stock of social infrastructure. We can accomplish this by repurposing assets for social use or by adding space to existing assets.

TENANT & COMMUNITY PARTNERSHIPS

Stakeholder engagement is critical to the success of social infrastructure investments. Through active engagement with tenants and local partners, we can uncover new and meaningful ways to better serve the community.

Source: Franklin Real Asset Advisors. For illustrative purposes only.

INTEGRATING IMPACT MANAGEMENT ACROSS THE INVESTMENT PROCESS

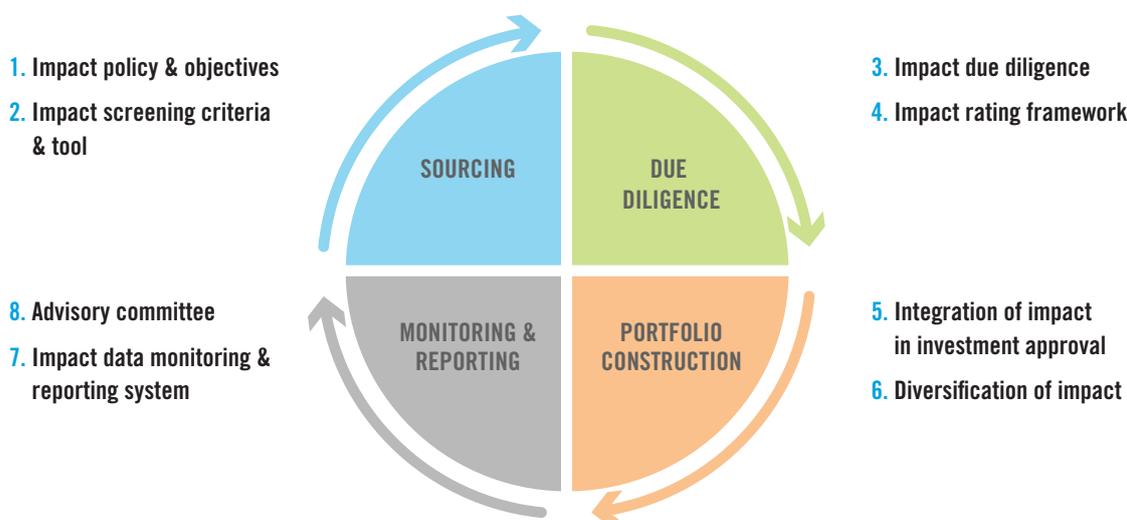
We integrate impact into each stage of the investment process. By doing so, we can form a more holistic **process that aligns investment and impact considerations** at every step. We also create efficiency in capital allocation by only considering proposed investments that meet our dual objectives of financial return and impact.

We've signed and adhere to the International **Finance Corporation's (IFC) Operating Principles for Impact Management**. The principles describe the features essential to establishing and managing a robust impact management system. They are designed to define an

end-to-end process, from establishing "Strategic Intent" to managing "Impact at Exit". The principles aim to introduce rigour into impact analysis and limit impact washing in the industry.

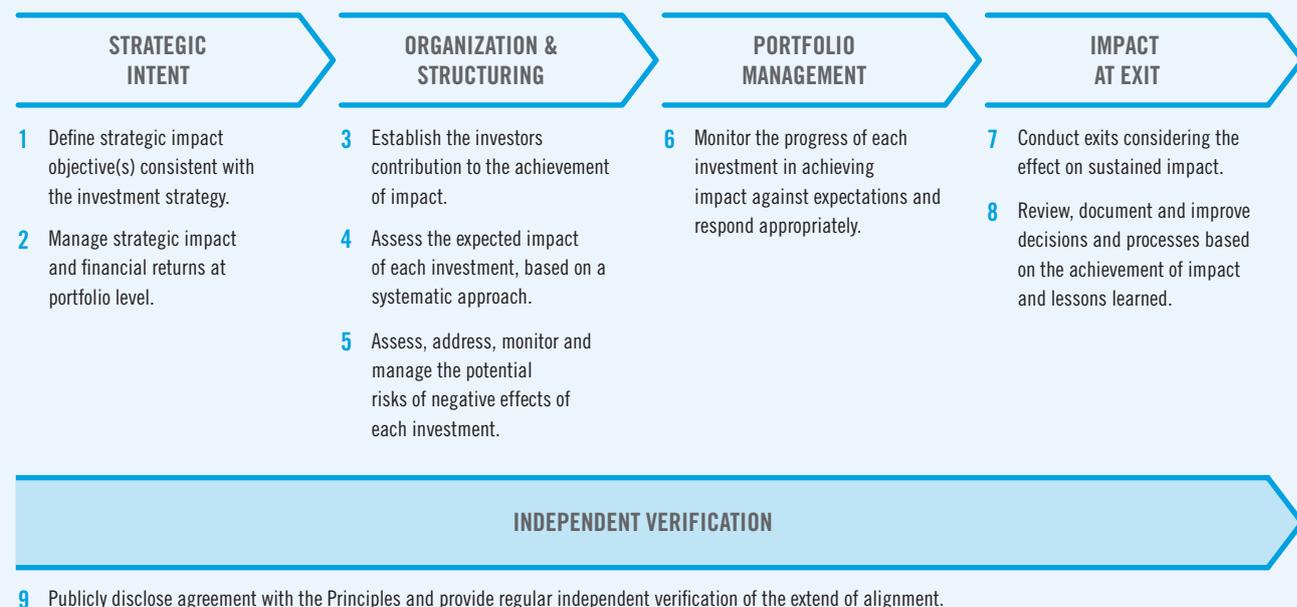
Principles 1 to 8 focus on the creation and operation of an impact management system. Together these principles embody the core spirit of impact investing. In our view, principle 9—Independent Verification—is a critical step as it represents an accountability measure that requires signatories to disclose publicly their alignment with the previous 8 principles.

Integrating impact management throughout the investment process



Source: Franklin Real Asset Advisors. For illustrative purposes only.

The International Finance Corporations' nine operating principles for impact management



Source: Operating Principles for Impact Management—The Principles, International Finance Corporation.

MEASURING OUR CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS

The UN's 17 Sustainable Development Goals (SDGs) inform our entire impact management system and process. The SDGs are a powerful guide for global citizens and organizations seeking to “achieve a better and more sustainable future for all”.⁹ As they were not designed specifically for use by institutional investors and asset managers, they are vulnerable to misuse, misrepresentation and dilution. As part of our commitment to impact investing, we must ensure that we **move beyond just alignment and make a verifiable contribution** to positive social and environmental outcomes.

Every SDG has anywhere between five to 19 “**targets**” with more specific sought-after outcomes. Behind each target are “**indicators**”, which are the data points used to track progress towards each target, as illustrated in the example. Using these targets, we can define which specific actions—or contributions—we wish to carry out. Because contributions are often measurable, we develop key performance indicators (KPIs) to monitor progress.

Here is an example of how SDGs inform our impact management process.

Contributing to the SDGs through an investment in affordable housing

1. IDENTIFY THE PERTINENT SDGS	6 CLEAN WATER AND SANITATION 	7 AFFORDABLE AND CLEAN ENERGY 	11 SUSTAINABLE CITIES AND COMMUNITIES 		
2. IDENTIFY THE SDG TARGETS	TARGET 6-4 Increase Water-Use Efficiency and Ensure Freshwater Supplies 	TARGET 7-2 Increase Global Percentage of Renewable Energy 	TARGET 7-3 Double the Improvement in Energy Efficiency 	TARGET 11-1 Safe and Affordable Housing 	TARGET 11-6 Reduce the Environmental Impact of Cities 
3. DEFINE POTENTIAL CONTRIBUTION	<ul style="list-style-type: none"> Install low-flow toilets, aerators and motion sensing taps 	<ul style="list-style-type: none"> Install solar panels 	<ul style="list-style-type: none"> Install smart meters, conduct operator and tenant training 	<ul style="list-style-type: none"> Purchase and maintain affordable housing units 	<ul style="list-style-type: none"> Improve waste management
4. ESTABLISH KPIs FOR OUR CONTRIBUTIONS	<ul style="list-style-type: none"> Volume of water used by residents 	<ul style="list-style-type: none"> Amount of purchased energy consumed from non-renewable sources 	<ul style="list-style-type: none"> Total amount of purchased energy consumed by residents 	<ul style="list-style-type: none"> Number of residents in affordable housing units Average tenant rent 	<ul style="list-style-type: none"> Waste disposed landfill Waste disposed compost Waste disposed recycling
5. CONTRIBUTIONS MAPPED AGAINST SDG INDICATORS	<ul style="list-style-type: none"> INDICATOR 6.4.1 Change in water-use efficiency over time INDICATOR 6.4.2 Level of water stress 	<ul style="list-style-type: none"> INDICATOR 7.2.1 Renewable energy share in the total final energy consumption 	<ul style="list-style-type: none"> INDICATOR 7.3.1 Energy intensity measured in terms of primary energy and GDP 	<ul style="list-style-type: none"> INDICATOR 11.1.1 Proportion of urban population, living in slums, informal settlements or inadequate housing 	<ul style="list-style-type: none"> INDICATOR 11.6.1 Proportion of urban solid waste regularly collected and with adequate final discharge out of total urban solid waste

Source: United Nations Sustainable Development Goals and Franklin Templeton. For illustrative purposes only.

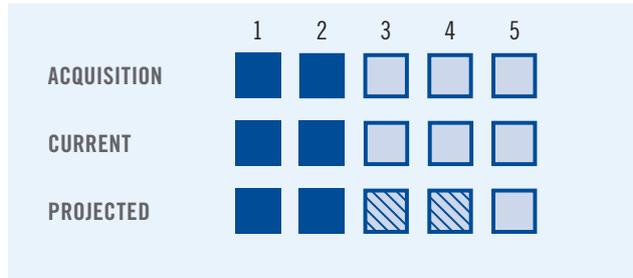
COMMUNITY AND ENVIRONMENTAL SCORING SYSTEM

Throughout our impact management process, we stress the terms “authenticity” and “transparency”. We acknowledge with a dual-return objective—financial and impact—some impact related contributions may not be economically viable. To this end, we created an internal **impact rating system that measures the current**

and projected state of each asset’s community and environmental performance. The rating system is based on a set of predefined community and environmental factors. Progress towards impact objectives can be quantified and key performance metrics can be tracked over time.

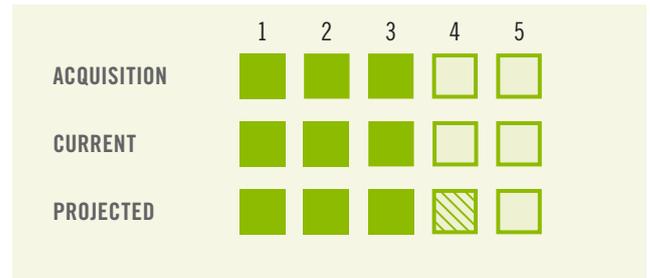
Community value

How much value does the asset contribute to the community’s development and wellbeing?



Environmental performance

How strong is the environmental performance of the asset?



■ Acquisition rating ▨ Projected rating (with FT contribution)

Source: Franklin Real Asset Advisors. For illustrative purposes only.

BRINGING IT ALL TOGETHER—MULTI-FACETED IMPACT ASSESSMENT

Our impact assessment document for each asset is where our entire impact measurement and management framework comes together. Through the lens of the Impact Management Project’s Five Dimensions of Impact, **our assessments bring together a theory of change, the sustainable development goals, our bespoke community**

and environmental scoring systems, our identified contributions, and our impact-focused business plans. Our assessments are backed by asset-level data, demographic data and market research to ensure that our theory and actions are linked to meaningful outcomes.

Impact management project: Five dimensions of impact

With input from over 2000 stakeholders, the Impact Management Project introduced “five dimensions of impact” to better measure, manage, and report on social and environmental impact. The five dimensions are: What, Who, How Much, Contributions, and Risks. We have incorporated the five dimensions into our impact framework for real estate, including additional considerations and our own bespoke frameworks while preserving the spirit of the Impact Management Project’s work.

IMPACT DIMENSION

□ WHAT

IMPACT QUESTIONS EACH DIMENSION SEEKS TO ANSWER

- What outcome occurs in the period?
- How important are the outcomes to the people (or planet) experiencing them?

○ WHO

Who experiences the outcome?

≡ HOW MUCH

How much of the outcome occurs—across scale, depth and duration?

⊕ CONTRIBUTION

Would this change likely have happened anyway?

△ RISK

What is the risk to people and planet that impact does not occur as expected?

Source: Impact Management Project. For illustrative purposes only.

“Authenticity and transparency guide our impact approach. That’s why impact performance is measured at three levels: at the portfolio level, at the SDG level and at the individual asset level.”



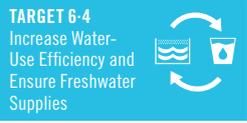
Impact performance

PORTFOLIO-LEVEL IMPACT TARGETS

In our first full year, we focused on building a strong foundation for continual improvement as well as opportunities for having an immediate impact. For this reason, we have split our targets into **Outcomes and Foundations**. Outcomes measure our progress towards stated goals, for example, reducing greenhouse gas emissions. Foundations are how we engage, improve data collection and work with technical experts to

identify asset-specific and portfolio-wide improvement opportunities. It is important to note that our list of portfolio-level targets does not include the many ways we will look to create impact through asset-specific opportunities. Detailed information about progress towards our impact targets can be found in the full version of our annual impact report.

Outcomes

	Metric	Target
Greenhouse Gas Emissions <i>SDG-Target</i>  	CO ₂ equivalent Kg/M ² of per annum.	5% reduction per annum. O15951 O14862
Water Usage <i>SDG-Target</i> 	Litres per person per day.	5% reduction per annum for assets in high water stress regions. O12799 O13637 O11697

Foundations

	Metric	Target
Smart Metering	Smart meters for gas, electricity and water installed.	75% (based on M ²) of stabilized portfolio (assets held +1 yr) with smart meters installed.
Green Leasing/Addendums	Green lease terms.	75% (based on M ²) of portfolio with green lease agreements or addendums.
Solar Feasibility Studies SDG 7.2.1 OI9206 OI2496	Completed solar feasibility study.	100% of portfolio assessed.
Waste and Recycling OI4328 OI4483 OI6192 PD9364 OI7920	Waste and recycling assessment complete.	100% of portfolio assessed.
Tenant Sentiment	Sentiment survey completed by tenants.	50% of tenants respond to sentiment survey or other sentiment engagement methods.
Beneficiary Sentiment	Beneficiary sentiment data collected.	Deploy asset-specific engagement plans for beneficiaries of each asset within one year of acquisition.

SUSTAINABLE DEVELOPMENT GOALS IN OUR PORTFOLIO

Franklin Templeton's social infrastructure strategy targets six of the 17 SDGs as key objectives: **Good Health and Well-Being; Quality Education; Peace, Justice and Strong Institutions; Sustainable Cities and Communities; Affordable and Clean Energy; and Clean Water and Sanitation.** The SDGs inform our portfolio targets as well as the entire impact management system and process.



Ensure healthy lives and promote well-being for all at all ages.

Portfolio Statistics

Number of Assets

7

Total Area

79,439 m²

Euros invested

€139 million

25% of Europe's population is above the age of 60. This is expected to grow to 35% by the year 2050.

Challenge

At least half of the global population does not have access to essential health services¹⁰ despite the significant advances in medicine and medical technology. And where health services do exist, the challenge is to provide services of high quality.¹¹ While most of Europe enjoys universal health coverage, quality health care is not always available. As Europe's population ages, demand for more and better health care-related infrastructure and services is expected to increase.¹²

The Role of Social Infrastructure

Healthcare is a key sector of social infrastructure. We aim to contribute to this SDG by improving and expanding healthcare facilities. SDG 3 can also be supported with sale and leaseback arrangements for healthcare operators that provide quality services.

Strategy in Action

Our strategy has acquired seven healthcare assets. Early in 2019, we were introduced to a struggling operator in Lido de Venezia, Italy. Given the location of the property, other investors saw the asset as a prime opportunity to redevelop the space into a high-end residential and hotel offering. By acquiring the asset and bringing in new and experienced operators, we ensured that Lido de Venezia would continue to have access to local healthcare services. In addition, through the utilization of a special tenant-financed capital expenditure (CapEx) plan, we are improving the asset which will, in turn, boost the quality of care that can be provided. Finally, through conversations with the tenant, we have identified opportunities to expand the space available to them through further reconditioning and development at the site, helping to increase the space dedicated to these services. **SDG 3.8.1**



Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Portfolio Statistics

Number of Assets

3

Total Area

23,305 m²

Euros invested

€78 million

Challenge

Over the last 15 years, Europe has increased the rate of students completing secondary school. For most countries, between 80 and 90% of students graduate with a high school certificate.¹³ However, there is still insufficient access to quality education at all levels—day-care, primary, secondary, and university—with adverse effects on individuals and communities. The need for safe, high quality education facilities is therefore clear.

The Role of Social Infrastructure

Education is a key sector of social infrastructure. We aim to support this SDG with investments in quality education assets in Europe. **SDG 4.1.1** The strategy is similar to how we approach investments in healthcare: we look to preserve, improve, and expand education.

Strategy in Action

In June of 2019, we acquired the Valla Park property, a multi-tenant and multi-purpose building in the Swedish town of Sundbyberg that includes a number of educational facilities. These include IES, a free primary school; NTI Gymnasiet, an upper secondary school specialised in technology, IT design, and media; and Yrkes Akademin, a leading company in the vocational education and labour market training industry **SDG 4.3.1**. In addition to the privately-run education services, the local municipality operates education services on the property, including an adult vocational school, a job centre to coach those in lower skill jobs, and a school for adults without high school qualifications. We aim to carry out physical improvements to the educational facilities and, through our engagement with tenants, develop community initiatives.

Data for Sustainable Development Goals takes into account only the area directly aligned with the SDG. Each asset can align to multiple SDGs. These numbers exclude space let to commercial tenants in assets that otherwise align with the SDG



Ensure availability and sustainable management of water and sanitation for all

European territory experiencing water stress

70%

The rise in water consumption in the EU in the last 30 years

15–25%

Environmental Impact Due Diligence Report

Understanding the environmental performance of an asset before an acquisition can be challenging. Nevertheless, it is essential to have some information in order to maintain a building's strong environmental performance and/or plan necessary improvements.

To do so, Franklin Templeton has created an environmental impact due diligence reporting process with the help of environmental and building consultants. We carry out this bespoke due diligence during the exclusivity phase in nearly every deal. The report is unique to Franklin Templeton's process. It has undergone several iterations to ensure it provides all the data required to support informed decisions pre-acquisition. These reports give us insights into the specific systems in place and how they are being utilized. This allows us to identify ways of improving assets from an environmental standpoint.

Challenge

Demand for clean water is rising faster than global population growth. This and the effects of global warming led the World Economic Forum to rank water issues and scarcity as one of the top five global risks in 2018. Southern and western Europe are under greater water stress due to agricultural and urban consumption.¹⁴ Water supply management, through improved and more efficient water-usage technologies and practices, is especially critical in these water-stressed areas.¹⁵

The Role of Social Infrastructure

While our strategy does not invest directly in the water-supply system, there are many steps that can be taken to reduce water consumption in the buildings we own. Our goal is to help save water.

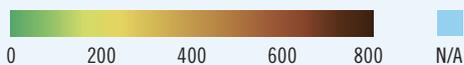
Strategy in Action

The built environment plays a key role in water consumption. The specific systems in a building, and the consumption patterns of the building's users, are the two main elements that drive the overall water efficiency of a building. The strategy aims to contribute to SDG target 6.4 by improving the water efficiency of our assets. **SDG 6.4.1** This process begins in the pre-acquisition phase, when we conduct an impact due diligence assessment to gain insight into the systems that are in place. With this and consumption data, we can then plan how to reduce water consumption. This might include site upgrades, such as installing low flow taps and toilets. We also engage tenants to reduce consumption. While we aim to ensure that all assets are water efficient, the strategy places a special focus on assets in regions facing water scarcity issues, such as Italy, Spain and Germany.

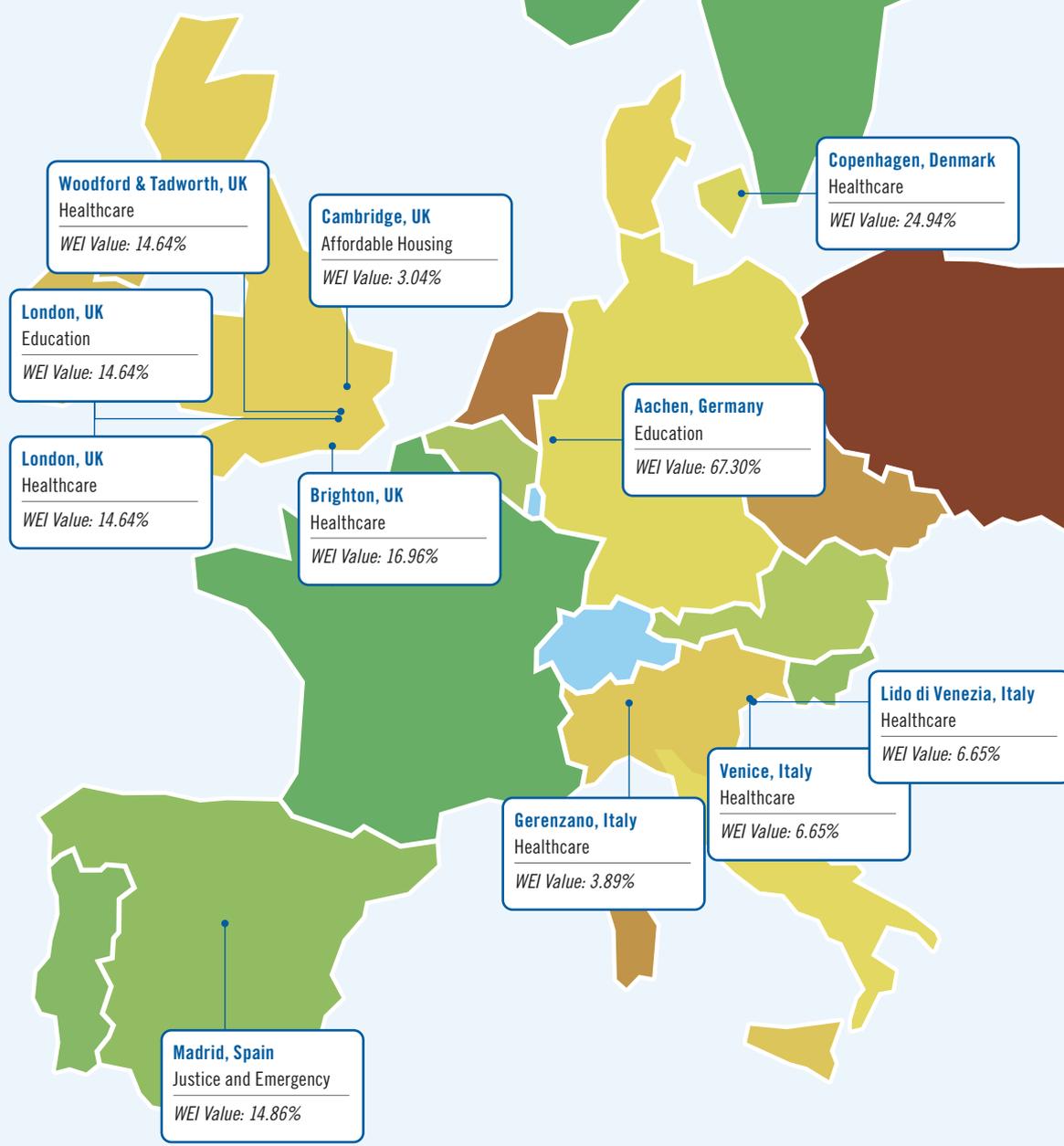
Our portfolio, water scarcity and carbon intensity

This map presents our assets, an overview of water stress or water scarcity conditions as well as carbon intensity on the European continent.

The Carbon Intensity (gCO₂/kWh) is presented in colors and measures the average amount of carbon emitted per kilowatt hour for each country's energy grid.



Water scarcity is represented by water exploitation index (WEI) and aims to illustrate the percentage of total renewable freshwater resources used in a defined territory—river basin, sub-basin, etc.—in a given period. A water exploitation index value of 10% means that 10% of that region's freshwater was used up during the given period. Values over 20% indicate that water resources are under stress, and values above 40% indicate severe stress and a clearly unsustainable use of freshwater resources.



Source: European Environmental Agency October 2018, Electricitymap.org Live and Franklin Templeton as of December 2019. For illustrative purposes only.



Ensure access to affordable, reliable, sustainable and modern energy for all

EU 2030 Climate & Energy Targets

Reduction in
GHG emissions

40%

Increase in energy efficiency
over the next decade

32.5%

Renewables in
EU energy mix

32%

Buildings are responsible for 40% of total energy consumption and 36% of total CO₂ emissions in Europe

Current Situation (Challenge)

The EU's 2030 climate and energy framework sets ambitious targets for clean energy and energy efficiency. The built environment has a significant role to play in meeting these sustainable energy goals because buildings make up a significant portion of energy consumption and CO₂ emissions.¹⁶ Improvements to the energy efficiency of buildings will therefore help the EU meet its 2030 targets. **SDG 7.3.1**

The Role of Social Infrastructure

As owners of social infrastructure assets, we can contribute to SDG targets 7.2 and 7.3 by improving the energy efficiency of buildings and evaluating the installation of rooftop solar systems where appropriate.

Strategy in Action

In every business plan we include asset-specific improvements such as LED lighting, smart metering, and the use of energy management systems. In 2020, we will conduct solar feasibility assessments across the whole portfolio and install rooftop solar where indicated. **SDG 7.2.1** We seek to consistently implement and assess improvements in energy efficiency to ensure that we are actively contributing to SDG 7 throughout the entire holding period of our assets. **SDG 7.3.1**



Make cities and human settlements inclusive, safe, resilient and sustainable

Portfolio Statistics

Number of Assets

1

Total Area

4,738 m²

Euros invested

€25 million

26.3%: the number of Europeans who spend more than 40% of disposable income on housing

68%: the percentage of world population projected to live in urban areas by 2050, currently at 56%

Challenge

Urbanization and associated community and environmental issues are central to SDG 11. Europe's increasingly dense urban areas suffer a lack of amenities, inadequate waste disposal, high prices of basic goods, and not enough affordable housing.¹⁷ As urban populations continue to rise, the need for urban mobility, energy efficiency, and community resiliency becomes increasingly critical. One in four Europeans are considered "rent burdened"—spending more than 40% of disposable incomes on rent—while ballooning housing costs are increasing the number of people at risk of poverty.¹⁸

The Role of Social Infrastructure

We believe social infrastructure is uniquely positioned to contribute to both aspects of this SDG. From a community perspective, the preservation of safe and affordable housing directly aligns with SDG target 11.1. From an environmental standpoint, we work with tenants to ensure that waste is minimised, and recycling practices are optimised to support SDG target 11.6.

Strategy in Action

In September of 2019, we acquired a portfolio of unoccupied homes and apartments in Cambridge, UK, where there is a shortage of affordable housing for students, senior residents and low-income workers. Local hospital staff, for example, are considered rent burdened. We aim to make our housing portfolio available to students at below-market rates, thereby meeting a community need **SDG 11.1.1**. We are also in talks with the local community council to learn more about which groups may best be served by this portfolio. We will then jointly develop an action plan to best address the housing needs of the community.



Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Portfolio Statistics

Number of Assets

1

Total Area

6,586 m²

Euros invested

€16 million

55 million: The number of children in Europe who have suffered some form of violence

Challenge

As with healthcare, the safeguarding of individual rights, opportunities, and safety is uneven across the globe due to weak institutions, poorly enforced rules of law, and a lack of access to justice. Europe lacks adequate investment in social infrastructure, which includes buildings used to administer and enforce justice systems.¹⁹ Underinvestment in justice and emergency facilities hurts these public services.

The Role of Social Infrastructure

The outcomes that SDG 16 is trying to achieve could be negatively impacted by a lack of quality space used by law enforcement. By investing in buildings related to justice & emergency, our strategy aims to preserve the availability and improve the quality of these highly essential assets.

Strategy in Action

At the start of 2019, we acquired a juvenile court in Madrid, Spain. Following the acquisition, we engaged with the tenant, Comunidad de Madrid, to identify how best to support the quality and safety of justice services. It was decided that a Gesell Chamber²⁰—a safe space in which juveniles can testify in private in the company of a youth psychologist—would accomplish that goal. These chambers reduce the stress of testifying in open court.²¹ It is well documented that stress, and particularly the stress related to close observation, can influence a child's memory and resulting testimony. The installation of a chamber was completed in July 2019. We hope this enhancement to the court's facilities will improve the safety of minors, resulting in more accurate testimony and better trial outcomes. **SDG 16.3.1**

An aerial photograph of a large, modern park. The park features a central green lawn with many people sitting on the grass. There are several curved, light-colored walkways that separate the lawn from the surrounding areas. The walkways are paved and have a textured surface. There are many trees of various sizes and colors, including some with autumn foliage. The overall atmosphere is bright and sunny, with shadows cast by the trees and people. The text "A LOOK AT SOME OF OUR ASSETS AND IMPACT" is overlaid on a white semi-transparent box in the upper left quadrant of the image.

A LOOK AT SOME OF OUR ASSETS AND IMPACT

Healthcare: Lido di Venezia, Italy

Located in Lido di Venezia, the asset houses both the Stella Maris Nursing Home and the San Camillo Hospital, a rehabilitation hospital specializing in cranial & spinal trauma, neuropathies, Parkinson's Disease, and other motor-function disorders.

THEORY OF CHANGE

Through our active ownership and aligned long-term capital, we aim to maintain and expand the availability of essential healthcare services, while improving the quality throughout the holding period.

Sustainable Development Goals Targets



The hospital provides government-subsidised treatments and diagnoses of several of the sicknesses and impairments that the World Health Organization (WHO) states should be covered as essential health services.



One of the core targets of SDG 11 is to provide safe and affordable housing for all. The asset's provision of beds for elderly in various physical and mental states does just that.

HOW MUCH

Community



Prior to our acquisition, both the nursing home and hospital were operated by a financially struggling operator and in our view, quality was subpar. As a part of the acquisition, our strategy helped to bring in two high-quality operators to take over the management of the asset in order to significantly improve community value.

Environmental



While the asset underperforms with regards to their pollution output and water consumption, the impressive amounts of greenspace and biodiversity onsite bring the overall score to average **SDG 11.7.1**. We see an opportunity to turn this into an outperforming asset, but this will require significant cooperation with the new tenants with a focus on environmental enhancement.

CURRENT AND FUTURE CONTRIBUTIONS



Aligned Long-Term Capital—These facilities were at risk of being closed or turned into a hotel/residential development, but by bringing in two new healthcare operators on long-term leases, we were able to maintain and improve health services for the community.



Tenant & Community Partnerships—We worked with the local municipalities and tenants to create a new water taxi route directly to the asset, helping to improve accessibility. We plan to develop community integration programs for the nursing home as well.



Purpose-Driven Development—We will have an opportunity to lease up the vacant building as well as develop new buildings on site to help expand the availability of necessary healthcare services in the region.



Function Enhancement—We have coordinated a pre-arranged tenant-financed CapEx plan totalling €6 million split between the two tenants. Tenant-driven improvements will focus on improving the overall quality of the asset and refurbishing the research facilities.

KPIs & STATISTICS

Community

ALL BEDS GOVERNMENT SUBSIDIZED	115 HOSPITAL BEDS <small>PI1017</small>	215 NURSING HOME BEDS
100 for Venetian citizens	15 for non-residents	Low-need individuals: 142 High-need: 47 Self-sufficient: 11 Disabled/vegetative: 14

22.6%	€82
Percentage of population over the age of 65 (Veneto), rising to 33.0% by 2038 ²²	Overnight cost per day at hospital (€90—national average) ²³

Environmental

80.0	12,672,831	55,256
GHG emissions (Kg of CO ₂ per m ²) O11479²⁴	Energy consumption (kWh) O18825²⁵	Water used (m ³) O11697²⁶

Affordable Housing: Cambridge, United Kingdom

The asset will initially serve as student housing operated by Homes for Students Limited. It will benefit from the flexibility to serve the student population, workers in essential services, or as assisted living homes for the elderly. We aim to make a portion of the portfolio available to other segments of the community in need of affordable housing.

THEORY OF CHANGE

Reducing housing insecurity with affordable, quality housing allows students to achieve better outcomes through their time in university.

Sustainable Development Goals Targets



We believe providing affordable housing will help students from lower income backgrounds continue into higher education.



Improvements to building management systems and Heating Ventilation Air Conditioning (HVAC) systems across the portfolio, coupled with a tenant engagement strategy, should reduce the energy intensity of the asset.



The portfolio will provide student housing at below-market rates. This will help to support access to safe and affordable housing for the student population.

HOW MUCH

Community



The asset was not providing any long-term housing solutions to the community upon acquisition, hence the very low initial community scoring. Moving forward, Franklin Templeton's redevelopment and reconditioning of the asset will create affordable accommodation for 244 students in Cambridge.

Environmental



The asset earned a D rating in its Energy Performance Certificate (EPC). The development of waste and recycling systems should improve the asset's environmental performance. By engaging with tenants, we hope to promote energy savings.

CURRENT AND FUTURE CONTRIBUTIONS



Purpose Driven Development—We will recondition our affordable housing units throughout Cambridge to provide additional low-cost housing options within the community.



Environmental Upgrades—We will be making a series of upgrades to the systems in assets across the portfolio. We plan to implement 100% LED lighting, upgrade to low-flow water fixtures, install double-pane windows where applicable and upgrade boilers where feasible.



Function Enhancement—Significant CapEx will be spent to furnish and recondition the assets to improve the quality of units.



Tenant & Community Partnerships—To build on our planned environmental upgrades, we aim to engage with tenants on best practices for reducing water and energy use.



Aligned Long-Term Capital—We intend to preserve the availability of this asset as a flexible affordable housing option over the long-term.

KPIs & STATISTICS

Community

40 PROPERTIES

37 residential homes
3 blocks of flats

244

Affordable accommodation units for students (0 currently occupied) **PD2532**

9,157

Number of students relying on shared housing in Greater Cambridge area in 2016²⁷

48%

Percentage of four-year college students experiencing issues with quality or affordability of their housing in 2019²⁸

48%

Weighted average of weekly rents for our units are cheaper than the average rent for one-bedroom accommodation in Cambridge **PD583²⁹**

Environmental

N/A

GHG emissions (Kg of CO₂ per m²) **O11479**

Energy consumption (kWh) **O18825**

Water used (m³) **O11697**

Education: Sundbyberg, Sweden

Five tenants utilize most of the asset's space to provide education services ranging from primary school to adult vocational programs for the residents of Sundbyberg. Other social infrastructure tenants present in the asset include a job centre and a non-profit association for the hearing impaired.

THEORY OF CHANGE

By providing long-term capital to support the continued operations of a recently expanded school, we aim to provide quality space for a range of education providers targeting different age groups. **SDG 4.1.1**

Sustainable Development Goals Targets

TARGET 4-1
Free Primary and Secondary Education



All education provided at the school, except some vocational programs, is free. As such, the asset supports **SDG 4.1**.

TARGET 8-6
Promote Youth Employment, Education and Training



Five of the seven tenants at the asset provide services that help both adults and young people enter the job market. This support **SDG target 8.6** in the pursuit of alternatives to higher education. **SDG 8.6.1**

HOW MUCH

Community



The asset facilitates several important high-quality education services available to almost any member of the community, but currently lacks strong community partnerships. We are optimistic that we can assist with building critical community partnerships to further raise the community value.

Environmental



The asset performs at an average level, but we believe the tenants will be receptive to working with us to optimise their utility consumption, helping to reduce the energy intensity of the asset. Additionally, as the strategy covers expenses related to utilities it is significantly easier to justify making systems upgrades throughout the holding period.

CURRENT AND FUTURE CONTRIBUTIONS



Aligned Long-Term Capital—The strategy acquired the asset through a forward commitment while the asset was still undergoing refurbishment. The core tenant, Internationella Engelska Skolan, has recently moved into the asset and we are seeking to preserve the space as an educational hub for the community over the long term.



Environmental Upgrades—Tenants at the asset have signed double-net leases leaving the strategy to cover utilities expenses which makes environmental upgrades significantly more feasible.



Tenant & Community Partnerships—Franklin Templeton has existing relationships with many of the tenants. We aim to leverage these relationships to engage with tenants early in the holding period to discuss how the asset can be better integrated into the community.



Function Enhancement—We aim to find new tenants for vacant spaces, for the benefit of the local community.

KPIs & STATISTICS

Community

75%	97%	17%	8 out of 10
Amount of gross lettable area occupied by tenants providing various educational services	Percentage of IES students earned qualifying grades for upper secondary school ³⁰ PI4924	Percent increase in number of students applying for high school over the past 3 years ³³	Number of vocational trainees obtaining employment within 3 months of graduation ³⁴ SDG 4.3.1
	84%—municipal schools national avg ³¹		
	92%—independent school national avg ³²		

Environmental

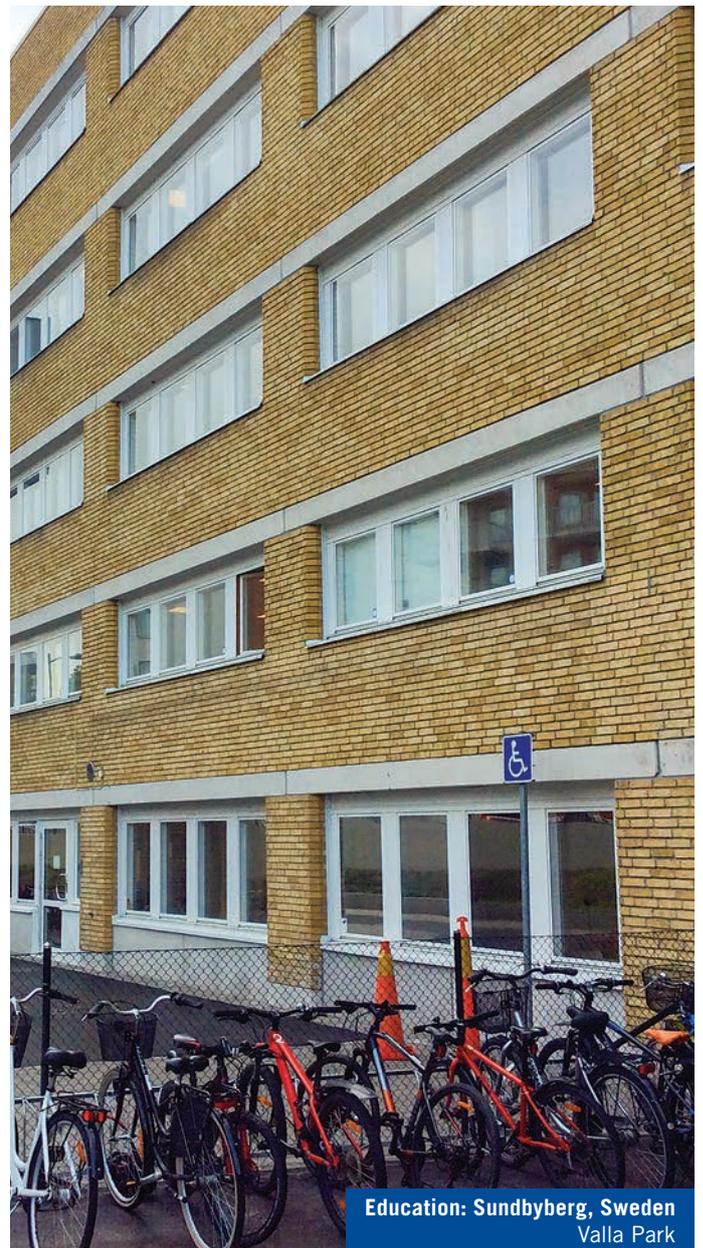
4.7	2,670,000	8,608
GHG emissions (Kg of CO ₂ per m ²) 011479 ³⁵	Energy consumption (kWh) 018825 ³⁶	Water used (m ³) 011697 ³⁷



Affordable Housing: Cambridge, United Kingdom
Cambridge Affordable Housing Portfolio



Healthcare: Lido di Venezia, Italy
San CamilloStella Maris



Education: Sundbyberg, Sweden
Valla Park

About Franklin Real Asset Advisors

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About this report

This report is a summarized version of our Annual Impact Report. Full version is available for existing investors and qualified prospects.

Endnotes

1. Excluded from calculation: Hall School Wimbledon due to lack of data, Cambridge Housing Portfolio due to vacancy at the end of 2019
2. Ibid
3. IRIS metrics are designed to measure the social, environmental and financial performance of an investment. This report cites IRIS metrics throughout the report
4. Source: Criminal, Civil, and Labor Data. Poder Judicial España, as of March 2020
5. Ibid
6. Ibid
7. Source: Boosting Investment in Social Infrastructure in Europe. Report of the High-Level Task Force on Investing in Social Infrastructure in Europe, as of January 23, 2018
8. Ibid
9. UN Sustainable Development Goals
10. Source: UN SDG3, United Nations, Sustainable Development Goals
11. Source: Improving healthcare quality in Europe. European Observatory on Health Systems and Policies, 2019
12. Source: Population structure and ageing, Eurostat, as of March, 2020
13. Source: Secondary graduation rate, Organization for Economic Co-operation and Development, as of March, 2020
14. Source: Water Stress, European Environmental Agency, as of March, 2020
15. Source: Water Scarcity and Drought in the European Union, European Commission
16. Source: New rules for greener and smarter buildings will increase quality of life for all Europeans, European Commission, April 15, 2019
17. UN SDG11, United Nations, Sustainable Development Goals
18. Source: Housing statistics, Eurostat, as of June, 2020
19. Source: Boosting Investment in Social Infrastructure in Europe. Report of the High-Level Task Force on Investing in Social Infrastructure in Europe, January 23, 2018
20. Source: AJS Advocates For Safe Places To Give Testimony. Association for a More Just Society, October 26, 2016
21. Source: Testifying in Criminal Court: Emotional Effects on Child Sexual Assault Victims. Retrieved from Monographs of the Society for Research in Childhood Development, Vol. 57, No. 5, Serial No. 229, 1992
22. Source: Istituto Nazionale di Statistica, as of March, 2020
23. Source: The Long-Term Care System for the Elderly in Italy. ENEPRI Research Report No. 80, as of March, 2020
24. This value is an estimated based on water consumption by month using actual usage over the last 81 days of the year and applying water use trends for a comparable building to estimate the previous 3 months Estimated based on the last 81 days of the year and applying water use trends for a comparable building to estimate annual values
25. This value is an estimate based upon the EPC report for the property Estimate based upon data from the latest Energy Performance Certificate
26. This value is an estimated based on water consumption by month using actual usage over the last 81 days of the year and applying water use trends for a comparable building to estimate the previous 3 months Estimated based on the last 81 days of the year and applying water use trends for a comparable building to estimate annual values
27. Source: Assessment of Student Housing Demand and Supply for Cambridge City Council. Cambridge, University of Cambridge, as of March 2020
28. Source: College and University Basic Needs Insecurity: A National #RealCollege Survey Report, The Hope Center, as of April 2019
29. Source: Based on knowledge of the asset and local market pricing determined by home.co.uk/for_rent, as of March, 2020
30. Source: Interim Report Q1 2018 published by IES, as of March, 2020
31. Ibid
32. Ibid
33. Source: Sundbyberg Stad, SCB, 2018 and Skolverket, as of 2018
34. Source: Reported by Yrkes Akademin, as of 2018
35. This value is an estimate based upon due diligence from the environmental consultant and examination of the physical systems onsite Estimate based upon desktop study and on-site system review conducted by our environmental consulting partner
36. Ibid
37. This value comes from reported 2019 actual water consumption figures

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