Engagement Report

Franklin Templeton Fixed Income ESG

January 2023

Transparency should be the bedrock of sustainable finance. With this report Franklin Templeton Fixed Income team shares with our clients, and the broader public, details and results of our engagement with bond issuers during the calendar year of 2022. This resonates well with our position that engagement is the essence of a transparent flow of information between the issuers, the investors and other market participants.

Facing the growing complexity of the sustainable finance sector, which is driven by a dynamic regulatory landscape and social expectations, we believe all participants within the financial markets should clearly communicate their goals and strategies of implementation.

In this spirit, we engaged with over 300 sovereign and corporate issuers, as well as other market participants (e.g., investment banks), to better understand each other's interests, ambitions, and risks. While the scope of this report is global, the new package of European legislation, Sustainable Finance Disclosure Regulation Level 2 rules, led those discussions.

With this report, we would like to demonstrate to our clients and other stakeholders that Principle Adverse Impact Indicators and Sustainable Investments are at the core of our ESG funds. Through our engagements we are committing to the development of a sustainable finance ecosystem that delivers the best results for everyone.

DAVID ZAHN, CFA, FRM
Head of European Fixed Income
Senior Vice President, Portfolio Manager
Franklin Templeton Investment Management Limited

5 key takeaways

1 Transparency should be the bedrock for sustainable financial ecosystem. Transparency is key for improving data quality. As the importance of non-financial factors increases due to client demand, as well as regulatory and voluntary obligations, more types of data – quantitative, qualitative, and spatial – are being integrated into the decision-making process to fully grasp environmental and social impacts and dependencies.

To the question on why companies do not report all 14 Principal Adverse Impact Indicators 60% of the answers included reasoning that it is not yet mandatory under the legal calendar foreseen by the European authorities, and companies are still in the process of developing necessary capabilities to do so.

2 Most issuers adopt the best practices of improving their technical capabilities and disclosure language. Lagging issuers are at a disadvantage from the perspective of ESG-oriented investors, as asset managers will continue to conduct an annual engagement to fulfill the expectations of both clients and regulators. Principal Adverse Impact Indicators (in short PAIs) data will be used for multiple purposes (e.g., decision-making process, portfolio maintenance, reporting). Therefore, issuers not disclosing PAIIs will be under scrutiny, and it is in the issuers' best interest to disclose such data voluntarily.

3 Energy transition is the most urgent step to assure climate change mitigation will be a benefit to us and future generations. Such projects are undertaken by issuers on many different levels, whether international, national, regional, local or entity. This entails not only investing in environmental projects that support deployment of well-known renewable energy sources, like solar photovoltaics or onshore and offshore wind turbines, but also supporting installing smart electricity and gases grids that allow for efficient integration of low-carbon and renewable sources into the network. We notice significant progress on green hydrogen infrastructure, Carbon Capture, Utilization, and Storage (CCUS) for certain sectors, and various methods of energy storage.

Across our European Fixed Income portfolios, we hold green bonds from issuers who constantly expand their work in the green hydrogen area. One of the more interesting ones is supplying green hydrogen for public transport in Barcelona or hydrogen-powered trains in Zaragoza, contributing to zero-emission urban and railway transportation.

4 The climate and biodiversity crises are interconnected. Commitments from the public and private sectors to curb biodiversity loss, as well as the dependencies and impact of business sectors on nature, affirm that it must be factored into portfolios. Our survey shows that more than 40% of the companies have a strategy towards biodiversity conservation. Most of the surveyed companies do not have sites or operations located in or near biodiversity-sensitive areas.

5 Societies around the globe are weathering violent and uncertain conditions related to health, safety, raising costs of living, and the rule of law. Global events, like the pandemic of Covid-19, Russian aggression towards Ukraine, and the subsequent inflation surge, show the world's interconnectedness, and therefore highlight the importance of solidarity and cooperation in tackling social challenges and building "the New Normal". The assessment of social and employee matters is integrated into our investment decisions to ensure that as a responsible investor we contribute to an inclusive and equitable society.

"Transparency should be the bedrock of sustainable finance. Through our engagements we are committing to the development of this sector in a way that delivers the best results for everyone."

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Rationale of the report

Achieving sustainability is dependent on assuring balance between the needs of three realms: people, nature, and economy. As all three are being influenced by the climate and biodiversity crises along with geopolitical volatility, we have designed our approach toward engagements to grasp this complexity and deliver comparable intra- and inter-sectoral data. We seek to focus our ESG research on the specific factors that we believe are material to future investment performance, and that are important to the investor community.

Our engagement process in 2022

Over the last year, we engaged with approximately 301 issuers on topics related to the quality of disclosure, energy transition, impact on biodiversity and social coherence. We engaged with 22 Sovereign issuers in 26 separate engagement processes that comprised 16% of our idiosyncratic engagement.

Sovereign and credit analysts regularly engage with government departments, policymakers, and company management on ESG issues. Our engagement process is twofold:

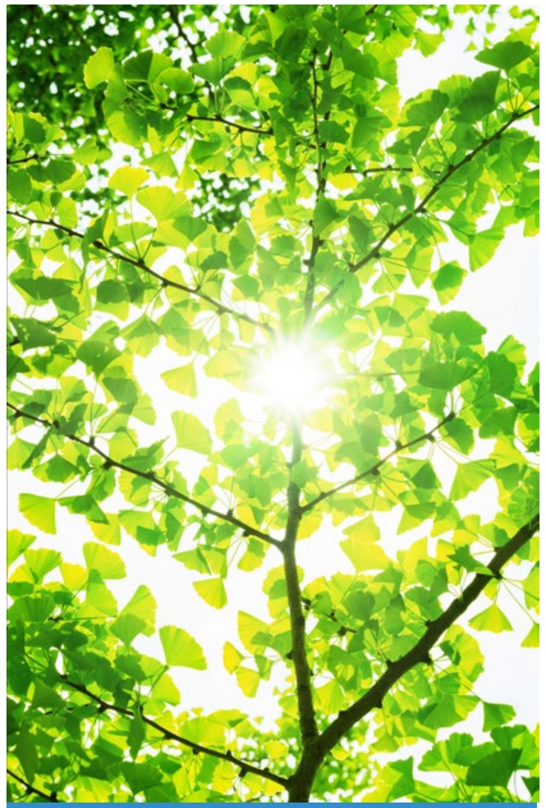
- **Idiosyncratic (issuer-specific) engagement** as part of analysts' routine fundamental analysis – seeking our clarification, greater disclosure or pushing a company to deliver a certain outcome. In 2022, 140 issuers have been contacted within this engagement process (in total 161 engagements).
- **Cross sectional engagement** – one theme, discussed with many companies to deepen our understanding of that theme. This year was anchored in consideration of Principle Adverse Impact (PAI) Indicators and new definition of sustainable investments under Sustainable Finance Disclosure Regulation (SFDR). In 2022, over 160 issuers have been contacted within this engagement process.

Across these two modes of engagement process we remain consistent regarding the abovementioned themes, that outline our strategic ESG objectives.

Theme	Nr of engagements
Improvement Of Sustainability Disclosure	90
Energy Transition	78
Social Coherence	64
Impact On Biodiversity	42

Table 1. Idiosyncratic engagements in 2022. Data from Franklin Templeton based on the questionnaires issued. Total number of engagements = 140. Engagement could have more than one theme.

The upcoming regulatory requirement to disclose Principal Adverse Impact (PAI) indicators, under the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR), is designed to bring more transparency into sustainability factors considered in investment decisions. All financial market participants must disclose 14 mandatory metrics applicable to corporate holdings.



Based on the shared interests of Franklin Templeton Fixed Income (FTFI) clients and issuers we have defined the following themes:

1. Improving the quality of disclosure
2. Energy transition
3. Impact on biodiversity
4. Social coherence

We invite you to read about them in detail in subsequent sections.

As part of the best efforts to obtain the PAI data and minimize the existing gaps, we decided to include in our engagement processes a regular survey. The quarterly survey will enhance the monitoring of the PAI indicators. The gathered information increases the coverage of data driven analyses and thus contributes to a more comprehensive integration of sustainability risks into our decisions.

In September 2022, we contacted over 160 issuers. We primarily raised awareness to our issuers that currently their PAII disclosure is voluntary, however lack of such data puts them at a disadvantage from the perspective of ESG-oriented investors.

Under the SFDR definition of sustainable investments, we need to ensure that projects we finance are aligned with environmental and social goals, such as biodiversity, circular economy, social cohesion, or integration of marginalized groups. Going forward, with sufficient disclosure level across our holdings, we will be able to make investment decisions advised by PAI Indicators and engage with companies with outlying PAI exposure.

Discussion related to sustainable investments was mainly of concern for green and social bond issuers, as well as the investment banks structuring those bonds. Our discussions addressed both inclusion of projects that contribute to those goals, as well as transparent reporting that provides confidence that the money we invest will be used on those projects.

Challenges to overcome and disclosure momentum

Reason for not providing a full disclosure	Number of companies	%
developing capacity	14	31
not yet mandatory	13	29
deemed not material	8	18
not in scope of the regulation	7	16
insufficient data	2	4
different reporting standard	1	2

Table 2. The reasons why companies do not report all 14 Principal Adverse Impact Indicators (n=45)

Year	Nr of companies	%
2022	4	24
2023	12	70
2024	1	6

Table 3. The year when companies plan to provide a full disclosure on all 14 PAIs (n=17)

60% of companies do not report on all 14 Principal Adverse Impact Indicators because it is not yet mandatory under the legal calendar foreseen by the European authorities, and companies are still in the process of developing necessary capabilities to comply.

16% of companies have declared that there are beyond the scope of the regulations (i.e., CSRD, SFDR, or EU Taxonomy) or domiciled outside the European Union. The remaining answers referenced using a different reporting standard, like the Global Reporting Initiative Standards (GRI), or pointed out the lack of sufficient data. The latter was especially linked to special purpose vehicles.

18% of respondents believed not all 14 PAIs are material for their operations. Typically, because of their sector, or being a non-listed company or not obliged to report at a consolidated level. For example, banks or diversified financial sectors are not active in the fossil fuel sector (PAI 4), while they may finance such activities. Similar argument has been made for emissions to water (PAI 8), when greywater from properties is treated in municipality treatment centres, while emissions to water by financed entities is not measured. The representatives of Telecommunication Services, Consumer Durables & Apparel, Real Estate, Utilities also pointed out that not all indicators are material. Another Principal Adverse Impact Indicator that has been commonly not reported was unadjusted gender pay gap (PAI 12), due to the lack of technical capabilities or deeming it as not material.

Franklin Templeton Fixed Income actions

We practice what we preach. As we encourage our issuers to improve transparency in their disclosures and act on themes that matter to our clients and us, we lead by example and act accordingly.

Franklin Templeton Fixed Income Group is a leading investment specialist with US$133 billion in assets under management (AUM) as of 12/31/2022. Themes guiding our engagements influence the construction of our portfolios, which are refined over time to match the financial and non-financial expectations of our clients.

THEME #1 Energy transition

The Franklin Templeton Investment groups and three of their affiliated specialist investment managers ClearBridge Investments, Brandywine Global and Martin Currie joined the industry-leading **Net Zero Asset Managers Initiative** in 2021. These four signatories collectively represent more than US$948 billion in assets under management (AUM).

We implement the Institutional Investors Group on Climate Change (IIGCC) Net Zero Investment Framework. By 2040 our commitment is 100% of AUM in material sectors to be at net zero or aligned to net zero. We have an engagement threshold target of 70% of financed emissions in material sectors are at net zero, aligned with a net zero pathway, or the subject of direct or collective engagement and stewardship actions. By 2030 this threshold will increase to 90%.

Furthermore, this year we developed two proprietary methodologies and IT tools, that allow us to closely monitor the progress of issuers on energy transition.

The first one is the **Energy and Environmental Transition Index** (EETI), which ranks sovereign issuers using various data points, including energy efficiency, renewable energy performance, greenhouse gas intensity, and environmental considerations.

The second one is the **ESG Credit App**, used by the Franklin Templeton fixed income team, which ranks corporate issuers by their greenhouse gas emissions and greenhouse gas intensity. Similarly, to the EETI a catalogue of datapoints is utilized, such as Scope 1 and 2 greenhouse gasses emissions or emitters' historic trajectories. Corporate issuers falling within the bottom 20% of the investment universe (i.e., climate laggards) based on the ESG Credit App are excluded from the portfolio construction (applicable to selected Article 8 and 9 funds).

THEME #2 Impact on biodiversity

This year Franklin Templeton Fixed Income Group joined the **Partnership for Biodiversity Accounting Financials (PBAF)** to collaborate on key topics related to biodiversity in the financial sector, while David Zahn was appointed a new PBAF Board member.

PBAF is an independent foundation based in the Netherlands, which aligns and consistently cooperates with initiatives in the financial sector like the European Align project, the Taskforce for Nature related Financial Disclosures (TNFD) and the Finance for Biodiversity Pledge.

PBAF's primary objective is to promote and refine the 'PBAF Standard'. The PBAF Standard enables financial institutions to assess and disclose the impact and dependencies on biodiversity of loans and investments. PBAF provides practical guidance to financial institutions on biodiversity impact and dependency assessment and defines what is required for these assessments (whether or now conducted by data providers) to deliver the right information to financial institutions. With this information, financial institutions can effectively manage and report on biodiversity-related risks and opportunities and contribute to the conservation and sustainable use of biodiversity.

While biodiversity has not been granted similar attention compared to Net Zero, there is growing recognition that the risks associated with biodiversity loss have both macroeconomic and financial implications with a far greater degree of complexity. We are therefore pleased to join PBAF to help promote nature-based solutions for our investors.

THEME #3 Social coherence

Franklin Templeton Fixed Income is a responsible investor and is committed to supporting and upholding The Principles of the UN Global Compact. We are therefore committed to not investing in debt securities issued by companies that we believe are confirmed to breach those principles.

The **Franklin Templeton Fixed Income Modern Slavery Policy** outlines the principles that we follow to achieve zero-tolerance against modern slavery. Modern Slavery takes various forms, including slavery, servitude, forced and compulsory labor and human trafficking, all of which have in common the deprivation of a person's liberty by another to exploit them for personal or commercial gain (the Modern Slavery Act, UK, 2015).

Our policy's objective is to ensure appropriate procedures are in place to avoid violations of relevant laws, regulations, and commitments. This policy applies to all Franklin Templeton Fixed Income Funds domiciled in Europe and distributed internationally and covers fixed income funds. Violation of this policy will be sanctioned, including where appropriate disciplinary procedures.

THEME #1 – Energy transition

Energy transition is the most urgent step to assure climate change mitigation that will benefit us and future generations. Such projects are undertaken by issuers on many different levels, whether international, national, regional, local or entity. This entails not only investing in environmental projects that support deployment of well-known renewable energy sources, for example solar photovoltaics or onshore and offshore wind turbines, but also supporting installing smart electricity and gases grids, that allow for efficient integration of low-carbon and renewable sources into the network.

We notice considerable progress on green hydrogen infrastructure, Carbon Capture, Utilization, and Storage (CCUS) for certain sectors, and various methods of energy storage.

Energy transition

Additionally, we closely monitor clean tech solutions and disruptive technologies in that field, as well as research and development projects that have a long-term validity. This includes, among many, nuclear fusion research.

The relevant Principal Adverse Impact indicators for this theme are GHG emissions (PAII nr 1), Carbon Footprint (PAII nr 2), GHG intensity of investee companies (PAII nr 3), Exposure to companies active in the fossil fuel sector (PAII nr 4), Share of non-renewable energy consumption and production (PAII nr 5), Energy consumption intensity per high impact climate sector (PAII nr 6), GHG intensity of investee countries (PAII nr 15).

50% of surveyed companies declared that they have an existing power purchase agreement with an independent renewable energy producer or a clause with energy utility company for 100% renewable energy offtake (see Figure 1). Most of the companies had more than 25% of their total energy consumption covered by renewable energy. This shows that the engaged issuers consider renewable energy as an essential element in determining their structure of energy consumption (see Figure 2).

Figure 1. Contract for renewable energy provision

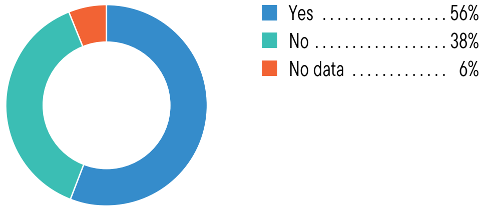
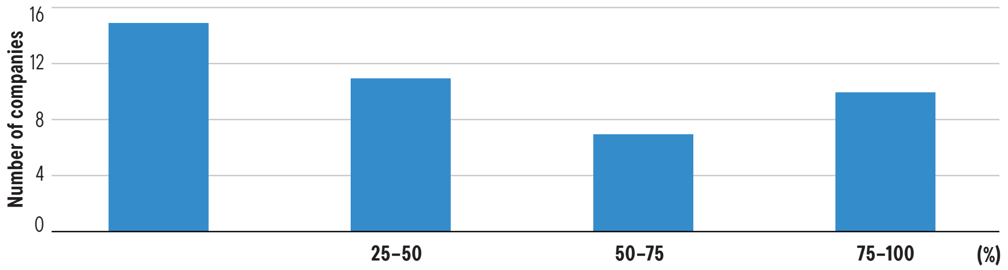


Figure 2. PAI 5: Renewable energy consumption



Survey Question: Which measures has your company taken to conserve energy consumption (e.g., switching to less energy intensive production processes, buildings insulation, turning off lights after office hours)?

The majority (95%) of companies declared to have energy efficiency strategies in place. Many of them are using contractors to supply renewable energy for offices or buildings, resigning from the energy providers who use fossil fuels. Multiple companies provided energy-efficient solutions in their building – switching to LED lighting, ISO standards, insulation of the buildings, and applying energy monitoring systems. Several companies acquired green building certifications, such as LEED (Leadership in Energy and Environmental Design). Due to the pandemic event and the necessary workflow adjustments, companies observed that alternative arrangements like video calls instead of in-person meetings (which require traveling) are another efficient way to save energy. Some of the issuers noticed that the importance of conserving energy consumption is not only relevant for their operation but also for their supply chain. As the supply chain might be the most significant source of energy consumption. Therefore, they encourage suppliers to take steps to implement more environmentally friendly solutions. Business travel is no different. Companies are either trying to find alternative solutions, such as those mentioned above videoconferencing, or investing in ultra-low emission vehicles (ULEV), e.g., hybrid, hydrogen or electric. However, the solutions are not only material but start with creating awareness. Some of the companies provide guidance or training for their employees on how to reduce energy consumption. Measures include switching off devices when not in use, responsible heating and cooling, etc. Also, employees motivate each other.

Survey Question: Please confirm whether your company foresees any energy transition risks in regard to your products/services, operations, and value chain. If yes, please provide an explanation of your approach/policy and implementation example. If no, please explain why.

Based on the answers we received from our questionnaire, we have divided issuers into the following categories:

- **23%** Supporting energy transition projects which are defined as the issuers that are directly financing or helping in organizing resources for the projects related to energy transition.
- **15%** Producing energy transition technologies which are defined as the issuers that are directly involved in the process of producing technologies or developing recent technologies related to energy transition.
- **28%** Investing in issuers own energy transition defined as the issuers that have an energy strategy and are in the process of an energy transition.
- **22%** Analyzing energy transition risks defined as the issuers currently analyzing them with intend to include them in their future strategy.
- **12%** Unforeseen energy transition risks as defined as the issuers that don't see energy transition risk as material for their operations.

88% of the issuers have answered that they foresee energy transition risks and the category with the highest number of issuers are those that are investing in their own energy transition which accounts for 28% of all issuers.

Does your company monitor Scope 3 emissions?	Nr of companies	%
Yes, we do monitor	43	58
No, we do not monitor	21	28
Not yet, but we are developing the capacity to do so	10	14

Table 5. Scope 3 emissions monitoring (n=74)

Cases related to energy transition

Hydrogen

We also continue our interest in green hydrogen. Clean energy obtained from renewable sources is a way forward to achieve decarbonisation. According to the International Energy Agency (IEA), the global demand for hydrogen constantly rises.[1] The production of green hydrogen involves splitting water into hydrogen and oxygen using renewable electricity. Nevertheless, over 95% of current hydrogen production is fossil-fuel based, and very little of it is "green". [2] Thus, the ESG Team finds it important to engage with issuers who are developing green hydrogen projects, and one of them is HydrogenRise. A German firm supports using renewable energy sources for hydrogen production and replacing fossil energy carriers. With a focus on industrial customers, the company assists countries along the global sunbelt in developing an infrastructure for producing and exporting green hydrogen. One of those countries is Oman. The Sultanate of Oman is committed to becoming one of the world's largest exporters and producers of green hydrogen, producing one million tons of green hydrogen per year by 2030. They have signed an agreement with HydrogenRise and steelwork manufacturer Jindal Shadeed. As a result, the first green hydrogen plant will be developed at Sohar. This plant will decarbonize the smelting process for steel. They aim to produce 'green steel' by replacing the gas required for the rolling process with hydrogen. That way, the rolling process at the steel mill has the potential to become completely emission-free. The production in Oman could supply the rising global demand for decarbonized steel products. Meetings like those help us better understand the trends in clean technology and current market needs, and tailor our approach in future engagements.

Denmark - CCS

Another interesting technology that drew our attention is CCUS - Carbon Capture, Utilisation and Storage. The technology involves capturing and effectively using the high concentrations of CO_2 emitted by industrial facilities or power generation. It is also possible to capture CO_2 directly from the atmosphere. When the captured CO_2 cannot be used on-site, it is compressed and transported to be injected into deep geological formations (such as depleted oil and gas reservoirs or saline formations), where it is trapped for permanent storage (CCS). The captured CO_2 could be utilized by converting it into valuable products, such as fuels and chemicals (CCU).[3] In Europe, there are over 30 CCS commercial facilities in various stages of development.

We participated in meetings and seminars with the Danish Ministry of Climate, Energy and Utilities representatives. The discussion was intended to broach the subject of CCS technology and the status of CCS in Denmark. The country aims to reduce its greenhouse gas (GHG) emissions by 70% by 2030 compared to 1990 levels, which amounts to a total reduction of 20 million metric tons of CO_2 annually. That makes Denmark's pledge one of the world's most ambitious climate goals. They reach a scientific consensus that CCS is essential to achieve those goals. Denmark allocated around €5 bn for various CCS projects. The plans have broad political support both in parliament and from municipalities. The political parties signed an agreement on the permanent construction of this infrastructure, which is crucial because, regardless of the ruling party, they will continue the development of the facilities, which guarantees the stability of the plans and the investment.

In the fight against the climate crisis, this technology is critical and will play a pivotal role in European efforts to further decarbonisation and achieving carbon negative.

Chile – SLB

Our focus is more than just the European countries and their sovereign bonds. One of the countries we engaged with was Chile, and our interest was in their Sustainability-Linked Bond Framework. Part of the Nationally Determined Contribution (NDC), main goal is to lessen Chile's fossil fuel dependency and reduce emission intensity. Deployment of renewable energy sources (e.g., wind, solar, small-scale river dams, biogas) is accompanied by the development of regional grids for efficient distribution. Chile is dedicated to becoming a local leader in green hydrogen (by 2030). The financing of transformation is supported by a scheme of green taxes (e.g., vehicles and carbon emissions). The water scarcity threat is addressed through plans to develop small-scale river dams rather than hydro megaprojects. The Chilean water crisis began in 2008 and the country also experienced an increase in drought severity. As a result of climate change, multiple hazards that have historically affected Chile are expected to increase in frequency, intensity, exposure, and magnitude, including wildfires, flooding, landslides, droughts, and impacts associated with sea level rise.[4] Thus, the country must be committed to strengthening its climate resilience.

Chile is the first government to tie its official climate change commitment to bond issuance and one of only eleven countries to make unconditional commitments to the United Nations to reduce emissions in the next decade and beyond.[5]

Orange & Deutsche Telekom

We met with Orange and Deutsche Telekom (DT) representatives to discuss their environmental approach and strategic climate adaptation and mitigation plans. The telecom industry plays a vital role in combatting climate change by transitioning to sustainable energy. Both issuers are committed to being net zero carbon by 2040. The way to achieve this includes equipping sites with solar panels, owning onshore wind farms, and contracts with renewable energy providers, including green PPA (power purchase agreements). Another interesting approach DT mentioned was a trial where cell towers in Germany could operate entirely from wind and solar energy generated by on-site panels and turbines. Plans for Scope 1, 2, and 3 reductions are also in place which include reducing their own CO_2 emissions, reducing indirect emissions associated with their energy consumption, and finally reducing the emissions generated by their suppliers and their customers.

Both issuers have an efficient way to optimize the energy consumption of the mobile access network through sharing the radio access networks ("RAN"). Sharing equipment and the energy environment between operators leads to significant energy consumption reduction while improving coverage, and the pace of coverage rollout. This approach has both ecological and economic advantages. Moreover, issuers also progress towards Open RAN, which helps develop accessibility within networks. In addition, through its open architecture, this technology enables service providers to develop 5G networks more quickly. Both operators are part of the O-RAN Alliance, which encourages innovation and makes access networks as innovative and flexible as possible. Technology is another way to successful energy saving.

With the ever-expanding 5G technology, there is a need to decommission old technology. Orange and Deutsche Telekom plan or have already implemented to phase out 2G and 3G networks across their European footprint. That will improve the management of its networks and upgrade them to secure, resilient, energy-efficient, and modern technologies, such as 4G and 5G.

THEME #2 – Impact on Biodiversity

The climate and biodiversity crises are interconnected. Commitments from the public and private sectors to curb biodiversity loss, as well as the dependencies and impact of business sectors on nature, affirm that it must be factored into portfolios.

The materiality of biodiversity is unquestionable. The loss of ecosystem services is not only an environmental issue, but also an economic and social issue. Businesses depend on ecosystem services such as clean water and air, livable climate, or the ability to obtain medicine from plants. Companies interact with the environment through their operating and supplying practices. However, in parallel to being dependent on the good health of the ecosystem, companies also exert various pressures on nature by depleting natural capital, unsustainably managing areas of land and financing activities which directly or indirectly impact nature's variability. In total, over half of global GDP (Gross Domestic Product) is nature dependent. We need to act now to become "nature-positive".

Impact on Biodiversity

We have defined this theme as aspects of economic activities of our issuers, which have a positive or negative impact on the biosphere. This includes protection and restoration of biodiversity and ecosystems, measuring biodiversity footprint, use and protection of water and marine resources, pollution prevention and control, waste management, and climate adaptation.

The relevant Principal Adverse Impact indicators for this theme are activities negatively affecting biodiversity-sensitive areas (PAII nr 7), emissions to water (PAII nr 8), hazardous waste ratio (PAII nr 9).

Our PAI survey shows that more than 40% of the companies have a strategy towards biodiversity conservation. Most of the companies surveyed do not have sites or operations located in or near biodiversity-sensitive areas (See Figures 3 and 4). Companies that declared activity in or near biodiversity-sensitive areas are engaged with us to ensure that we fully understand the nature of this exposure, any nature loss is avoided, and positive impact is supported.

Figure 3. PAI 7: Located in or near to biodiversity-sensitive areas

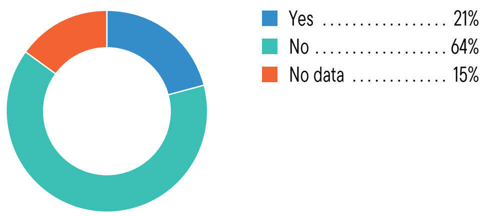
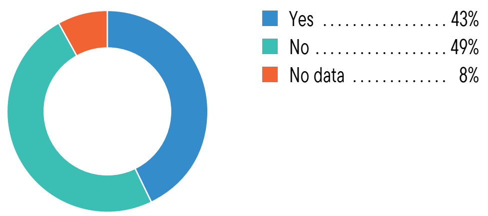


Figure 4. Biodiversity conservation strategy



Measures to conserve water and/or reduce emissions of wastewater	Nr of companies	%
Policies and/or actions	36	75
Water usage deemed not material	12	25

Table 6. Measures to conserve water and/or reduce emissions of wastewater (n=48)

Three quarters of companies have declared implementing measures to conserve water consumption and/or reduce emission of wastewater.

Issuers described many good practices to improve the efficiency in the use or consumption of available resources. Depending on the focus, such practices were applied either to their office environment, or business practices, or both. Examples of water savings measures include an inventory of water consumption and recycling data collection, implementing savings policies, service provision agreements, establishing a maintenance and inspection program to guarantee the detection and swift repair of leaks, regular evaluation and refinement of the water saving infrastructure and mechanisms, awareness campaigns.

Preventing an excessive use was achieved by installing flow reducers, diffusers, pressure limiters on taps, taps with timers or presence detection systems, dishwashers, replacement of hot water system, purchasing of fans for offices rather than the use of cooling units, installation of flush tanks with 3-litre reduction, and smart water meters. Many companies have underlined their reliance on municipal wastewater treatment facilities.

Some of the more innovative approaches included in-house water recycling, grey water systems to reuse water for cleaning external surfaces, the use of retention basins, rain gardens and other bioretention type facilities and nature-based solutions with the goal of storing and using all rainwater.

17% of companies have observed a decrease in water usage over recent years (between 8% and 42%). Although some noted they will be closely monitoring the performance of these metrics as staff fully returns to the offices. 6% of companies have declared setting up targets, including lowering water risk within the workplace.

Hazardous waste generation – summary	Nr of companies	%
the entity does not generate significant amount of hazardous waste	17	37
the entity generates significant amount of hazardous waste...	29	63
... and it is reporting the amount	16	35
... while does not monitor the amount	13	28

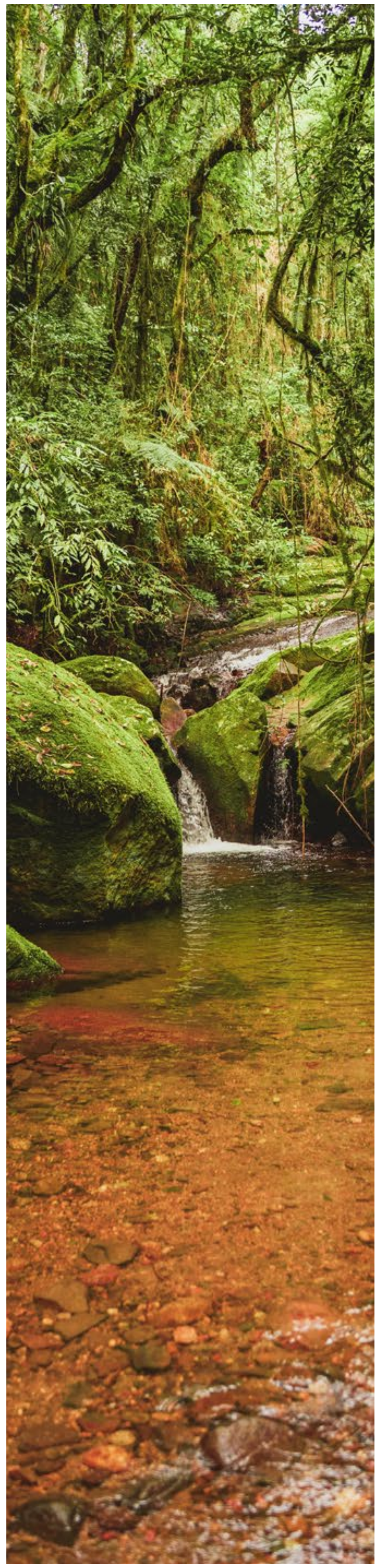
Table 7. Hazardous waste generation – summary (n=46)

More than one third of issuers have reported that they do not generate a material amount of hazardous waste, usually because of sector affiliation (e.g., financial services).

Although some issuers have shown examples of extraordinary attention to detail and best practices by reporting hazardous waste, such as neon lamps, Waste from Electrical and Electronic Equipment (WEEE), and sanitary waste from company's infirmaries, these have accounted for only a minimal percentage of the overall waste. Nevertheless, the waste has been disposed separately and in an appropriate manner – using specialized and certified companies, while maintaining granular records.

28% of issuers, across various sectors, have undertaken circular initiatives. They have implemented polices on waste management that prioritises the reuse, resale or recycling, aimed to keep resources in use for as long as possible and extracting the maximum value from materials while in use. Some have pledged to become fully circular by 2024-2030, with an already impressive progress of only 1-2% of waste being sent to landfill or incinerated. Although for some sectors (e.g., the pharmaceutical industry) it is a regulatory requirement that the specific types of waste are subject to incineration.

Best practices in circular economy include the consideration of waste generation at the design and procurement stages and integrating sites of operations (whether within the company or through a joined initiative of multiple entities) that allow to reuse a wide range of by-products. Such cooperation is called industrial symbiosis, and it is the future-proof way to reduce the volume of waste generated.



Cases related to biodiversity

Netherlands

The Netherlands has been pioneering as a green bond sovereign issuer. During the initial issue of Green Dutch State Loan 2040 in May 2019, it was the first sovereign green bond with an AAA rating. Updated in 2022 Green Bond Framework issued by Dutch State Treasury Agency (DTSA) covered both the energy transition and biodiversity (climate adaptation) themes.

The proceeds will support Netherlands' vision on global climate action. They will be allocated to the development of offshore and onshore wind farms, electricity generation using solar photovoltaic technology, low-carbon land transport and upgrades to low-carbon buildings. The impressive project called Delta Programme has two innovative measures worth highlighting. First is spatial adaptation. It is a collective plan of the municipalities, district water boards, provinces, and the central government to structure cities, villages, and rural areas to be resilient to the impact of the climate crisis. An example of spatial adaptation in an urban environment is adding greenery. Increased greenery can decrease the risk of waterlogging and reduce extreme summer heat. In rural areas, re-meandering streams are a great example of spatial adaptation. Using this approach, upstream regions can combat drought, and downstream areas can avoid waterlogging. The project also considers which transformation will be effective at each location, depending on the local vulnerability to climate effects[6]. The second measure is a reintroduction of 'wide green dikes' alongside the Dutch coast. Rather than heightening and broadening the existing dike with a fortified revetment of asphalt and stones to comply with the safety standards, a more natural solution was proposed. A thick layer of grass and locally quarried clay over a gentle slope merging smoothly into the adjacent salt marshes without a drainage ditch. Pits and salt marshes can accumulate enough sediment if sea levels don't rise too quickly. Implementing this natural solution allowed the synergy between sustainable flood prevention development and nature conservation objectives. The Dutch flood management system is unquestionably a climate adaptation model for the world.

As per the example of the Netherlands, European countries are increasingly interested in issuing sovereign green bonds. Which is a welcome development as they act as significant signals to various market stakeholders.

Furthermore, the Dutch bond will become the first European sovereign green bond that is so closely in line with the EU Taxonomy. With the upcoming regulations, that is a way forward and shows other issuers how things can be done.

Latvia

We continue to actively engage with the Sovereigns Issuers either through direct meetings, video calls, or by attending roadshows. This year we focused on the Baltic countries based on the previous year's attendance at the roadshow of the Republic of Latvia where they presented details of the Latvian Sustainability Bond Framework and contemplated inaugural sustainability bond issuance . This presentation resulted in fruitful meetings with representatives of the Treasury (DMO) and several line ministeries of the Republic of Latvia to discuss their green finance strategy and national climate adaptation approach. What we appreciate is their comprehensive preparation and the "art of presentation." We can discuss financial fundamentals and sustainability-related matters. The line ministry representatives present at the meeting are specialists in their respective fields. This makes an in-depth discussion possible, which clients and investors interested in ESG topics appreciate.

During the first meeting, we were presented with "The Latvian National Plan for Adaptation to Climate Change until 2030" and the climate change scenario until 2100 based on the 5th IPCC (The Intergovernmental Panel on Climate Change) Report. The aim is to reduce the vulnerability of people, the economy, infrastructure, construction, and the environment to the effects of climate change and to promote the use of opportunities created by the climate crisis. Further adaptation plan 2040 will consider more climate-resilient solutions and updates to risk and vulnerability assessments. The representative emphasized the importance of local governments as the key element of the adaptation. Projects on the local government level include improvement in the rainwater collection system, development of drainage system to prevent floods, and promotion of green infrastructure in the cities. The collective outcome can be achieved through the collaboration of local authorities, helping Latvian people and the economy to become less vulnerable and to adapt to the climate change. This represents a good practice that can be replicated in other countries. Another interesting project includes cooperation with the Scandinavian countries. Norway's Grants framework improves coherence with national policy planning, integrates climate issues into sectoral and regional policies and activities, and develops new climate change policy planning tools.

The second meeting was devoted to discussing sovereign sustainability-linked bonds and the investment possibilities offered by short-duration SSA green bonds. A larger pool of such instruments would allow asset managers to attract new clients to the idea of sustainable investing which is a market niche and creates the potential for sovereign issuers to produce such debt securities in the future.

Case studies are used for illustrative purposes only and should not be construed as an endorsement of or affiliation with Franklin Templeton. These opinions may not be relied upon as investment advice or recommendations or an offer for a particular security or as an indication of trading intent for any Franklin Templeton strategy.

Swiss Confederation

The team attended the Swiss Confederation Green Bond Investor Presentation. Switzerland's environmental schemes and objectives target two main challenges: climate crisis and biodiversity loss. We were intrigued by the the focus on biodiversity.

Previously, like many other countries, Switzerland has experienced increased mean temperature and decreased biological diversity. Many habitats became similar (e.g., pastures), and others, together with native species, are vulnerable or near threatened. Swiss Confederation Green Bond Framework will finance climate-related areas including clean transportation; green buildings and energy efficiency; renewable energy, international cooperation; research, innovation and awareness raising. The key points supporting biological diversity are subsidies to promote sustainable forest management and forest biodiversity, restoration of biodiversity and ecosystems, sustainable land use and protection with adequate proportion put aside for biodiversity, organic farming, and conservation of natural landscapes.

Switzerland is not only committed to international standards like The Convention on Biological Diversity (CBD) but has its own Biodiversity Strategy and Action Plan in place. They aim to preserve biodiversity, ecosystems, and genetic diversity, promote biological diversity, share knowledge, and commit internationally. However, biodiversity loss is not just a country-specific issue, this represents a global problem, and will be a topic FT Fixed Income ESG Team to expand upon during the upcoming fiscal year. We hope that following the example of Switzerland will result in other sovereign and corporate issuers issuing bonds that will contribute to limiting the decline or disappearance of biological diversity.

Austria

Austria is another sovereign issuer whose new green bond framework aims at financing climate change mitigation and adaptation projects, including clean transportation, renewable energy, energy efficiency, pollution prevention and control, extreme weather events observation and monitoring systems, and what's particularly aligned with Franklin Templeton Fixed Income ESG focus – biodiversity protection and restoration. Austria already has long-term plans for preserving and improving biodiversity and ecosystems. The country adopted the first Biodiversity Strategy in 1998 which ranks among the most species-rich countries in Europe, with a diverse landscape and wildlife. Projects that will positively impact the biosphere feature environmentally sustainable management of living natural resources and land use, rehabilitation and restoration of forests, (where forests cover 49% of the country[1],) and maintenance of nature reserves, national parks and restoration of wetlands. Part of the proceeds will be used for biodiversity programs in the public and private sectors.

We had an opportunity to engage with the Austrian Debt Management Office representatives to better understand the country's sustainability policy. Given Austria derives most of its energy generation from renewable sources, we decided to focus on the next frontiers of sustainable investing by promoting measures related to climate adaptation and biodiversity while debating how those actions would be financed. During our meetings, we discussed the importance of climate adaptation measures to ensure long-term growth of the national economy, using the impact of changing weather patterns on hydro energy generation as an example of potentially adverse impacts that can be addressed with modern technological solutions. Furthermore, DMO officials and our analysts shared thoughts on biodiversity – which is viewed by Franklin Templeton Fixed Income as a matter of equal importance to the climate change crisis.

THEME #3 – Social coherence

Societies around the globe are weathering violent and uncertain conditions related to health, safety, raising costs of living, and the rule of law. Global events, like the pandemic of Covid-19, Russian aggression towards Ukraine, and the subsequent inflation surge, show world's interconnectedness. These events highlight the importance of solidarity and cooperation in tackling social challenges and building "the New Normal".

Buidling "the New Normal" centers on three elements: work, living standards, and human rights. Assuring meaningful work is possible through the creation of quality employment opportunities, social protection, labor rights and social dialogue. Adequate living standards underline the ability to meet basic human needs, such as health, food, housing and education and the right to consumer protection. While human rights support the development of inclusive communities and societies that are supportive of the vulnerable or marginalized groups.

Social coherence

The relevant Principal Adverse Impact indicators for this theme are as follows: violations of UNGC principles and OECD Guidelines (PAII nr 10), lack of processes and compliance mechanisms to monitor compliance with UNGC principles and OECD Guidelines (PAII nr 11), unadjusted gender pay gap (PAII nr 12), board gender diversity (PAII nr 13), exposure to controversial weapons (PAII nr 14), and investee countries subject to social violations (PAII nr 16).

The assessment of social and employee matters is integrated into our investment decisions to ensure that as a responsible investor we contribute to an inclusive and equitable society. While almost 50% of the surveyed companies are official signatories of UNGC principles and OECD Guidelines for Multinational Enterprises, even more companies declare they have due diligence policies to monitor and ensure compliance with the guidelines (see Figures 5 and 6).

Only two companies stated that there is no gender pay gap between male and female employees with average gross earnings and 50% of women employed. Almost 40% of companies surveyed had a pay gap lower than 10% of gross earnings. Most of the companies had between 26-50% of women in board (see Figure 8).

Figure 5. PAI 10: UNGC principles signatory

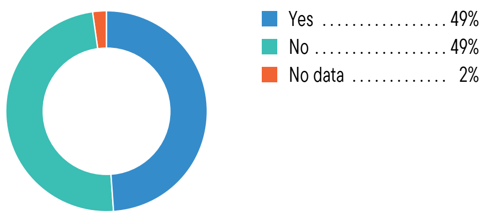


Figure 6. PAI 10: UNGC Principles and OECD Guidelines monitoring?

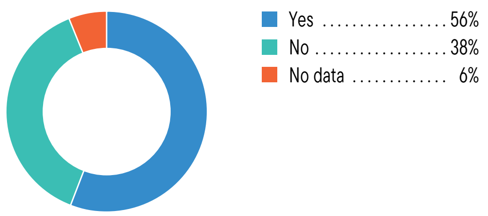


Figure 7. PAI 12: Gender pay gap

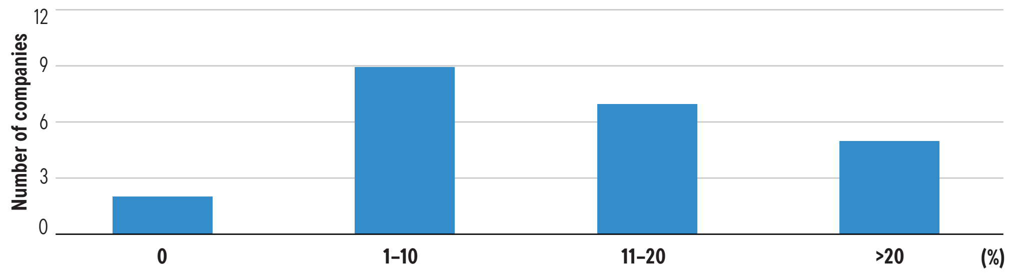
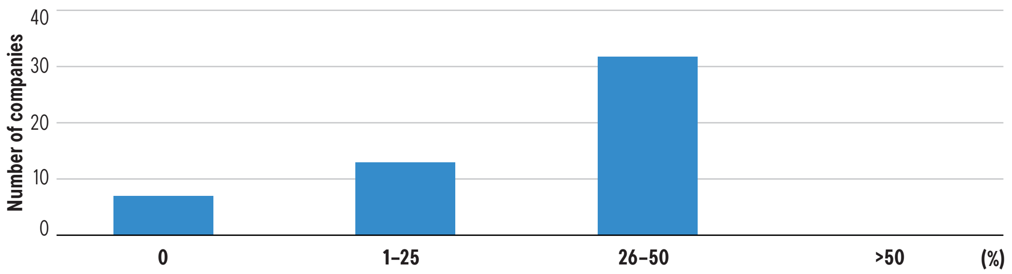


Figure 8. PAI 13: Women in board



Survey Question: Please confirm whether your company has any policies regarding social issues - e.g., modern slavery, gender pay gap, (gender) diversity. If yes, please provide an explanation of your approach/policy and an example. If no, please explain why.

In general, companies ensure appropriate policies are in place regarding social issues. As can be seen from the responses, some of them employ a more comprehensive approach. More than half of the companies (65%) indicated they had policies regarding human rights or if they did not create their own formalized process, they adhered to the UN Global Compact Principles. Companies also place significant importance on equality, diversity and inclusion, with 61.5% having policies in place. Several companies mentioned including supply chain and modern slavery policies, some of which have specific protocols on various forms of slavery, such as human trafficking, forced labor and child labor. Having such regulations applied to multiple sectors like banks, pensions, telecommunication, utilities, healthcare and cosmetics. A few companies (18%), from the banking and telecommunication sector, mentioned having specific pay gap policies. 15% of these companies indicated having bribery and corruption policies.

Survey Question: Do you use controlled (with compensable factors) or uncontrolled pay gap? If controlled, please list compensable factors for controlled pay gap.

In addition, we wanted a broader picture versus the numerical gender pay gap. Within three companies, there was no difference in the salary between women and men employed in the organizational position. Some of the companies acknowledged that currently, the gender pay gap is not monitored, while others admitted that monitoring is conducted internally, but the data is not publicly disclosed.

Some companies use both controlled and uncontrolled pay gaps in their audit.

- An uncontrolled (unadjusted) gender pay gap measures the median salary for all men and women regardless of job type or worker seniority.
- A controlled (adjusted) gender pay gap compares the pay of men and women who perform similar or equivalent work (equal pay for equal work). This approach considers compensable factors such as job title, education, experience, industry, job level, and hours worked.

If the companies indicated they used either controlled or uncontrolled measurements, then the primarily uncontrolled gender pay gap prevailed. When using a controlled pay gap, some of the compensable factors were contract hours, length of service, job seniority, type of contract, level of responsibility, performance, and education. Few companies conduct an annual salary review, which would help them detect salary irregularities which usually applies not only to gender but also to age, ethnicity, disability, etc. Some companies base their review on the Gender equality Index or use standards from The Global Reporting Initiative. Notably, for companies with branches in different countries, their approach to auditing the pay gap depends on the company's location and sometimes on national regulations.

Cases related to social coherence

Bpifrance COVID bond

In their statement, the Global Investors for Sustainable Development Alliance (GISD) emphasized the need to issue innovative social bonds, which can be part of the solution to fund the response to the COVID-19 crisis.[7] . The effects are still evident today, and it remains a valuable remark, proving the need for such a financial instrument is continually viable.

We have met with Bpifrance to discuss their COVID Response Bond further. The bond intends to mitigate the negative social aspects of the unprecedented COVID-19 pandemic. Loans cover the French sectors mostly impacted by the pandemic, which primarily include micro businesses, small and medium-sized, but also some larger enterprises. Currently, more than 700,000 companies are supported. The proceeds helped strengthen their cash flow, decreasing the risk of financial distress, maintaining labor relations, and preventing massive unemployment. Bonds like those are an excellent example of social coherence, assuring decent work and social protection.

Enexis – gender pay gap audit

When conducting our survey about Principle Adverse Impact Indicators, we engaged with a few issuers and one of them that stood out was Enexis. The company is a Dutch utility company whose focus is to construct and maintain the electricity and gas networks in the Netherlands. After our discussion, the company conducted gender pay gap research to determine the unadjusted pay gap within their company. The gap is defined as the difference between the average gross hourly earnings of men and women expressed as a percentage of the average gross hourly earnings of men.[8]

In 2020 the average gender pay gap in the EU was 13%. That has changed minimally over the last ten years. A critical priority of gender policies at the EU and national levels is reducing the gender pay gap.[9] Unfortunately disclosing the pay difference between men and women both in private and public sectors is still not a frequent practice. That is why the European Commission proposed the transparency directive that would make gender pay gap reporting a legal requirement. Additionally, unadjusted gender pay gap reporting is one of the mandatory PAIs (PAI 12).

If a company can implement standards to improve diversity, equity, and inclusion, it is always a much-welcomed improvement. We hope examples like Enexis with their upcoming SFDR requirements, more companies (if they are already not doing so) will decide to undertake gender pay gap audits and disclose the results in their reports or websites.

Modern Slavery

Modern slavery should be at the heart of our approach to sustainability. We cannot say we are sustainable if doing business is based on abusing and exploiting others. The problem of modern slavery is particularly noticeable in the supply chain, and it can exist in every stage – from harvesting to manufacturing. Companies producing consumer goods are among the most at risk of exposure to modern slavery. When we identify such a material risk, we engage with the company to understand how they manage the issue. Thus, we engaged with Mondelez, Procter & Gamble, and Nestle – considering they are one of the world's largest consumer goods companies. In general, companies were aware of the risk of forced or child labor within the supply chain. In addition to prevention, monitoring, and remediation, they addressed the root causes of child and forced labor. That includes working with local communities and Non-Government Organizations (NGOs) to understand the area's needs better. Furthermore, the assistance in creating prosperous farms where farmers are less likely to depend on their children's help and support better access to education. Other actions include the involvement of external non-profit organizations to conduct an assessment which allows for the acknowledgment of the conditions workers face and plan preventive or corrective actions.

According to the International Labour Organization (ILO), in 2021, 49.6 million people were living in modern slavery, of which 27.6 million were in forced labor. Twelve percent of all those in forced labor were children. Those are disturbing statistics. Furthermore, the number of people in modern slavery is not decreasing but the opposite. There were ten million more people in modern slavery in 2021 than in 2016. That includes an increase of 2.7 million in the number of people in forced labor.[10]

Franklin Templeton Fixed Income has a strong stance against modern slavery. The heart of any business is its people. We must adhere to zero tolerance for abuse and exploitation by taking the right due diligence steps at the right time and minimizing the risk of modern slavery infiltrating a business or its supply chain.

Glencore – divestment example

Compliance with both OECD Guidelines for Multinational Enterprises and The Ten UN Global Compact Principles is essential for the FTFI ESG Team, and when severe violations occur, we react, as demonstrated by our actions with Glencore. The firm is a Switzerland-based producer and marketer of natural resources. The company produces and markets various metals and minerals - such as copper, cobalt, zinc, nickel, ferroalloys, and coal.

At the time of the engagement, Glencore and its subsidiaries were involved in potential repetitive and severe breaches of two of the UNGC Principles. The environmental and social impact on their mining operations in Columbia failed the observance with Principle 1, where businesses should support and respect the protection of internationally proclaimed human rights. Allegations of the bribery cases in Nigeria, Venezuela and D.R. Congo intrude on Principle 10, where businesses should work against corruption in all its forms, including extortion and bribery. While the investigations in multiple jurisdictions were still underway, at least one Glencore employee admitted to violating the Foreign Corrupt Practices Act and committing money laundering. Further investigation resulted in Glencore pleading guilty to bribery related to African oil operations.

In the Columbian Cerrejon coal mine, it was reported that the extensive water usage negatively affects the local environment and the health and well-being of Indigenous populations. Because of their operations and extensive water use, local inhabitants struggled to obtain enough water for domestic and agricultural use. David Boyd, a Special Rapporteur of the United Nations, confirmed the adverse effects of the mining operations in Columbia. The battle between Indigenous communities and the Cerrejon mine remained unresolved over the last few years.

The engagement with the representatives did not bring the expected results due to ongoing legal procedures, they refused to comment on the Nigerian bribery controversy. The defense regarding water mismanagement in Columbia remained insufficient.

Additionally, our queries regarding corrective actions in the sustainability field at large were dismissed with threadbare and vague statements. The overall sustainability governance on Glencore's side was poor, due to restrictions on holding United National Global Compact breaching issuers.

Franklin Templeton Fixed Income ESG Team*

David Zahn
Head of ESG

Agnieszka Chmura
Fixed Income

Gail Counihan
Fixed Income

Magdalena Gruszecka
Fixed Income

Dr Kasper Hanus
Fixed Income

Juliusz Nagórka
Fixed Income

Dr Justyna Tasic
Fixed Income

Portfolio Management and Credit Research Teams:

Adrienne Young
SVP/Director of Credit Research/Portfolio Manager

Aleck Beach
VP/Research Analyst

Amit Jain
Senior Research Analyst

Angelo Formiggini
International Fixed Income Research Analyst

Ashley Allen
Research Analyst

Benjamin Cryer
VP/Research Analyst/Portfolio Manager

Brian French
Deputy Director, Corporate Credit Research

Bryant Dieffenbacher
VP/Research Analyst/Portfolio Manager

Callum Postlethwaite
Credit Research Analyst

Christine Villaluz
VP/Research Analyst

Emmanuel Teissier
SVP/Director Corp Credit Research, Europe

Franck Nowak
VP/Director - Corporate Credit Research, Emerging Markets

Hardy Soegianto
VP/Research Analyst

James McGiveran III
VP/Research Analyst/ Portfolio Manager

Katherine Wegert
Research Analyst

Marc Kremer
SVP/Portfolio Manager

Matt Fey
SVP/Director - Corp Credit Research

Michael Chakardjian
VP/Research Analyst

Mohieddine Kronfol
CIO-MENA Fixed Inc & Global Sukuk

Piero Del Monte
VP/Research Analyst/ Portfolio Manager

Rakesh Tripathi
Senior Research Analyst

Robert Nelson
SVP/Research Analyst/Portfolio Manager

Rod MacPhee
SVP/Portfolio Manager/Research Analyst

Ronak Patel
Research Analyst

Sevrika Galipeau
Portfolio Manager/Research Analyst

Shawn Lyons
SVP/Portfolio Manager

Tom Petersson
VP/Research Analyst

Trevor Kaufman
VP/Research Analyst

Summary

We hope that this report has demonstrated to you, our clients and stakeholders, how seriously we take sustainable finance at Franklin Templeton Fixed Income and that Principle Adverse Impact Indicators and Sustainable Investments are at the core of our ESG funds. Our engagements throughout 2022 were led by our aim to better understand the interests, ambitions and risks of all market participants, as well as the belief that transparent communication is key in the face of the growing complexity of this sector. It is through these engagements that we are committing to the development of a sustainable finance ecosystem that delivers the best results for everyone involved.

* The report has been signed off by all contributors.

List of Companies Engaged

Across the Portfolios

List of SSA issuers engaged through idiosyncratic engagement
Aglomeracja Beskidzka
City of Riga
Canada
Czech Republic
European Commission
Federal Republic of Germany
French Republic
Government of Estonia
Government of Kazakhstan
Government of Latvia
Hungary
Kingdom of Denmark
Kingdom of the Netherlands
Kingdom of Spain
Republic of Austria
Republic of Chile
Republic of Colombia
Republic of Lithuania
Republic of Poland
Romania
Swedish International Development Cooperation Agency
Swiss Confederation
List of corporate issuers engaged through idiosyncratic engagement
ABQ Finance Ltd.
Abu Dhabi Commercial Bank
Abu Dhabi Islamic Bank
Abu Dhabi National Energy Company
Ahli United Bank
Al Ahli Bank of Kuwait
Aldar Properties PJSC
Almarai Co. Ltd.
AltaLink
ALTUM
Apple
Arabian Centres Co.
AutoCanada
Axalta Coating Systems
Banco BTG Pactual S.A.
Bank AlJazira
Bank Dhofar SAOG
Bank Muscat SAOG
Bank of America
Bank of Bahrain & Kuwait BSC
Bayer US Finance II LLC
BNP Paribas
Boubyan Tier 1 Sukuk Ltd.
Bpifrance
British Telecommunications PLC
Burgan Bank
CaixaBank
Callon Petroleum Company
Canadian Utilities Limited
CF Industries
Colt Merger Sub
Commercial Bank of Dubai
Commercial Bank of Qatar
Consolidated Energy Finance S.A.
Corus Entertainment
Credit Agricole
Dar Al Arkan Real Estate Development Company
Darling Ingredients
Deutsche Bahn
Deutsche Telekom
Development Bank of Japan
Doha Finance Ltd.
DP World Crescent Ltd.
Dubai Islamic Bank
Dukhan Tier 1 Sukuk Ltd.
East Japan Railway Company
Element Solutions
Emaar Properties PJSC
Emera
Emirates NBD Bank PJSC
Emirates Telecommunications Group Company PJSC
EPCOR Utilities
EQUATE Petrochemical BV
ESIC Sukuk Ltd.
First Abu Dhabi Bank
Fresenius Finance Ireland PLC
GEMS Menasa (Cayman) Ltd.
Glencore
HSBC
Iberdrola
International Finance Corporation
Japan Bank for International Cooperation
JBS USA
JPMorgan Chase & Co
KfW
KIB Sukuk Ltd.
Kuwait Finance House
Kuwait International Bank
Kuwait Projects Company (KIPCO)
Luminor Bank
Madrilena Red de Gas Finance BV
MAF Sukuk Ltd.
Manulife Financial Corporation
Masraf Al Rayan
Mazoon Assets Company SAOC
Medco Oak Tree Pte Ltd.
Mondelez International
Mumtalakat Sukuk Holding Co.
National Bank of Canada
National Bank of Fujairah
National Bank of Kuwait
National Bank of Oman
National Central Cooling Company
Nestle
Oesterreichische Entwicklungsbank
Ooredoo Q.P.S.C.
Orange
Pekao Investment Banking S.A.
Penn National Gaming
Procter & Gamble
PROG Holdings
Qatar Gas Transport Co.
Qatar National Bank
Qatar Reinsurance Co. Ltd.
QIB Sukuk Ltd.
QIIB Senior Sukuk Ltd.
Riyad Bank
Royal Caribbean Group
SABIC Capital I BV
Samhallsbyggnadsbolaget i Norden AB
Sasol Financing USA LLC
Senaat General Holding Corporation
Sharjah Islamic Bank
SNB Sukuk Ltd.
Standard Industries
Station Casinos
STC Sukuk Co. Ltd.
Superior Plus
Superior Plus LP
Telefonica
Universal Music Group
Verizon Communications
VICI Properties
Vinci S.A.
Vivion
Volkswagen Financial Services
Volvo Car Corporation
Warba Bank
List of issuers engaged through cross sectional engagement
ABANCA Corporacion Bancaria S.A.
ABN AMRO Bank
AIB Group
Air France–KLM S.A.
Almirall
altria office REIT-AG
Altice France
Anheuser-Busch InBev
Arena Luxembourg Finance S.a r.l.
Argentum Netherlands BV
Arion banki hf.
Arkema
Aroundtown SA
ASR Nederland
Assicurazioni Generali
AutoNation
Autostrade per l'Italia
AXA
Axalta Coating Systems
Banco Bilbao Vizcaya Argentaria (BBVA)
Banco de Sabadell, S.A.
Banijay Entertainment
Barclays
BAWAG Group AG
Belfius Banque
BNP Paribas Cardif
Bpifrance
British Telecommunications PLC
CAB Selas
Caixa Geral de Depositos
CaixaBank
Catalent Pharma Solutions
Cemex
Centurion Bidco S.p.a.
China Development Bank
Chorus
CK Hutchison Group Telecom Finance S.A.
Commerzbank AG
Consolidated Energy Finance S.A.
Cooperatieve Rabobank UA
CPI Property Group (CPIPG)
Credit Agricole Assurances
Credit Mutuel Arkea
Credit Suisse AG, London Branch
Credit Suisse Group
Crown Holdings
Danaher Corporation
Darling Global Finance B.V.
Diocle S.p.A.
EDP - Energias de Portugal
Electricite de France (EDF)
ELM B.V.
Encore Capital Group
Enel S.p.A.
Energia Group
Energo-Pro
Enexis Holding N.V.
Erste Group Bank AG
Experian
F.I.S. - Fabbrica Italiana Sintetici S.p.A
Faurecia
Federal National Mortgage Association
Freddie Mac
Garfunkelux Holdco 3 S.A.
Globalworth Real Estate Investments Ltd.
Golden Goose
Goldman Sachs
Goldstory SAS
Grand City Properties
Grifols
HBOS
Healthcare Realty
Heimstaden Bostad
Herens Midco S.a r.l.
Holcim
HSBC
I.M.A. Industria Macchine Automatiche S.p.A..
Ibercaja Banco
Iceland Bondco Plc
In'li
Inter Media and Communication S.p.A.
InterGen
International Design Group
Intesa Sanpaolo
Intesa Sanpaolo Vita
IQVIA
JDE Peet's
KBC Group
KION Group
KRONOS Worldwide, Inc.
Landsbankinn
Liberty Mutual
Lincoln Financing S.a r.l.
LKQ Europe
Lloyds Banking Group
Logicor
Lorca Telecom Bondco
Loxam
Lune Holdings S.a r.l.
M.D.C. Holdings, Inc.
MAS Securities B.V.
Matterhorn Telecom S.A.
Mauser Packaging Solutions
Monitchem Holdco 3 S.A.
MPT Operating Partnership LP
Nationwide Building Society
Naturgy
NE Property B.V.
Netflix
Nexi
Nidda Healthcare Holding GmbH
NN Group
Nobel Bidco B.V.
Nokia Corporation
Novafives S.A.S.
NVR, Inc.
Nykredit Realkredit A/S
OI European Group B.V.
Orange
Oriflame
Paganini BidCo S.p.A.
Paprec Group
Parts Europe
PCF GmbH
Pension Insurance Corporation plc ('PIC')
Phoenix PIB Dutch Finance BV
Primrose Residential
Progroup AG
Quatrim S.A.S.
Republic of North Macedonia
Roper Technologies
Royal Mail
S.P.C.M. SA
Samhallsbyggnadsbolaget i Norden AB
Schoeller Packaging B.V.
SELP
SIGNA Development Finance S.C.S.
Societe Generale
Spirit Realty
Standard Industries
Stedin Holding N.V.
SUEZ
Summit Properties Ltd
TeamSystem
Techem Verwaltungsgesellschaft 675 mbH
Telecom Italia S.p.A.
Telefonica Europe B.V.
Telia Company
Teollisuuden Voima Oyj
Titan International, Inc.
Transactie Monitoring Nederland (TMNL)
TUI Cruises
Unicaja Banco
UniCredit
Verde Bidco
Verisure
Vesteda
Viterra
Vivion
Vodafone Group
Zapadoslovenska energetika

Some company names may appear more than once, since we engaged with them on several occassions regarding different issues.

List of Companies Engaged

from Franklin Green Target Income 2024 Strategy, Franklin European Total Return Strategy and Franklin Euro Short Duration Bond Strategy

List of Issuers Engaged from Franklin Green Target Income 2024 Strategy

- ABANCA Corporacion Bancaria S.A.
- ABN AMRO Bank
- AIB Group
- Air France–KLM S.A.
- Almirall
- alstria office REIT-AG
- Altice France
- Arkema
- Aroundtown SA
- ASR Nederland
- Assicurazioni Generali
- AXA
- Axalta Coating Systems
- Banco Bilbao Vizcaya Argentaria (BBVA)
- Banco de Sabadell, S.A.
- Barclays
- BAWAG Group AG
- Belfius Banque
- BNP Paribas Cardif
- British Telecommunications PLC
- Caixa Geral de Depositos
- CaixaBank
- Catalent Pharma Solutions
- Cemex
- Centurion Bidco S.p.a.
- Chorus
- CK Hutchison Group Telecom Finance S.A.
- Commerzbank AG
- Cooperatieve Rabobank UA
- CPI Property Group (CPIPG)
- Credit Agricole Assurances
- Credit Mutuel Arkea
- Credit Suisse AG, London Branch
- Credit Suisse Group
- Crown Holdings
- Danaher Corporation
- Darling Global Finance B.V.
- EDP - Energias de Portugal
- Electricite de France (EDF)
- ELM B.V.
- Encore Capital Group
- Enel S.p.A.
- Energia Group
- Energo-Pro
- Erste Group Bank AG
- Faurecia
- Garfunkelux Holdco 3 S.A.
- Globalworth Real Estate Investments Ltd.
- Goldman Sachs
- Grand City Properties
- Grifols
- HBOS
- Heimstaden Bostad
- Holcim
- HSBC
- Ibercaja Banco
- International Design Group
- Intesa Sanpaolo
- Intesa Sanpaolo Vita
- IQVIA
- KBC Group
- KION Group
- KRONOS Worldwide, Inc.
- Liberty Mutual
- Lincoln Financing S.a r.l.
- LKQ Europe
- Lloyds Banking Group
- Loxam
- MAS Securities B.V.
- Matterhorn Telecom S.A.
- Mauser Packaging Solutions
- MPT Operating Partnership LP
- Nationwide Building Society
- Naturgy
- NE Property B.V.
- Netflix
- Nexi
- NN Group
- Nokia Corporation
- OI European Group B.V.
- Orange
- Phoenix PIB Dutch Finance BV
- Progroup AG
- Quatrim S.A.S.
- Republic of North Macedonia
- Royal Mail
- S.P.C.M. SA
- Samhallsbyggnadsbolaget i Norden AB
- Schoeller Packaging B.V.
- Societe Generale
- Standard Industries
- SUEZ
- Summit Properties Ltd
- Techem Verwaltungsgesellschaft 675 mbH
- Telecom Italia S.p.A.
- Telefonica Europe B.V.
- Telia Company
- Teollisuuden Voima Oyj
- Titan International, Inc.
- Unicaja Banco
- UniCredit
- Verde Bidco
- Viterra
- Vivion
- Vodafone Group

List of Issuers Engaged from Franklin European Total Return Strategy

- ABANCA Corporacion Bancaria S.A.
- Almirall
- Altice France
- Aroundtown SA
- ASR Nederland
- Autostrade per l'Italia
- AXA
- Axalta Coating Systems
- Banco de Sabadell, S.A.
- Bank of America
- Barclays
- BAWAG Group AG
- BNP Paribas
- CAB Selas
- CaixaBank
- Credit Agricole
- Credit Agricole Assurances
- Credit Suisse Group
- Deutsche Bahn
- Enel S.p.A.
- Erste Group Bank AG
- Federal Republic of Germany
- Goldman Sachs
- Government of Estonia
- Government of Latvia
- Heimstaden Bostad
- Iberdrola
- In'li
- Intesa Sanpaolo
- KBC Group
- Lincoln Financing S.a r.l.
- Lloyds Banking Group
- Nationwide Building Society
- Nestle
- Nokia Corporation
- Nykredit Realkredit A/S
- Orange
- Pension Insurance Corporation plc ('PIC')
- Progroup AG
- Republic of Lithuania
- Romania
- Schoeller Packaging B.V.
- Societe Generale
- Standard Industries
- TeamSystem
- Telefonica Europe B.V.
- Verde Bidco
- Verisure
- Vivion
- Volvo Car Corporation

List of Issuers Engaged from Franklin Euro Short Duration Bond Strategy

- Almirall
- Altice France
- Arion banki hf.
- Aroundtown SA
- Autostrade per l'Italia
- AXA
- Banco de Sabadell, S.A.
- Bank of America
- Barclays
- BAWAG Group AG
- BNP Paribas
- CaixaBank
- Commerzbank AG
- Credit Suisse AG, London Branch
- Credit Suisse Group
- European Commission
- Federal Republic of Germany
- Grand City Properties
- Heimstaden Bostad
- HSBC
- Intesa Sanpaolo
- KBC Group
- KfW
- Lloyds Banking Group
- Luminor Bank
- NN Group
- Nykredit Realkredit A/S
- Orange
- Primrose Residential
- Romania
- Societe Generale
- SUEZ
- Telecom Italia S.p.A.
- Telefonica Europe B.V.
- UniCredit
- Verde Bidco
- Verizon Communications
- Viterra
- Vivion
- Vodafone Group
- Volvo Car Corporation

Some company names may appear more than once, since we engaged with them on several occassions regarding different issues.

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