Beyond ESG

Franklin Templeton Stewardship Report 2023

Reporting Period: 1 January - 31 December 2022

The UK Stewardship Code

The UK Stewardship Code 2020 is an ambitious set of 12 Principles that challenges asset managers like us and others in the investment community to provide evidence of our responsible allocation, management, and oversight of capital on behalf of our clients.

The Code focuses on how investors' activities and outcomes create long-term value for clients, leading to sustainable benefits for the economy, environment, and society.

We have adopted the Code as our global standard and in this report we have set out our stewardship approach, covering **purpose and governance, investment approach**, and **engagement**.

For more information on the UK Stewardship Code visit www.frc.org.uk.

Contents

“This is our third year of preparing reports guided by the UK Stewardship Code and we are proud of our status as signatories. We also recognise that each year expectations rise as the bar is raised. The urgency and complexity of the issues raised by sustainable investment compel us to focus on continuous improvement informed by open and honest dialogue with clients, companies, our fellow investors, policy makers, and stakeholders. There is no room for standing still in dynamic and challenging market conditions.”

Our commitment

I am delighted to once again present our annual Stewardship Report.

2022 was an important year for Franklin Templeton. We marked our 75th anniversary—an opportunity to reflect on our journey towards becoming one of the world's largest and most trusted investment managers.[1] In that time, we've continued to explore new horizons, growing our capabilities across asset classes, geographies, and investment vehicles. One thing that hasn't changed over that time is our mission to help people all over the world achieve the most important financial milestones of their lives.

The year also marked a new stage in the evolution of our Sustainable Investment Strategy, as fiduciaries of our clients' capital. As events since the global pandemic have shown—conflict in Ukraine, soaring inflation, supply chain disruptions, and volatility in financial markets—stewardship is crucial to risk management and value creation. Fiduciary duty is our guiding star in this work, as we focus on delivering repeatable, risk-adjusted returns for clients. Importantly, we are evolving 'Beyond ESG' and towards sustainable investment which is grounded in the economics of managing financial, human, and natural capital.

To lead this work, I appointed Anne Simpson to a new role as Global Head of Sustainability with a responsibility to drive strategy and best practice in partnership with our investment teams across the firm. She joins Dr. Yu (Ben) Meng, Franklin Templeton's executive sponsor of Sustainability in leading this work. Following extensive dialogue and discussion across our investment teams and business services, we've built a sustainability approach that focuses on our fiduciary duty. It is framed in four quadrants: beliefs to articulate what guides our investment strategies; governance, to ensure clarity on roles and responsibilities; central investment services to provide our portfolio teams with data, analytical tools, training, and stewardship support; and strengthening our market influence through thought leadership and advocacy with policy makers and regulators. We are already seeing the positive impact in our rankings and dialogue with clients.

I invite you to review our report to learn more about stewardship at Franklin Templeton and our progress over the past year.

Jenny Johnson
President and Chief Executive Officer
Franklin Resources, Inc.

1. Source: 2020 NMG Global Asset Management Study.

Beyond ESG

"It's time to say RIP to ESG", we declared to the Official Monetary and Financial Institutions Forum event at the House of Lords at the start of 2022, as investors faced the multiple challenges of market volatility, energy and food security crises, inflation and interest rises, amid growing impact from extreme weather events and rising societal concern with diversity, equity, and inclusion. The acronym ESG—environmental, social, and governance—is, at best, incomplete as a framework for integrating these complex economic factors. In developing our strategy for sustainable investment, we have recognised that it's time to go 'Beyond ESG' and acknowledge the missing F for finance. We need to ground our strategy in the economics of risk management and value creation.

As managers of our clients' savings, we have an inviolable fiduciary duty: to act with prudence, to exercise care, and to ensure sole loyalty to clients. This means we assess multiple sources of potential risk and return, driven by the deep waves transforming the global economy: digitalisation, geopolitical shifts, the transition to low carbon energy, and rising recognition of how diversity, equity and inclusion contribute to corporate performance. Our economic model for integrating these factors is based on the effective management of financial, human, and natural capital. This model puts fiduciary duty at the heart of our work on sustainable investment.

During 2022, we developed a new firm-wide Sustainable Investment Strategy (featured in Principle 1 and 2). This focuses on four quadrants:

- **Investment beliefs** which guide our sustainability strategy, grounded in economics, and underpinned by fiduciary duty.
- **Governance** to ensure we have effective oversight and implementation through our newly established Sustainable Investment Governance Committee which brings together leaders from our investment, distribution, enterprise risk, legal, communications, executive, and sustainability teams.
- **Investment services** to provide the data, analytical tools, training through the Franklin Templeton Academy, and stewardship support for our investment teams. This work is coordinated through our Stewardship and Sustainability Council which brings together our investment teams from public and private markets, responsible for both debt and equity.
- **Market presence** through thought leadership via the Franklin Templeton Institute and advocacy with regulators and policy makers coordinated through our new Global Public Policy Council.

This year we have further developed our processes around proxy voting. We have integrated execution for proxy voting into our stewardship team's (part of our Global Sustainability Strategy Team) work and initiated a series of briefings for investment teams on key votes. This has allowed a deeper dialogue on critical issues. As we discuss in greater detail in Principle 12, the changes we have put in place use a wider range of information in the voting decisions made by our investment teams.

Stewardship is fundamental to our fiduciary duty to manage risk and opportunity on behalf of our clients. The shift beyond ESG and towards a holistic model based on managing financial, human, and natural capital takes us into a new era for sustainable investing which will equip us to meet the challenges ahead.

Anne Simpson
Global Head of Sustainability

Significant events in 2022

January	Anne Simpson appointed Global Head of Sustainability
March	Franklin Templeton signs up to Climate Action 100+ and joins the Human Capital Management Coalition (See Principles 4 and 10 for more details) Western Asset accepted onto list of UK Stewardship Code signatories (joining Franklin Templeton and Martin Currie)
May	Franklin Templeton joins the Council of Institutional Investors
July	Franklin Templeton submits its first Net Zero targets to the Net Zero Asset Managers initiative
August	Franklin Templeton co-chairs Ceres Valuing Water Finance Initiative (See Principles 4 and 10 for more details)
December	Sustainable Investment Governance Committee established to provide senior-level oversight of strategy (see Principle 2 for more details) and Global Public Policy Council founded to focus on policy and regulation (See Principle 4 for more details).

About Franklin Templeton

We are one of the world's largest independent investment managers with approximately US$1.4 trillion in client assets under management (AUM). The company employs more than 9,000 employees (including more than 1,300 investment professionals).[2]

Across 73 offices around the world, we work on behalf of clients in more than 155 countries. Our multi-asset class, active management strategies position us to identify opportunities in local markets and bring a global perspective to the risks and returns that drive sustainable investment.

In recent years, we have expanded and diversified our investment capabilities and solutions for clients through strategic acquisitions and investments. We have focused our efforts on industry growth drivers, in areas such as alternatives.

Acquisitions have played an important role in diversifying our business. Our business model preserves the investment autonomy of each of our investment teams. Clients benefit from the investment specialisation of each team, coupled with the strength and scale of our global platform. We believe that the broad range of investment strategies that differentiate our investment teams from each other gives us an unparalleled ability to build the best outcomes for our clients.

Our focus on alternative investments stands out. We are now one of the largest managers of alternative assets globally. After the acquisition of Alcentra in November 2022, our alternative AUM reached $257 at 31 December 2022. We now have a meaningful portion of key alternative categories with Lexington Partners (secondary private equity), Clarion Partners (real estate), Benefit Street Partners and Alcentra (alternative credit), K2 (hedge funds) and Franklin Venture Partners (venture capital).

We have detailed the investment teams below, including acquired investment teams and others who are fully integrated into the Franklin Templeton policy framework. Some investment managers are considered out of scope for this report, either because they are separate signatories to the Stewardship Code, or because they are relatively new to Franklin Templeton and not yet fully integrated into our stewardship framework.

Investment Teams in Scope of this Report (43% of Total AUM)	**Out of Scope: Independent FRC Signatories** (33% of Total AUM)	**Out of Scope: Policy Independence** (23% of Total AUM)
Franklin Templeton*	Western Asset	ClearBridge Investments
	Brandywine Global	Clarion Partners
	Martin Currie	Royce Investment Partners
		Lexington Partners**
		O'Shaughnessy Asset Management***

* Throughout this report, such as in our case studies, we refer to investment teams that are part of the Franklin Templeton brand, these are as follows: Franklin Templeton Fixed Income, Franklin Equity Group, Franklin Income Investors, Benefit Street Partners/Alcentra, Templeton Global Equity Group, Franklin Mutual Series, Fiduciary Trust High Net Worth, Franklin Templeton Emerging Markets Equity, Templeton Global Macro, Franklin Templeton Investment Solutions, Franklin Templeton Global Private Equity, K2 Advisors, and Franklin ETF and Index Investments.

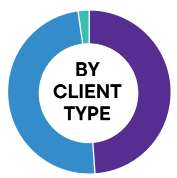
** Lexington Partners was acquired on April 1, 2022

*** O'Shaughnessy Asset Management was acquired on January 4, 2022

Breakdown of AUM

- Fixed income 36%
- Equity 30%
- Alternative 19%
- Multi-Asset 10%
- Money Markets 5%

- United States 72%
- EMEA 11%
- APAC 9%
- Americas 8%



- Institutional 49%
- Retail 49%
- High-Net-Worth 2%

Source: Franklin Templeton 31 December 2022.

2. Source: Franklin Templeton, all data as at 31 December 2022. Investment professionals total excludes employees of Lexington Partners due to the ongoing consolidation of data.

We offer a full range of investment strategies across asset classes and geographies

Our Investment Capabilities and Asset Mix

Equity	Emerging/frontier Global Preferred/convertibles	Sector Single country equity Thematic US equity
Fixed income	Bank loans Credit Emerging markets Government	Green/social bonds Multi-sector Securitised Sukuk
Multi-asset	Balanced Income Managed volatility Model portfolios	Target date Target risk Target volatility
Alternatives	Alternative credit Digital assets Hedged strategies Private equity	Real estate Secondaries Venture capital

Our Investment Brands

Franklin Templeton (1947)	Benefit Street Partners (2008)
Western Asset (1971)	Alcentra (2002)
ClearBridge Investments (2005)	Martin Currie (1881)
Brandywine Global (1986)	K2 Advisors (1994)
Clarion Partners (1982)	Royce Investment Partners (1972)
Lexington Partners (1994)	

31 December 2022.

Stewardship in numbers

Key highlights

947
independent engagements on sustainability topics

10,042
total number of Annual General Meetings

31,405
sustainability-related client communications

97,054
items voted on

785
different issuers engaged

73.8%
of votes were in favour of shareholder proposals

Created
new governance framework for sustainable investing at the enterprise level

See Principle 1 for more details.

Joined
more collaborative engagement initiatives to address systemic risks

See Principle 10 for more details.

Expanded
our stewardship and global sustainability strategy teams

See Principle 2 for more details.

Stewardship reporting across our firm:

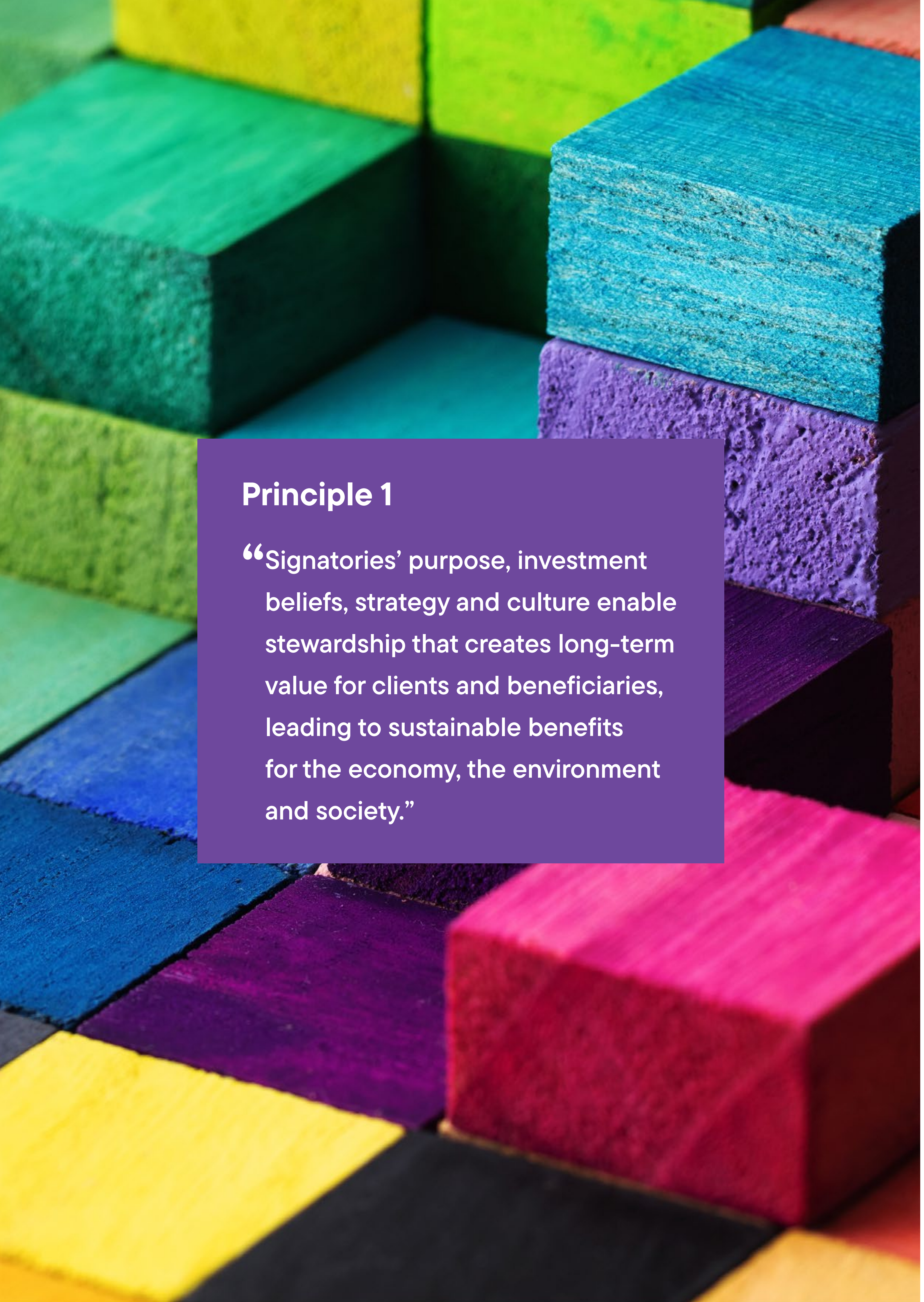
A number of our investment managers also are signatories to the FRC Stewardship Code, or undertake reporting on their stewardship efforts individually, and their reports can be accessed at the links below:

FRC Stewardship Code Signatories

- Martin Currie
- Brandywine Global
- Western Asset

Other Sustainability & Stewardship Reports

- Franklin Templeton Emerging Market Equity
- Franklin Templeton Fixed Income
- ClearBridge Investments
- Templeton Emerging Markets Equity
- Clarion Partners Annual ESG Report



Principle 1

“Signatories’ purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.”

Purpose, strategy, and culture

Key highlights for 2022

- Appointed Anne Simpson as Global Head of Sustainability.
- New Sustainable Investment Strategy launched to take Franklin Templeton Beyond ESG.

Purpose: Our Evolving Stewardship Role

For more than 75 years, as we have grown to become one of the world’s largest asset managers, our core purpose has remained the same: helping our investors reach their financial goals. We have a fiduciary duty as stewards of the assets we invest on behalf of our clients.

Good stewardship requires us to take a long-term view, which includes considering the societal and environmental impact of assets held in a portfolio which can affect the overall financial prospects of the companies in our portfolios. As our business and client base have grown, particularly with several key acquisitions in recent years, we have added new perspectives on the impact of sustainability on both risks and opportunities. This, in turn, has led to an evolution of our stewardship approach, as we use the strength of our global, multi-asset coverage, and breadth and depth of investment management teams.

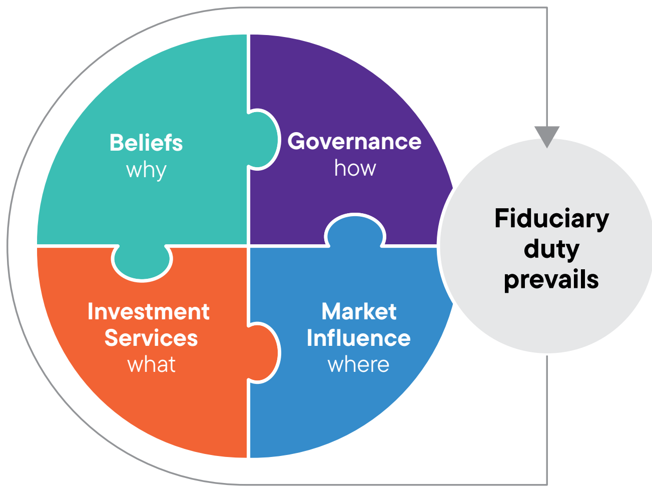
Driving our stewardship agenda forward

As set out in our introduction, we took several important steps in 2022 to develop our position as responsible stewards of our clients’ capital, ensuring we continue to meet our fiduciary duty and pursue repeatable risk-adjusted returns.

This included the appointment of Anne Simpson as our Global Head of Sustainability. The newly created role shapes our direction on stewardship and sustainability at the firm level. Ms. Simpson reports directly to the President and CEO Jenny Johnson and works closely with Dr. Yu (Ben) Meng, Franklin Templeton’s executive sponsor for Sustainability.

With 35 years’ international experience, Ms. Simpson has an investment, academic and regulatory background and most recently was Managing Investment Director for Board Governance and Sustainability at the California Public Employees Retirement System (CalPERS), an institution with a distinguished reputation in the sphere of sustainability and stewardship.

Strategy: The four quadrants of sustainability at Franklin Templeton



Our new Sustainable Investment Strategy is a multi-year project, built around the four quadrants of beliefs, governance, investment services, and market influence.

Beliefs

The first quadrant concerns how we articulate the investment thesis behind sustainable investing. With the breadth and depth of investment teams under the Franklin Templeton umbrella encompassing a wide variety of approaches to sustainable investing, our strategy provides a common framework which is enhanced by their investment autonomy and expertise. This means establishing a set of common beliefs that are global, applicable to multiple assets, and grounded in economics.

To read more about how we have integrated these beliefs, see Principle 7.

Governance

In 2022, we strengthened firm governance over stewardship and sustainable investing activities in various ways, which included strengthening the remit of the Stewardship and Sustainability Council, established in 2021. We also formed a Sustainable Investment Governance Committee which brings together leaders across the company to represent senior stakeholders representing all sides of Franklin Templeton's business; and a company-wide platform advocating for policy and regulation through a new Global Public Policy Council.

The governance quadrant is featured in more detail in Principle 2.

Investment services

The third quadrant is aimed at building out a service model that meets the needs of our investment teams, developing solutions so that teams have the data, analytical tools, training, and resources they need on proxy voting, thematic risks, and collaborative engagement on areas of shared interest.

As discussed in our last Stewardship Report, data remains a priority for our sustainability programme. Since our work in 2021, we now have broad access to sustainability data in place. Our focus is now on implementation, so these insights are put to effective use by investment teams. This has included creating new subject-specific working groups, through our Stewardship and Sustainability Council for example on net-zero targets related to greenhouse gas emissions reduction, water risk and biodiversity. These are complemented by new asset-class-focused working groups on fixed income and alternatives, in parallel to the existing public equity focus.

Franklin Templeton Academy is building a company-wide training programme, supplemented by specific technical training on issues like regulation in particular markets.

For more information on these resources, see Principle 2.

Stewardship is a core part of the Investment Services quadrant, including the important responsibility of proxy voting. With more than 100,000 votable items in 2022, our aim is to efficiently execute all of these proxies in line with client expectations and policy. We have also identified key votes leveraging both third-party research and internal analysis to inform opinion provided by the stewardship team (part of the Global Sustainability Strategy Team). The investment teams retain responsibility for voting decisions. Proxy votes are executed centrally through our proxy voting team which was moved from our legal division into the stewardship team in 2022.

Read more about how we have focused on proxy-voting best practice in Principle 12.

Market presence

The fourth quadrant supports our advocacy with policy makers and regulators globally to focus on clients' best interests. We also work actively through membership bodies and industry associations in the financial markets to broaden our understanding of industry trends and best practice. Franklin Templeton Institute has shared our thought leadership in prominent publications such as the Financial Times and Project Syndicate to convey our position on key sustainability topics.

Our focus in 2022 has been on the need for regulators to provide the corporate reporting needed to allow markets to price risks.

Explore our views on market topics and investment themes from our Sustainability Insights page and below are the 'Beyond ESG' article series published in 2022:

- March 2022: Why the SEC is right to make climate risk disclosure mandatory
- April 2022: The carbon price solution
- July 2022: Driving climate impact through private equity

Beyond ESG – Three forms of capital

One important shift in focus is how we consider sustainability. We aim to take a holistic view of sustainability and its role in finance –rather than a narrower focus of ESG. This means thinking in terms of the three forms of capital that combine to produce risk-adjusted returns: financial, human, and natural.

Alongside **financial capital**, the traditional measures of economic returns from sources such as equities or debt, we assess material factors which can impact risk and return.

We look at **natural capital**, the world's resources that we rely on, such as as water, land, and biodiversity. These natural assets are an essential input in production and in turn can by impacted by the activity of businesses.

At the same time, we also focus on **human capital**. People are crucial to the business activities that ultimately creates financial returns. This can include the health and wellbeing of a company's workforce, for example.

Culture and values

Our core values

Putting clients first

We strive to know and meet our clients' needs and we fully accept our fiduciary responsibility to protect clients' interests.

Building relationships

We create valuable connections between our clients, our portfolio managers, business leaders and economic experts. These, ultimately, make us more responsible stewards of capital.

Achieving quality results

We value professional excellence and expertise and we work together to produce consistent, competitive results for our clients.

Working with integrity

We speak and act in an honest manner. We believe in being accountable for the impact we have on others.

Committed to diversity, equity, and inclusion

We believe a more diverse, inclusive, and equitable firm ultimately delivers better outcomes for our employees, clients, and shareholders. Our diversity & inclusion ambitions are to:

- Be an employer of choice for top talent by increasing diversity across the firm at all levels;
- To strengthen inclusive leadership capacity and workplace processes to remain a business partner of choice; and
- To collaborate with our peers to establish asset management as the industry of choice for a diverse mix of talent and external stakeholders

Our CEO, executive committee, and chief diversity officer—along with three regional diversity & inclusion executive councils—provide senior leadership accountability, cultural perspectives, and alignments. We gain insights from employees and amplify their voices through eight global business resource groups (Able, Ethnicity, Hola, Pride, Veterans, Women at FT, Asian Pacific Islander, and Black Empowerment Network).

Examples of our initiatives include the creation of strategic partnerships with organisations such as the Equity Collective—an organisation sparking early interest for future industry employees by demystifying financial services—and sponsoring the Financial Alliance for Racial Equity which aims to build sustainable wealth in diverse communities and increase representation of black financial professionals.

To support building pathways into the industry, we have worked with 10,000 Black Interns—a paid internship program for black students and graduates across finance, technology, and other sectors—and Gain (Girls Are Investors)—a charity aiming to improve gender diversity in investment management.

We promoted the McKinsey Connected Leaders Academy. Since its introduction, more than 71% of our eligible mid-level and senior employees have participated in the program, which creates development tracks for talent identifying as Asian & Pacific Islander, Black & African American, and/or Latino & Hispanic. This work supports our investment thesis on sustainability as these are vital issues in human capital management.

For more on our diversity and inclusion activity visit Diversity and Inclusion.

You can also read our Corporate Social Responsibility Report.

Principle 2

“Signatories’ governance, resources and incentives support stewardship.”

Governance, resources, and incentives

Key highlights for 2022

- Established two senior-level groups as part of enhanced governance structure (Sustainable Investment Governance Committee and Global Public Policy Council) and expanded the Stewardship and Sustainability Council with new asset class and thematic working groups.
- Our data project entered a new phase, from data provision to effective, quality implementation of data.
- Expanded staff resources of the Global Sustainability Strategy Team with additional team members.

Governance is Central to Our Stewardship Aims

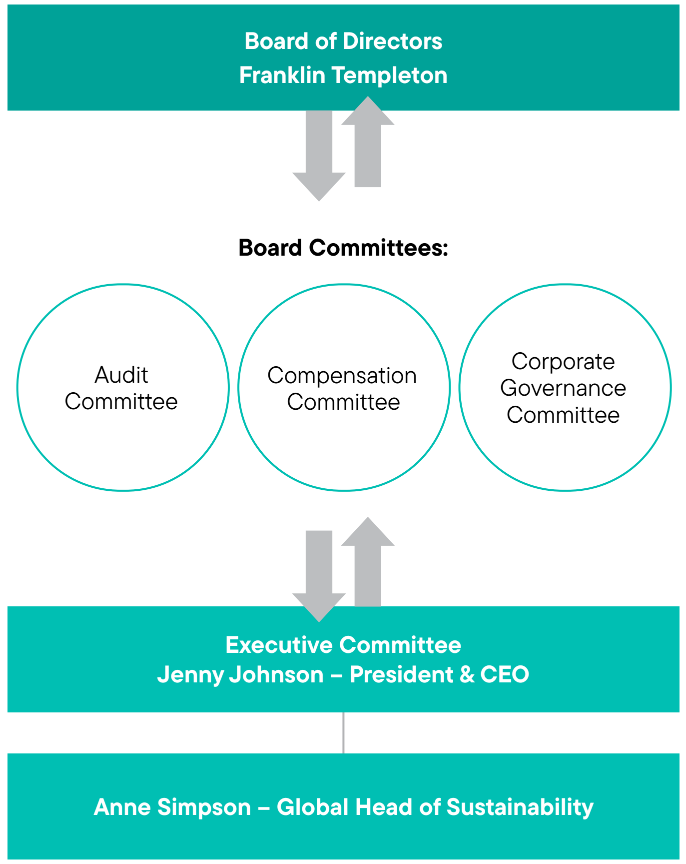
Franklin Resources’ overall structure is designed to encourage autonomy for our expert investment teams while enabling collaboration and sharing best practice across the enterprise.

With governance at the heart of the new Sustainable Investment Strategy (discussed in Principle 1), we made our governance and decision-making processes clearer and more robust than before, while preserving the investment independence of our business model.

At Franklin Templeton, overall responsibility for sustainability lies with the company’s Board of Directors (Franklin Resources Inc.) where the Corporate Governance Committee has formal oversight for the programme.

Our overall global network is illustrated on the right:

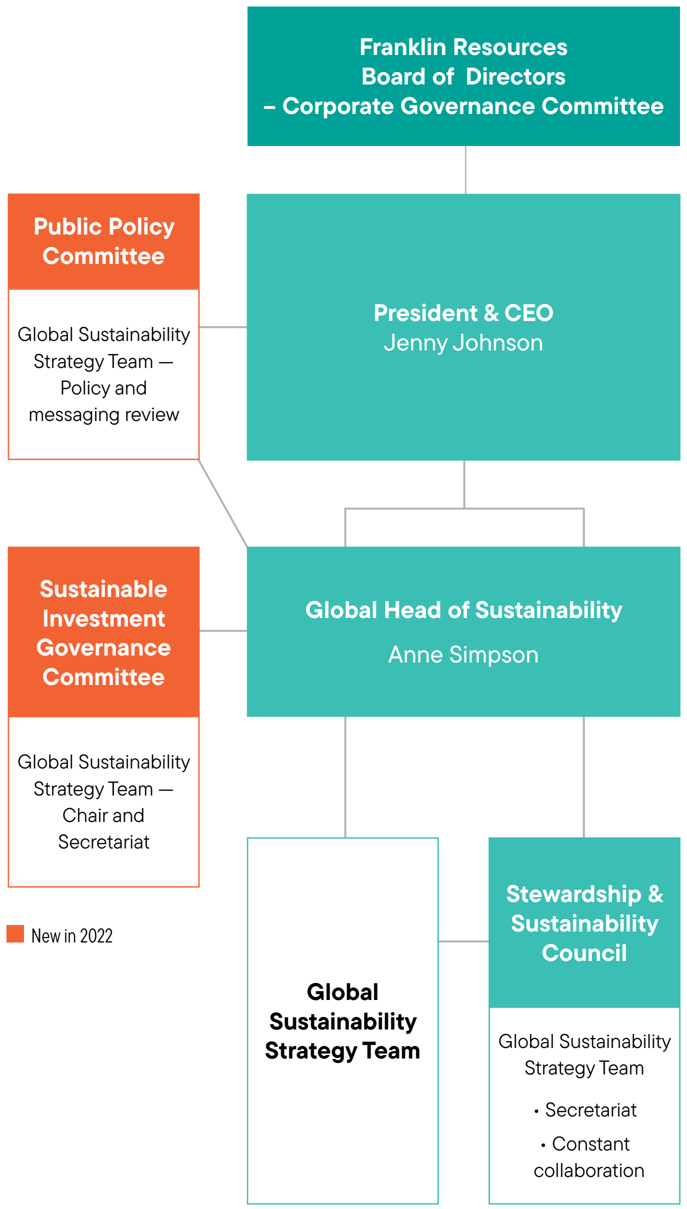
Board Governance 2022



Stronger and more effective governance

In 2022, we took several steps to strengthen our governance framework. The three main areas are set out in this section.

Governance Architecture 2022[3]



The Stewardship and Sustainability Council and the Global Sustainability Strategy Team were set up in 2021 as a resource for our investment teams as they address the risks and opportunities of sustainability.

The Stewardship and Sustainability Council, led by co-chairs David Sheasby (Martin Currie, Head of Stewardship, Sustainability, and Impact) and David Zahn (Franklin Templeton Fixed Income, Head of European Fixed Income), provides a business-wide arena for representatives from all investment management teams to discuss stewardship and sustainability-related issues. We have expanded its range of work through setting up working groups on fixed income and alternatives alongside the existing focus on public equity. We also established working groups on key proxy votes, net-zero targets, biodiversity, and water.

In addition to the 30-plus professionals working full time on sustainability in our investment teams, we also expanded the capacity of the Global Sustainability Strategy Team at the centre adding five new professionals[4] including a Vice President of Sustainability Global Markets. As of March 2023, our central resource team has grown to 14 full time individuals working in support of firm-wide strategy to build a risk-aware and competitive strategy on sustainable investment which meets client demand.

Read more about the stewardship team and its role in improving Collaborative Engagement in Principle 10.

3. For illustration only. Does not represent all the reporting lines.
4. The recruitment process began in 2022, and was completed in Q2 2023.

Sustainability oversight at a senior level

This year, we established a governance committee to provide oversight for implementation of our new Sustainable Investment Strategy and to make important calls on sustainability issues when opinions and approaches differ across the business. It also provides a forum for consideration of new initiatives and partnerships.

The Sustainable Investment Governance Committee, which held its first meeting in December 2022, includes senior representatives from across the business including: investments, distribution, legal, enterprise risk, the executive committee, communications, and sustainability. A senior-level body with oversight responsibility of the Sustainable Investment Strategy, the Committee ensures clarity and coordination between the teams responsible for implementing the sustainable investing programme. Its responsibilities include the following:

- Ensuring coordination and collaboration between firm-level sustainable investing initiatives, including the new Global Public Policy Council and the Stewardship and Sustainability Council, and corporate-level programmes.
- Reviewing and making recommendations to the Executive Committee regarding public statements and partnerships related to sustainable investing.
- Overseeing implementation of the Sustainable Investment Strategy.

Company-wide platform on policy and regulation

We also established a firm-level governing body with responsibility for policy and regulatory matters. The Global Public Policy Council is led by deputy general counsel Paul Elmlinger and includes the following senior leaders:

Greg Johnson, *Executive Chairman and Chairman of the Board*
Jenny Johnson, *President and CEO*
Paul Elmlinger, *Deputy General Counsel*
Tom Merchant, *General Counsel*
Matthew Nichols, *Chief Financial Officer*
Gwen Shaneyfelt, *Chief Accounting Officer*
Anne Simpson, *Global Head of Sustainability*
Adam Spector, *Executive Vice President, Global Advisory Services*
Craig Tyle, *Senior Legal Advisor*
Alison Baur, *Deputy General Counsel*

We look in greater detail at the work of this committee in Principle 4.

Sustainable Investment Governance Committee Membership

Suzanne Christensen
Head of Enterprise Risk Management

Ben Meng
Executive Vice President

Terrence Murphy
Head of Public Markets

Selene Oh
Chief Communications Officer

Anne Simpson (Chair)
Global Head of Sustainability

Craig Tyle
Senior Legal Adviser

Ed Venner
Chief Operating Officer
– Distribution

The firm operates a Global Product Committee. Led by the Head of Product Management, it is responsible for review and approval of new products and pricing strategies for all investment vehicles and distribution channels. It also requires approval from the Global Sustainability Strategy Team whenever the investment process and/or labelling includes reference to sustainability, ESG issues or impact investing.

Regulatory requirements are also reviewed by the ESG Product Advisory Group. This group reports to the European Product Governance Committee and relevant fund boards and helps assess product suitability to provide Article 8/9 disclosures under the EU Sustainable Finance Disclosure Regulation (SFDR). Voting members are drawn from our Global Sustainability Strategy Team, compliance, investment compliance, investment management oversight, investment risk, legal, and distribution.

In 2022, we created a new Sustainable Product Strategy team, led by Jean Marc Pont, Head of Sustainable Institutional Product that is part of our distribution function. The combined oversight and expertise of this and other teams that form the ESG Product Advisory Group, can look through all investment strategies and holdings and ensure a high level of rigour when making these assessments. This group reports to the Global Product Committee.

For more on this group, see Principle 6.

Holding ourselves to account: internal audit

These enhancements to governance structures have been informed by an internal audit review of our sustainability governance structure and investment processes, which examined the roles and responsibilities of the various bodies involved.

The audit was an advisory review, providing management with insights into key risks and industry-leading practices. Phase one of the review, completed in 2022, included several observations that were incorporated into the new Sustainable Investment Strategy. This internal audit was supported by external auditors Deloitte.

For detail on the process and findings of our internal audit, go to Principle 5.

Resources

Building our human capital

Our human capital is a key resource. This means hiring to strategic areas as well as increasing understanding of stewardship and sustainability themes across the business, making training a crucial area.

We have begun to put in place the resources to incorporate the theme of Beyond ESG into company-wide training, evolving the ideas of sustainability and how they relate to investment. Training sessions focus on stewardship, technology, data and regulation, as well as more general sessions on sustainability. Sessions are provided by the Global Sustainability Strategy Team in partnership with the Franklin Templeton Academy, legal and compliance teams as well as external experts (see across).

Franklin Templeton Academy, our global educational programme, is collaborating with the Global Sustainbility Strategy Team to build out a new curriculum for all employees on sustainable investment in 2023, setting out the strategy 'Beyond ESG' to focus on the management of financial, human, and natural capital, including the vital role of stewardship. The Academy covers Asia, Europe, and the Americas. It comprises 10+ education professionals globally.

For more on the Franklin Templeton Academy, visit Franklin Templeton Academy.

Summary of Training Sessions in 2022

Training sessions from external providers:

- PwC: Updates to project and investment teams, Sustainable Finance Q&A, EU SFDR interpretation, and Principal Adverse Indicator (PAI) mapping.
- Eversheds: UK Financial Conduct Authority, Sustainable Disclosure Regime (FCA SDR) training.
- MSCI, S&P Trucost, ISS ESG: Training sessions and deep dives on data, facilitated by the Global Sustainability Strategy Team.

Training sessions by the Global Sustainability Strategy Team

- Sessions on the ESG Product Advisory Group, helping assess product suitability to provide Article 8/9 disclosures.
- net-zero training for investment teams, including Phase II target setting and focus on methodology.
- Training sessions and deep dives on data facilitated by the strategy team and delivered by data providers including MSCI, S&P Trucost and ISS ESG.

Data: The next steps

As we discussed in our previous Stewardship Report, we have laid the foundation for our stewardship efforts with a major focus on expanding our access to data. In 2021, we started the process of providing investment teams with robust and extensive sustainability data to enhance their analysis. After extensive due diligence, we expanded contracts with MSCI ESG, ISS ESG and S&P Trucost, covering solutions to meet regulatory requirements, including the EU's Taxonomy regime and SFDR, as well as risk and impact datasets to support our Net Zero Asset Manager initiative and Task Force on Climate-Related Financial Disclosures (TCFD) commitments.

The next step is ensuring that these data are put to good use. In line with the investment-services quadrant of our Sustainable Investment Strategy, we are using these data to build out analytical tools and will ensure that our investment teams have access.

Principle 7 provides more detail on the analytical tools we are creating to help integrate sustainability across the business.

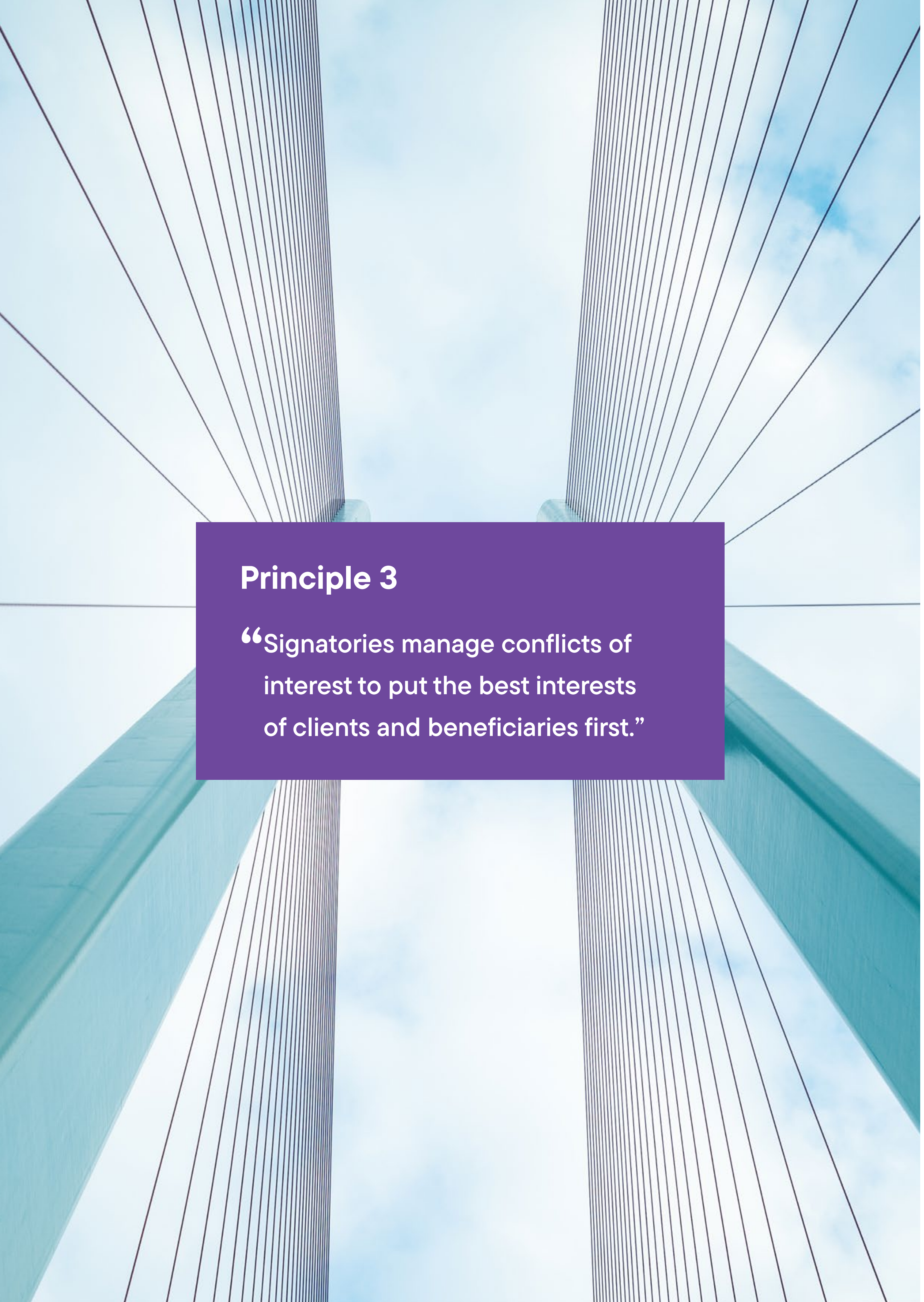
Principle 8 provides more on how we evaluate the uptake of the data, as well as expanding to specifically include biodiversity, physical risk, and water use into relevant investment decisions.

Incentives

Being effective stewards of our clients' capital involves ensuring that our investment teams are considering all relevant sustainability factors. This is being reflected in our performance management and remuneration processes.

As referenced in Principle 1, as we implement the new Sustainable Investment Strategy into the business, the targets and KPIs are being considered for inclusion in performance reviews of investment personnel and other key staff to ensure proper incentives are in place.

The Global Sustainability Strategy Team's performance is assessed in relation to the success of the firm's overall Sustainable Investment Strategy. We look to encourage the consideration of sustainability risks and factors, including good stewardship in performance reviews for those members of our investment teams where applicable. This includes compliance with our sustainability policies governing the monitoring and management of sustainability risks and returns.



Principle 3

“Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.”

Conflicts of interest

As a fiduciary, we take all appropriate steps to manage and monitor potential conflicts of interest to ensure they do not adversely affect our clients. Between our compliance, legal, and proxy voting functions we actively monitor for conflicts and manage potential opportunities in the best interests of our clients. While the number of potential conflicts identified annually is very small, we aim to identify and manage each one objectively, fairly, and always in line with our clients' best interests. Potential conflicts arising include:

- Issuer is a client of Franklin Templeton or one if its affiliated investment teams.[5]
- Issuer is a vendor whose products or services are material or significant to Franklin Templeton's business.[6]
- Issuer is an entity participating to a material extent in the distribution of proprietary investment products advised, administered, or sponsored by Franklin Templeton or its affiliates.[7]
- Issuer is a significant executing broker-dealer to Franklin Templeton.[8]
- An access person (a supervised person who has access to non-public information regarding clients' purchase or sale of securities), or an immediate family member of an access person, also serves as a director or officer of the issuer.[9]
- Potential lack of segregation of client relationship managers from the engagement and proxy voting activities.
- A director or trustee of Franklin Resources, Inc. or any of its subsidiaries or of a Franklin Templeton investment product, or an immediate family member of such director or trustee, also serves as an officer or director of the issuer.
- The issuer is Franklin Resources, Inc. or any of its proprietary investment products that are offered to the public as a direct investment.

You can view our conflicts of interest polices here: Policies | Franklin Templeton.

Fact box

There were no potential or actual conflicts of interest identified that were unresolved relating to the activities in scope of the Conflicts of Interest Policy. Below we have provided examples from our proxy voting process of how conflicts are monitored and resolved in our routine process.

Proxy voting conflicts

Our proxy group also identifies material conflicts of interest based on analysis of clients, distributors, broker-dealer, and vendor lists. We also rely on information that we periodically gather from directors and officers and sources such as public filings.

Votes are flagged as potential conflicts if they include clients, vendors, and service providers, executing brokers and dealers, distributors or interlocking directorships.

As a general policy, where potential conflicts of interest arise in our proxy voting activities, we will defer to the vote recommendation of an independent third-party proxy adviser to ensure these are appropriately managed.

As fiduciaries, we always vote in line with our client's best interests. In the case where the manager believes a vote instruction contrary to a third-party recommendation and in line with management is required, the potential conflict is escalated with a detailed rationale and subject to approval by the largest advisory client to ensure potential conflicts are appropriately addressed. This process is conducted by the investment team, overseen by the Proxy Voting Group, with any potential conflicts being signed off by the Head of Stewardship, Global, Piers Hugh Smith.

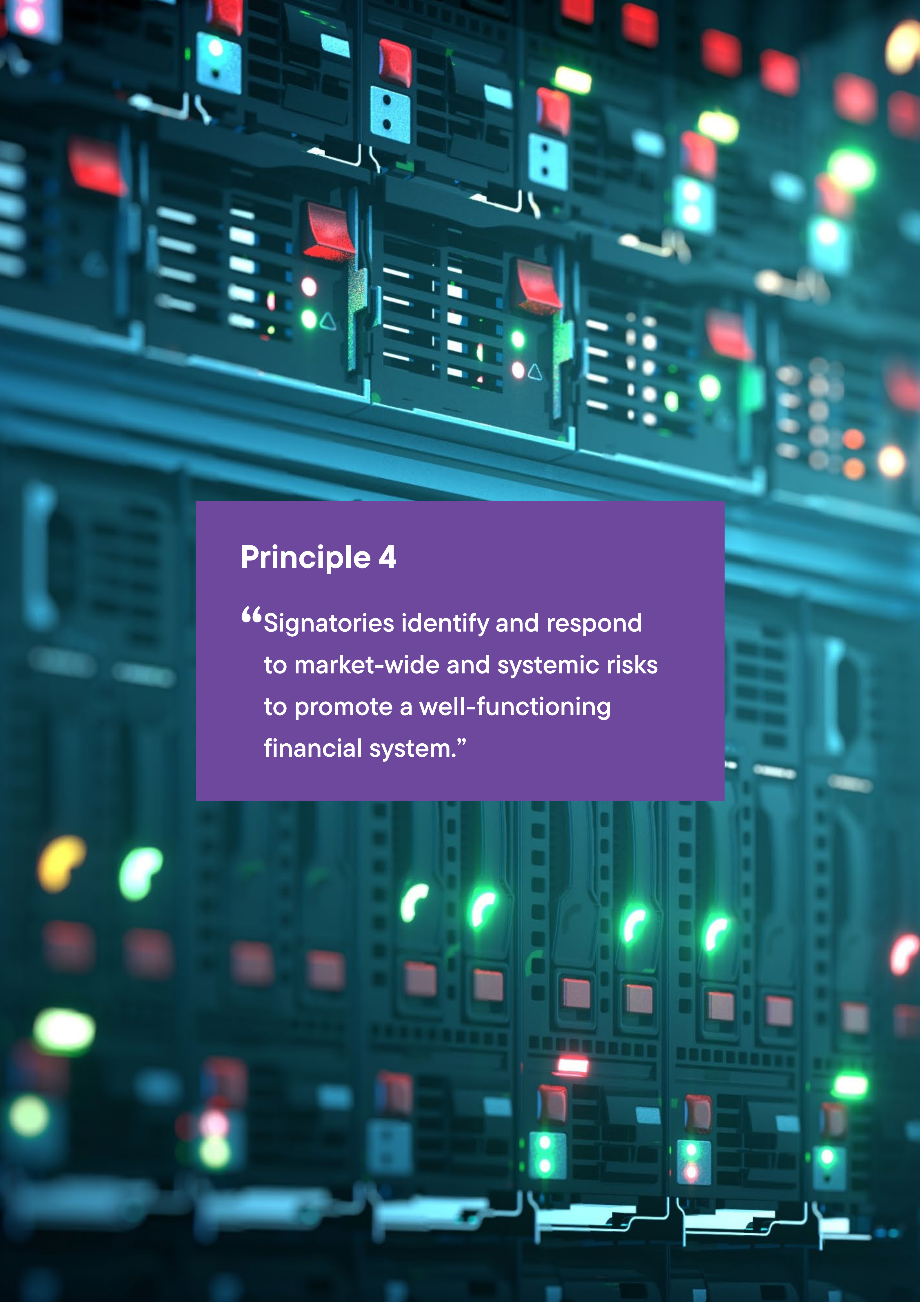
5. For the purposes of this section, a "client" does not include underlying investors in a collective investment trust, Canadian pooled fund, or other pooled investment vehicle managed by the Investment Manager or its affiliates. Sponsors of funds sub-advised by the investment manager or its affiliates will be considered a "client."
6. The top 50 vendors will be considered to present a potential conflict of interest.
7. The top 40 distributors (based on aggregate gross sales) will be considered to present a potential conflict of interest including insurance companies that have entered into a participation agreement with a Franklin Templeton entity to distribute the Franklin Templeton Variable Insurance Products Trust.
8. The top 40 executing broker-dealers (based on gross brokerage commissions and client commissions) will be considered to present a potential conflict of interest.
9. "Access Person" shall have the meaning provided under the current Code of Ethics of Franklin Resources, Inc.

In 2022, there were 146 meetings which were considered potential conflicts of interest. Of these only 3 became actual conflicts as the manager decided to vote contrary to the third-party recommendation and in line with the issuer's board recommendation. We have included brief details below of what course of action was followed.

Case study

JPMorgan Chase & Co **Templeton Global Equity Group**	The investment team did not support the Glass Lewis recommendation supporting a shareholder proposal for an independent chair. JPM was flagged as a conflict of interest as it is a significant vendor for Franklin Templeton. The vote was referred to the conducting officers of Templeton Global Equity Group's largest fund with rationale from the analyst and approved. The conflict resolution was approved by the Head of Stewardship.
Kansai Nerolac Paints Limited **Franklin Templeton Asset Management India**	The investment analyst decided to vote for the election of two directors, who were not supported by Glass Lewis advice. The vote was flagged because of an interlocking directorship. It was referred to the fund trustees for the Asset Management India Funds and approved. The conflict resolution was approved by the Head of Stewardship.
Wells Fargo **Franklin Mutual Advisors**	The analyst wanted to vote in support of management and against Glass Lewis advice in the election of two directors, as they believed continued turnover was harmful for the board at a time when it was working through its regulatory orders. The issues were flagged as a conflict as the company is a distributor and broker-dealer for Franklin Templeton. It was referred to the audit committee of the largest fund and approved. The conflict resolution was approved by the Head of Stewardship.

Above case studies describe previous proxy voting decisions for illustrative purposes only. It should not be assumed that any securities transactions were or will be profitable. This example may not be relied upon as investment advice or recommendations or an offer for a particular security or as an indication of trading intent.



Principle 4

“Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.”

Promoting well-functioning markets

Key highlights for 2022

- Formation of global public policy function to ensure a cohesive and coordinated approach.
- Greater focus on advocacy on behalf of our clients’ interests.
- New and active thought leadership addressing systemic risks relating to information and incentives alignment in financial markets on sustainability.

Why Market Presence Matters

As one of the world’s largest asset managers, we have a role to play in shaping the policy and regulation that underpins global investment markets. This helps reduce market-wide and systemic risks and should lead to better functioning markets—and ultimately better outcomes for clients. We engage on policy and market structure to address structural issues that may pose a barrier to effective investment and stewardship and appropriately protect our clients' best interests and fulfil our fiduciary duty.

In 2022, with the launch of our Sustainable Investment Strategy, we began the process of increasing our market presence, reflecting a progression from our historical practice of contributing solely through our trade associations.

The **market presence** quadrant of our strategy includes a more structured public policy function across the business. Our new Global Public Policy Council gives us a stronger and more robust approach to membership of global investor collaborations and allows us to advocate more vocally on our clients’ behalf.

Identification of systemic risks

Risks may be identified by multiple different groups across the business, including investment teams, the Sustainability and Stewardship Council, the Stewardship Team and Global Sustainability Strategy Team, the Public Policy function, and the Sustainable Investment Governance Committee. Each investment group retains independence in their investment decision making, however our governance structure, outlined in Principle 2, provides a clear route for the consideration of system wide risks to be socialised and escalated.

Our identification of these risks is based on an assessment of diversified shareholder value, and the economic impacts of threats to systems level health, that may affect the value of our clients’ assets.

Below, we provide two examples of types of systemic risks that we have subsequently taken action to address, as evidenced in our case studies in this Principle and in the collaborative engagement efforts described in Principle 10. These risks can be broadly described under Climate and Water Risks.

Climate risk: Threats to companies, society, and the broader system as a result of changing climate, whether these manifest through physical weather events, regulatory changes, transition risks to issuers business models or other impacts on the wider system. One of the ways we address climate risk is by leading within the Climate Action 100+ initiative.

Water risk: The possibility of a region experiencing flooding, drought, water scarcity or other impacts of water stress is a growing threat. Read more on our collaborative engagement with Ceres and the Valuing Water Finance Initiative on the next page.

For more information on our collaborative engagement efforts on systemic risks, see Principle 10.

Policy and regulation

Our improved public policy function gives us a more coordinated and cohesive approach to policy issues (including stewardship) across the business.

It helps us articulate global policy priorities, track relevant proposed legislation and regulations, be better advocates on policy matters, coordinate with representatives across the business, and engage with internal and external stakeholders.

There are three tiers to this approach:

1) **Global Public Policy Council.**
This consists of 10 senior representatives, chaired by our deputy general counsel Paul Elmlinger and comprising other senior figures across the business (including President and CEO Jenny Johnson). This group meets quarterly and sets out policy priorities, including sustainable investing and better regulation for digital assets.

2) **Global Public Policy Forum.**
This working group consists of around 40 representatives across Franklin Templeton and our autonomous investment teams. It comprises designated senior policy "point persons" from the business groups and autonomous investment teams, and meets bi-monthly to discuss the latest developments on our top priorities.

3) **Public Policy Tracker.**
Updated monthly, the tracker highlights the 25 most urgent policy issues across all jurisdictions for full visibility across the business. Stewardship issues are included, such as the extensive EU disclosure requirements for Article 8 and Article 9 funds; the proposed UK Sustainable Disclosure Regime (SDR); and the expansion of the EU taxonomy.

The combination of these three tiers allows us to take a more coordinated approach on global policy issues. In its first year of operating, the policy function has already brought greater efficiency and allowed us to take a broader view of stakeholder impacts, giving us greater capacity to engage the bodies responsible for setting industry norms and to engage regulators, policymakers, and legislators.

One example is the EU's Corporate Sustainability Due Diligence directive. While this proposed directive has highly laudable aims of encouraging greater corporate responsibility and improving due diligence standards for areas including human rights and wider sustainability, it has also faced criticism over how well the current terms would work in practice and could give large asset managers challenges on the interoperability of EU products and those in other markets such as the US. Discussions at the Global Public Policy Forum and between the sustainability and public policy teams mean we have been able to take a firm-wide view on our approach and advocate more effectively on behalf of our clients.

Integrated, not separated

We have made a conscious choice to integrate the regulatory and function into a forum which brings together multiple areas of the business. Our public policy function is integrated into the business and served by practitioners directly affected by proposed legislation. This provides a stronger level of integration than if the function were housed in a separate unit separate from day-to-day activity. This ensures we can have useful dialogue with policymakers, providing expert, technical detail, which is informed by direct input from our investment, compliance, sustainability, and legal teams.

Membership: making our collaborations count

In 2022, we took a fresh look at our memberships to make sure we are as effective as possible. With input from our Public Policy Council, we have rationalised our memberships—joining partnerships we were not previously involved in and withdrawing where we thought membership was not the best way to achieve our goals.

For example, in 2022 we withdrew from the Institute of International Finance as we viewed that our other industry association memberships had significant overlap, and we sought to better focus our resource to be more effective in our association engagement. In new memberships, we joined the Council of Institutional Investors, Climate Action 100+ and the Human Capital Management Coalition to work with other industry participants to address systemic risk and build a best practice approach.

Significant Memberships in 2022

Ceres Investor Network	A sustainability non-profit organisation working with the most influential investors and companies to build leadership and drive solutions throughout the economy. Anne Simpson, Global Head of Sustainability, serves on the board of Ceres and Piers Hugh Smith, Head of Stewardship, Global, serves on the Biodiversity Advisory Committee. See the case study overleaf for more on our role as co-chair of its Valuing Water Finance Initiative. (See the case study on the next page for more on our role as co-chair of its Valuing Water Finance Initiative.)
Climate Action 100+	An investor-led initiative targeting systemically important greenhouse-gas emitters. We became a signatory in 2022 alongside several of our autonomous investment teams and has taken on lead engagement roles. Anne Simpson sits on the Steering Committee. For more on our membership of this group, see the engagement sections Principles 9–11.
International Financial Reporting Standards International Sustainability Standards Board–Investor Advisory Group	This group advises the global initiative to introduce a global baseline on sustainability disclosures across the 144 markets which follow IFRS reporting standards.
British Standards Institute Sustainable Finance Programme	Sponsored by the UK Government and part of the BSI's Finance for the Future programme, this committee aims to encourage wider uptake of sustainable finance practices, behaviours, thinking, products and services, while helping organisations from the financial sector align themselves with the global UN Sustainable Development Goals (SDGs). Piers Hugh Smith, Head of Stewardship, Global sits on the on steering committee for PAS 7342 *'Assessment, monitoring and labelling of responsible and sustainable investment funds–Specification.'*
Financing a Just Transition Alliance	A UK alliance of financial institutions supporting a movement to create a greener, fairer and more inclusive economy.
Asia Investor Group on Climate Change (AIGCC)	An investor network creating awareness and encouraging action among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low-carbon investing.
Asian Corporate Governance Association (ACGA)	An NGO which plays a constructive role in the evolving Asia-Pacific corporate governance ecosystem.
ASIFMA AMG (Asia Securities Industry & Financial Markets Association) (Asset Management Group)	Focuses on governance and stewardship in capital markets with its major jurisdictions of focus in China, Hong Kong, Singapore, and India. (It is also sometimes in involved in other jurisdictions including Australia). Through the Global Financial Markets Association alliance between Securities Industry and Financial Markets Association in the US and Association for Financial Markets in Europe, ASIFMA also provides insights on global best practices and standards to benefit its operating regions.
UK Sustainable Investment and Finance Association (UKSIF)	The leading membership organisation for sustainable and responsible finance in the UK, part of the European Sustainable Investment Forum (Eurosif) which is a prominent association promoting Sustainable Finance at a pan-European level.
Council of Institutional Investors (CII)	A US, non-profit, non-partisan association for investors with total member assets of US$44 trillion which focuses on corporate governance. Piers Hugh Smith, Head of Stewardship, sits on the Corporate Governance Advisory Council for the CII.
Principles for Responsible Investment	The world's largest signatory body for responsible investment, convened by the UN Secretary General.
Human Capital Management Coalition	A cooperative effort among a diverse group of asset owners to further elevate understanding of human capital management as a critical component in company performance.

For a full list of memberships see the appendix.

See Principle 10 for more information on our collaborative engagements.

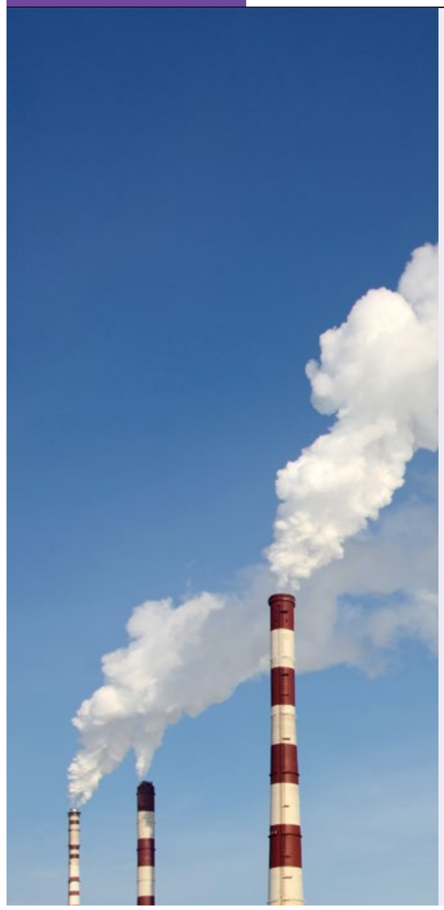
Advocacy: Speaking up for our clients' interests

Our focus on market presence has improved our ability to advocate more effectively on our clients' behalf since 2021.

In 2022, we focused on how we leverage our expertise and size to improve the way markets consider several key areas of importance. These include:

- Reframing ESG and expressing its importance to fiduciary duty, grounded in economics through the management of financial, human, and natural capital;
- Providing thought leadership through opinion articles on major sustainability and stewardship themes;
- Representation at major investor summits such as COP27 and the UN water risk summit; and
- Meeting with legislators and regulators in the US, UK, and EU on themes across the finance sector including sustainability. This included meetings with the staff of the SEC, FCA, and ESMA to advocate for more effective capital market regulation.

Advocacy in action



Climate risk disclosures

In 2022, the US Securities and Exchange Commission (SEC) put forward proposals to make climate risk reporting mandatory for public companies. Under the rules, companies would be required to provide information about climate-related risks, including the disclosure of greenhouse gas emissions.

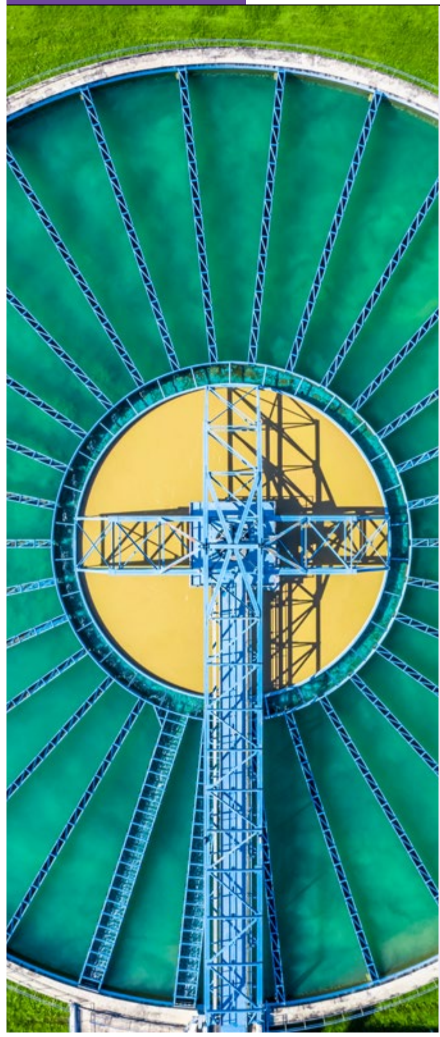
We gave strong public support, as we believe it will be pivotal in ensuring that investors can price the risks and opportunities arising from the transition to a low carbon economy and access comparable, consistent, and verifiable information regarding climate risk.

We authored several high-profile opinion articles, including the Financial Times article from Anne Simpson, Global Head of Sustainability at Franklin Templeton, Why the SEC is right to make climate risk disclosure mandatory, which commends the regulator's move as a "breath of fresh air that could revitalise capital allocation."

We also addressed this topic at the 2022 United Nations Climate Change Conference (COP27)—which brings together the 196 countries which support the goal of limiting global warming under the Paris Agreement. There, Dr. Ben Meng—our executive sponsor for Sustainability—told the conference: *"Financial data disclosures are mandatory, audited and standardised. But when it comes to climate risk information, things are far from ideal. There are no clear international standards yet and not all the jurisdictions have made it mandatory—yet. I highlight 'yet' because there is a positive momentum in getting data related to climate risk disclosure."*

We took a strong positive public position, and engaged the regulator directly via the filing of our own comment letter, and direct dialogue with SEC staff, to provide constructive advice and feedback on the rule, such as in suggested amendments to regulation S-K.

Advocacy in action



Water risk

As part of our membership of the Ceres Investor Network, we are helping shine the spotlight on a material systemic issue.

We are a founding member and co-chair, in partnership with the UK Local Authority Pension Fund Forum, of the Ceres Valuing Water Finance Initiative. We are one of 64 institutional investors that have signed up for the effort, representing a collective US$9.8 trillion in assets under management. The initiative's aim is to engage the world's biggest corporate water users and polluters, encouraging them to value–and act on–water as a financial risk and drive change to better protect water systems.

Through collaborative engagement, the initiative is targeting companies with a high level of water use in producing goods and services. Modelled on Climate Action 100+, it will engage these companies to value this form of natural capital properly, understand the potential financial risks and opportunities and adapt their strategy.

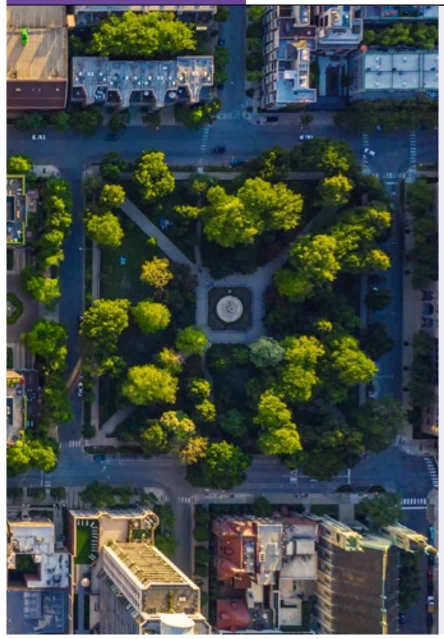
The 6 expectations are as follows:

1. Water quantity. Companies do not negatively impact water availability in water-scarce areas across their value chain.
2. Water quality. Companies do not negatively impact water quality across their value chain.
3. Ecosystem protection. Companies do not contribute to the conversion of natural ecosystems critical to freshwater supplies and aquatic biodiversity and actively work to restore degraded habitats that their businesses depend upon.
4. Access to water and sanitation. Companies contribute to the social, economic and ecological resilience of communities they interact with by contributing to achieving universal and equitable access to WASH (water, sanitation, and hygiene) across their value chain.
5. Board oversight. Corporate boards and senior management oversee water management efforts.
6. Public policy engagement. Companies ensure that all public policy engagement and lobbying activities are aligned with sustainable water resource management outcomes.

We are also exploring how to expand the data project to include water alongside climate risk metrics. For more on this, see Principle 8.

Read more on our Ceres collaboration in Principle 10.

Advocacy in action



Climate Action 100+ and ensuring a 'just transition'

We became a signatory to Climate Action 100+ in 2022. Anne Simpson, our Global Head of Sustainability, is a founding member of its steering committee.

Climate Action 100+ recognises a just transition as a key component of the global shift to net-zero emissions in accordance with the preamble to the Paris Agreement, and is, in beta form, part of the benchmark disclosure framework. The updated Net Zero Company Benchmark (released in March 2022) covers financial measures, such as CAPEX alignment, accounting, audit and measures for the just transition, along with emissions reduction targets, board governance and disclosure.

Anne Simpson has commented:

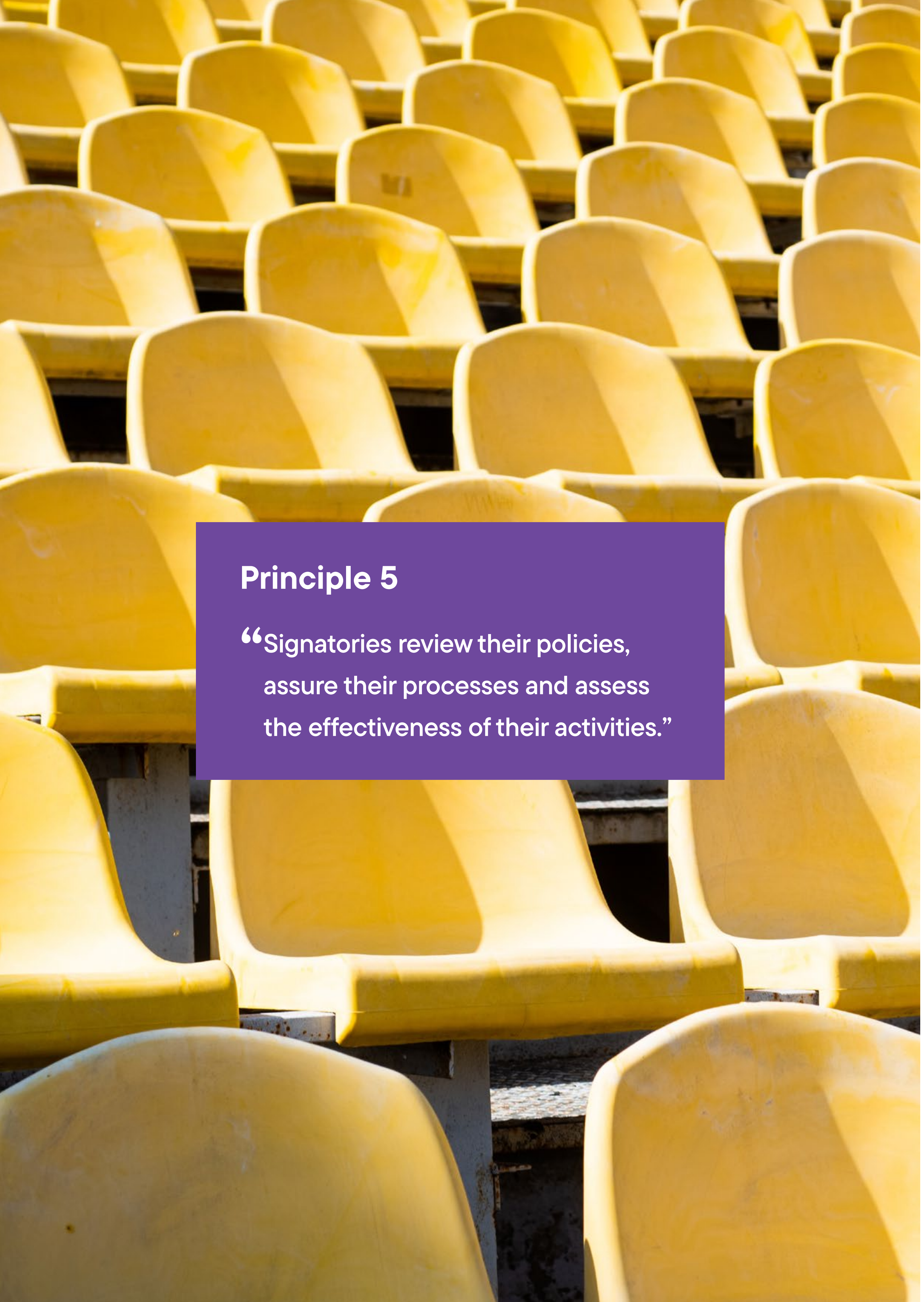
"People are at the heart of the energy transition to net zero. The Paris Agreement is framed by the commitment to a just transition to ensure the workforce, communities, indigenous peoples and the vulnerable, including women and migrants, are fully included in transition planning to a low carbon economy."

"The Climate Action 100+ benchmark now includes this vital element, and we applaud those companies which are starting to map out their transition plans with inclusion as a core commitment. More is needed, at pace and scale. That is a moral imperative and an economic necessity."

Read more about our collaboration with Climate Action 100+ here.

Read more about our advocacy work and insights.

- Franklin Templeton Thought Leadership Beyond ESG: The carbon price solution
- Franklin Templeton Thought Leadership Beyond ESG: To activate hope, activate capital



Principle 5

“Signatories review their policies, assure their processes and assess the effectiveness of their activities.”

Review and assurance

Stewardship and sustainability is constantly evolving. We are committed to continuous improvement that reflects the changing nature of the industry and takes a thoughtful and pragmatic approach to change. Our approach is underpinned by several policies which are reviewed regularly at a senior level.

Stewardship policy

Our global stewardship policy details our commitment to responsible management of the assets entrusted to our care.

This policy sets how we identify risks in our portfolios, along with monitoring, engagement, collaboration, and our approach to proxy voting. It is reviewed annually by the Global Sustainability Strategy Team, plus our legal and compliance teams.

Responsible stewardship is not limited by borders; our international and local businesses adhere to multiple stewardship codes and principles. These include:

Global	Principles for Responsible Investment
Australia	Principles of Internal Governance and Asset Stewardship
Hong Kong	Principle of Responsible Ownership
Japan	Stewardship Code
Korea	Stewardship Code
Singapore	Stewardship Principles for Responsible Investors
UK	Stewardship Code

You can read the full Stewardship policy here Policies | Franklin Templeton.

“As active investors we believe that good stewardship is essential to preserving and enhancing long-term value.”

Sustainable investing: Principles and Policies

Our Sustainable Investing Principles and Policies were last reviewed and updated in December 2022. As we have already referenced in this document, 2022 saw a crucial shift in our approach to sustainable investing as we move ‘Beyond ESG.’ We have adopted the term ‘sustainable investing’ to refer to how we integrate relevant factors into investment decisions considering that risk and return derive from the management of financial, human, and natural capital. The objective is to generate repeatable, risk-adjusted returns, guided by our fiduciary duties of prudence, loyalty and care.

The Sustainable Investing Principles and Policies are a summary of the approaches applied across our investment management teams. They set out a framework for our philosophy and approach, including our commitment to integrating sustainability factors into our investment management processes and ownership practices for all relevant products. At the heart of the approach is the key tenet that client investment goals and objectives always come first. We are stewards of our clients’ assets and, when exercising our investment discretion on their behalf, we must always do so in accordance with their instructions.

For more on our client focus, see Principle 6.

Several other policies feed into our stewardship approach:

- **Conflicts of Interest**
  All conflicts of interest are resolved in the best interests of our clients. A copy of our Conflicts of Interest Policy is published on the Policies page on our website at Policies | Franklin Templeton.

See Principle 3 for more information.

- **Proxy Voting**
  In 2022, a further 65 client accounts started using the sustainability-focused voting recommendations to inform proxy voting. The total number of accounts using sustainability focused guidelines is now at 451. These guidelines are focused on providing economic value to shareholders in a resilient fashion and promoting corporate action to make businesses more successful in their ability to deliver repeatable investment returns.

Shareholder proposals relating to sustainability are growing in number and are subject to frequent evolution and change year on year. These recommendations are focused on standards set by recognised global bodies, the opportunity to promote sustainable business practices and advocate for stewardship of the environment, fair labour practices, non-discrimination, and the protection of human rights where we see the benefit to risk management and value creation. Our proxy voting policies are available on our website at Policies | Franklin Templeton.

For more on our client focus see Principle 12.

- **Remuneration**

See Principle 2 for more details on how we link remuneration to our stewardship approach.

Internal audit: Review of Sustainable Investment Strategy

As mentioned in Principle 2, our Internal Audit group reviewed our approach to sustainable investing. Key findings from Phase 1 of the audit have been incorporated into the new Sustainable Investment Strategy launched in 2022.

Recommendation	Benefit	Action
Identify an authoritative body to oversee the development of baseline quality-control standards for integrating sustainability factors.	Enhance internal and external stakeholder trust by clearly articulating how each investment team evidences integration of sustainable investing factors into investment, portfolio management, communications and governance decisions.	The Sustainable Investment Governance Committee held its first meeting in 2022 and is designed to oversee all sustainable investing issues across the enterprise. See Principle 2 for more detail.
Create a sub-committee within the Stewardship and Sustainability Council to foster greater collaboration among Franklin Templeton's investment groups and clearly communicate topics and best practice.	Unlock differentiated thinking to enhance ESG processes and adapt to emerging regulatory changes.	We have created several working groups which allow their members to dig deeper into specific stewardship issues relevant across Franklin Templeton, such as biodiversity and water risk.
Review and update Franklin Templeton's universe of sustainable-investment-related corporate policies to accurately reflect our operating model.	Reliable and accurate ESG-related polices help reflect and maintain current governance and operating models and other relevant information.	We have updated our Sustainable Investing Principles and Policies to reflect the shift to Beyond ESG.
Increase engagement between data project and Franklin Templeton's Technology department.	Effectively centralise and protect sustainable investing data to meet the diverse needs of both Franklin Templeton and its autonomous investment teams.	Greater collaboration between the Sustainability Strategy Team and data project with Franklin Templeton's Technology department to expand the use of data across the business. See Principle 8 for more detail.
Formalise the role of all business units in sustainable investment initiatives.	Clear ownership of ESG initiatives can lead to more consistent and effective management of risks and opportunities across the enterprise.	We are tracking all memberships related to sustainability and as the Sustainable Investment Governance Committee ensures clarity of roles and responsibilities. See the full list in the appendix.

Producing a fair, balanced, and understandable report

The information for this report has been sourced through multiple internal stakeholders in their areas of responsibility to check and verify the accuracy of data as of 31 December 2022. We have designed our reporting to be in line with the guidelines set out by the Financial Reporting Council and have reviewed peer reports in line with industry best practice.

Quality control & oversight

Our global stewardship policy is underpinned by investment team level policies and procedures. Our compliance and legal teams provide additional oversight of adherence to these investment policies as part of their overall policy monitoring. Our internal audit team reviews and advises on process improvement in our sustainable investment work.

Case study

Task force on climate-related financial disclosures

We became a public supporter of the TCFD in January 2021. The TCFD framework is a vital tool that will help investment companies better understand how they are managing climate-related risks and opportunities. We are currently working towards releasing our first TCFD report, which will cover the 12 months to 31 December 2023.

This report will cover nine recommendations across the four central pillars of **governance, strategy, risk management**, and **metrics & targets.**

In 2022, in preparation for the report, we completed a draft framework to share with investment teams to help them to understand the reporting requirements and to contribute to the published corporate report along with their own statements where these are provided. We have also prepared and published TCFD statements in line with the requirements by Hong Kong and Singapore regulators, which are published on the relevant local websites.

Purpose and governance

Assessment of outcomes

2022 represented a significant milestone in the development of our firm level approach to sustainability. We are proud to have created our firm-level Sustainable Investment Strategy, drawing on the wide range of investment options for clients. Our approach is designed to enhance the effectiveness of sustainability in our investments and operations. The focus on the four quadrants–beliefs, governance, investment services and market presence–has already made an impact in terms of stewardship oversight and how we use our influence as investors to effect better long-term outcomes for clients.

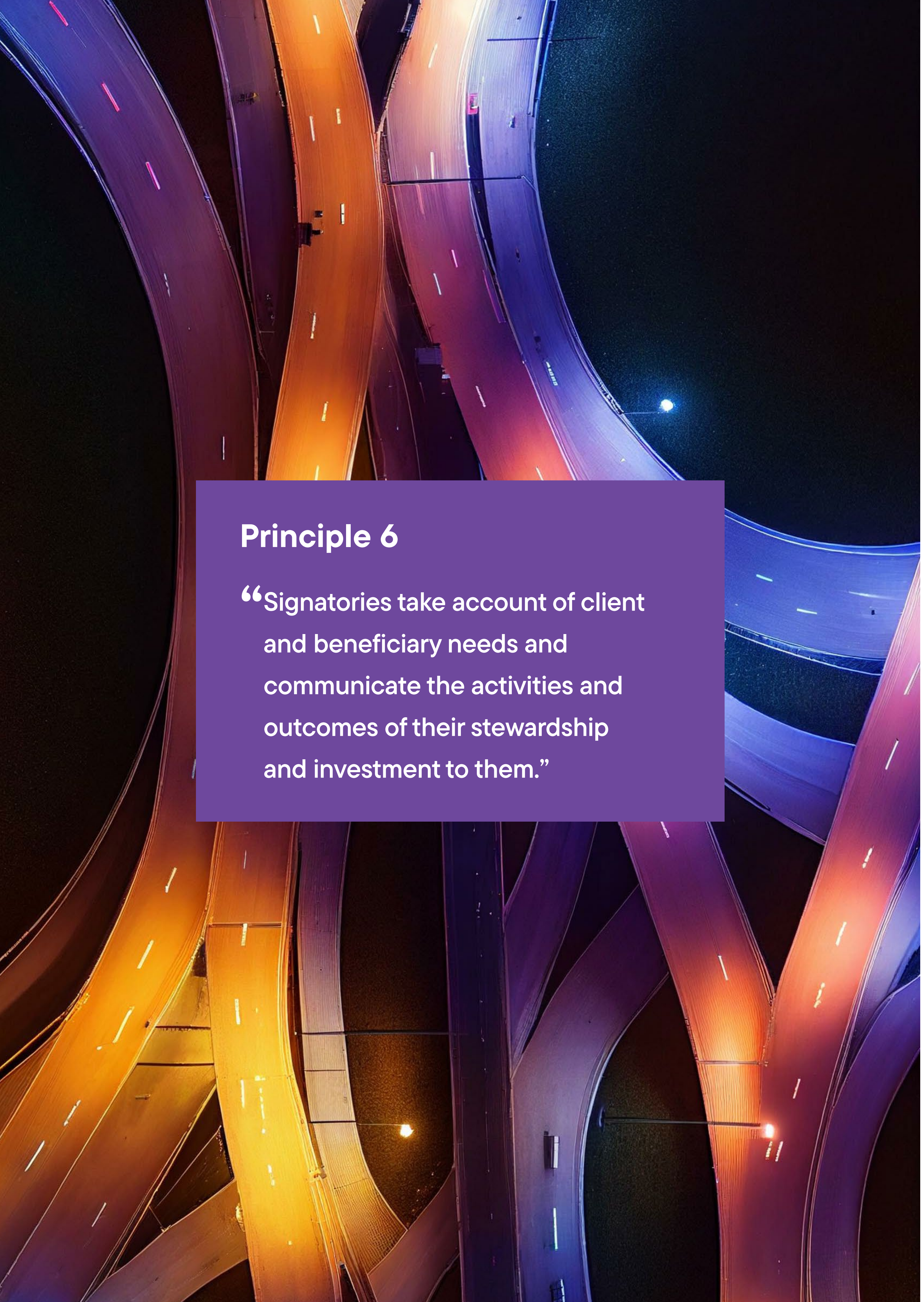
The strategy is a long-term commitment and will be fully implemented over more than one reporting year. We have worked with consultant McKinsey & Company to translate the four-quadrant framework into tangible actions, with set goals and quarterly key performance indicators.

The work carried out so far is just stage one: laying the foundation. Stage two will see us continue to grow our capabilities and sophistication across the enterprise, and stage three sets out our leadership ambition in sustainable investment. Our foundational work has set a clear basis through which we are able to achieve our goals and we have taken a clear economic rationale to our sustainability approach, that enables our approach to be resilient.

We view the steps we have taken in 2022 to have been effective in guiding how our purpose and beliefs influence our strategy:

- We have improved accountability and governance for stewardship via the creation of new committees,
- Responded to market wide and systemic risks through new cross functional collaborations in both our investments and wider operations, and
- Undertaking internal audit to ensure we enable effective stewardship.

This work is foundational, and we expect this to form the basis of continued improvements in this direction over several years.



Principle 6

“Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.”

Client and beneficiary needs

Key highlights for 2022

- Greater demand from clients for sustainability-related investment products.
- Classifying and launching additional funds under EU Sustainable Finance Disclosure Regulation (SFDR) to cater to client needs in Europe and beyond as markets across Asia Pacific and the Americas gain momentum.
- Focus on EU SFDR level 2 requirements for product classification, disclosures, and reporting.

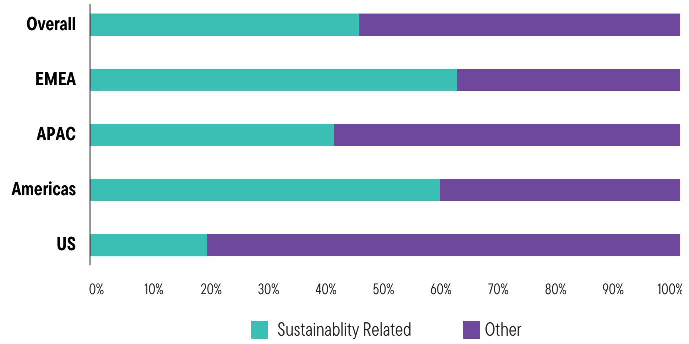
Increased Client Demand for Sustainability

Sustainable investing has become a core element of the asset management industry, driven primarily by key factors: client demand, economics, and regulation. These reflect the rising influence of science and society in driving momentum on sustainable investment.

We have witnessed a marked increase in clients demanding a wider choice and greater integration when it comes to sustainable investments. For the 12 months to the end of 2022, nearly half (46%) of all requests for proposals (RFPs) and for information (RFIs) were sustainability related. The interest was greatest in the Europe, Middle East and Africa region, where 62% related to sustainability, with 41% in Asia Pacific. In the US 20% of these client requests were related to sustainability, covering a significant proportion of AUM.

At the same time, regulation is evolving rapidly and bringing new attention on protecting investors from the potential risk of incorrect labelling of investment products—known as ‘greenwashing’ or ‘greenhushing.’ We communicate clearly with clients and raise these issues regularly in communications we have with clients, including during review meetings and our regular and ad-hoc reporting.

RFI and RFP Activity in 2022



Source: Franklin Templeton 31 December 2022.

Our conversations with clients

Investors have different needs and motivations when considering sustainable investments—be it utilising stewardship to transition the economy, understanding or targeting non-financial impact, or managing their exposure to certain activities via exclusions that may reflect religious, ethical, or moral preferences.

As the demand from our clients for sustainable investment solutions becomes ever more sophisticated and varied, we can provide products and solutions across each of these needs. Through multi-asset class investment teams, the firm is able to propose different sustainable investment strategies and solutions and cater for the evolving client needs and motivations which are the focus of our dialogue with them.

How we engage with issuers is a regular and growing client question from both institutional and retail clients. We also see Wealth and Private Banking fund distributors wanting to know more about this topic. We utilise both this report, in Principle 9, and direct communications with our clients to explain our approach and activity. In some areas, we have seen clients become interested in the wider impact their investments have and how as investors they can create wider positive impacts on society.

See Principles 9 for examples of engagement.

Exclusion: Geopolitical Risk and Acting with Integrity

In rare situations the company may take a view on wide exclusions driven by issues like geopolitical risk, international law, and sanctions.

In 2022, following the Russian invasion of Ukraine and resulting tragic humanitarian crisis, we committed to avoiding any support or enrichment to Russia or Belarus as a result of our investment decisions. This meant committing to making no new investments in Russia or Belarus sovereign or corporate debt, or equity across public and private markets.

Prior to Russia's invasion of Ukraine, Franklin Templeton had approximately 0.5% AUM exposure to Russia and Belarus at a firm level. As part of our response, we wrote the value of these assets down to 0.

"Many of our clients have long been interested in both doing good and doing well, focusing on a strong financial return while also solving some of the world's most pressing issues. Each client has a somewhat different set of goals and we offer bespoke solutions related to their interests which have included nature and conservation, extreme weather events, climate solutions, and economic opportunities for the underserved globally"

Dr. Lisette Cooper
Vice Chair
Fiduciary Trust International

Client communication and reporting

Communication is critical to our stewardship efforts. The two main ways of communicating with clients are review meetings and reporting.

Sustainability Client Communications by Region and Type

Region	In Person	Phone Call	Video Call	Other	Total
Americas	1,505	2,321	474	7	4,307
APAC	116	143	138	1,507	1,904
EMEA	1,129	1,094	458	12,065	14,746
USA	985	2,890	655	1,012	5,542
Other	250	283	252	4,121	4,906
Total	**3,985**	**6,731**	**1,977**	**18,712**	**31,405**

Source: Franklin Templeton, 31 December 2022.

Review

We hold formal reviews and ad-hoc meetings with clients to better understand their needs and exchange views. These help us build a detailed picture of goals and approaches to stewardship, with important information fed back to our investment teams.

Reporting

Reporting is a vital tool for us to update clients on investment performance and important developments with implications for their capital, as well as to provide greater insight into how their assets are managed. In 2022, we sent out 22,115 reports to clients in total, across the APAC, EMEA and US regions.

We establish regular dialogue from the pre-sale stage, through the onboarding process and into the ongoing fund management. We produce annual sustainability and stewardship reports that contain information on environmental, social and governance exposures and how we are managing their portfolios to mitigate these risks and explore opportunities.

A regulatory perpsective

High on the agenda in 2022 from a regulatory perspective was implementing the next stage (Level 2) of EU SFDR. This is a major part of the EU's Sustainable Finance Action Plan, which has ambitious goals to make the economy more sustainable, foster greater transparency and long-termism in the market and bring sustainability to the mainstream in investment.

The next stage of SFDR is much more specific on product-level disclosures required from asset managers. If they are marketing funds as Article 8 or Article 9, investment firms must meet the regulatory technical standards (RTS), including detail on content, methodology and presentation of information relating to sustainability indicators and adverse sustainability impacts for instance. We also need to explain the potential for Article 6 transition funds as we've launched several.

The main disclosure documents now available to investors are:

- Pre-contractual disclosures for financial products falling under Article 8 and Article 9 of SFDR
- Website disclosures for Article 8 and Article 9 financial products
- Periodic reports for Article 8 and Article 9 financial products

This was a large undertaking from across the business including investment teams, the Global Sustainable Strategy Team, and the compliance, legal, and product teams.

How do we classify funds according to SFDR?

As discussed in Principle 2, the cross-functional ESG Product Advisory Group reviews and validates any proposals to promote existing or new funds as Article 8 or 9. It assesses the eligibility of any fund or separate account it manages (or contracts the management service) with regard to all applicable ESG regulatory regimes. It reports its conclusions to our European Product Governance Committee and relevant fund boards.

This group enables us to apply a high level of governance to sustainable investment strategies and funds, ensuring they meet both our clients' expectations and regulatory market standards.

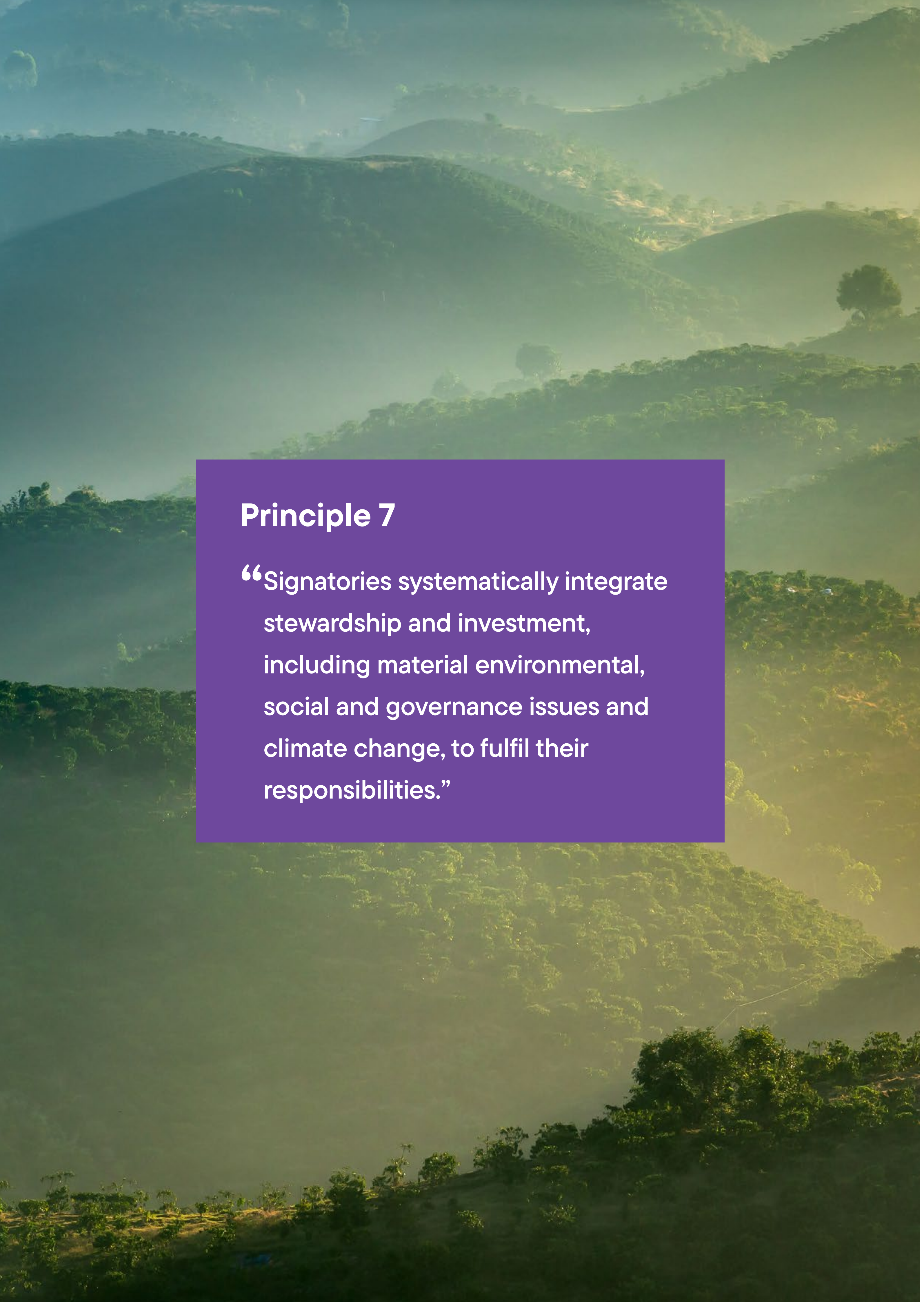
How many funds are moved across?

As of the end of December 2022, we had converted and classified more than 60 accounts, including numerous mutual funds in our Luxembourg- and Irish-domiciled ranges, along with institutional accounts and sub-advisory accounts on behalf of clients.

As the EU Sustainable Finance regulatory framework continues to evolve, we will carefully monitor the latest developments to ensure our sustainable investment strategies and funds remain fit for purpose.

We monitor, and are in scope of, similar regulatory efforts worldwide:

Financial Conduct Authority's Sustainable Disclosure Regime	Proposed UK sustainable disclosure regime for EU funds that market using any sustainability theme. The scheme introduces labels for certain kinds of sustainable investment products.
	The regime allows firms to frame appropriate disclosure of their sustainable investment processes in their own, clear terms, without central prescription of format or concepts. We welcome the comparability to the proposed US regime.
SEC Fund Names Rule	Proposal would amend the Fund "Names Rule" to expand the rule to apply to any fund name with terms suggesting a focus on investments with particular characteristics, such as fund names indicating the use of ESG factors or funds with "growth" or "value" in their names.
	We expect this rule to provide enhanced confidence to clients on the ways in which sustainable funds meet their goals.
SEC ESG Disclosure Rule	Would create three new categories of "ESG" funds (Integration, ESG Focused, and Impact), with increasingly greater operational and disclosure requirements for each category.
	We support the SEC's goal of improving disclosure for funds with sustainability strategies, our feedback focuses on ensuring that the detailed requirements provide clarity to the end investor.



Principle 7

"Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues and climate change, to fulfil their responsibilities."

Stewardship, investment, and ESG integration

Key highlights for 2022

- New Sustainable Investment Strategy driving integration of sustainability and stewardship into investment processes.
- Strengthened Stewardship and Sustainability Council.
- Enhanced support on net-zero targets for investment teams.

Greater than the Sum of its Parts

Sustainable investing at Franklin Templeton

We are committed to integrating sustainability across our entire business by embracing the potential investment opportunities and managing risks to resilience and long-term value. Sustainability information is integral to this process.

With such a broad range of investment strategies and asset classes under the Franklin Templeton umbrella, integration is complex, so there needs to be a tailored approach. Our investment teams create frameworks and tools to support their sustainability research and monitoring, with approaches differing depending on asset class. These can include sovereign sustainability models, analytical frameworks based on financial materiality, sustainability portfolio risk reports and manager research due-diligence assessment frameworks, which are used in external manager appointments.

These individual approaches are backed up by central support. With the shared resources from our central stewardship function, our strategy brings together investment teams who retain discretion over decision making, but work towards the same goal: producing repeatable, risk-adjusted returns. We believe the strategy will deliver synergy, making the whole greater than the sum of its parts.

The goal of our new Sustainable Investment Strategy, discussed in Principle 1, is to enhance our support for our investment teams in embedding sustainability into their processes, while still allowing them to retain their investment autonomy and meet their clients' specific needs.

Our integration approach recognises the linkages between sustainability factors and the risk and return outcomes for investors and their portfolios, driven by company performance and the performance of the market as a whole.

Socialising best practices: Stewardship and Sustainability Council

The creation of both permanent and ad-hoc working groups also allows members to dig deeper into specific stewardship and sustainability issues and improve effective integration. These include asset-class working groups focusing on equities, fixed income, and alternatives—and others tasked with specific issues, such as biodiversity, water, net-zero targets, and key proxy votes.

Investment services

Each investment team determines the material sustainability issues that may impact their investment considerations and is supported by the Global Sustainability Strategy Team.

They do this through using proprietary models, external sustainability ratings and data, qualitative assessments, and engagement with issuers. Gauging materiality is subject to several factors: issuer type, investment horizon, investment exposure, geography, sustainability indicator exposure, and stakeholder concerns.

One key area of integration previously identified was improving access to company-wide data. We discuss in more detail in Principle 8, the next steps for data provision. Our data project demonstrates how we are seeking further integration, thanks to the introduction of new analytical tools and training.

Portfolio decarbonisation tool

This is currently moving from proof-of-concept into production, the tool helps investment managers understand what impact the net-zero targets will have on their portfolios.

> **"The tool allows investment teams to carry out actions including the construction of a sector relative benchmark, a portfolio decarbonisation pathway based on a 'fair share' contribution to global emissions reductions informed by the IEA Net Zero Emissions by 2050 Scenario, and benchmark-relative cumulative emissions pathways which determine a carbon budget for the portfolio."**
>
> **Dr. Jennifer Willetts**
> Head of Sustainability Data and Research – Global
> Global Sustainability Strategy Team

Net-zero alignment target-setting tool

Based on data from our data vendors and methodology from Climate Action 100+, this tool helps investment managers understand how aligned portfolios are with net zero at the asset level. Still at an early stage of development, we hope to use this to support further engagement with companies on their approach to climate risk and opportunity. We continue to refine this tool and may look at additional sources as we identify any data gaps.

Fixed income integration

With mainstream data providers historically focusing predominantly on equities, many of our fixed-income investment teams have set up their own proprietary frameworks to integrate sustainability issues according to investment instrument (sovereign, credit, municipals, loans, asset-backed securities). Below are some examples from 2022:

Case study

Franklin Templeton Fixed Income uses proprietary frameworks and tools to integrate sustainability into its strategies.

- **Energy and environmental transition index (EETI).** This ranks sovereign issuers using data on energy efficiency, renewable energy performance, greenhouse gas intensity, and environmental considerations.
- **ESG credit app**. This tool is used by the fixed-income team to rank corporate issuers by their greenhouse gas emissions and greenhouse gas intensity. It uses a catalogue of datapoints including Scope 1 and 2 greenhouse gas emissions and emitters' historic trajectories. When considering Article 8 or 9 funds, corporate issuers in the bottom 20% of the investment universe (climate laggards) based on the ESG Credit App are excluded from portfolio construction.

Case study

Templeton Global Macro uses a proprietary methodology known as the **Templeton Global Macro ESG Index**. This can assess country level overall sustainability considerations. The Index was introduced in 2018 as an additional metric designed to complement the team's macroeconomic analysis and asset valuation assessment in sovereign fixed income. The Index represents the culmination of decades of sovereign research and codifies a long-held approach to assessing the quality of governance, social factors, and environmental practices of countries into a single scoring index.

The Index consists of 14 indicators, composed of five subcategories on governance, six on social and three on environmental topics. These indicators were designed to produce a holistic measure of the ESG situation in countries and measure a wide range of factors such as the strength of a country's institutions, infrastructure, demographics and social cohesion, and exposure to extreme weather risks. The indicators were selected to have low overlap with each other, as well as materiality to a country's economic wellbeing and social welfare.

The investment team first scores countries from 0 to 100 in each of these 14 subcategories, using a process that leverages baseline rankings from a set of global indexes produced by leading research institutions in their fields. The 14 subcategory scores are then tallied into a total current score by grouping them into their respective environmental, social and governance categories, and equal weighting those three overarching categories (i.e., a 33% weighting for governance, 33% for social and 33% for environmental). Finally, the team uses their internal proprietary research as a forward-looking overlay on those baseline current scores, to assess whether they expect countries to improve or deteriorate in each of the subcategories over the medium term.

These conclusions form projected scores for each country —a key distinguishing feature of Templeton Global Macro's approach to sustainable investing.

Case study

Franklin Templeton Investment Solutions has developed a proprietary sustainability assessment methodology centered around materiality. The framework allows the investment team to make holistic assessments of sustainability factors across asset classes that can be incorporated into top-down asset allocation and bottom-up security selection investment management process. For corporate securities, the methodology combines 70+ external and internal datapoints and systematically tests for materiality by sector, and then layers in a fundamental assessment to adjust as needed. This results in the calculation of an overall ESG score per security ranging from 0 to 100, with 100 being the highest. The output measures the following categories:

- Carbon
- Waste management and resource use
- Biodiversity
- Human capital
- Health and safety
- Product liability
- Data privacy and security
- Corporate governance
- Business ethics

At the fund level each quarter the team is able to rank top and bottom performers and largest changes in scores. The team can also monitor focus impact metrics like carbon emissions and gender board balance.

For an example of how this approach relates to engagement case studies, please see Principle 10.

Outcome-focused approach to systemic risks: Net Zero

Climate risk is a major systemic risk, as described in Principle 4. The climate tools we have developed allow us to better integrate systemic risk considerations into the investment processes across the firm. Franklin Templeton, ClearBridge, Martin Currie, and Brandywine signed up to the Net Zero Asset Managers' initiative. In 2021 and we made our initial target disclosure in November 2022.

Our approach is focused on utilising engagement to transition the economy to a net-zero one, above managing exposure to carbon emissions via allocation decisions. This approach recognises that in equity and other secondary market investments, divestment has little influence over the underlying emissions. In primary capital markets such as some forms of debt securities and private equity,

Sustainability Client Communications by Region and Type
we take an approach that is more focused on allocation decisions, where we feel this will influence underlying emissions and contributions to systemic risk.

A total 4.62% of our eligible AUM is currently managed in line with net zero and we intend to continue to grow this AUM over time. We are committed to engaging with companies on net-zero transition.[10]

See our initial net zero commitment here.

Investments Teams in Scope of Our Net Zero Asset Managers Initiative Commitment

As part of Franklin Templeton's Commitment	Separate Signatory Commitment
Franklin Equity Group	Martin Currie
Franklin Income Investors	Brandywine Global
Franklin Real Asset Advisors	ClearBridge Investments
Franklin Templeton Emerging Markets Equity	
Franklin Templeton Fixed Income	
Franklin Templeton Investment Solutions	
Franklin Mutual Series	
Franklin Templeton Private Equity Group	
Franklin Venture Partners	
K2 Advisors	
Templeton Global Equity Group	
Templeton Global Macro	
Benefit Street Partners / Alcentra	
Franklin Bissett	
Fiduciary Trust	
Franklin ETF & Index Investments	

10. NZAM commits us to manage assets in line with the goal of bringing greenhouse gas emissions down to net zero by 2050 or sooner and requires several commitments, including taking account of Scope 1 and 2 emissions in portfolios (and as far as possible, material Scope 3 emissions), creating investment products aligned with net-zero emissions by 2050, and facilitating increased investment in climate solutions.

Principle 8

“Signatories monitor and hold to account managers and/or service providers.”

Monitoring service providers

Key highlights for 2022

- Expanded data project beyond the data lake.
- Investigating increased data sets for biodiversity, physical risk, and water risk.

Assessment and Evaluation

We believe that our investment managers and analysts are best placed to make investment decisions for our clients’ capital with the support of our Global Sustainability Strategy Team. However, there is a clear benefit to using external service providers to strengthen our sustainability-related research and proxy voting activity. We monitor these providers regularly to ensure the service they provide is effective.

Research data

We depend on having the highest-quality data available at a time when standards and assurance are still evolving in public markets and at an early stage in private markets. The focus, since launching our sustainability data project in 2021, has been on improving access to and use of enterprise-wide data that supports our stewardship and sustainability efforts.

Sustainability data can be split into **primary use** (for investment evaluation and analysis) and **derived use** (for example, client reporting; regulatory reporting and disclosure; investment risk monitoring; meeting investment compliance guidelines). In recognition of the importance of this work, we are expanding our staff resource and have hired a new Senior Sustainability Data Analyst to join in 2023.

Better integration of sustainability data

As covered in our previous Stewardship Report, after extensive due diligence, we contracted three main vendors to provide sustainability data on an enterprise-wide basis: MSCI ESG, S&P Trucost and ISS ESG. Among other areas, these data cover climate risk, human capital, controversial issues, and corporate governance. In 2022, this data has provided investment teams with the potential for more insightful analysis, giving them greater coverage and a wider range of metrics.

Investment teams are also able to source additional sustainability data suited to their specific investment approach. The challenge for 2022 was taking our data capabilities beyond simple access, ensuring teams are getting the most out of the data and able to use it to integrate greater insight on human and natural capital into their valuation models.

Read more in Principle 7 about the portfolio decarbonisation and net-zero alignment tools enabled by enterprise-wide data.

How this data is being used across our organisation

- Starting in 2022, **Franklin Templeton’s Global Equity Group** is in the process of developing an industry-specific Sustainability Score Card using up to 150 underlying metrics. This will be integrated into its fundamental research database and support sustainability assessment at the issuer level, across its investment universe.
- The **Franklin Templeton Fixed Income** team has overlaid third-party data with a proprietary methodology to create an in-house sovereign model, as well as a carbon scoring model for corporate credit.
- The **Franklin Templeton Emerging Markets Equity** team incorporates sustainability data alongside fundamental data within their proprietary research databases. Such tools are then put into production by our Technology team, another central resource working closely with the Global Sustainability Strategy Team.

Not all investment teams conduct ESG Scoring. Some of the factors that are considered when rating/scoring an issuer are subjective and, consequently, the investment manager’s or a third party’s scoring may not always accurately assess the sustainability practices an issuer.

Assessing how data is used across our investment teams

With contract renewals due in 2023, over the course of 2022 we assessed uptake and use of datasets. A mid-year review of investment teams found a clear preference for one data provider, with virtually all (more than 90%) using it in some way within their investment processes. However, the review showed less uptake of other providers. We continue to work with our investment teams to help them get the most value out of the data provision and analytics.

Mid-year review

Across our business, data was used by teams for several purposes, including:

- Complying with EU Sustainable Finance Disclosure (SFDR) regulation
- Meeting NZAM initiative requirements
- Client reporting
- Alignment with UN Sustainable Development Goals
- Preparing European ESG Templates (EET)
- EU taxonomy requirements

Areas identified for improved coverage by investment teams included:

- Sovereign data
- Coverage for micro-cap strategies
- Private equity
- Green and social bonds
- Principle adverse indicators

We also identified a number of other data providers who are in use across the firm to meet individual needs of investments teams:

- Sustainalytics
- Equileap
- Maplecroft
- Bloomberg
- Eurostat
- Aquastat
- World Bank
- Workforce Disclosure Initiative
- FactSet
- Moody's
- Persephone

Technology

As we look to scale up our data capabilities, the Global Sustainability Strategy Team worked closely with our technology department in 2022 on which aspects of modelling and reports can be automated to make the process swifter and less labour-intensive. Automation will allow investment teams to self-serve where necessary and make accessing sustainability data more widespread.

Data governance

Another challenge for 2022 was ensuring data quality. We recognise that it is vital for investment teams to be able to rely on the quality of the data they use. Even with the large, respected data service providers we use, there is the potential for error and the underlying reporting often lacks standardised, timely reporting and assurance. We are reinforcing our internal governance framework to ensure outliers or potential errors—for example in third-party carbon emissions data—are flagged, assessed, and escalated. A step forward for 2023 will be further improved data-quality checks.

Expanding our data reach

With increased datasets on climate now being used across Franklin Templeton, in 2023 we are increasing onboarding of data on other sustainability topics.

Biodiversity

The data discovery process and initial working group for Biodiversity Assessment was set up in 2022. We have now established a working group with participants from six investment teams, including autonomous investment teams. We have also started carrying out due diligence and trialling biodiversity data providers. So far, we have identified and are speaking to four potential providers, some larger vendors with pre-existing relationships with Franklin Templeton and others who are specialists in this area.

Physical risk

In 2022, we started the process of investigating how existing data sets can be used to expand investment teams' research and understanding of physical risk. This includes further investigations into how S&P Trucost's acquisition of The Climate Service can help us understand the physical climate risk within portfolios, with a focus on merging asset allocation data with science-based climate models. We have a strong existing partnership with S&P Trucost, that has enhanced the effectiveness of our assessments.

Water

Water scarcity and risk was identified as a key theme in 2022 and we are a founding partner of the Ceres Valuing Water Finance Initiative, where Anne Simpson is co-chair. The real work on the data side is now beginning in 2023. Ceres has its own proprietary methodology for identifying companies in this area. We are focused on deepening our knowledge in this area and broadening our analysis to more portfolio companies. We have begun a review of the existing metrics we have available to further understand how they can be leveraged to create an impact and dependency framework.

See Principle 4 and Principle 10 for more details on our water initiatives.

Private markets

Much of the focus for data has been on equities and corporate credit. However, with private markets an increasingly large part of the investment universe, progress has also been made on data in this area. In addition, our private equity model offers impactful and different levers of influence compared to public markets, providing direct access and influence at the company, where we typically are granted a board seat in a minority stake investment.

Benefit Street Partners, Alcentra and Franklin Templeton Global Private Equity make use of qualitative and quantitative data and insights. Sources include:

- **Novata**,[11] a platform providing private markets data and insights, used to produce impact and sustainability data for reports and analytics
- **Impak** which provides standardised impact assessments tailored towards SFDR regulation
- **BlueMark**, a provider of independent impact verification and intelligence for the impact and sustainable investing market

Proxy voting service providers

We use two proxy service providers: ISS and Glass Lewis. We carry out periodic due diligence on the services they provide with regular reviews carried out by our internal proxy group and compliance department. We do this via on-site visits and written questionnaires.

Annual written due diligence questionnaires cover a range of topics including compliance policies and procedures, information technology, disaster recovery, conflicts of interest, breaches or litigation, and insurance coverage.

The proxy group assesses the adequacy and quality of each service provider's staffing and personnel to ensure:

- They have the capacity and competency to analyse proxy issues
- They are able to make proxy voting recommendations based on material, accurate information
- The independence of each proxy service provider

If either the proxy group or investment manager discovers an error in the research or voting recommendations that have been provided, they will investigate the error and seek to determine whether the proxy service provider is taking reasonable steps to reduce similar errors in the future.

At least annually, the proxy group verifies that:

- A sampling of proxies received has been voted in a manner consistent with the relevant proxy voting policies and procedures
- A sampling of proxies received has been voted in accordance with the instructions of the investment manager
- Adequate disclosure has been made to clients and fund shareholders about the procedures, and how proxies were voted in markets where such disclosures are required by law or regulation
- Timely filings were made with applicable regulators, as required by law or regulation, related to proxy voting

Read more about our proxy voting in 2022 in Principle 12.

11. The founder of Novata Alex Friedman sits on the board of Franklin Resources, Inc.

Changes to the proxy group in 2022

A major change affecting our proxy voting processes was moving the proxy group to become part of the stewardship team within the Global Sustainability Strategy Team. We expect to garner several benefits from this change:

- Allow the stewardship team to provide information and analysis to our investment teams
- Reduce reliance on advice from third-arty proxy advisory firms for high importance proxy voting issues
- Create a simpler and more transparent structure
- Consolidate all voting work in one organisational unit
- Bring our proxy voting procedures into line with peers

Assessment of outcomes

Stewardship and sustainability are an ever-growing part of the conversations we have with our clients. We believe our focus on financial, human, and natural capital will help manage risks in the long term, and—from conversations and interactions—we see that our focus on governance can assure our clients of our stewardship capabilities.

In 2022, we built on the success of our data project. The improved data is being used to create new tools that will help deepen our insights across the business. As we build out the third quadrant of our Sustainable Investment Strategy—investment services—the next steps are ensuring teams are able to get the most out of the data we already have on climate and broadening the field to encompass other areas such as biodiversity and water risk.

We believe the improvements we've made over 2022, such as developing new integration tools for Net Zero, additional monitoring of data quality controls, the framing for sustainability under our new strategy, and the governance structures that allow socialisation of best practice all combine to create a more effective implementation of Principles 6, 7 and 8, and will allow continued improvements into the future.

Principle 9

"Signatories engage with issuers to maintain or enhance the value of assets."

Engagement

Key highlights for 2022

- 2,608 engagements with 785 companies and other issuers worldwide on sustainability-related issues.
- Major topics include climate and other sustainability disclosures, pollution, waste management, diversity, equity and inclusion, product safety, and labour rights.
- Increasing levels of internal and external collaboration.

Our Primary Tool to Influence Change

Engagement with our investee companies is our primary tool to address idiosyncratic issues within firms, and an important mechanism to influence issuers' contribution to systemic risks that affect the overall value of our portfolios and market health. Addressing market risk is also supported by our policy work. Alongside the issuers themselves, we engage with regulators, government bodies and other stakeholders, recognising that the value we deliver to our clients is in part derived from the safety and soundness of financial markets and the overall health of the economic system, as described in Principle 4.

Sustainability affects the total value of cash flows a company may produce. It affects long-term viability of a company's business model and gives resilience to investment returns. Investment value is also affected when a company externalises costs from the balance sheet and onto the system. These externalities are recognised by economists as either positive or negative. Typically, they can accumulate to bring risk at issuer and market level. In our engagements we focus both on idiosyncratic issues (where it affects the valuation), and systems level considerations (where it affects market risk) as both are relevant to return.

Of more than 2,608 engagements recorded in 2022, around 18% were on issues categorised as natural capital issues, such as climate risk disclosures and biodiversity; 10% were classed as human capital issues, such as diversity, labour rights, or human rights.[12] Economic capital and governance issues made up 61% of engagements. These included audit or accounting issues, discussion of the company's business or capital structures, and board independence. (In around 4% of cases the topic was not specified).[12]

Number of issuers engaged	785
Engagement for Information	2,253
Engagement for Change	212

Engagements in 2022[12]

Environmental	**474**
Climate disclosures	118
Pollution and waste management	69
Circular economy	50
Natural resource usage	30
Transition rsk	29
Water	29
Biodiversity	16
Forestry and land use	14
Financial risk	13
Physical risk	7
Other	88

Social	**273**
Supply chain management	65
Labour rights	61
Diversity	33
Conduct and culture	19
Community engagement and social license	15
Human rights	12
Product safety	12
Cyber security	5
Data privacy	4
Bribery and corruption	4
Tax	4
Other	32

Governance	**1,592**
Business strategy	399
Capital structure	219
Sustainability disclosure	166
Merger & acquisitions	159
Integrated reporting and other disclosures	111
Audit and accounting	69
Board independence	66
Shareholder protection and rights	57
Executive remuneration	54
Board diversity, skills and experience	46
Bondholder protection and rights	17
Succession planning	16
Cancelling treasury shares	1
Lobbying and political contributions	1
Other	169

12. Source: Franklin Templeton. For some engagements, sub topics were not recorded and some covered multiple topics. For 269 engagements, topics were not categorised.

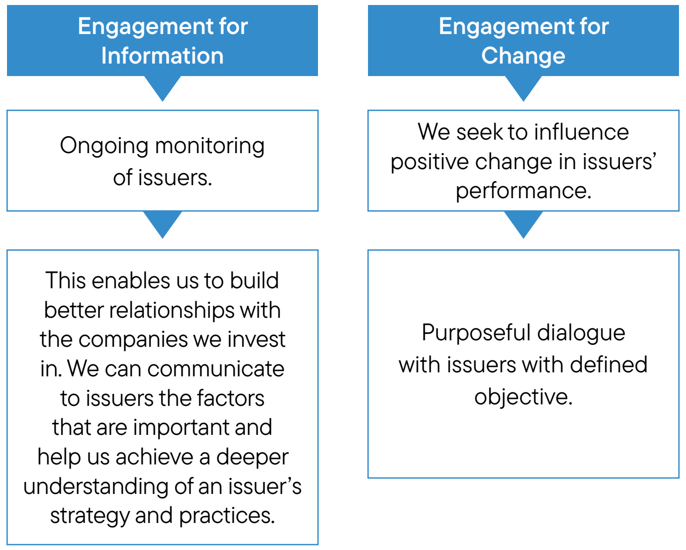
How we engage

Although some classifications will differ between investment teams, we break engagement down into two broad categories: **engagement for information** and **engagement for change.**

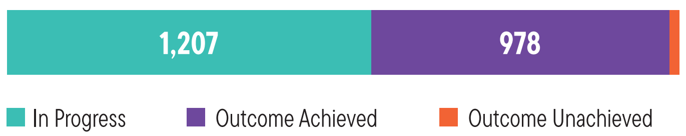
Often the process begins with engagement for information. This allows us to build a more detailed picture of a company's management, board quality, and its approach on issues which are important to company reputation and performance.

It is usually when we find that the information is not available, or disclosure from the issuer is not to our satisfaction that engagement moves towards change. Under this category we will require that issuers provide adequate disclosure so that risks and opportunities in sustainability can be effectively managed to support the company's performance and that companies can be held to account by their shareholders.

As the case studies in this section demonstrate, our engagements will start to gather information, through which we can identify issues and move through the process of change to support the company's performance. In some cases, engagement will require escalation to effect change.



Engagement Outcomes in 2022



For more information on how we approach escalation, see Principle 11.

We have separated engagements into three categories:

In progress. We identify material issues and set out our priorities and by the firm-level Stewardship Policy and Sustainable Investment Policies and Principles. How our investment teams approach engagement varies. Teams use a combination of written communication, in person or virtual meetings, visits to operations and voting decisions. We determine whether an engagement is to instigate change or gather further information before making our initial engagement approach to the company.

Once this initial approach is acknowledged, we set out a plan for engagement, whether the issue will involve meetings in person (or over video conference) and whether there is likely to be voting follow-up.

Outcome achieved. In most cases, the end result is the issue engaged on is resolved. Either that means we receive the information we are looking for from the issuer, or they take on board the comments we have made and take action to address any issues we have raised. We continue to monitor progress from that point.

Outcome not achieved. Not all engagements have a positive outcome. Where an issue remains unresolved, analysts may seek to engage in a different manner. This can include voting action or adjusting our investment thesis. We also mark the engagement as closed when the reasons for engagement are no longer applicable (for example, when we have divested from the company).

Engagement for Change vs. Engagement for Information

All engagement provides us with more information about an issuer, and engagements that start off as for information often move towards driving change where we find the information is unsatisfactory.

Engagements for change require substantially greater resources than those for information, and we would expect this number to be lower. These engagements are longer term, more detailed, and can span multiple meetings as we work through an issue. Our approach to engagement for change is based on quality over quantity and achieving effective outcomes, which we have evidenced in our case studies below. In 2022, we also took a more collaborative approach to engagement, which will slightly reduce our overall numbers of engagement for change as we combine engagement efforts into one, more effective representation to an issuer. Examples include our engagements through Climate Action 100+, the Ceres Valuing Water Finance Initiative, and internal collaborative engagement.

Approaches to engagement

The nature of engagement varies depending on the type of asset class, or whether we hold investments directly or indirectly. To add value for our clients, the stewardship approach must be the right fit for the specific client. We have summarised some of the different approaches below:

Private markets: Franklin Templeton Global Private Equity

- This is a fast-growing area of the investment world, taking up an increasing share of portfolios.
- From a sustainability perspective, private markets are a particular focus for impact investing.
- Engagement can be more challenging for private markets than with public issuers.
- Takes minority stakes at portfolio companies, typically granting the manager selection of a board seat, providing visibility and allowing routine access to the board and the investee firm's decision-making.

Sovereign and supranational debt: Templeton Global Macro

- Governance is a central theme in the team's research, examining country priorities, policies, regulations, and ability to enforce regulations.
- Investment teams meet central bank officials, government policymakers, and local business leaders to assess fundamental economic conditions, which include sustainability-related issues.
- Investment teams visit regions to gather information that would otherwise be unavailable such as tax revenue sources, trade data, and the economic assumptions and sensitivities used in fiscal budget planning.
- In many cases sovereign debt has different linkages to sustainability factors such as national carbon emissions.
- Focus on outcomes through engagement.

Fund of funds: K2 Advisors

- Stewardship is an important component of the team's investment research and ongoing due diligence.
- Fulfils its stewardship role through constructive and open engagement with the managers of the underlying funds.
- Uses influence to promote stewardship methodologies, philosophies, and risk integration.
- Seeks to partner with managers as they develop their approaches to sustainability.

Quantitative and passive funds: Franklin Templeton Investment Solutions

- Stewardship opportunities are more limited with rules-based strategies (for example adhering to a specific index or using quantitative models).
- The team votes on holdings in line with international best practices.
- The nature of the investment process and the quantity and duration of holdings within a strategy will determine if active engagement is in clients' interests.
- Where we do engage, it is typically led by fundamental research analysts who maintain direct relationships with the issuers concerned.

Real estate: Franklin Real Asset Advisors

- Committed to stewardship of real estate assets and managing properties on behalf of clients.
- Strives to ensure employees, partners, and suppliers commit to reducing environmental impacts of their operations.
- In redevelopments the team aims to make a sustainable impact and provide long-term value for investors, tenants, key stakeholders, and communities.

Engagement in action

We have set out highlights of our engagement work on the following pages from fixed income, global equities, emerging market equities, and impact investing.

Case study

Engagement in focus: Fixed income

During 2022, Franklin Templeton Fixed Income engagement took in more than 300 sovereign and corporate issuers and other market participants such as investment banks. Central to these discussions were the EU SFDR and measuring to what extent companies are reporting on the 14 Principle Adverse Impact (PAI) indicators.

Following the themes of the PAIs, the FTFI engagement centred around three key areas over the course of the year:

Energy transition

Engagement showed considerable progress on green hydrogen infrastructure, carbon capture, utilisation and storage (CCUS), and various methods of energy storage. Most companies surveyed 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 the structure of their energy consumption.

Questioning also revealed that 12% of companies surveyed could be subject to unforeseen energy transition risks (defined as the issuers that don't see energy transition risk as material for their operations).

Biodiversity

Questioning of issuers revealed many good practices to improve efficiency in the use or consumption of available resources. Depending on the focus, such practices were applied either to their office environment, business practices, or both. More than 40% of the companies had a strategy towards biodiversity conservation.

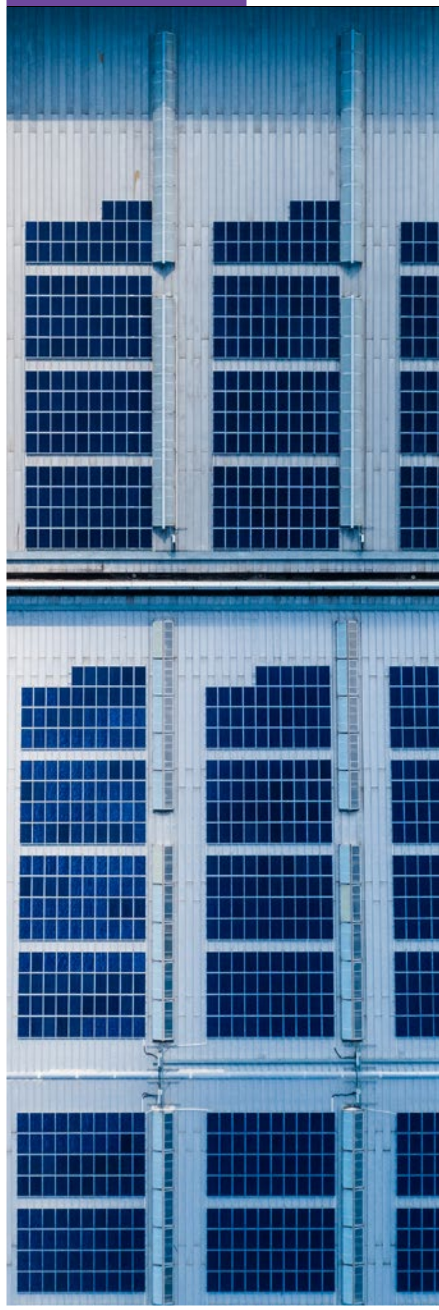
A total of 17% of companies surveyed observed a decrease in water usage over recent years (between 8% and 42%), although some noted they will be closely monitoring the performance of these metrics as staff return to offices. 6% of companies had declared setting up targets, including lowering water risk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

Social coherence

Social coherence questions related to PAIs on gender pay gaps, gender diversity on boards and exposure to controversial weapons and investee countries subject to social violations. Nearly 50% of surveyed companies were official signatories of UNGC principles and OECD Guidelines for Multinational Enterprises. And even more companies declared they had due diligence policies to monitor and ensure compliance with the guidelines. Only two companies stated that there was 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 on their boards.

Read the full Franklin Templeton Fixed Income Engagement Report here.

Case study



Franklin Templeton Emerging Markets Equity

Weichai Power (China)

Asset class	Equity	**Objective**	Engagement for change
Issue	Natural and human capital: Industrials are particularly exposed to both emissions and human capital risk through their operations.		
Details of engagement	We requested that management introduce a group-level carbon peak or reduction target, similar to what KION (Weichai's 45% controlled subsidiary and also a listed company) disclosed. We also enquired about and encouraged renewable energy usage. Weichai's management said it was making efforts, but it was still difficult to come up with a specific target at group level. Solar roof installation is now being implemented across all factories. Research and development (R&D) is particularly important in this industry and the company had experienced recent negative news attention regarding R&D personnel's complaints about working overtime. We sought clarification on the issue to understand whether there was a structural concern on incentive models that could affect employee relations in a key department. This can be a common issue with many Chinese companies, but it is not discussed often enough by shareholders. Management clarified that R&D employees are on performance-based compensation and offered very high base-level salaries. Nevertheless, the company recognised that that younger generation employees (born in 1990s and 2000s) have different working mentalities and the firm is considering improving its incentive management. High-level managers do not have remuneration ceilings, and salary is 100% performance-based; a stock incentive system is being planned.		
Outcome	On the environmental issues, Weichai has said it will start to disclose relevant data once ready. We remain engaged with the company in this regard. On incentive management, we see the changes being implemented as an important step in the company's management of its human capital.		
Status	**In Progress**		

Case studies are selected to illustrate depth and breadth of issues we address, and the range of asset classes represented in our dialogue with companies. Not all engagements are successful; resolution may take multiple years to address fully and these are marked as "In Progress".

Case study

Franklin Templeton Emerging Markets Equity

Fomento Economico Mexicano SAB de CV (FEMSA) (Mexico)

Asset class	Equity	**Objective**	Engagement for Change
Issue	Financial Capital: As a holding company, corporate governance and structure is particularly important to ensure alignment to minority shareholders.		
Details of engagement	FEMSA operates as a holding company, which engages in the production, distribution and marketing of beverages. During the past couple of years, we have been advocating for the company to increase transparency, including the decision-making process on capital allocation. We believe that FEMSA can achieve better alignment with minority shareholders by addressing its holding company discount. We encouraged management to act by increasing disclosure, considering spin-offs or taking other actions to ensure an appropriate reflection of the company's underlying investments.		
Outcome	Lowering the holding company discount would ensure the market cap accurately reflects the sum of the investments it holds. The company has since announced it is working on a plan to lower such a discount with expectations to be disclosed in 2023. With that, we expect positive momentum.		
Status	**Outcome Achieved (Progress to be monitored)**		

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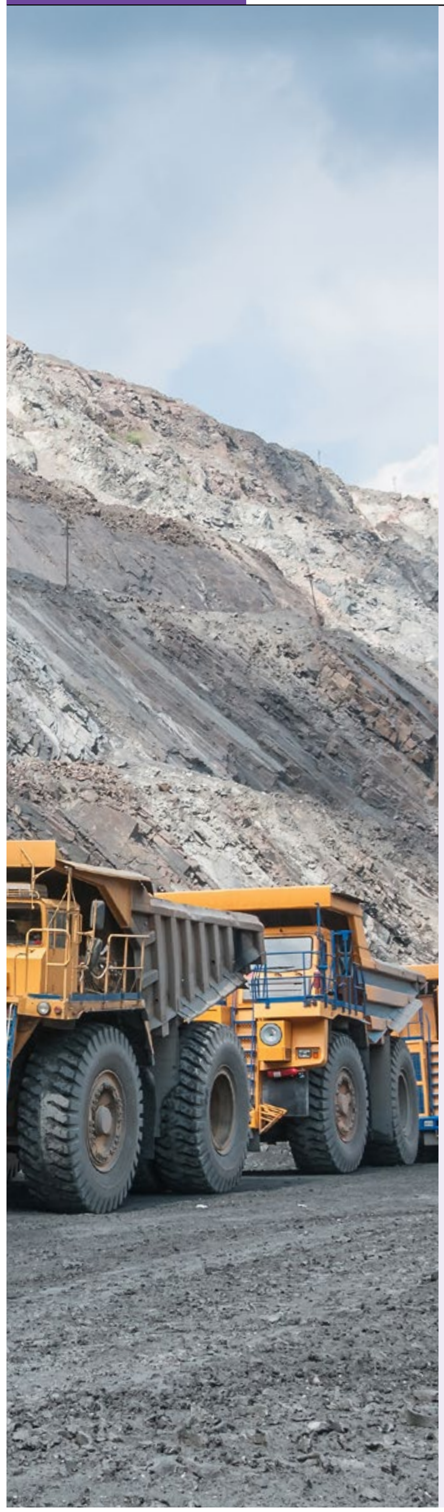
Case study

Franklin Bisset Investment Management

ARC Resources (Canada)

Asset class	Equity	**Objective**	Engagement for Information
Issue	Natural Capital: Climate targets and transition plan.		
Details of engagement	ARC Resources is a Canadian exploration and production company focused on crude oil and natural gas production in the provinces of Alberta and British Columbia (BC). The company is close to declaring FID (Final Investment Decision) on a new liquids-rich natural gas project, Attachie, in BC. It was awaiting a development agreement between the government of BC and the Blueberry First Nation (an indigenous territory within northeast BC) that would allow numerous oil and gas companies to drill wells in the area. That agreement has since been reached, and we expect ARC will declare FID in 2023. We engaged with ARC's CEO and CFO to familiarise ourselves with and document the steps the firm has taken to reduce its greenhouse gas emissions, and to address ARC's lack of a 2050 Net Zero goal. Although the company has made material steps in reducing emissions intensity and absolute emissions, management is more comfortable articulating a series of progressive 5-year plans to reduce emissions. In contrast to some other oil and gas producers, including the large Canadian oil sands producers, ARC is reluctant to set a 2050 net-zero target without having a defined plan to get there. While we feel that a firm 2050 goal (even if aspirational at this point) would be preferred, the company's view is also valid when combined with the actual steps it has taken, and continues to take, to reduce emissions.		
Outcome	In the near term, the Attachie development is awaiting FID, dependent on the BC government/Blueberry First Nation. All other impacted indigenous communities in the area have signed development agreements, and we believe the Blueberry band is near to doing the same. Attachie will be built with capacity to be completely electrified at the development site, with produced natural gas providing the initial source of power. Similar to ARC's development at Dawson, electrifying the site will bring its Scope 1 and 2 emissions close to zero, as BC Hydro is the power supplier. Our engagement shows that while market participants may want companies to declare net-zero 2050 targets, companies may have legitimate reasons for not doing so. Despite not having a formal 2050 net-zero target, ARC has shown more significant progress than many of its peers in reducing Scope 1 and 2 emissions through a variety of means, including methane capture and the electrification of its operations (using hydroelectric power) replacing gas and diesel-fired generators.		
Status	**Outcome Achieved (Progress to be monitored)**		

Case study



Templeton Global Equity Group

Antofagasta (Chile)

Asset class	Equity	**Objective**	Engagement for change
Issue	Climate change: Target verifications		
Details of engagement	We engaged with Antofagasta to have their emissions reduction plans approved by Science Based Targets Initiative (SBTI) and to better understand their water management strategy. We met with contacts from human resources, investor relations, legal, and the sustainability team. The company has a wide-ranging plan to significantly reduce emissions from the mining operations, but these plans are not approved by the SBTI. The company has shifted to fully renewable for their electricity needs, helping to lower costs. However, they have found their prior scope 3 estimates were not very accurate due to complexity of suppliers. They are working on updating these figures, which will be complete in 2023, and they will set a scope 3 target. Most of the scope 3 emissions relate to steel used in trucks and tyres. They use an internal carbon price in procurement decisions. This has resulted in increased local content of supply and improving community employment and relations, but these smaller suppliers also have more difficulty calculating their emissions. While they are one of the lowest carbon copper producers, we encouraged them to have their emissions reduction plans approved by SBTI and encouraged broad reductions in uses of natural capital where possible, such as water use.		
Outcome	The company took our feedback on-board and said they would assess the implementation of SBTI approval. We plan to follow up with progress on this change. The company has also made large investments to reduce freshwater usage. Water shortages are an issue in Chile and have caused drops in production in recent periods. We discussed progress on addressing pipeline leaks and their investments in desalination. They found problems in the water pipeline driving a decision to build a new pipeline on a new route and further from populated areas. Near term, precipitation improved, so rainwater, melting snow and water collected in the tailings dam should support production. They expect to go from 50% of sites using sea water to 95% by 2025, which will further reduce the risk of water shortages.		
Status	**In Progress**		

Case study

Franklin Equity Group

Honeywell International Inc. (US)

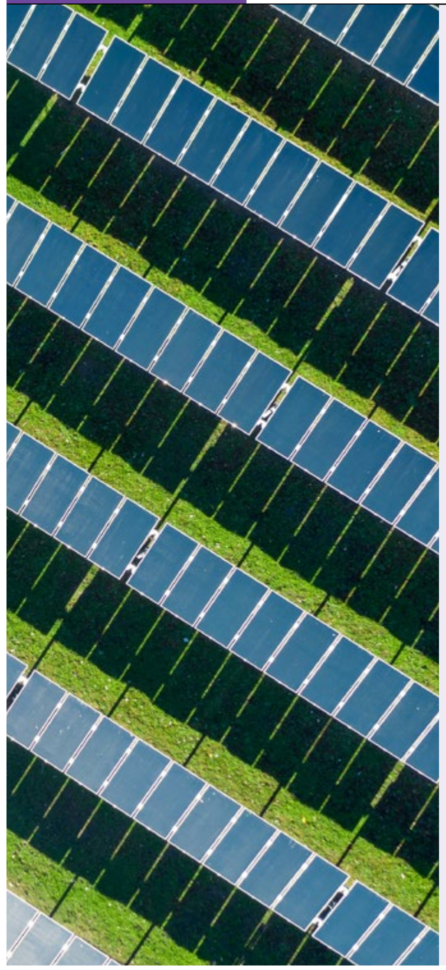
Asset class	Equity	**Objective**	Engagement for change
Issue	Human capital: Weapons disclosure		
Details of engagement	An industrials conglomerate with interests that include aerospace products, sensing and security technology for commercial buildings and specialty chemicals. We engaged with the company as we needed better disclosures on its weapons exposure to verify whether it was in breach of our controversial weapons policy. A third-party ratings provider indicated the firm's revenue exposure to weapons exceeded an allowable threshold of 10%. Our analyst believed, based on her assessment of the company's business lines and her interactions with management, that this was not correct, and it was likely the third-party provider was classifying some revenue as weapons related in error. We engaged directly with the company to better understand what lines of business and products it believed should be classified as weapons-related and which might be misclassified. As a result of the discussion, we were comfortable that the firm's revenue exposure to weapons was well under 10%, and that some non-weapon or dual-use products were being incorrectly grouped-in with dedicated weapons systems. We asked the company to be more transparent in how it reported revenue from various business lines to help investors and third parties better understand exposure to weapons and dual-use systems, which we believe could help make the firm a more attractive investment.		
Outcome	Honeywell indicated that it would carry out a review of how its reporting was organised and work towards greater transparency. The firm began producing a report that specified its revenue exposure to weapons for all shareholders, which we feel adequately addresses the issue.		
Status	**Outcome Achieved**		

Case studies are selected to illustrate depth and breadth of issues we address, and the range of asset classes represented in our dialogue with companies. Not all engagements are successful; resolution may take multiple years to address fully and these are marked as "In Progress".

Case study

Franklin Templeton Fixed Income			
Bank Aljazira (Saudi Arabia)			
Asset class	Fixed income	**Objective**	Engagement for change
Issue	Financial capital: Various governance areas including board diversity and independence, executive remuneration, integrated reporting, and sustainability disclosure.		
Details of engagement	We engaged with the company as it seemed governance (including the perceived lack of independence of the board and chairman) and human capital development had reflected negatively in its sustainability ratings by providers such as MSCI and Sustainalytics. We believed this could be due to a lack of information. We questioned the company, a Saudi Arabian financial group, on whether it was working on measures to address these concerns. Separately, we also engaged the company on its sustainability disclosures. Unlike other Saudi financial institutions, it seemed to us that the loan book was not as exposed to the same degree to environmentally intensive industries (a strong positive in our eyes as NZAM initiative signatories). We engaged with the firm on whether it was working on disclosing on these drivers in greater detail and releasing more on information on sustainability overall.		
Outcome	The bank is working towards better disclosures.		
Status	**In Progress**		

Case study



Franklin Real Estate Advisors			
Villaggio Amico (Italy)			
Asset class	Real assets	**Objective**	Engagement for change
Issue	Energy efficiency improvements		
Details of engagement	Given the recent rise in utility costs across Europe, we have actively been working with tenants to invest in alternative energy sources to make our assets more sustainable and at the same time assist our tenants in reducing their operating costs. At a healthcare asset close to Milan, we engaged with the tenant to improve energy efficiency and ultimately funded the installation of a photovoltaic system consisting of 357 modules estimated to generate on average around 134,000 kWh of energy per year, which will reduce CO_2 emissions by around 96,000 kg per year. The tenant will pay rent in return for this investment but will also be in a better financial position overall as it will benefit from lower energy costs in the future. Now that this project is complete, in addition to other environmental upgrades that have been made since our acquisition of the asset, we are working towards achieving LEED certification (Leadership in Energy and Environmental Design) of the building.		
Outcome	Install of a solar energy system to improve sustainability of asset's energy supply.		
Status	**Outcome Achieved**		

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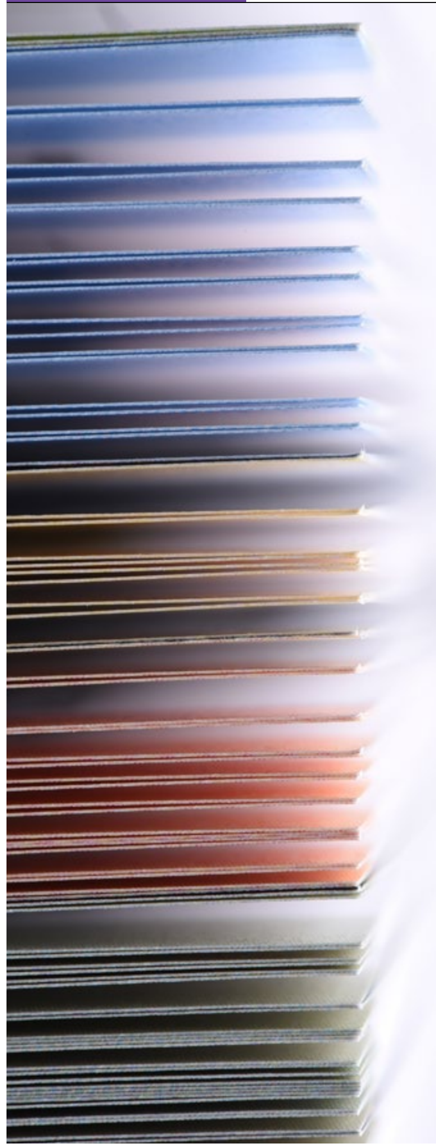
Case study



Franklin Templeton Investment Solutions

Health Care & Equipment Services Company

Asset class	Equity	**Objective**	Engagement for information, leading to engagement for change

Issue	Consistent low rankings in proprietary assessment framework. (See Principle 7 for details on this framework.)
Details of engagement	The company's low performance was driven by several indicators in the environmental score (climate change and ecological impact), as well as social (workforce and privacy & data security). Specifically, within carbon emissions they ranked in the bottom 10% relative to their industry. The assessment from our fundamental team didn't show the same level of risk, so committed to a deeper level of monitoring and engagement for the company. At the time the company was struggling financially, capital was tight, and decisions around things like climate disclosures were closely scrutinised and considered "good enough" by the company. Ultimately the investment decision for portfolio managers has been around the overall quality of the business, including sustainability indicators. In some cases, our funds have sold out completely based partially on the inability of management to control some of these ESG risks, but in other cases there is a willingness to hold because the asset is priced appropriately for the known risks. Our system is designed to uncover these types of risks that lead to better conversations around intrinsic value and ultimately more informed investment decisions over time.
Outcome	Today, we find the company's overall score has improved 11 points over the last year but does remain in the lowest 10th percentile on carbon emission metrics with small signs of improvement. Engagement with management on potential improvements remains ongoing.
Status	**In Progress**

Case studies are selected to illustrate depth and breadth of issues we address, and the range of asset classes represented in our dialogue with companies. Not all engagements are successful; resolution may take multiple years to address fully and these are marked as "In Progress".

Principle 10

"Signatories, where necessary, participate in collaborative engagement to influence issuers."

Collaboration

Key highlights for 2022

- Focus on collaborative engagement.
- Full signatories to Climate Action 100+ and Steering Committee membership.
- Co-chairing Ceres Valuing Water Finance Initiative.
- Member of the Human Capital Management Coalition.

Embracing Collaborative Engagement

Collaborative engagement can be a powerful tool to effect change, particularly when we see similar requests from other investors. In this work we retain our individual fiduciary duty to make decisions on behalf of our clients, so that we maintain clarity on the regulatory and legal requirements around competition, concert parties and groups. Whenever we engage collaboratively, each investor makes their decisions independently. We also adhere to all requirements regarding the soliciting and distribution of material non-public information. By identifying shared outcomes, investors can be assisted in addressing their mutual challenges whilst maintaining their legal obligations as individual fiduciaries.

The focus on market presence in our Sustainable Investment Strategy, discussed in more detail in Principle 4, has allowed us to embrace more fully the potential for collaborative engagement. In 2022, we have used this to good effect, taking a seat in several high-profile initiatives bringing together large asset managers.

We collaborate both internally, to improve our effectiveness of engagement with issuers where investment teams have common goals, and externally—through initiatives such as Climate Action 100+.

When we take on roles with external collaborative engagement initiatives, we prefer to lead engagements and where possible take a role on the steering committee so we can protect our clients' interests and fully utilise the opportunity for effective engagement. This is evidenced by our leadership role in CA100+ and with the Ceres Valuing Water Finance Initiative.

Internal collaboration: The role of Franklin Templeton Stewardship

In 2022, we continued to build the resources available in our stewardship team. This team exists to provide investment teams with enterprise-wide access to best practice, tools, collaborative engagement resources, and direct stewardship services. The team collaborates with investment groups to enhance integrated active ownership, rather than stewarding assets separately to the fund management process.

The team is focused on three key areas:

- **Collaborative engagement:** By co-ordinating engagements across our investment groups, the stewardship team can present the consistent asks between investment groups to issuers whilst the investment groups maintain decision independence. This allows for more consistent representations to issuers with a greater pool of assets, creating more effective engagements.
- **Proxy voting:** The stewardship team provides high quality research on controversial voting items, proxy season briefings, and voting strategy support to our investment teams. From 2022, Franklin Templeton's Proxy Voting Group has transferred into the stewardship team to better connect investment teams with relevant research and information on shareholder votes and enhance due diligence of our proxy service providers.

Read more about this change in Principle 12.

- **Stewardship services:** The team combines the deep issuer expertise that exists within our investment teams with specific thematic expertise on corporate governance and sustainability issues. This ranges from advice and a broader overview in the development of engagement strategies, to working directly with investment teams to escalate an engagement issue formally with an issuer. It is through this channel of work that the stewardship team provides support for the assessment of net-zero alignment at the issuer level and other asset assessment tools to better inform engagement.

The stewardship team works across all asset classes and seeks to provide an additive resource to the active ownership capability that already exists within our investments teams. The team as a result is deeply focused on addressing systemic risks and their aggregate contributions to systematic market risk that effects the value of all investments. This enhances not just Franklin Templeton's ability to deliver competitive relative returns but helps protect absolute return by focusing on overall market health.

See Principle 4 for more on our firm-wide approach to systemic market risk.

Maintaining independence

A key principle when our investment teams collaborate—whether that is internally or with other investors—is maintaining their independence so they can make decisions in the best interests of their clients.

We do not seek to represent all potential engagement topics with an issuer during collaborations, only those that are consistent among the group of investors participating. This approach allows us to engage more effectively with issuers whilst allowing teams to make decisions independently. Non-public, proprietary information, or price-sensitive information is not shared, nor do the separate investors enter into any binding agreement with each other to vote in a certain way—each retains full independence in any subsequent decision-making.

External collaboration

In all circumstance, we act as individual fiduciaries and make our investment decisions independently. Our work as part of these initiatives is conducted solely to protect client interests.

Climate Action 100+

The investor-led initiative engages systematically with the 100 corporations responsible for two-thirds of annual global industrial emissions.

In 2022, we became a full signatory to the initiative. Our autonomous investment teams Brandywine Global, ClearBridge Investors, Martin Currie, and Western Asset are also members and supporters.

The initiative is nearing the end of its first five-year term and is preparing for a second phase. There are currently more than 700 members, with a combined US$68 trillion in assets under management.

As part of our commitment to the initiative, we participated in extensive dialogue and feedback during the phase 2 consultation, as the initiative enters its second 5-year roadmap.

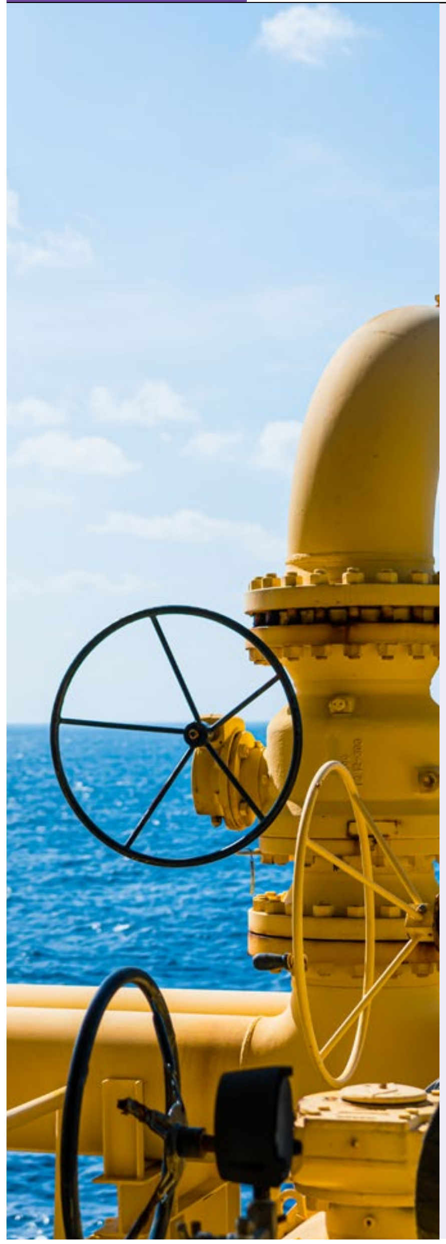
Anne Simpson, our Global Head of Sustainability, helped to launch Climate Action 100+ while serving at CalPERS and sits on the steering committee.

Ceres Valuing Water Finance Initiative

Through our membership of Ceres, we co-chair its Valuing Water Finance Initiative along with a UK pension fund, which launched in August 2022.

The availability of clean water represents a major systemic risk and challenge facing institutional investors and financial institutions worldwide. While it is essential for all aspects of economic growth, including food production, energy generation, industrial activities, and human health, it is at times poorly managed and little is disclosed. Climate change is also accelerating issues such as water scarcity with in turn impacts other risks such as biodiversity loss.

Case study



Franklin Templeton's Stewardship Team

Major US Oil and Gas Issuer

Asset class	Equity	**Objective**	Engagement for change
Issue	Disclosures of material climate assumptions in financial statements.		
Details of engagement	After tracking several shareholder proposals over previous years relating to the company's provision of enhanced disclosures of climate-related assumptions underlying their financial statements, we engaged the company to build an internal research picture of the usefulness of such disclosures. The request was deemed to be useful, providing clear connections between the company's furnished and filed disclosures, and allowing investors not just to assess the company's climate strategy, but also the sensitivity of its existing assets to changing climate assumptions. With these additional disclosures, investors would be able to more accurately assess how the company's approach was consistent or not with its peer group. To take this forward, we engaged our investment teams that hold the company in their portfolios and a leading research provider to build expertise on a complicated thematic issue. Once there was consensus around these issues, we arranged for meetings with senior company management, conducting detailed discussions with the company's CFO and senior staff both directly and as part of the proponent and co-filing group. This approach to engagement offered our investment teams better access to senior company management, more detailed thematic engagement and brought in both passive and active fund management teams.		
Outcome	By connecting with the proponent group and leading analyst in this space, we were able to understand all sides of the engagement and its prior history when speaking to management. As a result, we were able to work out an effective compromise and understand the incentives driving the engagement on both sides. This engagement is ongoing but has seen progress, with enhanced disclosures provided on carbon pricing, and continued productive dialogue with the company.		
Status	**In Progress**		

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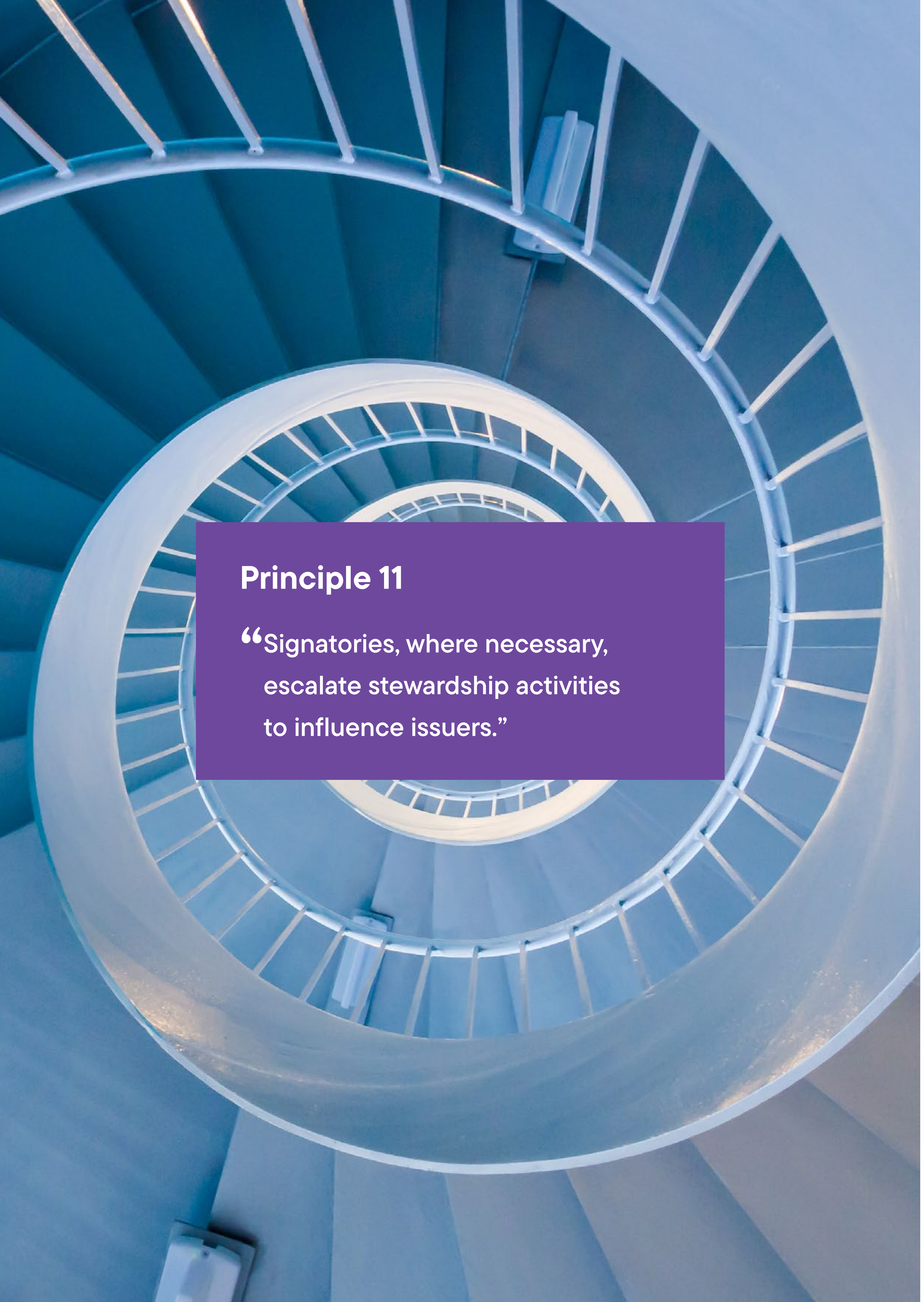


Principle 11

“Signatories, where necessary, escalate stewardship activities to influence issuers.”

Escalation

Why escalate?

Engagement involves purposeful dialogue between our investment teams and issuers. Often this is a lengthy process and not all issues can be resolved to our satisfaction in the first instance.

We take a constructive approach to issuer engagement and seek to work through issues with management to arrive at an effective negotiated outcome, recognising both management and ourselves are ultimately seeking to ensure the long-term success of the business. However, in some circumstances we need to provide clear signals to management when our objectives are not being met and to resolve this challenge we escalate our engagement.

When do we escalate?

Escalation is based on several factors:

- Are our engagement objectives being met? If not, is there a reasonable explanation? This could mean not being able to assess the detail we require when engaging for information, or an engagement for change where our concerns are not addressed by the issuer and there is not an appropriate response.
- How responsive is management to our questions?
- How material is the engagement issue to the company’s risk profile and business strategy?
- What is the nature of the capital at risk and is that risk being priced? Investment teams will have different exposure and tools they can deploy depending on the asset type in both public and private markets.

Next steps – options for escalation

1. Escalation beyond management

We will seek to escalate our engagement beyond management to the lead independent director or other senior board members.

2. Wider engagement

Initiating more public engagement or collaborating with other investors.

3. Voting

Taking voting action on either resolutions or against directors (where we hold votable securities). This is our primary means of escalation.

4. Shareholder resolutions

We may vote for investor resolutions where they meet our objectives, or file our own resolutions to formally request a course of action through seeking support from fellow investors.

5. Regulatory intervention or litigation

If an engagement continues to remain unresolved, and we assess the issue as significant to the issuer’s valuation, we may appeal to regulators or the courts to protect the best interests of our clients and the long-term success of the issuer.

For more information on collaboration, see Principle 10.

For more information on our voting action, see Principle 12.

The limitations of divestment divestment as an engagement tool

We make decisions to invest or divest from securities based on our clients' best interests and the financial valuation of the security itself. Once it has become clear that a risk cannot be addressed via engagement, as described below, this may contribute to our assessment of the issuer's valuation. Financial analysis and generating repeatable returns for our client drive our decision to buy or sell. We recognise that some clients may seek to reduce their exposure to particular companies or sectors for a range of reasons, including ethical or religious beliefs, or specific risks they are not willing to carry exposure to.

Divestment also is sometimes presented as a means to a change a company's strategy. However, in highly liquid capital markets, this is unlikely, as primary capital raising is a limited source of company finance in public equity markets.

Divestment typically involves one investor selling shares to another in secondary markets, with limited impact on the underlying issuer. In cases where the engagement issue contributes towards systemic risks, divestment will not offer protection from the risk itself which we may bear across other holdings in the portfolio. Examples include extreme temperature rise due to greenhouse gas emissions that can lead to weather events that impair assets beyond the issuer which is contributing to the emissions.

In taking a systems-level approach, we focus on the real economy and engage companies in their transition towards better managed risks and opportunities. This means engagement is our preferred approach to sustainable investment. This enables us to ensure we are being rewarded for risks taken on behalf of clients, so that their assets are managed prudently for value generation.

The pace of change and our ability to affect change also depend on company ownership structures and geography. In some countries, issuers are less responsive to international or domestic investors, or the nature of the ownership structure may limit how much we are able to influence decision-making. We are pragmatic in our approaches and sensitive to legal traditions and cultures in which we operate, and this is reflected in our stewardship strategies.

Engagement: Assessment of outcomes

Engagement remains essential to active investment, and we continue to build our approach with issuers. The examples we have included this year demonstrate the depth and breadth of issues we address, and the range of asset classes represented in our dialogue with companies.

The most important shift in 2022 has been our approach to collaboration. We have recognised that we are able to meaningfully move forward collaborative engagements given our position as one of the world's largest asset managers, and that this can allow us to recognise the importance of systemic risks. By participating in these engagement programmes, we can ensure that we represent the economic interests of our clients and address both idiosyncratic risks faced by issuers and systemic risks that affect the value of portfolio-wide investments. The goal is to fulfil our fiduciary duty to generate repeatable, risk-adjusted returns for clients.

A rising tide lifts all boats: Developing an approach to combat systemic risk

We utilised our internal stewardship team to now more effectively coordinate and deliver engagements across the firm, leveraging our global strength and scale to protect our clients' interests. The development of the stewardship team's role has enhanced the ability of our investment teams to engage and provides a central function to address idiosyncratic and systemic risks such as climate change and water risk whilst providing specific thematic expertise on sustainability topics that are relevant to investment value.

By providing services to our investment team to enhance their engagements on idiosyncratic issuer risks and combining this with systematic risk engagement and collaborative engagement opportunities, we are able to better integrate engagement into the investment processes across Franklin Templeton.

Our approach also allows teams to leverage the global strength and scale of the firm to target both idiosyncratic and systemic drivers of financial return.

Our stewardship team complements the active ownership work that occurs within investment groups, effectively deploying the different skills across the business and seeks to take a systems-level approach to enhance the value of client assets across multiple portfolios.

As a result, this approach is not restricted to engaging just in sustainable investment products, but can be implemented across the firm's total assets, using an approach focused on economic theory to identify systemic impacts and advocate for issuer change.

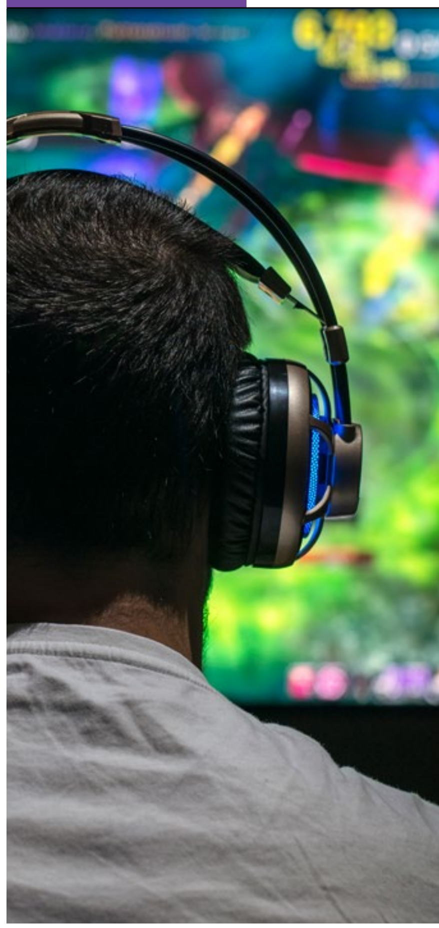
Overall, we view the developments we have made in 2022 to have been effective in developing a more robust structure for engagement, escalation, and collaborative engagement via the provision of dedicated central resources, clear priorities on systemic risk, integrated voting execution and supporting investment team action on idiosyncratic engagement.

This approach will continue to mature over time and builds on the foundational work of our Sustainable Investment Strategy to lay the groundwork for further improvement in the scale and quality of engagement.

Case study

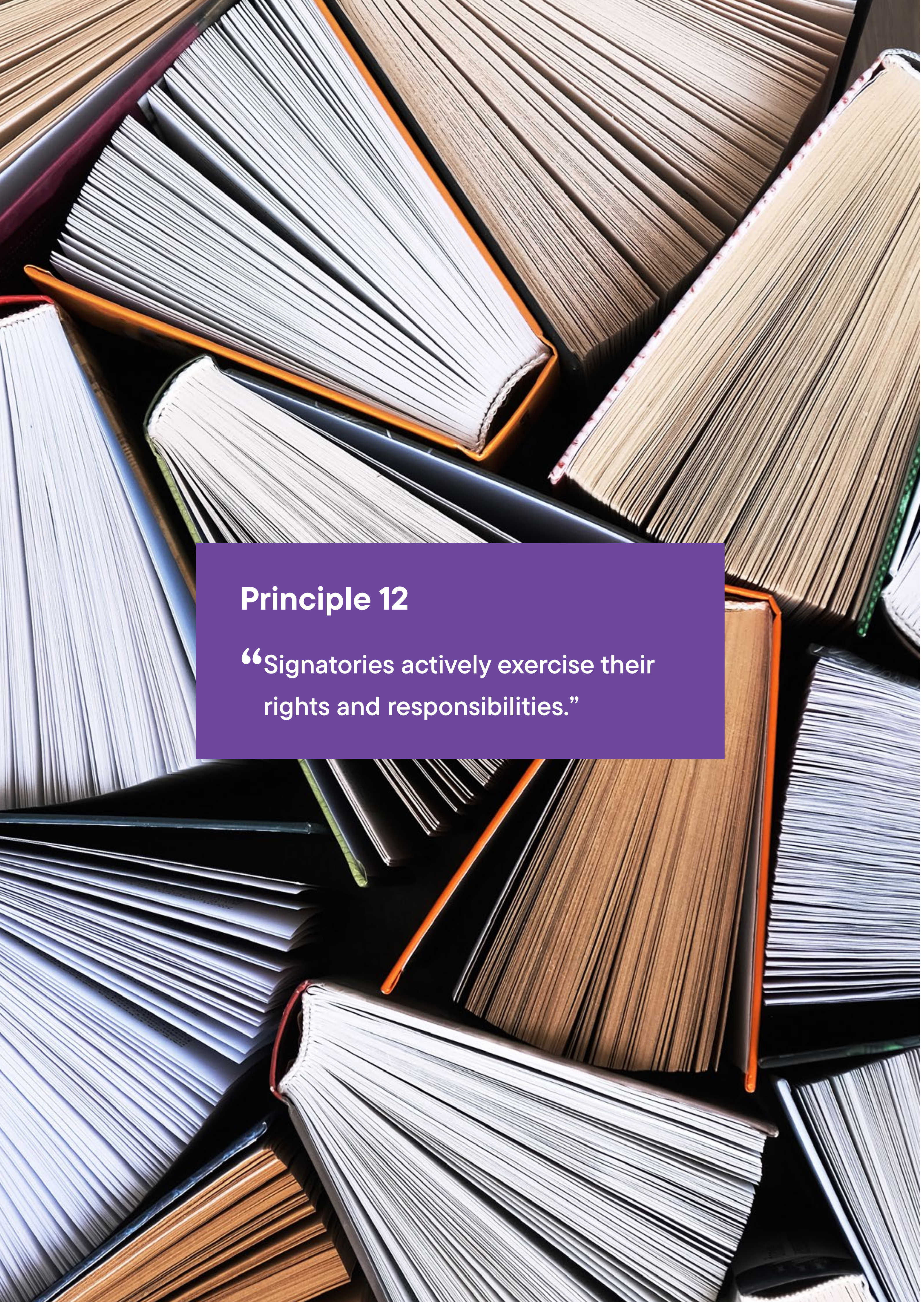
Franklin Templeton Global Equity Group			
Nan Pao Resins Chemical			
Asset class	Equity	**Objective**	Engagement for change
Issue	Lack of board diversity		
Details of engagement	Nan Pao is the world leader in athletic footwear adhesives and a leading Asian supplier of chemical resins for specialty adhesives, coatings, and construction products. In meetings with the CEO in 2021 and again in 2022, we encouraged the company to address the lack of female representation on the board. Though not uncommon in Taiwan, we are concerned their failure to address the lack of gender diversity will become an increasing issue with their customers, which are leading athletic brands such as Nike and Adidas.		
Outcome	We explained failure to address would lead to votes against management, and divestment if not resolved in a timely manner. In 2022, the company informed us they would nominate a female director to the board at the next AGM in 2023.		
Status	**Outcome achieved, subject to monitoring**		

Case study



Franklin Templeton Global Equity Group			
Ubisoft Entertainment SA			
Asset class	Equity	**Objective**	Engagement for change
Issue	Financial underperformance and governance issues		
Details of engagement	Ubisoft is the world's third largest video game developer. The business was founded in 1986 by the Guillemot brothers, and the Guillemot family owns 5% of the capital and 20% of voting power. Ubisoft has significantly underperformed recently, partly driven by the transaction between Guillemot Brothers Ltd (GBL), the Guillemot family holding entity, and Tencent. We began by engaging the company and other shareholders to improve governance of the company and alignment of management with other stakeholders following a related party transaction which had a significant negative impact on the value of the business. We escalated to meet over multiple occasions with the lead non-executive director and management team, both virtually and in person. We then escalated this approach with a formal letter to the board outlining our views on the related party transaction and steps to improve the governance of the company, and conducted a shareholder survey to canvas the shareholders for their views on the company to help us identify possible further escalations.		
Outcome	The engagement is in progress, and we are investigating possible next steps to escalate our engagement should we not see improvements in line with our comments made in our engagement to the board.		
Status	**In Progress**		

Case studies are selected to illustrate depth and breadth of issues we address, and the range of asset classes represented in our dialogue with companies. Not all engagements are successful; resolution may take multiple years to address fully and these are marked as "In Progress".



Principle 12

“Signatories actively exercise their rights and responsibilities.”

Exercising rights and responsibilities

Key highlights for 2022

- Successfully executed votes on 97,054 resolutions, representing 97% of votable items.
- Increased levels of support for critical shareholder proposals on sustainability.
- Improved internal research and guidance to investment teams.
- Greater adoption of sustainability focused guidelines.

Importance of Proxy Voting

The voting rights attached to investments are a client asset and the formal legal right through which corporate issuers are accountable to their shareholders. It is critical that we continue to exercise our rights as shareholders as responsible stewards of our clients’ assets. Through exercising our rights and responsibilities we demonstrate clear intentions to issuers and hold them to account, protecting our clients’ interests.

Each proposal—whether from management or shareholders—is considered on its merit. When we consider a resolution to not be in line with our policies to protect our clients’ best interests, we will typically vote against the proposal.

We consume a variety of third-party recommendations, internal research, and other information in making voting decisions, and have provided examples of this process below, alongside information to the extent our accounts use third-party guidelines or recommendations.

Our Proxy Voting Policies and Procedures are available on our website and are updated and approved on an annual basis. Policies are organised by investment group and referenced by regional entity policies where appropriate to meet local regulation. Voting records are available on our ‘Voting Proxy’ page, and regional voting disclosure reports are available on respective regional websites.

Policies are set by the CIOs of each investment group, subject to approval by the relevant governance committees and fund boards. For clients in separate accounts, we often implement direct voting or custom policies at the client’s request. We do not currently offer direct voting in pooled funds.

Across the firm, we use a combination of guidelines from third-party advisors, custom policies and use a flagging process for key votes, described in this section, which is new in 2022. In 2022, 65 accounts moved to sustainability focused recommendations, from the ISS Benchmark or Glass Lewis guidelines. The total number of accounts using different policies is shown below:

Equity Accounts and Third-Party Advisors

Proxy Voting Policy	Number of Accounts*
Glass Lewis	246
ISS Benchmark	223
Sustainability Focused Guidelines	451
Other Custom Policies	118

* Some accounts use both ISS and Glass Lewis, the aggregate of this column does not equal the total accounts in use.

Our 2022 proxy voting record

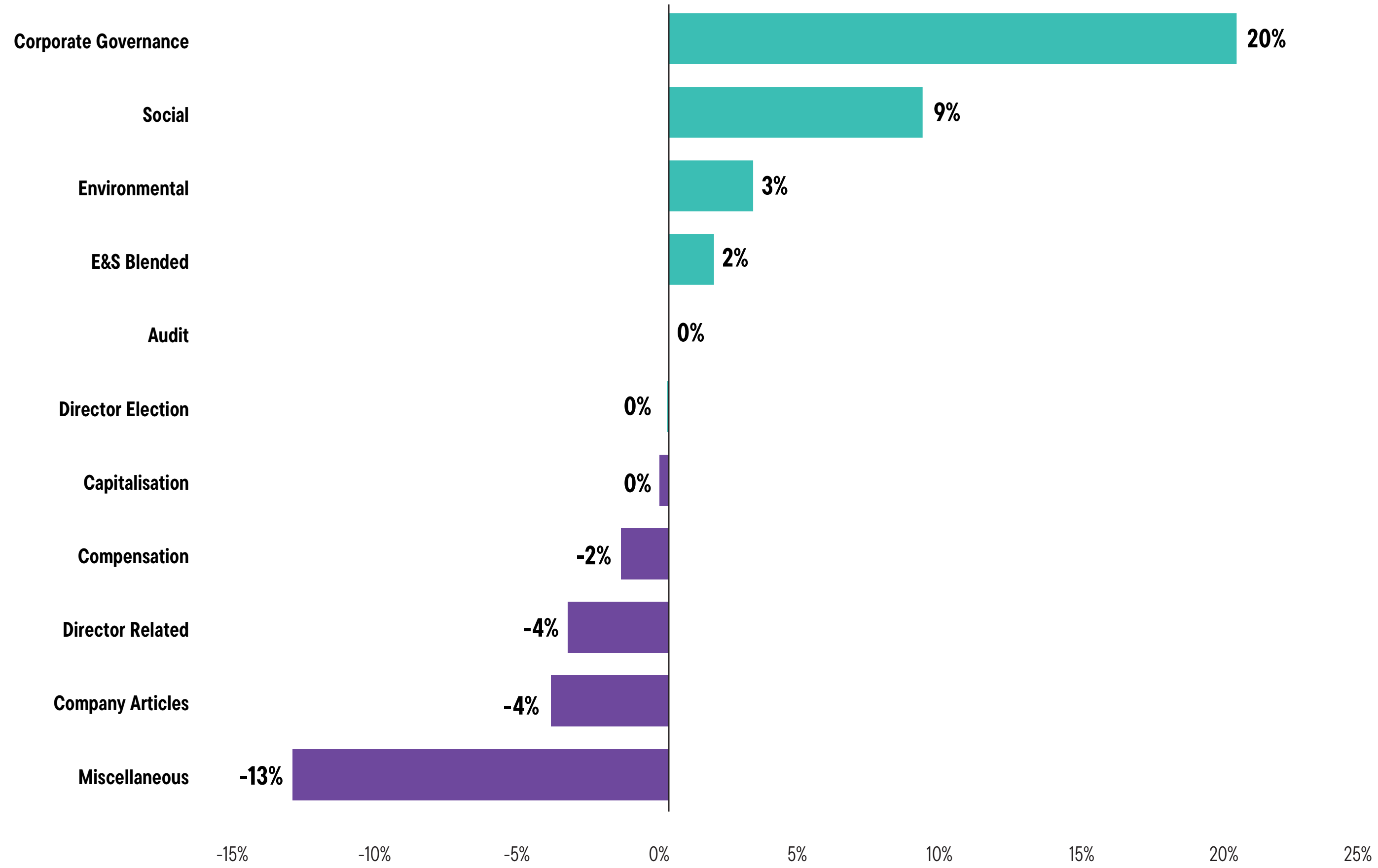
We typically achieve very high levels of successful vote execution as a percentage of total votable items. In 2022, our investment teams voted on 97,054 resolutions out of a possible 100,448 (97%) votable items.

We voted to support 85% of management proposals and 73% of shareholder proposals and withheld or abstained on 3.2% of ballots. Where we were not able to vote our shares, this was most often due to securities lending, share-blocking requirements, supply-side delays in power of attorney agreements, or costs of in-person voting for certain jurisdictions such as Brazil or Romania.

The most common ballot items were election of directors (37,974 votes), votes to approve executive compensation (10,462), and amendments to share capitalisation (8,388).

We supported 38% of climate-specific proposals and 85% on the theme of diversity, equity, and inclusion. All proposals are not equal; when we assess shareholder proposals we assess the quality of the proposal, whether the proponent has engaged with the company in advance, and whether we think the outcome will meaningfully address the underlying issue. Where we are not supportive of a proposal but do support the proposal's topic, we will engage management on our concerns.

Average Change in Resolution Support 2022 vs. 2021



Source: Franklin Templeton.

Franklin Templeton Voting Summary 2022 vs. 2021

	2021		2022	
Category	For	With Management	For	With Management
Audit	98%	99%	99%	86%
Share Capitalisation	90%	90%	89%	83%
Articles of Association	87%	88%	83%	64%
Compensation	85%	85%	83%	93%
Corporate Governance Issues	59%	45%	79%	52%
Director Elections	91%	92%	91%	98%
Director Related Proposals	87%	90%	83%	93%
E&S Blended Proposals	37%	81%	39%	65%
Environmental	53%	75%	56%	77%
Social	63%	68%	72%	77%
Miscellaneous	63%	86%	72%	71%

Source: Franklin Templeton.

"Identifying and responding to systemic risks and promoting an efficient, sustainable economic system is central to our role as stewards of our clients' capital. Climate change is a systemic risk relevant to the value of our investments. Our investment teams have sought to support high quality shareholder resolutions that represent meaningful proponent engagement, where we can expect the outcome to improve the long-term performance of the company, underpinning our fiduciary duty to deliver repeatable risk-adjusted returns to our clients."

Piers Hugh Smith
Head of Stewardship, Global
Franklin Templeton

Third-party assessments of our proxy voting

According to a report from Ceres, Franklin Templeton increased support across their sample of climate-related proposals from around 30% in 2021 to around 50% in 2022, making it one of the most improved asset managers within the top 50.[13] In the Ceres report, we moved from 52nd position in 2021, to 34th. A separate survey from UK-based shareholder advocacy group ShareAction, assessing 68 of the world's largest asset managers across 252 shareholder proposals,[14] noted a 31 percentage-point increase in Franklin Templeton's support for climate and social resolutions.

"Unlike many other firms, Franklin Templeton's overall support for key resolutions maintained the same level in the 2020 and 2021 proxy years, at 66%, and it rose to 82% in 2022. Franklin Templeton's vote coverage for key resolutions is very high at 95% across the three-year period, with a minimum of 92% in 2021. The firm cast over 2,500 fund votes on 229 key resolutions in the last three proxy years."

Morningstar, Proxy Voting Insights 2022

13. Hot and Cold: How Asset Managers Voted on Climate-Related Shareholder Proposals in 2022 and What It Means for 2023 | Ceres.
14. ShareAction | Voting Matters 2022.

How was this achieved?

Dedicated proxy voting resources

A key change was the improvement in the level of staff and analytical resource available to the investment teams regarding sustainability issues and how these issues may impact voting decisions. In every case, voting decisions are made by our investment teams as this information is an important part of the investment thesis that must be integrated in order to be effective. In 2022, we provided central resources from the stewardship team to allow for additional in-depth research for significant votes on sustainability issues, as detailed below in our section on voting flags.

Some key elements improved the availability and flows of information surrounding proxy votes:

Proxy group moving to the stewardship team

As referenced in Principle 5, we moved our proxy group into a more prominent position within our stewardship process, moving from our legal department to within the stewardship team. This transition will be foundational to the evolution of our central stewardship capability. By combining analysis, policy development and reporting work with vote administration and execution, we house all active ownership resources under one roof. This is a simpler and more transparent infrastructure that allows us to better connect investment teams with relevant research and information regarding shareholder votes and become more effective stewards of our clients' capital. The proxy group provides administration and oversight of proxy voting. It supports our investment teams, working closely with them to administer voting decisions. It reviews all upcoming meetings, as well as agendas, materials, and recommendations that it receives from our proxy advisers. The team also provides the underlying data for vote reporting and disclosure to clients and regulators.

Central resource to offer wide support to investment team's decisions

We have strengthened the role of the sustainability experts at the heart of Franklin Templeton, allowing them to give opinions on voting decisions—not just limiting them to highlighting the different options on offer. We now deliver opinions on key votes, for example on whether the resolution is well crafted, builds on prior engagement and leads the company in a positive direction.

Greater emphasis on sustainability in voting policies and guidelines

Franklin Templeton Investment Solutions and **Templeton Global Equity Group** now use sustainability-focused guidelines for their proxy voting, with other investment groups using sustainability-focused guidelines for some accounts. These guidelines take their lead from internationally recognised initiatives, including the Principles for Responsible Investment (PRI), United Nations Environment Programme Finance Initiative (UNEP FI), Global Reporting Initiative (GRI) and Ceres Roadmap 2030 (among several others) to promote sustainable business practices, supporting stewardship of the environment, fair labour practices, non-discrimination, and the protection of human rights.

Shareholder proposals relating to sustainability are growing in number and are subject to frequent evolution and change year on year. The adoption of the sustainability-focused guidelines allows us to better understand these proposals and support those that are accretive to shareholder value and represent good corporate governance. We would expect that the analysis produced by these guidelines indicates greater support for sustainability proposals.

Flagging proxy votes

129 proposed votes were flagged for research in 2022. Of these, the majority (64%) related to climate, 12% were classed as environmental topics, 9% social, and 12% governance.

The stewardship team provided research and a voting opinion on flagged ballots to investment teams, helping them make more informed decisions when assessing a wide range of shareholder proposals. This process also reduces our reliance on third-party research for sensitive issues.

Ballots were prioritised where:

- The vote involved an issuer material to Franklin Templeton
- The resolution itself was considered to be high quality;
- It represented appropriate escalation of previous proponent engagement; and
- Where we believed the action could reasonably be expected to produce a positive outcome for the company's long-term performance.

When producing research, the stewardship team takes into account:

- Franklin Templeton's assessment of the materiality of the issue to the company and their response to the proposal
- Proponent identity and proponent engagement
- The proposal wording and prescriptiveness
- The recommendations of proxy advice firms
- The voting guidelines of relevant Franklin Templeton investment managers
- Supporting research or model guidelines from investor networks

Research and information come from the following sources:

- Company engagement
- Industry & investor engagement
- Proxy Advisors: ISS and Glass Lewis (via monitoring certain categorisations of proposals)
- The Climate Action 100+ Voting Flags
- The Ceres Investor Network
- The Council of Institutional Investors
- The Human Capital Management Coalition
- The PRI Collaboration Platform
- The Institutional Investors Group on Climate Change (IIGCC)
- Non-Governmental Organisations (NGOs) such as Majority Action, ShareAction, AsYouSow, The Shareholder Commons, and others.

Securities lending

Some investment strategies make use of securities lending (loaning shares in stock or other securities to investors to increase returns.)

Franklin Templeton can, and does, recall shares it has loaned at any time and for any reason, for example to vote on a significant issue. The volume of votable securities typically out on loan over the year varies, and the decision to recall lies with the portfolio manager of the fund.

The Securities Lending Team monitors all proxy events and notifies portfolio managers in the event of an upcoming vote; the share can then be recalled at the manager's discretion. Borrowers have a standard settlement cycle (two days after the request) to return shares. Any failures to vote proxies on an investment on loan where the manager elected for shares to be recalled and shares were not back in sufficient time to vote are reported to Global Portfolio Compliance. They are then reported to the fund's Chief Compliance Officer, who will then notify the applicable fund's Board, providing an explanation as to why the proxies were not voted.

What votes are recalled?

The Securities Lending Team uses a third-party vendor to classify upcoming votes. Those classed as "highest importance"—for example special meetings covering mergers or any items outside of normal course of business—will be referred to the portfolio manager and recalled at the manager's discretion. The vendor's criteria can be adjusted according to the manager's preference; for example, recalling for all proxies or always recalling for certain companies.

Case study			
Franklin Templeton Emerging Market Equity			
Chinese Internet and Mobile Platform			
Vote proposal	Approve the amendments of company articles/bylaws/charter	**Vote instruction**	Against
Considerations	This shareholder vote included a proposal to increase the founder's voting rights by five times at no cost. It promoted dual class voting rights, which are not in the best interests of minority shareholders. While we acknowledged the business/regulatory reasons why management proposed such a change, we had expressed our concerns because the proposed change is a permanent increase in the founder's voting power with no additional cost to the founder, at the expense of minority shareholders who need to accept fewer voting rights than before. We offered suggestions on how to improve the proposal, which were shared with senior management. The various reasons offered by the company didn't persuade us, and we decide to vote against the agenda. We would prefer to have some form of compensation in exchange for giving up voting rights to the founder.		

Case study			
Franklin Templeton Global Equity Group			
Multiple Climate Related Resolutions			
Vote proposal	Multiple	**Vote instruction**	Multiple
Considerations	We supported two shareholder resolutions for **Berkshire Hathaway** to improve their climate change reporting. Berkshire does not seem to have a comprehensive plan for managing its greenhouse gas emissions, nor a climate change strategy. Berkshire also does not respond to the CDP climate change questionnaire in which companies generally provide information on climate change governance, strategy, risk management, and metrics and targets. Such information would allow shareholders to better understand how the company is managing systemic risks posed by climate change and the transition to a low carbon economy. Berkshire Hathaway also does not provide disclosure on emissions or targets for its insurance businesses. Additionally, state insurance regulators are increasingly scrutinising insurance companies for disclosing emissions and setting emissions reductions targets. The proposals would allow shareholders to evaluate the risks posed by climate change to Berkshire's insurance businesses and would potentially help the company to prepare for upcoming regulation. Therefore, support for this proposal is warranted at this time. Both votes failed, but received 26% support, which we think will encourage management teams to consider enhancements. We supported a shareholder resolution for **Marathon Petroleum** to report on the company's efforts to address impacts on workers and communities in relation to its climate change strategy, consistent with the Just Transition guidelines of the International Labor Organisation (ILO). While the company produces a just transition report, it does not provide a plan or any targets for implementing its commitment. The vote failed, but received a 16% support, which we think will encourage management teams to consider enhancements. We supported a shareholder resolution that **Comcast's** board assess how the company's retirement plan options align with the company's climate goals. While Comcast Corporation may not be responsible for its employees' investment decisions, the company can be expected to provide its employees with clear information on the company's benefits and employment policies and practices. The information requested in the report would not only complement and enhance the company's existing commitments regarding climate change, but also allow shareholders to better evaluate the company's strategies and management of related risks. The vote failed, and it received only 6% support. We supported shareholder resolutions for **BP** and **Shell** to enhance their climate change targets. BP and Shell have made ambitious emissions reduction targets, but we agreed with proponents that shareholders would benefit from clarification in how they could reduce their carbon footprints in alignment with greenhouse gas reductions necessary to achieve the Paris Agreement goal of maintaining global warming well below 2 degrees Celsius. The vote failed, but the BP vote received 15% support and Shell vote received 20% support, which we think will encourage management teams to consider enhancements.		

Taking a thoughtful approach to our voting decisions

Every proxy season presents different challenges, decisions, and opportunities. There are continuous improvements available to our processes and research.

We continue to monitor third-party reports, noting where we have been highlighted both in a positive and negative light. The Ceres report referenced earlier also looked at how investors voted on items flagged by Climate Action 100+. On these measurements, Our overall support for climate-related proposals rose, but for specific Climate Action 100+ flagged items within this set of proposals, support fell over the period, matching the flagged issue in 7 out of 19 votes (37%), compared with 10 out of 18 occasions in 2021 (56%). There are a number of reasons for this change, for example, how prescriptive the proposals are and if our engagement with issuers has led to potential progress. Each proxy season is not directly comparable, however, we believe that tracking the data provides valuable insights for us.

We always make our decisions exclusively in the best interests of our clients and as we have a fiduciary duty of loyalty to act solely on their behalf.

We use external research as one of the many sources of information we have available to make decisions which we make with prudence and care.

We consider the quality of analysis provided by those sources. For example, Climate Action 100+ applies a thorough process in identifying its flagged votes and so it is important we understand these votes in particular.

We use this type of analysis to inform our research ahead of voting decisions in the upcoming proxy seasons, ensuring we support resolutions that are of high quality and address material risks to resilient shareholder returns, in line with our fiduciary responsibility.

Assessment of outcomes

The changes to our organisational structure, processes and availability of research have all improved the effectiveness of the exercise our rights and responsibilities in 2022. We continue to successfully exercise our rights to a high standard across the globe and are pleased to include additional information in this year's report on our securities lending practices.

These changes enable further growth. In subsequent reporting years we expect to enhance the scope, quality and volume of our voting research provided by our central stewardship team, build stronger linkages between engagement and voting practices across the firm and continuously evaluate our reliance on third-party advisors. We will also continue to evaluate our policies and processes to ensure we are exercising our fiduciary responsibility.

Appendix

Our initiatives

Examples of our memberships and initiatives we are actively involved in are listed below.

Name	Region	Initiative Category	Relationship Type
Asia Investor Group on Climate Change (AIGCC)	Asia	Sustainability/Governance	Member
Asian Corporate Governance Association (ACGA)	Asia	Governance/Stewardship	Member
ASIFMA AMG (Asia Securities Industry & Financial Markets Association) (Asset Management Group)	Asia (excl Japan and Australia)	Governance/Stewardship	Member
Australia: Principles of Internal Governance and Asset Stewardship	Australia	Governance/Stewardship	Member
Board Director Training Institute of Japan	Japan	Governance/Stewardship	Special Sponsor
Boston College Center for Corporate Citizenship	US	Corporate Social Responsibility	Member
Canadian Coalition for Good Governance (CCGG)	Canada	Governance/Stewardship	Member
CDP (formerly Carbon Disclosure Project)	Global	Corporate Social Responsibility	Member
Ceres investor network	US	Sustainability	Member
Chief Executives for Corporate Purpose (CECP)	Global	Corporate Social Responsibility	Member
Climate Action 100+	Global	Sustainability	Member
Climate Bonds Initiative	Global	Sustainability	Member
Confederation of British Industry (CBI)	UK	Governance	Member
Confluence Philanthropy	US	Corporate Social Responsibility	Member
Council for Inclusive Capitalism	Global	Corporate Social Responsibility	Member
Council of Institutional Investors (CII)	US	Governance/Stewardship	Member
European Fund and Asset Management Association (EFAMA)	Europe	Governance/Stewardship	Member
European Securities and Markets Authority (ESMA)	Europe	Governance/Stewardship	Member
European Sustainable Investment Forum (Eurosif)	Europe	Sustainability	Member
FAIRR (Farm Animal Investment Risk and Return)	Global	Sustainability	Member
Financing a Just Transition Alliance	UK	Governance/Stewardship	Member
Findatex (Financial Data Exchange Templates)	Europe	Governance/Stewardship	Observer
Foro de Inversión Sostenible de España (Spainsif)	Spain	Sustainability	Member
Forum per la Finanza Sostenible (ItaSIF)	Italy	Sustainability	Member
Global Impact Investing Network (GIIN)	Global	Sustainability	Member
GPCA (Global Private Capital Association)	Global	Governance/Stewardship	Member
Gratitude Railroad	US	Corporate Social Responsibility	Partnership
GRESB (formerly Global Real Estate Sustainability Benchmark—including infrastructure)	Global	Sustainability	Reporting
Hong Kong principles of responsible ownership, Securities and Future Commission	HK	Governance/Stewardship	Member
IAA (Investment Adviser Association)	US	Governance/Stewardship	Member
IFRS Sustainability Alliance – ISSB International Sustainability Standards (includes the Sustainability Accounting Standards Board) Investor Advisory Group	Global	Sustainability	Member
IMVB Covenant of the Dutch Pension Federation	Netherlands	Governance/Stewardship	Member
Institutional Investors Group on Climate Change (IIGCC)	Global	Sustainability	Member
Interfaith Center on Corporate Responsibility (ICCR)	US	Governance/Stewardship	Member
International Corporate Governance Network (ICGN)	Global	Governance/Stewardship	Member
Investment Association (IA)	UK	Governance/Stewardship	Member
Italian Stewardship Principles for the exercise of administrative and voting rights in listed companies – Assogestioni	Italy	Governance/Stewardship	Member
International Well Building Institute – Member	Global	Sustainability	Member
Japan Stewardship Code	Japan	Governance/Stewardship	Signatory
Junior Achievement	US – New Jersey	Corporate Social Responsibility	Partnership
Korean Stewardship Code	Korea	Governance/Stewardship	Signatory
Net Zero Asset Managers Initiative (NZAM)	Global	Sustainability	Member
Operating Principles for Impact Management	Global (fund)	Sustainability	Member
Pensions for Purpose	UK	Sustainability	Member
Principles for Responsible Investment (PRI)	Global	Sustainability	Member
Responsible Investment Association (RIA) – Canada	Canada	Sustainability	Member
Responsible Investment Association Australasia (RIAA)	Australia and NZ only	Sustainability	Member
The Securities Industry and Financial Markets Association Asset Management Group – (SIFMA AMG)	US	Governance/Stewardship	Member
Singapore Stewardship Principles (SSP)	Singapore	Governance/Stewardship	Signatory
Sweden: Guidelines for fund management companies' shareholder engagement, issued by Swedish Investment Fund Association in Feb 2002 and revised in May 2019	Sweden	Governance/Stewardship	Member
Forum for Sustainable and Responsible Investment (USSIF)	US	Sustainability	Member
Taskforce on Climate Related Financial Disclosures (TCFD)	Global	Sustainability	Supporter
Transition Pathway Initiative (TPI)	Global	Sustainability	Member
UK Stewardship Code – FRC	UK	Governance/Stewardship	Signatory
UK Sustainable Investment and Finance Association (UKSIF)	UK	Sustainability	Member
US Green Building Council (USGBC)	US	Sustainability	Member
WaterAid	UK	Sustainability	Partnership
Waterfront Partnership	US – Baltimore	Corporate Social Responsibility	Member

For D&I-specific initiatives, please refer to the Diversity & Inclusion page of our website: [Diversity and Inclusion (franklinresources.com).](franklinresources.com)

FRANKLIN TEMPLETON

Please visit **www.franklinresources.com** to be directed to your local Franklin Templeton website