FRANKLIN TEMPLETON

Templeton Emerging Markets Sustainability Fund* Outcomes 2025

Investing for a sustainable future

- Assessing the sustainable investment opportunity in emerging markets
- Identifying companies delivering positive social and environmental outcomes
- Measuring and reporting the real-world contribution of our investments

*A sub-fund of Franklin Templeton Investment Funds (FTIF)

Contents

About us

Franklin Templeton in emerging markets

Franklin Templeton Emerging Markets Equity (FTEME) is an emerging market pioneer, having focused on identifying investment opportunities in the world's emerging economies for over 30 years.

Our industry-leading footprint of over 70 investment professionals in 13 countries enables us to identify investment opportunities beyond the mainstream, often before they are recognised by the broader market. We are also able to cover a wide range of companies across emerging markets—currently over 700—using our proprietary and rigorous bottom-up research approach.

Our scale and long-standing presence give us unparalleled, on-the-ground access to business leaders, policymakers and up-and-coming entrepreneurs across these fast-changing economies. We focus on independent research and active, high-conviction investing, building diversified portfolios that select companies across the capitalisation spectrum to meet each strategy's investment objectives.

By identifying structural market opportunities, investing in companies with sustainable earnings, and engaging in responsible stewardship as shareholders, we seek to capture long-term return potential for investors whilst encouraging the highest corporate standards in every market in which we invest.

The Templeton Emerging Markets Sustainability Fund has been awarded the 'Towards Sustainability' quality standard until June 2026 by the Central Labelling Agency in Belgium. Based on thorough independent analysis, this indicates that a financial product is managed with sustainability in mind and has no exposure to highly unsustainable practices.

As of April 2025. For illustrative purposes to describe the investment process. No representation is made that any account will, or is likely to, achieve profits or losses. Logos are trademarks of their respective owners and should not be deemed a sponsor of, or recommendation for, any Franklin Templeton product or service. Information is historical and may not reflect current or future portfolio characteristics. The Belgian organization Febelfin, in consultation with its stakeholders, has developed a quality standard for sustainable financial products, including investment funds. Products that comply with the requirements for this standard are awarded the sustainability label. More information can be found at www.towardssustainability.be/. Label was renewed on 30 June 2024.

Introduction

Our journey so far

Andrew Ness and Chetan Sehgal

Co-Managers
Templeton Emerging Markets Sustainability Fund

The Templeton Emerging Markets Sustainability Fund aims to invest in emerging markets companies that can deliver positive environmental and social outcomes without sacrificing financial returns. As the fund approaches its fifth anniversary, in September 2025, we hope our investments and engagement efforts will further contribute positively to the global sustainability agenda.

Since our last report, the global market has seen elevated volatility caused by US trade policy uncertainties and geopolitical conflicts. This has not distracted our attention from the opportunities and challenges associated with environmental, social and governance (ESG) issues. In the emerging markets, sustainable investing remains underpinned by priorities such as climate and environmental stability, social wellbeing and equalities, as well as access to employment and education, among others.

With that in mind, we have continued to gear our portfolio towards companies that are accretive to the potential answers and solutions of sustainable development. As you go through this report, we hope you will better understand our efforts and achievements over the past year in directing capital towards positive real-world sustainability outcomes. It has been a rewarding journey, and we look forward to partnering with investors to become part of the transformative force that creates a more sustainable future.

Being part of the sustainable investment evolution

Over the past decade, sustainable investment has undergone a rapid transformation. Forty years ago, it was a niche

Figure 1: The sustainable investment evolution

practice to enable charities and religious organisations to screen out investments at odds with their purpose or ethics, such as tobacco or the arms industry, or to support the set-up of specialist green and environmental funds.

Socially responsible investment, or SRI, was coined at the turn of the millennium. More recently, it's been recognised that the environmental, social and governance (ESG) practices of a company are material to both its downside financial risks and upside performance potential. The result is the widespread adoption of so-called ESG factors into investment analysis, stock selection and corporate engagement.

Issues such as climate change, poverty and social inequality have been climbing the global agenda, catalysed by the worldwide adoption of the United Nations' 17 Sustainable Development Goals (UN SDGs). Governments, intergovernmental organisations, and investors—from major institutional funds to individual private investors—are urgently asking how mainstream investments can do good in the real world (rather than just avoiding harm).

A focus on real-world outcomes

Sustainable investment—closely aligned to this global movement for sustainable development—is the result. It is a long-term, multi-stakeholder approach to value creation, with a focus on positive, real-world, social and environmental outcomes, delivering and quantifying them in an effective, accurate and repeatable way.

The Templeton Emerging Markets Sustainability Fund seeks to be at the heart of this evolution. Sustainable investment strategies with a focus on developed markets have proliferated in recent years. But this is one of the few strategies available to give investors pure emerging market equity exposure that's focused on sustainability.

Investment objective

To seek long-term investment growth, through growth of capital, while positively contributing to sustainable goals.

The Fund mainly invests in equities of companies of any market capitalisation that are located in, or derive significant business from, emerging markets. These companies have positive environmental and social performance, improved ESG footprint and potential for improvement through stakeholder engagement.

These investments may include depositary receipts. To a lesser extent, the Fund may invest in convertible securities, depositary receipts, corporate and government bonds and in China A-Shares (notably through Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect) and in China B-Shares.

Putting principles into practice

On the following pages, we explain the factors driving sustainability opportunities in emerging markets and the investment process used by the Templeton Emerging Markets Sustainability Fund to harness and drive these opportunities. We then show how this process is being put into practice to deliver positive outcomes for all stakeholders, whilst targeting attractive risk-adjusted returns.

Managing the Templeton Emerging Markets Sustainability Fund compels us to ask why we own a particular holding and how it is quantifiably contributing to the creation of a better world. We hope this report will inspire investors to ask the same questions about their portfolio.

Key highlights of the fund

1. A dual purpose to deliver attractive long-term investment returns, whilst contributing to the six positive social and environmental outcomes areas linked to the UN SDGs.
2. A unique, holistic three-pillar analysis and rating process, which identifies emerging market companies that are contributing to positive social and environmental outcomes and that have a strong operational ESG footprint or the potential to do so in the future.
3. A robust company activity analysis shows the portfolio measurably contributing to positive environmental and social outcomes linked to the UN SDGs—from supporting climate stability to enabling decent work.
4. A high-conviction portfolio with a long-term bottom-up approach and high active share.*

Figure 2: A US$1 million investment in the Templeton Emerging Markets Sustainability Fund would help...

Save
370 tonnes
of CO_2 emissions

Provide
47 people
with mobile phone services

Provide
97 people
with health care services

Provide
7,115 GWh
of renewable energy generation

Provide
383 GWh
of electric vehicle and energy storage system installed capacity**

Sell
3 new energy vehicles

Give
132 people or micro, small and medium-sized enterprises
access to microfinance services

Provide
153 people
with access to retail banking services

Provide
829 people
with access to internet services/users***

Fund holdings as of 31 March 2025. Data as of 30 April 2025.
* A bottom-up approach generally entails analysing and selecting individual stocks based on the assessment of their respective fundamentals. Higher active share typically indicates that a portfolio is actively managed and is differentiated from its benchmark index, in terms of securities holdings.
** Electric vehicle and energy storage systems.
*** May include daily, monthly or annual active users.
Note these outcomes are estimates only and are not guaranteed.

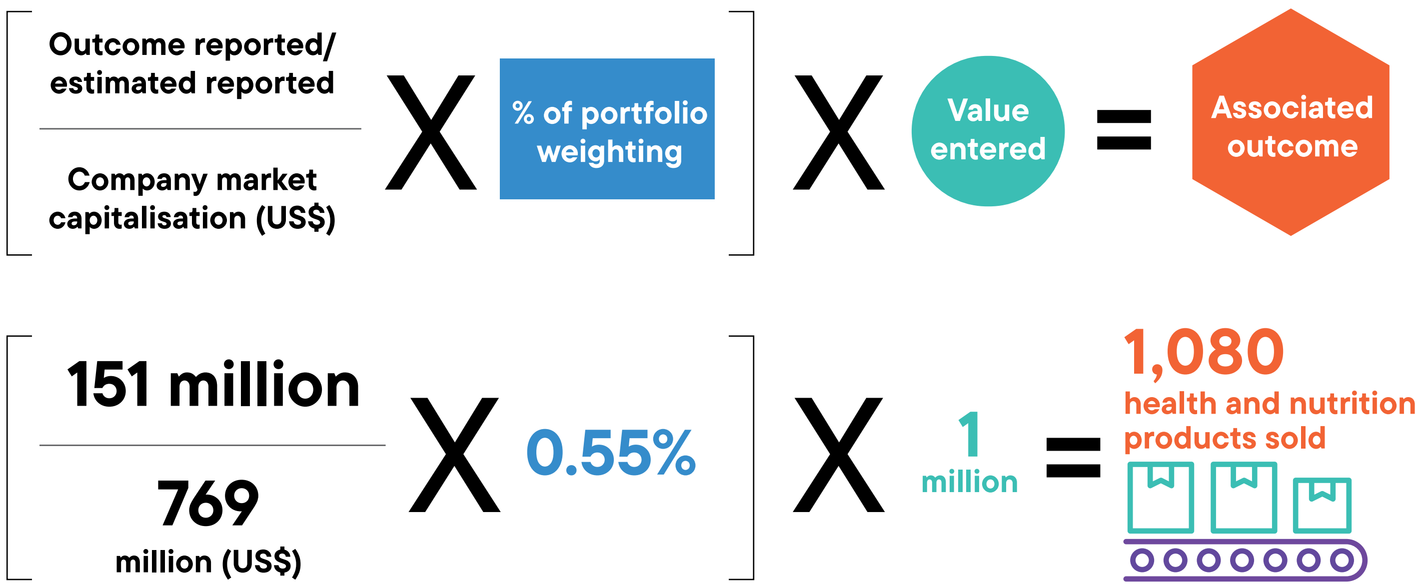
Calculating our portfolio outcomes

Based on our ownership stakes in each company, we use a formula to calculate and quantify the outcomes achieved by each of our holdings.

Using a company's capitalisation, its reported or estimated outcome(s) and our portfolio weighting in that company, we can quantify the associated outcome to which our ownership stake contributes.

For example, the calculation in Figure 3 shows the primary outcome generated by a US$1 million investment in the Fund through our position in "Health and Happiness," which reports 151 million health and nutrition product sales in the last reporting year.

Figure 3: Formula to calculate the positive contribution of a portfolio holding



In turn, we can then calculate the aggregated outcomes across our entire portfolio. This enables us to indicate to investors, based on the portfolio's total assets under management, how their holding may translate into a range of positive outcomes over a given period. Figure 2, for example, shows some of the key outcomes we estimate to be achieved by a US$1 million investment in the fund.

Currently, 71% of the portfolio is measured to these specific outcome indicators. Certain companies are left out of this calculation as their activities fall outside these indicators. The data collected for this calculator is based on latest available annual data, or a reasonable assumption otherwise, as of 30 April 2025.

Individual securities mentioned are not to be taken as advice nor are they intended as a recommendation to buy or sell any investment or interest. It should not be assumed that any securities transactions were or will be profitable. The analysis and opinions of the security discussed herein may change at any time. There is no assurance that any security purchased will remain in the portfolio, or that any security sold will not be repurchased.

Part one

The sustainable investment opportunity in emerging markets

To date, sustainable investment has focused heavily on opportunities within developed markets. But at Franklin Templeton, we believe the world's emerging markets also present compelling opportunities that require specialist, local knowledge in order to be identified and captured effectively.

Additionally, there are a number of macro factors at play that further solidify the emerging market sustainable investment opportunity for the long term:

Opportunity 1: Emerging market growth invites a rethink on global challenges

Emerging markets are set to be the key beneficiaries of two global megatrends: urbanisation and demographics. It is estimated that 57% of the world's population live in cities and over 80% of global gross domestic product (GDP) is generated from cities. This trend is expected to continue, with the urban population more than doubling its current size by 2050, at which point nearly 7 out of 10 people will live in cities.[1] Most of this future urban population growth is expected to take place in emerging economies.

At the same time, the world's population is projected to reach 8.5 billion and 9.6 billion, by 2030 and 2050 respectively, from over 8 billion in 2024. 99% of the population growth by 2030 is expected to be in emerging economies. By 2050, 101% of the population growth is expected to be from emerging economies, with that in developed economies declining by 1%.[2]

These trends support economic growth and wealth creation in terms of consumption, connectivity and innovation. But there is now a global appetite to see how this economic activity in developing markets can address—rather than exacerbate—ongoing global challenges such as poor labour practices, pollution, resource scarcity and climate change.

Key points

- Urbanisation and population growth in emerging markets need to be managed in a sustainable way.
- The UN SDGs will require substantial private market investment if they are to be achieved within their targeted timeframe.
- Emerging market corporates are starting to embrace more sustainable practices.

Opportunity 2: Emerging markets face a huge sustainable development funding gap

A concerted global effort to tackle perennial challenges such as poverty, inequality, climate change, environmental pollution and resource scarcity was established in 2015 with the launch by the United Nations General Assembly of its 17 UN SDGs, plus 169 underlying targets. Unanimously adopted by the 193 UN member states, the UN SDGs are the first truly global framework for action to achieve a better and sustainable future for all.

The timetable for the UN SDGs is ambitious: it's hoped that all goals will be achieved by 2030, with progress subject to annual monitoring. But meeting the UN SDGs in this timeframe presents a significant funding gap that can't be met by government spending alone, especially in lower-income economies—see Figure 4. That gives rise to a major financing role for private capital, and therefore a significant opportunity for investors.

Figure 4: The UN SDG funding gap

The United Nations Conference on Trade and Development (UNCTAD) now estimates that developing countries face an annual financing gap of US$4.3 trillion to achieve the Sustainable Development Goals (SDGs), including US$1.8 trillion specifically for climate-related needs, marking a significant increase from earlier estimates.[3]

Although some progress has been made since 2015, a lack of financing remains a major barrier and it is most acute in emerging markets. The Organisation for Economic Cooperation and Development (OECD) estimates that the funding gap between the annual financing requirement to meet the UN SDGs by 2030 and current investment levels increased by 60% to US$4 trillion in 2022, from US$2.5 trillion pre-COVID-19, largely due to COVID-19 creating additional capital needs and reducing existing funding. If left unaddressed, this funding gap is set to grow to US$6.4 trillion by 2030.[4]

1. The World Bank, 3 April 2023.
2. United Nations Conference on Trade and Development (UNCTAD), 15 November 2022.
3. UNCTAD, Financing for development: Reforming global systems to drive progress. 27 February 2025.
4. OECD (2025), Global Outlook on Financing for Sustainable Development 2025: Towards a More Resilient and Inclusive Architecture, OECD Publishing, Paris.

Opportunity 3: Societal/regulatory pressures are driving corporate stewardship

Across emerging markets, there has been a wave of interest in corporate stewardship led by local government policymakers, shareholders and other stakeholders.

Stock exchanges and financial regulators are increasingly introducing formal ESG disclosure requirements, moving beyond voluntary guidelines. Many are adopting or referencing global standards—such as those from the International Sustainability Standards Board (ISSB) and Global Reporting Initiative (GRI)—to improve data comparability and attract long-term institutional capital.

To attract inward investment, many countries are adopting global frameworks such as the World Bank's Ease of Doing Business indicators. Companies themselves are increasingly open to engagement. As an investor, Franklin Templeton has seen strong improvement in ESG disclosure in recent years, if often from a low base.

> **"Meeting the UN SDGs by 2030 presents a significant funding gap, which has only increased largely due to COVID-19 creating additional capital needs and reducing existing funding."**

Figure 5: Sustainability opportunities and corporate responsibility are growing in emerging markets

The global microfinance market size is predicted to increase from US$279 billion in 2024, to around US$797 billion by 2034. Asia Pacific region dominates with an estimated 45–50% market share.[5]

In emerging markets, almost 90% of companies now pay dividends. 35% of these companies have a dividend yield of over 3%.[6]

According to a report by IEEFA, India will need to deploy US$500 billion in investments to reach its 450 GW capacity target by 2030.[7]

The annualised health protection gap for all emerging markets stands at about US$310 billion, or 1% of these countries' combined GDP.[8]

Population growth in the 2020–2050 period will result in more than 80% of young people aged 5–15 living in emerging economies other than China.[9]

In 2024, global clean energy investments were projected to reach approximately US$2 trillion, with emerging markets and developing economies (excluding China) accounting for about US$320 billion.[10]

But the right insight and process is essential

The combination of economic growth, the need for private capital to help fund the UN SDGs and rising corporate standards provide a compelling sustainable investment opportunity for emerging market participants. But the move to better ESG standards in these markets is still very much a work in progress.

Given the diverse corporate practices and varying levels of policymaker engagement across markets, this is an area that requires first-hand corporate access, deep local knowledge of individual markets and a robust stock selection process to identify the most impactful sustainable opportunities—including those with potential for future improvement.

On the following pages, we show how the Templeton Emerging Markets Sustainability Fund is structured to realise this opportunity to its full potential.

5. Microfinance Market Size, Share, and Trends 2025 to 2034, Precedence Research. As of May 2025.
6. Bloomberg, MSCI Emerging Markets Index. 31 March 2025.
7. India needs $500-bn investment to reach 450-GW RE target by 2030: IEEFA, Energyworld.com. 16 February 2021.
8. The Geneva Association, Healthcare in Emerging Markets: Exploring the Protection Gaps, March 2019.
9. Grantham Research Institute on Climate Change and Environment, London School of Economics and Political Science and the Brookings Institution, Financing a big investment push in emerging markets and developing countries for sustainable, resilient and inclusive recovery and growth, May 2022.
10. World Energy Investment 2024, International Energy Agency. As of June 2024.

There is no assurance that any projection, estimate or forecast will be realised.

Part two

Templeton Emerging Markets Sustainability —a dual purpose

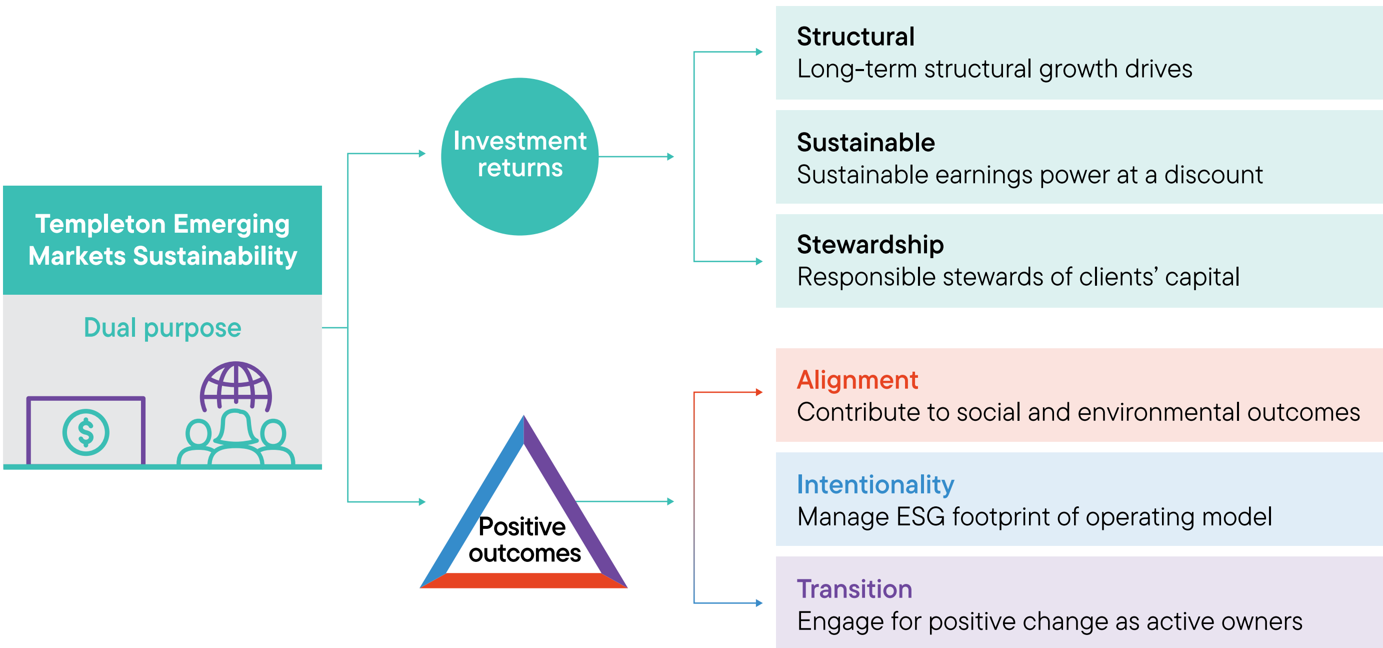
A Fund focused on a dual purpose:

1. It aims to generate capital appreciation by producing attractive long-term risk-adjusted returns, relative to the MSCI Emerging Markets Index.
2. It aims to deliver a range of positive social and environmental outcomes, which can benefit stakeholders across emerging markets and globally. This is done by investing in companies whose products or services contribute to one or more of six positive social and environmental outcomes linked to the UN SDGs (see Figure 6).

Key points

- Fund is managed to deliver financial, as well as social and environmental outcomes.
- Transforms the UN SDGs into six investable themes.
- Unique three-pillar ESG process aims to identify the sustainable emerging market companies of today, and tomorrow.

Figure 6: The dual purpose of the Templeton Emerging Markets Sustainability Fund



Through this approach, we aim to provide an investment fund that can:

- Deliver on both an investor's long-term financial and sustainability goals.
- Give investors targeted exposure to sustainability opportunities in emerging markets. This could complement their sustainability-driven equity exposure in developed markets.
- Enable us to act as active and engaged stewards to companies that are, or could be, able to help deliver positive social and environment outcomes nationally, regionally or globally.

As we will show, the holistic approach we take to stock selection is designed to give investors a portfolio of companies with products and services that contribute to positive social and/or environmental outcomes. Equally, we look to identify corporate management teams who demonstrate a strong accountability for their own ESG operational footprint, or that present a significant potential to improve it.

In this way, we can identify emerging market companies that are making a strong positive contribution to the world today, and also those that could make a strong contribution in the future.

Our six positive outcome areas

Central to the Templeton Emerging Markets Sustainability Fund investment scope are its six positive outcome areas, which are linked to the UN SDGs (see Figure 7).

The UN SDGs are a universally recognised set of 17 goals, which provide a comprehensive framework for action on the world's most urgent social and environmental challenges.

The UN SDGs were created as a framework for governments, not investors. Our six positive outcome areas, therefore, look to group the UN SDGs into "investable themes."

Adapted from work by the Institute for Sustainability Leadership at the University of Cambridge, these are the key social and environmental outcomes that sustainability-focused investors might, reasonably, wish for their portfolio to achieve.

To be included in the Fund, a company's products or services must align to at least one of these positive outcomes, and we rate companies on the strength of their alignment. By building a balance of companies that contribute to these different outcomes, we aim to help drive a range of sustained positive environmental and social contributions in emerging markets and globally.

Figure 7: How we research our six positive outcome areas

		Links to the Following UN SDGs	Examples of Investable Opportunity
Social Outcomes			
Basic needs	Focuses on goods and services known to contribute significantly to development including clothing, communications, education, energy, finance, food, health care, housing, sanitation, transport and water.		• Communications • Consumer finance • Consumer essentials
Wellbeing	Promotes enhanced health, education, justice and equality of opportunity for all. This may involve critical services including health care, education, justice, crime, welfare, culture, security and environmental protection.		• Health care • Education • Internet search
Decent work	Facilitates the creation of secure, socially inclusive jobs and working conditions for all, with a particular focus on alleviating poverty/supporting job creation in rural areas, and the use of formal employment contracts.		• E-commerce • Business finance
Environmental Outcomes			
Healthy ecosystems	Looks to maintain ecologically sound landscapes and seas to benefit both people and nature—particularly in terms of the ability to supply or facilitate freshwater, clean air and abundant food.		• Waste management • Agricultural
Climate stability	Focuses on global efforts to curb the Earth's temperature rise by supporting companies providing climate stability solutions, including green infrastructure, large-scale energy efficiency solutions, and zero emissions mobility.		• Green infrastructure • Low-emissions mobility • Semiconductors • Cloud computing
Resource security	Refers to the preservation of natural resources through efficient and circular use. Focuses on a company's progress from linear to circular operation and those facilitating this transition.		• Sustainable materials • Circular economy enablers

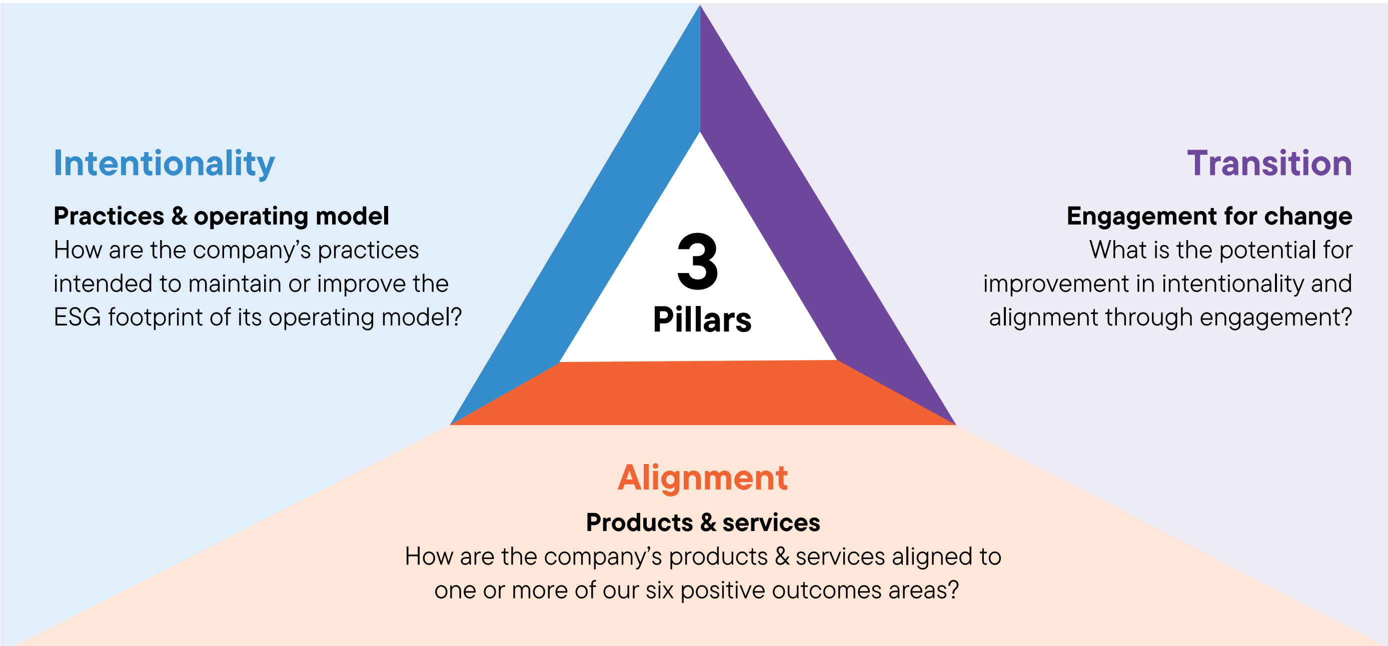
Source: Franklin Templeton/Cambridge Institute for Sustainability Leadership.

Our three-pillar ESG assessment

The Templeton Emerging Markets Sustainability Fund is a concentrated, high-conviction fund, where all our active ideas are made at the individual stock level. To identify potential equity holdings for the portfolio, we conduct an intensive, holistic three-pillar ESG assessment on each company (see Figure 8).

This approach aims to identify companies whose products and services, supported by their operational model, are making a real and significant contribution to our six targeted social and environmental outcomes. Equally—and especially important for emerging markets—we can identify promising companies that offer scope for improvement and where our engagement can help drive progress. In the following section, we'll look at our three ESG pillars in more detail and how they are translating into real-world outcomes.

Figure 8: Our three-pillar ESG company assessment



Social			Environmental		
Basic needs	Wellbeing	Decent work	Healthy ecosystems	Climate stability	Resource security

> **"This approach aims to identify companies whose products and services, supported by their operational model, that are making a real and significant contribution to our six targeted social and environmental outcomes. Equally—and especially important for emerging markets—we can identify promising companies that offer scope for improvement and where our engagement can help drive progress."**

Figure 9: Features of the fund

As a result of our investment approach, the Templeton Emerging Markets Sustainability Fund typically displays the four characteristics below. Together, these position the fund to deliver on its dual goals of attractive long-term risk-adjusted returns and positive social and environmental outcomes.

Investing in sustainability-focused equities

Focuses on companies whose products or services may contribute to one or more positive social or environmental outcome areas (see Figure 7) linked to the UN SDGs.

High-quality growth at attractive valuations

Invests in businesses with sustainable earnings power, that are trading at a discount to intrinsic worth. This typically leads to a portfolio with higher quality, lower debt, demonstrable growth and attractive valuation levels.

High-conviction portfolio with a high active share

A high-conviction portfolio holding 30–50 of our best stock ideas. Active share is typically over 75%, featuring holdings and weightings that may differ widely from both competitor strategies and the benchmark index.

Low turnover and long-term view

Our bottom-up, high-conviction and long-term view on companies means that, typically, our portfolio turnover is less than 20% a year.

Figure 10: Portfolio exclusions

Alongside selecting companies that contribute positively to our six positive outcomes, certain activities may automatically exclude a company from our investment universe.

UN Global Compact violations

Companies in violation of the UNGC principles on human rights, the environment, labour and anti-corruption. Also, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.*

Weapons

Companies involved in manufacture of nuclear weapons, anti-personnel mines, biological/chemical weaponry, depleted uranium or cluster munitions. Also, excludes companies deriving >5% revenue from other weapons.

Tobacco, gambling & adult entertainment

Companies that manufacture tobacco or tobacco products, or derive >5% revenue from such products. Companies deriving >5% of revenue from gambling or adult entertainment.

Coal & unconventional oil & gas

Companies deriving >5% of revenue from thermal coal extraction or unconventional oil and gas extraction (i.e., shale oil, shale gas, oil share and tar sand).

Conventional oil & gas

Companies either deriving:
1. >5% revenue from oil & gas,
2. >15% of capital expenditure dedicated to oil & gas with no increase in revenue, 3. or those that do not have science based targets set at well below 2°C or 1.5°C, or don't have a science based target 'Business Ambition for 1.5°C' commitment.

The fund also complies with the European Securities and Markets Authority (ESMA) fund naming guidelines and follows the exclusions of the EU Paris Aligned Benchmark.
* Exceptions can only be made where our analysts conduct a formal review and can refute that a company is complicit in violation of these principles, or can demonstrate that the company has made a positive change.

Part three

Our three-pillar ESG process in action

Key points

- Invests in emerging market companies whose goods or services are contributing to the six targeted positive outcome areas.
- Also looking to determine that a company has (or could have) strong ESG practices across all its operations.
- Process also identifies emerging market companies where active engagement can help create the sustainability businesses of the future.

Our proprietary three-pillar ESG inclusion framework goes beyond simple screens, ratings and standardised metrics. Instead, it provides a rigorous and holistic fundamental approach to assessing each company in our global emerging market universe.

As we've shown, the positive environmental or social outcomes to which a company's products or services are aligned are at the forefront of our investment focus. This is combined with an analysis of the material ESG factors of a company's operating model and practices to find companies that demonstrate a strong accountability for their own operational footprint. Finally, as pragmatic, long-term investors, our focus on companies in transition allows us to invest in businesses at an earlier stage of their sustainability journey, where we believe that active owner engagement can help deliver measurable improvement.

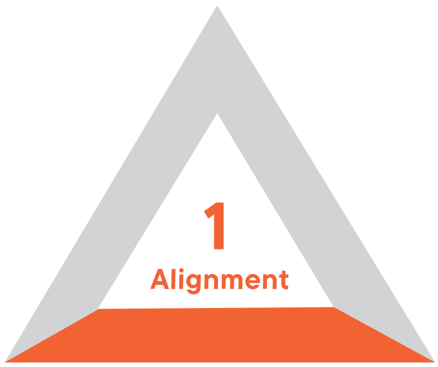
> **"Our focus on companies in transition also allows us to invest in businesses at an earlier stage of their sustainability journey, where we believe active owner engagement can help deliver measurable improvement."**

Our three ESG pillars in practice

So how do we go about measuring the effectiveness of our approach—and the outcomes it generates? In this section, we show how we're applying these three ESG pillars—alignment, intentionality and transition—to stock analysis and selection and how we look to assess the impact they are having.

1. Alignment: Investing in products and services that can deliver positive outcomes

Principally, we look to achieve sustainable outcomes by investing in companies whose core products or services are contributing significantly to any of the six social or environmental positive outcome areas detailed in Figure 7.



This requires a wide-ranging assessment through a bottom-up analysis of the potential direct and indirect benefits different sectors and industries can provide. For example, the wellbeing outcome which looks to promote enhanced health, justice, and equality for all, may include companies that operate in health care and education. But, less obviously, it can include internet search companies because of their ability to equalise access to knowledge and services, regardless of geography or physical ability. Using metrics like revenues, each company receives an alignment score based on the proportion of their business that is aligned to one or more of the six positive outcome areas.

Figure 11: Alignment—How we score companies

Alignment score

10–24%	25–49%	≥50%
of a company's business by our metrics is net positively aligned to one or more of our six Positive Outcome Areas.	of a company's business by our metrics is net positively aligned to one or more of our six Positive Outcome Areas.	of a company's business by our metrics is net positively aligned to one or more of our six Positive Outcome Areas.

Once in the portfolio, the real-world outcomes for each company are tracked and measured using an agreed "sustainability indicator." This indicator can range from the number of people accessing mobile data thanks to a telecom company, to the quantity of CO_2 emissions avoided by an energy-efficient district cooling company. By identifying a clear and quantifiable sustainability indicator for each company, we aim to be able to track if, and to what degree, its contribution to an outcome area improves over time—as well as being able to show investors what measurable outcomes their investment is helping to deliver. Due to corporate disclosure issues, we may, at times, seek to use an appropriate proxy for measurement purposes.

Alignment in action

On the following pages, we profile three companies that have scored highly in our alignment analysis. We identify the social and environment outcomes and UN SDGs these companies address, the significance of their contribution and the potential for further contribution in the future.

Case study BYD

BYD is primarily engaged in three business segments: new energy vehicles (NEV), rechargeable batteries, handset components and assembly.

Country	China
Sector	Consumer discretionary
Industry Group	Automobile manufacturers
Positive Outcome Area (% of Revenue)[11]	100% climate stability
Positive Outcome Summary	As a global leader of holistic renewable energy solutions, BYD offers products and services across the entire cycle of energy generation, storage, and consumption, contributing to clean energy transition.
Sustainability Indicator	NEV sales volume
Primary UN SDG	
Contribution to Underlying UN SDG Target	9.4: Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes.

What problem is BYD addressing?

Electric vehicles are the key technology to decarbonise road transport, which accounts for around one-sixth of global emissions. Electric car sales in 2025 are expected to exceed 20 million worldwide to represent more than one-quarter of cars sold worldwide. In the first quarter of 2025 alone, EV sales rose by 35% compared to the same period last year, setting new records in all major markets.[12] If current policies remain in place, EVs could account for more than 40% of all car sales by 2030.[13] China is poised to continue leading in electric car sales to 2030, with EVs projected to make up around 80% of its car sales by then, thanks to strong market growth and affordable options.[14]

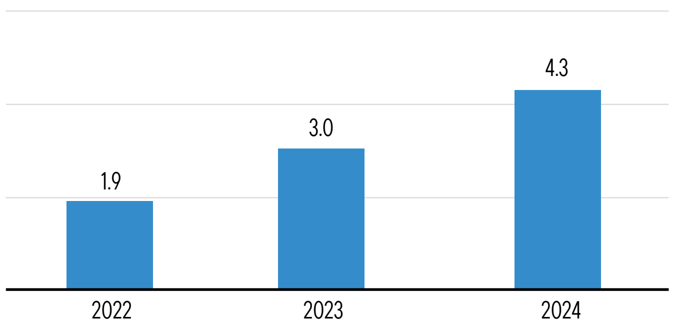
The pace of electric vehicle transition hinges on their affordability. Globally, the average price of battery electric cars fell in 2024, but their price gap versus conventional cars persisted in many markets. However, in China, two-thirds of EVs sold in 2024 were cheaper than their conventional equivalents. In Thailand, battery electric cars have now reached price parity with conventional cars, and Chinese electric cars are even cheaper on average. In Brazil, the price difference between EVs and conventional cars shrank significantly—from over 100% in 2023 to just 25% in 2024—largely due to a surge in Chinese EV imports, which made up 85% of the market.[15] The faster pace of EV cost reductions in China—driven by strong competition, increasing manufacturing efficiency, supply chain integration, and access to a skilled workforce—is boosting the competitive advantage of Chinese battery manufacturers.

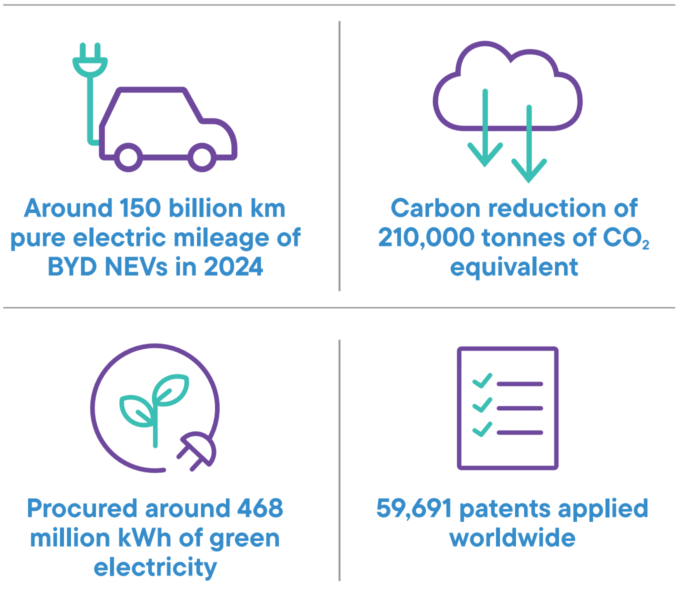
11. Refer to page 11 for details on how we clarify our six positive outcome areas.
12. Global EV Outlook 2025, International Energy Agency.
13. Ibid.
14. Ibid.
15. Ibid.

What contribution is it making?

Figure 12: 4.27 million new energy vehicle sales in 2024

BYD New Energy Vehicle Sales (Million)





Source: BYD Sustainability Report 2024.

Since the launch of its first EV sedan model in 2006, BYD has become the EV industry leader in China. It plays an important role in advancing vehicle electrification, and its impact is felt globally. BYD has helped eliminate over 16 million tonnes of CO_2 emissions worldwide, thanks to its fully electric lineup of passenger cars, buses, trucks, and monorail systems. It has also developed in-house key technologies such as the blade battery and leading hybrid power systems, which are essential to the company's competencies and growth. With successful vertical integration and efficient production processes, BYD is able to offer competitive pricing, particularly in emerging markets. This makes its EVs significantly more affordable than the average EV prices, offering a more accessible option for a wider range of consumers.

In addition to EVs, BYD is expanding its power battery capacity, particularly focusing on energy storage solutions. On this front, BYD Energy Storage and Saudi Electricity Company signed the world's largest grid-scale energy storage projects with combined capacity of 12.5GWh in February 2025.[16]

Potential to increase positive outcomes:

Rapid charging: Amid stricter emissions regulations and the phasing out of gasoline cars, advancements like BYD's 5-minute EV charging technology could accelerate the transition to electric transportation. Other automakers will likely try to catch up, leading to further innovations in battery technology. Overall, BYD's breakthrough to further reduce charging time may help slash the carbon pollution of transportation.

Software and AI integration: BYD's advancements in smart driving technology, including advanced driver assistance (ADAS) features and automated parking, enhance safety and efficiency, providing a smoother and more reliable driving experience. Public transportation is also benefiting from these advancements. Electric buses equipped with ADAS can navigate urban environments more safely, helping to reduce accidents and improve efficiency in public transport networks.

16. BYD press release. 17 February 2025.

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Case study | Discovery

Discovery Limited provides insurance products and services such as life and health insurance, medical aid administration, science-based wellness programmes and investment products. It serves customers primarily in South Africa and the UK, although it offers loyalty programmes globally.

Country	South Africa
Sector	Financials
Industry Group	Multi-line insurance
Positive Outcome Area (% of Revenue)[17]	Wellbeing: 99%
Positive Outcome Summary	Health insurance enhances access to quality health care services in the private sector, which may otherwise be unaffordable for some. Life- and short-term insurance products provide a safeguard against unplanned catastrophe and financial burdens, whilst digital banking improves financial inclusion.
Sustainability Indicator	Number of insurance policies
Primary UN SDG	10 REDUCED INEQUALITIES
Contribution to Underlying UN SDG Target	10.2: Empower and promote social, economic, and political inclusion of all.

What problem is Discovery addressing?

South Africans are potentially deprived of private health care access, with up to 80% of the population relying on an over-extended public health care system.[18] The public system is often under-resourced and overburdened, leading to long wait times and generally lower quality of care compared to the private sector.

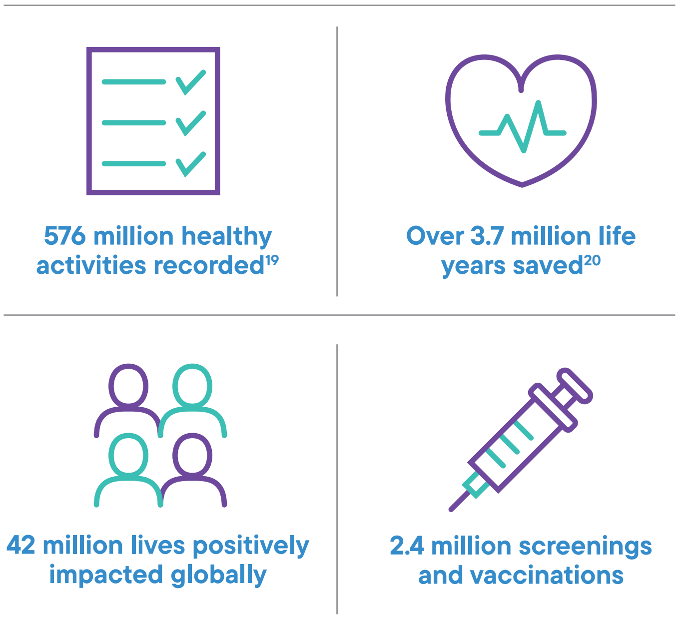
Additionally, access to health care in rural South Africa is fraught with challenges, including geographical barriers, limited infrastructure and socio-economic factors. Many clinics are understaffed and lack essential medical supplies and equipment. This shortage can lead to long waiting times and inadequate treatment for patients. Furthermore, the limited availability of specialised health care services means that patients may need to travel to urban centres for advanced care, which is not always feasible.

Ensuring that all individuals have access to quality health care is essential for building healthier communities and promoting overall wellbeing in South Africa. As the government grapples with challenges to provide comprehensive health care access, the insurance industry must step up. South Africa's insurers are pioneers in solutions like dread disease and critical illness coverage, as well as the concept of shared value insurance. Amid government constraints to provide quality health care to all, the private sector covers everything for the insured, from minor ailments to major surgeries.

17. Refer to page 11 for details on how we clarify our six positive outcome areas.
18. The Healthcare System in South Africa, International Citizens Insurance.

What contribution is it making?

Figure 13: 42 million directly insured lives



Source: Sustainability Report, Discovery. As of June 2024.

Discovery covers 60% of South Africa's private health insurance market.[21] It is a key enabler of customer access to quality health care that may otherwise be unaffordable, without compromising on quality. Discovery Health's strategic objective is to become the lowest-cost health care administrator. Currently, Discovery Health Medical Scheme members pay on average 11.1% less than members of the next seven largest open schemes.[22] To expand access to affordable quality health care, Discovery Health also consistently invests in building a product suite that caters for diverse health care needs across socio-economic circumstances.

Discovery is notable for shifting its focus from simply covering illness to preventing it, and its shared-value model has transformed health and life insurance. The goal was to reward behavioural change by incentivising healthy behaviours. If people are healthier, Discovery is more profitable, and it is then able to reinvest those profits to further incentivise healthy actions, creating a virtuous cycle. This model has evolved significantly from basic incentives to personalised recommendations driven by AI, tailored to individual risk profiles.

Discovery has meanwhile extended its reach to rural and underserved areas, leveraging on technology and innovation to provide equitable health care access. Through the Discovery Foundation, Discovery is supporting the training of medical professionals and funding research and development to improve rural health care access. The foundation focuses on addressing under-resourcing in the rural areas, increasing the number of specialists, and developing academic medicine.

Potential to increase positive outcomes:

Discovery bank: Discovery has launched a bank in South Africa based on the same behavioural principles, encouraging better financial management. This is underpinned by its shared value model which, at its core, uses incentives and rewards—backed by advanced analytics and technology—to encourage clients to make positive decisions that enhance their financial wellness. The bank now has over one million clients with over two million accounts and is growing rapidly.[23]

Discovery Health app: Digital solutions—such as telehealth platforms that provide telephonic and virtual video consultations—provide powerful channels to improve health care access at scale and ease the burden on health care systems. Discovery is leveraging on its technology capabilities to broaden health care access through the new Discovery Health app, which enables digital access to high-quality, affordable care. This may lead to new digital health care innovations and services in an ever-expanding and connected digital health ecosystem.

19. Healthy activities include relevant physical activity events recorded and HealthyFood purchases, annually.
20. Life years saved is calculated, annually, from healthy activities recorded, using the methodology informed by the Habit Index.
21. Discovery CEO interview, Business Focus.
22. Sustainability Report, Discovery. As of June 2024.
23. Ibid.

Case study

ReNew Energy

ReNew Energy is a leading renewable energy company in India, operating in segments such as wind power, solar power, hydro power and transmission line..

Country	India
Sector	Utilities
Industry Group	Independent power and renewable electricity producer
Positive Outcome Area (% of Revenue)[24]	Climate stability: 100%
Positive Outcome Summary	ReNew Energy plays a vital role in advancing India's climate goals.
Sustainability Indicator	CO_2/t avoided (mn tonnes)
Primary UN SDG	
Contribution to Underlying UN SDG Target	7.2: Substantially increase the share of renewable energy in the global energy mix.

What problem is ReNew Energy addressing?

Renewables are an increasingly important source of energy as countries seek to reduce their CO_2 emissions and fossil fuel dependence. According to the World Health Organization (WHO), about 99 percent of the global population breathe air that exceeds air quality limits, which may threaten their health, and more than 13 million deaths around the world annually are due to avoidable environmental causes, including air pollution.[25] Switching to clean energy sources, such as wind and solar, thus helps address not only climate but also air pollution and health issues.

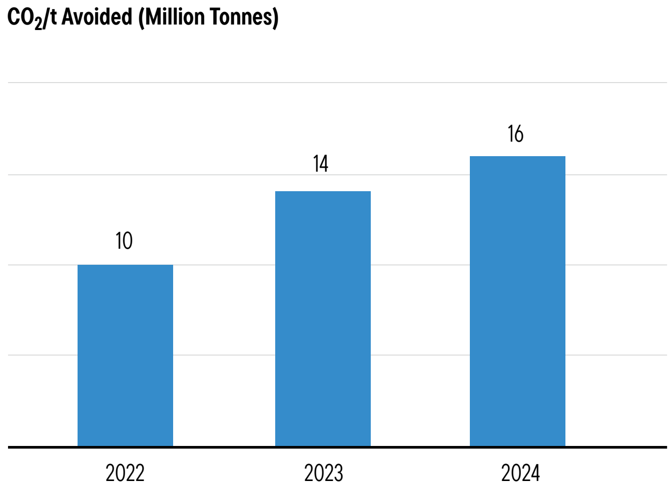
It is anticipated that renewable energy sources will significantly increase their share of the electricity demand after the mid-2030s and begin to supplant the use of fossil fuels. By 2050, renewable energy is predicted to account for 82% of the world's energy mix, up from about 31% in 2022 due to the falling costs of solar, wind and storage technologies.[26] For every US$1 spent on fossil fuels, US$1.8 is being spent on clean energy. In the upcoming decades, there may be a significant increase in clean energy investment due to increased policy support, the alignment of energy security and climate goals, as well as additional economic incentives.

A record US$1.77 trillion was invested globally in energy transition technologies in 2023. Going forward, it is anticipated to reach US$2 trillion in 2024, propelled by the desire to forge stronger market positions, technology and efficiency advancements, energy security and emission reduction targets. Investment in renewable energy is growing quickly, and if this pattern holds true, it will make up two-thirds of the total amount required to triple the capacity of renewable energy by 2030.

24. Refer to page 11 for details on how we clarify our six positive outcome areas.
25. Renewable energy – powering a safer future, United Nations
26. Energy Transition Outlook 2023, DNV.

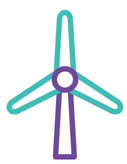
What contribution is it making?

Figure 14: Amount of CO_2 emissions avoided due to ReNew's solutions

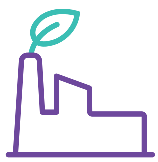


Helped to mitigate around 0.5% of India's carbon emissions

Current renewable asset base of 17.4 GW



India's largest wind portfolio, at 10.5% of total national wind energy capacity



Carbon neutral for Scope 1 and Scope 2 emissions for the fourth consecutive year

Source: ReNew investor page.

ReNew is one of the largest Indian independent power producers with a total capacity (commissioned and committed) of 16.3 GW as of November 2024, spanning across solar, wind and hydro projects. The company is focused on doubling its gross renewable energy capacity in the next five years.

ReNew's purpose is to create a carbon-free world by accelerating the clean energy transition. Deepening its presence across the core renewables value chain, the company has initiated backward integration into solar manufacturing in 2024, ReNew generated over 19 billion units of clean electricity, enough to power over 5.3 million Indian households.[27]

It successfully commissioned two solar manufacturing plants at Jaipur, Rajasthan and Dholera, Gujarat. These plants have a total production capacity of 6.4 GW solar modules and 2.5 GW solar cells.[28]

Potential to increase positive outcomes:

Green hydrogen and carbon markets: The company is exploring green hydrogen opportunities. Green Hydrogen is produced in a carbon-neutral manner, through the method of electrolysis and the use of surplus renewable energy. ReNew has signed a Framework Agreement with the Egyptian government to establish a green hydrogen plant in the Suez Canal Economic Zone. This agreement, which follows a previously signed memorandum of understanding, aims to produce 220,000 tonnes of green hydrogen annually. It requires an investment of about US$8 billion. The project's pilot phase is expected to be commissioned in 2026.

27. Annual Integrated Report FY 2023-24, ReNew.
28. Solar PV Manufacturing, ReNew.

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2. Intentionality: Backing companies with a strong or improving operational ESG footprint

A company's products and services are the most important factor in whether it merits consideration for the Templeton Emerging Markets Sustainability Fund. But, for inclusion in the portfolio, evidence of appropriate management of a company's entire ESG footprint is key.

Focusing on 'intentionality' allows us to identify companies in emerging markets, which are well managed and fundamentally committed to sustainability (or those whose sustainability profile could be improved through engagement). It also helps us flag and minimise any unintended ESG impacts that are generated by our portfolio companies and conflict with our six positive outcome areas.

> **"Focusing on 'intentionality' allows us to identify emerging market companies that are fundamentally committed to sustainability. It also helps us flag and minimise any unintended ESG impacts that conflict with our six positive outcome areas."**

How we measure intentionality

Guided by Franklin Templeton's ESG Sector Framework Guides and informed by the Sustainability Accountings Standards Board (SASB), we identify a minimum set of ESG issues, which are most likely to materially impact the operating performance or financial condition of a typical company in its industry group. These include:

- **Environmental issues:** resource efficiency, carbon emissions management, waste prevention, recycling, and pollution prevention and control.
- **Social issues:** labour standards, fair wages, diversity and gender balance, health and safety practices, and product safety.
- **Governance issues:** appropriate accounting practices, alignment of interests, board effectiveness, capital allocation, shareholder rights, and quality of disclosures.

Using our proprietary rating system, we assess and score companies on how they are taking action to achieve and maintain a strong operational ESG footprint. This will contribute to a company's overall internal ESG Rating (see Figure 15).

Figure 15: Intentionality—How we score companies

Intentionality score		
Some acknowledgement or management of key ESG concerns that we have identified.	Significant efforts are being made to manage key ESG issues in the company.	All key ESG issues are well managed and management demonstrates strong accountability.

Intentionality in action

Below we outline how we assess some aspects of the ESG operational considerations of our portfolio companies. Wherever possible, we also look to extend this assessment to our overall portfolio to monitor, manage and report on our own ESG footprint.

i. Carbon emissions/carbon intensity

We look to measure the level and intensity of carbon emissions where they are material to a company's operations. We also look to assess our portfolio's overall carbon footprint, and what is driving that, to determine how it compares to the market and how it could be improved.

We assess carbon at a company and overall portfolio level on three metrics using emissions data provided by MSCI (see Figure 16). We gather additional reported carbon data from companies to determine their Intentionality score.

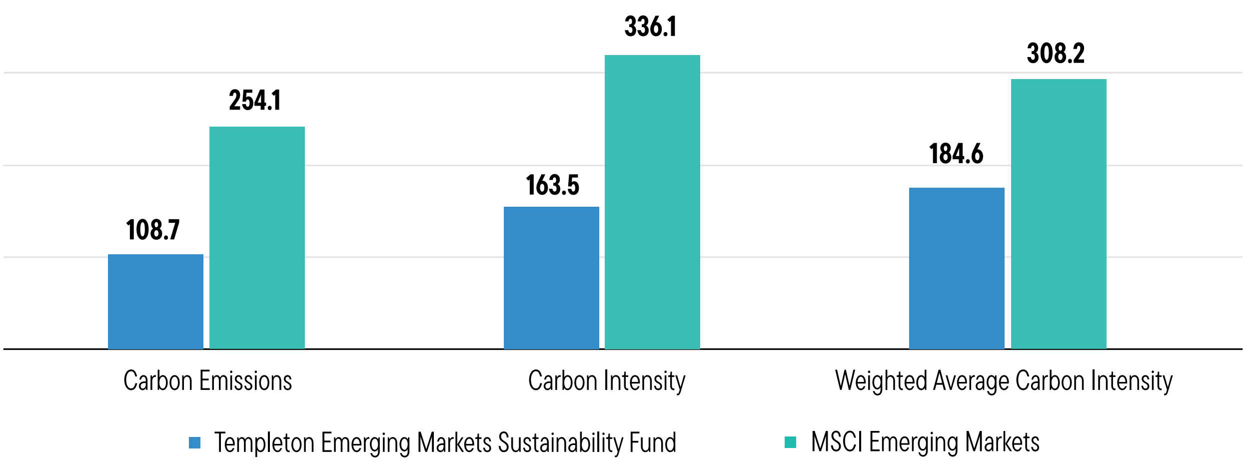
Figure 16: Calculating the carbon footprint of our portfolio vs the MSCI Emerging Markets Index

i. Carbon emissions tons CO_2e/US$M invested	Measures the portfolio's normalised carbon footprint per US$1 million invested.
ii. Carbon intensity tons CO_2e/US$M sales	Measures the portfolio's efficiency in terms of the level of carbon emissions per dollar of sales generated by a company.
iii. Weighted average carbon intensity tons CO_2e/US$M sales	Measures the portfolio's exposure to carbon-intensive companies.

Our focus both on low carbon intensive investments and companies managing their emissions profile has helped us achieve a portfolio whose carbon profile is much lower than the MSCI Emerging Markets Index on all three measures (see Figure 17).

Figure 17: Templeton Emerging Markets Sustainability Fund carbon footprint vs. MSCI EM Index

Portfolio carbon emissions are 57% lower than the MSCI Emerging Markets Index, carbon intensity is 51% lower and weighted average carbon intensity is 40% lower.



Source: Holdings as of March 2025; MSCI ESG as of 11 April 2025, portfolio coverage 100% (98% reports, 2% estimated); MSCI EM coverage 100% (93% reported, 7% estimated). Carbon emissions include Scope 1 and 2 and estimates used MSCI's proprietary carbon estimation model.

To determine the portfolio's exposure to carbon related risks, we assess the WACI (weighted average carbon intensity) metric—which measures carbon intensity on a normalised basis for better comparison among companies. With that, we observe the following:

- The portfolio carbon risk is concentrated among a small number of companies, with the top five companies in terms of carbon intensity representing 7.4% of the portfolio and accounting for 72.9% of the portfolio WACI.
- In sector terms, the portfolio's underweight in materials and energy (zero weight), and positive carbon stock selection in the materials and utilities sector, are factors driving its relative WACI vs. the index.
- Emirates Central Cooling Systems Corp and Daqo New Energy have the largest carbon intensities in the portfolio, representing 2.4% of the portfolio but accounting for 58.8% of the portfolio WACI. Both companies are environmental solution providers per our positive outcome areas.
- Taiwan Semiconductor Manufacturing Company's carbon intensity is low. However, since it represents 7.9% of the portfolio, it is the third highest in terms of contribution to the portfolio WACI, after Emirates Central Cooling Systems Corp and Daqo New Energy.

Largest Contributors to the Portfolio's Weighted Average Carbon Intensity (WACI)

Company	Sector	Country	Portfolio Weight	Carbon Intensity (Tonnes CO_2e/ US$M Sales)	Contribution to WACI	Total Carbon Emissions Source
Emirates Central Cooling Systems Corp	Utilities	United Arab Emirates	1.8%	4,740	49.1%	Estimated
Daqo New Energy Corp	Information Technology	China	0.5%	3,241	9.7%	Reported
Taiwan Semiconductor Manufacturing Co., Ltd.	Information Technology	Taiwan	7.9%	185	8.3%	Reported
Apollo Hospitals Enterprise Ltd.	Health Care	India	3.2%	365	6.6%	Reported
Rumo S.A.	Industrials	Brazil	1.5%	449	3.8%	Reported

Over the course of the year, the portfolio WACI has consistently been below the index.

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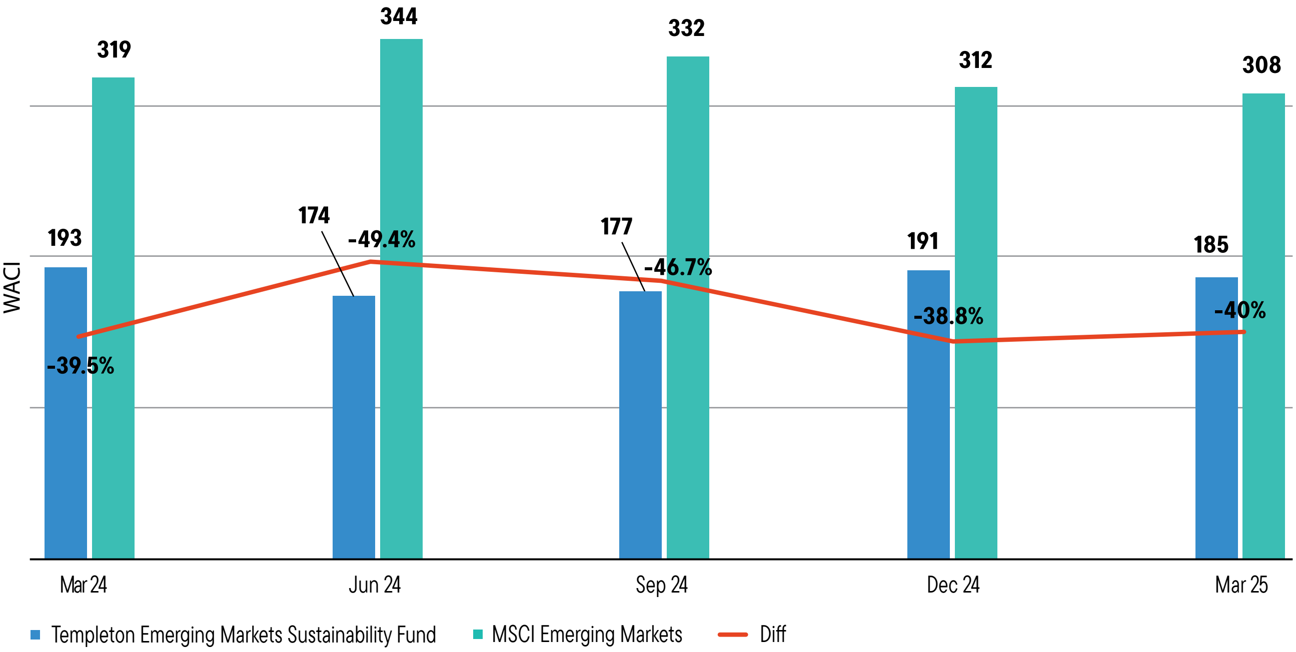
Figure 18: Weighted average carbon intensity (tons CO_2e/US$M sales)



Source: MSCI ESG.

The reported data is a snapshot at a single point in time and does not represent the forward-looking nature of our approach to analysing investee companies.

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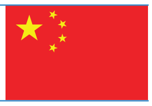
Environmental case study | BYD



ESG Topic	Environmental footprint
Materiality and Risk	Entities that reduce waste streams while implementing policies to manage risks related to handling hazardous materials may reduce regulatory and litigation risks, remediation liabilities and costs. The Chinese government has enforced battery tracking systems and recycling laws, ensuring that decommissioned EV batteries are repurposed for grid storage, commercial backup power, and renewable energy systems. This is a key area of focus for Chinese battery manufacturers.
ESG Analysis	BYD has strict regulations for waste management, and business units are held accountable in this regard. The company sorts and disposes waste accordingly: • Toxic or harmful substances are handled by accredited external partners contracted by the safety and environment office of the quality division. • Domestic garbage and non-harmful industrial waste are disposed by external environment and health organisations. • Recyclable wastes are mostly reused, with a portion handled by professional firms. BYD is spearheading battery repurposing efforts, providing second-life batteries for solar and wind energy storage in cities such as Shenzhen and Beijing. BYD has developed a recycling method for defective battery pole cores, which involves disassembling and reusing components instead of scrapping the entire core. This method allows for the recovery of usable pole pieces, even those with defects, and their reuse in new battery cells. This improves efficiency and reduces the environmental impact compared to scrapping the entire core.
ESG Thesis	BYD's environmental management is above industry average. BYD prioritises minimising environmental impact and maximising resource utilisation across its operations. This includes treating both hazardous and non-hazardous waste with the utmost care, aiming to minimise its environmental burden. The company has strict regulations regarding the management of various wastes, with business units held accountable, and the company's waste emissions are compliant with national and local regulations. BYD's additional focus on increasing waste utilisation rates and ensuring energy efficiency in its waste management practices demonstrates the company's commitment to waste management and reducing its overall environmental footprint.

ii. ESG controversies, UN Global Compact, human rights and labour norms violations—ensuring no significant harm

Data to appraise all these operational ESG aspects at the company level is drawn from engagement with management, financial statement analysis, corporate reports, and third-party ESG research from companies, including MSCI and Sustainalytics. As explained in Part Two of this report, unless our analysts can put a strong case otherwise we exclude companies in violation of the UN Global Compact Principles on human rights, the environment, labour and anti-corruption, as well as the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

The Templeton Emerging Markets Sustainability Fund has a 0.0% exposure to very severe controversies and norms violations, compared to 1.0% for the MSCI Emerging Markets (EM) Index per MSCI's analysis (see Figure 19).

Figure 19: Exposure to international norms violations

% of Portfolio by Value	Templeton Emerging Markets Sustainability Fund	MSCI EM Index
Very Severe Controversies	0.0%	1.0%
UN Global Compact Violations	0.0%	1.0%
Human Rights Norms Violations	0.0%	1.0%
Labour Norms Violations	0.0%	0.5%

Source: MSCI. Holdings as of 31 March 2025. Data as of 11 April 2025.

Social case study	Discovery

ESG Topic	Data and cyber security
Materiality and Risk	Ensuring personal financial data privacy and security is an essential responsibility of financial services groups. Failure to safeguard customer data may lead to decreased revenue and consumer confidence. Entities such as Discovery need to develop policies and technical safeguards to protect patient health information, as failure to comply with these standards can lead to significant civil and criminal penalties. Additionally, cyberattacks are a risk to Discovery and the insurance industry, due to their access to customer information. Building consumer trust through data privacy will be key for insurers, particularly those seeking to benefit from big data analytics.
ESG Analysis	Discovery is focused on continually increasing their cyber resilience capabilities by monitoring and updating their defences against evolving threats. The company performs regular penetration testing to better anticipate, detect and defend against potential vulnerabilities, thereby mitigating threats in real-time. It also conducts privacy impact assessments as part of the product development lifecycle to ensure privacy and information security requirements are met. In addition, Discovery provides compulsory data privacy and cyber awareness training—including induction and annual refresher training—to their employees, financial advisers and service providers. Discovery is in compliance with all data protection and cybersecurity laws. In South Africa, it has obtained ISO 27001:2022 certification, transitioning from ISO 27001:2013; Vitality Global also maintains its ISO 27001:2022 certification, while Vitality UK is ISO 27001:2013 certified.
ESG Thesis	Discovery recognises that the frequency and sophistication of cyber-attacks will continue to increase globally. Despite the company's considerable investment in cybersecurity measures, operating in critical sectors like health care, banking and insurance makes Discovery particularly vulnerable to cyber risks and potential contagion impacts. However, the company continues to enhance their systems availability and improve resilience to business interruption resulting from cyber threats. The company continues to monitor and update their defences to protect against evolving threats and is in compliance with all data protection and cybersecurity laws. However, we would like to see further disclosure of quantifiable metrics on their approach to cybersecurity and data protection, as this would aid investors in understanding how cybersecurity and data protection is being implemented.

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iii. Governance

Highly divergent standards and regulation of corporate governance are a feature of global emerging markets. Assessing companies for strong or improving governance practices requires a highly active, first-hand assessment of companies and cannot rely on third-party data.

To assess companies' intentionality in terms of governance, we look at factors like accounting practices, alignment of interests with shareholders, board independence and diversity, capital allocation, remuneration practices, and quality of disclosures.

Governance case study | ReNew

ESG Topic	Governance, risk management
Materiality and Risk	Strong and effective corporate governance helps cultivate a company culture of integrity, potentially leading to positive performance and an overall sustainable business. Poor corporate governance can instead lead to misalignment with minority shareholder interests, causing reputational risk.
ESG Analysis	60% of ReNew's board is independent and 40% of the directors are female. The founder is both the Chairman and the CEO of the company. The company has a strong management team with good experience. ReNew is led by Sumant Sinha, who has a strong educational and industry background. Prior to founding ReNew, he was the chief operating officer at leading wind turbine company Suzlon Group. He has also held senior finance roles at Aditya Birla Group, and has experience in Capital Markets. We note that executive remuneration is an area for engagement, given that ReNew's top management compensation is higher than peers in the utility sector. In terms of ownership structure, the company has four classes of shares, A, B, C and D. Class B shares are held by the founder and Class D shares are held by CPP Investments. Class B and D shares can be converted to A shares with different voting rights. The founder and CPP Investment Board own direct stake in ReNew India, which grants them additional votes at the US company level. The company has acquired ReNew India shares from the founder in the past.
ESG Thesis	ReNew's governance practices are average compared to peers. The company has a strong and professional management team with good, relevant industry experience, and the board is majority independent with a good percentage of female directors. However, the founder is both the chairman and the CEO of the company, which calls into question the board's independence and is an obvious area for improvement. We would like to better understand the executive pay and its alignment with shareholder interests, as well as the company's plans to simplify the ownership structure. We will look to engage with the company for further information on this front. Different share classes with different voting rights are also a concern. However, there has been an offer to privatise the company by a consortium, which includes the company founder and chairman. This is currently being evaluated by the Special Committee of the Board and has been an outstanding agenda item for about six months now.

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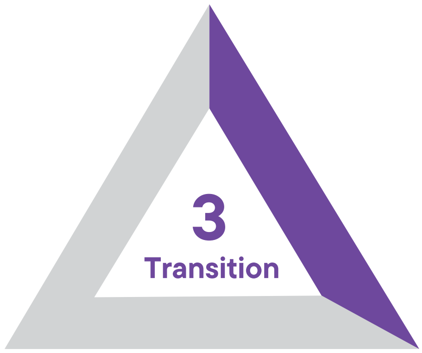
3. Transition: Engaging with companies for positive future change

In an ideal world, all our companies would be achieving a perfect score on our first two ESG pillars, alignment and intentionality. However, many companies, especially in emerging markets, are at a relatively early stage of their sustainability journey. Yet they may often present compelling potential for progress, especially with the right engagement from active investors like Franklin Templeton.



Our third ESG pillar, therefore, looks to rate such companies on their potential to transition into leading sustainability names. In this way, we can fairly assess their credentials for inclusion in our portfolio.

How we measure transition

Where there is scope for improvement in a company's intentionality rating (or, in rarer cases, in its alignment rating) through engagement, we identify the key issues to be addressed. We then assess the actions and metrics on which we could engage with company management to begin to resolve these issues.

Where we see there is good potential for change through engagement, we will give a company a positive transition score. Note that where a company has scored highly on our intentionality pillar, no, or little, shareholder engagement may be required, so a company may receive a transition score of zero.

> **"We have identified 38 individual ESG issues across 20 portfolio companies on which we plan to engage, and where, given available time and resources, we are confident our involvement can have a constructive impact."**

Figure 20: Transition—How we score companies

Transition score		
The company has strong ESG operational practices so no engagement is needed or there is scope for improvement but it is unlikely to be achieved through our engagement.	We have identified one or more areas of the company's ESG practices or activities that could be improved through targeted engagement by us.	We have identified numerous areas of the company's ESG practices or activities that could be improved through targeted engagement by us.

Transition identified

We have identified 38 individual issues across 20 portfolio companies on which we plan to engage, and where, given available time and resources, we are confident our involvement can have a constructive impact (see Figure 21).

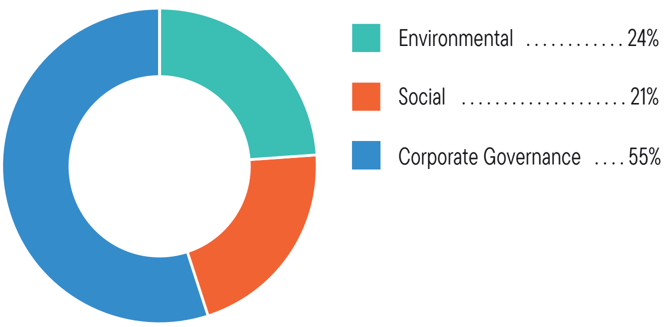
Most of these engagement issues focus on governance (e.g., board independence and shareholder protection and rights), followed by the environment (e.g., climate disclosures, and pollution and waste management), then social concerns (e.g., human capital management, and community engagement and social licence).

Figure 21: Engagement issues identified in portfolio companies

Engagement Issue	No. of Identified Issues
E—Carbon Risk and Climate Change	**3**
Climate Disclosures	3
E—Environmental Consideration	**6**
Natural Resource Usage	1
Other	2
Pollution and Waste Management	2
Water	1
S—Human and Social Capital	**8**
Bribery and Corruption	1
Comm. Engage. and Social Licence	2
Cyber Security	1
Human Capital Management, Labour Rates	3
Supply Chain Management	1
G—Corporate Governance	**20**
Board Diversity, Skills and Experience	2
Board Independence	8
Executive Remuneration	1
Other	2
Shareholder Protection and Rights	7
G—Strategic Risk and Communication	**1**
Business Strategy	1
Grand Total	**38**

Source: Franklin Templeton, as at 31 December 2024.

Figure 22: Identified company engagements by theme



Source: Franklin Templeton, as at 31 December 2024. Figures are rounded.

Active ownership

As investors with significant scale across emerging markets, our active ownership efforts are a key part of our overall approach to stewardship.

In 2024, we redefined what we mean by engagement, distinguishing between seeking change at a company and a discussion with a company on sustainability and governance issues. Our proprietary Emerging Markets Research Database (EMDB), where we document our research and record our company interactions, was adjusted accordingly. This enabled us to enhance our practice and outcomes, build more consistency and transparency and improve reporting to our clients.

Our engagement efforts focus on material issues that may affect the sustainability of earnings, as well as a company's operating model and strategy. Our analysts are in continual dialogues with companies on a range of topics, including operational performance, competition landscape, business outlook and company financials, among others. We also identify companies where we believe dedicated discussions and engagement on ESG topics can impact long-term performance.

2024 engagement statistics

ESG discussion/engagement
Identify material ESG issues and rationale for discussion/engagement

Objectives and process
Discussion—gathering ESG information or clarifying views
Engagement—seeking change through measurable ESG objectives

Outcome
Review outcomes, next steps and investment thesis

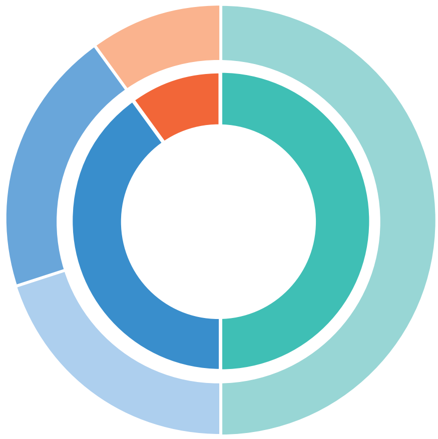
Figure 23: ESG discussions by topic

	Number of Interactions	Percentage of Interactions
Environment	**2**	**50%**
Carbon Risk and Climate Change	1	25%
Environmental Consideration	1	25%
Social	**1**	**25%**
Human and Social Capital	1	25%
Governance	**1**	**25%**
Corporate Governance	0	0%
Strategic Risk and Communication	1	25%
Total	**4**	**100%**

Source: Franklin Templeton.

Figure 24: ESG engagements topic

	Number of Interactions	Percentage of Interactions
Environment	**5**	**50%**
Carbon Risk and Climate Change	0	0%
Environmental Consideration	5	50%
Social	**1**	**10%**
Human and Social Capital	1	10%
Governance	**4**	**40%**
Corporate Governance	2	20%
Strategic Risk and Communication	2	20%
Total	**10**	**100%**



Source: Franklin Templeton.

Figure 25: ESG engagement outcomes

	Number of Interactions	Percentage of Interactions
Contact made by FTEME	2	20%
Contact acknowledged by entity	4	40%
Dialogue taking place between FTEME and entity	3	30%
Plan formulated	1	10%
Plan implemented by entity	0	0%
Measured and validated outcome	0	0%
No progress	0	0%
Total	**10**	**100%**

Source: Franklin Templeton. Figures are rounded.

Engagement undertaken in 2024

As active owners, we engage with companies not only on issues that we have explicitly identified for improvement, but also on other areas that help us to better understand their strategy and direction. Many of these areas will be related to sustainability and governance. The following pages feature examples where we have identified engagement issues formally through our three-pillar framework, as well as through other conversations with the companies.

Case study

China Mengniu Dairy

China Mengniu Dairy manufactures and distributes dairy products such as milk, ice cream, and milk powder in China.

Objectives:

As a manufacturer and distributor of dairy products, Mengniu operates in a high-impact sector, as identified by the TNFD (Taskforce on Nature-related Financial Disclosures), and is materially exposed to nature- and biodiversity-related risks.

Mengniu has made eight biodiversity related commitments aligned with the Global Biodiversity Framework. It offered some useful disclosures in its biodiversity report and has adopted a forest protection policy. However, we identified three specific areas for improvement, and we have engaged Mengniu to discuss further.

Outcome: Dialogue taking place between FTEME and entity

We recommended the following to help Mengniu better integrate nature-related risks into decision making, risk management, and disclosures:

- Clearer board oversight on nature.
- The expansion of Mengniu's TNFD 'Locate' assessment to identify the geographic locations of all direct operations and, where possible, those of their value chain partners.
- Disclose the TNFD core metrics, and the TNFD core metrics for the Food & Agri sector.

Our recommendations were acknowledged by the management. If carried out, they would help us assess Mengniu's future preparedness to manage nature and biodiversity risks. We will follow up with Mengniu ahead of the release of its next Nature-Related Information Disclosure Report to understand how the management of these risks has evolved.

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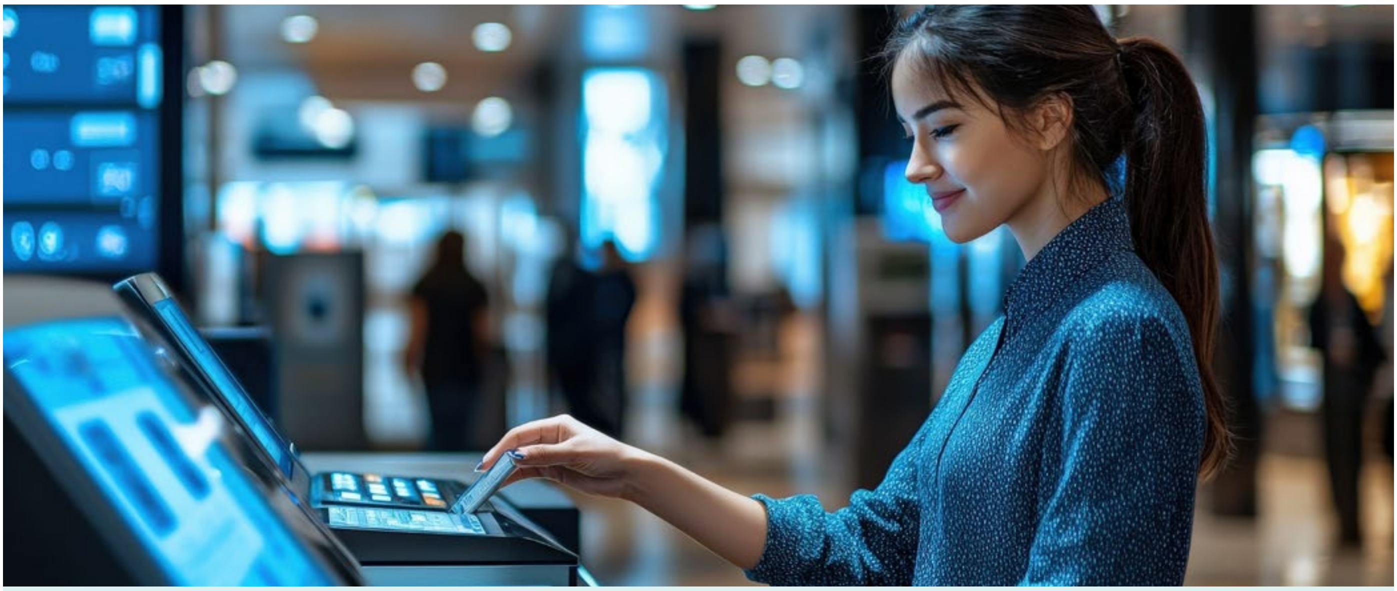
Case study	Banco de Oro



Banco de Oro (BDO) is the largest bank in the Philippines, with one of the largest branch networks.

Objectives:

As banking becomes increasingly digital, the risk of hacking and data breaches grows. We have engaged with BDO to learn more about their cybersecurity practices and to encourage them to have more explicit standards, such as a cybersecurity standards certification by a third party.

Outcome: Contact acknowledged by entity

BDO is supporting the cybersecurity initiatives of the Philippines, protecting critical infrastructure by making BDO cyber-resilient, and raising awareness of the importance of cybersecurity amongst its clients.

BDO's cybersecurity framework, policies and standards follow practices such as ISO 27001, National Institute of Standards and Technology (NIST) and Payment Card Industry Data Security Standard (PCI-DSS). However, we would like to see certification by more internationally recognised standards, and will continue to engage BDO on this matter.

Case study

Wuxi Biologics

WuXi Biologics provides a comprehensive and customizable range of services for the discovery, development and manufacturing of biologics.

Objectives:

We wrote to the board of WuXi Biologics to express our concern about the potential implications of the proposed Biosecure Act in the US, which aims to prohibit contracting with certain biotechnologies companies, including WuXi Apptec, its subsidiaries and parent affiliates.

We urged the board to be proactive and take further steps to alleviate the impact and put in place a suitable plan to safeguard the interests of all its stakeholders.

Outcome: Plan formulated

Our letter was followed by a call during which the management talked about various plans to ensure normal business operation and protect shareholders' rights.

As the legislation evolved, WuXi Biologics' board looked to respond by changing the corporate governance structure to clear its association with WuXi Group and make the company more global.

We continued to engage with WuXi's management throughout 2024 to monitor the proactive steps taken to respond to and mitigate the potential implications of the Biosecure Act.

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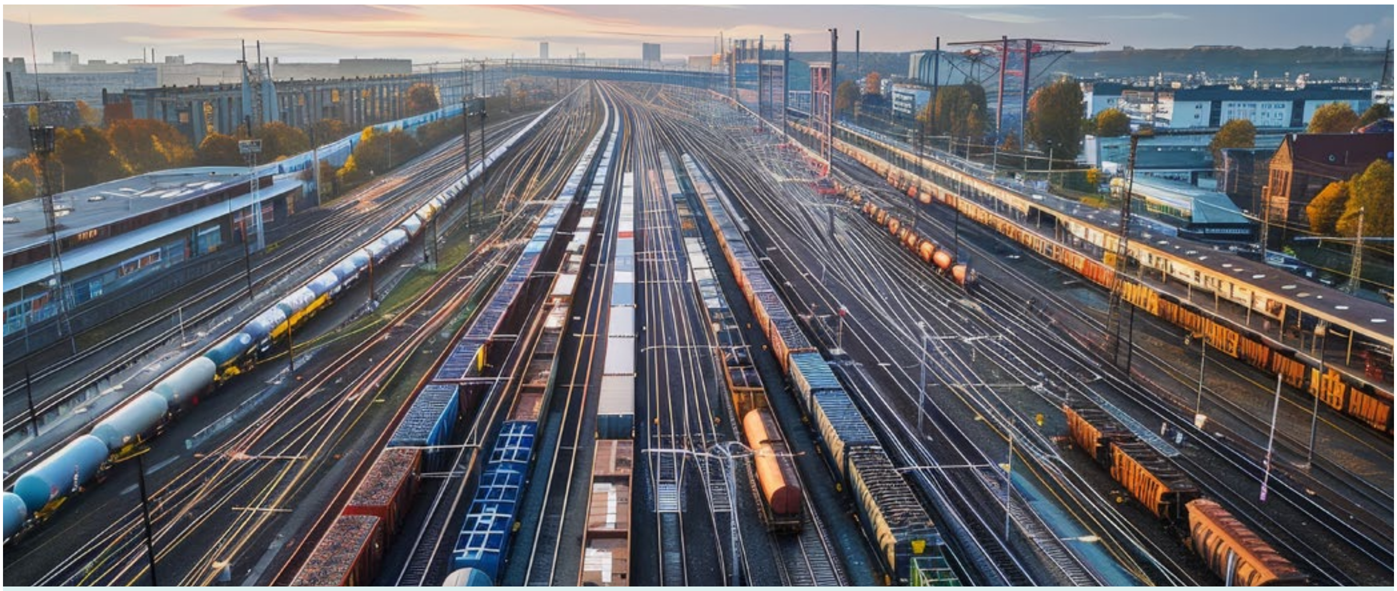
In 2024, we evolved our engagement framework to distinguish between ESG engagements and discussions. ESG discussions are not objective-based, but they help gather information on material ESG issues that are useful insights for our investment research.

Case study | Rumo



Company:

Brazilian logistics company focusing mainly on railway logistics.

Materiality

The rail transportation industry generates emissions mainly through the combustion of diesel in locomotive engines. Rail entities that implement fuel efficiency enhancements and manage emissions may witness reduced costs in both the short and longer term.

ESG discussion topic

Carbon risk and climate change.

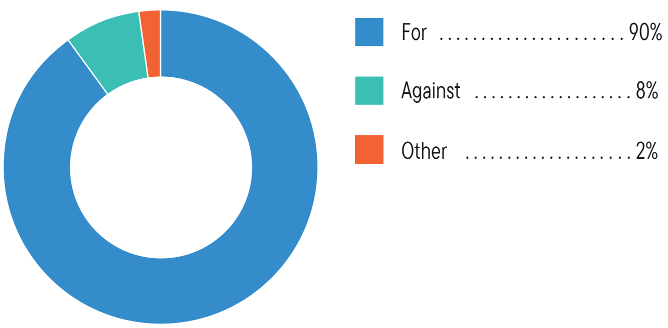
Discussion

We understood that Rumo has taken several measures to address climate-related risks including, but not limited to, setting up a carbon management team in 2021, the analysis of physical and transition risks, setting short and medium-term greenhouse gas emission reduction targets, and investment in innovative technologies such as the hybrid locomotive project. However, we wanted to learn more about Rumo's approach to carbon risk management and we received more detail on target setting, emissions reduction strategy, and future initiatives, capex and policies.

Proxy voting

Alongside company engagement, we view proxy voting as a key element of our responsibility as an active owner. Proxy voting helps us ensure that companies are managed in line with our ESG principles. All our voting decisions are made in-house by our investment team and are undertaken in accordance with our Corporate Governance Principles and in line with our clients' best interests.

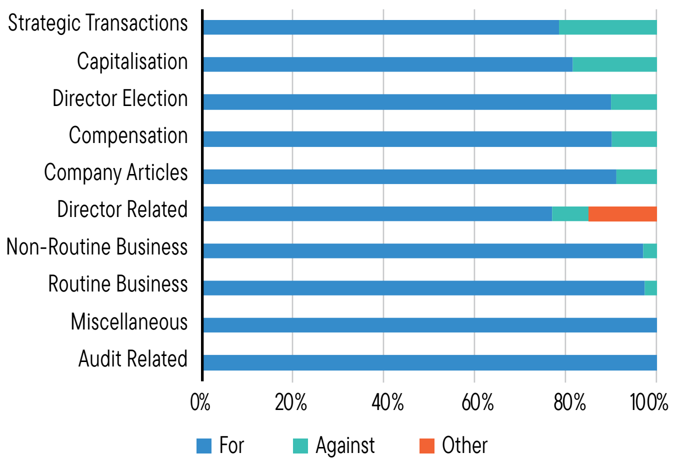
Figure 26: Voted on over 580 management proposals in 2024



Source: Franklin Templeton, Institutional Shareholder Services.

In 2024, we voted on 587 management proposals at annual and special general meetings. Most of these related to director appointments, routine business proposals and management compensation. We voted "For" proposals 90% of the time and "Against" in 8% of cases. We view votes against proposals as a formal way to communicate our views to management and undertake them based on our investment team's assessment of each motion in line with our clients' best interests.

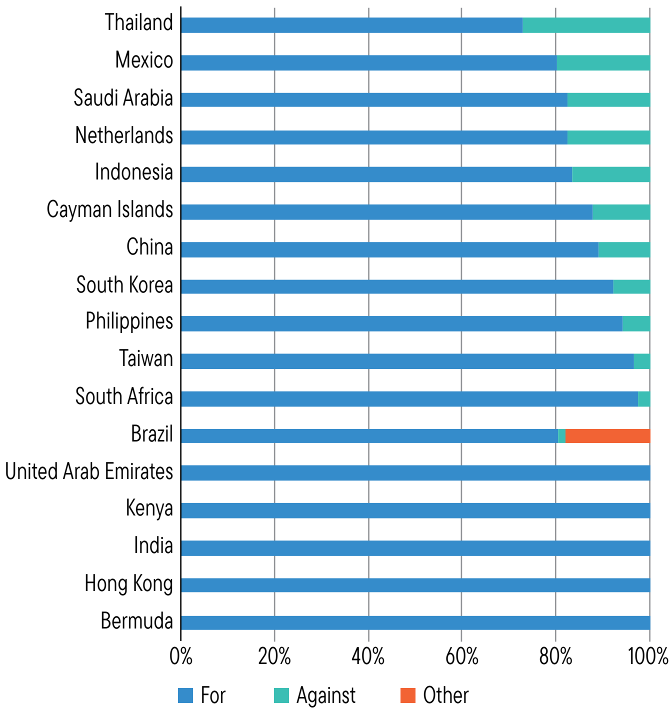
Figure 27: Management proposals votes by category in 2024



Source: Franklin Templeton, Institutional Shareholder Services.

Our against votes (involving 10 proposals or more by categories) have been concentrated around strategic transactions, companies' capital structure, director elections and compensation.

Figure 28: Management proposals votes by market in 2024



Source: Franklin Templeton, Institutional Shareholder Services.

Where "Other" votes were cast, these were director-related votes. In Brazil, for example, we abstained from voting either to allow us to concentrate our vote on a particular nominee, or as a result of a lack of disclosure at the time of voting.

The number of resolutions proposed by shareholders is increasing around the world, particularly on environmental and social issues, although they remain relatively uncommon in emerging markets. There were no environmental or social shareholder proposals over the year. However, we supported 21 governance-related proposals that were either audit or capital structure related. We will continue to closely examine the merits of views raised by fellow shareholders and vote accordingly.

Case studies

Company	**Guangzhou Tinci Materials Technology**
Vote Proposal	Approve provision of guarantees
Vote Instruction	AGAINST
Consideration	An AGAINST vote was warranted as we felt the level of guarantee to be provided to some of its subsidiaries is disproportionate to the level of ownership. The company failed to provide valid justifications in the meeting circular and thus we did not feel it was in the shareholders' interest to support this proposal.

Company	**Kimberly-Clark de Mexico**
Vote Proposal	Director election
Vote Instruction	AGAINST
Consideration	A vote AGAINST several directors was warranted due to concerns of overboarding; some directors were also sitting on more than five public company boards. Moreover, a vote AGAINST all nominees is warranted. Although the company disclosed the names of its director nominees, none of the proposed nominees are considered independent, failing to meet the expectations of institutional shareholders.

Company	**Prosus N.V.**
Vote Proposal	Approve renumeration report
Vote Instruction	Against
Consideration	We have been actively engaging the company's remuneration committee to discuss improving management remuneration for better alignment with minority shareholders. In 2023, we had concerns over the structure and measurement of performance share units (PSU), which accounted for 60% of the long-term incentive (LTI). In addition to existing consideration of the company's e-commerce portfolio value relative to a group of listed peers, we suggested incorporating gatekeeper metrics, such as CPI or dollar cash, if the peer group performs negatively. For the e-commerce valuation, we proposed a claw back if the valuation drops in later years. Additionally, we recommended giving more weight to total shareholder return in the performance metrics. In 2024, the company announced a new remuneration policy. We still had concerns around this new policy. An AGAINST vote was warranted because we considered the quantum of the total pay package high, the SAR (share appreciation rights) plan not sufficiently transparent, and the quantum of the discount-linked short-term incentive awarded excessive. This conversation is ongoing, and we expect to further engage on this topic.

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Part four

Putting it all together—building the portfolio and measuring outcomes

Key points

- Portfolio focused on emerging market companies that achieve our highest AA and AAA internal ESG ratings.
- Reporting structured to assess overall portfolio alignment to our six positive outcome areas and each underlying UN SDG.
- The highly specific social and environmental outcomes achieved by the fund can be measured and quantified to show investors what their holding is achieving.

Our unique three-pillar ESG process aims to provide the most robust and holistic approach available to identify sustainable equity opportunities across global emerging markets.

The final step is how we put these three elements together to rate companies overall and identify the best ideas for our portfolio. We have, therefore, developed a company scoring and rating system to ensure that we:

- **Focus on outcomes:** Our core focus is first and foremost on companies that provide goods and services that contribute to one or more of our six social and environmental positive outcome areas.
- **Manage ESG footprints:** We can see companies with good products and services, but their own ESG operational practices may need improvement.
- **Spot potential:** We can identify companies that currently have a strong sustainability profile and those that, with our targeted engagement, could in the future.

Our internal ESG rating

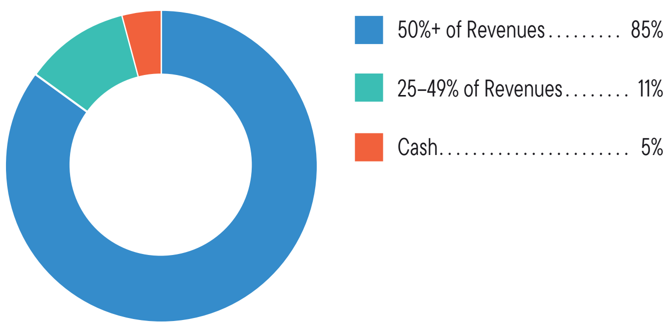
As we explained in Part Three of this report, companies are given a score on each of our three ESG pillars: alignment, intentionality and transition. To be considered for our portfolio, a company must achieve a certain minimum score on alignment, with at least 25% of its revenue aligning to, or on a visible trajectory to exceed 25%, of one of our social or environmental positive outcome areas.

Furthermore, to help stakeholders easily see where a company sits on the spectrum from poor to excellent, each company's aggregate score is translated into an alphabetical rating of CCC (lowest) to AAA (highest). Companies must have an internal ESG rating of at least 'A' for inclusion in the Templeton Emerging Markets Sustainability Fund.

Our analysis shows that most of our portfolio companies (85%) have over half their revenues aligned to one or more of our targeted positive outcome areas—see Figure 28. As at 31 March 2025, 77% of the Fund is held in companies with our highest internal ESG Ratings of AA or AAA—see Figure 29.

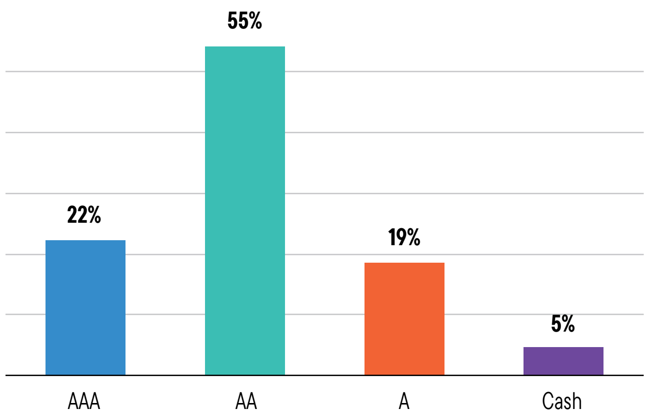
> **"To be considered for our portfolio, at least 25% of a company's revenue must align to, or be on a visible trajectory to exceed 25%, of one of our positive outcome areas. A company must also have an internal ESG rating of at least 'A'."**

Figure 29: Portfolio breakdown by alignment assessment to positive outcomes



Source: Franklin Templeton, as at 31 March 2025. Figures are rounded.

Figure 30: Portfolio breakdown by internal ESG rating



Source: Franklin Templeton, as at 31 March 2025. Figures are rounded.

Our individual portfolio holdings

As at 31 March 2025, the strategy had 46 holdings. The top 10 active weights accounted for 36% of the portfolio by assets. Seven of the top 10 holdings carry our highest internal ratings of AA or AAA, based on how they have scored in our three-pillar ESG scoring process

Figure 31: Our top 10 overweight positions by active weight*

Company	Country	Sector	% of Total	Active Weight (%)	Primary Positive Outcome Area	Internal ESG Rating	Primary UN SDG	Primary Positive Outcome Area Summary
ICICI Bank Ltd.	India	Financials	**5.6**	**4.5**	Basic Needs	AA	10 REDUCED INEQUALITIES	An Indian bank focused on providing credit to an underpenetrated urban and rural population.
BYD Company Limited Class H	China	Consumer	**4.2**	**3.4**	Climate Stability	A	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Produces electric vehicles and renewable energy technologies, supporting clean energy transition.
Discovery Limited	South Africa	Financials	**3.4**	**3.3**	Wellbeing	AA	10 REDUCED INEQUALITIES	Discovery's Life and Short Term insurance products provide a safeguard against unplanned catastrophe and protect against financial burdens. Digital banking also increases financial inclusion.
Apollo Hospitals Enterprise Limited	India	Health care	**3.2**	**3.1**	Wellbeing	AA	3 GOOD HEALTH AND WELL-BEING	Largest health care services group in India, offering hospital services, retail pharmacy chain and retail health care.
Alibaba Group Holding Limited	China	Consumer	**6.3**	**2.9**	Decent Work	AA	8 DECENT WORK AND ECONOMIC GROWTH	Operates e-commerce platforms, fostering economic growth and creating business opportunities.
Prosus N.V. Class N	China	Information Technology	**2.6**	**2.6**	Decent Work	A	8 DECENT WORK AND ECONOMIC GROWTH	Prosus's investments across e-commerce, payments and classifieds all empower SMEs to do business with a large user base in various countries.
BDO Unibank, Inc.	Philippines	Financials	**2.4**	**2.3**	Basic Needs	A	10 REDUCED INEQUALITIES	Largest full service universal bank in the country providing credit and financial services to an underbanked population.
Contemporary Amperex Technology Co., Limited Class A	China	Consumer	**2.4**	**2.3**	Climate Stability	AA	13 CLIMATE ACTION	CATL provides lithium batteries, which are fundamental to energy storage solutions in power generation through renewables and also in powering electric vehicles.
HDFC Bank Limited	India	Financials	**3.7**	**2.2**	Decent Work	AA	8 DECENT WORK AND ECONOMIC GROWTH	Largest full service universal bank in the country providing credit and financial services to an underbanked population.
Grupo Financiero Banorte SAB de CV Class O	Indonesia	Financials	**2.3**	**2.1**	Decent Work	AA	8 DECENT WORK AND ECONOMIC GROWTH	Microfinance lender with 56% market share in the SME/microfinance business. It focuses on low income and underbanked borrowers.

* As at 31 March 2025.

Factors that are considered when rating/scoring an issuer may be subjective and, consequently, the investment manager's or a third party's scoring may not always accurately assess the sustainability practices an issuer. Individual securities mentioned are not to be taken as advice nor are they intended as a recommendation to buy or sell any investment or interest. It should not be assumed that any securities transactions were or will be profitable. The analysis and opinions of the security discussed herein may change at any time. There is no assurance that any security purchased will remain in the portfolio, or that any security sold will not be repurchased.

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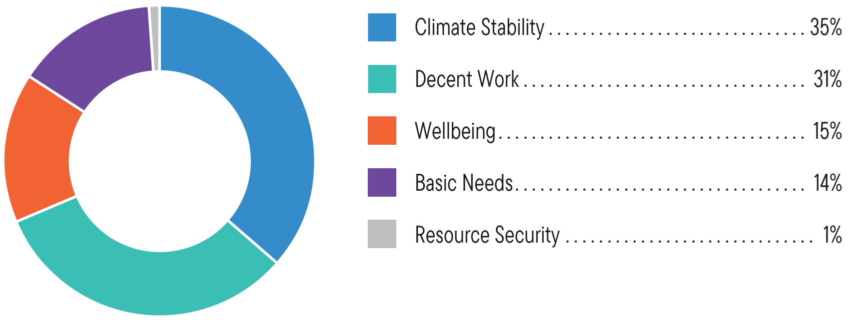
Our portfolio allocation by positive outcome area

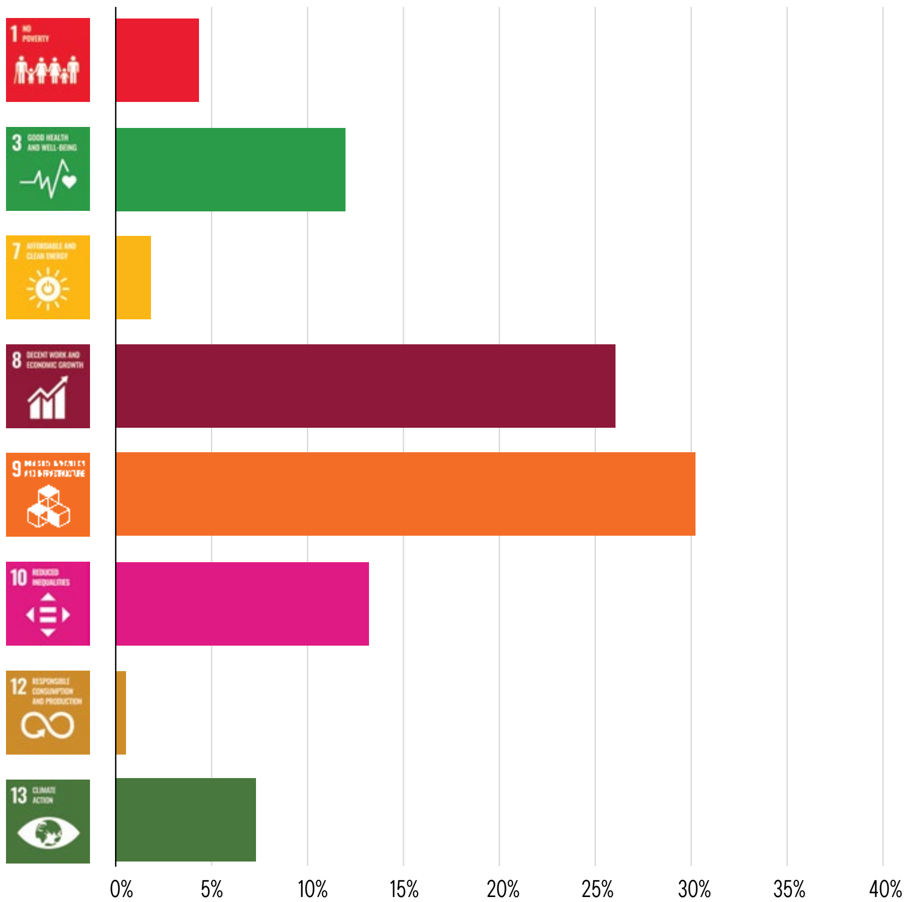
Alongside standard industry sector and geographical portfolio breakdowns, we look to report the portfolio's exposure to our six positive outcome areas. This is undertaken by breaking down our portfolio by company weighting and then by the primary positive outcome area and primary UN SDG to which each company is contributing. As explained in Part Three of this report, this is based on each company's main sources of revenue or other relevant income data.

Figure 32: Breaking down our portfolio by primary positive outcome area



Source: Franklin Templeton, as at 31 March 2025. Figures are rounded.

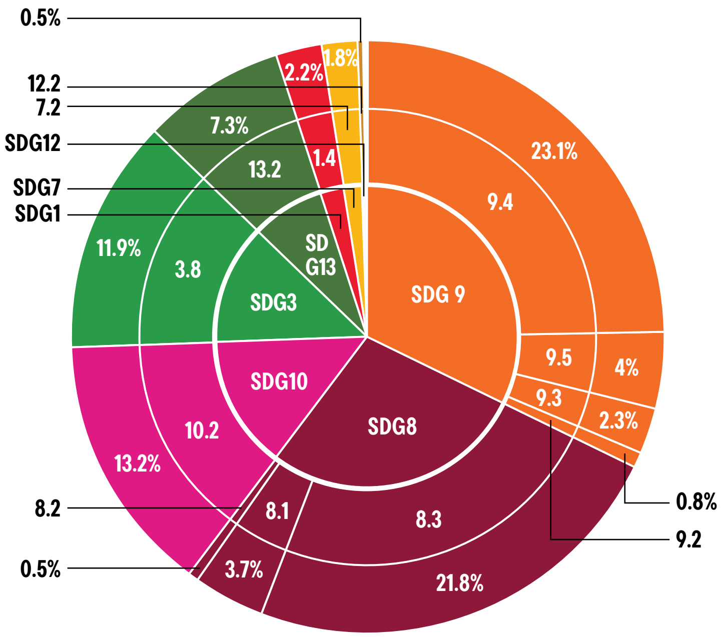
Figure 33: Breaking down our portfolio by alignment to the UN SDGs



Source: Franklin Templeton, as at 31 March 2025.

We recognise that the implementation of the 17 UN SDGs is supported by a framework of underlying indicators for which we have mapped the portfolio holdings.

Figure 34: Breaking down our portfolio by alignment to: 1) UN SDG, 2) UN SDG indicator, 3) % weight of portfolio linked to each indicator



UN SDG	UN SDG Indicator	% Weight	Description*
1	1.4	2.2	Ensure that all men and women, the poor and the vulnerable in particular, have equal rights to economic resources and access to basic services.
3	3.8	11.9	Achieve universal health coverage, including financial risk protection, access to quality essential health care services and access to safe, effective, quality, and affordable essential medicines and vaccines for all.
7	7.2	1.8	By 2030, increase substantially the share of renewable energy in the global energy mix.
8	8.2	0.5	Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.
8	8.3	21.8	Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro, small and medium-sized enterprises, including through access to financial services.
8	8.1	3.7	Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all.
9	9.2	0.8	Promote inclusive and sustainable industrialisation; significantly raise the industry's share of employment and gross domestic product, in line with national circumstances; and double its share in least developed countries.
9	9.3	2.3	Increase the access of small-scale industrial and other enterprises, in developing countries especially, to financial services. This includes affordable credit and their integration into value chains and markets.
9	9.4	23.1	Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes.
9	9.5	4.0	Enhance scientific research, upgrade the technological capabilities of industrial sectors, including encouraging innovation and substantially increasing the number of research and development workers.
10	10.2	13.2	Empower and promote social, economic and political inclusion of all.
12	12.2	0.5	Achieve the sustainable management, and efficient use, of natural resources.
13	13.2	7.3	Integrate climate change measures into national policies, strategies, and planning.

* Official descriptions have been adapted to ensure investment relevancy.

Source: Franklin Templeton, as at 31 March 2025.

An example of UN SDG mapping

Company	UN SDG	UN SDG Indicator
Safaricom	**10 – Reduced Inequalities**	**10.2**
Safaricom is the largest mobile telecom operator and leading broadband provider in Kenya. It also offers M-Pesa, a pioneering money transfer application which has been expanded to include various deposit, loan and merchant payment services.	Safaricom's products and services contribute to SDG 10, which aims to reduce inequality within and among countries. Its mobile voice, messaging and data offerings have enabled essential communications in a country with little landline infrastructure. It also has a mobile payments business that has brought financial inclusion in a market where banking penetration is low and bank branch network is small. Safaricom has also generated employment for more than 240,000 agents who act as a distribution network for customers wishing to withdraw cash or purchase airtime and data, among other services.	Safaricom has been able to transform lives and reduce inequalities. Through its provision of essential communications and payment services, Safaricom contributes to the objective of UN SDG Indicator 10.2, which is to promote social, economic, and political inclusion of all.

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Positive outcomes in numbers

To ensure the fund is delivering meaningful social and environmental outcomes, we assess both the beneficial products and services generated by our portfolio companies and how these are translating into positive social or environmental outcomes in the real world.

To do this, we assign each company a relevant sustainability indicator, which can be used to calculate what positive outcome is being achieved by its core activities over a given period in clear and measurable units. Often, this data is published in annual reports. If it is not publicly available, we will use our corporate access to get information from companies directly (see examples in Figure 34).

Figure 35: Sustainability indicators to measure company outcome

Type of Company	Positive Outcome Area (Typical)	Sustainability Indicator (Example)	Unit Measurement (per Annum)
Banks	Basic needs	No. of people provided with a specified service	Millions
Health Care	Wellbeing	No. of patients treated	Millions
Online Retail	Decent work	No. of users	Millions
Banks	Basic needs	No. of people provided access to microfinance services	Millions
Semiconductors	Climate stability	Amount of CO_2 avoided	CO_2/million tonnes
Service Providers	Decent work	No. of clients provided with services	Millions
Materials	Climate stability	Amount of renewable energy generated	GWh

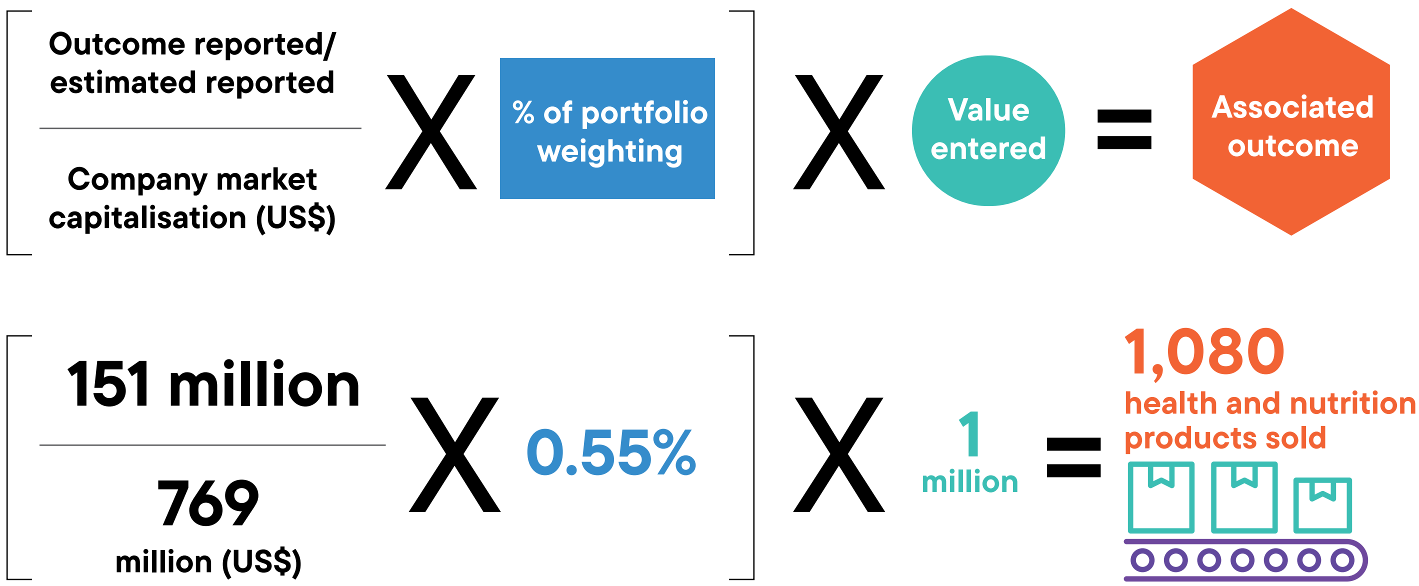
Calculating our portfolio outcomes

Based on our ownership stakes in each company, we use a formula to calculate and quantify the outcomes achieved by each of our holdings (see Figure 35).

Figure 36: Formula to calculate the positive contribution of a portfolio holding

Using a company's capitalisation, its reported or estimated outcome(s) and our portfolio weighting in that company, we can quantify the associated outcome to which our ownership stake contributes.

For example, the calculation in Figure 36 shows the primary outcome generated by a US$1 million investment in the Fund through our position in "Health and Happiness," which reports 151 million health and nutrition product sales in the last reporting year.



In turn, we can then calculate the aggregated outcomes across our entire portfolio. This enables us to indicate to investors, based on the portfolio's total assets under management, how their holding may translate into a range of positive outcomes over a given period. Figure 2, for example, shows some of the key outcomes we estimate to be achieved by a US$1 million investment in the fund.

Currently, 71% of the portfolio is measured to these specific outcome indicators. Certain companies are left out of this calculation as their activities fall outside these indicators. The data collected for this calculator is based on latest available annual data, or a reasonable assumption otherwise, as of 30 April 2025.

Figure 37: A US$1 million investment in the Templeton Emerging Markets Sustainability Fund would help...

Save
370 tonnes
of CO_2 emissions

Provide
47 people
with mobile phone services

Provide
97 people
with health care services

Provide
7,115 GWh
of renewable energy generation

Provide
383 GWh
of electric vehicle and energy storage system installed capacity*

Sell
3 new energy vehicles

Give
132 people or micro, small and medium-sized enterprises
access to microfinance services

Provide
153 people
with access to retail banking services

Provide
829 people
with access to internet services/users**

As at 30 April 2025.
* Electric vehicle and energy storage systems.
** May include daily, monthly or annual active users.
Note these outcomes are estimates only and are not guaranteed.

Final thoughts

A fund built to achieve our dual purposes

Templeton Emerging Markets Sustainability Fund is a unique fund in terms of its holistic approach to assessing companies on their external social and environmental outcomes, their internal ESG practices, and their scope for further improvement through shareholder engagement.

As we hope to have shown, the Fund's portfolio is already delivering measurable real-world outcomes–reducing carbon emissions, creating greater financial equality, meeting basic needs, and enabling worthwhile livelihoods. As corporate standards rise across emerging markets, and companies across these economies seek to play a central role in contributing to the UN SDGs, we are confident that this Fund's viable investment universe will continue to expand and deepen.

Mutually beneficial goals

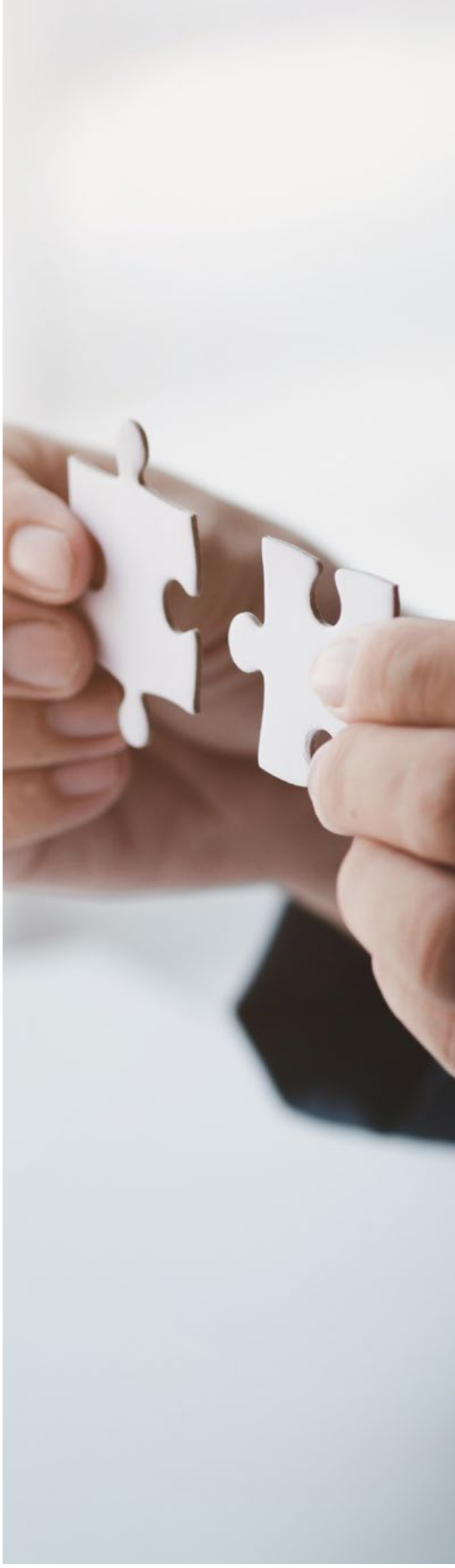
The Fund's dual purpose to deliver both long-term financial outperformance and significant real-world positive outcomes is ambitious and still revolutionary. We believe that delivering on this "double bottom line" is not just feasible, but that each goal supports the other; well-managed, financially sound companies are best positioned to deliver goods and services that generate positive outcomes. Companies that can play a pivotal role in addressing the world's most pressing social and environmental challenges, arguably, offer some of the greatest sustained earnings growth potential.

Next steps

Applying a sustainable investment approach that suits the characteristics of emerging markets and evaluates companies on all aspects of sustainability is not a single act, but a continual process.

We will continue to engage with companies across emerging markets to ensure that they keep raising their operational ESG standards, provide greater and accurate disclosure on the real-world outcomes delivered by their products and services, and focus their core activities on the social and environmental challenges the world urgently needs to solve.

As the world's emerging economies continue to grow, evolve, and diversify, we are excited about the role their home-grown companies can play in creating a fairer, healthier, and more sustainable planet. We are proud to be able to bring these companies to a wider investment audience through the Templeton Emerging Markets Sustainability Fund.



Appendix

Principal Adverse Impact (PAI) Statement

The fund has a sustainable investment objective in accordance with Article 9 of the Sustainable Finance Disclosure Regulation (SFDR). To ensure transparency around the portfolio PAI values, we disclose these values against the fund's index in this report for the first time. For further information on how this and other funds meet their SFDR obligations, please refer to our sustainability-related disclosures on the Franklin Templeton website: *https://www.franklintempleton.lu/our-funds/investment-topics-in-focus/sustainable-finance-disclosure-regulations.*

Figure 38: Templeton Emerging Markets Sustainability Fund vs. the MSCI Emerging Markets Index

Principal adverse sustainability indicators				**Templeton Emerging Markets Sustainability Fund**		**MSCI Emerging Markets Index, €**	
Climate & Other Environment-Related Indicators		**PF Aggregation***	**PF Aggregation Method**	**Impact**	**% Coverage**	**Impact**	**% Coverage**
1. GHG emissions [1]	Scope 1 GHG emissions Scope 2 GHG emissions Scope 3 GHG emissions	Sum of PF companies' carbon emissions – Scope 1/2/3 (tCO_2e) weighted by PF value of investment in a company (investor stake) and by the company's most recent EVIC.	Investor allocation	270 396 3,637	95 95 96	852 194 1,046	100 100 100
	Total GHG emissions	Sum of PF companies' total GHG emissions (S1, S2, S3)		**4,303**	**95**	**4,938**	**100**
	Scope 1+2 GHG emissions			666	95	3,892	100
2. Carbon footprint	Carbon footprint	Sum of PF companies' total GHG emissions (Scopes 1, 2 & 3) weighted by the PF's value of investment in a company and by EVIC, adjusted to show emissions associated with 1M EUR invested in the PF.	Weighted average (Normalised)	698	95	629	100
	Carbon footprint S1+2			57	95	133	100
3. GHG intensity of investee companies	GHG intensity of investee companies	PF weighted average of companies' total GHG emissions intensity per million sales (t/million sales).	Weighted average (Normalised)	698	95	1,269	100
	GHG intensity S1+2			208	95	321	100
4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	Sum of companies' weight in PF that have active fossil fuel sector exposure.	Percentage sum	0.5%	95	7.4%	100
5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption & non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage	PF weighted average of company percentage of non-renewable energy consumption and production to total energy use/generation.	Weighted average (Normalised)	81%	95	87%	97
6. Energy consumption intensity per high impact climate sector	Energy consumption in GwH per EUR of revenue of investee companies, per high impact climate sector	PF weighted average of company energy consumption intensity (GWh / million sales) per high impact climate sector (NACE code A, B, C, D, E, F, G, H, L).			**95**		**100**
	A B C D E F G H L	Agriculture, forestry & fishing Mining & quarrying Manufacturing Electricity, gas, steam & air conditioning supply Water supply; sewerage, waste management & remediation activities Construction Wholesale & retail trade; repair of motor vehicles & motorcycles Transportation & storage Real estate activities	Weighted Average (Normalised per category)	– – 0.43 0.39 – 0.22 0.08 2.12 –		0.47 2.28 0.89 19.67 1.12 0.41 0.15 4.79 0.27	
7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas	Sum of companies' weight in PF that have Company has operations located in biodiversity sensitive areas and is involved in controversies with severe impact on the environment.	Percentage sum	3.4%	93	4.4%	99
8. Emissions to water	Tonnes of emissions to water generated by investee companies per EUR invested, expressed as a weighted average	Sum of PF companies' water emissions (metric tonnes) weighted by the value of investment in a company divided by company's EVIC, adjusted to show water emissions associated with 1 EUR invested in the PF.	Weighted average (Normalised)	–	7	–	6
9. Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per EUR invested, expressed as a weighted average	Sum of PF companies' hazardous waste (metric tonnes) weighted by the value of investment in a company divided by the company's EVIC, adjusted to show the hazardous waste associated with 1 EUR invested in the PF.	Weighted average (Normalised)	0.3	95	1.9	100
Social & Employee, Respect for Human Rights, Anti-Corruption & Anti-Bribery matters		**PF Aggregation***	**PF Aggregation Method**	**Impact**	**% Coverage**	**Impact**	**% Coverage**
10. Violations of UN Global Compact principles & Organisation for Economic Cooperation & Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	Sum of companies' weight in PF that have Very Severe violation of the UN Global Compact.	Percentage sum	0.0%	93	1.0%	100
11. Lack of processes & compliance mechanisms to monitor compliance with UN Global Compact principles & OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	Sum of companies' weight in PF that have no evidence of mechanism to monitor compliance with the UN Global Compact.	Percentage sum	0.0%	95	0.9%	100
12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	PF weighted average of company gender pay gap ratio.	Weighted average (Normalised)	14.1	75	15.2	85
13. Board gender diversity	Average % of board members who are female in investee companies	PF weighted average of company board gender diversity – % of board members who are female.	Weighted average (Normalised)	26.3	95	20.4	95
14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons & biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	Sum of companies' weight in PF that have exposure to controversial weapons ($landmines, cluster munitions, chemical weapons & biological weapons).	Percentage sum	0.0%	95	0.7%	100

Source: MSCI, as at 31 March 2025.
Portfolio-level calculations follow MSCI portfolio aggregation guidance.
1. Carbon Emissions (metric tonnes) – Scope 1, 2: company-reported GHG emissions, otherwise estimated. Scope 3: estimated.
* For each PAI, portfolio weights are normalised when corresponding data coverage is less than 100% (Underlying input).

What are the key risks?

The value of shares in the Fund and income received from it can go down as well as up and investors may not get back the full amount invested. Performance may also be affected by currency fluctuations. Currency fluctuations may affect the value of overseas investments. The Fund invests in equity securities of companies of emerging nations presenting sustainable competitive advantages in their respective sector both from an ESG and performance indicators perspectives. Such securities and investment instruments have historically been subject to price movements due to such factors as general stock market volatility, sudden changes in interest rates, changes in the financial outlook or perceived credit worthiness of securities issuers, or fluctuations in commodity prices or real estate values. As a result, the performance of the Fund can fluctuate significantly over relatively short time periods. Other significant risks include: **Sustainability risk:** The fund's integration of sustainability risks in the investment decision process may have the effect of excluding profitable investments from the investment universe of the fund and may also cause the fund to sell investments that will continue to perform well. A sustainability risk could materialise due to an environmental, social or governance event or condition which may impact the fund's investments and negatively affect the returns of the fund. **Foreign currency risk:** the risk of loss arising from exchange-rate fluctuations or due to exchange control regulations. **Chinese market risk:** in addition to typical risks linked to emerging markets, investments in China are subject to economic, political, tax and operational risks specific to the Chinese market. Please also refer to the prospectus for China QFII risk, bond connect risk and Shanghai-Hong Kong stock connect and Shenzhen-Hong Kong stock connect risk. **Emerging markets risk:** the risk related to investing in countries that have less developed political, economic, legal and regulatory systems, and that may be impacted by political/economic instability, lack of liquidity or transparency, or safekeeping issues. **Liquidity risk:** the risk that arises when adverse market conditions affect the ability to sell assets when necessary. Such risk may be triggered by (but not limited to) unexpected events such as environmental disasters or pandemics. Reduced liquidity may have a negative impact on the price of the assets.

For full details of all of the risks applicable to this Fund, please refer to the "Risk Considerations" section of the Fund in the current prospectus of Franklin Templeton Investment Funds.

IMPORTANT DISCLOSURES

This fund meets the requirements under Article 9 of the EU Sustainable Finance Disclosure Regulation (SFDR); the fund has an objective to make sustainable investments as defined in SFDR. Further information in relation to the sustainability-related aspects of the Fund can be found at franklintempleton.lu/SFDR. Please review all of the fund's objectives and characteristics before investing.

For UK Investors: This product is based overseas and is not subject to UK sustainable investment labelling and disclosure requirements.

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Subscriptions to shares of the Fund should only be made on the basis of the Fund's current Prospectus, and, where available, the relevant KID/KIID, accompanied by the latest available audited annual report and the latest semi-annual report if published thereafter. These documents can be found on our website at www.franklinresources.com/all-sites, obtained, free of charge, from your local FT representative or can be requested via FT's European Facilities Service which is available at www.eifs.lu/franklintempleton.
The Fund's documents are available in English, Arabic, French, German, Italian, Polish and Spanish.

In addition, a Summary of Investor Rights is available from www.franklintempleton.lu/summary-of-investor-rights. The summary is available in English.

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