Franklin Templeton Emerging Markets Equity

Stewardship & Sustainability Report 2025

> "We recognise that sustainability and governance factors can have a material impact on the long-term financial performance of a business; they are therefore integral to our investment process and inform our long-term active engagement with companies and policy makers."

Foreword

"As stewards of clients' assets, we believe that material governance and sustainability factors directly impact company valuations."

Manraj Sekhon
Chief Investment Officer

Welcome to the fourth Franklin Templeton Emerging Markets Equity (FTEME) Stewardship & Sustainability Report. As CIO and Chair of the FTEME Stewardship & Sustainability Council, it gives me great pleasure to share the evolution and progress in our stewardship and sustainability practices over the past year.

This report incorporates the collective efforts and expertise of our 70+ investment professionals in 13 countries. Our in-depth local knowledge and global perspective gives us the ability to identify investment opportunities, often before they are recognized by the market.

Since our last report, we have witnessed a new president enter the White House leading to a changed geopolitical landscape and growth outlook. Economic uncertainty has increased, and global supply chains remain in flux. Whilst these dislocations are challenging in economic terms, they also present opportunities, underlining the importance of our fiduciary responsibility. This includes maintaining a long-term perspective and active engagement with companies we invest in, through the lens of financially material sustainability and governance factors.

This report features case studies of 25 companies across 9 sectors in 12 markets; covering sectors such as healthcare, materials, and financials; across markets as diverse as India, Brazil and South Africa. It takes an in-depth look at climate change and how governments in emerging markets will need to adopt growth-enhancing fiscal and structural reforms that promote low-emission, resilient investments.

In this year's review we include details of the enhancements to our effective engagement criteria. We have developed clearer guidelines for what is classified as an ESG engagement and an ESG discussion. An ESG engagement is a targeted interaction to influence change related to material topics, with clearly defined objectives against which to measure progress. This contrasts with an ESG discussion, which is an interaction to gather material ESG information through a company call, meeting or a one-time, short-term discussion.

As stewards of clients' assets, we believe that material governance and sustainability factors directly impact company valuations. We have incorporated a section giving specific examples of how these factors impact individual companies and our assessment of the effect on our financial models.

Our on-the-ground presence across the emerging world has enabled us to build strong local relationships and the ability to engage in effective long-term dialogue with management teams. We recognise that sustainability and governance factors can have a material impact on the long-term financial performance of a business; they are therefore integral to our investment process and inform our long-term active engagement with companies and policy makers.

Our journey as active investors continues to evolve. The changed geopolitical landscape and growth outlook underlines why our role as active on-the-ground investors in emerging markets is critical in delivering the right outcomes for our clients.

Contents

2024 in numbers

>8,000
Management proposals voted on

10%
Management proposals voted against

1,994
Company meetings

118
ESG interactions*
56 ESG discussions
62 ESG engagements

24%
ESG engagements actioned upon

6
Components to our Stewardship & Sustainability Program

70+
Investment professionals in
13
countries

25 years
Average experience of Stewardship & Sustainability Council members

7
Regional engagement coordinators

* Please refer to page 28 of this report for definitions of ESG discussions and ESG engagements.
The figures referenced in the report apply to assets managed by the FTEME team and do not reflect statistics for other managers associated with Franklin Templeton. The team's assets under management (AUM) were US$36.7 billion as at 31 December 2024. Note that some of the data in the report may not be representative of the total AUM we manage due to the legal entities captured.

Stewardship and sustainability at Franklin Templeton Emerging Markets Equity

At FTEME, our focus on safeguarding client assets through our stewardship and sustainability efforts continues to shape the investment landscape of tomorrow.

Scale and expertise

Our 70+ investment professionals in 13 countries, local relationships and in-depth knowledge of the local regulatory landscape give us the ability to identify investment opportunities beyond the mainstream, often before they are recognised by our peers. We are industry leaders with the breadth and reach to cover more than 700 emerging market companies.

This year's Stewardship & Sustainability Report includes 25 case studies across 9 sectors and 12 markets. In comparison, last year's report had 26 case studies across 12 markets and 10 sectors. The companies discussed have been chosen to demonstrate our process within the FTEME governance and sustainability frameworks and are not indicative of future performance.

Local insights with a global perspective

In whatever country or region our analysts are conducting research, they are part of the local culture and fabric of the societies where they operate. For example, they will always speak the local language. Our locally generated insights and industry knowledge are enriched by the broad expertise of our globally-integrated team.

Why do we do it and what does it mean to us?

Part of being a responsible steward is acknowledging that governance and sustainability factors create risks and opportunities for companies. It therefore makes sense to integrate these factors as a key element of fundamental, bottom-up analysis, and engage with companies as active owners on behalf of our clients. Being responsible stewards of our clients' capital is reflected in:

- **How we act as investors**
  - – ESG integration
  - – Company engagement
  - – Policy advocacy
- **How we treat our clients**
  - – Putting clients first
  - – Being responsible fiduciaries of our clients' capital
- **How we behave as a business**
  - – Building relationships
  - – Achieving quality results
  - – Working with integrity

FTEME geographic footprint

Argentina	India	The United Kingdom	Türkiye	Brazil
Singapore	Romania	The United Arab Emirates	China	Malaysia
Poland	Saudi Arabia	South Korea		

As at March 31, 2025.

FTEME Stewardship & Sustainability Council

> **"The Council serves as a vital platform for us to engage in discussions, debates and deliberations regarding our approach to and implementation of our stewardship and sustainability initiatives, with an emphasis on what is best for client assets."**

Andrew Ness
Portfolio Manager and Deputy Director of Research

The Stewardship & Sustainability Council (the Council) sets the strategy and execution roadmap for our stewardship and sustainability activities. It discusses and assesses proposals to establish or amend policies and strategy, integrating feedback from the broader investment team. The Council also decides on the digital infrastructure and people resources needed for regulatory requirements, client expectations and best-in-class reporting across our stewardship and sustainability activities.

FTEME Stewardship & Sustainability Program

Component	Initiatives
Strategy	• Partnering with the Franklin Templeton organization on its corporate sustainability journey • Adhering to upcoming global regulations • Understanding future client requirements
Policies	• Enhancing our proxy-voting process • Adapting our climate workflow
Embedded Investment Process	• Enhancing our engagement process and infrastructure • Identifying new areas of sustainability research • Continued learning through participation of industry experts at our research calls and dedicated offsites
Product	• Designing products to meet client requirements • Presenting Sustainable Finance Disclosure Regulation 2019/2088 (SFDR) upgrade requirements • Principal adverse impact monitoring • Understanding the implications of the FCA's Sustainability Disclosure Requirements (SDR) and investment labels
Marketing	• Thought leadership roadmap
Client Reporting	• Meeting client requirements

Council membership

Manraj Sekhon
Chief Investment Officer
30 years of industry experience

Andrew Ness
Portfolio Manager and
Deputy Director of Research
30 years of industry experience

Yu-Jen Shih
Portfolio Manager and
Deputy Director of Research
27 years of industry experience

Bassel Khatoun
Portfolio Manager and
Director of Research
22 years of industry experience

Preyesh Patel
Head of Sustainability & Stewardship
17 years of industry experience

Sustainability efforts throughout our organization

Centered on our investment teams

Our client-centric approach to sustainability is aligned with our fiduciary duty and rooted in the following core principles:

1. To hold others accountable, we must also hold ourselves accountable for good stewardship and sustainability practices.
2. Sustainability considerations and stewardship focused on financially material factors are integral to the investment process. We have embedded sustainability resources into our investment teams.
3. Our investment teams benefit from leveraging our scale through accessing scalable sustainability resources and participating in internal forums for collaboration.
4. Strong oversight and governance across the company and the investment organization are imperative.

Through these principles, we ensure that we have the capabilities to cater to varied client needs.

Investment Sustainability Solutions Team (ISST)

The ISST is a multidisciplinary group of sustainable investment professionals with expertise in sustainability data, stewardship and engagement, and sustainability policy and reporting.

The team is led by Dr. Jennifer Willetts, Head of Investment Sustainability Solutions. David Sheasby, Head of Stewardship, Sustainability, and Impact at Martin Currie, serves as Strategic Advisor.

The ISST provides guidance and services to our investment teams and other key stakeholders across the firm through their sustainability subject matter expertise. Their role is to support the needs and priorities of our investment teams, and their clients, in their consideration and integration of investment sustainability.

Data & Research	Drives sourcing and integration of data, development of analytical tools, and thematic research.
Policy & Reporting	Engages multiple stakeholders on sustainability policy and regulatory reporting matters.
Stewardship & Engagement	Supports investment teams on engagement and proxy voting research and thematic issues.

Overcoming the information gap in emerging markets

FTEME's extensive experience in emerging markets and engagement with company management teams provides us with deep insights into companies' journey to improve governance and sustainability, as well as the incremental changes they are experiencing.

Corporate disclosures in emerging markets are uneven and broadly lag those in developed markets. Investors relying solely on published information to assess emerging market companies' sustainability plans risk missing the incremental change in trends. Our on-the-ground presence and local relationships give us the edge when it comes to spotting these changes ahead of others.

Observations on disclosures by emerging market companies

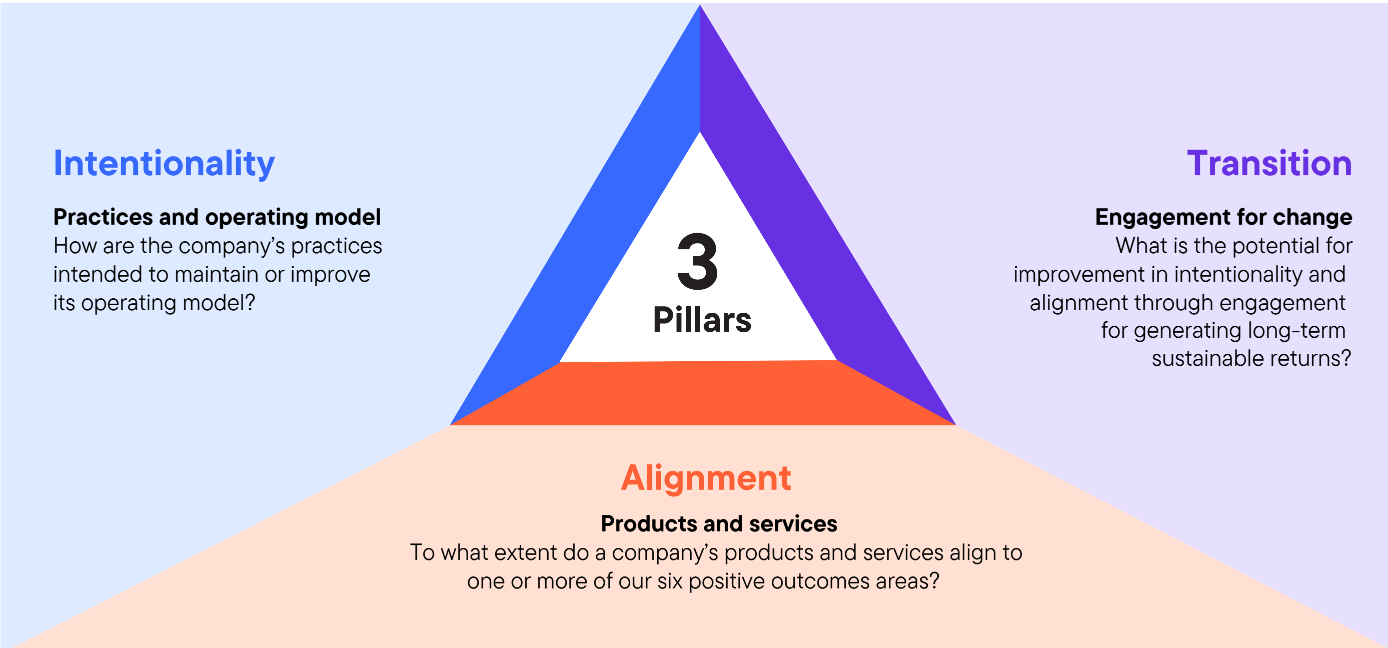
- Emerging market companies are not always behind their developed market peers in ESG disclosure. We observe increasing openness among emerging market companies in recent years.
- Market-wide governance and sustainability policies are gaining ground in the developing world. We expect this trend to drive improved disclosures and public accountability.
- The relationships of trust we have built often allow us to discuss material issues and help drive change. Some of the most overlooked sustainable investment opportunities in emerging markets potentially lie with companies making incremental improvements on these issues.

Information sources

Our primary sources for gathering information on governance and sustainability factors are:

- Engagement with management
- Financial statement analysis
- Corporate reports
- Reference to third-party providers dedicated to ESG research such as MSCI and Sustainalytics

Our proprietary three-pillar ESG framework



Our proprietary three-pillar ESG research framework is an assessment tool that has further enhanced our ability to identify financial risk and opportunities.

Intentionality

Assessing companies' intentionality toward managing material ESG factors with our proprietary scoring system and linking ESG factors to our valuation models.

Alignment

Mapping the alignment of companies' products and services to positive social and environmental outcomes as well as United Nations Sustainable Development Goals (SDGs).

Transition

Identifying companies' transition potential linked to their incremental progress, using our on-the-ground capabilities and experience as active owners to foster positive change.

Our proprietary three-pillar ESG framework is an assessment tool that has further enhanced our approach to sustainability and is codified within our analytical database. We began rolling this enhanced framework out across our research coverage of over 700 companies in 2021.

Basis of intentionality

How are a company's practices intended to maintain or improve the ESG footprint of its operating model?
By integrating ESG analysis with traditional business and financial analysis, we seek to gain insights into the quality and risks of the companies we invest in. This allows us to identify those business models most likely to resist competitive pressure and maintain high returns.

We can also better understand management's ability to generate sustainable earnings, understand their motivations and determine whether their interests are aligned with minority investors.

Guided by our ESG Sector Framework Guides, our analysts seek to identify financially material governance and sustainability issues. The frameworks have been informed by the Sustainability Accountings Standards Board (SASB) and identify the minimum set of governance and sustainability issues most likely to materially impact the operating performance or financial condition of a typical company in its industry group. Our analysts assess an individual company's intentionality to manage the ESG footprint of its operating model, based on material risks and opportunities.

Intentionality research framework

Our analysts identify material ESG issues, in a process guided by our proprietary ESG Sector Framework Guides. Below is an example of how we assess ESG issues for the materials sector.

ESG sector framework: Materials

Based on the ESG Sector Framework Guides, we divide the materials sector into two industry groups: Metals & Mining and Forestry are placed under the Materials Extraction group; while Chemicals, Construction Materials, Containers & Packaging and Paper Products make up the Materials Processing group. In our view, this division allows a comprehensive assessment of the most critical ESG issues across the sector.

To assess intentionality in the Materials Processing industry, we consider the following governance and sustainability issues:

- **Environmental priorities:** Companies in the materials sector rely heavily on resources such as energy and water. These companies will need to limit the use of such resources or develop alternative technologies. Resource efficiency is key for their long-term operational sustainability, helping to improve business margins while enhancing management quality and resilience against future constraints. Meanwhile, emissions trading schemes (ETS) are used to combat rising greenhouse gas (GHG) emissions in the materials sector and essentially put a price on pollution. This is particularly relevant in China and Europe, where the cost of GHG emissions is increasing.
- **Social priorities:** Companies involved in materials processing often deal with hazardous substances and face elevated health risks. Without mitigation, these risks may lead to wide-ranging impact on employee morale, company reputation and insurance payments. Dependence on substances of very high concern (SVHC) which are potentially subject to bans can also create supply chain uncertainty.
- **Governance priorities:** A company's sustainability goes across its supply chain. Thus, management of materials processing companies must have supply chain oversight to avoid exposure to severe ESG risks, ranging from child labor, environmental degradation to corporate corruption. In addition, these companies must proactively address the risks and capture the opportunities arising from low-carbon transition. This is a priority particularly for the materials processing industry, where certain products may be at risk of being phased out, causing business disruptions. Success on this front may instead provide competitive advantages.

Key research considerations: Materials processing industry

Environmental	Social	Governance
Resource management Energy, water and waste management	**Health & safety** Hazardous substance management, workforce health & safety, product safety & quality	**Supply chain management** Oversight and management of supply chain
GHG emissions		**Product innovation** Ability to adapt product offering, sustainability trend monitoring

Topic	Impact	Signals
Energy management	Materials companies can increase profits through investments in more efficient energy usage. Greater energy efficiency creates savings and mitigates supply side risks, should energy become more expensive amid a transition towards a carbon-neutral world. Furthermore, being energy efficient can reduce regulatory risk exposure.	• Energy intensity statistics/trend. • Renewable energy use. • Capital expenditure (capex) on infrastructures and equipment to reduce energy usage, such as insulated buildings, aero dynamic lorries and efficient machinery.

Governance

We systematically assess corporate governance factors as part of our intentionality assessment.

Corporate governance is a broad subject with varying definitions depending on whether one looks at it from a company or country lens. We think, at its core, corporate governance determines how well companies are able to operate in the longer-term interests of all shareholders.

We see few substitutes for first-hand, bottom-up research when it comes to assessing corporate governance. Through local company visits, face-to-face interactions with management and other forms of fieldwork, active investors are more likely to gain a richer understanding of companies' attitudes to governance and their appetites for reform.

Governance can also have an impact on stock valuations. The market has typically discounted companies with poor governance conduct. Conversely, companies perceived by the market as having best-in-class governance can benefit from premium valuations.

Corporate governance is just one factor out of many that can affect a company's prospects and valuation. We think investors should assess a firm's governance alongside traditional financial measures to form a comprehensive view of potential investment returns and risks.

As part of our three-pillar ESG framework, under intentionality we systematically assess corporate governance factors irrespective of the industry a company operates in.

Governance factors

Board

- Effectiveness/skills/oversight.
- Independence/tenure/over boarding.
- Diversity.

Leadership

- Management quality (inc. diversity) and sustainability (inc. climate) strategy.

Controversies

- Past scandals.

Ownership structure

- Ownership structure (e.g. related party transactions, cross shareholdings, dual class shares).
- Takeover provisions.
- Capital issuance/dilution.

Accounting

- Audit and reporting (e.g. aggressive accounting practices).

Executive pay

- Alignment to shareholder interests.

Intentionality case study	Hoa Phat

Hoa Phat (HPG) is the leading construction steel and steel pipes company in Vietnam.

ESG topic	**Energy management**
Materiality and risk	Steel production requires a significant amount of energy. Effective energy management may improve energy efficiency, reduce sustainability risks and enhance profitability. For HPG, adopting alternative energy sources and optimizing current energy usage is essential in addressing environmental challenges and maintaining cost-effectiveness.
Energy saving technologies	The company's circular economic model aims for effective use of natural resources throughout the value chain, from production to consumption and recovery. It promotes the use of high-tech solutions to optimize the use of resources, minimize waste, limit emissions and develop sustainably. • For the production of "green" steel, HPG uses modern environmental protection equipment which reduces coal and electricity consumption. • HPG implements multiple energy-saving solutions, such as recovering residual heat from coke ovens and blast furnaces to generate electricity. It has achieved over 90% self-sufficiency in electricity for steel production.[1] • HPG complies with all national GHG requirements and meets the ISO 14064-1:2018 standard, which is a robust framework for quantifying, calculating and reporting GHG emissions. • HPG plans to work with the world's leading metallurgical partners to research and implement a carbon-neutral metallurgical technology roadmap.
ESG thesis	Given HPG's efforts in mitigating the environmental impact of steel production, we have incorporated a relatively high value for its steel factory capex in our model to account for its high environmental facilities investment. In HPG's closed-loop steel production process, the output of one stage is the input for another. This helps the company to effectively use natural resources throughout the value chain, limit emissions and protect the environment, while optimizing production efficiency and increasing product competitiveness. As such, HPG is aligned with global sustainability standards and is considered a leader in sustainable steel manufacturing in Vietnam.

1. Source: Hoa Phat press release, "Hoa Phat ranked among the Top 10 strong brands – excellent business 2024." October 17, 2024.

The case studies discussed in this report were chosen to reflect the investment process at FTEME. They do not constitute recommendations. This is not a complete analysis of every material fact regarding an industry or security. 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. Factual statements are from sources deemed reliable but have not been independently verified for completeness or accuracy. These opinions may not be relied upon as investment advice or recommendations or an offer for a particular security or as an indication of trading intent for any FTEME strategy. Case studies are used for illustrative purposes only and should not be construed as an endorsement of or affiliation with Franklin Templeton.

Intentionality case study

Spinneys

Spinneys operates grocery supermarkets in the UAE and Oman, focusing on food items (85% of revenue).

ESG topic	**Supply chain management**
Materiality and risk	The supply chain is a significant part of the potential risks faced by consumer staples companies. Lack of supply chain oversight can result in sourcing from environmentally degrading and unsustainable producers. Unsustainable supply chains are more vulnerable to disruptions such as government intervention and reputational damage, which may in turn incur higher costs.
Tracing the supply chain	End-to-end supply chain traceability in the consumer staples sector is difficult due to its global and complex nature. In response, Spinneys has introduced the Sourcing for the Future plan, which provides additional supplier sustainability standards, checks and audits to enhance supply chain traceability and visibility. • 93% of Spinneys' beef supply chain is traced as of 2023. It aims to achieve 100% traceability for the beef supply chain by 2024, followed by sugar, paper and soy by 2025.[2] • Spinneys is a member of the Roundtable on Sustainable Palm Oil (RSPO). • Spinneys' local business incubator program sources products from 75–100 small businesses annually, helping to develop food self-sufficiency. • Spinneys' Private Label Policy criteria, which define the company's standards covering food safety, consumer health and product quality, are reviewed annually to ensure global and local standards compliance.
ESG thesis	Identifying and addressing sustainability issues is high on Spinneys management agenda. The company is already an efficient operator, due to effective supply chain management. Looking ahead, Spinneys aims to become net zero on its own operational emissions by 2040, while the board is targeting to embed sustainability KPIs into specific management targets and set up a dedicated steering committee in the next two years. This will further enhance the accountability of sustainability issues within its operations. Overall, the company operates with supply chain sustainability and accountability in mind. Thus, we don't think a valuation premium or discount is warranted.

2. Source: Spinneys Sustainability Commitment Report 2024, May 2024.

Intentionality case study	ICTSI

International Container Terminal Services, Inc. (ICTSI) is a global port management company headquartered in Manila.

ESG topic	Corporate governance
Materiality and risk	Poor corporate governance may erode company culture and cause reputational risks. It may also lead to misaligned interests relative to minority shareholders.
Strong management quality	ICTSI has good management quality and its remuneration policies are aligned with minority shareholder interests. In terms of board diversity, board independence and ownership, it is average compared to peers. • Three out of seven board directors are independent. • ICTSI's founding family still owns a majority stake; the company is considered a family business with family members holding senior management and board of director roles. • ICTSI, nonetheless, benefits from extensive board and management experience in key areas of port management, such as finance and engineering. • Other favorable factors include a deep management talent bench with well-defined roles and responsibilities, and strong communication of sustainability initiatives.
ESG thesis	ICTSI manages corporate governance issues appropriately and is average amongst peers, but with clear areas for improvement. The company has a high-quality board and management team with extensive experience. However, we would like to see an increase in board diversity and board independence, as well as further efforts to address the over-boarding risk. The company has increased its sustainability efforts since 2017, particularly around employee rights and benefits disclosures, but there is still room for improvement on tangible mid to longer-term targets and progress. We use a higher beta in our model to reflect the company's high leverage, and to incorporate our concerns given operations in several high-risk countries.

The case studies discussed in this report were chosen to reflect the investment process at FTEME. They do not constitute recommendations. This is not a complete analysis of every material fact regarding an industry or security. 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. Factual statements are from sources deemed reliable but have not been independently verified for completeness or accuracy. These opinions may not be relied upon as investment advice or recommendations or an offer for a particular security or as an indication of trading intent for any FTEME strategy. Case studies are used for illustrative purposes only and should not be construed as an endorsement of or affiliation with Franklin Templeton.

Alignment research framework

Basis of alignment

To what extent do a company's products and services align to one or more of our six positive outcomes areas linked to the UN SDGs?

This assessment is an integral part of our three-pillar ESG framework, allowing us to holistically evaluate a company's exposures in addition to operational considerations. UN SDGs were created as a framework for governments, not investors. Our six positive outcome areas group the UN SDGs into 'investable themes.' Adapted from the work of the Institute for Sustainability Leadership at the University of Cambridge, these are the social and environmental outcomes that create alignment in our three-pillar framework.

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

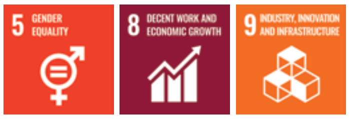
Wellbeing

Promotes enhanced health, education, justice and equality of opportunity for all. This may involve critical services including healthcare, education, justice, crime, welfare, culture, security and environmental protection.

- Healthcare
- Education
- Internet search

Decent work

Creation of secure, socially inclusive jobs and working conditions for all. Facilitates job creation, in particular alleviating people from poverty/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

Alignment case study

Oncoclínicas

Latin America's largest health care group dedicated to cancer treatment.

Positive outcome area (% of revenue): 100% wellbeing

Primary UN SDG: 3 – Good health and well-being

Oncoclínicas has over 143 units, including clinics, hospital partnerships and a precision medicine laboratory. It is a regional leader in offering full-spectrum cancer treatment and care solutions, with expertise in the areas of oncology, radiotherapy, hematology and bone marrow transplantation, as well as complementary and integrated care. The company has around 2,700 specialist doctors and 8,000 employees performing over 600,000 treatments in a year.[3] As such, it is a critical enabler of cancer patient treatment and care in the region.

The significance of Oncoclínicas is reinforced by its focus on expertise and technology leadership. It has an exclusive partnership with the Dana-Farber Cancer Institute—a globally-renowned cancer research and treatment center affiliated with Harvard Medical School—to facilitate the exchange of clinical experience, medical education and training programs. In February 2020, Oncoclínicas inaugurated OC Precision Medicine, a high-tech laboratory that brings together genomics and pathological analysis. The laboratory conducts, among other things, the study of hereditary cancer syndromes and exome sequencing, which entails the analysis of more than 20,000 human genes.

3. Source: Oncoclínicas Sustainability Report 2023.

Alignment case study

Daqo New Energy

A leading producer of high-quality polysilicon for the solar photovoltaic (PV) industry.

Positive outcome area (% of revenue): 100% climate stability

Primary UN SDG:
13 – Climate action

Daqo is a leading solar PV high-purity polysilicon manufacturer. The company is fully focused on the manufacturing and selling of polysilicon to PV product manufacturers, which further process the polysilicon into ingots, wafers, cells and modules for solar PV solutions. Years of advancements in technology and industrial growth have positioned Daqo to consistently produce high-quality polysilicon products that are both energy efficient and cost effective. This is underpinned by its investments in digitalization, intelligent production facilities and closed-loop operational processes.

Solar PV is a highly modular technology with a wide range of applications, providing low-cost zero-emission electricity to individuals, small businesses, large industries and utilities companies. Renewable power capacity additions will continue to rise in the next five years, of which solar PV and wind will account for 96%, due to their lower generation costs compared to both fossil and non-fossil alternatives in most countries; supportive policies also help.[4]

As a key part of the solar PV value chain, Daqo is deeply involved in the field of new energy. Daqo's products are aligned with climate stability as they contribute to decarbonization and play an important role in China's 2030 carbon peak and 2060 carbon neutrality goals. Anticipating further growth in PV deployment, Daqo aims to expand its capacity by investing in research and development as well as improving its operational efficiency.

4. Source: International Energy Agency website, "Solar PV."

Transition research framework

Basis of transition

What is the potential for improvement in intentionality and alignment through targeted engagement for generating long-term sustainable returns?

Ideally, all our investee companies would be doing well on our first two ESG pillars: alignment and intentionality. However, many companies, especially those in emerging markets, are at a relatively early stage of their sustainability journey. Some of the more interesting investment opportunities exist with those companies that are in the transition phase, where we have identified incremental improvements in their intentionality and alignment.

We measure transition by identifying where there is scope for realistic improvement in a company's intentionality or alignment through engagement. Our on-the-ground presence in 13 countries and local relationships give us the resources to identify companies on the transition pathway. Our approach to facilitating this transition is through long-term engagement and feedback on best practice.

We are pragmatic investors who recognize that the world is imperfect and the perfect company does not exist. Nevertheless, through targeted engagement with transitioning companies we can identify interesting businesses in the early stages of growth that could be attractive investment opportunities in the future.

Transition case study — Gedeon Richter

A major pharmaceutical company in Hungary and one of the largest in Central Eastern Europe.

Basis of transition	Transparency around executive remuneration is important in assessing whether executive pay is aligned with minority shareholder interests. At Gedeon Richter, executive renumeration disclosure has been improving but we would like to see the following: I. the disclosure of management's KPI for both short and long-term incentive plans (STIP and LTIP); II. continuity on forward-looking KPIs; III. more variable compensation for management that is preferably linked to the stock price.
Engagement (multi-year)	We engaged with the remuneration committee chairwoman and the head of human resources at Gedeon Richter in 2023, to discuss executive remuneration and pay disclosure issues. The company acknowledged the need for greater KPI transparency, but noted that some of the LTIP KPIs should remain confidential. They also underlined plans to add KPIs related to earnings per share or total shareholder return, while suggesting an LTIP settlement in shares for the CEO. While improvements were seen at the annual general meeting (AGM) 2024, they were not to our desired level. We requested more KPI details and the inclusion of explicit financial targets, at least for short-term bonuses. We voted against the remuneration policy proposal at the AGM and will continue to engage with the company for improvement.

How our analysts bring the three-pillar ESG framework together

Our analysts must document evidence of how they have evaluated a company using our three-pillar ESG framework. This is saved in our database and updated following material company disclosures as well as engagements with the company. Governed by the framework, we monitor and engage with company managements to evaluate policies, affirm progress and target areas for improvement where needed.

The case study on the following page illustrates how our analysts bring together each of the three pillars to develop a holistic view.

The case studies discussed in this report were chosen to reflect the investment process at FTEME. They do not constitute recommendations. This is not a complete analysis of every material fact regarding an industry or security. 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. Factual statements are from sources deemed reliable but have not been independently verified for completeness or accuracy. These opinions may not be relied upon as investment advice or recommendations or an offer for a particular security or as an indication of trading intent for any FTEME strategy. Case studies are used for illustrative purposes only and should not be construed as an endorsement of or affiliation with Franklin Templeton.

Three-pillar case study

Discovery Ltd.

An insurance products and services provider with a primary focus on South Africa and the UK.

Positive outcome area (% of revenue)	Wellbeing – 57% [SDG 10] Basic needs – 42% [SDG 3]

Intentionality

Discovery's approach to sustainability focuses on creating shared value for all stakeholders while addressing key environmental and social challenges. The company's purpose-led approach and shared-value model allows them to combine innovation with prudent financial and risk management, and proactively seize opportunities to be a force for good. We may see higher capex or reinvestment into new innovative products, which may take time to scale up and turn profitable.

Healthcare systems account for over 4% of global CO_2 emissions.[5] Through climate-conscious practices, health care systems can not only reduce their climate change impact, but also promote a healthier environment, enhancing public wellbeing. Discovery is the lowest carbon emitter in the South African insurance peer group, demonstrating concerted efforts to reduce their scope 1, 2 and 3 emissions, reduce waste to landfill and reduce water consumption.

Discovery also stands out with an emphasis on preventive health care, leveraging on its deep understanding of individual health risks to incentivize healthy behaviors. This differentiates Discovery from its peers and has resulted in lower claims, better retention and ultimately higher revenues and profits.

Meanwhile, 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. Discovery is in compliance with all data protection and cybersecurity laws, but we would like to see further disclosure of quantifiable metrics on their approach to cybersecurity threats and data protection.

Alignment

Discovery aims to service clients through better products, as well as incentives to reduce claims and adopt a healthier lifestyle. This has led to lower lapses and better retention.

As a provider of life and health insurance products, Discovery also enables customer access to quality healthcare that may otherwise be unaffordable. Additionally, insurance and banking products can contribute to positive outcome areas under our framework by providing a safeguard against unplanned catastrophe and protection against financial burdens. In particular, Discovery's digital banking services may help to increase financial inclusion.

Transition

We have identified the need to engage with Discovery for the disclosure of quantifiable metrics, which would help us understand how cybersecurity and data protection is being implemented.

5. Source: Discovery Sustainability Report for the year ended June 2024.

The case studies discussed in this report were chosen to reflect the investment process at FTEME. They do not constitute recommendations. This is not a complete analysis of every material fact regarding an industry or security. 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. Factual statements are from sources deemed reliable but have not been independently verified for completeness or accuracy. These opinions may not be relied upon as investment advice or recommendations or an offer for a particular security or as an indication of trading intent for any FTEME strategy. Case studies are used for illustrative purposes only and should not be construed as an endorsement of or affiliation with Franklin Templeton.

Modular aspect of the three-pillar cases

Our three-pillar framework allows it to be used in a modular fashion.

Allows us to filter those companies highly exposed to a particular E or S outcome area.	**Allows us to filter for best-in-class operators or ensure there is appropriate management of ESG issues.**	**Allows us to understand where realistic improvement is expected and a driver for engagement.**

Our three-pillar ESG framework has the following objectives:

1. Sustainability outcomes and risks	• Measure positive and negative contributions to sustainability outcomes and SDGs. • Analyse ESG risks and improve our search for sustainable earnings power.
2. A rigorous and holistic view	• Using granular analysis, we link material ESG factors to our investment thesis to develop our proprietary view.
3. Scalability	• A rigorous scoring system ensuring consistency and scalability.
4. Sustainability solutions for clients	• The three-pillar ESG framework and scoring system help us meet specific client demands for evidence of ESG integration into our investment approach across all strategies.

Valuation impact

Introducing a dedicated assessment to link material governance and sustainability factors to company valuations was an enhancement to our existing intentionality analysis. Analysts assess governance and sustainability factors through the following channels and ask the following questions:

- Fundamentals/cash-flow channel: Is there a direct impact of material factors on revenues, costs, margins and capital expenditure? If yes, how do we quantify the impact and build sensitivity analysis?
- Risk channel: Do material risks threaten the sustainability of the business? Has the company identified these risks through appropriate risk control and compliance standards? If yes, does this lower tail risks and can we factor this into our scenario analysis?
- Valuation channel: Is the company managing its material risks effectively? What kind of scenarios are we building into our assessment of the impact on the cost of capital, risks to margins and impact on valuation multiples?

> **“Understanding and showcasing how our sustainability analysis influences our financial models provides a comprehensive view of the total value for the companies we cover.”**
>
> **Bassel Khatoun**
> Portfolio Manager and Director of Research

Examples where material governance and sustainability factors have impacted financial models.

Sub-Industry	Country	Impact
Construction Materials		**E&S impact:** This Chinese cement company is fully compliant with all national emissions standards, significantly reducing the risk of fines and penalties, which should remain low as it continues to invest in improving process efficiency. A nationwide carbon emissions trading system is being developed, although the company's past experience indicates a limited need for external quotas. However, we have factored in the potential future costs related to emissions for Chinese cement manufacturers into our valuation, assuming lower margins in our cash flow forecasts.
Diversified Banks		**G impact:** This bank in Kuwait is poorly managed and does not prioritize maximizing shareholder returns. As such, we do not anticipate significant improvements in its cost-to-income ratio, or a sharp decline in non-performing loans coverage and capital adequacy ratios. We also do not expect any major restructuring that may substantially enhance efficiency or returns.
Data Processing & Outsourced Services		**E, S & G impact:** We included capex on cybersecurity investments in our projections on this Indian infotech company. Additionally, we applied a slightly higher cost of equity to account for the risks associated with its relatively short operating history and governance track record. The company only began scaling up primarily after 2016 and was listed in 2021.
Electrical Components & Equipment		**E&S impact:** We have not applied a premium or discount to our assumptions on this South Korean electronics company, given its sufficient focus on ESG issues. Historically, it has set aside around 1–2% of revenue as a provision for potential product liability claims, which are accounted for in our models. If future iterations of its battery cells prove safer or have better risk prevention features, it may reduce this provision, potentially leading to margin improvement.
Health Care Facilities		**E&S impact:** Our forecasts for this Thai health care company take into account topline growth driven by sustained patient traffic, supported by the company's strong reputation as a top-tier clinical service provider. Over the years, it has maintained its position as a dominant private hospital chain in Thailand.
Pharmaceuticals		**E&S impact:** Strong employee engagement and retention has led to lower turnover at this Jordanian pharmaceutical company, so we do not expect its wage bill to grow significantly. However, within our model we do account for potential product issues by reducing our forecast for realized revenues from new product launches.

Climate change

Emerging market (EM) governments will need to adopt growth-enhancing fiscal and structural reforms that promote low-emission resilient investments, backed by productive and cost-effective climate policies, to achieve climate-compatible development. Against this backdrop, our objective to understand the climate commitments of our investee companies incorporates both local and global perspectives, recognizing that the pace of decarbonization and the associated strategies will differ globally.

- EMs vary considerably in their approaches to mitigating climate change. Key countries have announced climate-aware ambitions and plans to tackle major environmental concerns.
- Companies are preparing for climate change in multiple ways. Green business models in areas such as solar energy and electric vehicle supply chains feature as investment opportunities for us. We also invest in carbon-intensive companies that show real commitments and innovation to decarbonize.

Our investment process incorporates top-down policy and industry studies, bottom-up company research and comprehensive ESG analysis including climate considerations, all of which help to deepen our research insights. Factoring material environmental issues into our company forecasts can lead to adjustments in growth projections, margin expectations or discount rates. In addition, as active stewards of our clients' capital, engagement is a key tool that enables us to understand and facilitate a company's sustainability journey, where financially material, which is supported by a local footprint and access to management.

Carbon emissions management is a material sustainability issue for industries such as materials, mining, transportation and utilities. It can impact a company's business model in various ways, including carbon taxes, technology upgrades and compliance costs.

We do not rule out investing in companies in carbon intensive sectors, such as cement, steel and extractive industries. In our view, divestment does not resolve the challenges facing carbon-intensive industries; in fact, divesting may even worsen the issues and stymie future shareholder engagement. Our engagements focus on the company's intention to decarbonize and any incremental improvements it is making to do so.

Climate opportunities

Climate opportunity case study	ReNew Energy Global

ReNew Energy is a decarbonization solutions company, which engages in the research and development of renewable energy sources. It operates through the following segments: wind power, solar power, hydro power and transmission line.

ESG topic	Climate
Materiality and risk	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.[6] For every US$ 1 spent on fossil fuels, US$ 1.8 is being spent on clean energy. In the upcoming years and decades, there will probably be a significant increase in investment in clean energy due to increased policy support, the alignment of energy security and climate goals, and additional economic incentives.[7] 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.
Pure play renewable power producer	• **Enhanced renewable energy generation capacity:** The company is one of the largest Indian independent power producers with a total capacity (commissioned and committed capacity) of 16.3GW as of November 2024, spanning across solar, wind and hydro projects. This capacity is also one of the largest globally and the company is focused on doubling its gross renewable energy capacity in the next five years. • **Manufacturing of solar modules & cells:** The company has ventured into the domestic manufacturing of solar components including solar cells and modules. It successfully commissioned two solar manufacturing plants at Jaipur, Rajasthan and Dholera, Gujarat. The plants have a total production capacity of 6.4 GW solar modules and 2.5 GW solar cells (to be commissioned in FY 2024–25). • **Storage solutions:** The company is transforming renewable energy from real-time energy to dispatchable and controllable energy with an intelligent energy storage solution portfolio consisting of two power projects (400 MW Peak Power Project and a 1.3 GW Round-the-Clock (RTC) Power Project). • **Green hydrogen and carbon markets:** The company is exploring green hydrogen opportunities, as well as solutions to enable carbon sequestering or storage.
ESG thesis	The company's purpose is to create a carbon-free world by accelerating the clean energy transition. It has a world-class clean energy portfolio and with its strategic growth plan in action, the company is confident of doubling its capacity in the coming five years. Deepening its presence across the core renewables value chain, the company has initiated backward integration into solar manufacturing and are well positioned to capture the demand related opportunities for clean energy solutions as the world transitions to a low carbon/carbon free economy. Its end-to-end solutions in the areas of clean energy, green hydrogen, value-added energy offerings through digitalization, storage and carbon markets become increasingly integral to addressing climate change, benefiting from the Indian government policies promoting the higher share of renewables in India's power generation mix.

6. Source: Energy Transition Outlook 2023.
7. Source: International Energy Agecy, "World Energy Investment 2024".

The case studies discussed in this report were chosen to reflect the investment process at FTEME. They do not constitute recommendations. This is not a complete analysis of every material fact regarding an industry or security. 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. Factual statements are from sources deemed reliable but have not been independently verified for completeness or accuracy. These opinions may not be relied upon as investment advice or recommendations or an offer for a particular security or as an indication of trading intent for any FTEME strategy. Case studies are used for illustrative purposes only and should not be construed as an endorsement of or affiliation with Franklin Templeton.

Climate risks

Climate risk case study	ICTSI

International Container Terminal Services, Inc. engages in the operation, management, development and acquisition of container port terminals in emerging market countries. ICTSI operates these terminals through long-term concession agreements with local port authorities and governments.

ESG topic	Carbon emissions
Materiality and risk	There is growing regulatory and reputational pressure for the transportation infrastructure industry to reduce negative impacts on ecosystems. Port operations are exposed to risks of legal scrutiny and costs in case of adverse environmental impacts. The management of operational carbon emissions becomes important against this backdrop.
Climate change action policy guides the ICTSI Group in achieving reduced emissions	ICTSI launched a comprehensive Climate Change Action Policy across 28 terminals in December 2023. This policy provides concrete steps for its business units globally to align their strategy with the Paris Agreement goals. In January 2024, ICTSI made a commitment to achieve net-zero greenhouse gas (GHG) emissions for its Scope 1 and 2 emissions by 2050. The company further pledged to reduce its emissions by 26% per container move by 2030, benchmarked against a 2021 baseline.[8] Several measures to reduce Scope 1 and Scope 2 emissions include: • **Investing in cleaner technologies:** ICTSI is focused on managing resources responsibly, including greener sourcing of water and energy, and the steady eradication of its carbon footprint. • **Digitizing terminal operations:** By leveraging digital solutions, ICTSI aims to enhance efficiency and reduce emissions associated with its operations. • **Rolling out green infrastructure:** The adoption of environmentally friendly infrastructure is a key part of ICTSI's strategy to lower greenhouse gas emissions. • **Shifting gears towards renewables and alternative fuels:** ICTSI is actively transitioning to renewable energy sources and exploring alternative fuels to power its operations. • **Enhancing the flow of logistics and the global supply chain:** ICTSI is helping to improve logistics and supply chain efficiency, which can lead to reduced emissions. • **Institutionalizing environment advocacy:** Through the ICTSI Foundation, the company has institutionalized its advocacy for biodiversity and ecosystem protection.
ESG thesis	By preserving effective operations and reducing the environmental impact of port operations, ICTSI is dedicated to securing a sustainable future. The company has taken adequate accountability to address carbon emissions, manage waste more effectively and use fewer natural resources. Its medium-term target and long-term net-zero target align its business strategy with global efforts to limit global warming. Furthermore, the company is assessing its entire value chain (Scope 3) and will develop an inventory by 2025, followed by a target review. With these actions, we believe the company is managing its emissions profile well.

8. Source: ICTSI press release, "TecPlata is carbon neutral; ICTSI's 5th carbon neutral terminal, Argentina's 1st". August 19, 2024.

The case studies discussed in this report were chosen to reflect the investment process at FTEME. They do not constitute recommendations. This is not a complete analysis of every material fact regarding an industry or security. 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. Factual statements are from sources deemed reliable but have not been independently verified for completeness or accuracy. These opinions may not be relied upon as investment advice or recommendations or an offer for a particular security or as an indication of trading intent for any FTEME strategy. Case studies are used for illustrative purposes only and should not be construed as an endorsement of or affiliation with Franklin Templeton.

> **“Physical climate risk is a fundamental factor in investment research, as it directly impacts asset valuations, supply chains and long-term financial stability. Ignoring these risks, where material, can lead to mispriced assets and unforeseen losses in a rapidly changing climate landscape.”**

Preyesh Patel
Head of Sustainability & Stewardship

Physical climate risk beyond transition

Changes in the climate have accelerated and become more pronounced, as evidenced by record-high global temperatures and a growing frequency of extreme weather events. It is therefore important for us to understand how changing climate and increasing weather volatility may cause material financial impact to our investee companies.

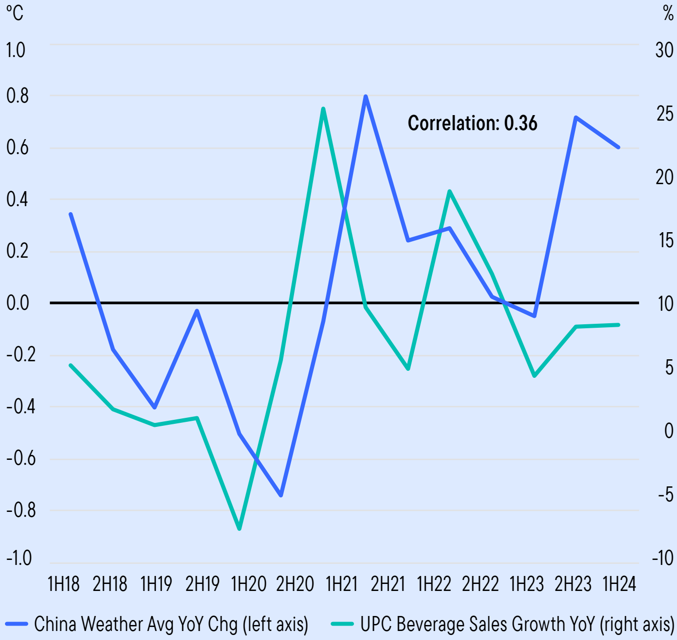
Physical risk management is a material sustainability issue for the food and beverage industry and can impact a company's business model on multiple fronts, including sales, infrastructure and supply chains. We want to incorporate these risks into our financial models and to understand the steps our investee companies are taking to manage the related risks.

Case study — Uni President China

Uni-President China (UPC) is a leading beverage and instant noodle manufacturer in China.

The company has identified the increased frequency and severity of extreme weather events as a business risk, not only to their supply chain but also to sales. In June 2024 the company's beverage sales were affected by bad weather. We conducted analysis to understand if there was a positive correlation between bad weather events and beverage sales performance for UPC.

China Weather Avg Change vs. UPC Beverage Sales Growth, 1H18 to 1H24



Sources: Jefferies, WIND database, Uni President China.

- We used the daily regional temperature data from the WIND database to calculate the average year-on-year quarterly temperature change in China between 2011 and 2024. We then compared the data to UPC's half-yearly y-o-y beverage sales growth.
- We compared Q2 weather change with 1H sales, and Q3 weather change with 2H sales because 2Q and 3Q are the peak seasons for beverage sales, so it should have a bigger read-across on their beverage sales performance.
- We discovered that there was a reasonable correlation between the two, at 0.36.

As we expect increased weather volatility to continue to influence sales growth, we will incorporate the associated risks into our own growth assumptions for UPC.

We will extend similar analysis to other beverage companies to assess similar trends, if any. The findings of this analysis can be used as a base reference for our near-term sales projection.

Nature and biodiversity

The threat of biodiversity loss and ecosystem collapse continued its rise up the global economic and regulatory agenda in 2024. The loss of nature presents a significant risk to corporate and financial stability. Nature provides essential ecosystem services such as pollination, water purification, climate regulation and soil fertility. These ecosystem services support industries and their supply chains. The degradation of these ecosystem services can lead to increased operational costs and reduced productivity. At the same time, increasing regulations aimed at protecting biodiversity may lead to higher compliance costs and potential fines for companies that fail to meet the regulatory standards. This is a key area of FTEME's engagement with its investee companies, to understand financial materiality, dependencies and impacts, and to recommend better ways to integrate biodiversity- and nature-related risks into decision making, risk management and disclosure.

Using our FTEME Nature Framework, we identified four priority investee companies that were materially exposed to nature and biodiversity risks. It was clear that most of these companies were in the early stages of considering their nature-related impacts and dependencies, but more urgent and ambitious action was needed. In partnership with the FT's Investment Sustainability Solutions Team, we developed a proposal to improve investee company consideration of biodiversity risks from a dependency and impacts perspective. Specific issuer analysis was conducted to co-draft letters to three of these investee companies. We communicated how the companies were identified, and made specific requests based on each company's biodiversity and nature risk exposure. We also requested a meeting with the relevant representatives at each company to acquire details on governance and oversight, disclosure of appropriate metrics and target setting, as well as their plans to mitigate the growing nature- and biodiversity-related business risks.

Our research clearly indicated that different companies are at varying stages in their understanding and reporting of nature-related risks. However, most companies are still in the early stages of addressing their nature-related impacts and dependencies. "More urgent and ambitious action is needed to mitigate the growing risks that businesses face and uphold the private sector's role in reaching global biodiversity goals."[9]

Looking forward, FTEME will broaden its research and engage with companies in key sectors where nature and biodiversity loss presents potentially material risks or opportunities to the business. Some of these companies may depend on access to diminishing natural resources that require careful management. Others may face potentially material regulatory or reputational risk due to their impact on nature or natural resources. We will continue to leverage on the work initiated by Nature Action 100+ and the Taskforce on Nature-related Financial Disclosures (TNFD)[10] to enhance our own engagement efforts and provide guidance on key focus areas in key sectors. Our partnership with Nature Alpha, a specialist biodiversity and nature data provider, will remain invaluable, providing transparent, science-based asset-level insights to increase our understanding of how our investee companies interface with nature.

9. Nature Action 100
10. The Taskforce on Nature-related Financial Disclosures, (TNFD) has developed a set of disclosure recommendations and guidance that encourage and enable business and finance to assess, report and act on their nature-related dependencies, impacts, risks and opportunities.

An example of FTEME's nature-related engagement in 2024:

Company

Vale (Brazil)
One of the largest mining companies globally and a major logistics group.

ESG engagement topic

Environmental –
Biodiversity

Objectives

One of the world's largest producers of iron ore and nickel, Brazil-based Vale operates in a high impact sector, as defined by the TNFD.

From our research we recognized Vale's strong ambition to address its nature-related impacts and dependencies as a TNFD early adopter. To improve the company's nature-related risk management, we recommended that Vale's board mandate should explicitly mention the board's oversight of nature-related risks for direct operations and across the supply chain.

We also recognized the company's disclosure of some nature-related metrics but wanted to understand what was enabling or hindering the disclosure of further metrics and target setting.

Outcome: Dialogue taking place between FTEME and entity

Following a detailed discussion with Vale, we recommended ways for the company to better integrate biodiversity and nature-related issues into decision making, risk management and disclosures.

In terms of governance, we recommended greater transparency on the specific nature and biodiversity-related KPIs included in Vale's Sustainability KPI goals program to understand what nature or biodiversity-related indicators are linked to long-term and variable remuneration.

Meanwhile, Vale has carried out the 'Locate' phase of the TNFD's LEAP approach well for its direct operations, but we would like to see this extended to cover the supply chain where possible.[11]

Our recommendations were acknowledged by management. If carried out, they would help us to assess its future preparedness to manage nature and biodiversity risks. We will follow up with Vale ahead of the release of its next TNFD report to understand how the management of these risks has evolved.

11. TNFD website, "Guidance on the identification and assessment of nature-related issues: the LEAP approach," December 2024.

Active ownership

Outcome-oriented: Long term and collaborative

As a signatory to the Principles for Responsible Investment, we are called on to be active owners and incorporate ESG issues into our stewardship and sustainability policies and practices (PRI 2). It is also expected that we will seek appropriate disclosures on ESG issues by entities in which we invest (PRI 3). In this section, we describe how we have fulfilled our responsibilities as active owners and sought appropriate disclosures by the companies we invest in.

As investors with a significant presence in emerging markets, our active ownership efforts are a key part of our overall approach to stewardship and sustainability. Our analysts conduct almost 2,000 company meetings a year using our industry-leading research footprint across emerging markets, where we seek to gain fundamental and sustainability insights.

Given our over 30-year history and local presence in emerging markets, we have management and industry relationships cultivated over the long term. Impactful engagement requires transparent communication and trusting relationships, and our broad and deep on-the-ground presence means we are well-placed to forge close relationships that create value through constructive engagement.

We believe our engagement efforts are key to developing a detailed understanding of companies and improving outcomes for shareholders as well as stakeholders more broadly.

Our approach to engagement and active ownership focuses on material issues that affect the sustainability of earnings, including strategy and material sustainability and governance factors. Given our long-term outlook, we build strong relationships with our investee companies as co-owners on our clients' behalf.

As active owners, we seek to engage with companies on material issues via several approaches including management and board meetings, letter writing, proxy voting and shareholder-resolution filing. All our voting decisions are made in-house by our analysts/portfolio managers and are undertaken in accordance with our FTEME Corporate Governance Principles and in line with our clients' best interests.

The six Principles for Responsible Investment offer a menu of possible actions for incorporating ESG issues into investment practice.

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.

Effective engagement

> “We define effective engagement as a targeted dialogue with a company or country, based on a clear objective, seeking better outcomes and reduced risk for our clients.”

Emily McGrigor
Sustainability & Stewardship Analyst

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.

With this updated framework, we conducted close to 2,000 meetings with companies over the past year, including both discussions and engagement with management across a range of topics. This allowed us to better understand the businesses' intentions and initiatives. We also shared our views on the risks and opportunities that may affect the companies' long-term success. The following section details our discussions and engagement activities involving ESG topics in 2024.

ESG Discussion	ESG Engagement
Clarifying View	**Seeking Change or Improved Disclosure**
This is a targeted interaction to gather material ESG information through a company call, meeting or a one-time short-term discussion.	This is a targeted interaction to influence change related to material ESG topics, including improved ESG disclosures. Each ESG engagement must have a specific and clearly defined objective to measure progress against. This interaction entails a sustained, medium-to long-term dialogue.

To coordinate and oversee the engagement efforts of our platform of 70+ investment professionals across 13 countries, we also created the FTEME Engagement Group comprising seven regional coordinators from the research analyst team. This group includes a representative from each key region that will bring cross-border perspectives and provide guidance on best practices.

7 regional engagement coordinators

2024 engagement statistics

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. Please see below a report on the nature and outcome of such meetings in 2024, where relevant.

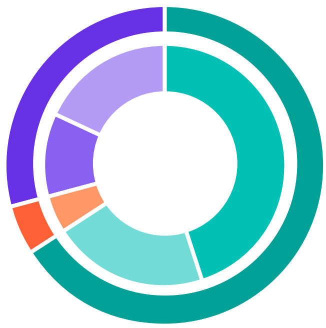
ESG Discussion/Engagement
Identify material ESG issues and rationale for discussion/engagement

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

Outcome
Review outcomes, next steps and investment theses

ESG Discussions by Topic

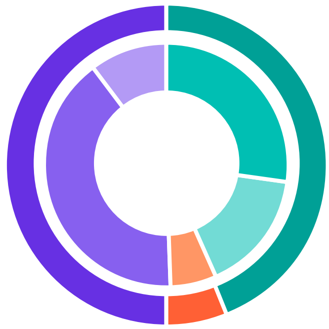
	Number of Interactions	Percentage of Interactions*
Environmental	**37**	**66%**
Carbon Risk and Climate Change	25	45%
Environmental Consideration	12	21%
Social	**3**	**5%**
Human and Social Capital	3	5%
Governance	**16**	**29%**
Corporate Governance	6	11%
Strategic Risk and Communication	10	18%
Total	**56**	**100%**



* Percentage figures are rounded to the nearest whole number.

ESG Engagements by Topic

	Number of Interactions	Percentage of Interactions*
Environmental	**27**	**44%**
Carbon Risk and Climate Change	17	27%
Environmental Consideration	10	16%
Social	**4**	**6%**
Human and Social Capital	4	6%
Governance	**31**	**50%**
Corporate Governance	25	40%
Strategic Risk and Communication	6	10%
Total	**62**	**100%**



* Percentage figures are rounded to the nearest whole number.

ESG Engagement Outcomes

	Number of Interactions	Percentage of Interactions*
Contact made by FTEME but not acknowledged by entity	16	26%
Contact acknowledged by entity	11	18%
Dialogue taking place between FTEME and entity	16	26%
Plan formulated	4	6%
Plan implemented by entity	6	10%
Measure and validated outcome	5	8%
No progress	4	6%
Total	**62**	**100%**

* Percentage figures are rounded to the nearest whole number.

This table records the independent milestones to measure our progress to an objective set, in our ESG engagements.

Examples of our engagement with companies in 2024:

Company	Objectives
Hangzhou Oxygen (China) A major air separation equipment producer and industrial gas supplier.	We engaged with Hangzhou Oxygen (HZO) to encourage the disclosure of regular ESG reports and carbon reduction targets. As investors we are after transparency, particularly around emissions when investee companies operate in industries with a high emissions profile. The disclosure of material ESG data such as emissions data will provide valuable insights into the risks of our investee companies, enabling us to monitor their management of such risks.
ESG engagement topic	**Outcome: Dialogue taking place between FTEME and entity**
Environmental – Climate disclosures	The board secretary indicated that HZO would begin disclosing regular ESG reports from 2024, together with its annual report. However, there was limited clarity on its plans to develop and disclose carbon reduction targets, in part because HZO's business is project-based. The secretary also highlighted the consistent improvement of project energy efficiency through technology upgrades. Solar panels have been installed to generate green power, although current contribution is minimal. We will await the release of the new ESG report but will continue to engage with management for the disclosure of carbon reduction plans and targets.

Company	Objectives
Banco de Oro (Philippines) The largest bank in the Philippines	We engaged with Banco de Oro (BDO) to encourage the adoption of more robust standards, such as cybersecurity standards with third-party certification. As banking goes digital, customer data and activities are exposed to cybersecurity threats. The business risks arising from data protection failure are mounting. It is important that BDO adequately invests in cybersecurity and implements robust policies and procedures.
ESG engagement topic	**Outcome: Contact acknowledged by entity**
Social – Cybersecurity	We learned that BDO's cybersecurity framework, policies and standards follow international best practices such as ISO 27001, National Institute of Standards and Technology (NIST) and Payment Card Industry Data Security Standard (PCI-DSS). BDO is supporting the cybersecurity initiatives of the Philippines, by making itself cyber-resilient and raising cybersecurity awareness amongst its clients. We will continue to engage with BDO and encourage certification by more internationally-recognized standards.

Company	Objectives
WuXi Biologics (China) A global leader in open-access biologics technology	We wrote to the board of WuXi Biologics to express our concern about the potential implications of the Biosecure Act in the US, which aims to restrict business with certain biotechnology companies, including WuXi AppTec and its subsidiaries such as WuXi Biologics. We urged the board to take proactive steps to alleviate the impact and put in place a suitable plan to safeguard stakeholder interests.
ESG engagement topic	**Outcome: Plan formulated**
Corporate governance – Strategic risk and communication	Our letter was followed by a call with WuXi Biologics' management, which shared plans to ensure normal business operation and protect shareholders' rights. This may entail changing its corporate governance structure to clear its association with WuXi AppTec and become a more global entity. Our engagement continued throughout 2024 as we monitored the steps taken to mitigate the potential impact.

Company	Objectives
NagaCorp (Cambodia) A hotel and casino operator in Cambodia	In 2022, NagaCorp founder Chen Lip Keong transferred his controlling stake to the Sakai Trust, a private family trust, for the purposes of succession planning. After Dr. Chen's passing in 2023, various management changes ensued in 2024, indicating conflicts between the inheritors, some of which hold critical positions in the group. As the Sakai Trust is private, its shareholding structure is unknown. We engaged with NagaCorp for further disclosure.
ESG engagement topic	**Outcome: No progress**
Corporate governance – Succession planning	NagaCorp declined to disclose the shareholding structure of the Sakai Trust, given that it is a private trust and the Chen family is not willing to share information regarding the trust structure.

Beyond meetings and calls, we would regularly write to companies as another form of communication, and to continue the dialogues initiated during the meetings and calls.

Example (emissions disclosure)
In 2024, we actively wrote to investee companies requesting them to consider disclosing their scope 1 and 2 emissions data. As investors we are after transparency. Emissions data disclosure will enable us to better understand and monitor the emissions management of our investee companies, particularly in cases where emissions may materially impact earnings sustainability. We provided some recommendations on climate-related disclosure. This information was intended for high-level guidance, covering the basic outline on two of the frameworks that FTEME considers best-in-class for greenhouse gas accounting (GHG Protocol) and climate-strategy & disclosure (Task Force on Climate-related Financial Disclosures).

Example (corporate governance)
Letters to boards and senior management have long been an active ownership tool as we strive for our investee companies to operate with minority shareholder interests in mind. We feel formalizing our views and providing recommendations can stimulate boards' thinking on how they can carry out effective governance.

Company

KT Skylife (South Korea)

A satellite broadcasting provider in South Korea

Objectives

We were disappointed with the company's weak financial performance in recent years, which we believe were partially due to unfavorable related-party transactions with its parent and affiliate companies. We believe these should be reviewed in the interest of minority shareholders.

ESG engagement topic

Shareholder protection and rights

Outcome: Contact acknowledged by entity

We recommended that the board review and renegotiate all related-party agreements to ensure more equitable terms for the company. The company should share longer term return expectations for investments and undertake only those with double-digit internal rate of returns.

Company

Weichai Power (China)

A leading diesel engine manufacturer in China

Objectives

We recommend the board to deliver steady performance in a difficult operating environment, with good cash generation. The company had a very strong balance sheet with large cash balance including financial investments. We noted the cash on the balance sheet generates returns lower than the company's weighted cost of capital. This has a significant impact on the overall return on equity (ROE) of the company.

ESG engagement topic

Shareholder protection and rights

Outcome: Dialogue taking place between FTEME and entity

We urged the board to enhance shareholder returns by I. paying out at least 50% of annual net profits as dividends; II. paying out 50% of net cash/investments on the balance sheet as a one-time special dividend; III. undertaking regular buybacks as part of its capital management policy.

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.

Company	Materiality
National Bank of Kuwait (Kuwait) The largest bank in Kuwait by loans.	The integration of ESG risk factors in credit risk analysis improves the effective management of sustainability risks and opportunities. This may better position a company to protect investor value.
ESG discussion topic	**Discussion**
Carbon risk and climate change	In a discussion with National Bank of Kuwait, we garnered more details on its plan to advance its responsible banking practices. The bank provided details on the development of new sustainable finance products, the integration of ESG risks into credit risk reporting, and working with the PCAF (Partnership for Carbon Accounting Financials) on surveying financed emissions. In addition, the bank updated us on its emissions targets, including achieving carbon neutrality by 2060, and the reduction of Scope 1 & 2 emissions by 25% by 2025 (from 2021). They will disclose their path to neutrality by financial year 2024.

Company	Materiality
Dubai Taxi (UAE) Dubai's largest taxi owner and operator	Consumer transport services companies typically maintain a large workforce, comprising primarily low-skilled employees with limited benefits. An engaged and healthy workforce is likely more productive, efficient and stable. We wanted to understand what measures Dubai Taxi is taking to improve driver welfare.
ESG discussion topic	**Discussion**
Human and social capital	The company provided the following information: • Taxi drivers are now required to take a break after working for four consecutive hours. • Car allocation system is automated to avoid bribes, as certain car models with a higher passenger capacity are in higher demand. Dubai Taxi hires drivers from outside the UAE via recruitment agencies, ensuring oversight to prevent exploitation. They terminated a contract with an Egyptian firm upon uncovering a fraudulent scheme.

Escalating issues

Escalation can include further meetings with the company, voting against management proposals, or divesting from the stock. Reasons for escalation can include management not producing the information we request or an engagement for change that does not result in an outcome we believe is satisfactory for minority investors.

Our decision is based on the specifics of each individual engagement. The need to escalate is ultimately determined by how responsive management is to our questions and the materiality of the issue. As a result, we don't believe in establishing rigid escalation procedures, as this is not conducive to an effective stewardship approach. Instead, we believe in setting clear objectives in advance. We also use our engagement tracker tool to ensure continued visibility on topics requiring attention.

Proxy voting process

Administration and oversight of proxy voting is managed by the Franklin Templeton Proxy Group. The team reviews each proxy, as well as agendas, materials, and recommendations that the team receives from a proxy service provider, such as Institutional Shareholder Services (ISS) and/or Glass Lewis. We consider the information and recommendations from a proxy advisor carefully, but our voting decisions are ultimately based on our own research and in line with shareholder interests.

We believe our analysts and fund managers are best placed to make investment decisions for our clients' assets. As such, our investment teams are ultimately responsible for determining how proxies are voted. In determining how to vote, investment teams review the issues based on a combination of:

- Proxy voting policies
- Their own in-depth research knowledge of the company
- The recommendations of our proxy service providers

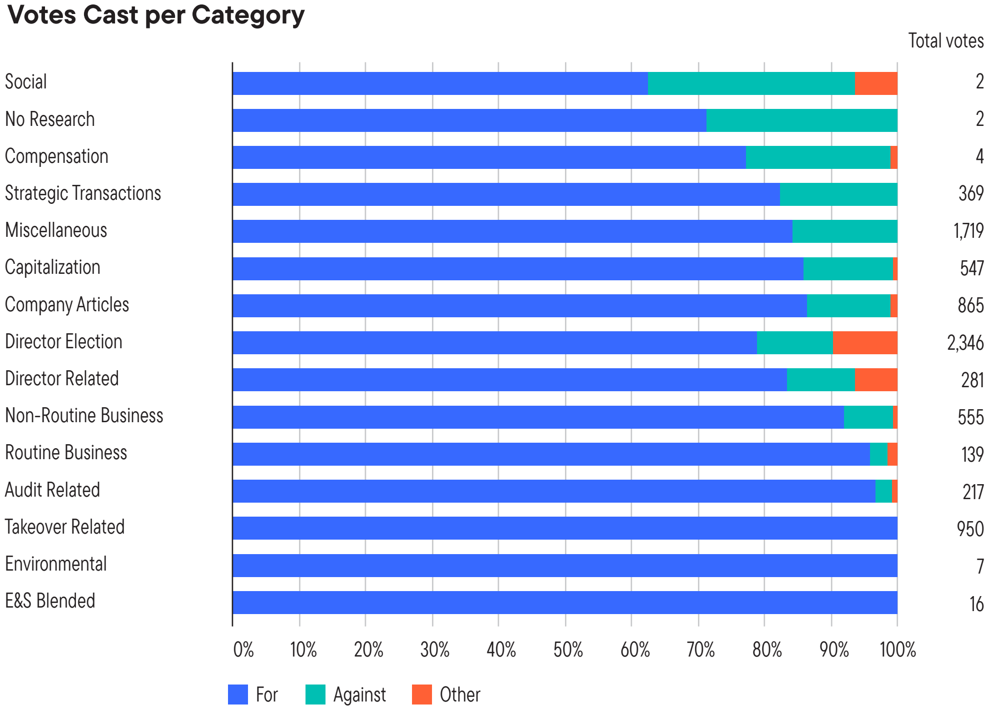
In 2024, FTEME voted on proposals from over 630 companies across 40+ countries. There were more than 8,000 voteable management proposals, of which we voted FOR management proposals 86% of the time.

By proposal category, as a percentage of votes within each category and where we had a total of 20 votes or more, our votes against management were largely concentrated on compensation, strategic transaction and capitalization.

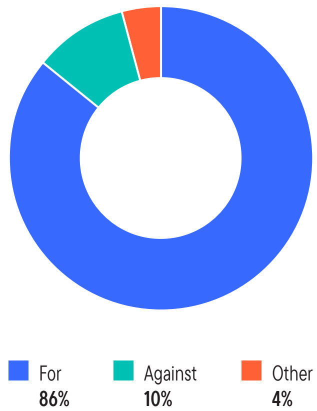
We view votes against management proposals as a formal way to communicate our views to management, and we undertake them based on our investment team's assessment of each motion, in line with our clients' best interests.

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, in 2024, we noticed a material increase in the number of shareholder proposals put forward at annual, special and extraordinary meetings. We saw 149 shareholder proposals, largely governance related, across 32 companies and concentrated in five countries. These were voted in line with our shareholder value assessment.

Votes Cast per Category



FTEME Voting Actions



Other votes can include items where we abstained from voting, for example. These could be related to management proposals which were bundled together, preventing us from voting on individual items.

Proxy voting case studies

Company	**Chinese producer of fine chemicals and new materials**
Vote proposal	Approve provision of guarantees
Vote instruction	Against
Considerations	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	**Chinese food producer**
Vote proposal	Approve capital issuance
Vote instruction	Against
Considerations	The company proposed to issue equity or equity-linked securities without preemptive rights and the reissuance of repurchased shares. We voted AGAINST these resolutions as the aggregate share issuance limit is greater than 10 percent of the relevant class of shares. The company did not specify the discount limit for issuance for cash and non-cash consideration. This was not in line with the best market practices.

Company	**Central Eastern European airline operator**
Vote proposal	Approve remuneration policy and director election
Vote instruction	Against
Considerations	The company proposed the introduction of a one-off grant of restricted shares to the value of 300% of base salary, followed by future awards via a 'hybrid' LTIP (long-term incentive plan) of up to 500% of base salary, in conjunction with the in-flight VCP (value creation plan). We voted AGAINST this proposal due to material concerns regarding award quantum and the operation of the LTIP, which significantly deviates from minimum investor expectations. Furthermore, there is a lack of compelling rationale to support the proposed LTIP arrangements, which represent a marked pivot from the existing Omnibus Plan whereby vesting is associated with share price targets. On a related vote, we also voted AGAINST the re-election of a director chairing the remuneration committee.

Company	**Brazilian health care provider**
Vote proposal	Director election
Vote instruction	Against
Considerations	The company sought the approval of an independent director nominee. We decided to vote AGAINST, as we preferred a nominee that may better represent minority shareholders and increase transparency of the turnaround process. We feel we have the knowledge to nominate candidates to company boards on a selective basis, in the local market, that are best aligned with minority shareholder interests.

We often have dialogue with companies prior to AGMs and discuss potential proposals.

Company	**Internet-related asset holding company**
Vote proposal	Approve renumeration report
Vote instruction	Against
Considerations	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 clawback 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.

The case studies discussed in this report were chosen to reflect the investment process at FTEME. They do not constitute recommendations. This is not a complete analysis of every material fact regarding an industry or security. 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. Factual statements are from sources deemed reliable but have not been independently verified for completeness or accuracy. These opinions may not be relied upon as investment advice or recommendations or an offer for a particular security or as an indication of trading intent for any FTEME strategy. Case studies are used for illustrative purposes only and should not be construed as an endorsement of or affiliation with Franklin Templeton.

Policy advocacy

The Principles for Responsible Investment call on signatories to promote the acceptance and implementation of the principles within the investment industry (PRI 4). Our 2025 Stewardship & Sustainability Report continues to reflect our commitment to promoting the principles and working toward their acceptance in the industry.

Policy advocacy is one of the three parts of how we act as investors

Our engagement efforts are not just limited to companies. We also use our footprint across 13 countries and relationships with policymakers, regulators and stock exchanges to improve corporate governance and foster positive outcomes.

Our policy advocacy capabilities are critical to our holistic approach to stewardship and sustainability. As emerging markets grow and evolve, we believe engaged active owners partnering with policymakers, regulators and stock exchanges can improve corporate governance and help raise awareness of sustainability factors.

Given our long-standing heritage and local presence, in addition to our long-term management and industry relationships, we benefit from timely and ongoing access to insights from business leaders, government officials and central banks.

While policy advocacy is not linked to every company we invest in, the overarching effort of our team can improve outcomes for investors across emerging markets more broadly. We adopt the same collaborative approach and long-term outlook in our dialogue with countries as we do with individual companies.

As pragmatic real-world investors and active owners, we seek to effect positive change where possible, rather than resort to negative screening or divestment alone.

Policy advocacy case study: South Korea

South Korean companies historically trade at valuations which are on average the lowest among emerging market peers. The so-called "Korea discount" is driven by weaknesses in corporate governance, and poor treatment of minority investors. The Chaebol structure, which features cross shareholdings and family control of businesses, without a commensurate economic stake, is also a factor weighing on valuations.

To address these issues, the South Korean government announced a Value-Up Program in 2024. The program focuses on raising stock valuations via goal setting to enhance corporate value, tax incentives to encourage change and market recognition via the launch of a Value-Up index and exchange-traded funds. The program is voluntary, but regulators believe that the market will reward, via higher valuations, companies which embrace the program's goals.

As part of the program roll-out, the Korea Financial Investent Association (KOFIA) sought FTEME's feedback on how to improve corporate governance and shareholder return policies. We viewed this as a key opportunity for policy advocacy in one of our core markets, and provided the following recommendations:

Share capital management:
- Promote higher dividends, buybacks and treasury share cancellations by introducing incentives for dividend payouts and treasury share cancellations.

Minority right protection:
- Major transactions such as tender offers should be undertaken with minority shareholders' interests in mind.
- Promote greater capital expenditure discipline and disclosure by corporates.
- Link management incentives to key operating metrics with full disclosure to the market.

Board independence:
- Enforce requirement of a designated independent board member for engagement on shareholder issues, which should strengthen investor confidence in the effectiveness of board oversight.

Communication:
- Ensure regular English disclosures, including company financials.
- Increase investor relations activities and communications with the market.

We value the time you have taken to read this report and getting to know our approach to stewardship and sustainability better. We look forward to reporting on the improvements we are making in our next annual report.

For us, at FTEME, stewardship and sustainability is about how we research, monitor and manage client assets, returning them in a better condition than when we received them.

Integration of governance and sustainability factors

Active ownership including our engagement and voting actions

Policy advocacy with regulators, policymakers, and industry bodies

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Equity securities are subject to price fluctuation and possible loss of principal. International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. The government's participation in the economy
is still high and, **therefore, investments in China** will be subject to larger regulatory risk levels compared to many other countries.

There are special risks associated with investments in **China, Hong Kong and Taiwan**, including less liquidity, expropriation, confiscatory taxation, international trade tensions, nationalization, and exchange control regulations and rapid inflation, all of which can negatively impact the fund. Investments in Taiwan could be adversely affected by its political and economic relationship with China. Investments in companies in a specific country or region may experience greater volatility than those that are more broadly diversified geographically.

Any companies and/or case studies referenced herein are used solely for illustrative purposes; any investment may or may not be currently held by any portfolio advised by Franklin Templeton. The information provided is not a recommendation or individual investment advice for any particular security, strategy, or investment product and is not an indication of the trading intent of any Franklin Templeton managed portfolio.

FRANKLIN TEMPLETON

US-ESG-4158660-4058660
TEME-STWRD-REPORT-0225