



FRANKLIN  
TEMPLETON

# ANNUAL IMPACT REPORT

Social Infrastructure Strategy

March 2021

FRANKLIN REAL ASSETS ADVISORS



## WHAT'S INSIDE

**Impact investing in real estate**

**Our impact approach**

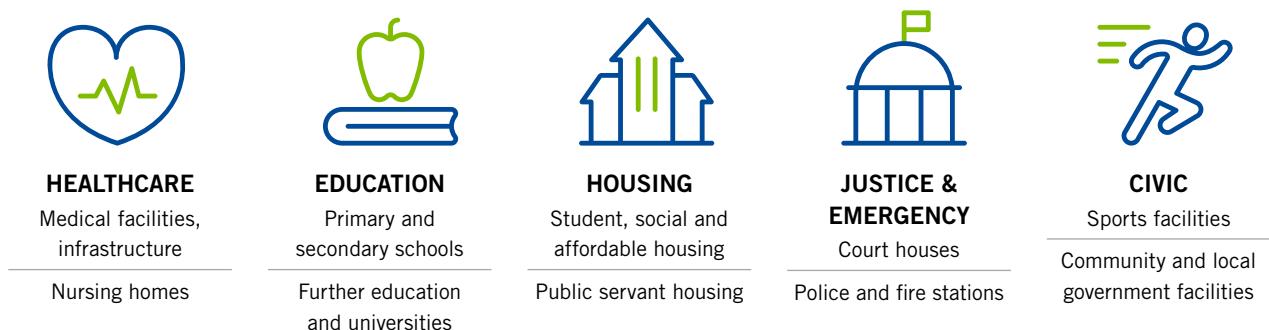
**Impact performance**

**A look at our assets and impact**

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# WHAT IS SOCIAL INFRASTRUCTURE AND WHY IT IS NEEDED?

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



## ABOUT FRANKLIN REAL ASSET ADVISORS

Franklin Real Asset Advisors (FRAA) is a premier real asset investment manager with a long-track record of global investing spanning core, non-core and impact strategies.



FRAA invests in private markets and draws on deep knowledge of global capital flows, investor behavior, and sector trends across markets and regions to drive strong outcomes for our clients. Investors benefit from a disciplined investment process that serves as a foundation for the successful implementation of a wide range of strategies.

**1984**  
Date established

**Global Locations:**  
Headquartered in New York, U.S. with offices in San Mateo, London, Frankfurt, Luxembourg and Melbourne

## Capabilities



## ABOUT THIS REPORT

This is a summarized version of our Annual Impact Report. The full version is available to existing investors and qualified prospects. To receive the full report, please contact your Franklin Templeton representative.

# COMMITMENT TO IMPACT

Nine values guide our approach to impact investing:

## CONTRIBUTION

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

## OBJECTIVES

Each investment must have measurable impacts.

## MEASUREMENT

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

## STANDARDS

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

## CONFIRMATION

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

## OVERSIGHT

Our advisory committee is responsible for periodic reviews.

## VISION

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

## PARTICIPATION

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

## TRANSPARENCY

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

# A YEAR LIKE NO OTHER



**RAYMOND J. JACOBS**

Managing Director,  
Franklin Real Asset  
Advisors

Dear reader,

I am pleased to introduce the second Annual Impact Report of our social infrastructure strategy.

We developed the strategy's unique dual-return objective to achieve a social and environmental impact return alongside a market-level financial return. To those ends, we have assembled and actively manage a diversified portfolio of social infrastructure assets across Europe.

The strategy launched successfully in July 2018 and had acquired 12 assets in six European countries by the end of 2019, in the healthcare, education, housing, and justice and emergency sectors. But 2020 was a year like no other. The Covid-19 pandemic disrupted life at many levels, across Europe and around the world.

Despite lockdowns, travel restrictions and other challenges, Franklin Templeton's investment and impact team was able to **complete four more acquisitions in the education, housing, and healthcare sectors, ending the year with 16 assets**. The team remained focused on actively managing the portfolio through the Covid-19 pandemic. Most of the strategy's assets stayed operational throughout the year, delivering essential services to their communities. Communication with tenants and operators has continued, and we are working closely with them to ensure positive outcomes during these challenging times.

While the strategy's portfolio experienced minimal disruption, the Covid-19 pandemic has demonstrated that governments alone are unable to provide the necessary quality and quantity of social infrastructure. Clearly, private capital has an important role to play in filling the funding gap.

This second Annual Impact Report will give you an insight into the strategy's progress towards achieving its impact objectives during a challenging year. We are also pleased to report on how our process aligns with the Operating Principles for Impact Management. Our alignment with the principles is now documented and has been audited by BlueMark, an independent third-party auditor.

The impact team, led by Impact Director John Levy, has done a tremendous job under difficult circumstances, and I hope you enjoy reading this report.

As always, we welcome your feedback.

A handwritten signature in black ink, appearing to read "Raymond Jacobs".

# STAYING OPTIMISTIC



**JOHN LEVY, CFA, CAIA**

Director of Impact,  
Franklin Real Asset  
Advisors

Dear reader,

It was difficult to be an optimist in 2020. The pandemic, extreme weather events and social unrest all exposed the significant vulnerabilities in our society, and stay-at-home orders left many of us feeling disrupted and disconnected. And even optimists must acknowledge that 2020 will not be the last time our society is upended. Climate change, unsustainable urban growth, air, water and land pollution, and growing social and economic inequality, among other issues, all have the power to massively disrupt our way of life. **But optimism has never been more important as we need to see past our problems, knowing that a better future is within reach.**

From today's challenges comes greater awareness of the need for reinvention, and with reinvention comes great opportunity to align with and contribute towards a modern, more sustainable future. The advent and impressive growth of impact investing is one such reinvention and something to feed the optimist in all of us. Impact investors are redefining the role of capital in our society. The ongoing Covid-19 crisis is creating a watershed moment where consumers, governments, companies, entrepreneurs and investors are more focused than ever on steering capital towards endeavors that benefit society and the planet. This new focus on sustainable capital is catalyzing opportunities for impact investors to deliver profit with purpose.

As you will see throughout this report, we have plenty of grounds for optimism. With an acknowledgement of our imperfections and an eye towards improvement, **we are choosing to strengthen our approach, align our interests and accelerate results for communities and the planet.**

We are excited to share how we are creating lasting social and environmental impact. We were very active in 2020. We added four new assets to our portfolio, adjusted our impact priorities to focus on health and wellbeing, and began expansion projects at many assets. Progress was made on reducing energy usage, adding clean-energy generation and improving our utility monitoring across the portfolio. We grew our team and worked with mission-aligned partners and stakeholders. We know that our cooperative efforts can unlock further impact and make us better together.

In this report, we address the effects of Covid-19, highlight ecosystem-building partnerships and show how our approach to impact aligns with the Operating Principles for Impact Management. We also report on our progress towards impact targets, highlight how our strategy and initiatives have contributed to six Sustainable Development Goals (SDGs), and provide asset-level progress summaries.

With great appreciation for the ongoing support from our investors and partners, we thank you for fueling our optimism and for joining us on our journey towards a better future.

We hope you enjoy the report!

A handwritten signature in black ink, appearing to read "John Levy".

# OUR IMPACT STRATEGY IN NUMBERS

As of 31st December 2020

## PORTFOLIO LEVEL (Change from 2019)

Number of assets	16 (+4)
Amount invested in € (in million)	352 (+34%)
Total area owned (m <sup>2</sup> )	173,908 (+38%)
Energy consumption intensity (kWh / m <sup>2</sup> ) of the portfolio: 2020 <sup>1</sup>	169 (-6%)
CO <sub>2</sub> intensity (kg CO <sub>2</sub> / m <sup>2</sup> ) of the portfolio: 2020 <sup>2</sup>	20 (-36%)
Renewable energy production (kWh) <sup>3</sup> <b>OI2496</b>	<b>105,000 (N/A)</b>

### Note to the reader

For transparency and accuracy, IRIS Metrics and SDG targets and indicators are mentioned throughout the report where relevant and can be accessed by clicking the IRIS Metric report ID or hovering over the SDG Target Indicator.



IRIS Metrics example: **OI2496**

SDG Targets and Indicators example: **SDG 7.3.1**

## SECTOR LEVEL

### Justice and Emergency

Number of assets	1 (No Change)
Total area owned (m <sup>2</sup> )	6,586 (No Change)
Amount invested in € (in million)	16 (No Change)

### Civic<sup>4</sup>

Number of assets	1 (+1)
Total area owned (m <sup>2</sup> )	9,484 (New)
Amount invested in € (in million)	22 (New)

### Education

Number of assets	4 (+1)
Total area owned (m <sup>2</sup> )	60,967 (+75%)
Amount invested in € (in million)	103 (+30%)
Number of university and vocational students <b>PI2389</b>	<b>5465 (+138%)<sup>5</sup></b>
Number of youth students <sup>6</sup> <b>PI2389</b>	<b>1142 (N/A)</b>

### Healthcare

Number of assets <b>PI1017</b>	7 (No Change)
Total area owned (m <sup>2</sup> )	80,319 (+1%)
Amount invested in € (in million)	142 (+1)
Number of nursing home beds	533 (-5%)
Number of hospital beds	255 (+8%)
Number of accredited beds	617 (-2%)

### Housing

Number of assets	3 (+2)
Total area owned (m <sup>2</sup> )	16,552 (+249%)
Amount invested in € (in million)	69 (+170%)
Number of beds available <b>PI15965</b>	<b>695 (+185%)</b>
Number of affordable beds	446 (+83%)
Number of residents	582 (N/A)
Average cost savings of affordable beds vs market rate unit per year <sup>7</sup> <b>PI1748</b>	<b>12% (N/A)</b>

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# A FEW WORDS ABOUT COVID...

We entered 2020 with a plan to improve community value across our portfolio by working to bring communities closer together. The spread of Covid-19 reminded us of the old line from Robert Burns: “The best-laid plans of mice and men often go awry.”

With lockdown orders across all of Europe, we were of course told to stay apart, not get closer together, so we had to adapt to our new reality and adjust our approach to impact.

One of the key tenets of a strong impact approach is to not superimpose your own plans, but instead to hear and understand the challenges faced by communities and assist where possible. The new challenges caused by the pandemic became our focus as we worked with our tenants to address health and safety directly, as well as the financial fallout from the lockdowns and closure of businesses.

## Tenant outreach

In direct response to the disruptive force of the virus, we reached out to all our tenants to discuss ways in which they might need our assistance. Thankfully, most tenants felt secure with their business operations and rental commitments and did not need our support. One tenant, however, was in need since their business model leaned heavily on bringing members of the broader community to their facilities. We were able to provide rent relief, which allowed them to continue to administer quality care for the residents of their facility, continue to pay competitive wages to all their staff members and endure the cost of implementing enhanced cleaning and safety procedures.

## Refocusing our impact

We had great aspirations for hands-on tenant interaction to develop stronger communities in and around the assets in our portfolio. But as tenants needed to focus on their core operations, many specific initiatives, including waste-management reviews, **SDG 11.6** new volunteer opportunities, beneficiary surveys and plans for increased public access, were put on the backburner.

So, instead, we shifted the focus of our resources further into the environmental aspect of our impact plans. As access to facilities was severely limited, we became more acutely aware of the need to utilize technology to better understand our buildings. We took this time to accelerate planning and installation of smart meters and sensors across the portfolio. **SDG 7.3** While these “internet of things” (IoT) devices are still being installed, we are creating a more accurate and resilient data source that will identify resource inefficiencies and create avenues for tenant engagement, education and training.

## What next for social infrastructure?

The pandemic highlighted that many communities lack the necessary facilities—things like accessible healthcare facilities and affordable housing—to combat threats like Covid-19 effectively. Yet as countries move past the acute phase of the pandemic, the lack of financial support in this space is likely to worsen. Public capital is simply not available to spend.

The opportunity for private capital flows into social infrastructure is substantial. While governments have implemented a range of fiscal and quantitative measures to cope with many aspects of the pandemic, social infrastructure funding has not been a priority. **Governments alone cannot respond effectively to the crisis on behalf of vulnerable communities; public investments are not sufficient to fill the social infrastructure investment gap.** The support of the private sector is needed now more than ever.

Our strategy looks to aid in covering the persistent and growing investment gap in the sector, and we look to do so while partnering with strong operators to grow sustainably and to provide quality services to local communities.

# THE UNITED NATIONS' SUSTAINABLE DEVELOPMENT GOALS (SDGS)

The United Nations' Sustainable Development Goals (SDGs) are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.<sup>8</sup> The SDGs inform our entire impact-management system and process. We seek opportunities to align with and contribute to six of the 17 UN Sustainable Development Goals throughout our actions at each investment. We target an additional SDG, Partnerships for the Goals, introduced in this report.



**17** PARTNERSHIPS  
FOR THE GOALS



## INTRODUCING SDG 17 – PARTNERSHIPS FOR THE GOALS

Most of the world's largest problems cannot be solved when one organization or one section of society acts alone. Our largest problems persist because they are complex and require coordinated efforts that include multiple stakeholders. We must coordinate our efforts, not just to represent the many stakeholders affected by our actions, but also to bring to bear the expertise required to create sustained positive impact.

For this reason, we feel that SDG 17, "Partnerships for the Goals," is, and has been, critical to all of our efforts. While we focus on six outcome-oriented SDGs, the addition of the 17th SDG is foundational for all impact outcomes. We believe that we can make a powerful and enduring impact by bringing together local stakeholders and subject-matter experts to explore new and better ways to enact positive change. With every new partnership, we create blueprints for how building owners can materially contribute to a more sustainable and inclusive future.

### Our work contributes to SDG Targets 17.16 and 17.17:



The following are some examples of mission-aligned partners that help us achieve our impact objectives

## PUTTING STUDENTS FIRST

### Camplus

We identified Camplus as mission-aligned partners and brought them in to manage our green student-housing asset in Pavia, Italy. We were attracted to Camplus because they focus on students and not just property management.

### How we work together

Our asset in Pavia is eco-friendly, but we also wanted it to help improve the education of the students, whose outcomes are enhanced when living in high-quality residences filled with support and community services.<sup>9</sup> Therefore, it was critical to bring in Camplus to further enhance the impact for the students.

### Partnership for the future

Our successful early partnership is helping us create new, high-impact opportunities for our investors. We are working with Camplus to identify development opportunities with a strong focus on students and the environment. These opportunities require both parties to share an interest in pursuing impact, and we are actively assessing opportunities for new, carbon-neutral assets to be developed by eco-conscious developer.

**“For us, every student is a ‘work in progress’: we care for them, we help them along in their studies, and we offer an answer when it comes to their needs for the future. For this reason, relationships with the students, as well as ties to the academic, cultural, and working worlds, are at the very base of our work.”**

MAURIZIO CARVELLI  
Founder & CEO, Camplus

**“Working with the Franklin Real Asset Advisors has been outstanding, mostly because they think ‘out of the box’, to solve problems with professionalism and a focus on human relations. We do not see ourselves as simply having an owner vs.operator relationship, but rather as partners who share the risks, the outcomes and the results.”**

WALTER LA GAMMA  
Global Business Development, Camplus

## EXPERTS IN COGNITIVE ACCESIBILITY

### Plena Inclusión Madrid

Plena Inclusión Madrid is a non-profit organization that operates for the interests of people with intellectual and/or developmental disabilities so that they may be included in and enjoy every aspect of society. The organization accomplishes this goal by consulting with asset owners to review the “cognitive accessibility” of their businesses and recommend improvements that will make the use of the buildings and products more conducive to all.

### Working together to improve inclusion

We committed to working with Plena Inclusión Madrid at our courthouse asset in Madrid to make it more accessible to the local population. Plena Inclusión Madrid carried out a report for us whereby two people with intellectual disabilities, one graphical designer and two supporters went to the court to identify cognitive accessibility challenges, that means, comprehension difficulties, including how to reach the courthouse.

According to Plena Inclusión Madrid, up to one-third of the Spanish population has some type of comprehension difficulty. By improving the cognitive accessibility of our asset, we are helping to reduce many of the stresses induced by a foreign, complex space. And by improving accessibility, we are developing an asset that is inviting to all. These improvements assist in creating social autonomy regardless of cognitive ability.

### What is the impact?

After the complete audit, we developed a plan with several accessibility improvements that include adding magnetic loops for the hearing impaired, strategically placing visuals that offer building-access information, developing a visual building directory and creating a standardized format for informative posters located on each floor. These initiatives will help foster a more inclusive environment for all. [018113](#)

# Impact Measurement and Management: through the lens of the Operating Principles for Impact Management

In our first Impact Annual Report, we introduced many of the key aspects of our impact measurement and management system. This year, to more closely align with emerging best-practice standards, we want to describe our approach through the lens of the nine Operating Principles for Impact Management.

We are a signatory to the Operating Principles for Impact Management. The principles describe the features essential to establishing and managing a robust impact-management system. They are designed to define an end-to-end process, from establishing “strategic intent” to managing “impact at exit”. The principles aim to introduce rigor into impact analysis and limit “impact-washing”.

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

Our alignment with the principles has been verified by BlueMark, a third party auditor. We would like to thank BlueMark for helping us to assess our processes. We are already working on many of their suggested improvements and plan to incorporate more over the course of 2021.



BlueMark, a Tideline company, is a leading provider of impact-verification services in the impact-investing market. Since its founding in 2014, Tideline has become a recognized leader in impact measurement and management, working with leading asset owners and managers to design and implement impact-management systems. BlueMark has conducted this verification with an independent and unconflicted team experienced in relevant impact-measurement and management issues. BlueMark has implemented a Standard of Conduct requiring its employees to adhere to the highest standards of professional integrity, ethics, and objectivity in their conduct of business activities. For more information, please visit [www.bluemarktideline.com](http://www.bluemarktideline.com)

## PRINCIPLE 1

# Define strategic impact objective(s), consistent with the investment strategy

## Summary

The strategy provides capital and seeks to improve the quality of social infrastructure assets while reducing the carbon footprint of the built environment. These goals were created in direct response to research citing the lack of quality social services across Europe, as well as the need to reduce carbon emissions and address climate change. Our impact objectives have two research-backed vectors: community and environment. [OD6247](#)

### Community objectives [OD6247](#)

A report released by the High-Level Task Force (HLTF) on Investing in Social Infrastructure in Europe highlights the importance of social infrastructure, its funding gap and the many ways to address this challenge through both public and private investment. The report notes that “high-quality social infrastructure provides benefits to individuals and communities and improves social cohesion. Appropriate access to social infrastructure generates more ‘hired, housed, healthy and happy’ people with positive spill-overs on society...Social Infrastructure can boost community resilience and regeneration.”<sup>10</sup>

By investing in social infrastructure, the team looks to add much-needed private capital to boost and protect the social services provided to communities.

### Environment objectives [OD4108](#)

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

The real estate industry has an important role to play in the fight against climate change. On many measures, buildings use more energy than either industry or transportation and will emit more CO<sub>2</sub> between now and 2030.<sup>11</sup>

We look to reduce the carbon emissions associated with buildings in our investment portfolio. We do this through improving energy efficiency [SDG 7.3](#) and the on-site generation of clean energy. [SDG 7.2](#) We aim to reduce our portfolio-level CO<sub>2</sub> emissions by 5% per annum [OD4091](#)—a more ambitious target than the one recommended by the World Economic Forum.

## Defining objectives: theory of change OD6350

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

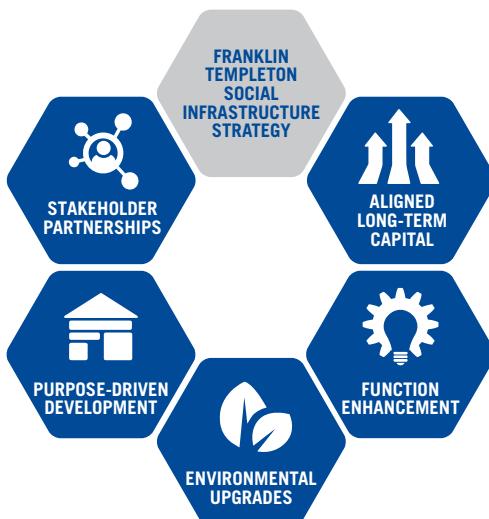
We begin by identifying the environmental and community challenges we seek to address at each asset. Next, we look for the best ways to allocate our efforts and investors' capital. By identifying and directly addressing community and environmental challenges, we can increase the access to quality healthcare, housing, education and civic services while also enhancing the resource efficiency of our assets.

### THEORY OF CHANGE

#### 1. CHALLENGES

Lack of quality social infrastructure across Europe

#### 2. CONTRIBUTIONS



#### 3. OUTCOMES

More hired, housed, healthy and happy communities

### Our five main contributions

### THE UN SDGS

The UN's 17 SDGs inform our entire impact-management system and process. Specifically, the strategy seeks to create measurable impact via six of the SDGs:

**3** GOOD HEALTH AND WELL-BEING



#### Good Health and Well-Being

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

**7** AFFORDABLE AND CLEAN ENERGY



#### Affordable and Clean Energy

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

**4** QUALITY EDUCATION



#### Quality Education

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

**11** SUSTAINABLE CITIES AND COMMUNITIES



#### Sustainable Cities and Communities

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

**6** CLEAN WATER AND SANITATION



#### Clean Water and Sanitation

Ensure availability and sustainable management of water and sanitation for all.

**16** PEACE, JUSTICE AND STRONG INSTITUTIONS



#### Peace, Justice and Strong Institutions

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

The SDGs are a powerful guide for global citizens and organizations seeking to “achieve a better and more sustainable future for all”.<sup>12</sup> As the SDGs were not designed specifically for use by institutional investors and asset managers, they are vulnerable to misuse, misrepresentation and dilution. As part of our commitment to impact investing, we must ensure that we move beyond just alignment and make a verifiable contribution to positive social and environmental outcomes.

Every SDG has anywhere between five to 19 “targets” with more specific sought-after outcomes. Using these targets, we can define which specific actions—or contributions—we wish to carry out at each asset.

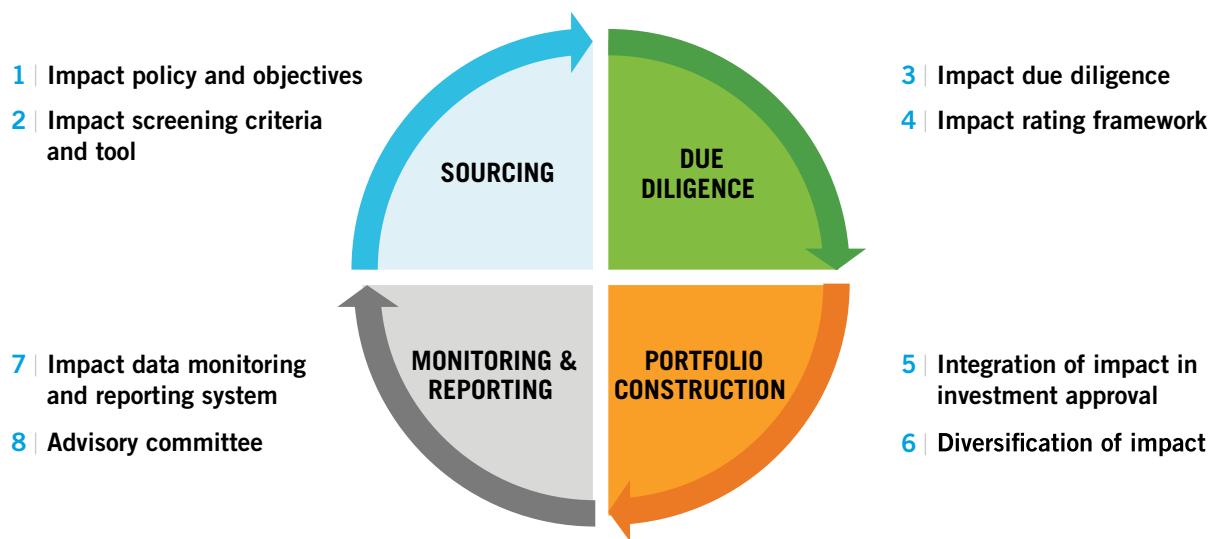


## PRINCIPLE 2

# Manage strategic impact on a portfolio basis

We manage strategic impact through the execution of our investment process. By integrating impact analysis and execution throughout the lifecycle of each asset, we create a more holistic approach that aligns investment and impact considerations at every stage. The strategy relies on the efforts of our whole team to implement our impact-management process to certify that the assets in our portfolio maximize the impact of our capital.

### INTEGRATING IMPACT MANAGEMENT ACROSS THE INVESTMENT PROCESS



**1 | Our impact policy and objectives**—This crucial first step is covered in our disclosure of Principle 1.

**2 | Impact screening criteria and tool**—We screen every pipeline deal to ensure strategic alignment with our objectives. A team member must affirm the applicability of an opportunity by answering the following questions:

- What purpose does the asset serve in the community?
- Who does the asset serve? How much demand is there for the service provided by the asset?
- How can Franklin Templeton contribute to the asset/tenant/community through this investment?
- In what ways does the tenant align with or contribute to the SDGs?
- Are there any major impact risks with this investment?

**3 | Impact due diligence**—Each asset undergoes impact due diligence, culminating in a dedicated assessment report.

The report is structured around the Impact Management Project's Five Dimensions of Impact and includes an asset-specific theory of change, an assessment of the contributions to SDG targets and a business plan highlighting potential impactful improvements and initiatives (see Principle 4 for details).

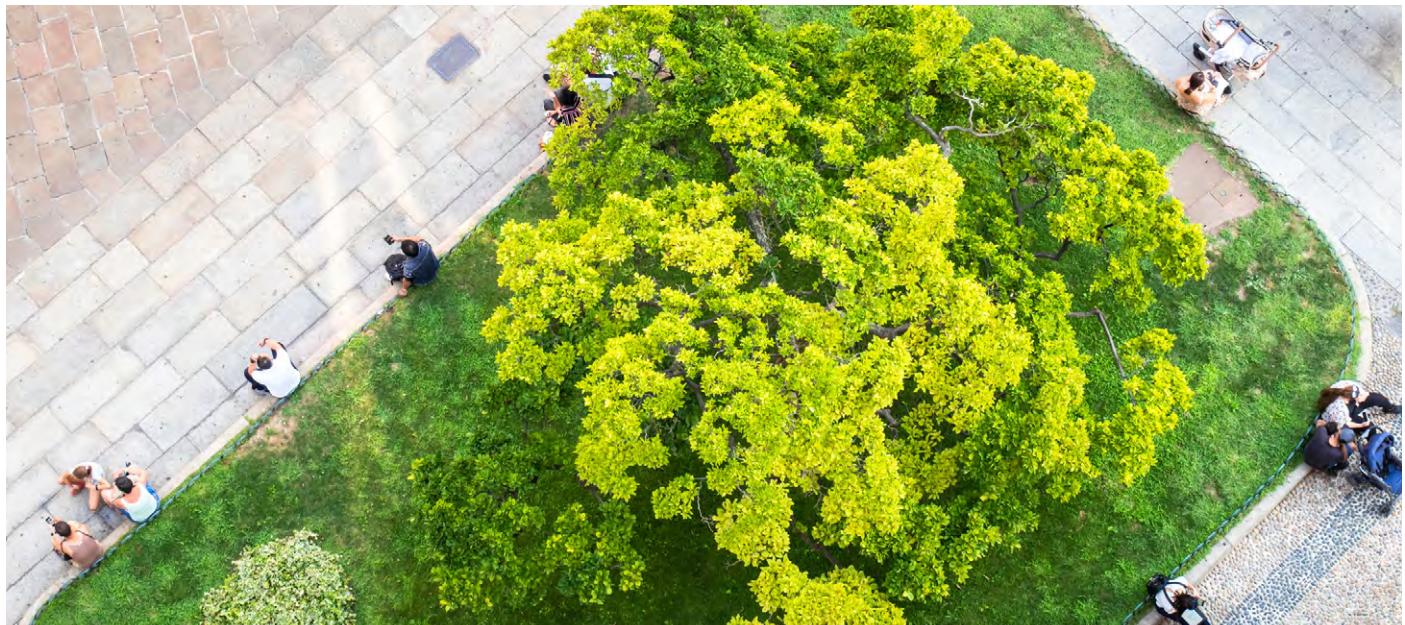
**4 | Impact-rating framework**—Also included in our asset assessments and annual updates is a proprietary scoring system for each asset (see Principle 4 for details).

**5 | Integration of impact in investment approval**—The Investment Committee must approve each asset before investment and does so on the basis that the asset meets the dual-return objectives of the strategy—both financial and impact.

**6 | Diversification of impact**—The portfolio-management team oversees portfolio construction and ensures that the strategy adequately meets the impact objectives by balancing assets by region, sector and primary SDG impacts.

**7 | Impact data monitoring and reporting system**—The team collects key performance indicators (KPIs) for each asset and provides periodic reporting to investors on the impact performance of each asset and the overall portfolio.

**8 | Advisory committee**—The advisory committee works to ensure that the strategy is meeting its dual-return objectives.



## PRINCIPLE 3

# Establish the manager's contribution to the achievement of impact

## Summary

We have developed an extensive framework that outlines our process for identifying asset-level impact. A part of that framework is identifying the specific contributions that we can make towards superior outcomes for communities and the environment. Each expected contribution for each asset is articulated and subsequently captured in an impact-assessment report and investment-committee memorandum.

### FIVE TYPES OF CONTRIBUTIONS

Each asset-level contribution is mapped to one of five contribution types:

	<b>Aligned long-term capital</b>	We are committed to the stewardship of the assets we hold. Our objective is to maintain strong-performing assets and improve underperforming ones. Our capital seeks to ensure long-term social benefits by providing much-needed liquidity to municipalities and private operating companies, freeing up their balance sheets to allow them to provide more services.
	<b>Function enhancements</b>	We renovate and upgrade the facilities we purchase. Examples include improving their comfort and utility for tenants. Where possible, we develop alternative uses for existing facilities to benefit the broader community.
	<b>Environmental upgrades</b>	We can create positive environmental impact with improvements that reduce pollution, save water and materials, and support biodiversity and clean transportation. Examples include installing energy-efficient systems, creating more green space and improving recycling and waste-disposal policies.
	<b>Purpose-driven development</b>	Certain investments may present the opportunity to directly add to the stock of social infrastructure. We can accomplish this by repurposing assets for social use or by adding space to existing assets.
	<b>Stakeholder partnerships</b>	Stakeholder engagement is critical to the success of social infrastructure investments. Through active engagement with tenants and local partners, we can uncover new and meaningful ways to better serve the community.

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

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In our due-diligence process, we set out expected contributions for each asset and continuously review progress on each initiative. Specific contributions for each asset are built into our business plans and tracked over time. We utilize our impact-tracking tool to document KPIs and progress for each contribution. Our Annual Impact Updates formally report all progress made. As contributions are achieved, or not, we reassess each asset's current community and environmental value compared with its value at acquisition. We take what we have learned and look for new initiatives and contribution opportunities throughout the holding period. We also reassess the viability of each contribution type for future assets.

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## PRINCIPLE 4

# Assess the expected impact of each investment, based on a systematic approach

## Summary

We quantify the expected impact from each investment through our ex ante impact-assessment process. Using the “five dimensions of impact” set out by the Impact Management Project (IMP), we identify the potential impacts of each investment. We then quantify the current and projected community and environmental value of each asset through our custom impact-rating system.

## Impact assessments

Our impact-assessment reports are where our ex ante, systematic approach to measuring and managing impact comes together. Through the lens of the IMP’s five dimensions (see below), our assessments bring together a theory of change, the SDGs, our bespoke community and environmental scoring systems, our identified contributions, and our impact-focused business plans. Our assessments are backed by asset-level data, demographic data and market research to ensure that our theory and actions are linked to meaningful outcomes. We track the performance of each asset, using standard and comparable reporting standards such as IRIS+ and GRESB. [014732](#)

### IMPACT MANAGEMENT PROJECT: FIVE DIMENSIONS OF IMPACT

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

IMPACT DIMENSION	IMPACT QUESTIONS EACH DIMENSION SEEKS TO ANSWER
 <b>WHAT</b>	<ul style="list-style-type: none"><li>• What outcome occurs in the period?</li><li>• How important are the outcomes to the people (or planet) experiencing them?</li></ul>
 <b>WHO</b>	Who experiences the outcome?
 <b>HOW MUCH</b>	How much of the outcome occurs—across scale, depth and duration?
 <b>CONTRIBUTION</b>	Would this change likely have happened anyway?
 <b>RISK</b>	What is the risk to people and planet that impact does not occur as expected?

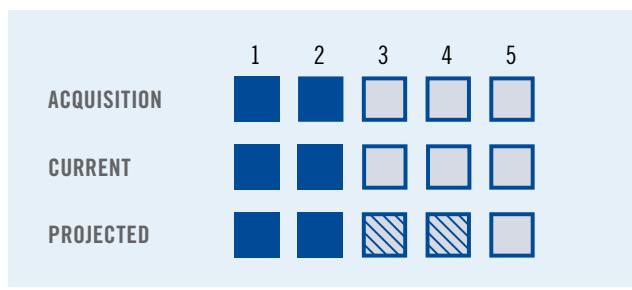
Source: Impact Management Project. For illustrative purposes only.

## Community and environmental scoring system

Throughout our impact-management process, we stress the terms “authenticity” and “transparency”. We acknowledge that with a dual-return objective—financial and impact—some impact-related contributions may not be economically viable. To this end, we created an impact-rating system that measures the current and projected state of each asset’s community and environmental performance. The rating system is based on a set of predefined community and environmental factors (see below). Progress towards impact objectives can be quantified, and key performance metrics can be tracked over time. The scoring system is also designed to create systematic comparability between assets in terms of their strengths, weaknesses, opportunities and risks.

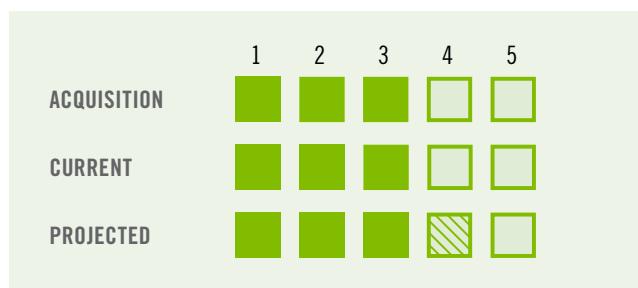
### Community value

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



### Environmental performance

How strong is the environmental performance of the asset?



 Acquisition rating  Projected rating (with FT contribution)

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

## PRINCIPLE 5

# Assess, address, monitor and manage potential negative impacts of each investment

## Summary

Our approach to addressing negative impact and impact risks can be broken down into two sections: asset underwriting and asset management. During the underwriting process, we identify potential risks associated with the acquisition of the asset. In our asset-holding period, we define specific capital-expenditure programs aimed at mitigating or eliminating any of the risks previously identified in our underwriting process.

## Asset underwriting

Before acquiring an asset, we conduct thorough due diligence on the physical aspects of each building to identify potential risks and negative impacts. This diligence includes the following:

### Environmental and technical due diligence

Technical and environmental reports are commissioned by us and executed by third-party firms with deep expertise in the space. The reports provide an analysis of the property's current state as well as items that are likely to require remediation and their corresponding costs. These reports address risks related to building itself, the systems within the building, accessibility, and the health and safety of the occupants.

### Impact due-diligence reports

We commission a bespoke impact due-diligence report to further address impact risks and opportunities. In regard to risks, these reports highlight various forms of pollution in and around each asset. They benchmark energy and water usage while identifying underperforming systems. They also measure and benchmark waste and recycling practices, and measure the biodiversity, or lack thereof, of each asset.

## Asset management

Once negative risks are identified through internal and third-party due diligence before acquisition, the team incorporates solutions and improvements into the capital-expenditure plan for each building and is responsible for addressing the negative impacts when feasible. We have a dedicated asset-management team that works with property managers and tenants to identify and address any additional negative impacts associated with the built environment throughout our holding period.

## PRINCIPLE 6

# Monitor the progress of each investment in achieving impact against expectations and respond appropriately

## Summary

After an acquisition is made, the team uses many tools and processes to monitor and manage impact. We have developed a custom impact tracker to store and manage asset-level data pertaining to impact initiatives and impact scoring. Additionally, we have made substantial investment into smart-metering IoT technology to improve the quality and timeliness of the data we collect on our assets. We review and analyze all these data streams during our team meetings, where we share updates and plan new initiatives. Finally, we create annual update reports for each asset and a portfolio-level Annual Impact Report to highlight our progress and achievement of impact.

## Ongoing monitoring tools

### Impact tracker

A tracker tool is used to track all impact initiatives, KPIs and asset scores across the entire portfolio. Updates to the tracker are done live, making it a working document and the “source of truth” for data related to progress towards impact.

### Tenant engagement

Our asset-management team is tasked with working with tenants and property managers to ensure that business plans are being executed and the expected impacts are materializing. [SDG 17.16](#)

### Smart meters and sensors

To better facilitate our ongoing monitoring process, we have invested heavily in smart meters and sensors. These devices allow us to collect real-time data, not only to more closely monitor consumption habits, but to also initiate conversations and initiatives with tenants that aim to reduce energy and water usage at our assets. [OI6765 SDG 7.3](#)



Occupant Facing Dashboard of BuddyOhm System

## Team meetings

The monitoring and execution of impact business plans are discussed multiple times a week through a combination of ad hoc and scheduled meetings covering portfolio management, asset management, and specific impact initiatives, such as the process for installing solar panels across the portfolio. Since impact is fully integrated into the team and the investment process, impact monitoring is also fully integrated into these discussions. We have also held dedicated impact meetings for further discussion of impact progress when needed. Pertinent meeting notes are tracked in the impact-tracker tool.

## Periodic monitoring

### Quarterly data collection

The asset-management team conducts a quarterly data-gathering exercise with property managers for each asset. Included in this data request is a list of impact KPIs, which we aim to use in tracking the progress of each of our impact initiatives.

### Annual impact updates

We publish annual updates for each asset in the portfolio. The updates include a revised business plan for the year ahead, the latest KPIs and updated scores and analysis.

### Annual impact report

We also publish a portfolio-level impact report that tracks impact progress for each asset. [014732](#) This highlights aggregated data, progress towards portfolio-level goals and summaries of our contributions towards each of the six pertinent SDGs.

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## PRINCIPLE 7

# Conduct exits considering the effect on sustained impact

## Summary

The strategy creates long-term impact value by planning to hold assets for at least 10 years and by signing long-term leases with tenants. Many of the impact initiatives are designed to persist for the long term as they are linked to the tenant or are physical improvements to the asset, which naturally remain impactful regardless of ownership. However, a consistent process and policy towards impactful exits needs to be created to more intentionally consider the persistence of impact after ownership.

## Fewer exits

As an open-ended, income-generating strategy, we aim to hold assets for the long term, greatly reducing the frequency of exits compared with closed-ended structures. For this reason, our impact underwriting has assumed a holding period of 10 years or more and has naturally sought sustained impact over many years. In particular, the upgrades to physical systems are very likely to be sustained should we exit an asset early, and the signing of long-term leases should enable the provision of quality social services through our tenant regardless of our ownership position.

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## PRINCIPLE 8

# Review, document, and improve decisions and processes based on the achievement of impact and lessons learned

### Summary

Our team is committed to monitoring the effectiveness of our impact-measurement and management systems and modifying our current process to maximize the efficiency of our resources.

#### Comparing expected and actual impact

Through our initial impact underwriting, ongoing monitoring and annual updates, we can thoroughly review and document progress made towards our impact goals. Our Impact Management and Measurement (IMM) system was explicitly designed to highlight our direct contributions towards better outcomes for communities and the environment. Our 10-factor scoring system sets targets for each factor, and we track progress on an ongoing and annual basis through our impact tracker and impact-assessment update document.

#### Improving decisions through lessons learned

Embedded in our ongoing discussions and our impact tracker are explanations for why failed, delayed or disappointing initiatives were not successful. We use this knowledge to adjust future strategies and calibrate our expectations of the likely success of future initiatives.

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## PRINCIPLE 9

# Publicly disclose alignment with the principles and provide regular independent verification of the alignment

As a signatory of the Operating Principles for Impact Management, Franklin Templeton engaged BlueMark to undertake an independent verification of the alignment of our impact-management system with the Principles.

The full verifier statement can be found at:

<https://www.impactprinciples.org/signatories-reporting>



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# A LOOK AT OUR IMPACT PERFORMANCE

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# IMPACT PERFORMANCE

## Portfolio-level impact targets [OD4091](#)

In 2020 we made progress in tracking our impact through improved data collection and growing tenant engagement. As we continue to pursue more and better data, we will look to add or further analyze portfolio-level targets to best reflect our impact objectives and impact execution.

We group targets into **outcomes** and **foundations**. Outcomes measure our progress towards stated goals, such as reducing greenhouse gas emissions. Foundations track how we engage, improve data collection and collaborate with technical experts to help best identify asset-specific and portfolio-wide improvement opportunities.

### FOUNDATIONS

	Metric	Target	Progress
<b>Smart metering</b>	Smart meters and sensors installed (Y/N) <a href="#">OI6765</a>	75% (based on m <sup>2</sup> ) of stabilized portfolio (assets held +1yr) with smart meters and sensors installed	We have installed smart meters and sensors in 3 assets, representing 29% of the stabilized portfolio. This is below our target as Covid-19 has delayed many ongoing efforts. We are planning an additional 11 installations in 2021.
<b>Green leasing/ addendums</b>	Green lease terms (Y/N)	75% (based on m <sup>2</sup> ) of portfolio with green lease agreements or addendums	We have green lease terms with 13 tenants, representing 70% of the total portfolio. We continue to add green lease language whenever possible and are confident we will reach the 75% target in the coming years.
<b>Solar feasibility studies</b>	Completed solar feasibility study (Y/N)	100% of portfolio assessed – excluding assets which already have solar or where we do not own the roof	Studies have been conducted at 7 assets, representing 53.8% of the addressable portfolio. Assets acquired in 2020 will be assessed as soon as possible. Moving forward, we will look to conduct feasibility studies when possible ahead of asset purchases to move closer to our target of assessing 100% of the portfolio.
<b>Waste and recycling</b>	Waste and recycling assessment complete (Y/N)	100% of stabilized portfolio (assets held +1yr) assessed	Waste assessments have been indefinitely delayed. We look to re-evaluate waste and recycling once tenants have stabilized from Covid-19 disruptions. We have collected waste and recycling data at 35% of the stabilized portfolio, up from 0% in 2019.
<b>Tenant sentiment</b>	Sentiment survey completed by tenants (Y/N) <a href="#">OI5049 PI9435</a>	50% of tenants respond to sentiment survey or other sentiment engagement methods	9 tenants representing 14.6% of the total portfolio responded to this year's survey or provided formal sentiment feedback, down from 24% in 2019 and below our 50% target. We expect the response rate to rise once in-person engagement is feasible again.

**NOTE:** We have dropped the “beneficiary sentiment” target from 2019. We still believe that outreach to the community is critical for each asset, but the form of outreach, whether direct or through our tenants, is varied and difficult to aggregate in a meaningful way. Dropping the portfolio-level target will not change our asset-specific engagement efforts.

**NOTE ON COMMUNITY TARGETS:** It is important to note that our list of portfolio-level targets does not include many of ways we will look to create impact through asset-specific opportunities. Most of our community-focused initiatives and investment theses are not meaningfully aggregated into portfolio-level targets. Individual community initiatives are best reflected in our asset-specific summaries.

## OUTCOMES

	Metric	Target	Progress
Carbon intensity <b>SDG Target 7.3</b>	Total CO <sub>2</sub> e / m <sup>2</sup> – based on Scope 1 and Scope 2 estimates	5% reduction per annum	Sufficient data was collected for 11 of our assets representing 74% of the stabilized portfolio. The portfolio's carbon intensity was reduced by approximately 36.2% in 2020, significantly exceeding our target. Most of the improvements come from two large assets converting their electricity to 100% renewables. Other reductions can be attributed to physical improvements to systems and lower occupancy at some assets.
Net energy consumption <b>SDG Target 7.3</b>	kWh / m <sup>2</sup>	2.5% reduction per annum of stabilized portfolio (assets held +1yr) <b>OI6697</b>	Sufficient data was collected for 11 of our assets representing 74% of the stabilized portfolio. Within this reportable subsegment, energy consumption was reduced by 6.2%.
Water usage <b>SDG Target 6.4</b>	m <sup>3</sup> / m <sup>2</sup>	5% reduction per annum for assets in high-water-stress regions <b>OI3637</b>	Year-over-year water usage data was collected at both assets located in high-water-stress regions. Water usage was reduced 7.6%. The reduction can be entirely attributed to reduced usage of these assets.

# IMPACT BY SDG—LINKING GOALS TO ACTIONS

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

## SUSTAINABLE DEVELOPMENT GOALS



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

### PORTFOLIO STATISTICS

**7 of 16**

Number of assets **PI1017**

**45.2%**  
of portfolio

Total area

**€140 million**  
Euros invested

**25% of Europe's population is above the age of 60. This is expected to grow to 35% by the year 2050.<sup>13</sup>**

#### Challenge

Despite significant advances in medicine and medical technology, at least half the global population lacks access to essential health services.<sup>14</sup> And where health services do exist, the challenge is to provide services of high quality.<sup>15</sup> While most of Europe enjoys universal health coverage, quality healthcare is not always available. As Europe's population ages, demand for more and better healthcare-related infrastructure and services is expected to increase.<sup>16</sup>

#### The role of social infrastructure

Healthcare is a key sector of social infrastructure. We aim to contribute to this SDG by improving and expanding healthcare facilities **SDG 3.8**. SDG 3 can also be supported with sale-and-leaseback arrangements for healthcare operators that provide quality services.

#### Strategy in action

Throughout 2020, our focus has been on expanding the availability and accessibility of services, in addition to supporting healthcare tenants through the difficulties created by Covid-19.

#### Highlights

- At a hospital in Denmark, we added 563m<sup>2</sup> of new space to the asset. **SDG 3.8.1** This allowed the tenant to add three new operating theaters and increase office space.
- At a hospital in Italy, plans have been submitted to expand the nursing home and create a specialized end-of-life care facility **SDG 3.8**. We are waiting on regional approval so we can move forward with this project.
- A nursing-home and community-center operator was hit hard by Covid lockdowns as the business model encouraged the broader community to utilize the asset. We provided €90,000 of rent relief, which allowed the operator to refurbish a physiotherapy therapy pool and fund delirium research scholarships with Milano Bicocca University.
- All tenants have invested substantially in PPE, hygiene measures, and other Covid-19 risk mitigants. We continue to support these high-quality tenants as they work to minimize the risk of Covid-19. **SDG 3.3**

## 4 QUALITY EDUCATION



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

### PORTRFOLIO STATISTICS

**7 of 16**

Number of assets

**44.5%**  
of portfolio

Total area

**€171 million**  
Euros invested

#### Challenge

Over the last 15 years, Europe has increased the rate of students completing secondary school. For most countries, 80-90% of students graduate with a high-school certificate.<sup>17</sup> However, there is still insufficient access to quality education at all levels—day-care, primary, secondary, and university. So the need for safe, high-quality education facilities is clear.

#### The role of social infrastructure

Education is a key sector of social infrastructure. We aim to support this SDG with investments in quality education assets in Europe. **SDG 4.1**  
**SDG 4.3** Our strategy is to preserve, improve, and expand access to education facilities.

#### Strategy in action

In 2020, the team made progress in helping to address Europe's education challenges.

#### Highlights

- We have agreed to a forward purchase of a student-housing complex and completed the acquisition of an education facility for a key university in southern Italy. **SDG 4.3.1** This should create new quality education opportunities for youth in the region.
- At a London primary school, we added four additional classrooms which increased the school's capacity by 32 students.
- Through our close working relationship with the school operator, we have been granted exclusivity to consider funding two additional schools focusing on special-needs students. **SDG 4.5.1**



## 6 CLEAN WATER AND SANITATION



Ensure availability and sustainable management of water and sanitation for all

**15–25%<sup>18</sup>**

**European Union territory experiencing water scarcity**  
**012799**

### Challenge

A 2010 European Commission report on water scarcity and droughts found that water supplies are a concern for nearly half of the European population.<sup>19</sup> Southern and western Europe are under greater water stress due to agricultural and urban consumption.<sup>20</sup> Water-supply management is especially critical in these areas.<sup>21</sup>

### The role of social infrastructure

At least 20% of fresh water is lost due to waste and inefficiency.<sup>22</sup> **SDG 6.4.1** Given the different water use patterns of social infrastructure, the role each asset plays in addressing the challenge varies. In some instances, engaging with tenants to raise awareness of consumption and modify behaviors will yield the biggest reductions. Alternatively, in other assets, the greatest water use reductions may come from replacing toilets and

installing low-flow fixtures. Each building presents a unique opportunity to save water and reduce the impacts of water scarcity.

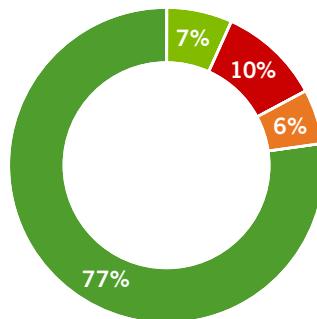
### Strategy in action

Water usage was not a priority for our tenants during the pandemic. We will refocus on water efficiency when the pandemic's acute phase has passed, and we can invest more time in active engagement.

### Highlights

- Despite Covid restrictions, we safely installed smart-water meters at 3 of our 12 legacy properties and expect to install 11 more throughout the portfolio during 2021. **016765** These meters will allow us to identify any water wastage creating an opportunity to work with the tenants to optimize water consumption. **SDG 6.4.1**

### PORTFOLIO IN WATER STRESSED REGIONS\*



### Water Exploitation Index (WEI)

Low (<10%)
Low-medium (10-19.9%)
Medium-high (20-39.9%)
High (40-80%)
Extremely high (>80%)

\*Percentages in chart based on area of asset in respective WEI region.

## 7 AFFORDABLE AND CLEAN ENERGY



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

### INCREASED EU 2030 CLIMATE & ENERGY TARGETS<sup>23</sup>

#### Reduction in GHG emissions

**40% ▶ 55%**  
2019 target      2020 target<sup>24</sup>

**36%**

Increase in energy efficiency needed to reach 2030 GHG target<sup>25</sup>

**65%**

Renewable electricity production by 2030<sup>26</sup>

#### Challenge

The EU's 2030 climate and energy framework sets ambitious targets for clean energy and energy efficiency to combat the challenge of climate change. The built environment has a significant role to play in meeting these goals because buildings make up a significant portion of energy consumption and CO2 emissions.<sup>27</sup>

#### The role of social infrastructure

Improvements to the energy efficiency of buildings will help the EU meet its 2030 targets. As owners of social infrastructure assets, we can contribute to SDG targets 7.2 and 7.3 by increasing clean-energy generation and reducing energy usage. The carbon footprint of assets can be reduced through design, capital expenditures, engagement, education and real-time monitoring.

#### Strategy in action

##### Highlights

- 6 of our assets source 100% of their electricity from offsite, clean-energy, up from 4 last year. The two additional assets, made the switch in 2020. This change is the primary driver of the significant reduction in the portfolio's overall carbon footprint.
- Solar-installation planning began at two assets in 2020 and is expected to be completed in the first half of 2021. The two projects have an expected production capacity of 120,500 kwh per year.<sup>28</sup> **OI2496**
- At a private hospital in Denmark the shared district cooling system from the 1960s was upgraded to a highly efficient system which should reduce heating and cooling energy usage by 68%. This will reduce total expected energy use by 6% per annum<sup>29</sup>.  
**OI6697 SDG 7.3.1**





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

### PORTFOLIO STATISTICS

**6 of 16**

Number of assets

**41.0%**  
**of portfolio**

Total area

**€122 million**  
Euros invested

#### Challenge

Urbanization and associated community and environmental issues are central to SDG 11. Europe's increasingly dense cities suffer a lack of amenities, inadequate waste disposal, high prices of basic goods, and insufficient affordable housing.<sup>31</sup> As urban populations rise, the need for mobility, energy efficiency, and community resiliency is increasingly critical. One in four Europeans are considered "rent burdened"—spending more than 40% of disposable incomes on rent—while ballooning housing costs put more people at risk of poverty.<sup>32</sup>

#### The role of social infrastructure

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

#### Strategy in action

SDG 11 is at the core of the strategy. Our focus on preserving, improving and expanding social infrastructure assets contributes broadly to sustainable cities and communities.

#### Highlights

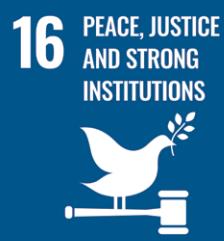
- We brought online 244 affordable beds at our housing asset in Cambridge, UK. 152 of the beds are now occupied by students and 1 by an essential worker.<sup>33</sup> **PI2640** Average rent is 17.3% lower than market-rate accommodations in the area.<sup>34</sup> **PI1748**
- We currently provide 446 student-housing beds at a below-market level and 617 accredited beds in our healthcare assets. **PD5833**

#### SDG 11.1

- We are in active discussions about funding the construction of social infrastructure assets as part of a community-supported master plan in a major European city. Our involvement could support the sustainable and inclusive growth of the urban location. **SDG 11.3**

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**68%: the percentage of world population projected to live in urban areas by 2050, currently 55%<sup>30</sup>**



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

#### PORTFOLIO STATISTICS

**1 of 16**

Number of assets

**3.8%**

Total area

**€16 million**

Euros invested

#### Challenge

The safeguarding of individual rights, opportunities, and safety is uneven across the globe because of weak institutions, poorly enforced laws and a lack of access to justice. Europe lacks adequate investment in social infrastructure, which includes buildings used to administer and enforce justice systems.<sup>36</sup> Underinvestment in justice and emergency facilities hurts these public services.

#### The role of social infrastructure

Progress towards SDG 16 could be hampered by a lack of quality space used by civil servants. By investing in buildings related to justice and emergency services, our strategy aims to preserve the availability and improve the quality of these essential assets.

#### Strategy in action

Our juvenile courthouse in Madrid, Spain, is our only justice and emergency asset. Direct engagement

on impact initiatives with the municipal tenant was challenging at first but has been improving as we have shown we are thoughtful partners. We have been able to demonstrate how we can improve the quality of the asset for the community.

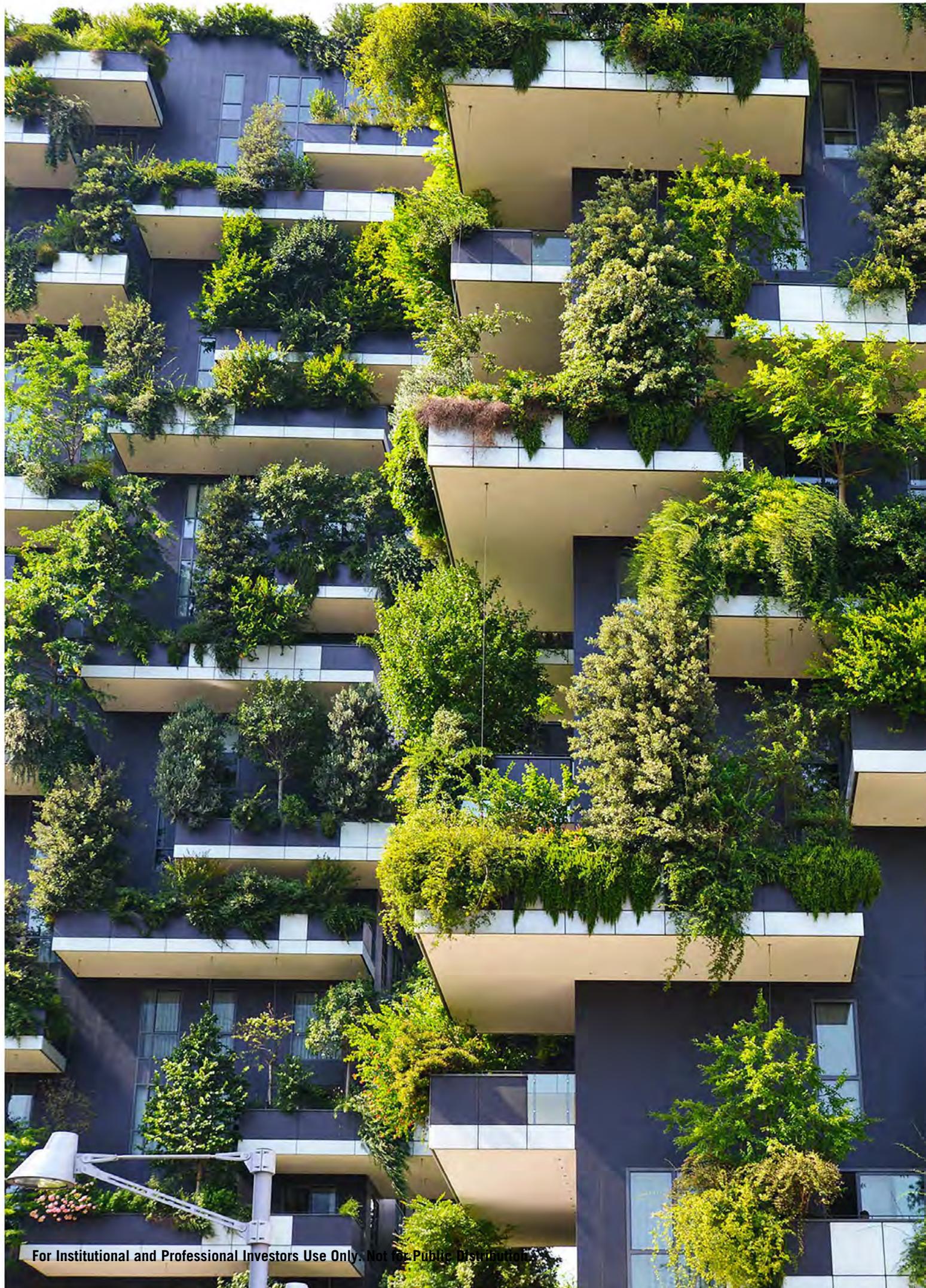
#### Highlights

- In 2019 we installed a Gesell Chamber<sup>37</sup> – a safe space in which juveniles can testify in private in the company of a youth psychologist.
- We followed up on this by engaging with the tenant on accessibility and completing a cognitive accessibility assessment with Plena Inclusión Madrid (see SDG 17 – Partnerships for the Goals on page 11).

We are actively building relationships with other local municipalities across Europe. We hope that these will uncover additional opportunities to contribute to SDG 16.

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**55 million: The number of children in Europe who have been victims of violence<sup>35</sup>**



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# A LOOK AT OUR ASSETS AND IMPACT

# Student housing, United Kingdom

The asset will initially serve as student housing. It will benefit from the flexibility to serve the student population or workers in essential services, or as assisted-living homes for the elderly. We aim to make a portion of the portfolio available to other segments of the community in need of affordable housing. 100% of the asset is priced below market. [PD5833](#)



## Asset overview

Country	United Kingdom	Energy source	Renewables (offsite) & natural gas
Sector <a href="#">PD7557</a>	Housing	Area (% of portfolio) <a href="#">PI4765</a>	4,738 m <sup>2</sup> (3%)
Sub-sector	Multi-use housing	Acquisition date	September 2019

## THEORY OF CHANGE [OD6350](#)

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

## SUSTAINABLE DEVELOPMENT GOALS TARGETS



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



We have identified improvements that can be made to HVAC and lighting. Additionally, we believe the tenant will be receptive to our efforts to work with them to improve consumption behavior. Both of these initiatives will help to reduce the assets energy intensity in line with indicator. [SDG 7.3](#)



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

## UNDERWRITTEN CONTRIBUTIONS AT TIME OF ACQUISITION



**Purpose-driven development**—We will recondition this housing portfolio to provide 244 flexible, low-cost beds across 40 properties. [PI6058](#) [SDG 11.1](#)



**Environmental upgrades**—We will be making a series of upgrades to the systems in assets across the portfolio. We plan to implement 100% LED lighting, upgrade to low-flow water fixtures, install double-pane windows where applicable and upgrade boilers where feasible. [SDG 6.4](#) [SDG 7.3](#)



**Function enhancement**—Significant capital expenditure will be required to furnish and recondition the assets and improve the quality of units. [SDG 11.1](#)



**Stakeholder partnerships**—To build on our planned environmental upgrades, we aim to engage with tenants on best practices for reducing water and energy use. [SDG 6.4](#) [SDG 7.3](#)



**Aligned long-term capital**—We intend to preserve the availability of this asset as a flexible affordable-housing option over the long term. [SDG 11.1](#)

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## YEAR IN REVIEW

Over the past year, we brought these units online with eco-friendly furnishing and other quality improvements. They have been initially positioned to serve the local student population at an accessible price point. We are coordinating with local health groups and municipalities to identify alternative community-use opportunities. We have brought in Homes for Students to manage the properties. Covid-19 slowed lease-up for the 2020–2021 academic year, although 67% of beds were let by the end of 2020.

## ASSET SCORE

### Community



We have spent over £1 million to restore the assets and bring them into compliance. The improved quality, along with the higher quantity of services we now can offer at the asset, bring the score up to a 3. **SDG 11.1** Further improvement of is expected post Covid-19.

### Environmental



Over half the capital spent was put towards sustainably sourced furniture and energy-efficient appliances. We are in the process of installing smart meters and energy sensors. In the coming years, resident engagement, lighting improvements and heating-system fit outs should move us towards the projected score.

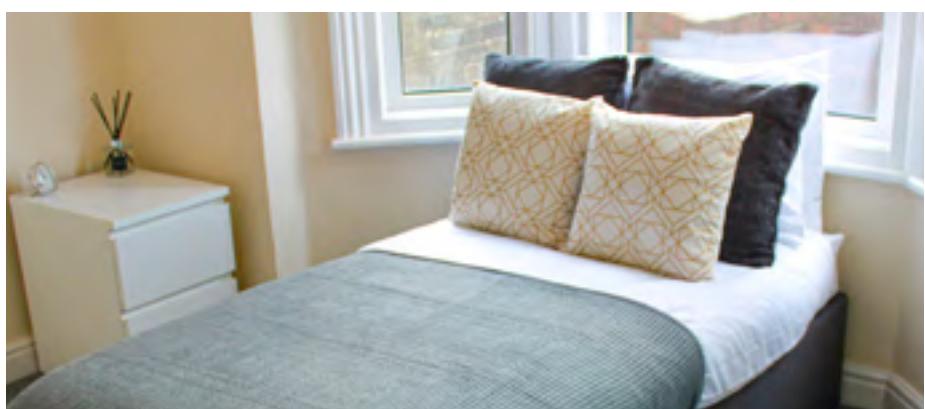
## BUSINESS-PLAN PROGRESS

	Description	Status	SDG target	Contribution type
<b>Bike-rack installation</b>	To date, we have installed 16 bike racks.	Progressing	11.2	
<b>Smart meters and sensors</b>	Electric and gas smart meters and sensors have been partially installed during 2020 and we aim to complete installation during 2021. <a href="#">OI16765</a>	Progressing	7.3	
<b>Furniture installation</b>	All furniture is certified by the Program for the Endorsement of Forest Certification schemes (PEFC) or Forest Stewardship Council® (FSC®).	Completed	12.2	

## KPI UPDATE<sup>38</sup>

	Number of residents / total number of affordable beds <a href="#">PI15965</a>	Beneficiaries <a href="#">PI2640</a>	Affordability (discount to market rate) <sup>39</sup> <a href="#">PI1748</a>	GHG emissions (kg CO <sub>2</sub> e / m <sup>2</sup> ) <a href="#">OI8825</a>	Energy consumption (kWh / m <sup>2</sup> ) <a href="#">OI8825</a>	Water used (m <sup>3</sup> / m <sup>2</sup> ) <a href="#">OI1697</a>
<b>2020</b>	164 / 244	152 students 1 key worker 11 other	17.3%	16.6 (+152%)	80.9 (+148%)	0.8 (+300%)
<b>2019*</b>	0 / 0	0	N/A	6.6	32.6	0.2

\*Units were largely unoccupied in 2019.



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# Hospital, Denmark

The asset houses the largest private hospital in Denmark. It provides standard medical services as well as a range of specialized services, including anesthesia, pulmonology, dietetics, gastrectomy, gynecology, cardiology, dermatology, otolaryngology, and gastroenterology. [PI1533](#)



## Asset overview

Country	Denmark	Energy source	Renewables (offsite)
Sector <a href="#">PD7557</a>	Healthcare	Area (% of portfolio) <a href="#">PI4765</a>	10,517 m <sup>2</sup> (6%)
Sub-sector	Private hospital	Acquisition date	October 2019

## THEORY OF CHANGE [OD6350](#)

Through capital and active ownership, we will help meet growing demand for, and assure access to, high-quality healthcare services for the community around Copenhagen.

## SUSTAINABLE DEVELOPMENT GOALS TARGETS



Private hospitals in Denmark act as overflow support for the public healthcare system. This ensures that all citizens have timely and equal access to necessary health services. Since 37% of the asset's revenue comes from public contracts for these services, the asset is directly facilitating necessary universal health coverage in Denmark.



By including LED lighting in expansion and refurbishment projects, engaging with the tenant on environmental initiatives, and implementing green lease language in a lease addendum, we aim to help the tenant decrease its energy intensity in terms of energy consumption / m<sup>2</sup>, which will contribute directly to [SDG target 7.3](#).

## UNDERWRITTEN CONTRIBUTIONS AT TIME OF ACQUISITION



**Aligned long-term capital**—The Danish healthcare system depends on private hospitals to help manage patient demand and reduce costs for specialty care, and we seek to maintain the availability of one of the country's top private hospitals. [SDG 3.8](#)



**Environmental upgrades**—The tenant, Aleris-Hamlet, has set company-specific goals that align with the SDGs. We are optimistic that we will be able to build on this interest to improve both systems and operations in an environmentally beneficial way. [SDG 7.3](#)



**Purpose-driven development**—We are planning to expand the asset, thereby improving the quantity and quality of services the tenant will be able to provide. [SDG 3.8](#)

## Density of hospital beds in Denmark (beds / 1000 people)<sup>40</sup>

**4.8** vs **2.6**  
EU average Denmark 2019

## YEAR IN REVIEW

Over the past year, the asset has outperformed our expectation, especially from a contribution perspective. We have also had to revise our initial environmental score as we have since learned that energy at the asset is sourced from renewables. We were able to complete one expansion project in 2020 with another one in the works.

## ASSET SCORE

## Community



We believe there is new upside in the “quantity of services” factor given the recently completed courtyard expansion and the planned development of an additional floor. We did not pursue any other community initiatives during the year that would affect the overall scoring. The asset maintains its strong performance from a community standpoint.

## Environmental



In 2020 we replaced the existing inefficient HVAC system from the 1960's. **SDG 7.3** Pollution and energy-use scoring should improve with further upgrades, and proof that the HVAC system is creating the expected efficiency improvements.

## BUSINESS-PLAN PROGRESS

Description	Status	SDG Target	Contribution type
<b>Expansion of asset – additional floor</b>	Reviewing opportunity to add an additional floor to the asset.	Progressing	
<b>Expansion of asset – courtyard</b>	Added 563 m <sup>2</sup> including 3 new operating rooms.	Completed	
<b>Window replacement</b>	Targeting the replacement of 355 windows at the asset by the end of 2021.	Progressing	
<b>HVAC improvements</b>	A new HVAC system has been installed.	Completed	
<b>Smart meters and sensors</b>	Buddy smart meters and sensors have been installed on site. <b>016765</b>	Completed	

## KPI UPDATE<sup>41</sup>

Healthcare facilities <b>PI1017</b>	GHG emissions (kg CO <sub>2</sub> e / m <sup>2</sup> ) <b>018825</b>	Energy consumption (kWh / m <sup>2</sup> ) <b>011697</b>	Water used (m <sup>3</sup> / m <sup>2</sup> ) <b>016709</b>	Total waste intensity (kg / m <sup>2</sup> ) <b>012535</b>	Total recycle intensity (kg / m <sup>2</sup> ) <b>018357</b>	Total waste to energy (kg / m <sup>2</sup> )	
<b>2020</b>	32 beds 64 examination rooms 10 operating rooms	0	221.2 (-25%)	N/A	11.6 (+24%)	1.5 (+33%)	5.0 (+26%)
<b>2019</b>	32 beds 64 examination rooms 7 operating rooms	0	296.8	N/A	9.3	1.1	3.9

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# Nursing home, Italy

The asset is an elderly-care facility a small northern suburb of Milan. It offers outpatient care and a nursing home for the elderly, particularly those with Alzheimer's disease. Additionally, the asset serves the community as a gym, outpatient health center, conference center and a nursery school.



## Asset overview

Country	Italy	Energy profile	Standard grid & natural gas
Sector	PD7557 Healthcare	Area (% of portfolio)	PI4765 11,451 m <sup>2</sup> (7%)
Sub-sector	Nursing home	Acquisition date	January 2020

## THEORY OF CHANGE OD6350

Acquisition of the asset through a sale-and-leaseback structure supports the continued provision of high-quality elderly care while allowing the operator to pursue expansion to further service Italy's aging population.

## SUSTAINABLE DEVELOPMENT GOALS TARGETS



It offers outpatient medical care and physiotherapy services that directly contribute to the provision of universal healthcare coverage in the region.



The asset provides 144 total beds, of which 72 are government subsidized, to be used for nursing home and Alzheimer services. PI1017 The inclusion of beds for those struggling with mental issues directly contributes to SDG 11.1 by providing safe and affordable housing for all.



A portion of the asset is used as a nursery for pre-school children.

## UNDERWRITTEN CONTRIBUTIONS AT TIME OF ACQUISITION



**Aligned long-term capital**—By ensuring that the space will remain available, we ensure that it can confidently use the proceeds from the sale of the asset to pursue expansion opportunities in Italy. SDG 3.8



**Stakeholder partnerships**—We aim to work with the tenant to co-sponsor community events and initiatives, such as working with the municipality of Gerenzano to plant trees, opening psychological support programs for patients, and more. SDG 17.16



**Environmental upgrades**—We see a potential opportunity to work alongside the operator to install a photovoltaic system. SDG 7.2 Additionally, we expect to exploit smart-metering data to help the tenant create efficiencies in its utility-consumption patterns. SDG 7.3

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## YEAR IN REVIEW

As with much of the portfolio, this asset faced its share of challenges through the year driven by Covid-19. The strategy was able to support the tenant through rent concessions, allowing it to shift its focus for the year from community engagement to ensuring the safety of the residents and improving the quality of the asset. Savings went directly into the refurbishment of the physiotherapy pool and research scholarships into delirium with Milano Bicocca University.

## ASSET SCORE

### Community



### Environmental



None of the underlying factors for the community and environmental scoring have changed. The initiatives pursued to date will result in improvements on the environmental side once completed. The main driver of this environmental improvement will be our funding of a large solar installation that we aim to install before the end of summer 2021. The community side has proven stable, even in the face of Covid-19. The pandemic has actually made us more bullish on potential partnership opportunities with the tenant as it has created opportunities to prove our mission-alignment.

## BUSINESS-PLAN PROGRESS

	Description	Status	SDG Target	Contribution type
<b>LEED certification</b>	LEED certification for the property is being pursued in 2021. <a href="#">OI6765</a>	Progressing	7.3	
<b>Solar-panel installation</b>	We have agreed to fund the installation of a large solar-panel installation at the asset.	Progressing	7.2	
<b>Rent concession</b>	Provided rental concessions to the tenant to accommodate the financial impacts of Covid-19.	Completed	3.8	
<b>Smart meters and sensors</b>	Aim to install Buddy smart meters and sensors at the asset in 2021. <a href="#">OI6765</a>	Progressing	7.3	

## KPI UPDATE<sup>42</sup>

	Community usage (daytime) <a href="#">PD7557</a>	Number of nursing-home beds provided <a href="#">PI1017</a>	GHG emissions (kg CO <sub>2</sub> e / m <sup>2</sup> ) <a href="#">OI8825</a>	Energy consumption (kWh / m <sup>2</sup> ) <a href="#">OI1697</a>	Water used (m <sup>3</sup> / m <sup>2</sup> )
<b>2020</b>	1,190 users of elderly day-care center 2,968 users of day center for disabled 1,041 outpatient clinic users 890 users of physiotherapy pool	120 occupants / 144 beds	88.2 (-11%)	408.2 (-11%)	1.6 (-22%)
<b>2019</b>	7,820 users of elderly day-care center 4,370 users of day center for disabled 1,885 outpatient clinic users 1,250 users of physiotherapy pool	144 beds	99.5	460.6	2.0

# CONTRIBUTING TO THE DISCUSSION

## Advancing the debate on impact investing

Impact investing is a relatively new discipline, and we are committed to deepening our understanding of it in the broader investment community. We publish impact research on a regular basis, collaborate with the media and participate in leading conferences.

### Our latest research



#### MAY 2020 ANNUAL IMPACT REPORT

Our inaugural impact report covered how we approach impact investing in real estate, disclosing comprehensive information about our framework and measurement process.



#### JUNE 2020 WHY IMPACT NOW? COVID-19 AND THE ACCELERATING SHIFT TOWARDS A MORE SUSTAINABLE FUTURE

The advent and impressive growth of impact investing is redefining the role of capital in our society. The current Covid-19 crisis is creating a watershed moment where consumers, governments, companies, entrepreneurs and investors are more focused than ever on steering capital towards endeavors that benefit society and the planet. This new focus on sustainable capital is catalyzing opportunity for impact investors to deliver profit with purpose.



#### DECEMBER 2020 NEED AND OPPORTUNITY: WHAT COVID-19 REVEALED ABOUT SOCIAL INFRASTRUCTURE

The need for social infrastructure investments may be accelerating shifts in real estate allocations away from traditional retail and commercial properties and toward more impact-related allocations.

### Media coverage

We collaborate with leading publications – from trade to general media – to increase awareness of impact investing. We contributed to dozens of articles on impact investing throughout the year.



#### ESG CLARITY “Creating impact in a Covid-19 world”

#### PENSIONS & INVESTMENTS “How to impact European real estate in a Covid-19 world”

#### BOERSEN ZEITUNG “Corona influences the effect of impact investing investments”

#### OPTION FINANCE “The Covid-19 crisis has greatly increased interest in our social infrastructure strategy.”

### Our speaking engagements\*

FEBRUARY 2020	APRIL 2020	SEPTEMBER 2020	OCTOBER 2020	FEBRUARY 2021
Urban Thinkers Campus in Rome <b>Italy</b>	Financial Investigator Roundtable <b>Netherlands</b>	Forum Institutional Investors by MondolInstitutional <b>Italy</b>	Social Infrastructure Investor Day <b>Pan European</b>	CFO (Family Office Forum) by MondolInstitutional <b>Italy</b>
BAI conference: Impact Management Real Assets <b>Germany</b>	<b>MAY 2020</b> Annual Impact Report Webinar <b>Pan European</b>	Phenix Impact Summit <b>Netherlands</b>	IPE breakfast series <b>Germany</b>	Casse di Previdenza event by MondolInstitutional <b>Italy</b>
		FinPro Conference <b>Germany</b>	Mallowstreet University Summit <b>UK</b>	

\*Representative list.

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## Endnotes

1. Total area covered based on data availability for CO2 & energy intensity: 93,505m<sup>2</sup>
2. Ibid
3. Renewable production based on estimated outputs from EPC information for Project Dolphin and PV output at Project Bleuet
4. Project Giraffe is counted in all of our Civic metrics but has yet to officially close. We are projected to close H1 of 2021
5. Percent change based on the addition of Bari students only. Not counting data on vocational students at Project Cold since this data was not available in 2019
6. Excludes data for some education tenants at Valla Park. No year over year change shown due to inconsistent data availability
7. This data point is an aggregated value calculated by averaging the cost savings premium across affordable beds
8. Source: United Nations Development Programme
9. Source: *Student accommodation impact report* (Rep.). (2019). Octopus Real Estate
10. Source: Boosting Investment in Social Infrastructure in Europe. Report of the High-Level Task Force on Investing in Social Infrastructure in Europe, January 23, 2018
11. Source: Changing Courses. UNEP Finance Initiative, November 2019
12. UN Sustainable Development Goals
13. Source: *World population projected to reach 9.8 billion in 2050, and 11.2 billion in 2100*. United Nations Department of Economic and Social Affairs, June 2017
14. Source: UN SDG3, United Nations, Sustainable Development Goals, as of March, 2020
15. Source: Improving healthcare quality in Europe. European Observatory on Health Systems and Policies, 2019
16. Source: Population structure and ageing, Eurostat, as of March, 2020
17. Source: Secondary graduation rate, Organization for Economic Co-operation and Development, as of March, 2020
18. Source: Water Use and Environmental Pressures, European Environmental Agency, as of November 2020
19. Source: Water Scarcity and Drought in the European Union, European Commission, August 2010
20. Source: Water Stress, European Environmental Agency, as of March, 2020
21. Source: Water Scarcity and Drought in the European Union, European Commission, as of August 2010
22. Source: Water Performance of Buildings, European Commission, August, 2012
23. Source: Stepping up Europe's 2030 climate ambition, European Commission, September, 2020
24. Ibid
25. Ibid
26. Ibid
27. New rules for greener and smarter buildings will increase quality of life for all Europeans, European Commission, April 15, 2019
28. The energy number is an estimate based on size and location of system
29. Estimated reduction based on actual 2019 consumption data for the asset and outgoing cooling system and COP of the newly installed cooling system
30. Source: "68% of the world population projected to live in urban areas by 2050, says UN", United Nations Department of Economic and Social Affairs, May 16<sup>th</sup>, 2018
31. UN SDG11, United Nations, Sustainable Development Goals
32. Source: Housing statistics, income and living conditions, Housing cost burden, Eurostat, as of June, 2020
33. This number is from all leases starting between 1/1/2020 and 12/31/2020 and consists of residents who self-identified as an essential worker.
34. Source: This value was computed by calculating the median monthly cost to rent a room at Project Rose obtained from our booking data and comparing that to the median monthly rental cost for an individual room in Cambridge. This data was sourced from <https://www.home.co.uk>. Our calculation was computed by subtracting Cambridge's median monthly room cost from our median monthly room cost and dividing that by Cambridge's median room cost as suggested by the IRIS metric PI1748
35. Source: Violence against children: tackling hidden abuse, World Health Organization, 2020
36. Source: Boosting Investment in Social Infrastructure in Europe. Report of the High-Level Task Force on Investing in Social Infrastructure in Europe, January 23, 2018
37. Source: AJS Advocates for Safe Places to Give Testimony. Association for a More Just Society, October 26, 2016
38. Environmental KPIs are calculated based on data provided by tenants. Intensity is calculated using whole area unless otherwise specified. CO<sub>2</sub> values were calculated based on supplier information provided by the tenant
39. Source: This value was computed by calculating the median monthly cost to rent a room at project Rose obtained from our booking data and comparing that to the median monthly rental cost for an individual room in Cambridge. This data was sourced from <https://www.home.co.uk>. Our calculation was computed by subtracting Cambridge's median monthly room cost from our median monthly room cost and dividing that by Cambridge's median room cost as suggested by the IRIS metric PI1748
40. Source: Hospital beds (per 1,000 people), The World Bank, data retrieved March 2021
41. Environmental KPIs are calculated based on data provided by tenants. Intensity is calculated using whole area unless otherwise specified. CO<sub>2</sub> values were calculated based on supplier information provided by the tenant
42. Environmental KPIs are calculated based on data provided by tenants. Intensity is calculated using whole area unless otherwise specified. CO<sub>2</sub> values were calculated leveraging the Carbon Risk Real Estate Monitor tool developed by the CRREM research consortium

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