Climate matters

Templeton Global Climate Change Fund[1]
Templeton Global Equity Group – Sustainability Team

Data as of December 31, 2023

This is a marketing communication. Please refer to the prospectus of the UCITS and to the KID/KIID before making any final investment decisions.

Fundamental research drives the stock selection process for the Templeton Global Climate Change Fund (TGCCF). The investment team narrows down a global universe of more than 10,000 stocks through quantitative screening and qualitative assessment, which produces a list of investable companies that can be categorised as *Solutions* or *Transitioning*. The fund benefits from a disciplined valuation approach, reflected in low P/E and P/B as compared with the benchmark and the peer group.

The fund is lower than its benchmark on Scope 3 emissions, and its impact is measured through Potential Avoided Emissions – a concept we use to model carbon footprint reduction achieved through adoption and use of our portfolio companies' products and services.

The purpose of this *Climate matters* document is to highlight recent company-specific developments and summarise our most recent engagements with the company in question.

- **Albemarle – Elemental to transportation**
- **NHPC – India's low carbon opportunity**
- **First Solar – Doing solar differently**
- **Smurfit Kappa – Leading sustainable packaging**

Craig Cameron, CFA
Lead Portfolio Manager

	P/E	P/B
TGCCF[1]	**12.3x**	**1.4x**
MSCI ACWI[2]	15.8x	2.4x
Peer Group Avg.	17.3x	2.5x

	Scope 1+2*	Scope 3*	Potential Avoided Emissions*
TGCCF[1]	**108**	**346**	**-10,878**
MSCI ACWI[2]	54	476	N/A

Our research by climate change theme:

Energy efficiency | **Renewable energy** | **Sustainable transportation** | **Water & waste management**

Sustainable agriculture | **Emerging solutions** | **Transition enablers**

1. A sub-fund of Franklin Templeton Investment Funds, a Luxembourg-registered SICAV ("FTIF").
2. MSCI All Country World Index.

Effective 5 March 2018, Templeton Global (Euro) Fund was renamed Templeton Global Climate Change Fund and modified its investment strategy to focus primarily on global companies which recognise and adapt to the long-term financial risks and opportunities presented by climate change and resource depletion.

*Tonnes of CO_2e per USD 1 million invested.

Albemarle US

Templeton Global Equity Group – Sustainability Team

Elemental to transportation

Craig Cameron, CFA
Lead Portfolio Manager, SVP
Analyst, Albemarle

ALBEMARLE

Domicile: United States

Sector: Materials

Industry: Specialty chemicals

Market cap: Large cap

GEG climate change theme:

Sustainable transportation

The thesis:

Albemarle is the world leader and lowest cost producer in the mining and processing of lithium carbonate and lithium hydroxide, used primarily in electric vehicle (EV) lithium-ion batteries. Albemarle products are crucial to the shift to EVs, and we expect a tripling of lithium demand from 2022 to 2030. We believe productive supply remains constrained and will be a driver of heightened lithium cost volatility, while nationalisation risks are more likely to create upside to lithium prices than be a drag on profitability.

Unlike more widely-used metals, we view lithium mining and processing as a solution to climate change given its very specific end use in lithium-ion batteries. Whether being used in EVs or as energy storage, batteries are helpful to manage the output of renewable energy more productively and avoid relying on fossil fuel for power generation or as transportation fuel.

The latest:

Albemarle shares fell meaningfully during 2023, driven by a lithium spot price that continued to declined to a level we believe sits below the marginal incentive price. Shares peaked in November 2022 and have fallen meaningfully since, as lithium spot price declines were compounded by talk of a potential nationalisation of any new lithium developments in Chile. The market remains sceptical and we believe the current share price assumes lithium will remain around current levels ($13/kg) in perpetuity. While expectations around EV demand have weakened, we remain constructive on long-term lithium demand, and see potential downside risks to supply. We also believe Albemarle will increasingly be seen as an attractive geopolitical partner by major auto manufacturers, as a US-based business making significant efforts to decarbonise its production of lithium. On a backdrop of still rapid demand growth, underpinned by a strong position on the cost curve, we believe Albemarle should generate significant long-term shareholder value from what is now a depressed starting point.

Sustainability team engagements:

- **November 2023:** We spoke with the Sustainability Lead and IR about modelled assumptions about the lithium price and its effect on capex decisions, and discussed the evolution of the competitive landscape with Exxon's presence in lithium and new greenfield projects in Zimbabwe.
- **July 2023:** We met the Head of Sustainability to discuss potentially avoided emissions data. Explored the company's calculations on the topic and shared details on other company's approaches, including what we think of as best practice.
- **June 2023:** We spoke with CEO and CFO of Albemarle following their 2023 sustainability day, focussing on carbon price adoption, diversity targets, renewable energy, and also pushed for the company to publish more detail around its potential avoided emissions contribution.

NHPC Ltd.

Templeton Global Equity Group – Sustainability Team

India's low carbon opportunity

The thesis:

As India's premier regulated hydroelectric power station developer and operator, NHPC offers a long runway of growth in Indian renewable energy. The company already has a significant market share of the country's installed hydroelectric capacity, which lends itself to India's COP26 goal of tripling non-fossil-fuel power capacity by 2030. The Indian government is now incentivising hydropower through mandates and incentives, having officially classified large hydro projects as renewable energy sources and mandated hydro purchase obligations to support its net-zero goal. Not only does hydro provide clean and low-carbon energy, its relatively flexible energy dispatch also allows higher penetration of variable renewables such as solar and wind in the grid. As a country that has long relied on coal and oil to fuel its industry and modernisation, India's aim of reaching net zero emissions and tripling non-fossil fuel power presents a significant growth opportunity for renewable energy.

The latest:

We expect NHPC to leverage its existing expertise to build a strong position in renewable energy in India across hydro, solar, and wind, creating a leader in renewable energy over the medium-term. The company is currently adding two key hydropower projects that will be operational by late 2025, with six further projects coming online through the late 2020s. This should help to drive a ~70% expansion of regulated equity. NHPC is also exploring growth in Solar, aiming to develop 5GW of capacity over the next three years, and 25GW by 2030. Recently, the company was awarded EPC contracts for 1GW of capacity.

The company has also identified green hydrogen and wind energy as areas of future growth and is looking to develop projects with these methods of generation.

Bhavesh Bombaywala
Analyst, NHPC

Domicile: India

Sector: Utilities

Industry: Renewable electricity

Market cap: Mid cap

GEG climate change theme:

Renewable energy

Sustainability team engagements:

- **December 2023:** Discussed business strategy and ESG topics with the Director of Finance and CFO, with success from recent engagement topics. The company is going to produce an ESG report along with the annual report in 2025, and the board will establish a long-term net zero target in the coming year. Also, engaged on lack of gender diversity on the board, which has been communicated back to the board by the Finance Director.

As of December 2023. This is not a complete analysis of every material fact regarding an industry or security. The actions taken with respect to this stock, and its performance, may not represent other advice or investments of Franklin Templeton. It should not be assumed that any securities transactions were or will be profitable. Individual securities mentioned are intended as examples only and are not to be taken as advice nor are they intended as a recommendation to buy or sell any investment or interest. The analysis and opinions of the security discussed herein may change at any time. There is no assurance that any security purchased will remain in the strategy's portfolio, or that any security sold will not be repurchased. 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 Franklin Templeton strategy. Case studies are used for illustrative purposes only and should not be construed as an endorsement of or affiliation with Franklin Templeton.

First Solar Inc.

Templeton Global Equity Group – Sustainability Team

Doing solar differently

The thesis:

First Solar is a leading solar manufacturer that produces a very different types of solar panels, known as 'thin film.' With a focus on utility-scale installations rather than residential, First Solar's products have a different production method that we believe is superior to traditional polysilicon panels, making First Solar a leader in terms of environmental, social and governance standards in its industry.

From an environmental standpoint, polysilicon is an industry largely built on coal-fired power generation, and thin film panels are not. This leads to significantly lower supply chain carbon emissions for thin film panels.

Turning to social issues, First Solar's manufacturing is centred around the United States, Malaysia and Vietnam, avoiding many of the issues that the solar industry has faced in Western China around forced labour, some of which have led to import restrictions into the United States. Then on governance, we believe the company stands out among its peers on standards and transparency in a sector that still lacks detailed sustainability reporting.

The latest:

The company remains sold out for several years, with US expansions being built in Alabama (2024), Ohio (2024), and Louisiana (2025). The US Inflation Reduction Act remains a material driver of First Solar's growth, and the company recently sold some receivables related to subsidies to help manage potential risks stemming from this legislation. The stock has remained volatile in recent months on the back of expectations around both the upcoming US election and the impact of changing long-term interest rates on the affordability of solar. We believe at current valuations the market is giving limited credit for subsidies associated with the Inflation Reduction Act, and still underestimates the potential for First Solar to compete on levelised cost of energy against its international peers.

Sustainability team engagements:

- **August 2023:** We met with the Treasury/IR function about a recent modern slavery audit, the issues that it found, and how they will be avoided in the future. Also, discussed the market backdrop, subsidy payments from the Inflation Reduction Act, and what sort of returns the company is making on new investments. Finally, discussed cash flow trajectory in light of existing capital commitments and subsidy trajectory.

Craig Cameron, CFA
Lead Portfolio Manager, SVP
Analyst, First Solar

First Solar.

Domicile: United States

Sector: Information technology

Industry: Semiconductors

Market cap: Mid cap

GEG climate change theme:

Renewable energy

Smurfit Kappa

Templeton Global Equity Group – Sustainability Team

Leading sustainable packaging

The thesis:

Smurfit Kappa is Europe's largest manufacturer of cardboard boxes, and a key beneficiary of the shift from plastics to sustainable packaging options. Smurfit produces containerboard in its paper mills and converts it to boxes across its continental network. The company is attempting to expand into the US, through a merger with peer Westrock.

Smurfit end demand is dependent on food and fast-moving consumer goods (FMCGs). The optimised dimensions of its shelf-ready packaging maximise floor space utility and minimise logistics costs for its retailers. The strength and stability offered by these stackable packs helps to reduce transit damage and therefore minimises losses to damaged inventory. On top of these efficiency benefits, its packaging is easily recyclable, using no mixed materials, and a high percentage of the raw material used in production consists of recycled content.

The latest:

Smurfit shares were highly volatile through 2023, with the market most recently taking a pessimistic view of the Westrock deal, cost inflation, and pricing. Despite fears of weakening spend amid a more uncertain economic environment, Smurfit has proved resilient however, with relatively inelastic demand for its sustainable packaging options as its FMCG-heavy customer base helped to add a layer of defensiveness, and the shares performed strongly into the year-end following reassuring Q3 numbers on November 1. Doubts around the Westrock deal still linger, though – a shareholder letter was submitted to the company's board in late December, asking for the merger to be reconsidered.

In our view, Smurfit remains the high-quality play on sustainable packaging. We are confident in management's ability to deliver on synergies and we see the Westrock deal as a positive, complementary development which is currently underappreciated by the market. Looking to 2024, we believe that retail demand will remain healthy, driven by better-than-feared consumer spend as concerns around a 'hard landing' and recession have largely eased.

Tina Sadler, CFA
Portfolio Manager, EVP
Analyst, Smurfit Kappa

Domicile: Ireland

Sector: Materials

Industry: Containers & packaging

Market cap: Mid cap

GEG climate change theme:

Water & waste management

Sustainability team engagements:

- **September 2023:** Discussion with CEO Tony Smurfit to discuss rationale and logic of the Westrock deal.
- **August 2023:** Business update with CEO and IR post 1H results. Focussed on FMCG destocking cycle. Went into detail with management on pricing power expectations through the cycle, and why customers may continue to order sustainable packaging rather than the cheapest alternative.

INVESTMENT OBJECTIVE

The Fund is classified as Article 9 under EU Sustainable Finance Disclosure Regulation and aims to contribute towards climate change mitigation and adaptation as considered by the Paris Climate Agreement while increasing the value of its investments over the medium to long term. The Fund pursues an actively managed investment strategy by investing in companies across all sectors worldwide that are good stewards of their impact on social and environmental development belonging to 3 categories solution providers (more than 50% of the Fund's net assets): companies deriving a majority of revenues from activities aiming at reducing carbon emissions or improving resource efficiencies; transitioning companies: companies making industry-leading efforts to reduce emissions or resource intensity; and resilient companies: companies having relatively low carbon and resource intensity.

FUND RISKS

The value of shares in the Fund and income received from it can go down as well as up and investors may not get back the full amount invested. Performance may also be affected by currency fluctuations. Currency fluctuations may affect the value of overseas investments. The Fund invests mainly in equity securities of companies throughout the world which recognise and adapt to the long-term financial risks and opportunities presented by climate change and resource depletion. Such securities have historically been subject to significant price movements that may occur suddenly due to market or company-specific factors. As a result, the performance of the Fund can fluctuate significantly over relatively short time periods.

Other significant risks include:

Foreign currency risk: the risk of loss arising from exchange-rate fluctuations or due to exchange control regulations.

Derivative instruments risk: the risk of loss in an instrument where a small change in the value of the underlying investment may have a larger impact on the value of such instrument. Derivatives may involve additional liquidity, credit and counterparty risks.

Emerging markets risk: the risk related to investing in countries that have less developed political, economic, legal and regulatory systems, and that may be impacted by political/economic instability, lack of liquidity or transparency, or safekeeping issues.

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

IMPORTANT DISCLOSURES

This Fund has been classified as Article 9 under the Regulation on sustainability related disclosures in the financial services sector (EU) 2019/2088. These are Funds which have an ESG integration approach, have binding environmental and/or social characteristics and a clear sustainable investment objective.

Further information in relation to the sustainability-related aspects of the Fund can be found at franklinresources.com/countries. Please review all of the Fund's objectives and characteristics before investing.

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