

## SHINING A LIGHT ON THE..... Templeton Global Climate Change Fund

### AT A GLANCE

Investment Objective
The Fund's investment objective is to contribute towards climate change mitigation and adaptation as considered by the Paris Climate Agreement while seeking capital appreciation. Proposed index / alternative means of measurement The Fund's proposed index to measure the sustainable investment objective, is the MSCI Provisional ACWI Climate Change EU Climate Transition Index, which pursues carbon intensity of at least 30% below the broad market index and incorporates a year-on-year self-decarbonization of at least 7% on average, the trajectory required to limit global warming of no more than 1.5 degrees, according to the Intergovernmental Panel on Climate Change. The index applies exclusions and adjusted weightings to the broad market parent index, MSCI All Country World Index, in order to comply with the EU Climate Transition Benchmark requirements.

<b>Inception Date</b>	29 <sup>th</sup> December 2000
<b>Fund Factsheet Link</b>	<a href="https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F00000QLVC">https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F00000QLVC</a>

Management	
Manager Name	Start Date
Maarten Bloemen	5 <sup>th</sup> March 2018
Herbert J Arnett Jr.	11 <sup>th</sup> June 2021
Craig Cameron	1 <sup>st</sup> January 2021
Tina Sadler	1 <sup>st</sup> January 2020

### FUND PERFORMANCE

Performance from 1<sup>st</sup> January 2016 to 31<sup>st</sup> October 2021:

	2016	2017	2018	2019	2020	2021
<b>Templeton Global Climate Change Fund</b>	24.12%	9.63%	-12.48%	18.27%	24.63%	9.38%
<b>MSCI ACWI NR</b>	28.66%	13.24%	-3.78%	21.71%	12.67%	16.47%

Performance over 12 months, 3 years, 5 years and since launch:

	1 year	3 years	5 years	Since Launch
<b>Templeton Global Climate Change Fund</b>	29.74%	52.02%	59.48%	229.33%
<b>MSCI World NR</b>	29.49%	51.12%	76.98%	317.73%

*You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

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Tracking Error	Information Ratio	Active Share	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
6.24	0.04	95.11	105.58	109.52	55.56	1.12	-1.12	Blend/Large

Volatility Measurements	
3-Yr Std Dev (volatility)	16.52%
3-Yr Mean Return (average)	14.98%

Investment Style Details	
Giant	22.28%
Large	24.57%
Medium	37.34%
Small	9.56%
Micro	0.77%

Top 5 Holdings – 71 Equity Holdings		
Crown Holdings Inc	Consumer Cyclical	3.66%
First Solar Inc	Technology	3.37%
Prysmian SpA	Industrials	3.36%
Faurecia SE	Consumer Cyclical	3.06%
Albemarle Corp	Basic Materials	2.91%

Top 5 Sectors	
Industrials	29.79%
Technology	18.40%
Consumer Cyclical	15.79%
Utilities	9.98%
Basic Materials	9.25%

Top 5 Regions	
United States	24.95%
France	14.65%
Japan	8.23%
Germany	7.97%
India	6.20%

### UPDATE....

With a plethora of new “green” funds, this is a fund that was launched in 2018. The actual strategy goes back to 2000, but was repositioned in 2018 towards being a climate change fund.

One of the questions I had for the team was how important this was to Templeton? They explained that this is the main strategy for the global team, and what they are doing is filtering across the business. They have a sustainability and stewardship council, and the wider business has a strong belief this is where the future is heading.

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They also added that ESG has always been part of the Templeton DNA. A lot of this is about whether we feel this is true, and we did come away believing that both the team and Templeton are doing this for the right reasons.

The objective is to contribute towards climate change mitigation and adaptation, as considered by the Paris Climate Agreement. The strategy specifically excludes fossil fuel producers, producers of controversial weapons, tobacco, conventional weapon producers and nuclear power. The discussion focused on why now and why the fund?

This is a long-term story. The planet is already 1.2 degrees warmer, and therefore 80% towards the 1.5-degree target. By 2100 it is estimated this could be 2.1 – 3.9 degrees warmer. This has impacts across weather, declining water supplies, reduced agricultural yields and public health risks. MSCI recently published a paper which indicated that listed companies are on track to cause average temperatures to rise by nearly 3 degrees above pre-industrial levels.

All the pledges and targets get us nowhere near where we need to be. As an example, electricity is currently around 13% renewables: this needs to be 85% by 2050. Electric car sales are at 4% and this needs to be 70% by 2040.

Change goes across all sectors, and this means there must be a transformational shift. On the positive side there is political momentum and greater consumer awareness, and this is driving change. Sustainable strategies are seeing greater demand and companies are now realising they cannot focus on the next quarter alone but on the longer term.

The five pillars to what Templeton do are described as – forward-looking, price disciplined, independent-minded, fundamental, and long-term.

The fund places companies across three buckets:

- Solutions – products and services that reduce emissions
- Resilient – those companies that are insulated from climate change and ahead of the curve
- Transitioning – those companies that are transitioning towards solutions or being resilient

They use their own proprietary screen which reduces the universe to around 1500 companies, and then ESG and value filters reduce this down to around 300 companies. Then in-depth research produces a group of around 100 companies from which they construct the portfolio. Currently, the fund has 60.3% in climate change solutions, 29.9% in transitioning and the balance in resilient.

We talked about a couple of holdings:

Signify – they are the world leader in efficient light bulbs. LED lights are more efficient in producing light and there is around 50% penetration globally. It was the first company to meet carbon neutrality in 2020. The potential for the business remains vast, and yet it remains at an attractive valuation.

Prysmian – this is a global leader in fragmented power and data cabling, which is benefitting the energy transition. It is looking to reach net zero by 2035 and executive remuneration is tied to ESG targets.

The team also believe that engagement is crucial, and this is where they can add value. Engagement goes across carbon reduction targets and verification, improved disclosures, and implementation. They can evidence that the companies they invest in are decarbonising faster than the index.

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In summary, we were impressed by the team and the culture within Templeton. Clearly this is part of their DNA and important to the business and how they want to do positive things for the world. We also believe that long term this is an area with the potential for greater growth over the next decade. If you compare the holdings to other global funds, this is very different, and it is not just US focused.

They also argue that in the long term these companies will outperform their counterparties, and this again is something we would not disagree with. The one concern we have is performance. It hasn't outperformed the global index and we can see it hasn't outperformed the climate change index.

	2018 (from 5 March)	2019	2020	2021 (up to 31 <sup>st</sup> October)
<b>Templeton Global Climate Change Fund</b>	-9.98%	18.27%	24.63%	9.38%
<b>MSCI ACWI Climate Paris Aligned Index</b>	-1.64%	23.24%	15.40%	16.79%

We would want to understand this more, especially as we feel this is an area that could do well over the next ten years. Clearly, they are active in their engagement, and they passionately believe in what they are doing. The question is whether they can deliver the performance. The counterargument is does it matter? If that is the case then as it stands, investors would be better to buy the index, so it is important to understand.

We would therefore be happy to watch this strategy and do further due diligence before considering adding to our watchlist.

*The source of information in this note has been provided by Templeton and is correct as of November 2021. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this, and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.*