

CASE STUDY

Driving impact in real assets

(FRANKLIN TEMPLETON)

Investing in real assets plays a vital role in reducing the effects of climate change, with estimations that buildings are responsible for up to 39% of global energy-related carbon emissions and for providing basic services to underserved populations.¹³ Recognizing this urgent need, investing for impact in real assets has grown quickly and, with it, the need for greater clarity and consensus on what best practice for managing impact in the asset class looks like.¹⁴

BlueMark has conducted 14 verifications for real assets investors, representing a combined USD 42 billion in AUM. In doing so, we have been able to adapt our verification methodology to account for the nuances of investing in real assets and begin to establish what constitutes best practice, particularly as it relates to robust due diligence and ESG risk management processes.

Our Verification Insights

One question for real assets investors is how to manage the materiality of various impacts and Environmental, Social, and Governance factors across different projects. For example, are governance factors relevant to incorporate when investing in a new infrastructure development? Or should environmental impacts be assessed when investing to preserve affordable housing?

At BlueMark, we have found that a comprehensive ESG management system is increasingly “table stakes” for high quality impact management in real assets - and, indeed, 93% of our real assets clients have a systematic process in place to do so. In fact, our experience has shown that the best real assets investors do not isolate ESG factors depending on the theme of their strategy but have IM systems in place that are accountable to all material impacts regardless of their thesis.

Client Spotlight: Franklin Real Assets Advisors

Franklin Real Asset Advisors, an investment platform within Franklin Templeton (“Franklin Templeton”), engaged BlueMark to do a reverification of its Social Infrastructure strategy’s alignment to the

13 World Green Building Council (2019): [Bringing Embodied Carbon Upfront](#)

14 GIIN (2020): [Annual Impact Investor Survey](#)

Impact Principles. The strategy seeks to improve the quality of social infrastructure assets across Europe while reducing the carbon footprint of the built environment through investing in various real assets, such as social and affordable housing, hospitals, schools, and buildings related to justice, emergency and civil services.

Given its dual social and environmental objectives, Franklin Templeton has designed an IM and ESG management system that can consistently account for material impacts – both positive and negative – through the development of an impact rating system. The rating seeks to capture the current and projected state of each asset’s community and environmental performance based on a predefined set of community (i.e., community purpose, quality of services, accessibility) and environmental factors (i.e., pollution, energy use, greenspace). Franklin Templeton uses this rating to assess each asset at acquisition and then project and monitor the environmental and social results from its investment and value-add initiatives over time.

This dedicated social infrastructure strategy also seeks to incorporate wider indirect and potential negative impacts, that may not be captured directly, within its rating system. For environmental factors, during the due diligence process, Franklin Templeton completes a comprehensive climate risk assessment, which includes both physical and transition risks for each asset and leverages commissioned sustainability reports in addition to analysis using the Carbon Risk Real Estate Monitor (CRREM) tool. Industry ESG standards specific to real assets, including the Global Real Estate Sustainability Benchmark (GRESB) and Building Research Establishment Environmental Assessment Method (BREEAM), help to support the strategy with both relevant and standardized data to inform these types of assessments.

To manage and assess broader social outcomes, Franklin Templeton has implemented various stakeholder engagement processes, such as sentiment surveys, direct tenant engagement and site-visits which can help elicit perspectives from community members to inform the positive or negative effects that the asset is having on the community.

Given the broad range of material impacts in real assets, it’s increasingly important that impact management systems are designed to account for both ESG risks and indirect and negative impacts. BlueMark worked with Franklin Templeton and encouraged this type of approach and had the opportunity to re-verify and validate improvements made since its last verification. It is essential that, for real assets impact investing to create tangible impact, it encourages the promotion of social and environmental well-being through the built environment and infrastructure.

“The key to our approach has been a commitment to the continuous improvement of our impact-management process, and this is not possible on our own. We were excited to engage with BlueMark for our OPIM verification services because we wanted more than just verification; we wanted critical feedback from a group that understands impact investing and its practical implementation. We have taken comments from BlueMark from our first verification process and implemented many of their suggestions. This has undoubtedly helped us as we seek to execute market best practices for impact in real estate.”

JOHN LEVY

DIRECTOR OF IMPACT, FRANKLIN TEMPLETON

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