

FEATURED CASE STUDY

# FRANKLIN TEMPLETON

INVESTMENT:

## PROJECT LAGOON

*Public hospital and nursing facility  
striving to enhance healthcare access-  
ibility in an underserved region of Italy.*



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INVESTMENT STRATEGY	FRANKLIN TEMPLETON SOCIAL INFRASTRUCTURE STRATEGY	INVESTMENT TYPE	REAL ESTATE
SECTOR	REAL ESTATE – HEALTHCARE	OWNERSHIP STAKE	FULL OWNERSHIP
INVESTMENT DATE	AUGUST 2019	IMPACT VALUE CREATION MODALITY	SYSTEMS
GEOGRAPHY	EUROPE		

**INVESTOR & COMPANY OVERVIEW**

FRANKLIN TEMPLETON SOCIAL INFRASTRUCTURE (FTSI) invests in, and supports with its long-term capital, healthcare and education facilities, social and affordable housing, and buildings related to justice, emergency, and civic services across Europe. These assets benefit communities by acting as the physical spaces where essential social services are provided. Additionally, the strategy helps environmentally upgrade these facilities, enhancing their sustainability and long-term financial value during the holding period.

PROJECT LAGOON is a public hospital and nursing home facility in Venice Lido, Italy with 330 patient beds and significant on-site research activities. The hospital is one of 51 hospitals in Italy (corresponding to circa 5% of the national offer) that obtained recognition as an “IRCCS” (“Scientific Institute for Research, Hospitalization and Healthcare”) since 2005. It specializes in the rehabilitation of cranial and spinal trauma outcomes, amyotrophic, lateral sclerosis, neuropathies, Parkinson’s disease and dementia.


FTSI acquired the hospital and nursing home facilities to preserve and improve critical health services for the local community. Notably, hospital capacity and accessibility of healthcare services in the region are lower than the national average, despite its sizable elderly population. Financial challenges under the previous operator placed the hospital in serious risk of closure and the facilities were likely to have closed were it not for the purchase by FTSI, which would have exacerbated the community’s health access challenges. After securing the continued operation of the facilities with long-term operating leases to two new healthcare operators, FTSI facilitated discrete improvements to service quality, accessibility, and environmental sustainability, consistent with the strategy’s value creation playbook.

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KEY ELEMENTS OF VALUE CREATION:

Franklin Templeton’s value creation approach demonstrates the SYSTEMS modality across both social and environmentally-focused activities:

IMPACT VALUE CREATION MODALITY	VALUE CREATION ACTIVITY	FINANCIAL DRIVERS	VISIBILITY OF FMI
 <p>SYSTEMS</p>	<p>Preservation and enhancements of healthcare services through a long-term lease with quality operators, facilitating targeted improvements for quality and accessibility, and expanded capacity financed by the tenant</p>	<ul style="list-style-type: none"> <li>• <b>Capital efficiency</b> from operational quality enhancements and increased financial stability</li> </ul>	<p>The value of preserving and improving critical healthcare services was observable, benefiting from FTSI’s impact expertise in social infrastructure to identify impact and financial value creation opportunities to manage operational turnarounds.</p>
	<p>Leveraging third-party experts to identify and address environmental upgrade opportunities with material benefits to energy cost savings and long-term asset value</p>	<ul style="list-style-type: none"> <li>• <b>Cost savings</b> from environmental efficiency improvements</li> <li>• <b>Capital efficiency</b> from asset updates</li> </ul>	<p>FTSI has a discipline of assessing which environmental improvements are financially material by incorporating them in a quantitative asset underwriting process.</p>

VALUE CREATION

PRESERVE, IMPROVE, AND EXPAND SERVICES

The FTSI team, experts in safeguarding and enhancing critical social infrastructure, executed two 30-year leases with two quality operators for the hospital and nursing home facility, guaranteeing the continuity of community benefits for years to come and elevating the facility’s standard of service and safety.

To finance subsequent improvements, FTSI coordinated a tenant-financed capital expenditure plan totaling €12 million. The hospital has implemented a capex program to improve the research facilities and levels of medical care, which will entail the restructuring of both the research laboratories and of the hospital wards. The nursing home will be expanded, creating an additional 68 beds while also improving the energy efficiency of the overall building. Also, FTSI has acquired approval to add a medical university campus and potentially student housing to the site, further adding to its social value for the community.

VALUE CREATION

ENVIRONMENTAL IMPACT

FTSI enhanced its assets’ environmental performance, realizing direct financial benefits through reduced operating costs and increased asset value. FTSI’s commitment to accountability is highlighted by its intentional measurement of environmental transformation, including the use of third-party experts to conduct environmental due diligence in auditing energy, carbon, water, biodiversity, and waste. Project Lagoon’s improvements have included solar panels, upgraded heating and lighting systems, and geothermal heating and cooling. Notably, these efforts resulted in yearly carbon intensity reductions of over 10% at the facilities, showcasing the strategy’s commitment to transparent and impactful environmental stewardship throughout the holding period.

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## LESSONS LEARNED

- **Tenant-landlord mission alignment:** Traditionally limited to rent collection or incident resolution, tenant-landlord relationships often lack alignment due to differing missions – social for tenants, and financial for landlords. FTSI bridges this gap by actively and explicitly pursuing social and environmental improvement through tenant partnership, stakeholder engagement and the financing of social or environmental initiatives.
- **Impact expertise connecting to financial drivers:** FTSI conducts quantitative cost-benefit analyses for impact value creation activities, where possible. FTSI models how initiatives affect IRR, specifically decreases in operating expenditures, increases in net operating income, or valuation improvements.

