European SRI Transparency Code

The European SRI Transparency Code (the Code) focuses on SRI funds distributed publicly in Europe and is designed to cover a range of assets classes, such as equity and fixed income.

All information pertaining to the European SRI Transparency Code can be found at the following website: www.eurosif.org. The Code comes with a Guidance Manual for fund managers on how to best use and respond to the Code. The present version of the Code was approved by the Board of Eurosif on **February 2018**.

REVISION OF THE CODE

In 2017 the Code was updated to better reflect the continuing evolution of the European SRI market. A Working Group was set up to facilitate revision of the Code in line with the latest developments in the industry and in view of the latest work carried out by experts at the European and global level.

Applications to sign up to the Code will now be in line with key elements of the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), Article 173 of the French TECV Act and the latest recommendations made by the High-Level Group of Experts on Sustainable Finance (HLEG) in its final report published in January 2018. Questions that are specifically designed to reflect those recommendations/legislation are indicated in the Code with footnotes.

TWO KEY MOTIVATIONS UNDERPIN THIS CODE

1. The opportunity for retail SRI funds to provide clarification to investors and other stakeholders about their SRI approach in an easily accessible and comparable format.
2. Proactive strengthening of self-regulation to contribute to the development and promotion of SRI funds by setting up a common framework for transparency best practices.

GUIDING PRINCIPLE

Signatories to the Code should be open and honest and should disclose accurate, adequate and timely information to enable stakeholders, especially consumers, to understand the ESG policies and practices of the fund.

COMMITMENTS BY SIGNATORIES

- The order and exact wording of the questions should be followed;
- Responses should be informative and clear, and the resources and methodologies used should be described in as much detail and as precisely as possible;
- Funds should report data in the currency that they use for other reporting purposes;
- Reasons preventing the fund from providing all or part of the information to a given question should be clearly stated and, in such cases, signatories should state when they will be able to answer the question;
- Responses should be updated at least on an annual basis and should have a precise publication date;
- Responses to the Code should be easily accessible from the website of the fund and/or of the fund manager. In any case, signatories should make it clear where to find the information required by the Code;
- Signatories are solely responsible for the answers to the questions, and should state this in their response.

Statement of Commitment

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of Franklin Templeton Investment Management Limited (Franklin Templeton). We have been involved in SRI since 2013 and welcome the European SRI Transparency Code.

This is our first statement of commitment and covers the period 01.11.2022-31.10.2023 from approval. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

Compliance with the Transparency Code

Franklin Templeton is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. Franklin Templeton meets the full recommendations of the European SRI Transparency Code without any exception.

1. November 2022

Eurosif classification of Sustainable and Responsible Investment[1] strategies

Sustainability Themed Investment: investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG. Sustainability Themed Investments inherently contribute to addressing social and/or environmental challenges, such as climate change, eco-efficiency and health. Funds are required to perform an ESG analysis or screening of investments in order to come under this category.

Best-in-Class Investment Selection: approach according to which leading or best-performing investments within a universe, category or class are selected or weighted based on ESG criteria. This approach involves the selection or weighting of the best-performing or most improved companies or assets as identified by ESG analysis within a defined investment universe. This approach includes best-in-class, best-in-universe and best-effort.

Norms-Based Screening: screening of investments according to their compliance with international standards and norms. This approach involves the screening of investments based on international norms or combinations of norms covering ESG factors. International norms on ESG are those defined by international bodies, such as the United Nations (UN).

Exclusion of Holdings from Investment Universe: an approach that excludes specific investments or classes of investment from the investible universe, such as companies, sectors or countries. This approach systematically excludes companies, sectors or countries from the permissible investment universe if they are involved in certain activities based on specific criteria. Common criteria include weapons, pornography, tobacco and animal testing. Exclusions can be imposed at the individual fund or mandate level, but also increasingly at the asset manager or asset owner level, across the entire product range of assets. This approach is also referred to as ethical or values-based exclusion, as exclusion criteria are typically based on the choices made by asset managers or asset owners.

Integration of ESG Factors into Financial Analysis: the explicit inclusion by asset managers of ESG risks and opportunities in traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. This category covers explicit consideration of ESG factors alongside financial factors in the mainstream analysis of investments. The integration process focuses on the potential impact of ESG issues on company financials (positive and negative), which in turn may affect the investment decision.

Engagement and Voting on Sustainability Matters: engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process that seeks to influence behaviour or increase disclosure. Engagement and voting on corporate governance are necessary, but are not sufficient in themselves for inclusion in this category.

Impact Investing: impact Investments are investments in companies, organisations and funds with the intention of generating a social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market-to-market rate, depending upon the circumstances[2]. Investments are often project-

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1 Sustainable and responsible investment (”SRI”) is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long-term returns for investors and to benefit society by influencing the behaviour of companies. Ref. Eurosif 2016

[2] Global Impact Investing Network (GIIN), “What is Impact Investing?”, http://www.thegiin.org/cgi-bin/iowa/investing/index.html, 2012

specific and distinct from philanthropy, as the investor retains ownership of the asset and expects a positive financial return. Impact investing includes microfinance, community investing, social business/entrepreneurship funds and French *fonds solidaires*.

Contents

1. *List of funds covered by the Code*

Name of the fund(s): Franklin ESG-Focused Balanced Fund					
Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	**Asset class**	**Exclusions standards and norms**	**Fund capital as at 31 December**	**Other labels**	**Links to relevant documents**
☒Best-in-Class Investment section ☐ Engagement & Voting ☐ ESG Integration ☒ Exclusions ☐ Impact Investing ☐ Norms-Based Screening ✓ Leading to exclusions ✓ Leading to risk management analysis/engagement ☐ Sustainability Themed	**Passively managed** ☐Passive investing – core benchmark: specify the index tracking ☐Passive investing – ESG/SRI benchmark: specify the index tracking **Actively managed** ☒ Shares in a euro area country ☒ Shares in an EU country ☒ International shares ☒Bonds and other debt securities denominated in euro ☒ International bonds and other debt securities □Monetary assets ☐ Short-term monetary assets ☐ Structured funds	☒ Controversial weapons ☐ Alcohol ☒ Tobacco ☒ Arms ☒ Nuclear power ☐ Human rights ☐ Labour rights ☐ Gambling ☐ Pornography ☐ Animal testing ☐ Conflict minerals ☒ Biodiversity ☐ Deforestation ☐ CO2 intensive (including coal) ☐ Genetic engineering ☒ Other (fossil fuel producers) ☒ Global Compact ☐ OECD Guidelines for MNCs ☐ ILO Conventions ☒ Other (please specify) Coal energy, coal and	N/A newly launched fund	☐ French SRI label ☐ French TEEC label ☐ French CIES label ☐ Luxflag Label ☒ FNG Label ☐ Austrian Ecolabel ☐ Other (please specify)	- (KIID?) - Prospectus -Management report -Financial and non-financial reporting -Corporate presentations - Other (please specify) **Documents pending launch of the fund**

		uranium mining companies, unconventional oil and gas (e.g. oil sands, fracking), severe or systematic violators of Global Compact Principles, countries which are considered "not free" by Freedom House Rating, not bound to the UN Convection on Biological Diversity, Not legally bound to the Paris Agreement, Ranks in the bottom 40% of the Corruption Perception Index or has a score below 35 (Transparency International), and not legally bound to the Non Proliferation Treaty			

2. *General information about the fund management company*

2.1. <u>Name of the fund management company that manages the applicant fund(s)</u>

Franklin Templeton (parent company)

Franklin Templeton International Services S.à r.l. - Management Company of Franklin Templeton Investment Funds under the supervision of the Commission de Surveillance du Secteur Financier

8A, rue Albert Borschette, L-1246 Luxembourg

https://www.franklintempleton.lu

Contact person: Martin Stenger

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Phone number: +49 (0) 69 27223 720

2.2. What are the company's track record and principles when it comes to integrating SRI into its processes?

Franklin Templeton became a signatory to the Principles for Responsible Investment (PRI) in 2013. That said, we do not consider this to be the formal date for the inclusion of ESG into our firm's investment focus as Franklin Templeton has long understood that ESG factors can influence both risk and opportunity for a company, and consequently its return potential in many cases. As a result, many of our investment teams were already including ESG considerations as part of their fundamental research and security selection.
Franklin Templeton has a firm-wide commitment to driving and embedding stewardship and sustainability across the organisation; as such, instead of a siloed approach, sustainable investing is integrated into the philosophy and process of our investment teams—all of our investment analysts and portfolio managers are responsible for stewardship and sustainability.

To allow for this framework of diversity and depth across Franklin Templeton, we have instituted the Stewardship and Sustainability Council, which is led by two Co-Chairs and comprises 20 council members who collectively represent each of our Specialist Investment Managers (SIMs). The Council is responsible for developing the firm's overall philosophy, identifying how we face universal sustainability challenges together, founded upon our commitment of what we do for our clients and how we behave as an organization.

Our framework is reinforced by the Global Sustainability Strategy Team (GSST), led by the Global ESG Strategy Director. The team's mandate is to develop and implement strategy to drive and embed sustainability across the organisation. The team liaises across all business functions and offers sustainability expertise, combined with a broad range of experience across investments, sales, product, marketing, and risk.

Importantly, Stewardship and sustainable investing practices are embedded in our investment team responsibilities and are recognised as part of our fiduciary duty to clients. Our portfolio managers and analysts hold regular discussions to engage with the executives and board members (as appropriate) of investee companies on issues that we believe are material to the long-term success of each company. Engagements are centred on a range of topics including company strategy, operational performance, acquisition and disposal strategy, board issues, executive/board performance, and material ESG issues. Our analysts undertake thousands of meetings every year, and ESG issues form part of these discussions.
https://www.franklintempleton.lu/about-us/sustainable-investing

2.3. How does the company formalise its sustainable investment process?

For each of the 13 Franklin Templeton Specialist Investment Managers (SIMs)—which excludes independent SIMs acquired from Legg Mason in July 2020 as each are Principles for Responsible Investment (PRI) signatories in their own right—our overall stewardship and sustainable investing approach are governed by the policies below.

The Policy is signed off by the firm's Chief Investment Officers and Executive Committee and is formally reviewed at least on an annual basis. Oversight and implementation of the Policy is governed by the firm's ESG Team, now called the Global Sustainability Strategy Team (GSST).

- Our Responsible Investment approach is governed by Franklin Templeton's Sustainable Investing Policies and Procedures (the Policy), which are further supported by our proxy voting policies. The Policy is available on our website at https://franklintempletonprod.widen.net/content/36cr1mnqat/original/sustainable-investing-policies-and-principles-ftis-en.pdf
- Our Stewardship Policy aligns with the Shareholder Rights Directive II and complies with FCA conduct of business rules and is also available on our website at https://franklintempletonprod.widen.net/content/w4hfqgyrfu/original/franklin-templeton-stewardship-policy.pdf

Furthermore, in 2022, Franklin Templeton released its 2021 Stewardship Report, which details our stewardship approach, and available on our website at: https://franklintempletonprod.widen.net/view/pdf/ppswek4nuv/franklin-templeton-stewardship-report-en.pdf.

As a signatory to the PRI, Franklin Templeton also participates in PRI's annual reporting process, reporting on our progress towards implementation of the six principles of the PRI. To review Franklin Templeton's 2020 Transparency Report, please visit our website at: https://franklintempletonprod.widen.net/content/iua3flokpr/original/fti-pri-transparency-report.pdf

For additional information, please visit our dedicated Sustainable Investing website (at https://www.franklintempleton.lu/about-us/sustainable-investing), which includes the following reports and policies:

- Franklin Templeton Sustainable Investing Principles & Policies
- Franklin Templeton Controversial Weapons Policy
- Franklin Templeton International Services S.à r.l. Remuneration Policy
- Franklin Templeton International Services S.à r.l. Annual Voting Report
- Franklin Templeton PRI Transparency Report
- Franklin Templeton Corporate Social Responsibility Report

The six independent SIMs (Brandywine Global, Clarion Partners, ClearBridge Investments, Martin Currie, Royce, and Western Asset) are autonomous in their ability to formulate and pursue their own stewardship and sustainable investing approaches. More details may be found on their respective websites.

2.4. How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by company?[3]

As the ESG landscape continues its rapid transformation, our investment teams are focused on researching and building sustainable investing capabilities relevant to their asset class, investment style, and geography. Whether it's through proprietary analytics and diagnostics, formal engagement frameworks, or alignment with the UN Sustainable Development Goals, each team is

[3] Reference to Article 173 of the French TECV Act and the TCFD recommendations (risks and opportunities section)

focused on integrating sustainability risks based on a fundamental commitment to manage risks and improve returns for our clients.

Our investment teams share common principles and beliefs around the importance of ESG considerations and active ownership; beliefs that transcend asset class, geography, and investment goal:

- Investing for sustainable outcomes is our fiduciary duty. Aligning our clients long term investment horizons with companies that will deploy that capital to create sustainable value.
- The need for meaningful climate action. Governments, companies, and investors have an urgent responsibility to drive change. Across the Franklin Templeton organization we will play our part in driving tangible shifts in decarbonization.
- Transparency is key: ESG data and targets are important factors in our investment decision-making as well as for our clients' investment decisions.

While the strength of our organization lies with the breadth and autonomy of our investment teams, we recognize that an organization of our scale can have a major impact by working collectively on sustainability issues. For example, we highlight three centralized initiatives aimed at guiding our stewardship and sustainable investing agenda:

A Corporate Commitment

In February 2022, Franklin Templeton announced the appointment of Anne Simpson as Global Head of Sustainability. In her newly created role, Ms. Simpson reports directly to Franklin Templeton's CEO to drive the company's overall strategic direction on the stewardship, sustainability and environmental, social and governance (ESG) investment strategy globally. Working directly with Dr. Ben Meng as Executive Sponsor, Ms. Simpson's current priorities include building a common data platform for sustainability data and a firm-wide sustainable investment strategy.

Stewardship and Sustainability Council

Franklin Templeton has one of the industry's most extensive networks of ESG leaders embedded in our investment teams. The Stewardship and Sustainability Council was established in March 2021 and brings together ESG specialists from across the firm in a single forum.

The Council is responsible for identifying how we face universal sustainability challenges and guides the continued evolution of our ESG infrastructure and best practices. The Council supports two key strategic priorities – climate and data, acknowledging the urgency of these common sustainability challenges faced by all our investment groups.

The Council also provides insights and guidance on key sustainability topics and is a forum to address policy and regulatory developments.

Global Sustainability Strategy Team

The Global Sustainability Strategy Team (GSST) is responsible for prioritizing and implementing the Council's agenda. The GSST consists of seven members (as of February 28, 2022) with a broad range of experience across engagement, stewardship, regulatory requirements, sustainability data, and climate data. The GSST liaises with third-party data providers and industry organizations and also supports investment teams with education, evaluation of existing practices, and by providing tools and ESG analytics. The team also organizes asset class working groups which bring together regional and asset class expertise, share best practices, and facilitate collaboration in sustainable investing.

Climate Change

Our approach to climate change considerations currently incorporates material climate risk and opportunity within our ESG research, engagement with companies related to climate transition and disclosures, and engaging with regulators, industry organizations, and policy makers with respect to climate.

We are proponents of increased focus and disclosure on climate to enable investors to make informed decisions, taking account of climate impact. By actively considering climate-related challenges, the firm can learn how to better manage these risks. This can enhance our portfolio resilience and assist in the identification of potential risks and opportunities arising from physical and transition climate risk.

With heightened interest from clients related to climate challenges, we participate in several industry associations that are committed to change.

- In 2021, Franklin Templeton, Brandywine Global, ClearBridge Investors, and Martin Currie signed on to the Net Zero Asset Managers Initiative, an international group of asset managers committed to supporting the goal of limiting global warming to 1.5 degrees Celsius. As signatories, we will work with our clients to evaluate preferences, ability, and willingness to embark on a net zero emissions pathway. By July 2022 we will identify an interim target for 2030 – a proportion of AUM that will be managed in line with reduced carbonization; we will review this target routinely. Our plan will take account of Scope 1 and 2 emissions and to the extent possible, material portfolio Scope 3 emissions as defined by the GHG Protocol.
- Franklin Templeton is also a member of the Ceres Investor Network on Climate Risk and Sustainability, which includes more than 200 institutional investors managing more than $47 trillion in assets.
- Franklin Templeton, Clarion Partners, ClearBridge Investments, Western Asset, Brandywine Global, and Martin Currie are proud signatories to the Task Force on Climate-Related Financial Disclosures.
- Franklin Templeton, Clearbridge Investments, and Martin Currie are investor signatories to CDP, a well-known global rating organization formerly known as the Carbon Disclosure Project.
- Institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change. Franklin Templeton, Brandywine Global, and Martin Currie have joined many of the largest global and European institutional investors and asset managers as members.

Moreover, the Insights page on our website https://www.franklintempleton.lu/investor/insights/#searchText=climate includes recent climate-related research and reports produced by our investment teams.

2.5. How many employees are directly involved in the company's sustainable investment activity?

At the firm level, integration of ESG opportunities and risks starts with our 1,250+ portfolio managers and research analysts, who are located in more than 30 countries and consider ESG issues as part of their investment decision making process.

As of 6/1/2022, there are roughly 100 investment professionals within the Franklin Templeton Investment Solutions team, with an average tenure of 17.5 years in the industry and 10 years at Franklin Templeton. These investment professionals include portfolio managers, research analysts specializing in asset class research, quantitative research, and manager research, amongst others, client portfolio managers, portfolio analysts, and dedicated ESG analysts as well. We have thirty-three employees who are directly involved in ESG initiatives, including ESG research, sustainability analysis, and management of ESG-oriented strategies. Of these thirty-two, roughly 7 focus primarily on ESG-related investment activities.

As of 6/1/22 the FT Fixed Income team that has a direct impact on the fixed income portion of the Franklin ESG-Focused Balanced Fund has 4 ESG focused analysts and 36 PMs/analysts who provide fundamental analysis and are involved in ESG integration. We estimate the team has 17.6 years of investment experience on average.

In addition, Franklin Templeton's Stewardship and Sustainability Council, which has leadership representation from all of our Specialist Investment Managers (SIMs), comprises 20 council members, including two co-chairs, and provides a forum to share and collaborate on common sustainability challenges. Investment teams also receive strategic advice from the Global Sustainability Strategy Team (GSST) who liaise across all business functions to drive and embed sustainability throughout the organization. Our investment teams are further supported by the firm's independent Investment Risk Management Team (of 85+ risk professionals), which incorporates ESG factors into portfolio risk reviews to help identify any unintended ESG risk exposures, and the firm's dedicated Proxy Group (which is part of the firm's Legal Department).

Currently, GSST, which includes eight dedicated team members, is focused on the following initiatives:

- ***Educating and engaging*** portfolio teams to recognize and understand the impact and scope of material ESG issues and consult on emerging ESG portfolio teams.
- ***Evaluating*** current research practices related to ESG issues and identify opportunities to refine and deepen insights.
- ***Enhancing*** portfolio teams' ability to analyze ESG issues by incorporating independent and unbiased ESG data, research, and analytics.

The team works in close collaboration with the Council to guide the common stewardship and sustainability agenda and support each of our independent SIMs. Reflecting our core belief that stewardship & of what we do for our clients. While remaining deeply connected to the investment teams, the GSST also liaises across various business functions, identifying talent and nurturing strong partnerships as we collectively elevate Franklin Templeton's role as a global sustainability investing leader.

2.6. Is the company involved in any RI initiatives?

General Initiatives	Environmental/Climate Initiatives	Social Initiatives	Governance Initiatives

☐ ECCR – Ecumenical Council for Corporate Responsibility ☒ EFAMA RI WG ☐ European Commission's High-Level Expert Group on Sustainable Finance ☐ ICCR – Interfaith Center on Corporate Responsibility ☒ National Asset Manager Association (RI Group) ☒ PRI - Principles For Responsible Investment ☒ SIFs - Sustainable Investment Fora ☒ Other (Responsible Investment Association, Sustainable Accounting Standards Board Alliance, GRESB)	☒ CDP – Carbon Disclosure Project (please specify carbon, forest, water etc.) ☐ Climate Bond Initiative ☐ Green Bond Principles ☒ IIGCC – Institutional Investors Group on Climate Change ☐ Montreal Carbon pledge ☐ Paris Pledge for Action ☐ Portfolio Decarbonization Coalition ☒ Other (please specify) In January 2021, Franklin Templeton became a supporter of the Task Force on Climate-related Financial Disclosures (TCFD)	☐ Access to Medicine Foundation ☐ Access to Nutrition Foundation ☐ Accord on Fire and Building Safety in Bangladesh ☒ Other (please specify) Sustainable Account Standards Board Investor Advisory Group	☒ ICGN – International Corporate Governance Network ☒ Other (Canadian Coalition for Good Governance, The Harvard Law School Corporate Governance Roundtable)

2.7. What is the total number of SRI assets under the company's management?

In 2021, Franklin Templeton embarked on an organisation-wide project to categorise its AUM using an internal, proprietary ESG framework, based on six broad categories. As at 31 March 2022, over 93% of our AUM represents strategies that consider ESG factors as part of the investment process and AUM with a specific focus on ESG totaled over EUR 117,296.8 million at quarter end.

As of 31 March 2022, total firm assets under management were EUR 1,335,381.0 million.

Please note that excluding assets managed by Specialist Investment Managers (SIMs) acquired from Legg Mason in July 2020, who are each PRI signatories in their own right, firm assets under management were EUR 581.26 billion.

3. *General information about the SRI fund(s) that come under the scope of the Code*

3.1. What is (are) the fund(s) aiming to achieve by integrating ESG factors?

The Fund's principal investment objective is to seek total return by investing in equity and debt securities while taking environmental, social and governance considerations into account when selecting investments and constructing the portfolio.

Environmental, social, and governance factors have become increasingly important to corporations worldwide as they seek to balance organizational goals with the expectations of their stakeholders in an increasingly complex operating environment. The evaluation of ESG issues is an integral component of our analysis for every security or bond. We consider ESG factors alongside traditional financial measurements to provide a comprehensive view of an investment. We find that ESG data is complementary to traditional fundamental measures, and that ESG ratings, scores and data are best used when paired with additional analysis to be used in a meaningful way to score an individual company. By identifying the proper set of ESG indicators, we are able to target those investments that we believe are best positioned to deliver sustainable returns, or to reduce risk, for our clients.

3.2. <u>What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?</u>

Internal Resources

On the equity side, we believe in a disciplined, objective and systematic approach to ESG integration. Measurement of a company's ESG rating is challenged by a lack of industry standardization, rating agency biases and company transparency. We view this market inefficiency as an opportunity and employ a data intensive approach to leverage several leading rating agencies and data providers to develop proprietary bottom up ESG scores. Our investment personnel supporting this product, both from a portfolio manager and research analyst perspective, have strong track records in building quantitative models and have undertaken extensive research into ESG data. They have applied their quantitative background, along with that research, to build a proprietary ESG scoring system which is applied to all equity securities considered for investment. Furthermore, the team has dedicated ESG analysts who are involved in integrating ESG in a meaningful way into the research and investment process.

On the fixed income side, all investment analysts and portfolio managers use multiple ESG data sources (MSCI, S&P TruCost, ISS ESG, Bloomberg and Sustainalytics) to supplement their fundamental research. Their view on ESG risk is incorporated into the overall evaluation of a bond and is taken into account in the construction of the portfolio. In addition, the investment team has dedicated ESG analysts whose are responsible for ensuring the ESG strategy across the group is executed in line with fund specific requirements, work on thematic research and contribute to engagement.

In addition, Franklin Templeton's Stewardship and Sustainability Council, which has leadership representation from all of our Specialist Investment Managers (SIMs), comprises 20 council members, including two co-chairs, and provides a forum to share and collaborate on common sustainability challenges. Investment teams also receive strategic advice from the Global Sustainability Strategy Team (GSST) who liaise across all business functions to drive and embed sustainability throughout the organization. Our investment teams are further supported by the firm's independent Investment Risk Management Team (of 85+ risk professionals), which incorporates ESG factors into portfolio risk reviews to help identify any unintended ESG risk exposures, and the firm's dedicated Proxy Group (which is part of the firm's Legal Department).

Currently, GSST, which includes eight dedicated team members, is focused on the following initiatives:

- Educating and engaging portfolio teams to recognize and understand the impact and scope of material ESG issues and consult on emerging ESG portfolio teams.
- Evaluating current research practices related to ESG issues and identify opportunities to refine and deepen insights.
- Enhancing portfolio teams' ability to analyse ESG issues by incorporating independent and unbiased ESG data, research, and analytics.

The team works in close collaboration with the Council to guide the common stewardship and sustainability agenda and support each of our independent SIMs. Reflecting our core belief that stewardship & of what we do for our clients. While remaining deeply connected to the investment teams, the GSST also liaises across various business functions, identifying talent and nurturing strong partnerships as we collectively elevate Franklin Templeton's role as a global sustainability investing leader.

External Resources

We also leverage a number of external resources in the research and construction of our portfolio, namely:

- MSCI ESG Manager – https://www.msci.com/esg-ratings
  - ESG ratings, data, business involvement screening, controversy scores and research reports.
- Sustainalytics – https://www.sustainalytics.com/
  - ESG ratings, data, controversy scores and research reports.
- Thomson Reuters – https://thomsonreuters.com
  - ESG ratings, data
- Institutional Shareholder Services (ISS) – https://www.issgovernance.com
  - proxy advisory firm.
- Sustainability Accounting Standards Board (SASB) - https://www.sasb.org
  - organization developing industry-specific sustainability indicators for companies to include in their financial reports

3.3. <u>What ESG criteria are taken into account by the fund(s)?</u>

The evaluation of ESG issues is an integral component of our robust research analysis for every stock. We consider ESG factors alongside traditional financial measurements to provide a comprehensive view of an investment and help identify those investments that have the potential to deliver sustainable returns. It is important to look beyond aggregate E, S and G ratings to truly uncover E, S and G factors most relevant to a company's risk and returns. The key ESG criteria in the investment process are listed below:

Equity and Corporate Bond Criteria

- **Environment**
  - Environmental remediation
  - Ecosystem change
  - Pollution
  - Unsustainable practices
  - Energy resources
  - Climate change risk/opportunities
  - Carbon emissions, measurement & reporting
- **Social**
  - Data security & governance
  - Social Cohesion & Stability
  - Child or slave labour
  - Employment levels
  - Health & Safety practices
  - Inequality
  - Product safety

        - Diversity
        - Infrastructure
    - **Governance**
        - Shareowner rights
        - Say on pay
        - Tax
        - Institutional strength
        - Bribery & Corruption
        - Rule of law
        - Separation of Chairman/CEO roles
        - Accounting practices transparency

Sovereign Bond Criteria:

- **Environmental Risk Exposure**
    - Energy Security Risk
    - Product Land & Mineral Resources
    - Vulnerability to Environmental Events
    - Environmental Externalities
- **Environmental Risk Management**
    - Energy Resource Management
    - Resource Conservation
    - Water Resource Management
    - Environmental Externalities
- **Social Risk Exposure**
    - Basic Human Capital
    - Higher Education and Technology Readiness
    - Economic Environment
- **Social Risk Management**
    - Basic Needs
    - Human Capital Infrastructure
    - Knowledge Capital Management
    - Wellness
- **Governance Risk Exposure**
    - Trade Vulnerability
    - Fiscal Vulnerability
    - Banking Sector Vulnerability
    - Institutions
    - Judicial and Governance Effectiveness
- **Governance Risk Management**
    - Trade and Resources Management
    - Banking Sector Management
    - Fiscal Management
    - Interest and Debt Management
    - Stability and Peace
    - Corruption Control
    - Political Rights and Civil Liberties

We believe that it is important to identify the factors which are most relevant to a specific sector or industry in our analysis of a stock or corporate bond. As such, we may not consider all factors for each company, but, rather, will consider the factors which are more material to a company's long-term risks and returns.

3.4. **What principles and criteria linked to climate change are taken into account in the fund(s)?**[4]

Climate change is not an explicit objective of the fund, as we take a holistic ESG integration approach rather than focusing exclusively on climate change. That being said, climate change is integrated into the environmental analysis of a stock and country. For example, within our stock evaluations, the investment process looks at a number of sub-factors directly related to climate change, such as Emission Reduction, Carbon Emissions, and Product Carbon Footprint, to name a few.

3.5. **What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?**

On the equity side, the starting universe is the MSCI World Index. Revenue and operations-based exclusionary screens (both norms-based and business involvement) are applied to the portfolio (equities and corporates):

- Producers of nuclear weapons and those that derive any revenue from essential component production of such weapons (0% of turnover threshold)
- Producer controversial weapons and those that derive any revenue from essential component production of such weapons (0% of turnover threshold)
- Producer of conventional weapons / armament and that derive any revenue from essential component production of such weapons derive any revenue from essential component production of such weapons (5% turnover threshold)
- Operator of nuclear power plants / producer of essential components power plants and those that derive any revenue from essential component production of such weapons (5% turnover threshold)
- Coal and uranium mining companies or those that derive revenue therefrom (5% turnover threshold)
- Manufacture tobacco or tobacco products, or those that derive revenue therefrom (5% threshold)
- Companies which base their power production on coal energy or those that derive revenue from coal energy (10% turnover threshold)
- Unconventional oil and gas (oil sands, fracking) (5% turnover threshold)
- Violation (severe and/or systematically) of Global Compact Principles
- Corporate and sovereign bond issuers receiving an ESG rating below “B” by MSCI ESG

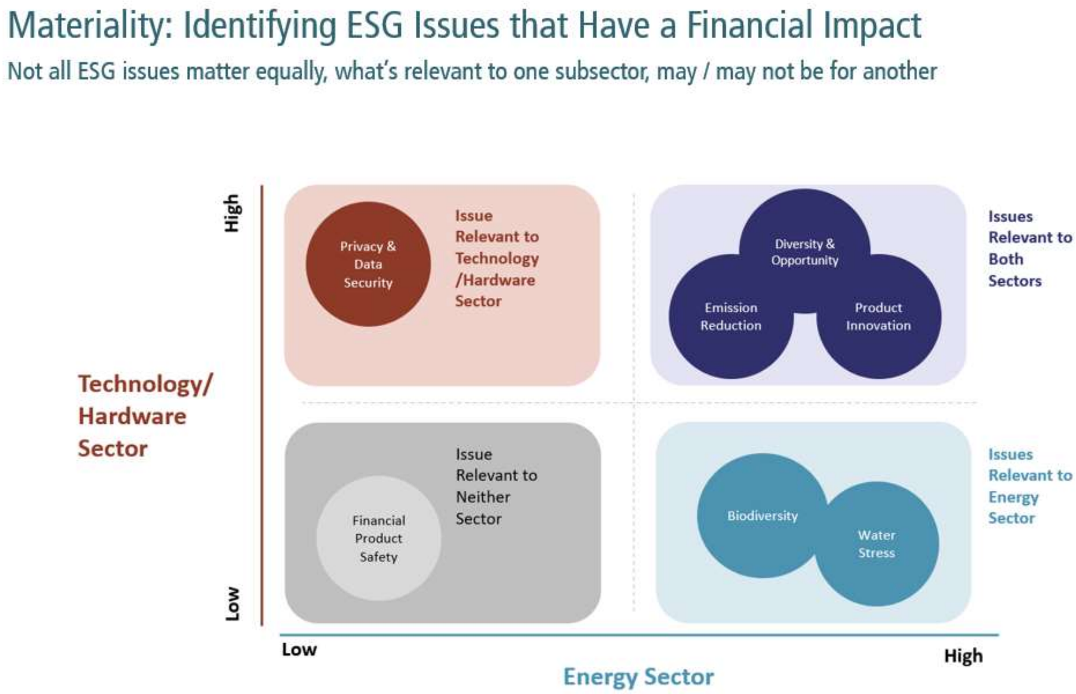
Any security found to be in violation of one or more of the screening criteria is automatically excluded from the portfolio.

We use a proprietary methodology to assign E, S, and G scores to the index. Measurement of a company’s ESG rating is challenged by a lack of industry standardization, rating agency biases and company transparency. We view this market inefficiency as an opportunity and leverage several leading ESG rating agencies and data providers to develop proprietary bottom-up E, S and G scores

[4] Reference to Article 173 of the French TECV Act see paragraphs 3 and 4 of Article D.533-16-1 of Chapter III of the French Legal Code): https://www.legifrance.gouv.fr/affichCodeArticle.do?cidTexte=LEGITEXT000006072026&idArticle=LEGIARTI000031793697

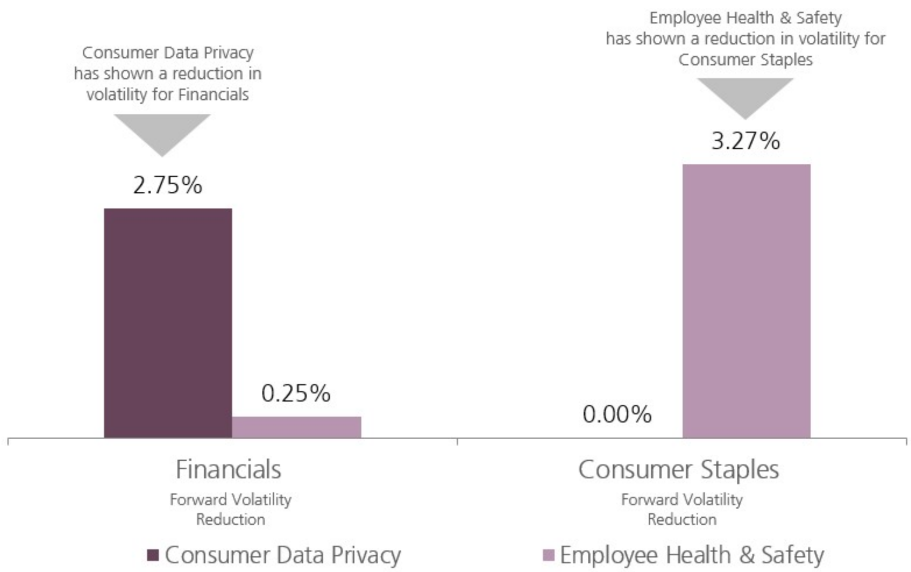
within equities. It is important to look beyond aggregate ESG ratings to truly uncover the underlying E, S and G factors most relevant to a company's returns and risk. Materiality matters when identifying which factors to use when evaluating companies through an ESG lens. As such, we look to ESG sub-factors for industry efficacy ie.– has that sub-factor historically demonstrated its ability to add value or reduce risk within a certain industry? For example, our data has shown that Data Privacy is a material sub-factor for Technology industries, whereas benefits, strikes, and union relations is a material sub-factor for Utilities.

Rather than using all sub-factors across all industries, which would dilute the importance of the most impactful sub-factors, we use only the sub-factors in each industry which have proven materiality.



Materiality Matters

Targeting the ESG issues that can impact performance for a given sector



Although we generally rely on historical data and a quantitative approach to determine materiality, there are certain instance in which there is no demonstrable materiality historically, but, based on our qualitative and forward-looking research, we believe the sub-factor will influence risk or returns in the future. One example of this is carbon emissions. As a sub-factor, carbon emissions has shown no meaningful impact on risk-adjusted returns across industries. However, given the mounting systemic risk climate change poses, and the potential for future legislation around carbon emissions and carbon pricing , we made a qualitative decision to include the sub-factor in our model. When conducting qualitative analyses, we leverage our general research as well as SASB (Sustainability Accounting Standards Board) mappings.

Based on this methodology, each equity security is assigned a proprietary ESG score depending on what sub-factors are relevant to the security's respective industry. All sub-factors within the E, S, and G scores are equal weighted, and then the E, S, and G scores are equal-weighted to comprise an overall ESG score for each security. The scores range from 0-100, with 100 being the highest achievable score.

ESG analysis is also a component of our corporate credit research process. Within each industry sector, analysts identify and evaluate material ESG issues. Credit analysts have direct access to analytics from leading data providers including MSCI, S&P TruCost, ISS ESG, Bloomberg and Sustainalytics. This additional perspective complements analysts' fundamental research, contributes to our deep understanding of the risks and opportunities of each potential investment, and helps build more accurate valuation models.

Similar to our equity process, we identify the factors most relevant for a particular sector or industry, generally identifying 8-10 factors which are most relevant.

For example:

- For analysts covering financials (banks and other lenders), issues such as selling practices, how financial products are designed and marketed, and systemic risk management are deemed to be more material than most other ESG issues;
- For analysts covering extractives and minerals processing, issues such as emissions, waste and wastewater management, ecological impacts, and employee health and safety are deemed to be more material than most other ESG issues.

These ESG factors are then analysed in conjunction with traditional fundamental inputs to determine a holistic view of a corporate bond.

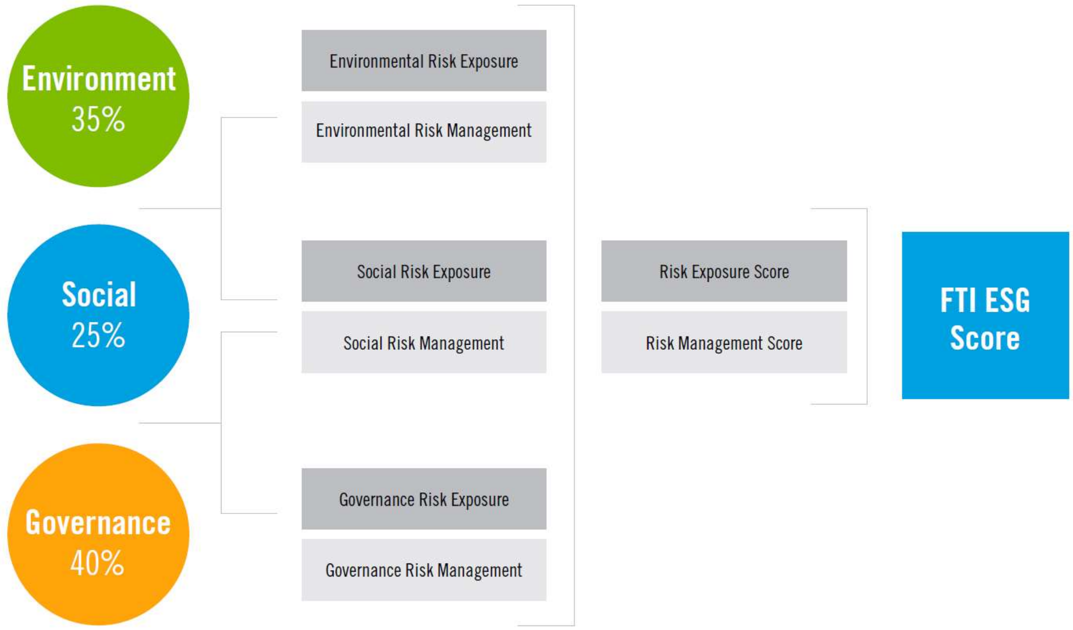
In regards to our sovereign bond process, we first apply exclusionary screens to all countries being considered. The screens include:

- Countries considered “not free” according to the Freedom house rating
- Countries not legally bound to the UN Convention on Biological Diversity
- Countries not legally bound to the Paris Agreement
- Ranks in the bottom 40% of the Corruption Perception Index by Transparency International and has a score below 35
- Not legally bound to the Nuclear Non-Proliferation Treaty
- Countries rated below “B” by MSCI ESG

If one or more of the exclusionary screens apply to a country, it is deemed impermissible for the investment universe. For all remaining countries, we apply a proprietary ESG scoring model to all countries being considered in the portfolio. For each country, we assign Risk Exposure and Risk Management scores for each of the E, S, and G pillars. Risk Exposure scores seek to quantify the relative level of exposure a country has to each ESG factor, while Risk

Management scores evaluate how well the country is managing the risk. The score in each of these six categories is determined by bottom-up analysis of 29 weighted risk factors which our ESG and fixed income research teams believe materially impact a country’s financial performance. Importantly, this methodology is repeatable across different regions and countries, and over time. This means we can compare countries, evaluate whether a country is improving or deteriorating over time, and to analyze the reasons for that.

To calculate a country score, we first calculate Risk Exposure and Risk Management scores. In each case we give a higher weight to the governance pillar (40% of the country’s overall score). This reflects our belief that good governance is the most effective and influential way to manage a country’s environmental, social and institutional risks. Environmental factors have the second highest weight (35%), followed by social factors (25%). Although environmental factors often play out over the very long term, climate change and the pressing need to protect the environment are increasingly recognized and promoted by investors, globally.



To calculate an overall sovereign ESG score, we use the same methodology as MSCI. The mechanics of the calculation mean that a low Risk Management score will constrain a country's overall score. This reflects our belief that a country with poor risk management will not be able to effectively harness its available resources.

This analysis is then evaluated alongside the team's fundamental and relative value country analysis to formulate investment strategy and buy/sell recommendations.

3.6. <u>How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?</u>

For the equity issuers, ESG scores are calculated monthly as underlying subfactor data is updated and fed into the proprietary ESG score. The ESG evaluation is formally reviewed on a quarterly basis, and new names may be added or existing names removed based on any change in ESG scoring or fundamental analysis. Furthermore, we evaluate the materiality of industry sub-factors on an annual basis and add any sub-factors which have newly evidenced materiality.

On the fixed income side, we evaluate issuers on continuous basis, updating ESG information for each issuer in a manner reflecting their reporting cycle. Hence, as soon as a new relevant information on an issuer is released it should be reflected in our systems and scorings. However, should there be a material change, fundamental or ESG-related, the analysts will review the change and determine whether it affects the risk-return profile of a bond. For example, we receive alerts from MSCI for any new controversies, which are reviewed. There is not an automatic divestment policy; rather, a holistic approach is taken to determine whether the investment is compensating the fund for the risk levels. For any instances in which an issuer breaches one of the norms-based or business-involvement thresholds, it will be divested in a timely manner.

The team conducts controversy screening on all holdings, using external research partners, MSCI ESG Research and Sustainalytics. MSCI and Sustainalytics' research seeks to deliver timely, actionable information on issues identified as having severe consequences from an environmental or social perspective. The analysis includes an assessment of the company's response to the event, as well as an evaluation of relevant policies, management systems and the company's implementation thereof, in order to understand the risk of the company being involved in similar controversies in the future. The criteria for the controversy screening process are decided, reviewed and updated by MSCI and Sustainalytics, whose teams have long experience of this type of norms-based assessments. While our formal reviews of ESG equity securities are undertaken on a quarterly basis, our Compliance team receives alerts regarding new controversies, and we reserve the ability to make changes on an ad-hoc basis on a discretionary basis. Additionally, Compliance reviews the portfolio for passive breaches in the portfolio on a monthly basis. While we do not have a formal divestment policy, any securities in breach will be divested in a timely manner, generally within a month.

In addition to the norms-based assessments, we also conduct a number of exclusionary screens on based on business involvement. On the company side, we exclude producers of nuclear and controversial weapons, and have revenue thresholds for producers of conventional weapons, operator of nuclear power plants, coal and uranium mining companies, companies which base their power production on coal energy, tobacco and unconventional oil and gas companies (e.g. oil sands, fracking).

In addition, when assessing sovereign bonds, we exclude countries which are: considered "Not Free" according to the Freedom House Rating, not legally bound to the UN Convention on Biological Diversity, not bound to the Paris Agreement, ranks in the bottom 40% of the Corruption Perception Index by Transparency International or has a score below 35, or which is not legally bound to the Nuclear Non-Proliferation Treaty.

4. Investment process

4.1. <u>How are the results of the ESG research integrated into portfolio construction?</u>

On the equity side, we take a systematic approach to incorporating our ESG research into portfolio construction. The ESG score is considered alongside a proprietary alpha score, which is based on persistent market factors such as value and momentum. Both scores are considered in the optimization process in which the resulting portfolio must have an ESG tilt, resulting in a stronger ESG score than that of the benchmark by one standard deviation. Additionally, securities must receive an ESG score of 50 or higher, except for a limited portion of securities (10% of total net assets) which may receive a score below 50, but must receive a score of 30 or higher.

On the fixed income side, we begin construction by setting our top-down views which determine sector, duration, and currency positioning. This is conducted on a macroeconomic basis rather than an ESG basis. The macroeconomic outlook established at the Quarterly Research and Strategy Forum, and the bottom-up views of our Global Sovereign Team, are used by portfolio managers to establish the strategy's active duration and currency positioning.

Sector allocation uses sophisticated portfolio optimization to maximize expected excess return for a given level of risk. This process uses our return expectations for each sector (reconciled quantitative and fundamental spread forecasts), the portfolio's risk target, and any specific guidelines or customized constraints. The optimization process also takes account of liquidity (trading costs) in each sector. This process seeks to ensure that risk is efficiently allocated to our highest conviction views.

The ESG component is integrated in the bottom-up security selection of the portfolio. Having established the strategy's target risk profile and sector allocation, portfolio managers rely on detailed issuer research, which includes ESG characteristics and our proprietary ESG score (for sovereigns) by dedicated analysts in each sector team to populate the individual portfolios. The output of our bottom-up research process is a buy-list of thoroughly researched securities that we expect to contribute to meeting the strategy's investment objectives. The drivers of security selection vary from sector to sector. However, bottom-up research always includes thorough fundamental analysis which aims to ensure that we are well-compensated for the risks taken, combined with relative value analysis to identify undervalued securities.

4.2. <u>How are the criteria specific to climate change integrated into portfolio construction?</u>

As previously mentioned, this fund does not specifically adhere to climate change criteria, nor is it an explicit goal of the fund. Environmental criteria which are related to climate change, such as carbon emissions, are integrated into our overall ESG scores, which are integrated into portfolio construction as described in section 4.1.

4.3. <u>How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?</u>

All issuers that are present in the portfolio are subject to ESG analysis, although the exact analysis will vary depend on the security type (e.g. stock versus government bond). The only portion of the portfolio which is not subject to ESG analysis is cash and limited derivative exposure which will be used for tactical allocation, efficient portfolio management, and/or risk mitigation purposes.

Per prospectus the use of financial derivative instruments will not exceed 50% of the Fund's net assets on a notional basis. However, this is a general prospectus rule, and the use of derivative will not represent a material part of the fund's investment strategy. The expected exposure on a notional basis is at around 10% of the fund's net assets. Currently a duration hedge through a short position on sovereigns that would pass our exclusion screens represents a single-digit percentage of the fund's net assets, while a minor single-digit percentage is invested in a short equity index future, on which we did the ESG analysis (MSCI ESG Leaders Index). This position is used as an adjustment of a dynamic asset allocation of the fund.

4.4. <u>Has the ESG evaluation or investment process changed in the last 12 months?</u>

There have been no changes to the investment process over the last 12 months. The implementation of the investment process is continually evolving in order to provide the most value added to our clients. This includes making the most effective use of our resources, which allows analysts to focus solely on research. The firm continues to develop enhanced tools to more efficiently and deeply integrate a broad set of internal and external ESG data and analysis into the research and portfolio management process.

4.5. <u>Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?</u>

The fund commits to invest at least 5% of NAV into green bonds.

For the remainder of the fund our investment process reflects our view that, when companies manage stakeholder relationships effectively, they can be more successful at managing risk and capturing opportunities, better positioning these organizations for potential long-term success. Companies that are good stewards of their impact on social and environmental development will receive higher ESG scores, which leads to greater likelihood of inclusion and a larger weight within the portfolio. We evaluate how a company manages relationships with its employees, suppliers, customers and the communities where it operates (e.g. data protection and privacy, gender and diversity, employee engagement, community relations, human rights, labour standards). For countries, we evaluate criteria such as higher education and technology readiness, wellness, basic needs, and economic environment.

4.6. Does (do) the fund(s) engage in securities lending activities?

The fund does not engage in securities lending activities.

4.7. Does (do) the fund(s) use derivative instruments?

The fund does use derivative instruments, although derivatives do not comprise a material part of the fund's investment strategy. The fund may use derivatives for the following purposes:

- Tactical allocation: we may increase or decrease the equity or fixed income exposure based on our analysis of the market and where the most attractive risk-return opportunities are. Additionally, we may reduce equity or increase fixed income in order to reduce risk.
- Hedging an underlying risk exposure: for example, if we have non-Euro currency exposure that, the investment team may choose to hedge out that exposure using FX forwards.
- Efficient portfolio management: for example, to manage small flows in and out of the portfolio.

Derivative use will not exceed 50% of the fund's total net assets on a notional basis.

4.8. Does (do) the fund(s) invest in mutual funds?

The fund may invest up to 10% of its assets in mutual funds or exchange traded funds only if the target funds comply with the same exclusions (both norms-based and business involvement) as the fund. If a target fund is found to be in violation of one or more of the fund's exclusion criteria, it is not eligible for investment. In general, we do not expect underlying fund exposure to be a regular part of the portfolio.

5. ESG controls

5.1. What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund(s) as defined in section 4?[5]

The investment team conducts the initial research and screening to ensure companies satisfy the fund's sustainability criteria, including exclusions, norms, and ESG scores.

Each company is monitored to ensure that our original investment thesis still holds, and that the company is in compliance with the fund policies. ESG scores are generated on a quarterly basis and the portfolio is updated based on the new ESG scores for each security. These updated scores are used as the basis for which to check the binding ESG elements (e.g. minimum ESG score requirements) in the portfolio.

[5] Reference to Article 173 of the French TECV Act

Additionally, the Investment Compliance group regularly monitors all portfolios to ensure they follow investment policies, with a dedicated compliance officer in the trading department designated to check each transaction. Investment Compliance leverages a third-party, vendor-based order management and compliance monitoring system called Charles River Investment Management Solution (CRIMS). Once a security-level constraint has been established, our trading systems do not permit a trade on that security within the portfolio. Investment Compliance runs a monthly check of all securities (equity and fixed income) against an updated exclusions list. Any passive breaches (i.e. securities which were not in breach when they were added, but have since breached one of our exclusion criteria) are expected to be removed from the portfolio in a timely manner, generally one month. Investment Compliance monitors not only the business involvement and norms-based exclusions in the portfolio, but also the requirements for the portfolio to meet minimum ESG score requirements.

In addition, the fund is fully audited by Investment Compliance on a yearly basis to ensure the accuracy of the restrictions in CRIMS. Their review also includes running the same checks included in our exclusion screen. They review any exceptions with us to ensure we have reasonable explanations for overriding any of the exclusion policies, e.g. incorrect data.

6. Impact measures and ESG reporting

6.1. How is the ESG quality of the fund(s) assessed?

We evaluate the overall ESG quality of the fund relative to our broad market benchmarks. We use multiple external sources, as well as our own proprietary scoring system, to determine the overall ESG score for our fund versus the benchmark, as well as the individual E, S, and G scores. We will also break down the percentage of assets in different ESG tiers (e.g. percent of fund assets in top third of ESG scores versus percent of benchmark in top third of ESG scores).

6.2. What ESG indicators are used by the fund(s)?[6]

We intend to use the environmental, social, and governance scores (as well as aggregate ESG score) as indicators for the fund as described in section 6.1.

6.3. What communication resources are used to provide investors with information about the SRI management of the fund(s)?

Further information around the fund's investment strategy and ESG philosophy will be made available in the fund's prospectus, public webpage, SFDR disclosures, commentaries, Key Investment Information Document, Portfolio Holdings, annual report and semi-annual report. We will also publish monthly factsheets for the fund.

At a firm level, additional information can be found on our Responsible Investing webpage https://www.franklintempleton.lu/investor/our-approach/our-company/responsible-investing

which contains the following:

- Franklin Templeton Responsible Investment Policy

[6] Reference to Article 173 of the French TECV Act

- Franklin Templeton PRI Transparency Report
- Franklin Templeton Controversial Weapons Policy
- Information on collaboration with organizations that promote and establish best practice
- Insights on environmental, social and governance topics

6.4. Does the fund management company publish the results of its voting and engagement policies?[7]

Franklin Templeton discloses its voting and engagement policies on our Responsible Investing webpage. Further details of our stewardship activities are reported annually to the PRI and as part of the firm's annual stewardship disclosure.

At the firm level, Franklin Templeton discloses fund voting activity in line with local requirements, and is transparent about its voting policies in regards to specific funds. Attached is the 2020 - 2021 voting report for our Luxembourg-domiciled funds, which is publicly available on the Franklin Templeton website.

https://www.franklintempleton.lu/investor/our-approach/our-company/responsible-investing

[7] Reference to Article 173 of the French TECV Act and the HLEG recommendations on GOVERNANCE