Annex

Additional Sustainable Finance Disclosure

Product Name: Franklin S&P 500 Paris Aligned Climate UCITS ETF

Legal entity identifier: 5493008P5LV6DXD8IP28

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?

☐ Yes	☒ No
☐ It will make a minimum of **sustainable investments with an environmental objective:**	☒ It **promotes Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 10% of sustainable investments
☐ 0% in economic activities that qualify as environmentally sustainable under the EU Taxonomy	☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
☐ 0% in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	☒ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
	☐ with a social objective
☐ It will make a minimum of **sustainable investments with a social objective:**	☐ It promotes E/S characteristics, but **will not make any sustainable investments**

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

What environmental and/or social characteristics are promoted by this financial product?

Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained.

Through tracking the Index, the Sub-Fund promotes the following environmental characteristics:

- helping investors transition towards a low-carbon economy; and
- alignment of investments to the Paris Climate Agreement.

The Index follows the Paris-Aligned Benchmark (PAB) Regulations which are designed to help investors shift towards a low-carbon economy and align investments to the Paris Climate Agreement. The Index tracks the performance of eligible US equity securities, selected and weighted to be collectively compatible with a 1.5ºC global warming climate scenario and to meet several other climate-themed objectives. The Index also applies exclusions based on companies' involvement in specific business activities, performance against the principles of the United Nations' Global Compact (UNGC), and involvement in relevant Environmental, Social and Governance (ESG) controversies. Consequently, the Index supports EU environmental objectives, particularly climate change mitigation, and includes measures to ensure stocks that could do significant harm to these are excluded.

As the Sub-Fund is designed to track the Index closely, the environmental assessments carried out and reported by the Index Provider will provide an accurate assessment of the Sub-Fund.

- ***What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?***

  The Greenhouse Gas (GHG) Intensity of securities in the Index, as measured by scope 1, 2 and 3 emissions.

- ***What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?***

  The objectives of the sustainable investments that the Sub-Fund intends to make are either to invest in companies that are providing solutions to mitigate the consequences of climate change or that have established climate polices and set carbon reduction targets.

- ***How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?***

  The Index uses proprietary data tools and qualitative research applied to all companies in the Index, to ensure alignment with the Do No Significant Harm (DNSH) principles.

  In this context the Index excludes companies according to the exclusion criteria further detailed in the section dedicated to the binding elements of the investment strategy below.

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

How have the indicators for adverse impacts on sustainability factors been taken into account?

Indicators of Principal Adverse Impacts (PAIs), and other data points deemed by the Index to be proxies for principal adverse impacts, are used to remove from issuers that are considered to do significant harm from the Index.

This is achieved by the Index:

(i) ensuring that the level of GHG carbon emissions (Scope 1, 2 & 3), using the GHG Intensity calculation as described in the PAB Regulations, of the Index is at least 50% less than the S&P 500 Index, its parent index and the total GHG Intensity of the Index is reduced by 7% annually;

(ii) Reducing exposure to fossil fuel reserves by not including companies based on the percentages of revenue, as further described in the binding element section below.

(iii) Monitoring environmental controversies and removing the worst scoring companies and those that are deemed to cause environmental harm;

(iv) Excluding companies according further criteria, as described in the binding element section below

How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:

Companies that are non-compliant with the UNGC principles, OECD Guidelines or UN Guiding Principles on Business and Human Rights are excluded from the Index.

The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.

Does this financial product consider principal adverse impacts on sustainability factors?

x Yes

The Sub-Fund replicates the Index.
Please see the response to "*How have the indicators of adverse impacts on sustainability factors been taken into account?*" above.

No

What investment strategy does this financial product follow?

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

The objective of the Sub-Fund is to provide exposure to US large capitalisation securities selected from the Parent Index, which are aligned to the transition to a low carbon economy. The Parent Index includes 500 of the largest companies by market capitalisations in the US. The investment policy of the Sub-Fund is to track the performance of the Index.

The Index is designed to support investors seeking to reduce their exposure to transition and physical climate risks and who wish to pursue opportunities arising from the transition to a lower-carbon economy while aligning with the Paris Climate Agreement. The Index is constructed to follow the PAB Regulations.

Relative to the Parent Index, the Index:

(i) overweights those companies which are committed to reducing Green House Gas Intensity; and
(ii) will have a 50% decarbonisation.

In addition, the total GHG Intensity of the Index must reduce by 7% annually. These criteria are applied to 100% of the Parent Index and result in the Index having a weighted average ESG score which is greater than or equal to the weighted average ESG score of the Parent Index after 20% of the worst ESG scoring companies are removed from the Index and their weights redistributed proportionately to the remaining components.

Index securities' selection and weighting are based on assessments by the Index Provider on how aligned individual companies within the Parent Index are to the 1.5ºC global warming scenario, e.g. a company's emissions, green revenue, environmental scores, science-based climate targets, and measures and strategies in place to reduce emissions; with companies which are not aligned or are poorly aligned with this scenario given lower weightings relative to those which are better aligned. The Index's weightings of industrial sectors which have a high impact on climate change (e.g. NACE industry categories such as electricity, gas, steam and air conditioning supply, transport & storage and manufacturing) will at least be equal to the weightings of such sectors in the Parent Index.

In addition, the Index aims to align with the Transition Pathway Initiative data to create a more forward-looking approach on 1.5ºC alignment (instead of just carbon intensity). Additionally, the Index aims to overweight climate leaders, underweight climate laggards and have a four to one green-to-brown revenue share.

The Index goes beyond the EU's minimum standards for PABs by using pioneering, forward-looking carbon and physical risk data provided by S&P Global Trucost, as well as incorporating Science Based Targets (SBTi) in its approach.

The Index is rebalanced quarterly, in March, June, September and December. As part of the rebalancing process, constituent stock weights are updated. The Sub-Fund will be rebalanced at the same time, to ensure it continues to replicate the Index.

What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?

The Index is structured to fulfil all the criteria of the PAB Regulations including both baseline and activity-based exclusions. Therefore, the following binding criteria apply:

- The GHG emissions of the Index, assessed using GHG Intensity as measured by scope 1, 2 and 3 emissions described in the PAB Regulations must be at least 50% less than the S&P 500 Index, the Index's parent index. The total GHG Intensity of the Index must also reduce by 7% annually.

In addition

- The Index excludes companies that, either directly (ownership of 0% or more) or indirectly (via an ownership stake of 25% or more in another company) are involved with controversial weapons including:
    - Cluster weapons
    - Landmines (anti-personnel mines)
    - Biological or chemical weapons
    - Depleted uranium weapons
    - White phosphorus weapons or
    - Nuclear weapons

- To address societal norms violators requirements, the Index excludes companies that, either directly or via an ownership stake of 25% or more of another company that:
    - Produce tobacco
    - Have tobacco sales accounting for greater than 10% of their revenue; or
    - Have tobacco sales accounting for greater than 10% of their revenue

- The Index also follows the PAB Regulations relating to fossil fuel extraction and power generation activities. This results in the following activity exclusions:
    - Companies involved in coal exploration or processing if these activities comprise 1% or more of company revenues
    - Companies involved in oil exploration or processing if these activities comprise 10% or more of company revenues
    - Companies involved in natural gas exploration or processing if these activities comprise 50% or more of company revenues
    - Companies involved in power generation where activities comprise 50% or more of company revenues and whose Scopes 1,2, and 3 emissions intensity exceed 100g CO^2e/kWh generated.

- The Index also excludes stocks involved in the following business activities:
    - Controversial weapons
    - Tobacco
    - Small arms
    - Military contracting
    - Thermal coal
    - Oil sands
    - Shale energy
    - Gambling
    - Alcohol

- Furthermore, the Index also excludes companies that are non-compliant with the UNGC principles, OECD Guidelines or UN Guiding Principles on Business and Human Rights;

These decarbonisation requirements and full exclusions list described above are binding. There is no scope for any of these criteria to be bypassed.

For further details of the PAB Regulations, please refer to the following: [Climate benchmarks and ESG disclosure (europa.eu)]

What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?

The Index is structured to fulfil all of the criteria of the EU Climate Benchmark Regulation, including both baseline and activity-based exclusions.

Certain securities from the Index's parent index are excluded from the eligible universe of stocks. Securities that generate revenues from coal, oil and gas exploration or processing activities above the thresholds set out in the PAB Regulations are excluded, as well as those securities that derive higher than 50% of their revenues from thermal coal-based power generation, liquid fuel-based power generation and natural gas power generation.

Other exclusions include stocks involved in controversial weapons, tobacco, small arms, military contracting, thermal coal, oil sands, shale energy, gambling or alcohol.

Good governance practices include sound management structures, employee relations, remuneration of staff and tax compliance.

What is the policy to assess good governance practices of the investee companies?

Companies that are non-compliant with the UNGC principles, OECD Guidelines or UN Guiding Principles on Business and Human Rights are not eligible for the Index.

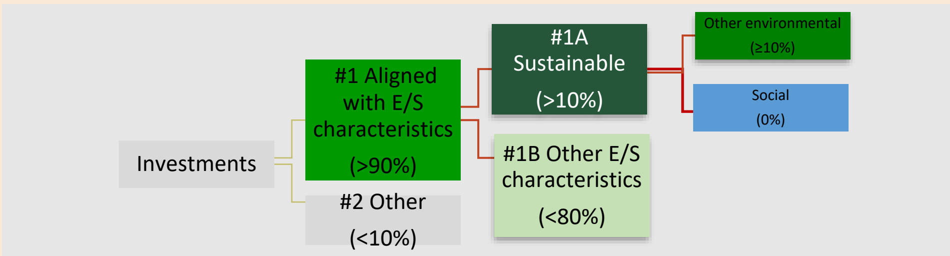
The Index Provider reviews constituents that have been flagged by its internal analysis of business intelligence on environmental, social, and governance risks to evaluate the potential impact of controversial company activities on the composition of the Index. If a company is removed following such a review, that company is not eligible for re-entry into the Index for one full calendar year.

What is the asset allocation planned for this financial product?

Asset allocation describes the share of investments in specific assets.

Taxonomy-aligned activities are expressed as a share of:
- **turnover** reflecting the share of revenue from green activities of Investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

The Investment Manager employs a binding proprietary ESG methodology which is applied to at least 90% of the Sub-Fund's portfolio. The remaining portion (<10%) of the portfolio is not aligned with the promoted characteristics. Out of the Sub-Fund's portfolio segment which is aligned with the promoted environmental and/or social characteristics, the Sub-Fund undertakes a further commitment to invest a minimum of 10% of its Net Asset Value to sustainable investments with an environmental objective not aligned with the EU Taxonomy, as described below.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:

- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?

The Sub-Fund does not use derivatives to attain the environmental characteristics that it promotes.

To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

0% of the Sub-Fund's sustainable investments has an environmental objective aligned with the EU Taxonomy.

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

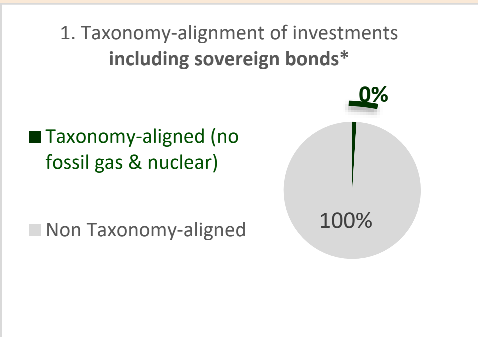
Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy[1]?

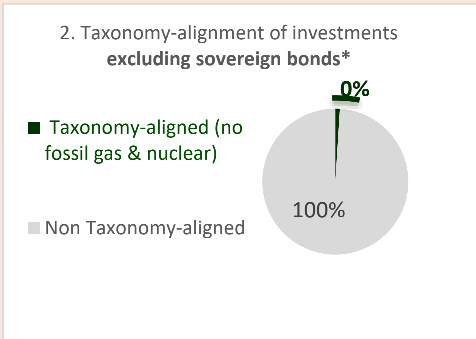
☐ **Yes:**

☐ In fossil gas ☐ In nuclear energy

x **No**

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.





* ***For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures***

Enabling activities directly enable other activities to make a substantial contribution to an environmental objective.

Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

What is the minimum share of investments in transitional and enabling activities?

The minimum share of investments in transitional and enabling activities within the meaning of the Taxonomy Regulation is 0% of the Sub-Fund's Net Asset Value.

[1] Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objective – see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulations (EU) 2022/1214.

are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.

What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

10% of the Sub-Fund's Net Asset Value.

What is the minimum share of socially sustainable investments?

0% of the Sub-Fund's Net Asset Value.

What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?

The “#2 Other” investments include cash or cash equivalents held for the purposes of servicing the day-to-day requirements of the Sub-Fund as well as derivatives used for efficient portfolio management purposes.

No minimum environmental or social safeguards have been put in place.

Reference benchmarks are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?

Yes, the S&P 500 Net Zero 2050 Paris Aligned ESG Index NR.

How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?

The Index is an EU Paris-Aligned Benchmark, in accordance with the PAB Regulations.

The Index is rebalanced quarterly to ensure that the following metrics are achieved:

- Minimum 50% reduction in GHG Intensity (measured by scope 1, 2 and 3 GHG emissions, as described in the PAB Regulations) relative to the Parent Index
- Absolute 7% year on year decarbonisation as measured by the reduction in GHG Intensity, relative to the Index's base date.

How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?

The Index is rebalanced quarterly to ensure that the requirements of the PAB Regulations are met.

How does the designated index differ from a relevant broad market index?

The Index is structured to deliver decarbonisation requirements which are absolute but also relative to the Parent Index, which is a relevant broad market index. The Index methodology also provides for multiple activity-based exclusions, as described above, which are not features of the Parent Index.

Where can the methodology used for the calculation of the designated index be found?

Further information can be found at the following link: [Table of Contents (spglobal.com)]

Where can I find more product specific information online?

More product-specific information can be found on the Website.
www.franklintempleton.ie/29819