**Annex**

**Additional Sustainable Finance Disclosure**

**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.

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.

| | | | |
|---|---|---|---|
| **Product Name:** | Franklin Sustainable Euro Green Bond UCITS ETF | **Legal entity identifier:** | 549300DYLFY0UQSSHE55 |

# Sustainable investment objective

**Does this financial product have a sustainable investment objective?**

| [x] **Yes** | [ ] **No** |
|---|---|
| [x] 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 0% 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 |
| [x] 90% 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** |

## What is the sustainable investment objective of this financial product?

The Sub-Fund's sustainable investment objective is to invest in fixed income securities presenting the following characteristics:

- bonds labelled as being green as per international standards (including but not limited to, International Capital Market Association (the "ICMA") Green Bond principles or future European Union (the "EU") Green Bond Standards); and
- other eligible bonds qualifying as sustainable investments with environmental objective under the Sustainable Finance Disclosure Regulation (the "SFDR") which are deemed to be supportive of a low-carbon future, or supportive of the Paris Climate Agreement.

The sustainable investment objective is mapped to the following United Nations Sustainable Development Goals (the "UN SDGs"):

- goal 6 Clean Water and Sanitation;

- goal 7 Affordable and Clean Energy;
- goal 8 Decent Work and Economic Growth;
- goal 9 Industry, Innovation and Infrastructure;
- goal 11 Sustainable Cities and Communities;
- goal 12 Responsible Consumption and Production;
- goal 13 Climate Action;
- goal 14 Life Below Water;
- goal 15 Life On Land; and
- goal 17 Partnerships for the Goals.

Additionally, the Sub-Fund implements negative screens as part of its investment process, as explained in further detail below.

The Sub-Fund uses a variety of ways to assess its environmental and/or social performance but does not use a reference benchmark to measure the attainment of its sustainable investment objective.

**Sustainability indicators** measure how the sustainable objectives of this financial product are attained.

***What sustainability indicators are used to measure the attainment of the sustainable investment objective of this financial product?***

The sustainability indicators used to measure the attainment of the sustainable investment objective are:

- the amount (in Euro) provided to eligible projects on a quarterly basis – based on allocation to green bonds;
- the percentage of investments in green bonds;
- the percentage of investments in other eligible bonds supportive of a low-carbon future or supportive of the Paris Climate Agreement; and
- the percentage of investments in issuers having exposure to or ties with the sectors and the additional exclusions as further described below.

***How do sustainable investments not cause significant harm to any environmental or social sustainable investment objective?***

**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.

The Investment Manager uses proprietary data tools and qualitative research to ensure alignment with the Do No Significant Harm (the "DNSH") principles across the portfolio.

Corporate issuers are monitored using the principal adverse impacts (the "PAIs") Risk App (the "PAI Risk App"). The PAI Risk App uses data from a third-party provider to identify issuers involved in harmful economic activities and/or controversies and exclude such issuer from the investment universe.

Additionally, sovereign issuers are subjected to tests based on their political liberties and/or corruption. Finally, the Investment Manager applies additional qualitative assessment (based on internal research or external second party opinion) of the issuer's and the project's DNSH eligibility.

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

Adverse impact indicators, including PAIs and other data points deemed by the Investment Manager as proxies for adverse impact, are used to:

- remove from the investable universe issuers that are considered to do significant harm; and
- inform the Investment Manager about the risk associated with adverse impact and take appropriate action – that includes due diligence, qualitative scrutiny and/or engagement.

While assessing eligible bonds, the Investment Manager reviews and documents the materiality of relevant PAIs for the project as well as how the project's implementation affects the issuer's overall PAIs outlook.

For example, while investing in a green bond whose use of proceeds targets development of renewable energy sources, e.g. solar/PV panels, the Investment Manager ascertain that the financed projects score well on PAIs linked to greenhouse gas emissions.

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

For bonds issued by sovereign countries, the Organisation for Economic Cooperation and Development (the "OECD") Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights are not applicable. For bonds issued by corporate issuers, the sustainable investments are aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Alignment is monitored using data from MSCI. Breaches identified by these service providers are flagged in the investment compliance system for subsequent investigation by the Investment Manager.

Where due diligence proves that the issuer is not aligned with OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, it is deemed un-investible.

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

x Yes,

PAIs indicators are considered for the purpose of:
- performing the DNSH test; and
- guiding thematic engagement.

**Performing the DNSH test**
The Investment Manager uses proprietary data tools and qualitative research to ensure alignment with the DNSH principles across the portfolio using the PAIs indicators. Corporate issuers are monitored using the PAI Risk App. The PAI Risk App uses data from a third-party provider to identify issuers involved in harmful economic activities and/or controversies based on all mandatory PAIs and exclude such issuer from the investment universe. Additionally, sovereign issuers are subjected to tests and evaluation based on their greenhouse gas emissions, political liberties and/or corruption.

**Guiding thematic engagement**
The Investment Manager commits to engage with 5% of holdings which are considered as underperformers in terms of their aggregate exposure to applicable mandatory PAIs metrics.

More information on how the Sub-Fund considered its PAIs may be found in the periodic reporting of the Sub-Fund.

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 Sub-Fund seeks to achieve its investment objective by investing at least 75% of its Net Asset Value in bonds that are labelled as being green as set out below and with up to 25% of its Net Asset Value in other eligible bonds deemed by the Investment Manager to be supportive of a low-carbon future, or supportive of the Paris Climate Agreement, using the environmental, social and governance (the “ESG”) criteria set out below.

The Investment Manager employs a proprietary ESG methodology to assess whether bond issuers (i) support the transition to a low-carbon future, (ii) are supported by an appropriate governance structure and (iii) display good operational environmental management.

The strategy employs fundamental, bottom-up research analysis with a focus on eligible green bonds, each investment having received credit approval by the Investment Manager.

**Identifying green bonds**

Green bonds are debt instruments whose proceeds are used to partially or fully finance or pre-finance of new and/or existing projects that have a beneficial impact on the environment.

For the purpose of applying this investment policy and identifying appropriate bonds as being green according to a recognized green bond assessment framework, such as the International Capital Market Association (the “ICMA”) Green Bond Principles or the future European Union Green Bond Standard depending on which one the issuer selected.

If there is a positive Second Party Opinion (the “SPO”) provided by a recognized provider, the Investment Manager is allowed to qualify a security as green. When an SPO is not available, the Investment Manager does the analysis, leveraging proprietary analytical framework, to determine if the bond is aligned with ICMA Green Bond Principles or the future EU Green Bond Principles. Once appropriate bonds have been identified, the Investment Manager ensures that they do not significantly harm any sustainable objective in order to qualify them as sustainable investments and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

**Identifying other eligible bonds**

The Sub-Fund invests up to 25% of its Net Asset Value into any bonds emitted by issuers who declare majority of use of proceeds are invested in economic activities deemed to be supportive of a low-carbon future, or supportive of the Paris Climate Agreement provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

In addition to the above, the Sub-Fund applies specific ESG exclusions. Across the entire portfolio, the Sub-Fund shall not invest in issuers that:

- repeatedly and seriously violate the United Nations Global Compact Principles (the “UNGC Principles”), the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises;
- have an insufficient scoring according to the Freedom House Index[1] for sovereign issuers
- manufacture controversial weapons such as those that are defined as being indiscriminate; or those that manufacture components; intended for use in such weapons *(PAI #14 exposure to controversial weapons);*
- derive more than 5% of their revenue from production of conventional weapons;
- manufacture tobacco or tobacco products; or those that derive revenue from such products that exceeds the Investment Manager’s 5% threshold;
- derive more than 5% of their revenue from gambling or adult entertainment;

- derive more than 5% of their revenue from the mining of thermal coal and its sale to external parties;
- derive more than 5% of their revenue from the most polluting fossil fuels;
- exceed the Investment Manager's 30% tolerance level of fossil fuels or 5% tolerance level of thermal coal used to generate electricity or lack ambitions decarbonization targets for electricity generation;
- negatively affect biodiversity-sensitive areas *(PAI #7 activities negatively affecting biodiversity-sensitive areas);*
- score an ESG rating of CCC according to MSCI (exceptions can only be made after the Investment Manager conducts a formal review and provides sufficient evidence that the CCC ESG rating cannot be justified).

If a security held by the Sub-Fund falls under at least one of the above exclusions, the Investment Manager will divest from such security as soon as practicable and at the latest within a period of six months.

The above ESG methodology, which is applied to at least 90% of the Sub-Fund's portfolio, is binding for the portfolio construction.

The Sub-Fund may also invest up to 10% of its Net Asset Value in units of UCITS and other UCIs (including ETFs), which are classified as SFDR Article 9 funds and which share the Sub-Fund's broad environmental sustainable investment goals.

### *What are the binding elements of the investment strategy used to select the investments to attain the sustainable investment objective?*

The following elements of the strategy are binding and are not at the discretion of the Investment Manager:

1. the commitment to invest at least 90% of the Sub-Fund's Net Asset Value in sustainable activities as defined above;
2. the commitment to invest at least 75% of the Sub-Fund's Net Asset Value in bonds labelled as being green; and
3. the application of the ESG negative screens further described in the investment strategy section of this annex.

**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?*

Assessment of good governance is achieved on both quantitative and qualitative levels.

For the quantitative assessment of corporate and sovereign issuers, the issuers not following governance practice are typically determined using data points included into PAI Risk App and are deemed un-investible. For the qualitative assessment of corporate issuers, the Investment Manager considers governance factors, such as board composition (including but not limited to gender, independence, skill set), governance practices or shareholders protection.

For the qualitative assessment of sovereign issuers, the Investment Manager investigates factors such as political liberties, rule of law, government effectiveness, among others.

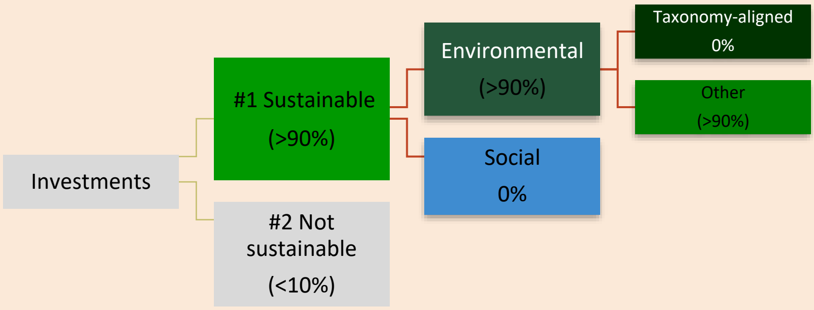
Issuers not passing PAI Risk App initial test and/or with qualitatively assessed governance deficiencies are deemed un-investible.

[1] https://freedomhouse.org/countries/freedom-world/scores

**Asset allocation** describes the share of investments in specific assets.

## What is the asset allocation and the minimum share of sustainable investments?

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 consist of liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds) as well as derivatives used for hedging purposes.




**#1 Sustainable** covers sustainable investments with environmental or social objectives.
**#2 Not sustainable** includes which do not qualify as sustainable investments.

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.

### *How does the use of derivatives attain the sustainable investment objective?*

The derivatives are not intrinsically used to attain the sustainable investment objective of the Sub-Fund, but could be embedded into an efficient portfolio management instrument which provides access or exposure to an underlying sustainable investment.

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.

**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.

### 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.

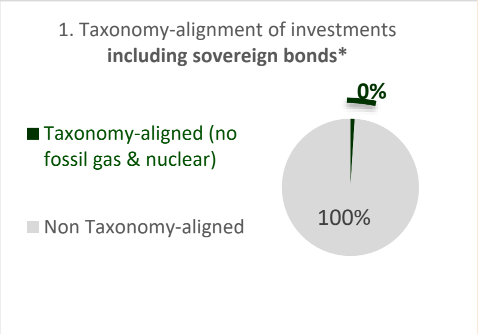
**Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy[2]?**

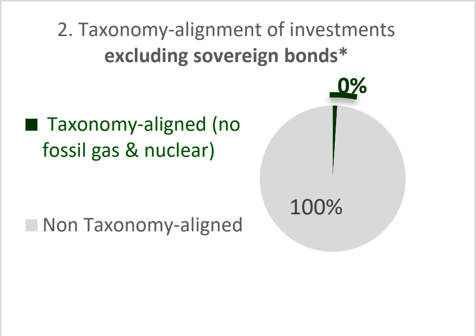
☐ **Yes:**

☐ 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*

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

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

[2] 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?

The Sub-Fund commits to having a minimum of 90% of its Net Asset Value in sustainable investments with an environmental objective aligned with SFDR.

## What is the minimum share of sustainable investments with a social objective?

Not applicable.

## What investments are included under "#2 Not sustainable", what is their purpose and are there any minimum environmental or social safeguards?

The "#2 Not sustainable" investments include liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds) held for the purposes of servicing the day-to-day flow management and liquidity requirements of the Sub-Fund as well as derivatives used for hedging purposes.

No minimum environmental and/or social safeguards have been put in place for the liquid assets.

For derivatives, the Investment Manager determines what is the underlying asset and if applicable, subject this asset to all relevant ESG screenings depending on the underlying asset's nature.

If it is impossible to determine the ESG quality of the underlying asset because of its nature (e.g., currency forwards for hedging purposes), the Investment Manager assesses the ESG credentials of a derivative contract counterparty. If a counterparty is a subsidiary without separate ESG reporting scheme, the ESG characteristics of a parent company apply. The Sub-Fund does not enter into in derivatives with financial institutions which do not meet the Investment Manager's ESG criteria. To qualify as eligible counterparty, a financial institution must meet at least two of the following criteria:

- MSCI ESG rating of BBB or above – or in absence of MSCI rating, being above industry average rating as judged by alternative third party ESG data provider;
- signatory to the Equator Principles;
- signatory to Task Force on Climate-Related Financial Disclosures; and
- is committed to set a Science Based Target initiative (the "SBTi") target.

**Reference benchmarks** are indexes to measure whether the financial product attains the sustainable

## Is a specific index designated as a reference benchmark to meet the sustainable investment objective?

No

### *How does the reference benchmark take into account sustainability factors in a way that is continuously aligned with the sustainable investment objective?*

N/A

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

  N/A

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

  N/A

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

  N/A

## Where can I find more product specific information online?

**More product-specific information can be found on the Website.**
www.franklintempleton.ie/27850