Templeton Global Climate Change Fund

Pre-contractual disclosure for the financial products referred to in Article 9, paragraphs 1 to 4, of Regulation (EU) 2019/2088 and Article 5, first paragraph, of Regulation (EU) 2020/852

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.

Product name: Franklin Templeton Investment Funds – Templeton Global Climate Change Fund (the "Fund")

Legal entity identifier: ROZ2JHNR2LH7P3EKVR10

Environmental and/or social characteristics

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 lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Does this financial product have a sustainable investment objective?

☒ **Yes**	☐ **No**
☐ It will make a minimum of **sustainable investments with an environmental objective: 90%**	☐ 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 ___% of sustainable investments
☐ 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
☒ 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 Fund's sustainable investment objective is to contribute towards climate change mitigation and adaptation as considered by the Paris Climate Agreement.

In order to achieve the long-term global warming targets of the Paris Climate Agreement, the Fund pursues decarbonization primarily through investments in solutions to reduce greenhouse gas emissions, and secondarily through investments in companies committed to aligning their own self-decarbonization trajectory with the 1.5-degree scenario.

The Fund does not use a reference benchmark to attain 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 by the Fund are:
1. exposure to climate change mitigation and adaptation solutions providers;
2. exposure to transitioning companies;

3. MWh generated in the most recent year from renewable sources, per US$M invested (measured as the Fund's ownership share of holdings);
4. percentage of portfolio companies with quantitative greenhouse gas emissions reduction targets;
5. weighted average reduction target;
6. carbon intensity;
7. carbon footprint trajectory;
8. carbon reductions achieved; and
9. avoided greenhouse gas emissions.

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

During the process of integration of environmental, social and governance (the "ESG") data into the investment decision making process including the management of the portfolio construction, the Investment Manager considers the principal adverse impacts (the "PAIs") indicators and uses its engagement process to protect the portfolio and review if any of the Fund's investments cause significant harm to any sustainable investment objective.

The Investment Manager assesses and seeks to mitigate the adverse sustainability impacts of investment decisions, such as but not limited to any significant negative impact on the environment, employee safety, forced labour, or bribery. The Investment Manager evaluates portfolio companies' sustainability impact and engages with the latter in order to (i) reduce the adverse impact of their activities and (ii) increase their activities which are contributing positively to the Fund's sustainable investment objective.

Industry relevant impact indicators are compared to peers and the broad investment universe to identify potentially significant positive and negative impacts. The Investment Manager identifies pertinent significant sustainability risks and uses its own qualitative judgement when reviewing the PAIs indicator data, where available, to assess whether investments cause any significant harm. This informs ESG assessment and ratings and influences investment decisions.

As part of its Do Not Cause Significant Harm test, the Fund applies the following exclusions:

- The Fund does not invest in fossil fuel producers, producers of controversial weapons (i.e., anti-personnel mines, nuclear weaponry, biological and chemical weaponry and cluster munitions) and companies that generate 5% or more of their revenues from tobacco, conventional weapons, firearms, coal power generation, oil-based power generation, nuclear power generation, alcohol, oil services, thermal coal refining, crude oil refining, genetic engineering or palm oil, and companies that generate 1% or more of their revenues from gambling or pornography; and

- The Fund does not invest in companies that violate the United Nations Global Compact principles (the "UNGC Principles"), international norms on human rights listed by MSCI, labour rights, environment standards and anti-corruption statutes, according to the Investment Manager's analysis.

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

When assessing compliance of the Fund's investments with the Do No Significant Harm principles, the Investment Manager takes into account all mandatory PAI indicators of Table 1 of Annex I of the SFDR Regulatory Technical Standards ("RTS"), to the extent they are relevant for the investments contemplated by the Fund and other data points deemed by the Investment Manager as proxies for adverse impact. The Investment Manager performs this analysis at the level of each sustainable investment so that the relevance and materiality of the PAI indicators may vary across investments. Issuers deemed to be in breach of these indicators will not qualify as sustainable investments.

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

The Fund does not invest in companies that, according to MSCI, do not observe the main international conventions (UNGC Principles, Organisation for Economic Cooperation and Development (the "OECD") Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights).

Exceptions can only be made after formal review of alleged violations has been carried out and where the Investment Manager either disagrees with the conclusion that the company is complicit in violations of the principles of such conventions or have determined that the company has made and implemented positive changes deemed satisfactory to appropriately address the deficiency/ violation. The severity of the violation, response, frequency, and nature of the involvement are considered in making a judgement on whether the company observes international conventions.

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.

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

☒ Yes,

The Fund assesses and seeks to mitigate the sustainability adverse impacts of investment decisions, such as a negative impact on the **environment** or **employee safety**, **forced labour** or **bribery**. Companies' strategies to reduce the adverse impact and increase the positive impact of their activities are incorporated into the ESG assessment and ratings, which may influence investment decisions. The Investment Manager works to engage in efforts to address and mitigate these impacts.

For all companies, the Fund applies specific criteria to the following PAIs:

– **greenhouse gas intensity;**
– **board gender diversity;**
– **exposure to fossil fuels;**
– **violations of UNGC Principles or OECD Guidelines for Multinational Enterprises; and**
– **exposure to controversial weapons.**

- **Greenhouse gas intensity**

Companies scoring in the bottom quintile vs peers, and with a level greater than half that of the MSCI All Country World benchmark, on the PAI of greenhouse gas intensity Scope 1 and 2 are addressed through engagement, with a requirement to establish an emissions reduction target or move out of the bottom quintile over a 3-year timeframe. In case there is no improvement after 3 years, the Investment Manager takes all reasonable means to divest.

Net Zero Asset Managers Initiative (the “NZAMI”) Alignment:

The Fund targets decreasing greenhouse gas intensity and emissions reduction targets, engaging with companies to encourage them to align their business models with NZAMI goals, set emission reduction targets and disclose their climate change strategies. The Investment Manager intends to increase the minimum sustainable investments allocation that is aligned with NZAMI targets over time and target 100% alignment with net zero by 2040.

The Fund targets 70% of its Assets Under Management (the “AUM”) in material sectors to be net zero or aligned to net zero by 2030 and 100% of AUM by 2040. The Investment Manager utilizes a combination of third-party verification, such as SBTi and Transition Pathway Initiative (the “TPI”), and its own analysis to assess alignment.

- **Board gender diversity**

Companies with no females on the board are addressed through engagement, with a requirement to add a female board member over a 3-year timeframe. In case there is no improvement after 3 years, the Investment Manager takes all reasonable means to divest.

- **Exposure to fossil fuels**

Exclusion policy restricts investments in fossil fuels.

- **Violations of UNGC Principles or OECD Guidelines for Multinational Enterprises**

Exclusion policy prohibits investments in companies the Investment Manager considers to severely breach these international norms.

- **Exposure to controversial weapons**

Exclusion policy prohibits investments in cluster munitions, antipersonnel land mines and biological, chemical and nuclear weapons.

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

☐ No

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

What investment strategy does this financial product follow?

The Fund seeks to achieve its objective by primarily investing in equity securities of global companies that provide solutions for the mitigation and/or adaption of climate change risk or which are in the process of making their business models more resilient to long-term risks presented by climate change and resource depletion. The Investment Manager believes that such companies are better prepared financially and competitively for a transition to a low carbon and more resource constrained economy.

- Methodology

The Investment Manager uses in-depth analysis to select individual equity securities that it believes are undervalued, based on such factors as their expected long-term earnings and the value of their business assets. The Fund seeks to invest in companies that are good stewards of their impact on environmental and/or social development.

The Fund's proprietary ESG ratings framework that consists of scores from 1 (exceptional sustainability profile) to 5 (unacceptable sustainability risk), direct fundamental research, and engagement process enable a thorough evaluation of the sustainability characteristics of companies' business models.

The Fund aims to achieve its climate change mitigation and adaptation objective by investing in companies that reduce emissions, improve resource efficiency, and limit the physical consequences of climate change so as to align the Fund's portfolio carbon impact with the landmark Paris Climate Agreement adopted in December 2015. Companies that may benefit financially and competitively from the transition to a global low-carbon economy can be grouped into three broad categories:

1. **Solution providers:** (>50% of net assets) companies that derive more than 50% of revenues (or alternative metric such as assets) from products and services that directly or indirectly reduce global emissions, improve resource efficiency, and/or protect against the physical consequences of climate change. The solutions activities are generally associated with one of the following themes: renewable energy, energy efficiency, water and waste management, sustainable transportation, and sustainable forestry and agriculture. Factors driving security selection include the Investment Manager's percent of revenues and profits from solutions, a company's net impact on greenhouse gas emissions and resource usage and its governance of the opportunities arising from the low carbon transition.
2. **Transitioning companies:** (<50% of net assets) companies that are transitioning to solutions providers or have moderate to high emissions or resource intensity which are making industry-leading efforts to reduce them (notably by setting science-based emissions reduction targets, or companies which have already achieved emission reductions putting them in top quintile of their industry peer group). Such companies have below average projected carbon intensity compared to industry peers as a result of historical greenhouse gas emissions reductions and quantitative reduction targets, or they have above industry peers average projected solutions revenue based on internal methodology. Factors driving security selection include the Investment Manager's view on a company's ability to achieve carbon and resource intensity aligned with the long-term global warming targets of the Paris Climate Agreement, greenhouse gas emissions disclosure quality, exposure to climate mitigation and adaptation solutions and the company's governance of the risks and opportunities arising from the low carbon transition.
3. **Resilient companies:** (<50% of net assets) companies that have relatively low carbon or resource intensity. Such companies have carbon or resource (water, for example) intensity in the bottom half of the broad global investment universe, defined as MSCI ACWI Investable Market Index (the "MSCI ACWI IMI"). Carbon intensity is measured as Scope 1, 2 and 3 greenhouse gas emissions / Enterprise Value Including Cash (the "EVIC"). Resource intensity is measured similarly but substituting specific resources such as water. A company's alignment with NZAMI by 2050 is a primary consideration for security selection. The Investment Manager uses the Paris Aligned Investment Initiative's Net Zero Investment Framework (the "PAII NZIF") to aid in categorizing companies by levels of alignment and commitment. This supports the Investment Manager's efforts to prioritize engagement on companies least aligned based on both their current level of emissions and level of commitment.

The Investment Manager undertakes to reduce the investment universe by at least 20% by excluding companies with the worst climate scores according to its proprietary methodology.

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

The binding elements of the investment strategy can be summarized as follows:

1. the Fund maintains a weighted average ESG rating higher than the average ESG rating of the companies in the investment universe, defined as MSCI ACWI IMI, based on the MSCI ESG Rating; and
2. the Fund does not invest in the sectors and companies falling under the exclusion list described above.

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

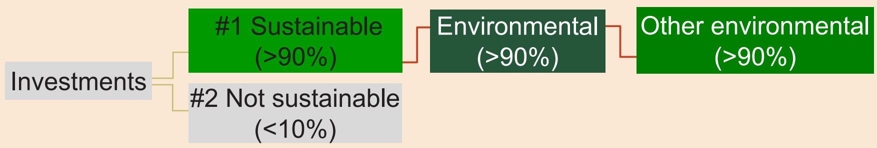
- ***What is the policy to assess good governance practices of the investee companies?***

The Investment Manager's analysts review if companies exhibit good governance practices in their analysis, including a review of board structure and independence, remuneration policy, accounting standards and shareholder rights. The Investment Manager also considers items such as employees' turnover, training, diversity, pay gap and controversies, as well as tax related issues such as gap between statutory and effective rates and controversies. The Fund does not invest in companies deemed to have unacceptable governance risk according to an analyst's assessment, which is reflected as a governance rating of 5 under proprietary ESG rating framework.

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

Asset allocation describes the share of investments in specific assets.

The Investment Manager employs a binding proprietary ESG methodology which is applied to at least 90% of the portfolio to determine a company's profile on relevant environmental, social, and governance issues, which constitutes the sustainable investment portion in the Fund's portfolio as illustrated in the chart below. This part of the portfolio qualifies as sustainable investments. A maximum of 10% of the portfolio's NAV may be set aside, indicated in the following graph with "#2 Not sustainable". It includes liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds) held for liquidity purposes that, by their nature, cannot be aligned with the sustainable objective of the Fund as well as derivatives held solely for hedging purposes which do not qualify as sustainable investments.



#1 Sustainable covers sustainable investments with environmental or social objectives.

#2 Not sustainable includes investments which do not qualify as sustainable investments.

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

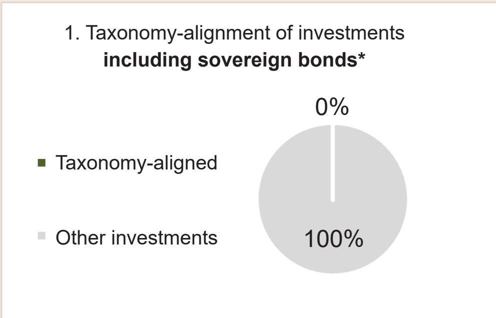
The derivatives are not used to attain the sustainable investment objective of the Fund.

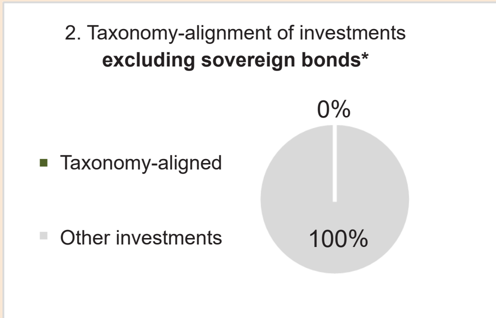
Taxonomy-aligned activities are expressed as a share of:
- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure**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

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

Not applicable.

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?

Not applicable.

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 Fund commits to a minimum 90% of sustainable investments with an environmental objective. The Investment Manager is not currently in a position to specify the exact proportion of the Fund's underlying investments which take into account the EU criteria for environmentally sustainable economic activities. However, the position is kept under review as the underlying rules are finalised and the availability of reliable data increases over time.

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 investments in liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds) held for liquidity purposes of the Fund as well as derivatives held solely for hedging purposes.

The Investment Manager applies minimum environmental and social safeguards by verifying that the counterparties used for derivative transactions and placement of deposits meet the EU Taxonomy Safeguards, as assessed by MSCI . Counterparties not meeting such criteria will not be used by the Fund.

For the avoidance of doubt, the Investment Manager will ensure that the underlying asset of any derivatives used for efficient portfolio management will qualify as a sustainable investment.

The limited proportion of investments under "#2 Not sustainable" and the applicable minimum safeguards do not affect the delivery of the sustainable investment objectives of the Fund on continuous basis.

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

No.

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

Where can I find more product specific information online?

More product-specific information can be found on the website:

https://www.franklintempleton.lu/our-funds/price-and-performance/products/1339/A/templeton-global-climate-change-fund/LU0029873410

Specific disclosure required under Article 10 of SFDR for the Fund can be found at: www.franklintempleton.lu/1339