

Pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Product name: Franklin Templeton Investment Funds – Franklin Innovation Fund (the “Fund”) Legal entity identifier: 5493001D40O5GUTY6W49

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

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?

Yes
 No

<input type="checkbox"/> It will make a minimum of sustainable investments with an environmental objective: ___% <ul style="list-style-type: none"> <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy 	<input type="checkbox"/> 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 <ul style="list-style-type: none"> <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with a social objective
<input type="checkbox"/> It will make a minimum of sustainable investments with a social objective: ___%	<input checked="" type="checkbox"/> It promotes E/S characteristics, but will not make any sustainable investments



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

The environmental and/or social characteristics promoted by the Fund are specific to each company and industry in which the Fund operates. These characteristics consist of *inter alia*, cybersecurity and data privacy, support of human capital and/or environmental impact (e.g., carbon emissions, water usage, and e-waste). The Investment Manager seeks to attain these characteristics by excluding certain issuers and sectors considered by the Investment Manager as harmful for the society while favoring issuers with a good environmental, social and governance (the “ESG”) profile, as captured by its proprietary ESG methodology. Both the excluded issuers and sectors and the ESG rating methodology are further described in section “What investment strategy does this financial product follow?” below.

No reference benchmark has been designated to attain the environmental and/or social characteristics promoted.

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

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

The sustainability indicators used to measure the attainment of the environmental and/or social characteristics promoted are:

- the share of companies rated AAA, AA, A, and B by proprietary ESG methodology; and
- the share of companies having exposure to, or tying with excluded sectors and additional exclusions further described in the investment strategy section of this annex.

- **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?**

Not applicable.

- **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?**

Not applicable.

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

Not applicable.

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

Not applicable.

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?

Yes,

The Fund specifically considers the following principal adverse impacts (the “PAIs”):

- **Scope 1 and Scope 2 greenhouse gas emissions;**
- **Scope 1+2 and material Scope 3 greenhouse gas emissions intensity;** and
- **board gender diversity.**

The consideration of the specified PAIs is tied to the Fund’s fundamental investment analysis as well as the Fund’s ESG assessment of investee companies. The Investment Manager believes that these PAIs are applicable to the widest range of the Fund’s investments and represent the largest opportunity set for engagement.

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.

With regards to **greenhouse gas emissions**, the Investment Manager is committed to engage with the investee companies to ensure they are establishing and committing to greenhouse gas emissions reductions plans, that are in accord with science based long term goals of net-zero emissions by 2050, in line with Net Zero Asset Managers Initiative (the “NZAMI”) commitments. The Investment Manager works with companies to move them up to the scale of committing to align with net zero targets, aligning their emissions with net zero, being aligned to achieve net zero, and reaching net zero emissions. While the Investment Manager understands that, in the short-term, absolute emissions may increase for some companies as they work on transition plans, therefore, the consideration of greenhouse gas emission intensity helps the Investment Manager to monitor that overall companies’ greenhouse gas emissions are trending in a direction aligned with greenhouse gas emissions reductions over time.

With regards to **board gender diversity**, the Investment Manager is committed to engage with the investee companies to ensure their boards are representative of the customers they serve as the Investment Manager believes this helps them to better understand their consumer base, create better products, and ultimately be more efficient companies. Initially, the Investment Manager works to identify companies that do not have board gender diversity and set time-based thresholds for drafting a plan to increase board gender diversity. The Investment Manager believes it is reasonable to increase the acceptable level of board gender diversity over time and to engage with companies that are laggards relative to their industry peers.

For the above PAIs, the Investment Manager initially baselines the portfolio and investee companies and looks to drive improvement on both fronts over time through engagement. As part of its NZAMI commitments, the Fund is engaging with investee companies to set and follow science-based emissions reductions targets and is seeking to follow a portfolio coverage approach, with increasing weight in companies that have achieved net zero greenhouse gas emissions, are aligned with net zero or are aligning. The goal for the portfolio is to achieve 100% in these categories by 2040. For board gender diversity, the Fund’s initial commitment is to engage with all companies that lack any gender diversity with an expectation for them to develop at minimum a plan to increase board gender diversity within 18 months. The Investment Manager intends to increase the expectations of board gender diversity over time. Consequences of a lack of improvement on these measures for investee companies eventually include divestment if the Investment Manager does not see a path for improvement.

Finally, the Fund is committed to excluding investments in companies that produce **controversial weapons** or who fail to comply with the **United Nations Global Compact principles** (the “UNGC Principles”) without positive outlook for remediation.

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

No



What investment strategy does this financial product follow?

The Investment Manager employs a binding proprietary ESG methodology to determine a company’s profile on relevant ESG issues.

The Investment Manager evaluates the companies which may be potential investment for the Fund and assigns an overall ESG rating based on quantitative and qualitative factors such as data security, gender diversity and inclusion as well as climate risk/greenhouse gases emissions/carbon footprint. The rating assigned to the issuers by the Investment Manager based on the proprietary ESG methodology and comprises four grades: AAA (best in class/very good), AA (good), A (fair) and B (needs improvement). The Investment Manager’s ESG approach includes regular dialogue with investee companies, monitoring material ESG issues and voting proxies. Companies rated “B” or those not rated due to the company not meeting the Investment Manager’s fundamental criteria are excluded from the Fund’s portfolio.

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

The Fund also applies specific ESG exclusions and does not invest in companies which according to the Investment Manager's analysis:

- seriously violate the UNGC Principles (without positive perspective) - for that purpose, the Fund does not invest in companies which the Investment Manager assesses as fail under the UNGC Principles;
- generate more than 10% of revenue from the production and/or distribution of weapons;
- are involved in the production, distribution or wholesale trading of dedicated and/or key components of banned weapons (i.e., antipersonnel mines, biological and chemical weaponry and cluster munitions);
- manufacture tobacco or tobacco products or those that derive more than 5% of their revenue from such products;
- generate more than 10% of their revenue from thermal coal extraction or coal-based power generation.

Furthermore, the Fund does not invest in sovereign issuers which have inadequate scoring according to the Freedom House Index.

Finally, the Fund excludes from its portfolio companies that fail to improve on the integrated PAIs described above after engagement. Companies could be removed from the exclusion list after they show improvement on the relevant PAIs.

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

- the exclusion of certain sectors and companies described in the investment strategy section of this annex (see above);
- the exclusion of companies rated B under proprietary methodology; and
- the commitment to exclude companies failing to improve on the PAIs considered after engagement.

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

Not applicable.

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

Governance is assessed regularly as part of the Investment Manager's fundamental analysis.

To score corporate governance, the Investment Manager uses a combination of quantitative metrics (such as compensation details, diversity and inclusion metrics, controversy metrics) and qualitative assessments (board independence, board composition, existence of dual class shares).

The Investment Manager further incorporates other qualitative factors such as capital allocation, research and development success, crisis management, acquisition history and communication with investors.

Certain governance related controversies (e.g., concerns regarding executive compensation or perceived lack of independence of board directors) could result in a company being un-investable by our standards despite strong fundamentals or other metrics.

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



Asset allocation describes the share of investments in specific assets.

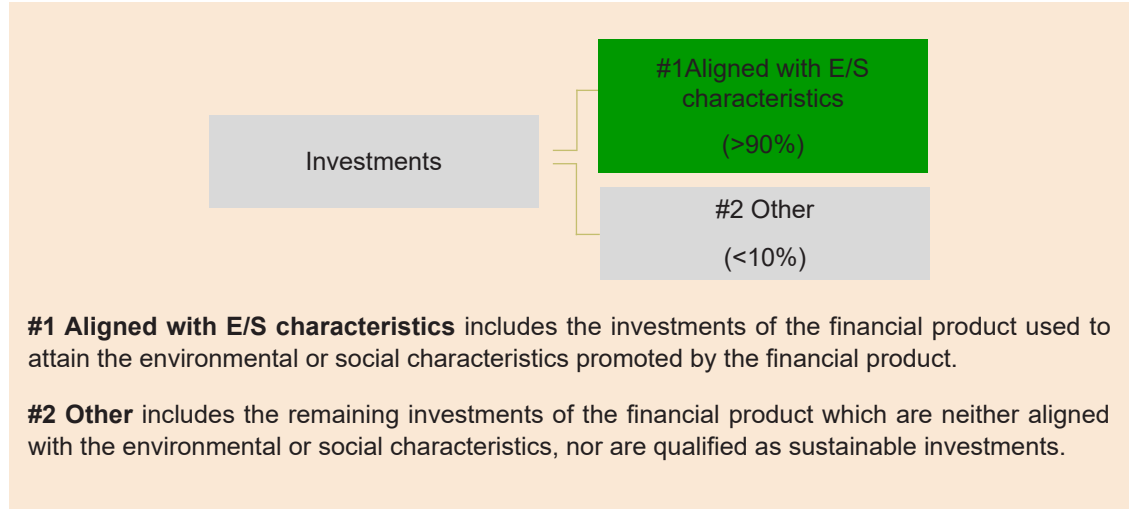
Taxonomy-aligned activities are expressed as a share of:

- **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.

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.

What is the asset allocation planned for this financial product?

The Investment Manager employs a binding proprietary ESG methodology which is applied to at least 90% of the Fund's portfolio to determine a company's profile on relevant ESG issues. At least 90% of the Fund's portfolio is aligned with environmental and/or social characteristics promoted by the Fund. The remaining portion of it (<10%), mainly consisting of liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds) is not aligned with the promoted characteristics.



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

Not applicable.



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

Not applicable

- **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy¹⁵?**

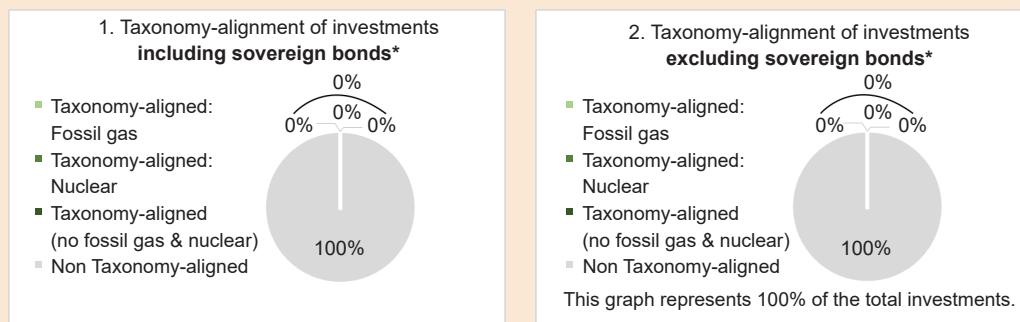
- Yes:
- In fossil gas In nuclear energy
- No

¹⁵ 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 Regulation (EU) 2022/1214.

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.

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?**

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?

Not applicable



What is the minimum share of socially sustainable investments?

Not applicable.



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

The “#2 Other” investments, constituting up to 10% of the portfolio, may include investments in liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds) held for the purposes of servicing the day-to-day requirements of the Fund or investments for which there is insufficient data for them to be considered ESG-related investment. Due to the neutral nature of the asset, no minimum safeguards have been put in place.



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?

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/28619/Z/franklin-innovation-fund/ LU2063271972](https://www.franklintempleton.lu/our-funds/price-and-performance/products/28619/Z/franklin-innovation-fund/LU2063271972)

Specific disclosure required under Article 10 of SFDR for the Fund can be found at: www.franklintempleton.lu/28619