Franklin Euro Government Bond Fund

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

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.

Product name: Franklin Templeton Investment Funds – Franklin Euro Government Bond Fund (the “Fund”)

Legal entity identifier: 0YX4QFLYLSHIYAKFZJ30

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?

☐ **Yes**

☐ It will make a minimum of **sustainable investments 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

☐ It will make a minimum of **sustainable investments with a social objective: ___%**

☒ **No**

☒ 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 **11%** of sustainable investments

- ☐ with an environmental objective in economic activities that 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 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 consist inter alia in reduction of greenhouse gasses emissions and good labour relation. The Investment Manager seeks to attain these characteristics by

- avoiding investments in issuers that are lagging in the transition to a low carbon economy ; and
- implementing negative screens as part of its investment process, as further detailed in section “What investment strategy does this financial product follow?” below, while committing to have an environmental, social and governance (the “ESG”) score at Fund level higher than the ESG score of the investment universe.

The Fund’s investment universe is constituted of all government, supranational and government-related issuers worldwide which have active bonds issued in Euro.

Moreover, the Fund has a minimum allocation of 10% of its portfolio to sustainable investments in economic activities that contribute to environmental objectives and a minimum allocation of 1% of its portfolio to sustainable investments in economic activities that contribute to social objectives.

The Fund does not use a reference benchmark to which it aligns the environmental and/or social characteristics that the Fund promotes.

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:

- percentage of investments in green bonds;
- percentage of investments in social bonds;
- percentage of investments in sustainability bonds;
- percentage of investments in bonds issued by best-in-class issuers (the "Environmental Champions");
- the ESG score of the portfolio and investment universe;
- the percentage of investment in issuers having exposure to, or tying with excluded sectors and additional exclusions further described in the investment strategy section of this annex;
- exposure to the principal adverse impacts (the "PAIs") indicators compared to the benchmark Bloomberg Barclays Euro Government Bond Index; and
- the list of issuers, with which the Investment Manager engages.

For the purpose of calculating the sustainability indicators above:

- Environmental Champions are defined as sovereign issuers ranked within the top 20% of their peer group, based on environmental factors including, but not limited to, greenhouse gas emissions, energy intensity, protection of biodiversity, air pollution and renewable energy mix.
- A Fund-level weighted average of each of the two mandatory PAIs indicators for sovereign issuers (greenhouse gas intensity and social violations) is calculated every quarter for both the Fund and its benchmark.

While the Fund is not committing to have a Fund level PAIs average better than its benchmark's average, the difference between those two metrics informs how successful the Fund is in investing into Environmental Champions as well as issuers of green bonds.

- ***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 objective of the sustainable investments is, amongst others, to fund and promote either:

- the efficient use of energy, raw materials, water, and land;
- the production of renewable energy;
- the reduction of waste, and greenhouse gas emissions, and lower impact of economic activities on biodiversity;
- the development of a circular economy;
- tackling inequalities and fostering social cohesion;
- social integration;
- good labour relations; or
- investments in human capital, including disadvantaged communities.

The Fund's sustainable investments include a minimum allocation of 10% of its portfolio to sustainable investments in economic activities that contribute to environmental objectives.

This is achieved by investing in bonds labelled as being green or in any other securities whose:

- proceeds are used on eligible environmental projects;
- framework adheres to international standards (including but not limited to, the International Capital Market Association (the "ICMA") Green Bond Principles, future European Union Green Bond Standard (the "EU GBS")); and
- issuers do not significantly harm other environmental and social objectives while demonstrating good governance practices.

The use of proceeds for these bonds is clearly defined and aligned with the objectives above.

Additionally, the Fund commits to include a minimum allocation of 1% of its portfolio to sustainable social activities. This is achieved by investing in bonds labelled as being social or in any other securities, whose:

- proceeds are used on eligible social projects;
- framework adheres to international standards (including but not limited to, ICMA Social Bond Principles); and
- issuers do not significantly harm other environmental and social objectives while demonstrating good governance practices.

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

All issuers are monitored using the Principle Adverse Impact 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 issuers from the investment universe.

A second proprietary tool, the Energy and Environmental Transition Index (the "EETI"), ranks the remaining sovereign issuers in the universe according to their environmental performance including greenhouse gas emissions and intensity. Sovereign issuers falling within the bottom 20% of their peer groups based on EETI are excluded from the investment universe. Additionally, sovereign issuers are subjected to tests based on their political liberties and/or corruption.

When deploying funds to sustainable investments, especially the 11% of the portfolio of the Fund committed towards environmental and/or social objectives, the Investment Manager applies additional qualitative assessment (based on internal research or external third-party opinion) of the issuer's and of the project's DNSH eligibility.

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.

While assessing eligible green and social bonds, the Investment Manager reviews and documents the materiality of both PAIs for the project and 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 the roll out of renewable energy sources, the Investment Manager ascertains that financed projects have a positive impact on greenhouse gas intensity of a national economy.

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

The sustainable investments in the Fund's portfolio are solely bonds issued by sovereign countries and the Organisation for Economic Cooperation and Development (the "OECD") Guidelines for Multination Enterprises and the United Nations Guiding Principles on Business and Human Rights are not applicable to such investments.

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?

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.

☒ Yes,

PAIs indicators are considered for the purpose of:

- **identifying best-in-class issuers;**
- **restricting the Fund's investable universe; and**
- **guiding thematic engagement.**

Identifying best-in-class issuers
The Fund seeks exposure to in bonds issued by governments, government-related, and supranational issuers deemed by the Investment Manager to be **Environmental Champions**.

Environmental Champions are identified using a proprietary ESG ranking. The Energy and Environmental Transition Index (the "EETI") ranks sovereign issuers using various data points that include energy efficiency, natural capital conservation, renewable energy performance, using various data points, including greenhouse gas emissions normalized by gross domestic product (CO2e/GDP).

Restricting the Fund's investable universe
Sovereign issuers falling within the bottom 20% of the investment universe based on the EETI are **excluded** from the Fund's portfolio.

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

The Fund employs a proprietary ESG rating methodology with the aim to avoid investment in issuers that are lagging in the transition to support a low-carbon economy. The ESG rating methodology is applied to at least 90% of the issuers present in Fund's portfolio and is binding for the portfolio construction.

In relation to government bond issuers, quasi-government issuers and government agencies, the Fund uses a combination of data inputs to determine climate transition performance (i.e. the extent to which an issuer is responding to the threat of climate change, for example by engaging in a combination of decarbonisation of products and services, establishing low or no emissions infrastructure, and reducing or eliminating reliance on fossil fuels, including revenue generated from fossil fuels), including but not limited to direct emissions trajectory relative to peers, low carbon transition status, management of climate related risks, overall environmental score, energy resource management, management of environmental externalities and energy security risk.

The Investment Manager uses these inputs to determine the climate transition performance for each issuer, and the Fund is prohibited from investing in those issuers that are seen to be the poorest performers in terms of this metric. This is a binding constraint, implemented using compliance restrictions on the issuers that are seen as laggards, as well as an ongoing process that includes a quarterly assessment for any changes in status. As a result, the Fund excludes from its portfolio issuers that score in the bottom 20% of its investable universe.

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

- have “Not Free” status according to the Freedom House Index for sovereign issuers; and
- score an ESG rating of CCC according to MSCI.

As a result of the aforementioned ESG methodology and exclusions, the weighted average base ESG score of the Fund’s portfolio is higher than the average base ESG score of the investment universe (based on independent ESG ranking system provided by MSCI). ESG scores for each country in the portfolio are reviewed and updated at least annually.

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

- ***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 the bottom 20% of the investment universe from the portfolio based on the EETI;
- the commitment to engage with the 5% of holdings which are considered as underperformers in terms of their PAIs metrics;
- the application of the ESG exclusions as further described in the Fund’s investment strategy; and
- the commitment to have an ESG score at Fund level higher than the ESG score of the investment universe.

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

The Fund excludes from its portfolio issuers that score in the bottom 20% of its investment universe, based on EETI.

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 sovereign issuers, it is believed that an issuer with poor governance is determined using proxy data points included into PAIs Risk App.

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

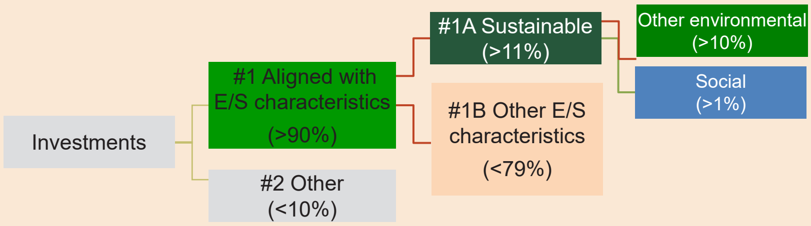
Issuers not passing PAIs Risk App initial test and/or with qualitatively assessed governance deficiencies are deemed un-investible.

What is the asset allocation planned for this financial product?

At least 90% of the Fund’s portfolio is aligned with environmental and/or social characteristics promoted by the Fund. The remaining portion (<10%) of the portfolio is not aligned with the promoted characteristics and consists of liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds).

Asset allocation describes the share of investments in specific assets.

Out of the Fund's portfolio segment which is aligned with the promoted environmental and/or social characteristics, the Fund undertakes a further commitment to invest a minimum of 11% of its portfolio to sustainable investments, with the portion of investments aligned with environmental and/or social characteristics.



#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?***

For asset-based derivatives, the Investment Manager subjects the assets to all relevant ESG screenings. The ESG screenings depend on the nature of the asset.

If the Investment Manager is not in position 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 Fund does not engage in derivatives with financial institutions which are not meeting 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 providers;
- 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.

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.

- ***Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy[6]?***

☐ Yes:

☐ In fossil gas ☐ In nuclear energy

☒ No

[6] 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.

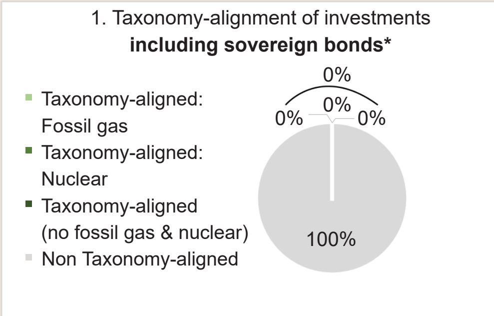
To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

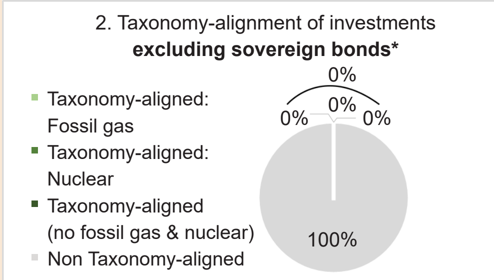
Enabling activities directly enable other activities to make a substantial contribution to an environmental objective.

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.

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

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





This graph represents 100% of the total investments.

** 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.

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

The Fund commits to having a minimum share of 10% of sustainable investments with an environmental objective aligned with SFDR in its portfolio. 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 finalized and the availability of reliable data increases over time.

What is the minimum share of socially sustainable investments?

The minimum share of sustainable investments with a social objective is 1% of the Fund's portfolio.

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 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.

No minimum environmental and/or social 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/2212/A/franklin-euro-government-bond-fund/LU0093669546

Specific disclosure required under Article 10 of SFDR for the Fund can be found at: www.franklintempleton.lu/2212