Templeton Emerging Markets Sustainability 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.

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 - Templeton Emerging Markets Sustainability Fund (the "Fund")

Legal entity identifier: 549300OLKEOOKH5MEX70

Environmental and/or social characteristics

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: 25%**	[ ] 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
[x] 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
[x] It will make a minimum of **sustainable investments with a social objective: 25%**	[ ] 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 capital appreciation and reorientation of capital towards sustainability through investing in companies that demonstrate positive sustainable contribution to the positive outcome areas mentioned below.

In order to achieve this objective, the Fund seeks to invest in companies located or having their principal business activities in developing or emerging nations and which contribute to a positive social and/or environmental outcome. Specifically, only companies whose products and services which are aligned to one or more of the six positive outcome areas linked to the United Nations Sustainable Development Goals (the "UN SDGs") are eligible.

The six positive outcome areas, being 3 social and 3 environmental, are:

- Basic Needs (goods and services known to contribute significantly to development);

- Wellbeing (enhanced health, education, justice and equality of opportunity for all);
- Decent Work (creation of secure, socially inclusive jobs and working conditions for all);
- Healthy Ecosystems (maintenance of ecologically sound landscapes and seas for people and nature);
- Climate Stability (solutions to curb the Earth's temperature rise); and
- Resource Security (preservation of natural resources through efficient and circular use).

The Fund also implements negative screens as part of its investment process, as further detailed in section "What investment strategy does this financial product follow?" below.

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 to measure the attainment of the sustainable investment objective are:

1. exposure to companies contributing to positive social and/or environmental outcome areas across Basic Needs, Wellbeing, Decent Work, Healthy Ecosystems, Climate Stability, and Resource Security; and
2. exposure to companies with alignment to the UN SDGs.

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

The Do No Significant Harm (the "DNSH") assessment is integrated into the strategy through environmental, social and governance (the "ESG") minimum standards.

The Investment Managers examine negative externalities by screening for severe environmental and social controversies through third party Environmental, Social and Governance data provided by MSCI. All stocks must pass the ESG minimum standards set for DNSH i.e. they do not exhibit severe environmental or social controversies that have not been resolved or without a positive forward-looking view. Additionally, negative externalities are captured, and form part of the Fund's Intentionality pillar assessment as defined below ensure there are no severe negative environmental or social externalities.

Lastly, as part of their DNSH test for the Fund, the Investment Managers apply (i) exclusions as further described in the investment strategy section of this annex and (ii) integrate principal adverse impacts (the "PAIs") into the research process.

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 (United Nations Global Compact Principles (the "UNGC Principles"), Organisation for Economic Cooperation and Development (the "OECD") Guidelines for Multinational Enterprises and the United Nations (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 Managers either disagree 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.

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,

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

- **greenhouse gas emissions and greenhouse gas intensity of investee companies;**
- **UNGC Principles violations; and**
- **controversial weapons.**

As part of research process, the Investment Managers adopt a materiality-based approach to assessing PAIs through their assessment of ESG issues. Such assessment considers third party data vendors, company reports, and own engagement with management teams. The Investment Managers take a sector-relative approach to the relevance of the PAI indicators which can vary by company and industry. In addition, there are explicit consideration of the PAIs at a portfolio level as follows:

- **Greenhouse gas emissions** and **greenhouse gas intensity** of investee companies

For companies that have a greenhouse gas intensity that exceeds a threshold deemed acceptable by the Investment Managers and defined below, the Investment Managers engage with and monitor to encourage the company to adequately set emission reduction targets and manage their greenhouse gas emissions and/or intensity accordingly.

This threshold is set at the average greenhouse gas intensity of the Fund's benchmark. The data is reviewed on a quarterly basis and includes company's scope 1+2 emissions.

- **Violations of UNGC Principles or Organisation for Economic Co-operation and Development (the "OECD") Guidelines for Multinational Enterprises**

The Fund does not invest in companies that do not observe the main international conventions. Except for cases referred to in section above, if MSCI has deemed a company in violation of UNGC Principles, the Fund does not invest in the company.

- Exposure to **controversial weapons** (antipersonnel mines, cluster munitions, chemical weapons, and biological weapons)

In accordance with the Investment Managers' controversial weapons policy, the Fund does not invest in companies that are producers of such weapons.

More information on how the Fund considers its principal adverse impacts may be found in the periodic reporting of the Fund.

☐ No

What investment strategy does this financial product follow?

The Fund seeks to achieve its objective through a policy of investing primarily in a diversified portfolio of equity securities of companies located or having their principal business activities in developing or emerging nations and which demonstrate good or improving sustainability criteria as defined by the Investment Managers' binding ESG rating methodology described below.

- Methodology

The Fund conducts a rigorous and holistic 3-pillar ESG assessment on each investee company which measures:

(i) "Alignment Pillar": the alignment of products and/or services to positive environmental and/or social outcome areas. These are companies that contribute to one or more of six social or environmental positive outcomes areas linked to the UN SDGs:
   a. Basic Needs;
   b. Wellbeing;
   c. Decent Work;
   d. Healthy Ecosystems;
   e. Climate Stability; and
   f. Resource Security

   Contribution is typically measured by revenue exposure or another relevant metric.

(ii) "Intentionality Pillar": the intentionality to maintain or improve the ESG footprint of the company's operating model. The Investment Managers assess how company's practices are intended at improving or maintaining the ESG footprint of its operating model. The Investment Managers conduct a materiality based ESG assessment to assign a score. The following provides examples of ESG elements taken into consideration when assessing a company:
   a. Environmental considerations include issues such as resource efficiency, carbon emissions management, waste prevention and recycling, pollution prevention and control.
   b. Social considerations include issues such as labor standards, fair wages, diversity and gender balance, health & safety practices, and product safety.
   c. Governance considerations include issues such as appropriate accounting practices, alignment of interests, board effectiveness, capital allocation, shareholder rights, and quality of disclosures.

(iii) "Transition Pillar": the transition potential for improvement through the Investment Managers' engagement as active owners. These are targeted engagements with specific goals and objectives based on scope for improvement.

All companies in which the Fund invests undergo this 3-pillar ESG assessment and the Investment Managers assign an overall proprietary score for each company prior to investment.

A company can only be selected for the Fund if it scores a minimum percentage of net contribution on the "Alignment Pillar" as well as a minimum of A as per the 3-pillar ESG assessment (scale of CCC to AAA, AAA being the Highest).

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

- repeatedly and/or seriously violate the UNGC Principles, without positive perspective;
- manufacture nuclear weapons or controversial weapons defined as anti-personnel mines, biological & chemical weaponry, depleted uranium, and cluster munitions or those that manufacture components intended for use in such weapons. Companies that derive more than 5% revenue from any other weapons will also be excluded;
- manufacture tobacco or tobacco products; or those that derive revenue from such products that exceeds 5%;
- derive more than 5% of their revenue from thermal coal extraction or unconventional oil & gas extraction;
- derive more than 5% of their revenue from gambling or adult entertainment;
- which appears as excluded on the Norges Bank Investment Management (NBIM) exclusion list.

The 3 pillars of this ESG assessment along with additional ESG exclusions the Fund applies filters down the investment universe by typically at least 20%. The Fund's investment universe is constituted of emerging market companies under research coverage by the investment team.

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

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 only invests in companies which (i) score a minimum percentage of net contribution on the "Alignment Pillar", and (ii) score an A or above on the combined 3-pillar ESG assessment; and
2. the Fund does not invest in companies falling under the exclusion list described above.

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

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

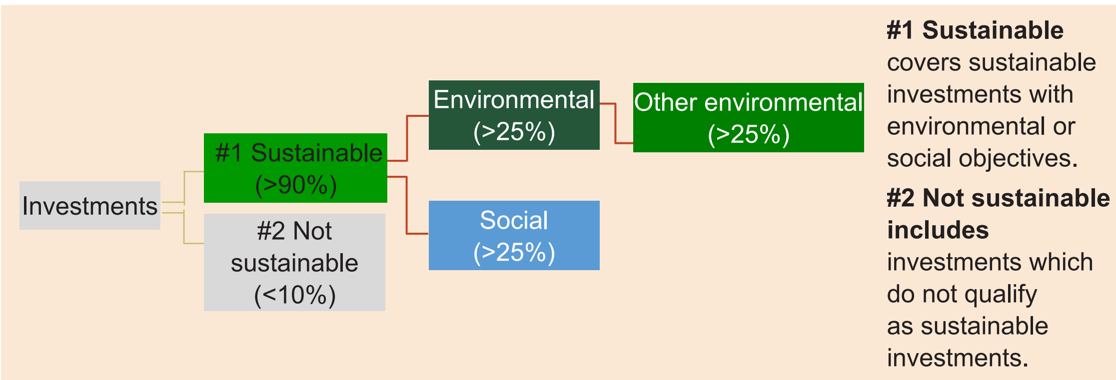
Governance attributes are analysed as part of the fundamental analysis. Data, where available, are factored in by the analysts as part of their overall review process. Analysts complete a universal governance assessment for all companies, which could include assessments around board composition, leadership, executive pay, ownership & control, accounting, and controversies.

The Investment Managers seek to invest in companies that are good or improving stewards aligned with shareholders' interests. The Investment Managers' governance assessment includes regular dialogue with companies, monitoring of material ESG issues and voting proxies. A governance assessment is undertaken by the Investment Managers' analysts to ensure the investee companies have structures that account for the interests of minorities. This is followed up with binding criteria that a company cannot score a 'poor' in the Investment Managers' governance rating assessment. To ensure 'good' governance, the Investment Managers additionally screen for severe governance controversies through MSCI.

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

Asset allocation describes the share of investments in specific assets.

The Investment Managers employ 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 portion of the portfolio qualify 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, (e.g intended to cover the risk of negative price movements in the market during the liquidation process of long equity positions) which do not qualify as sustainable investments.



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

Not applicable

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.

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

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

Not applicable

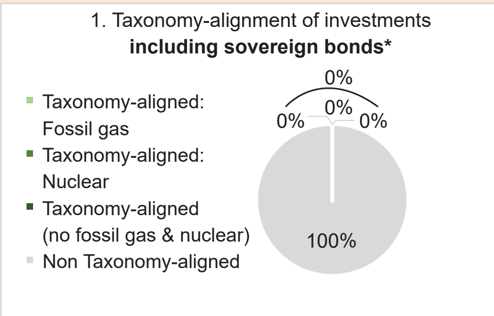
- ***Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy[27]?***

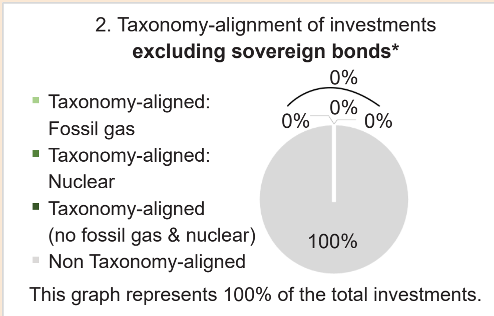
☐ Yes:

☐ In fossil gas ☐ In nuclear energy

☒ 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?***

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 a minimum 25% of sustainable investments with an environmental objective aligned with the SFDR. The Investment Managers are 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.

For avoidance of doubt, all companies in the portfolio are required to meet either a social or environmental sustainable objective under sustainable investment definition of SFDR.

[27] 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.

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 sustainable investments with a social objective?

The Fund commits to a minimum 25% of sustainable investments with a social objective.

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 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 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?

Not applicable.

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/29991/Z/templeton-emerging-markets-sustainability-fund/LU2213486215

Specific disclosure required under Article 10 of SFDR for the Fund can be found at: www.franklintempleton.lu/29991