

# Franklin Templeton ICAV

## Franklin Sustainable Euro Green Bond UCITS ETF

1 November 2023

(A sub-fund of Franklin Templeton ICAV, an Irish collective asset-management vehicle constituted as an umbrella fund with segregated liability between sub-funds with registered number C167746 authorised by the Central Bank of Ireland pursuant to the UCITS Regulations).

This Supplement (the “Supplement”) forms part of the Prospectus dated 1 December 2022 (the “Prospectus”) in relation to Franklin Templeton ICAV (the “Fund”) for the purposes of the UCITS Regulations. This Supplement should be read in the context of, and together with, the Prospectus and contains information relating to the Franklin Sustainable Euro Green Bond UCITS ETF (the “Sub-Fund”) which is a separate sub-fund of the Fund.

The Sub-Fund is an Actively Managed Sub-Fund.

Prospective investors should review this Supplement and the Prospectus carefully and in their entirety and consider the risk factors set out in the Prospectus and in this Supplement before investing in this Sub-Fund. If you are in any doubt about the contents of this Supplement, you should consult your stockbroker, bank manager, solicitor, accountant and/or financial adviser.

The Directors, as listed in the “*Management*” section of the Prospectus accept responsibility for the information contained in this Supplement. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly.

Unless otherwise defined herein or unless the context otherwise requires, all defined terms used in this Supplement shall bear the same meaning as in the Prospectus.

<b>Base Currency</b>	Euro
<b>Benchmark</b>	Bloomberg Global Aggregate EUR Green Bond Index
<b>Business Day</b>	As stated in the Prospectus, a day on which markets in the United Kingdom are open and/or such other day or days as the Directors may determine and notify in advance to Shareholders.
<b>Dealing Day</b>	As stated in the Prospectus, every Business Day excluding any day on which a market on which securities included in the relevant Benchmark are listed or traded is closed and as a result of which 25% or more of the Benchmark may not be traded, to ensure that dealing in the Sub-Fund's Shares will only take place when the markets on which substantially all of the Sub-Fund's investments are open (provided that a list of such closed market days in respect of each Sub-Fund will be available to Shareholders upon request from the Administrator) and/or such other day or days as the Directors may determine and notify to the Administrator and to Shareholders in advance, provided there shall be at least one Dealing Day per fortnight.
<b>Dealing Deadline</b>	1 pm (Irish time) on each Dealing Day.
<b>Dealing NAV</b>	The Net Asset Value per Share calculated as at the Valuation Point on the relevant Dealing Day.
<b>Distributions</b>	It is not the current intention of the Directors to declare a dividend in respect of the Accumulation Shares.
<b>Investment Manager</b>	Franklin Templeton Investment Management Limited
<b>ISIN</b>	IE00BHZRR253
<b>Settlement Deadline</b>	For cash and in kind subscriptions, appropriate cleared subscription monies/securities must be received by the second Business Day after the Dealing Day, or such later date as may be determined by the Fund and notified to Shareholders from time to time.
<b>Shares Available</b>	Currently one class of ETF Shares is available for subscription.
<b>TER</b>	Up to 0.30% of the Net Asset Value per annum. However, until 30 April 2024 the TER is subject to a fee waiver of 0.12% of the Net Asset Value, with the result that the effective TER until that date will be up to 0.18% of the Net Asset Value per annum. The waiver will expire on 1 May 2024. Further information is set out in the " <i>Fees and Expenses</i> " section of the Prospectus.
<b>Valuation</b>	The Net Asset Value per Share is calculated in accordance with the " <i>Determination of Net Asset Value</i> " section of the Prospectus, using the latest mid-market prices.
<b>Valuation Point</b>	The Sub-Fund calculates its Net Asset Value at 4 pm New York time on each Business Day.
<b>Website</b>	<a href="http://www.franklintempleton.com">www.franklintempleton.com</a>

## INVESTMENT OBJECTIVE AND STRATEGY

**Investment Objective.** The objective of the Sub-Fund is to provide exposure to the European green bond market whilst maximising total returns.

**Investment Policy.** The Sub-Fund seeks to achieve its investment objective by investing primarily in bonds which have been labelled as “green” and are denominated in European currencies. For the avoidance of doubt, investors should note that the Sub-Fund will not seek to track the performance of the Benchmark, rather the Sub-Fund will hold a portfolio of actively selected and managed investments. The Benchmark has been included as a point of reference against which the performance of the Sub-Fund may be measured.

Under normal market conditions, the Sub-Fund will invest at least 75% of its Net Asset Value in bonds that are labelled as “green”, with up to 25% of its Net Asset Value invested in bonds which are deemed by the Investment Manager to be supportive of a low-carbon future using the criteria set out below. By investing in this manner, the Sub-Fund expects to provide liquidity to new and existing climate-aligned projects with environmental benefits.

The bonds in which the Sub-Fund will invest may be issued with any duration, have both fixed and floating rates and be issued by both corporate and governmental issuers. Governmental issuers include government agencies and quasi sovereigns. Any non-Euro currency exposure in the Sub-Fund will be hedged back to Euro.

The strategy employs fundamental, bottom-up research analysis to select all issues and, while the focus will be on eligible “green” bonds, each investment will be subject to credit approval by the Investment Manager. The issue selection process and other actively managed techniques such as duration and curve management will be utilised to select investments which the Investment Manager believes will enable the Sub-Fund to outperform the Benchmark. The Investment Manager can selectively add or reduce duration exposure in specific countries depending on economic fundamentals, interest rate outlook, monetary policy, geo-political trends as well as fiscal policy.

**Identifying Green Bonds and Bonds that are Supportive of a Low Carbon Future.** For the purpose of applying this investment policy and identifying appropriate bonds, the Sub-Fund will use the International Capital Market Association’s definition of “green”, as stated on its website, [www.icmagroup.org](http://www.icmagroup.org).

For identifying bonds that are supportive of a low carbon future but not labelled as green, the Sub-Fund will invest in securities which are issued by issuers that:

- 1.) provide a product or service that supports the transition to a low-carbon future;
- 2.) are supported by an appropriate governance structure; and
- 3.) display good operational environmental management.

Each prospective bond is reviewed by the Investment Manager’s green bond governance committee using these three criteria and is only included in the portfolio if a majority of the committee agree.

Investors should note that the market for green and low carbon investments and related regulation is evolving rapidly and that therefore what is accepted as the market standard definition of green may change over time, including through applicable regulation. In such event, the Fund may, on notice to investors, change the definition of green bonds that is applied by the Sub-Fund, provided that all bonds held by the Sub-Fund will uphold the three principles set out above at all times.

In selecting investments, the Investment Manager's key consideration is whether the entity being funded by the issue of the bonds which the Sub-Fund may purchase will be supportive of the transition to a low carbon future. The Investment Manager takes a holistic view of a proposed bond, giving due consideration to the environmental lifespan of the asset or project being financed, the carbon savings achieved, the operational environmental performance of the issuer and the lifecycle impacts of its products and services. Bonds that might not be labelled as green but are nonetheless financing solutions that contribute to a low-carbon future while at the same time reducing their own carbon intensity will be deemed to be eligible for investment by the Sub-Fund.

Whether a bond is labelled as green or not, the Investment Manager will work with issuers to establish a baseline level of post-issuance reporting from the issuers to enable the Investment Manager to track project progress. Such post-issuance reporting primarily includes environmental impact reporting, in addition to more standard financial reporting and qualitative assessments on environmental practices. Standardised metrics which facilitate this reporting, include annual energy savings, greenhouse gas emission reductions, renewable energy produced or capacity added.

The Sub-Fund may invest in collateralised debt obligations ("**CDOs**") and collateralised loan obligations ("**CLOs**"), as well as other asset backed securities, mortgage backed securities, hybrid and convertible securities (including, subject to a maximum of 5% of Net Asset Value, contingent convertible bonds which are bonds which convert into a stock at a predetermined price and/or when certain capital conditions are met), credit linked securities (such as, credit-linked notes and options) and perpetual bonds. CDOs, CLOs, asset backed securities, mortgage backed securities and perpetual bonds will not embed derivatives or generate leverage. Hybrid and convertible securities as well as credit linked securities may embed derivatives and, therefore, leverage.

The Sub-Fund may for efficient portfolio management purposes, and in accordance with the conditions and limits imposed by the Central Bank, use FDI in order to hedge various investments, for risk management purposes and / or to seek to increase income or gain to the Sub-Fund. The Sub-Fund may also use FDI for investment purposes. These FDI may be either dealt on regulated markets or over-the-counter and will comprise swaps (interest rate swaps, credit default swaps and total return swaps), interest rate futures and forward foreign currency exchange contracts (both deliverable and non-deliverable) and options (options on rate futures, options on rate swaps and options on credit default swaps). Any use of FDI for these purposes, are described under "*Use of Financial Derivative Instruments*" in the "*Investment Techniques*" section of the Prospectus. The global exposure relating to FDIs will not exceed 100% of the Sub-Fund's Net Asset Value.

The securities in which the Sub-Fund invests will be primarily listed or traded on Recognised Markets globally in accordance with the limits set out in the UCITS Regulations. The Sub-Fund may hold ancillary liquid assets (deposits and commercial paper) in accordance with the UCITS Regulations. The Sub-Fund may also invest in other regulated, open-ended collective investment schemes as described under "*Investment in Collective Investment Schemes*" in the "*Investment Techniques*" section of the Prospectus where the objectives of such funds are consistent with the objective of the Sub-Fund.

As at the date of this Supplement, the Sub-Fund does not routinely enter into total return swaps. The expected proportion of the Net Asset Value of the Sub-Fund that could be subject to total return swaps is 20%. The expected proportion is an estimate only and the actual percentage may vary over time depending on various factors such as, but not limited to, any deviation from normal market conditions. The maximum proportion of the Net Asset Value of the Sub-Fund that could be subject to such transactions is 20%.

## **SUSTAINABLE FINANCE**

As described above, the Sub-Fund has sustainable investment as its objective, within the meaning of Article 9. Investors should also refer to the Annex to this Supplement and to the “*Sustainable Finance*” section of the Prospectus for further details on how the Investment Manager addresses Sustainability Risk and ESG Integration for the Sub-Fund.

## **SECURITIES LENDING**

The expected proportion of the Net Asset Value of the Sub-Fund that could be subject to securities lending transactions is 25% and is subject to a maximum of 45%. The expected proportion is an estimate only and the actual percentage may vary over time depending on various factors such as, but not limited to, any deviation from normal market conditions.

## **INVESTMENT RISKS**

Investment in the Sub-Fund carries with it a degree of risk including the risks described in the “*Risk Considerations*” section of the Prospectus. The “*General Risks*” section describes the risks that relate generally to the Sub-Fund, whereas the “*Specific Risks*” section describes the risks associated with the investment strategy and techniques that may be employed by a given Sub-Fund. For this Sub-Fund, the Specific Risks that are relevant to the investment objective and strategy of this Sub-Fund include the following:

Active Investment Risk.

Contingent Convertible Bonds Risk.

Corporate Debt Securities Risk.

Counterparty Risk.

Currency Risk.

Foreign Exchange Holding Risk.

Debt Securities Risk.

Futures Contracts and Other Exchange-Traded Derivatives Risk.

Over-the-Counter Derivatives Risk.

Securitisation Risk.

Sovereign Risk.

Sustainability Risk.

Variable and Floating Rate Securities Risk.

These risks are not intended to be exhaustive and potential investors should review the Prospectus and this Supplement carefully and consult with their professional advisers before purchasing Shares.

The Sub-Fund is not expected to have an above average risk profile or high volatility as a result of its use of FDIs. For information in relation to risks associated with the use of financial derivative instruments, please refer to “*Derivatives Risk*” in the “*Risk Considerations*” section of the Prospectus.

## **INVESTOR PROFILE**

Typical investors in the Sub-Fund are expected to be institutional and retail investors who want to gain exposure to the European green and climate-aligned bond market by way of an exchanged traded fund.

## **SUBSCRIPTIONS – PRIMARY MARKET**

Accumulation Shares, denominated in Euro, are available in the Sub-Fund (the “**Shares**”). It is not the current intention of the Directors to declare a dividend in respect of the Shares.

Shares will be issued on each Dealing Day at the Dealing NAV with an appropriate provision for Duties and Charges in accordance with the provisions set out below and in the Prospectus. Authorised Participants may subscribe for Shares for cash or in kind on each Dealing Day by making an application by the Dealing Deadline in accordance with the requirements set out below and in the “*Purchase and Sale Information*” section of the Prospectus. Consideration, in the form of cleared subscription monies/securities, must be received by the applicable Settlement Deadline.

## **REDEMPTIONS**

Shareholders may effect a redemption of Shares on any Dealing Day at the appropriate Dealing NAV, subject to an appropriate provision for Duties and Charges, provided that a written redemption request is signed by the Shareholder and received by the Administrator by the Dealing Deadline on the relevant Dealing Day, in accordance with the provisions set out in this section and at the “*Purchase and Sale Information*” section of the Prospectus. Settlement will normally take place within two Business Days of the Dealing Day but may take longer depending on the settlement schedule of the underlying markets. In any event, settlement will not take place later than 10 Business Days from the Dealing Deadline.

## **CONVERSIONS**

Shares in the Sub-Fund may not be converted for shares in another Sub-Fund.

## **LISTING**

The Shares have been admitted to each of the Frankfurt Stock Exchange, the London Stock Exchange, the Borsa Italiana and the SIX Swiss Exchange.

## **Appendix I**

### **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 identifier:** entity 549300DYLIFY0UQSSHE55

## Sustainable investment objective

Does this financial product have a sustainable investment objective?	
<input checked="" type="radio"/> <b>Yes</b>	<input type="radio"/> <b>No</b>
<input checked="" type="checkbox"/> It will make a minimum of <b>sustainable investments with an environmental objective:</b>	<input type="checkbox"/> It <b>promotes Environmental/Social (E/S) characteristics</b> and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 0% of sustainable investments
<input type="checkbox"/> 0% in economic activities that qualify as environmentally sustainable under the EU Taxonomy	<input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
<input checked="" type="checkbox"/> 90% in economic activities that do not 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"/> It will make a minimum of <b>sustainable investments with a social objective:</b>	<input type="checkbox"/> with a social objective
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with a social objective:</b>	<input type="checkbox"/> It promotes E/S characteristics, but <b>will not make any sustainable investments</b>



### 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.

#### **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.

#### ● ***How do sustainable investments 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.

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?**

☒ 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



**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 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<sup>1</sup> 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 ambitious 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.

● ***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.

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

<sup>1</sup> <https://freedomhouse.org/countries/freedom-world/scores>



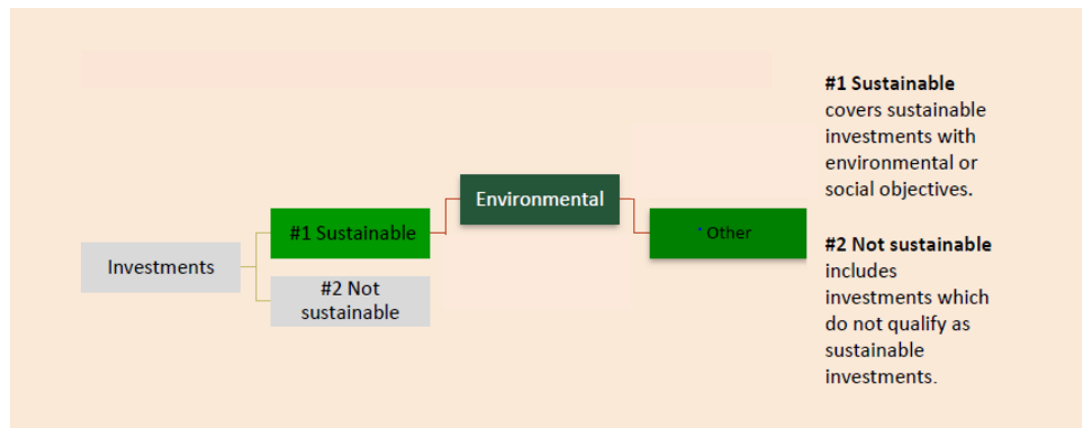
**Asset allocation** describes the share of investments in specific assets.

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.

## 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.



### ● **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 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.

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.

### Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy<sup>2</sup>?

☐ Yes:

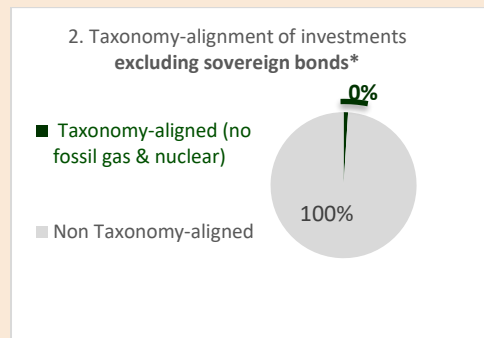
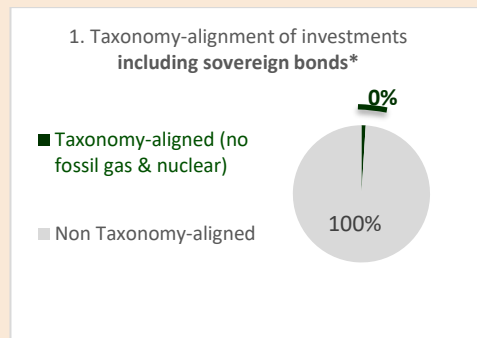
☐ In fossil gas ☐ In nuclear energy

☒ No

**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<sup>\*</sup>, 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.*



<sup>\*</sup> 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.

<sup>2</sup> 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 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.



### 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

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



- ***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](http://www.franklintempleton.ie/27850)