

## Environmental and/or social characteristics

**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.

**Does this financial product have a sustainable investment objective?** *[tick and fill in as relevant, the percentage figure represents the minimum commitment to sustainable investments]*



Yes



No



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**: \_\_\_\_%



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 50% 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 are key Environmental, Social and Governance (ESG) issues deemed material to the specific company and the sector in which the company operates which include, but are not limited to, health and safety, gender diversity, climate risk, corporate governance risk and data security.*

*"Promotion" of environmental and social characteristics forms two complementary elements of the Fund's ESG approach: (i) integrating ESG analysis into fundamental research and portfolio construction; and (ii) using engagements with companies and proxy voting to manage risk and drive positive change.*

*No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Fund.*



**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 each of the environmental or social characteristics promoted by the Fund are:*

- *the proportion of the Fund held in sustainable investments as defined by the Investment Manager's proprietary sustainable investments methodology utilising United Nations Sustainable Development Goals' (SDG) alignment;*

- specific Principal Adverse Impact (PAI) indicators, namely: PAI #1 (GHG Emissions), PAI #2 (Carbon Footprint), PAI #3 (GHG Intensity), PAI #4 (Exposure to companies active in the fossil fuel sector), PAI #10 (Violations of UN Global Compact and OECD Guidelines), PAI #13 (Board Gender Diversity) and PAI #14 (Exposure to controversial weapons);
- number of agenda items voted on, which support proposals around good governance and improving sustainability practices;
- proprietary methodologies to assess the progress of the Investment Manager's ESG engagement meetings; and
- portfolio exposure to best-in-class companies as determined by the Investment Manager's proprietary ESG rating.

● **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 sustainable investments made by the Fund are in equity securities issued by companies which contribute to one of the following:

- through their products and services, to any one or more of the environmental or social objectives of the SDGs and their underlying targets and indicators determined through the Investment Manager's assessment for contribution; or
- GHG intensity and emissions reduction targets across a firm's economic activities determined through a third party verified decarbonization target aligned to the Paris Agreement. Issuers are monitored for progress against targets through our engagement process.

In addition to contributing to one of the environmental or social objectives listed above, companies must go through a proprietary good governance evaluation and must pass the Do No Significant Harm (DNSH) criteria as further detailed below.

● **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 a combination of third party severe risk controversy scores, third party global norms based screening including UN Global Compact (UNGC) compliance, PAI consideration\* and other material environmental, social, and governance factors, which are embedded in the Investment Manager's fundamental research and proprietary ESG ratings process, which includes a governance evaluation, to review if investments cause significant harm to any sustainable investment objective.

Additionally, the Investment Manager uses its engagement process to identify best in class securities.

\*The PAIs taken into consideration are dependent on the Investment Manager's proprietary ESG materiality assessment by sub-sector which is applied during its ESG rating process or on data availability.

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

All PAIs which are material to the company being rated are considered as part of the Investment Manager's ESG rating which is applied as part of the security selection process, as further detailed below.

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

The Investment Manager supports the principles of the UNGC. Therefore, the Fund does not invest in companies that violate any of the ten principles in each of the four areas (human rights, labor, environment, and anti-corruption) of the UNGC.

**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.

*The Investment Manager also supports the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises as a comprehensive standard for responsible business conduct. For European domiciled funds, the compliance team monitors UNGC compliance and OECD alignment on a monthly basis. If a violation is identified, post manager investigation, the Fund is required to sell out of the position.*

*The Investment Manager uses a third-party data provider for UNGC and OECF compliance monitoring. The MSCI ESG Controversies and Global Norms screening product is the preferred provider at this time, but in instances where there are discrepancies or disagreements in the provider's assessment of a specific controversy, the investment team, along with compliance and members of the ESG strategy team will engage the company on the issue. If we reach consensus that the company has taken the necessary steps to address the controversy, or has effectively remediated the issue, the portfolio manager must provide a detailed explanation for why the company can continue to be owned.*

*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.

*All PAIs which are material to the company being rated are considered as part of the Investment Manager's ESG rating which is applied as part of the security selection process, specifically:*

### **PAI #1 (GHG Emissions), PAI #2 (Carbon Footprint), PAI #3 (GHG Intensity) –**

- *The Investment Manager assesses the specific climate-related risks and opportunities faced by individual companies as part of its stock selection process, which integrates these considerations, among other environmental, social and governance considerations;*
- *While the Investment Manager assesses each sector on a specific set of criteria that is pertinent to its business operations, the assessment generally includes careful consideration of climate-related factors such as: the regulatory/policy environment; the geographic location of assets and operations; the ability to pass on costs to customers; technology alternatives and advancements; changing customer preferences; commodity prices; future capital expenditure and R&D plans; long-term business strategy; overall quality of the management team; and other factors; and*
- *The Investment Manager uses MSCI Carbon Portfolio Analytics to assess exposure to companies with fossil fuel reserves. The Investment Manager conducts carbon intensity analysis on the firm's investments in aggregate to understand the carbon intensity of the firm's total assets relative to the global equity markets. The Investment Manager can also conduct analysis on carbon intensity at the portfolio level.*

**PAI #4 (Exposure to companies active in the fossil fuel sector)**

- The Fund will not invest in a company whose primary business involves the extraction of fossil fuels.

**PAI #10 (Violation of UNGC / OECD Guidelines)**

- Please refer to “How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?”.

**PAI #13 (Board gender diversity)**

- The Investment Manager uses third-party data for board gender diversity monitoring. Further, the Investment Manager has a provision in its Proxy Voting Policy to vote against the nominating committee members and chair if the company does not have at least one female board director. The Investment Manager also has Diversity, Equality and Inclusion as a component of its ESG analysis and rating, as well as a firm-wide theme for company engagement.

**PAI #14 (Exposure to controversial weapons)**

- The Fund does not invest in companies that generate any of their turnover from the production and/or distribution of controversial weapons (i.e., antipersonnel mines, nuclear weaponry, biological & chemical weaponry, and cluster munitions).



**What investment strategy does this financial product follow?**

The Fund's investment objective is to provide long-term capital appreciation. The Fund invests at least 80% of its Net Asset Value in equity securities that are listed or traded on Regulated Markets located anywhere in the world. Up to 25% of the Fund's Net Asset Value may be invested in equity securities of issuers located in Emerging Market Countries. The Fund's exposure to Russian securities will not exceed 15% of the Fund's Net Asset Value. A maximum of 10% of the Fund's Net Asset Value may be invested in units or shares of other collective investment schemes within the meaning of Regulation 68(1)(e) of the UCITS Regulations, and such investments will be for the purposes of gaining exposure to the types of instruments described herein or otherwise to pursue the investment objective and policies of the Fund. No more than 5% of the Fund's Net Asset Value will be invested in warrants. To manage capital flows, the Fund may hold cash or invest in Money Market Instruments. The Fund invests primarily in common stocks and preferred shares that, in the Investment Manager's opinion, appear to offer above average growth potential and trade at a significant discount to the Investment Manager's assessment of their intrinsic value. Intrinsic value, according to the Investment Manager, is the value of the company measured, to different extents depending on the type of company, on factors such as, but not limited to, the discounted value of its projected future free cash flows, the company's ability to earn returns on capital in excess of its cost of capital, private market values of similar companies and the costs to replicate the business. The Fund may invest in companies of any size. In making its investments, it is not intended that the Fund will concentrate on any particular industries or geographical areas.

The Fund uses an established proprietary research and engagement process in conjunction with fundamental analysis to determine whether a company is a Leader. This proprietary process includes generating an ESG ratings system based on the Investment Manager's longstanding experience managing ESG investment strategies and identifying ESG best practices. Leadership may be assessed both quantitatively and qualitatively, through the Investment Manager's ESG ratings system, engagement process, and fundamental research. The ESG rating system consists of four rating levels: AAA, AA, A and B, which are assigned to companies based on their strategy and performance key ESG issues such as health & safety, gender diversity, climate risk, corporate governance risk, data security on an absolute basis and compared to their peers. The Investment Manager considers AAA and AA to be “best-in-class”. The ESG ratings are assigned by the Investment Manager's research analysts as part of their company coverage.

The Investment Manager's evaluation of a company's ESG rating is integrated with a thorough assessment of that company's investment worthiness based on financial criteria. The Fund seeks to invest over the long term in companies that it considers to be of high quality with sustainable competitive advantages as evidenced by high returns on capital, strong balance sheets, and capable management teams that allocate capital in an efficient manner. The Fund will use quantitative and fundamental analysis to identify investment candidates with these attributes and will evaluate industry dynamics (based on ESG factors, competitiveness, industry concentration, and the cyclical and secular outlooks for the industry), the strength of a company's business model and management skill.

*A Leader, in the Investment Manager's view, is a company that: (1) has a product, process, or platform that has a durable advantage over its peers; and (2) has well defined strategies in place that make the company an attractive long-term investment for the Fund. The Fund seeks to invest in companies that go beyond doing less harm to people and the planet relative to its peers, but also, in many cases, offer solutions to address negative impact from the actions of less responsible companies and industries. It is also the Fund's intention to engage with and encourage management to improve, where deemed necessary, in certain ESG areas identified by the Investment Manager. The Fund may also identify potential investments in companies that are not yet proven Leaders but have attractive early leadership qualities warranting an "A" rating according to the Investment Manager's ESG rating system. Exposure of the fund to the "A" rated companies will be limited to 20%. The Fund will exercise its judgment in applying the ESG ratings system.*

*Companies that receive a B rating per the proprietary ESG rating system are not considered for investment in this Fund.*

*The Fund will sell a security if the issuer no longer meets its ESG and/or financial criteria, provided that the sale is in the best interests of shareholders. In addition, the Fund will seek to replace securities when a company's risk/reward profile is no longer favourable due to price appreciation or if a company's financial criteria have deteriorated meaningfully relative to original expectations. Securities may also be sold to permit investment in a company considered by the Investment Manager to be a more attractive alternative.*

*The Fund does not invest in companies that violate one or several of the ten principles under the four areas covered by UNGC (human rights, labour, environment and anti-corruption).*

● **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 Fund will not invest in:*

- *companies with significant involvement in the extraction and/or production of fossil fuels and mining.*
- *companies that generate 10% or more of their turnover directly from conventional weapons.*
- *companies that generate any of their turnover from the production and/or distribution of controversial weapons (i.e., antipersonnel mines, nuclear weaponry, biological & chemical weaponry, and cluster munitions).*
- *companies that generate 15% or more of their revenues from nuclear power generation.*
- *companies that generate 5% or more of their revenues from tobacco.*

*Additionally, the Fund will*

- *not invest in B-rated companies per the Investment Manager's proprietary ESG rating system.*
- *limit exposure to "A" rated companies to 20% of the fund's portfolio.*
- *engage with the bottom 10% (in terms of AUM and number of issuers) of the portfolio per the Investment Manager's proprietary ESG rating system.*

*The Fund does not invest in companies that violate one or several of the ten principles under the four areas covered by UNGC (human rights, labour, environment and anti-corruption). The Investment Manager also supports the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises as a comprehensive standard for responsible business conduct. For European domiciled funds, the compliance team monitors UNGC compliance and OECD alignment on a monthly basis. If a violation is identified, post manager investigation, the Fund is required to sell out of the position.*

*The Fund will maintain a proportion of sustainable investment above the minimum specified (50%).*

*The investment Manager applies its ESG process to at least 90% of the Fund's portfolio.*

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

*There is no committed minimum rate to reduce the scope of the investments considered prior to the application of the investment strategy.*

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

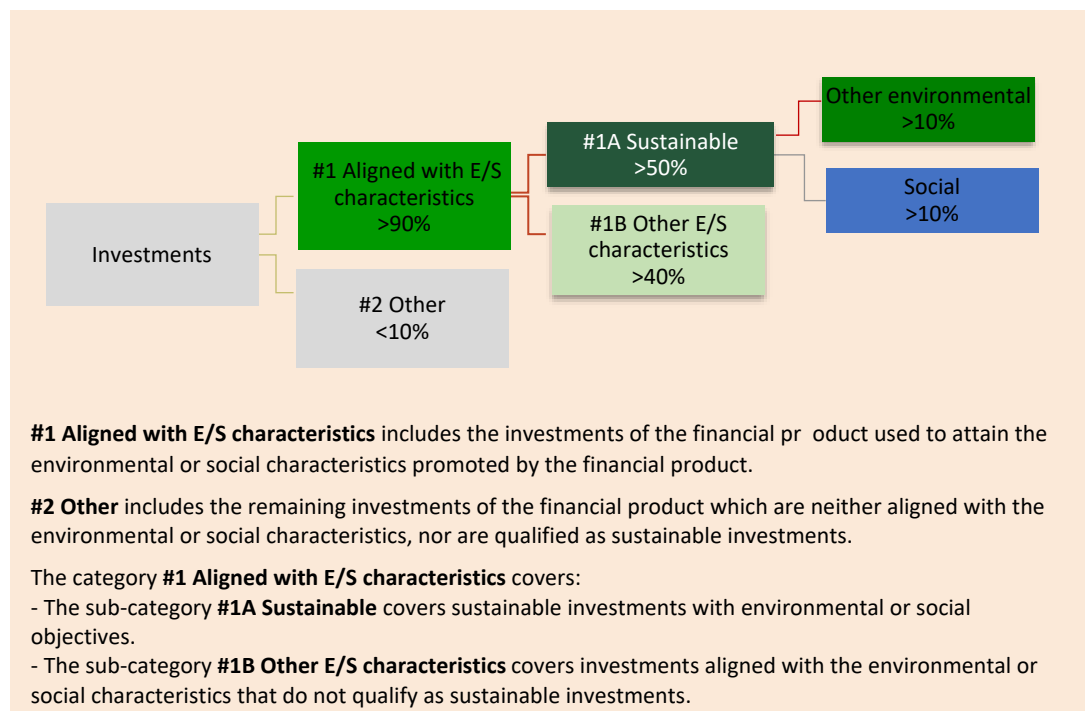
*The Investment Manager includes the evaluation of governance practices in its proprietary ESG ratings system. Governance factors which are evaluated include independence of the board, executive compensation, board diversity, capital allocation, etc. The Investment Manager, when using its proprietary ESG ratings system, considers companies to have good governance if they score above a certain threshold across all relevant governance factors described above.*

*The Fund is also guided by its proxy voting policies and procedures, which include proxy guidelines for traditional governance, environmental and social proposals. In addition, the Investment Manager votes for shareholder proposals that it believes will in practice promote good governance, greater corporate transparency, accountability and ethical practices. In particular the Investment Manager typically votes for proposals that seek additional information from issuers, particularly when the company has not adequately addressed shareholders' social and environmental concerns.*

**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. The remaining portion (<10%) of the portfolio is not aligned with the promoted characteristics and consists of derivatives employed by the Fund and liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds).*

*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 50% of its portfolio to sustainable investments.*



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

*The Fund may invest in certain types of derivatives for investment purposes or efficient portfolio management purposes, but these do not attain the environmental or social characteristics of the Fund.*

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

*The Fund does not invest in sustainable investments with an environmental objective aligned with the EU Taxonomy.*

- Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy<sup>104</sup>?

☐

Yes:

☐

In fossil gas

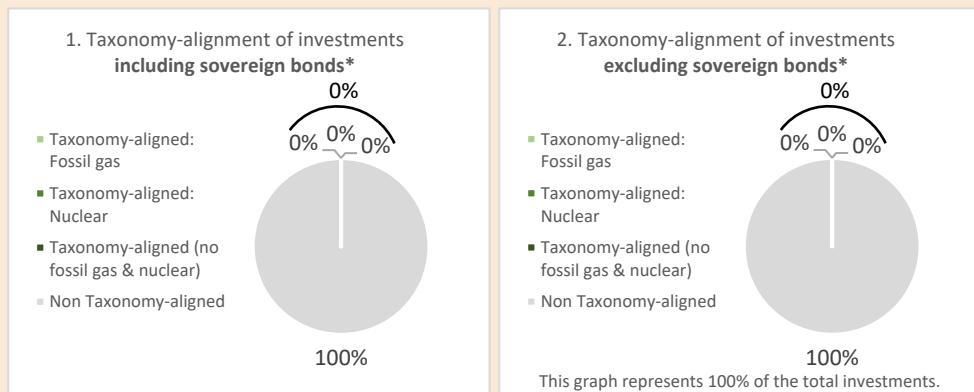
☐

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?

*The Fund does not intentionally invest in transitional and enabling activities aligned with EU taxonomy.*

<sup>104</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 Regulation (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?

*10%. The minimum commitment to sustainable investments is 50% which can be achieved by a range of permutations, for example 10% in sustainable investments with an environmental objective not aligned with the EU Taxonomy and 40% in socially sustainable investments or vice versa.*



### What is the minimum share of socially sustainable investments?

*10%. The minimum commitment to sustainable investments is 50% which can be achieved by a range of permutations, for example 10% in sustainable investments with an environmental objective not aligned with the EU Taxonomy and 40% in socially sustainable investments or vice versa.*



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

*‘#2 Other’ includes cash, derivatives and other liquidity instruments for which there are no minimum environmental or social safeguards.*



### 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.*

- *How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?*

*N/A*

- *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:

<http://www.franklintempleton.ie/91853>

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