

**Franklin Mutual European 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

Product name: FTIF-Franklin Mutual European Fund

Legal entity identifier: JJQ58E37C5M7D0I35584

## 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 include 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?**

**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 **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

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 will make a minimum of **sustainable investments 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 social characteristics promoted by the Fund include *inter alia* the reduction of greenhouse gas ("GHG") intensity and board gender diversity. The Investment Manager seeks to attain these characteristics by:

- maintaining lower portfolio GHG intensity (scope 1+2) compared to both the MSCI Europe Value Index (the "Benchmark") and MSCI All Country Europe Index (the "Investment Universe"), whichever of the two is lowest,
- engaging with certain investee companies to promote gender diversity, notably female representation, on the board of directors,
- implementing negative screens to avoid certain controversial practices as part of its investment process, as further detailed in section "What investment strategy does this financial product follow?" below.

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

### ● **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:

- Fund's weighted GHG intensity (scope 1+2), in percentage points, compared to both the Benchmark and Investment Universe;
- percentage of investments in companies having exposure to, or ties with excluded sectors and/or with additional exclusions as further detailed in section "What investment strategy does this financial product follow?" below;
- percentage of Fund's votes in favor of separation of the roles of CEO and Chair of the board of directors of the invested companies, when presented with the opportunity; and
- percentage of investments in companies that have at least one female director on the board of directors, while promoting at least two female directors, or 30% of the board, whichever is greater.

### ● **What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?**

Not applicable.

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

● **How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective**

Not applicable.

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

Not applicable.

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

Not applicable.

*The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.*

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

*Any other sustainable investments must also not significantly harm any environmental or social objectives.*



**Does this financial product consider principal adverse impacts on sustainability factors?**

✘ Yes

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

- **Greenhouse gas intensity;**
- **Board gender diversity;**
- **Controversial weapons;**
  
- **Greenhouse gas (GHG) intensity**

For the portion of the Fund’s portfolio aligned with the environmental and/or social characteristics promoted by the Fund, the Investment Manager commits to maintaining a portfolio GHG intensity (scope 1+2), at least 20% below that of the Benchmark and of the Investment Universe, whichever is the lowest. The Investment Manager will consider the GHG intensity of a potential investment and may engage with an issuer on this theme if deemed appropriate.

**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.

- **Board gender diversity**

For the portion of the Fund's portfolio aligned with the environmental and/or social characteristics promoted by the Fund, the Investment Manager will not invest in companies which have no female directors and will engage with the investee companies to encourage a minimum of 2 females, or 30% of the board, whichever is greater, as a minimum board gender diversity threshold (below referred to as "2 or 30%" threshold). The Investment Manager will consider the board gender diversity of a potential investment and may engage with an issuer on this theme if deemed appropriate. In cases where the company has at least one female director but does not meet the "2 or 30%" threshold, the Investment Manager will engage with the company over the holding period and may vote against key committee members unless the company is in the process of rectifying the shortcoming.

- **Controversial weapons**

The Fund does not invest in companies that are involved in the production or distribution of controversial weapons.

More information on how the Fund considered its PAIs may be found in the annual report of the Company.

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 Investment Manager employs a bottom-up investment philosophy, focused on identifying companies trading at significant discounts to their estimate of fundamental value. Portfolio managers and analysts are opportunistic in their search for investment ideas, conducting rigorous, fundamental research.

The Fund's portfolio construction process incorporates specific sustainability-related considerations, which in particular includes the reduction of portfolio carbon intensity. In this respect, for the portion of the Fund's portfolio aligned with the environmental and/or social characteristics promoted by the Fund, the Fund commits to maintain a minimum of 20% reduction in portfolio GHG intensity (scope 1+2) relative to both the Benchmark and the Investment Universe, whichever of the two is the lowest.

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

- derive any revenue from being involved with the production or distribution of controversial weapons;
- derive more than 5% of revenue from tobacco production;
- derive more than 5% of revenue from thermal coal, including thermal coal extraction or coal-based power generation;
- are involved in serious violations of United Nations Global Compact ("UNGC" Principles, without positive perspective. The seriousness of UNGC violations will be based on an assessment of the nature of harm and the scale of impact of the event, practices, products or businesses on the environment, society and economy, along with an assessment of the company's role, whether direct or indirect. The presence or not of a positive perspective will be based on the Investment Manager's proprietary assessment, including any possible discussions with the company, regarding the issue;
- derive more than 10% of revenue from unconventional oil & gas extraction. This includes revenue from the production of oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane, as well as revenue from onshore or offshore oil and gas production in the Arctic region. It excludes revenue from conventional oil and gas production including deepwater, shallow water, and other onshore/offshore oil and gas;
- have no female director on the board of directors;
- do not meet the Fund's anti-corruption and anti-bribery guidelines.

If a security held by the Fund falls under at least one of the Fund's exclusions, the Investment Manager will divest from such security as soon as practicably possible. Divestment will normally occur within a period of one month, unless market conditions such as limitations on liquidity require a longer divestment period taking into account Shareholders' best interests.

For the portion of the Fund's portfolio aligned with the environmental and/or social characteristics promoted by the Fund, the Fund also commits to engage with investee companies over the holding period which have at least one female director encouraging them to meet "2 or 30%" minimum threshold for board gender diversity.

Additionally, when presented the opportunity, the Fund will vote to separate the roles of CEO and of the chair of the board of directors of investee companies.

## 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:

- For the portion of the Fund's portfolio aligned with the environmental and/or social characteristics promoted by the Fund, commitment to reduce portfolio GHG intensity (sum of scope 1+2) by at least 20% relative to both the Benchmark and the Investment Universe, whichever of the two is lowest;
- the exclusion of certain sectors and companies further detailed in the section "What investment strategy does this financial product follow?" above;
- For the portion of the Fund's portfolio aligned with the environmental and/or social characteristics promoted by the Fund, commitment to engage with certain investee companies over the holding period to encourage a minimum of 2 females or 30% of the board, whichever is greater, as a minimum gender diversity threshold for the company's board and will not invest in any companies that have no female directors; and
- commitment to vote to separate the roles of CEO and Chair of the board of directors of the investee companies, when presented the opportunity.

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

Not applicable.

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

Governance is a key factor in the Investment Manager's ESG analysis and stretches across both corporate governance factors and operational governance factors. The Investment Manager regularly engages with all portfolio companies on a variety of factors including governance and considers its proxy voting policies to be an important tool to encourage good governance.

The Fund does not invest in companies deemed to have unacceptable governance practices according to the Investment Manager's assessment. Among the factors assessed is a review of board structure and independence, the strength of board oversight over key management processes, the remuneration policy, as well as accounting policies and shareholder rights. Indicators including qualified auditors' opinions, allegations of bribery, corruption or fraud, labor-related controversies, and significant tax-related controversies may also be considered.

**What is the asset allocation planned for this financial product?**

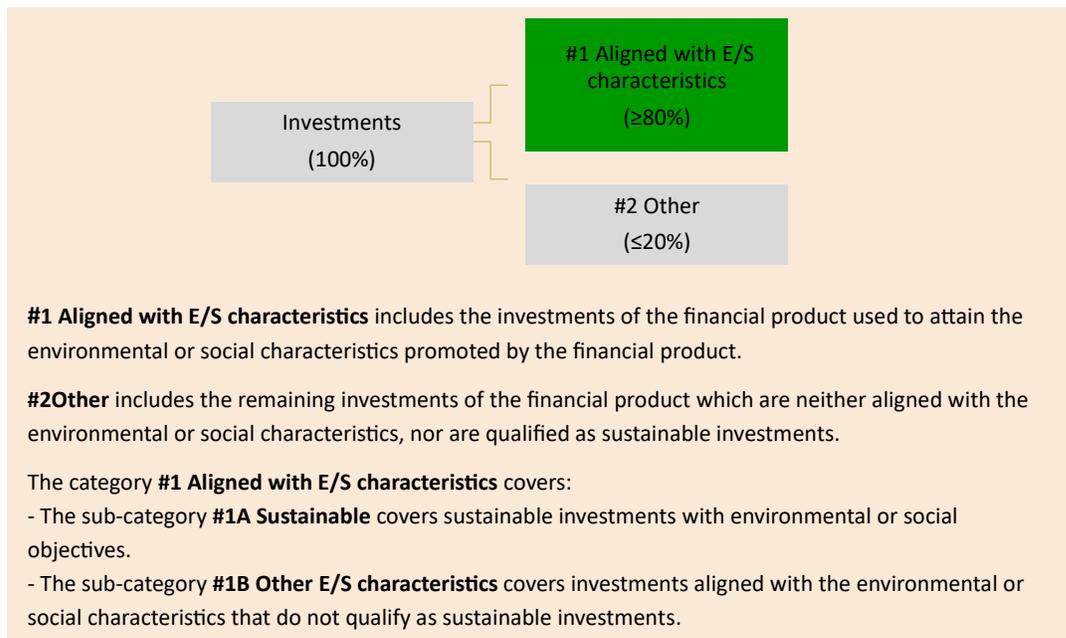
At least 80% of the Fund's portfolio is aligned with environmental and/or social characteristics promoted by the Fund. The remaining portion ( $\leq 20\%$ ) of the portfolio is not aligned with the promoted characteristics and typically consists of liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds) as well as securities held for diversification purposes which are involved in special situations, such as merger arbitrage and stressed or distressed credit.

**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.

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

Not applicable.



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

The Fund does not commit to invest in any sustainable investment within the meaning of the EU Taxonomy.

### ● **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy<sup>1</sup>?**

<sup>1</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.

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.

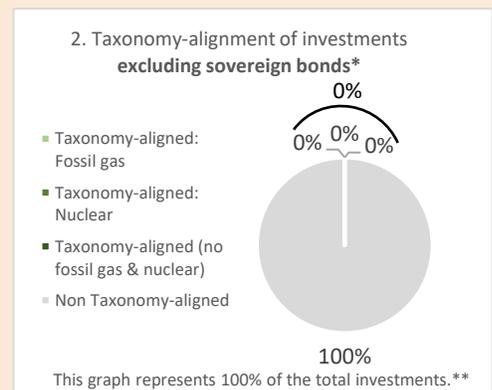
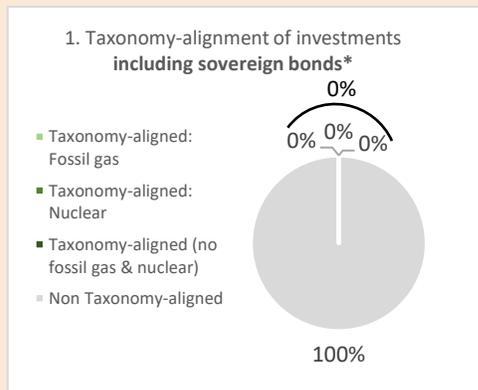
 are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.

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.

\*\* Considering that the commitment to make sustainable investments aligned with the Taxonomy is set at a minimum of 0%, the percentage of any sovereign bonds in the portfolio will not impact the result of the calculation.

 **What is the minimum share of investments in transitional and enabling activities?**

As the Fund does not commit to invest any sustainable investment within the meaning of the EU Taxonomy, the minimum share of investments in transitional and enabling activities within the meaning of the EU Taxonomy is therefore also set at 0%.



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

The Fund does not commit to a minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy



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

Not applicable.



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

The “#2 Other” investments 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 as well as securities held for diversification purposes, which are involved in special situations, including merger arbitrage, stressed and distressed debt issuers.

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



## **Where can I find more product specific information online?**

**More product-specific information can be found on the website:**

[www.franklintempleton.lu/our-funds/price-and-performance/products/4820/Z/franklin-mutual-european-fund/LU0140363002](http://www.franklintempleton.lu/our-funds/price-and-performance/products/4820/Z/franklin-mutual-european-fund/LU0140363002)

Specific disclosure required under Article 10 of SFDR for the Fund can be found at: [www.franklintempleton.lu/4820](http://www.franklintempleton.lu/4820)