



Article 10 (SFDR)

Website disclosure for an Article 8 fund

**Franklin Templeton Investment Funds - Franklin
Intelligent Machines Fund (the “Fund”)**

Version	Date of publication	Date of update (if any)	Explanation (if any)
1.0	25 March 2024		

**Product name: Franklin Templeton
Investment Funds – Franklin Intelligent
Machines Fund**

**Legal entity identifier:
254900ZZZRM3C21CZ625**

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 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 had a 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 promotes E/S characteristics, but **will not make any sustainable investments**



A. Summary

The Fund promotes environmental and social characteristics in accordance with Article 8 of the Sustainable Finance Disclosure Regulation (the “SFDR”).

The Fund’s environmental or social characteristics are assessed both quantitatively and qualitatively, by means of sustainability indicators as well as of the Investment Manager’s proprietary ESG ratings system and its research and engagement process further described in the Website disclosure’s dedicated sections.

As part of its investment decision making process, the Fund’s ESG strategy also uses binding criteria for the selection of underlying assets and applies specific ESG exclusions.



B. No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective a sustainable investment.



C. Environmental or social characteristics of the financial product

What are the environmental or social characteristics promoted by this financial product?

The environmental and/or social characteristics promoted by the Fund are specific to each company and industry in which the Fund operates. These characteristics consist of *inter alia*:

- Commitment to cybersecurity and data privacy,
- Support and investment in human capital and/or
- Mitigation of environmental impact via the reduction of e.g., greenhouse gas ("GHG") emissions, efficient water usage and e-waste).

The Investment Manager seeks to attain these characteristics by excluding certain issuers and sectors considered by the Investment Manager as harmful for the society while favoring issuers with a good environmental, social and governance (the "ESG") profile, as captured by its proprietary ESG methodology.

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



D. Investment strategy

What investment strategy does this financial product follow and how is the strategy implemented in the investment process on a continuous basis?

The Investment Manager employs a binding proprietary ESG methodology to determine a company's profile on relevant ESG issues.

The Investment Manager evaluates the companies which may be potential investment for the Fund ("Fund's Investment Universe") and assigns an overall ESG rating based on quantitative and qualitative factors such as:

Cybersecurity and data privacy, the usage of controversial materials, support of human capital, diversity, and inclusion as well as environmental impact (GHG emissions, water usage).

The rating assigned to the issuers by the Investment Manager based on the proprietary ESG methodology comprises four grades: AAA (best in class/very good), AA (good), A (fair) and B (needs improvement). The Investment Manager's ESG approach includes regular dialogue with investee companies, monitoring material ESG issues and voting proxies. Companies rated "B" or those not rated due to the company not meeting the Investment Manager's fundamental criteria are excluded from the Fund's portfolio.

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

- seriously violate the UNGC Principles (without positive perspective) - for that purpose, the Fund does not invest in companies which the Investment Manager assesses as fail under the UNGC Principles;
- generate more than 10% of revenue from the production and/or distribution of weapons;
- are involved in the production, distribution, or wholesale trading of dedicated components of banned weapons (i.e., antipersonnel mines, biological and chemical weaponry, and cluster munitions);
- manufacture tobacco or tobacco products or those that derive more than 5% of their revenue from such products;
- generate more than 10% of their revenue from thermal coal extraction or coal-based power generation.

Finally, the Fund excludes from its portfolio companies that fail to improve on the integrated PAIs described above after engagement. Companies could be removed from the exclusion list after they show improvement on the relevant PAIs.

If a security held by the Fund falls under at least one of the Fund's exclusions, the Investment Managers 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.

What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?

The binding elements of the investment strategy can be summarized as follows:

- the exclusion of certain sectors and companies further detailed in the section "What investment strategy does this financial product follow and how is the strategy implemented in the investment process on a continuous basis?" above;
- the exclusion of companies rated B under proprietary methodology; and the commitment to exclude companies failing to improve on the PAIs considered after engagement.

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

Governance is assessed regularly as part of the Investment Manager's fundamental analysis.

To score corporate governance, the Investment Manager uses a combination of quantitative metrics (such as compensation details, diversity and inclusion metrics, controversy metrics) and qualitative assessments (board independence, board composition, existence of dual class shares).

The Investment Manager further incorporates other qualitative factors such as capital allocation, research and development success, crisis management, acquisition history and communication with investors.

Certain governance-related controversies (e.g., concerns regarding executive compensation or perceived lack of independence of board directors) could result in a company being un-investable by our standards despite strong fundamentals or other metrics.

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

☒ Yes

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

- **Scope 1 and Scope 2 greenhouse gas emissions;**
- **Scope 1+2 and material Scope 3 greenhouse gas emissions intensity; and**
- **board gender diversity.**

The consideration of the specified PAIs is tied to the Fund's fundamental investment analysis as well as the Fund's ESG assessment of investee companies. The Investment Manager believes that these PAIs are applicable to the widest range of the Fund's investments and represent the largest opportunity set for engagement.

With regards to **greenhouse gas emissions**, the Investment Manager is committed to engage with the investee companies to encourage them to establish and commit to greenhouse gas emissions reductions plans, that are in accord with science based long term goals of net-zero emissions by 2050. The Investment Manager works with companies to move them up the scale of committing to align with net zero targets, being aligned to achieve net zero, and reaching net zero emissions. While the Investment Manager understands that, in the short-term, absolute emissions may increase for some companies as they work on

transition plans, therefore, the consideration of greenhouse gas emission intensity helps the Investment Manager to monitor that overall companies' greenhouse gas emissions are trending in a direction aligned with greenhouse gas emissions reductions over time.

With regards to **board gender diversity**, the Investment Manager is committed to engage with the investee companies to ensure their boards are representative of the customers they serve as the Investment Manager believes this helps them to better understand their consumer base, create better products, and ultimately be more efficient companies. Initially, the Investment Manager works to identify companies that do not have board gender diversity and set time-based thresholds for drafting a plan to increase board gender diversity. The Investment Manager believes it is reasonable to increase the acceptable level of board gender diversity over time and to engage with companies that are laggards relative to their industry peers.

At the time of new investments for the above PAIs, the Investment Manager baselines the portfolio and investee companies and looks to drive improvement on both fronts over time through engagement. The Fund is engaging with investee companies to set and follow science-based emissions reductions targets and is seeking to follow a portfolio coverage approach, with increasing weight in companies that have achieved net zero greenhouse gas emissions, are aligned with net zero or are aligning. The goal for the portfolio is to achieve 100% in these categories by 2040. For board gender diversity, the Fund's initial commitment is to engage with all companies that lack any gender diversity with an expectation for them to develop at minimum a plan to increase board gender diversity within 18 months. The Investment Manager intends to increase the expectations of board gender diversity over time. The consequences of a lack of improvement on these measures for investee companies eventually include divestment if the Investment Manager does not see a path for improvement. If a decision to divest occurs, 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.

Finally, the Fund is committed to excluding investments in companies that produce or distribute controversial weapons or who fail to comply with the **United Nations Global Compact principles** (the "UNGC Principles") without a positive outlook for remediation.

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

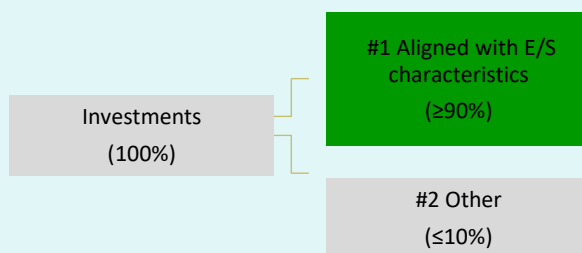
☐ No



E. Proportion of investments

What is the planned asset allocation 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 to determine a company's profile on relevant ESG issues. At least 90% of the Fund's portfolio is aligned with environmental and/or social characteristics promoted by the Fund. The remaining portion of it ($\leq 10\%$), mainly consisting of liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds) is not aligned with the promoted characteristics.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

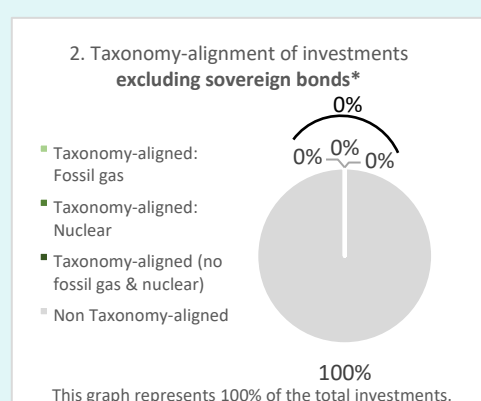
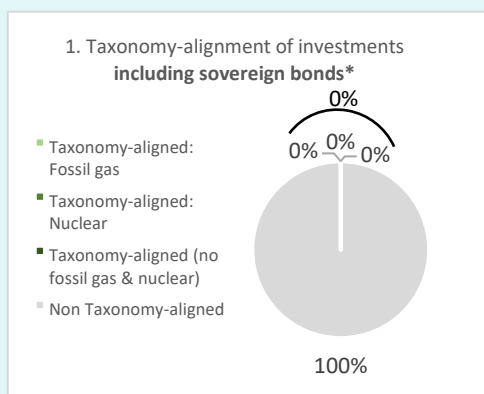
How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?

Not applicable

What is the minimum share of investments with an environmental objective aligned with the EU Taxonomy? (including what the minimum share of transitional and enabling activities is)

Not applicable.

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 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 sustainable investments with a social objective?

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, constituting up to 10% of the portfolio, may include investments in 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 or investments for which there is insufficient data for them to be considered ESG-related investment. Due to the neutral nature of the asset, no minimum environmental and/or social safeguards have been put in place.



F. Monitoring of environmental or social characteristics

What sustainability indicators are used to measure the attainment 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:

- the share of companies rated AAA, AA, A and B by proprietary ESG methodology; and
- the share of companies having exposure to or tying with excluded sectors and additional exclusions (further detailed in section “What investment strategy does this financial product follow and how is the strategy implemented in the investment process on a continuous basis?” above).

How are the environmental or social characteristics and the sustainability indicators monitored throughout the lifecycle of the financial product and the related internal/external control mechanism?

The environmental or social characteristics and the sustainability indicators (including PAI indicators) are monitored throughout the lifecycle of the product.

- Initial investment phase

ESG screenings of investments are performed during the initial acquisition phase. Prior to investment, the Investment Manager screens all potential investments to confirm they meet the Fund’s criteria and to confirm the portfolio remains in compliance with its policies. In addition, the Investment Manager ensures that the Fund does not invest in the exclusion list.

(More information on the exclusion list and on the ESG rating methodology can be found under “D. Investment Strategy”).

- Holding period

Once investments have been made, ongoing monitoring and reporting are performed.

The Investment Manager conducts reviews to ensure ongoing compliance with the policies and analyses the investments exposure at a portfolio level for possible adverse impact. Exclusions/restrictions based on scoring are coded into the Fund's pre trade engine for compliance monitoring. The Investment Manager is responsible for the correct execution of the ESG due diligence, which includes activities such as ensuring ESG ratings are assigned to each investment in accordance with the underlying equity research process.

- Divestment

If a decision to divest occurs, 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.

- Control mechanisms

The Investment Manager is responsible for supervising and improving the implementation of the ESG policies and responsible investment process across all investments.

All binding elements of the Fund's ESG commitments are regularly reviewed and monitored as part of the Fund's Investment Compliance process.

In addition, sustainability risk is integrated in the Fund's risk management processes since 1st August 2022, in line with the Commission Delegated Regulation (EU) 2021/1255 and the Commission Delegated Directive (EU) 2021/1270.



G. Methodologies

What is the methodology to measure the attainment of the environmental or social characteristics promoted by the financial product using the sustainability indicators?

The sustainability indicators used to measure the attainment of the environmental and/or social characteristics promoted are:

- the share of companies rated AAA, AA, A, and B by proprietary ESG methodology; and
- the share of companies having exposure to, or tying with excluded sectors and additional exclusions.

The Fund relies on the following criteria:

1. ESG rating

The environmental and social characteristics promoted are considered as attained if companies rated "B" or those not rated due to the company not meeting the Investment Manager's fundamental criteria are excluded from the Fund's portfolio. The ESG rating methodology is described under the "D. Investment Strategy" section.

2. Negative screens

The environmental and social characteristics promoted are considered as attained if the share of companies having exposure to, or ties with, the sectors and the additional exclusions further described in the pre-contractual disclosure equals 0%.

3. Cybersecurity and data privacy:

Corporate data and security management policies

4. Support of Human Capital:

Glassdoor culture data, direct and indirect employee engagement (note: diversity and inclusion are reviewed within the corporate governance pillar)

5. Environmental Impact (GHG Emissions, Water):

Corporate disclosures/sustainability reports, MSCI Carbon Emissions score, Bloomberg GHG intensity metrics.



H. Data sources and processing

What are the data sources used to attain each of the environmental or social characteristics including the measures taken to ensure data quality, how data is processed and the proportion of data that is estimated?

- **Data sources**

Multiple data sources are utilized by the Investment Manager, including third-party data providers, company documents, and direct interactions with company management. Third-party data providers include MSCI, Sustainalytics, Bloomberg, CDP, ISS, and Glass Lewis

- **Measures to ensure data quality**

Reasonable steps are taken to ensure data quality, such as comparing data from multiple sources or validating company reported data against 3rd party sources.

- **Data processing**

The equity analysts build spreadsheets that include the relevant material ESG factors for their industries. In these spreadsheets, the equity analysts collect data from various sources and perform qualitative assessments to create ESG scores for companies. Data may be cross referenced between multiple sources for accuracy and validated against company provided CSR reports. Analysts review the collected data in the context of their ESG framework and materiality matrix and utilize it for the development of their ESG ratings.

Frameworks are updated at least annually and are stored along with ESG ratings and recommendations.

- **Estimation of data**

The proportion of estimated data varies by data point due to inconsistencies in reporting by investee companies.



I. Limitations to methodologies and data

What are the limitations to the methodologies and data sources? (including how such limitations do not affect the attainment of the environmental or social characteristics and the actions taken to address such limitations)

- **Limitation to the methodology**

Inherent limitations to the methodology exist. The methodology is built upon external data points that are developed within the limitations of the data sources and company provided information.

- **Limitation to the data sources**

Inherent limitations to the data sources exist. Not all companies provide data on all the factors the Investment Manager has defined as material.

- **Mitigation measures**

To overcome this issue, the Investment Manager uses estimates, finds alternative data sources, or removes that specific factor from their analysis



J. Due diligence

What is the due diligence carried out on the underlying assets and what are the internal and external controls in place?

The Fund carries out due diligence on the underlying assets in the investment process on a regular basis as described under the section “F. Monitoring of environmental or social characteristics”.



K. Engagement policies

Is engagement part of the environmental or social investment strategy?

☒ Yes

☐ No

If so, what are the engagement policies? (including any management procedures applicable to sustainability-related controversies in investee companies)

Engagement is about encouraging companies to improve their ESG practices over the long-run through a constructive and structured dialogue.

- **Implementation**

Engagement consists of:

- engaging in discussion with investee companies in the Fund's portfolio to fully grasp their ESG issues; and
- engaging with investee companies in the Fund's portfolio for the three PAIs (further detailed in the section 'Does this financial product consider principal adverse impacts on sustainability factors?') to drive improvement.
- encouraging investee companies to be transparent and to publicly disclose their ESG data and policies; and
- asking investee companies to make alterations in corporate policy in order to improve their ESG characteristics; and
- getting involved in collective engagement initiatives on a case-by-case basis; and
- following up with the company on engagements, up to and including voting against management in proxies or deciding to divest if a lack of significant improvements persists.

All data concerning issues that arise during these discussions as well as potential requests for improvement are collected via a centralized data repository containing analyst comments on the engagement.

Progress is monitored and assessed on at least an annual basis, or more frequently depending on the engagement plan.

- **Corrective measures following a controversy**

When companies are flagged for a specific controversy, the Fund's analysts would follow up with perspective and potential engagement plans if necessary. If an analyst disagrees with the third party on the severity of the controversy or believes the company has already made positive progress in correcting the issue no engagement may be necessary.

- **Scope and themes covered**

Engagement topics are typically surfaced as part of the Fund's ESG scoring process. Areas are identified in which an investee company appears to be deficient, either on an absolute or peer relative basis. The analysts are then responsible for engagement on those topics, either via a dedicated engagement meeting or as part of their standard company interactions.

The Fund's engagement opportunities cover all companies in the portfolio. Covered themes vary by industry but typically reflect either broad ESG topics or narrower issues where a company may be lagging peers or industry standards.

- **Reporting**

Examples of engagement are included in the Fund's annual Shareholder Rights Directive II (SRDII) reports¹.

¹ <https://franklintempletonprod.widen.net/view/pdf/ppswek4nuv/franklin-templeton-stewardship-report-en.pdf>

**L. Designated reference benchmark**

Has a reference benchmark been designated for the purpose of attaining these characteristics promoted by the financial product?

☐ Yes

☒ No