

## Franklin European Total Return 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:** Franklin Templeton Investment Funds – Franklin European Total Return Fund (the "Fund") **Legal entity identifier:** 4HIOY1ECMPB3YDFIY329

## Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?	
<input checked="" type="radio"/> <input type="checkbox"/> Yes	<input type="radio"/> <input checked="" type="checkbox"/> No
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with an environmental objective: ___%</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> </ul> <input type="checkbox"/> It will make a minimum of <b>sustainable investments with a social objective: ___%</b>	<input checked="" 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 <b>50%</b> of sustainable investments <ul style="list-style-type: none"> <li><input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input checked="" type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> <li><input checked="" type="checkbox"/> with a social objective</li> </ul> <input type="checkbox"/> It promotes E/S characteristics, but <b>will not make any sustainable investments</b>

**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.



### What environmental and/or social characteristics are promoted by this financial product?

The environmental and/or social characteristics promoted by the Fund include: (i) reduction of greenhouse gasses emissions; (ii) energy conservation; (iii) biodiversity protection and (iv) alignment with the international business conduct principles and fundamental political freedoms. Additionally, if an opportunity arises, the Fund may promote: (i) responsible solid and water waste management; (ii) circular economy and (iii) reduction of gender pay gap and/or increase of board gender diversity. The Investment Managers seek to attain these characteristics by:

- avoiding investment in issuers that are lagging in the transition to a low-carbon economy; and
- implementing negative screens as part of its investment process, as further detailed in section "What investment strategy does this financial product follow?" below.

Moreover, the Fund has a minimum allocation of 50% of its portfolio to sustainable investments. Of those sustainable investments, the Fund has a minimum allocation of 25% of its portfolio to sustainable investments with an environmental objective and a minimum allocation of 5% of its portfolio to sustainable investments with a social objective.

The Fund does not use a reference benchmark to which it aligns the environmental and/or social characteristics that the Fund promotes.

## 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 the environmental and/or social characteristics promoted are:

- percentage of investments in Green Bonds, as defined below in section "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?";
- percentage of investments in Social Bonds, as defined below in section "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?";
- percentage of investments in Sustainability Bonds, as defined below in section "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?";
- percentage of investments in other forms of bonds (not use of proceeds bonds) that are considered as sustainable investments, as defined below in section "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?";
- percentage of investments in bonds issued by Environmental Champions, as defined below in section "What investment strategy does this financial product follow?";
- percentage of investment in issuers that fail under any of the ESG exclusions further described in section "What investment strategy does this financial product follow?" below;
- exposure to the mandatory principal adverse impact (the "PAI") indicators of Table 1 of Annex I of the SFDR Regulatory Technical Standards ("RTS"), as applicable to the asset class, compared to the Fund's benchmark referenced in Appendix F to the Prospectus (while the Fund is not committing to have a Fund level PAIs better than its benchmark, the difference between those two metrics informs how well the Fund promotes environmental and social characteristics); and
- the number of issuers with which the Investment Managers engaged.

### ● **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 objective of the sustainable investments is, amongst others, to fund and promote either:

- the efficient use of energy, raw materials, water, and land;
- the production of renewable energy;
- the reduction of waste, and greenhouse gas emissions, and lower impact of economic activities on biodiversity;
- the development of a circular economy;
- tackling inequalities and fostering social cohesion;
- social integration and community development;
- good labour relations;
- social protection of the most vulnerable community members, including but not limited to excluded and/or marginalized populations and/or communities, women and/or sexual and gender minorities, aging populations and vulnerable youth;
- universal access to basic social infrastructure, quality education and healthcare; or
- investments in human capital, including disadvantaged communities.

This objective is achieved by investing in:

- bonds labelled as being green or in any other securities (such as blue bonds) whose proceeds are used on eligible environmental projects (i.e., projects that contribute to the environmental objectives of the Fund's sustainable investments) provided that the framework adheres to international standards (such as the International Capital Market Association (the "ICMA") Green Bond Principles or the European Union Green Bond Standard (the "EU GBS")) and the issuer clearly commits to deploy the proceeds to eligible environmental projects (collectively referred to as "Green Bonds");
- bonds labelled as being social or in any other securities (such as gender equality bonds) whose proceeds are used on eligible social projects (i.e., projects that contribute to the social objectives of the Fund's sustainable investments) provided that the framework adheres to international standards (such as the ICMA Social Bond Principles) and the issuer clearly

- commits to deploy the proceeds to eligible social projects (collectively referred to as "Social Bonds");
- bonds labelled as sustainability bonds or in any other securities whose proceeds are used on eligible environmental and/or social projects (i.e., projects that contribute to the environmental and/or social objectives of the Fund's sustainable investments) provided that the framework adheres to international standards (such as the ICMA Sustainability Bond Principles) and the issuer clearly commits to deploy the proceeds to eligible environmental and social projects (collectively referred to as "Sustainability Bonds");
- other forms of bonds (not use of proceeds bonds) issued by sovereigns, sub-sovereigns and their agencies (also referred to as "sovereign issuers") located in countries whose last 5 years' average budgetary expenditures on selected themes, which are considered to contribute to the social and/or environmental objectives of the Fund's sustainable investments, constitute at least 50% of total budgetary expenditures based on EUROSTAT data. These themes include, but are not limited to, pollution abatement, protection of biodiversity and landscape, environmental protection, housing development, community development, water supply, medical products, hospital services, public health services, education, sickness and disability, old age support, family and children, unemployment.

● ***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 Managers use a variety of tools and methods to ensure alignment with the Do No Significant Harm (the "DNSH") principle.

Firstly, a number of issuers are removed from the investment universe by using proprietary tools, as described in section "What investment strategy does this financial product follow?" below, which contributes to the implementation of the DNSH principle.

Secondly, the Investment Managers consider the mandatory and other relevant PAI indicators of Table 1 of Annex I of the SFDR RTS, as applicable to the asset class and according to the Investment Managers' analysis, when assessing whether a sustainable investment may be causing potential harm. For investments in use of proceeds instruments, the Investment Managers assess the potential for significant harm at the level of the projects funded and at the level of the issuer.

Additionally, where the fund is proposing to consider as sustainable investments bonds issued by sovereign issuers which are not use of proceeds instruments, certain issuers are excluded to ensure compliance with the DNSH principle. In particular, the Investment Managers consider a range of factors including (but not limited to) whether the issuer:

- lacks a strong governance structure (based on World Bank governance indicators),
- is not a party to certain landmark international agreements,
- has not ratified or implemented key labor and human rights conventions,
- has been considered deficient in anti-money laundering and counter-terrorist financing measures,
- scores poorly on Transparency International's Corruption Perceptions Index, or
- is deemed "Not Free" by Freedom House.

For the avoidance of doubt, these exclusions are in addition to those mentioned in section "What investment strategy does this financial product follow?".

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

When assessing compliance of the Fund's investments with the DNSH principles, the Investment Managers take into account all mandatory PAI indicators of Table 1 of Annex I of the SFDR RTS, to the extent they are relevant for the investments contemplated by the Fund, and any other PAI indicators which the Investment Managers consider relevant, as well as other references deemed by the Investment Managers as proxies for adverse impact. The Investment Managers perform this analysis at the level of each sustainable investment so that the relevance and materiality of the PAI indicators may vary across investments. Issuers deemed to be doing any significant harm based on these indicators will not qualify as sustainable investments.

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

For securities issued by corporate issuers, the sustainable investments are assessed for alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. These guidelines and principles are not applicable to investment in securities issued by sovereign countries.

Alignment is monitored using data from a third-party data provider. Breaches identified by that service provider are flagged in the investment compliance system for subsequent investigation by the Investment Managers. 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, the Investment Managers would not invest or, if already invested, the Investment Managers will divest from such security as soon as reasonably possible, taking into account best interests of the Shareholders and at the latest within a period of six months under normal market conditions.

*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,

PAI indicators are considered for the purpose of:

- **identifying best-in-class issuers;**
- **restricting Fund's investable universe;**
- **guiding thematic engagement; and**
- **applying exclusions.**

**Identifying best-in-class issuers**

The Fund seeks exposure to bonds issued by corporate issuers and sovereign issuers deemed by the Investment Managers to be Environmental Champions, as defined below in section "What investment strategy does this financial product follow?".

For sub-sovereigns and agencies of a sovereign, the score of the relevant sovereign will be taken into account.

**Restricting Fund's investable universe**

Sovereign issuers falling within the bottom 20% of the investment universe based on the Energy and Environmental Transition Index (the "EETI") and corporate issuers falling within the bottom 20% of the investment universe based on the ESG Credit App are **excluded** from the portfolio.

**Guiding thematic engagement**

The Investment Managers commit to **engage** (on a calendar year basis) with 5% of holdings which are considered as underperformers in terms of their aggregate exposure to applicable mandatory PAI metrics.

**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.

### Applying exclusions

Across the entire portfolio (excluding liquid assets and derivatives used for hedging and efficient portfolio management purposes and as applicable to the asset class), the Fund applies specific ESG exclusions as described in section "What investment strategy does this financial product follow?" below.

More information on how the Fund considered principal adverse impacts on sustainability factors may be found in the periodic reporting of the Fund.

No

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

The Fund employs a proprietary ESG methodology which combines exclusions, engagement and sustainable investments to attain the environmental and social characteristics of the Fund as well as the objectives of the sustainable investments that the Fund partially intends to make. The proprietary ESG methodology is applied to at least 90% of the Fund's portfolio and is binding for the portfolio construction.

First, the Investment Managers use three proprietary data tools across the portfolio to reduce the investment universe.

The first proprietary tool, Principal Adverse Impact Risk App (the "PAI Risk App"), uses data from a third-party provider to identify corporate issuers and sovereign issuers involved in harmful economic activities and/or controversies, which are excluded by the Investment Managers from the investment universe.

A second proprietary tool, the EETI, ranks the sovereign issuers in the universe based on factors such as, greenhouse gas emissions, energy intensity, protection of biodiversity, air pollution and renewable energy mix. Sovereign issuers falling within the bottom 20% of their peer groups based on the EETI are excluded from the investment universe.

The third proprietary tool, the ESG Credit App, ranks the corporate issuers based on greenhouse gas intensity (Scope 1 and Scope 2) time series and Science Based Target initiative ("SBTi") certification. Corporate issuers falling within the bottom 20% of the investment universe based on the ESG Credit App are also excluded from the portfolio.

Next, the Fund seeks exposure to issuers deemed by the Investment Managers to be Environmental Champions. Environmental Champions are defined as sovereign issuers ranked within the top 20% of their peer group by the EETI and corporate issuers ranked within the top 20% of their peer industry group by the ESG Credit App, based on factors mentioned above.

In addition to the above, the Fund applies specific ESG exclusions. Across the entire portfolio (excluding liquid assets and derivatives used for hedging and efficient portfolio management purposes), the Fund shall not invest in corporate issuers that, according to the Investment Managers' assessment, violate (i) the UN Global Compact principles, (ii) the UN Guiding Principles on Business and Human Rights, (iii) the OECD Guidelines for Multinational Enterprises and (iv) the ILO Conventions; score an ESG rating of CCC according to MSCI (subject to exceptions if the Investment Managers provide sufficient evidence that the CCC ESG rating cannot be justified after a formal review), and negatively affect biodiversity-sensitive areas.

Additional restrictions apply for corporate issuers for activities related to tobacco, tobacco products or e-cigarettes, controversial and conventional weapons, gambling, adult entertainment, coal, unconventional and conventional oil and gas and generation of power or heat from non-renewable energy sources.

Moreover, the Fund shall not invest in sovereign issuers that, according to the Investment Managers' assessment, have "Not Free" status according to Freedom House and score an ESG rating of CCC according to MSCI (subject to exceptions if the Investment Managers provide sufficient evidence that the CCC ESG rating cannot be justified after a formal review).

The above-mentioned exclusions are non-exhaustive.



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

Furthermore, the exclusions mentioned in section "How do the sustainable investments that the financial products partially intend to make, not cause significant harm to any environmental or social investment objective?" for sovereign issuers are implemented to all sovereign issuers in the portfolio. An exception to this is that up to 30% of the portfolio may be in sovereign exposures to the US, Japan and the UK, as core reserve non-EURO currency issuers, for reasons of diversification or (currency risk) hedging.

For more details on the exclusions, please refer to the Fund's disclosure published under Article 10 of SFDR, the link for which can be found in section "Where can I find more product specific information online?" below.

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 reasonably possible, taking into account the best interests of the Shareholders and at the latest within a period of six months under normal market conditions.

● ***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 the bottom 20% of the investment universe based on the EETI and ESG Credit App;
- the commitment to engage (on a calendar year basis) with the 5% of holdings which are considered by the Investment Managers as underperformers in terms of their PAI metrics; and
- the application of the ESG exclusions further described in section "What investment strategy does this financial product follow?".

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

The Fund excludes from its portfolio issuers that score in the bottom 20% of its investment universe, based on the EETI (for sovereign issuers) and the ESG Credit App (for corporate issuers).

● ***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 issuers, the issuers not following the good governance practices are determined using references included into PAI Risk App and are deemed un-investible.

For the qualitative assessment of corporate issuers, the Investment Managers consider governance factors, such as board composition (including but not limited to gender, independence, skill set), governance practices or respect for shareholders' rights.

Issuers not passing the PAI Risk App initial test and/or which are qualitatively assessed to have governance deficiencies are deemed un-investible.

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

At least 90% of the Fund's portfolio is aligned with environmental and/or social characteristics promoted by the Fund. The remaining portion ( $\leq 10\%$ ) of the portfolio is not aligned with the promoted characteristics and consists of liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds) and derivatives used for hedging and efficient portfolio management purposes.

For the avoidance of doubt, certain money market instruments, such as government T-Bills, may be included in the 90% portion, where the Investment Managers have confirmed that such instruments are aligned with environmental and/or social characteristics promoted by the Fund.

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

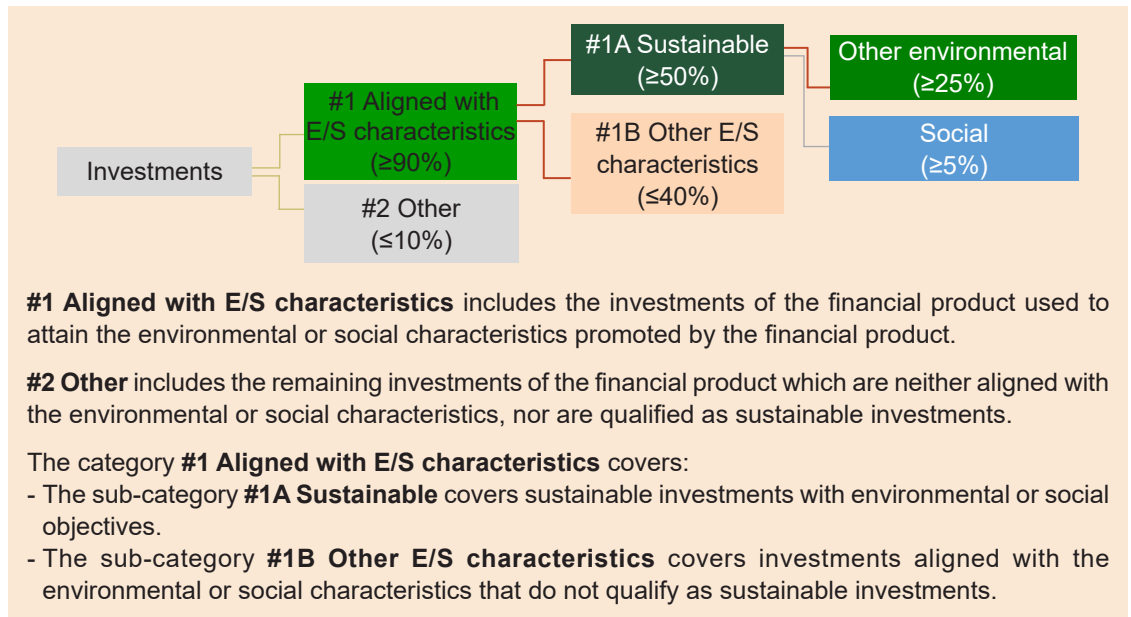


**Asset allocation** describes the share of investments in specific assets.

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, within the portion of investments aligned with environmental and/or social characteristics.

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?**

Not applicable.

- **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy<sup>12</sup>?**

- Yes:
- In fossil gas       In nuclear energy
- No

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.

<sup>12</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.

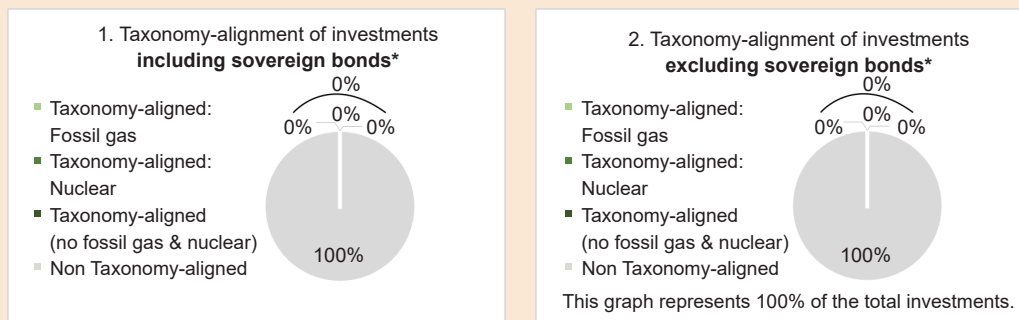
### Enabling activities

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\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.



\* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures.

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

Not applicable.

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 Fund commits to have a minimum share of 25% of sustainable investments with an environmental objective aligned with SFDR in its portfolio. The Investment Managers are not currently in a position to specify the exact proportion of the Fund's underlying investments which take into account the EU criteria for environmentally sustainable economic activities. However, the position is kept under review as the availability of reliable data increases over time.



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

The minimum share of sustainable investments with a social objective is 5% of the Fund's portfolio.



### 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 derivatives held for hedging and efficient portfolio management purposes.

For the avoidance of doubt, certain money market instruments, such as government T-Bills, may be included in the 90% portion, where the Investment Managers have confirmed that such instruments are aligned with environmental and/or social characteristics promoted by the Fund.

No minimum environmental and/or social safeguards have been put in place with respect to (i) cash and other liquid assets and (ii) derivatives used for hedging and efficient portfolio management purposes.





**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.

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



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

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

<https://www.franklintempleton.lu/our-funds/price-and-performance/products/4817/A/franklin-european-total-return-fund/LU0170473531>

Specific disclosure required under Article 10 of SFDR for the Fund can be found at: [www.franklintempleton.lu/4817](http://www.franklintempleton.lu/4817)