Sustainable Investing: Principles and Policies

At Franklin Templeton, we have adopted the term ‘sustainable investing’ to refer to the integration of environmental, social and governance (‘ESG’) factors into investment decisions with the objective of providing better risk-adjusted returns, particularly over the long term. Our Sustainable Investing Principles and Policies outline the philosophy and approach we take to ensure that ESG consideration, including how we approach sustainability risk, is embedded throughout the investment process. Our policy reflects our updated approach which explicitly incorporates ‘sustainability risk’ as contemplated in the European Union’s Sustainable Finance Disclosure Regulation (‘SFDR’).

Introduction

ESG factors can have a material impact on the value of companies and securities. Franklin Templeton believes these issues should be considered alongside traditional financial measures to provide a more comprehensive view of the value, risk and return potential of an investment. With this understanding, we are committed to the integration of ESG factors into our investment management processes and ownership practices.

Franklin Templeton’s Sustainable Investing Principles and Policies apply across our independent investment management groups (subject to exceptions at the end of this document) and have the flexibility to accommodate a number of distinct investment approaches to integrating ESG factors in a manner consistent with their investment philosophy.

1. ESG Integration

1.1. Approach and Practices

Environmental, social, and governance factors have become increasingly important to corporations worldwide as they seek to balance organizational goals with the expectations of their stakeholders in an increasingly complex operating environment. When companies manage stakeholder relationships effectively, they can be more successful at managing risk and capturing opportunities – better positioning these organizations for potential long-term success.

As a global investment manager with a rich history of over 70 years as a fiduciary, Franklin Templeton is committed to supporting and strengthening the consideration of ESG opportunities and risks across our entire platform. We recognize the ESG integration practices that have been in place for many years and which are supported by the dedicated ESG resources of Franklin Templeton.

Key tenets of our ESG approach:

- **Client investment goals and objectives always come first:** Consistent with each client’s investment goals and objectives, and where material to a particular investment opportunity, Franklin Templeton seeks to consider environmental, social and/or governance factors as an integrated element of our investment research and decision making, where we believe these factors may influence the risks and rewards in the portfolio.
- **Independent groups, unique investment processes:** Franklin Templeton is committed to maintaining the independence of each of our investment groups, in

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order to provide our clients with the opportunity to build truly diversified portfolios. This includes unique approaches to considering and managing portfolio risks, including ESG-related risks.

The consideration of material ESG factors is an important element of our analysts' fundamental bottom-up research and these research efforts are supported by our dedicated ESG Team. The ESG Team is comprised of specialists, whose role is to:

- engage and educate investment teams and the wider business to recognize the impact and scope of material ESG issues and advise on emerging ESG trends;
- evaluate current research practices related to ESG issues and identify opportunities to refine and improve;
- enhance the investment teams' ability to analyze ESG issues by incorporating independent ESG data, research and analytics.

The support from the ESG Team allows our portfolio managers to gain a deeper and more comprehensive understanding of the potential ESG risks and rewards associated with each investment.

1.2 ESG in the Investment Process

Our fully integrated ESG approach applies across our investment groups and has the flexibility to accommodate distinct approaches to the analysis of ESG issues, consistent with each group's individual investment style.

1.3 Sustainability Risks

Sustainability risks are defined by the EU's SFDR as environmental, social, or governance events or conditions that, if they occur, may cause an actual or potential material negative impact on the value of an investment. Such risks are considered as an embedded part of our investment process (subject to the exception of certain products noted below).

Some examples of sustainability risks include:

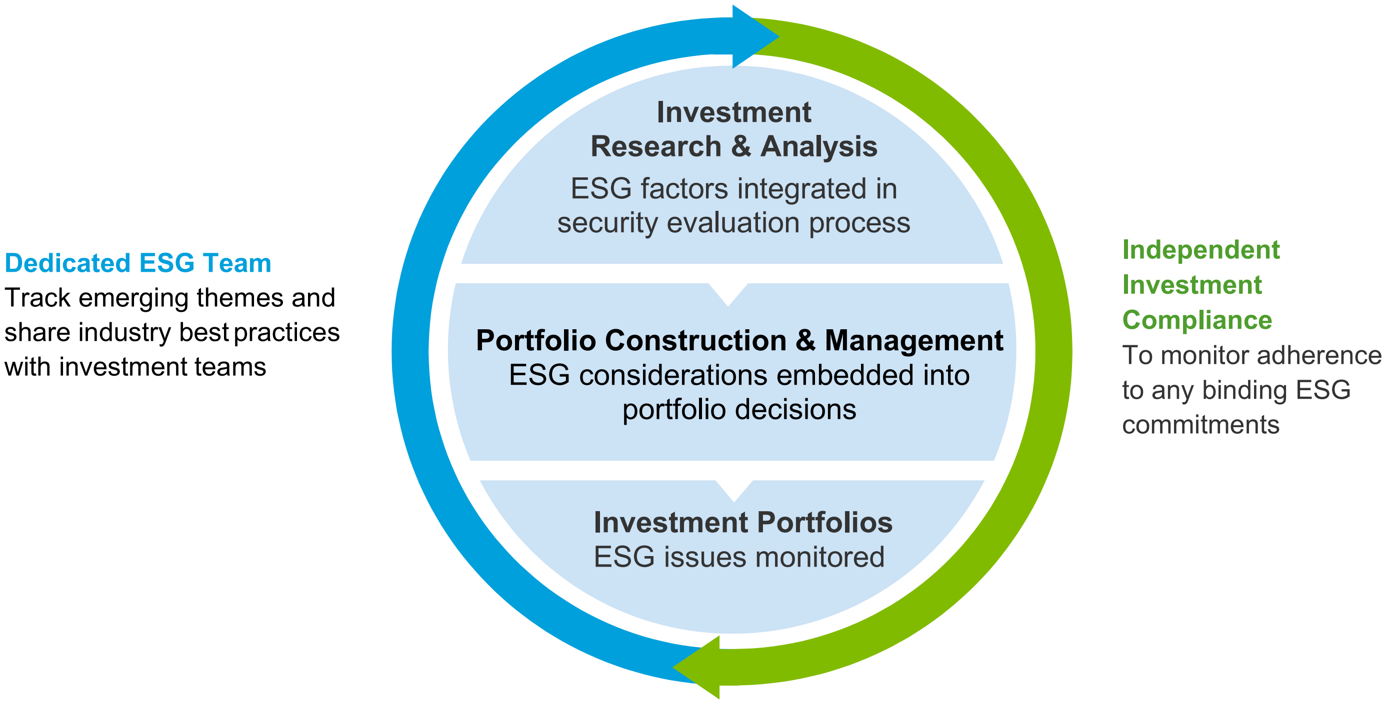
Governance
- Anti-bribery and corruption
- Sustainability management and culture
- Remuneration practices
- Shareholder structures
- Tax evasion
- Employee rights and relations
- Data protection and security

Environment
- Climate change mitigation and adaptation
- Biodiversity
- Sustainable use and management of water resources
- Sustainable waste management

Social affairs
- Anti-child and forced labor policies
- Health and safety at work
- Gender equality
- Diversity and inclusion
- Freedom of assembly

Exceptions
Some of our strategies may not consider sustainability risks to be relevant. Some examples are:

- passive index-tracking products which are structured to replicate the index that they track and therefore, unless sustainability risks are integrated into the index construction, cannot independently consider such risks;
- products based on systematic strategies which do not include ESG-based rules in the investment decision making process;
- products whose sole objective is to invest in the securities of a single issuer, such as the US Government.



1.4 Principal Adverse Impacts

For our ESG-focused products offered under Article 8 or 9 of the EU's SFDR, Franklin Templeton is integrating into our investment decisions consideration of the principal adverse impacts on ESG factors of each investment. Investment groups have discretion to consider a wide variety of data measuring such impacts and the relative importance of each data point will vary according to the asset class, sector, and other key facts. Nevertheless, all investment decisions for such products in respect of corporate issuers will include the below principal adverse impact indicators, with regard to their materiality to our risk exposures:

- Green House Gas Emissions;
- Carbon Footprint;
- Green House Gas Intensity of investee companies;
- Violations of UN Global Compact principles and Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.

We will continue to update this list over time, as the availability of ESG data from issuers improves and as the Level 2 regulation of SFDR is finalized.

1.5 Investment Research & Analysis

Integration begins with our investment analysts considering material ESG risks and opportunities as part of their research and analysis. One of our key strategies for effective investment integration is to embed the consideration of ESG factors in the work of our research teams. Consistent with their status as independent investment management groups, each investment manager determines the various research inputs that are included and weighted in their investment decisions.

Franklin Templeton's investment research is predominantly generated internally by investment professionals. Analysts obtain information from a variety of sources, including but not limited to, investee companies or bond issuers; government institutions and officials; specialist research providers, including those dedicated to ESG; supranational organizations, think tanks and NGOs; academic papers and government studies; independent and broker research; current and historical news; and company, industry and country statistics and trends.

1.6 Portfolio Construction & Monitoring

Each investment team evaluates the research inputs that go into the construction of the portfolio. As an integral aspect of their research activities, analysts are responsible for monitoring any material ESG considerations relevant to their analysis of a particular security. Our investment teams also conduct post-investment monitoring on an ongoing basis and update their insights into research notes and recommendations. For products which contain binding ESG requirements, the Investment Compliance group will monitor such requirements within our order management system and with the use of supplemental checks where rules cannot be fully automated. All exceptions which are generated will be reviewed both pre- and post-trade by Investment Compliance. Post-trade reviews are carried out on a daily basis and would also highlight exceptions caused by market value movements or changes in the characteristics of the investments.

1.7 Remuneration

To incentivize good stewardship and sustainability risk integration, the performance of an investment team member in respect of our policies on stewardship and sustainability risk management will be expressly reflected in their performance review and in the assessment of total compensation award.

2. Stewardship

Stewardship is the responsible management of the assets entrusted to our care and includes engagement with companies and other issuers of the securities we invest in. We consider stewardship and the integration of material environmental, social and governance (ESG) factors into investment analysis to be an integral part of our fiduciary duty to our clients and their beneficiaries. Our stewardship approach is governed by Franklin Templeton's Stewardship Policy and supported by annual reporting.

2.1 Proxy Voting

Our investment managers understand that their proxy voting decisions may affect the value of shareholdings, and they are committed to fulfilling their fiduciary duty to vote proxies in the best interests of their clients. Proxy voting policies and procedures serve as guidelines for proxy voting decisions and detail the process by which decisions are made, including votes related to ESG issues.

We use external providers for advice on corporate governance issues to assist us in our proxy voting responsibilities. Where appropriate, additional ESG research sourced from external providers is used as an input into our investment process, together with the fundamental research conducted by our team of in-house research analysts.

Currently, Franklin Templeton has engaged Institutional Shareholder Services (ISS), Glass Lewis, and Ownership Matters to provide analysis of proxy issues. Franklin Templeton will generally consider supporting ESG related shareholder resolutions that promote the long-term economic interest of clients and do not seek to interfere in routine management matters.

To provide transparency for our clients, both proxy voting policies and voting records are available publicly to the extent legally required in certain countries. To learn more, please visit the proxy voting section on your local Franklin Templeton website.

2.2 Engagement

At Franklin Templeton, our engagement extends to many issuers of capital including listed and unlisted companies, as well as municipal and national governments. The nature and extent of engagement can be influenced by the type of issuer with which we are engaging. We generally prefer a non-adversarial approach to engagement, as this leads to better outcomes for both parties, and to directly engage with decision makers who can affect change at board or senior management level for corporates and with senior ministers for Government debt.

Engagement is led by our investment groups, beginning with portfolio managers and investment analysts monitoring and considering material ESG issues as part of their research processes.

We consider two types of engagement:

1. 'Engagement for change' which is a purposeful dialogue to influence positive change, with defined objectives; and
2. 'Engagement for information' which forms part of issuer monitoring and adds value by communicating our concerns and priorities, building relationships, and achieving a more complete understanding of an issuer's strategy and practices.

As long-term investors, we undertake engagement in a spirit of partnership and we aim to work with companies and other issuers in which we invest to understand and address areas of concern. We do this because we believe this partnership and dialogue can lead to improved investment outcomes for our clients.

The number and frequency of our engagement meetings depend on the size of the company or complexity of the debt, the ownership level of the company, the materiality of any issue and the scale of our investment. We evaluate each situation individually, rather than adopting rigid guidelines on when and how to escalate ESG engagement activities. At their discretion, Franklin Templeton investment managers select the engagement approach(es) that will be most appropriate and effective for each situation. Within each investment team, Analysts, Portfolio Managers, Directors of Research and CIOs work together to form a case-by-case judgment of how best to proceed in particular circumstances. We generally believe that constructive dialogue directly with the key parties is more effective than public action, although our investment managers have engaged publicly in select cases where it was deemed appropriate and necessary to protect shareholder interests.

Engagement activity is recorded in analyst meeting notes and a dedicated engagement tracking tool available to all investment groups.

2.3 Collaborative Engagement

Our independent investment groups each offer distinct investment perspectives. Investment groups may collaborate on engagement topics where there are common concerns and alignment of perspectives, bringing together their shared expertise.

Franklin Templeton may also collaborate with other institutional investors to engage with companies when we believe that doing so is likely to advance clients' interests, is consistent with our firm's policies and is permissible under applicable laws and regulations.

We may also collaborate with institutional investors to engage with policy makers and regulators, through our membership of various global and regional associations, to raise concerns or drive for improvements in the legal and regulatory environment in which we and our portfolio investments operate. As a member of these organizations, we regularly contribute to discourse, but we may also elect to communicate our views directly to the appropriate policy-making or regulatory body.

3. Governance

Working with the firm's Chief Investment Officers (CIOs) and underlying investment teams, Franklin Templeton's dedicated ESG Team has responsibility for the oversight of and adherence to the firm's responsible investment policies. The portfolio managers and investment analysts have responsibility for the implementation of the policy.

The ESG Team works closely with the investment groups to further the integration of ESG factors in the investment process through ESG education, evaluation of existing processes and enhancement of research methods, tools and monitoring mechanisms. The ESG Team reports through the CIO of Franklin Templeton Investment Solutions, who is a member of the Franklin Resources Executive Committee.

The Global Head of ESG provides oversight of the ESG framework and approves Franklin Templeton's Sustainable Investing Principles and Policies. The dedicated ESG Team maintains the Sustainable Investing Principles and Policies, and reviews these to reflect enhancements to our ESG approach as needed.

4. Climate Change Commitment

Franklin Templeton has formalized our climate change commitment by becoming a signatory to the Taskforce on Climate Related Financial Disclosures ('TCFD'). We will be aligning our climate response strategy to the four core elements of the TCFD framework.

5. Memberships and Affiliations

We are a member, supporter or signatory of the following organizations and initiatives:

- Carbon Disclosure Program (CDP)
- European Sustainable Investment Forum (Eurosif)
- Forum per la Finanza Sostenible
- Global Real Estate Sustainability Benchmark (GRESB)
- International Corporate Governance Network (ICGN)
- Pensions for Purpose
- Principles for Responsible Investing (PRI)
- Sustainable Accounting Standards Board (SASB) Alliance
- The Board Director Training Institute of Japan
- Taskforce for Climate Disclosures
- The Institutional Investors Group on Climate Change (IIGCC)
- The Responsible Investment Association (RIA)
- The UK Stewardship Code 2012
- UK Sustainable Investment and Finance Association (UKSIF)

In addition to the UK Stewardship Code, we are signatories to a number of regional Stewardship Codes which reaffirm our commitment to be an active and engaged owner, and to considering ESG factors as part of our fiduciary duty.

6. Sustainable Investing Approaches

At Franklin Templeton, we recognize there is no 'one size fits all' investment approach. Below, we set out some of the sustainable investing approaches deployed by our investment teams.

6.1 Socially Responsible Investment

Socially responsible investment (SRI) is an investment philosophy that considers both financial returns and ethical objectives. Within our Franklin Templeton framework, we consider this approach to be values-driven. By this we mean that a distinguishing feature of SRI is investing to exclude securities based on religious, ethical, or cultural values.

Recognizing that different clients have different SRI priorities, Franklin Templeton is unable to apply client-specific SRI policies to its pooled fund investment vehicles. We work with separate account clients individually, and we have the capability to customize and accommodate specific investment criteria to meet each separate account client's SRI policy. In doing so, we assess both the practicality of such restrictions and their potential impact on the performance and risk profile of the portfolio.

6.2 Thematic Investing

Thematic investing allows investors to address ESG issues such as climate change, water preservation, and sustainable development, by investing in issuers that provide solutions to the issue or are well positioned to benefit from structural ESG shifts. Franklin Templeton can work with clients to create customized solutions that align with a client's ESG strategy. Franklin Templeton also offers a range of dedicated climate change funds in some jurisdictions.

6.3. Impact Investing

Impact investments are investments made into companies, assets, and funds with the intention to generate specific social or environmental outcomes alongside a financial return.

Franklin Templeton can work with clients to create customized solutions that align with a client's impact objectives. In addition to Franklin Templeton's dedicated ESG Team, we have also appointed a Director of Impact who focuses on assessing impact investments within our real assets strategies.

7. Controversial Weapons

Our Controversial Weapons Policy sets out our commitment to not investing in debt and equity securities issued by companies that we believe are confirmed producers of controversial weapons.

8. Related Documents

Please visit the Sustainable Investing section on the appropriate Franklin Templeton website for your country or region for further information on:

- Proxy Voting Policies
- Stewardship Policy
- Controversial Weapons Policy
- Regional Stewardship Code Statements
- PRI Transparency Report

9. Exceptions to this Policy

This document applies to all the wholly-owned investment groups of Franklin Templeton with the exception of products managed by our Specialist Investment Managers, which are affiliated to the group but operate with a high level of independence; you can find an overview of them and their sustainability perspectives here and for more details please visit their websites.