



Response to ESG Questionnaire Franklin Templeton

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Introduction

The issue of defining ESG and how individual companies express their specific values is now at the forefront of many of our clients' minds. We have researched SRI funds for many years now and have a separate rating category, but we acknowledge that this is now a mainstream strategy for an increasing number of investors and ESG issues are impacting all funds, not just those designated responsible or SRI.

In order to understand each company's stance on ESG factors at the corporate level, and how this is built into the investment managers' research and process we ask all our rated fund managers four questions:

- Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.
- Please provide an overview of how ESG is integrated into your business.
- Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.
- What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

The responses given by Franklin Templeton are shown here.

1. Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.

We have adopted the term 'sustainable investing' to refer to the integration of sustainability factors into investment decisions with the objective of providing better risk-adjusted returns, particularly over the long term. Franklin Templeton's Sustainable Investing Principles and Policies ([Policies | Franklin Templeton](#)) outlines the common elements of the philosophy and approach taken, across our various investment groups, to ensure that consideration of sustainability factors and sustainability risk is embedded in our investment process for all relevant products which are further supported by our proxy voting policies.

Our firm-wide Sustainable Investment Strategy focuses on four quadrants:

- Investment beliefs which guide our sustainability strategy, grounded in economics, and underpinned by fiduciary duty.
- Governance to ensure we have effective oversight and implementation through our Sustainable Investment Governance Committee which brings together leaders from our investment, distribution, enterprise risk, legal, communications, executive, and sustainability teams.
- Investment services to provide data, analytical tools, training through the Franklin Templeton Academy, and stewardship support for our investment teams. This work is coordinated through our Stewardship and Sustainability Council which brings together our investment teams from public and private markets, responsible for both debt and equity.
- Market presence through thought leadership via the Franklin Templeton Institute and advocacy with regulators and policymakers coordinated through our new Global Public Policy Council.

The Stewardship and Sustainability Council (the Council) is led by two co-chairs and comprises 21 council members representing our autonomous investment teams, including our Global Head of Sustainability. Representing the diversity and depth of our different approaches, our council members are responsible for developing the overall philosophy and identifying how we face universal sustainability challenges together, founded upon our commitment of what we do for our clients and how we behave as an organization.

The framework at the council level is reinforced by the Global Sustainability Strategy team (GSST), led by the Global ESG Strategy Head of Sustainability, with the mandate to develop priorities in collaboration with the Council and implement strategy to drive and embed sustainability across the organisation. The GSST supports the mission of the Council and works in close collaboration with the Council to guide the common stewardship and sustainability investing agenda. Together the Council and the GSST identify key strategic priorities and implement the agenda as they drive and embed sustainability across the organisation. The framework of the Council with the GSST working closely together allows our investment managers to develop their respective sustainable investment approaches independently.

2. Please provide an overview of how ESG is integrated into your business.

Each of our autonomous investment groups have integrated ESG frameworks into their investment process suitable for their specific approach. Broadly speaking, and on a representative basis, historically our investment teams have integrated material ESG factors into their fundamental bottom-up analysis. They use a long-term perspective in the search for compelling investments and consider all pertinent ESG factors.

Our investment approach requires that a company or issuer has a sustainable business model and quality characteristics, including clear ownership and governance structures aligned with stakeholders. During our research process, analysts engage with management on ESG issues to better understand and analyse whether a company or issuer offers a high quality, sustainable growth opportunity. We also meet with industry specialists, competitors, and brokers to build a comprehensive view of the company or issuer.

ESG issues can have a material impact on the value of companies, issuers, and securities, so we embed best practices and analytics into our investment process – enhancing our traditional financial analysis to open new investment opportunities and help mitigate risk as we seek to enhance returns over the long term. In our view, and as financial stewards of our clients' capital, considering ESG issues alongside traditional financial measures provides a more comprehensive view of the risk and return potential of an investment and we have framed our approach as going 'beyond ESG' because this puts finance at the center of our model.

Franklin Templeton's GSST works closely with investment teams to support the evolution of research processes through education, evaluation of existing practices, and by providing tools to enhance ESG analytics. Formalized asset class and ad hoc working groups managed by the Stewardship and Sustainability Council also bring together relevant expertise, share best practices, and facilitate collaboration in sustainable investing.

Our autonomous investment groups have developed their individual ESG framework and methodologies, which are set out in their respective PRI Transparency Reports. More information is available on request based on a specific product or strategy.

3. Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.

No.

4. What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

We took several important steps to advance our sustainable investment approach "Beyond ESG" and position our firm as responsible stewards of our clients' capital, ensuring that we continue to meet our fiduciary duty and optimise risk-adjusted returns. These include the hire of Anne Simpson, Global Head of Sustainability (reporting directly to the President and CEO Jenny Johnson), the development of a firm-wide sustainability

strategy, the restructure and expansion of the Global Sustainability Strategy team, and the formation of a new governance structure.

Examples of the evolution of our sustainable investment approach include the following:

- We put in place the data and infrastructure needed to support our research, analysis, evaluation, monitoring and reporting at the entity, product and fund levels for the EU Sustainable Finance Action Plan and global climate-related disclosure standards. We have expanded our teams' capacity for assessing sustainability risks and opportunities, as well as measuring sustainable impacts through expansion of the Stewardship and Sustainability Council's work.
- Each investment team has discretion to make their own voting decisions in the best interests of their clients, and in line with the proxy voting policy of each adviser. The majority of these advisers have delegated the administration of executing these proxy votes to Franklin Templeton's Proxy Voting Group, which since January 2023, has been part of the firm's Stewardship Team. This group provides each investment team with both in house and third-party research and collects instructions before executing these votes through our voting advisers. The Proxy Voting Group administered voting on behalf of the investment teams on over 100,000 ballots at approximately 11,000 issuer meetings. The Stewardship Team's in-house research and engagement is fully integrated into this process, to enable our investment teams to access a full range of best practice information and research.
- Franklin Templeton's enhanced public policy function allowed us to coordinate our approach to policy issues across the business and engage with regulators, policymakers and legislators. We also established a three-tiered approach: 1) Our Global Public Policy Council, consisting of senior leaders from across the firm (including President and CEO Jenny Johnson), meets quarterly and sets policy priorities, including those related to sustainable investing and other investment topics, such as fund labelling and regulation of digital assets; 2) our Global Public Policy Forum is a working group comprising representatives from across the firm including our investment teams, and meets bi-monthly to discuss global policy developments; and 3) a Public Policy Tracker, updated monthly, follows 25 of the most urgent policy issues impacting our clients' portfolios.
- We publicly advocated in support of key aspects of the Securities and Exchange Commission's proposed rules on climate-risk reporting, as we believe these disclosures will be pivotal in ensuring that investors can price the risks and opportunities arising from the transition to a low carbon economy and access comparable, consistent, and verifiable information regarding climate risk. We engaged the regulator directly to share our concerns with particular aspects of the proposal and offered recommendations for improving it via the filing of a comment letter.

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