

Templeton European Small-Mid Cap 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 – Templeton European Small-Mid Cap Fund (the "Fund")

Legal entity identifier: 549300U3RRXWK6GSP710

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 sustainable investments with an environmental objective: ___% <ul style="list-style-type: none"> <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy 	<input checked="" type="checkbox"/> 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 10% of sustainable investments <ul style="list-style-type: none"> <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input checked="" type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with a social objective
<input type="checkbox"/> It will make a minimum of sustainable investments with a social objective: ___%	<input type="checkbox"/> It promotes E/S characteristics, but will not make any sustainable investments

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 social characteristics promoted by the Fund consist of, inter alia, in the reduction of greenhouse gas emissions and gender diversity.

As further described in section "What investment strategy does this financial product follow?" below, the Investment Manager seeks to attain these characteristics by:

- excluding certain issuers and sectors considered by the Investment Manager as harmful for the society,
- favoring issuers with a good environmental, social and governance (the "ESG") profile, as captured by its proprietary ESG methodology,
- engaging with issuers which are considered as underperformers in terms of specific ESG metrics.
- The Fund has a minimum allocation of 10% of its portfolio to sustainable investments with an environmental objective. The Fund does not commit to a minimum allocation of its portfolio to sustainable investments with a social objective.

No reference benchmark has been designated with the purpose of attaining the environmental or social characteristics promoted by the Fund.

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 by the financial product are:

- exposure to companies with alignment to the United Nations Sustainable Development Goals (the "UN SDGs");
- number of investee companies with which the Investment Manager engages;
- share of investee companies rated 1 (exceptional), 2 (above average), 3 (average), 4 (poor) by the Investment Manager's proprietary ESG methodology;
- share of investee companies with GHG Intensity score in the bottom 20% of their industry sector, and
- share of investee companies with no females on the board of directors.

● **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 sustainable investments of the Fund comprise equity securities issued by companies which contribute, through their products or services, to environmental objectives linked to the UN SDGs.

● **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?**

Industry relevant impact indicators are compared to peers and the broad investment universe to identify potentially significant positive and negative impacts. The Investment Manager identifies pertinent and significant sustainability risks and uses its own qualitative judgement when reviewing the PAIs indicator data, where available, to assess whether investments cause any significant harm.

In addition, the Fund applies exclusions that further reduce the likelihood of issuers causing significant harm to be invested by the Fund.

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

When assessing compliance of the Fund's sustainable investments with the DNSH principles, the Investment Manager takes into account all mandatory PAI indicators of Table 1 of Annex I of the SFDR Regulatory Technical Standards ("RTS"), to the extent they are relevant for the investments contemplated by the Fund and other data points deemed by the Investment Manager as proxies for adverse impact. The Investment Manager performs 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 in breach of 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? Details:*

The Fund does not invest in companies that, according to MSCI, do not observe the main international conventions (United Nations Global Compact principles the "UNGC Principles", Organisation for Economic Cooperation and Development (the "OECD") Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights).

Exceptions can only be made after formal review of alleged violations has been carried out and where the Investment Manager either disagrees with the conclusion that the company is complicit in violations of the principles of such conventions or has determined that the company has made and implemented positive changes deemed satisfactory to appropriately address the deficiency/violation. The severity of the violation, response, frequency, and nature of the involvement are considered in making a judgement on whether the company observes such international conventions.

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.



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.

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

Yes,

The following PAIs are considered by the Fund:

- **greenhouse gas intensity;**
- **board gender diversity;**
- **UNGC Principles and OECD Guidelines violations;**
- **controversial weapons.**
- **Greenhouse gas intensity**

Companies scoring in the bottom quintile vs peers, and with a level greater than half that of the MSCI Europe Small-Mid Cap Index, on the PAI of greenhouse gas intensity Scope 1 and 2 are addressed through engagement, with a requirement to make improvements or establish an emissions reduction target or move out of the bottom quintile over a 3-year timeframe. In case no improvement after 3 years, the Investment Manager will look to make use of a wide range of options, from voting against the company at AGMs to selling the shares, taking due account of the interests of the Shareholders.

The Fund targets decreasing greenhouse gas intensity and emissions reduction targets, engaging with companies to encourage them to align their business models with net-zero goals, set emission reduction targets and disclose their climate change strategies.

- **Board gender diversity**

Companies with no females on the board are addressed through engagement, with a requirement to add a female board member over a 3-year timeframe. In case of no improvement after 3 years, the Investment Manager will look to make use of a wide range of options, from voting against the company at AGMs to selling the shares.

- **Violations of UNGC Principles or OECD Guidelines for Multinational Enterprises**

The Fund excludes from its portfolio investments in companies which have been involved in violations of UNGC Principles or OECD Guidelines for Multinational Enterprises.

- **Exposure to controversial weapons**

The Fund excludes from its portfolio investments in companies involved in the manufacture or selling of cluster munitions, antipersonnel land mines, biological and chemical weapons.

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

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 Fund seeks to achieve its investment objective by investing principally in equity and equity-related securities (including warrants and convertible securities) of small and mid-cap European companies.

The Investment Manager considers that Environmental, Social and Governance (ESG) factors can have a material impact on a company's current and future corporate value, and therefore ESG considerations are an integral component of its fundamental investment research and decision process. The Investment Manager employs a binding proprietary ESG methodology which is applied to all the equity holdings of the Fund (except for derivatives, ancillary liquid assets, bank deposits, money market instruments and money market funds) to determine a company's profile on relevant environmental, social, and governance issues. As a result, at least 90% of the Fund's portfolio will be covered by the ESG methodology.

The Investment Manager evaluates the companies which may be potential investment for the Fund and assigns an overall ESG score based on quantitative and qualitative considerations such as, but not limited to (E) characteristics (greenhouse gas emissions, energy use, climate change, waste, pollution, and natural resource conservation), (S) characteristics (board gender diversity, human rights, labour standards, employee engagement, community relations, data protection and privacy) and (G) characteristics (company's leadership, degree of independent directors, executive pay, independent audits, internal controls, and shareholder rights).

The score assigned to the issuers by the Investment Manager is based on the proprietary ESG methodology which assesses the sustainability profile of a company and comprises five grades: 1 (exceptional), 2 (above average), 3 (average), 4 (poor) and 5 (unacceptable). The Investment Manager's ESG approach includes regular dialogue with companies, monitoring material ESG issues and voting proxies.

The Fund will invest in companies that score a maximum of 3 as per this internal ESG assessment and may only invest in companies scored 4 subject to the active engagement of those companies to drive an improvement. Companies scored 5 or those not scored due to the relevant companies not meeting the Investment Manager's fundamental criteria are excluded from the Fund's portfolio.

The Fund will also invest in companies that contribute to better environmental and social outcomes through their products and services and operational management.

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

- Repeatedly and/or seriously violate the United Nations Global Compact Principles; or
- Manufacture or distribute controversial weapons defined as anti-personnel mines, biological & chemical weaponry and cluster munitions or those that manufacture components intended for use in such weapons.

- ***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, which are not at the discretion of the Investment Manager, can be summarized as follows:

- the exclusion of companies scoring 5 according to the Investment Manager's proprietary ESG methodology;
- the commitment to engage with companies scoring 4, according to the Investment Manager's proprietary ESG methodology;
- the application of the ESG exclusions further described in the section "What investment strategy does this financial product follow?" of this annex.

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

Not applicable.

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.

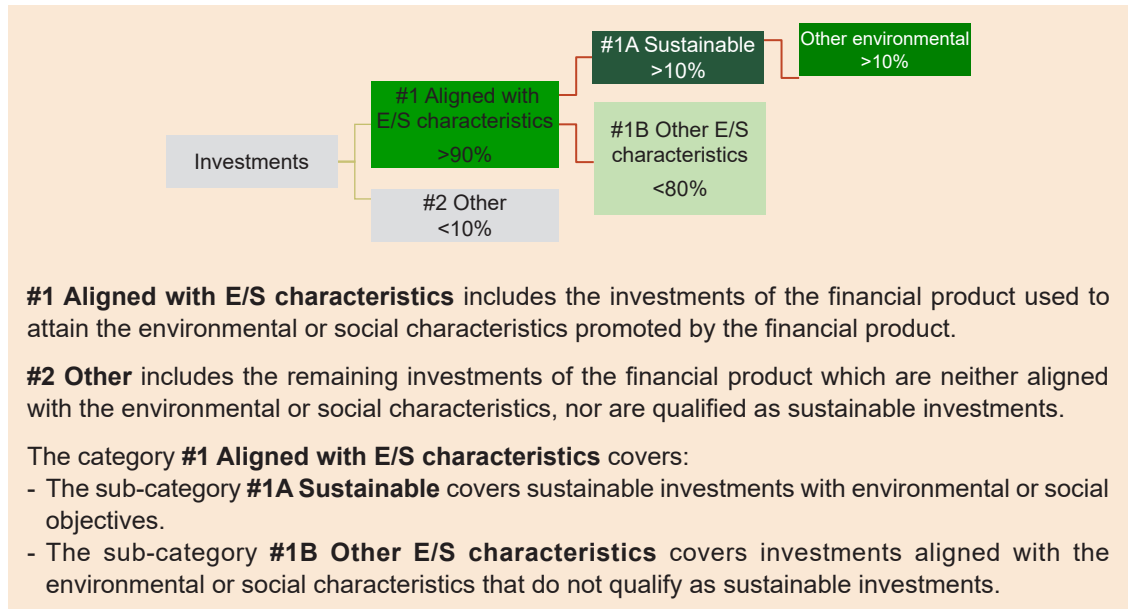
● **What is the policy to assess good governance practices of the investee companies?**

The Investment Manager's analysts review if companies exhibit good governance practices in their analysis, including a review of board structure and independence, remuneration policy, accounting standards and shareholder rights. The Investment Manager also considers items such as employees' turnover, training, diversity, pay gap and controversies, as well as tax related issues such as gap between statutory and effective rates and controversies.

What is the asset allocation planned for this financial product?

The Investment Manager employs a binding proprietary ESG methodology which is applied to at least 90% of the portfolio to determine a company's profile on relevant environmental, social, and governance issues, which constitutes the portion in the Fund's portfolio which is aligned with environmental and social characteristics as illustrated in the chart below. A maximum of 10% of the portfolio may be set aside, indicated in the following graph with "#2 Other". It includes liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds) held for liquidity purposes that, by their nature, cannot be aligned with the environmental and social characteristics promoted by the Fund, as well as derivatives used for hedging and efficient portfolio management purposes.

Furthermore, out of the 90% of the portfolio aligned with environmental and/or social characteristics, the Fund will invest a minimum of 10% of its portfolio in sustainable investments with environmental objective.



● **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.

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.

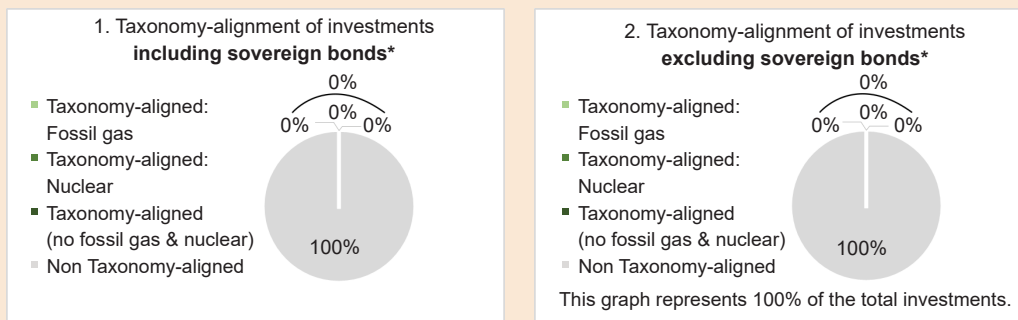
Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

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

● **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy³⁹?**

- 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.

● **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 commits to a minimum 10% of sustainable investments with an environmental objective aligned with SFDR in its portfolio. These investments could be aligned with the EU Taxonomy, but 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 underlying rules are finalized and the availability of reliable data increases over time.



● **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 investments in liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds) held for liquidity purposes, as well as derivatives used for hedging and efficient portfolio management purposes.

The Investment Manager applies minimum environmental safeguards by verifying that the counterparties used for derivative transactions and placement of deposits meet the EU Taxonomy

³⁹ 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.

Safeguards, as assessed by MSCI. Counterparties not meeting such criteria will not be used by the Fund.



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?

Not applicable.

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/2878/BC/templeton-european-small-mid-cap-fund/LU0889564190>

Specific disclosure required under Article 10 of SFDR for the Fund can be found at: www.franklintempleton.lu/2878