Sustainability principles: Our approach to value creation

2025

Introduction: A Principles-based Approach to Sustainability

At Franklin Templeton, our core purpose is to help our clients reach their financial goals. We have a fiduciary duty to our clients which requires us to manage assets with prudence, loyalty and care, and our approach to creating value is grounded on the view that integration of financially material sustainability factors into the investment process is essential to fulfilling our objective of providing repeatable risk-adjusted returns, particularly over the long term.

These *Sustainability Principles outline* the philosophy and general approach to consideration of sustainability related risks and opportunities, where relevant,[1] that are shared across our investment teams.[2]

"Sustainability factors" are matters considered within the investment process that are related to understanding sustainability related risks and opportunities. These factors can have a material impact on the value of companies and securities given their implications for a myriad of risks – such as regulatory, reputational, litigation and technological risks – and their potential to highlight opportunities – such as identifying those issuers better placed to benefit from emerging technologies, changing regulation, and evolving consumer habits. With this understanding, we aim to integrate sustainability factors into our investment processes and stewardship practices for all relevant products.

These *Sustainability Principles* provide an overview of common themes across our investment teams (subject to exceptions noted in this document) and have the flexibility to accommodate a number of distinct investment approaches to integrating sustainability factors in a manner consistent with their respective investment philosophies.

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1. Firm-level Approach to Sustainability Factors

1.1. Approach and Practices

Sustainability considerations have grown in importance across increasingly complex global markets. Evolution in regulations and accounting standards have highlighted the necessity for sound governance practices and underscored the merits of transparency around how financially material risks and opportunities are considered and addressed.

As a global investment manager with a rich history of over 75 years as a fiduciary, Franklin Templeton is committed to strengthening our capabilities supporting the consideration of financially material sustainability related risks and opportunities across our platforms.

Our Sustainability Framework Principles

Our client-centric approach to sustainability is aligned with our fiduciary duty and rooted in the following core principles:

- **Accountability:** To hold others accountable, we must also hold ourselves accountable for good stewardship and sustainability practices.

1 Some of our strategies may not consider sustainability risks, such as index-based products, products based on systematic strategies which do not include sustainability-based rules in the investment decision making process, and products whose sole objective is to invest in the securities of a single issuer such as the US Government.

2 Across Franklin Templeton, investment teams are organized into distinct units known as "Specialist Investment Managers" (SIMs), each with their own brand and investment specialty.

- **Integration:** Sustainability considerations and stewardship focused on financially material factors are integral to the investment process.

We have embedded sustainability resources across our investment teams.

- **Scale:** Our investment teams benefit from leveraging our scale through access to sustainability resources and participating in internal forums for collaboration.
- **Governance:** Strong oversight and governance across the company and the investment organisation are imperative.

Through these core principles, we ensure that we have the capabilities to cater to varied client needs.

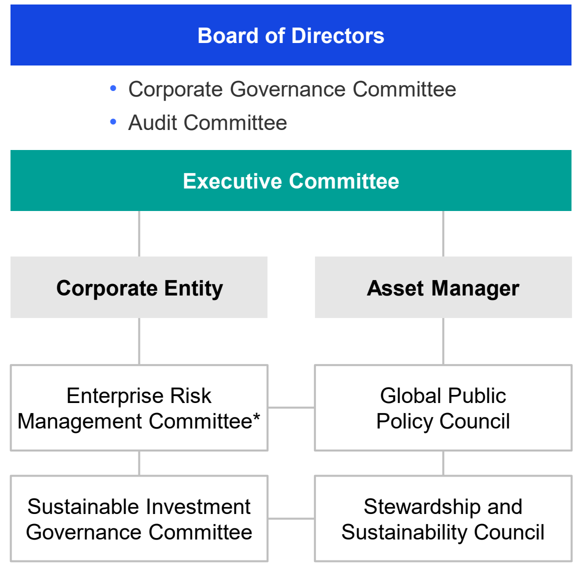
Client investment goals and objectives always come first. We are stewards of our clients' assets and, when exercising our investment discretion on their behalf, we always do so in accordance with the client's instructions and any investment objectives and guidelines. For some clients, guidelines direct us to specifically consider certain sustainability factors. In cases where guidelines have no such specification, our investment process may include consideration of sustainability factors, alongside other investment factors, to the extent they represent risks and opportunities which may be material to the investment's valuation and ability to generate long-term returns for the client.

Independent investment processes are supported by centralized resources. Each investment team retains independence in their investment decision-making and identification of investment risks and opportunities in order to provide our clients with the opportunity to build diversified portfolios. This includes unique approaches to considering and managing portfolio risks, including sustainability related risks and opportunities.

Board Governance

Consideration of financially material sustainability factors is a common theme across many of our investment teams' fundamental bottom-up research processes, and these research efforts are supported by thought leadership and sharing of best practices by our **Stewardship & Sustainability Council** ("the Council"). The Council brings together leaders in stewardship and sustainable investing from across our investment teams, covering every asset class and strategy range. It is led by two co-chairs and comprises council members representing our different investment teams.

Our investment teams and the Council are also supported by the dedicated Investment Sustainability Solutions Team ('ISST') which is comprised of sustainability specialists across data and research, policy and reporting, and stewardship. Their role is to:



* Reports to Audit Committee of the Board.

- engage and support investment teams and the wider business to evaluate the impact and scope of financially material sustainability issues and advise on emerging sustainability trends;
- enhance investment teams' ability to analyze sustainability issues by incorporating sustainability data, research and analytics;
- evaluate current research practices related to sustainability issues and support investment teams as necessary in refining stewardship and sustainability related aspects of their investment processes;
- ensure investment teams have access to decision-useful research and third-party perspectives on the latest sustainability related voting issues, and support sustainability related engagements with research and expertise;
- track sustainability reporting requirements for the markets in which we invest; and
- provide policy and reporting resources around project management for both corporate and product-level reports.

The ISST supports our investment teams as they seek to gain a deeper and more comprehensive understanding of the potential sustainability related risks and opportunities associated with their investments.

1.2. Sustainability Risks and Opportunities

Our definition of "sustainability risk" is aligned with the European Commission's Action Plan on Sustainable Finance and its Sustainable Finance Disclosure Regulation (SFDR), which defines "sustainability risk" as an environmental, social or governance ("ESG") event or condition that, if they occur, could cause an actual or a potential material negative impact on the value of an investment. Our investment teams have, where relevant to their investment mandate, integrated sustainability risks as a subset of broader risks that could cause an actual or potential material negative impact on the value of an investment.

These risks may include environmental risks such as potential physical risks resulting from climate change, and the impacts of significant damage due to increasingly erratic and potentially catastrophic weather phenomena. As the frequency of extreme weather events increases, the potential exposure to the portfolios we manage increases as well. Climate change also poses a financially material risk to investors due to transition risks impacting issuer business models. This may include regulatory reforms and developments, technological advancements, market-related risks and reputational risks.

Examples of social factors that may materially impact investment value include labor management practices that affect workplace safety and supply chains.

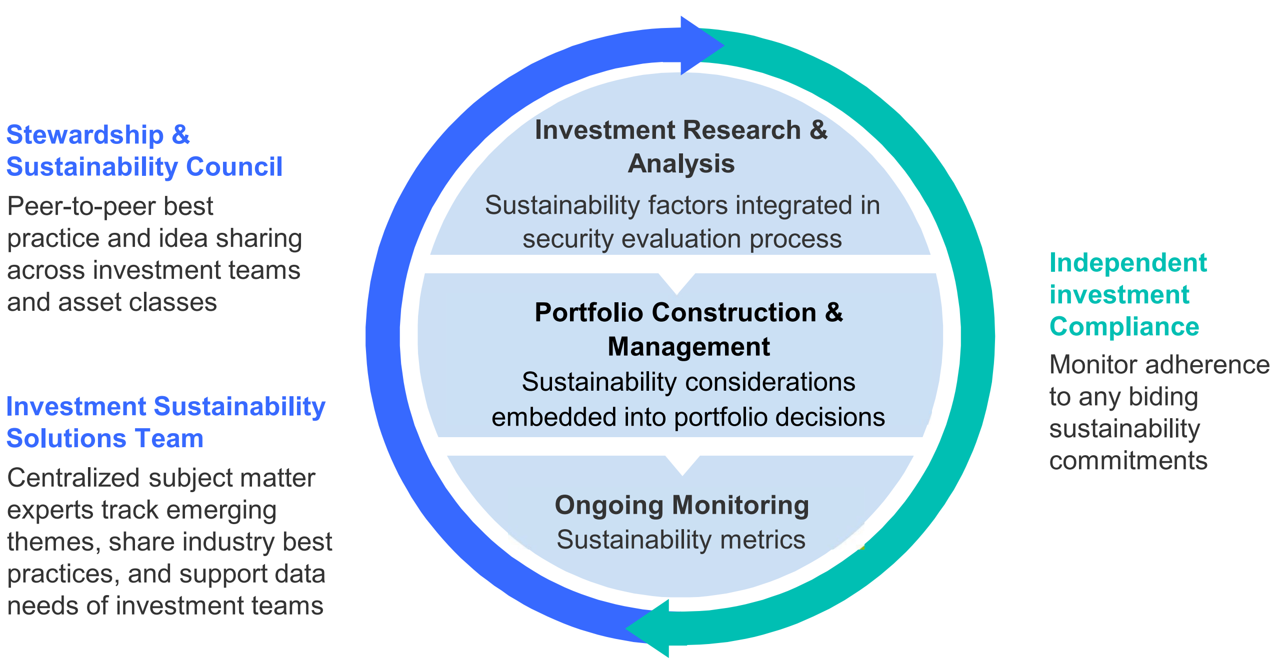
Governance factors such as oversight of international agreements or human rights issues – breaches of which could result in litigation, regulatory and/or reputational risks – may also translate into sustainability risks that could negatively impact the value of the investments that we make on behalf of our clients. Where these risks are relevant and financially material to the issuer, they will be considered as part of our investment process and, where engagement is a feature of the strategy, we may raise such risks in dialogue with issuers with a view to better managing them.

We recognize that integration of sustainability considerations into our investment processes allows us to consider not only risks but also opportunities to create value and to more robustly evaluate the impacts and outcomes of our investment decisions. That is why we have worked towards a vision where sustainability is considered at a more fundamental level, alongside traditional financial factors. We support our investment teams in integrating financial, human and natural capital into their valuation models, as appropriate for their style and mandate.

Exceptions

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

- Index-based products, unless sustainability risks are integrated in the index methodologies, cannot consider such risks as part of achieving the investment objective of tracking the index;
- products based on systematic strategies which do not include sustainability-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.



1.3. Investment Research & Analysis

Integration generally begins with our investment analysts considering financially material sustainability risks and opportunities as part of their research and analysis. Our investment management groups, each with their independent investment processes, determine the research inputs that are included in their research process and weighted in their investment decisions using their respective frameworks.

Analysts may 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 sustainability; supranational organizations, think tanks and non-governmental organizations; academic papers and government studies; independent and broker research; current and historical news; and company, industry and country statistics and trends.

1.4. Portfolio Construction & Monitoring

Our investment teams evaluate the research inputs that go into the construction of the portfolio. As part of their research activities, analysts are responsible for monitoring any financially material sustainability risks and opportunities relevant to their analysis of a particular security and investment mandate. Our investment teams also conduct post-investment monitoring on an ongoing basis. For products which contain binding sustainability requirements, the Investment Compliance group will monitor such requirements within our order management system.

2. Integration of Sustainability Factors

We take a variety of different routes to achieve effective integration to best fit the investment approach of our teams and the needs of their clients. Our investment teams have independence to create their own frameworks and tools to support their own sustainability research and monitoring, with approaches differing depending on asset class and investment approach.

The Chief Investment Officer for each SIM is responsible for overseeing the development and implementation of their team's policies on sustainability integration and stewardship. The portfolio managers and investment analysts have responsibility for the day-to-day implementation of these policies.

The Investment Sustainability Solutions Team (ISST) works closely with the investment teams to support the integration of financially material sustainability factors in the investment process through data and research provision, sustainability education, and education and support on integrating specific sustainability factors into the investment process. The ISST reports through to the Head of Public Markets Investments, who is a member of the Franklin Resources Executive Committee.

The Global Head of Sustainability provides oversight of Franklin Templeton's sustainability framework, and the ISST periodically updates these Sustainability Principles as needed.

3. Stewardship

Stewardship is the responsible management of the assets entrusted to our care and includes engagement with companies and other issuers of the securities in which we invest. We consider stewardship and the integration of financially material sustainability factors into investment analysis to be an integral part of our fiduciary duty to our clients and their beneficiaries. Our stewardship approach is guided by *Franklin Templeton's Stewardship Principles* and supported by annual reporting.

3.1. Proxy Voting

Proxy voting decisions may affect the value of shareholdings, and we are committed to fulfilling our fiduciary duty to vote proxies in the best interests of our clients. Our investment teams' respective 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 sustainability issues.

Investment teams may support shareholder proposals where the request is deemed to be in line with our policies to protect our clients' best interests, and with the proponent clearly demonstrating that the requested actions are material to long-term value. We vote on each proposal individually based on its merits.

Our investment teams may subscribe to independent third-party corporate governance research services that provide in-depth analyses of shareholder meeting agendas. Investment teams exercise their independent judgment in making voting decisions using all available information and in a way that best fulfils their fiduciary duty to clients. To provide transparency for our clients, our 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.

3.2. Engagement

Franklin Templeton's multi-manager model features investment teams that offer distinct investment perspectives and processes. Each manager brings specific expertise in their respective asset classes, spanning both public and private markets, and this focus informs our approach to engagement.

Engagement is led by our investment teams, primarily by the portfolio managers and investment analysts monitoring and considering financially material sustainability issues, alongside other factors, as part of their research processes. Teams may also collaborate with other institutional investors to engage with portfolio companies, policy makers and regulators 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.

Our engagement activities extend 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 we believe 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 serves two primary purposes. We use engagement to support the building of our investment thesis, as the information obtained helps our investment case become more granular and nuanced, supporting an active approach. We also use engagement to effect change where it supports enhanced investment returns for our clients. As long-term investors, we generally undertake engagement in a spirit of partnership and aim to work with companies and other issuers in which we invest to understand and address any 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 will depend on various factors, including the size of the company or complexity of the debt, the ownership level, the financial materiality of any issue and the scale of our investment. We generally evaluate each situation individually, rather than adopting rigid guidelines on when and how to escalate sustainability engagement activities.

At their discretion, portfolio managers and investment analysts select the engagement approach(es) that will be most appropriate and effective for each situation. Typically, within each investment team, investment analysts, portfolio managers, Directors of Research and CIOs will work together to form a case-by-case judgment of how best to proceed in the given 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.

4. Memberships and Affiliations

Franklin Templeton is a signatory to a number of regional stewardship codes which affirms our commitment to be an active and engaged owner and to consider financially material sustainability factors as part of our fiduciary duty. In addition, we participate in various global and regional associations in order to contribute to discourse and improvements in the legal and regulatory environment in which we and our portfolio investments operate.

Please refer to *http://www.franklinresources.com* for a list of organizations and initiatives of which we are a member, supporter or signatory.

5. 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 Principles
- Annual Stewardship Report
- Controversial Weapons Policy
- Regional Stewardship Code Statements
- PRI Public Transparency Report

6. Exceptions

This document aims to provide a high-level overview of how our investment teams approach the consideration of financially material sustainability factors. Each investment team has its own investment style suitable for their respective asset class, and these Sustainability Principles may have varying relevance for a particular investment team. Ultimately, the integration of sustainability factors into a given product/service depends upon the applicable investment guidelines.

Investors should refer to the detailed sustainability related disclosures in the relevant product/service documentation and to the published sustainability related policies of the investment team involved. Not all products have sustainability related objectives and not all products consider sustainability risks as relevant to the product strategy or design.

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