

Franklin Templeton ICAV

Franklin Euro Short Maturity UCITS ETF

20 May 2025

(A sub-fund of Franklin Templeton ICAV, an Irish collective asset-management vehicle constituted as an umbrella fund with segregated liability between sub-funds with registered number C167746 authorised by the Central Bank of Ireland pursuant to the UCITS Regulations).

This Supplement (the “Supplement”) forms part of the Prospectus dated 20 May 2025 (the “Prospectus”) in relation to Franklin Templeton ICAV (the “Fund”) for the purposes of the UCITS Regulations. This Supplement should be read in the context of, and together with, the Prospectus and contains information relating to the Franklin Euro Short Maturity UCITS ETF (the “Sub-Fund”) which is a separate sub-fund of the Fund.

The Sub-Fund is an Actively Managed Sub-Fund.

Prospective investors should review this Supplement and the Prospectus carefully and in their entirety and consider the risk factors set out in the Prospectus and in this Supplement before investing in this Sub-Fund. If you are in any doubt about the contents of this Supplement, you should consult your stockbroker, bank manager, solicitor, accountant and/or financial adviser.

The Directors, as listed in the “*Management*” section of the Prospectus accept responsibility for the information contained in this Supplement. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly.

Unless otherwise defined herein or unless the context otherwise requires, all defined terms used in this Supplement shall bear the same meaning as in the Prospectus.

Base Currency	Euro.
Benchmark	ICE BofAML 0-1 Year Euro Broad Market Index (EMUA).
Business Day	As stated in the Prospectus, a day on which markets in the United Kingdom are open and/or such other day or days as the Directors may determine and notify in advance to Shareholders provided that there shall be at least one Dealing Day per fortnight.
Dealing Day	Every Business Day excluding for the Sub-Fund, any day on which any exchange or market, on which 25% or more of the Sub-Fund's investments are traded, is closed, to ensure that dealing in the Sub-Fund's shares will only take place when the markets on which substantially all of the Sub-Fund's investments are traded are open (provided that a list of such closed market days in respect of the Sub-Fund will be available to Shareholders upon request from the Administrator) and/or such other day or days as the Directors may determine and notify to the Administrator and to Shareholders in advance, provided there shall be at least one Dealing Day per fortnight.
Dealing Deadline	For cash subscriptions and redemptions, 1pm (Irish time) on each Dealing Day. For in-kind subscriptions and redemptions, 1pm (Irish time) on each Dealing Day.
Dealing NAV	The Net Asset Value per Share calculated as at the Valuation Point on the relevant Dealing Day.
Investment Manager	Franklin Advisers Inc and Franklin Templeton Investment Management Limited.
Settlement Deadline	For cash and in kind subscriptions, appropriate cleared subscription monies/securities must be received by the second Business Day after the Dealing Day, or such earlier or later date as may be determined by the Fund and notified to Shareholders from time to time.
Shares Available	Currently two classes of ETF Shares are available for subscription. Please see the " <i>Summary of Shares</i> " section below.
TER	Up to 0.15% of the Net Asset Value per annum. However, until 31 December 2023, the TER is subject to a fee waiver of 0.10% of the Net Asset Value, with the result that the effective TER until that date will be up to 0.05% of the Net Asset Value per annum. The waiver will expire on 1 January 2024. Further information is set out in the " <i>Fees and Expenses</i> " section of the Prospectus.
Valuation	The Net Asset Value per Share is calculated in accordance with the " <i>Determination of Net Asset Value</i> " section of the Prospectus, using the latest mid-market prices.
Valuation Point	The Sub-Fund calculates its Net Asset Value at 4pm New York time on each Business Day.
Website	www.franklintempleton.com

INVESTMENT OBJECTIVE AND STRATEGY

Investment Objective. The objective of the Sub-Fund is to provide income whilst maximising total returns in the Euro-denominated short term fixed income market.

Investment Policy. The Sub-Fund seeks to achieve its investment objective by investing primarily in Euro-denominated short-term debt securities and investments as described below. For the avoidance of doubt, investors should note that the Sub-Fund will not seek to track the performance of the Benchmark, rather the Sub-Fund will hold a portfolio of actively selected and managed investments. The Benchmark has been included as a point of reference against which the performance of the Sub-Fund may be measured.

The Investment Manager will look to maintain capital and liquidity, whilst maximising total returns and income, by investing in short-term fixed and floating rate debt securities and debt obligations (as described below) issued by sovereign and corporate issuers, including non-European issuers, which are denominated in Euro and rated investment grade or, if unrated, are considered by the Investment Manager to be of comparable quality. The Sub-Fund may also hold a maximum of 20% of its Net Asset Value in low-rated, non-investment grade and / or defaulted debt securities or obligations.

The Sub-Fund may invest up to 20% of its Net Asset Value in collateralised debt obligations (“CDOs”) and collateralised loan obligations (“CLOs”), as well as other asset backed securities, mortgage backed securities, contingent convertible bonds, hybrid and convertible securities, credit linked and equity linked securities (such as equity-linked notes, credit-linked notes and options) and perpetual bonds. CDOs, CLOs, asset backed securities, mortgage backed securities and perpetual bonds will not embed derivatives or generate leverage. Contingent convertible bonds, hybrid and convertible securities and credit linked and equity linked securities may embed derivatives and, therefore, leverage.

ESG factors are an important component of the Investment Manager’s corporate credit research process, combining bottom-up fundamental credit analysis with a review of any material ESG factors including, for example, environmental risks, such as pollution caused by mining, energy and industrial issuers, societal risks like mis-selling of products to consumers by financial issuers and governance risks such as the structuring of bonds and internal compliance procedures to protect investors, to arrive at a holistic assessment of issuers’ credit strengths, weaknesses and potential risks. The Investment Manager’s analysts may work with issuers presenting specific carbon emissions, water and wastewater issues so as to improve the risk-management that they apply in these areas.

The Investment Manager on behalf of the Sub-Fund employs a proprietary environmental, social and governance (ESG) rating methodology with the aim of avoiding investment in companies and countries that are lagging in the transition to support a low-carbon economy. The ESG rating methodology is applied to at least 90% of issuers in the Sub-Fund’s portfolio and is binding for the portfolio construction.

In relation to corporate issuers, the Sub-Fund uses a combination of external and internal data inputs to determine ‘climate transition performance,’ (i.e. the extent to which an issuer is responding to the threat of climate change, for example by engaging in a combination of decarbonisation of products and services, establishing low or no emissions infrastructure and reducing or eliminating reliance on fossil fuels, including revenue generated from fossil fuels), including but not limited to issuers’ direct emissions trajectory relative to peers, decarbonisation of its product and services portfolio and assessing of opportunities in clean technology and energy. In relation to sovereign issuers, the Sub-Fund uses a combination of

data inputs to determine 'climate transition performance,' including environmental risk exposure and environmental risk management. These include data relating to energy resource management, resource conservation, water resource management, environmental performance, management of environmental externalities, energy security risk, productive land and mineral resources, vulnerability to environmental events and environmental externalities.

Using the results of these determinations, the Sub-Fund will exclude issuers in each category (i.e. sovereign and corporate) that score in the bottom 20% in each respective investment universe from its portfolio.

In addition to the exclusions listed in the "*Sustainable Finance*" section of the Prospectus, the Sub-Fund also seeks to avoid investing in securities issued by issuers which meet one or more of the following criteria, as determined by unaffiliated third-party research services:

- Repeatedly and seriously violate the [United Nations Global Compact](#) principles such as
 - ☐ Protection of international human rights
 - ☐ No complicity in human rights violations
 - ☐ Respect for freedom of association and the right to collective bargaining
 - ☐ Elimination of forced labour
 - ☐ Abolition of child labour
 - ☐ Elimination of discrimination in respect of employment and occupation
 - ☐ Applying the precautionary principle in dealing with environmental problems / approaching environmental challenges
 - ☐ Promoting greater environmental awareness / responsibility
 - ☐ Development and dissemination / diffusion of environmentally friendly technologies
 - ☐ Working against corruption in all its forms
 - ☐ Insufficient scoring according to the Freedom House Index for sovereign issuers (<https://freedomhouse.org/report/freedom-world/freedom-world-2018>)
- Manufacture military equipment and/or controversial weapons - those that are defined as being indiscriminate – or manufacture components intended for use in such weapons.
- Manufacture tobacco or tobacco products or derive more than 5% of revenue from such products.
- Derive unacceptable levels of revenue from the most polluting fossil fuels (5% of revenue from thermal coal extraction or 10% of revenue from unconventional oil and gas extraction).

- Fall short of the Investment Manager's threshold level for using lower-carbon fossil fuels.
- Exceed Investment Manager's tolerance levels of fossil fuels used to generate electricity.

The Sub-Fund may for efficient portfolio management purposes, use FDI in order to hedge various investments, for risk management purposes and / or to seek to increase income or gain to the Sub-Fund. The Sub-Fund may also use FDI for investment purposes. These FDI may be either dealt on regulated markets or over-the-counter and will comprise swaps (interest rate swaps, credit default swaps and fixed income related total return swaps), futures contracts, options on such instruments, swaptions and credit-linked notes. Any use of FDI for these purposes, are described under "*Use of Financial Derivative Instruments*" in the "*Investment Techniques*" section of the Prospectus. The global exposure relating to FDIs will not exceed 100% of the Sub-Fund's Net Asset Value.

The securities in which the Sub-Fund invests will be primarily listed or traded on Recognised Markets in Europe in accordance with the limits set out in the UCITS Regulations. The Sub-Fund may hold ancillary liquid assets (repurchase agreements, deposits and commercial paper) in accordance with the UCITS Regulations. The Sub-Fund may also invest in other regulated, open-ended collective investment schemes as described under "*Investment in Collective Investment Schemes*" in the "*Investment Techniques*" section of the Prospectus where the objectives of such funds are consistent with the objective of the Sub-Fund.

As at the date of this Supplement, the expected proportion of the Net Asset Value of the Sub-Fund that could be subject to total return swaps is 20%. The expected proportion is an estimate only and the actual percentage may vary over time depending on various factors such as, but not limited to, any deviation from normal market conditions. The maximum proportion of the Net Asset Value of the Sub-Fund that could be subject to such transactions is 20%.

The expected proportion of the Net Asset Value of the Sub-Fund that could be subject to repurchase agreements is 20%. The expected proportion is an estimate only and the actual percentage may vary over time depending on various factors such as, but not limited to, any deviation from normal market conditions. The maximum proportion of the Net Asset Value of the Sub-Fund that could be subject to such transactions is 50%.

SUSTAINABLE FINANCE

As described above, the Sub-Fund seeks to promote environmental and social characteristics, within the meaning of Article 8. Investors should also refer to the Annex to this Supplement and the "*Sustainable Finance*" section of the Prospectus for further details on how the Investment Manager addresses Sustainability Risk and ESG Integration for the Sub-Fund.

SECURITIES LENDING

The expected proportion of the Net Asset Value of the Sub-Fund that could be subject to securities lending transactions is 25% and is subject to a maximum of 45%. The expected proportion is an estimate only and the actual percentage may vary over time depending on various factors such as, but not limited to, any deviation from normal market conditions.

INVESTMENT RISKS

Investment in the Sub-Fund carries with it a degree of risk including the risks described in the "*Risk Considerations*" section of the Prospectus. The "*Principal Risks*" section describes the

risks that relate generally to the Sub-Fund, whereas the “*Specific Risks*” section describes the risks associated with the investment strategy and techniques that may be employed by a given Sub-Fund. For this Sub-Fund, the Specific Risks that are relevant to the investment objective and strategy of this Sub-Fund include the following:

Specific Risks relevant to the Sub-Fund:

Active Investment Risk.

Collateralised Debt Obligation Risk.

Convertible and Hybrid Securities Risk.

Corporate Debt Securities Risk.

Counterparty Risk.

Europe and Eurozone Risk.

Futures Contracts and Other Exchange-Traded Derivatives Risk.

Mortgage and Asset-Backed Securities Risk.

Over-the-Counter Derivatives Risk.

Regional Market Risk.

Repurchase and Reverse Repurchase Transaction Risk.

Structured Notes Risk.

Sustainability Risk.

Variable and Floating Rate Securities Risk.

These risks are not intended to be exhaustive and potential investors should review the Prospectus and this Supplement carefully and consult with their professional advisers before purchasing Shares.

The Sub-Fund is not expected to have an above average risk profile or high volatility as a result of its use of FDIs. For information in relation to risks associated with the use of financial derivative instruments, please refer to “*Derivatives Risk*” in the “*Risk Considerations*” section of the Prospectus.

It is important to note that the Sub-Fund is not a money market fund and is not subject to the special regulatory requirements (including maturity and credit quality constraints) designed to enable money market funds to maintain a stable share price.

INVESTOR PROFILE

Typical investors in the Sub-Fund are expected to be institutional and retail investors who want to gain broad market exposure to Euro-denominated short term bonds by way of an exchange traded fund.

DIVIDEND DISTRIBUTIONS

Subject to Net Income being available for distribution and any de minimus threshold, it is the current intention of the Directors to declare dividends out of the Net Income in respect of Shares in the Distributing Class. Under normal circumstances, the Directors intend that dividends shall be paid annually. Please refer to the Website for further information on the dividend payment dates. However, Shareholders should note that the Directors may, in their discretion, decide not to make such payment in respect of the Shares. Net Income in respect of the Accumulating Class will be retained and reflected in the Net Asset Value per Share of the Accumulating Class.

SUBSCRIPTIONS – PRIMARY MARKET

Shares in the Accumulating Class and the Distributing Class, each denominated in Euro, are available in the Sub-Fund (the "**Shares**").

Shares will be issued on each Dealing Day at the Dealing NAV with an appropriate provision for Duties and Charges in accordance with the provisions set out below and in the Prospectus. Authorised Participants may subscribe for Shares for cash or in kind on each Dealing Day by making an application by the Dealing Deadline in accordance with the requirements set out below and in the "*Purchase and Sale Information*" section of the Prospectus. Consideration, in the form of cleared subscription monies/securities, must be received by the applicable Settlement Deadline.

REDEMPTIONS

Shareholders may effect a redemption of Shares on any Dealing Day at the appropriate Dealing NAV, subject to an appropriate provision for Duties and Charges, provided that a written redemption request is signed by the Shareholder and received by the Administrator by the Dealing Deadline on the relevant Dealing Day, in accordance with the provisions set out in this section and at the "*Purchase and Sale Information*" section of the Prospectus. Settlement will normally take place within two Business Days of the Dealing Day but may take longer depending on the settlement schedule of the underlying markets. In any event, settlement will not take place later than 10 Business Days from the Dealing Deadline.

CONVERSIONS

Shares in either Class in the Sub-Fund may be converted for shares in the other Class in the Sub-Fund on the terms set out under the "*Conversions*" heading in the "*Purchase and Sale Information*" section of the Prospectus but may not be converted for shares in another Sub-Fund.

LISTING

Shares in the Distributing Class have been admitted to each of the Deutsche Börse Xetra, the London Stock Exchange, the Borsa Italiana and the SIX Swiss Exchange. Shares in the Accumulating Class have been admitted to each of the Deutsche Börse Xetra and the Borsa Italiana.

SUMMARY OF SHARES

SHARE CLASSES AVAILABLE

SHARE CLASS TYPE	SHARE CLASS NAME	SHARE CURRENCY	CLASS ISIN
Accumulating Class	Franklin Euro Short Maturity UCITS ETF (Acc)	Euro	IE000STIHBQ2
Distributing Class	Franklin Euro Short Maturity UCITS ETF (Dis)	Euro	IE00BFWXDY69

Additional Sustainable Finance Disclosure

Product name: Franklin Euro Short Maturity UCITS ETF Legal entity identifier: 549300WLCPUYKVK0X09

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?



Yes



No



It will make a minimum of sustainable investments with an environmental objective: ____%



in economic activities that qualify as environmentally sustainable under the EU Taxonomy



in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy



It will make a minimum of sustainable investments with a social objective: ____%



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 11% of sustainable investments



with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy



with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy



with a social objective



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 lay down 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 Sub-Fund are:

- promoting the transition to a low-carbon economy by avoiding investments in issuers that are lagging in the transition; and
- implementing negative screens as part of its investment process, as further detailed in the next section.

Moreover, the Sub-Fund has a minimum allocation of 10% of its Net Asset Value to sustainable investments in economic activities that contribute to environmental objectives and a minimum allocation of 1% of its Net Asset Value to sustainable investments in economic activities that contribute to social objectives.

The Sub-Fund uses a variety of ways to assess its environmental and/or social performance, but does not use a reference benchmark to which it aligns the environmental and/or social characteristics that the Sub-Fund promotes.

● ***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 each environmental or social characteristic promoted by the Sub-Fund are:

1. Percentage of investments in green bonds;
2. Percentage of investments in social bonds;
3. Percentage of investments in sustainability bonds;
4. Percentage of investments in bonds issued by best-in-class issuers ("Environmental Champions");
5. the percentage of investment in issuers having exposure to, or tying with excluded sectors and additional exclusions further described in the investment strategy section of this annex;
6. exposure to the principle adverse impacts (the "PAIs") indicators compared to the ICE BofA 0-1 Year Euro Broad Market Index;
7. List of issuers, with which the Investment Manager engages.

● ***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:

- a) the efficient use of energy, raw materials, water, and land;
- b) the production of renewable energy;
- c) the reduction of waste, and greenhouse gas (GHG) emissions, and lower impact of economic activities on biodiversity;
- d) the development of a circular economy;
- e) tackling inequalities and fostering social cohesion;
- f) social integration;
- g) good labour relations; or
- h) investments in human capital, including disadvantaged communities.

The Sub-Fund's sustainable investments include a minimum allocation of 10% of its Net Asset Value to sustainable investments in economic activities that contribute to environmental objectives.

This is achieved by investing in bonds labelled as "green" or in any other securities whose:

- A) proceeds are used on eligible environmental projects;
- B) framework adheres to international standards (including but not limited to, the International Capital Market Association (the "ICMA") Green Bond Principles, future European Union Green Bond Standard (the "EU GBS")); and
- C) issuers do not significantly harm other environmental and social objectives while demonstrating good governance practices.

The use of proceeds for these bonds is clearly defined and aligned with the objectives above.

Additionally, the Sub-Fund commits to include a minimum allocation of 1% of its Net Asset Value to sustainable social activities. This is achieved by investing in bonds labelled as "social" or in any other securities, whose:

Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained.

- A) proceeds are used on eligible social projects;
- B) framework adheres to international standards (including but not limited to, ICMA Social Bond Principles); and
- C) issuers do not significantly harm other environmental and social objectives while demonstrating good governance practices.

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 Manager uses proprietary data tools and qualitative research to ensure alignment with the Do No Significant Harm (DNSH) principle across the portfolio.

Corporate issuers are monitored using the Principle Adverse Impact Risk App (“**PAI Risk App**”). The PAI Risk App uses data from MSCI to identify issuers involved in harmful economic activities and/or controversies. Issuers deemed to violate PAI #7 (activities negatively affecting biodiversity-sensitive areas), #10 (violation of the UN Global Compact principles and the principles of the OECD Guidelines for Multinational Enterprises), and #14 (exposure to controversial weapons) are excluded from the Sub-Fund’s investment universe.

The Investment Manager also uses the Energy and Environmental Transition Index (“**EETI**”) and/or ESG Credit App which ranks respectively sovereign and corporate issuers in the Sub-Fund’s investment universe according to their GHG emissions and intensity. Issuers falling within the bottom 20% of their peer groups with respect to PAI #1 (GHG emissions) and #3 (carbon footprint) (for corporates) and PAI #15 (GHG intensity) among other data points (for sovereigns) are excluded from the investment universe.

Additionally, sovereign issuers are subjected to tests based on their political liberties (PAI #16) and/or corruption.

When deploying funds to sustainable investments, especially with regards to the commitment to invest 11% of the Net Asset Value (NAV) in keeping with environmental and social objectives, the Investment Manager applies additional qualitative assessment (based on internal research or on external second party opinion) of the issuer’s and of the projects’ DNSH eligibility.

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

Adverse impact indicators, including PAIs and other data points deemed by the Investment Manager as proxies for adverse impact, are used to:

- a) remove issuers that are considered to do significant harm from the portfolio; and
- b) inform the Investment Manager about the risk associated with adverse impact and take appropriate action – that includes due diligence, qualitative scrutiny and/or engagement (for details of an engagement see the “Principal Adverse Impact” and “Investment Strategy of the Sub-Fund” sections of this annex).

While assessing eligible green and social bonds, the Investment Manager reviews and documents the materiality of relevant PAIs for the project as well as how the project’s implementation affects the issuer’s overall PAIs outlook.

For example, while investing in a green bond whose use of proceeds targets development of renewable energy sources, (e.g. solar/PV panels), the Investment Manager ascertains that financed projects score well on PAIs linked to GHG emissions.

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

For bonds issued by sovereign countries, the Organisation for Economic Cooperation and Development (the “OECD”) Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights are not applicable to such investments. For bonds issued by corporate issuers, the sustainable investments are aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Alignment is monitored using data from MSCI. Breaches identified by these service providers are flagged in the investment compliance system for subsequent investigation by the Investment Manager.

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.

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, it is deemed un-investable.

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

☒ Yes, PAI indicators are considered for the purpose of:

- (i) identifying best-in-class issuers
- (ii) restricting the Sub-Fund’s investment universe; and
- (iii) guiding thematic engagement.

Identifying best-in-class issuers

The Sub-Fund invests in bonds issued by corporates and sovereigns deemed by the Investment Manager to be “Environmental Champions”. “Environmental Champions” are identified using two proprietary ESG rankings:

- The EETI ranks sovereign issuers energy efficiency, natural capital conservation, renewable energy performance, using various data points, including GHG Intensity (emissions normalized by gross domestic product, CO2e/GDP).
- The ESG Credit App ranks corporate issuers by their GHG emissions and GHG intensity using various data points such as scope 1 and 2 GHG emissions, emitters’ historic trajectories.

Restricting Fund’s investible universe

Sovereign issuers falling within the bottom 20% of the investment universe based on the EETI and corporate issuers falling within the bottom 20% (i.e. climate laggards) based on the ESG Credit App are also excluded from the portfolio.

Guiding thematic engagement

The Investment Manager commits to engage with 5% of active holdings which are considered as underperformers in terms of their aggregate exposure to applicable mandatory PAI metrics.





More information on how the Sub-Fund considered its PAIs may be found in the periodic reporting of the Sub-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 Sub-Fund employs a proprietary ESG rating methodology with the aim to avoid investment in issuers that are lagging in the transition to support a low-carbon economy. The ESG rating methodology is applied to at least 90% of the Sub-Fund's Net Asset Value and is binding for the portfolio construction.

In relation to corporate issuers, the Sub-Fund uses a combination of external and internal data inputs to determine 'climate transition performance' (i.e. the extent to which an issuer is responding to the threat of climate change, for example by engaging in a combination of decarbonisation of products and services, establishing low or no emissions infrastructure, and reducing or eliminating reliance on fossil fuels, including revenue generated from fossil fuels), including but not limited to issuers' direct emissions trajectory relative to peers, decarbonisation of product and services portfolio, and the assessment of opportunities in clean technology and energy.

In relation to government and government-related issuers, the Sub-Fund uses a combination of data inputs to determine 'climate transition performance', including but not limited to issuers' environmental risk exposure and environmental risk management. These include data relating to energy resource management, resource conservation, water resource management, environmental performance, management of environmental externalities, energy security risk, productive land and mineral resources, vulnerability to environmental events and environmental externalities.

The Sub-Fund uses a selectivity approach in order to exclude from its portfolio issuers (corporates and sovereigns) that score in the bottom 20% of its investment universe in terms of these metrics.

In addition to the above, the Sub-Fund applies specific ESG exclusions. Across the entire portfolio, the Sub-Fund shall not invest in issuers that:

- repeatedly and seriously violate the United Nations Global Compact principles, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises;
- have "Not Free" status according to the Freedom House Index¹ for sovereign issuers
- manufacture controversial weapons such as those that are defined as being indiscriminate; or those that manufacture components intended for use in such weapons (PAI #14 (exposure to controversial weapons));
- derive more than 5% of their revenue from production of conventional weapons;
- manufacture tobacco or tobacco products or those that derive revenue from such products that exceeds the Investment Manager's thresholds (5%);
- derive more than 5% of their revenue from gambling or adult entertainment;
- derive more than 5% of their revenue from the mining of thermal coal and its sale to external parties;
- derive more than 5% of their revenue from the most polluting fossil fuels;

¹ <https://freedomhouse.org/countries/freedom-world/scores>

- exceed the Investment Manager's tolerance levels for fossil fuels (30%) or thermal coal (5%) used to generate electricity or lack ambitious decarbonization targets for electricity generation;
- negatively affect biodiversity-sensitive areas (PAI #7 (activities negatively affecting biodiversity-sensitive areas); and
- score an ESG rating of CCC according to MSCI.

If a security held by the Sub-Fund falls under at least one of the above exclusions, the Investment Manager will divest from such security as soon as practicable and at the latest within a period of six months.

● ***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 are:

1. The commitment to invest at least 11% of the Sub-Fund's Net Asset Value into sustainable investments, mainly but not limited to, investing in green bonds and social bonds;
2. The exclusion of the bottom 20% of the investment universe based on the EETI and ESG Credit App;
3. The commitment to engage with the 5% of active holdings which are considered as underperformers in terms of their PAI metrics; and
4. The application of the ESG exclusions further described in the investment strategy section 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?***

The Sub-Fund excludes issuers that score in the bottom 20% of its investment universe, based on EETI (sovereign issuers) and the ESG Credit App (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 and sovereign issuers, the issuers not following governance practice are typically determined using data points included into PAI Risk App and are deemed un-investible.

For the qualitative assessment of corporate issuers, the Investment Manager considers governance factors, such as board composition (including but not limited to gender, independence, skill set), governance practices or shareholders protection.

For qualitative analysis of sovereign issuers, the Investment Manager investigates factors such as political liberties, rule of law, government effectiveness, among others.

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

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 Sub-Fund's portfolio. The remaining portion (<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). Out of the Sub-Fund's portfolio segment which is aligned with the promoted environmental and/or social characteristics, the Sub-

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:

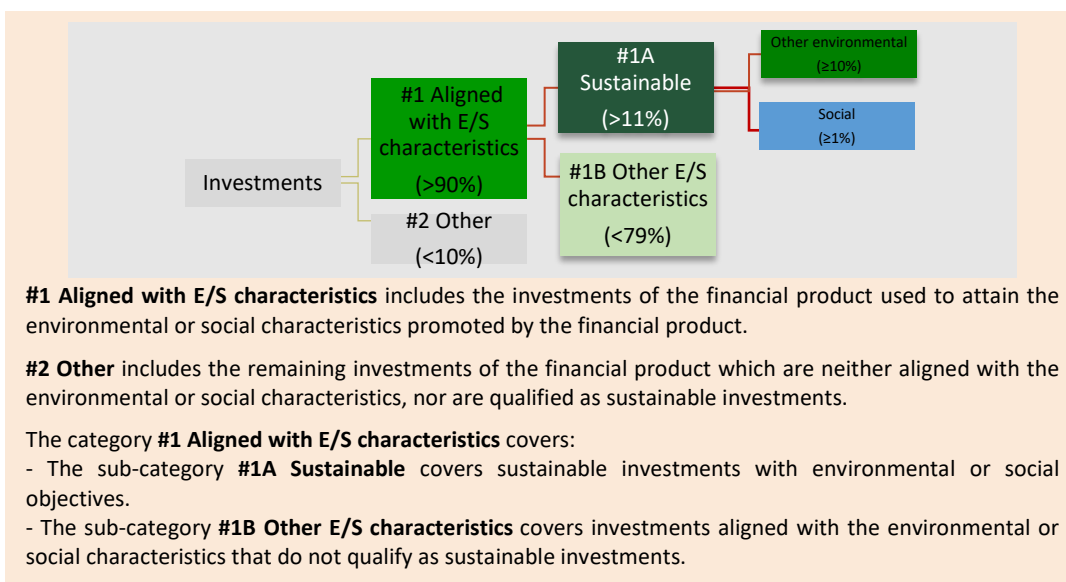
- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

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.

Fund undertakes a further commitment to invest a minimum of 11% of its Net Asset Value to sustainable investments, with the portion of investments aligned with environmental and/or social characteristics.



How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?

For asset-based derivatives, the Investment Manager subjects the asset to all relevant ESG screenings. The ESG screenings depend on the nature of the asset.

If it is impossible to determine the ESG quality of the underlying asset because of its nature (e.g., currency forwards for hedging purposes), the Investment Manager assesses the ESG credentials of a derivative contract counterparty. If a counterparty is a subsidiary without separate ESG reporting scheme, the ESG characteristics of a parent company apply. The Sub-Fund does not enter into derivatives with financial institutions which do not meet the Investment Manager's ESG criteria. To qualify as eligible counterparty, a financial institution must meet at least two of the following criteria:

- MSCI ESG rating of BBB or above – or in absence of MSCI rating, being above industry average rating as judged by alternative third party ESG data providers;
- Signatory to the Equator Principles;
- Signatory to Task Force on Climate-Related Financial Disclosures;
- Is committed to set a SBTi Target.



To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

The Sub-Fund does not invest in sustainable investments with an environmental objective aligned with the EU Taxonomy.

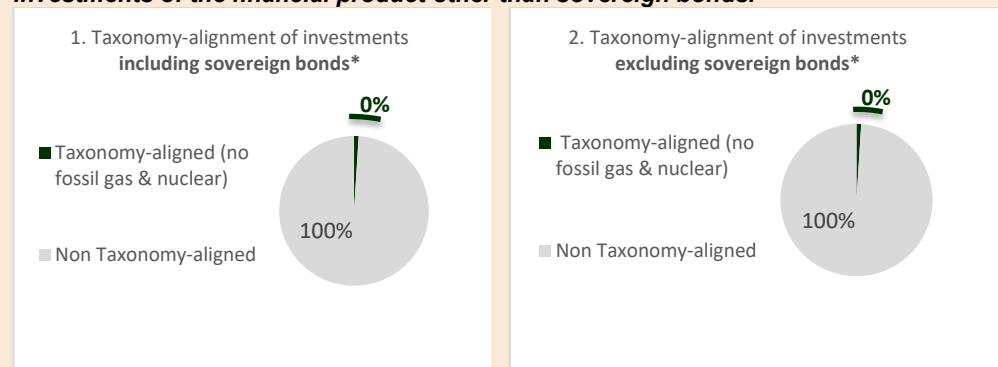
Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy²

² 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.

☐ 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?**

The Sub-Fund does not invest in transitional and enabling activities.

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 Sub-Fund commits to invest a minimum of 10% of its Net Asset Value in sustainable investments with an environmental objective aligned with SFDR.

● **What is the minimum share of socially sustainable investments?**

The Sub-Fund commits to invest a minimum of 1% of its Net Asset Value in sustainable investments with a social objective aligned with SFDR

● **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 Sub-Fund.

No minimum environmental and/or social safeguards have been put in place.



● **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.

- *How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?*
N/A
- *How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?*
N/A
- *How does the designated index differ from a relevant broad market index?*
N/A
- *Where can the methodology used for the calculation of the designated index be found?*
N/A



Where can I find more product specific information online?

More product-specific information can be found on the Website.

www.franklintempleton.ie/27049