



Article 10 (SFDR) Website disclosure for an Article 8 fund

Franklin Templeton Investment Funds - Franklin Diversified Dynamic Fund (the “Fund”)

Version	Date of publication	Date of update (if any)	Explanation (if any)
1.0	26 August 2023		
2.0	28 March 2024		

Product name: Franklin Templeton
Investment Funds - Franklin
Diversified Dynamic Fund

Legal entity identifier:
549300ZIW4AJ7HC8UX68

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 ___% 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**



A. Summary

The Fund promotes environmental and social characteristics in accordance with Article 8 of the Sustainable Finance Disclosure Regulation (the “SFDR”).

The Fund promotes the reduction of greenhouse gas (“GHG”) emissions and increase in board gender diversity in the Fund’s portfolio through engagement with poor performers and positively tilting the portfolio towards stronger performers in terms of these metrics.

The Fund’s environmental or social characteristics are assessed both quantitatively and qualitatively, by means of sustainability indicators as well as of the Investment Managers’ research and engagement process further described in the Website disclosure’s dedicated sections. As part of its investment decision making process, the Fund’s ESG strategy also uses binding criteria for the selection of underlying assets and applies specific ESG exclusions.



B. No sustainable investment objective

This financial product promotes environmental or social characteristics but does not have as its objective a sustainable investment.



C. Environmental or social characteristics of the financial product

What are the environmental or social characteristics promoted by this financial product?

The Fund promotes the reduction of greenhouse gas (“GHG”) emissions and increase in board gender diversity in the Fund’s portfolio through engagement with poor performers and positively tilting the portfolio towards stronger performers in terms of these metrics.

The Fund does not use a reference benchmark to which it aligns the environmental and/or social characteristics promoted.



D. Investment strategy

What investment strategy does this financial product follow and how is the strategy implemented in the investment process on a continuous basis?

Environmental, Social and Governance (ESG) considerations are an integral component of Investment Managers' fundamental investment research and decision process. As part of the regular monitoring of the current and future securities held by the Fund, the Investment Managers employ a proprietary ESG scoring methodology to determine a company's or country's profile on relevant ESG issues. The Investment Managers' proprietary ESG scores are used for information purposes only and are not binding for the allocation of the Fund's portfolio.

The Investment Managers commit to promote reduction of GHG emissions and increase in board gender diversity in the Fund's portfolio through engagement with poor performers and positively tilting the portfolio to stronger performers in terms of these metrics, as described below.

The Investment Managers execute on escalated targeted engagement with companies ranked in the bottom 10% within their industry peer group within MSCI All Country World Index regarding their GHG emissions and that performs poorly on-board gender diversity. If within two years from the start of the engagement a company does not demonstrate meaningful improvement, in accordance with specific goals and objectives set out by the relevant issuers and the Investment Managers and reviewed by the Investment Managers at least annually, the Investment Managers will sell the position as soon as practicably possible, taking due account of the interests of the Shareholders.

At least 66% of the companies (equity and debt securities) held by the Fund will belong to the top 50% of their respective industry peer group within MSCI All Country World Index, where the GHG emissions indicator is used to rank the companies from the lowest to the highest GHG emissions.

At least 50% of the sovereign debt securities held by the Fund will belong to the top 33% of countries out of the Bloomberg Global Aggregate Index where the GHG intensity indicator is used to rank countries from the lowest to the highest GHG intensity.

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

- Repeatedly and/or seriously violate the United Nations Global Compact Principles;
- Manufacture or distribute controversial weapons defined as anti-personnel mines, biological & chemical weaponry, cluster munitions or those that manufacture components intended for use in such weapons. Companies that derive more than 10% revenue from military hardware will also be excluded;
- Generate more than 5% of their revenue from the production of tobacco products; or
- Generate more than 30% of their revenue from thermal coal extraction or coal-based power generation.

Furthermore, the Fund will not invest in sovereign issuers which have “Not free” scoring according to the Freedom House Index.

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 can be summarized as follows:

- the allocation of at least 66% of the equity and corporate debt securities held by the Fund to companies ranked top 50% of their respective industry peer group within MSCI All Country World Index in terms of lowest GHG emissions;
- the allocation of at least 50% of the sovereign debt securities held by the Fund to the top 33% of countries out of the Bloomberg Global Aggregate Index ranked by lowest GHG intensity;
- the commitment to engage with underperformers (bottom 10% within their industry peer group) regarding their GHG emissions, with divestment in case of no significant improvement within a 2-year period;
- the commitment to engage with underperformers (bottom 10% within their industry peer group) regarding their board diversity, with divestment in case of no sufficient improvement within a 2-year period; and
- the application of the ESG exclusions further described in the question above.

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

The Investment Managers' analysts review if companies exhibit good governance practices in their analysis, including a review of board function and structure, remuneration policy, business ethics and shareholder rights. The Investment Managers also consider items such as employees' health and safety as well as tax related issues controversies. The Investment teams also monitor the names in the portfolio to ensure no egregious violations of good governance practices, which includes monitoring controversies and reviewing proprietary governance scores.

The Fund does not invest in companies that, according to MSCI, do not observe the main international conventions (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 Managers disagree with the conclusion that the company is complicit in violations of the principles of such conventions.

Is there a commitment to reduce by a minimum rate the scope of investments considered prior to the application of the strategy? (including an indication of the rate)

Not applicable.

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

Yes

The Fund specifically considers the following principal adverse impacts (the “PAIs”):

- **Scope 1 and Scope 2 GHG emissions (for companies);**
- **Board gender diversity,** and
- **GHG intensity (for sovereigns).**

The consideration of the specified PAIs is tied to the Fund’s fundamental investment analysis as well as the Fund’s ESG assessment of investee companies. The Investment Managers believe that these PAIs are applicable to the widest range of the Fund’s investments and represent the largest opportunity set for engagement.

GHG emissions and intensity

The Investment Managers are committed to engage with companies which are ranked in the bottom 10% in their industry peer group within MSCI All Country World Index regarding their scope 1 and scope 2 GHG emissions. If a company does not demonstrate meaningful commitment and/or improvement over two years in relation to emissions reduction, the Investment Managers will divest as soon as practicably possible, taking due account of the interests of the Shareholders.

In the portfolio construction phase, the Investment Managers are also committed to favor companies and sovereign issuers with lower GHG emissions relative to their industry peers.

Board gender diversity

The Investment Managers are committed to engage with the investee companies which have less than 10% female representation on board of directors. If a company does not demonstrate a sufficient commitment and/or improvement by reaching the established minimum threshold of 10% within a 2-year period, the Investment Managers will sell the position as soon as practicably possible, taking due account of the interests of the Shareholders.

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

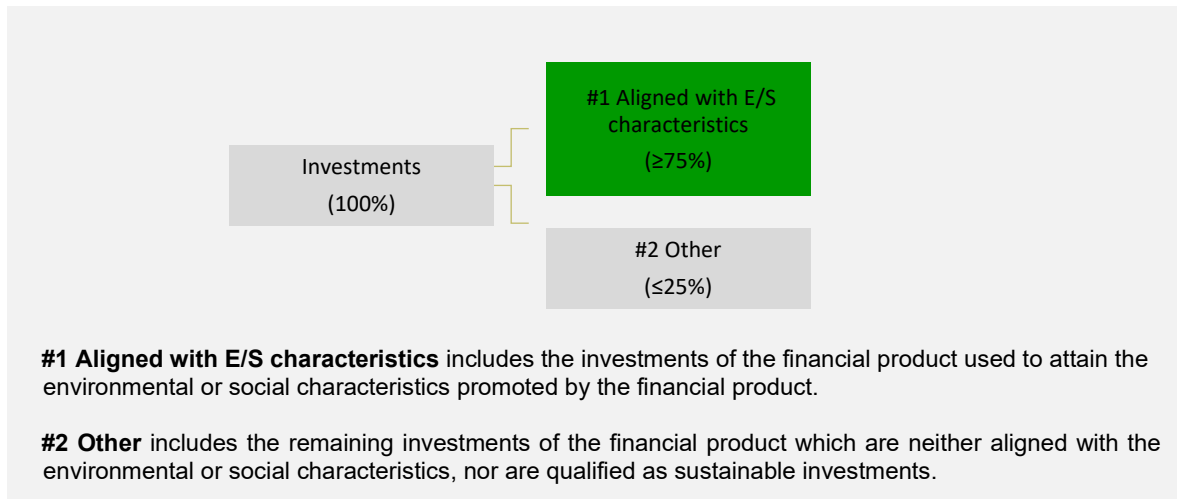
No



E. Proportion of investments

What is the planned asset allocation for this financial product?

At least 75% of the Fund’s portfolio is aligned with environmental and social characteristics promoted by the Fund. The remaining portion (<25%) of the portfolio consists of other assets including, but not limited to, liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds), index derivatives, certain collective investment management schemes and securities issued by private companies on which PAI data is not available which are held for the purposes of investment and servicing the day-to-day requirements of the Fund.



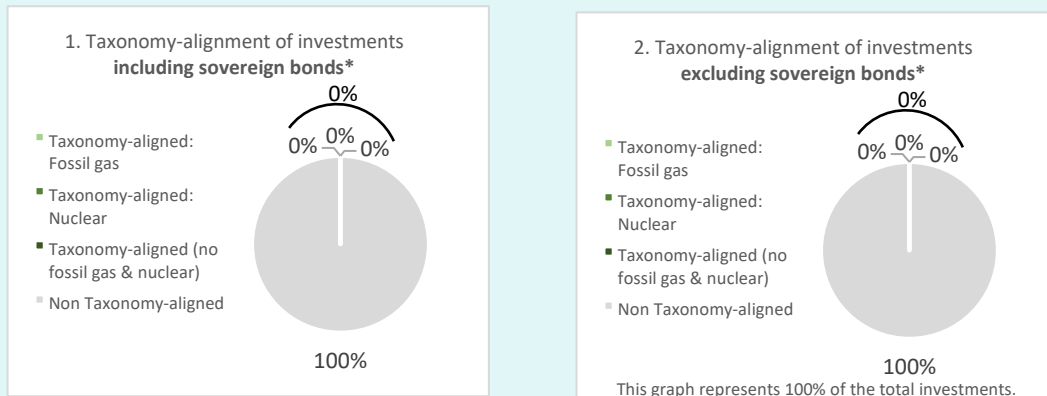
How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?

Single issuer derivatives based on an underlying stock or bond are covered by the ESG process and contribute to the attainment of the environmental or social characteristics promoted by the Fund. Such characteristics are considered attained through the use of derivatives by employing the same engagement and exclusion criteria highlighted in the section “D Investment Strategy”.

What is the minimum share of investments with an environmental objective aligned with the EU Taxonomy? (including what the minimum share of transitional and enabling activities is)

Not applicable.

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 sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

Not applicable.

What is the minimum share of sustainable investments with a social objective?

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 liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds), collective investment schemes and securities issued by private companies on which PAI data is not available which are held for the purposes of investment and servicing the day-to-day requirements of the Fund. These may include derivatives that are not linked to a single stock or bond and are not used to attain environmental or social characteristics promoted by the Fund.

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



F. Monitoring of environmental or social characteristics

What sustainability indicators are used to measure the attainment 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 are:

- number of companies in the portfolio which are in top half of the Fund's corporate investment universe, defined by MSCI All Country World Index ("Fund's Corporate Investment Universe") in terms of GHG emissions,
- number of sovereigns in the portfolio which are in top third of the Fund's sovereign investment universe, defined as the Bloomberg Global Aggregate Index ("Fund's Sovereign Investment Universe"), in terms of GHG emissions,
- number of companies in the portfolio which are in the worst decile of the Fund's Corporate Investment Universe, in terms of GHG emissions,
- number of companies in the portfolio with female board representation below 10%, and
- number of companies the Investment Managers have engaged with.

How are the environmental or social characteristics and the sustainability indicators monitored throughout the lifecycle of the financial product and the related internal/external control mechanism?

The environmental or social characteristics and the sustainability indicators (including principal adverse impact indicators) are monitored throughout the lifecycle of the product.

- **Initial evaluation phase**

ESG screenings of investments are performed during the initial acquisition phase.

Prior to investment, the Investment Managers screen all potential investments to confirm they meet the Fund's criteria and to confirm the portfolio remains in compliance with its policies. In addition, the Investment Managers ensure that the Fund does not invest in issuers from the exclusion list.

More information on the exclusion list and on the ESG rating methodology can be found under the section "D. Investment Strategy".

- **Holding period**

Once investments have been made, ongoing monitoring and reporting are performed.

The Investment Managers conduct reviews to ensure ongoing compliance with the policies and analyze the investments exposure at a portfolio level for possible adverse impact. Exclusions/restrictions based on proprietary scoring are coded into our pre-trade engine for compliance monitoring. The Investment Managers are responsible for the correct execution of the ESG due diligence activities.

- **Divestment**

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

- **Control mechanisms**

The Investment Managers are responsible for supervising and implementing the ESG policies and responsible investment processes across all investments.

All binding elements of the Fund's ESG commitments are regularly reviewed and monitored as part of our Investment Compliance process.

In addition, sustainability risk is integrated in the Fund's risk management processes since 1st August 2022, in line with the Commission Delegated Regulation (EU) 2021/1255 and Delegated Directive (EU) 2021/1270.



G. Methodologies

What is the methodology to measure the attainment of the environmental or social characteristics promoted by the financial product using the sustainability indicators?

The Fund measures the attainment of the environmental or social characteristics on an ongoing basis and reports on an annual basis the sustainability indicators mentioned under the section “F. Monitoring of environmental or social characteristics”, as well as the PAI indicators.

The Fund relies on the following criteria:

1. ESG scores

The Investment Managers use a number of data sources in their methodology. The primary data source for the measurement of PAIs is MSCI. Using MSCI data on GHG emissions, GHG intensity and board gender diversity, the securities are ranked within their industry/countries. The Investment Managers then look at the percentage of the corporate allocation which is invested in companies that are in the top 50% of lowest GHG emitters relative to their industry within MSCI All Country World Index as well as, the percentage of the sovereign issuers which are in the top 33% of lowest emitters out of countries in the Bloomberg Global Aggregate Index Universe.

2. Negative screens

The environmental and social characteristics promoted are considered as attained if the conditions of investment in issuers having exposure to the ESG exclusions further described in the pre-contractual disclosure are met.



H. Data sources and processing

What are the data sources used to attain each of the environmental or social characteristics including the measures taken to ensure data quality, how data is processed and the proportion of data that is estimated?

- **Data Sources**

The Investment Managers use multiple sources of ESG information, including but not limited to:

- MSCI
- ISS
- Sustainalytics
- Refinitiv
- FTFI proprietary ESG database
- Franklin Templeton engagement tracker

- **Measures to ensure data quality**

The selected third-party data vendors conduct the quality checks. The Fund relies on the vendor's robustness of data quality rules and the vendor's service delivery standards.

In addition, a centralized technology department in Franklin Templeton, responsible for central data storage, checks for timeliness to ensure that the vendor delivers as expected and the most recently delivered data is available. The investment management team conducts additional quality due diligence in case any anomalies are identified during data processing.

- **Data processing**

The raw ESG data from the external providers is fed to Franklin Templeton through a variety of methods depending on the vendor and dataset and centralized within Snowflake, a cloud data platform (from an external provider) that allows the investment team to store data from different third-party data vendors. The process is automated and fine-tuned for each data vendor. Frequency of delivery and delivery method varies by vendor and dataset. From the central database, the data is sourced to the proprietary tools, where it gets processed in line with the designed ESG methodology.

Additionally, the investment team takes the raw emissions data and ensures its quality. The scrubbed data is then used to establish the thresholds for top 50th percentile within each industry, as well as bottom 10th percentile within each industry, in terms of GHG emissions. Those thresholds are then used to identify which securities fall into the best and worst performers categories; the overall fund distribution across categories is also observed. The same process is followed to establish the top 33rd percentile for sovereign issuers in regard to GHG intensity and also gender board diversity.

- **Estimated data**

In situations when reported data is unavailable or its quality is not good (e.g., scope 3 emissions), the investment management team retains the right to use estimated data.

Due to current disclosure policies by the external third-party data providers, the Investment Managers are unable to provide detailed information on the percentage of data estimation. This information may be available in the future.



I. Limitations to methodologies and data

What are the limitations to the methodologies and data sources? (including how such limitations do not affect the attainment of the environmental or social characteristics and the actions taken to address such limitations)

- **Limitation to the methodology**

Inherent limitations to the methodology exist. The methodology is built on external data points that are developed within the limitation to the data sources.

- **Limitation to the data sources**

Inherent limitations to the data sources exist. Given that the Fund is allowed to invest in issuers outside the European Union with weaker non-financial disclosure regulatory environment, the ESG data coverage for those bespoke investable universes is limited.

In order to address such limitations, the investment team engages with the issuers and relevant stakeholders (e.g., local regulators, industry associations) to expand the data coverage.



J. Due diligence

What is the due diligence carried out on the underlying assets and what are the internal and external controls in place?

The Fund carries out due diligence on the underlying assets in the investment process on a regular basis as described under the section “F. Monitoring of environmental or social characteristics”.



K. Engagement policies

Is engagement part of the environmental or social investment strategy?

Yes

No

If so, what are the engagement policies? (including any management procedures applicable to sustainability-related controversies in investee companies)

Engagements, in the form of emails, calls, in-person meetings, and proxy voting, will occur with the aim of encouraging the engaged companies to decrease their GHG emissions (PAI 1) and/or increase female board representation (PAI 13). Engagement is about encouraging issuers to make improvements over the long run through constructive and structured dialogue.

With respect to GHG emissions, the engaged companies will be given 2 years to demonstrate meaningful and material progress, demonstrated by a reduction in the relevant reporting metrics and/or the adoption of science-based targets in alignment with the Paris agreement. Similarly, for female board representation, engaged companies will also be given 2 years to demonstrate an increased presence of women on the board that reaches a minimum 10 percent representation. Progress will be monitored and assessed on a quarterly basis and lack thereof could lead to partial or full divestment over the course of the engagement.

After the two-year engagement period, an unsuccessful engagement would result in a full divestment and the company being removed from the investable universe until material progress has been demonstrated. In order to define meaningful improvement, the Investment Managers evaluate the following parameters:

- The governance structure to address the underperformance in the identified metric
- The strategy to execute on the desired outcome
- The company's execution of the strategy at a measured pace
- Specific progress in the measurement data

All data concerning issues that arise during discussions as well as potential requests for improvement are collected within an engagement tracker. Progress is monitored and assessed with engaged companies on at least an annual basis.



L. Designated reference benchmark

Has a reference benchmark been designated for the purpose of attaining these characteristics promoted by the financial product?



Yes

No