

Templeton Emerging Markets Smaller Companies 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: Templeton Emerging Markets Smaller Companies Fund (the "Fund")

Legal entity identifier: 5493006EW07Y7KY7V319

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 20% 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 checked="" 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/or social characteristics promoted by the Fund vary by the composition of the portfolio as they are specific to each company or industry the Fund invests in. These characteristics could include the reduction of greenhouse gas ("GHG") emissions, resource efficiency, waste prevention and recycling, pollution prevention and control, good labour standards, fair wages, diversity and gender balance, health & safety practices, or alignment with the international business conduct principles.

The Investment Managers seek to attain these characteristics by:

- favoring issuers with a proprietary score of 1 (appropriate) or better, for their environmental, social and governance (the "ESG") profile, as captured by the Investment Managers' proprietary ESG methodology;
- implementing negative screens as part of its investment process, as further detailed in section "What investment strategy does this financial product follow?" below.

Moreover, the Fund has a minimum allocation of 20% of its portfolio to sustainable investments. Of those sustainable investments, the Fund has a minimum allocation of 5% of its portfolio to sustainable investments with an environmental objective and a minimum allocation of 5% of its portfolio to sustainable investments with a social objective.

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

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 indicator used to measure the attainment of the environmental and/or social characteristics promoted is:

- the share of investee companies rated 3 (Strong), 2 (Good), 1 (Appropriate), and 0 (Poor) by the Investment Managers' proprietary ESG methodology;

● **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 to contribute to positive social and/or environmental outcome areas across one or more of the six following positive outcome areas (3 social and 3 environmental) linked to the United Nations Sustainable Development Goals (the "UN SDGs"):

Social Outcome Areas:

- Basic Needs (goods and services known to contribute significantly to development);
- Wellbeing (enhanced health, education, justice and equality of opportunity for all);
- Decent Work (creation of secure, socially inclusive jobs and working conditions for all);

Environmental Outcome Areas:

- Healthy Ecosystems (maintenance of ecologically sound landscapes and seas for people and nature);
- Climate Stability (solutions to curb the Earth's temperature rise); and
- Resource Security (preservation of natural resources through efficient and circular use).

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.

● **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?**

For sustainable investments, the Do No Significant Harm (the "DNSH") assessment is integrated into the strategy through ESG minimum standards. Here, the Investment Manager examine negative externalities by screening for severe environmental and social controversies through third party ESG data provided by MSCI. All sustainable investments must pass the ESG minimum standards set for DNSH i.e. they do not exhibit severe environmental or social controversies that have not been resolved or without a positive forward-looking view. Additionally, absence of severe negative environmental or social externalities is captured and forms part of Investment Managers' assessment of the issuer.

Lastly, the Investment Managers (i) apply exclusions as further detailed in section "What investment strategy does this financial product follow?" below and (ii) integrates principal adverse impacts (the "PAIs") into the research process.

— — *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 Managers take 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 Managers as proxies for adverse impact. The Investment Managers perform 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's sustainable investments portion will not be invested 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 United Nations (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 either disagree with the conclusion that the company is complicit in violations of the principles of such conventions or have 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 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.



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

Yes,

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

- **Greenhouse gas emissions and greenhouse gas intensity of investee companies;**
- **UNGC Principles and OECD Guidelines violations; and**
- **Controversial weapons.**

As part of the research process, the Investment Managers adopt a materiality-based approach to assessing PAIs through the assessment of ESG issues. Such assessment considers third party data vendors, company reports, and own engagement with management teams. The Investment Managers take a sector-relative approach to the relevance of the PAI indicators which can vary by company and industry. In addition, there is explicit consideration of the PAIs at a portfolio level as follows:

- **Greenhouse gas emissions and greenhouse gas intensity of investee companies**

For companies that have a greenhouse gas intensity that exceeds a threshold deemed acceptable by the Investment Managers and defined below, the Investment Managers engage with and monitors to encourage the company to adequately set emission reduction targets and manage their greenhouse gas emissions and/or intensity accordingly.

This threshold is set at the average greenhouse gas intensity of the Fund's benchmark. The data is reviewed on a quarterly basis and includes each company's scope 1+2 greenhouse gas emissions.

- **Violations of UNGC Principles or Organisation for Economic Co-operation and Development (the "OECD") Guidelines for Multinational Enterprises**

The Fund does not invest in companies that, according to MSCI, do not observe UNGC Principles or OECD Guidelines for Multinational Enterprises. Exceptions can only be made after formal review of alleged violations has been carried out and where the Investment Managers either disagree with the conclusion that the company is complicit in violations of the principles of such conventions or have 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 international conventions.

- **Exposure to controversial weapons** (antipersonnel mines, cluster munitions, chemical weapons, and biological weapons)

In accordance with the Investment Managers' controversial weapons policy, the Fund does not invest in companies that are producers or distributors of such weapons.

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

No



What investment strategy does this financial product follow?

The Investment Managers employ a binding proprietary methodology covering all equity securities to determine a company's profile on relevant environmental, social and governance issues. The Investment Managers evaluate the companies which have been selected as potential investments for the Fund and assigns ESG scores based on quantitative and qualitative environmental, social and governance considerations.

The scores assigned to the issuers by the Investment Managers are based on their proprietary ESG methodology and comprise four grades: 3 (Strong), 2 (Good), 1 (Appropriate) and 0 (Poor). The Investment Managers approach includes regular dialogue with companies, monitoring material ESG issues and voting proxies. The Fund will only invest in companies that score a minimum of 1 (Appropriate) or above as per this internal ESG assessment, implying appropriate or better management of material environmental and social issues, and management of material governance issues. Companies scored 0 (Poor) or those not scored are excluded from the Fund's portfolio.

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 UNGC Principles, without positive perspective;
- Manufacture or distribute nuclear weapons or controversial weapons defined as anti-personnel mines, biological & chemical weaponry, depleted uranium and cluster munitions or those that manufacture components intended for use in such weapons. Companies that derive more than 10% revenue from the production and/or distribution of any other weapons will also be excluded;
- Manufacture tobacco or tobacco products, or
- Generate more than 25% of their revenue from thermal coal extraction.

If an investment no longer meets the ESG criteria for inclusion upon the Investment Managers' analysis and discussion with the company, the Fund will divest within the period of six months (if market conditions allow so), taking into account the best interests of the Shareholders.

- ***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 Managers, can be summarized as follows:

- the commitment to exclude companies rated 0 (poor) under proprietary ESG methodology;
- the application of the ESG exclusions further described in section "What investment strategy does this financial product follow?" above.

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

Not applicable.

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

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?**

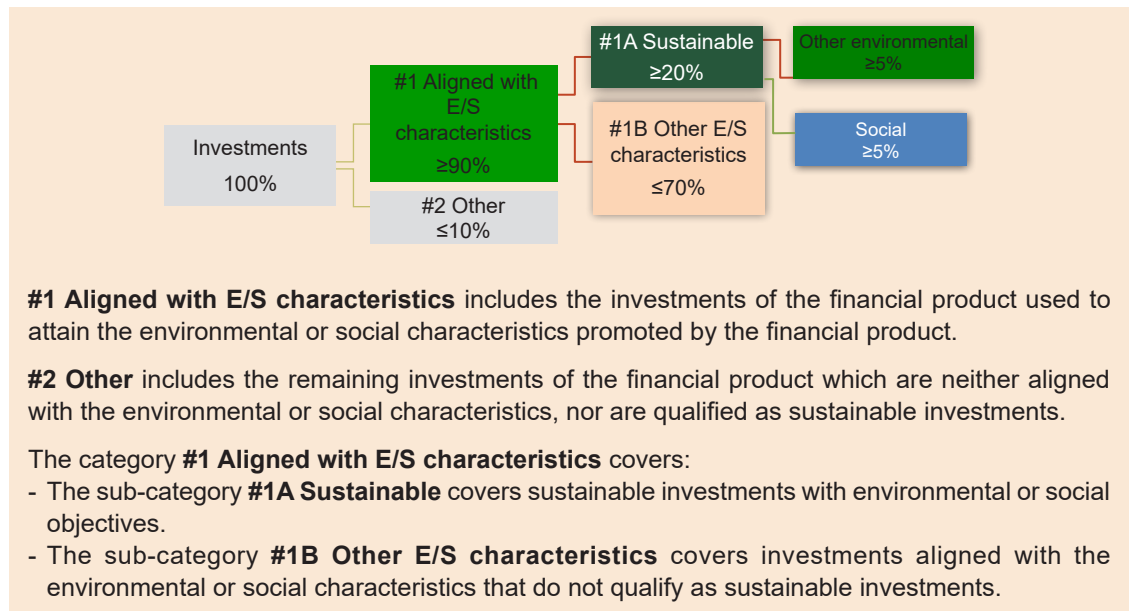
Governance attributes are analysed as part of the fundamental analysis. Data, where available, is factored by the analysts as part of their overall judgement. Analysts complete a universal governance template for all companies, which include assessments around board composition, leadership, executive pay, ownership & control, accounting, and controversies.

The Investment Managers seek to invest in companies that are good or improving stewards aligned with shareholders' interests. The Investment Managers' governance assessment includes regular dialogue with companies, monitoring of material ESG issues and voting proxies. A governance assessment is undertaken by the Investment Managers' analysts to ensure the investee companies have structures that account for the interests of minorities. This is followed up with a binding criterion where a company cannot score a 'poor' rating in the Investment Managers' governance rating assessment to ensure good governance.

What is the asset allocation planned for this financial product?

The Investment Managers employ a binding proprietary ESG methodology which is applied to at least 90% of the Fund's portfolio to determine a company's profile on relevant ESG issues. This portion of the Fund's portfolio is aligned with E/S characteristics, as illustrated in the chart below. The remaining portion (<10%) of the portfolio, mainly consisting of liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds) held for liquidity purposes as well as derivatives held for hedging and/or efficient portfolio management purposes, is not aligned with the promoted characteristics.

Furthermore, the Fund will invest a minimum of 20% of its net assets in sustainable investments, with a minimum allocation of 5% of net assets towards environmental objectives and 5% towards social objectives.



● **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.

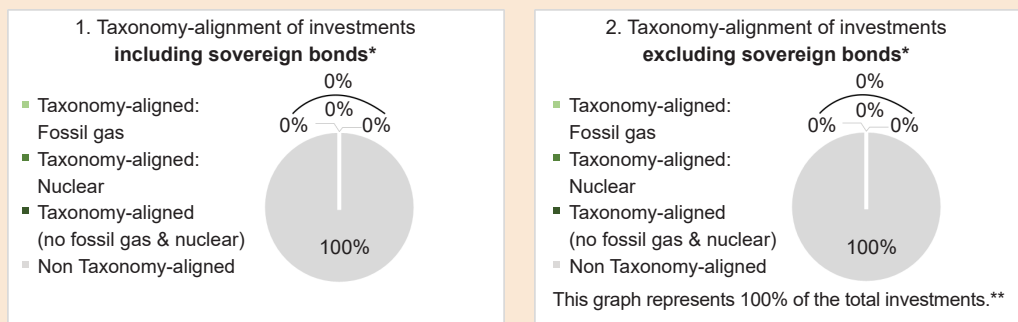
Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

 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 Taxonomy³⁷?**

- 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.

** Considering that the commitment to make sustainable investments aligned with the Taxonomy is set at a minimum of 0%, the percentage of any sovereign bonds in the portfolio will not impact the result of the calculation.

● **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 5% of sustainable investments with an environmental objective aligned with SFDR. 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?**

The Fund commits to a minimum 5% of sustainable investments with a social objective.

 **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

³⁷ 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.

derivatives held for hedging and/or efficient portfolio management purposes and are not aligned with the promoted characteristics.

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.



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/11615/T/templeton-emerging-markets-smaller-companies-fund/LU0300743431>

Specific disclosure required under Article 10 of SFDR for the Fund can be found at: www.franklintempleton.lu/11615