Franklin Diversified Conservative 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

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.

Product name: Franklin Templeton Investment Funds – Franklin Diversified Conservative Fund (the "Fund")

Legal entity identifier: 5493006BH1R540WJNR89

Environmental and/or social characteristics

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.

Does this financial product have a sustainable investment objective?

☐ **Yes**	☒ **No**
☐ It will make a minimum of **sustainable investments with an environmental 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
☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy	☐ 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	☐ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
	☐ with a social objective
☐ It will make a minimum of **sustainable investments with a social objective: ___%**	☒ It promotes E/S characteristics, but **will not make any sustainable investments**

What environmental and/or social characteristics are 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.

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

- ***What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?***

The sustainability indicators used to measure the attainment of the environmental and/or social characteristics promoted 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.

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?

Not applicable.

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?

Not applicable.

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

Not applicable.

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

Not applicable.

The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

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

☒ Yes,

The 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 as further described in the section "What investment strategy does this financial product follow?" below.

• 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

What investment strategy does this financial product follow?

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 section "What investment strategy does this financial product follow?" of this annex.

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

Not applicable.

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

Good governance practices include sound management structures, employee relations, remuneration of staff and tax compliance.

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.

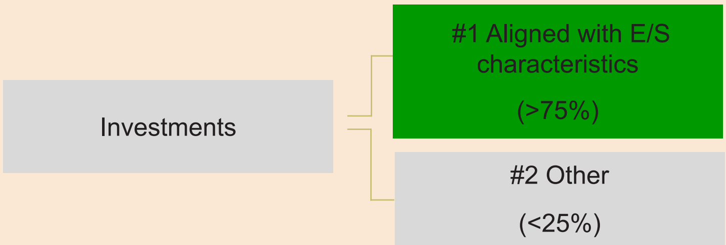
What is the asset allocation planned for this financial product?

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.

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.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

- ***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 "What investment strategy does this financial product follow?" of this annex.

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.

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

Not applicable.

- ***Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy[4]?***

☐ Yes:

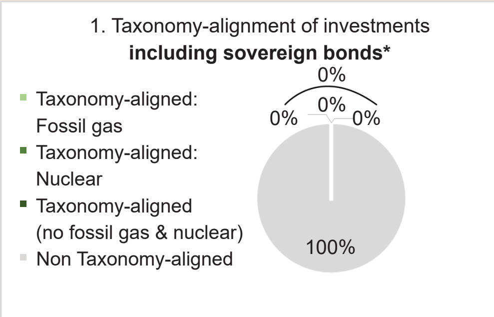
☐ In fossil gas ☐ In nuclear energy

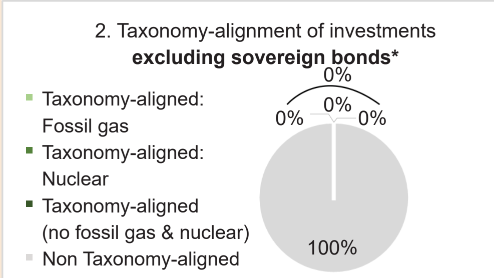
☒ No

[4] 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.

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.

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.





This graph represents 100% of the total investments.

** 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?***

Not applicable.

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?

Not applicable.

What is the minimum share of socially sustainable investments?

Not applicable.

What investments are included under "#2 Other", what is their purpose and are there any minimum environmental or social safeguards?

The "#2 Other" investments include 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 also 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.

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/18905/BO/franklin-diversified-conservative-fund/LU1573965875

Specific disclosure required under Article 10 of SFDR for the Fund can be found at: www.franklintempleton.lu/18905