

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.

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.

Product name: Franklin Templeton Investment Funds - Franklin K2 Alternative Strategies Fund (the "Fund")

Legal entity identifier: 54930062LATFG8YHK918

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?

Yes
 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 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 ___% 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 type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with a social objective
<input type="checkbox"/> It will make a minimum of sustainable investments with a social objective: ___%	<input checked="" type="checkbox"/> 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 encourages at portfolio level minimum environmental, social and governance (the "ESG") standards by targeting a weighted average ESG score greater than i) the median MSCI ESG score of the investment universe; or ii) an MSCI ESG score of 5.25, whichever is higher, based on the long exposure in the portfolio of rated securities.

Thereby, the Fund promotes environmental and social characteristics which include inter alia actions to combat climate change, reduction of pollution and waste and/or human rights.

The investment universe is defined as all issuers with a current MSCI ESG score. Holdings without MSCI attributed ESG score do not contribute to the ESG score of the Fund or its investment universe.

In addition, the Fund implements negative screens as part of its investment process, as further described in section "What investment strategy does this financial product follow?" below.

No reference benchmark has been designated to attain 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:

- the weighted average MSCI ESG score of the portfolio; and
- the share of investee companies having exposure to, or ties with the excluded sectors and the additional exclusions further described below.

- **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?**

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 principal adverse impacts (the “PAIs”) are integrated into the Investment Manager’s proprietary scoring model, the ESG 360 Dashboard. This ESG modelling tool takes in position level scoring from MSCI ESG and produces sleeve and portfolio scores.

The following PAIs are mainly considered in relation to the Fund:

- **greenhouse gas emissions;**
- **greenhouse gas intensity;**
- **exposure to companies active in the fossil fuel sector;**

- **violations of United Nations Global Compact principles (the “UNGC Principles”) and Organisation for Economic Cooperation and Development (the “OECD”) Guidelines for Multinational Enterprises; and**
- **exposure to controversial weapons.**

To the extent data is not available for **greenhouse gas emissions, greenhouse gas intensity and exposure to the fossil fuel sector**, with respect to long positions in the Fund, the Investment Manager engages with the respective Investment Co-Managers to encourage their engagement with the respective issuers with regards to enhancing issuer reporting.

The Fund commits to have less than 1% long exposure in the portfolio to equities and corporate credit that violate the **UNGC Principles** without positive perspective. Furthermore, the Fund considers Violations of **UN Global Compact and OECD Guidelines** as part of the assessment of investee companies good governance. The Investment Manager screens the long holdings to identify securities which fail the UNGC or OECD Guidelines. The Investment Manager engages with the Investment Co-Managers to understand the investment proposition of the security which is flagged as violating UN Global Compact or OECD Guidelines and performs an assessment of the underlying company’s governance. If it is determined that the security indeed has poor governance, the security would be added to the Fund’s restricted list.

The Fund limits exposure to **controversial weapons** to 0%.

No

What investment strategy does this financial product follow?

At the Investment Co-Managers level, the Investment Manager performs an ESG assessment on the appointed Investment Co-Managers by applying a proprietary ESG rating methodology to each of them including a review of the Investment Co-Managers’ investment integration and relevance to investment performance of environmental and/or social factors and an evaluation of the potential areas for development and future initiatives of the Investment Co-Managers.

Based on this qualitative assessment, the Investment Manager rates the Investment Co-Managers on compliance observance, investment integration and momentum. The ESG assessment of the Investment Co-Managers is monitored in quarterly meetings and annual operational due diligence visits. Additionally, the Investment Manager reviews at the firm level the Investment Co-Managers’ ESG affiliations (e.g. United Nations Principles for Responsible Investment signatory status) as well as in-house ESG capabilities.

The Investment Manager believes that an above average MSCI Score is an appropriate target, as it sets a minimum threshold but does not exclude managers whose core investment thesis is focused on ESG improvements and/or engagement.

The Fund also commits to place the following screens on the portfolio:

- 0% exposure to controversial weapons;
- less than 1% long exposure to securities which fail the UNGC Principles without positive perspective;
- less than 5% long exposure to MSCI CCC-rated securities;
- 0% long exposure to companies which generate more than 5% of their revenues from tobacco production or distribution; and
- 0% long exposure to companies which generate more than 30% of their revenues from coal production or distribution.



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

- **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:

1. the commitment to reach an overall ESG score of at least 5.25, based on the weighted average MSCI ESG rating for all long holdings of rated securities actively held in the portfolio and covered by MSCI. If the Fund's score falls below 5.25, the Investment Manager rebalances across the Investment Co-Manager's sleeves to achieve a Fund score of 5.25 or better within 90 days; and
2. the commitment to exclude certain sectors and companies as described above.

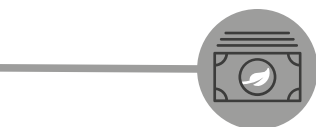
- **What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?**

Not applicable.

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

To ensure the underlying holdings in the portfolio practice good governance, the Investment Manager screens the long holdings to identify securities which fail the UNGC Principles or OECD Guidelines for Multinational Enterprises and are flagged as controversies by MSCI. These holdings are reported on the 360 report which is produced monthly and shared during the in-depth meeting with the underlying Investment Co-Managers on a quarterly basis. When securities are flagged for potential poor governance the Investment Manager engages with the Investment Co-Managers to understand the investment proposition of the security and an assessment of the underlying company's governance. If it is determined that the security indeed has poor governance, the security would be added to the Fund's restricted list with instruction to divest within 90 days.

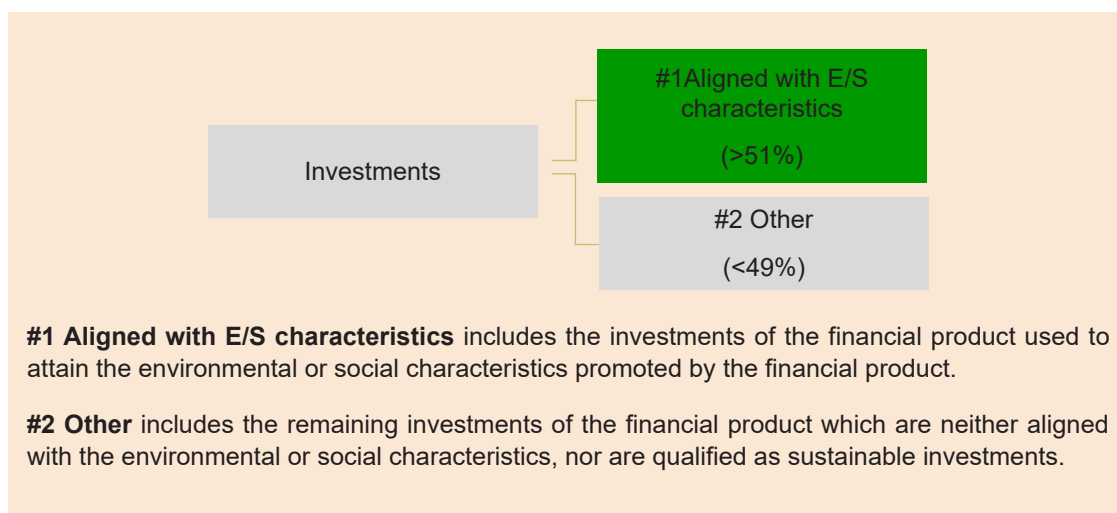
Good governance practices include sound management structures, employee relations, remuneration of staff and tax compliance.



Asset allocation describes the share of investments in specific assets.

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 51% of the Fund's portfolio to determine a company's profile on relevant ESG issues. At least 51% of the Fund's portfolio is aligned with environmental and/or social characteristics promoted by the Fund, the remaining portion of it (<49%), consisting of liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds), foreign exchange and foreign exchange derivatives, interest rate swaps and UCITs eligible commodities, is not aligned with the promoted characteristics.



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.

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

The Fund utilizes derivatives for hedging, efficient portfolio management, and investment purposes. Long derivative exposures related to entities where the underlying is covered by MSCI ESG ratings are covered by the ESG process and contribute towards the overall ESG rating of the Fund.



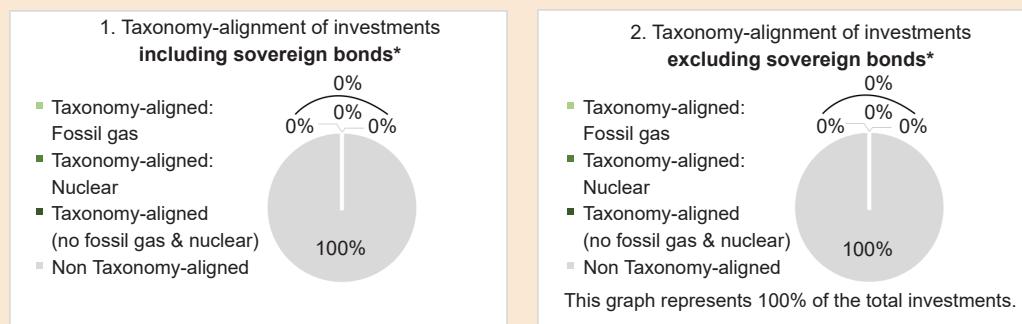
● **To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?**

Not applicable

● **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy¹⁶?**

- 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?**

Not applicable

¹⁶ 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.

 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, constituting up to 49% of the Fund’s portfolio, may include asset types and securities that are considered ineligible assets within the MSCI ESG Ratings methodology. This includes liquid assets (ancillary liquid assets, bank deposits, money market instruments and money market funds), foreign exchange and foreign exchange derivatives, interest rate swaps and UCITs eligible commodities. In addition, the Fund invests in assets that are eligible under MSCI ESG Ratings methodology, but which are not covered for the purpose of calculating an overall Fund ESG score. These assets include structured credit and short derivative positions. Lastly, no 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?

Not applicable.

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/18896/1D/franklin-k-2-alternative-strategies-fund/LU1093756168>

Specific disclosure required under Article 10 of SFDR for the Fund can be found at: www.franklintempleton.lu/18896