Franklin Biotechnology Discovery Fund (the "Fund")

Legal Entity Identifier: 5493008KHPRSWVVRJG60

FRANKLIN TEMPLETON

Environmental and/or social characteristics

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

Did this financial product have a sustainable investment objective?

☐ YES	☒ NO
☐ It made **sustainable investments with an environmental objective:** 0.00%	☐ It **promoted Environmental/Social (E/S) characteristics** and while it did not have as its objective a sustainable investment, it had a proportion of 0.00% 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 made **sustainable investments with a social objective:** 0.00%	☒ It promoted E/S characteristics, but **did not make any sustainable investments**

To what extent were the environmental and/or social characteristics promoted by this financial product met?

The environmental and/or social ("E/S") characteristics promoted by the Fund were specific to each company and industry in which the Fund operated. These characteristics consisted of inter alia, drug affordability and pricing, diversity and inclusion, employee satisfaction/well-being and/or environmental-related aspects (e.g., reduction of greenhouse gas ("GHG") emissions). Franklin Advisers, Inc. (the Investment Manager) sought to attain these characteristics by excluding certain issuers and sectors considered by the Investment Manager as harmful for the society while favouring issuers with a good environmental, social and governance (the "ESG") profile, as captured by its proprietary ESG methodology.

Further to the above, the Fund promoted it's selected environmental and social characteristics by analysing owned firms against the measurements of the characteristics as identified through materiality matrixes and informing companies where the ESG focus was as well as, where applicable, engaging with companies if the Investment Manager considered they were lagging.

In this regard, as of 30th June 2023, the Fund allocated 97.04% of its assets to investments aligned with the E/S characteristics.

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

How did the sustainability indicators perform?

The Fund successfully met the E/S characteristics it promoted by not owning companies rated B under the Investment Manager's proprietary criteria, as well as avoiding excluded companies as identified through the Investment Manager's analysis.

Sustainability KPI Name	Value
The share of companies rated AAA by proprietary ESG methodology	0.76%
The share of companies rated AA by proprietary ESG methodology	38.56%
The share of companies rated A by proprietary ESG methodology	57.72%
The share of companies not rated by proprietary ESG methodology	2.96%

Sustainability KPI Name	Value
The share of companies having exposure to, or tying with excluded sectors and additional exclusions	0.00%

… And compared to previous periods?

Not applicable as there were no prior reference periods.

What were the objectives of the sustainable investments that the financial product partially made and how did the sustainable investment contribute to such objective?

Not applicable.

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 did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?

Not applicable.

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

Not applicable.

Were 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 no significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific Union 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.

How did this financial product consider principal adverse impacts on sustainability factors?

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

- **Scope 1 and Scope 2 greenhouse gas emissions;**
- **Scope 1+2 and material Scope 3 greenhouse gas emissions intensity; and**
- **Board gender diversity.**

The consideration of the specified PAIs was tied to the Fund's fundamental investment analysis as well as the Fund's ESG assessment of investee companies. The Investment Manager believes that these PAIs were applicable to the widest range of the Fund's investments and represented the largest opportunity set for engagement.

With regards to greenhouse gas emissions, the Investment Manager was committed to engage with the investee companies to ensure they were establishing and committing to greenhouse gas emissions reductions plans, that are in accord with science based long term goals of net-zero emissions by 2050, in line with Net Zero Asset Managers Initiative (the "NZAMI") commitments. The Investment Manager worked with companies to move them up to the scale of committing to align with net zero targets, aligning their emissions with net zero, being aligned to achieve net zero, and reaching net zero emissions. While the Investment Manager understood that, in the short-term, absolute emissions may increase for some companies as they work on transition plans, therefore, the consideration of greenhouse gas emission intensity helped the Investment Manager to monitor that overall companies' greenhouse gas emissions were trending in a direction aligned with greenhouse gas emissions reductions over time.

With regards to board gender diversity, the Investment Manager was committed to engage with the investee companies to ensure their boards are representative of the customers they serve as the Investment Manager believed this helped them to better understand their consumer base, create better products, and ultimately be more efficient companies. Initially, the Investment Manager worked to identify companies that did not have board gender diversity and set time-based thresholds for drafting a plan to increase board gender diversity. The Investment Manager believed it is reasonable to increase the acceptable level of board gender diversity over time and engaged with companies that were laggards relative to their industry peers.

For the above PAIs, the Investment Manager initially baselined the portfolio and investee companies and looked to drive improvement on both fronts over time through engagement. As part of its NZAMI commitments, the Fund was engaged with investee companies to set and follow science-based emissions reductions targets and sought to follow a portfolio coverage approach, with increasing weight in companies that have achieved net zero greenhouse gas emissions, were aligned with net zero or are aligning. The goal for the portfolio is to achieve 100% in these categories by 2040. For board gender diversity, the Fund's initial commitment is to engage with all companies that lack any gender diversity with an expectation for them to develop at minimum a plan to increase board gender diversity within 18 months. The Investment Manager intends to increase the expectations of board gender diversity over time.

Consequences of a lack of improvement on these measures for investee companies eventually include divestment if the Investment Manager does not see a path for improvement.

Finally, the Fund excluded companies that produce controversial weapons or who failed to comply with the United Nations Global Compact Principles (the "UNGC Principles") without positive outlook for remediation.

What were the top investments of this financial product?

The list includes the investments constituting **the greatest proportion of investments** of the financial product during the reference period which is - 2022-07-01 - 2023-06-30.

The largest investments of this Fund, excluding cash, were:

Largest investments	Sector	% of Assets	Country
Vertex Pharmaceuticals Inc	Health Care	7.20%	United States
Amgen Inc	Health Care	6.57%	United States
Regeneron Pharmaceuticals Inc	Health Care	6.18%	United States
Gilead Sciences Inc	Health Care	5.50%	United States
Jazz Pharmaceuticals PLC	Health Care	4.53%	United States
AstraZeneca PLC	Health Care	4.22%	United Kingdom
Biogen Inc	Health Care	4.14%	United States
Ascendis Pharma A/S	Health Care	3.69%	Denmark
PTC Therapeutics Inc	Health Care	3.52%	United States
Intra-Cellular Therapies Inc	Health Care	2.97%	United States
Illumina Inc	Health Care	2.94%	United States
Seagen Inc	Health Care	2.90%	United States
Argenx SE	Health Care	2.86%	Netherlands
Horizon Therapeutics Plc	Health Care	2.25%	United States
Neurocrine Biosciences Inc	Health Care	2.22%	United States

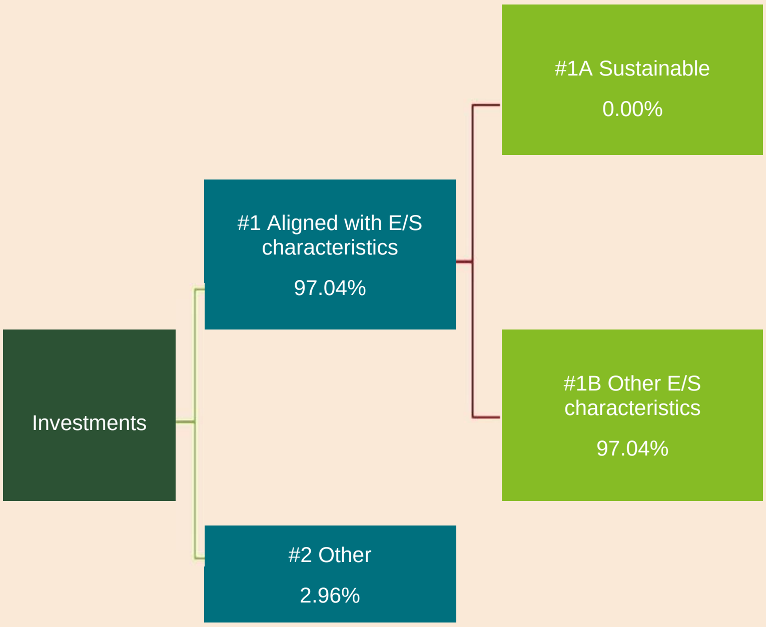
What was the proportion of sustainability-related investments?

The proportion of sustainable investments was 0%.

Asset allocation describes the share of investments in specific assets.

What was the asset allocation?

97.04% of the Fund's portfolio was aligned with the E/S characteristics promoted by the Fund. The remaining portion (2.96%) was not aligned with the promoted characteristics and consisted primarily of liquid assets or issuers for which there was no ESG rating. These assets were held for the purposes of servicing the day-to-day requirements of the Fund.



#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.

The category **#1 Aligned with E/S characteristics** covers:

- The sub-category **#1A Sustainable** covers environmentally and socially sustainable investments.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

In which economic sectors were the investments made?

As of 30 June 2023, the top sectors and sub-sectors of this Fund, excluding cash, were:

Top sector	% of Assets
Health Care	97.04%
Government Bonds	2.96%
Top sub-sector	**% of Assets**
Biotechnology	73.78%
Pharmaceuticals	16.94%
Life Sciences Tools & Services	5.55%
Government Bonds	2.96%
Health Care Providers & Services	0.77%

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to fully 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.

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 the green operational activities of investee companies.

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

The Fund did not make sustainable investments with an environmental objective aligned with the EU Taxonomy.

Did the financial product invest in fossil gas and/or nuclear energy related activities complying with the EU Taxonomy?[1]

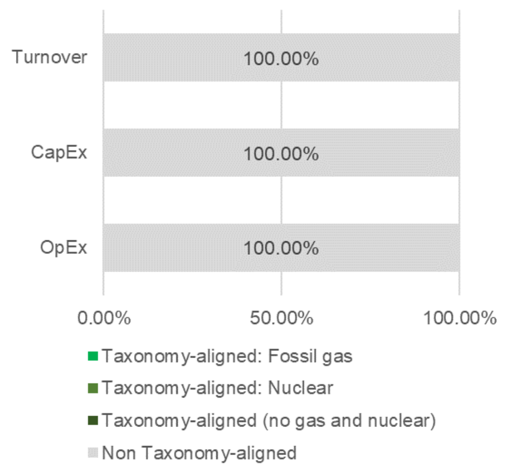
☐ Yes

☐ In fossil gas ☐ In nuclear energy

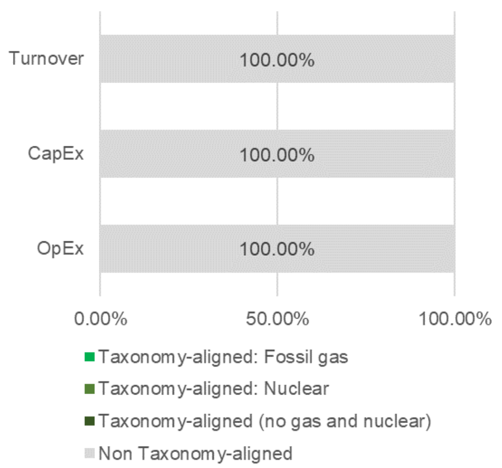
☒ No

The graphs below show in green the percentage of investments that were 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.*

1. Taxonomy-alignment of investments **including sovereign bonds***



2. Taxonomy-alignment of investments **excluding sovereign bonds***



This graph represents 100.00% of the total investments.

** For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures*

What was the share of investments made in transitional and enabling activities?

The Fund did not invest in transitional and enabling activities.

How did the percentage of investments that were aligned with the EU Taxonomy compare with previous reference periods?

Not applicable

[1] 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 objectives -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 Regulation (EU) 2020/852.

What was the share of sustainable investments with an environmental objective not aligned with the EU taxonomy?

Not applicable.

What was the share of socially sustainable investments?

Not applicable

What investments were included under “other”, what was their purpose and were there any minimum environmental or social safeguards?

The proportion of investments under ‘#2 Other’ was 2.96% and included liquid assets held for the purposes of servicing the day-to-day requirements of the Fund, for which there were no minimum environmental or social safeguards. It also included issuers for which there was no ESG rating.

What actions have been taken to meet the environmental and/or social characteristics during the reference period?

Through its ESG analysis, the Investment Manager identified companies that would be excluded under the binding criteria and avoid investment in them. The Fund did not invest in companies that, according to the Investment Manager’s analysis:

- Seriously violate the UNGC Principles (without positive perspective). For that purpose, the Fund does not invest in companies which the Investment Manager assesses as fail under the UNGC Principles;
- Generate more than 10% of revenue from the production and/or distribution of weapons;
- Are involved in the production, distribution or wholesale trading of dedicated and/or key components of banned weapons (i.e., antipersonnel mines, biological and chemical weaponry and cluster munitions);
- Manufacture tobacco or tobacco products or those that derive more than 5% of their revenue from such products;
- Generate more than 10% of their revenue from thermal coal extraction or coal-based power generation.

For companies where engagement was applicable related to specific PAIs the Investment Manager initiated engagements, encouraging, amongst others, companies to set targets for emissions reductions in line with the Paris Agreement or to improve the gender diversity of the board. The Investment Manager believes that given the timeframe from engagement companies should have additional time to begin implementing improvement plans before undertaking additional steps up to and including divestment.

Finally, the Investment Manager did make use of its proprietary ESG rating methodology. This rating assigned to issuers by the Investment Manager comprises four grades: AAA (best in class/very good), AA (good), A (fair) and B (needs improvement). Based on this proprietary framework, the Fund did not invest in companies that were rated B.

How did this financial product perform compared to the reference benchmark?

Reference benchmarks are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

Not applicable