

SUSTAINABLE INVESTMENTS

MAY 2025



This document is intended to set out our approach to identifying sustainable investments for those products that are captured under the European Union's Sustainable Finance Disclosure Regulation (SFDR).

As per the requirements for under SFDR: *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.*

Any sustainable investment process must therefore include:

1. A consistent framework for identifying positive impact.
2. Incorporate the Do No Significant Harm (DNSH) principle.
3. An assessment of governance practices

Identification of Positive Impact

To identify any positive impacts we assess the contribution that companies make to the UN Sustainable Development Goals (SDGs). We focus on the contributions that companies make to the underlying targets of the SDGs (not the 17 headline goals) as it is at this granular level that we believe impactful economic activities can be identified.

We have examined the 169 underlying targets and identified a subset of these that companies can contribute to through the products and services that they provide (not the behaviours that they exhibit) and created a proprietary framework and 'taxonomy' of qualifying activities for each target.

This is then assessed as to the i) significance of its contribution considering factors such as scale of real-world impact or proportion of company revenue that contributes to the targets ii) the qualifying economic activity associated with the target, iii) the context and justification for this.

Do No Significant Harm Principle

Any company that potentially qualifies through its products or services as a Sustainable Investment is then subject to the additional criteria regarding DNSH and good governance practices.

This assessment of DNSH is conducted in three ways:

- Compliance with established global norms through United Nations Global Compact (UNGC) compliance and the presence of any environmental controversies.
- Climate change related factors such as carbon emissions and the presence of emissions reduction initiatives.
- Material Principal Adverse Impact (PAIs) that may indicate significant harm.

The nature of a company's operations as well as the presence and severity of any controversies are used to shape the final judgement by the analyst responsible for the stock, as to whether significant harm is being done.

When assessing climate-related DNSH we will we also consider the nature of a company's operations as well as the presence of any controversies. If a company has a significant carbon footprint, the analyst will consider to what extent carbon emissions are being proactively managed with a credible carbon reduction plan.

We have also provided the additional guidance below to our investment teams, for certain PAIs. We have taken a principles, rather than a rules-based approach to considering the PAIs and DNSH.

- Thermal coal exposure: We focus on materiality with a threshold of 10% revenue and an expectation of a phase-out plan with exit by 2035 which is in line with the International Energy Agency (IEA) Net Zero pathway.
- Board diversity: We recognise that geographic context is important, however, where there is no board gender diversity Martin Currie will implement a targeted engagement program with an expectation that this is addressed within three years and advocacy through voting.



- High carbon intensity: For companies in high emitting sectors¹ the focus is on where companies sit relative to peers, with particular attention on those with the highest carbon intensity within the sector (Scopes 1-3 emissions / USD \$ revenue). Where they have a science-based target or a commitment to set one within two years these may be classified as sustainable investments. Where more than 20% of revenues can be classified as climate solutions² this may also support classification as a sustainable investment

In some instances, such as PAI 10 - Violation of UN Global Compact Principles, we have binding criteria for Article 8 and 9 funds and will not invest in companies that are assessed as 'fail' under the UNGC. In line with the Franklin Templeton Controversial Weapons Policy, we will not hold companies with exposure to controversial weapons.

An assessment of corporate governance practices

To ensure good corporate governance, we analyse each company on its own merits, within a framework of our Global Corporate Governance Principles and regarding their local corporate governance requirements. For each company we produce a Governance Risk Rating from 1 (low risk) to 5 (high risk). Within funds subject to SFDR, we will not invest in companies that we determine are too high risk from a corporate governance perspective with the specific threshold set out in the prospectus.

More details on our approach can be found in each fund's pre-contractual disclosures, which are available on the Franklin Templeton website.

We will continue to refine our approach where we feel it is necessary across each component of our sustainable investments process. This could be due to regulatory change, or if we believe that our current guidance is no longer appropriate.

Martin Currie Investment Management Limited, registered in Scotland (no SC066107) **Martin Currie Inc**, incorporated in New York and having a UK branch registered in Scotland (no SF000300), 5 Morrison Street, Edinburgh EH3 8BH. Tel: (44) 131 229 5252 Fax: (44) 131 222 2532 www.martincurrie.com.

Both companies are authorised and regulated by the Financial Conduct Authority. Martin Currie Inc, 280 Park Avenue, New York, NY 10017 is also registered with the Securities Exchange Commission.

Please note that calls to the above number may be recorded.

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¹ Defined as GICS sectors Energy, Materials, Utilities and Industrials.

² An activity contributing to an environmental SDG target as determined by Martin Currie's proprietary SDG Alignment Framework.