



# PRINCIPLES OF INTERNAL GOVERNANCE AND ASSET STEWARDSHIP (FSC Standard 23)

December 2018

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## Section 1: Organisational and Investment Approach

### Our Firm

Franklin Templeton Investments Australia Limited (FTIAL) is a leading Australian asset manager and part of the Franklin Templeton Global Group of Companies. Franklin Resources, Inc. (operating worldwide as Franklin Templeton Investments) is one of the largest publicly traded investment management companies in the world, with offices in over 30 countries and more than 9,500 staff globally. FTIAL has offices in both Melbourne and Sydney and has been in operation in Australia since 1987. We believe that corporate citizenship is a critical link between integrity and performance. Citizenship is embedded in our corporate values and is an important element of how we achieve success in working with all of our key stakeholders.

Our Corporate Mission is to be a leading investment management organisation. Guided by our core values and unique perspective, we achieve this mission by offering high quality investment solutions, providing outstanding service and attracting, motivating and retaining talented people.

Our core values reflect what is most important to us as a company. They are the ideas that guide how we do business, how we treat our clients, and how we work with each other.

We strive to:

- **Put clients first.** We strive to know and meet our clients' needs, and we fully accept our fiduciary responsibility to protect client's interests.

- **Build relationships.** We work to establish enduring relationships with our clients and business partners. We aim to respond to customer needs in a consistent, timely, accurate and professional manner. We value collaboration and cooperation in our workplace.
- **Achieve quality results.** We value professional excellence and expertise, and we work together to produce consistent, competitive results for our clients. We aim to create the best possible customer focused investment solutions for our clients.
- **Work with integrity.** We speak and act in an honest manner. We believe in being accountable for the impact we have on others. We aim to educate employees so that they understand our business thoroughly and are best placed to provide a superior service to our customers.

Due to the extensive investment capabilities of the Franklin Templeton Group, FTIAL is able to provide our clients with access to a broad range of traditional and alternative asset classes. The following chart highlights these investment capabilities as at 30 September 2018 and also details the corresponding investment teams.

### FRANKLIN TEMPLETON INVESTMENTS

Total Combined Assets Under Management : A\$992.6 Billion

	Equity	Fixed Income	Multi-Asset Solutions	Alternatives
AUM	A\$438.6 Billion	A\$370.9 Billion	A\$168.8 Billion	A\$23.2 Billion
<b>CAPABILITIES</b>	<ul style="list-style-type: none"> <li>• Value</li> <li>• Deep Value</li> <li>• Core Value</li> <li>• Blend</li> <li>• GARP</li> <li>• Growth</li> <li>• Convertibles</li> <li>• Sector</li> <li>• Shariah</li> <li>• Smart Beta</li> </ul>	<ul style="list-style-type: none"> <li>• Government</li> <li>• Municipals</li> <li>• Corporate Credit</li> <li>• Bank Loans</li> <li>• Securitised</li> <li>• Multi-Sector</li> <li>• Currencies</li> <li>• Sukuk</li> </ul>	<ul style="list-style-type: none"> <li>• Multi-Asset Income</li> <li>• Diversified Outcome-Oriented</li> <li>• Risk Premia</li> <li>• Smart Beta</li> <li>• Balanced Allocation</li> <li>• Target Date/Risk</li> <li>• Model Portfolios</li> <li>• Inflation Protection</li> <li>• Managed Volatility</li> </ul>	<ul style="list-style-type: none"> <li>• Commodities</li> <li>• Infrastructure</li> <li>• Real Estate</li> <li>• Hedge Funds</li> <li>• Private Equity</li> </ul>
<b>INVESTMENT TEAMS</b>	<ul style="list-style-type: none"> <li>• Templeton Global Equity Group (1940)</li> <li>• Franklin Equity Group (1947)</li> <li>• Franklin Mutual Series (1949)</li> <li>• Franklin Templeton Emerging Markets Equity (1987)</li> </ul>	<ul style="list-style-type: none"> <li>• Franklin Templeton Fixed Income Group (1970)</li> <li>• Templeton Global Macro (1986)</li> <li>• Franklin LAM-Fixed Income (1993)</li> </ul>	<ul style="list-style-type: none"> <li>• Franklin Templeton Multi-Asset Solutions (1948)</li> <li>• Franklin Systematic (2011)</li> </ul>	<ul style="list-style-type: none"> <li>• Franklin Real Asset Advisors (1984)</li> <li>• Darby Overseas Investments (1994)</li> <li>• K2 Advisors (1994)</li> <li>• Pelagos Capital Management (2005)</li> </ul>

### Purpose and Values for Clients

At FTIAL, Corporate Citizenship means embracing responsibility for our actions and encouraging a positive impact on all our stakeholders. By investing in our business and our people, we hope to fulfil our role in building not just a sustainable company, but a sustainable future for all.

#### Investing in our Business

We strive to earn the trust of our clients every day, while protecting their long-term interests. We do this by upholding the highest standards of ethics and integrity in our business practices and in our product offerings, integrating responsible processes in all aspects of our operations, where possible. It is essential that our clients have confidence in our governance, ethics and compliance practices.

#### Investing in our People

We are committed to being an employer of choice, placing employee satisfaction and engagement at the centre of our corporate strategy. We do this by creating a workplace that fosters inclusion and opportunity for all of our employees.

#### Investing in our World

We recognise the importance of investing in the communities in which we operate, and make every effort to enrich the social, educational, and environmental well-being of the places our employees live and work.

## Ownership, management and governance structures of FTIAL

FTIAL is a wholly owned subsidiary of Franklin Resources, Inc., which is the holding company for various subsidiaries that form the global investment management organisation known as Franklin Templeton Investments (FTI). Franklin Resources, Inc is listed on the New York Stock Exchange.

The Board of Directors of FTIAL is comprised of the following internal individuals.

Appointed Entity	Appointment Type	Data First Appointed
Matthew Harrison	Director (Chairman)	15/01/2018
Gwen Shaneyfelt	Director	22/05/2018
Stephen Grundlingh	Director	22/05/2018
Peter Wilmshurst	Director	26/11/2008

The following Australian Committees have been established to assist with on-going governance oversight:

- External Compliance Committee;
- Risk Management Committee; and
- Executive Management Committee.

In addition to the above local Committees, a number of global Committees have been established by the Franklin Templeton Group to provide additional governance support in key areas. These include:

- Complex Securities Review Committee;
- Counterparty Credit Committee;
- Enterprise Risk Management Committee;
- Executive Investment Risk Committee;
- Global Best Execution Committee;
- Global Product Committee;
- Global Trading Oversight Committee;
- International Anti Money Laundering (AML) Committee;
- Investment Liquidity Committee; and
- Valuation Committee.

Note that the above list of committees is not a full list of all company cross-functional or regional committees.

## Investment Strategies and Conflicts of Interest

As stewards of our clients' capital, portfolio managers conduct deep research to find the best investment opportunities for their respective strategies. Their research is strengthened by formalised collaboration with Franklin Templeton's Investment Risk Management Group (IRMG) - an independent team of specialised risk professionals aligned by asset class and strategy. To help ensure appropriate objectivity, IRMG does not have direct reporting lines to portfolio management but rather reports directly to the firm's Chief Executive Officer. IRMG acts as a trusted advisor, providing independent investment risk assessments and guidance to portfolio managers.

IRMG has long been a collaborative yet independent organisation within Franklin Templeton. This dedicated risk team includes more than 20 risk consultants and more than 80 risk analysts around the world, who work alongside portfolio management teams and Chief Investment Officers to provide accurate, timely performance and risk analysis on Franklin Templeton funds.

The risk group has access to holdings-based portfolio information and a suite of proprietary and industry-leading modelling tools to analyse these portfolios. IRMG collaborates with investment teams on three key levels:

### *Analytics*

It provides accurate, relevant and timely performance and investment risk analysis to portfolio managers. Risk analysts quantify sources and levels of risk, deconstruct detailed risk data, and identify the major sources of risk in each portfolio.

Ex Post	Ex Ante	Weights and Exposures
<ul style="list-style-type: none"> <li>▪ Historical performance and risk data vs benchmarks and peers</li> <li>▪ Performance attribution analysis to isolate drivers of return due to allocation and selection decisions</li> <li>▪ Risk factor performance attribution</li> </ul>	<ul style="list-style-type: none"> <li>▪ Estimate and communicate the sensitivity of the portfolio to key risk factors</li> <li>▪ Tail risk analysis such as Value at Risk (VaR) and Expected Shortfall (ES) during periods of market stress</li> <li>▪ Scenario analysis</li> </ul>	<ul style="list-style-type: none"> <li>▪ Identify absolute and relative trends and outliers</li> <li>▪ Understand current positioning through lenses such as sector, country, currency, duration, OAS</li> <li>▪ Analysis of issuers and liquidity</li> </ul>

## Overview of Global Committees

Committee	Members	Function
Global Trading Oversight Committee	Investment Management Platforms, Global Investment Compliance, Global Trading, Global Compliance	Provides efforts around best execution of trades as well as monitoring of and insight into trading risks and current conditions. Seek to ensure trading function policies and procedures are consistently applied. Administers broker selection and evaluation procedures.
Global Best Execution Committee	Global Trading (sub-committee of Global Trading Oversight Committee)	Reviews broker ratings and evaluates brokers' execution performance.
Complex Securities Review Committee	Legal, Fund Accounting, Tax, Investment Risk Management, Settlements, Global Compliance, Global Trading	Reviews and approves the use of complex securities, such as derivatives, within portfolios from an operational, legal, and risk perspective.
Valuation Committee	Fund Accounting, Investment Risk Management, Performance, Global Trading, Investment Compliance	Monitors securities from a liquidity perspective and implements an independent pricing review process for all securities that cannot be priced by a third party.
Counterparty Credit Committee	Investment Risk Management, Investment Compliance, Trading	Oversees firm-wide exposure to counterparties across all trading partners from a trading and derivative perspective and in response to changing market conditions.

## Oversight

Risk professionals provide oversight on behalf of internal and external stakeholders in relation to mandate guidelines, regulatory and industry standards. When a portfolio's exposure to key risks falls outside the range agreed to by the portfolio manager, the risk consultant and the product manager, IRMG follows a prescribed escalation protocol to address the situation. All breaches of these internal guidelines must end with one of three resolutions — adjusting the portfolio, approving an exception, or modifying the guidelines. The CIOs, Executive Investment Risk Committee and CEO are part of the escalation.

Guidelines Monitoring	Stakeholder Commitments	Enterprise Leadership and Oversight
<ul style="list-style-type: none"> <li>▪ Customised approach aligned with each unique investment process</li> <li>▪ Internal risk limits and guidelines are monitored and escalated as needed.</li> <li>▪ Monthly "top-down" risk reviews with Executive Risk Committee</li> </ul>	<ul style="list-style-type: none"> <li>▪ Stress testing and back-testing reports to comply with regulatory guidelines</li> <li>▪ Monthly risk summary to CEO &amp; Executive Committee</li> <li>▪ Standardised fund board reports</li> <li>▪ Collaboration with Compliance to support monitoring of IMA risk limits</li> </ul>	<ul style="list-style-type: none"> <li>▪ Chairs key committees:</li> <li>▪ Complex Security Review Committee</li> <li>▪ Counterparty Credit Committee</li> <li>▪ Investment Liquidity Committee</li> <li>▪ Active members of:</li> <li>▪ Global Product Committee</li> <li>▪ Product Advisory Team</li> <li>▪ Enterprise &amp; Legal Risk Management Committees</li> </ul>

## Consulting

A dedicated risk consultant is available to work with portfolio managers in the ongoing management process to review the portfolio's overall diversification focusing on alignment with the team's convictions and risk optimisation based on investor expectations. Our most senior risk professionals may also provide forward-looking analysis and objective views on investment selection, portfolio construction and a variety of exposures from factors to liquidity.

Portfolio Evaluation	Strategy Implementation	Forward-Looking Analysis
<ul style="list-style-type: none"> <li>▪ Ongoing in-depth risk reviews for key accounts</li> <li>▪ Authoritative performance and risk analysis</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ensure investment positioning is in line with conviction</li> <li>▪ Assess inherent risk factors of each position and their combined impact on portfolio risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ Insight into the impact of prospective trades</li> <li>▪ Quantitative insights, optimisation</li> <li>▪ Stress testing, historical event and market scenario analysis</li> </ul>

## Section 2: Internal Governance

### Ethical Conduct and Professional Practice

Throughout the company's history it has recognised the importance of building and maintaining a culture of integrity. We take ethical conduct and professional behavior seriously and are dedicated to operating the company according to the highest principles of accountability, honesty, integrity and ethics.

FTIAL has adopted comprehensive corporate governance policies, procedures and processes designed to safeguard our business and protect the interests of our clients. FTIAL is committed to ensuring a culture of compliance with its corporate governance standards and requirements.

The company has in place a Code of Ethics and Business Conduct (the Code) and all directors, officers and employees are required to conduct themselves in a lawful, honest and ethical manner that underpins the values, principles and practices that guide how we conduct our business. The Code is reviewed annually and in addition, also on an annual basis, all persons covered by the Code must acknowledge in writing that they have read, understood, and will adhere to the guiding principles of the Code.

### Personal Trading

FTIAL has in place a Personal Trading Policy that covers directors, officers and employees of FTIAL and all its associated companies and their related parties. The policy objectives are to ensure that:

- The interests of FTIAL funds and client accounts are paramount and come before the interests of any representative of FTIAL or its associated companies;
- Personal trading activities of all employees of FTIAL and its associated companies must be conducted in a manner to avoid actual or potential conflicts of interest with Franklin Templeton Funds and clients of FTIAL;
- Employees must use their positions with FTIAL and its associated companies to ensure that any investment opportunities they learn of due to their positions are to the benefit and preference of Franklin Templeton Funds and clients of FTIAL.

A dedicated group within the Compliance function is responsible for monitoring personal trading activity and ensuring that it complies with the Personal Trading Policy. This includes as appropriate, pre-clearance and reporting of personal trades, annual reconciliations of personal trading accounts and disciplinary actions where guidelines as set forth in the policy are breached.

### Management of Conflicts of Interest

It is FTIAL's policy to maintain and operate effective organisational and administrative controls to take all reasonable steps designed to prevent perceived or actual conflicts of interest from adversely affecting the interests of its clients and to take all appropriate steps to identify, prevent, record and manage conflicts of interest fairly in accordance with both its regulatory and internal requirements.

FTIAL has a Conflicts of Interest Policy in place which is monitored on an ongoing basis. All employees must conduct themselves in accordance with the Conflicts of Interest Policy and ensure that the interests of the company or its employees are never placed above the interests of clients and to prevent the interests of one client being put above the interests of another client.

Where a conflict of interest cannot be managed and where permissible, FTIAL may obtain the client's consent to continue with the conflict of interest in place or determine to decline to act for the client in relation to the subject of the conflict.

In relation to Gifts and Entertainment, which can be regarded as having significant potential for conflicts of interest, FTIAL has policies and procedures in place to ensure that all gifts and entertainment is maintained within proscribed limits and is monitored to ensure compliance with these limits. The provision and/or receipt of excessive gifts and entertainment is not permitted as it could cause employees to feel placed in a position of "obligation" and/or give the appearance of a conflict of interest. Employees should not at any time provide or receive any gift or entertainment which is pre-conditioned on FTIAL providing or receiving special favours to/from a Business Associate. The company is also committed to ensuring that it complies with the conflicted remuneration provisions of the Corporations Act.

## Risk Management and Compliance

Risk Management is an important element of FTIAL's everyday business activities. FTIAL has in place a local Risk Management Committee (RMC) that is responsible to the Australian Board of Directors and which is tasked with facilitating the identification, assessment, monitoring and reporting of key strategic, operational, reputational and external risks specific to the Australian business.

The RMC has implemented a comprehensive Risk Management Framework that includes Risk Management Policies, a Risk Appetite Statement and Key Risk Register. The Australian RMC is supported by the resources of FTI's enterprise-wide risk management function, which is responsible for global company wide risk management.

The culture of compliance at FTIAL starts from the top, with support from the Australian Board of Directors and senior management and supported by FTI's Global Compliance Department. Compliance is responsible for ensuring that the company has the appropriate policies, procedures and processes in place to comply with all legislative, regulatory and internal policy requirements applicable to the company and the funds and accounts it manages. Compliance works with business unit management to ensure that each business unit has strong controls in place and is operating effectively. In addition, the company requires that all employees complete specific compliance training on a regular basis to ensure that they continue to maintain and are up to date with relevant compliance obligations.

## Error Correction

FTIAL has in place an Incident Policy that details how the company will manage errors that may occur across the business. There is a strong culture within the company to report all incidents to Senior Management and Compliance and to ensure that incidents are properly investigated and resolved. Compliance works with the business unit responsible for an error to document the incident, determine a satisfactory resolution and summarize key aspects of the incident to reduce the risk of reoccurrence. Such analysis includes a review of existing controls and the consideration of improved or additional preventative controls as may be appropriate given the circumstances of the error. The Company maintains an Incident Register and all incidents of a material nature are reported to the FTIAL Board of Directors and senior management on a regular basis. If applicable, clients will be advised of incidents that impact their accounts.

## Brokerage and Commissions

When appropriate and consistent with a duty to obtain best execution, Franklin Templeton Equity teams may direct brokerage transactions for client accounts to broker-dealers who provide research and brokerage products and services. In determining whether to use client commissions to obtain a product or service, the following three-step analysis will apply:

- Verify that the service or product is eligible research;
- Determine that the service or product provides lawful and appropriate assistance to the manager in carrying out its investment decision making responsibilities;
- Determine, in good faith, that the amount of the client commissions paid to a broker is reasonable in light of the value of the products and services provided by the broker.

Franklin Templeton Fixed Income teams do not engage in commission or soft dollar arrangements.

## Equitable Asset Valuation

FTIAL outsources the pricing of securities to a 3rd party service provider in line with contractual arrangements. FTIAL conducts regular reviews of the service provider to ensure that the policies and procedures used in unit pricing are accurate, treat all investors fairly and comply with regulatory guidance. Unit prices calculated by the external provider are verified by FTIAL prior to release. In addition, FTIAL relies on the annual audited Internal Controls Report provided by the service provider for comfort that unit pricing controls are operating effectively.

## Best Execution

Best Execution is a term that describes the process of attempting to secure the best combination of price and intermediary value given our strategies and objectives from the inception to the completion of an order. It ensures:

- Execution services meet the quality standards established by trading teams and are consistent with company policies;
- The broadest flexibility in determining brokers who will provide best execution;
- Continual evaluation of the execution capabilities of, and the quality of execution services received from, brokers effecting portfolio transactions; and
- The identification and resolution of potential conflicts of interest.

Regular reviews are done annually to determine which brokers have provided the best combination of high quality execution and low relative commission rates with the view towards maximizing value for clients.

It is the responsibility of trading teams to determine which brokers, within the universe of qualified brokers, will provide the best execution for any particular transaction.

There are many potentially relevant circumstances to consider in making broker selections. Moreover, since circumstances vary from trade to trade, there is no single rule that can be strictly applied to guide a trading team to choose a particular broker for each and every trade.

When a trading team believes more than one broker is capable of providing best execution, a trader may consider secondary factors not relevant to execution capabilities in making a trade allocation decision. Such additional factors may include feedback received from portfolio managers regarding value added by brokers in the form of research and statistical services. When secondary factors influence the decision to use a particular broker, a trader must document the reason for selecting the broker in accordance with company guidelines.

### **Trade Allocation**

In compliance with company's policy on trade allocation, which stipulates that all portfolios receive equitable treatment over time, execution allocations are done on a pro-rata basis based on order or account size. Other allocation methods may be used if they result in the fair treatment of all clients and are consistently applied and documented. Any non-standard allocations due to special considerations are reviewed and approved by the Investment Compliance group, as necessary.

The company utilises order management and trading systems to assist in effective trade execution and allocation.

### **Remuneration Policy**

In accordance with the company's compensation program, the remuneration for investment professionals includes a base salary and as appropriate may include a cash incentive bonus opportunity, a restricted equity compensation opportunity, a restricted fund share opportunity and competitive benefits package. Reviewed annually, compensation is based upon three factors: individual performance, the salary range for an investment professional's level of responsibility, and company guidelines. Portfolio managers and analysts are provided no financial incentive to favour one fund or account over another.

In relation to restricted shares or units of Franklin Resources Inc., stock or restricted shares or units of one or more mutual funds, vesting of such deferred equity-based compensation awards is subject to achievement of key corporate and investment management metrics, designed to retain key talent through incentives, whilst maintaining line of sight to both Corporate and Fund performance.

### **Whistleblower Protection Policy**

The company makes available to employees the opportunity to report violations of compliance policies and procedures on an anonymous basis via a Compliance and Ethics Hotline. This hotline is maintained by an independent third-party company to ensure confidentiality and the company has also adopted policies that prohibit retaliation in response to any good faith report, either to management or to a regulator, of conduct that an employee reasonably believes constitutes a violation of the law or of the company's Code of Ethics and Business Conduct or is otherwise illegal or unethical.

In addition, the company has a corporate Ombudsman to whom all employees may convey concerns about business matters that they believe might involve matters of ethics or questionable practices.

### **Training and Development**

While it is expected that all staff members possess the requisite skills for the positions to which they are assigned, the company also encourages individual efforts to participate in a variety of internal and external continuing education programs. To that end, we provide new employees with a comprehensive online orientation that includes core training in areas such as company history, corporate mission and priorities, corporate values, and compliance.

Employees are trained on policies and procedures via the supervisory and management personnel and peers of specific departments. New and existing employees meet with their leaders to customize a development plan and on an annual basis goals and objectives for all employees are reviewed and revised.

All employees have access to the corporate intranet which details the multitude of professional development opportunities offered by the company. Open to all employees, these programs are designed to enhance their skills and knowledge, thus enabling them to achieve their objectives. Courses provided encompass investment and finance, leadership, communication skills and technology. Staff, as appropriate to their roles, frequently attend industry seminars and conferences to keep them up-to-date with the latest developments in their field. The firm also makes appropriate resources available to those who wish to complete more specific studies.

In line with its Australian Financial Services Licence obligations, FTIAL also ensures that all relevant Australian employees meet the requirements of RG 146 and that these requirements are maintained on an on-going basis.

### **Complaints and Disputes**

FTIAL has in place internal dispute resolution procedures for managing any expression of dissatisfaction with FTIAL, whether oral or written and whether justified or not, from or on behalf of an eligible complainant about the firm's provision of, or failure to provide, a financial services activity. We take reasonable steps to ensure we handle complaints fairly, consistently and promptly and that we identify and remedy any systematic problems. We conduct a thorough investigation of any complaint and respond to complainants within the timelines detailed in our Internal Dispute Resolution Policy.

As per our Australian Financial Services Licence obligations, FTIAL is a member of the Australian Financial Complaints Authority (AFCA) and all retail complainants, if they are not satisfied with the outcome of a complaint with FTIAL, are able to refer the matter to AFCA for external resolution.

## Section 3: Asset Stewardship

### Monitoring of Company Performance on Financial and Non-Financial Matters

Portfolio managers and analysts hold regular discussions to engage with executives and board members (as appropriate) of investee companies on issues that we believe are material to the long-term success of each company. Primary contact with companies is maintained through our global network of investment professionals who are responsible for producing regular investment opinions on the companies they cover. These reports aim to cover everything which they believe is relevant and material to the decision of whether or not to invest in the company in question.

### Engagement with Company Management

Meetings with management play an important role in our research process. They provide our portfolio managers and analysts with an understanding of management's forward planning and facilitate an assessment of progress toward that plan. During company meetings, we seek to understand the company's long term strategy, not just its immediate goals. Our objective is to truly understand management's strategic thinking over the long term and to take a detailed look at each company that extends beyond routine financial analysis. These discussions cover a range of topics including company strategy, operational performance, acquisition and disposal strategy, Board issues, executive/Board performance, and material environmental, social and governance issues, to the extent company management is able to share this information publicly with its shareholder community.

At their discretion, investment specialists select the engagement approach(es) that they believe are most appropriate and effective for a particular situation. Analysts, Portfolio Managers, Directors of Research and Chief Investment Officers work collaboratively within each investment team and form a case-by-case judgment of how best to proceed in particular circumstances. We generally believe that constructive dialogue direct with the key parties is more effective than public action, though our investment managers have engaged publicly in select cases where deemed appropriate and necessary to protect shareholder interests.

### Approach to considering Environmental, Social and Governance factors (ESG)

At FTI, responsible investment (RI) refers to the integration of environmental, social and governance (ESG) factors into investment decisions with the objective of providing better risk-adjusted returns, particularly over the long term. Our Responsible Investing Policies and Principles outline the philosophy and approach we take to ensure that ESG consideration is embedded throughout the investment process.

ESG factors can have a material impact on the value of companies and securities. Examples of ESG factors include natural resource use and scarcity, governance controls, product safety, employee health and safety practices, and shareholder rights issues. FTI believes these issues should be considered alongside traditional financial measures to provide a more comprehensive view of the value, risk and return potential of an investment. With this understanding, we are committed to the integration of ESG consideration into our investment management processes and ownership practices.

FTI's Responsible Investment Policies and Principles apply across our independent investment management groups and have the flexibility to accommodate a number of distinct investment approaches to consideration of ESG factors.

Investment managers take ESG criteria into account in a manner consistent with their investment philosophy. With the exception of our controversial weapons policy, there are no firmwide restrictions or mandates imposed at the corporate level across our different investment management groups.

Working with the firm's head of investments and Chief Investment Officers (CIOs), FTI's dedicated ESG team has responsibility for the oversight of and adherence to the firm's responsible investment policies. The portfolio managers and investment analysts have responsibility for the implementation of the policy.

The ESG team works closely with the investment groups to further the integration of ESG factors in the investment process through ESG education, evaluation of existing processes and enhancement of research methods, tools and monitoring mechanisms. The ESG team reports through the CIO of Multi Asset Solutions, directly to the President of the firm, who is also a member of the Franklin Resources Executive Committee. The Executive Committee (comprised of the firm's CEO, President, executive leaders from investment, distribution and the General Counsel) is responsible for shaping the firm's overall corporate strategy.

## 1. ESG Integration

### 1.1 Approach and Practices

Environmental, social, and governance factors have become increasingly important to corporations worldwide as they seek to balance organizational goals with the expectations of their stakeholders in an increasingly complex operating environment. When companies manage stakeholder relationships effectively, they can be more successful at managing risk and capturing opportunities – better positioning these organizations for potential long-term success.

Key tenets of our ESG approach:

- **Client investment goals and objectives always comes first:** Consistent with the client/strategy investment goals and objectives, and where material to a particular investment opportunity, FTI seeks to consider environmental, social and/or governance factors as an integrated element of our investment research and decision making, where we believe these factors may influence the risks and rewards in the portfolio.
- **Independent groups, unique investment processes:** FTI is committed to maintaining the independence of each of our investment groups, in order to provide our clients with the opportunity to build truly diversified portfolios. This includes unique approaches to considering and managing portfolio risks, including ESG related risks.
- **Led by the portfolio managers in partnership with the Investment Risk Management Group (IRMG):** Consistent with IRMG's mission of integrating investment risk management into the investment processes at FTI, IRMG's objective is to ensure ESG related risks are recognized and intentional during the various steps of the investment cycle.

Consideration of material ESG factors is an important element of our analysts' fundamental bottom-up research and our dedicated ESG team supports these research efforts through access to additional ESG-related data, analysis and training, and enhancements to processes and documentation, as appropriate.

The support from the ESG team and the IRMG allows our portfolio managers to gain a deeper and more comprehensive understanding of the potential ESG risks and rewards associated with each investment.

### 1.2 ESG in the Investment Process

Our fully integrated ESG approach leverages FTI's investment research teams and risk management framework. This approach applies across our investment groups and has the flexibility to accommodate distinct approaches to the analysis of ESG issues, consistent with each group's individual investment style:

#### A. Investment Research & Analysis

Integration begins with our investment analysts considering material ESG risks and opportunities as part of their fundamental research. One of our key strategies for effective investment integration is to embed ESG consideration in the work of our research teams. Consistent with their status as independent investment management groups, each investment manager determines the various research inputs that are included and weighted in their investment decisions. As a fundamental bottom up manager, FTI's investment research is predominately generated internally by FTI investment professionals.

#### B. Portfolio Construction & Monitoring

We strive not only to implement our Responsible Investment Policies and Principles in research, but also to uphold them throughout portfolio construction and maintenance.

Each investment manager determines the research inputs that are included and weighted in their investment decisions. As an integral aspect of their research activities, analysts are responsible for monitoring any material ESG considerations relevant to their analysis of a particular security. Analysts conduct this monitoring on an ongoing basis and incorporate their insights into updated research notes and recommendations discussed with the investment team in the course of portfolio construction decision making.

### C. Risk Management

We also strive to integrate ESG consideration into the existing risk management framework via the IRMG. Our dedicated ESG team works with the IRMG's risk consultants and uses industry-leading tools to provide a top-down, portfolio level perspective on ESG factors. By introducing ESG analytics into the regular and recurring- portfolio performance and risk analysis and the related discussions with portfolio managers, our goal is to make ESG risk consideration a core component of the investment risk conversation.

#### 1.3. Active Ownership

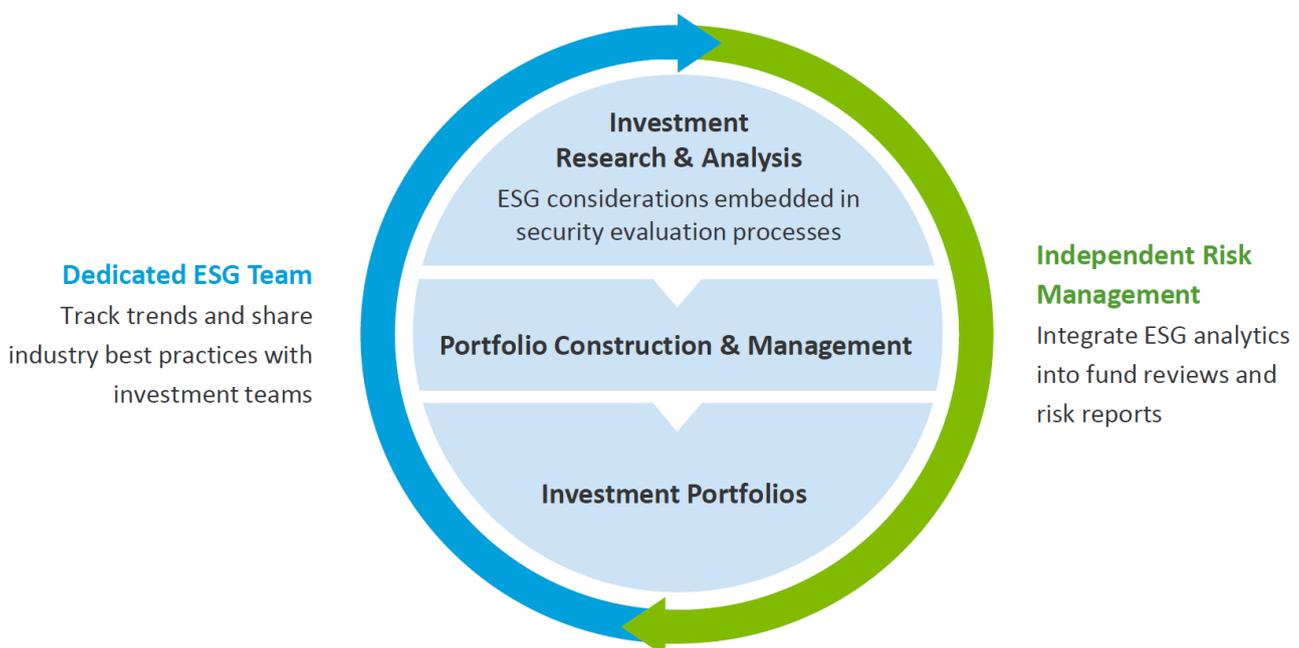
At FTI, active ownership encompasses our investment professionals' activities related to meetings and dialogue with company management, advisory board participation, and proxy voting (where authorized by our clients), applicable to the different investment strategies across the firm.

#### Proxy Voting

With many years of experience, our investment managers understand that their proxy voting decisions may affect the value of shareholdings, and they are committed to fulfilling their fiduciary duty to vote proxies in the best interests of their clients. Proxy voting policies and procedures serve as guidelines for proxy voting decisions and detail the process by which decisions are made, including votes related to ESG issues.

We use external providers for advice on corporate governance issues to assist us in our proxy voting responsibilities. Where appropriate, additional ESG research sourced from external providers is used as an input into our investment process, together with the fundamental research conducted by our team of in-house research analysts. Currently, FTI has engaged Institutional Shareholder Services (ISS), Glass Lewis, and Ownership Matters to provide analysis of proxy issues. FTI will generally consider supporting ESG related shareholder resolutions that promote the long-term economic interest of clients and do not seek to interfere in routine management matters.

To provide transparency for our clients, both proxy voting policies and voting records are available publicly to the extent legally required in certain countries.



## Engagement

FTI portfolio managers and analysts hold regular discussions to engage with the executives and board members (as appropriate) of investee companies to review issues that we believe are material to the long-term success of each company. We maintain primary contact with companies through our global network of over 600 investment professionals responsible for producing regular investment opinions on each of the companies they research. These reports include information they believe is relevant and material to the investment decision process.

Meetings with management play an important role in our research process - providing our portfolio managers and analysts with an understanding of management's forward planning and facilitating an assessment of progress toward that plan. During company meetings, we seek to identify the company's long-term strategy, not just its immediate goals. Our objective is to truly appreciate management's strategic thinking over the long term and take a detailed look at each company, that extends beyond routine financial analysis.

These discussions cover a range of topics which may include company strategy, operational performance, acquisition and disposal strategy; board issues, executive/board performance, and material environmental, social and governance issues, to the extent company management is able to share this information publicly with their shareholder community. Our engagement may also include dialogue or collaboration with industry bodies, Non-Governmental Organizations (NGOs), academics or other specialists who may provide valuable insight into ESG factors or a company's activities.

We evaluate each situation individually, rather than adopting rigid guidelines on when and how to escalate ESG engagement activities. At their discretion, FTI investment managers select the engagement approach(es) that will be most appropriate and effective for each situation. Within each investment team, Analysts, Portfolio Managers, Directors of Research and CIOs work together to form a case-by-case judgment of how best to proceed in particular circumstances. We generally believe that constructive dialogue directly with the key parties is more effective than public action, although our investment managers have engaged publicly in select cases where it was deemed appropriate and necessary to protect shareholder interests.

FTI typically does not comment on engagement activities involving portfolio companies.

## Collaborative Engagement

Our independent investment groups each offer distinct investment perspectives. Investment groups may collaborate on engagement topics where there are common concerns and alignment of perspectives, bringing together their shared expertise.

FTI may also collaborate with other institutional investors to engage with companies when we believe that doing so is likely to advance clients' interests, is consistent with our firm's policies and is permissible under applicable laws and regulations.

## 2. Research and Resources

As a fundamental manager, FTI's investment research is predominately generated internally by FTI investment professionals. Analysts obtain information from a variety of sources, including (but not limited to) investee companies or bond issuers; government institutions and officials; specialist research providers, including those dedicated to ESG; supranational organizations, think tanks and NGOs; academic papers and government studies; independent and broker research; current and historical news; and company, industry and country statistics and trends.

## 3. Governance

The Head of ESG along with Franklin Resources' Executive Committee provides oversight of the ESG program and approves FTI's Responsible Investment Policies and Principles. The dedicated ESG team maintains the Responsible Investment Policies and Principles and reviews these to reflect enhancements to our ESG approach as needed.

The ESG team is comprised of dedicated specialists, whose role is to:

- Engage and educate portfolio teams to assist in recognizing and understanding the impact and scope of material ESG issues and consult on emerging ESG issues.
- Evaluate current research practices related to ESG issues and identify opportunities to refine and improve.
- Enhance portfolio teams' ability to analyze ESG issues by incorporating independent and unbiased ESG data, research and analytics.

## 4. Memberships and Affiliations

We are a member, supporter or signatory of the following organizations and initiatives:

- Principles for Responsible Investing (PRI)
- International Corporate Governance Network (ICGN)
- UK Sustainable Investment and Finance Association (UKSIF)
- Eurosif
- The Responsible Investment Association (RIA)
- Global Real Estate Sustainability Benchmark (GRESB)
- Sustainable Accounting Standards Board (SASB) Alliance
- Pensions for Purpose
- The Board Director Training Institute of Japan

In addition to the UK Stewardship Code we are signatories to a number of regional Stewardship Codes which reaffirm our commitment to be an active and engaged owner, and to considering ESG factors as part of our fiduciary duty.

## 5. Socially Responsible Investment

We draw a clear distinction between ESG and Socially Responsible Investing (SRI) in our Responsible Investment Policies and Principles. SRI is an investment philosophy that considers both financial returns and ethical objectives.

Although SRI may incorporate ESG factors, SRI is based on screens (negative and/or positive) which can exclude certain securities with negative religious, ethical, or cultural implications (e.g. alcohol) or include securities with positive religious, ethical, or cultural implications (e.g. alternative energy).

Recognising that different clients have different SRI priorities, FTI is unable to apply client-specific SRI policies to its pooled fund investment vehicles. We work with separate account clients individually, and we have the capability to customize and accommodate specific investment criteria to meet each separate account client's SRI policy. In doing so, we assess both the practicality of such restrictions and their potential impact on the performance and risk profile of the portfolio.

## 6. Thematic Investing

Thematic investing allows investors to address ESG issues such as climate change, water and sustainable development, by investing in issuers that provide solutions to the issue or are well positioned to benefit from structural ESG shifts. FTI can work with clients to create customized solutions that align with a client's ESG strategy. FTI also offers a range of dedicated climate change funds in some jurisdictions.

## 7. Impact Investing

Impact investments are investments made into companies, assets, and funds with the intention to generate specific social or environmental outcomes alongside a financial return. FTI can work with clients to create customized solutions that align with a client's impact objectives. In addition to FTI's dedicated ESG team, we have also appointed a Director of Impact who focuses on assessing impact investments within our real assets strategies.

## 8. Controversial Weapons

Franklin Templeton is committed to supporting and upholding conventions which seek to ban the production of controversial weapons. We are therefore committed to not investing in debt and equity securities issued by companies that we believe are confirmed producers of controversial weapons as defined in our Controversial Weapon's Policy.

## 9. Related Documents

Please visit the Responsible Investment section on the appropriate Franklin Templeton website for your country or region for further information on:

- Proxy voting policies
- Controversial Weapons Policy
- Regional Stewardship Code Statements
- PRI Transparency Report

## Approach to Client Engagement, Education and Communication Regarding Asset Stewardship

As signatories to the Principles for Responsible Investment, Franklin Templeton is committed to participating in the PRI's annual reporting process, publicly disclosing how ESG issues are integrated within investment practices and our progress in implementing the Principles. These responses are available on the PRI website.

We have also worked with individual clients across various strategies and asset classes to develop ESG reporting that meets their specific priorities and requirements. Our ESG team and our Investment Risk Management Group have access to a number of ESG tools and reports which supplement the research and investment process and can be leveraged for reporting. For some clients, we have also worked with the investment team to develop reports summarising portfolio decisions based on ESG considerations as well as examples of direct engagement with companies on particular ESG issues. When onboarding a new client relationship, ESG reporting requirements are covered within a detailed discussion of regular client reports and deliverables.

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## IMPORTANT NOTE

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