

Franklin MSCI China Paris Aligned Climate UCITS ETF (the “Fund”)



FRANKLIN
TEMPLETON

Legal Entity Identifier: 254900G70W062PBB4G48

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

- It made **sustainable investments with an environmental objective: 0.00%**
 - 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
- It made **sustainable investments with a social objective: 0.00%**

NO

- It **promoted Environmental/Social (E/S) characteristics** and while it did not have as its objective a sustainable investment, it had a proportion of 16.33% of sustainable investments
 - with an environmental objective in economic activities that 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 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 Fund promoted the environmental characteristics of (i) helping investors transition towards a low-carbon economy and (ii) alignment of investments to the Paris Climate Agreement by replicating the MSCI China Climate Paris Aligned Net Total Return Index (the "Index"), which is designed to meet the minimum requirements for EU Paris Aligned Benchmarks (EU PABs).

The Fund invested in a portfolio of large and mid-cap equity holdings in China that included all or a large proportion of the securities included in the Index. Securities were also held in the same proportion as the weight of those securities in the Index. The Index was designed to align to the Paris Climate Agreement and help investors to transition towards a low-carbon economy and also delivers reduced carbon emissions intensity compared to the MSCI China Index (its parent Index), reduced exposure to fossil fuel reserves and increased exposure to potential climate change opportunities.

The Index also excludes companies involved in controversial weapons, ESG controversies, tobacco, thermal coal mining, oil and gas and thermal coal power generation and those that are not aligned with the UNGC principles, OECD Guidelines or UN Guiding Principles on Business and Human Rights.

How did the sustainability indicators perform?

The Fund uses the Greenhouse Gas (GHG) Intensity of securities in the Index, as measured by scope 1, 2 and 3 emissions as its sustainability indicator.

The combined weighted Scope 1, 2 and 3 average carbon intensity (tons CO₂e/\$ sales) of the Index was 55.7% lower than that of the parent index (422.2 vs. 954.1) based on data provided by MSCI.

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

Sustainability KPI Name	Value	Benchmark
The Greenhouse Gas (GHG) Intensity of securities in the reference benchmark compared to the parent benchmark as measured by combined weighted scope 1, 2 and 3 emissions. (tCO ₂ e/M\$ invested)	422.50	954.10

● ... And compared to previous periods?

Not applicable. This is the first periodic report prepared for the Fund in accordance with Regulation (EU) 2022/1288.

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

The objectives of the sustainable investments that the Fund made were to either invest in companies that are providing solutions to mitigate the consequences of climate change or that have established climate policies and set carbon reduction targets and are constituents of the Index. The sustainable investments also met the criteria for "do no significant harm" in accordance with SFDR article 2(17).

Although the Fund did not have sustainable investment as its objective, it committed to investing a minimum of 10% of its Net Asset Value in securities that can be defined as sustainable. These were securities that through their products and services contributed to an environmental objective and were able to meet the criteria for "do no significant harm" in accordance with SFDR article 2 (17). At the end of the reference period, 16.33% of the Fund's Net Asset Value was invested in sustainable investments with an environmental objective.

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

By tracking the Index, the Fund avoided investing in many companies that cause significant harm to any environmental or social objective. In addition, those securities defined as sustainable investments were assessed to ensure that they did not cause significant harm to any environmental or social objective and ensure alignment with SFDR Article 2(17). This assessment required the individual company to meet strict criteria including the following:

- no ties to controversial weapons
- less than 1% of revenue from thermal coal
- less than 5% of revenue from tobacco related activities
- is not a tobacco producer
- not involved in any serious ESG Controversies.

During the reference period there were no breaches of the Fund's criteria.

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

The Index methodology includes criteria to reduce exposure to or to exclude securities which conflict with the following principal adverse indicators:

- GHG intensity of investee companies (#3)
- Exposure to companies active in the fossil fuel sector (#4)
- Violations of UN Global Compact Principles (#10)
- Exposure to controversial weapons (#14)

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

Yes. Any securities that failed to comply with the UNGC principles, OECD Guidelines or UN Guiding Principles on Business and Human Rights were excluded from the Index.

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?

Please see the response to "How were the indicators for adverse impacts on sustainability factors taken into account?"



What were the top investments of this financial product?

During the reference period, the largest 15 investments of this Fund, excluding cash and derivatives, were:

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.

Largest investments	Sector	% of Assets	Country
Tencent Holdings Ltd ORD HKD 0.000020	Communication Services	15.72%	China
Alibaba Group Holding Ltd ORD HKD 0.00003125	Consumer Discretionary	10.45%	China
Meituan ORD HKD 0.000010 CL B	Consumer Discretionary	3.22%	China
Baidu Inc ORD HKD 0.00000625 CL A	Communication Services	2.65%	China
BYD Co Ltd ORD HKD1	Consumer Discretionary	2.20%	China
Netease Inc ORD HKD.0001	Communication Services	1.72%	China
PDD Holdings Inc SPONSORED ADR	Consumer Discretionary	1.68%	China
China Conch Venture Holdings Ltd ORD HKD.01	Industrials	1.57%	China
LONGi Green Energy Technology Co Ltd ORD CNY 1 CL A *XSSC SS-HK STOCK CONNECT NORTHBOUND*	Information Technology	1.55%	China
Sungrow Power Supply Co Ltd ORD CNY 1 *XSEC SZ-HK STOCK CONNECT NORTHBOUND*	Industrials	1.38%	China
NARI Technology Co Ltd ORD CNY1 CL A *XSSC SS-HK STOCK CONNECT NORTHBOUND*	Industrials	1.35%	China
China Three Gorges Renewables Group Co Ltd ORD CNY 1 *XSSC SS-HK STOCK CONNECT NORTHBOUND*	Utilities	1.31%	China
Yum China Holdings Inc COM USD.01	Consumer Discretionary	1.25%	China
China Life Insurance Co Ltd ORD HKD1 CLASS H	Financials	1.23%	China
Kweichow Moutai Co Ltd ORD CNY1 CL A *XSSC SS-HK STOCK CONNECT NORTHBOUND*	Consumer Staples	1.22%	China



What was the proportion of sustainability-related investments?

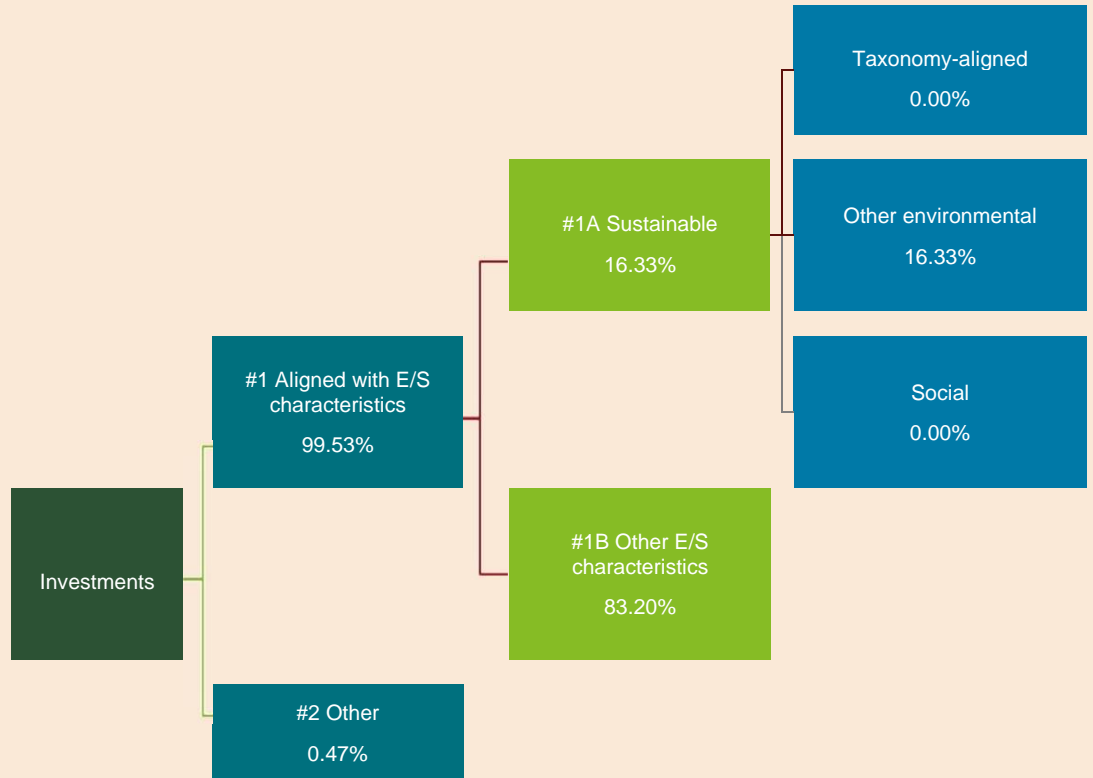
The proportion of sustainable investments was 16.33%

Asset allocation describes the share of investments in specific assets.

● **What was the asset allocation?**

99.53% of the Fund's portfolio was aligned with the E/S characteristics promoted by the Fund. The remaining portion (0.47%) was not aligned with the promoted characteristics and consisted primarily of liquid assets or issuers for which there was no ESG rating.

Out of the Fund's portfolio segment which was aligned with the promoted environmental and/or social characteristics, the Fund invested 16.33% of its portfolio in sustainable investments.



#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 the Fund, excluding cash and derivatives, were:

Top sector	% of Assets
Consumer Discretionary	23.38%
Communication Services	22.77%
Financials	11.35%
Information Technology	11.00%
Industrials	10.29%
Health Care	9.98%
Consumer Staples	4.07%
Utilities	3.32%
Real Estate	2.77%
Materials	0.59%
Top sub-sector	% of Assets
Interactive Media & Services	19.64%
Broadline Retail	11.81%
Capital Markets	7.61%
Semiconductors & Semiconductor Equipment	5.98%
Electrical Equipment	5.29%
Hotels, Restaurants & Leisure	5.04%
Automobiles	3.81%
Biotechnology	3.53%
Independent Power & Renewable Electricity Producers	3.32%
Software	3.32%
Beverages	3.26%
Entertainment	2.88%
Real Estate Management & Development	2.77%
Life Sciences Tools & Services	2.69%
Pharmaceuticals	2.35%

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.



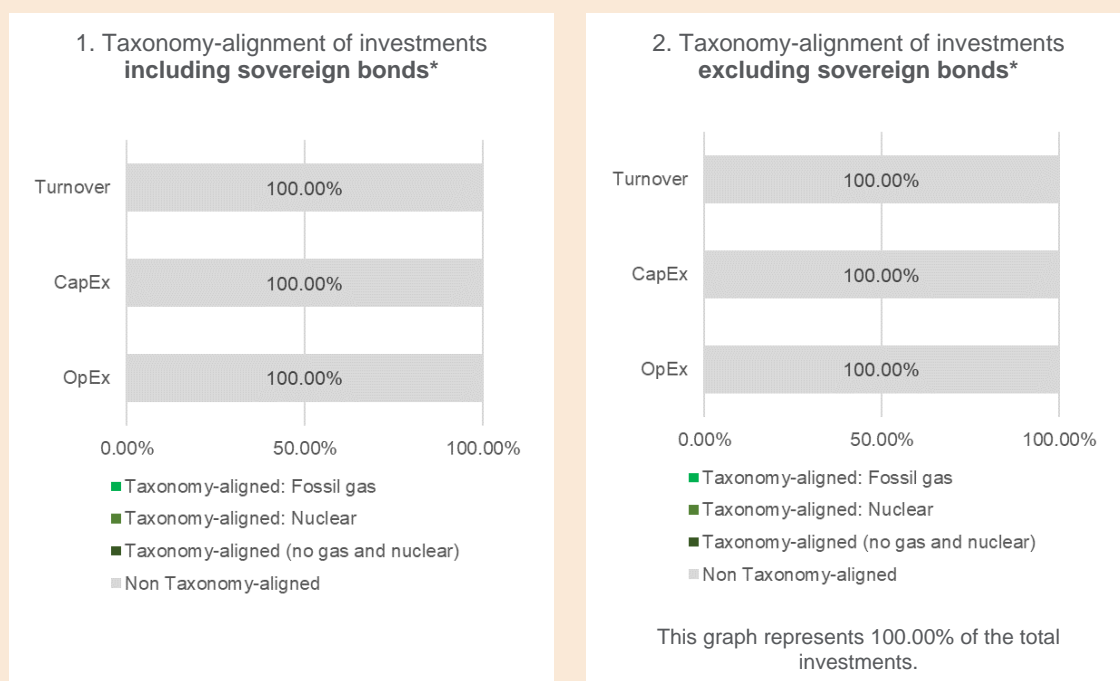
To what extent were the sustainable investments with an environmental objective aligned with the EU Taxonomy?

Consistent with its intentions, as set out in the Supplement, 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.



* 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?

Consistent with its intentions, as set out in the Supplement, the Fund did not invest in transitional or enabling activities.

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

Not applicable. As set out in the Supplement, the Fund does not commit to making sustainable investments which are aligned with the EU Taxonomy.

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?

Consistent with its intentions, as set out in the Supplement, all of the Fund's sustainable investments had an environmental objective which was not aligned with EU Taxonomy.

What was the share of socially sustainable investments?

Consistent with its intentions, as set out in the Supplement, the Fund did not invest in sustainable investments with a social objective.

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 0.47% and included cash and derivatives 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?

As outlined above, the Fund has tracked the Index which excluded stocks of companies that had exposure to and/or derived revenue from certain activities in order to promote the environmental characteristics of the Fund.

The Index is reviewed annually in March and all securities are assessed for their continued eligibility within the Index. The Investment Manager monitors the portfolio regularly and ensures that the Fund continues to comply with the Index methodology and analyses the investments exposure at a portfolio level for possible adverse impact through the Index tracking. The Investment Manager ensures that the investments of the Fund continue to closely track the Index, thereby ensuring alignment with ESG characteristics of the Index.

Securities that no longer pass the eligibility criteria of the Index are deleted at the rebalance and divested from the Fund. The Investment Managers implement the Index changes and sell out of those securities in a timely fashion.

Proxy voting is carried out across both our active and passively managed funds and ETFs. This helps us exercise our voting rights across both our active and passive managed strategies to be more aligned on sustainability issues, in a systematic way. Where engagements are undertaken this will typically be led by our fundamental research analysts from actively managed strategies, who maintain a direct relationship with the issuers concerned. Engagements are recorded and shared between teams in a central engagement tool.

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.

Further information on the methodology can be found at the following link: https://www.msci.com/eqb/methodology/meth_docs/MSCI_Climate_Paris_Aligned_Indexes.pdf

● **How does the reference benchmark differ from a broad market index?**

The Index is structured to deliver decarbonisation requirements which are absolute but also relative to the parent index, which is a relevant broad market index. The Index methodology also provides for multiple activity-based exclusions, as described above, which are not features of the parent index.

● **How did this financial product perform ...**

...with regard to the sustainability indicators to determine the alignment of the reference benchmark with the environmental or social characteristics promoted?

...compared with the reference benchmark?

...compared with the broad market index?

	Financial Product	Reference benchmark	Broad market index
	Franklin MSCI China Paris Aligned Climate UCITS ETF	MSCI China Paris Aligned Index	MSCI China Index
The Greenhouse Gas (GHG) Intensity of securities as measured by combined weighted scope 1, 2 and 3 emissions. (tCO2e/M\$ invested)	422.50	422.20	954.10