FRANKLIN TEMPLETON INVESTMENT FUNDS

Climate-Related Statements

31st March 2024

Prepared by FundRock NZ Limited in

Compliance with the Aotearoa New Zealand Climate Standards

CONTENTS

1. INTRODUCTION

FundRock NZ Limited ("**FundRock**") has prepared these climate-related statements (the "**Statements**") for Franklin Templeton Investment Funds (the "**Scheme**") with input from Franklin Templeton Australia Limited ("**Franklin Templeton**"), who FundRock has appointed as investment manager of the fund within the Scheme and in compliance with the requirements of the Aotearoa New Zealand Climate Standards (the "**Standards**"). These Statements cover the reporting period between 1st April 2023 and 31st March 2024 (inclusive) and the Brandywine Global Opportunistic Fixed Income Fund (the "**Fund**").

FundRock is a fund hosting business; we issue and manage funds on behalf of investment managers who want to provide Aotearoa New Zealand investors with access to their investment solutions via Portfolio Investment Entities (PIE funds) under our MIS (managed investment scheme) manager licence. FundRock's goal is to provide Aotearoa New Zealand investors with access to leading global and boutique domestic investment managers. Our funds cover all asset classes and a broad variety of strategies.

While FundRock retains sole authority over all aspects of fund management, all decisions about investments are made by Franklin Templeton, in accordance with the Investment Management Agreement. These Statements reflect this arrangement: certain sections are focused on how FundRock manages Climate-Related Risks and Opportunities ("**CRR&O**"); certain others, on how Frankin Templeton does it; and still others – in fact, most –present both. It is important when reading these Statements to consider these arrangements, and the respective responsibilities, to understand the Funds' strategy in relation to CRR&O.

FundRock is part of the Apex Group, which has published a Sustainability Report where more details on the group's approach to sustainability can be found. At the level of schemes and funds (that at which these Statements were prepared), our approach to climate-change varies and is strongly influenced by the investment manager associated with them.

The investment manager for the Scheme is Franklin Templeton, as detailed in the Scheme's governing documents and the Product Disclosure Statement for the Fund. Franklin Templeton has delegated the provision of investment management services for the Fund to Brandywine Global Investment Management, LLC ("**Brandywine Global**"). Brandywine Global is a wholly owned subsidiary of parent company Franklin Resources, Inc ("**Franklin Resources**"), trading as Franklin Templeton.

Franklin Templeton aims to deliver superior risk-adjusted returns and create long-term value for its clients. As part of its fiduciary duty, Franklin Templeton believes it is imperative to provide a careful assessment of risks that may impede these goals, including those arising from material risks to human, natural, and financial capital. Climate-related risk – including resource scarcity, environmental factors and resulting societal impacts – will shape the world's future prosperity. How governments and corporations respond will impact the global economy. Franklin Templeton acknowledges its role in this transformation, both as a corporation and through helping its clients navigate the resultant risks and opportunities for their portfolios consistent with Franklin Templeton's fiduciary duty.

Franklin Templeton has publicly supported the Task Force on Climate-related Financial Disclosures ("**TCFD**") since 2021, believing that the economic consequences of climate change are best understood with a robust reporting framework that promotes comparable disclosure of material risks for the ultimate benefit of investors. Franklin Templeton's latest corporate TCFD report (found here) reflects the firm's understanding and management of its risks and opportunities related to climate change.

1.1. Adoption Provisions

In preparing these Statements, FundRock made use of the following adoption provisions found in the Aotearoa New Zealand Climate Standard 2 (the "**CS2**"):

- **(A)** Adoption provision 1 (Current financial impacts);
- **(B)** Adoption provision 2 (Anticipated financial impacts);
- **(C)** Adoption provision 3 (Transition planning);
- **(D)** Adoption provision 6 (Comparatives for metrics);
- **(E)** Adoption provision 7 (Analysis of trends).

1.2. Cautionary Note and Limitations

This report is a summary of FundRock's assessment of future CRR&O and its resulting strategy. It contains FundRock's current assessment of the future CRR&O which could affect its business and customers, as well as its current planning to address these risks. This process necessarily involves estimates, projections, and assumptions about the future, which are inherently uncertain and are not forecasts of future performance.

This report contains statements that are, or may be deemed to be, forward looking statements, including climate-related goals, targets, pathways, ambitions, and related risks and opportunities, as well as FundRock's current planning to address related risks. By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, many of which are beyond our control and give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct, and that our objectives, vision, commitments, goals, targets, and strategies to mitigate and adapt to CRR&O will not be achieved. FundRock has set out the basis and limitations of its analysis in these Statements and reserves the right to revisit its assumptions and assessments as it develops its understanding of CRR&O and its response to climate change. This section should be read together with the limitations identified elsewhere in these Statements. Many of the assumptions, standards, metrics, and measurements used in preparing these Statements continue to evolve and are based on assumptions believed to be reasonable at the time of preparation, but should not be considered guarantees.

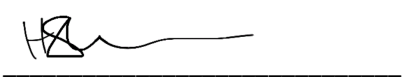
In light of the above, while FundRock has taken all due care in preparing these Statements, including its scenarios and assumptions, FundRock makes no representation as to their accuracy, completeness, or reliability, in particular in relation to FundRock's assumptions regarding future events. FundRock expressly disclaims responsibility for, and makes no representation, and gives no warranty, assurance, or guarantee, as to the accuracy, completeness, or reliability of any contents of these Statements. To the greatest extent possible under New Zealand law, FundRock also expressly disclaims all liability for any loss (direct, indirect, consequential, or otherwise) or damage arising from the use of these Statements. We recommend you seek independent advice before acting or relying on any information in this report. FundRock reserves the right to revise statements made and its strategy or business activities described in these Statements without notice.

Franklin Templeton and Brandywine Global have provided information about how they manage Climate-Related Risks and have consented to being named in these Statements in the form and context in which they are named. Franklin Templeton and Brandywine Global have not issued these Statements or caused them to be issued. Franklin Templeton and Brandywine Global make no recommendation or warranty as to the completeness or appropriateness of any information contained in these Statements and do not endorse, recommend, or guarantee the performance of the Fund. Franklin Templeton and Brandywine Global expressly disclaim responsibility for, and make no representation, and give no warranty, assurance, or guarantee, as to the accuracy, completeness, or reliability of any contents of these Statements. To the greatest extent possible under law, Franklin Templeton and Brandywine Global also expressly

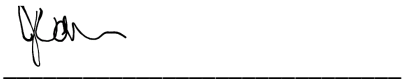
disclaim all liability for any loss (direct, indirect, consequential, or otherwise) or damage arising from the use of these Statements.

1.3. Directors' Approval

Signed on 18 July 2024 by the Directors identified below on behalf of FundRock, approving compliance with the Standards:



Hugh Stevens



Jeremy Valentine

2. GOVERNANCE

2.1. Governance Body

FundRock's Board of Directors (the "**Board**") is the governance body for the Scheme (as well as all the schemes and funds managed by FundRock). It is accountable for the long-term stewardship and resilience vis-à-vis potential impacts of climate change.

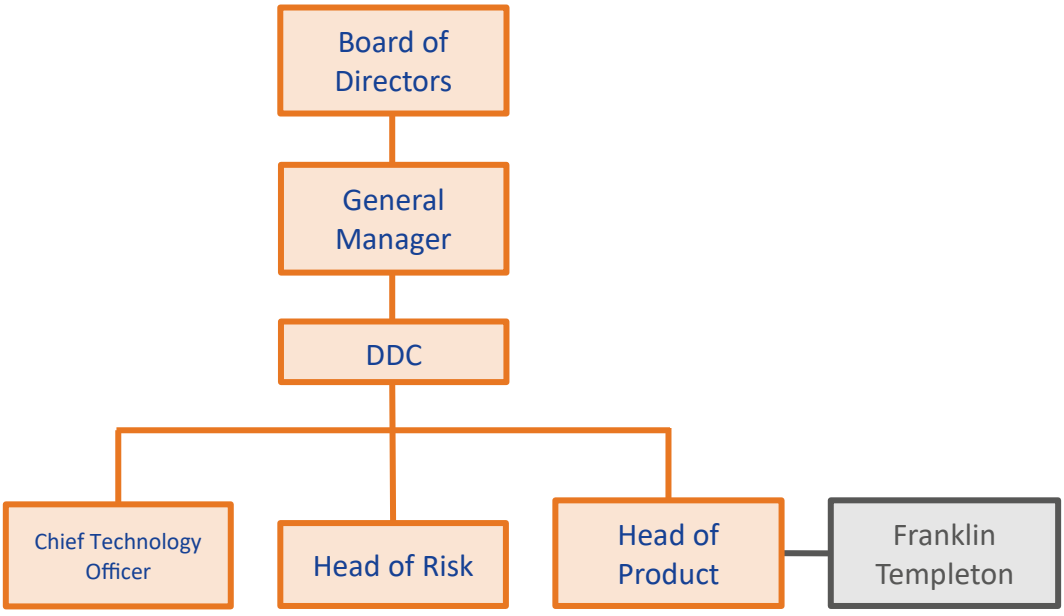
The Board takes CRR&O into account when developing and overseeing the implementation of FundRock's strategy – particularly transition compliance and regulatory risks arising from possible changes to the regulatory framework of Aotearoa New Zealand's investment industry. CRR&O that are specific to Scheme or Fund (such as those associated with the assets held by a fund) are addressed at the management level.

2.1.1. CRR&O Governance Structure

The Board engages quarterly with FundRock's General Manager, who reports on the most material CRR&O. These reports are reviewed by the Due Diligence Committee (the "**DDC**") prior to being made available to the General Manager. The DDC also reviews key deliverables of the Climate-Related Disclosures ("**CRD**") regime (including these Statements) and either approves them or attests their orderliness for submission to the Board.

For CRD purposes, the interactions with Franklin Templeton are managed by the Product team (lead by the Head of Product). As the DDC, the Product team is also responsible for this role in connection with other aspects of scheme and offer management. As part of its role, the Product team continuously monitors Franklin Templeton's compliance with their climate-related objectives.

The chart below illustrates the structure described above:



- **Board**: performs the role of governance body, as described in these Statements.
- **General Manager**: ensures project is adequately resourced, defines success, and acts as liaison between the Board and FundRock.
- **DDC**: manages CRD-related activities, as described in these Statements.
- **Head of Product**: leads the execution of CRD-related activities.

- **Head of Risk**: leads the management of CRD-related compliance risks and provision of risk management expertise.
- **Chief Technology Officer**: leads the provision of IT support and data expertise.
- **Franklin Templeton**: manages CRR&O for the Fund in accordance with its investment objective as stated in the Product Disclosure Statement.

Franklin Templeton views climate-related impacts through two lenses: as a corporate entity and as an asset manager. As an asset manager, Franklin Templeton recognises sustainability as one of the waves transforming global capital markets. As such, Franklin Templeton has developed a governance framework and strategy to ensure it exercises its fiduciary duty to act with prudence, loyalty and care when investing its clients' assets. More information on Franklin Templeton's sustainable investment governance framework can be found in Schedule A below.

2.1.2. Skills & Competencies

The Board continues to develop the skills and competencies of its members in respect to CRD and CRR&O. The Board has committed to receiving training on CRD and CRR&O at its quarterly meetings, prefacing the presentations on CRD and CRR&O by the General Manager (see Section 2.1 above).

The monitoring of investment risks, including climate-related risks, is performed by Brandywine Global's investment team using a variety of proprietary and non-proprietary research and data to evaluate investment ideas and monitor investments. The team uses thought leadership available through its industry memberships, including but not limited to the United Nations-supported Principles of Responsible Investment and the Institutional Investor Group on Climate Change. Investment and product specialist professionals also attend industry and sell-side conferences and webinars to expand their knowledge and application of Environmental, Social and Governance ("**ESG**") considerations into their investment process. In addition to the above, Team Heads regularly discuss ESG issues with their team members to develop additional competency. Each team's designated ESG lead(s) are responsible for working with both their team members and the Brandywine Global's Head of ESG to ensure training and information is disseminated widely.

Brandywine Global also considers skills and competencies in assessing and managing climate risks in the training it provides to the investment team and in selection and appointment of members of the investment team.

2.1.3. Metrics & Targets

Reports from the General Manager to the Board (see p 7 above) are planned to include a review of the Fund's performance against their metrics and targets (if any) on a semi-annual basis.

The Board has not set CRD- or CRR&O-related targets, key performance indicators, or remuneration incentives for any of FundRock's staff, the Scheme, or the Funds at this stage. Nonetheless, the investment manager may choose to set such targets or indicators for the Scheme or Fund; for more about this, see Section 5 below.

2.2. Management

The DDC reviews key deliverables of the CRD regime as they are prepared, and CRR&O for the Scheme and Fund quarterly (see p 7 above). It also engages with the Product team regarding the work on CRD in the relevant reporting period and CRR&O on a regular basis. The Product team, in turn, is in contact with Franklin Templeton throughout the reporting period and receives regular updates on their CRD-related processes and their status – including those directly related to CRR&O.

At Franklin Templeton, the Executive Board of Brandywine Global has established an Investment Committee to oversee investment-related matters. The Investment Committee's responsibilities include, among other things, oversight of Brandywine Global's ESG policies, procedures, and processes, which also include addressing climate risk, mitigation, and resilience. To assist in this responsibility, the Investment Committee has further appointed the Responsible

Investment Council ("**RIC**") that meets no less frequently than quarterly and provides a governance structure to review and vet proposed responsible investment-related strategies, products, commitments, and issues. In addition, the RIC is responsible for reviewing the annual responsible investment reporting frameworks, stewardship reporting and other membership commitments. The RIC is co-chaired by members of the Global Fixed Income and Legal teams, with representation from key areas of Brandywine Global including Regulatory Compliance, Risk Management, as well as members of the Executive Board.

All binding elements of ESG commitments are reviewed and monitored as part of Brandywine Global's Portfolio Compliance process. In addition, as part of Brandywine Global's ongoing Compliance Monitoring Program, its Regulatory Compliance group tests select aspects of its ESG process to seek to ensure, among other things:

(A) that ESG statements made across public disclosure documents and other client/investor facing documents are fair and balanced and consistent with investment team process and policy; and

(B) statements in regards to Brandywine 's public commitments to global ESG frameworks, principles, or standards do not contain any material misrepresentations or are otherwise misleading.

Further, Brandywine Global leverages the functionally independent internal audit and compliance monitoring function of its parent company Franklin Templeton.

3. STRATEGY

3.1. Current Impacts

At the entity level, the costs of compliance with CRD regulations were the most significant impact of CRR&O. FundRock and Franklin Templeton have dedicated material resources to ensure compliance with it, and the cost of data for the metrics in Chapter 3.3.2 was not insignificant. While these costs may not be passed on to the investors directly, mounting regulation may lead to fee increases.

Franklin Templeton has considered the current climate-related impacts with respect to this Fund and not observed any measurable impact.

3.2. Scenario Analysis

FundRock has used the sector scenario analysis produced on behalf of the Financial Services Council to conduct the scenario analysis (the *Climate Scenario Narratives for the Financial Services Sector* and the *Climate Risk Database*, hereinafter jointly called the "**Sector Scenario Analysis**"). The reasons for making this choice were:

- **(A)** adoption of the Sector Scenario Analysis across the industry makes it easier for investors to compare the climate-related strategies adopted by fund managers;
- **(B)** the Sector Scenario Analysis benefits from the knowledge of experts; and
- **(C)** adopting the Sector Scenario Analysis firmly grounds FundRock in a framework that is compliant with applicable regulations.

The Sector Scenario Analysis was not adopted without judgement, however. In an iterative process, FundRock identified the key risk drivers which directed the Sector Scenario Analysis, analysed their interactions, and prioritized them. The risks identified in the Sector Scenario Analysis were also analysed, with a view to systematizing them. Finally, the risks and impacts were analysed according to the distinctions of the Scheme and Fund.

3.2.1. Methods & Assumptions

FundRock has analysed the three scenarios from the Sector Scenario Analysis: Orderly (1.5°C), Too Little, Too Late (2°C), and Hothouse (3°C). These scenarios are informed (respectively) by the Intergovernmental Panel on Climate Change ("**IPCC**") SSP 1-1.9, SSP 2-4.5, and SSP 5-8.5 scenarios[1], and are relevant and appropriate for the following reasons:

- **(A)** They comply with the regulatory requirements, which estipulate that climate reporting entities must analyse a 1.5°C, a 3°C scenario, and a third scenario of their choice.
- **(B)** The Orderly and Hothouse scenarios:
  - **(i)** represent extremes, and therefore allow FundRock to analyse how the Scheme and Fund would fare under the most challenging circumstances; and
  - **(ii)** are widely used by businesses, both in the financial services and other industries – their widespread adoption will make it easier for investors to compare offers and products.
- **(C)** The *Too Little, Too Late* and the *Disorderly* scenarios were considered as the third option, and the former was selected as per the Sector Scenario Analysis Report[2] this was deemed the most likely path for Aotearoa New Zealand. It is also more challenging than the *Disorderly* scenario, which assumes lower physical and transition risks and a lower long-term temperature increase[3].

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1 *Climate Scenario Narratives for the Financial Services Sector*, p 12.

2 See Sector Scenario Analysis Report, p 12.

3 See *Network for Greening the Financial System, NGFS Scenarios for central banks and supervisors*, November 2023, pp 11 and 20.

3.2.1.1. Time Horizons

FundRock has adopted the time horizons set in the Sector Scenario Analysis:

Term	Time Horizon	End Year
Short	1-3 Years	2025
Medium	5-10 Years	2030
Long	30+ Years	2050

This decision was made to maintain consistency with the Sector Scenario Analysis and for the reasons below;

(A) Short-term horizon is aligned with short-term investment horizons.
(B) Medium-term horizon is aligned with strategic planning and medium-term investment horizons (e.g., first home acquisition).
(C) Long-term horizon is aligned with aspirational planning (e.g., mission and purpose), long-term investment horizons (e.g., retirement) and international decarbonisation targets.

3.2.1.2. Scenario 1: Orderly Transition

In the *Orderly* scenario there are steady and constant changes to technology, policy, and behaviour to support the transition to a low carbon global economy – including increasing carbon prices. The long-term chronic impacts from historic greenhouse gas emissions ("**GHG Emissions**") occur nonetheless, but the coordinated and timely action succeeds in preventing the worst.

Increasing carbon prices (NZD 250 and USD 400 by 2050, in Aotearoa New Zealand and globally respectively) and regulatory requirements (such as mandatory climate reporting) result in increasing costs for emissions-intensive entities. Societal changes, supported by legally mandated reporting, lead investors and lenders to withdraw financing and funding from emission-intensive sectors and entities in favour of those supportive of decarbonisation.

The development of low-emissions technology, coupled with customers' preference for low-emissions products and business, impacts the viability of entities who offer neither, especially in the energy and transport sectors. Emissions-intensive sectors and entities are driven to last ditch decarbonisation attempts to maintain the viability of their businesses as they struggle with increasing costs and disinterest from investors and lenders.

While the reduction in global GHG Emissions helps minimise the most significant physical impacts of climate change, minor impacts on sectors and entities reliant on the natural environment for their outputs or service delivery are nonetheless felt.

At a geography level, entities in economies that historically relied on emissions-intensive sectors and that have been slow to transition face economic impacts in the short-term – as do governments, who feel the economic impacts as worsening conditions reduce their revenue and expenditure is required to keep pace with transition being made by the rest of the world (e.g., electrification of transport infrastructure).

3.2.1.2.A. Emissions Pathways

Global emissions fall at accelerating rates, averaging a 3.4% reduction per year. Net global emissions reach 25.9 $BtCO_2e$ (billion tonnes of CO_2-equivalent) by 2030 and −294.82 $MtCO_2e$ by 2050[4]. This is cause and effect of the following[5]:

[4] *Climate Scenario Narratives for the Financial Services Sector*, p 31.
[5] The emissions pathways described in Subsections 3.2.1.2.A, 3.2.1.3.A, and 3.2.1.4.A below were adapted from *Climate Scenario Narratives for the Financial Services Sector*.

- Consumer preferences shift towards low-emissions products and services. Climate activism (including through litigation) and negative media attention impact entities perceived as not taking action. Population growth slows down in the medium term, reaching 8.5 billion in 2050.
- Policies [e.g., national and international emissions reduction requirements, carbon taxes (including border adjustments), and the ban of emission-intensive activities] are adopted globally. Global carbon prices reach USD 124 per tonne in 2030 and USD 400 by 2050.
- Development of low emissions and emissions abatement technology accelerates, and technologies are rapidly adopted. Electric vehicles see widespread adoption but heavy trucks and aviation struggle to reduce emissions. 55% of global energy production (and 61% of electricity) comes from renewable sources by 2030, and 67% by 2050 (88% of electricity). Emissions from processes such as cement and steel making remain hard to abate, however.
- Farmers implement ambitious changes to become more emission-efficient, reducing biogenic methane through widespread adoption of new technology and low emissions stock variants, and conversion of land from livestock to horticulture is substantial. The waste sector also reduces methane emissions, with nearly three quarters of organic waste recovery rate by 2050 and major expansion of landfill gas capture.
- Successful limitation of GHG Emissions curbs the most significant physical impacts of climate change. Global average temperature increases by 1.4°C by 2100.
- The global economy benefits from a stable transition to a low carbon economy, with global GDP reaching USD 289 trillion by 2050 (recovering from USD 176 trillion in 2030). The Aotearoa New Zealand economy is also positively impacted. The challenges of transformational change (such as job losses and skill shortages) are managed effectively with the help of stable climate, economy, and international relations.

3.2.1.3. Scenario 2: Too Little, Too Late

In the *Too Little, Too Late* scenario, transition to a low carbon economy is misaligned and delayed across different parts of the world. Certain geographies (designated in the *Climate Scenario Narratives for the Financial Services Sector*: the European Union, Japan, China, the United Kingdom, the United States, Canada, and Aotearoa New Zealand —the "**Early Movers**") introduce policies that bring about net-zero emissions by 2050. But in other parts of the world there is very little action, with fossil-fuelled development continuing throughout much of the remaining first half of the century. Global efforts to address climate change begin to align and exceed those by Early Movers from mid-century, but changes come too late to prevent wide ranging acute and chronic physical climate impacts.

Emissions-intensive entities located in Early Mover economies face the following pressures:

- increased costs, resulting from increased carbon emissions prices and regulatory requirements; and
- those without emissions reduction or climate-risk management plans, reduced sales and revenue, increased difficulty and cost for raising funds, decreased employee attraction and retention, and supply chain impacts, resulting from changes to stakeholder preferences.

Impacts are lesser outside these regions – except for exporters, who experience the same impacts as entities in Early Movers' regions, including through carbon taxes.

Significant physical climate risks impact sectors and geographies at varying degrees:

- Agricultural output and renewable energy generation are impacted by extreme weather events and gradual weather changes, which decrease revenue and increase costs. More fertiliser is needed to grow crops, and coal or gas is needed to generate energy, increasing emissions and physical impacts.
- Extreme weather events impair the ability of entities in the communication, utilities, information technology, and transport sectors to provide services. Customer satisfaction and revenue decline, and operational costs (repair costs and higher insurance premiums) increase.
- Significant financial impacts reduce demand for discretionary products and services.
- The health sector deals with increased demand as physical climate impacts and reduced economic stability affect individuals' health.

- At a geography level, Asia (*ex* China and Japan) and the Middle East are the most impacted, both because of the magnitude of impacts and inadequate adaptation. In Asia, this manifests as floods; in the Middle East, as water stress and drought. Food security, water availability, and housing challenges increase, leading to political unrest and migration. There are wide-ranging effects on governments and economies in these regions: the costs of disruptions and remediation are high both for public and private entities, and the latter face increased costs and reduced revenue.

3.2.1.3.A. Emissions Pathways

Emissions fall steadily and at accelerating rates (particularly after 2030), but slower than in the *Orderly* scenario, averaging about 1% per year. Global emissions reach 35.1 $BtCO_2e$ by 2030 and 26.7 $BtCO_2e$ by 2050 – 31% less than 2020[6], but substantially more than zero. This is cause and effect of the following:

- High transition risks and medium physical risks lead to significant financial impacts and a decline in economic growth by the medium term: global GDP reaches US 274 trillion by 2050. Coupled with a global population of 9.2 billion people, standards of living decline for many across the globe.
- Behavioural changes and social pressure drive decarbonisation in Europe, the United States, Canada, Australia, and Aotearoa New Zealand in the short term, but the same does not occur elsewhere until the medium term. Developed nations prioritise their own transition costs; regions with limited resources experience higher negative physical impacts. Marginalised nations are further exposed to poverty and instability (political and economic). Migration and geopolitical tensions increase. Challenges in agriculture, food security, and water availability exacerbate these trends.
- The Early Movers adopt climate policies in the short term, but elsewhere there is very little action until the mid-century, when climate policies begin to align and accelerate. Global carbon prices reach USD 34 per tonne in 2030 and USD 50 in 2050.
- Development of low emissions and emissions abatement technology is delayed; even early movers make limited progress until closer to the medium term. 19% of global energy production (and 46% of electricity) comes from renewable sources by 2030, and 37% by 2050 (71% of electricity). Much of Aotearoa New Zealand's progress is driven by the rise in renewable electricity and the conversion of low-process heat boilers to biomass and electricity.
- Delay in abatement efforts results in the materialisation of various physical climate risks. Average temperature increases by 2.7°C by 2100. The increased energy contained in the atmosphere drives greater extreme weather events, especially in the latter half of the century. Impacts are distributed unevenly: temperatures increase more at higher latitudes and in the Northern hemisphere; precipitation decreases in parts of northern and central Europe, eastern Africa, and southern Australia, but increases in parts of South and East Asia; and Sub-Saharan Africa experiences both increases and decreases in precipitation. Sea levels rise by 0.20m in 2050 (0.56m by 2100), affecting coastal areas and island countries. These changes impact food security (especially in marginalised regions); cause loss of land, damage to infrastructure, and displacement of populations; and impact coastal ecosystems and trade routes.

3.2.1.4. Scenario 3: Hothouse

In the *Hothouse* scenario there is little change towards a low emissions future despite increasing social, economic, and environmental degradation. Emissions continue to grow higher throughout the remaining 21st century and lead to the increasing severity of extreme weather in its first half, with the addition of rising sea levels in the later half.

Entities in most sectors have increased costs (such as repair and remediation costs) and reduced productivity, and therefore reduced profitability.

In the agricultural sector, the increased frequency of extreme weather events and gradual weather changes (such as temperature and precipitation) have significant impacts on:

- stock and crop quality and yield;

[6] *Climate Scenario Narratives for the Financial Services Sector*, p 40.

- property, plant, and the equipment required to run facilities, provide access to water and food access, and prevent pest proliferation; and
- the infrastructure required for both downstream and upstream supply chain access.

There are also material impacts to the utilities sector, with a risk to potable water supplies, production of energy (particularly hydropower), and delivery of services (such as wastewater treatment). Transport infrastructure and services are affected too.

There is increased demand in the health sector, as in high-emitting sectors – increased cooling requirements because of higher mean temperatures, increased need for coal and gas energy because of impacts upon renewable energy generation, and increased need for fertilisers. With growth in high-emitting sectors limited by climate policies, entities enjoy increased profit margins.

All geographies are affected by physical climate impacts, which are exacerbated by the lack of investment in adaptation infrastructure by governments in the short- and medium-term.

Financial impacts follow. Demand for sectors such as consumer discretionary falls, and sectors providing necessities deal with impacts on margin and difficult questions as costs increase but consumers' ability to pay for goods and services is reduced. Food and water shortages and declining health and financial outcomes drive political unrest and further destabilise economies. Governments come under increasing pressure to support individuals, businesses (especially those providing essential services), and public health services while facing significant repair and remediation costs. Financial flow on effects reduce tax income, putting them under further strain.

3.2.1.4.A. Emissions Pathways

Emissions increase slightly until 2025, and then decrease at discrete rates, averaging about 0.4% per year. Global emissions reach 38.6 BtCO2e by 2030, and 34.3 BtCO2e by 2050[7] (28% more than in the *Too Little, Too Late* scenario). This is cause and effect of the following:

- Behavioural change and social pressure for decarbonisation are limited. The focus on growth by any means necessary drives higher rates of economic inequality, increasing political instability and geopolitical tensions. There is an increase in displaced people seeking to migrate to safer living conditions while physical impacts increase logistics and construction costs.
- The European Union, the United Kingdom, the United States, Canada, and Aotearoa New Zealand are early adopters of progressive climate policy, but eventually roll them back. Japan, China, and Australia pause the development and implementation of climate policies currently under development. Global carbon prices reach USD 6 per tonne in 2030 and remain stable util 2050. Investment in adaptation is minimal.
- There is little technological change to support emissions reduction, and fossil fuels continue to be the dominant source of primary energy: 16% of global energy production (and 42% of electricity) comes from renewable sources by 2030, and 26% by 2050 (60% of electricity).
- Unabated productivity by emission-intensive industries pushes for high economic growth, but the physical impacts of climate change eclipse that: global GDP reaches USD 175 trillion in 2030, and USD 273 trillion in 2050. With a global population of 8.6 billion people by 2050, means average living standards are lower than that in the *Orderly* scenario, but better than that in the *Too Little, Too Late* scenario (though "surplus" is not evenly distributed). Logistics are affected by events such as storms and flooding, disrupting trade.
- Fossil fuel-based fertilisers and machinery underpin agricultural growth, but in the long term the impacts of extreme weather makes it increasingly difficult to sustain said growth.
- Global average temperature rises by 4.4°C by 2100, leading to severe physical impacts. They are similar to those in the *Too Little, Too Late* scenario, but worse across the board.

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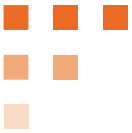
[7] *Climate Scenario Narratives for the Financial Services Sector*, p 49.



3.2.1.5. Sources of Data

The scenarios described in these Statements were produced using data from the Sector Scenario Analysis. FundRock has also consulted the Network for Greening the Financial System's scenarios portal[8] to enhance its understanding of climate change in general and the Sector Scenario Analysis in particular.

3.2.2. Scenario Analysis Process

The scenario analysis followed the six-step process detailed in the guidance published by the External Reporting Board ("**XRB**"), particularly the *Staff Guidance Entity Scenario Development*[9]. An overview of the process is provided below:

- **(A)** *Engage with Stakeholders*: see Subsections 3.2.2.1 and 3.2.2.2 below for details.
- **(B)** *Define the Problem*: the focal question was adopted from recommendations by the Task Force on Climate-Related Financial Disclosures ("**TCFD**")[10] and the Fund was in scope. For information on time horizons, see Subsection 3.2.1.1 above).
- **(C)** *Identify driving forces and critical uncertainties*: the Sector Scenario Analysis was reviewed and analysed to produce a conceptual model[11].
- **(D)** *Select temperature outcomes and pathways*: temperature outcomes and pathways were adopted from the Sector Scenario Analysis (see Section 3.2 above for more details).
- **(E)** *Draft narratives and quantify*: narratives were adapted from the Sector Scenario Analysis, taking into consideration the distinctions of the Scheme and Fund. No quantification was attempted.
- **(F)** *Assess strategic resilience*: completed by FundRock .

3.2.2.1. Integration & Governance

The Board set the governance for scenario analysis, ensuring appropriate processes were in place; and FundRock's management has reviewed and approved the scenario analysis framework (which was based on the Sector Scenario Analysis, as described above) and its results (as reflected in these Statements).

Scenario analysis was conducted by FundRock as a standalone process, but its results (particularly the risks and impacts which identification and assessment it enabled) were integrated into its risk management processes.

The results of the scenario analysis provided by FundRock have been reviewed by Brandywine Global's Head of ESG. No further action has been taken as at the date of this report.

3.2.2.2. External Stakeholders

FundRock has completed scenario analysis for the Scheme and Fund and provided Franklin Templeton with a scenario analysis framework (derived from the Sector Scenario Analysis, as described above), a structured plan, and output. As mentioned above, the results of the scenario analysis provided by FundRock have been reviewed by Brandywine Global's Head of ESG. No further action has been taken as at the date of this report.

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8 See https://www.ngfs.net/ngfs-scenarios-portal/. This includes the *Guide to climate scenario analysis for central banks and supervisors* mentioned above, the Phase 4 Scenario Explorer, *NGFS Scenarios for central banks and supervisors*, and *Climate impact explorer*.

9 Which is itself an adaptation of *Task Force on Climate-Related Financial Disclosures*, *Guidance on Scenario Analysis for Non-Financial Companies*, October 2020 – also consulted.

10 Task Force on Climate-related Financial Disclosures, *Guidance on Scenario Analysis for Non-Financial Companies*, 2020 p 72.

11 A conceptual model is a "simple representation of a system focused on the relationship expected to be seen between variables" (XRB, *Staff Guidance Entity Scenario Development*, 2023, pp 11 and 27).

3.3. Climate-Related Risks and Opportunities (CRR&O)

The Sector Scenario Analysis included a *Climate Risk Database*, on which FundRock relied to identify and assess the risks for the Scheme and Fund. As indicated in Section 3.2 above, the risks found in the Sector Scenario Analysis were systematized by FundRock to allow for their application across the variety of schemes and funds we manage.

The table in Schedule A below lists the climate-related risks identified by FundRock. Diversified investment funds will be exposed to most, if not all, climate-related risks For example, it is likely that at least one of their investees will be exposed to the impacts associated with rising sea levels or stranded assets.

In Brandywine Global's view, climate risks and opportunities are long term themes that may have a significant impact on commodity prices, commodity production, food supply, overall baskets of inflation, economic and trade activity, migration patterns, housing markets and household wealth, consumption and investment patterns, technology and innovation, and debt levels. Since these are all broad, structural themes, they have been harder to assess in terms of the effect on asset prices and borrower costs. Nevertheless, Brandywine Global conducts extensive internal research on the long-term risks and opportunities associated with climate on macro, sector, and company levels.

Brandywine Global designed its approach to ESG integration to span across the majority of its investment processes and asset classes and account for its shared value orientation. Its top-down, bottom-up investment approach extends to how its investment teams account for ESG risks and opportunities (including climate risks) in price and information analyses, as it assesses these factors from the broadest country and macro levels, down to sector and company-specific themes. Brandywine Global believes that it is advantageous for analysts to serve a dual role in evaluating ESG and financial/economic factors together. By evaluating all sets of information together, its analysts and portfolio managers can understand the financial and economic materiality of ESG risks and their positions.

Alongside traditional financial and economic analyses, Brandywine Global incorporates an evaluation of the potential impacts of ESG factors on an issuer, to determine whether, in its view, the issuer's ESG practices present a financial opportunity or risk for an investment. Consideration of ESG factors and risks is only one input in the assessment of eligible investments and, as with any inputs considered, may not be a determinative factor in the final decision on whether to purchase (or sell) a security. Climate risk, including physical and transition risks, are considered one of several inputs to the investment team's overall ESG evaluation. In addition, where ESG factors are considered, the weight given to ESG factors may vary across types of investments, industries, regions, and issuers and ESG factors and weights considered may change over time. A position may be sold when other opportunities may be more compelling, or when the risks of retaining the position outweighs the potential benefits. Climate and ESG-related analysis may also form the basis of investee entity engagement, whereby the investment team endeavours to understand how these risks are being accounted for and potentially addressed, and this information is additive to the overall research process. The team's internal qualitative research combined with its qualitative ESG scoring help bring climate risks and opportunities to the fore, and are included as topics for engagement, particularly issuers that may lag in terms of scoring, or operate in a high-emitting sector.

The Fund does not have a commitment to manage solely on the basis of climate risk and opportunity, though those factors are evaluated to make well-informed decisions. Within fixed income markets, climate risk may impact a different area of an issuer yield curve depending on magnitude and timing.

Some non-exhaustive examples of short-term climate related risks and opportunities include headline risk related to environmental and social non-compliance, the financial, economic, and social losses incurred from a natural disaster and subsequent recovery, and litigation liabilities for remediation.

Medium-term risks and opportunities may include, but are not limited to, revenue generation opportunities related to climate innovation and resilience—both absolute and relative to peers—reputational risk associated with lagging a

peer group or failure to meet stated commitments, the gap between funding needs, cash, access to finance, and overall outstanding debt, and cost of capital. The latter may increase depending on the credibility of the issuer's stated climate commitments and progress on those objectives.

3.3.1. Definitions of Short-, Medium-, & Long-Term

The time horizons used for the scenario analysis (see Section 3.2.1.1 above) were used for the purpose of analysing the timeframe of climate-related risks.

3.3.2. CRR&O & Decision Making

Management of entity-level CRR&O has been integrated into FundRock's overall risk management framework. They are discussed in a monthly risk controls meeting attended by the General Manager, where resourcing is addressed. If the relevant CRR&O cannot be properly addressed at this level, they may be highlighted in the quarterly Board reports (see Section 2.1.1 above) and addressed with the Board.

At FundRock, entity-level CRR&O receive the same treatment as all other risks and opportunities in all risk-related process and procedures and at all levels of the organization. As a rule, risks are prioritized based on their likelihood and expected impact.

Brandywine Global relies on fundamental qualitative research and its internal scoring methodology to identify and understand climate risks, and what may be material to a particular issuer. Sector, industry, development status, financial and economic health, reported ESG metrics, leadership, and peer groups may also help inform its understanding of material climate risks. Ultimately, Brandywine Global will determine whether any risks to the value of the issuer and its securities exist; the entity has taken steps to address those risks and avoid loss of capital; that information has been priced into market expectations; and valuations compensate for undertaking any levels of risk.

Some non-exhaustive examples of short-term climate related risks and opportunities include headline risk related to environmental and social non-compliance, the financial, economic, and social losses incurred from a natural disaster and subsequent recovery, and litigation liabilities for remediation.

Medium term risks and opportunities may include, but are not limited to, revenue generation opportunities related to climate innovation and resilience—both absolute and relative to peers—reputational risk associated with lagging a peer group or failure to meet stated commitments, the gap between funding needs, cash, access to finance, and overall outstanding debt, and cost of capital. The latter may increase depending on the credibility of the issuer's stated climate commitments and progress on those objectives.

3.4. Anticipated Impacts

FundRock anticipates that the cost of compliance with climate-related policies and regulations will continue to increase. Starting from the 2024/2025 reporting period, the data on GHG Emissions (see Section 5.1 below) will be subject to assurance, increasing compliance costs. The Financial Markets Authority (FMA) has also indicated that it expects reporting entities to continually develop their climate-related processes and procedures, which means that FundRock will continue to dedicate substantial resources to compliance with CRD regulations (at least in the short-term). As mentioned in Section 3.1 above, mounting regulation may lead to fee increases.

The Fund does not have a commitment to manage solely on the basis of climate risk and opportunity, though those factors are evaluated to make well-informed decisions. Within fixed income markets, climate risk may impact a different area of an issuer yield curve depending on magnitude and timing. Short to long term risks are outlined in Section 3.3 above.

3.5. Transition Plan

FundRock is a fund hosting business. We provide services to domestic and international investment managers who want to operate in Aotearoa New Zealand but would prefer to outsource fund management to us, normally because they believe this to be the most cost-effective way of offering their services in the country.

Our business model is very resilient to investment risks (climate-related or otherwise) thanks to the broad variety of schemes and funds we can accommodate. As long as there is continued demand for managed investment schemes in Aotearoa New Zealand, we can evolve and adapt to political, economic, and societal changes: we can work with existing investment managers to make strategic adjustment to their products, and whenever this proves impractical, new products (more aligned with prevailing market winds) may be developed in collaboration with current or new investment managers, replacing those retired.

FundRock's knowledge of and experience in Aotearoa New Zealand's investment funds market will be invaluable in the process of identifying the adaptations required and assessing the viability of both existing and prospective products. Understanding the CRR&O specifically associated with this market must be part of this. Per adoption provision 3 in NZ CS2, which requires developing the transition plan aspects of its strategy, the work developed in the 2023/2024 reporting period – particular the setup of a framework for management of CRR&O – was the first step in this journey. FundRock's short-term goal is to further develop the structures that were put in place in this period and fully integrate them into its processes and procedures, particularly strategic decision-making. The knowledge and experience that has been and will be acquired as part of this will inform future strategic directions.

The Fund invests in international fixed interest assets, including investment grade corporate bonds, taxable municipal bonds, high yield debt[12], and non-agency mortgage-backed securities and asset-backed securities (in each case, subject to certain limitations[13]). Brandywine Global has a value-driven process, focusing on assets in countries and currencies that meet their definition of value, and advance this with a benchmark agnostic investment style. Brandywine Global is not afraid to uncover investment potential where others see risk with a central objective to maximise risk adjusted returns over an investment cycle.

[12] Defined as "*non-sovereign investments with below investment grade ratings (below BBB- or the equivalent) assigned by all Nationally Recognized Statistical Rating Organizations that provide such a rating. In the case of split ratings, the highest rating will apply*" (see the Scheme's SIPO, available at the Disclose Register).

[13] More information is available in the SIPO.

4. RISK

FundRock manages entity-level CRR&O directly. We have identified them by referencing applicable regulations, and assessed them by appraising their expected impact, the processes and controls we have in place, and the resources of which we dispose. The processes for monitoring and managing said CRR&O are summarised in Section 3.3.2 above.

4.1. Brandywine Global

At Brandywine Global, the monitoring of both traditional and ESG factors is part of the investment research process and involves a continuous/ongoing assessment of both qualitative and quantitative information. Where utilised, ESG indicators, of which climate risk and opportunities are part, are evaluated in tandem with traditional financial and economic data when analysing an investment idea, and thematic and systemic sustainability risks are discussed as a group. To understand the effect of ESG factors on valuations, the investment teams incorporate these inputs in their research and analysis, although precisely how those factors are integrated depends on each team's respective investment process.

4.1.1. Qualitative

Whether evaluating government/sovereign bonds, corporate bonds, or structured credit, Brandywine Global uses a variety of proprietary and non-proprietary research and data to evaluate investment ideas and monitor investments. This generally includes sell-side research; regulatory filings; management meetings; economic, market and financial data; financial newsletters and trade journals; non-governmental organisations, national agencies, supranational agencies, news sources, and country reported data and information. These sources help the investment team determine what climate risks and materials may be material to the issuer and its securities valuations, and what has been priced in by the market.

4.1.2. Quantitative

The investment team measures and monitors current and changing ESG factors, including climate risks and opportunities, primarily through the use of its proprietary ESG Dashboard, which utilizes quantitative data provided by vendors and public databases. The ESG Dashboard tracks environmental and social scores at an aggregate portfolio level and for holdings where data and scoring are available. The Dashboard also calculates physical and transition risk scores for countries, and provides carbon and GHG foot-printing for the fund and select benchmarks.

4.2. Prioritisation Process

FundRock prioritizes entity-level risks based on their likelihood and expected impact. Risks are classified across both axis and assigned a risk rating. Both inherent and residual ratings are considered.

These ratings, as well as **(i)** risk trend & velocity and **(ii)** management response, are regularly reassessed according to the processes summarised in Section 3.3.2 above.

Each of Franklin Templeton's specialist investment managers (such as Brandywine Global) considers sustainability risks and opportunities through the prism of their proprietary investment processes, reflecting the nuances of their investment philosophy and the particular asset class in which they specialize, and always subject to their fiduciary duty and fund disclosures. As active managers in today's complex markets, Franklin Templeton considers an extensive range of investment risks, encompassing not only ESG factors, but also considerations of factors such as geopolitics, inflation, liquidity, and regulatory/technological disruptions that can impact the generation of repeatable, risk-adjusted returns. Portfolio managers and investment analysts identify risks and opportunities using one or a combination of measures,

including proprietary ESG models, relevant external ratings and data, qualitative assessments and dialogue with issuers.

As described in Section 3.3 above, the weight given to ESG factors (including climate-related risks) may vary across types of investments, industries, regions, and issuers and ESG factors and weights considered may change over time. Brandywine Global does not currently have a process for prioritising climate-related risks relative to other types of risks.

4.3. Short-, Medium-, and Long-Terms

For CRR&O, FundRock uses the time horizons adopted for scenario analysis (see Section 3.2.1.1 above) for risk assessment whenever necessary.

For Brandywine Global's view on timeframes of CRR&O, see Sections 3.3, 3.3.1, and 3.3.2 above.

4.4. Parts of Value Chain Not Included

The risk assessment process considered fund management, investment management, and the Fund's investments. Distribution risks were not considered.

4.5. Assessment Frequency

FundRock assesses entity-level risks regularly, following the processes summarised in Section 3.3.2 above. Brandywine Global continually assesses the risks that are deemed to be relevant to this Fund as part of their investment process.

5. METRICS & TARGETS

In determining which metrics to publish in the Statements, FundRock has considered guidance published by the TCFD[14], and XRB[15] and the sustainability standards published by the International Accounting Standards Board (IFRS[16]). We have also engaged with data providers and the investment managers with whom we work to learn about their views on appropriate metrics.

The set of metrics published below reflects the conclusions from this process. In selecting it, FundRock has considered the following criteria:

(A) **Conceptual Integrity**: certain metrics rely on concepts on which agreement is either limited or non-existing. This makes for metrics with low comparability or prone to manipulation.

(B) **Cost**: acquiring the metrics is costly, and the Fund's investors may (directly or indirectly) pay for this cost.

(C) **Expected Impacts**: diversified and dynamic investment vehicles such as managed funds are expected to be more heavily impacted by risks affecting a broad range of investees, as opposed to risks that are specific to a certain sector of the economy or geography.

All metrics below are as of 31 March 2024.

No climate-related targets were set for the Fund.

5.1. GHG Emissions

The table below contains data on gross GHG Emissions (in metrics tons of CO_2e) for the Fund's investees. These figures are strongly influenced by fund size; to compare funds of different sizes, investors should use the data on emissions intensity (see Subsection 5.1.1 below).

The Scheme has no material Scope 1 or 2 emissions. In accordance with the Greenhouse Gas Protocol (GHG Protocol)[17], all the emissions of the investee companies are included in its Scope 3 emissions (and are reported below as the Total Gross Emissions). However, FundRock has further broken down the investee companies' emissions into those companies' Scope 1, 2, and 3 emissions.

FundRock advises caution when considering Scope 3 emissions data. While all data on GHG Emissions relies on some degree of estimation, this is significantly more pronounced with Scope 3 emissions, to the point that their reliability becomes fraught. These estimations are reflected in *Partnership for Carbon Accounting Financials*' (**PCAF**) scores, which summarise data quality. These can be observed in Section 5.1.2.5 below. For a diversified fund, they may also contain some degree of duplication: if a fund is invested in Companies ABC and XYZ, and ABC is a supplier of XYZ, ABC's emissions would be included in the fund's Scope 1 *and* Scope 3 emissions. Given how supply chains are intertwined, this situation is not unlikely to be present.

Fund	Investees Scope 1	Investees Scope 2	Investees Scope 3	Total Carbon Emissions
Brandywine Global Opportunistic Fixed Income Fund – Corporate Bonds	32.64	45.84	7,502.26	7,580.73
Brandywine Global Opportunistic Fixed Income Fund – Sovereign Bonds	34,527.56	N.A.	N.A.	34,527.56

[14] *TCFD, Guidance on Metrics, Targets, and Transition Plans, October 2021*; and *TCFD, Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, October 2021*.

[15] *XRB, Climate-Related Disclosures Staff Guidance – MIS Managers, August 2023*.

[16] *IFRS S2 Climate-Related Disclosures—June 2023*.

[17] See the GHG Protocol website.

Fund	Investees Scope 1	Investees Scope 2	Investees Scope 3	Total Carbon Emissions
Brandywine Global Opportunistic Fixed Income Fund – Total	34,560.20	45.84	7,502.26	42,108.29

Brandywine Global prefers to report emissions for corporate and sovereign bond holdings separately[18] due to the different approaches required to interpret emissions metrics across those sectors.

To attribute investees' emissions to the Fund, it is necessary to calculate how much of each investee's emissions can be linked to it – the *financed emissions*. As a preliminary step, it is necessary to calculate how much of an investee's emissions are attributable to the asset on which the Fund is invested, as opposed to other financial assets issued by the same investee – how much is attributable to common equity, preferred equity, Class A bonds, or Class B bonds, for example. For corporates, the denominator in this preliminary calculation is the total enterprise value including cash: to calculate the emissions attributable to common shares issued by a company, for example, one must divide the value of its total outstanding common shares by its total enterprise value including cash. For sovereign entities, the denominator in these calculations is purchasing power parity-adjusted GDP.

In Brandywine Global's view, enterprise value and GDP are conceptually distinct, warranting the separation of metrics for corporate and sovereign investees. Nonetheless, total values are also presented for gross emissions, emissions intensity, and methodology, for the sake of comparability.

5.1.1. Emissions Intensity

Carbon Footprint is a measure of GHG Emissions (in metrics tons of CO_2e) by millions of New Zealand dollars invested, while WACI (*Weighted Average Carbon Intensity*) is a measure of GHG Emissions by revenue (*investees* revenue, in US dollars). Emissions intensity metrics allow for comparison between funds of different sizes. It is based on the total gross emissions figures above.

Fund	Carbon Footprint[19]	WACI
Brandywine Global Opportunistic Fixed Income Fund – Corporate Bonds	3.53	1,606.70
Brandywine Global Opportunistic Fixed Income Fund – Sovereign Bonds	296.19	N.A.[20]
Brandywine Global Opportunistic Fixed Income Fund – Total	188.75	N.A.

5.1.2. Methodology

5.1.2.1. GHG Emissions Measurement Standards

Emissions were calculated using *PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition*.

5.1.2.2. GHG Emissions Consolidation Approach

Emissions have been consolidated using the financial control approach.

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[18] This applies to all metrics in this Section 5, as will be clear below.

[19] Carbon footprint is exclusive of Scope 3 Emissions, as recommended by TCFD (*Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*, p 53). These values take into account the coverage for each asset class: for example, gross emissions for corporate bonds were *not* divided the total value of all corporate bonds held by the Fund, but only by the value of the corporate bonds for which Emmi was able to obtain emissions data (32% of the total, as seen in Section 5.1.2.5).

[20] WACI is not applicable to sovereign entities, who do not have revenue.

5.1.2.3. *Source of Emissions Factors*

Emissions factors were sourced from the GHG Protocol. They reflect the 100-year time horizon global warming potentials (GWP) relative to CO_2, and were adapted from the IPCC Fifth Assessment Report[21].

5.1.2.4. *Summary of Exclusions*

No asset or asset class was excluded from emissions calculations.

5.1.2.5. *Methods & Assumptions*

FundRock has partnered with Emmi Solutions Pty ("**Emmi**") to calculate all the metrics found in these Statements. FundRock has provided Emmi with data on the Fund, dated as of 31 March 2024, and Emmi has used this data to produce the metrics found herein. These metrics are subject to Emmi's limitations and assumptions summarised in this section of the climate statements. Further detail can be found in Emmi's website[22].

Emmi takes a waterfall approach to estimate Scope 1, 2, and 3 emissions, selecting the most robust available method for each investee. Where reported emissions are unavailable, Emmi uses estimations based on physical activities (e.g., investees' energy consumption), or estimations based on economic activity (e.g., investees' industry). To perform estimations, Emmi uses certain business metrics, such as revenue and geography, and relies on machine learning: their models are trained on data from public companies gathered from CDP and sustainability reports.

Calculating metrics nonetheless requires trade-offs between coverage and robustness. The results of these trade-offs are summarized in the coverage and PCAF figures below:

Fund	Coverage	PCAF Score
Brandywine Global Opportunistic Fixed Income Fund – Corporate Bonds	32%	3.50
Brandywine Global Opportunistic Fixed Income Fund – Sovereign Bonds	96%	1.00
Brandywine Global Opportunistic Fixed Income Fund – Total	72%	1.92

PCAF[23] scores range from 1 to 5 and provide a summary of the data's quality. A score of 1 reflects the best quality data and means that the investee company has performed an emissions calculation based on the GHG Protocol that has been verified by a third-party. A score of 5 is the most uncertain as estimates the emissions of the investee company based on sector and region averages or benchmarks[24]. The PCAF scores reported above are a weighted average of the PCAF scores for the Fund's investees.

5.1.2.6. *Quantification Uncertainties & Their Effects*

As mentioned above, GHG Emissions data relies on estimations, which are reflected in the PCAF scores. A score of 3 or higher implies that estimations have been performed, which means that actual emissions may differ from those reported above; the closer the score is to 5, the larger the estimation uncertainty.

Additionally, coverage (even after relying on estimations) may be lower than 100%, which means that the actual gross emissions of the Fund's investees are likely to be higher than reported above.

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21 See Fifth Assessment Report — IPCC.

22 The referred website contains a link to a page on climate scenario analysis methodology – this product was not used by FundRock.

23 *Partnership for Carbon Accounting Financials*.

24 PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition.

Note that the availability of data is something over which FundRock, Squirrel, or Emmi do not exercise any control; availability is reliant upon investees publishing or making available data on their emissions.

5.2. Transition Risks

FundRock has measured the exposure to transition risks by assessing the carbon budgets of the Fund's investees under different scenarios, their potential carbon liability, and their emissions reduction requirements. All these metrics are further explained below.

All figures reported under this section are weighted averages of the figures for the Fund's investees.

5.2.1. Carbon Budget Overspend

The tables below show the amount (in metric tons of CO_2e) by which the Fund's investees exceed their carbon budget in the relevant year, in each scenario[25].

Emmi (on FundRock and Franklin Templeton's behalf) calculates carbon budgets by:

- **(A)** Comparing investees' financial metrics (such as earnings, market cap, and net assets) to their carbon emissions, establishing ratios.
- **(B)** Comparing said financial metrics to key global economic metrics (such as GDP, global wealth, and global debt), to assess how much of the global economy is represented by the investees.
- **(C)** Scaling emissions for investees according to the ratios established in steps (A) and (B) above.
- **(D)** Comparing investees' earth-scale emissions to the 1.5°C, 2°C, and 3-4°C scenarios global carbon budgets to calculate the investees' emissions reductions requirements as a percentage of the global carbon budget.
- **(E)** Scaling down the earth-scale carbon budget overspend back to the investees' actual size.

Emissions are assumed to remain constant at their 2023 levels. Consequently, an overspend will almost inevitably be reported in the 1.5°C and 2°C scenarios, as they require substantial emissions reduction. This is intentional: this and the other metrics in this Section 5.2 illustrate the maximum risk of not reducing emissions, not the potential rewards for doing so.

5.2.1.1. Corporate Bonds

Scenario	2030	2050
1.5°C Scenario	6,382	7,369
2°C Scenario	4,239	5,887
3-4°C Scenario	2,562	2,242

5.2.1.2. Sovereign Bonds

Scenario	2030	2050
1.5°C Scenario	20,315	33,483
2°C Scenario	2,026	15,372
3-4°C Scenario	0	0

[25] The three scenarios used to calculate the transition risk metrics are SSP1-RCP1.9 (the 1.5°C scenario), SSP2-RCP2.6 (2°C scenario), and SSP2-No Policy (3-4°C scenario).

5.2.2. Potential Carbon Liability

Similar to the carbon budget overspend, to calculate this metric Emmi (on FundRock and Franklin Templeton's behalf) assigns a carbon budget to investees, under which they would have to operate in a certain scenario. This budget is based on certain factors, which reflect **(i)** how governments might apply a price to GHG Emissions from investees[26] and **(ii)** the investees' financial resilience against the implementation of any such costs.

Through this process, Emmi sets GHG Emissions thresholds, which could create a carbon liability for investees if exceeded. The impact of this overspend on the relevant asset's valuation is then calculated as follows:

- for fixed interest instruments, carbon emissions overspend are multiplied by the applicable carbon prices[27] until the instrument's maturity, and the results are brought to their present value using its yield to maturity as the discount rate. Such present value is then deducted from the instrument's current price.

The difference between the current instrument price for fixed interest and their adjusted values is the percentage value erosion reported as potential carbon liability.

As with carbon budget overspend, emissions are assumed to remain constant at their 2023 levels.

5.2.2.1. Corporate Bonds

Scenario	2030	2050
1.5°C Scenario	13%	13%
2°C Scenario	3%	3%
3-4°C Scenario	0%	0%

5.2.2.2. Sovereign Bonds

Scenario	2030	2050
1.5°C Scenario	24%	61%
2°C Scenario	0%	3%
3-4°C Scenario	0%	0%

5.2.3. Emissions Reduction Requirements

The reduction requirements figures in the table below illustrate the rate by which the GHG Emissions of the Fund's investees would have to be reduced to align with the GHG budget for the relevant temperature increase target, by the year therein indicated. They essentially communicate by how much emissions would have to be reduced to avoid the carbon liabilities reported in Subsection 5.2.2 above.

5.2.3.1. Corporate Bonds

Scenario	2030	2050
1.5°C Scenario	32%	43%
2°C Scenario	19%	29%
3-4°C Scenario	11%	10%

[26] No assumption is made on how this liability would be paid by investees. It could be (e.g.) via direct carbon taxes or a requirement for mandatory acquisition of credits in carbon trading schemes.

[27] See Section 5.3.

5.2.3.2. Sovereign Bonds

Scenario	2030	2050
1.5°C Scenario	59%	97%
2°C Scenario	6%	45%
3-4°C Scenario	0%	0%

5.3. Price per CO_2 Tonne

Emmi sources base carbon prices (in US dollars) from the CSIRO[28] 2°C carbon price modelling and using this to imply carbon prices for specific carbon trajectories. The carbon prices used were:

Year	1.5°C Scenario	2°C Scenario	3-4°C Scenario
2010	10	10	10
2030	218	36	10
2050	821	115	10

5.4. Management Remuneration

Neither FundRock nor Brandywine Global have elected to link any part of management remuneration to CRR&O.

5.5. Other Metrics: Temperature Alignment

This metric assesses investees against global carbon budgets based on IPCC scenarios, placing their emissions on a spectrum between 1.5°C and 4°C. It is based on theories and metrics similar to those used to calculate the transition risks metrics reported 5.2 above.

Fund	Temperature Alignment
Brandywine Global Opportunistic Fixed Income Fund – Corporate Bonds	2.26°C
Brandywine Global Opportunistic Fixed Income Fund – Sovereign Bonds	2.84°C

[28] *Commonwealth Scientific and Industrial Research Organisation*, an Australian Government agency responsible for scientific research.

SCHEDULE A. FRANKLIN TEMPLETON'S GOVERNANCE

Franklin Templeton's approach to the overall governance of CRR&O takes an integrated approach and consists of:

(A) **Board oversight**: The Franklin Resources' Board of Directors ("**FT Board**") is responsible for oversight of Franklin Templeton's corporate strategy and business objectives. Sustainable Investing ("**SI**") and Corporate Social Responsibility ("**CSR**") initiatives and activities are critical to achieving its strategy and objectives. The status of these initiatives and activities and the related risks are discussed regularly with the FT Board and its committees, including the Corporate Governance and Audit committees. The Corporate Governance Committee ("**CGC**") oversees Franklin Templeton's corporate responsibility and sustainability programs, including reviewing shareholder engagement. The CGC receives updates on these topics as well as on regulatory developments. The Audit Committee has oversight responsibility for the firm's enterprise-wide risk management program and outcomes. The risks to achieving the firm's SI and CSR strategy and objectives are considered, monitored, and managed both as one of the firm's key enterprise-level risks as well as a driver of other enterprise-level risks, including investment, client, talent, regulatory, financial, technology and operational risks.

(B) **Management oversight**: The Executive Committee, composed of senior leaders from across Franklin Templeton, is responsible for setting and executing its overall strategy and business objectives as well as managing the risks to or arising from the Franklin Templeton's strategy and objectives. As such, the Executive Committee regularly monitors and assesses the firm's SI and CSR initiatives and activities alongside the management of the related risks, including those that are climate-related. Franklin Templeton's Sustainable Investment Governance Committee, with authority delegated by the Executive Committee, serves as the senior-level body responsible for governance and oversight for the firm's enterprise-wide sustainable investment activities and disclosures. Among its other roles, the Committee addresses any material matters that may arise including those that might impact the firm's overall reputation. The Enterprise Risk Management Committee monitors a comprehensive array of risk-related matters, including investment, client, talent, regulatory, financial, technology and operational risks. As appropriate, these risks, and their potential impact on Franklin Templeton's clients, business, and firm reputation, are reported and escalated to the Executive Committee, Board and/or committees of the Board. Among the specific risks covered are those related to SI and CSR matters.

Other key committees and teams that support the capture, assessment, and management of SI and CSR-related risks, including climate-related risks and opportunities include:

Corporate Social Responsibility Team

The global Corporate Social Responsibility Team engages with key stakeholders around Franklin Templeton's six dimensions of CSR:

- Stewardship and Sustainable Investing.
- Diversity, Equity and Inclusion.
- Environment.
- Employee Experience.
- Community Engagement.
- and Responsible Corporate Practices.

The team leads a wide range of corporate initiatives related to environment and climate, including reporting, disclosure, operational emissions target, and employee-related reduction initiatives. Their work is supported by the Corporate Real Estate and Facilities team, which is responsible for the effective and sustainable management of Franklin Templeton's buildings, including emissions inventory and reduction initiatives, and the Enterprise Vendor Management and Procurement team, which also participates in emissions initiatives.

Stewardship and Sustainability Council

Franklin Templeton's investment teams have differentiated and autonomous sustainable investment approaches with dedicated personnel that best suit each asset class, region, and activity. To fully leverage the depth and diversity of

expertise across its investment teams, Franklin Templeton's Stewardship and Sustainability Council provides a forum for dialogue and sharing of best practices around sustainable investing.

Global Public Policy Council

Franklin Templeton's public policy function allows it to coordinate its approach to policy issues across the business, and engage with regulators, policy-makers and legislators. Franklin Templeton's Global Public Policy Council, consisting of senior leaders from across the firm, meets quarterly and sets out policy priorities, including those related to sustainable investing and other investment topics such as fund labelling and regulation of digital assets.

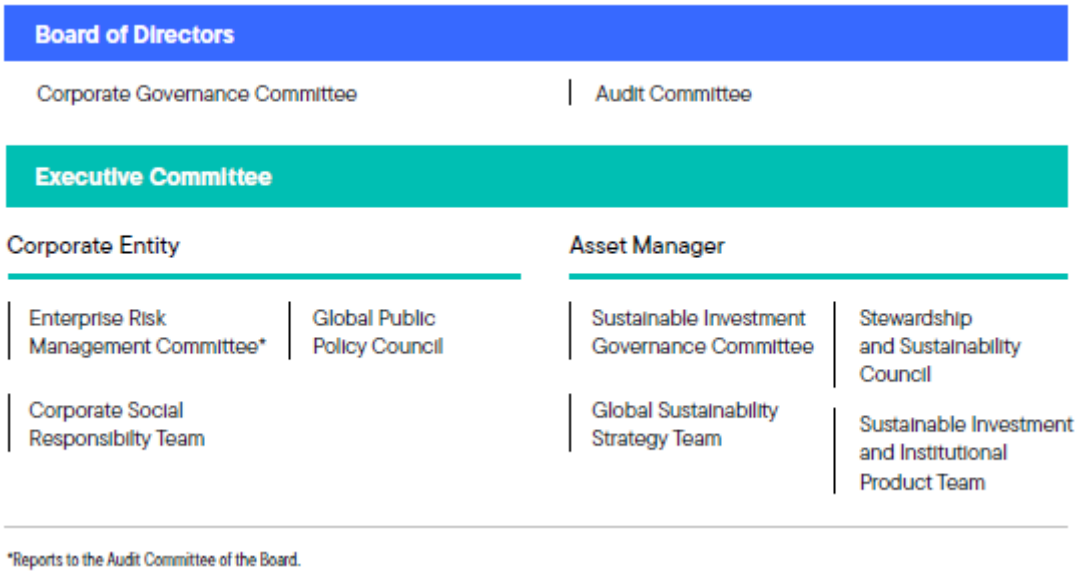
Global Sustainability Strategy Team

Franklin Templeton's Global Sustainability Strategy Team is a multidisciplinary group of sustainable investment professionals with expertise in stewardship and engagement, sustainability data, global regulatory requirements and product categorization. The team supports a broad range of Franklin Templeton's stewardship and sustainable investing initiatives.

Sustainable Investment and Institutional Product Team

The Sustainable Investment and Institutional Product Team oversees the product governance applicable to sustainable investment propositions and funds, applying sustainable investment regulatory frameworks and coordinating related activities across the firm. The team is also responsible for Sustainable Product strategy, working closely with Franklin Templeton's specialist investment managers as well as other internal stakeholders, to adapt existing investment strategies and develop new ones to meet its clients' evolving needs in the sustainability space.

Franklin Resources, Inc.'s Sustainable Investment Governance Framework



Franklin Resources, Inc. includes a number of specialised investment managers ("**SIMs**"), each with their own autonomous investment process. Brandywine Global, one of Franklin Templeton's SIMs, provides investment management services for the Fund; its independent Responsible Investment Council provides a governance structure to review proposed responsible investment-related strategies, products, commitments, and issues. This forum is also responsible for the annual review of responsible investment reporting frameworks, stewardship reporting and other membership commitments. The Responsible Investment Council is overseen by Brandywine Global's Investment Committee, which is the body responsible for overseeing investment management practices and market risk.

SCHEDULE B. CRR&O

Name	Type	Term	Sector/Geography	Description
Disruption to Business Operations	Physical	Medium/Long	Sovereign & Corporate	• Increase in extreme weather events causing damage to physical assets [e.g., facilities, equipment, infrastructure (such as roads, airports, ports, or data centres)], disabling utilities (such as energy), or otherwise disrupting services or operations. • Increase in temperature increasing demand for energy. • Increase in extreme weather events impacting employees' ability to work or customers' ability to access services.
Disruption to Production & Supply Chain	Physical	Medium/Long	Sovereign & Corporate	• Disruptions to production caused by extreme weather events closing facilities, causing loss of power, damaging equipment, impairing employees' ability to work (e.g., because of H&S issues), affecting productivity (e.g., decreased crop yield or machinery performance caused by excess heat), or requiring additional controls. • Physical impacts upstream and downstream the supply chain impacting employee access to facilities, ability to get required materials, or ability to get products or services to market. • Droughts impacting water availability, affecting manufacturing processes. • Impacts to health of employees through heat stress, rise in infectious diseases, poorer water quality, and injury in extreme weather events, impacting on ability to work. • For Agriculture only: (i) gradual weather changes (such as temperature or precipitation) impacting stock and crop quality and yield; (ii) increase in proliferation of pests.
Economic Impacts on Customers (Physical)	Physical	Medium/Long	Sovereign & Corporate	Second order effects of climate-change (such as job-loss, potential declines in economic growth, population migration, geopolitical conflict, etc.) affecting financial position of customers/potential customers.
Economic Impacts on Customers (Transition)	Transition	Medium/Long	Sovereign & Corporate	Second order effects of climate-change (such as job-loss, potential declines in economic growth, population migration, geopolitical conflict, etc.) affecting financial position of customers/potential customers.
Environmental damage	Physical	Medium/Long	Sovereign & Corporate	• Increased flooding increasing the risks of discharge by coal mines of contaminated water into surrounding areas, causing environmental damage and impacting on community health and safety.

Name	Type	Term	Sector/Geography	Description
				• Increased rainfall leading to chemical releases and oil spills (oil and gas), causing environmental damage and impacting on community health and safety.
Flood	Physical	Medium/Long	Sovereign & Corporate	Flood can damage property and local infrastructure, spread diseases, impact the fertility of soil, cause large destruction of infrastructure, and lead to an increase in refugees.
Increased Carbon Price	Transition	Medium/Long	Sovereign & Corporate	• Energy, materials, operations, or transport/distribution increasing in cost due to carbon price. • Emissions may be subject to carbon price, increasing operational costs.
Increased Demand for Services/Products	Physical	Medium/Long	Sovereign & Corporate	Increased demand caused by industry-specific factors [e.g., cardiovascular and respiratory illnesses, malnutrition, skin cancer, climate anxiety, and heat stress for health industry; energy (for cooling) in energy industry; water in utilities industry], creating overload risk.
Large Amount of Policy Intervention	Transition	Short/Medium	Sovereign & Corporate	Policy intervention (e.g. high carbon price, large climate funds, disclosure requirements, emission reduction targets) reducing an economy's GHG Emissions intensity and driving innovation.
Litigation Risk	Transition	Short/Medium	Sovereign & Corporate	Lawsuits being raised against companies failing to meet climate expectations or requirements.
Mean Temperature Increase	Physical	Medium/Long	Sovereign & Corporate	Increasing mean temperatures **(i)** making pests and pathogens (human, animal, and plant-based) outbreaks more frequent and severe, posing a threat to both human health and food security; **(ii)** negatively impacting agriculture yields due to the increased heat stress experienced by plants and animals; and **(iii)** increasing the risk of geographical movement disruption (people and goods) due to a desire to minimise spread of disease.
Migration	Transition	Medium/Long	Sovereign & Corporate	Mass migration to reduce impacts of physical climate perils in those areas that are worst affected, either within or to outside the region.
Physical Risk Impacting Government	Physical	Medium/Long	Sovereign & Corporate	Physical risk increasing governmental expenditure due to increased costs of infrastructure, increased demand on emergency services, and greater reliance on government for financial support. This is exacerbated by **(i)** the impacts of physical risk on the private sector reducing governmental revenue (decrease in income collected from taxation due to a weaker economy); and **(ii)** difficulty in obtaining finance due to decreasing government bond credit ratings.
Policy & Regulatory Impacts	Transition	Short/Medium	Sovereign & Corporate	Increasingly stringent climate change regulations (e.g. disclosure, emissions reduction, green buildings requirements, etc.) creating additional processes and costs.

Name	Type	Term	Sector/Geography	Description
Political Unrest	Transition	Medium/Long	Sovereign & Corporate	Political unrest resulting from increased impacts of physical climate perils and inaction of governments.
Poor Climate Policies and Commitments	Transition	Medium/Long	Sovereign & Corporate	Minimal policy intervention, leading to GHG Emissions intensity likely remaining and entities likely continuing operations as usual. The economy may face second order impacts.
Reliance on Emissions Intensive Sectors	Transition	Medium/Long	Sovereign & Corporate	Economies reliant on GHG intensive sectors (e.g. oil and gas, agriculture, coal, manufacturing, fracking) being impacted as the world transitions to renewable energy and low carbon products.
Sea Level Rise	Physical	Medium/Long	Sovereign & Corporate	Sea levels rising due to the thermal expansion of the oceans and the melting of ice sheets and glaciers.
Slow Transition	Transition	Medium/Long	Sovereign & Corporate	The geography is seen as not transitioning fast enough to a low-emission economy, decreasing reputation and attraction.
Stakeholder Preference Change	Transition	Short/Medium	Sovereign & Corporate	Increasing stakeholder expectation of entity to be proactive in reducing their emissions and in addressing their climate-related risks.
Stranded Assets (Physical)	Physical	Medium/Long	Sovereign & Corporate	Extreme weather events (such as inundation, storm surge, wildfires, or floods) damaging or devaluing assets or properties.
Stranded Assets (Transition)	Transition	Short/Medium	Sovereign & Corporate	Emissions-intensive assets becoming costly to run due to increased carbon price (e.g., coal burners and diesel-fuelled tractors).
Technology Adoption & Implementation	Transition	Medium/Long	Sovereign & Corporate	Failure to or unsuccessful investment in low-emissions technologies during adaptation phase.
Transition Risk Impacting Government	Transition	Medium/Long	Sovereign & Corporate	Transition risk can increase governmental expenditure due to increased administrative costs for policy interventions and increased expenditure on infrastructure. This is exacerbated by **(i)** the impacts of transition risk on the private sector reducing governmental revenue (decrease in income collected from taxation due to a weaker economy); and **(ii)** difficulties obtaining finance due to decreasing government bond credit ratings.
Water Stress & Drought	Physical	Medium/Long	Sovereign & Corporate	Lack of adequate precipitation causing reduced soil moisture or groundwater, diminished stream flow, crop damage, and general water shortage.