



ESG Investment



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Key Takeaways

- ▶ As highlighted by ClearBridge's annual Stewardship Report, our engagement priorities reflect evolving risks and opportunities in decarbonization, climate adaptation, human capital, critical minerals, governance and responsible AI/data governance.
- ▶ A defining feature of ClearBridge's ESG integration is our proprietary ClearBridge Materiality Framework™, which identifies the ESG factors most relevant to each sector and company; engagement priorities are derived from this framework.
- ▶ As AI adoption accelerates across industries, our engagements have increasingly focused on data privacy, ethical use of AI, labor implications and environmental impacts such as energy and water consumption from data centers.

Materiality Drives Stewardship Insights

ClearBridge's approach to ESG integration remains rooted in a simple but enduring principle: material environmental, social and governance factors are integral to long-term value creation. As the global sustainability landscape evolves amid shifting regulatory priorities, geopolitical complexity and rapid technological change, our approach continues to emphasize fundamental research, active ownership and a disciplined focus on materiality.

Our 2026 Stewardship Report highlights how this philosophy is translating into tangible outcomes, underscoring both the breadth of our engagement activity and the depth of our ESG integration across portfolios.

A defining feature of ClearBridge's ESG integration is our proprietary ClearBridge Materiality Framework™, which identifies the ESG factors most relevant to each sector and subsector. Engagement priorities are derived from this framework at the company level, ensuring that these efforts focus on issues that are financially material and aligned with our fiduciary duty.

In 2025, several key themes emerged as focal points of engagement:

- Decarbonization and climate adaptation
- Critical minerals and human rights
- Biodiversity and natural resource management
- Responsible AI and data governance
- Governance and shareholder rights

These themes reflect both structural global trends and evolving investor priorities. For example, climate-related engagements increasingly addressed not only emissions reduction but also adaptation and resilience topics, such as grid modernization, water management and disaster preparedness. Companies like DTE Energy, a utility making grid modernization and storm hardening investments, and Eaton, which builds backup power and electrical resilience systems, illustrate how investments in infrastructure resilience can support both sustainability outcomes and long-term earnings durability.

Similarly, the energy transition has elevated the importance of critical minerals, where demand for copper, lithium and rare earths is driven by electrification, AI infrastructure and renewable energy deployment. ClearBridge engagements in this area extend beyond environmental impact to include human rights, supply chain practices and community relations, particularly through collaborative initiatives such as PRI Advance, with which we have engaged with mining companies Antofagasta and Freeport-McMoRan.

The integration of new teams across regions in 2025 further strengthened the ClearBridge Materiality Framework™ by incorporating new insights from emerging markets, the U.K. and Australia. This global perspective enhances our ability to identify best practices, anticipate risks and engage companies more effectively across diverse regulatory and operating environments.

Insights from Global Engagements

ClearBridge's global engagement activity provides a number of practical examples of how ESG considerations translate into investment insights and outcomes. Across regions, the most frequently addressed ESG factors in 2025 included energy transition risks, environmental impacts of operations, community relations, employee health and safety, capital allocation and executive compensation.

Several engagements illustrate our pragmatic approach focused on long-term value creation and positive change:

- **Amazon.com (U.S.):** Engagements focused on labor practices, safety and environmental efficiency. As of the first quarter of 2025, the company reported a 65% reduction in lost-time injuries over the last five years, progress toward net-zero by 2040 and improvements in logistics efficiency and renewable energy use. These developments demonstrate how operational improvements can enhance both social outcomes and cost efficiency at scale.
- **ASML (Netherlands):** Discussions centered on water usage, energy efficiency and supply chain emissions. While direct water usage is limited, engagement highlighted increasing regulatory and regional risks — water is a material topic due to increasing regulatory scrutiny, particularly in the Netherlands, and in Taiwan

and the U.S. water stress is now considered a medium-level risk — reinforcing the importance of forward-looking risk management even where current exposure appears modest.

- **Walmart (U.S.):** Engagement emphasized workforce development, wages and human rights in the supply chain. The company’s focus on internal upskilling and technology-enabled human rights monitoring illustrates how social considerations can strengthen operational resilience and labor productivity.
- **Toronto-Dominion Bank (Canada):** We engaged the company against the backdrop of U.S. regulatory scrutiny tied to material deficiencies in TD’s anti-money laundering (AML) program and proxy advisor recommendations to withhold votes from board members. ClearBridge’s nuanced voting decision in favor of contested directors took into account a meaningful board refresh in 2025 and momentum in remediation; it also reflected insights gained through direct dialogue, highlighting the value of active ownership beyond standardized proxy recommendations.
- **Freeport-McMoRan (U.S.):** Engagement on emissions, water management and human rights demonstrated the complexity of balancing environmental performance with operational realities in resource-intensive industries. Progress on emissions reduction initiatives and disclosure improvements supported continued investment conviction while identifying areas for further engagement.
- **Companhia Paranaense de Energia (Brazil):** Engagements centered on governance transformation following privatization. Improvements in board independence, disclosure practices and strategic focus highlight how governance reform can unlock value and improve investor confidence in emerging markets.
- **MercadoLibre (Latin America):** Engagement on data privacy and cybersecurity led to improved disclosures and attainment of ISO 27001 certification — an independent, third-party audit confirming an organization’s information security system manages data security risks effectively. This progression highlights how governance and technology-related ESG factors are increasingly central to maintaining customer trust and supporting growth in digital platforms.

Responsible AI and Emerging ESG Themes

One of the most rapidly evolving areas of ESG analysis in 2025 was responsible AI. As AI adoption accelerates across industries, factors such as data privacy, ethical use of AI, labor implications and environmental impacts such as energy and water consumption from data centers have grown in importance in our analysis.

This reflects the increasing importance of technology-driven risks and opportunities in sustainability analysis. Responsible AI is now viewed as a material factor influencing competitive positioning,

regulatory exposure and stakeholder trust. ClearBridge’s approach emphasizes balancing innovation with accountability, seeking to ensure that companies adopt AI in ways that are transparent, secure and aligned with long-term societal value.

Conclusion

The 2026 Stewardship Report highlights a year of continued progress for ClearBridge’s ESG platform, characterized by global engagement activity and deeper integration of material sustainability factors into investment decision making. As global markets continue to evolve, our approach positions us to navigate complexity while identifying opportunities that align sustainability with shareholder value.

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