ClearBridge Investments

Impact Through Authentic ESG Integration

2022 Stewardship Report

ClearBridge
Investments

Stewardship and Impact at ClearBridge

Stewardship Means Impact Through Authentic ESG Integration and Engagement

As investment managers, we are stewards of our clients' capital: our clients rely on us to responsibly manage their assets to create sustainable long-term value. We also believe investors in public equities have a crucial role in upholding market integrity and working to minimize systemic risk, including risks associated with environmental and social challenges faced by society.

Environmental factors, particularly climate change, and social factors, in addition to governance (ESG factors), are material issues for investors to consider when making investment decisions, and they are central to stewardship at ClearBridge. ClearBridge investment teams integrate ESG factors into the stock selection process, resulting in a more holistic view of risks and opportunities.

Defined and pursued in this way, ClearBridge's stewardship offers opportunities for positive impact, which we define as the creation of long-term positive environmental or social outcomes for the benefit of all stakeholders in public companies: their investors — our clients — and their employees, customers, suppliers and communities.

Key goals of stewardship activities include promoting best practices through company engagement, driving incremental change through proxy voting, and allocating capital to companies that operate responsibly and ethically or offer products and services addressing global challenges.

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Welcome Letter from Terrence Murphy

With the COVID-19 pandemic giving way to the urgencies of inflation and geopolitical risks, it can be easy to get caught up in short-term movements of markets and the economy. At ClearBridge, we have always chosen instead to take a long-term approach in how we invest, how we engage with public companies on environmental, social and governance issues and how we operate as an asset manager. This long-term approach helps guide our response to profound events, such as the Russian invasion of Ukraine. While ClearBridge does not hold any Russia-incorporated securities, we are closely monitoring developments that may impact financial markets, including sanctions, actions by governments and developments in Ukraine itself. Our thoughts and support are with the people of Ukraine and everyone impacted by this tragedy.

As detailed in our 2022 Stewardship Report, the actions we take today as active investors and stewards of our clients' capital can have meaningful impact over time. The deadline for many net-zero commitments across the globe, for instance, is 2050, which seems very far into the future. Yet the period of action needed to reduce global emissions through reductions in fossil fuels and the ramp-up of renewable energy sources is not so distant and is comparable in duration to ClearBridge's commitment to advancing sustainability goals since the firm opened its first client account in 1987 using a socially responsible investment approach. Our ESG experience gives us a keen sense of the work and evolution involved in this type of long-term thinking. Our current approach reflects the accomplishments of 35 years of systematic effort to refine the incorporation of sustainability and investing principles. Not all of us at ClearBridge were around for all those years, and we have benefited from the work of those who came before, just as now we add new talent to build on our current capabilities. Indeed, a key driver of our success and the shareholder value delivered by our portfolio companies results from effective human capital management, a topic we address in detail in this year's report.

Our fifth annual Stewardship Report also provides multiple perspectives on the value of this long-term point of view and the progress that relationships built over more than 30 years as ESG investors continue to deliver. One of the most long-running engagements we have had at ClearBridge is with Microsoft, a dialogue initiated in the early 2000s. The world's second-largest company by market value has a deep and dedicated ESG team of its own yet continues to approach us for feedback in a relationship that grows stronger every year. The engagement section of the report highlights these and other communications with companies that are moving important sustainability goals forward.

With pressing secular issues such as climate change pegged to goals well into the future, our collective efforts in the investment community can have even greater impacts. This was one of our motivations for joining the industry-leading Net Zero Asset Managers Initiative (NZAM) in 2021. This international group of asset managers is committed to supporting the goal of achieving net-zero greenhouse gas emissions globally over the next 28 years. We are proud to be part of a community of over 200 asset management peers, representing over $50 trillion, in this commitment.

Innovation has been a cornerstone of success for many companies we own across the firm and that innovation is being put to greater use to not only help companies operate more efficiently but also directly address ESG issues like carbon emissions. We detail in the report the emerging technology of carbon capture as a potentially key part of the energy transition that must occur to meet net-zero targets as well as the ways infrastructure assets are navigating the mostly overlooked risks of climate inflation.

We are pleased to acknowledge the accelerating acceptance of investing in line with ESG principles but are also well aware of the additional risks and scrutiny that come with sustainable investing entering the mainstream. As ClearBridge's Head of ESG Mary Jane McQuillen, who also co-manages our Sustainability Leaders Strategy, communicates powerfully in her annual letter, knowing what you own has never been more important. As regulatory oversight on how ESG is marketed and implemented increases, we believe managers able to have discussions with companies on material ESG factors that support positive long-term outcomes will stand out. As always, we appreciate your long-term partnership and support and look forward to reporting on further progress in our sustainability efforts going forward.

Sincerely,

Terrence Murphy

Terrence Murphy
Chief Executive Officer

Firm Overview

ClearBridge Investments is a leading global equity manager with $208 billion in assets under management as of December 31, 2021.

Owned by Franklin Resources, ClearBridge operates with investment independence from headquarters in New York and offices in Baltimore, Fort Lauderdale, London, San Mateo, Sydney and Wilmington.

We offer strategies focused on three primary client objectives in our areas of proven expertise: high active share, income solutions and low volatility. We integrate environmental, social and governance (ESG) considerations into our fundamental research process across industry sectors and in all our investment strategies.

ClearBridge takes a long-term approach, holding companies for five years on average across our portfolios. Our experience demonstrates that an active investing approach with a long-term focus and a commitment to ESG integration make for good business. This approach can offer clients a return on their investments and make an impact. As part of this integration into our fundamental research process, we assign proprietary ESG ratings to companies and use those internal assessments to track progress and drive engagement with company managements. As an ESG investor for over 30 years, ClearBridge remains at the forefront among asset managers in promoting and communicating the benefits of including ESG factors when selecting investments and building portfolios. As the world looks toward long-term sustainability goals such as net-zero carbon emissions by 2050 — 28 years away — ClearBridge's 35-year legacy of ESG integration should offer a powerful example of long-term thinking.

$208 Billion

IN ASSETS FOR WHICH ESG RISKS AND OPPORTUNITIES ARE ANALYZED

800+ Companies

WITH PROPRIETARY ESG RATINGS

1000+

COMPANY MEETINGS PER YEAR

100%

PROXY VOTING RECORD

277 Companies

WHERE WE ARE A TOP 20 SHAREHOLDER

5 Years

AVERAGE PERIOD WE OWN A COMPANY

10 Years

EXPLICITLY INCORPORATING ESG ANALYSIS IN ANALYST COMPENSATION

30+ Years

INTEGRATING ESG ANALYSIS IN INVESTMENT PROCESS

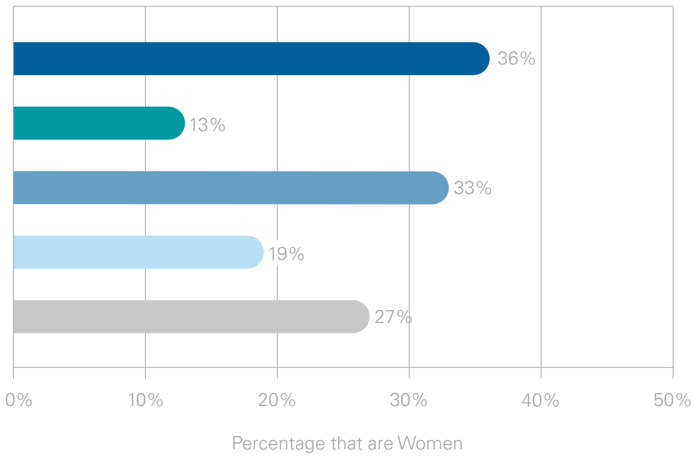
10 Years

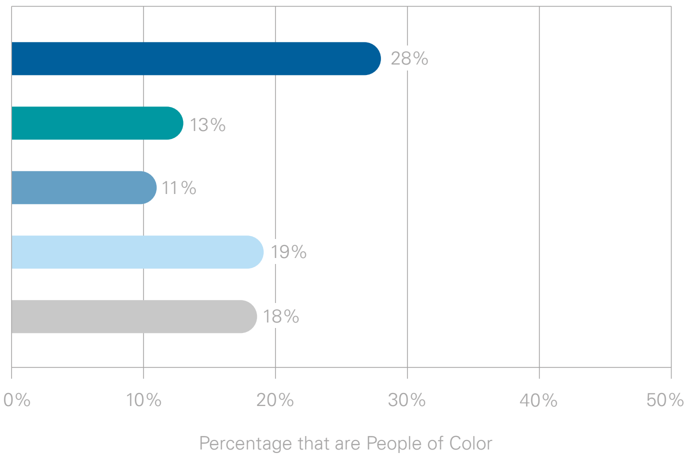
WINNER OF P&I BEST PLACES TO WORK IN MONEY MANAGEMENT

ClearBridge Strives for a Diverse and Inclusive Culture

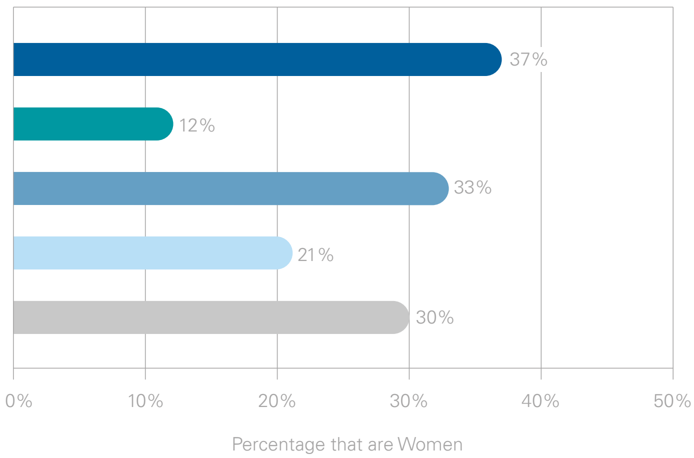
As of Dec. 31, 2021.

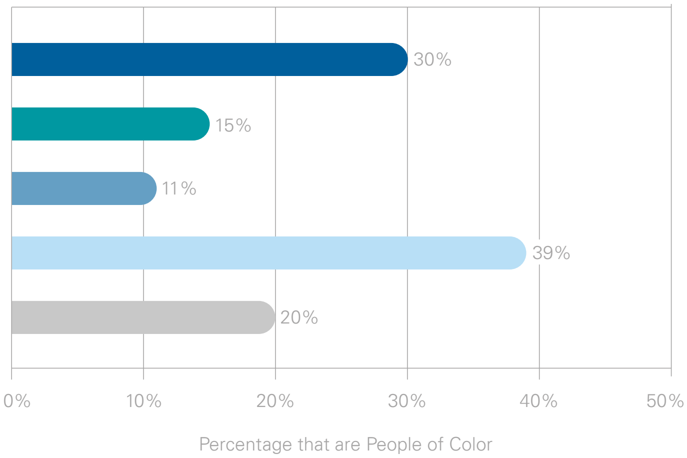
2020





2021





P&I Names ClearBridge Best Place to Work 2021

ClearBridge Investments has been named by Pensions & Investments Magazine (P&I) as one of the Best Places to Work in Money Management for the 10th year in a row.

ClearBridge, which won third place in the 100-499 employee category, is one of a small number of companies to have made the list every year since the program launched in 2012.

Employees surveyed by P&I cited ClearBridge's unique culture of inclusion, its support of employees during the COVID-19 outbreak, the accessibility of top managers and its investment in its people through educational resources, mentorship and pathways to promotion as reasons why it is one of the best places to work in the industry.

ClearBridge ESG Milestones

1987

ClearBridge opens first client account using socially responsible investment approach

1990

Joins Interfaith Center on Corporate Responsibility (ICCR)

1997

Joins U.N. Environment Program Finance Initiative (UNEP FI)

2004

Co-publishes first "ESG" report with the UNEP FI's Asset Management Working Group, which coined "ESG" for institutional investment

2005

Becomes an inaugural Investor Signatory to the Carbon Disclosure Project (CDP)

Participates in launch of the Principles for Responsible Investment (PRI) with Kofi Annan at the NYSE

Establishes central research platform and begins integrating ESG factors by sector

2008

Signs U.N.-supported Principles for Responsible Investment (PRI)

2011

Joins Investor Network on Climate Risk (INCR)

Joins Ceres

2012

Joins Global Impact Investing Network (GIIN)

2013

Forms corporate partnership with WaterAid

2014

Formally introduces proprietary ESG ratings

2015

Appointed subadvisor to Desjardins SocieTerra American Equity Fund

2016

Signs the Access to Medicine Index (ATMI) Investor Statement

2017

ClearBridge assets where ESG factors are integrated and ESG ratings assigned surpasses $100 billion

2018

Becomes a signatory to Climate Action 100+ and a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD)

2020

ClearBridge assets where ESG factors are integrated and ESG ratings assigned surpasses $150 billion

Signs the CDP Science-Based Targets (SBTs) Investor Initiative

Becomes a member of the FAIRR Initiative

2021

ClearBridge assets where ESG factors are integrated and ESG ratings assigned surpasses $200 billion

Becomes a signatory to Net Zero Asset Managers Initiative (NZAM)

Becomes a member of the Responsible Investors Association Australasia (RIAA)

ESG Investing at ClearBridge

An Annual Update with Mary Jane McQuillen

Mary Jane McQuillen is the Head of ESG at ClearBridge Investments and a portfolio manager investing in companies with both fundamental discipline and sustainability leadership.

She has been central to ClearBridge's ESG integration efforts since 1996 and is uniquely positioned to offer a close-up view from the firm's ongoing engagements with CEOs and CFOs of the companies held across ClearBridge portfolios, as well as macro trends and major long-term issues defining ESG investing.

We sat down with Mary Jane to discuss what shaped the broader ESG investing discussion in 2021 and what will have an impact on ClearBridge engagements with companies in the coming months.

COVID-19: From Reaction to Reflection

If 2020 was a year of reaction, ushering in some of the biggest changes to daily life in recent memory, 2021 brought what could be called a year of reflection and reassessment. Vaccines were distributed, but where would they be allocated equitably? Would wages keep up with inflation? Where were companies on their progress toward more diverse workforces? There were environmental questions as well, as extreme weather events, the IPCC's sixth assessment report delivered in August and the U.N. Climate Change Conference in November (COP26) highlighted the urgency of acting on climate. Companies and governments were ratcheting up net-zero emissions commitments, but would they be enough and how would they be met?

Growth for ESG Portfolios Leading to a Welcome Growth of ESG Scrutiny

Amid such reflection and reassessment, investors continued to seek out sustainability-focused investment strategies in 2021. While flows softened somewhat from peak inflows in early 2021, inflows into ESG funds in the third quarter of 2021 were 63% higher than in the third quarter of 2020 with total monthly inflows near $40 billion for most of the year. The vast majority of ESG assets continues to be actively managed, which speaks to the value added by those integrating financial and sustainability analysis and pursuing impact through engagement and proxy voting (Exhibit 1.01).

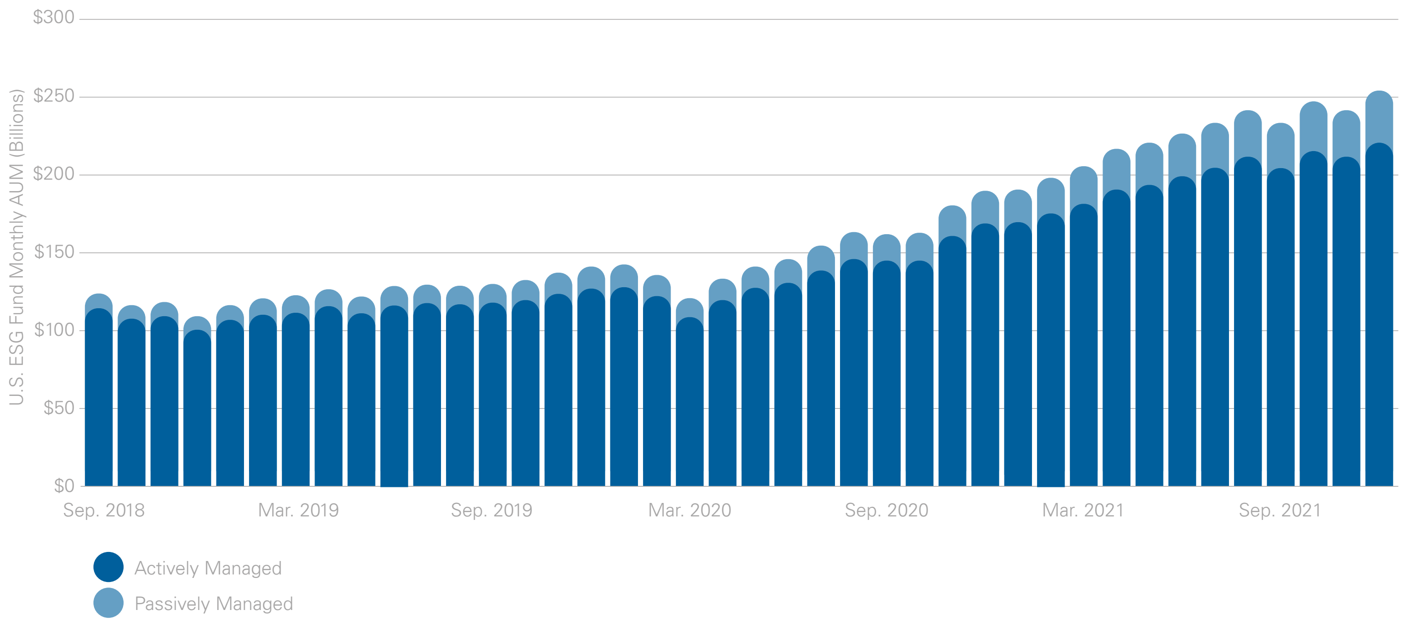


Exhibit 1.01: U.S. ESG Active and Passive Assets Under Management (Monthly).

As of December 2021. Source: Morningstar.

With global investment allocations to sustainability strategies accelerating, regulatory bodies have stepped in to clarify the process, objectives and risks of credible sustainability funds, and to raise concerns of "greenwashing." This has been a particularly active discussion for European regulators and investors, with one result being the EU's recent Sustainable Finance Disclosure Regulation (SFDR), through which ClearBridge has several funds classified under Article 8.

Areas of Focus: Energy Transition, Role of Proxy and Human Capital Management

Public equities are increasingly taking ownership of the impact they can have mitigating climate change and making progress on social goals such as DEI. With these ambitions top of mind, we expect portfolios focused on delivering strong returns while having a credible impact on ESG issues will continue to attract assets in 2022. Companies and investors are taking a leading role in such areas as fostering global biodiversity and helping to expand access to medicines as COVID-19 propagates in developing economies.

ESG portfolios will not be without their challenges in the next year. From an investment perspective, 2020 was a strong year for ESG performance, driven by sustainable companies with strong earnings and a fervor for renewable energy plays amid pandemic-related declines in oil demand. In 2021 this gave way to a bull market for oil and gas producers as industry and travel returned. In 2022 we expect this back and forth between traditional and renewable energy to continue as a maturing economic recovery and rising interest rates may weigh on longer-duration tech companies in the renewables space, though relief from supply chain constraints and shipping delays should help.

The energy transition is real, however, and should continue to unlock tremendous value in renewable energy. We expect there to be a more acute awareness of climate risk and a move from companies setting targets, as many did in 2021, to investors holding them accountable for making progress on those targets in the first half of the decade. One example is the Net Zero Asset Managers Initiative (NZAM), to which ClearBridge became a signatory in 2021. The Task Force on Climate-related Financial Disclosures (TCFD) has also been seeing increases in support (Exhibit 1.02).

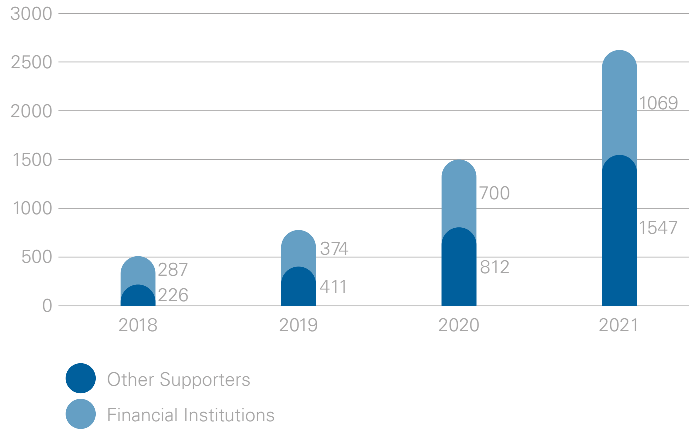


Exhibit 1.02: Number of TCFD Supporters is Growing.

As of October 2021. Source: Task Force on Climate-related Financial Disclosures 2021 Status Report.

We expect the role of proxy voting to be more visible in 2022 as well. Proxy voting used to be an underutilized engagement signal, but has become much more visible in recent years, partly because of the increased receptivity to ESG proposals by institutional investors, as well as reporting requirements such as those through the Principles for Responsible Investment (PRI), the SFDR and NZAM. Such regulations and initiatives are encouraging the use of proxy voting as a tool, and it appears to be having an effect. Shareholder proposals in 2021 saw higher pass rates (25%) than in 2020 (13%) amid heightened awareness of the need for diversity disclosures and emission reduction targets. Three major oil companies saw votes calling for greenhouse gas reduction targets pass, a sign of increasingly effective corporate engagement with fossil fuel companies.

In terms of human capital management, we expect a continued push for diversity disclosures and a heightened awareness of the increasing importance of talent as an asset in the workforce. Many companies set diversity targets in 2020 and 2021 as more dimensions of DEI gained mindshare. Progress has been difficult, though increased diversity disclosures are a step in the right direction, as are improvements to human capital management practices that look to build an inclusive workplace.

DEI continues to be a firm-wide priority for ClearBridge, featuring as a central part of our company engagements. Large shareowners, such as ClearBridge, that are active in growing these conversations are helping develop solutions through keeping DEI high on the agenda and by seeking and sharing best practices. Much work is still to be done, however, to improve the inclusiveness and diversity of talent.

Companies building more inclusive workforces will likely have a strong competitive advantage amid what some have called the "great resignation" — employees quitting their jobs at higher rates in 2021. The labor market, made hot by pandemic displacements and increasingly by supply/demand dynamics in a strong recovery, reminds us that talent has always been key in competitive industries: if you don't have it, you need to get it, and if you have it, you don't want to lose it. The next year should see a continuation of this dynamic, with companies that demonstrate strong human capital management practices having an edge in building resilient and innovative workforces. And while advocating for better workforce disclosures is the first step, it will be a must-have for asset managers to understand these practices at a level beyond just what the numbers say.

Balancing Benchmark Awareness with Sustainability Criteria

Equity markets allow for periods of rapid growth and dominance by a few companies, and increasingly large players are dominating benchmarks today. The trend is not new: General Electric, Exxon Mobil, Microsoft and Apple have had their turns dominating the market in the past 25 years. Today challenges include staying diversified in a narrowing market, especially where some widely owned stocks present complex sustainability stories. The largest companies can have outsize effects, representing both a challenge and an opportunity consistent with ClearBridge's philosophy of investing in public equities for investment returns while seeking to have an impact. Broad ownership of the largest tech companies, recently known as the FAANG stocks — Facebook (now Meta), Amazon, Apple, Netflix, Google (now Alphabet) — and which might also include Microsoft and Tesla, presents challenges for investors to both keep up with benchmarks and stay diversified. There is inevitable concentration risk to manage here, but also complex ESG factors to sort out, which include headline, operational and regulatory risk. At the same time, some of these companies are best-in-class sustainability leaders and are powerful agents to set standards for climate change commitments and social goals. This highlights the importance of active company engagement as we seek to influence companies to improve their sustainability potential and learn from those setting positive examples. ESG investors must appreciate the increasing complexity of ownership of large tech platforms, balancing benchmark awareness with fidelity to sustainability criteria. This must be done on a case-by-case basis; knowing what you own is key.

What Really Is an Improver? The Importance of Knowing Your Company

The complexity of ownership highlights how greenwashing — inaccurately branding or overstating a company, practice or investment strategy as sustainable — is still a challenge for both investors and regulators. This challenge will increase in 2022 as a value rotation in 2021 also meant certain ESG investors seeking performance were looking harder at value companies often found in higher-emitting sectors of the market. Sometimes these companies are considered "improvers." We are encouraged that there are cases of meaningful improvement among more challenging companies, but the risk is that managers really have to be dedicated to improving them and be transparent in their process. Like flipping a house, it can require a lot of work, and not all managers are willing or able to put that work in. Also, not all houses intended to be flipped do so: some flop. At the same time, increasing company disclosure, helped by continued investor advocacy as well as by recent regulation, will be an opportunity for better discussions with management and helpful in understanding risk/reward cases for companies.

Here again, knowing what you own is important, as is actively engaging with companies on a case-by-case basis, rather than simply seeking best-in-class sustainability stories. As regulatory scrutiny increases on how ESG is marketed and implemented, managers who are able to have discussions with companies on material ESG factors and who prioritize these as an essential part of ownership will stand out.

We continue to see an exponential increase in ESG data, from data providers and that required by increasing regulations. New regulations entail new reporting requirements, which means a heightened awareness from investors and company managements. As always, however, the risk is acting simply on data and not understanding company-specific issues from an investment perspective.

Performance Central to Growth of Sustainability in the U.S.

When ClearBridge started integrating ESG analysis in its portfolios over 30 years ago, our focus was on the holistic nature of our investments — on both performance, as well as sustainability and societal values. The importance of performance is central to the debate in the Department of Labor's recent proposal, which seeks to emphasize that climate change and other ESG factors can be financially material and that considering these elements in investment analysis can lead to better long-term risk-adjusted returns. While the winds in Washington regularly change direction, we are optimistic that the better the performance case and the credibility of the manager's efforts for ESG portfolios, the fewer impediments there will be to participating in them.

Sorting out substance from noise in 2022 will challenge ESG investors to know the companies they invest in, both as a means to finding securities that will help support long-term returns and as a way to have a tangible impact on urgent sustainability matters. But while ESG investors will have plenty to accomplish in 2022, we are encouraged by the increasing number of tools at their disposal and the ongoing shift in perspective of company managements toward making sustainability a core part of their businesses.

The ClearBridge Model for ESG Integration

We believe investors in public equities have a crucial role to play in addressing environmental and social challenges faced by society.

Large public companies have a substantial social and environmental impact (both positive and negative) by virtue of their size and complex stakeholder relationships across supply chains, distribution networks and communities where they operate.

We can amplify this impact through our allocation of capital and direct engagement with company managements. These activities form two overlapping elements of ClearBridge's ESG approach: integrating ESG analysis into fundamental research and portfolio construction and using engagements with companies and proxy voting to drive positive change.

Many investors say they integrate ESG into their investment process, but there are many different approaches being employed, causing government and industry organizations to begin establishing industry standards of what constitutes ESG investing.

When we say our ESG research is "integrated" we mean that it is explicitly included in company research performed by analysts on ClearBridge's central research team as well as analysts dedicated to specific portfolios (Exhibit 1.03). This is a key point — ESG research is not done by separate non-financial analysts or as an overlay of packaged research from a third party.

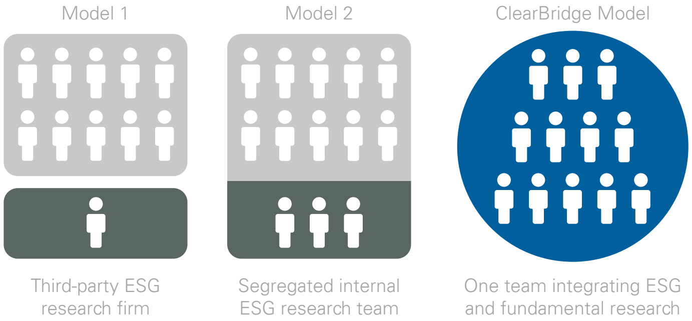


Exhibit 1.03: ClearBridge Model of ESG Integration

ClearBridge ESG portfolios do not simply avoid certain industries; we integrate industry-specific ESG factors into our fundamental research process and favor companies that promote best practices on ESG issues. All companies in our coverage universe earn an ESG rating, updated at least annually (Exhibit 1.04). ClearBridge formally introduced ESG ratings in 2014. For every stock recommendation, each analyst presents the investment thesis, risk/reward profile, valuation, target price and internal ESG rating.

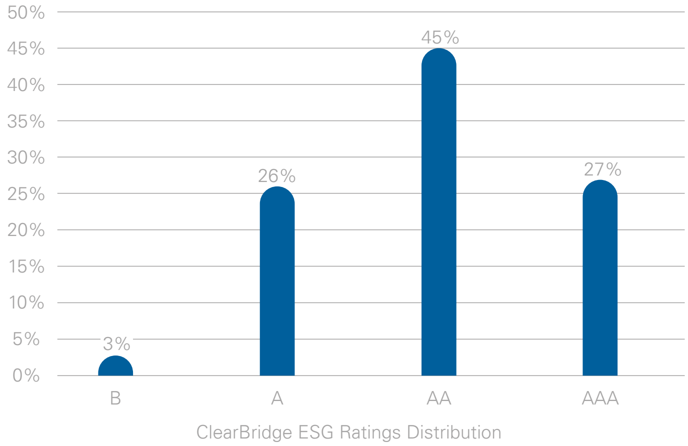


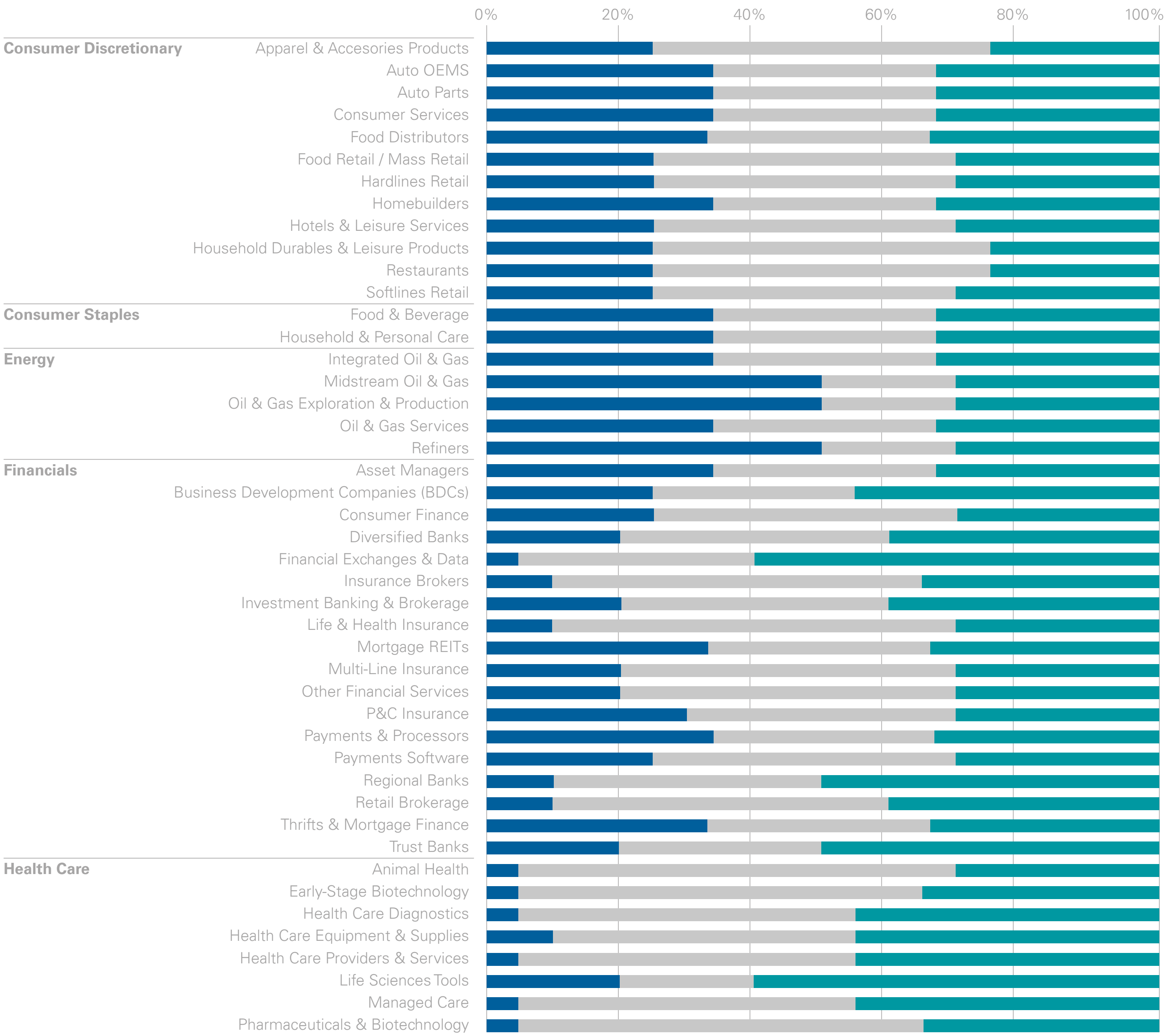
Exhibit 1.04: Asset-weighted Proprietary ESG Ratings Distribution

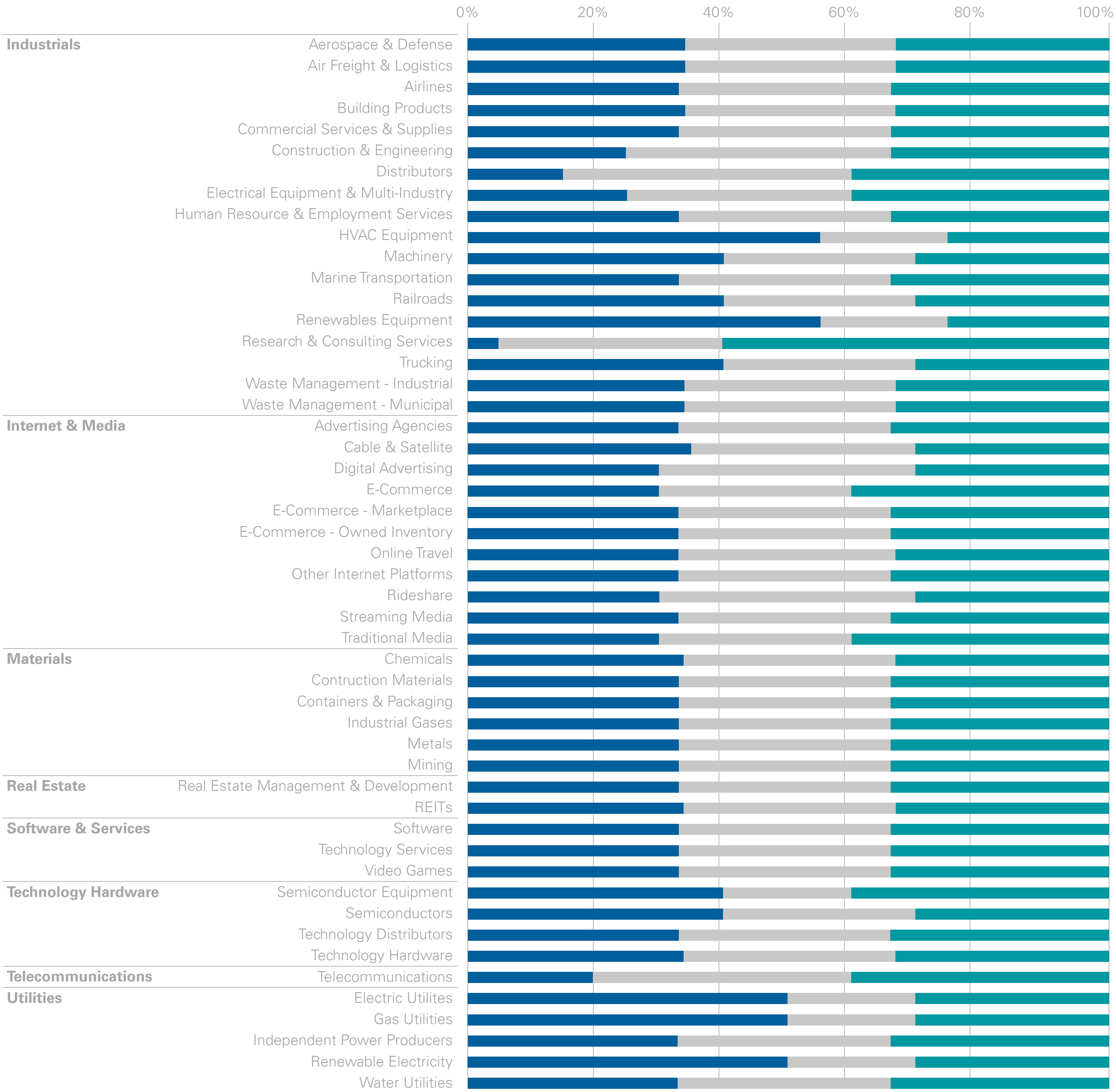
As of Dec. 31, 2021.

ClearBridge ESG Materiality Framework™

ClearBridge uses a proprietary materiality framework that identifies the key ESG considerations by subsector.

Environmental
Social
Governance




0%
20%
40%
60%
80%
100%
Industrials
Aerospace & Defense
Air Freight & Logistics
Airlines
Building Products
Commercial Services & Supplies
Construction & Engineering
Distributors
Electrical Equipment & Multi-Industry
Human Resource & Employment Services
HVAC Equipment
Machinery
Marine Transportation
Railroads
Renewables Equipment
Research & Consulting Services
Trucking
Waste Management - Industrial
Waste Management - Municipal
Internet & Media
Advertising Agencies
Cable & Satellite
Digital Advertising
E-Commerce
E-Commerce - Marketplace
E-Commerce - Owned Inventory
Online Travel
Other Internet Platforms
Rideshare
Streaming Media
Traditional Media
Materials
Chemicals
Contruction Materials
Containers & Packaging
Industrial Gases
Metals
Mining
Real Estate
Real Estate Management & Development
REITs
Software & Services
Software
Technology Services
Video Games
Technology Hardware
Semiconductor Equipment
Semiconductors
Technology Distributors
Technology Hardware
Telecommunications
Telecommunications
Utilities
Electric Utilites
Gas Utilities
Independent Power Producers
Renewable Electricity
Water Utilities

ClearBridge ESG Materiality Framework™

Key ESG considerations serve as a foundation for company analysis and ongoing engagement.

Environmental

Clean technology and energy efficiency product innovation
Climate change impact:
risk assessment, educational efforts, product design
Environmental efficiency of operations
(energy, water, waste, emissions)
Environmental impact of packaging
Environmental impact of products
Environmental impact of supply chain
Environmental regulation and compliance
Fuel efficiency and optimization of vehicle fleets
Green building practices
Green lending and/or investing practices
Harmful air emissions
Hydrocarbon mix (for oil and gas companies)
Impact of e-commerce packaging and distribution footprint
Land usage
Managing legacy environmental liabilities
Nuclear generation
Position of oil and gas assets on the cost curve
Product life cycle management
Recycling
Reduction in landfill waste

Governance

Audit controls
Board effectiveness (including diversity)
Business ethics
Business transparency
Capital allocation practices
Executive compensation/incentives
Geopolitical risk
Government relations
Integrity and independence of credit ratings
Operating excellence
Quality and integrity of management
Shareholder rights and controls
Systemic risk management

Social

Addressing unmet medical needs
Animal welfare
Community health of underserved populations
Community investment and job creation
Community relations
Data privacy and security
Employee health and safety
Enabling products and price points for lower-income households
Ethical sales and marketing practices
Facilitation of small business growth
Fair and justifiable pricing
Fair market access
Financial inclusion and access
Financial risk management
Health care affordability and access
Human capital management
(DEI; recruitment and retention)
Improving health care outcomes
Incentivizing responsible behavior from insurance policyholders
Media content responsibility
Online content responsibility
Product safety
Regulatory risk
Responsible lending and investing practices
Social impacts of products
Societal impacts of offshoring/nearshoring
Societal/environmental impact of automation
Supply chain labor management
Transparency for customers
Union relations

01

Active ESG Integration Advances Long-Term Value Creation

“Communicating with companies and holding them accountable for following through on their ESG commitments promotes better transparency and motivates companies to acknowledge areas for improvement.”

Scott Glasser

Scott Glasser, Chief Investment Officer
Portfolio Manager

As an active manager serving as a steward of our clients' capital, ClearBridge seeks to deliver sustainable long-term returns while prudently managing risk.

We believe that by integrating ESG factors into our investment process we can achieve these objectives and that, further, through company engagement and proxy voting, we can have a positive impact on portfolio companies and ultimately all stakeholders.

While this practice may take many forms, ESG integration allows our analysts and portfolio managers to create a more holistic view of the companies they cover and evaluate how they interact with all stakeholders. Incorporating ESG factors into the investment process correlates well with ClearBridge's long-standing focus on quality while also enhancing our risk management efforts. We believe by developing best practices with respect to ESG across different parts of their businesses, companies create more sustainable relationships that should enhance financial returns over time. Our own research has found a positive correlation between strong ESG characteristics, as measured by ClearBridge's proprietary ESG ratings, and higher risk-adjusted returns and alpha generation. From a risk standpoint, communicating with and holding companies accountable for following through on their ESG commitments promotes better transparency and motivates companies to acknowledge areas for improvement.

At ClearBridge, we are proud of our long history of participation in ESG investing, from integrating ESG into our active management approach to engaging with public companies as well as educating different stakeholders across the industry about the importance of addressing sustainability and encouraging best practices. Our commitment to promoting sustainable investment practices is reflected in firm-wide initiatives that link ESG issues with research priorities and portfolio management. Here we explore ClearBridge's latest thinking on ESG integration, the constant refinement of our understanding of the role of ESG in security analysis, portfolio construction and portfolio performance, and how this integration advances long-term value creation.

Understanding ESG Analysis and Performance

Charles Harris
Director of Research, Senior Analyst – Industrials
Donald Li, CFA
Senior Portfolio Analyst, Value Equity and All Cap Value Strategies
Farhan Mustafa, CFA
Head of Investment Risk Management,
Head of Quantitative Research

ClearBridge's approach to investing involves analysts and portfolio managers integrating industry- and company-specific ESG factors into its fundamental research process.

We assign each company in our coverage universe a proprietary ESG rating and update this at least annually. For every stock recommendation, each analyst presents the investment thesis, risk/reward profile, valuation, target price and internal ESG rating. These proprietary ratings — initiated and maintained in-house by analysts with extensive experience implementing ESG research across all Global Industry Classification Standard (GICS) sectors — are differentiated from those available from third-party firms.

In 2020 and 2021, ClearBridge undertook two studies of our ESG-rated stocks to determine 1) whether higher ESG-rated stocks outperformed lower ESG-rated stocks and 2) whether higher ESG-rated stocks exhibited better traditional fundamental characteristics than lower ESG-rated stocks. We also wanted to explore whether ClearBridge ESG ratings simply reflected common factor exposures and fundamental characteristics, or whether they captured company-specific idiosyncratic drivers of risk and return above and beyond the factor exposures and fundamental characteristics.

Regression Study: Explaining Outperformance of Higher ESG-rated Stocks

To evaluate the performance of our ESG-rated stocks, we performed a stepwise regression of weekly returns of equal-weighted portfolios constructed against a basket of common quantitative factors, including market beta, size, value, momentum and quality. We used stepwise regression because this model starts by regressing all factors, then drops the least significant one(s) until only significant factors remain. This approach minimizes the issue of covariance/correlation between independent factors in the regression model. ClearBridge performed this analysis on data spanning a 6.25-year period, from 2015 to mid-2020.

Correlation Study: Separating ESG Ratings from Fundamental Financial Metrics

The second study examined the relationship between ClearBridge's proprietary ESG rating of a stock and its fundamental characteristics. It considered 27 financial metrics divided into three categories: growth, profitability and balance sheet strength. For each rated stock, ClearBridge compared its ESG rating to its standardized, fundamental composite score based on that stock's relative position within its peer group (by GICS sector and market cap).

Fundamental financial metrics tend to be of different magnitudes and display strong sector/market cap biases, which makes them unsuitable for direct comparison. To address these challenges, ClearBridge divided the full sample of stocks into 33 peer groups by GICS sector and market cap, and then compared each stock's financial metrics to its peer group by using a standardized z-score for each metric. The transformation of fundamental financial metrics into z-scores enabled the creation of composite z-scores for the growth, profitability and balance sheet strength categories, as well as an overall fundamental composite z-score. This study was conducted using data as of February 2021.

These studies quantify the relationships between ClearBridge's ESG-rated stocks, factor exposures and fundamental characteristics and show that ESG integration, expressed in ClearBridge's proprietary rating system, appears to contribute to performance and has an added benefit beyond that which could be explained by common quantitative factors and fundamental financial metrics. The key findings from the two studies are that:

1. Higher ESG-rated stocks outperformed the market more frequently than lower ESG-rated stocks.

2. Higher ESG-rated stocks generated higher risk-adjusted returns (Sharpe ratios) than lower ESG-rated stocks. AAA and AA stocks generated higher risk-adjusted returns than the S&P 500 Equal-Weighted Index (Exhibit 2.01).

3. Higher ESG-rated stocks generated higher alpha than lower ESG-rated stocks after accounting for common factor exposures including market beta, size, value, momentum and quality (Exhibit 2.02). Coefficients from the stepwise regression show that higher ESG ratings are associated with higher exposures to growth (lower values for the value factor in Exhibit 2.02), quality and modestly smaller size. Meanwhile, value and quality factor exposures are most pronounced for B-rated stocks, which explains the outperformance of B-rated stocks during the 2016 value cycle.

4. ESG ratings display modestly positive correlation with the overall fundamental scores (Exhibit 2.03). This is due to positive relationships between fundamentals and ESG ratings for profitability (Exhibit 2.04) and balance sheet strength (Exhibit 2.05), while there is no significant relation between ESG ratings and growth scores (Exhibit 2.06; this study analyses a point in time – February 2021 – and differs from the multiyear regression analysis above in terms of period of observation as well as definitions of growth, with the regression analysis showing a positive relationship between ESG ratings and the growth factor over a specific time frame). In all cases there is greater discriminative power for the highest and lowest ESG ratings.

5. While ESG ratings and fundamental scores are positively correlated at the cohort level, at the stock level the relationship is much less clear, suggesting that the ESG ratings capture company-specific, idiosyncratic information that is not reflected in the standard financial data.

One important limitation of the performance studies is that the markets have been in some combination of pro-growth, pro-quality and pro-momentum regimes for most of the past 10 years. This limitation does not invalidate ClearBridge's findings, but it is important to be mindful of this bias.

ClearBridge interprets these studies to confirm the value of ESG research and its integration into fundamental investment analysis. Over time, ClearBridge will extend these studies and incorporate additional market regimes to continue testing our ESG ratings.

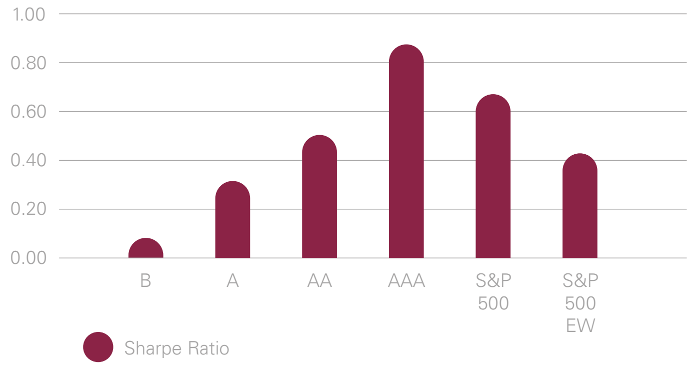


Exhibit 2.01: Annualized Sharpe Ratio by ClearBridge ESG Ratings

Data from 2015 to mid-2020. Sources: Standard & Poor's, Russell Indexes, FactSet Research Services, ClearBridge Investments.

	AAA	AA	A	B
Alpha (annualized)	1.63%	0.76%	0.53%	0.71%
Beta	1.04	1.04	1.08	1.03
Size	0.15	0.17	0.35	NS
Value	0.04	0.10	0.18	0.51
Momentum	NS	NS	NS	NS
Quality	0.10	-0.07	-0.17	-0.51

Exhibit 2.02: Stepwise Regression Result Using Common Quantitative Factors

Data from 2015 to mid-2020. "NS" indicate data that was not statistically significant. Sources: AQR Research, Standard & Poor's, Russell Indexes, FactSet Research Services, ClearBridge Investments.

ESG ratings display modestly positive correlation with the overall fundamental scores, profitability and balance sheet strength, while there is no significant relation between ESG ratings and growth scores.

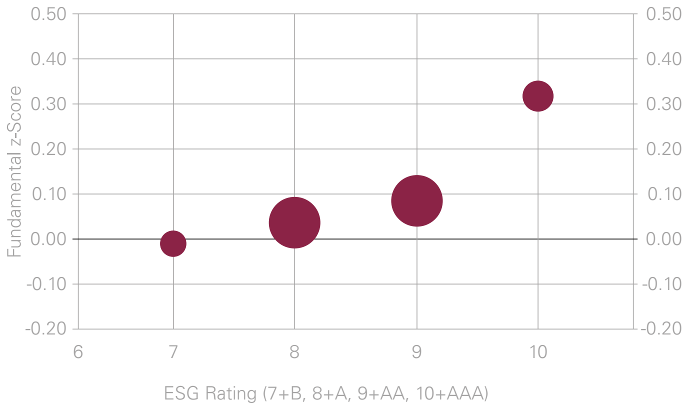


Exhibit 2.03: ClearBridge ESG Ratings vs. Standardized Overall Fundamental Scores

As of February 2021. Sources: S&P Capital IQ, Credit Suisse HOLT, ClearBridge Investments. Bubble size reflects number of securities in each cohort.

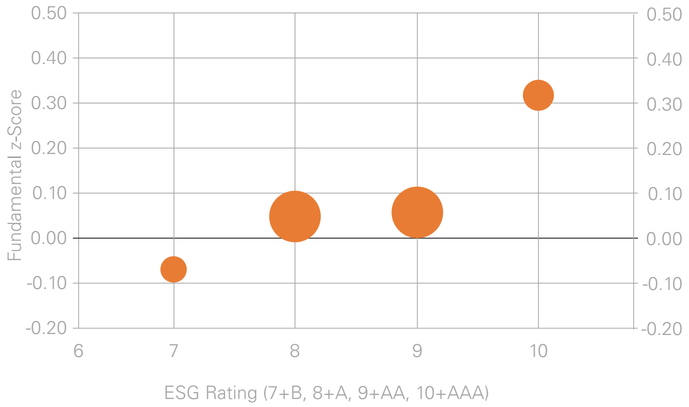


Exhibit 2.04: ClearBridge ESG Ratings vs. Standardized Profitability Scores

As of February 2021. Sources: S&P Capital IQ, Credit Suisse HOLT, ClearBridge Investments. Bubble size reflects number of securities in each cohort.

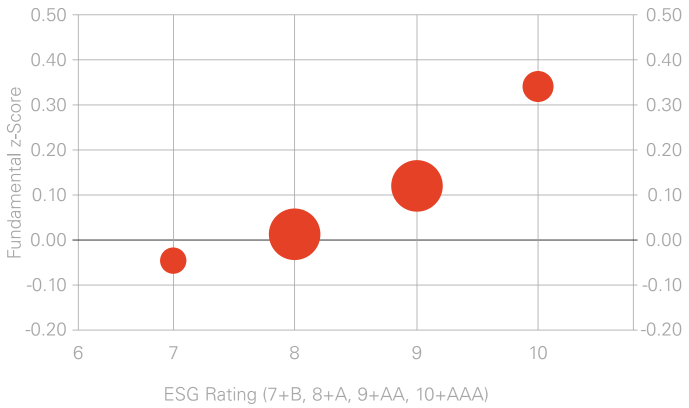


Exhibit 2.05: ClearBridge ESG Ratings vs. Standardized Balance Sheet Strength Scores

As of February 2021. Sources: S&P Capital IQ, Credit Suisse HOLT, ClearBridge Investments. Bubble size reflects number of securities in each cohort.

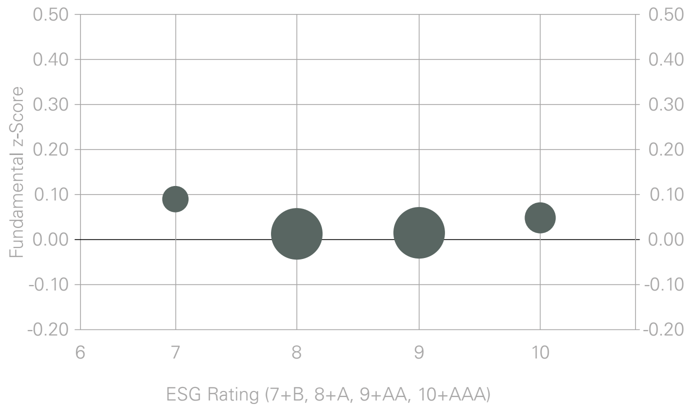


Exhibit 2.06: ClearBridge ESG Ratings vs. Standardized Growth Scores

As of February 2021. Sources: S&P Capital IQ, Credit Suisse HOLT, ClearBridge Investments. Bubble size reflects number of securities in each cohort.

Assessing Climate-Related Risks and Opportunities

Benedict Buckley, CFA
Portfolio Analyst, Sustainability Leaders Strategy
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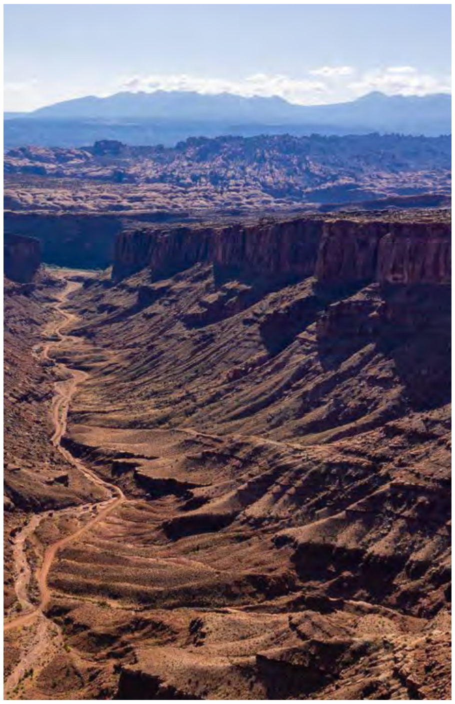
Senior Portfolio Analyst, Value Equity and All Cap Value Strategies



ClearBridge assesses the specific climate-related risks and opportunities faced by individual companies as part of our bottom-up stock selection process, which integrates climate-related considerations, among other environmental, social and governance considerations.

Broadly, we consider both transition risks and physical risks:

Transition risks: The effects of changing market conditions and policies to transition toward a lower-carbon economy on business models, competitive dynamics, technology developments and capital allocation decisions across industries.

Physical risks: The effects of increased frequency and severity of extreme weather events such as droughts, floods and wildfires that can impact businesses and their employees through damage to assets, lost operating days and supply chain disruptions.

While we assess each sector on a specific set of criteria that is pertinent to its business operations, the assessment generally includes careful consideration of climate-related factors such as: the regulatory/policy environment; the geographic location of assets and operations; the ability to pass on costs to customers (pricing power); technology alternatives and advancements; changing customer preferences; commodity prices; future capital expenditure and R&D plans; long-term business strategy; overall quality of the management team; and other factors.

We also consider climate-related risks at the portfolio level and have undertaken studies to stress test the effects of carbon taxes, which are gaining momentum as a potentially effective policy tool for decarbonization, on investment portfolios. While similar tests may be run by third-party ESG solutions providers, ClearBridge's approach is differentiated by:

Taking a dynamic and adaptive approach: We view the economy in which companies operate as a complex adaptive system. The initial exogeneous shock of carbon tax represents just the first wave that should inevitably lead to reactions and counter-reactions that reverberate across the interconnected web of value chains. Understanding the adaptive nature of this dynamic is key to understanding the impact of carbon taxes; while this is a much more complex exercise and subject to greater modeling error than a narrow focus on quantifying the direct impact, we believe it represents a more realistic approach and potentially a better guide to climate risk management and company engagement.

Focusing on value impact under various scenarios: Compared to third-party solutions that may be driven by preselected scenarios (such as various global warming paths), we prefer a more flexible approach in accommodating various scenarios of carbon pricing and reaction functions. In addition, we maintain focus on company value as the "common denominator" throughout the analysis.

Creating a roadmap for engagement: We believe a holistic and adaptive approach, and a focus on understanding how various factors impact company value, should not only help us understand the climate risk of each portfolio holding, but also provide a flexible and value-based platform for engagement of company management.

Exhibit 2.07 illustrates the various dynamics at play in a sample carbon tax stress test study performed at ClearBridge. The framework covers both Scope 1 and 2 emissions, which are directly under a company's control, and Scope 3 emissions, which are not directly controlled by the company but related to its business activities.

First-order effects: When a carbon tax shock hits the company, the first-order effects include the carbon tax burden based on its current emissions, as well as the redistribution of such burdens along the value chain – e.g., passing through some of the burden to customers, as well as recouping some the higher net cost via income tax deduction.

Second-order effects: The second-order effects involve companies taking reactive actions of carbon abatement (e.g., to reduce its emissions via efficiency and technological changes). At the same time, the greater economic incentive to reduce emissions should spell opportunities for companies positioned to provide clean technology (e.g., a more efficient grid to accommodate renewable power generation), clean energy (e.g., green/blue hydrogen) and clean materials (e.g., copper for electrification).

Third-order effects: The third-order effects are even broader and include the impact of Scope 3 emissions, which impact the company's suppliers (in the form of higher cost structures for such suppliers and higher input costs for the company) and customers (in the form of higher cost of ownership of the company's products and pushback from customers). They also involve greater competition, substitution and disruption in the added dimension of carbon costs, potentially stranded assets (especially fossil fuels, which may become uneconomical to extract under higher carbon taxes), and the impact on the value of the company's debt and equity securities, which in turn will find their way to financial institutions. All of the above does not even consider the potential macroeconomic impact that could change such important valuation drivers as GDP growth, inflation and cost of capital.

ClearBridge Climate Change Reporting

ClearBridge has aligned its climate change reporting with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) since 2019. Through our TCFD-aligned reporting, we articulate our commitment to addressing the challenge of climate change in our roles as active shareholders and stewards of our clients' capital. TCFD-aligned reporting includes measures of carbon intensity.

As a next step in the evolution of our commitment to addressing climate change risks, in 2021, ClearBridge became a signatory to the Net Zero Asset Managers Initiative (NZAM).

Starting in 2022 we will publish an annual standalone climate report that will include details of how we aim to fulfill our commitment to both NZAM and TCFD reporting.

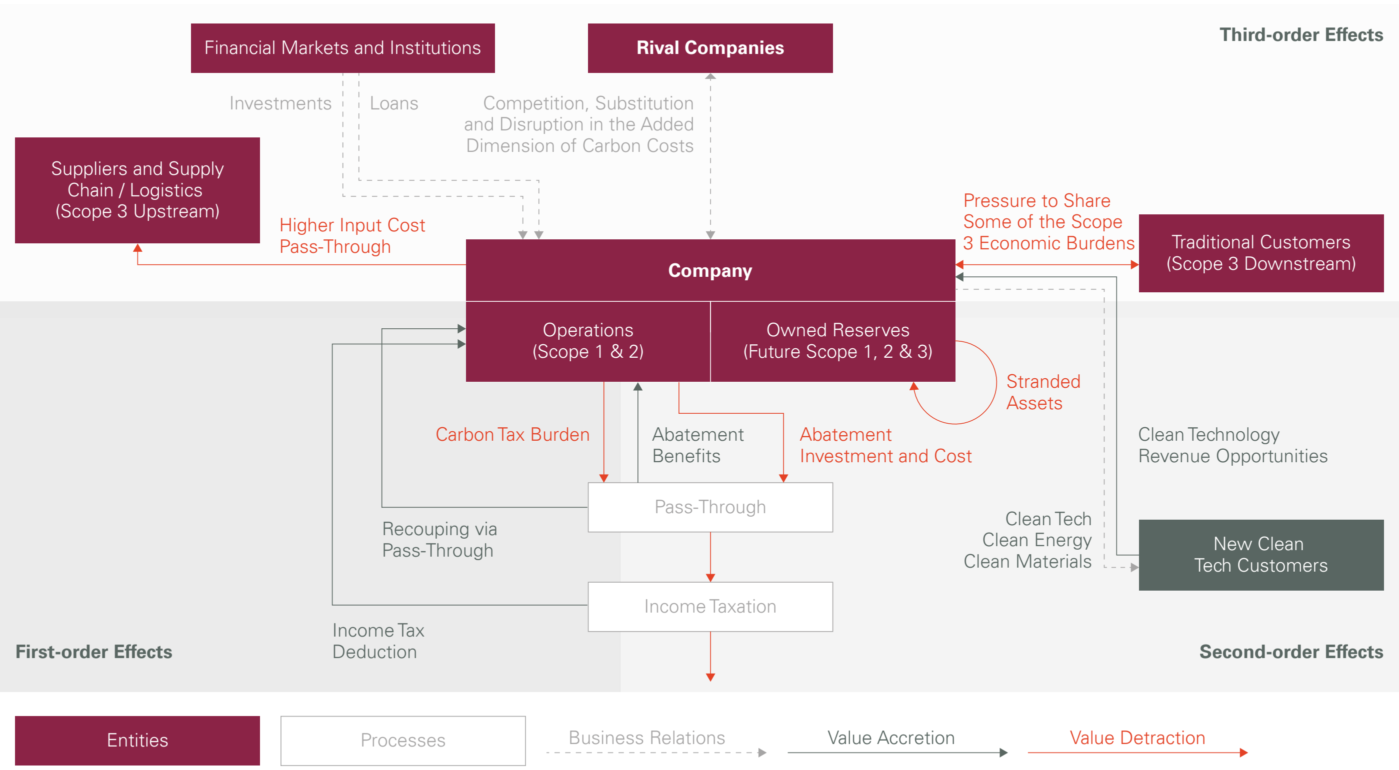


Exhibit 2.07: Sample Analytical Framework for Carbon Tax Stress Test

Source: ClearBridge Investments.

The Net Zero Asset Managers Initiative: Transparency and Accountability on Climate

Hannah Barr
Senior ESG Associate
Mary Jane McQuillen
Head of ESG, Portfolio Manager, Sustainability Leaders Strategy

In July 2021 ClearBridge Investments announced it had joined the industry-leading Net Zero Asset Managers Initiative (NZAM), an international group of asset managers committed to supporting the goal of achieving net-zero greenhouse gas emissions globally by 2050. We are proud to be part of a community of over 200 asset management peers, representing over $50 trillion, in this commitment.

The initiative seeks to reduce financed emissions — those associated with an asset manager's investments — and so aligns with ClearBridge's existing integration of sustainability-related investment risks such as climate change into our stock selection process. Achieving the goals of NZAM will also require us to build on our experience engaging companies on climate change issues, which we have undertaken for 30+ years in recognition of the urgency of accelerating global decarbonization efforts.

Asset managers in the initiative commit to working in partnership with asset owner clients on decarbonization goals to achieve net zero by 2050 across all assets under management, to set an interim target for the proportion of assets to be managed in alignment with net zero by 2050, and to review and ratchet up this target every five years until 100% of assets are included.

More concretely, in order to meet these commitments, asset managers must:

- Set interim targets for 2030 for assets to be managed in line with the net-zero goal
- Implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with the initiative's goal
- Prioritize the achievement of real economy emissions reductions through engaging with portfolio companies to increase their carbon reduction ambitions (as opposed to simply divesting from carbon-intensive companies)

For ClearBridge, we plan to focus on increasing the alignment of portfolio companies to net-zero pathways by continuing to engage with our holdings in the spirit of long-term partnership. We have always engaged portfolio companies on climate-related risks; in the past year we have already begun explicitly engaging on net-zero alignment. In our conversations we are encouraging companies to set ambitious carbon reduction goals that are "science-based," meaning the target is in line with emissions reductions needed to collectively achieve the goals of the Paris Agreement.

A key aspect of NZAM is increased disclosure from asset managers, including the requirement to report annually on our climate action plans and our progress towards net zero. This plan will build on our existing climate-related work: climate risk analysis is already part of our ESG integration approach, and climate change is already a key engagement topic and a firm priority.

As proxy voting is one way ClearBridge uses its role as a large shareholder to drive positive change at portfolio companies, we will be aligning our proxy voting with our NZAM commitment, which will further inform and support our climate-related proxy voting.

NZAM is a new approach to driving decarbonization through the asset management industry, and it will require asset managers to significantly increase attention to climate issues. Bolstering transparency and accountability across the investment industry, NZAM is a welcome step forward.

Infrastructure and the Other Inflation: Climate Inflation

Shane Hurst
Portfolio Manager, Infrastructure Strategies
Nick Langley
Portfolio Manager, Infrastructure Strategies

Once pandemic-related supply inflation begins to fade, there is another, less-discussed inflation looming not too far off: climate inflation. There are several drivers for this: carbon pricing will be critical to delivering market-based decarbonization, even while this likely leads to higher prices for everything in the medium and long term. For example, from the middle of this decade the EU's Fit for 55 program will implement a carbon border adjustment mechanism, which will result in carbon being priced into goods (across a range of industries) sold in Europe and may result in a decade of rising prices. The greater demand for electricity will also be a key factor in rising inflation as grids are electrified, with electricity consumption set to double by 2050.

Among renewables, project build costs are now starting to rise because of rising commodity costs (copper particularly). Additionally, the nature of renewable energy generation will require significant additional electric transmission lines[1] and additional generation to offset the interruptible nature of renewables. Fossil fuel energy sources should have higher breakeven prices in the future as fossil fuel projects will likely have higher costs of capital associated with them (due to fewer sources of capital as banks move away from fossil fuel lending) and capital will likely need to be recovered over shorter time periods. The dwindling supply of fossil fuel globally, due to several decades of underinvestment, will also increasingly put upward pressure on inflation and consumer bills.

Utilities are not without their climate-related expenses either: the New York City sewer system, for example, was built to handle 1.75 inches of rain per hour. In 2021, Hurricane Ida deluged the city with over three inches in an hour. While there are no immediate plans to upgrade the city's aging sewers, reports indicate it could cost $100 billion and take several decades to recalibrate the system.[2] That cost will be recovered in utility bills or taxes.

Infrastructure is in a unique position among investable securities to support decarbonization and combat inflation: it provides essential services to growing populations in emerging, developing and developed countries and thus will see continued investment under regulatory or contractual frameworks that provide predictable future cash flows, often linked to inflation. Among utilities, renewables are expected to grow substantially at the expense of coal and gas-fired generation; rail offers lower emissions per passenger/ton than other transport alternatives (Exhibit 2.08); toll roads facilitate lower-emissions travel, regulating traffic flow and evolving to allow electric vehicles; some energy infrastructure will be adapted to support hydrogen transportation and carbon capture in industrial processes; communication towers also allow technology to function as a mobility substitute, reducing travel emissions.

As climate inflation moves from an underdiscussed issue to front-and-center over the coming years, we expect infrastructure's role as an inflation hedge — most revenues are linked to inflation — will also take on new meaning.

[1] An October 2021 Princeton Net Zero America study concluded that the U.S. needs to increase the electric transmission network by 60% (in terms of gigawatt miles of wires) by 2030 and triple the network by 2050 in order to hit the net-zero target.
[2] In testimony to New York City Council on September 14, 2021, Department of Environmental Protection Commissioner Vincent Sapienza said "It's physically infeasible. It's going to cost $100 billion."

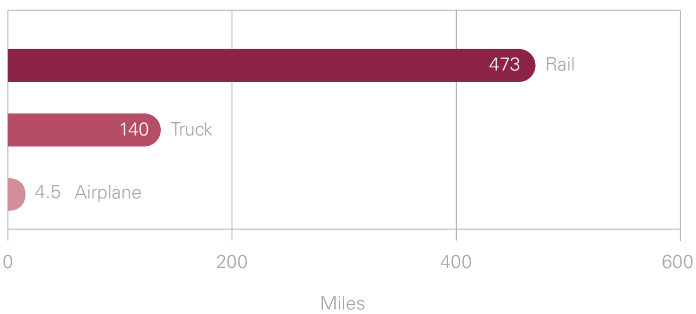


Exhibit 2.08: Rail Covering More Distance Per Unit of Fuel

Source: Wolfe Research.

Valuing Human Capital: The Social in ESG

Kimberly Gifford, CFA
Portfolio Analyst, Sustainability Leaders Strategy

Numerous academic studies show that responsible human capital management, with attention to a company's workforce, its customers and the community in which it operates, is conducive to the creation of shareholder value. This forms the basis of ClearBridge's approach to engaging companies on a large range of human capital topics, including DEI.

ClearBridge uses human capital information to inform investment decisions as part of our fundamental analysis of companies and in our company engagements, which take place with senior leadership at companies we own and consider for ownership. We seek to understand human capital information in terms of the risks and opportunities it reflects, for example for companies in labor-intensive businesses where poor human capital management could be detrimental, or for companies using human capital as a competitive advantage as they seek to hire, train and retain top talent.

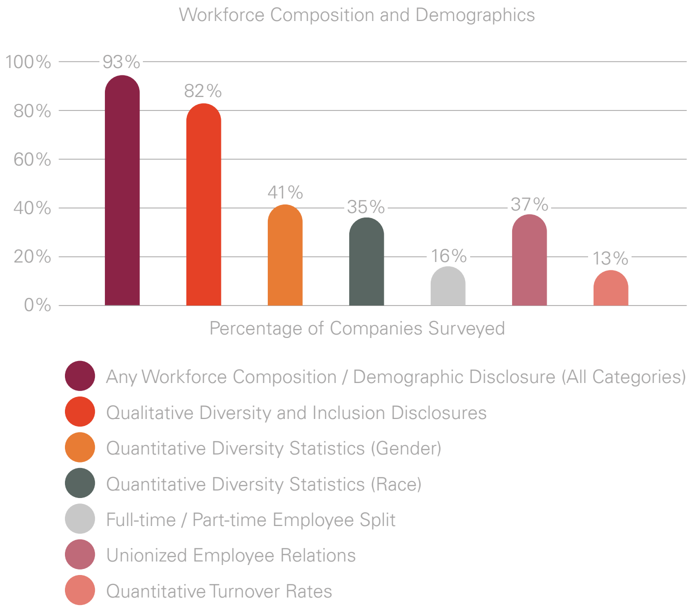
We may also use human capital information for the purpose of engagements — particularly where we see companies can make improvements in their workforce culture or policies, or as an opportunity to advise on best practices as companies look to advance practices toward best-in-class.

While engaging with companies, we see a wide scope of potential impact for building diversity-friendly infrastructure in order to hire, train and retain top talent. We encourage a holistic approach that tracks and discloses metrics such as diversity (disclosures of gender, racial and ethnic diversity – as available, by country), benefits (items such as parental leave, health benefits, fertility benefits, elder care), workforce policies (such as human rights policies in both developing and developed markets), employee turnover statistics, productivity levels and compensation levels.

Human Capital Management Getting Recognition With Hard Data

Amid ClearBridge's continued emphasis on human capital topics in company engagements in 2021, we began to see more companies explicitly acknowledging the importance of human capital management, specifically its materiality and the need for transparency. The Securities and Exchange Commission has now mandated some form of human capital management information in companies' audited 10-K filings. Yet the depth and quality of the information companies are disclosing varies: it may be quite minimal or, in qualitative discussions, lack specifics. A study by Gibson Dunn, for example, found that while of 451 S&P 500 companies surveyed, 82% included a qualitative discussion of DEI commitments, only 41% provided quantitative diversity statistics on gender, only 35% provided these metrics for race (Exhibit 2.09), only 16% addressed pay equity and only 4% used "quantitative measures of the pay gap between diverse and non-diverse employees or male and female employees" (Exhibit 2.10).[3] Nevertheless, the inclusion of diversity data in SEC-filed reports, even while it is not voluntary and varies in specificity, speaks to the growing recognition of its materiality for all investors, not just for ESG investors.

[3] Gibson Dunn, "Discussing Human Capital," November 2021.



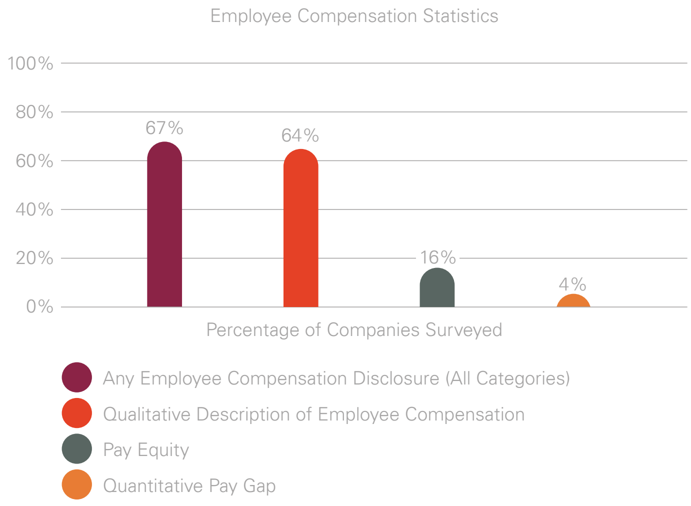


Exhibit 2.09: Workforce Composition and Demographics Disclosure

Source: Gibson Dunn, "Discussing Human Capital," November 2021.

Exhibit 2.10: Employee Compensation Statistics Disclosure

Source: Gibson Dunn, "Discussing Human Capital," November 2021.

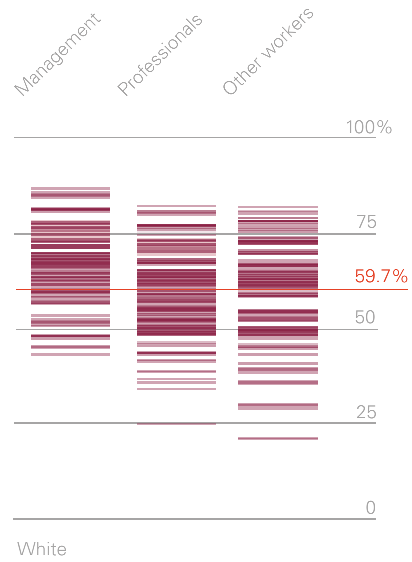
Other forms of disclosures and data beyond 10-K filings are helping improve our understanding of companies' current status of workforce diversity and willingness to hold themselves accountable to the public for these figures (Exhibit 2.11). The number of companies making EEO-1 forms public is increasing: a study by Bloomberg found that while 25 of the 100 companies surveyed shared EEO-1 data in 2020, this number leapt to 75 in 2021.

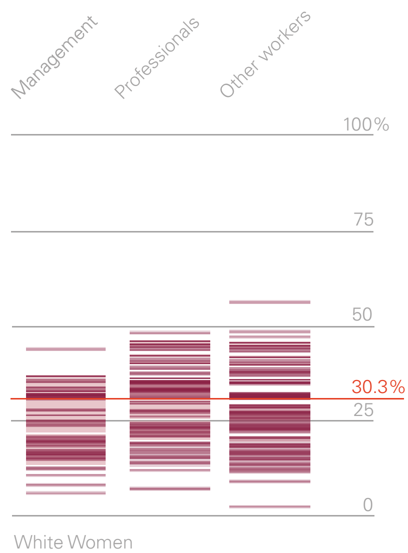
Based on EEO-1 data publicly available, we can see that women as well as Black and Hispanic people remain underrepresented in the workforce, particularly in management. However, greater public disclosures are a step in the right direction, offering us as active investors a baseline for measuring progress and increasing accountability. We also believe companies that track and disclose human capital information are signaling conviction in the competitive advantage of strong human capital management and are including human capital management as a material and value-creative element of business strategy.

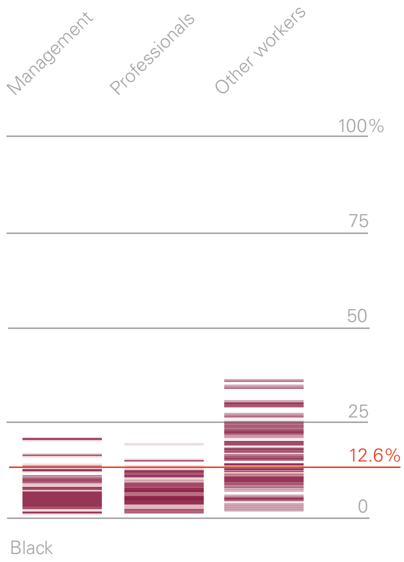
Exhibit 2.11: EEO-1 Disclosures from 75 Companies in S&P 100 Index

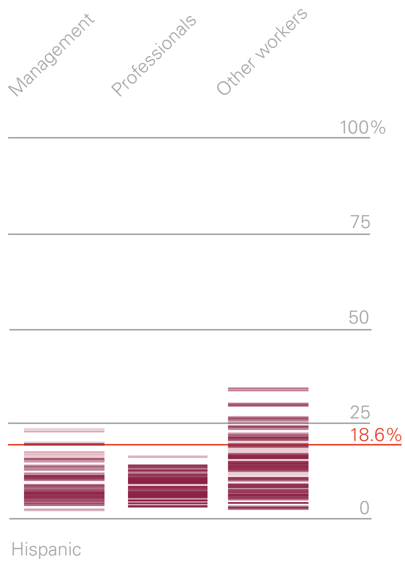
As of Oct. 21, 2021. Source: Bloomberg, company reports. Note: Charts show percentage of representation for each company by job type and by sex and race/ethnicity. The nine job categories in the EEOC form were combined into three categories. Management includes executive and senior level workers as well as first/mid-level officers. Professionals includes professionals and technicians. Sales workers, administrative staff, operatives, laborers, and service workers were combined into the Other workers category. Demographic information is from the U.S. Census population estimates as of July 1, 2020.

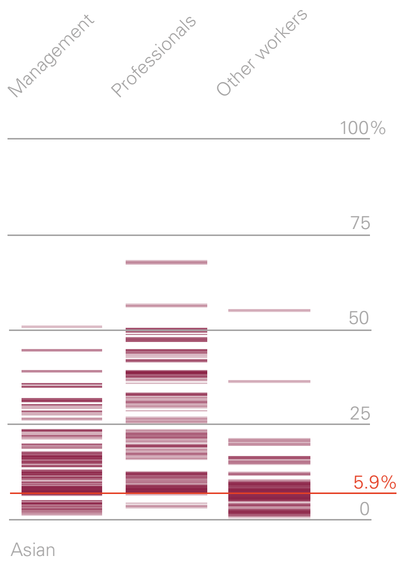
% of U.S. population

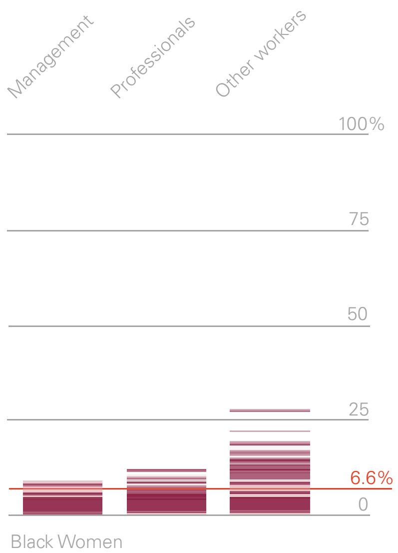


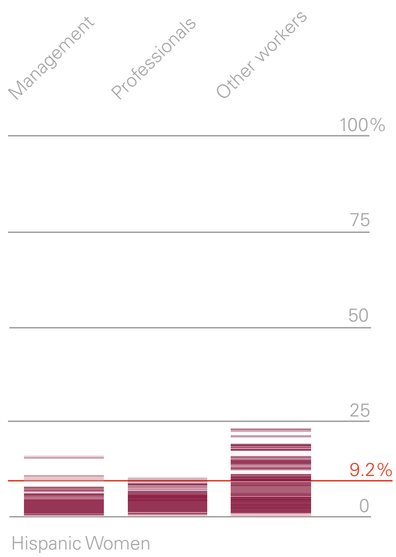


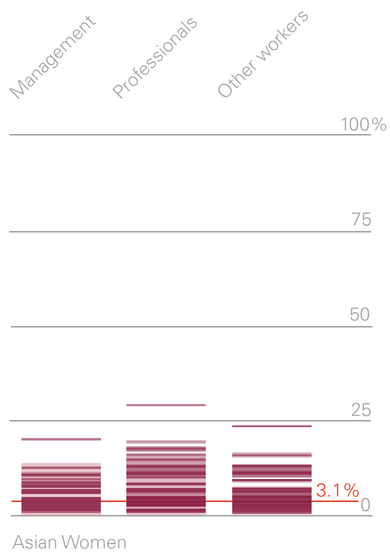

Management
Professionals
Other workers
100%
75
50
25
12.6%
0
Black


Management
Professionals
Other workers
100%
75
50
25
18.6%
0
Hispanic


Management
Professionals
Other workers
100%
75
50
25
5.9%
0
Asian


Management
Professionals
Other workers
100%
75
50
25
6.6%
0
Black Women


Management
Professionals
Other workers
100%
75
50
25
9.2%
0
Hispanic Women


Management
Professionals
Other workers
100%
75
50
25
3.1%
0
Asian Women

ClearBridge also uses data provided by Equileap, a nonprofit organization whose mission is to increase transparency of gender diversity metrics and policies/programs in place for gender equality, to help our analysis and guide conversations, for example on gender pay gaps (Exhibit 2.12). Equileap data highlights not just qualitative but also quantitative metrics to help compare companies against peers and across industries, market caps and geographies.

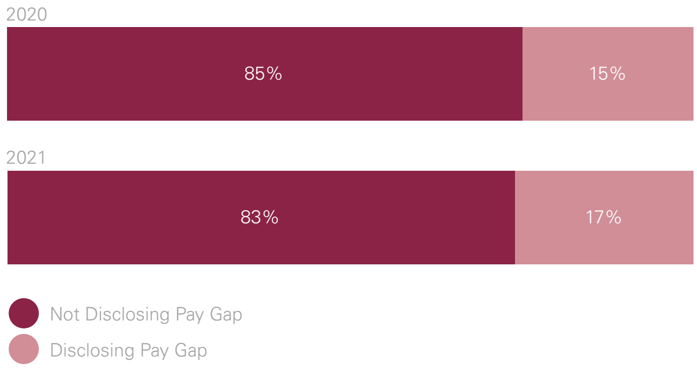


Exhibit 2.12: Global Gender Pay Gap Disclosures Are Rare but Growing

As of Dec. 22, 2021. Source: Equileap. From 4,000 companies surveyed globally.

Health Care Holdings Help Broaden Views of Diversity

In our engagements with companies we have noted, and we support, a broadening of the notion of diversity among companies. We are finding more companies considering employees' well-being holistically and seeking to foster a culture where everyone can succeed. This may include taking into account employees' status as mothers, fathers or caregivers, disabilities and age, or offering products and services that meet diverse customer needs.

One way ClearBridge is supporting DEI in investments is by seeking out portfolio companies that have products and services that encourage these beliefs. ClearBridge is a top 10 owner of Progyny, a leading provider of fertility benefit management services to self-insured employers. This is an increasingly important, albeit relatively underpenetrated benefit for employers, particularly those seeking to improve access and support DEI initiatives. Progyny realizes substantially better outcomes for patients (higher pregnancy rates, lower miscarriage rates and lower twins rates), which leads to better outcomes for patients and families, as well as significant cost savings for payers. Progyny's mission is to improve the employee experience around fertility in order to aid customers in employee recruitment and retention.The company offers a rare win-win-win for employers, employees, and health systems and doctors, with clear savings and quality improvements.

CVS Health, which ClearBridge has owned and engaged with for several years and which is considered best-in-class for its ESG practices, is helping to overcome historical biases and ensure fairness and equity in health care. Nearly half of CVS's 10,000 U.S. pharmacies are in communities ranked high or very high by the CDC/ATSDR's Social Vulnerability Index (SVI). A high SVI rank, along with population density and area demographics, are critical factors CVS has used to prioritize COVID-19 testing and pharmacy locations offering COVID-19 vaccinations. The company intentionally over-indexed testing to these communities, citing nearly 60% of retail testing locations in them. CVS also recognized that education from trusted sources was critical to a successful vaccination strategy and conducted outreach to vulnerable communities, with important voices coming from the more than 40% of CVS pharmacists and more than 50% of CVS pharmacy technicians who identify as people of color.

Through seeking better human capital disclosures to inform our investment process and drive conversations with companies on concrete ways they can advance DEI practices, and through targeting companies that find innovative ways to foster DEI through their products and services, ClearBridge continues to encourage all ways of creating shareholder value through valuing human capital.

Achieving ESG Goals with a Quality Approach to Value

Robert Feitler
Portfolio Manager, Large Cap Value Strategy
Dmitry Khaykin
Portfolio Manager, Large Cap Value Strategy

There often seems to be the perception of an inherent alignment between ESG investing and growth stocks — technology-focused companies with small carbon footprints supporting ESG goals such as renewable energy.

Value stocks, by contrast, are viewed as resource-intensive heavy emitters. It is natural, therefore, to be concerned if the rotation into value jumpstarted by November 2020 vaccine announcements would mean performance or sustainability compromises for investors.

Looking at a large cap value benchmark like the Russell 1000 Value Index, the association of value portfolios with old economy smokestack industries would seem to justify the conventional thinking. Taking emissions as one indicator of ESG characteristics, value is aligned with sectors with higher carbon intensity (Exhibit 2.13). Along these lines, underweights relative to a growth benchmark like the Russell 1000 Growth Index within information technology, consumer discretionary and communication services sectors, which are among the lowest-emitting sectors, are a further constraint to achieving sustainability.

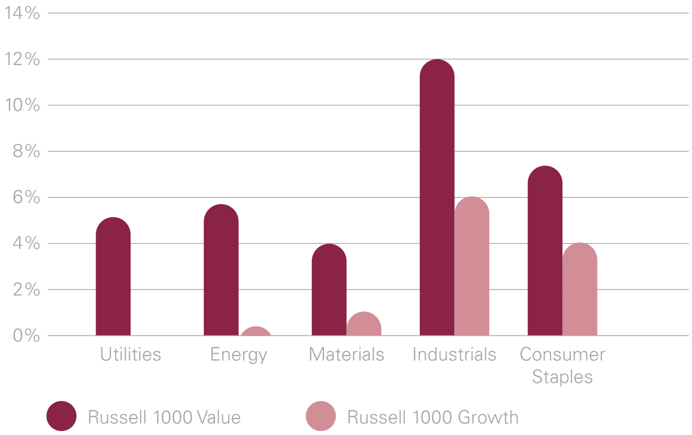


Exhibit 2.13: Value/Growth Exposure to Top Five Carbon-Emitting Sectors

As of June 30, 2021. Source: FactSet, MSCI. Top five carbon-emitting sectors (tCO2e/$M sales) in the Russell 1000 Index.

For a passive value portfolio this would be true. While a passive approach tends to sacrifice sustainability through indiscriminate exposure to high-emitting sectors, an active approach to value investing does not have to, especially if an actively managed value strategy is focused on competitively advantaged, high-quality businesses, enabling a dual purpose of generating excess returns while simultaneously satisfying ESG objectives. In addition, an approach that focuses on companies with strong ESG characteristics need not sacrifice returns, as analysis shows companies with better ESG ratings see superior returns as long as they avoid deterioration in their sustainability characteristics (Exhibit 2.14).

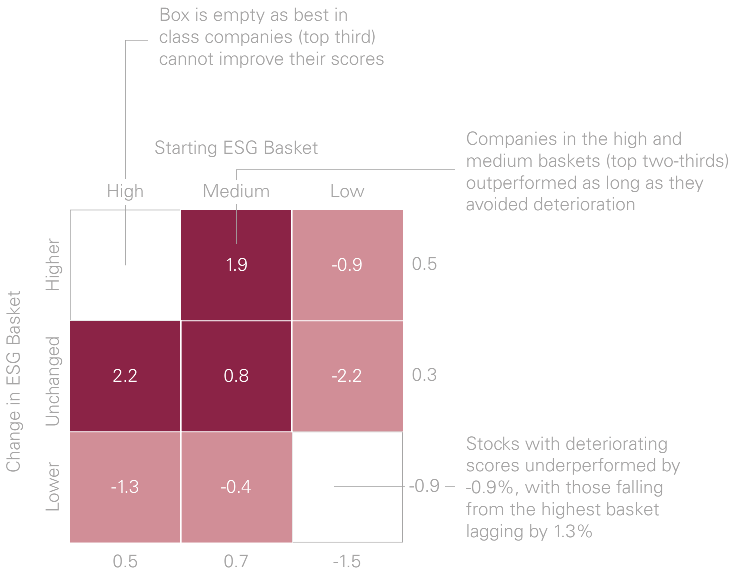


Exhibit 2.14: Relative Alpha of High/Medium/Low ESG Companies

Source: Credit Suisse. Based on directional change in company ESG rankings: companies in the high initial basket outperformed by 2.2% if ESG ranking remained the same; companies in the medium basket outperformed by 1.9% and 0.8% if they improved or maintained their ESG rankings, respectively. Annualized relative returns to S&P 500 over past 5 years; Change in ESG basket over the subsequent 12 months.

We expect greater returns from companies that are contributing to the transition to a more sustainable economy. By paying special attention to businesses with revenues driven by sustainability drivers and companies that are simply misunderstood or whose positive ESG attributes are overlooked, a quality approach to value investing may foretell strong ESG characteristics, overcoming a bias of non-ESG friendly investing.

Such an approach allows one to target companies with sustainability trends that are the growth drivers of the business. Companies enabling the transition to electric vehicles (EVs) and the development of alternative energy sources are excellent examples of these.

TE Connectivity Driving Electric Vehicle Innovation
ClearBridge is a top 10 owner of TE Connectivity, which makes connectors for a wide range of uses, including automobiles, data centers and medical devices. TE Connectivity's products help enable environmentally friendly solutions like EVs, where they enjoy twice as much content per vehicle as compared to traditional internal combustion engine vehicles, which reduces reliance on fossil fuels. They also enable socially valuable innovation such as advanced driver assist systems/autonomous vehicles, which should improve vehicular safety.

Sempra Energy Driving Alternative Energy Growth
ClearBridge is a top 20 owner of California-based utility and infrastructure company Sempra Energy. To help meet the rising demand for clean energy EVs will require Sempra to direct capital toward developing hydrogen, renewable natural gas (RNG), fuel cells and carbon capture and storage. The company recently announced a Hydrogen Blending Demonstration Program, a joint R&D project of its two California subsidiary utilities, SoCalGas and SDG&E. The project is the first of its kind in California and aims to use surplus renewable electricity generated in the middle of the day to produce green hydrogen for subsequent injections into the natural gas stream for storage and use. In addition to hydrogen, Sempra has directed capital toward RNG, fuel cells and carbon capture and storage.

A Differentiated View on Sustainability Opportunities

An active approach to value investing also enables a differentiated view of companies that are not given proper credit for their sustainability contributions. Contrary to the perception that value stocks are just old economy smokestack companies, many deploy innovative technologies for a more sustainable future.

Deere Contributing to Sustainable Agriculture

Deere, in the industrials sector, manufactures agricultural, construction and forestry equipment. As an industrial equipment maker, Deere is easily lumped in with capital- and carbon-intensive industries and can be easily overlooked by sustainability-focused investors. Yet the company has many environmentally friendly elements to its business for which we believe it is given less credit by ESG ratings agencies than it deserves. Deere is a leader in precision agriculture, which applies new technologies in planting, spraying and irrigation tasks to improve yields while reducing the use of water and harmful pesticides and herbicides. Its AutoTrac steering system, for example, reads the soil and steers planters to nearly eliminate overlapping passes on the field, reducing fuel consumption and associated emissions, as well as seed and chemical use.

Similarly, Deere's See & Spray Select precision sprayer uses computer vision and AI to detect weeds as a farm sprayer passes over fallow ground and precisely sprays herbicides only where needed. It has a hit rate of 98%, similar to broadcast sprayers, which spray indiscriminately, yet it uses an average of 77% less herbicide than broadcast sprayers. In a meeting with Deere we learned of one field trial for cotton in which herbicide consumption costs declined to $25,000 compared to $250,000 the previous year. In addition, Deere's ExactEmerge planter is designed to increase the accuracy of spacing, depth and population of seeds, improving farmers' bottom line while benefiting the environment.

Conclusion

An active value investing approach that focuses on durable and resilient franchises operating in stable to growing end markets trading at attractive valuations, rather than tracking a broad-based benchmark or screening for cheap stocks, is advantaged in identifying and investing in companies with strong ESG profiles. Not only are these businesses best-in-class from a fundamentals standpoint, they are also typically the leaders in areas of sustainability.

Carbon Capture: Early Days of a $1 Trillion Industry?

Dimitry Dayen, CFA
Senior Analyst – Renewables/Environmental Services

The best way to mitigate climate change is to rapidly transition the energy ecosystem from fossil fuels-based energy to renewable and clean sources.

However, this is not yet practical to do everywhere and even the more ambitious decarbonization scenarios include continued reliance on fossil fuels for decades to come. The U.N. Intergovernmental Panel on Climate Change (IPCC) — the part of the U.N. responsible for advancing knowledge on human-induced climate change — has developed four main future scenarios of CO2 emissions and mitigation to help model evolutions to the economic, energy and land use systems. According to the IPCC, in pathways that limit global warming to 1.5°C, the quantity of CO2 needed to be captured and stored cumulatively this century ranges from 348 Gigatons (Gt) on the low end to over 1,200 Gt on the high end, in all but one scenario, depending on the level of fossil fuel use.[4] The world currently emits roughly 37 Gt of CO2 per year, suggesting that as much as 12%–40% of CO2 abatement may need to be achieved via carbon capture (assuming straight lining of emissions) if society's pace of fossil fuel usage reduction does not meet the more aggressive pathway.

Because of this, complementary solutions such as carbon capture, utilization and storage (CCUS) in reducing carbon emissions or even going a step further and removing existing CO2 from the atmosphere are necessary. In fact, though the technology is in the early stages, carbon capture is likely being underestimated in its importance and scalability over the next 30 years.

Roughly half of U.S. emissions are from stationary sources, such as cement and concrete manufacturers, power plants and large industrial processes (Exhibit 2.15), which lend themselves to carbon capture, although the technology is also applicable in other ways. Carbon capture looks to collect and concentrate the CO2 produced in power plants and large industrial processes and transport it to a storage location — mostly underground — where it can be stored for a long time.[5]

[4] IPCC SR15 — Summary for Policymakers.
[5] IPCC Special Report Carbon Dioxide Capture and Storage, 2018.

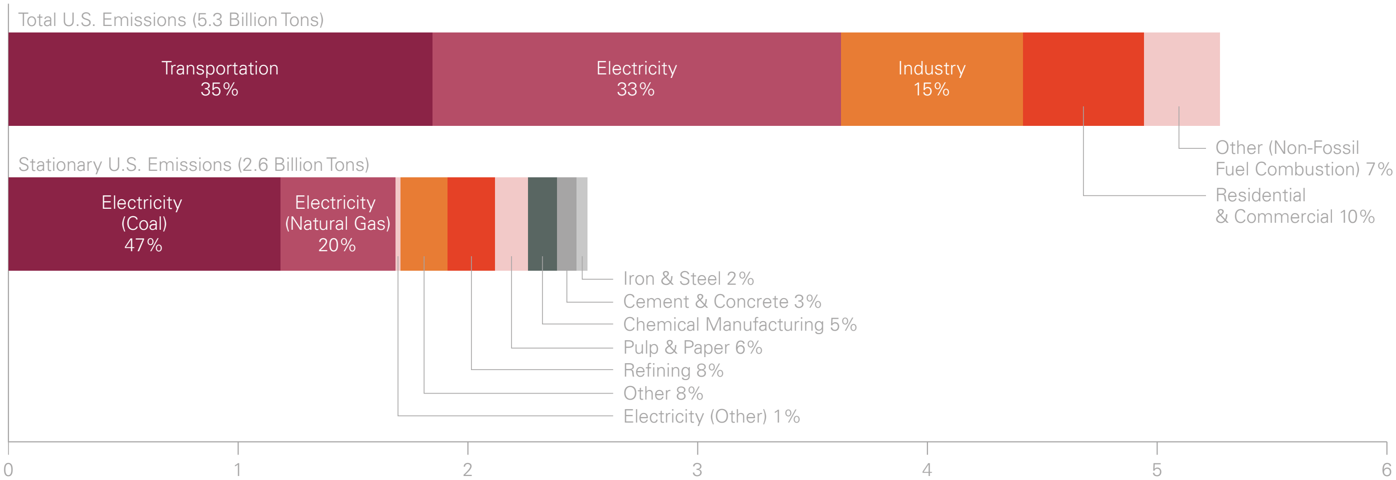


Exhibit 2.15: U.S. Emissions Overview

As of 2017. Source: U.S. EPA, Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990–2017.

Another carbon capture approach, direct air capture (DAC), seeks to remove CO2 emissions directly from the atmosphere. DAC has the benefit of being able to be placed anywhere in the world where geological storage is available and can be scaled to capture increasing amounts of carbon, both offsetting existing emissions and potentially rolling back the clock on legacy emissions. While DAC faces issues in capturing CO2 in very low concentration (Exhibit 2.16), in 2020 the World Resources Institute posited that DAC could "plausibly remove nearly one and a half billion tons of carbon dioxide per year by 2050 — equivalent to taking around 300 million cars off the road for a year — if the technology can deploy as quickly as solar photovoltaic (PV) has and if we start in the next few years.[6]"

[6] https://www.wri.org/insights/unlock-potential-direct-air-capture-we-must-invest-now

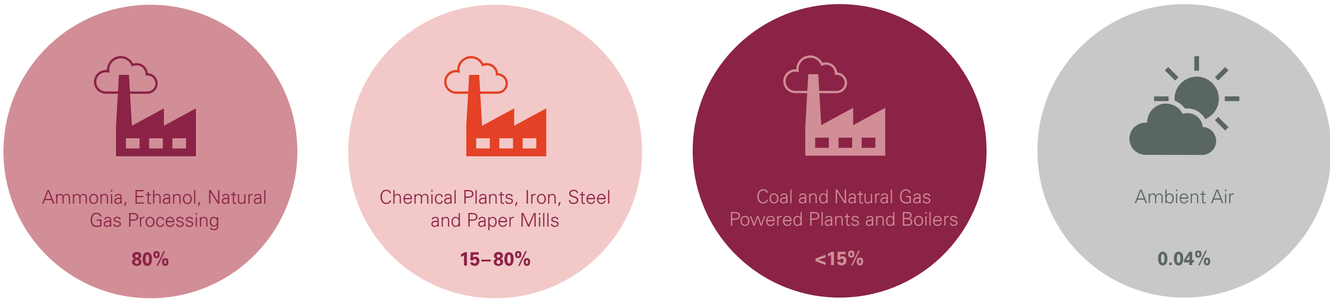


Exhibit 2.16: Carbon (CO2) Concentration in Different Capture Methods

Source: Bettenhausen, Craig. "The life-or-death race to improve carbon capture," Chemical & Engineering News. https://cen.acs.org/environment/greenhouse-gases/capture-flue-gas-co2-emissions/99/i26. From Global CCS Institute and National Petroleum Council data.

A $1 Trillion Industry in the Making?

A big task will mean a large market opportunity. Some sort of carbon capture is involved in roughly 20% of the abatements needed to reach the 1.5°C scenario per the International Renewable Energy Agency (IRENA) as shown in Exhibit 2.17. This translates to the removal of 7.38 Gt of CO_2 per year (7,380,000,000 tons), which, depending on the price of carbon (the amount charged to emitters in order to incentivize reductions), translates to substantial revenues for the future carbon capture industry (Exhibit 2.18). To put carbon prices in context, Sweden has the world's highest national carbon tax at $137/ton as of April 2021, yet emissions there since 2012 have dropped only 8%, far short of the Paris Agreement goals. This suggests carbon prices may need to increase meaningfully. Assuming $137/ ton, a 1.5°C scenario implies the carbon capture industry could reach a $1 trillion total addressable market.

This theoretically means there is considerable revenue potential for companies developing carbon capture projects. As an example, Exxon Mobil accounts for 2.3% of the global crude market. If it can achieve similar share of global carbon abatement, with a carbon price of $137 per ton, and $1 trillion of total addressable market abatement value, abatement revenues would amount to $23 billion per year.

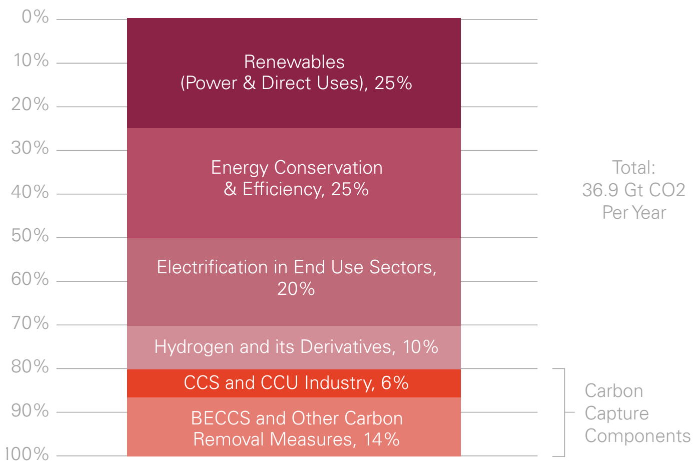


Exhibit 2.17: Abatements in Energy Transition Strategy: Annual Abatements in 1.5° Scenario By 2050

Source: IRENA, World Energy Transitions Outlook: 1.5°C Pathway, 2021

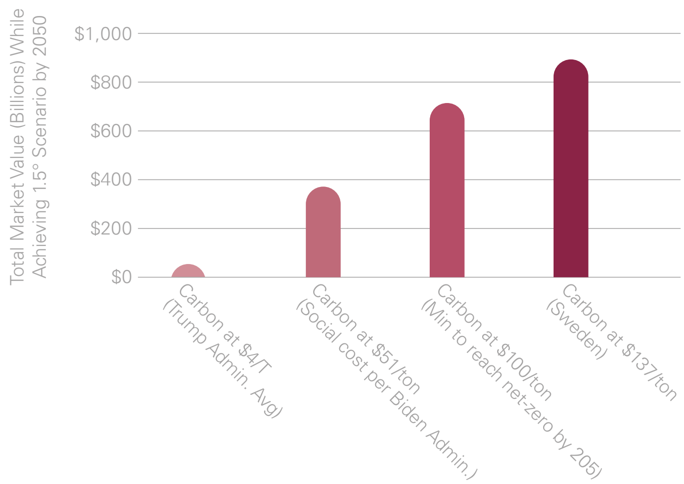


Exhibit 2.18: Sizing the Carbon Capture Market Opportunity

Source: ClearBridge Investments, IRENA, Scientific American. Assuming 7.38 Gt CO_2 of carbon captured per year. https://www.scientificamerican.com/article/cost-of-carbon-pollution-pegged-at-51-a-ton/

Oil Majors and Industrial Gas Companies Have Expertise and Incentive, Smaller Innovators Have Technology and Focus

Governments and the private sector will drive the growth of carbon capture in tandem. On the private side, oil majors are leading CCUS investments globally and carbon capture could be a critical part of how oil and gas companies navigate the energy transition. The main players are a combination of established energy and materials companies and a handful of innovative private companies with which they often partner. These include Carbon Engineering and Climeworks, the two leading DAC companies, from Canada and Switzerland, respectively — important names to watch in this emerging industry.

Among oil majors, Exxon, Chevron and Total are leaders in carbon capture. Exxon has current carbon capture and storage facilities in Wyoming, able to capture seven million metric tons of CO2 a year; Qatar, where it partners with Qatar Petroleum, able to capture 2.1 million metric tons a year; and Australia, where it partners with Chevron and Shell on the Gorgon CCS system, able to capture four million metric tons a year. Exxon also has a proposed carbon capture hub in the Houston industrial area, where the company estimates full implementation would store 100 million metric tons of CO2 a year by 2040 (as much as taking one of every 12 U.S. cars off the road — or roughly 22 million passenger cars),[7] as well as in Canada, the Netherlands, Belgium, Scotland, Singapore and France.

The Gorgon CCS system in Australia is led by Chevron and transports and injects CO2 from the company's liquefied natural gas facilities into a sandstone formation two kilometers below Barrow Island where it is permanently stored. The project is still scaling up, but its annual capacity of CO2 storage is the equivalent of taking one million passenger cars off the road each year.

Occidental Petroleum is another integrated oil company making advances in carbon capture. Its subsidiary Oxy Low Carbon Ventures is partnering with Cemvita Factory, a Houston-based company that has developed a photosynthesis-based process that enables it to take CO2 from any source and convert it into a wide array of products. The project will convert CO2 into bioethylene, which Occidental affiliate OxyChem can use as a feedstock in its production of various plastics, such as foams and PVC pipes. Oxy Low Carbon Ventures is also working, through its subsidiary 1PointFive and in partnership with Carbon Engineering, on a large-scale commercial DAC facility in Texas.

For its part, Carbon Engineering is also working with Storegga, an independent carbon reduction and removal company, on a DAC facility in Scotland designed to remove between 0.5 million and 1.0 million tons of CO2 from the atmosphere annually. Removing one million tons of CO2 is equivalent to the CO2 removal power of 40 million trees.

The prevalence of small, innovative companies in the early stages of carbon capture development gives some indication of the variety of players that could be attracting investor attention in the coming decades as the technology scales up.

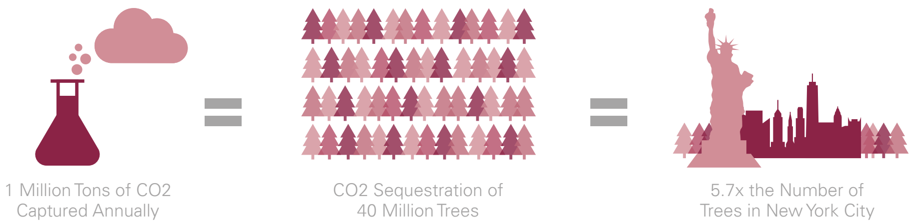
Industrial gas companies such as Air Products and Chemicals (APD), Linde and Air Liquide have also been key in developing carbon capture technology, and importantly in lowering its associated costs, and will likely continue to play important roles in its growth.

[7] Assuming ~285 million vehicles as of 2020 (Hedges Company), 93% of which are passenger vehicles (NHTSA).

The Economics of Carbon Capture

Costs and the need for incentives, such as the U.S.'s tax credit for carbon sequestration under Section 45Q, which could be expanded in an eventual Build Back Better Bill, are the largest barriers to broad adoption of CCUS and DAC. On the stationary capture side of the market, which comprises around half of U.S. CO_2 emissions, with a \$100/ton price of carbon it could be economic to capture and store as much as 8.5% of U.S. CO_2 emissions (~450 million tons).[8] However, considering the U.S. does not currently have a consistent CO_2 pricing mechanism, the 45Q tax credit expansion is needed to enable the emergence of this industry. As carbon capture scales up, we would expect to see significant cost reductions over time.

[8] Meeting the Dual Challenge: A Roadmap to At-Scale Deployment of Carbon Capture, Use, and Storage. National Petroleum Council, 2019.



02

Engaging Companies to Strengthen Sustainability Commitments


"The integration of ESG and fundamental analysis at ClearBridge is the responsibility of all investment professionals."

Public companies create impact due simply to their global reach, deep supply chains and communities where they operate. Public equity ownership can thus be a powerful tool to influence companies and drive positive change.

Engagements play an important role in helping strengthen sustainability commitments of all types. Engagements are investment meetings between ClearBridge portfolio managers and research analysts and target company representatives — CEOs, CFOs and other firm decision makers — in which we share our philosophy and expectations on relevant fundamental and ESG topics, inquire about a company's ESG-related goals and activities and set meaningful objectives for the future. As a firm, ClearBridge conducts over 1,000 company meetings every year.

ESG engagement at ClearBridge generally has two overlapping objectives:

Research: Gaining a better understanding of ESG issues that could impact our investment thesis

Impact: Encouraging specific changes at the company that could lead to positive real-world impact

Impact can start small: asking the right questions, whether about DEI policies and practices, energy efficiency, executive compensation or disclosure, can result in positive changes in the mindset and eventually the operations of public companies.

As long-term investors who also happen to be among the largest shareholders of many companies we own, we can get a seat at management's table and emphasize material issues that are of concern to ourselves and our clients.

2021 Impact Engagement Highlights

In some instances, ClearBridge engagements result in material impact — instances where our conversations with company management or feedback we provide to company requests help initiate or improve sustainability practices at companies we own. In the following pages, we highlight a small illustrative sample.

Amazon Improves Worker Experience, Tackles Scope 3 Emissions

Naveen Jayasundaram
Senior Analyst – Media & Internet

In November 2021 Naveen Jayasundaram hosted a call with Amazon's Head of ESG Engagement and several ClearBridge portfolio managers and analysts to discuss several human capital management and environmental initiatives at the company.

The conversation picked up on topics we discussed in a May 2021 meeting, specifically Amazon's pay and benefits picture and lessons learned during the pandemic.

We were pleased with worker experience improvements the company cited: Amazon has been rethinking the employee experience in light of the pandemic and continues to invest in training and education. It provides prepaid tuition assistance for five areas of study, and it recently expanded the eligibility criteria (three months of employment now rather than a year). It has over 100 on-site classrooms in fulfillment centers across 37 states. The company has seen a 400% increase in use of these programs since the start of the pandemic.

Outside of education, Amazon has a connections program for employees at all levels to provide feedback that is assessed at a VP level. From a hiring perspective, Amazon's competitive advantages also include benefits from the first day of employment, including health coverage and 401(k) participation. Based on 2020 data, Amazon has 100% pay equality by gender and is at 99.2% for minority groups.

We also discussed Amazon's environmental impact. Amazon has reduced its Scope 1 and 2 emissions over the years by using more renewable power, which now provides 65% of its energy. Last-mile transportation is a big focus, as seen through recent partnerships with electric vehicle company Rivian, in which it owns a 20% stake, and Mahindra in India. Energy-efficient new buildings with on-site solar power are further reducing emissions.

Scope 3 emissions are the largest source (two-thirds) of Amazon's emissions. While environmental goals are not currently about changing customer behavior, Amazon now has 200,000 products that are climate-pledge friendly and is assessing how they resonate with customers. In addition, Amazon is switching from corrugated cardboard to flexible packaging and is deploying machine learning to make packaging more efficient. Its frustration-free packaging highlights its recycled materials use and goal to reduce packaging through innovation (e.g., an 83% reduction in materials weight and 78% reduction in volume for stemware). As of June 2021, over two million products met frustration-free packaging criteria. Amazon has chosen to share all packaging innovations with its competitors. It has also set up a partnership with its suppliers to incentivize them to reduce the amount of materials in their packaging.

We believe Amazon has been responsive to shareholder feedback on human capital management and has made progress over the period of ClearBridge's engagements on the subject. We view its January 2022 publication "Delivered with Care," for example, as an outcome of investors such as ClearBridge requesting more disclosure by the company on workplace policies and issues. Amazon is now exemplary in creating meaningful career paths for hourly workers, and while we will continue to discuss further disclosures on workplace safety and fuel sources for data centers, we are pleased the company is making consistent gains on all components of its ESG initiatives.

Blackstone Ups ESG Communications, Apollo Improves Board Independence

David Hochstim, CFA
Senior Analyst – Financials

ClearBridge regularly engages alternative asset manager holdings Blackstone Group and Apollo Global Management (of which ClearBridge is a top 20 owner) on ESG communications.

Both companies are beginning to demonstrate significant sustainability improvements. In engagements with both companies in October led by David Hochstim, we sought updates on topics ranging from mobilizing climate financing in the spirit of COP26 to board independence.

Blackstone has set a goal of reducing carbon emissions by 15% within the first three years of buying any asset or company across its portfolio. The goal, equating to 5% in reductions each year for three years, is scientifically aligned with an overall goal of getting halfway to net-zero by 2030. Blackstone also invests in climate solutions and has spent $11 billion over the past three years on companies and projects supporting the energy transition. Projects include the Champlain Hudson Power Express, which will deliver a 24/7 firm supply of renewable energy to New York City, and 10 million square feet of solar panels all together on the rooftops of Blackstone's large portfolio of U.S. logistics warehouses and on Stuyvesant Town, a residential development in New York City.

Meanwhile, Apollo Global Management invests in and lends to many companies in the renewable energy space, and it has over $1.6 billion in capital committed or invested in renewable investments. It has also participated in debt syndication with sustainability-linked covenants, where companies can lower the price of their debt by cutting carbon emissions. The company is working to introduce similar covenants to deals it originates privately.

In an ESG program in place now for 13 years, Apollo asks its companies to measure upwards of 156 environmental, social and governance metrics. Through the program, Apollo transforms the operations of portfolio companies, improving transparency around emissions and instilling efficiency-boosting best practices that reduce emissions (Exhibit 3.01). The company also discussed its success in implementing lasting sustainability changes in operations of portfolio companies even after Apollo had exited its ownership position.

We view the active discussions from both companies as steps in the right direction; Blackstone has only recently commenced communicating about ESG issues, though we expect it to dramatically increase attention to these matters given their growing importance to LPs and shareholders. The company has committed to responsible investing practices and has incorporated them into all of its actions. With its ~250 portfolio companies employing roughly 500,000 people, Blackstone's efforts to build a firm-wide sustainability program are a clear positive.

Apollo has focused on ESG issues for more than a decade and has regularly provided LPs and shareholders with updates, including detailed annual ESG reports. ESG issues are factored into its investment process and Apollo engages with the investments it manages on ESG issues. Apollo has paid close attention to ESG practices of portfolio companies for many years. In 2020 and 2021 the company also addressed governance in its own operations as governance became a concern of shareholders and LPs due to co-founder Leon Black's relationship with Jeffrey Epstein. In early 2021, Apollo announced significant, positive governance changes, including Leon Black's departure. Apollo now has a truly independent board and has moved to a one-share/one-vote structure. Reducing the control of the company's three co-founders makes Apollo a more shareholder-friendly firm.

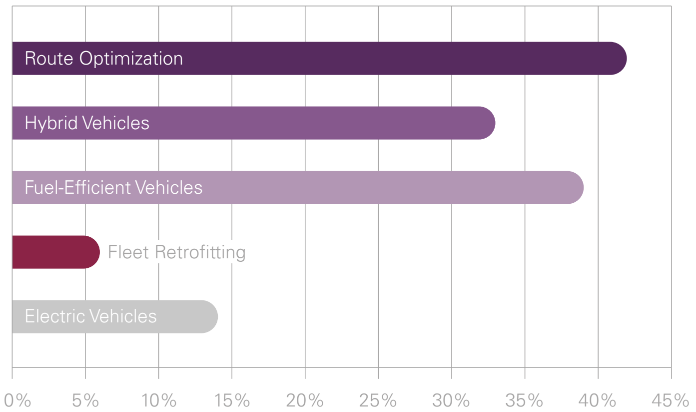


Exhibit 3.01: Apollo Reporting Companies with Fuel Reduction Initiatives

Source: Apollo ESG Report Volume 12.

Microsoft: Fruits of Decades-Long Ownership and Engagement

Hilary Frisch, CFA
Senior Analyst – Information Technology
Mary Jane McQuillen
Head of ESG, Portfolio Manager, Sustainability Leaders Strategy

Among the key benefits of ClearBridge research analysts leading the firm's engagement and ESG integration efforts are the long-term working relationships formed with company managements.

Microsoft is one of the most widely held stocks at ClearBridge and has been covered by Senior IT Analyst Hilary Frisch since 2013. The ESG relationship extends even further, with Head of ESG Mary Jane McQuillen first engaging with Microsoft on sustainability in the early 2000s.

Over the years, ClearBridge has fostered a dynamic and symbiotic dialogue with Microsoft on ESG topics pertinent to the business of one of the world's largest companies by market value. Our position as a long-standing shareholder of Microsoft and an ESG industry leader, as well as Microsoft's proactive stance toward incorporating sustainability topics into its ESG and investor engagements, has helped provide ClearBridge ongoing access to senior management and led to productive discussions of both fundamental and ESG issues. In turn, we believe our in-depth and informed approach to ESG integration and frank feedback help support Microsoft's goal to be a best-in-class sustainable operator. Key topics on which we have engaged with Microsoft and provided feedback over the last nine years, and particularly the last year, have included executive compensation, consumer and data privacy, and diversity.

Executive compensation is one of several broad governance topics, along with board composition, oversight and diversity, that we regularly discuss with the company. We continue to engage with Microsoft on the incorporation of more performance-based equity and operational key performance indicators (KPIs) into its compensation and equity awards calculations, with the company raising those KPIs from 50% to 70% in 2020 after ClearBridge voted against its CEO compensation proposals in 2019. We have also discussed the importance of direct incorporation of ESG targets into such calculations.

Microsoft takes a broad approach to diversity, from encouraging and supporting women and minorities to pursue STEM careers, to striving to increase representation of African-Americans and LatinX employees in leadership positions, to pushing for transparency and equity on gender pay issues. We have regularly engaged with the company on the reporting of its diversity progress by initially encouraging publication of diversity data and following up by suggesting disclosures of diversity and gender pay data by function, geography and business segment. In our November 2021 engagement, the company frankly admitted its development of a tech hub in Atlanta, which carries a lower cost of living than Seattle and San Francisco, was creating a short-term diversity pay gap in its attempt to improve long-term diversity representation and onboard the next set of company leaders.

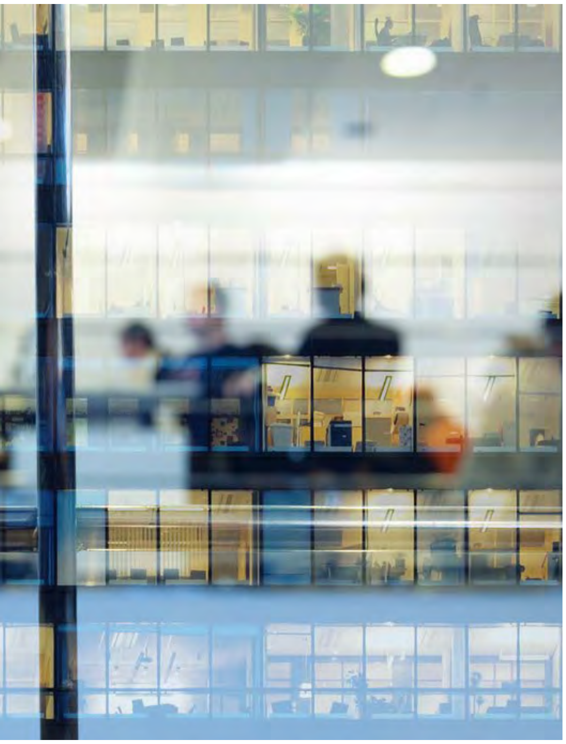
Microsoft's efforts in data privacy and the ethical use of emerging technologies, as well as protecting these areas from government overreach, has been a growing topic of engagement. The company stands out in its proactive approach to safeguarding customer data, and we have mostly supported its actions including efforts to sue the federal and local governments over encroachment, as well as its role in teaching corporate customers how to get ahead of emerging legislation. We view the company as a leader in its approach to the ethical use of AI and its application in such areas as facial recognition technology and supported its decisions to discontinue use of facial recognition technology in states with laws covering the practice. HoloLens's augmented reality technology to government entities, presumably in combat situations, is a topic on which we have engaged with the company. While the outcome is inconclusive, we have welcomed Microsoft's transparent approach and willingness to discuss the potential social issues around this topic.

A key driver of our engagements with the company has been transparency and Microsoft's willingness to confront difficult issues. The company's recent investigation into its own sexual harassment policies, including the hiring of a third party, as well as listening sessions, the encouragement of social and collaborative groups among all contingents and peer reviews up and downstream (of managers by employees and vice versa) are signs of Microsoft's intent to ensure an open, inclusive and welcoming culture at all levels of the organization. We've engaged on each of these topics at various times over the past two years and the conversation has consisted of an open, two-way exchange of thoughts and ideas.

Company Update: Monster Publishes Inaugural Sustainability Report

Robert Buesing
Senior Analyst – Consumer Staples/Durables

ClearBridge is a top 20 owner of Monster Beverage, a marketer and distributor of carbonated and non-carbonated energy drinks, shakes and teas.



In 2020 Rob Buesing led an engagement with Monster on several ESG topics, including Monster's upcoming inaugural sustainability report. ClearBridge encouraged the company to include information on its carbon emissions, its ingredient sourcing visibility, and data and disclosures on gender and underrepresented minority compensation and company representation in the report.

In August 2021, Monster published its inaugural sustainability report, hitting on many of the points we discussed during our engagement with the company in 2020, such as Scope 1 and 2 emissions, its human rights policies (such as no slave labor in the supply chain) and LEED certification at its corporate headquarters in Corona, California, as well as its new AFF production facility, which will also be equipped with rooftop solar panels providing electricity.

The report includes disclosure of Monster's gender pay gap and overall diversity, in terms of gender and white/underrepresented groups. While some workforce details are relatively sparse relative to large cap peers, overall the disclosures are a welcome improvement from cursory sustainability information available previously on the company's website.

Monster continues to offer a good case study of the unique challenges faced by companies growing quickly that are also trying to stay abreast of best sustainability practices and develop those resources as the business grows.

Uber Following Through on Sustainability Goals

Margaret Vitrano
Portfolio Manager, Large Cap Growth and All Cap Growth Strategies
Erica Furfaro
Senior Portfolio Analyst, Large Cap Growth and All Cap Growth Strategies

Initial public offerings present both opportunities and risks from a sustainability standpoint and offer us, as early investors, a chance to provide valuable input as a company grows into a leadership position in its market.

The ClearBridge Large Cap Growth Strategy participated in the IPO of Uber Technologies in May 2019 and the investment team has regularly engaged with the company as it has followed through on then-nascent sustainability goals; ClearBridge is now a top 20 owner.

Uber earned an initial ESG rating of A at ClearBridge when it came public as we believed the company was on the right path in thinking about environmental, social and governance issues specific to the rideshare business. It has maintained that rating through our tenure as shareholders by following through on its initial commitments and acknowledging several of our suggestions on ways to improve its sustainability practices.

Uber has maintained solid governance practices throughout its public existence. It has no controlling shareholder and no extra voting share classes. In 2019, it added DEI targets to its executive compensation vesting formulas and in 2020 integrated driver and passenger safety targets into those calculations, becoming one of the few companies to work both ESG initiatives into compensation practices. In December 2020, Uber solicited our input on its compensation structure and asked for feedback on other governance practices. In 2021, it shared with us that it had expanded its safety and DEI targets to equity grants for executives one or two levels down from the CEO, with potential to expand further.

Social issues around the contractor versus employee model and rider safety have been key points of focus in our engagements with the company, frequently led by Uber's Head of ESG Strategy and Engagement Marian Macindoe or Chief Legal Officer Tony West. Regarding employee status, we believe the contractor model has many advantages for drivers and Uber is committed to allowing its drivers flexibility while providing adequate compensation and benefits. Dubbed "the third way," Uber is working more collaboratively with regulators than it has in the past to gain acceptance for this flexible employment construct. In London, the company proactively reclassified its business to elevate drivers to a better class of employee than peer gig economy companies. On the safety front, Uber issued its initial safety report in December 2019 and we have engaged with management about issuing more frequent reports and disclosing more safety information in future reports.

In September 2020, Uber raised the bar for its environmental commitments by setting aggressive targets for electric vehicle (EV) adoption. Uber is seeking to have a full EV fleet in U.S., Canadian and European cities by 2030. It has also committed to becoming a fully zero-emission rideshare platform by 2040. It has raised an $800 million green fund that will be used to offer discounts and direct payments to drivers in purchasing EVs. As a growing piece of the transportation market globally, we believe that Uber's commitments help put a stake in the ground in the ongoing internal combustion engine to EV transition.

Visa Zeroes in on Scope 3 Emissions

David Hochstim, CFA
Senior Analyst – Financials

Visa is a payments technology company that enables consumers, financial institutions, businesses and governments to send and receive payments securely and reliably to nearly any place globally.

Our engagements with the company over many years have focused on Visa's goal of expanding access to financial services to the unbanked and underbanked (396 million people toward the goal of 500 million) and helping empower micro and small businesses as well as helping to promote financial literacy.

Plastic waste has been a theme for ClearBridge engagements in recent years, and we have also engaged Visa on its efforts to reduce its environmental impact, including through its plastic cards. During a December 2021 engagement led by David Hochstim and attended by several ClearBridge portfolio managers and members of Visa's management team, including executives responsible for investor relations, compensation and benefits, corporate responsibility and sustainability, and governance, we were encouraged to learn of the company's latest positive steps in this regard.

These include measuring the carbon footprint of consumers' individual transactions that use Visa cards. Visa now offers an Eco Benefits bundle to issuers that can be offered to customers interested in sustainability (62% of all consumers and 80% of millennials said they are somewhat or very likely to apply for a card with environmental benefits).

Visa has also been working to reduce water use in its data centers and increasingly relying on renewable energy for power. Some of Visa's data centers have very large roof surfaces which could be used to generate solar energy, but those could only meet ~8% of company needs. Visa is targeting net-zero by 2040, including Scope 3 emissions.

To address the environmental impact of plastic debit and credit cards, Visa has been working with card manufacturers to facilitate the development of cards made from recycled plastic. Visa is also working with companies that have expertise recycling hard-to-recycle plastics and is working to make card-issuing banks aware of these options. The shift to digital accounts (without a plastic card) is the most beneficial environmentally. So far, card manufacturers have been able to produce cards made with 90% recycled plastic.

Emerging Impact Engagement Opportunities Across ClearBridge

The integration of ESG and fundamental analysis at ClearBridge is the responsibility of all investment professionals.

ClearBridge sector analysts, who form a centralized research platform for all ClearBridge portfolios, have an established proprietary ESG framework. The framework identifies the key ESG considerations for each sector and subsector under analyst coverage and focuses on the ESG issues that truly matter for each company. The framework leverages the analysts' many years of experience and supports and complements the research performed by portfolio analysts and portfolio managers who focus on particular strategies, often collaborating on company coverage.

Here we provide a sample of topics and issues addressed as part of ongoing engagements that take place as part of our fundamental research process.

Charles River Laboratories

Engagement: Calls with CEO, VP of Investor Relations, General Counsel

Key ESG Issue(s): Sustainability reporting and disclosure; DEI; succession; capital allocation; animal welfare; GHG reductions

Next Steps: Monitor improvement in disclosure, particularly around longitudinal data on DEI hiring/recruitment and progress made toward ambitious GHG reduction goals

Jeffrey Bailin, CFA
Senior Portfolio Analyst, Small and Mid Cap Strategies

ClearBridge is a top 10 owner of Charles River Laboratories, a leading provider of preclinical contract research, QA/QC testing and research materials for the pharmaceutical, biotechnology and medical device industries.

Jeff Bailin led conference calls in November 2021 with Charles River Laboratories's Chief Executive Officer and in January 2022 with the Vice President of Investor Relations and General Counsel on topics including human capital recruitment and retention (with an emphasis on diversity), capital allocation, management succession, animal welfare, disclosure, particularly around DEI, and the company's ambitious GHG emission reduction goals.

Management elaborated on the strong efforts it has made in supporting the development of innovative medical treatment and a thoughtful approach to succession, which includes rotating a deep bench of promising leaders through various divisions of the organization to gain sufficient experience. While animal welfare is often an issue of scrutiny, we discussed how the company is going above and beyond to set the most strict animal welfare standards in the industry and has adhered to these very seriously. Charles River Laboratories has the best reporting among companies in our coverage universe and we encouraged the company to continue to present this data, including hiring/promotion/churn by various ethnicities and ages on a longitudinal basis so that outsiders can assess progress on DEI.

Home Depot

Engagement: Call with Chief Sustainability Officer

Key ESG Issue(s): Scope 3 emissions goals

Next Steps: Monitor reduction in Scope 3 emissions achieved through merchandising and working with suppliers

Neal Austria
Senior Analyst – Consumer Discretionary

Home Depot is North America's largest home improvement retailer with over 2,200 company-owned stores.

In September and October 2021 Neal Austria hosted calls with Home Depot's Chief Sustainability Officer to gain a better understanding of the company's progress following its July 2021 ESG Report, primarily on emissions. We wanted to better understand the company's internal view of how the pandemic impacted emissions results in 2020 and flat year-on-year emissions, which the company viewed as a victory.

Home Depot remains highly confident it can achieve the Scope 1 and 2 goals it set for 2030 and 2035. The plan to announce Scope 3 goals remains on track but the company shared concern over how other companies are calculating Scope 3 emissions as compared to its own methodology, particularly around products with 10+ year lifecycles. We were encouraged by the company's efforts to develop an effective methodology for measuring and reducing Scope 3 emissions. We were also encouraged by plans Home Depot shared on how it intends to use merchandising and working with suppliers to bring down emissions of the products it sells.

Mondelez International

Engagement: Call with Chief of Global Impact, Investor Relations, Global Rewards and Performance Lead, Chief Counsel

Key ESG Issue(s): Plastic packaging, regenerative agriculture, net-zero initiatives, DEI, child labor

Next Steps: Follow up on quantitative measurements of diversity efforts

Robert Buesing
Senior Analyst – Consumer Staples/Durables

In October 2021, Rob Buesing led an ESG-focused conference call with Mondelez International, which manufactures, markets and sells snack food and beverage products. Topics included the environmental impact of the company's use of plastic packaging and potential alternatives, initiatives surrounding regenerative agricultural practices and net-zero initiatives to reduce emissions. Mondelez cited its ongoing development of recyclable materials, with a goal of 100% of its packaging completely recyclable by 2025; it has currently achieved 94% of packaging designed to be recyclable. It also stated it is using science-based targets and implementing regenerative agriculture programs to reduce its end-to-end emissions by 10% by 2025.

We also used the call as an occasion to enquire about expanding the diversity of the company's board of directors and the incorporation of ESG metrics as part of senior management's compensation determination. The company stated it had been making progress expanding its diversity practices through its commitment to sourcing diverse candidates in hiring and mentorship of mid-level executives. Additionally, the company is working to incorporate diversity and ESG metrics into its executive compensation. Mondelez shared it is on track in its goals of doubling the representational percentage of women in executive leadership and the percentage of Black colleagues in U.S. management by 2024.

We remained positive on Mondelez's strong initiatives to end child labor, particularly within cocoa sourcing, by providing a living income and working with local governments to help empower farmers at a community level. It is on track to achieve 100% monitoring and remediation of child labor in its Cocoa Life communities in West Africa by 2025 (currently at 28%).

Overall, we were positive on the company's concrete steps on environmental goals; we encouraged the company to quantify efforts in expanding diversity practices as well as how much it intends to incorporate ESG metrics in executive compensation, carbon capture technology, and importantly in lowering its associated costs, and will likely continue to play important roles in its growth.

Nucor

Engagement: Call with Investor Relations

Key ESG Issue(s): Emissions reductions, DEI

Next Steps: Monitor reporting of employee diversity and improvements in disclosure to third-party ESG data providers

Donald Li, CFA
Senior Portfolio Analyst, Value Equity and All Cap Value Strategies

In November 2021, Donald Li hosted a call with Nucor's Investment Relations Director to discuss a number of ESG topics including improving gender inclusiveness and activeness in promoting ESG disclosures to third-party data providers. ClearBridge has a long history of ESG engagement with Nucor due to its widespread inclusion in a number of ClearBridge portfolios.

Nucor has been an early adopter of some of the positive social and governance principles consistent with ESG guidelines. In working to address environmental concerns, the company has published mid-term carbon reduction targets, such as committing to a 35% reduction in GHG intensity by 2030 as well as assembling a multidisciplinary sustainability technology team to guide its environmental efforts. In terms of diversity initiatives, ClearBridge provided a number of suggestions, including targeting and reporting the percentages of female and minority employees by their work function, such as management or engineering teams. Finally, the discussion covered the importance of improving ESG disclosures to third-party data providers such as MSCI to help further publicize its commitment to ESG topics.

We believe active discussion plays an important role in collaborating with Nucor to find actionable initiatives to challenging ESG issues and help to make a difference over time. ClearBridge continues to encourage the company to signal its public commitment to carbon net zero and will continue to engage with management as Nucor navigates the complicated technical path for such a long-term undertaking.

Vinci

Engagement: Call with Social Innovation and Human Rights Manager

Key ESG Issue(s): Labor management policies mitigating risks of modern slavery

Next Steps: Monitor for continued tightening of labor policies and practices

Chris Hillsdon
Senior Portfolio Analyst, Infrastructure Strategies
Simon Ong
Portfolio Manager, Infrastructure Strategies

Vinci operates half of France's toll road network under long-term concession agreements, a growing portfolio of airport concessions and a global contracting business. In June 2021 ClearBridge infrastructure team members Simon Ong and Chris Hillsdon proactively reached out to engage Vinci on policies and practices to prevent and manage risks of modern slavery at Vinci and through the supply chain following claims of violations of rights of migrant workers employed to build the infrastructure for the 2022 FIFA World Cup in Qatar. Allegations there concerned workers working more than 12 hours a day and in extreme heat. As a result of our discussion comfort increased regarding Vinci's broader process and policies in place to materially reduce the risk of modern slavery. Our takeaway was there are multiple layers of risk management practices and policies in place, including on-site auditing and supply chain auditing.

As the legal dispute on the Qatar case is ongoing and the outcome uncertain, we will follow up again with the company once a decision has been rendered. We will look to see if Vinci will continue to tighten its policies and practices as a result.

Vulcan Materials

Engagement: ESG Engagement Call with Investor Relations, External Affairs, Human Resources and General Counsel leaders

Key ESG Issue(s): Emissions reduction targets

Next Steps: Review feasibility of Scope 1 and 2 emissions reduction targets to be published in upcoming ESG report

Adam Meyers
Analyst – Energy

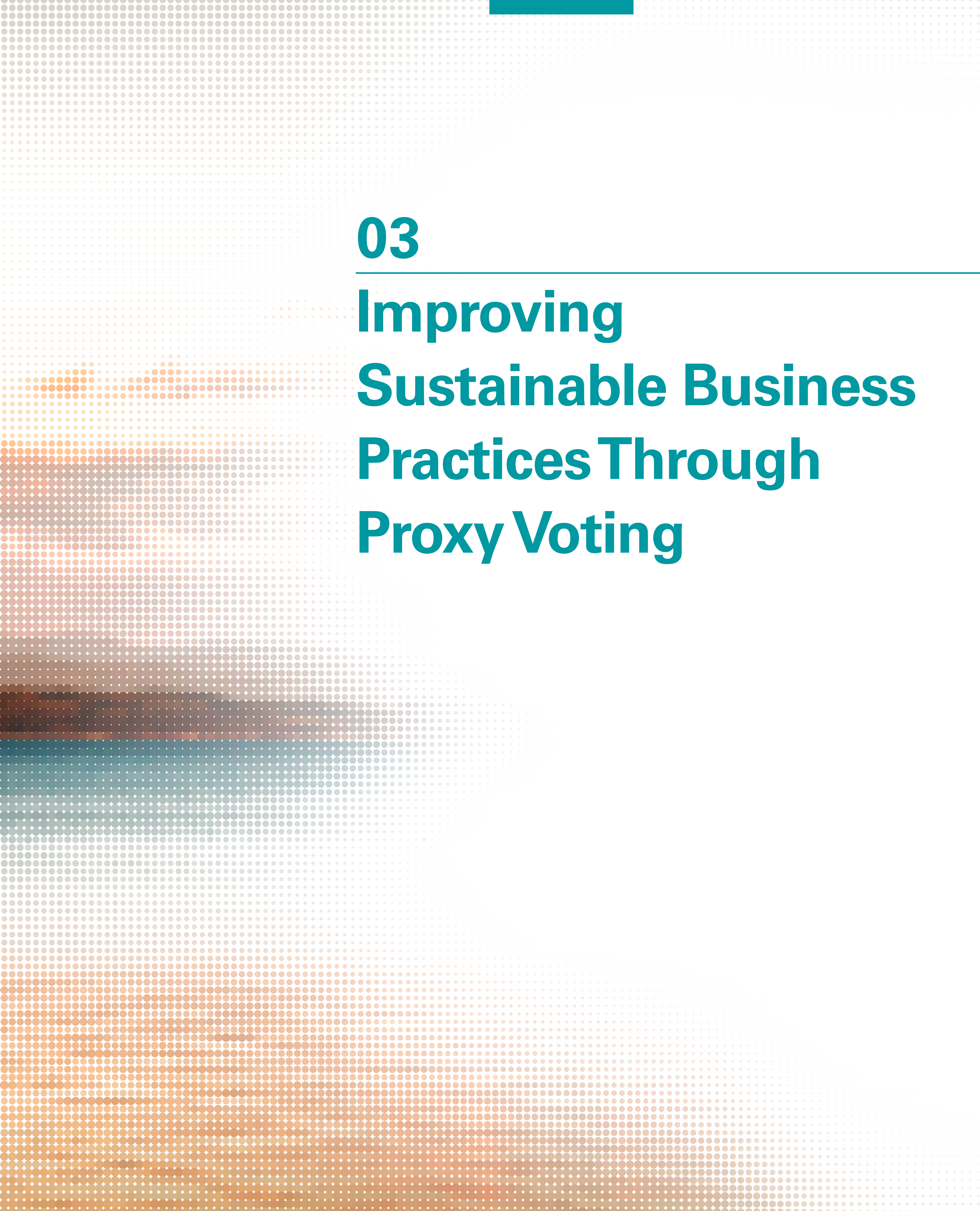
ClearBridge is a top 10 holder of Vulcan Materials, a large aggregates company in the materials sector.

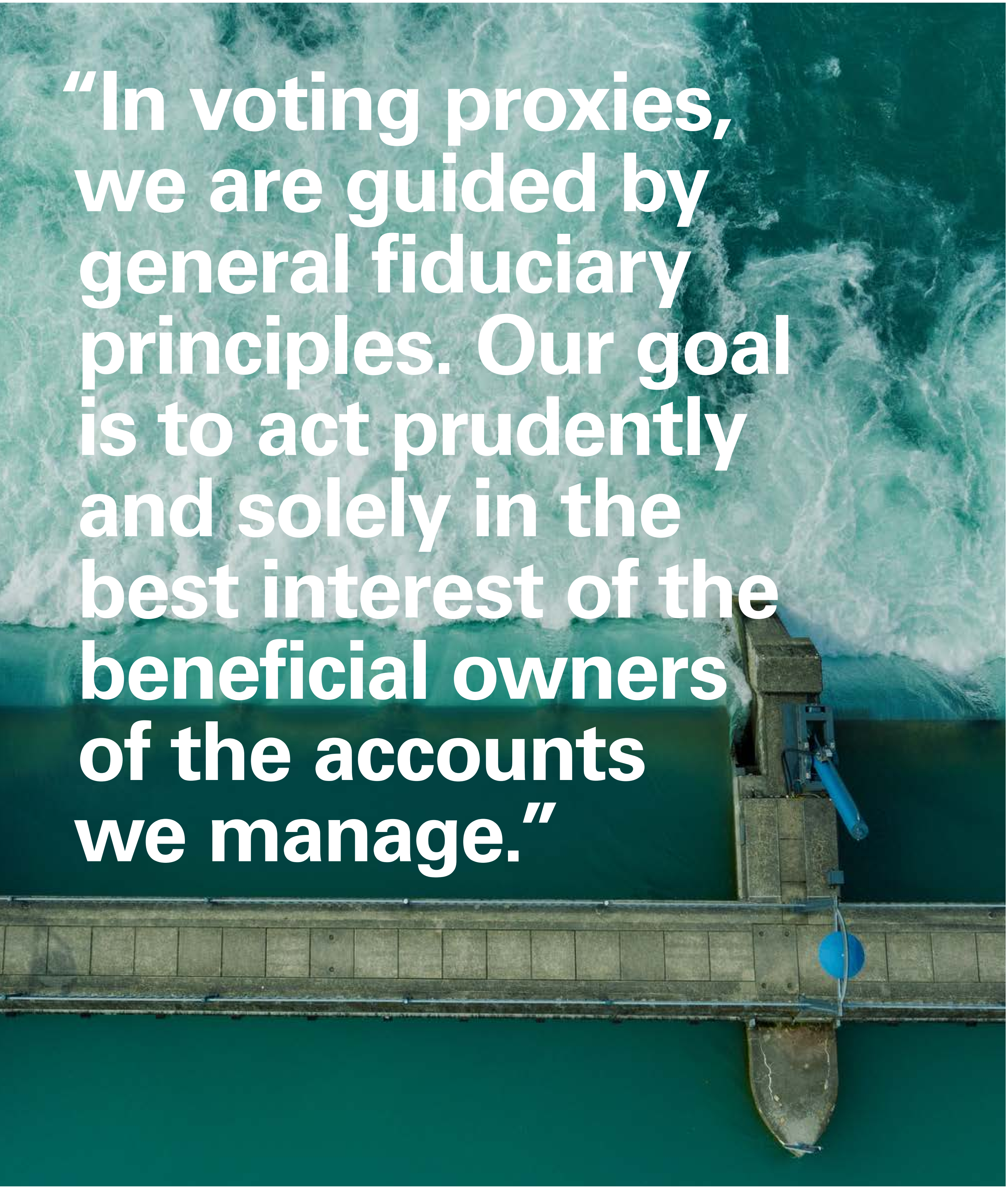
In February 2022 Adam Meyers held a call with Investor Relations, External Affairs, Human Resources and General Counsel leaders of Vulcan Materials on several ESG topics. We asked when we could expect the company to announce GHG emission reduction targets similar to its peers and what main levers it has to lower those emissions. The company shared that it will disclose its first Scope 1 and 2 emissions reduction targets (on a per-ton basis) in its upcoming 2021 ESG report and added that reporting will be in line with TCFD and SASB going forward, a development we found encouraging. In terms of actions to achieve reductions, Vulcan Materials cited establishing targets for renewable energy consumption, which currently stands at 10% of electricity consumed. The company also mentioned use of solar arrays on top of facilities as well as electric loaders, though adoption would be gradual and dictated by cost.

Vulcan Materials is one of the leading recyclers of concrete and asphalt in the U.S.; we asked why this was not more publicized. The company shared that its 20+ year recycling program will continue to grow, although there are limited applications for use of recycled concrete and asphalt and vertically integrating the program in operations remains difficult, given its use of different equipment and crews. Nevertheless, we were encouraged by the company's interest in understanding the relative economics of recycling versus new production, which the company believes could be aided by an eventual Build Back Better Bill.

03

Improving Sustainable Business Practices Through Proxy Voting





"In voting proxies, we are guided by general fiduciary principles. Our goal is to act prudently and solely in the best interest of the beneficial owners of the accounts we manage."

ClearBridge's commitment to proxy voting — a visible and powerful tool public equity investors may use to advocate for sustainable business practices — is evidenced by our 100% proxy voting record.

We have voted on every eligible shareholder proposal at companies in our client portfolios. In 2021, ClearBridge voted on 16,885 proposals.

Along with direct and ongoing company engagement, proxy voting is an important part of our approach to positively influencing companies through ownership. ClearBridge's votes on proposals filed by shareholders or by management are an effective way to signal confidence in the companies we own or to suggest the need for a change in policies, disclosures or related aspects of a company's business.

Summary of the 2021 Proxy Season

At the beginning of the U.S. proxy season in 2021, 733 environmental, social and governance (ESG) shareholder proposals had been filed,[9] and after withdrawals and omissions, more than 330 proposals appeared on the ballots for votes at corporate annual meetings.[10]

A record number of environmental- and social-related shareholder proposals gained majority support, with 34 unprecedented majority victories.

Environmental and social proposals remained the majority of shareholder proposals filed at U.S. companies for the fifth consecutive year. The global average support for environmental shareholder proposals increased in 2021 to 54% of average investor support, while for social proposals this increased to 36%.

Environmental: Of the environmental shareholder proposals, climate reporting was the dominant topic, representing 55% of the total.[11] In addition, 14 environmental proposals received greater than 50% vote support by investors.

Social: Of the social proposals, lobbying and political disclosure maintained the top spot in 2021 with 75 shareholder proposals, the most for both the environmental and social proposals. Equal employment opportunity and workforce diversity proposals markedly increased to 60 proposals. A record 20 social proposals received greater than 50% support by investors. Another shareholder topic that gained attention in 2021 was related to racial justice: companies were asked to report on how they are addressing social inequities.

Governance: Board diversity proposals received 59% average support among 29 shareholder proposals in 2021. Related to global board gender diversity, the U.S. corporate boards of widely-held companies are at approximately the third-lowest level of gender representation at 26%, with Western Europe having the highest gender representation on the board at 38%.

9 Sullivan and Cromwell. "2021 Proxy Season Review." July 2021.
10 ISS Governance. "ClearBridge Custom Research Season Recap: 2021." January 2022.
11 Ibid.

ClearBridge Proxy Voting 2021 Overview

In 2021 there were over 400 shareholder proposals at companies in which ClearBridge is a shareowner, covering a wide range of ESG issues. Governance-related shareholder proposals accounted for over 60% of the total (Exhibit 4.01). As in 2020, the most common governance-related proposals covered issues such as the right to act by written consent, requiring an independent board chairperson, or changing the ownership threshold to call a special meeting (Exhibit 4.02). The most common environmental- or social-related shareholder proposal issue was DEI, followed by climate change (Exhibit 4.03).

Exhibit 4.01: Shareholder Proposals by Category 2021

Source: ClearBridge Investments. Reflects shareholder proposals at companies in which ClearBridge is a shareowner.

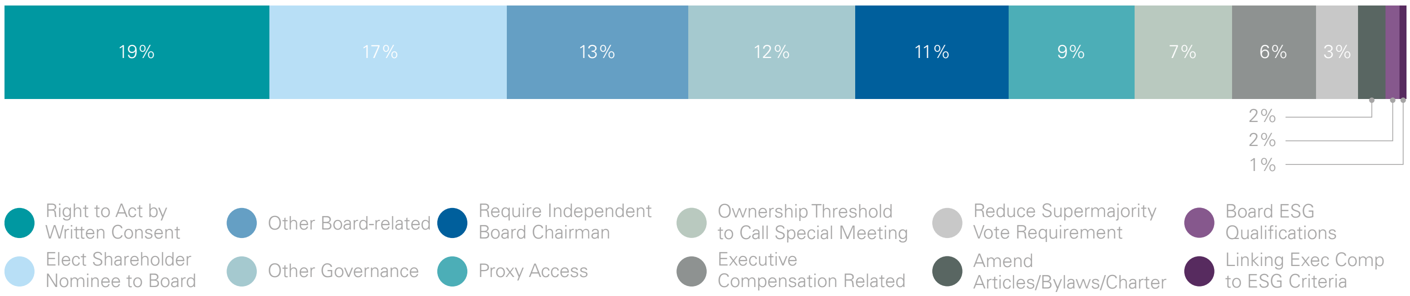


Exhibit 4.02: Governance-Related Shareholder Proposals 2021

Source: ClearBridge Investments. Reflects governance-related shareholder proposals at companies in which ClearBridge is a shareowner. Numbers may not add up to 100% due to rounding.

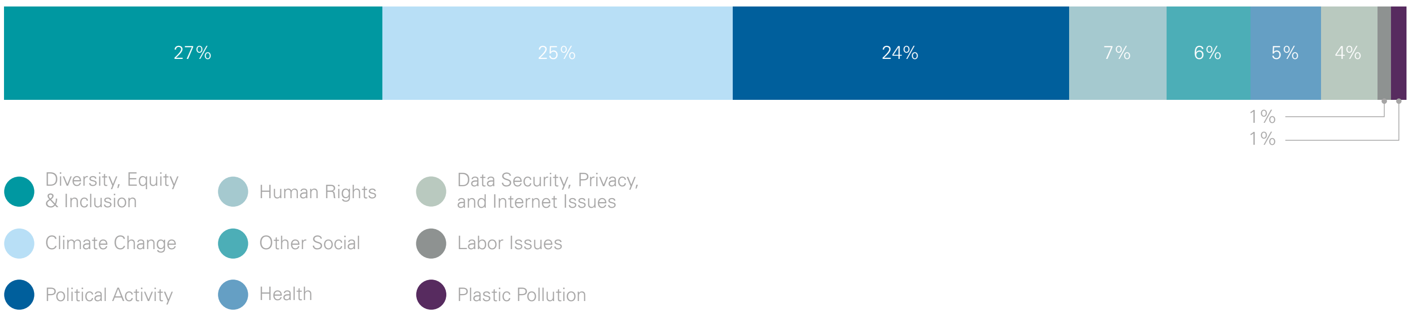


Exhibit 4.03: Environmental- and Social-Related Shareholder Proposals 2021

Source: ClearBridge Investments. Reflects environmental- and social-related shareholder proposals at companies in which ClearBridge is a shareowner.

ClearBridge Proxy Voting Process

Proxy votes are cast by the portfolio managers of each ClearBridge strategy. The ClearBridge Proxy Committee oversees the proxy voting process and is responsible for maintaining ClearBridge's Proxy Voting Guidelines. These guidelines set our recommended voting policies across a full range of proposals. In cases where the voting recommendation is not clear cut, the proposal is referred to the specific portfolio managers who own the shares, who will determine the appropriate way to vote on a case-by-case basis, using their knowledge of the company and in some cases speaking directly to the company about the specific proposal.

In voting proxies, we are guided by general fiduciary principles. Our goal is to act prudently and solely in the best interest of the beneficial owners of the accounts we manage. We attempt to provide for the consideration of all factors that could affect the value of the investment and will vote proxies in the manner that we believe will be consistent with efforts to maximize shareholder value. In the case of a proxy issue for which there is a stated position in our Proxy Voting Guidelines, we generally vote in accordance with the stated position.

Why Vote Against a Shareholder Proposal?

ClearBridge does not support all shareholder proposals. In some cases management has demonstrated it is taking steps to address the issue in question; some proposals we deem to be micromanaging a company's day-to-day operations; sometimes the resolution language is poorly worded; some deal with matters not sufficiently relevant to the business. The Securities and Exchange Commission has provided guidance on such proposals.

As active managers that incorporate engagement into our ownership strategy, in some cases we deem the best course of action on an issue is to continue to engage. Often, this will occur when we know management is already taking steps to address an issue. Our ongoing and direct engagement continually monitors company fundamentals, including ESG issues, and our deep company knowledge may lead us to judge that in some cases, a company does not warrant a proposal.

In addition, in 2021 there were several ESG shareholder proposals whose intent ClearBridge supported, but whose feasibility or practical implementation we believed was limited by the wording of the proposal. To address these situations, members of the Proxy Committee reached out to many of the proposal filers directly to discuss and provide feedback to the proponents on why the proposals' wording caused us to vote against them. We offered suggestions to help increase the likelihood the ESG proposals would be supported.

Exhibit 4.04: ClearBridge Proxy Voting Record on Shareholder Proposals 2021

Source: ClearBridge Investments. Numbers may not add up to 100% due to rounding.

Proxy Voting in Action

As a top shareholder of many companies, we use our voting power and ongoing engagements to suggest improvements for companies we own and provide feedback to express our opinion of proposals we deem inadequate. Here we highlight proposals we voted on in 2021, both "For" and "Against," and how we continue to engage and monitor progress on these critical issues.

Voting "For" a Shareholder Proposal

Gender/Racial Pay Gap 2021 Update

As an update to the Against votes in 2020 cast by ClearBridge on several shareholder proposals to "Report on global gender/racial pay gap" — among companies such as Adobe, Alphabet, American Express and Facebook — the ClearBridge Proxy Committee met with shareholder proponents in late 2020 about the word "global" being included in this proposal. ClearBridge had voted Against these proposals in previous years in recognition of global companies' difficulty ascertaining "global racial pay data" in certain geographies due to country regulations against requesting this data. We requested the language of these proposals be updated to remove the requirement of both "global" and "racial" pay data, which then permitted us to vote For the proposal, as it was now more feasible by companies to report on any such pay gaps.

Microsoft: Report on gender/racial pay gap

Shareholders submitted a proposal requesting that Microsoft report on its gender and racial pay gaps, including various associated risks. ClearBridge voted For this proposal. Microsoft does not publish for its U.S. or global workforce the same gender pay gap statistic as it publishes in the U.K. The median pay gap statistic provides benefits such as transparency and comparability across time and organizations and serves as one measure of representation of women and racial and ethnic minorities in senior positions. Because it is expressing a gap, it also carries an implied goal of eliminating the gap. As the company discloses for its U.K. workforce, investors would benefit from a report concerning the median pay gap data for its U.S. or its global workforce as a means of allowing them to better gauge how well the company is advancing opportunities for women and mitigating risks relating to increasing public scrutiny on gender pay issues.

Amazon.com: Report on gender/racial pay gap

Shareholders submitted a proposal requesting Amazon report on the company's gender and racial median pay gaps, including information on its policy and goals to reduce compensation disparities based on gender and race. ClearBridge voted For this proposal. Shareholders would benefit from additional information to better measure the progress of the company's DEI initiatives and its management of related risks. Last year, the proposal requested a global median gender and racial pay gap statistic. The request was adjusted this year to state that companies may, with board discretion, calculate the percentage median racial/minority/ethnicity pay gap by U.S. and/or by country, where appropriate. Amazon did not publish for its U.S. or global workforce the same gender pay gap statistic as it publishes in the U.K. The median pay gap statistic provides benefits such as transparency and comparability across time and organizations and serves as one measure of representation of women in senior positions. For its U.S. workforce, Amazon uses an "equal pay for equal work" statistic in which the company defines what it considers to be an "equal job." The company's disclosure of a pay equity statistic and its DEI efforts provide shareholders with some visibility into how well the company is addressing poor representation of women and underrepresented minorities at senior levels.

United Parcel Service: Report on climate change

ClearBridge is a top 10 owner.

Shareholders submitted a precatory proposal asking that UPS report on its plans to reduce its total contribution to climate change and align its operations with the Paris Agreement's goals. ClearBridge voted For this proposal, as additional disclosure would allow investors to better understand how the company is managing its transition to a low-carbon economy and climate-change-related risks. Shareholders requested that UPS issue a report, at reasonable cost and omitting proprietary information, describing if and how it plans to reduce its total contribution to climate change and align its operations with the Paris Agreement's goal of maintaining global temperature increases at or below 1.5° Celsius.

ClearBridge Proxy Update: Adding Guidelines on Climate Change

The ClearBridge Proxy Committee made several updates to the ClearBridge Proxy Voting Guidelines in 2021, including adding the following language to the policy:

a. We vote for climate proposals seeking more disclosure on financial, physical or regulatory risks related to climate change and/or how the company measures and manages such risks

b. We vote for climate proposals requesting a report/disclosure of goals on GHG emissions from company operations and/or products

These updates helped guide our voting on climate-change-related shareholder proposals in 2021, such as to United Parcel Service.

Voting "Against" a Shareholder Proposal

Home Depot: Report on prison labor in the supply chain

Shareholders submitted a proposal requesting Home Depot report on its policies applicable to prison labor in its supply chain. ClearBridge determined that a vote Against this proposal was warranted as the company already reports on its policies, programs and oversight mechanisms concerning prison labor in its supply chain in its Responsible Sourcing Standards, 2020 Responsible Sourcing Report, Supplier Manual, and on its corporate website. The company updated its responsible sourcing program in 2021 to state that suppliers must not use forced, bonded or indentured labor, or prison labor, including voluntary prison labor. The company conducts announced and unannounced on-site audits of certain manufacturers. The audits assess, among other things, whether there is any use of prison labor. No audits identified prison labor. The company is a member of the Responsible Business Alliance's Responsible Labor Initiative, which requires its members to commit to labor standards across their supply chains.

Microsoft: Prohibit sales of facial recognition technology to all government entities

ClearBridge voted Against this proposal. Microsoft's Regulatory and Public Policy Committee of the board has oversight responsibilities over policies and programs that relate to artificial intelligence. Microsoft has stated it will not sell facial recognition technology to police departments in the U.S. until strong regulation, grounded in human rights, has been enacted. The company's responsible AI principles state that, among other requirements, in its terms of service Microsoft will prohibit the use of facial recognition technology to engage in unlawful discrimination and will advocate for safeguards for people's democratic freedoms in law enforcement surveillance scenarios and will not deploy facial recognition technology in scenarios that it believes will put these freedoms at risk. The company appears to be taking steps to implement responsible measures in its development and deployment of AI in general and facial recognition technology more specifically. As stated by the board, a general prohibition of sales of facial recognition technology to all government entities would prevent government customers from deploying facial recognition technology in societally beneficial use cases. Without strong evidence to suggest that the company and the board are neglecting a material risk, decisions about its product offerings are best left to the company's management and board. There does not appear to be strong evidence to suggest that management and the board are neglecting a material risk, and the proposal's request is overly prescriptive.

Voting on Management Proposals

As an active manager, ClearBridge invests invest in a concentrated number of companies where we have high conviction in the business model and management team.

As such, we are generally supportive of the management teams in which we are invested, and this is reflected in our votes on management proposals, including "say on pay" proposals seeking to approve the compensation for named executives. At the same time, we review each "say on pay" on a case-by-case basis and there are cases where ClearBridge portfolio managers will decide to vote against approving the compensation for company executives.

In 2021, we voted against management's proposed compensation at 96 portfolio companies (which represents 10% of total companies where portfolio managers voted on "say on pay" management proposals).

Splunk: Advisory vote to ratify named executive officers' compensation

ClearBridge is a top 10 owner.

ClearBridge voted Against this proposal. As required by the Dodd-Frank Act, the company has provided shareholders with a non-binding advisory vote on the compensation of named executive officers; although the vote is non-binding, its outcome will be taken into consideration when considering future executive compensation. Splunk's one-year total shareholder return trailed both the four-digit GICS peers and the Russell 3000 Index. Revenue declined in FY21 after posting strong growth for a number of years. GAAP net income, EBITDA and operating cash flow were all negative in FY21, with only operating cash flow showing improvement compared to the prior year.

CEO pay increased nearly 24%, or by 74% as valued by the company due to increases in salary, annual incentives and equity grant value. The company uses the same metric — annual recurring revenue measured over a one-year period — as the sole metric for the annual incentive and as the main metric for the performance share units. The company made a mid-year adjustment to what had originally been an aggressive annual recurring revenue growth target, which ultimately had the effect of turning below-threshold performance on this metric into above-target performance; and the committee neither adjusted payout opportunities in line with the reduced targets, nor exercised discretion to cap payouts. This resulted in above-target payouts on both the annual incentives and the performance share units for FY21, notwithstanding a decline in GAAP revenue and a wider net loss for the year. The company's operating cash flow yielded maximum performance on that metric although operating cash flow was negative for the year. Adjustments to closing-cycle or in-progress long-term incentive awards are generally not viewed as appropriate reactions to COVID-19-related market disruption, particularly when such adjustments result in above-target payouts.

BioMarin Pharmaceutical: Advisory vote to ratify named executive officers' compensation

ClearBridge is a top 10 owner.

ClearBridge voted Against this proposal. As required by the Dodd-Frank Act, the company has provided shareholders with a non-binding advisory vote on the compensation of named executive officers; although the vote is non-binding, its outcome will be taken into consideration when considering future executive compensation. We deemed insufficient disclosure related to separation payments for former CFO Dan Spiegelman. While the committee improved the vesting design of the performance shares year over year and while non-GAAP income under the long-term incentive program is measured annually and overlaps with the short-term incentive program, relative total shareholder return targets merely median performance, and certain forward-looking goals were undisclosed. The CEO has performed in the bottom quartile of his peer group in shareholder returns and is consistently paid in the top quartile. There is also some leeway in how they are paid for meeting "development goals." While we are encouraged by the fact that BioMarin is cutting the CEO's 2021 equity grants by 15%, we think other issues outweigh this positive change.

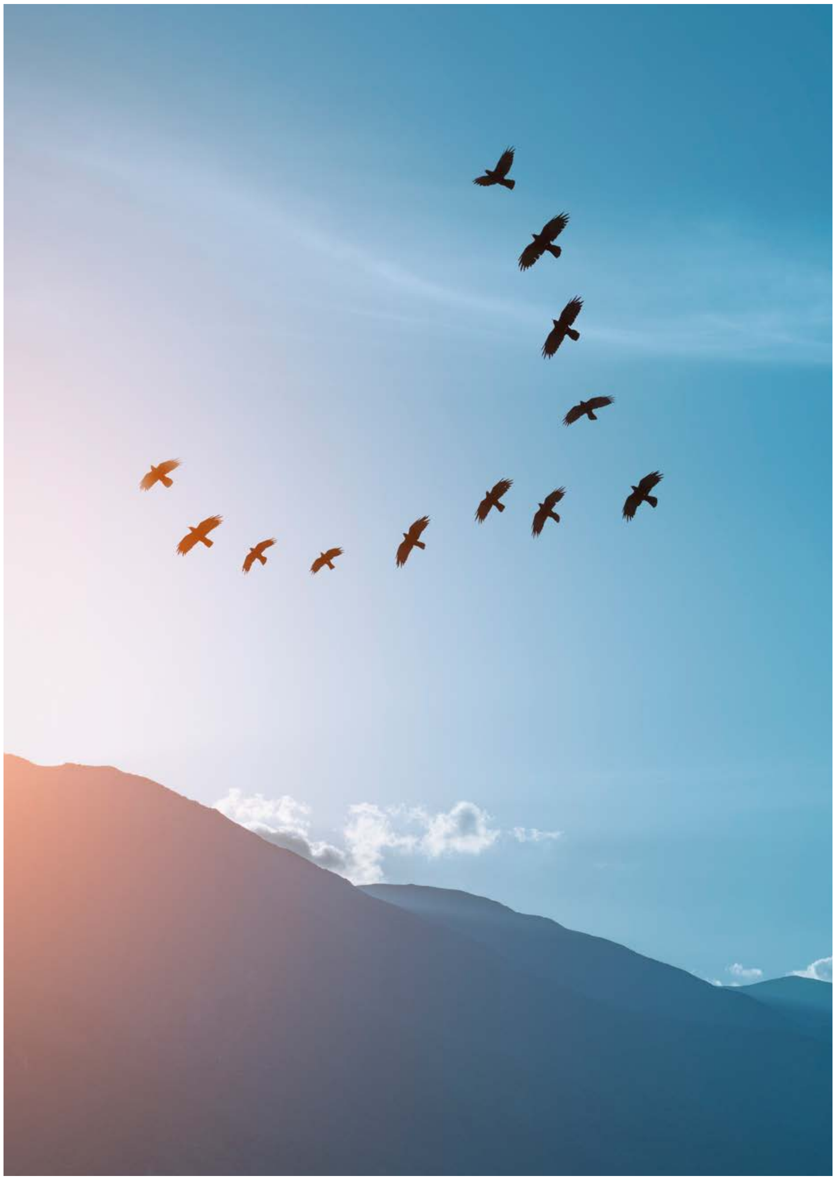
04

An Investment Framework that Furthers the SDGs

Sustainable Development Goals

The 17 UN Sustainable Development Goals (SDGs), broad challenges formalized by the 193 members of the UN General Assembly in 2015, offer a blueprint for achieving a better and more sustainable future for all.


11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS



“Using our role as a large shareholder to actively engage on these themes and encourage best practices helps further the SDGs.”

Derek Deutsch, CFA

Linking Sustainability Themes to the SDGs

Derek Deutsch, CFA
Portfolio Manager, Sustainability Leaders Strategy

The U.N.'s Sustainable Development Goals (SDGs) are a set of broad challenges to end poverty, protect the planet and create a peaceful and prosperous world for all people by 2030.

The SDGs encompass a wide range of ESG dimensions, as the 17 goals are associated with a total of 169 targets to achieve by 2030. Broadly, they offer a way for the private sector to have an impact supporting and addressing urgent sustainability issues.

For ClearBridge, the SDGs represent a useful way to understand and communicate global sustainability goals, and while we believe the SDGs are more thematic than company specific, they help demonstrate how our research framework of sector-and company-specific ESG considerations aligns with broader societal goals and the impact that investing within this framework can have.

Just as public companies create impact due simply to their global reach, deep supply chains and communities where they operate, so this impact can be understood as driving progress toward the SDGs. Companies from all sectors can contribute to the SDGs through their operations, their products and services, or both as shown here using ClearBridge holdings Eaton and Workday as examples.

Eaton

Electrical Equipment Company

Companies from all sectors can contribute to the SDGs through their operations, their products and services, or both. ClearBridge holding Eaton directly contributes to SDGs 7 and 11 through the products and services it offers.

Products serve electrification of power grid; proactively moving the product portfolio toward solutions enabling energy efficiency

Products and Services

Direct

Enabling electric vehicle charging infrastructure

SDG 7: Affordable and Clean Energy

By 2030, double the global rate of improvement in energy efficiency

SDG 11: Sustainable Cities and Communities

By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport.

Workday

Software-as-a-Service and Cloud Company

ClearBridge holding Workday contributes to several SDGs through both its operations and the products and services it offers.

Strong gender diversity

Leader in community investment/job creation

Operations

Net-zero commitment, 100% renewable energy, investing in carbon removal

Products and Services

Enabling

Contributing to digital transformation/innovation for back-office products

SDG 5: Gender Equality

Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life

SDG 10: Reduced Inequalities

By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

SDG 13: Climate Action

High-level target is to achieve Paris Agreement and decarbonization goals

SDG 8: Decent Work and Economic Growth

Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labor-intensive sectors

Linking Sustainability Themes to the SDGs

Many of the sustainability themes around which ClearBridge ESG analysis and company engagements center, such as climate change or diversity and economic inclusion, correspond to the SDGs in a variety of ways. Using our role as large shareholder to actively engage on these themes and encourage best practices helps further the SDGs.

NATURAL RESOURCE EFFICIENCY

SDG 6 Reduce release of hazardous chemicals and materials
SDG 6 Improve water use efficiency and water quality
SDG 8 Decouple economic growth from environmental degradation
SDG 12 Reduce waste generation and ensure environmentally - sound management of wastes, especially chemicals
SDG 12 Increase efficiency and sustainability of natural resource use
SDG 14 Reduce marine pollution
SDG 15 Improve land-use sustainability

CLIMATE CHANGE

SDG 7 Increase access to affordable clean energy
SDG 13 Decarbonize economy in line with Paris Climate Agreement

SUSTAINABLE INFRASTRUCTURE

SDG 9 Build new infrastructure sustainably, and retrofit existing infrastructure

DIVERSITY AND ECONOMIC INCLUSION

SDG 1 Increase access to economic resources,including financial and technology (internet, mobile) services
SDG 5 End all forms of discrimination against women and girls everywhere
SDG 5 Ensure full and effective participation and equal opportunities for women in leadership at all levels of decision - making
SDG 9 Increase access of enterprises to financial services
SDG 10 Promote economic inclusion
SDG 10 Ensure equality of opportunity and reduce inequalities of outcomes for all
SDG 10 Ensure equal pay practices for all

SUSTAINABLE FOOD

SDG 2 Increase access to safe, nutritious and sufficient food
SDG 2 Increase sustainability and resiliency of food production
SDG 2 Promote small-scale food producers to improve their productivity and income
SDG 14 End overfishing
SDG 15 Improve land-use sustainability
SDG 15 Reduce degradation of natural habitats and the loss of biodiversity from land-use change

INNOVATION

SDG 8 Increase economic productivity through innovation
SDG 9 Increase technological capabilities of industry through R&D

DISCLOSURE

SDG 12 Integrate sustainability information into company reporting

IMPROVING HEALTH AND WORKPLACE SAFETY

SDG 3 Increase access to medicines, vaccines and health care services
SDG 8 Ensure safe and secure working environment for all workers

FAIR LABOR

SDG 8 Protect labor rights for workers, especially migrant workers
SDG 8 Eradicate forced labor (modern slavery)

Working with WaterAid Toward SDG 6 in Colombia

Since 2013 ClearBridge has partnered with WaterAid to help address water challenges around the world: globally, one in 10 people don't have clean water close to home; more than one in five don't have a decent toilet of their own; two in five households don't have adequate handwashing facilities.

WaterAid is an international nonprofit organization seeking to address these issues by making clean water, decent toilets and good hygiene a reality for everyone, everywhere within a generation. WaterAid works with governments and the private sector in more than 34 countries to change the lives of the poorest and most marginalized people. Since 1981, it has helped provide over 28 million people with clean water and access to good hygiene through a deep understanding of the issues that face communities living without these basic services and of the solutions needed.

ClearBridge's partnership with WaterAid brings together several important components of our corporate mission: philanthropy, volunteerism, sustainability and relating our investment capabilities to the U.N.'s Sustainable Development Goals, in this case SDG 6: Clean Water and Sanitation. Since good hygiene promotion is one of the most effective ways to improve global health, improving access to safe drinking water, sanitation and hygiene also contributes to SDG 3: Good Health and Well-Being.

In 2013 ClearBridge in Australia began to work with WaterAid to fund sustainable infrastructure projects in Timor-Leste, one of the world's least developed countries. This partnership, now in its ninth year, has provided safe water and sanitation systems, as well as hygiene and gender education to over 1,500 men, women and children living in the mountainous rural district of Liquica. In

2021, our projects focused on providing sanitation facilities to schools and community centers. Insufficient sanitation facilities are a leading cause of diarrhoeal disease — the second-biggest killer of children under the age of five. Adequate sanitation in schools has increased attendance, most notably for girls, who now have access to toilet facilities that provide them with privacy and dignity, and created greater gender inclusion.

Since 2020, ClearBridge has been helping underwrite a critical project to bring water to La Guajira, a mostly arid desert peninsula in northern Colombia and home to various indigenous and afro-descendant communities, in a safe and consistent manner. With the support of ClearBridge, WaterAid is working in the Tomarrazón community, home to 1,960 people in the rural southern part of Riohacha Municipality, to deliver life-saving water, sanitation and hygiene (WASH) programming.

ClearBridge and WaterAid made significant strides in 2021 in a school in Tomarrazón, where we aim to provide safe water, toilets and hygiene to 600 middle and high school students and 57 teachers. The project involves building elevated water tanks to improve access to clean water and rehabilitating five toilet blocks (two for boys, two for girls, one for teachers). Each toilet block includes handwashing facilities. In February 2022, at roughly the six-month mark, we reached approximately 60% of project targets. WaterAid has also begun training sessions at the school to teach better hygiene and wastewater management practices, along with how to manage the school's new water infrastructure. Sessions use WaterAid's WASH Parcheesi board game with students and will continue after the WASH infrastructure work finishes.

As WaterAid works to build Tomarrazón's ability to operate and maintain its several WASH services for the long term, we look forward to reporting progress in the years to come.

We believe we can have a greater impact by acting in collaboration with other investors to further shared goals.

ESG Organization Affiliations

Access to Medicine Index Analyzes and independently ranks research-based pharmaceutical companies on how they make medicines, vaccines and diagnostics more accessible in low-income and middle-income countries. ClearBridge has been a signatory to the investor statement since 2016.

Carbon Disclosure Project Collects climate change, carbon emissions and water data from more than 2,000 companies worldwide. ClearBridge has been an Investor Signatory since CDP's inception in 2003.

Ceres Nonprofit with a mission to integrate sustainability into business practices for the health of the planet and its people. ClearBridge is a Member.

Climate Action 100+ Investor-led initiative to engage systematically important greenhouse gas emitters in curbing emissions and improving climate-related disclosures. ClearBridge has been a signatory since March 2018.

FAIRR Initiative (FAIRR) Helps investors drive change in the animal agriculture sector by producing and analyzing data from the world's largest protein producers and manufacturers. ClearBridge is a Member.

The Forum for Sustainable and Responsible Investment U.S. national nonprofit membership association dedicated to advancing the practice and growth of socially responsible investing (SRI). ClearBridge is an Active Member.

Global Impact Investing Network (GIIN) Nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. ClearBridge is a Network Member.

Interfaith Center on Corporate Responsibility (ICCR) Working towards a more just and sustainable world by integrating social values into investor actions, through the lens of faith. ClearBridge is an Affiliate Member.

Investor Network on Climate Risk (INCR) Network of investors from across the globe dedicated to advancing opportunities and reducing risks posed by sustainability challenges such as climate change. ClearBridge is a Member.

Net Zero Asset Managers Initiative (NZAMI) Signatories are commited to addressing climate change through investment practices aligned with reducing carbon emissions to net zero by 2050 or sooner. ClearBridge became a Signatory in 2021.

Principles for Responsible Investment (PRI) Providies a voluntary framework for investment professionals who commit to integrate ESG factors into their investment analysis and decision-making practices.ClearBridge is a PRI Signatory.

Responsible Investment Association (RIA) Canada's leader on responsible investment. ClearBridge is a Member.

Responsible Investment Association Australasia (RIAA) Largest and most active network of people and organizations engaged in responsible, ethical and impact investing across Australia and New Zealand. ClearBridge is a Member.

Task Force on Climate-Related Financial Disclosures (TCFD) Developing consistent metrics for use by companies in disclosing financial risks associated with climate change to investors, lenders and other stakeholders. ClearBridge is a supporter as of 2018.

WaterAid International nonprofit working to make clean water, decent toilets and good hygiene normal for everyone, everywhere, within a generation.ClearBridge is a partner as of 2019.

Sources: accestomedicineindex.org, cdp.net, oeres.org, ussif.org, thegiin.org, iccr.org, unepfi.org, fsb-tcfd.org, responsibleinvestment.org, www.riacanada.ca

New Collaborative Initiatives and Partnerships: 2021

ClearBridge supports a number of investor statements and initiatives that are aligned with our ESG goals and where we believe we can have a greater impact by acting in collaboration with other investors to further these shared goals. In 2021 ClearBridge signed the following investor statements and letters on ESG issues:

Access to Medicine Foundation Global Investor Statement in Support of an Effective, Fair and Equitable Global Response to COVID-19: A call for a fair and equitable global response to the pandemic, specifically through committing to engagement with health care companies to promote bolder industry action.

Access to Medicine Foundation Investor Letter on Vaccine Equity & Executive Remuneration: A joint investor statement to pharmaceutical companies producing COVID-19 vaccines addressing equity and calling for integration of the WHO goals into executive remuneration strategy. We have been participating in collaborative engagements with Pfizer and Moderna following signing on to this statement.

As You Sow 2021 Investor Statement Regarding the Need for Corporate Workplace Equity Transparency: A statement to support increased disclosure of DEI data.

Ceres Biodiversity Sign-on Letter: A joint statement ahead of COP15 that signals support for a Global Diversity Framework, which would outline goals and targets to protect and restore biodiversity by 2050.

Ceres Methane Regulation Investor Statement: A call on the Biden Administration to rapidly advance methane regulations for the U.S. oil and gas sector.

Ceres 2021 Global Investor Statement to Governments on the Climate Crisis: A joint letter from the public and private sector calling for SEC rules to mandate climate-related disclosure.

DOL Rule Proposal: "Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights": ClearBridge submitted a comment letter supporting the Department of Labor's proposed rule, which clarifies that ESG factors can be incorporated where deemed material by the fiduciary and should be treated the same way as any other investment factor.

FAIRR COP Investor Statement on Agriculture: A statement urging governments to improve disclosure of agricultural emissions targets.

Global Investor Statement to Governments on the Climate Crisis: A joint investor call on governments to step up their collective response to the climate crisis, specifically around policy making, net-zero commitments and actions to strengthen National Climate Plans.

ICCR Statement of Investor Expectations for Job Standards & Community Impacts in the Just Transition: A joint investor statement that outlines investor expectations through a series of principles for job standards and community impacts to ensure a just low-carbon energy transition.

PRI Investor Letter on Modern Day Slavery: An institutional investor letter aiming to address human rights risks within investment portfolios through increased legislation.

Statement in Support of Meaningful Stakeholder Engagement in mHREDD Framework: A communication to European policymakers to encourage stakeholder engagement as a central aspect of the EU framework on mandatory human rights and environmental due diligence (mHREDD) legislation.

ESG Industry Collaborations

Advancing ESG industry discussions remained a priority for ClearBridge in 2021, with ClearBridge portfolio managers, analysts and portfolio specialists appearing at events around the world to discuss topics such as net-zero emissions goals, stakeholder capitalism and sustainable infrastructure.

Event	ClearBridge Representative	Topics	Additional Information
Financial Standard ESG Forum	Nick Langley, Portfolio Manager	Net-zero emissions by 2050	Audience included Australian financial professionals
Investor Daily ESG Summit	Shane Hurst, Portfolio Manager	Net-zero/climate inflation	Audience included Australian financial professionals
P&I ESG Investing Series	Marshall Gordon, Senior Analyst	Stakeholder capitalism and ESG Investing	Audience included institutional investors, academic researchers and policymakers
P&I ESG Investing Series	Robin Freeman, Client Portfolio Manager	Focusing in on the "S" in ESG	Audience included institutional investors, academic researchers and policymakers
P&I ESG Investing Webinar	Robin Freeman, Client Portfolio Manager	Overview of impact investing, structuring and measuring impact, engagement	Audience included institutional investors, academic researchers and policymakers
Pension Bridge ESG Virtual Event 2021	Elisa Mazen, Head of Global Growth, Portfolio Manager	Corporate governance: the evolving role of investors in holding firms to account	Audience included institutional investors, academic researchers and policymakers
RI Americas	Derek Deutsch, CFA, Portfolio Manager	How to dynamically build a portfolio of stocks for a pragmatic net-zero CO_2 strategy; integrating ESG factors for performance and sustainability trends	Audience included institutional investors, academic researchers and policymakers
RI Japan	Nick Langley, Portfolio Manager	Transition of mobility and utility sectors: EVs, renewable energy and infrastructure.	Audience included institutional investors, academic researchers and policymakers

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