



ClearBridge
Investments

Partnering for Change in a Time of Adversity

2021 Impact Report



Promoting Sustainability Through Integration & Engagement Environmental, Social and Governance (ESG) Investment

Investors can make an impact through investment strategies that integrate environmental, social and governance (ESG) factors into the stock selection process. Such integration enables investors to reap the benefits of responsible, sustainable businesses and to promote positive change through company engagement, proxy voting and raising awareness of ESG issues.

Table of Contents

Welcome Letter from Terrence Murphy..... 06

Firm Overview 08

ClearBridge ESG Milestones..... 10

ESG Investing at ClearBridge: An Annual Update with Mary Jane McQuillen 12

The ClearBridge Model for ESG Integration 16

Anti-Greenwashing SFDR Rules Take Effect in Europe 20

01

ClearBridge Engagements: Partnering for Impact

2020 Impact Engagements..... 24

ClearBridge Analyst and Portfolio Team Updates..... 29

Engaging with Small Cap Companies: Everybody Benefits 46

Incorporating Diversity and Inclusion in Investment Analysis 50

02

Climate Change and the Role of Active Investors

Investing in a Decarbonizing Economy: A TCFD-Aligned Approach..... 56

 Understanding Technology Innovation Key to Auto Industry Analysis..... 61

 Oil and Gas Industry Must Weigh Stranded Asset Risk..... 61

 Utilities Becoming an Active Participant in Fight Against Carbon..... 62

 Location, Location – and Efficiency: Climate Change and Real Estate Valuation 64

Hydrogen and Battery Innovation Decarbonizing Heavy Transport 68

Midstream Energy Seeking to Offer More Robust ESG Data 74

03

Advancing the U.N. Sustainable Development Goals

An Investment Framework that Furthers the SDGs.....	78
Targeting Climate-Focused SDGs	84
Working with WaterAid Toward SDG 6 in Colombia.....	90

The Push for Sustainable Infrastructure 94

04

Proxy Voting and the Impact of Active Managers

Proxy Voting in Action	108
Voting “For” a Shareholder Proposal	109
Voting “Against” a Shareholder Proposal.....	113
Voting “Against” a Management Proposal	117

ESG Industry Collaboration	120
----------------------------------	-----

Index of Companies.....	122
-------------------------	-----

Welcome Letter from Terrence Murphy



As an investment management firm headquartered in New York City, ClearBridge has experienced the COVID-19 pandemic on a personal and professional level. I am extremely proud and appreciative of the outstanding dedication our employees have demonstrated to our clients and in their interaction with the companies we own across our portfolios, under very trying circumstances. Between COVID-19 and greater attention paid to social and economic inequalities throughout the past year, the value of prioritizing environmental, social and governance factors in our investment approach and continuing to raise awareness of ESG among asset owners and individual owners has never been more important.

Our 2021 Impact Report catalogs how we have partnered with many companies in responding to these current challenges in the midst of also addressing longer-term sustainability goals. The report focuses on several of these secular ESG issues, including climate change, the need for more sustainable infrastructure and transitioning from fossil fuels as a primary power source.

Our engagements with companies have increased significantly in the work-from-home environment of the past year and we are impressed by the great work many companies are doing to manage their businesses in a thoughtful and compassionate manner that considers all stakeholders. In times of crisis and social change, we believe it is especially important for management to reflect on their collective responsibilities to employees, customers, investors and the broader community in which

they operate. We highlight the work of several of these companies in the engagement section of this year's report.

As a top 20 shareholder in 279 public companies, we have proactively shared our general expectations with company managements as they address the needs of their various stakeholder groups against the backdrop of COVID-19 and a greater focus on diversity and inclusion in the workplace. Many of our holdings are smaller cap enterprises just beginning to embrace ESG as part of their business models. In this year's report, we again profile the active role our portfolio managers are playing in partnering with these younger companies as they seek guidance on such issues as sustainability metrics and competitive best practices in their particular sector.

Just as we counsel companies to strive for improvement in their sustainability journey, the events of the past year have caused ClearBridge Investments, as a steward of more than \$177 billion in client assets, to also evaluate how we can do better. We have supported the remote work environment of our employees through regular communications about balancing work with family and personal responsibilities, transparency over timelines to return to our offices and recognition of our accomplishments. We also believe promoting diversity and inclusion is essential to our success as an organization and have augmented our existing recruitment, internship and mentoring programs with the formation of a Diversity and Inclusion Council. The Council, comprising employees from across the firm, is working to incorporate strategies and practices around

diversity and inclusion that will enhance our culture and allow us to attract, promote and retain an even more diverse workforce.

As I write this, vaccine distribution is ramping up and the global economy is on the mend. We remain convinced that, in these difficult times, advancing basic issues of sustainability — in particular, advancing opportunities for under-represented segments of our society and taking care of all stakeholders — will support the most positive long-term outcomes. We appreciate your partnership and support throughout a challenging year and look forward to reporting on further progress in our sustainability efforts going forward.

Sincerely,

A handwritten signature in white ink that reads "Terrence Murphy". The signature is fluid and cursive, with a prominent loop at the end of the name.

Terrence Murphy
Chief Executive Officer

Firm Overview

ClearBridge Investments is a leading global equity manager with \$177 billion in assets under management as of December 31, 2020. Owned by Franklin Resources, ClearBridge operates with investment independence from headquarters in New York and offices in Baltimore, London, San Francisco, Sydney and Wilmington. We believe authentic active management and high-conviction portfolios provide clients the best opportunities to earn superior investment results over the long term.

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.

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. ClearBridge takes a long-term approach, holding companies for six 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.

P&I Names ClearBridge Best Place to Work 2020

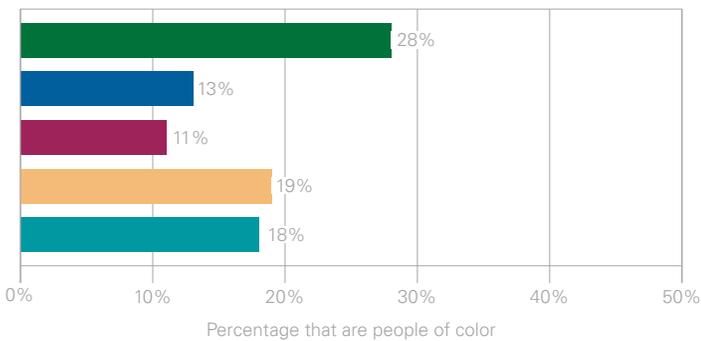
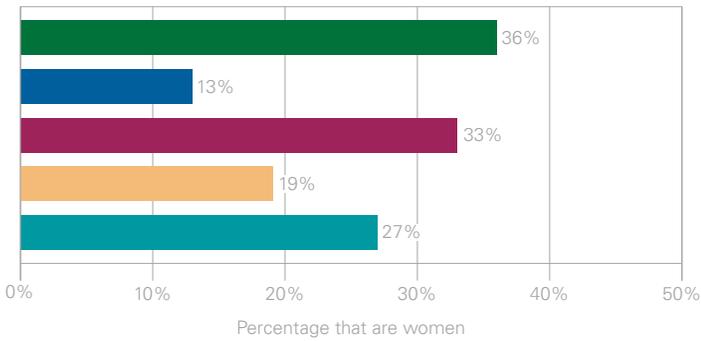
Pensions & Investments Magazine (P&I) has recognized ClearBridge Investments as one of the Best Places to Work in Money Management for the ninth year in a row. ClearBridge, which won first place in the 100-499 employee category, is one of a very few companies to have made the list every year since the program launched in 2012.

In a challenging year where the COVID-19 pandemic forced a work-from-home environment, employees surveyed by P&I noted that ClearBridge was able to maintain its collaborative culture through a seamless technology transition and ongoing support and flexibility in work hours. Employees also highlighted how company management has remained accessible and open to suggestions even in a remote setting.



Exhibit 01
ClearBridge Strives for a Diverse and Inclusive Culture

As of December 31, 2020.



■ Total employees ■ Traders ■ Senior management
■ Portfolio managers ■ Analysts

\$177 Billion
 in assets for which ESG risks and opportunities are analyzed

777 Companies
 with proprietary ESG ratings

1000+
 company meetings per year

279 Companies
 where we are a top 20 shareholder

6 Years
 average period we own a company

ClearBridge ESG Milestones

1987

- ClearBridge opens first client account using socially responsible investment approach

1997

- Joins United Nations Environment Program Finance Initiative (UNEP FI)

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

2011

- Joins Investor Network on Climate Risk (INCR)
- Joins Ceres

1990

- Joins Interfaith Center on Corporate Responsibility (ICCR)

2004

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

2008

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

2018

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

2016

Signs the Access to Medicine Index (ATMI) Investor Statement

2013

Forms corporate partnership with WaterAid

2020

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

ClearBridge signs onto the CDP Science-Based Targets Campaign

2017

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

2015

Appointed subadvisor to Desjardins SocieTerra American Equity Fund

2012

Joins Global Impact Investing Network (GIIN)

ESG Investing at ClearBridge: An Annual Update with Mary Jane McQuillen



As Head of ESG Investment at ClearBridge and a portfolio manager who invests in companies with both fundamental discipline and sustainability leadership, Mary Jane McQuillen 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 the space.

We sat down with MJ, as she is known in ESG circles, to discuss what shaped the broader ESG investing discussion in 2020 and what will have an impact on ClearBridge engagements with companies in the coming months. She highlighted several trends to watch, including the resilience of ESG investing during the COVID-19 pandemic, the growing market interest in ESG integration along the lines of ClearBridge's model, the utility of global ESG reporting

standards and the pandemic's potential role in increasing the opportunity for companies focusing on sustainable food and packaging. MJ also mentioned the burgeoning global investor focus on climate risk and accelerated attention to corporate diversity and inclusion — both of which are further detailed in this report.

Engaging in a Year Like No Other

Few were prepared for what 2020 had in store and the overnight change to business operations. Yet stay-at-home orders did not reduce our contact with portfolio companies in 2020 — in fact, we increased our engagements and ClearBridge's partnership approach to active ownership proved tremendously valuable in the peak of the crisis. As a large shareholder actively engaging with companies often through years of ownership, we have fostered our role as a trusted partner. Our frequent and direct communications with company leaders helped us understand the unique struggles of each company as the crisis unfolded in 2020. We shared our expectations for companies to step up to the challenge for their workers, customers, those in their supply chain, and their communities. As the conversations came to focus also on pressing questions of diversity and inclusion, we continued to have constructive conversations as we worked together to define what is fair, reasonable and beneficial to all stakeholders over the long term.

Especially in times of crisis, I believe it is important for people to actively partner together: colleague with colleague, company with company, public bodies with

private enterprises. We are all expected to find the fine line defining quality near-term performance while maintaining or enhancing the opportunity for superior long-term success. I have been greatly encouraged by the resilience shown by all of us at ClearBridge and our portfolio companies as we looked for ways for all to thrive in a challenging year.

COVID-19 and the Resilience of ESG Portfolios

The NYU Stern Center for Sustainable Business recently completed a meta-study on ESG and financial performance that had a number of interesting findings, most of which are quite consistent with how and why we incorporate ESG into our investment analysis at ClearBridge. The study looks at 1,000 papers published between 2015 and 2020 and serves as a welcome update to previous meta-studies to which we have called attention when asked about the relationship between ESG and performance.

We are not surprised to see the study show a continuation of the trend that ESG and strong financial performance are positively correlated. The study found that improved financial performance due to ESG becomes more noticeable over longer time horizons.

Another key finding of the study is that ESG investing appears to provide asymmetric benefits, in particular lower risk, especially during a crisis. Studies included the first quarter of 2020, which saw the worst of the COVID-19-driven selloffs. Some attribute strong performance of ESG portfolios in 2020 to their preference for technology

“While global standards are excellent guides and help comparisons between companies in different regions, relying on them without a deep understanding of a company’s business model, regulatory regime, products and overall trajectory would be counterproductive from an investment perspective.”

stocks, which broadly did well in a stay-at-home world, and their eschewal of traditional energy, which suffered.

Stocks with strong sustainability profiles broadly performed well in 2020, and they did so as a result of a variety of trends. Some of these, such as helping fight climate change by lowering carbon emissions or overcoming resource scarcity through use of recycled materials, we consider to be long-term trends that should support sustainability-focused investments for the long term. The relevance of these themes underscores the importance of being diversified. While 2020 was a strong year for renewable energy innovators and consumer staples names, for example, the sustainability winners over the next market cycle could include discretionary names improving the sustainability of food and packaging, industrials companies enabling electric vehicles and materials companies improving sourcing and creating a more circular materials economy.

ESG Integration Performs Better than Screening

The Stern study also indicates that ESG integration as an investment strategy performs better than negative screening approaches. While the sample size of studies was small in this case, data supporting the value of ESG integration aligns with our belief that a partnership approach, achieved through an active management model, benefits both shareholders and companies, as well as other stakeholders these groups support. I think companies can make negative or positive impacts on the world, and how we have seen change is by advocating to the people (CEO, CFO, investor relations, managers) at our public companies. When I first began my ESG investing career almost 25 years ago, I was involved in a large variety of company meetings in different industries and could see that investor support for sustainable practices was key for management to hear. Being a large owner of the stock was also helpful in gaining access to leadership with whom we could partner as a long-term shareowner for improvement. These goals have been at the heart of our approach to ESG integration, and it is encouraging to see data confirm them.

Does a Global ESG Standard Make Sense?

Global sustainable reporting standards seem to offer a solution to a perceived problem of subjectivity in ESG criteria. But while ESG criteria apply to different companies differently, this does not necessarily mean they are subjective. It means an investor must have an intimate fundamental knowledge of how a company operates to make objective decisions regarding ESG criteria that are material and relevant. While global standards are excellent guides and help comparisons between companies in different regions, relying on them without

a deep understanding of a company's business model, regulatory regime, products and overall trajectory would be counterproductive from an investment perspective. In addition, the reality is a large population of public companies still don't report to any established ESG standards, so while a global standard might be more efficient, lack of reporting is the bigger challenge.

Sustainable Finance Disclosure Regulation (SFDR) a Positive Step in Europe

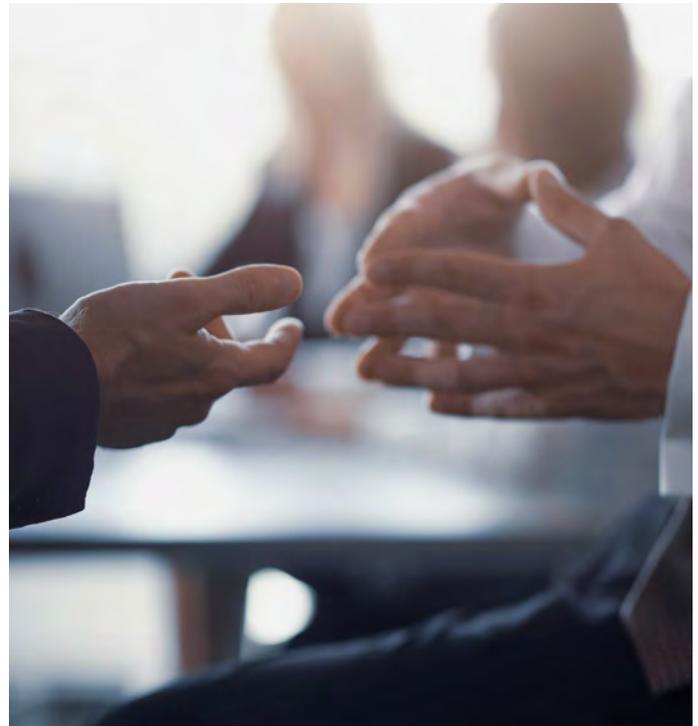
Investors in Europe will soon see important changes in the way their asset managers provide sustainability-related information on their products and updated sustainability policies. This is the result of requirements emanating from the European Union's (EU) Sustainable Finance Disclosure Regulation (SFDR), part of the EU's action plan for financing sustainable growth. The requirements look to provide transparency and authenticity in sustainability-focused investment products and reduce cases of greenwashing, or those products where sustainability is not truly embedded into processes. This is consistent with our process of explicitly including ESG research in company research performed by all analysts at ClearBridge. As this and past ClearBridge Impact Reports show, this ESG integration is done by all investment professionals at ClearBridge, and thus we applaud the SFDR in encouraging more accountability of the kind ClearBridge has always prioritized and offered.

Sustainable Food and Packaging Offers a Major Opportunity

While investors seemed to focus on the impact of renewable energy innovators and enablers in 2020, there are certainly other areas of the market to find examples of where innovation is leading to impact and strong performance potential for stocks. We are interested in a diversity of impact, for example, in sustainable food and packaging. Many packaged goods companies have acquired approximately five years' worth of new consumers since March 2020. While not all will be kept, the industry has woken up to the increased relevance of sustainability credentials for both their consumers as well as their investors, with data showing consumers, especially younger ones, are willing to pay more for sustainable brands. An increased focus on packaging, as well as sustainability across the whole product lifestyle, from regenerative agriculture to recycling/waste reduction, should be a differentiator in the space in the coming years.

A Growing Pool of Sustainability Stocks?

We're often asked whether investments are generally more responsible now than in the past and whether more



companies are meeting sustainability targets and becoming desirable for sustainability-focused investors. As I see it, sustainability improvements among companies do increase the pool of companies available for consideration. At some point, most of the market will be composed of companies meeting sustainability targets of one kind or another, and this is also great from a stock picker's point of view. More companies meeting sustainability targets is encouraging and indicative of more time, effort and capital spent to create a more sustainable and just society. But from the perspective of active owners of stocks, the level of analysis and diligence will remain high. Our investment approach is consistent, focusing on high-conviction ideas and building a concentrated but diversified portfolio, and requires research and selection, rather than just adding more stocks with improving sustainability profiles. Investors, their clients and broad beneficiaries of sustainability practices will still reward the leaders and innovators in sustainability, just as they will leaders and innovators in other areas of operations.

More companies meeting sustainability targets does, however, raise the bar for all companies, and it also shows the power of those who are leading the way. Companies leading by example and continuously upping their game have competitive advantages. Identifying companies with the foundation laid for constructive stewardship conversations provides us the opportunity to develop relationships or invest in the potential sustainability leaders of tomorrow.

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 centralized sector research platform as well as analysts dedicated to specific portfolios. 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.

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 02). 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.

Ratings are one output of the investment process, along with an investment thesis and recommendation and valuation.

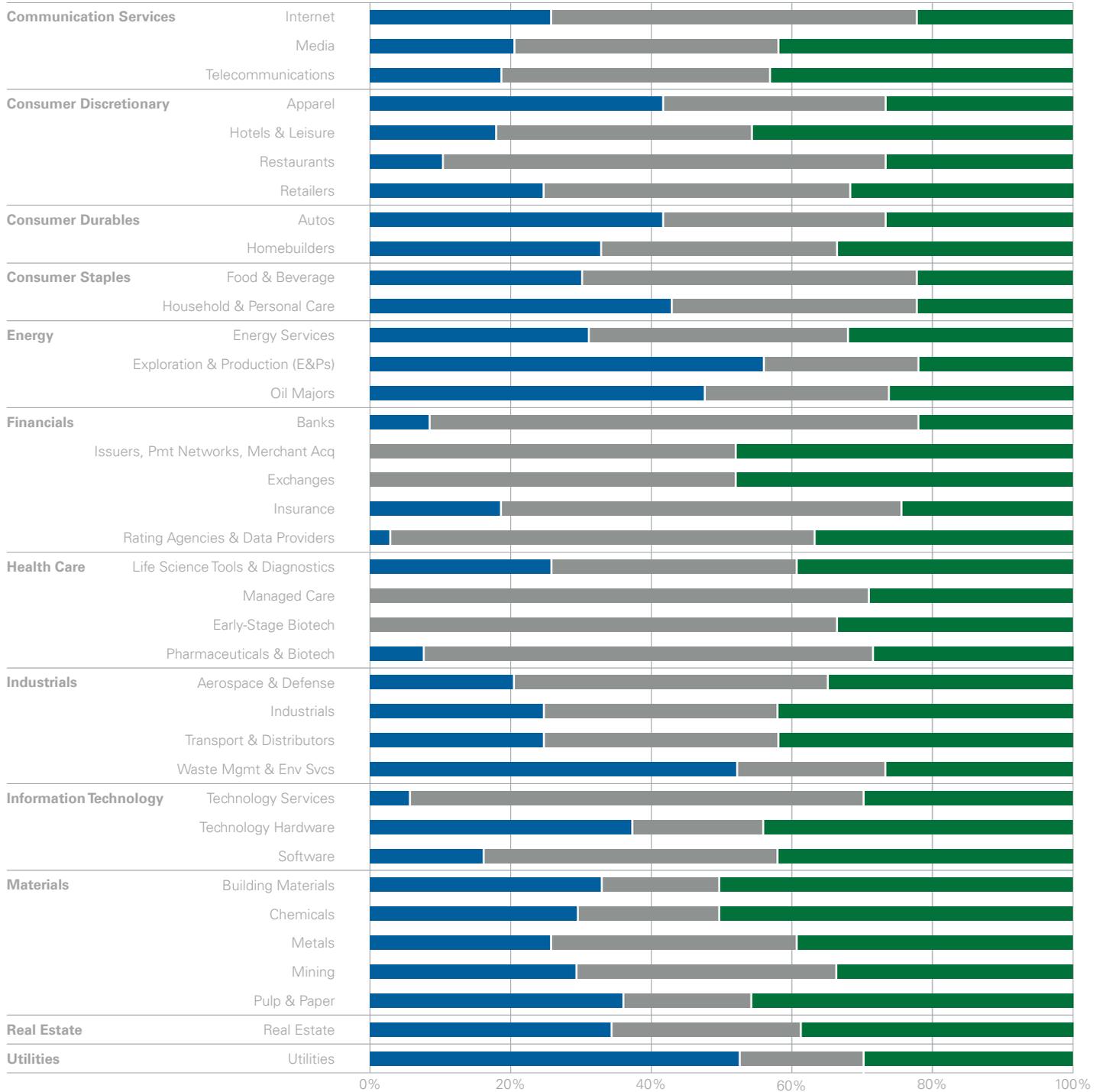


Exhibit 02
Asset-weighted ESG Ratings Distribution for ClearBridge Portfolio Companies

As of December 31, 2020.
Source: ClearBridge Investments.



ClearBridge ESG Framework



Environmental

01. Climate change, environmental regulation and compliance
02. Data center energy efficiency
03. Economic and policyholder impact from climate change
04. Energy efficiency
05. Environmental impacts of products and services
06. Fuel efficiency and optimization
07. Impact of e-commerce packaging and distribution
08. Innovations to reduce environmental impacts
09. Land reclamation and remediation
10. Renewable energy investments
11. Product life cycle management
12. Rideshare vehicle emissions
13. Stranded asset risk
14. Supply chain manufacturing efficiency
15. Sustainable raw material sourcing
16. Water management
17. Waste reduction and disposal

Governance

01. Anti-corruption management
02. Audit controls
03. Board effectiveness
04. Business ethics
05. Business transparency
06. Capital allocation practices
07. Executive compensation
08. Financial risk management and oversight
09. Geopolitical risk exposure and management
10. Government relations and regulatory compliance
11. Integrity and independence of financial credit ratings
12. Operating excellence (zero downtime/errors)
13. Quality and integrity of management
14. Regulatory compliance
15. Shareholder rights and controls
16. Systemic financial risk management, safeguarding customer funds

Social

01. Addressing unmet medical needs
02. Animal welfare
03. Community health of underserved population
04. Community investment and job creation
05. Community relations (cultural awareness, human rights and indigenous peoples)
06. Data privacy and security
07. Employee health and safety
08. Ethical sales and marketing practices
09. Facilitation of small business growth
10. Fair and justifiable pricing
11. Financial inclusion and fair market access
12. Health care affordability and access
13. Health impacts of products
14. Human capital management (recruitment and retention, diversity and inclusion)
15. Improving health care outcomes
16. Media and online content responsibility
17. Product quality and safety
18. Responsible lending practices
19. Supply chain labor management (human rights, health and safety)
20. Transparency for customers
21. Union relations

Anti-Greenwashing SFDR Rules Take Effect in Europe

Investors in Europe will soon see important changes in the way their asset managers provide sustainability-related information on their products and updated sustainability policies. This is the result of requirements emanating from the European Union's (EU) Sustainable Finance Disclosure Regulation (SFDR).

As background, in recent years, the demand for environmental, social and corporate governance (ESG) products from investors has grown quite rapidly with no signs of slowing down. However, the significant growth in investor demand and subsequent response from asset managers have created a crowded environment, which makes it harder for investors to assess ESG credentials of funds and the asset managers who create those products.

The regulation will require investment firms managing money in the EU to state if they are reviewing the environmental and social aspects of their investments. In particular, they are being asked to state they are considering the adverse sustainability impacts of their investment decisions.

In addition to disclosing information at the firm level, investment firms will also be required to disclose information on a product level about how their financial products are working to achieve desired sustainability outcomes. Products may be categorized as Article 6, 8 or 9:

Article 6: Integrate sustainability risks into advice or portfolio management investment decisions.

Article 8: Products which actively promote environmental or social characteristics.

Article 9: Products which have sustainable investment as their objective.

ClearBridge welcomes these standards as a way to enable asset managers to become more connected with clients, continue channeling capital toward a more sustainable economy and foster transparency and long-term thinking such as has driven ClearBridge's approach for over three decades. We appreciate the efforts of the European Commission to further clarify and define the different

approaches to ESG investing for clients throughout Europe. We expect the new system to help identify the level to which investment managers incorporate ESG into their investment process.

At ClearBridge, we have been meeting the majority of these requirements for many years through our emphasis on transparency and authenticity in our ESG integration. The majority of ClearBridge assets affected by the requirements will be categorized under Article 8 (products which actively promote environmental or social characteristics), as they integrate ESG considerations more robustly and with more of a focus on impact than Article 6, which merely considers sustainability risks, and they have the goal of long-term capital growth as their ultimate objective, unlike Article 9.

We view the SFDR requirements as a confirmation of ClearBridge's approach to ESG integration and active equity ownership and look forward to the growth of sustainability investing they will enable.

Partnering for Impact

Public equity ownership can be a powerful tool to influence companies and drive positive change. Engagements play an important role in this. 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.

We take a partnership approach toward driving change within corporations, focusing on the impact we can have during our conversations with leadership over long periods of time. Our high-conviction, concentrated approach to portfolio construction, coupled with our large asset base and ESG expertise, puts us in

a unique position. Impact can start small: asking the right questions, whether about gender equality, energy efficiency, better board governance 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.

2020 Impact Engagements

In some circumstances, 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.

ClearBridge Advises as Vistra Retires, Disrupts Coal Power

Sam Peters, CFA, Portfolio Manager,
Value Equity and All Cap Value Strategies

Reed Cassidy, CFA, Portfolio Analyst,
Value Equity and All Cap Value Strategies

Vistra is a merchant power company that operates in Texas, Pennsylvania, New Jersey, New York and the New England region. Vistra provides a good case study of a value play on the transition from coal to greener energy. Vistra operates primarily in the Texas power market, where solar and especially wind power generation have risen to a point that power prices often go negative during certain parts of the day. This dynamic, combined with cheap natural gas, is crushing legacy coal plants, which are stranded at the high end of the cost curve.

In our engagements with Vistra since 2019, we have been encouraging a faster retirement of legacy coal, especially as it is dilutive of EBITDA margins, which we believe Vistra's CEO understands. In a late 2019 engagement with the CEO, we discussed his plans to acquire existing alternative energy assets opportunistically, with the goal of also becoming a disruptor of legacy coal in power markets. Vistra was paying down debt to gain the financial flexibility to move aggressively and disrupt coal. Vistra



was also lobbying for a carbon tax that would further disadvantage coal assets and encourage investment in clean energy.

We spoke again with the company's Investor Relations team ahead of Vistra's analyst day in September 2020; Vistra solicited our thoughts on leverage, capital allocation and the shift to a renewable energy mix over time. We expressed our belief the company should consider more forcefully moving toward renewables, getting over the hurdle of optically low returns to do so, and consider a more holistic view given the potential disruption in extreme scenarios of renewables penetration of Vistra's legacy plants.

Later in September 2020, Vistra announced plans to further accelerate both retirements of coal power-producing facilities as well as investments in renewable energy across its footprint, including seven new projects in Texas totaling nearly 1000 megawatts of zero-carbon power. As a result of these actions, the company increased its targeted reduction in CO₂ emissions to 60% by 2030, up from 50% by 2030 in 2019, from a 2010

Exhibit 03
Vistra Scope 1 Emission Reductions

Source: Vista Energy 2020 Climate Report.

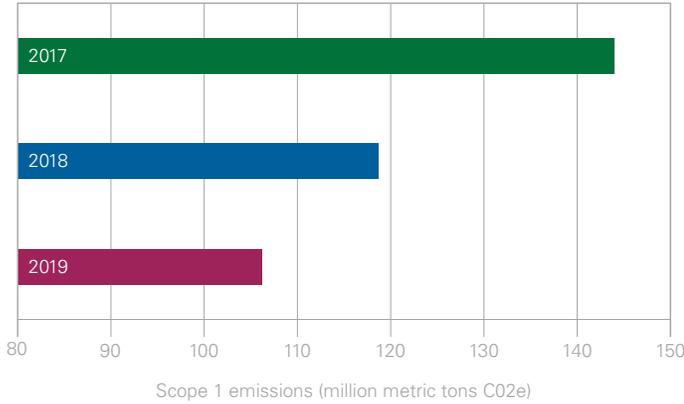
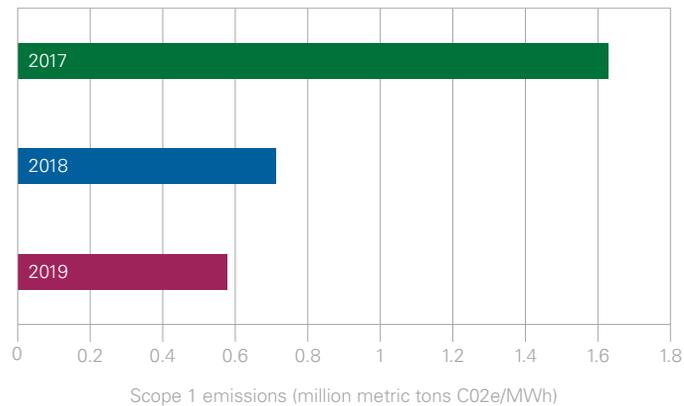


Exhibit 04
Vistra Emission Intensity Reductions

Source: Vista Energy 2020 Climate Report.



baseline. Retiring coal plants has had a powerful effect on emission reductions (Exhibits 03 and 04). Vistra also published its first climate report, which follows the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD).

In January 2021 Vistra brought the world’s largest utility-scale battery storage system online. The battery system captures excess electricity from the grid, largely during high solar-output hours, and can release the power when energy demand is at its highest and solar electricity is declining, usually early morning and late afternoon.

Vistra maintains a large presence in natural gas, using combined cycle gas turbine plants; this fleet, however, is comparatively clean and ClearBridge and Vistra agree with many energy experts that natural gas must remain an important bridge power generation option for many years even as the country increasingly moves toward renewable options.

ClearBridge is pleased our engagements with Vistra have helped it first reduce its capex in coal and now retire legacy coal and focus all growth capex on natural gas, retail power and increasingly on renewable generation.

We have therefore tempered our terminal value debate on Vistra, given its move toward renewables, which will be 18% of capacity in 2030, while zero greenhouse gas (GHG) options will be more than 25% of capacity. Natural gas will constitute most of the rest, but as technologies evolve, Vistra should be well-positioned to continue to transition its fleet to clean power generation over many years, particularly given the retail integration, which makes Vistra a logical and lower-risk developer.

ClearBridge Acknowledged as Early Voice for BlackRock's Increased Push for Disclosure

David Hochstim, CFA, Sector Analyst,
Financials

Sector ESG Factors

Corporate governance; compensation structure; lending practices; regulatory compliance; talent acquisition/retention; corporate responsibility

In November 2020 David Hochstim, CFA, met with Investor Relations at BlackRock, one of the world's largest asset managers, as part of the company's shareholder engagement program. During the meeting, we reviewed how BlackRock has integrated sustainability into its operations. In the past, we had discussed the importance of BlackRock getting recognition for the actions it has taken. With the increased frequency of reporting on its engagements, it has taken a significant step to do that.

Over several past engagements David had brought up BlackRock's opportunity as one of the world's largest asset managers to engage with and influence companies regarding sustainability. BlackRock made considerable progress on this front in 2020, updating its corporate engagement and voting guidelines, particularly related to climate and environmental guidelines. BlackRock now publishes quarterly bulletins detailing its voting (an increase from annual disclosures previously) and has increased its efforts to communicate the significant actions it takes in order to ensure that reports on its practices are accurate.

In our November call BlackRock noted that ClearBridge was a consistent voice, and an early one among institutional shareholders, encouraging it to do more to foster standardized sustainability disclosures by companies it invests in as well as to get credit for its actions.

We also discussed BlackRock's relatively large board of 18 (down from 19). The board believes it benefits from diversity of views and experience and works well despite its size. In terms of its operations, the board re-evaluates the lead director annually, which we view as adequate.

On the call we also discussed how human capital management is an important issue for management and the board and is a focus of BlackRock's engagements with companies it invests in. It believes boards, as fiduciaries, should be focused on human capital management. Building strong relationships with employees and customers is a critical component of long-term growth and sustainability.

BlackRock cited research showing that companies with strong sustainability ratings (including having diverse workforces) generate better returns for investors.

We are encouraged that BlackRock too is committed to racial equity and inclusion globally and intends to increase diversity among its senior leadership and overall workforce. Senior management incentive compensation has a 20% component for talent and diversity, which we view as a good practice.

Equileap has also noted BlackRock has made the most notable improvement toward gender equality in the S&P 500 this year, ranking 21st with a score of 60%. This jump in the ranking was due to an increase in transparency across all categories, including the representation of women in the workforce, a living wage commitment, as well as policies regarding parental leave, flexible work arrangements and anti-sexual harassment. The company also became a signatory to the United Nations Women's Empowerment Principles in June 2019.

ClearBridge Offers Initial ESG Investor Guidance to Monster Beverage

Robert Buesing, Jr., Sector Analyst,
Consumer Staples/Durables

Sector ESG Factors

Health impacts of products; supply chain practices; environmental efficiency of operations; clean vehicle technology; product safety; governance

ClearBridge is a top 20 owner of Monster Beverage, a marketer and distributor of carbonated and non-carbonated energy drinks, shakes and teas. Monster offers 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. In Monster's case, the company is a new holding for ClearBridge and is beginning its journey building sustainability practices.

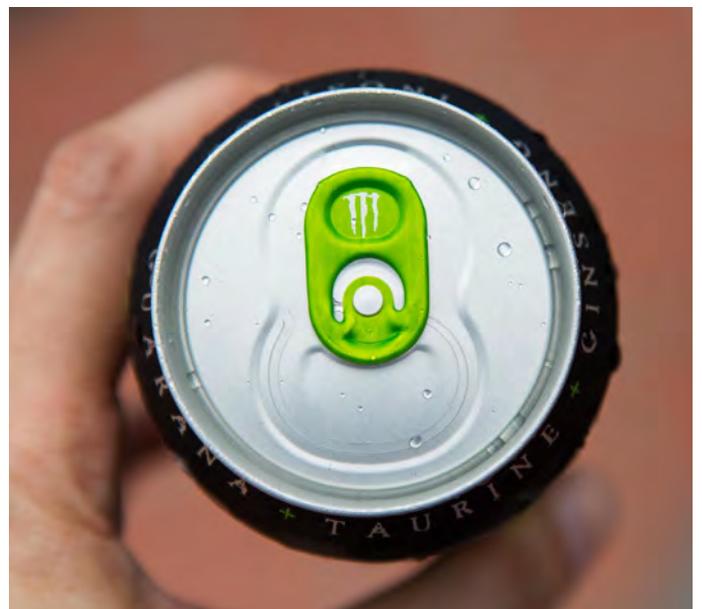
In an October 2020 call with Monster's Deputy General Counsel and an Investor Relations representative, Robert Buesing addressed a variety of sustainability topics. During the call, we discussed how to set priorities among ESG initiatives and Monster inquired about our previous engagements with its largest shareholder, Coca-Cola, an ESG leader. We discussed ideas on how to best leverage that relationship.

We were encouraged to learn Monster is planning to release a sustainability report in May 2021, has implemented a very intensive slave labor supplier policy and is working with Coca-Cola to determine environmental metrics to disclose in the sustainability report.

ClearBridge encouraged the company to also include data and disclosures on gender and underrepresented minority compensation and company representation in the report. Monster was receptive to the suggestion of including parental leave practices in the report and said it would bring the idea up with the board of directors.

On the environmental front, it has funded Leadership in Energy and Environmental Design (LEED) certification for its headquarters and is working to make all its offices more environmentally friendly.

While there are areas for the company to improve its ESG profile, we were encouraged by Monster's openness to engaging on them as well as its interest in taking concrete steps to help its sustainability practices develop in line with the company's strong growth.



ClearBridge Analyst and Portfolio Team Updates

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.

Advance Auto Parts

Engagement

Call with Advance Auto Parts CEO

Key ESG Issue(s)

Executive compensation, board diversity, diversity pay gaps

Next Steps

Understanding input new board will bring to medium-term goals on supply chain integration, incentive alignment, progress on diversity and inclusion



Advance Auto Parts

Neal Austria, Sector Analyst,
Consumer Discretionary

Sector ESG Factors

Labor management; product quality and safety; health and wellness trends; governance; raw material sourcing; supply chain practices; data privacy and security

ClearBridge is a top 10 owner of auto parts retailer Advance Auto Parts (AAP). Neal Austria hosted a December 2020 conference call with the company's CEO that focused on corporate governance practices. The bulk of the meeting covered executive compensation and whether there would be adjustments made to account for the COVID-19 pandemic. The company also answered our questions on gaps in the core competencies and diversity of its board of directors and how it filled those gaps. The addition of Carla Bailo, who brings experience from General Motors and Nissan with a focus on electric vehicles, filled the company's need for automotive expertise, while Arthur Valdez, a past executive at Amazon.com now leading supply chain at Target, provided the necessary supply chain perspective. The company said it is prioritizing the addition of an African-American to the board and working to improve its governance disclosures. Companywide, AAP has been examining the diversity pay gap for two years and acknowledged it still has a way to go. As part of this effort, AAP hired a new chief diversity officer with experience in store operations to help develop more specific and concrete strategies that store associates view as fair and continues to have regular internal discussions on pay parity.

Amgen

Nicholas Wu, PhD, Sector Analyst,
Health Care

Sector ESG Factors

Access to medicines; addressing unmet medical needs; governance (especially capital allocation and executive compensation); drug safety and efficacy; enabling research and products that improve health care outcomes

ClearBridge is a top 20 owner of Amgen, a leading biotechnology company developing treatments for infectious diseases, arthritis and inflammation, cancer and blood disorders. In November 2020 Nicholas Wu held a call with the CEO and CFO of Amgen in which he inquired about diversity and inclusion efforts at the company. Amgen shared its belief that diversity and inclusion is good business and the right thing to do. The CEO and CFO recognize Amgen is under-represented among African-Americans and the company is focusing on that population. Amgen also understands that clinical trial diversity needs to increase. It has incorporated this thinking into plans for capital allocation, plants and facilities and has funded industry groups to increase diversity especially among people of color; in addition, each member of the executive team is mentoring minority candidates.

Later in November, in a follow-up call with members of Amgen's legal and investor relations teams to discuss proxy and ESG issues, the company highlighted how it had met or exceeded 2020 ESG goals that were set in 2013 and is now in the process of establishing new goals for 2027, targeted to be disclosed in early 2021. On the social front, Amgen pointed out that overall family leave benefits are industry leading, even within biotech, which generally is generous. Improving diversity is a priority at all levels of the company, including its board of directors, and is an effort spearheaded by its corporate responsibility and finance committee. Amgen is 52% female and 35% minorities among U.S. employees. It has nine employee resource groups with 4,000 participants globally. Amgen will also disclose more detailed information on gender and racial diversity likely by the end of the first quarter of 2021.

Amgen

Engagement

Calls with Amgen CEO, CFO and legal and investor relations teams

Key ESG Issue(s)

Long-term ESG goals, gender and racial diversity, family leave

Next Steps

Disclose 2027 ESG goals, provide more information on gender and racial diversity and family leave, monitor improvements in diversity

“ Amgen shared its belief that diversity and inclusion is good business and the right thing to do.”

Aptiv

Engagement

Call with Aptiv General Counsel and VP of Investor Relations

Key ESG Issue(s)

Sustainability reporting and disclosure, employee safety and welfare during COVID-19, board policy and evaluation, compensation, D&I

Next Steps

Monitor improvement in disclosure, particularly around D&I practices and environmental impact of its clean vehicle technology

“We encouraged the company to consider highlighting its integral role in addressing climate issues.”

Aptiv

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

ClearBridge is a top 10 owner of Aptiv, a leading supplier of components for automotive connectivity and advanced vehicle functions. In November 2020 Jeffrey Bailin, CFA, led a conference call with the General Counsel and Vice President of Investor Relations for Aptiv. The company asked for the engagement following the recent publication of a new sustainability report and it covered a broad range of topics including employee safety and welfare during COVID-19, board of directors policy and evaluation, compensation, diversity/equity/inclusion, pay equity, disclosure and harassment. Given Aptiv’s strong internal environmental goals and its positioning to help others deliver on carbon emission reductions, environmental topics received less attention on the call. We encouraged the company to consider creative reporting in the future to highlight its integral role in addressing climate issues. In conjunction with the recently published sustainability report, Aptiv included a variety of long-term goals across product, people and planet with tangible quantification in some areas of diversity and inclusion (D&I) and environmental progress. The company has a balanced approach to appropriate disclosure which it believes is complicated by its significant labor force in less developed nations. On D&I, the company highlighted that a diverse board of directors is a top priority and it is receiving appropriate consideration in a current search. We raised D&I and particularly disclosure around topics such as pay equity, retention and promotion, paid leave and participation with newer disclosure providers as areas for development. We have encouraged consideration of incremental disclosure and benchmarking versus peers as it relates to the company’s progress toward sustainability goals.

Autodesk

Benedict Buckley, CFA, Portfolio Analyst,
Sustainability Leaders Strategy

ClearBridge is a top 10 owner of Autodesk, a design software and services company with customers in the architecture, engineering and construction, manufacturing and digital media and entertainment industries. In November 2020, Benedict Buckley, CFA, hosted two calls with Autodesk to discuss governance, diversity and inclusion, and environmental sustainability. Participants included senior team members from Autodesk's Investor Relations, Sustainability, and Total Rewards (Compensation) departments.

Autodesk's management team is very focused on diversity and has appointed a new diversity and inclusion leader. Autodesk's diversity disclosure is some of the most detailed we've seen from any company, with demographic breakdowns for the leadership team, tech workforce and non-tech workforce, as well as for hires in the past 12 months. It is making progress in diversifying its workforce—for example, a third of hires in Fiscal Year 2020 were female and/or minorities. Autodesk also updated its location strategy this year to open up to more diverse candidates. The company currently does not publicly disclose pay gap analysis, so we encouraged it to work toward this. Autodesk also took some proactive steps this year in response to COVID-19, expanding caregiver leave; setting up remote childcare learning leave; and putting in hardship leave for those who couldn't work due to childcare needs.

Autodesk achieved its target of 43% CO2 reduction from 2009 to 2020 and has a long-term target of 85% absolute emissions reductions by 2050. Its new short-term goal is carbon neutrality by 2021, which will include some carbon offsets. The company is also committed to RE100 (a global initiative to source 100% renewable electricity) for cloud. While we consider Autodesk a clear leader on environmental sustainability for its products and operations and we applaud its net-zero goal, we noted that we also look for greenhouse gas (GHG) emission goals without the use of offsets.

Autodesk

Engagement

Meeting with Autodesk Investor Relations, Head of Sustainability, and VP of Total Rewards

Key ESG Issue(s)

Diversity and inclusion, emissions reductions

Next Steps

Follow up on pay gap analysis disclosure and updated GHG emission goals



Comcast

Engagement

Video conference call with Comcast's General Counsel

Key ESG Issue(s)

Executive compensation, carbon emissions, diversity and inclusion, labor management

Next Steps

Monitor progress in increasing diversity, especially across senior management; the development of formal carbon emissions metrics and disclosures, and employee retention



Comcast

Erica Furfaro, Sector Analyst,
Media and Internet

Sector ESG Factors

Data privacy and security; content responsibility; governance (especially shareholder rights and capital allocation); social impacts of services; human capital management; diversity & inclusion; environmental impact of operating footprint

ClearBridge is a top 10 owner of Comcast, a global media company with two primary units (cable and NBCUniversal). In December 2020 Erica Furfaro led a virtual meeting with Comcast's General Counsel to discuss several ESG topics. One core positive from the discussion around governance is how Comcast responded to shareholder criticism of its above-market interest program for top executives and changed the terms. This was a point discussed with Comcast during the 2020 proxy season and has now been revised. On the environment, Comcast believes its recently acquired Sky division is a best-in-class operator and is trying to embed Sky practices at other business units. The company is still working through formal goals around carbon emissions and acknowledges the scope of this task is more complex than initially assumed. Regarding diversity and inclusion, its efforts are focused on retention, expanding the talent pool and having the right talent pipelines in place. The company also has aspirational goals for representation across seniority ranks, with a particular focus on continued upward mobility for women and minorities. Secular disruption in media is leading to layoffs at NBC but Comcast is working hard to retain people in other functions, if possible. To help employees through COVID-19, the company created a \$500 million support fund and enabled workplace flexibility in customer-facing roles.

Equinix

Deepon Nag, Sector Analyst,
Technology Hardware

Sector ESG Factors

Energy efficiency of products and services; data privacy and security; labor management; supply chain practices; governance; environmental efficiency of operations; product life cycle management

ClearBridge is a top 20 owner of Equinix, a global owner and operator of data centers that offer server capacity and network interconnectivity, primarily to hyperscale cloud providers and network service providers. In June 2020 Deepon Nag hosted a conference call with Equinix in which the company reiterated its long-term target of reaching 100% of all energy procured from renewable sources (ahead of peers) and noted that the carbon intensity of cloud workloads remains below that of on-premise workloads, meaning that continued growth in its business should be a net positive for the environment. Its leadership in renewables is becoming a more important consideration for customers when choosing a data center partner. Given the competitive nature of large-scale cloud deployments, we believe this will be a key advantage for Equinix and likely push the industry to make similar moves in terms of renewable energy sourcing. While very early in its efforts to increase diversity and inclusion, this area is a key management focus and the number one push from the company from a culture standpoint. Equinix added two women to its board of directors in 2020. On the governance side, the company recently changed its compensation metrics from EBITDA to revenues and adjusted funds from operations/share and we encouraged the company to include ESG targets in its compensation targets, especially on the management level.

Equinix

Engagement

Call with Equinix Heads of ESG and Investor Relations

Key ESG Issue(s)

Renewable energy targets, diversity and inclusion, compensation

Next Steps

Monitor efforts to work around informal networks to improve gender diversity efforts, better integrate ESG targets into compensation formulas

“Equinix’s leadership in renewables is becoming a more important consideration for customers when choosing a data center partner.”

First Republic Bank

Engagement

Meeting with Chief Administrative Office and HR Head and CMO of First Republic Bank

Key ESG Issue(s)

Racial equality and diversity

Next Steps

Monitor disclosure practices around diversity metrics and continue the dialogue on defining and implementing diversity and inclusion best practices

“First Republic also expressed its openness to external voices such as shareholders and best-in-class companies on how it could improve and become a more inclusive organization.”

First Republic Bank

Miguel del Gallego, CFA, Sector Analyst, Financials

Sector ESG Factors

Governance; customer privacy and data security; lending practices; transparency and fair advice to customers; financial inclusion and access; gender diversity

First Republic Bank is a large regional bank focused on high net worth clients that has some of the better disclosures regarding female and minority representation within financials. Additionally, the bank has a female president who is one of the top candidates to replace the current CEO and Chairman.

In June 2020 Miguel del Gallego, CFA, hosted a meeting between ClearBridge and First Republic Bank’s Chief Administrative Office and Human Resources Head and CMO to discuss racial equality and diversity at the bank. We discussed the good disclosures and many diversity practices already in place at First Republic, as well as how weeks of employee engagement had revealed potential areas of improvement that they had begun to actively address. These include enhancing the internship program to work with more diversity-focused partners, adding seven new nonprofits that foster racial equality, and expanding company matching programs for new and existing nonprofits. Employee engagement yielded feedback that employees felt ill-equipped to speak about racial equality and diversity; the company was therefore creating new diversity training programs in which employees would be trained in smaller groups in a workshop style to create a more meaningful experience. It was hoped this might arm employees, especially managers, with the tools to have engaging discussions with one another.

We also discussed how the bank’s diversity disclosures showed a drop-off in minority representation at the senior management and board levels. We learned titles may not fully represent advancement or compensation (e.g., top producers out-earn those with “management” titles in many instances) and were encouraged to learn that while the bank did not have the diversity data by compensation tiers, it was open to tracking and disclosing the data in the future.

First Republic also expressed its openness to external voices such as shareholders and best-in-class companies on how it could improve and become a more inclusive organization. The company was very receptive to ideas we shared, such as advancement programs that are specifically geared to minority employees, following the “Rooney Rule” to ensure at least one minority candidate is interviewed for each job opening/promotion and tying diversity initiatives with compensation. The company asked for contact information for companies that we deemed had best-in-class practices/disclosures.

Getlink

Simon Ong, Portfolio Analyst,
Infrastructure Strategies

ClearBridge is a top 10 owner of European transport company Getlink, which manages and operates the Channel Tunnel between England and France. ClearBridge has engaged regularly with the CEO and Investor Relations representatives of Getlink on the company's communications surrounding the business's carbon emission attributes and its disclosure of emission targets.

Getlink's Eurotunnel shuttle service moves trucks and passenger vehicles, while its rail lines move freight and passengers through the tunnel connecting England and the continent. These transport modes are much less carbon-intensive than alternative airlines and ferries, and so can play a meaningful role in the European Commission's goal of achieving climate neutrality by 2050. Transport accounts for a quarter of the EU's greenhouse gas emissions and the sector has set the objective of reducing its emissions by 90% by 2050. Getlink's ElecLink project, meanwhile, aims to install an electric cable through the tunnel to transport electricity between England and the continent with a meaningful renewable energy component. The company estimates the project will result in a reduction of 6.1 million tons of carbon emissions by 2030.

In October 2020 Simon Ong led an engagement with the Getlink CEO and CFO, both newly appointed. We reiterated our belief that an ESG investor day to communicate Getlink's green transport credentials would be positively received by the equity market and could even lead to increased usage of its lower-carbon rail services as shippers worked to lower their emissions. We encouraged a presentation model of communicating as more investor-useful than a large annual report. Getlink was receptive to the idea and shared that it had appointed a new Corporate Responsibility Director to conduct ESG studies with the intention of communicating its sustainability profile and goals more broadly.

Getlink

Engagement

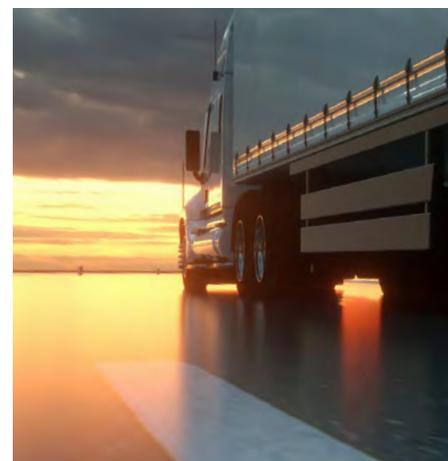
Meeting with Getlink CEO and CFO

Key ESG Issue(s)

Communicating Getlink's green transport credentials

Next Steps

Continue dialogue on value to investors of communicating sustainability profile via presentation



Inditex

Engagement

Call with Inditex investor relations

Key ESG Issue(s)

Sustainable manufacturing, inventory management, supply chain management, carbon emissions

Next Steps

Monitor environmental benefits of RFID and store consolidation strategies, store recycling initiatives, growth of sustainable product development

Inditex

Neal Austria, Sector Analyst,
Consumer Discretionary

Elisa Mazen, Portfolio Manager,
Head of International Growth

Sector ESG Factors

Labor management; product quality and safety; health and wellness trends; governance; raw material sourcing; supply chain practices; data privacy and security

Elisa Mazen and Neal Austria led a ClearBridge conference call with Inditex investor relations in September 2020. Inditex is a Spain-based global retailer of apparel, footwear and accessories through brands including Zara and Massimo Dutti. Although it has often been identified as a “fast fashion” retailer due to its quick turnaround in producing goods, the company does not see itself that way and criticized fast fashion as inherently wasteful from a sustainability perspective. Fast fashion’s large volume, long-lead-time production to achieve lower unit costs creates excess inventory, which contrasts with Inditex’s model of creating many small product runs, which is intended to achieve a balance between full price selling and low excess inventory. Inditex also manufactures products in proximity markets, which it believes leads to a higher and more sustainable standard compared to many apparel retailers who source from markets like Bangladesh, India and China. The company is actively addressing social and environmental challenges with its Join Life collection of garments: these must pass environmental and social qualifications and either use high recyclable content, use lower water in production or consume energy from renewable sources. These products now account for 25% of global sales. The company has accelerated its digital investments and will spend \$1 billion over the next three years to support digital sales while closing 1,200 stores. It will also complete the rollout of radio frequency identification (RFID) through all store concepts, giving it real-time product inventory. Inditex believes this combination of RFID and store consolidation will optimize truck routes and reduce fuel consumption. In seeking to cope with COVID-19, Inditex noted all suppliers have been paid on time, which is not necessarily the case for the rest of the industry.

Microsoft

Hilary Frisch, CFA, Sector Analyst,
Software

Sector ESG Factors

Data privacy and security; governance; labor management; products to address environmental and social issues; impacts of automation; environmental efficiency of operations

Hilary Frisch led an ESG update call with Microsoft in August 2020 that included the software maker and cloud services provider's Director of ESG Engagement and Stewardship, GM of Executive Compensation and Assistant General Counsel responsible for executive compensation. The meeting focused on Microsoft's initiatives to attract and retain a more diverse workforce and executive compensation. At the board level, Microsoft has achieved 58% racial and gender diversity, with five female directors and two nonwhite male directors out of 12. On diversity more broadly, the company for the first time last year issued its diversity report and inclusion index with employee counts broken out by gender and race. Moreover, Microsoft has committed to double down on the number of senior African-American leaders by 2025; announced a major new technical center in Atlanta with 4,000 new jobs and the formation of recruiting agreements with Georgia Tech and traditionally African-American colleges. Diversity and inclusion will become part of each employee review and the company has been identifying the criteria by which to measure these attributes. On executive compensation, Microsoft made two changes to this year's proposed CEO compensation after ISS and ClearBridge voted against CEO compensation proposals in 2019: 1) increasing the amount of performance-based compensation tied to formulaic financial metrics from 50% to 70%, reducing the comp tied to a more generic operational assessment; 2) measuring compensation on a rolling three-year period basis. Other topics reviewed included the company's commitment to a carbon-negative footprint and some of its initiatives around responsible use of emerging technologies such as artificial intelligence.

Microsoft

Engagement

Conference call with Microsoft

Key ESG Issue(s)

Diversity and inclusion, African-American talent development, executive compensation

Next Steps

Monitor evolution of compensation practices, roll out of diversity and inclusion initiatives, path toward negative carbon emissions and responsible use of AI

“Diversity and inclusion will become part of each employee review and the company has been identifying the criteria by which to measure these attributes.”

Nestlé

Engagement

Video conference with Nestlé

Key ESG Issue(s)

Gender equity, compensation metrics, plastics recycling and carbon emissions

Next Steps

Monitor company's ESG-based compensation metrics, progress in creating a market for recyclable packaging and reducing carbon emissions

“Nestlé defines its purpose as ‘unlocking the power of food to enhance quality of life for everyone, today and for generations to come.’”

Nestlé

Robert Buesing, Jr., Sector Analyst,
Consumer Staples/Durables

Sector ESG Factors

Health impacts of products; supply chain practices; environmental efficiency of operations; clean vehicle technology; product safety; governance

In November 2020, Robert Buesing participated in the Nestlé Chairman's Roundtable, a group video meeting with Nestlé Chairman and former CEO Paul Bulcke that covered board initiatives and recent ESG commitments at the world's largest packaged food company. The meeting focused on Nestlé's strategic imperatives, its overarching purpose as a company, and how it engages with its stakeholders. Nestlé defines its purpose as “unlocking the power of food to enhance quality of life for everyone, today and for generations to come.” The company highlighted several significant updates to its ESG commitments and practices including increasing gender equality such that 43% of Nestlé managers are now female, adding specific ESG metrics as a factor for annual executive bonuses and working to create a market for food grade recycled plastics. The company also outlined its 3.2 billion Swiss franc (CHF) commitment over the next five years to support carbon emissions reduction across the Nestlé supply chain, including a CHF1.2 billion investment to help farmers in Nestlé's supply chain implement regenerative agriculture practices, and moving Nestlé internal site operations to 100% renewable electricity by 2025.

Sempra Energy

Tatiana Eades, Sector Analyst,
Utilities

Sector ESG Factors

Climate legislation; regulatory requirements; asset mix: clean fuels; operational history; carbon profile; management quality; transparency

ClearBridge is a top 20 shareholder of utilities company Sempra Energy. During 2020, ClearBridge utilities analyst Tatiana Eades had several engagements with Sempra Energy's management team. Discussions focused on the long-term implications from the power shortages experienced throughout California in 2020. Some discussions concerned the future role of natural gas amid the state's stringent environmental regulations. Management's position has been that recent power shortages have highlighted the importance of natural gas to balance the renewable-dependent grid. While natural gas will remain an important supply of energy, the company has taken several initiatives to continue lowering the overall carbon footprint of its gas distribution network.

In June of 2020, ClearBridge held a conference call with the CEO of SoCalGas, a California utility and a subsidiary of Sempra, to discuss the economics of hydrogen and decarbonization programs more broadly. The discussion continued during ClearBridge's virtual meeting with the president and CFO of SDG&E, another California utility and subsidiary of Sempra, in September. Sempra recently announced a Hydrogen Blending Demonstration Program, a joint R&D project of these two California utilities. The project 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. Among important questions to answer during pilot hydrogen projects is the optimal level of hydrogen blending for avoiding corrosion or compromising the safety of gas distribution pipes (the industry's range is between 1% and 20%).

In addition to hydrogen, both utilities have directed capital toward renewable natural gas (RNG), fuel cells and carbon capture and storage. In 2019, SoCalGas set a goal to deliver 5% RNG sourced from organic waste to its utility customers by 2022 and 20% by 2030. Both utilities are seeking the regulatory approval of a program allowing their customers to purchase RNG as part of their natural gas service.

Given our discussions, we are encouraged by Sempra's efforts to increase the share of renewable energy in the grid and bolster grid resilience, coping with demand we believe will only increase as electric vehicle adoption accelerates.

Sempra Energy

Engagement

Meetings with CEO of Sempra Energy subsidiary SoCalGas and president/CFO of Sempra Energy subsidiary SDG&E

Key ESG Issue(s)

Decarbonizing the energy grid

Next Steps

Monitor efforts to increase the share of renewable energy in the grid while bolstering grid resilience



TE Connectivity

Engagement

Meeting with TE Connectivity
Investor Relations

Key ESG Issue(s)

Acceleration of sustainability efforts

Next Steps

Monitor further opportunities to
advance responsible sourcing practices



TE Connectivity

Dmitry Khaykin, Portfolio Manager,
Large Cap Value Strategy

Deepon Nag, Sector Analyst,
Technology Hardware

Sector ESG Factors

Energy efficiency of products and services; data privacy and security; labor management; supply chain practices; governance; environmental efficiency of operations; product life cycle management

ClearBridge is a top 10 shareholder of TE Connectivity (TEL), which makes connectors for a wide range of uses, including automobiles, data centers and medical devices. In July 2020 Dmitry Khaykin and Deepon Nag led a conference call with TEL's investor relations team to level set where TEL stands on various ESG issues. On the environmental front, TEL's products should help enable environmentally and socially friendly solutions like electric vehicles (EVs) (which should reduce reliance on fossil fuels) and "advanced driver assist systems/autonomous vehicles" (which should improve vehicular safety). The company has also reduced its energy use intensity by 30% and greenhouse gas intensity by 38% over the past decade. The manufacturing process for connectors is also very water intensive, but TEL has been able to reduce its water usage by 30% over the past decade as well. The company is best in class across all of these metrics.

On the social front, TEL's products enable technologies that improve personal safety. The company has been working to improve its commitment to responsible sourcing and to find alternatives to problematic materials such as cobalt for enablement of EVs, despite the fact that cobalt isn't a directly sourced material for TEL itself. The company does use gold extensively in its products, which can have negative environmental effects when mined, although TEL has committed to seeking more responsible mines for sourcing.

We are encouraged by TEL's commitment to advancing EVs as well as its efforts to reduce energy intensity in its operations and further support responsible sourcing, which we intend to discuss further in subsequent meetings.

Trane Technologies

Kimberly Gifford, CFA, Portfolio Analyst,
Sustainability Leaders Strategy

Trane Technologies manufactures products for residential and commercial HVAC and transport refrigeration that enable the reduction of energy demand and greenhouse gas emissions, the minimization waste of food and perishable goods, and the increased productivity of its customers.

In May 2020, portfolio analyst Kimberly Gifford hosted a business update call with Investor Relations at Trane and discussed the company's COVID-19 response. We learned how Trane took actions early on, investing significantly to ensure the health and safety of employees still working and those who would eventually return to work. It not only provided the essentials (PPE, active screening, staggered break times, increased cleaning measures); it also reconfigured almost every production line and invested in new equipment and machinery to ensure safe distance and allow for fewer employees on the manufacturing floor. This was at a significant cost to the company, and impacted near-term results, but was in line with our positive view of the company and its culture.

Trane's proactive support efforts also extended to customers in critical sectors. Trane provides and maintains indoor air quality through solutions such as its catalytic air cleaning systems, which remove pathogens from air streams, and negative pressurization systems to isolate infections. By ensuring proper air treatment, filtration, ventilation and decontamination, Trane helps keep patients and health care workers safe and more comfortable in very challenging situations.

Throughout the conversation, it was clear Trane management recognized the importance of its role in this crisis. We believe the company moved decisively at the beginning of the pandemic to protect employee health and safety and will continue to prioritize the overall well-being of its employees while using its technologies and expertise to help the customers it serves operate more safely and efficiently.

Trane Technologies

Engagement

Meeting with Investor Relations
at Trane Technologies

Key ESG Issue(s)

COVID-19 response

Next Steps

Follow up on company's commitment
to employee well-being and return to
normal production levels

“Trane provides and maintains indoor air quality through solutions such as its catalytic air cleaning systems, which remove pathogens from air streams, and negative pressurization systems to isolate infections.”

UnitedHealth

Engagement

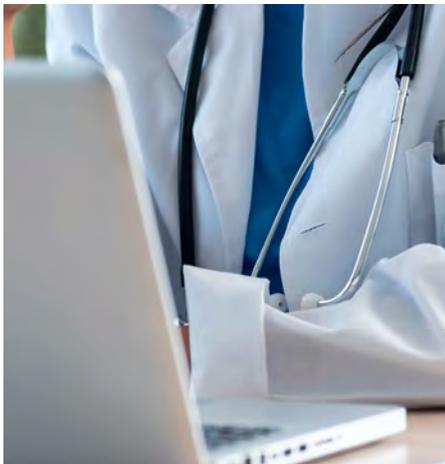
UnitedHealth CEO and CFO visit to ClearBridge's New York office

Key ESG Issue(s)

Reducing health care costs, telehealth services, rebates and pay-for-performance contracts

Next Steps

Monitor progress in telehealth initiatives, transition to value-based contracts with drug makers



UnitedHealth

Marshall Gordon, Sector Analyst,
Health Care

Sector ESG Factors

Access to medicines; addressing unmet medical needs; governance (especially capital allocation and executive compensation); drug safety and efficacy; quality of care and patient satisfaction; privacy and security of patient data

ClearBridge is a top 20 owner of UnitedHealth, the nation's largest managed care provider. In early 2020 Marshall Gordon hosted a meeting with the CEO and CFO of UnitedHealth at ClearBridge's office that addressed reducing health care costs, expanding in-home services and pay-for-performance contracts. UnitedHealth is very focused on lowering costs and making the health care system more efficient by moving services over time from higher to lower cost settings, out of hospitals and post-acute care facilities and into freestanding surgery centers, physician offices and homes.

With the onset of COVID-19, the company shared in a follow-up discussion how it responded by significantly ramping up telehealth capacity and utilization and noted that with patients unwilling or unable to leave their homes, there has been a material acceleration of the adoption of telehealth.

Additionally, UnitedHealth explained that a large majority of its health plan and pharmacy benefit manager books of business already pass through rebates to the point of sale in key therapeutic areas, like insulin. Rebates have been a significant topic of public policy debate and source of misaligned incentives in the health care system. UnitedHealth expects to enter into more value-based or "pay-for-performance" contracts with drug manufacturers, rather than push for higher rebates across the board. With significant cost savings from the deferral of noncritical medical care due to COVID-19, UnitedHealth has rebated premiums in some parts of its business.

United Parcel Service

Hannah Whang, Sector Analyst,
Industrials

Sector ESG Factors

Environmental impacts of products; labor management; governance; health and safety; environmental regulation and compliance; fuel efficiency and optimization

ClearBridge is a top 10 owner of United Parcel Service (UPS), the world's largest package delivery company and the leader in its core U.S. ground package delivery business. In January 2021 Hannah Whang led a call with a UPS Securities Counsel and the Vice President of Sustainability on several sustainability topics, including environmental sustainability. In particular, we encouraged UPS to work more proactively, creatively and meaningfully with customers to encourage package consolidation as the B2C trend has been net negative to the environment. We also requested that the company consider committing to CDP Science-Based Targets for a 1.5° Celsius world. We were aware UPS had set a 12% absolute emissions reduction goal in 2016, including global Scope 1 and Scope 2 emissions (though not including jet fuel as there was no viable pathway for aviation emission reductions) and were encouraged to learn recent emissions reductions were coming primarily from U.S. package operations. Emissions reductions were helped by UPS's Orion (On-Road Integrated Optimization and Navigation) system, which optimizes delivery routes to minimize distance, fuel and time. We were encouraged to learn of progress lowering emissions in U.S. operations and will continue the discussion on whether package consolidation could further these reductions.

United Parcel Service

Engagement

Call with UPS Securities Counsel and the Vice President of Sustainability

Key ESG Issue(s)

Environmental sustainability

Next Steps

Follow up on package consolidation solutions



“We were encouraged to learn of progress lowering emissions in U.S. operations and will continue the discussion on whether package consolidation could further these reductions.”

Engaging with Small Cap Companies: Everybody Benefits



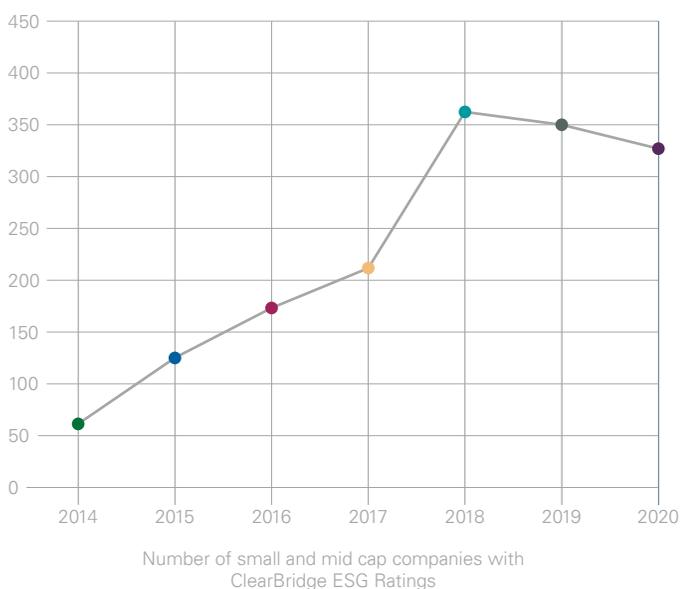
Erich Frey, CFA, Portfolio Analyst
Albert Grosman, Portfolio Manager
Brian Lund, CFA, Portfolio Manager

The benefits of ESG engagements with small cap companies run both ways. For ClearBridge, it's an important tool to inform our investment case, understand the risks in an investment and more fully grasp the opportunities that the company has. Maintaining an ESG rating on every company we own is a useful check on the questions we have asked ourselves about the company (Exhibit 05). It provides a barometer against which to measure progress the company has made the next time we speak with management and holds them accountable for past commitments. It's also healthy for the companies themselves, as it gives them a more fulsome view of investor concerns and issues that management may not realize exist at the company.

Exhibit 05 Expanding ClearBridge's ESG Coverage of Smaller Companies

As of December 31, 2020. Source: ClearBridge Investments.

Reflects ratings of actively covered companies; number will fluctuate with firm capacity.



It provides an opportunity to hear what other companies are doing or saying they will do to improve their decision making, corporate responsibility and returns on capital. These engagements are not a box to check. They are at the center of the corporate-investor relationship.

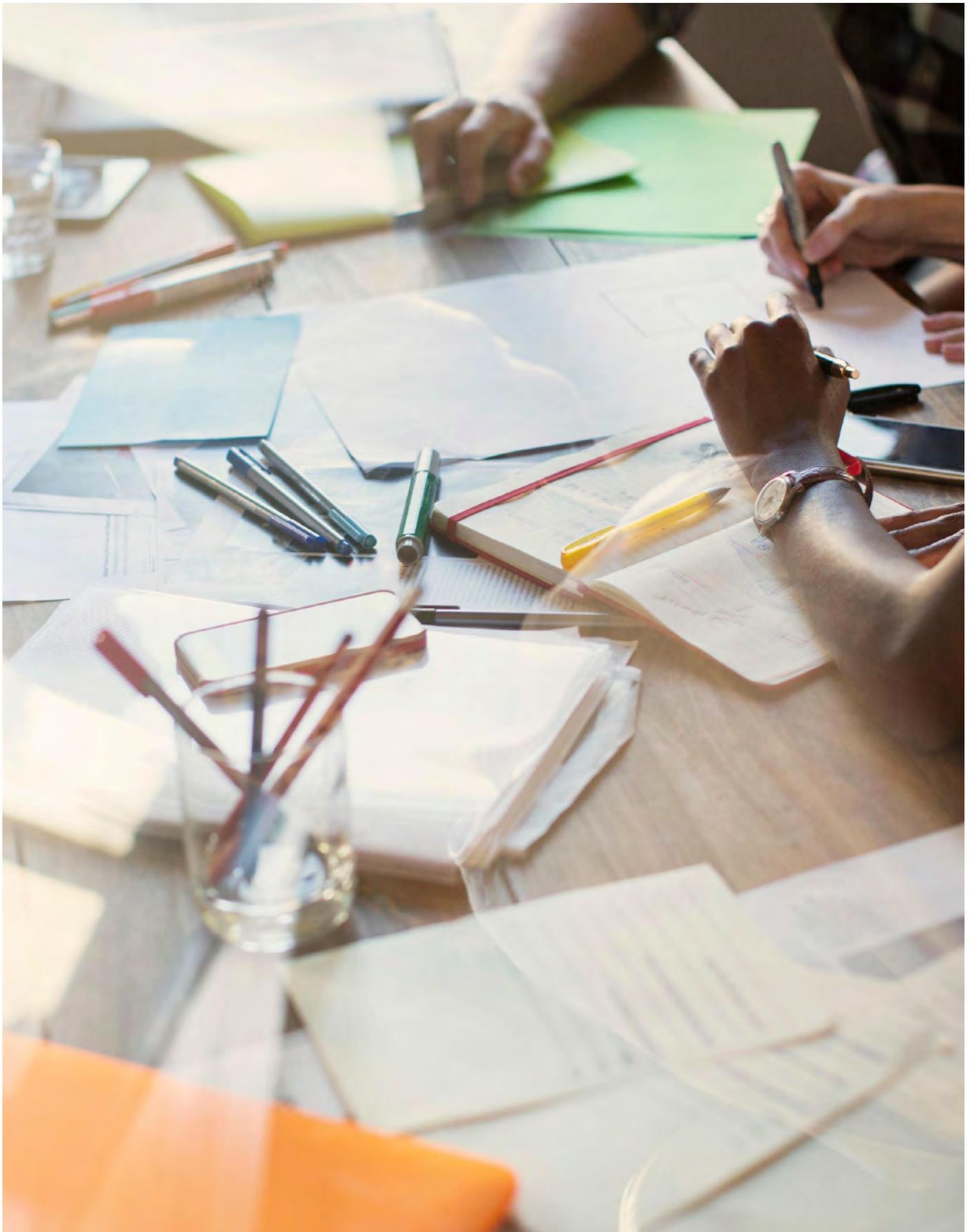
We believe that diversity across many vectors, including gender and race, among management and the board of directors is valuable for providing different perspectives for decision making. In 2020, we followed up with management of a long-term holding in the consumer sector, with whom we had spoken the previous year about diversity efforts. This company has devoted itself to ESG efforts and has made tremendous progress on environmental initiatives, ethical sourcing and social responsibility. It has a diverse workforce, but, as with many companies in its sector, that diversity is much more prevalent in the lower ranks of the organization, not in management. In this engagement we reviewed the prior year's discussion of the company's strategies to address this issue. The company had made progress on gender diversity, adding two women to its executive team, including the CFO, a position we had noted in our 2019 call was open and a great opportunity to increase diversity. There is still work to do, however. Men still constitute more than 75% of management and the board of directors, and both categories have no racial diversity at all. The company is keenly aware of these issues and has in place several initiatives to continue increasing diversity. We applaud the company's efforts and will continue to monitor progress toward a more inclusive and diverse workforce.

“It provides an opportunity to hear what other companies are doing or saying they will do to improve their decision making, corporate responsibility and returns on capital.”

Seeing progress on important ESG issues can increase our conviction in a company. In the past year we had an engagement with two directors and the General Counsel from a top 10 holding in the IT industry. The engagement covered the company’s recent progress on several ESG-related fronts. Specifically, the company had recently overhauled both its management team and board of directors. The new directors appeared qualified and increased the overall independence of the board and the diversity of its constituents. Additionally, the company was moving forward with a plan to declassify the board, which was a step very welcomed by ClearBridge. Beyond diversity at the board level, the company created a new executive position for a head of inclusion and diversity and is seeking to support incremental opportunities for minorities both within the organization and the IT industry at large. Finally, the company has made a conscious commitment to pursue sustainability and has pledged to reduce its carbon footprint. While most of these initiatives were already underway at the time of our engagement, we provided feedback and additional input that we believe was well-received. As a result, this engagement increased our confidence not only in this company fundamentally but also in its ESG journey. We are now a top 20 shareholder of this company, speak to management on a regular basis and look forward to future ESG engagements.

We spoke with many companies entering the public markets for the first time in 2020. One was a distribution company that has a history of acquiring product lines to add to its offerings for retailers. When a company is allocating significant capital to acquisitions, it’s important for us to understand the incentive structure built into compensation of senior executives. We asked about the metrics used in compensation formulas and found that they did not include returns on invested capital or a capital charge for acquisitions but only basic EBITDA and cash flow metrics, which are important measures but may incentivize using acquisitions to increase EBITDA and cash flow inorganically. Management noted they had significant personal stock holdings, so that shareholder value is important to them, and the company would soon have a new board. They committed to considering adding return on invested capital to compensation in some manner. We were comfortable with investing based on the current ownership structure, but we will watch for progress toward a governance structure that assures capital allocation accountability.

These are some of the ways we use an active engagement approach focusing on relevant and material ESG factors to make better investment decisions and give smaller companies valuable feedback that can further their success. We believe it is at the core of responsible asset management.



Incorporating Diversity and Inclusion in Investment Analysis



Kimberly Gifford, CFA, Portfolio Analyst

In ClearBridge's approach to integrated ESG and fundamental analysis of public equities, we focus our ESG analysis and engagements on what is material. Human capital management, and specifically diversity and inclusion, is material to every company in every sector. We begin by identifying and measuring what is material, then move to engaging and advocating for improvements. Yet within diversity and inclusion, there is a lack of disclosure, as well as a lack of comparability among disclosures. While some areas of diversity disclosure are still in the early stages, ClearBridge is benefiting from, and helping further, some groundbreaking research on gender equality data and is having meaningful engagements on all aspects of diversity and inclusion.

Propelling Progress on Data Gathering and Engagements

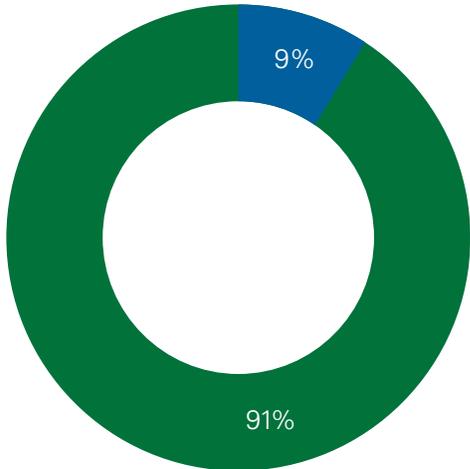
We tackle the lack of disclosure of diversity metrics by gathering publicly available data and engaging with our portfolio companies to start a dialogue on the topic. To help gather data on gender diversity, where disclosures still leave much to be desired (Exhibit 06), ClearBridge collaborates with Equileap, a nonprofit organization whose mission is to increase transparency of both gender diversity metrics and policies/programs in place for gender equality.

We started our relationship with Equileap in 2019 and were drawn to its mission to “close the equality gap in the workplace” with a data-driven approach. Equileap assesses over 3,500 companies globally on 19 criteria that include both qualitative and quantitative metrics. These include criteria such as gender balance, the gender pay gap, paid parental leave and anti-sexual-harassment policies.

While ClearBridge is a client of Equileap, we have also used our investment research experience to provide valuable feedback in developing some of Equileap’s tools we use. When analyzing companies, we look for detailed disclosure on representation, wages and pay gap, recruitment, retention and promotion for genders and races. High-level representation disclosure of the board of directors and C-suite is fairly easy to come by, but a company’s culture resides in the bulk of the workforce, so we look for metrics that reflect all levels of a company.

Exhibit 06 Gender Pay Gap Disclosures Remain Rare

As of December 31, 2020. Source: Equileap. Among S&P Companies.



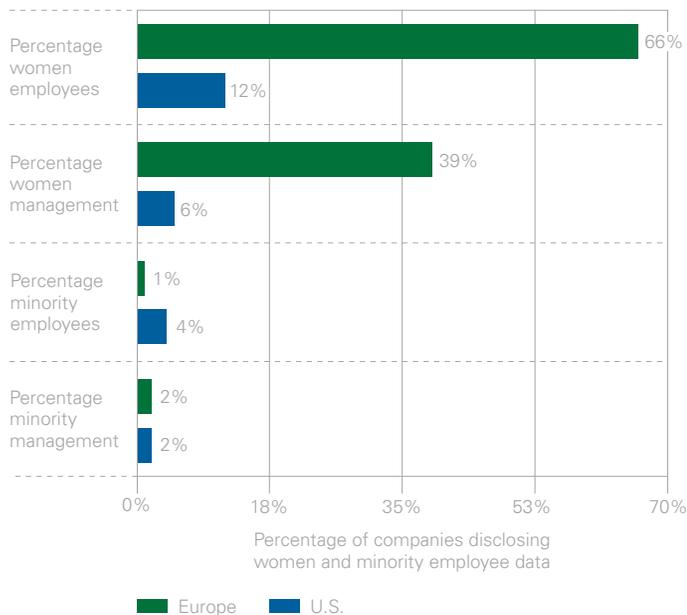
■ Companies publishing their gender pay gap
■ Companies not publishing their gender pay gap

“We are delighted to count ClearBridge amongst our clients. Active equity managers, like ClearBridge, can have a significant, long-term influence through their company engagements, in particular when it comes to gender equality.”

Diana van Maasdijk,
Co-founder & Chief Executive Officer, Equileap

**Exhibit 07
Racial Diversity Data Remains Sparse**

As of June 12, 2020. Source: J.P. Morgan, Bloomberg / Europe: BBG Europe 500 firms; USA: S&P 500 firms. Courtesy J.P. Morgan Chase & Co., J.P. Morgan’s ESG Wire, Copyright 2020.



Reflective of ClearBridge’s partnership approach to active ownership, in which we seek to foster best practices that will help companies succeed over the long term, we are also interested in companies’ policies and practices for creating a diverse and inclusive culture. These might include policies for nurturing talent, increasing the likelihood that women will see career progression. Ideally, successful policies and practices will be reflected in representation data. If they are not, we can initiate a conversation about whether the right policies and practices are in place and if they are being effectively implemented.

Finally, we look for goals in place so companies can demonstrate improvement over time. In short, we can’t measure what we can’t see — and companies are less likely to improve on what they don’t measure.

We have been pleased to work with Equileap to develop tools that help us measure these data. Equileap has equipped us with more information to assess companies’ diversity and inclusion efforts, and more importantly, to begin robust dialogues with our portfolio companies about their policies and practices.

While information helps us start the conversation, dialogues with companies are critical in our effort to look beyond the metrics. Qualitative information is often much more difficult to assess from data; that’s when our engagements with companies really drive value in understanding company culture and inclusiveness.

Racial Diversity Efforts, Short on Data, Rely on Shared Best Practices

Given there is currently very little disclosure by most companies on racial diversity, to identify innovative practices our analysts have been reaching out to engage with companies in our coverage that we consider best-in-class in sustainability to see how they are thinking of diversity as a key component of a strong human capital pipeline.

Our approach has focused on gathering information to achieve three main goals: 1) spurring managements to think about racial diversity; 2) motivating companies to track diversity by candidly assessing their company’s workforce profile and be transparent about it externally; and 3) sharing insights, such as the value of informal networks within a company, in which mentorships or other internal structures increase visibility, experience and opportunity for minority groups.

We ask about racial and gender representation among the board of directors, management team, and the layers of the company further down, as well as about current diversity policies. But overall disclosure of racial data remains a challenge, especially in the U.S., with only 4.4% of companies in the S&P 500 reporting racial diversity data (Exhibit 07).

Recruitment and pay equity practices are key parts of human capital management and a frequent topic of discussion with our portfolio companies. During engagements with Intel we have discussed its establishment of the “Rooney Rule,” where hiring managers are required to interview at least one person of color for a position, as a way to get talented people in front of managers that may otherwise have been overlooked due to discrimination. The company noted this was a way of trying to bypass more subjective (and thus potentially discriminatory) promotion decisions and increase accountability of managers that repeatedly overlooked qualified minority employees.

Intel has also created a hotline that allows employees to call with questions or concerns about their immediate managers or to get help with career choices/decisions. Internal data showed people that used the hotline had lower churn than employees that didn’t as it provided them a way to discuss more passive forms of discrimination from their immediate managers and also provided a more centralized form of mentorship. The company noted one of the issues with career advancement is that underrepresented minorities tend to have fewer informal mentorship opportunities and networks than others.

Intel also tracks cohort data to ensure that underrepresented minorities continue to progress through the organization. Some companies explain lack of diversity in management by pointing to early stage efforts and noting the time it takes for efforts to become effective. While better entry-level hiring decisions may increase diversity representation at certain levels of the company, the data show us that career progression for people in underrepresented groups tends to be more limited. By tracking and providing cohort data in real time, the company is able to monitor its progress along the way — rather than relying on an indefinite point in the future to assess outcomes.

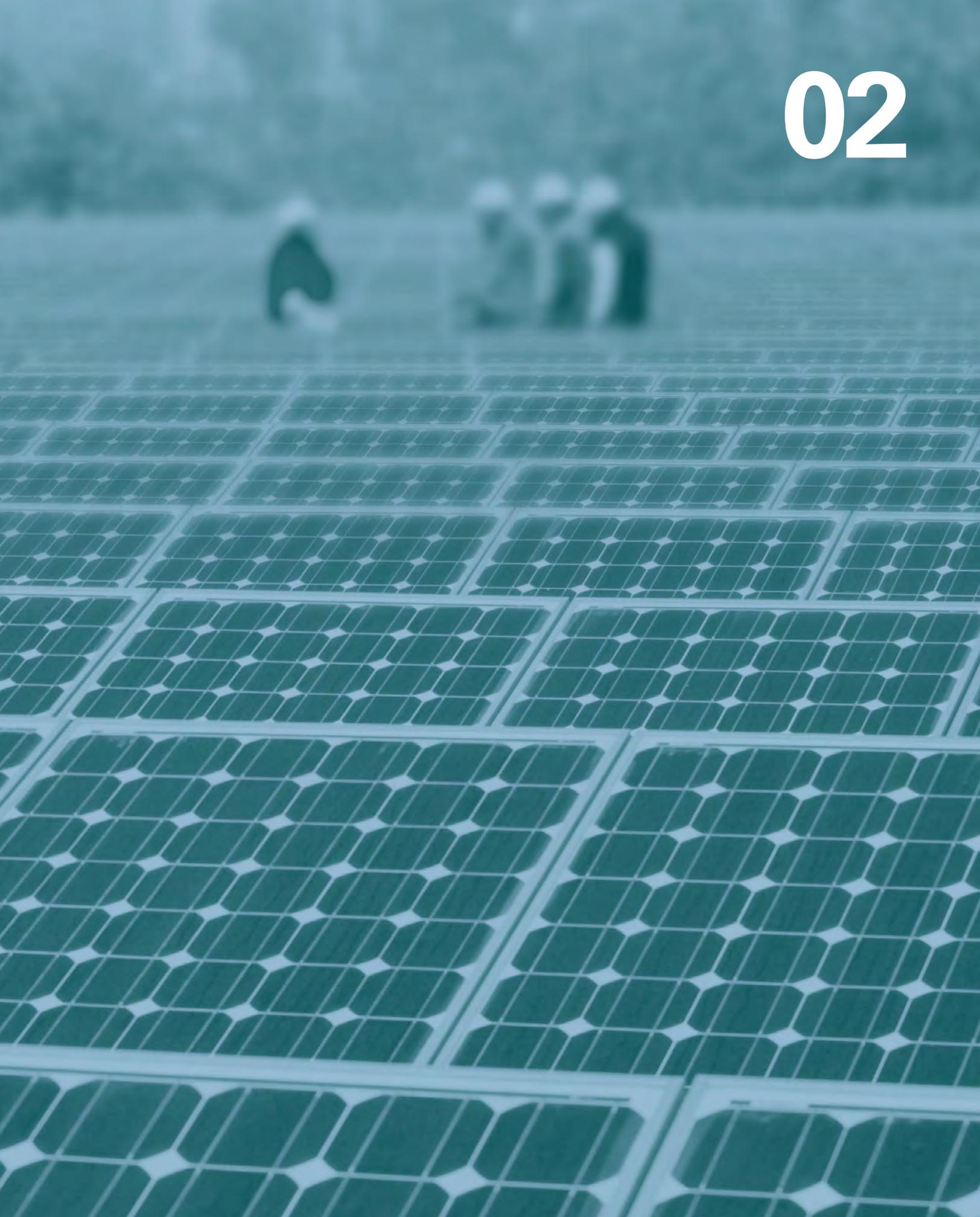
Listening and Learning Is Key on All Sides

We generally enter conversations with companies aware of what information the company publicly discloses and what information we would encourage it to disclose. We also view engagements as a learning and listening exercise, in line with our partnership approach to active ownership. We want to hear about how the companies address diversity and inclusion in their own words. We have heard a wide range of responses in these meetings: some companies admit to not spending time or effort thinking about their diversity policies and practices; others have multiple team members devoted to these efforts. Smaller, newer companies have told us they don’t have the same infrastructure and resources to allocate to diversity and inclusion best practices that more mature and well-funded companies do but are keen on taking unique approaches that fit their unique circumstances.

While every company will have a different workforce, we consider every conversation that leads to disclosure accountability to be constructive and are encouraged by the significant growth and attention this topic is garnering. The number of companies making a concerted effort to increase data disclosure and set public goals for inclusive policies is growing and we will continue to push for transparency and improvement in workplace equality. Our efforts are motivated by our belief that a diverse workforce from entry level to boardroom not only improves the culture and brand equity of the company but is also better for the bottom line.



Climate Change and the Role of Active Investors



Investing in a Decarbonizing Economy: A TCFD-Aligned Approach



Benedict Buckley, CFA, Portfolio Analyst

COVID-19 changed the world dramatically in 2020 and the focus is rightly on tackling the virus and reopening economies around the world. At the same time, many policymakers have made the connection between the pandemic and climate change as two types of systemic risks to global society. In this way the pandemic has drawn attention to climate policy, with governments approving nearly \$1 trillion in stimulus funding (as of January 2021) aimed at cutting greenhouse gas emissions or aiding climate adaptation.¹

At the same time, 2020 marked the five-year anniversary of the Paris Climate Agreement, where nearly 200 countries set a goal to limit global warming to well below 2° Celsius, preferably to 1.5° Celsius, compared to pre-industrial levels.

In 2020 many countries ratcheted up their climate ambitions under the Paris Agreement, and now more than 110 countries, accounting for more than 70% of global GDP, have pledged to reach net-zero carbon emissions by mid-century (mostly by 2050, although China is targeting carbon neutrality by 2060).²

Meanwhile, innovation in the decarbonization economy — technologies like solar, wind, batteries, green hydrogen, electric vehicles and carbon capture — continues at a rapid pace, disrupting multiple industries and bringing a raft of new companies into the public markets.

As an investor in public equities, and an active supporter of the Paris Agreement, ClearBridge has an important role to play in mitigating the effects of climate change. We do this in two overlapping ways:

01. **Stewardship:** By integrating climate change into our investment analysis to help us understand how the impacts of climate change — physical, technological, social and political — will affect society, the economy and the companies we hold in our portfolios.
02. **Impact:** By engaging companies in our portfolios to support and accelerate their decarbonization efforts.

In this year's Impact Report, we are — for the third year — aligning our climate change reporting with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) where possible and most relevant. Through our TCFD-aligned reporting we are indicating our commitment to addressing the challenge of climate change in our roles as active shareholders and stewards of our clients' capital.

The mission of the TCFD is to develop voluntary, consistent climate-related financial risk disclosures that would be useful to financial sector organizations such as investors, lenders and insurance underwriters in understanding material climate-related risks. The TCFD encourages companies and organizations in the financial sector to disclose information that helps market participants incorporate climate-related risks and opportunities into valuation over time, preventing abrupt repricing of assets that could represent a risk to financial stability.

To this end, the TCFD recommends that companies and financial-sector organizations disclose various types of climate-related information across four topics. The TCFD's recommendations are addressed to eight types of organizations, one of which is asset managers like ClearBridge.

¹ COVID-19 Green Policy Tracker 9, Victoria Cuming, Bloomberg New Energy Finance, January 21, 2021

² <https://www.mckinsey.com/business-functions/sustainability/our-insights/america-2021-renewing-the-nationscommitment-to-climate-action>

Governance

- a. Describe the board's oversight of climate-related risks and opportunities.
- b. Describe management's role in assessing and managing climate-related risks and opportunities

ClearBridge co-Chief Investment Officers, Scott Glasser and Hersh Cohen, oversee the firm's investment team. They have oversight over all investment-related matters, including any climate-related issues. In addition, Director of Research Charles Harris manages ClearBridge's sector analysts and oversees their research activities, which include assessing risks and opportunities associated with climate change.

ClearBridge has a fully integrated ESG investment process — our analysts and portfolio managers conduct research on environmental, social and governance issues as part of their fundamental research. This analysis is underpinned by ClearBridge's own proprietary ESG framework, which includes numerous sector-specific climate issues. The quality of analysts' ESG integration work is included in their incentive compensation.

Strategy

- a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.
- b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. Supplemental Guidance for Asset Managers: Describe how climate-related risks and opportunities are factored into relevant products or investment strategies.
- c. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

As an asset manager investing in public equities, our main source of climate-related risk and opportunity relates to investment performance. Climate change is both an investment risk and opportunity, as actions to mitigate and adapt to climate change will disrupt many sectors, creating both winners and losers in the process.

Second, a shift in client preferences presents both a risk and opportunity. Greater focus on climate change could cause more asset owners (both individuals and institutions) to consider how their investment decisions impact this issue and seek out investment managers who are actively incorporating climate change considerations into their investment approach and engagement strategies.

We believe ClearBridge is well-positioned to address risks and opportunities related to both investment performance and client preferences. As active managers who integrate ESG considerations across all strategies, we closely monitor the financial markets and environmental trends and incorporate this knowledge into stock selection and company engagement. This in-depth understanding of climate change risks and opportunities positions us well to respond to client demand.

Here we provide further detail on our approach to analyzing climate risks and opportunities in the way we invest, including how we use scenario analysis to inform investment decisions in sectors most affected by climate change.

Risk Management

- a. Describe the organization's processes for identifying and assessing climate-related risks. Supplemental Guidance for Asset Managers: Describe, where appropriate, engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks.
- b. Describe the organization's processes for managing climate-related risks. Supplemental Guidance for Asset Managers: Describe how they manage material climate-related risks for each product or investment strategy.
- c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

ClearBridge's investment strategies are underpinned by investment research that integrates ESG considerations, including climate-related risks, into stock analysis and recommendations, as described throughout this report.

Climate Risks: Transition Risk and Physical Risk

Changing market conditions and policies to transition toward a lower-carbon economy are likely to affect business models, competitive dynamics, technology developments and capital allocation decisions in many industries. These risks can be grouped together under the name "transition risks" and are distinct from the physical risks of climate change. Physical risks include 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.

Sector-Specific Analysis of Risks and Opportunities Presented by Climate Change

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.

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; 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 incorporate internally generated sector- and company-specific scenario analysis where relevant and decision-useful. We have found economy-wide climate scenario analysis tools to be of limited use in our investment decision making so far. While climate risk analysis is not easily captured in a single analytical tool, the concept is very important: companies and investors need to better understand the implications of different paths toward a low-carbon economy.

We plan to continue incorporating scenario analysis into our fundamental research and conducting climate-related investment research. Two examples from the past year are:

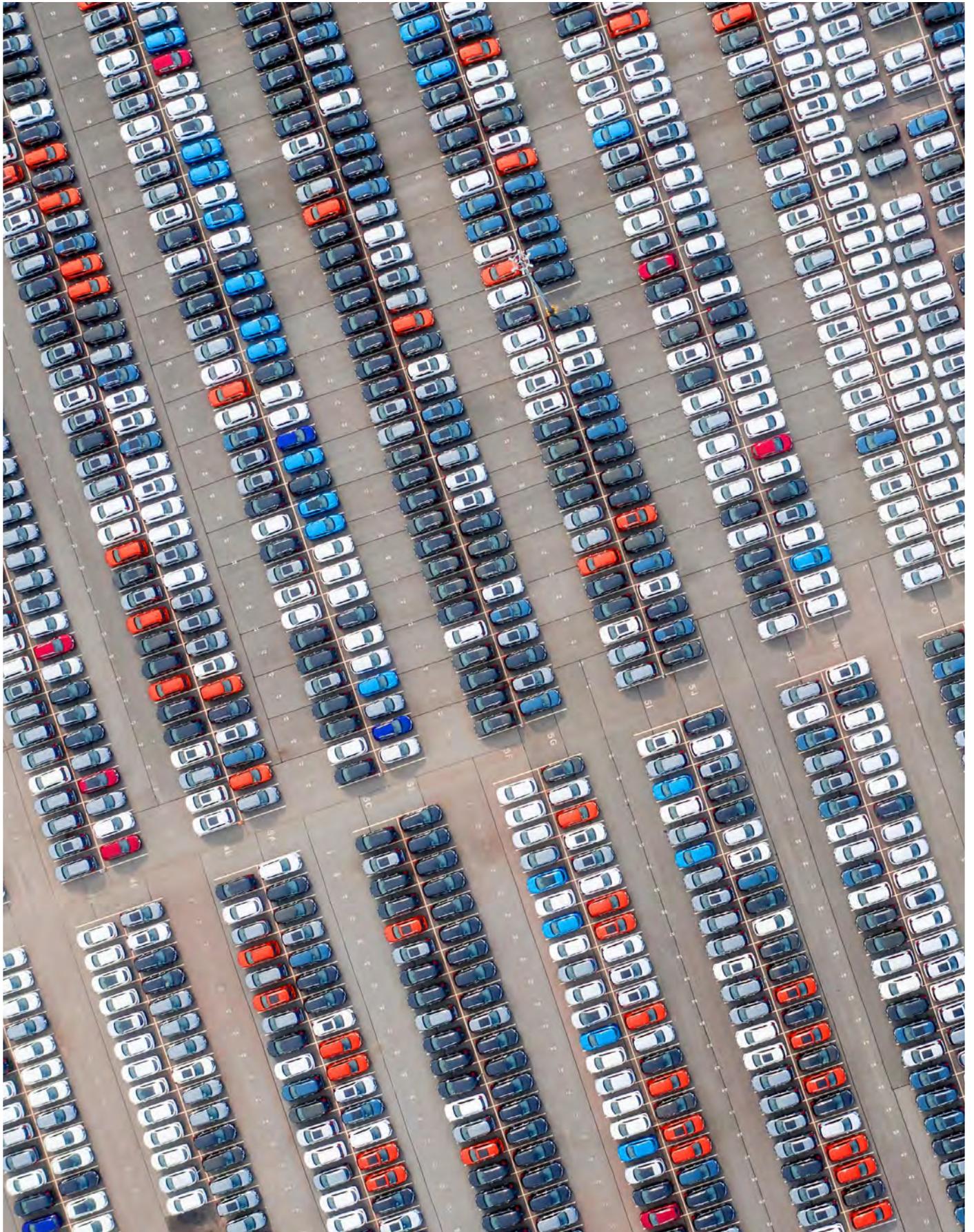
- ClearBridge Energy Analyst Dimitry Dayen, CFA, conducted a wide-ranging review of climate change and its implications for investors. This was a collaborative project conducted with input from multiple analysts at the firm, as well as a discussion with a prominent climate scientist from Columbia University Earth Institute on carbon budgets and climate scenarios. The project culminated in a presentation to the entire ClearBridge investment team and generated extensive internal discussion.
- Dimitry Dayen also conducted a thorough review of hydrogen and battery innovation, featured in this report. These technologies are potential enablers of decarbonization in the heavy transport industry, which would have wide-ranging implications across sectors.

Our Approach to Engagement

We are committed to engaging companies on climate change issues. We advocate in meetings with management teams to advance issues such as carbon emissions disclosure, setting emissions reduction goals, increasing use of clean energy, improving supply chain efficiency, using climate scenario analysis and generally encouraging companies to think longer term. We recognize the challenges in developing meaningful, decision-useful scenarios, and have seen a range of quality of scenario analyses.

Engagement Examples

Please see relevant engagement examples throughout this report for more detail on climate-related engagement. We also engage companies through broader initiatives with other investors and stakeholders, such as Climate Action 100+, CDP (formerly known as Carbon Disclosure Project), Ceres' Investor Network on Climate Risk (INCR), Principles for Responsible Investment (PRI) and the US Sustainable and Responsible Investment Forum (US SIF).



Understanding Technology Innovation Key to Auto Industry Analysis



Robert Buesing, Jr., Consumer Staples Analyst

Autos are undergoing a time of rapid change, and clean technology investments are a major focus. General Motors, for example, has announced a bold plan to phase out gas and diesel vehicles entirely by 2035. It also said it will power its U.S. plants with 100% renewable energy by 2030 and global sites by 2035, five years earlier than previously announced. It hopes these goals will help it become carbon neutral by 2045.

In analyzing automotive companies, we integrate the climate regulatory frameworks around the world, which can have a significant impact on auto company fundamentals and the direction of their new product investments. The governor of California, for example, recently issued an executive order requiring sales of all new passenger vehicles to be zero-emission by 2035. Another example of this is the stringent EU CO₂ emissions standards going into effect in 2020–2021, which will require automakers selling vehicles in Europe to reduce their fleet average emissions to around 95 CO₂ g/km or face hefty fines. This creates cost headwinds for automakers as they seek to meet targets by improving emissions technology and changing the mix of cars they sell (more electric vehicles (EVs) and hybrids) as well as opportunities for automakers who are better positioned or suppliers who can provide technological solutions to improve emissions.

Additionally, where it makes sense, we use a longer-term scenario analysis framework around technological adoption, such as sensitizing the penetration of the EV powertrain in the global auto market and various market share scenarios for certain automakers to attempt to quantify their long-term earnings potential under various possible future states of the world.

Oil and Gas Industry Must Weigh Stranded Asset Risk



Dimitry Dayen, CFA, Energy Analyst

Within the oil and gas industry, focus has been on climate-related transition risks for upstream companies with fossil fuel reserves, where future energy transition scenarios and fossil fuel demand scenarios could result in some fossil fuel reserves becoming uneconomic (stranded assets).

The specifics of each company's assets will determine the level of stranded asset risk — if any — as not all oil and gas resources are created equal. New oil sands developments need oil prices in the \$90–\$100 per barrel (bbl) range, while Saudi Arabian oil is still economically viable at \$8/bbl. Shale has a wide spectrum between \$25/bbl and \$70/bbl.

We focus our investments on companies at the low end of the cost curve, that is, where fossil fuel reserves are lower cost and more economically viable at lower oil prices. Our view is there should be a shift in share over time, away from resources at the higher end of the cost curve, toward resources at the lower end of the curve, which earn higher returns for any given commodity price. A higher equity risk premium is also placed on assets at the higher end of the cost curve.

Some oil and gas companies have started to lay out resource resilience scenarios to help investors understand the impact on their asset portfolios in an energy transition scenario. This analysis tends to be based on the International Energy Agency's Sustainable Development Scenario, which limits the rise of the average global temperature to well below 2° Celsius above pre-industrial levels, consistent with the Paris Agreement. However, disclosure of assets' positions on the cost curve is neither widespread nor uniform from one company to the next, limiting the comparability of reports from company to company. This highlights the need for fundamental analysis that incorporates ESG considerations such as stranded asset risk.

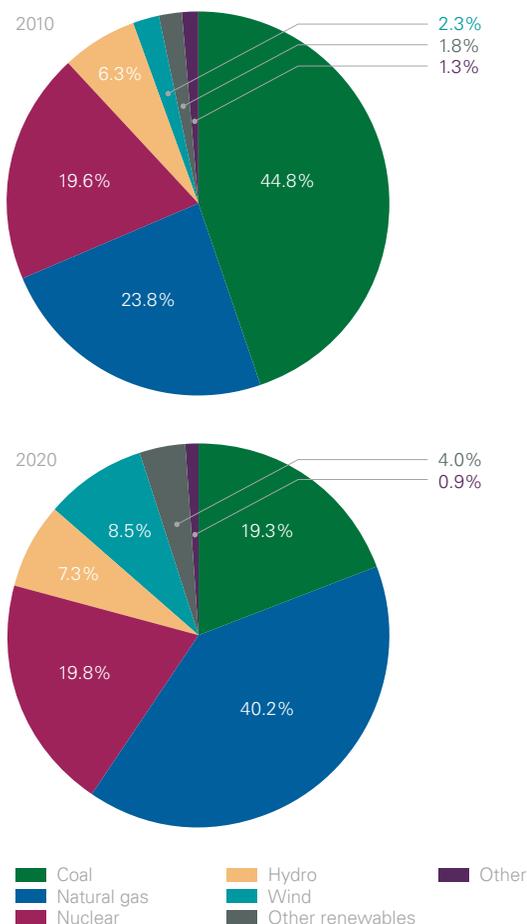
Utilities Becoming an Active Participant in Fight Against Carbon



Tatiana Eades, Utilities Analyst

Exhibit 08 Coal Being Replaced by Natural Gas and Renewables in U.S. Energy Mix

Source: U.S. Department of Energy, Energy Information Administration, Edison Electric Institute.



Given the industry’s high carbon intensity profile (measured in tons of CO₂e per \$1 million of revenue), and the companies’ monopolistic nature in their service territories, utilities are often negatively perceived by environmental advocates. While production of electricity is very energy-intensive and most utilities still burn fossil fuels to supply customers with power, the sector has gradually become an active participant in the fight against carbon.

Over the past 10 years, utilities’ mix of power-generating facilities has undergone significant changes. According to the U.S. Department of Energy, the share of coal in the mix declined from 45% in 2010 to 19% in 2020, with natural gas and renewables taking away its market share. Natural gas expanded from 24% share in 2010 to 40% in 2020, while renewables’ share expanded from 4% in 2010 to 13% in 2020 (Exhibit 08).

Some of this asset transformation was driven by federal environmental regulations pushing the cost of operating coal higher, while shale gas permanently reduced the price of natural gas, making gas plants’ economics more attractive relative to coal. The growth of renewable power producing capacity was initially driven by a policy push with many states establishing their own Renewable Portfolio Standards (RPS).

More recently, with a bigger focus on carbon emissions and climate change, utilities have undertaken a more active approach to managing their generation fleets beyond state requirements. As a result of the industry’s fleet transformation and more active approach to carbon reduction, last year’s carbon emissions were 33% lower than in 2005, according to Edison Electric Institute (EEI).

Today, a growing number of utilities see themselves as policy enablers, given their large scale of operations, access to cheaper capital and monopolistic characteristics. Many utilities have turned their attention and investments into demand-side management, efficiency improvements of extant systems, expansion of battery storage capacity to enable more efficient power supply and a buildout of electric vehicle infrastructure. Many companies have allocated money to growth in renewable capacity beyond state requirements. Collectively, EEI's member companies are on a path to reduce carbon emissions at least 80% by 2050, compared with 2005 levels.

From an investor's perspective, the industry's investment in climate risk mitigations is a positive undertaking. Since utilities earn their allowed returns on their regulated asset base and new spending enlarges that asset base, incremental investments should increase the companies' earnings growth trajectories. The limiting factor for the companies will be inflationary pressures on customer bills. Companies typically target bill increases in line with inflation to avoid any regulatory backlash. So far, replacement of older generation capacity with renewable assets that have lower operation and maintenance costs and zero fuel costs has been helping the overall cost structure of the companies. Thus, we see climate change more as an opportunity for the sector that not only will help the companies to become more cost efficient and upgrade their generation fleets with environmentally friendly assets, but also will improve the earnings growth outlook over the longer term.

Location, Location — and Efficiency: Climate Change and Real Estate Valuation



Patrick McElroy, CFA, Portfolio Manager

In analyzing climate risk among publicly traded real estate investment trusts (REITs), we consider both physical risk and transition risk as part of our investment process. According to the International Energy Agency, the building and building construction sectors are responsible for over one-third of global final energy consumption and nearly 40% of total direct and indirect CO₂ emissions. Owners and developers of buildings will play a key role in the transition to a low-carbon economy. The sector also faces physical risk from climate change, as many real estate companies are facing higher costs, property damage or business interruption from severe weather events such as floods and wildfires.

The location and construction quality in a REIT's property portfolio strongly affect its ability to organically increase rents and grow its revenues, cash flow and dividend. Buildings located in areas prone to extreme weather will struggle to attract tenants, have higher vacancy levels, command lower rents and require higher maintenance capex, all of which results in lower cash flow. Additionally, most REITs are facing an approximate 25% increase in insurance costs as insurance companies have dramatically raised premiums due to losses incurred from severe weather.

Climate change also affects a REIT's cost structure. Higher building material costs and more stringent, climate-friendly building codes have raised costs for new developments. However, REITs can reduce operating expenses and carbon emissions by installing more efficient HVAC systems and LED lighting. More efficient buildings — those that are certified as "green buildings" under programs such as Leadership in Energy and Environmental Design (LEED) — can command higher rents and have higher occupancy rates and lower operating expenses. The World Green Building Council estimates that new green buildings and green retrofits decrease annual operating costs by an average of

8% and 9%, respectively. We believe more efficient green buildings generate higher net operating income and have a higher residual value, thus reducing transition risk for REITs.

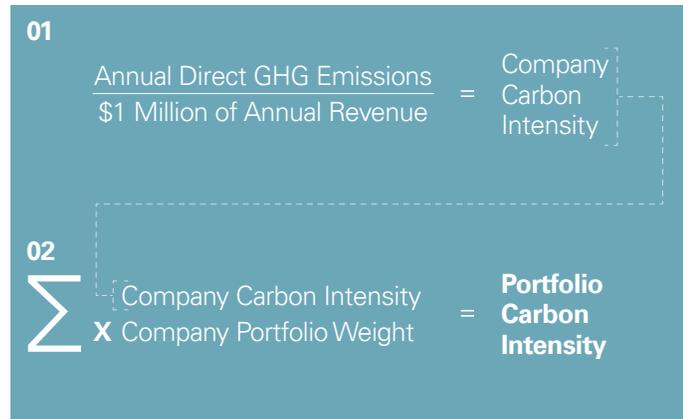
Risks associated with climate change can also impact a REIT's balance sheet. As described above, REITs that are proactively reducing physical risk and transition risk are often more profitable and trade at a premium to net asset value. The ability to issue equity at a premium to net asset value allows a REIT to have lower leverage and a stronger balance sheet. A strong balance sheet is crucial for a REIT as a lower cost of capital is a competitive advantage in financing new development, acquisitions and renovations.

Climate risks will be best managed by REITs with portfolios of well-located, highly efficient properties. These landlords will be better placed to sustainably grow revenues and pass on any higher costs associated with climate change to their tenants, enabling them to continue to earn attractive yields on their investments.



Exhibit 09 Understanding Carbon Intensity Metrics

For the third year, we have conducted carbon intensity analysis on the firm's investments in aggregate to understand the carbon intensity of the firm's total assets relative to the global equity markets. A portfolio carbon footprint is calculated in two steps:



Metrics and Targets

- Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. Supplemental Guidance for Asset Managers: Describe metrics used to assess climate-related risks and opportunities in each product or investment strategy.
- Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. Supplemental Guidance for Asset Managers: Provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each product or investment strategy.
- Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Carbon Intensity Metrics Inform Engagement Strategy

A portfolio carbon footprint can provide information on the carbon emissions directly associated with companies held in a portfolio and identify the most significant sources of direct emissions (Exhibit 09). We have used this analysis to inform our engagement strategies, allowing engagements to focus on those companies that account for the highest proportion of a portfolio's emissions.

Putting Carbon Intensity Metrics in Context

ClearBridge has over 30 investment strategies spanning market capitalizations, investment styles and regions. Each strategy has its own benchmark for financial performance. We have compared ClearBridge's aggregate portfolio holdings to an array of benchmarks to provide as much context as possible for the firm's performance, while acknowledging that no benchmark provides a perfect comparison. In 2020 ClearBridge's carbon intensity was 18%–28% lower than the representative benchmarks (Exhibits 10 and 11). The utilities sector is the main driver of differences: ClearBridge's overall weighting in utilities is lower than all the indexes used in this analysis.

Carbon Intensity Is Not a Measure of Climate Risk

At the same time, while a carbon intensity analysis helps identify the companies in a portfolio responsible for the highest direct emissions, low carbon intensity does not necessarily mean low climate risk, and vice versa. For example, oil and gas as well as auto sectors have relatively low direct emissions, as most of the emissions are associated with the use of their products — combusting fossil fuels or driving cars. The utilities sector has the highest emissions, but many utilities are regulated monopolies that face unique market forces that must be weighed when assessing risk. Portfolio carbon intensity is not a good proxy for risk exposure because it is not forward-looking, does not include emissions from products or supply chains (Scope 3 emissions), and does not consider regulatory factors or market dynamics.

Understanding whether a company faces climate risks — and, crucially, whether these risks are being appropriately priced by the market — cannot be adequately captured in a single metric. That said, we disclose the carbon intensity of our portfolio to provide this transparency to our clients, while recognizing its limitations and continuing to explore other metrics and approaches.

Disclosing Scope 1 and Scope 2 Emissions

In 2020, ClearBridge became part of Franklin Resources, which participates in the CDP, annually measuring and reporting on carbon emissions, as well as risks and opportunities for our business due to the effects of climate change. The firm's current response, which is available on the CDP website, includes comprehensive details on our approach to climate change.

Until 2020, ClearBridge was an affiliate of Legg Mason and our Scope 1 and 2 emissions were disclosed as part of Legg Mason's disclosures in its annual corporate social responsibility report and CDP disclosure. Our emissions have been disclosed since 2010.

The Relevance of Setting Emissions Targets

At this time, we have not set emissions reduction targets for our portfolios. Given the limited usefulness we see with measuring portfolio carbon footprints (as described above), we do not view portfolio carbon intensity as an adequate measure of climate performance for our holdings. We believe focusing only on direct emissions relative to company revenues can be misleading and could lead to investment decisions that are not aligned with reducing emissions in the real economy, which is our focus.

Exhibit 10 Weighted Average Carbon Intensity

Holdings as of December 31, 2020. Source: ClearBridge Investments; MSCI Carbon Portfolio Analytics. Carbon emissions data are the most recently available for each company on January 27, 2021.

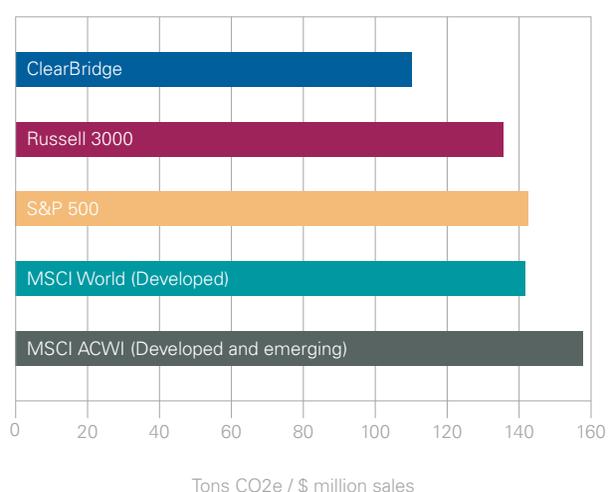
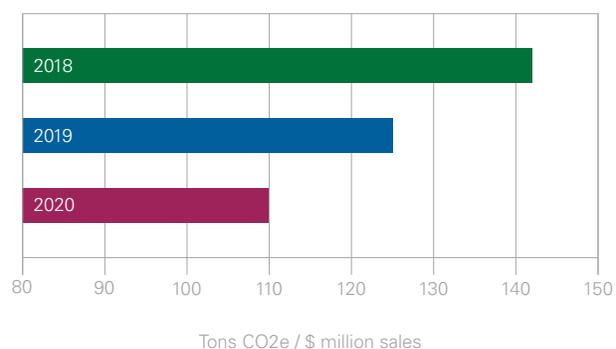


Exhibit 11 ClearBridge Weighted Average Carbon Intensity

Holdings as of December 31, 2020. Source: ClearBridge Investments.



Hydrogen and Battery Innovation Decarbonizing Heavy Transport



Dimitry Dayen, CFA, Energy Analyst

The race is on to decarbonize heavy transport — a major opportunity for lowering global carbon emissions. While much attention is paid to passenger cars as a means of lowering greenhouse gas (GHG) emissions, passenger cars are lower-utilization vehicles compared to heavy transport and account for only 7% of global emissions. For a larger impact, non-fossil fuel penetration is needed into heavy transport: trucks, buses, marine and trains, together with passenger cars, account for 14% of GHG emissions worldwide. As an example, while trucks and buses constitute only 5% of vehicles on the road in the U.S., they represent 29% of emissions owing to lower fuel economy and greater utilization (Exhibit 12).

A handful of new disruptive technologies, including hydrogen fuel cells and lithium metal batteries, have the potential to decarbonize heavy transport and are offering opportunities for shareholders to capitalize on. The growth of these technologies is a positive for the world and major advancements are being made in both by several players. Likewise, government policy support and the efforts of corporates innovating new technologies are helping drive down the cost for both and large addressable markets are being opened. The development of these technologies will have major ramifications for the automotive, logistics and energy markets, among others, in the next decade.

Hydrogen Can Be Green and Has Many Possible Uses

October 8 may not be a notable day on the calendar yet, but 2020 marked the fifth annual Hydrogen and Fuel Cell Day, chosen for the atomic weight of hydrogen (1.008). Hydrogen functions as an energy carrier, which means it can store and deliver energy produced by a primary energy source, such as natural gas, coal, nuclear power, solar, wind or hydro. Burning hydrogen to deliver energy releases only water as a by-product, making it an attractive clean fuel.

The traditional way of producing hydrogen is through a steam methane reformer, which uses coal and natural gas to combine carbon monoxide and steam, producing CO₂ and hydrogen. This is known as grey hydrogen. This way, however, the only change is where CO₂ is produced. Blue hydrogen refers to a similar hydrogen production method in which CO₂ is captured and stored rather than released

Exhibit 12 Heavy Transport Emissions Reduction Opportunities in the U.S.

As of 2018. Source: Bureau of Transportation Statistics, National Transportation Statistics, Table 1-11; EPA, U.S. Transportation Sector Greenhouse Gas Emissions 1990–2018.

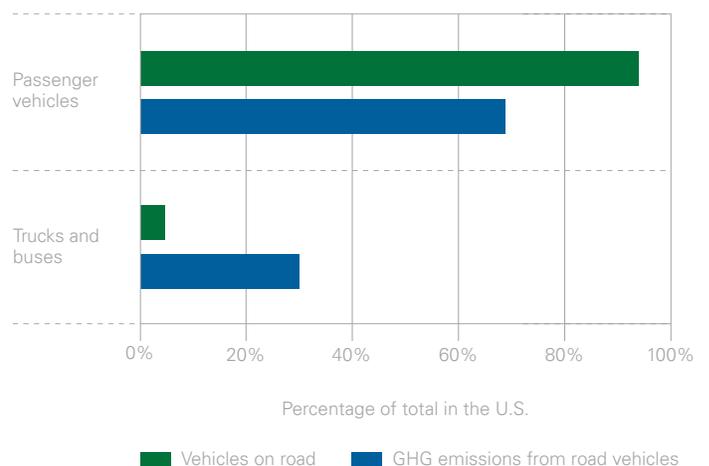


Exhibit 13 Emissions Spectrum in Hydrogen Production

Source: ClearBridge Investments.



Gray Hydrogen

Made using fossil fuels, which emit CO₂ as they combust



Blue Hydrogen

Made using fossil fuels but with carbon capture technology preventing emission of CO₂



Green Hydrogen

Made using electrolysis powered by renewable energy; does not emit CO₂

freely. Green hydrogen, by contrast, uses renewable energy sources, such as wind, solar or hydro to liberate hydrogen through electrolysis of water and does not emit any carbon in the production of hydrogen or in its consumption in a fuel cell.

While the vast majority of hydrogen produced today is grey and blue, there are many projects underway classified as low-carbon hydrogen technology, commissioned to produce hydrogen for energy or climate-change related purposes, according to the International Energy Agency (Exhibit 14).

The potential for hydrogen and fuel cells in industrial, transportation and stationary power applications is promising. In industrial use, it could help decarbonize major industries such as steel. In transportation, it could power a variety of trucks, buses, marine, rail and aircraft. Volvo, for example, envisions fuel cell electric vehicles (FCEVs) as ideal for demanding long-haul trucking. Ballard Power Systems and Plug Power appear to be the technology leaders globally on hydrogen fuel cells with a focus on the bus and truck market. Plug Power has already seen success in some use cases, such as forklifts.

Cummins, which makes diesel and alternative fuel engines, believes that trains will be early adapters as they are less reliant on external infrastructure and use a return-to-base system for fueling — a central charging infrastructure would suffice to serve many engines. The company estimates the cost of hydrogen trains to be comparable to that of electrifying train lines today.

For marine use, Bloom Energy, of which ClearBridge is a top 10 owner, is partnering with Samsung Heavy Industries to power ships with fuel cells powered by natural gas. As nations and ports develop their hydrogen infrastructure, ships powered by fuel cells could transition from natural gas fuel to hydrogen fuel and become zero-carbon and zero-smog emitters.

For energy storage, hydrogen can also be used when there is excess wind and solar power on the grid. Backup power applications are also being explored.

With many possible uses for hydrogen, and the incentive to prioritize development of green hydrogen in order to meet ambitious emissions reduction goals, we could see exponential growth in low-carbon hydrogen production in the next decade.

Challenges to a Hydrogen Future

One key issue for hydrogen as a power source is cost. Morgan Stanley estimates that it could take as much as \$20 trillion in investments to 2050 to decarbonize a

high-teens percentage of global emissions. For hydrogen to gain acceptance as a decarbonization force, the world will likely need to see a path for green hydrogen through water electrolysis. This is currently cost prohibitive at \$10–\$13/kg of hydrogen on a retail basis, which is several times more expensive than diesel.

Further up the supply chain, green hydrogen currently costs around \$6/kg to produce (pre-distribution) compared to ~\$1/kg for grey hydrogen. Industrial gas producer Linde has stated costs need to come down to \$4/kg for green hydrogen to be competitive, though project-level economics will affect breakeven prices. The Hydrogen Council, a global initiative of energy, transport and industry companies encouraging the development and adoption of hydrogen, believes costs will need to come down to ~\$2.50/kg by 2030 to make the economics compelling on a total cost of ownership basis to decarbonize long-haul trucking (Exhibit 15).

Air Products and Chemicals, a company that makes gases and chemicals for industrial use, is bringing down the cost of green hydrogen with its NEOM project in Saudi Arabia, where it will use renewable power from solar, wind and storage to produce 1.2 million tons of green ammonia (which has a high capacity for hydrogen storage and transport) per year for export globally for the transportation market.

Getting to scale will be important to ultimately getting costs low enough at the pump to be compelling. Technological advancements are being made toward getting the production costs down. Cost of electricity is a key input, but Bloom Energy believes that its solid oxide electrolyzer technology is capable of producing green hydrogen at the cost of \$1.90–\$3.20/kg by 2025 — significantly earlier than the Hydrogen Council’s models — and as low as \$1.20–\$2.10/kg by 2030. We believe this is significantly cheaper than the production cost at Air Products’ NEOM project, using more established alkaline technology. Bloom is also indicating the potential to make blue hydrogen at the cost of \$1.50/kg in 2025 and \$1/kg in 2030. Ultimately, getting the full benefit of hydrogen in decarbonization will likely require the use of green hydrogen, but cheaper blue hydrogen can assist in the “transition” and getting to scale.

Private companies at the forefront of hydrogen are collaborating to reduce the costs of green hydrogen. In December 2020 a coalition of seven global companies announced a “Green Hydrogen Catapult” initiative aimed at accelerating the scale of production of green hydrogen. Together, ACWA Power, CWP Renewables, Envision, Iberdrola, Orsted, Snam and Yara will seek to deploy 25 gigawatts of renewables-based hydrogen, a 50-fold increase, through 2026. The initiative will try to cut the cost of green hydrogen to below \$2/kg and aims to align the production and use of green hydrogen with a goal of displacing fossil

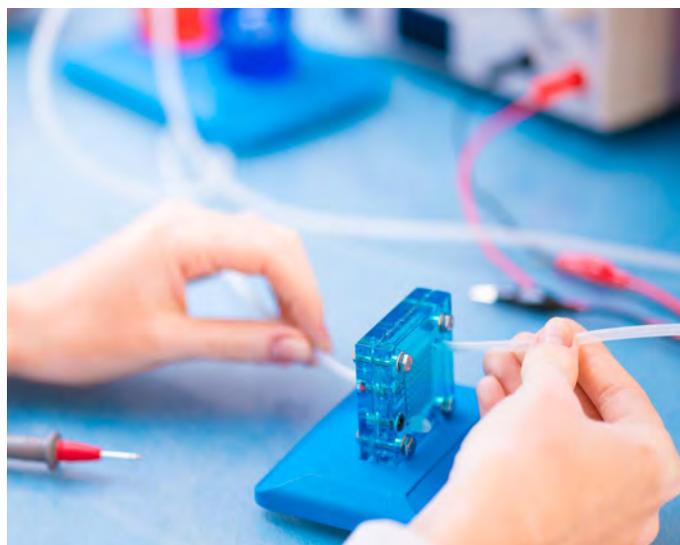
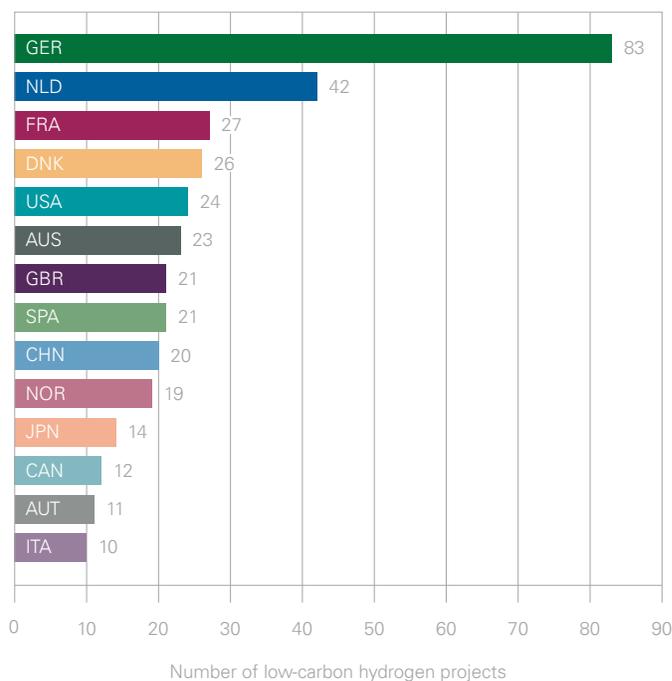


Exhibit 14 Countries with 10+ Low-Carbon Hydrogen Projects Underway

As of June 2020. Source: Hydrogen Projects Database, IEA <https://www.iea.org/reports/hydrogen-projects-database>.





fuels at a rate consistent with achieving net-zero global emissions by 2050.

In terms of distribution, significant infrastructure needs suggest the costs will be high and buildout will take time. Cummins estimates that electrolyzer investment of \$350 billion would be required to replace existing hydrogen production capacity globally with green hydrogen and \$2.5 trillion to replace diesel in vehicle infrastructure (which comprises heavy trucks, buses and trains).

In addition, governments all over the world are willing to invest, helping create scale that will drive down costs, which is especially important on the distribution side of the cost equation. China and the EU are the markets most likely to jump-start adoption of hydrogen, but we are also watching California. The EU's recent European Green Deal, for example, features an EU Hydrogen Strategy, which involves installing at least 6 gigawatts of renewable hydrogen electrolyzers and producing up to one million tons of renewable hydrogen from 2020 to 2024; from 2025 to 2030 this grows to at least 40 gigawatts and 10 million tons, respectively, as hydrogen becomes an intrinsic part of an integrated energy system.

In the U.S., a 2020 report by the House Select Committee on the Climate Crisis — a document that could inform U.S. climate policy in the Biden administration — calls for Congress to invest in energy storage, new zero-emission technologies and fuels for harder-to-decarbonize parts of the transportation sector. This would include boosting funding for federal clean energy research, development and demonstration supporting breakthrough technologies for industrial decarbonization including CCUS (carbon capture utilization and storage) and low-and-zero carbon hydrogen.

Batteries Are Not Standing Still: Lithium Metal Offers Exciting Potential

Lithium metal, or solid state, batteries are in the early stages but could offer significant improvements on lithium-ion batteries in terms of range, charging time, lower cost and smaller size. These benefits could jump-start electric vehicle adoption in heavy transport.

The main difference between a lithium metal and lithium-ion battery is the former is not built with an anode, the positively charged electrode by which the electrons leave the cathode to charge. Instead, it uses a solid-state ceramic separator between the cathode and the anode current collector and creates an anode of pure lithium metal. The lithium metal anode, which holds the charge, is smaller than the anode in a lithium-ion battery.

Lithium metal batteries help solve several problems posed by lithium-ion batteries. For one, lithium metal batteries weigh less. This is crucial to long-haul trucking. The smaller size and lighter weight of lithium metal batteries allows heavy transport to haul more cargo relative to lithium-ion-powered trucks; using heavier lithium-ion batteries to deliver longer ranges has the drawback of subtracting cargo capacity, which is a major concern for shipping. Also, eliminating the anode material means lithium metal batteries are less expensive to produce both in terms of materials and manufacturing costs.

Lithium metal also compares favorably to hydrogen in this regard due to its high energy density. Industry estimates suggest that hauling capacity of a hydrogen truck is 6% or ~3,000 lbs larger than that of a battery truck using current lithium-ion technology. However, assuming a battery weight of ~12,000 lbs in a semi, a ~28% higher energy density of a lithium metal battery versus a lithium-ion battery implies that this weight differential is overcome by switching to a lithium metal battery. Combined with quick charge times (if proven out) and less need for expensive infrastructure, lithium metal technology has the potential to compete with hydrogen.

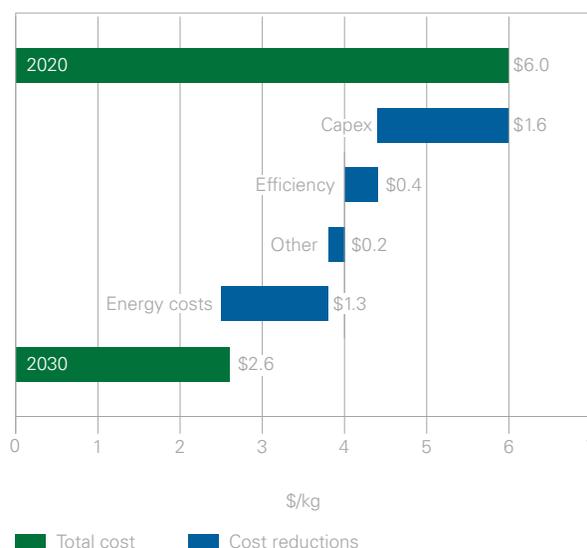
The high energy density of lithium metal batteries, allowing them to deliver more energy per unit of weight, also increases the range potential in a vehicle application. Recent tests by lithium metal battery developer QuantumScape suggest a total driving range of 240,000 miles based on 800 discharge cycles.

In terms of charging time, QuantumScape's results show faster charging than lithium-ion batteries, going from 0% to 80% in under 15 minutes in automotive applications. However, it is yet to be shown whether such 15-minute charges are feasible over hundreds of cycles as might be required in a real-world application. Tests of 800 cycles were based on one-hour charge/discharge cycles, as opposed to 15-minute cycles, and the market is likely to require confidence in this capability as heavy transport vehicles are in constant use and refueling/recharging time has a large effect on the bottom line.

Lithium metal batteries are generally considered in the R&D phase, with the market not likely to have confidence in this technology until 2022–24. Further testing of fully built batteries is still required, as is a pathway to manufacturing to scale and potentially more work to prove out fast charging. But overall, it is still encouraging to see QuantumScape's results: 800 cycles at one-hour charge/discharge cycles with solid performance across a range of temperatures demonstrates a step forward in battery technology.

Exhibit 15 Cost Reduction Levers for Green Hydrogen

As of January 20, 2020. Source: Hydrogen Council, "Path to hydrogen competitiveness: A cost perspective."



QuantumScape is not the only innovator of solid-state batteries. In December 2020 Toyota announced it will unveil a prototype solid-state battery in 2021 that it says can charge from zero to full in 10 minutes and deliver 500 km on one charge. The company hopes to sell an electric vehicle equipped with this battery in the early 2020s. There are other companies innovating on solid-state design as well.

A Multidimensional Strategy for Reducing Emissions

Reducing the effects of climate change remains a primary concern for business as well as governments and non-governmental organizations as we enter the 2020s, and solving the emissions challenge posed by heavy transport such as trucks, rail and marine transport is a crucial component in this mission. The growth in renewable energy from solar, wind and hydro sources, and the falling costs of procuring this energy for use in hydrogen fuel cells has made green hydrogen increasingly attractive and viable as a means of storing and delivering carbon-free power in many applications, among them heavy transport. Hydrogen fuel cells could be part of a multidimensional strategy to lower carbon emissions, and there is strong evidence that strategy could include lithium metal batteries as well.

Midstream Energy Seeking to Offer More Robust ESG Data



Chris Eades, Portfolio Manager

The energy sector, including midstream, has been slow to embrace and disclose relevant ESG metrics. Equity market investors specifically want companies to embrace and address all three components of ESG. The reality is that ESG-focused funds are seeing meaningful inflows. Assets under management on a global basis for ESG-dedicated funds increased by 70% during 2020 to end the year at \$711 billion, and inflows are accelerating. Midstream companies must address the rapidly growing ESG investor base. And they are. 2020 was a transformational year for midstream company ESG disclosures.

Through the Energy Infrastructure Council (EIC, formerly the MLP Association), midstream companies are working together to offer investors a more robust set of ESG data. The EIC created a working committee in 2020 to develop a template of common

metrics that member companies will begin to report to investors. Up to this point, midstream disclosures varied meaningfully from company to company — leaving investors frustrated by the lack of comparability across the sector. The EIC worked with midstream companies and investors to create an ESG template that will serve as a roadmap for progress on ESG-related matters in the years to come.

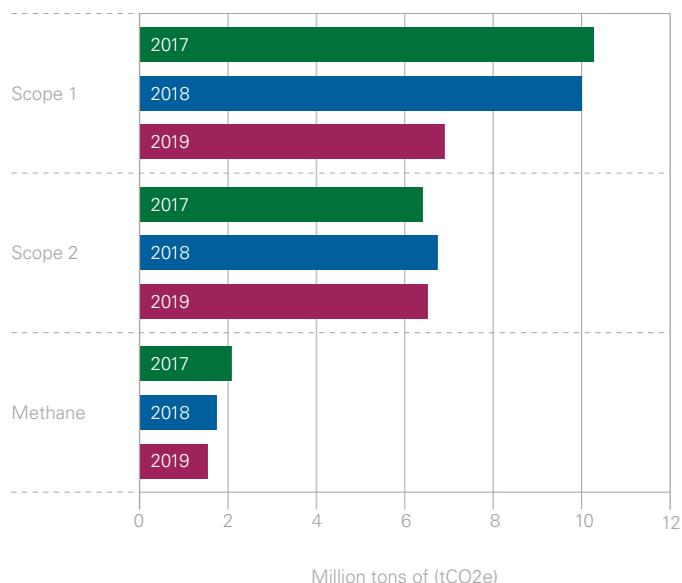
ClearBridge was pleased to participate with the EIC on the new ESG template. Our view is that the finalized ESG reporting template for EIC companies will greatly improve our ability to internally rate energy infrastructure companies on ESG practices, as we do with all investments. We applaud EIC for putting forth a template that offers investors broader and more uniform ESG disclosures. This will contribute to more informed and better investment decisions for our clients. Several midstream energy infrastructure companies have already completed the template.

ClearBridge, as a supporter of Climate Action 100+, has worked with groups of institutional investors to push forward with responsible ESG goals and mandates for our portfolio holdings. In late 2020, ClearBridge engaged with Enbridge to address, identify and measure numerous ESG metrics and goals. In November 2020, Enbridge announced a net-zero emissions target by 2050, a 35% reduction in GHG emissions intensity by 2030, a continued focus on diversity representation on its workforce and executive incentive compensation aligned with ESG targets and goals. The company was widely lauded for being a leader in the midstream sector for putting forth specific targets and

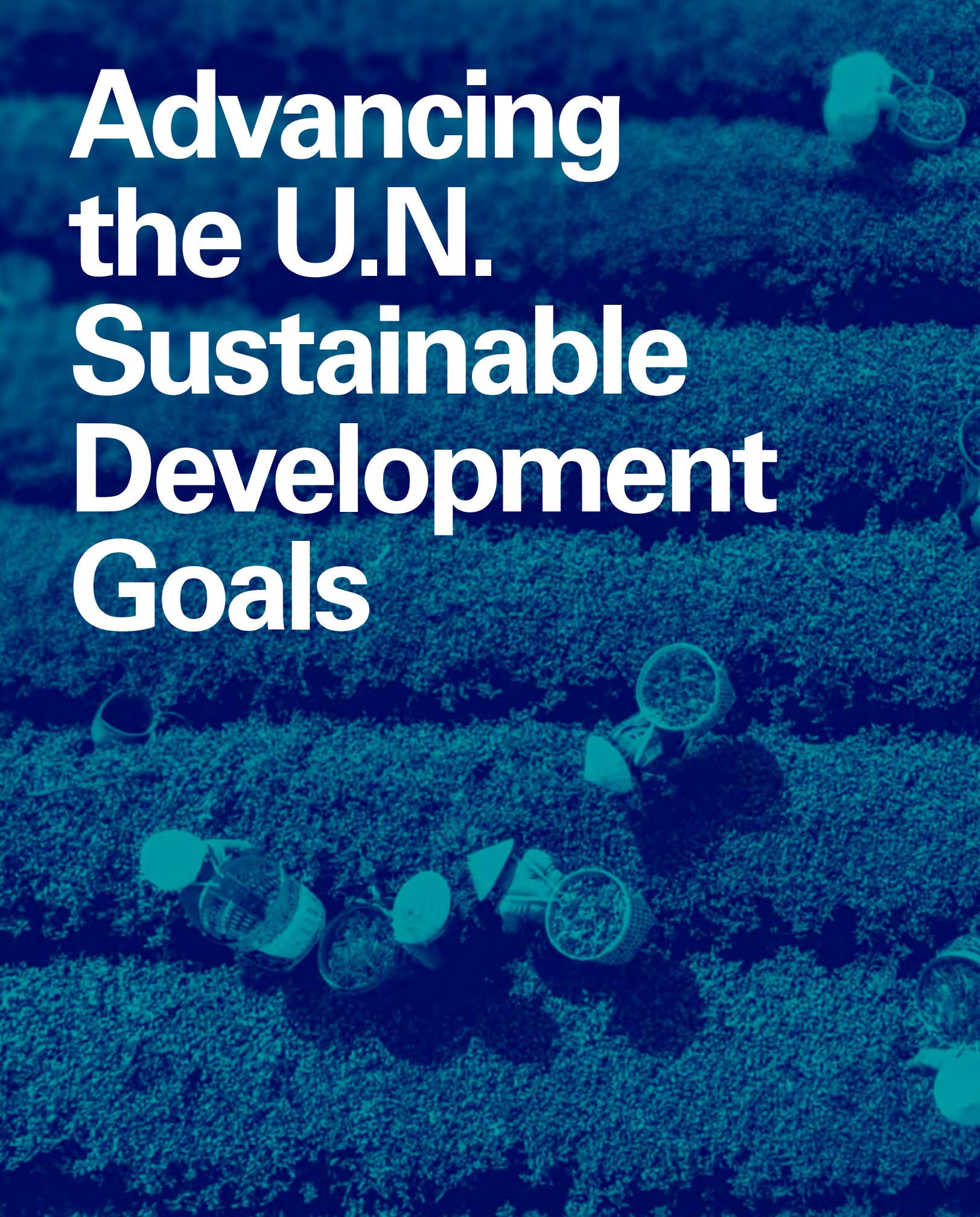
goals — leaving investors feeling as if Enbridge is part of the solution rather than part of the problem. Enbridge's goals are consistent with its improved emissions trends in recent years (Exhibit 16). We expect many midstream companies to follow Enbridge's lead in 2021.

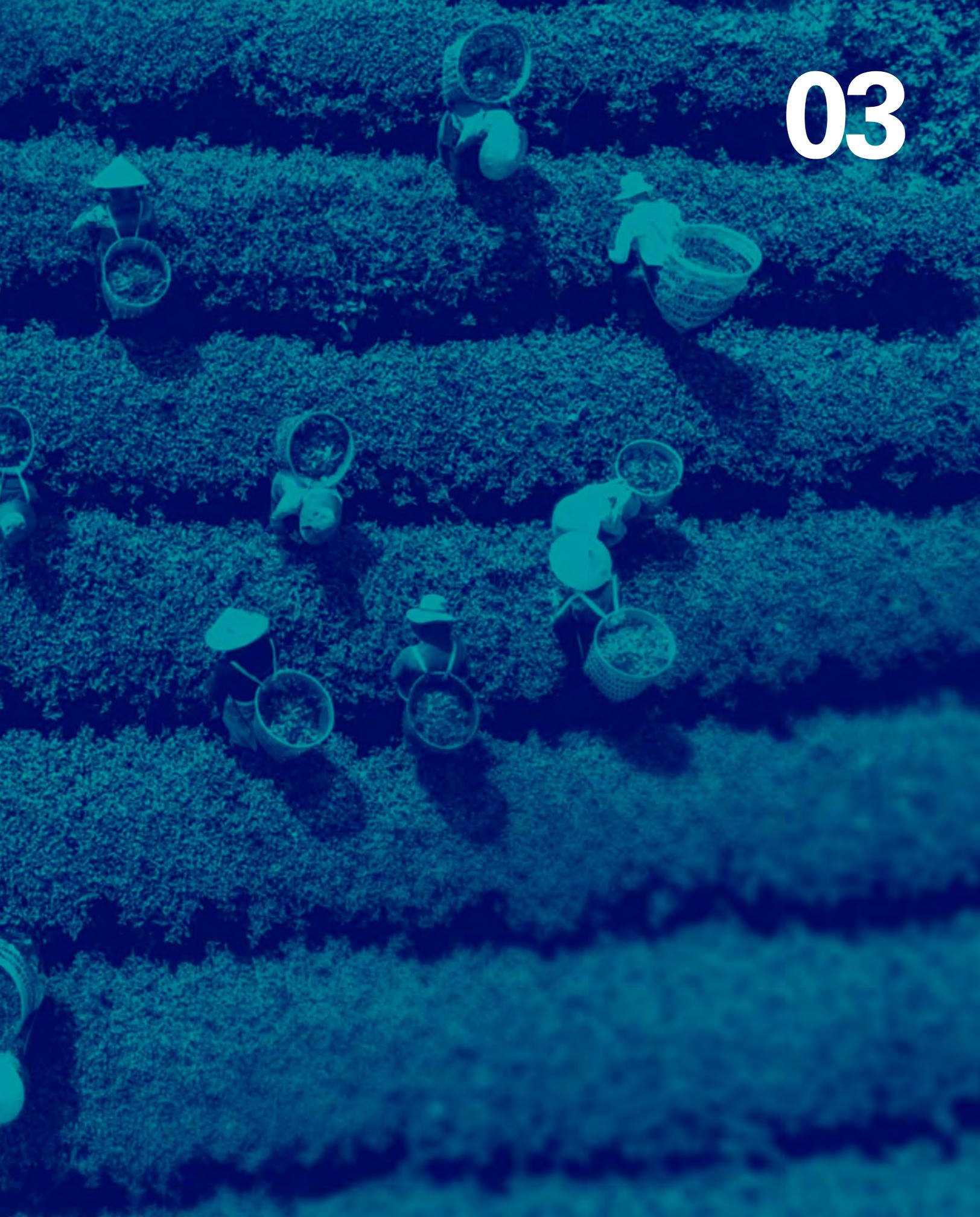
Exhibit 16 Enbridge Goals Consistent with Emission Reduction Trends

As of 2019. Source: Enbridge 2019 Sustainability Report.



Advancing the U.N. Sustainable Development Goals





An Investment Framework that Furthers the SDGs

Formalized by the United Nations General Assembly in 2015, 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.

The SDGs offer a way for the private sector to have an impact supporting and addressing urgent sustainability issues. While we believe the SDGs are more thematic than company specific, they do help demonstrate the alignment of our research framework of sector-and company-specific ESG considerations with broader societal goals and the impact that investing within this framework can have.

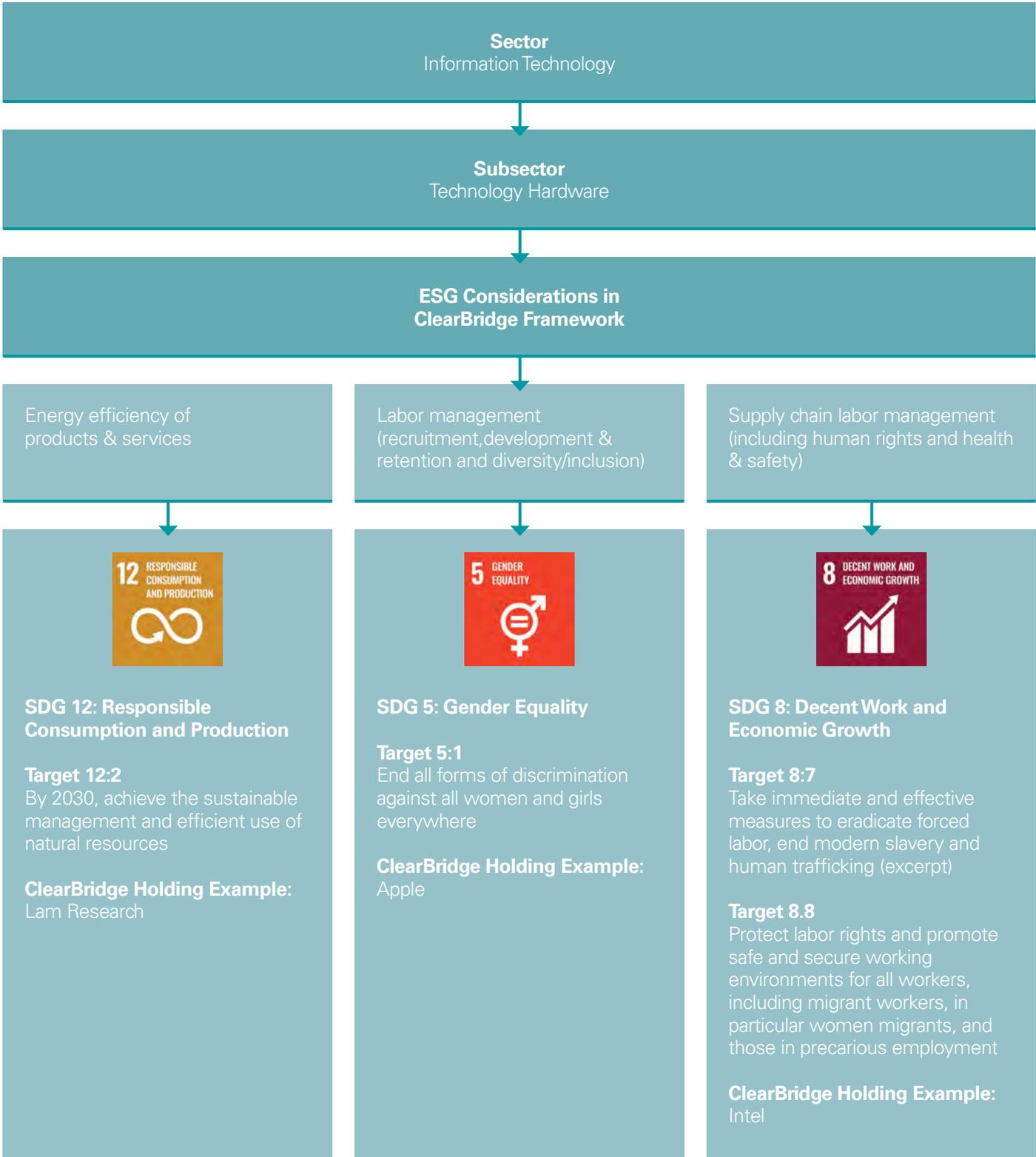


Mapping the ClearBridge ESG Framework to the SDGs

Tackling social and environmental challenges is a core aspect of ESG investing, so systematically mapping how the issues we care about as investors intersect with the targets and goals of the SDGs is a valuable exercise that demonstrates how our efforts have an impact in an even broader context.

Our team of fundamental sector analysts perform in-depth analysis of companies in their respective sectors, each of which breaks down into relevant subsectors in the ClearBridge ESG framework. For example, within our framework, technology hardware is one of the subsectors of the information technology sector. For each subsector in our framework we have identified several key ESG considerations, based on the views of our investment team. Some of these key ESG considerations overlap with one or more of the 169 underlying targets of the 17 SDGs, meaning that good performance by companies on these issues can help achieve the SDG underlying targets.

Sample Mapping of ClearBridge ESG Framework to SDGs



Relevance of ESG Themes to SDGs

ESG themes pursued through active equity ownership across ClearBridge strategies, and through our focus on ESG considerations in our fundamental company analysis and engagement, further the SDGs in many ways.

Climate change

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

Natural resource efficiency

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

Sustainable food

- SDG 2 Increase sustainability and resiliency of food production
- SDG 2 Increase access to safe, nutritious and sufficient food
- 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

Sustainable infrastructure

- SDG 9 Build new infrastructure sustainably, and retrofit existing infrastructure

Improving health

- SDG 3 Increase access to medicines, vaccines and health care services

Fair labor and workplace safety

- SDG 8 Protect labor rights for workers, especially migrant workers
- SDG 8 Eradicate forced labor (modern slavery)
- SDG 8 Ensure safe and secure working environment for all workers

Diversity and inclusion

- SDG 5 Ensure full and effective participation and equal opportunities for women in leadership at all levels of decision making
- SDG 5 End all forms of discrimination against women and girls everywhere
- SDG 10 Ensure equality of opportunity and reduce inequalities of outcomes for all
- SDG 10 Ensure equal pay practices for all

Economic inclusion

- SDG 1 Increase access to economic resources, including financial and technology (internet, mobile) services
- SDG 9 Increase access of enterprises to financial services
- SDG 10 Promote economic inclusion

Innovation

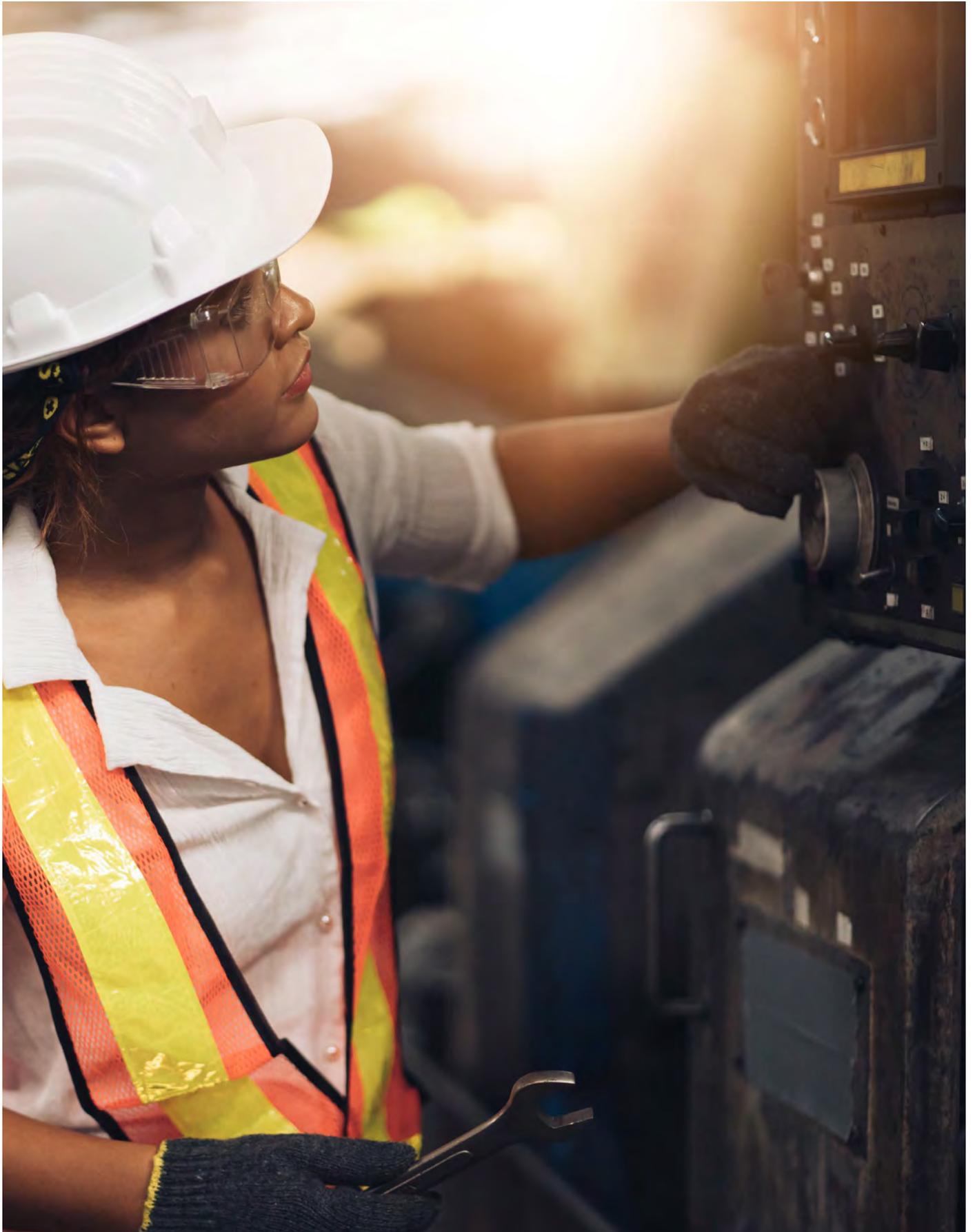
- SDG 8 Increase economic productivity through innovation
- SDG 9 Increase technological capabilities of industry through R&D

Disclosure

- SDG 12 Integrate sustainability information into company reporting

Sustainable Development Goals





Targeting Climate-Focused SDGs



Derek Deutsch, CFA, Portfolio Manager

In his first days in office, U.S. President Joe Biden signed executive orders recommitting the U.S. to rejoining the Paris Agreement, canceling the Keystone XL pipeline permit and directing the Environmental Protection Agency (EPA) to re-regulate oil and gas methane. These will be positive forces in helping the world make progress on the climate-focused United Nations' Sustainable Development Goals of Affordable Clean Energy (SDG 7) and Climate Action (SDG 13). Governments around the world also continue to raise their ambitions for carbon reduction. For example, the EU is now looking at 55% reductions by 2030 (versus 40% previously), and China set a new goal to achieve net-zero carbon emissions by 2060. Renewable energy consumption recently surpassed coal for the first time since the 19th century (Exhibit 17).

Investors too can have a meaningful impact advancing the climate-focused SDGs through allocating capital to renewable energy promoters and providers as well as companies whose products increase energy efficiency, for example reducing energy use in industrial processes.

Exhibit 17 U.S. Renewable Energy Consumption Surpasses Coal

As of May 28, 2020. Source: U.S. Energy Information Administration. Renewables prior to 1890 from wood and biomass; hydroelectric added in 1890, geothermal in 1960, biofuels in 1981, wind in 1983 and solar in 1984.

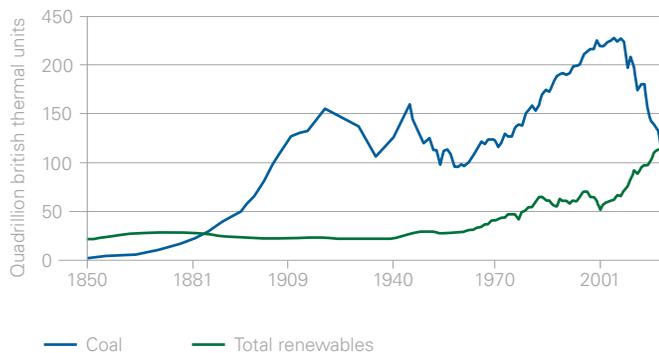
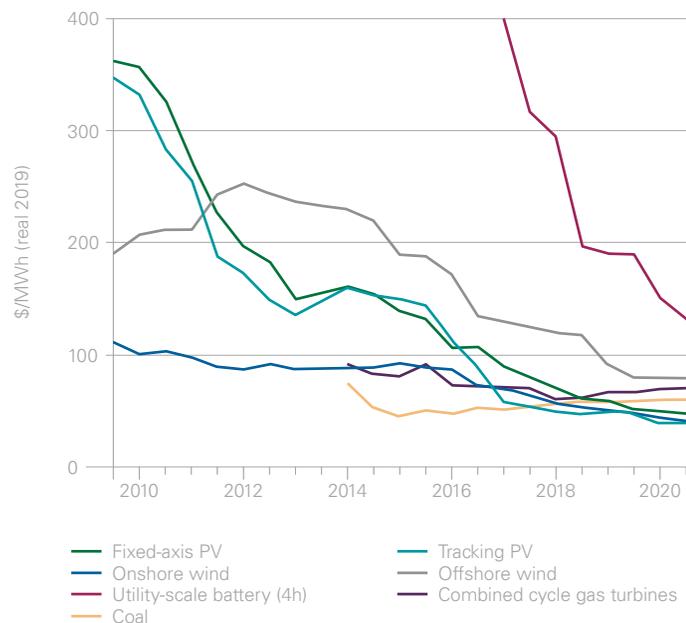


Exhibit 18 Falling Costs of Renewable Energy Enable More Ambitious Initiatives

As of December 18, 2020. Source: Bloomberg New Energy Finance 2H 2020 LCOE.



Corporates Making Demand Pull for Renewables

Corporate demand for renewable energy has the ability to substantially increase the share of renewable energy in the global energy mix, a key target of SDG 7. Many companies held across ClearBridge portfolios have set aggressive targets for lowering emissions through use of renewable energy. In 2020, Amazon.com announced it is on track to run on 100% renewable energy by 2025, five years ahead of schedule, while Microsoft announced it expects to be carbon negative and beginning to remove the carbon it has emitted since its founding, by 2030. Alphabet recently announced it will soon power its data centers and offices carbon free by using renewable sources at all times. The ambition of these measures is made possible by falling costs of renewable energy (Exhibit 18).

The COVID-19 pandemic has temporarily reduced overall energy demand. Yet demand for renewable energy has continued to grow even through the pandemic, according to ClearBridge portfolio company Brookfield Renewable, which generates power from hydroelectric, wind and solar primarily in the U.S., Canada and Brazil. Brookfield Renewable's globally diversified, multi-technology renewables business, including a large hydro fleet, is well-positioned to help companies achieve decarbonization goals and makes Brookfield an attractive partner as more business and governments seek to lower their emissions.

Commitments by large companies to increase renewable energy sourcing are felt through their supply chains, providing a competitive advantage to environmental forerunners and encouraging others to catch up. ClearBridge is a top 20 owner of data center provider Equinix, for example, which is a leader in renewable energy sourcing, with renewable energy percentages at 93% in the Americas already (100% in the U.S.), 99% in Europe, the Middle East and Africa and 75% in Asia Pacific. In a 2020 engagement with Equinix, we discussed how while the cost increase of sourcing from renewables is negligible, its industry-leading renewable footprint is a competitive advantage. In fact, several large customers that have announced their own targets around renewables and lowering carbon emissions were in some cases prioritizing Equinix data centers over competitors as it allowed them to get closer to their goals. Accordingly, we believe Equinix's goal of reaching 100% of energy sourced by renewables will be a positive for business.

Favorable Economics and Innovation Driving Solar Adoption

Brookfield Renewable has also been adding utility-scale solar in its energy mix. The company recently noted that “as a result of technology advances and reductions in construction costs, solar can stand on its own without subsidies and more importantly, is now amongst the lowest cost sources of conventional power globally.” This is partially due to the availability of less expensive solar panels from Chinese manufacturers.

Solar costs have dropped in the past five years from \$4 per watt to install to less than \$1 per watt, according to Brookfield Renewable, which believes solar could account for most of the company’s production capacity in 10 years’ time (it is less than 20% today). This is consistent with estimates of global solar capacity growth (Exhibit 19).

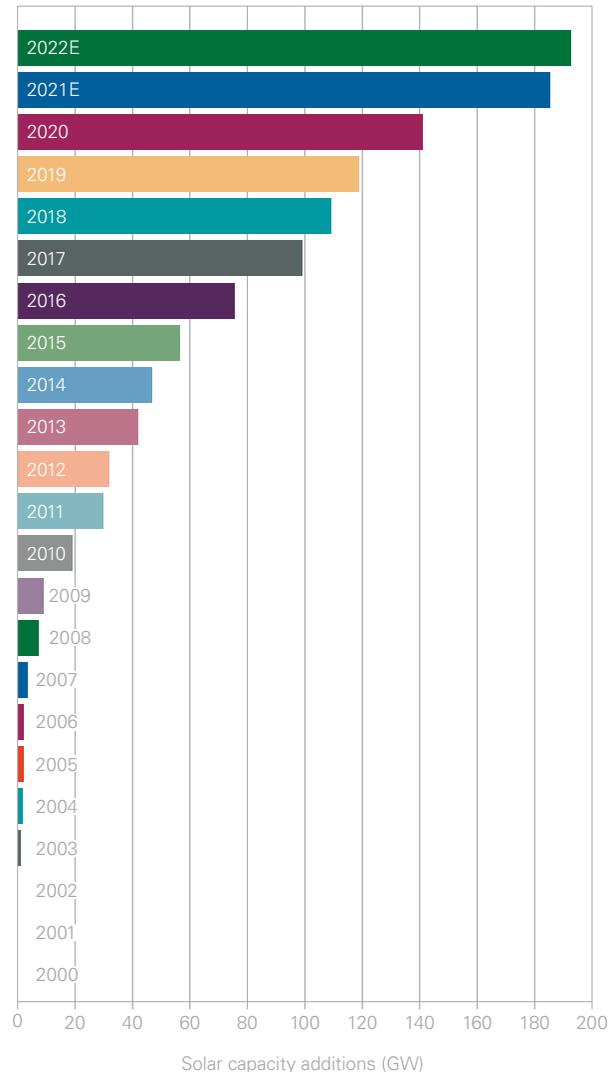
On the residential side, innovation by ClearBridge holdings SolarEdge Technologies, of which we are a top 20 owner, and Enphase Energy, is also enabling more adoption by homeowners. SolarEdge makes solar inverters and optimizers for residential and commercial solar photovoltaic (PV) systems. SolarEdge’s system combines power optimizers on the back of each solar panel on the roof (known as “module-level power electronics,” or MLPE) with a string inverter on the side of the building (which converts the direct current power produced by the solar modules to usable alternating current).

Enphase was the first company to commercialize microinverters for residential and small commercial solar PV systems. A microinverter, a type of MLPE, is a small inverter placed directly on the back of each solar module, as opposed to the traditional system of one string inverter on the side of the building.

MLPEs improve the efficient energy capture of a solar PV system by performing maximum power point tracking at the module level, rather than at the array level (all modules combined). They also allow greater flexibility in how modules are installed, in terms of angle, type and number, so houses with multiple roofs at different angles can use more surface area and capture more energy from it.

Exhibit 19 Global Solar Capacity Is Growing Rapidly

As of February 2021. Source: ClearBridge Investments, Bloomberg New Energy Finance.



“With motors consuming 45% of global electricity production, Regal Beloit’s focus on improving efficiency through its electric motors and controls can have a meaningful impact on GHG emissions.”

Energy Efficiency Helps Industry Help the Climate

Enabling greenhouse gas (GHG) emissions reductions through more energy-efficient manufacturing is a form of climate action, helping to further SDG 13. ClearBridge holding Lam Research is a leading supplier of etch and deposition equipment used in the manufacturing process of semiconductors. Lam’s technologies are crucial to the miniaturization of semiconductor technology, which reduces device size and energy consumption for chips. This helps to offset the water intensity of the etch and deposition process used in creating semiconductors by Lam’s customers in their production lines. Semiconductors remain a growth market, as new applications and technologies such as cloud computing, AI, cellular networking and the Internet of Things drives higher demand for chips, so reducing energy consumption in the manufacturing process will only grow in importance and impact.

ClearBridge is a top 20 shareholder of Regal Beloit, which designs, manufactures and sells electric motors and controls for a wide swath of industries, including food, beverage, material handling and warehouse distribution, marine, primary metals and refrigeration. With motors consuming 45% of global electricity production, Regal Beloit’s focus on improving efficiency through its electric motors and controls can have a meaningful impact on GHG emissions. Other sustainability themes driving growth in the business are electrification and digital connectivity, as Regal Beloit’s products enable higher water and chemical reduction in manufacturing, and carbon dioxide and nitrogen oxide reduction versus traditional alternatives. The company’s energy-efficient motors, controls, gearing and conveyor components maximize equipment performance in the beverage industry, helping beverage companies reduce their carbon footprints in the production process.

Regal Beloit’s products also serve the solar and wind power industries, making its business a contributor to SDG 7 as well as SDG 13. The company provides power transmission, motors and controls that reduce downtime for solar and wind power generators and makes couplings for wind power drives that help a wind turbine produce more electricity. As wind power increasingly moves from onshore to offshore, reliability, corrosion resistance, turbine monitoring and maintenance-free products become more important, and Regal Beloit will have an important role to play there as well.



Working with WaterAid Toward SDG 6 in Colombia

WaterAid is working to make clean water, decent toilets and good hygiene normal for everyone, everywhere, within a generation. The international nonprofit organization works in 34 countries to change the lives of the poorest and most marginalized people. Since 1981, WaterAid has reached 26.4 million people, providing them with clean water.

Since 2013, ClearBridge in Australia has partnered with WaterAid to fund sustainable infrastructure projects that bring safe water, sanitation and hygiene education to villages in Timor-Leste, one of the world's least developed countries. Seventy percent of the population live in rural areas and half do not have access to safe water. ClearBridge has funded infrastructure projects that deliver safe water, sanitation and hygiene education to these communities. These infrastructure initiatives have impacted almost every aspect of life for the

people in these villages, improving health, increasing school attendance, empowering women and girls and providing income through produce gardens.

In 2019 ClearBridge and WaterAid formed a new corporate partnership in which ClearBridge 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. In particular, ClearBridge is helping underwrite a critical project in Colombia to bring water to the village of La Guajira in a safe and consistent manner.

Upgrading Water Access in La Guajira, Colombia

By way of background, La Guajira is a mostly arid desert peninsula in northern Colombia, and home to various indigenous and afro-descendant communities. Currently only 16% of the rural population has access to water and a mere 4% have access to basic sanitation.

With the support of ClearBridge, in this project, WaterAid is working in the Tomarrazón community, home to 1,974 people in the rural southern part of Riohacha Municipality, to deliver life-saving water, sanitation and hygiene (WASH) programming.



Tomarrazón has an antiquated water system that no longer provides service to its users. In the six-month-long dry season, the system stops working and people are forced to walk up 5 km through the mountains to fetch water from streams. During the months when the system works, it does so in a substandard way, as pipes are old and suffer leakage from years of neglect. Additionally, the school and community day care centers do not have adequate WASH services, which are essential to ensure a safe and healthy space for children to learn, play and grow.



Baseline Studies and Training

Between June and October 2020, WaterAid carried out holistic baseline studies to inform the design of the technical solutions with key data, such as user numbers, existing infrastructure and level of service along with socioeconomic information. Even amid COVID-19 conditions, six people received training in gathering data through smart phones and using the data management platform to upload and review the information.

After collecting all the necessary information, WaterAid presented initial project designs to the Riohacha Municipality and the water planning office (Plan Departamental de Agua – PDA). A solution to offset the dry months was to find a water source along the catchment system that will ensure water availability. The project also included general maintenance to the water treatment system, repairs and the expansion of the piped distribution system. In order to get the necessary permits, WaterAid made several visits to the community with government officials to review and agree on the designs.

Bringing Water Infrastructure to Camilo Torres Primary School

WaterAid is also working in the Camilo Torres Primary School, which has 120 students. To ensure informed and context-driven solutions, between June and October 2020 WaterAid carried out a baseline study of current WASH infrastructure and worked with the school principal and teachers to agree on the final design for new infrastructure. By February 2021 they had finished rehabilitating separate toilets for boys and girls, including handwashing stations. It had also ensured accessibility for disabled students in both girls' and boys' toilets and installed an ultra-membrane filter to ensure safe drinking water for all. Although there is no official date for when students will return to school, once they do, all 120 will have access to safe drinking water and decent toilets.

Bringing Water to Day Care Center Serving 79 Children

WaterAid also recently finished construction of sanitation facilities, handwashing stations and access to safe drinking water for 79 children and staff at the community-based day care center. Community-based day care centers provide a critical service for disadvantaged communities in La Guajira, taking care of children under five. The centers provide nutritional support through a government-sponsored meals program that addresses the high incidence of malnutrition in this vulnerable population. They are administered by the Colombian Family Welfare Institute (ICBF: Instituto Colombiano de Bienestar Familiar), but, unfortunately, due to high demand and lack of capacity and resources, most of these spaces in La Guajira have no WASH services.

Progress Amid COVID-19 Conditions

ClearBridge is pleased with the impact our partnership with WaterAid has been able to have in 2020, even despite the challenges experienced due to COVID-19. Overall, these efforts will reach 1,974 people, 120 primary school children and 79 children in a day care center in the community of Tomarrazón. As WaterAid works to build the capacity of the community association to operate and maintain the WASH services, sustainably, for the long term, we look forward to reporting progress in the years to come.

“As WaterAid works to build the capacity of the community association to operate and maintain the WASH services, sustainably, for the long term, we look forward to reporting progress in the years to come.”

The Push for Sustainable Infrastructure



Shane Hurst, Portfolio Manager
Nick Langley, Portfolio Manager

The COVID-19 pandemic has meaningfully hit most countries in the world, bringing with it a toll on human lives and livelihoods. Yet as governments mitigate the public health crisis and support economies through monetary and fiscal policy, the need to lower carbon emissions is not going away. Upgrading and building new infrastructure to achieve lower emissions targets will remain key priorities and will act as a tailwind for the infrastructure space. Part of the world's response to the pandemic, increasing the urgency of balancing stakeholders in business operations, also looks to be a positive for infrastructure's outlook.

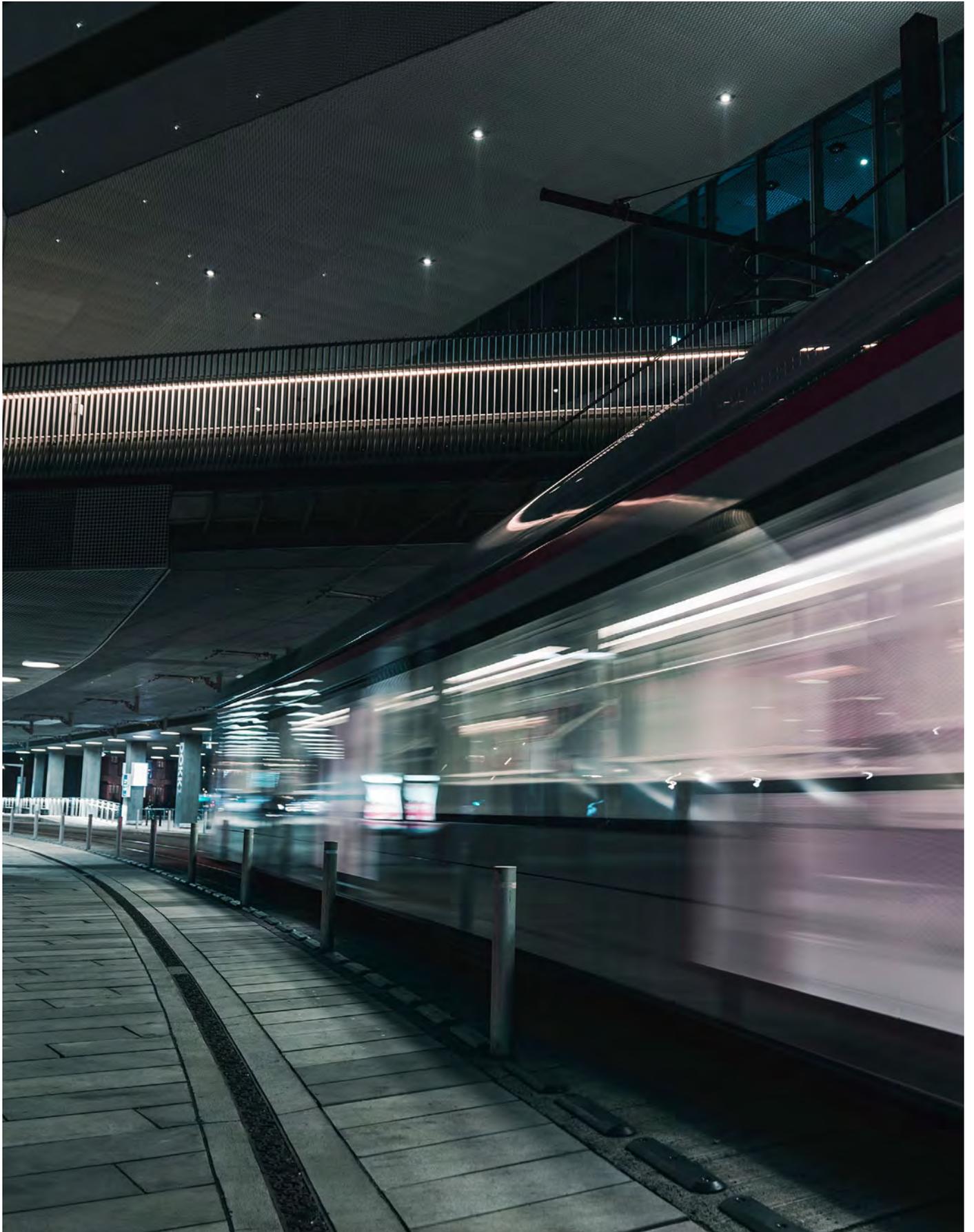


Exhibit 20
Majority in 28 Countries Think Climate Change a Major Risk

As of September 15, 2019. Source: International poll: most expect to feel the impact of climate change, many think it will make us extinct, YouGov. Survey June 11 to July 22, 2019.

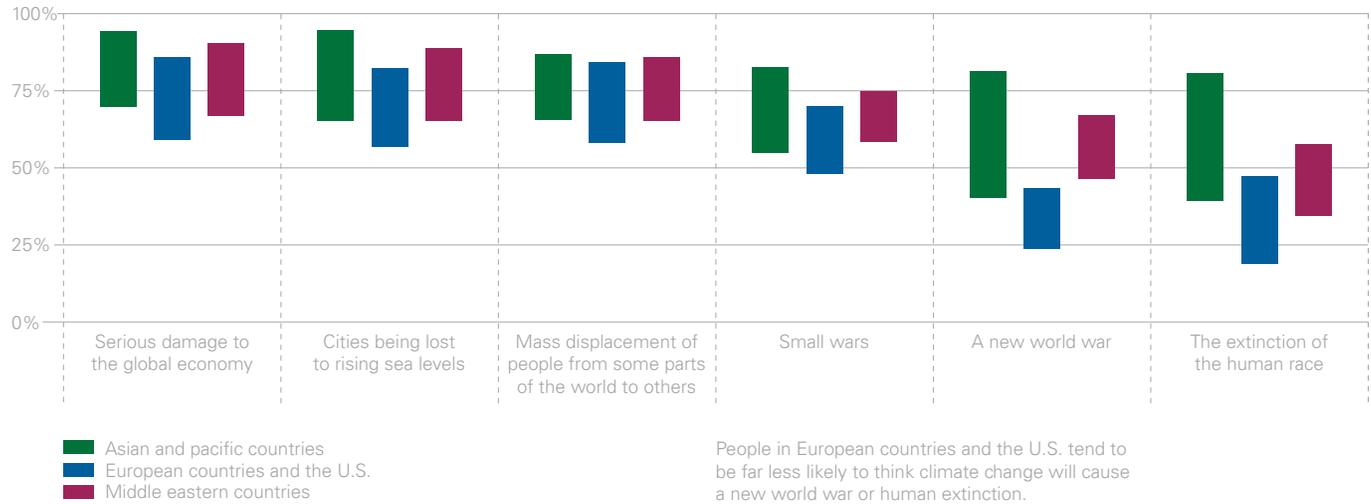


Exhibit 23
Growth in Energy Generation Capacity by Type to 2040

As of September 30, 2020. Source: ClearBridge Investments, Bloomberg New Energy Finance. Compound annual growth rate ranges: renewables 7%-9%; gas 1%-2%.

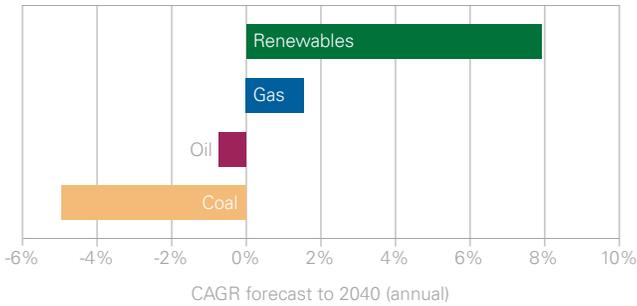


Exhibit 24
Renewable Capacity Additions Continually Surprising on the Upside

As of April 30, 2020. Source: International Energy Agency.

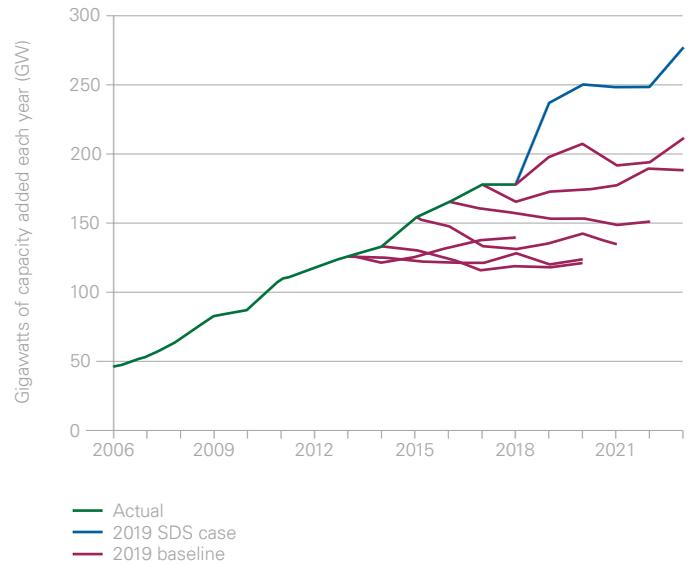


Exhibit 25
Lowering Expectations of Natural Gas Asset Base Growth (Enbridge: Liquids)

As of December 31, 2020. Source: ClearBridge Investments, Bloomberg New Energy Finance.

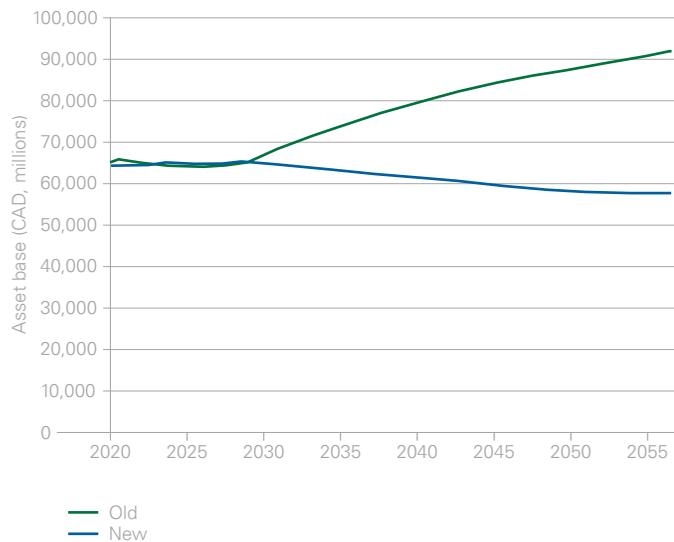
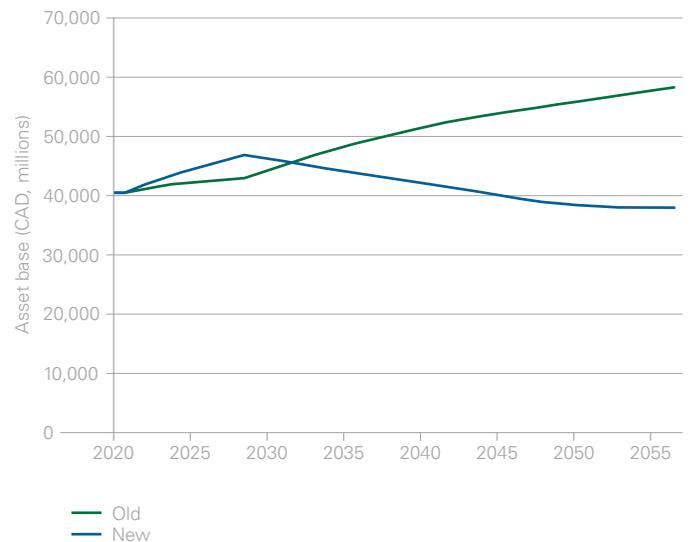


Exhibit 26
Lowering Expectations of Natural Gas Asset Base Growth (Enbridge: Gas)

As of December 31, 2020. Source: ClearBridge Investments, Bloomberg New Energy Finance.



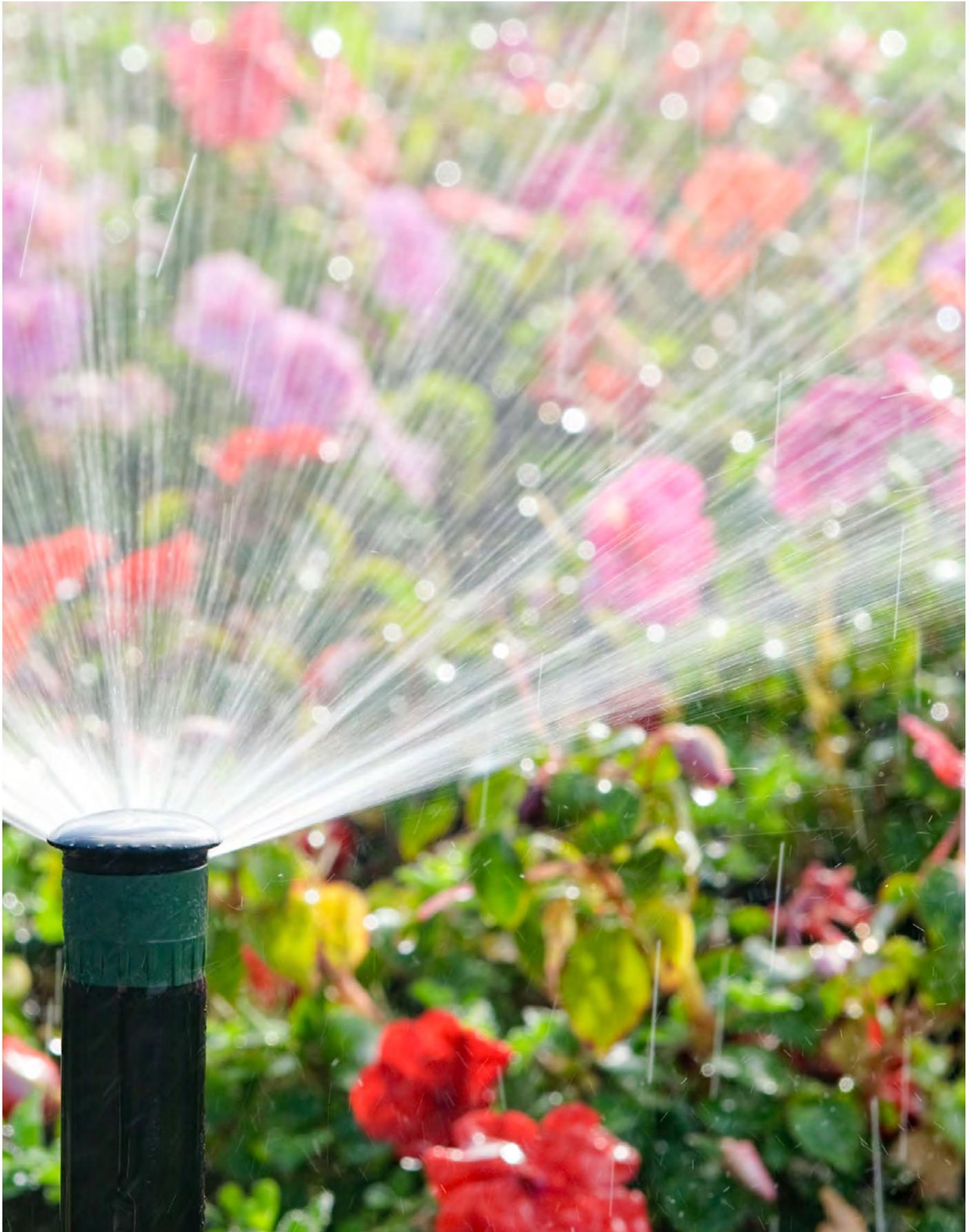
Infrastructure Opportunity Will Not Be Uniform

As the world transitions from higher-carbon-emitting forms of energy generation to more renewable-based generation in an attempt to control climate change, we expect a transition toward greater usage and increased capacity growth for lower-carbon generation and away from higher-emission fuel sources (Exhibit 23). As natural gas has lower carbon emissions than coal and oil, we expect it to be a bridging fuel, helping to meet the world's energy demands with comparatively lower carbon emissions while more sufficient renewable energy infrastructure is built.

Some estimates would have natural gas serving as a bridge fuel for several decades. The market, however, is starting to price in a much faster transition to renewables as renewable capacity growth has consistently surprised on the upside (Exhibit 24), seeing this expressed in the higher amounts of capital expected to be invested into renewables.

From an allocation perspective, increasing exposure to renewables allows a manager to benefit from this multidecade thematic. When considering North American midstream and hydrocarbon infrastructure, we have revised our longer-term growth expectations for commodity volumes lower. Rather than assuming hydrocarbon infrastructure will be a perpetual asset, we have made conservative assumptions that more effectively reflect a depreciating asset base over time, as renewables gain market share at the expense of hydrocarbons. Taking Enbridge, a hydrocarbon-focused pipeline infrastructure company, as an example, we have revised downward both its liquid and gas asset bases (Exhibits 25 and 26).

Consequently, the total returns we expect to receive from pipeline companies focusing on the movement of hydrocarbons is coming down. These reduced expectations have impacted up to 25% of our equity valuation of pipeline companies in North America. The primary recognition here is a diminution in value as public policy shifts toward a cleaner environment, fewer emissions and less time using natural gas as a bridging fuel.



Infrastructure Balancing Stakeholder Interests

The U.K. water sector offers an interesting counterexample to North American pipelines. In the U.K., the water regulator, Ofwat, requires water companies to meet targets of environmental sustainability and service commitments, to which it attaches incentives and penalties. It also sets principles for board leadership, transparency and governance for the sector to ensure board decisions are aligned with customer and stakeholder needs. On the social side, Ofwat assesses the quality of U.K. water companies' engagement with its customers and their satisfaction, as well as the utility's relationship with its community. This regulatory assessment will have an impact on the companies' investment plans, cost of capital and forward cash flows. In addition, due to Ofwat's efficiency challenges, customer bills have fallen. Customer satisfaction levels for the value of water and sewerage service have been high: for water, 91% of customers are satisfied with what is provided by companies, while 76% are satisfied it is "value for money."³

There has also been substantial investment into water networks over time, and those networks have become far more productive after being privatized in 1989. This increased productivity has helped reinforce the above-mentioned decline in bills paid by customers over the last 30 years, in real terms. In this way, privatizations have benefited customers and other stakeholders of these regulated assets.

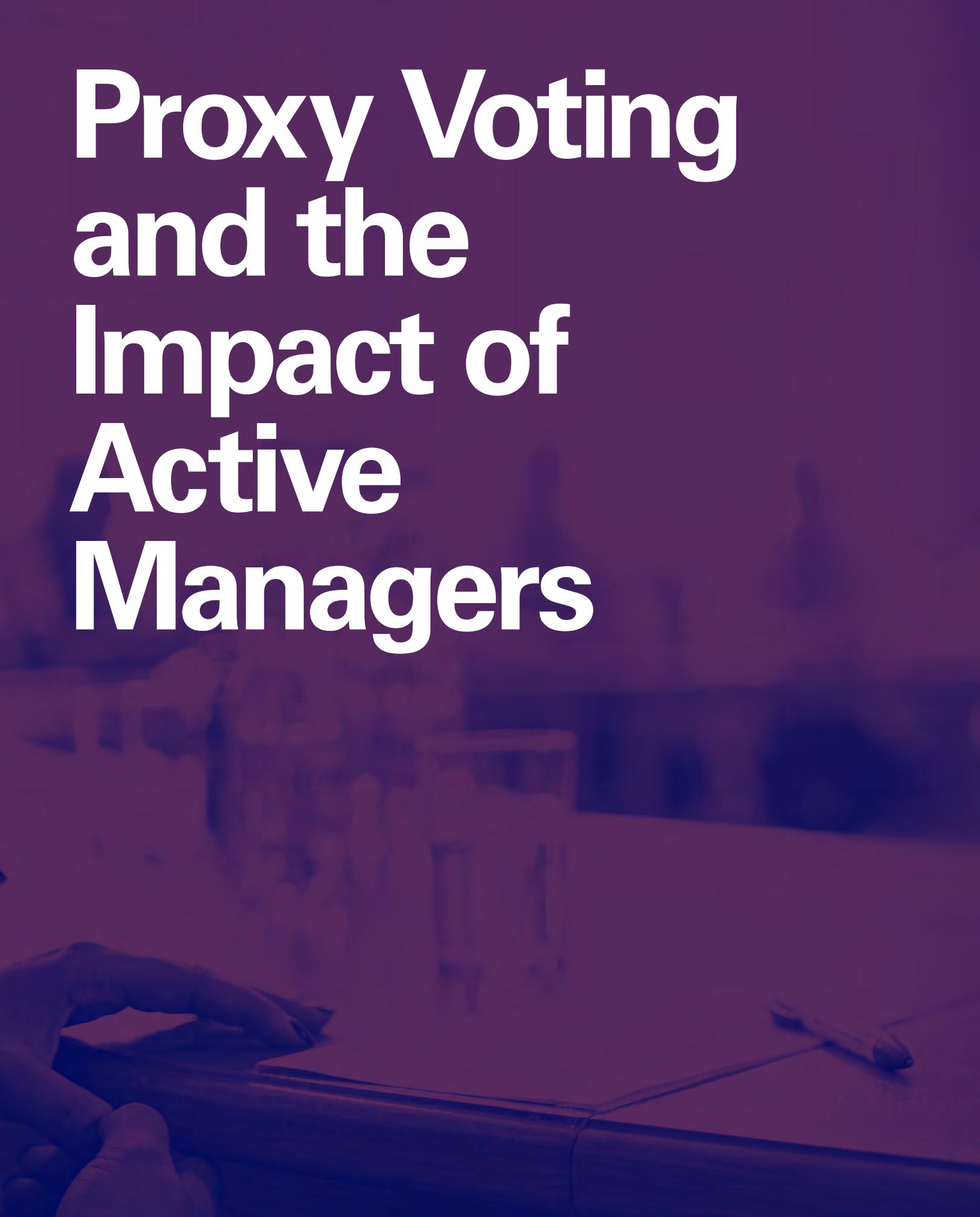
Over the longer term, we believe there is significant room for further growth in U.K. water assets as the regulator incentivizes water companies to adopt new practices and innovate so that they may deliver long-term resilience against climate change, reduce environmental degradation and improve water quality.

In many ways the U.K. water sector also illustrates how infrastructure companies are well-positioned to manage a balance of stakeholder and shareholder interests that is a key tenet of the corporate response to the pandemic. They have done this for a long time. A utility, for example, interacts closely with a regulator, which, as one of its key stakeholders, looks after the customers who are connected with the utility. We expect many other corporations will look to the infrastructure sector to understand how best to undertake that going forward.

Sustainability factors are deeply embedded into U.K. water regulation, and we see the sector incentivized and aligned to achieve positive outcomes for customers and investors. With sustainability factors increasingly embedded into incentives and valuations across the infrastructure space, not least via infrastructure's ability to reduce emissions, we also see a broad opportunity for infrastructure investors with a rigorous approach to ESG analysis.

³ For sewerage, 86% are satisfied with what is provided by companies, while 77% are satisfied it is "value for money." CCW Water Matters Annual Tracking Survey (6,310 total customers surveyed). Source: CCW; England and Wales, April 2019 to March 2020.

Proxy Voting and the Impact of Active Managers



Of the tools public equity investors may use to advocate for sustainable business practices, proxy voting is one of the more visible and powerful. ClearBridge's commitment to this practice is evidenced by our 100% proxy voting record; we have voted on every eligible shareholder proposal at companies in our client portfolios. In 2020, ClearBridge voted on 16,832 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.

Overview of Shareholder Proposals in 2020

In 2020 there were nearly 450 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 27). 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 29).

The most common environmental- or social-related shareholder proposal issue was political activity — including disclosure around corporate lobbying and political contributions (Exhibit 28). Other key themes among the environmental- and social-related shareholder proposals included climate change, diversity, human rights, data privacy and employee rights.

Exhibit 27
Shareholder Proposals 2020

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

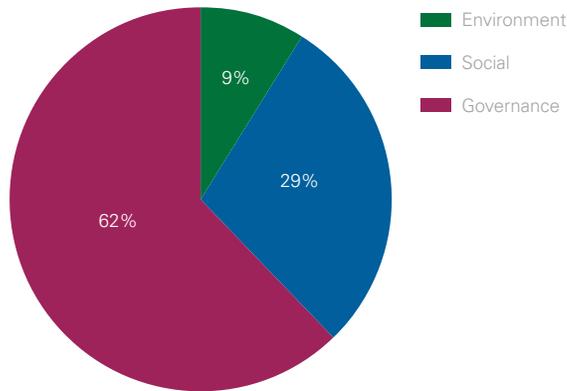


Exhibit 28
Environmental- and Social-Related Proposals 2020

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

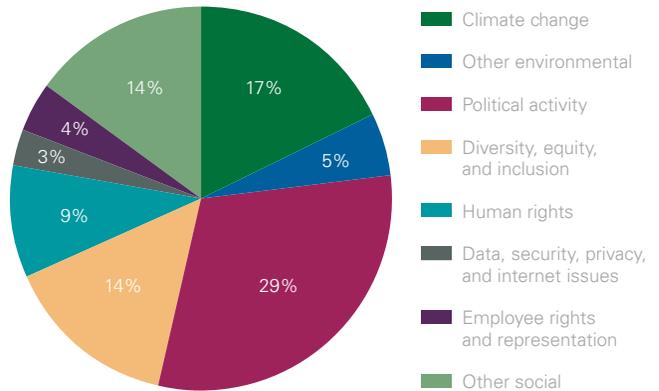
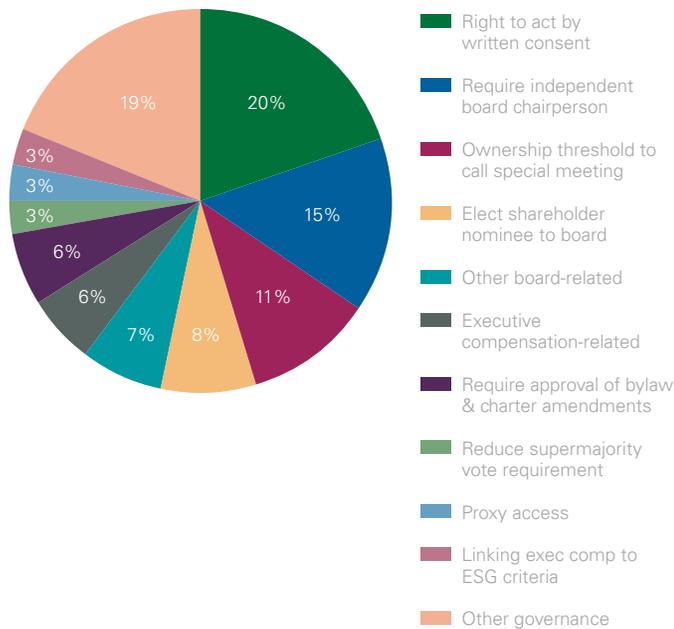


Exhibit 29
Governance-Related Proposals 2020

Source: ClearBridge Investments. Reflects governance-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.

Company Engagements Inform Votes — And Expectations

ClearBridge portfolio managers will often engage with companies directly before deciding how to vote. For example, ahead of the 2020 proxy vote ClearBridge had a constructive engagement with a long-term small cap consumer discretionary holding regarding the structure of its board of directors. The company in question has a classified or staggered board, in which one-third of directors stand for election to three-year terms rather than everyone standing annually. ISS recommended a vote against several directors up for re-election on this basis alone. ClearBridge generally agrees that classified boards are problematic for shareholders and that annual elections are the best practice. However, the mechanism of expressing this view proposed by ISS required a vote against directors that we believe are highly qualified and fulfilling their duties. Rather than oppose these directors, we had multiple discussions with management to convey our desire to see the board declassified. We believe management understands the importance of board structure in corporate governance and was receptive to our position. Although they could not make a firm commitment to declassify at the time, we expect the company to increasingly move in a more shareholder-friendly direction over time. So long as we remain shareholders, we will continue to offer our views and make suggestions to optimize corporate governance.

Not All Shareholder Proposals Pass Muster

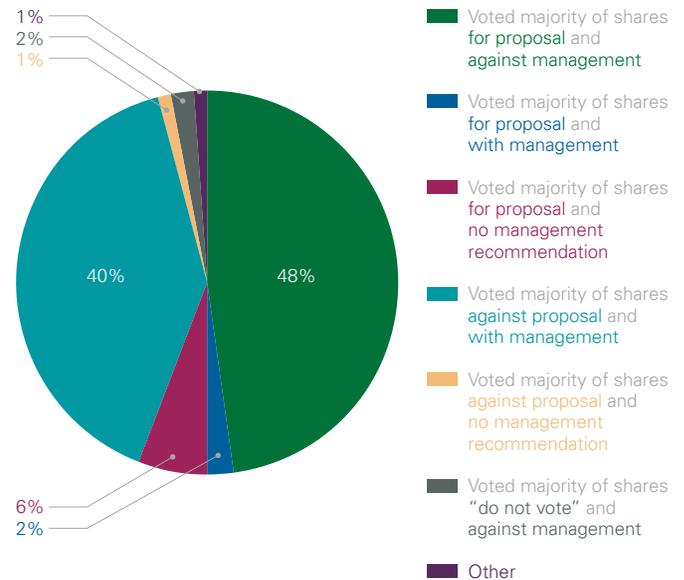
ClearBridge does not support all shareholder proposals. Sometimes there are cases where management is already taking steps to address the issue in question; some proposals we deem to be micromanaging the company's day-to-day operations; some deal with matters not sufficiently relevant to the business. 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 2020 there were a number of 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 30 ClearBridge Voting Record for Shareholder Proposals 2020

Source: ClearBridge Investments.



Proxy Voting in Action

In our role 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 2020, both “For” and “Against,” and how we continue to engage and monitor progress on these critical issues.

Voting “For” a Shareholder Proposal

JPMorgan Chase: report on climate change

Shareholders submitted a proposal requesting that JPMorgan Chase issue a report outlining if and how it intends to reduce the greenhouse gas emissions associated with its lending activities in alignment with the Paris Agreement’s goal of maintaining global temperature rise to well below 2° Celsius.

ClearBridge voted “For” this proposal. We have a long history of engaging JPMorgan Chase on a variety of ESG issues, including tracking the company’s progress in sustainable finance — such as setting climate targets in its portfolios. We voted “For” this proposal in the spirit of continuous improvement and disclosure around climate risk, and to support the impending priority of planning for a 1.5° Celsius scenario.

Oracle: report on gender/racial pay gap

Shareholders submitted a proposal asking Oracle to report annually on whether there is a gender/racial pay gap among its employees, and if so, outline the steps being taken to reduce the gap and support advancement opportunities for women and minorities.

ClearBridge voted “For” this proposal. We have engaged Oracle specifically on the topic of gender and racial pay gaps, as well as other ESG issues. The vote “For” this proposal was to signal to Oracle management that increased transparency and reporting on gender and racial pay gaps continues to be an important consideration given that the company does not provide disclosure in the U.S. Per a McKinsey study, women make up 40% of the workforce in the technology sector yet are underrepresented in higher-level positions.

United Parcel Service (UPS): report on climate change

Shareholders submitted a proposal requesting UPS issue a report 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 well below 2° Celsius.

ClearBridge voted "For" this proposal. We have engaged UPS on a variety of ESG issues, including climate risk. In our last meeting, we requested that the company consider committing to CDP Science-Based Targets for a 1.5° Celsius world. We discussed the company's absolute reduction goals by 2025, whereby small package delivery trucks will be the biggest impact. We encouraged the company to continue to review the impact of aviation and to best use its fuel-efficient fleet.

Procter & Gamble: report on efforts to eliminate deforestation

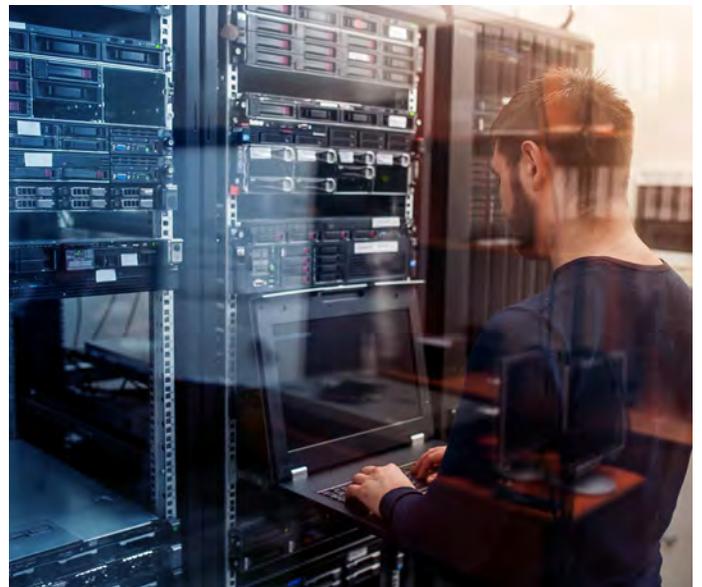
Shareholders submitted a proposal requesting Procter & Gamble issue a report assessing if and how it could increase the scale, pace and rigor of its efforts to eliminate deforestation and the degradation of intact forests in its supply chains.

ClearBridge voted "For" this proposal. We have engaged our portfolio companies on issues related to deforestation for many years, encouraging certified sustainable forestry sourcing practices for lumber and certified sustainable palm oil sourcing practices, for example. We voted "For" this proposal as consumer staples companies are among the largest users of materials from forestry-related commodity supply chains.

Verizon: link executive compensation to social criteria

Shareholders submitted a proposal requesting Verizon's Human Resources Committee of the Board of Directors publish a report assessing the feasibility of integrating user privacy protections into the Verizon executive compensation program.

ClearBridge voted "For" this proposal. We have engaged our portfolio companies on matters of data security and customer privacy for many years. In this case the Verizon shareholder proposal was focused on legally permissible and permitted uses of data. Our analysts have discussed issues around uses of data and customer privacy with the senior managements of their companies, and increasingly, social or environmental metrics have become a consideration on the view of management's performance and subsequent compensation evaluation.





Voting “Against” a Shareholder Proposal

CVS Health: amend shareholder written consent provisions

Shareholders submitted a proposal requesting the company reduce the ownership threshold for shareholders to act by written consent from 25% to 3% of outstanding shares.

ClearBridge voted “Against” this proposal. Our view was that reducing the ownership threshold from 25% to 3% opens the possibility of abuse at the expense of long-term shareholder interest and company resources.

Home Depot: adopt share retention policy for senior executives

Shareholders submitted a proposal urging the company to adopt a policy, applicable to future grants and awards of equity compensation, requiring senior executives to retain a significant percentage of shares acquired through equity compensation programs for a significant period of time following the termination of their employment (through retirement or otherwise).

ClearBridge voted “Against” this proposal. This proposal would require management to hold shares after a change in control, which is against our policy. The requirement is too rigorous for management and could be an issue with recruiting talent in the future.



Costco: disclose board diversity and qualifications matrix

Shareholders submitted a proposal requesting the board adopt a policy to disclose annually a description of the specific minimum qualifications that must be met by a board nominee and to present each nominee's skills, ideological perspectives, and experience in a chart or matrix form.

ClearBridge voted "Against" this proposal. The portfolio management team determined that a vote "Against" this proposal was warranted as the company's current disclosure is sufficient. We typically support shareholder proposals supporting board diversity, but the vote "Against" was specifically due to the "ask" by the proponents related to screening of political leanings/ideological preferences of the board directors, which we believed was out of the scope of the intent of improving board diversity.

Equinix: political spending disclosure

Shareholders submitted a proposal requesting the company report on its political contributions and related policies semi-annually.

ClearBridge voted "Against" this proposal. The frequency of the request of this report is semi-annually, which is unnecessary, as an annual report is sufficient (we typically support political spending disclosure proposals, but for annual reporting). A vote "Against" this proposal was warranted as the frequency of the report requested is excessive.

Adobe, Alphabet, American Express and Facebook: report on median global gender and global racial pay gap

Shareholders filed a proposal requesting the company report on its global gender/racial pay gap, including risks related to attraction and retention of diverse talent.

ClearBridge voted "Against" this proposal. The key issue with this proposal was the "global racial" reporting requirements. A vote "Against" these proposals was warranted as a "global median gender/racial pay gap" report would not produce meaningful information about worker fairness because categories of underrepresented minorities differ from country to country. In addition, in certain countries employers are not permitted to inquire about employee race and ethnicity. We typically support proposals for racial/gender pay gap reporting disclosure.

Voting on Management Proposals

ClearBridge is an active manager, meaning that we 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. But 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 2020, we voted against management’s proposed compensation at 95 portfolio companies (which represents 9% of total companies where portfolio managers voted on “say on pay” management proposals).

Voting “Against” a Management Proposal

Walt Disney: advisory vote to approve named executive officers’ compensation

As required by the SEC, Walt Disney sought advisory shareholder approval of the compensation for the company’s named executive officers (commonly known as a “say on pay” vote).

ClearBridge voted “Against” approving Walt Disney’s executive compensation. The portfolio management team determined that a vote “Against” this proposal was warranted for the following reasons:

01. Annual equity awards for the CEO remain large relative to peers, and awards continue to target merely median performance, which we do not consider to be a rigorous goal.
02. The CEO’s base salary is more than double the median of both company and selected peers at \$3 million.
03. Target and maximum annual incentive pay opportunities for the CEO remain set at \$12 million and \$24 million, which is 400% and 800% of base salary, respectively.
04. Annual incentive award for 2019 exceeded the CEO total pay peer median.
05. The company does not disclose quantified target goals under the annual incentive program, but rather only a performance range, making it difficult for shareholders to truly assess the rigor of the program.

Alphabet: advisory vote to approve named executive officers' compensation

As required by the SEC, Alphabet sought advisory shareholder approval of the compensation for the company's named executive officers (commonly known as a "say on pay" vote).

ClearBridge voted "Against" approving Alphabet's executive compensation. The portfolio management team determined that a vote "Against" this proposal was warranted for the following reasons:

01. New CEO Sundar Pichai's total compensation was valued at over \$250 million.
02. Even in consideration that his last significant equity award was made in 2016, the magnitude of his award opportunities is very large, and the proxy provides limited discussion behind the 2019 award determination or a compelling rationale for the award magnitude.
03. The majority of the award is time-vesting, and a portion of those awards have a short vesting schedule.
04. The majority of Pichai's compensation is not tied to long-term performance criteria, and the portion that is performance-based is not linked to rigorous performance criteria.
05. The relative total shareholder return (TSR) metric targets merely median performance, with no disclosure of a vesting cap if absolute TSR is negative over the performance period.
06. Despite the recent introduction of performance share units (PSUs), there continue to be significant concerns around pay magnitude and overall pay that is not strongly performance-based (particularly in the context of mega awards).



ESG Industry Collaboration

ClearBridge remained active in advancing ESG industry discussions in a challenging 2020.

Event	ClearBridge Representative	Topics	Additional Information
Pensions & Investments ESG Investing Conference December	Robin Freeman, Portfolio Specialist	ESG performance in uncertain times	Audience included institutional investors, academic researchers and policymakers
	Kimberly Gifford, CFA, Portfolio Analyst	Engaging with companies on diversity	
Pensions & Investments ESG Investing Conference June	Derek Deutsch, CFA, Portfolio Manager	ESG as a tool for portfolio resiliency and risk mitigation	Audience included institutional investors, academic researchers and policymakers
RI Americas	Dimitry Dayen, CFA, Sector Analyst	Investing in the future of energy	Audience included institutional investors, academic researchers and policymakers
	Hilary Frisch, CFA, Sector Analyst	Anti-trust regulation and big tech	
	Mary Jane McQuillen, Portfolio Manager, Head of ESG Investment	Outlook for ESG investing after the pandemic	
RI Europe	Benedict Buckley, CFA, Portfolio Analyst	What it means to be a responsible investor	Audience included institutional investors, academic researchers and policymakers
Ceres 2020 Digital Program	David Hochstim, CFA, Sector Analyst	How ESG investing positions investors for recovery and success during crises like COVID-19 and climate change	Audience included institutional investors, academic researchers and policymakers
The Forum for Sustainable and Responsible Investment (US SIF)	Robin Freeman, Portfolio Specialist	Major trends in ESG investing	Robin Freeman hosted US SIF's Meg Voorhes and Bryan McGannon in a webinar discussion of the major trends in US SIF's biannual report on sustainable and impact investing.

ESG Organization Affiliations

ClearBridge maintains active relationships with organizations that support ESG goals.



The **Access to Medicine Index** analyses and independently ranks the top 20 research-based pharmaceutical companies on how they make medicines, vaccines and diagnostics more accessible in low- and middle-income countries. Two billion people in the world have no access to medicine, and the index gives insight into what the pharmaceutical industry is doing to improve this situation. Funded by the Bill & Melinda Gates Foundation and the U.K. and Dutch governments, the Index has been published every two years since 2008. ClearBridge has been a signatory to the investor statement since 2016.



CDP is a nonprofit organization that collects climate change, carbon emissions and water data from more than 2,000 companies worldwide. As an investor signatory, ClearBridge Investments has joined hundreds of other institutional investors in supporting disclosure on GHG emissions data and transparency on climate change policies and strategies. As a company member, our parent company, Franklin Resources, has also committed to collecting and disclosing critical climate change data and disclosing the risks and opportunities presented by climate change to our organization since 2010. ClearBridge has been an Investor Signatory since CDP's inception in 2003.



Ceres is a nonprofit organization with a mission to integrate sustainability into business practices for the health of the planet and its people. The organization leads a coalition of investors, environmental organizations and other public interest groups working with companies to address sustainability challenges such as global climate change, deforestation and water scarcity and to support a sustainable economy. ClearBridge is a Member.



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



The Forum for Sustainable and Responsible Investment is the U.S. national nonprofit membership association for professionals, firms and organizations dedicated to advancing the practice and growth of socially responsible investing (SRI). Forum members support SRI by integrating environmental, social and governance issues into portfolio selection analysis, shareholder advocacy and community investing. ClearBridge is an Active Member.



The Global Impact Investing Network (GIIN) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. Impact investments are investments made in companies, organizations and funds with the intention of generating measurable social and environmental impact alongside a financial return. ClearBridge is a Network Member.



Through the lens of faith, the **Interfaith Center on Corporate Responsibility (ICCR)** builds a more just and sustainable world by integrating social values into investor actions. Harnessing their power as shareholders in the world's largest and most influential corporations, ICCR members work in coalition to promote corporate practices that ensure long-term business growth while measurably improving environmental and social impacts. ClearBridge is an Affiliate Member.



As a project of Ceres, **INCR (Investor Network on Climate Risk)** is a network of investors from across the globe dedicated to advancing the investment opportunities and reducing the material risks posed by sustainability challenges such as climate change. It consists of nearly 100 members managing more than \$11 trillion in assets. ClearBridge is a Member.



The Responsible Investment Association (RIA) is Canada's leader on responsible investment. RIA is a national, membership-based organization composed of financial institutions, mutual fund companies, investment firms, financial advisors and various organizations and individuals who practice and support responsible investing. ClearBridge is a Member.



ClearBridge became a public supporter of the **Task Force on Climate-Related Financial Disclosures (TCFD)**, an organization developing consistent metrics for use by companies in disclosing financial risks associated with climate change to investors, lenders and other stakeholders. ClearBridge is committed to effectively communicating portfolio risks related to climate change with our shareholders. ClearBridge is a supporter as of 2018.



ClearBridge and **WaterAid** have formed a corporate partnership. WaterAid is working to make clean water, decent toilets and good hygiene normal for everyone, everywhere, within a generation. The international nonprofit organization works in 34 countries to change the lives of the poorest and most marginalized people. Since 1981, WaterAid has reached 26.4 million people with clean water. Through this partnership ClearBridge brings together several important components of our corporate mission: philanthropy, volunteerism, sustainability and relating our investment capabilities to the United Nations' Sustainability Development Goals, in this case SDG 6: Clean Water and Sanitation. In 2020–2021 we have underwritten a critical project in Colombia to bring water to the village of La Guajira in a safe and consistent manner. We report on progress on this project elsewhere in this report.

Index of Companies

ACWA Power	71	Home Depot	113
Adobe	115	Iberdrola	71
Advance Auto Parts	30	Inditex.....	38
Air Products and Chemicals	71	Intel	53, 80
Alphabet.....	86, 115, 118	JPMorgan Chase	109
Amazon.com.....	30, 86	Lam Research	80, 88
American Express.....	115	Microsoft.....	39, 86
Amgen	31	Monster Beverage	28
Apple	80	Nestlé.....	40
Aptiv	32	Oracle.....	109
Autodesk.....	33	Orsted	71
Ballard Power Systems.....	70	Plug Power.....	70
BlackRock.....	27	Procter & Gamble	110
Bloom Energy	70, 71	QuantumScape.....	73
Brookfield Renewable	86, 87	Regal Beloit.....	88
Coca-Cola	28	Sempra Energy	41
Comcast.....	34	Snam	71
Costco	114	SolarEdge Technologies.....	87
Cummins	70, 72	TE Connectivity.....	42
CVS Health.....	113	Toyota.....	73
CWP Renewables.....	71	Trane Technologies	43
Enbridge.....	75, 98, 99	UnitedHealth	44
Enphase	87	United Parcel Service	45, 110
Envision.....	71	Verizon.....	111
Equileap.....	27, 51, 52	Vistra	25, 26
Equinix.....	35, 86, 115	Volvo.....	70
Facebook.....	115	Walt Disney.....	117
First Republic Bank.....	36	Yara.....	71
General Motors.....	30, 61		
Getlink	37		

For Institutional Professional Investors only – not for distribution to retail clients

This material is intended to be of general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice. The views expressed are those of the investment manager and the comments, opinions and analyses are rendered as at publication date and may change without notice. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market. This material is made available by the following Franklin Templeton entities in those countries where it is allowed to carry out relevant business.

Benchmark source: Russell Investments. Frank Russell Company (“Russell”) is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and/or Russell ratings or underlying data and no party may rely on any Russell Indexes and/or Russell ratings and/or underlying data contained in this communication. No further distribution of Russell Data is permitted without Russell’s express written consent. Russell does not promote, sponsor or endorse the content of this communication.

Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI’s express written consent. Further distribution is prohibited.

In the United States – For Qualified Purchaser and Institutional Investor Use Only – Not for Use with Retail Investors.

For more information, please visit ftinstitutional.com.

Outside of the U.S. – For Qualified Purchaser and Professional Investor Use Only – Not for Use with Retail Investors.

Americas

Canada: Franklin Templeton Investments Corp., 200 King Street West, Suite 1500 Toronto, ON, M5H3T4, Fax:(416) 364-1163, (800) 387-0830, www.franklintempleton.ca.

Offshore Americas: In the U.S. this publication is made available by Templeton/Franklin Investment Services, 100 Fountain Parkway, St. Petersburg, Florida 33716. Tel: (800) 239-3894(USA Toll-Free) and Fax: (727) 299-8736. Investments are not FDIC insured; may lose value; and are not bank guaranteed. Distribution outside the U.S. may be made by Templeton Global Advisors Limited or other sub-distributors, intermediaries, dealers or professional investors that have been engaged by Templeton Global Advisors Limited to distribute shares of Franklin Templeton funds in certain jurisdictions. This is not an offer to sell or a solicitation of an offer to purchase securities in any jurisdiction where it would be illegal to do so.

EMEA

UK: Franklin Templeton Investment Management Limited (FTIML), registered office: Cannon Place, 78 Cannon Street, London, EC4N 6HL. Tel +44 (0)20 7073 8500. Authorized and regulated in the United Kingdom by the Financial Conduct Authority.

Luxembourg: Franklin Templeton International Services S.à.r.l. (FTIS), registered office 8A, rue Albert Borschette, L-1246 Luxembourg. Authorized and regulated in Luxembourg by the Commission de Surveillance du Secteur Financier (CSSF) and authorized to conduct specific investment business in other European countries via UCITS and AIFMD outward service or via any of the following outbound FTIS S.à.r.l. branches as listed below:

Germany: Franklin Templeton International Services S.à.r.l. Niederlassung Deutschland, Mainzer Landstr. 16, 60325 Frankfurt/Main, Deutschland. Tel +49 (0) 69/27223-557, Fax +49 (0) 69/27223-622, institutional@franklintempleton.de.

Netherlands: FTIS Branch Amsterdam, World Trade Center Amsterdam, H-Toren, 16e verdieping, Zuidplein 134, 1077 XV Amsterdam, Netherlands. Tel +31 (0) 20 575 2890.

Romania: Franklin Templeton International Services S.à.r.l. Luxembourg, Bucharest Branch, at 78-80 Buzesti Str, Premium Point, 8th Floor, Bucharest 1, 011017, Romania. Registered with Romania Financial Supervisory Authority under no. PJM07.1AFIASMDLUX0037/10 March 2016 and authorized and regulated in Luxembourg by Commission de Surveillance du Secteur Financiere. Telephone: + 40 21 200 9600

Spain: Franklin Templeton International Services S.à.r.l. – Spanish Branch, Professional of the Financial Sector under the Supervision of CNMV, José Ortega y Gasset 29, Madrid, Spain. Tel +34 91 426 3600, Fax +34 91 577 1857.

Sweden: Franklin Templeton International Services S.à.r.l. – Swedish Branch, Nybrokajen 5, SE-111 48, Stockholm, Sweden. Tel +46 (0)8 545 012 30, nordicinfo@franklintempleton.com

South Africa: Franklin Templeton Investments SA (PTY) Ltd which is an authorised Financial Services Provider. Kildare House, The Oval, 1 Oakdale Road, Newlands, 7700 Cape Town, South Africa. Tel +27 (21) 831 7400, Fax +27 (11) 341 2301, www.franklintempleton.co.za

Switzerland: Franklin Templeton Switzerland Ltd, Stockerstrasse 38, CH-8002 Zurich, Switzerland. Tel +41 44 217 81 81 / Fax +41 44 217 81 82, info@franklintempleton.ch

U.A.E.: Issued by Franklin Templeton Investments (ME) Limited, authorized and regulated by the Dubai Financial Services Authority. Dubai office: Franklin Templeton Investments, The Gate, East Wing, Level 2, Dubai International Financial Centre, P.O. Box 506613, Dubai, U.A.E., Tel.: +9714-4284100, Fax:+9714-4284140.

APAC

Australia: Franklin Templeton Investments Australia Limited (ABN 87 006 972 247) (Australian Financial Services License Holder No. 225328), Level 19, 101 Collins Street, Melbourne, Victoria, 3000.

Hong Kong: Issued by Franklin Templeton Investments (Asia) Limited, 17/F, Chater House, 8 Connaught Road Central, Hong Kong.

Singapore: Templeton Asset Management Ltd, 7 Temasek Boulevard, #38-03 Suntec Tower One, Singapore, 038987. Tel: +65 64329754, Fax: +65 63379370, www.franklintempleton.com.sg

Please visit www.franklinresources.com to be directed to your local Franklin Templeton website with further contact details/information.

ClearBridge

Investments

