“Business can be a force for good in society. Investors have the ability to examine and amplify that impact.”

-Mary Jane McQuillen, Head of ESG Investment

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Firm Overview

ClearBridge Investments is a leading global equity manager with $137 billion in assets under management as of December 31, 2017. We are committed to delivering long-term results through active management, as we have for more than 50 years, and continue to offer investment solutions that emphasize differentiated, bottom-up stock selection to move our clients forward. Owned by Legg Mason, ClearBridge operates with investment independence from headquarters in New York and offices in Baltimore, London, San Francisco 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. Our active approach combines the market knowledge of long-tenured portfolio managers with the original research of a specialized group of sector and portfolio analysts and the deep diligence of a dedicated risk management team. The Firm offers 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 our platform.

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. Our experience demonstrates that an active, long-term commitment to ESG integration — ClearBridge holds companies for seven years on average across our portfolios — is good business and can offer clients a return on their investments and make an impact. As part of this integration into our fundamental research process, we assign ESG ratings to every company in our coverage universe and use those ratings to track progress toward stated goals over time and drive engagement with the companies we own. ClearBridge is a signatory to the United Nations-supported Principles for Responsible Investment.

Combining active investment with active ownership

→ Advocacy via engagement with company management and proxy voting

→ Client and public education about ESG best practices

Diligent Research

Investment ideas are sourced from intensive research integrating fundamental analysis with ESG considerations, and leverage the wisdom of experienced investment teams, to construct high-conviction portfolios.

Business Model Focus

Quality guides stock selection, with an emphasis on companies featuring superior business models, sound capital allocation and healthy balance sheets. Our promotion of best-in-class ESG practices through company engagements and outreach reinforces this quality bias.

Patience

Patiently investing for the long term, harnessing in low-turnover strategies the powerful compounding effects of earnings and cash flow growth.

Risk Awareness

A robust due diligence approach anticipates risks prior to stock purchase and consistently manages market and security-specific risks across portfolios and the Firm.

A Long-Term Commitment to Fundamental Investing

ClearBridge is committed to authentic active management, delivering performance distinct from market benchmarks.

$124.3 billion

Assets for which ESG risk and opportunities are analyzed

658

Proprietary ESG-rated companies

1000+

Company meetings per year

334

Companies where we are a top 20 shareholder

7 years

Average period we own a company*

* The weighted average turnover of all ClearBridge’s strategies is 14.5% (weighted by assets managed in each strategy). This implies a holding period of approximately 7 years.
Introduction

ClearBridge 2017 Impact Report

In this report, we articulate our definition of impact, examine investments under this framework and the role played by direct company engagement, as well as share our internal policies and practices.

We believe public companies make an impact in the world through the products and services they sell, their supply chains, large employee bases and interactions with the communities where they operate. This can be measured and monitored over time.

Economies are built by enterprises — public, private and governmental — that are the agents of change and influence in the world. While large public companies may not be run with the primary intention of creating impact, by virtue of their size and complex stakeholder relationships across supply chains, distribution networks and communities where they operate, they have a social and environmental impact at every level. As widely-held assets, public equities are the most direct way for most investors to make an impact.

We can amplify this impact by being intentional active investors through our allocation of capital and direct engagement with company managements. We source investment ideas and construct portfolios by integrating ESG analysis into the sector and company research performed by analysts on ClearBridge’s centralized fundamental research platform. Our analysts examine the ESG issues relevant to a company’s business activities, measure and evaluate their impact on both qualitative and quantitative bases and suggest ways for companies to improve their ESG practices.

This integrated approach results in a thorough and detailed evaluation of a company’s risks and opportunities related to issues like corporate governance, labor/hiring practices, community involvement and climate change.

Publicly traded enterprises are making powerful impacts all over the world. By examining the various facets of their business and engaging with company managements on material issues, we can drive positive change on a global scale while also contributing to financial returns.

1 A Note about Terminology: There are many ways to describe strategies for investing consistent with environmental, social and governance best practices. These include “sustainable investing,” “socially responsible investing” and more recently “impact investing.” Among others, the term “ESG” represents the latest stage in the evolution away from merely screening out certain industries or companies.

2 Fundamental Research is the analysis of factors that affect a company’s underlying value such as revenues, cash flow, supply and demand of the company’s products etc., as opposed to technical analysis which involves using historical price and trading data.

As of 2017.

The PRI is an investor initiative in partnership with the UNEP Finance Initiative and the UN Global Compact.

*Scores have been calculated based on signatories’ self-assessment and using the scoring methodology approved by the PRI Assessment Group. Although a limited verification exercise was conducted with a proportion of signatories, responses have not been independently audited by the PRI Secretariat, PRI Assessment Group, or any other third party. Individual results including comparisons to the overall results (quartiles) are indicative and do not imply an endorsement of signatory activity. While the information is believed to be reliable, no representations or warranties are made as to the accuracy of information presented, and no responsibility or liability can be accepted for any errors, omissions or inaccuracies in the information.
Introduction

ClearBridge 2017 Impact Report

Milestones

- ClearBridge opens first client account using socially responsible investment approach
- Joins US SIF: The Forum for Sustainable and Responsible Investment
- Appointed subadvisor to Humane Society of U.S. fund with animal welfare guidelines
- Mary Jane McQuillen named co-chair of the NYSSA Social Investment Security Analyst (SISA) committee
- Becomes an inaugural Investor Signatory to the Carbon Disclosure Project (CDP)
- Participates in launch of the PRI with Kofi Annan at the NYSE
- Establishes central research platform and begins integrating ESG factors by sector
- ClearBridge assets where ESG factors are integrated and ESG ratings assigned surpasses $100 billion
- Signs the Access to Medicine Index Investor Statement
- Case study in PRI’s A Practical Guide to ESG Integration for Equity Investing
- Appointed subadvisor to Desjardins Socie Terra American Equity Fund
- Case study in CFA Institute’s ESG Issues in Investing - A Guide for Investment Professionals
- PRI ESG Integration in Listed Equities
- Signs UN-supported Principles for Responsible Investment (PRI)
- CFA Institute report Environmental, Social and Governance Factors at Listed Companies - A Manual for Investors
- Joins Ceres
- Joins Investor Network on Climate Risk (INCR)
- Joins Global Impact Investing Network (GGIN)
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- Signs UN-supported Principles for Responsible Investment (PRI)
- CFA Institute report Environmental, Social and Governance Factors at Listed Companies - A Manual for Investors
- Joins Ceres
- Joins Investor Network on Climate Risk (INCR)

Strategy inception
ESG milestones
Joins member networks
Contributes to publication
ESG in Practice

ClearBridge 2017 Impact Report

ESG Philosophy
ClearBridge believes that ESG is the future of investing and that someday it won’t even be called “ESG” or designated as a separate discipline; it will become an integral part of the way investors analyze companies. At ClearBridge, ESG is not merely a screen or an overlay; it is part of how we conduct fundamental research and it defines how we think about all companies considered for investment in all client portfolios. Our clients, whether or not they desire an explicit ESG mandate, all have investment goals — growing pensions, funding grants or delivering retirement income — to be achieved far into the future. They deserve to invest in companies that plan carefully for what’s ahead and that care about the environment, their employees, their customers and their community. We believe such companies are most likely to provide the kind of performance our clients need to meet their long-term goals.

ESG Approach
ClearBridge’s tradition of long-term investing in quality businesses aligns closely with an ESG investing approach. This approach fosters meaningful ownership positions in portfolio companies and significantly lower portfolio turnover compared to peers. This long-term approach is reflected in the Firm’s compensation structure, which bases incentive compensation for portfolio managers primarily on three- and five-year investment performance. A portion of portfolio managers’ compensation is invested in the portfolios they manage and vests over four years. These practices align the incentives of our portfolio managers with the long-term interests of our clients.

Our bottom-up, fundamental research targets companies with:
- Differentiated business models
- High sustainable returns
- Strong financial characteristics
- Seasoned management teams

This overall stock selection process lends itself well to ESG integration. Rather than rely on negative screening or overlays, ESG integration ensures a more holistic approach to sustainability that measures progress and promotes improvement over time.

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 considered for investment across the platform are given an ESG rating, updated at least annually, and only companies rated “A” or better may be included in ESG portfolios. We also work actively with companies seeking to improve their ESG performance through direct engagement and proxy voting.

Terrence Murphy
Chief Executive Officer
Terrence plays an integral role in making ESG a business priority for the Firm, supporting research and product development. As CEO, he signs ClearBridge’s declaration with the PRI.

Mary Jane McQuillen
Head of ESG Investment, Portfolio Manager
Mary Jane joined ClearBridge’s ESG program in 1996; the program has grown significantly under her leadership. She is considered by many as an ESG pioneer, thought leader and a constant advocate for further innovation and growth.

Charles Harris
Director of Research
Charles is responsible for driving further integration of ESG practices within our central research team – leading executive and board-level conversations on a variety of ESG topics like diversity, board governance and executive pay.
ESG in Practice

ClearBridge 2017 Impact Report

**ESG Integration and Ratings**

At ClearBridge, ESG is not merely a screen or an overlay; it is how we conduct fundamental research and defines how we think about all companies considered for investment. Many investors say they integrate ESG into their investment process, but there are many different approaches being employed. When we say our ESG research is “integrated” we mean that it is included in an analyst’s process for covering a company. This is a key point — ESG research is not done by separate analysts or simply as an overlay of research from a third party.

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**Model 1: Third party ESG research firm**

**Model 2: Segregated internal ESG research team**

**ClearBridge: One team integrating ESG and fundamental research**

The majority of managers still use the segregated approaches shown in models 1 and 2.

- **Firm-wide fundamental research incorporating ESG perspectives across industry sectors**
- **Research analyst compensation based in part on evaluating ESG factors linked to company performance best practices**
- **An ESG ratings system facilitating systematic research and engagement with companies**

ESG in Practice

ClearBridge 2017 Impact Report

**Proprietary ESG Ratings**

ClearBridge’s sector analysts have an average of 10 years of investment industry experience. The analysts have developed their own framework that identifies the key ESG considerations for each sub-sector in their coverage area. The framework leverages the analysts’ many years of experience to focus on the ESG issues that truly matter for each company.

For every stock recommendation, each analyst presents the investment thesis, risk/reward profile, valuation, target price and internal ESG rating. This information helps to inform portfolio managers and other analysts with a holistic view of the stock, inclusive of financial and ESG drivers.

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**One of the first investment managers to truly practice ESG integration**

- Company sees value in ESG factors, has begun to incorporate sustainability into business operations and products and has started reporting its progress.
- Company recognizes potential to capitalize on ESG improvements.
- Company sees value in ESG factors, has begun to incorporate sustainability into business operations and products and has started reporting its progress.
- Company has integrated ESG strategy into its business model, usually with full CEO and/or employee support; formally measures sustainability efforts and proactively communicates to investors. Often, these are companies that are providing goods and services that have a positive effect or impact on society or the relevant industry.

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**Asset-weighted ESG Ratings Distribution for ClearBridge Portfolio Companies**

- **AAA: 26.4%**
- **AA: 25.6%**
- **A: 38.0%**
- **B: 9.9%**

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**In general, the ratings correspond to the following levels of ESG success or leadership:**

- **Uninvestable (B):** Company with poor ESG record or involved in unsustainable industries such as tobacco or coal.
- **Beginner (A):** Company recognizes potential to capitalize on ESG improvements.
- **Intermediate (AA):** Company sees value in ESG factors, has begun to incorporate sustainability into business operations and products and has started reporting its progress.
- **Best in Class (AAA):** Company has integrated ESG strategy into its business model, usually with full CEO and/or employee support; formally measures sustainability efforts and proactively communicates to investors. Often, these are companies that are providing goods and services that have a positive effect or impact on society or the relevant industry.
ESG Considerations by Sub-Sector

Environmental
- Climate change, environmental regulation and compliance
- Data center energy efficiency
- Energy efficiency
- Environmental impact of e-commerce
- Environmental benefits of products and services
- Economic and policyholder impact from climate change
- Innovations to reduce environmental impacts
- Fuel efficiency and optimization
- Land reclamation and remediation
- Non-fossil fuel (renewables) energy investments
- Product life cycle management
- Supply chain manufacturing efficiency
- Sustainable raw material sourcing
- Water management
- Waste reduction and disposal

Social
- Addressing unmet medical needs
- Affordability and access to medicines
- Animal cruelty
- Community investment and job creation
- Community relations (cultural awareness, human rights and indigenous peoples)
- Data privacy and security
- Employee health and safety
- Financial inclusion and access
- Health and wellness trends
- Health benefits/harms of products
- Labor management (recruitment and retention, diversity and inclusion)
- Product quality and safety (drug safety, relative to seriousness of disease)
- Responsible lending and debt prevention
- Supply chain labor management (human rights, health and safety)
- Transparency and fair advice for customers

Governance
- Anti-corruption management (Foreign Corrupt Practices Act)
- Business ethics
- Capital allocation policies
- Executive compensation
- Financial risk management and oversight
- Geopolitical risk exposure and management
- Government relations and regulatory compliance
- Integrity and independence of financial credit ratings
- Management of the legal and regulatory environment
- Operating excellence (e.g. downtime/errors)
- Organizational checks and balances (board independence, independent audit)
- Quality and integrity of management
- Regulatory compliance
- Shareholder rights and controls
- Systemic financial risk management, safeguarding customer funds

Representative list of considerations shown. Other considerations may apply.
Company Engagement
Public equity ownership can also be a powerful tool to influence companies and drive change. As active investors in the public markets, we engage with company management on a variety of material ESG issues and urge them to improve policies and practices. We engage with companies in various ways, including one-on-one meetings with senior management and through our active participation in ESG organizations.

As a firm, ClearBridge conducts over 1,000 company meetings every year. Our high-conviction, concentrated approach to portfolio construction, coupled with our large asset base and ESG expertise, puts us in a unique position. We take a partnership approach toward driving change within corporations, focusing on the impact we can have during our conversations with CEOs, CFOs and corporate sustainability teams over long periods of time. As a large institutional money manager, just 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. ClearBridge’s implied weighted average holding period is seven years—substantially higher than most other long-term asset managers. 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.

ClearBridge publishes engagement reports annually for each of its ESG strategies. Specific strategy engagement reports are provided upon request.

Examples of Long-Term Engagement Success:
Water Conservation and Energy Efficiency
As a top-five shareholder in an IT hardware company, we have maintained a dialogue with the company’s management for over nine years. What started out as a discussion on sustainability reporting led to the company measuring and reporting carbon emissions data and setting five-year targets to reduce emissions by 30%. Through our engagement, the company also recognized the need to address water consumption and eventually achieved 100% water recycling in its Shanghai manufacturing plant, the first facility of its kind to reach such a milestone. In 2016, the company extended this effort to its Penang facility. In addition to the environmental impact, this decision resulted in over $2 million in water utility cost savings, a direct impact to the bottom line.

Human Rights
Using our influence and access as a top-10 shareholder, we similarly engaged with an international materials company to discuss concerns about slave labor related to the Brazilian charcoal and pig iron industry. The company began to investigate the issue, joined and funded the Citizen’s Charcoal Institute, signed a national pact and hired local experts to monitor the situation. Five years later, the company required that suppliers become signatories to the Institute of the National Pact to Eradicate Slave Labor (InPACTO) and by 2016, it secured three pig iron suppliers who were InPACTO-verified. We see this as a significant win for protecting human capital in the industry, in addition to enabling the company to secure an ongoing supply of a key production component without reputational risk.

Mercer’s report The Long and Winding Road: How Long-Only Equity Managers Turn Over Their Portfolio Every 1.7 Years was produced as part of the “Tragedy of the Horizon” research which seeks to explore the potential for long-term suboptimal allocation of capital due to the finance sector’s limited ability to capture long-term risks within short-term risk assessment frameworks.

Examples of Long-Term Engagement Success: Water Conservation and Energy Efficiency

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Proxy Voting

The proxy voting process is one of the more visible and often powerful tools public equity investors may use to advocate for sustainable business impact. As shareholders, ClearBridge has a 100% proxy voting record, meaning we have voted on every eligible shareholder proposal at companies in our client portfolios. We vote proxies for each client that has specifically authorized us to do so and vote proxies for each ERISA account unless the plan document or investment advisory agreement specifically reserves this responsibility for the plan trustees or another named fiduciary.

As shareholders, ClearBridge has a 100% vote record in proxy voting.

Our votes on shareholder proposals are an effective way to signal confidence in the companies we own and to suggest the need for a change in policies, disclosures or related aspects of a company’s business. Proxy votes are cast by the portfolio managers of each ClearBridge strategy. We follow a thoughtful process in determining how to cast our votes, with the ClearBridge Proxy Committee bringing specific issues to the portfolio management teams and coordinating the proxy voting process.

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 values. In the case of a proxy issue for which there is a stated position, we generally vote in accordance with the stated position.

In some instances, ClearBridge will cast “mixed votes” on specific proposals both For and Against. Different investment teams may vote differently on the same issue, depending upon their assessment of clients’ best interests.

There are ESG proposals that we sometimes do not support. Reasons for this include cases where management is already taking steps to address the issue in question as well as proposals that are deemed to be “micromanaging” the company’s day-to-day operations or that deal with matters not sufficiently relevant to the business. The Securities and Exchange Commission has provided guidance on such proposals.

Review of the 2017 Proxy Season

According to the Sustainable Investments Institute (Si2) proxy review, the total number of environmental and social policy shareholder resolutions filed in 2017 increased significantly, reaching a record of at least 488 as of mid-August compared with 432 in 2016 and 462 the year before. The notable rise in proposals this past year was attributed to social policy issues, mainly about equitable pay. Average overall support for these proposals was 21.6% as of late October, up from 21.1% in 2016 and 20% in 2015.

Proposals generally call for greater disclosure or changes in specific environmental or social policies. This past year 170 resolutions were withdrawn, primarily due to negotiations representing progress toward proposal goals. This is an increase from 139 withdrawals in 2016.

Steel Producer Sets Emissions Goals

ClearBridge is the sixth-largest shareholder of a major steel producer and recycler in North America. The steel maker approached us to discuss the shareholder proposal in its proxy on adopting quantitative company-wide greenhouse gas (GHG) goals. The company has been an industry leader in energy-efficient electric arc furnace technology, adopting its own GHG goals could give more control over achieving operational reductions and enable the company to better track and disclose its emissions reduction achievements.

We voted our full holdings For the shareholder proposal and encouraged the company to continue its exemplary progress in reducing its environmental impact.

Media Firm Diversifies

ClearBridge is the second-largest shareholder of a media company that provides educational programming channels and digital media platforms. ClearBridge voted its full holdings in support of a shareholder proposal requesting that the Board of Directors adopt a policy for improving board diversity, particularly regarding the Nominating and Corporate Governance Committee including qualified women and minority candidates. Currently, there is one woman on the Board of Directors. The company’s content base has been increasingly targeted toward women viewers, adding merit to the considerations of more gender diversity on the Board.

IT Firm Resets Pay Targets

ClearBridge is a top-five shareholder of a technology company whose proposals for executive compensation have in the past received little support from third-party proxy solicitors. The company had been criticized for setting stock-based compensation targets out of line with its peer group and stock performance. After two years of direct engagement by ClearBridge’s portfolio managers and a vote for executive compensation with the expectation of improvement, the company agreed to reset its performance targets and make its executive compensation policies more transparent. As a result, third-party proxy solicitors most recently voted For the company’s executive compensation proposal.
ClearBridge makes an impact on the companies we own through direct proxy voting. In 2017, we voted our proxies in support of a number of leading ESG-related proposals. Here are highlights for votes cast on proxies where we are a top shareholder:

### Environmental Proposals

<table>
<thead>
<tr>
<th>Goal</th>
<th>Sector</th>
<th>Shares</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate Reporting</td>
<td>Energy</td>
<td>6.6 m</td>
<td>6th-largest shareholder Climate change policies</td>
</tr>
<tr>
<td></td>
<td>Energy</td>
<td>3 m</td>
<td>Policies to meet 2-degrees scenario</td>
</tr>
<tr>
<td>GHG Reduction Goals</td>
<td>Materials</td>
<td>11.6 m</td>
<td>3rd-largest shareholder Adopt quantitative company-wide GHG goals</td>
</tr>
<tr>
<td></td>
<td>Materials</td>
<td>8.6 m</td>
<td>4th-largest shareholder Adopt quantitative company-wide GHG goals</td>
</tr>
<tr>
<td></td>
<td>Energy</td>
<td>6.6 m</td>
<td>4th-largest shareholder Adopt quantitative company-wide GHG goals</td>
</tr>
<tr>
<td>Advocacy on Climate Change</td>
<td>Energy</td>
<td>3 m</td>
<td>Public policy advocacy on climate change</td>
</tr>
<tr>
<td>Renewable Energy</td>
<td>Retail</td>
<td>8.7 m</td>
<td>Adopt quantitative renewable energy goals</td>
</tr>
<tr>
<td>Non-Recyclable Packaging</td>
<td>Food</td>
<td>4.8 m</td>
<td>Assess environmental impact of non-recyclable packaging</td>
</tr>
<tr>
<td>Product Toxicity and Safety</td>
<td>Restaurant</td>
<td>1.4 m</td>
<td>Adopt policy to ban non-therapeutic use of antibiotics in meat supply chain</td>
</tr>
<tr>
<td>Environmental Due Diligence</td>
<td>Energy</td>
<td>7.5 m</td>
<td>Reporting on environmental and social due diligence</td>
</tr>
</tbody>
</table>

### Social Proposals

<table>
<thead>
<tr>
<th>Goal</th>
<th>Sector</th>
<th>Shares</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversity Policies</td>
<td>Media</td>
<td>17 m</td>
<td>Board diversity</td>
</tr>
<tr>
<td></td>
<td>Insurance</td>
<td>3.3 m</td>
<td>Diversity reporting and policies</td>
</tr>
<tr>
<td>Political Spending and Lobbying Disclosure</td>
<td>Materials</td>
<td>8.6 m</td>
<td>Political lobbying spending disclosure</td>
</tr>
<tr>
<td></td>
<td>Energy</td>
<td>6.6 m</td>
<td>Political lobbying spending disclosure</td>
</tr>
<tr>
<td>Accident Reduction Efforts</td>
<td>Chemical</td>
<td>44.3 m</td>
<td>Report on accident risk reduction efforts</td>
</tr>
</tbody>
</table>

### Governance Proposals

There are 38 companies where we voted Against executive compensation proposals, amounting to over 150 million shares Against management.

<table>
<thead>
<tr>
<th>Executive Compensation</th>
<th>Shares</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example 1: 44 m</td>
<td>6th-largest shareholder</td>
<td>Against executive compensation vote</td>
</tr>
<tr>
<td>Example 2: 19 m</td>
<td>10th-largest shareholder</td>
<td>Against executive compensation vote</td>
</tr>
<tr>
<td>Example 3: 15 m</td>
<td>30th-largest shareholder</td>
<td>Against executive compensation vote</td>
</tr>
</tbody>
</table>

Our intent is not always to vote Against executive compensation if the pay is warranted for the performance. The more than 10% of companies where we voted Against is indicative that we closely monitor the management proposals for executive compensation and that we will not automatically vote Against all such proposals. We want to be thoughtful and encourage robust internal discussions on the merits or deficiencies of executive pay packages.

### Proxy Access

One of the major shareholder proposal themes within Governance in both 2017 and 2016 was proxy access (over 100 proposals filed). Proxy access refers to the right for qualifying shareholders to elect director nominees via proxy during board elections. ClearBridge generally has a policy to support proxy access as a shareholder-friendly proposal. As of December 31, 2017, 425 U.S. companies had adopted proxy access bylaws or charter provisions, according to Skadden, Arps, Slate, Meagher and Flom.
ESG in Practice

ClearBridge 2017 Impact Report

Thought Leader Engagement and Public Education

Another aspect of ClearBridge’s approach to ESG investing is to participate in industrywide discussions and projects to improve industry practices and collaborate with other investors and organizations on addressing environmental, social and governance challenges.

Examples of thought leader engagement and public education activities in 2017

ClearBridge blogs
- Health Care Companies Work to Ease Opioid Crisis
- Can Energy Stocks and ESG Coexist?

ClearBridge white papers
- Public Equities as Impact Investments
- The Future of Investing – ESG Portfolios: Changing Beliefs, Perceptions, and Goals
- ESG Ratings: Integrating Fundamental Analysis with Environmental, Social and Governance Considerations
- Partnering for Positive Impact Through Public Equities

ClearBridge podcasts
- Investing to Deliver Value and Impact through ESG

Videos
- Nasdaq TradeTalks on ClearBridge ESG ETFs
- McQuillen on Nasdaq TradeTalks ESG Outlook
- AssetTV Responsible Investing Masterclass Highlights ESG

ESG Industry Discussions

US SIF 2017: The Forum for Sustainable and Responsible Investment

ClearBridge health care analyst Marshall Gordon spoke on a panel, “Access to Medicine: A Material Issue for Investors in Pharmaceutical Companies” which assessed how affordable and accessible medicines enhance shareholder value and are good for business. Marshall discussed his views of access to medicine as a key issue he considers for the health care companies he analyzes and ClearBridge’s discussions with companies on this issue.

ESG Industry Discussions

RI Asia

Mary Jane McQuillen, Head of ESG Investment and Portfolio Manager at ClearBridge, spoke on a panel about engagement and impact. She presented with the assistant director of engagement at the PRI and two Japanese firms, sharing investor engagement company examples from a U.S. perspective, which is relatively unique to the U.S. capital markets, with the mostly Japanese audience.

RI Europe

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Industry Collaborations

CFA Institute and PRI workshop on ESG integration

The CFA Institute and the PRI hosted a series of workshops across the globe that will culminate in regional reports on the current state of ESG integration. Participants from across the investment industry came together to share information on the existing levels of ESG integration in the market. The New York workshop was held at the New York Stock Exchange and ClearBridge’s Mary Jane McQuillen was the Listed Equity Advisory Committee panel presenter at the event. Portfolio Manager Patrick McElroy, CFA, portfolio analysts Benedict Buckley, CFA, and Nikita Singhal, energy analyst Dmitry Dayen, CFA, and technology/hardware analyst Deepon Nag were each breakout session participants and provided input on how ESG is integrated into their investment processes, discussed barriers faced in relation to ESG integration and suggested possible solutions to overcome those barriers.

ESG in Practice

ClearBridge 2017 Impact Report

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ESG in Practice

Ceres Human Rights Workshop
ClearBridge hosted an event for Ceres, an ESG organization comprising companies and institutional investors of which we are a member. The event was an all-day workshop with the non-profit organization Shift, the leading center of expertise on the United Nations Guiding Principles on Business and Human Rights. The event was attended by representatives from a dozen of the largest U.S. companies and focused on capacity building, sharing best practices and developing new approaches to implement the Guiding Principles. Discussion topics included the importance of having a human rights policy; paying attention in risk assessments to events with very low likelihood but very high impact; education on human rights issues; and supplier training.

Sustainability Roadshow with Intel
Deepon Nag hosted the New York leg of Intel’s annual sustainability roadshow. ClearBridge has been hosting Intel’s roadshow events for over 10 years, partnering with the company to engage investors on the ESG issues most relevant to Intel’s success as a company. The event was attended by a group of New York-based investors, research organizations and advocacy groups. This year’s discussion included water use, supply chain labor standards, employee engagement and governance matters such as board composition.

Sustainability Workshop with Coca-Cola
ClearBridge consumer staples analyst Rob Buesing hosted Coca-Cola and several of its top shareholders for a half-day workshop on water stewardship, sustainable sourcing of agricultural ingredients, sustainable packaging and climate change. The workshop was attended by Coca-Cola’s two most senior sustainability leaders. The engagement included the business case for Coca-Cola to act on each of these issues, the company’s targets and discussion of key challenges and areas for improvement.

Sustainability Workshop with S&P Global Offsite
Benedict Buckley, CFA, and Nikita Singhal presented at S&P Global’s Public Affairs Group Global Offsite regarding ESG and how investors are including assessments of environmental, social and governance performance into their company analysis.

Beta Test of CDP Analytics Tool
ClearBridge helped the CDP (formerly known as Carbon Disclosure Project) in beta testing a tool that will help investors better assess the climate change risks and opportunities faced by companies in their portfolios. ClearBridge used the tool to conduct analyses and then provided detailed feedback to the CDP team via a phone discussion.

ESG in Practice

Public Education
Columbia Business School
Mary Jane McQuillen served as a guest lecturer for a number of MBA courses at the business school. One class was on the topic of company engagement where she played the role of investor, opposite a corporate representative, where they debated and discussed the intent and measurement of investor engagement. Another class was on the ESG integration approach followed by fundamental analysts; she discussed company examples and how to think about materiality sector by sector.

US SIF on the Fundamentals of Sustainable and Impact Investment
Mary Jane McQuillen was one of five expert instructors leading a live training course on the fundamentals of ESG investing organized by the US SIF Foundation’s Center for Sustainable Investment Education. The course was an introductory resource for investment advisers, financial planners and other financial professionals who wanted to learn the basics of sustainable, responsible and impact investment. The course was eligible for continuing education credits for numerous financial certifications.

Fordham University Gabelli School of Business
Nikita Singhal taught a class on impact investing as part of Professor Fordham’s undergraduate class Sustainability and Finance. ClearBridge experts have been guest lecturers for this class since 2010.

Timely Topic: Fair and Safe Working Conditions

We are helping companies acknowledge the social risks in their global supply chains and implement policies and requirements to promote fair working conditions and protect workers’ rights across multiple sectors.

Nikita Singhal
Portfolio Analyst
Nikita has over eight years of experience in impact investing across asset classes. Having worked at institutions such as IFC (private investment arm of the World Bank) and the Orion Foundation, she has a strong working knowledge on social issues related to poverty alleviation and quality job creation. At ClearBridge, Nikita is a portfolio analyst conducting fundamental research on high sustainability companies for the Sustainability Leaders Strategy.

Mary Jane McQuillen
Senior Technology/ Hardware Analyst
Deepon applies an understanding of supply chain and production issues from his tenure as a software engineer for a leading semiconductor company.

Robert Buesing, Jr.
Consumer Staples Analyst
Robert engages well-known multinational companies on issues related to their expansive global supply chains and workforces.

ESG in Practice

Ceres
Sustainability is the bottom line.
Measuring Progress on Climate: Carbon Intensity Analysis

ClearBridge 2017 Impact Report

Climate change poses a significant long-term risk to global prosperity. Addressing climate change is an urgent issue for society and also for investors as the need to reduce carbon emissions globally has implications across many industries. Changing market conditions and policies in response to climate change are likely to affect competitive dynamics, technology developments, operating costs and capital allocation decisions in sectors such as energy, utilities, autos, industrials, materials and technology. As long-term investors, climate change is a key issue for ClearBridge, both in the way it is integrated into our investment analysis and in our engagement with companies.

An analysis of the carbon intensity of a portfolio (commonly referred to as a “portfolio carbon footprint”) can serve as a starting point to help investors gain an understanding of the carbon emissions directly associated with portfolio companies, and identify the most significant sources of direct emissions. This analysis can be used to inform engagement strategies.

An analysis of the carbon intensity of a portfolio can serve as a starting point to help investors gain an understanding of the carbon emissions directly associated with portfolio companies, and identify the most significant sources of direct emissions. This analysis can be used to inform engagement strategies, ensuring that engagements focus on those companies that account for the highest proportions of a portfolio’s emissions. A portfolio carbon footprint is calculated in two steps:

1. **Carbon intensity of an individual company:**
   - An individual company’s carbon intensity is calculated as the company’s direct greenhouse gas emissions (from its own operations and electricity use) per $1 million of revenues. Both emissions and revenues are calculated on an annual basis.

2. **Portfolio carbon intensity:**
   - The carbon intensity for the portfolio is the sum of each company’s weighting in the portfolio (as a percentage) multiplied by the company’s carbon intensity.

Current portfolio carbon intensity analysis methodologies have many limitations that prevent them from providing a complete picture of a portfolio’s impact on climate change and its exposure to climate change-related risks or opportunities. These include the challenge of comparing the emissions of one company to another; the exclusion of emissions from a company’s supply chain and products in use; the role of prices in using revenues to calculate carbon intensity; and the use of estimates when complete data is not available.

**ClearBridge’s Approach**

ClearBridge analysts are responsible for identifying and assessing climate change-related risks and opportunities within the industries they cover. While a carbon intensity analysis helps identify the companies in a portfolio responsible for the highest emissions, high carbon intensity does not necessarily equate to investment risk. Carbon intensity is not a proxy for risk exposure because it is only one factor among many others that will determine the level of climate change-related risk a company faces — the list of considerations our analysts take into account is too diverse to be effectively reduced to a single metric. Additional factors our analysts consider include: the regulatory/policy environment; geographic location of assets and operations; ability to pass on costs to customers; technological alternatives; changing customer preferences; commodity prices; future capital expenditure and R&D plans; long-term business strategy; overall quality of the management team; and others.

ClearBridge analysts also conduct thematic research on climate-related issues, for example a group of analysts conducted scenario analysis on the impact of electric vehicles on the oil and gas and utilities sectors. The heat map on pages 27 and 28 shows the degree that climate change is relevant to different sub-sectors in our ESG framework (“Take urgent action to combat climate change and its impacts” is goal number 13 of the 17 Sustainable Development Goals).

Furthermore, 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 benchmarks on emissions reductions, influencing corporate strategy to be longer-term and improving supply chain efficiency. Our integrated approach to investment analysis and company engagement enables us to use the influence we have as institutional investors and fiduciaries to support companies as they improve outcomes with regard to climate change. We also engage companies through broader initiatives with other investors and stakeholders, such as the CDP Investor Network on Climate Risk (INCR), PRI and US SIF.

Refer to the Company Engagement and Proxy Voting sections of this report for more detail on climate change-related engagement and proxy voting.

Looking ahead, we will continue to be active participants in client and investment industry discussions on issues related to climate change and how to address it in investment portfolios.
Sustainable Development Goals

ClearBridge 2017 Impact Report

A Practical Framework for ESG Investing

The companies we invest in are motivated to make positive impacts by many parties, including shareholders, employees, customers, competitors and asset managers like ourselves. The United Nations and organizations like it are another source of influence that help define the challenges faced by society and the environment to which public equities can help direct solutions. The 193 members of the UN General Assembly formalized these broad challenges in 2015 with the introduction of the 2030 Agenda for Sustainable Development and approval of its accompanying Sustainable Development Goals (SDGs). We believe the SDGs outline important areas of impact and offer a practical framework to complement and support the ESG considerations we analyze in our fundamental research.

At ClearBridge, we believe that while the SDGs are more thematic than company-specific, they do help align sector and company-specific ESG considerations with broader societal goals. Tackling social and environmental challenges is a core aspect of ESG investing, so mapping how the issues we care about as investors intersect with the targets and goals of the SDGs is a valuable exercise to give our efforts an even broader context. 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. Financial inclusion, for instance, addresses several of the SDGs related to poverty (1), hunger (2), gender equality (5), decent work and economic growth (8) and industry, innovation and infrastructure (9).

Achievement of the SDGs will require a globally coordinated effort among the public and private sector, including governments, NGOs, shareholders and investors. As a leading ESG investor and advocate for ESG best practices among public companies, we believe the SDGs are a globally accepted roadmap to gauge progress that can benefit society and the environment while motivating companies to create sustainable value. Mapping the SDGs to our own framework of relevant issues helps us understand which of the issues we care most about as investors are also the most relevant to achieving the SDGs. Focusing our engagement efforts on these intersections is where we can have the most impact. We will continue to map our ESG considerations to the SDGs and use them to measure progress and motivate change for the better among the companies we own.
# Sustainable Development Goals

ClearBridge 2017 Impact Report

## Mapping Our ESG Framework to the SDGs

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**Total per SDG:**

- 7
- 6
- 30
- 24
- 33
- 40
- 54
- 53
- 40
- 55
- 41
- 52
- 53
- 7
- 15
- 22

## Methodology

1. Each SDG contains a number of targets. The list of targets was reviewed to understand precisely what the goal is aiming to achieve, and which are relevant to businesses.
2. More than 50 relevant targets were identified.
3. Each ESG consideration for each sub-sector was reviewed against the relevant targets for each SDG.
4. Where one or more of the targets is relevant to an ESG consideration, a "1" is entered into the relevant cell in the matrix.
5. The heat map then sums up all the relevant ESG considerations relevant to the SDG for a particular sub-sector.

How to read this heat map:

- The number in a cell indicates the number of key ESG considerations for the sub-sector that are relevant to achieving a particular SDG.
- A higher number indicates more key ESG considerations are relevant to the SDG.
- For example, in the Food and Beverage sub-sector there are four key ESG considerations that are relevant to achieving SDG #2 Zero Hunger.
At ClearBridge, ESG integration starts at the company level, with each of our fundamental research analysts considering environmental, social and governance issues specific to the industry sectors and sub-sectors within their coverage universe.