ClearBridge
A Franklin Templeton Company

ClearBridge ESG Policy

Amended as of April 2024

I. ESG Investment Process at ClearBridge

ESG integration has been a key feature of our fundamental research approach and active management process for more than 35 years. ClearBridge takes a long-term approach, holding companies for five years on average across our portfolios. Our experience demonstrates that ESG integration adds value to our own investment process while helping to mitigate risk and identify new opportunities. ClearBridge remains at the forefront among asset managers in promoting and communicating the benefits of integrating ESG factors into our fundamental analysis and stock selection and assigning proprietary ESG ratings to our investments. We also seek to make positive impacts with our portfolio companies through our engagements and deep expertise on ESG best practices.

ClearBridge integrates industry-specific ESG factors into our fundamental research process using a proprietary framework that identifies key ESG considerations for each sector and subsector we invest in. These considerations can be categorized as environmental, social or governance.

- **Environmental**: Topics include climate change, environmental regulation and compliance; environmental impacts of products and services; renewable energy investments; stranded asset risk; and water management.
- **Social**: Topics include affordability and access to medicines; financial inclusion and access; human capital management (recruitment and retention, diversity and inclusion); and supply chain labor management (human rights, health and safety).
- **Governance**: Topics include board effectiveness; capital structure and allocation; executive compensation; integrity and independence of financial credit ratings; and shareholder rights and controls.

As part of this process, portfolio managers and analysts use the ClearBridge ESG Ratings Manager, a proprietary platform for building and internally sharing ClearBridge ESG ratings and their rationales. The platform allows for an easily accessible common language for ESG factors that ensures transparency and consistency of methodology in assigning ESG ratings to companies across the firm.

II. ESG Performance Is Linked to Value Creation

We believe companies that plan thoughtfully for the future and operate sustainably in relation to their customers, communities and the environment should have a long-term competitive advantage over their peers. There is abundant academic evidence that strong ESG performance can result in lower costs of capital and better operational performance for companies.

	Example of Strong ESG Performance	Example of Weak ESG Performance
Product Demand	☑ Products made sustainably (e.g., with transparent, lower-impact manufacturing practices) can attract new customers and increase customer loyalty	☒ Poor product safety or quality, and poor manufacturing practices (e.g., supply chain labor controversies) can damage brand reputation and reduce product demand
Operating Efficiency	☑ Efficient use of resources such as energy, raw materials, and water can reduce operating costs and increase profitability	☒ Lack of environmental management systems can indicate inefficient use of resources and unnecessary costs
Regulation	☑ Products with positive externalities may receive regulatory support over time (e.g., subsidies, grants, less regulation)	☒ Products with negative externalities may face increased regulatory scrutiny over time (e.g., taxes, advertising restrictions, bans, fines, legal liabilities)
Human Capital	☑ Companies that treat employees well can have higher employee engagement and lower employee turnover, which can increase productivity, reduce HR costs, and increase customer loyalty	☒ Companies that treat employees poorly can experience strikes, lower employee engagement, and higher employee turnover, which can reduce productivity, increase HR costs, and decrease customer loyalty
Social License to Operate	☑ Companies with strong track records on ESG can experience better community relations, making it easier to operate and receiving support and incentives to expand	☒ Companies with poor track records on ESG can experience disruptions to existing operations and expansion plans (e.g., protests, boycotts, blocked M&A)
Capital Allocation	☑ A robust capital allocation framework with well-aligned incentives can enable management to take the right amount of risk in setting strategy and allocating capital	☒ A poorly defined capital allocation framework with misaligned incentives can result in under- or over-investment in the business and misallocation of capital
Investment	☑ Effective investment in R&D drives product innovation and process innovation, which can increase long-term sales and profitability	☒ Under-investment in R&D (e.g., to improve short-term profitability) can lead to less competitive products and processes over the long term

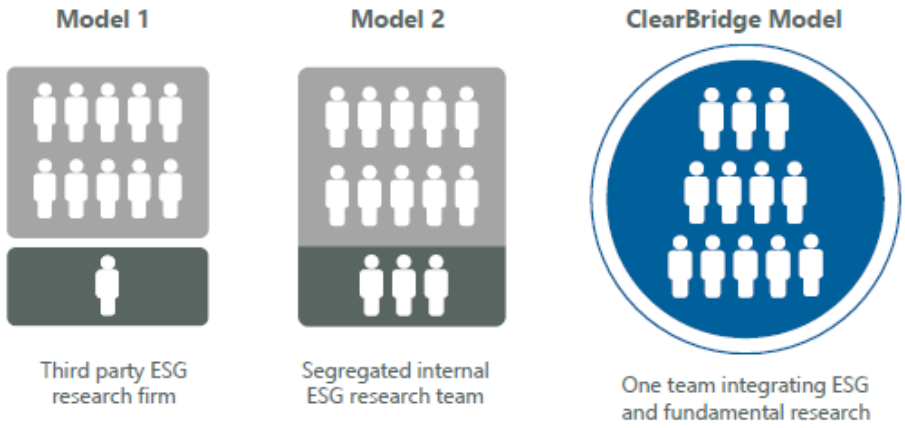
III. ESG Integration and Impact

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 environmental and social 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:

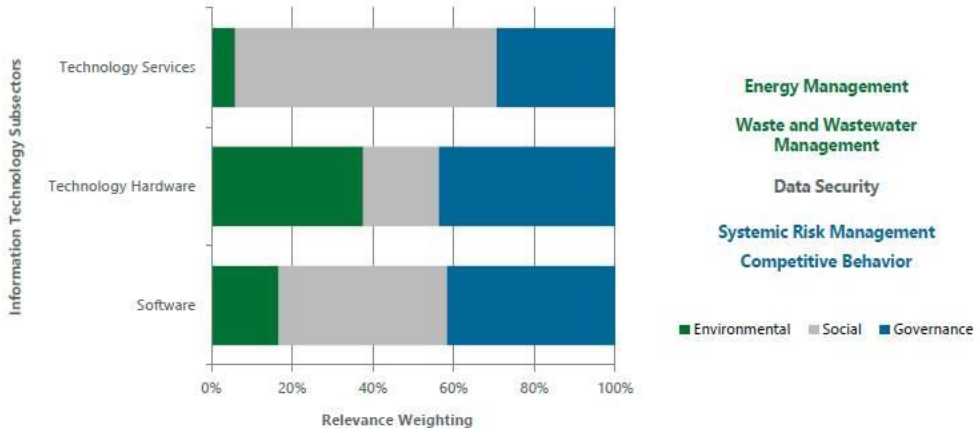
- Integrating ESG analysis into fundamental research and portfolio construction.
- Using engagements with companies and proxy voting to drive positive change.

IV. Integrating ESG Analysis into Fundamental Research

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. We source investment ideas and construct portfolios by integrating ESG analysis into the fundamental research performed by ClearBridge's research analysts and portfolio managers. Our analysts and portfolio managers examine the ESG issues relevant to a company's business activities and measure and evaluate their impact on both qualitative and quantitative bases. This integrated approach results in a thorough and detailed evaluation of a company's risks and opportunities related to the specific ESG issues that are relevant to its business.

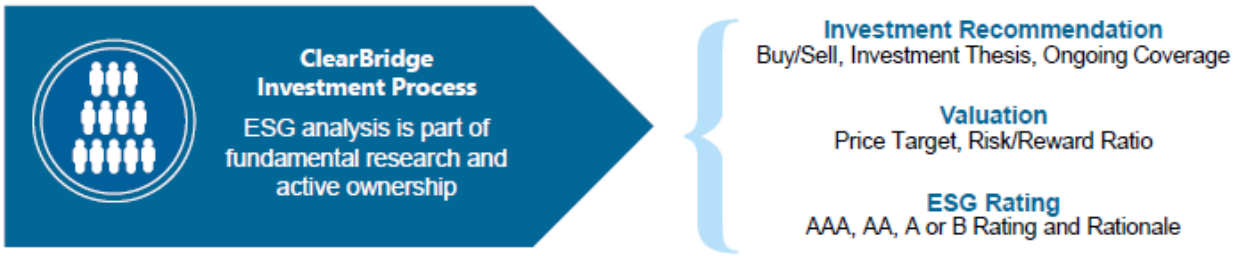


As part of this integration into our fundamental research process, we assign proprietary ESG ratings to companies and use those internal assessments to track progress over time and drive engagement with company managements. These ratings reflect industry- and company-specific weightings of ESG factors. For example, different industries or subsectors within the information technology sector will have unique ESG weightings and several ESG factors within them that might be relevant in a company's ESG rating (weightings are subject to change):



To ensure transparency and consistency of methodology across the investment teams we have developed a proprietary ESG Ratings Manager. This tool enables us to: generate consistent environmental, social and governance weightings by industry subsector across the firm; define and highlight, by use of company-specific weightings, the most important ESG factors for every rated company; implement firm policies regarding minimum weightings, for example for governance or diversity and inclusion; and build, store, internally distribute and update ClearBridge ESG ratings.

ESG ratings form an integral part of the overall investment process, alongside valuation and the traditional fundamental components of investment recommendations:



V. An Increasing Focus on Material ESG Topics

Environmental

Climate Change

As an active supporter of the Paris Agreement, ClearBridge has an important role to play in mitigating the effects of climate change.

- For ClearBridge, over the short, medium and long term, our main sources of climate-related risk and opportunity relate to investment performance - Climate change is a global risk and what we consider to be an investment opportunity, as actions to mitigate and adapt to climate change will disrupt many sectors, creating both winners and losers in the process. Disruption will largely play out through a combination of technological innovation and regulation/policy developments supporting decarbonization (transition risk). Additionally increased frequency of severe weather events can impact businesses and their employees through damage to assets, lost operating days and supply chain disruptions (physical risk).
- Shifts in client preferences - Greater focus on climate change is encouraging some asset owners (both individuals and institutions) to consider how climate-related risks and opportunities are factored into their investment decisions.

We integrate 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. We believe we also contribute to the solution by supporting companies as they address climate change challenges. Engaging with our portfolio companies on material ESG issues such as climate change and providing feedback on their strategy and performance help improve our understanding of their businesses and their potential for long-term success.

Net Zero Escalation Policy: As part of our efforts in reducing the emissions of our portfolio companies, we set a target for our portfolios to achieve net zero by 2050. The focus of our approach to net zero is high-touch engagement with portfolio companies on their decarbonization strategies. As long-term investors, we want to ensure that the companies we are investing in are prepared for the changes that a decarbonizing economy and a changing climate will bring to markets around the world. If we determine a company connected to our net zero target or Climate Action 100+ commitment is not taking the minimum steps needed to understand, assess, and mitigate risks related to climate change to the company and the larger economy, they may be subject to our escalation policy. Minimum steps include:

- Detailed disclosure of climate-related risks, such as the Task Force on Climate-related Financial Disclosures (TCFD);

- "Appropriate" GHG emissions reduction targets (i.e., short-term and medium-term GHG reduction targets or net zero by 2050 GHG reduction targets).

If extensive direct engagement with a company over a reasonable timeframe does not lead to sufficient progress towards addressing emissions, we may take escalatory actions such as voting against the Chair of the board or relevant directors, or ultimately divesting from the company, which would be our last resort and not our preference.

Nature-Related Risks & Opportunities

Nature-related loss and climate change are highly inter-connected issues and one cannot be solved without addressing the other. Nature is declining globally at rates unprecedented in human history and, therefore, it is critical that we understand our investments' impacts and dependencies on nature. In doing so, we integrate biodiversity considerations into our investment decision-making processes, including identifying and assessing risks and opportunities associated with these issues.

In an effort to encourage sustainable business practices to manage and monitor nature loss, we engage with our portfolio companies where these issues are most material to their business. Examples include assessment and disclosure of nature-related impacts and dependencies within one's value chain, development of biodiversity and deforestation policies, responsible waste and water management, transparency into lending practices, and consideration of local communities that may be affected.

Lastly, as part of our commitment to addressing nature loss, we support the Task Force on Nature-related Financial Disclosures (TNFD), as a useful framework for disclosing and managing nature-related financial information. We will continue to evaluate frameworks focused on biodiversity and actively engage with the industry and organizations looking to address these issues.

Social

Diversity and Inclusion

We invest in a wide variety of companies, across geographies, sectors and market capitalizations and believe each company has a role to play in creating a more diverse and inclusive society. We address this topic in two ways:

1. Stewardship: By integrating diversity and inclusion into our investment analysis holistically to understand the culture of portfolio companies and their human capital management as well as the impacts their products and services have on all stakeholders. Thoughtfully and responsibly addressing these topics can have a positive effect on society, the economy and long-term shareholder value creation.
2. Impact: By engaging portfolio companies to accelerate diversity and inclusion efforts within their own workforces and become more aware of diversity and inclusion in their interactions with all stakeholders.

Human Rights

ClearBridge views human rights as universally relevant to businesses in all areas of the private sector. Human rights are accordingly a key tenet of our approach to integrating ESG factors in the investment

process. We also believe that respect for human rights is fundamental to advancing the U.N. Sustainable Development Goals (UN SDGs).

We can use our voice as shareholders to advance human rights best practices and scale up the implementation of human rights frameworks in corporate business activities. We believe engaging with companies on their human rights practices is an important part of what we do and supports the growing action companies are taking on human rights due diligence. We actively foster dialogue around how portfolio companies monitor and manage human rights issues that are material to their businesses. To facilitate this, we also monitor human rights issues at the company level and promote best practices, which we view as crucial to our role as an active and responsible shareholder.

We also believe that human rights due diligence on our investments is crucial to identifying and preventing current and future violations and controversies. This includes assessing potential investments and their value chain in high-risk sectors like apparel, metals and mining and renewables, for example.

Lastly, we leverage industry frameworks and guidelines like the UN Global Compact and the OECD Guidelines on Multinational Enterprises and are committed to upholding the UN Guiding Principles on Business and Human Rights (UNGPs) and integrating them into our policies and practices.

Tobacco

As a firm, ClearBridge Investments has taken the position to exclude investment in any companies with significant involvement (10-15%) in the production of tobacco products.

VI. ClearBridge's Approach to Engagement and Stewardship

As investment managers, we are stewards of our clients' capital — our clients rely on us to responsibly manage their capital to create sustainable long-term value. As well as being stewards of the investments in our clients' portfolios, investment managers play an important role as guardians of market integrity and in working to minimize systemic risks. Environmental factors, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and acting as stewards of client capital.

Engagement is a key element of ClearBridge's stewardship activities. Active public equity ownership can be a powerful tool to influence companies and drive meaningful change. As active investors in public markets, we engage with company management teams on a variety of fundamental and material ESG issues and promote improvement. We engage with companies in various ways, including direct, one-on-one meetings with senior management (our primary focus) and through active participation in industry and investor groups.

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 firm, ClearBridge conducts over 1,000 company meetings every year, many of which are focused around ESG topics. The frequency with which we engage with a given company can vary as needed.

For more information on ClearBridge's engagement program, please see our formal Engagement and Stewardship Policy on our website.

VII. ClearBridge's Approach to Proxy Voting

The proxy voting process is one of the more visible and powerful tools public equity investors may use to advocate for sustainable business impact. It is an important part of our approach to positively influencing companies through ownership. ClearBridge's votes on shareholder proposals 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. 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 and 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 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.

VIII. Industry Collaboration

ClearBridge actively participates in industry initiatives and partners with organizations that support the furthering of ESG. Involvement includes collaborative engagements with companies on a given topic, including our work with Climate Action 100+, Advance and our contributions as members and signatories of the U.N.-supported Principles for Responsible Investment (PRI), Ceres, CDP, US SIF and the Task Force on Climate-related Financial Disclosure (TCFD). A full list of our partnerships can be found on our website.

IX. ESG Oversight

The Chief Executive Officer (CEO), Chief Investment Officer (CIO), Head of Investment Risk Management, Director of Research, and the Head of ESG have direct oversight of the firm's ESG investment efforts. These efforts are directed by the Head of ESG, who, with the collaboration of the ESG Strategy Team, oversees the firm's proprietary process of integrating ESG and fundamental research in stock selection. The Head of ESG is also an active portfolio manager and reports directly to the CIO, who provides oversight of the firm's overall approach to ESG integration.

ClearBridge's engagement and stewardship program is overseen by the Director of Research and the Head of ESG.

Senior management, including the CEO, CIO, Chief Compliance Officer, Chief Operating Officer, Director of Research, Head of ESG and the ESG Strategy Team periodically reviews the firmwide ESG integration strategy and implements improvements on an ongoing basis.

Analysts are assessed on the quality of their work, including the quality of their ESG research and engagement, twice a year through a performance survey by each portfolio management team. The results of the survey are factored into analysts' incentive compensation.

To better manage and oversee ESG-related risks across our portfolios, the Head of Investment Risk Management incorporates portfolio level ESG analysis in quarterly risk reviews. Lastly, compliance reviews all analysts' ESG research comments to ensure that ratings have been entered accurately and are consistent.