

ClearBridge

Investments

ESG Investment Program



Erica Furfaro
Director, Senior Research
Analyst for Media and Internet



David Hochstim
Director, Senior Research
Analyst for Financials



Mary Jane McQuillen
Managing Director, Head of ESG
Investment, Portfolio Manager



Nicholas Wu
Director, Senior Research
Analyst for Health Care

Key Takeaways

- ▶ Investors as well as businesses are coping with the health and economic effects of the coronavirus outbreak and seeking to implement best practices.
- ▶ In our conversations with companies we own, we are sharing our intentions and learning of innovative solutions already undertaken across industries and business models to support all stakeholders through the coronavirus crisis.
- ▶ ClearBridge remains convinced that, in these challenging times, advancing basic issues of sustainability will support more positive long-term outcomes.

COVID-19 Responses from All Quarters

Investors as well as businesses are coping with the health and economic effects of the coronavirus outbreak (COVID-19) and seeking to implement best practices. Many of our holdings are well-positioned to aid in the crisis, whether it is by providing immediate health care solutions or adapting to meet the needs of a variety of stakeholders in their businesses.

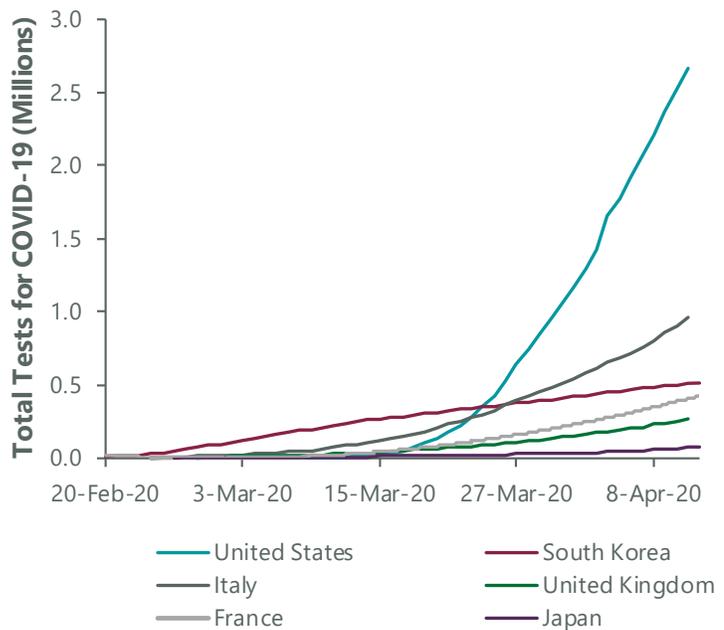
Our conversations with portfolio companies include proactively inquiring and encouraging company managements on how they can prevent or mitigate social and economic hardships related to COVID-19. We are glad to see many public companies focusing or redirecting their expertise and capabilities into helping society get through the pandemic. No response will be perfect, but some will better position companies to sustain their stakeholders during the crisis and emerge from it in a more durable condition to succeed over the long term.

Health Care Companies Are on the Front Lines

Health care companies will play a pivotal role in the solution to the COVID-19 pandemic. This global crisis will require a multipronged strategy, including more testing, effective antiviral treatments, better supportive care and eventually, effective vaccines. Many of our health care holdings are taking leading roles in these efforts. Gilead's remdesivir has been identified as one of the most promising near-term antiviral medicines for COVID-19, and the company is currently conducting pivotal clinical trials to demonstrate safety and efficacy. Novartis has committed to donating up to 130 million doses of hydroxychloroquine, another antiviral that may be effective

against COVID-19. Roche is testing Actemra to help manage severe cases of COVID-19. To help identify patients, Thermo Fisher, Roche, Danaher (through its operating company Cepheid) and Becton Dickinson are among the first companies to launch commercially available COVID-19 tests (Exhibit 1).

Exhibit 1: Health Care Companies are Ramping up Testing



As of April 12, 2020. Source: Our World in Data. Note: There are substantial differences across countries in terms of the units, whether or not all labs are included, the extent to which negative and pending tests are included and other aspects. Details for each country can be found at ourworldindata.org/covid-testing.

An Approach that Values All Stakeholders

A time of crisis in which all stakeholders in a business are affected involves a difficult balancing of the needs of employees, management, customers, suppliers, the communities in which businesses operate and shareholders. Each of these groups will endure hardships in the coming months. Consistent with ClearBridge’s long-term approach to investing and active ownership, we have already elicited information around the positive steps that many of our companies have implemented to support these stakeholders on a long-term basis. We also recognize each business is different and stands to be uniquely impacted according to the nature of its products, inputs and capital structure.

In our conversations with companies we own, we are sharing our intentions and learning of innovative solutions already undertaken across industries and business models to support all stakeholders through the COVID-19 crisis.

Supporting Workforces and Taking a Long-Term View of Retention

Portfolio companies in all sectors are taking steps to ensure employee physical and financial safety and taking a long-term view of retention. Financial services companies with large employee bases can make a difference here: American Express' CEO recently told employees that while the company is actively looking for ways to reduce operating expenses in response to the sharp declines in revenues, there will be no layoffs in 2020. Amex, which employs 60,000 people, is implementing a temporary hiring freeze and will likely benefit from lower employee travel, lower rewards costs (a result of lower spending), lower marketing spending and lower consulting fees. The CEO of Visa, which employs 20,000, also announced that there will be no coronavirus-related layoffs at Visa. CEOs of Citibank (200,000 employees) and Morgan Stanley (60,000) have made the same commitments.

Bank of America (BofA) (200,000) has also announced that it will not have any layoffs in 2020. Consistent with its strategy of "responsible growth," BofA added more than 2,000 new employees in March. BofA also raised its U.S. minimum hourly wage to \$20 and is paying branch employees for their full regular schedule even if the hours of the branch where they work have been reduced. It is also ensuring qualifying employees get free COVID-19 testing and unlimited telehealth. (BofA has been covering health care costs for its lower paid employees as an enhanced benefit). The company disclosed in late March that it already had 150,000 customer requests for assistance because of the pandemic and is working to make it easier for customers to make those requests digitally (in two clicks on BofA's app). It also announced it plans to donate \$100 million to help communities hurt by the coronavirus. Notably, BofA is seeing significant deposit inflows, which are exceeding the strong loan growth it is experiencing.

Other large employers are also taking necessary steps to care for employees. Apple is offering its retail staff unlimited paid sick leave to anyone experiencing coronavirus symptoms; Alphabet created a COVID-19 fund to provide sick leave to affected workers globally, including all temporary staff, contractors and vendors. Uber will provide 14 days of sick pay for its drivers sick with the virus or needing to be isolated. Starbucks has extended its mental health benefits.

Amazon.com was also quick to add 100,000 new roles so it could both continue providing its services as more social distancing drove demand for home delivery of essential goods and employ some workers furloughed from other pressured industries. It also increased wages in many countries.

This period offers companies a unique opportunity to distinguish themselves — private sector efforts are essential to the success of the broader effort.

Management Sharing Responsibility

We understand the stress and strain these times place on senior management teams, yet management is expected to provide leadership and guidance and recognize there is a shared outcome for all levels of the company. This will require an unprecedented focus on transparency and an unwavering dedication to communicate with all layers of their respective organizations.

Small and mid cap companies may not have the scale of large companies in the financials sector and may have to make tougher choices to remain solvent through a sharp downturn. Among ClearBridge holdings, we are encouraged to find examples of CEOs and leadership taking pay cuts to show shared financial responsibility, help morale and bridge the gap to a recovery. Among actions to reduce costs and preserve liquidity, for example, furniture designer and manufacturer Herman Miller's CEO and executive leadership team will defer additional levels of salary for a minimum of six months, including an incremental salary deferral of 50% for its CEO, and 15% for the rest of the leadership team. Similarly in manufacturing, Rockwell Automation, the CEO will take a 25% salary reduction, other leadership and nonmanufacturing employees will take 7.5%–15% salary reductions, while manufacturing associates are not impacted by the temporary pay reductions and are receiving a one-time additional payment in recognition of their work during this difficult period. Taking shared financial responsibility further, the CEO and brand heads at Booking.com, which operates online travel marketplaces, are foregoing salaries, with the board of directors also reducing pay during this period.

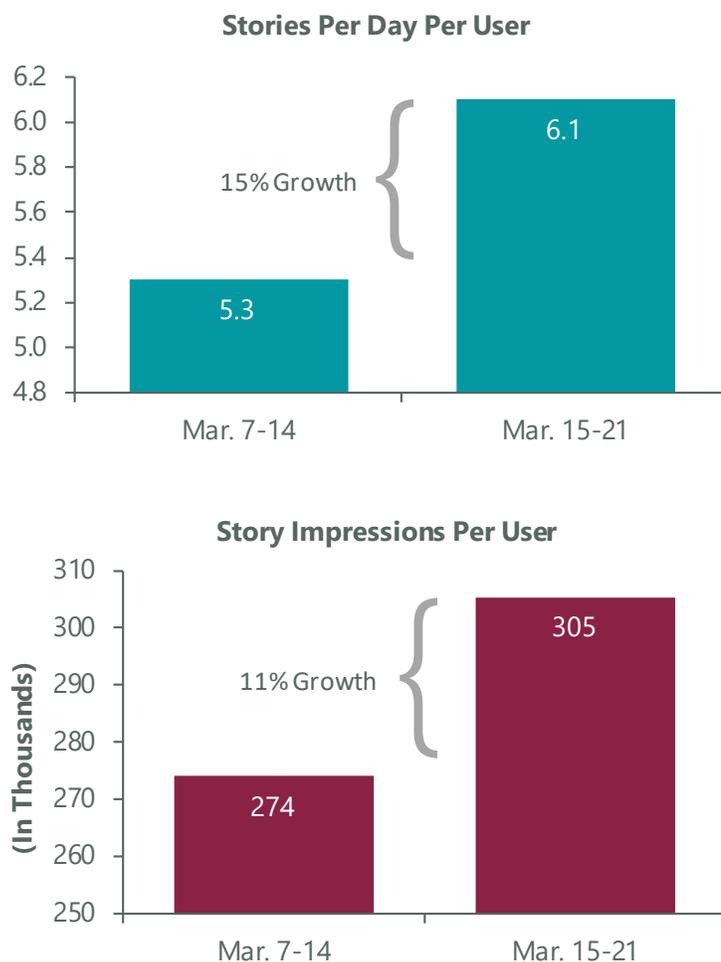
Supporting Customers, Suppliers and Communities

Customers, suppliers and communities are vitally important to the long-term vitality of any business. We think this period offers companies a unique opportunity to distinguish themselves by increasing production of now vitally essential products and redeploying production capability to support health care workers and their patients. These private sector efforts are essential to the success of the broader effort.

For companies that provide essential services such as drug stores, food distributors and retailers, many are now taking extra steps to ensure they continue to deliver important services to customers. An immediate creative example we have seen are supermarkets, such as holdings Costco, Walmart and Amazon.com's Whole Foods, organizing safer early access for seniors to shop for necessary goods. To help with the safe delivery of food, UberEats and DoorDash have waived commission fees for independent restaurant partners.

In a public emergency, information is essential too. Comcast, Charter, Verizon, Google and Sprint have signed a pledge to keep Americans internet-connected for the next 60 days, even if people cannot afford to pay. In early March, as panic and anxiety rose in the U.S., Amazon announced it had removed more than one million products making false claims related to the virus. Facebook, meanwhile, has partnered with the World Health Organization to ensure coronavirus information on its platform is correct and remove any false or harmful information. Maintaining reliable information on social media platforms is all the more important given their surge in use along with social distancing measures (Exhibit 2).

Exhibit 2: More Social Media Stories, More Impressions



As of March 21, 2020. Source: Klear.com. The study was calculated using Klear's Instagram Influencer Analysis technology.

In other cases, we urge companies to understand customer and supplier challenges and work collaboratively to cope with them. For some businesses this might involve offering forbearance so far as possible on contracts. ClearBridge insurance holding Travelers, for example, is accelerating commission payments of more than

\$100 million to eligible agents and brokers to help them address the liquidity impacts of the COVID-19 crisis, a significant cash flow boost to its distribution partners when they need it most. Facebook will be giving away \$100 million in grants and ads to 30,000 small businesses. Google and Etsy will also be providing advertising credits to small and medium sized businesses to support advertising spend. Google's full COVID-19 relief package totals an impressive \$800+ million of support, including aid to NGOs and financial institutions around the world helping provide small businesses with access to capital, educators and researchers studying potential vaccines and therapies, and increased production of personal protective equipment and ventilators.

Some companies are going above and beyond to respond directly to the threat of COVID-19, though some of these investments may not be immediately economic. Hygiene and sanitation companies are working overtime to provide necessary products even if it will create capacity they will not need in six or 12 months. ClearBridge holding Ball Corp, which makes aluminum cans, continues to support the beverage, food and pharmaceutical industries. It is also donating masks, gloves, gowns and canned water to the COVID-19 effort. In addition, U.S. and Canada employees also have made nearly \$150,000 in COVID-19-related donations to nonprofits, including a 100% company match, since March 1.

Investors Should Seek Long-Term Value

ClearBridge remains convinced that, in these challenging times, advancing basic issues of sustainability — in particular, taking care of all stakeholders — will support more positive long-term outcomes. As we manage through this crisis, we are keeping our focus on preserving and growing our client's wealth by investing in high-quality companies and maintaining this long-term perspective.

We are sending the message to our companies that in a period of stress it is important to still take a long-term view. Shareholders, and we hope bondholders as well, will look beyond the current tumult and reward management teams that make good decisions for all stakeholders. We are also aware of the value of capitalizing on lessons learned during the current pandemic in order to build resources and develop best practices to prepare for the next one.

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