

ClearBridge

Investments

ESG Investment Program



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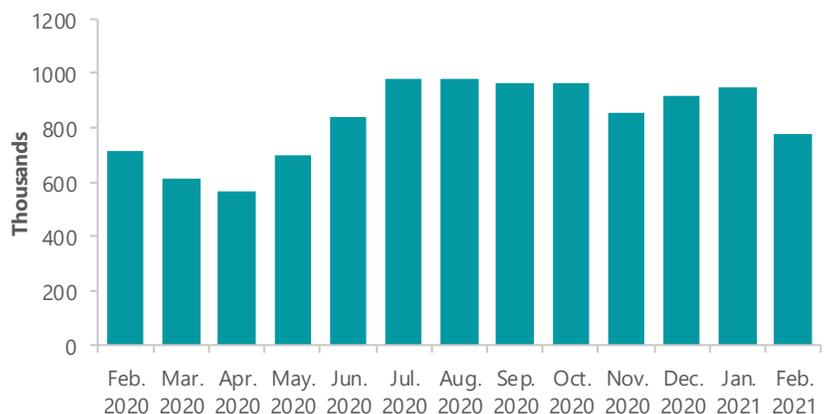
Key Takeaways

- ▶ In a hot housing market, many companies held across ClearBridge portfolios are helping make the homes of the future — back deck included — more environmentally responsible spaces.
- ▶ Homebuilders are beginning to take steps toward building more environmentally friendly homes and disclosing the impact of their own operations.
- ▶ Behind-the-wall innovation in insulation and smart technology is finding new ways to make homes more energy efficient and less costly.

Building More Sustainable Homes for Tomorrow

We are in the midst of a booming real estate market: prices for many houses are growing the fastest in over a decade thanks to millennial household formation which was increasing before the pandemic, a pandemic-driven acceleration of the exodus from urban centers and a healthier banking system after the global financial crisis. New home sales are elevated even given the winter's typical seasonal lull (Exhibit 1). Despite a recent pickup in long-term bond rates, 30-year fixed mortgage rates are near historic lows, suggesting the growth could continue. Stimulus money and lifestyle changes engendered by people spending substantially more time at home during the pandemic have also meant more home remodeling.

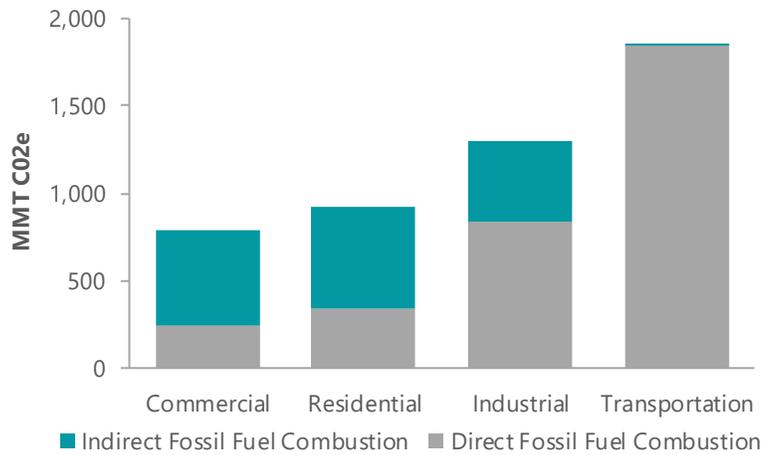
Exhibit 1: New Privately-Owned Houses Sold



Source: U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Residential Sales, March 23, 2021.

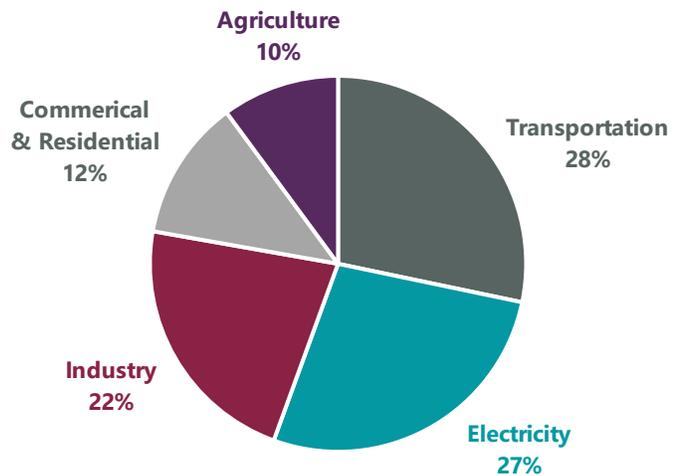
As many people move into new single-family houses or apartment homes, or refresh the existing housing supply, now is a good time to reflect on how green the building and renovation processes can be, as the residential sector contributes a meaningful amount to national carbon emissions (Exhibits 2 and 3). A wide range of ClearBridge portfolio companies are working to improve the sustainability profile of tomorrow's homes, which should help reduce costs over the long term as well. Homebuilders, residential REITs, roofers and insulators, smart home enablers and others across ClearBridge portfolios, are helping make the homes of the future — back deck included — more environmentally responsible spaces.

Exhibit 2: End-Use Sector Emissions of CO² from Fossil Fuel Combustion (2019)



Source: U.S. Environmental Protection Agency.

Exhibit 3: Total U.S. Greenhouse Gas Emissions by Economic Sector (2018)



Source: U.S. Environmental Protection Agency.

Historically, green building practices were dilutive to returns, though they are now being recognized to be of strategic importance.

Homebuilders are beginning to take steps toward building more environmentally friendly homes and disclosing the impact of their own operations. In many cases, the price sensitivity of new home buyers discourages the incorporation of green building in new homes. Homebuilder Lennar, for example, included solar panels in every home it built in California for several years prior to the California Energy Commission making solar standard as part of new construction, although this has not been without consumer pushback.

ClearBridge holding Century Communities, which makes single and attached homes, recognizes homebuilders can be a laggard industry in sustainability disclosures. The company finds that consumers in the past have not been willing to pay a price premium for green features on homes and apartments, even though they say they want them. This has led the industry to generally build to the lowest common regulatory standard, as additional green building practices were dilutive to returns.

Driven by top-down recognition of the strategic importance of green building as well as by demographic changes in home buyers (younger buyers value green features more than older buyers do), Century Communities is taking steps to be a leader in green building by publishing its first ESG report. Disclosing the company's Scope 1, 2 and 3 carbon emissions for the first time, the report represents a strategic commitment to increased disclosure and better sustainability practices with the ultimate goal of Century Communities becoming an ESG leader in the homebuilding space. We applaud this step toward clear, tangible results.

While homebuilders face some structural challenges in improving green building (with some exceptions), residential REITs, which take on longer-term responsibilities in owning and operating the properties, are in this way more incentivized to make sustainability gains.

ClearBridge holding American Homes 4 Rent builds, acquires and leases more than 52,000 single-family rental homes across 22 states. The company designs homes with resource-efficient fixtures and appliances. To help residents conserve water, it installs high-efficiency toilets and plumbing fixtures in all development properties and in renovations of existing homes. In arid states such as Arizona and Nevada, it installs smart, water-efficient irrigation features in its landscape design.

Apartment REITs such as AvalonBay Communities are able to leverage economies of scale in driving green building decisions by virtue of the large number of multifamily units they own, build and operate. AvalonBay owns or holds an interest in nearly 70,000 apartment homes in the U.S. and has been making progress installing renewable energy in its properties as well as improving energy efficiency through light and water retrofits. In 2019, it set

science-based emissions reduction targets of 53% in Scope 1 and 2 greenhouse gas (GHG) emissions and 47% in Scope 3 emissions by 2030, which were approved by the Science Based Targets initiative.

There's More Than Just Bricks in the Wall

Roofer and insulator Owens Corning, also a ClearBridge holding, is helping make the building sector more sustainable. The company operates across 33 countries and has positive environmental impact primarily through its insulation business. In the EU, for example, buildings are responsible for 40% of energy consumption and 36% of GHG emissions. New buildings consume only half of the energy of those built over 20 years ago, according to the company. But as 85% of the buildings in the EU are older than 20 years, and 85%–95% of them are expected to still be standing in 2050, there is need for a massive renovation. Roughly 35 million buildings in the EU will need to be renovated by 2030, according to the company.

Properly insulated homes lower energy intensity and thus the overall carbon footprint of a home. According to Owens Corning, insulation intensity of new homes is on the rise, driven in part by state and municipal rules requiring certain levels of insulation, but also by consumer preference for reducing energy consumption and being greener in the home. The company is helping meet this demand with insulation products that are lighter weight yet deliver stronger performance than higher-weight/higher-density products. The insight that greater density does not necessarily mean better performance has allowed the company to reduce shipping weight and fuel.

Owens Corning's roofing business also features shingles that use a highly reflective granule technology to reflect the sun, keep roofs cooler and lower air conditioning energy demand. Its composites business also counts wind turbines as a major end use, another positive for sustainability goals.

As part of its 2030 Sustainability Goals, Owens Corning is also looking to grow a circular economy model in which virgin raw materials, waste, energy and emissions are minimized through intelligent design, renewable and recycled input and energy-efficient production.

Smart thermostat maker and ClearBridge holding Resideo Technologies is also helping homes become more sustainable through behind-the-wall innovation. Resideo makes behind-the-wall components and front-facing controls for homes whose purpose is to drive water and energy conservation or improve air quality. Resideo's smart thermostats help provide the right temperature using the lowest energy consumption; its components and controls for boilers, furnaces and heat pumps help energy conservation; and its leak and freeze detectors aid in water

conservation. Currently, of Resideo's 150 million home installed base, only 6 million are conservation-advantaged "connected homes." The company's goal is to grow this mix, while also launching predictive tools for its professional installer customer (a plumber might get an alert once a pipe starts leaking, rather than waiting for the call once a basement is flooded) and working closer with utilities to make the grid smarter and more efficient. Resideo's smart thermostat, meanwhile, is built into homebuilder Lennar's new line of Connected Homes.

Home Expansion Offering Green Opportunities

Just as the new home market has been hopping amid low interest rates and the greater need for space, the market for home improvement has also been robust for similar reasons. Decks have been perfect places for safe social gatherings during the pandemic, and ClearBridge portfolio holding Trex has been meeting demand with its composite decking made from recycled wood fibers and plastic waste.

Trex's high-performance decking portfolio is made using more than 95% recycled content. Trex uses locally sourced reclaimed wood that would otherwise end up in landfills and so avoids cutting down trees to make its products. The recycled plastic film it uses comes from a variety of sources, including industrial shrink wrap, agricultural plastic sheeting and household plastic such as grocery and shopping bags. With the average 500-square foot composite Trex deck containing 140,000 recycled plastic bags, Trex is one of the largest plastic bag recyclers in the U.S. The company has also innovated ways of recycling dirtier plastics more likely to end up in landfills.

Trex has seen already strong demand get stronger during the pandemic; the company was sold out during much of 2020 and began expanding capacity across the U.S. to meet heightened demand. With lumber prices soaring amid the strong housing market, Trex's composite decks are increasingly gaining share, especially in price-sensitive areas of the market, which bodes well for both the environment and shareholders.

Sustainability Is Growing in Prominence in the Building Sector

We are encouraged by the increasing number of companies working to build the home of tomorrow more sustainably, which will typically provide an improved return on investment. In addition, the sustainably built home covers expansive geographies and diverse demographics. This is particularly important in the context of climate change, as homes that use water and energy efficiently can also prove more resilient amid volatile energy and water availability and prices. As the EPA notes, homes that

maintain habitable conditions in extreme heat, power outages and strong storms are crucial to protecting their inhabitants. If they can be built using sustainable resources by companies actively looking to reduce carbon emissions, all the better.

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