



ClearBridge 2022 TCFD Climate Report

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Table of Contents

Introduction	3
ClearBridge Milestones: Addressing Climate Risk	4
Governance	5
Climate Risk Oversight Integrated Across Multiple Teams	
Strategy	7
Identifying Climate-Related Risks and Opportunities	
Climate-Related Risks, Opportunities and Time Frames	
Integrating Climate-Related Analysis into the Investment Process Firmwide	
Risk Management	11
Sector-Specific Analysis of Risks and Opportunities Presented by Climate Change	
Engaging on Climate-Related Risk Disclosures and Practices	
Metrics and Targets	13
Setting a Net-Zero Target With the Net Zero Asset Managers Initiative	
Defining a Net-Zero Methodology and Metrics	
Baseline Net-Zero Alignment and Procedures	
ClearBridge’s Net-Zero Engagement Approach	
Weighted Average Carbon Intensity (WACI)	
TCFD Recommendations	19

Introduction

Recent years have brought climate change to the forefront of regulatory priorities across the globe. These include improving sustainable business practices among companies and investors and increasing spending and tax credits for climate solutions. More specifically, in Europe, the EU taxonomy and Sustainable Finance Disclosure Regulation (SFDR), which went into effect in January 2022, focus on corporate and investor climate disclosure. In the U.S., the U.S. Inflation Reduction Act, signed into law in August 2022, is the most significant climate legislation in U.S. history and should have ramifications for companies across several sectors.

Companies, meanwhile, have continued to publicly commit to set decarbonization targets and strategies. Since its inception in 2015, the Science Based Targets initiative (SBTi) has seen exponential growth in the number of companies setting, and committing to set, science-based targets for emissions reductions. In 2021 the number totaled 2,253 company commitments, double the number in 2020. This figure includes 1,171 companies that committed to set science-based targets and 1,082 with approved targets across 70 countries and 15 industries. SBTi companies now add up to \$38 trillion in market capitalization, representing over one-third of total global market capitalization.

ClearBridge has been active in furthering these positive trends, and has an important role to play in mitigating the effects of climate change. We do this in two overlapping ways:

Stewardship: By integrating climate change into our investment analysis to help us understand how the impacts of climate change — physical, technological, social and political — will affect society, the economy, and the companies we hold in our portfolios.

Impact: By engaging companies in our portfolios to support and accelerate their decarbonization efforts.

ClearBridge is also well-positioned to benefit from these positive trends. The Inflation Reduction Act, for example, offers strong tailwinds for many ClearBridge holdings in the renewable energy and electric vehicle (EV) supply chains, as well as companies ClearBridge owns and engages with that are helping the climate with solutions in buildings and energy efficiency.

Additionally, companies' increased commitment to set science-based targets aligns with ClearBridge's approach to engaging and measuring its progress toward a net-zero portfolio, a commitment ClearBridge made in July 2021 as part of the Net Zero Asset Managers initiative.

Here, for the fourth year in a row, we align our climate change reporting with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) where possible and most relevant. Through our TCFD-aligned reporting, we are indicating our commitment to addressing the challenge of climate change in our roles as active shareholders and stewards of our clients' capital.

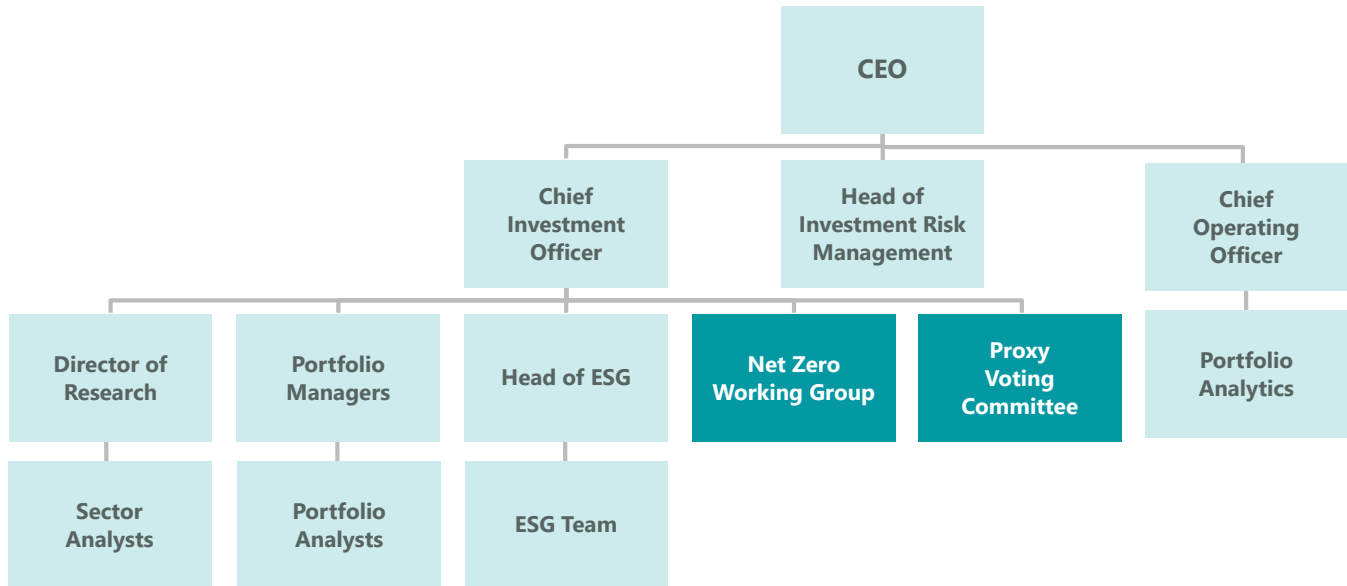
ClearBridge Milestones: Addressing Climate Risks

- 1987** | Opens first client account using socially responsible investment approach
- 1997** | Joins U.N. Environment Program Finance Initiative (UNEP FI)
- 2004** | Co-publishes first “ESG” report with the UNEP FI’s Asset Management Working Group, which coined “ESG” for institutional investment
- 2005** | Becomes an inaugural Investor Signatory to the Carbon Disclosure Project (CDP)
Participates in launch of the Principles for Responsible Investment (PRI) with Kofi Annan at the NYSE
Establishes central research platform and begins integrating ESG factors by sector
- 2008** | Signs U.N.-supported Principles for Responsible Investment (PRI)
- 2011** | Joins Investor Network on Climate Risk (INCR)
Joins Ceres
- 2018** | Becomes signatory to Climate Action 100+ and a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD)
- 2019** | First participates in CDP Non-Disclosure Campaign
- 2020** | First participates in CDP Science-Based Targets Campaign
- 2021** | Becomes a signatory to the Net Zero Asset Managers initiative (NZAM)
Launches ClearBridge’s first thematic global decarbonization strategy
- 2022** | NZAM target receives approval. ClearBridge commits 29.5% of assets under management to be managed in line with net zero, using its first year to pilot its approach

Governance

Climate Risk Oversight Integrated Across Multiple Teams

Several teams at ClearBridge bear responsibility for assessing and managing climate-related risks and opportunities, with different levels of oversight.



Climate Risk Reporting and Responsibilities

Role	Reports to	Climate-Related Responsibilities
Chief Investment Officer	Chief Executive Officer	Oversees the firm's investment team. Oversight over all investment-related matters, including any climate-related issues.
Head of Investment Risk Management	Chief Executive Officer	Incorporates climate-related risks in the investment risk review process.
Chief Operating Officer	Chief Executive Officer	Oversees Portfolio Analytics, access to and quality of climate data and integrity of analysis.
Director of Research	Chief Investment Officer	Manages ClearBridge's sector analysts and oversees their research activities, which include assessing risks and opportunities associated with climate change.
Head of ESG	Chief Investment Officer	Oversees the ongoing strategy to continuously improve our ESG integration approach within our investment processes.

Climate Risk Reporting and Responsibilities (continued)

Role	Reports to	Climate-Related Responsibilities
Portfolio Analytics	Chief Operating Officer	Provides investment teams and clients with portfolio- and security-level climate data and analysis.
Portfolio Managers	Chief Investment Officer	ClearBridge has a fully integrated ESG investment process — our analysts and portfolio managers conduct research on environmental, social and governance issues as part of their fundamental research. This analysis is underpinned by ClearBridge's own proprietary ESG framework, which includes numerous sector-specific climate issues. The quality of analysts' ESG integration work is included in their incentive compensation.
Sector Analysts / Portfolio Analysts	Director of Research / Portfolio Managers	
ESG Team	Head of ESG	Works with the investment teams to integrate climate-related risks and opportunities within their fundamental research and engagements. Oversees the implementation of ClearBridge's commitment to the Net Zero Asset Managers initiative.
Proxy Voting Committee	Chief Investment Officer	Consists of portfolio managers and investment analysts that review and update ClearBridge's Proxy Voting Policy annually. Recent changes include determining to vote for climate proposals seeking more disclosure of climate risks and those requesting disclosure of emissions reduction goals.
Net Zero Working Group	Chief Investment Officer	Develops an approach to achieving net zero best aligned to our investment teams' processes. Participants include Head of ESG, Director of Research, members from the ESG Team, investment team, Portfolio Analytics, Legal and Marketing.

Strategy

Identifying Climate-Related Risks and Opportunities

For ClearBridge, as an asset manager investing in public equities, over the short, medium and long term our main sources of climate-related risk and opportunity relate to:

- Investment performance: Climate change is both an investment opportunity and risk, 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 private sector technological innovation and regulation or policy developments supporting decarbonization.
- Shifts in client preferences: Greater focus on climate change could cause more asset owners (both individuals and institutions) to consider how their investment decisions impact this issue and seek out investment managers that actively incorporate climate change considerations into their investment approach and engagement strategies.

Two Types of Climate Risk: Transition Risk and Physical Risk

Changing market conditions and policies to transition toward a lower-carbon economy are likely to affect business models, competitive dynamics, technology developments and capital allocation decisions in many industries. These risks can be grouped together under the name “transition risks” and are distinct from the “physical risks” of climate change. Physical risks include increased frequency and severity of extreme weather events such as droughts, floods and wildfires that can impact businesses and their employees through damage to assets, lost operating days and supply chain disruptions.

Climate-Related Risks, Opportunities and Time Frames

Time Frame	Risks	Opportunities
Short Term	<ul style="list-style-type: none"> • Transition risks in sectors such as power and autos • Carbon emissions regulation • Extreme weather events (physical climate risks) 	<ul style="list-style-type: none"> • Solar and wind power • Short-term energy storage (batteries) • Electric passenger vehicles • Energy efficiency
Medium Term	<ul style="list-style-type: none"> • Transition risks in sectors such as energy, industrials and materials • Carbon pricing • Increasing frequency and severity of extreme weather events 	<ul style="list-style-type: none"> • Green hydrogen • Critical minerals needed for the energy transition (copper, lithium, rare earth minerals, etc.) • Electric buses, trucks and trains • Climate adaptation technologies
Long Term	<ul style="list-style-type: none"> • Transition risks in sectors such as heavy transport, steel and cement • Climate-related geopolitical risks • Further increasing frequency and severity of extreme weather events 	<ul style="list-style-type: none"> • Carbon capture and storage (CCS) • Sustainable aviation and shipping • Green steel, cement and other building materials • Long-term energy storage

We believe ClearBridge is well-positioned to address risks and opportunities related to both investment performance and client preferences. As active managers who integrate ESG considerations across all strategies, we closely monitor the financial markets and environmental trends and incorporate this knowledge into:

- The investment process (stock selection and portfolio construction)
- Company engagements (direct and through broader investor and stakeholder initiatives)
- Proxy voting

This in-depth understanding of climate change risks and opportunities positions us well to respond to client demand. Given the short-, medium- and long-term risks and opportunities we have identified, we devote appropriate resources to ensure we have competitive strategies in a decarbonizing world where climate change affects businesses in all sectors.

Integrating Climate-Related Analysis into the Investment Process Firmwide

At the Company Level

ClearBridge assesses the specific climate-related risks and opportunities faced by individual companies as part of our bottom-up stock selection process, which integrates climate-related factors into our fundamental research process firmwide.

While we assess each sector on a specific set of criteria that is pertinent to its business operations, the assessment generally includes careful consideration of climate-related factors such as:

- The regulatory/policy environment
- The geographic location of assets and operations
- The ability to pass on costs to customers (pricing power)
- Technology alternatives and advancements
- Changing customer preferences
- Commodity prices
- Future capital expenditure and R&D plans
- Long-term business strategy
- Overall quality of the management team

At the Portfolio Level

We also consider climate-related risks at the portfolio level and have undertaken studies to stress test investment portfolios given different climate-related scenarios, for example examining the effects of carbon taxes, which are gaining momentum as a potentially effective policy tool for decarbonization.

While similar tests may be run by third-party ESG solutions providers, ClearBridge's approach is differentiated by:

- **Taking a dynamic and adaptive approach:** We view the economy in which companies operate as a complex adaptive system. The initial exogenous shock of a carbon tax represents just the first wave that should inevitably lead to reactions and counter-reactions that reverberate across the interconnected web of value chains. Understanding the adaptive nature of this dynamic is key to understanding the impact of carbon taxes; while this is a much more complex exercise and subject to greater modeling error than a narrow focus on quantifying the direct impact, we believe it represents a more realistic approach and potentially a better guide to climate risk management and company engagement.
- **Focusing on value impact under various scenarios:** Compared to third-party solutions that may be driven by preselected scenarios (such as various global warming paths), we prefer a more flexible approach in accommodating various scenarios of carbon pricing and reaction functions. In addition, we maintain focus on company value as the "common denominator" throughout the analysis.
- **Creating a roadmap for engagement:** We believe a holistic and adaptive approach, and a focus on understanding how various factors impact company value, should not only help us understand the climate risk of each portfolio holding, but also provide a flexible and value-based platform for engagement of company management.

Climate-Related Risks and Opportunities and ClearBridge Proprietary ESG Ratings

ClearBridge has an internal ESG ratings process across our equity research platform that captures ESG factors in our investment process. ESG ratings are proprietary scores intended to signal to investment teams how well a company has executed its ESG practices. ClearBridge ESG ratings use a proprietary materiality framework that identifies key ESG factors per sector and applies varied weights per factor dependent on relevance to the company. For example, climate-related factors may hold more weight within the utilities sector than the health care sector.

Key climate-related risks and opportunities captured in ClearBridge proprietary ESG ratings include:

- Clean technology and energy efficiency product innovation
- Climate change impact: risk assessment, educational efforts, product design
- Environmental efficiency of operations (energy, water, waste, emissions)
- Environmental regulation and compliance
- Fuel efficiency and optimization of vehicle fleets
- Green building practices
- Green lending and/or investing practices
- Harmful air emissions
- Hydrocarbon mix (for oil and gas companies)
- Impact of e-commerce packaging and distribution footprint
- Managing legacy environmental liabilities
- Position of oil and gas assets on the cost curve

Climate-Related Risks and Opportunities and ClearBridge Engagements

ClearBridge's active approach to ownership involves a commitment to engaging companies on climate change issues. We advocate in meetings with management teams to advance issues such as carbon emissions disclosure, setting emissions reduction goals, increasing use of clean energy, improving supply chain efficiency and generally encouraging companies to think about longer-term climate-related risks and opportunities. 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 address climate change challenges.

Please see Metrics and Targets for examples of ClearBridge's net-zero engagement approach.

Climate-Related Industry Initiatives

We also engage companies through broader initiatives with other investors and stakeholders. 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.



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



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

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



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



ClearBridge became a signatory of the **Net Zero Asset Managers initiative** in 2021. This initiative is an international group of asset managers committed to supporting the goal of net-zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C; and to supporting investing aligned with net-zero emissions by 2050 or sooner.



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

Sources: cdp.net, ceres.org, climateaction100.org, netzeroassetmanagers.org, fsb-tcfd.org.

Climate-Related Risks and Opportunities and the Role of Proxy Voting

ClearBridge factors climate-related risks and opportunities into our proxy voting activities, which, along with direct and ongoing company engagement, form an important part of our approach to company ownership. Proxy voting is a visible and powerful tool public equity investors may use to advocate for sustainable business practices.

In 2021, the ClearBridge Proxy Committee made several updates to the ClearBridge Proxy Voting Guidelines, including adding the following language to the policy:

- We vote for climate proposals seeking more disclosure on financial, physical or regulatory risks related to climate change and/or how the company measures and manages such risks
- We vote for climate proposals requesting a report/disclosure of goals on GHG emissions from company operations and/or products

Proxy Voting Case Studies: United Parcel Service and Costco

ClearBridge factors climate-related risks and opportunities into our proxy voting activities, which, along with direct and ongoing company engagement, form an important part of our approach to company ownership. These updates helped guide our voting on climate-change-related shareholder proposals in 2021, such as to United Parcel Service (UPS). Shareholders submitted a precatory proposal asking that UPS report on its plans to reduce its total contribution to climate change and align its operations with the Paris Agreement's goals. ClearBridge voted For this proposal, as additional disclosure would allow investors to better understand how the company is managing its transition to a low-carbon economy and climate-change-related risks. Shareholders requested that UPS issue a report, at reasonable cost and omitting proprietary information, describing if and how it plans to reduce its total contribution to climate change and align its operations with the Paris Agreement's goal of maintaining global temperature increases at or below 1.5° Celsius.

ClearBridge also voted For a similar shareholder proposal at Costco, contributing to the 69.9% of votes cast in support of a resolution calling for the adoption of science-based GHG emissions reductions targets covering its entire value chain.

Risk Management

Analysis of climate risks and opportunities is integrated into all aspects of our investment process, including risk management. Investment risk, including climate risk, is addressed at the portfolio level by the Portfolio Managers, as described above. Additionally, ClearBridge's Investment Risk Management Team and Risk Management Committee provide separate and independent oversight at the firm level.

ClearBridge has an independent Investment Risk Management Team that provides comprehensive oversight to mitigate investment risk for all our strategies, including climate risk. The team fosters ClearBridge's priority as a risk-aware culture in which risk management is an integral part of investment decision making and assists Portfolio Managers in identifying and addressing potential investment risk. For this purpose, the team reviews a wide range of risk reports, using tools such as the NorthField U.S./Global fundamental equity risk models, style allocation tools such as FactSet SPAR and Morningstar, and internal proprietary tools. Specifically for climate risks, the team uses ClearBridge's proprietary ESG ratings as well as ESG ratings from third-party service providers to analyze and review each strategy's climate risks and opportunities with the strategy's Portfolio Managers.

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

ClearBridge identifies and assesses the specific climate-related risks and opportunities faced by individual companies as part of our bottom-up stock selection process, which integrates climate-related considerations, among other environmental, social and governance considerations.

While we assess each sector on a specific set of criteria that is pertinent to its business operations, the assessment generally includes careful consideration of climate-related factors such as: the regulatory/policy environment; the geographic location of assets and operations; the ability to pass on costs to customers; technology alternatives and advancements; changing customer preferences; commodity prices; future capital expenditure and R&D plans; long-term business strategy; overall quality of the management team; and other factors.

Sector Spotlight: Infrastructure

ClearBridge's infrastructure strategies have a mandate to invest in "pure infrastructure" companies, which own hard physical assets, provide an essential service to society, and have robust frameworks in place to ensure equity holders are adequately rewarded (e.g., regulation, long-term concessions or other contracts).

Infrastructure companies, taken as a whole, tend to have higher Scope 1 emissions than average given the provision of essential services, in particular electricity, which has historically been generated via the burning of fossil fuels such as coal and gas.

In order to account for relevant environmental risks, ClearBridge infrastructure strategies use a range of climate-related measures, including, but not limited to GHG emissions, emission reduction targets and expected forward emission profiles (often expressed as Implied Temperature Rise). We also consider assessments of energy transition trends and technologies, including relative economics, scalability and scale of deployments as well as other environmental risks such as physical asset risk, environmental practices and opportunities/risks related to decarbonization.

Engaging on Climate-Related Risk Disclosures and Practices

ClearBridge regularly engages with investee companies to encourage better disclosure and practices related to climate-related risks. Here are two examples:

Engaging Home Depot on Scope 3 Emissions Goals

Home Depot is North America's largest home improvement retailer with over 2,200 company-owned stores. In September and October 2021 ClearBridge hosted calls with Home Depot's Chief Sustainability Officer to gain a better understanding of the company's progress following its July 2021 ESG Report, primarily on emissions. We wanted to better understand the company's internal view of how the pandemic impacted emissions results in 2020 and flat year-on-year emissions, which the company viewed as a victory.

Home Depot remains highly confident it can achieve the Scope 1 and 2 goals it set for 2030 and 2035. The plan to announce Scope 3 goals remains on track but the company shared concern over how other companies are calculating Scope 3 emissions as compared to its own methodology, particularly around products with 10+ year lifecycles. We were encouraged by the company's efforts to develop an effective methodology for measuring and reducing Scope 3 emissions. We were also encouraged by plans Home Depot shared on how it intends to use merchandising and working with suppliers to bring down emissions of the products it sells.

Engaging Vulcan Materials on Emissions Reduction Targets

ClearBridge is a top 10 holder of Vulcan Materials, a large aggregates company in the materials sector. In February 2022 ClearBridge held a call with Investor Relations, External Affairs, Human Resources and General Counsel leaders of Vulcan Materials on several ESG topics. We asked when we could expect the company to announce GHG emissions reduction targets similar to its peers and what main levers it has to lower those emissions. The company shared that it will disclose its first Scope 1 and 2 emissions reduction targets (on a per-ton basis) in its upcoming 2021 ESG report and added that reporting will be in line with TCFD and SASB going forward, a development we found encouraging. In terms of actions to achieve reductions, Vulcan Materials cited establishing targets for renewable energy consumption, which currently stands at 10% of electricity consumed. The company also mentioned use of solar arrays on top of facilities as well as electric loaders, though adoption would be gradual and dictated by cost.

Metrics and Targets

Setting a Net-Zero Target with the Net-Zero Asset Managers Initiative

ClearBridge made a formal commitment to bring 100% of our assets under management to net-zero emissions by 2050. We did this for several reasons, among them:

- The need for the private sector, in particular asset managers, to help accelerate the world transition to global net-zero emissions;
- To respond to client interest in asset managers taking action on climate change;
- Our interest in new investment opportunities a low-carbon economy will afford in the form of climate change mitigators and adaptors as well as improvers within high-emitting sectors;
- The need for our portfolios to adequately manage risks related to climate change, including physical risks, regulatory requirements and changing consumer preferences.

ClearBridge's commitment to the Net-Zero Asset Managers initiative is to:

- By 2050: Achieve net-zero emissions across all ClearBridge portfolios.
- By 2040: Align 100% of the firm's assets with the pathway to net zero by 2050.
- By 2030: Achieve at least 66% of current in-scope assets net zero aligned or subject to engagement.

As active equity investors, we believe we also offer value in 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 helps improve our understanding of their businesses and their potential for long-term success. We can also achieve positive impact when our engagements with companies contribute to their improved performance on ESG issues, leading to real-world outcomes. Engagement is an important part of active equity ownership, and we are committed to being responsible stewards of our clients' capital.

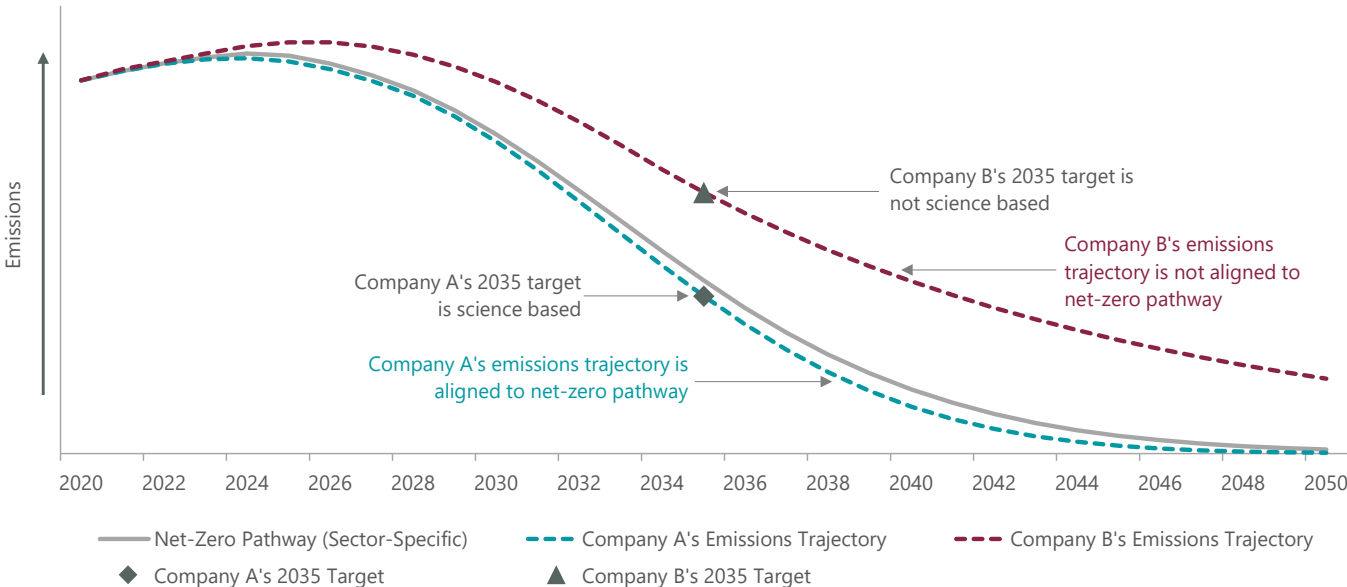
Defining Net-Zero Methodology and Metrics

ClearBridge has chosen a combination of NZAM-accepted frameworks — the SBTi's Portfolio Coverage Approach and the Paris Aligned Investment Initiative's Net Zero Investment Framework (NZIF) — for measuring progress against our net-zero target. This combination measures portfolio company alignment to a net-zero pathway based on their decarbonization targets and strategies, specifically science-based targets. Science-based targets provide a clearly defined pathway for companies to reduce GHG emissions, helping prevent the worst impacts of climate change and better secure future business growth. Targets are considered "science based" if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement, which are to limit global warming to well-below 2°C above pre-industrial levels and to try to limit warming to 1.5°C (Exhibit 1).

This approach moves the conversation beyond traditional, backward-looking portfolio carbon footprinting to a more forward-looking approach and aligns with our investment goal of identifying companies that will maintain shareholder value and be successful well into the future. While carbon footprinting helps identify sources of emissions, it is not the best measure for assessing a portfolio's progress toward net zero or its exposure to transition and physical risks.

After conducting a thorough review of the SBTi's criteria for target verification and consulting with a range of portfolio companies, we have come to believe it is necessary to build some flexibility into a net-zero alignment approach through incorporation of the NZIF along with elements of SBTi's. We have created this flexibility in our approach primarily to allow for additional verification methods of science-based targets as well as gaps in SBTi sector guidance. Beyond the SBTi, internally approved verification examples include CA 100+, which covers a range of high-emitting sectors, including oil and gas (which is currently excluded from SBTi), credible consultants and ClearBridge's own assessment for special cases, while keeping in mind SBTi criteria. We independently assess any company that claims its target is science-based but is not verified by a third party.

Exhibit 1: Net-Zero Pathway Alignment and Science-Based Targets



Source: ClearBridge Investments.

Climate Solution Providers

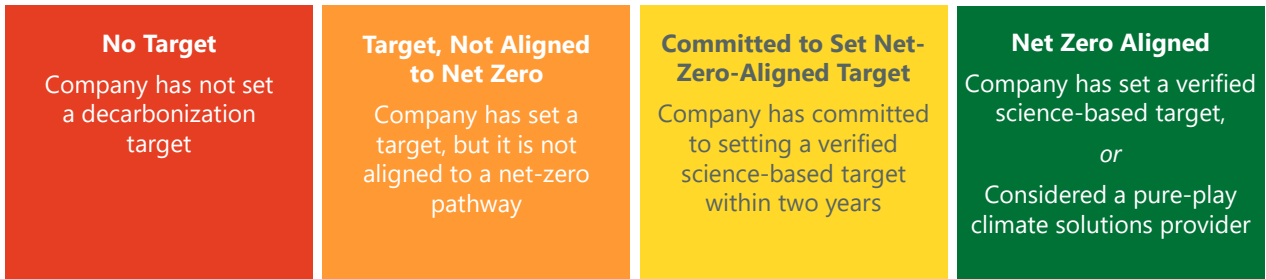
We also wish to allow for the inclusion of climate solution providers, or companies whose products result in emissions reductions. While there is still much discussion around the role of climate solution providers in measuring a portfolio's alignment, we feel it is important to include them to give credit to companies whose entire business model/product contributes to climate mitigation.

Details on our target are publicly available on the signatory page of the [Net Zero Asset Managers initiative](#) website.

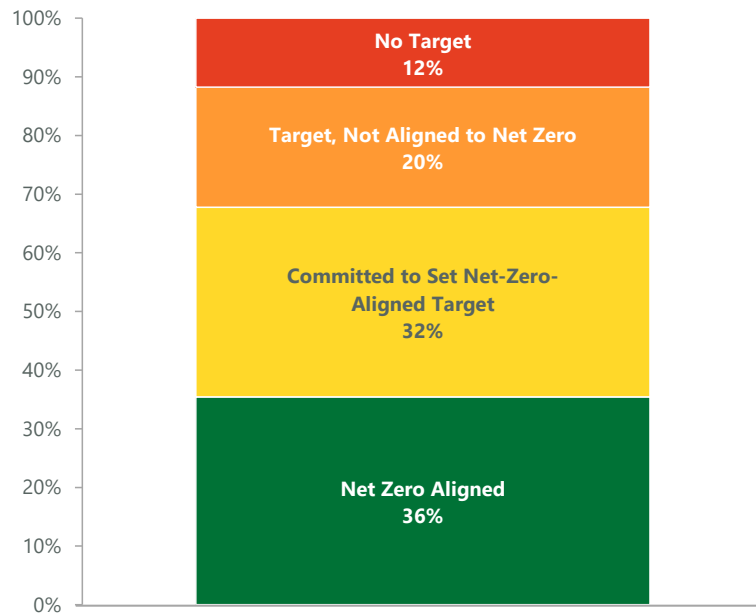
Baseline Net-Zero Alignment and Procedures

Through our net-zero assessment, we group portfolio companies into one of four categories (Exhibit 2). We conduct focused engagements with companies to move them toward "Net Zero Aligned" until 100% of our assets are on a net-zero pathway. Our baseline in-scope assets alignment is 36% (Exhibit 3).

Exhibit 2: ClearBridge Assessment for Net-Zero Alignment of Portfolio Companies

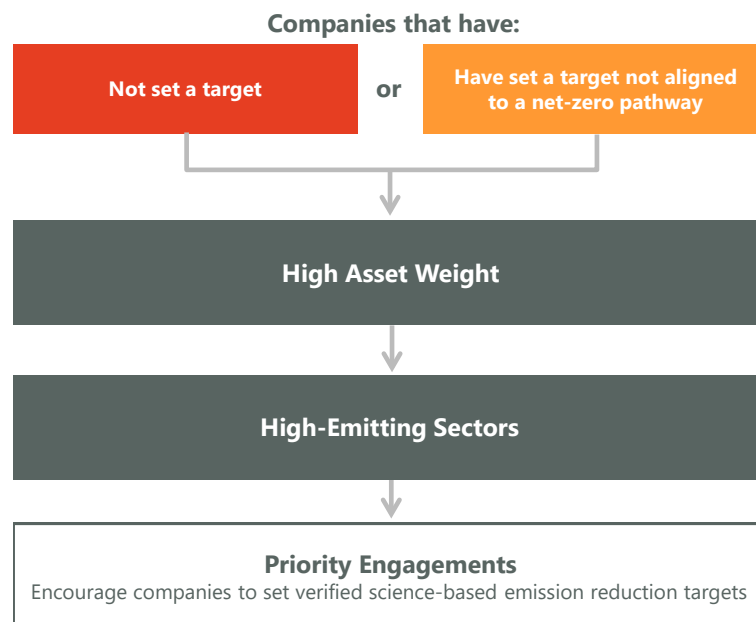


As this is our first year in implementing our net-zero approach, we believe it is prudent to pilot our approach with a select group of investment teams with the commitment intent to reach 100% assets under management coverage by 2040 or sooner. We have selected three ClearBridge portfolios, representing core, value, and growth exposures and with a diverse range of sector allocation, and thus with varying portfolio emission levels, to credibly test our approach and reduce real-world emissions.

Exhibit 3: ClearBridge's Baseline Net-Zero Alignment as Percent of Portfolio Weight

ClearBridge's Net-Zero Engagement Approach

Using this assessment framework and determining a baseline alignment of holdings, we prioritize companies for our net-zero engagements through a decision tree (Exhibit 4), initially prioritizing higher-weighted, high-emitting companies that either have not set a target or have set a target that is not aligned with a net-zero pathway.

Exhibit 4: Decision Tree for Priority Engagements

Consistent with ClearBridge's ESG approach, net-zero engagements are conducted by investment teams. We developed a net-zero engagement guide to provide the analysts and portfolio managers with additional resources, beyond their own fundamental research, to drive effective discussions. During these conversations with portfolio companies, we look to not only encourage our portfolio companies to set science-based targets, but also to understand the strategy behind their target so we may ensure there is a well-developed and achievable approach. Discussion areas may include:

- Level of ambition and time frame (short, medium, long term)
- Current and future climate disclosure plans
- Capital allocation alignment to their target
- Reliance on future technologies
- Reliance on carbon offsets
- Potential customer and community impacts
- Board or management oversight of climate strategy

ClearBridge's Net-Zero Approach in Practice

The engagements highlighted below demonstrate company-specific nuances in aligning with a net-zero pathway as well as the benefits of setting a science-based target using multiple verification methods. They also show the importance of open and consistent dialogue.

Multinational Shipping/Receiving and Supply Chain Management Company (Target, Not Aligned to Net Zero)

ClearBridge has actively engaged with a multinational shipping/receiving and supply chain management company which has set aggressive carbon reduction targets. We have discussed how due to heavy reliance on future technologies such as sustainable aviation, the company recognizes it cannot credibly set a company-wide science-based target at this time. We categorize the company as having a "Target, Not Aligned to Net Zero." The company is, however, working to align all other parts of the business with a net-zero pathway. Efforts include investments in electric vertical takeoff and landing aircraft and full electrification of its ground fleet, with a 2025 goal of 40% alternative fuel for ground vehicles, up from 24% today. ClearBridge will continue to engage with this company to monitor progress against the other reduction targets it has set.

U.S. Integrated Electrical Utility (Net Zero Aligned Through Climate Action 100+ Verification)

ClearBridge has actively engaged with a U.S. utility on its decarbonization efforts. A recent meeting was specifically dedicated to the company's "Real Zero" strategy to eliminate carbon emissions from its operations. The company has formally announced targets for Scope 1 and 2 emissions reductions in its operations and purchased power without using offsets. The plan has five-year milestone targets, e.g., a 70% reduction in emissions by 2025. We discussed specific assumptions underlying the plan, such as a coal plant retirement in 2024, a pilot combined cycle gas turbine plant able to blend green hydrogen with natural gas as fuel, and underpenetrated solar expansion as a main driver to reduce emissions at the company's regulated utility. The company also engages with CA 100+ and supports SBTi targets. While it is not eligible for SBTi verification due to its ownership of insignificant natural gas assets, its Real Zero target was verified by an industry climate consultant as a viable pathway to meet SBTi goals. Its 2025 target was verified by CA 100+. We were therefore comfortable considering this company currently "Net Zero Aligned."

Weighted Average Carbon Intensity (WACI)

A portfolio carbon footprint can provide information on the carbon emissions directly associated with companies held in a portfolio and identify the most significant sources of direct emissions. We use this analysis to inform our engagement strategies, highlighting companies that account for the highest proportion of a portfolio's emissions. A portfolio carbon footprint is calculated in two steps (Exhibit 5).

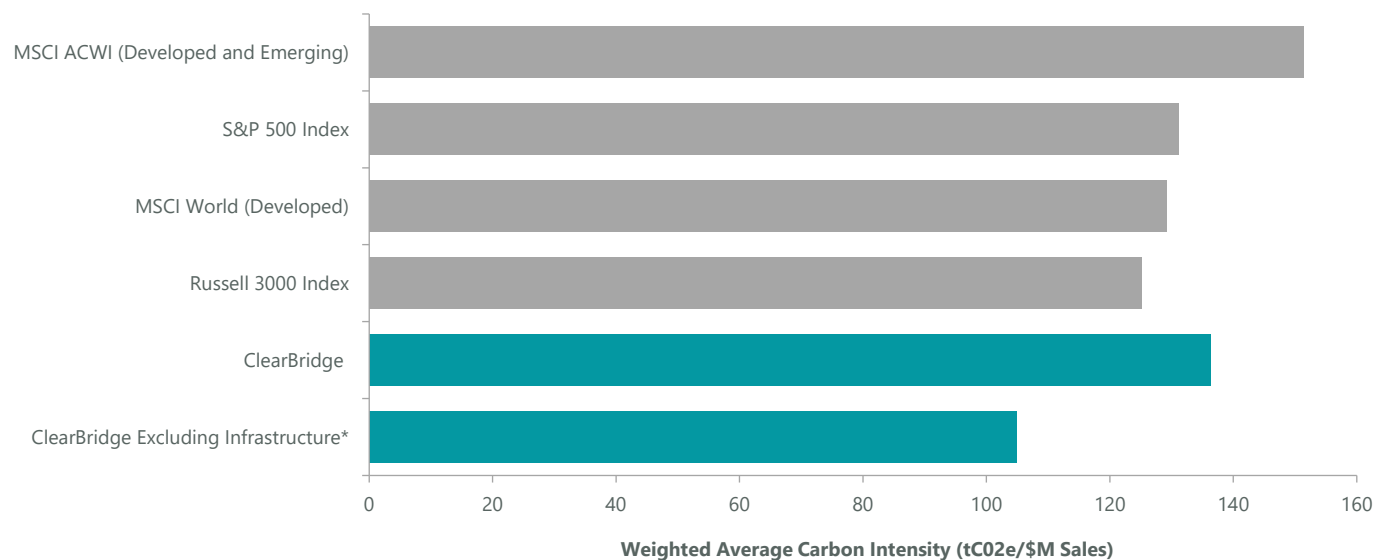
ClearBridge has over 30 investment strategies spanning market capitalizations, investment styles and regions. Each strategy has its own benchmark for financial performance. We have compared ClearBridge's aggregate portfolio holdings to an array of benchmarks to provide as much context as possible for the firm's performance, while acknowledging that no benchmark provides a perfect comparison.

Exhibit 5: Understanding Portfolio Carbon Intensity

$$\begin{aligned}
 &1. \frac{\text{Annual direct GHG emissions}}{\$1 \text{ million of annual revenue}} = \text{Company Carbon Intensity} \\
 &2. \sum \text{Company portfolio weight} \times \text{Company Carbon Intensity} = \text{Portfolio Carbon Intensity}
 \end{aligned}$$

ClearBridge is a global equity manager. Our suite of investment styles includes several strategies dedicated to infrastructure, an asset class with characteristics that differ from those of a typical diversified stock index like the S&P 500. The inclusion of our infrastructure strategies makes direct comparison of the firm's overall weighted average carbon intensity to global equity indexes potentially misleading. For better comparisons, here we show the weighted average carbon intensity of ClearBridge's assets both including and excluding our infrastructure strategies. We also show the weighted average carbon intensity of ClearBridge's infrastructure strategies, including energy infrastructure, on a standalone basis, and compare this to the S&P Global Infrastructure Index, which is a more meaningful benchmark for this asset class.

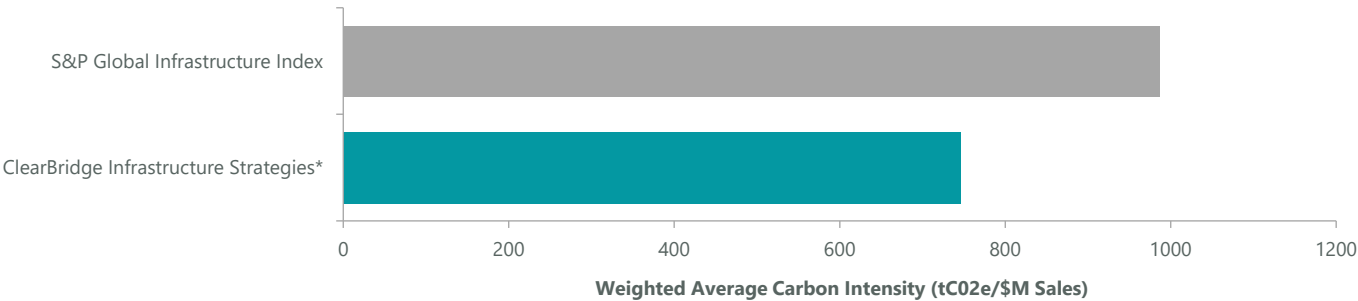
Not including ClearBridge's infrastructure strategies, in 2021 ClearBridge's carbon intensity was 16%–31% lower than the representative benchmarks (Exhibit 6). The utilities sector is the main driver of differences: ClearBridge's overall weighting in utilities is lower than all the indexes used in this analysis. ClearBridge's infrastructure strategies, including energy infrastructure strategies, were 32% lower than the benchmark (Exhibit 7).

Exhibit 6: ClearBridge Carbon Intensity

*Removes the effect of concentrated infrastructure portfolios.

As of Dec. 31, 2021. Source: ClearBridge Investments, MSCI Carbon Portfolio Analytics.

Exhibit 7: ClearBridge Infrastructure Strategies Carbon Intensity



*Includes only concentrated infrastructure portfolios.
As of Dec. 31, 2021. Source: ClearBridge Investments, MSCI Carbon Portfolio Analytics.

Portfolio Net-Zero Alignment Is Our Preferred Measure of Climate Risk

While carbon intensity analysis helps identify the companies in a portfolio responsible for the highest direct emissions, low carbon intensity does not necessarily mean low climate risk, and vice versa. Portfolio carbon intensity is not a good proxy for risk exposure because it is not forward-looking, does not include emissions from products or supply chains (Scope 3 emissions), and does not consider regulatory factors or market dynamics.

As discussed above, judging a portfolio’s climate performance by assessing the “net-zero alignment” of each portfolio company is a new forward-looking approach better suited to the basic goal of investing — identifying future successful companies — than backward-looking portfolio carbon footprinting. For this reason, ClearBridge’s climate targets are based on net-zero alignment, as described in detail above.

Disclosing Scope 1 and Scope 2 Emissions

In 2020, ClearBridge became part of Franklin Resources, which participates in the CDP, annually measuring and reporting on carbon emissions, as well as risks and opportunities for our business due to the effects of climate change. The firm’s current response, which is available on the CDP website (a login is required), includes comprehensive details on our approach to climate change. For more information, including on Franklin Templeton’s Scope 1 and 2 reductions, please see [Franklin Templeton’s Corporate Social Responsibility Report](#).

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

TCFD Recommendations

This report is aligned with the following TCFD recommendations:

Governance

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

Strategy

- Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.
- Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. Supplemental Guidance for Asset Managers: Describe how climate-related risks and opportunities are factored into relevant products or investment strategies.

Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Risk Management

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

Metrics and Targets

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