



2018 IMPACT REPORT

Enhancing Fundamental Analysis Through ESG Integration and Active Company Management

ClearBridge
Investments



ClearBridge

Investments

620 Eighth Avenue, 48th Floor
New York, NY 10018
Phone: 1 800 691 6960
clearbridge.com



WELCOME LETTER from Terrence Murphy

I am proud to introduce ClearBridge's 2018 Impact Report. Environmental, Social and Governance (ESG) considerations have been a crucial part of our investment process for over 30 years and we realize that regular reporting on ESG progress is one of the most effective ways to inform and educate asset owners, investors and company managements.

Our annual Impact Report is intended to highlight the importance of ESG integration to our fundamental research approach and to our roles as an active equity manager and advocate for sustainable business practices among the companies where we are shareholders. We believe ESG factors not only have good long-term benefits to society, but also help mitigate risk and identify investment opportunities for our portfolio managers. Overall, we see integrating ESG as a critical part of the long-term success of our clients.

Ownership of public equities is one of the most powerful ways investors can make an impact. As a top 20 shareholder in more than 300 public

companies, ClearBridge maintains ongoing communications with company managements and uses these engagements to discuss ESG issues specific to their company or industry and promote best practices. The engagement section of the report highlights some of our most pertinent discussions with portfolio companies over the past year.

We can also make an impact through the voting of proxies in favor of proposals that promote sustainability and against those that do not align with sound ESG practices. The report's proxy section details the key proposals considered and the progress made by companies in addressing issues such as proxy access, greenhouse gas (GHG) emissions and gender diversity.

ESG investing has come a long way in the three decades we have been involved, but there is always more progress to be made. Increasing awareness of the benefits of a sustainable approach and the impact that can be made by investors is another important objective of our ESG efforts.

We accomplish this through the sharing of our thought leadership on key issues and by being an active participant in organizations like the Principles for Responsible Investment (PRI), where we have been a signatory since 2008, and through educational efforts supportive of sustainable investing. Highlights of these activities are summarized in the Thought Leadership and Public Education section.

Thank you for taking an interest in sustainable investing. We believe the partnerships we have developed and continue to seek out with investors, asset owners and advocacy organizations are crucial to achieving results that both enhance society and our planet while also contributing to the success of our clients and portfolio companies.

Sincerely,

Terrence Murphy
Chief Executive Officer

TABLE OF CONTENTS

1	Firm Overview
2	PRI Signatory
3	ESG Investing at ClearBridge: An Annual Update with Mary Jane McQuillen
5	ClearBridge Impact Through Ownership
6	ClearBridge's Model of ESG Integration
7	ClearBridge Integrates ESG into Fundamental Research
11	ESG Integration in Practice
12	Company Engagement Highlights
12	ClearBridge Advises Trex on Best Practices for ESG Reporting
13	ClearBridge Guides Beverage Maker Cott on Sustainability Disclosures
14	Burberry Expands ESG Efforts to Enhance Growth
15	Home Depot: Soliciting Guidance on Scope 3 Emissions Goals
16	Umicore: Establishing Policies for Ethical Cobalt Sourcing
17	Our Analysts Differentiate Their ESG Research by Sector and Industry
18	Industrials
19	Basic Materials
20	Consumer Discretionary
21	Consumer Staples/Durables
22	Energy
23	Financials
25	Health Care
27	Media and Internet
28	Software
29	Technology Hardware
30	Utilities
31	ClearBridge Impact Through Proxy Voting
33	Proxy Voting in Action
34	ClearBridge 2018 Notable Proxy Votes by Issue
39	Thought Leadership and Public Education 2018
40	ESG Industry Discussions
42	ESG Industry Collaborations
43	Public Education
44	ESG Member Affiliations
46	Sustainable Development Goals
50	Measuring Progress on Climate: An Introduction to the TCFD
54	Strategy in Focus: Sustainability Leaders Strategy
58	Index of Companies in this Report

FIRM OVERVIEW

ClearBridge Investments is a leading global equity manager with \$125 billion in assets under management as of December 31, 2018. We are committed to delivering long-term results through active management, as we have for more than 50 years, and continue to offer investment solutions that emphasize differentiated, bottom-up stock selection to move our clients forward. Owned by Legg Mason, ClearBridge operates with investment independence from headquarters in New York and offices in Baltimore, London, San Francisco and Wilmington.

We believe authentic active management and high-conviction portfolios provide clients the best opportunities to earn superior investment results over the long term. The Firm offers strategies focused on three primary client objectives in our areas of proven expertise: high active share, income solutions and low volatility. We integrate environmental, social and governance (ESG) considerations into our fundamental research process across our platform.

As an ESG investor for over 30 years, ClearBridge remains at the forefront among asset managers in promoting and communicating the benefits of including ESG factors when selecting investments and building portfolios. Our experience demonstrates that an active, long-term commitment to ESG integration — ClearBridge holds companies for seven years on average across our portfolios — is good business and can offer clients a return on their investments and make an impact. As part of this integration into our fundamental research process, we assign proprietary ESG ratings and use those ratings to track progress toward stated goals over time and drive engagement with the companies we own.



\$115 billion

Assets for which ESG risk and opportunities are analyzed



727

Proprietary ESG-rated companies



1000+

Company meetings per year



333

Companies where we are a top 20 shareholder



7 years

Average period we own a company*

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

CLEARBRIDGE ACHIEVES HIGH SCORES FROM UN Principles for Responsible Investing

THE SIX PRINCIPLES FOR RESPONSIBLE INVESTMENT

- 1 We will incorporate ESG issues into investment analysis and decision-making processes
- 2 We will be active owners and incorporate ESG issues into our ownership policies and practices
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest
- 4 We will promote acceptance and implementation of the Principles within the investment industry
- 5 We will work together to enhance our effectiveness in implementing the Principles
- 6 We will each report on our activities and progress toward implementing the Principles

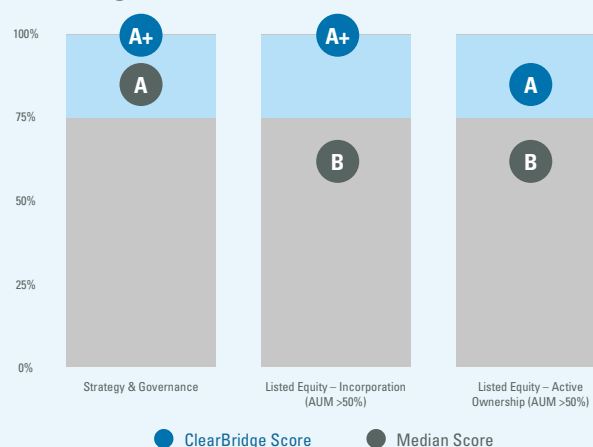
We are honored to have achieved the highest scores (top quartile)¹ for our practices from the United Nations-supported Principles for Responsible Investing (“PRI”) in 2018 and to have earned high marks in every PRI scoring. ClearBridge has been a signatory since 2008. The PRI is a voluntary framework for institutional investors who commit to integrate ESG factors into their investment analysis and decision-making practices. As a signatory, ClearBridge adheres to the six guiding principles of the PRI. We take our participation in the PRI very seriously and strive in all we do to be a leading example of sustainability for our clients, our peers and the companies we own in our portfolios.

As a leading practitioner of ESG integration, ClearBridge regularly contributes to PRI publications, research and awareness efforts. Mary Jane McQuillen, portfolio manager and ClearBridge’s Head of ESG Investment, serves on the PRI’s Listed Equities Steering Committee and ESG Integration Sub-Committee. She spoke at 2018’s PRI in Person Conference, highlighting ClearBridge’s contribution to “ESG Integration in the Americas: Markets, Practices and Data,” a joint report of the PRI and CFA Institute.

Signatory of:



ClearBridge PRI Score 2018



¹ The PRI is an investor initiative in partnership with the UNEP Finance Initiative and the UN Global Compact. The Principles provide a voluntary framework for investment professionals who commit to integrate environmental, social, and governance (ESG) factors into their investment analysis and decision-making practices. Scores have been calculated based on signatories’ self-assessment and using the scoring methodology approved by the PRI Assessment Group. Although a limited verification exercise was undertaken with a proportion of signatories, responses have not been independently audited by the PRI Secretariat, PRI Assessment Group, or any other third party. Individual results including comparisons to the overall results (quartiles) are indicative and do not imply an endorsement of signatory activity. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of information presented, and no responsibility or liability can be accepted for any error, omission or inaccuracy in this information.



ESG INVESTING AT CLEARBRIDGE: An Annual Update with Mary Jane McQuillen

Mary Jane McQuillen, Head of Environmental, Social and Governance Investment at ClearBridge, is among a small group of portfolio managers in the asset management industry who have been integrating ESG considerations into the equity investment process and raising awareness of the value of sustainability investing for several decades. Mary Jane, or MJ as she is known in ESG circles, is a frequent speaker at institutional investment conferences and sustainability events and leads our ESG investment oversight and strategy at ClearBridge. We sat down with MJ for a review of the major issues and trends that shaped the ESG discussion in 2018 and how that informed and impacted our engagements with companies.

AN INFLECTION POINT IN ENGAGEMENTS

We have observed in the past year that companies are becoming increasingly

more predisposed to reach out to us as shareowners and are clearly interested in having our feedback on everything from executive compensation to supply chain monitoring programs to environmental initiatives. Companies are more proactive about meeting us halfway. Instead of our analysts laying out the discussion and seeking responses, managements are now engaged in sustainable thinking enough to solicit our views on relevant ESG topics. Some examples that stand out from the last year are our engagements with Home Depot and Costco, where we provided guidance on best practices for disclosure and reporting.

While companies have sought ESG guidance from our analysts in the past, in 2018 we noticed this happening more frequently. Usually this occurs with companies we have owned and engaged with for a long time, such as Trex;

in some ways it is a natural result of sustained, meaningful engagement. But in aggregate, we are seeing something of an inflection point. For years as impact investors, we devoted much of our energy to convincing companies that it made shareowner sense for them to discuss these material ESG issues with us. Now many are doing so of their own accord. Moreover, often they wish to pick up where we last left off on topics, and we are seeing an increase in the continuity of the conversation.

GENDER DIVERSITY: FROM ACKNOWLEDGEMENT TO ACTION

One area where we have seen some progress – although much remains to be done – is companies acknowledging the value of gender diversity in the workplace. On boards of directors, among the C-suites, among management, many of our companies have acknowledged the benefits of

gender diversity — and diversity of thinking — and that there is a real struggle for talent. In some cases, companies are beginning the promotion and training of women to create a pipeline of talented women that will add value down the road. This trend follows conversations between our analysts and our portfolio companies in which, being told at times they were suffering from a lack of available female talent for positions, we've asked what companies are doing to create that talent. As we have observed in academic and sell-side quantitative research studies over the past decade, companies with high gender diversity in the workforce and in senior management have delivered higher return on equity (ROE), higher return on assets (ROA), greater innovation and lower volatility than companies with low gender diversity. We look forward to seeing further growth of mentoring and training opportunities for women.

THE PROLIFERATION OF REPORTING FRAMEWORKS

Carbon continues to be a key issue, and we noticed in 2018 an overdue awareness that climate risk affects the longevity of all sectors. The establishment of useful, universal standards remains a challenge, as paradigms and terminology shift

quickly. A number of years ago, for example, the discussions were around “stranded assets” — the ways in which investments could be lost as a result of regulatory, economic or environmental changes that render certain assets or uses of assets unavailable. Now the preponderance of different reporting standards and protocols creates a challenge for investors who are paying attention to carbon but are not initiates in reporting standards discussions. These standards and protocols are all thoughtful and useful to certain degrees, but their number and complexity can at times make it difficult for them to act universally as decision drivers. As part of our efforts, in addition to tracking the carbon intensity of our portfolios relative to the respective market benchmarks, we have had initial discussions with our head of investment risk on the importance of keeping our investment teams apprised of exposure to carbon risk across our strategy holdings.

There continues to be a lot of activity on establishing frameworks and standards for ESG reporting and measuring ESG impact, and it is difficult to tell the progress being made. Organizations are working, sometimes together, sometimes apart, to establish protocols for corporations to follow. Corporations, meanwhile, are seeking clarity and actionability not easily found when trying to meet several competing protocols.

Among these, the Sustainable Development Goals (SDGs) offer a way for the private sector to support and address a wide variety of urgent issues that we all know will affect us. We have the intellectual capacity to recognize that we all have a duty, whether it is a fiduciary duty, a moral duty, an investor duty, or a combination, to pay attention to these goals. While other standards and frameworks will be offered, and each makes its contribution, our approach as investors in public equities, which involves the integration of ESG and fundamental analysis in long-term relationships with companies whose impact can rival that of sovereign states, has been

to systematically map out how our analytical framework can help further the targets of most of the 17 SDGs. We find this to be a valid, effective approach with a great deal of scope.

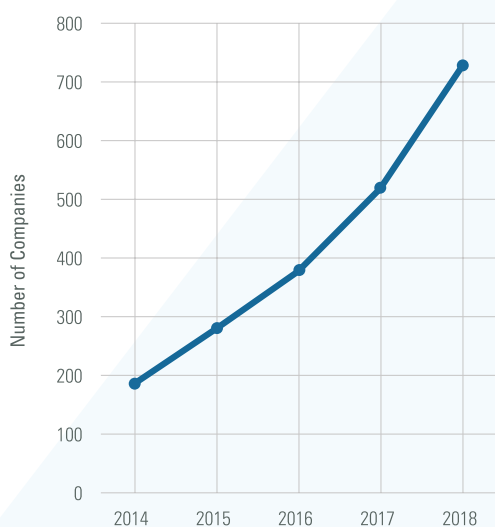
An important caveat is that we do not define our investment process through the SDGs. Instead, we consider the SDGs as a way to provide broader context to the analytical work we do at the individual company level. On top of being valid and effective, this approach of tying our ESG and investment analysis to the underlying targets of the SDGs enables us to do something now.

OUTLOOK: NEXT-GENERATION ENGAGEMENTS

While our analysts are at the heart of our ESG integration and engagement efforts, our portfolio management teams also play a vital role in discussing ESG issues and the value of considering these issues in company business models and strategy. With the growth of interest in international ESG strategies, we are pleased to have seen progress in formalizing our engagement process with non-U.S. companies. Our international growth and value teams are beginning discussions with companies a little further afield than developed equity markets and these are unusual engagements.

We are also seeing further development of our engagements with small cap companies. Given the coverage of small cap companies in ClearBridge portfolios, small cap engagements are uniquely important. They represent for us the next generation of company engagements, both because as small caps they do not typically have the coverage larger companies routinely get and because we have a chance to cultivate relationships and nurture ESG practices at companies from the ground up, like we have done in our discussions with small cap beverage maker Cott. Ideally, by the time these companies become mid or large, they will have integrated sustainability practices. We also tend to have more influence with small cap companies, because they are often looking for guidance as they are still in their adaptive phase.

Our ESG Ratings Coverage Universe Has Seen Steady Growth



Source: ClearBridge Investments.



CLEARBRIDGE IMPACT THROUGH OWNERSHIP

We believe owning public equities is the most direct way for most investors to make an impact.

While large public companies may not be run with the primary intention of creating impact, by virtue of their size and complex stakeholder relationships across supply chains, distribution networks and communities where they operate, we believe they make a social and environmental impact at every level.

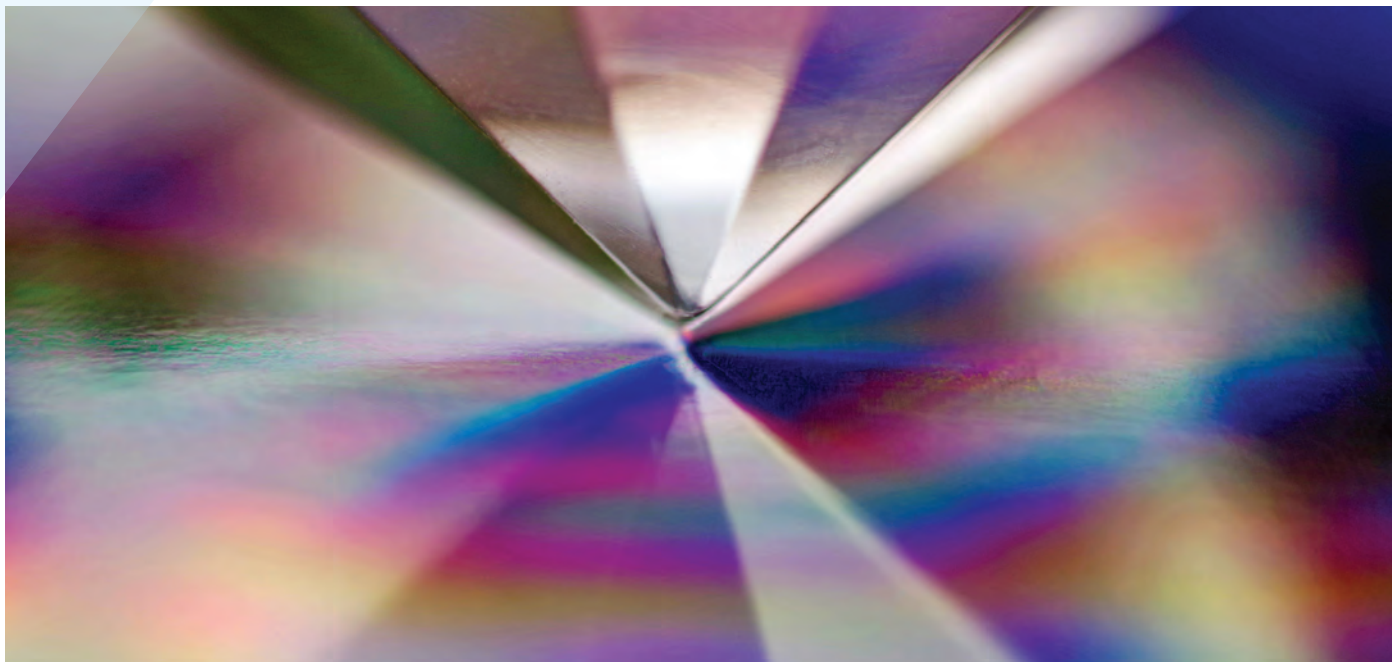
We can amplify this impact by being intentional active investors through our allocation of capital and direct engagement with company managements. We source investment ideas and construct portfolios by integrating ESG² analysis into the sector and company research performed by analysts on ClearBridge's centralized fundamental research³ platform as well as analysts dedicated to specific portfolios. Our analysts and portfolio managers

examine the ESG issues relevant to a company's business activities, measure and evaluate their impact on both qualitative and quantitative bases and suggest ways for companies to improve their ESG practices. This integrated approach results in a thorough and detailed evaluation of a company's risks and opportunities related to issues like corporate governance, labor/hiring practices, community involvement and climate change.

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

² A Note about Terminology: There are many ways to describe strategies for investing consistent with environmental, social and governance best practices. These include "sustainable investing," "socially responsible investing" and more recently "impact investing," among others. The term "ESG" represents the latest stage in the evolution away from merely screening out certain industries or companies.

³ Fundamental Research is the analysis of factors that affect a company's underlying value such as revenues, cash flow, supply and demand of the company's products etc., as opposed to technical analysis which involves using historical price and trading data.



ClearBridge's Model of ESG Integration

We believe ESG is rapidly evolving into an integral part of the way investors analyze companies.

At ClearBridge, ESG is not merely a screen or an overlay; it is part of how we conduct fundamental research and it defines how we think about all companies considered for investment in all client portfolios. Our clients, whether or not they desire an explicit ESG mandate, all have long-term investment goals. They deserve to invest in companies that plan carefully for what's ahead and that care about the environment, their employees, their customers and their community. We believe such companies are most likely to provide the kind of performance our clients need to meet their long-term goals.

ClearBridge's tradition of long-term investing in quality businesses aligns closely with an ESG investing approach. This approach fosters meaningful ownership positions in portfolio companies and significantly lower portfolio turnover compared to peers. This long-term approach is reflected in our compensation structure, which bases incentive compensation for portfolio managers primarily on three- and five-year investment performance. A portion of portfolio managers' compensation is invested in the portfolios

they manage and vests over four years. These practices align the incentives of our portfolio managers with the long-term interests of our clients.

Our bottom-up, fundamental research targets companies with:

- Differentiated business models
- High sustainable returns
- Strong financial characteristics
- Seasoned management teams

This overall stock selection process lends itself well to ESG integration, which ensures a more holistic approach to sustainability that measures progress and promotes improvement over time.

ClearBridge ESG portfolios do not simply avoid certain industries; we integrate industry-specific ESG factors into our fundamental research process and favor companies that promote best practices on ESG issues. All companies considered for investment across the platform are given an ESG rating, updated at least annually. We also work actively with companies seeking to improve their ESG performance through direct engagement and proxy voting.

ClearBridge Integrates ESG into Fundamental Research

Many investors say they integrate ESG into their investment process, but there are many different approaches being employed. When we say our ESG research is “integrated” we mean that it is explicitly included in a financial analyst’s process for covering a company. This is a key point — ESG research is not done by separate non-financial analysts or as an overlay of packaged research from a third party.

Explicitly combining ESG and financial analysis reflects our belief in the materiality of ESG considerations to the viability of public equities. We believe that ESG is the future of investing and that someday it won’t

even be called “ESG” or designated as a separate discipline; it will become an integral part of the way investors analyze companies. ESG factors can be critical to the risk management process, for example, helping to identify and address potential reputational or regulatory risks. Strong ESG practices typically correlate with quality financials, underscoring our focus on the long-term potential of a business.

ESG COVERAGE FOR EVERY STOCK RECOMMENDED

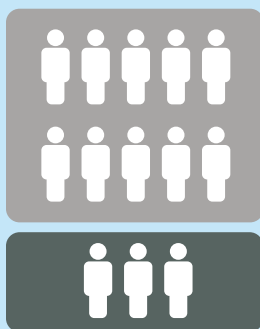
ClearBridge established its central research platform in 2005 and formally introduced ESG ratings in 2014. Our team of fundamental research analysts

is responsible for ESG analysis of the companies they cover, developing best practices that have progressed from general ESG assessments to a proprietary internal ratings system. Our analysts drive ESG integration in the fundamental research they conduct in their specific sectors and coverage areas. For every stock recommendation, each analyst presents the investment thesis, risk/reward profile, valuation, target price and internal ESG rating. This information helps to inform portfolio managers and other analysts with a holistic view of the stock, inclusive of financial and ESG drivers.

Prevalent Models of Integration

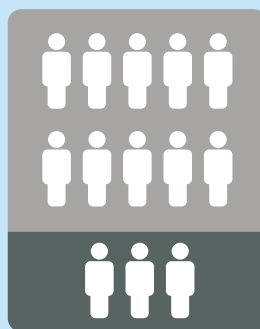
The majority of managers still use the segregated approaches shown in models 1 and 2.

Model 1:



Third party
ESG research firm

Model 2:



Segregated internal
ESG research team

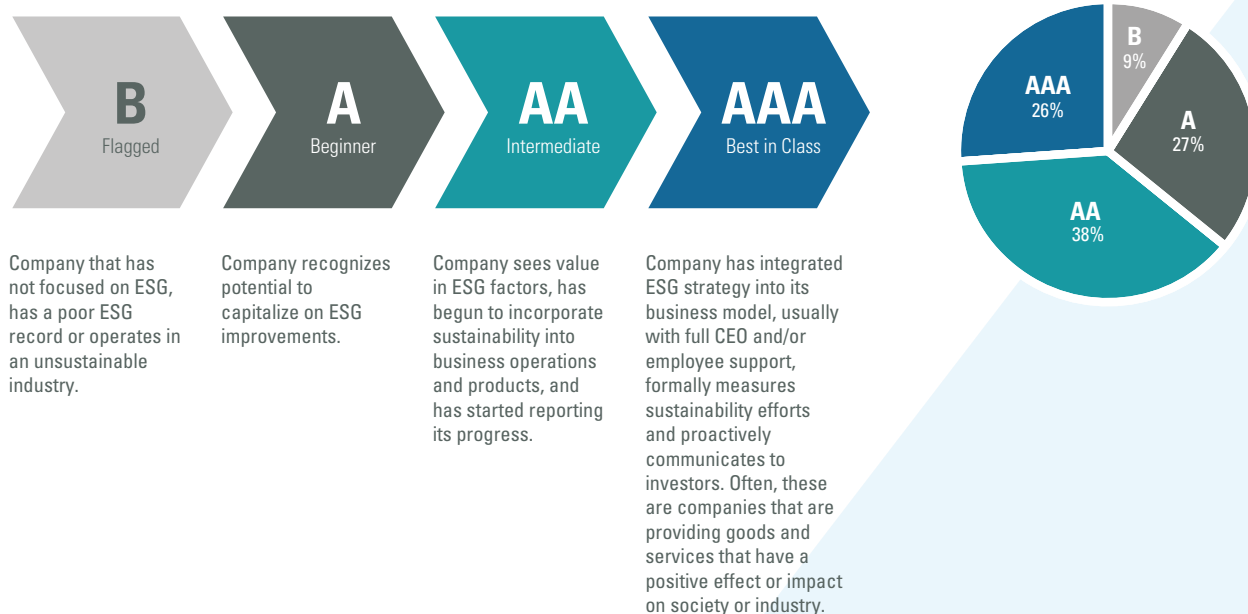
ClearBridge:



One team integrating ESG
and fundamental research

IMPACT THROUGH OWNERSHIP

Proprietary ESG Ratings Overview and Asset-Weighted Distribution for ClearBridge Portfolio Companies
In general, the ratings correspond to the following levels of ESG success or leadership:



ClearBridge ESG Considerations

Environmental

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

Social

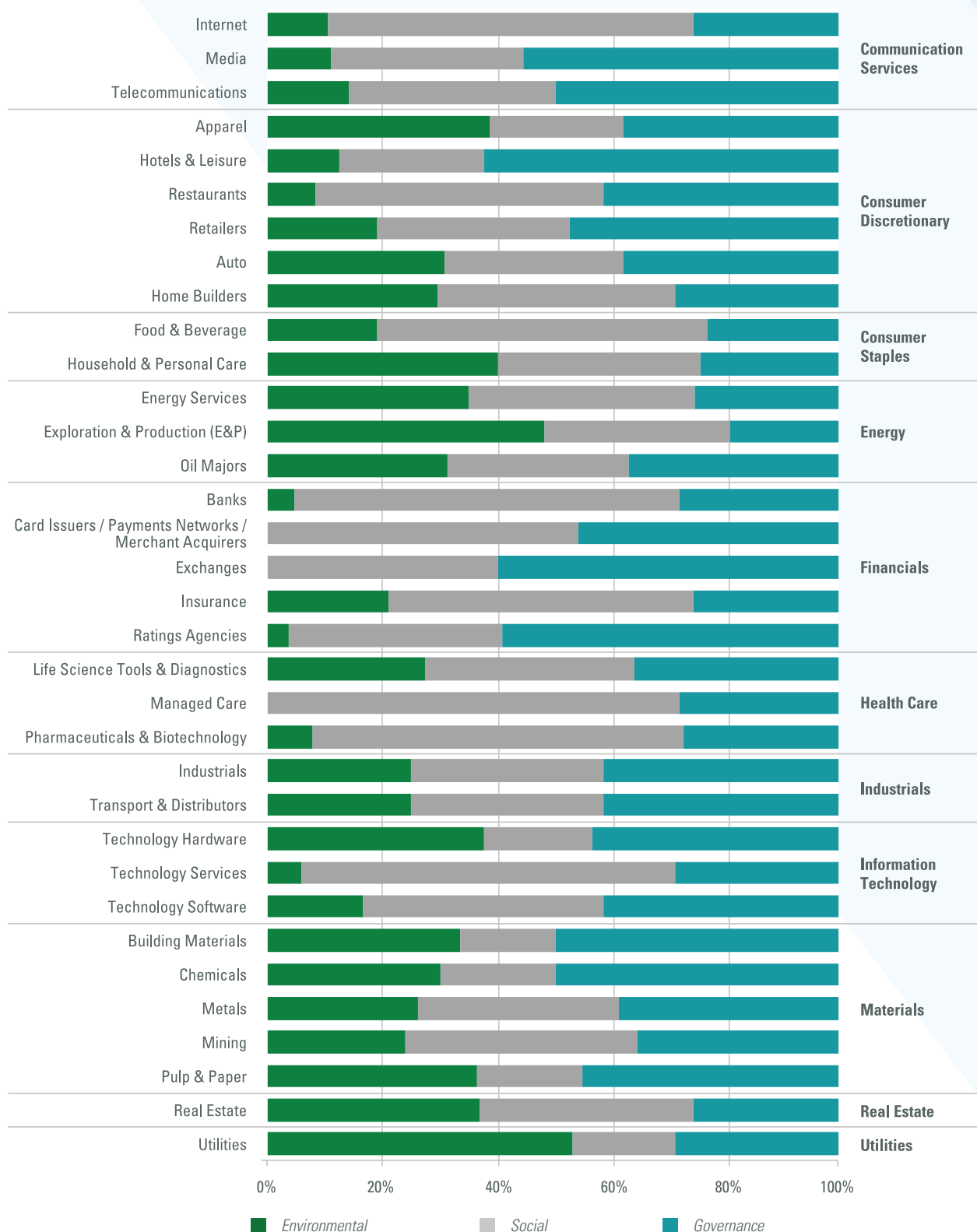
- Addressing unmet medical needs
- Affordability and access to medicines
- Animal cruelty
- Community investment and job creation
- Community relations (cultural awareness, human rights and indigenous peoples)
- Data privacy and security
- Employee health and safety
- Financial inclusion and access
-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

Governance

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

Breakdown of Relevant ESG Considerations by Sub-Sector

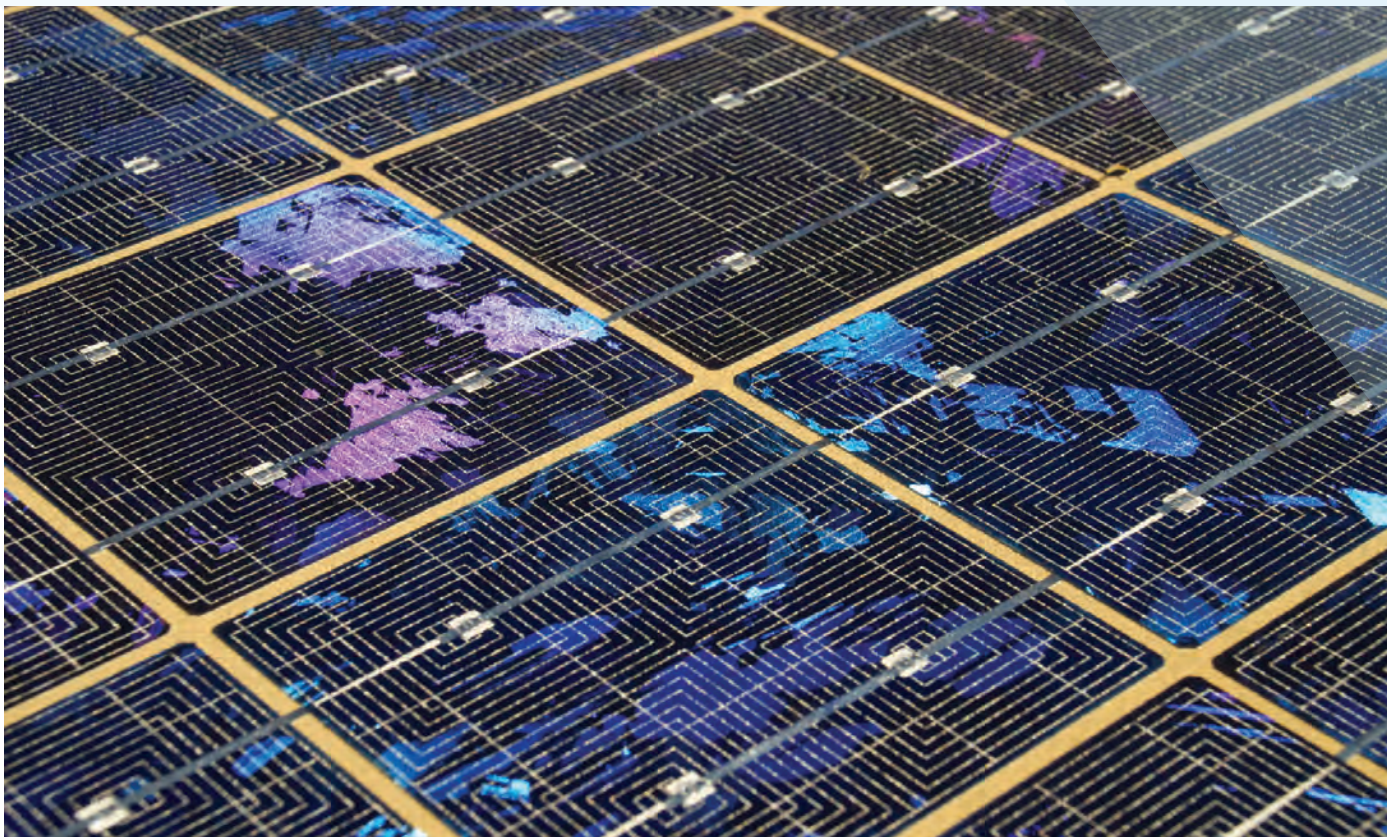
ClearBridge's proprietary research system emphasizes the most relevant considerations by sub-sector





“ As a significant owner of so many public companies, we use our ongoing conversations with company managements to engage them on ESG issues specific to their companies and to promote best practices. ”

– Scott Glasser
Co-Chief Investment Officer



ESG INTEGRATION IN PRACTICE

Public equity ownership can also be a powerful tool to influence companies and drive change.

As active investors in the public markets, we engage with company management on a variety of material ESG issues and urge them to improve policies and practices. We engage with companies in various ways, including one-on-one meetings with senior management and through our active participation in ESG organizations.

As a firm, ClearBridge conducts over 1,000 company meetings every year. Our high-conviction, concentrated approach to portfolio construction, coupled with our large asset base and ESG expertise, puts us in a unique position. We take a partnership approach toward driving change within corporations, focusing on the impact we can have during our conversations with CEOs,

CFOs and corporate sustainability teams over long periods of time.

As a large institutional money manager, just asking the right questions, whether about gender equality, energy efficiency, better board governance or disclosure, can result in positive changes in the mindset and eventually the operations of public companies. ClearBridge's implied weighted average holding period is seven years — substantially higher than most other long-term asset managers.⁴ As long-term investors who also happen to be among the largest shareholders of many companies we own, we can get a seat at management's table and emphasize material issues that are of concern to ourselves and our clients.

⁴ Mercer's report *The Long and Winding Road: How Long-Only Equity Managers Turn Over Their Portfolios Every 1.7 Years* was produced as part of the "Tragedy of the Horizon" research which seeks to explore the potential for long-term suboptimal allocation of capital due to the finance sector's limited ability to capture long-term risks within short-term risk assessment frameworks.



ClearBridge Advises Trex on Best Practices for ESG Reporting

Trex is a manufacturer and marketer of wood alternative decking products made from recycled wood fibers and plastic waste for residential and commercial customers.

ClearBridge is a long-term shareholder and top five owner of Trex and has maintained an ongoing ESG dialogue with the company, including discussing the potential publication of a sustainability report so investors could learn more about the company's ESG initiatives. Sustainability has been a core part of the Trex business model and culture throughout its history. Until recently, however, the company had not seen the value in formally reporting its ESG accomplishments. In fact, the company had received poor ESG scores from several third-party organizations due to its lack of disclosure.

In December 2018, ClearBridge analysts Matthew Lilling, CFA, Benedict Buckley, CFA, and portfolio manager Mary Jane McQuillen hosted a meeting in which Trex solicited our feedback on its inaugural sustainability report, including what to measure, what goals to establish, pitfalls to avoid and general best practices to

implement. In the meeting with Financial Reporting Manager Deborah Wilson, who is on the Sustainability Accounting Standards Board (SASB) Advisory Group for Building Products, and Controller Brad McDonald, we conveyed the benefits of improved reporting, both as an internal benchmarking mechanism and as a way to make investors more aware of Trex's compelling ESG culture. Brad and Deborah explained that customers were using the company as an ESG example (Home Depot is a large seller of Trex products, for instance), which motivated Trex to start telling the story itself. In addition to including more detailed data on key recycling programs, ClearBridge recommended the company include data on energy and water management. We also detailed board member tenure and diversity as key governance issues. Our feedback affirmed the company's own efforts and in January Trex published its 2018 Sustainability Report.

Burberry Expands ESG Efforts to Enhance Growth

Burberry is a UK luxury goods designer that manufactures and sells apparel and leather goods globally through a network of its own stores as well as through online and wholesale channels.

ClearBridge is a top owner of ADR shares of Burberry. ClearBridge portfolio manager Elisa Mazen led a management meeting with Burberry's CFO in our New York office in January 2018. Burberry ranks quite highly in its ESG efforts and has had a team in place since 2004 dedicated to corporate responsibility. The company updated their ESG strategy in June of 2017, which, combined with a new CEO, we felt was a topic that deserved more in-depth engagement.

When we first evaluated the company, we considered Burberry ahead of peers in many areas in the luxury industry. There were several shortfalls which prevented a higher internal ESG rating: employee satisfaction/compensation, management compensation ahead of peers and lack of alignment of management compensation with shareholder interests.

Burberry is a company that we classify in our growth segmentation as a structural story - one where we see a step change in forward returns as being meaningfully different from history. The key issue discussed in this meeting was how the new initiatives and strategy of the new management were being integrated. Burberry had been addressing low employee morale identified in a survey of its retail operations commissioned in mid-2017 by its new CEO. Burberry's survey revealed employee morale had been negatively impacted by turnover both in the C-suite and with the creative director. The company acknowledged it hadn't invested enough in training and management recruiting at the store level and is now focused on correcting these issues as the most effective way to improve employee satisfaction and jumpstart its growth rates relative to peers.

Burberry organized a follow-up call in February 2018 with investor relations and ESG representatives detailing the changes and progress the firm was making in its ESG efforts. This was a significant step in how their teams were organized: integrated rather than siloed, impact minded rather than just activities organized around promoting better ESG. The changes were designed with the help of all levels of the organization. Burberry is focused equally on environmental issues and how that change impacts its organization, while the social side has meaningfully increased in importance in its new sustainability agenda. Burberry's motivation for the new strategy, which has involved growing its ESG team globally, was to think about sustainability in a holistic way and it has referenced the UN's Sustainable Development Goals throughout the process. Employees feel ownership around the development of the plan and "own the goals" that were established.

Why was this an important topic for us to focus on? Burberry's retail performance has been mediocre relative to their luxury peers and an engaged employee at the retail level will be vital to delivering better, more profitable sales from their new chief creative director. Elevating the brand experience is vital. Their focus on social change and the resonance with which it is felt across the organization will, we believe, attract a more passionate, socially conscious employee and ultimately resonate better with the young consumers of today. The brand experience at the retail level is vital and the employees are the front line of how customers perceive them. Better retail performance will lead to better earnings and performance than in the past.



ClearBridge Guides Beverage Maker Cott on Sustainability Disclosures

Cott operates home and office water and coffee delivery businesses across the U.S., Canada and Europe.

During Cott's Investor Day in March 2018, ClearBridge consumer staples analyst Robert Buesing Jr. spoke with Cott's CFO. One topic broached during the discussion was the room for improving Cott's ESG disclosure in order to better tell the company's sustainability story. For example, Cott's distribution method prioritizes recyclability and reusability, using primarily large reusable water jugs (one jug can be used as much as roughly 2,000 individual water bottles). Shortly after this conversation, Cott reached out to ClearBridge to ask our views on company disclosure best practices and areas where Cott could improve disclosure and its sustainability

profile. We also discussed the possibility of Cott holding an ESG-focused investor day at our ClearBridge offices. Following our dialogue on this topic, Cott increased its emphasis on ESG in its third-quarter earnings call, making a point of describing its commitment to the environment and to sustainable business practices, and will devote a substantial portion of its March 2019 Investor Day to ESG and sustainability topics. We view such showcasing of sustainability practices as a good step toward more formal sustainability reporting, and a great complement to Cott's considerable ESG activities already in place.

Umicore: Establishing Policies for Ethical Cobalt Sourcing

Umicore is a global materials technology and recycling company based in Belgium.

Driven by environmental regulations, technological improvements and declining costs, electric vehicle (EV) sales have been growing strongly around the world. To meet this growing demand, Umicore has committed significant investments to further increase its production capacity of battery materials in its plants in China, Korea and Europe.

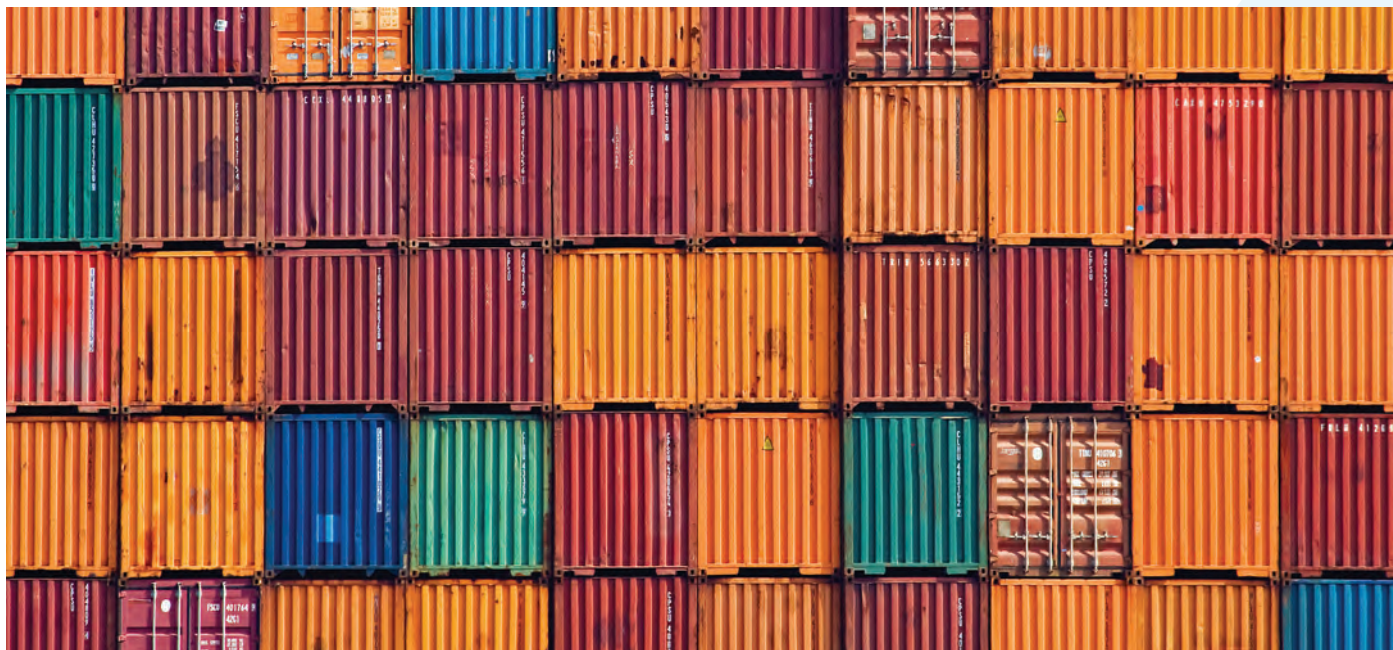
During the year ClearBridge hosted several meetings with Umicore management, engaging the company on several ESG-related topics. One key area of focus in 2018 was the company's approach to sustainable procurement and ethical sourcing of raw materials. Umicore has been a worldwide leader in the recycling, transformation and marketing of cobalt since 1912 and is aware of the risks that are linked to the sourcing of cobalt.

Umicore not only manufactures cathodes for batteries, it also has a large recycling operation that provides some of the materials needed for cathodes and reduces the impact of materials sourcing by getting some materials like cobalt from internal recycling operations. Umicore is investing in battery recycling technology, which has the potential to be a large business for the company in the future. While there are not many

lithium batteries in the market yet, once the fleet of EVs in use gets larger and older EVs get scrapped, Umicore wants to be ready to recycle the old batteries.

Where recycling has not been firmly established, Umicore has established top sustainable policies for ethical sourcing of cobalt. These include supply chain traceability to track the origin of cobalt raw materials at the mine level, plant visits and red flag checks that eliminate suppliers engaged in any of several unacceptable practices, such as forced labor, child labor, hand-picking or artisanal mining, cruel or degrading treatment and corruption. Umicore is also committed to having its due diligence practices audited by independent third parties and the compliance report of the yearly audit is published as an integral part of Umicore's annual report.

We believe Umicore disclosures and policies regarding cobalt and materials sourcing are best-in-class in the industry. The current explosion in demand for rechargeable batteries has created concerns about long-term supply availability as well as ethical sourcing. Umicore recognizes the importance of its role to provide environmental and ethical sourcing benefits for comparatively scarce raw materials.



Home Depot: Soliciting Guidance on Scope 3 Emissions Goals

Home Depot is the largest home improvement retailer in the U.S.

As a top 20 shareholder and long-time owner of Home Depot, we have had discussions with the home improvement retailer spanning many years. Following a visit by their general counsel and an investor relations representative to our New York office in October 2018, ClearBridge consumer discretionary analyst Neal Austria held a call with Home Depot's head of sustainability in December. During the call, we discussed a scope 3 emissions review process Home Depot is developing to evaluate its potential role in reducing carbon emissions through sourcing products more conducive to a circular economy (in which products are designed to minimize waste and aid in resource regeneration).

Part of that effort involved internal tracking of environmentally friendly items available in their stores since 2007. We were impressed with the ambition of Home Depot's goal to reduce scope 3 emissions — which include all indirect emissions in a company's value chain, including emissions from the supply chain and from product use. Home Depot requested further input from ClearBridge on its scope 3 emissions goals, on developing a useful definition of a circular economy from an investor's perspective and on other sustainability goals. We plan to continue ESG discussions in the coming months with a scheduled meeting between ClearBridge and a member of Home Depot's Board of Directors.

OUR ANALYSTS DIFFERENTIATE THEIR ESG RESEARCH BY SECTOR AND INDUSTRY

- ClearBridge's sector analysts have an average of 18 years of investment industry experience.
- The analysts have an established proprietary framework that identifies the key ESG considerations for each sector and sub-sector in their coverage area.
- The framework leverages the analysts' many years of experience to focus on the ESG issues that truly matter for each company.

INTEGRATION IN PRACTICE

Sector Specialist Updates

IN BRIEF

3M

Engagement

3M CEO visit to
ClearBridge's
New York office

Key ESG Issue

Management
transition, hiring
and diversity

Next Steps

Monitor progress
in accelerating
diversity program



CHARLES HARRIS

DIRECTOR OF RESEARCH

Sector Covered

Industrials

Key ESG Factors

Environmental impacts of products;
labor management; governance;
health and safety;
environmental regulation and compliance;
fuel efficiency and optimization

In June 2018, Charles Harris hosted a meeting with 3M's incoming CEO in our New York office that included several portfolio managers. Much of the conversation focused on management transition. We asked what the new CEO intended to do differently than the current CEO. While not offering a material change in either strategy or organization, he stressed a focus on speed and rate of change: faster decision making, speed to market and enhanced flexibility, attributes he believed increasingly critical to 3M's future success. We also discussed hiring and diversity, with the new CEO citing the need to accelerate its diversity programs. He further articulated the company's recruiting efforts across race and gender as critical to its ability to maintain its current globally competitive position.



HUMPHREY OLENG

Sector Covered
Basic Materials

Key ESG Factors
Health and safety;
environmental impacts of products;
business ethics;
environmental efficiency of operations;
governance; labor management;
supply chain practices;
raw material sourcing

Throughout 2018, Humphrey Oleng maintained a dialogue with PPG Industries on several governance issues facing the company. PPG's challenges included a failed hostile takeover attempt, an ongoing SEC investigation of alleged accounting violations and a challenge from an activist investor seeking to split the business and change the management team. We believed these issues warranted a deeper discussion with management to better understand the root cause of the problem. During this process we met multiple times with the CEO and CFO, drew from an experienced pool of ClearBridge portfolio managers to evaluate potential solutions and shared with PPG how we thought the firm should best proceed. Rather than walk away, we believe engaging with management and working to find solutions to strengthen the organization is the best long-term solution for shareholders.

We are comfortable with the actions taken so far and plan to continue engaging with the team to ensure all outstanding issues are thoroughly addressed.

IN BRIEF

PPG INDUSTRIES

Engagement

Multiple calls and in-person meetings with PPG Industries CEO and CFO

Key ESG Issue

Management turnover and board structure

Next Steps

Monitor progress in de-staggering board and performance of new management appointments

INTEGRATION IN PRACTICE

Sector Specialist Updates

IN BRIEF

COSTCO

Engagement

Call with Costco investor relations

Key ESG Issue

Effectiveness of corporate ESG communications

Next Steps

Monitor effects of new, centralized ESG structure on ESG communications



NEAL AUSTRIA

Sector Covered

Consumer Discretionary

Key ESG Factors

Labor management;
product quality and safety;
health and wellness trends;
governance; raw material sourcing;
supply chain practices;
data privacy and security

In March of 2018, Neal Austria and ClearBridge portfolio manager Mary Jane McQuillen hosted a call with warehouse retailer Costco's investor relations representatives. They discussed recent corporate changes at Costco that included moving from a decentralized ESG approach to a more centralized sustainability group with executive representation and a more formalized structure. We were supportive of ESG reporting and disclosure by the company. We noted cases where Costco is flagged in its ESG ratings by third parties due to what we believe are misperceptions of some issues, such as employee tenure and compensation. Given our long-term ownership, we agreed we could continue discussions on its ESG practices and communications to investors. Our next step is to monitor any communications changes resulting from Costco's new, centralized ESG structure.



ROBERT BUESING JR.

Sector Covered

Consumer Staples/Durables

Key ESG Factors

Health impacts of products;
supply chain practices;
environmental efficiency of operations;
clean vehicle technology;
product safety; governance

In January 2018 Robert Buesing Jr. had a call with Keurig Dr Pepper's CEO and CFO. They discussed the inherent wastefulness of Keurig's "K-Cup" pods, which are generally single use and result in a good amount of packaging waste. Interestingly, survey data had found that this perceived wastefulness was actually a non-trivial barrier to demand for the Keurig system. Therefore, we discussed Keurig Dr Pepper's plans to address this waste issue. Keurig Dr Pepper recognized the importance of this issue and reiterated its commitment to making the pods fully recyclable by 2020.

IN BRIEF

KEURIG DR PEPPER

Engagement

Call with Keurig Dr Pepper's CEO and CFO

Key ESG Issue

Improving the eco-friendliness of Keurig "K-Cups"

Next Steps

Monitor commitment to 100% recyclability by 2020

INTEGRATION IN PRACTICE

Sector Specialist Updates



IN BRIEF

ANADARKO PETROLEUM

Engagement

Call with Anadarko Petroleum's HSE and Corporate Communications teams

Key ESG Issue

Implications of the 2-degree climate change scenario

Next Steps

Further refine and improve 2-degree analysis as additional information is obtained and potential policies are considered

DIMITRY DAYEN, CFA

Sector Covered

Energy

Key ESG Factors

Operational safety;
environmental efficiency of operations;
governance; community relations;
environmental and climate change regulation;
alternative energy investments;
geopolitical risk

In December 2018, Dimitry Dayen, CFA, engaged with Health, Safety and Environment (HSE) and Corporate Communications executives from oil and natural gas exploration & production company Anadarko Petroleum on its Climate Change Risk Assessment and Management study. We further had a discussion about issues that shareholders take into account in assessing ESG criteria for energy companies. The study suggests that the majority of assets that Anadarko Petroleum is currently developing will not be stranded (i.e., lost as a result of regulatory, economic or environmental changes that render certain assets or uses of assets unavailable). However, we suggested that the analysis should be further refined and improved as additional information is obtained as to the impact of the 2-degree scenario and the type of policies that could eventually come into force. Considering that the price of oil is the key input into the analysis, it is feasible that the industry's estimate of oil price ranges resulting from the 2-degree scenario will evolve over time.



DAVID HOCHSTIM, CFA

Sector Covered

Financials

Key ESG Factors

Governance;
customer privacy and data security;
lending practices;
transparency and fair advice to customers;
financial inclusion and access;
gender diversity

IN BRIEF

AMERICAN EXPRESS

Engagement

American Express CEO and CFO visit to ClearBridge's New York office

Key ESG Issue

Environmental impact of plastic and financial inclusion

Next Steps

Continue to monitor product quality and government relations

In November 2018, David Hochstim, CFA, hosted a meeting with American Express' CEO, CFO and investor relations head in our New York office. Our discussion covered corporate governance, specifically management's increased focus on investing rather than maximizing revenue growth in the short run. The company's new CEO believes significant investments in products, services and technology will enable American Express to remain competitive and sustain a high rate of billed business and revenue growth for longer. On the environmental front, the company is testing issuance of cards using recycled ocean plastic waste to lessen the impact of plastic and has also committed to reducing its corporate usage of single-use plastics. American Express has made limited efforts to increase financial inclusion by offering its Bluebird prepaid card, including through Walmart stores, which should help reach more underbanked and unbanked consumers.

INTEGRATION IN PRACTICE

Sector Specialist Updates



STEPHEN RIGO, CFA

Sector Covered
Financials

Key ESG Factors

Governance;
customer privacy and data security;
lending practices;
transparency and fair advice to customers;
financial inclusion and access;
gender diversity

IN BRIEF

CHARLES SCHWAB

Engagement

Calls with Charles Schwab investor relations in May and November 2018

Key ESG Issue

Internal ESG initiatives, disclosure, impact measurement

Next Steps

Continue to monitor progress on disclosure and measurement

In November 2018, Stephen Rigo, CFA, spoke with investor relations executives from Charles Schwab for an evaluation of the discount broker's ESG practices. Schwab asserts the firm's success is the result of asking "how can we do better for our clients" with every initiative. This core value has led the firm to offer free financial advice to consumers and reduce commission rates, removing cost as a barrier to access financial markets. Being the low-cost leader has created a virtuous circle of growth for the organization. Although we believe Schwab does act in clients' best interests, the company has a long way to go to measure impact. It is building resources necessary to gather ESG focused data and expects to have a more evolved reporting structure within five years. We intend to monitor progress on improved disclosure.

Immediate initiatives include: 1) ensuring data security and customer privacy; 2) a renewed focus on its real estate footprint with a focus on ensuring all owned buildings are energy efficient; and 3) a focus on becoming paperless even with account openings/closings which historically were paper intensive practices. Positively, we learned Schwab has a proxy voting process to ensure proxy matters are handled actively even if share ownership comes via a passive vehicle.



MARSHALL GORDON

Sector Covered
Health Care

Key ESG Factors
Access to medicines;
addressing unmet medical needs;
governance (especially capital allocation
and executive compensation);
drug safety and efficacy;
quality of care and patient satisfaction;
privacy and security of patient data

In December 2018, Marshall Gordon had an exploratory conference call with global pharmaceutical and health products maker Pfizer to review the company's primary ESG initiatives. Pfizer participants included executives from its corporate responsibility, environmental health & safety and corporate governance teams. Topics included the board's selection of a new CEO and the associated decision to separate the CEO and chairperson roles; Pfizer's policies on and disclosure of political donations; FDA and public relations aspects of Pfizer's generic injectable drug manufacturing issues and plans to remediate them; as well as programs in the U.S. and low-income countries to ensure access to critical medicines and vaccines.

IN BRIEF

PFIZER

Engagement

Call with Pfizer's corporate responsibility, environmental health & safety and corporate governance executives

Key ESG Issue

Re-evaluation of ClearBridge ESG rating following ClearBridge health care analyst's recommendation to buy the stock

Next Steps

Continue to monitor product quality and government relations

INTEGRATION IN PRACTICE

Sector Specialist Updates



NICHOLAS WU, PhD

Sector Covered
Health Care

Key ESG Factors

Access to medicines;
addressing unmet medical needs;
governance (especially capital allocation
and executive compensation);
drug safety and efficacy;
enabling research and products that
improve health care outcomes

IN BRIEF

ALEXION PHARMACEUTICALS

Engagement

Alexion Pharmaceuticals' CEO and CFO visit to ClearBridge and follow-up conference call

Key ESG Issue

Marketing practices, corporate governance, drug pricing

Next Steps

Continue to monitor progress of new management in instilling culture of integrity

In May 2018, Nicholas Wu, PhD, participated in a meeting with Alexion Pharmaceuticals' new CEO and CFO in our Baltimore office to address ESG issues related to governance and the workplace. The new management team highlighted how it has made significant progress in addressing compliance and company culture problems and rolled out anti-corruption and anti-bribery programs in response to an ongoing corruption investigation. In a follow-up call with the CFO in October, we discussed an inquiry into the company's promotional materials for its Soliris treatment in Japan. This is not an issue that required inclusion in the company's quarterly report filing, but Alexion is taking a proactive stance in addressing potential compliance issues. The company also explained that it will not let pricing be an impediment to the adoption of its new treatment Ultomiris for rare blood disorder PNH. It later announced pricing will be 10%–35% less than Soliris, its existing treatment for PNH.



AMANDA TEDESCO, CFA

Sector Covered

Media and Internet

Key ESG Factors

Data privacy and security;
content responsibility;
governance (especially shareholder
rights and capital allocation);
social impacts of services;
labor management;
data center efficiency; environmental
impacts of e-commerce

IN BRIEF

TWITTER

Engagement

Call with Twitter general
counsel and investor relations

Key ESG Issue

Platform health and
employee compensation

Next Steps

Consider basing
performance-restricted
stock units on a longer
performance time frame
than the current formula

In December 2018, Amanda Tedesco, CFA, hosted a call with Twitter's general counsel and investor relations team to discuss the health of its social media platform and employee compensation. ClearBridge is a top five owner. Twitter discussed how it has expanded its approach to monitoring abuse and harassment on its platform and protecting user data, focusing on improvement across its design and engineering teams and through better technology. The company also detailed its ongoing shift to more performance-based compensation in the form of performance-restricted stock units.

INTEGRATION IN PRACTICE

Sector Specialist Updates

IN BRIEF

ADP

Engagement
ADP Investor Day

Key ESG Issue
Corporate governance
related to activist
involvement

Next Steps
Monitor continued
margin improvement



HILARY FRISCH, CFA

Sector Covered
Software

Key ESG Factors
Data privacy and security;
governance; labor management;
products to address
environmental and social issues;
impacts of automation;
environmental efficiency of operations

In June 2018, Hilary Frisch, CFA, attended ADP's Investor Day where the company outlined its plans to boost operating margins through efficiency initiatives, eliminating redundant platforms and a voluntary early retirement program. These are actions ClearBridge has discussed frequently with the company over the last several years that have recently become a spotlight of activist involvement. Strategic actions by management to promote margin expansion are a corporate governance issue important in neutralizing shareholder campaigns by activists. Management has forecast it will reach margin targets in its current fiscal year, a year ahead of schedule, and continues to raise margin guidance.



DEEPON NAG

Sector Covered
Technology Hardware

Key ESG Factors
Energy efficiency of products and services;
data privacy and security;
labor management;
supply chain practices; governance;
environmental efficiency of operations;
product life cycle management

In December 2018, Deepon Nag hosted a meeting with Texas Instruments where the chipmaker's deputy general counsel and investor relations representative spoke about the company's general compensation schemes, as well as its ability to respond to internal corporate governance challenges. The company maintains a compensation scheme that aligns incentives with shareholders and is also committed to diversifying its board and management teams. Texas Instruments also commented on the firing of its CEO for violating the company's code of conduct, noting that it has several mechanisms to escalate concerns and that enabled it to react quickly and decisively once it had the information.

IN BRIEF

TEXAS INSTRUMENTS

Engagement

Texas Instruments' deputy general counsel and investor relations representative in ClearBridge's New York office

Key ESG Issue

Executive compensation and corporate governance challenges

Next Steps

Monitor progress in increasing diversity of board and management teams



TATIANA EADES

Sector Covered
Utilities

Key ESG Factors

Fuel mix; renewable energy exposure;
emissions and carbon intensity;
operational safety and efficiency;
governance;
environmental regulation and compliance

IN BRIEF

SEMPRA ENERGY

Engagement

Calls with Sempra Energy
investor relations

Key ESG Issue

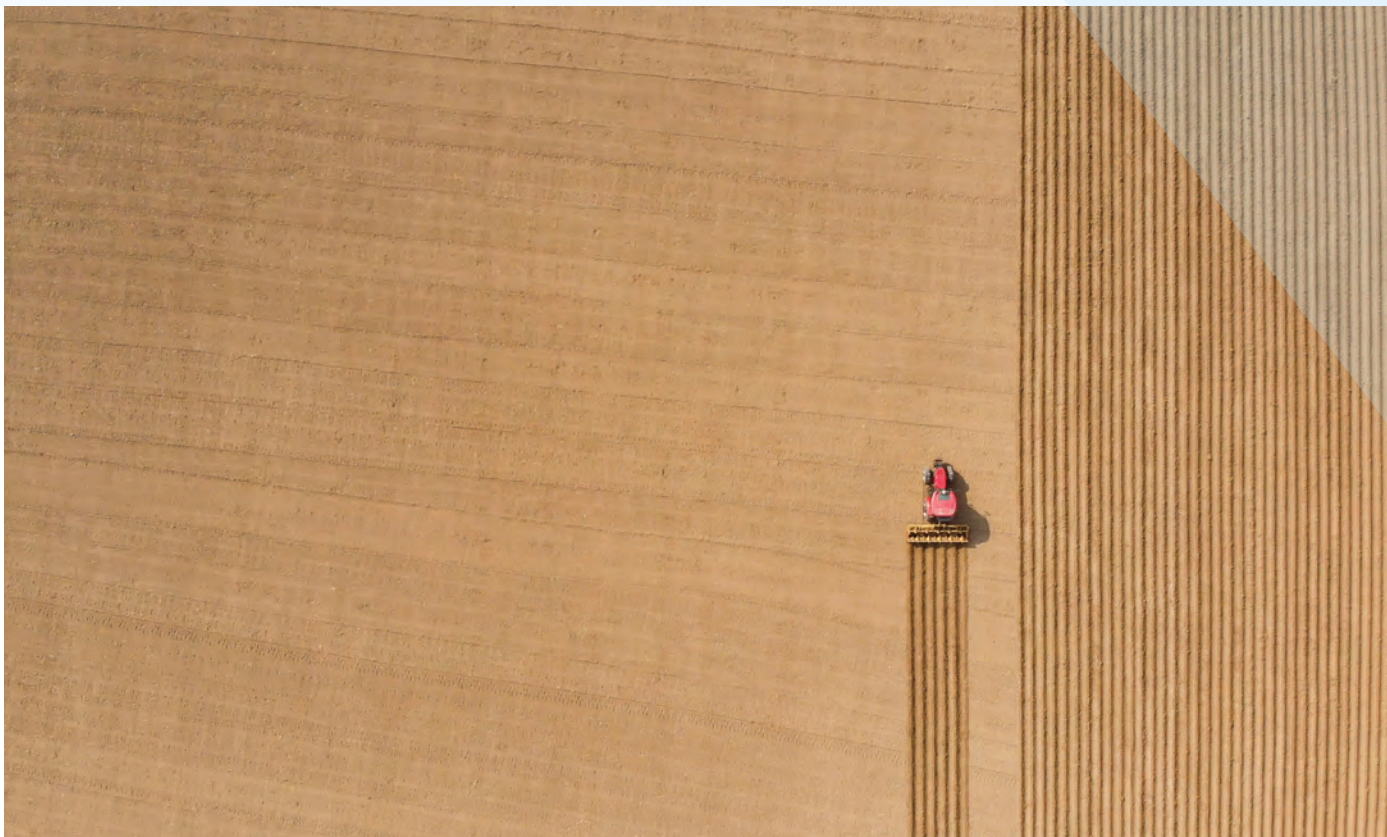
Management compensation
and disclosure

Next Steps

Improve transparency of
management compensation,
follow through on creation
of business development
committee

In June 2018, Tatiana Eades held several calls with Sempra Energy's investor relations team following a report from an activist investor highlighting the issues of excessive compensation and the company's board structure. Sempra was asked to provide more details around the structure of management compensation, its various components and the actual compensation received by the former CEO. We felt more comfortable about the company's compensation structure as more data was provided. We have concluded that a large portion of management compensation is tied directly to the market value of the stock. The reported compensation (the so-called "Total Shareholder Return based award") significantly exceeds the actual values received by the management team and we urged Sempra to offer more transparency on the issue going forward.

Regarding concerns over a stale Board of Directors, Sempra has taken several positive steps, agreeing to add two members to the board who are representatives of the activist investors. Management also proposed to create a business development committee that can retain its own independent consultants and advisors to review the company's structure and strategy. We believe the new board and business development committee provide renewed focus on shareholder value creation.



CLEARBRIDGE IMPACT THROUGH 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.

As shareholders, ClearBridge has a 100% proxy voting record, meaning we have voted on every eligible shareholder proposal at companies in our client portfolios.

Our 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. We follow a thoughtful process in determining how to cast our votes, with the ClearBridge Proxy Committee bringing specific issues to the portfolio management teams and coordinating the proxy voting process.

In voting proxies, we are guided by general fiduciary principles. Our goal is to act prudently and solely in the best interest of the beneficial owners of

the accounts we manage. We attempt to provide for the consideration of all factors that could affect the value of the investment and will vote proxies in the manner that we believe will be consistent with efforts to maximize shareholder values. In the case of a proxy issue for which there is a stated position, we generally vote in accordance with the stated position.

There are ESG proposals that we sometimes do not support. Reasons for this include cases where management is already taking steps to address the issue in question as well as proposals that are deemed to be "micromanaging" the company's day-to-day operations or that deal with matters not sufficiently relevant to the business. The Securities and Exchange Commission has provided guidance on such proposals.⁵

⁵ "Ordinary business" and "economic relevance" exceptions for shareholder proposals as described in SEC Bulletin No. 141 (CF).



429

**Number of
ESG Resolutions
Filed by
Shareholders
in 2018**



REVIEW OF THE 2018 PROXY SEASON

According to the Sustainable Investments Institute (Si2) proxy review, the total number of environmental and social policy shareholder resolutions filed in 2018 was 429, as of mid-February 2018, down from 494 as of mid-August the previous year and roughly equal to 2016's 432.* Roughly half of the resolutions filed were related to climate change (focusing on climate change scenario analysis), corporate political activity and sustainability, similar to 2017. The percentage of company challenges to

proposals reached a three-year high of 28%. One notable trend cited by Si2 is long-term growth in the number of governance-related proposals, which showed signs of converging with the number of environmental proposals in 2018. The number of social-related proposals declined in 2018, although it remains above both environmental and governance. Average overall support for ESG shareholder resolutions was 21.5% in 2017, up from 20.5% in 2016 and 20.2% in 2015.

* As of February 16, 2018. Source: Proxy Preview. Information for 2018 represents "a snapshot in time of publicly available information regarding shareholder resolutions filed with U.S. public companies that may be on the proxy statements and voted on at annual general meetings in 2017."

Proxy Voting in Action

In our role as a top shareholder of many companies, we use our ongoing engagements to suggest improvements and provide feedback.

Below are examples of proposals we voted For in 2018 and how we continue to engage and monitor progress on these critical issues. In many cases, dialogue with company managements resulted in progress, avoiding the filing of a proposal.

INDUSTRIALS FIRM REDUCES CARBON EMISSIONS

ClearBridge is the No. 2 owner of Fluor, a Texas-based construction and engineering company with business segments covering oil & gas, industrial & infrastructure and government & power. ClearBridge voted its full holdings in support of a shareholder proposal to establish company-wide goals for GHG reductions. We acknowledge that the company has made progress in reducing its carbon emission levels, but we support the practice of setting company-wide goals and plans.

MEDIA FIRM DIVERSIFIES

ClearBridge is the No. 1 owner of Discovery, which operates several television networks focusing on real-life content such as Discovery, HGTV and the Food Network. ClearBridge voted its full holdings in support of a shareholder proposal to require qualified diverse candidates for new director nominees. While we recognize Discovery has industry-leading policies for female employees and representation at the management level, as we communicated to the company, we would support qualified diverse representation on the board.

CLEARBRIDGE ADVISES INFORMATION TECHNOLOGY FIRM ON GENDER PAY GAP

ClearBridge is a top 20 owner of Oracle, a provider of on-premise database software for large enterprises globally. ClearBridge portfolio managers and analysts engaged Oracle management on a shareholder proposal related to reporting on Gender Pay Gap, providing feedback on best practices to address this issue based on our conversations with other companies in the industry. While we chose to vote For the proposal, we are encouraged by the company's potential to be more transparent in the future on this and other important gender diversity matters.

REIT BROADENS SHAREHOLDER INCLUSION

ClearBridge is a top 20 owner of Equinix, which owns and operates data centers housing a large number of servers, storage and networking equipment. ClearBridge voted its full holdings in support of a shareholder proposal to amend proxy access rights. Pressure from institutional investors has led to greater adoption of proxy access for large companies. We are supportive of this amendment to the company's existing rights for shareholders, which would broaden shareholder inclusion in the nomination process.

ClearBridge 2018 Notable Proxy Votes by Issue

Below are more highlights of our proxy voting on shareholder proposals in which we voted For and in which our top ownership level was meaningful in advancing the goals of the proposal.

Environmental Proposals

GOAL	COMPANY	SECTOR/INDUSTRY	TOPIC	CLEARBRIDGE OWNERSHIP	SHARES VOTED FOR
Greenhouse Gas (GHG) Reduction	Berkshire Hathaway	Diversified Financial Services	Methane gas emissions		96%
	C.H. Robinson Worldwide	Air Freight & Logistics	GHG reduction – science based targets	Top 50 owner	100%
	Fluor	Construction & Engineering	Company-wide goals for GHG reductions	#2 owner	100%
	General Motors	Automobiles	Report on GHG and CAFÉ Fuel Standards	Top 30 owner	100%
Reduced Packaging	Mondelez International	Food Products	Report on impact of non-recyclable packaging	Top 30 owner	88%
	The Kroger Company	Food & Staples Retailing	Report on impact of non-recyclable packaging		100%
	Starbucks	Hotels, Restaurants & Leisure	Scale up efforts on packaging (and plastic straws)		100%
Renewable Energy	The Kroger Company	Food & Staples Retailing	GHG reduction and use of renewable energy		100%
Report on Sustainability	Berkshire Hathaway	Diversified Financial Services	Report on Sustainability		96%

Social Proposals

GOAL	COMPANY	SECTOR/INDUSTRY	TOPIC	CLEARBRIDGE OWNERSHIP	SHARES VOTED FOR
Board Diversity	Discovery	Media	Require qualified diverse candidates for new director nominees	#1 owner	100%
Gender Diversity	Oracle	Software	Gender pay gap	Top 20 owner	100%
Diversity	First Republic Bank	Banks	Report on Equal Employment Opportunity	Top 50 owner	100%
	The Home Depot	Specialty Retail	Report on Equal Employment Opportunity	Top 20 owner	73%
	Starbucks	Hotels, Restaurants & Leisure	Report on Equal Employment Opportunity		100%
Cyber Security	Twitter	Interactive Media & Services	Report on major global content management controversies	#5 owner	100%
Political Spending	Oracle	Software	Political contributions disclosure	Top 20 owner	100%
	NextEra	Electric Utilities	Political contributions disclosure	Top 40 owner	100%
	Comcast	Media	Political lobbying disclosure	Top 10 owner	100%
	Nucor	Metals & Mining	Political lobbying disclosure	#6 owner	100%
	Oracle	Software	Political lobbying disclosure	Top 20 owner	100%
	Vertex Pharmaceuticals	Biotechnology	Political lobbying disclosure	Top 10 owner	100%

PROXY VOTING

Governance Proposals

GOAL	COMPANY	SECTOR/INDUSTRY	TOPIC	CLEARBRIDGE OWNERSHIP	SHARES VOTED FOR
Dual-Class Shares	Alphabet	Interactive Media & Services	Approve recapitalization plan for all stock to have one-vote per share	Top 40 owner	100%
	Facebook	Interactive Media & Services	Approve recapitalization plan for all stock to have one-vote per share	Top 40 owner	100%
	United Parcel Service	Air Freight & Logistics	Approve recapitalization plan for all stock to have one-vote per share	Top 20 owner	100%
Super Majority Vote	Costco	Food Products	Reduce super majority vote requirement	Top 30 owner	100%
	Discover Financial Services	Consumer Finance	Reduce super majority vote requirement		100%
	Facebook	Interactive Media & Services	Reduce super majority vote requirement	Top 40 owner	100%
	Marriott	Hotels, Restaurants & Leisure	Reduce super majority vote requirement		100%
	DowDuPont	Chemicals	Reduce super majority vote requirement	Top 40 owner	100%
Link Executive Pay to Social Criteria	Amgen	Biotechnology	Comp committee report on risks around drug pricing	Top 30 owner	91%
Proxy Access	Alaska Air Group	Airlines	Amend proxy access right	Top 20 owner	100%
	Apple	Technology Hardware, Storage & Peripherals	Amend proxy access right		100%
	AT&T	Diversified Telecommunication Services	Amend proxy access right		100%
	Becton, Dickinson and Company	Health Care Equipment & Supplies	Amend proxy access right		100%
	Citigroup	Banks	Amend proxy access right		79%
	Equinix	REITs	Amend proxy access right	Top 20 owner	100%
	Sempra Energy	Multi-Utilities	Amend proxy access right		100%

Governance Proposals (continued)

GOAL	COMPANY	SECTOR/INDUSTRY	TOPIC	CLEARBRIDGE OWNERSHIP	SHARES VOTED FOR
Amend Articles/ Bylaws/ Charter	3M	Industrial Conglomerates	Call special meetings	Top 30 owner	100%
	Aecom	Construction & Engineering	Call special meetings		100%
	Amerisource Bergen	Health Care Providers & Services	Call special meetings	Top 30 owner	100%
	Anthem	Health Care Providers & Services	Call special meetings		100%
	Bristol-Myers Squibb	Pharmaceuticals	Call special meetings		100%
	Caterpillar	Machinery	Call special meetings	Top 30 owner	100%
	Citigroup	Banks	Call special meetings		100%
	DowDuPont	Chemicals	Call special meetings	Top 40 owner	100%
	Illinois Tool Works	Machinery	Call special meetings	Top 50 owner	100%
	International Business Machines	IT Services	Call special meetings		100%
	International Paper	Containers & Packaging	Call special meetings	Top 20 owner	100%
	Johnson & Johnson	Pharmaceuticals	Call special meetings	Top 40 owner	100%
	KeyCorp	Banks	Call special meetings	Top 40 owner	100%
	Nuance Communications	Software	Call special meetings	#2 owner	100%
	PepsiCo	Beverages	Call special meetings		100%
	Stericycle	Commercial Services & Supplies	Call special meetings		100%
	The Home Depot	Specialty Retail	Call special meetings	Top 20 owner	100%
	Verizon Communications	Diversified Telecommunication Services	Call special meetings		100%



“ We are seeing something of an inflection point. For years as impact investors, we devoted much of our energy to convincing companies that it made shareowner sense for them to discuss these material ESG issues with us. Now many are doing so of their own accord. ”

– Mary Jane McQuillen



THOUGHT LEADERSHIP AND PUBLIC EDUCATION 2018

ClearBridge also participates in industrywide discussions and initiatives to improve industry practices and collaborates with other asset owners, asset managers and organizations to address environmental, social and governance challenges.

Commentaries

- Electric Vehicle Opportunities and Challenges
- Water Efficiency Is Good Business
- Addressing the Threat of Plastic Waste
- Cloud Providers Work to Lessen Impacts of Big Data

Blogs

- How the Cloud Promotes Sustainability
- Conservation Can Create Capital
- Health Care Companies Work to Ease Opioid Crisis

White papers

- Global Companies Driving Robust Electric Vehicle Adoption

Podcasts

- Making an Impact Through Active Equity Ownership

Videos

- Mary Jane McQuillen on AssetTV Responsible Investing Panel

ClearBridge materials available at ClearBridge.com



ESG Industry Discussions

EUROPEAN PENSION FUNDS

Mary Jane McQuillen presented to an audience of over 95 European pension funds in Copenhagen on the latest challenges affecting the pension industry in an ever-changing landscape. Topics covered included active equity ownership and the impact from company engagements, with examples of ClearBridge portfolio companies making positive changes as a result of our high ownership and ongoing ESG communications, often spanning several years.

MEN OF GOVERNANCE DINNER WITH FEMALE BOARD DIRECTORS

ClearBridge analyst Benedict Buckley, CFA, attended a dinner in New York with 30 female board directors of Fortune 500 companies and 30 male investors. The event is held annually as part of Governance Week and brings together female board directors with male investors to discuss a range of ESG issues. Issues discussed included diversity and inclusion; board effectiveness; company leadership; sustainability; and the role of companies in achieving the Sustainable Development Goals (SDGs).

NORDIC REGION ASSET OWNERS

Mary Jane McQuillen presented in Stockholm to an audience of asset owners such as pension funds, insurance companies and foundations from the Nordic region of Europe. Topics covered included the integration of ESG and fundamental financial analysis, performance of ESG-focused portfolios and fiduciary duty.

PENSIONS & INVESTMENTS ESG INVESTING BREAKFAST BRIEFING

In a series of breakfast events in six U.S. cities, Mary Jane McQuillen, ClearBridge portfolio managers Grace Su and Derek Deutsch, CFA, Head of Global Business Development Vinay Nadkarni and Client Portfolio Manager Jeffrey Layn presented on ClearBridge's ESG engagements to audiences of institutional investors.

PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) CLIMATE FORUM

Benedict Buckley, CFA, spoke on a panel in New York titled "Active Ownership and the Climate Action 100+." Climate Action 100+ is a new five-year global initiative to engage the world's largest corporate greenhouse gas emitters on climate change. As a panelist, Benedict explained why ClearBridge joined the Climate Action 100+ initiative, described the engagement work ClearBridge carries out on the topic of climate change, and provided guidance to attendees on how to successfully engage with companies on climate change.

Pensions&Investments

 PRI | Principles for
Responsible
Investment

PRI IN PERSON

PRI held its annual conference — PRI in Person — in San Francisco. Mary Jane McQuillen participated in a panel discussion highlighting the joint PRI and CFA Institute report, “ESG Integration in the Americas: Markets, Practices and Data.” Mary Jane shared insights into ClearBridge’s ESG integration practices, including ClearBridge’s experience implementing ESG analysis across the firm and examples of how ESG analysis can affect investment decision making at ClearBridge.



RI AMERICAS

ClearBridge financials analyst Stephen Rigo, CFA, appeared on a panel to an audience of 500+ investment professionals from across the globe. He presented with the head of responsible investing at a Canadian public pension plan and speakers from the World Bank and Bloomberg on how fund managers can be active, engaged actors for long-term value creation. He shared case studies of engagements with insurance companies in which he discussed safety education and preventative measures insurers can encourage that might prevent fires, saving lives and boosting the bottom line.



RI ASIA JAPAN

ClearBridge CEO Terrence Murphy spoke on a CEO panel about how investors and companies are working together toward collaborative value creation and how investors are beginning to embed sustainability in their business practices. Mary Jane McQuillen also presented on a panel on the alignment of portfolio investment considerations and the SDGs.



RI EUROPE

Benedict Buckley, CFA, appeared on a panel in London with speakers from European Parliament and two European financial firms, addressing an audience of 650+ investment professionals. Topics covered included the UN’s SDGs, measuring the impact of investments and the SDGs as a driver of change. Benedict noted that the SDGs are an inspiring and unifying set of priorities that provide a “guiding star” for all stakeholders to aspire to, but they are not, however, an investment framework. The SDGs were not intended to focus on what’s material for business or investors (the SDGs focus on a more noble question: what’s most important for all people and the planet). Business materiality is a separate question that ClearBridge addresses through its ESG investment framework. While we have mapped the SDGs to our investment framework to understand the overlap, the SDGs have not replaced our internal views of the most important ESG issues for the companies in our portfolios.



ESG Industry Collaborations

CLIMATE ACTION 100+

In 2018, ClearBridge signed on to the Climate Action 100+ initiative, a new five-year global initiative to engage the world's largest corporate greenhouse gas emitters on climate change-related issues. We are a signatory to the initiative and will align our company engagement with this broader coalition of investors — urging companies to take more action to reduce emissions and strengthen climate-related financial disclosures. We will advocate for companies to improve their governance of climate change issues to position their companies to address the risks of climate change while capitalizing on the business opportunities presented by the transition to a low-carbon economy. Climate Action 100+ brings together and builds on a number of pre-existing investor-led engagement efforts around climate change.



INTEL ESG ROADSHOW

ClearBridge IT hardware analyst Deepon Nag hosted the New York leg of Intel's annual sustainability roadshow. ClearBridge has been hosting Intel's roadshow events for over 11 years, partnering with the company to engage investors on the ESG issues most relevant to Intel's success as a company. The event was attended by a group of New York-based investors, research organizations and advocacy groups.



PRI/CERES WATER RISK REPORT LAUNCH

The launch event for PRI's investment guide for water risks in the agricultural supply chain was hosted at ClearBridge's New York office by Mary Jane McQuillen and Benedict Buckley, CFA. ClearBridge consumer staples analyst Robert Buesing Jr. was one of the speakers, joining a panel discussion to share his experience analyzing water risks for food and beverage companies, including materiality, data availability and company engagement.



TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

ClearBridge became a public supporter of the TCFD, an organization developing consistent metrics for use by companies in disclosing financial risks associated with climate change to investors, lenders and other stakeholders. ClearBridge is committed to effectively communicating portfolio risks related to climate change with our shareholders. We outline our efforts to implement the TCFD framework in our section, Measuring Progress on Climate.



WORLD RESOURCES INSTITUTE (WRI)

Benedict Buckley, CFA, and ClearBridge utilities analyst Tatiana Eades participated in a consultation with WRI on the topic of water risks for utilities. They discussed the work WRI is doing and provided feedback on the project. They also provided insight into how ClearBridge integrates environmental risks such as water scarcity into its investment research for the utilities sector and how environmental risks can manifest in company operations and stock valuations.



Public Education

AssetTV	:	Mary Jane McQuillen appeared on London and San Francisco tapings of “AssetTV Masterclass” on Responsible Investing.
GLOBAL REPORTING INITIATIVE (GRI) 20TH ANNIVERSARY AT NASDAQ	:	In an event on Nasdaq TV in New York, Mary Jane McQuillen and Stephen Rigo, CFA, were invited to share their perspectives as ESG investors and, in Stephen’s case as a financials analyst covering the stock exchanges, on the GRI.
MONEY MANAGEMENT INSTITUTE LEGAL & COMPLIANCE SEMINAR	:	Benedict Buckley, CFA, appeared on a panel in New York at a seminar for legal and compliance professionals with speakers from Jackson National Life Insurance Company, Morgan, Lewis & Bockius and Bank of America Merrill Lynch. The panel explored different types of investments and products, including ESG portfolios and other products such as specialized advisory vehicles, including private equity funds, cash products and fee-based variable annuities. As a panelist, Benedict provided an introduction to ESG investing, reviewed ESG adoption trends and benchmarking in managed accounts and answered questions about ESG investing approaches and techniques.
SHEBELIEVES SUMMIT	:	Mary Jane McQuillen appeared on a panel on gender diversity for the U.S. National Soccer Federation at Nike’s New York headquarters.
UN GLOBAL COMPACT ACADEMY	:	Mary Jane McQuillen appeared in a one-hour webinar about ESG integration to help corporate members of the UN Global Compact Academy who are interested in learning what is important to investors on ESG factors and themes such as climate, reporting and engagements (1,200 publicly listed members had access to the webinar). She spoke on a panel with another investment manager and a speaker from the UN.
UN INTERNATIONAL PEACE DAY	:	Mary Jane McQuillen gave a presentation on impact investing to participants at the UN International Peace Day in New York in partnership with the Wall Street Journal and HealRWORLD.



ESG Member Affiliations

ACCESS TO MEDICINE INDEX

The Access to Medicine Index analyzes and independently ranks the top 20 research-based pharmaceutical companies on how they make medicines, vaccines and diagnostics more accessible in low- and middle-income countries. Two billion people in the world have no access to medicine, and the Index gives insight into what the pharmaceutical industry is doing to improve this situation. Funded by the Bill & Melinda Gates Foundation and the UK and Dutch governments, the Index has been published every two years since 2008. *ClearBridge has been a signatory to the investor statement since 2016.*



CDP

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, Legg Mason, 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 2008. *ClearBridge has been an Investor Signatory since CDP's inception in 2003.*



CERES

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.*



CLIMATE ACTION 100+

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 March 2018.*



FORUM FOR SUSTAINABLE AND RESPONSIBLE INVESTMENT

The Forum for Sustainable and Responsible Investment (US SIF) is the U.S. national nonprofit membership association for professionals, firms and organizations dedicated to advancing the practice and growth of socially responsible investing (SRI). Forum members support SRI by integrating environmental, social and governance issues into portfolio selection analysis, shareholder advocacy and community investing. *ClearBridge is a Member.*



GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. Impact investments are investments made in companies, organizations and funds with the intention of generating measurable social and environmental impact alongside a financial return. *ClearBridge is a Network Member.*



INTERFAITH CENTER ON CORPORATE RESPONSIBILITY

Through the lens of faith, the Interfaith Center on Corporate Responsibility (ICCR) builds a more just and sustainable world by integrating social values into investor actions. Harnessing their power as shareholders in the world's largest and most influential corporations, ICCR members work in coalition to promote corporate practices that ensure long-term business growth while measurably improving environmental and social impacts. *ClearBridge is an Affiliate Member.*



INVESTOR NETWORK ON CLIMATE RISK (INCR)

As a project of Ceres, Investor Network on Climate Risk (INCR) 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.*



RESPONSIBLE INVESTMENT ASSOCIATION

The Responsible Investment Association (RIA) is Canada's leader on responsible investment. RIA is a national, membership-based organization composed of financial institutions, mutual fund companies, investment firms, financial advisors and various organizations and individuals who practice and support responsible investing. *ClearBridge is a Member.*





SUSTAINABLE DEVELOPMENT GOALS

The 17 UN Sustainable Development Goals (SDGs), broad challenges formalized by the 193 members of the UN General Assembly in 2015, offer a way for the private sector to support and address a variety of urgent issues.

The SDGs encompass a wide range of ESG dimensions, as the 17 goals are associated with a total of 169 targets to achieve by 2030. Reducing plastic waste, for instance, can make strides toward fulfilling several SDGs: Good Health and Well-Being (SDG 3), Sustainable Cities and Communities (SDG 11), Responsible Consumption and Production (SDG 12), Life Below Water (SDG 14) and Life on Land (SDG 15).

A PRACTICAL FRAMEWORK FOR ESG INVESTING

At ClearBridge, we believe that while the SDGs are more thematic than company-specific, they do help demonstrate the alignment of our research framework of sector- and company-specific ESG considerations with broader societal goals. Tackling social and environmental challenges is a core aspect of ESG investing, so systematically mapping how the issues we care about as investors intersect with the targets and goals of the SDGs is a valuable exercise to demonstrate how our efforts have an impact in an even broader context. We

have found this to be a valid, effective approach to investing for impact, as the companies we invest in are motivated to make positive impacts by many parties, including shareholders, employees, customers, competitors and asset managers like ourselves.

MAPPING THE CLEARBRIDGE ESG FRAMEWORK TO THE SUSTAINABLE DEVELOPMENT GOALS

Our team of fundamental sector analysts perform in-depth analysis of select companies in their respective sectors, each of which breaks down into relevant sub-sectors in the ClearBridge ESG framework. For example, within our framework, apparel is one of the sub-sectors of the consumer discretionary sector. For each ClearBridge sub-sector we have identified several key ESG considerations, based on the views of our investment team. Some of these key ESG considerations overlap with one or more of the 169 underlying targets of the 17 SDGs, meaning that good performance by companies on these issues can help achieve the SDG underlying targets.



End poverty in all its forms everywhere



End hunger, achieve food security and improved nutrition and promote sustainable agriculture



Ensure healthy lives and promote well-being for all at all ages



Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all



Achieve gender equality and empower all women and girls



Ensure availability and sustainable management of water and sanitation for all



Ensure access to affordable, reliable, sustainable and modern energy for all



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all



Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation



Reduce inequality within and among countries



Make cities and human settlements inclusive, safe, resilient and sustainable



Ensure sustainable consumption and production patterns



Take urgent action to combat climate change and its impacts



Conserve and sustainably use the oceans, seas and marine resources for sustainable development



Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss



Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

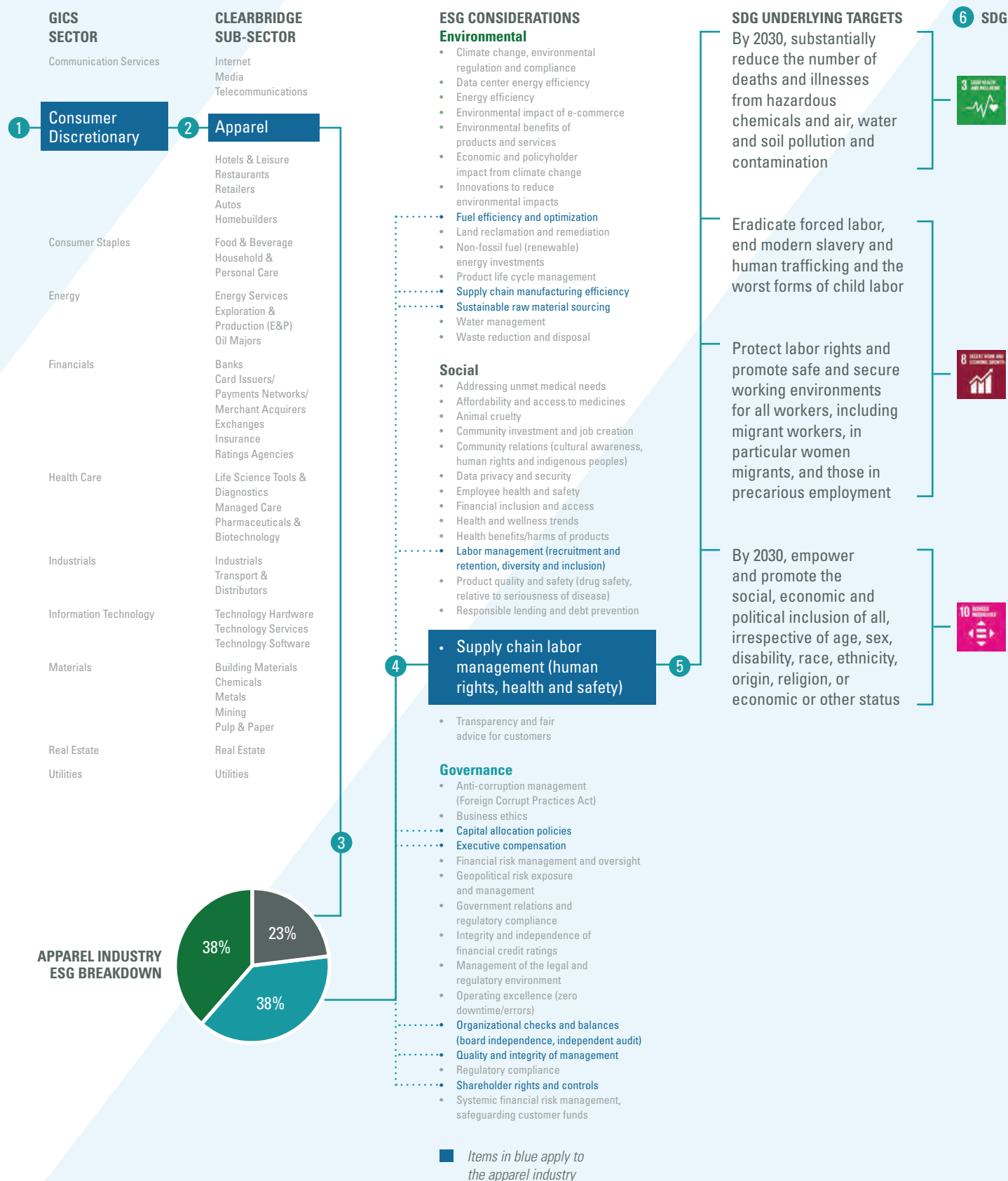


Strengthen the means of implementation and revitalize the global partnership for sustainable development



ClearBridge ESG Framework Bridges Our Fundamental Research and the SDGs

Sample mapping of ClearBridge ESG framework to SDGs



PROGRESS MADE AND PROGRESS TO COME

Achievement of the SDGs will require a globally coordinated effort among the public and private sector, including governments, NGOs, shareholders and investors. As a leading ESG investor and advocate for ESG best practices among public companies, we believe the SDGs are a globally accepted roadmap to gauge progress that can benefit society and the environment while motivating companies to create sustainable value.

Mapping the SDGs to our own framework of relevant issues helps us understand which of the issues we care most about as investors are also the most relevant to achieving the SDGs. For example, one of the targets of Quality Education (SDG 4) is to increase “the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.” As appropriate training and skill development is essential to businesses in all sectors, this is relevant across 100% of the sub-sectors in the ClearBridge ESG framework. Likewise, a target for Gender Equality (SDG 5) — to “ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life” — is also relevant across 100% of the sub-sectors in the ClearBridge ESG framework, as fostering a diverse and inclusive workforce is critical to long-term business success.

Focusing our engagement efforts on these intersections is where we can have the most impact. We will continue to map our ESG considerations to the SDGs and use them to measure progress and motivate change for the better among the companies we own.

ClearBridge’s ESG Investment Framework Intersects with SDGs

80–100% Relevance

- #4 – Quality Education
- #5 – Gender Equality
- #8 – Decent Work & Economic Growth
- #9 – Industry, Innovation & Infrastructure
- #10 – Reduced Inequalities
- #11 – Sustainable Cities and Communities
- #12 – Responsible Consumption
- #13 – Climate Action

60–80% Relevance

- #6 – Clean Water & Sanitation
- #7 – Affordable & Clean Energy

40–60% Relevance

- #3 – Good Health and Well Being
- #15 – Life on Land
- #16 – Peace, Justice & Strong Institutions

<40% Relevance

- #1 – No Poverty
- #2 – Zero Hunger
- #14 – Life Below Water
- #17 – Partnerships for the Goals

Percent of ClearBridge sub-sectors that have at least one ESG consideration that is relevant to achieving one or more SDG(s).

MEASURING PROGRESS ON CLIMATE: An Introduction to the TCFD

TCFD Financial Sector Industries and Non-Financial Groups

Financial Sector Industries

- Banks
- Insurance Companies
- Asset Managers
- Asset Owners

The financial sector was organized into four major industries largely based on activities performed. The activities are lending (banks), underwriting (insurance companies), asset management (asset managers), and investing (asset owners).

Non-Financial Groups

- Energy
- Transportation
- Materials and Buildings
- Agriculture, Food, and Forest Products

The non-financial groups identified by the Task Force account for the largest proportion of GHG emissions, energy usage, and water usage

Source: <https://www.fsb-tcfd.org/wp-content/uploads/2018/08/FINAL-2018-TCFD-Status-Report-092518.pdf>

Addressing climate change, both mitigating its causes and adapting to its effects, is an urgent issue for society. It is also an urgent issue for investors because the impacts of climate change — physical, technological, social and political — have implications across many industries.

Mark Carney, the Governor of the Bank of England, in his role as chair of the international monitoring body the Financial Stability Board, requested the formation of the Taskforce on Climate-related Financial Disclosures (TCFD). Climate change, and the world's attempts to mitigate it, could lead to changes in policy, technology and physical risks that could threaten global financial stability, according to Carney, prompting a reassessment of the value of a large range of assets.

The aim of the TCFD is to encourage companies and investors to disclose information that helps climate-related risks and opportunities get priced in over

time, preventing abrupt adjustments in valuation that could represent a risk to financial stability. To this end, TCFD recommends that companies and investors disclose various types of climate-related information across four topics as shown in the exhibit below.

TCFD's recommendations are addressed to eight types of organizations. As an asset manager, ClearBridge is one of the entities that TCFD is addressing with its recommendations.

In this year's Impact Report, we are — for the first time — aligning our climate change reporting with the recommendations of the TCFD where possible. We hope that by doing this, we are indicating our commitment to addressing the challenge of climate change in our roles as active shareholders and as stewards of our clients' capital. We view this year's reporting as a first step and will continue to strengthen our disclosure over time.

GOVERNANCE

Disclose the organization's governance around climate-related risks and opportunities.

STRATEGY

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

RISK MANAGEMENT

Disclose how the organization identifies, assesses and manages climate-related risks.

METRICS AND TARGETS

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Source: <https://www.fsb-tcfd.org/wp-content/uploads/2018/09/FINAL-2018-TCFD-Status-Report-092618.pdf>

Governance

Describe management's role in assessing and managing climate-related risks and opportunities:

Our co-Chief Investment Officers, Scott Glasser and Hersh Cohen, oversee the firm's investment team. The co-CIOs have oversight over all investment-related matters, including any climate-related matters. In addition, Director of Research Charles Harris manages the sector analysts and oversees their research activities, which include assessing risks and opportunities associated with climate change. As explained in other sections of this report, ClearBridge has a fully integrated ESG investment process — our analysts and portfolio managers are conducting research on environmental (including climate), social and governance issues as part of their fundamental research process. This is included in analysts' incentive compensation.

Strategy

Describe the climate-related risks and opportunities the organization has identified over the short-, medium- and long-term and how they are factored into relevant products and investment strategies:

We recognize that climate change poses a significant long-term risk to global prosperity and life on Earth. For the equity markets, these risks can manifest over both the short and long term as markets are forward-looking and asset repricing occurs continuously based on perceived likelihood of future events.

Our analysts are responsible for identifying and assessing climate change-related risks and opportunities within the industries they cover. Their analysis includes careful consideration of many climate change-related factors, including the regulatory/policy environment; geographic location of assets and operations; 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.

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

ClearBridge analysts have conducted scenario analysis on specific climate-related issues, for example, a group of analysts conducted scenario analysis on the impact of electric vehicles on the oil & gas and utilities sectors and used this to inform their investment recommendations across those sectors.

We have assessed various third-party climate scenario analysis tools but have not yet found any that fit with our bottom-up research approach. Our focus is company-specific analysis and where relevant we have begun engaging company management teams on the subject of climate scenario analysis and how they are using these tools to set their long-term business strategy. We plan to continue addressing this issue in our research and our

conversations with companies. We also plan to continue exploring climate scenario analysis as a tool.

Supplemental disclosure recommendation for asset managers: Describe how climate-related risks and opportunities are factored into relevant products or investment strategies:

As described elsewhere in this report, we have integrated ESG analysis into our investment approach. This means that climate-related risks are explicitly addressed in our research approach across the firm.

From a client perspective, greater focus on climate change as an urgent issue could cause more clients to consider the climate change impact of their investments and seek out investment managers who are actively engaged on this issue. By integrating ESG analysis into our investment process across the firm, we believe we are equipping ourselves with the tools to address increased client focus on climate change and environmental and social issues more broadly.

Risk Management

Describe how you identify, assess and manage material climate-related risks:

For general climate-related risk information we use the same approach as for all research at the firm — it is internally generated based on analysts' assessment of company filings, discussions with management and the analyst's industry expertise, supplemented by third party research from sell-side firms, industry experts and other sources.

(metric tons CO₂-equivalent per
\$1 million revenues)

1

Carbon intensity of an individual company:

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

2

Portfolio carbon intensity:

The carbon intensity for the portfolio is the sum of each company's weighting in the portfolio (as a percentage) multiplied by the company's carbon intensity.

Changing market conditions and policies in response to climate change are likely to affect competitive dynamics, technology developments, operating costs and capital allocation decisions in industries such as energy, utilities, autos, industrials, materials and technology. Physical impacts of climate change could impact many businesses through damage to assets, lost operating days and supply chain disruptions, among other risks.

Within ClearBridge's investment framework our analysts assess climate-related risks that can be categorized in four overlapping groups – technology disruption risks; political/regulatory risks; physical risks (such as lost operating days from extreme weather; supply chain disruption; etc.); and reputational/consumer preference risks. Each of these risks will be of varying degrees of relevance depending on the business activities of the company.

Supplemental disclosure recommendation for asset managers: Describe engagement activity with investee companies on climate disclosure:

Our approach to engagement

We are committed to engaging companies on climate change issues. We advocate in meetings with management teams to advance issues such as carbon emissions

disclosure; setting emissions reduction goals; increasing use of clean energy; improving supply chain efficiency; and generally encouraging companies to think longer term.

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.

Climate scenario analysis

We have engaged with investee companies specifically on climate scenario analysis. Climate scenario analysis generally looks at the impacts on a company from one or more future scenarios, most commonly a scenario in which the world manages to reduce carbon emissions sufficiently to limit the average rise in temperatures to no more than 2 degrees Celsius above pre-industrial levels (the "2-degree scenario" in shorthand). We commend companies for doing this analysis, but recognize the challenges in developing meaningful, decision-useful scenarios. We will continue to encourage companies to assess their businesses under various climate scenarios, as well as encouraging other action such as setting increasingly ambitious carbon reduction goals.

Engagement examples

Refer to the "Company Engagement" section and "Our Analysts Differentiate Their ESG Research by Sector and Industry" section of this report for more detail on climate change-related engagement.

Industry collaboration

We also engage companies through broader initiatives with other investors and stakeholders, such as the Climate Action 100+, TCFD, CDP (formerly known as Carbon Disclosure Project), Investor Network on Climate Risk (INCR), Principles for Responsible Investment (PRI) and the US Sustainable and Responsible Investment Forum (US SIF).

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

Metrics and Targets

a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process:

Understanding carbon intensity metrics

This year we conducted carbon intensity analysis on the firm's

investments in aggregate to understand the carbon intensity of the firm's total assets relative to the global equity markets. We believe this is an important aspect of understanding the firm's overall performance on carbon intensity and contributes to our overall approach to climate change. A portfolio carbon footprint is calculated in two steps (see exhibit).

Carbon intensity metrics inform engagement strategy

An analysis of the carbon intensity of a portfolio (commonly referred to as a "portfolio carbon footprint") can serve as a starting point to help investors gain an understanding of the carbon emissions directly associated with portfolio companies and identify the most significant sources of direct emissions. This analysis can be used to inform engagement strategies, ensuring that engagements focus on those companies that account for the highest proportions of a portfolio's emissions.

Carbon intensity does not equal climate-risk

While a carbon intensity analysis helps identify the companies in a portfolio responsible for the highest emissions, high carbon intensity does not necessarily equate to investment risk. Portfolio carbon intensity is not a proxy for risk exposure because it is not forward-looking and does not take into consideration risk factors like regulation or competition. Only by including these other parts of the equation can climate change-related risks be assessed, but the considerations we take into account are not adequately captured in a single metric. That said, we disclose

the carbon intensity of our portfolio to provide this transparency to our clients, while recognizing its limitations and continuing to explore other metrics and approaches.

Supplemental disclosure recommendation for asset managers: Provide the weighted average carbon intensity for each product or investment strategy:

Putting carbon intensity metrics in context

Putting ClearBridge's performance in context is not straightforward because there is no single benchmark for the firm's assets. ClearBridge has over 30 investment strategies spanning market capitalization sizes ("large cap", "mid cap" and "small cap"), investment styles (core, growth and value) regions (U.S. and global) and investment vehicles (mutual funds, separately managed accounts, exchange traded funds and collective investment funds). Each strategy has its own benchmark against which its financial performance is measured. In this exercise 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 there is no benchmark that provides a perfect comparison for the firm.

Brief analysis of the results

ClearBridge's carbon intensity is 22% lower than both the Russell 3000 Index and MSCI Developed World Index, 28% lower than the S&P 500 Index and 29% lower than the MSCI ACWI Developed and Emerging Markets Index. 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, which is a key driver of lower carbon intensity relative to these benchmarks.

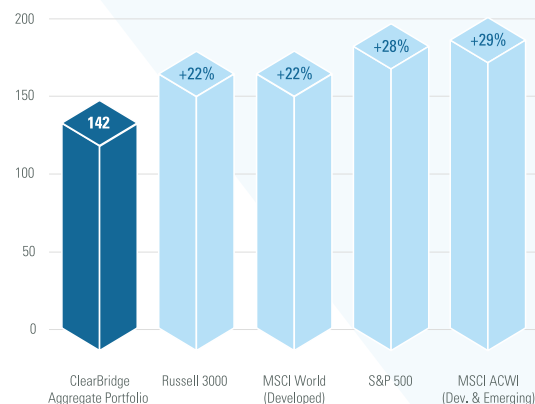
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks:

ClearBridge is an affiliate of Legg Mason. Our scope 1 and 2 emissions are 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. These disclosures can be found on Legg Mason's website at: <https://www.leggmason.com/global/campaigns/csr-2018.html>.

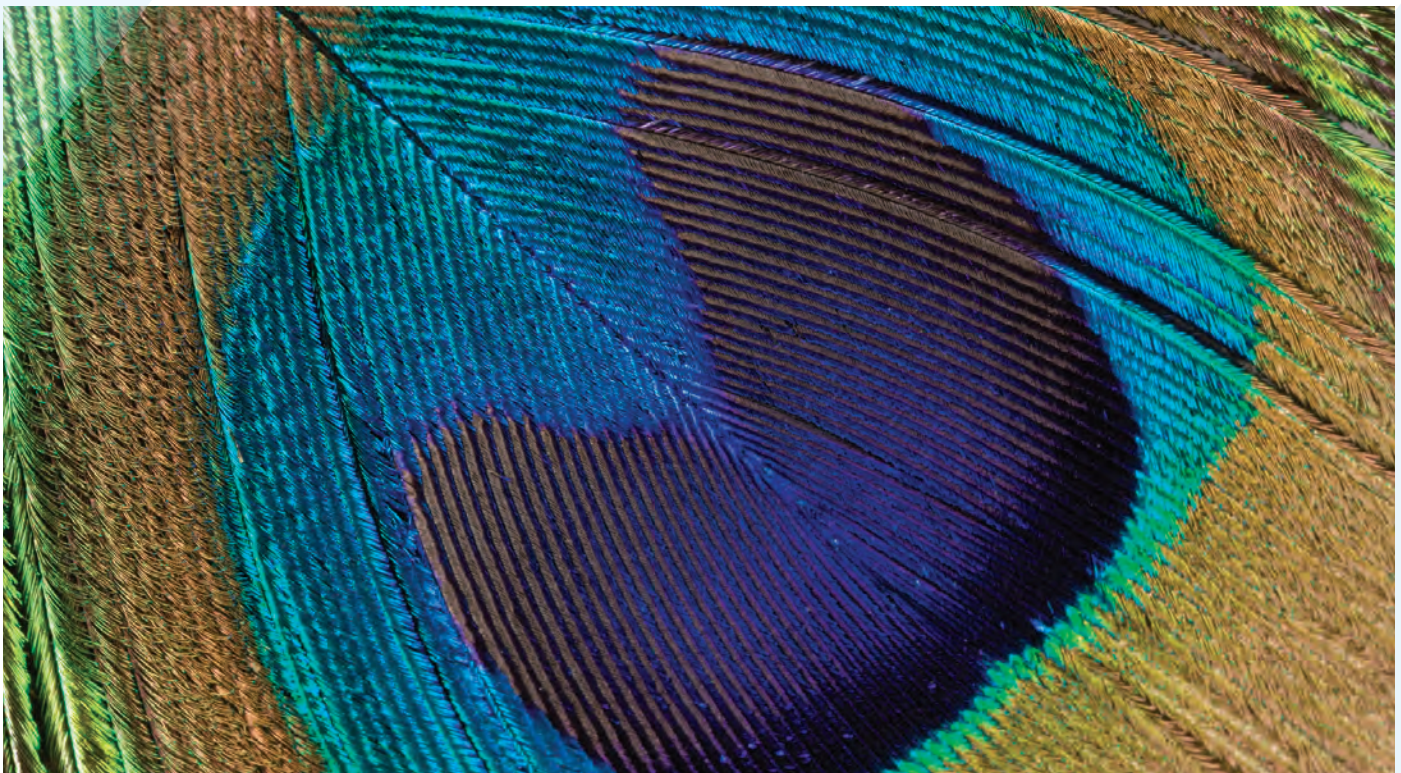
c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets:

At this time, we have not set emissions reduction targets for our portfolios.

Portfolio Carbon Intensity

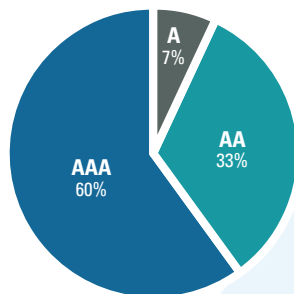


Data source: MSCI Carbon Portfolio Analytics. Holdings data as of December 31, 2018. Emissions data as of the most recent year available and estimated by MSCI when actual data is not available.



STRATEGY IN FOCUS: Sustainability Leaders Strategy

**Sustainability Leaders Strategy
ESG Ratings Distribution**



Portfolio Management Team

Derek Deutsch, CFA
Portfolio Manager

Mary Jane McQuillen
Portfolio Manager

Benedict Buckley, CFA
Portfolio Analyst

The ClearBridge Sustainability Leaders Strategy is an all cap portfolio that integrates in-depth financial and ESG research to identify and invest in companies that are leaders, or emerging leaders, in sustainability. The Strategy seeks to generate strong risk-adjusted performance while investing in companies that can make a positive impact on society and the environment and is also considered a low-carbon strategy. Our ESG analysis, developed over 30 years, is fully integrated into the overall security selection process, which uses quantitative and fundamental analysis to identify high-quality companies with attractive valuations, strong fundamentals, and management teams that allocate capital effectively. The portfolio is concentrated, with 30–50 high-conviction investments across a broad range of industries and has a long-term investment horizon.

The Strategy focuses its investments in companies with best-in-class ESG records across industries as demonstrated by the ESG ratings of the portfolio. By

owning these leaders and publicizing their practices, we hope to create value and do good for our clients and encourage peer companies to improve.

SEEKING AN IMPACT THROUGH PUBLIC EQUITY OWNERSHIP

We take a broad but comprehensive view of sustainability, including companies that practice environmental stewardship, treat their employees fairly, manage their supply chain responsibly and employ corporate governance practices that are transparent and shareholder-friendly. In many cases our holdings are companies with significant customer bases, making our engagements with them effective platforms for driving change. We own several IT companies, such as Alphabet and Apple, with whom we have discussed gender diversity, supply chain standards, renewable power and data privacy extensively during our engagements. ClearBridge has a long-running dialogue with Microsoft on a number of ESG issues, including digital access, data security and customer privacy, and we continue to discuss data

privacy and security not only with IT companies but also with the managements of companies across the consumer, financials, managed care and other sectors that have access to customer information.

Other IT companies we hold are leveraging the cloud and delivering positive results with less environmental and social impact. Automatic Data Processing (ADP), a provider of payroll and human resources software and services, has embraced software-as-a-service (SaaS) delivery across all customer segments, which should improve margins by taking out significant costs from legacy systems. SaaS lowers the need for physical check production and other carbon-emitting operations. The company is also positioning to serve the growing freelance workforce driving the gig economy. ADP is a shareholder-friendly company that has increased its annual dividend for more than 40 years.

In apparel, portfolio holding Nike is taking a unique approach to plastic waste by recycling it into yarns for athletic apparel. Polyester is part of the seven groups of non-fiber plastics that account for 92% of historical plastic production. Nike is the number-one user of recycled polyester in the industry, grinding down plastic drinking bottles into pellets and yarns to create its Fast Fit Vaporknit line of soccer kits worn by most World Cup teams. By adding value with recyclable materials, the kits deliver a high level of performance with a lower impact on the environment. Since 2012, Nike has reused over 5 billion plastic water bottles for its footwear and apparel.

INVESTING IN ESG SOLUTIONS PROVIDERS

We also aim to invest in companies that offer products and services that have a positive impact and offer solutions to long-term societal issues or themes, like public health, well-being and climate risk. BioMarin Pharmaceutical, for example,

is a biotechnology company researching and developing treatments for rare and orphan diseases, many of which are life threatening or limiting. BioMarin has a portfolio of approved drugs with strong growth potential and an underappreciated pipeline of new treatments in the areas of hemophilia and dwarfism. The company's mission is to save or improve patient lives, and it makes its treatments widely available, especially in emerging markets underserved by large drug makers. BioMarin also adheres to environmentally friendly manufacturing processes. We have been engaging with the company, encouraging it to better document its ESG practices by publishing a sustainability report, and we have also been discussing ways it can improve its governance practices. We view BioMarin, as well as portfolio holdings Biogen and Alexion Pharmaceuticals, as contributing to public good health and well-being and to making sustainable cities and communities through their distribution of life-saving medical treatments.

SUSTAINABILITY LEADERS ADDRESSING CLIMATE CHANGE

Addressing climate change is one of the primary environmental challenges our society faces. We seek to help investors limit carbon emissions by investing in companies developing clean energy sources such as Brookfield Renewable Partners, SolarEdge Technologies and Vestas Wind Systems, rather than companies engaged in the production of fossil fuels. Brookfield generates power from hydroelectric resources in the United States, Canada and Brazil. The company recently initiated an engagement with ClearBridge to help them assess sustainability issues most relevant to its business, including climate change, environmental regulations and water scarcity.

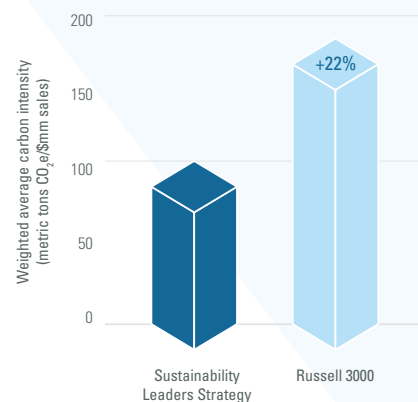
Similarly, solar energy is a unique form of clean energy that is reaching cost parity in many parts of the world, and

our holding SolarEdge Technologies is an integral part of this growth story. While global electricity production has grown at 2% over the last five years, the share of solar in global electricity production has grown over four times in just the last five years, with solar capacity additions growing at a 30% consolidated annual rate. SolarEdge is one of the best-positioned component suppliers to the solar industry with a differentiated product, strong balance sheet and growing market share.

Meanwhile, through our ownership of Vestas Wind Systems, ClearBridge is finding economic opportunity in a technology that will also help the planet. The energy production from a 100-megawatt wind park Vestas recently successfully bid for in Singapore, for example, will offset roughly 330,000 tons of CO₂ per year.

Other holdings in the utilities sector seeking to have a positive impact on climate change are NextEra Energy and Ormat

Carbon Intensity of the ClearBridge Sustainability Leaders Strategy



Data source: MSCI Carbon Portfolio Analytics. Holdings data as of December 31, 2018. Emissions data as of the most recent year available and estimated by MSCI when actual data is not available.

Technologies. NextEra Energy is one of the highest-quality utility companies, operating a lower-risk growth profile and developing the largest renewables market. The company is the world's leading producer of wind and solar power and continues to prudently manage its assets in the best interest of shareowners. Ormat Technologies is a market leader in the geothermal energy industry. Its proprietary technology has enabled it to rapidly gain market share, and with geothermal expected

to be an increasing source of base load renewable energy around the world, we believe the company is well positioned to capture this growth. Geothermal is a low carbon alternative that consumes less land and water while exerting much lower impacts on the environment, compared with conventional fossil fuel combustion.

Shareholder engagement is an integral part of the leadership review; we directly engage with management to

improve in certain areas as identified by us, in conjunction with our fundamental research team. Our ESG analysis, integrated into our quantitative and fundamental analysis in the overall security selection process, covers a wide range of key ESG considerations. See how our analysts incorporate these in their research in Company Engagement.

Sustainability Leaders Strategy: Sample Key Impact Themes (Not Exhaustive)



CLIMATE CHANGE

Solutions:

- Clean energy generation
- Energy efficiency

Related holdings include:

- **Ormat Technologies:** A leader in the geothermal industry
- **Brookfield Renewable Partners:** A leader in hydro-electric power
- **SolarEdge:** A component supplier to the solar energy industry



WATER SCARCITY

Solutions:

- Water treatment and efficiency

Related holdings include:

- **Ecolab:** A provider of water, hygiene and energy technologies and services to several industries
- **Xylem:** A provider of water technology to improve water efficiency
- **Evoqua:** A water quality solutions provider for municipalities and industry



RESOURCE SCARCITY & UTILIZATION

Solutions:

- Waste reduction
- Use of recycled products
- Reuse

Related holdings include:

- **Herman Miller:** A leading furniture manufacturer that incorporates life cycle analysis into product design
- **Trex:** A leading recycled plastic materials manufacturer of outdoor decks and railings
- **Nike:** A major footwear and apparel company using recycled plastic materials in product design



FINANCIAL INCLUSION

Solutions:

- Access to capital and financial services

Related holdings include:

- **Visa:** A global electronic payments provider bridging banking gaps with innovations to help serve areas with limited infrastructure
- **Charles Schwab:** An investment company lowering cost barriers to financial advice and capital market access with a commitment to financial literacy
- **BlackRock:** An asset manager designing innovative products for access to financial markets



IMPROVING HEALTH

Solutions:

- Drug innovation
- Addressing unmet medical needs
- Patient safety
- Health care coverage

Related holdings include:

- **Alexion:** A biotechnology company developing treatments for severe and ultra-rare disorders
- **Biogen:** A biotechnology company producing therapies in oncology, neurology and immunology
- **UnitedHealth:** A managed care provider expanding health coverage, improving health care quality and reducing costs



“ By owning sustainability leaders and publicizing their practices, we hope to create value, do good for our clients and encourage peer companies to improve. ”

– Derek Deutsch, CFA

INDEX OF COMPANIES

3M 18, 37	Comcast 35	NextEra Energy 35, 55, 56
ADP 28, 55	Costco 3, 20, 36	Nike 43, 55, 56
Aecom 37	Cott 4, 14	Nuance Communications 37
Alaska Air Group 36	Discover Financial Services 36	Nucor 35
Alexion Pharmaceuticals 26, 55, 56	Discovery 33, 35	Oracle 33, 35
Alphabet 36, 54	DowDuPont 36, 37	Ormat Technologies 55, 56
American Express 23	Ecolab 56	PepsiCo 37
Amerisource Bergen 37	Equinix 33, 36	Pfizer 25
Amgen 36	Evoqua 56	PPG Industries 19
Anadarko Petroleum 22	Facebook 36	Sempra Energy 30, 36
Anthem 37	First Republic Bank 35	SolarEdge Technologies 55, 56
Apple 36, 54	Fluor 33, 34	Starbucks 34, 35
AT&T 36	General Motors 34	Stericycle 37
Bank of America Merrill Lynch 43	Herman Miller 56	Texas Instruments 29
Becton, Dickinson and Company 36	Home Depot 3, 12, 16, 35, 37	Trex 3, 12, 56
Berkshire Hathaway 34	Illinois Tool Works 37	Twitter 27, 35
Biogen 55, 56	Intel 42	Umicore 15
BioMarin Pharmaceutical 55	International Business Machines 37	UnitedHealth 56
BlackRock 56	International Paper 37	United Parcel Service 36
Bristol-Myers Squibb 37	Johnson & Johnson 37	Verizon Communications 37
Brookfield Renewable Partners 55, 56	Keurig Dr Pepper 21	Vertex Pharmaceuticals 35
Burberry 13	KeyCorp 37	Vestas Wind Systems 55
C.H. Robinson Worldwide 34	Kroger 34	Visa 56
Caterpillar 37	Marriott 36	Xylem 56
Charles Schwab 24, 56	Microsoft 54	Walmart 23
Citigroup 36, 37	Mondelez International 34	



ClearBridge

Investments

620 Eighth Avenue, 48th Floor
New York, NY 10018
Phone: 1 800 691 6960
clearbridge.com