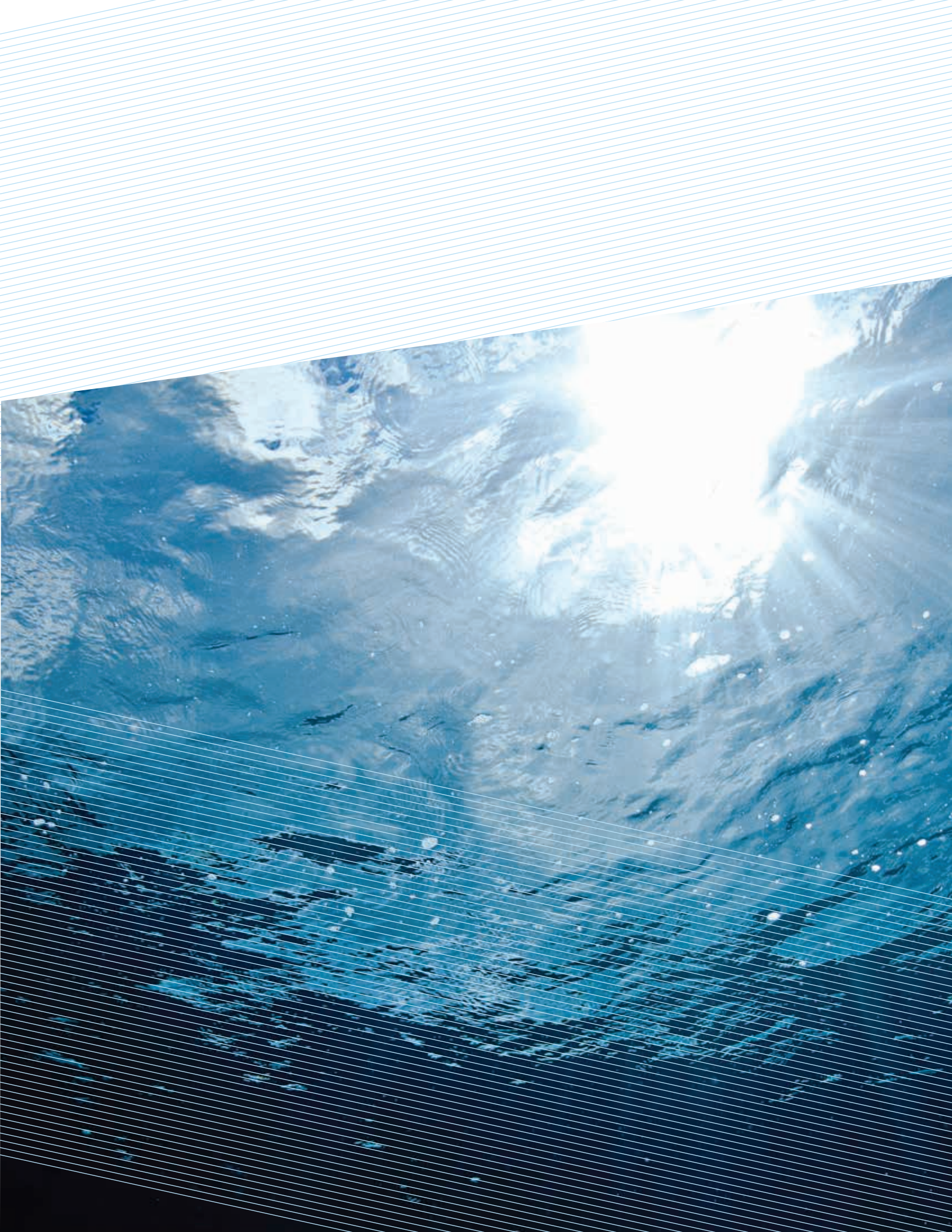




Improving Outcomes Through Active Company Ownership

2020 Impact Report

ClearBridge
Investments





An Authentic Approach to ESG Investing

Reporting on our Environmental, Social and Governance (ESG) investment activities is one of the most effective ways to educate asset owners, individual investors and company managements about the various ways we believe our approach to investing is having a positive impact. With ESG investing coming into sharper focus in our industry this past year, ClearBridge's 2020 Impact Report captures the sustainability challenges faced by portfolio companies and society as well as encouraging signs of progress.

ESG integration has been a key feature of our fundamental research approach and active management process for more than 30 years. It has long been our view that ESG integration adds value to our own investment process while helping to mitigate risk and identify new opportunities. In this report, we dive into a handful of ESG issues we view as critical for investors and society, such as climate change, diversity, plastics waste and the opioid crisis. We also look at how these issues affect individual sectors, such as energy and the food industry.

Regularly engaging with portfolio companies on ESG issues most pertinent to their business is a key way we can help drive progress and make an impact. The engagement section of the report details recent interactions led by ClearBridge research analysts and portfolio managers. We are encouraged that these dialogues continue to expand across our global investment universe to include more small cap and international companies.

Proxy voting is an important component of our equity ownership and our portfolio managers carefully analyze and vote on shareholder proposals related to sustainability. On behalf of ClearBridge, a long-time signatory of the Principles for Responsible Investment (PRI), I recently signed the PRI's letter to the SEC opposing two proposed changes to proxy procedures that would curb the shareholder proposal process and the independence of proxy advisors.

Advancing best-in-class ESG practices is not only a key performance driver for the companies we own across our portfolios but also a key to the success of ClearBridge. We are regularly recognized for supporting career advancement opportunities for our employees that lead to a motivated and long-tenured workforce. Gender diversity remains a key issue for companies we detail in the report and a top priority at ClearBridge, where we are privileged to have women not only in executive leadership and portfolio management roles but also filling the majority of new positions in the organization over the last year.

As we entered 2020, the world was learning of the far-reaching consequences stemming from COVID-19. ClearBridge has published our expectations of company managements and we will be having active discussions with them as the crisis continues to unfold. We believe that, in these difficult times, advancing basic issues of sustainability — in particular, taking care of all stakeholders — will support the most positive long-term outcomes.

Finally, ClearBridge continues to partner with clients, portfolio companies and employees in promoting ESG practices as a way to enhance fundamental equity performance while making a positive impact on society. Transparency has become a key requirement shareholders are demanding of public companies and we hope that our latest Impact Report contributes to these efforts. Thank you for taking an interest in sustainable investing.

Sincerely,

Terrence Murphy
Chief Executive Officer



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\$144 billion

in assets for which ESG risk and opportunities are analyzed



764 Companies

with proprietary ESG ratings



1000+

company meetings per year



293 Companies

where we are a top 20 shareholder



7 Years

average period we own a company¹

¹ The weighted average turnover of all ClearBridge strategies, averaged for the last three years, is 14.7% (weighted by assets managed in each strategy). This implies a holding period of approximately seven years.

Firm Overview

ClearBridge Investments is a leading global equity manager with \$155 billion in assets under management as of December 31, 2019. Owned by Legg Mason, ClearBridge operates with investment independence from headquarters in New York and offices in Baltimore, London, San Francisco, Sydney 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. We offer 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 industry sectors and in all our investment strategies.

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. ClearBridge takes a long-term approach, holding companies for seven years on average

across our portfolios. Our experience demonstrates that an active investing approach with a long-term focus and a commitment to ESG integration make for good business. This approach 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 to companies and use those internal assessments to track progress toward stated goals over time and drive engagement with company managements.

P&I Names ClearBridge Best Place to Work 2019

ClearBridge Investments has been named by Pensions & Investments Magazine (P&I) as one of the Best Places to Work in Money Management for the eighth year in a row. ClearBridge, which won first place in the 100–499 employee category, is one of a small number of companies to have made the list every year since the program launched in 2012.

ClearBridge employees surveyed by P&I cited a culture that promotes teamwork, empowerment and inclusion as well as work-life balance and career advancement opportunities as reasons why it is one of the best places to work in the industry.

ClearBridge believes this award reflects the positive culture we have built over time and confirms a core tenet of our belief in ESG investing: we see firsthand in our own organization the importance of company culture. We are pleased to see the investments we make in human capital recognized.





ESG Investing at ClearBridge: An Annual Update with Mary Jane McQuillen

As Head of ESG Investment at ClearBridge and a portfolio manager who invests in companies with both fundamental discipline and sustainability leadership, Mary Jane McQuillen is uniquely positioned to offer a close-up view from the firm's ongoing engagements with CEOs and CFOs of the companies held across ClearBridge portfolios, as well as macro trends and major long-term issues defining the space.

We sat down with MJ, as she is known in ESG circles, to discuss what shaped the broader ESG investing discussion in 2019 and what will have an impact on ClearBridge engagements with companies in the coming months. She highlighted several trends to watch, including an increased supply of mainstream ESG analysis, a greater focus on climate risk, the growth of ESG investing internationally, a welcome increase in scrutiny of ESG claims and principles, concern over ESG ratings dispersion, transparency in disclosure as a competitive necessity and a higher focus on impact.

Growth of ESG Mindshare in the U.S. and Internationally

Over a decade ago, ClearBridge analysts were among the first fundamental buy-side analysts who integrated the material and relevant, sector-specific ESG factors into their investment analysis and engagements. This past year was a tremendous one for ESG uptake in the wider U.S. investment industry. On the research side, we've seen the proliferation of ESG sell-side and alternative data analysis take root in the U.S., adding a substantial new brain trust focused on analyzing all things ESG. We are very encouraged to see the improved quality and diversity of ESG research being offered in the marketplace.

A large part of this ESG mindshare is climate risk, which is a significant topic of deliberation among companies and regulators, as well as investors and analysts, with whom climate analysis as a form of investment risk is gaining attention. Please see our several discussions of climate risk, including how we are analyzing risks and opportunities from climate change in line with the Task Force on Climate-related Financial Disclosures (TCFD), throughout this report.

I've been pleased to observe the growth of interest in ESG investing internationally. In client meetings throughout 2019, I noticed accelerated interest in Europe and new interest in Asia Pacific. In Europe, given the increased regulatory requirements for public funds, corporates and asset managers on such issues as carbon measurement and the TCFD, gender pay gap disclosure, gender representation on boards of directors, rules on inclusion of ESG consideration as fiduciary duty, and other areas, the groundswell around ESG has reached consensus in many places. That said, localized development of ESG products and placement of assets are at different maturity levels, depending on the investor awareness dynamics per country.

In Asia Pacific, Japan is the largest adopter of ESG through the Government Pension Investment Fund (GPIF), and Singapore, Hong Kong and South Korea have all allocated large amounts of public money to ESG strategies and included ESG language in their investment guidelines. The uptake of social and corporate governance issues has lagged that of environmental issues. Progress on social issues has often moved at different speeds for cultural reasons and progress on governance issues varies as there are different corporate practices in place in Asia. The region still needs to make strides in gender diversity in management roles — there have been quantitative studies published for years that show improved stock performance of companies with women in management roles, as compared to companies with little to no female representation. Also, transparency in company reporting has begun to improve, with more attention to sustainability, but financial disclosures are at different stages.

A Closer Look at ESG Claims and Greenwashing

Not surprisingly, as a result of the exponential growth of new investment strategies focused on “ESG,” thematic investing, the UN Sustainable Development Goals (SDGs) or general impact, there is corresponding growth in the risk of confusion and dilution of process. The swelling demand for ESG investment products and an initial lack of supply has asset managers responding by expediting ESG product offerings. For many investment managers, the bulk of ESG analysis is outsourced — although no active manager would think of outsourcing the bulk of investment research. There is often a disconnect between ESG integration claims and reality, as the term is overused, the practice underexecuted.

Accordingly, in 2019 we saw increased industry scrutiny of unsubstantiated or misleading claims about sustainability, or greenwashing, in asset management. The European Parliament and the European Council created the first classification system

of sustainable economic activities; the U.S. Securities and Exchange Commission (SEC) sent examination letters to asset managers to get clarity on the criteria and methodology being applied for an “ESG” fund claim; the CFA Institute established a working group on setting an ESG industry standard; and the Investment Company Institute began a global task force on ESG, of which ClearBridge is a member. These bodies are improving the environment for ESG investing and increasing its rigor. For those struggling to make sense of ESG investment offerings, we recommend looking at the experience of portfolio managers in managing assets with ESG factors, the history of the firm’s ESG investing, the investment process, and track records over multiple business cycles.

Different Approaches to ESG Ratings

ClearBridge internally trains and relies on all our fundamental analysts to be ESG specialists for the companies under their coverage. We believe it is the most dedicated and sustainable approach. ClearBridge analysts monitor a company’s commitment to improving its ESG practices and integrate this information with fundamental research that includes direct engagements — candid conversations with management on their plans and progress in improving ESG practices. Third-party ESG ratings have been an area of interest of late. In particular, academic and quantitative research is showing significant dispersion and low correlation among ratings providers. This is important because investors who rely heavily on third-party ESG ratings could have very different portfolio outcomes, and differing opinions from third-party ESG ratings agencies can create confusion for clients or investors who rely on them. This issue demonstrates the importance of ClearBridge’s integrated approach where our investment teams develop their own internal view of a company’s ESG performance.

Transparency Is Increasingly a Competitive Necessity

Proxy voting topics continue to focus on climate and gender, and we highlight some of the major concerns driving the issues elsewhere in this report. Another recent hot button proxy topic is disclosure of political contributions, and most investors are voting for more disclosure. This is notable because in some senses the pendulum has swung toward valuing fair business practices and transparency. In the past, a common reason given for not disclosing was potential damage to competitiveness, something shareholders would not want. Now, the wave is gaining force, and the more companies disclose, the more it is a competitive disadvantage to not disclose. Shareholders are having success pushing for more transparency and changing the landscape of what are considered industry norms.

Impact Is Receiving More Attention

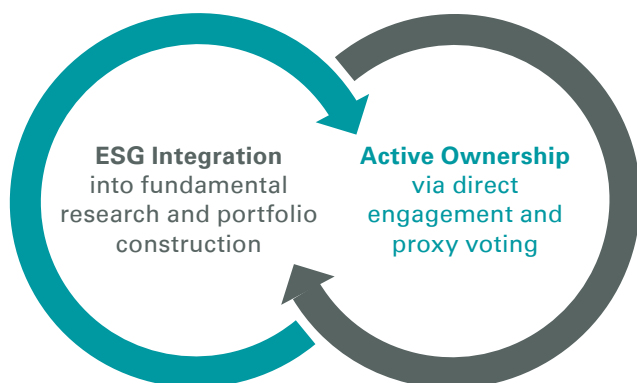
A growing body of investors has been seeking more than just portfolio return from their investments. Based on the proliferation of academic ESG performance studies, they already accept the notion that ESG investments can perform as well as, if not outperform, the market over the long term, but they want more. Most millennials view sustainability as a standard of life and thinking. They want to be proud of their employers and have investments that provide return and make an impact. The impact can come in the form of greener practices, activities addressing climate change, greater diversity and inclusion, fairer pay or lowering the environmental footprint of livestock, for example. Corporations are also thinking about their impact — not just on shareholders, but on society overall. The SDGs are one framework for the private sector, but investors are increasingly seeking to tip the scales for impact further away from avoiding negative impact and toward strengthening positive impact.

ESG Integration in Practice

We believe investors in public equities have a crucial role to play in addressing environmental and social challenges faced by society. Large public companies have a substantial social and environmental impact (both positive and negative) by virtue of their size and complex stakeholder relationships across supply chains, distribution networks and communities where they operate. We can amplify this impact through our allocation of capital and direct engagement with company managements. These activities form two overlapping elements of ClearBridge's ESG approach: integrating ESG analysis into fundamental research and portfolio construction and using engagements with companies and proxy voting to drive positive change.

We source investment ideas and construct portfolios by integrating ESG¹ analysis into the fundamental research² performed by analysts on ClearBridge's centralized sector research 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 the specific ESG issues that are relevant to its business.

Some ESG issues are relevant to all companies, such as corporate governance and labor management. Other ESG issues are relevant to many companies, such as environmental efficiency and supply chain responsibility. And others are very sector specific, such as access to medicines and drug pricing for pharmaceutical companies, or responsible lending practices for banks.



¹ 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.

² 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 Integrates ESG and Fundamental Research

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. Our clients, whether or not they desire an explicit ESG mandate, all have long-term investment goals. We believe companies that plan carefully for what's ahead and operate sustainably in relation to their customers, communities and the environment should have a long-term competitive advantage over their peers. We believe our clients are well-served by investing in such companies.

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.

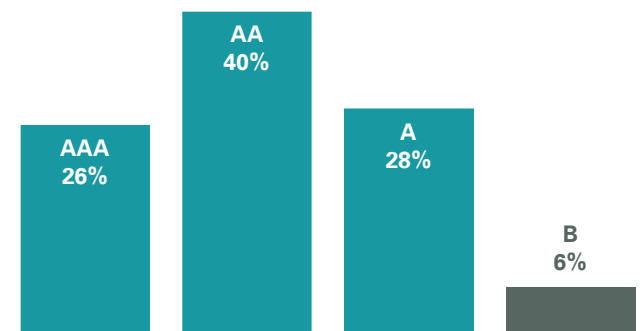
Our bottom-up, fundamental research targets companies with:

- 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 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 in our coverage universe earn an ESG rating, updated at least annually. We also work with companies to improve their ESG performance through direct engagement and proxy voting.

Asset-weighted ESG Ratings Distribution
for ClearBridge Portfolio Companies



As of Dec. 31, 2019.
Source: ClearBridge Investments.

ESG Performance Is Linked to Value Creation

- There is abundant academic evidence that strong ESG performance can result in lower costs of capital and better operational performance for companies
- A company's performance on material ESG issues can affect value creation in multiple ways:

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

A Model for ESG Integration

Many investors say they integrate ESG into their investment process, but there are many different approaches being employed and instances of greenwashing have increased to the point that government and industry organizations are taking steps to establish industry standards of what constitutes ESG investing. When we say our ESG research is “integrated” we mean that it is explicitly included in a financial analyst’s process for researching 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. The majority of managers still use the segregated approaches shown in models 1 and 2 (opposite page).

ClearBridge established its central research platform in 2005 and formally introduced ESG ratings in 2014. 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.

Investment Process

ESG analysis is part of
fundamental research
and active ownership



Investment Recommendation:

Buy/Sell, Investment Thesis,
Ongoing Coverage

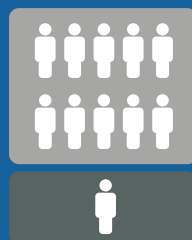
Valuation:

Price Target, Risk/Reward Ratio

Proprietary ESG Rating:

AAA, AA, A or B Rating and Rationale

Model 1



Third-party ESG
research firm

Model 2



Segregated internal
ESG research team

ClearBridge



One team
integrating ESG and
fundamental research

ClearBridge ESG Considerations

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

Environmental

- Climate change, environmental regulation and compliance
- Data center energy efficiency
- Economic and policyholder impact from climate change
- Energy efficiency
- Environmental impacts of products and services
- Fuel efficiency and optimization
- Impact of e-commerce packaging and distribution
- Innovations to reduce environmental impacts
- Land reclamation and remediation
- Product life cycle management
- Renewable energy investments
- Rideshare vehicle emissions
- Stranded asset risk
- Supply chain manufacturing efficiency
- Sustainable raw material sourcing
- Waste reduction and disposal
- Water management

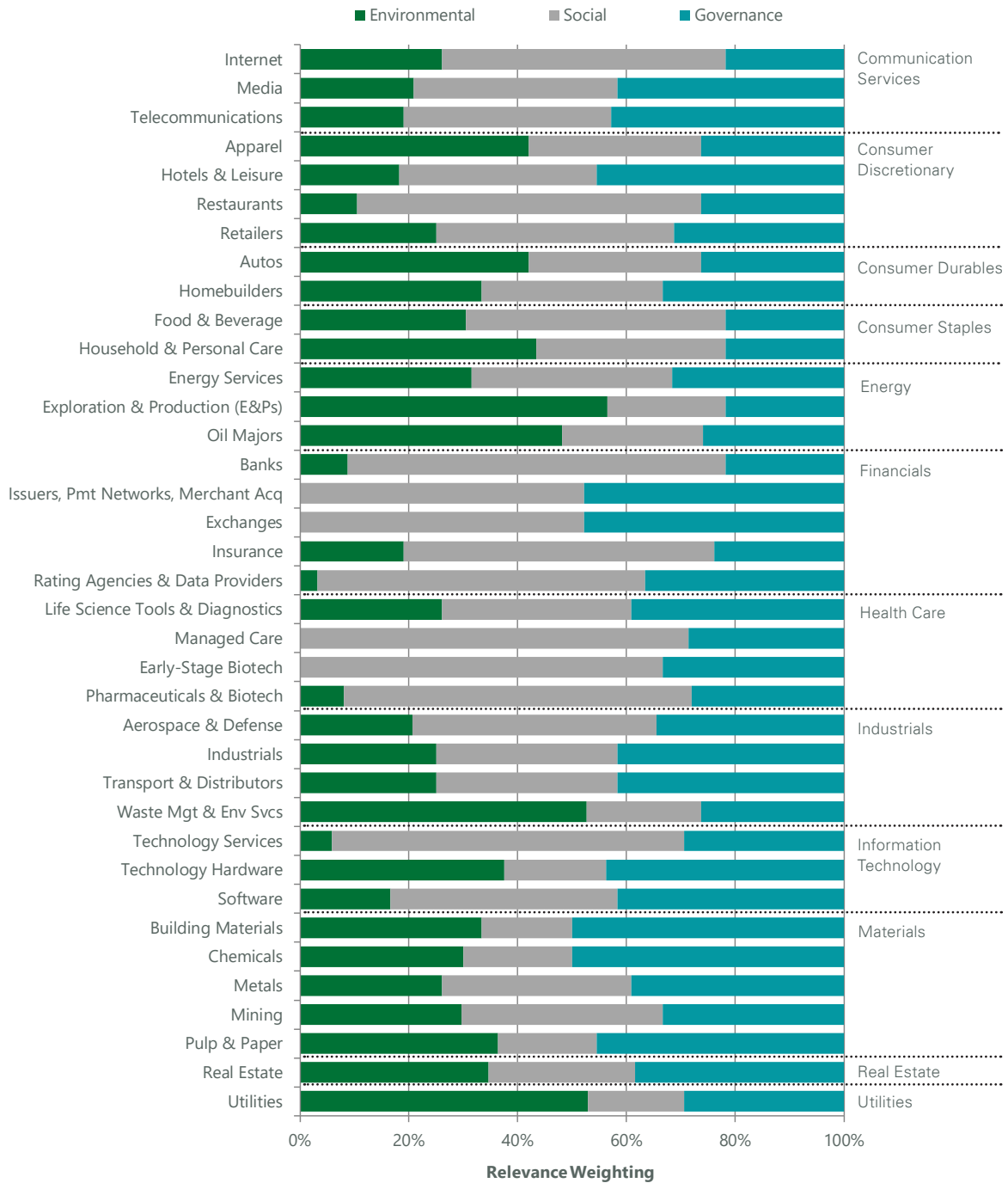
Social

- Addressing unmet medical needs
- Affordability and access to medicines
- Animal welfare
- Community investment and job creation
- Community relations (cultural awareness, human rights and indigenous peoples)
- Data privacy and security
- Employee health and safety
- Facilitation of small business growth
- Financial inclusion and access
- Health and wellness trends
- Health impacts of products
- Human capital management (recruitment and retention, diversity and inclusion)
- Media and social network content responsibility
- Product quality and safety
- Responsible lending and transparency
- Supply chain labor management (human rights, health and safety)
- Transparency and fair advice for customers

Governance

- Anti-corruption management (Foreign Corrupt Practices Act)
- Audit controls
- Board effectiveness
- Business ethics
- Capital structure and allocation
- 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)
- Quality and integrity of management
- Regulatory compliance
- Shareholder rights and controls
- Systemic financial risk management, safeguarding customer funds

Breakdown of Relevant ESG Considerations by Subsector



ClearBridge Impact Through Active Ownership

Public equity ownership can 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 promote improvement. 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.

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. 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.

2019 ClearBridge Impact Engagements

In some circumstances, ClearBridge engagements result in material impact — instances where our conversations with company management or feedback we provide to company requests help initiate or improve sustainability practices at companies we own. In the following pages, we highlight a small illustrative sample.

ClearBridge Persistence Contributes to BlackRock Climate Pledge



David Hochstim, CFA
Sector Analyst, Financials

Key ESG Factors:

Corporate governance;
compensation structure; lending
practices; regulatory compliance;
talent acquisition/retention;
corporate responsibility

Over six months in 2019, financials analyst David Hochstim, CFA, had several lengthy conversations with Investor Relations of BlackRock, one of the world's largest asset managers. In each we shared views prompted by a ClearBridge client that BlackRock, given its clout as one of the world's largest investors, was not doing enough to combat climate change. During the conversations, we discussed the potential influence BlackRock could have on companies through both its active and passive vehicles through more active engagement with the companies it invests in on behalf of its clients. BlackRock acknowledged these concerns and informed us our input was appreciated and was being duly weighed.

In January 2020, BlackRock announced it would adopt sustainability as a core value, among other things offering ETF portfolios screened for fossil fuels and seeking sustainability and transparency from the companies it holds in both active and index vehicles. The company also joined Climate Action 100+, which seeks to have companies disclose more about climate impact. We view these both as positive developments. The more information companies disclose, the more investors can engage with them to help reduce activities that are harmful to the environment. Engagement and coordinated change by companies and investors will be far more effective than simply divesting shares. Significant divestitures will likely pressure companies by driving up their cost of capital, but it can also create opportunities for investors not concerned about climate change or protecting the environment. By engaging in a long-term dialogue with BlackRock, ClearBridge was able to serve as a persistent advocate for more ambitious sustainability practices at a company representing almost \$7 trillion in assets. We are encouraged by its recent advances in this area.

ClearBridge Guides Schlumberger on Disclosures, Adopting Science-Based GHG Targets



Dimitry Dayen, CFA
Sector Analyst, Energy

Key ESG Factors:

Environmental management systems; health and safety; geographical exposure; repressive regimes; waste disposal; labor shortages; alternative energy; climate legislation; board independence

Energy analyst Dimitry Dayen, CFA, met with Schlumberger senior leadership in June 2019 to discuss the company's sustainability positioning in the oilfield. We discussed the company's long-term sustainability vision and its view that the industry's focus on this issue will only increase in the coming years. We learned Schlumberger is seeing sustainability objectives incorporated into request for service proposals from its customers more often than in the past and is developing and marketing tools to help achieve these goals. Specifically, Schlumberger has developed cementing chemistries that lower the risk of methane emissions and offers biodegradable drilling fluid, among other technologies.

Given our longstanding focus on sustainability, the company asked us to comment on key disclosures that investors want to see incorporated into ESG analysis. We suggested the market will care about energy company positioning as it relates to climate change and the potential for the energy transition away from fossil fuels. We were glad to see that at the end of 2019, Schlumberger announced that it will become the first upstream oil service company to commit to setting a science-based target to reduce greenhouse gas (GHG) emissions by 2021. The company submitted its commitment to the Science Based Targets initiative. The initiative's efforts are in line with the latest climate science aimed to meet the goals of the Paris Agreement, which seek to keep global temperature rise this century well below 2° Celsius above pre-industrial levels.

Amazon Seeks Out ESG Dialogue with ClearBridge



Erica Furfaro
Sector Analyst, Media and Internet

Key ESG Factors:

Data privacy and security; content responsibility; governance (especially shareholder rights and capital allocation); social impacts of services; human capital management; diversity & inclusion; environmental impact of operating footprint

Amazon.com is the world's largest e-commerce platform, the leading provider of cloud computing services through its Amazon Web Services business and one of the largest U.S. employers. ClearBridge has been a large holder of Amazon since 2000 and regularly engages with the company. In 2019, Amazon sought to enhance communication on its ESG efforts with the investment community. The company specifically sought out ClearBridge to engage in a dialogue about its ESG priorities, recognizing the firm as both an influential ESG investor and long-time Amazon shareholder. Our interaction with Amazon consisted of two meetings in our New York offices led by ClearBridge media and Internet analyst Erica Furfaro that also included several portfolio managers who are major owners of the stock.

In a July meeting with Amazon's General Counsel, the company highlighted increased disclosure around its environmental practices including the publication of a detailed carbon footprint and desire to publish an annual carbon emissions report. Amazon noted its Shipment Zero program, announced in February 2019, as a key priority for reducing carbon emissions. Amazon is also focused on innovating new packaging solutions including smaller, eco-friendly options that help reduce waste compared to practices in the brick and mortar retail world. On the labor front, Amazon discussed its recently implemented minimum wage increase to \$15 per hour for workers in the U.S. and UK. The company hopes that by taking the lead in reducing emissions and improving pay it will incentivize other companies to follow suit.

In September, Amazon took further bold steps to protect the environment with CEO Jeff Bezos announcing Amazon's Climate Pledge and plans to reach Paris Agreement goals 10 years earlier than the agreement's 2050 deadline. Following this news, ClearBridge met with the General Counsel and the company's Head of Worldwide Sustainability to discuss implementation of these initiatives. The Climate Pledge puts a target around the company's emission reduction efforts with the goal to reach 100% renewable energy by 2030 and be 100% carbon neutral by 2040. Amazon highlighted that the company's calculation of its carbon footprint includes consumer trips to its physical retail stores, a key reason why e-commerce can be more energy efficient than traditional retail.

Amazon stressed the need for collective action from its partners to reach its objectives and is committed to sharing best practices. It also noted the importance of enhanced disclosures to better tell the company's sustainability story and demonstrate how sustainability and good business decisions can be linked. While Amazon still has work ahead of them to accomplish their goals, we believe they have a compelling environmental story to tell and are encouraged by their enhanced transparency on sustainability issues.

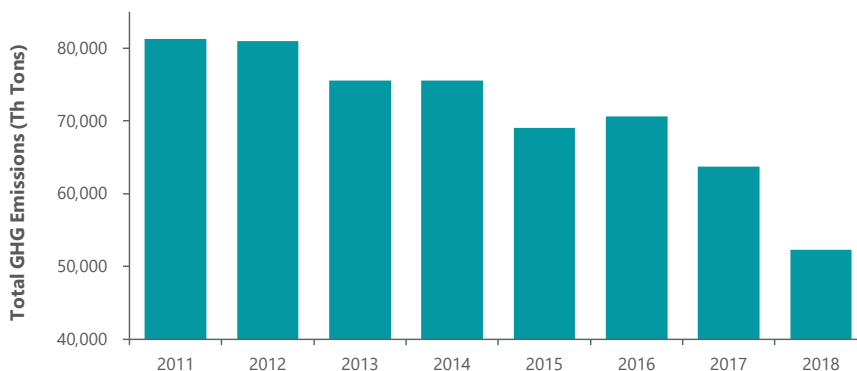
ClearBridge Advises as AES Reduces Coal, Invests in Renewables

ClearBridge is a top 20 owner of electric power company AES. Sam Peters, CFA, portfolio manager for ClearBridge Value Equity and All Cap Value Strategies, has been engaging with AES executives and board members on its multiyear path to reduce its carbon footprint. Several years ago, we began discussing the lack of terminal value from coal, and we expressed how coal-related ESG concerns were weighing on AES's valuation multiple, as the ESG risk premium was rising. We helped convince AES to stop investing in coal plants and start shutting down existing coal capacity. The next step was to add renewable energy exposure in the form of wind, solar and industrial scale battery storage. We shared our belief that any lost near-term operating earnings would be made up with a higher valuation multiple.



Sam Peters, CFA
Portfolio Manager

**Exhibit 1: Shift from Coal to Renewables
Accelerates GHG Emissions Reductions**



As of Dec. 31, 2019. Source: ClearBridge Investments, Bloomberg LP

As our discussions have progressed, AES has been increasingly aggressive in reducing its carbon intensity by lowering coal capacity and investing in renewable energy, as evidenced by its declining GHG emissions (Exhibit 1). In early 2018 AES targeted carbon intensity reduction of 25% from 2016 by 2020 and 50% by 2030. Later that year it increased its 2030 target to 70%. Shifting from relative to absolute reduction targets, most recently AES has announced a target to reduce coal-fired generation to below 30% of its generation capacity by the end of 2020 and to less than 10% by 2030. As we had anticipated, AES's switch from coal to renewable energy — AES signed long-term power purchasing agreements for 2.8 GW of renewables in 2019 and has a 6.1 GW backlog of projects, mostly in renewables — has coincided with a run up in valuation multiple (Exhibit 2), as AES has positioned itself as a leader in the energy transition.

Exhibit 2: AES Valuation Multiple Recovers as Product Mix Shifts to Renewables



As of Dec. 31, 2019. Source: ClearBridge Investments, Bloomberg LP.

Sector Analyst Updates

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 subsector in their coverage areas.

The framework leverages the analysts' many years of experience to focus on the ESG issues that truly matter for each company.

Here we provide a sample of topics and issues addressed as part of ongoing engagements that take place as part of our fundamental research process.

Agios Pharmaceuticals



Marshall Gordon
Sector Analyst, 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

ClearBridge is a top 20 owner of Agios Pharmaceuticals, a biotech company that develops small-molecule anti-cancer therapeutics targeting cancer cell metabolism. In February 2019 Marshall Gordon hosted a meeting with the recently appointed CEO, the CFO and an investor relations officer of Agios in our New York office that included several portfolio managers. As a developer of high-impact medicines to treat serious diseases, Agios's core business objectives and products are consistent with ESG principles. We discussed how, as a younger company making the transition from an R&D organization to a fully integrated commercial biotechnology enterprise, Agios had a unique opportunity to establish ESG best practices. Agios expressed its interest in developing a strong ESG program and informed us it was already working toward integrating ESG considerations into its decision making and shareholder communications. The CEO acknowledged our experience engaging other pharmaceutical companies at various stages of the commercialization process on ESG issues and solicited our advice on ESG factors it should consider and how to develop a communications plan about the company's initiatives. We found the company's perspective forward-looking and shared our thoughts on the types of disclosures investors would find beneficial.

Engagement:

CEO, CFO and Investor Relations visit to ClearBridge's New York office

ESG Issues Discussed:

Patient access to life-changing therapies; integration of ESG considerations into decision making and shareholder communications

Next Steps:

Monitor for inaugural ESG communications material

Charles Schwab



Miguel del Gallego, CFA
Sector Analyst, Financials

Key ESG Factors:

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

ClearBridge is a top 10 owner of diversified financial services firm Charles Schwab. In December 2019, Miguel del Gallego, CFA, and several ClearBridge investment professionals visited Schwab's New York office to meet with its CFO and VP of Investor Relations. The meeting focused on the investment and ESG implications of recent announcements involving price cuts related to trading commissions. Since its founding, Schwab's goal has been to democratize investing for the mass market through low-cost trading and free financial advice. Schwab's disruption to the full-service brokerage model and its benefit to the investment community continued with the October 2019 reduction of trading commissions to zero for key asset classes (most notably U.S. and Canadian equities, ETFs and options). Given Schwab's leading market share of U.S. wealth management assets, online brokerage peers quickly followed suit in matching the commission cuts. Schwab's focus on the value proposition it provides to clients is consistent with the company's history and we believe that reducing the overall cost of investing through free trading further enhances access to financial markets.

Engagement:

Meeting with Schwab
CFO and VP of Investor
Relations at Schwab's
New York Office

ESG Issues Discussed:

Fair and justifiable
pricing, fee
transparency

Next Steps:

Continue to monitor for
increasing access to
financial markets

Edison International



Tatiana Eades
Sector Analyst, Utilities

Key ESG Factors:

Climate legislation; regulatory requirements; asset mix: clean fuels; operational history; carbon profile; management quality; transparency

ClearBridge is a top 20 owner of California utility company Edison International. In September 2019 Tatiana Eades hosted CFO Maria Rigatti in ClearBridge's New York office, and in November met with the larger management team at an industry event. The discussions focused on technological innovation at the utility (e.g., use of insulated wire, remote-controlled switches, faster-acting fuses) and its implementation of additional safety measures (more active power line monitoring, anticipatory depowering of lines, improved weather monitoring and customer notification). We spent time monitoring individual fires in the company's service territory, keeping communication lines with the company open to assess potential environmental impact and related financial liability. Another topic was the state government's increased focus and funding to improve the wildfire response efforts through deployment of more helicopters, trucks and firefighters. Anecdotally, response time and efficiency improved significantly as a result of technology innovation, safety measures and more funding and resource allocation, resulting in less damage from wildfires during the 2019 fire season. We were pleased with the focus of the company's management on environmental issues and addressing the new climate-driven challenges through core operational improvements.

Engagement:

Meetings with CFO
at ClearBridge's
New York office and
management team at
industry event

ESG Issues Discussed:

Operational and
financial issues
around wildfires

Next Steps:

Check on efficacy
of operational and
safety improvements
made after 2019
wildfire season

Hain Celestial



Robert Buesing, Jr.
Sector Analyst,
Consumer Staples/Durables

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

In November 2019, Robert Buesing, Jr. led a meeting with the new CEO and CFO of Hain Celestial at the company's headquarters on Long Island. Hain is a leading maker of natural and organic foods. During the meeting, which also included several portfolio managers, we addressed the company's sustainability plans. While Hain has a product portfolio that is generally better for consumers (being overindexed to natural and organic products), they have not yet explicitly outlined many sustainability targets. We discussed some potential ideas they had mentioned previously, such as releasing a sustainability report or incorporating into a certified B Corporation, either at a brand or corporate level. B Corps are businesses that meet the highest standards of verified social and environmental performance, public transparency and legal accountability to balance profit and purpose. Hain mentioned they were meeting with the board to discuss these topics and we offered ClearBridge as a resource when they are ready to make a more significant commitment to implementing sustainable best practices.

Engagement:

Meeting with Hain
Celestial CEO and CFO

ESG Issues Discussed:

Establishing
sustainability targets,
actions to improve
sustainability profile

Next Steps:

Act as a resource as
company establishes
sustainability goals
and takes action on
expanded disclosures

L3Harris Technologies



Hannah Whang
Sector Analyst, Industrials

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

ClearBridge is a top 10 owner of aerospace and defense company L3Harris Technologies. In June 2019 Hannah Whang hosted CEO Chris Kubasik of defense contractor L3 Technologies (which was soon to merge with Harris Corporation) in ClearBridge's New York office. During the meeting we noted that neither company provided a corporate sustainability report and that we would like to see the merged company target a robust set of long-term goals, track progress and provide better disclosures, more in line with peers. Kubasik noted the feedback was helpful, and after the merger, we reiterated this position on an ESG-focused call with L3Harris in December, offering to engage on an ongoing basis to provide perspective on what we see as best practices across the defense industry. L3Harris indicated it was forming an ESG steering committee, planned to have a corporate responsibility report within the next year, and would gladly engage with ClearBridge in the process.

Engagement:

L3 Technologies CEO
visit to ClearBridge's
New York office and
follow-up call

ESG Issues Discussed:

Opportunity for a more
robust ESG framework
and better disclosures
following merger

Next Steps:

Monitor for inaugural
corporate responsibility
report for combined
company

Merck



Nicholas Wu, PhD
Sector Analyst, 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 July 2019, Nicholas Wu, PhD, participated in a call with Brenda Colatrella, Assistant Vice President for Corporate Responsibility at Merck, a global pharmaceutical and health products company with a leadership position in immuno-oncology. Merck's corporate responsibility efforts are moving from philanthropy into areas they are uniquely positioned to address. These include impact investing and health care delivery in emerging markets through funding and consulting, highlighted by the company's efforts to develop an Ebola vaccine and its donations to West Africa. Merck's corporate responsibility group provides external viewpoints in company discussions over drug pricing and access. In animal health, the company is addressing overuse of antibiotics, encouraging vaccination of livestock to ensure sustainable production and reduced use of antibiotics.

Engagement:

[Call with Merck](#)

ESG Issues Discussed:

[Prescription drug pricing and access, animal health policies](#)

Next Steps:

[Monitor company's commitment to internal growth through innovation over outside acquisitions, including maintaining an animal health business](#)

Motorola Solutions



Deepon Nag
Sector Analyst,
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 November 2019, Deepon Nag hosted a call with various representatives of Motorola Solutions. The company has added ESG to its corporate and governance committee charter and its ESG team now reports directly to the board. With regards to data privacy, Motorola noted it has established a "trust center" website, where it provides transparency around its data security policies. With regards to supply chain practices, Motorola has created an advisory council that will audit shipments to customers to ensure high ethical standards and compliance with U.S. regulations. The company also recently introduced a parental leave program to attract more women and millennials, and is looking at ways to bring more women into executive roles.

Engagement:

[Call with Motorola Solutions](#)

ESG Issues Discussed:

[Sustainability commitment, data privacy, workplace diversity and compensation](#)

Next Steps:

[Monitor gender and generational diversity efforts, broader integration of ESG into business practices](#)

Nike



Neal Austria
Sector Analyst,
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 January 2019, Neal Austria led a call with Nike's sustainability, labor excellence and legal teams. The company discussed how ESG goals must benefit consumer stakeholders and can create competitive advantages while not compromising its footwear and athletic apparel products. Nike explained how circularity — a system advocated by the Ellen MacArthur Foundation, an NGO Nike supports, that seeks to design out waste and keep materials in use — is becoming core to the business, highlighted by its use of recycled plastic as a source material and its Flyleather initiative focused on uses for recycled leather. The company also outlined its ESG decision-making process and leadership's commitment to a diverse employee culture following executive changes in 2018. In response to our inquiries, Nike acknowledged two ESG-related issues it is currently addressing: how it plans to refocus its long-term sustainability goals following the exit of a partnership with Flex and the review and remediation of some excessive overtime trends.

Engagement:

[Call with Nike](#)

ESG Issues Discussed:

[Sourcing of recycled materials, workplace diversity, long-term sustainability goals](#)

Next Steps:

[Assess progress in addressing overtime trends, increasing recyclable content in products and expanding workplace diversity](#)

Splunk



Hilary Frisch, CFA
Sector Analyst, 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

ClearBridge is a top 10 owner of Splunk, a developer of software to monitor, analyze and protect data generated by an enterprise. In October 2019, Hilary Frisch, CFA, hosted a call with the management of Splunk. The company acknowledged the importance of promoting sustainable operations and has formally solicited shareholder feedback to guide its ESG priorities. The company's shift from an on-premise licensing model to a subscription, cloud-based business model is sparking changes to compensation practices. Going forward, Splunk will more closely tie compensation and the awarding of performance stock units to longer-term stock appreciation, revenue and non-GAAP operating margin. The company maintains a diverse workforce in general and administrative functions but acknowledged the need to increase diversity in its sales team and at the board level. The company also mentioned its impact efforts through Splunk Ventures: a \$50 million social impact fund focused on issues such as climate change and data privacy and a \$100 million innovation fund to build out an ecosystem for more companies to access Splunk services.

Engagement:

[Call with Splunk](#)

ESG Issues Discussed:

[Employee compensation, gender diversity, social impact](#)

Next Steps:

[Monitor evolution of compensation practices, announcement of new social commitments and how the company is implementing shareholder feedback on relevant ESG issues](#)

Uber Technologies



Erica Furfaro

Sector Analyst, Media and Internet

Key ESG Factors:

Data privacy and security; content responsibility; governance (especially shareholder rights and capital allocation); social impacts of services; human capital management; diversity & inclusion; environmental impact of operating footprint

ClearBridge is a top 20 owner of ridesharing company Uber Technologies. In December 2019, Erica Furfaro hosted Uber's Chief Legal Officer Tony West for an ESG focused meeting in our New York office. Topics discussed included driver compensation, local transportation regulation and Uber's safety and security efforts. Uber articulated a desire to reach solutions that are beneficial to all participants in the rideshare economy including drivers, consumers and local governments. The company has shifted its negotiating approach in recent years, becoming more receptive to change, which has improved relationships with partners.

Engagement:

Uber Technologies Chief Legal Officer visit to ClearBridge's New York office

ESG Issues Discussed:

Driver compensation, local transportation regulation and Uber's safety and security commitments

Next Steps:

Continue to monitor progress on local transportation relations and driver employee classification in the U.S.

Vulcan Materials



Humphrey Oleng

Sector Analyst, 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

ClearBridge is a top 10 owner of Vulcan Materials, the largest producer of aggregates in North America. In 2019 Humphrey Oleng had two ESG engagement calls with senior leadership at Vulcan Materials, focusing on GHG emissions and disclosure standards. While aggregate production is emission intensive, Vulcan Materials has had one of the most significant reductions in GHG emissions of any company in our materials coverage, with absolute GHG emissions down 40% from 2013 to 2018. Scope 1 and 2 GHG emissions are down 62% over that time frame. A third of this reduction stems from Vulcan Materials divesting its cement business, but much came from the company replacing its fleet and investing in more energy-efficient engines, saving 25% on energy. We also worked with Vulcan Materials to help it develop better ESG disclosure standards. We found it encouraging to learn Vulcan Materials is currently considering participation on several disclosures platforms and is currently hiring to increase staff dedicated to ESG initiatives. It is also working on a more robust sustainability report for 2019, in addition to its existing corporate social responsibility report.

Engagement:

Multiple calls with Business Development and Corporate Governance, Human Resources, Senior Leadership

ESG Issues Discussed:

GHG emissions and disclosure standards

Next Steps:

Monitor efforts to produce 2019 sustainability report

Portfolio Team Engagements

While sector analysts lead most of our engagements, ClearBridge portfolio managers and portfolio analysts also take an active role in conducting regular dialogues with company management teams. Here are several such engagements from the last year led by portfolio teams.



Benedict Buckley, CFA
Portfolio Analyst,
Sustainability Leaders Strategy

Evoqua

In August 2019 Benedict Buckley, CFA, led a call with the CFO and Head of Investor Relations of Evoqua, which designs, manufactures and operates water treatment systems for industrial facilities and municipal water treatment plants. The discussion covered employee engagement and sustainability reporting among other topics. Management believes company culture and the level of employee engagement have improved since its 2017 IPO. Evoqua has strengthened its internal communications team to enable closer communication between management and the employee base. It has been out in the field talking to employees to make sure they understand the drivers of the changes and the company's strategy going forward. Evoqua also does an employee engagement survey each year and the latest results were positive, providing a good road map for areas to improve.

Evoqua is also setting up processes to measure and manage key environmental and social issues. It released a sustainability report in 2018, and the next one, to appear in 2020, should be a significant step forward. The company also wants to measure how it is making its customers more sustainable but needs to figure out how to measure progress against targets.

Engagement:

[Call with CFO and Head of Investor Relations](#)

ESG Issues Discussed:

[Employee engagement and sustainability reporting](#)

Next Steps:

[Assess second sustainability report in 2020 and next employee engagement survey for improvements](#)

Novartis



Elisa Mazen
Portfolio Manager,
Head of International Growth

In October 2019, Elisa Mazen participated in a meeting at ClearBridge's New York office with Var Narasimhan, CEO of Novartis, a Swiss-based pharmaceutical and medical device maker targeting cancer, gene therapy and RNA drugs, as well as ophthalmic medical treatments. The CEO discussed recent corporate actions intended to leverage the company's strengths of discovering new medicines and providing scale by focusing capital to identify technology that is differentiated ahead of peers. Increasing its dedication to ESG best practices is a key part of this transformation and includes a cultural shift away from executive perks toward a younger workforce which is being empowered to drive innovation through leadership training and greater responsibility. Novartis has also streamlined compensation in line with longer-term financial targets. The CEO explained that exemplary ESG practices, such as promoting global health and targeting equal pay for both genders, are a key pillar in building trust with society and affirmed its commitment to patient care.

Engagement:

Meeting with
CEO

ESG Issues Discussed:

Developing next
generation of leadership,
compensation practices
and gender parity,
promoting global health

Next Steps:

Monitor company's
progress in transitioning to
a younger workforce and
maintaining commitment
to best-in-class ESG
practices

Sprouts Farmers Market



Erich Frey, CFA
Portfolio Analyst,
Small Cap Strategy,
Small Cap Value Strategy

ClearBridge is a top five owner of organics-focused supermarket Sprouts Farmers Market. We continued our ongoing ESG engagements with Sprouts in 2019. ESG is part of the fabric of Sprouts' brand and thus directly related to how customers engage with the brand and ultimately whether shareholder value will be created by loyal shoppers that identify with the brand's values. During a January 2019 call with the General Counsel and VP of Sustainability we discussed Sprouts' environmental goals: food waste reduction with the goal of +90% landfill diversion by 2020 (in 2018 this was just under 70%); energy/carbon reduction as part of store development/renovation; and the early stages of Sprouts' efforts to include ESG in its sourcing practices. In a follow-up call in December 2019 we learned that Sprouts was at +85% food diversion from landfills, had initiated the sourcing efforts in many categories and was looking for opportunities to further enhance distribution efficiencies. Additionally, during one engagement with a board member in November of 2019 we mentioned the lack of diversity in Sprouts' senior management team — the board was well aware of the issue and has since named a new female CFO. Our ESG engagements are ongoing and serve to identify potential risks as well as opportunities.

Engagement:

Several meetings with
General Counsel and
the VP of Sustainability

ESG Issues Discussed:

Food waste reduction,
carbon reduction and
diversity in leadership

Next Steps:

Discuss reduction of
plastics across supply
chain and diversity
improvements



Sean Bogda, CFA
Portfolio Manager,
International Value Strategies

Hitachi

In November 2019, Sean Bogda, CFA, hosted a meeting with Hitachi President Higashihara in ClearBridge's New York office. We discussed several aspects of the company's commitment to ESG factors with the bulk of the conversation around governance and the environment. Hitachi is a Japanese industrial and technology conglomerate that has been focused on expanding best-in-class governance practices firmwide, increasing the number of independent directors from 58% to 73% over the past four years. It is bringing in and promoting non-Japanese managers and looking to these managers to foster a change toward a more proactive managerial style from what has historically been more reactive. This will require time but the company believes it has been too slow in making decisions in the past. Hitachi clearly sees the benefit to focusing on returns on investment and acknowledges that just having a business at breakeven is not enough. On the environment, Higashihara emphasized the company's Lumada Internet of Things platform. Longer term this will foster greater information flow and allow the company to streamline processes and improve operational efficiencies. It will also have a positive impact on their carbon footprint. Hitachi is actively selling this platform to corporate customers and the corresponding efficiencies should drive others to have lower carbon footprints in the future as well. While Hitachi acknowledges its continued reliance on nuclear power solutions, they see this as an alternative to CO₂-emitting energy sources. Given the long-tailed nature of nuclear projects, this is an area to discuss in the future.

Engagement:

Meeting with
President of company

ESG Issues Discussed:

Governance,
management and
ROE improvement,
carbon emissions and
operational efficiency

Next Steps:

Monitor commitment
to nuclear power,
evaluate impact of
management reforms
and ROE focus on
performance





Climate Change: Analyzing Risks and Opportunities in Line with the TCFD

Benedict Buckley, CFA
Patrick McElroy, CFA

Why Climate Change Must Be a Priority for Investors

Climate change poses a significant long-term risk to global prosperity and life on Earth. Mitigating its causes and adapting to its effects are urgent issues for society and the private sector has a crucial role to play in tackling these challenges. In addition, the impacts of climate change — physical, technological, social and political — will have implications across many parts of the economy, including companies we hold in our portfolios.

Reporting in Line with the TCFD Recommendations

In this year's Impact Report, we are — for the second year — aligning our climate change reporting with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) where possible and most relevant. Through our TCFD-aligned reporting we are indicating our commitment to addressing the challenge of climate change in our roles as active shareholders and stewards of our clients' capital.

The mission of the TCFD is to develop voluntary, consistent climate-related financial risk disclosures that would be useful to financial sector organizations such as investors, lenders and insurance underwriters in understanding material climate-related risks. The TCFD encourages companies and organizations in the financial sector to disclose information that helps market participants incorporate climate related risks and opportunities into valuation over time, preventing abrupt repricing of assets that could represent a risk to financial stability.

To this end, the TCFD recommends that companies and financial-sector organizations disclose various types of climate-related information across four topics. The TCFD's recommendations (included in the gray boxes that follow) are addressed to eight types of organizations, one of which is asset managers like ClearBridge.



The TCFD's Four Areas of Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	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.	Disclose how the organization identifies, assesses and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.



Governance

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

ClearBridge co-Chief Investment Officers, Scott Glasser and Hersh Cohen, oversee the firm's investment team. They have oversight over all investment-related matters, including any climate-related matters. In addition, Director of Research Charles Harris manages ClearBridge's sector analysts and oversees their research activities, which include assessing risks and opportunities associated with climate change.

ClearBridge has a fully integrated ESG investment process — our analysts and portfolio managers conduct research on environmental, social and governance issues as part of their fundamental research. This analysis is underpinned by ClearBridge's own proprietary ESG framework, which includes numerous sector-specific climate issues. The quality of analysts' ESG integration work is included in their incentive compensation.

Strategy

- a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.**
- b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.**
Supplemental Guidance for Asset Managers: Describe how climate-related risks and opportunities are factored into relevant products or investment strategies.
- c. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.**

As an asset manager investing in public equities, our main source of climate-related risk and opportunity relates to investment performance. Climate change is both an investment risk and opportunity, as actions to mitigate and adapt to climate change will disrupt many sectors, creating both winners and losers in the process.

Second, a shift in client preferences presents both a risk and opportunity. Greater focus on climate change could cause more asset owners (both individuals and institutions) to consider how their investment decisions impact this issue and seek out investment managers who are actively incorporating climate change considerations into their investment approach and engagement strategies.

We believe ClearBridge is well-positioned to address risks and opportunities related to both investment performance and client preferences. As active managers who integrate ESG considerations across all strategies, we closely monitor the financial markets and environmental trends and incorporate this knowledge into stock selection and company engagement. This in-depth understanding of climate change risks and opportunities positions us well to respond to client demand.

Below we provide further detail on our approach to analyzing climate risks and opportunities in the way we invest, including how we use scenario analysis to inform investment decisions in sectors most affected by climate change.

Risk Management

a) Describe the organization's processes for identifying and assessing climate-related risks.

Supplemental Guidance for Asset Managers: Describe, where appropriate, engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks.

b) Describe the organization's processes for managing climate-related risks.

Supplemental Guidance for Asset Managers: Describe how they manage material climate-related risks for each product or investment strategy.

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

ClearBridge's investment strategies are underpinned by investment research that integrates ESG considerations, including climate-related risks, into stock analysis and recommendations, as described throughout this report.

Two Types of Climate Risk: Transition Risk and Physical Risk

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

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

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

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

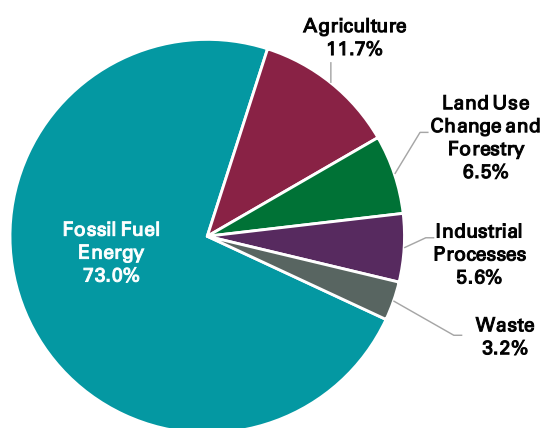
We incorporate internally generated sector- and company-specific scenario analysis where relevant and decision-useful. We also use sector-specific third-party tools where the data is sufficiently granular, such as Carbon Tracker's analysis of upstream oil and gas, which is based on asset-level data (see Sector Spotlight: Oil and Gas).

We have found economy-wide climate scenario analysis tools to be of limited use in our investment decision making so far. While climate risk analysis is not easily captured in a single analytical tool, the concept is very important: companies and investors need to better understand the implications of different paths toward a low-carbon economy. For this reason, we plan to continue incorporating scenario analysis into our fundamental research where possible.

Energy from fossil fuels accounts for almost three quarters of GHG emissions, with demand primarily coming from electricity production, transportation, buildings and industry. The remainder of GHG emissions come from agriculture, land use change, waste and industrial processes such as making cement. Combating climate change requires addressing emissions from all the above, but in this year's report we focus on the energy transition — both the supply side and the demand side.

Here we highlight sector-specific climate risks and opportunities for one sector that supplies fossil fuels (oil and gas) and three sectors that are key users of fossil fuels, namely autos (mostly oil); utilities (mostly gas and coal); and real estate (mostly gas and electricity consumption indirectly). As our exposure to coal producers is minimal (Exhibit 3), this is not an area of focus for us. Coal consumption by utilities is addressed in Sector Spotlight: Utilities.

Exhibit 3: Global Breakdown of GHG Emissions in 2016 by Source



Source: ClearBridge Investments, Climate Watch. Based on raw data from IEA (2018), CO₂ Emissions from Fuel Combustion, www.iea.org/statistics

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.

We have engaged with investee companies specifically on climate scenario analysis. We recognize the challenges in developing meaningful, decision-useful scenarios, and have seen a range of quality of scenario analyses. We will continue to encourage companies to assess their businesses under various climate scenarios and set increasingly ambitious carbon reduction goals.

Engagement Examples

Please see relevant engagement examples throughout this report for more detail on climate-related engagement.

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

Understanding Carbon Intensity Metrics

For the second year, we have 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.

A portfolio carbon footprint is calculated in two steps:

1.
$$\frac{\text{Annual direct GHG emissions}}{\$1 \text{ million of annual revenue}} = \text{Company Carbon Intensity}$$

2.
$$\sum \text{Company portfolio weight} \times \text{Company Carbon Intensity} = \text{Portfolio Carbon Intensity}$$

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.**

Supplemental Guidance for Asset Managers: Describe metrics used to assess climate-related risks and opportunities in each product or investment strategy.

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

Supplemental Guidance for Asset Managers: Provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each product or investment strategy.

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

Carbon Intensity Metrics Inform Engagement Strategy

A portfolio carbon footprint can provide information on the carbon emissions directly associated with companies held in a portfolio and identify the most significant sources of direct emissions. We have used this analysis to inform our engagement strategies, allowing engagements to focus on those companies that account for the highest proportions of a portfolio's emissions.

Putting Carbon Intensity Metrics in Context

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

In 2019 ClearBridge's carbon intensity was 28%–35% lower than the representative benchmarks (Exhibit 4). 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.

Carbon Intensity Is Not a Measure of Climate Risk

At the same time, while a carbon intensity analysis helps identify the companies in a portfolio responsible for the highest direct emissions, low carbon intensity does not necessarily mean low climate risk, and vice versa. For example, oil and gas as well as auto sectors have relatively low direct emissions, as most of the emissions are associated with the use of their products — combusting fossil fuels or driving cars. The utilities sector has the highest emissions, but many utilities are regulated monopolies that face unique market forces that must be weighed when assessing risk.

Portfolio carbon intensity is not a good proxy for risk exposure because it is not forward-looking, does not include emissions from products or supply chains (Scope 3 emissions), and does not consider regulatory factors or market dynamics.

Understanding whether a company faces climate risks — and, crucially, whether these risks are being appropriately priced by the market — cannot be 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.

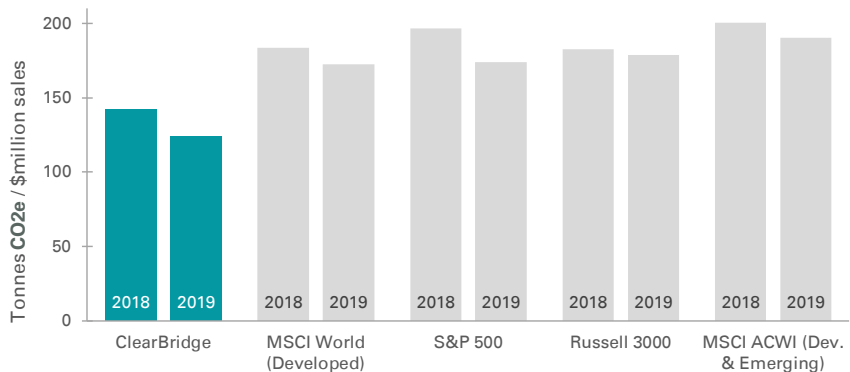
Disclosing Scope 1 and Scope 2 Emissions

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-2019.html>.

The Relevance of Setting Emissions Targets

At this time, we have not set emissions reduction targets for our portfolios. Given the limited usefulness we see with measuring portfolio carbon footprints (as described above), we do not view portfolio carbon intensity as an adequate measure of climate performance for our holdings. We believe focusing only on direct emissions relative to company revenues can be misleading and could lead to investment decisions that are not aligned with reducing emissions in the real economy, which is our focus.

Exhibit 4: Weighted Average Carbon Intensity



As of Dec. 31, 2019. Source: ClearBridge Investments and MSCI Carbon Portfolio Analytics.

Sector Spotlights

Climate change, and the efforts society makes to mitigate it and adapt to its effects, poses a variety of risks and offers unique opportunities for different economic sectors and industries. Analyzing these risks and opportunities involves taking into account different climate-related scenarios. Here we outline how ClearBridge uses scenario analysis to inform investment decisions in four areas particularly affected by climate change: oil and gas, automotive, utilities and real estate.

Oil and Gas



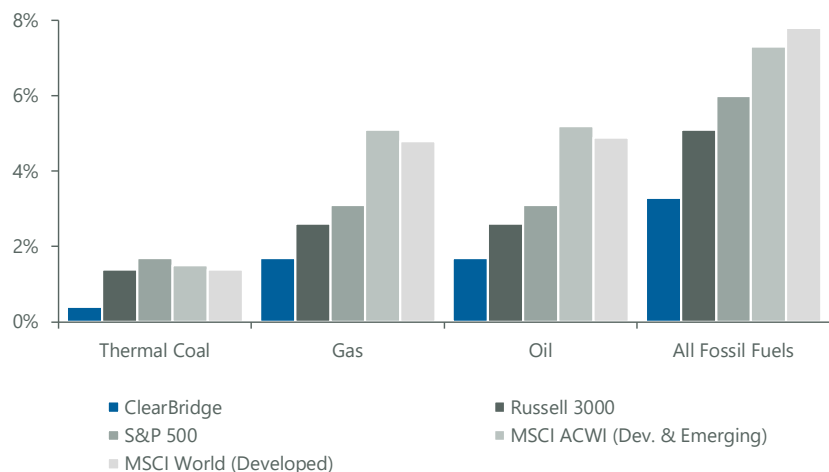
Dimitry Dayen, CFA
Sector Analyst, Energy

Within the oil and gas industry, focus has been on climate-related transition risks for upstream companies with fossil fuel reserves, where future energy transition scenarios and fossil fuel demand scenarios could result in some fossil fuel reserves becoming uneconomic (stranded assets).

We use MSCI Carbon Portfolio Analytics to assess our exposure to companies with fossil fuel reserves. Based on this assessment, our exposure is lower for all three fossil fuels — coal, natural gas and oil — relative to the representative benchmarks (Exhibit 5).

Exposure doesn't tell the full story though, as the specifics of each company's assets will determine the level of stranded asset risk — if any — as not all oil and gas resources are created equal. New oil sands developments need oil prices in the \$90–\$100 per barrel (bbl) range, while Saudi Arabian oil is still economically viable at \$8/bbl. Shale has a wide spectrum between \$25/bbl and \$70/bbl.

Exhibit 5: ClearBridge Exposure to Companies with Fossil Fuel Reserves (Weight in Portfolio)



As of Dec. 31, 2019. Source: ClearBridge Investments, MSCI Carbon Portfolio Analytics.

We focus our investments on companies at the low end of the cost curve, that is, where fossil fuel reserves are lower cost and more economically viable at lower oil prices. Our view is there should be a shift in share over time, away from resources at the higher end of the cost curve, toward resources at the lower end of the curve, which earn higher returns for any given commodity price. A higher equity risk premium is also placed on assets at the higher end of the cost curve.

As part of our analysis of the 3% of ClearBridge holdings that have exposure to fossil fuel reserves, we use Carbon Tracker's analysis of stranded asset risk, and review our holdings against their analysis, based on various scenarios of future oil and gas demand.

Some oil and gas companies have started to lay out resource resilience scenarios to help investors understand the impact on their asset portfolios in an energy transition scenario. This analysis tends to be based on the International Energy Agency's Sustainable Development Scenario, which limits the rise of the average global temperature to well below 2° Celsius above pre-industrial levels, consistent with the Paris Agreement. However, disclosure of assets' positions on the cost curve is neither widespread nor uniform from one company to the next, limiting the comparability of reports from company to company. This highlights the need for fundamental analysis that incorporates ESG considerations such as stranded asset risk.

Utilities



Tatiana Eades
Sector Analyst, Utilities

Given the industry's high carbon intensity profile (measured in tons of Carbon Dioxide Equivalent (CO₂e) per \$1 million of revenue), and the companies' monopolistic nature in their service territories, utilities are often negatively perceived by environmental advocates. While production of electricity is very energy-intensive and most utilities still burn fossil fuels to supply customers with power, the sector has gradually become an active participant in the fight against carbon.

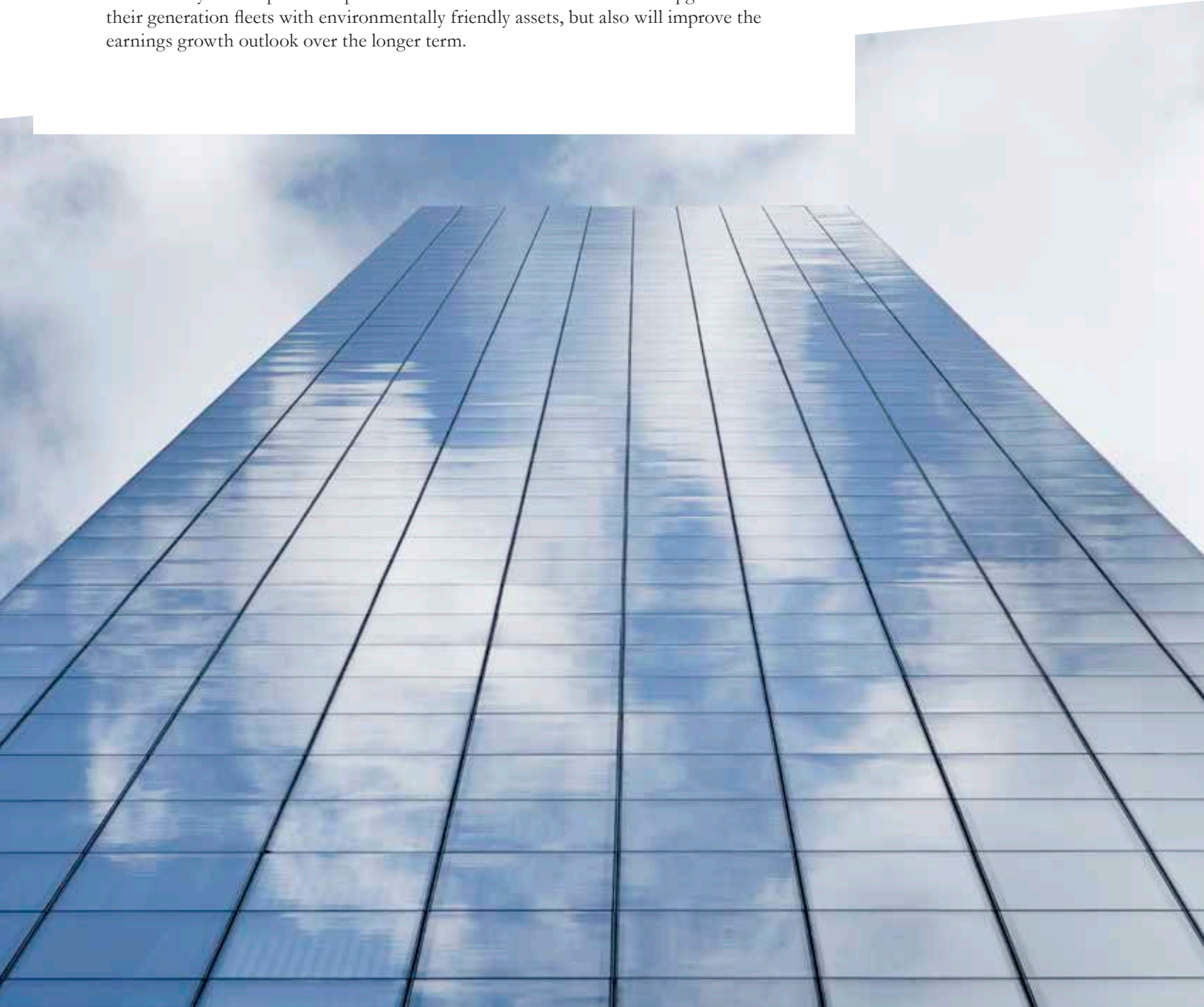
Over the past 10 years, the utilities' mix of power-generating facilities has undergone significant changes. According to the U.S. Department of Energy, the share of coal in the mix declined from 44% in 2009 to 24% in 2019, with natural gas and renewables taking away its market share. Natural gas expanded from 23% share in 2009 to 38% in 2019, while renewables' share expanded from 4% in 2009 to 12% in 2019. Some of this asset transformation was not by choice, as federal environmental regulations pushed the cost of operating coal higher, while shale gas permanently reduced the price of natural gas, making gas plants' economics more attractive relative to coal. The growth of renewable power producing capacity was initially driven by a policy push with many states establishing their own Renewable Portfolio Standards (RPS).

More recently, with a bigger focus on carbon emissions and climate change, utilities have undertaken a more active approach to managing their generation fleets beyond state requirements. As a result of the industry's fleet transformation and more active approach to carbon reduction, last year's carbon emissions were 30% lower than in 2005, according to Edison Electric Institute (EEI).

Today, a growing number of utilities see themselves as policy enablers, given their large scale of operations, access to cheaper capital and monopolistic characteristics. Many utilities have turned their attention and investments to demand-side

management, efficiency improvements of extant systems, expansion of battery storage capacity to enable more efficient power supply and a buildout of electric vehicle infrastructure. Many companies have allocated money to growth in renewable capacity beyond state requirements. Based on projected trends and EEI member goals, CO₂ emissions from the utilities sector are projected to be 50% below 2005 levels by 2030.

From an investor's perspective, the industry's investment in climate risk mitigations are a positive undertaking. Since utilities earn their allowed returns on their regulated asset base and new spending enlarges that asset base, incremental investments should increase the companies' earnings growth trajectories. The limiting factor for the companies will be inflationary pressures on customer bills. Companies typically target bill increases in line with inflation to avoid any regulatory backlash. So far, replacement of older generation capacity with renewable assets that have lower operation and maintenance costs and zero fuel costs has been helping the overall cost structure of the companies. Thus, we see climate change more as an opportunity for the sector that not only will help the companies to become more cost efficient and upgrade their generation fleets with environmentally friendly assets, but also will improve the earnings growth outlook over the longer term.





Robert Buesing, Jr.
Sector Analyst,
Consumer Staples/Durables

Automotive

Autos are undergoing a time of rapid change, and clean technology investments are a major focus. There is also an increasing focus on product safety amid quickly developing technology such as autonomous driving. In analyzing automotive companies, we integrate the climate regulatory frameworks around the world, which can have a significant impact on auto company fundamentals and the direction of their new product investments. The most recent example of this is the stringent EU CO₂ emissions standards going into effect in 2020–2021, which will require automakers selling vehicles in Europe to reduce their fleet average emissions to around 95 CO₂ g/km or face hefty fines. This creates cost headwinds for automakers as they seek to meet targets by improving emissions technology and changing the mix of cars they sell (more electric vehicles (EVs) and hybrids) as well as opportunities for automakers who are better positioned or suppliers who can provide technological solutions to improve emissions.

Additionally, where it makes sense, we use a longer-term scenario analysis framework around technological adoption, such as sensitizing the penetration of the EV powertrain in the global auto market and various market share scenarios for certain automakers to attempt to quantify their long-term earnings potential under various potential future states of the world. Elsewhere in this report we take a closer look at the potential rate of EV adoption and its impact on the automotive value chain.

Real Estate



Patrick McElroy, CFA
Portfolio Manager,
Income Solutions

In analyzing climate risk among publicly traded real estate investment trusts (REITs), we consider both physical risk and transition risk as part of our investment process. According to the International Energy Agency, the building and building construction sectors are responsible for over one-third of global final energy consumption and nearly 40% of total direct and indirect CO₂ emissions. Owners and developers of buildings will play a key role in the transition to a low-carbon economy. The sector also faces physical risk from climate change, as many real estate companies are facing higher costs, property damage or business interruption from severe weather events such as floods and wildfires.

First, we look at a REIT's property portfolio to assess location and construction quality. These strongly affect the ability to organically increase rents via annual contractual rent escalators and at lease expiration. Rent growth is paramount as it allows a REIT to grow its revenues, cash flow and dividend. Buildings located in areas prone to extreme weather will struggle to attract tenants, have higher vacancy levels, command lower rents and require higher maintenance capital expenditures, all of which results in lower cash flow. Additionally, most REITs are facing an approximate 25% increase in insurance costs as insurance companies have dramatically raised premiums due to losses incurred from severe weather.

Next, we look at the impact of climate change on a REIT's cost structure. Higher building material costs and more stringent building codes aimed at reducing the sector's climate impact have meant REITs are facing higher costs for new developments. However, REITs can reduce operating expenses and carbon emissions by installing more efficient HVAC systems and LED lighting. More efficient buildings — those that are certified as “green buildings” under programs such as Leadership in Energy and Environmental Design (LEED) — can command higher rents and have higher occupancy rates and lower operating expenses. Demand is growing for green buildings from tenants in most property types throughout the country. The World Green Building Council estimates that new green buildings and green retrofits decrease annual operating costs by an average of 8% and 9%, respectively. We believe more efficient green buildings generate higher net operating income and have a higher residual value, thus reducing transition risk for REITs.

Risks associated with climate change can also impact a REIT's balance sheet. As described above, REITs that are proactively reducing physical risk and transition risk often have higher profitability and trade at a premium to net asset value. The ability to issue equity at a premium to net asset value allows a REIT to have lower leverage and a stronger balance sheet. A strong balance sheet is crucial for a REIT as a lower cost of capital is a competitive advantage in financing new development, acquisitions and renovations. A REIT that can maintain a cost of capital below the cash yields on new properties it buys or develops can grow its cash flow per share and its dividend sustainably over time. Lastly, REITs are increasingly accessing the green bond market at attractive rates to fund their businesses and reduce their cost of debt.

Climate risks will be best managed by REITs with portfolios of well-located, highly efficient properties. These landlords will be better placed to sustainably grow revenues and pass on any higher costs associated with climate change to their tenants, enabling them to continue to earn attractive yields on their investments.



ClearBridge ESG Integration and the UN Sustainable Development Goals



The 17 UN Sustainable Development Goals (SDGs) are a set of broad challenges formalized by the 193 members of the UN General Assembly in 2015 to end poverty, protect the planet and create a peaceful and prosperous world for all people by 2030.

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). The SDGs offer a way for the private sector to support and address these urgent issues.

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.

Mapping the ClearBridge ESG Framework to the Sustainable Development Goals

Our team of fundamental sector analysts perform in-depth analysis of companies in their respective sectors, each of which breaks down into relevant subsectors in the ClearBridge ESG framework. For example, within our framework, insurance is one of the subsectors of the financials sector. For each ClearBridge subsector 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.

Sample Mapping of ClearBridge ESG Framework to SDGs

1. GICS SECTOR

Financials

2. CLEARBRIDGE SUBSECTOR

Insurance

3. ESG CONSIDERATIONS IN CLEARBRIDGE FRAMEWORK

Physical rehabilitation
(including drug addiction awareness, education and counseling)

Economic & policyholder impact from **climate change**



SDG 3: Good Health and Well-Being

Target 3.5: Strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol

ClearBridge Holding Example: The Hartford and Travelers Insurance are pursuing innovative programs to combat opioid addiction by using predictive analytics to identify drug-seeking behavior. The Hartford uses an analytics model that incorporates nonmedical psychosocial factors, such as subtle verbal cues, to identify claimants at higher risk of addiction. Using this model, The Hartford has seen opioid use on its claims drop by 25% from January 2015 to July 2016; the average morphine equivalent dose per claim decreased by 9% over that time frame as well.



SDG 11: Sustainable Cities and Communities

Target 11.5: By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations

ClearBridge Holding Example: The Hartford and Travelers Insurance are both part of the BuildStrong Coalition, a group that was instrumental in enacting the Disaster Recovery Reform Act in 2018 which provided funding to help communities reduce the costs of natural disasters, allowing homeowners to fortify their homes using industry best practices. A study estimated that the federal funding could save \$6 in future disaster costs for every \$1 spent on hazard mitigation.



SDG 13: Climate Action

Target 13.3: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning

ClearBridge Holding Example: Travelers raises awareness about disaster preparedness and the importance of improving response and recovery actions after major events. It has set up the Travelers Foundation, which gives an annual award to organizations that promote these goals. The Hartford has issued a Climate Change Statement which acknowledges the issue, details the risks of climate change and outlines the company's response.



Realizing ESG Potential in Small and Mid Cap Companies

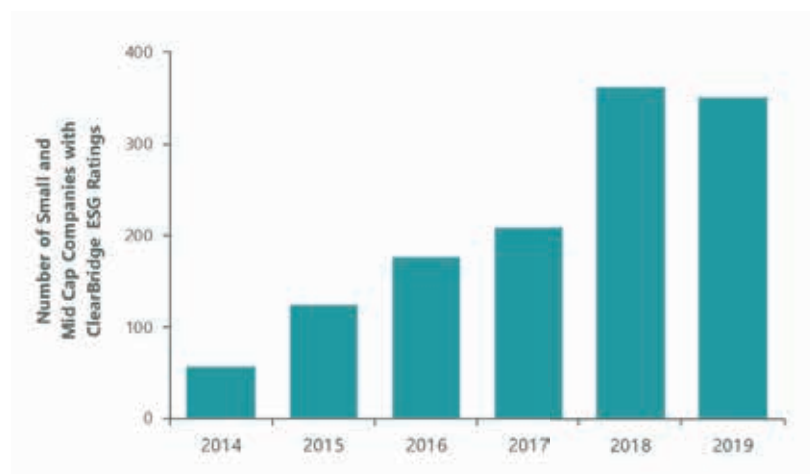
Derek Deutsch, CFA
Matthew Lilling, CFA

As we highlighted in our 2018 ClearBridge Impact Report, a key part of ClearBridge's ESG program is applying ESG analysis to small and mid cap companies. While the goals of ESG analysis and engagement remain the same for small and mid cap companies as for large cap companies, there are several important differences in the approach. Active managers like ClearBridge have a unique role to play with smaller companies, most of which don't have the internal resources or the experience to produce disclosures or publish sustainability reports, as staff is focused on supporting the crucial growth of the company. For active investors this means two things: one is that direct engagement and relationship building is all the more necessary for developing an informed judgment about the company's ESG profile and ultimately an investment opinion about the company. It also requires us to serve in an advisory position, helping to shape the ESG leaders of tomorrow.

First-Hand Insight Crucial Early in Company's Life Cycle

ClearBridge's ESG coverage of small and mid cap companies has been a consistent component of our ESG program, and the number of smaller companies to which we've assigned internal ESG ratings has been rising (Exhibit 6). The value of ClearBridge's proprietary ESG ratings system is perhaps evidenced most in such cases where not only is there less sell-side coverage of a smaller company, there is also nearly no disclosure of ESG information available to any but active managers in close conversations with the company.

Exhibit 6: Expanding ClearBridge's ESG Coverage of Smaller Companies



As of Dec. 31, 2019. Source: ClearBridge Investments.

Being responsible for both the investment and ESG research that informs our investment opinions about smaller companies is particularly important during the initial public offering (IPO) process. Prior to a company's IPO, there is very little ESG disclosure, and active due diligence is crucial. In 2019 ClearBridge participated in the IPO of a company offering asset and portfolio management and investment and planning strategies. Part of our active due diligence involved analyzing the company's customer base and its fee structure to ensure the ethical foundation of the business and so we could understand any regulatory risk. Our active vetting process, by weighing social as well as regulatory risks, led us to feel comfortable with the offering and we participated.

Similarly, ClearBridge participated in the IPO of Etsy, an e-commerce website supporting individual and small business selling of handmade and used goods. We are now a top 30 owner. At the time of the IPO Etsy was a B Corporation (a designation for for-profit businesses that meet high sustainability standards), and our engagement with the company through both the IPO roadshow process and the IPO itself helped Etsy prepare for the challenges of communicating its sustainability program as a public company and informed our decision to participate in the IPO.

Our active due diligence and engagement affords us detailed knowledge of the small companies in our portfolios. This can also help us and the company weather times of turbulence, which can weigh on smaller companies more than large ones. In one case, the unexpected passing of an influential CEO exposed a small cap holding to both emotional distress and uncertainty around the business's direction. Our annual calls with lead independent director of the board typically involved discussions of the board's involvement with management strategy, capital allocation and succession planning, so we knew intimately the company was prepared for the emergency, and we felt comfortable remaining in the investment and continuing our partnership with the company.

Advising on Governance and Sustainability

Smaller companies often lack the internal ESG resources to develop ESG practices as fully as they might like, and ClearBridge has the opportunity, through engagements, to serve in an advisory role. Our engagements with small and mid cap companies often focus on governance. Companies in the very early stages will typically be majority owned by a small group of shareholders and have underdeveloped boards of directors. These characteristics can lead to nonoptimal governance structures. We have a long history of engaging with smaller companies to improve in this area. ClearBridge is a top 20 owner of used car e-commerce company Carvana, for example, and we have engaged with Carvana's board to improve its quality and independence. We are a top five owner of gas station chain Casey's General Stores, with whom we have also engaged to improve the board structure, and we have similarly engaged with Etsy. In these cases, ClearBridge's approach, to become a trusted partner of the companies we invest in, takes on a different meaning than for large cap companies.

Growth Potential for Smaller Companies Can Lead to Outsized Impact

Owning and engaging with small and mid cap companies also offers us insight into developing trends and access to growth areas of the market. One of the reasons to invest in smaller companies is the potential for outsized returns from companies at earlier stages of their life cycle, growing at attractive rates, with innovative products and services, in a high-growth market or innovating a new market, potentially offering solutions to sustainability challenges.

For many years we've been investing in small and midsize companies with exposure to aluminum, for example. As a packaging alternative to plastic, aluminum has a much higher recycling rate (75% globally, compared to 12% for plastic bottles) and is infinitely recyclable. Now we're seeing the consumer and the market appreciate this potential. Recently, ClearBridge initiated a position in Ball Corporation, an innovator in the aluminum can industry helping introduce recyclable aluminum cups in stadiums across the U.S. and pioneering new aluminum products such as resealable aluminum containers. Our research coverage and ownership, beginning in 2010, of consumer packager Crown Holdings, which also has a substantial aluminum business, helped pave the way for the aluminum packaging industry and its environmental benefits to grow.





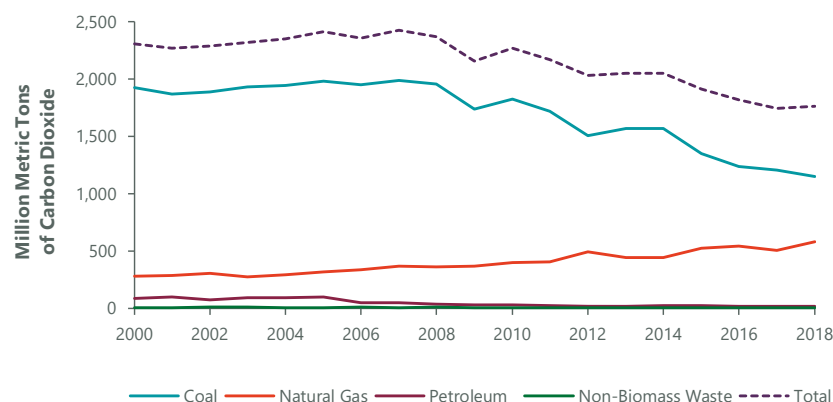
ESG in Midstream Energy: The Early Innings

Michael Clarfeld, CFA
Chris Eades

The belief that ESG investing is solely a matter of negative screening — excluding oil or tobacco companies from a portfolio, for example — overlooks several areas of potential impact active ESG investors can have. By divesting entirely, investors relinquish the opportunity to make a positive impact, especially in sectors where potential ESG advances are not readily apparent but are often most needed, such as the energy sector. ClearBridge’s integration of ESG considerations into our investment process supports and promotes ESG best practices through active ownership across all sectors, including energy. The growing prominence of ESG discussions and action in the midstream energy sector, reminiscent of the growth in recent years of ESG interest in broader equities, reveals new opportunities and clarifies challenges (we discuss some of these in a sector spotlight on oil and gas within our discussion of the TCFD in this report).

Our past ESG engagements in the energy sector have focused on our exposure to upstream energy companies, which explore for and produce oil and gas, or provide oilfield services to those doing the exploration and production. Oil services and technology companies such as Schlumberger tend to help make activities in the energy sector more efficient, with better technology and less environmental impact. We have also engaged E&P companies such as Pioneer Natural Resources, which reduces its reliance on freshwater by using reclaimed wastewater for some field operations.

Exhibit 7: U.S. Power Sector Carbon Emissions Declining



Source: EIA, Monthly Energy Review. May 29, 2019. Table 12.6.

ESG efforts are also increasing among midstream energy companies, which transport and store oil and gas products. We are still in the early innings, but changes currently underway in the midstream industry are making the ESG discussion more relevant, introducing opportunities for better ESG practices and creating competitive advantages.

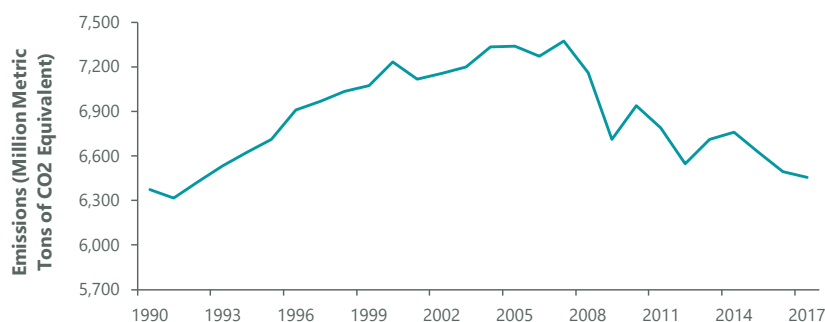
Midstream Embraces More ESG-Friendly Structure

Recent structural developments in the midstream industry have made ESG topics more prominent. Many midstream companies have historically been structured as master limited partnerships (MLPs), tax-advantaged yield-oriented public vehicles composed of general partners, which control the day-to-day operations of the MLP, and limited partners, investors who purchase shares. In order to eliminate burdensome fees paid to the general partners (incentive distribution rights) and to streamline the business structure, in recent years many MLPs have undergone simplification transactions, consolidating general and limited partners and converting from MLPs to C-corporations.

While both structures offer benefits to investors, one consequence of the recent growth of C-corp structures has been to expand the potential investor base for midstream companies. Since some investor portfolios avoid owning partnerships due to the perceived burden of their K-1 reporting structure, and some are not allowed to own partnerships at all, the recent trend of conversions to C-corps has removed these ownership restrictions for some names.

The expanded investor base has meant more scrutiny of the industry by ESG-minded investors. The new capital structure has also given investors proxy access to midstream companies previously unavailable when those companies were structured as MLPs. This now allows more ESG concerns to be voiced via shareholder resolutions. ClearBridge is a top five owner of energy infrastructure company Kinder Morgan, for example, which abandoned its MLP structure in 2014, and received a shareholder resolution to publish an ESG report in 2017. Kinder

Exhibit 8: U.S. Greenhouse Gas Emissions Declining



Source: U.S. EPA's Inventory of Greenhouse Gas Emissions and Sinks: 1990–2017.

Morgan published its first ESG report in 2018 for the 2017 calendar year. It includes information on GHG emissions, air emissions and ecological impacts, among other items. Fellow midstream company ONEOK, of which ClearBridge is a top 30 owner, has been publishing corporate responsibility reports since 2009, when it was still a partnership (it converted to a C-corp in 2017).

Working to Reduce Methane Emissions

Methane emissions are likely to garner more focus from the industry and regulators over the next several years, and we would not be surprised to see a cost imposed on methane emissions and flaring in the future. Methane is a potent greenhouse gas — 25 times more potent than CO₂, albeit with a shorter life cycle in the atmosphere. Over time, regulators could take a harder line as it relates to methane emissions reductions and significant emitters could find that the cost of doing business has increased.

Reducing emissions is critical for oil and gas companies. As actively engaged ESG investors, ClearBridge works with portfolio energy infrastructure companies to understand their approach to emissions reductions. The gap between heavy and light emitters is vast. We believe an average company in the Permian Basin flares or emits 5% of its produced methane, but variability is into the high single digits. Note that not all companies disclose methane emissions, which limits understanding of this risk on an industry-wide basis.

Midstream companies with natural gas exposure are playing an important role in reducing overall GHG by reducing the amount of CO₂ emissions from the power sector (Exhibits 7 and 8). Some natural-gas-focused midstream energy companies we own and engage with have committed to meaningful guidelines for the minimization of fugitive methane emissions (generally less than 1% of leakage across the entire supply chain). These companies have a strong economic incentive to minimize fugitive emissions, increasing operational efficiency. Our approach to engagements also includes working with portfolio companies on disclosures and on best practices in publishing sustainability reports.



Engaging Midstream Energy Companies to Improve Practices

One of the key roles of asset managers like ClearBridge is to engage companies on their climate strategies. There is a lot of room for improvement in the industry and an important role for investors to play in engaging with management teams. We have been encouraged by an increase in willingness of midstream energy infrastructure management to engage on ESG issues and on increased focus on these issues at industry discussions and conferences. Though we are in the early stages of ESG discussions in midstream energy, we believe changes already afoot will continue to proliferate, albeit slowly, separating those with best practices from the rest of the pack.



Why Electric Vehicle Adoption Is Poised to Accelerate

Elisa Mazen
Thor Olsson
Michael Testorf, CFA
Pawel Wroblewski, CFA

Improvements in range, charging availability and affordability are driving increased sales of electric passenger vehicles and causing a shift away from hybrid models. Lower battery costs, greater commercial adoption and pro-environmental transportation regulations are also sparking a shift from internal combustion to electric powertrains. The convergence of several new technologies and business models, highlighted by autonomous driving, could significantly accelerate electric vehicle (EV) adoption over the next decade. ClearBridge's International Growth team has been following the development of EVs for the last decade and is currently participating in this powerful trend through global investments across the EV supply chain, from original equipment manufacturers (OEMs) to suppliers of raw materials for rechargeable batteries to developers of electronic sensors to enable autonomous driving.

In a year where overall total passenger automobile sales declined, plug-in EVs continued to grow and gain market share in 2019. Globally, EV (battery electric and plug-in hybrids) sales grew by around 9% to 2.2 million (Exhibit 9). EV market mix continued to shift toward pure battery electric cars which grew 17% to 1.6 million and accounted for 74% of all EVs.

Exhibit 9: Global EV Sales Trends

Region	2018	2019	Change
China	1,102	1,118	1%
Europe	386	564	46%
USA	361	329	-9%
Other	169	199	18%
Total	2,018	2,210	9%

EV Type	2018	2019	Change
Battery-Electric (BEV)	1,393	1,635	17%
Plug-in Hybrids (PHEV)	626	575	-8%
Total	2,018	2,210	9%

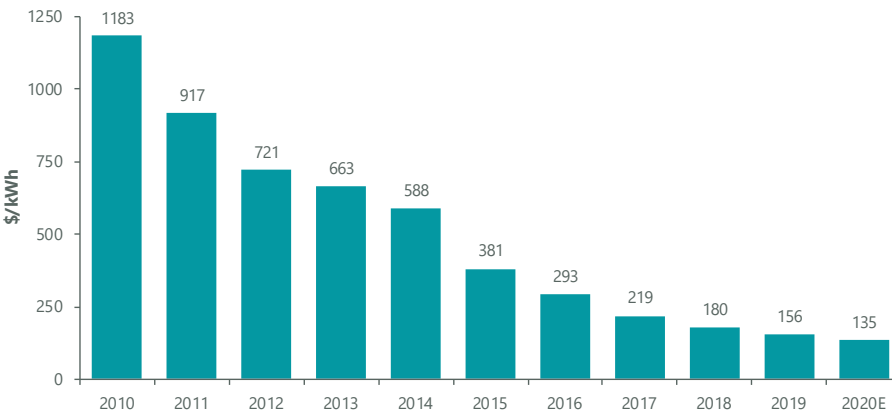
Source: Insideevs.com, ev-sales.blogspot.com, ClearBridge Investments

The European EV market grew by 46% to 564,000 in 2019, driven by strong growth of battery electric vehicles (BEVs). In countries such as Sweden and Holland, more than every tenth car sold had an electric plug. In Norway, the global leader in electrification, 40% of new cars sold were battery electric and an additional 16% were plug-in hybrids. In the U.S., like in Europe, the EV market continued to shift toward pure BEVs and away from plug-in hybrids. Sales of plug-in hybrids — cars that have both a combustion engine and a small battery — declined significantly. As a result, the average size of batteries installed in cars continued to grow.

In China, sales of EVs increased only modestly in 2019 as a result of substantial subsidy changes during the year. However, because the whole market declined, EV share increased again and reached over 5% of the market. Longer term, Beijing continues to push automakers to build more electrified products through quotas and a “carbon credit program” and expects EVs to account for 25% of new light-vehicle sales in 2025.

Adding to this momentum, the electric powertrain is increasingly being implemented outside the passenger car market. Electric city buses have seen good growth in China for the last few years, with an average of 100,000 e-bus sales per year. However, as the cost of batteries declines, e-bus adoption is growing in other markets as well. In Europe, sales of electric and hybrid city buses more than doubled to 3,644 units in 2019. Battery electric bus registrations alone now account for 12% of all city buses registered in Europe.

Exhibit 10: Lithium-ion Battery Prices Keep Falling



Source: Bloomberg New Energy Finance.

Drivers of Growing EV Adoption

A number of factors are accelerating the transition to cleaner and lower-maintenance EVs, a trend with clear environmental and cost of ownership benefits.

1. Battery Costs Continue to Fall

Battery costs, which are the key enabler of EV market growth, continue to decline rapidly. Automotive battery costs declined by 16% in 2019 to below \$147/kilowatts per hour (kWh), according to BNEF. Since 2012, the year that Tesla launched its Model S, average lithium-ion (li-on) battery costs have fallen by a cumulative 78%, allowing automakers to launch increasingly affordable models.

Using the observed 18% learning curve, which measures the historical relationship between growing volume demand for batteries and declining battery prices, BNEF estimates prices will fall below the \$100/kWh level around 2023 (Exhibit 10). This is the point where mass market EVs are considered to reach price parity with ICEs across most segments of the car industry (some high-end EVs have already reached parity). Manufacturing scale and consolidation of battery makers, better chemistry and new modular battery pack designs are just a few key drivers of the ongoing improvements in rechargeable li-on batteries.

2. Pro-EV Regulation

Political and regulatory support for EVs is broadening in many parts of the world. As EVs become more affordable and more visible on the city streets, it becomes increasingly difficult for politicians at various levels of government to ignore supporting EVs. There is also increasing awareness of health risks posed by car emissions, especially in cities where most emissions occur.

On a regional level, the EU has agreed on new targets to lower new car CO₂ emissions by 15% from 2021 levels by 2025 and by 37.5% from such levels by 2030. Achieving the targets will require carmakers to upgrade their strategy to comply with increasingly more stringent regulations. It will become increasingly more expensive to meet these goals simply through improvements in better engine technology and will require a meaningful shift to EVs.

Even meeting the 2020 targets, which come fully into effect in 2021, will require a substantial reduction in fleet average emissions across almost all OEMs in Europe to avoid significant fines. Therefore, we expect OEMs to encourage EV adoption by introducing more models and pricing those models favorably, as selling more of these EVs at prices which would appear to be a loss may end up being profit positive due to the ability to reduce the fines from failure to comply with the emissions regulations. Most EU countries have also introduced incentives for EVs. Twelve offer bonus payments for EV buyers and most offer a tax reduction or exemption for buyers and owners of EVs.

On a local level, many cities in Europe have recently implemented restrictive vehicle entry regulations. These include low-emission zones where most polluting vehicles cannot enter or are charged a higher fee than zero-emission vehicles. Over the next decade, 24 European cities with a total population of 62 million people will ban diesel vehicles, and 13 of those cities will ban all ICE cars by 2030.

In the U.S., the Los Angeles Green New Deal is targeting 100% electric buses by 2030 for the LA Metro and LA DOT fleets, installing 28,000 EV chargers

citywide and seeking to increase the percentage of zero-emission vehicles to 25% by 2025.

In New York City, the new capital plan of the MTA, the largest operator of city buses in the U.S., envisages a transition to a fleet composed fully of zero-emission electric buses. Between now and 2024, the MTA plans to invest \$1.1 billion to modify depots for electric bus operations and purchase 500 electric buses. The program enables the MTA to acquire only electric buses beginning in 2029.

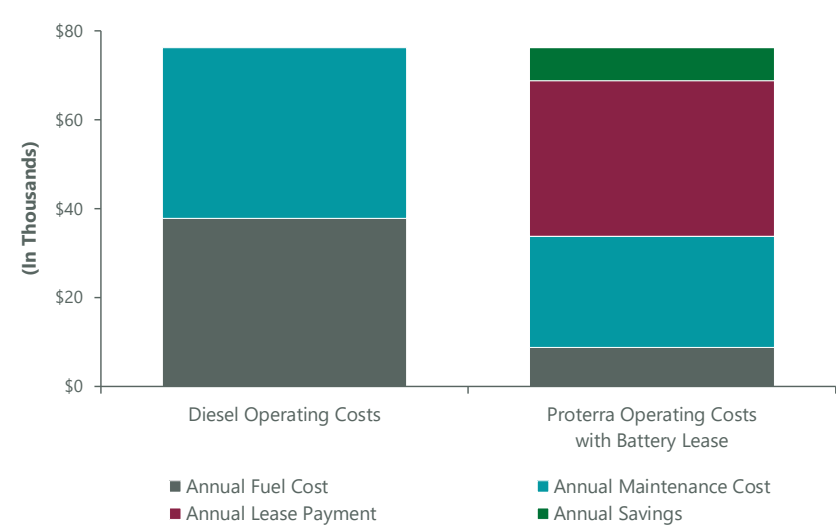
All of these regulations will increasingly impact the residual and resale values of internal combustine engine (ICE) vehicles and push manufacturers to dedicate a larger percentage of capex and R&D toward further electrification.

3. Strong Economics for Fleets, Led by Amazon

We expect commercial fleets to increasingly adopt EVs due to favorable economics relative to the ICE platform. Fleet users see the majority of their total operating costs weighted toward variable operating costs and depreciation of those fleets relative to the initial purchase price of the vehicle. Given that EVs last longer and have lower fuel and maintenance costs, they are becoming an increasingly attractive choice for fleet owners. Even with current technology, the EV payback for high-utilization fleets (taxis, delivery companies) is already attractive.

Morgan Stanley estimates that an EV operated in a mega-fleet could have a payback of just three years. There is also increasing evidence that a modern electric

Exhibit 11: Financing Buses with a Battery Lease



Source: Proterra.



power train with an efficient cooling system can last much longer than an ICE powertrain. A longer-lasting EV would reduce depreciation costs dramatically. For a fleet operator, instead of buying two or more ICE cars it could use just one EV for the same mileage.

In 2019, we saw the first large-scale order for electric commercial trucks. Amazon.com reported an order with privately owned company Rivian for 100,000 electric delivery vans. While this investment is part of a broader climate pledge by Amazon, the expectation of good economics of operating an EV fleet must also have played a role. United Parcel Service recently ordered 10,000 electric vans from privately held Arrival and will collaborate with the company to develop a wide range of electric vehicles with advanced driver-assistance systems.

4. New Business Models Supporting EV Growth

Historically, major disruptions have developed as a result of the convergence of several technologies and/or due to the emergence of new business models that exploit those technologies. While declining costs of batteries will continue to drive EV adoption, various new business models and development of new technologies could significantly accelerate that adoption over the next decade. Examples of new business models include:

- **Battery Leasing:** The upfront cost of an electric bus remains a barrier for many transit agencies looking to implement zero-emission vehicles into their fleet. Battery leasing is a new business model that enables a faster transition to electric buses for commercial fleets. Proterra, a privately-owned U.S. company, already has more than a dozen customers participating in its battery lease program. By decoupling the batteries from the sale of its buses, Proterra enables transit customers to purchase the electric bus at a capital expense similar to that for a diesel or compressed natural gas (CNG) bus. Customers can use the operating funds previously earmarked for fuel to pay for the battery lease (Exhibit 11).

- **Vehicle-to-Grid:** New applications are evolving where EV batteries can be used as back-up power for the grid. Recently, U.S.-based Dominion Energy partnered with local Virginia school districts to begin replacing diesel buses with 100% electric school buses. The buses can be used as batteries for the grid or for electricity use off the grid. Dominion Energy shares, “When not in use, they can be tapped as an energy resource through vehicle-to-grid technology. If energy needs are high or if renewable resources are intermittent, the batteries can provide stability to the grid. During a power outage or emergency, the batteries could serve as mobile power stations.” For example, 1,050 electric buses could provide enough energy to power 10,000+ homes.

This technology extends the benefits of electric buses beyond clean transportation and greatly reduced pollution. A fleet of school buses could be a valid source of distributed power because their usage patterns are predictable. They are idle at precisely the times when energy demand is at its peak — midday and during the hottest summer months. By storing or drawing power from a fleet of parked school buses, utilities can avoid wasting surplus energy from renewables or cranking up a natural gas power plant.

Opportunities in an Accelerating EV Market

The convergence of three technology trends — artificial intelligence, electric vehicles and transportation-as-a-service (TAAS) — can help enable the next generation of consumer and commercial transportation: autonomous driving. As a result, we see a number of companies well exposed to these trends.

U.S. semiconductor developer Nvidia is a market leader in enabling artificial intelligence technologies and has also rolled out a suite of products to address multiple steps in the autonomous driving value chain, from training computer systems using simulated driving conditions to processors inside of vehicles that can apply those models to real world situations. We also favor U.S. technology firm Cree, a leading supplier of silicon carbide (SiC) wafers and devices, as we believe that EVs will eventually adopt SiC for battery power management solutions as it is far more efficient than traditional silicon. We also see this as a key enabling technology for fast charging, as SiC fast chargers can add 75 miles of range in just five minutes of charging.

We are monitoring these developments closely and evaluating companies that can participate in these trends. In addition to public companies that support li-on battery development including U.S. lithium producer Albemarle, Chile’s Sociedad Quimica y Minera (SQM) and Belgian cathode maker Umicore, as well as Japanese electric motor manufacturer Nidec, we are also following several private companies such as Proterra, Zero Motorcycles, ChargePoint and Zoox that could play key roles in EV innovation.



Timely Topics

ClearBridge portfolio managers and analysts pursue research on a variety of timely ESG topics as part of our fundamental research process. In 2019, these topics included company responses to the opioid crisis, gender parity in the workplace, disruption in the food industry and problems posed by the ubiquitous beverage container.

We share some of those insights here.

A Multifaceted Approach to the Opioid Crisis

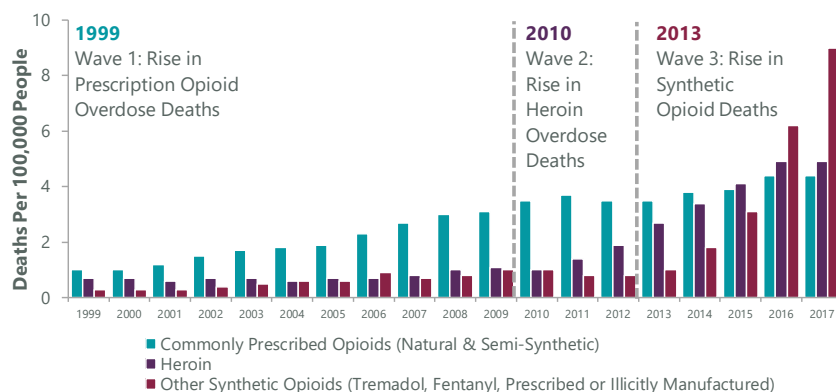
Marshall Gordon
Mary Jane McQuillen
Stephen Rigo, CFA

Opioid abuse has become such a serious issue that it is included in the UN Sustainable Development Goal #3, Good Health & Well Being, which includes a target to strengthen the prevention and treatment of substance abuse, including narcotic drug abuse. Appropriately used, opioids are an important and effective treatment for chronic and acute pain. They carry, however, the serious risks of misuse, addiction, overdoses and death. There is no profile of a typical user or potential misuser: according to The Hartford, one in three people will be prescribed opioids in their life. Athletes and office workers, teenagers and adults, family members and neighbors — anyone could be involved or affected by opioid misuse.

Since the prescription of opioids began to increase significantly in the 1990s, the number of opioid overdose deaths has likewise risen (Exhibit 12). The opioid epidemic causes more than 130 overdose deaths per day in the U.S.¹ Opioids were responsible for almost two thirds of all drug overdoses in the U.S. in 2015; roughly half of these involved prescription opioids. Yet even while prescribing rates have fallen from peaks in 2010–2012, the amount of opioids prescribed per person is still high — three times higher than in 1999.²

As an active investor in public equities, ClearBridge pursues a multifaceted approach to support efforts to reduce opioid addiction. ClearBridge is engaging companies in the drug value chain to better control opioid distribution and develop therapeutic alternatives to opioids. We are also supporting portfolio holdings in the insurance industry that identify those most at risk of opioid addiction and prevent dangerous cases before they begin. Helping efforts to reduce opioid addiction also aligns with our efforts to support UN Sustainable Development Goal #3, Good Health & Well Being.

Exhibit 12: Rise in Opioid Overdose Deaths



As of 2018. Source National Vital Statistics System Mortality File

Finding Solutions Across the Drug Value Chain

Patient access to opioids and lack of education on usage risks are primary contributors to the opioid epidemic. As a shareholder of companies across the drug value chain, ClearBridge encourages and supports these companies with the ability and the responsibility to act. Our roles as an active manager include engaging with distributors on their efforts to prevent potentially irresponsible dispensation of opioid drugs and investing in pharmaceutical companies developing therapeutic solutions.

ClearBridge portfolio holdings in the distribution segment of the value chain are working to stop inappropriate diversion of prescribed opioids. The key is that they not be overprescribed, either in cases where one patient's prescription contains too much opioids at once or for too long a time, or where too many people are getting prescriptions, some unnecessarily. Distributors are making changes to how they operate to help fight the crisis. CVS Health, for example, has worked with other distributors to build a network of shared records, so one user cannot simply go to a different pharmacy to get a prescription filled. The company has also developed programs for the safe disposal of unused opioids, preventing discarded opioids from finding a market.

In addition, we have a history of engaging health care companies on anesthesiology and the adoption of non-opiate approaches to pain management. We have engaged CVS, Amerisource Bergen and UnitedHealth on how their pain clinic managers ensure appropriate opioid use.

Patients are also prescribed opioids for dental health care; dental health care professionals write 12% of all opioid prescriptions, almost half of which are for adolescents. A recent Stanford study found that routine painkillers prescribed to teens after wisdom teeth removal could contribute to opioid addiction in young adults.³

ClearBridge is a top 10 owner of UnitedHealth, which has launched oral health programs and policies to reduce opioid access in a number of ways, such as limiting the level of the prescription through the UnitedHealth oral pharmacy policy and mailing information about the risks and proper use of opioid prescriptions to patients with dependents from the ages of 16 to 22 years. In addition, UnitedHealth will track the dental professionals who are among the top 10% opioid prescribers in their network and notify them of their status. After being contacted, these professionals have reduced

prescriptions by 17%. The program has been updated to flag the top 20% oral health prescribers.

While opioids are the most prevalent and cost-effective form of pain management for many use cases, we are also investing in companies developing alternative therapeutic solutions. Portfolio companies Pacira Pharmaceuticals, Alkermes and Heron Therapeutics are developing opioid substitutes which would allow use of non-systemic pain relief in surgeries – long-acting local anesthetics that work just as effectively as systemic versions might even prevent initial opioid use.

ClearBridge is a top 20 owner of Pacira Pharmaceuticals, which manufactures and markets Exparel, a treatment that can serve as an alternative to alleviate post-surgical pain (a primary introduction point for opioid use). The current standard of care to manage post-surgical pain is oral or intravenous opioids and there are few alternatives that offer pain relief as effectively. Exparel is a long-acting formulation of a well-known local anesthetic injected directly into the surgical site during a procedure to block pain locally, rather than systemically. By being given Exparel during surgery, patients can either avoid the use of post-surgical opioids or significantly reduce their dose and duration of use.

We have also discussed efforts to address the opioid crisis with pharmaceutical maker Alkermes (ClearBridge is a top 20 owner). The company sells Vivitrol, a long-acting injectable drug that reduces the effect and craving for opioids. The drug is used as part of rehabilitation protocols, along with detoxification and therapy/counseling, and is clinically proven to decrease abuse relapse rates. Vivitrol is used instead of opioid replacement therapies like methadone. In addition to traditional drug marketing, Alkermes has engaged at all levels of government and the justice system to broaden the use of Vivitrol to combat the growing opioid addiction problem in the U.S, including in federal prisons.

ClearBridge is a top 10 owner of Heron Therapeutics, a pharmaceutical maker with two commercial anti-nausea treatments for patients going through chemotherapy. We are excited about the prospects for a next-generation non-opioid painkiller in Heron's pipeline (HTX-011) for post-operative pain that is expected to receive FDA approval around the middle of 2020. Heron is benefiting from fast-track approval procedures that have been established by the FDA to encourage innovation and that we believe can bring non-opioid treatments to market in a timelier manner.

Insuring a Better Approach to Use of Painkillers

As the opioid epidemic has begun to have a more and more tangible impact on employers, property & casualty insurance companies, such as ClearBridge holdings The Hartford and Travelers Insurance, have been proactively working to detect addiction and tailor rehabilitation. Due to in-house triage personnel, insurers have a unique perspective on the crisis in that they often have the first look at treatment and prescription trends that might involve opioid use. Both The Hartford and Travelers are fighting the opioid crisis by holistically working with doctors on diagnosis and treatment for employees in filing workers' compensation claims.

Both The Hartford and Travelers are pursuing innovative programs to combat opioid addiction by using predictive analytics to identify drug-seeking behavior. The Hartford uses an analytics model that incorporates nonmedical psychosocial factors, such as subtle verbal cues, to identify claimants at higher risk of addiction. Using this model, The Hartford has seen opioid use on its claims drop by 25% from January 2015

to July 2016; the average morphine equivalent dose per claim decreased by 9% over that time frame as well.

Travelers has developed an Early Severity Predictor® to identify when an injured employee develops chronic pain, so it can work with employees and their doctors to eliminate or reduce the need for painkillers.

These programs help monitor and reduce the risks of addiction, which not only saves livelihoods and lives, but also benefits employers in terms of reduced lost work time, lost productivity and lower insurance costs. Since 2015, The Hartford has been able to help workers' compensation claimants reduce opioid use by 43%.

ClearBridge supports and encourages these practices and makes them part of our long-standing conversations with Travelers and The Hartford. Our ownership of these companies is an example of cases where smart ESG practices serve the interest of both shareholders and society.

¹ Wide-ranging online data for epidemiologic research (WONDER). Atlanta, GA: CDC, National Center for Health Statistics; 2017. Available at <http://wonder.cdc.gov>.

² Centers for Disease Control and Prevention. Vital Signs: Changes in Opioid Prescribing in the United States, 2006–2015. MMWR 2017; 66(26):697-704.

³ <https://med.stanford.edu/news/all-news/2018/12/opioid-prescriptions-from-dentists-linked-to-youth-addiction-risk.html>



Mending the Gender Gap

Kimberly Gifford, CFA

Mary Jane McQuillen

Commentary we published in 2016 reflected on the progress still needed to achieve gender diversity, even while global companies in aggregate have been increasing representation of women on boards and in executive positions. Since then, we have been encouraged to see new evidence of the benefits of gender diversity, as well as progress from our portfolio holdings and society at large. While much work remains to be done to achieve gender equity in the workplace, stakeholders are keeping the attention on companies and advocating for more significant progress. In our role as an active shareholder, we continue to work to further improve gender parity in the workplace through active ownership of leaders in gender diversity and engagement with companies we own.

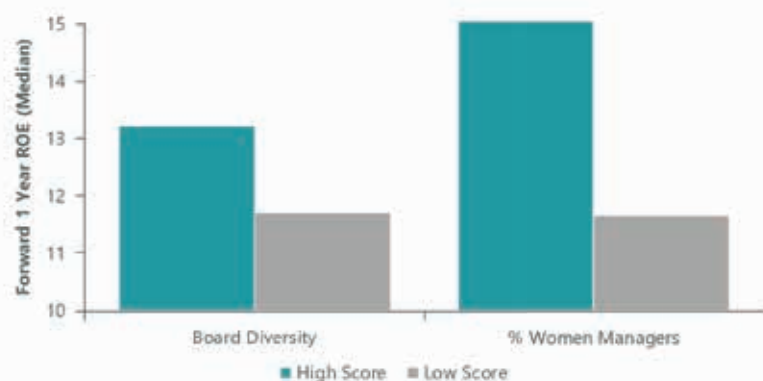
Value of Gender Parity Is Becoming Clearer

Recent research confirms the persistence of a positive relationship between diversity and business performance. In its 2015 study, *Why Diversity Matters*, McKinsey found that companies in the top quartile for gender diversity on executive teams were 15% more likely to have above-average profitability than those in the fourth quartile. Expanded and updated data shows this likelihood has increased to 21%, with these companies also 27% more likely to have superior value creation.¹ Another study found that companies with higher scores for board and management diversity saw consistently higher future returns on equity than those with lower scores (Exhibit 13).

Gender Diversity in the Workplace Is Improving...

Recent statistics on gender in the workplace show some progress is being made. In leadership, female directors have made strides (Exhibit 14). In 2018, on average, boards had 2.6 female directors, compared with 1.7 a decade earlier, and 40% of new board directors were women, a new high since 1998 and a notable increase from 36% in 2017.²

Exhibit 13: Board Diversity and Women Managers Lead to Higher Returns



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In terms of gender pay, one study shows the U.S. adjusted pay gap has narrowed since 2016, from 5.3% in 2016 to 4.6% in 2018. But progress has been slow, and using optimistic estimates, the same study predicts the U.S. pay gap will not close until 2035. Using conservative estimates, it will not close until 2070.³

...But There Is More Work to Be Done

The range of estimates for achieving gender equality in the workplace underscores just how much work is needed to achieve even a modest improvement. Equileap, an organization providing data and insight on gender issues in the workplace, has offered a valuable step forward by developing a scoring and ranking system to show companies' commitment to gender equality.

Equileap's scoring system uses 19 data clusters divided into four categories that measure a) gender balance in the overall leadership, management and workforce of a company, b) equal compensation and work life balance, c) policies promoting gender equality and d) commitment to women's empowerment, transparency and accountability. The latest scoring is one indication of how far we still need to go, but we are encouraged by the robustness, and more importantly the repeatability, of the scoring system, which will help enable the year-to-year tracking necessary for making improvements (Exhibit 15).

Exhibit 14: Female Leadership Gains

	2014	2019
Boards with no female directors	5%	1%
% of female directors	19%	26%

Source: Spencer Stuart.

International Markets Making Gains

Efforts to make further gains toward gender equality in the workplace are now taking different forms in different markets around the world. In Europe, there is a trend toward requiring transparency in gender pay data and addressing significant disparities. France recently passed legislation dictating that companies with 50 workers or more publicly assess their gender pay parity. The methodology for measuring pay gaps involved five weighted indicators that take into account the percentage pay gap (factoring in age, type of job and all forms of remuneration), proportions of men and women receiving pay raises and promotions, the granting of pay raises after maternity leaves if such raises were given in the interim, and the proportion of men and women among the most highly paid employees in the company. If a company scores below a certain level three years in a row, it may have to pay a penalty of 1% of the company's annual payroll.

Mandatory gender pay gap reporting also applies in the UK and is being considered in Ireland. In Portugal, as of February 2019, employers with more than 250 employees must assess male and female salaries annually and justify or correct salary differences.

Japan, meanwhile, is suffering from labor shortages, which have brought to light the large number of women absent from management levels of the workforce and who are necessary to help solve Japan's productivity woes. The Japanese government has responded with labor reform policies that dramatically improve parental leave benefits and aim to fix daycare shortages in order to get mothers into the workforce. Policies are also designed to increase the labor participation rate by encouraging the inclusion of female workers and provide safety net programs (for both elder and child care). While the gender pay gap remains, the female labor



participation rate has grown in the past six years, from 48% in 2012 to 52% in 2018.⁴

At the same time, one study found regulatory support alone is not enough to generate positive effects of diversity; there must also be strong cultural support of working women.⁵ Japan still has a historical patriarchal work culture that restricts normative acceptance of working women and likely limits the benefit for firms of increased regulatory support for gender parity in the workplace.

ClearBridge is a top 30 owner of Shiseido, a Japan-based cosmetics and beauty care provider and an outlier in this regard. Shiseido is well ahead of its peers in having women represented as directors, board members and corporate officers. In meetings with Shiseido in Japan and in our New York office we have discussed Shiseido's ESG goals and its communication of them to the markets. We believe Shiseido is interested in improving women's social status and embraces the UN's Women's Empowerment Principles. Aware of gender pay issues, the company has changed its pay methodology from a seniority status approach, common in Japan, to performance-based pay. In general, Shiseido has gone above the Japanese corporate governance code and we expect that effort to continue as it further improves its gender policies.

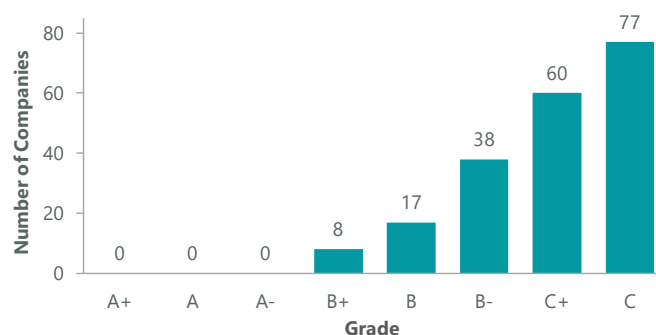
Creating Gender Parity Through Ownership and Engagement

Trends toward gender parity are affecting our international investments and should soon have a larger impact in the U.S., both through exposure of U.S. companies to these trends abroad and through potential similar developments domestically.

While the U.S. may be behind other countries in its regulatory support for paid parental leave — it is the only developed country to not mandate paid family leave — some companies are making progress on their own. ClearBridge holding Etsy, the e-commerce services company brokering handmade and vintage items such as clothing and housewares, supports parents regardless of their gender with a 26-week gender-blind parental leave policy that is available to all Etsy employees globally. The company also established hiring and training guidelines to help create gender equity in the workplace; both the board of directors and the executive team are at least 50% women, 55% of Etsy employees are women (as of December 2017) and Etsy's engineering team is almost a third women. Etsy's business itself empowers women around the world as well: 87% of sellers on its platform are women, versus 33% small business owners who are women in the U.S.

ClearBridge is working to further improve gender parity in the workplace through both active ownership of leaders in gender diversity and through engagement with companies we own on specific gender-related topics. For example, while

Exhibit 15: 2018 United States Spencer Stuart Board Index



2018 United States Spencer Stuart Board Index.
Glassdoor Economic Research, "Progress on the Gender Pay Gap: 2019." The adjusted pay gap adds "statistical controls for differences in education, job titles and other factors aside from gender that affect pay."

finance has been slow to embrace gender parity in investment roles, ClearBridge holding Bank of America has made notable strides in addressing gender diversity representation and support, as well as the gender pay gap. ClearBridge engaged with management recently on the topic of gender diversity and other sustainability matters. In this discussion, management addressed the company's commitment to diversity and inclusion of its workforce, including that 51% of global employees and 42% of global management are female. Bank of America explained that it is focused on driving sustainable "Responsible Growth" by enacting policies and practices to support its diverse workforce, such as investing in their Women Leadership Council for senior executives and employee networks for women at all levels to support recruitment, development, networking and culture. The company was named the 2019 Catalyst Award winner by Catalyst, a global nonprofit working with CEOs and companies to help build workplaces that work for women.

We also promote gender diversity leaders especially in areas where this has historically been lacking, such as in smaller companies. ClearBridge is a top 20 owner of Agios Pharmaceuticals, a small biotech company that develops small-molecule anti-cancer therapeutics targeting cancer cell metabolism. With a female CEO and above-average gender representation on the board versus industry peers, Agios is a leader in achieving gender diversity among biotechnology firms. It is far above average for companies of similar market cap size and with similar tenures as public companies, and scores better than many more mature, large-cap biotech companies that have had more time and resources to improve their diversity.

Engagements are a critical part of our approach to ESG investing, and engagements on gender can have a material effect on our own ESG rating for a company. One of our information technology analysts reached out to the management of an infrastructure software holding and addressed allegations of

gender pay disparity. The discussion was less transparent than anticipated, given the company's previous history of open dialogue. Because of the company's unwillingness to discuss the basis of the allegations, the analyst downgraded the company's ESG rating and has committed to monitoring and engaging management on this issue.

We also combine proxy voting with engagement to encourage stronger gender diversity measures in our holdings. For example, our media analyst and several portfolio managers have met with Discovery Communications over the past few years and discussed gender diversity and the representation of women on the board of directors. As a top five owner of the stock, ClearBridge portfolio managers voted 100% of the firm's shares in previous years in support of a shareholder proposal to request the board adopt a policy for improving board diversity. This engagement process was in line with the company's long-standing commitment to support its female

workforce: 55% of its managers and 47% of its executives are women. In addition, the company offers work flexibility, advancement mentoring, family support policies and up to 22 weeks of paid maternity leave, which is among the highest of publicly traded companies in the U.S.

We are encouraged by the progress toward gender parity in which we have participated through our active ownership of leaders in gender diversity such as Shiseido, Etsy, Bank of America, Agios, Discovery Communications and others, and through engagement with the companies we own across geographies, market caps and sectors. While there are still milestones ahead, our long-term ownership approach affords us several avenues to make gains as we continue to work with our portfolio companies to close the gender gap, and to drive the returns gender diversity has proven to spur.

¹ McKinsey, "Delivering through Diversity," January 2018.

² 2018 United States Spencer Stuart Board Index.

³ Glassdoor Economic Research, "Progress on the Gender Pay Gap: 2019." The adjusted pay gap adds "statistical controls for differences in education, job titles and other factors aside from gender that affect pay."

⁴ The World Bank, International Labour Organization, ILOSTAT database. Data retrieved April 2019.

⁵ Letian Zhang, Harvard Business School. "An Institutional Approach to Gender Diversity and Firm Performance," forthcoming in *Organization Science*.



Disruption is Changing the Food Industry

Robert Buesing, Jr.
Erica Furfaro
Mary Jane McQuillen

As recent growth of plant-based protein products suggests, there is an appetite for change in the food industry. Many consumers are seeking to reduce the environmental effects of meat production, or just eat less meat, and newly available burgers, hardly distinguishable from real meat but made with pea, soy or potato proteins, are proving to be a popular solution. But the development of plant-based proteins is just one example of how the food industry is being disrupted by innovation that may have environmental and social consequences.

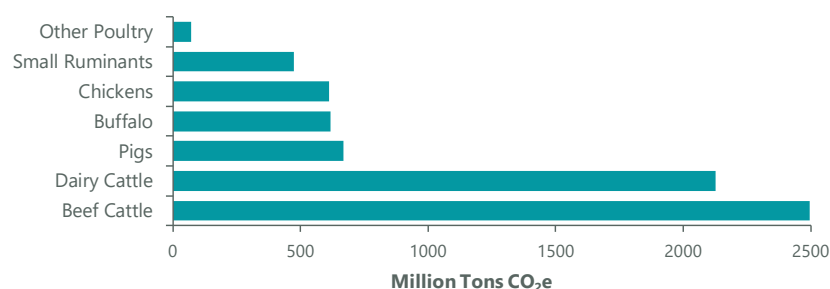
From the field to the table, and increasingly from the restaurant counter to your door, the changing ways we produce, distribute and consume food are creating opportunities and presenting challenges for investors to consider. As an active owner of companies across the food supply chain, ClearBridge is finding economic opportunity in food industry innovation as companies seek to reduce greenhouse gas (GHG) emissions, improve efficient use of herbicides in agricultural production, scale sustainable packaging and smooth labor tensions and delivery logistics. At the same time, it is important to understand these dynamics in a balanced manner and to scrutinize evidence as it arises.

Changing Consumption Habits May Have Environmental Benefits

Arguments against the current amount of meat production focus on the role livestock plays in GHG emissions. One estimate — from a vast United Nations study made in 2013, and therefore potentially a conservative figure — puts the amount of carbon dioxide equivalent per year produced by livestock globally at 7.1 gigatons, or 15% of all human-produced GHG emissions (Exhibit 16). In addition to the release of GHG emissions, industrialized animal agriculture can also have other environmental impacts such as water contamination from waste (bacteria, chemicals, hormones and antibiotics). Concerns about environmental impact, negative health consequences, high resource use and animal welfare have even encouraged some countries to consider meat taxes, similar to taxes on alcohol and tobacco.

The environmental benefits of plant-based meat products could be significant. A study by Beyond Meat and the Center for Sustainable Systems at the University of Michigan suggests a Beyond Burger generates 90% less GHG emissions, requires 46% less energy,

Exhibit 16: Global Estimates of Emissions by Species



Source: Tackling Climate Change Through Livestock, a report by the Food and Agriculture Organization of the United Nations, 2013.

has 99% less impact on water scarcity and uses 93% less land than an equivalent quarter pound of ground beef.

The excitement about plant-based proteins has encouraged traditional packaged food companies to take another look at reinvesting in their somewhat neglected veggie burger brands. Kraft Heinz has reformulated and rebranded its Boca Burger and Kellogg has updated its portfolio of plant-based protein products with the introduction of Incogmeato. ClearBridge is a top 10 owner of Nestlé, which is adding its own Awesome Burger to the lineup. Given Nestlé's scale and infrastructure as arguably the largest food company in the world, the impact of a plant-based meat product from the company could be considerable.

Additionally, several restaurants have been launching successful limited-time offerings in partnership with Impossible Foods (currently privately owned) and Beyond Meat. In another opportunity to scale plant-based protein, McDonald's recently announced it will offer the P.L.T. (plant, lettuce and tomato) burger with Beyond Burgers.

At the same time, it's important to acknowledge the environmental impacts of large-scale switching to plant-based proteins. These include deforestation, runoff of herbicides and pesticides into ground water and the dangers of monoculture farming, all of which should be considered before accepting meatless "meat" products as a panacea and monitored by investors for risks as plant-based protein businesses grow.

Similarly, the health benefits of switching to meatless burgers may not be so clear cut, as most meatless burgers are heavily processed and high in saturated fat and sodium. At the same time, part of the disruption in plant-based proteins is their increased ability to substitute for meats in vegetarian diets through the addition of vitamins and minerals, such as B12 and zinc (in the Impossible Burger), often found in animal proteins.

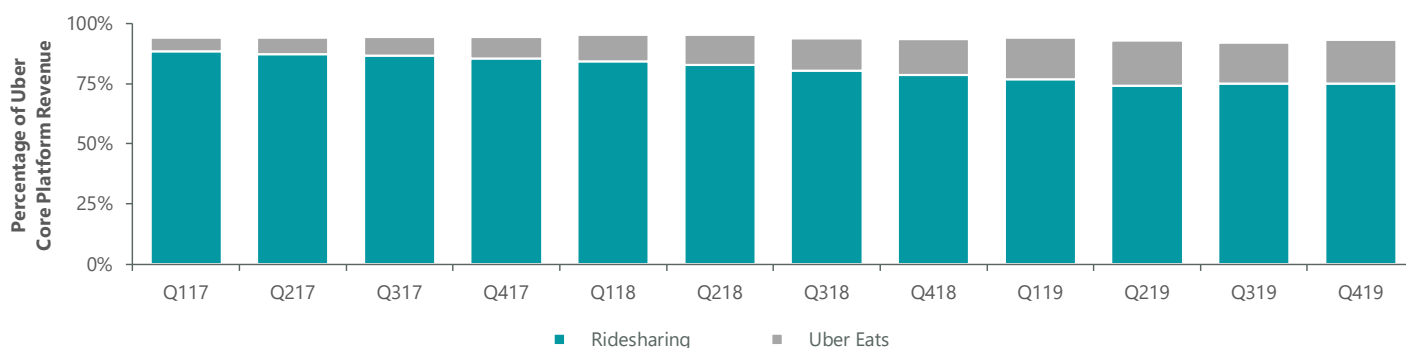
Precision Agriculture Reduces Herbicide Use

In a recent engagement with the management of ClearBridge holding John Deere, we discussed how companies in the agricultural supply chain are using technology to improve food production. Deere is a leader in precision agriculture, which applies new technologies in planting, spraying and irrigation tasks to yield more harvest and use less water and pesticides. Its AutoTrac steering system, for example, reads the soil and steers planters to nearly eliminate overlapping passes on the field, reducing unnecessary fuel, seed and chemical use. Similarly, Deere has a technology that improves spraying precision and reduces double-spraying. Its ExactEmerge planter is designed to increase the accuracy of spacing, depth and population of seeds, making for larger and more efficient yields.

In 2017 Deere acquired Blue River Technology, a small company applying machine learning, computer vision and robotics to agriculture. Blue River's precision sprayer, currently in development, uses computer vision and artificial intelligence to precisely spray herbicides only where they are needed. The sprayer is expected to reduce herbicide application rates by over 30% for all major crops, including a 90% reduction for cotton — in our meeting we learned of one field trial for cotton in which herbicide consumption costs declined to \$25,000 compared to \$250k the previous year. It is slated for a potential 2021 launch.

Since some of Deere's farm equipment innovation relies on connectivity, the lack of broadband coverage in rural areas has been a challenge. ClearBridge holding Microsoft's FarmBeats program is offering one solution in this regard by helping farmers improve their digital technology. FarmBeats is an Internet of Things (IoT) platform that uses TV white spaces (unused frequencies) to create broadband links between a farmer's home Internet connections and a solar/battery-powered IoT station on the farm. Greater Internet connectivity on the farm better enables technology-enhanced solutions and, ultimately, more efficient and sustainable agriculture.

Exhibit 17: Food Delivery Increasingly on the Menu



As of Dec. 31, 2019. Source: ClearBridge Investments, Bloomberg LP.

Big Things Could Come in Small Packages

Adapting to fast-changing tastes has typically been difficult for larger, more established players in the food industry, but some are becoming nimbler to better compete with startups and are adding the power of scale to innovation. Nestlé's Yes Bar, for example, is a vegan-focused snack bar with plant-based protein designed to appeal to health- and environment-conscious consumers. To address this market Nestlé developed a sustainably sourced recyclable paper wrapper, the first of its kind that can be used in the high-speed flow wrap machines necessary to produce the product at scale. The paper wrapper also guarantees product quality and freshness over its shelf life. The push from smaller disruptive forces helped enable a confectionary packaging innovation that greatly reduces plastic use in the food industry.

Food Along the Last Mile

The technological disruption that brought us rideshare companies like ClearBridge holding Uber Technologies is also enabling a large platform for online food delivery aggregators. For companies with both rideshare and food delivery businesses, the proportionate role of food delivery is increasing (Exhibit 17).

This is not surprising: food delivery sales in the U.S. for online aggregators are taking off (Exhibit 18). We are now at \$20 billion in gross annual sales, just counting DoorDash, Uber Eats, Grubhub and Postmates, to name four of the larger players. Sales through these platforms are growing at around 60% year over year. While this is small compared to overall U.S. restaurant sales (which are an estimated \$800 billion a year, including delivery, dine in and drive through), the total pie of digital-enabled delivery is slated to grow.

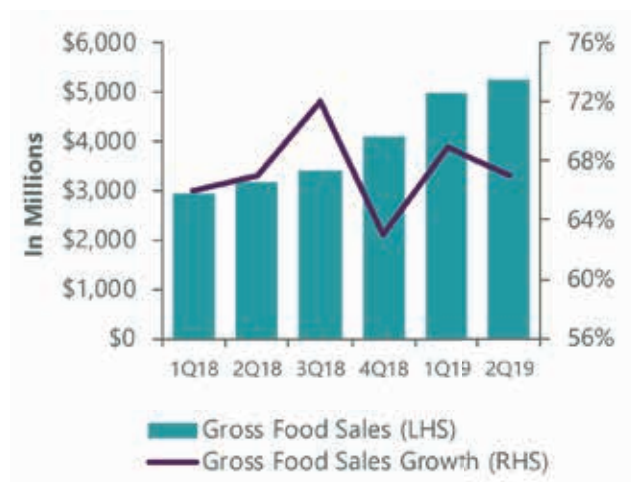
At the same time, as online food delivery aggregators are offering enhanced convenience and expanded food selection to consumers, new questions have arisen about food safety and protection for drivers and couriers in the gig economy. Food safety questions run the gamut from whether drivers can maintain correct hot or cold temperatures for food in their cars to concerns around food tampering from couriers. Labor questions surround benefits and pay for delivery drivers and couriers, most of whom are working part-time.

Ultimate success of online delivery companies may depend on the strength of partnerships with restaurants, in effect bringing drivers' incentives into closer alignment with those of the restaurateurs, and the ability to leverage technology to reduce food safety incidents and improve delivery efficiency.

Consumers Are Playing an Increasing Role

The role of the consumer in these changing dynamics should not be forgotten. Consumers voting with their wallets have been successful at changing, or at least helping steer, a whole industry, and this has occurred largely only in the past few years. While a common criticism is that more sustainably sourced foods are usually more expensive and more available to affluent consumers, this situation may be changing, if slowly. ClearBridge is a top 30 owner of Costco, both the largest warehouse food retailer in the U.S. and a top organic food retailer. Given its scale, Costco is making organic and natural food products more price competitive, helping to overcome some cost barriers. At the same time, shopping for organic or sustainably sourced products can be confusing. For example, no clear consensus and few useful laws regarding organics labelling make determining which products are truly organic a challenge.

Exhibit 18: U.S. Online Food Delivery Is Growing Steadily



Source: YipitData. YipitData provides informational services for institutional investors and other corporations and entities and is not registered as an investment advisor in any jurisdiction.

From production to consumption, food covers many industries and offers ClearBridge many avenues for understanding and engaging with companies we own both on best practices and on disruptive innovations that are both offering economic opportunities and potential solutions to pressing environmental problems. We continue to work with our portfolio companies to create more ways in which consumers and investors can truly change the food landscape.

The Beverage Recycling Conundrum: What's on the Outside Counts

Robert Buesing, Jr.
Dimitry Dayen, CFA
Mary Jane McQuillen
Humphrey Oleng

Americans are increasingly choosing water beverages (both still and sparkling) over soda, and most water for purchase is still bottled in plastic containers. The beverage container touches many industries, upstream and downstream, pre- and post-consumer, presenting logistical and environmental challenges at each step. Taking a life cycle approach to the beverage container's challenges, however, reveals how there are several entry points for action that can reduce environmental impact.

Plastic Upstream to Downstream

From a production and logistics standpoint, plastic bottles can make a lot of sense: they are durable and versatile, enable long shelf life, are easily molded and are light, which makes them easy to transport and lowers the carbon footprint from transportation costs. A polyethylene terephthalate (PET) bottle costs roughly half as much as a standard 12 ounce can (which costs \$0.09–\$0.10) and produces 77% less greenhouse gases (GHG) than a glass bottle (which are heavier to transport and can break during shipping).¹

This convenience comes with some major challenges, however, the biggest being recycling, as increased use results in high levels of plastic waste. Globally, only 12% of plastic waste is recycled. Sixty percent of plastic waste stays in the environment, entering urban areas, rivers and landfills around the world (Exhibit 19) — an alarming level given that it takes 450 years for a PET bottle to decompose. Another 28% of plastic waste is incinerated, resulting in significant GHG emissions.² In the U.S., the 29% recycling rate for PET bottles is higher than the global rate, but still dismal.³

The increased use of single-use plastics is another major challenge. A third of all plastic produced is for single use, but because these single-use items have a short shelf life they generate 42% of waste.⁴ Bottled water consumption helps illustrate the single-use challenge. We consume 100 billion gallons of bottled water globally each year. The U.S. consumes 14 billion gallons, of which 70% comes in single-serve bottles (the average American opens six water bottles per week).⁵ Consumption in the emerging markets tends to skew more toward bulk retail and is often a result of limited access to clean water as opposed to convenience. More single-serve plastic use means a higher plastic consumption intensity per gallon of bottled water consumed, increasing waste generation.

What Are the Solutions?

While there are several solutions available to the individual consumer — use less plastic, and use less often; if you use, reuse (consider having your own bottle); finally, recycle — there are several ways businesses can improve the situation up and down the beverage container supply chain. For plastic bottles in particular, we can use alternate substrates, use more recyclable content, use less plastic packaging or improve recycling itself, either by increasing consumer awareness or investing in technology to better recycle content.

Using Alternate Substrates

One much-discussed option to reduce the amount of plastic water or beverage bottles produced is to switch some uses to aluminum cans, which have much higher recycling rates (75% globally) than plastic bottles. This shift is being made possible in part by ClearBridge portfolio company Ball Corporation, the largest manufacturer of recyclable aluminum beverage cans in North America.

In a November 2019 call with Ball CEO and investor relations on its business and sustainability we discussed how the environmental challenge posed by packaging is a key driver for growth for the business. We see Ball as an innovator within the aluminum can industry. Ball will be the first company to build a fully dedicated aluminum cup — partnering with vendors to introduce recyclable aluminum cups to be used in stadiums and event venues across the U.S. They are also pioneering the development of new aluminum products such as resealable aluminum containers that will help increase penetration in the bottled water segment.

While aluminum is more carbon intensive to manufacture and it releases greenhouse gases in its production process, it is infinitely recyclable, which indicates the overall life cycle impact would be less than that of plastic. Several large beverage makers, such as ClearBridge portfolio companies Coca-Cola, PepsiCo and Nestlé, have begun to make the shift from plastic to aluminum with some of their water brands.

Investing in Technology to Increase Recyclable Content

Still, to the extent that plastic will continue to be used, there are ways to reduce its environmental impact. Some beverage companies are working to improve the recyclability of plastic. PepsiCo, for example, announced in June 2019 that its LIFEWTR brand will be packaged in 100% recycled PET. Using more recycled plastic could start a virtuous cycle of raising plastic's waste value, encouraging more recycling.

In addition, several companies across the plastic packaging value chain, ClearBridge portfolio company Unilever among them, have formed a new group aiming to accelerate the commercialization of BP Infinia, a technology for recycling certain types of PET plastic waste, such as highly colored and opaque plastic bottles or food trays, until now difficult to recycle. The technology is designed to turn these types of PET plastic waste into higher-quality PET packaging that can be recycled repeatedly without losing quality. In October 2019, BP announced plans to construct a \$25 million pilot

plant in the U.S. to prove the technology before progressing to full-scale commercialization. Higher recycling rates would reduce both virgin production and waste ending up in landfills and oceans or incinerated.

At a recent event with Coca-Cola C-suite members and head of sustainability, we discussed how plastic packaging remains a large sustainability focus area. Coca-Cola and several other large staples companies have invested in Circulate Capital, a firm that finances and invests in companies and infrastructure that prevent plastic from entering our oceans. Key technological focus areas include chemical recycling and increasing the capability to use post-recycled plastic content in new packaging. One of the big outstanding non-technological barriers is that in China and India regulators do not allow post-recycled plastic to be used for food and beverage purposes; Coca-Cola continues to work with industry players and NGOs to try and amend those regulations.

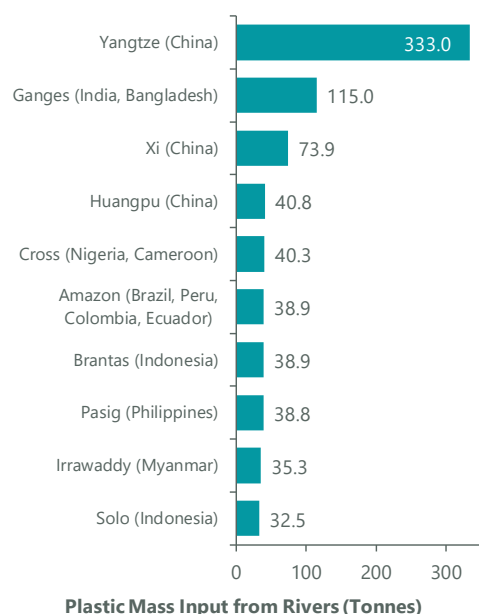
We also discussed how using returnable glass packaging is a competitive advantage in certain markets, and how this system allows the cost of the packaging to be amortized over 10+ uses, which gives the consumer a >30% discount versus a single-serve offering. Recycling infrastructure, however, remains crucial. A lack of glass recycling capability in the U.S., for example, limits the glass-packaged beverages Coca-Cola can sell in the U.S. market.

Challenges to Improving Recycling Practices

Whether we're using plastic or aluminum, recycling practices likewise show considerable room for improvement. Recycling rates in the U.S. have been flat at 35% since 2012, with the latest data available being 2017.⁶ Recycling for PET and high-density polyethylene (HDPE) liquid containers is 29%, down from 31% in 2012.⁷ Aluminum can recycling has also declined to 49% from 56% in 2014.⁸ Overall plastic recycling rates are holding steady at 8%–9%.⁹

Adding to the stress on the recycling system, China, hitherto the largest importer of waste plastics, accounting for 26% of the global market, imposed significantly higher contamination standards, in effect banning the import of several types of waste, including plastics, in early 2018. Municipalities, deprived of Chinese demand for their waste, have seen prices of recycling commodities fall precipitously, in effect raising the cost of recycling.

ClearBridge is a top 20 owner of integrated waste services company Waste Management. In a December 2019 engagement with the company we discussed how

Exhibit 19: Top 10 River Sources of Plastic Waste in Oceans

Estimated for the year 2015. Source: Hannah Ritchie and Max Roser (2020), "Plastic Pollution." Retrieved from <https://ourworldindata.org/plastic-pollution>. Data originally published by Lebreton, L. C., Van der Zwet, J., Damsteeg, J. W., Slat, B., Andrady, A., & Reisser, J. (2017). River plastic emissions to the world's oceans. *Nature Communications*, 8, 15611.

contamination — non-recyclable material or garbage that ends up in the recycling system — has increased as more people have begun recycling. The company estimates contamination rates at 25%, up from 10% in recent years. Since the ban, Waste Management and other U.S. recyclers have reduced contamination in their recycling basket, although this has raised costs for municipalities even as the commodity value of recycling has collapsed, in some cases threatening recycling programs. Processing costs today are as much as \$75–\$85/ton, which compares to average landfilling costs of \$55/ton. Higher costs have made it difficult for some municipalities to recycle.

Another waste disposal option is waste to energy. ClearBridge portfolio company Covanta, for example, operates energy-from-waste facilities that convert over 21 million tons of waste into power for over one million homes and recycles roughly 400,000 tons of metal every year.

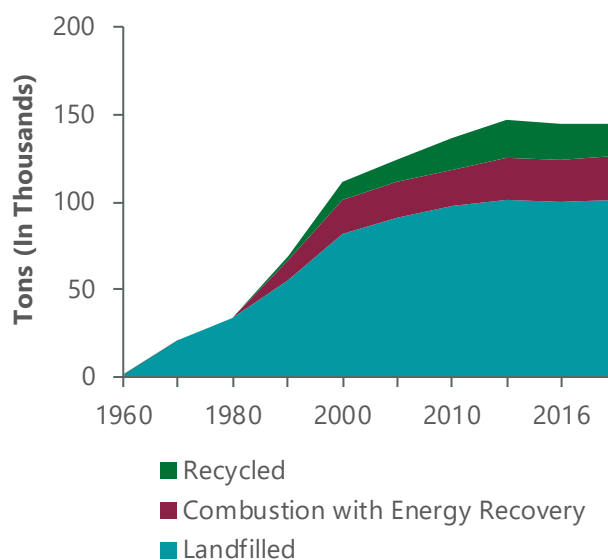
On a recent onsite visit with Covanta at one of its garbage collection sites, we discussed emissions comparisons for energy-from-waste versus landfilling and learned about the energy-from-waste process, from the intake of waste to energy generation. Energy-from-waste takes non-hazardous waste that would otherwise go to landfills, combusts it in boilers, then recovers the heat to generate steam to use in power generation. After the combustion takes place, Covanta

recovers metals from the remaining ash and re-sells them. This recycling prevents the carbon-intensive production of new metal products and saves more than 1.2 million tons of greenhouse gases each year, the equivalent of removing 113,000 cars from the road for a year, according to Covanta.

There are, of course, trade-offs with the energy-from-waste process as well, as combustion does release CO₂ into the atmosphere, albeit less than would be generated by the waste going to a landfill over a very long time.

The ultimate driver of improving recycling rates and lowering the cost of recycling may start in the home and office. If consumers were to increasingly recycle properly, the resultant higher recycling rates would lower costs in a virtuous cycle. Downstream industries using more recycled commodities outside the U.S. as feedstock would also help by boosting the value of recycled commodities and therefore lowering the cost of recycling to the consumer.

The practices of recycling and, to a lesser extent, combustion with energy recovery have grown in the past 30 years (especially outside the U.S.), helping slow the amount of waste entering landfills (Exhibit 20). To help continue this trend, ClearBridge takes a life cycle approach to the challenges surrounding the beverage container. This approach offers several entry points for driving change, and as active investors we seek this change through working with companies producing beverages, those producing their containers and those working to improve recycling practices. All are part of an international effort that is gaining strength.

Exhibit 20: Total Plastic Containers and Packaging Municipal Solid Waste by Weight

As of 2017. Source: American Chemistry Council and NAPCOR.



¹ Goldman Sachs Investment Research 2019

² Ibid.

³ National Association for PET Container Resources (NAPCOR).

⁴ Goldman Sachs Investment Research 2019

⁵ <https://www.bottledwater.org/water-use>

⁶ Environmental Protection Agency.

⁷ NAPCOR.

⁸ The Aluminum Association: Key Sustainability Performance Indicators, Sept. 2019.

⁹ Roland Geyer et al. "Production, use, and fate of all plastics ever made," Science Advances, July 2017.



Proxy Voting and the Role of Active Ownership

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 a shareholder, ClearBridge has a 100% proxy voting record, meaning we have voted on every eligible shareholder proposal at companies in our client portfolios. In 2019 ClearBridge voted in 15,740 proposals.

Along with direct and ongoing company engagement, proxy voting is an important part of our approach to positively influencing companies through ownership. ClearBridge's votes on shareholder proposals are an effective way to signal confidence in the companies we own or to suggest the need for a change in policies, disclosures or related aspects of a company's business. Proxy votes are cast by the portfolio managers of each ClearBridge strategy.

ClearBridge Proxy Voting Process

The ClearBridge Proxy Committee oversees the whole proxy voting process and is responsible for maintaining ClearBridge's Proxy Voting Guidelines. These guidelines set our recommended voting policies across a full range of proposals. In cases where the voting recommendation is not clear cut, the proposal is referred to the specific portfolio managers who own the shares, who will determine the appropriate way to vote on a case-by-case basis, using their knowledge of the company and in some cases speaking directly to the company about the specific proposal.

In voting proxies, we are guided by general fiduciary principles. Our goal is to act prudently and solely in the best interest of the beneficial owners of the accounts we manage. We attempt to provide for the consideration of all factors that could affect the value of the investment and will vote proxies in the manner that we believe will be consistent with efforts to maximize shareholder value. In the case of a proxy issue for which there is a stated position in our Proxy Voting Guidelines, we generally vote in accordance with the stated position.

Not All Votes Are For

Sometimes there are shareholder proposals that we 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.

Also, as active managers that incorporate engagement into our ownership strategy, in some cases we deem the best course of action on an issue is to continue to engage. Often, this will occur when we know management is taking steps to address an issue. And as our ongoing and direct engagement continually monitors company fundamentals, including ESG issues, our deep company knowledge may lead us to judge that in some cases, a company does not warrant a proposal.

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. Here we highlight proposals we voted “For” in 2019 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. We also highlight some major themes of the 2019 proxy season.

Expanding Gender Pay Gap Reporting

Mastercard provides transaction processing and other payment-related products and services in the U.S. and internationally. In 2019 ClearBridge voted its full holdings in support of a proposal that the company report on its global median gender pay gap. We recognize Mastercard publicly reports its gender pay equity, discloses average gender pay information and has implemented meaningful policies to encourage gender diverse leadership, but believe disclosing global median gender pay data would add transparency around gender pay more broadly and allow shareholders to track and compare this information with other companies over time.

Engaging and Voting to Bolster Social Media Content Policies

ClearBridge is a top five owner of microblogging and social networking website Twitter. In 2019 ClearBridge voted its full holdings in support of a proposal that the company review the efficacy of its enforcement of its content policies related to content governance controversies such as election interference, fake news, hate speech and sexual harassment. While we chose to vote for the proposal, we are encouraged by discussions we have had with Twitter on the issue. ClearBridge

media and Internet analyst Erica Furfaro hosted Twitter's CFO in our New York office in 2019 and held multiple calls throughout the year. During these engagements, we discussed Twitter's platform security and content safety efforts at length. We are supportive of the company's efforts to improve in this area, such as more proactively surfacing abusive content through machine learning, and will be following up on these topics in future meetings.

Coffee Leader Innovates Sustainable Packaging

Starbucks is a sustainability-focused coffee company with nearly 30,000 locations worldwide. In 2019 ClearBridge voted its full holdings in support of a proposal that the company report to shareholders on its progress in reducing its environmental impacts by accelerating its sustainable packaging initiatives. Sustainable packaging, in particular

the challenges facing plastic, has been a regular topic for ClearBridge research and commentary. While we voted in support of the proposal, we acknowledge Starbucks' existing initiatives, such as designing a compostable, recyclable cup and eliminating plastic straws globally by 2020.

Retailer Sets GHG Emissions Goals

Ross Stores is an off-price retail apparel and home accessories company. In 2019 ClearBridge voted its full holdings in support of a proposal that Ross set long-term GHG reduction goals consistent with the Paris Agreement and the 2018 Intergovernmental Panel on Climate Change (IPCC)

report. As a result of the vote Ross has committed to setting and publishing long-term GHG reduction goals within 12–18 months, to making annual board-level updates on its sustainability program and to increasing its transparency and external reporting.

ClearBridge 2019 Notable Proxy Votes by Issue

Following 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.

Goal	Company	Industry	Topic	ClearBridge Ownership	Shares Voted For
Link Executive Pay to Social Criteria	AbbVie	Pharmaceuticals	Integrate Drug Pricing Risks into Executive Compensation		100%
	Vertex	Biotechnology	Integrate Drug Pricing Risks into Executive Compensation	Top 10 Owner	100%
Board Diversity	Exxon Mobil	Integrated Oil & Gas	Disclose a Board Diversity and Qualifications Matrix		100%

<u>Goal</u>	<u>Company</u>	<u>Industry</u>	<u>Topic</u>	<u>ClearBridge Ownership</u>	<u>Shares Voted For</u>
Gender Diversity	Bank of America	Diversified Banks	Report on Gender Pay Gap	Top 40 Owner	100%
	Intel	Semiconductors	Report on Gender Pay Gap		100%
	Mastercard	Data Processing & Outsourced Services	Report on Gender Pay Gap		100%
	Bank of NY Mellon	Asset Management & Custody Banks	Report on Gender Pay Gap		100%
	Wells Fargo	Diversified Banks	Report on Gender Pay Gap	Top 50 Owner	100%
GHG Emissions	CH Robinson	Air Freight & Logistics	Science-Based Targets for Reducing Total GHG Emissions	Top 10 Owner	100%
	Fluor	Construction & Engineering	Company-Wide Goals for GHG Reductions	Top 10 Owner	100%
Sustainable Packaging	Starbucks	Hotels, Restaurants & Leisure	Report on Sustainable Packaging		100%
	YUM! Brands	Restaurants	Report on Sustainable Packaging		100%
Opioid Oversight	Walgreens Boots Alliance	Drug Retail	Report on Governance Measures Implemented Related to Opioids		100%
	Mallinckrodt	Pharmaceuticals	Report on Governance Measures Implemented Related to Opioids		100%
Human Rights Risk Assessment	Chevron	Integrated Oil & Gas	Report on Human Right to Water		100%
	Northrop Grumman	Aerospace & Defense	Report on Implementation of Human Rights Policy		100%
Equity and Fair Treatment in the Workplace	Walmart	Hypermarkets & Super Centers	Report on Sexual Harassment	Top 50 Owner	100%
	XPO Logistics	Air Freight & Logistics	Report on Sexual Harassment	Top 10 Owner	100%
	Alphabet	Interactive Media & Services	Adopt a Policy Prohibiting Inequitable Employment Practices		100%
Social Media and Content Oversight	Twitter	Interactive Media & Services	Report on Content Enforcement Policies	Top 5 Owner	100%
Report on Sustainability	Charter Communications	Cable & Satellite	Report on Sustainability		100%



Public Education and Corporate Partnerships

ESG Industry Discussions

<u>Event</u>	<u>ClearBridge Representative</u>	<u>Topics</u>	<u>Additional Information</u>
Energy Infrastructure Council Investor Conference 2019	Chris Eades, Portfolio Manager	ClearBridge's promotion of ESG practices in the midstream energy sector, and the need for greater sustainability disclosures in energy	Attendees included public and private energy infrastructure companies, institutional and retail investors, and research and regulatory personnel
Geneva Forum for Sustainable Investment 2019	Mary Jane McQuillen, Portfolio Manager, Head of ESG Investment	ESG engagement and sustainable investing practices	Panel also included a public pension fund trustee and investment officer; attendees from corporate funds, public funds, endowments and foundations and other institutions
Pensions & Investments ESG Investing Breakfast Briefing Series	Stephen Rigo, CFA, Portfolio Analyst Robert Buesing, Jr., Sector Analyst Marshall Gordon, Sector Analyst Hilary Frisch, CFA, Sector Analyst	Examples of engagements with ClearBridge portfolio companies	In a series of breakfast events in four U.S. cities, analysts presented on ClearBridge's engagements to audiences of institutional investors
RI Americas	Erica Furfaro, Sector Analyst	Creating accountable and sustainable growth models for large tech companies, regulatory risk to tech companies, and most effective engagement strategies in addressing ESG risks in the tech sector	Audience included institutional investors, academic researchers and policymakers
RI Europe	Benedict Buckley, CFA, Portfolio Analyst	Practicalities in incorporating ESG analysis into the investment process, pros and cons of using ESG data sets and ESG integration from the portfolio management perspective	Audience included institutional investors, academic researchers and policymakers

ESG Industry Collaborations and Public Education

Organization	ClearBridge Participation
Ceres	ClearBridge signed a letter from Ceres members to the SEC commenting on its proposed changes to Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8, which would update the ownership requirements for a shareholder to include a proposal in a company's proxy statement. By imposing a minimum time period of shareholder ownership of three years on the ownership threshold and limiting the number of proposals a single person may file, the proposed changes would disempower retail and institutional investors and disproportionately harm small investors. In the fall of 2019 ClearBridge co-sponsored the Ceres 30th Anniversary event in New York, featuring keynote speaker Tim Cook, CEO of Apple.
Global Ghost Gear Initiative	ClearBridge supported a letter via the PRI Collaboration Platform asking the Marine Stewardship Council (MSC) to strengthen its certification standards on ghost gear: lost and abandoned fishing gear in the marine environment. Ghost gear is a significant contributor to marine debris, a challenge that must be addressed to help protect ocean life and secure the future of our oceans as a productive and sustainable global food resource. The MSC's response stated the letter and its supporting research would be key material in its next meeting with its Board of Trustees.
CFA Institute	Benedict Buckley, CFA, spoke at the CFA Society of Baltimore's 2019 Future of Finance Conference on a panel about approaches to ESG and the challenges of ESG integration. Mary Jane McQuillen spoke at a plenary session at the CFA Institute Annual Equity Research and Valuation national conference in New York on integrating ESG into investment decision making.
Columbia Business School	Mary Jane McQuillen spoke at the Columbia Social Enterprise 2019 conference "Capital for Good." Topics covered included how investors identify material ESG factors affecting businesses and the environments and communities in which they operate and whether ESG investors change corporate behavior.
ESG Clarity	Client Portfolio Manager Kathleen Anderson spoke at the ESG Clarity Symposium in Hong Kong on ClearBridge's model of ESG integration. Mary Jane McQuillen spoke at the ESG Clarity Symposium in Singapore on ESG integration and its impact on company fundamentals and society.
Institutional Investor	Benedict Buckley, CFA, spoke at the Public Funds Roundtable on a panel about integrating ESG into the investment process for public pension funds
Money Management Institute	Energy analyst Dimitry Dayen, CFA, spoke at the Money Management Institute / Sorenson Impact Investing Advisor Forum on integrating ESG in the energy sector.

ESG Organization Affiliations



The **Access to Medicine Index** analyses 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 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 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+ 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.**



The **Forum for Sustainable and Responsible Investment** 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 an Active Member.**



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.**



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.**



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



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.**



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



During 2019 ClearBridge and **WaterAid** formed a new corporate partnership. WaterAid is working to make clean water, decent toilets and good hygiene normal for everyone, everywhere, within a generation. The international nonprofit organization works in 34 countries to change the lives of the poorest and most marginalized people. Since 1981, WaterAid has reached 26.4 million people with clean water. Through this new partnership ClearBridge will bring together several important components of our corporate mission: philanthropy, volunteerism, sustainability and relating our investment capabilities to Sustainability Development Goals, in this case SDG 6: Clean Water and Sanitation. In the coming year we will underwrite a critical project in Colombia to bring water to the village of La Guajira in a safe and consistent manner. We look forward to reporting our progress in the years to come.

ClearBridge Encourages Companies to Consider All Stakeholders in COVID-19 Response

As an investment management firm headquartered in New York City, ClearBridge is experiencing the COVID-19 pandemic on a very personal level. We are enormously appreciative of the outstanding dedication our employees have demonstrated to our clients and each other under very difficult circumstances.

Companies throughout the economy are confronting an unprecedented crisis, often under very stressful personal circumstances. We are enormously impressed by the great work many companies are doing to manage their businesses in a thoughtful and compassionate manner that considers all stakeholders. In times of crisis, we believe it is especially important for management to reflect on their collective responsibilities to employees, customers, investors and the broader community in which they operate. We are all expected to find the fine line defining quality near-term performance while maintaining or enhancing the opportunity for superior long-term success.

There are times, however, when short-term, non-financial priorities need to be addressed for the good of all. Today, COVID-19 is a common cause, and we are very encouraged to see that many in the private sector have stepped up to the challenge. We urge any company that has the capability to produce products that are in need to strongly weigh the benefits of the broader good against what may be a less-than-desirable financial return. Companies are remembered for how they respond to a crisis. Those that do the right thing for all stakeholders will improve their reputation and brand equity while those that fall short will do themselves no favors in the long term.

We outline below our general expectations of company managements as they address the needs of their various stakeholder groups during the COVID-19 crisis. We will be having active discussions with managements as the crisis continues to unfold and fully expect that we will not agree with every decision that is made. Furthermore, we recognize that each business is



different and stands to be uniquely impacted according to the nature of its products, inputs and capital structure and many management teams will face difficult choices in the coming months. The following observations, therefore, are not intended to be prescriptive, per se, but rather a series of guidelines that help define what we think is fair and proper and will benefit all stakeholders over the long term.

Employees

- Employee well-being includes both physical and financial safety, so a best response to the spread of COVID-19 will consider health expert guidelines on workplace safety vis-à-vis preventing transmission of the virus. This will involve, as applicable, cleaning, social distancing practices, or rotating shifts for businesses either able to, or required to, operate while COVID-19 remains a threat.
- It also includes paid sick leave and strategies to retain employees. We take a long-term view of retention and encourage steps to help employees stay on through the current crisis. This will help companies grow more quickly once the crisis has passed.

Management

- We understand the stress and strain these times place on senior management teams. There are few things more frightening than a seemingly almost impossible-to-avoid contagion and we respect that circumstances may be far more personal than are publicly known.
- Nevertheless, in times of duress, management is expected to provide leadership and guidance and recognize there is a shared outcome for all levels of the company. This will require an unprecedented focus on transparency and an unwavering dedication to communicate with all layers of their respective organizations.
- Boards of Directors need to appreciate that executive compensation is not just a matter of dollars and cents during these troubled times. Stakeholders all look to those numbers as an example of understanding, empathy and an acceptance of shared financial responsibility.

Customers, Suppliers and Communities

- We think this period offers companies a unique opportunity to distinguish themselves, be it by increasing production of now vitally essential products, redeploying production capability to support health care workers and their patients and dedicating incremental dollars to develop rapid testing, novel vaccines and palliative and curative therapeutics. These private sector efforts are essential to the success of the broader effort.
- For companies that provide essential services such as drug stores, and food distributors and retailers, it is crucial now to take extra steps to ensure they continue to deliver important services to customers. An immediate creative example we have seen are supermarkets organizing safer early access for seniors to shop for necessary goods.
- In other cases, we urge companies to understand customer and supplier challenges and work collaboratively to get through this crisis. For some businesses this might involve offering forbearance so far as possible on contracts. Showing some lenience in contract terms is appropriate now to ensure business sustainability and ultimately an opportunity to build strong long-term customer relationships. Customer loyalty can be enhanced — or ruined — in times like these. For other businesses, we recognize this is not possible.
- Some companies are going above and beyond to respond directly to the threat of COVID-19, though some of these investments may not be immediately economic. Hygiene and sanitation companies are working overtime to provide necessary products even if it will create capacity they will not need in six or 12 months.

Investors

- We are sending the message to our companies that in a time of stress it is important to still take a long-term view. Shareholders, and we hope bondholders as well, will look beyond the current tumult and reward management teams that make the good decisions for all stakeholders.
- ClearBridge remains convinced that, in these difficult times, advancing basic issues of sustainability — in particular, taking care of all stakeholders — will support the most positive long-term outcomes. As we manage through this crisis, we are keeping our focus on preserving and growing our client's wealth by investing in high-quality companies and maintaining this long-term perspective.

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