ClearBridge Investments

Creating Sustainable Value Through Active ESG Integration

2023 Stewardship Report

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2023 Stewardship Report online

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Welcome Letter from Terrence Murphy

Investment styles such as growth and value go in and out of favor as part of the natural course of equity market activity. While environmental, social and governance (ESG) investing has a shorter history than these two dominant styles, it too has endured through periods of investor optimism and pessimism. 2022 was a notable year for ESG investing as strategies categorized as sustainable faced greater scrutiny.

As ESG investors for more than 35 years, we welcome the push for enhanced disclosures and vetting of sustainable approaches to avoid greenwashing. And as stewards of client capital, our role at ClearBridge is not to take sides in such a partisan debate but instead to communicate the fundamental and fiduciary drivers supporting our conviction in ESG integration as a core part of our active management approach. Portfolio Manager Derek Deutsch does this effectively in "ESG in the Political Spotlight," and we believe our 2023 Stewardship Report fulfills this mission on multiple fronts.

Rather than debate the merits of the criticism leveled at ESG approaches, we have instead chosen to move forward in expanding our active role in addressing the urgent sustainability challenges faced by investors and global society overall. As our sixth annual Stewardship Report highlights, we continue to seek progress through both improvements to the firm's ESG practices, such as our enhanced Engage for Impact approach, which encourages more targeted and impactful engagements, as well as ongoing support of existing industrywide collaborations, such as the Net Zero Asset Managers initiative (NZAM). We explain in detail our approach to reducing emissions, a methodology that was chosen as a case study by the U.N. PRI. We have also become involved in new efforts such as Advance, a PRI stewardship initiative focused on human rights and social issues, where we have applied lessons learned from engagements with companies involved in extractive industries.

Engagements remain at the heart of our stewardship efforts as the long-standing relationships we have cultivated with company managements help contribute to meaningful change across sectors and industries. In the report's Engagements and Impactful Active Equity Ownership section, we catalog key ESG issues discussed and progress achieved with more than a dozen public companies based in the U.S. and Europe. These case studies include work done by our infrastructure team, which continues to apply the firm's approach to ESG integration and engagement across the global universe of listed infrastructure assets.

Our experience as ESG investors lends useful perspective to where we are and where we hope to go in our stewardship efforts. In her annual update, Head of ESG and Portfolio Manager Mary Jane McQuillen analyzes the key trends that drove ESG investing and regulation in 2022 and discusses what's ahead in 2023 as the energy transition, human rights and biodiversity assume increasing prominence.

While environmental issues have drawn much attention as society sets a path toward net zero, social issues continue to gain momentum among public equity owners. In fact, social proposals related to racial equity and civil rights were the largest and fastest growing category of shareholder proposals put to proxy votes in the past year. Protecting human rights and advancing diversity, equity and inclusion are priorities that have informed much of the work we have done across public advocacy, individual company engagements and in our own recruiting and human development efforts at the firm. We catalog these efforts from several angles across the report.

As always, we appreciate your long-term partnership and support and look forward to reporting on further progress in our stewardship efforts going forward.

Sincerely,

Terrence Murphy

Terrence Murphy
Chief Executive Officer

Firm Overview

ClearBridge Investments is a leading global equity manager with $151 billion in assets under management as of December 31, 2022.

Owned by Franklin Resources, ClearBridge operates with investment independence from headquarters in New York and offices in Baltimore, Fort Lauderdale, London, San Mateo and Sydney.

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.

ClearBridge takes a long-term approach, holding companies for five 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 and drive engagement with company managements.

ClearBridge's 35-year legacy of ESG integration offers a powerful example of long-term thinking, and ClearBridge remains at the forefront among asset managers in promoting and communicating the benefits of including ESG factors when selecting investments and building portfolios.

$151 Billion
In Assets Under Management

242 Companies
Where We Are a Top 20 Shareholder

5 Years
Average Period We Own a Company

11 Years
Explicitly Incorporating ESG Analysis in Analyst Compensation

35 Years
Integrating ESG Analysis in Investment Process

11 Years
Winner of P&I Best Places to Work in Money Management

900+ Companies
With Proprietary ESG Ratings

1000+
Company Meetings per Year

100%
Proxy Voting Record

Building a Diverse and Inclusive Culture at ClearBridge

At ClearBridge, we believe that diversity, equity and inclusion (DEI) is essential to our success as an organization, since our business benefits from sharing different perspectives, a breadth of experience and a diverse source of ideas. ClearBridge is proud to be a diverse company that promotes respect, integrity and teamwork and encourages new ideas and perspectives.

To ensure that our employees can always share their unique capabilities and perspectives to benefit our clients, ClearBridge is committed to providing a diverse and inclusive culture. For every employee, this means the opportunity to contribute in an environment that promotes mutual respect and acceptance of all individuals regardless of differences that are unrelated to one's job.

ClearBridge believes strongly in pay equity and compensating people based on the work they do and the value they bring to the company, regardless of gender, race, ethnicity, nationality, age, sexual orientation, gender identity, disability or veteran status, or any other type of identifier. Commitment to pay equality is part of our DEI strategy. We will continue to promote equality through our total reward and talent management processes.

Over the last 10 years we have supported and sponsored pipeline recruitment efforts through organizations that focus on developing career connections, training and support to diverse undergraduate and graduate students looking to launch careers in financial services including: the Toigo Foundation, SEO Career, Cornell Women in Investing Conference, Big Brothers Big Sisters of New York and Historically Black Colleges and Universities events and outreach.

Percentage that are Women	2020	2021	2022
Total Employees	36%	37%	38%
Portfolio Managers	13%	12%	15%
Traders	33%	33%	33%
Analysts	19%	21%	28%
Senior Management	27%	27%	27%

Percentage that are People of Color	2020	2021	2022
Total Employees	28%	30%	32%
Portfolio Managers	13%	15%	15%
Traders	11%	11%	11%
Analysts	36%	39%	44%
Senior Management	18%	18%	18%

ClearBridge Recognized by Pensions & Investments Best Places to Work in Money Management

ClearBridge was once again named to P&I's Best Places to Work in Money Management. ClearBridge also earned the distinction of being one of only five firms named annually since P&I launched the program in 2012.

This achievement is based largely on employee feedback, and it is an honor that ClearBridge continues to be recognized. Employees surveyed by P&I cited ClearBridge's unique culture of teamwork, inclusion, respect and open communication as reasons why they feel valued and included, and why it is one of the best places to work in the industry. This environment fosters a work ethic that motivates employees to go above and beyond to meet the needs of clients and other stakeholders.

We use the survey results annually to develop and enhance our employee programs to build upon our culture.

ClearBridge ESG Milestones

1987

ClearBridge opens first client account using socially responsible investment approach

1990

Joins Interfaith Center on Corporate Responsibility (ICCR)

1997

Joins U.N. Environment Program Finance Initiative (UNEP FI)

2004

Co-publishes first "ESG" report with the UNEP FI's Asset Management Working Group, which coined "ESG" for institutional investment

2005

Becomes an inaugural Investor Signatory to the Carbon Disclosure Project (CDP)

Participates in launch of the Principles for Responsible Investment (PRI) with Kofi Annan at the NYSE

Establishes central research platform and begins integrating ESG factors by sector

2008

Signs U.N.-supported Principles for Responsible Investment (PRI)

2009

Becomes a member of the Responsible Investment Association

2011

Joins Investor Network on Climate Risk (INCR)

Joins Ceres

2012

Joins Global Impact Investing Network (GIIN)

2013

Forms corporate partnership with WaterAid

2014

Formally introduces proprietary ESG ratings

2015

Launches ClearBridge Sustainability Leaders Strategy, ClearBridge's marquis ESG strategy investing in high-quality companies with outstanding ESG characteristics

2016

Signs the Access to Medicine Index (ATMI) Investor Statement

2017

ClearBridge assets where ESG factors are integrated and ESG ratings assigned surpasses $100 billion

2018

Becomes a signatory to Climate Action 100+ and a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD)

2020

ClearBridge assets where ESG factors are integrated and ESG ratings assigned surpasses $150 billion

Signs the CDP Science-Based Targets Initiative (SBTi)

Becomes a member of the FAIRR Initiative

2021

ClearBridge assets where ESG factors are integrated and ESG ratings assigned surpasses $200 billion

Becomes a signatory to Net Zero Asset Managers Initiative (NZAM)

Becomes a member of the Responsible Investors Association Australasia (RIAA)

2022

Joins PRI's Advance as a collaborating investor

New at ClearBridge in 2022

ClearBridge joins Advance:

A PRI stewardship initiative on human rights and social issues endorsed by over 200 investors collectively managing over $30 trillion. We joined as a collaborating investor, engaging companies in the mining and renewables sectors on human rights and social issues.

ClearBridge introduces Engage for Impact:

We introduced an enhanced internal ClearBridge engagement initiative to encourage more targeted engagements that have a greater likelihood of creating positive impact. Engagement with portfolio companies has been a long-standing part of our investment decision making and active ownership; the initiative does not change our process, but seeks to better focus and structure it.

ClearBridge continues the 2022 Carbon Disclosure Project (CDP) Science-Based Targets initiative (SBTi) campaign:

Through this extended campaign from 2021, ClearBridge continued to support engagement with high-impact companies on committing and setting a 1.5°-aligned SBTi-approved science-based emission reduction target.

Net Zero Asset Managers initiative (NZAM):

ClearBridge's targets as part of NZAM were officially accepted and published; ClearBridge was one of four firms to have its net-zero approach selected as a case study by the UN PRI.

ClearBridge also signed several investor statements and letters on ESG issues:

2022 Global Investor Statement to Governments on the Climate Crisis: As an extension of our 2021 commitment, ClearBridge signed a second joint investor statement calling on governments to step up their collective response to the climate crisis, specifically around policy making, net-zero commitments and actions to strengthen national climate plans.

Ceres Valuing Water Finance Initiative: A global investor-led effort to engage companies with a high-water footprint to value and act on water as a financial risk and drive change to better protect water systems.

Investor Statement on the Crisis in Ukraine: A joint investor statement condemning the Russian military invasion of Ukraine and signaling support for the freedom and territorial integrity of the Ukrainian people under international humanitarian law.

An Annual Update with Mary Jane McQuillen

Portfolio Manager, Head of ESG

Mary Jane McQuillen has been central to ClearBridge's ESG integration efforts since 1996 and is uniquely positioned to offer a close-up view on the defining trends in sustainable investing as well as the pressing topics addressed in ClearBridge's ongoing engagements with portfolio companies' CEOs and CFOs.

Scan to watch video highlights of Mary Jane McQuillen's annual update

Finishing a Year of Firsts

It is an encouraging time for those integrating environmental, social and governance (ESG) factors into the investment process, as 2022 delivered a series of firsts that should help improve that process as well as broader conversations around sustainability. But if you need a refresher on the ways sustainable investing advanced in 2022, you're not alone.

Regulation Vetting Sustainability in Europe

Regulation in Europe took a step forward with the first year of implementation of the Sustainable Finance Disclosure Regulation (SFDR), which aims to improve transparency in the market for sustainable investment products and prevent greenwashing. The measure imposes comprehensive sustainability disclosure requirements covering a broad range of sustainability metrics and is an opportunity for managers to show they're doing what they claim to be doing.

Managers maintain some discretion in deciding how SFDR requirements are met. For example, managers must disclose what percentage of a given fund's assets target sustainable investments, though there aren't prescriptive SFDR guidelines on what constitutes a sustainable investment and there is no minimum percentage requirement at this time. This is appropriate in the early stages of implementing regulation as it allows a market-like environment to discover best practices and leaders. As we have seen elsewhere, intra-industry sustainability practices tend to converge over time as best practices are diffused. We expect the same for asset managers. Investors want fair, safe and efficient markets and transparency for all participants and the European Union's SFDR is a step in the right direction with ripple effects for other country jurisdictions.

Names, Issuer and Investor Rules in the U.S.

The U.S. also stepped up in proposing sustainability-related regulation. This included the SEC's recommended updates to the Investment Company Act of 1940's "Names Rule," which currently says funds whose names suggest a certain focus must invest at least 80% of their assets accordingly. The proposed amendment would expand what counts as "focus" to include sustainability factors. The SEC also proposed new climate-related disclosure requirements for public companies via the "issuer rule"; proposed amendments would require public companies to provide certain climate-related financial data and greenhouse gas emissions in public disclosure filings. The "investor rule" proposes that ESG-focused funds and firms disclose more specifics about their ESG strategies, for example in fund prospectuses and annual reports.

In addition, the Department of Labor issued a final rule that permits retirement plan fiduciaries, such as 401(k) plan sponsors, to consider climate change and other sustainability factors when they select investment options and exercise shareholder rights, such as proxy voting for plan-held securities.

For ClearBridge, 2022 marked another first on the climate front: our target-setting methodology as part of the Net Zero Asset Managers initiative was approved and is currently being rolled out. We published a case study with the PRI outlining a forward-looking approach to verifying net-zero alignment that corresponds with our investment goal of identifying companies that will maintain shareholder value and be successful well into the future, as well as with our fiduciary duty. In addition, we published a standalone Climate Report in line with the Task Force on Climate-related Financial Disclosures framework, where we discuss our approach to integrating climate-related risks and opportunities in our investment process firmwide.

Pruning a Fast-Growing Tree

Reflecting the further vetting of sustainable investing, according to US SIF, 2022 was also the first year ESG assets under management decreased since 1995, when US SIF first began recording ESG AUM.[1] The main reason for this change is not because of performance issues or client withdrawals from ESG accounts. Rather, US SIF raised the threshold for what ESG assets are, refining its methodology for counting ESG assets to require more granular information on the incorporation of ESG issues into investment decision making and portfolio construction. Bottom line: if a manager or institutional investor did not provide details on the ESG assets it claims to manage, those assets were not included in the report.

It's easy to see why this makes sense. Going forward, regulators will also require disclosure of the processes and strategies used in managing ESG assets. US SIF wants to be reflective in its approach and is anticipating the views of regulators in how to more accurately assess ESG assets for reporting purposes. The result should be more transparent markets and more trust for sustainable investing intentions.

[1] US SIF, 2022 Report on U.S. Sustainable Investing Trends.

The Year Ahead: Regulation, Energy Transition, Biodiversity and Human Rights

Regulation will remain a key topic for sustainability-minded investors in 2023 as it begins to have a greater impact on how sustainable investing strategies are perceived and evaluated by investors. Beginning in January, Level 2 requirements of the EU SFDR will include reporting on principal adverse impacts, though data on these remain difficult to gather, assess and compare. On a global basis, the number of regulatory initiatives jumped by ~37% from 2021 to 2022, with the European region leading, and the figures are expected to keep rising (Exhibit 1.01).

The clean energy transition will continue to dominate sustainability discussions, with the U.S. Inflation Reduction Act (IRA) creating more than a decade's worth of spending and tax credits and offering long-term visibility on climate-friendly investments across sectors. The act offers tailwinds for renewable energy, further improving its cost competitiveness (Exhibit 1.02), as well as electric vehicle supply chains and companies helping the climate with solutions in buildings and energy efficiency. One caveat here is that it's important to not lose sight of company profitability and the strength of the business model: in the long term, policy tailwinds are no substitute for strong fundamentals.

The IRA also turbocharges renewable energy deployment, jumpstarts emerging technologies like battery storage, clean hydrogen and carbon capture and storage, and incentivizes U.S. manufacturing, while highlighting fair wages and the responsible production of minerals necessary for the energy transition.

Mineral production is a topic growing in importance and a current focus of ClearBridge engagements. Electrification requires large amounts of copper, for conducting electricity, and battery materials such as cobalt and lithium, for storing it. Mining these minerals entails substantial ESG risks. It is vital for clean energy storage investors to be responsibly involved in extractive industries, as we know mining can be tough on the environment. Many mines operate in emerging economies with substantial risks due to lower living standards, reduced social protections, and lax governance and environmental regulations. Extractive industries will yield many of the raw materials necessary for electrification; taking care of the land and the people on it will be paramount.

Exhibit 1.02: Changes in Levelized Energy Costs (with IRA)
Jan 2021 - Sept 2022
IRA further lowers wind and solar costs.

As of Sept. 29, 2022. Source: NextEra Energy Resources estimate. Natural gas comparison based on Electric Reliability Council of Texas pricing.

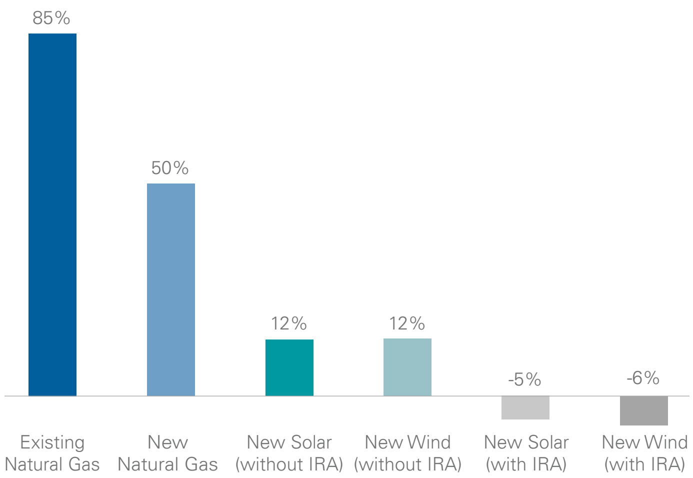


Exhibit 1.01: Number of ESG Regulatory Initiatives Are Increasing

As of Oct. 3, 2022. Source: ISS ESG.

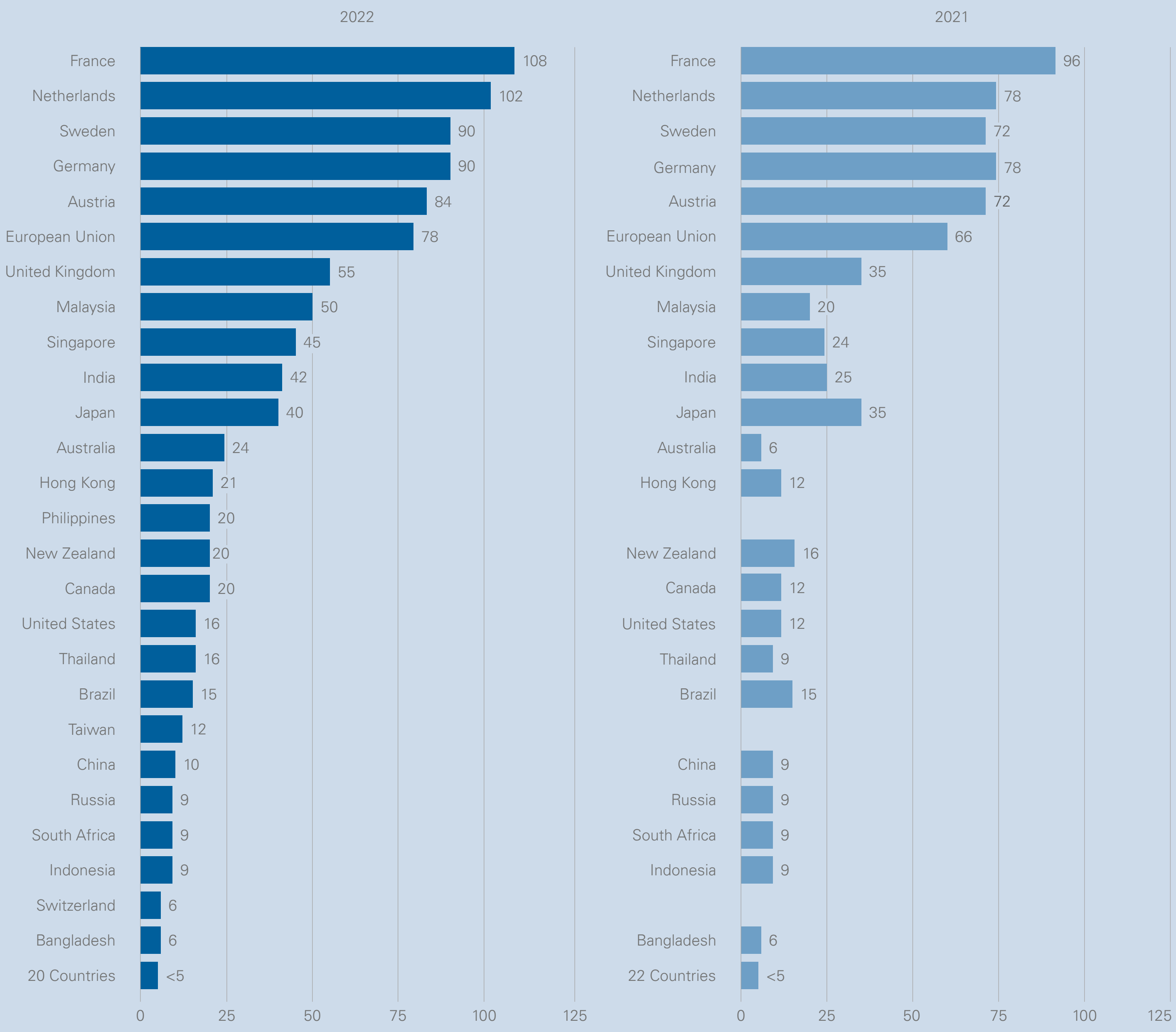
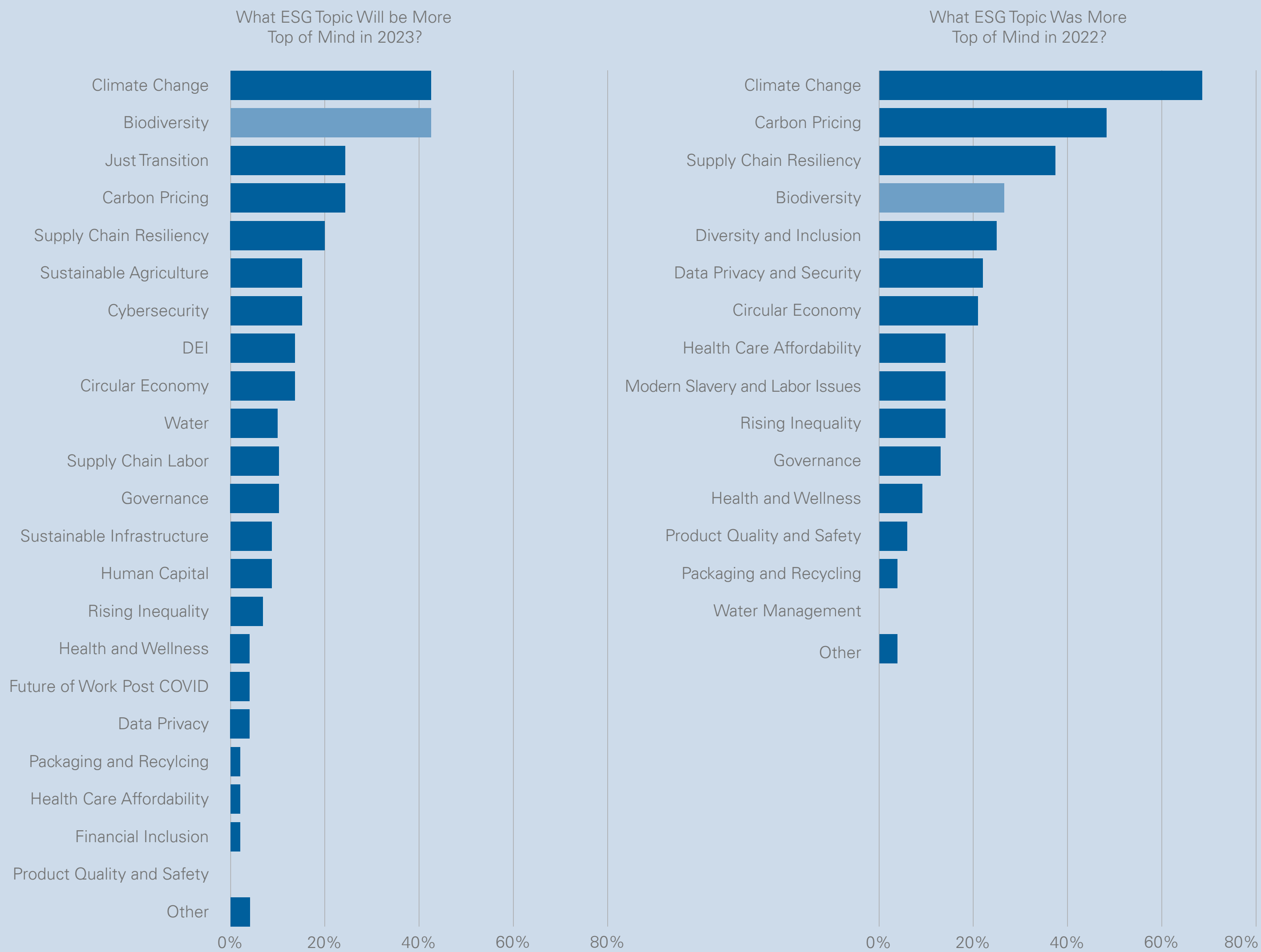


Exhibit 1.03: Biodiversity Gaining in Prominence Among Institutional Investors

Source: Bernstein ESG Outlook Surveys, 2022 (n=53) and 2023 (n=51).



Biodiversity and human and labor rights also continue to grow as a focus, based on our company and industry engagements, in particular for companies with operations or suppliers in emerging economies, though developed market conditions need to be monitored as well. One survey of 51 institutional investors showed that biodiversity is expected to gain equal mindshare with climate change in 2023 (Exhibit 1.03).

Biodiversity, or the variety of life on Earth and its interactions, is commonly perceived as the "less engaged environmental priority" next to climate change, and it is a fairly broad term we should be careful not to ignore. Impact themes ClearBridge regularly engages on, such as supporting regenerative agriculture, promoting responsible water management, minimizing waste, developing a circular economy, and protecting and restoring habitats get to the heart of biodiversity as an investment theme.

On the human and labor rights side, more investor disclosures are being considered by the SEC and, based on 2022 proxy trends, we should expect social shareholder proposals, which increased 17% year over year in 2022,[2] to continue increasing in 2023. The main driver of that increase was the 81% growth in proposals on civil rights, human rights and racial equity impact,[3] though roughly half of racial audit proposals were withdrawn after companies agreed to perform some form of audit—a sign companies are starting to see the value in this type of assessment.

In 2023 we should be on the lookout for more shareholder proposals related to climate disclosure and goals, political spending disclosure, EEO-1 workplace disclosure, enhanced disclosure of diversity of the board, cybersecurity, director qualifications, and other human capital management disclosures.

[2] Sullivan & Cromwell LLP.
[3] Ibid.

Scrutiny of ESG Calls for Clarity, but its Intention Has Been Constant for 30+ Years

In the past year, there has been a fair amount of public discussion, as well as some politically motivated action, around ESG investing, prompting some to even position themselves as "anti-ESG." Unfortunately, in our view, some of the discussion in the U.S. focuses more on misperceptions than the underlying investment practice.

One misperception is that ESG investing is new. As practitioners of sustainable investing for 35 years, we have used a variety of names for our investment approach since we first began integrating environmental, social and governance factors into our investment analysis in 1987, including socially responsible investing (SRI), socially aware investing (SAI) and, today, ESG investment. While the term "ESG" has received a lot of attention, as has "greenwashing," ESG investing is not a new "trend" for ClearBridge. We stayed with the term ESG after helping to coin it in 2004 with our U.N. Environment Program Finance Initiative Asset Management Working Group partners,[4] as, practically speaking, we believe every investment has environmental, social and governance risk and return implications.

Other misperceptions garnering attention involve "values" and investing. Some perceive the priority for ESG investors to be divestment from certain industries such as fossil fuels. In reality, however, only 11% of U.S.-domiciled ESG strategies actually have fossil fuel exclusions (Exhibit 1.04).

Similarly, there has been a long-held assumption that ESG investors focus primarily on values, and in doing so create an exclusionary approach (such as excluding tobacco companies, weapons companies, etc.). But in our review of a representative U.S. stock universe, we found only 4% of the universe was excluded by such screens (the most common for U.S. ESG funds).[5]

As investment managers, we don't view values as solely exclusionary, but rather, as complementing a diversified sustainable investment strategy with financial and societal impact as we look to provide competitive risk-adjusted returns over the long term. From our standpoint as practitioners, the vast majority of our time is spent not excluding investments, but building a prospective, future-focused and inclusive portfolio of companies with strong fundamentals that we believe will be able to sustain those strengths over time.

Divestment from fossil fuels is one strategy for investors seeking to support the energy transition, but it is not as commonly used by ESG investors as some headlines would suggest. To complicate the story, many fossil fuel companies are adapting to support a greener future, and there is energy alpha outside the traditional energy sector, in tech and industrials, for example. As noted above, ESG investors have other investment options in energy (as a sector), such as clean and renewable energy where demand and pricing have expedited the growth trajectory. These issues deserve careful consideration from fundamental investors across the industry.

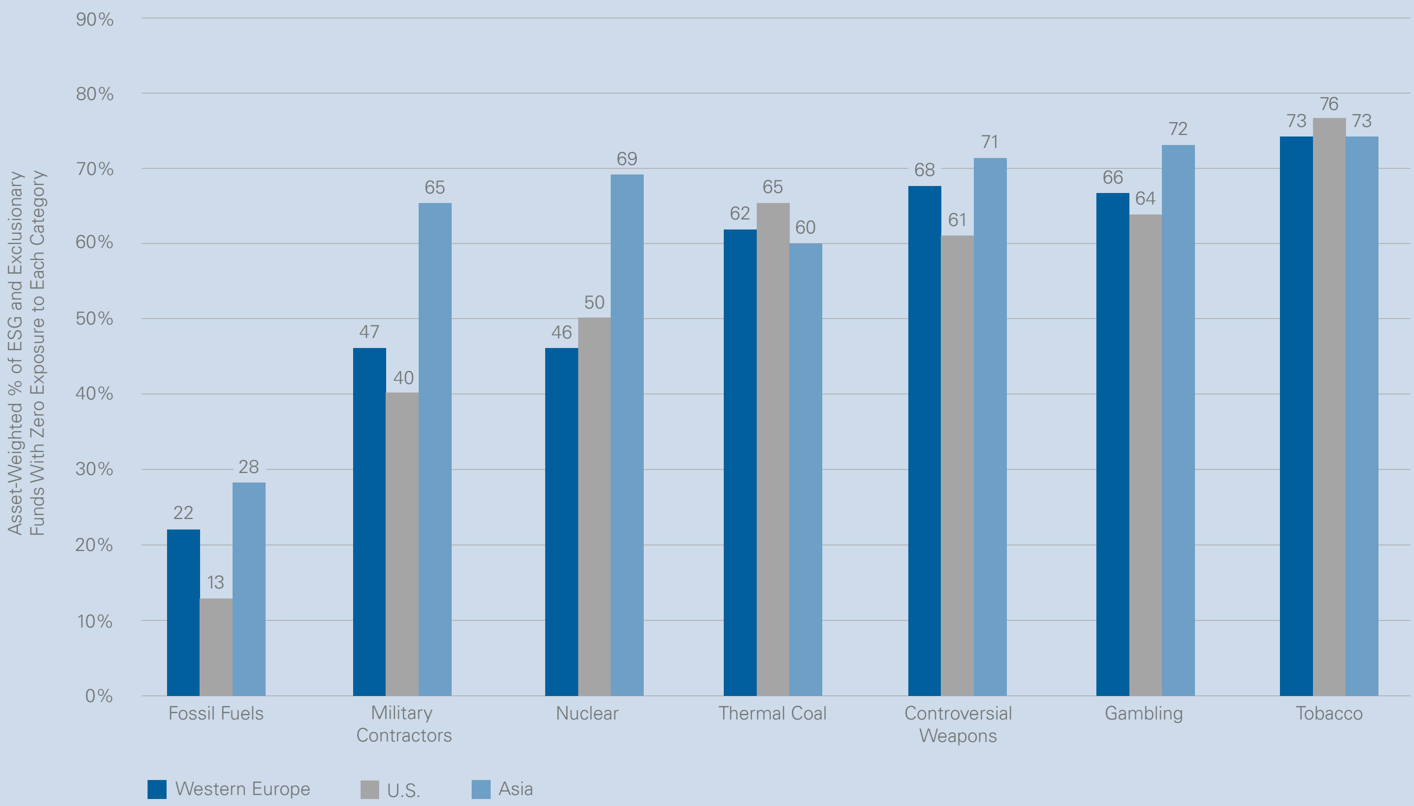
With investors, employees and other stakeholders continuing to press for climate and diversity policies and disclosures, and companies and their boards navigating increasingly complex legal and regulatory environments, ESG will remain a priority in 2023. Whether mandated by governments or initiated by companies to create long-term shareholder value, mitigate risk or respond to campaigns by investors, customers, employees and other stakeholders, we can look forward to more efficient and transparent sustainable investing in 2023. Through active investment and engagement, ESG should maintain and grow its prominence in the business landscape.

[4] Listed as predecessor firm Citigroup Asset Management.

[5] Using the MSCI USA Index. Exclusions tested: tobacco products, major weapons, controversial weapons, gambling operations, nuclear power generation, alcohol products and UNGC violators.

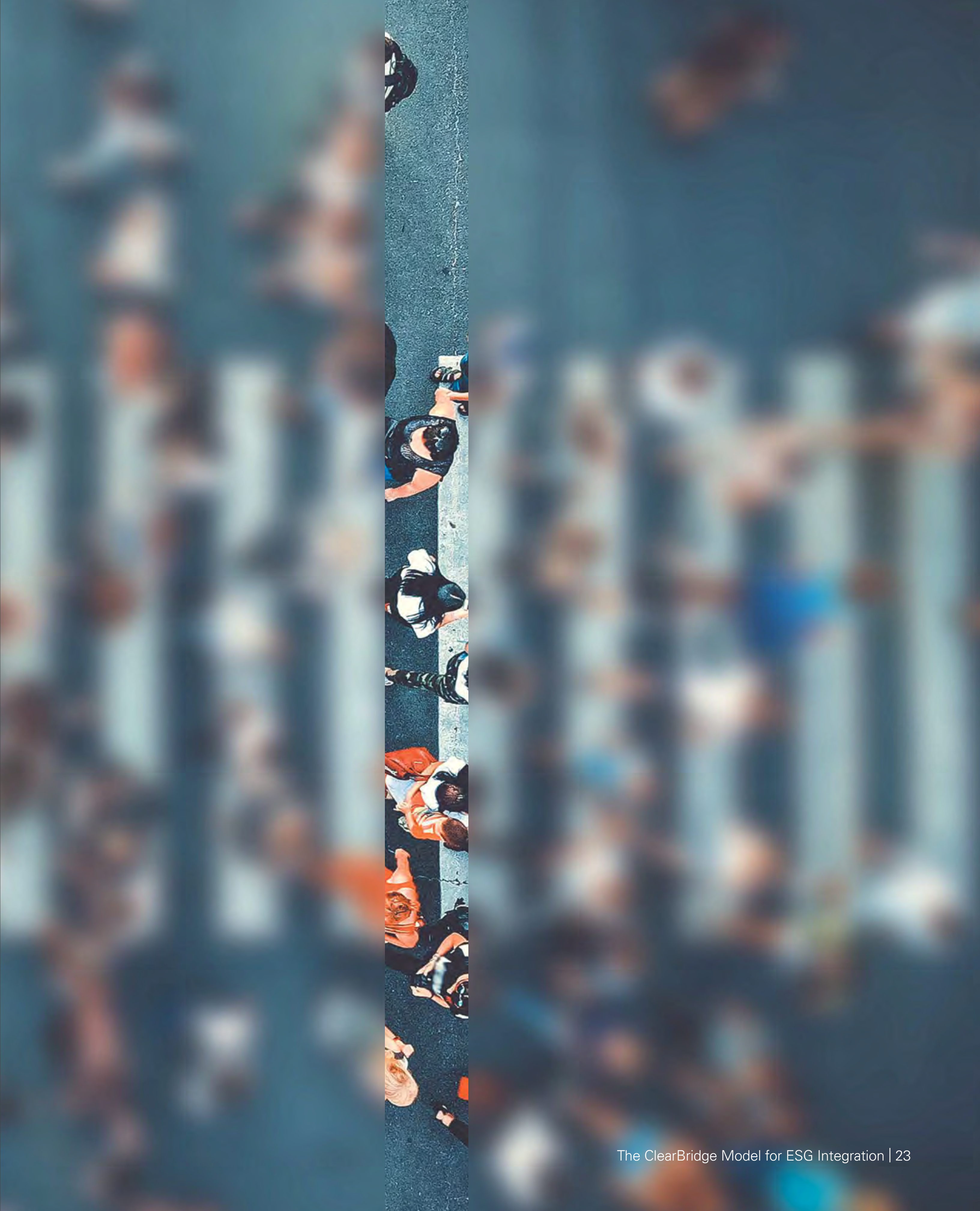
Exhibit 1.04: U.S. ESG Funds Less Likely to Divest from Controversial Categories

As of March 2022. Source: Morningstar, Goldman Sachs Global Investment Research.



01

The ClearBridge Model for ESG Integration

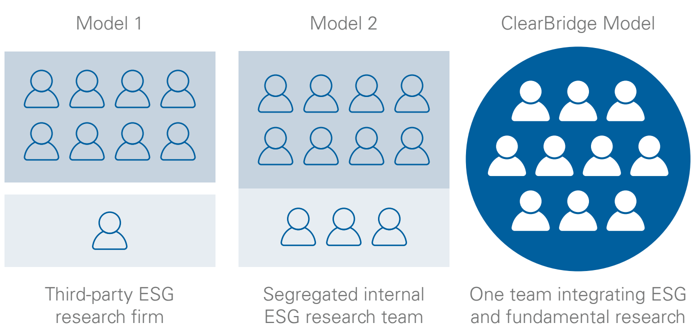


ClearBridge believes that ESG is the future of investing and that someday it won't even be called "ESG" or designated as a separate discipline; it will become an integral part of the way investors analyze companies.

ClearBridge's ESG Integration

ClearBridge integrates ESG research by explicitly including it in company research performed by analysts on ClearBridge's sector research team, analysts dedicated to specific portfolios, and portfolio managers, who include ClearBridge's proprietary ESG ratings and analysis in their investment decision making (Exhibit 1.05). 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. For every stock recommendation, each analyst presents the investment thesis, risk/reward profile, valuation, target price and proprietary ESG rating (Exhibit 1.06).

Exhibit 1.05: ClearBridge Model of ESG Integration



ClearBridge ESG Ratings

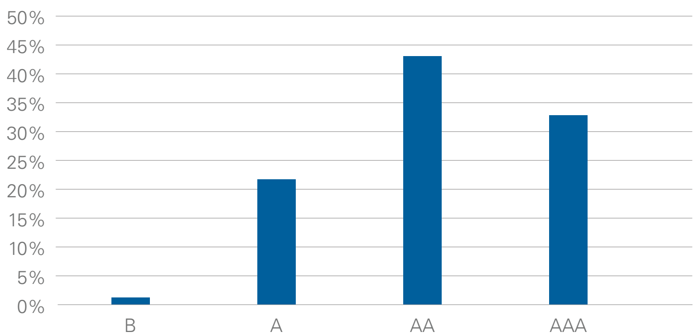
ClearBridge's proprietary ESG ratings process, introduced in 2014, spans our equity research platform and systematically captures ESG factors in our investment process. ESG ratings are proprietary scores intended to signal to investment teams how well a company is managing its material ESG risks and opportunities. All companies in our coverage universe earn an ESG rating (Exhibit 1.07). ClearBridge analysts have integrated ESG factors into their processes for generating investment recommendations for 35 years; importantly, ESG analysis has been formally incorporated in analyst compensation and performance reviews since 2012.

ClearBridge uses a proprietary materiality framework that identifies the key ESG considerations for each sector and subsector under analyst coverage. The ClearBridge ESG Materiality Framework™ focuses on the ESG issues that truly matter for each company. It leverages our analysts' many years of experience and supports and complements the research performed by portfolio analysts and portfolio managers who focus on particular strategies, often collaborating on company coverage.

Exhibit 1.06: ESG Analysis in the Research Process

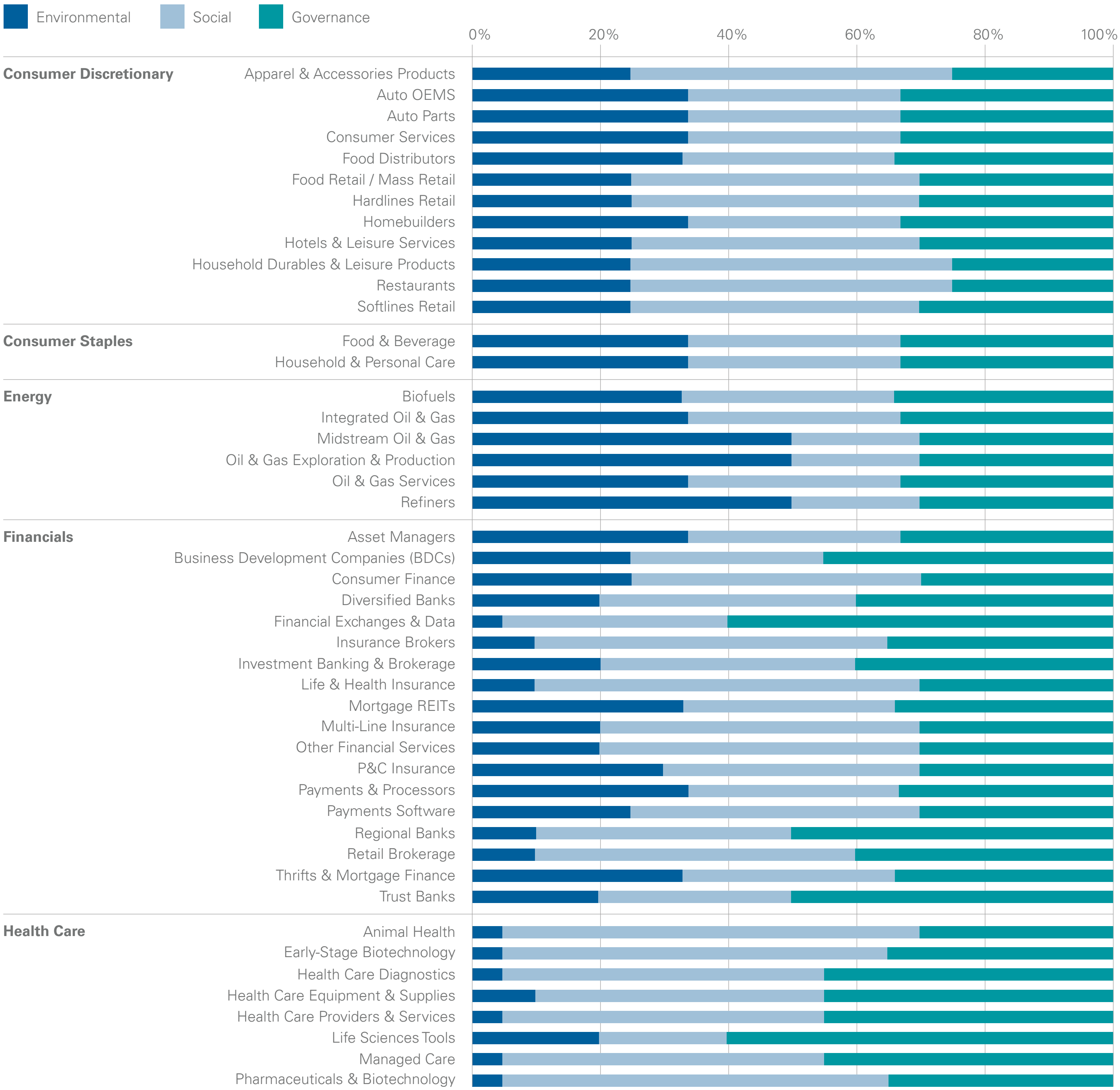
Exhibit 1.07: Asset-weighted Proprietary ESG Ratings Distribution

As of Dec. 31, 2022. Source: ClearBridge Investments.

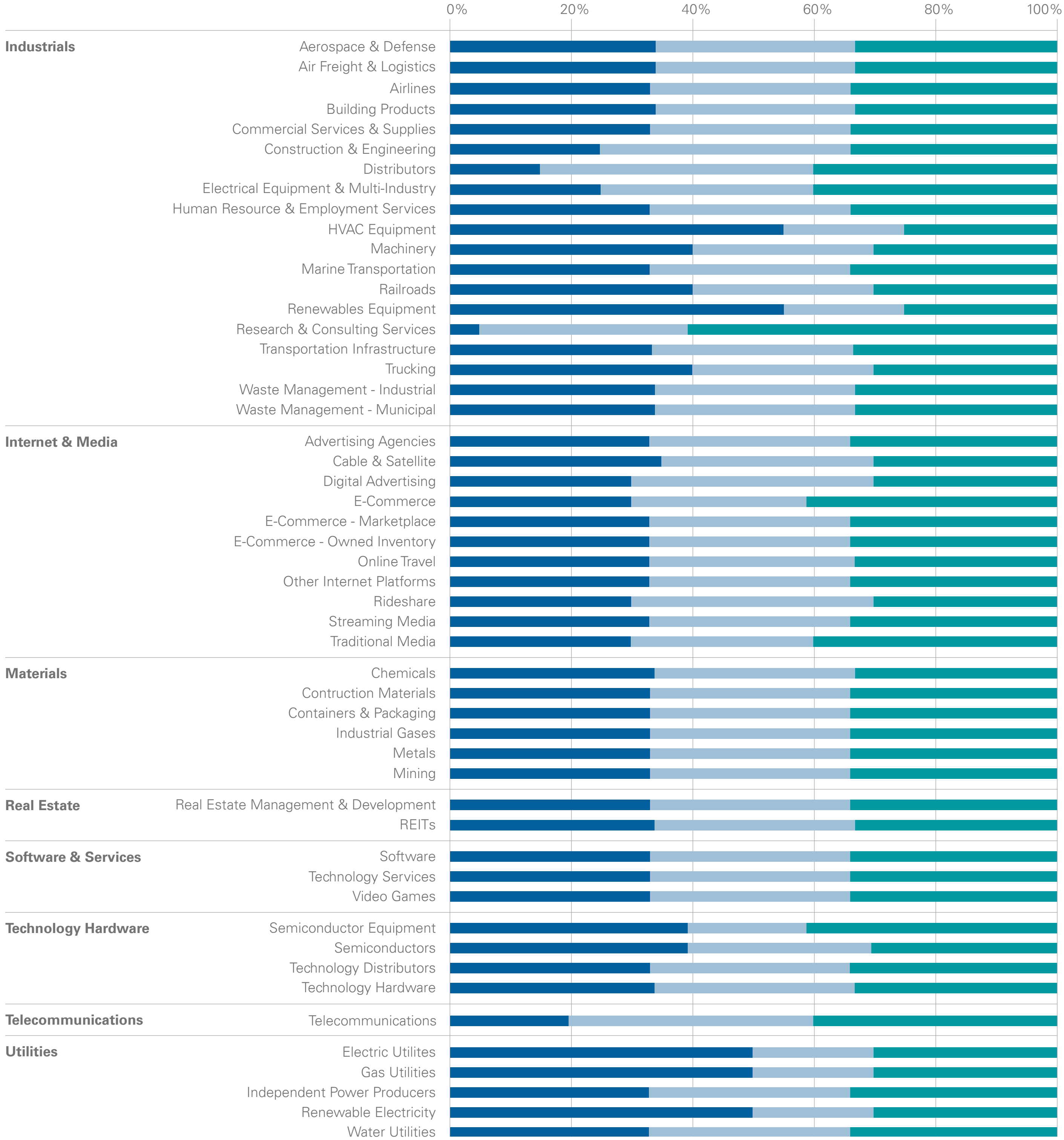


ClearBridge Materiality Framework™

The relevance of specific environmental, social and governance considerations differs in the weight (%) the framework assigns to each according to sector and subsector.



Scan to explore the ClearBridge Materiality Framework™



ESG Integration Driving Investment Performance

There is abundant academic evidence that strong ESG performance can result in lower costs of capital and better operational performance for companies.[6] A company's performance on material ESG issues can affect value creation in multiple ways (Exhibit 1.08).

[6] McKinsey & Company, "Why ESG Is Here to Stay," May 2020.

Exhibit 1.08: ESG Performance and Value Creation

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

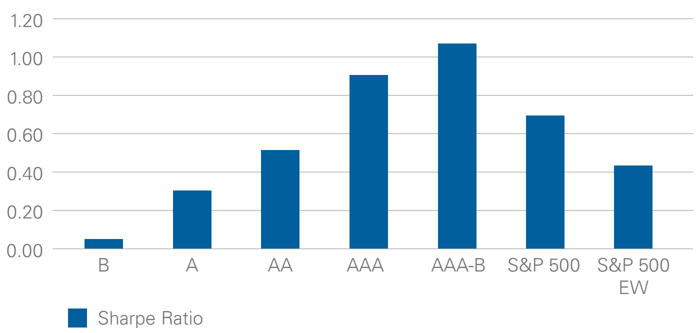
Case Study: ESG Ratings at Work

Charles Harris,
Director of Research

In studies of ClearBridge's ESG-rated stocks published with the United Nations' Principles for Responsible Investment (PRI), we found that higher ESG-rated stocks outperformed the market more frequently than lower ESG-rated stocks. Higher ESG-rated stocks generated higher risk-adjusted returns than lower ESG-rated stocks, with AAA and AA stocks also generating higher risk-adjusted returns than the S&P 500 Equal-Weight Index (Exhibit 1.09). We also determined that higher ESG-rated stocks generated higher alpha than lower ESG-rated stocks after accounting for common factor exposures including market beta, size, value, momentum and quality. These studies show that ClearBridge's ESG ratings system appears to contribute to performance and has an added benefit beyond that which could be explained by common quantitative factors and fundamental financial metrics.

Exhibit 1.09: Annualized Sharpe Ratio by ClearBridge ESG Ratings
Stocks with higher ESG ratings outperformed.

Data from 2015 to mid-2020. Sources: ClearBridge Investments, Standard & Poor's, Russell Indexes, FactSet Research Services. AAA-B shows the Sharpe ratio of a portfolio that is long the AAA-rated stocks and short the B-rated stocks.



ClearBridge Research Analysts use ESG ratings to help establish baseline company ratings against which to measure the progress of companies in adopting ESG practices and disclosure (typically through company engagements) and communicate their targets and accomplishments. As part of this process, our ratings may change over time and require active analysis and engagement.

Rating upgrade (A to AA): For determining the ESG rating of a diversified health care company bringing important medical products to market, social factors such as addressing unmet medical needs and health care affordability and access have been determined to be the most material. While we continue to have concerns about corporate governance practices, among them poor executive accountability and a mixed record on allocating capital, improvements in social factors resulted in an upgrade in the company's ESG rating at ClearBridge. In particular, the analyst considered the company's decision to offer a vaccine it developed on a not-for-profit basis for emergency use.
An improvement in the company's compensation practices, specifically removing one-time gains from consideration in bonus plans, also contributed to a rating upgrade.

Rating downgrade (AA to A): A leading digital payments provider in our coverage has several strong sustainability characteristics, including its facilitation of small business growth, its prioritization of data privacy and security and its improvements at assessing and disclosing material ESG topics. Management and the board did not execute that well during the pandemic, focusing too much on account growth and too little on prudent investment spending. Shareholders suffered much more than management, who continued to receive excessive stock-based compensation. In addition, in 2022 we deemed the company banning certain organizations or individuals seemingly because of their political or social views to be a potential abuse of its position as a trusted payments processor. At one point the company appeared to be considering imposing a fee on certain customers because of political or social views. These operational issues resulted in a downgrade in the company's ESG rating.

Case Study: Applying ClearBridge's ESG Framework to Extractive Industries

John Baldi
Portfolio Manager, Dividend Strategy
Michael Clarfeld, CFA
Portfolio Manager, Dividend Strategy
Adam Meyers
Analyst, Energy/Basic Materials

ESG investing faces a meaningful challenge. One of its largest goals—facilitating the energy transition—relies on extractive industries with significant negative externalities.

At its most basic, the energy transition consists of electrification of the global energy complex. To reduce carbon emissions, the world must replace fossil fuels with sustainably produced electricity. Electrification requires large amounts of copper, for conducting electricity, and battery materials such as cobalt and lithium, for storing it (Exhibits 1.10, 1.11, 1.12).

Mining these minerals entails substantial ESG risks. Extractive industries are, by nature, tough on the environment. Further, many mines operate in emerging economies with substantial risks due to lower living standards, reduced social protections, and lax governance and environmental regulations.

Of course, fossil fuels also play a critical role in the energy transition. They still provide the bulk of global energy and, unfortunately from an environmental standpoint, will be with us for decades. Simplistically, we would like to see reduced production of all hydrocarbons. Realistically, we believe we must accept increased natural gas production over the intermediate term to serve as a bridge fuel. Natural gas emits less carbon dioxide and pollution than other fossil fuels (50% less CO2 than coal), so it can be used to displace coal and backstop intermittent renewables like wind and solar.

This creates some cognitive dissonance for the environmentally conscious: in order to reduce the use of oil and coal and facilitate intermittent power sources like wind and solar, we must embrace the extraction and combustion of one of the very fossil fuels we ultimately seek to eliminate. Electrification presents a similar problem.

Exhibit 1.10: Forecasted Copper Demand
The energy transition will need copper.

Source: S&P Global Analysis, "The Future of Copper," 2022.

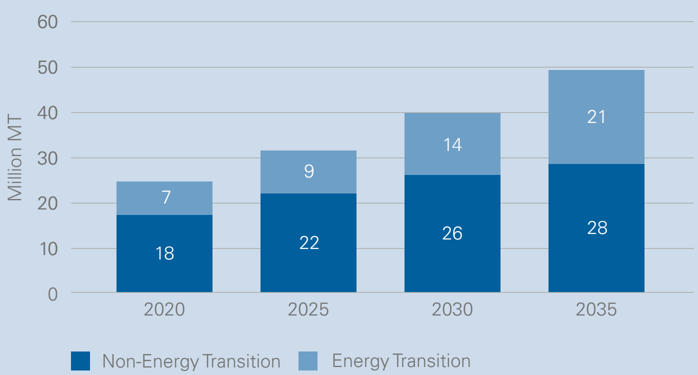


Exhibit 1.11: Demand Growth for Battery-Related Minerals From Clean Technologies (2040 Relative to 2020)
Lithium and cobalt are key minerals for batteries.

Under IEA Stated Policies Scenarios (STEPS). Source: IEA, "Mineral requirements for clean energy transitions," 2022.

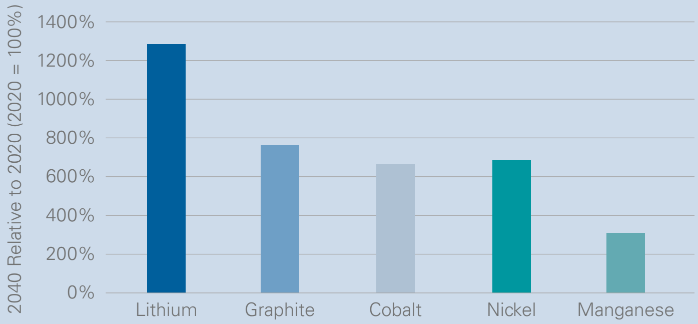


Exhibit 1.12: Copper Demand Growth for Energy Transition Applications (2021–2035)
Copper is needed across several technologies.

Source: S&P Global Analysis, "The Future of Copper," 2022.

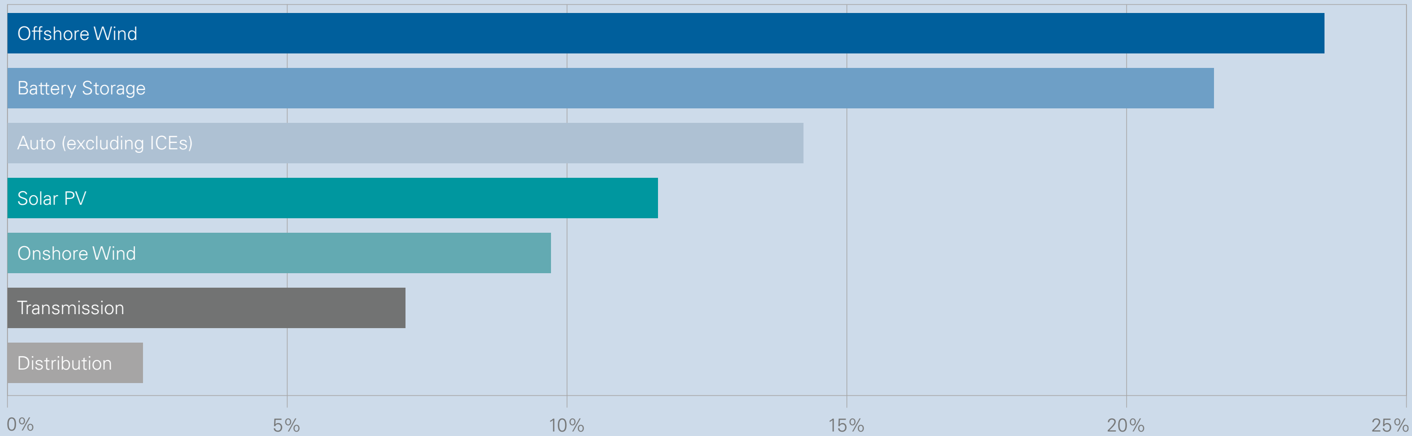
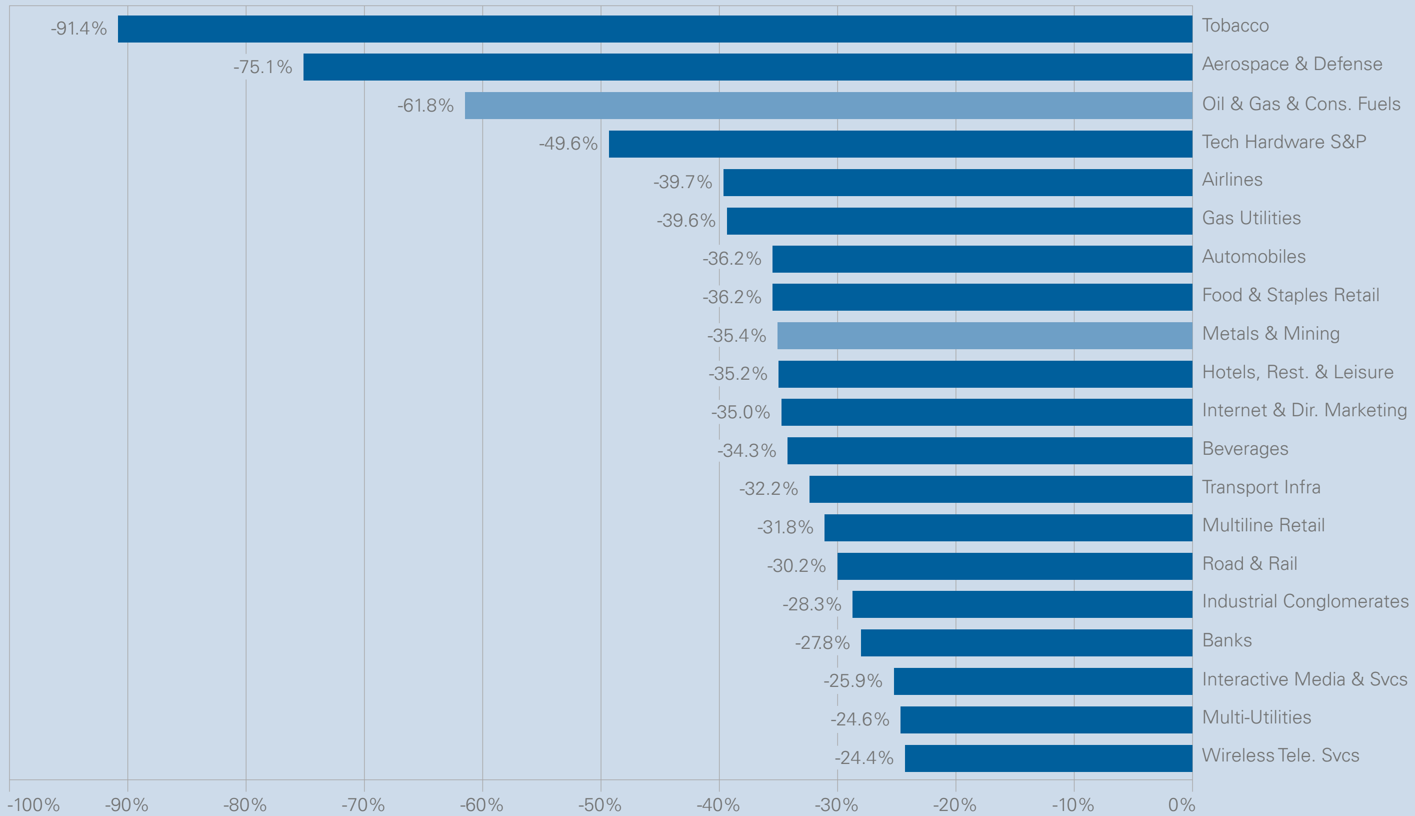


Exhibit 1.13: ESG Funds Underweight Key Energy Transition Materials vs. MSCI ACWI

As of June 2022. Shows weight of ESG funds relative to MSCI AC World Index. Source: Goldman Sachs Investment Research.



Investing in and Engaging With Companies in Extractive Industries

One approach to investing in extractive industries is simply to exclude those companies from investment portfolios. Many ESG-minded investors have adopted this stance and are therefore underinvested in materials needed for the energy transition (Exhibit 1.13).

ClearBridge's approach, by contrast, seeks out companies that are either best-in-class or show credible signs of improvement toward more sustainable operations. While we would not argue for investment in extractive industries that do not have place in a sustainable future, it is incumbent upon us to create a framework for responsibly investing in those that do. Participating in these sectors also enables engagement, a key tenet of active ownership.

Environmental Factors and Active Engagement

Ownership of companies in extractive industries essential to the energy transition enables the use of engagement and other shareholder tools to push for ESG improvements at these companies. Our approach to engagement also includes working with portfolio companies to increase and improve the quality of disclosures and on best practices in publishing sustainability reports.

Our ESG framework for extractive industries puts environmental considerations front and center, with a primary focus on the negative environmental impacts these companies have on the environment. For minerals with starring roles in the energy transition, however, we think some allowance should be made for the indispensable contributions these materials play in facilitating decarbonization.

Our environmental assessment scrutinizes a company's:

- Environmental efficiency of operations
- Land usage and impact
- Water usage and water pollution
- Scope 1 and 2 emission reduction targets
- Greenhouse gas emission disclosure in line with the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB)
- Contribution to clean technology, such as electrification
- Position on the cost curve: Lower-cost producers are more profitable and therefore better positioned to weather the volatility of the commodity cycle, and thereby better positioned to support the energy transition

A Focus on Water Management

Water management is a core consideration of ClearBridge's ESG framework for miners. Water is a necessary input for mines, smelters and processing facilities, but it should be used in an efficient way to minimize environmental and community impacts.

One best practice is to reuse as much water as possible. ClearBridge has visited and engaged with U.S. mining company MP Materials, which has a facility producing rare earths used in EV motors that recycles all water from its process such that recycled water meets 95% of the facility's water needs, while the rest comes from groundwater. In the recycling process, wastewater is piped to an on-site water treatment plant where it is treated using reverse osmosis and then reused. In our engagement with the company, we encouraged it to disclose the groundwater extraction quantities that make up the other 5% and compare these to peers.

Engaging on Social and Governance Factors

While environmental concerns predominate in extractive industries, social and governance considerations remain critical and, taken together, roughly equal the total weight of environmental factors in our analysis. At the same time, governance factors such as disclosures and board effectiveness enable our analysis of and engagement on environmental and social factors. In an ESG framework for extractive industries, among social and governance considerations we would weigh:

- Disclosures: Clear and detailed disclosures underpin any active management approach to engaging for improvements in any of the environmental factors
- Stakeholder engagement: Extractive industries impact their host communities in particularly challenging ways, and it is critical that companies work constructively with all their stakeholders
- Health and safety: Does a company have strong targets and execution?
- Board effectiveness: Does the board incentivize management and hold it accountable for ESG execution?

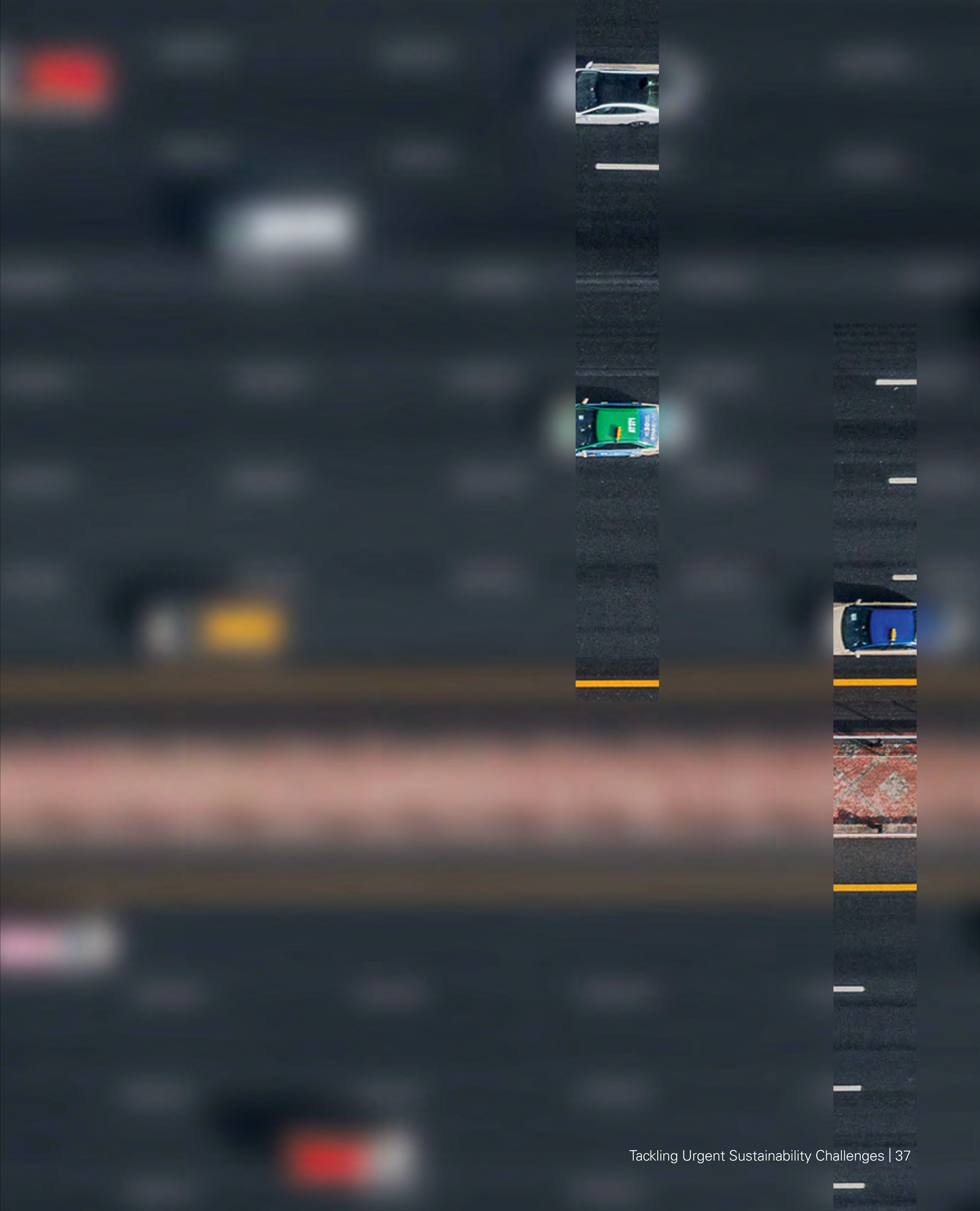
In addition to environmental information, sustainability reports should include clear information on community engagement and efforts to enable healthy, thriving communities where these companies operate. In terms of supply chain transparency, for companies with extensive international operations, we look for robust analysis of local employment rates to better understand underlying social issues in distant geographies.

Taking a Holistic Approach

If investors wish to proactively help the energy transition along, they will need to allocate capital to some extractive industries. We believe a responsible approach to actively investing in mining and fossil fuel production should seek out companies that show credible signs of a move toward more sustainable operations, consider local communities and employees and have the proper governance structures in place to ensure transparency and oversight of material ESG matters.

02

Tackling Urgent Sustainability Challenges



ClearBridge's commitment to promoting sustainable investment practices, now in its 35th year, is reflected in firmwide initiatives that link ESG issues with research priorities and portfolio management.

Setting Net-Zero Targets with the Net Zero Asset Managers Initiative

Ben Buckley, CFA
Portfolio Analyst, Sustainability Leaders Strategy
Anna Cala
Senior ESG Associate

Scan to watch video highlights on ClearBridge's net-zero targets

"The focus of our approach to net zero is high-touch engagements with portfolio companies on their decarbonization strategies."

Climate change, and its associated investment opportunities and risks, remained a priority for ClearBridge in 2022. Having joined the Net Zero Asset Managers initiative in 2021, we published our first update on progress toward our interim net-zero targets. And for the fourth year in a row, we aligned our climate change reporting with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The Net Zero Asset Managers initiative (NZAM) is a group of more than 300 asset managers with nearly $60 trillion in assets under management that are committed to playing our part in getting the world to net-zero carbon emissions by 2050.

We joined NZAM and set net-zero targets because we believe asset managers—as gatekeepers of trillions of dollars of client assets—have a critical role to play in the decarbonization of the global economy. Through NZAM, ClearBridge has committed to the following goals:

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

NZAM is an important step forward for the asset management industry because it is the first initiative of its kind to lay the foundation for hundreds of asset managers to set net-zero targets, and it provides verification of each manager's approach as well as a mechanism for tracking progress over time.

The focus of our approach to net zero is high-touch engagement with portfolio companies on their decarbonization strategies. As long-term investors, we want to ensure the companies we are investing in are prepared for the changes that a decarbonizing economy and a changing climate will bring to markets around the world.

ClearBridge's Approach: Net-Zero Pathway Alignment

Our approach to measuring a portfolio's climate performance is to assess each portfolio company's emissions trajectory and determine its alignment with the pathway required to achieve global net-zero emissions by 2050. We call this net-zero pathway alignment. A key part of this assessment is whether or not a company has set science-based emission reduction targets. Science-based targets provide a clearly defined pathway for companies to reduce GHG emissions, helping prevent the worst impacts of climate change and positioning the company for a decarbonized world.

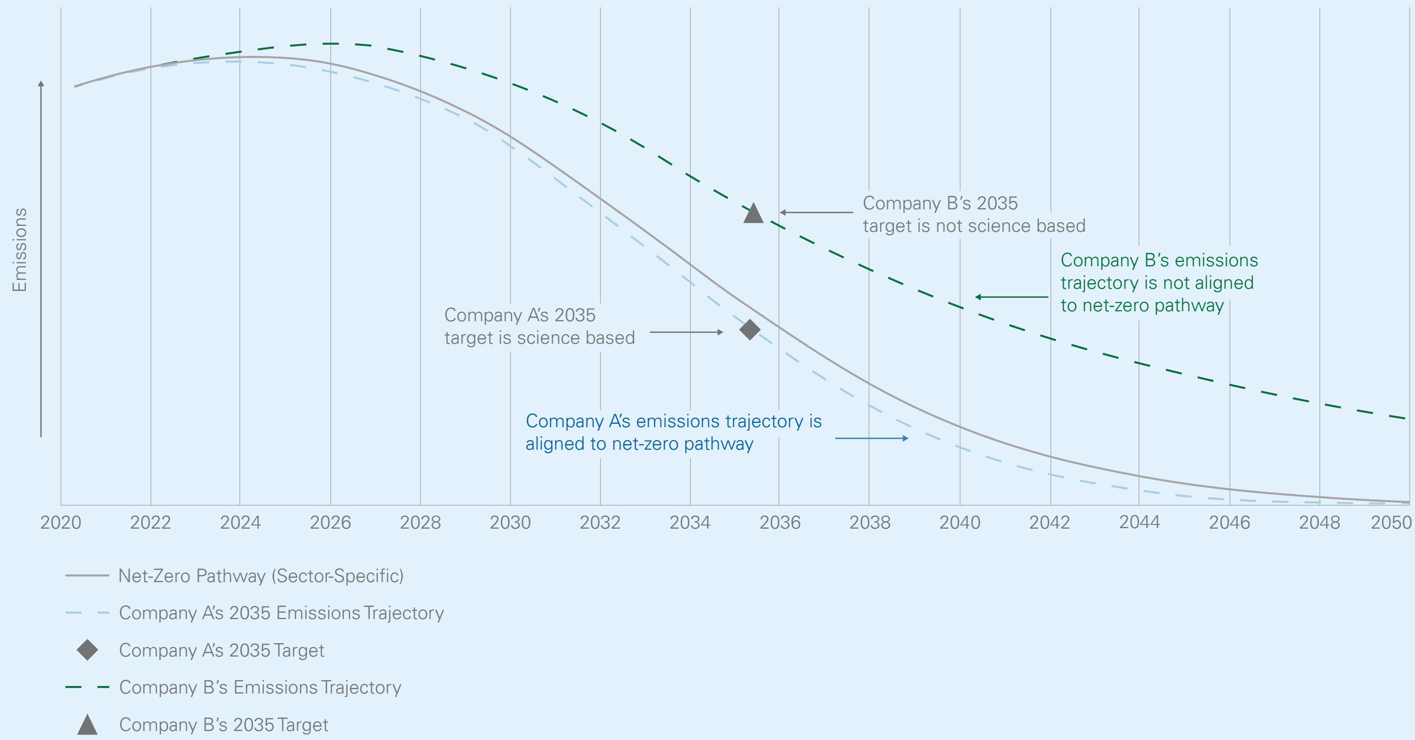
To consider a company's emission reduction pathway net zero aligned, we look for it to have a science-based target independently verified by the Science Based Targets initiative (SBTi) or Climate Action 100+.

Details on our target are publicly available on the signatory page of the NZAM website. ClearBridge was one of four firms to have its net-zero approach selected as a case study by the Principles for Responsible Investment in 2022.

Targets are considered "science based" if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement, which are to limit global warming to well below 2°C above pre-industrial levels and to try to limit warming to 1.5°C. Climate scientists have developed models that show different emission reduction pathways, which can be used to understand the required emission reduction pathways for specific sectors, and then applied to companies in that sector (Exhibit 2.01).

Exhibit 2.01: Net-Zero Pathway Alignment and Science-Based Targets

Source: ClearBridge Investments.



Baseline Net-Zero Alignment and Tracking Progress

Through our net-zero assessment, we group portfolio companies into one of four categories (Exhibit 2.02). The focus of our approach is to conduct focused engagements with companies to move them toward "Net Zero Aligned"[7] until 100% of our assets are on a net-zero pathway.

Measuring the alignment of our in-scope assets as of December 31, 2022, we find 43% to be "Net Zero Aligned." This represents a 7% increase from our baseline and 3% over our target pathway (Exhibits 2.03 and 2.04).

We set ourselves a high standard for which engagements can contribute toward meeting our target, and as such we only include "in-depth engagements" as counting toward achieving our target. These types of engagements require an internally developed roadmap to guide our dialogue and track metrics on targeted areas of improvement (Exhibit 2.04). At the same time, we are also having many fact-finding discussions with other in-scope portfolio companies to better understand their decarbonization strategies. We call these "exploratory engagements," and they are a critical part of our overall engagement and research process.

[7] For our initial "in-scope assets" we selected three ClearBridge portfolios, representing core, value and growth exposures and with a diverse range of sector allocation, and thus with varying portfolio emission levels, to credibly test our approach. As of December 31, 2022, in-scope assets account for 26% of our total AUM. In 2023, we plan to include additional portfolios in this net-zero approach.

Net-Zero Engagements

Using this assessment framework and determining a baseline alignment of holdings, we prioritize companies for our net-zero engagements through a decision tree (Exhibit 2.05), initially prioritizing higher-weighted, high-emitting companies that either have not set a target or have set a target that is not aligned with a net-zero pathway.

Consistent with ClearBridge's ESG approach, net-zero engagements are conducted by investment teams. Through engagements we look to not only encourage our portfolio companies to set science-based targets, but also to understand the strategy behind their targets so we may ensure there is a well-developed and achievable approach. Discussion areas may include:

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

Company-specific nuances affect alignment with a net-zero pathway and suggest there are benefits to setting a science-based target using multiple verification methods. They also show the importance of open and consistent dialogue.

Exhibit 2.02: ClearBridge Assessment for Net-Zero Alignment of Portfolio Companies

No Target	Target, Not Aligned to Net Zero	Commitment to Set Net-Zero-Aligned Target	Net Zero Aligned
Company has not set a decarbonization target	Company has set a target but it is not aligned to a net-zero pathway	Company has committed to setting a verified science-based target within two years	Company has set a verified science-based target, or Considered a pure-play climate solutions provider

Exhibit 2.03: Alignment of ClearBridge In-Scope Assets

As of Dec. 31, 2022. Source: ClearBridge Investments.

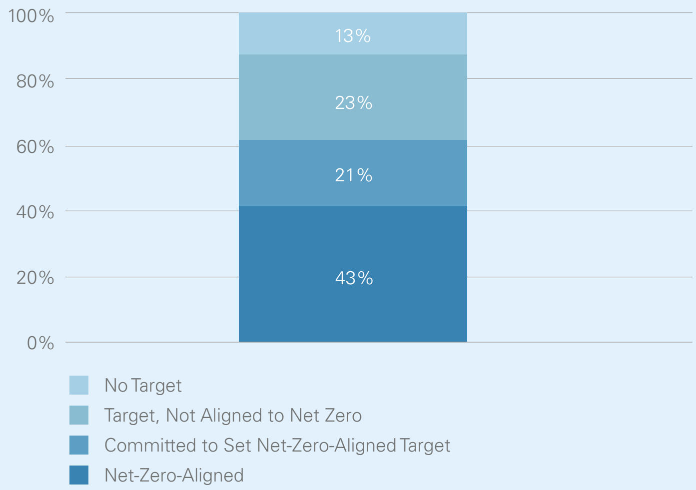


Exhibit 2.05: Decision Tree for Priority Engagements

We prioritize higher-impact engagements.

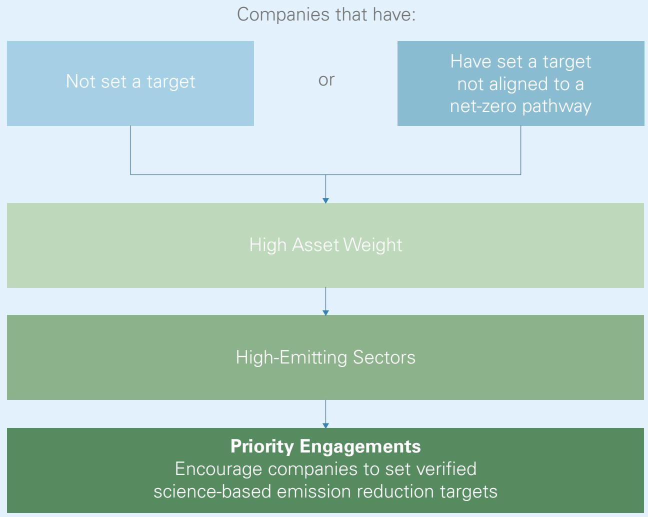


Exhibit 2.04: Tracking Progress Toward Targets

Percentage of net-zero-aligned assets is above linear trajectory as of 2022.

As of Dec. 31, 2022. Source: ClearBridge Investments.

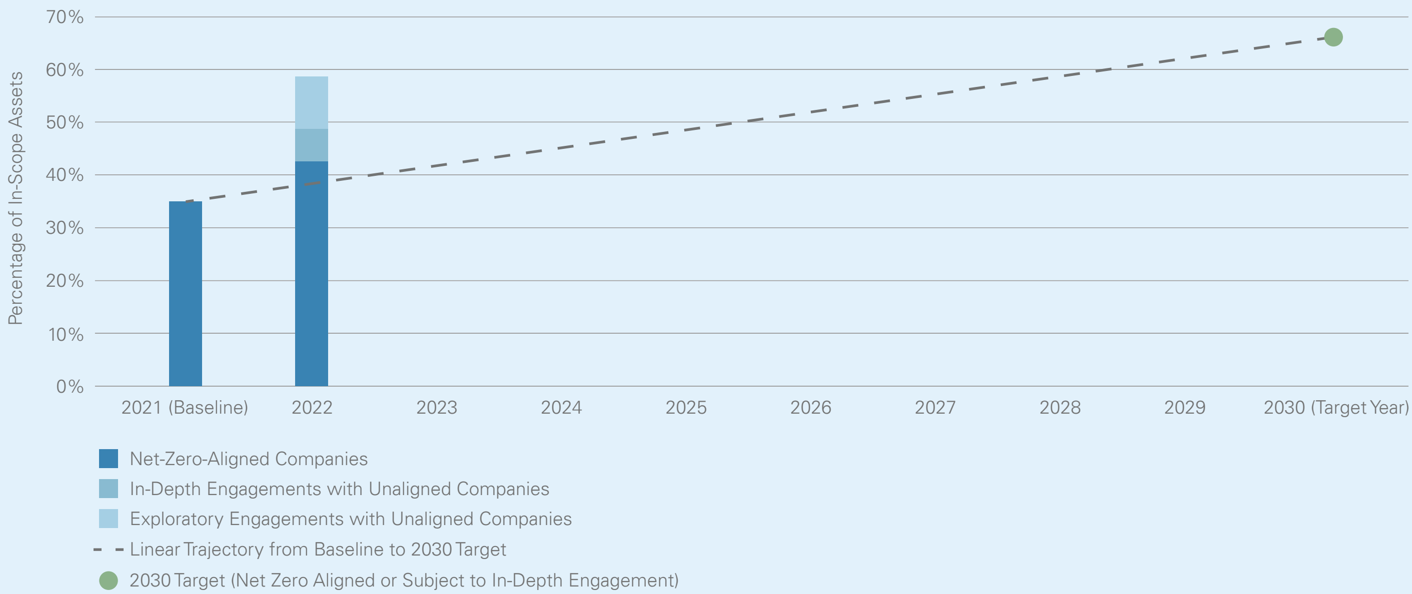
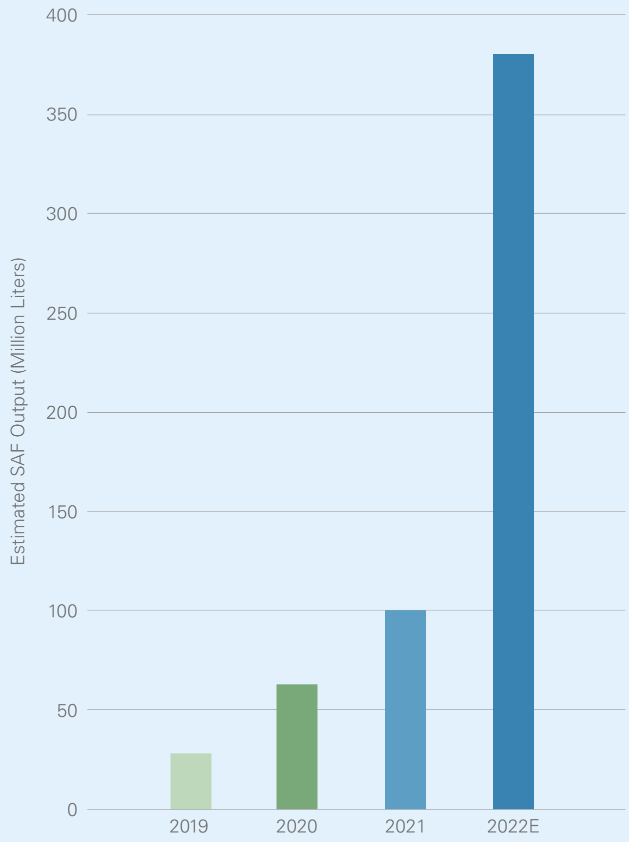


Exhibit 2.06: Sustainable Aviation Fuel Production
SAF is taking off, but much more will be needed.

As of Dec. 7, 2022. Source: International Air Transport Association. 2022E charts the midpoint of an estimated range of 300–450 million liters.



Case Study: Is Decarbonizing Aviation Pie in the Sky?

Hannah Whang
Senior Analyst, Industrials

Scan to watch video highlights on ClearBridge's net-zero engagements

Aviation accounts for only 2% of global carbon emissions, but as it is one of the faster growing modes of transportation, decarbonization in this area is important.

ClearBridge has been engaging companies throughout the aviation value chain on decarbonization, and we have found companies such as plane manufacturers Boeing and Airbus, engine maker Pratt & Whitney (part of Raytheon Technologies) and United Parcel Service (UPS), which has an active air fleet of ~300 planes, increasingly taking steps to lower emissions.

There has also been a pickup in sustainability commitments in the industry. In late 2021, members of the International Air Transport Association, an airlines industry group, committed to achieving net-zero carbon emissions by 2050, in alignment with the Paris Agreement. This is a meaningful commitment, but it won't be easy.

While offsets and carbon capture (19% of achieving the goal) and operational efficiencies (3%) are obvious starting points, the largest component of achieving the goal (65%) is expected to be through the use of sustainable aviation fuel (SAF). SAF is a lower-carbon alternative to conventional jet fuel processed from organic content like used cooking oil, animal fats and agricultural products. SAF significantly reduces carbon emissions relative to jet fuel, but does not completely eliminate them.

In terms of engine technology, the latest planes can handle up to 50% SAF blends, and plane makers are embracing the concept; Boeing made a commitment in 2021 that by 2030 all its new commercial planes would be capable of using 100% SAF.

But SAF is expensive—2x to 4x more than crude oil. Airlines are willing to pay a premium, but prices will need to come closer to parity. In addition, there's not enough SAF available today. SAF production is growing but still miniscule compared to the amount of jet fuel needed. In 2022, U.S. jet fuel consumption averaged 1.5 million barrels or 239 million liters per day.[8] Total SAF production for all of 2022 is estimated to be only 375 million liters (Exhibit 2.06).[9]

The gap between supply and demand is enormous but airlines are setting very visible ESG goals that could go a long way to incentivizing SAF production if they are willing to pay for it. In the meantime, the easiest way for aviation to reduce emissions is to modernize existing fleets—the latest generation of aircraft are 15%–20% more fuel efficient than older planes—although this is capital intensive.

Aviation companies are also working with regulators to educate and help shape policy around potential solutions. As an example, Boeing recently rolled out a digital modeling tool called Cascade that can model different variables and the impact on emissions over time. Those variables can include things like mix of SAF versus hydrogen, or different types of hydrogen. The tool was developed in partnership with MIT and continues to evolve.

Efforts to decarbonize aviation are just getting off the ground, but net-zero commitments, improving educational tools and more conversations with companies and governments are making a less carbon-intensive destination more likely.

Though the aviation industry's decarbonization will play out over the long term, it is an important factor for ClearBridge to take into account as we move forward with our own net-zero commitment and increase the alignment of our holdings with a net-zero future.

For example, ClearBridge has actively engaged with UPS, which has set aggressive carbon reduction targets and has committed to achieving net zero by 2050. However, UPS believes that the technology required in aviation to align with SBTi's interim goals (in the next 15 years) will not be available in time and therefore it cannot credibly set a company-wide science-based target.

In this case, we categorize the company as having a "Target, Not Aligned to Net Zero," recognizing UPS's commitment to a net-zero target, but not as defined by SBTi. UPS is working to align all other parts of the business with a net-zero pathway. Efforts include investments in electric vertical takeoff and landing aircraft and full electrification of its ground fleet, with a 2025 goal of 40% alternative fuel for ground vehicles, up from 24% today. ClearBridge will continue to engage with the company to monitor progress against its reduction targets.

[8] U.S. Energy Information Administration

[9] International Air Transport Association, Press Release No. 61. Dec. 7, 2022.

Exhibit 2.07: Privately Imposed Forced Labor Spans Gender, Age and Countries

Source: Privately Imposed Forced Labor Spans Gender, Age and Countries

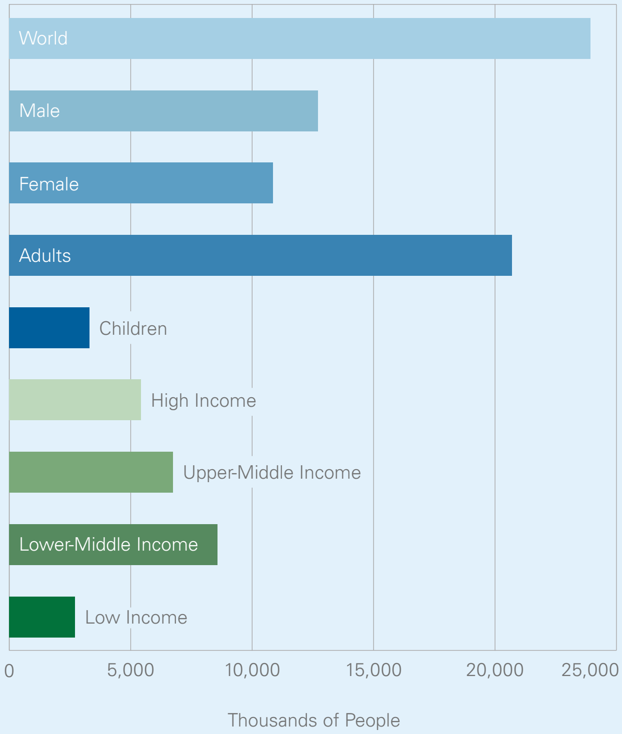
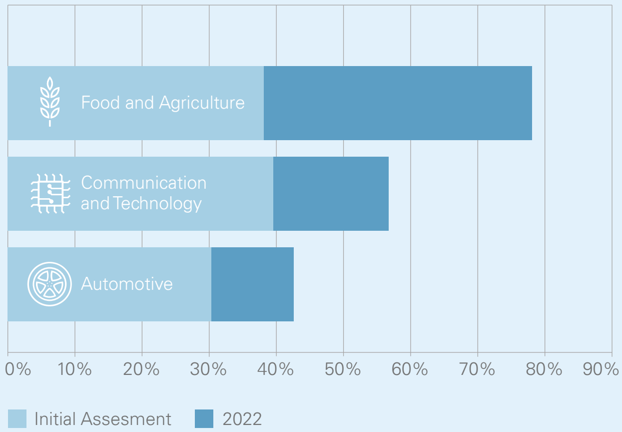


Exhibit 2.08: Companies Are Taking More Action on Human Rights

As of November 2022. Source: World Benchmarking Alliance. Shows percentage of food and agriculture, information and communication technology, and automotive companies with >0 scores on key human rights indicators. For illustrative purposes only.



Scaling Up Human Rights Efforts Through Public Equity Investing

Hannah Barr
Senior ESG Associate

Human Rights and Public Equity Investing

As investors in public equities, we can use our voice as shareholders to advance human rights best practices and scale up the implementation of human rights frameworks in corporate business activities.

Human rights issues such as forced labor are prevalent and pressing in all areas of the globe and affect men, women and children (Exhibit 2.07), suggesting the urgency for acting is high, and the opportunity is broad.

It is becoming increasingly evident that the respect for and protection of human rights is strongly associated with supply chain resilience and a stable business operating environment. Further, over the past decade, according to the Office of United Nations High Commissioner for Human Rights, research has documented a correlation between managing human rights risks and strong corporate financial performance. This has contributed to a heightened focus on the role of engagements in advancing human rights issues in the investment community.

ClearBridge's Approach to Human Rights

ClearBridge views human rights as universal and relevant to businesses in all areas of the private sector; they are accordingly a key tenet of our approach to integrating ESG factors in the investment process. We also believe that respect for human rights is fundamental to advancing the U.N. Sustainable Development Goals.

As stewards of our clients' capital, we believe engaging with companies on their human rights practices is an important part of what we do and supports the growing action companies are taking on human rights due diligence (Exhibit 2.08). We actively foster dialogue around how portfolio companies monitor and manage human rights issues that are material to their businesses. To facilitate this, we also monitor human rights issues at the company level and promote best practices, which we view as crucial to our role as an active and responsible shareholder.

We also believe assessing companies' alignment with international human rights standards, goals and frameworks helps us better understand the risks and opportunities associated with the companies we own. We engage companies across a range of sectors on a variety of human rights and social issues, including:

- Child labor and human trafficking
- Community relations and social license to operate (SLO)
- Community health of underserved populations
- Consumer relations and product safety
- Data privacy and security
- Forced labor
- Human capital management including diversity, equity, inclusion, recruitment and retention
- Supply chain labor management

We also recognize that human rights issues and exposure will vary by company, industry, sector and geography and therefore push for disclosure where material.

ClearBridge Joins the PRI's Advance Initiative

In 2022, we joined Advance, the PRI's recently launched stewardship and collaborative engagement initiative for human rights and social issues. As a collaborating investor, we will be engaging one focus company within the metals and mining sector, and may expand our scope over time. Additionally, as a part of our commitment, we will be publishing a more detailed firmwide human rights policy in 2023 that will outline our approach to incorporating human rights due diligence in our investment process.

Engaging Freeport-McMoRan on U.N. Global Compact Commitment

ClearBridge is a top 20 owner of copper miner Freeport-McMoRan (FCX). A team of ClearBridge investment professionals led by Adam Meyers, Research Analyst for Energy/Basic Materials, met with FCX's ESG Director to understand the company's views on its U.N. Global Compact (UNGC) commitment and the two social concerns that led to the company being flagged as in violation of the UNGC principles.

The first social controversy involved the 2017 labor strike at the Grasberg mine that occurred as the company tried to cut costs in response to the Indonesian government's copper ore export ban. FCX noted that although the incident is now well past the company and current labor conditions are in good shape, it could take as much as seven years for the strike to move past MSCI's monitoring window and for FCX to be re-evaluated for an upgrade.

The second controversy concerned human rights violations by government security forces, including shooting incidents dating back as early as 2002. FCX noted complicating factors such as significant government-controlled police involvement arising from Grasberg's status as Indonesia's vital national asset, and political unsettlement in the Papua area, with the presence of separatist movements. While the company cannot control the government's response to social unrest in the region, it is making ongoing investments in unarmed security and training to help de-escalate any future incidents. PT Freeport Indonesia, FCX's local JV with the Indonesian government, has voluntarily established agreements with indigenous communities for the recognition and compensation of traditional rights holders. While disputes regarding land use are likely to persist with indigenous communities, FCX is legally leasing the land and emphasizing strong relationships with all seven local tribes to ensure they share in the benefits of developing this world-class asset. Finally, the company has named a new human rights liaison officer and has commissioned a third-party human rights assessment, which is expected to be complete by 2024.

Overall, we see some validity in FCX's claim that it should not be viewed as liable for the Indonesian government's violent responses to armed protestors. However, we urged the company for more transparency on the subject and shared our view that there was room for FCX to pressure authorities for more de-escalation tactics, especially given the economic importance of the Grasberg asset.

ESG in the Political Spotlight

Derek Deutsch, CFA
Portfolio Manager, Sustainability Leaders Strategy

It's no surprise that after many years of success in both investment performance and asset gathering, ESG investing trends would eventually normalize. 2022 proved to be a difficult year for ESG strategies, as many growth companies with strong ESG characteristics suffered in an inflationary and rising interest rate environment. Conversely, industries that ESG investors de-emphasize, particularly fossil-fuel-related companies, outperformed by a wide margin. In 2022, the MSCI KLD 400 Social Index of highly rated ESG companies underperformed the S&P 500 Index by over 300 bps (Exhibit 2.09). In the five previous years (2017–2021), the KLD 400 outperformed the S&P 500 by over 12.9% on a cumulative basis (Exhibit 2.10).

In this environment, inflows into ESG funds have understandably slowed, although they have slowed significantly less than into other funds (Exhibit 2.11). From recent peak inflows in the first quarter of 2021 to the end of 2022, proportionally, flows for sustainable funds by prospectus have dropped 1.4x, while flows for other funds have dropped 3.4x.

At ClearBridge we believe companies with high-quality financial characteristics and those that have adopted advanced ESG practices are well-positioned to outperform through full market cycles—in fact, we have found a clear positive correlation with our internal ESG ratings and investment performance.

This suggests that by integrating ESG analysis into our fundamental research process, we are able to develop a more holistic view of risks and opportunities and thus improve our ability to select stocks that will outperform over the long term. As stewards and fiduciaries of our clients' capital, it is incumbent upon us to responsibly manage their assets to create sustainable long-term value. And as institutional investors in public equities, we also have a responsibility to uphold market integrity and minimize systemic risk, including risks associated with environmental and social challenges faced by society.

Despite the inherent logic in this approach, ESG investing has attracted attention from politicians who have attempted to delegitimize ESG as promoting a liberal agenda. During the previous presidential administration, ESG factors were targeted by the U.S. Department of Labor as being an inappropriate consideration for pension plan fiduciaries and a new rule forbade consideration of non-pecuniary factors in selecting retirement plan investments. This unsurprisingly had a chilling effect on retirement plans' willingness to include investment strategies that incorporated the consideration of ESG factors in the investment process, in effect reducing consumer choice to invest in ESG-integrated investment products.

In November 2022 this policy was reversed by the Biden administration, which acknowledged that climate change and ESG factors can be relevant to risk and return analysis, and therefore are appropriate considerations for fiduciaries. In early 2023, President Biden vetoed a bill that would have once again prevented the use of ESG considerations in retirement plans. Many states, however, have taken the position that ESG investing is designed to advance a social and environmental agenda, with some governors referring to it as "woke" capitalism. This politicization and hyperbolic rhetoric have caused public confusion about the merits of ESG investing and whether it is an appropriate consideration for fiduciaries.

Exhibit 2.09: Energy-Driven Market in 2022 Flips Script

As of Dec. 31, 2022. Source: ClearBridge Investments, FactSet.

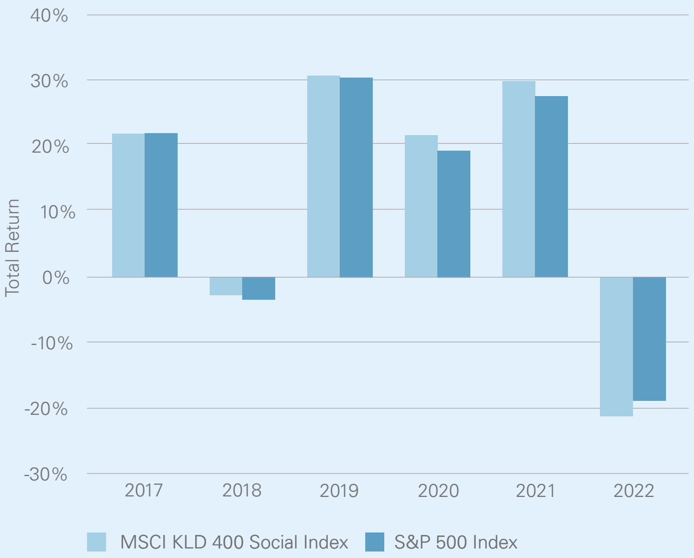


Exhibit 2.10: ESG and Broad Market Cumulative Performance 2017-2021
Highly rated ESG companies have a strong track record.

As of Dec. 31, 2022. Source: ClearBridge Investments, FactSet.

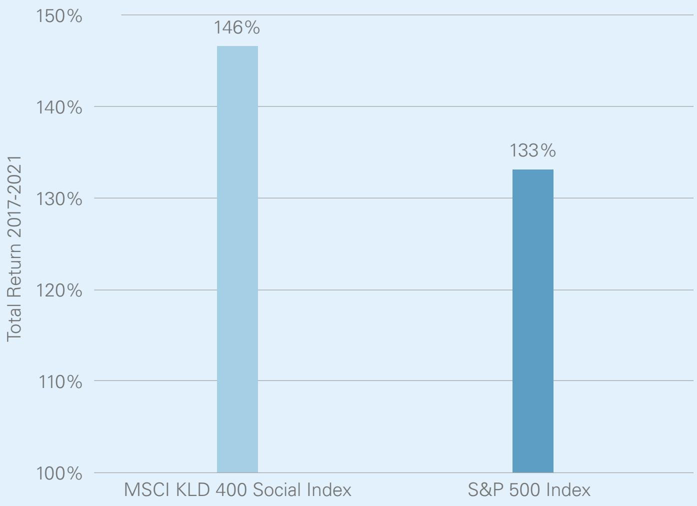
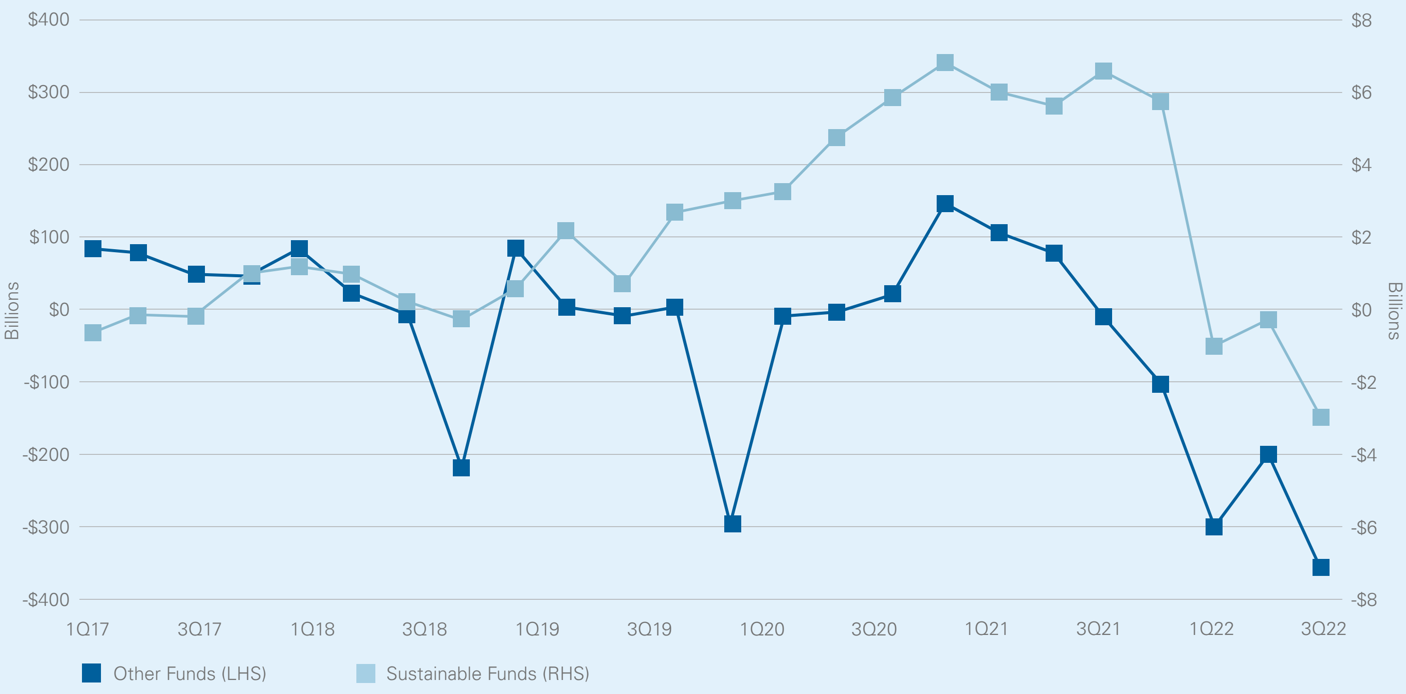


Exhibit 2.11: Quarterly Asset Flows of Sustainable and Other Funds
Sustainable fund outflows mirror other funds' but are proportionally less.

As of Dec. 31, 2022. Source: ClearBridge Investments, Morningstar (includes U.S. open-end funds labeled "sustainable funds by prospectus," not including money market, fund of funds or feeder funds).



Clarifying Myths and Realities about ESG Investing

We hope to be able to clarify some of these questions, at least as it relates to the investment process at ClearBridge and how we approach our fiduciary duty. As a signatory of the Principles for Responsible Investment (PRI), a United Nations–founded organization promoting responsible investing, we agree with the PRI assessment that the fiduciary duties of loyalty and prudence require the incorporation of ESG issues. The three main reasons for this are: 1) ESG is an investment norm, with PRI signatories exceeding 5,000 organizations and $121 trillion of AUM as of December 2022; 2) ESG issues are financially material, with general acceptance that ESG should be seriously considered in any prudent investment process; and 3) policy and regulatory frameworks increasingly require ESG incorporation, and failing to do so could lead to negative legal consequences.

In a November 2022 article in the Harvard Law School Forum on Corporate Governance, attorney Martin Lipton, a founding partner of Wachtell, Lipton, Rosen & Katz, argues that ESG "is inherently apolitical… consideration of ESG principles is not only sensible business strategy, but also is necessary to ensure long-term sustainability and value creation, and to fulfill the fiduciary duties owed by the board and management to the corporation and to shareholders."[10] As investment managers, we similarly view incorporation of ESG as a critical part of our fiduciary duty to prudently manage our clients' capital with the goal of long-term value creation.

[10] Martin Lipton, Wachtell, Lipton, Rosen & Katz, "Understanding the Role of ESG and Stakeholder Governance Within the Framework of Fiduciary Duties," Harvard Law School Forum on Corporate Governance, Nov. 28, 2022.

Offering Investors Options and Freedom to Choose

Lastly, we believe transparency and providing our clients with investment options that align with their goals, objectives and values is both good business and beneficial to client outcomes. ClearBridge offers a range of investment products in a variety of vehicles including mutual funds, ETFs, UCITs, Collective Investment Trusts and separately managed accounts.

While all of these products are managed using our fundamental research process integrating ESG analysis, some are distinguished by an emphasis on companies we deem to have stronger ESG profiles. For example, some strategies may not invest in companies that have been identified as having a significant ESG issue(s) and therefore have been assigned our lowest ESG rating. Other strategies use ESG analysis as a source of alpha and risk mitigation, integrating it into fundamental analysis, but are not as stringent in excluding lower-rated companies. One strategy, focusing on companies considered to be leaders in their sustainability profiles, will invest primarily in companies with our highest ESG ratings and will avoid companies deemed to have particularly negative environmental or social impact, or poor corporate governance.

We believe offering this wide variety of investment product solutions empowers investors to choose more precisely how their capital is invested. After all, it is entirely an investor's prerogative to decide where and where not to invest. Rather than exemplifying a pernicious "woke capitalism," offering investment options that respond to investor demand is entirely aligned with a free market.

At the same time, the rise in popularity of ESG has led to legitimate concerns about greenwashing. New regulatory oversight that attempts—in good faith—to provide rigor and transparency to ESG investing, and to protect investors from dubious ESG claims, will enhance the maturity and long-term health of ESG investing. As a firm that has integrated ESG into the investment process for 35 years, and that manages client assets with high fiduciary standards and responsible stewardship, we welcome transparency and clear disclosure that helps clients distinguish between authentic practitioners and those with less rigor.

Supporting the Push for Gender Equality

Kimberly Gifford, CFA
Portfolio Analyst, Sustainability Leaders Strategy

To help gather data on gender diversity, ClearBridge collaborates with Equileap, a nonprofit organization whose mission is to increase transparency of both gender diversity metrics and policies/programs in place for gender equality. We use this data, gleaned from thousands of companies worldwide, to inform our analysis of portfolio companies' human capital management practices and to help guide our conversations with leadership.

Improvements in gender equality are steady but slow, according to Equileap, with most of the changes coming from regulation. Legislation, for example on representation quotas and required disclosures on gender equality metrics, is a major driver of top country performance on overall gender equality (Exhibit 2.12).

Exhibit 2.12: Equileap Top Countries Ranked on Gender Equality
Legislation is a driver of top performers.

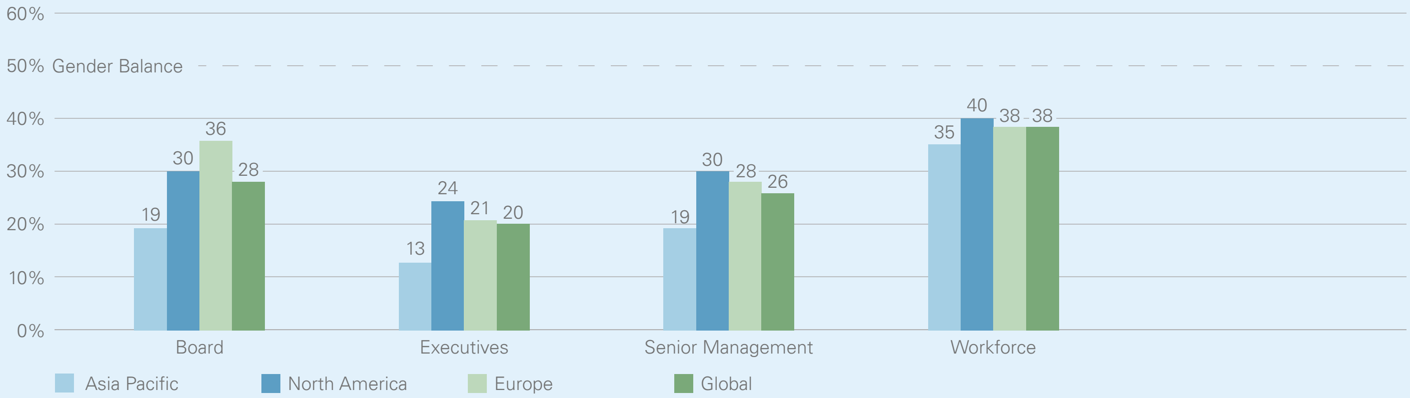
As of Feb. 2023. Source: Equileap.

1. France
   Has mandatory quotas for women's representation among board of directors and executives.
2. Spain
   Companies must report gender pay gaps.
3. Italy
   Has a mandatory quota for women's representation on the board and mandatory pay gap reporting.
4. Norway
5. U.K.
6. Australia
7. Sweden
8. Germany
9. Singapore
10. Switzerland
11. Netherlands
12. New Zealand
13. Canada
14. U.S.
15. Japan
16. Hong Kong

Women in top positions are still rare, although quotas for women on boards in Europe are driving greater gender balance at the board level there (Exhibit 2.13). North America leads globally for overall workforce representation.

Exhibit 2.13: Female Representation by Region

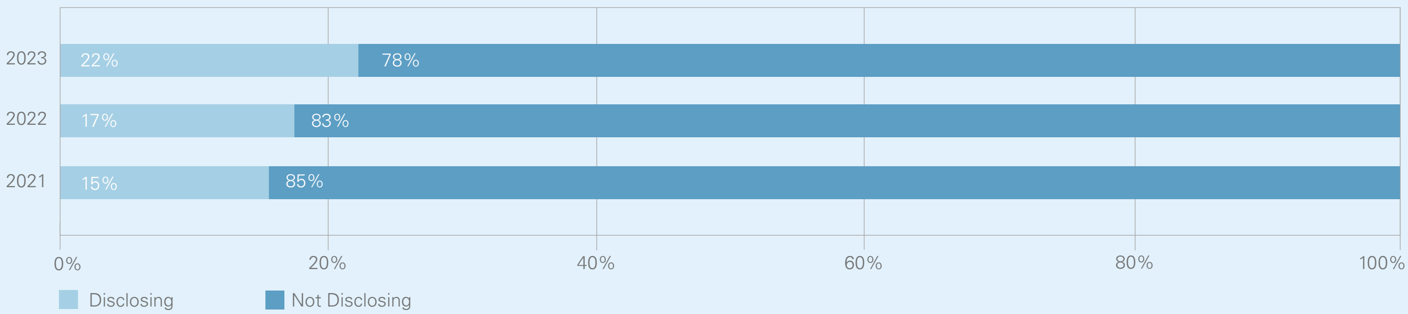
As of Feb. 2023. Source: Equileap.



While regulation drives much of the change in gender equality in the workforce, ClearBridge engages companies, seeking detailed disclosure on representation, wages and pay gaps (Exhibit 2.14), recruitment, retention and promotion by gender, as well as by race. We also seek information on all working groups (not just leadership or non-management employees); policies such as paid parental leave for men and women (companies will often offer this benefit but not disclose it); and whether diversity, equity and inclusion (DEI) progress is part of management compensation.

Exhibit 2.14: More Companies Are Disclosing Gender Pay Gaps

As of Feb. 2023. Source: Equileap.



As more disclosure enables better conversations and encourages progress on DEI broadly (we also actively encourage companies to publicly disclose their EEO-1 filing) ClearBridge will continue to engage portfolio companies for more transparency and work with the latest data and insights to promote gender equality in the workplace.

03

Engagements and Impactful Active Equity Ownership

Company engagements on ESG factors improve the fundamental research process, offering a better understanding of a company's prospects in a changing world as well as a venue for impact.

"Engagements, and the active partnership they reflect, begin important transitions for companies."

Scan to watch video highlights on ClearBridge's engagements and fundamental research

Scott Glasser,
Chief Investment Officer, Portfolio Manager

A key tenet of ClearBridge's investment approach is that, as part of our active ownership and through our access to C-Suites, we can engage and influence companies on material ESG matters. Engagements can have an impact.

For example, a study in which ClearBridge participated with CDP, formerly the Carbon Disclosure Project, found that companies were more than twice as likely to disclose their impacts on climate change, forests and water security when institutional investors like ClearBridge engaged with them on the data directly. It also found that once companies disclosed for the first time most of them continued to do so.

This is consistent with our experience that engagements, and the active partnership they reflect, begin important transitions for companies. Whether the issues concern environmental, social or governance matters, in order to disclose, one must monitor, and both these activities encourage setting targets and making progress.

As a large shareholder actively engaging with companies often through years of ownership, we have fostered our role as a trusted partner. Engaging in this way improves our understanding, not just of ESG characteristics, but of all aspects of the business, improving our investment decision making and our ability to create long-term value for clients.

2022 Engagement Highlights

Engagements are investment meetings between ClearBridge portfolio managers and research analysts and target company representatives—CEOs, CFOs and other firm decision makers—in which we share our philosophy and expectations on relevant fundamental and ESG topics, inquire about a company's ESG-related goals and activities and set meaningful objectives for the future. As a firm, ClearBridge conducts over 1,000 company meetings every year.

ESG engagement at ClearBridge generally has two overlapping objectives:

1. Research: Gaining a better understanding of ESG issues that could impact our investment thesis

2. Impact: Encouraging specific changes at the company that could lead to positive real-world impact

In 2022 ClearBridge engagements covered a variety of environmental, social and governance themes (Exhibit 3.01) and included four firmwide areas of focus: climate; diversity, equity and inclusion; disclosure; and net zero (Exhibit 3.02).

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.

Exhibit 3.01: 2022 ClearBridge Engagement Themes: Environmental, Social and Governance

As of Dec. 31, 2022. Source: ClearBridge Investments. Shows percentage of select engagements in 2022 that included each topic.

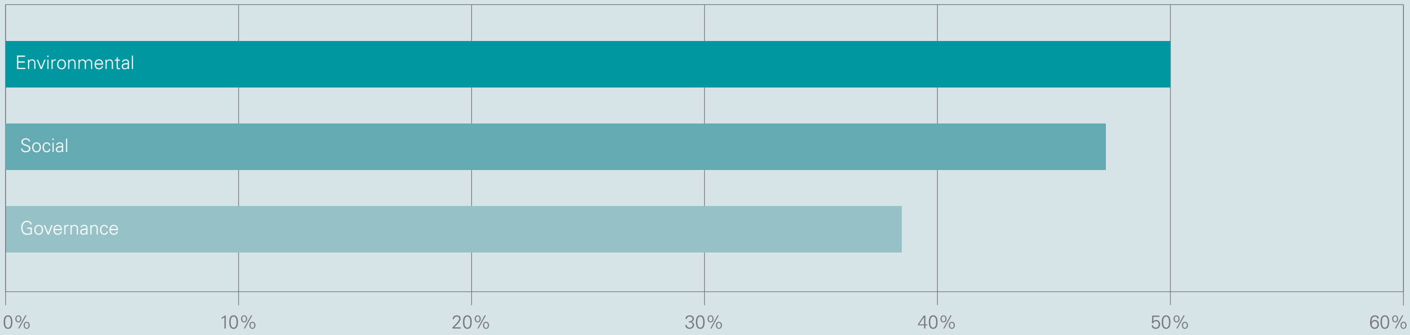
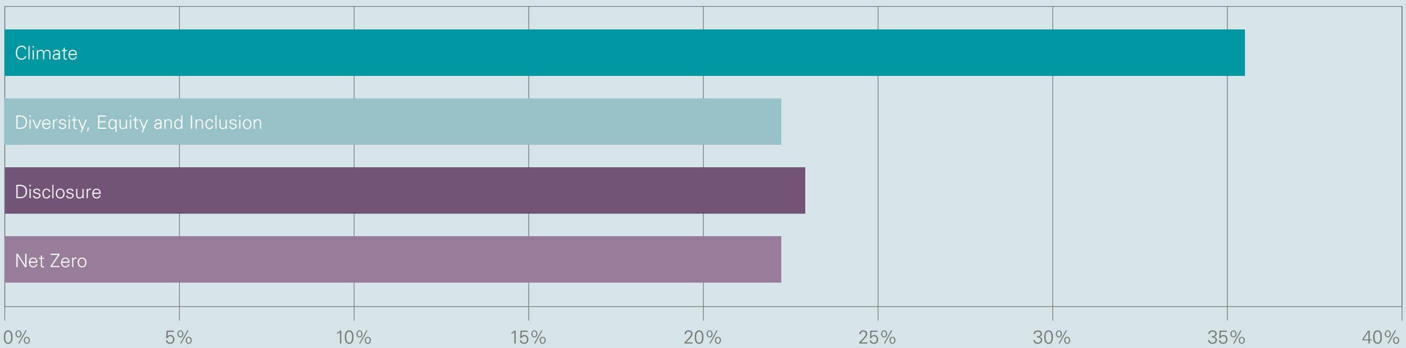


Exhibit 3.02: 2022 ClearBridge Engagement Themes: Firmwide Focus Areas

As of Dec. 31, 2022. Source: ClearBridge Investments. Shows percentage of select engagements in 2022 that included each topic.



Infrastructure Improving Wildfire Prevention and Water Quality

Infrastructure such as electric and water utilities provide essential services; keeping their operations safe requires constant monitoring by the utilities, their regulators, ratings agencies and active investors like ClearBridge, who can offer knowledge beneficial to all parties.

Pacific Gas and Electric Company

Engagement: Meeting with IR and email correspondence with MSCI ESG

Key ESG Issue(s): Pacific Gas and Electric's efforts to meet requirements of the U.N. Global Compact

Brad Fraser
Portfolio Analyst, Infrastructure Strategies
Chris Hillsdon
Senior Portfolio Analyst, Infrastructure Strategies

Pacific Gas and Electric (PG&E) is a regulated utility operating in central and northern California. In meetings in January and June 2022, Brad Fraser and Chris Hillsdon discussed with both PG&E Investor Relations and ESG ratings provider MSCI the rationale for PG&E's failure to meet the requirements of the U.N. Global Compact (UNGC) in MSCI's assessment and the steps required for that assessment to be upgraded.

Following a series of wildfires caused by PG&E's equipment in 2017–20, MSCI deemed that PG&E had failed the UNGC. Given the details surrounding the events, we believe the assessment was justified. However, PG&E had made notable improvements to its business since undergoing a reorganization, including board and management changes, and had incorporated enhanced wildfire mitigation practices into its operations. Despite this progress, MSCI continued to evaluate the company with a focus on historical events and PG&E continued to fail the UNGC in MSCI's rating.

Engaging both PG&E and MSCI, ClearBridge identified several relevant data points that were not incorporated into MSCI's assessment, including:

- Legislation: Improved prudency standards that cap shareholder liability and provide liquidity to compensate victims.
- Board and management: New board members and an experienced management team viewed positively by the California Public Utilities Commission.

- Wildfire mitigation: Analysis showed current shut-off procedures and system hardening would have prevented 96% of historical fires. In 2021, the company saw an 80% reduction in reportable incidents. Wildfire management plans are being approved by the state's regulators, albeit with areas for improvement, which the company is acting upon.
- Resolution: All claims from the 2017–18 wildfires are now resolved with litigation settled and victims compensated.

Takeaway: We believed MSCI's understanding of PG&E's ESG profile did not reflect the improvements PG&E had made to governance or its efforts to meet its social obligations. As such, we considered PG&E as investable despite MSCI's assessment of the UNGC failure. Since our initial engagement, MSCI revised its assessment of the company, and PG&E is no longer in violation of the UNGC principles.

Pennon Group

Engagement: Meeting with CEO and CFO and email correspondence with IR of Pennon

Key ESG Issue(s): Investigations on possible sewage discharge violations

Chris Hillsdon
Senior Portfolio Analyst, Infrastructure Strategies
David Pow, CFA
Portfolio Manager, Emerging Markets Infrastructure Strategy

ClearBridge is a top 10 owner of Pennon, a U.K. water and waste services company that wholly owns water utilities South West Water (SWW) and Bournemouth Water. In December 2022 David Pow and Chris Hillsdon met with Pennon's CEO and CFO to discuss investigations by the Environment Agency (EA) into possible sewage discharge and spill violations of these two subsidiaries. Prior to this, we had expressed concern over the matter with Pennon's IR manager in October 2022. We wished to understand Pennon's response. After confirming it was already fully cooperating with the EA investigation and the maximum fine would be 10% of the water utilities' wastewater revenue, Pennon shared its confidence it could return its Environmental Performance Assessment (EPA) rating to four stars by 2024, as underlying metrics, including pollution reductions, were on track. Pennon reiterated it had re-invested £45 million in the WaterFit investment program to protect and enhance coastal and river waters in the service region. The program aims at reducing spills from storm overflows, delivering excellent bathing water quality and improving the impact on river quality by one-third.

Takeaway: While there were still uncertainties regarding the evolution of the investigations, we gained some comfort from Pennon's preparedness and cooperation with the authorities. We believe Pennon's priorities align with the regulator's target of achieving environmental improvements in coastal and river waters. We also believe there are investment tailwinds for the sector in the coming decades involving drainage and wastewater management and climate change risk resilience.

Responsible Online Content

Social media has become a ubiquitous part of society, especially among digital native generations. With that growth and the tremendous influence wielded by such platforms as Facebook, TikTok, Instagram, YouTube and Twitter have come challenges in moderating and policing content.

The proliferation of misinformation, hate speech and cyber bullying has been well-documented in the U.S. and other developed economies but the risks around these abuses in emerging and frontier markets have become human rights concerns.

We believe our scrutiny and that of other major share owners has communicated to these mega cap companies that they should be accountable for taking greater responsibility for the safety of their platforms.

We also engaged with a global outsourcing provider tackling the social impacts of content moderation on employees that must confront negative messaging and imagery on a daily basis, contributing to the company exiting from the most egregious segment of its global content moderation operations.

Meta Platforms

Engagement: Call with Chief Diversity Officer and executives overseeing sustainability and human rights

Key ESG Issue(s): Diversity, sustainability, content moderation, human rights

Naveen Jayasundaram
Senior Analyst, Media and Internet

Meta Platforms, which operates the Facebook and Instagram social media platforms and is a leading digital advertiser, has made progress across its ESG programs. The company published its first human rights report in July 2022, highlighting greater training on human rights across the organization and partnerships with over 400 non-governmental organizations, human rights defenders and researchers across the globe.

In an October 2022 engagement with Meta Platforms, Naveen Jayasundaram continued a long-running discussion with management on how it is addressing responsible online content issues as well as the growing usage of artificial intelligence in the company's search and content moderation efforts.

From a social and governance standpoint, Meta's Oversight Board continues to exert greater influence, make binding content moderation decisions and non-binding recommendations. In Ethiopia and Myanmar, Facebook's platform has been accused of not doing enough to prevent the spread of misinformation and hate speech that in some cases led to violence. The company is now being more proactive in staffing up crisis response teams across the globe. Meta has a 20,000+ team that focuses on content moderation on both Facebook and Instagram. While misses continue to occur, they are a small fraction of violations that take place on the platform.

Meta shared with us it is committed to fighting against misinformation on all key topics, including climate change, and has its product teams working hand-in-hand with content and policy teams, plugging its platforms into 90 independent fact-checking networks. The company is also using the counterweight of authoritative info to fight misinformation and using its platform to catalyze interest in scientifically backed views. In addition, Meta recently updated its automated content moderation tool to make it open source, therefore enabling partners and third parties to find and remove violent content from their platforms.

Takeaway: While Meta has made measurable progress in response to stakeholder and shareholder feedback, we would like to see the company's human rights policy team expand (from <10 today) and its next human rights report to better describe how human rights factors into its ad targeting.

Teleperformance

Engagement: Calls with CEO, CFO and Chief Transformation Officer

Key ESG Issue(s): Treatment of content moderation employees, unsafe working conditions

Pawel Wroblewski, CFA
Portfolio Manager, Global and International Growth Strategies

France-based Teleperformance provides outsourced call center and related customer service capabilities to companies across industries and geographies. While its traditional client base is companies needing customer service support, Teleperformance has recently entered the rapidly growing content moderation business, monitoring topics ranging from brand reputation to discrimination and other human rights violations. The company also monitors social media activity for clients, including short-form video platform TikTok.

Media reports published in the second half of 2022 raised concerns about the treatment of the company's content moderation employees, leading Pawel Wroblewski to participate in a series of engagements with company management on its work with highly egregious content.

While definitions vary across regions and government regulators, highly egregious content includes words, photos and videos of sexual exploitation, including that of minors. We asked what actions the company was taking to determine if the allegations of employee mistreatment—exposure to highly egregious content during training and unreasonably long working hours—were true and what safeguards it had in place to protect the mental health of employees monitoring such content.

We have viewed Teleperformance as following ESG best practices over our multiple-year ownership and believe the company has acted proactively in addressing these latest employee mistreatment allegations. Rather than sell the stock as some other ESG investors did after the TikTok allegations came out, we have used the four separate conversations with the company in November and December 2022 to better understand how moderating highly egregious content fits into its overall business.

All content moderation at Teleperformance represents 5% of annual revenues, with highly egregious content well below 1% of revenues. Most egregious content moderation is performed through AI; when software can't decide how to interpret content, it uses human moderators.

Management explained that content moderation is an important and necessary function to protect minors and other at-risk users. Teleperformance has procedures in place to properly train employees exposed to highly egregious content as well as health support to help them deal with any negative social effects. The company conducted several independent audits to understand and validate as appropriate its treatment of its employees. Nevertheless, the many risks and investor pressure around highly egregious content moderation caused Teleperformance to exit this business in December, returning responsibilities for moderating this content back to customers and reallocating employees to other activities within the firm.

Takeaway: While we view the company's decision to exit the business as positive from a business and ESG standpoint, we gleaned greater value as shareholders from the insights gained on employee training and how small parts of a business can create significant risks. The engagements and audit results also confirmed our view of Teleperformance as a socially responsible employer that considers the best interest of its employees as a key business priority.

Advancing ESG in the Boardroom

Engaging a company on strategy can sometimes lead to concrete changes, for example to capital allocation, which is directly relevant to the interests of shareholders, stakeholders and a company's long-term success. Governance also provides a direct link to developing strong sustainability practices at a company.

Cellnex

Engagement: Meeting with CFO and Investor Relations

Key ESG Issue(s): Governance and capital allocation

Todor Petrov
Senior Portfolio Analyst, Global and International Growth Strategies

In October 2022 Todor Petrov met with Spanish wireless telecom company Cellnex to encourage the company to embrace a fiscally responsible strategy in order to protect the business in a high interest rate environment. In a proactive dialogue with Cellnex management on governance and shareholder feedback, we conveyed our recommendations for a necessary shift in capital allocation and strategic priorities. We insisted that:

1. Shareholders and bondholders are unwilling to provide capital for large acquisitions, which increase leverage and uncertainty
2. Cellnex should commit to obtain an investment grade credit rating, which will limit cost of capital increases
3. Management should focus on refinancing debt maturities immediately to avoid liquidity issues
4. A focus on balance sheet debt leverage should take priority over dividends and share buybacks

Cellnex's response during the meeting was thoughtful and receptive. In a follow-up call in November, Cellnex announced it would make all the strategic changes we asked it to consider. The CFO shared Cellnex's new unconditional commitment to an investment grade rating. This would include a commitment to 2025 financial guidance, a clear capital allocation framework with conservative assumptions, a focus on organic growth with limited capex and high-return projects, limited M&A activity, and a focus on free cash flow, with excess cash deployed in the best interest of maximum long-term shareholder value.

Takeaway: ClearBridge was just one voice contributing to the realignment of Cellnex's strategy, but it was encouraging to witness an overhaul of management priorities that fully matched our clearly communicated recommendations and in turn brought a significant positive change in our investment thesis.

UnitedHealth Group

Engagement: Meeting with CFO and Investor Relations

Key ESG Issue(s): Board effectiveness

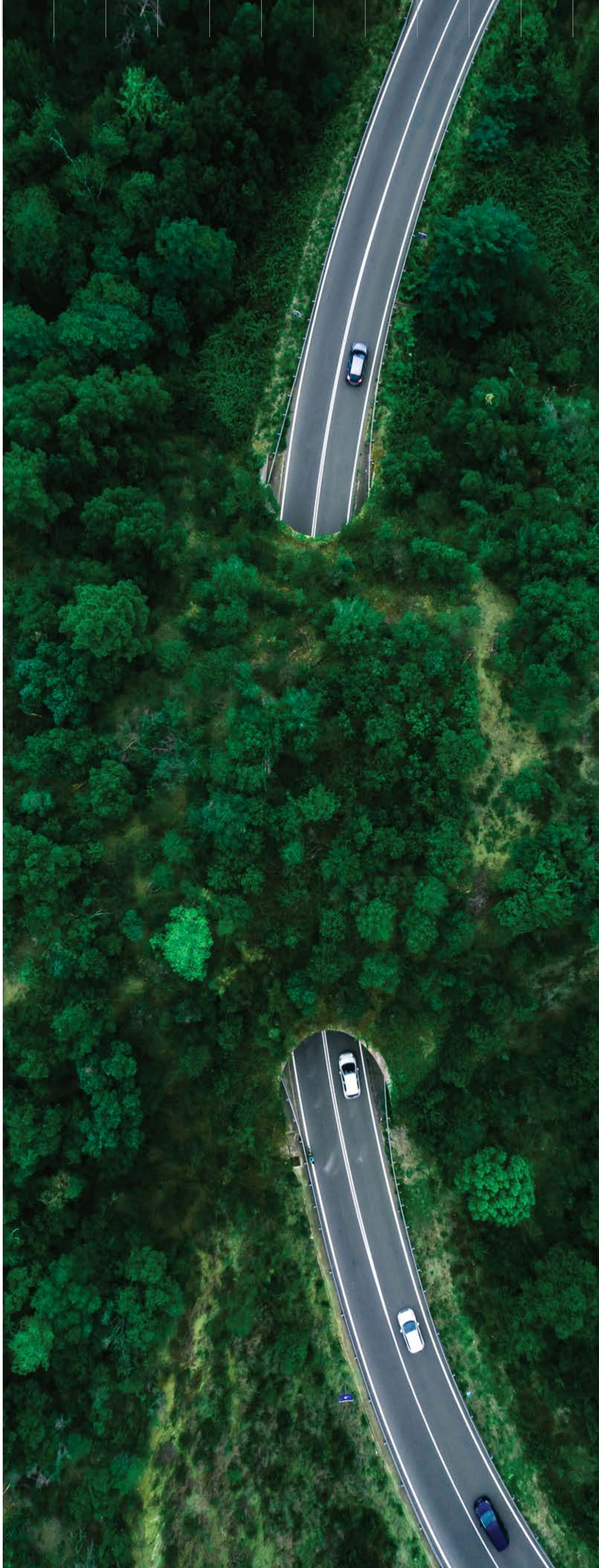
Marshall Gordon
Senior Analyst, Health Care

ClearBridge is a top 20 owner of UnitedHealth Group, the nation's largest managed care provider. In December 2022 Marshall Gordon met with the company to discuss governance changes in response to investor feedback, with sustainability a growing priority. The company has historically faced criticism, from ClearBridge and other investors, for the long tenure of its board of directors. In response, it has turned over seven board seats in the past five years and split the chairman and CEO roles.

A related change is that, as sustainability has increased in importance, UnitedHealth has revamped and elevated board oversight of ESG. Now the Governance Committee of the board is charged with oversight of UnitedHealth's ESG initiatives and progress. The company also appointed a corporate Chief Sustainability Officer who reports directly to the CEO and attends and presents at each Governance Committee meeting.

Part of UnitedHealth's existing strong ESG profile has been a focus on "health equity" as it seeks to raise the standard of care in underserved communities in the U.S. UnitedHealth has placed health equity goals, in addition to its clinical policy, under the oversight of the board's Health and Clinical Practices Policy Committee, with the Audit Committee responsible for reviewing the quality and accuracy of all ESG disclosures.

Takeaway: Overall, the establishment of a corporate sustainability function that collaborates with the core business functions represents important progress on sustainability at UnitedHealth over the past year, and is a good example of how the voice of ClearBridge and others calling for governance improvements can help improve sustainability practices as well.



Emission Reduction Targets and Disclosure

Reducing emissions is an area of focus across many ClearBridge engagements as we seek to foster best practices to help mitigate climate change. Disclosure of emissions and emission reduction targets is an equally important best practice to hold companies accountable to their stated targets.

Aptiv

Engagement: Meeting with Head of Investor Relations and ESG and Chief Legal Officer

Key ESG Issue(s): Emissions reductions, climate targets

Jeff Bailin, CFA
Senior Portfolio Analyst, Small Cap and Mid Cap Strategies

ClearBridge is a top 10 owner of Aptiv, a Tier 1 automotive supplier to global original equipment manufacturers (OEMs) that provides a range of solutions, including autonomous driving technologies, safety technologies, components and wiring.

In December 2022, Jeff Bailin hosted an ESG update call with Aptiv's Head of Investor Relations and ESG and Chief Legal Officer on a range of ESG-related topics including operationalizing its ESG efforts, taking tangible steps forward on its climate change objectives and targets for improved disclosure.

We discussed Aptiv's efforts to deliver on its ambitious long-term climate change goals. Aptiv believes that raw materials are one of the biggest opportunities and is considering a variety of strategies to minimize emissions related to its raw material supply including using recycled copper. The company is making efforts to convert facilities over to renewable energy, including factories in Ireland and Germany becoming 100% carbon neutral. The company also cited its role in producing EV components and solutions as supportive of broader global decarbonization goals.

Finally, Aptiv reiterated its commitment to using science-based emission reduction targets and anticipates releasing a report with greater details to provide further transparency. The board and management stated that it looks to mirror some of the best-in-class German auto OEMs, which have strong disclosures on related topics as it relates to their own suppliers, an area where Aptiv sees internal room for improvement.

Takeaway: Aptiv's potential for setting science-based targets, among other ESG initiatives discussed, confirms our assessment of Aptiv as a strong ESG actor among its peer group.

EQT

Engagement: Meeting with CEO and CFO

Key ESG Issue(s): Emissions reductions, climate targets and disclosures

Adam Meyers
Analyst, Energy/Basic Materials

ClearBridge is a top 10 owner of EQT, a natural gas exploration and production company. In May 2022, Adam Meyers met with EQT's CEO and CFO and spoke about the company's plans for further disclosure and mitigation of emissions from its operations.

The company indicated its desire to improve its disclosure, transparency and emissions goals as it plans to be carbon neutral across its Scope 1 and 2 emissions by 2025—the earliest among exploration and production companies. One of the top initiatives highlighted by EQT to reduce Scope 1 emissions is the replacement of old pneumatic devices, which are expected to cut its methane emissions by an impressive 70%. EQT explained that it has its production certified by third parties as Responsibly Sourced Gas to provide transparency to customers that its natural gas is among the lowest emitting in the world. The company also laid out its intention to invest $75 million in other various energy transition ventures, including the development of a clean-burning hydrogen production plant and hub, carbon capture and a fuel cell company which is seeking to develop a process to use natural gas to create hydrogen fuel.

Takeaway: ClearBridge was pleased to hear the steps EQT is taking in reducing its methane intensity and believes it to be a leader among peers. We believe there is room for improvement in capturing the full breadth of its emission reduction initiatives in its disclosures.

Sempra Energy

Engagement: Meeting with SVP Corporate Affairs, VP Investor Relations, Chief Administrative Officer and Chief Human Resources Officer, and VP, Governance and Corporate Secretary

Key ESG Issue(s): GHG reduction targets and ESG disclosures

Tatiana Eades,
Senior Analyst, Renewables/Utilities

ClearBridge is a top 20 owner of Sempra Energy, an electric and natural gas infrastructure company with regulated utility assets in California and Texas and 40 million consumers. In November 2022 Tatiana Eades engaged the company on its GHG reduction targets and strategy for achieving them. Sempra shared that its GHG targets have been reviewed by an industry trade association. Its net-zero decarbonization target (50% reduction by 2030 and 100% reduction by 2050) are off a fairly aggressive 2019 baseline (rather than an earlier date). In line with ClearBridge's net-zero engagement approach, we requested that Sempra provide better disclosure on more intermediate targets or specific projects that investors can track to measure the company's progress. The company said it would do so, and shared that its gas utilities reduced methane emissions by 37% and were on pace to exceed the state's goal of 40% by 2025. Renewable natural gas (RNG) projects and green hydrogen will be important to reach the stated targets of 20% RNG by 2030 (from 5% in 2022). Consequently, Sempra has several green hydrogen projects in development.

Sempra's incremental ESG disclosure in its 2021 CSR includes a focus on biodiversity and more standardized disclosure, for instance a new trade association climate lobbying disclosure template, developed by Sempra in consultation with shareholders and other stakeholders and now adopted by several major trade associations.

Takeaway: Overall, Sempra has been improving its already comprehensive disclosure, and this engagement, confirming this, positively impacted the investment case for the company.

Murphy USA

Engagement: Meeting with CEO and Investor Relations

Key ESG Issue(s): Emissions goals, climate change impact risk assessment, educational efforts, product design

Reed Cassady, CFA
Portfolio Manager, All Cap Value Strategy
Albert Grosman
Portfolio Manager, All Cap Value, Small Cap and Small Cap Value Strategies
Brian Lund, CFA
Portfolio Manager, Small Cap and Small Cap Value Strategies
Sam Peters, CFA
Portfolio Manager, All Cap Value and Value Equity Strategies

ClearBridge is a top 10 owner of Murphy USA, which runs a chain of retail gas stations that sell motor fuel products and convenience merchandise. In August 2022, Reed Cassady, Albert Grosman, Brian Lund and Sam Peters hosted a meeting with Murphy USA's CEO and an Investor Relations representative. We discussed the impact of the company's operations and products on the environment, particularly how the company is taking steps to limit the GHG emissions from its fleet of company vehicles, generators and utilities.

Murphy USA has taken a number of positive steps to reduce its environmental footprint, including outfitting its locations with vapor-recovery nozzles, modern hoses, energy efficient appliances and LED lighting. All this has helped to make Murphy USA a lower emitter than its peers.

The company also reiterated its commitment to being the industry leader in the percentage of double-walled underground storage tanks and replacing older tanks as part of renovations in order to protect against environmental contamination. We asked why the company's locations do not include EV charging stations; management explained that the nature of the company's locations in Walmart parking lots (as opposed to off freeways) means that its customers generally are not at the location long enough for a recharge and that the demographics of Walmart customers results in lower EV traffic.

Takeaway: Murphy USA intends to study and release estimates of its Scope 1 and Scope 2 GHG emissions data in 2023 to help provide greater transparency and a baseline from which to set goals for further reducing emissions in the future.

Environmental Efficiency of Operations

Engagements on environmental efficiency of operations can cover a wide range of issues, such as hazardous waste management, tailings at mining operations and the potential reuse and recycling of materials into a circular economy. Often, improvements to environmental efficiency can help the communities in which companies operate, and companies' bottom lines.

Ecolab

Engagement: Calls with Head of Investor Relations and Chief Sustainability Officer

Key ESG Issue(s): Harmful air emissions

Ben Buckley, CFA
Portfolio Analyst, Sustainability Leaders Strategy
Stephen Rigo, CFA
Portfolio Manager, Appreciation Strategy

Ecolab provides commercial cleaning and related services to the hotel, restaurant and industrial industries. In May of 2022, we approached Ecolab to address concerns over why the company's Fresno, Texas, manufacturing facility was listed as a top toxic air polluter by the Political Economy Research Institute (PERI) at the University of Massachusetts Amherst. As the company is one of the more sustainability-focused companies owned at ClearBridge — most of its products reduce waste and increase safety, and 80% of its energy is from renewable sources — we wished to work with Ecolab to properly understand the issue and ensure progress is made.

After giving the company time to research and review the situation, in August Ben Buckley and Stephen Rigo met with Ecolab's Head of Investor Relations and Chief Sustainability Officer to address what Ecolab was doing to remedy the issue. Ecolab explained it believed the data was misreported and vastly overstated the pollution from this relatively small facility, which is primarily used to mix ethylene oxide, a compound widely used as a disinfectant in hospitals and medical equipment and not particularly harmful to the environment. Throughout the conversation, Ecolab pointed out a potential issue at the Fresno plant in that the facility was sending waste solvent coming to a local incinerator to be disposed. We continued to monitor the company's handling of the situation, and discussed its efforts directly with Ecolab's CEO during a meeting in November.

In January 2023 we followed up with the company and were pleased to find it had taken a number of steps to help rectify both situations. First, it had worked with the EPA to correct two years of erroneous data and, although PERI may not remove the company from its toxic polluters list until it conducts its next review in 2024, Ecolab has submitted the data for consideration. Second, it had ended its practice of outsourcing waste solvent to be incinerated and had established a relationship with a third party to offload this waste solvent for beneficial reuse; the company cited the potential for reusing the waste solvent in pavement.

Takeaway: Ecolab indicated that shareholder feedback has helped ensure attention and capital was allocated to these remediation projects. We will continue to engage the company to assess its progress on these issues, including getting more clarity on safe disposal of waste solvent.

Nike

Engagement: Meeting with Chief Sustainability Officer and VP of Sustainable Product

Key ESG Issue(s): Circular economy

Neal Austria
Senior Analyst, Consumer Discretionary

Nike is a global footwear and apparel company. In October 2022 Neal Austria met with Nike to discuss the company's framework and efforts around circularity and specifically its ability to bring its efforts to scale.

Nike views circularity as a tactic to reach its carbon and waste goals through building regenerative systems where waste becomes the feedstock and virgin materials are no longer needed. Its recently launched Nike Forward hoodie has a carbon footprint 75% lower than a traditional knit fleece by Nike through using 70% recycled content and simplifying the process of material fabrication through fewer steps. Pockets are raw with minimal seams, and no zippers are used, all of which also enables easier disassembly at end of life. Nike is also pursuing circularity in its business models. In Los Angeles, it remakes locally collected used garments into new garments that are distributed only locally. The program will be scaled to London and Paris in the coming year.

The company also shared that 80% of the carbon footprint comes from the materials/manufacturing process. Key workstreams include using more recycled materials and signaling demand in countries where products are manufactured to use more renewable energy. Nike has seen more progress on the materials side: 33% of polyester is recycled with a 2025 goal of 50%. The biggest challenge is its ability to influence the rollout of renewable energy into countries like China, Vietnam and Indonesia. Packaging and logistics are another ~15% of the footprint; Nike has moved away from using air bags in boxes and it ships some direct-to-consumer footwear in a single box rather than two boxes.

Takeaway: We were encouraged to learn more details about how circularity is embedded in the design ethos at Nike and consider this a leading practice in the industry.

Forever Chemicals (PFAS)

PFAS (per- and polyfluoroalkyl substances) are a very long-lasting set of chemicals that have been widely used across many products to increase their water resistance and durability.

Many studies have found that these chemicals may be toxic to humans, particularly as they accumulate over time and do not easily break down. Some studies have indicated potential links to certain cancers, hormone disruptions, weakened immune systems and low birth weights. 3M, a major manufacturer of PFAS chemicals, is currently embroiled in major lawsuits and increasing regulatory pressure relating to damages around PFAS contamination. Studies have found PFAS or related compounds in mascaras, foundations and lipsticks, at levels sometimes beyond what has been disclosed in ingredient lists, which potentially puts consumers at risk and exposes beauty companies to legal and regulatory risks.

Consumer staples analyst Rob Buesing engaged with Coty and L'Oréal on this topic in 2022 to understand the risk of consumer and brand/reputational harm as well as any potential liability. The engagements further addressed overall supply chain transparency, in terms of the level of visibility the manufacturers had into their products, and regional differences between products under the same brand name (particularly in cases where controversial ingredients banned in one region are used in other regions where said ingredient is still legal).

Coty

Engagement: Meeting with CEO, CFO and Investor Relations

Key ESG Issue(s): Phasing out PFAS chemicals in products

Robert Buesing
Senior Analyst, Consumer Staples/Durables

ClearBridge is a top 10 owner of Coty, a leading maker of fragrances for the beauty industry. During an August 2022 engagement led by Rob Buesing, we discussed how the presence of PFAS in Coty's products and actions it has taken to address the issue. Coty committed to reformulating and reducing the presence of these preservatives in its products and ultimately to phasing them out by identifying alternate ingredients that will not require a sacrifice of shelf life. The company does not believe PFAS pose a major legal risk as it has fully disclosed the presence of PFAS in products that contain them, and it believes its ingredient disclosure, which it regularly verifies, is accurate. A recent lawsuit against Coty was dismissed largely because the company had disclosed the presence of PFAS for the product in question.

Takeaway: Following our initial discussions, we will continue to engage on the topic and look for the company to disclose progress on its commitments to reduce PFAS in its products.

L'Oréal

Engagement: Meeting with Investor Relations

Key ESG Issue(s): Phasing out PFAS chemicals in products

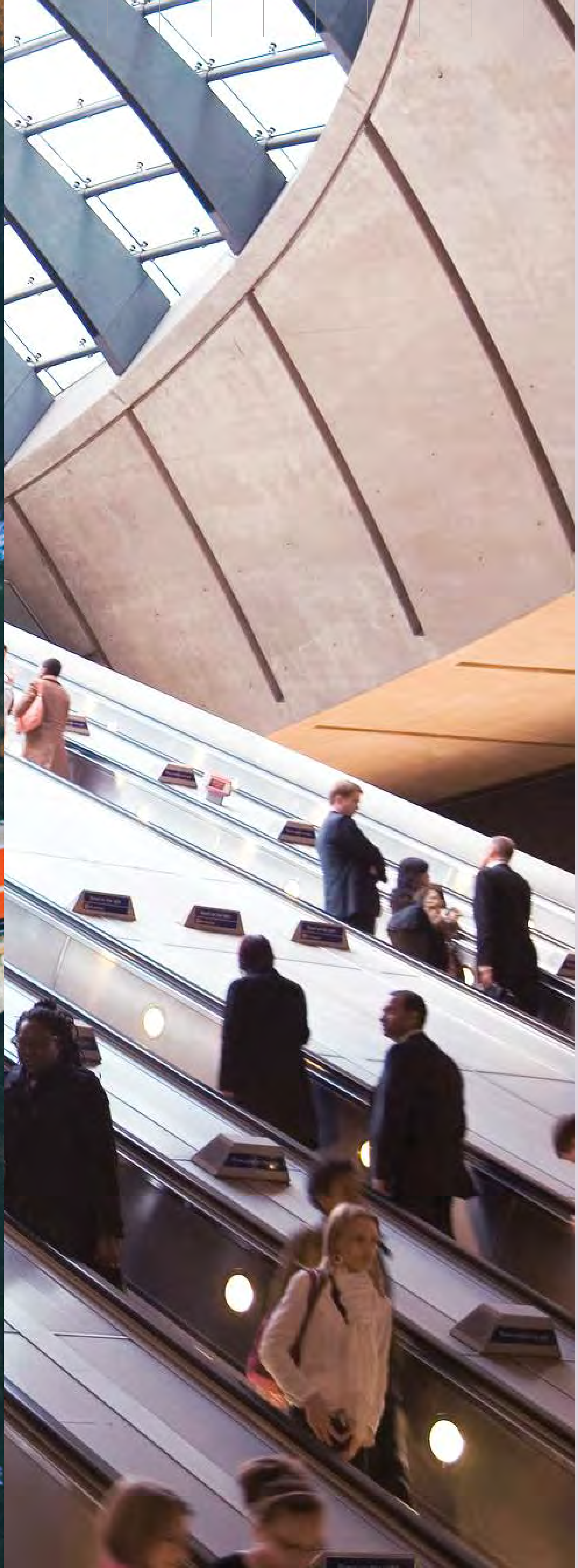
Robert Buesing
Senior Analyst, Consumer Staples/Durables

During our November 2022 engagement led by Rob Buesing with L'Oréal, a France-based maker of cosmetics and skin care products, the company highlighted how it has followed EU guidelines in committing to phase out PFAS in its products. Following L'Oréal's initial commitment in 2021, the EU's expanded definition of PFAS will require L'Oréal to phase out more ingredients and reformulate a number of products by 2025. Beyond EU regulations, L'Oréal conducts its own safety studies on ingredients and has already committed to phasing out many ingredients it views as less sustainable as part of its most recent 2030 ESG milestones.

Takeaway: Following our initial discussions, we will continue to engage on the topic and look for the company to disclose progress on its commitments to reduce PFAS in its products.

04

Shareholder Advocacy: Making Each Vote Count



As a large owner of many of the companies in our portfolios, we can send a strong signal on important societal and corporate issues via our proxy voting on shareholder and management proposals.

ClearBridge Proxy Voting Process

Scan to watch video highlights on ClearBridge's proxy voting

ClearBridge's 100% proxy voting record reflects our commitment to advocating for sustainable business practices. In 2022, ClearBridge voted on 16,830 proposals.

Of the tools public equity investors may use to advocate for sustainable business practices, proxy voting is one of the more visible and powerful. ClearBridge's commitment to this practice is evidenced by our 100% proxy voting record; we have voted on every eligible shareholder proposal at companies in our client portfolios. In 2022, ClearBridge voted on 16,830 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 proposals filed by shareholders or by management 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. The ClearBridge Proxy Committee oversees the 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.

Summary of the 2022 Proxy Season

At the beginning of the U.S. proxy season in 2022, 797 environmental, social and governance (ESG) shareholder proposals had been filed, a 9% increase from 733 at the same point in 2021 and the highest number since 2018.[11] Environmental and social proposals together made up roughly two-thirds of submitted proposals. For the first time, according to Sullivan & Cromwell, a majority of environmental and social proposals reached a vote, thanks in part to a bulletin from the SEC narrowing standards for companies to exclude votes based on economic relevance. At the same time, shareholder support decreased, with institutional investors expressing concern over proposals being overly prescriptive.[12]

Social proposals were the largest category and were up 17%, with a large increase in proposals related to racial equity and civil rights (up 81%), in particular in regard to corporate impact on stakeholders, while proposals on employee-related diversity, equity and inclusion—the largest social category in 2021—were down 47%.

Environmental proposals increased by 38%, with those targeting GHG emission reductions and climate-related targets related to the Paris Agreement making up one-third of them. Of the climate target proposals, roughly 40% were more prescriptive, requesting the adoption of short-, medium- and long-term science-based targets for Scope 3 emissions reduction. None of these passed, however.

Governance proposals decreased by 11% and tended to focus on lowering special meeting thresholds.

[11] Sullivan & Cromwell. "2022 Proxy Season Review," August 2022.
[12] Ibid.

ClearBridge Proxy Voting 2022 Overview

In 2022 there were over 600 shareholder proposals at companies in which ClearBridge is a shareowner, covering a wide range of ESG issues. Governance-related shareholder proposals accounted for 56% of the total (Exhibit 4.01), down from 63% in 2021. The most common governance proposals concerned ownership thresholds for calling special meetings and the election of shareholder nominees to the board of directors (Exhibit 4.02). The most common environmental- or social-related shareholder proposal issue was climate change, followed by human rights and political activity (Exhibit 4.03).

Proxy Voting Guidelines Update: Election of Directors

The ClearBridge Proxy Committee made a number of updates to the ClearBridge Proxy Voting Guidelines in 2022, including adding the following language to the Policy: when voting on director nominees in uncontested elections, our policy is to withhold our vote from a director nominee who is a member of the company's nominating committee and there is no racial/ethnic diversity on the board (or those currently proposed for election to the board do not meet that criterion).[13] This is an addition to the existing language that included similar guidelines for gender diversity on the board.

[13] This position only applies to Anglo markets, defined as the U.S., Canada, the U.K., Ireland, Australia and New Zealand.

Exhibit 4.01: Shareholder Proposals by Category 2022

Source: ClearBridge Investments. Reflects shareholder proposals at companies in which ClearBridge is a shareholder.

Exhibit 4.02: Governance-Related Shareholder Proposals 2022

Source: ClearBridge Investments. Reflects governance-related shareholder proposals at companies in which ClearBridge is a shareowner.

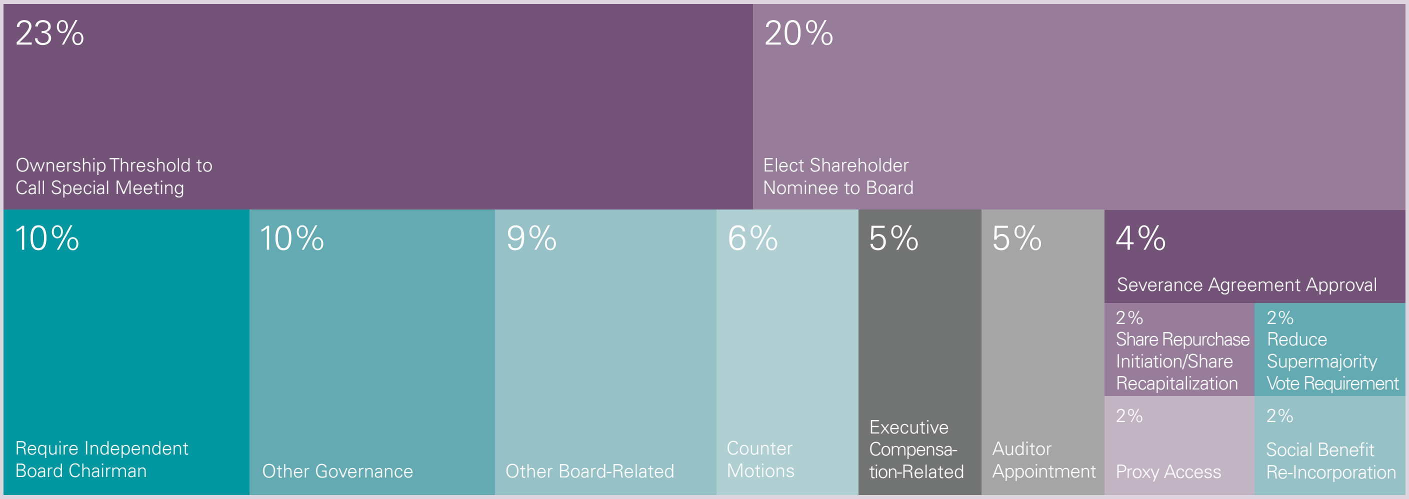
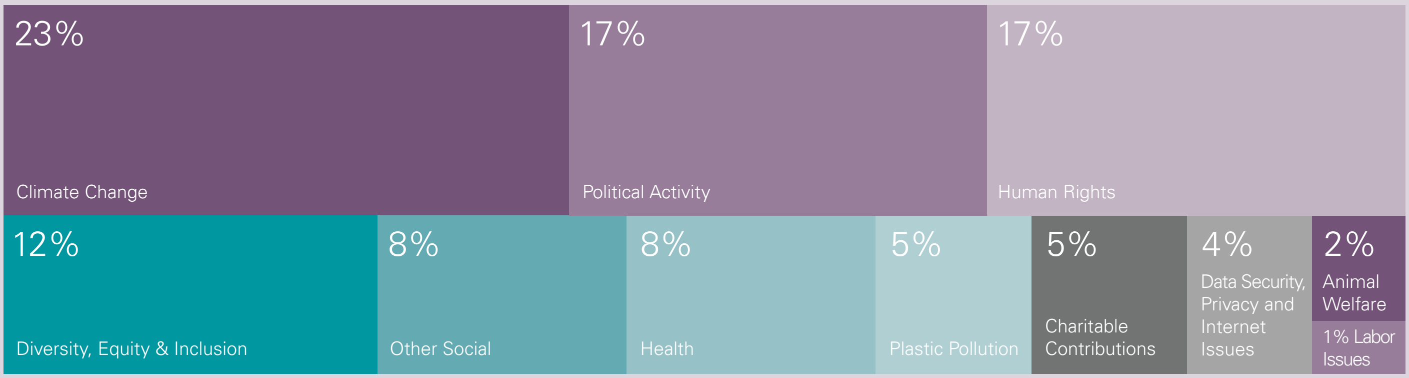
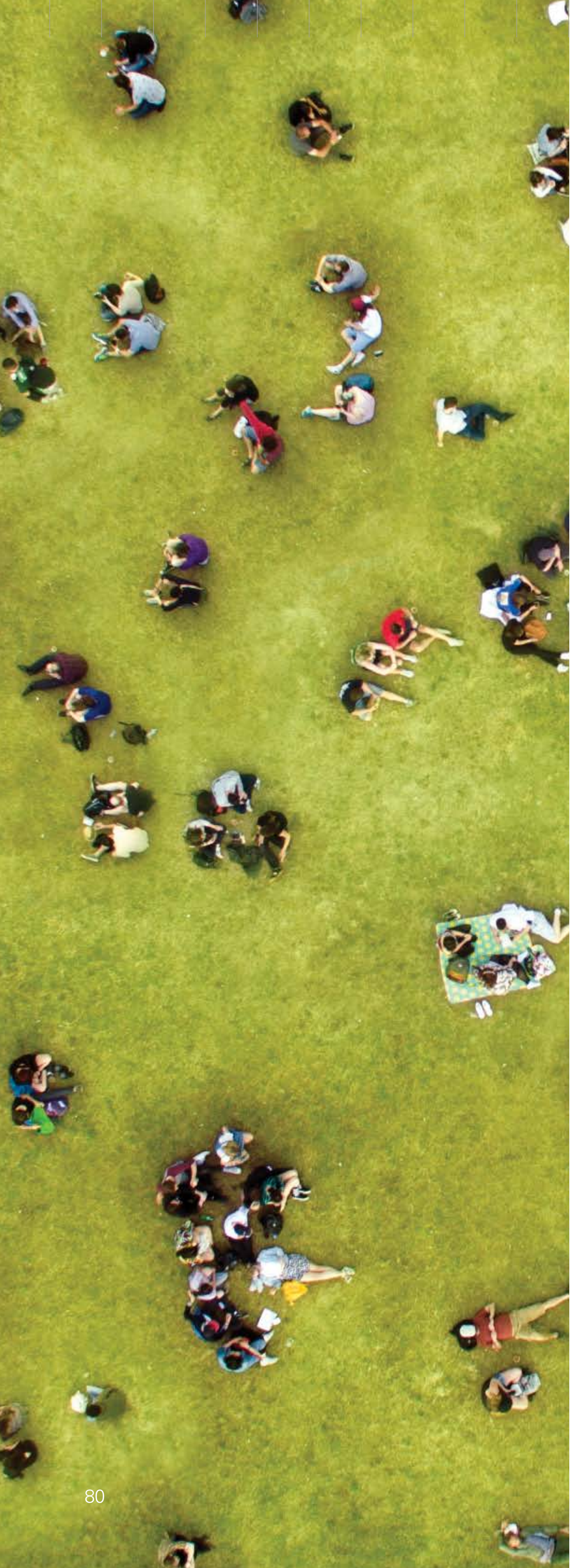


Exhibit 4.03: Environmental- and Social-Related Shareholder Proposals 2022

Source: ClearBridge Investments. Reflects environmental- and social-related shareholder proposals at companies in which ClearBridge is a shareowner. Numbers may not add up to 100% due to rounding.





Why Vote Against a Shareholder Proposal?

ClearBridge does not support all shareholder proposals. In some cases, management has demonstrated it is taking steps to address the issue in question; some proposals we deem to be micromanaging a company's day-to-day operations; sometimes the resolution language is poorly worded; some deal with matters not sufficiently relevant to the business. The Securities and Exchange Commission has provided guidance on such proposals.

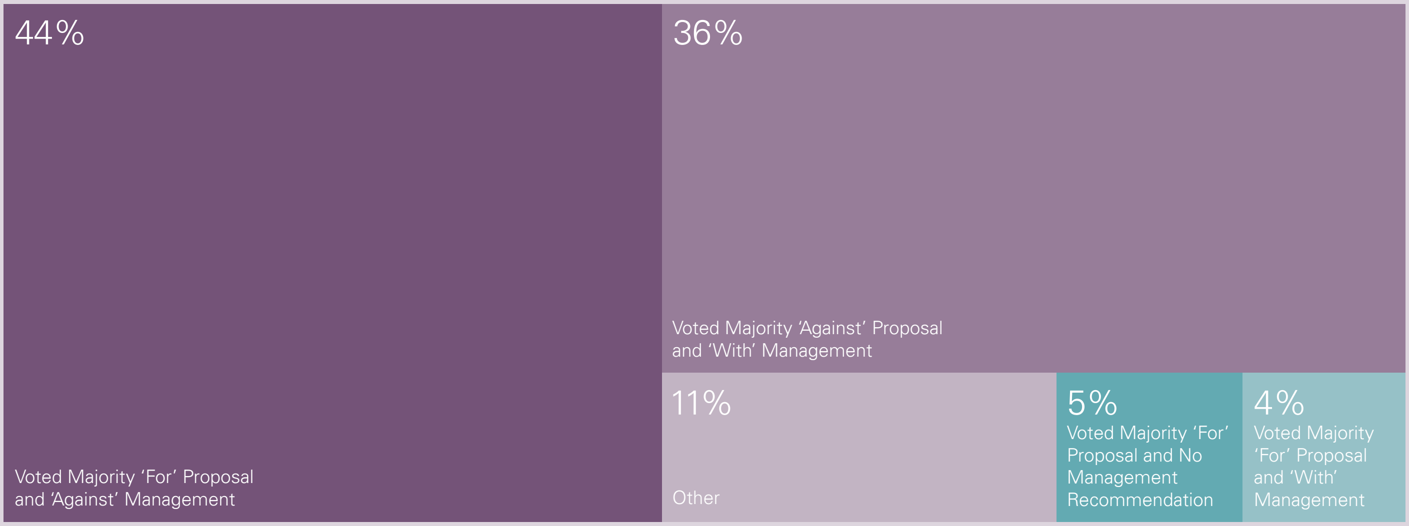
As active managers that incorporate engagement into our ownership strategy, in some cases we deem the best course of action on an issue is to continue to engage. Often, this will occur when we know management is already taking steps to address an issue. Our ongoing and direct engagement continually monitors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

Providing Feedback to Help Improve Shareholder Proposals

In 2022 there were several ESG shareholder proposals whose intent ClearBridge supported, but whose feasibility we believed was limited by the wording of the proposal. To address these situations, members of the Proxy Committee reached out to many of the proposal filers directly to provide feedback to the proponents on why the proposals' wording caused us to vote against them. We offered suggestions to help increase the likelihood the ESG proposals would be supported in the future.

Exhibit 4.04: ClearBridge Proxy Voting Record on Shareholder Proposals 2022
ClearBridge voted 44% for shareholder proposals and against management.

Source: ClearBridge Investments.



Proxy Voting in Action

As a top shareholder of many companies, we use our voting power and ongoing engagements to suggest improvements for companies we own and provide feedback to express our opinion of proposals we deem inadequate. Here we highlight proposals we voted on in 2022, both "For" and "Against," and how we continue to engage and monitor progress on these critical issues.

Votes "For" Shareholder Proposals

Board Independence
Meta Platforms: Require independent board chair

ClearBridge voted For a shareholder proposal requesting that Meta Platforms adopt a policy that the chair of the board be an independent director. Meta is controlled by Mark Zuckerberg, who beneficially owns stock that represents 56.9% of the company's voting power, which has increased year-over-year in light of the company's share repurchases. This is because of the company's dual-class stock structure, which provides for unequal voting rights. Specifically, Class A shareholders have one vote per share while Class B shareholders have 10 votes per share. Mr. Zuckerberg owns 88.7% of outstanding Class B shares. The lead director role is held by a non-independent director. The lack of independence in the lead director role inherently nullifies the prospects of an effective counterbalance to the combined CEO/chair role. Because Mr. Zuckerberg is the company's controlling shareholder, he alone can remove any director without cause at his own discretion (excluding members on the privacy committee). This is a direct consequence of the company's unequal voting rights capital structure. While the proposal language does not specify a policy to have an independent chairman at the next CEO transition, the proposal is non-binding, which provides the board with flexibility to implement the proposal at the time of its choosing.

Board Independence
Salesforce: Require independent board chair

ClearBridge voted For a shareholder proposal requesting that Salesforce adopt a policy that the chair of the board be an independent director. A co-CEO has served in the chair position over the past 18 years and the lead director's duties do not appear to be robust. It is not disclosed that the lead director approves board meeting schedules, or the information sent to the board, or that he can preside over the board meetings when the chair is not present. This is particularly concerning in this case, as the lead director must function as a counterweight to a combined Chairman/co-CEO and a combined Vice Chair/co-CEO. Even a robust lead independent director role may not be able to effectively counterbalance two additional leaders, particularly when the board is chaired by a long-time CEO and founder. Also, the lead independent director is not chosen solely by the independent directors, but appears to be chosen by the entire board, including non-independent directors. Shareholders would benefit from the strongest form of independent board oversight in the form of an independent chair.

Human Rights Due Diligence
Amazon.com: Commission third-party report assessing company's human rights due diligence process

ClearBridge voted For a shareholder proposal requesting that Amazon.com disclose a third-party report on the company's customer due diligence sales of mass surveillance and AI/machine learning technologies to government agencies that may contribute to human rights violations. The U.N. Guiding Principles on Business and Human Rights make clear that the service provider has responsibility to ensure that its technology is not used in instances likely to cause overall harm or in a way that contravenes international law and human rights. Controversies and questions surrounding the company's facial recognition technology are ongoing. Shareholders would benefit from independent verification on how the company is assessing, preventing, mitigating and remedying adverse human rights impacts resulting from its business operations and end-use of its products and services. The request for additional disclosure on the potential risks of customers using its surveillance products to impinge on human rights as part of the product due diligence process does not seem unreasonable.

Human Rights Due Diligence
Meta Platforms: Publish third-party human rights impact assessment

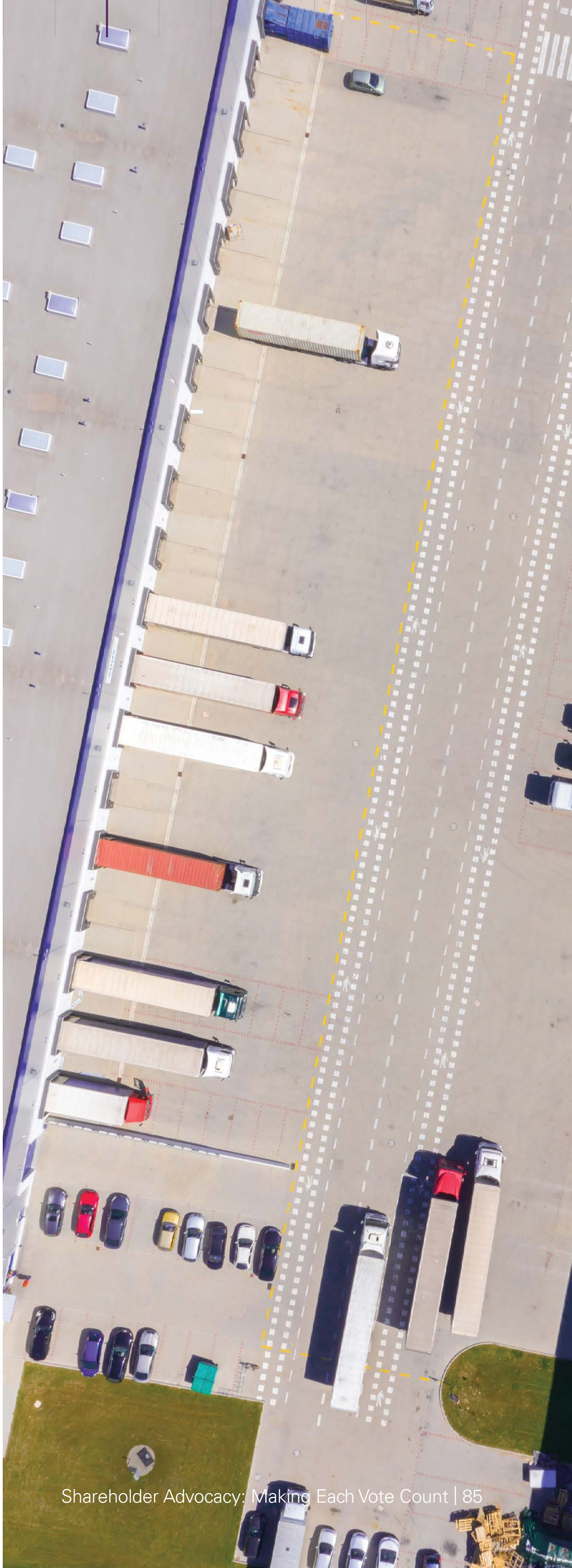
ClearBridge voted For a shareholder proposal requesting that Meta Platforms report on the company's human rights impact assessments. The company may benefit from an impact assessment specifically focused on its targeted advertising. Meta has received substantial media backlash over the use of its targeted advertising to discriminate against marginalized groups. Although the company has recently tightened its restrictions for targeting options, it still appears to be facing scrutiny on the topic. It has faced a number of legal risks due to lawsuits from the American Civil Liberties Union, the Department of Housing and Urban Development, the Federal Trade Commission and others. Given the large amount of company revenue that comes from advertisements, a third-party human rights impact assessment on the company's policies and practices related to targeted advertising could help shareholders assess Meta's management of human rights–related risks.

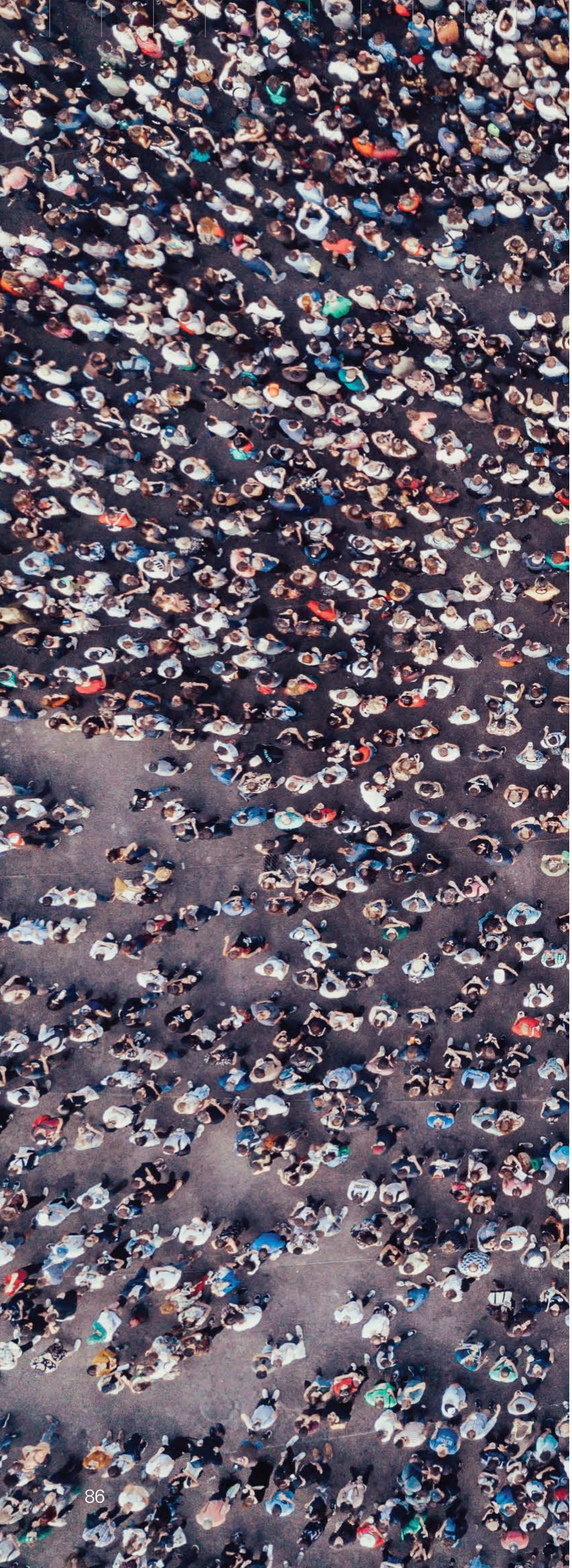
Reduced Packaging/Plastic Materials
Amazon.com: Report on efforts to reduce plastic use

ClearBridge voted For a shareholder proposal requesting that Amazon.com issue an annual report on plastic packaging pollution, including an assessment of its efforts to reduce the impact on the environment. While the company discusses the impact in terms of plastic waste reduction, it does not provide an overall baseline amount of plastic used throughout its supply chain. Although the company disputes Oceana's claims regarding Amazon's plastic use, it does not provide competing data that allows investors to assess its progress. Concern over the environmental damage caused by plastics is rising and regulations are likely to go into force in a number of jurisdictions that would limit the amount of single-use plastic packaging that can be used. Such additional disclosure requested by the proponent would help shareholders gauge whether the company is appropriately managing risks related to the creation of plastic waste. While Amazon has made considerable progress in reducing its packaging materials (including plastics), this request asked for more disclosure on how the company plans to continue reducing the use of plastics and reduce risks from plastic waste.

Labor Rights
Amazon.com: Report on protecting the rights of freedom of association and collective bargaining

ClearBridge voted For a shareholder proposal requesting that Amazon.com report on the company's freedom of association policies and practices. The company is allegedly engaged in anti-union activities and sourcing from forced labor. Given that Amazon is facing ongoing controversy with respect to its warehouse operations and suppliers, it appears Amazon's statements on freedom of association and collective bargaining in its most recent Sustainability Report are insufficient disclosure with regard to the proposal. Shareholders would benefit from increased disclosure and transparency, in order to comprehensively assess how the company is managing human rights risks, especially regarding freedom of association issues in its warehouse operations in the U.S. and abroad. Shareholders would also benefit from increased disclosure with regard to freedom of association restrictions in high-risk sourcing countries. While Amazon has published a policy around human rights and freedom of association, given the recent level of attention around unionization at three of its fulfillment centers, asking the company to publish a report on how affected stakeholder input was considered does not seem onerous and may help to offset the labor concerns around Amazon's practices related to unions.





Votes “Against” Shareholder Proposals

Counter-ESG Proposals
Disney: Commission a workplace non-discrimination audit

ClearBridge voted Against a shareholder proposal requesting that Disney commission a non-discrimination audit to examine to what extent the company’s training materials that seek to establish racial equity may themselves be discriminatory.

The supporting statement made clear the proponent was concerned with discrimination that it perceived to arise from training materials promoting the idea of equity, a concept that posits that different people or groups of people may have different circumstances and may need different resources to reach an equal outcome. The proponent did not provide evidence of discrimination in the company’s workforce statistics or examples of discrimination, aside from complaints about the wording of the training materials. Although the proponent argued that “a company that actively discriminates against the viewpoints of vast swathes of the American population creates needless reputational, financial, statutory and regulatory risks,” it did not provide examples of lawsuits against Disney alleging such discrimination, or examples of sanctions under state or federal law, or evidence that consumer boycotts were negatively impacting the company’s financial results.

The company appears to provide sufficient information for shareholders to be able to assess whether its training materials are having an unintended discrimination effect.

Counter-ESG Proposals
CVS Health: Commission a workplace non-discrimination audit

ClearBridge voted Against a shareholder proposal urging CVS Health to oversee and report on a third-party civil rights audit of the company's policies and practices. The proponents assert that diversity policies that seek to establish racial equity may themselves be discriminatory, which is clearly counter to the inclusion philosophy of the company. The company provides information on its efforts aimed at driving progress on the issue of racial inequality through its 2020 Strategic Diversity Management report. The report states that the company reassessed its diversity initiatives and policies after the death of George Floyd, and it committed to investing nearly $600 million over five years to advance initiatives to address inequality. The company also offers colleague resource groups to advance conversations, feedback and insight to a variety of employee groups. CVS hires, trains, develops and promotes employees based solely upon job-related qualifications and commits to the full participation of diverse individuals for continued success. It also provides EEO-1 disclosures for its workforce diversity and states that it is committed to maintaining a workplace free from discrimination, harassment and violence. The Human Rights Policy is based on the U.N. Guiding Principles on Business and Human Rights in that it conducts human rights due diligence to identify and mitigate risks. CVS appears to be taking constructive actions to address the issue of racial inequality and injustice. The publication of its annual Strategic Diversity Management report allows investors to track and follow the progress the company is making on diversity, equity and inclusion (DEI). The company has non-discrimination, non-harassment and non-retaliation policies in place and provides sufficient information for shareholders to be able to assess whether its employee programs and training materials are having a reverse discrimination effect.

Racial Justice
Microsoft: Report on hiring of persons with arrest or incarceration records

ClearBridge voted Against a shareholder proposal asking Microsoft to prepare a report on how hiring people with arrest or incarceration records aligns with its racial justice and public commitments. Specifically, shareholders requested that the board of directors prepare a report analyzing whether Microsoft hiring practices related to people with arrest or incarceration records are aligned with publicly stated DEI, racial equity or criminal justice reform goals, and with other public statements such as the Fair Chance Business Pledge. The report, prepared at reasonable cost and omitting proprietary information and published publicly within one year, was recommended to evaluate the risk of discrimination, including racial discrimination, that may result from failure to implement targeted fair chance employment practices. Microsoft does not have any automatic, across-the-board exclusion for criminal convictions that would disqualify or limit employment opportunities. 98% of the people flagged as having a criminal record went on to be hired. The company has announced support for the Second Chance Business Coalition in order to share best practices information about hiring people with a criminal background. The company says its human resources department, with assistance from a consultant, is implementing a second chance hiring roadmap and partnering with relevant nonprofits. In addition, justice reform is part of the company's Racial Equity Initiative. The company seems to have adhered to the main requests of the Fair Chance Business Pledge, which were to delay criminal history questions until later in the hiring process and to voice support for hiring people with a criminal background. Microsoft has set various workforce diversity goals and is reporting detailed statistics to show progress toward those goals. Based on its disclosures and partnerships, it appears the company is undertaking sufficient meaningful actions for shareholders to understand its implementation of the Fair Chance Business Pledge and its progress toward its DEI goals.

Voting on Management Proposals

As an active manager, ClearBridge invests in a concentrated number of companies where we have high conviction in the business model and management team. As such, we are generally supportive of the management teams in which we are invested, and this is reflected in our votes on management proposals, including “say on pay” proposals seeking to approve the compensation for named executives.

At the same time, we review each “say on pay” on a case-by-case basis and there are cases where ClearBridge portfolio managers will decide to vote against approving the compensation for company executives. In 2022, we voted against management’s proposed compensation at 123 portfolio companies (which represents 12% of total companies where portfolio managers voted on “say on pay” management proposals).

Exhibit 4.05: ClearBridge Voting Record on “Say on Pay” Proposals 2022

Source: ClearBridge Investments.

Executive Compensation
Apple: Advisory vote to ratify named executive officers' compensation

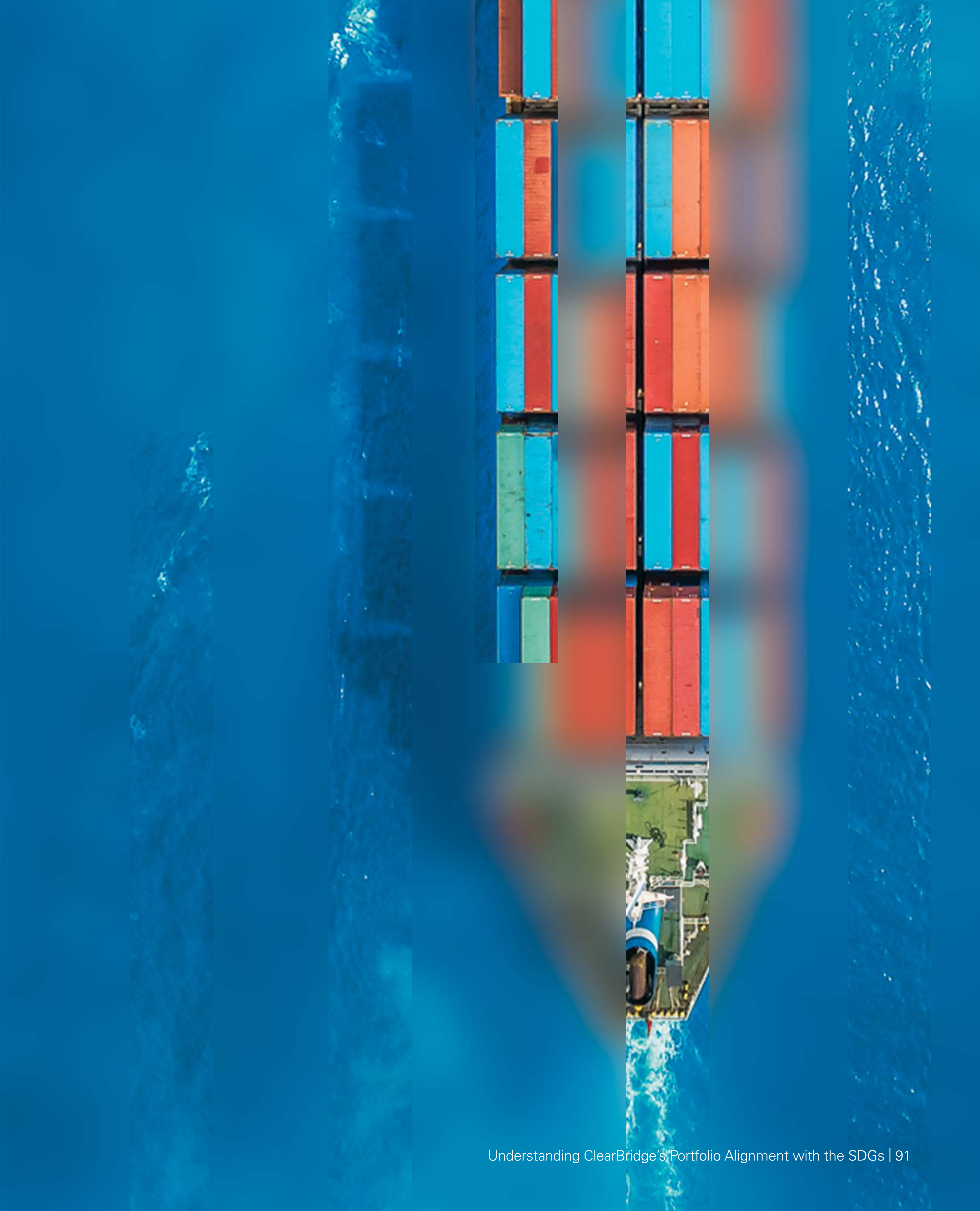
ClearBridge voted Against this proposal. ClearBridge has ongoing concerns around the magnitude of CEO Tim Cook's base salary and short-term incentive award opportunities, and the size of equity awards for other named executive officers. Mr. Cook's equity award value in 2022 was $75 million. Although Mr. Cook had not received equity awards since his promotion grant in 2011, intended to cover 10 years of awards, there is no indication his most recent equity award is intended to cover future years of equity incentives. This is a significant concern in light of the award's large size, which is nearly 3x the size of total CEO peer median pay. Adding to the concern, half of the award lacks performance criteria. Also, upon retirement, the award would continue to vest in full without proration. Given that Cook will be eligible for retirement treatment after one year from the grant date, the retentive value of the award is limited. Overall, the magnitude of the award is very outsize compared to peers (even while taking into account the size of the company).

Executive Compensation
BioMarin Pharmaceutical: Advisory vote to ratify named executive officers' compensation

ClearBridge voted Against this proposal. BioMarin's total shareholder return outperformed the GICS industry group and underperformed the Russell 3000 Index over a one-year period; shareholder returns underperformed both comparator groups over three- and five-year periods. Although the annual incentive is based primarily on pre-set metrics, the majority of these metrics are "development goals" for which disclosure of performance threshold, target and maximum goals, although improved from the prior year, remains incomplete. The committee lowered targets for both financial metrics below the prior year's targets and actual results without a sufficiently compelling rationale, and did not concurrently lower payout opportunities while exercising its discretion to implement the "value-creating activities" component to add an additional 20 percentage points to payouts; the resulting annual incentive award was paid out well above target.

05

Understanding ClearBridge's Portfolio Alignment with the SDGs



ClearBridge uses the SDGs to help us assess which companies are contributing to or detracting from addressing some of the world's most pressing challenges.

Furthering the SDGs with Active Public Equity Ownership

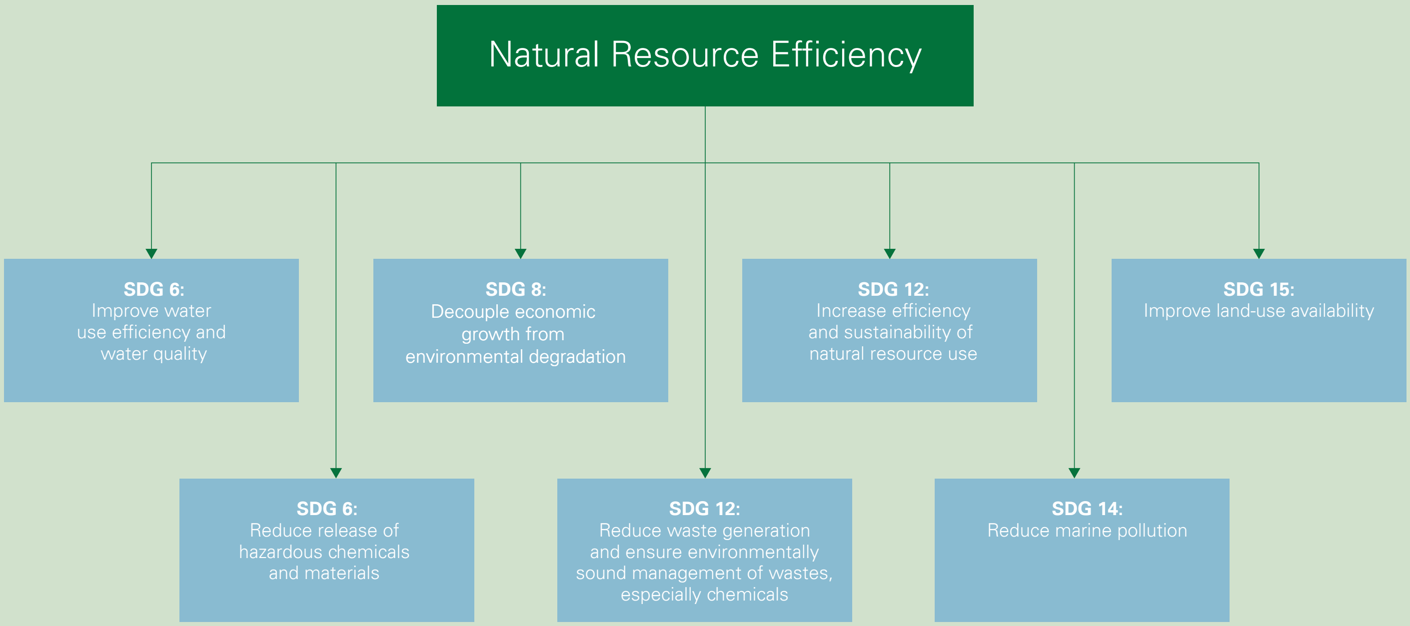
For ClearBridge, the U.N.'s 17 Sustainable Development Goals (SDGs) represent a useful way to understand and communicate global sustainability goals. Each goal is associated with several specific underlying targets that offer a way for the private sector to have an impact supporting and addressing urgent sustainability issues.

Scan to explore ClearBridge holdings' contributions to the SDGs

While we believe the SDGs are more thematic than company specific, they help demonstrate how our research framework of sector- and company-specific ESG considerations aligns with broader societal goals and the impact that investing within this framework can have. Many of the themes targeted by ClearBridge ESG analysis and company engagements—like climate change, sustainable food or natural resource efficiency—correspond to the SDGs in a variety of ways (Exhibit 5.01).

Exhibit 5.01: Linking a Sustainability Theme to the SDGs
One sustainability theme can have an impact on several SDGs.

Source: ClearBridge Investments.



The SDGs and Human Rights

Respect for human rights, a key goal of ClearBridge's stewardship efforts, is fundamental to advancing the SDGs. The 17 goals are inherently grounded in the Universal Declaration of Human Rights, and the U.N. Office of the High Commissioner for Human Rights has explicitly mapped the overlap between the SDGs and human rights. More specifically, there is evidence that by implementing the U.N. Guiding Principles on Business and Human Rights across our business and investment activities, we have the potential to contribute to achieving the SDGs.

Exhibit 5.02: Companies Can Address the SDGs Via Their Operations or the Products/Services They Offer

Source: ClearBridge Investments.

Contribution	Description	Example
Operations	A company may operate its business in a manner that addresses the SDGs	Reducing resource use, sustainable sourcing
Products and services (direct)	A company's products or services may directly address the SDGs	Providing renewable energy equipment or low-cost access to financial services
Products and services (enabling)	A company's products or services may enable its customers to address the SDGs	Providing software that enables more sustainable design

Public Equities and the SDGs

Just as public companies create impact due simply to their global reach, deep supply chains and communities where they operate, so this impact can be understood as driving progress toward the SDGs.

Companies from all sectors can contribute to the SDGs through both their operations and the products and services they offer. The following pages outline the contributions of Progyny, Trane Technologies and Visa.

Progyny
Health care sector
ClearBridge is a top 10 owner.

A leading provider of fertility benefit management services to self-insured employers

Products and Services

Progyny's mission is centered around improving access to fertility services for its clients' employees; Progyny's value-based care and high-touch approach provides high levels of patient education and support

SDG 3: Good Health and Well-Being
Target 3.7 By 2030, ensure universal access to sexual and reproductive health care services, including for family planning, information and education, and the integration of reproductive health into national strategies and programs

Progyny's fertility benefit management services enable access to reproductive health care for all employees

SDG 5: Gender Equality
Target 5.6 Ensure universal access to sexual and reproductive health and reproductive rights

Progyny's fertility benefits promote inclusion by helping all covered employees—including LGBTQ+ individuals—with the treatment and support they need to become parents; companies that offer Progyny's fertility benefits to their employees can see measurable improvements in recruitment, retention and employee productivity

SDG 10: Reduced Inequalities
Target 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

Trane Technologies
Industrials sector

Manufactures products for residential and commercial HVAC and transport refrigeration

Products and Services

As part of its 2030 sustainability commitments, Trane has a goal to increase access to heating, cooling and fresh food; energy-efficient equipment and coordinated technology services can dramatically reduce the energy consumption and demand within buildings, homes and transport systems

SDG 7: Affordable and Clean Energy
Target 7.1 By 2030, ensure universal access to affordable, reliable and modern energy services

Trane can dramatically reduce two major sources of GHG emissions: 1) by reducing emissions related to heating and cooling of residential and commercial buildings; 2) by continuing to improve the global cold chain to reduce emissions related to food that decomposes

SDG 13: Climate Action
High-level target is to achieve Paris Agreement and decarbonization goals

Operations

Annual incentive plan holds top executives accountable for meeting social and environmental sustainability goals, including an annual target for increasing women in management roles globally, commitments to achieving gender parity in leadership and workforce diversity reflective of communities

SDG 5: Gender Equality
Target 5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life

Sourcing process avoids using price as the primary driver for supplier selection, instead considering a range of factors, including supplier diversity, quality and risk; also working to increase its sourcing from women-owned businesses and fulfilling pledge to bring gender parity to corporate leadership structure by 2030

SDG 10: Reduced Inequalities
Target 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

Visa
Financials sector

Operates an electronic payment network in 200 countries worldwide

Products and Services

Helps improve the lives of people around the world by expanding access to financial services to the unbanked and underbanked (having expanded access to 396 million people toward the goal of 500 million); helps empower small and micro businesses and promotes financial literacy

SDG 1: No Poverty
Target 1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

Supports financial inclusion by expanding access to financial services to the unbanked and underbanked; helps to promote financial literacy by investing in financial education programs around the world to help new small and micro business owners

SDG 10: Reduced Inequalities
Target 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

Operations

Reached its goal of transitioning to 100% renewable energy by 2020 and continues to reduce GHG emissions annually

SDG 7: Affordable and Clean Energy
Target 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

Working with WaterAid on SDG 6 in Timor-Leste

In 2022, ClearBridge continued its long-standing partnership with WaterAid Australia, facilitating access to improved water, sanitation and hygiene services (WASH) in Timor-Leste, one of the world's least developed countries. The projects we supported contributed to developing, testing and applying national standards for WASH in health care facilities in Timor-Leste and included improvements to sustainable and inclusive WASH in the rural municipalities of Liquiçá and Manufahi.

Highlights included:

- Municipal governments now use WASH data as part of their health care facilities' strategic planning, which now includes a government commitment to contribute financially to WASH maintenance grant funding.
- Two water systems were installed in Liquiçá and Manufahi; the projects facilitate climate resilience and involved educational sessions on gender equality and social inclusion. Basic water, accessible sanitation and hand hygiene facilities were installed at two health care facilities in each municipality. The project also supported 18 local water user groups, helping them access small grant funding to rehabilitate and maintain rural water systems.
- There has been a greater focus on COVID-19 prevention and vaccination promotion as part of the Ministry of Health's training activities with health care workers at rural health care facilities. Environmental cleaning, waste management, hand hygiene capacity building and material provision will be a focus in 2023.

ESG Organization Affiliations

Access to Medicine Index Analyzes and independently ranks research-based pharmaceutical companies on how they make medicines, vaccines and diagnostics more accessible in low-income and middle-income countries. ClearBridge has been a signatory to the investor statement since 2016.

Advance A stewardship initiative launched by the PRI in which institutional investors work together to take action on human rights and social issues with the aim of driving positive outcomes for workers, communities and society. In 2022, ClearBridge joined Advance as a Collaborating Investor.

CDP Collects climate change, carbon emissions and water data from more than 2,000 companies worldwide. ClearBridge has been an Investor Signatory since CDP's inception in 2003.

Ceres Nonprofit with a mission to integrate sustainability into business practices for the health of the planet and its people. ClearBridge is a Member.

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

FAIRR Initiative Helps investors drive change in the animal agriculture sector by producing and analyzing data from the world's largest protein producers and manufacturers. ClearBridge is a Member.

The Forum for Sustainable and Responsible Investment U.S. national nonprofit membership association dedicated to advancing the practice and growth of socially responsible investing (SRI). ClearBridge is an Active Member.

Global Impact Investing Network (GIIN) Nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. ClearBridge is a Network Member.

Interfaith Center on Corporate Responsibility (ICCR) Working towards a more just and sustainable world by integrating social values into investor actions, through the lens of faith. ClearBridge is an Affiliate Member.

Investor Network on Climate Risk (INCR) Network of investors from across the globe dedicated to advancing opportunities and reducing risks posed by sustainability challenges such as climate change. ClearBridge is a Member.

Net Zero Asset Managers Initiative (NZAM) Signatories are commited to addressing climate change through investment practices aligned with reducing carbon emissions to net zero by 2050 or sooner. ClearBridge became a Signatory in 2021.

Principles for Responsible Investment (PRI) Provides a voluntary framework for investment professionals who commit to integrate ESG factors into their investment analysis and decision-making practices. ClearBridge is a PRI Signatory.

Responsible Investment Association (RIA) Canada's leader on responsible investment. ClearBridge is a Member.

Responsible Investment Association Australasia (RIAA) Largest and most active network of people and organizations engaged in responsible, ethical and impact investing across Australia and New Zealand. ClearBridge is a Member.

Task Force on Climate-Related Financial Disclosures (TCFD) Developing consistent metrics for use by companies in disclosing financial risks associated with climate change to investors, lenders and other stakeholders. ClearBridge is a supporter as of 2018.

WaterAid International nonprofit working to make clean water, decent toilets and good hygiene normal for everyone, everywhere, within a generation. ClearBridge is a partner as of 2019.

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