



Western Asset Management
SFDR Sustainability Risk Policy

Philosophy

Western Asset's ESG framework rests on the belief that ESG factors—environmental, social and governance—can affect issuer creditworthiness and impact portfolio performance.

As a long-term, fundamental value investor and UN Principles for Responsible Investment (UNPRI) signatory, Western Asset seeks to integrate ESG into its investment process in order to identify superior investment opportunities for its clients and to mitigate financial risk.

Western Asset takes a sector-specific approach to identify the ESG factors that can materially affect an issuer's long-term sustainability and exposure to ESG risks (also known as sustainability risks), such as greenhouse gas emissions, water usage, gender and ethnic diversity, and regulatory shifts, which, if they occur, could have a negative impact on the value of an investment. Investments that do not meet the Firm's ESG standards are treated as having higher risk, as their future ability to pay may be adversely affected by developments such as legal sanctions, the introduction of new regulations or shifts in consumer sentiment. The Firm then evaluates whether the market is appropriately pricing the issuer's performance based on those ESG factors and Western Asset's assessment of the risks to which the issuer is exposed.

While Western Asset's Investment Team is provided with information on ESG risks, and is encouraged to take ESG risks into account when making investment decisions, ESG risks may not preclude Western Asset from making an investment. Instead, ESG risks factor into the overall risk evaluation and management process, and are one of many considerations which may, depending on the specific investment opportunity, be relevant to the determination of issuer risk. Furthermore, Western Asset does not apply any absolute limits or thresholds defined exclusively by ESG risks as a distinct category of risk.

Sample ESG Factors

As noted above, Western Asset seeks to consider a wide range of ESG factors at the sovereign, sector, and issuer level. Example factors include, but are not limited to:

Macroeconomic

- Demographic and socioeconomic trends
- Climate change
- Resource consumption
- Risk of sanctions

Environmental

- Sector level analysis
- Energy costs
- Regulatory risks

Social

- Employee relations and workplace safety
- Diversity and inclusion
- Consumer protection policies

Governance

- Quality and integrity of leadership
- Transparency of disclosures

The Firm uses a combination of internal research, third-party data and risk modeling to explore such ESG factors and formulate proprietary views on ESG quality and relative value.

Issuer Engagement

Dialogue between research analysts and issuer management is a key component in Western Asset's evaluation of ESG factors. Engagement with management allows the research analysts to obtain additional perspective on ESG concerns that are inadequately addressed by existing policies and disclosures. The research analysts serve to increase awareness of the importance of ESG considerations through their conversations with management. By reinforcing the link between ESG practices and specifically the exposure to ESG risks and the cost of capital in meetings with issuer management, Western Asset pushes issuers to improve their sustainability practices which may also serve to mitigate their exposure to ESG risks.

As a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD) and the Transition Pathway Initiative, Western Asset seeks to advance the goals of the Paris Agreement via its issuer engagements.

Governance Considerations

Governance plays a critical role in Western Asset's ESG analysis, as it lays the foundation for a well-run, sustainable issuer. Western Asset considers governance crucial not only as a standalone risk factor, but also as a signal for how the issuer manages its long-term environmental and social issues. Without superior governance practices, which include proactive management, robust reporting and strong risk controls, Western Asset cannot have confidence that leadership and integrity will be in place for environmental and social factors. As a result, the Firm's Investment Team will not automatically invest in issuers with strong environmental or social credentials, if there is lack of appropriate governance arrangements.

As a non-European Union (EU) entity, the EU's Sustainable Finance Disclosure Regulation (SFDR) does not directly apply to Western Asset. However, Western Asset believes that its long-standing approach to ESG is consistent with the SFDR's concept of integration of ESG risks in its investment decision-making process, as referred to in Article 4 of the SFDR.

Statement of ESG Risks

Western Asset's ESG risk assessments rely on external data which may be limited, estimated, difficult to obtain or materially inaccurate, and therefore may impact models used. Even when identified, there can be no guarantee that Western Asset will correctly assess the impact of ESG risks on an investment. To the extent that ESG risks occur there may be a sudden, material negative impact on the value of an investment. ESG risks can manifest themselves in numerous ways, including but not limited to:

- Failure to comply with environmental, social or governance standards resulting in possible fines, sanctions, reputational damage and/or change in consumer behavior affecting a company or an entire industry's prospects for growth and development;
- Changes in laws, regulations or industry norms giving rise to increased operating costs and reduced profitability, possible fines, sanctions or changes in consumer behavior affecting a company or an entire industry's prospects for growth and development;
- Changes in laws or regulations, which may generate higher demand for, and thus undue increases in prices of securities of companies perceived as meeting higher ESG standards, and

- Changes in laws or regulations, which may incentivize companies to provide misleading information about their environmental, social or governance standards or activities.

ESG risks are relevant as both standalone risks, and also as cross-cutting risks which manifest through other risk types that are relevant to the assets held by Western Asset's clients. For example, the occurrence of an ESG risk can give rise to financial and business risk, including a negative impact on the credit worthiness of other businesses.

ESG risk may arise and impact a specific investment or may have a broader impact on an economic sector, geographical regions and/or jurisdictions and political regions.

Sectors, regions, businesses and technologies which are carbon intensive, higher polluting or otherwise cause a material adverse impact on ESG factors may suffer from a significant fall in demand and/or obsolescence, resulting in stranded assets—the value of which is significantly reduced or entirely lost ahead of their anticipated useful life. Attempts by sectors, regions, businesses and technologies to adapt so as to reduce their impact on ESG factors may not be successful, may result in significant costs being incurred, and future ongoing profitability may be materially reduced.

In the event that ESG risks arise, this may cause investors, including Western Asset, to determine that a particular investment is no longer suitable and to divest of it (or not make an investment in it), further exacerbating the downward pressure on the value of the investment.

Past results are not indicative of future investment results. This publication is for informational purposes only and reflects the current opinions of Western Asset. Information contained herein is believed to be accurate, but cannot be guaranteed. Opinions represented are not intended as an offer or solicitation with respect to the purchase or sale of any security and are subject to change without notice. Statements in this material should not be considered investment advice. Employees and/or clients of Western Asset may have a position in the securities mentioned. This publication has been prepared without taking into account your objectives, financial situation or needs. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation or needs. It is your responsibility to be aware of and observe the applicable laws and regulations of your country of residence.

Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários Limitada is authorised and regulated by Comissão de Valores Mobiliários and Banco Central do Brasil. Western Asset Management Company Pty Ltd ABN 41 117 767 923 is the holder of the Australian Financial Services Licence 303160. Western Asset Management Company Pte. Ltd. Co. Reg. No. 200007692R is a holder of a Capital Markets Services Licence for fund management and regulated by the Monetary Authority of Singapore. Western Asset Management Company Ltd is a registered Financial Instruments Business Operator and regulated by the Financial Services Agency of Japan. Western Asset Management Company Limited is authorised and regulated by the Financial Conduct Authority ("FCA"). This communication is intended for distribution to Professional Clients only if deemed to be a financial promotion in the UK and EEA countries as defined by the FCA or MiFID II rules.