



Western Asset Management
ESG Engagement Policy

Philosophy

In order to identify relative value opportunities, Western Asset explores a wide range of investments, encompassing many private as well as public issuers. Engagement with issuers—via conversation with management, for example—is a key component in evaluating these opportunities, as it enables Western Asset’s research analysts to obtain additional perspective and develop a more informed investment outlook.

Engagement serves as a tool for research analysts to evaluate risks, including environmental, social and governance (“ESG”) related factors that are inadequately addressed by existing policies and disclosures. The Firm’s research analysts also engage to increase awareness of the importance of ESG considerations through their conversations with management, particularly at privately held issuers.

In some cases, analysts engage issuers on materially deficient business practices. Although bondholders possess very different legal rights than shareholders, the Firm believes it can impact corporate ESG practices given its role in determining issuers’ cost of debt capital. As long-term, value-oriented investors, the Firm requires compensation in wider spreads from issuers that lag their peers in ESG practices. Conversely, the Firm rewards issuers whose ESG profiles we believe will improve but whose spreads overcompensate for historical deficiencies. By reinforcing the linkage between ESG practices and the cost of capital in our meetings with issuer management, research analysts push issuers to improve their behavior around material issues.

Principles

Western Asset’s engagement process is aligned with the United Nations Global Compact principles, widely accepted corporate sustainability guidelines that meet fundamental responsibilities in the areas of anti-corruption, human rights, labor and the environment. The Ten Principles of the United Nations Global Compact are derived from the Universal Declaration of Human Rights, the International Labor Organization’s Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

Western Asset seeks to achieve the following objectives through issuer engagement around the following themes:

Climate Risk and Environmental Management

- Understand issuer’s strategy for and commitment to managing climate and environmental risks within the value chain, including regulatory and reputation risks
- Encourage disclosure of relevant exposures and policies to address these risks such as emissions reduction targets

Diversity and Development of Talent

- Analyze skill set balance and representation by gender/ethnicity/sexual orientation at both the board and executive levels
- Understand issuer’s approach to diversity and encourage initiatives to develop talent across under-represented groups

Human Rights and Supply Chain Management

- Determine degree and nature of ESG risks within issuer's supply chain
- Understand and encourage issuer policies and controls to reduce child and forced labor, and maintain humane working conditions

Product Safety and Security

- Understand issuer's standards and controls for maintaining product safety and security, including cybersecurity
- Encourage best practices for quality control and safeguards to minimize incidence of harm

Transparency in Reporting

- Elevate the consistency and quality of reporting exposures to both financial and non-financial risks material to the issuer and sector
- Increase general awareness of the relevant ESG issues and importance to investors

Governance and Corporate Management

- Evaluate quality of leadership, ownership and corporate structure, and capital management
- Communicate governance concerns to issuer management and push for bondholder-favorable business practices

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