Western Asset
A Franklin Templeton Company

Western Asset Management

SFDR Sustainability Risk Policy

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Philosophy

Western Asset believes that financially material factors, including those that may be referred to as environmental, social and governance factors, can affect issuer creditworthiness and impact portfolio performance. The Firm's ESG framework can be found here.

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 financially material ESG risks occur there may be a sudden, material negative impact on the value of an investment. Financially material 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.

Financially material 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 a financially material 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 be exposed to regulations and policies, a 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.